

Technological Innovations and its Impact on Firm Performance in Financial Sector of Pakistan

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Distinguished Ladies and Gentlemen, Assalam-o-alaikum,

My today's topic of speech is on "Technological Innovations and its Impact on Firm Performance in Financial Sector of Pakistan". It will cover areas namely Introduction of Payment Systems; Role of SBP in Payment Systems; Payment Systems Infrastructure; Payment Systems Statistics and Future Outlook of Payment Systems in Pakistan.

Technological Innovations, perhaps, have not affected any other industry as much as banking. Banking industry was the earliest to adopt the computer technology to automate their back offices as well as their clearing function in the 1950s. Later on they adopted telecommunications in 70s by forming the SWIFT messaging network and later on went ahead by installing Automatic Teller Machines (ATMs) in the 80s and 90s. However, in order to reap the full benefits of banking technology, there has to be an enabling payments infrastructure on the back, just like plumbing in our homes. You can imagine how our homes will look like without well functioning plumbing, no matter how beautiful the living room is.

A well functioning Payment Systems play an important role in extending banking services to masses. Role of Payment Systems in the financial sector of Pakistan is greatly evolving. The growth in technology with respect to Payment Systems such as Automated Teller Machines (ATMs), Point of Sale (POS) machines, Internet & Mobile Banking and electronic banking products etc are resulting in effective, convenient & efficient banking services that are offered by financial institutions today. It wouldn't be an exaggeration to say that today's consumer interacts more with an ATM rather than his or her banker.

Now I would like to say a few words about the banking technology and payment systems in Pakistan and the role of State Bank in this regard.

Payment System and Electronic Fund Transfers Act (PS&EFT Act), 2007 provides legal framework for the regulation of payment systems and electronic fund transfers in the country. It empowers SBP to regulate and supervise Payment and Settlement Systems. SBP is playing following major roles in achieving its public policy objectives of safety and efficiency regarding payment systems.

a. SBP's Role as Regulator

SBP regulates and oversees payment systems to ensure growth with safety and efficiency. Under Section 3 of PS&EFT Act, SBP has authority to issue rules, guidelines, circulars, bye-laws, standards or directions with the objective to reduce systemic and operational risk and to promote monetary stability and a sound Payments infrastructure in Pakistan.

b. SBP's Role as Operator

SBP plays a major role by operating Pakistan Real-time Inter-bank Settlement Mechanism (PRISM), the Real-time Gross Settlement System of Pakistan. It acts as settlement institution for interbank funds transfers, government securities and retail clearing batches.

c. **SBP's Role as Facilitator**

SBP plays a crucial role in the development of retail payment systems by assessing and authorizing financial institutions of their payment products, channels, services and instruments. SBP also coordinates with the government and private institutions to implement various initiatives and to address specific issues relating to payment systems. Payment Systems Department of SBP also conducts research on domestic and international payment systems developments and provides necessary guidance to the industry.

Moreover, SBP is also working to enhance international cooperation and coordination in Payment Systems arena. In this regard, SBP is managing the Secretariat for SAARC Payment Council (SPC), which is a forum for Central Banks of SAARC countries to collectively develop strategies and roadmaps for the improvement of Payment Systems in the SAARC region.

Now I would like to say a few words about the Payment Systems Infrastructure in Pakistan:

1. PS&EFT Act, 2007) mandates SBP to own and operate the large value payment system of the country, known as PRISM – acronym of **Pakistan Realtime Interbank Settlement Mechanism**. PRISM, was implemented in 2008 by SBP and offers a powerful mechanism for limiting the settlement and systemic risks in the interbank settlement process. During the FY 2015, transactions having value of around Pak Rupees 170 Trillion were conducted using the system, which is almost 6 times of our GDP.
2. In Pakistan, over the last one decade banking systems have evolved and are still upgrading from manual and legacy based systems to state of the art core banking systems, centralizing their banking systems and procedures in order to capitalize on the operational efficiency within the marketplace.. The banks in Pakistan are now offering a variety of retail products via electronic channels such as ATM, Point of Sale (POS), Internet and Mobile Banking.
3. Currently there are two switches namely 1 Link and MNET which act as gateways to route both national and international plastic card transactions. Both switches are fully interoperable whereby customer of any bank can access her/ his funds from any ATM network of any bank in Pakistan.
4. In line with the SBP strategic objectives, SBP has undertaken a major initiative of standardizing the Financial Articles in the country. In its first phase, the industry wide implementation of International Bank Account Number (IBAN) was achieved. IBAN is an international standard based on ISO 13616 for identifying bank account numbers and will reduce transcription errors as well as facilitate smooth integration of various payment systems.
5. In order to create uniformity in Financial Articles, after extensive consultations with the banking industry, SBP issued a new standard for the layout, sizing, stamping and security features of cheques. Adoption of new standard by the banking industry will significantly increase the speed and overall efficiency of cheque clearing system, reduce the processing costs in the longer run and minimize chances of errors and forgeries.
6. On October 23, 2014, SBP has issued Rules for Payment Systems Operators (PSOs) and Payment Service Providers (PSPs) to enhance competition among institutions in the arena of Payment

Systems. Moreover, this initiative will encourage non bank entities to participate in Payments industry to provide new products and services in the country.

Now I would like to share with you some statistics related to payment systems in Pakistan:

- a. PRISM transactions has the largest share in overall electronic banking transactions followed by Real Time Online Banking Transactions (RTOB) whose volume and value increased from 60 Million and 16 Trillion in FY10 to 108 Million and 31 Trillion in FY15.
- b. On the other hand, the highest growth has been witnessed in Mobile Banking during the period FY10 to FY15 of which volume and value has increased from 600 Thousand and 2 Billion to 6 Million and 101 Billion respectively.
- c. Similarly, ATM, POS and Internet transactions have also showed a quantifiable increase in both volume and value over the same period.
- d. Payment Cards and ATMs have almost doubled during the period 2010 to 2015. The network of Automated Teller Machines (ATMs) continued to show a growth reaching to 9,312 as on March 31, 2015.
- e. By the end of March 31, 2015, the total number of Point of Sale (POS) machines has reached to 37,286 installed by banks in Pakistan.
- f. The number of cards issued by banks has also increased to 26.5 Million by the end of the quarter ended March 31, 2015.
- g. The registered users of Internet, Mobile and Call Centre banking have reached to 19.7 Million by the end of third quarter of FY15.

Ladies and Gentlemen: The domestic and international payments arenas are rapidly evolving and innovative products and channels are continuously being deployed by different financial institutions and payment operators. Internet and the inter-of-things is enabling peer-to-peer interaction more so in the area of financial services; from peer to peer lending to peer to peer virtual currencies. In Pakistan, on one hand we are witnessing the proliferation of electronic payment products like e-wallets, m-wallets, multi-purpose cards and smart apps enabled by new technologies like Near Field Communications (NFC) enabled cards and mobile phones; on the other hand non conventional players like web based payment processors and social network operators are entering into the market thus challenging the dominance of the conventional players.

These innovations are exciting but at the same time challenging. Exciting, because they offer huge potential for ordinary Pakistanis to use and adopt more and more formal financial services. Challenging, because the formal role of banks as financial intermediaries is rapidly changing. Alternate Delivery Channels are no more Alternate in nature; they have become Main Delivery Channels. This requires more proactive regulation and oversight on our part. SBP, being cognitive of these changes and realizing the need for Pakistani market to remain abreast with the international arena, has taken a number of initiatives to promote efficiency, security, innovation, and mass acceptability while ensuring competition and level playing field for all payment participants.

Thank you and Pakistan Zindabad.