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Deputy Governor SBP for review of Banks' Business Models to Adapt to the Changing landscape

Deputy Governor, State Bank of Pakistan, Mr. Jameel Ahmad, has emphasized the need for a review of the prevailing banking business models to effectively address the challenges of rapidly changing financial and technological landscape.

Mr. Ahmad was addressing eminent scholars, industry practitioners and leading professionals on the topic of "Changing Dynamics: Bank of the Future" as a key note speaker at the 29th Annual Convention of Association of Professional Bankers (APB)—Sri Lanka, held at Cinnamon Grand, Colombo on 21st November, 2017.

Deputy Governor, SBP in his speech reflected on the prevailing course of banking and said that the shifts in the supervisory approach of regulators and the regulatory measures that were taken after the Global Financial Crisis of 2007-8 as well as rapid technological developments are mainly reshaping the future of banking. "Although the reforms that were undertaken after the Global Financial Crisis were focused on achieving financial stability have improved the overall resilience of the financial system, , they have increased the complexity of the regulatory framework from multiple perspectives", he highlighted adding, "This has resulted in contraction of cross border lending, partial scaling back of off shore operations of multinational banks and a decline in the post crisis profitability of banks".

Mr. Ahmad highlighted that in the wake of the rise of internet and social media and availability of low cost mobile and other smart devices, bank customers are demanding enhanced and more customized services. If banks fail to address them, they may face extensive competition from non-banks and fintechs who are rapidly making inroads in the domain of financial intermediation.

The Deputy Governor also spoke briefly on the role and plans of the State Bank of Pakistan (SBP) to transform the domestic banking sector. He shared that in order to mitigate growing risks to the banking sector SBP took certain measures like continuous improvements in regulatory framework, building of Financial Stability Architecture and addressing concerns about Systemic Risks using macro-prudential actions like Developing frameworks for Large Exposures, Domestic Systemically Important Banks (DSIBs) and Consolidated Supervision.

Mr. Ahmad briefed the gathering about SBPs role as a facilitator and catalyst of innovation especially in the domain of payments digitization. "SBP has issued various guidelines and instructions for the development and strengthening of Payment Systems infrastructure in the country", he said. He also shared SBPs proactive approach in using the National Identity System, NADRA for allowing digital on-boarding of customers, especially the unbanked population, and mitigating the risks relating to Money Laundering and Terrorist Financing.

Going forward, he envisaged that innovations such as Cloud Computing, Block Chain Technology, Artificial Intelligence, Machine Learning and Big Data analytics are set to transform the financial industry in diverse areas from intelligent customer relationship management systems to proactive risk management, fraud detection and prevention. However, he cautioned the financial industry about the aggravated threats relating to cyber security and emphasized on the adoption of a proactive and cooperative approach to address the risk of rising cyber attacks.

In the end, the Deputy Governor asserted that the financial industry especially banks and their regulators should acknowledge that traditional restructuring will not help in these changing times and that banks must reinvent their business models based on cost efficiency, technical innovation and customer orientation. He also recommended that banks including Central Banks must work towards creating a strong and enabling legal and regulatory environment that is commensurate with the new and emerging realities of future and work towards building capacity and skill set of their staff to adequately respond to these challenges.
