

GOVERNOR'S SPEECH



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Distinguished Guests, Ladies and Gentlemen, Assalam O Alaikum and a very Good Morning.

I am pleased to be here today at Pakistan Fintech Forum, which has gathered experts and practitioners of the industry to deliberate on enhancing financial inclusion in the country by leveraging technology. I would like to take this opportunity to share some thoughts on the topic and why we, at the State Bank of Pakistan, think that technology is the way forward for enhancing financial inclusion. I would also share SBP's expectations as a regulator with the FinTech industry.

Ladies & Gentlemen, Financial exclusion and high usage of cash is a major problem in Pakistan. In fact, even people who have a bank account often find it difficult to access formal financial services relating to credit and saving from their service providers. As a result, people and businesses rely on cash for their day-to-day transactions and resort to informal savings and risk management methods, including borrowing from informal lenders at a very high rates for meeting their financial needs.

Today's disruptive digital technologies enable people to not only be financially included but become financially enabled as well. We are witnessing the rapid emergence of mobile technologies, which not only provide easy access to financial services for customers but also enable business to rapidly identify customer needs and create value for them. While I must acknowledge that these technologies are being embraced both by traditional financial institutions and non-financial players, ranging from small start-ups to large technology firms, a lot more needs to be done.

I do hope that this conference will conclude with some innovative ideas on the key theme, which is "breaking barriers through digital financial inclusion". Accordingly, I would like to focus today on the extent and gravity of the financial exclusion and lack of digitization in Pakistan. I would also summarize what SBP has done to facilitate the enablement of FinTechs and adoption of new technologies.

Ladies & Gentlemen: In Pakistan over 60% people are in the age bracket of 16 to 30 years, making it one of the youngest countries in the world. However, only 82 million out of estimated 132 million adults have bank account. This translates into account penetration rate of 62%, which is one of the lowest in the world. Even more challenging, is the glaring gender gap; for every three men with a bank account, there is only one woman with a bank account. If we move from basic accounts to credit provision, situation is even more challenging. Access to finance to micro enterprises, SMEs, housing etc. is very low.

Due to the emergence of new and disruptive technologies, today's consumer preferences as well as needs of businesses are evolving rapidly. While on one hand consumers are demanding newer and more convenient services, on the other, businesses are striving to identify the needs of their potential customers and find ways to fulfill them. New business models, based on data sharing and advanced predictive computing, are not only enabling these businesses to proactively identify and fulfill their customers' needs, but also to address their risks in innovative ways.

Platform based models are enabling enhanced collaboration among different types of service providers. These platforms are playing an important role in not only

providing finance to various sectors like Agriculture, SMEs, housing etc, but also helping in better risk management. It is also important that our FinTech sector work with a collaborative spirit to build such platforms.

Today, in Pakistan, we have most of the enabling factors in place that allow the blossoming of a tech-based financial ecosystem in the country. These include a fully functional digital ID system, ubiquity of mobile devices, penetration of mobile and broadband services, availability of faster payment rails, remote account opening process, and facilitative regulatory frameworks for enabling the entry of non-bank entities into the financial arena.

Ladies and Gentlemen, SBP is aware of the potential of new technologies and the role of new players in improving financial inclusion in the country. The rise of disruptive technologies enabled by mobile devices and rapidly expanding tele density has necessitated that SBP to acknowledge the role of non-conventional players in the financial arena and take steps to enable them.

Let me now briefly describe some of the measures that SBP has taken to facilitate FinTechs and the adoption of technology by the financial sector in Pakistan.

First, we have introduced policies and regulations aimed at enabling new FinTechs offer innovative digital payment services in Pakistan.

- In 2008 we issued the **Regulations for branchless banking** thereby introducing and enabling the use of agents for providing basic payment services in Pakistan.
- In 2014, **Rules for Payment Systems Operators (PSOs) and Payment Service Providers (PSPs)** were issued to facilitate the establishment of e-payment gateways in the country.
- In 2019, SBP also issued **Regulations for Electronic Money Institutions or EMIs**, to facilitate the issuance of e-money wallets without requiring the issuer to be a bank.

- Earlier this year, SBP issued a Licensing and Regulatory Framework for the establishment of **Digital Banks** in Pakistan.

Second, SBP introduced digital or remote account opening framework in 2019 when it allowed banks and EMIs to remotely onboard small merchants digitally. Last Year, this framework was further enhanced into a comprehensive ‘Customers’ Digital Onboarding Framework’ for conveniently and remotely opening bank accounts by resident Pakistanis. SBP also worked very closely with NADRA to allow the use of remote biometric verification services using mobile phones, which is a salient feature of the framework.

SBP also launched the Asaan Mobile Account scheme so that people who don’t have access to internet based smart phones can remotely open accounts using their feature mobile phones over USSD network.

Another key initiative in this regard is the Roshan Digital Account that enables Non-Resident Pakistanis to open and operate account without lengthy documentation. Through Roshan Digital Account, SBP enabled the digital onboarding of overseas Pakistanis, who now can remotely open an account in a Pakistani bank within 48 hours. Since its introduction, more than 450,000 overseas Pakistanis have opened digital accounts and have sent more than 5.3 billion dollars in these accounts.

Third, SBP also realizes the need of **developing and modernizing the payments Infrastructure** so that citizens can efficiently pay and receive funds. SBP took a number of steps to introduce interbank fund transfer and utility bill payments functionality and Pakistan’s own payment card scheme called PayPak.

As you are all aware that SBP has launched Pakistan’s Instant Payment System, Raast. Raast is built on state-of-the-art payment standard in the world, which is ISO 200 22 certified, and offers a number of features to support the growing FinTech ecosystem. On Raast, we have already deployed the functionality of bulk payments and Person to Person or P2P customer transfers have already been launched. Today,

on average, Raast processes around 200,000 to 300,000 P2P transactions valuing around Rs. 5 billion per day.

Next year, SBP will launch the Quick Response or QR Code based Person-to-Merchant (P2M) or Request-to-Pay functionality, which will enable merchants and small businesses to receive instant payments from their customers. I believe that Raast will provide the key building blocks for taking Pakistan's payments industry to new heights. SBP will continue to work with all stakeholders to promote the introduction and use of innovative payment methods to promote digital payment acceptance in a cost effective and efficient manner.

Finally, SBP realizes the importance of sharing customer data to promote innovation and to make the financial system even more accessible. However, this needs to be done in a safe and secure manner with full consent of the customer. We are working on the **Open Banking initiative** under which banks, with the consent of their customers, would be able to share their selected data with other banks or FinTechs so that they can build and offer better customer-centric products. As part of this initiative, SBP is working on the development of a technical sandbox to test and standardize the Application Programmable Interfaces for various use cases. I know that many of you are impatiently waiting to join the Sandbox, so let me assure you that we will expedite the process so that the applicants to the Sandbox get a chance to test their use cases.

To harness the **potential of Distributed Ledger Technologies**, SBP is also researching the Central Bank Digital Currency, commonly known as CBDCs, and is weighing the cost vs benefits of this venture. We have examined almost all the jurisdictions who are either experimenting or have issued CBDCs in their respective jurisdictions. However, we will tread this path very carefully especially with regards to design choices and use case analysis.

SBP is also working with the service providers towards **improving the overall customer journey and user experience** so that citizens of Pakistan have easy, convenient and low-cost access to financial services.

Ladies & gentlemen, this brings me to the concluding part of my remarks today where I will share my expectations from the FinTech industry:

- The first message for FinTechs and the industry is to work towards creating customer centric products and services that brings real value for the economy.
- Second, focus on reducing the transaction cost. I would encourage FinTechs to adopt a business model that reduces the transaction cost by innovative and intelligent use of technology in a sustainable manner.
- Third, FinTechs need to build partnerships and adopt a collaborative approach. In today's world, we are witnessing the rise of platform-based businesses. These platforms have the ability to collaborate by sharing Application Programmable Interfaces and then build new products and services. This may include building lending platforms for SMEs and MSMEs, or integrating the formal financing mechanisms in the housing or ecommerce platforms. I would therefore encourage the FinTech industry to collaborate and build partnerships not only among themselves but with other financial service providers to create customer centric products and services.
- Fourth, focus on customers and on providing them stellar and immersive user interface. Work on improving user experience, customer service and developing and harnessing new ideas. While we appreciate the target of building a billion-rupee companies that new tech companies usually aspire for, the focus on serving the customer must not be lost.
- Finally, ensure regulatory compliance and foster a culture of good market conduct. SBP has observed some slippages in this regard in recent times. But let me assure you that SBP will not compromise on consumer protection, good market conduct and financial stability.

In conclusion, I would like to reiterate that digitalization of financial services, financial inclusion and growth of the financial sector are inter-twined. Evolving demographic landscape and convenience centered user preferences can be met by those financial institutions that whole-heartedly embrace digitalization. As our population matures, more financial consumers will demand services that can better and efficiently be delivered through digital means. Digital Financial Services entail reduced operational costs, improved operational resilience, enhanced access to new customer segments, increased business revenue, and provision of market-desired financial services.

Thank you once again for inviting me and listening patiently.