

MICROFINANCE BANKS

November, 2019



Microfinance Banks (MFBs) in Pakistan: An Overview

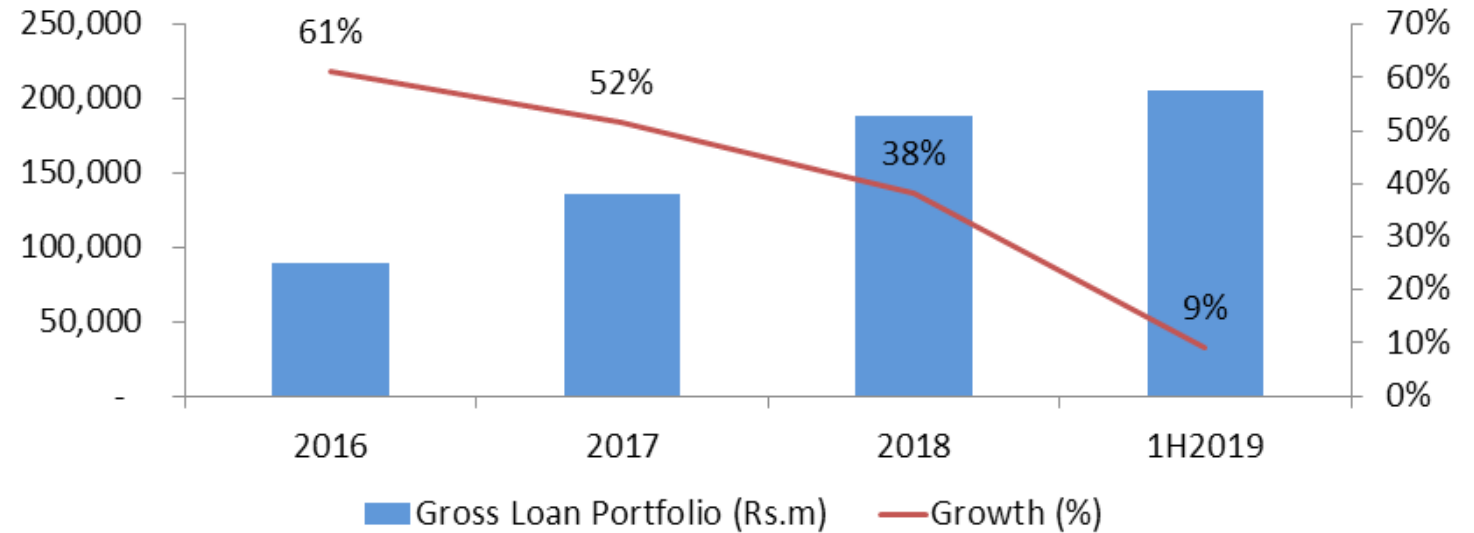
11

Total MFBs

137

Districts

<1%

Share of
Digital
Payments

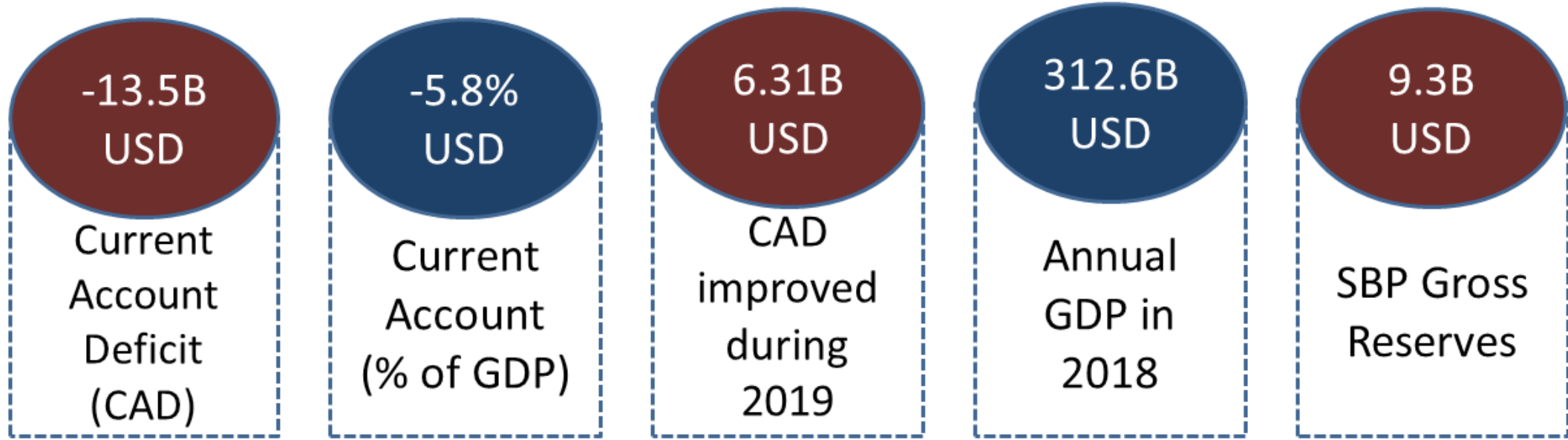
	2017	2018	1H2019
Number of branches/Unit	945	1,116	1,369
Number of Active Borrowers	2,576,942	3,167,214	3,438,434
Gross Microcredit Portfolio (Rs. m)	136,369	188,613	206,003
Average Loan Size (Rs.)	52,919	59,553	59,912
Number of Depositors	27,828,168	32,009,797	34,515,172
PAR>30	1.8%	2.7%	4.4%
Value of Deposits (Rs. m)	185,646	238,667	248,503
Average Deposit Balance (Rs.)	6,671	7,456	7,199.82

Market position of leading MFBs has remained largely stable

- As at end-June 2019, Khushali Bank Limited (KBL) remains the largest provider of microcredit, followed by Telenor Microfinance Bank Limited (TMFB) and First Microfinance Bank Limited (FMFB).
- Market share of larger MFBs has declined gradually on timeline basis which is taken up by mid-sized players owing to their aggressive expansion.
- Among MFBs, growth in borrowers during 2018 was led by TMFB which witnessed an increase of over 159,000 borrowers from the previous year to reach 695,000 borrowers in 2018.
- It is pertinent to mention that the industry continues to be dominated by top 5 MFBs that account for 77% of total outreach of the sector.

	1H19	2018	2017
Khushali	23%	23%	24%
Telenor	17%	18%	18%
First	11%	13%	14%
NRSP	15%	13%	13%
FINCA	11%	11%	11%
U	8%	9%	9%
Mobilink	7%	7%	7%
Apna	4%	5%	5%
Pak Oman	1%	1%	1%
Advans	1%	1%	0%
Sindh	0%	0%	0%

Microfinance and Pakistan's Macroeconomics

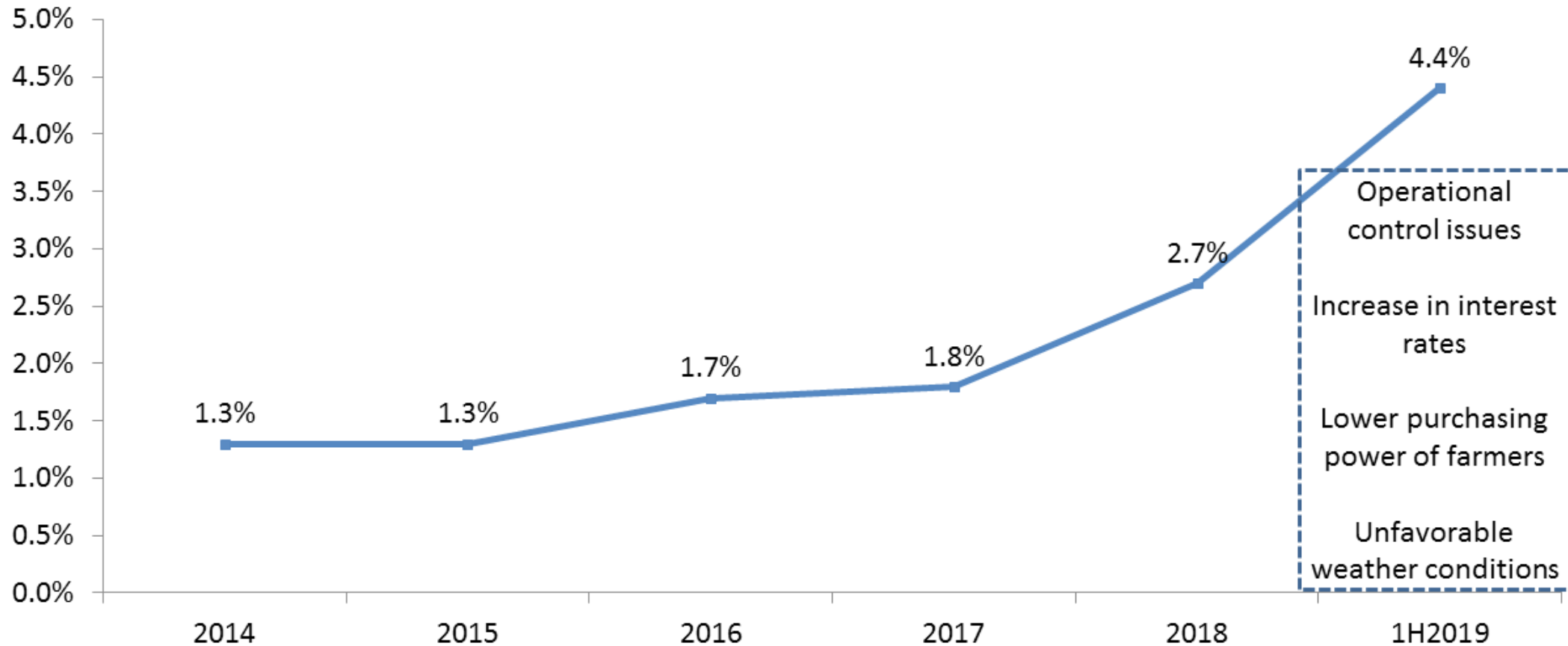


IMF Projected Figures

	2017	2018	2019	2020	2021	2022	2023	2024
	Actual		Projections					
Current Account Balance (\$ billions)	-12.6	-19.9	-13.1	-6.7	-5.5	-5.3	-5.3	-6.1
Current account balance (% of GDP)	-4.1	-5.8	-4.6	-2.6	-2	-1.8	-1.7	-1.8
Real GDP growth (%)	5.4	5.2	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	4.3	2.8	7.8	12.6	9.8	6.9	5.2	5.1

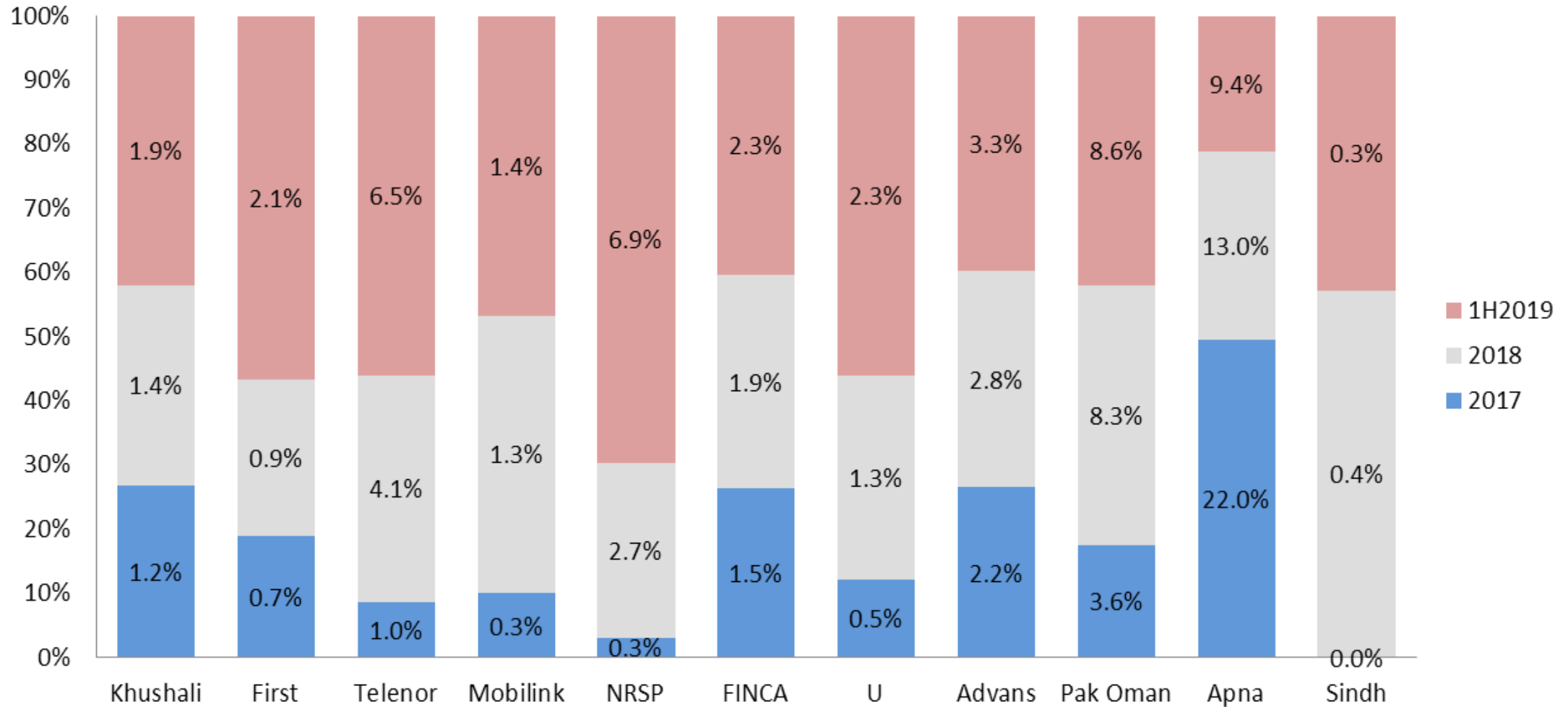
Industry credit quality has weakened significantly in first half of 2019

MFB Industry Infection Ratio (PAR 30)



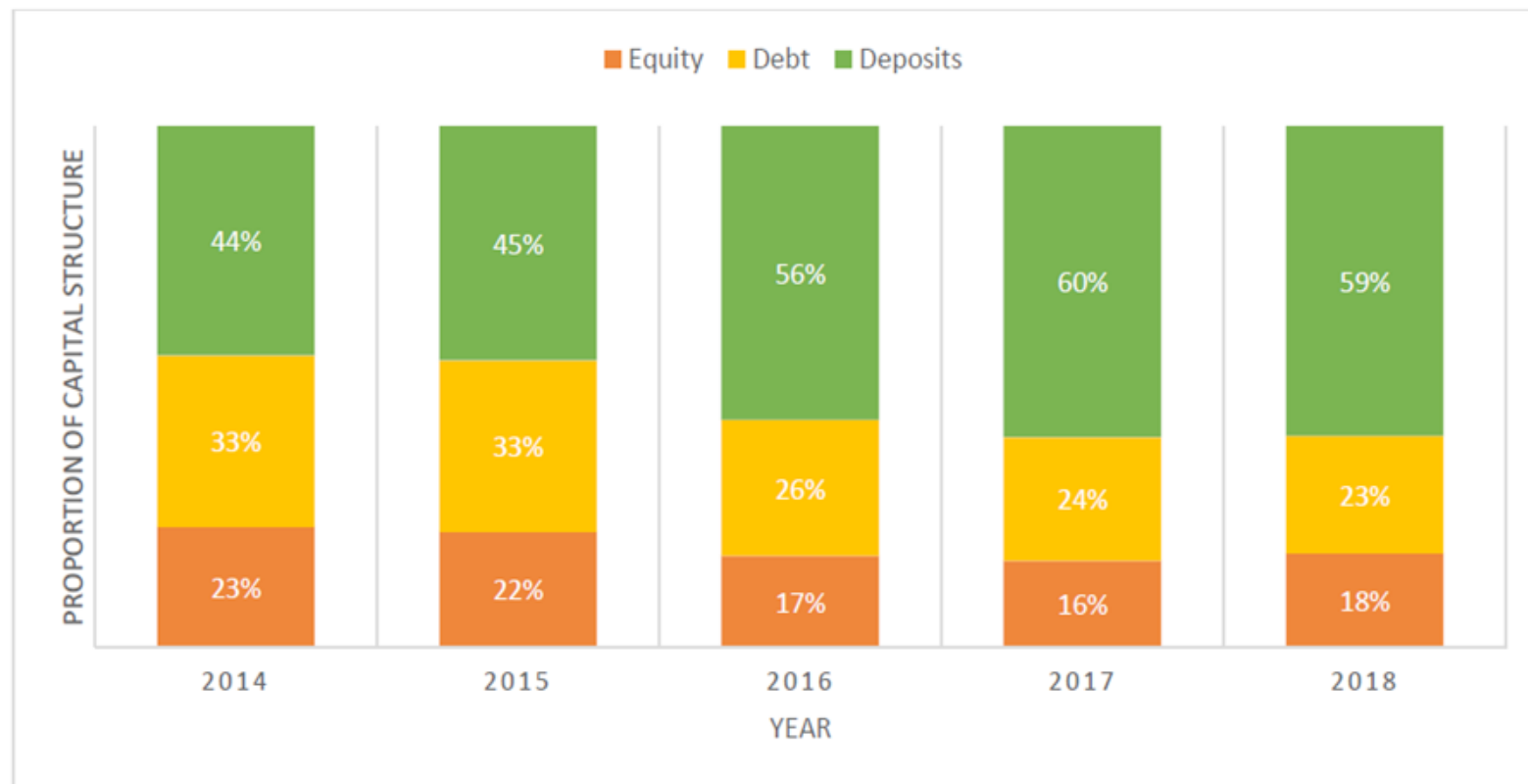
Credit Quality of MFBs

MFB Infection Ratios (PAR 30)



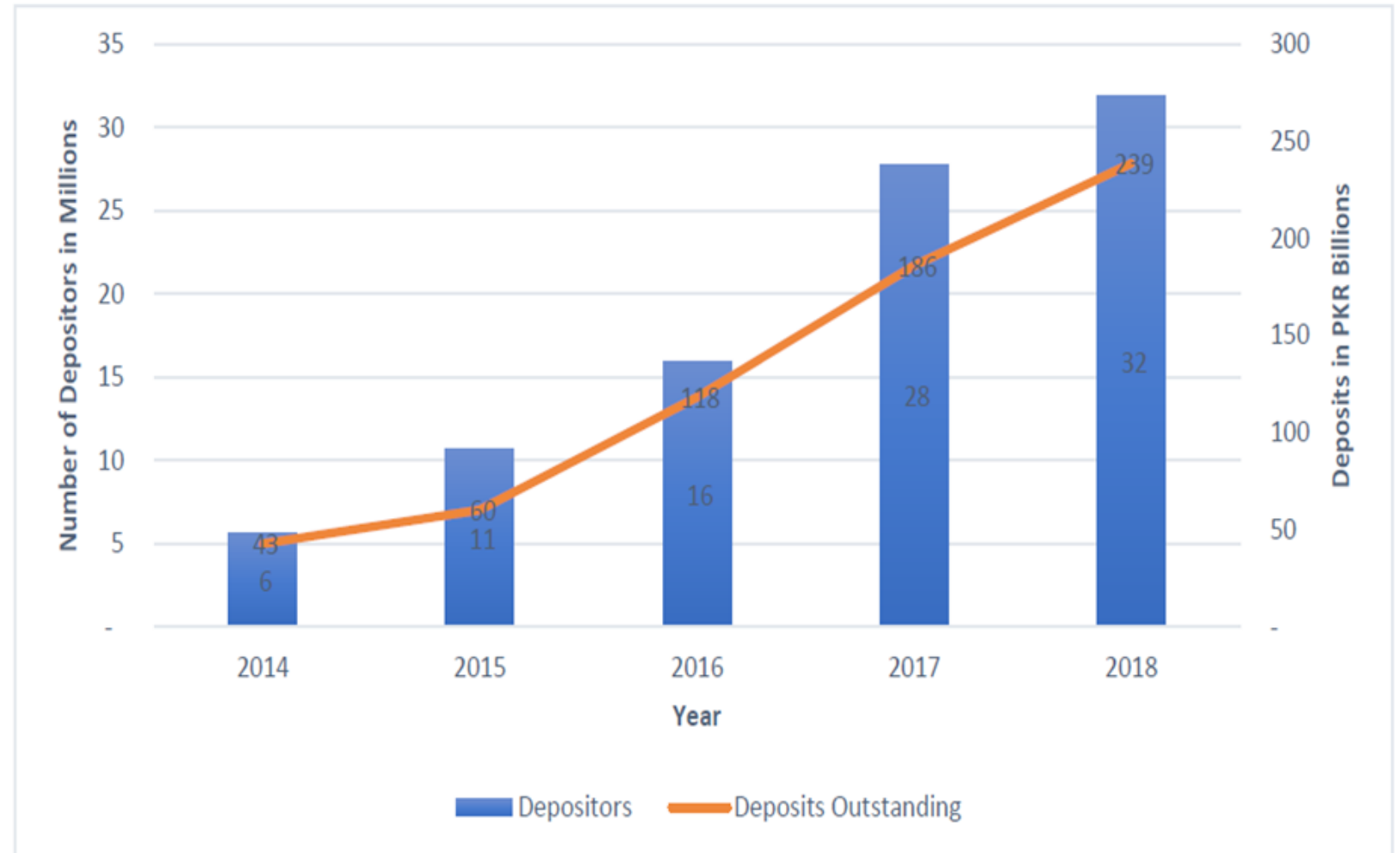
Funding

- For funding, most of the MFBs rely on deposits while some have also arranged borrowing facilities from local and international lenders in addition to deposits.
- Over the last five years, deposit base of MFBs has grown over eight folds with growth more pronounced in the last three years.
- Given the increasing appetite for credit, availability of liquidity will continue to play a critical role in supporting future growth.

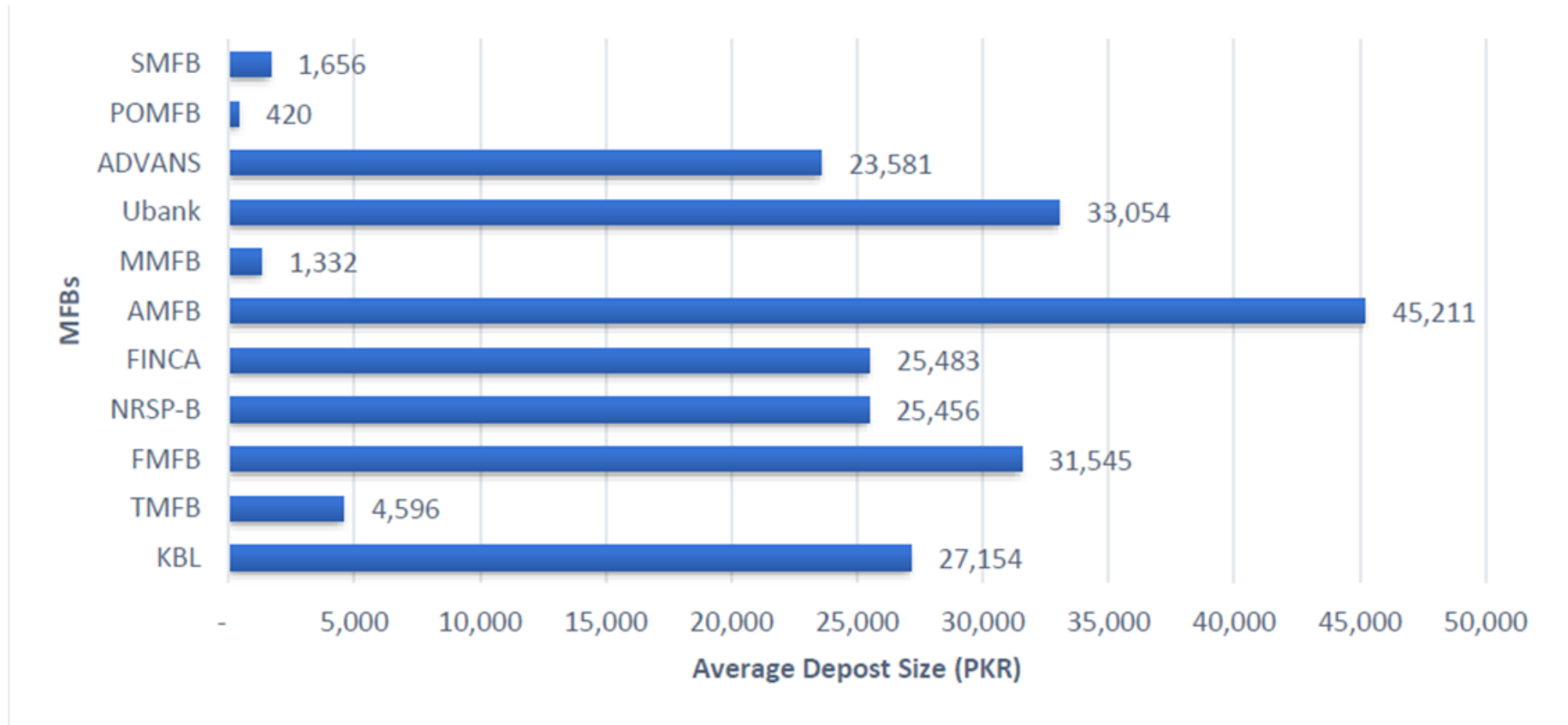


Funding

- Deposit base of MFBs has been increasing
- Moderate to high concentration levels in deposit base while being of concern, also requires corresponding liquidity cushion to be maintained on the balance sheet.
- Moderation in deposit concentration and granularity of their volumes would remain a function of the maturity profile of the MFBs, going forward.



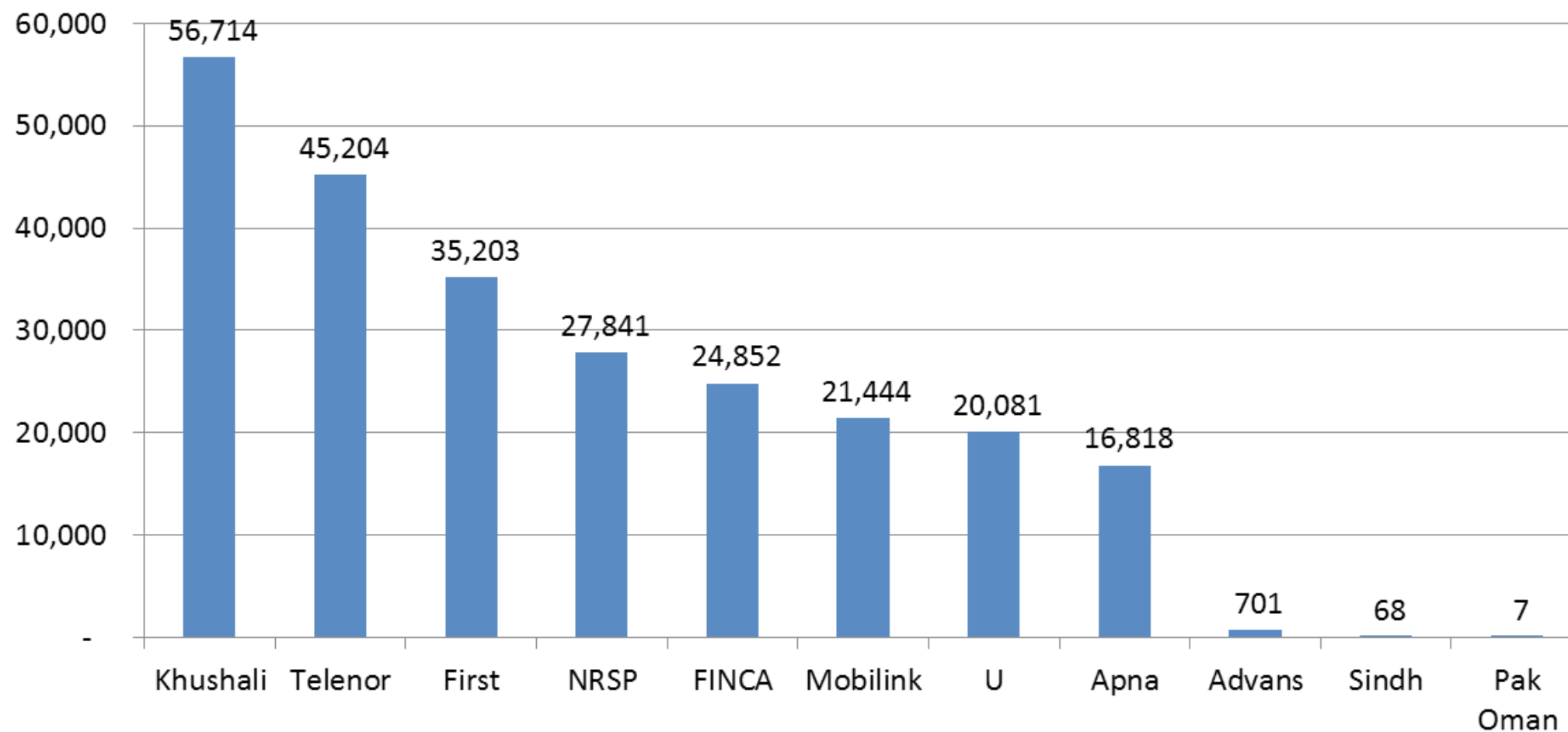
Funding



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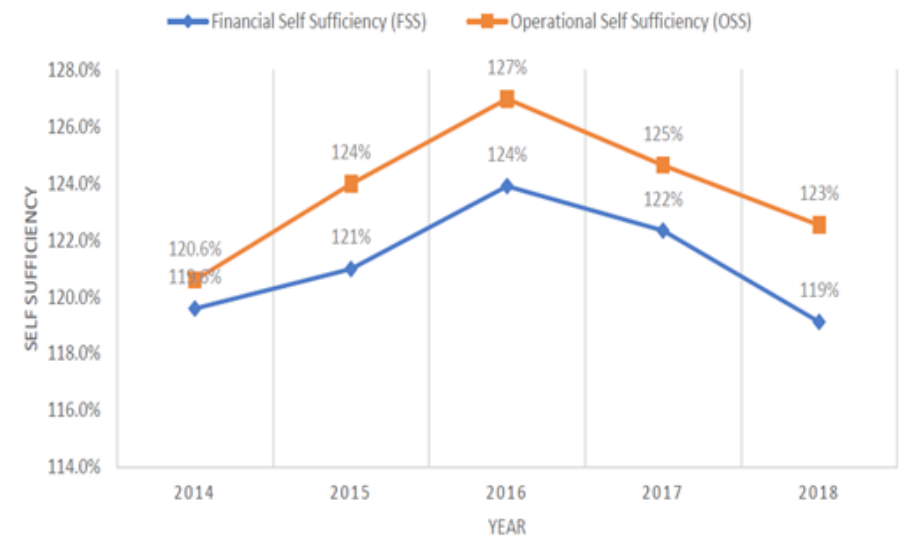
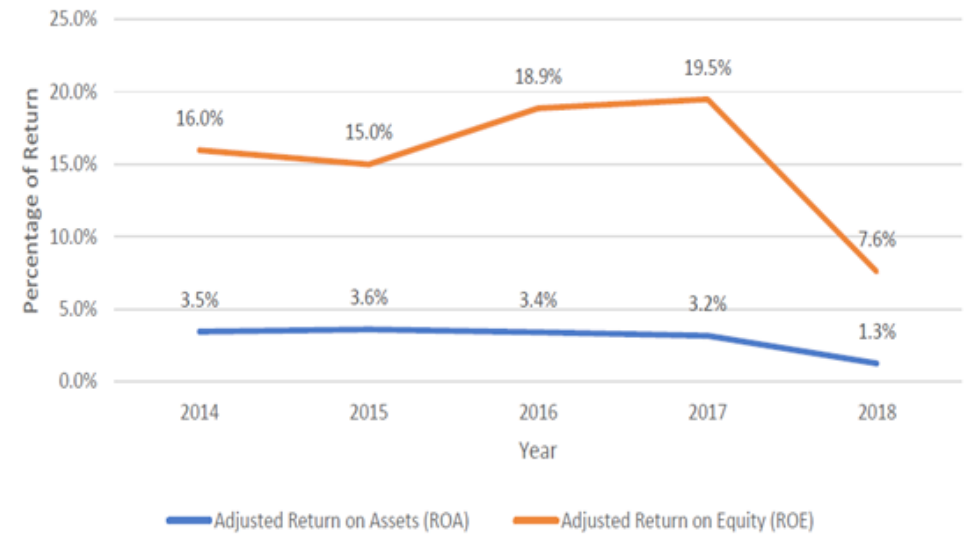
Funding

Deposits in Rs. m



Profitability

- Due to capital injection by Ant Financial (China) and Telenor Group (Norway) in the TMFB and simultaneous increase in total assets, overall ROAA and ROAE of the industry reduced.
- To an extent the high return on micro credit portfolio, affords MFBs the flexibility to offer better return on deposits; in part, this advantage is however off-set by the high level of overheads experienced by institutions.
- Nonetheless, overheads have gradually rationalized while the sector participants are also aiming to digitalize branch banking services which will further improve operational efficiencies.



Capitalization

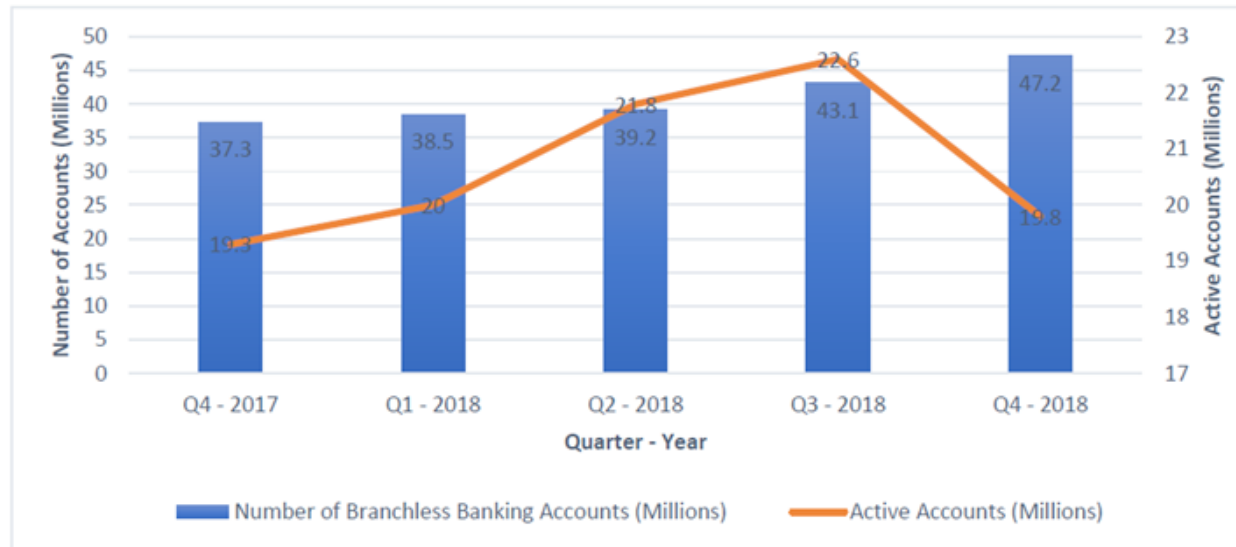
- Increase in lending portfolio has exerted pressure on the capitalization indicators of MFBs.
- Moreover, as institutions start declaring dividends, the pressure continues to rise. The national apex, Pakistan Microfinance Investment Company (PMIC), has provided Tier 2 capital to a few MFBs whereas others have resorted to issuing Term Finance Certificates (TFCs).
- Raising equity through private funds or IPOs are also options that are being explored by MFBs.

Branchless Banking

- While some MFBs are already offering Branchless Banking (BB) operations, others are at different stages of launching BB operations.
- An increasing interest of sector participants has been noted in developing Digital Financial Services (DFS) strategy.
- MFBs aim to digitalize their existing branch banking services as well as offering customers digital mobile wallets.
- DFS is expected to improve customer experience while also offering process efficiencies to the institutions.

Branchless Banking

This increase in the number of BB accounts came on the back of EasyPaisa, JazzCash, HBL Express and UBL Omni and their persistent endeavors to increase outreach in the rural regions of the country.



Value & Volume of BB Transactions		
Period	Volume (in Millions)	Value (PKR Billions)
Q4 2017	175.2	766.5
Q1 2018	192.9	776.5
Q2 2018	215.9	914.1
Q3 2018	225.8	972.7
Q4 2018	320.5	995.8

Sector Developments

- SBP has enhanced the lending limits under 'Housing Finance' for MFBs by increasing the maximum loan size from Rs. 500,000 to Rs. 1,000,000. Moreover, the restriction to maintain 60% of housing portfolio within the loan limit of Rs. 250,000/- is also being removed.
- The federal government vide Second Supplementary Finance Bill FY2019, has announced that with effect from 1st July 2019, reduced rate of taxation @ 20% (instead of 35%) on interest income of Banking Companies from additional advances to micro, small and medium enterprises.
- The SBP through its notifications in end 2018 and early 2019 notified that two private bureaus (M/S Aequitas Information Services Limited and M/S Data Check Limited) have been licensed. Separately, through another circular SBP has instructed all credit institutions to become members of at least one of the bureaus by September 30, 2019.
- The Central Bank in April 2019 developed and implemented a regulatory framework to ensure delivery of payment services in a safe, sound and cost-effective manner by prescribing the minimum service standards and requirements. The Electronic Money Institutions (EMIs) regulations are meant to allow non-banking institutions, now officially classified as EMIs, to offer e-money services to customers.

Future Outlook

- While the microfinance sector has grown at a fast pace in the recent years, its share in the financial sector of the country remains small. Nonetheless, the sector is expected to play a pivotal role in increasing financial inclusion, livelihood creation and sustainable economic growth.
- Growth outlook on the sector remains positive; the lead here would be taken by those having sound risk assessment policies and infrastructure strength for greater access to funding sources. Growth by itself may however, no necessarily continue to drive ratings upwards in the sector.

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