

Speech on 'Branchless Banking Conference'

Thank you and a very good morning everyone. It is an absolute pleasure to be invited at this event on branchless banking, and I thank you State Bank of Pakistan for organizing deliberations on aspects and implementation issues of relevance for Pakistan.

Surely all of us expect today's deliberations to bring up new insights and clearer roadmap options for potential synergies in partnerships between financial service providers and technology platforms. We do look forward to extend branchless banking methods, particularly to the population segments where bank branches have so far been unable to reach out.

Talking on a global scenario, almost 4 billion people are unbanked—with more than two-thirds of the un-banked population in the world's low and middle-income countries. However, evidence from countries like Brazil, South Africa, India, and Kenya strongly suggests that there is rapid popularity of these new phenomena we call as 'branch less banking'.

I would like to share some interesting and appealing statistics and forecast made by reputable research companies. According to Juniper research, amount of mobile payment transaction is expected to reach 300 Billion USD by 2013. Going further, service providers have an enormous revenue opportunity through mobile money transfer. Lead by Africa & Middle East the total revenue generated is predicted to be 5000 Million USD per annum by 2013. The figure is forecasted to be around 3700 Million USD per annum by 2013 in South Asian region.

Branchless banking is somewhat an elusive promise of the new fast evolving ICTs that financial service providers have been eagerly embracing. We know that financial services are based on mutual trust between providers and clients and I look forward to branchless banking in Pakistan not as an alternative, but as a key supplement enabling traditional branch banking to reach out to new client segments in various geographies, a priority for us in pursuit of fullest possible financial inclusion, According to the World Bank study, only 12% of the adult population of Pakistan has access to formal banking services.

Ladies & Gentlemen,

The most critical enabler of branchless banking relates to the role of payment systems technology, principally the use of mobile phone as a banking channel and payment device. The pervasive availability and use of mobile phone around the globe and familiarity amongst its users makes it a very cost-effective distribution channel to improve accessibility to financial services to the unbanked and underserved segment of the population. This is further complemented by the proliferation of payment cards, particularly electronic money, which enables banking and payment services to be conducted without a bank account or visits to traditional bank branches. According to data from the Consultative Group to Assist the Poor (CGAP), there will be more than 120 mobile money schemes in developing countries by the end of 2010, more than double the number in 2008. CGAP estimates that by 2012 some 1.7 billion people will have mobile phones but no bank account, and 20 percent will be using mobile money.

The high population density of mobile Pakistan is features auguring very well for success of a technology driven thrust in branchless banking. Five mobile phone companies have brought the entire country under comprehensive network coverage, with steady growth in number of mobile phone subscribers (already well above ninety million, in a total population nearing one hundred seventy million), and also with ample information processing capacity to engage in partnerships with licensed and regulated financial service providers to devise and introduce innovative cost effective means of introducing new segments of banking.

Let me share some recent statistics of Telenor's Easy Paisa service which may help is in identifying what kind of opportunity exists. The service has crossed over 600,000 utility bill payments and moved nearly to PKR 1 billion on Money Transfer. This really is a huge mark of potential and success within a short span of time. On the similar ground, MCB was recently nominated among the top four best mobile money services category for Global GSMA Mobile Awards.

Let me now turn to the main agenda given to me, which is about mobile regulators prospective in relation to branchless banking services. The first concern is related to the need to continuously balance between prudential controls and allowing innovation to flourish within the financial and

telecommunication sector. The environment within which branchless banking will flourish requires a great deal of innovation in terms of executing transactions, maintaining proper audit controls, good availability of mobile network and ensuring fraudsters do not take advantage of unsuspecting customers. As regulators we are particularly concerned as how and where deposits are accepted. There has to be defined set of procedures to comply with minimum prudential regulations, such as capital, liquidity and submission of financial data on a regular basis to the supervisory authorities, as in the event of financial distress, depositors may be at risk.

A second key regulatory concern relates to undermining confidence in the payment systems. As different intermediaries get involved, there is an increase in the risk of losing transaction integrity, corruption of data or breach of payment settlement terms. The loss of faith in the safety and security of transactions, in particular payment transactions, can result in widespread loss of consumer confidence. Another area relates to policies governing competition as different players position themselves in the branchless banking arena? Issues such as licensing, pricing, alliances with different financial institutions and compliance with prudential regulations need to be considered carefully. The public and consumers may lose confidence if there is no sense of order in how the payment system is evolving, or there is wide disparity in charges and fees.

The third area of regulatory concern I would like to touch on relates to the issue of accountability with cross-sector regulatory requirements. Since here we are trying to converge two-fold regulatory environments (the financial and telecommunication). There must be clarity over the accountability for the integrity of transactions, security of information transmitted, adherence to a consistent set of regulations and proper maintenance of the system. And it is important to note that higher standards of control will also result in higher costs to the service providers.

All of above primary prospective are what PTA and SBP are in process of address through under-draft 'third party mobile banking regulations'. I ensure you all that our dedicated team of professionals would come up with all-exclusive regulatory environment to flourish this much required technological and financial combo endowment for our nation.

I Thank you All.