

## **Seminar/Exhibition on Technological Innovation in the Financial Sector**

I would like to thank the Sindh Government, CSP and PASHA for inviting me to this Seminar/Exhibition on Technological Innovation in the Financial Sector. I commend all the Organizers of this event for taking this initiative and exposing the public at large to the progress we have made so far in this field.

I am glad that the CSP is working on Certification and Accreditation of IT Professionals because this will sift the real professionals from the crowd. This morning, I will walk you through the considerable headway the Financial Services Industry has made during the last three years.

At the State Bank of Pakistan (SBP), we are executing the largest single project of automation and the project has engaged Pakistani Companies for a number of tasks and awarded them sub-contracts worth \$3.5 million so far. This project will implement a Computerized Banking Solution whereby all the branches of the State Bank will be connected via an electronic network. Data Warehousing facility and the introduction of a Real Time Gross Settlement System (RIGS) for large value and other time critical payments are expected to revolutionize the way operations in the Central Bank are performed. These projects are expected to significantly upgrade State Bank's own banking services, besides playing a pivotal role for the banking sector in general to adopt new technology based solutions.

State Bank's strategy in the initial stages of E-banking is to act as a promoter, facilitator and enabler. This is being done by creating the appropriate legal framework, development of coherent strategy with the banking sector for development of payment systems and strengthening the clearing and settlement infrastructure in the country.

The SBP has, therefore, played a pro-active role in promoting adoption of technology based solutions in the banking sector and supporting services based on E-Banking. E-Banking has already taken off in this country and the recent launch by Habib Bank – one of the largest banks in the country – has provided a major breakthrough. So the question is not when the facilities will be provided but how rapidly these facilities will expand. Efforts in this direction are focused upon the following areas:

- ✍️ Creation of a robust legal infrastructure catering to the needs of E-Banking and other payments systems involving electronic settlement of funds. A key step in this direction was the promulgation of Electronic Transactions Ordinance 2002, which provides legal recognition to digital signatures and documentation reducing the risks associated with the use of electronic medium of business. State Bank is currently engaged in an exercise to further

augment the legal framework for electronic settlement of transaction in the banking sector.

✍️✍️ Establishing of Payment Systems Development Committee, in which commercial banks are members, to guide the development of payment systems in Pakistan.

✍️✍️ Creation of a dedicated Payment Systems Department in the State Bank dealing with all issues pertaining to payment systems including E-Banking.

✍️✍️ Introduction of a Real-Time Gross Settlement System (RTGS) providing an E-banking solution to banks maintaining their accounts with SBP whereby they will be able to operate these accounts from their own premises via an electronic connection with the State Bank's own servers.

✍️✍️ Commercial banks have been allowed to open and operate Internet Merchant Accounts.

✍️✍️ Banks are being encouraged to expand the ATM network through more participation and a wider network of machines all across the country. More than two-third of the commercial banks have

already joined one of the two existing SWITCHES and the interconnection between the two existing SWITCHES' which is underway will give a further boost to the volume of transactions taking place through electronic channel. This connectivity will allow accessibility to all the ATMs installed anywhere in Pakistan.

☞☞State Bank has already acquired SWIFT connection and has also made it mandatory for Banks to acquire SWIFT connectivity for settlement of all cross border financial transactions.

☞☞Expansion of automated cheque clearing services to all major cities in the country is actively being pursued.

☞☞The usage of plastic money such as Credit/Debit cards is spreading quite rapidly.

I am happy to see the results of these efforts. As internet services have been extended to 1000 cities and villages, many banks have started providing E banking facilities to their consumers. Over 400 ATMs are in operation in Pakistan and the use of ATMs is rapidly increasing. Almost 1 million transactions are now taking place through ATMs every month. More and more functionalities are being provided by the banks electronically including E-statements, funds transfers, bill payments for utilities as well as other purchases,

on-line application processing, etc. By 2002, almost 40% of the bank branches have been automated and it is expected that this proportion will reach 50% by 2004. The rate of increase is phenomenal i.e. about 318%. Similarly, the number of online branches has doubled during the last two years to 570 and by 2004 this number will jump to 1356 – representing an increase of 376%. This expansion along with the growing penetration of internet will bring E-banking to more and more of their customers both in terms of numbers as well as geographical locations.

Despite the above progress, I believe, E-banking in Pakistan is still a relatively new phenomena and should grow much faster with further penetration of computers and internet services in the country, availability of a robust legal framework, removal of concerns about security of electronic transactions and enhanced reliability of communication lines.

Another area which will accelerate E-banking in Pakistan is Security of transactions. Until and unless consumers are satisfied that their transactions through E-banking are safe, they will not venture into this medium. Banks have been allowed encryption by Pakistan Telecommunication Authority. As mentioned earlier, appropriate legal framework, including remedial measures in the law for cyber crimes is important to tackle issues such as cyber crime has been created but still to be tested in Courts of Law. The Electronic Transactions Ordinance 2002 covers issues such as establishment of Certification Authorities.

However, the legislation being the first step in this direction, banks are encouraged to established appropriate internal controls to prevent cyber-banking crimes and because of the availability of appropriate legal framework, cyber crimes can be suitably dealt with under the existing law. For financial crimes, various law enforcement agencies have their own specific units. Law enforcement authorities are also taking steps to strengthen their skills to suitably deal with such crimes.

There is one particular area where the Sindh Government can make a landmark contribution. A major barrier impeding the growth of housing and construction and development of rural land markets in this country is the current process of registration, titling, maintenance and retrieval of land records in Urban and rural areas. The opaque nature of land records, their haphazard and almost proprietary custody in the hands of Patwari, the poor state of record keeping, the cumbersome and expensive process of registration and titling have slowed down capital formation, and reduced potential bank lending to neglected sectors such as agriculture and to neglected groups such as middle class and poor segments of the population. Not only that, billions of rupees and billions of man hours are lost in unnecessary and protracted litigation and innumerable rounds by individuals in visiting Patwari, Kutchery, Thana and urban development authority offices. This sheer waste of financial and human resources coupled with the widespread inefficiencies in land market and high transaction costs have made the cost of land unaffordable for the poor and middle classes. In my opinion, it is not land

reforms which is the prescribed solution to the problem but an efficient and well functioning land markets that is the real problem.

I would urge the Government of Sindh to seriously undertake and complete the computerization of all rural and urban land records in the province, make them available electronically to the public and introduce verification and authentication procedures to minimize frauds and crimes. This will not only create an efficient and well functioning land market in urban and rural areas, lower the transaction costs for the ordinary individual but also minimize the rampant corruption prevailing in Land Revenue, Property and Excise Departments, Building Control Authority and District Registrar's offices.

If computerized secure land titling system is established, I can assure you that the banks would become active in developing mortgage lending. The developers of property will be able to raise finance since they will be able to offer land with proper and clean title as collateral for loans. In my view, the reforms on computerized clear land titles, easily accessible land records and streamlining the process of registration and titling would boost competition in construction and lead to lower house prices. The sluggish construction industry should expand dramatically if these reforms are undertaken.

I may also add that in some of the major urban areas such as Karachi and Lahore, zoning laws, rent controls, disputed legal titles, outdated titles such as

evacuee property, protected tenancies have frozen land in city centers that would otherwise be available for new retail outlets and flats. This mechanism has kept prime property being fully utilized and generate the needed returns to the economy.

I hope that the Sindh Government will find a solution to these problems and thereby give a major boost to economic activity and employment generation in the province which is badly needed.

Technology is quite capable of providing solutions that promote transparency, disclosure and integrity but it cannot substitute for political will to fight vested interests and take tough decisions which are in the collective interests of the people of this province but hurt a large number of influentials and elite. This, in my opinion, is the main stumbling block as to why E-Government hasn't taken roots so far in Pakistan.