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Media Release on IBFT Price Rationalization

Protecting the small transactor: Almost 80% of 1LINK IBFT transactions are below Rs.25,000/-

1LINK is the pioneer payment system in Pakistan that provides a multitude of digital payment solutions, through platforms tailored for various transactions among individuals, businesses and government entities. One of its most successful products has been the versatile “IBFT – Inter Bank Funds Transfer” launched back in 2007, which is a 24X7 real-time service that ensures online account to account fund transfer across different banks, making Pakistan one of the earliest countries in the world to launch online funds transfer. This was offered on ATMs, IVRs, internet banking and mobile banking channels of all member institutions in Pakistan.

At the time of inception of IBFT, low penetration of digital banking channels did not allow much traction and spread of this service in the local market. However, with ever-increasing adoption of digital banking channels via smart phones, a rapid rise in IBFT usage was witnessed in the last few years. But still, transaction volumes were not increasing at the desired pace due to inconsistent pricing models imposed by a multitude of players, even for small ticket transactions. Since IBFT pricing was not regulated by SBP, every entity had its own pricing mechanism for the consumers. Many had set a high price primarily because of the costs associated with infrastructure and maintenance of digital channels, while others were coupling IBFT product with corporate banking solutions. For the record, 1LINK pricing for this service to the industry was totally decoupled from what they charged their final customer, while 1LINK had a standardized nominal price it charged all its industry customers uniformly.

When the first COVID-19 lockdown was announced back in March 2020, SBP stepped in to support the restrictions on physical movement and interaction of population, as imposed by the government. Thus, the Regulator mandated zero charges for IBFT by the banks in order to encourage digital fund transfers. Due to the lockdown and supported by zero-fee regime, the rise in usage of IBFT service was phenomenal, where from an average of 141K transactions per day in 2019, the volume went up to 774K transactions per day in 2021. This shows the immense trust of public in 1LINK services and the larger digital payments ecosystem of Pakistan, as evident below:

Slab	FY 2019		FY 2020		YTD 2021 (June 15, 2021)	
	Vol (000)	Value (Bln)	Vol (000)	Value (Bln)	Vol (000)	Value (Bln)
0 to 10K	23,272	87.8	98,946	326.8	83,679	267.4
10K+ to 25K	9,991	182.9	30,459	527.2	18,149	325.1
25K+	18,269	1,996.1	36,168	4,066.5	26,668	3,142.1
Total	51,532	2,266.8	165,573	4,920.5	128,496	3,734.7

A pre COVID-19 and post COVID-19 analysis of IBFT usage is reflected below:

Period	Pre-COVID (from Jan 1, 2019 to March 23, 2020)		Post-COVID (from Mar 24, 2020 to June 15, 2021)	
	Volume (000)	Value (Mln)	Volume (000)	Value (Mln)
Avg Per day	149	6,536	617	17,692

While transactions grew, it was evident that a free IBFT model was not tenable in the long run. Had this continued, investments by banks, fintechs and payment systems in fund transfer products would have gone down and this industry would not see the innovation it has witnessed recently. In addition, there are enormous costs associated with online funds transfers including security, connectivity, hardware and





software and related procedures and systems for settlement. Therefore, based on representations made by various players including 1LINK, commercial banks, MFBs, fintechs, telcos, etc., a more sustainable model has been adopted, which favors both the general public as well as the financial industry. As the above statistics show, the recently introduced pricing regime as tabulated below is a bold step in the right direction to rationalize and regulate the IBFT fee and bring it in harmony with the environmental situation, effective July 1, 2021:

Transaction Slab (Rs.)	Banks Fee in Rs. (Charged to Customers)
Up to 25K	Free
25K+	0.1% or Rs. 200/- (whichever is lower)

After the above-mentioned fee is imposed, there might be a small drop in transactions, but it is worthwhile to note that almost 80% transactions are below Rs.25,000/- and more than 60% transactions are below Rs.10,000/-. Hence it is evident that a vast majority of the IBFT using public will still be short of the Rs.25,000/- threshold in a month and will be enjoying free of cost banking. Even those who go beyond Rs.25,000/- will only be charged 0.1% on the amount they use over and above the Rs.25,000/- threshold. The remaining 20-25% volume consists of “high ticket” transactions pertaining mainly to affluent individuals, and commercial and corporate customers. Needless to mention that the savings and convenience experienced by these customers, while transferring funds through IBFT as compared to clearing/collection of cheques and pay orders, is way beyond the nominal charges they would be paying.

On a general note, experts estimate the cost of cash transactions at 3-4%, which often remains unreported. These include cash handling, headcount, operational expenses, insurance, etc., while digital payments are far more efficient and less costly. Conclusively, the IBFT service is waging a war against cash transactions.

At the end, it is desired from the opinion makers, print and electronic media, intelligentsia of the country and the general public to take a balanced view of the situation in this regard. Pakistan is going through a seismic shift in how transactions are being processed. 1LINK itself experienced an explosion in processed transactions from almost 600 million in 2019 to 1.44 billion in 2020, and we estimate 2021 to close around 2.25 billion transactions. The regulated price regime imposed by SBP is expected to continue providing the relief to the masses while ensuring that the service providers will be able to keep investing in better, faster, robust and secure digital payment variants. The concerned stakeholders should look forward to more variants like instant funds transfer on retail-end, direct debit products like “RTP - Request to Pay”, QR based payments, etc. by giving the industry room to innovate and deliver.

About 1LINK (Pvt) Limited:

1LINK, owned by a consortium of 11 banks, is Pakistan’s first PSO/PSP and largest switch and payment system, providing a host of valuable online banking services like ATM switching, Bills Payment, Inter Bank Fund Transfer, Fraud Risk Management, Switch Dispute Resolution, Global Payment Schemes, PayPak- Domestic Payment Scheme, etc. 1LINK is continuously evolving and adding new products and services to benefit the financial industry

