

## **Yaseen Anwar: Mobile banking in Pakistan**

Keynote address by Yaseen Anwar, Governor of the State Bank of Pakistan, at the 5th International Conference on “Mobile banking in Pakistan”, Karachi, 15 March 2012.

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Distinguished Guests, Ladies and Gentlemen!

I feel privileged to be here today at the 5th International Conference on Mobile Commerce in Pakistan and share my thoughts on the development of Mobile banking.

At the outset, let me congratulate the organizers for bringing together relevant stakeholders to this very innovative value-creation opportunity ushered by the mobile commerce era. The State Bank sees this as a great opportunity for safe, faster, and efficient provision of financial services to the un-served segments of the society through mobile technology and agent banking.

First I would like to briefly talk about the significance of Mobile Commerce and then move on to the subject of mobile banking for promoting financial inclusion.

From the business perspective, the M-Commerce encompasses technologies, applications and services that involve several stakeholders like infrastructure equipment vendors, software vendors, content providers (including advertisers), content aggregators, Mobile Network Operators, mobile device manufacturers and of course financial institutions. Therefore, Mobile Commerce is generally characterized by a variety of business partnerships often involving a large number of organizations, from content providers to financial institutions to mobile network operators.

Over the past few years, Mobile Commerce has been used as an alternative channel for delivery of various services in developed countries, whereas in the developing countries attempts are being made to leapfrog and use M-commerce as a main channel due to the limited outreach through conventional channels. I firmly believe that usage of innovative and unconventional channels will overshadow the conventional means of business and communication. To substantiate my optimism, currently the growth in number of mobile phones is far greater than the growth in the number of Fixed Lines across the globe, particularly in developing countries. Global mobile phone subscriptions have reached 6 billion, almost equivalent to 90 percent of the world’s population. In Pakistan, the number of mobile phone subscribers has reached 112 million and growth continues apace. The current subscription rate is as high as 100 million which roughly is around 62 percent of the total population. We should acknowledge the role played by the Government, PTA and the Mobile Operators for achieving this high level of penetration, especially under our existing socio-economic conditions.

Turning now to the use of mobile technology to promote financial access, there is an emerging consensus amongst policy makers around the world to improve access to financial services for poor people, through supporting the safe and sound spread of new modes of financial service delivery capable of reaching the poor. G-20 leaders in their last summit in Toronto in 2011 adopted 9 Principles for Innovative Financial Inclusion which includes promoting technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses. These principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. They are the financially excluded in a world where access to financial services can mean the difference between surviving or thriving.

Innovative modes of financial services delivery can have a transformative effect on poor households. We know how greater access to even small amounts of credit can dramatically improve welfare – such as women being able to buy a sewing machine and establish a small business. Awareness is growing that access to a wider set of financial services provides poor people with capacity to increase or stabilize their income, build assets and have much greater resilience to economic shocks. Appropriate and affordable savings products, payment and money transfer services (both domestic and international) as well as insurance are all important.

At the same time, One billion people with mobile phones in the world do not have even a basic bank account. As the cost of information and communications technology shrink, the time is ripe for using technology to address financial exclusion. Technological innovation changes the cost and access equation – making it economically viable for financial service providers, often in partnership, to reach poor people, with a wider range of products and services.

Innovation also extends to new institutional approaches. Increasing numbers of countries with large unbanked populations are pioneering policy and regulatory innovations that open space for “banking beyond branches” and similar new approaches to the delivery of formal financial services. This is allowing previously excluded customers access to an increasing range of basic financial services.

Pakistan has one of the lowest financial penetration levels in the world with 56% of the adult population totally excluded, and another 32% informally served. We are a country with a population of 180 million living in geographically diverse areas. Mobile phone subscription has seen explosive growth in Pakistan – total subscription now reaches 112 million across customers in all income segments, and growth continues rapidly. In contrast, banking accounts are owned by approximately 25 million customers largely belonging to high income segments. And there are about 7 million borrowers. With a network of 10,000 bank branches, Pakistan has the highest number of people per bank branch in the region.

Until now, the lack of a sizable distribution network had been a major challenge in broadening access to financial services. As a result, a large segment of the population, particularly those living in rural and remote areas have remained deprived of banking services. An important implication of this exclusion is that this large proportion of population has been overwhelmingly reliant on cash-based transactions, thus causing a negative impact on documentation of the economy, the tax-base, efficiency of economic transactions, etc.

Developing bricks and mortar branches is a costly proposition. To encourage FIs to develop alternative delivery channels, SBP in 2008, introduced Branchless Banking (BB) Regulations. The Regulations are applicable to all Commercial Banks, Islamic Banks and Microfinance Banks in Pakistan.

These Regulations have actually catalyzed a number of branchless banking deployments with dual advantages: First, there is enormous scope for expanding outreach, especially to hard-to-reach rural areas. The emerging models relying on “banking agents” will greatly extend the distribution of financial services to the poor and marginalized segments. Second, alternative delivery channels promise significant cost reduction to institutions. Due to these benefits, the expansion in the retail network of microfinance has arisen overwhelmingly from agents and mobile phone channels.

Mobile phone banking is now the new market niche for both banks and Mobile Network Operators (MNOs), and many of them are preparing to enter in this exciting market in a big way. In almost 2 years, the branchless banking deployments with 22,500 agents offering low-cost services all over the country, including in the hitherto neglected areas, have surpassed the 10,000 branch network of banks. The fast mobile penetration and its continuing strong growth fuels expectations that transformational branchless banking models would prove a game-changer in improving access to finance in Pakistan.

The State Bank of Pakistan always welcomes innovative products and desires to work with development partners in the promotion of such products that offer choices for Banking or Payment Services in terms of cost, risk, and convenience. Certainly, benefits of such initiatives for the economy are overwhelming.

I strongly believe that where conventional banking has its limitations, the Electronic Payments and Mobile Banking products should fill the Gap. In particular, the challenge is to extend these services to “Unbanked” or the Underserved segments of the population, that mostly reside in far flung rural areas. In this respect a small Retail Store in a remote part of the country could serve as an Agent to help solve everyday problems of a farmer, who is generally required to travel long distances and incurs high costs for utilizing the necessary financial services.

As a forward-looking regulator of the Banking Industry, the State Bank has played an effective role in providing an enabling regulatory environment for the banks to leverage their full potential of technology, mobile operators’ penetration, and other available delivery channels to provide financial services to all segments of the population. Until recently, banks were largely focusing on conventional banking, but with the introduction of Branchless Banking Regulations in 2008, banks are now getting fast into action by exploiting Information and Communication Technologies (ICT) to offer more innovative products and services. These Regulations have now enabled our banks to diversify their geographic footprint in areas where conventional branch banking was either inadequate or totally absent.

Today, we have two fully functional Branchless Banking deployments with over 22,000 Access Points with a geographic dispersion in over 600 cities across the country. These deployments are serving more than 1 million accountholders and millions of Over-the-Counter customers. So far around 80 million Branchless Banking transactions of Rs.300 billion have been executed in Pakistan. In addition to the above, a number of banks are already in the Pilot Phase with others approaching SBP to initiate Branchless Banking business. It also gives me immense pleasure to share that one of the largest mobile operators in the country and the largest private sector banks is already flexing its muscles to enter into the Branchless Banking arena. With the influx of new entrants, I am expecting a surge in the number of Access Points to over 50,000 very soon.

Our achievements in the Branchless Banking Services have put Pakistan at the Global Centre Stage of Financial Inclusion and innovation. CGAP, in its recent study has also recognized Pakistan as one of the fastest developing markets for Branchless Banking.

According to the recent data from SBP’s Branchless Banking Newsletter, a large segment of the previously unbanked population has started entering into a new arena of branchless banking (BB).

Total volume (number) of transactions has jumped to 20.6 million during the Oct-Dec 2011 quarter. Thus, the average daily transactions have increased to 228,855. Value of transactions during the last quarter reached Rs 79,410 million. Total number of branchless banking accounts have increased to 929,184. Branchless banking deposits have grown to Rs 503 million.

The average size of branchless banking transactions is Rs 3,855 (US\$ 43) which shows that mobile phone technology and agentbased banking are helping access to financial services by the hitherto unbanked poor.

Early uptake of mobile banking is also beset with challenges. The existing agents network needs to be further capacitated to generate new demand; handle and service even larger volumes of transactions to establish the business viability of BB operations. Going forward, SBP will be initiating actionable research on the supply and demand side in collaboration with the Branchless Banking ecosystem for further development of such services in Pakistan. The study will focus on opportunities such as:

- i. Estimation and Development of a Retail Payments System Strategy: The initial BB business is based on handling large volumes of transactions. Therefore payments services such as bulk G2P, B2B, B2P payments and retail P2P payments are a necessity for survival in its infancy phase. Identification and preparation of a matrix of these payments will be helpful in highlighting the volumes in payments services and opportunities for future development and partnerships for establishing the business case/viability and promotion of branchless banking in Pakistan.
- ii. Research into agents' economics and business case and identification of key bottlenecks including public policy issues such as taxation of BB services etc.
- iii. Research into agents' selection and management for identification of challenges, particularly in the management of liquidity at agents' outlets, quality of service for maintaining minimum service standards, Security systems & controls for fraud prevention and detection, complaint handling and redress mechanism, and Agent disqualification and delisting mechanism etc. Interventions will be launched to enhance the agent's credibility.
- iv. Research on BB Technologies: there is a need for understanding of BB technologies for adoption of common standards and platforms for promotion of financial inclusion on a massive scale. Therefore, a study on BB technologies would be conducted for understanding existing technologies along with development of some common standards. These will also be helpful in getting one step nearer to the interoperability of the technological solutions and agent networks.
- v. Likewise demand side field research into the experience of current users and non-users of branchless banking will be conducted. The survey would help in identification and understanding the top financing needs of the low income clients and help BB providers tailor their products to satisfy the unmet demand for such services. Similarly the survey will also provide insights on financial literacy and consumer protection issues.

Branchless Banking has also proved to be an effective instrument for channelizing the Government to Persons (G2P) Payments in trying times like serving the Internally Displaced Persons (IDPs), during the devastating floods over the last three years. Further, BISP beneficiaries are also being served very effectively through the same mechanism as well. In the coming days, this channel is expected to continue playing an important role towards the promotion of financial inclusion and the management of Government to Person (G2P) Programs like Salaries Disbursements, Pensions, BISP, Watan Cards, Pakistan Cards and Tax Collections Services, etc. We are confident that the Branchless Banking deployments can cater to the needs of over 10 million potential beneficiaries of G2P Payments in Pakistan.

The State Bank will continue to play its role in promoting an environment which is conducive for financial innovation. At the macro level, we will continue to work with the industry and the other regulators to promote a sound, safe, efficient and inclusive Mobile Commerce Ecosystem.

Our aim is to provide at least basic Banking Services to every adult and bankable citizen. Today, as a large portion of our populations has access to mobile phones, we feel that if a workable partnership between the Banking and Telecom Sectors continue, we shall see our dreams come true. On this front, we are already working closely with Pakistan Telecommunication Authority and have also signed an MOU for enabling the Interoperability Framework where all banks and telcos can join hands to serve the customers. We are also in the final stages of formulating the Regulatory Framework for Interoperable Mobile Banking System. Interoperable systems are essential to mass adoption of mobile commerce. At present, financial institutions and telcos can choose whatever business model suits their needs i.e. One-to-One or One-to-Many; however, I can foresee that in future, only interoperable solutions shall fasten both scalability and viability. Here, let me assure that all

the existing and the prospective One-to-One or One-to-Many arrangements between banks and the Telcos would not be affected with the proposed regulatory framework.

I must acknowledge the efforts and initiatives adopted by Ministry of Information Technology and the PTA towards the promotion and development of Mobile Banking in the country. It is heartening to see that PTA is playing an important role by encouraging its regulatees to play their due part in the provision of smooth and efficient Branchless Banking Services.

For banking and telecom industries, it should be a matter of great comfort and satisfaction that their regulators i.e. SBP and PTA share the vision and are working in tandem to provide an enabling regulatory environment for the provision of Mobile Banking Services. This cooperation between the regulators; will create much desired synergy in both the banking as well as telecom industries.

Going forward, much still needs to be done. SBP is keen to work with different stakeholders, including but not limited to financial institutions, different regulators, private sector, application developers and telcos to provide an enabling environment for the creation of Mobile Commerce Ecosystem in the country. We have only seen the start of it but the rest is yet to come. However, the common challenge is to ensure that all banking transactions, irrespective of the technology platform, are cost effective, efficient, and pose a lowest risk for the consumers. This requires close coordination among the stakeholders in the area of regulations especially monitoring, licensing, provision of technological infrastructure and ensuring maximum benefits for consumers.

I trust today's conference will help us understand the issues relating to Mobile Commerce and the importance of Mobile Banking in the development of an inclusive Mobile Commerce Ecosystem. This conference will help to increase the General Awareness among participants about Mobile Commerce and the evolving trends in Mobile Banking for which Total Communications deserves to be applauded.

Thank you all for being part of this forum and I look forward to your productive participation in today's event.