

NEPAL

Annual Monitor

2016



The digital financial services (DFS) landscape in Nepal is changing, as the Nepal Rastra Bank (NRB) starts issuing licences to non-bank payment service providers (PSPs). Non-banks are actively engaging to set up agent networks and develop partnerships to co-create products, and many mainstream financial institutions are investing in new digital channels to deepen their services. To further enable growth in the market, NRB is working on various policy initiatives, viz. the National Retail Payment Strategy, and investing in an e-mapping system to track market progress. At the same time, the Government is working to digitize the social benefits of 2.3 million people. These combined efforts and an openness by market players to invest and innovate will be key to drive the market forward.

The United Nations Capital Development Fund (UNCDF) programme Mobile Money for the Poor (MM4P) uses a **theory of change** approach to DFS development, which focuses on making **shifts** between phases of market development, moving from Inception to Start-Up to Expansion and eventually to a mature market known as Consolidation. Through each phase, MM4P takes into account the entire DFS ecosystem. This means MM4P plans activities at the levels of Policy & Regulation, Infrastructure, Providers, Distribution, High Volume and Customers to improve market conditions and facilitate shifts. Nepal is currently in the Start-Up phase of DFS market development.



MM4P launched its programme in Nepal in 2013. Since that time, MM4P has supported market development through the following activities:

Coordinated within the DFS market through workshops and training

Worked with NRB on data analytics and capacity-building through training and exposure visits focused on DFS

Worked with banks and non-banks to launch new products and services

Engaged the Government to transit payments digitally through formal financial channels

Worked with private-sector institutions to develop a culture of customer-oriented innovation

Over the next three years, MM4P plans to continue to invest in the Nepal DFS market with the goal of moving the market into the Expansion phase and the objective of 10% of the adult population actively using DFS (active use is defined as having used the account at least one time in the past 90 days).

In 2017, MM4P has planned the following activities:

Support at least two PSPs to launch a mobile wallet as a mass-market product and to facilitate payments

Support the creation and piloting of new products focused on youth, women and migrants with a PSP

Facilitate and pilot the digitization of the dairy value chain

Explore projects within digital insurance and credit

Support prototyping and testing with agri-tech players

Pilot a pay-as-you-go solar-powered irrigation solution

Assist the Department of Civil Registration to implement an e-payment strategy and roll out government-to-person (G2P) payments

Work with NRB to develop the National Retail Payment Strategy and conduct payment flow diagnosis

Implement a geographic information system (GIS) based analytics and reporting system with NRB

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Facts and figures

Population^a

28.5 million



Adult population^b

19.2 million



Where we were 2013^c

Where we are 2016^d



(90 DAYS)

TOTAL ACTIVE
DFS USERS

25,387

ACTIVE DFS USERS AS
PERCENTAGE OF ADULT
POPULATION

<1%



(90 DAYS)

TOTAL ACTIVE
DFS USERS

215,000

ACTIVE DFS USERS AS
PERCENTAGE OF ADULT
POPULATION

1.1%



(30 DAYS)

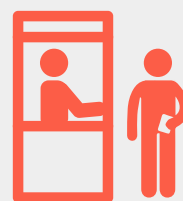
TOTAL ACTIVE
AGENTS

404

(30 DAYS)

ACTIVE AGENTS
PER 100,000 ADULTS

2.5



(30 DAYS)

TOTAL ACTIVE
AGENTS

764

(30 DAYS)

ACTIVE AGENTS
PER 100,000 ADULTS

3.9



MOBILE
PENETRATION
RATE^e

121%



FINANCIAL
INCLUSION
RATE^f

40%



PROVIDERS ENGAGED IN DFS

Main banks:

Citizens Bank, Everest Bank,
Mega Bank, Nepal Investment
Bank, Rastriya Banijya Bank,
Siddhartha Bank

Non-banks:

eSewa, IME pay, MoCo, Prabhu

^a UN World Population Prospects, 2015

^b UN World Population Prospects, 2014

^c UNCDF-MM4P internal scoping mission

^d Results Measurement Framework: Nepal 2017 (UNCDF-MM4P internal document based on data collected from banks, excluding over-the-counter transactions) and UN Population Statistics, 2015

^e Nepal Telecommunications Authority, 2016

^f FinScope Survey Highlights Nepal, 2014

OPPORTUNITIES



(1) NRB is looking to strengthen oversight using data analytics while enabling innovation in payments (2) Establishment of a new federal structure in 2017 is expected to prompt a local-development focus (3) Directive on payment licensing would allow new players' engagement in the DFS space



Government is investing in a shared telecom infrastructure in rural areas, which would be a positive enabler for DFS expansion to remote, interior areas



(1) Non-bank PSPs, like remittance providers, have the right experience using agent networks in the market to launch and scale new DFS solutions (2) Providers are working on creating linkages with use cases that would drive e-wallet adoption



PSPs are testing models that focus on enhancing outreach by leveraging networks of community groups and organized distribution chains



(1) Government is working to digitize social security payments for 2.3 million beneficiaries (2) Government is examining digitization of pension payments and tax collection (3) Opportunities exist to digitize cash-heavy dairy, tea, sugarcane and other agricultural value chains



(1) High smartphone penetration and social network usage reflect customers' mobile literacy (2) Remittance service providers are experienced in leveraging agent networks and are trusted to advance DFS uptake through agents



There is scope for leveraging financial cooperatives and producer cooperatives for distribution, customer-focused product innovation and customer-behaviour change

CHALLENGES

(1) NRB is still in the process of setting guidelines and regulations to further facilitate market development (2) Frequent government changes are reflected in high turnover of bureaucrats at senior-level positions in ministries, causing the decision-making process on policies to be halted or delayed (including those impacting DFS)

(1) Nepal has infrastructure challenges concerning electricity, roads and network connectivity, especially in hill and mountain regions, hampering the growth of DFS agent networks in those areas (2) Telecom companies are yet to provide full access to USSD (unstructured supplementary service data) in the market; dependence on app-based models restricts the growth of a market with low smartphone penetration and SMS (short message service)-based interfaces are not user friendly

Providers have limited capability to envision the DFS business beyond bill payments, which may hinder market growth and affect providers in long run

Sustainability in terms of business volume is a challenge for agents due to the fragmented nature of settlements in hill and mountain regions, particularly with no service interoperability

G2P payment digitization is a key high-volume driver, but the change in federal structure and public finance mechanism will delay implementation

Customers' dependency on over-the-counter transactions for remittances may hinder the shift to self-initiated transactions with e-wallets

DFS represent an emerging concept in a cash-heavy ecosystem; shifting preference and behaviour from cash to digital is therefore a challenge, notably where there are lower literacy levels and geographical issues

2012 WHERE WE WERE Inception phase:

- NRB still using 2012 electronic banking guidelines for DFS
- A few branchless banking efforts by banks but none at scale
- One partnership between eSewa and Nabil Bank testing the agent model based on wallet accounts
- No existing operational pilot of G2P payments

2019 WHERE WE WANT TO BE Expansion phase:

- NRB adopts data-driven policymaking and completes the GIS-based map of Nepalese financial infrastructure
- New market participants drive inclusion agenda; know-your-customer requirements are eased; interoperability is promoted by NRB
- Three to four major non-bank deployments take place, with services provided across the country
- Non-banks and financial institutions partner to co-create services; microfinance institutions and cooperatives test role transformation
- Scalable deployments are completed, with use cases tested around agriculture, energy, remittances and government payments
- Institutions move towards interoperable networks; cooperative, microfinance institution and other agency models are tested to be one-stop-shops for financial services

2016 WHERE WE ARE Start-Up phase:



- NRB released PSP licence and settlement guidelines in July 2016
- Government announced policy intent to transit social security payments through formal financial channels
- Department of Civil Registration developed an e-payment strategy and plans to implement first phase by end-2017



- More than 10 non-bank PSPs applied for a licence from NRB to launch the wallet service, including remittance and telecom companies
- Some providers that were active in the market with a wallet service before the regulatory regime, viz. eSewa, continued to expand their services
- Banks increased their investment in developing rural outreach through branchless banking



- First phase of social security allowance transfers through bank accounts was proposed to take place by end-2017