FINANCIAL SERVICES SECTOR

The Market

- Scheduled Banks, DFIs and MFIs are regulated by the State Bank of Pakistan (SBP) whereas NBFCs, Insurance Companies and Modarabas are under the regulatory ambit of Securities and Exchange Commission of Pakistan (SECP).
- Pakistan, being an Islamic country, has great potential of growing in Islamic finance industry. Islamic banking and brokerage/IMC in Pakistan has witnessed significant growth during the last decade and now constitutes over 10% of the country's banking system with an asset base of over PKR 900 billion and a network of more than 1,100 branches, and will set to double its market share by 2020.

BANKING

The overall performance of the banking sector during the last couple of years has been quite impressive. A number of positive developments such as better energy supply and rise in manufacturing activity, improved security conditions, macroeconomic stability, rise in investor confidence, low inflation and commodity prices (particularly, oil prices) besides enabling regulatory environment have been instrumental in making banking sector grow steadily. The momentum continued in the FY2017 with asset base, which registered a growth of 11.93 percent and reached to Rs.15.831 trillion by end December, 2016 compared to Rs.14.143 trillion as of end December, 2015. Besides investments, credit to private sector has also started to accelerate. Advances grew with a significant rate of 14.18 percent in CY16 compared to 8.3 percent in CY15. Gradual increase in earning assets has translated into profits before tax of Rs.314 billion during the fourth quarter of CY16 (Rs.329 billion during December, 2015). Further, the alignment of regulatory capital requirements in Pakistan with best international practices coupled with high profitability has helped in achieving strong solvency. Capital Adequacy Ratio (CAR) has slightly declined to 16.2 percent due to rise in advances during CY16 compared to 17.3 percent in CY15 but it is still much stronger and higher than the minimum required level of 10.65 percent. Similarly, asset quality has also improved and infection ratio has declined from 14.8 percent as of June 2013 to 10.1 percent as of end December, 2016. Also, gross NPLs to loans ratio reduced from 11.4 percent in CY15 to 10.1 percent in CY16. Net NPLs ratio reduced from 1.9 percent to 1.6 percent in December, 2016 on year on year basis.

Branchless Banking (BB) represents a significantly cheaper alternate to conventional branch- based banking that allows financial institutions to offer financial services outs traditional bank premises by using delivery channels like retail agents, mobile phone etc. the close of quarter on December 31 changes in BB indicators remained encouraging. The numbers of agents rose to 359,806 from 351,912, showing 2 percent growth. The number of BB accounts of the industry increased to 19.9 million from 16.9 million, registering 18 percent growth over the quarter. On the other hand, number of transactions increased to 133.7 million from 110 million in previous quarter. The aggregate BB deposits base improved to Rs.11.7 billion from Rs.8.5 billion, showing an increase of 39 percent compared to previous quarter. The average deposits per account rose to Rs.587 at the end of December, 2017 from Rs.500 over the previous quarter.

ISLAMIC FINANCE

Pakistan is perhaps the only country in the world with a vibrant Modaraba business, established as an alternative investment and finance model that could be used for developing a viable governance framework for Islamic investment banking.

Islamic Banking segment is growing at an exceptional pace. SBP’s 5 year strategic plan (2014-18) for Islamic Banking envisions 15 percent market share for this growing segment of banking at the end of 2018. To remote Islamic Banking in the country, SBP has been playing its role through provisioning of necessary legal, regulatory, and supervisory infrastructure and awareness & capacity building initiatives. The Islamic Banking Industry (IBI) of Pakistan posted a significant growth during the past few years with both assets and deposits contributing in growth.

During CY2016, asset base of Islamic Banking Industry (IBI) amounted Rs.1.85 trillion against Rs.1.6 trillion in 2015, thus posted growth of 15.1 percent. Deposits of the Islamic Banking Industry stood at Rs.1.57 trillion in 2016 as compared to Rs.1.4 trillion during 2015, hence registered a growth of 14.4 percent. As a result, share of Islamic Banking in terms of asset in overall banking system increased to 11.7 percent in CY16 from 7.8 percent in CY11. Whereas, deposits share of Islamic Banking increased to 13.3 percent in CY16 from 8.4 percent in CY11.

INVESTMENT BANKS AND LEASING COMPANIES

- Presently, there are seven investment finance companies and eight leasing companies in Pakistan. The size of leasing and investment finance companies is miniscule and their contribution to the country’s financial system is well below the requisite level.

INSURANCE

- Pakistan’s general insurance penetration level (0.3%) is lower than the regional average (1.6%) and is ranked 18th in Asia. Currently, the General Insurance sector comprises 39 active companies, including one State owned and three takaful companies.
- There are nine life insurers, two family Takaful operators and one state- owned corporation in the Life Insurance segment.

For the (CY 2016), the industry’s total premium revenue stood around Rs.259 billion ($2.52 billion) as compared to Rs.233 billion ($2.22 billion) as of CY 2015. The insurance penetration and density have also witnessed as upward trend at 0.88 percent and 12.87 for CY 2016, as compared to 0.84 percent and 12.04 for CY 2015. The asset size of total insurance industry as of December 31,2016 stands at Rs.1159 billion, as compared to Rs.982 billion as of year ended December 31,2015, which include life insurance sector assets of Rs.929 billion and non-life sector assets of Rs.230 billion.

MUTUAL FUNDS

- Pakistan has a relatively strong mutual fund industry. Most investments are in money market instruments, with smaller proportions in equity funds and other types of funds.
- Money Market Funds (both conventional and Shariah compliant) continued to dominate the AUMs of the industry with the largest share in the mutual fund industry i.e. 36.22%. Equity funds (both Conventional and Shariah compliant) held the second largest market share 33.15%, followed by Income funds (both conventional and Shariah compliant) with market share of 23.08%.

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