

The Salient issues in banking sector and weakness of Stock markets in Pakistan

➤ **Role of Banks in an economy:**

Banks play an important intermediary role in any economy, transferring money from savers (depositors) to the users of capital (the borrowers). Banks provide the crucial element [capital] to what economists describe as the factors of production which help to drive the country's economic growth – these include– land, labor, capital, and entrepreneurship.

➤ **Pakistan's banking sector:**

Pakistan's banking sector has a rich history and has undergone several distinct phases. Some banks predate the creation of Pakistan and, by extension, also the central bank. Banks were nationalized in the 1970s, before the 1990s ushered in the first wave of privatizations and entry of new private banks. MCB was among the privatized banks while Bank Al Habib, Bank Alfalah and Askari Bank, among many others, were incorporated in the 1990s.

➤ **Salient issues in banking sector of Pakistan:**

According to an economic survey of Pakistan in 2018, the banking system not only failed to mitigate risks and losses at the domestic level but it performed poorly at the global level through its foreign operations.

❖ **Fake Bank accounts:**

In 2018, some shocking and interesting trends started emerging when billions of rupees were found in the account of a *falooda* seller who had not even seen the inside of a bank branch in his life.

This showed that local banks are maintaining innumerable fake accounts with billions of rupees and

violating rules and regulations of the central bank to manage their systems.

❖ **Online Scams:**

In 2018, fraudsters found a way to siphon off from customers' accounts from various banks in Pakistan. They used phone calls and web-links to tactfully get the personal and confidential information of the bank's customers and stole money from their accounts easily.

❖ **Banks fail to meet regulatory requirements:**

Four banks have yet to meet the regulatory requirement of paid-up capital, which is Rs. 10 billion. These are Summit Bank, First Women Bank, SME Bank, and Bank of Punjab. These banks were the only banks failing to meet the requirement in 2017.

❖ **Biometric Re-verification of Banks' Account Holders:**

The saga of fake accounts and account holders proved to be a silver lining for the banking industry. All commercial and microfinance banks have undergone a challenging task this year and will verify their account-holders till the mid of the starting year.

The biometric re-verification process is a major corrective drive which will not only decide the actual base of the country's bank account holders but it will also reveal flaws in the banking mechanism and practices of bankers. Out of a total 50 million accounts, many of the dormant accounts made in the past many decades are likely to be closed off.

❖ **The bank's suspension of credit cards service for International transactions:**

As the news of online scams made headlines, many customers became highly conscious of their online banking

transactions. The news of a security breach of a Pakistani bank badly shook the confidence of customers when it came to the electronic banking system. It took some time for things to stabilize.

❖ **Closure of foreign branches:**

After the closure of Habib Bank's branch in New York, United Bank Limited (UBL) also announced to shut down its operations in the US market. The bank is winding up its operations after it decided not to meet some stringent requirements laid down by the New York authorities.

❖ **Bank profits drop steeply in local and foreign markets:**

A majority of the local banks faced a significant drop in their profit growth in 2018. According to SBP, the banking industry's profits dropped by 14.6 percent by the end of the first half of 2018. The banking industry lost a whopping amount of Rs. 13.2 billion on the account of profit growth in the local market, with the overall profit standing at Rs. 76.2 billion. Very few banks including conventional and Islamic banks managed to book some growth in profits so far in 2018.

➤ **Weakness of Stock market in Pakistan:**

The Pakistan stock market has always been the victim of several fault lines that no one wants to talk about.

Following are the weakness that ails the Pakistan stock market ,

❖ **Lack of depth:**

The total number of listed companies is as few as 562 against a registered 150,000. Surplus liquidity in the market is therefore

chasing few shares. There is hardly any incentive for companies to go public.

On the other hand, quoted companies are subject to strict regulations and meet the demands of 'code of corporate governance'. Unlike in the mid-90s, when on average 25 new initial public offerings (IPOs) were floated, there are more de-listings than listings at present.

❖ **Unprotected small investors:**

Along with the low number of quoted companies, the number of investors in the market has remained completely small.

In a population of around 200 million, fewer than 500,000 are in the business of shares, and an even lower number represent high-net-worth individuals.

Contrary to the market regulator's repeated claims, no serious effort has been made to attract larger public participation in stock trading.

❖ **The flawed KSE-100 Index:**

In the benchmark KSE-100 index, stocks which can be counted on the fingers of one hand can turn the liabilities to their greater weightage in the index.

Much of the current market meltdown has been predicated by stocks which were candidates for entry into the MSCI emerging-market index: UBL, HBL, Lucky Cement, MCB, Engro Corporation and OGDC. Since their combined weightage in the benchmark 100-share index is as much as 70pc, they dragged the entire market down when they sank.

The introduction of market capitalisation based KSE-30 index has failed to attract investor's attention even after over a decade of its introduction, even though the index is more representative of the market.

Market capitalisation is based only on the 'free-float' of shares, rather than on the basis of paid-up capital. Due to this reason the 'over-representation' of any sector is reduced in the KSE-30 index.

❖ **Absence of new products:**

The Pakistani market offers just two products as a trading platform: ready market and single-stock deliverable futures.

While there are two other products, index futures and cash settled product, the complexities in trading drive investors away.

With the induction of Chinese strategic investors, comprising three Chinese exchanges — China Financial Futures Exchange Company Limited (lead bidder), Shanghai Stock Exchange and Shenzhen Stock Exchange, who now hold 30pc strategic holdings in the PSX along with the management — investors have been looking forward to a quick introduction of products such as options and derivatives.

Sources suggest that the work on a 'business plan' is being conducted by a leading international firm but nothing has emerged so far.

❖ **Unfair trading practices:**

It has to be conceded that the regulators have come down with a heavy hand on some unfair trade practices, such as insider trading, front running and misdeclaration by brokerages in their research reports.

Yet, the hurdles has not been eradicated. Investors also complain of 'data leakages' which need to be plugged where 'material information' reaches some big investors before general investors.