

## GOVERNOR'S SPEECH



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<b>Governor</b>	: Mr. Tariq Bajwa
<b>Title</b>	: <b>Keynote address by Mr. Tariq Bajwa at launching ceremony of international remittance through block chain technology</b>
<b>Date</b>	: January 8, 2019
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<b>Venue</b>	: Serena Hotel Islamabad

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Mr. Yao Jing, Honorable Ambassador to the People's Republic of China , Mr. Eric Jing, Chairman & CEO, ANT Financials, Mr. Roar Bjaerum, SVP, Head of Financial Services, Telenor Group & Chairman Valyou and Mr. Shahid Mustafa, President & CEO, Telenor Microfinance Bank,

Ladies and Gentlemen!

Assalam o Alaikum and Good Evening!

1. It is indeed very exciting for me to launch this initiative by Telenor Pakistan that would enable the transfer of cross border remittances using BlockChain technology in near real time. This would bring convenience and efficiency for both remitters and their beneficiaries. For this, I would like to congratulate ANT Financial, Telenor Microfinance Bank and other key stakeholders such as Standard Chartered Bank for being the pioneers in the adoption of new technologies for providing a payment solution, which many other market

players have only been thinking of. This puts Pakistan on the map of few countries in the world that have launched International Remittance using Block Chain Technology.

2. Though this initiative, Valyou in Malaysia and Easypaisa in Pakistan will facilitate cross-border remittance service through e-wallet platforms, which is based on block chain technology developed by Alipay, a subsidiary of ANT Financial. This block chain based wallet-to-wallet remittance service provides instant and secure way for Pakistani emigrants to transfer money from Malaysia to Pakistan and will significantly improve the current amount of USD 1 billion received from Malaysia in home remittances.
3. Ladies and Gentlemen! As you all know that remittances are considered a vital component in our economy since they play an important role in reducing the current account deficit and improve the level of our foreign exchange reserves. Pakistan received US\$ 19.6 billion remittances during fiscal year 2017-18, which is equal to over 6% of our GDP, equivalent to over 50% of our trade deficit, 85% of exports and over one-third of imports. Home remittances from abroad therefore play an extremely important role in our economic and fiscal management. Pakistan is ranked among the top ten countries in the world in terms of receiving remittances. I have therefore no doubt in my mind that overseas Pakistanis are the silent heroes of our nation as their hard earned income is a major contributor to our economy. However, there is still considerable movement of remittances through illegal/informal channels. The thrust of the GOP and SBP policies is to divert this stream to the formal channel.

4. In the last few years, Government of Pakistan and State Bank of Pakistan have taken a number of initiatives to promote the transfer of home remittances using formal financial channels and it is showing positive results. Since the launch of Pakistan Remittance Initiative (PRI), there has been an upward trend of receiving remittances using formal financial channels that were previously sent through informal means of hawala and hundi. The Government of Pakistan have also announced another scheme to promote remittances using m-wallets where if the beneficiary choose to receive remittances in their m-wallet, they will receive airtime worth of Rs. 2 for every one USD equivalent remittance. Further, GoP and SBP have also introduced a performance based scheme for financial institutions in order to encourage them to make extraordinary efforts to achieve the higher targets of remittances. I am confident that such initiatives and products would increase remittances through formal channels and accelerate financial inclusion in the country.

**Ladies and Gentlemen!**

5. Despite all these efforts it remains a fact that we are still competing against very efficient and effective mode of remittance transfers such as hundi and hawala which because of their convenience and ease have remained a preferred choice of people especially who are less literate or live in far flung areas of the country. I think, one of the main reasons for this is that formal channels are based on centralized transaction processing, messaging and reconciliation systems, which inherently makes them slow. On top of it, if these transfer systems are paper based, they become even slower. This is where new technologies like the Distributed Ledger Technology (DLT) comes to our aid. Probably the biggest use case for these technologies is cross border

remittance transactions, including not just remittances, but import, exports and other services as well. It is noteworthy that a number of banks and non-bank entities around the world have started experimenting with the block chain technology for such cross border transactions and transfers.

6. While this block chain based wallet-to-wallet remittance service will likely provide an instantaneous and secure way for Pakistani migrants to transfer money from Malaysia to Pakistan, the success of this product will depend on the implementation of an effective and aggressive marketing and awareness creation strategy for customers both in Malaysia and Pakistan. Further, I would urge ANT Financials to launch this product from other countries to Pakistan also. I have been told that ANT Financials is already offering similar service for Hong Kong – Philippines corridor; and I would recommend starting this block chain based remittance services for Hong Kong - Pakistan as well. I am also confident that this Blockchain based arrangement will work well with our PRI system of tie-ups too.

**Ladies and Gentlemen!**

7. Now, I would like to take this opportunity to share few of my thoughts on emerging technologies and how these could reshape the financial sector and the way financial services are delivered to ordinary citizen. Since the first decade of this millennium, emergence of new technologies especially in the domain of banking and payments are not only transforming the overall business landscape and bringing efficiency in the business models but providing convenience to the consumers as well. Technology is disrupting conventional models and methods of doing business; it is changing the way we

used to look at our customers and the manner in which we used to build businesses and deliver services. The ubiquitous proliferation of mobile devices and enhancements in tele-density is now enabling customers to demand services not just on their doorsteps but from the comfort of their living rooms. Millennials who are teenagers have different attitudes; they are more at ease in interacting with their devices rather than with formally dressed officials sitting in their bank branches. Unfortunately, I feel that traditional banks in Pakistan are not taking this challenge with the urgency that it deserves and have yet to come up with innovative solutions to satisfy their customer needs. And this is where I feel that innovative companies like AliPay can bring radical change to our industry.

### **Ladies and Gentlemen!**

8. Let me also share my thoughts on few disruptive technological trends that I believe are radically disrupting and transforming the financial industry worldwide;
  - i. First is the rise of open platforms that are enabling buyers and sellers of a core service to come together without the help of any intermediary institutions. E-commerce, ride hailing and food services companies are a few examples of these platforms. On one hand these platforms enable businesses to quickly onboard using application programming interfaces commonly known as APIs and on the other, they enable customers to quickly search and avail their desired services.
  - ii. Second, cloud based hosting services are enabling quick and low cost deployment of complex systems using tools that are open source and

easily available to anyone. These cloud-based arrangements can offer extremely cost effective fully managed solutions including hardware and software as a service. It is now very easy for any entity including Fintechs to offer innovative products to their customers thus putting them in direct competition with banks.

- iii. Third, advancements in artificial intelligence (AI) and machine learning are set to transform the financial industry in many ways especially in areas of intelligent customer relationship management, fraud detection and prevention, e-commerce and detection of AML/CFT issues. Developments in big data analytics combined with AI and Machine Learning are providing deeper insights about customer behavior, needs and wants and radically changing the way in which services are designed, delivered and consumed.
- iv. However, the Distributed Ledger Technology is truly likely to disrupt the financial sector. Block chain, which is one implementation of Distributed Ledger Technology, will introduce a new era of disintermediation leading to openness, decentralization and global inclusion that will give us unprecedented capabilities of efficiently creating and trading value in society. The block chain technology will play a major role in the transformation of financial industry across all value chain in the economy especially where asset holding and transfers are concerned.

### **Ladies and Gentlemen!**

- 9. As you all are aware that financial inclusion is one of the two cross cutting themes of policy initiatives of State Bank of Pakistan. Financial inclusion

would lead to empowerment of these segments of society. We believe that technology could be a great enabler of financial inclusion and as a progressive regulator; SBP has always been a great supporter of innovation and technology. I am sure that digitization of banking and payments using the technologies mentioned earlier presents a huge potential for us to provide service delivery to those who are at the bottom of the pyramid. For me, financial inclusion is not just about account opening; rather it is about enabling people to conduct their day-to-day transactions through digital means instead of relying on cash. You will appreciate that digitizing economic transactions carries the benefit of enhanced efficiency in the overall economy and has the potential to increase our GDP. It is therefore imperative that we take all efforts to enable our people to use formal financial services using digital means so that their productivity is enhanced and wastages for the economy are reduced.

10. On the other hand, if adopted without giving due thought, technology is likely to follow the law of unintended consequences and has the potential of becoming a cause of spreading systemic and financial instability. We have seen how social media can spread false rumors and negative news like wildfire thus creating panic and instability in financial markets. Further, technology also presents some very unconventional challenges that pertain to electronic identification, data privacy and cyber security, etc. The more financial systems depend on electronic platforms and digital records, the more susceptible they are to cyber-attacks, which can disrupt the flow of funds across the economy, cease economic activity and threaten the overall financial stability. With this in mind, SBP has issued various regulations and

guidelines including the frameworks for Enterprise Technology Governance and Risk Management, Security of Internet Banking and Payment Cards, Prevention against Cyber-Attack, and Risk Management in Outsourcing Arrangements by Financial Institutions.

11.To promote the adoption of technology, SBP has continuously been taking initiatives on the infrastructure side, to promote the adoption of technology for facilitation of masses. SBP has worked with FBR and customs and other provincial tax authorities like Sindh Revenue Board for collection of taxes and custom duties using alternate delivery channels. SBP is in the process of launching a knowledge management system that will facilitate the interaction of general public with SBP. We are also working with Bill & Melinda Gates Foundation and Karandaaz Pakistan to build a micro payment gateway that will introduce fully interoperable faster payments for consumers and businesses alike. This initiative will not only help to modernize the clearing and settlement infrastructure for reducing cost, improving efficiency, enhancing security, but will also help in digital on-boarding of customer using open API based platforms and directory services.

**Ladies and Gentlemen!**

12.To adopt innovative technologies and promote the digitization of economy, SBP has always encouraged the role of banks and non-banks in the financial sector of Pakistan. We believe that non-banks like Fintechs and Bigtechs can play a big role in transforming the economic landscape of Pakistan. China is a great example for us where entities like Alibaba, Tencent and JD.com have innovatively used technology to provide efficient services to the masses. SBP

is also facilitating the entrance of non-banks particularly in payments and banking and in the past have issued enabling regulations on Branchless Banking and Payment System Operators and Service Providers. Right now, we are in the final stage of issuing regulations for e-money institutions. SBP is cognizant of the fact that Fintechs may find certain regulations as inhibiting for their offering so we are in the process of establishing a regulatory sandbox to identify such issues and find ways of supporting and facilitating innovative ideas.

**Ladies and Gentlemen!**

13. I am confident that the challenges that I have mentioned earlier will provide great opportunity and space to banks like Telenor and companies like ANT Financials, who have great experience of transforming payments and banking landscape in China thus promoting digitization and financial inclusion. I am hopeful that based on its experience, ANT Financial will provide out of the box solutions for challenges being faced by the industry and consumers in Pakistan. Especially I expect that ANT Financials will bring innovative ideas to Pakistan especially to assist SBP in areas like financial inclusion, digitization of payments, e-commerce, SME Finance, increasing access points, partnerships with non-bank FinTechs and using innovative technologies further to bring efficiency in banking and payments.

14. For my colleagues from banking industry in Pakistan, I would like to say that we have to adapt to the changing realities of times. We shall take the challenge and use the opportunities provided by technology to deliver the best of best to our citizens. I expect that the financial sector will take advantage of

current favorable market environment by investing in innovative technologies and product offerings to expand services and broaden access to financial services in the country.

15.I would once again like to congratulate Telenor Microfinance Bank and ANT Financial for launching this initiative to facilitate cross border remittances. I am confident that ANT Financials will play its role in the economic development of Pakistan and would further strengthen Sino Pak ties in the fields of Banking, Finance and payments. I shall ensure that State Bank of Pakistan would continue to extend possible support to facilitate them.

Thank you for your attention! Pakistan Zindabad.

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