Pakistan Financial Inclusion Index

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1. Introduction

Financial inclusion is a fundamental driver of sustainable and inclusive economic development, as it enables individuals and firms to access and use a range of quality payments, savings, credit, and insurance services that meet their needs in a dignified and transparent manner. An inclusive financial system reduces inequality, promotes economic development, and improves the efficiency of monetary policy transmission by improving household wellbeing, supporting entrepreneurship and employment generation, and integrating underserved and vulnerable segments into the formal economy.

In Pakistan, the State Bank of Pakistan (SBP) has the mandate to promote financial inclusion in the country under the SBP Act, 1956 (as amended in 2022). By virtue of this mandate, SBP is promoting inclusive and sustainable access to financial services as one of its strategic objectives under SBP's Strategic Plan 2024-28. Accordingly, SBP has recently launched the third edition of its National Financial Inclusion Strategy that focusses to elevate financial well-being and living standards of the people in Pakistan, by extending quality financial services to all. Achieving this objective requires a robust analytical framework to gauge progress, pinpoint gaps, and guide targeted interventions across regions and population segments.

2. Need for a Financial Inclusion Index

SBP has undertaken multi-pronged initiatives, ranging from conducive regulations to providing improved financial infrastructure and financial literacy programs, to advance financial inclusion in the country. These concerted efforts have borne fruit as account ownership has witnessed an upward trend over the years; now, 67% of the adult population has bank accounts. However, financial inclusion is inherently multidimensional, extending beyond mere account ownership to include other services like credit, investments, savings, insurance and payments, etc. The need of the hour is to have a comprehensive tool that provides a systematic and objective measure of these dimensions, enabling policymakers to track progress over time and evaluate the impact of policy reforms.

With this backdrop, SBP included *"Developing Financial Inclusion Index"* as a strategic action in the NFIS 2024-28 that could measure the true level of financial inclusion in the country. It would help identify exclusion gaps across product categories, income groups, marginalized segments, and regional spreads. Moreover, it would enable setting strategic goals, evaluating outcomes of financial inclusion initiatives, and benchmarking progress over time.

3. Pakistan's Financial Inclusion Index

Pakistan's Financial Inclusion Index (P-FII) is a comprehensive tool that provides a 360° analysis of financial inclusion under three main dimensions i.e. Access, Usage and Quality. The index has been developed after a detailed literature review, and studying global examples of developing such indices by central banks and other multilaterals. While calculating the P-FII, following aspects were taken into consideration:

3.1. Selection of Indicators

For Pakistan's Financial Inclusion Index (P-FII), the variables and structure of the index have been identified based on the demand and supply side data available and in line with international best practices. The P-FII comprises of sixty-nine indicators/variables from conventional and digital banking, as well as non-banking financial sector.

The **Access sub-index** underscores the initiatives undertaken on the supply side of financial inclusion, focusing on the availability of physical and digital infrastructure, along-with measures to ensure that basic products and services are accessible to underserved segments. It includes 12 indicators on number of branches of financial institutions, digital access points (i.e. ATM/CDMs, POS, etc.), active mobile money agents and digitally enabled merchants, banks providing different kinds of digital services (i.e. internet banking, mobile banking, call center banking, etc.) serving the population.

Conversely, the **Usage sub-index** is primarily a measure from the demand side, highlighting the level of active utilization of financial infrastructure by stakeholders through 45 indicators. By leveraging supply side conventional and digital usage data, the indicators are crafted to mirror financial behavior from the demand side perspective. It includes both number of depositors, deposit accounts/wallets, outstanding deposits, borrowers, credit accounts, outstanding credit with financial institutions, insurance and payments (transactions), etc.

Furthermore, the **Quality sub-index** gauges the efforts by stakeholders in fostering customer-centric financial services through 12 indicators. It assesses the effectiveness of grievance redress mechanisms at different forums, quality of digital touch points, financial literacy, parameters related to sustainability and diversification of financial services. It also includes the inequalities in the distribution of financial infrastructure (access) and usage of financial services across different districts of Pakistan.

3.2. Determination of Weightages

To ensure that P-FII is forward-looking, a non-parametric weighting scheme has been employed. Since indicators may contribute differently to the overall objective of financial inclusion, weights have been assigned to reflect their relative importance and SBP’s future vision, with higher focus on the financial inclusion deepening, particularly the usage of financial services. Accordingly, Access, Usage and Quality have been assigned 30 percent, 40 percent and 30 percent weights, respectively.

3.3. Desired Targets

Each indicator has been assessed against a defined target value representing its projected outcome that SBP aims to achieve by 2030. The selected indicators have been normalized with the defined targets to ensure comparability prior to aggregation. Achievement of this target is assumed to indicate full financial inclusion i.e. 100, with respect to that indicator.

4. Calculations

For index calculation, Sarma (2012) approach[1] has been used. This approach follows the methodology adopted by the United Nations Development Programme (UNDP) for widely used indices including Human Development Index (HDI), as it aggregates multiple variables into a single, bounded measure that reflects the overall inclusiveness of a financial system.

The construction of the P-FII begins with the computation of a variable-specific index for each variable of financial inclusion. For each dimension $i=1,2,3,\dots,n$, a normalized dimension index (d_i) is calculated using the following formula:

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[1] UNDP (2011), Human Development Report 2011, United Nations Development Programme; Sarma, M. (2012). “Index of Financial Inclusion—A measure of financial sector inclusiveness”, Competence Centre on Money, Trade, Finance and Development Working Paper No. 07/2012, Berlin.

$$d_i = wi\,\frac{A_i - m_i}{M_i - m_i}$$

where A_i represents the actual value of the dimension, m_i and M_i denote the lower and upper bounds fixed by predefined rules, respectively, and w_i ($0 \le w_i \le 100$) reflects the relative importance of the dimension. This formulation ensures that each dimension index lies between 0 and its assigned weight, with higher values indicating better performance.

Once all dimension indices are computed, a country's overall achievement is represented as a point $X = (d_1, d_2, \ldots, d_n)$ in an n-dimensional space. Two reference points are defined as the worst-case scenario $O = (0,0,\ldots,0)$ and the ideal point $W = (w_1, w_2, \ldots, w_n)$. Financial inclusion is assessed based on the position of X relative to these two points. Higher financial inclusion corresponds to a greater distance from O and a smaller distance from W.

To incorporate both criteria, the P-FII uses the normalized Euclidean distance from the worst point (X_1) and the inverse normalized Euclidean distance from the ideal point (X_2), defined as:

$$\text{Let } X_1 = \frac{\sqrt{\sum_{i=1}^{n} {d_i}^2}}{\sqrt{\sum_{i=1}^{n} {w_i}^2}} \text{ and } X_2 = 1 - \frac{\sqrt{\sum_{i=1}^{n} (w_i - d_i)^2}}{\sqrt{\sum_{i=1}^{n} {w_i}^2}}$$

The final index is computed as the simple average of these two measures:

$$\text{P-FII} = \frac{\boldsymbol{X_1 + X_2}}{\mathbf{2}}$$

This formulation ensures that the index lies between 0 and 100, is monotonically increasing, and provides a balanced, robust and interpretable measure of financial inclusion.

5. Results

The annual P-FII calculated for the year 2024 stands at **58.1**, showing a growth of 6% from 2023 (i.e. 54.8). The three sub-indices: Access, Usage and Quality are recorded at **72.3**, **62.5** and **43.9** respectively, indicating that while financial infrastructure has been substantially developed, there needs to be a focus on improving usage and quality of financial services.

	2023	***2024***
FII Pakistan	54.8	58.1
Access (30%)	68.0	72.3
Usage (40%)	59.7	62.5
Quality (30%)	40.1	43.9

6. Way Forward

The annual P-FII will be calculated on December-end data, and the results will be disseminated in the first quarter of the preceding year. Further, it will be institutionalized as a core policy tool for monitoring progress of SBP's financial inclusion initiatives.