

Key Note Address by the Deputy Governor (FM IB & SIs), SBP

Seminar on Responsible Banking Conduct- an imperative for sustainable growth
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1. Mr. Naseer Hasan, Distribution Chief Operating Officer retail banking, Standard Chartered Bank.
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3. Mr. Irfan Fazli, CEO Benchmatrix Pakistan.
4. Ms. Memoona Afridi, Service Quality Expert.

Distinguished guests, Ladies and gentlemen, I am pleased to be here this morning at the seminar on “Responsible Banking Conduct- an imperative for sustainable growth”. It is one of the pivotal concepts governing banking in the 21st century, and I know that most of the audience here has to flag off a journey of joint learning and exploration on a subject that must have engaged the time and attention of most of you for a while now - which quite aptly is also the theme of this Seminar. I am delighted to have this opportunity of speaking directly to the senior management of our banking industry and share the State Bank of Pakistan’s vision regarding Fair Treatment of Customer (FTC) regime in the banking sector, as well as my own expectations from the Board and the senior management of banks.

At the outset I would say that at the heart of Financial Consumer Protection is the principle of Responsible Banking Conduct. It is based on the premise that the consumer – that is, a depositor, saver or borrower – is not just another link in the chain, but the central player in our marketplace. It is the customer that is the basis for your industry’s profits. But at the same time, it is also the customer who is most affected by irresponsible banking conduct.

The interplay between banks and consumers is, therefore, a key concern for us as a regulator, as it directly impacts financial stability. When I say that Responsible Banking Conduct leads to persistent profits and financial stability,

I'm talking about a proposition where the interests of the consumer, banks and the regulator converge.

At the most basic level, responsible banking conduct refers to customers being treated fairly. Fair Treatment of Customers (FTC) seeks to integrate the design and marketing of banking products and services, the system of information dissemination, after-sales support and the grievance redressal mechanisms, so that the customer can be facilitated. The effectiveness of FTC in banks would depend upon the extent to which it is integrated into their systems. At the individual level, effective implementation of FTC requires that the FTC goals are embedded into employees' performance measurement and rewards mechanisms. Ensuring fair treatment of consumers would also mean that behavioral and cultural changes would have to be brought in. This cannot be achieved merely by ring-fencing consumer protection within the bank's compliance function. Instead, the entire bank – right from the Board to the frontline managers – has to take active responsibility. In order to win the trust of stakeholders, consumers must not only be treated fairly but also be seen to be treated fairly.

As for the SBP's role in strengthening the FTC regime, we strive to ensure that the banks work well so that consumers get a fair banking deal. In doing so, we are also cognizant of the fact that whatever conduct regulations that we issue, must strike the right balance between allowing the industry to thrive and ensuring that it retains its integrity and delivers what the consumers expect from it. That is why, we are essentially working on a two-pronged approach:

1. First, we have set specific "**Bare Minimums**" in our instructions/regulations, like our recently issued Product Disclosure Requirements, Consumer Grievance Handling Mechanisms, Principles on Fairness of Service Charges, and so on.
2. Second, keeping in view the diversity of the "banking conduct," which revolves around the complete product or service life cycle and the heterogeneity of our industry, it is not possible for us to issue regulations for each and every aspect of a banking function; much less that fits every bank's profile.

As a second tier, we are building on the concept of **Self Regulation** where all banks have been advised to develop and implement their own Fair Treatment of Consumers (FTC) Framework, that is duly approved by their Board of Directors. Furthermore, with the intent to help banks demonstrate FTC, SBP has developed a unique self assessment tool, the Conduct Assessment Framework (CAF), which helps banks to monitor their state of conduct against three pre-defined zones. These include the “Red” or the danger zone; “Yellow” the cautious zone; and “Green,” which is the satisfactory zone. I’m glad to share that CAF is a one of its kind tool, and its Pilot run has gained the attention of some other jurisdictions. I’m also pleased to note that as per the pilot run’s results, most of the banks are in the “Yellow” zone, which implies that the banks have evaluated themselves fairly. This is certainly a step in the right direction.

Ladies and gentlemen, I am cognizant of the initiatives taken by the banks in the past to improve their business conduct. During the year 2015, a total of 738,160 complaints were registered against the banking industry, out of which 723,201 were directly registered with the banks and only 2% (very smaller chunk) of the complainants had reached the SBP or the Banking Ombudsman. The fact that the complainants’ issues are being redressed at the first level, i.e. that of the banks, is an encouraging sign.

However, the banks need to understand that as the SBP follows through on its vision to gradually step back from directly dealing with customer complaints, the banks’ responsibility in this area will increase manifold.

Let me share with you the areas where we receive the most complains. They include coercive recovery practices, parallel banking frauds, deceptive sales, inefficient payment and settlements systems, faulty ATMs are a few irritant for the customers and the regulators which damage your reputation as custodian of public money. I expect that the banks will put in place necessary corrective measures and controls so that such incidents and practices are minimized to a great degree.

The reason I am sharing these complaints with you is that it will allow you to pinpoint the root cause of the problems and thus adjust any defects in your

product design, procedures or delivery channels, wherever required. In addition to satisfying your customers, this process will also bring good reputation to your organization as well as the banking sector.

Ladies and gentlemen, customer selection and information asymmetry is of immense importance when we talk about consumer protection, especially in the context of Pakistan where literacy rate is quite low. Banking is a business that hinges on trust and long-term relationships. It is therefore our responsibility to make sure that a customer is offered the right product and is given the required information that will enable him or her to make an informed decision. I understand that in a highly competitive and result-oriented environment, this is not an easy task. However, you must realize that while deceptive sales or adverse selection may earn you profits in the short term, but it will damage the reputation of your bank as well as that of the industry at large. I am deeply concerned when I see banks not following a structured approach for customer selection. The key information provided to customers is submerged somewhere in the fine print, or the presentations/sales pitches made to them are so complex that it is often difficult for even educated customers to understand the risks and make prudent decisions.

I would therefore advise you to follow a simple rule when designing and offering a product: put yourself into your customers' shoes. Ask yourself if your prospectuses and other information material would be sufficient for you to make an informed decision. Moreover, you need to realize that your sales staff are the face of your institution and their conduct has a direct bearing on the reputation of your bank. I would therefore expect that you would invest adequate resources on training them, and also put in place mechanisms to monitor their sales practices. A good reputation is hard to earn, but easy to lose.

Finally, I would like to emphasize upon you that customer empowerment is a part of SBP's financial inclusion strategy, and the SBP will devote adequate resources to increase consumer awareness and financial literacy. However, I also expect banks to augment our efforts in these areas, as they are the primary point-of-contact for a common person with our industry, and thus are

better placed to educate the general public and reinforce the SBP's efforts to increase financial literacy.

While concluding, I would reiterate the importance of self-regulation in Responsible Banking Conduct, and the banks must redouble their efforts to ensure that their customers are adequately informed about various banking products and services. Besides, we expect the Pakistan Banks' Association to play an active role by sharing its knowledge, expertise and good practices with the industry. The PBA subcommittee on consumer protection has been formed with this objective, and I hope that we shall achieve the goals of consumer protection as set in SBP vision 2020 with the active collaboration of the banking industry.

Let me assure you that the SBP will always welcome your efforts in this direction and that we will play a supportive role. We will remain in close communication with the industry through seminars and workshops like these, as well as through formal meetings.

Ladies and gentlemen, I hope that frank, vigorous and thought-provoking discussions during this seminar would help pave the way for us to achieve the desired objectives. I would like to express my sincere gratitude to the guest speakers for their participation, and hope that the audience will have much to learn from their thoughts on the subject.

Thank you all!