

## **SBP Conference on Branchless Banking**

17<sup>th</sup> November 2014

### **Keynote Address by**

#### **Finance Minister Senator Mohammad Ishaq Dar**

Mr Ashraf Mahmood Wathra, Governor - State Bank of Pakistan,  
Mr Richard Montgomery, Head of the UK Department for International Development, Pakistan,  
Mr Steve Rasmussen, Consultative Group to Assist Poor (CGAP), World Bank,  
CEOs/Presidents of banks telecom companies,  
Chairman, Pakistan Telecommunication Authority (PTA),  
Chairman, NADRA,  
and especially our guests from abroad, friends, ladies and gentlemen.

#### ***Assalam Alaikum and Good Morning!***

Let me first congratulate the State Bank of Pakistan for organizing this branchless banking conference on ‘Innovations in Digital Finance for financial Inclusion’. Branchless banking is becoming an innovative and successful distribution channel strategy for delivering financial services without relying on bank branches. I am happy to see representatives from government, banks, microfinance sector, telecom industry, and development agencies. Your presence in this conference shows how vibrant this sector has become.

#### ***Ladies and Gentlemen,***

I am impressed by the progress that branchless banking industry has made to promote digital finance in the country so far. State Bank, as the regulator as well the facilitator in market development, and the entire industry need to be congratulated for this.

I have also observed from the conference programme that you will be discussing today how to expand products, channels, and interoperable solutions to build a robust digital finance platform for bringing basic banking services to every citizen of Pakistan. I am happy to see this choice of topics because this is consistent with the present Government’s economic reform agenda of achieving rapid GDP growth and passing down its benefits to reduce income inequalities in the country.

To achieve the goal of accelerated GDP, the present Government is clearly focused on providing economic and development opportunities to grass-root level segments. These segments include youth, women, farmers, and small entrepreneurs. In past, these segments have not been fairly compensated for their hard-work and commitment due to lack of sufficient opportunities.

As a key element of our economic agenda, the Government is now serving these groups through various support initiatives. The Government targets the most vulnerable population through cash grants under its Income Support Programme whose monthly stipend has been increased from Rs 1,000/- per month in financial year 2012-13 to Rs 1,500/- per month now. In addition, the Government has put in place a number of programmes to target the youth of the country who are encouraged to educate themselves for which fees are being reimbursed to students from the less developed areas and laptops are being provided while vocational and technical education is also being provided. Our schemes also encourage setting up of businesses for which youth business loans are being provided.

Additionally, the Government's initiatives to improve market structure and efficiency through modern infrastructure (i.e. energy generation, roads, hospitals) and innovative technologies (licensing 3G/4G spectrum) are aimed to address the constraints to growth and create a conducive environment for investments. This growth will create jobs for lower income people, facilitate poverty alleviation, and promote human capital development. Eventually this will benefit all the sectors of the economy including the marginalized segments whose participation and ownership in the country's economy is critical in achieving sustainable development.

***Ladies and Gentlemen,***

In the context of the priorities that our economic reform program has chalked out for marginalized segments, broadening financial access is more important than ever. Without doubt, no economy and society can grow if a large part of its population does not have fair access to financial services.

In that respect, I commend State Bank of Pakistan for its strategic vision and commitment to improve financial inclusion in the country. SBP's approach to work in collaboration with Government, other regulators, industry, and donors deserves to be praised. The results of this progressive approach are already visible and I would now refer to some of them. As Governor Wathra has highlighted, our financial inclusion policy framework and branchless banking models are recognized globally. Pakistan's microfinance and branchless banking sectors have seen inflow of foreign capital and increased use of innovative technologies. Basic banking services such as bills payment, person-to-person payments, mobile wallets, G2P payments are now reaching millions of previously unbanked population through mobile phones and large agent networks spread all across the country. Based on these strong foundations and considering the magnitude of financially excluded population and demographic profile, I must say that our journey for financial inclusion has just begun, albeit with full strength and hope.

***Ladies and Gentlemen,***

Our credit to GDP ratio is only 18%, savings rate is 13%, and access to financial services is estimated to be less than 20% - one of the lowest in the region. These figures indicate a disturbing gap which is clearly hindering development of our financial sector and the economy to its realizable potential. I strongly believe that by using digital finance channels such as electronic and mobile banking, we can achieve multiple objectives:

***Firstly,*** it can lead to rapid expansion in access to financial services, which can lead to deepening of our financial system.

***Secondly,*** digital payment can be an efficient and transparent medium for Government's retail payments both for Government-to-person (G2P) and Persons-to-Government (P2G) payments. The efficiency of such payments have mostly been constrained due to bulk movement of actual cash or delayed bank transfers. Furthermore managing such payments entails a significant cost associated with manual record keeping, security, and transportation. By digitizing G2P payments, our Government can reduce the probability of any theft and fraud, and strengthen our e-Governance framework. I am delighted to note that experience of digitizing leading social welfare schemes of the Government has been a major success. I assure you that we will build on this success and consider gradually moving to digitizing the remaining space of Government's payments. The Government and State Bank of Pakistan will like to work with global agencies like UNO's Better-Than-Cash-Alliance to chart a roadmap for digitizing Government's retail

payments and I look forward to the day when people will be paying for their parking tickets and toll taxes on spot through mobile wallets.

**Thirdly**, in addition to ease of payment, bank-led digital payments will also help to track flow of money in the economy. Such tracking becomes difficult in a cash-based economy, hence leading to greater risks for money laundering and financing terrorism. I am glad to note that NADRA's cutting-edge biometric technology for identity verification is going to be soon implemented by banks to perform their Customers-Due-Diligence (CDD) procedures for opening customers' accounts and performing over-the-counter payment transactions. I am sure signing of MoU between SBP and NADRA today is a major step to facilitate the implementation of biometric verification for millions of account opening and billions of transactions in future.

**Fourthly**, digital and electronic banking can be used to increase inflow of workers' remittance from abroad to Pakistan. Despite various reforms, many beneficiaries are still facing difficulties to timely receive remittance in Pakistan through traditional banking channels. Due to this, it is estimated that a sizable share of inward remittances is still reaching our villages and towns through informal channels. We should strive to shift those payments away from informal channels to safe and convenient electronic banking channels. This will increase our remittances further which have been on an upward trend since last year. There was a increase of 13.7% in remittances in the financial year 2013-14 while the figures for the first four months of financial year 2014-15 are even more encouraging. In the period July to October 2014, remittances stand at US\$ 6.078 billion as against US\$ 5.276 billion in the same four months of 2013. This is an increase of 15.21%.

Imagine if a woman in a village could instantly receive money sent by her husband or son from outside the country in her account on her mobile phone and then immediately use that amount as a normal banking account for bill payment, payment to other person, pay school fee of her child, or withdraw cash from a nearby shop, postal office, or bank branch to buy groceries. If this blossoms to a large scale, this will bring benefits to everyone – banks, customers, and economy.

**Fifthly**, branchless banking development can revolutionize our day to day financial dealings and the government is supporting that transition. I am pleased that our Government has taken steps to provide high speed internet on mobile phones through 3G and 4G spectrum, the government has laid down the critical telecommunication infrastructure for the industry to come forward and design innovative and value-added solutions not only for the mass market as a whole, but tailor-made & customized products for different socio-economic segments of society. This will revolutionize our daily experiences in terms of e-shopping, electronic commerce, and merchant payments.

**Lastly and importantly**, I must stress on the need for having appropriate governance and risk management framework in place to counter new threats emerging from latest technologies and business models. Cyber crimes have the potential to cast an adversely pervasive impact on any technology-related business. We must also be on guard, and commit to strengthen our laws and regulations, including anti-money laundering laws, to subvert cyber crimes and terrorist financing.

**Ladies and gentlemen,**

In conclusion, I would like to say that the level of access and usage of formal financial system is very low due to the high magnitude of informality and public preference for cash based

transactions in our economy. I believe, digital financial inclusion may be our window of opportunity to reverse this tide of informality. Accordingly, concerted efforts are needed to drive branchless banking usage through mobile wallet payments, digitized G2P payments, and improved range of digital financial services available for usage via branchless banking.

Going forward, I would like to be personally involved in steering this initiative through the newly created National Financial Inclusion Council to assign the much needed priority to this issue. The Council will draw membership from important stakeholders including relevant Government ministries/departments, financial and telecom regulators and industry to set and monitor activities and national targets for digital financial inclusion. This initiative will help in achieving the medium-term targets set by our Government, especially those related to GDP, investment-to-GDP ratio and savings-to-GDP ratio. Finally, I leave the following suggestions for the participants of this Conference to ponder upon:

1. The State Bank would have to strengthen its grievance redressal system to monitor misuse of the system and to take effective and prompt against any such activity.
2. The institution of Banking Ombudsman would need to be strengthened, especially since a larger number of people will be using the system for their banking transactions.
3. The State Bank may introduce a system whereby it recognizes the banks and telecom companies on the basis of wider access and better service.
4. It is also my desire that we should work towards achieving a system in which our farmers also receive their payments particularly for rice, sugarcane and cotton electronically through branchless banking. The same should apply to BISP beneficiaries as well as any future disaster affectees. Likewise, pensioners constitute a significant chunk of vulnerable segment most of whom have to stand in long queues to receive their pensions manually. The system should eventually encompass them as well as all vulnerable segments of the society some of whom I have referred to above.

I look forward to the deliberations and recommendations of this conference. I wish the conference success, and hope you have a fruitful day.

***Thank you!***