

FINANCIAL EXCLUSION IN PAKISTAN

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ABSTRACT

Every business has evolved whether it be telecom, fashion, property, online retailing or even banking. Almost everything has already changed from what we accomplished in the 20th century. Now with the launch of 5G internet on the cards, it is expected to impact our civilization which we have already witnessed with Internet of Things (IoT) application for sustainable organizational development.

INTRODUCTION

This digitalization has helped banks to offer their services through mobile phones which was not possible before the launch of internet. This development in the banking sector has led to the afresh term used for mobile banking 'Fintech'. In Pakistan, financial inclusion is still very low at 21% as per the World Bank report of 2017. Financial inclusion in China, India, Iran and Bangladesh is 80%, 80%, 94% and 50% respectively. Pakistan is also one of the 25 countries in the world where 93% of globally financially excluded live. This can be a reason why these countries are ahead of us. Only Afghanistan is behind Pakistan with financial inclusion of 15%.

Use of financial services is the key for Urban and Rural development for any country as it helps in reducing poverty by providing loans. Financial inclusion also helps the bankers to achieve their targets. When financial resources are used accurately, people can invest in their children's education which reduces child labor, they spend for their health which improves health and reduces death rate. Formal financial system makes it easier to manage emergency expenses like crop loss, medical needs or job loss, savings help here. The World Bank has made it a top priority to increase financial inclusion, but Pakistan is one of the countries where financial inclusion is extremely low. People cite lack of finances as a major reason for financial exclusion which means that financial services aren't yet affordable, or they aren't yet framed according to the needs of the poor. Distance to financial service providers, excessive documentation and distrust in financial services providers are other reasons of financial exclusion.

There are certain issues in Pakistan which are causing these hurdles for financial inclusion which include people's awareness of the banking services benefits, illiteracy, risk behavior, distrust in the banks and poverty. State Bank of Pakistan has already launched Financial Inclusion Program and is also working very hard to increase financial inclusion. SBP is working closely with the Microfinance banks, facilitating mobile phone banking, enhancing Islamic banking, SME favoring policies and loan schemes. Government is doing its part in this matter by launching Ehsaas and Digital Pakistan programs, but these alone won't help. Apart from launching fancy named attractive programs, it is equally necessary to understand people's actual needs, the actual causes behind the financial exclusion. Attending ceremonies with the financially included won't help in bringing the excluded into formal financial system. It is imperative to understand the excluded people.

People are inclined towards using easier ways of making transactions which are currently offered by the informal financial systems – no documentation, no tax concerns, no time waste. I myself have been trying to sign-up to the National Bank of Pakistan's mobile

phone app for months. Their system is so complicated and useless that they just won't let me use their mobile banking. One more incident is that when I moved to Malaysia for studies, I could not use mobile phone banking because of international roaming issues. I mistakenly put the wrong password into my United Bank Limited mobile app. Now they want me to call the UBL bank to resolve the issue. Why cannot I confirm my number by my email ID?

As mentioned earlier, the world is changing, and the businesses need to think different to stay alive. The Facebook is not the same as it was in 2004 and Facebook is also launching a cryptocurrency named Libra. Google understood their customers better than Yahoo. Bankers need to understand their existing and potential customers to formulate new strategies to increase their own customer base. Under current circumstances, it is very unlikely without increasing people's awareness with the banking products. Jeff Bezos evolved the business of bookstores.

It is true that microfinance banks are working well to increase financial inclusion, but that increase is not in favor of commercial banks. Microfinance banks are taking the market share, mostly the new market share which commercial banks are unable to reach. Especially with entry of telecom microfinance banks who can reach out to wider audience through their cellular customers, it is getting harder for commercial banks to achieve their targets. After the services of microfinance banks, financial inclusion in Pakistan is still at 79% as per the World Bank report of 2017. Government and banks need to take steps to increase financial inclusion. They can do that by starting door-to-door awareness campaigns, government should focus on increasing literacy rate and it is important to improve financial literacy as well. Financial literacy drives a person's choices with available finances. Educated people will use formal financial services which help in reducing financial exclusion and the banks will also benefit in the shape of customers. There is a lack of trust in people regarding banking services. They think that if they go to the banks for once then the banks will deduct their money as taxes and will keep on doing it for the rest of their lives. Government puts taxes on bank customers to collect more revenue, but banking customers stop using formal financial system which in turn reduces government revenue. They are needed to be educated that the banks do not deduct money all the time. Commercial banks can open customer account without initial deposits, they can allow first 10 transaction for free. Commercial banks can bring their people by providing financial services through mobile phone apps which must be easy to use. By providing efficient mobile banking services, banks will reduce traveling and transaction costs. All these things work together in order to increase financial inclusion as people won't be able to use mobile phone banking if they are not educated enough. Commercial banks need to tap on those market segments which are not yet tapped by microfinance banks. Commercial banks can work together or can partner with telecom companies to offer better services to their customers.

Studying customers' needs and preferences is important to formulate new or update existing strategies to achieve your goals. Successful business leaders always show flexibility and change their strategies according to customer needs. Commercial banks may be doing it right in their way, but it can't be right if the people do not consider it right. It is important to do research on the potential banking customers in order to understand what people want and what are the areas which commercial banks need to improve.

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