

Keynote Address: Dr. Ishrat Husain
Digitalization of SBP Regulatory Approval System

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My address this afternoon is divided in to three parts. First, I would like to share with you the broad vision of the Prime Minister for Digital Pakistan. Second, I would dwell upon the role of SBP and the banking community in spreading and promoting Digitization. Finally, I would conclude by spelling out some of the serious challenges that we face in the path of Digital Pakistan.

2. The vision for Digital Pakistan is based on four pillars (a) enhancing connectivity (b) improving digital infrastructure (c) increasing investment in digital skills (d) promoting innovation and tech entrepreneurship.

3. Access and connectivity in Pakistan have improved overtime and in less than two decades the mobile phone penetration has reached almost 80 percent with 170 million subscribers of which unique ownership may be 100 million. 87 million have broadband connections and wireless broadband internet is also available through wireless local loop Optic fiber backbone has been laid over 12,000 km. covering 120 cities and the Universal Service Fund is being used to subsidize Connectivity to remote areas in Baluchistan, GB, KP and Rural Sindh and Southern Punjab. The Government has recently taken stringent measures to eliminate illegal imports of mobile phones and approved Mobile Manufacturing Policy which incentivizes the domestic production of mobile phones and subsequently their exports.

4. In the areas of Digital infrastructure, we are quite fortunate that NADRA has done a commendable job in developing identity system with unique identifying number that has positive consequences for taxation, crime detection and investigation, bank lending, property deeds etc.

5. The Pakistan Telecommunication Authority (PTA) acts as the regulator for telecom industry and in the earlier span of its life also acted as a promoter and facilitator for the industry striking a balance between consumer protection in an industry with network effects and declining price curve and encouraging the industry to expand its coverage. Reducing its cost of doing business is a task that this regulator vigorously and proactively needs to perform.

6. Despite many hiccups and delays, the Federal Government is assembling various pieces of E-Governance. Starting from E-Office suite where the Government offices move to a paperless environment, the FABS which is the accounting vehicle for on line Government payments and transactions, e-procurement, automation of tax assessment, collection, refunds, appeals etc. Citizen portals such as PM's Complaint Portal and a national data base are some of the building blocks that would eventually form the mosaic of a robust E-Governance system.

7. In the realm of innovation and Entrepreneurship, Government through IGNITE has established five National Incubation Centers for facilitating bright and talented young men who want to translate their innovative ideas into commercially viable and scalable applications that provide solutions to some of the problems the economy is facing.

8. The recent example of a successful use of G2P payments was the disbursement of Rs.200 billion to more than 16 million families within a four month period in every nook and corner of Pakistan under Ehsaas Cash Assistance program without any leakages or serious complaints. The availability of poverty scorecard data of 5 million households under National Socio-Economic Registering along with Unique identifying numbers extracted from NADRA data base, intelligent use of mobile devices and the use of wide bank branch network enabled this feat to be accomplished. Once the MPG of two major banks becomes operational, these regular payments under Ehsaas Cash Assistance Programs could be routed through MPG.

9. I would like this opportunity to place on record my appreciation of the steps taken recently by the SBP to introduce liberalization in our foreign exchange operations management. But it is my duty to publicly remind SBP officials and the banking community at large in general about the goals which have to be met by 2023 – three years from now.

- a. Enhancing Digital payments to 65 million active digital transaction accounts with women owning 20 million such accounts
- b. Promoting SME Finance by extending finance to 700,000 SMEs which is 17% of the private sector credit. At present the ratio is only 6 to 7%
- c. Increasing access to agriculture finance to reach out to 6 million farmers through digitalized solutions.

- d. Accelerating mortgage finance for housing particularly low cost housing from the current level of less than 1% GDP to 2-3% of GDP in the short run.

10. All these goals are attainable if digitalization and online banking are able to provide the supporting platform. I can assure you that this would speed up the pace and outreach, reduce the transaction cost, improve credit appraisal and monitoring and minimize the risk of default.

11. Many banks have started using data analytics to develop credit scoring tools and base their appraisal on these tools. The old and antiquated model of demanding and relying solely upon securities and collaterals which appear sound on paper but are gamed and inflated has to be abandoned and replaced by intelligent tools that are already in use elsewhere.

12. As I mentioned earlier the Banking Sector has always led and absorbed technological advances. Here I would like to remind many young men and women present here that it was the SBP which pioneered the effort and in early 2000s implemented the largest computerization program in the country amounting to USD 30 million which laid the foundation for online mobile, internet banking. We established the wholesale payments infrastructure in form of Real Time Gross Settlement System. We switched from a manual Credit Information Bureau to electronic C.I.B. We have data warehouses that collect, store and disseminate to business and policy makers the latest data on key economic variables on daily, weekly, monthly, quarterly and annual basis. We introduced inter-operability among the parallel functioning ATM switches by establishing one link. This recap is just

to emphasize the point that the Central bank with active and full cooperation of the banking community has always been the prime mover in adoption of technological innovations. The progress made in the recent years by introducing rules and regulations for Branchless Banking, Payment System Operators and Service providers, Electronic Money institutions would play a critical role in financial inclusion as well as payments space for the country. The recent launch of Roshan Digital Accounts for Overseas Pakistanis and Resident Pakistanis is also a step in that direction. I am therefore quite confident that under the leadership of Governor Reza Baqir assisted by his able Deputy Governors, you would be able to achieve the goals that you have set for yourselves.

13. One of the major initiatives the SBP is working on for last several years is the design and implementation of Micro Payment Gateway (MPG) which will provide basis for the digital use-case and will also connect licensed digital financial service providers. MPG will allow real time retail payments settlement mechanism and minimize systematic risk in the payment system, an account directory for convenience of users to do seamless peer-to-peer transactions and a bulk payment utility to upload and execute multiple payments in a go.

14. Another major use case of MPG is the National Savings Scheme where 2.2 million investors deposit and withdraw their profits monthly.

15. In the context of E-Governance at the Federal Government, we have encouraged the Accountant General of Pakistan Revenues (AGPR) to make full use of the Micro payment gateway once it becomes fully operational to deliver the P2G, G2P, G2B payments swiftly and in

a transparent manner minimizing leakages, delays and harassment. So it is critical from my view point that the MPG becomes fully functional as early as possible. I am happy that the SBP, FBR and Provincial revenue authorities have successfully reached an agreement on digital collection of taxes and duties using alternate delivery channels.

16. Digital Banking would also benefit from the SBP's recent decision to permit cloud services for operating the non-core activities of the banks. This would reduce their cost of operations. Digital banks making the bank processes automated and digitized would provide 24/7 availability of the banking services to their customers. Digital banking regulations to introduce this new type of banks in Pakistan would go a long way to contribute towards the attainment of the Vision of Digital Pakistan.

17. I would like to commend the Governor SBP and his team for working hard in digitizing Foreign Exchange approval scheme. Under existing Foreign Exchange (FX) Regulations, State bank of Pakistan has delegated various FX related approvals to the banks. However, there are certain FX requests where special approval from Exchange Policy Department of State Bank of Pakistan or Foreign Exchange Operations Department of SBP Banking Services Corporation is required. These requests primarily include approvals for outward remittances, investments, disbursement of Govt. subsidies, trade related submissions, etc. as required under Foreign Exchange Manual. So far, the approval mechanism involves a manually driven long drawn process from submission, examination, queries, acceptance or rejection take sometimes month's altogether. The customers are uneasy and their payments become overdue. The reputation of the SBP

is tarnished as the customers and banks blame it for red tape and bureaucratic hassle. Under the new system the SBP has digitized end-to-end the whole FX approval system, physical submission of requisite documents from the Banks was discontinued. They are now required to submit requests online through FX portal. After processing of the case, the decision of the SBP is conveyed to the bank through RAS. Customers receive system generated updated status reports. The end-to-end digitalization of foreign exchange approval process would improve the transparency, traceability, minimize logistical costs and reduce delays in submission and processing time of cases.

18. Let me finally turn to the enormous challenges in the adoption of Digital Pakistan Vision. First and foremost, there is absence of a globally accepted and secure online payment system, which is a major impediment for Pakistani entrepreneurs and small business who want to move to e-commerce platform. They face difficulties in receiving and distributing payment overseas.

19. We are also faced with the question of affordability of data particularly extraction of database from NADRA. The lower the financial cost, the higher the usage of data in various applications.

20. The taxation structure of mobile devices, computers, Broadband, internet needs review to promote wider spread of these devices and use of internet for telemarketing, online education, application for agriculture etc.

21 Auction of new spectrum is badly needed for faster and cheaper connectivity transition to 5G and broadening the offerings of Telecom Companies and products.

22. The imbalance between the demand and supply of high quality digital skills is one of the serious obstacles in the rapid growth of IT and IT-enabled services exports. We produce only 20,000 graduates every year with varying quality and only 40-50 percent of these are employable and capable of further training. Others end up getting up jobs in which they are not satisfied and from the employer's perspective, do not add much value to the bottom line. We have therefore to move from emphasizing from degrees towards certifications and accreditations of skills. For managerial and leadership positions, we need a blend of people with technical skills and management trainings.

23. In the last decade, there has been a proliferation of centers of entrepreneurship, accelerators and incubators for training and promoting startups but there hasn't been a consequential increase in the number of venture capital funds, angel funds and other modes of risk sharing financing. In the absence of such funds that are able to discern exploitable opportunities and take stakes in them, families, friends and fools would not be able to sustain these ventures. The VC funds are usually founded by high net worth individuals who have made money elsewhere and are now able to invest in high risk, high reward companies. Most of the foreign VC funds are reluctant because they do not see clearly exit strategies, IPOs or buy outs. I want to appeal to the individuals of high net worth to use their family office to invest in these venture and angel funds. Their lead would provide confidence to others particularly the foreign funds.

24. In the end, I would like to once again thank Governor Reza Baqir for inviting me to this event.