

International Branchless Banking Conference

**Welcome Address by
Mr. Ashraf Mahmood Wathra,
Governor SBP**

Islamabad, Monday 17 November, 2014

- Hon'ble Federal Minister for Finance, Revenue, Statistics, Economic Affairs & Privatization, Senator Muhammad Ishaq Dar
- Syed Ismail Shah, Chairman, Pakistan Telecommunication Authority (PTA)
- Mr. Muhammad Imtiaz Tajwar, Chairman, NADRA
- Mr. Richard Montgomery, Head of DFID -Pakistan
- Mr. Steve Rasmussen, World Bank's Consultative Group to Assist the Poor (CGAP)
- Distinguished CEOs/Presidents of banks, MFBs, Mobile Network Operators, and Payment Service Providers,
- Ladies and Gentlemen,

Assalam-o-Alaikum and Good Morning!

1. Let me extend a very warm welcome to all of you to the International Branchless Banking Conference 2014. It is indeed a great privilege for us to host you here in Islamabad. I am grateful to the Finance Minister, Senator Muhammad Ishaq Dar for inaugurating this Conference today.

2. Mr. Finance Minister, please allow me to express my sincere gratitude for all your support that you have rendered in the promotion of inclusive finance for development. Your passion and undivided personal support has created opportunities for financial inclusion in terms of Government's unbridled commitment reflected in various programs and schemes launched for promotion of financing to the youth, farmers, small businesses and housing for low income population. With your efforts, financial Inclusion is no longer merely a development issue, it has entered the mainstream thinking of economic and financial policy making in Pakistan. I want to thank you for that.

3. I am also highly grateful to the speakers and our guests from World Bank, CGAP, Better-Than-Cash-Alliance, Gates Foundation and GSMA who have travelled from various parts of the world to join us for sharing their knowledge and insights on digital financial inclusion from other markets of the world.

4. Today's event is yet another milestone in the long standing partnership between State Bank and DFID in advancing financial inclusion. With a shared global agenda and strong national targets aiming at bringing a positive impact to the lives of the poor, we are creating a momentum for change. I have to thank Mr. Richard Montgomery, Head of DFID Pakistan for all the support they have extended in addressing the barriers and industry bottlenecks that hinder the broader access and usage of financial system in Pakistan, particularly the poor and marginalized segments of our society.

3. I believe that having access to simple financial products can have a real, positive impact on peoples' lives. G 20 leaders, the IMF, the World Bank, other multilateral and development institutions, have called for an improvement in the quality of economic growth such that it should be "inclusive". They are convinced that inclusive growth begins with financial inclusion and broader access to finance. Following this insight, we have seen broadening of policy objectives from pure monetary and financial stability to a greater role in propelling and sustaining inclusive growth through more and better financial inclusion.

Ladies and gentlemen,

4. In Pakistan, high level of financial exclusion has led our society to rely on excessive use of cash especially for payments and savings which is risky, costly, and inconvenient to the businesses and public at large. Besides, it restrains our national efforts towards documentation of the economy. Given our vast and diverse geographic landscape with scattered population and security challenges in some parts of the country, Pakistan has one of the lowest bank branches per 100,000 people ratio in the world. Despite the fact that SBP is encouraging expansion of brick and mortar branches network especially in rural and under-served areas, we understand that it cannot be an adequate strategy for the accelerated financial inclusion. SBP therefore envisioned a path towards digital financial inclusion back in 2007 to create convenient digital channels for servicing common people, reducing their high dependence on cash. Under

a specialized legal and regulatory framework, SBP allowed the market to promote the use of electronic payments and mobile phone banking.

5. Now, let me walk you through our **journey towards universal digital financial inclusion**. The journey began with two landmark policy initiatives; i) enactment of Payment System and Electronic Fund Transfer Act in 2007, and ii) issuance of SBP's Branchless Banking Regulations in 2008. To complement these policy measures, SBP in partnership with UKAid facilitated the early adoption of Branchless Banking in Pakistan by supporting a number of technology-driven innovative projects as well as knowledge sharing events to showcase the opportunities to the market. Further, institutionalizing the industry dialogue, SBP set up a Branchless Banking Consultative Group to tackle the developmental challenges of branchless banking market. Moreover, under the FIP, State Bank launched the first round of Financial Innovation Challenge Fund (FICF) to support digitization of Government-to-Persons (G2P) payments through branchless banking channels. **[SLIDE... Initiatives]**

6. These SBP-led initiatives stimulated the market forces to drive innovation and growth in a relatively difficult political and economic situation of the country prevailing in the years 2008-2009. Pakistan witnessed successful emergence of various branchless banking models. In the year 2009, SBP licensed first model namely 'EasyPaisa' by Tameer MFB and now there are eight branchless banking providers operating in the country. It is also encouraging that excitement in the market is still growing and new banks are also keen to become part of this innovative banking either through partnerships or through establishing their own BB model. **[SLIDEModels]**

Ladies and gentlemen,

7. As a result of these efforts, Pakistan is now the one of the largest branchless banking market in the world. Let us take a look at the facts, **where we are at the moment?:** **[SLIDES Growth]**

- The **average monthly transactions** have reached **22 million valuing Rs 125 Billion**.
- Number of **Branchless Banking accounts** have significantly grown and cumulatively reached to **4.7 Million**. However, usage of M-Wallets has not

grown in tandem with the growth in accounts as **Over-the-Counter (OTC)** transactions constitutes **82%** of the total.

- The **combined agent network** of all providers has increased to **186,000**. **However**, there number of **unique agents** is estimated to be **80,000**.
- **Average size of branchless banking transactions** is **Rs. 5,600 (US\$56)**. This indicates that using technology we are now reaching out to the poor and low income groups.
- Because of this performance, our branchless banking policy initiatives and business models have won global recognition. **[SLIDEGlobal Awards]**

8. Despite these positive early performance indicators, our BB market will not achieve potential scale, sustainability, and impact in the long-run unless it overcomes few critical early development challenges around product, channel, and infrastructure.

So what is needed?

9. In my view, the greater promise of branchless banking lies in the ability of our banks to build new or leverage existing agents' network, and convert massive SIM subscribers' base into banking account holders. This transformation is already underway with the support of an evolving branchless banking ecosystem. In particular, Government's vision to digitize the space of its Government-to-Person (G2P) payments through branchless banking has proved as a strong catalyst to the industry. The industry need to expand in this area by offering proposition for digitization of larger G2P, P2G, Business-to-persons, and persons-to-business payments. In addition, the role of PTA and NADRA in this ecosystem has remained critical to support ongoing branchless banking initiatives. In a significant development to promote registration of mobile-wallets, SBP and NADRA are signing an MoU today to rationalize fee on biometric verification of customers' identity. Let me say that role of NADRA and PTA will continue to remain important in the next level of development of branchless banking. In line with this vision of working together with key stakeholders, digital financial inclusion is going to be the cornerstone of SBP-led National Financial Inclusion Strategy (NFIS) that is currently in the stage of formulation. **[SLIDES NFIS]**

Ladies and Gentlemen,

10. Branchless banking has the potential to radically transform the market behavior and landscape of our retail banking system in few years from now. To make this happen, we as industry need to reach out to our potential customers with basic education on the usage of mobile phone banking. To facilitate this transition, SBP is emphasizing on building the financial capability of all our citizens, as evidenced by the National Financial Literacy Program launched by State Bank. The program is meant to support SBP's objective to migrate most of retail transactions to electronic channels in the medium to long term. **[SLIDESNFLP]**

11. SBP is also working on developing a strategy to strengthen its payment system infrastructure for retail payments especially low-value, high-transaction payments in the system. Globally, Payment and Settlement System is a fast growing area, witnessing rapid innovations, driven by market forces as well as new technologies. SBP has recently issued regulations to facilitate the establishment of new payment system providers and operators in the market. SBP in collaboration with PTA is also working on the framework of interoperability of the retail transactions which are taking place through branchless banking channels. Through these and few other initiatives, SBP is striving for building a safe, efficient, and inclusive payment system which is not only important for financial inclusion, but is also critical for the effective functioning of the financial system and smooth transmission of monetary policy.

12. As Branchless Banking channels become increasingly available, the speed at which financial services reach the un-served population through these channels will depend on the actions and decisions of both the public and private sectors. In order to encourage public and private sector, industry practitioners, experts and regulators, SBP has organized this conference to highlight:

- Key branchless banking developments so far
- Perspective of international organizations and experts on up-coming challenges and proposed solutions.
- Experiences and lessons learned by the industry practitioners

- Insightful panel discussions on the conference theme which is “ Innovations in digital finance for financial inclusion” will be useful in shaping the direction of our future policy actions and expanding the innovative payments solutions for financial inclusion. **[SLIDEConference Agenda]**

13. I would now like to conclude by congratulating the industry for its valuable efforts towards the expansion and deepening of our financial system. I believe that your ingenuity and hard-work will further expand the frontiers of financial services industry in near future. I wish for vigorous and productive discussions at today’s Conference and look forward to have your valuable insights and recommendations for our current as well as future Branchless Banking development initiatives.

Thank you!