

SBP Governor discusses Banking Sector Strategy with bankers

The State Bank Governor, Dr. Shamshad Akhtar called upon Presidents of all commercial banks to make concerted efforts to increase access to financial services in the country. She was chairing a meeting in which she launched the future banking sector strategy paper.

The strategy paper for banking sector reforms over the next decade has been formulated by the State Bank of Pakistan (SBP) after intensive consultation with the stakeholders including valuable feedback from the foreign reputable experts. The Banking Sector Strategy (BSS) is centered on reforms involving the SBP and the banking sector, which constitutes not only the core of the financial system in Pakistan but is also central to the monetary and financial stability responsibilities of the SBP. The BSS focuses on reforms that the SBP has the power and resources to implement or substantially influence and highlights a set of priority areas in which progress needs to be made in the next ten years. The ten key priority areas for the BSS are to:

- (i) Implement a financial inclusion program for banks to meet the needs of underserved economic subsectors, including outreach programs to meet the requirements of the agriculture, housing, SME and microfinance sectors.
- (ii) Strengthen consumer protection through new legislation, codes of conduct and new institutional arrangements and improve financial education through educational outreach programs.
- (iii) Strengthen competition and efficiency in the banking sector with more transparency, more diversification with new products and delivery channels as well as measures to reduce the market distortions created by the large banks in rural areas.
- (iv) Further strengthen and consolidate the banking sector by continued efforts to raise governance and risk management standards, higher capital requirements and resolution of underperforming commercial and specialized banks.
- (v) Strengthen prudential regulations and supervision by updating banking legislation and regulations, methods of supervision, and stricter enforcement of prudential rules for all banks, including state-owned ones.
- (vi) Introduce a framework for consolidated supervision and reorganize the regulatory architecture to allow better regulation and supervision of financial groups and conglomerates.

- (vii) Develop a financial safety net of protection for small depositors, clearly structured lender of last resort (LOLR) facilities, an updated framework for market exit and resolution of unviable banks, and coordination arrangements with the GOP for dealing with systemic banking problems.
- (viii) Strengthen the powers of SBP to maintain monetary and financial stability by updating the half-century-old SBP Act in accordance with best international practices for central bank independence, accountability and governance structures.
- (ix) Deepen financial intermediation by developing not only the banking sector but also NBFIs, private and government debt markets and the stock market.
- (x) Develop the financial infrastructure, especially payment systems, but also human resources, credit information, credit ratings, land and property registries and minimize procedural delays in the legal system to improve the efficiency of financial sector transactions.

Most of the above reforms are already in process, while others are at various stages of planning and preparation or pending implementation subject to changes in certain legislation.

The Governor also pointed out that over the last year, SBP has been working on an ambitious and strong legal reform program with a number of stakeholders. A number of draft laws have been submitted to the Ministry of Finance (MOF) which include a) Banking Act, b) Amendment for Consolidated Supervision, c) Deposit Protection Fund Act, and d) SBP Act. She has also advised central bank team to launch work on modernizing the Foreign Exchange Manual.

The participants appreciated the efforts of SBP in designing a comprehensive and well thought of strategy for the future of banking system in Pakistan. They also praised the quality of research work and comparative analysis of regional and emerging markets made in the paper. They agreed with the analysis presented as well as with the report over low level of deposits and private sector credit in comparison with GDP and agreed to make serious efforts to enhance the same to a respectable level. The CEOs of the banks agreed upon the overall strategy and extended their fullest cooperation to SBP in its implementation. Further deliberations on SBP's BSS will be held with Pakistan Banks' Association. The banking industry showed their confidence over the regulatory measures taken by the SBP to insulate the industry from current global financial turmoil.
