Innovations for Poverty Action

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New Evidence on Consumer Awareness: Can Pakistan's Instant Payment System RAAST Unlock Financial Inclusion?

Blog series: This is the second out of a series of blogs to be produced by IPA on interoperable instant payment systems and merchant payments.

Pakistan's instant payment system RAAST has the potential to transform the country's financial inclusion landscape. Launched in February 2022, RAAST enables users to instantly transfer funds between accounts at different financial institutions at no cost. It provides an experience similar to using cash and is especially handy for merchants, enabling almost instant settlement. RAAST also has the potential to provide a platform for innovation to thrive in the financial sector in Pakistan, allowing Fintechs and other financial service providers to develop affordable products and services that advance usage of financial accounts beyond payments.

Karandaaz Pakistan, a nonprofit promoting access to finance in Pakistan, conducted the Karandaaz Financial Inclusion Survey (KFIS) between August and September of 2022 to get insights on the state of financial inclusion in Pakistan. The overall survey results have been published. KFIS is Pakistan's only nationally representative survey that measures financial inclusion in-depth and hence warrants attention from stakeholders in the financial inclusion space. Innovations for Poverty Action along with researchers from the University of Sydney and the Lahore University of Management Sciences partnered with Karandaaz Pakistan to embed a survey module to study the state of instant payments in Pakistan from the users perspective, with a specific focus on RAAST. This unique survey module could be administered in countries with instant payment systems to offer a deeper understanding of key features within these payment systems.

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An individual counts Pakistani Ruppe in Karachi, Pakistan (Photo by Zeeshan Tejani on Unsplash)

Insights from the KFIS Survey on the Emerging RAAST Payment Ecosystem

While there is a lack of existing empirical evidence at this time, market trends suggest that the adoption of instant payment systems in emerging economies is contributing to increased financial inclusion and the digitization of cash. This transformation can have a particularly significant impact on emerging markets such as Pakistan. For example, after the launch of Brazil's PIX in November 2020, the percentage of adults owning bank accounts increased from 70 percent in 2017 to 84 percent in 2021. A few years after the launch of the Philippines' InstaPay in 2018, account ownership among adults reached 51.3 percent from 34.5 percent in the previous year. India continues to make significant progress in advancing financial inclusion through its Unified Payment Interface and the India Stack. Many other factors contributed to the success of advancing financial inclusion in these countries, but the adoption of instant payment systems is pivotal. Do the results from the KFIS survey reflect similar trends observed in other countries that launched instant payment systems?

According to the KFIS, the rate of account ownership in Pakistan has increased to 30 percent in 2022; however, based on the World Bank's Findex data, only 1.1 percent of adults made a digital merchant payment in 2021 in Pakistan, indicating a lack of consumer trust in digital payment methods. Given this gap between account ownership and the use of digital merchant payment in Pakistan, how will RAAST go about changing the financial inclusion landscape in Pakistan? Here are some insights from our new survey module on RAAST that can help identify drivers and barriers to the adoption and usage of Pakistan's instant payment system:

8.6 percent of adults in Pakistan have multiple financial accounts

The primary reason for holding these multiple accounts is the ability to easily transact with individuals and entities with accounts across different financial institutions–with 42 percent reporting this as the reason for holding multiple accounts. Interoperability of payments, defined as the ability to transact with individuals and entities with accounts across different financial institutions from a single account, is a *key feature* of instant payment systems. Interoperability eliminates the need to open multiple financial accounts, therefore reduces market frictions and administrative burdens. The continued presence of multiple account holding indicates that awareness of RAAST and its feature of interoperability may still be lacking.

Individuals who are financially included, possess a mobile phone, and have higher education exhibit a high level of awareness regarding 'interoperability'.

Specifically, 92 percent of the financially included were aware of both bank-to-bank interoperability and mobile wallet-to-mobile wallet interoperability and 91 percent of the financially included were aware of interoperability between banks and mobile wallets. This suggests that information on RAAST may be directed at specific population segments–those who are financially included or through channels accessed by these population segments. It may be worthwhile to disseminate knowledge about RAAST and its functionalities to those who are not yet formally financially included or unbanked, who are less likely to own a mobile phone, and who are less educated. Alternatively, there is always the possibility that people are not paying too much attention to RAAST when they don't find it very relevant because their local economy is highly dependent on cash.

12 percent of Pakistani adults and 43 percent of those who are financially included reported having sent funds to an account with a different financial institution from their own. The second most likely reason was to pay a merchant (33 percent) followed by payment to employees (7 percent). This suggests that there is demand for interoperable payments, especially amongst those who are financially included.

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The top reason for doing so was to send money to family, which was reported by 55% of those who made an ‘off-net transfer’ or transferring funds from one bank account to another that belongs to a different financial institution. The second most likely reason was to pay a merchant (33 percent) followed by payment to employees (7 percent). This suggests that there is demand for interoperable payments, especially amongst those who are financially included. Additionally, 66 percent of those who had an account reported using an intermediary's account (friend, family, or mobile money agent) to transfer funds to someone who had an account at a different financial institution from theirs. While 41 percent of those who use an intermediary’s account do it monthly. This may be done to avoid the costs of off-net transfers. Despite the transfer price being ‘0’ under RAAST, consumers may incorrectly perceive it as high. Therefore, raising awareness of ‘no-fee’ or ‘no-cost’ transfers to expand adoption usage is highly encouraged.

Perceptions about costs associated with peer-to-peer (P2P) transfers vary widely between the financially excluded and included

Financially excluded populations have low awareness of the fact that funds can be transferred to others, regardless of their financial institution, at zero cost. When asked about the costs associated with a transfer of Pakistani Rupee (PKR) 1,000 between two accounts of the same institution (known as on-net transfers), 85 percent of those who are financially excluded responded that they did not know about the costs, compared to 37 percent of those who were financially included. Out of those financially included individuals, 41 percent of them were aware that such a transaction would have no costs. For off-net transfers, 60 percent of the financially excluded did not know about the cost of making an off-net transfer, compared to 24 percent of the financially included, although both off-net and on-net transfers are free under RAAST.

Overall, these results suggest some polarization in the market: financially-included consumers are more likely to use RAAST and possess some level of awareness about it. On the flip side, there is a significant group of financially excluded consumers who have limited experience and knowledge of RAAST. More research is needed to determine whether the lack of information is from the supply side or a variation in the population’s demand for digital financial services on RAAST.

What's Next

The increasing volume of digital payments in the country is commendable, and the efforts made by stakeholders, including the State Bank of Pakistan and the private sector, should be acknowledged. Additional efforts are required to align with the digitization progress achieved by other countries. While we recognize that no single solution exists for any country to accelerate financial inclusion, the introduction and eventual proliferation of RAAST can be a game changer. Stakeholders are encouraged to conduct more research to understand the financial inclusion landscape in the country, and embed findings into policy decisions, to amplify the impact of RAAST in Pakistan.

In addition to the financial inclusion survey by Karandaaz Pakistan, Better than Cash Alliance recently published its report on ‘Realizing the Promise of Responsible Digital Payments for Merchants in Pakistan’ that aims to bridge information gaps in this space. IPA and the Lahore University of Management Sciences are closely working with a leading mobile money provider in Pakistan to undertake experimental research to generate causal evidence on optimal strategies that can be used to incentivize merchants and consumers to accept and pay digitally. As we complete our study, we will publicly share findings from the research with stakeholders in the country.

Read our white paper on Inclusive Instant Payment Systems to learn more about Innovation for Poverty Action’s research agenda on Interoperable Payment Systems. The white paper includes the survey module that was adapted for the KFIS.