

'Banks should extend advances to individuals, enhance size of loans'

LAHORE: Banks should extend advances to individuals and enhance the size of loans for a positive impact on financial inclusion as collateralized loans are a product with a negative impact on the process, said financial sector experts.

Similarly, they said, to overcome the disconnect of access and usage, where access essentially does not translate into usage, and to ensure mass access to financial services, effective and evidence-based policymaking can prove instrumental in overcoming the problem.

Also, they added, the government should promote the opening up of domestic financial markets which would have the ability to absorb the positive effects of the international financial inclusion development. Global financial market synergy and linkage can help to absorb these spatial spill over effects brought on by developed countries. Financial inclusion is the process of including the people who lack formal financial services.

Fareeha Adil, a financial expert, has pointed out that the size, geographic outreach, and demographic outreach of the banks are essential for financial inclusion. Additionally, she said, improvement in soft consumer loans and increase in small-sized advances reinforces the financial inclusion process. She said the financial landscape in Pakistan presents a grim picture of financial inclusion where only 16 percent of the population is financially included. Despite the current focus of policies and regulations devoted to enhancing access to finance in Pakistan from the supply side, the current state of financial inclusion is limited.

At its meeting on 25th June 2020, the Monetary Policy Committee (MPC) had decided to reduce the policy rate by 100 basis points to 7 percent. Against the backdrop of receding demand-side inflation risks, the priority of monetary policy has appropriately shifted toward supporting growth and employment during these challenging times.

Pakistan's financial landscape presents a grim picture of limited financial inclusion. In a cross-country comparison, Pakistan was ranked the lowest in the context of financial inclusion not only in the region but also worldwide when juxtaposed with developing countries with similar demographic and socioeconomic profiles.

The financial inclusion deprivation in Pakistan is evident from the Access to Finance Survey (A2F 2015) by the State Bank of Pakistan (SBP), which states that only 16 percent of the population is financially included. Thus, there is a dire need for the financial sector to incorporate processes and channels to enhance financial inclusion to marginalized sections of Pakistani society. Despite the current focus of policies devoted to enhancing access to finance in Pakistan, there are a number of underlying factors causing financial exclusion.

Abdul Jalil, another expert, said the exclusion is evident as A2F 2015 (SBP) shows that 84% of the population of Pakistan have absolutely no access to “high street credit” from the banking sector.

Concerning financial inclusion, he said, the landscape is limited in Pakistan. A gap exists between the mainstream credit market and prospective borrowers, and low-income individuals in Pakistan are affected by this problem; nearly 50 percent of people save, yet only 8 percent entrust financial institutions with their money. One-third of people borrow, but just 3 percent borrow from mainstream financial institutions. Additionally, he said, the vast majority of women are excluded from the formal financial system. There is a significant gender difference in access to credit in Pakistan - women remain less likely to gain access to the overall financial sector compared to men. Notably, fewer females attain access to banking services (5.5 percent of women vs. 21.1 percent of men), money transfers (1.4 percent of women vs. 3.3 percent of men), and insurance (0.6 percent of women vs. 3.3 percent of men) as per the access to finance survey.