



# Advancing **Financial Inclusion** through **Financial Education** in Pakistan

**Dr. Saeed Ahmed**

Director

Agricultural Credit and Microfinance Department

State Bank of Pakistan

[Dr.Ahmed@sbp.org.pk](mailto:Dr.Ahmed@sbp.org.pk)

# Outline



- **Financial Literacy for Financial Inclusion**
- **Components of Financial Literacy and its significance**
- **Landscape of Pakistan**
- **Financial Inclusion objectives and vision**
- **Financial literacy gaps and National Financial Literacy Program**
- **Conclusion**

# Financial literacy for financial inclusion



- Financial literacy encompasses the knowledge, skills and attitudes enabling an individual to understand how money works in the world
- Increased access and better choices of financial services do not automatically translate into effective use and research shows that lack of financial literacy is the **second most significant demand side deterrent** towards effective financial inclusion
- Effective use is hampered by asymmetries of information and power between financial institutions and poor consumers, an imbalance which grows as customers are less experienced and the products they can choose get more sophisticated
- Because it can facilitate effective product use, increase trust in the system and empower the unbanked, **financial education is critical to financial inclusion.**



# Key Terms

## Financial Education

Process by which individuals improve their ability to interpret information and assess advice

## Financial Literacy

Ability to make informed decisions and take effective decisions regarding the use and management of money

## Financial Capability

Encompasses financial literacy, as well as other social and emotional factors which influence consumer's money management

## Financial Awareness

Understanding of basic financial terminology used in financial management and the ability to construct and maintain simple financial records



# Significance today...

- The topic has globally become more relevant after the **financial crisis of 2008-** due to its significant implications on consumer behavior and their consumption/savings decision process.
- **Financial illiteracy is not bound to financial exclusion**—many high income customers are not good at managing their money.
- Innovative sophisticated products and channels can increase information asymmetries for financially excluded
- Financial literacy is important for every individual to better equip them for better financial well being and protection against macroeconomic shocks.
- Studies show that financial literacy is:
  - **positively related to participation in financial markets**
  - **negatively related to the use of informal sources of borrowing**
- The success of financial literacy programs is shaped by the regulatory and institutional context in which financial services are delivered.



# Pakistan - Basic Facts



## General

- Size: 796,095 Sq. km.
- Capital: Islamabad
- Population (FY-2014): 188 million inhabitants with 100 million below the age of 25 years
- Literacy rate (FY-2014): 61 %
- Population growth rate: 1.9 %
- Globally ranked 6<sup>th</sup> by population

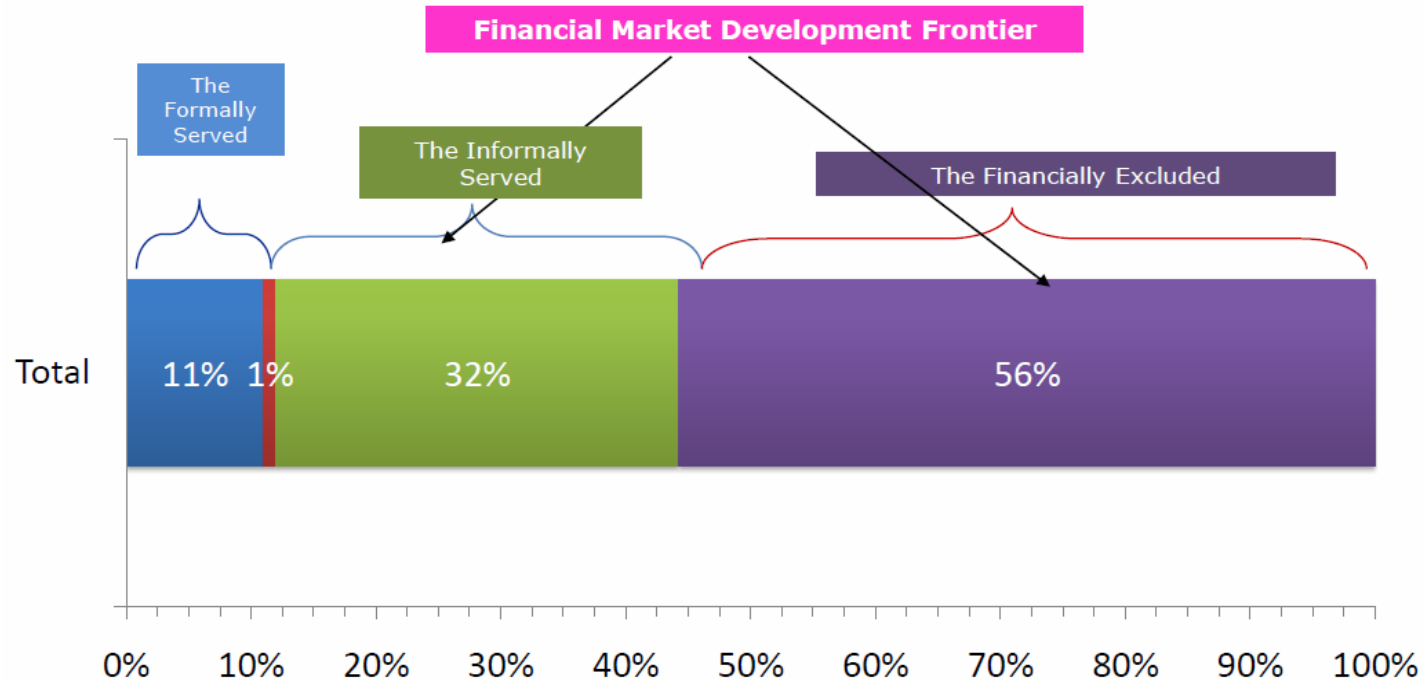
## Economic

- Currency: Pak. Rupee.
- GDP (FY-2014): US\$ 246.9 Billion
- GDP Per Capita (FY-2014): US\$ 1,386
- Size of Economy: 44<sup>th</sup> largest in the world in terms of GDP
- Last year GDP growth: 4.1 %



# Financial Inclusion Landscape of Pakistan

**56% of the adult population does not have access to financial services**



Source: Access to Finance Survey 2008

- Currently the repeat A2F survey is underway and the estimates of formally served are expected to be above **20 percent**
- Lack of financial capability is one of the leading causes of financial exclusion



# Financial Literacy Gaps

- Financial literacy and capability in Pakistan is very low:
  - About 40 percent of the financially excluded population reported lack of understanding of financial products as the main reason for financial exclusion
  - More than half of the adult population in Pakistan (56.5 percent) is saving, with majority using informal means to do so
  - Females seem to be saving less than males (53 percent versus 60.5 percent).
  - The share of adult population aged 18 and above having an account at a formal financial institution are just over 10 percent in Pakistan
  - The gender disaggregation of this figure shows an even greater disparity, with a mere 3 percent of adult females having an account at a formal financial institution
- This clearly indicates that financial education as a systemic area to be addressed to tackle financial exclusion in a big way



# Financial Inclusion objectives & vision



## Financial Inclusion, Stability, Integrity and Protection

Develop Ecosystem of Diverse set of financial products to make payments, save, borrow and manage risks

Support Consumer Centric product Design and evidenced based policy making to improve access and usage

Promote development of digital financial products through digital transactional accounts

Expand and diversify access points

Achieve scale with bulk payments (e.g. through Social Transfers, B2B, remittances)

Financial Literacy and Consumer Protection

Adequate Financial Infrastructure

Enabling Laws and Regulations

Government Leadership and Commitment

# SBP's approach for Financial Literacy



SBP has a three-pronged approach to improve financial literacy in Pakistan:

**Regulatory  
Provisions**

**Supply-side  
industry initiatives**

**Demand-side  
capacity building  
efforts**



# SBP's Regulatory Directives for Microfinance Banks

- **SBP Prudential Regulations for Microfinance Banks 2014**

## **Regulation O-4: Consumer Protection**

- Financial Literacy
  - Transparency and Disclosure
  - Complaint Redressal Cell
  - Collection Practices
- 
- **MFBs are required to implement following provisions by June 2015:**
    - Develop a mandatory basic financial literacy program for clients
    - Program should cover charges/fees, interest rate calculation, repayment schedules, customers' obligations and other terms and conditions of all financial services.
    - The program should educate customers about lodging complaints and track resolution of complaints.
    - Each MFB shall develop a code for debt collection practices duly approved by its BoD



# SBP's Supply-side initiatives

## Client Protection Initiative 2012- 2015:

### a) Pricing Transparency and Disclosure Standardisation

- Under partnership with MFTransparency, all pricing data was collected and disseminated
- Educating and training major stakeholders on price transparency to promote industry standards at all levels
- National pricing sensitization workshop held by MFTransparency
- Data collection completed for 31 MFPs, comprising roughly 88% of the microfinance market by active clients.



### b) Strengthening Client Protection monitoring

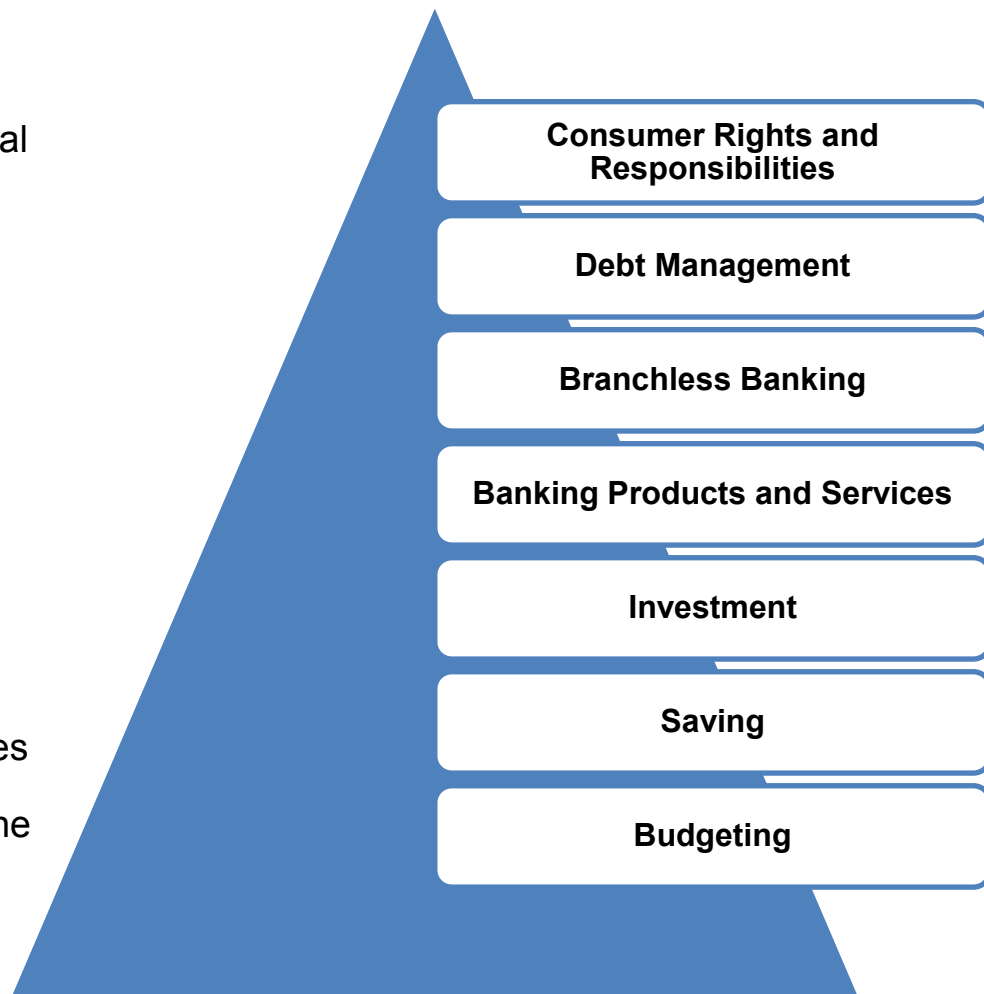
- Under partnership with Smart Campaign, industry stakeholders were trained to conduct Smart assessments of MFPs
- Smart assessments of 10 MFPs (covering about 60% of the microfinance market by number of clients) have been completed
- Based on the assessments, Pakistan Microfinance Network has also published a report "State of Practice in Client Protection".



# SBP Demand-side Initiative : National Financial Literacy Program



- **Nationwide Financial Literacy Program (NFLP)**
  - Knowledge and understanding of financial concepts, products and services.
  - Piloted on 50,000 adult beneficiaries.
- **Dissemination channels:**
  - Focused class room trainings,
  - Street theaters,
  - Puppet shows,
  - Mass media
- **Going forward:**
  - Nationwide launch : 1 million beneficiaries
  - The children and youth components of the Financial Literacy Program will be launched in
  - Financial literacy will be made a part of school/college curriculum



**The Program's seven basic  
financial education themes**

# Why to save?

بچت کیوں؟

2 حادثات		1 مستقبل کے واقعات	
			
			
4 مستقل چیزیں/ اثاثے		3 مرضی کے تحت اخراجات	
			
			

# Guiding Principles for making investments



## سرمایہ کاری کے اصول

ہیکو کو اپنے دوستوں اور رشتہ داروں سے مشورہ کرنے کے بعد سرمایہ کاری کے بہت سے مواقع نظر آئے۔ جب کہ تمہیں اور سکو کے ذہن میں یہ سوال تھا کہ ہمارے گھرانے کے لیے کون سی سرمایہ کاری اچھی اور بہتر ہوگی۔





# Mobile Banking &

# Bill payments







# NFLP- lessons learnt

- **Coordination:** It is essential to involve key players from the beginning. This may cost time and effort, but it creates broader ownership necessary for initial success and anchoring of the program;
- **Focus on Beneficiaries:** financial education is about consumers, therefore, the curriculum must be tailored and adapted to their circumstances;
- **Follow an open structure from the beginning:** The program design must enable everyone to join in, have high visibility and help partner institutions to achieve their own goals;
- **Monitor the results:** what cannot be measured cannot be improved; and
- **Strong leadership:** SBP leadership and involvement of all the key stakeholders increases the interest in the financial literacy program among stakeholder, politics and media.



# Conclusions

- **First**, financial inclusion strategy (FIS) requires identification and measurement of demand and supply side gaps
- **Second**, a focused three pronged approach is essential to tackle all bottlenecks
- **Third**, FIS must address causes of financial exclusion. Key FIS ingredients includes:
  - Developing agile policies and strategies to catalyze financial innovations
  - Addressing market infrastructure gaps and weaknesses across sectors
  - Promote financial literacy to build customer's trust and confidence in financial system
- **Fourth**, engage stakeholders to improve ownership of the initiatives
- **Last but not the least**, sustainable financial inclusion requires balancing financial stability, integrity and protection



***Thank you!***