

Long road to a cash-lite economy

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Even though usage of the digital alternative delivery channels (ADCs) is on the rise, it would, apparently, take long before Pakistan becomes a largely cash-less economy.

The SBP's recently-released Payment Systems Review shows double-digit yearly growth in electronic banking (e-banking) transactions for FY18. But things don't look so rosy when retail payment system – which comprises paper-based banking transactions – cash, cheques, pay orders and demand drafts – and e-banking transactions – are analyzed over a five-year horizon (FY14-FY18).

The e-banking channels – which include ATMs, online banking, Internet banking, mobile banking, POS and e-commerce – aren't growing their share in the value pie of overall retail payments. Back in FY14, e-banking transactions totaled 23 percent of the pie of Rs149 trillion. That share had barely changed in FY18, coming in at 24 percent of the pie of Rs198 trillion.

In other words, the concentration of paperless transactions has stagnated at just under a quarter of the value transacted in the retail banking system. Such is the state of affairs prevalent in the formal, documented economy. Couple that with the fact that much of the 'other economy' is informal in nature and relies heavily on cash. Cash, thus, remains the undisputed king.

Some will point out, rightly, that things are different on the volume side, where e-banking transactions started dominating paper-based transactions earlier this decade. E-banking transactions were 53 percent of the 765 million retail transactions in FY14. In FY18, that volumetric share had grown to 62 percent in a pie of 1.22 billion transactions.

While that observation is valid, it is not entirely sound. The breakup of e-banking transaction volumes show that it is the ATM transactions that dominate the pie. ATM transactions were 64 percent of the e-banking volume in FY14, a share that managed to defend its position at 62 percent in FY18. Another fifth of transaction volume is taken up by real-time online banking (RTOB), leaving very low volumes for other channels.

The two channels – ATM and RTOB – tend to dominate even more the e-banking transactions by value. What's wrong with that, some may ask. Well, there is nothing wrong with ATM and RTOB channels hogging the value and volume pies. It's just that these channels aren't entirely electronic in nature. For one, an individual has to go to the bank to perform these transactions. And second, they involve transport, storage and usage of cash – something that is contrary to the cash-lite phenomenon.

In contrast, Internet banking and Mobile banking are not only really convenient ADCs, but are also cash-less in nature. It is good to see that Internet banking transactions have doubled between FY14-FY18, with mobile banking more than trebling in this period. Standing above three million users each, registered Internet and Mobile banking users have more than doubled in the period. But the two ADCs' shares in overall e-banking transactions' volume and value have inched up only marginally between those years.

Those numbers won't improve overnight. A cash-lite economy is dependent, first, on improving the abysmally-low bank-account ownership in the country. The focus on digital financial services is the right one. But the targets put forth under the National Financial Inclusion Strategy for the year 2020 can hardly be described as ambitious. The new government has the opportunity to focus on digitization as a means to not only document and grow the economy but also to make it more inclusive.