

Modern Challenges faced by banking sector of Pakistan Evidence from: the First Micro Finance Bank, JS Bank and BankIslami Pakistan

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Abstract: The purpose of this study is to identify the problems and issues related to banking industry of Pakistan. We have focused on three banks that are specialize in their own field. We adopted the qualitative approach and developed a questionnaire to measure the responses of respondents on a likert scale. The banking history goes way back to Babylonian era. But in Pakistan the very first Pakistani bank is State bank of Pakistan. Pakistan's banking history is quite diversified. From privatization to nationalization and then again privatization. In Pakistan banking industry is one most growing and innovative industry. Banks plays an important role in an economy. Bank are the financial institution that are regulated and monitored by State bank of Pakistan and channelize the depositor money. This report has focused on issues faced by commercial banks, microfinance institutions and Islamic banks.

Keywords: Current Issues, Problems, microfinance, Islamic banks

Paper type: Research

I. INTRODUCTION

Pakistan's experience with financial liberalization in the banking sector is vastly limited as compared to the developed world. Our financial sector evolved very differently from banks in the developed world. For nearly a year after partition, Pakistan had no central bank. Habib Bank – established in 1941 – filled this gap initially, until the State Bank of Pakistan (SBP) was set up in 1948 under quasi-government ownership

Subsequently, Habib Bank, Allied Bank and National Bank were amongst the first to start operations with strong support from the central bank. The central bank's regulatory powers were restored via amendments to the Banking Companies Ordinance (1962) and the State Bank of Pakistan Act (1956). Subsequently, corporate governance, internal controls and bank supervision was strengthened substantially. According to Hussain (2004) banking system plays an important role in financial sector and accounts for 95% of this sector and demonstrated a positive relationship with economic growth of Pakistan. By 2010, there were five public commercial banks 25 domestic private banks, six foreign banks and four specialized banks.(Farooq et al., 2010). There are now 9,348

bank branches spread throughout the country, catering to the needs of some 28 million deposit account-holders.

II. LITERATURE REVIEW

Dr. Nanik Ram et al. (2011) Explore the unethical issues in the banking sector of Pakistan, the most unethical issues identified by respondents are influencing the customer to divert loans in other purposes, delays in sanctioning the loans, sending legal notice after due date and fixing up payment schedule without considering the generation capacity of the borrower. Khalid and Masood (2008) revealed the issues regarding agriculture credit problems in Pakistan, they highlighted the some of the issues such as procedures was lengthy and cumbersome, interest rate was too high, the behavior of the bank staff is not good with the farmers, not get loan in time, security and surety problems, the repayment procedures are rigid and the misuse of loans by the farmers. R. Vaidyanathan elaborated the issues related to asset liability management in India context, due to liberalization the India banks are now exposed to uncertainty and global competition so banks should have proper asset liability management mechanism to deal with the foreign currency fluctuations, market risk in investments and interest rate volatility.

Parkington and Schneider (1979) hypothesized and showed that when bank branch tellers have a different orientation to service than they believe management has (termed a service orientation discrepancy), they experience low satisfaction, strong turnover intentions, high levels of frustration, and impressions that customers think the service quality in their branch is poor.

Warde (20002) says that Islamic financial institutions are those which base their objectives and principles according to Quran. According to Ainely et al. (2000) there is shortage of knowledgeable shariah scholars with banking experience and knowledge. Hanif and Hijaz (2010) another issue that the Islamic banks are facing is the linkage of profit percentage with KIBOR. According to Iqbal et al, (2010) Islamic scholars should not waste their time to convert Islamic banking products into Islamic. They need to develop certain innovative products which are completely according to shariah. There are

a number of benefits provided for the banking institutions performing CSR, including: economic efficiency, improved company reputation, employee loyalty, communication between the banking industry and society, attracting new opportunities and increase organizational commitment Attila Turiet al. (2014).

III. METHODOLOGY

The purpose of this study is to examine issues and challenges faced by banking industry in Pakistan. The banks involved in this study are The First MicroFinance bank, JS bank and BankIslami. The data is collected through questionnaire and quick interviews. The sample size was 30 respondents and each respondent was given 35 question to express their attitude on a likert scale of range 1-5. The primary data is also gathered by asking some general question from respondents. The secondary data is collected by studying the research of others.

IV. RESULTS AND FINDINGS

The last three decades of the twentieth century witnessed the emergence of many issues that spurred debates and discussions among economists. According to Rehman (2011) Developing countries like Pakistan, still has a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Ogbuji, Onuoha & Izego (2012), the converging forces of technology have tremendously altered manual systems of delivering banking services and have subsequently paved way for electronic delivery platforms in recent time Yazdani (2011). Since, foreign banks are playing in Pakistani market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Following are some general challenges faced by banks in Pakistan

Rural Market penetration, Technology, Liability Products, Interest Rate, Non-Performing loans, Lack of good governance, Public Awareness, Investment opportunity

Specific Issues

We have surveyed the JS bank, Bank Islami and The First MicroFinance bank for this study. The respondents were given a questionnaire to show their attitudes on Likert scale. From their responses, we have identified some issues regarding Humana Resource, Operations and Financing department of the bank.

HR issues

Although HR issues are related to employees but if these issues left unchecked then there is high possibility that bank may face many problem in future. Following are some notable issues we identified

Issues	Frequency
Lack of appropriate training program	20%
Improper Appraisal system	37%
Supervisor biasness and favoritism	17%
No balance between personal and professional life	23%
Threat of losing the job	13%

About 20% of respondents from JS bank, BankIslami and The First MicroFinance bank are not satisfied with the training programme. They find it ineffective according to their job responsibility. 17% of respondents are not satisfied with their supervisor's treatment. This may lead to de-motivation of employees and may cause high turnover in future. Majority of employees are not happy with the appraisal system. The system is not based upon performance evaluation rather it is biased and unfair. In banks, employees are given targets like bringing deposit of 2 Million etc. these targets does not motivate the employees rather cause them some mental stress because they are under the threat of losing their job if not achieved these targets.

Operational Issues

The banks daily activities are also facing some problems.

Issues	Frequency
Customer Complaints	13%
Internal audit is not effective	10%
Liquidity problem is common	10%
Unrealistic targets to achieve	17%

According to response we found four major areas where problem exist. 13% respondents claim that customer complaints are rising as they are demanding friendlier and less costly services which banks are not able to provide. 17% find target system as inappropriate. They have been given some tough targets to maintain their job in the banks which is causing problems for BDOs and 13% are under the threat of losing their job. 10% respondents are not satisfied with their internal audit. They find their internal auditor as incompetent. Most of the issues are not reported to top level management because they are either involved in it themselves or they are afraid of losing their job because of ignorance and improper check and balance. Banks must resolve these issues as soon as possible otherwise in long term these problem can cause serious reputational and monetary loss.

Financing

Finance is a bank's asset that is based upon depositor's money. Some of issues faced by business department are

Issues	Frequency
No Judicious lending	20%
Lack of critical analysis of credit proposal	27%

Problems is Agriculture lending	10%
Ineffective risk management in financing	13%

VI. DISCUSSION

Banking systems have been with us for as long as people have been using money. Banks and other financial institutions provide security for individuals, businesses and governments, alike. Banks are quite important to the economy and are involved in such economic activities as issuing money, settling payments and providing finance. History has proven banks to be vulnerable to many risks, however, including credit, liquidity, market, operating, interest rate and legal risks. Many global crises have been the result of such vulnerabilities and this has led to the strict regulation of state and national banks.

VII. CONCLUSION

This study makes an attempt to explore the issues faced by the banking industry of Pakistan. The problems identified by the maximum respondents is the most challenging issues for the banks. The issues like improper training, unjust appraisal system, and discrimination by supervisor are the cause of high employee's turnover which results in increase in cost. The issues like improper audit mechanism is alarming issues. Malik (2010) Today banking industry has evolved to very high extent. Now it has become very difficult to identify the frauds and money laundering activities. In this emerging trend bank must adopt pro-active approach to counter these issues. The problem identified in this paper needs a comprehensive study and some other analytical tools to get a clearer and appropriate picture of the issues faced by banking industry of Pakistan. In the amid of these rising challenges bank can grow by accepting these issues as opportunities and by eliminating these challenges bank can improve their productivity and profitability. The future of banks not only depends upon innovating and investing in new products but also upon satisfying the faith of their stakeholders.

VIII. RECOMMENDATION

- Banks can increase their performance by creating awareness in customers. The bank should market their products and deliver value to their customers. The major issue faced by Islamic banks is that of awareness.
- Islamic banking industry need to review to carter the demand of more sophisticated products and services which is likely to grow rapidly. It should be innovating rather than replicate the conventional banking products to meet the growing needs of its customers.
- Banks should revise their policy regarding targets and goals. These goals should not be a compulsion

for job retention but should be the part of appraisal system. This will keep the employees motivated and committed to their job.

- The agriculture sector of Pakistan is contributing 21% in GDP. Its performance can be increase by enhancing the productivity of agriculture sector. Bank should focus on developing products that are feasible to operate in rural areas.
- National Financial Inclusion Strategy is an opportunity for banks. Many of Pakistan's rural area is either unbanked or under banked. By expanding their banks can provide facility of banking to them and also provide employment in that area.
- The prudential regulation by State bank of Pakistan provide guidelines for banks. By acting upon these guidelines in true letter and spirit bank can keep itself safe from risk and other problems. The BPRD of State bank is making regulation with the consultancy of IBP.
- More emphasis must be given to sharia auditing. Sharia auditing is an essential tool for Islamic banks. The conventional banks that have their Islamic windows must operate separately from their conventional counterparts. The auditing standards must be separate for Islamic banks than standards for conventional banks.

IX. LIMITATIONS

The limitations of this study are that it has been conducted on just three banks. The data can be gathered from large sample size and then analyzed using statistical techniques. We have no way of judging the respondents' seriousness when answering the question asked and attitude shown in questionnaire.

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