Speech of Mr. Yaseen Anwar, Governor, State Bank of Pakistan
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Good Morning Ladies and Gentlemen

I am indeed delighted to be here today at this Conference on mobile banking. I would like to congratulate the organizers for arranging this important conference, which has now become an annual event to showcase the developments, and measure the progress made by mobile banking in the country. Through these annual conferences, all of us have been identifying various challenges and finding new solutions, and thus transforming branchless banking into vibrant and innovative industry in Pakistan.

Let me first briefly talk about the significance of Mobile Commerce and then move on to the mobile banking, its role in promoting financial inclusion, and our responsibilities to strengthen mobile banking in Pakistan.

Mobile Commerce is generally characterized by a variety of business partnerships often involving a large number of organizations, from content providers to financial institutions to mobile network operators. After successful application of Mobile Commerce as an alternative channel for delivery of payment services in developed countries, the concept is now also taking roots in developing countries. The usage of innovative and unconventional channels will dominate the conventional means of business and communication, as evidenced by the high mobile phone subscription witnessed in Pakistan. The number of mobile phone subscribers has reached 120 million.

Turning now to the use of mobile technology to promote financial access, there is an emerging consensus amongst policy makers around the world to improve access to financial services for poor people, through supporting the safe and sound spread of new modes of financial service delivery capable of reaching the poor.

In Pakistan, Developments in branchless banking so far have been marvelous, leaving nobody in doubt about the potential of mobile

phone banking to be a game-changer in banking, m-commerce, and financial inclusion. Broadly describing these recent developments, we have been witnessing transformation in customers' needs and behaviors, increased competition, technological innovation, new business models, and regulatory proportionality. Owing to these developments, international development agencies and media have now been highlighting Pakistan for its market and institutional environment for branchless banking. In an article a few months back, The Financial Times counted branchless banking and microfinance initiatives in Pakistan among the 'hidden forces of resilience offering the best hope for the country's future'. Elaborating further, the article highlighted Pakistan 'being in perpetual motion at the grassroots with ceaseless creativity as people find affordable solutions to their basic needs"

Regulatory approach has played a fundamental role in the development of branchless banking. The issuance of branchless banking regulations in 2008 was an outcome of SBP's vision and strategy to develop a road map for financial inclusion through the

use of mobile phone banking. With these regulations, SBP enabled a diverse set of players including banks, microfinance banks, mobile network operators (MNOs), retailers, and technology firms to develop partnerships and business models, while safeguarding stability of the banking and payment system, and interest of customers. In accordance with these objectives, SBP allowed only the bank-led model for undertaking branchless banking. At that time, many thought that this was a 'restrictive' approach, and would not work out. They were proved wrong by the subsequent phenomenal growth of branchless banking in Pakistan. As a result of our market developments, SBP's regulatory approach and experience was cited as an example for other countries to follow.

According to a recent CGAP publication, "Pakistan serves as an example of how public and private institutions together can move a country towards a digital financially inclusive system." The report further notes that "Government and public actors have created the enabling environment and provided seed funding, while private

actors are developing the infrastructure, services and a long-term business case."

Since the issuance of branchless banking regulations in 2008, several branchless banking models have been deployed. UBL's Omni and Tameer bank's EasyPaisa have already gained substantial ground and have established themselves as market leaders. Two new services (MobiCash and Timepey) have just launched while two are running live pilots. Moreover, all the four mobile network operators in partnership with some of the largest banks have already launched their branchless banking services or are at the final stages of launching. As a result, the branchless banking current growth trajectory is expected to get further steeper in the years ahead.

With the entrance of new and strong players, branchless banking has already seen acceleration. The number of agent network servicing branchless banking customers has reached 42, 000. Therefore, the basic financial services can now be accessed in the remotest parts of the country through any of these agents. A total of 194 million transactions have been carried out worth 813 billion

rupees. More than 2 million m-wallets have been opened till date, and these numbers will improve significantly. Along with the tremendous growth in the branchless banking sector, the infrastructure of payment systems and branch network is also showing an increasing growth trend. The ATMs network has increased to 6,232 whereas branch network has reached 11,600. 94 percent of our branches are now real time on-line. Similarly, the number of plastic cards has increased to 20 million and the number of POS machines has increased to 34,000 units. This is a significant achievement, and this also demonstrates the opportunity to bring the benefits of this infrastructure to millions of the unbanked population.

Branchless Banking has also proved to be an effective instrument in channelizing the Government to Persons (G2P) payments in trying times like serving Internally Displaced Persons (IDPs), and devastating floods for the last two years. The Benazir Income Support Programme beneficiaries are also being served effectively through the same mechanism. In the coming days, this channel is

expected to continue playing an important role towards the promotion of financial inclusion and the management of Government to Person (G2P) Programs like Salaries Disbursements, Pensions, BISP, Watan Cards, Pakistan Cards and tax collections services, etc. The existing Branchless Banking deployments can cater to the needs of over 10 million potential beneficiaries of G2P payments in Pakistan.

Branchless banking is going to dominate the retail banking landscape in the long-term. Whilst we seek to encourage the introduction of innovative instruments for payments, we also need to ensure that high levels of standards are maintained for safety, security and protection of consumers' interests. The central policy objectives of SBP are to ensure safety, soundness and efficiency of the banking system, and to protect the interest of consumers. Since branchless banking is becoming a vital component of the national payment grid, it is prudent for all stakeholders to ensure that appropriate measures are in place to mitigate inherent risks associated with it like access by un-authorized persons/ criminals

such as hackers, money launderer, terrorist financiers etc. This can only be achieved when our technologies are robust and secured, and agents are comprehensively trained and effectively monitored by the banks. In this regard, the importance of a comprehensive agent development framework cannot be ignored. I am sure that our banks would not simply jump on the bandwagon without sufficient agent development mechanisms including their hiring, on-going training and monitoring.

Building public confidence on these innovative payment solutions is critical. A single failure of branchless banking deployment can erode the public's confidence in the system which in turn may jeopardize the whole sector. Being fully cognizant of the risk factors involved in such unconventional modes of banking, SBP has been proactively monitoring developments and associated risks both at system and entity level in order to take appropriate corrective measures in a timely manner.

We must acknowledge that branchless banking has gained critical mass in a short period of time. I believe that the market has to start

shifting transactions from first generational services (Person-to-person/Bills payments) to second generational services (account-to-account and inter-bank transfer). The players need to expand their product portfolio by offering new products and services for their target market. In my view, this is part of an inevitable evolution which will ensure the long-term sustainable development of the sector, encourage micro savings and help in meeting the demands for inclusive financial services of the target market.

Let me mention that SBP is working closely with key stakeholders of the mobile and branchless banking industry. We have already constituted a national consultative group and its various working groups to develop a common understanding on the challenges and develop a proposal for policy actions. SBP will continue its engagement with the stakeholders to identify and undertake all necessary measures for developing an eco-system that would not only support mobile banking but would also contribute to the wider economy.

I trust that today's conference will help us understand the various issues relating to the growth of mobile banking systems and products, and m-commerce. As this conference is meant to create awareness on mobile commerce, we understand that developments in m-banking and m-commerce will lead us to connect the unbanked segment of our population to financial services, thus contributing to their empowerment.

Thank you all for being part of this forum and I look forward to your productive participation today.

Thank you.