Banking Publication 2024

Road to Sustainability

Summary of Key Insights

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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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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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Summary of Key Insights

1. Financial Performance

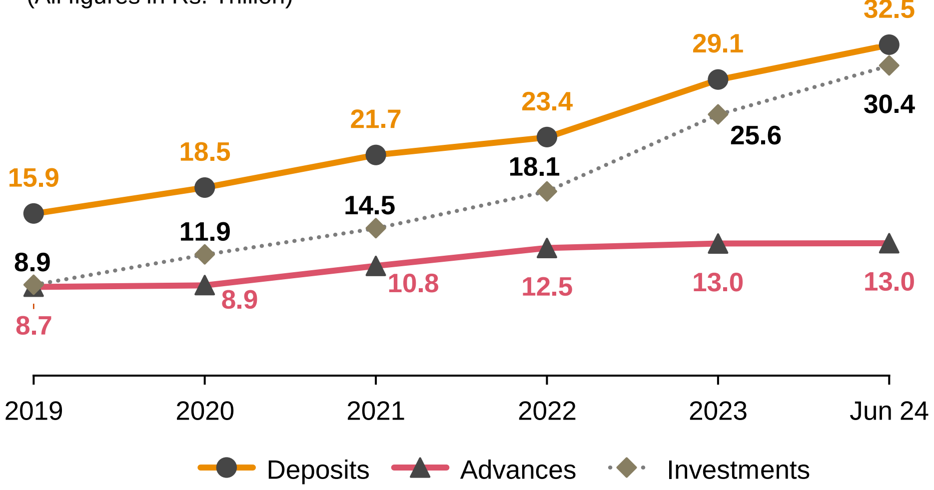
2023 continued to be a year of growth for the banking ındustry, as reflected by most of the indicators detailed in section 3.

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.

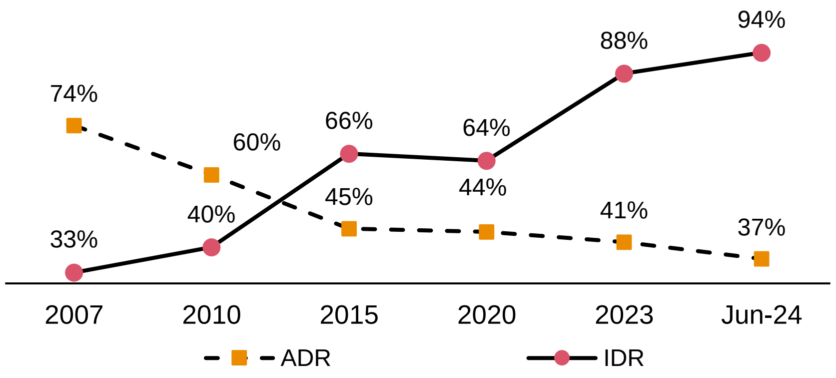
Deposits, Advances and Investments

(All figures in Rs. Trillion)

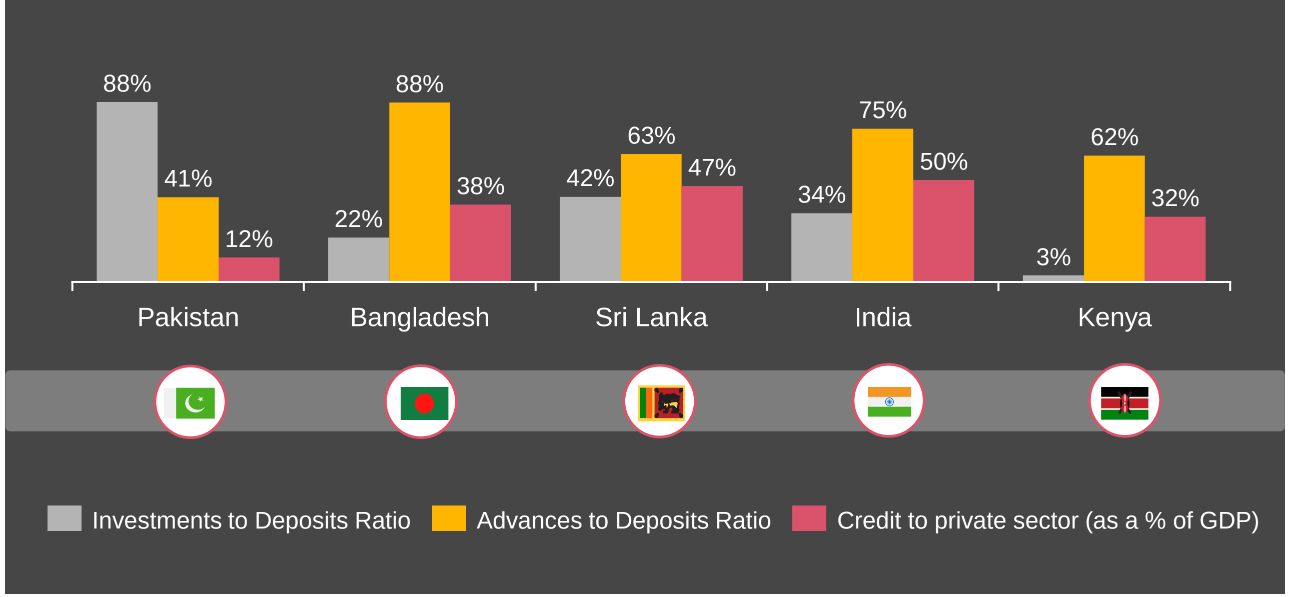


Pakistan's Advances to Deposits Ratio (ADR) has been gradually contracting and stands at 41% as of Dec-23 and 37% at Jun-24, with lending to private sector at 12% of GDP (Dec-23). Investments to Deposits Ratio (IDR), on the other hand, has surged from 33% in 2007 to 88% in 2023 and 94% in Jun-24. These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

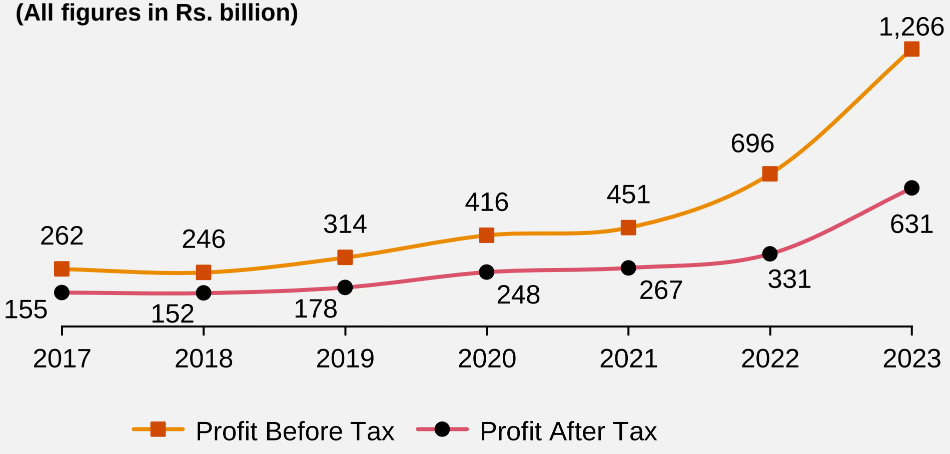


Rising profits and operating costs

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

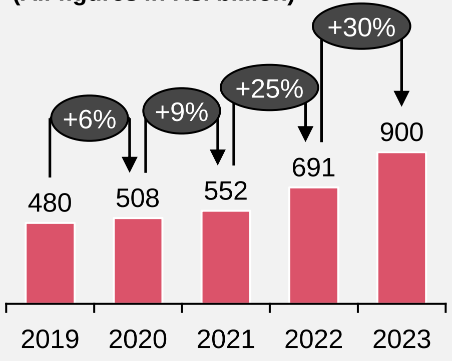
(All figures in Rs. billion)



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:

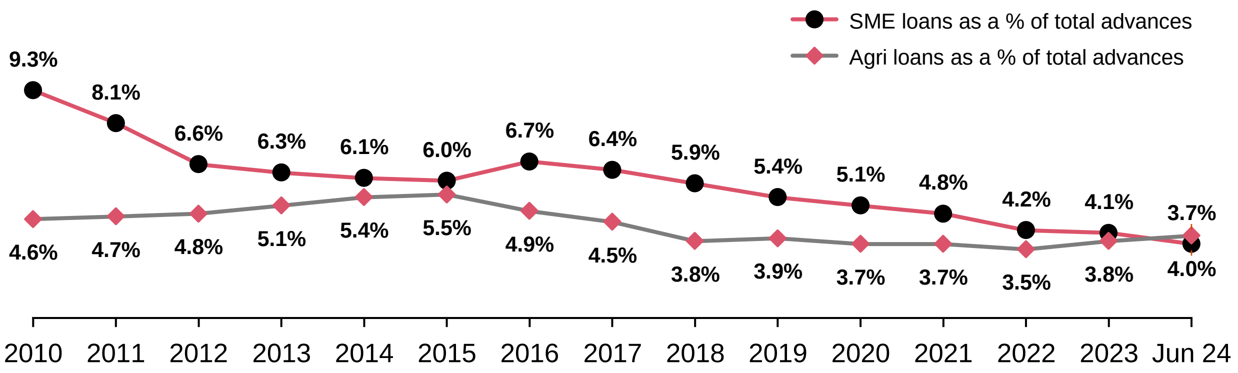
- **Economic challenges and reforms** 1
- **Export diversification** 2
- **Import Substitution** 3
- **Agricultural growth** 4
- **Fiscal reforms** 5
- **Tax reforms** 6
- **Privatisation** 7
- **Subsidies** 8
- **Resource building** 9
- **Domestic productivity** 10

3. Priority Sector Financing

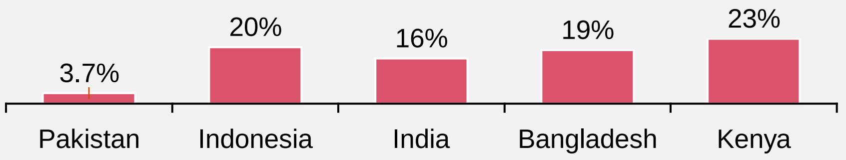
SMEs and agriculture are the backbone of our nation's progress. Contributing to 40% of GDP, SMEs constitute nearly 90% of all private enterprises in Pakistan, generate 30% in export earnings and employ 1/3rd of the country's workforce.

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

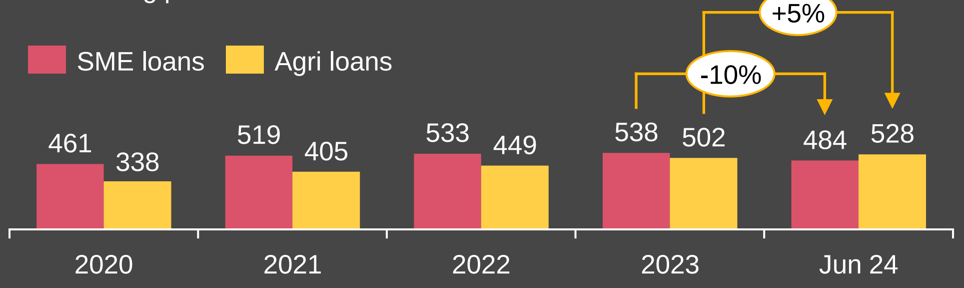


SME credit intervention in Pakistan vis-à-vis in certain regional economies

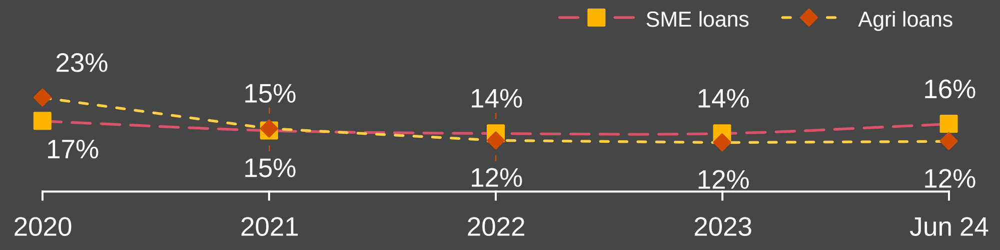


Agri financing increasing slightly with flat NPL ratio, whilst financing to SMEs declining alongside rising NPLs

Outstanding portfolio – in PKR 'B'



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

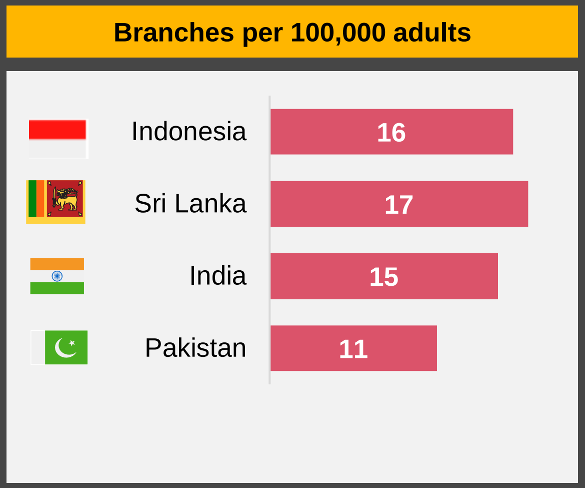
Pakistan's financial inclusion ratio has surged to 60% in 2023 - the country accounts for 4% of the world's unbanked adult population, improved from 9% in 2021.

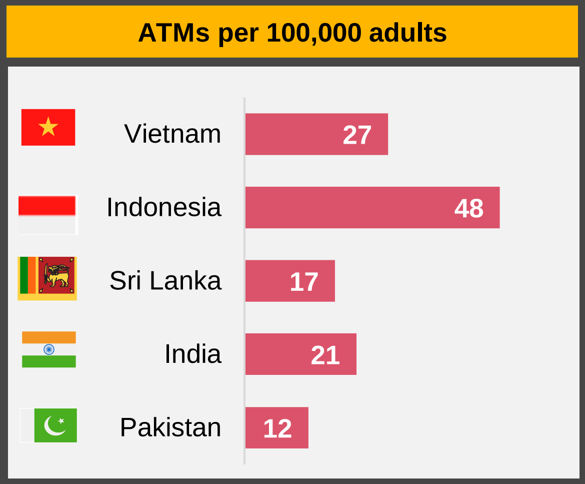
Whilst the increase in financial inclusion ratio is significant for the nation, section 6 highlights Pakistan's positioning compared to certain regional peers and emerging economies which still reflects some under-penetrated space.

	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.

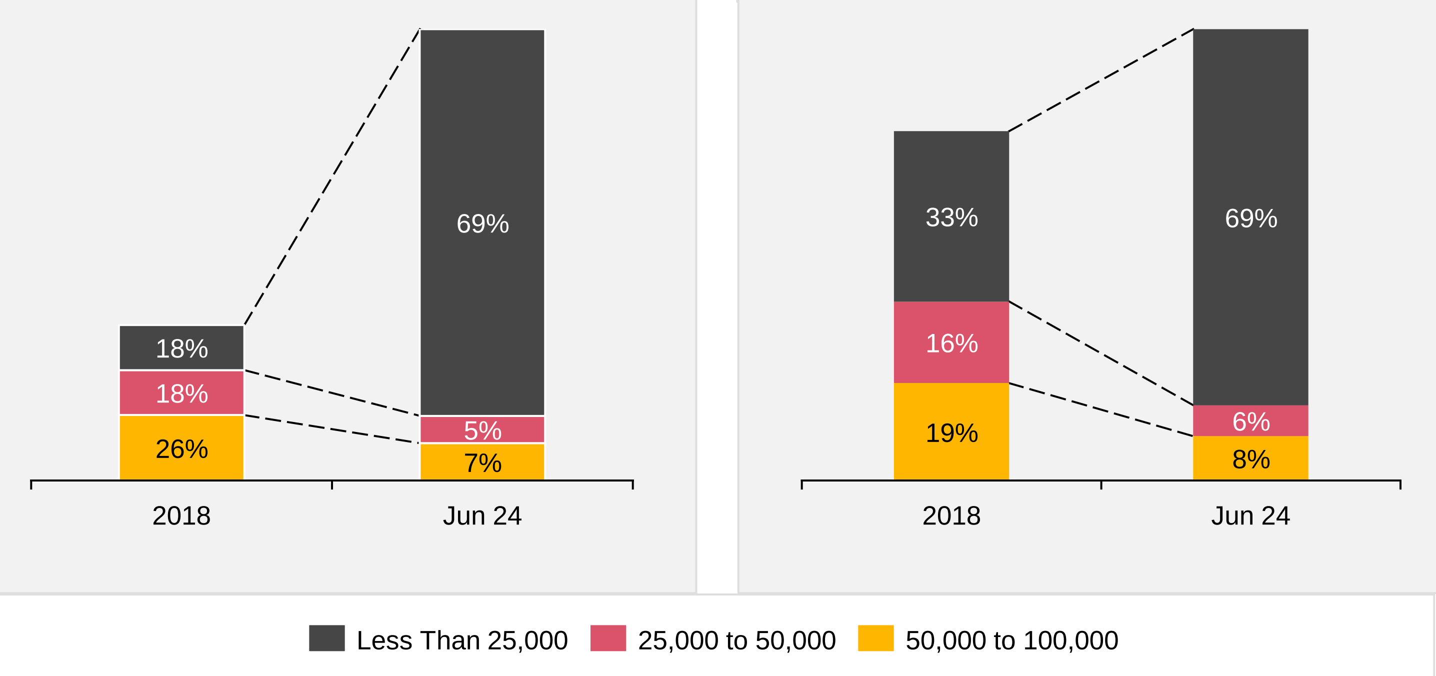




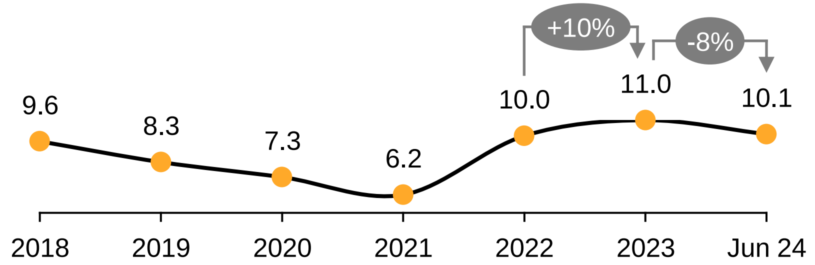
While there is a marked increase in the banked population, we also witness an increase in the number of accounts with deposit balance of less than Rs. 25K since 2018 for both individuals and businesses.

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

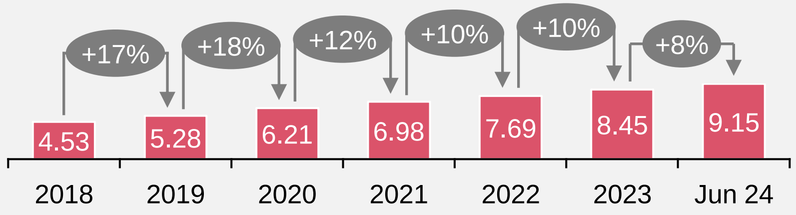


Number of accounts held by businesses was on a constant decline from 2018 till 2021. After a short growth trajectory, there is again a drop of 8% in June 2024 compared to December 2023.



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.

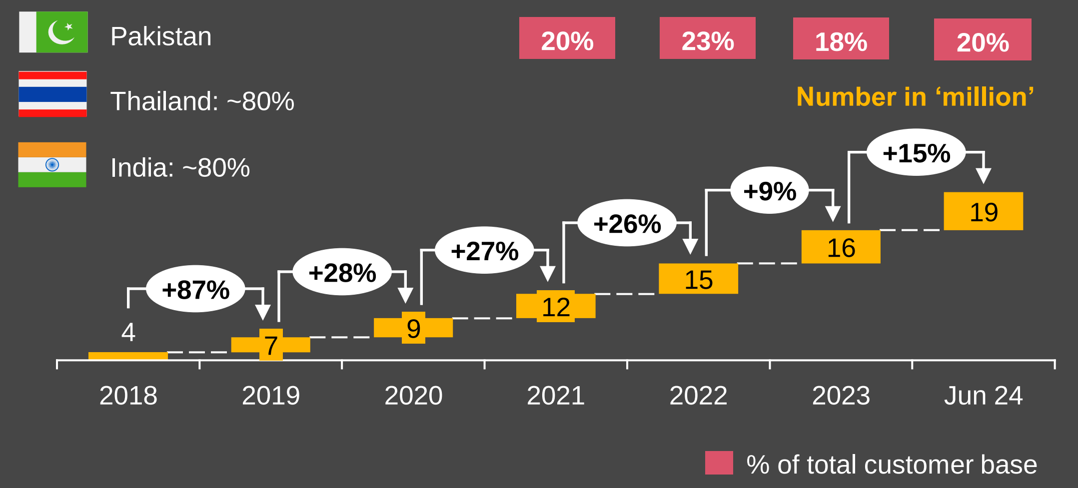
Section 7 explores latest trends, opportunities and challenges, drawing insights from emerging and developed economies, as well as the experience of certain best practice global players.

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%.

Uptake of mobile banking since 2018

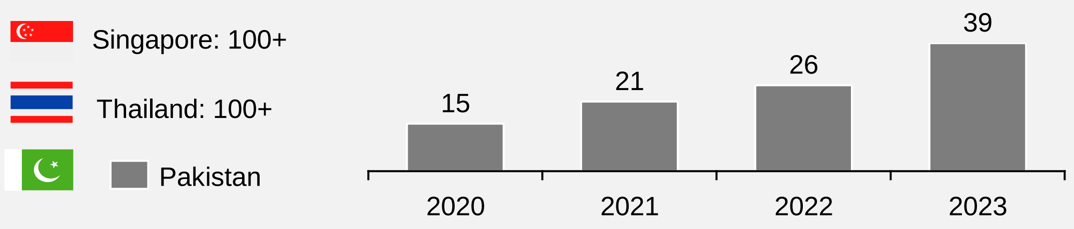
As % of total number of accounts



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.

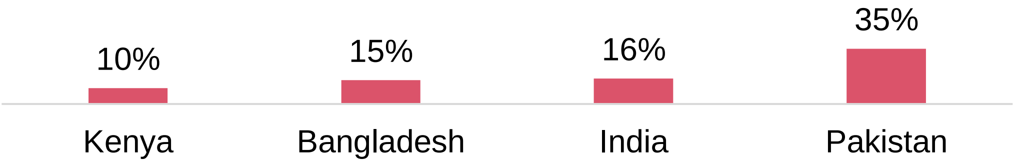
Mobile/ internet banking transactions per user



~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	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.

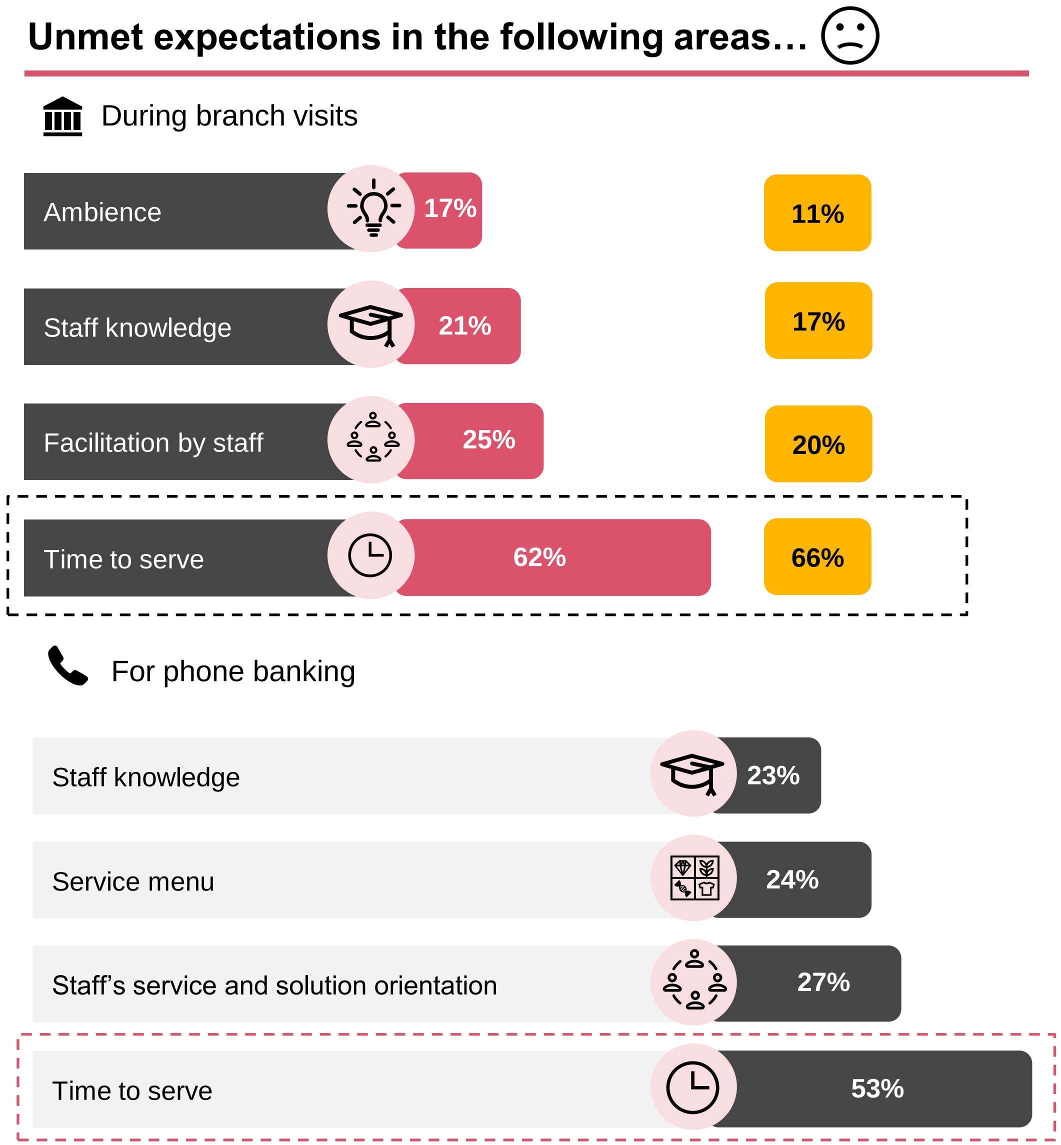
Given pain points encountered by customers across their in-branch and in-app journeys, banks in Pakistan may consider humanising experiences based on deeper understanding of customers' lifestyle, needs and preferences.

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 26th 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%).

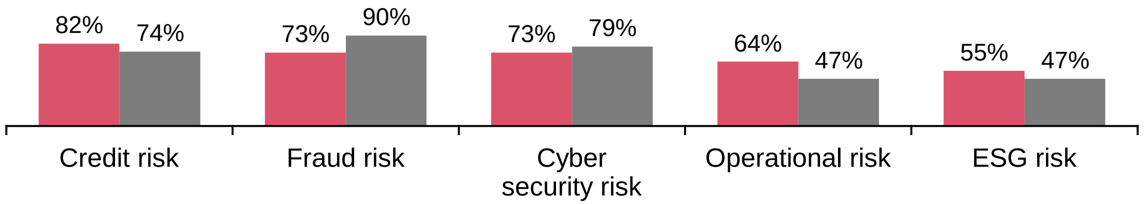
Successful delivery on transformation agenda requires a comprehensive approach to organisational design and capability building. These begin with a clear purpose and vision, culminating in a digitally enabled banking enterprise that breaks free from rigid, hierarchical structures and empowers employees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

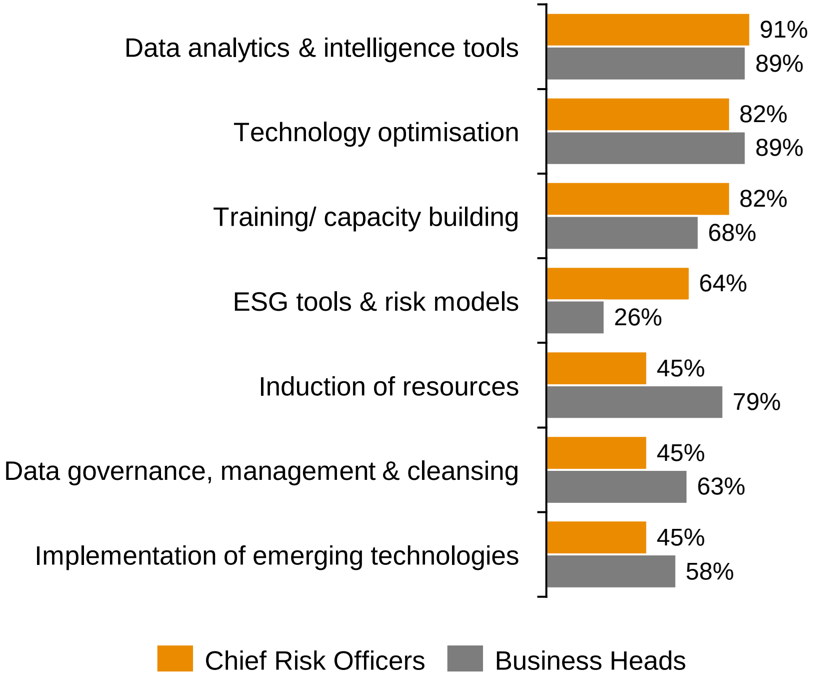
The frequency and triggers for enterprise risk landscape reviews are intrinsically linked to the potential for significant risk events. While periodic reviews are essential to identify emerging threats, occurrence of material risk events may necessitate an immediate reassessment of overall risk profile.

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.

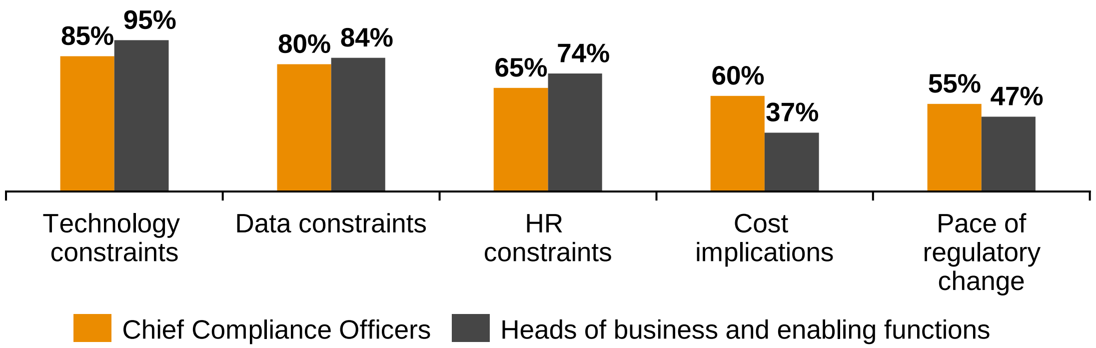
% of CCOs considering risk to be "very high"

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

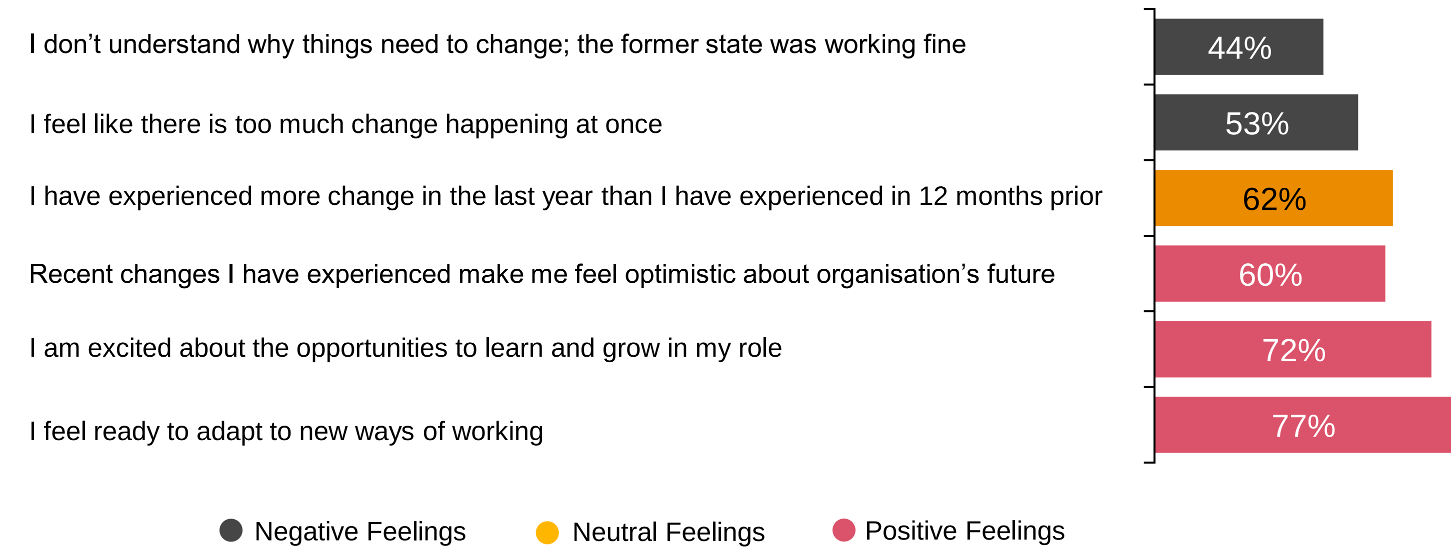
Banks globally are recognising that their most valuable assets are not solely technology or capital but people and the culture that guides them. As the industry faces a new era of transformation marked by digital innovation, technology optimisation, regulations, and shifting customer expectations, the 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.