

Maha Prasad Adhikari: The changing face of financial services - plan for the digital future

Guest of Honor address by Mr Maha Prasad Adhikari, Governor of the Central Bank of Nepal (Nepal Rastra Bank), at the South Asian BFSI (Banking, financial services and insurance) Tech Summit & Awards, Kathmandu, 29 February 2024.

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Ladies and gentlemen,

It is truly an honor to stand before you today representing a nation with a rich history and a promising future. I extend my heartfelt gratitude to the organizers of the South Asian BFSI Tech '24 Summit and Awards, for providing this platform to discuss a topic of paramount importance – "The changing face of financial services: Plan for the Digital Future."

In the realm of financial services, Nepal has undergone a paradigm shift in recent years. We have transitioned from traditional, paper-based transactions to a dynamic and technologically driven financial ecosystem. This shift has not only been a response to global trends but also a testament to Nepal's commitment to fostering economic growth, financial inclusion, and innovation.

The initiatives taken by Government of Nepal for facilitating and encouraging initiatives of regulators like Nepal Rastra Bank, Securities Board of Nepal etc, development of public and private digital infrastructure by active players and active adoption by citizens have made it possible. The Government of Nepal has put digitization in its top priority and has formulated Digital Nepal Framework, 2019, incorporating eight important sectors with potential for large scale digital adoption. The framework outlines enhancement of digital finance as one of the major sectors.

Nepal Rastra Bank established a dedicated payment system department within the bank in 2016. Necessary legal arrangement like payment and settlement act was enacted. The licensing policy, payment and settlement bylaw, oversight manual, payment, unified directive, RTGS rules and guidelines, and other payment-related circulars were formulated to guide licensing, regulatory and supervisory arrangements.

The department has presently licensed 27 Payment service Providers (PSPs) and 10 Payment System Operators (PSOs) in addition to granting license to existing Bank and financial institutions (BFIs) of the country. On the Payment Infrastructure, NRB itself operates a large value payment system through Real Time Gross Settlement.

Digital wallets and mobile banking, in particular, have emerged as a game-changer, allowing people to access banking services anytime, anywhere. This shift has not only improved the convenience for consumers but has also enabled financial institutions to enhance their operational efficiency and reduce costs. The smartphone penetration all across the country and internet connectivity has provided tremendous support to adoption of digital services.

The Covid 19 pandemic has accelerated the adoption of digital financial services in Nepal. The necessity of contactless transactions and remote banking has further highlighted the importance of a robust digital infrastructure. Nepal Rastra Bank has recognized this shift and is actively working towards creating an enabling environment for fintech innovation, ensuring regulatory frameworks that foster growth while safeguarding the interests of consumers and the stability of the financial system.

Ladies and Gentlemen,

Allow me to substantiate our discussion on the changing face of financial services in Nepal with some compelling data that reflects the robust growth in various payment instruments. In recent years, we have witnessed a remarkable surge in the adoption of digital payment solutions, underscoring the evolving financial landscape in our nation.

The used of Real Time Gross Settlement System (RTGS) have facilitated large value transactions of the corporates and governments. I would share with this august gathering that over 95% of government payments in Nepal are conducted digitally which ranges from large value payment to contractors of infrastructure development activities to distribution of social security allowance to the citizens. It has marked a standard shift towards efficiency and transparency in financial transactions of the government.

The volume of transactions using innovative platforms such as IPS and ConnectIPS has experienced an exponential rise, with a notable increase of more than 67% in the past 3 years.

Similarly, the volume of retail payment initiatives like QR code-based payments have also witnessed a tremendous uptick in popularity, showing an increase of more than 1100% in last 3 years. The simplicity and security offered by QR codes have made them a preferred choice for consumers and merchants alike. We have prioritized the use of these technology in such an extent that even I went to local vegetable markets and groceries to encourage its adoption.

The adoption of digital wallets has seen unprecedented growth in volume of more than 92% in last 3 years, with the number of users relying on these platforms for everyday transactions. The versatility of digital wallets in facilitating peer-to-peer transfers, utility bill payments, and even online purchases has made them an integral part of the modern financial ecosystem.

Furthermore, the usage of cards, has shown a positive trajectory, showing an increase of almost 50% in volume of transactions in the past 3 years.

In addition to these encouraging numbers, we have achieved significant progress in cross border transactions, the Memorandum of Understanding signed between Nepal Clearing House Limited (NCHL) and National Payment Corporation of India (NPCI) in June, 2023 during state visit to India by Right Hon. Prime minister is expected to have paradigms shift on cross border connectivity for digital financial services between both countries. Based on latest updates, NCHL and NPCI are working on the issues regarding network operating rules, joint interface, operating guidelines, selection of settlement bank and developing the testing environment. The first phase of the project i.

e., Person to Person (P2P) transfer would be rolling soon. Similarly, some other operators are also expected to come up with arrangements of cross border payments.

To further facilitate this arrangements from the central bank's side, recently a regulatory term of reference has been signed between Nepal Rastra Bank and Reserve Bank of India on integrating National Payments Interface (NPI) of Nepal and Unified Payments Interface (UPI) of India. A joint steering committee formed to monitor the progress of the bilateral payment integration is also active. As we rollout the system in full phase, I expect that people traveling to both countries would leave their wallet at home and manage all payments through the smart phones, like we are doing it in our respective country.

I would like to reiterate that this is just a beginning, NRB is always open to expand such arrangements with other countries in the region and beyond to make our economy more vibrant and add convenience to the citizens.

Ladies and Gentlemen,

Now, let me put some light on the theme of today's gathering and allow me to highlight key strategic orientations of Nepal Rastra Bank (NRB) aimed at further modernizing and revolutionizing the country's financial landscape. These initiatives are the result of our comprehensive studies, stakeholder consultations, technological advancements, national needs, and our vision for a less cash society. I've emphasized in numerous forums since assuming my role at NRB, that we should propel the digital landscape to such an extent that Nepalese currency notes bearing Governor's signature would become mere specimen notes.

Developing digital public infrastructure (DPI) is another agenda with the central bank. The first phase of the National Payment Switch (NPS) i.e. Retail Payment Switch is in full operation. The second phase of NPS which is related with issuing national card (NEPALPAY Card), is under progress.

One of the major strategic areas Nepal Rastra Bank is rolling out Central Bank Digital Currency (CBDC) in Nepal. The concept of CBDC as a legal tender is not something to substitute physical currency immediately but rather it serves as supplement to existing legal tender form of currency. Hence, based on the country's economic and technological landscape, regulatory environment, and societal preferences, introduction of a CBDC in Nepal has been envisioned in phase manner, with a full rollout in 2026.

1. The First phase of this project is establishment of dedicated unit and a team. NRB has established a Division for CBDC and assigned a team to have focused efforts on CBDC.
2. Second phase would be comprehensive research to come up with appropriate design and technology such as block chain, distributed ledger technology, the level of privacy and security features, scalability etc.
3. Third phase would be partnership and collaboration. NRB collaborates with financial institutions, Payment Service Providers, and FinTech to integrate the CBDC into the existing financial ecosystem. The dedicated team also started engaging with other international projects like Aurum, mBridge, BIS Innovation Hub etc and continues to build capacity on this complex issue. We have also

- initiated to receive technical assistance support from development partners, to learn from international best practices while finalizing the architecture.
4. Fourth phase would be formulating and making legal arrangements, testing and piloting. Prior to full rollout, NRB shall conduct pilot programs to test the CBDC in real-world scenarios. This will help identify technical issues and allows for adjustments before widespread adoption. At this stage, a strong security measure would be implemented to safeguard transactions and user data. Encryption, authentication, and fraud prevention mechanisms would be the essential components to assure robust security system.
 5. Fifth stage would be rollout. Nepal Rastra Bank might choose to introduce the CBDC in a phase manner, starting with limited use cases and gradually expanding its scope based on user feedback and performance evaluation.
 6. We understand that CBDC roll out is not an end, it is crucial for continuous monitoring of the CBDC's impact on the economy, financial stability, and payment systems. Feedback from users and stakeholders would guide for further improvements.
 7. To ensure a smooth transition, NRB would make necessary legal arrangements, conduct public awareness campaigns and educational programs through media, social media and Videos, collaborate with Financial Institutions, Media agencies, TV channels etc.

While CBDC remains Nepal Rastra Bank's important journey, the bank is also engaged in the establishment and operationalization of a full-fledged digital bank to foster digital intermediation. The legal frameworks and institutional modalities requisite for this initiative are currently in progress.

In order to encourage innovation in the financial sector and provide a controlled environment for testing new financial products, services, or business models, NRB plans to establish regulatory sandbox and innovation center within NRB. We expect that it will provide a safer place for innovators, especially millennial, generation Z to explore and test their new concepts and innovations in financial landscape.

Nepal Rastra Bank is committed to foster financial access, usage and quality of the financial products as well ensure data privacy of each financial consumer. We have prioritized digital financial literacy through frameworks and guidelines, and have directed BFIs to allocate corporate social responsibility funds accordingly. Our initiatives include grassroots literacy programs, training for trainers, and collaboration on educational syllabus of schools. Additionally, we're regulating fees for digital services, promoting low-cost tools, and implementing robust market conduct supervision and grievance handling arrangements for consumer protection.

Collaboration is another key element of our strategy for the digital future. We recognize that the challenges and opportunities presented by the changing face of financial services extends beyond national borders. By fostering collaboration with our South Asian neighbors and the global community, we can collectively address common challenges and share best practices, ensuring the resilience and sustainability of our financial systems.

Finally,

As we reflect on this paradigm shift, we acknowledge that the journey is ongoing, and there are challenges to overcome. With great technological advancements come great responsibilities. However, the resilience and adaptability demonstrated by Nepal in embracing digital transformation of financial services, exemplify our commitment to progress. We stand at the cusp of a digital future, and Nepal is ready to leverage technology to create a more inclusive, efficient, and secure financial landscape for all.

In conclusion, the digital future of financial services is both an exciting and challenging frontier. Nepal Rastra Bank is committed to navigating this landscape with prudence, embracing innovation, promoting inclusivity, and safeguarding the integrity of our financial systems. Together, let us embark on this journey with enthusiasm, collaboration, and a shared vision for a more digitally connected and financially inclusive South Asia.

Thank you for your attention, and I look forward to fruitful discussions and collaborations during the South Asian BFSI Tech '24 Summit and Awards.

Thank you.