

Jameel Ahmad: The future of banking

Speech by Mr Jameel Ahmad, Governor of the State Bank of Pakistan, at the 13th Bank of the Future Forum, Karachi, 2 October 2024.

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Assalam o Alaikum and Good Morning;

It is a great pleasure for me to be here today to attend this Forum. I would like to thank Systems Pvt Limited for organizing this event on a very important topic which is the "future of banking". Systems Pvt Limited have played a key role in the digitization of many industries and hence they are aware of the changes that are reshaping the financial sector and our broader economy. As we navigate the rapidly changing landscape of global economy in general and Pakistani economy in particular, it is imperative that we together identify the key technological and social trends that are not only transforming the banking industry but also the broader economy.

With this context let me share my thoughts on the new technological trends that are not just innovative but are disruptive in nature and how they are poised to disrupt the existing structure of the financial services industry. I will also share my thoughts on the future of banking in Pakistan and how we see it shaping up for the convenience of our people and transformation of the financial sector and economy. Finally, I will share some of my expectations from our IT industry especially in view of the changing dynamics of our economy.

Ladies and Gentlemen,

One of the key trends that we have witnessed in the past 2 decades is the rapid and exponential increase in the computing power. Advances in chip technologies and allied software is resulting in the emergence of infrastructure that is much faster and cheaper today than what it was even a decade ago. This, coupled with larger storage and faster telecommunications, has enabled the development of advanced processing systems across industries. The emergence of 5G and Quantum Computing will further accelerate this development in future.

These advancements in computing and telecommunications have resulted in the emergence and rise of cloud computing and associated micro-services. This in turn has enabled rapid deployment of software in a cost effective manner. Furthermore, due to these advancements we now have mobile phones in our hands that have much faster processing capabilities than most computers of yesterday. These high performance mobile devices and their apps have changed customer service expectations. Consumers now expect that their needs for new products and services would be immediately identified and met by their financial service providers. In its true meaning, the speed of doing business is now approaching new limits. These mobile devices also generate massive data about consumers and business partners that could then be used to offer even better and more tailored services to the customers.

Faster hardware and software have also enabled advanced machine learning and neural network processing. This massive algorithmic processing capability have also

resulted in the rapid rise of General Purpose Artificial Intelligence commonly known as GPT which was considered a far-fetched dream a few years ago. Artificial Intelligence and machine learning process the massive data being generated by mobile devices and give immense insights about customer preferences and requirements not only to financial institutions but to policy makers and governments as well. Further, social media applications not only connect consumers, businesses and governments but also enable them to communicate their likes, dislikes, complaints and recommendations in near real time.

These technological trends not only enable services providers to offer innovative and custom-made services to their customers but also provides an excellent opportunity for the governments and regulators to ensure consumer protection, fairness and appropriate market conduct in real time. Let me say that the overall key function of supervision and oversight is also transforming rapidly. Advanced data collection and processing capabilities is empowering regulators to ensure compliance effectively and efficiently.

Today policy making is an agile process, just like software development. At SBP, our teams work in a collaborative and coordinated manner, sometimes even remotely, to ensure that the required regulations are developed and issued in the shortest possible time. Our case processing system is fully based on automated workflow solution that eliminates the need for paper processing and physical file movement.

As a result of aforementioned trends, the structure of financial services industry is also rapidly changing. Gone are the days when banking and payments were the exclusive domain of banks. We have already witnessed the emergence of big techs who offer all kinds of services today. They are not only limited to providing cloud or social media services but have already ventured successfully into entertainment, advertising, gaming, consulting etc. They are now encroaching, albeit slowly and gradually, into financial services as well. And why not? They have all the right ingredients like big data, faster computation power and social media access which enables them to offer financial services as well. The recent emergence and rise of GPT and other AI based systems are likely to accelerate this entire process. Question is: is the financial services industry ready for this transformation?

Ladies & Gentlemen,

SBP as a regulator and supervisor of the banking and payments industry is keen to promote digital banking and support non-banking fintechs. After identifying these trends, we started working on transforming our financial services industry as well. In 2002, SBP became the first bank in Pakistan to implement the Temenos Banking System, which at that time was known as Globus. Simultaneously, we also implemented our ERP system for our non-banking transactions as well as a Data-warehouse for our massive data -related requirements. In 2008, we implemented our Real Time Gross Settlement System called PRISM for processing wholesale, large-value, institutional payments. Recently, SBP established its state of the art, Tier-3 data centre which is first of its kind in Pakistan.

In around the same year (i.e. 2008), we issued the regulations for branchless banking services to enable the delivery of basic banking services from retail stores and kiriyana

shops. In October 2014, we issued the "Rules for Payment Systems Operators and Payment Service Providers" to facilitate the establishment of payment and e-commerce gateways. In 2019, SBP also introduced "Regulations for Electronic Money Institutions" to promote the issuance of e-money wallets by non-banking entities. In 2022, SBP issued the framework for establishing Digital Banks in Pakistan. As a result, in principle approvals were issued to five (5) applicants who will shortly start pilot operations in the country. All these measures were taken to facilitate the entry of IT enabled, non-banking entities in the financial services industry.

To modernize our national payments systems, SBP worked with banks to establish 1link for interlinking ATMs in the country. Later on, 1link also offered other payment services like the retail Interbank Funds Transfer (IBFT), Bill Payments and our own domestic payment card, PayPak. In line with international trends, SBP started working on transforming its retail payments industry by implementing the state-of-the-art ISO-20022 payment standard. Hence, Raast, our instant payment system which is based on ISO 20022 standard was launched in 2021. In a short span of almost three years, Raast has processed around 850 million transactions valuing over PKR 19 trillion. Today with 38 million unique Raast IDs, the system processes on the average 2.5 million transactions a day.

The adoption of Raast is rapidly increasing with SBP receiving requests from various entities, both public and private, to onboard them at the earliest. Raast is already processing salaries and vendor payments of federal government, dividend payments and transactions of asset management companies. SBP is also working on integrating Raast with Arab Monetary Fund's instant payment system called Buna. Raast-Buna cross border connectivity is an innovative initiative for facilitating millions of Pakistanis living in Arab countries to send their remittances to Pakistan with ease and convenience.

As a result of SBP's efforts, today in Pakistan, we have around 59 million branchless banking wallets, 19 million mobile banking apps, another 3.7 million e-money wallets and 12 million internet banking users. Since 2020, the overall number of retail transactions processed digitally have increased by 30% and the share of digital payments in total retail payments by volume has risen from 76% in FY23 to 84% in FY24. The number of transactions processed using mobile and internet banking are growing at an annual rate of 70% and 30% respectively. This is not surprising as majority of our population is young who are adapt at using social media and other mobile apps.

It is therefore heartening to see the emergence of a vibrant fintech sector in Pakistan. These fintechs are striving hard to identify new markets and use cases and offer their tech enabled services. They are focusing on processing merchant payments, e-commerce, school fee payments, government services, remittances and a host of other financial services. They are also competing for offering the best user experience by designing innovative user interfaces which is a need of the day today.

As I mentioned earlier, SBP was the first client in Pakistan who adopted Temenos' Core Banking System in 2000. In 2015, SBP upgraded its core banking system to a newer and advanced release. Today, I understand there are 20 financial institutions in the country who have opted for this solution. I am also told that over the past two decades a large number of Pakistani professionals have been trained on this system who are

providing services to customers all over the world. SBP's adoption of the Temenos System has also helped transforming our banking industry to the state where it is today.

However, I will take this opportunity to request Temenos and Systems Pvt Limited to establish their support centre in Pakistan instead of a foreign country. This will assure continuity of services in times of geo-political volatility and stress. As a regulator we not only want to ensure the safety and robustness of our financial system but also want to see local expertise develop, not just in system support but also system design and development. I am sure that with 20 corporate customers and one of the largest, if not the largest, suppliers of banking solutions, Temenos will consider this advice.

Ladies & Gentlemen,

Times are changing! The Government of Pakistan is striving hard to transform the economy by rapidly digitizing it. SBP is striving hard to achieve universal financial inclusion; not just of individuals but of corporates as well. Today our corporate sector, SMEs, and MSME sectors are under-digitized due to which our currency in circulation is one of the highest in the world and our tax to GDP ratio, one of the lowest. I firmly believe that digitization can be the silver bullet for our economy. Our IT sector needs to work very closely with the financial services industry to digitize their corporate clients and enable them not only to pay digitally but offer their customers a better experience. Our digital payment system is now one of the more advanced infrastructures in the world with retail payment system operators, and service providers and an advanced instant payment system. Raast ISO 20022 APIs offer an excellent opportunity in this regard. It is now up to our industry to take full advantage of this opportunity.

The future of banking is the future of our economy. Our IT sector has to play an important role in offering innovative solutions and services to the financial industry. Services that are powered by Artificial Intelligence and big data processing and services that ensures financial inclusion and human development. Services that ensures a bright and modern future for our beloved country.

In conclusion, let me once again thank the organizers for inviting me to address this gathering of IT professionals and industry practitioners. I wish you all insightful deliberations during rest of the Forum.

Thank you for your attention.