



THE OUTLIER

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BRINGING THE EXPERIENTIAL & THE UNUSUAL

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EDITORIAL

Banking in Pakistan in the Digital Age

The banking sector worldwide is in upheaval due to the dual shifts of changing consumer behavior and technology advancement, and their impact on how banking is managed and operated today. Demographically speaking, the bank's customer base is undergoing seismic changes - it is estimated that by the end of 2029, Millennial and Gen Z consumers will hold the largest share of income and wealth. Their outlook on life, their priorities and the future of the world is very different from the established order of previous generations. This clash of varying forces is throwing a major challenge for the banks and how they redefine their role in the market and the evolving consumer profile.

One singular force that is impacting everyone is the rapid speed of changes driven by the power of technology, especially digital technology. From retail and mobile banking, to neo-bank startups, technology has its hand in seemingly every aspect of the banking industry. Furthermore, the influence of technology will continue to launch banking into a digitized future.

This is also true for a country like Pakistan, where the banking sector is burdened with balancing its identity and economic role with the contrasting demands of the market and their consumer base. The imbalance caused by the demographics of Pakistan— it is estimated that youth (ages 15 to 35 years) constitute 60% of Pakistan's population. While the bulk of this youth is uneducated and unemployed, they are very digitally savvy. This poses an acute challenge for Pakistani banks: though the bulk of the bankable population may be in lower economic and income categories, the vast majority of them will be adept at using digital banking services.

However, there are solutions and strategies that can be crafted to deal with this situation. Pakistan has been blessed by the fact that a significant number of its professionals have settled abroad and work in the banking sector. These seasoned professionals' voices can offer the direction and vision toward which the banking sector in Pakistan can move to overcome its consumer profile and digital technology challenges. To solve our greatest challenges, we can learn from Pakistanis in all parts of the world and move our nation into the future, stronger than ever.

NUMBERS TELL A STORY



Boost to the GDP if a real-time retail payments gateway was introduced, along with creating 4 million new jobs and resulting in USD 263 Billion new deposits by 2025



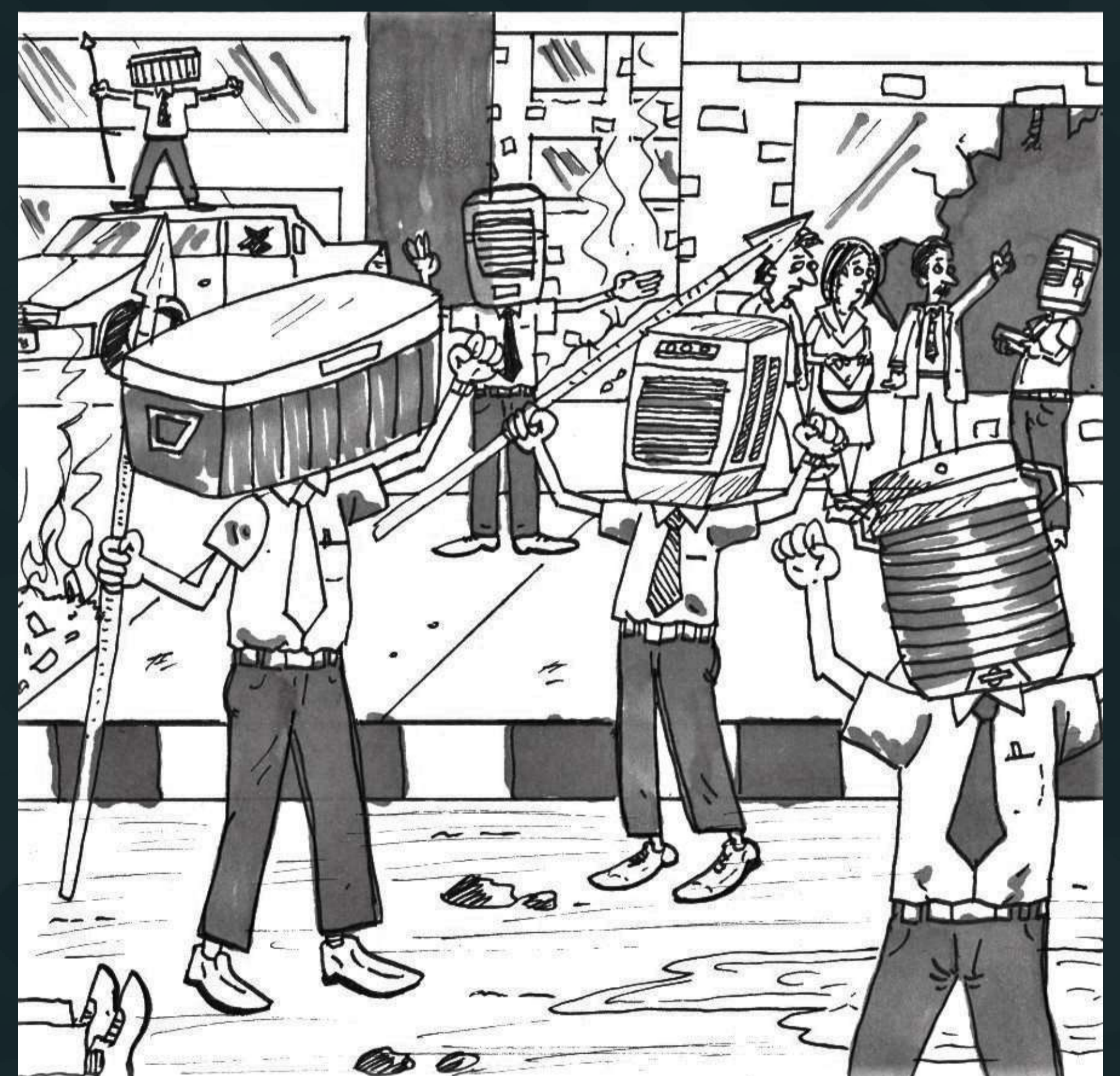
Lower cost of offering customers digital accounts than using physical branches.



Pakistani adults cite distance to a financial institution as a major barrier to accessing financial services.

WIT'S END

Zain Ashir



"Thankfully, on that day cooler heads prevailed & order was restored..."

TAKE 5

Noor Menai on Banking

This interview has been edited for length and clarity



Noor Menai is the President & CEO of CTBC Bank, based in Los Angeles, California. CTBC is a Taiwanese owned bank. Previously, he has also served as the President & CEO of Charles Schwab Bank. In his many years in the banking industry, he has worked at Citibank, JPMorgan Chase and helped found Fajr Capital, a leading private equity investor in the Middle East and South Asia. He was born and raised in Pakistan, going to the United States for his further studies. He has a distinguished career in banking and has served on the boards of various institutions. Recently Outlier spoke to him.

Q1. What are your views on how banking is practiced in Pakistan today versus the West?

In general, the principles of banking are universal, whether you're in the United States or Pakistan. The evolution of the banking system began in the trading ports of Genoa in the 16th Century. Merchant ships would come in to Venice, when it was at its height as a trading port, and the merchants would ask for a line of credit. The "bankers", who were just people who had money at the time, would be standing at the port. They would lend money to merchants to go and get wares, which was a sort of provision of credit. How did these people get this money? In some cases, they already had excess wealth of their own. In other cases, they would have gone to people with excess money and gathered enough funds to lend that money out to a merchant ship to, say, go to China and bring back silk.

Continued on next page

Noor Menai Interview, continued

In that, is the lesson of the actual reason for banking, which is the provision of credit and acting as an intermediate. The highest function of a bank is to intermediate between people who have an excess of savings. **The highest function of banking is to intermediate between people who have an excess of funds and people who have a use for those funds, so they can put them to use and thereby get a return from them. If you apply that basic test of banking to Pakistan, that does not seem to be happening at the level it should be.** Due to a lack of supporting infrastructure, banks are cautious. The fear is that if they lend money, they won't get it back. This stifles entrepreneurship, by crowding out private investment. That is a dead weight loss to society. It's a small tragedy, with many causes. What the system needs to become robust is a number of things, particularly private property rights, a more enforced rule of law and independent courts. All this will contribute to the kind of infrastructure required for banking to thrive and, by extension, create a strong and dynamic economy.

Q2. Why are major Pakistani banks under greater scrutiny and why are they penalized by the banking authorities in North America?

Since the global system of trade is in US Dollars, which is the reserve currency of world. All contracts are settled in USD, all global transactions are settled in USD. This gives the US a great deal of power. After 9/11 happened, the thought was that following the flow of money could stop terrorism. Banks were going to now be on the same level as law enforcement. They would detect terrorist financing and money laundering, and forensically inspect clients. Mainly, they would have to work to verify where money coming from. Earlier on, banks could plead ignorance in this matter. Now they cannot. Pakistani banks do not adhere to this idea. In most developing countries, it's hard to ask questions. It's taken as a fact that there is some activity that happens 'underground'. So, with this is mind, either banks upset their customers or, they upset global and US authorities. Of course, the world is united in thinking that bad people should not be allowed to move money through banks. It is just that Pakistan has not, up until recently, done enough. When the Financial Action Task Force publishes a list on banks, Pakistan is now on the gray list. There will need to be some flexibility, but still, the West wants it done.

Q3. With the advent of digital banking, do you think the personal touch and relationship you had with your banker is a thing of the past?

It used to be that the answer to this question was debated. People were not looking forward to this. As we know, the millennial generation and below are known as 'digital natives'. They're the ones who famously say "there's an app for that". The problem is, this generation does not have a lot of money. Most of them are under thirty, and their highest aspiration is a bike or a vacation or something much smaller. So, there is a business market there, but that is not where the money is. Most people with a larger share of the wealth would go to a building and carry out their transactions. It felt safer than giving your money to a screen. Then, we were forced to go remote during the pandemic. A great deal of work needed to be done without going to the bank. The surprise was that it wasn't that hard. Almost overnight, we went into fintech, as it were. Additionally, the customers and the banks came around. There was a great meeting in the middle and digital banking emerged. Traditionally, banks want to be very 'high touch'. Now, they're both: high tech and high touch. This was one of the benefits of the Great Lockdown.

Q4. As you may know, Pakistan has a youth bulge and high rate of unemployment. Is a banking career a feasible option for them? If so, what kind of education, skills they may need to make a career in banking?

One needs to be very careful and parse that statement. Banking is changing rapidly. What's happening in developed countries is that there is less need for front-office work. Now a lot of it is being done by machines. A lot of 'neo-banks', as they're called, have their advertising done by influencers. Once upon a time, your head of sales would have salespeople develop a lifelong business relationship with the client. Now your sales model is online, with firms coming up every day offering a variety of services. These firms don't have the branches to do big campaigns, so they prefer word of mouth, particularly through influencers. Pakistan is rapidly becoming a back office to a lot of tech companies in the West. In this case, that would be digital work. As many people are coming to realize, you don't need a PhD to get good at coding. It's just a language that you can learn and gain a lot of skill. That's where I think the opportunities are.

Q5. Comparatively speaking, Pakistani professionals have reached the top positions in the banking sector across the world, what do you think makes them stand out in this particular industry?

Pakistanis are often hardworking and smart people, who come from good stock. The crucial matter is that their abilities are mated with a system that force-multiplies said abilities. If a person works hard and find themselves in a system that celebrates their abilities, they can rise. I've worked all over the world, and the people I've seen do well have a high EQ and deep curiosity to keep learning. A lot of people stop learning and being curious at some point. That can make you irrelevant very fast. You're simply not allowed to do that in a competitive economy. Even the taxi driver and rickshaw-wala are well-informed nowadays. A lot of people are learning what can be done with a laptop across the world. So the key formula, and as I've seen with successful Pakistanis, is empathy, flexibility, integrity and most of all, the curiosity to keep learning.

READERS TALK BACK

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