

**Speech by Mr. Yaseen Anwar
Governor, State Bank of Pakistan
at
Bahria University Convocation
December 22, 2013**

Vice Chancellor, Bahria University, Prof.....

Distinguished Faculty members, Dear students, Ladies and Gentleman, I would like to thank Bahria University for inviting me to this Convocation.

First of all, let me congratulate all position holders and students who have earned their distinctions and university degrees through sheer willpower, hard work and dedication. Your education has provided you with the resources to lead and change. You should be determined to create your own individual voice upholding the values of creativity championed by this institution, while acknowledging your link with the community.

The importance of education cannot be overemphasized. Education is fundamental to any society's progress for it prepares generations to equip themselves with the knowledge and skills to meet the challenges of the ever changing world. When education blends with youthful energy, it organizes people economically, socially and politically, which helps the society to step-up on the ladder of civilization. Education is the catalyst of national development; it is what distinguishes nations from one another.

Pakistan has immense human potential. More than half of our population is below the age of 25; sadly the education systems aren't appropriately managed and sufficient enough to exploit this potential. This is where institutions such as Bahria University and the rest of private sector can play

their role to ameliorate current educational level. To increase the pace of economic development, our policies must be focused towards advancement of education. For a stronger, respected and flourishing Pakistan, we must in our capacity address the issues related to education.

Taking benefit of this opportunity, I would like to share my thoughts on the state of banking sector and the need for adopting innovative banking practices from around the world to deliver better customer value and financial inclusion in Pakistan.

In recent years, growth and turnaround in Pakistan's banking sector has been remarkable and unprecedented. Classified as Pakistan's and region's best performing sector, the banking industry's assets have risen to over US \$97 billion with profitability of Rs 187 billion (pre-tax) in FY12

which is exceptional and at an all-time high. Similarly, during FY 2012 deposits have grown at a fast clip of 17 percent which is the highest in the last five years. The Capital Adequacy Ratio (CAR) of the banking sector, which was already well above the regulatory requirements; increased further to 15.4 percent in FY12. The solvency of the banking sector has improved due to robust profitability, fresh equity injections and decreasing Risk Weighted Assets (RWA) owing to risk-averse behavior.

However, the important question that we all must ask ourselves is that has the banking sector exhausted market opportunities and maximized return on equity? Here I would like to quote some statistics to flash the untapped opportunities for retail banking in Pakistan:

First, banks are yet to tap in the banking opportunities with the vast unbanked masses as the credit to private sector is only around 18 of the GDP which is too low. According to the Access to Finance Study (A2FS) only 12 percent of the population has access to formal financial services. Whereas of the remaining 88 percent, only 32 percent are informally served and 56 percent are completely excluded.

Second, the existing branch network of the banking system is insufficient to serve the millions of unbanked masses. The total number of bank branches in Pakistan is very low at around 10,600 which place Pakistan among the countries with the highest per bank population of around 15,000 persons per branch.

Third, private credit to GDP ratio is abysmally low at 18.4 percent compared with other countries at the same level of development.

Fourth, the sectoral distribution of credit is highly skewed and very low compared to the needs of the producing sectors of our economy.

Finally, the banking sector has nearly neglected the financing needs of the Micro Small and Medium Enterprises (MSME) as 80% of the credit is availed by only 25,000 borrowers.

A recent World Bank study confirms a positive relationship between financial inclusion, faster economic growth and poverty alleviation. Given these challenges, SBP aims to address financial exclusion through variety of interventions, it aims to enhance delivery of financial

services through technology based branchless banking, mobile wallets etc. Let me share my thoughts on financial inclusion, our efforts, and its current landscape.

Financial inclusion is core component of financial sector development strategy. It envisages transforming the financial market into an equitable system with efficient market based financial services to the otherwise excluded poor and marginalized population including women and young people.

Pakistan microfinance regulation had been ranked number 1 in the world by the economist intelligence unit of the economist magazine 2010 and 2011.

Pakistan has become one of the fastest growing markets for branchless banking in the World. These developments include increased competition, technological innovation, new

business models, transformation in customers' needs and behaviors, and regulatory proportionality. International development agencies and media have now been highlighting Pakistan for its market and institutional environment for branchless banking. Moreover, according to a recent CGAP publication, "Pakistan serves as an example of how public and private institutions together can move a country towards a digital financially inclusive system." In fact the branchless banking is going to dominate the retail banking landscape in the long-term.

Branchless Banking has also proved to be an effective instrument in channelizing the Government to Persons (G2P) payments in trying times like serving Internally Displaced Persons (IDPs), flood affectees during the last two years, and beneficiaries of the Benazir Income Support

Programme. In the coming days, this channel is expected to continue playing an important role towards the promotion of financial inclusion and the management of Government to Person (G2P) Programs like Salaries Disbursements, Pensions, BISP, Watan Cards, Pakistan Cards and tax collections services, etc. The existing Branchless Banking deployments can cater to the needs of over 10 million potential beneficiaries of G2P payments in Pakistan.

SBP has partnered with DFID to launch a financial inclusion program. A number of initiatives have been taken to promote access to finance in the MSMEs, agriculture and housing which creates enabling environment by addressing regulatory barrier market failures and industry bottlenecks and ensuring consumer protection.

Lack of financial literacy is a major constraint in advancing financial inclusion SBP launched the first ever nationwide financial literacy program last year, the pilot phase of the program has been concluded successfully by targeting about 50000 beneficiaries in various provinces regions and districts with emphasis on low income strata.

SBP has deepened global partnership with World Bank, Asian development bank and other international and bilateral development agencies to make financial services accessible to the unbanked population.

We will see the impacts of these initiatives in near future, which should create more opportunities for the marginalized segment of the society, so they can play their part in the development of this country.

At this point in time, you're curious minds will have a lot of questions, some of them will be answered by your mentors, some will be left unanswered, and for them you have to use your imagination and knowledge. Some of you have already chosen a path for yourself and some of you are yet to decide, questions like what field will be more appealing. In which organization you will learn more? Should you apply in fast growing private sector or should you join public sector? Should you apply for a job or pursue higher studies? Whatever you do, do it with utmost dedication I am sure optimism, creative thinking and challenging conventional wisdom will help you achieve your goals and lead you towards a more prosperous future.

Let me once again congratulate the graduates who have received their degrees today. I wish you well in your future pursuits.