

# Banking Supervisory Mechanism Pakistan

*By*

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# Pakistan's Financial Sector

	Asset Base		
	Number of FIs	(PKR billion)	(% of total)
Financial sector (Percent of GDP at market prices)	333	53%	100%
<b><i>Banking system:</i></b>	<b>37</b>	<b>12,106</b>	<b>89%</b>
➤ State-controlled banks	5	2,330	17%
➤ Local private banks	22	9,344	69%
➤ Foreign-owned banks	7	238	2%
➤ Other-Specialized Banks	4	193	1%
<b><i>Nonbank financial institutions:</i></b>	<b>296</b>	<b>1,450</b>	<b>11%</b>
➤ Investment companies	7	11	0%
➤ Insurance companies	47	611	5%
➤ Development Finance Institutions	8	176	1%
➤ Other	234	652	5%

# Pakistan's Banking Sector

	No. of Institutions	Branches
Commercial Banks <i>(foreign/Public Sector/Private Sector/Specialized/Islamic)</i>	37	12,420
Microfinance Banks	10	623
Development Financial Institutions	8	59
Overseas Offices of Pakistani Banks <i>(Branches + Subsidiaries + Rep. Offices)</i>		143

# Financial Soundness Indicators

	percent			
Indicators	CY11	CY12	CY13	Dec-14*
<b>CAPITAL ADEQUACY</b>				
<b>Risk Weighted CAR**</b>	15.1	15.6	14.9	17.1
<b>Tier 1 Capital to RWA</b>	13.0	13.0	12.6	14.3
<b>ASSET QUALITY</b>				
<b>NPLs to Total Loans</b>	15.7	14.5	13.3	12.3
<b>Provision to NPLs</b>	69.3	71.5	77.1	79.8
<b>Net NPLs to Net Loans</b>	5.4	4.6	3.4	2.7
<b>Net NPLs to Capital</b>	23.1	19.9	14.7	10.1
<b>EARNINGS</b>				
<b>Return on Assets (Before Tax)</b>	2.2	2.0	1.6	2.2
<b>Return on Assets (After Tax)</b>	1.5	1.3	1.1	1.5
<b>ROE (Avg. Equity&amp; Surplus) (Before Tax)</b>	23.0	21.4	17.9	24.3
<b>ROE (Avg. Equity &amp;Surplus) (After Tax)</b>	15.1	14.2	12.4	16.1
<b>NII/Gross Income</b>	76.0	71.1	70.4	71.3
<b>Cost / Income Ratio</b>	51.1	54.1	57.2	53.3
<b>LIQUIDITY</b>				
<b>Liquid Assets/Total Assets</b>	45.5	48.4	48.6	49.2
<b>Liquid Assets/Total Deposits</b>	59.5	64.5	61.3	64.5
<b>Advances/Deposits</b>	53.6	52.2	49.5	48.2

\* based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

# Pakistani Banks in OIC Member Countries

	Branches	Subsidiaries
Habib Bank Ltd.	30	
United Bank Ltd.	17	
National Bank of Pakistan	13	2
Bank Alfalah Limited	11	
MCB Bank Ltd.		1
Bank Al-Habib	2	

# OIC Members' Foot Print in Pakistan Banking Sector

Bank Islami Pakistan Limited	UAE
Burj Bank Limited	37.9% Bank Al-Khair B.S.C & 33.9% Islamic Corporation For the Development (ICD)
Dubai Islamic Bank Pakistan Limited	UAE
Meezan Bank Limited	Kuwait
Bank Alfalah Ltd.	UAE
AlBaraka Bank	Bahrain
Samba Bank	Saudi Arabia

# Special Initiatives: Islamic Banking

- **Islamic Banking Penetration**

	<b>Number of Banks</b>	<b>Number of Branches/IBWs</b>
<b>Full-Fledged Islamic Banks</b>	5	1,027
<b>Conventional Banks offering Islamic Banking Services</b>	17	555
<b>Banks having IBWs in Conventional Branches</b>	8	929
<b>Total</b>		<b>2,511</b>

- **Islamic Banking Market Share**

	<i>Share in Industry</i>
<b>Total Assets</b>	<b>9.9%</b>
<b>Deposits</b>	<b>10.7%</b>
<b>Net Financing &amp; Investments</b>	<b>7.8%</b>

# Special Initiatives: Branchless Banking

- ❑ To targeting the unbanked and low income masses
- ❑ SBP introduced BB Regulations initially in March 2008
- ❑ SBP became among the few regulators in to have formally issued Regulations for BB
- ❑ Flexibility of Models & their scope (1-to-1; 1-to-many; many-to-many)
- ❑ Provision of basic BB Services (mobile wallets, remittances, bill payment etc.)
- ❑ Flexible tiered BB Accounts with simplified due diligence and reduced KYC requirements(Level 1, 2 3 Accounts)
- ❑ No compromised on AML, CFT/KYC, Risk Management and Consumer Protection issues



# Special Initiatives: Branchless Banking

## Performance of the Branchless Banking Sector

Number of BB Agents	200,000
Number of BB Accounts	5,000,000
Average Size of Transaction (in Rs.)	4,581
Average number of transaction per day	791,041
BB Deposits as of date (Rs. in millions )	6,219

# Legal Framework

- The State Bank Of Pakistan Act, 1956
- The Banking Companies Ordinance, 1962
- The Financial Institutions (Recovery of Finances) Ordinance, 2001
- Microfinance Institutions Ordinance, 2001
- Protection of Economic Reforms Act, 1992
- Payment Systems and Electronic Fund Transfers Act, 2007
- Anti-Money Laundering Act, 2010
- Foreign Exchange Regulations Act, 1947

## Legal Framework (Cont'd)

### Banking Companies Ordinance 1962 empowers SBP to:

- ❑ Prescribe minimum capital requirement
- ❑ restrict voting rights of shareholders
- ❑ to appoint director on the Boards of the banks,
- ❑ Control advances,
- ❑ carry out inspection,
- ❑ systematically monitor performance of the banks
- ❑ Restriction on the bank for protecting public or depositors' interest,
- ❑ remove directors or other managerial persons from office,
- ❑ supersede Board of Directors,
- ❑ reduce/cancel shares of any major holders of the bank,
- ❑ make regulation for banks, their auditors
- ❑ Resolution of problem bank
- ❑ impose penalties etc.

# Regulatory and Supervisory Framework

- ❑ **Licensing/Entry Requirements for Banks**
  
- ❑ **Regulatory Framework**
  - ❑ **Prudential Regulations on Sector & Segment**
    - Corporate/Commercial, SME, Consumer, Agriculture and Microfinance
    - Corporate Governance, AML/CFT, Risk Management, Operations
    - **Guidelines** (Licensing, Risk Management, Branchless Banking etc.)
    - **Circulars & Instructions** (Capital Requirements-MCR-CAR, Disclosure of Financial Statements, Asset Securitization)
  
- ❑ **Supervisory Framework**
  - Off-site surveillance (CAELS)
  - Inspection (CAMELS)
  - Enforcement
  - Stress Testing (Sensitivity Analysis & Macro)
  
- ❑ **Consumer Protection**

# Way Forward

- ❑ **Implementation of Consolidated Supervision**
- ❑ **Designing Framework for effective Supervision of D-SIBs**
- ❑ **Implementation of Deposit Insurance Scheme**
- ❑ **Further empowerment of SBP for early/speedy resolution of problem banks (PCA Regime).**
- ❑ **Implementation of Macro-Prudential Framework**
- ❑ **Development of Islamic Banking as an alternate to conventional banking**
- ❑ **Strengthening of Domestic & International Cooperation**
- ❑ **Achieving Optimal level of Financial Inclusion**
- ❑ **Strengthening Corporate Governance and AML/CFT Frameworks**

Thank you!  
Jim

