Banking Publication 2024

# Road to Sustainability

A·F·FERGUSON&Co.

# Contents

# 1. Foreword

We are delighted at the release of our “Banking Publication 2024: Road to Sustainability”, which is in continuation of the Thought Leadership Initiative introduced last year when we launched the inaugural edition.

This publication is an outcome of extensive research and analysis of industry’s financial performance and 11 core themes impacting commercial banks: (1) Economy (2) Financial Inclusion (3) Priority Sector Financing (4) Digital Banking & Payments (5) Digital Banks (6) Customer Experience (7) Islamic Banking (8) Enterprise Transformation (9) Risk Management (10) Anti-Financial Crime and (11) People, Diversity, Equity & Inclusion.

This year’s release features key findings from (a) survey of customers on their banking experience, (b) survey of industry’s C-suite in the areas of risk management and anti-financial crime and, (c) study of digital onboarding journeys at select banks.

Insights also reflect notable trends identified from a desktop review of 40+ banks operating in different regions across the world, analysis of major regulatory and banking sector developments in certain countries, as well as findings from various PwC global publications, surveys and studies.

Our assessments suggest that there are ample opportunities and associated enablers for our banks; notably in the areas of priority sector intervention, inclusive financial services, ecosystem banking, digital engagement, institutional agility and cost optimisation.

Publication also touches upon certain critical challenges including cash dominance, access to credible data, Islamic banking conversion, integrated risk management, compliance sustainability, and talent alignment.

Similar to last year, this document leverages valuable perspectives of many industry leaders and senior professionals, who we engaged with for the purpose of this publication. Their views reinforce the diversity and scale of opportunities, as well as intensity of challenges identified.

Along side this publication, we are sharing another comprehensive compendium on Banking Analytics that provides financial analysis and select industry trends to aid readers relate better to key messages.

We hope this document provides useful perspectives and a platform for you to initiate discussions at strategic forums.

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**We would like to thank all industry leaders and senior professionals who have contributed immensely to our strategic knowledge sharing endeavour:**

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# 2.

# Executive Summary

# Executive Summary

## 1. Financial Performance

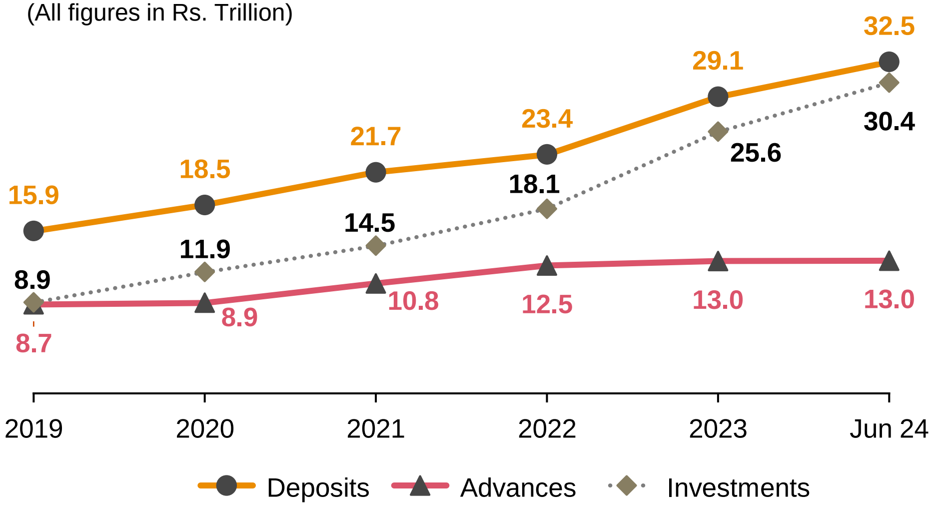
2023 continued to be a year of growth for the banking ındustry, as reflected by most of the indicators detailed in section 3.

### Balance sheet growth

Deposits grew significantly by 24% reaching Rs 29.1 trillion in 2023, with further increase of 12% touching Rs. 32.5 trillion in Jun-24. Advances rose by 4% to Rs. 13 trillion, much lower than 16% growth rate of 2022, with no further increase till Jun-24 (although some subsequent adjustments were recorded to address ADR tax implications). Significant expansion of 42% was noted in investments reaching Rs 25.6 trillion in 2023 and elevating further by 19% to Rs. 30.4 trillion by Jun-24. Borrowings increased by 51% to Rs. 11.3 trillion in 2023, and by 12% in Jun-24.

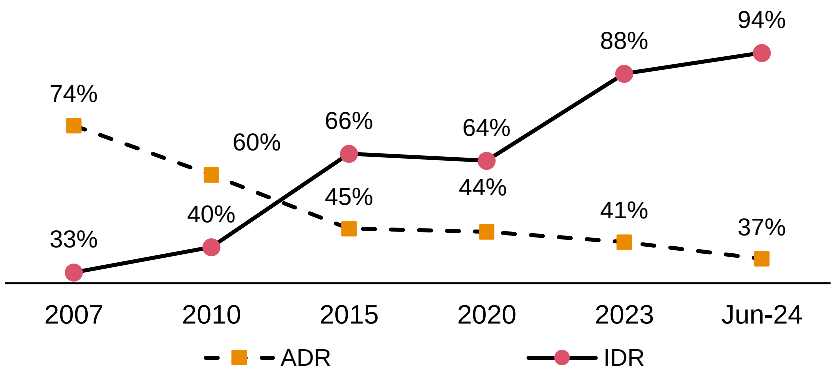
**Deposits, Advances and Investments**

(All figures in Rs. Trillion)

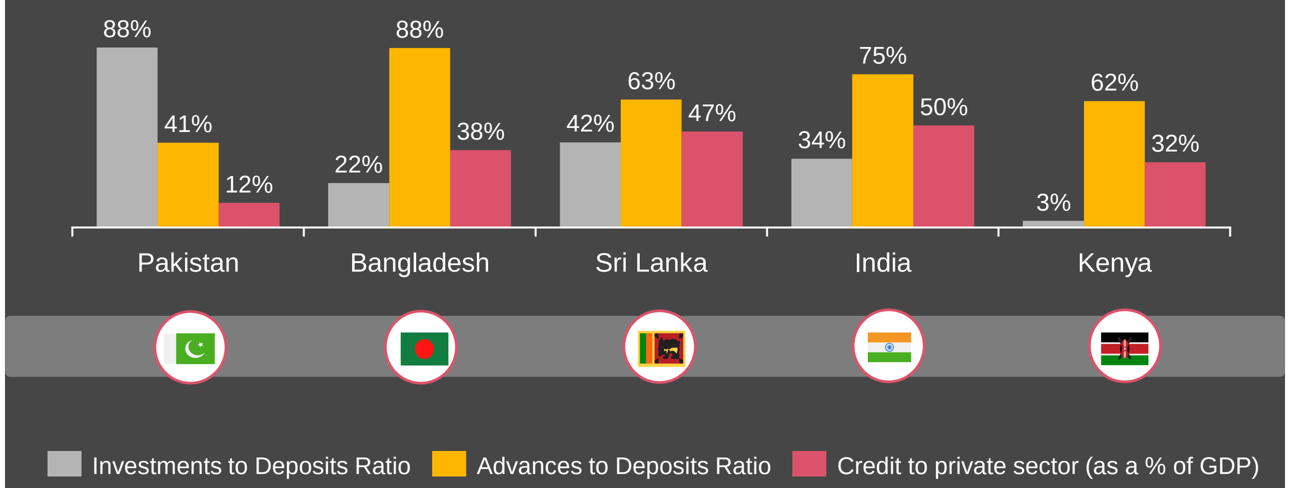



Pakistan's Advances to Deposits Ratio (ADR) has been gradually contracting and stands at 41% as of Dec-23 and 37% at Jun-24, with lending to private sector at 12% of GDP (Dec-23). Investments to Deposits Ratio (IDR), on the other hand, has surged from 33% in 2007 to 88% in 2023 and 94% in Jun-24. These key benchmarks, relative to certain other economies, indicate enormous potential for credit penetration in the country.

**Advances to Deposits and Investments to Deposits**




**Pakistan vis-a-vis certain other economies**

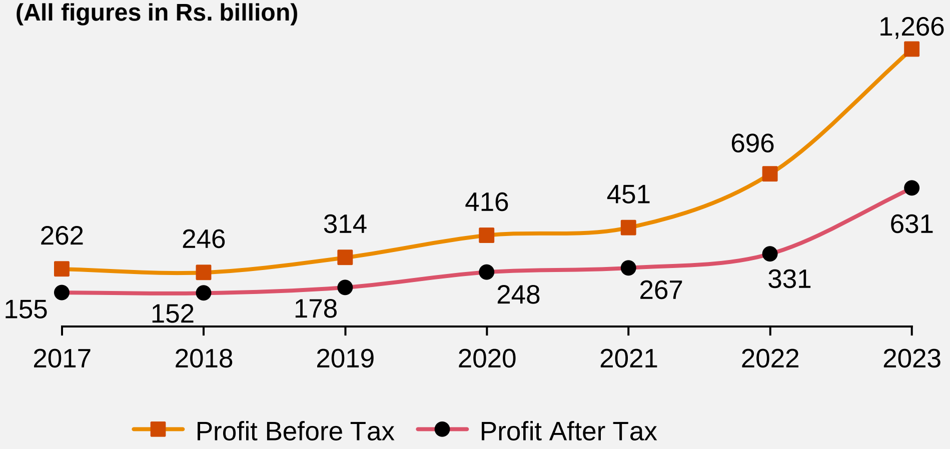


## Rising profits and operating costs

There was a sharp rise in profitability on the back of higher margins/ spreads and non-funded income from different avenues. However, higher tax charges triggered disproportionate moderation in baseline profitability.

### Profitability

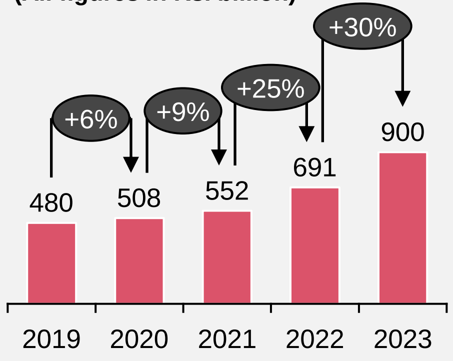
(All figures in Rs. billion)




Operating expenses registered an increase of 30% compared to relatively lower variations during the last few years. Considering increasing cost of doing business, these expenses may continue to surge in the foreseeable future. Institutions may therefore consider pursuing enterprise transformation journeys including digital excellence, cost optimisation, process reengineering and branch re-modelling to better manage cost base.

### Operating expenses

(All figures in Rs. billion)




## 2. Economy

One of the core themes discussed with industry leaders and senior professionals was the country's economic positioning and outlook.

Experts underscored the importance of addressing structural deficiencies to improve GDP growth and other key economic indicators for sustainable progress. Consistent economic policies, and actionable long-term roadmap of interventions were also stressed upon.

Experts opined that increasing import and consumption orientation severely impacted balance of payments, foreign exchange reserves as well as domestic economic value add. Opportunities for export diversification and import substitution are enormous, specially in agriculture and tech sectors. Their focus was also on agriculture growth potential where we discussed opportunities that can be enabled through targeted subsidies and modernisation.

On the fiscal horizon, the need for tax and other reforms, including broadening of tax net, privatisation of state-owned enterprises and pursuing public-private partnerships were widely agreed on. With respect to subsidies, there is wider consensus on reassessing our model to increase impacts through targeted interventions.

Section 4 captures detailed perspectives along several key themes:

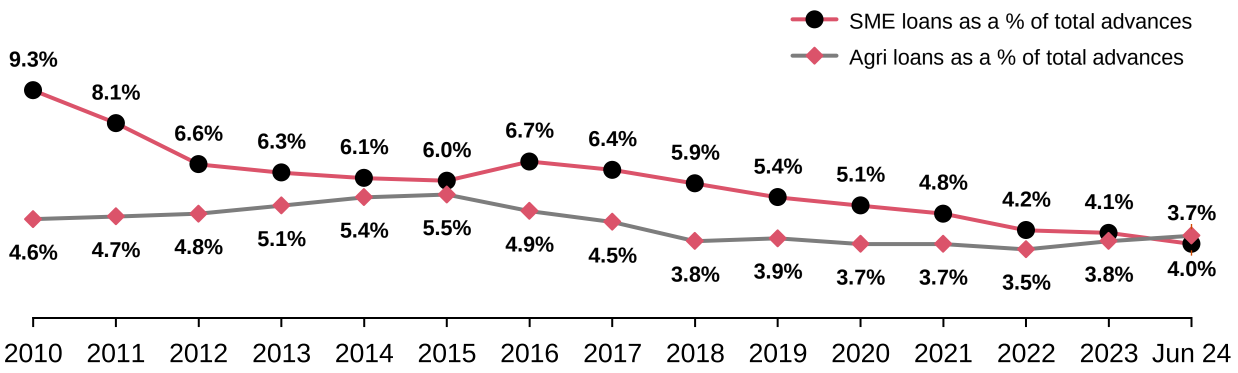
- **Economic challenges and reforms** 1
- **Export diversification** 2
- **Import Substitution** 3
- **Agricultural growth** 4
- **Fiscal reforms** 5
- **Tax reforms** 6
- **Privatisation** 7
- **Subsidies** 8
- **Resource building** 9
- **Domestic productivity** 10

# 3. Priority Sector Financing

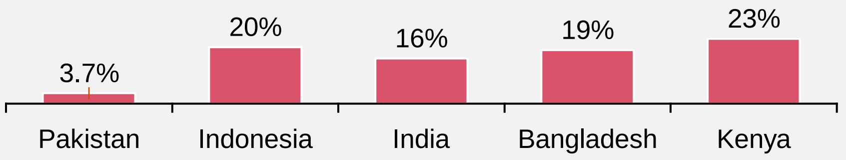
SMEs and agriculture are the backbone of our nation's progress. Contributing to 40% of GDP, SMEs constitute nearly 90% of all private enterprises in Pakistan, generate 30% in export earnings and employ 1/3rd of the country's workforce.

Of more than 5 million enterprises, lesser than 3% have borrowed from banks. In case of agriculture, around 75% of farmers still rely on informal sources of credit. Despite historic importance, access to affordable growth capital remains restrictive. Financing to these critical sectors has been declining over the years – currently standing at less than 8% of total loans. Section 5 elucidates these trends, demand and supply-side challenges, together with global learnings from few emerging/ developed economies.

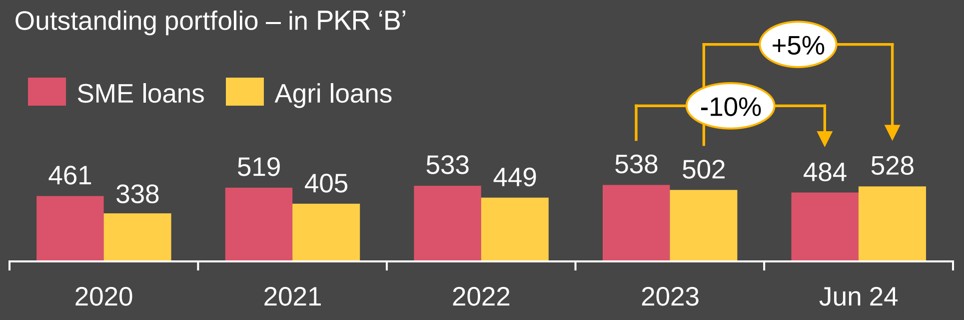
## Loans to priority sectors as % of total advances



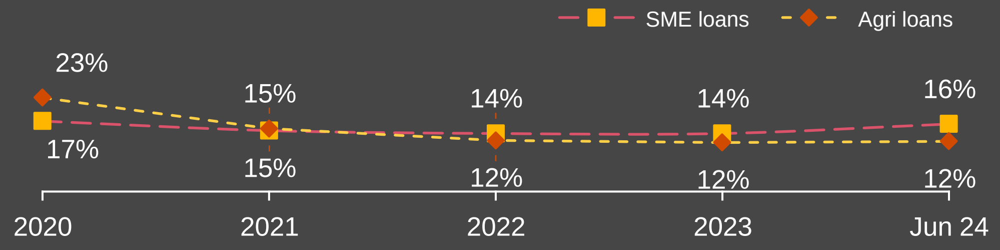

**SME credit intervention in Pakistan vis-à-vis in certain regional economies**




## Agri financing increasing slightly with flat NPL ratio, whilst financing to SMEs declining alongside rising NPLs




**NPL ratios of priority sectors**




Notable reasons for trends witnessed in priority sector financing include NPL experience over time, limited credit appetite/ capabilities and lack of access to credible data (including cash flows).

For efficient priority sector financing, there is fundamental need to develop an ecosystem with a role to play not only by the regulator and the Government but by various entities across both public and private sectors. Industry stakeholders need to collaborate and contribute alternate data to optimise credit bureau infrastructure.

One of the most critical elements to this effect is progressing towards documentation, for which there is need to augment the national data infrastructure. Banks may also consider enhancing their credit appetite and augmenting their capacities for effective penetration.

## 4. Financial Inclusion

Pakistan's financial inclusion ratio has surged to 60% in 2023 - the country accounts for 4% of the world's unbanked adult population, improved from 9% in 2021.

Whilst the increase in financial inclusion ratio is significant for the nation, section 6 highlights Pakistan's positioning compared to certain regional peers and emerging economies which still reflects some under-penetrated space.

| | Financial inclusion | Women inclusion | Rural inclusion |
|---|---|---|---|
| Pakistan | 60% | 43% | 15% |
| India | 78% | 78% | 78% |
| Kenya | 79% | 75% | 74% |
| Sri Lanka | 89% | 89% | |

Whilst physical network has been expanding over time, space for further penetration continues to exist, particularly across rural and underserved areas.

This potential is further highlighted when we compare branch and ATM network per 100K adults in Pakistan vs. other economies.

**Branches per 100,000 adults**

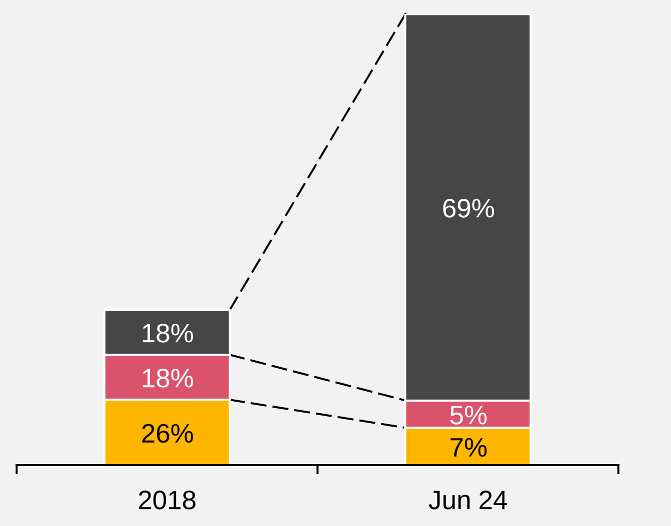
| | |
|---|---|
| Indonesia | 16 |
| Sri Lanka | 17 |
| India | 15 |
| Pakistan | 11 |

**ATMs per 100,000 adults**

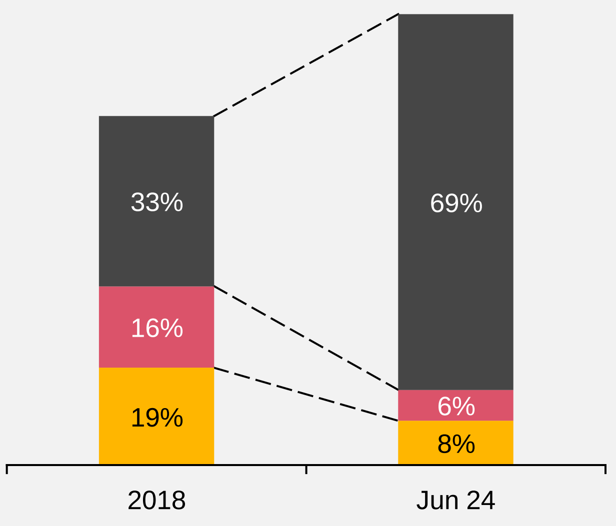
| | |
|---|---|
| Vietnam | 27 |
| Indonesia | 48 |
| Sri Lanka | 17 |
| India | 21 |
| Pakistan | 12 |

While there is a marked increase in the banked population, we also witness an increase in the number of accounts with deposit balance of less than Rs. 25K since 2018 for both individuals and businesses.

**9x increase** since 2018 in the number of accounts held by individuals with deposit balances <Rs. 25,000

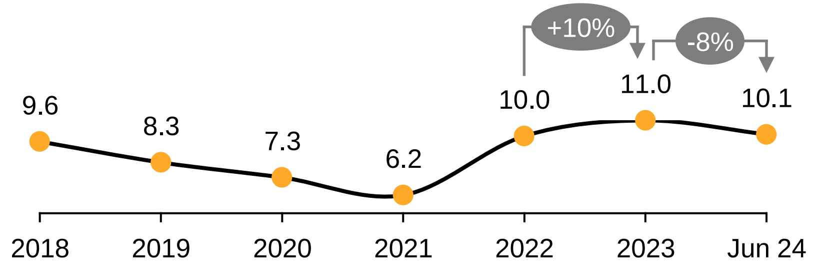



**2x increase** since 2018 in the number of accounts held by businesses with deposit balances <Rs. 25,000



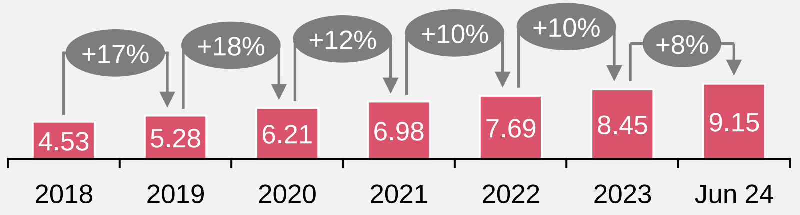

Less Than 25,000 | 25,000 to 50,000 | 50,000 to 100,000

Number of accounts held by businesses was on a constant decline from 2018 till 2021. After a short growth trajectory, there is again a drop of 8% in June 2024 compared to December 2023.




## Cash in circulation (in Rs. trillion)

Cash in circulation stands at Rs. 9.15 trillion - a two times increase since 2018, approximating 1/3rd of total deposits held at banks.




Financial inclusion may remain a persistent challenge, but one which is addressable. Relentless collaborative efforts by regulators and industry stakeholders may augment overall capacity to deliver affordable, digital and customer centric financial solutions to the unbanked and underserved.

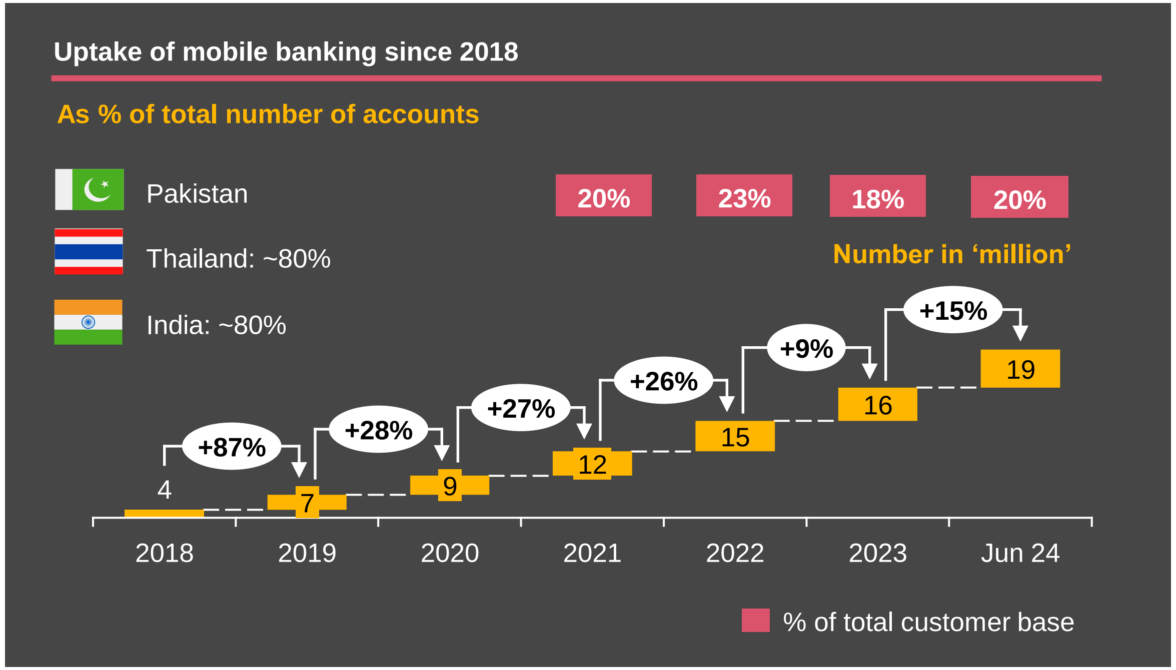
# 5. Digital Banking & Payments

Banks are striving to adopt disruptive technologies to address shifting customer preferences, their demands for instant solutions and seamless journeys. Under pressures to sustain market share, grow margins, explore new segments and geographies, create wow experiences and right-size operating cost base, institutions are implementing various transformative initiatives.

Section 7 explores latest trends, opportunities and challenges, drawing insights from emerging and developed economies, as well as the experience of certain best practice global players.

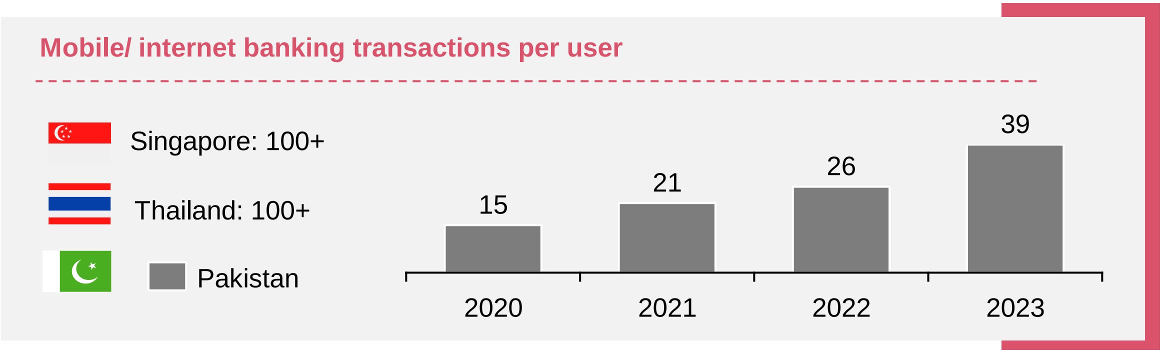
## Mobile banking penetration

Despite growing popularity, only 20% of individual account holders have registered for mobile banking in Pakistan, representing vast untapped opportunities especially when compared to emerging economies where this ratio is around 80%.




## Accelerating mobile and internet banking engagement

Mobile and internet banking transactions are increasing, but engagement remains low, averaging to around 39 transactions (per annum) per user (3 per month), compared to higher usage in certain other countries.




**~2x increase in retail payments volume, ~3x in value compared to large value transactions**

With increasing financial inclusion in the country, there is also a rise in retail payments. Cash continues to prevail as the predominant means of transacting within the banking system and accounts for 43% of the total volume of retail payments.

Whilst cash-in-circulation ratio has reduced to 35% from 39% last year, it is still higher than other countries.

Although, we have come a long way in digital adoption within banking and payments, it is the need for cash that may still be driving the choice of channel and explains the notable surge in branch transactions vs. other channels.

## Sharp increase of 50% in branch transaction volumes and more than 100% in value vs. other channels

| | Volume | Value |
|---|---|---|
| Branch | 50% | 101% |
| ATM | 17% | 26% |
| Mobile and Internet | 61% | 77% |
| POS | 36% | 46% |

It is hence that we see higher proportion of paper-based and ATM transactions in Pakistan compared to regional economies, indicating further room for digital interventions.

| | | | Share in e-transaction volume | |
|---|---|---|---|---|
| | Paper | Electronic | Mobile & Internet banking | ATM |
| Pakistan | 20% | 80% | 38% | 31% |
| Thailand | 0.1% | 99.9% | 94% | 4% |
| Singapore | 0.3% | 99.7% | 55% | 4% |
| India | 0.4% | 99.6% | 90% | 5% |

## Potential for cash displacement

**Other convenient payment options such as cards are available, but remain untapped due to the following key reasons:**

- Limited acceptance points
- Lack of trust in POS machines
- Costs associated with card transactions
- Documentation
- Increased administration around reconciliation of payments particularly where multiple payment methods are involved

With a view to protect margins, avoid MDR and documentation implications, merchants generally discourage payment acceptance through cards.

## PwC Pakistan's Consumer Banking Experience Survey 2024 presents certain interesting insights on factors that impact card usage on POS (% of respondents)

- **43%** Shops do not usually have POS machines
- **36%** Charged extra when card used
- **40%** Prefer cash
- **30%** Retailers don't encourage use of POS

Given regulatory impetus, increasing number of merchants (16% increase to ~99K in Jun-24) and new players entering the acquiring space, POS deployment has increased by 12%.

Nonetheless, significant space exists in Pakistan for greater POS uptake, also given abundant untapped every-day brick and mortar-based merchants.

| Country | No. of POS (in '000) | Account per POS | Card use on POS |
|---|---|---|---|
| Pakistan | 126 | 730 | 22% |
| Thailand | 940 | 124 | 47% |
| India | 8,567 | 336 | 35% |

E-commerce industry has been growing at an unprecedented rate with Pakistan becoming the 46th largest market worldwide.

As of Jun-24, there are over 7.8K bank registered e-commerce merchants with a significant increase in e-commerce banking transactions over last year:

**2x increase**
Transaction volumes

**3x increase**
Transaction values

**Rs. 1.3K**
Avg. transaction value

Predominant means for these registered merchants is cash, besides accepting cards and digital wallet transfers.

Existing along side is a massively high number of mom-and-pop and other stores operating through social media on Cash-on-Delivery basis, not accepting cards but flexible to accept online transfers. Such retail and e-commerce delivery payments can be revolutionised through mPOS.

## Insights from PwC Pakistan's Consumer Banking Experience Survey 2024

**27%** **respondents shop online more than once a week**

### Online shopping mostly for…

- **66%** Clothing and apparel, shoes, fashion, accessories
- **65%** Ready-to-eat food
- **48%** Groceries and essentials

**Majority prefer shopping through online shopping apps and marketplaces than the brands' online websites**

- **82%** Online shopping apps/ websites
- **58%** Brand's online websites
- **34%** Social media platforms
- **1%** Other

Digital payments for online purchases has increased, but as e-commerce transactions grow, share of digital payments continues to hover around 20% given rampant preference for Cash-on- Delivery further exacerbated due to certain structural and logistical challenges associated with e-commerce in Pakistan.

**Cash on Delivery – Pakistan relative to certain other jurisdictions**

- Pakistan: >80%
- Thailand: <20%
- Indonesia: <20%
- Singapore: <5%

## Adoption of instant payment systems

As of Jun-24, there were 37.5 million RAAST ID registrations, with 496 million transactions amounting to Rs. 11.6 trillion. RAAST transaction mix stands at 16% of total retail transaction volume, with significant prospects indicated by intervention levels in other economies.

Introduction of RAAST for P2M payments is expected to be a game changer and critical to digitise low-value mass retail transactions. Its uptake, however, requires well-grounded support not only for creating awareness and onboarding merchants but also to incentivise its use.

## Incentivising digital payments in Pakistan

A critical enabler for adoption of digital payments is the incentivisation that may be offered by governments, regulators, banks and other ecosystem players. In line with international developments, these incentives may be in the form of waived MDR for merchants, subsidised cost of POS devices for acquirers, discounts and cash-back for customers.

There is need for the industry to collaboratively promote behavioural shifts by pursuing structured loyalty and digital engagement programmes. Government and regulatory support is vital to create the wider ecosystem that incentivises digital and disincentivises cash.

## Few global developments and evolving trends

Many banks globally have adopted mobile-first approaches, created frictionless journeys and offer hyper-personalisation, leveraging partnerships and customer data to deliver lifestyle-driven solutions.

Asia leads the super-app revolution with banks transforming financial apps into daily essentials. Well-executed strategies yield higher customer acquisition, satisfaction, and loyalty.

**Insights from PwC Pakistan's study of trends at select 40+ banks across various regions**

**75%** with ecosystem partnerships for customer acquisition and engagement, co-creation and loyalty

**40%** Offer an every-day use lifestyle-oriented apps

## Meanwhile in Pakistan…

Industry stakeholders may be operating at varying levels of maturity, warranting a view on state of readiness and consequent digital transformation journeys that enable harnessing the true potential of digital. Depending on their relative positioning, banks may pursue following initiatives:

- **Design data-driven digital banking and payments strategies** that create an attractive proposition to acquire and retain customers
- **Revisit digital banking and payments strategies** around customer segments, products, services and value propositions; aligned with consumer digital engagement levels, behaviours and expectations
- **Diversify solution suite, move into adjacent financial products** notably, savings, investments and consumer loans

**Introduce app features and value-added services** around customer convenience

**Become the central contact for daily banking –** create joint offerings with non-banks for personal financial management and loyalty

**Grow into a one window solution addressing e2e financial requirements of MSMEs** – deposits, collections, e-invoicing, payments, employee banking, financing, etc.

**Increase app user base** through brand rejuvenation, improvement in UI/ UX and targeted campaigns

**Optimise digital onboarding journeys**

**Actively pursue data-driven digital lending propositions** backed by automated credit decisioning

**Effectively integrate into the e-commerce space**

Digital banking strategies developed at a particular point in time may not be as relevant a few years down the road, given the rapid pace of technology evolution and its impacts on the banking landscape. As customers get attuned to new technology and the experience it brings, they expect banks to remain agile and provide 24/7 support for all their financial needs across all platforms they prefer.

Banks in Pakistan may need to strategise well to capitalise on the potential offered by our rapidly evolving ecosystem particularly with the e-commerce boom. They may consider to identifying key partnerships for experiences customers expect and focusing on propositions around the ecosystem to increase engagement and create stickiness.

This is particularly important as consumers may have more options for digital solutions with 5 digital banks preparing for launch, and digital wallet solutions offered by EMIs.

On the regulatory front, there are few high-impact generating initiatives at various stages from conceptualisation to launch, including blockchain-enabled shared KYC platform and strengthening the Agency Banking framework. Open Banking and Central Bank Digital Currencies are also on State Bank of Pakistan’s (SBP) agenda. Once implemented, these initiatives are expected to contribute significantly to the maturity of the digital ecosystem in Pakistan.

# 6. Digital Banks

There are more than 100 digital banks either live or in set-up and operationalisation stages across the globe. Europe initially appeared as the hot bed for these non-traditional players, but recent developments indicate Asia as an emerging digital bank hub, hosting nearly half of the digital banks worldwide.

This spur is fueled by innovative regulatory frameworks and introduction of favorable digital bank licensing regimes. The purpose is to open the playfield to players that can bring technological capabilities to innovate banking.

It is hence that we see diversified range of investors across mature and emerging digital bank markets, with non-conventional players operating more collaboratively in Asia.

**Few examples of investors in emerging digital bank markets**

| Digital Bank | Sponsor Details | | | | |
|---|---|---|---|---|---|
| **Singapore** | | | | | |
| GXS | Grab | Ride-hailing, food delivery, digital payments | Singtel | Telecom conglomerate | |
| trust | Standard Chartered | | FairPrice | Grocery retailer | |
| **Hong Kong** | | | | | |
| mox | Trip.com | Travel service conglomerate | HKT PCCW | Telecom company | Standard Chartered |
| ZA | 众安保险 ZhongAn Insurance | Insurance company | SINOLINK | Financial technology investment management | |
| **Malaysia** | | | | | |
| Boost | axiata | Telecom company | Great Eastern | Singapore-based insurance group | |

Section 8 sheds light on global business and operating models of digital banks, together with key factors that have enabled relatively shorter periods for few to break-even.

Generally targeting 'Individuals' in the initial phase, digital banks scale to a larger customer pool expanding to small and medium enterprises over time, depending on their business model and markets of operations. Commencing with vanilla offerings such as deposit accounts, cards and remittance products focusing on life-style based contextual banking, digital banks scale over 2 – 3 years gradually entering into spaces of lending and Banking-as-a-Service.

Leveraging the ecosystem to become a one-stop-shop for customers, digital banks assess their own supply chains for value-generating partnerships with gradual multi-year move from financial services to non-financial services.

Through agile operating models backed by cloud-based disruptive data-driven technologies without the burden of costly brick and mortar structures, digital banks are extending personalised, seamless, faster, affordable and secure services tailored to customers' needs.

| | Country | Launch year | Customer base |
|---|---|---|---|
| uno digital bank | Philippines | 2022 | **1M+** |
| ZA Bank | Hong Kong | 2020 | **800K+** |
| TymeBank | South Africa | 2017 | **10M+** |
| Starling Bank | UK | 2017 | **4M+** |
| monzo | UK | 2017 | **9M+** |

Nonetheless, they are challenged at least in the initial stages with restricted revenue streams, if focus remains on offering vanilla accounts and transactional services.

**Key factors affecting break-even generally include:**

- Strong credit offering
- Focus on MSMEs
- Customer numbers
- Ecosystem collaborations, synergies from sponsors and group companies
- CAPEX light operating model
- Economic conditions

SBP has developed the Licensing and Regulatory Framework for digital banks which also aligns with frameworks introduced by regional regulators. In 2023, SBP announced its selection of 5 successful applicants out of around 20 aspirants, who are now at various stages within operational readiness phase.

One of the core themes we discussed with industry leaders and senior professionals was the business and operations of digital banks in Pakistan. Section 8 captures their perspectives and expectations on distinguishing attributes, target segments and potential challenges of the digital banks in Pakistan, as well as enablement required for successful operations.

## 7. Customer Experience

Customers trust banks and expect hyper-personalised, transparent, frictionless interactions for their banking needs. Falling short can result in diminished trust, loyalty and the loss of a long-tenured relationship.

Given heightened risk of customer churn, banks globally are investing significantly in data-driven technologies to forge deeper emotional connections through predictive engagements and to design agile customer-centric experiences across all channels.

As emphasised in section 9, customer service is a strategic opportunity and a revenue-generating engine – a fact that calls for a mindset change. Banks in Pakistan may need to take a broader view of CX since it is the aggregate impact of every interaction a customer has with the bank's product, service, channel, personnel and brand.

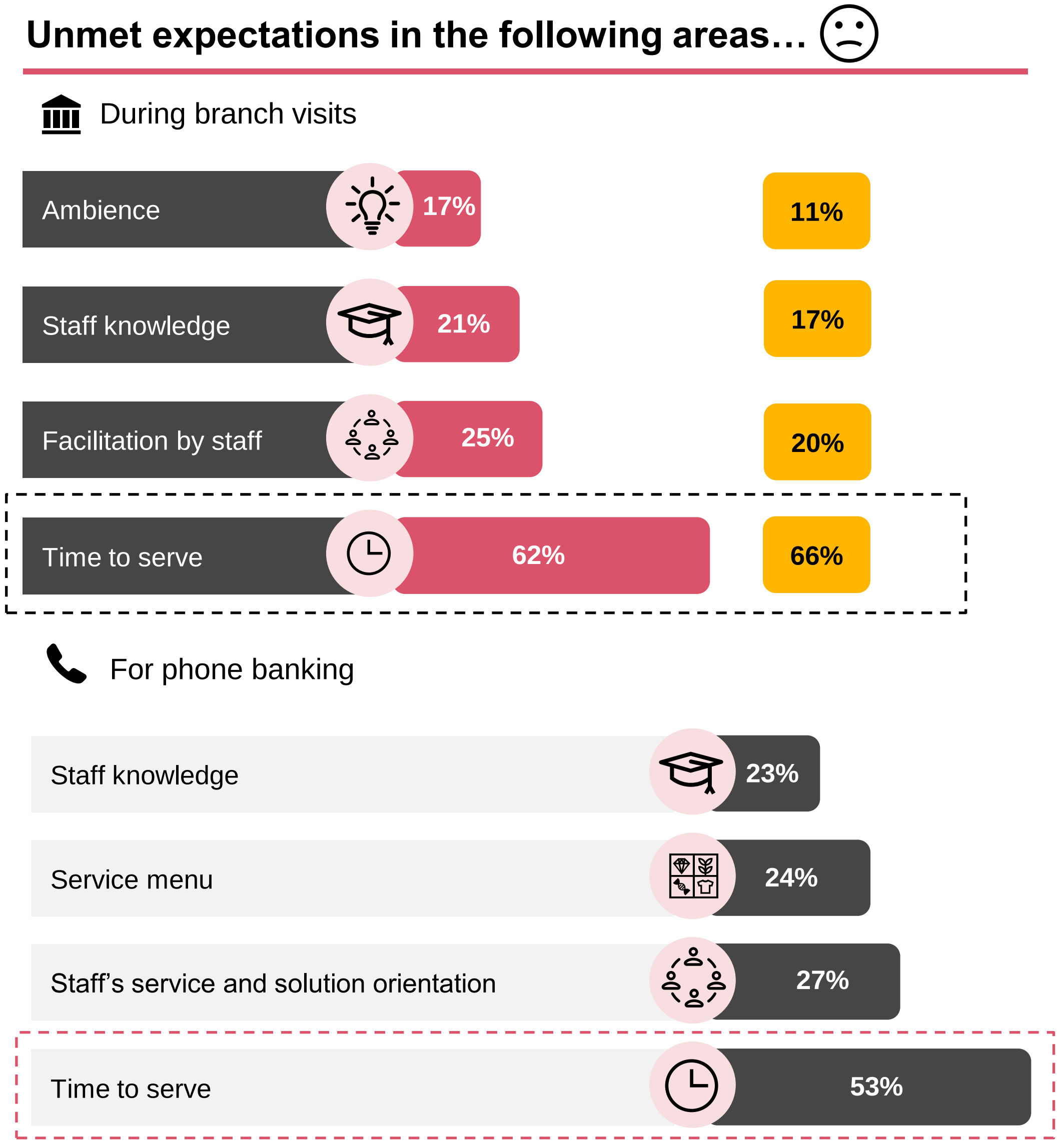
Given pain points encountered by customers across their in-branch and in-app journeys, banks in Pakistan may consider humanising experiences based on deeper understanding of customers' lifestyle, needs and preferences.

### Insights from PwC Pakistan's Consumer Banking Experience Survey 2024 (% of respondents)

Challenges encountered in following areas of mobile banking experience…

| | |
|---|---|
| 45% | Time to serve |
| 43% | Rewards/ discounts |
| 42% | Diversity of products, services and features |
| 40% | Fraud/ ID theft/ cyber security |
| 35% | Look and feel |

**Insights from PwC Pakistan's Consumer Banking Experience Survey 2024**




Banks may need to design living profiles through data collected from each step of the customer journey across all channels to create engaging connections.

For every touchpoint to be seen as a chance to build loyalty, trust and long-term relationships, alongside adoption of cutting-edge technologies, banks require a cultural transformation – a critical aspect that drives CX led transformative journeys across entities.

There are few banks in Pakistan that may be investing in data-driven technologies and rewiring themselves around their customers. As part of their CX transformation efforts, they may consider designing customer-centric; mobile-first strategies for acquisition, leverage design thinking, enrich UI/ UX and establish strong governance around customer conversion and satisfaction.

## 8. Islamic Banking

Islamic banking is growing phenomenally in Pakistan. Deposits and financing, both within Islamic banks and Islamic window operations of conventional banks, have surged in recent years, indicating promising prospects.

In 2023, Islamic Banking industry's share in total deposits reached 23% (2019: 17%), and 28% of total financing (2019: 20%). This share will further increase over the next 2-3 years as banks prepare for Islamic transformation, current deadline for which is December 31, 2027, based on Federal Shariat Court's decision and 26$^{th}$ amendment in the Constitution of Pakistan relating to riba elimination by this date.

SBP has also issued guidelines for conversion of conventional banks into Islamic banks, requiring development of comprehensive milestone-based plans, considering banks' internal targets for conversion of assets, deposits, financing, investments and branches.

The opportunity to transform may be viewed as a strategic proposition that would not only enable conversion but to also grow Islamic banking by revamping business strategies and operating models in line with conversion plans.

Banks may face certain challenges during their conversion journeys. It is hence vital to devise effective mitigation strategies and action plans to address those proactively.

Following critical challenges and dependencies, as explained further in section 10, may be encountered which banks can address through holistic transformation and conversion programmes:

## Critical conversion challenges and dependencies

### People & culture

Limited availability of skilled Islamic banking professionals requiring considerable resource upskilling

### Technology

Requisite functionalities and scale to accommodate conversion and on-going operations

### Business

(1) Portfolio conversion

(2) Product conversion

(3) Branch conversion

(4) Syndicate/ long-term and unsecured financing

(5) NPLs (incl. recoveries)

(6) Investments

### Managing conversion complexities

(1) Purification of retained earnings

(2) Customer consent

(3) Risk of customer churn

(4) Asset liability management

(5) Rate sensitivity of customers

(6) Subsidiaries/ associated concerns, etc.

### Critical dependencies

(1) Availability of Sukuks

(2) Industry's pace of conversion

(3) Conversion of government portfolio

(4) Culture and mindset change

(5) Size of conversion – banking industry/ SBP/ Government/ other FS sector entities

## 9. Enterprise Transformation

In today's rapidly evolving landscape, businesses across every industry are pressed to undergo transformation, and the banking sector is no exception. Success demands more than just incremental improvements — it requires reimagining the entire organisation, as detailed in section 11.

Banks must now strive to build enterprises that are sustainable, tech-powered, agile, skills-driven, capable of adapting to ever-growing internal and external pressures.

**Insights from PwC Pakistan's study of trends at select 40+ banks across various regions**

**80%** **Digital** transformation underway

**70%** **Tech** transformation in-progress

**50%** **Customer experience** transformation programmes ongoing

**80%** have re-engineered their operating models

**70%** have implemented cloud native operating models

## Transformation is not a defensive measure

PwC's 27th Annual Global CEO Survey in Pakistan indicates that 42% of CEOs (45% as per global survey) believe their current business model will not survive the decade.

### Key drivers of transformation

PwC's 27th Annual Global CEO Survey 2024 reveals that organisations are prioritising growth strategies and productivity enhancements, indicating a forward-looking approach to transformation. Sustainability is a central focus, reflecting increasing environmental commitments amid regulatory and consumer pressures. While cost-cutting is relevant, it is less emphasised compared to expansion of product offering and resilience-building efforts.


As per PwC Pakistan's Annual CEO Survey 2024, 77% of CEOs identified regulatory requirements as the primary factor that has driven changes in the way their organisation created, delivered and captured value over the past five years. This was followed by technological changes (43%) and changes in customer preferences (41%).

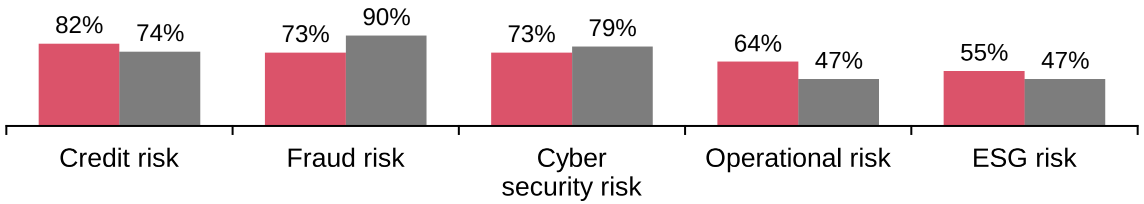
Successful delivery on transformation agenda requires a comprehensive approach to organisational design and capability building. These begin with a clear purpose and vision, culminating in a digitally enabled banking enterprise that breaks free from rigid, hierarchical structures and empowers employees to drive innovation.

## 10. Risk Management

PwC Pakistan conducted the first-of-its-kind Risk Management Survey in 2024 which entailed participation of 50+ Chief Risk Officers (CROs) and Business Heads from the banking industry. Section 12 covers findings in detail together with opportunities for a future-proof approach to risk management.

### Top risks in the next 12 months

Survey results indicate fraud, credit and cybersecurity risks as top ones, with risks relating to ESG perceived as moderate.




### Key factors likely to result in a risk event in the next 12 months

| | |
|---|---|
| Frauds (including digital frauds) | 100% |
| Cybersecurity and data privacy | 100% |
| Technology failures | 82% |
| Regulatory non-compliance | 55% |
| Talent acquisition and retention | 45% |

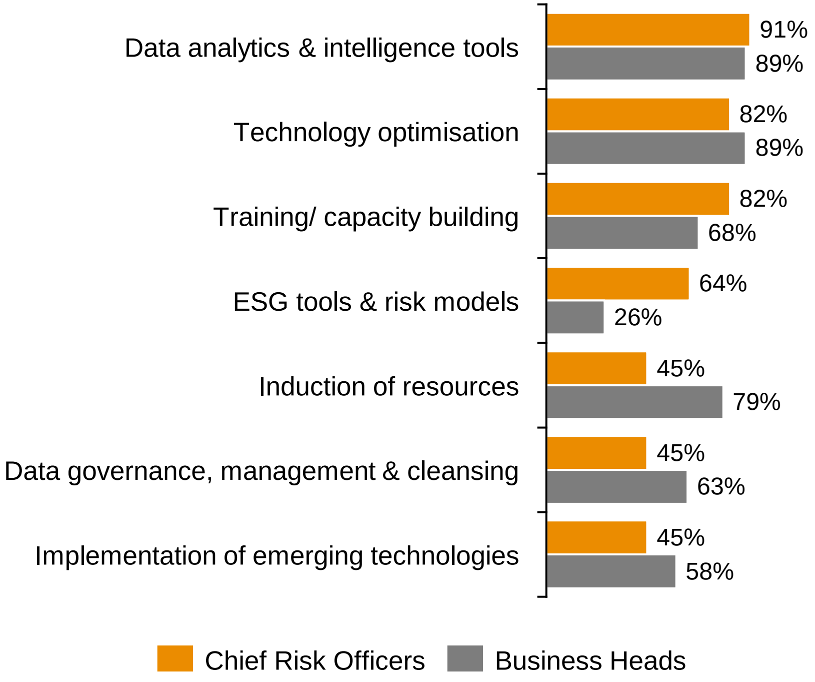
The frequency and triggers for enterprise risk landscape reviews are intrinsically linked to the potential for significant risk events. While periodic reviews are essential to identify emerging threats, occurrence of material risk events may necessitate an immediate reassessment of overall risk profile.

As per the survey, more than 90% CROs responded that risk landscape review is initiated on happening of a risk event whereas 64% also consider it as part of periodic review exercise.

To address emerging and top risks, banks may need to achieve higher levels of risk management sophistication by (1) prioritising integration across business functions (2) accelerating response times to emerging risks and (3) aligning risk management strategies with overall business objectives.

For this purpose, investments in risk processes, frameworks and enabling systems, coupled with GRC convergence are critical for holistic risk transformation. Implementing COSO's ERM framework may also be considered by banks in Pakistan in line with global trends.

Surveyed CROs and Business Heads highlight critical investment areas for the next 12 months - 3 most critical areas include: (1) data analytics and intelligence tools, (2) technology optimisation, and (3) training and capacity building.




## Enhancing credit penetration and quality

Participating CROs and Business Heads have emphasised on the criticality of a comprehensive approach that combines innovative collaborations and strategic realignments for effective credit penetration and quality.

| | Chief Risk Officers | Business Heads |
|---|---|---|
| Business/ risk strategy & appetite realignment | 82% | 80% |
| Optimisation of the role of credit bureaus | 82% | 40% |
| Increase in ecosystem collaborations | 73% | 87% |
| Availability of alternative data | 73% | 67% |
| Improved product offerings | 36% | 73% |

Significant drop in ADR to 37% in Jun-24 demands that banks reassess and renew risk strategies particularly for penetration into existing and new financing segments, on a sustainable basis. This may be achieved by implementing robust risk models and credit decisioning to assess borrowers, which will require an innovative shift in mindset.

Development of statistical models and continued periodic validation is critical. Globally, banks are continuously validating and recalibrating models given changing dynamics. With continuous shifts in Pakistan's credit risk landscape and outlook, banks may consider periodic and preferably independent validation and recalibration of existing models.

### Human resource readiness to address future demands of the evolving risk landscape

Risk competencies are critical as the landscape continues to evolve rapidly, driven by advancements in technology, sophistication in risk management methodologies, changing regulatory requirements and emerging global threats. Surveyed CROs indicate following prioritised skill sets for the next 2-3 years:

**91%** Enterprise Risk Management & cybersecurity

**82%** Digital/ technology expertise, data science & analytics

**64%** Statistical risk modelling

## 11. Anti-financial Crime

Banks in Pakistan operate within an evolving financial crime compliance ecosystem. With criminals quickly adopting new techniques and means to exploit vulnerabilities in banking technologies and processes, there is an even greater need for institutions to remain vigilant and up-to-date in their fight against financial crimes.

To analyse the banking industry's current state of preparedness, PwC Pakistan conducted its Financial Crime Survey in 2024, primarily targeted to Chief Compliance Officers (CCOs) and Heads of business and enabling functions, with participation by over 75 respondents.

Survey results, as detailed in section 13, indicate that CCOs' perceived risk of major types of financial crime typologies including cybercrime, fraud, Terrorist Financing (TF), Money Laundering (ML), tax evasion and sanctions, has increased significantly. This may be due to increasing digital adoption, economic vulnerabilities, resultant higher inflation levels and rise in terrorism risk in the country.

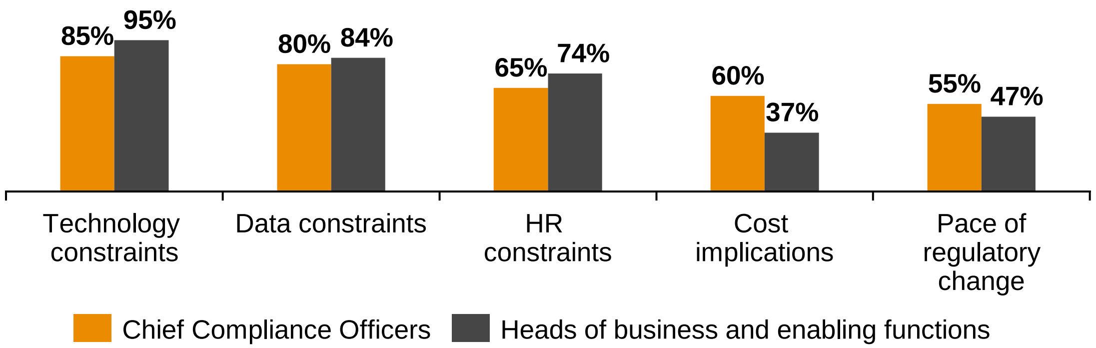
### % of CCOs considering risk to be "very high"

| | |
|---|---|
| Cybercrime | 90% |
| Fraud | 70% |
| Terrorism Financing | 60% |
| Tax Evasion | 56% |
| Money Laundering | 55% |
| Sanctions | 50% |

Increasing digital adoption in Pakistan necessitates the need to have robust financial crime risk assessments. However, 45% of surveyed CCOs consider the maturity of enterprise-wide financial crime risk assessment exercise at 'very basic' and 'basic' levels.

### Areas to invest in the next 12 months

More than 60% of the CCOs and Heads of business and enabling functions, view technology, data, HR and cost constraints as top challenges in financial crime compliance.




### Areas to invest in the next 12 months

To address these challenges and mitigate elevated levels of financial crime risks, CCOs believe following areas may require investments in the next 12 months:

- **95%** Data governance, management and cleansing
- **90%** Technology optimisation
- **75%** Specialised training programmes
- **60%** Implementation of emerging technologies

Findings from PwC Pakistan's Financial Crime Survey 2024 indicates that banks in Pakistan are still facing challenges in reaching steady and high-performing stages with respect to their financial crime technologies.

| | 2024 | 2022 |
|---|---|---|
| Consider their financial crime systems to be in a steady state | 30% | 40% |
| Find space for improvement with respect to holistic coverage of financial crime risks | 45% | 47% |
| Shared feedback that their financial crime technologies have not been validated in the last 2 years | 20% | 30% |
| Institutions where such validations were conducted, this was done internally by the Compliance function itself | 50% | +50% |

## 12. People, Diversity, Equity & Inclusion

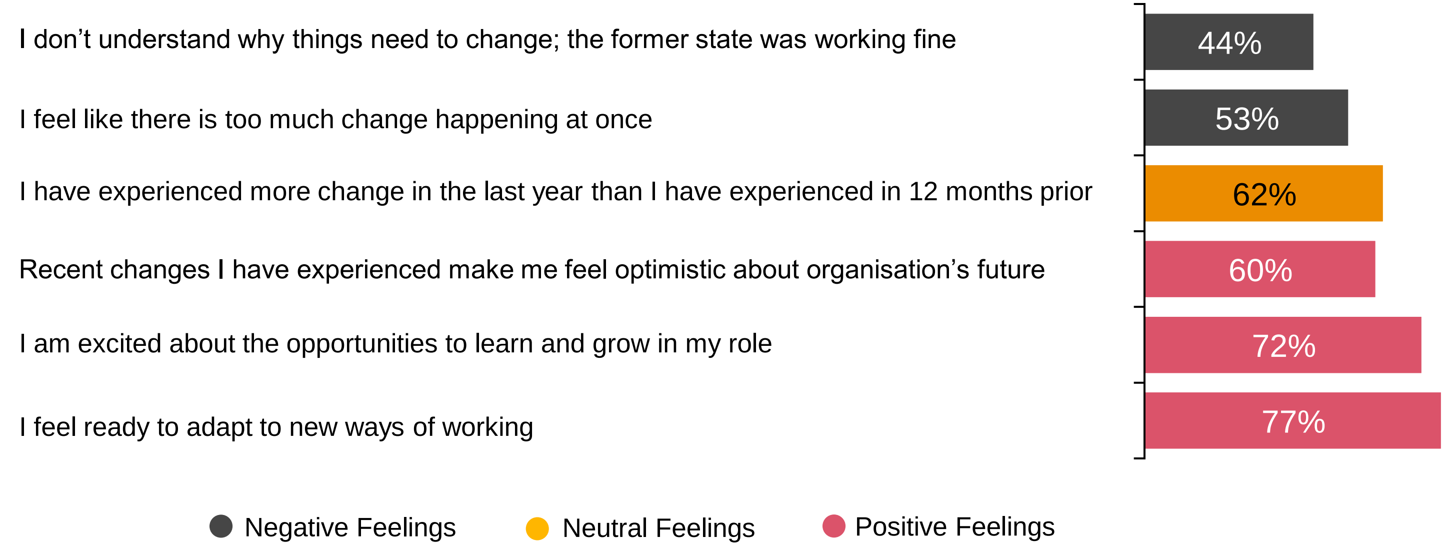
Banks globally are recognising that their most valuable assets are not solely technology or capital but people and the culture that guides them. As the industry faces a new era of transformation marked by digital innovation, technology optimisation, regulations, and shifting customer expectations, the role of culture and talent in driving results, as detailed in section 14, is more critical than ever before.

### Change is everywhere — and employees are feeling it

PwC's Global Workforce Hopes and Fears Survey 2024 finds that more than 50% of employees surveyed feel there is too much change at work happening at once, and 44% do not understand why things need to change at all.

There are also strong signs of optimism and engagement, since majority of surveyed employees express their readiness to adjust to new working methods, are eager to upskill, and see potential in using Generative AI (GenAI) to augment their efficiency.

**Employees' responses on the changes they have experienced in their role in the last 12 months**



## GenAI for improved productivity

Both employees and CEOs estimate that approximately

**40%**

of their time is spent on tasks which are inefficient, and they believe that GenAI could help alleviate this burden.

More than **70%**

of employees utilising GenAI believe it will facilitate their acquisition of new skills, foster creativity, and improve overall quality of their work

## Addressing talent gaps and reducing turnover through upskilling

Upskilling has emerged as a critical priority, not only to address the talent gap in specialised areas, but also for employees who increasingly view it as a distinguishing factor in evaluating their organisation.

Nearly **50%**

employees indicated that the availability of opportunities for skill acquisition significantly influences their decision to remain with their current employer.

## Diversity, Equity & Inclusion – critical to attract and retain talent

PwC’s recent Global Diversity, Equity & Inclusion (DEI) Survey indicates that corporate activities focused on culture, values, and purpose will be essential for influencing the future of work.

Over **50%**

of surveyed business executives assert that these programmes will distinguish them in a competitive talent market.

In response to the growing demands of employees, customers, and investors to exemplify ideals of equality and inclusiveness, organisations are investing in DEI programmes at unprecedented levels.

# 3.

# Industry's financial performance

# Industry's financial performance

## A Snapshot of Key Performance Indicators in 2023

Similar to 2022, the banking industry continued its journey of sustained performance in majority of the benchmarks during 2023.

### Balance Sheet Indicators

All figures in Rs. trillion

| Indicator | 2023 | 2022 | % change |
|---|---|---|---|
| Total assets | 45.8 | 35.3 | 30% |
| Gross advances | 13.0 | 12.5 | 4% |
| Investments | 25.6 | 18.1 | 41% |
| Deposits | 29.1 | 23.4 | 24% |
| Borrowings | 11.3 | 7.5 | 51% |
| Total liabilities | 43.1 | 33.3 | 29% |
| Non-performing loans | 0.96 | 0.88 | 9% |

*Sources: PwC proprietary insights and analysis, SBP*

### Profit & Loss Indicators

All figures in Rs. trillion

| Indicator | 2023 | 2022 | % change |
|---|---|---|---|
| Profit before tax | 1.3 | 0.7 | 86% |
| Profit after tax | 0.6 | 0.3 | 100% |
| Net interest income | 1.9 | 1.2 | 58% |
| Non-funded income | 0.4 | 0.3 | 33% |
| Operating expenses | 0.9 | 0.7 | 29% |

### Key Ratios

| Ratio | 2023 | 2022 |
|---|---|---|
| Capital adequacy | 19.4% | 16.8% |
| Advances to deposits | 41.5% | 50.1% |
| Investments to deposits | 88% | 77% |
| Non-performing loans to advances | 7.4% | 7.1% |
| Return on equity (before tax) | 55.4% | 36.2% |
| Return on assets (before tax) | 5.4% | 3.7% |

# Industry's financial performance

## A Snapshot of Key Performance Indicators in June 2024

The journey of sustained performance continued subsequent to 2023, with further improvement in majority of benchmarks during first half of 2024.

### Balance Sheet Indicators

All figures in Rs. trillion

| Indicator | Jun-24 | 2023 | % change |
|---|---|---|---|
| Total assets | 50.9 | 45.8 | 11% |
| Gross advances | 13.0 | 13.0 | - |
| Investments | 30.4 | 25.6 | 19% |
| Deposits | 32.5 | 29.1 | 12% |
| Borrowings | 12.7 | 11.3 | 12% |
| Total liabilities | 48.2 | 43.1 | 12% |
| Non-performing loans | 0.96 | 0.96 | - |

*Sources: PwC proprietary insights and analysis, SBP*

### Profit & Loss Indicators

All figures in Rs. trillion

| Indicator | Jun-24 | Jun-23 | % change |
|---|---|---|---|
| Profit before tax | 0.60 | 0.55 | 9% |
| Profit after tax | 0.28 | 0.28 | - |
| Net interest income | 0.91 | 0.83 | 10% |
| Non-funded income | 0.26 | 0.18 | 44% |
| Operating expenses | 0.54 | 0.42 | 29% |

### Key Ratios

| Balance Sheet Ratios | Jun-24 | 2023 |
|---|---|---|
| Capital adequacy | 19.8% | 19.4% |
| Advances to deposits | 36.8% | 41.5% |
| Investments to deposits | 94% | 88% |
| Non-performing loans to advances | 7.4% | 7.4% |
| **Profitability Ratios** | **Jun-24** | **Jun-23** |
| Return on equity (before tax) | 43.6% | 51.8% |
| Return on assets (before tax) | 3.8% | 4.4% |

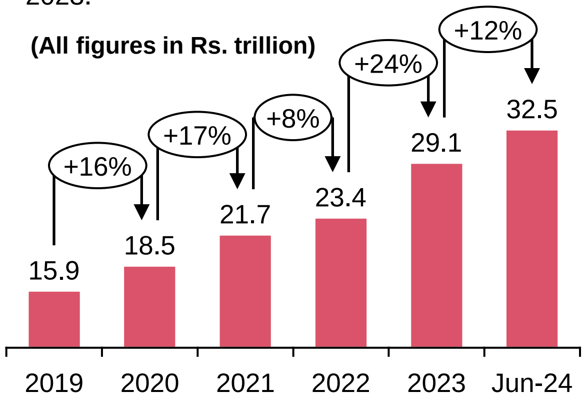
Banking industry registered positive growth for most of the indicators, exhibiting continued financial stability. In this section, we analyse certain key areas of sector's financial performance, related trends, opportunities and challenges. These are complemented by "Banking Analytics" within a comprehensive compendium to this publication.

# 1. Deposits

## Growth trends

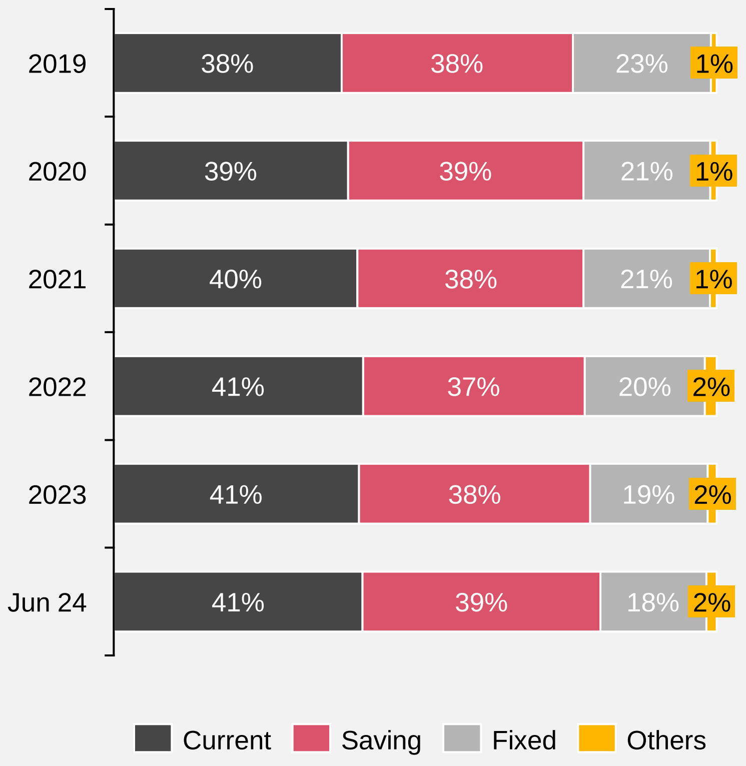
Deposits demonstrated consistent growth over the past five and a half years, as depicted in the graph. Notably, there was a significant rise of 24% in 2023, compared to an 8% rise in 2022 and further increase of 12% in Jun-24, compared to 14% rise in HY 2023.

**(All figures in Rs. trillion)**



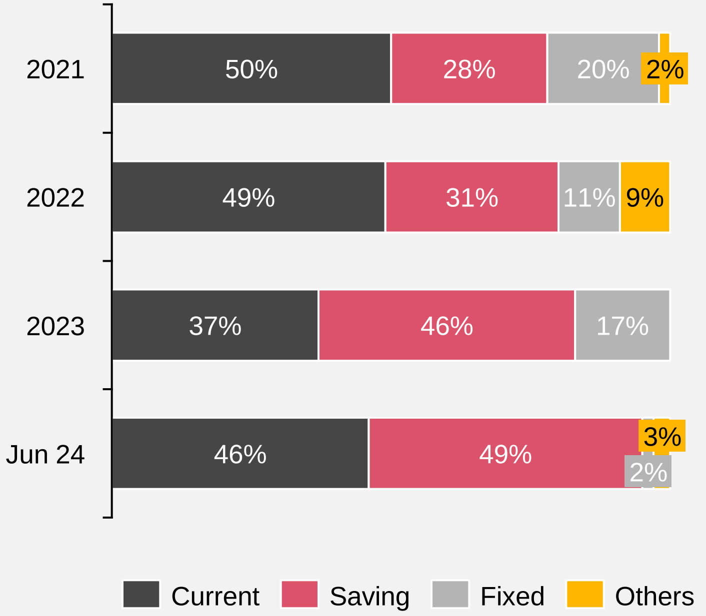

## Current and CASA mix

Customer deposit mix remained broadly consistent over the years. As of Jun-24, current deposits contributed 41% of the total deposits (same as at Dec-22) whereas CASA improved to 80% (78% at Dec-22).




### Share of growth in total deposits

We also analysed contribution of each type of deposit, in the growth of total deposits, since 2021.




Sharp rise in the contribution of savings deposits, particularly in 2023 and Jun-24, may indicate customers' preference for higher profit rates. The declining share of fixed deposits may be attributable to considerable portfolio rationalisation by banks.

## Customer segment mix

Customer segment mix showed minor variations over the years. Individual deposits accounted for 47% of the total, while deposits from business, government, and public sector enterprises (PSE) collectively contributed 43%.

| | Individuals | Business | Government & PSE | Others |
|---|---|---|---|---|
| 2019 | 49% | 21% | 21% | 9% |
| 2020 | 49% | 21% | 21% | 9% |
| 2021 | 47% | 22% | 21% | 10% |
| 2022 | 48% | 22% | 21% | 9% |
| 2023 | 47% | 23% | 20% | 10% |

### Share of growth in total deposits

Similar to deposit type-wise analysis, customer segment wise contribution in total deposit growth was also analysed, since 2020.

| | Individuals | Business | Government |
|---|---|---|---|
| 2020 | 53% | 35% | 12% |
| 2021 | 37% | 45% | 18% |
| 2022 | 68% | 7% | 25% |
| 2023 | 42% | 48% | 10% |

Individual deposits have been the highest contributor to the growth in total deposits, with an exponential increase from 37% in 2021 to 68% in 2022, whereas business deposits contribution declined from 45% in 2021 to 7% in 2022.

However, in 2023, business deposits contributed 48% of total deposit growth while individual deposits adjusting to 42%.

## 2. Advances

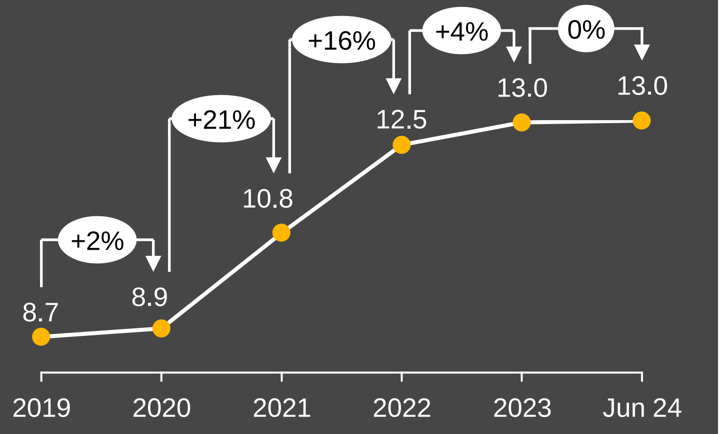
### Growth trends

Advances demonstrated modest YoY growth of 4% in 2023, much lower than last year (2022:16%), with no further increase in Jun-24. This reflects continuation of a cautious approach due to economic conditions and higher policy rate prevailing during the year.

Considering subsequent adjustments in policy rate witnessed during 2024 and, most importantly, in an attempt to significantly increase Advances to Deposits Ratio (ADR), we have seen some growth in advances particularly in the 3rd quarter of 2024.

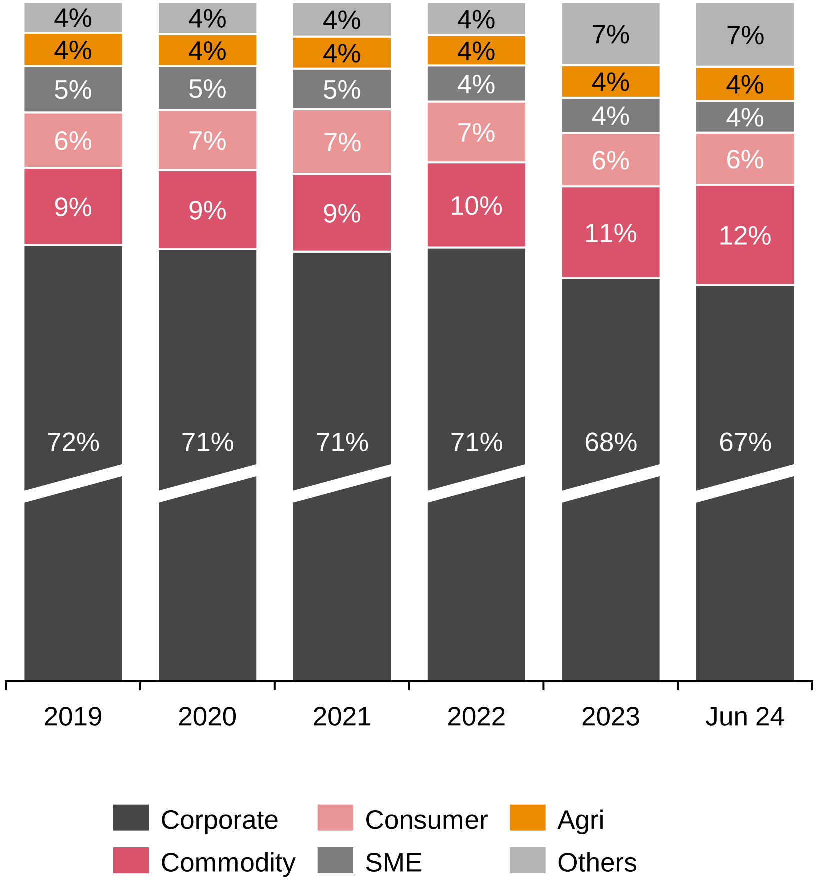
Trajectory over the years and percentage change from the previous period are illustrated below:

**(All figure in Rs. trillion)**



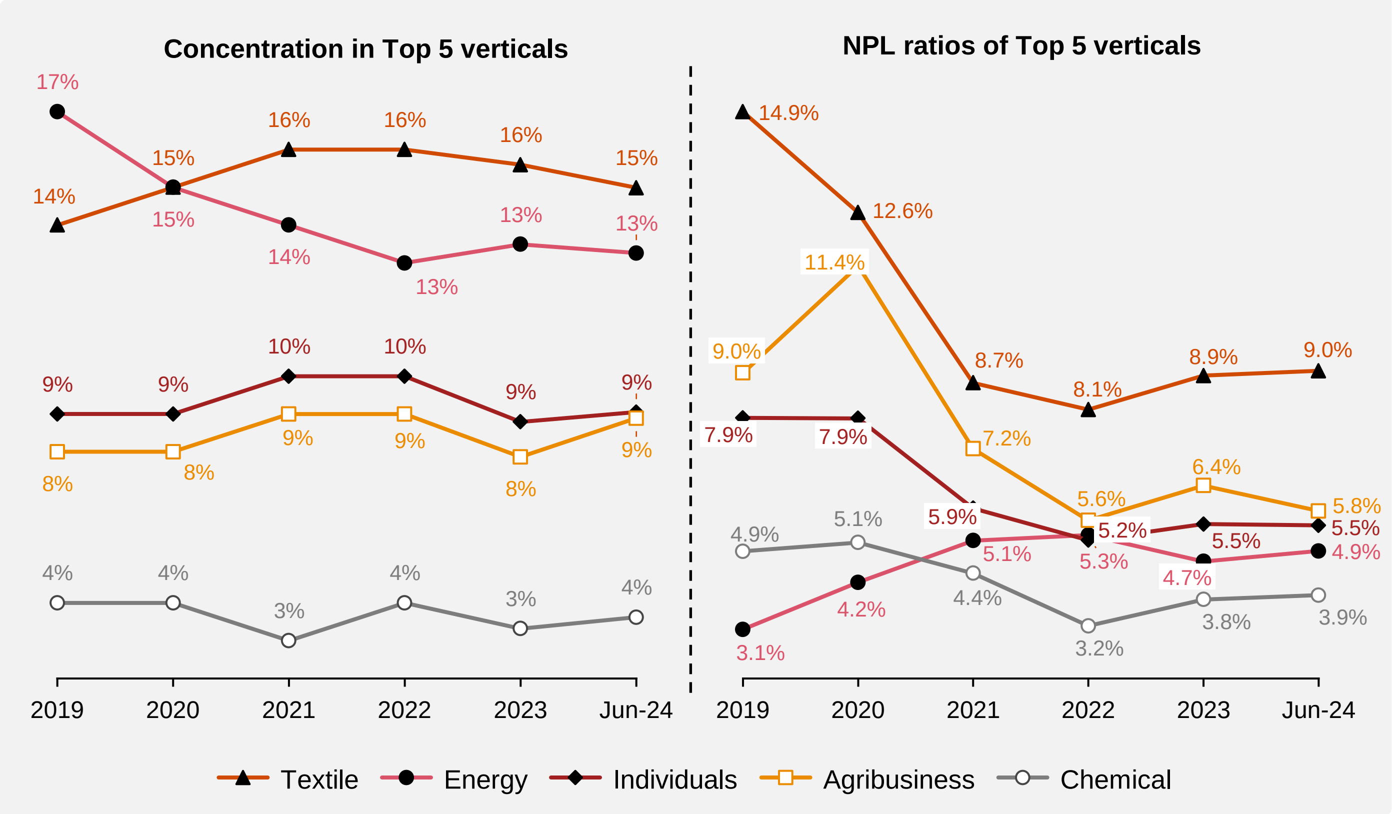
## Customer segment mix

Financing to corporates declined to 67% (Dec-22: 71%), whereas commodity finance increased from 10% in Dec-22 to 12% in Jun-24.




## Top industries/ verticals and concentration

Similar to 2022, textile, production and transmission of energy, individuals and agri-business still remain the top industries/ verticals, whereas chemical has replaced financial as the 5th top sector. These sectors comprise around 50% of credit portfolio, with following concentration and NPL ratios over the last 5 and a half years:

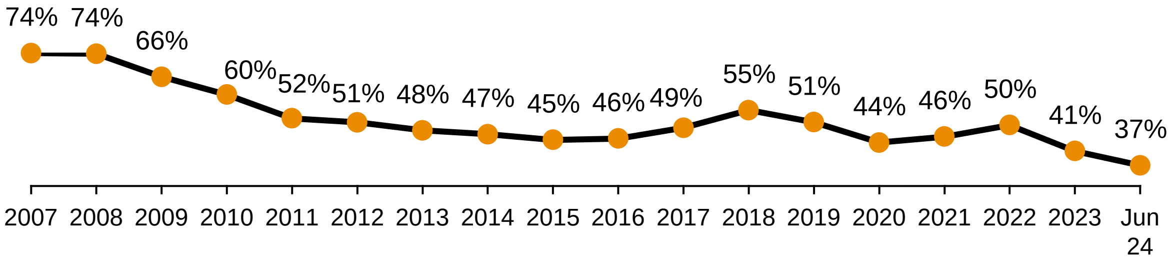



NPL ratios in textile, agri-business, individuals and chemicals have increased whereas NPL ratio of energy sector has improved as compared to 2022.

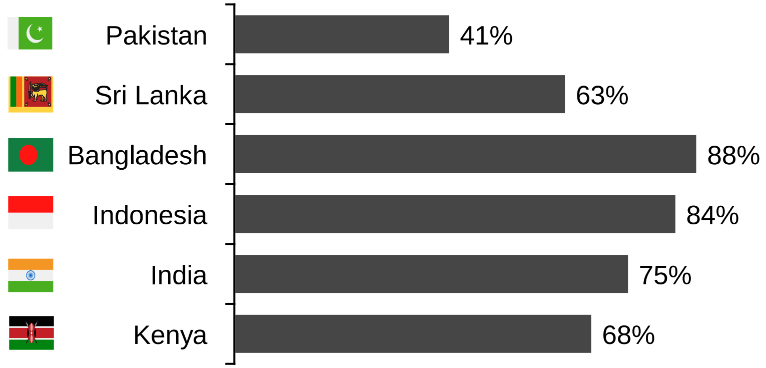
## Advances to Deposits Ratio

ADR has shown a significant decline closing at 37% in Jun-24, compared to 41% in Dec-23 (50% in Dec-22) which may be due to cautious approach of banks as well as demand compression in the wake of economic circumstances and higher mark-up rates prevailing in those times. However, as mentioned earlier, some subsequent adjustments elevated ADR levels but, sustainability needs to be seen.

**Advances to Deposits Ratio (ADR) in Pakistan**




**ADR in Pakistan vis-à-vis certain other economies (2023)**

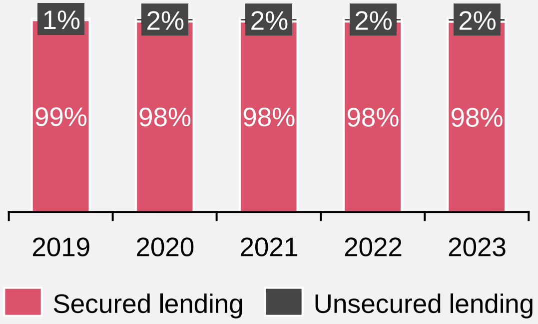



> **"For growth capital access, our sole reliance is on banks in the absence of deeper capital, bond and secondary markets. However, there is smaller banking sector contribution to GDP at 32%, with India and Bangladesh 50%-60%, Asia 80%-90%+."**
>
> Mr. Salim Raza, Former Governor, State Bank of Pakistan

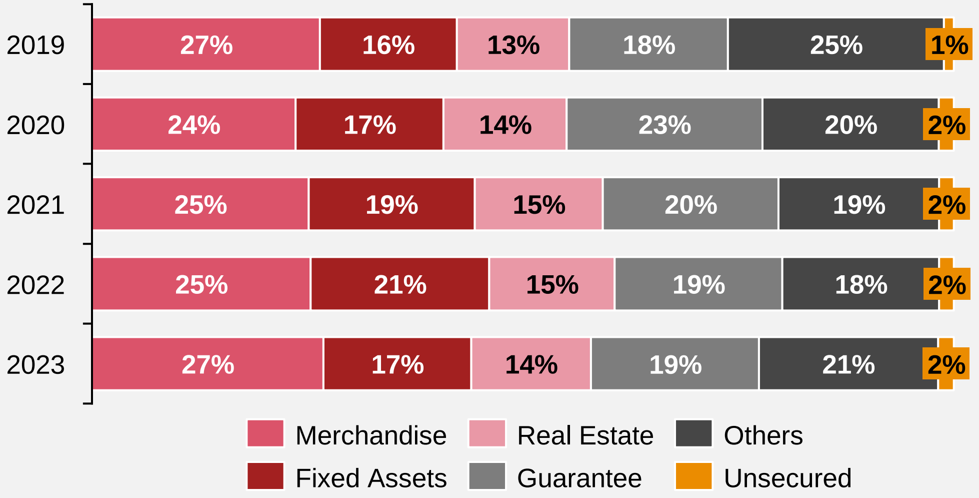
## Potential to add in productive capital through sustainable financing strategies…

Cashflow based financing still remains at a minimal 2% of total loans, with different types of physical and other collaterals continuing to be preferred for large majority of portfolio (as reflected below). Banks may improvise their credit appetite and readiness to increase cash-flow based financing to priority segments.

**Secured lending vs unsecured lending**




**Collateral-wise lending as a % of total loans**




*Sources: PwC proprietary insights and analysis, SBP*

## Consumer finance

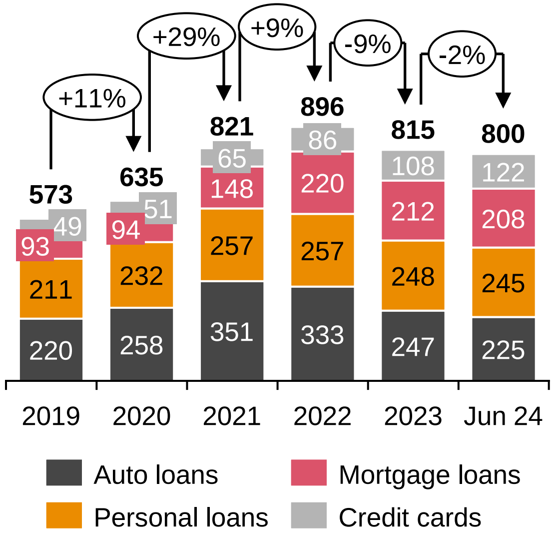
Consumer finance declined by 9% in 2023 and by a further 2% in Jun-24, with concentration at 6.2% of total advances (7.1% in 2022).

Since 2022, we have observed significant contraction in auto loans by approx. 32% (in Jun-24) whereas credit cards portfolio improved by approx. 42% over the same period. Mortgage financing and personal financing contracted slightly, compared to Dec-22.

Below is the size of each product in the overall consumer finance portfolio since 2019.

### Product-wise consumer finance

**(All figures in Rs. billion)**




*Sources: PwC proprietary insights and analysis, SBP*

## Commodity finance

Commodity finance portfolio grew by 12% in 2023 and further 9% by Jun-24, with component wise break-down as follows:

| Commodity | June 2024 | 2022 | Change |
|---|---|---|---|
| | Rs. in billion | | |
| Wheat | 1,118 | 955 | 17% |
| Sugar | 206 | 113 | 82% |
| Cotton | 62 | 59 | 5% |
| Rice | 16 | 31 | -48% |
| Others | 139 | 103 | 35% |

## Corporate loans

As mentioned earlier, corporate loans constitute ~70% of total advances, with following financing type mix:

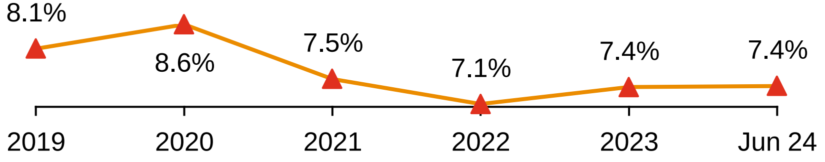
| Financing type | June 2024 | 2023 | 2022 |
|---|---|---|---|
| | Concentration in percentage | | |
| Fixed investment | 43% | 43% | 43% |
| Working capital | 36% | 35% | 37% |
| Trade finance | 21% | 22% | 20% |

By the end of Jun-24, corporate loans declined by 2% (compared to Dec-23) with major contraction in working capital financing of 6% (Rs. 201 billion), which may be due to increase in NPLs to 9.4% (8.9% in 2023 and 7.4% in 2022). Despite import restrictions which continued for most of 2023 and the first half of 2024, trade finance increased by 6% and its NPL has remained at 6.1% (6.2% in 2022).

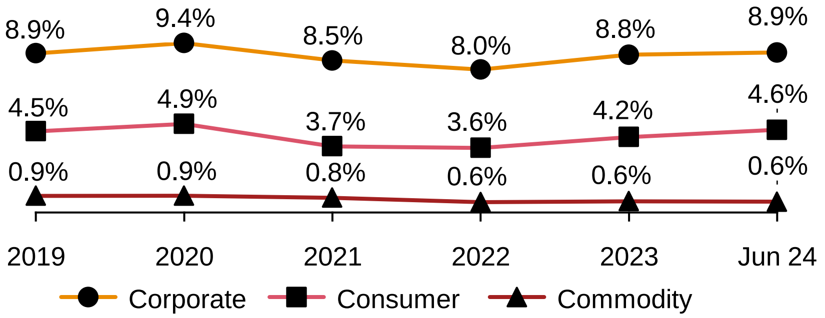
## Non-performing loans

On an overall basis, NPLs increased from 7.1% in Dec-22 to 7.4% in Dec-23, and remained unchanged till Jun-24.

**NPL ratio**




Following provides a segment wise break-down of NPLs (other than SME and agri NPL ratios covered in section 5 on ‘Scaling priority sector financing’):



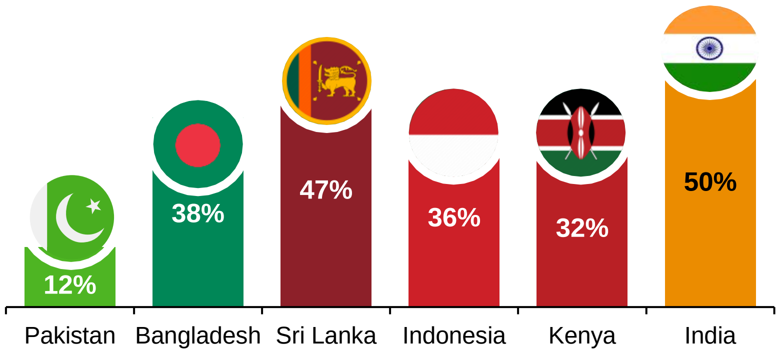

*Sources: PwC proprietary insights and analysis, SBP*

NPLs have increased as compared to 2022 which is in line with market expectations considering economic conditions and higher mark-up rates. However, we are now witnessing improvements in the policy rate which may have positive impacts on overall financing and NPLs, going forward.

> **“Banks must vigilantly monitor and mitigate escalating credit risks while ensuring long term sustainability of obligors.”**
>
> Mr. Tariq Masaud, Chief Risk Officer, HBL

## Lending to private sector

Overall lending to private sector in Pakistan has further declined to 12% of GDP in 2023 (2022: 15%), which is significantly lower compared to certain other jurisdictions. As mentioned earlier, a more inclusive credit strategy targeted to priority sectors/ segments may help elevating this key benchmark to a reasonable level in medium-long term.

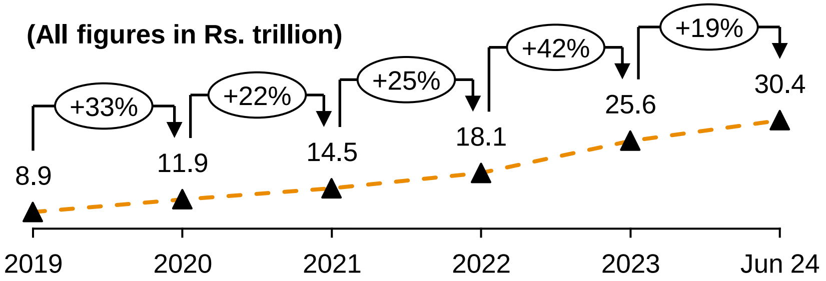



*Sources: PwC proprietary insights and analysis, SBP, World Bank*

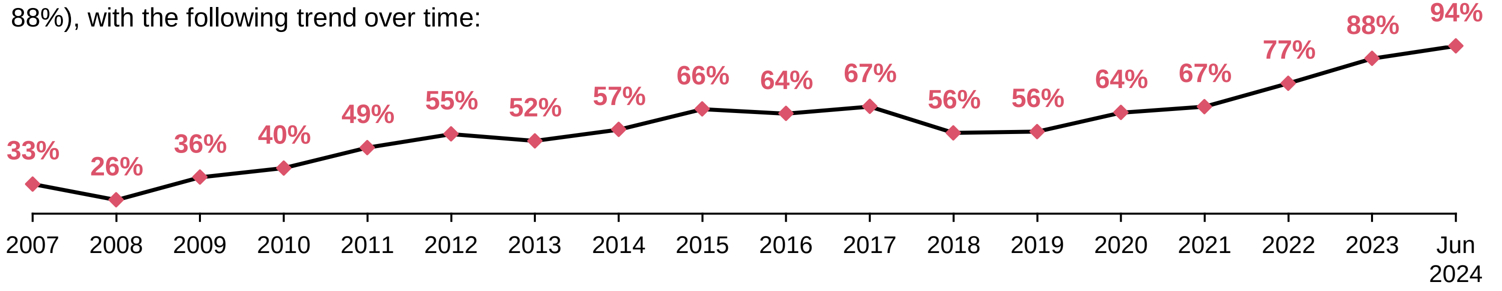
> **“Funding capacity of the banks is significantly compressed by 73% loanable assets representing government financing (56% securities, 17% loans). This leaves little space for private sector credit at 12% of GDP, with Asia 50%-65%, Europe 100%+.”**
>
> Mr. Salim Raza, Former Governor, State Bank of Pakistan

## 3. Investments

Investments surged by 42% in Dec-23 and further 19% in Jun-24, with more than 95% concentration in government securities. Considering risk-free nature and reasonable returns, this continues to offer a highly rewarding alternate avenue to place funds and hence, results in a lower ADR.




Consequently, Investments to Deposits Ratio (IDR) has been rising and now stands at 94% (Dec-23: 88%), with the following trend over time:

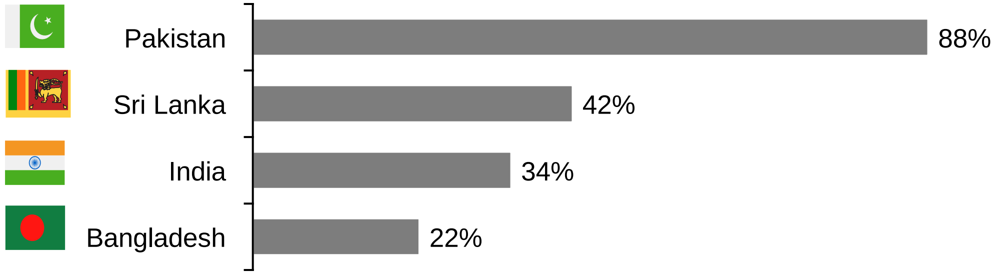



We are also observing a noticeable surge in investments over credit growth, particularly in Jun-24 and 2023, as depicted below:

| Year | Jun-24 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| Investment over credit growth (times) | 124 | 17.1 | 2.1 | 1.4 | 17.9 |

While historically there might have been significant focus on investments in government securities, considering tax implications on ADR, we may see some change by end of 2024 and during the next year.

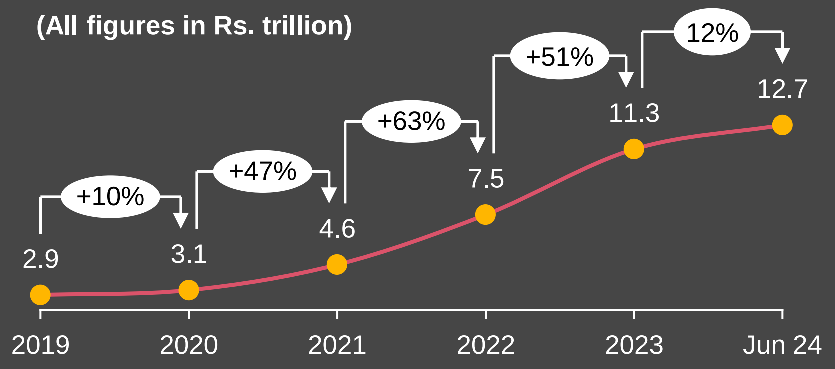
**IDR in Pakistan vis-a-vis regional economies (2023)**



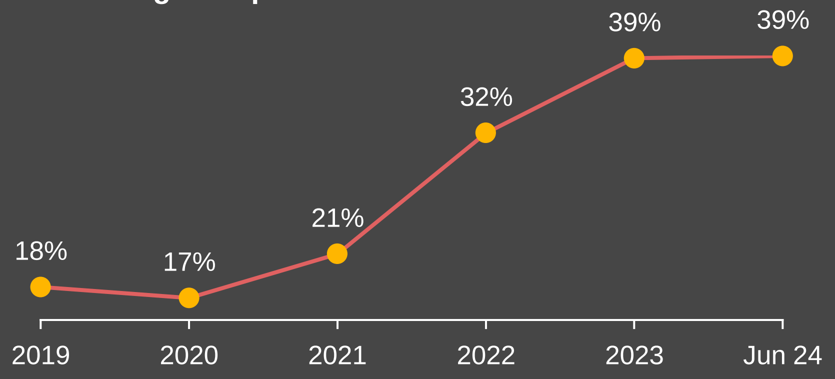
## 4. Borrowings

We are witnessing a rising trend in borrowings with major accretion in last three years. There was again an exponential increase of 51% in 2023 and further 12% rise in Jun-24 with borrowings closing at Rs. 12.7 trillion, compared to Rs. 7.5 trillion as of Dec-22.

**(All figures in Rs. trillion)**



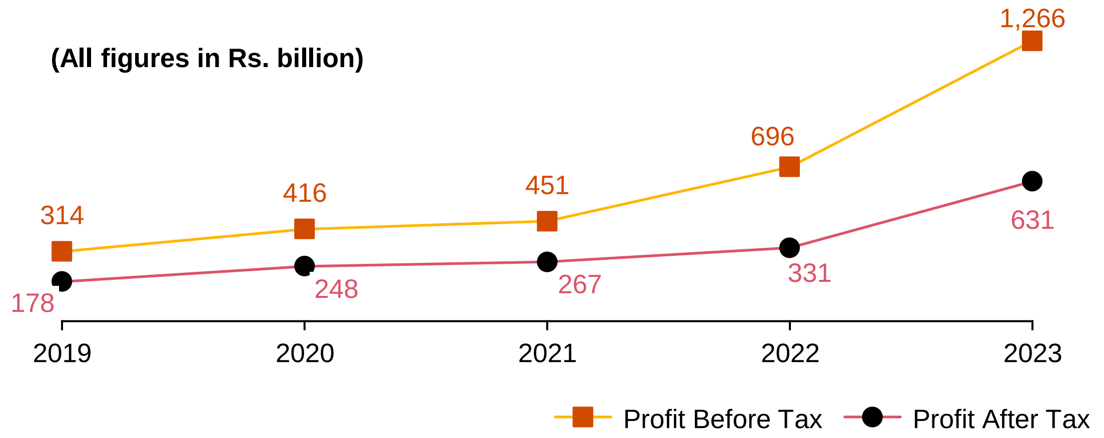

**Borrowing to Deposit Ratio**




## 5. Profitability and taxation impacts

Profitability and Return on Assets (RoA)/ Return on Equity (RoE) amplified sharply on the back of higher spreads and non-funded income from different avenues. PBT increased by ~80% whereas PAT almost doubled (~90% increase from 2022). RoA (before tax) was 5.4% in 2023 (3.7% in 2022) whereas RoE (before tax) closed at 55.4% (36.2% in 2022)

**(All figures in Rs. billion)**




For 2023, tax rate was 39% and super tax was applicable up to 10% in various slabs with highest rate applicable on income over Rs. 500 million. An additional impact of heightened tax rates on income from federal government securities, linked with ADRs, which was suspended for Tax Year 2024, will be applicable in FY 2024, as summarised below.

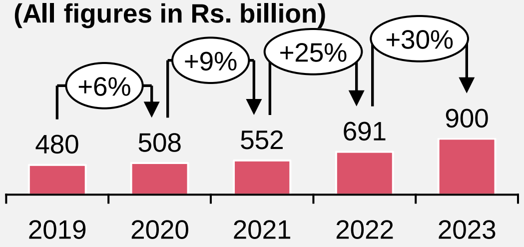
| Gross ADR | Up to 40% | Exceeding 40% but not 50% | Exceeding 50% |
|---|---|---|---|
| Tax rate for FY24 | 55% | 49% | 39% |

*Sources: PwC proprietary insights and analysis, SBP*

## 6. Operating expenses and Cost to Income ratio

Operating expenses have been on the rise due to higher inflationary trends and increasing cost of doing business. They registered an increase of 30% in 2023 compared to 25% accretion in 2022.

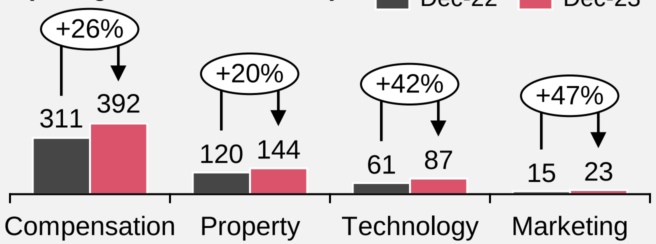
**(All figures in Rs. billion)**




With a strong revenue base (86% growth in mark-up income), industry's cost to income ratio, however, further improved to 41% in 2023, compared to 48% in Dec-22.

Similar to last year, we analysed relevant escalation in 4 key cost components that comprise over 70% of total operating expenses in 2023:

**(All figures in Rs. billion)**



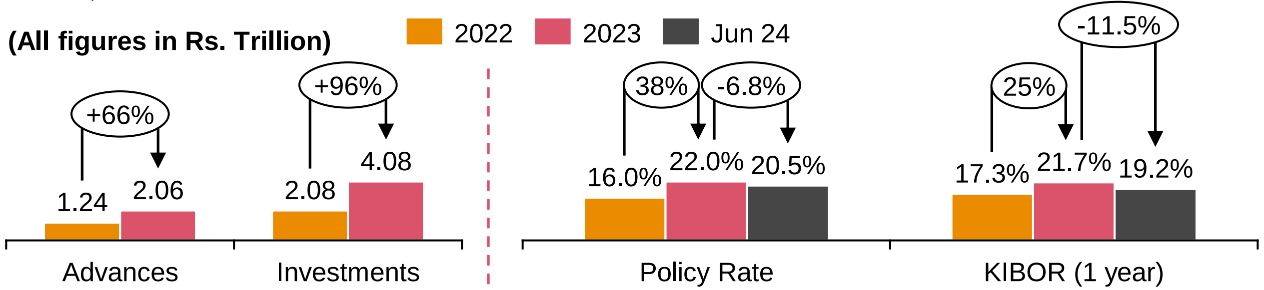

With considerable cost escalations, we reiterate that it is still an apt time for the banking sector to consider pursuing enterprise transformation journeys including digital excellence, cost optimisation, process reengineering and branch re-modelling to better manage cost base.

> **"Cost escalation across all expense lines is a major challenge that banks are facing. HR costs have increased due to rising inflation and higher cost of living. Currency devaluation has meant that IT equipment and services required to keep up with today's digital needs are costing almost three times more. With falling interest rates, cost to income ratio across the industry is coming under pressure."**
>
> **Mr. Muhammad Jawaid Iqbal, President & CEO, United Bank Limited**

## 7. Mark-up income

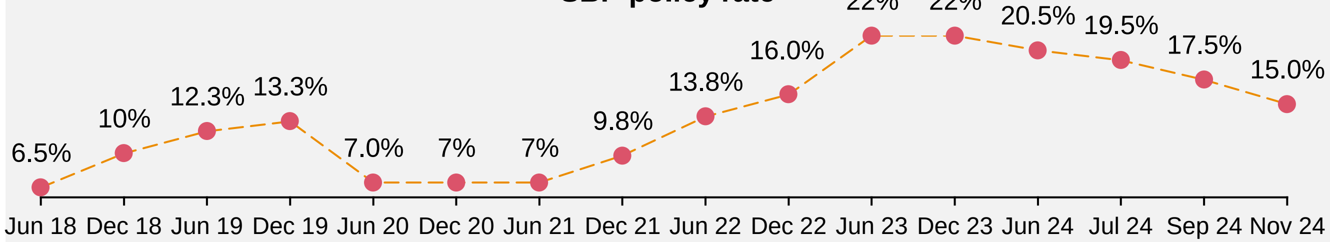
Mark-up income amplified considerably to Rs 6.2 trillion in Dec-23. Below provides a comparison of mark-up income from advances and investments, along with SBP policy rate and one-year KIBOR as of Jun-24, Dec-23 and Dec-22.

**(All figures in Rs. Trillion)**



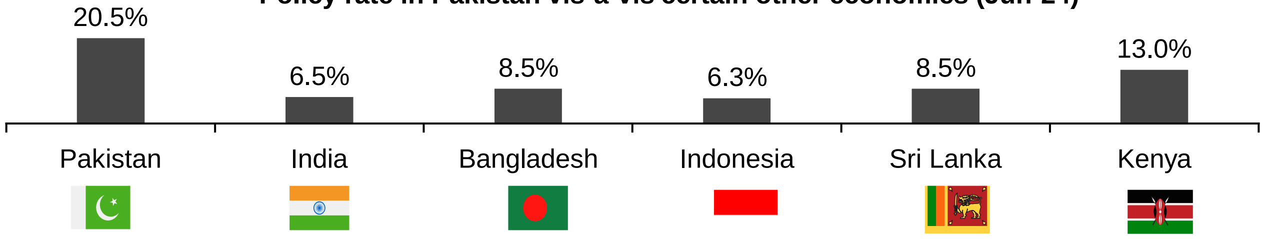

Policy rate fell to 20.5% in June 2024, a reduction of 150 basis points, after remaining at 22% since June 2023. Rate further declined to 15% by November 2024 with an expectation of some more adjustments, going forward.

**SBP policy rate**




While declining trend in policy rate in Pakistan may continue in the future, as of Jun-24 it is still much higher relative to certain other economies:

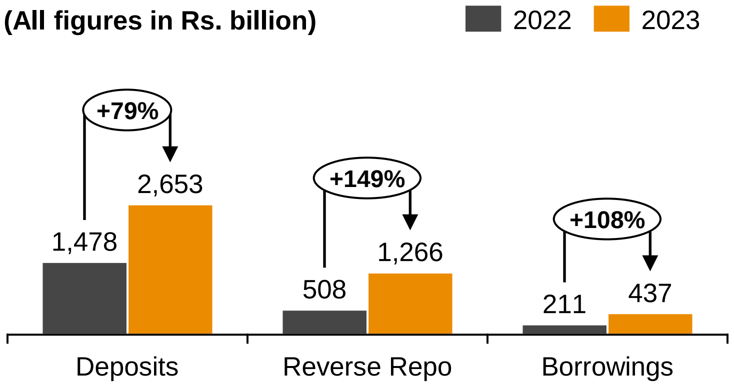
**Policy rate in Pakistan vis-a-vis certain other economies (Jun-24)**



## 8. Mark-up expense

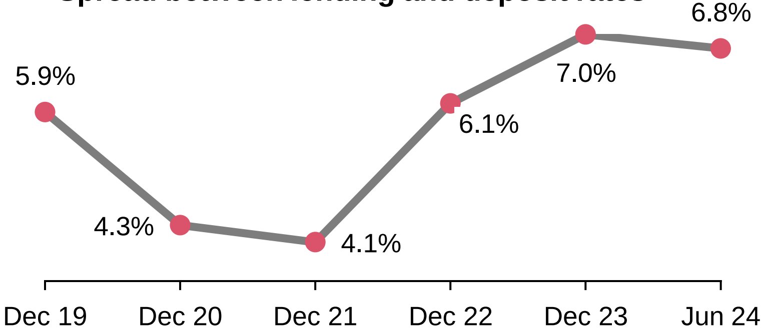
Unfavorable rate variance on deposits, driven by high policy rate, led to mark-up expense rising by 99% to Rs 4.46 trillion in 2023. Component-wise break-down along with percentage variation are as follows:

**(All figures in Rs. billion)**




Industry's spread stood at 6.8% in Jun-24 vs. 6.1% in 2022, with trends over time below:

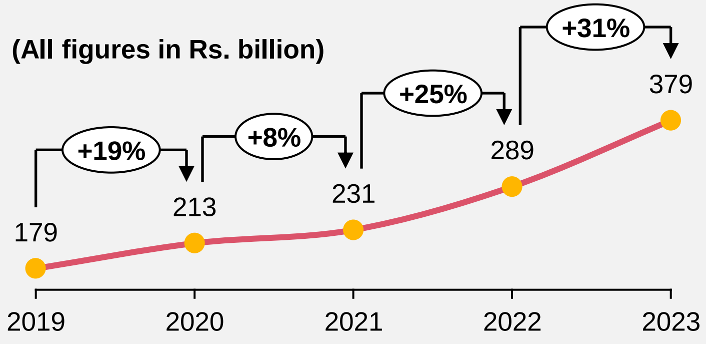
**Spread between lending and deposit rates**



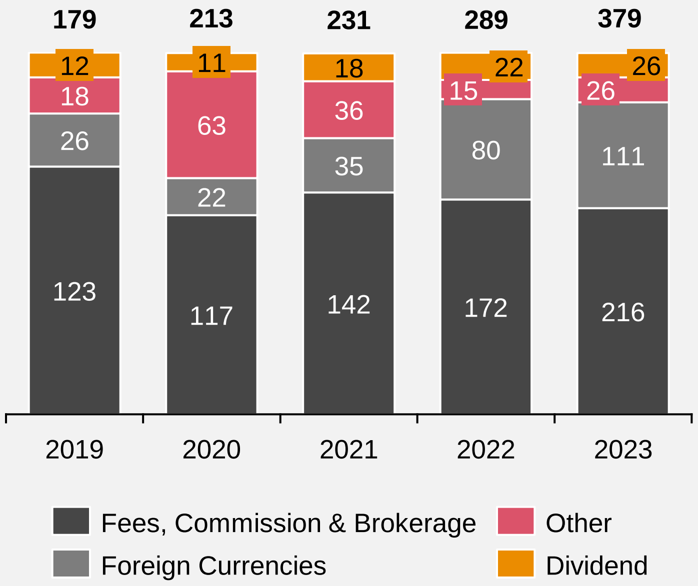

## 9. Non-funded income

Non-Funded Income (NFI) comprised approx. 20% of banks' total income with growth of 31% in 2023.

**(All figures in Rs. billion)**




Following is the break-up of NFI components over the last 5 years:

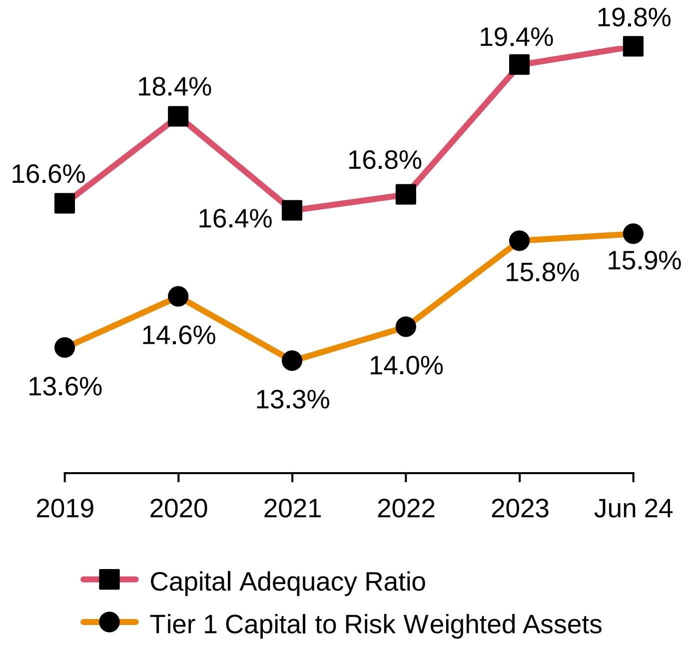



## 10. Capital adequacy

Capital Adequacy Ratio (CAR) climbed to 19.8% in Jun-24 from 16.8% in 2022, whereas Tier-1 capital to Risk Weighted Assets (RWA) ratio rose to 15.9% in Jun-24 (Dec-22: 14%) depicting financial soundness/ stability.

This is also propelled by sizeable investments in and earnings from risk-free government securities.

5-year trends in CAR and Tier-1 capital to RWA are provided below:



# 4.

# Economy

One of the core themes we discussed with the industry leaders and senior professionals was the country's economic positioning and outlook. This section captures their perspectives along several key themes (1) economic challenges and reforms (2) export diversification (3) import substitution (4) agricultural growth (5) fiscal reforms (6) tax reforms (7) privatisation (8) subsidies (9) resource building and (10) domestic productivity.

Experts underscored the importance of addressing structural deficiencies to improve GDP growth rates and other key economic indicators for sustainable progress. Consistency of economic policies, clear and actionable long-term plan/ roadmap of interventions was stressed as one of the key enablers of economic transformation.

Experts also opine that increasing import and consumption orientation in the past has led to severe impacts on balance of payments, foreign exchange reserves as well as on domestic economic value add. They consider potential for export diversification and import substitution enormous, specially in agriculture and tech sectors. Focus was also on agriculture growth potential where we discussed opportunities that can be enabled through targeted subsidies and modernisation.

On the fiscal horizon, experts widely agree that there is need for tax and other reforms, including broadening of tax net, privatisation of state-owned enterprises and pursuing public-private partnerships.

With respect to subsidies, there is wider consensus on reassessing our model to increase impacts through targeted interventions. Our resource model also needs to align with local and global demand of skills and quality output. Lastly, experts also share their views on optimising domestic productivity through focus on deeper, integrated, end-to-end, industrial, SME and agriculture value chains.

# Economic challenges

"In the past, high growth rates have usually triggered considerable balance of payment deficits and foreign exchange imbalances - hence critical to address structural deficiencies."

**Dr. Inayat Hussain,**
**Deputy Governor,**
**State Bank of Pakistan**

"Pakistan's poverty index is ~40% (historically ~20%), vs. India and Bangladesh 15%-20%. Another 20% borderline segment lives with very compressed income levels. Corresponding lack of purchasing power may create major domestic demand challenges."

**Mr. Salim Raza,**
**Former Governor,**
**State Bank of Pakistan**

"Generating growth in mid-to-long term is critical to revive GDP levels to 4%-5% annual increase. Sub-optimal 2.5% growth may not yield per capita impact, being absorbed by more or less similar increase in population."

**Mr. Salim Raza,**
**Former Governor,**
**State Bank of Pakistan**

"Steps undertaken by SBP have had a positive impact with significant reduction in inflation and stabilisation of the currency. The economy is on its way to recovery; however, a lot must be done to build a sustainable economic model going forward."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"Economic challenges of the country were aggravated by the increase in global commodity prices. Pakistan's consumption-based import model resulted in increasing trade deficit and currency devaluation. Sharp rise in inflation adversely impacted the living standards of the citizens of Pakistan."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

# Economic challenges

"Lack of long-term planning, frequent policy changes and inefficient public sector enterprises are major reasons for Pakistan's economic challenges."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

"There have been global inflationary pressures severely impacting Pakistan's import bill (both energy and commodities."

**Mr. Khurram Shahzad Khan,**
**President & CEO,**
**Habib Metropolitan Bank Limited**

"While current account is in control, it came at the cost of substantial import curtailment, with consequent impacts on GDP growth."

**Mr. Khurram Shahzad Khan,**
**President & CEO,**
**Habib Metropolitan Bank Limited**

"Monetary correction/ mark-up rate adjustments until recent past also had consequential implications on businesses."

**Mr. Khurram Shahzad Khan,**
**President & CEO,**
**Habib Metropolitan Bank Limited**

"There has been lack of consistent and sustainable economic policy interventions, leading to perennial challenges on multiple fronts."

**Mr. Yousaf Hussain,**
**President & CEO,**
**Faysal Bank Limited**

# Economic reforms

"Investments can only be attracted through consistent forward-looking economic policies, with a time bound roadmap of medium-long term interventions."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"Consistency of economic policies is critical to provide a sustainable path to recovery and attract both local and foreign investments."

**Mr. Rehmat Ali Hasnie,**
**President & CEO,**
**National Bank of Pakistan**

"We must focus on structural adjustments in the short-medium term with clear roadmap for meaningful economic growth."

**Mr. Rehmat Ali Hasnie,**
**President & CEO,**
**National Bank of Pakistan**

"As there is stiff competition for foreign capital, only long-term consistent policy can secure a scalable foreign investment."

**Mr. Irfan Siddiqui,**
**President & CEO,**
**Meezan Bank Limited**

"Implementing long-term plan, and alignment of monetary and fiscal policies are crucial for economic revival and sustainable growth.

Increasing investors' confidence - critical to improve Pakistan's perception, and market our brands and industries effectively to attract foreign investors."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

"There are no quick fixes for addressing our economic imbalances - need for a long-term, forward looking, sustainable Corporate Pakistan Plan."

**Mr. Yousaf Hussain,**
**President & CEO,**
**Faysal Bank Limited**

## Export diversification

"IT sector presents considerable export diversification opportunity, evidenced by reasonable growth rates – Annual IT exports to exceed USD 3 billion."

**Dr. Inayat Hussain,**
**Deputy Governor,**
**State Bank of Pakistan**

"Pakistan needs to move towards an export led economy. Agriculture and IT services exports are low hanging fruits which can be pursued immediately."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"Export growth may be pursued through investments in agriculture output, textile innovation and tech resources."

**Mr. Irfan Siddiqui,**
**President & CEO,**
**Meezan Bank Limited**

"Boosting exports through a dual focus on revitalising heritage sectors - cottage, cutlery and sports – and driving IT innovations."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

## Import substitution

"Almost 1/3 import concentration is in fuel – substitution, to an extent, may only be possible through well thought out plans to increase domestic output."

**Dr. Inayat Hussain,**
**Deputy Governor,**
**State Bank of Pakistan**

"We must reduce our reliance on imports, particularly those that are consumption-based and non-essential. Imports for production purposes should be encouraged in the short- term and wherever possible we must move towards import substitution."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"Investing in research and education, as well as implementing import substitution strategies may stimulate domestic production and reduce reliance on imports."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

# Agriculture growth and import substitution

"Biggest import substitution opportunity lies in agriculture - Food related imports comprising edible oil, wheat and cotton involved major foreign exchange outlay."

**Dr. Inayat Hussain,**
**Deputy Governor,**
**State Bank of Pakistan**

"We need to focus on productive sectors i.e. agriculture and industries. Particularly, agriculture may require substantial import substitution where subsidies can be provided in lieu of foreign exchange outlay on imports."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"About 50%-60% of GDP comes either from agriculture or industries built thereon. Agri focus needs to heighten considering potential food security challenges, with Pakistan being the 5th most populous country in the world."

**Mr. Muhammad Nassir Salim,**
**President & CEO,**
**HBL**

"Collective efforts are required to overcome mechanisation challenges for small landholdings, provide farmers with right tools, equipment and knowledge base to increase productivity and revenue streams."

**Mr. Muhammad Nassir Salim,**
**President & CEO,**
**HBL**

"It is important to ensure food security under an effective agricultural policy, aiming at critical commodities for domestic consumption – may also create potential for import indigenisation."

**Mr. Rehmat Ali Hasnie,**
**President & CEO,**
**National Bank of Pakistan**

"To support agriculture sector, an effective plan may be introduced including review of subsidies, introducing modern research labs and establishing more agricultural universities."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

"Looking at agriculture alone, it has a delta of $15 billion in our current account. Adequate support to the sector including extending the targeted subsidies, focused towards enhancing productivity which is the single biggest challenge for our economy, society, may help in capitalising the opportunity to increase exports and indigenise imports. Gradual tariff reduction to promote competitive industries to ensure external account robustness is the key."

**Mr. Zafar Masud,**
**President & CEO,**
**Bank of Punjab**

## Fiscal reforms

"Fiscal consolidation may be immediately pursued to avoid borrowing for paying government's consumption expenditure."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"Our economic repositioning may require stability of policies over longer term, creation of fiscal space by exploring both inflow and outflow rationalisation."

**Mr. Muhammad Nassir Salim,**
**President & CEO,**
**HBL**

"Our problems fundamentally rests in the fiscal account. So, the space to assent the extent of  subsidies, for example, to promote FX flows/ exports, can only be possible with flexibility in fiscal resources."

**Mr. Zafar Masud,**
**President & CEO,**
**Bank of Punjab**

"Public Private Partnership (PPP) mode may be encouraged and adopted in relation to public spendings and investments including Public Sector and Annual Development Programs."

**Mr. Zafar Masud,**
**President & CEO,**
**Bank of Punjab**

## Tax reforms

"There is need to expand our tax net. Effective enforcement of tax collection is critical, but what is equally important is a fair and equitable tax system both in terms of how it is collected and how tax revenue is spent."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"Fiscal space needs to be created by broadening the tax base through inclusion of agriculture, retail and real estate."

**Mr. Irfan Siddiqui,**
**President & CEO,**
**Meezan Bank Limited**

"Three big sectors i.e. retail, agriculture, and real estate, which accounts for 52% of the GDP, historically overwhelmingly out of the tax net, will have to be brought into the public exchequer."

**Mr. Zafar Masud,**
**President & CEO,**
**Bank of Punjab**

"Tax net may be broadened to cover retailers, agriculture and real estate."

**Mr. Yousaf Hussain,**
**President & CEO,**
**Faysal Bank Limited**

# Privatisation of state-owned enterprises

"Privatisation of loss-making entities should remain top priority."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"Immediate privatisation of loss-making entities may help create much needed fiscal space."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"Expediting privatisation of state-owned enterprises will help ensure fiscal discipline."

**Mr. Irfan Siddiqui,**
**President & CEO,**
**Meezan Bank Limited**

"Vital to timely privatise state-owned enterprises and address circular debt."

**Mr. Shoaib Mumtaz,**
**President & CEO,**
**MCB Bank Limited**

"Privatisation of state-owned enterprises is critical to enhance productivity and minimise wastages."

**Mr. Yousaf Hussain,**
**President & CEO,**
**Faysal Bank Limited**

## Rationalisation of subsidies

"Subsidies will have to be closely relooked at to ensure those remain very targeted."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"We need to review the way we distribute subsidies. Investment must be directed towards research and development, upskilling our labour force, technology and innovation, yield and productivity enhancement, and promotion of exports."

**Mr. Muhammad Jawaid Iqbal,**
**President & CEO,**
**United Bank Limited**

"It is critical that we replace the current subsidy model with direct subsidies for a) poor and vulnerable b) export-oriented sectors/ FX flows and must be time bound, and performance driven."

**Mr. Zafar Masud,**
**President & CEO,**
**Bank of Punjab**

## Resource building

"Skill sets of labor force, especially the youth, may be aligned with the demand in the local and global economy."

**Dr. Ishrat Husain,**
**Former Governor,**
**State Bank of Pakistan**

"With more than 50% of our population under 30 years of age, a strategic educational curriculum can equip youth to find opportunities in Pakistan as well as in other countries facing aging demographics and declining birth rates."

**Mr. Muhammad Nassir Salim,**
**President & CEO,**
**HBL**

## Optimising domestic productivity

"We need to optimise the value chains, focus on high-end/ premium value generating verticals, undertake upstream and downstream integrations and, in the process, unlock true potential of our industries and agriculture."

**Mr. Muhammad Nassir Salim,**
**President & CEO,**
**HBL**

"Investments in export-oriented sectors essentially entails substantial imports to increase capacity in the mid-long term. Hence, immediate focus may be on potential for domestic production without recourse to imports."

**Mr. Rehmat Ali Hasnie,**
**President & CEO,**
**National Bank of Pakistan**

"Industrialisation is pivotal to enhance domestic value add by re-skilling, re-tooling and re-deploying our large workforce."

**Mr. Yousaf Hussain,**
**President & CEO,**
**Faysal Bank Limited**

# 5.

# Scaling priority sector financing

# Scaling priority sector financing

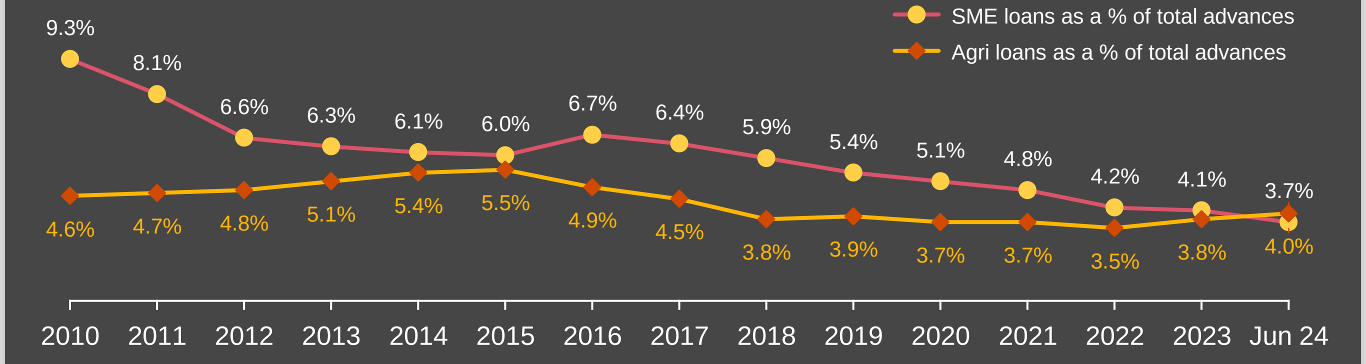
SMEs and agriculture are the backbone of Pakistan's progress.  Today we have at least over 5 million SMEs operating across formal and informal sectors of manufacturing, trading and services.

Contributing to 40% of GDP, SMEs constitute nearly 90% of all private enterprises in Pakistan, generate 30% in export earnings and employ 30% of workforce. Considering Pakistan has a population exceeding 240 million, SME development is critical amidst intensifying challenges of poverty and unemployment.

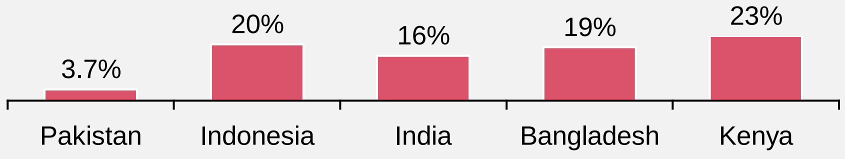
Despite historic importance, access to affordable growth capital remains restrictive largely due to SMEs being undocumented with insufficient collateral. Of over 5 million enterprises, currently only 3.5% have borrowed from banks. In relation to agriculture, even today, around 75% of farmers rely on informal sources of credit.

Financing to these critical sectors has been declining over the years – currently at less than 8% of total loans, with SME at 3.7% and agriculture at 4%.

## Loans to priority sectors as % of total advances

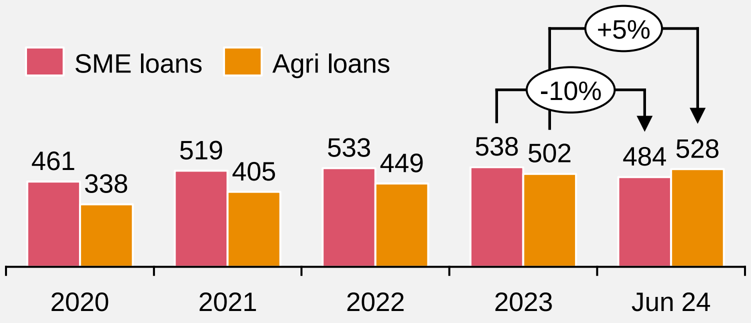



We also analysed SME credit intervention in Pakistan vis-à-vis in certain regional economies, signifying a sizeable opportunity:

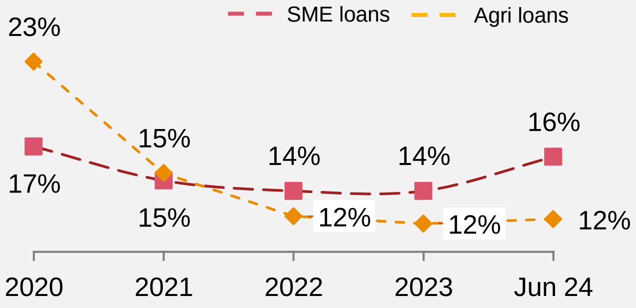



## Agri financing gradually increasing with flat NPL ratio, while financing to SMEs declining alongside rising NPLs

**Outstanding loan portfolio – in Rs. billion**




**NPL ratio of priority sectors**




"SME and Agri contribution is steeply falling, standing now at 7% of overall loan book, almost half of what it was in 2010. Pakistan's SME lending is at 3.5% of total loans vs. Bangladesh, India and Asia ~20%."

Mr. Salim Raza, Former Governor, State Bank of Pakistan

"~9 million individuals and entities borrowing from microfinance banks/ institutions and ~5 million from NBFCs, indicate the appetite for small credits and the criticality of microfinancing.

There are only 165K borrowers out of 5 million SMEs in Pakistan – to bolster priority sector financing, banks may create distinct verticals solely focusing on MSMEs and other sectors."

Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

## Supply-side challenges

Notable reasons for trends witnessed in lending to these priority sectors include NPL experience over time, limited credit appetite/ capabilities and lack of access to credible data (including cash flows). Industry stakeholders opine that banks remain hindered in lending to these specialised segments since:

- Large physical network and resourcing is needed to: (1) create awareness of solutions (2) for financial advisory
- Required skills to lend to these specialised sectors is limited
- Rising NPLs impact credit appetite and ability for clean lending
- Credit bureau scores based on alternative data are not adequately available
- Lengthy lending processes and turn-around-time irrespective of the loan size
- Limited if any cluster-specific program-based lending
- Structures generally are "SME and Commercial" with similar relationship managers for both, who meet targets through commercial lending with limited focus on SMEs

  Extensive documentation is required, as applicable for large entities, which is challenging for SMEs to comply with

> **"In relation to priority sector financing – challenges exist both on the demand and supply side.**
>
> **SME remains an undocumented sector – information asymmetry and lack of alternate scoring models create complications. Data with utility companies and telcos is largely not accessible or not of requisite quality."**
>
> Dr. Inayat Hussain, Deputy Governor, State Bank of Pakistan

> **"Data and documentation are major challenges to scale priority sector financing."**
>
> Mr. Rehmat Ali Hasnie, President & CEO, National Bank of Pakistan

> **"Data availability remains the key challenge in financing to businesses. It is critical for credit bureaus to provide credit scores to enable business financing."**
>
> Mr. Shoaib Mumtaz, President & CEO, MCB Bank Limited

> **"We, as commercial bankers, are not necessarily trained to deal with sectors like Agriculture and SME. Completely different skills, mindset and risk appetite is needed to promote banking facilities, including financing, in these priority sectors. Specialised Institutions under the PPP structure is the way to go, perhaps. Without progress in these sectors, our human development index remains compromised and thus the sustainable economic growth."**
>
> Mr. Zafar Masud, President & CEO, Bank of Punjab

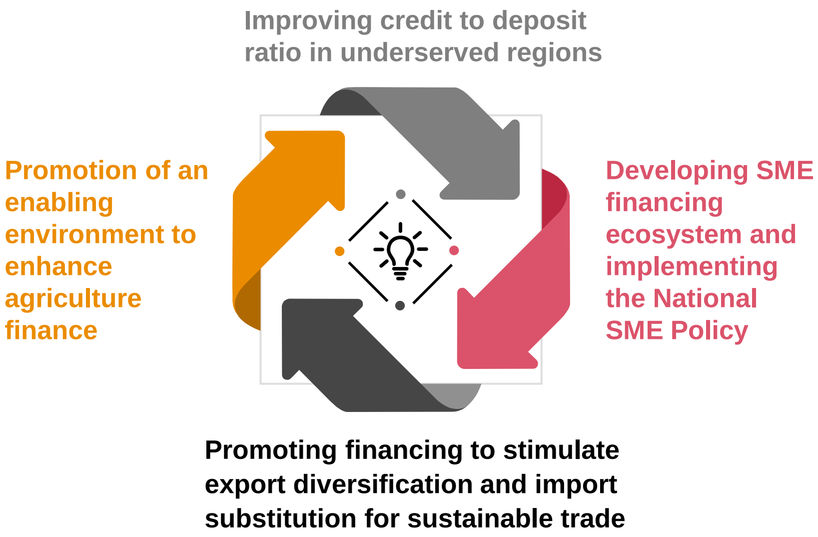
Industry experts are of the view that even banks that are actively financing to priority sectors have a 90% collateralised portfolio with mere 10% being cash flow based or unsecured. Only 25% of lending is program-based.

Shifting macro-economic dynamics impact SMEs more severely than larger firms. Higher borrowing costs make it prohibitive for such entities to borrow from financial institutions.

Whilst SMEs are growing both in number and revenues, they are addressing their growth capital needs either through their own equity or through easy informal sources of finance which do not require any documentation, disclosures or collateral. Some entities are willing to borrow through formal channels provided the lending process is simple, fast and does not require extensive documentation.

## Regulatory enablement

The State Bank of Pakistan has been at the fore-front to promote inclusive and sustainable access to financial services across the country. This has also been identified as one of its strategic goals in the Strategic Plan 2023 – 2028. To this effect, SBP intends to strengthen the financial inclusion framework through targeted policy initiatives for agriculture and SMEs, along side other priority sectors of microfinance, housing finance and trade finance, broadly entailing the following:




Another objective is to promote financial literacy among farmers and SMEs. For this purpose, SBP aims to leverage digital, harnessing the power of technology.

> **"Collaborative efforts of the industry, with requisite regulatory intervention, are expected to increase SME financing to over Rs. 1 trillion over 5 years, with 4 times increase in borrowers base.**
>
> **Several initiatives are in progress to enhance SME financing**
>
> **a) An updated SME census to capture current market size**
>
> **b) Updating SME definition to reflect current dynamics**
>
> **c) Introducing more optimal risk sharing/ coverage scheme for financial institutions (e.g. 20% for small and 10% for medium entities on first loss basis)**
>
> **75% of farmers rely on informal credit sources with unfavourable terms. Initiatives underway to expand the current agri borrower base of 2 million by 100% over 5 years."**
>
> Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

> **"Need for all stakeholders including Government, regulators and banking industry to collaboratively introduce necessary legislative changes and reforms for promoting business banking."**
>
> Mr. Shoaib Mumtaz, President & CEO, MCB Bank Limited

**To enable SME financing, SBP has recently undertaken various measures relating to the following:**

- Promoting digital supply chain finance
- Introduced Risk Coverage Scheme to secure banks' fresh exposure
- Increased per party exposure limits and clean lending limits
- Launched a Challenge Fund for Technology Adoption & Digitalisation of SME Banking to support innovative solutions

## Need to augment capabilities and collaborate

Over the recent years, there is growing appreciation of the criticality of both SMEs and agriculture to our national development and prosperity. There are few banks with focused strategies, niche business, risk, people and technology models with dedicated verticals to effectively penetrate into and serve these sectors.

With the growing number of fintechs and platform-based businesses, we are witnessing increasing trends of banks collaborating with these non-traditional players to support our priority sectors beyond extending vanilla banking solutions. Whilst increased credit risks hover in the backdrop, banks may consider enhancing their credit appetite and augmenting their capacities for effective penetration.

> **"Banks will have to change mindset and skill set because agriculture and SMEs cannot be treated in the same way as corporates. Their needs can only be effectively catered through programme based, cash flow financing."**
>
> Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

## Transforming the ecosystem through active public-private partnerships

To achieve scale, there is fundamental need to develop an adequate ecosystem with a role to play not only by the regulator and the Government but by various entities across both public and private sectors.

Industry experts are of the view that whilst there exist manifold opportunities for digital financing, there is need for the overall ecosystem to transform. Some are of the view that there is extensive reliance on physical documentation over doubts of e-signature recognition in courts; potentially resulting in recourse challenges.

> **"Automating provincial land records is critical to penetrate into 'new to industry' agri sector borrowers."**
>
> Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

For digital lending to effectively take-off, access to alternate data of entities in the informal sector is key, particularly in the absence of any information on cash flows. To enable this, collaborative efforts at the national level are necessitated. There is need to onboard the Government, regulator, banking and industry stakeholders who can enable the process and contribute alternate data to optimise credit bureau infrastructure.

> **"There exist demand side issues in SME financing represented by lack of cash flow history, particularly for small entities. An effective solution may be to bring more merchants on to digital platforms to generate such history and make them bankable."**
>
> Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

> **"Enormous opportunities exist in digital supply chains with untapped potential of financeable material i.e. invoices along the cycle, and related discounting/ factoring/ purchasing propositions."**
>
> Mr. Salim Raza, Former Governor, State Bank of Pakistan

In many emerging economies, separate institutions and development banks are set-up for dedicated focus and support to SMEs and agriculture. Senior industry stakeholders opine that there is need for a planning commission and priority-sector led industry policy outlining clear objectives for mid-to-long term to help rejuvenate these specialised sectors in Pakistan.

> **"Role of specialised institutions is also pivotal in extending priority sector credit penetration in the country."**
>
> Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

# Certain initiatives/ schemes that helped promote SME and Agriculture sectors in select jurisdictions

## India

- **Open Credit Enablement Network (OCEN)**
  - Digital infrastructure that simplifies and standardises the lending process – a part of the India Stack (for details please refer to section 7 on 'The digital frontier: Emerging trends and opportunities')
  - Enables easy access to credit by facilitating data sharing and interoperability among financial institutions
  - Collaborative effort of numerous stakeholders inside the Indian financial atmosphere, comprising financial establishments, Loan Service Providers, and Technology Service Providers
- **Public Sector Bank Loans in 59 Minutes**
  - An online marketplace - enables self-employed professionals and MSMEs to apply for business loans
  - Loan scheme initiated by Small Industries Development Bank of India
  - Can get loan approval for amount from Rs. 10 Lakh to Rs. 5 Crore in less than 59 minutes from Public and Private Sector Banks
- **Trade Receivables Discounting System (TReDS)**
  - Introduced by Reserve Bank of India
  - Unified platform for sellers, buyers and financiers – facilitates uploading, accepting, discounting, trading and settling of invoices / bills of MSMEs and facilitating both receivables as well as payables factoring
- **Pre-sanctioned credit lines through Unified Payments Interface**
  - Innovative financial offering - empowers individuals and businesses to access pre-sanctioned credit lines from banks
  - Facilitates the availability of low-ticket, high-volume retail loans
  - Leveraging data analytics and AI, banks can identify credit line opportunities for customers and merchants engaged in UPI-based digital payments

## Bangladesh

- **Central bank has created the SME & Special Programme Department to support SME financial inclusion**
  - Requires at least 15% of refinanced funds provided to its banks be extended to women entrepreneurs at not more than 10% annual interest rates
  - Is building capacity to collect gender-disaggregated data from banks to monitor implementation of its women-led SME policies
- **Small Enterprise Refinance Scheme for Women Entrepreneurs**
  - Fund increased through multiple augmentations and now stands at BDT 30 Billion
  - To promote women entrepreneurs and encourage their participation, refinance facility is exclusively available at a low interest rate, capped at a maximum of 5%
  - Introduced incentive programmes for banks and Cottage, Micro, Small and Medium women entrepreneurs

## Australia

- **Development of Australian Business Growth Fund**
  - Purpose-built growth capital fund dedicated to investing in entrepreneurs and disruptors across the SME sector
  - Alternative to banking lending and private equity funding
  - Under public-private partnership model between the Federal Government and six leading banks
  - Injects $5-$15 million of capital into a growth-ready business for a minority stake of up to 49%

## Certain initiatives/ schemes that helped promote SME and Agriculture sectors in select jurisdictions

### Singapore

- **Singapore Trade Data Exchange (SGTraDex)**
  - Digital infrastructure that facilitates trusted and secure sharing of data between supply chain ecosystem partners
  - Brought together through a strong public-private partnership model (including four leading banks)
  - Connectivity with SGTraDex helps to enhance digital financing and document exchange process across different platforms through digitalised end-to-end workflows

### Vietnam

- IFC provided a $100 million loan and advisory services package to Oriental Commercial Bank (OCB) to expand its SME portfolio with a focus on women entrepreneurs
- Project is expected to provide financing to more than 1,700 women entrepreneurs and become a benchmark for other financial institutions to grow their women-focused portfolios

### Kenya

- **Hustler Fund - flagship programme of the Government to enhance MSME financial inclusion**
  - Aims to uplift low-income individuals by providing affordable digital loans for personal use, group lending, and small businesses
  - Offers single-digit interest rates and has launched personal and micro loan products
  - Provides medium-to-long term finance for the purchase of machinery, equipment and working capital, either for start-ups, expansion, modernisation or rehabilitation focusing on priority sectors
- **Uwezo Fund:** women, youth and persons with disabilities are able to access finance to promote businesses and enterprises at grassroot level
- **Youth Enterprise Development Fund:** provides affordable credit to youth led businesses in order to mainstream their participation in economic growth
- **Kenya Youth Employment and Opportunities Project (KYEOP):** Ministry through the Micro and Small Enterprises Authority has been implementing the KYEOP which provides targeted youth with start-up grants to start and grow their businesses

Efficient priority sector financing in Pakistan can be enabled through collective efforts of all industry participants. One of the most critical element to this effect is progressing towards documentation, for which there is need to augment the national data infrastructure.

There are tremendous growth prospects in Pakistan - not only in cities connected to well-established road networks but well beyond where banks are yet to venture and explore untapped opportunities. To effectively pursue this potential, banks may need to not only augment existing capabilities through dedicated business verticals and enhance credit appetite, they may also have to design an all-encompassing proposition with (1) segment-focused deposit strategies and value-added services (2) digital payments platforms customised to needs of different businesses (3) incentives considering business necessities and (4) lending solutions built around unique business requirements of different clusters. Such propositions may also be designed in tandem with non-traditional players, collaboration with whom may enable banks to explore markets and serve segments digitally without the need for costly brick and mortar structures.

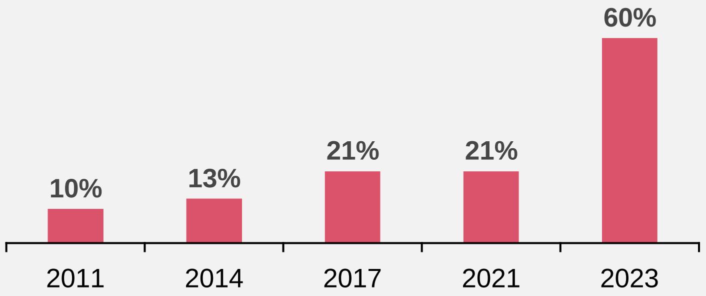
# 6.

# Financial inclusion: Increasing access for underserved

# Financial inclusion: Increasing access for underserved

Pakistan has made some major advancements in financial inclusion - the country accounts for 4% of the world's unbanked adult population, improving from 9% in 2021. Financial inclusion ratio has surged to 60% in 2023, nearly 3 times increase from 2021 levels continuing since 2017.

**Account Ownership (%, age +15)**




*Sources: PwC proprietary insights and analysis, SBP, World Bank*

> **"Pakistan's bankable population, excluding those living below the poverty line, could be under 100 million. With ~100 million bank accounts and >100 million branchless wallets, access to finance is more of a concern (than basic banking penetration), depicted by only ~1 million borrowers of commercial banks."**
>
> Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

While the increase in financial inclusion ratio is significant for the nation, Pakistan's positioning compared to certain regional peers and emerging economies still reflects some unpenetrated space.

**Financial inclusion ratio greater than 75% in regional and emerging economies**


*Sources: PwC proprietary insights and analysis, SBP, World Bank*

## Key enablers to rising financial inclusion in Pakistan

Initiatives spearheaded by the Government and regulator around limited KYC account schemes, digital banking, broadening access to financial services, gender mainstreaming policy, and financial literacy – to name a few, have contributed to enhancing inclusion and will remain vital going forward too.

## Commonly cited reasons to remain unbanked

According to Global Findex Database 2021, commonly cited reasons for not opening bank accounts range from lack of documentation, lower trust, religious factors, physical proximity of branches, to affordability of financial solutions and insufficient funds.

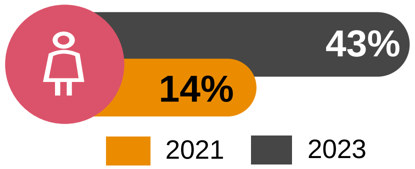
High costs-to-serve attributable to brick-and-mortar structures has been a challenge hindering banks globally in providing universal access to financial services. Similar is the case in Pakistan due to which there has historically been limitations in penetrating into unserved and underserved segments.

This however, does not hold true for all banks. There is growing recognition of the fact that financial inclusion is a basic right, can aid in reducing poverty and propel equitable growth.

In view of the same, strategic inclusive banking initiatives have been designed by few institutions. These banks have set-up dedicated verticals, invested in resources and developed niche solutions addressing financial needs beyond everyday banking.

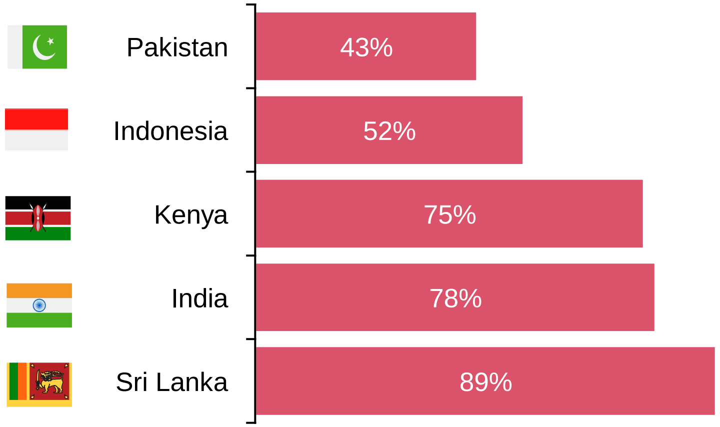
## Women inclusion

With overall financial inclusion rising to 60%, women inclusion has also seen significant stride – up from 14% in 2021 to 43% in 2023.




Key reasons for relatively lower women inclusion in Pakistan include lack of CNIC, financial literacy and mobile SIM ownership – mostly emanating from social factors that may be addressed by increasing awareness on the benefits of being banked

Despite massive increase, Pakistan's positioning relative to other economies presents vast scope for intervention.




*Sources: PwC proprietary insights and analysis, SBP, World Bank*

There has been increasing focus by banks on introducing women-centric propositions. Resultantly, women comprise 25% - 30% of the customer base at these banks, up from an average of 22% in 2022, with an active account ratio between 60% - 70%.

One of the most important levers to enhance women inclusion is the role of the regulator. In 2021, State Bank of Pakistan (SBP) launched the gender mainstreaming policy "Banking on Equality: Reducing the gender gap in financial inclusion". Targets have been set under this policy for banks to achieve the following by 2024:

- Place Women Champions at 75% of all bank touch points
- Increase ratio of women branchless banking agents to 10%
- Impart gender sensitivity trainings to all employees
- Increase outreach of products, services and financing to women entrepreneurs; to reach 20 million unique active digital accounts

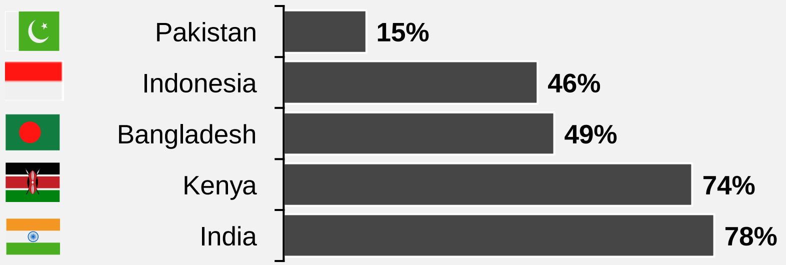
# Rural inclusion

Even at banks with larger branch networks, the average rural penetration hovers around 15% to 20%. Very few are actively strategising to expand access using digital as a lever alongside branch presence. Such institutions have enabled optimisation of their rural customer base in the range of 25% - 40%.

It is hence not surprising that financial inclusion in rural Pakistan stands at 15% and comprises 16% of total deposits balance held by individuals as of June 2024.

**Rural inclusion ratio greater than 45% in regional and emerging economies**

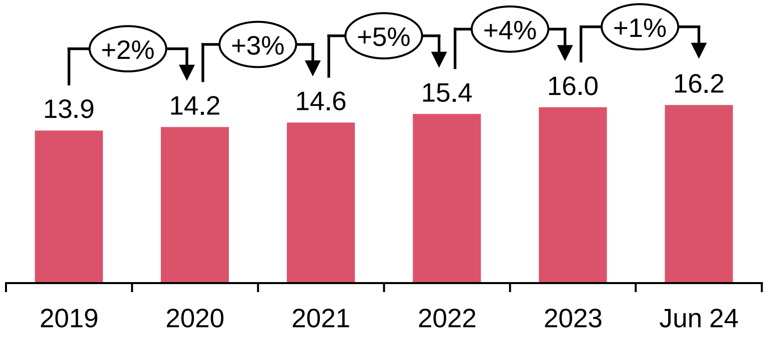
**Rural accounts (% age 15+)**




*Sources: PwC proprietary insights and analysis, World Bank*

Whilst physical network has been expanding over time, the potential for further penetration continues to exist particularly across rural and underserved areas. This potential is further highlighted when we compare branch and ATM network per 100K adults in Pakistan vs. other economies.

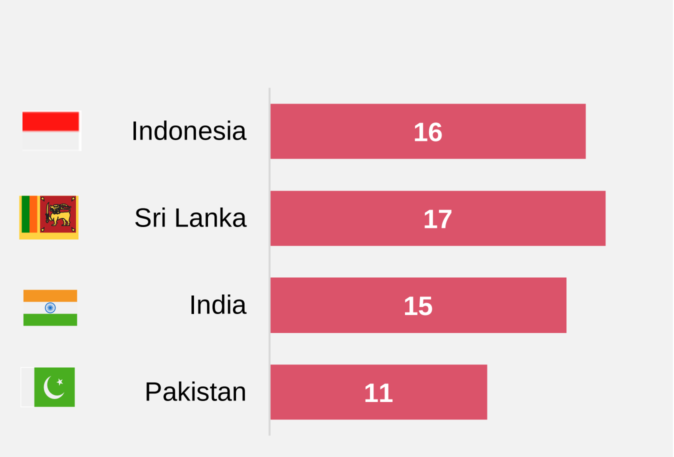
## Branch network expansion in Pakistan since 2019




*Sources: PwC proprietary insights and analysis, SBP*

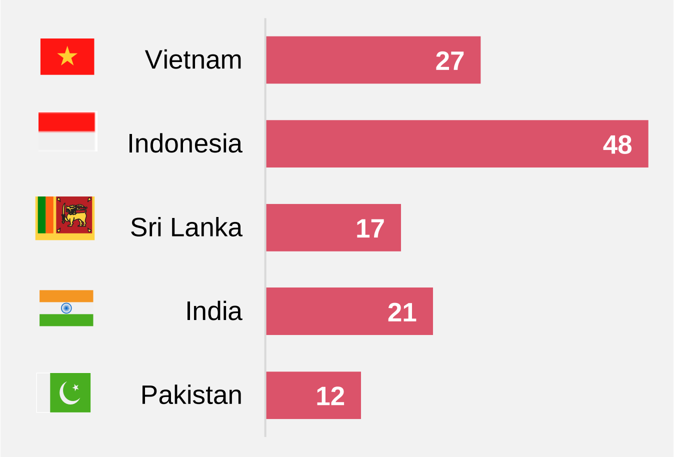
## Lower ratio of branches and ATMs per 100K adults in Pakistan vis-à-vis other economies

**Branches per 100,000 adults**




*Sources: PwC proprietary insights and analysis, SBP, World Bank*

**ATMs per 100,000 adults**




*Sources: PwC proprietary insights and analysis, SBP, World Bank*

## Increasing number of low value accounts

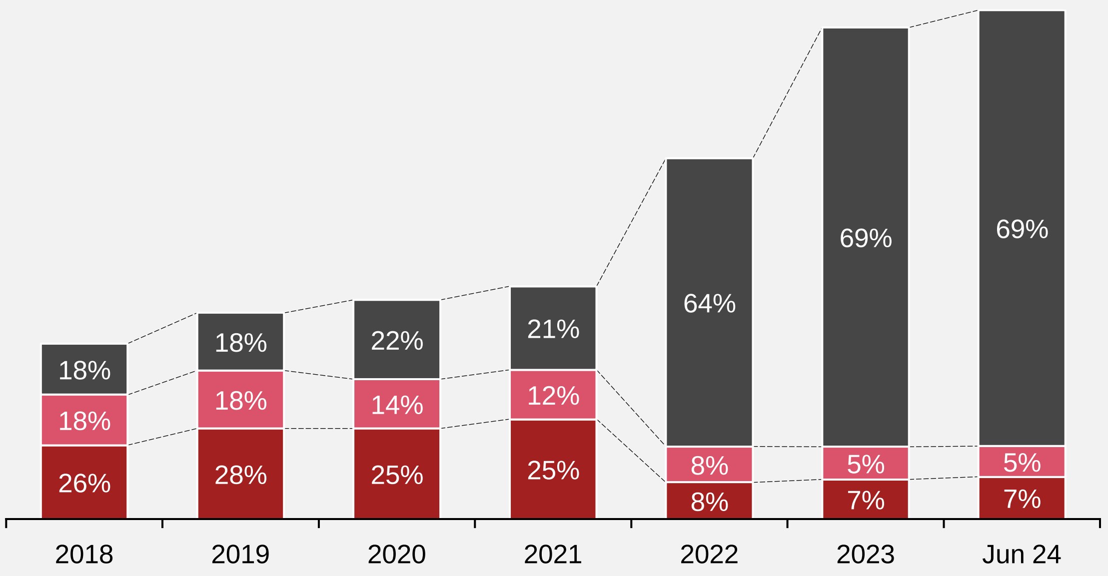
Since 2018, there has been a two times increase in the number of accounts held by individuals – from 42 million in 2018 to 93 million in June 2024.

Of these 93 million accounts, there are 64 million with balance of less than Rs. 25,000 comprising ~70% of the total base for individuals. In 2018, there were 7.5 million such accounts, representing 18% of the aggregate.

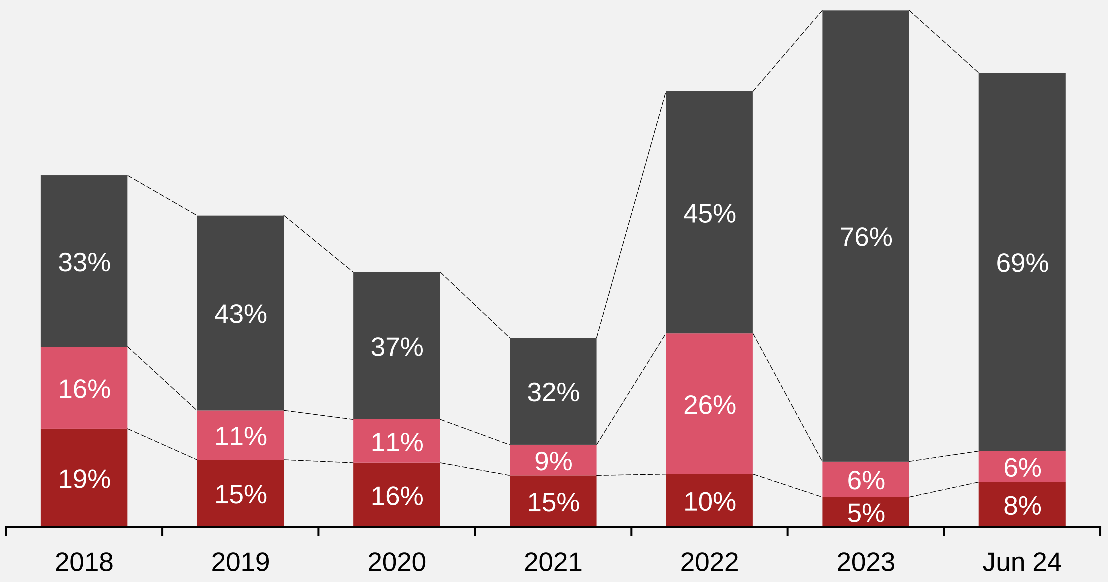
Similar trends are noted for business accounts where low value accounts comprise ~70% of the total number of business accounts, up from 33% in 2018.

These low-value accounts have expanded seven times over since 2018, signaling the need to optimise engagement levels.

**9x increase** since 2018 in the number of accounts held by individuals with deposit balances <Rs. 25,000

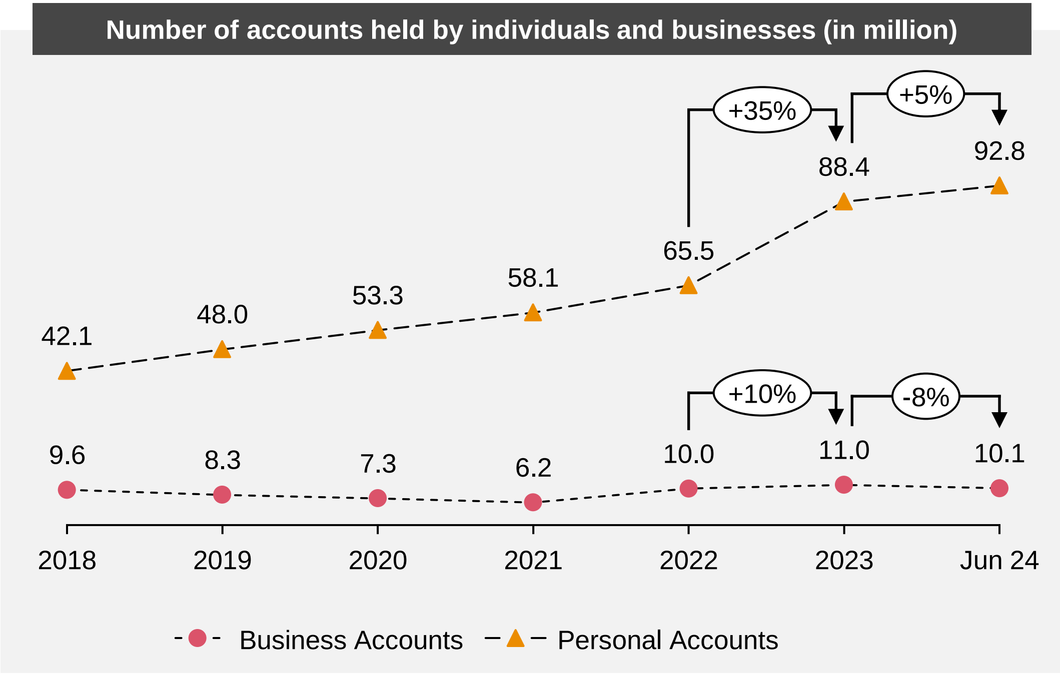



**2x increase** since 2018 in the number of accounts held by businesses with deposit balances <Rs. 25,000




Less Than 25,000 | 25,000 to 50,000 | 50,000 to 100,000

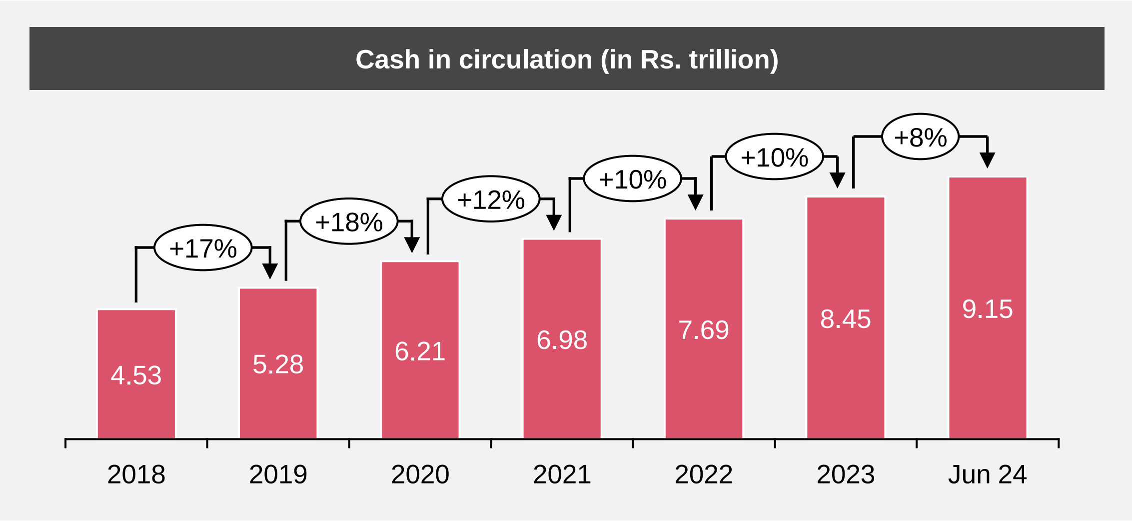
Number of accounts held by businesses was on a constant decline from 2018 till 2021. After a short growth trajectory, there has been a drop of 8% in June 2024 since December 2023.




*Sources: PwC proprietary insights and analysis, SBP*

## Cash dominance

Cash in circulation stands at Rs. 9.15 trillion - a two times increase since 2018 with growth rate of 102%, approximating 1/3rd of total deposits held at banks.




Cash dominance, as also covered in section 7 on 'The digital frontier: Emerging trends and opportunities', may have major implications for the economy. This may motivate continuous use of cash by households and businesses alike and limit financial empowerment of the marginalised segments of our society.

> **"Focus has to be on documentation, digitisation and inclusion of businesses which is showing much lower growth in unbanked population (compared to personal/ individual accounts). P2M may provide some push in this regard but over the medium-to-long term.**
>
> **Solutions and incentives to businesses for full declaration will be a pre-cursor to the digitisation objective."**
>
> Mr. Khurram Shahzad Khan, President & CEO, Habib Metropolitan Bank Limited

> **"Estimates suggest that Pakistan's informal economy may be valued at ~$300 billion. If formalized, this may effectively double the country's economic size, unlocking immense growth potential and transformative opportunities."**
>
> Mr. Atyab Tahir, Chief Executive Officer, HugoBank Limited

## Government and regulatory initiatives to promote financial inclusion

In 2015, Government of Pakistan launched National Financial Inclusion Strategy broadly focusing on:

- Facilitating account opening through mobile wallets
- Promoting e-commerce
- Increasing physical touchpoints for banking services
- Implementing national payment gateway
- Raising financial awareness
- Enabling receipt and management of inward remittances in real-time

SBP has undertaken several initiatives over the past two decades to enable inclusive economic growth, notable ones include:

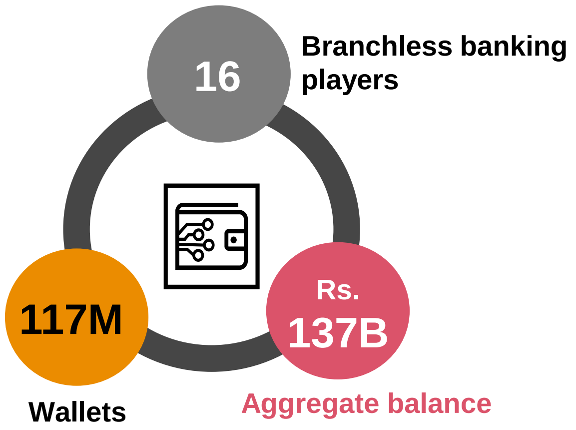
- Fostering diverse financial institutions through separate licensing regimes for microfinance banks, digital banks and Electronic Money Institutions (EMIs)
- Facilitating account opening through mobile wallets
- Interoperable inter-bank card payments platforms
- Tiered approach to KYC, with Branchless Banking (including Asaan Mobile Account) enabled via mobile wallets and USSD
- Limited KYC account schemes such as Asaan Account, Asaan Digital Remittance Account, Freelancer Digital Account etc.
- Digital on-boarding of merchants
- RAAST – instant payment system
- Nation-wide Financial Literacy Programme
- Child and Youth Financial Literacy Programme

Promoting inclusive and sustainable access to financial services is one of SBP's strategic objectives outlined within its Strategic Plan 2023 – 2028. It aims to:

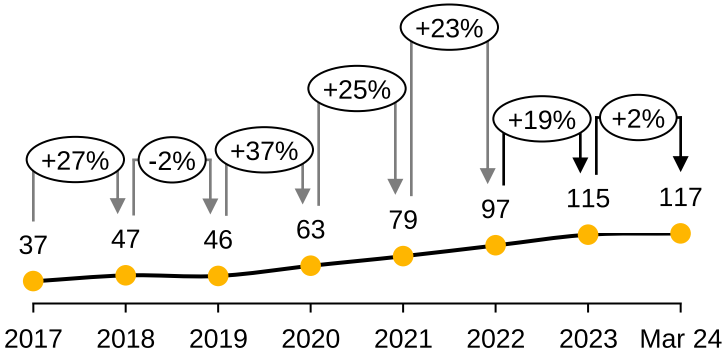
- Implement the Banking on Equality Policy (BoE)
- Implement and monitor financial literacy initiatives for:
  - Adults
  - Children/ youth
  - Farmers and SMEs

## Branchless Banking in Pakistan

Introduced in 2008 with the primary objective of financial inclusion and option for remote on-boarding, as of Mar-24 there are 16 Branchless Banking players with 117 million wallets, holding aggregate balance of Rs. 137 billion. 30% of these wallets are held by females (vs. 42% in Bangladesh)

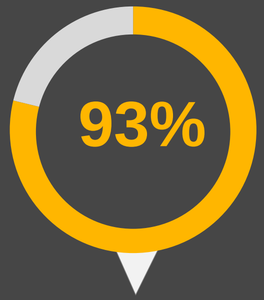



**Growth trajectory of Branchless Banking wallets (number in million)**




Over the last 6 years, balance per wallet has nearly doubled from Rs. 565 to Rs. 1,000. The active account ratio over the period, however, has been unstable. Declining from 52% in 2017 down to 44% in 2022, the ratio now is 51% standing close to 2017 levels.

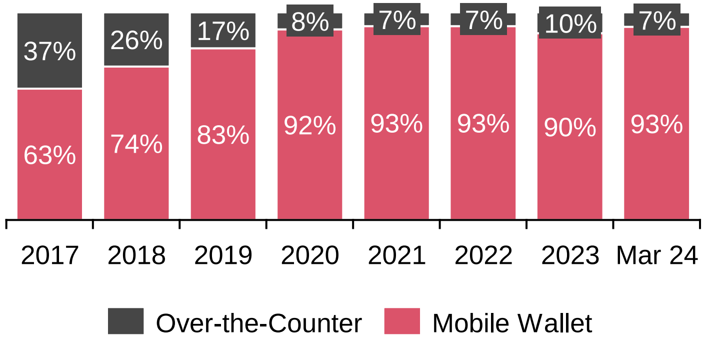
Branchless Banking proposition pivoted two key use cases for digital in banking. The first being customer acquisition with limited KYC, the second is fund transfers through mobile.




of all **Branchless Banking transactions** now take place through **mobile wallets** (Mar-24)

The share of Over-the-Counter (OTC) transactions has decreased phenomenally; from 37% in 2017 to 7% in Mach 2024. After rising to 10% in December 2023, the reducing trend appears to have set in again with OTC transactions comprising 7% of total Branchless Banking transactions.

**Branchless Banking transaction composition – OTC Vs. m-wallets**




*Sources: PwC proprietary insights and analysis, SBP*

Around 1/3rd of the 16 Branchless Banking players are more active in this space. Of those, few have rebranded their platforms aiming to provide a digital experience to the tech savvy youth, with the objective to shift those customers from branchless to mainstream banking.

Within the banking sector, in some cases, value proposition is narrow with limited, if any, options for savings, loans and insurance. This together with high transactional charges leads to low use and, hence, dormancy of close to 50%.

Leveraging the wallet proposition to build scale, very few banks have re-strategised and invested in brand rejuvenation. Some are exploring niche segments e.g. farmers, whilst few others focus on corporate partnerships for last-mile disbursements.

Relatively mature banks have expanded their solution suite, offering savings, remittances, nano-loans, embedded finance and white-label wallet solutions.

To increase engagement, certain banks have introduced e-commerce marketplace enabling cross-sell and up-sell to customers.

To increase affordability of banking services, agent commissions and transaction cost structures are also being rationalised.

## Asaan Mobile Account (AMA) Scheme – a ground-breaking initiative of international acclaim

Through this initiative introduced for low-income segments, any Pakistani holding a valid CNIC can open a bank account digitally, without the need for internet connectivity. These accounts can be opened using the SIM of any mobile operator in the country and transactions can be conducted through feature or smart mobile phones.

**7M+** **Accounts were opened in 2023**

**35%** **of these accounts were opened by women**

**Asaan Accounts** (other than AMA)

Number of Asaan accounts growing at an average rate of **25%**

Asaan accounts comprise **30%- 40%** of total new individual accounts opened in the industry

> **"Regulatory interventions particularly relating to ease of account opening through Asaan accounts, have helped promote female inclusion within the banking sector."**
>
> Ms. Mehreen Ahmed, Group Head – Retail Banking, Bank Alfalah Limited

## Expanding outreach to unbanked and underserved through wide-spread agent network

Agents have played a pivotal role within the Branchless Banking space, with ~650K touchpoints across Pakistan, but an active agent ratio of only 42%. This lower activation may be attributed to model complications, commission-based structure, marginal profitability and, possibly, overall absence of a coherent approach for financial inclusion.

### Agent network coverage in Pakistan

Some banks active in the Branchless Banking space and desirous of expanding agent network have entered into agreements with entities that have wider geographic footprints, such as courier companies, to extend branchless banking solutions to the masses.

Comparison of Pakistan's agent coverage with Bangladesh and Kenya highlights the extent to which agent network augmentation may be considered. Ratio for 15+ population to agent outlets stands at 238 in case of Pakistan, vis-à-vis 76 and 107 for Bangladesh and Kenya respectively (refer table below).

### Leveraging Agent Banking for Financial Inclusion

Agency banking has emerged as a powerful tool for financial inclusion worldwide, particularly in regions where traditional banking services are limited. Countries such as Bangladesh, Kenya, India, and others have demonstrated the effectiveness of strategic agent network expansion in reaching underserved populations..

| | Pakistan | Bangladesh | Kenya |
|---|---|---|---|
| Adult Population | 155M | 129M | 35M |
| No. of Agents | 650K | 1.7M | 327K |
| Adults per Agent | ~238 | ~76 | ~107 |

Regulatory interventions may involve enhancing the agency banking framework to extend agent-facilitated banking to all customer segments, with a wide range of products/ features for more every-day banking services beyond basic transactional needs.

## Certain initiatives/ schemes that helped promote financial inclusion

### India

- Pradhan Mantri Jan Dhan Yojana – a financial inclusion programme aimed at providing universal access to banking facilities, RuPay debit card with in-built accident insurance cover
- Micro-insurance and unorganised sector pension schemes
- Introduction of Business Correspondents under agency banking model, able to render diversified services through enabling solutions
- Banks required to open at least 25% of their total number of branches in unbanked rural areas
- Providing banking access to every village within a 5 km radius/ hamlet of 500 households in hilly areas
- Financial Inclusion Index introduced by Reserve Bank of India (RBI) to measure financial inclusion, encompassing banking, investments, insurance, postal, and pension sectors. It assesses access, usage, and quality, with a score ranging from 0 (complete exclusion) to 100 (full inclusion)
- Through the Financial Inclusion Dashboard – ANTARDRISHTI, RBI can monitor parameters at a national level with drill-down facility for regional, state and district level information
- Establishment of Common Service Centres for delivery of essential social welfare schemes, healthcare, financial and agriculture services in rural and remote areas

### Sri Lanka

- Banks required to open a minimum of two branches in rural areas, for each new branch established in urban areas
- Introduction of agency banking
- Postal savings account system
- Introduced the National Financial Inclusion strategy – few initiatives for:
  - Consumer protection
  - Collaborations with youth-focused organisations like the National Cadet Corps and National Youth Corps
  - Women empowerment through community health network
  - Educating migrant workers on financial management and digital transfers
  - Promoting QR payments to three-wheeler and cab drivers

### Indonesia

Laku Pandai Programme

- Three party programme between banks, agents and customers
- Offers basic saving account, micro-insurance and micro-credit products
- Supported by an agent network of over 400,000

# Certain initiatives/ schemes that helped promote financial inclusion

## Bangladesh

- Introduction of No Frill Accounts – opened and maintained with zero balance, no levies, high interest rates offered
- School banking facilities - any student under 18 can open a school banking account by depositing minimum BDT 100
- Special accounts for street and working children, which can be opened with a minimum deposit of BDT 10 (referred to as BDT 10 accounts)
- Dedicated focus on financial services of women individuals and entrepreneurs in rural and urban areas
- Target based specific policies being formulated on financial inclusion for youth, physically challenged, old aged, third gender, underprivileged (floating communities, urban slum dwellers, marginalised segments residing in underdeveloped areas with inadequate infrastructure)
- Introduction of agency banking
- Mainstream banks gaining immediate rural access by integrating with existing agent networks 4,500+ Digital Centers

## Malaysia

- Framework formulated by central bank to advance the financial inclusion mandate. Key areas relate to:
  - Introduction of extended agency banking
  - Introduction of flexible micro-saving and micro-insurance products
  - Structured trainings for financial inclusion
  - Improving financial literacy
  - Leveraging technology to provide innovative solutions
  - Measurement of financial inclusion index

Financial inclusion may remain a persistent challenge, but one which is addressable. There are regional success stories we can learn from where innovative players leverage technology, customer networks and data to reduce transaction costs and deliver financial products most suited to low-income consumers.

Constant collaborative efforts on part of regulators and industry stakeholders may augment overall capacity to:

- Develop affordable digital financial solutions
- Design customer-centric solutions that overcome behavioural barriers
- Protect customers through rules for disclosure, fair treatment and recourse

> **Financial inclusion has been a key strategic objective of the SBP, and a robust, ubiquitous, user-friendly and cost-effective digital ecosystem is crucial for promoting financial inclusion.”**
>
> Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

# 7.

# The digital frontier: Emerging trends and opportunities

# The digital frontier: Emerging trends and opportunities

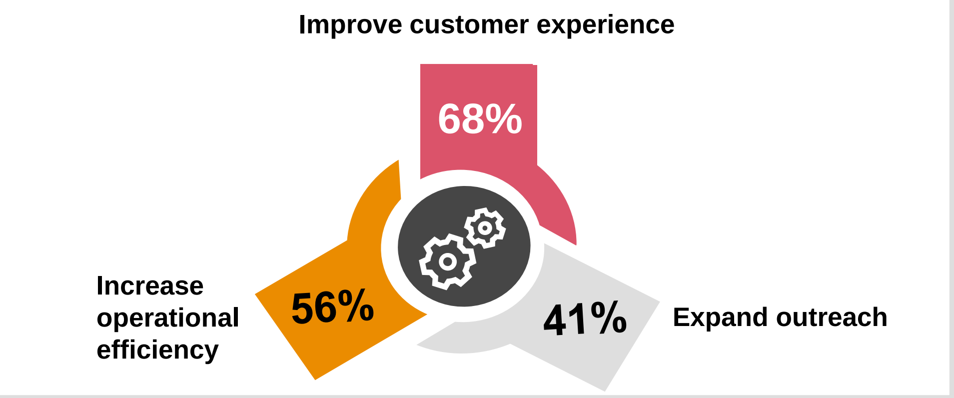
The financial services landscape has rapidly evolved in the last decade and continues to do so with the ongoing influx of emerging technologies.

Banks globally are striving to adopt disruptive tech to adequately address shifting customer preferences alongside demands for instant solutions and seamless journeys, as offered by social media platforms, non-traditional digital banks and fintech players.

Under pressures to sustain market share, grow margins, explore new segments and geographies with agility, create wow customer experiences and right-size operating cost base, banks globally are now left with not many options but to digitally transform – a journey that most started in the last seven years to stay relevant and competitive.

> Digital is an absolute necessity; it can turn into an existential threat if banks do not rise to the occasion and embrace digitalisation quickly."
>
> **Mr. Muhammad Jawaid Iqbal, President & CEO, United Bank Limited**

**Primary drivers for digitisation – at surveyed Southeast Asian banks**




*Sources: PwC Global - Digital Banking Survey 2023: Southeast Asia Landscape*

**80%** of surveyed South Asian banks reported that they have not yet successfully achieved digitisation goals, despite over 70% indicating they have a clear digital strategy

*Sources: PwC Global - Digital Banking Survey 2023: Southeast Asia Landscape*

## 1. Data-driven digital banking strategies

Digital banking strategies developed at a particular point in time may not be as relevant a few years down the road given the rapid pace of technology evolution and its impacts on the banking landscape. As customers get attuned to new technology and the experience it brings, they expect banks to remain agile and provide 24/7 support for all their financial needs across any platform they prefer.

Banks in Pakistan have abundant data that can enable institutions to identify niche segments, assess their behaviours to understand preferences, use these insights to design data-driven strategies and create attractive propositions to attract, engage, reward and retain customers.

It is by unleashing the power of this data that customer-centricity can be created and leveraged to drive successful digital transformation outcomes.

For our banks, there may be potential to revisit digital strategies around customer segments, products, services and value propositions; considering consumer digital engagement levels, behaviours and expectations, global developments and local market dynamics.

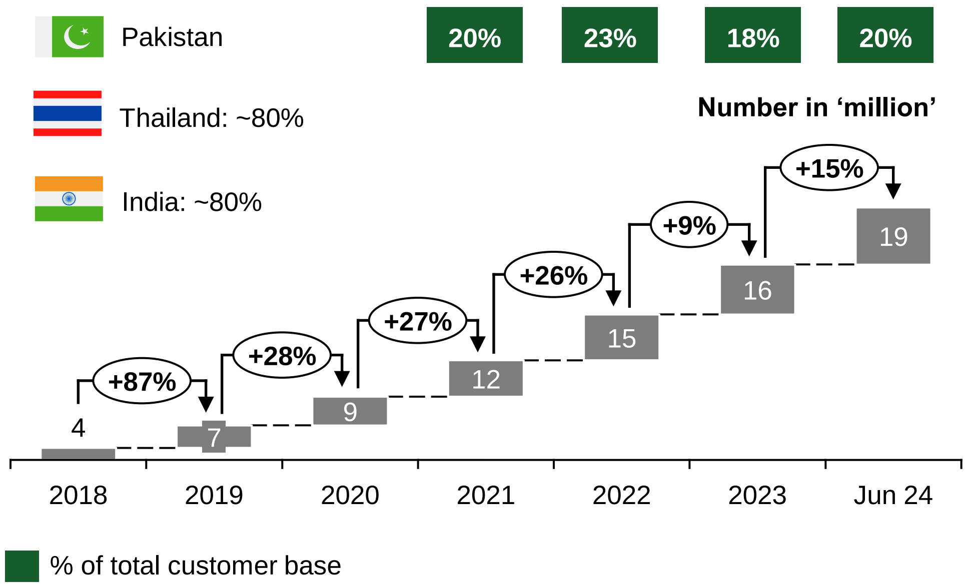
> Banks need to articulate business strategies well-suited for today's information age and a tech-enabled world."
>
> **Mr. Sharjeel Shahid, Group Executive – Digital Banking, United Bank Limited**

## 2. Accelerate mobile and internet banking engagement

Despite growing popularity of mobile banking, there is significant potential for further adoption. Only 20% of individual account holders have registered for mobile banking in Pakistan, compared to 80% for some emerging economies.

### Rising uptake of mobile banking since 2018

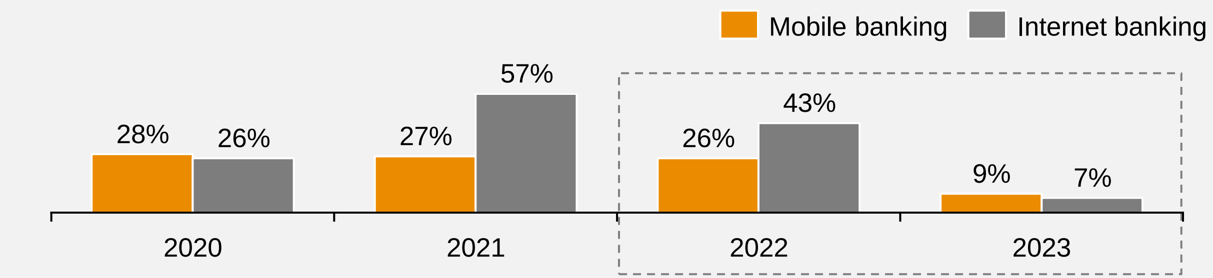
**As % of total number of accounts**




*Sources: PwC proprietary insights and analysis, SBP, other central banks, media reports*

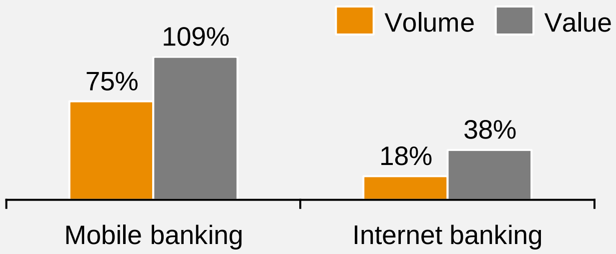
While opportunities to increase registrations are manifold, a declining growth rate is noted since 2022

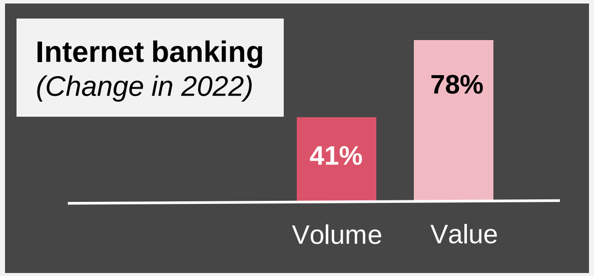
### Growth rates for mobile and internet banking registrations




Mobile enables banking at finger-tips. It is hence not surprising that there is greater preference to transact through mobile due to the convenience it brings.

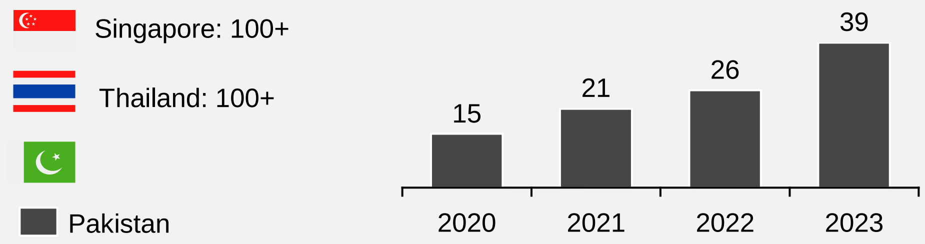
### Increase in mobile banking transactions with relatively lesser upside in internet banking…



Although mobile and internet banking transactions are on the rise, there is vast space to increase user engagement levels. Transactions (per annum) per user approximates to 39 [3 per month (Dec-2022: 2)] with negligible increase over a year, and much lower than certain other countries.

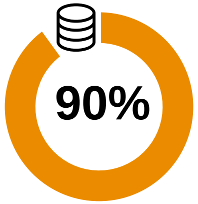
### Mobile/ internet banking transactions per user




*Sources: PwC proprietary insights and analysis, SBP*

## A. Enriching mobile banking experience, leveraging partner ecosystems

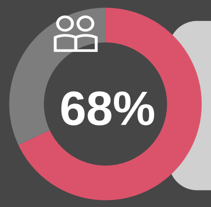
Many banks globally have adopted mobile-first approaches, created frictionless journeys and offer hyper-personalisation, leveraging partnerships and customer data to deliver lifestyle-driven solutions.




**of banks' useful customer data comes from payments**

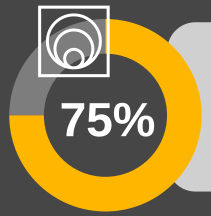
*Sources: PwC Global - Payments 2025 & Beyond*

Asia leads the super-app revolution with banks transforming financial apps into daily essentials. Well-executed strategies yield higher customer acquisition, satisfaction, and loyalty.



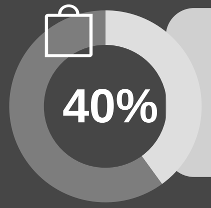

**of surveyed banks are creating partner ecosystems, focusing on customer engagement and delivering strong customer experiences**

*Sources: PwC Global - Digital Banking Survey 2023: Southeast Asia Landscape*



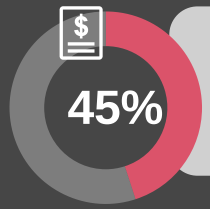

**Employ ecosystem partnerships for customer acquisition and engagement, co-creation and loyalty**

*Sources: PwC Pakistan's study of trends at select 40+ banks across various regions*




**Offer an every-day use lifestyle-oriented app**

*Sources: PwC Pakistan's study of trends at select 40+ banks across various regions*




**Provide digital wealth and personal financial management tools**

*Sources: PwC Pakistan's study of trends at select 40+ banks across various regions*

## Key focus areas in Pakistan

Mobile banking apps generally have restrictive use-cases in Pakistan.

PwC Pakistan's Consumer Banking Experience Survey 2024 provides insights on what mobile banking apps are mostly used for:

**75%** **Fund transfers**

**70%** **Bill payment/ mobile recharge**

**68%** **Account balance/ statement**

Very few banks in Pakistan have achieved some success in their ambitions to cross-over into a lifestyle platform for customers' every-day needs. Most may be challenged in integrating with the broader ecosystem and providing seamless journeys due to legacy issues.

Those that are making strides have focused on some or all of the following four aspects:

- Diversifying solution suite, moving into adjacent financial products notably, consumer loans, savings, investments and insurance
- Introducing app features and value-added services around customer convenience
- Creating joint offerings with non-banks for personal financial management and loyalty
- Growing into a one window solution addressing e2e financial requirements of MSMEs – deposits, collections, e-invoicing, payments, employee banking, financing, etc.

> "Pakistan has one of the lowest savings to GDP ratio compared to regional economies. Banks need to offer competitive returns and convenient solutions to promote regular small savings by masses. Digital can help encourage such savings particularly from the housewives and youth."
>
> **Mr. Sharjeel Shahid, Group Executive – Digital Banking, United Bank Limited**

Most banks, also as part of their traffic migration efforts, are emphasising on enhancing app user base through brand rejuvenation, improvement in UI/ UX and targeted campaigns.

Some banks are actively engaging in conversational banking by leveraging social media platforms to divert call center traffic to WhatsApp and Facebook Messenger.

This has significantly released call center capacity that used to deal with information-only traffic to now efficiently serve customers and do sales. Through this model, there are certain banks that have witnessed a major shift in customer service resulting in reduced churn.

### B. Collaborating with ecosystem players for customer acquisition and service

We are gradually witnessing trends similar to global institutions where banks partner with third parties particularly platform-based businesses and fintechs for greater outreach, lead generations, co-created solutions and data monetisation for new revenue streams.

**Very few banks in Pakistan have created strategic alliances to:**

- build franchise value
- deliver on financial inclusion and development finance objectives
- amplify ease of remittance flows
- expand card acceptance points
- digitise supply chain, offer embedded finance to individuals and MSMEs
- expand agent network

> **"Despite common perception that retail dominates the market, a large part is B2B involving massive purchasing within country and across borders, presenting substantial untapped opportunity."**
>
> Mr. Najeeb Agrawalla, Chief Executive Officer, 1LINK (Pvt) Limited

> "To effectively support lifestyle banking, other ecosystem players need to have a sustainable, scalable business proposition of their own, where financial services become a value add, embedded into the customer experience."
>
> **Mr. Abrar Mir, Chief Information & Transformation Officer, HBL**

Banks in Pakistan may need to strategise well to capitalise on the potential offered by our rapidly evolving ecosystem particularly with the e-commerce boom. They need to identify key partnerships for experiences customers expect and focus on creating propositions around that ecosystem to increase engagement and create stickiness.

This is particularly important considering consumers have more options for digital solutions with 5 digital banks preparing for launch and digital wallet solutions offered by 4 EMIs gaining popularity (3.6 million wallets as of June 2024 up from 2 Million in June 2023).

**5**
**digital banks preparing for launch**

**4**
**EMIs offering digital wallet solutions**

**3.6m**
**EMI wallets (Jun-24)**

## C. Providing seamless digital onboarding journeys

We conducted a digital on-boarding study in Pakistan, involving detailed analysis of the experience at certain commercial banks. Insights gained indicate opportunities for banks to further optimise acquisition journeys for better customer conversion, as elaborated in section 9 on 'Customer experience strategies for the digital age'.

## D. Digital lending

Very few banks in Pakistan provide customers with the option to apply for loans digitally, and even lesser is the number that provides instant credits. For most part, focus remains on digitising the loan application journey.

### Huge prospects for data-driven digital lending

There exist vast opportunities for banks to harness customers' transactional data and create algorithms for data-driven credit decisioning. Certain banks active in the merchants and small business segment have deployed data-driven behavioral scorecards/ models for MSMEs and individuals, with scale planned to be achieved in terms of portfolio growth. Product suite continues to range from vanilla offerings e.g. credit cards, to innovative solutions such as BNPL, advance salary, embedded finance and working capital loans.

Unfortunately, the shifting economic environment has severely impacted the portfolios of few banks active in this space with infection ratios varying from product-to-product in the range of 20% - 80%. There may be need for these banks to validate and re-calibrate their credit models.

Disruption within the lending landscape through SECP licensed lending NBFC's may also indicate market potential. Currently, there are 9 SECP approved nano-lending apps and 7 for other lending including earned wage access, BNPL, B2B financing and education finance. Lending NBFCs disbursed a total of Rs. 186 billion to 8.9 million borrowers in 2023, employing both digital and conventional methods.

**9**
**SECP approved nano-lending apps**

**8.9m**
**borrowers of Lending NBFCs**

**Rs. 186b**
**Loans disbursed by Lending NBFCs**

# 3. Digital payments ecosystem

While few banks continue to enrich the overall mobile banking experience, we witness an increasing number of banks focusing on streamlining digital payment journeys for customers.

We also see momentum continuing with expansion of acceptance points through soft POS, and now QR given regulatory impetus. Banks continue to expand the ecosystem seizing opportunities presented by the growing e-commerce space, channelising B2B flows with few banks leveraging data to offer value added services and uplift revenue streams.

## A. Digital payments – a national priority

Central banks across few emerging and developing economies such as Thailand, Indonesia, India and Kenya have designed national level strategies with roadmaps to accelerate digital payments.

These master plans usually have initiatives around:

- Building and strengthening infrastructure and security of payment systems
- Achieving full-scale interoperability across the payment ecosystem
- Enhancing regional and international payments and remittances
- Instant payment systems and use of registered IDs to transfer funds at lower costs for SMEs and e-commerce merchants
- Expanding card acceptance points
- Digital IDs
- E-tax and e-document systems to promote ease of doing business
- Trust, consumer and data protection
- Literacy projects to promote use of e-payments

Fostering the digital financial services ecosystem is one of SBP's strategic objective. In 2019, SBP launched the National Payments Systems Strategy which addresses similar pillars as regional peers. SBP's Strategic Plan 2023-2028 also emphasises on making digital payments as convenient, efficient and cost effective as cash. Unfortunately, cash continues to prevail as the medium of choice impacting our overall economic growth. To achieve targeted objectives, it may be beneficial to institute national level policies enabling digital adoption and fostering the digital ecosystem alongside an action-oriented roadmap.

> **"National level integrated digitisation pursuit at Government, regulator and banking industry levels may help to foster inclusion and curtail cash in circulation."**
>
> Mr. Khurram Shahzad Khan, President & CEO, Habib Metropolitan Bank Limited

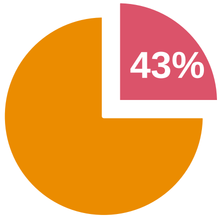
## B. Surging retail payments and high cash-in-circulation ratio

With increasing financial inclusion in the country, there is also a rise in retail payments.

**~2x increase in retail payments volume, ~3x in value compared to large value transactions**

| | Volume | Value |
|---|---|---|
| Large value payments | 20% ▲ | 28% ▲ |
| Retail payments | 42% ▲ | 94% ▲ |

Cash prevails as the predominant means of transacting within the banking system and accounts for 43% of the total volume of retail payments. There is also a sharp rise in overall cash deposits and withdrawals in Pakistan.




**Cash in total volume of retail payments**

## Significant uptick noted for cash in the banking system

| | |
|---|---|
| Sharp rise in cash deposit volume | 276% |
| Surge in cash deposit value | 82% |

| | |
|---|---|
| Increase in cash withdrawal volume | 35% |
| Rise in cash withdrawal value | 38% |

> Pakistan's cash-in-circulation, as high as Rs. 9.5 trillion, can be effectively channeled into the banking system, with digital as a lever."
>
> **Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan**

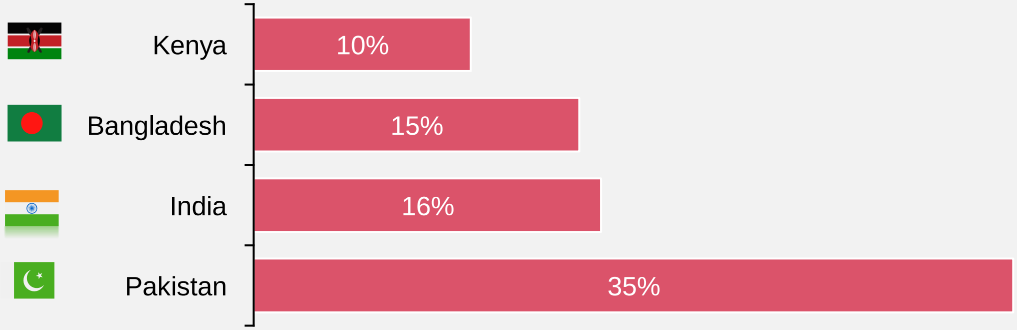
> One possible reason for high cash-in-circulation ratio in Pakistan is a general preference to deal in cash to avoid documentation. Use of technology provides a significant opportunity for banks to reduce cash in circulation, by attracting customers through convenient customer centric digital channels."
>
> **Mr. Muhammad Jawaid Iqbal, President & CEO, United Bank Limited**

> Digital banks, traditional banks, EMIs, PSO/ PSPs all have one common enemy i.e. cash, which indicates significant opportunity for targeted intervention and displacement."
>
> **Mr. Atyab Tahir, Chief Executive Officer, HugoBank Limited**

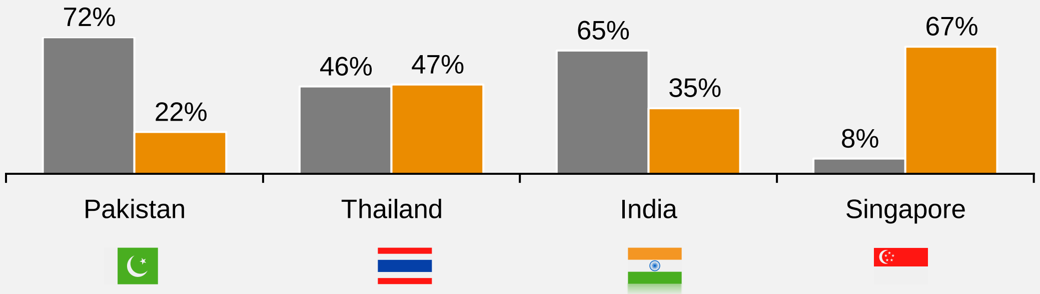
Whilst the cash-in-circulation ratio has reduced to **35%** from **39%** last year, it is still higher than other countries, despite the availability of other convenient payment options: cards, online fund transfers, RAAST and QR.

| 2022 | 2023 |
|---|---|
| 39% | 35% |

## Pakistan's cash-in-circulation higher at 35% Vs. less than 20% in select economies




## Preference for cash – card utilisation at ATM ~4 times the utilisation at POS



**Other digital payment methods remain untapped due to the following key reasons:**

- Limited acceptance points
- Lack of trust in POS machines
- Costs associated with card transactions
- Documentation
- Increased administration around reconciliation of payments particularly where multiple payment methods are involved

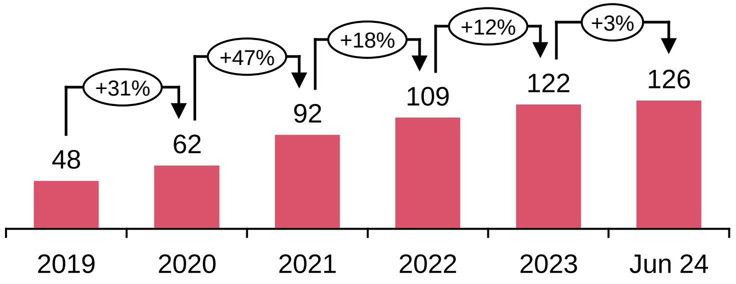
## C. Point-of-Sale ecosystem

**POS deployment has been increasing primarily due to:**

- Regulatory push for improving payment card infrastructure
- Increasing number of merchants (16% increase - June-24: 99K, June-23: 85K)
- New players entering into the acquiring space – including both banks and non-banking entities. Some banks are also partnering with emerging non-bank players on a revenue sharing basis to expand acceptance network

## POS deployment increasing but at a low rate in Pakistan

(Number in '000')




**No. of POS devices in select countries**

- India: **8M**
- Indonesia: **2M**
- Thailand: **940K**
- Malaysia: **876K**

## POS penetration in Pakistan lower compared to regional economies

**POS devices per 100K adults**

- Pakistan 79
- India 735
- Singapore 6,300
- Thailand 1,500
- Indonesia 950

## Transactions per POS

**Pakistan 816**

Higher traffic due to **lower device base**

**India 370**

Reasonable traffic per POS despite **8M** devices and **346 Million** QRs

Significant space exists in Pakistan for greater POS uptake, also given abundant untapped every-day brick and mortar-based merchants

| Country | Number of POS (in ‘000) | Accounts per POS | Card use on POS |
|---|---|---|---|
| Pakistan | 126 | 730 | 22% |
| Thailand | 940 | 124 | 47% |
| India | 8,567 | 336 | 35% |

*Sources: PwC proprietary insights and analysis, SBP, other central banks*

With a view to protect margins, avoid MDR and documentation implications, merchants generally discourage payment acceptance through cards.

PwC Pakistan’s Consumer Banking Experience Survey 2024 presents certain interesting insights on factors that impact card usage on POS (based on % respondents).

**43%** Shops do not usually have POS machines

**36%** Charged extra when card used

**40%** Prefer cash

**30%** Retailers don’t encourage use of POS

“There is need for a vibrant ecosystem that reduces the need for cash for all segments of the society - documentation is a key pre-requisite for the uptake of digital payments.”

**Dr. Inayat Hussain, Deputy Governor, State Bank of Pakistan**

## D. National instant payment systems

Instant payment systems have become an essential component of modern financial infrastructure wherever introduced in the world. They have emerged as a revolutionary solution for efficient, secure and instant transactions in today’s fast-paced digital world.

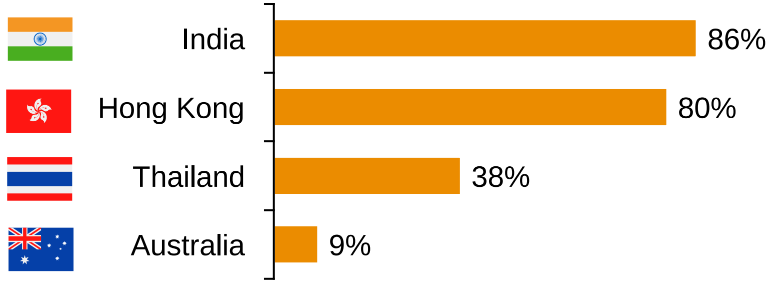
Championed by regulators also as a tool for financial inclusion, national payment systems globally have similar use cases built around P2P payments, merchant payments, P2G payments, direct debits, bills and donations, bulk disbursements e.g. for social welfare, salaries and business collections.

The underlying objective is to digitise low-value mass retail transactions, make every-day transactions easy, reducing the need for cash. It is hence that these transactions are usually free, subject to lower transaction limits with average transaction size varying from country to country ranging from USD 30 - USD 500.

### Adoption of instant payment systems

Extent of adoption depends on the maturity levels of digital ecosystem, proliferation of other cash-alternatives and incentivisation offered. Instant payments are easy to adopt since users are enabled to make and receive payments using bank accounts or digital wallets linked to their national IDs, mobile phone numbers or email addresses.

**Transactions through instant payment systems as a % of total retail payments**



## Thailand's PromptPay

Launched in 2016. By 2019, it had attracted 43 million subscribers, in a country with a population at that time of 69.5 million

## Brazil's Pix

In 2.5 years since launch, it has been used by more than 140 million individuals (~80% of the adult population) and 13 million firms. More than 3 billion transactions take place each month, with an average ticket size of USD88.

## India's Unified Payments Inferface (UPI)

UPI uptake in India has been unprecedented, triggered mostly by demonetisation, interoperable ecosystem, user-friendly interface, awareness created, cross-border linkages and incentives offered.

In 2023, approximately 131 billion transactions (2022: 837 billion) worth INR 200 trillion (2022: INR 139 trillion) were conducted through this platform. Transaction volumes grew by 57%, which in 2022 and 2021 exceeded 80% each year.

Over 60% of UPI transactions are conducted through wallets of payment banks and Third-Party Application Providers.

Around 60% of UPI volume is P2M with an average size of USD 8 (INR 700), while P2P comprises 75% of total value with an average ticket size of USD 30 (INR 2,600)

## QR – an integral part of instant payment systems

QR – an easy to use, low-cost alternative to digital payments acceptance has been the growth accelerator for P2M transactions.

Few examples of QR adoption in countries with both QR and POS devices:

> "Cost of cash transaction is 3% to 4% vs. less than 1% in QR. Low cost of QR technology, fueled by smartphone revolution, makes it an attractive option for merchants and consumers alike."
>
> **Mr. Najeeb Agrawalla, Chief Executive Officer, 1LINK (Pvt) Limited**

| | India | Indonesia | Thailand | Malaysia |
|---|---|---|---|---|
| **No. of QR points** | 345M | 29M | 7.3M | 2M |
| **QR multiple of POS** | 42 | 9 | 8 | 2 |

QR adoption also hinges on incentivisation offered which are, to greater extent, similar to those extended for adoption of instant and other forms of digital payments (for details please refer to 'E. Incentivising digital payments' detailed on the next page)

## Uptake of RAAST in Pakistan

As of Jun-24, there were 37.5 million RAAST ID registrations (Dec-2022: 26 million), with 496 million transactions (Dec-2022: 41 million) amounting to Rs. 11.6 trillion (Dec-2022: Rs. 892 billion).

**Increase since Dec-2022**

| 44% | 12x | 13x |
|---|---|---|
| RAAST IDs | Transaction volumes | Transaction values |

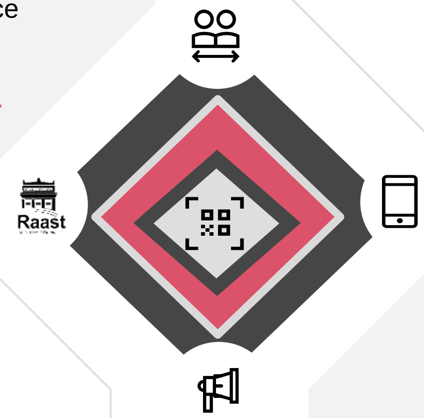
SBP has collaborated with the Arab Monetary Fund for settlement of cross-border payments in the Arab region. This entails integration of RAAST with BUNA, the cross-border payment system operated by Arab Regional Payments Clearing and Settlement Organisation.

RAAST P2M is expected to be a game-changer. Some industry stakeholders opine that while this will massively revolutionise payments, it is not free from challenges. Customer journeys have to be carefully thought through considering possible implications associated with technology, connectivity and charged devices.

Given peculiarities of Pakistan's economy, there is need for well-grounded support not only for creating awareness and onboarding merchants but also to incentivise its use.

> "RAAST P2M is a gamechanger for small ticket retail payments digitisation, given challenges around scale up of physical acceptance infrastructure and costs associated with card management."
>
> **Mr. Abrar Mir, Chief Information & Transformation Officer, HBL**

> "Non-bank players, as merchant aggregators, can help tap into new markets – they have the capability to onboard micro and small merchants, with vast potential for QR adoption across >5 million establishments.
>
> Real effort lies in the field where aggregators build relationships with merchants and enable QR adoption."
>
> **Mr. Najeeb Agrawalla, Chief Executive Officer, 1LINK (Pvt) Limited**




> "There is need for investment-light, low-cost digital payment acceptance points, awareness and training to bring smaller merchants onto digital payment rails."
>
> **Mr. Sharjeel Shahid, Group Executive – Digital Banking, United Bank Limited**

> "Evolution in payment methods in the last five years is more than what we have seen in the last thirty years put together. With so many exciting options available, the cost of transactions is bound to come down. QR, Tap and Pay, Tap on Phone are all exciting new frictionless methods and can be game changers."
>
> **Ms. Mehreen Ahmed, Group Head - Retail Banking, Bank Alfalah Limited**

## E. Incentivising digital payments

One critical enabler for adoption of digital payments in several countries is the incentivisation offered by governments, regulators, banks and other ecosystem players.

For merchants these incentives may be in the form of waived MDR, for acquirers in the form of subsidised cost of POS devices, and for customers in the form of discounts and cash-back.

Industry stakeholders are of the view that uptake in RAAST P2M transactions may require extensive incentivisation. Customers may be rewarded for not paying by cash and merchants for not accepting cash.

Steps taken by the Government to promote digital payments in Punjab may be extended across Pakistan. There are opportunities to learn from regional practices such as India, where various initiatives were taken e.g., waiver of service tax on card transactions up to INR 2,000, discounts on purchase of petrol and railway tickets, imposition of higher tax levies at source on cash withdrawals.

## Payments Infrastructure Development Fund Scheme in India

The scheme was launched by the Reserve Bank of India in 2021 to facilitate and subsidise development of payment acceptance infrastructure in tier-3 to tier-6 cities (tiering based on population size), envisaging creation of 3 million new touch points every year.

This fund provides financial assistance to banks and non-banks for deployment of POS terminals and other payment acceptance infrastructure such as soundbox devices and Aadhaar-enabled biometric devices.

> "There is need to drive digital payments uptake with multi-pronged approach i.e. (a) ensuring a ubiquitous, user-friendly and cost-effective digital payments ecosystem (b) incentivisation programme for merchants and consumers and (c) structured awareness campaigns."
>
> **Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan**

> "The incentivisation of users to use digital payment modes, as opposed to cash, may go a long way in reducing currency in circulation."
>
> **Mr. Rehmat Ali Hasnie, President & CEO, National Bank of Pakistan**

> "Branches are here to stay. They are critical to build trust-based relationships and customers demand face-to-face interactions when depositing their hard-earned income.
>
> **Mr. Sharjeel Shahid, Group Executive – Digital Banking, United Bank Limited**

## F. Electronic vs. paper-based retail transactions

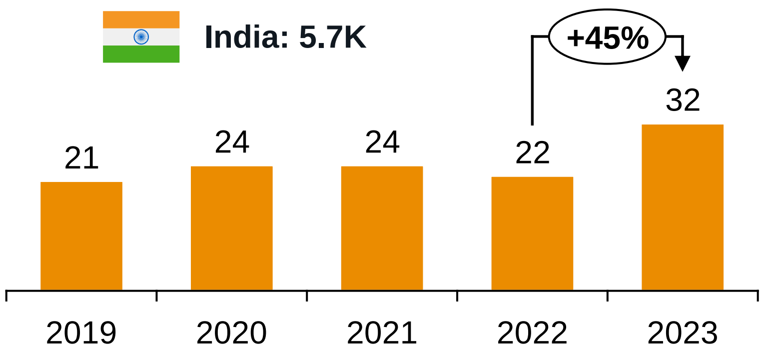
Pakistan has come a long way in digital adoption within banking and payments. Nonetheless, it is the need for cash that drives choice of channel usage, explaining the notable surge in branch transactions vs. other channels.

### Sharp increase of 50% in branch transaction volumes and more than 100% in value

| | Volume | Value |
|---|---|---|
| Branch | 50% | 101% |
| ATM | 17% | 26% |
| Mobile and Internet | 61% | 77% |
| POS | 36% | 46% |

### Branches process high volume of paper-based transactions in Pakistan…

**Paper-based transactions per branch (in 'K')**



Hence, we see higher proportion of paper-based and ATM transactions in Pakistan compared to regional economies, indicating further room for more digital interventions.

| | | | Share in e-transaction volume | |
|---|---|---|---|---|
| | **Paper** | **Electronic** | **Mobile & Internet banking** | **ATM** |
| Pakistan | **20%** | **80%** | **38%** | **31%** |
| Thailand | **0.1%** | **99.9%** | **94%** | **4%** |
| Singapore | **0.3%** | **99.7%** | **55%** | **4%** |
| India | **0.4%** | **99.6%** | **90%** | **5%** |

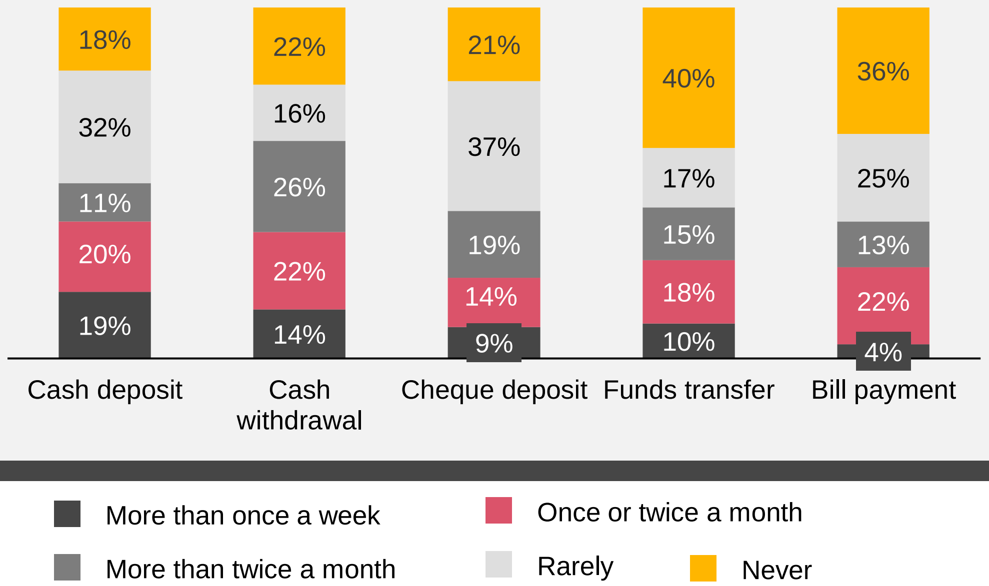
*Sources: PwC proprietary insights and analysis, SBP, other central banks*

> Digital transformation journeys have yielded remarkable results - Up to 85% of branch traffic has been successfully redirected to digital/ alternate channels."
>
> **Ms. Saadya Riaz, Head – Wealth & Retail Banking, Standard Chartered Bank (Pakistan) Limited**

There is need for the industry to collaboratively promote behavioural shifts by pursuing structured loyalty and digital engagement programmes. Government and regulatory support is vital to create the wider ecosystem that incentivises digital and disincentivises cash.

> We may need to develop a national digitisation policy and implementation roadmap that enables a Digital and Corporate Pakistan."
>
> **Mr. Irfan Siddiqui, President & CEO, Meezan Bank Limited**

PwC Pakistan's Consumer Banking Experience Survey 2024 provides insights on reasons and related frequencies for branch visits. Cash deposit and withdrawal are the most frequent in-person banking services, with 50% and 62% of respondents visiting the branch for these transactions at least once a month.




> Centralised, "Big Picture" thinking by regulators and Government is essential to drive adoption of digital payments and promote cashless economy in Pakistan."
>
> **Mr. Najeeb Agrawalla, Chief Executive Officer, 1LINK (Pvt) Limited**

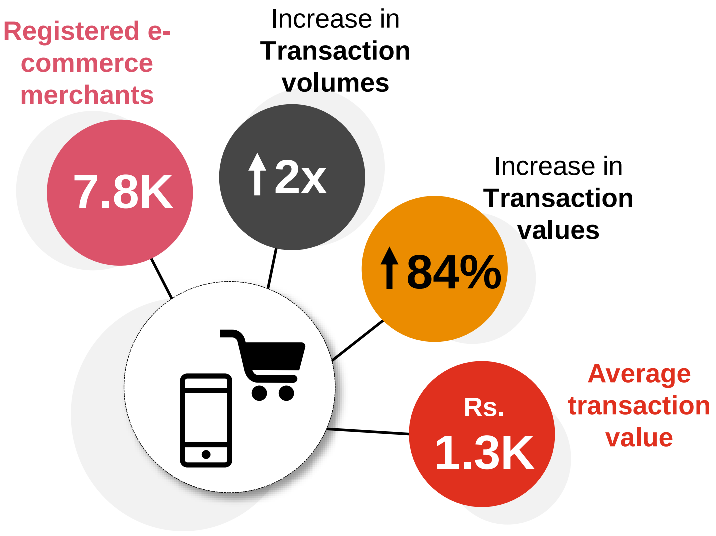
> Regulatory interventions are needed to incentivise and promote digital transactions at the retail level and to spread awareness on digital banking."
>
> **Mr. Kashif Ahmed, Chief Compliance Officer, Telenor Microfinance Bank Limited**

## G. Opportunities to expand into e-commerce

E-commerce industry has been growing at an unprecedented rate with Pakistan becoming the 46th largest market worldwide.

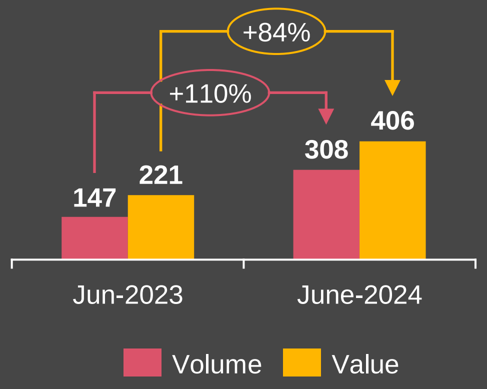
As of June 2024, there are over 7.8K bank registered e-commerce merchants, for whom predominant means for accepting payments is cash, besides cards and digital wallet transfers. Existing along side is a massively high number of mom-and-pop and other stores operating through social media on Cash-on-Delivery basis, not accepting cards but flexible to accept online transfers.

Such retail and e-commerce delivery payments can be revolutionised through mPOS. Capitalising on this opportunity to digitise payments, very few banks have launched mPOS applications, providing merchants the option to set up more economical card payment mechanisms instantly.

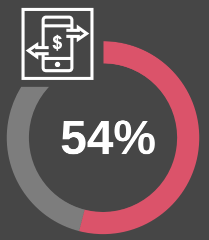



### Surging e-commerce payments

Volume in million, Value in Rs. billion




**87%** of these payments (by volume) are through **accounts/ digital wallets**, and only **13%** through **cards.**



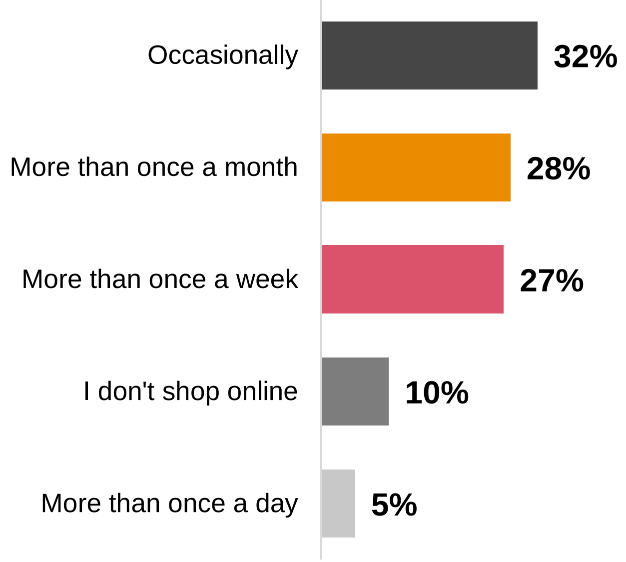

of surveyed consumers willing to make **account-to-account payments** if the option is available - demonstrating largely unaddressed opportunity with this payment method

*Sources: PwC Global – Future of Retailer Payments*

### Potential of e-commerce in Pakistan

**PwC Pakistan's Consumer Banking Experience Survey 2024** provides insights into online shopping frequencies, purposes, and preferred platforms for purchases

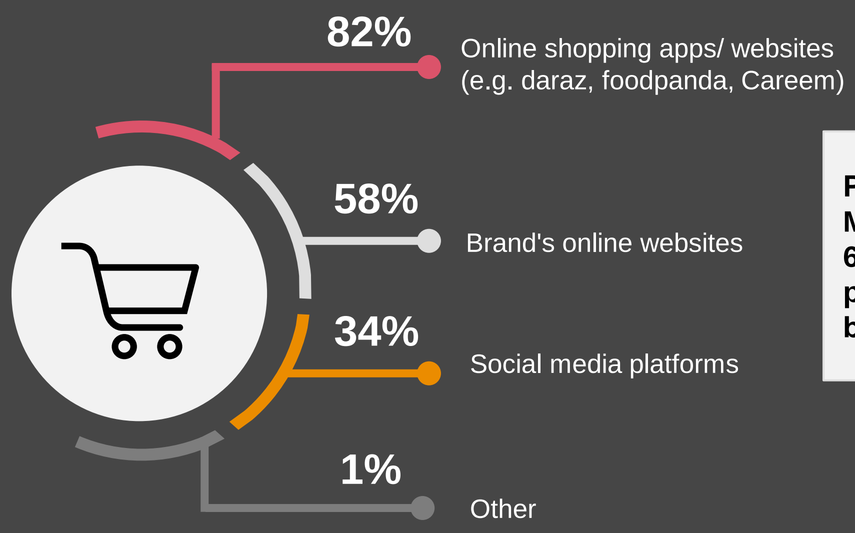
**27% respondents shop online more than once a week…**



## Online shopping mostly for…

- **66%** Clothing and apparel, shoes, fashion, accessories
- **65%** Ready-to-eat food
- **48%** Groceries and essentials
- **30%** Ride-hailing services/ transport
- **27%** Health and beauty products
- **25%** Tickets (airlines, train, bus, cinemas, etc.)
- **22%** Electronic appliances

## Majority prefer shopping through online shopping apps and marketplaces than the brands' online websites




**PwC Global's Consumer Market Insights reveal that 63% of surveyed individuals purchase directly from a brand's website**

*Sources: PwC Global – Consumer Market Insights*

Digital payments for online purchases has increased, but as e-commerce transactions grow, share of digital payments continues to hover around 20% given rampant preference for Cash-on- Delivery further exacerbated due to certain structural and logistical challenges associated with e-commerce in Pakistan.

### Cash on Delivery – Pakistan relative to certain other jurisdictions

- Pakistan: >80%
- Thailand: <20%
- Indonesia: <20%
- Singapore: <5%

*Sources: PwC proprietary insights and analysis, other central banks, media reports*

# 4. Government/ regulatory enablement

Countries in the region are driving digital growth through flagship strategies and implementation plans. Programmes such as Smart Nation Singapore and Digital India prioritise digital adoption across key sectors: financial services, healthcare, education, transportation and environment sustainability.

Government and regulators in these countries collaborate with industry stakeholders to cultivate a supportive ecosystem empowering both established players and disruptors to co-exist and flourish.

These cohesive interventions have facilitated:

## A. Digital customer onboarding

With options for digital ID, selfies, video chats/ liveness proof to identify and verify customers. This is widely prevalent in countries such as UAE, UK, Germany and India. In Singapore, digital data vault MyInfo and DigiLocker in India can also be leveraged to remotely on-board customers.

Countries such as UAE and India have created centralised repository of KYC records using blockchain technology for secure and efficient digital identity management.

## B. Consensual data sharing and integration with third parties

Consensual data sharing and integration with third parties in financial and non-financial spaces through open APIs for ecosystem banking, enabled via national infrastructure, frameworks and playbooks for guided implementation.

Open APIs have been introduced with key objectives to increase competition, offer innovative financial solutions, promote access to finance and overall financial inclusion. In most cases, primary data contributors are entities regulated by the financial services regulator.

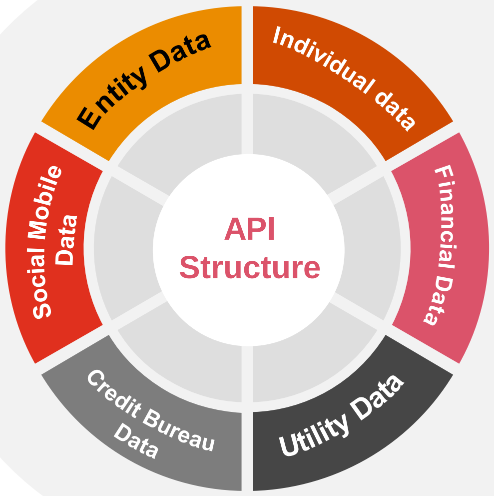
Few countries such as Singapore, Australia and India support a multiple regulator model with use cases extending beyond payments to lending, investments, insurance and trade.

To expedite development, countries such as Saudi Arabia have introduced an Open Banking Lab to enable developers build new services and for customers to provide secure electronic access of their data to alternative providers.

The IndiaStack API infrastructure through access to public and private data has played a major role in transforming the credit value chain in the country. Lenders may undertake verification of borrowers and assess their future credit behaviours through access to personal, financial, utility, social and mobile data, along with information held by credit bureaus and government entities.

**An example of strong uptake is Brazil**

- It has seen over **10.5 million** active consents for open finance
- With a population of over **180 million** banked individuals, approximately **6%** of banked Brazilians benefit from open finance.




**Entity Data**
- Ministry of Corporate Affairs
- Aadhar
- Employees' Provident Fund Organisation
- Employees' State Insurance Companies

**Individual Data**
- Permanent Account Number
- Voter ID
- Driver's license

**Social and Mobile Data**
- Social sites verification
- Geotagging services
- Calls, SMS log
- Apps data

**Financial Data**
- Goods and services tax
- Income tax return
- Tax deducted at source
- Taxpayer Identification Number

**Utility Data**
- Electricity
- Telecommunication
- Internet
- Water and gas

**Credit Bureau Data**
- Commercial and consumer bureau

## C. Access to financial services through low-cost agency banking model

Through the Business Correspondent model as it is known in India, and Agency Banking in Bangladesh, Kenya, Sri Lanka and other emerging economies, agents extend wide ranging banking services beyond cash transactions to underserved areas. They have access to all accounts, not just those with limited KYC requirements and serve the masses by leveraging low-cost technologies such as micro-ATMs, mobile POS, biometric scanners etc.

## D. Leverage cloud-based solutions

Operate a CAPEX light, low-cost model with service providers locally and abroad, for material and non-core functions and systems

## E. Outsource critical business and operational activities

To other entities within or outside of the banking group

## F. Use AI and advanced analytics

For intelligent; albeit responsible decision-making, real-time insights and response to market disruptions. Certain regulators such as the Monetary Authority of Singapore have introduced principles for the responsible use of AI in the financial sector

**G.** Test innovation, in collaboration with entities within the FS and non-FS sector through the **regulatory sandbox**

**H.** **Protect consumer data**, with regulations for data protection and privacy introduced in respective regions, applicable to collection, use, storage and disclosure of personal information

## Central Bank Digital Currency (CBDC)

Of the 134 countries tracked by the Atlantic Council, CBDCs have been launched in **3 countries: Bahamas, Jamaica and Nigeria.**

44 countries are in pilot phase including regional economies such as China, India, UAE, KSA, Qatar, Iran, and Turkey.

20 countries are in the development phase including few regional nations such as Sri Lanka and Bahrain. Others include developed and developing economies of USA, Canada, Mexico, UK, Philippines and Taiwan.

Remaining are in research phase, inactive or have canceled the project.

Countries are either pursuing both retail and wholesale use cases or focusing on any one them. Retail use cases are built around P2P, P2M, B2B and G2P/ social welfare payments, while wholesale use cases focus on settlements, both domestic and cross-border between central banks and financial institutions.

## Initiatives taken by SBP with responsible innovation on its strategic agenda

SBP has introduced several measures to foster a conducive environment for digital banking and payments, while encouraging customer adoption of digital financial solutions. Few key recent transformative endeavors include:

- RAAST instant payment system
- Digital onboarding of customers and merchants
- QR standardisation
- Digital cheque clearing
- A-card-per-account policy
- Opening the playfield to new players: digital banks, EMIs
- Payment card infrastructure and transaction pricing
- Cloud-friendly policy

### Other revolutionary initiatives underway

There are few high-impact generating initiatives at various stages from conceptualisation to launch, including blockchain-enabled shared KYC platform and strengthening the Agency Banking framework. SBP has also engaged with industry stakeholders on Open Banking. With regulators in almost every region either evaluating Central Bank Digital Currency or conducting pilots, this too has been on SBP’s innovation enabling agenda.

# 8.

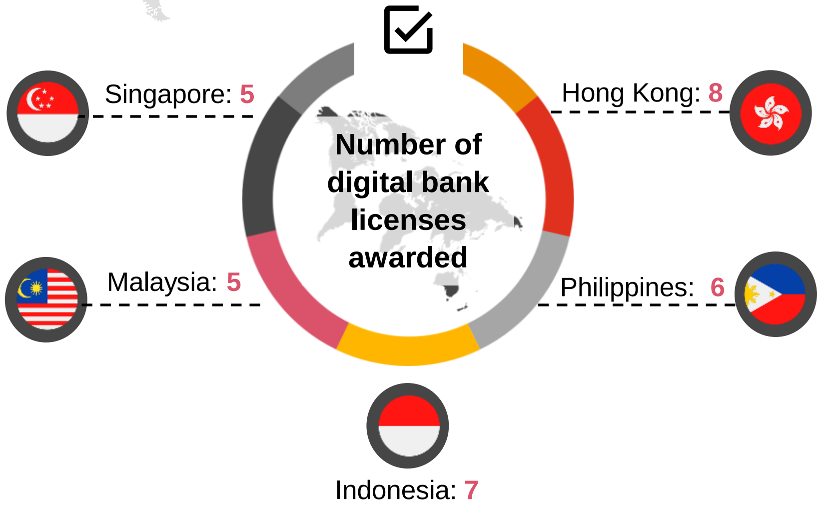
# Digital banks redefining financial services

# Digital banks redefining financial services

From Asia to Americas, Europe to Africa there are more than 100 digital banks either live or in set-up and operationalisation stages across the globe.

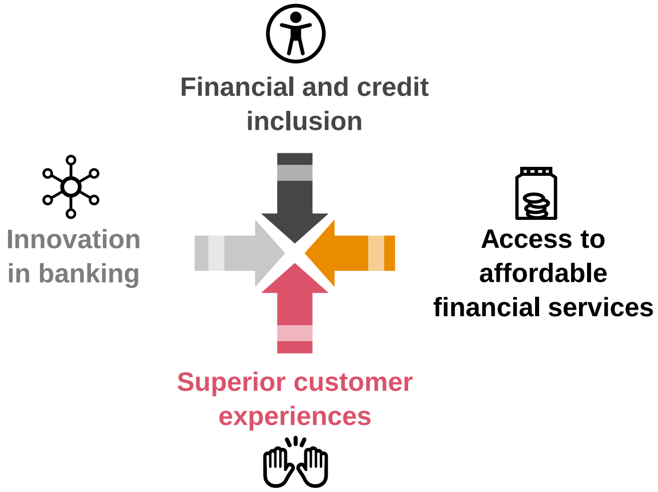
Europe initially appeared as the hot bed for these non-traditional players. However, recent developments indicate Asia as an emerging digital bank hub, hosting nearly half of worldwide digital banks across Hong Kong, Singapore, Indonesia, Philippines, Malaysia, China, UAE, Saudi Arabia, Taiwan and South Korea.

This spur is fueled by innovative regulatory frameworks and introduction of favorable digital bank licensing regimes, even while some of these countries have deeper financial intermediation structures in place.




## Regulators' objectives for introducing separate licensing regimes for digital banks

Broadly similar across many countries, these include:




The underlying purpose is to open the playfield to innovative players that can bring technological capabilities and create interventions in spaces unattended by incumbents since they remain challenged in/ by:

- Focusing on non-revenue generating customers, given cost-to-serve largely attributable to physical network
- Sidestepping from product-centric infrastructure
- Clunky processes creating broken, inconsistent customer journeys
- Legacy technology, hierarchal structures, culture and mindset
- Siloed data
- Leveraging emerging technologies and exploring real ecosystem banking

It is hence that we see diversified range of investors across mature and emerging digital bank markets, with non-conventional players emerging more collaboratively in Asia, leveraging sponsor networks to also acquire and serve customers.

## Few examples of investors in mature markets

**UK:**
Traditional banking groups, venture capitalists, IT infrastructure providers, and government-backed institutions like the British Business Bank and innovation funds are actively investing in digital. banks

**Germany:**
Banking groups, telecom and internet corporations, accelerators, technology firms, and venture capitalists.

Conversely, in **emerging markets** like Singapore, Hong Kong and Malaysia we find wide-ranging investors from banks to innovative non-financial players

**Singapore:** Varied range of investors including banks, ride-hailing and food delivery conglomerates, grocery retailers, telecom companies, technology conglomerates, technology and financial services conglomerates, equity investment fund managers, real estate developers, and supply chain finance companies.

**Hong Kong:** Investors comprise banks, travel service firms, smart phone brands, insurance companies, industrial material distributors, and online payment and lending platforms.

**Malaysia:** Collaborations from investors include investment banks, lending fintechs, insurance services, ride-hailing and food delivery, financial services & technology conglomerates and telecom companies.

Few examples of sponsors of digital banks within emerging markets:

# Number of investors

| Digital Bank | # | Sponsor Details |
|---|---|---|
| **Singapore** | | |
| GxS | 2 | Grab – Tech company - Ride-hailing, food delivery, digital payments; Singtel – Telecom conglomerate |
| trust | 2 | standard chartered; FairPrice – Grocery retailer |
| SeaBank | 1 | sea – Tech conglomerate |
| **Hong Kong** | | |
| mox | 4 | Trip.com – Travel service conglomerate; HKT PCCW – Telecom company; standard chartered |
| ZA Bank | 2 | 众安保险 ZhongAn Insurance – Insurance company; SINOLINK – Financial technology investment management |
| ANT BANK | 1 | ANT FINANCIAL – Online payments and lending platforms |
| **Malaysia** | | |
| Boost Be Unstoppable | 2 | axiata – Telecom company; Great Eastern – Singapore-based insurance group |
| ÆON Bank | 2 | ÆON Financial Service – Financial services company; ÆON – Credit services |

# Key distinguishing aspects of digital banks

Although a fairly new model particularly in Asia and other developing economies, these digital banks have certain distinguishing aspects in comparison to traditional banks:

## A. Niche segment focus

Generally, targeting 'individuals' particularly the tech-savvy, millennials and urban youth segments in the initial phase, digital banks scale to a larger customer pool expanding to small and medium enterprises over time, depending on their business model and markets of operations.

On average, a digital bank focuses on four segments - few examples of niche segments across mature and emerging digital bank markets:

| | UK | | South Africa | Brazil | Singapore | | Philippines |
|---|---|---|---|---|---|---|---|
| **Niche Segments** | Starling | Monzo | TymeBank | NuBank | GXS Bank | MariBank | UNO Digital Bank |
| **Underserved/ unbanked** | | | ◉ | | ◉ | ◉ | |
| **Masses** | | | ◉ | | ◉ | ◉ | ◉ |
| **Females** | | | ◉ | | | | ◉ |
| **Urban youth** | | ◉ | ◉ | ◉ | ◉ | ◉ | |
| **Millennials** | ◉ | ◉ | | | ◉ | | ◉ |
| **Teens** | ◉ | | | | | | ◉ |
| **Tech-savvy** | ◉ | ◉ | | | ◉ | | ◉ |
| **Self-employed/ sole-proprietors/ sole-traders** | ◉ | ◉ | ◉ | ◉ | | | ◉ |
| **MSMEs** | ◉ | ◉ | ◉ | | ◉ | | |

Digital banks in emerging economies generally have greater focus on the unserved and underbanked segments. Few other examples of niche focus - which generally may only be a sub-set of the customer segments incumbents serve include: (1) low-income households, (2) blue collar workers, (3) young professionals, (4) college students, (5) first-time borrowers, (6) rural unbanked, (7) migrant labour force, and (8) farmers.

**50-60% of the customer base of digital/ challenger banks across the globe generally comprises underserved**

*Sources: PwC proprietary insights and analysis, CGAP*

### China

WeBank

More than 100 million borrowers
75% of whom are blue collar workers

网商银行 MYbank

80% customers are first-time borrowers

### Korea

kakaobank

- Urban employees from the 30-to-50-year-old segment
- Self-employed
- College students

### Brazil

inter

70% Individuals under 36

### South Africa

TymeBank

53% under the age of 35

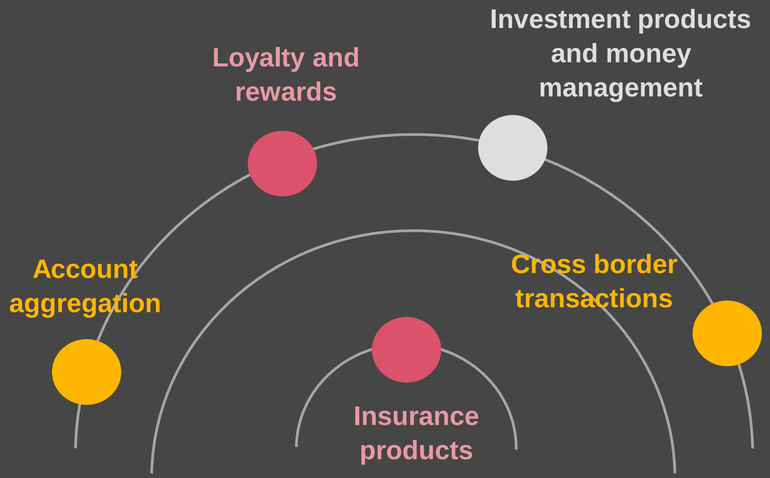
50% women

22K MSMEs
Mostly sole-proprietors

## B. Evolving suite of solutions

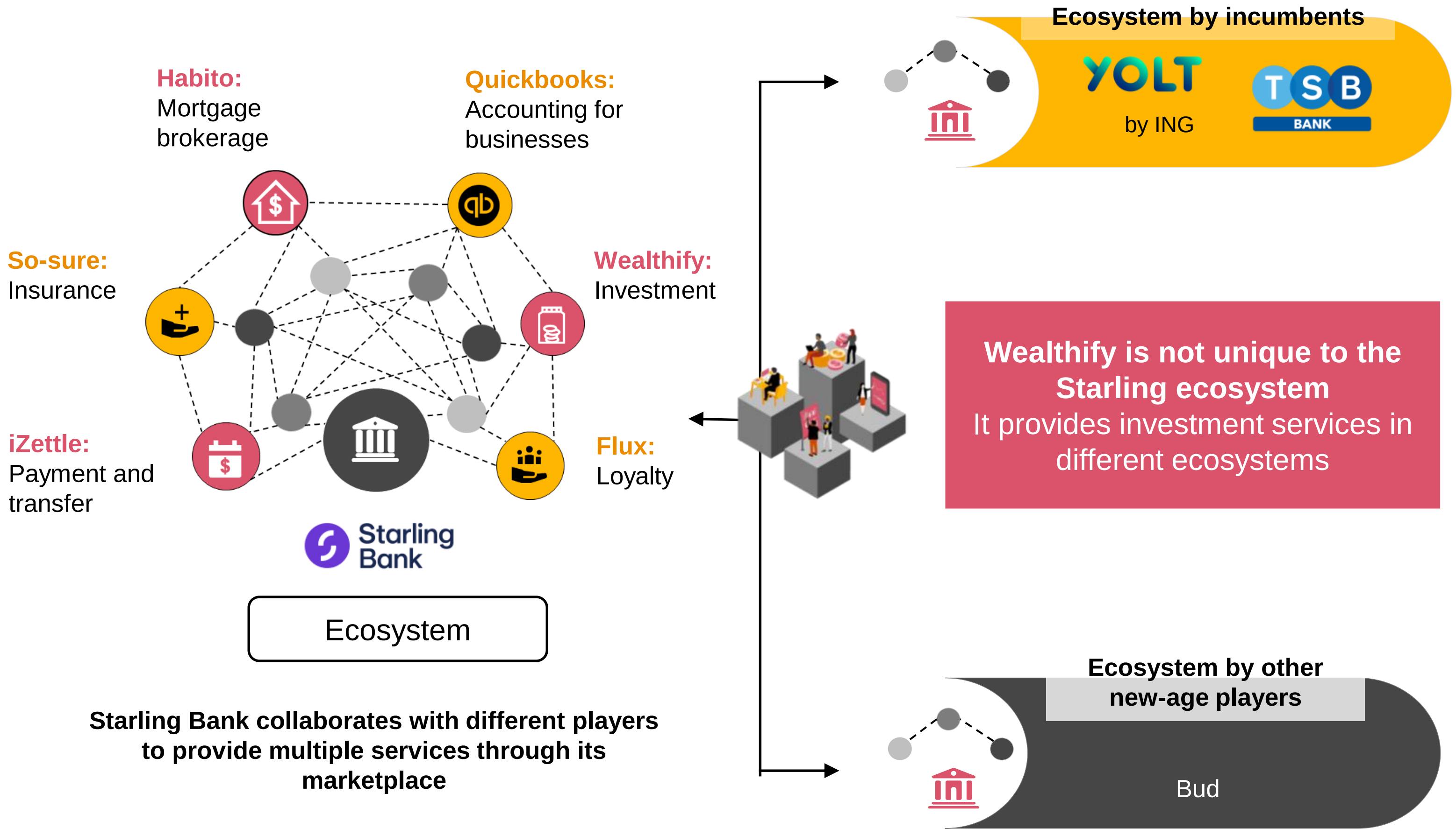
Generally commencing operations with vanilla offerings such as deposit accounts, cards and remittance products focusing on life-style based contextual banking, digital banks scale over 2 – 3 years gradually expanding into the lending space. Few offer more mature propositions including white-labelled technology solutions and Banking-as-a-Service.

Solution suite includes not just their own products and services but also those co-created through partnerships with various entities – non-banks, fintechs, tech-companies, etc. Few examples include:



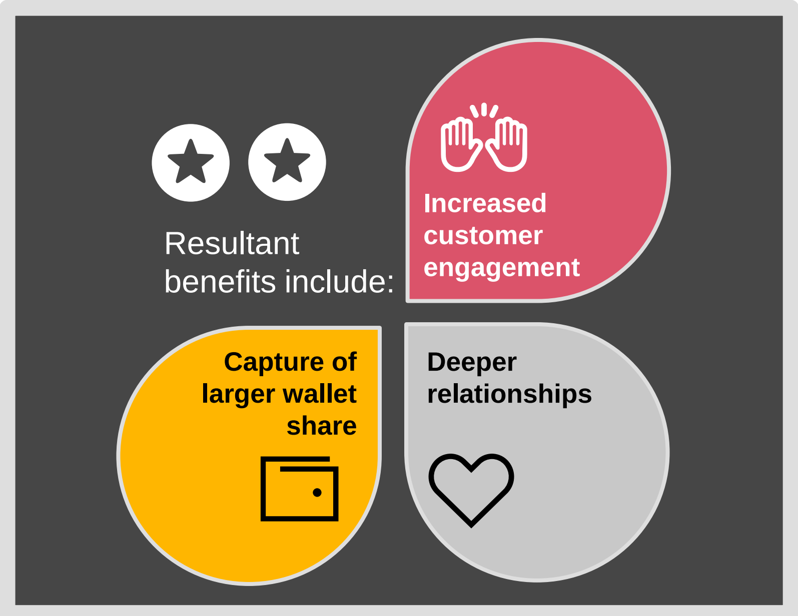

**Case of Starling Bank-** started with payment services and cards in 2016, soon collaborated with several fintechs to orchestrate an ecosystem offering various B2C and B2B financial products and services

### Achieving scale through ecosystem banking



## Leveraging the ecosystem to become a one-stop-shop for customers

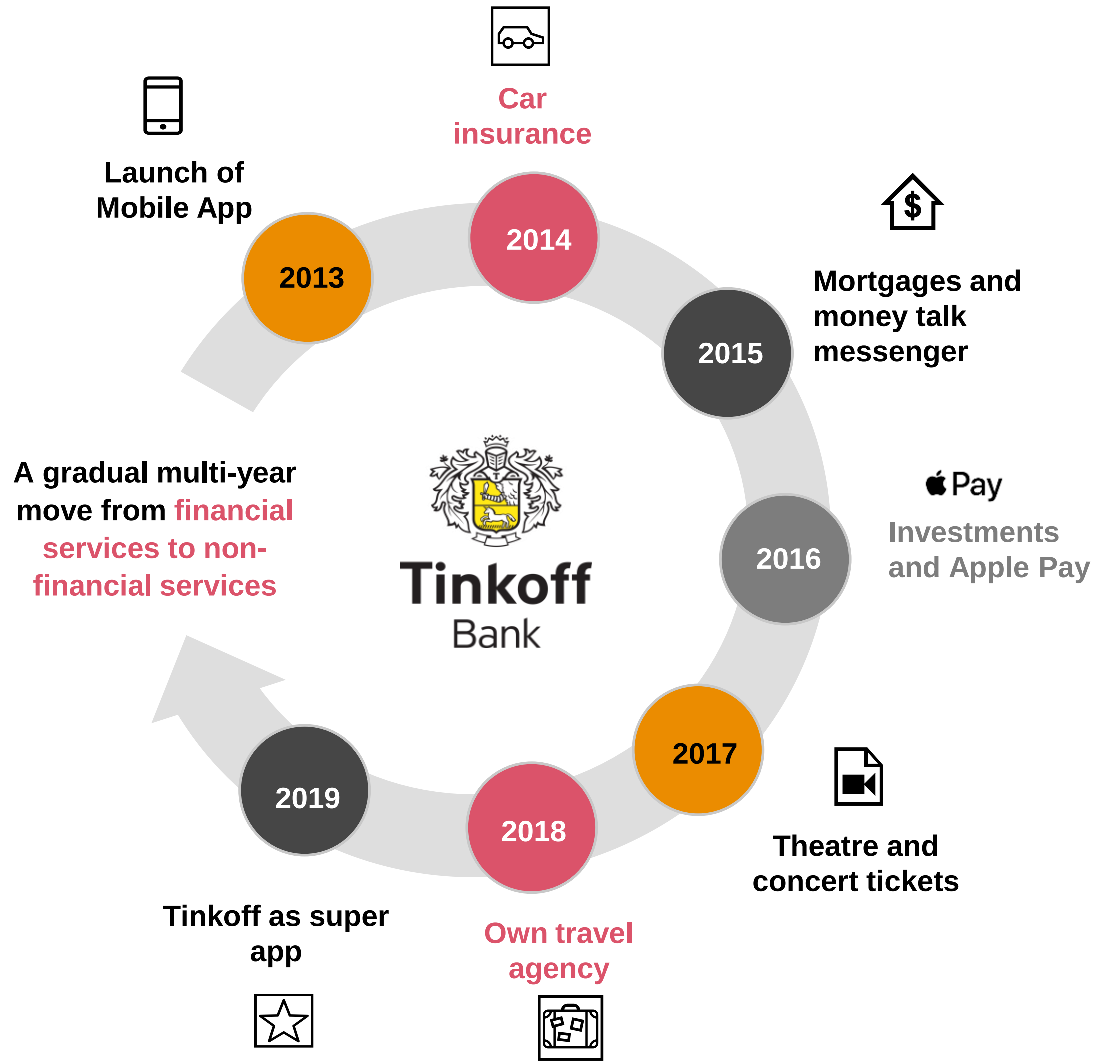
Digital banks assess their own supply chains for value-generating partnerships that may create superior customer experience – deeper than branding, while customers get access to plentiful intelligent services.




Digital banks' customer engagement: **15-20 times a month**

Atleast **70-75%** lesser for traditional banks

### A gradual multi-year move from financial services to non-financial services



## D. Agile operating model enabling affordable hyper-personalised services

What distinguishes these innovative banks from incumbents is their ability to create new solutions, improve efficiency, offer seamless, faster, affordable and secure services by leveraging the cloud and agile disruptive technologies.

Using customer insights in real-time, digital banks provide hyper-personalised services tailored to customer needs. Capitalising on the power of data, analytics and artificial intelligence they are better able to anticipate and respond to customer preferences.

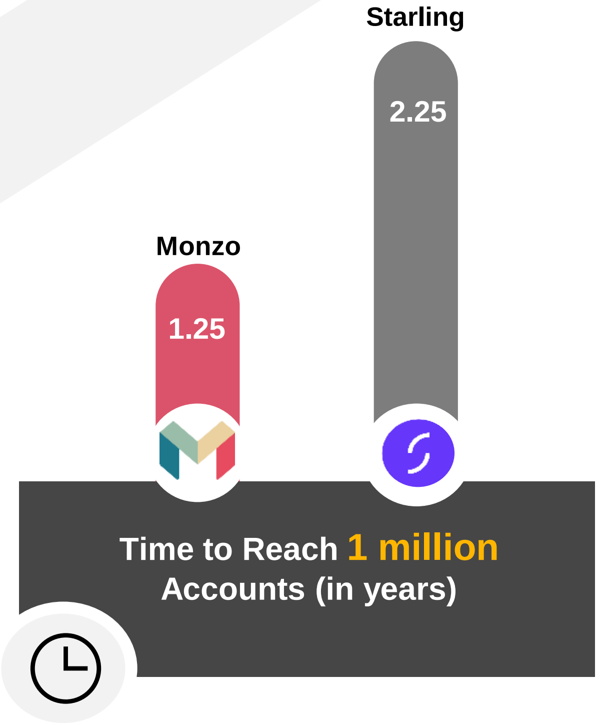
With the emergence of integrated digital ecosystems, these banks are embedding financial services seamlessly within non-banking end-user journeys through open APIs – which enable them to extend customer-centric value propositions designed around lifestyle needs.

Digital banks also enjoy significant cost advantages over incumbents, in the absence of an expansive brick and mortar network for customer acquisition and service. Resultantly, they can provide reasonably priced solutions and create a sticky base by passing these synergies as incentives to consumers.

## Digital bank accomplishments

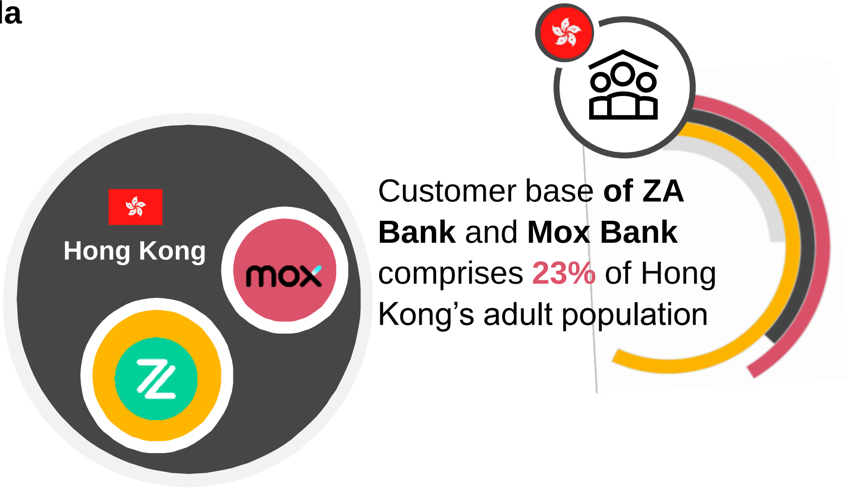
Focusing on niche customer segments with affordable solutions, value propositions built around every-day banking needs and seamless customer experience offered, these innovators in mature digital bank markets are able to grow their customer base well in millions over the last few years

| | Launch year | Customer base |
|---|---|---|
| nu | 2013 | 90M+ |
| TymeBank | 2017 | 10M+ |
| N26 | 2016 | 8M+ |
| monzo | 2017 | 9M+ |
| Starling Bank | 2017 | 4M+ |



## Meanwhile, emerging digital banks are building traction and contributing to the inclusion agenda

| Banks | Country | Year of launch | No. of customers |
|---|---|---|---|
| ZA Bank | Hong Kong | 2020 | 800K+ |
| Mox Bank | Hong Kong | 2020 | 600K+ |
| Trust Bank | Singapore | 2022 | 800K+ |
| GoTyme Bank | Philippines | 2022 | 3.5M+ |
| UNO Digital Bank | Philippines | 2022 | 1M+ |
| GX Bank | Malaysia | 2023 | 750K+ |




Customer base **of ZA Bank** and **Mox Bank** comprises 23% of Hong Kong's adult population

Trust Bank rolled out enticing sign-up rewards e.g. a $25 super-market e-voucher for the first card transaction, discounts of up to 21% at a leading grocery retailer, and an extra $10 e-voucher for each successful referral. These strategies led to amassing 100K customers just 10 days post-launch.

## But not all is a bed of roses…

Digital banks are challenged at least in the initial stages with restricted revenue streams, if focus remains on offering vanilla accounts and transactional services for the individuals' segment. Particularly in the absence of any lending proposition, focus on businesses and ecosystems to synergise, margins remain compressed resulting in longer break-even and pay-back periods.

**Generally, key factors affecting break-even include:**

- Strong credit offering
- Focus on MSMEs
- Customer numbers
- Ecosystem collaborations, synergies from sponsors and group companies
- CAPEX light operating model
- Economic conditions

### Time taken to break-even – few examples

| Bank | Time to break-even from commercial launch | Number of customers at the time of break-even | Reasons for relatively lesser time to break-even |
|---|---|---|---|
| TymeBank | 5 Years | **7.5M** | • Unique hybrid approach of combining digital channels with walk-in kiosks helped boost popularity<br>• Strategic partnerships with: (1) with retailers for access points (2) fintech for lending |
| Starling Bank | 5 Years | **1.7M** | • Increasing number of customers including for business banking<br>• Diversified business model with strong propositions – deposits, lending, Banking-as-a-Service<br>• Vibrant ecosystem – collaborates to provide multiple services through its marketplace |
| OakNorth | 1 Years | - | • Targeted the 'missing middle' - midsize businesses situated between micro-businesses and large corporations, with a strong business financing proposition |
| nu | ~9 Years | **66M** | • Strategic market positioning - capitalised on the underserved Brazilian market<br>• Primary revenue stream: interest income from lending - generally more profitable than fee-based revenue models |

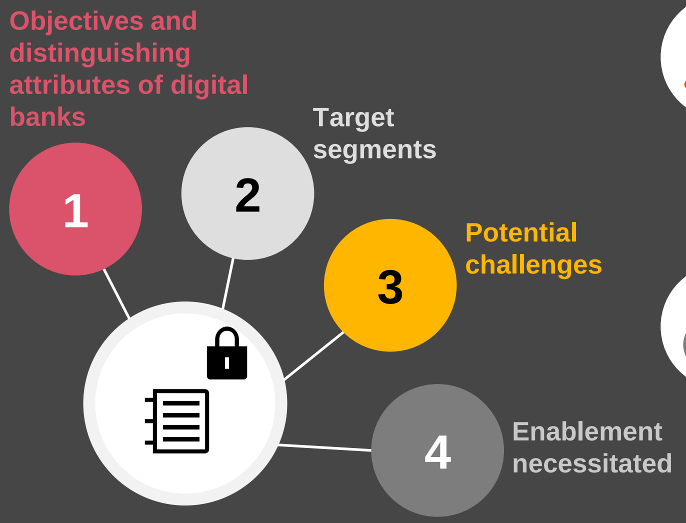
# Digital banks in Pakistan

The State Bank of Pakistan (SBP) developed the Licensing and Regulatory Framework for digital banks which is also aligned with frameworks introduced by regional regulators.

In 2023, SBP announced its selection of five successful applicants out of around 20 aspirants, who are now at various stages within operational readiness phase.

One of the core themes we discussed with industry leaders and senior professionals was on the business and operations of digital banks in Pakistan.

This section captures their perspectives along few key themes:




## Objectives and distinguishing attributes of digital banks in Pakistan

> "Digital banks may be better poised to create collaborative ecosystems, partnering with innovative players leveraging their agile tech stack and operating models."
>
> **Dr. Inayat Hussain, Deputy Governor, State Bank of Pakistan**

> "Digital banks must have a tech stack designed for digital operations, map all manual processes, eliminate paper, and shorten the journey from days to minutes."
>
> **Mr. Nadeem Hussain, Coach, Planet N Group of Companies**

> "Pakistan presents tremendous potential for digital banks. However, their success is contingent upon their ability to penetrate into niche segments and bridge customer experience (CX) gaps. Digital banks that can provide customer-centric, agile solutions from the ground-up are bound to succeed in the current landscape in which traditional banks are grappling with CX challenges stemming from legacy issues."
>
> **Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited**

> "It would be critical for digital banks to be able to connect with customers emotionally. Although digital technology is shaping the future, the essence of banking will remain 'human'. Closely aligning with individual preferences, values and aspirations, at every touchpoint possible, will translate into greater profitability and stability for digital banks. Introducing features the mimic face-to-face interactions will be crucial for building trust and rapport."
>
> **Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited**

## Objectives and distinguishing attributes of digital banks in Pakistan

“Convenience and trust are two fundamental USPs of digital banks, based on which they can create a lasting impact.”

**Mr. Atyab Tahir, Chief Executive Officer, HugoBank Limited**

“There are ample opportunities to create simplified, seamless journeys by understanding customer pain points and leveraging scalable agile technologies and digital innovation to address customer needs.”

**Mr. Umair Aijaz, Chief Executive Officer, Raqami Islamic Digital Bank Limited**

“Digital banks can be potent enablers of financial inclusion in Pakistan – we have the 3rd largest unbanked adult population in the world ~100 million.”

**Mr. Kashif Ahmed, Chief Compliance officer, Telenor Microfinance Bank Limited**

“Digital banks can lead as differentiators on the back of scalable technology through harnessing advanced data analytics and modeling, tailored niche segment offerings, superior customer service, digital engagement and collaborative partnerships.”

**Mr. Kashif Ahmed, Chief Compliance officer, Telenor Microfinance Bank Limited**

## Digital bank segments

“Five under-penetrated segments i.e. Agri below 5 acres, small enterprises, females, youth/ students, and freelancers/ gig-economy workers/ blue collar workers, may present sizeable room for penetration by digital banks.”

**Mr. Nadeem Hussain, Coach, Planet N Group of Companies**

“The SME sector is a critical segment for digital banks. Comprising 90% of exclusive private businesses, they contribute to 40% of the country’s annual GDP. However, a mere 6-7% received private sector financing.

Women in Pakistan remain significantly under-represented, making them a viable segment to cater to for digital banks. Given their inhibitions to deal directly with branch staff, digital banking is poised to break these barriers by bringing hyper-personalised experiences at their fingertips.”

**Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited**

“While women, youth, salaried professionals, freelancers, and non-resident Pakistanis may be target individual segments, digital banks should also focus on the MSME value chain, offline merchants and distributors.”

**Mr. Kashif Ahmed, Chief Compliance officer, Telenor Microfinance Bank Limited**

## Digital bank challenges

“As a nation, we are not tech-savvy enough to fully embrace digital solutions which means that social engineering fraud will be a significant risk. Digital banks will need to be five times more vigilant because commercial banks have branches that are open.

Cash in and cash out can be the single most important choke point for digital banks. For effective enablement, we may need regulatory interventions, collaboration opportunities, or the creation of an independent third-party network.”

**Mr. Nadeem Hussain, Coach, Planet N Group of Companies**

“Barriers related to cash-in and cash-out are palpable, and can be addressed through: (a) readiness of the banking industry to provide services to digital banks, (b) reducing transaction fee, and (c) standardising the services across the industry.”

**Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited**

“Key challenges for digital banks in Pakistan include technology, cybersecurity threats, social engineering frauds, acquisition and retention of digital talent.

Digital banks are likely to face liquidity challenges during the transition phase, until they can establish a strong brand and gain consumer trust, which will help attract deposits from the public.”

**Mr. Umair Aijaz, Chief Executive Officer, Raqami Islamic Digital Bank Limited**

“Digital banks face critical business and operational challenges: (a) low documentation of economy (b) customers lacking awareness of digital solutions offered (c) limited credit history/ bureau information (d) dominating preference for cash (e) rising transactional charges and technology costs and (f) lack of connectivity and costly reliable internet access.”

**Mr. Kashif Ahmed, Chief Compliance officer, Telenor Microfinance Bank Limited**

## Digital bank enablement

“Regulatory framework amendments may be pursued to more effectively enable digital banks.”

**Dr. Inayat Hussain, Deputy Governor, State Bank of Pakistan**

“Customer acquisition cost is usually very high so a viable strategy may be to acquire customers through collaborations with partners, further creating the possibility to access significantly large data points.”

**Mr. Nadeem Hussain, Coach, Planet N Group of Companies**

“Digital banks may need to pursue credit-led business models for a swifter path to profitability and also to address a critical market need. This will necessitate right capacity within the institutions in the form of people, data and models.”

**Mr. Nadeem Hussain, Coach, Planet N Group of Companies**

“Robust regulatory framework is vital for open banking to converge financial services with non-bank innovations.”

**Mr. Atyab Tahir, Chief Executive Officer, HugoBank Limited**

“There is a need for timely introducing open banking standards to create an effective ecosystem and improve quality of customer experience.”

**Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited**

# 9.

# Customer experience strategies for the digital age

# Customer experience strategies for the digital age

Customers today around the world are empowered like never before. They are informed, vocal, and socially savvy, with limitless options at their fingertips. Unwavering loyalty is a thing of the past; instead, they demand the best deals, seamless experiences and transparency.

Disruptors are capitalising on this shift, luring customers with unbeatable prices and lightening-fast service. Millennials and Gen-Z are driving this trend, craving hyper-personalised, transparent, frictionless digital interactions that banks are striving to match to stay relevant.

The bar has been raised – customers expect nothing less than exceptional, tailored experiences that meet their evolving needs. Falling short can result in diminished trust, loyalty and the loss of a long-tenured relationship. These are trends that are increasingly acknowledged and anticipated by banks in Pakistan as well, particularly with the introduction of digital banks.

> **Mobile apps must be personalised, offer seamless user experience and intuitive navigation. In today's fast-paced digital environment, customers particularly the youth, expect instant gratification and are quick to provide feedback that can impact bank's reputation."**
>
> Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

Globally, non-conventional innovative players are gaining traction by leveraging their core assets – technological superiority, data and compelling partnerships to deliver seamless personalisation. Traditional banks on the other hand remain hindered, despite embracing new technologies and platforms to deliver digital experiences.

Non-conventional innovators have gained ~20% more customers in a year than incumbents. In 2023, a digital bank operating in multiple jurisdictions across Europe, surpassed banking giants in terms of customer acquisition, securing 15% against 10% for the well-reputed brick and mortar ones across Spain.

**55%** of individuals surveyed by a leading technology services provider will **abandon their relationship if they experience a single negative interaction**

Heightened risk of customer churn has motivated banks globally to take a broad view of customer experience (CX) since it is the aggregate impact of every interaction a customer has with the bank's product, channel, personnel and brand. To achieve great CX, banks in Pakistan may need to engage across all levels of the organisation to focus on improving experiences at every touch-point, across the entire customer journey. Changes are needed at the operational level along side rethinking existing processes from the end-user's experiences.

## CX – a growth engine

**75%** of banking leaders surveyed by a digital publication hold the view that their banks consider customer experience as a vital business priority

**<50%** believe that their institution has attained high level of CX maturity

Despite its potential, customer service is often perceived as an expense, rather than a strategic opportunity and growth accelerator. Customers trust banks, expect personalised experiences and empathetic support. To truly thrive, banks need to shift their mindset and prioritise customer service as a revenue-generating engine. This requires a cultural transformation, where every touchpoint is seen as a chance to build loyalty, trust and long-term relationships.

## Harnessing the power of data and AI

To achieve data-driven growth and stay competitive, banks globally are not only modernising their infrastructure but also leveraging Artificial Intelligence (AI) capabilities to:

- Forge deeper emotional connections through predictive engagements with customers
- Uncover new market segments
- Design friction-free customer-centric experiences akin to those offered by fintech innovators

They are adopting cutting-edge technologies and platforms, breaking down internal silos, and dismantling traditional barriers to foster more agile and collaborative approaches.

> **To be a customer-centric "lifestyle bank," addressing the banking needs of people of all ages, particularly the young and women, it is critical to build requisite data analytics capabilities."**
>
> Mr. Shoaib Mumtaz, President & CEO, MCB Bank Limited

There may be banks in Pakistan appreciating the disruptive power of data and AI. Learning from international experiences, banks can strategically invest in emerging and big data technologies to capture customer mind and wallet share.

**Certain insights from our study of trends at select 40+ banks across various region**

**+70%** **of banks provide AI powered personalised interactions and insights**

**50%** **Customer experience transformation programmes ongoing at 50% banks**

## Enhancing customer-centricity and self-service support

Customer-centered engagement strategies build on life centricity. This requires designing living profiles through data collected from each step of the customer journey across all channels. There is also need to create connections by experimenting new ways to engage with customers at a human level.

> **Technology should be able to offer a comprehensive view of customer interactions, preferences, and behaviors, enabling banks to tailor products and services based on customer needs."**
>
> Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

Banks in Pakistan may consider humanising digital journeys based on deeper understanding of customer needs, preferences and pain points. There is massive potential to leverage technology and augment human interactions whilst providing self-service options.

> **In today's digital era where fintechs have raised the bar, customers desire a unified, consistent and effortless banking experience across all touchpoints. Personalised touch is critical within the overall digital interactions to make these as engaging as possible."**
>
> Ms. Mehreen Ahmed, Group Head – Retail Banking, Bank Alfalah Limited

**60%** of customers surveyed by an international customer service solution provider want to resolve as many issues as possible on their own, through self service methods as opposed to speaking with a customer service representative

## Seamless omni-channel experiences

Customers want seamless interactions with their banks irrespective of whether it takes place through their branch or mobile banking app. Institutions, hence, have invested significantly in data-driven technologies given increasing consumer shift to digital and their demand for hyper-personalisation. Banks in Pakistan may have to pursue this rigorously to meet customers' evolving needs.

> **"Digital encapsulates two dimensions (a) digital transformation at the branches; and (b) customer experiences on digital platforms both within the bank and outside, making omni-channel strategy fundamental to providing seamless customer experience."**
>
> Ms. Mehreen Ahmed, Group Head – Retail Banking, Bank Alfalah

> **"Banks need to weave themselves seamlessly into customers' lifestyle experiences, conveniently address banking needs and then lifestyle aspects in such a way that the product takes the center stage whilst the bank, as an enabler, remains invisible."**
>
> Mr. Sharjeel Shahid, Group Executive – Digital Banking, United Bank Limited

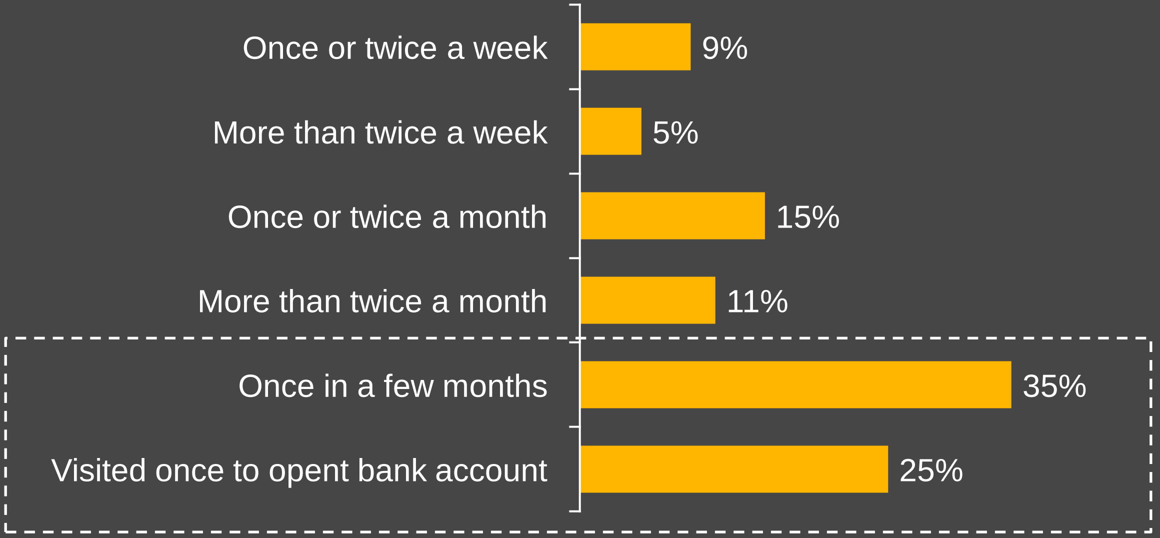
While branch experiences vary, global researches indicate that on average 60% of customers rate their mobile banking app experience as only average. Despite significant investments in technology, spending may not be translating into higher customer satisfaction levels.

> **"Preference between digital channels and traditional branches is still evenly split, as digital adoption is taking time. People at the end of the day want some form of human interactions."**
>
> Mr. Shoaib Mumtaz, President & CEO, MCB Bank Limited

## In-branch experiences

PwC Pakistan's Consumer Banking Experience Survey 2024 also provides insights for branch visit frequencies, satisfaction level, and challenges encountered during branch visits

### 60% of respondents rarely visit the branch…




### And only 55% satisfied with their branch visits…

## Concerns during branch visits...

Unmet expectations metrics although highest for time-to-serve, have reduced since 2022 from 66% to 62%, while concerns over branch service and ambience have risen.

| | | Based on PwC Pakistan's Digital Banking Experience Survey 2022 |
|---|---|---|
| Ambience | 17% | 11% |
| Staff knowledge | 21% | 17% |
| Facilitation by staff | 25% | 20% |
| Time to serve | 62% | 66% |

PwC Pakistan's Consumer Banking Experience Survey 2024 also provides insights on customers' phone banking experiences.

## 52% are satisfied with overall phone banking experience

| Satisfied | Neither satisfied not dissatisfied | Dissatisfied |
|---|---|---|
| 52% | 37% | 11% |

## Time to serve appears to be the most significant challenge for phone banking users

| | |
|---|---|
| Staff knowledge | 23% |
| Service menu | 24% |
| Staff's service and solution orientation | 27% |
| Time to serve | 53% |

## Digital onboarding

Cumbersome documentation process and subpar onboarding experiences lead to prospects abandoning their applications: an estimated 18% of customers globally leave the application process.

**Global researches indicate..**

over 70% of prospects who abandoned their account applications cite inadequate support and guidance as primary reasons

**A fully effective digital process is yet to be achieved as a requirement for branch visits is the main challenge in Pakistan…**

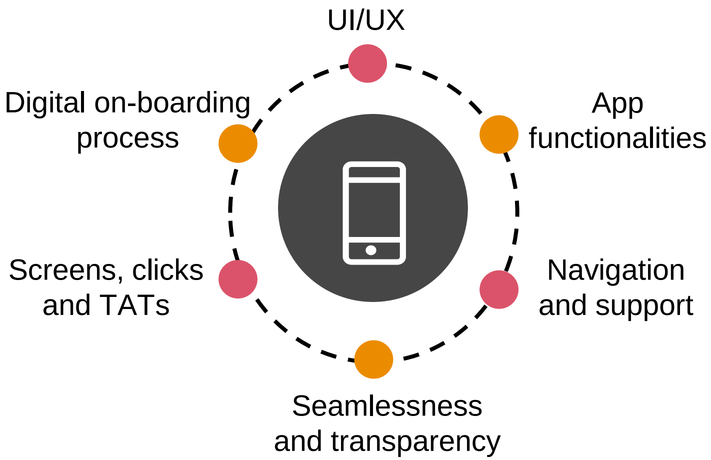
| | |
|---|---|
| Need to visit branch/ ATM for biometric verification | 25% |
| Extensive information requirements | 22% |
| Lack of in-app facilitation/ support (e.g., live chat) | 17% |
| Document re-submission | 12% |

*Source: PwC Pakistan's Consumer Banking Experience Survey 2024*

## PwC Pakistan's Digital On-boarding Study 2024

We also conducted a digital on-boarding study in Pakistan, involving detailed analysis of the experience at certain commercial banks, offering customers the flexibility to open full-service current accounts through their mobile.

**Various dimensions were analysed cutting across:**




**Insights gathered highlight certain opportunities to further streamline acquisition journeys**

- **~75 clicks** on average to **open an account** (*slightly lesser than UK high street traditional banks')*
- **~50 fields** requirement
- **~30 minutes** to complete the online application
- **~4** fields per screen
- **>60%** % of banks requiring branch/ ATM visits for biometric verification

## PwC Pakistan's Consumer Banking Experience Survey 2024 provides insights into few CX improvement areas for mobile banking

**Based on challenges that respondents encounter and their recommendations…**

| | | | | | |
|---|---|---|---|---|---|
| 45% | Time to serve | 42% | Diversity of products, services and features | 35% | Look and Feel |
| 43% | Rewards/ discounts | 40% | Fraud/ ID theft/ cyber security | 5% | Others |

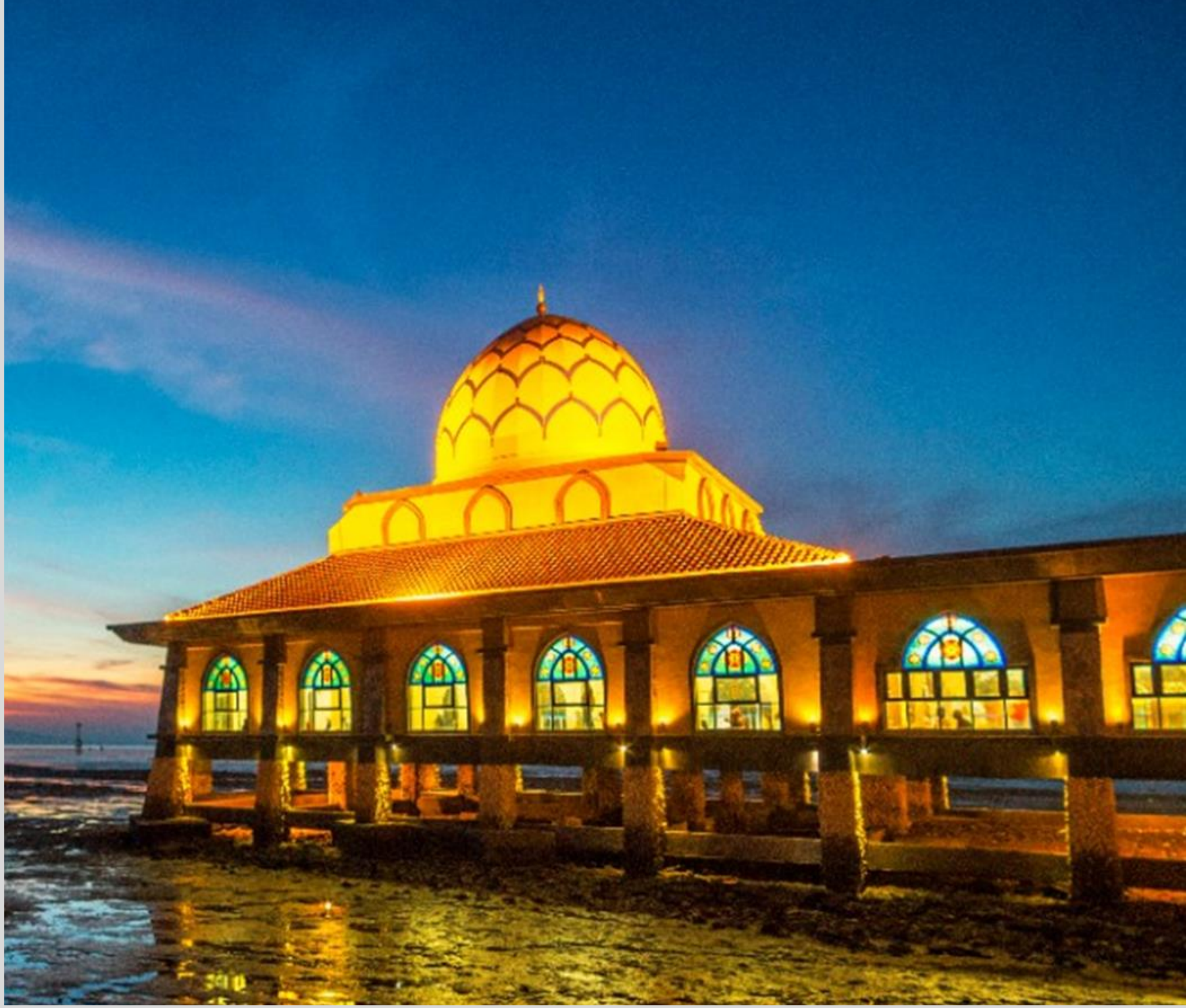
## Top 5 opportunities to further optimise digital onboarding journeys in Pakistan

**Top 5 opportunities to further optimise digital onboarding journeys in Pakistan**

1. Customer-centric, mobile-first strategy for digital customer acquisition
2. Design thinking for friction-free experiences
3. Well-designed system architecture and optimal processes for minimal interruptions
4. Stronger governance and performance metrics around conversion, abandonment, TATs
5. Balancing CX and compliance

# 10.

# Islamic transformation: The next wave in Islamic Banking



# Islamic transformation: The next wave in Islamic Banking

Islamic banking in Pakistan has been witnessing substantial growth in recent years, driven by rising consciousness among the population, coupled with supportive regulatory initiatives, Federal Shariat Court decision for Islamic transformation by 2027 and 26th amendment in the Constitution of Pakistan relating to elimination of riba by 2027.

Over the last few years, we have experienced one of the largest conversion of a conventional bank to an Islamic Bank, introduction of Islamic product alternatives for most of conventional products, and Islamic banking growth driven by:

- **Vision/ faith**
- **Business case**
- **Legal/ regulatory requirement**

On the other hand, some challenges still persist, mainly pertaining to human capital availability, product innovation, sukuk availability, etc.

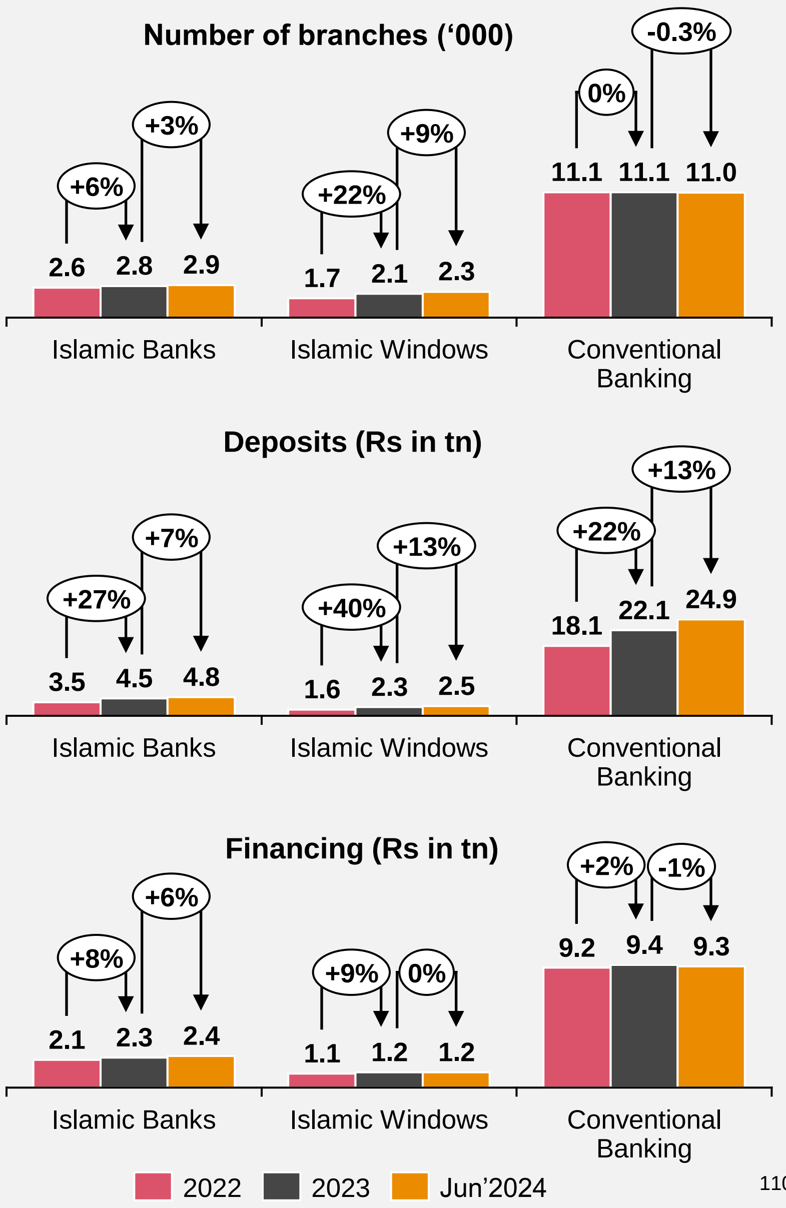
In the backdrop of profit rates differential (though on a declining trend in line with SBP policy rate), customers' preference for Shariah compliant banking services as well as requirement for conventional banks to fully convert, Islamic banking is expected to continue its growth trajectory, showcasing its potential as a viable and sustainable business model.

> **"Demand for Islamic banking is customer driven and requirement for Islamic conversion has set in motion considerable extent of awareness. Overall tilt is towards Islamic banking, evident from 80%-90% of new branches being opened as Islamic."**
>
> Mr. Irfan Siddiqui, President & CEO, Meezan Bank Limited

## Growth in Islamic banks, Islamic windows and conventional banking

Deposits and financing within both Islamic banks and Islamic window operations of conventional banks have increased in recent years, indicating robust growth and promising prospects. However, our analysis also indicate that conventional banking has contributed 82% of share in deposits growth in 6 months till June 2024 (72% in 2023).

On the other hand, deposits CAGR is highest in case of Islamic windows at 25% compared to 20% at Islamic banks and 15% for conventional banking. In case of financing, Islamic windows have a CAGR of 18% whereas Islamic banks financing has increased at a CAGR of 13% and conventional banking at 7%. Following provide insights on YoY growth for Islamic banks, Islamic window and conventional banking.



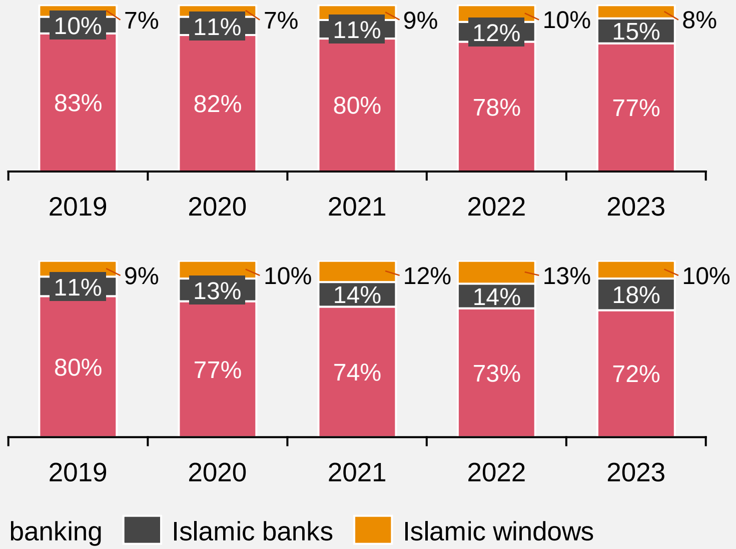
## Islamic banking market share

Islamic banking market share, particularly in deposits and financing, has been on a rising trend as depicted below. This increase indicates willingness of banks and viability of Islamic banking business.

As the banks are in the process of complying with recent State Bank of Pakistan’s (SBP) requirement for submission of an Islamic conversion plan, we may witness further increase in this share in the next 2-3 years till complete Islamic transformation for which the current deadline is December 31, 2027.

**Islamic banking deposits share – 23% (17% in 2019)**

**Islamic banking financing share – 28% (20% in 2019)**




> **“Significant business opportunity is presented by Islamic banking and is widely recognised and rightly pursued. However, there could be practical considerations in conversion of existing conventional banking into Shariah compliant one, due to which timeline of 2027 appears to be a bit challenging to achieve full conversion.”**
>
> Mr. Zafar Masud, President & CEO, Bank of Punjab

## SBP guidelines for conversion of conventional banks

SBP recently issued guidelines for conversion of conventional banks into Islamic Banks. These require development of a comprehensive plan including milestones and timelines for conversion of conventional portfolios into Islamic during the next three years i.e. by end of 2027. Milestones and timelines are required to be based on banks’ internal targets for conversion of assets, deposits, financing, investments and branches.

### Key regulatory parameters for conversion journey …

**Conversion plan addressing:**

- Vision and strategy
- Governance structure
- Year-wise business plan
- Milestones and timelines
- Communication and customer facilitation plan
- Training and capacity building plan
- Business, IT and HR strategies

**Gap analysis covering:**

- Products, policies/ procedures
- Shariah impermissible items
- Infrastructure and technology
- Agreements/ documentation
- Human resource
- Financial impacts

**Approval of conversion plan** by the Board of Directors

**Quarterly progress reporting** to Board and SBP

## Islamic banking in key Islamic countries

Pakistan will be one of the first countries in the world with a fully Shariah compliant banking industry, once all the conventional banks complete their conversion by 2027, as per current deadline. We did an analysis of few of the Islamic countries to assess their current mix of Islamic banking with respect to deposits and financing. Currently, Kingdom of Saudia Arabia reports the highest Islamic banking portfolio followed by Malaysia and Bangladesh, and then Pakistan with 23% deposits and 28% financing portfolios.

| | Deposit | Financing |
|---|---|---|
| KSA | 80% | 70% |
| Malaysia | 33% | 40% |
| Bangladesh | 32% | 36% |
| Pakistan | 23% | 28% |
| UAE | 20% | 22% |

## Islamic transformation journey in Pakistan

Historically, the industry has adopted slow pace of conversion with only a couple of banks having initiated transformation journey, few banks pursuing gradual branch and deposit conversion whereas few others pursuing asset-led transformation and offering predominantly Islamic for secured consumer financing. However, we expect that the conversion momentum will accelerate now in pursuance of their respective conversion plans.

Islamic transformation will require significant efforts on part of the banks and will only be possible with absolute support, ownership and stringent monitoring by the sponsors, Board of Directors and the senior management. Another critical aspect is to consider this transformation as a strategic proposition rather than regulatory compliance, that would require the banks to not only convert at one hand but also to grow Islamic banking on the other hand, by revamping their business strategies and operating models in line with the conversion plans.

## Critical conversion challenges and dependencies

Banks will face some critical challenges during the conversion journey. It will be vital for them to devise effective mitigation strategies and action plans to address those on an on-going basis. Few of the key challenges may include:

### People & culture

Limited availability of skilled Islamic banking professionals requiring considerable resource upskilling

### Technology

Requisite functionalities and scale to accommodate conversion and on-going operations

### Business

(1) Portfolio conversion
(2) Product conversion
(3) Branch conversion
(4) Syndicate/ long-term and unsecured financing
(5) NPLs (incl. recoveries)
(6) Investments

### Managing conversion complexities

(1) Purification of retained earnings
(2) Customer consent
(3) Risk of customer churn
(4) Asset liability management
(5) Rate sensitivity of customers
(6) Subsidiaries/ associated concerns, etc.

### Critical dependencies

(1) Availability of Sukuks
(2) Industry's pace of conversion
(3) Conversion of government portfolio
(4) Culture and mindset change
(5) Size of conversion – banking industry/ SBP/ Government/ other FS sector entities

> **"A strong focus on people skills and a commitment to serving effectively post-conversion will be essential to ensuring a smooth transition and fostering positive outcomes."**
>
> Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited

## Key conversion enablers

For adhering to the conversion plan and ensuring effective implementation of the milestones mentioned therein, banks will need to put in place an effective foundation to undertake this transformative journey through certain critical enablers, including:

- establishing programme steering committee, dedicated programme management and branch conversion teams
- putting in place a comprehensive conversion governance and monitoring framework
- assigning conversion KPIs enabling conventional and Islamic management integration, and ensuring stringent monitoring against conversion targets
- stakeholder engagement and communication plan addressing internal as well as external stakeholders
- Continued strengthening of HR pool by onboarding Islamic banking professionals and upskilling existing resources with ongoing training and awareness sessions. This will also help in ingraining Islamic ethos and values in existing culture and mindset

> **"Islamic banking transformation is a long-term journey of comprehensive planning, addressing relevant business and operating model pillars including customers, products, people, process and technology."**
>
> Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited

> **"There may be some priority shifts with potential bearing on eventual timelines, however, Islamic transformation will stay the course."**
>
> Mr. Irfan Siddiqui, President & CEO, Meezan Bank Limited

## SBP Strategic Plan for Islamic Banking Industry 2021-25

To steer the growth of Islamic banking industry on sustainable basis, SBP has been providing proactive guidance through issuance of strategic plans for the industry. The 3rd plan, in this regard covering the period from 2021 to 2025, provided headline targets for increasing Islamic banking market share in following key indicators:

| | |
|---|---|
| **30%** Share in assets and deposits | **35%** Share in branch network |
| **10%** Share in SME financing to private sector financing | **8%** Share in agriculture financing to private sector financing |

The above targets may be revised considerably in light of Federal Shariat Court decision and 26th constitutional amendment, requiring conventional banks to fully transform by 2027. Banks will also be expected to comply with the conversion milestones as mentioned in their conversion plans submitted to SBP.

### SBP Strategic Plan 2023 – 2028

To further enable the industry in their journey towards Islamic conversion, SBP has defined few initiatives for **"Transforming to a Shariah-Compliant Banking System"** in its **vision for 2028**:

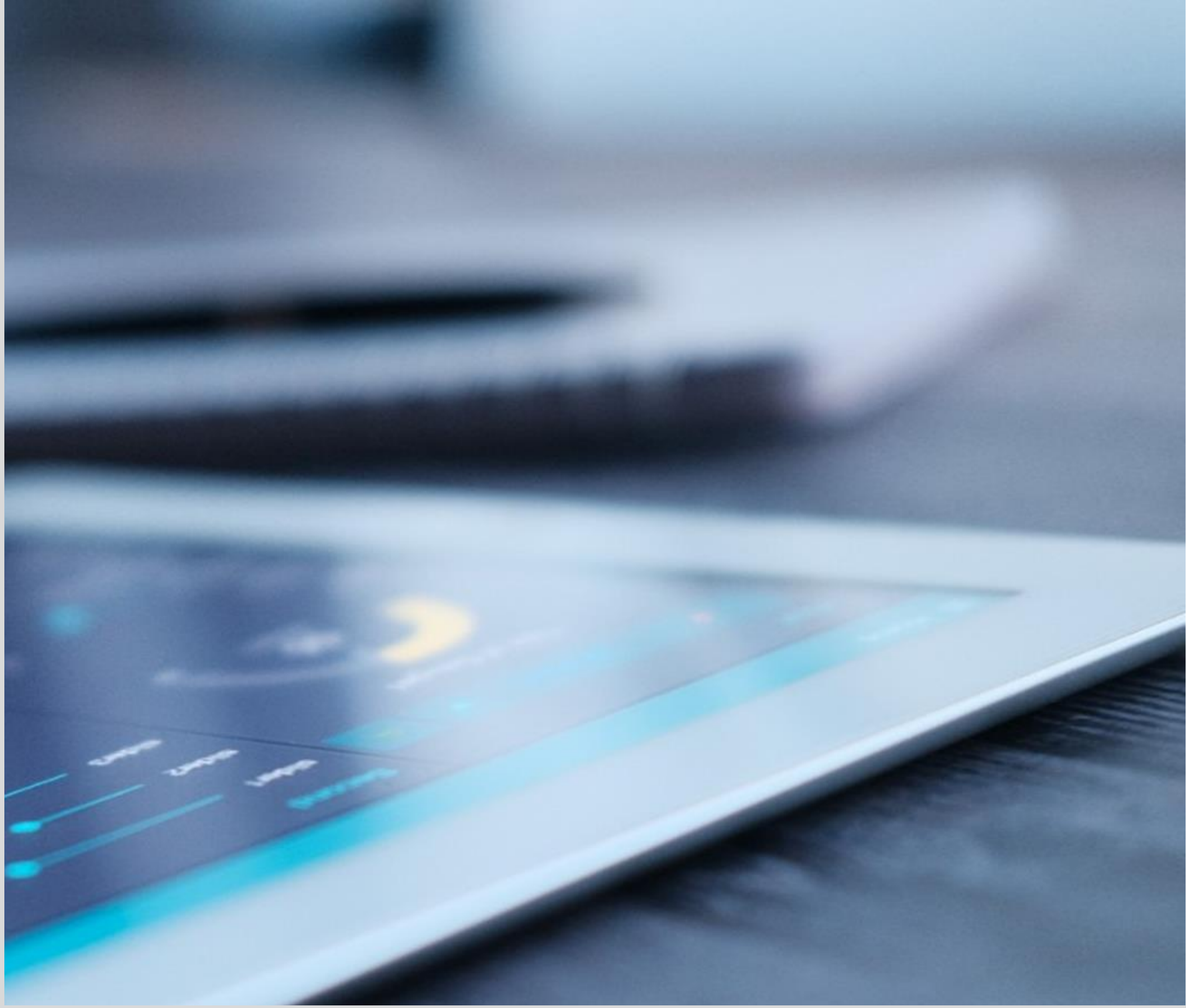
- Strengthening legal and regulatory environment
- Enhancing capacity building and awareness
- Conducting market development and research in Islamic financial services
- Transforming existing conventional banks into Islamic banks
- Strengthening the Shariah Governance Framework
- Designing solutions/ tools for liquidity management for Islamic banks

Banking industry will need significant regulatory enablement and support during the conversion journey, particularly in relation to (1) availability of sukuks, (2) visibility on future profit rates on remunerative deposits, (3) some amendments in regulatory requirements as may be requested by banks, etc.

This will provide the banks with some clarity, enable them to decide on their conversion milestones and timelines, and will go a long way in supporting banks in addressing critical conversion challenges.

# 11.

# Enterprise transformation: Navigating disruption for sustained success



# Enterprise transformation: Navigating disruption for sustained success

In today's rapidly evolving landscape, businesses across every industry are facing the pressing need to undergo transformation, and the banking sector is no exception. For leaders in this new reality, success demands more than just incremental improvements — it requires reimagining the entire organisation. Banks must now strive to build enterprises that are sustainable, tech-powered, agile, skill-driven, capable of adapting to ever-growing internal and external pressures.

Achieving this level of transformation requires a comprehensive approach to organisational design and capability building. It begins with a clear purpose and vision, culminating in a digitally enabled banking enterprise that breaks free from rigid, hierarchical structures and empowers employees to drive innovation. By embracing continuous transformation, banks can overcome legacy systems, streamline operations, and better serve an increasingly digital and demanding customer base.

In the current business environment, organisations need to transform — repeatedly and holistically — or risk falling behind.

> **"With the pace of technological evolution and possibilities it creates, certain questions arise such as (1) do we have requisite skills, (2) how quickly can we change our processes, business models and products, (3) what risks do these new technologies lead to, (4) which privacy issues do these create, (5) which regulatory restrictions or challenges are posed, (6) what investments are needed."**
>
> Mr. Abrar Mir, Chief Information & Transformation Officer, HBL

PwC Pakistan conducted an analysis of few select banks across Asia Pacific (APAC), Europe, Middle East & Africa (EMEA), and Americas, to identify key transformation related trends. The analysis show that digital transformation, tech. transformation and customer experience transformation have been or are being undertaken by most of these banks in the last 12-24 months.

### At select 40+ banks across various regions

**80%** Digital transformation underway

**70%** Tech transformation in-progress

**50%** Customer experience transformation programmes ongoing

**80%** have re-engineered their operating model

**70%** have implemented cloud native operating model

## Transformation is not a defensive measure

Organisations face an urgent imperative to transform as also evident from PwC's 27th Annual Global CEO Survey in Pakistan which noted that 42% of CEOs (45% as per global survey) believe their current business model will not survive the decade. 2024, therefore, is appearing to be the year of business model reinvention as most organisations are radically transforming how they create, deliver and capture value to remain relevant in a constantly changing world.

But transformation should not just be a defensive measure. It should also be an ongoing, proactive and strategic activity in pursuit of growth and opportunity. PwC global research shows majority **(83%)** of top performing organisations have changed their business model in the last three years and nearly a quarter **(24%)** increased their investment in enterprise-wide transformation by more than **50%** during that time.

## Facilitating enterprise transformation

Successful organisation-wide transformation requires right capabilities and approach. By navigating disruption and aligning efforts with stakeholder needs, sustainable outcomes can be achieved.

The rapid pace of change challenges businesses, requiring leaders to manage transformation effectively while prioritising (1) growth, (2) digital innovation and technology advancements, (3) delighting customers with enhanced experience, (4) regulatory compliance, (5) social responsibility and (6) building people engagement and new skills.

Following describe few key drivers to effectively manage these priority areas during a large-scale transformation programme:

### Key drivers to effectively manage a large-scale transformation programme

| | |
|---|---|
| **Transformation business case and benefits** | Creating a transformation business case and a compelling narrative fosters commitment to change by promoting collaboration and aligning diverse stakeholder perspectives |
| **Cultural alignment** | Fostering a culture of innovation, collaboration, and adaptability through strong leadership commitment to drive cultural change and inspire employees to embrace new ways of working. Engaging employees throughout the journey builds buy-in and promotes a sense of ownership |
| **Data-driven insights** | Leveraging data analytics to drive informed decision-making, developing a culture of continuous learning and improvement, and adopting agile methodologies to adapt to changing market conditions and deliver value incrementally |
| **Enterprise programme management** | A dedicated transformation management office adds value by optimising project portfolios, managing risks and enhancing governance to ensure strategic progress and tangible business outcomes amid continuous change |

## Who takes the lead on transformation?

The importance of transformation is indisputable, yet very few organisations have a consistent answer when asked who leads on transformation. Responses can fall into three camps:

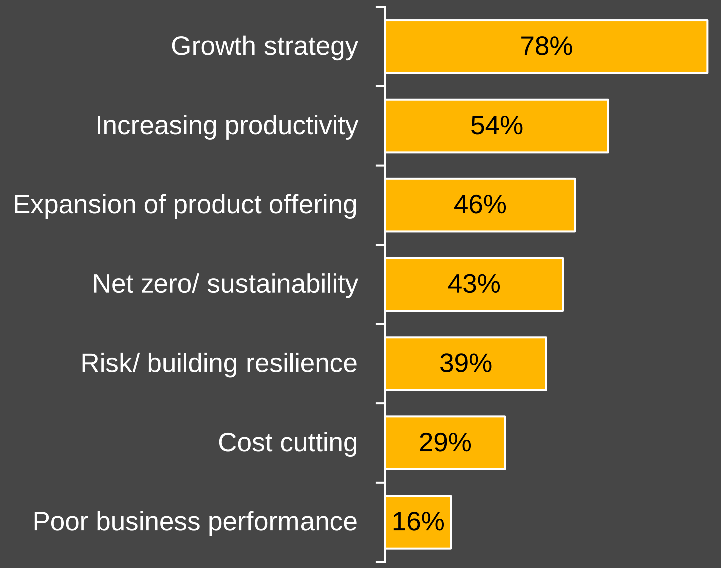
1. First is a top-down model, where the CEO leads, delegating to respective C-suite colleagues to drive action
2. The second is a more devolved approach where other members of the C-suite lead in their respective areas - for example, COO leading on operations transformation and the business heads leading in their business segments
3. The third is where a dedicated individual is focused full-time on developing and delivering the transformation strategy

The first two approaches, however, face challenges, including the risk of transformation efforts becoming deprioritised amidst competing initiatives or being shaped at a narrowly functional level, thereby missing the opportunity for enterprise-wide transformation.

> **As part of institution’s digital transformation journey, we need to harness data science and artificial intelligence for informed decision-making, as opposed to leveraging technology to simply automate processes.”**
>
> Mr. Syed Amir Ali CEO, Deputy CEO, Meezan Bank Limited

## What's driving transformation?

PwC's 27th Annual Global CEO Survey 2024 reveals that organisations are prioritising growth strategies and productivity enhancements, indicating a forward-looking approach to transformation. Sustainability has become a central focus, reflecting increasing environmental commitments amid regulatory and consumer pressures. Additionally, while cost-cutting remains relevant, it is less emphasised compared to expansion of product offering and resilience-building efforts.




As per PwC Pakistan Annual CEO Survey 2024, 77% of CEOs identified government regulations as the primary factor that has driven changes in the way their organisation created, delivered and captured value over the past five years. This was followed by technological changes (43%) and changes in customer preferences (41%).

## CEO focus areas for enterprise transformation

Change can happen at a contrasting pace in different areas of the organisation as challenges and opportunities dictate, but the ability to adapt at an organisation-wide level can complement and accelerate functional transformations. For example, many organisations are investing in transformation projects in technology, marketing and customer experience which may help create a closer connection to customers. But while these investments may be of higher priority, transformation should not be done in isolation.

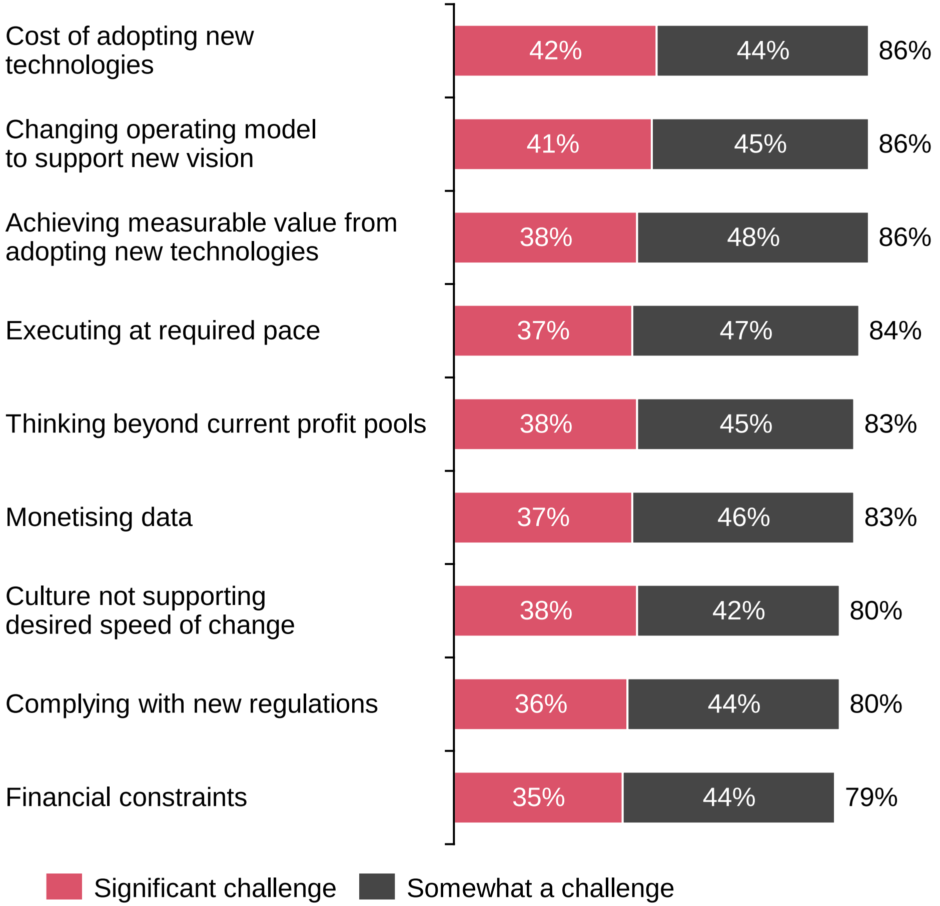
To effectively navigate the myriad of changes within the banking sector, organisations must prioritise investments in their foundational technology infrastructure and data strategy. PwC UK's 27th CEO Survey 2024 indicates that **87%** of CEOs have either recently completed, are currently executing, or are planning to initiate at least one transformative IT project.

| | Recently completed/ running/ planning transformation project | No plans for transformation |
|---|---|---|
| Operations | 90% | 10% |
| Technology | 87% | 13% |
| Marketing | 79% | 21% |
| ESG/ sustainability | 74% | 26% |
| Finance | 67% | 33% |
| Customer experience | 67% | 33% |
| Human resource | 63% | 37% |

Moreover, an impressive 76% have committed to investing in cloud infrastructure, data analytics, and AI within next 12 months. This strategic focus not only enhances operational efficiency but also positions organisations to leverage advanced and emerging technologies for sustainable growth and competitive advantage.

## Internal challenges to transformation

PwC Pulse Survey 2024 highlighted level of internal challenges faced especially around adopting new technologies, changing operating models to support new vision, monetising data, thinking beyond current profit pools, and executing at required pace as major roadblocks to reinventing their businesses.




## Enhancing customer experience: Transformation to customer-centric banking

Today's banking landscape demands innovative solutions that prioritise personalisation and security. By focusing on tailored experiences, effective fraud prevention, digital banking capabilities and robust cybersecurity measures, financial institutions can meet customer expectations and enhance overall satisfaction.

**Tailor experiences**
Combine intelligent onboarding, customer behaviors and buying trends to deliver personalised offerings at any time over any device while creating a seamless flow of data between digital and physical channels.

**Interrupt fraud**
Use AI-driven systems to quickly vet routine payment and transfer requests, freeing teams to investigate more serious fraud attempts

**Make the bank branchless**
Provide customers with conveniences like modern and secure account on-boarding, account management and digitising loan processes

**Enhance cybersecurity**
Implement robust security measures to protect customer data and prevent fraud, ensuring trust and safety in personalised, digital banking services

In today's fast-paced financial landscape, changing customer behaviours necessitate personalised banking, but traditional banks struggle with adaptability. Successful customer experience transformation requires exceeding customer expectations, fostering agility, transforming services, and investing in modern technology for competitive advantage, along with essential safeguards in place.

## Customer-centric approach

Focus on customers to exceed expectations and build trust. Use relationship management systems for insights, define personas for personalised journeys, and segment customers through primary research.

## Services transformation

With a customer-centric mission, align entire operating model.
To stand out, drive change across all functions: create customer-focused propositions and business models, iterate with prototypes and usability testing, and improve employee experiences.

## Agility

Sticking to old ways may make the bank irrelevant. Instead, find opportunities by analysing the market and competition, define a clear mission, stay agile in strategy, and ensure vision aligns with regulations and risk management.

## Transformative technology solutions for banking

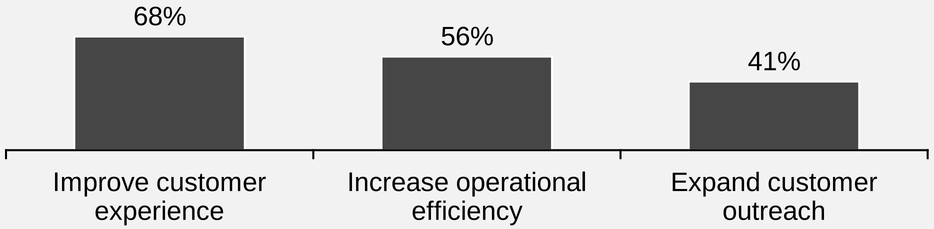
Outdated technology hinders banks' customer experience and innovation. Modernisation reduces costs, accelerates product/ service development and fosters personalised experiences through flexible platforms and robust data.

## Digital transformation

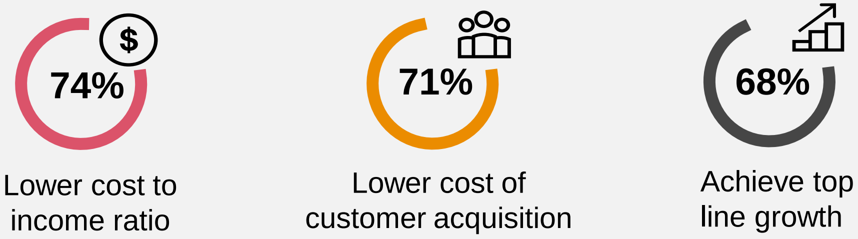
Digital transformation is about more than just revamping technology architecture and infrastructure. There are a number of downstream impacts that need to be considered for banks to successfully design the right strategy to drive their strategic digital transformation agenda.

While it is imperative for banks to accelerate their digital transformation efforts, it is even more important to be cognisant of potential risk and ensure that necessary guardrails are in place to drive implementation and transformation success.

As per the results of PwC Digital Banking Survey 2023, primary driver for digitalisation is to improve the customer banking experience. Respondents also cited the need to increase operational efficiency across front, middle, and back-office functions, which is indicative of their intent to drive down operational costs.




In terms of financial objectives, survey respondents stated that they aim to lower their cost-to-income ratio, their cost of customer acquisition and achieve top-line growth through digitalisation. Survey responses further indicated a desire to increase digital customer engagement and drive higher profitability.



## Outlook for branch banking in the digital era

As consumers become increasingly digitally enabled and self-served, and as digitalisation continues to advance, 48% of surveyed bank respondents, as per PwC Digital Banking Survey 2024, expect to see a reduction to their number of branches. That said, 42% of surveyed bank respondents expect no changes to their number of branches. This indicates that even though majority of banks do anticipate that consumers would continue going digital for their banking services, some banks still see the need for a physical presence, suggesting that branches will continue to play a role in the future, albeit a different one.

With the increasing shift towards digital banking, branch network rationalisation has become a strategic priority for banks globally.

**80%** of select banks, as per PwC Pakistan analysis of 40+ banks across various regions, have either rationalised branch network and/ or re-configured branches

**48%** of surveyed APAC banks expect to see a reduction in branch network

> **"Given increase in self-service transactions, branches may evolve from transaction centric to sales-driven hubs focusing on specialised selling & advice."**
>
> **Ms. Mehreen Ahmed, Group Head – Retail Banking, Bank Alfalah Limited**

> **"Branch of the future will be where customers receive tailored, face-to-face advice, to optimise their portfolios and grow their wealth."**
>
> **Ms. Saadya Riaz, Head – Wealth & Retail Banking, Standard Chartered Bank (Pakistan) Limited**

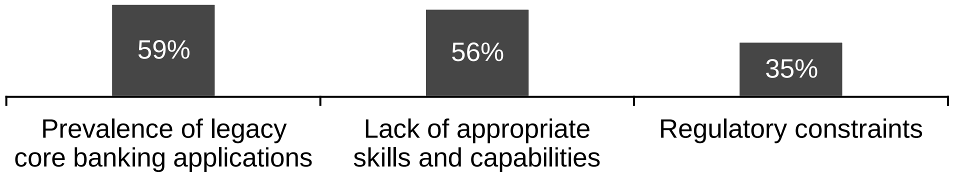
> **"While branches are relevant, the brick-and-mortar network may evolve into high-end advisory centers with personalised service offerings."**
>
> **Mr. Abrar Mir, Chief Information & Transformation Officer, HBL**

## Technology transformation

Technology transformation is one of the critical components of enterprise and digital transformations. The modernisation of core systems and infrastructure is a complex and time-consuming process, but it is essential for banks to take an agile approach to meet the evolving needs of their customers while ensuring their employee training programmes are aligned towards building necessary skill sets to innovate.

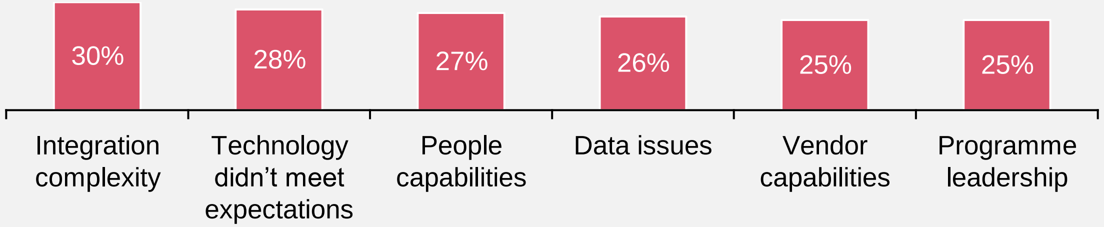
While PwC Digital Banking Survey 2023 indicates that banks are exploring building innovative technology stacks, there are also a number of constraints that are hindering the digitisation efforts of banks. The primary constraint identified by respondents is the prevalence of legacy core banking applications (59%), which in a number of cases are difficult to be integrated with.

Further, although banks have ambitious targets of driving their transformation agenda, they face a big skill gap in the execution of technology transformation journeys.




As per PwC Digital Trends in Operations Survey 2024, many banks have invested in multiple technologies to digitise operations. Cloud (62%) and AI, including machine learning (55%), being clear leaders.

However, the share of respondents who say their organisations did not fully realise the expected results from tech. investments indicates following persistent challenges:

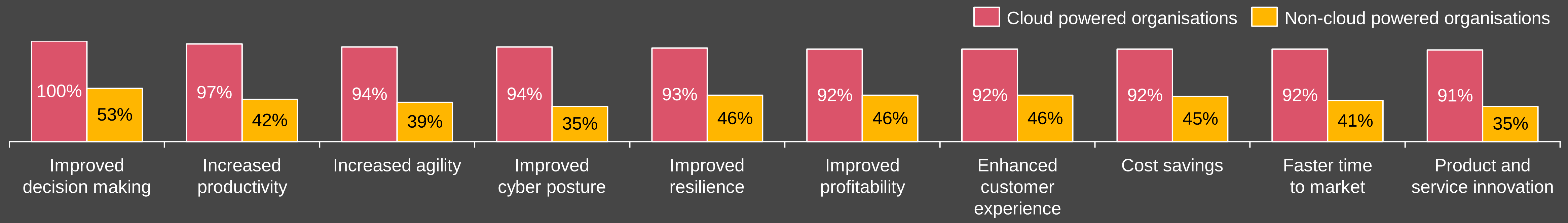


## Cloud transformation in banking: Driving value and managing barriers

Cloud transformation is far more than simply shifting operations to a digital platform; it is about redefining business value, optimising workflows and reimagining technology's role within the organisation. Therefore, a bank's cloud strategy should be focused on business needs first, and not oversimplified to solely technical aspects. While technology determines the "how," it is the business strategy that clarifies the essential "why."

## Driving value from cloud transformation

As per PwC's Cloud Business Survey 2023, **95%** of respondents cited they are now, or will be in two years, fully on the cloud. Further, as per the Survey, cloud-powered organisations are achieving measurable value across various cloud transformation metrics such as better decision-making, productivity or cybersecurity, as compared to non-cloud operating organisations.




## Key barriers to achieving measurable value from cloud technologies

As everywhere, obstacles are an integral part of the cloud transformation process. According to PwC's Central & Eastern Europe (CEE) Cloud Banking Survey 2023, insufficient vision, coupled with the challenges in cost and risk management, is stalling the cloud transformation. Top barriers to cloud transformation include:

1. Lack of leadership
2. Lack of or inadequate cyber and privacy controls
3. Budget and/or investment constraints
4. Insufficient strategy or plan to guide cloud efforts
5. Inability to effectively measure/ quantify RoI

## AI, GenAI and enterprise transformation

According to PwC's **2024 AI Business Predictions**, technology is set to transform the businesses and the banking industry like never before. With rapid advancements, increased investments, and a race to attract top talent, Generative Artificial Intelligence (GenAI) will redefine how banks operate.

From boosting revenue and streamlining daily tasks to enhancing customer and employee interactions, GenAI will pave the way for innovative business models and more efficient services. The future of banking is here, powered by GenAI.

### The right AI choices will provide organisations a significant edge

GenAI may appear easy to use and many cloud service providers are already embedding GenAI capabilities in their offerings. Many organisations find attractive RoI from GenAI but only a few succeed in achieving transformative value from it.

It is important to provide employees with incentives to not just use the new technology but to leverage it to reimagine their jobs. Tech advancements mean they can reinvent their work by finding ways to deploy and customise GenAI for automating some tasks and augmenting the rest.

### GenAI will redefine the work of leaders as much as employees

No one yet knows the long-term impact of AI on overall employment and 2024 will still be too soon for definitive answers. But AI will start to change how almost everyone — especially those at the highest levels — do their jobs.

Whether in the C-suite or on the branch floor, people who know how to use AI will outcompete those who do not.

### The moment of truth for trust in AI is coming

In the coming years, AI will be an essential part of how people interact with data, stakeholders and each other. Trust in AI will be critical and that means more than just compliant, secure systems. It means deploying the right solutions for the right situation with the right data, policies and oversight to achieve relevant, reliable results.

As GenAI takes on more work, writing financial reports, automating parts of software development, analysing proprietary data for go-to-market strategies and so on — mistakes could have wide-reaching impacts, including stalling transformation initiatives. That requires responsible AI, an enterprise-wide approach and set of practices that can help everyone who develops and uses AI.

### GenAI will transform transformation

GenAI is about to make transformation more urgent in more places — and more achievable. Its ability to make sense of unstructured data, when combined with cloud, can accelerate nearly any data-related transformation initiative. It can also take transformation where it has not gone before and help leapfrog several stages. GenAI will handle complex tasks and processes that were previously out of reach in finance, tax, legal, IT, compliance and other domains.

> **"It is an interesting time where artificial intelligence, generative AI, data analytics, robotics, quantum computing are converging with deeper transformative impacts on the financial industry."**
>
> **Mr. Abrar Mir, Chief Information & Transformation Officer, HBL**

### What to do next for GenAI led transformation

- **Put people first -** Provide training and incentives for GenAI use.
- **Set priorities — methodically** - Analyse the value of a process, its scalability and the hours currently spent on it.
- **Be human-led and tech-powered-** Leverage AI to expand workforce's capacity for high-value tasks and complex, data-driven decision-making.
- **Make cloud an ally**. GenAI (or any AI) can do more with data if it is in the cloud.
- **Make everyone a transformation lead** - Every knowledge worker in the organisation may consider how GenAI could transform roles — and get started on it.
- **Don't adapt, replace** - Rather than simply integrating AI into existing workflows and tools, create new processes that transform ideas into tangible outcomes quickly and cost-effectively.

# GenAI-led transformation – CEO perspectives

According to PwC's 27th Annual Global CEO Survey 2024, vast majority of organisations are already taking some steps towards reinvention while CEOs are attempting meaningful changes to the business models.

## Key findings from the survey

- The impetus to reinvent is intensifying. CEOs expect more pressure over the next three years than they experienced over the previous five from technology, climate change and nearly every other megatrend affecting global businesses
- Survival-conscious CEOs among the 45% who are less confident of their organisation's viability are slightly more likely than other CEOs to have taken action aimed at reinventing their business models
- 2/3 of CEOs globally report reallocation of resources (financial and human) of 20% or less, year to year. 60% CEOs in Pakistan reported reallocating at least 10% of their financial and HR resources annually. The connections among reallocation, reinvention and financial performance suggest that more aggressive reallocation may be required to succeed

## The GenAI challenge

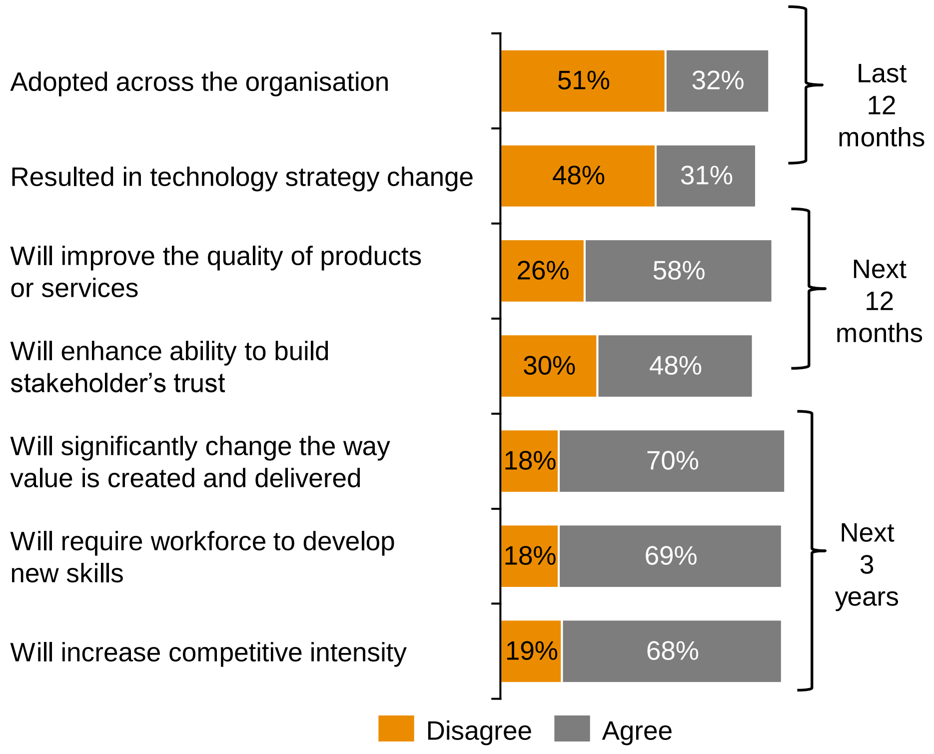
When it comes to GenAI, CEOs are most concerned about the increase in expected impacts from the following key challenges in the next 12 months:

| | CEOs | |
|---|---|---|
| | Globally | Pakistan |
| Cybersecurity risk | >60% | >60% |
| Spread of misinformation in the organisation | >50% | ~50% |
| Legal liabilities and reputational risk | ~50% | >30% |
| Increased bias towards specific groups of employees or customers | ~35% | ~30% |

CEOs appear to believe in both the fast pace of GenAI adoption and its heavy potential for disruption. As per the survey, within the next three years, nearly 7 in 10 respondents anticipate GenAI will increase competition, drive changes to their business models and require new skills from their workforce.

CEOs who say they have adopted GenAI across their organisation are significantly more likely than others to anticipate its transformative potential over the next 12 months, as well as over the next three years.

Although GenAI adoption and strategic integration has been somewhat limited, CEOs anticipate greater impact ahead. Following is the extent to which CEOs agree or disagree with statements about GenAI:



# 12.

# Adapting to evolving risk landscape

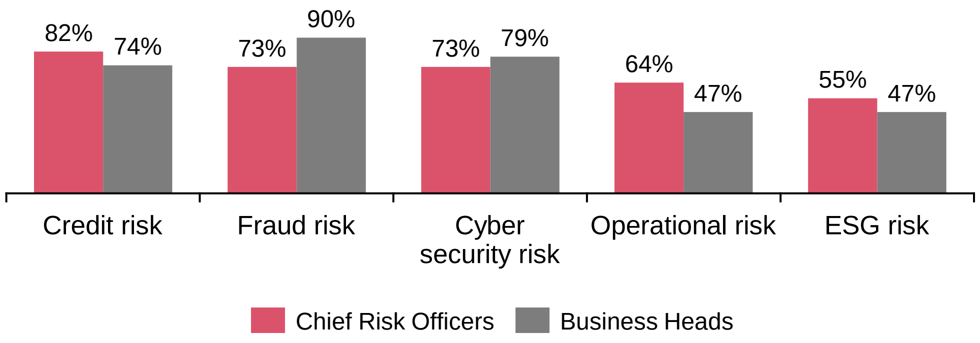
# Adapting to evolving risk landscape

Global risk landscape has undergone rapid transformation and our banks are no exception where risks have evolved significantly, characterised by emerging threats in the domains of cybersecurity, fraud and credit risks. Swift and disruptive shifts are redefining how banks manage risks, compelling them to adapt to new challenges and opportunities.

## PwC Pakistan Risk Management Survey 2024

To analyse risk trends and expectations, PwC Pakistan conducted a first of its kind Risk Management Survey in 2024, with the participation of 50+ Chief Risk Officers (CROs) and Business Heads from the banking industry.

Survey results suggest that fraud, credit and cybersecurity risks are the top risks in the next 12 months, with ESG risk still being perceived as moderate.




**"We are experiencing faster shifts in banking and risk management practices - risk functions may not remain relevant if those are not able to align with changing customer behaviors while ensuring convenience, safety and reliability of digital transactions."**

Mr. Tariq Masaud, Chief Risk Officer, HBL

## Risk management sophistication

To address emerging and top risks, banks may need to achieve a higher level of risk management sophistication and, therefore, prioritise the integration across business functions, accelerate response times to emerging risks and align risk management strategies with overall business objectives.

By fostering a culture of risk awareness and embedding risk management principles throughout the institution, banks can better identify, assess, and mitigate potential threats, ultimately enhancing their resilience and competitive advantage.

Below highlights the comparison between PwC Global insights and Pakistan Risk Management Survey for key areas requiring improvements in the next 12 months.

| | PwC Global Risk Survey 2023 | PwC Pakistan Survey 2024 | |
|---|---|---|---|
| | | CROs | Business Heads |
| Enhanced risk integration across business functions | 23% | 91% | 53% |
| Faster response time to emerging risks | 22% | 82% | 32% |
| Effective alignment with business strategy | 21% | 73% | 84% |
| Increased accuracy in risk forecasting | 23% | 36% | 37% |

To address above improvement areas, investments in risk processes, frameworks and enabling systems, coupled with GRC convergence, all part of a holistic risk transformation, are critical for a future-proof approach to risk management. Implementing COSO's ERM framework in the risk sophistication journey may also be considered by banks in Pakistan, in line with global trends.

# Enhancing credit penetration and quality

Credit risk dimensions have changed manifold due to shifts in Pakistan's economic condition in 2023-24 which has altered portfolios' underlying risks/ quality. This may warrant dynamic risk management with on-going reassessment of (1) risk strategies and appetite, (2) customer segments and products, (3) risk acceptance criteria (4) rating models/ scorecards, (5) portfolio management capacity, and (6) related tools and technologies.

As per PwC Pakistan's Risk Management Survey 2024, CROs and Business Heads have emphasised on the criticality of a comprehensive approach that combines innovative collaborations and strategic realignments for effective credit penetration and quality.

| | Chief Risk Officers | Business Heads |
|---|---|---|
| Business/ risk strategy & appetite realignment | 82% | 80% |
| Optimisation of the role of credit bureaus | 82% | 40% |
| Increase in ecosystem collaborations | 73% | 87% |
| Availability of alternative data | 73% | 67% |
| Improved product offerings | 36% | 73% |

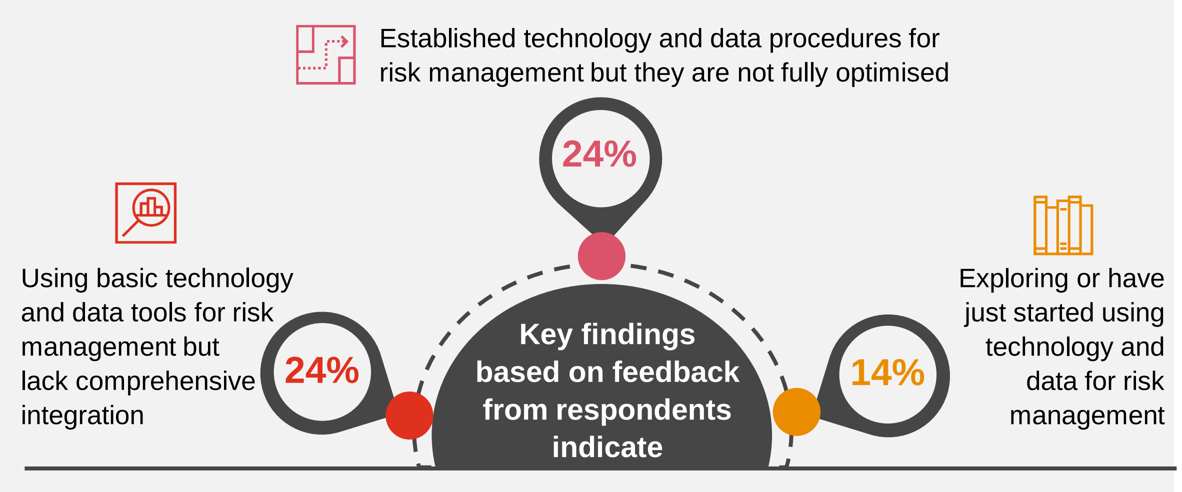
> **"Banks hold a large reservoir of customer data and transaction history that needs to be utilised more effectively for efficient credit decisioning."**
>
> Mr. Tariq Masaud, Chief Risk Officer, HBL

Significant drop in ADR to 37% in Jun-24 demands that banks reassess and renew risk strategies particularly for penetration into existing and new financing segments, on a sustainable basis. This may be achieved by implementing robust risk models and credit decisioning to assess borrowers, which will require an innovative shift in mindset.

However, major challenge continues to be availability of data, for which there is a need to augment national data infrastructure and ecosystem by establishing/ significantly enhancing various records/ registries including credit, land, collateral etc. This will enable efficient financing as well as accelerating progression towards documentation of economy.

## Technology and data considerations

Results of PwC Global Risk Survey 2023 indicate the level of maturity in implementing and effectively utilising technology/ data tools and protocols in risk management.




Compared to global insights, Pakistan may be lagging in technology and data utilisation in risk management practices, as evident from PwC Pakistan Risk Management survey results on the next page:

# Technology and data considerations (contd/-)

**37%** Respondents are **using basic technology and data tools** but lacking comprehensive integration

**27%** Respondents have established technology and data procedures but they are **not fully optimised**

**27%** Respondents are **encountering challenges or barriers** in effectively utilising technology and data

There is clear ambition among most banks to take a more tech-powered approach to risks, evidenced by their intention to invest in AI/ ML, automation, cybersecurity and cloud. But many respondents are still at relatively early stages of maturity in their use of technology and data for managing risks.

The appetite for innovation and new technology is encouraging banks onto the front foot. Banks should also transform their risk management functions by investing in data analytics, process automation beside risk technology with the aim to proactively assess and mitigate risks, support growth and ultimately build their resilience.

This may enable addressing the major challenge faced by banks in Pakistan to unleash vast potential of the enormous amount of data they hold. Cognisant of the opportunities, it is the need of the hour to undertake measures relating to data lake and warehouse implementation, data governance and cleansing to benefit from data-driven insights both from business and risk perspectives.

> **“Cybersecurity defenses need to be fortified by (a) proactively investing in state-of-the-art resilient systems (b) teaming up with academia to develop and recruit best cybersecurity professionals.”**
>
> Mr. Saleem Ullah,
> Deputy Governor,
> State Bank of Pakistan

## Key technological challenges influencing risk management and response effectiveness

The efficacy of risk management hinges on robust technological infrastructure and data utilisation. Banks in Pakistan may be facing some technological limitations impeding their ability to proactively identify, assess, and mitigate risks. To highlight the extent of these challenges, following are the insights from PwC Global and PwC Pakistan Risk Management surveys:

### Insights from PwC Global Risk Survey 2023

- **41%** poor data integration and management limiting a holistic view of risks
- **39%** high maintenance costs
- **37%** increased risk of operational failure
- **36%** increased data and cybersecurity vulnerabilities

### Insights from PwC Pakistan Risk Management Survey 2024

- **55%** poor data integration and management limiting a holistic view of risks
- **27%** limitations in adopting advanced analytics and emerging technologies
- **27%** slower response to emerging risks due to outdated systems
- **64%** increased data and cybersecurity vulnerabilities

## Risk radar: What triggers enterprise risk landscape review

PwC Pakistan's Risk Management Survey 2024 offers insights into the key factors that are more likely to result in a risk event in the next 12 months.

| | |
|---|---|
| Frauds (including digital frauds) | 100% |
| Cybersecurity and data privacy | 100% |
| Technology failures | 82% |
| Regulatory non-compliance | 55% |
| Talent acquisition and retention | 45% |

The frequency and triggers for enterprise risk landscape reviews are intrinsically linked to the potential for significant risk events. While periodic reviews are essential to identify emerging threats, occurrence of material risk events may necessitate an immediate reassessment of overall risk profile.

As per the survey, more than 90% CROs responded that risk landscape review is initiated on happening of a risk event whereas 64% also consider it as part of periodic review exercise.

| Responses | PwC Global Risk Survey 2023 | PwC Pakistan Risk Management Survey 2024 |
|---|---|---|
| when a risk trigger event occurs | 50% | 91% |
| as a part of periodic review process only | 48% | 64% |
| when developing organisational strategy | 50% | 55% |
| in preparation for technology transformation, including cloud, emerging technologies and data infrastructure | 57% | 45% |

## Risk management priorities in next 12 months

PwC Pakistan Risk Management Survey 2024 sought insights from risk and business leaders on areas for improvement within their risk management roles over the next year. The responses highlight few opportunities which will require enhancing risk management capabilities. Focusing on these areas is crucial for effectively managing risks, adapting to emerging threats, and ensuring compliance with operational and regulatory changes.


The response may also indicate a disconnect in the beliefs/ perceptions of risk and business leaders particularly in relation to risk management role in challenging/ assisting leadership in risk strategy, contributing to new business ideas and sharing concrete insights with the Board.

These gaps need to be resolved if risk management is to be considered as more value adding rather than a reactive response to threats. Fostering greater collaboration between risk function and the wider business and having more strategic conversations earlier in the process are key if banks are to find opportunities where competitors may still see risks.

# Human resource readiness to address future demands of the evolving risk landscape

Risk competencies are more critical than ever before as risk landscape continues to evolve rapidly, driven by advancements in technology, sophistication in risk management methodologies, changing regulatory requirements and emerging global threats.

> **"Risk management skill sets need to evolve, with increasing focus on data science, predictive analytics and statistical modeling."**
>
> Mr. Tariq Masaud, Chief Risk Officer, HBL

## CROs' responses to PwC Risk Management Survey 2024

**64%** cited that they require some additional resources with specialised skill sets

**18%** believe that they need to significantly augment their resource model across multiple skill sets

**18%** consider that their current resources possess the required skill sets

## CROs' views on key skill sets to be prioritised in the next 2-3 years within the risk management domain:

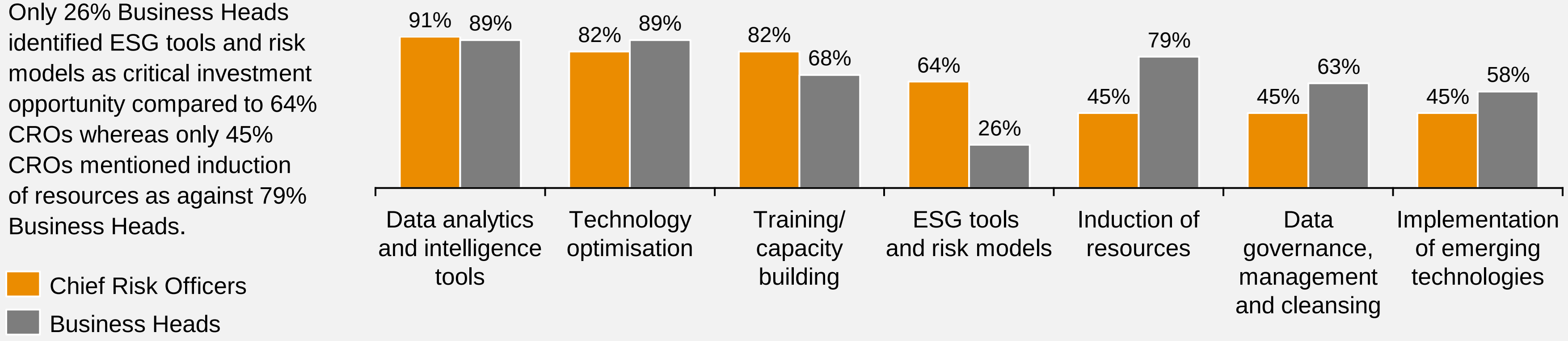
**91%** consider enterprise risk management (ERM) and cybersecurity as most important areas

**82%** cited digital/ technology expertise, data science and analytics as key skill sets

**64%** view statistical risk modelling as primary requirement for predicting potential risks

According to PwC Pakistan's Risk Management Survey 2024, CROs and Business Heads pinpointed critical investment areas for the next 12 months. Three most critical areas identified include (1) data analytics and intelligence tools, (2) technology optimisation, and (3) training and capacity building.

Only 26% Business Heads identified ESG tools and risk models as critical investment opportunity compared to 64% CROs whereas only 45% CROs mentioned induction of resources as against 79% Business Heads.




> **"It is critical for banks to put in place adequate safeguards and real-time monitoring tools to mitigate the risk of digital frauds."**
>
> Mr. Tariq Masaud, Chief Risk Officer, HBL

## Challenges in developing statistical rating models

PwC Pakistan's Risk Management Survey 2024 indicates that while consumer finance relies predominantly on statistical models, a combination of expert judgment and statistical models is employed in corporate, agri, and SME finance segments.

**46%**
Use purely statistical model for consumer finance - unsecured

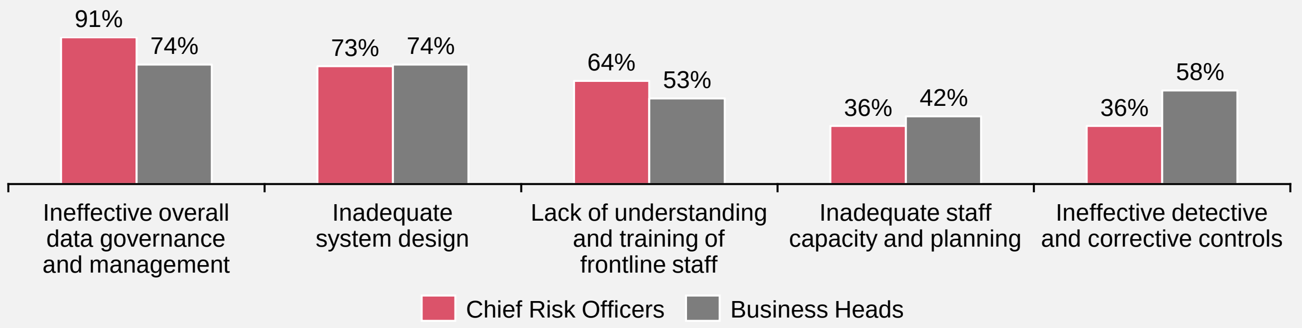
**54%**
Use expert judgement model for agri finance

**82%**
Use hybrid model for corporate/ commercial finance

Data sufficiency & quality and availability of skilled resources remain the top challenges in developing statistical rating models, as cited by CROs:

- **100%** data availability
- **82%** data quality issues in source systems
- **91%** availability of skilled resources
- **45%** low default ratios and availability of effective model risk management function & framework

The survey also analysed the top challenges due to which data availability and quality issues may be arising:




## Validation of risk models

**As per PwC Pakistan's Risk Management Survey 2024**

**+80%** CROs cited that risk rating models for SME, agri and consumer finance were validated more than 12 months ago or not validated at all

**+60%** CROs stated that model for corporate/ commercial finance were validated more than 12 months ago

**+50%** CROs mentioned that validation was conducted internally by Risk Management function, whereas for some models, external assistance was also sought for independent validation

Development of statistical models and continued periodic validation is key for effectiveness of these models. Globally, banks are continuously validating and recalibrating risk models given changing dynamics. With continuous shifts in Pakistan's credit risk landscape and outlook, banks may consider periodic and preferably independent validation, and recalibration of existing models, besides constructing quantitative tools for other customer segments/ products.

Globally banks and regulators are focusing on effective model risk management, to support in strengthening the frameworks and practices for identification, management and controlling of risks associated with the use of models.

> **"Resilience and effectiveness of IFRS-9 regime is rooted in robust, statistically driven risk rating models. Regular validation of risk rating models is also a must to ensure on-going relevance and adequacy."**
>
> Mr. Tariq Masaud, Chief Risk Officer, HBL

# 13.

# Driving effectiveness in financial crime compliance

# Driving effectiveness in financial crime compliance

Banks in Pakistan are operating in an evolving financial crime compliance ecosystem. With criminals quickly adopting new techniques and means to exploit vulnerabilities in banking technologies and processes, there is an even greater need for institutions to remain vigilant and up-to-date in their fight against financial crimes.

To analyse the banking industry's current state of preparedness, PwC Pakistan conducted its anti-financial crime survey in 2024, primarily targeted to Chief Compliance Officers (CCOs) and Heads of business and enabling functions of commercial banks, with participation by over 75 respondents.

The survey results indicate that CCOs' perceived risk of major types of financial crime typologies including cyber crime, fraud, Terrorism Financing (TF), Money Laundering (ML), tax evasion and sanctions, has increased significantly as compared to 2022.

This may be due to increasing digital adoption, economic vulnerabilities, resultant higher inflation levels and rise in terrorism risk in the country.

> **"Ever-evolving terrorism financing risk, substantial informal economy, prevalence of cash transactions and inflationary conditions, heavily impact the financial crime risk landscape in Pakistan."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

### % of CCOs and Heads of business and enabling functions considering risk to be "very high"

| | Chief Compliance Officers | | Heads of business and enabling functions | |
|---|---|---|---|---|
| | 2024 | 2022 | 2024 | 2022 |
| Cybercrime | 90% | 18% | 42% | 43% |
| Fraud | 70% | 18% | 32% | 29% |
| Terrorism Financing | 60% | 29% | 10% | 14% |
| Tax Evasion | 56% | 12% | 32% | 29% |
| Money Laundering | 55% | 29% | 16% | 43% |
| Sanctions | 50% | 29% | 11% | 14% |
| Proliferation Financing | 40% | 29% | 5% | 14% |

Compared to CCOs, responses of the heads of business and enabling functions indicate lower level of perceived risk for each typology. This may be due to different understanding of the risk implications, market dynamics in relation to the customer segments they serve and keeping in view the existing mitigating controls in place.

These differing perceptions between CCOs and heads of business and enabling functions may be carefully evaluated to bridge this gap. Aligning these views is crucial to ensure that all functions have similar understanding and assign comparable level of importance to each risk type.

Mitigating controls in place should be evaluated on an ongoing basis to commensurate with the shifting level of risks as well as with emerging trends.

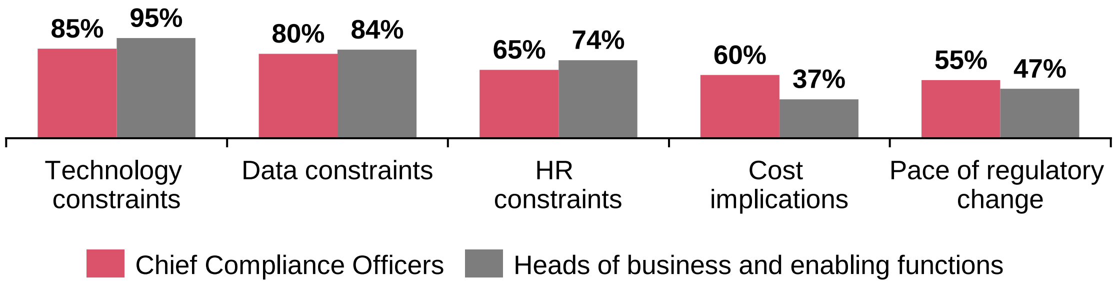
The increasing complexity of financial crimes also requires a robust, coordinated response from regulators and banks. With rising vulnerabilities, heightened vigilance and advanced security measures are essential. The State Bank of Pakistan's timely regulations to enhance the security of digital banking products in 2023 underscore the urgency of the situation.

## Key challenges in financial crime compliance

### As per PwC's 2024 EMEA Global AML survey (% respondents)

| | |
|---|---|
| **38%** Increase in regulatory pressure | **37%** Hurdles to automating manual or fragmented processes |
| **29%** Recruiting skilled resources | **38%** Data management and quality |

As per PwC Pakistan Anti-Financial Crime Survey 2024, 60% or more of the CCOs and heads of business and enabling functions view technology, data, HR and cost constraints as top challenges in financial crime compliance. Their views are relatively aligned on most of the challenges except for cost implications, which has been identified by a higher number of CCOs may be due to budget constraints as compared to business functions.




> **"It is critical that the banks collaborate both locally and globally to proactively identify and effectively mitigate risks."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

## Major causes of data constraints

Data constraints continue to be top challenge for banks in Pakistan. Key reasons as identified by CCOs and heads of business and enabling functions in PwC Pakistan's Anti-Financial Crime Survey 2024, include:

1) Ineffective data governance/ management
2) Inadequate system design
3) Lack of understanding and training of frontline staff

| | Chief Compliance Officers | Heads of business and enabling functions |
|---|---|---|
| Ineffective overall data governance and management | 90% | 74% |
| Lack of understanding and training of frontline staff | 80% | 52% |
| Inadequate system design | 75% | 74% |
| Inadequate staff capacity and planning | 30% | 42% |
| Ineffective detective and corrective controls | 25% | 58% |

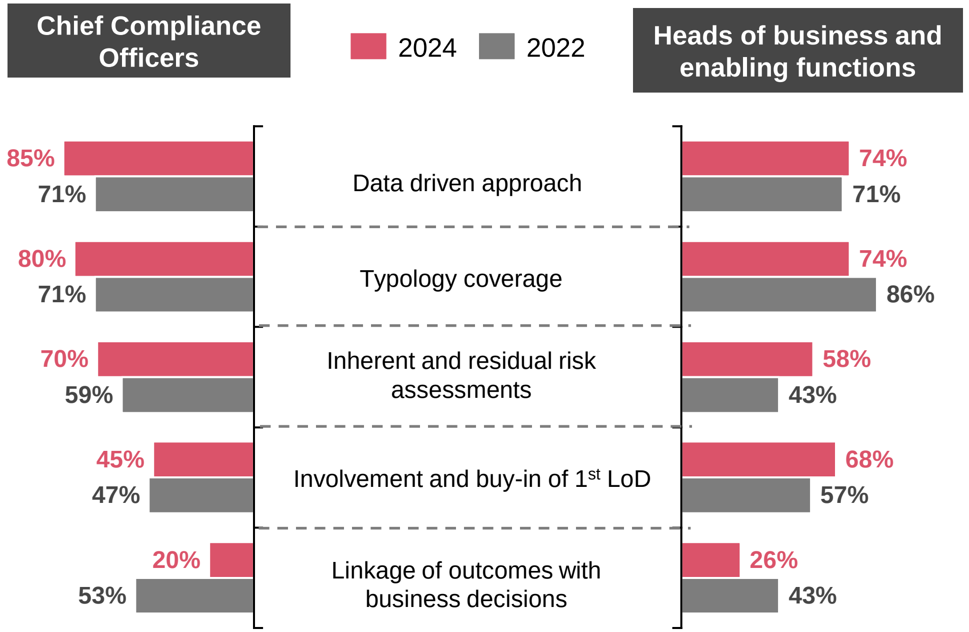
> **"It is extremely important for compliance functions to optimally utilise available data by leveraging data science and analytical capabilities."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

# Financial crime risk assessment

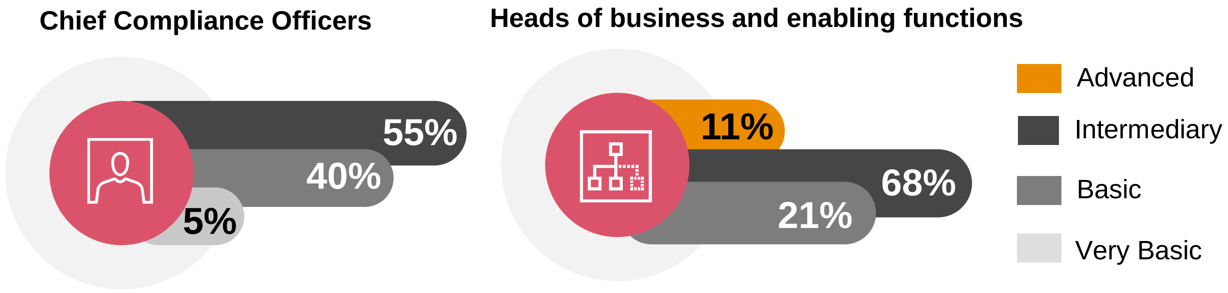
Increasing digital adoption in Pakistan necessitates robust financial crime risk assessments to address growing complexities of digital financial landscape. Ensuring that banks identify and effectively mitigate financial crime risks is vital as the industry embraces shifts in customers' preferences.

## Improvement opportunities in financial crime risk assessments

PwC Pakistan's Anti-Financial Crime Survey 2024 indicates significant opportunities for improvement in enterprise-wide financial crime risk assessments, particularly in enhancing data-driven approaches, expanding typology coverage and refining inherent and residual risk assessments.

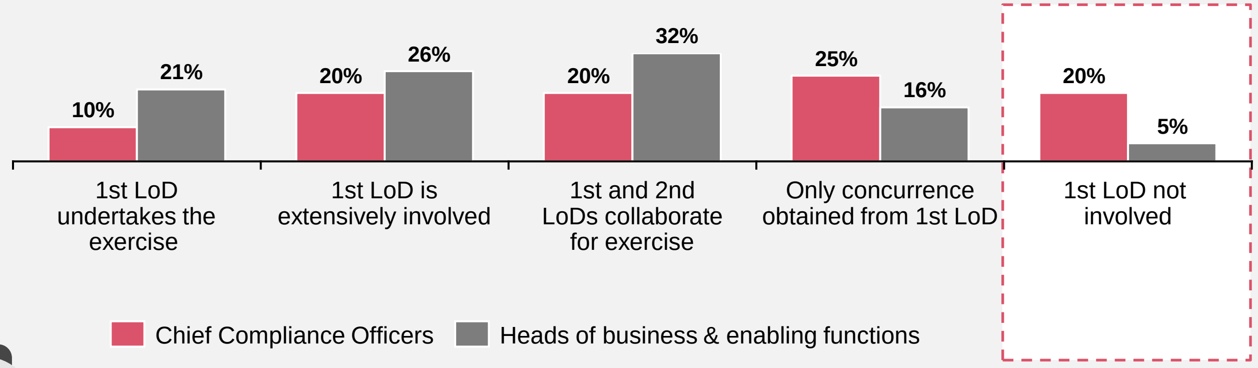



As per our anti-financial crime survey, 45% of CCOs and 21% heads of business and enabling functions still consider the maturity of enterprise-wide financial crime risk assessment exercise at 'very basic' and 'basic' levels.




## Involvement of 1st LoD in enterprise-wide financial crime risk assessment exercise

Enterprise-wide financial crime risk assessment exercise requires collaborative efforts of compliance with business and enabling functions. Majority of respondents cited coordination and collaboration, however, 20% of CCOs responded that exercise takes place without involvement of 1st LoD indicating some room for improvement.

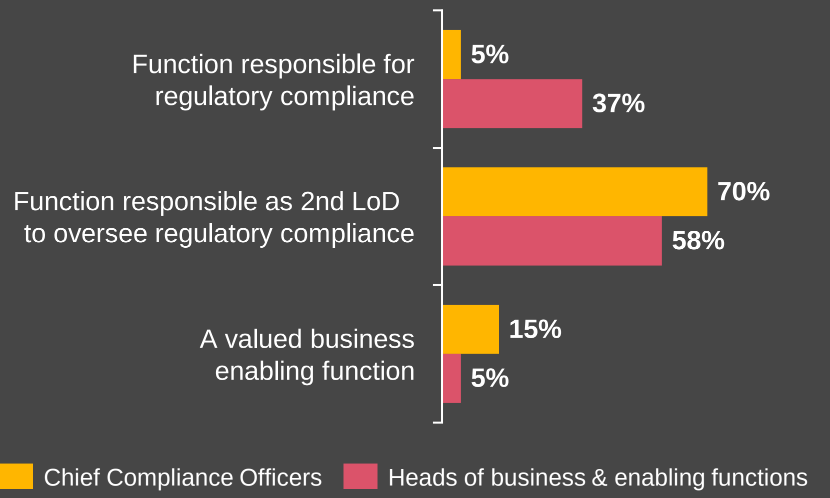


The involvement of 1st LoD is paramount in the success of an enterprise-wide financial crime risk assessment. Their frontline insights into customer behaviours and transaction patterns help identify vulnerabilities, implement effective controls and improve overall financial crime risk management programme. This collaborative approach fosters a strong risk culture and improves the bank's ability to detect and prevent financial crime.

## Compliance role as 2nd Line of Defense (LoD)

PwC Pakistan Anti-Financial Crime Survey 2024 revealed a split on compliance function's role, where 37% heads of business and enabling functions still view compliance as responsible for regulatory compliance.

On the other hand, 58% heads of business and enabling functions see Compliance as a 2nd LoD overseeing regulatory compliance, whereas only 5% view it as a valued business enabling function. This highlights the need to integrate compliance into the strategic business framework, making it a key driver of operational excellence and sustainable growth.




## Resource productivity analysis

To effectively combat the escalating threat of financial crime, staff productivity is vital and to ensure the same, it is important that banks undertake a comprehensive productivity analysis.

Our anti-financial crime survey indicates an encouraging improvement from 2022 survey. Banks may continue this endeavor of conducting productivity analysis on an ongoing basis to ensure effective resource utilisation.

*Respondents citing resource productivity analysis not conducted or is of 'very basic' or 'basic' nature*

**2024** **30%**

**50%** **2022**

## Improving anti-financial crime culture

To enhance resource productivity, banks must foster a strong anti-financial crime culture. Survey respondents identified increased training, more frequent compliance communications and regular testing of key controls to achieve this. Additionally, 75% heads of business and enabling functions emphasised on the importance of implementing robust accountability measures to improve anti-financial crime culture.

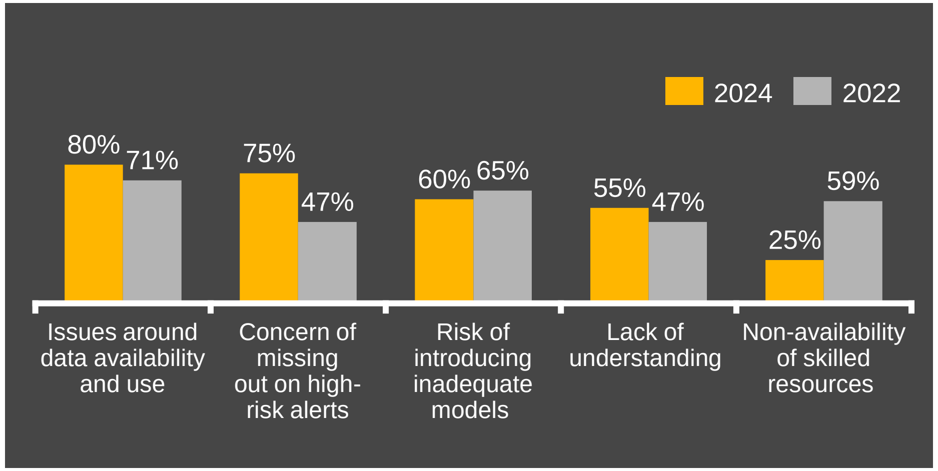
| | Chief Compliance Officers | | Heads of business and enabling functions | |
|---|---|---|---|---|
| | 2024 | 2022 | 2024 | 2022 |
| Increased training, guidance and advice | 100% | 100% | 75% | 94% |
| More stringent and frequent testing of key compliance controls | 84% | 57% | 70% | 69% |
| More frequent compliance communications and interactions | 74% | 86% | 80% | 88% |
| More serious accountabilities | 37% | 57% | 75% | 47% |

## Alert investigation and disposition – Challenges in implementing risk-based approach

According to the results of PwC Pakistan Anti-Financial Crime Survey 2024, there is a significant disparity in how CCOs perceive the maturity of their risk-based approaches to alert investigation and disposition.

- **60%** rate their approaches as intermediary
- **30%** believe they are at basic level
- **10%** say they are at advanced level

**Survey participants also highlighted key challenges in pursuing a more effective risk-based approach:**




Compliance functions are grappling with overwhelming transaction monitoring alerts with 70% CCOs citing 50+ alerts per analyst per day. Implementing a risk-based approach to alert investigation and disposition is, therefore, crucial to optimise resource productivity and reduce the alert volume per analyst.

| | 2024 | 2022 |
|---|---|---|
| **+75 alerts** per analyst each day | 30% | 41% |
| **51 – 75 alerts** per analyst each day | 40% | 18% |

## Areas to invest in the next 12 months

The survey indicates that 90% or more of CCOs prioritise technology optimisation and data governance for investment in the next 12 months. Additionally, 75% identified specialised training programmes as top area for investment – highlighting the importance of both technological and human capital investments for a holistic approach.

- **95%** Data governance, management and cleansing
- **90%** Technology optimisation
- **75%** Specialised training programmes
- **60%** Implementation of emerging technologies
- **55%** Increased specialisation in anti-financial crime roles
- **40%** Introduction of cross-functional teams
- **30%** Introduction of compliance coordinators in 1st LoD functions

> **"Risks of digital frauds e.g. phishing and social engineering, use of advanced technologies including GenAI, require heightened vigilance and innovative strategies."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

## Challenges in KYC/ AML reporting capabilities

As regulatory scrutiny increases and financial crime threats evolve, banks are struggling to manage vast amounts of customer data and extract meaningful insights. Data challenges also impact the effectiveness of KYC/ AML reporting.

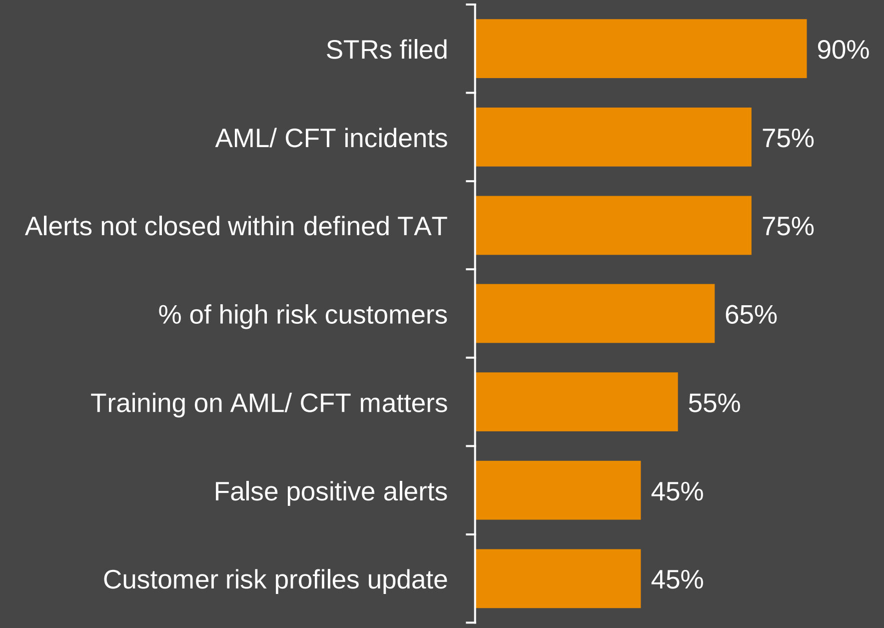
As per PwC Pakistan Anti-Financial Crime Survey 2024, the top five challenges in KYC/ AML reporting capabilities emphasised upon by CCOs and heads of business and enabling functions include:

| | Chief Compliance Officers | Heads of business and enabling functions |
|---|---|---|
| Inefficient data collation and report preparation processes | 80% | 84% |
| Data availability and quality issues | 80% | 95% |
| Highly manual processes | 80% | 48% |
| Unavailability of a single customer review | 50% | 58% |
| Duplication of data | 45% | 47% |

## KPIs for Board and senior management insights

Effective KYC/ AML/ CFT oversight necessitates robust key performance indicators (KPIs) to provide the Board of Directors and senior management with actionable insights. By carefully selecting and tracking these metrics, banks can gain a comprehensive understanding of their anti-financial crime programme performance, identify emerging risks/ trends and allocate resources efficiently.

PwC Pakistan Anti-Financial Crime Survey 2024 analysed critical KPIs being reported to Board and senior management. Responses received mainly identified (1) STRs filed, (2) AML/CFT incidents, (3) number of alerts not closed within defined timelines, (4) percentage of high-risk customers, as top KPIs to provide effective insights on AML/ CFT matters.



## Technology optimisation

As per PwC Pakistan Anti-Financial Crime Survey 2024, banks are still facing challenges in reaching steady and high-performing stage with respect to financial crime technologies.

| 2024 | 2022 | |
|---|---|---|
| 30% | 40% | CCOs consider their financial crime systems to be in a steady state |
| 45% | 47% | CCOs find space for improvement with respect to holistic coverage of financial crime risks |

> **"Key areas for investment and improvement include implementation/ optimisation of trade-based money laundering solution, implementing Artificial Intelligence tools e.g. Robotic Process Automation."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

## Independent validation of financial crime technologies

In cases where validations were conducted, 50% were by compliance functions. While these functions are vital for overseeing financial crime prevention, independent assessments of financial crime technology and models may provide more objectivity and credibility. Following is the percentage of respondents identifying validations being carried out by respective functions:

| Validations carried out by | 2024 | 2022 |
|---|---|---|
| Compliance | 50% | 50% |
| Internal Audit | 22% | 26% |
| External Firms | 28% | 24% |

> **"Validation of anti-financial crime and compliance functions/ technologies is critical to identify improvement opportunities and plug gaps to enhance performance."**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

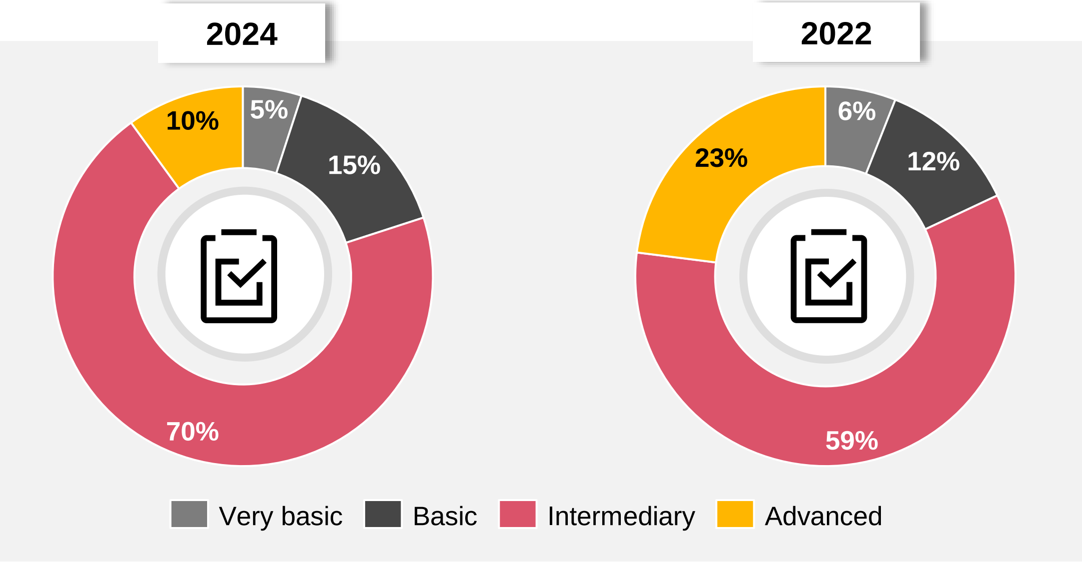
## Validating financial crime technologies and related models

Regular validation of financial crime technologies and related models is crucial to ensure ongoing effectiveness and optimised performance. Though there is some improvement in this area compared to 2022, banks in Pakistan may consider more investments in line with global best practices.

| | PwC EMEA Global Survey | PwC Pakistan Survey | |
|---|---|---|---|
| | 2024 | 2024 | 2022 |
| Financial crime technologies validated within last 12 months | 77% | 60% | 47% |
| Financial crime technologies validated more than 12 months ago | 21% | 30% | 35% |
| Financial crime technologies not validated at all | 2% | 10% | 18% |

## Scenario and threshold setting

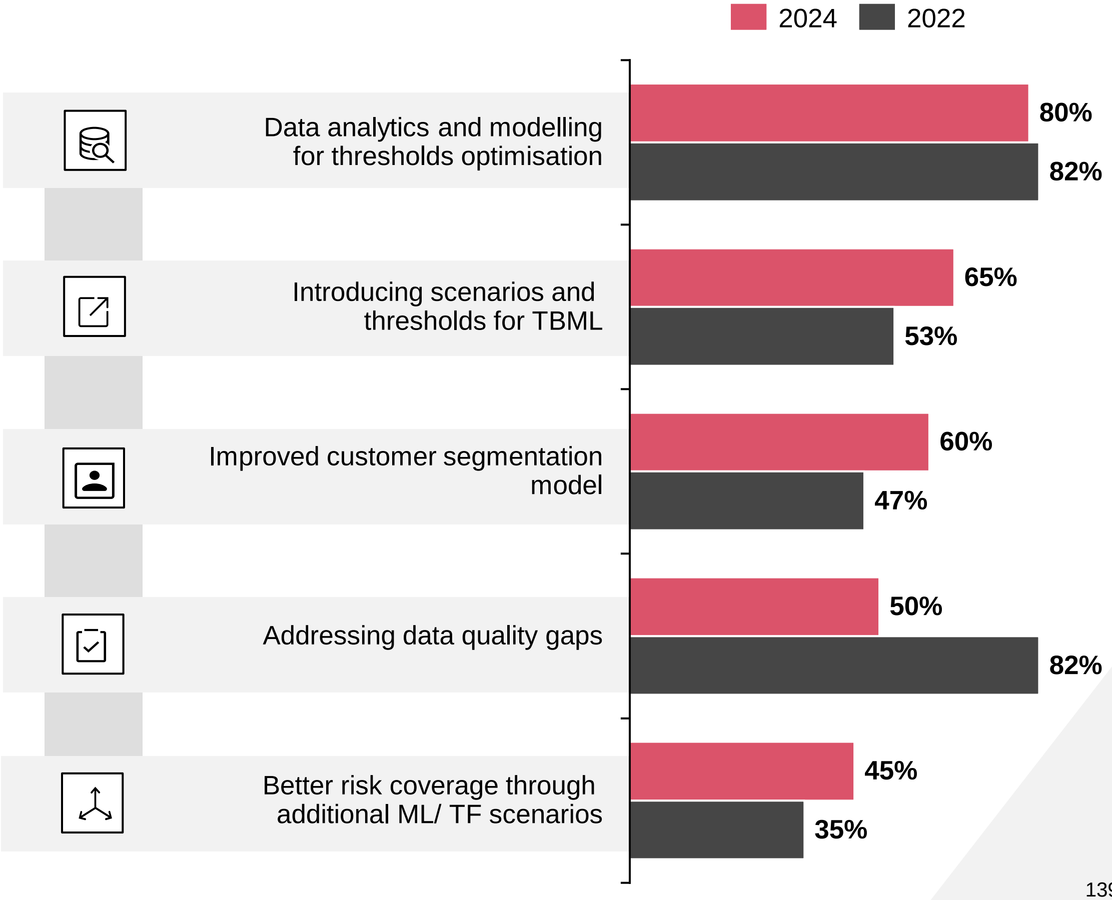
As per PwC Pakistan Anti-Financial Crime Survey 2024, 20% of CCOs still view maturity of scenario and threshold setting and monitoring as ‘basic’ or ‘very basic’.




Challenges in scenario/ threshold setting and monitoring may significantly compromise a bank's ability to effectively identify and mitigate financial crime risks. This may result in increased vulnerability to illicit activities, higher number of false positives, operational inefficiencies and regulatory non-compliance. Ultimately, this may cause substantial financial loss, reputational damage or legal consequences.

## Areas for improvement in relation to scenarios and thresholds

As per our anti-financial crime survey, 80% of CCOs have identified data analytics and modeling as potential area for further improvement in scenarios and thresholds. Further, enhanced focus on improving customer segmentation model, introducing TBML based scenarios and thresholds, and better risk coverage through additional ML/TF scenarios were noted, as compared to 2022.



## Use of Artificial Intelligence to combat/ monitor financial crime

Banks are increasingly leveraging AI and advanced analytics to bolster their financial crime defence. By harnessing Robotic Process Automation (RPA), Machine Learning (ML) and Natural Language Processing (NLP) technologies, banks can significantly enhance efficiency, improve accuracy and gain a competitive advantage in the fight against financial crimes.

However, PwC Pakistan Anti-Financial Crime Survey 2024 indicated that over 30% banks are still not using RPA, ML/ AI and NLP whereas only 30% institutions have very high or high utilisation of RPA, improved from only 6% in 2022.

> “**Substantial volume of transactions and alerts necessitate adopting a risk-based approach and implementing intelligent tools for efficient and effective investigation as well as closure.”**
>
> Haroon Khalid, Group Head – Compliance & Business Solutions, Bank Alfalah Limited

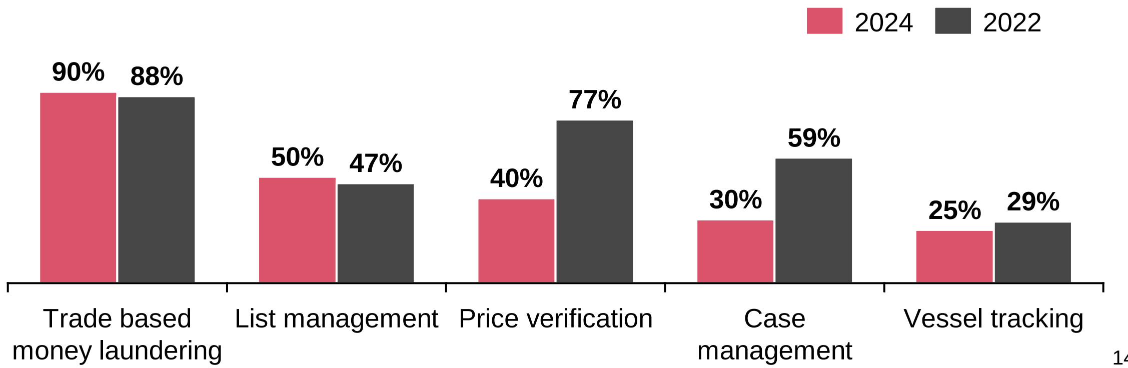
### Level of utilisation of emerging tech., AI and advanced analytics in compliance functions

| | Robotic Process Automation | | Machine Learning/ Artificial Intelligence | | Natural Language Processing | |
|---|---|---|---|---|---|---|
| | 2024 | 2022 | 2024 | 2022 | 2024 | 2022 |
| Very High | 10% | - | 10% | - | 5% | - |
| High | 20% | 6% | 15% | 12% | 10% | 12% |
| Medium | 25% | 18% | 15% | 18% | 20% | 12% |
| Low | 15% | 35% | 15% | 41% | 15% | 47% |
| None | 30% | 41% | 45% | 29% | 50% | 29% |

## Automation opportunities for more effective financial crime risk management

Automation offers significant potential to enhance financial crime risk management, particularly in high-risk areas e.g. trade-based money laundering. By automating tasks such as list management, price verification and vessel tracking, banks can significantly reduce manual effort and improve accuracy. Additionally, advanced analytics can be applied to detect anomalies in trade data, such as unusual pricing or shipping patterns, which may be indicative of potential illicit activities. This increased efficiency and data-driven approach empowers banks to allocate and utilise resources more effectively.

As per the survey results, 90% CCOs consider that trade-based money laundering presents greater automation opportunity for more effective financial crime risk management. Other areas include list management and regulatory compliance reporting.



# 14.

# Augmenting human capital through trust, technology and diversity

# Augmenting human capital through trust, technology and diversity

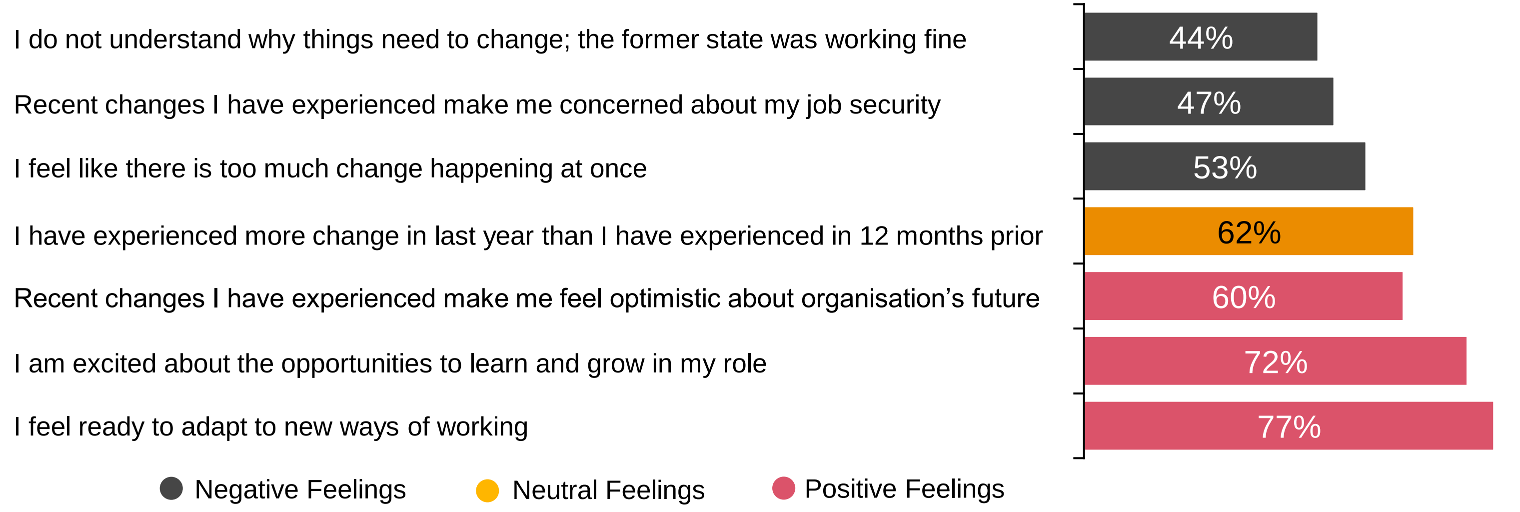
In the dynamic world of banking, success hinges on more than just financial performance and market strategy. Today's institutions are recognising that their most valuable asset is not solely technology or capital but people and the culture that guides them. As the industry faces a new era of transformation marked by digital innovation, technology optimisation, regulations and shifting customer expectations, the role of culture and talent in driving results has never been more critical.

## Change is everywhere—and employees are feeling it

PwC's Global Workforce Hopes and Fears Survey 2024 finds that more than half of employees feel there is too much change at work happening at once and 44% do not understand why things need to change at all. At the same time, they also reported uncertainty about job security.

There are also strong signs of optimism and engagement since majority of employees express their readiness to adjust to new working methods. Many are eager to upskill, and they see potential in using generative AI (GenAI) to augment their efficiency. More than half agree that recent changes they have experienced make them feel optimistic about their organisation's future.

**Employees' responses on the changes they have experienced in their role in the last 12 months**



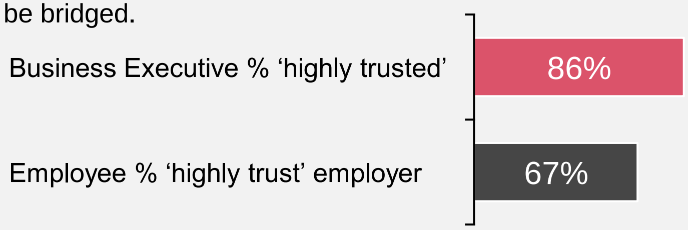

## Trust: Critical enabler to successfully implementing the change

The risk of change fatigue and overwhelm in the workforce is high right now globally as well as at banks in Pakistan. Nearly half of respondents in PwC Global Hopes and Fears Survey 2024 said their workload has increased significantly in the last 12 months and that they have had to learn new technologies to do their job, among other shifts in their roles and responsibilities.

To address workforce concerns and enable effective implementation of the change be it transformation, technology optimisation, digitisation etc., enhancing employee trust is critical.

PwC's 2024 Trust Survey indicates that employees are generally more likely than customers to trust businesses; however, a significant gap exists.

While 86% of business executives believe that employee trust in their organisation is high, only 67% of employees express a high level of trust in their employer. This 19% trust gap is noticeable and needs to be bridged.



# Trust: Risks when employees don't trust their employers

According to the PwC Trust Survey, 42% of executives identify productivity as the primary risk if employees do not trust their employer, followed by the quality of products and services (41%) and operational efficiencies (40%).

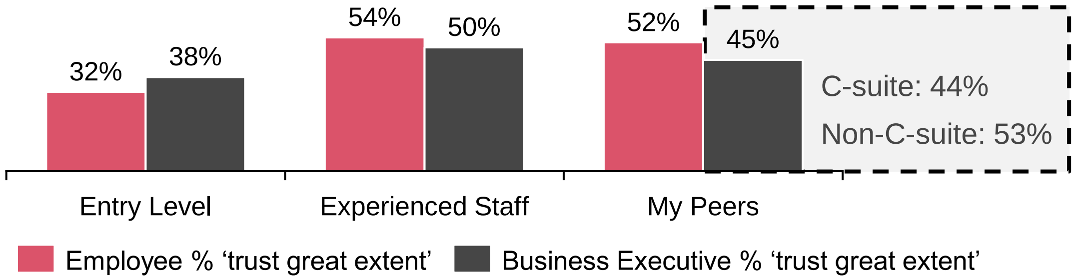
Interestingly, employee retention ranked lower on the list, despite institutions historically viewing employee trust as a means to attract and retain talent.

The primary risk is not employee turnover, but rather that employees continue to work while becoming disengaged and working half-heartedly.

## Familiarity breeds trust

In the workplace, individuals tend to place greater trust in those they work closely with. For instance, 50% of business executives report a high level of trust in their senior leadership team, while only 38% express the same level of trust in entry-level employees.

Within the C-suite, however, peer trust is lower, with only 44% reporting strong trust in one another, compared to 53% among non-C-suite executives. This is concerning for several reasons. For employees to feel trusted, it is essential that C-suite members trust each other. Only then can trust permeate the organisation, fostering a culture of openness and collaboration.




The underlying issue is that people do not trust what they do not know and without regular interactions, it is hard to forge the bonds of trust. It is vital for banks to improve employee engagements at all levels to build the trust, that may enable institutions to effectively implement the transformative change they are going through.

## Prioritising people - Cultivating the right culture for transformation and reinvention

In the latest PwC Pulse Survey 2024, business executives indicated a shift in focus from responding to external disruptions to prioritising internal transformation and reinvention.

A significant majority expressed satisfaction with their current workforce strategy, with nearly three-fourth (74%) affirming their ability to attract and retain the necessary talent. In a similar vein, 74% asserted that they have the culture to facilitate transformation.

Conversely, findings from PwC's recent Hopes and Fears Survey revealed that employees are significantly less optimistic regarding cultural readiness for reinvention.

**35%** believed that their leaders tolerate small-scale failures

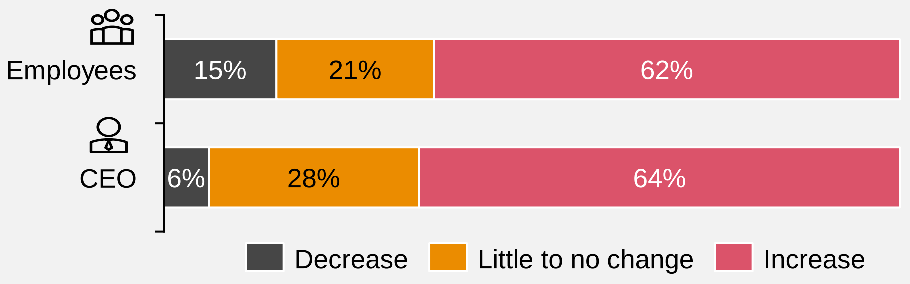
**33%** felt that their leaders encourage dissent and constructive debate

These elements are foundational to organisational culture and are pre-requisites for successful reinvention, as they foster an environment where executives, managers and employees feel empowered to experiment, learn from mistakes and voice their opinions. As organisations embark on major transformation initiatives, it is imperative to assess and align the existing culture to ensure it is conducive to reinvention.

## Tech and teamwork: Employees and CEOs uniting to tackle inefficiency with GenAI

Both employees and CEOs shared similar concerns on organisational inefficiencies in the PwC's Global Workforce Hopes and Fears Survey 2024. Both groups estimate that approximately 40% of their time is spent on tasks which are inefficient, and they believe that GenAI could help alleviate this burden. Notably, more than 80% of workers who use GenAI daily expect it to enhance their efficiency over the next 12 months.

**Extent to which GenAI may increase or decrease efficiencies at work in the next 12 months**




GenAI is the next best thing in technology advancement and will be adopted in Pakistan very soon. It is essential for banks to get ready for it and upskill all employees, regardless of their role in the organisation. Although the benefits of GenAI may not be instantly visible across every domain, there are likely opportunities for employees to optimise their work processes and enhance decision-making through AI technologies.

Further, as the ongoing advancement of AI technology is poised to profoundly impact banking industry, upskilling the entire workforce can facilitate readiness, ensuring that individuals are not overlooked as industry evolves.

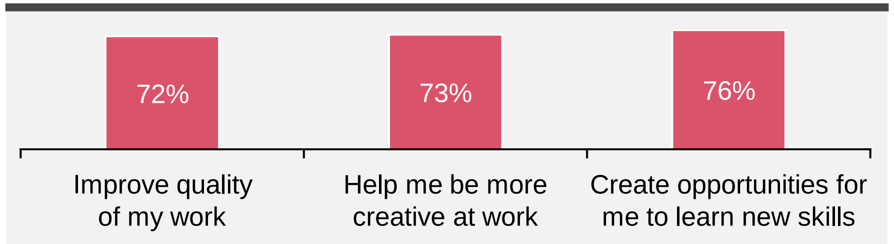
Senior leaders can also set the tone by leading by example and fostering a positive organisational culture. As per PwC's Global Workforce Hopes and Fears Survey 2024, only about one in five senior executives and 17% of managers reported using GenAI daily, underscoring the imperative for leaders to enhance their skills and utilise GenAI as frequently as their employees do. Such engagement may not only be essential for their own work but also enable them to effectively coach employees on integrating this technology into roles.

## Navigating GenAI: Employee fears and future prospects

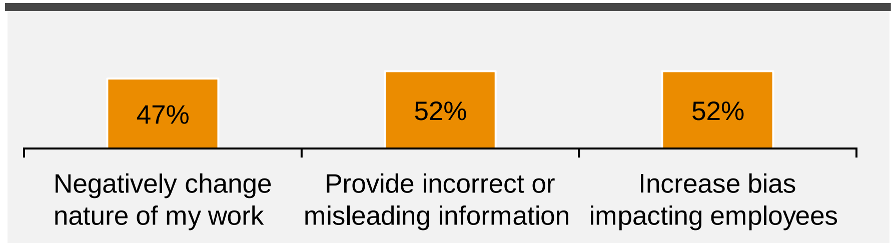
According to PwC's Global Workforce Hopes and Fears Survey 2024, employees recognised both advantages and drawbacks associated with GenAI. Their concerns include the potential for increased bias in the workplace and the risk of disseminating unrecognisable misinformation, particularly among frequent users. This underscores the imperative for organisations to cultivate a supportive environment characterised by robust governance, comprehensive guidelines and a well-defined Responsible AI strategy.

Despite these concerns, employee sentiments regarding GenAI were predominantly positive. More than 70% of employees utilising GenAI believed it will facilitate their acquisition of new skills, foster creativity and improve the overall quality of their work.

**Gen AI Benefits**




**Gen AI Challenges**



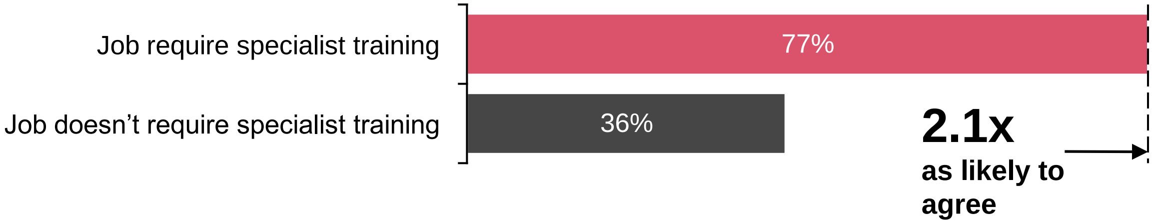

> **"There is a dire need for banking academies to upskill retail bankers and to keep pace with emerging tech as well as changing customer behaviours."**
>
> Ms. Mehreen Ahmed, Group Head - Retail Banking, Bank Alfalah Limited

## Fueling performance through upskilling

Upskilling has emerged as a critical priority, not only to address the talent gap in specialised areas, but also for employees who increasingly view it as a distinguishing factor in evaluating their organisation.

As per PwC's Global Workforce Hopes and Fear Survey 2024, nearly 50% employees indicated that the availability of opportunities for skill acquisition significantly influences their decision to remain with their current employer. The survey also revealed that employees in roles requiring specialised training are more than twice as likely to agree that their employer provides adequate skills development opportunities, compared to their counterparts in non-specialised positions.

**The extent to which employees agree or disagree that their employer provides them with adequate opportunities to learn new skills that will be helpful for their future career**




**"Digital banks may also face severe skill-related people challenges. As much as we are a large population and there is a large IT skilled labor available in the country, only a small percentage are employable. A large proportion of highly skilled labour is either working overseas or working for overseas entities."**

Mr. Hamayun Sajjad, Chief Executive Officer, Mashreq Bank Pakistan Limited

**"Digital banks need a large team of data scientists for analytics, predictive algorithms, automation, customer persona building, and advanced reporting."**

Mr. Nadeem Hussain, Coach, Planet N Group of Companies

On-the-job training, experiential learning, and mentorship are invaluable methods for facilitating employee skill development and enabling the practical application of skills that may not be utilised in their regular roles. Embracing a skills-first approach not only benefits organisations and workers but also positively impacts society by removing barriers that hinder individuals from fully applying their skills and contributing meaningfully to the workplace.

**"A pronounced talent gap persists, especially in technology and data science domains. Digital banks have limited financial resources unlike large established players. Although they can provide competitive initial packages, retaining talent poses a major challenge."**

Mr. Umair Aijaz, Chief Executive Officer, Raqami Islamic Digital Bank Limited

# Diversity, Equity & Inclusion

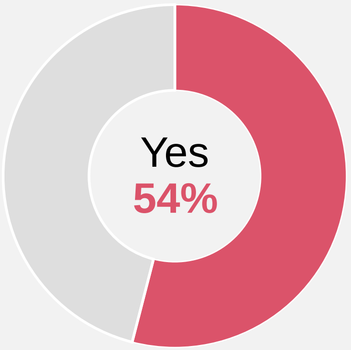
PwC's recent Global Diversity, Equity & Inclusion (DEI) Survey indicates that corporate activities focused on culture, values and purpose will be essential for influencing the future of work, with over half of business executives asserting that these programmes will distinguish them in a competitive talent market.

In response to the growing demands of employees, customers, and investors for organisations to exemplify ideals of equality and inclusiveness, institutions are investing in DEI programmes at unprecedented levels.

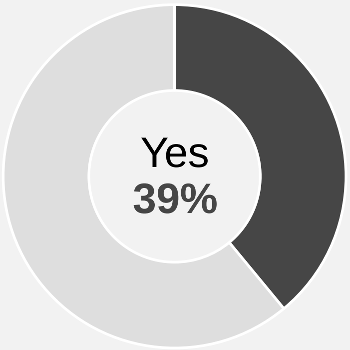
They aim to increase stakeholder engagement, improve financial performance, and facilitate innovation. Nevertheless, despite this increased dedication, organisations still need to advance in the design and implementation of DEI programmes.

## When it comes to DEI strategy, business leader efforts and employee perception are misaligned

**Diversity is a stated value or priority area for their organisation**




**Of Business Leaders**




**Of Employees**

> **"Diversity, equity and inclusion is critical for Pakistan to thrive. Targeted interventions are needed to foster gender diversity and integrate the differently-abled into workforce. It is not about equality, it is about equity, and there is a huge difference between the two."**
>
> Mr. Muhammad Nassir Salim, President & CEO, HBL

> **"Increasing female workforce inclusion in the banking sector is a must along with their access to banking and finance."**
>
> Mr. Rehmat Ali Hasnie, President & CEO, National Bank of Pakistan

> **"50% of our population is women and their contribution in the overall labor force is merely 23% while the global average is 38%. There is vast space for improving female workforce inclusion to foster national productivity. Even if we meet the global average, our GDP will enhance by a few percentage points."**
>
> Mr. Zafar Masud, President & CEO, Bank of Punjab

> **"Empowering women and enabling their effective integration into the workforce is critical to augment national productivity."**
>
> Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

> **"To foster a more inclusive workplace, organisations need to establish measurable targets for female representation from entry to executive levels.**
>
> **Embracing diversity in all forms, including ability and disability, enriches workforce and fosters a culture of empathy."**
>
> Ms. Saadya Riaz, Head – Wealth & Retail Banking, Standard Chartered Bank (Pakistan) Limited

## Diving Deeper into Misaligned Perceptions

Below are a few examples of areas for organisations to focus on to address and improve the dissonance between business leaders and employees when it comes to DEI strategies:

### 1. Transparency and communication

Vocal leadership support for DEI sets a ‘tone from the top’ that is critical for success of DEI initiatives. While only a small percentage of business leaders (11%) believe they are not communicating to employees frequently about DEI, employees (17%), HR professionals (20%) and DEI drivers (16%) are nearly twice as likely to think so.

| | | | |
|---|---|---|---|
| 11% | Business leaders | 20% | HR professionals |
| 16% | DE&I drivers | 17% | Employees |

## DEI Programmes - Employees are unaware of efforts underway to drive a more inclusive culture

Gathering and analysing data on discrepancies in compensation, hiring, performance and promotion is one of the most powerful ways in which organisations can tackle the unconscious biases that undermine an inclusive culture. Majority of respondents in PwC DEI survey (about 80% based on survey data) indicated their employers have not yet adopted this practice. However, even among those that do, employees are less likely to be aware of these efforts.

Survey showed that business leaders, DEI drivers and HR professionals, who are likely closely involved in using data in this way, are all nearly equally likely to say that their organisations gather and analyse performance data by different dimensions of diversity (roughly 30%). However, employees, who are less likely to participate in these processes, are much less likely (roughly 20%) to say these efforts exist at their employers.

| | | | |
|---|---|---|---|
| 30% | Business leaders | 27% | HR professionals |
| 28% | DE&I drivers | 18% | Employees |

### Automation and ‘Thinking Machines’ versus Human Tasks and Jobs

We are living through a fundamental transformation in the way we work.

Automation and ‘thinking machines’ are replacing human tasks/ jobs and changing the skills that organisations are looking for in their people.

These significant changes raise huge organisational, talent and HR challenges – at a time when business leaders are already wrestling with unprecedented risks, disruption, political and societal upheaval.

## 2. DEI programmes

The DEI programmes that are most effective at realising their objectives are comprised of four key elements:

### Understanding the facts of today

Initiating a continuous process for understanding the facts of what is happening inside the organisation today. Examples include:

- Gathering and analysing data to remove bias and increase opportunity, including demographic data, performance and compensation data, and feedback from customers.
- Sharing information on diversity with employees
- Reporting objectives and progress externally through transparency reports

### Building an inspirational strategy

Creating a business-focused vision and strategy for DEI that reflects the reality of today and the real potential of tomorrow. Examples include:

- Identifying DEI as a priority for driving business results
- Publicly communicating progress toward meeting goals
- Designing a response strategy for social justice issues and global events

### Ensuring leadership engagement

Engaging leadership around an inspirational DEI strategy by articulating the business case and establishing supportive governance, policies and procedures. Examples include:

- Communicating regularly about DEI as part of broader discussions about business priorities and results
- Holding leaders accountable for DEI results
- Senior leadership and the Board of Directors oversight
- Externally reporting DEI metrics, goals, and timelines

### Creating sustainable movement

Executing the DEI strategy across all elements of business and talent ecosystem. Examples include:

- Embedding a diversity lens into talent management and training programmes
- Embracing a broad definition of diversity that includes a focus on inclusion of all differences
- Leveraging affinity networks to inform strategic priorities

# 15.

# Transcribed summary insights from few industry leaders

**Mr. Muhammad Jawaid Iqbal**

**President & CEO, United Bank Limited**

## 1 Current state of the economy and future outlook

- Economic challenges of the country were aggravated by the increase in global commodity prices. Pakistan's consumption-based import model resulted in increasing trade deficit and currency devaluation. Sharp rise in inflation adversely impacted the living standards of the citizens of Pakistan.
- Steps undertaken by SBP have had a positive impact with significant reduction in inflation and stabilisation of the currency. The economy is on its way to recovery; however, a lot must be done to build a sustainable economic model, going forward.
- Pakistan needs to move towards an export led economy. Agriculture and IT services exports are low hanging fruits that can be pursued immediately.
- We must reduce our reliance on imports, particularly those that are consumption-based and non-essential. Imports for production purposes should be encouraged in the short-term and, wherever possible, we must move towards import substitution.
- Immediate privatisation of loss-making entities may help create much needed fiscal space.
- We need to review the way we distribute subsidies. Investment must be directed towards research and development, upskilling our labour force, technology and innovation, yield and productivity enhancement, and promotion of exports.
- There is need to expand our tax net. Effective enforcement of tax collection is critical, but what is equally important is a fair and equitable tax system both in terms of how it is collected and how tax revenue is spent.

## 2 Digital and cash-in-circulation ratio

- One possible reason for high cash-in-circulation ratio in Pakistan is a general preference to deal in cash to avoid documentation. Use of technology provides a significant opportunity for banks to reduce cash in circulation, by attracting customers through convenient customer centric digital channels.
- Digital is an absolute necessity; it can turn into an existential threat if banks do not rise to the occasion and embrace digitalisation quickly.

## 3 Islamic conversion

- There is a rising demand for Islamic Banking in Pakistan. Islamic deposit growth has consistently outpaced that of conventional banking deposits over the past few years.
- There may not be any major barriers to large scale Islamic conversion, if banks have the right team in place with the right skills, experience and ambition.

## 4 Challenges to the banking sector

- Cost escalation across all expense lines is a major challenge that banks are facing. HR costs have increased due to rising inflation and higher cost of living. Currency devaluation has meant that IT equipment and services required to keep up with today's digital needs are costing almost three times more. With falling interest rates, cost to income ratio across the industry is coming under pressure.
- There is an ever-increasing cyber security and digital fraud threat for all financial institutions. In the coming years, the sophistication of IT infrastructure and management's defense strategies will play a vital role in responding to cyber attacks that could cause wide-scale disruption.

## Mr. Shoaib Mumtaz

## President & CEO, MCB Bank Limited

## 1 Current state of the economy and future outlook

- Lack of long-term planning, frequent policy changes and inefficient public sector enterprises as major reasons for Pakistan's economic challenges.
- Implementing long-term plan, and alignment of monetary and fiscal policies necessary for economic revival and sustainable growth
- Vital to timely privatise state-owned enterprises and address circular debt
- Boosting exports through a dual focus on revitalising heritage sectors - cottage, cutlery and sports – and driving IT innovations
- Increasing investors' confidence - critical to improve Pakistan's perception, and market our brands and industries effectively to attract foreign investors
- Investing in research and education, as well as implementing import substitution strategies vital to stimulate domestic production and reduce reliance on imports
- To support agriculture sector, need to introduce an effective plan including review of subsidies, introducing modern research labs and establishing more agricultural universities

## 2 Business banking

- Need for all stakeholders including government, regulators and banking industry to collaboratively introduce necessary legislative changes and reforms for promoting business banking
- Data availability as the key challenge in financing to businesses
- Critical for credit bureaus to provide credit scores to enable business financing

## 3 Customer experience

- Preference between digital channels and traditional branches still evenly split, as digital adoption is taking time. People at the end of the day want some form of human interactions
- To be a customer-centric "lifestyle bank," addressing the banking needs of people of all ages, particularly the young and women, it is critical to build requisite data analytics capabilities

## 4 Technology transformation

- Invest in the future by adopting advanced technologies to remain competitive and meet global standards
- Technology adoption also brings new risks. Fraudsters can exploit vulnerabilities in technology-oriented institutions and, hence, robust risk management is crucial
- Transformation is very interesting and exciting, but the decision requires careful consideration, as it can have significant implications for any bank's reputation

## 5 Islamic transformation

- Banks are gearing up for Islamic transformation and SBP is working diligently to achieve this objective
- Pace of Islamic transformation to accelerate as banks cognisant of significant underlying synergies

**Mr. Mujahid Ali**

**Chief Technology and Digital Transformation, Allied Bank Limited**

## 1 Technology tends

- Technology functions have now become strategic assets for banks and are no longer considered back-office.
- Banks may be facing significant technology challenges including legacy system inefficiencies, integration issues, vendor dependencies, cybersecurity threats, and scarcity of talent.
- Technology investment is essential but challenging at the same time due to rising costs. Banks will have to be fearless in making investment decisions while also acknowledging that RoI may not be realised in short-term.
- We must anticipate future trends and adapt accordingly particularly by investing in digital technologies to remain competitive. Embracing digital transformation is crucial and further delays can lead to deeper crises.
- Banks must focus on technology related trainings, and it is also vital for educational institutions to introduce advanced technologies in their curriculum.

## 2 Collaborative business models

- Collaboration is not always natural, but it is becoming essential with increasing digital adoption. It can result in positive outcomes, whereas failure to collaborate may lead to obsolescence particularly in the long-term.
- Integrating legacy systems with fintech agility can be challenging and requires enablement from regulators.

## 3 Digital banking

- There is a need for comprehensive roadmap to promote digital banking, digital payments and financial inclusion. The entire ecosystem including government, regulators, banks, businesses and individuals must collaborate to achieve this objective.
- People’s trust on digital is gradually increasing but there is still a long way to go. Fear of embezzlement, fraud and cyber security issues could be major causes for non-adoption of digital.
- Digital financing faces significant challenges in risk management particularly due to the reliance on traditional methods of borrower assessment.
- SBP is working diligently on regulatory enablement to promote digital banking and ecosystem collaborations.

## 4 Customer experience

- Significant synergies can be achieved by effectively utilising Big Data and Customer Relationship Management (CRM) tools for advanced analytics particularly in customer experience, social media, digital marketing, and competition scanning.
- Systems should be able to offer a comprehensive view of customer interactions, preferences, and behaviors, enabling banks to tailor products and services based on customer needs.
- Mobile apps must be personalised, offering a seamless user experience and intuitive navigation. In today's fast-paced digital environment, customers particularly young users expect instant gratification at a click of a button and are quick to provide feedback that can impact bank’s reputation.

# 16.

# Acronyms

# Acronyms

| Acronyms | |
|---|---|
| ADR | Advances to Deposits Ratio |
| Agri | Agriculture |
| AI | Artificial Intelligence |
| AML | Anti Money Laundering |
| APAC | Asia Pacific |
| APIs | Application Programming Interfaces |
| ATM | Automated Teller Machine |
| B2B | Business to Business |
| B2C | Business to Customer |
| BaaS | Banking-as-a-Service |
| BNPL | Buy Now Pay Later |
| CAR | Capital Adequacy Ratio |
| CASA | Current and Savings Accounts |

| Acronyms | |
|---|---|
| CBDC | Central Bank Digital Currency |
| CCO | Chief Compliance Officer |
| CEE | Central & Eastern Europe |
| CEO | Chief Executive Officer |
| CNIC | Computerised National Identity Card |
| COO | Chief Operating/ Operations Officer |
| COSO | Committee of Sponsoring Organisations |
| CRO | Chief Risk Officer |
| CX | Customer Experience |
| DEI | Diversity, Equity and Inclusion |
| EMEA | Europe, Middle East & Africa |
| EMI | Electronic Money Institutions |
| ERM | Enterprise Risk Management |

| Acronyms | |
|---|---|
| ESG | Environment, Social & Governance |
| G2P | Government-to-Person |
| GDP | Gross Domestic Product |
| GenAI | Generative Artificial Intelligence |
| GRC | Governance, Risk and Compliance |
| HR | Human Resource |
| ID | Identification |
| IDR | Investments to Deposits Ratio |
| IFRS | International Financial Reporting Standards |
| IT | Information Technology |
| KYC | Know Your Customer |
| LoD | Line of Defence |
| MDR | Merchant Discount Rate |

# Acronyms

| Acronyms | |
|---|---|
| ML | Money Laundering |
| mPOS | Mobile Point of Sale |
| MSME | Micro, Small & Medium Enterprises |
| NBFC | Non-Banking Finance Company |
| NFI | Non-Funded Income |
| NPL | Non-Performing Loans |
| P&L | Profit and Loss |
| P2G | Person-to-Government |
| P2M | Person-to-Merchant |
| P2P | Person-to-Person |
| POS | Point of Sale |
| PSO/ PSP | Payment System Operator/ Payment System Provider |
| QR | Quick Response |

| Acronyms | |
|---|---|
| RoA | Return on Assets |
| RoE | Return on Equity |
| RoI | Return on Investment |
| SBP | State Bank of Pakistan |
| SECP | Securities and Exchange Commission of Pakistan |
| SIM | Subscriber Identity Module |
| SME | Small & Medium Enterprises |
| TF | Terrorism Financing |
| UI | User Interface |
| UK | United Kingdom |
| USSD | Unstructured Supplementary Service Data |
| UX | User Experience |
| YoY | Year on Year |

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