

IFC Mobile Money Scoping Country Report: Nepal

May 2013



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Federal Department of Economic Affairs,
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State Secretariat for Economic Affairs SECO

Nepal Summary

Population: 30,430,267 (Jul 2013 est.)
 Wireless Teledensity: 31.2%; 46.3% of adults
 Remittance % of GDP 23.1% (2011)
 Percent Under Poverty Line 25.2% (2010 est.)
 Adult Literacy 60.3% (2010)
 Ease of doing business: 108th of 185 countries (2013)

Number of Commercial Banks/Branches: 32/1,425

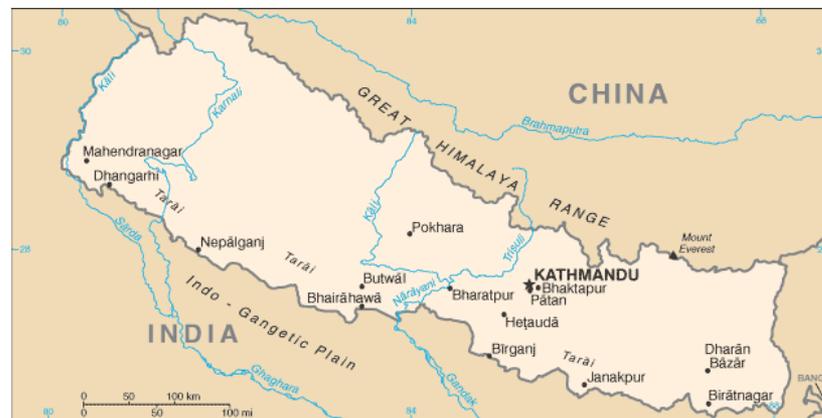
Mobile Network Operators:

Ncell (TeliaSonera), Nepal Telecom, Hello Nepal (Nepal Satellite Telecom, Smart Cell (Smart Telecom)

Overview of Mobile Banking in Nepal: _____

The need for and promise of mobile banking is evident in this largely rural market challenged by mountainous geographical constraints. Central bank encouragement is seen in its support of branchless banking and mobile banking initiatives and its expressed desire to see greater bank penetration to unserved areas.

Unlike most markets, Nepal's mobile wallets are strategically linked to mobile banking initiatives. Initiatives underway, fonepay/eSewa, Hello Paisa, and MNepal are available to the majority of mobile subscribers (minimum 96% of market). Each is innovative in its offerings of a mobile wallet that can also be linked to a bank account at a range of institutions, affording Nepal banks an opportunity to share branchless agents for cash in/out indirectly (cash in/out of wallet, transfer to/from bank account). Some work remains to improve clarity and completeness of regulations. Expertise and plans will be necessary to scale branchless initiatives.



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- Regulations
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Macro-Economic Overview

Key Country Statistics

- Population: : 30,430,267 (Jul 2013 est.)
- Age Distribution (% population):
 - 0-14 years: 32.6%
 - 15-24 years: 22.6%
 - 25-54 years: 34.9%
 - 55-64 years: 5.5%
 - 65+ years: 4.5%
- Median Age: 22.1 years
- Urban/Rural split:
 - Urban: 19% (2010)
 - Rural: 81%
- GDP (PPP): USD 40.49 Billion (2012 est.)
- GDP per capita (PPP): USD 1,300 (2012)
- Literacy rate: 60.3% (2010)
- Total Wireless Subscribers: 9.5 Million
- Wireless Teledensity: 31.2%; 46.3% of adults
- Banking penetration:
 - 10.76 million deposit accounts
 - 25% of adults
 - 16% of lower income (bottom 40%) adults
- Remittance (% of GDP): 23.1%

Insights

- Remittances grew a notable 41.8% YoY 2011/12 to USD 4.1 Billion or 23.1% of real GDP
- Almost half of Nepali households have at least one member abroad working or are a returnee; one-third of the male labor force may be abroad driving the inward remittance flows
- Malaysia, Qatar, Saudi Arabia, and UAE constitute the destinations for 93% of documented migrants
- 78% of remittances received are utilized for consumption; may be an area to examine diverting to targeted savings and insurance
- Reaching the majority of the nation's rural through branchless banking and mobile solutions are sentiments widely espoused in public reports as well as bank annual reports and plans

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Regulatory Overview

- The Nepal Rastra Bank (NRB) is the country's central bank overseeing all licensing of financial institutions and oversight of financial infrastructure. NRB cites recent completion of efforts to reform the financial sector to improve governance and KYC/AML requirements with support of UK DFID and World Bank, completed in 2011.
- Many of the published guidelines in rules are exclusively in Nepali with select guidelines also offered in English. This may constrain foreign involvement in Nepal's financial sector. NRB strategic plan for 2012-2016 calls for revisions to core banking guidelines in 2013 with several actions to be undertaken that will aid in addressing governance framework, security/AML, data collection, and consumer protections among other areas.
- Guidelines describing mobile banking and branchless banking criteria exist though are limited. Banks and third party financial institutions have introduced multiple initiatives such as mobile wallets conducive to financial inclusion but it isn't clear the extent to which they are addressed by current NRB guidelines.
- The Nepal Telecommunication Authority request for guidance in developing regulations to govern mobile commerce suggest there may be some need for clarity on institutional roles and responsibilities as it concerns mobile banking and commerce.

Regulatory Bodies

Roles & Responsibilities

Central Bank

- Nepal Rastra Bank (NRB) is country's central bank.
- Overseer of all financial institutions and non-FI payment providers under authority of Nepal Rastra Bank Act, 2058 of 2002. Provides authority to establish a "credit information center" (credit reference bureau) and other "information networks" as prescribed.

Identity Protection

- Banks are required under IT policy directive to maintain industry standard practices as it concerns consumer data protection

Payment Coordinator

- Clearing and settlement mechanisms are overseen by central bank under of Nepal Rastra Bank Act, 2058
- NRB IT POLICY, 2068 authorizes the NRB to "ensure efficient, effective, and economic IT operation...[of] RTGS"

Teleco Regulations

- The Nepal Telecommunications Authority is seeking a consultant to advise the authority on suitable guidelines for regulating mobile commerce (February 2013)

Implications

- ❑ Guidelines governing branchless banking and mobile financial services are at a nascent stage. Opportunity exists for examining existing rules in light of the evolution of guidelines elsewhere and identifying gap areas such as guidelines governing mobile wallets and 3rd party operators.
- ❑ eSewa, a recent entry in mobile wallets (described later in the document) maintains its model is governed under the existing mobile banking guidelines (found under Unified Directives) but it is not clear from the guideline terms how this 3rd party model of cash in/out agents and managed wallet service is supported.



Regulatory Framework & Requirements

Current Regulations

Mobile Money Issuers

- Unified Directive 2067 stipulates added requirements for mobile banking that can be operated by Class 'A' and 'B' institutions
- The NRB Monetary Policy for FY 2012/2013 stipulates "Low operational cost banking providing modern technology based mobile banking and branchless banking services will be encouraged to enhance financial access in rural areas."

Deposit Taking

- Nepal Rastra Bank Act, 2058 of 2002.
- Bank and Financial Institutions Act (BAFIA), 2006
- Microfinance Policy 2064
- Deposit taking permitted in branchless banking

Retail Agents

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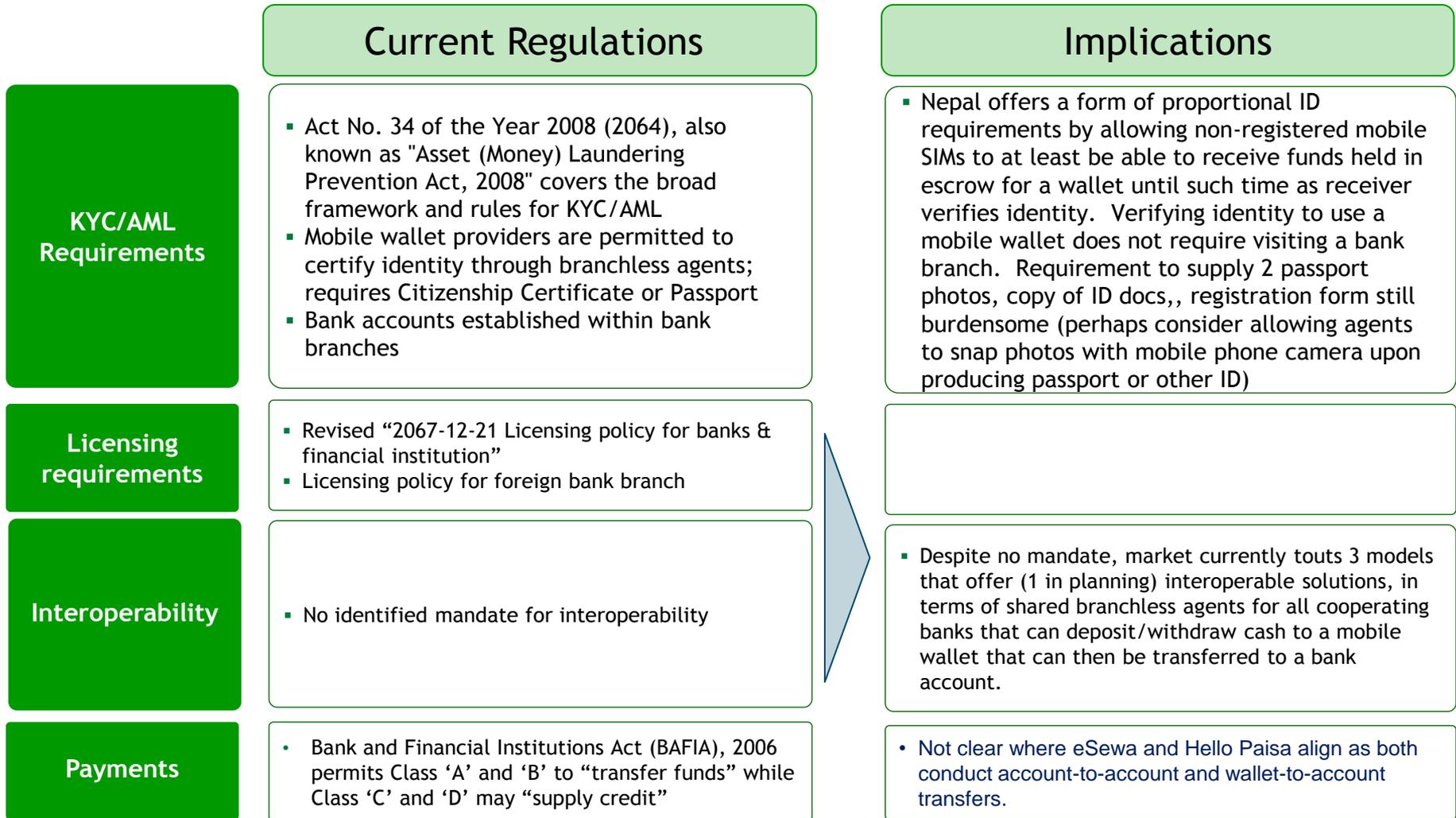
Customer Acquisition

- Under Unified Directive, Class 'A' and national level Class 'B' Banks may provide branchless banking services provided they do so using a smart card/point of transaction technology (presumably does not apply to mobile wallet services)
- Mobile banking conditions treated distinct from branchless banking conditions but are in many ways similar to branchless banking;
- Mobile banking agents are required to be armed with a gun
- Agents are permitted to activate mobile wallet accounts (no regulatory citation found)

Implications

- Cross-border transfers not permitted for branchless banking services.
- Banks providing branchless banking services must insure all cash and other assets used in transactions
- Reference (item 10) in the mobile banking guidelines indicates institution conducting these services may only handle deposits and domestic remittances (presumably this applies to the bank's outsourced agents)
- Not clear from Unified Directive if mobile banking and mobile wallets are treated the same. Bank and Financial Institutions Act does afford Class 'C' finance companies to accept and return deposits (i.e. cash in/out)
- Wallet accounts can be activated by agents; funds can be sent to an unregistered number but requires activation and presenting ID before funds associated with mobile number can be withdrawn or transferred
- Proposed Micro Finance Authority Bill would institute a second, lower, tier of microfinance institutions in an effort to govern informal cooperative models of lending and saving.

Regulatory Framework & Requirements



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Financial Sector Overview

- NRB guidelines divide the financial sector into 4 licensed classes:
 - Class 'A' - Commercial Banks
 - Class 'B' - Development Banks
 - Class 'C' - Finance Companies
 - Class 'D' - Microcredit Development Banks
- In addition to the licensed classes, the NRB acknowledges and monitors savings and credit cooperatives, financially focused non-governmental organizations, and the Postal Office role as a savings bank under the Post Office Savings Bank Regulation, 1976.
- 8 bank mergers occurred in 2011/12. Further consolidation expected at the behest of NRB. 17 banks have filed applications for intent to merger.
- Savings and credit cooperatives have nearly 1.5 million members.
- NRB strategic plan for the years 2012-2016 calls for the installation of a real-time gross settlement system.

Financial Sector Snapshot

Regulated Financial Institutions	2009	2010	2011	2012	Branches
Commercial Banks (Class 'A' Institution)	26	27	31	32	1,425
Development Banks (Class 'B')	63	79	87	88	687
Finance Companies (Class 'C')	77	79	79	69	292
Microfinance Development Banks (Class 'D')	15	18	21	24	24
Saving & Credit Cooperatives	16	15	16	16	11,851*
NGOs (Financial Intermediaries)	45	45	38	36	36
Postal Savings Bank	1	1	1	1	117
Electronic Points of Presence					
ATMs			1,276	1,328**	
Credit Cards			38,903	33,786	
Debit Cards			2,658,727	2,998,127	

Branches						
Region	Commercial Bank Branches	Development Bank Branches	Finance Companies	Microfinance Bank Branches	Cooperatives (Licensed)	NGOs
Eastern	225	92	35	4	4	6
Central	709	260	169	15	6	16
Western	256	253	75	3	2	6
Mid Western	120	59	11	1	2	7
Far Western	85	23	2	1	2	1

Sources: Nepal Rastra Bank Banking and Financial Statistics Reports, Monthly Statistics Reports

* Licensed and unlicensed

** Nabil Bank site indicates there are over 5,000 ATMs in Nepal

Financial Infrastructure

Clearing and Settling

Nepal Central Depository and Clearing Ltd

Description: Provides centralized depository, clearing and settlement services in Nepal.

Ownership: 51% by Nepse, 15% by Citizens Investment Trust, Rest by Nepal Investment Bank, Bank of Kathmandu, Himalayan Bank, Kumari Bank, NIC Bank, Standard Chartered Bank, Laxmi Bank & Kist Bank

Nepal Clearing House Ltd. (NCHL)

Description: Public limited company established December 2008 under the leadership and guidance of Nepal Rastra and Nepal Bankers Association. NCHL plans to initially implement and operate NCHL-ECC System in Nepal offering banks and financial institutions with an electronic cheque clearing and later, establish a national payments gateway to facilitate electronic payments & financial transactions across banks and financial institutions within the country

Ownership: Equity participation from Nepal Rastra Bank, major commercial banks and Smart Choice Technologies (SCT), a private card switch operator

Credit Bureaus

Credit Information Bureau

Ownership: NRB-10%, commercial banks-65%, development banks 10%, other financial institutions-15%

Number banks/institutions involved:

Participating banks/institutions:

National Switches and Systems

SCT-Network

Description: An integrated shared services network for Automated Teller machines (ATMs) and Point-of-sale (POS) Terminals, managed through a national switch. The SCT-Network is a fully integrated network supporting multiple device types and card acquiring standards. Made available on a pay-per-use basis to members. Owns and operates 1,149 ATMs and 2,000+ POS.

Ownership: SCT

Number of banks/institutions involved: 84

National Payment Network

Description: ATM switch

Ownership: Nepal Investment Bank

Number of banks/institutions involved: 35

PayWay - Merchant Payment Gateway

Ownership: Pay Way Nepal Ltd

Institutions involved: 3 (Nepal Investment Bank, Laxmi Bank, SCT); also supports PayPal payments

Bank Snapshot

Agriculture Development Bank	<ul style="list-style-type: none"> • 234 Branches 	<ul style="list-style-type: none"> • 53% owned by GON
Rastriya Banijya Bank	<ul style="list-style-type: none"> • 1.7 million Customers • 142 Branches • 49 ATMs 	<ul style="list-style-type: none"> • Mobile banking and payment service utilizes PayMate platform • Branchless banking division with 10 points of presence
Nepal Bank	<ul style="list-style-type: none"> • 112 Branches 	<ul style="list-style-type: none"> • 40% owned by government
Nepal SBI Bank	<ul style="list-style-type: none"> • 2.5 Million Customers • 59 Branches 	<ul style="list-style-type: none"> • Offers a proprietary mobile wallet • Partner to India's Axis bank
Global Bank	<ul style="list-style-type: none"> • 64 Branches • 64 ATMs 	<ul style="list-style-type: none"> • Ownership: 42% Institutional, 27% Individuals, 31% Public Shareholders • eSewa and SCT partner
Machhapuchchhre Bank	<ul style="list-style-type: none"> • 54 Branches • 62 ATMs 	<ul style="list-style-type: none"> • Proprietary mobile banking (SMS and app) solution
Kist Bank	<ul style="list-style-type: none"> • +350K Customers • 52 Branches 	<ul style="list-style-type: none"> • 60% privately held; 40% public • Advertises the eSewa mobile wallet solution but brands as Kist Mobile Wallet

Bank Snapshot continued

Nabil Bank	<ul style="list-style-type: none"> • 51 Branches • 79 ATMs 	<ul style="list-style-type: none"> • VISA, Mastercard, China Unionpay, and Nepal exclusive for AMEX • 2,330 domestic remittance agents
Bank of Asia Nepal	<ul style="list-style-type: none"> • 49 Branches • 17 ATMs (26 planned) 	<ul style="list-style-type: none"> • 70% privately held; 30% public • 'iTouch' Mobile Banking app & SMS
Everest Bank	<ul style="list-style-type: none"> • 260K Customers • 48 Branches • 63 ATMs 	<ul style="list-style-type: none"> • 28 branchless banking agents using a Point of Transaction terminal • Bank on Wheel, roving bus for basic branch service
Bank of Kathmandu	<ul style="list-style-type: none"> • 45 Branches • 54 ATMs 	<ul style="list-style-type: none"> • Promoting Hello Paisa service as M-Paisa
Nepal Investment Bank	<ul style="list-style-type: none"> • +500K Customers • 41 Branches • 68 ATMs 	<ul style="list-style-type: none"> • Creating own branchless network with presence in all 75 districts • Deploying biometric readers for branchless services • Branded Mobile Banking application and SMS capability
Siddhartha Bank	<ul style="list-style-type: none"> • 41 Branches • 42 ATMs 	<ul style="list-style-type: none"> • Promoting eSewa and proprietary mConnect mobile banking app • Launched branchless banking and supporting UNWFP 'Cash to Work'; plan to expand to 50 locations • 2,170 domestic remittance agents, 13 outside Nepal
Himalayan Bank	<ul style="list-style-type: none"> • 39 Branches • 72 ATMs 	<ul style="list-style-type: none"> • No branchless banking or mobile banking initiatives promoted

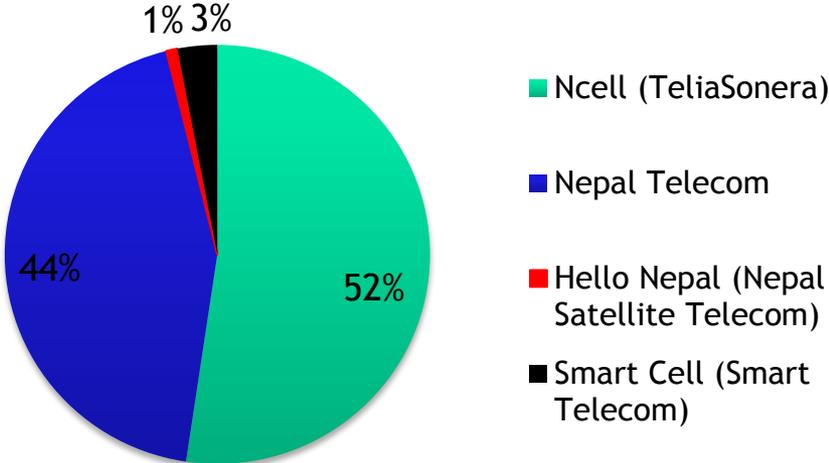
MFI Snapshot (largest MFIs by number of depositors)

MFI name	Gross Loan Portfolio	Number of active borrowers	Number of depositors	Offices
Chhimek Bikas Bank	25,067,274	103,179	387,831	53
Nirdhan Utthan Bank	28,421,064	98,965	147,845	99
Swabalamban Laghubitta Bikas Bank	18,167,645	69,211	91,894	62
Jeevan Bikas Samaj	11,135,921	61,258	81,310	40
Forum for Rural Women Ardency Development (FORWARD)	10,024,015	47,858	68,962	44
Deprosc Development Bank	14,892,700	47,869	63,573	50
Madhyamanchal Grameen Bikas Bank	10,051,307	34,366	63,010	39
Western Region Grameen Bikas Bank	12,510,994	40,877	55,853	43
Sahara Nepal SACCOS	10,500,804	43,872	55,555	25
Nerude Laghubitta Bikas Bank	8,237,770	44,445	54,756	35
Shrijana Community Development Center	1,821,305	10,929	45,599	11
Muktinath Bikas Bank	7,232,157	26,046	40,576	21
Women Cooperative Society	5,419,363	12,654	31,553	10
National Educational & Social Development Organization	3,865,174	19,653	30,553	23
Mahuli Samudyik Bikas Kendra	2,424,777	16,903	24,295	16
Madhya Pashimanchal Grameen Bikash Bank	9,126,958	21,929	24,082	31

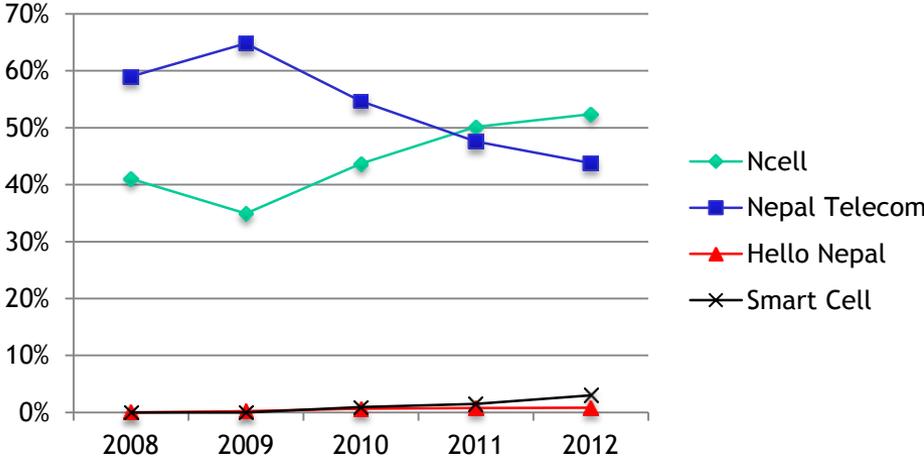
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Mobile Overview

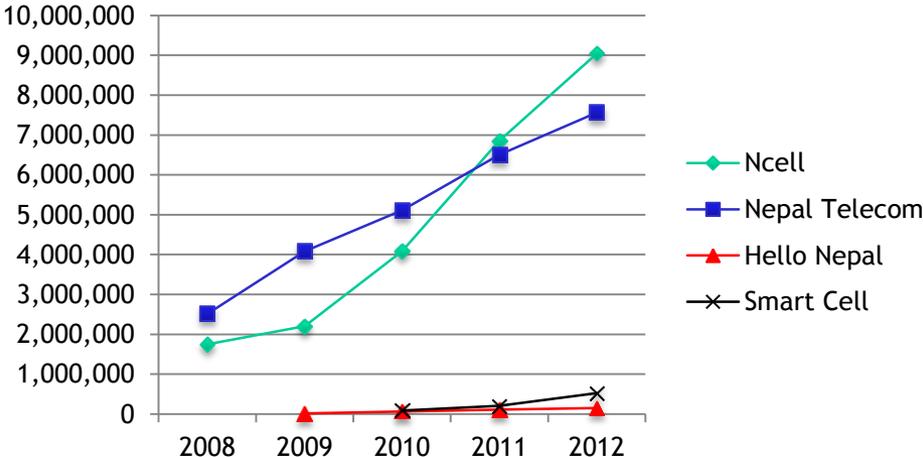
Mobile Profile	
Operators	Ncell (TeliaSonera), Nepal Telecom, Hello Nepal (Nepal Satellite Telecom, Smart Cell (Smart Telecom))
Coverage	90% (Ncell)
Unique subscribers	9,493,319 (EoY 2012)
Active SIMS	17,276,781 (EoY 2012)
subscriber ARPU	\$5.42



Market Share



Activations



Sources: Wireless Intelligence

Mobile Network Operators

Operator	Operator Information	Ownership, Partnership and other Information
 NCell	<ul style="list-style-type: none"> Subscribers: 9,045,751 Market Share: 52% 	<ul style="list-style-type: none"> Owned by TeliaSonera Advertise SMS Banking for Kumari Bank and Nepal Investment Bank but not managing the service Lists 5,997 shops that are authorized to sell SIM cards and minute top-up
 Nepal Telecom	<ul style="list-style-type: none"> Subscribers: 7,562,871 Market Share: 44% 	<ul style="list-style-type: none"> Nepal Telecom operated by Nepal Doorsanchar Company Ltd. While described as a private company, Board is chaired by the Minister of Communications and several other government officials serve on the board. No mobile payment or banking services advertised
 Smart Cell	<ul style="list-style-type: none"> Subscribers: 521,401 Market Share: 3% 	<ul style="list-style-type: none"> No mobile payment or banking services advertised
 Nepal Satellite Telecom	<ul style="list-style-type: none"> Subscribers: 146,758 Market Share: 1% 	<ul style="list-style-type: none"> Branded “Hello Nepal GSM” Planning p2p minute transfer

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Mobile Financial Services Overview

- While Nepali regulations do not explicitly distinguish mobile wallets as distinct from mobile banking, there are both mobile wallet accounts (accounts administered in aggregate by a third party with funds held in a bank(s), and mobile banking initiatives that afford account holders the ability to conduct domestic bank transfers and payments to participating institutions and merchants. While mobile wallets can be considered non-bank led, they do need to operate in conjunction with banks.
- Mobile Wallets:
 - 3 notable initiatives underway, two have launched. The third that is planned, MNepal, promotes plans to enable wallet-to-wallet interoperability with the existing two efforts, Hello Paisa and eSewa, as well as bank account integration.
- Mobile Banking:
 - Several banks offer SMS informational services associated with customer accounts (e.g. check balance, be notified of transactions, internal bank account transfers)
 - Fonepay, a mobile banking service that serves account-to-account interbank transfers (and interoperates with wallet product of own subsidiary, eSewa) is offered by two banks with 37 financial institutions soon to offer (parent company F1 Soft counts 22 Class 'A' commercial banks as clients)
 - At least 6 Class 'A' banks promote proprietary mobile banking applications with basic function of accessing information, making transfers to accounts within the bank, and some bill payment. Some of these may soon be replaced by the Fonepay solution (Kumari Bank, Sunrise Bank)
- Outlook
 - The ability of banks to effectively outsource and share branchless banking networks maintained by the mobile wallet providers for the basic but most fundamental cash in/out service while still being able to compete through differentiated offerings of broader financial services offers a unique market landscape. Anticipate both accelerated rates of mobile payment uptake through the shared branchless network and financial services diversification compared to other markets. Risks that should be monitored and addressed include clarity of regulations and potential for consumer confusion and aversion due to crowded messaging in the market of multiple wallet and mobile banking initiatives.

MFS Implementations: Mobile Wallet and Banking



Product:
Wallet and
payment gateway

by
F1 Soft
International
(India)

- **WALLET** 
- An online payment gateway and hosted wallet service that also offers integration with mobile banking methods to support:
 - wallet-to-wallet transfers
 - wallet top-up from a bank account
 - wallet to merchant and online payments
 - prepaid cards for wallet top-up
- Claims 21 banks and financial institutions are part of the eSewa network
- Available to customers of mobile operators Ncell and Nepal Telecom, 96% of the market
- Claims 120,000 customers
- Provides SMS syntax as well as applications for Java, Blackberry, Android, and iPhone that still utilize SMS but offer templates to avoid needing to memorize SMS strings
- Supports verified and non-verified users. Non-verified users can receive funds but must submit KYC information to before being able to withdraw or transfer cash
- **BANKING** 
- The fonepay component of the solution is geared to banks and provides mobile payment and account-to-account bank transfers
- Appears to be some overlap as both services advertise merchant payment capabilities and agent networks
- While only two banks are listed as members on the fonepay website, Nabil Bank and Machhapuchchhre Bank, F1 counts 22 of the country's class 'A' banks as clients as well as several class 'B' development banks and class 'C' financial institutions

MFS Implementations: Mobile Wallet and Banking



Finaccess Pvt. Ltd

Launched:

- 3rd party service provider provides an interoperable mobile financial service platform and network of branchless banking agents, advertised as mobile operator and bank agnostic.
- Similar in concept to eSewa/fonepay and MNepal, Hello Paisa offers both a managed wallet product and linkages to partner bank accounts to accommodate account-to-account and account-wallet transfers
- Do not need an established wallet account to receive funds (account created upon initial fund receipt to be later withdrawn or transferred once account verified through submission of identification credentials.
- Any Hello Paisa branchless agent can open wallet account; bank account done through corresponding bank network
- Combines SMS and IVR capabilities to ease usage for illiterate market segments
- Compatible with all four network operators and 5 banks initially:
 - Bank of Kathmandu Ltd.
 - Commerz and Trust Bank Nepal, Ltd.
 - International Leasing and Finance Company Ltd.
 - Siddhartha Bank Ltd.

MFS Implementations: Mobile Banking



Mnepal Pvt Ltd

Launched:
February 2013

- 3rd party service provider that is assembling existing assets in Nepal to offer a fully open and interoperable mobile payment, wallet and banking capability.
- Novell vision of interoperability among services, devices, institutions, mobile operators, agents, and merchants
- Deploying the Visa Fundamo mobile payments platform
- Partners include SCT-Network, the nation's leading (only) ATM/POS shared services network, Nepal Investment Bank, Himalayan Infrastructure Fund, and IT service providers