

GOVERNOR'S SPEECH



Governor : Mr. Jameel Ahmad
Title : **Speech by Mr. Jameel Ahmad at IBP's Banking Award Event**
Date : December 09, 2022
Event : IBP's Banking Award
Venue : Karachi
Note : As prepared to deliver in the event

Mr. Mansur-Ur-Rehman Khan - Chief Executive IBP, Respected Jury Members, Former Governors SBP, Deputy Governors SBP, Bank Presidents, and Distinguished Guests,

Assalam-o-Alaikum and Good Evening.

It is my great pleasure to be amongst fellow bankers at this 7th edition of the Pakistan Banking Awards. At the outset, I would like to acknowledge the valuable contributions of the Institute of Bankers Pakistan, Dawn Media Group, and A.F. Ferguson for laying the foundation of these prestigious awards and promoting a culture of excellence in the financial industry. I also extend congratulations to this year's nominees and award winners for their outstanding efforts. Last but not least, a word of thanks to our expert jury for successfully performing their demanding duties.

I would like to avail this opportunity to share my thoughts on three important areas, namely: financial inclusion, digital transformation of financial services, and climate change. These are the areas that we must focus on collectively, as among other factors, they will be vital in shaping the banking system going forward.

Ladies and Gentlemen,

The first key area that we must focus on is the pressing need to enhance and broaden financial inclusion in the country. This is important because financial inclusion is a vital enabler for poverty reduction, raising the standard of living, and improving financial saving, investment, and economic growth. Raising the public's access to financial services has been and will remain an important strategic objective of SBP.

Together with banks, we have made great strides towards improving unique and active bank accounts. Despite this, bank accounts in Pakistan, especially of females, are still quite low compared to our peer countries. For every three men with a bank account, only one woman has a bank account. Further, when we look at access to other financial services, including credit provision, the situation is even more challenging. We must speed up our efforts towards financial inclusion. More importantly, we must not be content with just raising the number of unique bank accounts, but aim to integrate the use of financial services by individuals, entrepreneurs, SMEs and large businesses in their day-to-day transactions.

I believe that technology driven financial innovation is a game changer for Pakistan. Both the international and our own experiences have shown that digital financial services can help expand outreach and bring un-served communities into the fold of financial services. An often-cited success story is that of M-Pesa in Kenya, where it single-handedly drove mobile financial services availability and successfully raised financial services access in Kenya.

Fortunately, there are a number of factors already in place that enable digital financial innovation and proliferation of a tech-based financial ecosystem in Pakistan. These include a fully functional digital ID system, ubiquity of mobile devices, penetration of mobile and broadband services, availability of faster payment rails, remote account opening process, and facilitative regulatory environment for enabling the entry of non-bank entities into the financial arena. The onus is now on us to capitalize on these strong foundations by offering innovative customer KYC and customer-centric innovative financial products that promote financial inclusion.

Leveraging of digital technology is essential not only to promote financial inclusion, but also to ensure that the industry keeps pace with emerging global trends. This takes me to my next point.

Ladies and Gentlemen,

Advancements in technology, particularly digitalization of financial services, are altering the banking and payment system landscape by creating profound opportunities in the business models of the financial industry. Digitalization is likely to increasingly shift the balance of power from banks to tech-savvy entities such as Fintechs. To keep pace with this fast-evolving landscape, our banks would have to revisit their traditional approach to service delivery and adapt quickly.

To compete and succeed in this rapidly evolving financial ecosystem, deeper customer orientation will have to be placed at the heart of strategic decision-making at banks. This renewed focus on customer orientation will be a key enabler for improving the customer journey and inclusivity. For that, it would be essential for banks to reimagine the term “Know Your Customer” and expand its scope, from just the due diligence requirement to developing deeper insights about customers’ habits, preferences and spending choices. In this regard, data will be the new currency and would be pivotal in attaining a sustainable competitive advantage in the industry. The banks investing in capabilities to aggregate customer data, and leveraging Artificial Intelligence and Bigdata for analysis to effectively anticipate customer needs, will be more likely to deliver a superior customer journey and ensure customer loyalty. Moreover, the ease of onboarding and cost of availing banking services will also be key factors in motivating customer behavior.

While the evolving ecosystem, with new entrants such as Fintechs, indicates a more competitive outlook for the financial sector, it also presents opportunities for creating synergies and mutually beneficial partnerships. Banks and Fintechs can partner with each other to provide innovative products for customers that are otherwise not viable on standalone basis. For banks, such partnerships can help with penetration in untapped segments like retail businesses and Micro and Small Medium Enterprises, yielding beneficial outcomes for all stakeholders.

The technological evolution also underpins the need for adaptation in terms of well-equipped human capital. To place themselves favorably in the future, banks should start the identification of essential talent and skillsets along with a strategy to develop well-equipped human resources. Here, the partnerships with academia and global peers can help banks to be well-equipped for emerging trends and respond to evolving needs in an informed and effective manner.

While many of our banks have already started experimenting with digital technology, some have yet to make consistent and sustained moves toward the transformation. I will encourage all the banks to take full advantage of the enabling infrastructure, put in place by SBP, in the shape of customer onboarding and digital bank frameworks and the instant payment system, RAAST, to position themselves for the future. I would like to emphasize here that while embracing technology, banks must remember their foremost and fundamental responsibility of delivering quality services for customers and supporting the economy.

While technological disruptions will unleash new opportunities, they also entail certain new risks that would need to be identified and managed proactively. In particular, cyber security and consumer fraud have the potential to jeopardize the core asset of banking – which in my view is the consumer’s trust. A loss of customers funds or data by even one institution tarnishes trust in the entire banking industry. There is an urgent need to embrace advanced technologies such as analytics and artificial intelligence to improve threat visibility and deter fraud effectively. These risks are best addressed through a concerted response by all stakeholders - a fact that the industry must acknowledge and act upon in a timely manner.

Ladies and Gentlemen,

Regarding the third focus area, I want the banking industry to recognize the risks posed by climate change. Environmental degradation and climate change are evolving issues with real business and economic repercussions for Pakistan. There is an urgent need to transition to greener and sustainable business practices, which cannot be delayed any longer.

Here, the banking sector can take a lead role and start by conducting a thorough assessment of the key climate-related risks and exposures impacting the sector in particular and the economy in general. Going forward, it would be vital for the banking sector to adopt standard industry-wide taxonomy and data definitions that enable macro-level financial stability and stress testing assessments.

Secondly, a transition to a low-carbon greener economy requires a shift in production and consumption patterns, which require sizable investment by the private sector for adopting green practices. Significant funding is also required from the public sector for infrastructure and rehabilitation efforts. In this context, the financial industry can play an important role by mobilizing financial resources needed for the transition. I would urge the banking industry to review its potentially pivotal role and increasingly channel credit towards climate-smart and sustainability-friendly businesses.

Considering it a shared responsibility, the industry players should join hands to enhance our collective ability to innovate and deliver welfare gains of green transition. It goes without saying that technology can help to quantify, track and manage this crucial transition towards equitable welfare and prosperity for our people. Connecting the dots together, I would encourage the banking sector players to take a holistic view and incorporate climate considerations into their financial inclusion and digital transformation initiatives going forward.

Ladies and Gentlemen,

In the end, I would like to acknowledge the efforts of the organizers in arranging this event and share one parting suggestion. In order to better align our collective interests with the forces shaping the industry, IBP may also consider recognizing industry efforts in fields such as women empowerment and sustainable finance through special excellence award categories. Doing so would honor the efforts of innovators in these domains, and encourage others to step up and play their part in building a more inclusive, greener Pakistan.

Once again, I would like to congratulate all the nominees and award winners for their outstanding efforts.

Thank you.