NEED AND SCOPE OF CONSUMER BANKING IN PAKISTAN

Supervised by: Mr. Mohiyudin

By:

Atif Mabood
Awais Ahmed
Muniba Akhlaq
Ahmed Usman

Department of Management Sciences
Bahria University
Islamabad

Approval Sheet

Executive Summary

This project is the part of our Master of Business Administration degree. The purpose of this project is to identify the need and scope of consumer finance in Pakistan, taking into account the global economic situation and problems at the banking and consumers end. With the current economic situation prevailing worldwide, consumer finance has taken the hardest toll in terms of profitability and sales. Although Pakistan is not as credit dependant as most foreign countries, but there have been repercussions as well.

Consumer finance is a division of retail banking that deals with lending money to consumers. Consumer finance is a tool used by State Bank of Banking (SBP) to regulate the economy through potential causes of inflation, Demand–pull pressure and cost-push pressure. Such as, if low cost money is put in the hands of consumers, they will pay money for to satisfy their personal desires and social needs. When consumers spend money, it propels the economy, thus economy is driven by consumer spending, that is why; the whole idea of economy is on increase spending. The real recipients of consumer finance are the people who did not have capacity to purchase expensive household items in their tight income level, but could afford them because of financing. Consumers and banks are the ultimate beneficiaries of the consumer finance and there is always a win-win situation.

In Pakistan, State Bank of Pakistan (SBP)is favoring Consumer Financing in sequence to enhance economy through elevated focus and control on this sector. However, High rates of inflation, spiraling services charges and deterioration in quality of services along with the downturn in the economy have brought

down the demand for personal loans, credit cards and auto financing (Consumer Financing). On the Other side, banks are hesitating to take more exposure in this sector due to upfront problems in terms of recovery and collection, income constraints and over look debt burden which have raised difficulties for them to consolidate quality portfolio.

Moreover, there are various State Bank Regulations in place as well that help to elude a lot of risk, e.g. CIB report, data check, verifications and debt burden ratio.

In order to revive the growth of consumer financing and eventually overall economic situation of the country, Banks should increase the ability to deliver significant and sustainable improvements in profitability through developing effective strategy, understanding customer behavior, data mining and measuring the scale of problem.

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Introduction

Background

Banks & DFIs in Pakistan works under the regulations of the State Bank of Pakistan, the four major sectors in which SBP has divided banks operations are Corporate, SME, Agriculture and Consumer. SBP provide regulations according to which all banks should work & continuously keep a track that banks are complying through the regulations or not.

From the time 2002 to 2007, Pakistan observed a remarkable development of consumer banking. This unparalleled development has tracked privatization of state-owned banks, banking restructurings brought about by the State Bank of Pakistan and an progressively marketing-oriented tactic mainly designed by banks at a large urban consumer base.

Be they big or small bank, foreign or local, each one of them is attracted towards making its presence in a competitive atmosphere that is the result of consumer banking. Foriegn banks such as ABN AMRO (Acquired by RBS and then by MCB), Citibank and Standard Chartered have the backing of the knowledge base and reserves of their foreign partners which made them first to lead products, services and innovative technologies to their consumer base.

Very aggressive were the freshly privatized banks, UBL, HBL and MCB which have addressed in consumer financing activities in not just vital cities but smaller ones too, by advantage of their enormous branch network. In doing so, they have produced enormous volumes of commerce while at the same time lashing down the prices of the products they offered.

rupees. By the end of 2004, it was worth Rs. 17 billion. Likewise, since 2003 when it was privatized, UBL had thrown 12 to 14 new products and conferring to its Representatives, each one of them has been a market front-runner on month-to-month acquisition volume. And where the local banks such as Soneri, Askari and Union deficiency in technology, they make up by offering alike services at a much lesser charges in urban areas.

The worldwide economic meltdown, drooping economy and national timidity are unfavorably affecting the business situation. As a result, banking sector realized an immediate upsurge in NPLs during the last two quarters, portentous substantial upsurge in credit risk. The NPLs to loan ratio upsurge by 2.4% points to 11.5%. The souring credit circumstances have enhanced this increase; while slowdown in economic activities led to 4.4% deterioration in gross advances.

The infested portfolio of the banking system augmented by 21% to Rupees 379 (billion) during the quarter. Upsurge in NPLs is realized in almost all banks; however, considerable upsurge took place in medium size and small sized banks. In some cases upsurge in NPLs increased than decrease in advances.

Infected ratio of consumer finance augmented with decreasing lending portfolio and increasing NPLs. The infected ratio of consumer finance portfolio increased by 1.2 percentage points to 8.1 over the quarter.

Problem Statement

Rising interest rates, spiraling services charges, deterioration in quality of services and current Financial Meltdown are bringing down the demand for personal loans, credit cards and auto financing. Consumer banking is facing new challenges as a result of interest hikes.

Problems in consumer banking due to which some banks temporarily stop consumer financing; why some banks haven't excuted full and complete consumer banking? its side-effect on economic development will be studied.

Objectives of the study

Since 2002, Consumer Banking has made marvelous development and has played a positive role in improving the economy and in meeting the needs and requirements of the consumers. Whether large or small bank, multinational or local, each one of them is moved towards making its mark in an already competitive environment that is the outcome of consumer banking.

Now the diminishing economy due to Political instability, Extremism, Global Financial Crunch and decrease in the level of household income (Relative to Inflation) have created many challenges for consumer banking. In this research the past, present & future of consumer banking will be analyzed.

This report will describe and will present an overview of the problems in existing system of consumer banking from the point of view of borrowers and lenders and explore the future challenges and opportunities in consumer banking area.

Main Objectives:

- Problems in existing system of consumer banking
- Problems beared by Lenders and Borrowers
- Solution for problems beared by lenders & borrowers
- Exploration of opportunities in future
- Role of consumer banking in Economic Development

Research Methodology

Strategy for Data Collection

Two survey forms have been designed; one for the bank's staff and one for bank's customers to identify the problems and solutions faced by borrowers & lenders in the area of Consumer Banking. Five interviews have been conducted at different banks.

The selected multinational banks are the major market players of consumer banking in Pakistan while the local banks are three large banks (MCB, HBL & UBL), two medium size banks (ABL & AKBL) and one small size bank (Soneri Bank).

Primary Data collection

Surveys

Survey Form – I (for bank's staff) was completed by only those banks employees which are employed in the area of sales, credit, operations, branch management or any other area which is specific to consumer banking. All these banks staff was directly or in-directly in consumer banking so they have a clear vision of consumer banking sector.

Survey Form – II (for bank's customer) was completed by the customers of selected local and foreign banks in Pakistan.

There are two conditions to be able to fill out the form that the banks that person must have a bank account in any local or foreign bank and have some idea of consumer banking.

Interviews

Five interviews have been conducted by the branch/relationship managers of two foreign and three local banks.

Secondary Data collection

Secondary data has been collected from different magazines, websites, newspapers and journals. For secondary data collection the main focus was on local materials while some information on consumer banking in different countries has been collected to see the trends and new opportunities.

Population & Sample

Population

This survey is conducted in different banks from people of different ages including both males and females. Altogether one hundred & fifty samples are selected from customer survey out of two hundred forms and fifty samples were selected out of seventy in banks survey.

Sample

For Surveys

Six local and two foreign banks have been selected, all the survey forms have been filled by staff of those banks and customers of those banks

Foreign Banks

- Citibank
- Standard Chartered Bank of Pakistan

Local Banks

- Muslim Commercial Bank (MCB)
- Soneri Bank Limited (SBL)
- United Bank Limited (UBL)
- BankAlfalah Limited (BAL)

- Habib Bank Limited (HBL)
- National Bank of Pakistan (NBP)

For Interviews

Interviews have been conducted by the relationship managers of two foreign banks and branch managers of three local banks which are; Citibank N.A. Standard Chartered Bank HabibBank Limited Soneri Bank Limited Bank Al-Falah Limited

Instruments and Measures

The statistical tools that are used for analyzing the result of these surveys are mean, descriptive statistics and standard deviation and for data representation tables and graphs have been used. Several other factors are taken to analyze the survey. The major software that are being used for these surveys analysis are MS Word, MS Excel.

Scope and Limitation

Issues like, problems in consumer banking due to which some banks temporarily stop consumer financing, why some banks haven't implemented full fledge consumer banking and what are the challenges and opportunities in consumer banking?And its effect on economic development will be analyzed.

Assumptions

- Consumer Banking Industry has a lot of potential to grow
- Both borrowers and lenders are facing a lot of problems

- High Interest (Macro-Level), wrong policies, lack of education, etc are the factors (Micro-Leve) for decline of consumer banking industry
- Consumer Banking is a highly attractive banking sector though its bearing a lot of problems.

Industry Overview from Secondary Data

Banking Industry of Pakistan

"Pakistan witnessed a phenomenal growth of consumer banking. This unprecedented development has followed privatization of nationalized banks, banking reforms brought about by the State Bank of Pakistan and an increasingly marketing-oriented approach primarily aimed by banks at a large urban consumer base.

Be they large or small bank, multinational or local, each one of them is geared towards making its mark in an already competitive environment that is the outcome of consumer banking. Multinational banks such as ABN AMRO (Acquired by RBS and then by MCB), Citibank and Standard Chartered have the support of the knowledge base and funds of their foreign principals which made them first to introduce products, services and innovative technologies to their consumer base.

Banks work under the regulation of the State Bank of Pakistan, the four major sectors in which SBP has divided banks operations are Corporate, SME, Agriculture and Consumer. SBP provide regulations according to which all banks should work & continuously keep a track that banks are complying through the regulations or not". (Ahmed)

Pakistan is the sixth most populous country of the world fourth in Asia and second in SAARC countries, with a population of more than 160 Million of which 100 Million is less than 25 years old and with a 30 Million strong middle class enjoying many benefits from consumer financing or donor's agencies.

Banking sector in Pakistan has experienced a substancial change in the recent years and has also acted as a promoter in the revival of the economy. Many privatization, acquisition and mergers took place during last 7 years which started from privatization of Muslim Commercial Bank and from time to time Allied Bank Limited, United Bank Limited, Habib Bank Limited were also privatized by the government. These years also witnessed acquisition of Union Bank by Standard Chartered Bank, Metropolitan Bank has been merged with Habib Bank, Prime Bank by ABN Amro, ABN-AMRO by Royal Bank of Scotland (RBS) and then RBS operations in Pakistan by MCB etc also took place recently.

All these privatization, acquisition and mergers resulted inhighlocal investment and improved performance of the banking industry while it's has also helped banks to gain more market share in short time and to easily meet the high paid-up-capital requirement of SBP i.e. Rs. 8 Billion till 2009 which was Rs.0.5 to Rs. 1 Billion in 2000.

	2001-2001	2003-2004	2006-2007
No of Scheduled Banks	43	39	41
Branches	6724	6373	7746
Deposits (Rs. Billion)	1276	2002	3373
Advances (Rs. Billion)	864	1242	2376
Assets (Rs. Billion)	3086	4193	8744
Online Branches	450	2475	4179
ATMs	259	786	2294
Credit Card Holders	29200	809000	5815000

Market has been dominated by five large commercial banks. Foreign banks have been in operation for a long time as well, but their business is concentrated with large multinational clients. Local private banks were allowed to be formed in 1991 and currently there are about 30 such banks, which tend to serve local small to medium-sized enterprises.

Pakistan has a highly developed financial sector consisting of 4 public 12 private 21 commercial banks, DFI, leasing companies, mutual funds, Islamic venture capital fund companies. The commercial banks have assets of over one trillion rupees of which about 80% is held by domestic banks. (Alam, 2007)

State Bank of Pakistan (Central Bank)

(Wikipedia) The State Bank of Pakistan (SBP) is the

central bank of Pakistan. While its constitution, as originally laid down in the State Bank of Pakistan Order 1948, remained basically unchanged until January 1, 1974, when the bank was nationalized, the scope of its functions was considerably enlarged. The State Bank of Pakistan Act 1956, with subsequent amendments, forms the basis of its operations today. The headquarters are located in the financial capital of Pakistan, Karachi with its second headquarters in the capital, Islamabad.
The Stat Bank of Pakistan looks into a lot of different ranges of banking to deal with the changes in economic climate and different purchasing and buying powers. Here are some of the banking areas that the state bank looks into;

- State Bank's Shariah Board Approves Essentials and Model Agreements for Islamic Modes of Financing
- Procedure for Submitting Claims with SBP In Respect of Unclaimed Deposits Surrendered By Banks/DFI's.
- Banking Sector Supervision in Pakistan

- Micro Finance
- Small Medium Enterprises (SMEs)
- Minimum Capital Requirements for Banks
- Remittance Facilities in Pakistan
- Opening of Foreign Currency Accounts with Banks in Pakistan under new scheme.
- Handbook of Corporate Governance
- Guidelines on Risk Management
- Guidelines on Commercial Paper
- Guidelines on Securitization
- SBP Scheme for Agricultural Financing

"The principal officer of the SBP is the Governor. During December 2005, the President of Pakistan appointed Dr. Shamshad Aktar as the new Governor of the State Bank for a three year term, to replace Dr. Ishrat Hussain, who retired on December 1, 2005. The Government appointed Saleem Raza as new Governor of State Bank Pakistan on January 01, 2009".(Learning Management System)

Departments of SBP

- Agricultural Credit
- Audit
- Banking Inspection
- Banking Policy
- Banking Supervision
- Corporate Services
- Economic Policy
- Exchange and Debt Management
- Exchange Policy
- Human Resource

- Information System
- Islamic Banking
- Legal Services
- Payment System
- Research
- Statistics
- Real Time Gross Settlement System (RTGS System)
- Small and Medium Enterprises

Public Sector Comm. Banks	Public Sector Comm. Banks	Public Sector Comm. Banks	Public Sector Comm. Banks
Habib Bank Ltd	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
National Bank of Pakistan	First Women Bank Ltd	First Women Bank Ltd	First Women Bank Ltd
United Bank Ltd	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
First Women Bank Ltd	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
The Bank of Khyber			
The Bank of Punjab			

Local Private Banks	Local Private Banks	Local Private Banks	Local Private Banks
Askari Comm. Bank Ltd	Askari Comm. Bank Ltd	Askari Comm. Bank Ltd	Askari Comm. Bank Ltd
Bank Alfalah	Bank Alfalah	Bank Alfalah	Bank Alfalah
Bank ALL Habib Ltd	Bank ALL Habib Ltd	Bank ALL Habib Ltd	Bank ALL Habib Ltd
Bolan Bank Ltd	Bolan Bank Ltd	Faysal Bank Ltd	Faysal Bank Ltd
Faysal Bank Ltd	Faysal Bank Ltd	Metropolitan Bank Ltd	Habib Metropolitan Bank Ltd
Metropolitan Bank Ltd	Metropolitan Bank Ltd	Prime Comm. Bank Ltd	Prime Comm. Bank Ltd
Platinum Comm. Bank Ltd	Prime Comm. Bank Ltd	Muslim Comm. Bank Ltd	Muslim Comm. Bank Ltd
Prime Comm. Bank Ltd	Muslim Comm. Bank Ltd	Soneri Bank Ltd	Soneri Bank Ltd
Prudential Comm. Bank Ltd	Soneri Bank Ltd	Allied Bank of Pakistan	Allied Bank of Ltd
Gulf Comm. Bank Ltd	Allied Bank of Pakistan	KASB Bank Ltd	KASB Bank Ltd
Soneri Bank Ltd	KASB Bank Ltd	United Bank Ltd	United Bank Ltd
Union Bank Ltd	Union Bank Ltd	Union Bank Ltd	Bank Islami Pakistan Ltd
Muslim Comm. Bank Ltd	United Bank Ltd	Saudi Pak Bank Ltd	Saudi Pak Bank Ltd
Allied Bank of Pakistan	PICIC Comm. Bank Ltd	Meezan Bank Ltd	Meezan Bank Ltd
Trust Bank Ltd	Saudi Pak Bank Ltd	Habib Bank Ltd	Habib Bank Ltd
Indus Bank	Meezan Bank Ltd	PICIC Comm. Bank Ltd	PICIC Comm. Bank Ltd
	Habib Bank Ltd	Crescent Bank Ltd	Crescent Bank Ltd
	Crescent Bank Ltd	Dawood Bank Ltd	JS Bank Ltd
	Dawood Bank Ltd	NIB Bank Ltd	NIB Bank Ltd
	NDLC-IFIC Bank Ltd	My Bank Ltd	My Bank Ltd
			Standard Chartered Bank Ltd
			Arif Habib Ltd
			Atlas Bank Ltd
			Dubai Islamic Bank Ltd

Foreign Banks	Foreign Banks	Foreign Banks	Foreign Banks
ABN AMRO Bank Ltd	ABN AMRO Bank Ltd	ABN AMRO Bank Ltd	ABN AMRO Bank Ltd
Albaraka Islamic Bank	Albaraka Islamic Bank	Albaraka Islamic Bank	Albaraka Islamic Bank
American Express Bank	American Express Bank	American Express Bank	The Bank of Tokyo
ANZ Grindlays Bank	The Bank of Tokyo	The Bank of Tokyo	Citibank
Bank of America	Citibank	Citibank	Deutsche Bank

Bank of Ceylon	Deutsche Bank	Deutsche Bank	HSBC
The Bank of Tokyo	Habib Bank AG Zurich	Habib Bank AG Zurich	Oman International
Citibank	HSBC	HSBC	S.A.O.G
Credit Agricole Indosuez	Banking Corporation Ltd	Banking Corporation Ltd	Banking Corporation Ltd
Deutsche Bank	Oman International	Oman International	
Doha Bank	S.A.O.G	S.A.O.G	
Emirates Bank International	Rupali Bak Ltd	Rupali Bak Ltd	
Habib Bank AG Zurich	Standard Chartered Bank	Standard Chartered Bank	
HSBC			
Banking Corporation Ltd			
IFIC Bank Ltd			
Mashreq Bank PJSC			
Oman International			
S.A.O.G			
Rupali Bak Ltd			
Societe General			
Standard Chartered Bank			

Specialized Banks	**Specialized Banks**	**Specialized Banks**	**Specialized Banks**
Agricultural Development Bank of Pakistan	Zari Taraqiati Bank Ltd	Zari Taraqiati Bank Ltd	Zari Taraqiati Bank Ltd
Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan
Federal Bank for Co-Operatives		SME Bank Ltd	SME Bank Ltd
Punjab Provincial Co-Operatives Bank Ltd	Punjab Provincial Co-Operatives Bank Ltd	Punjab Provincial Co-Operatives Bank Ltd	Punjab Provincial Co-Operatives Bank Ltd

Products / Service in Banking Sector

Important services in banking industry are;

- SMS Alerts Current Accounts
- Foreign Currency Accounts
- E-Statements Merchant Services
- Remittance Service
- Investment Banking
- SWIFT Service
- Current Accounts
- ATM
- Pay Order
- Demand Draft
- Auto Loans
- Personal Loans
- Credit Cards
- Business Loans
- Running Finance
- Balance Transfer Facility
- Online Banking
- Internet Banking
- Mobile Banking
- Telephone Banking
- Term Accounts
- Savings Accounts
- Cash Management Service
- Statements by Fax
- Business Loans

- Trade Finance
- Lockers Facility
- International Banking

SBP Prudential Regulations for Consumer Financing

"The improvement in the banking sector has been not only in terms of asset growth and profitability but also in terms of diversification of products and risk profile. Almost every commercial bank in Pakistan now offer consumer financing, so the effective regulation for the consumer banking by the State Bank of Pakistan was must. In 2003 State Bank of Pakistan issued the First Edition of Prudential Regulations for Consumer Financing.

The prudential regulations in force were mainly aimed at corporate and business financing. The SBP in consultation with the Pakistan Banking Association and other stakeholders has developed a new set of regulations which cater to the specific separate needs of corporate, consumer and SME financing. The prudential regulations will enable the banks to expand their scope of lending and customer outreach.

Consumer Financing means any financing allowed to individuals for meeting their personal, family or household needs .The State Bank of Pakistan has divided the consumer financing in its prudential regulations into four major areas which are;

- Credit Cards
- Auto Loans
- Home Loans
- Personal Loans

Auto Loans

- The vehicles to be utilized for commercial purposes shall not be covered under the Prudential Regulations for Consumer Financing.
- The maximum tenure of the auto loan finance shall not exceed seven years.
- While allowing auto loans, the banks / DFIs shall ensure that the minimum down payment does not fall below 10% of the value of vehicle.
- In addition to any other security arrangement on the discretion of the banks/ DFIs, the vehicles financed by the banks / DFIs shall be properly secured by way of hypothecation.
- The banks / DFIs shall ensure that the vehicle remains properly insured at all times during the tenure of the loan.
- The clause of repossession in case of default should be clearly stated in the loan agreement mentioning specific default period after which the repossession can be initiated. The repossession expenses charged to the borrower shall not be more than actual incurred by the bank / DFI.
- A detailed repayment schedule should be provided to the borrower at the outset. Where alterations become imminent because of late payments or prepayments and the installment amount or period changes significantly, the revised schedule should be provided to the borrower at the earliest convenience of the bank / DFI but not later than 15 days of the change.
- The banks / DFIs desirous of financing the purchase of used cars shall prepare uniform guidelines for determining the

value of the used vehicles. However, in no case the bank / DFI shall finance the cars older than five years.

- The banks / DFIs should ensure that a good number of authorized auto dealers are placed at their panel to eliminate the chances of collusion or other unethical practices.

Home Loans

- Banks / DFIs shall determine the housing finance limit, both in urban and rural areas, in accordance with their internal credit policy, credit worthiness and loan repayment capacity of the borrowers.
- Banks / DFIs shall ensure that the total monthly amortization payments of consumer loans, inclusive of housing loan, should not exceed 50% of the net disposable income of the prospective borrower.
- The lending bank / DFI will ensure that the loan amount is utilized strictly for the construction purpose and loan is disbursed in tranches as per construction schedule. Loans against the security of existing land / plot, or for the purchase of new piece of land / plot, for commercial and industrial purposes may be allowed.
- The housing finance facility shall be provided at a maximum debt-equity ratio of 85:15.
- Banks / DFIs are free to extend mortgage loans for housing, for a period not exceeding twenty years.
- The house financed by the bank / DFI shall be mortgaged in bank's / DFI's favor by way of equitable or registered mortgage.

- Banks / DFIs shall either engage professional expertise or arrange sufficient training for their concerned officials to evaluate the property, assess the genuineness and integrity of the title documents, etc.
- The bank's / DFI's management should put in place a mechanism to monitor conditions in the real estate market (or other product market) at least on quarterly basis to ensure that its policies are aligned to current market conditions.
- Banks / DFIs are encouraged to develop floating rate products for extending housing finance, thereby managing interest rate risk to avoid its adverse effects.

Personal Loans

- The clean limit per person for personal loans will generally not exceed Rs 500,000/-.
- Banks / DFIs may assign a clean limit beyond Rs 500,000 but not in excess of Rs 2 million to their prime customers who have extraordinary strong repayment capacity, moderate debt burden and a clean track record.
- In cases, where the loan has been extended to purchase some durable goods / items, including personal computers and accessories thereof, the same will be hypothecated with the bank / DFI besides other securities, which the bank / DFI may require on its own.
- The maximum tenure of the loan shall not exceed 5 years. However, this period may be extended to 7 years for loans / advances given for educational purposes, provided that disbursement of such loans shall directly be made by the bank / DFI to the educational institution and the borrower

shall not be allowed to utilize / withdraw cash directly from the bank / DFI under this head for any other purpose.

- In case of Running Finance / Revolving Finance, it shall be ensured that at least 15% of the maximum utilization of the loan during the year is cleaned up by the borrower for a minimum period of one week.

Credit Cards

- The banks / DFIs should take reasonable steps to satisfy themselves that cardholders have received the cards, whether personally or by mail.
- Banks / DFIs shall provide to the credit card holders, the statement of account at monthly intervals
- Banks / DFIs shall be liable for all transactions not authorized by the credit card holders after they have been properly served with a notice that the card has been lost / stolen. However, the bank's / DFI's liability shall be limited to those amounts wrongly charged to the credit card holder's account.
- In case the cardholders make partial payment, the banks / DFIs should take into account the partial payment before charging service fee / mark-up amount on the outstanding / billed amount so that the possibility of charging excess amount of mark-up could be avoided.
- Due date for payment must be specifically mentioned on the accounts statement.
- Maximum unsecured limit under credit card to a borrower (supplementary cards shall be considered part of the principal borrower) shall generally not exceed Rs 500,000/.

- Banks / DFIs may, however, assign a clean limit beyond Rs 500,000 but not in excess of Rs 2 million to their prime customers who have extraordinary strong repayment capacity, moderate debt burden and a clean track record.
- Banks / DFIs may also allow financing under the credit card scheme in excess of Rs 500,000/-(up to Rs 2 million) to other customers as well, provided the excess amount is appropriately secured" (State Bank of Pakistan, 2009)

Credit Information Bureau

Introduction:

"Credit Information Bureau is a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. It is an organization providing information on individuals borrowing and bill paying habits. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating. Consumers with poor credit repayment histories or court adjudicated debt obligations like tax liens or bankruptcies will pay a higher annual interest rate than consumers who don't have these factors". (MD, 2009)

History of CIB:

(Wikipedia Reference) The Credit Information Bureau (CIB) is a public sector credit bureau of Pakistan. It was established in 1992 by the State Bank of Pakistan (SBP) under Section 25(A) of

Banking Companies Ordinance (BCO)-1962. The CIB is a slice of Banking Surveillance Section of the State Bank of Pakistan (SBP).

Role of CIB:

The CIB plays a vital part in stimulating financial discipline, healthier credit risk management and making wise lending decisions. It is internationally accepted that a well-developed financial sector must have active credit risk revealing and management system to assign credit efficiently. The CIB helps financial organizations in handling credit risk and evaluating true credit worthiness of current as well as potential borrowers.

The Credit Information Bureau also support financial organizations to make well cognizant credit decisions in well-timed manners reducing the credit risk. All fund and non-fund base credit services regardless of any unsettled amount are being reported to the CIB. Reporting to the CIB is obligatory for all follower of financial institutions (FIs).

Two types of reports can be generated from eCIB system:

1. Consumer Credit Information Report
2. Corporate Credit Information Reports

Electronic Credit Information Bureau (eCIB):

The very purpose of forming a CIB at SBP was to encourage sound credit culture, practicality and proficiency among financial organization. The scope and supervision of CIB database was further improved in April, 2006 when a new look VPN based e-CIB system with improved features started its actions. The main features of new eCIB system involved the followings;

- Separate Corporate/Consumer reports & data input format
- Provisions for consumer credit & nonpayment history
- Provisions for online alterations & Interim updates
- History of credit analyses made by the financial organizations
- Web centered Help Desk for online inquiries & complaints
- Online technical help to the financial organizations

Consumer Banking in Pakistan

Consumer banking is one of the attractive and a fast rising sector of Pakistan Banking Industry, and also important interest point for the banks. Firstly the consumer banking sector was only absorbed by the multinational banks but its efficiency and profitability appealed others to come towards this area but still the significant portion of consumer banking in Pakistan is in the hands of multinational banks.

In a general logic, institutional provisions that provide consumers with financing funding to enhance their consumption and as a result thereof, advance their criterions of living should fall within the wide-range definition of consumer finance. For the past fifty years commercial banks in Pakistan had entirely overlooked consumer financing as an activity.

Consumer banking is a vast business area with great profits enormous potential for advancing economic situations. But the banking sector has to upkeep more for its customers rather than merely about itself. It needs to offer itself. It needs to offer healthier services at superior terms and needs to update the consumer entirely and fully regarding the services.

Consumer loan, amplified by Rupees 17 (billion) or 5% through 10 months of FY07-08 paralleled to a growth of 13% during the similar period last year. Inside the consumer financing, maximum share was in personal loans at 39% trailed by car financing 30%, housing loans 18%, and credit cards at 12% as at end April, 2008. Progress in consumer finance persisted slow as compared to last year primarily because of high interest rate, slow pace of retrieval, stringent risk management system of banks etc.

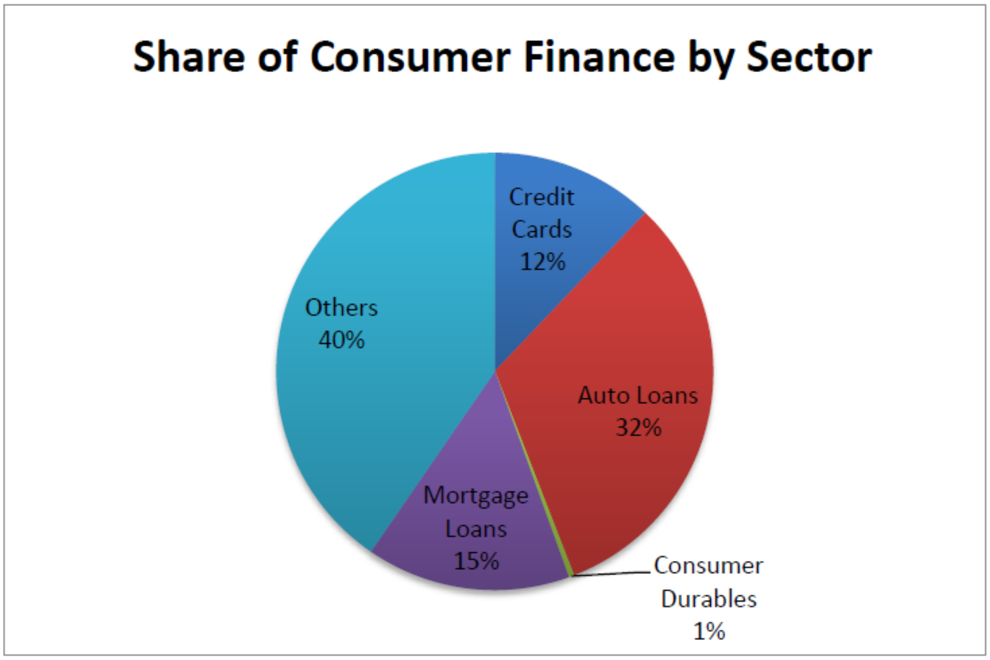
Consumer loans have deteriorated to Rs 326.1 (billion) as of December 2008 from Rs 353.8 (billion) as of June 2008. Inside consumer finance, maximum share is of personal loan at 40% trailed by car finance at 28%, housing finance at 20% and credit cards at 12% as at end December 2008.

According to a study, credit cards loans have advanced from Rupees 33.538 (billion) during first of last calendar year to Rupees 42.822 (billion) during first half of existing calendar year. Similarly, personal loans have advanced from Rupees 120.517 (billion) in H1 CY 06 to Rupees 142.373 (billion) in H1 CY 07. Development in auto loans has not been less remarkable. It listed an upsurge of approximately Rupees 8.0 (billion) from Rupees 97.777 (billion) to Rupees 105.444 (billion) during the conforming period of development of credit cards and personal loans. Housing loans have also listed an upsurge of roughly Rs11.0 billion in H1 CY 07 from Rupees 43.205 (billion) in H1 CY 06.

Exposure per Borrower

Rs. In 000	2004	2005	2006
Credit Cards	23	26	32
Auto Loans	423	430	411
Consumer Durable	37	29	22
Mortgage Loans	1572	1982	2025
Other Personal Loans	82	89	100

(SBP, 2006)



Auto Loans

In Pakistan auto loans are purchase of brand new or used, imported or local cars for private use. Auto financing and auto leasing both facilities are offered by most of the banks. Salaried Persons/Self Employed Professionals / Business Persons who meet the terms and conditions to qualify for the finance are eligible for the loan. Some banks are also offering both variable rate & fixed rate options for auto loans. The average market rate for auto loans is 17-20%.

Auto Loans by Local Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Minimum Down Payment**	**Maximum Interest Rate**
Soneri Bank Limited	5 Years	Rs. 2 Million	15%	14%
MCB Bank	7 Years	No Limit	10	15.75%
United Bank Limited	7 Years	5 Million	10%	15%
Habib Metropolitan Bank	7 Years	3 Million	15%	16.50%
Faysal Bank	5 Years	7	20%	15.99%

		Million		
Average	6 Years	4.25 Million	14%	15.45%

Auto Loans by offered by following Foreign Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Minimum Down Payment**	**Maximum Interest Rate**
Citi Bank	7 Years	7.5 Million	10%	16%
ABN AMRO	7 Years	10 Million	10%	15%
Standard Chartered Bank	7 Years	6 Million	10%	13.90%

Home Loans

The loans issued for Buying, Building or Renovation of houses/land are catagorised as home loans. For home loans both fixed rate and variable rate options are also there. The maximum duration limit given by banks for home loans is generally 20 years.

Home Loans by Local Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Minimum Down Payment**	**Maximum Interest Rate**
Soneri Bank Limited	10 Years	5 Million	70:30:00	15%
National Bank of Pakistan	20 Years	35 Million	85:15:00	KIBOR + 4%
MCB Bank	25 years	20 Million	70:30:00	14%
United Bank Limited	20 Years	50 Million	75:25:00	14%
Habib Metropolitan Bank				
Faysal Bank	20 Years	20 Million	80:20:00	15%
Average	19 Years	26 Million	76:24:00	14.40%

Home Loans by Foreign Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Minimum Down Payment**	**Maximum Interest Rate**
Citi Bank	20 Years	20 Million	80:20:00	18%
ABN AMRO	20 Years	30 Million	80:20:00	15.31%
Standard Chartered Bank	20 Years	20 Million	70:30:00	15%
Average	20 Years	23 Million	76:24:00	16%

Personal Loans

Personal Loans are generally un-secured type of loans but in specific cases when the amount of personal loans is greater than the normal limit its remaining portion must be secured. Personal loans are loans for marriage,purchase of consumer durables, furnishing, education and traveling, etc. Generally the maximum limit for personal loans is Rs.500,000/

Personal Loans by Local Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Maximum Interest Rate**
Soneri Bank Limited	5 Years	500,000	17%
National Bank of Pakistan	5 Years	490,000	14%
MCB Bank	5 Years	500,000	27%
United Bank Limited	5 Years	500,000	25%
Habib Metropolitan Bank	5 Years	500,000	22%
Faysal Bank	5 Years	500,000	22%
Average	5 Years	498,000	21.66%

Personal Loans by Foreign Banks

Bank Name	**Maximum Tenure**	**Maximum Limit**	**Maximum Interest Rate**
Citi Bank	5 Years	500,000	21%
ABN AMRO	5 Years	500,000	28%
Standard Chartered Bank	5 Years	500,000	26%
Average	5 Years	500,000	25%

Credit-Debit Cards

Credit Cards are cards which allow a customers to make payment on credit. Supplementary credit cards are considered part of the principal credit card. Initially only foreign banks are offering credit cards in Pakistan but now many local banks is also offering credit card facility. Credit Card is covered by three networks VISA, Master Card & American Express.

Debit cards are given to account holders of any bank in Pakistan.The amount used by the debit card holder is directly debited from the account of the card holder. Debit cards are accepted at all ORIX Network in Pakistan and it can also be used as ATM cards which are covered by 1-Link & M-NET network in Pakistan.

Credit Cards by the following Local Banks

Bank Name	**Maximum Limit**	**Maximum Interest Rate**
Soneri Bank Limited		
National Bank of Pakistan		
MCB Bank	500,000	35% pa

United Bank Limited	500,000	37% pa
Habib Metropolitan Bank		
Faysal Bank		
Average	500,000	36% pa

Credit Cards by the following Foreign Banks

Bank Name	Maximum Limit	Maximum Interest Rate
Citi Bank	500,000	39% pa
ABN AMRO	500,000	39% pa
Standard Chartered Bank	500,000	36% pa
Average	500,000	38% pa

Deposit Accounts

Commercial banks offer different/Unique kinds of deposit accounts these account varyranges from customer to customer to fill the need of every type of customer. Some of the accounts provide high interest while some pay low interest & some don't pay any interest. Some prominent categories of deposit accounts are;

- Current Accounts
- Saving Accounts
- Foreign Currency Accounts
- Business Accounts
- Term Deposits Accounts

Wealth Management

Wealth management is a new kind of service introduced in consumer banking sector now days. It covers all aspects of securing future of bank's customers it includes insurance, tax advisory, financial consultancy, investments plans, etc. Yet wealth management service are mainly covered by few foreign banks only this is a new service are even bank's customers don't have any idea about Wealth Management Service. Almost all the banks are offering insurance services to some of their customers but the concept of wealth management is not behind it.

E-banking

To facilitate its customers all banks local & foreign are offering high technological e-banking services. These services let the banks customers to perform many banking activities easily without any restriction of time & place. Some of the major e-banking services provided by the banks are;

- Phone banking
- Internet banking
- Plastic Cards
- Online banking
- Mobile banking
- ATM

Contribution Consumer Banking in Economic Development

Overview:

In Pakistan, consumer finance despite rapid growth during initial period of 2-3 years has started declining. During past few years the domestic consumer finance emerged as one of the key factors to boost economic growth despite its comparatively low share of 14 per cent in the total private sector credit compared to its share in other countries like India and Indonesia where it stands at 24 per cent and 30 per cent respectively.

Regional and global markets and economic players have become highly competitive and banking sector is more concerned to safeguard its capital and enrich itself with higher returns on loans than government's concern about boosting economic growth.

Consumer Financing & Economic Growth:

Lending through credit cards, personal loans, auto loans, loans for durables and housing finance emerged main streams of consumer finance. They shaped domestic demand and lending strategy by the banking sector in quite subtle ways. Without consumer finance being in the driving seat of the banking sector, a large number of people would not have benefited.

Role of SBP:

Consumer finance was backed by the SBP to give boost to economic growth through demand-pull pressure. The banking sector went out of its way to make it attractive for the consumers through easy lending and providing loans for those consumer items that consumers envied the most. They were mostly electrical appliances, autos and housing. Consequently, share of consumer finance in over all loans increased from 9.4 per cent in 2004to 13.5 per cent, Rs72.4 billion in 2006.

Implication for economy:

Consumption is the key to economic growth for one simple reason that it sets pace for production of commodities and manufacturing of goods of different sorts. The dilemma of managers of national economy over the years was to execute a well-defined strategy of economic growth along with taking measures to bring structural changes in economy through prudent administrative, fiscal and monetary policies. Developed economies register growth because of domestic consumption and exports. These twin factors guarantee their economic survival in this highly competitive world. China and India are the two best examples in this context. What options are available to Pakistan for economic growth? Right now, exports are going slow and consumption is fuelled by financially strong segments of society who totally depend upon remittances sent by their relatives working abroad, profits earned through speculative investment and as beneficiaries of expansionary fiscal policy pursued by the government.

Conclusion:

The real beneficiaries of consumer finance are the people who did not have capacity to purchase expensive household items in a single go but could afford them because of consumer finance, the commercial banks that have been earning large interest and huge returns on their investment in consumer finance and the economy that got impetus for growth. The point of concern is that consumer finance is helpful only for those who are to some extent affluent to opt for it.

In case economy is to re-gain growth through consumer finance as one of the important factors of growth, then income inequalities should be bridged and income level be increased to develop paying capacity of large number of consumers. Inflation should be contained and a strong broad based middle class be built. Unless these imperatives were met, it is doubtful if consumer finance based on weak middle class supported by remittances can really play the same role that it is played by strong and affluent middle class both in developed economies and to some extent in emerging economies.

-

"SBP had decreased the discount rate from 15% to 13% (a decline of 200 basis points) in an attempt to ease the monetary policy. This hampered the earning potential of the consumer loans, especially the consumer advances portfolio. Consumer banking has a major share in the total advances of the bank. With rising inflation and interest rates the NPLs may increase and higher provisioning may dampen the profitability of the bank. Tight monetary policy and rising inflation may also lower the credit off take (advances) and affect the consumer business on which the bank relies and focuses a lot.

However, recently SBP has allowed banks to avail 30% FSV benefit of collateral for calculating provisioning requirement. 30% FSV is allowed against pledged stocks and mortgaged commercial and residential properties only. This will reduce the provisioning and have a positive impact on the profitability of the banks.

Also SBP has increased the minimum deposit rates for PLS accounts to 5% in May 2008. This has resulted in an increase in the cost of deposits of the banking industry. However, since most of the banks have lower fixed deposits as compared to low cost savings and current accounts, it may not experience a significant rise in cost of funds Also, the interest rates on loan and advances are expected to rise at the same time so the spreads of the bank may decline to a small extent only. Banks are changing their deposits structure. Higher proportion of low cost CASA and the introduction of high value wealth management products, will prevent the bank's spread from shrinking.

Due to lower credit off-take and lower deposit growth, the bank’s asset mix is expected to shift from advances to investments. Increasing NPLs and higher provisioning against them will further impact the profitability of the sector. Also impairment losses against equity investments may further aggravate the situation". (Business Recorder, 2009)

Inflation, another hinder in the way consumer finance growth

"Pakistan, with a population of about 16 million people has undergone a remarkable macro economic growth during last few years, but the core problems of the economy are still unsolved. Inflation is one of these core problems. Government claims that in order to keep the prices of essential commodities under control, it has been taking various measures throughout the year. These measures include: a liberal import regime for food items including zero rating of the imports of these commodities. In order to provide relief to the low and fixed income groups, the government has been selling wheat flour and sugar through the outlets of the Utility Stores Corporation (USC) at much lower prices than the market. In order to augment supplies of essential commodities in shortest possible time and at lower freight charges, the government has also allowed the import of various items through land routes from neighboring countries. But, all these are secondary measures. Problems like 'inflation' and 'poverty' etc can't be resolved by applying the secondary measures directly, these need strategic planning. Unfortunately, in Pakistan, these core problems have never undergone such planning process. Government has never invited foreign investment for the production of basic goods. Agriculture sector, on which the major industries rely for the raw material has not been given sufficient subsidies. The major rise in the prices is because of the increasing prices of oil (as increased prices of oil increase the cost of production), but no such steps have been taken to control the oil prices, or at least lessen the effect. Selling basic food items at USC is not an achievement. Did this step have the effective distribution of goods? No, privileged group has taken the major part of goods from these USCs, and the poor couldn't have access over these basic goods even then. Government further claims that the role of the Trading Corporation of Pakistan (TCP) has been enhanced. The TCP is active in importing sugar from around the world to build up strategic reserves with a view to continue selling sugar at less than the market price through the USC. The TCP has also been asked to import various kinds of pulses to meet the domestic consumption requirements and stabilize their prices in the country. In my opinion, TCP should plan the process by which we can have the maximum production at lower cost at home, instead of formulating plans to import the items. Domestic productions at less cost of production will not only make the availability of goods much easier but Aggregate Supply will also increase, and domestic industry will get developed.

Inflation is one of the obstacles on the way of development. In Pakistan, it has squeezed the major part of the population. It needs to be controlled by strategic planning. Domestic production should be encouraged instead of imports; investment should be given preference in consumer goods instead of luxuries, Agriculture sector should be given subsidies, foreign investment should be attracted, and developed countries should be requested for financial and managerial assistance. And lastly a strong monitoring system should be established on different levels in order to have a sound evaluation of the process at every stage".(Akhtar, 2006)

Identification of Challenges and Opportunities

Challenges

Banks rely more on existing customers for issuing any type of consumer loans, giving loan to a new customer is more risk for a bank because the bank don't have their track records of incomes and expenditure while with the help of CIB any bank can check any person credit records but those maintaining account with the bank or involved in any type of dealing are focused more for issuing consumer loans.

Although during last five years the tenure of different consumer loans have been increased but the bank's customers are not highly satisfied by the tenure according to our survey 48.6% of respondents are not satisfied by the tenure of consumer loans.

After analyzing the survey results conducted at different banks. It has been seen that most of the bankers i.e. 92% said that they frequently update their customer records but still when any customer defaults sometimes its get difficult for the banks to trace that person it may be due to the false information provided by the customers or by leniency of banks staff its becomes difficult to catch the defaulter.

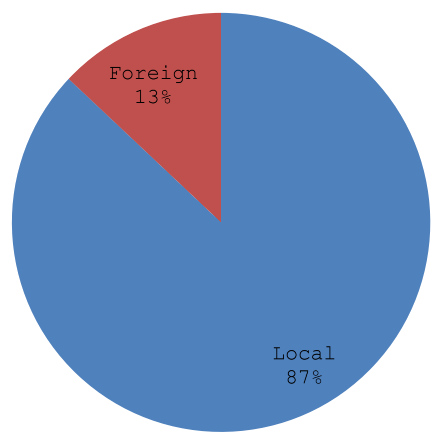
Issuing consumer loans to the right person sometimes becomes difficult because in the case of self-employed the problems are complicated further because many potential consumers do not keep credible records of the streams of earning from their vocations or business to permit financing banks a reliable assessment of their future re-payment capacity.

Problems faced by borrowers

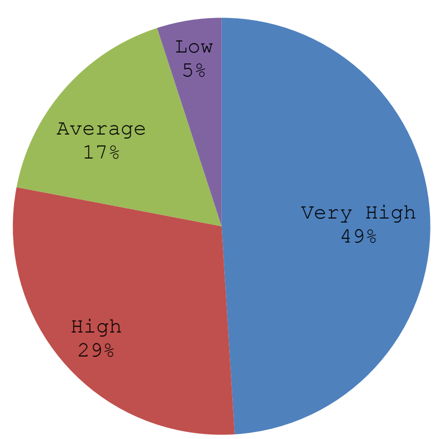
The main problems faced by customers in availing a consumer loan are inadequate guidance, slow- processing and bank statement. In our survey 56% of respondents said that they are facing problems in getting consumer loans.

Customer Survey

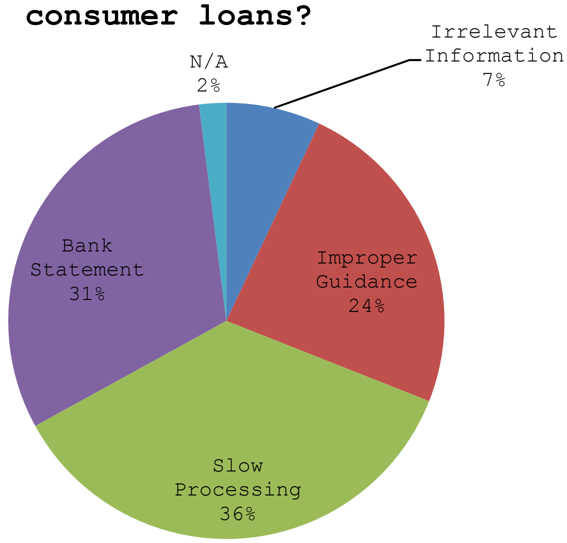
In which bank you maintain your account?



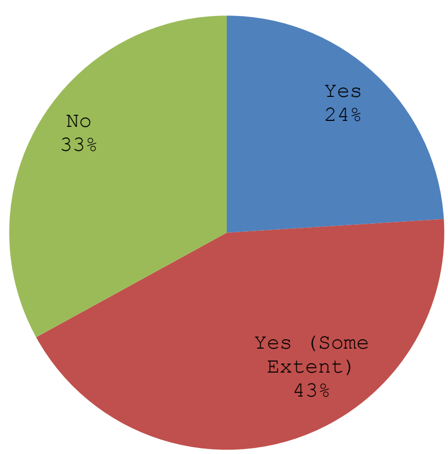
How will you rate your bank Charges?



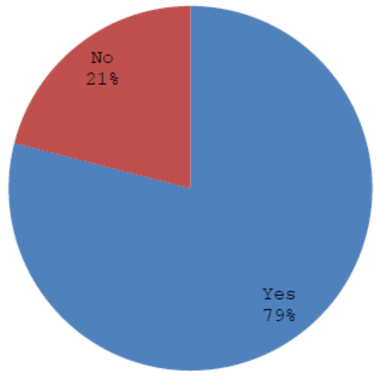
Are you facing any problem in availing consumer loans?



Are you satisfied by the time period for consumer loans?



Are you facing any concealed charges problem?



Graph of Descriptive Study

Whether home loan, credit card, personal loan, auto loan or personal loan for which customer has applied, it is essential that customer has a bank account and a good bank statement, this marks easier for a customer to obtain a loan and also support banks to evaluate its customers well, but then again most of the time people apply for a consumer loan even do not have bank account or they are not actively exercising their account that makes problematic for them to obtain a loan.

The most vigorously obtained consumer financing product is Credit Card but the major problems confronted by bank customer is that it has a very high interest rate, it very easy for customers to obtain a credit card currently as it do not need any Bank security, but major thing that is obligatory by the bank is to issue a credit card if customer has a bank account with a good reputation.

Though it is easy to obtain a credit card but then again due to high interest rate, it becomes problematic for customers to reimburse the amount spend through credit card and postponed in their payment, upsurges customer debt burden gradually due to high penalties. In many cases when the card holders delay the payment for an extended period it even upturns the amount, for example interest charges and various other charges more than the principal amount.

Very limited customers realize that the interest rate charged on consumer finance products by the banks and FIs is too high as equaled to basic interest.

Regardless of of many alterations in bank strategies and strict guidelines by State Bank of Pakistan, borrowers are experiencing concealed charges. In our project study more than sixty-six percent of respondents said “we are experiencing hidden charges.” Banks do not openly declare their various hidden charges at the time of dispersing loans, or opening an account resulting in problems for the bank customers.

At last, unmaintainable weight of debt servicing enforced borrowers to shut down their businesses & households terminated up with adverse equities. Keeping the critical equilibrium between investments, saving & customer debt servicing capability is only possible if input prices endure steady affording business to survive their productivity & interest rates also persist to guarantee that in the medium-term, debt servicing burden remains reasonable for both customers & producers.

Problems faced by lenders

Conferring to our project study at various banks in maximum of the respondents for example 84 percent replied “middle-class is the key segment for dispensing consumer loans, the motive behind this is that the middle-class has a healthier ability of reimbursement the loans as equate to lower-class whose income source is generally very low & not consistent which intensifies the chance of default & the superior class do not have such requirements of a consumer loans.

The most chosen consumer financed products offered by banks are credit cards & personal loans. High interest rate is charged on Credit Cards therefor easy terms to issue the highest no of loans are in the domain of personal loans and thereafter credit cards.

Conferring to a study 1.5 (million), the number of borrowers of credit cards discloses that an average customer has more than one credit cards at the same time. Non performing loans of this category upsurge to Rupees 7 (billion) in 2007 from around Rupees 3 (million) in 2005. At an average a customer owns 2 to 5 credit cards & also likes to roll-over the credit by making least payment. The outcome is continuous upsurge in the liability & decisive failure to pay.

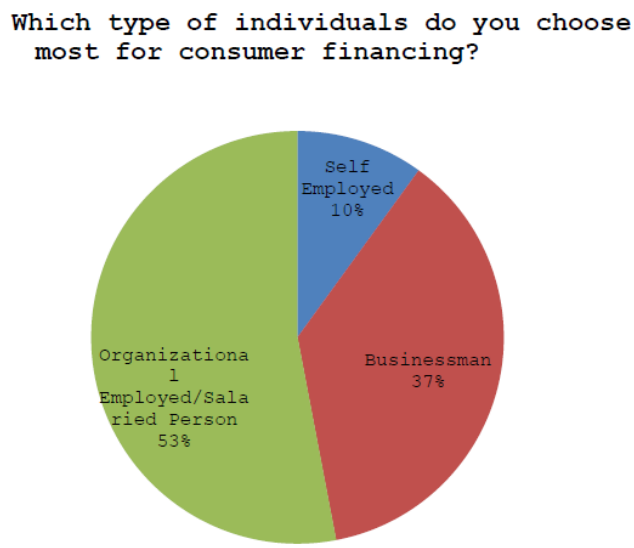
The major segment in term of loan amount is home & auto loans but then again banks are concentrating more on borrower's current repayment capacity & least on long-term capacity. Therefor in event of failure to repay on home & auto loans 100 percent retrieval becomes problematic for banks. Issues like repayment capacity, Liquidity, readiness to payback are also significant but then again if banks emphasis further on the borrower's longterm capacity it can be guaranteed that most of the loan should be recovered.

Auto loans have become very difficult to tackle for banks. The defaulter's rate augmented at astonishing rates. Thereafter recovered cars are auctioned at very lower prices which do not recuperate the whole amount advanced by bank.

Most of the participants in our project survey (bank's staff) said that the main causes for defaults on consumer loans is inappropriate assessment and consumer willingness, due to inappropriate valuations by banks staff the nonpayment case occurs it may be true that the;

If a customer's salary is worthy, he is capable of payingback loan but if the customer is not enthusiastic to payback the loans the non-payments cannot be stopped.

Bank Survey Results



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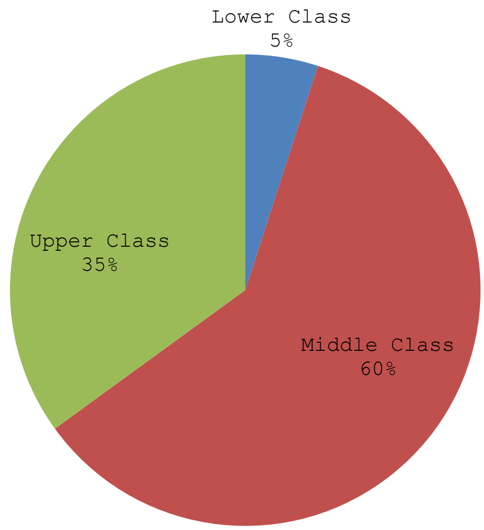
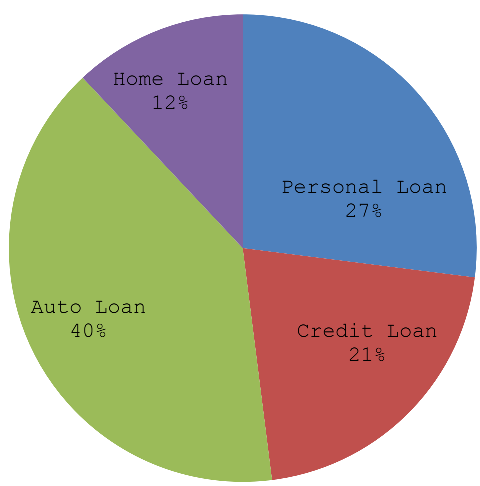
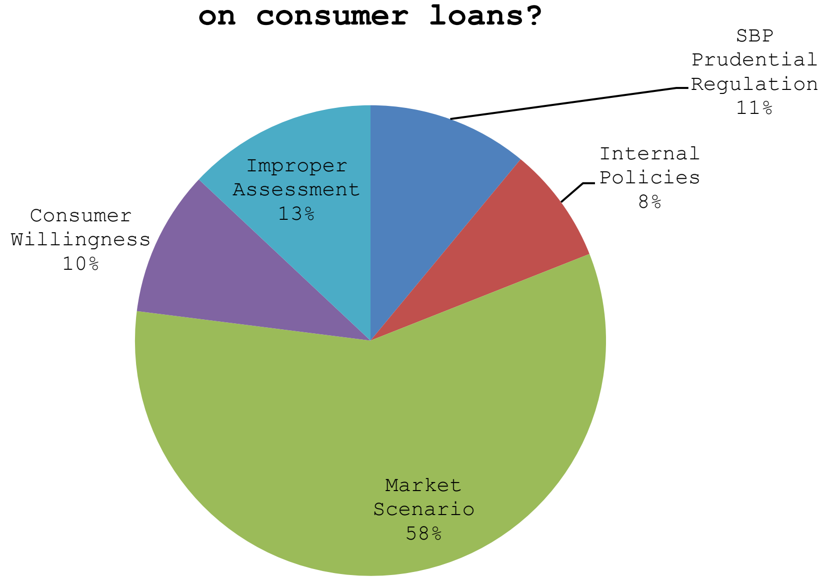
What is your target market to whome Banks issue consumer loans?



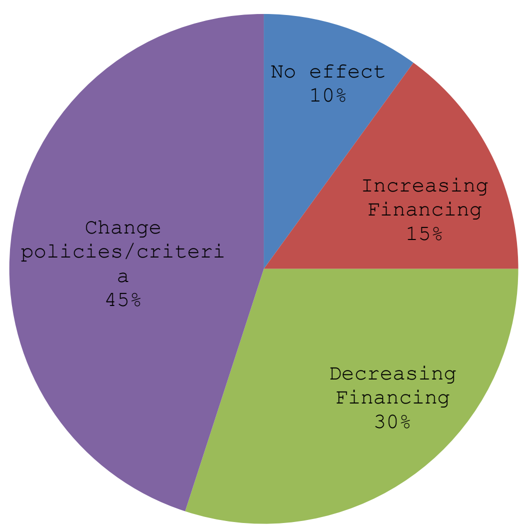
Which catagory of financing is promoted more by your bank?



What are the important reasons for defaults on consumer loans?



If NPL Increases, what is your response towards consumer financing?



Customer's preference for Consumer Banking

According to sample of our survey most of the customers who have accounts in local banks rate local banks schedule of charges at moderate level. There is no doubt that in charges of local banks are less than 50% as compare to foreign banks

Banking services people prefer local banks more.

But the most preferred type of banks for consumer banking is foreign banks some of the major reason behind this is that foreign banks provide better customer service as compare to local banks and they have a large variety of consumer banking products.

Although now days there is no major difference between interest rate on consumer financing products offered by local and foreign banks but still the major share of consumer financing is still captured by foreign banks in Pakistan.

When asked by the bank's customers that which bank they prefer for consumer banking the result showed that 44% of respondents don't bother that the bank in local or foreign but 37% of the respondents prefer foreign banks for consumer banking figure 4.10 table 4.12 of the customer survey reflects the customers preference

Opportunities

The most favorite group for dispensing consumer loans is salaried individuals, one of the most vital motives behind this is reliability and regular source of income or in the event of any problem to them, their employers can also be consulted for any inquiry. The two other groups are businessman and self-employed persons are selected afterward organizational employees, these two groups also have can also provide a countless commerce to consumer banking industry, but then again appropriate conditions and polices must be arranged to distribute more loans to them.

One of new idea presented in the area of consumer banking is Wealth Management Service (WMS). The service is categorized as a cutting-edge sort of financial planning that delivers high net worth persons & families with classified banking, asset management, investment management, legal resources, and estate planning with the aim of supporting and developing long term wealth.

During project study more than 48 percent respondents said, they do not have any knowledge of wealth management service (WMS). Though 40 percent of the respondents said, their bank is giving Wealth Management Services because insurance is too the part of Wealth Management Services and several banks are giving insurance service to their accounts holders having saving accounts but then again there is no concept of Wealth Management Services.

To develop the consumer banking commerce through Wealth Management Services banks should generate more knowledge about

Wealth Management Services and its profits should be underlined so that consumer banking industry could develop on time.

The consumer banking industry has a lot of future prospective to present new services and products, during our project study we asked the banks clienteles “which new service would you like to be announced?” several respondents highlighted that they want Money at door step to be announced.

Afterwards the most liked new service to be presented is Online Interbank Transfer Facility (OITF). The objective of consumer banking is to deliver high suitability to their prospective. Services like Online Interbank Transfer Facility and Money at door step should be announced quickly as they will deliver high relief to banks customers.

Recommendation

Consumer banking has undergone dramatic operational transformation over recent years but the imperative to gain scale and increase sales remains unchanged. Internet, Contact Centers, ATMs, SMS and other channels have all helped to free up front-office branch and sales staff from transactional activities. But banks have frequently been unable to use these new capabilities to sign up new customers or to increase their share of customer wallet. Most bank executives are certain that transactional channels can be further leveraged to generate sales, but are not sure how.

There is need to resolve persistent issues like which channels are best suited depending on the scale and evolution of the business, who 'owns' the customer, how channel revenue should be imputed from new sales, and how leads captured in one channel can be efficiently pursued through another for cross-selling.

Similarly, core products and account opening processes need to be suitable for selling through non-face-to-face environments. Bank T&D Consulting can help you achieve an effective balance. Bank T&D Consulting has a credible record in helping banks to grow profitably through:

Process Redesign

- Eliminate administrative tasks from the front office, in order to shift focus towards customer focused sales and service activities
- Redesign Products and Processes to optimize customer acquisition, account opening and servicing effectiveness

- Redesign Organizational Structures, make more effective use of systems and use optimal metrics

Improved Customer Profitability

- Structure the most effective strategies for acquisition of profitable customers
- Develop 'Price Optimization Models' for new acquisition based on risk & utilization
- Design the optimal combination of offer, segment and channel from a risk perspective

Effective Risk Management

- Identify which of your customers have the greatest propensity for fraud & attrition
- Determine how best to assess prospective customer's creditworthiness or ability to pay
- Structure an integrated system which enables you to manage customer relationship across different product lines.
- Increase arrears management efficiency through appropriate contact strategies based on customer risk

Key areas of our Consumer Banking expertise are:

Developing effective channel strategy

Over the past few years a number of leading retail banks have launched initiatives to improve branch performance. Although these initiatives have made an incremental improvement, there are a number of challenges that limit the ability to deliver significant, sustainable improvements in profitability.

These include:

- Difficulty in engaging customers that are using the branch network purely on a transactional basis
- Lack of staff motivation to meet targets created and imposed by senior management

To drive profitability, Bank T&D Consulting will help you:

- Formulate the most effective channel strategy for customer acquisition and management
- Redesign and reengineer some of the existing branch and centralized operations

Understanding customer behavior

Some banks have a relatively rudimentary understanding of how customers behave in the branch environment. This is often built on supposition and personal experience. Examples are: Which is more significant for customers, the waiting time or the perception of waiting time, i.e. the speed of the line and activity of staff behind the counter? Do customers understand which part of the branches are the right ones for them to visit when they walk in, i,e. should they go to the ATM, the tellers or the service desk?

At Bank T&D Consulting we recognize that Data Mining & Analytics offer a very powerful set of tools to fully understand customer behavior and needs. We believe that:

- Customer-related information is a source of competitive advantage. Increasing understanding of this, together with technological advances in data storage will generate an ever increasing amount of useful operational data.
- Data mining is an indispensable technology too to exploit patterns of information from massive customer-focused databases.
- Data mining processes will vary greatly from bank to bank and therefore related applications need to be adjusted to specific business situations
- Data mining is not the isolated usage of one or two esoteric techniques but a very practical methodology: Sample, Explore, Manipulate, Model, and Assess (SEMMA). This methodology helps to get data mining processes established even with limited analytical expertise.

Developing effective risk management strategy

Bank T&D Consulting will help you measure and manage Credit and Operational risks more effectively, reduce the potential for large unexpected losses, improve understanding of businesses' profitability after the impact of all risks, and deliver improved returns for shareholders. We will work with your team to help design an innovative and market-leading methodology for measuring risks, and to implement this across Consumer& Retail Banking.

Measuring the scale of the problem

In order to effectively manage risks, the bank must first be able to identify measure and quantify their impact on profitability of different business lines. Most approaches used currently to measure risk are either completely qualitative, depending on subjective judgments of risk likelihood and impact by business managers, or completely quantitative, relying on the history of losses in the business. At Bank T&D Consulting we believe that neither of these two approaches alone will accurately measure risks and motivate business managers to reduce them.

Assessing risk through use of Balanced Scorecards

Bank T&D Consulting will help you design a fresh and comprehensive approach, building on your understanding of your business and our extensive experience of implementing risk management and capital allocation best practices for banks around the world.

A joint team will be formed, consisting of Bank T&D Consulting, your Group Risk and Audit staff and representatives from all the major business lines. The team will first analyze how much capital the bank needs to cover its credit and operational risks, using statistical models and drawing comparisons against industry benchmarks.

The team will then examine how this capital should be allocated between consumer banking business lines by developing and applying more than a dozen scorecards, each focusing on a different type of risk. The scorecards will include both quantitative and qualitative data, assessing the probability and impact for each risk type, and also the mitigants or control measures that would be needed to deal with them. These scorecards will first be rolled out in appropriate pilot sites and then in all consumer banking business units across the organization.

Finalizing ongoing management control tools

Finally, Bank T&D Consulting will help you develop a suite of management information reports for tracking changes in its risk profile over time, for every consumer banking product at every level of the organization from operational management to senior executives and the Board. This will ensure that the result of the project is not just a one-off leap in performance, but a continuous improvement for years to come.

- Redesign Organizational Structures, make more effective use of systems and use optimal metrics

Improved Customer Profitability

- Structure the most effective strategies for acquisition of profitable customers
- Develop 'Price Optimization Models' for new acquisition based on risk & utilization
- Design the optimal combination of offer, segment and channel from a risk perspective

Effective Risk Management

- Identify which of your customers have the greatest propensity for fraud & attrition
- Determine how best to assess prospective customer's creditworthiness or ability to pay
- Structure an integrated system which enables you to manage customer relationship across different product lines.
- Increase arrears management efficiency through appropriate contact strategies based on customer risk

Key areas of our Consumer Banking expertise are:

Developing effective channel strategy

Over the past few years a number of leading retail banks have launched initiatives to improve branch performance. Although these initiatives have made an incremental improvement, there are a number of challenges that limit the ability to deliver significant, sustainable improvements in profitability.

These include:

- Difficulty in engaging customers that are using the branch network purely on a transactional basis
- Lack of staff motivation to meet targets created and imposed by senior management

To drive profitability, Bank T&D Consulting will help you:

- Formulate the most effective channel strategy for customer acquisition and management
- Redesign and reengineer some of the existing branch and centralized operations

Understanding customer behavior

Some banks have a relatively rudimentary understanding of how customers behave in the branch environment. This is often built on supposition and personal experience. Examples are: Which is more significant for customers, the waiting time or the perception of waiting time, i.e. the speed of the line and activity of staff behind the counter? Do customers understand which part of the branches are the right ones for them to visit when they walk in, i,e. should they go to the ATM, the tellers or the service desk?

At Bank T&D Consulting we recognize that Data Mining & Analytics offer a very powerful set of tools to fully understand customer behavior and needs. We believe that:

- Customer-related information is a source of competitive advantage. Increasing understanding of this, together with technological advances in data storage will generate an ever increasing amount of useful operational data.
- Data mining is an indispensable technology too to exploit patterns of information from massive customer-focused databases.
- Data mining processes will vary greatly from bank to bank and therefore related applications need to be adjusted to specific business situations
- Data mining is not the isolated usage of one or two esoteric techniques but a very practical methodology: Sample, Explore, Manipulate, Model, and Assess (SEMMA). This methodology helps to get data mining processes established even with limited analytical expertise.

Developing effective risk management strategy

Bank T&D Consulting will help you measure and manage Credit and Operational risks more effectively, reduce the potential for large unexpected losses, improve understanding of businesses' profitability after the impact of all risks, and deliver improved returns for shareholders. We will work with your team to help design an innovative and market-leading methodology for measuring risks, and to implement this across Consumer& Retail Banking.

Measuring the scale of the problem

In order to effectively manage risks, the bank must first be able to identify measure and quantify their impact on profitability of different business lines. Most approaches used currently to measure risk are either completely qualitative, depending on subjective judgments of risk likelihood and impact by business managers, or completely quantitative, relying on the history of losses in the business. At Bank T&D Consulting we believe that neither of these two approaches alone will accurately measure risks and motivate business managers to reduce them.

Assessing risk through use of Balanced Scorecards

Bank T&D Consulting will help you design a fresh and comprehensive approach, building on your understanding of your business and our extensive experience of implementing risk management and capital allocation best practices for banks around the world.

A joint team will be formed, consisting of Bank T&D Consulting, your Group Risk and Audit staff and representatives from all the major business lines. The team will first analyze how much capital the bank needs to cover its credit and operational risks, using statistical models and drawing comparisons against industry benchmarks.

The team will then examine how this capital should be allocated between consumer banking business lines by developing and applying more than a dozen scorecards, each focusing on a different type of risk. The scorecards will include both quantitative and qualitative data, assessing the probability and impact for each risk type, and also the mitigants or control measures that would be needed to deal with them. These scorecards will first be rolled out in appropriate pilot sites and then in all consumer banking business units across the organization.

Finalizing ongoing management control tools

Finally, Bank T&D Consulting will help you develop a suite of management information reports for tracking changes in its risk profile over time, for every consumer banking product at every level of the organization from operational management to senior executives and the Board. This will ensure that the result of the project is not just a one-off leap in performance, but a continuous improvement for years to come.

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Appendix