



Interview

Dhuha Abdul Kareem Alatta: **Director General of the Payments** **Department in the Central Bank of Iraq (CBI)**

The banking sector plays a vital role in the economy; the progress of this sector makes an impact on the different aspects of life. Iraq is witnessing an improvement in the banking services, and increased use of electronic payment methods, and the boom of e-commerce.

We had the pleasure to interview the director general of the payments department in the Central Bank of Iraq (CBI), Mrs. Dhuha Abdul Kareem Alatta, who discussed with us the timeline of electronic payment in Iraq, the challenges, the measures and solutions, and the future projects.

We would love to know more about you and your background.

I graduated in 1991 from the University of Baghdad-College of Administration and Economics, I was hired two years later in the CBI. Circumstances were so different from today but I got the opportunity to work with great people who taught me a lot and left an imprint on my life. I climbed up the ladder and I am so proud that I was able to prove myself.

Currently, I occupy the position of the director general of the payments department in the CBI. This department was established in 2004 and is considered as the nucleus of the electronic payment operations in Iraq due to its primary role in developing the banking sector. It is also regarded as one of the important departments, and one of its responsibilities is to take the next step to transform the banking sector in Iraq.

Would you walk us through the timeline of electronic payment in Iraq?

After 2003, the CBI took a great interest in building an infrastructure for electronic payment. This was a huge challenge, as not only did we need to build this infrastructure for the CBI but also for all other banks in the country.

The payment department was just a small division back then and it scaled up to become an essential department.

In 2006 we launched the RTGS (Real Time Gross Settlements System), and Iraq was among the first Arab countries to implement this system. At first, only five banks used the system, so we tried hard to attract the banks to implement it and emphasize its benefits. Until it became an essential requirement for each bank operating in the country.

This was the first step towards electronic payment in Iraq. Then other systems like Automatic Clearing House (ACH) have been implemented.

The biggest challenge that was and still is, that the two biggest public banks in Iraq still have not implemented a core banking system, which would play a huge role in smoothing out the flow of operations and transactions. But we did not let this obstacle stand in our way. The electronic payment is available in every bank now.

When was the retail payment system implemented in Iraq? And what were the challenges you faced? And what is its positive impact on the economy?

Retail payment systems were initiated in 2011 when we started preparing the Request for Proposal (RFP). The infrastructure, the legal framework, and the regulations were released in 2014, and based on them we have licensed a number of e-payment companies, which opened the door for new activities in the market like issuance, mobile wallet, acceptance, processing ...etc.

The National Switch is a platform which depends on the interoperability between the participants (Banks working in Iraq and payment services providers) to settle their transactions on a daily basis at the Central Bank of Iraq so you can use your card at any ATM even if it is not your issuing bank or at any point of sale, the first transaction was realized in 2016.

The National Switch is a national network that uses national channels to carry out the transactions, we are not using MasterCard or Visa channels but we are using their standards so whenever progress is made, automatically our cards are updated accordingly, two birds one stone. Currently, they have updated their cards to be contactless, and onward we will only issue contactless cards in our banks.

There is no limit for the growth of the payment technology, and this is the challenge, whenever we issue regulations and framework then technology will still evolve, we need the flexibility to allow this growth. Standing in your our means we are going backward.

We see that the relevant international financial institutions are going towards encouraging fintech and they consider it as the essential solution for the payment industry in the coming stages, the CBI also takes it as one of its priorities to develop the market and starts studying the launching of some projects such as the sandbox and eKYC.

The CBI promotes and encourages fintech and entrepreneurship in Iraq and emphasizes their role in developing the banking sector.

The other challenge is the lack of acceptance of cards which has influenced retail payment negatively, but at the same time there are several indicators which we are working on to enhance the acceptance.

Reliance on electronic payment, especially abroad, will greatly help the process of reducing the costs for the government in using foreign currency outside Iraq.

Now people are using their cards abroad more often which is helping with this issue. We also issued travel cards with fees assigned by the CBI so citizens can use it abroad, the pandemic affected this but people are using this online now instead.

Ecommerce is growing fast in Iraq and the majority take cash on delivery but we are observing that increased use of digital wallets and debit cards.

Our goal is to increase the acceptance through payment gateway, POS, and online payment.

What challenges does the Iraqi market display and what measures are being taken to overcome them?

The Iraqi market struggles with what I call the banking illiteracy, and the dependence on cash transactions culture especially with merchants.

The first reason is to avoid tax deductions, and the second reason is the lack of trust in the private banking sector even though many of them have good services but some setbacks have prevailed over the other banks.

That is why we observe that some merchants do not rely on banks. The other issue we face is that the public banking sector has earned more trust among the Iraq population however the services are lagging behind.

We are trying to attract citizens and merchants to increase the deposits. We are also working with international entities to draw a strategy for financial inclusion, to provide citizens regardless of age and gender with financial tools to facilitate their life. This needs a lot of work and integration with many entities and institutions, public and private.

We obtained the support of the government and we are working on achieving this goal.



We would like to hear about the salary domiciliation project, what are the goals you were looking to achieve? What are the challenges you encountered? And what was the impact of this policy?

We launched the National Switch in September 2016 which paved the way to the launch of the salary domiciliation project in February 2017 when we were ready and confident that our infrastructure can handle this transition and start issuing this large sum of bank cards.

The CBI opens accounts only for the Ministry of Finance and banks and the employees of the CBI, we were the first institution to implement salary domiciliation for our employees to test it out and analyze the challenges that other institutions may face and come up with solutions. We laid out our standards, and we had a shortlist of public and private banks participating in this in addition to some branches of international banks.

The aim is to create banking accounts that are connected to other services, like debit/ credit cards and saving accounts. The employees choose the bank that suits them depending on its services. We have advised the institutions that will begin to apply this project to create a competitive environment to the banks to advertise and provide their services, especially, as we are now living in a stage of stable exchange rate, which requires banks to develop their performance and enhance their services.

As you might know, 70% of the budget is operational, the Ministry of Finance transfers salaries to the spending units through RTGS then these units transfer the salaries to employees' accounts and then withdrawn as cash completely and then goes to merchants as cash and so on.

What we want is for the cycle to be cashless to provide the banking sector with deposits and liquidity for enhancing investments. Our goal is to set pillars for the new era for the banking sector.

Cash is very costly especially in Iraq due to the lack of security. We set the cost of paying in POS is free for the citizen while the fee is low for the ATMs; we wanted to pressure the merchants and the market to reduce the cash transactions and implement banking literacy.

The other aim, which matters to the government most, is to control the number of employees in the institutions and limit fraud and double salaries. Also, create a unique employee's number.

“

What we want is for the cycle to be cashless to provide the banking sector with deposits and liquidity for enhancing investments

”

With the support of the General Secretariat of the Iraqi Council of Ministers, The Central Statistical Organization (CSO) and the Ministry of Planning are working to create a database in the CSO with a unique employee number entailing all the details about each employee. This helps to obtain data about the age, education, genders, and other information of employees in different departments and ministries. This leads to a better decision making process. The unique employee number for around two million employees has been created.

We are also working with the Ministry of Interior and studying together the process of connecting the unique number with the national ID number, the project is still in progress and until now around 17 million people of the total population are holding a national ID, which is secured with biometric prints and impossible to replicate.

The main challenge of this project was the unbalance it created; the issued cards have been increasing but to not much use, as you cannot use them in your daily life due to the lack of acceptance, so there was a pressure on withdrawing salaries as cash, which prevented the cash cycle to continue electronically. Increasing the POS is vital to help salary domiciliation achieve its goals.

We are proud of the many banks that took part in this project, especially the private banks; they showed great cooperation to facilitate this transition. I will be more reassured when the public banks launch their core banking system and improve the management of their accounts.

Any plans to include the private sector with salary domiciliation?

The private sector is vital to the economy and we should support and encourage working in the private sector as it takes the burden off the public sector, many companies already implemented this policy and now other companies are following their footsteps.

We are working towards providing the employees of the private sector with the securities the public sector have as we believe they should be equal.

Are there any projects going to be implemented following the salary domiciliation?

The digitalization of payments of education in Iraq is an important project we want to implement.

Currently, schools, institutes, universities still rely on traditional payments ways (cash, or bank checks). We are cooperating with MasterCard and Visa to provide solutions through banks and payment services providers via platforms for these institutes which included payment features that will enable the parents and students to pay for tuitions fees and installments

Banks do not provide individuals with a high amount of credits, we are trying through this project to provide the banks with access to families and parents in certain educational institutes and raise the amount of the credit they can obtain. This will also give students, who are younger than 18, access to bank cards that they can use for canteens, buying stationery, printing, and shopping electronically with a limited amount of money.

These cards will be connected to the parents' accounts so they would not rely on withdrawing all their salaries in cash every month. These cards will also work as an ID card for that certain institution.

As for university students, the cards will be issued as prepaid and it will double in function as an ID to access university facilities like labs, libraries, and parks.

We also thought of creating an application for kids to teach them saving by collecting points when they do their homework, tidy their rooms, and sleep early. By the end of the week, parents can replace these points with cash.

Around 75% of problems with cards are due to misuse of the holder, and we believe these projects will build a new cashless culture. There are so many challenges, and a huge reluctance to change but we believe we can overcome them.

The salary domiciliation opens the door for these projects. Previously banks were not able to handle this number of clients, operations, and challenges. There is pressure from different entities to keep the cash transactions but we will not give up, we are going forward, it is our responsibility to increase the economic awareness and to implement the tools and the strategies to improve the lives of the Iraqi citizens.

When was the mobile payment implemented in Iraq? How was the impact?

We licensed four payment services providers via mobile* wallets and we are proud of their products and services. A lot of people do not have bank accounts and these wallets are helping people shop and carry out their businesses through electronic wallets.

ZainCash and AsiaHawala were the first two companies which have been licensed in 2015, they were released in 2016. In the beginning, their transactions were just between wallets, now they are connected to bank accounts, debit/prepaid cards, and can be used for electronic billing.

The pandemic of COVID-19 has accelerated this transition. The government gave grants through electronic wallets to help people during this pandemic; using electronic systems helps us monitor these operations, transactions, and secure them.

How do you deal with the lack of trust the population has in the banking sector? Are any measures being taken to mitigate this?

There is a two-edge trust issue, between the banks and the citizens; we are trying to minimize that. We are monitoring the banks and the withdrawal rate, in the beginning of the salary domiciliation project, it was 95%

but they are decreasing as time goes by, as many people start to trust the banks more and deposit their money.

The Iraqi Deposit Insurance company was established in 2019 with 44 banks to guarantee the deposits of people, this project also decreased the distance between citizens and the banks. We are also working on other important projects like electronic billing where you get to use electronic tools (cards and mobile wallets) to pay bill to government.

On the other hand, the banks also have trust issues with their clients, therefore loan and credit approvals were very limited and with very restrictive requirements and guarantees. However, the salary project added a balance to the relationship and some banks started to give credits and loans depending on the salary transfer.

Do you think the Iraqi citizen is ready for this change? What measures should be taken for a smoother adaptation?

Iraqi citizens in my opinion adapt quickly to change. They are open to the world and are always looking to change for the better, and we notice this from their behavior. Therefore, the change will be faster when it comes to electronic payment since it is considered as a basic need today.

There are two things we need to work on to help the population adapt to this change. First, we need to work on strengthening the trust between the citizens and the banks. Second, we need to lower the fees for issuing cards, and banking services, the banks should not think with profit in short term and they should work to increase the number of cards and transactions to increase their profits.

Therefore, these changes will attract more customers. I believe the market is ready and the infrastructure to fuel this change is available.

Is there any plan to implement a core banking system for public banks?

Public banks are in the process of building the infrastructure for the core banking system; they are collaborating with international entities and auditing companies. This will influence the banking sector substantially when these systems are implemented. Better services will be made available in addition to better management and increased security.

“

There are many challenges encountering women in the workplace but there are also opportunities open for strong, ambitious, and hardworking women.

”

Does the CBI work with any international entities to employ the experience of other countries?

The Payments Department has the support of international entities like the World Bank, GIZ, AMF, IMF, and AFI.

We have good relations with our counterparts in Arab Central Banks, as I am a member of the Arab Payments Committee.

Arab central banks led by Arab Monetary Fund are working to launch the RTGS to establish a financial transfer system with multiple currencies to link banks and Arab Central banks. Therefore, people can carry transactions with other banks abroad. We think it will be launched soon with the participation of several Arab banks and we are proud that Iraq is one of the first countries to participate in this.



In addition, we have a memorandum of understanding with companies (Western Union and MoneyGram) to increase the number of agents and to regulate the market in order to ensure that the transfers are efficient, effective, and legitimate.

When were MasterCard and Visa made available for Iraqis?

Before 2016 only four or five banks used to issue MasterCard and Visa cards but it was a luxury with high guarantees and used only abroad. Now over 35 banks can easily issue them and they are used in daily life transactions.

What do you think of the role of women in the banking sector and the challenges they face?

I believe there is a huge support for women in our country, personally, without the support of my family and my colleagues, I would not have gotten here today. There are many challenges encountering women in the workplace but there are also opportunities open for strong, ambitious, and hardworking women who want to prove themselves and achieve their goals, there is a lot of support and respect for women in our culture.

Society is built on the cooperation of both genders working together and carrying their responsibilities. I think women excel in the banking sector and I met many great women who achieved a lot and contributed to the growth of the banks in Iraq.