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Financial System must play a more meaningful role in the economic development of the country: Yaseen Anwar

The Governor, State Bank of Pakistan (SBP), Mr. Yaseen Anwar has observed that the financial system in Pakistan is yet to grow to its full potential and play a more meaningful role in the economic development of the country.

Delivering his speech on 'Developing Non-Bank Financial Models while addressing the risks of Shadow Banking' at the SECP Conference on Non-Bank Financial Institutions at a local hotel in Karachi today, he said that we definitely need to add to its diversification and depth. NBFIs can play a meaningful role in this pursuit, he said, adding that in the light of the global financial crises, we are better informed about the various risks that the NBFIs/Shadow Banking carries with it. 'As regulators we need to remain vigilant to ensure that those risks are mitigated without inhibiting sustainable non-banking financing models,' he said.

Mr. Anwar said that while the overall assets of the financial sector in Pakistan have increased from Rs. 5.202 trillion in 2005 to Rs. 11.107 trillion in 2011, the share of the financial sector in terms of GDP is very low at 57.4 percent. He said that in 2011, Banks held 74 percent of the financial assets while the share of NBFIs was only 4.7 percent of the total financial sector assets which was around 7.6 percent in 2005. 'The low financial sector to GDP ratio and NBFIs declining share in financial sector assets clearly underscores the need for financial sector development and diversification of financial sector assets to attract investors with different return expectations and risk appetite and channelize financial resources for the economic development of the country,' he observed.

The "shadow banking system" is defined as "the system of credit intermediation that involves entities and activities outside the regular banking system", he said, adding that the emergence of the term reflected recognition of the increased importance of entities and activities structured outside the regular banking system that perform bank-like functions.

SBP Governor briefly outlined the following four major constraints that the NBFIs sector in Pakistan is beset with:

- *First*, although there has been an increasing effort by NBFIs to broaden the range of their business activities and product base, thereby diversifying their revenue streams, the sector is yet to make a breakthrough in this regard.
- *Second*, the sector is fragmented and each NBFIs is trying to create its niche market in pursuit of establishing a sustainable revenue stream. In this regard, most companies are concentrating on financial advisory and other fee-based income segments. Unfortunately, the sector is yet to capitalize on the huge opportunities offered by previously relatively untapped areas like SMEs, Consumer, and Agriculture segments to enhance avenues for fund deployment.
- *Third*, the sector needs to develop and diversify sources of funding for sustainable growth. This would require a shift from the traditional sources such as commercial banks credit lines etc. for

on lending to clients. The NBFIs need to develop capital market instruments to pool funds from a diverse set of investors to ensure certainty to the source and cost of funding.

- *Fourth*, we need to strengthen the oversight and regulation of NBFIs to reduce the risks emanating from “shadow banking”. As observed by Financial Stability Board (FSB), the objective of this exercise should be to ensure that shadow banking is subject to appropriate oversight and regulation to address bank-like risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks.

He expressed the hope that today’s Conference will give further impetus to our efforts in promoting NBFIs as an alternative source of funding for businesses and also as a separate class of assets for investors in the country, adding to the financial sector’s diversity, stability and viability in the long-run.

Mr. Yaseen Anwar said that in Pakistan, NBFIs other than Investment banks and leasing companies, which offer saving and investment products on a relatively small spectrum, need to develop appropriate and affordable products to increase its market share.
