

Kazi Abdul Muktedir: Tackling financial exclusion in Pakistan through branchless banking

Chief guest address by Mr Kazi Abdul Muktedir, Deputy Governor of the State Bank of Pakistan, at the Branchless Banking Commercial Launch of Waseela Microfinance Bank Limited, Karachi, 12 November 2012.

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Mr. Ghazanfar Azzam,
President & CEO of Waseela MFB,

Mr. Rashid Khan,
CEO Mobilink

Distinguished guests, ladies and gentlemen! Assalam-o-Alaikum and Good Morning,

I am extremely delighted to join you on the occasion of this commercial launch of branchless banking by Waseela MFB. I would like to congratulate the sponsors, management, and staff of Waseela Microfinance Bank Limited on this special occasion and believe that the launch of Waseela will not only help in catalyzing market development especially in areas of agent development but also the use of technology would rapidly scale up mobile financial services to the vastly underserved segments of society all over Pakistan.

I have been told that the number of mobile phone subscribers in Pakistan is around 120 million and Mobilink has the largest share of over 36 million subscribers. The current tele-density is above 72% which is much higher than the level of financial access that hovers around 12 percent. This factor alone highlights the immense potential for mobile banking in the country. 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, is highly commendable.

Ladies and Gentlemen!

There is an emerging consensus amongst policy makers around the world that mobile financial services is a safe and sound way to rapidly improve access to financial services for poor people. G-20 leaders in their last summit held at Toronto in 2011 adopted 9 Principles for Innovative Financial Inclusion that include promoting technological and institutional innovation as a means to expand formal financial system access and its usage. These principles aim to help the creation of an enabling policy and regulatory environment for innovative financial inclusion. Such enabling environment will assist and determine the speed at which the financial services will be made available to the more than two billion people who are currently excluded, where access to financial services can make the difference between surviving and thriving.

Innovative modes of financial services delivery can have a transformative effect on poor households. We know that access to even small amounts of credit can dramatically improve the welfare of the excluded population both in urban and rural areas. 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. Gender discrimination has excluded women who have toiled to provide and support financial needs through enterprising means but were stymied due to negligible access from the formal financial sector.

At the same time, one billion people with mobile phones in the world do not even have a basic bank account. As the costs of information and communications technology shrink, the time is ripe to extend this technology to address financial exclusion. Technological innovation impacts the cost and access equation – making it economically viable for financial service providers, 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 opens space for “banking beyond branches” with new approach to the delivery of formal financial services. This is allowing previously excluded customers the much needed 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. In contrast, banking accounts are owned by approximately 30 million customers largely belonging to high income segments of the society. With a network of a little over 10,500 bank branches, the coverage of branches is one of the lowest in the region.

Developing brick and mortar branches is a costly proposition. To encourage Financial Institutions 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 in the deployment of a number of branchless banking initiatives that have a dual advantages: First, there is an enormous scope for expanding outreach, especially in the hard-to-reach rural areas. The emerging models relying on “banking agents” have greatly extended the distribution of financial services to the marginalized and deprived 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.

Recent international researches¹ and studies prove that increase in mobile penetration in developing countries is correlated with economic growth. When this technology is used to expand financial services, the benefits that accrue are: increase in savings due to incremental small savers, access to information improves, costs and time spent on traveling reduces, new employment opportunities emerge, cost and savings to financial institutions, and creation of a platform on which other businesses can also grow.

Ladies & gentlemen, branchless banking is moving at a phenomenal pace in Pakistan, and it should be our endeavor to achieve maximum benefits from these developments. Encouragingly, market environment for branchless banking is widely considered globally as one of the best. SBP has been promoting innovations in products and delivery channels through policy and regulatory measures and market interventions. SBP has put in place a “Financial Innovation Challenge Fund” under the DFID-funded Financial Inclusion Program (FIP). I am glad to highlight that market has been responding actively to this stimulus. As a result, users’ adoption has started rising at an increasing rate, and is likely to change the landscape of retail banking in Pakistan in near future. This dynamic transition is endorsed by recent branchless banking data, with a transactional volume of nearly 32 million valuing

¹ (a) Waverman, L., M. Meschi, and M. Fuss.. “The Impact of Telecoms on Economic Growth in Developing Countries.” Vodafone Policy Paper Series 2 (March). <http://info.worldbank.org/etools/docs/library/152872/Vodafone%20Survey.pdf>.

(b) Qiang C., and C. Rossotto. 2009. “Economic Impacts of Broadband.” In Information and Communication for Development Report: Extending Reach and Increasing Impact, ch. 3. Washington, DC: World Bank. www.worldbank.org/ic4d.

Rs. 140 billion during the single quarter of July–September, 2012 by only two players. These players have registered more than 1.8 Mobile-Wallet accounts largely of those people who have previously been un-banked and under-banked. Mobile banking is also facilitating repayment of microfinance loans and we are seeing increasing number of partnerships between Microfinance Institutions (MFIs) and branchless banking providers

Achievements in the Branchless Banking Services have already put Pakistan at the global centre stage of financial inclusion and innovation. The World Bank's Consultative Group to Assist the Poor (CGAP), in one of its studies has also recognized Pakistan as one of the fastest growing branchless banking markets in the world, and a laboratory of innovation. We hope that with the entry of new players and scaling-up of the existing institutions the present growth momentum will build up strongly and progressively.

Before I close, I would like to emphasize on our broader goal i.e. to provide inclusive financial services to poor and low income groups. I firmly believe that microfinance and branchless banking are complementary to each other, and together they will bring the advantages of inclusiveness, convenience, ubiquity, and efficiency. Pakistan offers best regulatory framework and industry infrastructure for microfinance, and I hope that our MFBs will take advantage of such a favorable market environment by investing in innovative technologies and products to grow their businesses and expand access to financial services in Pakistan.

Once again, I would like to congratulate Waseela Microfinance Bank Limited and Mobilink. I wish you every success, assure you of our support, and look forward to positive outcomes of this commercial launch and I hope today's commercial launch of Waseela and its branchless banking will go a long way in tackling financial exclusion in Pakistan.

Thank You.