

Kazi Abdul Muktedir: Financial inclusion, consumer awareness and protection

Keynote address by Mr Kazi Abdul Muktedir, Deputy Governor of the State Bank of Pakistan, at 4th the Conference on Financial Services and Consumers, Karachi, 31 January 2013.

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Mr. Kaukab Iqbal, Chairman, Consumers Association of Pakistan,

Distinguished Speakers,

Ladies and Gentlemen – Assalam o Allaikum wa Rahmatullah!

First of all, I would like to thank the Consumers Association of Pakistan (CPA) for inviting me to address this Forum on the increasingly important issue of Financial Inclusion and consumer awareness and protection. I congratulate the organizers for holding this pertinent event which has gained special prominence in the aftermath of global financial crisis. I sincerely hope that the today's proceedings would give further impetus to our efforts in promoting an inclusive and responsible financial sector in the country, thereby enhancing the financial sector's stability and viability in the long-run.

Ladies and Gentlemen!

The importance of financial services in the development of any economy cannot be overemphasized as it promotes entrepreneurship, generates employment, fosters innovation, reduces poverty levels and enhances social equality. Therefore, SBP, as part of its financial sector development strategy is actively promoting financial inclusion.

Financial Inclusion refers to the process of promoting affordable, timely and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored and innovative approaches including financial awareness and education with a view to promote financial well-being as well as economic and social inclusion.

To add further emphasis and urgency to the issue of financial inclusion, I would like to share that financial sector in Pakistan remains restricted in its outreach as the majority of population remains either excluded or informally served. This limited access is reflected in the total number of bank accounts, presently around 32 million, and the total number of borrowers, which is only 5.7 million. This high level of financial exclusion is largely attributed to two major factors. *Firstly*, on the supply side, there is lack of appropriate product offering by financial service providers primarily influenced by their typical hesitance towards the informal and low income segments of the population and lack of geographic presence. *Secondly*, on the demand side, there is lack of public awareness about availability of financial services and products.

SBP is cognizant of high financial exclusion in the country and is fully committed to tackling the associated challenges in a sustainable manner. State Bank of Pakistan is pursuing a multi-pronged financial inclusion strategy through the following:

1. SBP introduced Basic Banking Account (BBA), requiring commercial banks operating in Pakistan to offer BBA to facilitate and provide basic banking facilities to the low income people in Pakistan. A typical BBA can be opened with a minimum deposit of Rs1,000 carrying no fee, no limit of minimum balance and offering full ATM facility.
2. SBP has introduced the Annual Branch Licensing Policy which requires commercial banks with 100 branches or more to open at least 20% of their branches outside big cities and set up branches in Tehsil Headquarters where no branch of any bank exists.

3. SBP has developed a world class regulatory framework to enable commercial microfinance and branchless banking in Pakistan. These regulations enable alternative approaches and models for delivery of pro-poor and low-income financial services and products while ensuring institutional viability, broadening access, financial integrity, and pro-consumer practices.
4. Pakistan is amongst the few countries that have a national microfinance strategy which not only identifies drivers and bottlenecks to growth but also provides an implementation plan drawn alongside with industry stakeholders to monitor progress against the identified targets.
5. SBP has partnered with the UK Department for International Development (DFID) and other donors to launch programs to increase access to finance in the country. The DFID-funded Financial Inclusion Program (FIP) aims to address financial exclusion through a variety of interventions. FIP focuses on market-based, sustainable financial services for low income people and small enterprises. In addition, FIP aims to enhance delivery of financial services through technology based branchless banking solutions, financial innovation, and remittances. FIP has provided support to a number of initiatives to enhance supply of and access to finance for SMEs, agriculture, and microfinance sectors. FIP interventions largely focus on addressing market failures and industry bottlenecks, while addressing issues of fair treatment of clients and consumer protection. Here, I would like to make specific mention of some of the breakthrough FIP initiatives on promoting responsible finance in the microfinance sector:
 - FIP is supporting the establishment of a separate national level Credit Information Bureau for microfinance clients. Once the MF-CIB is fully functional, it would hold the credit histories of MF borrowers addressing the fundamental issues of asymmetric information on MF clients and would also handle the issue of over indebtedness among the MF borrowers.
 - FIP is supporting Pakistan Microfinance Network (PMN) to introduce the Transparent Pricing Initiative in Pakistan. This initiative will make the prices for the microfinance market available for the first time in history. The MF clients will then be in a position to compare the various products to make the appropriate choice. Moreover, this initiative is expected to increase the level of competition among the MF providers and ultimately efficiency which would benefit the MF clients in the long-run, and
 - FIP is also supporting strengthening consumer protection under the industry-led SMART campaign that is seeking to improve client protection mechanism in the microfinance sector.
6. Finally, in line with the evidence (Access to Finance (A2F) Survey of 2008) that lack of financial literacy is a major constraint in advancing financial inclusion, SBP launched the first-ever Nationwide Financial Literacy Program (NFLP) in January 2012 to tackle this issue. The program intends to create awareness about basic financial concepts such as budgeting, savings, investments, debt management, financial products, branchless banking and rights and obligations of consumers etc. The pilot phase of the program has been concluded successfully by targeting about 50,000 beneficiaries in various provinces, regions and districts with emphasis on low income strata and its effectiveness is currently being evaluated. Following a third party independent assessment, the program will be scaled up to the national level in its next phase.

Let me now briefly talk about the current overall architecture of financial Consumer Protection which anchors on:

- Comprehensive Legal and supervisory framework.

- Effective Institutional arrangements.
- Robust dispute Resolution Mechanism.
- Impactful Financial Literacy and Capability programs and initiatives.
- Culture of providing responsible finance by the financial service providers.

Let's begin with **Legal Framework**. Ideally, there should be a Financial Consumer Protection Act at the Federal level, covering a range of issues, including transparency, confidentiality, data protection, account servicing, protection against unfair contracts, lending practices and availability of statements, etc. However, due to lack of such framework at the national level, SBP has been promoting financial consumer protection in the industry through regulatory initiatives on the basis of its powers under the BCO, 1962. These include:

1. Issuance of Prudential Regulations for Consumer Financing, which addresses a number of important issues pertaining to market conduct and consumer protection.
2. Issuance of circulars, covering key areas arising from consumer financing, including disclosure standards, business conduct, underwriting standards, complaints handling, cooling-off periods, sale of third party products, fair debt collection practices, pricing and loan documentation, etc.
3. Establishment of electronic CIB.
4. Fixation of Minimum rate of return on deposits.
5. Issuance of guidelines for Internal controls for cheque payments.
6. Issuance of guidance on Sale of Third party products.
7. Issuance of operational Guidelines for Credit card Business in Pakistan.
8. Issuance of operational Guidelines on ATMs.
9. Issuance of Guidelines on Collection of Utility Bills.
10. Issuance of Guidance on Priority to Senior Citizen and Pension Disbursement through Banks.

Turning to the issue of **Institutional Arrangements for strengthening of consumer protection policy and swift grievance redressal**, SBP has established a Consumer Protection Department (CPD). Under the current regulatory framework, all banks are required to establish comprehensive dispute resolution mechanisms while maintaining proper records of such disputes. SBP also inspects the bank's records and processes for resolving complaints during its annual on-site inspections.

One of the most inevitable traits of financial consumer protection is **consumer trust** which can only be ensured through initiatives such as, financial education, appropriate disclosures & non-exploitative competition. Therefore, SBP frequently make use of print and electronic media to create awareness for the general masses regarding the probable threats of financial fraud to clients. Moreover, targeted awareness sessions are held for various groups including financial service providers, trade bodies/associations, Chamber of Commerce & Industries, Consumer Associations, NGOs, students and faculty members of universities.

Last but not least, I believe that financial consumer protection could be best achieved if the financial service providers develop and adopt more responsible business practices, encompassing their entire product value chain. The responsibility should be exercised, starting from product design to the delivery of the product to the clients. Besides, they should have a swift and effective grievance handling mechanism for satisfaction of their clients.

Ladies and gentlemen!

In the end, let me invite stakeholders like consumer associations, trade bodies, banking ombudsman, financial and legal functionaries, banks and competition commission to come

together in eradicating financial consumer malpractices for building an inclusive and stable financial sector in Pakistan.

Wa Aakherun Dawana Annil Hamdolillahe Rabbil Aalamin.