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BNK703

Consumer Banking

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BNK703

Consumer Banking

STUDY HANDOUT

A complete topic-wise study handout for BNK703 Consumer Banking, prepared from the course video lectures. Covers retail banking products and services, deposits, consumer credit, credit cards, credit appraisal, digital and branchless banking, consumer protection and SBP regulations - with definitions, explanations, examples and exam pointers. 

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Lecture 1: Introduction to Consumer (Retail) Banking

Key terms: consumer banking, retail banking, wholesale banking, financial intermediation

Consumer banking - also called retail banking - provides financial products and services to individual customers and small businesses, rather than large corporations. Banks act as financial intermediaries: they mobilise deposits from savers and channel them as credit to borrowers, earning a spread between deposit and lending rates. In Pakistan, consumer banking is offered by commercial banks (HBL, MCB, UBL, Allied Bank), microfinance banks, and Islamic banks.

- Retail vs wholesale banking: retail serves individuals/small firms with standardised products; wholesale (corporate) banking serves large firms with customised deals.
- Revenue sources: net interest margin (lending rate minus deposit rate), fee and commission income (cards, remittances, bancassurance).
- Why it matters: consumer banking drives financial inclusion and is a major profit centre for Pakistani banks.

EXAM POINTER: Define consumer banking and distinguish it from corporate banking with two examples of each side's products.

Lecture 2: The Banking System of Pakistan

Key terms: State Bank of Pakistan, commercial banks, microfinance banks, DFIs

The State Bank of Pakistan (SBP), established in 1948, is the central bank: it issues currency, conducts monetary policy, regulates banks, and manages foreign exchange reserves. Below it are scheduled commercial banks (public, private, foreign and Islamic), microfinance banks serving low-income clients, and Development Finance Institutions. The Pakistan Banks' Association coordinates the industry.

- SBP's Banking Policy and Regulations Department issues prudential regulations for consumer financing.
- Deposit protection: deposits up to a prescribed limit are protected under the Deposit Protection Corporation.
- Recent trend: consolidation, digitalisation, and growth of Islamic banking (target of full Islamisation of the economy).

Lecture 3: Types of Deposit Accounts

Key terms: current account, savings account, term deposit, PLS account

Banks mobilise funds through deposits. A current account allows unlimited withdrawals with no profit - used for daily transactions. A savings (PLS - profit and loss sharing) account pays profit

calculated on minimum monthly balances. Term/fixed deposits lock funds for a fixed period at a higher expected profit rate, with premature encashment penalties.

- Account opening requires KYC documents: CNIC, proof of income, and biometric verification in Pakistan.
- Profit on PLS accounts is declared monthly by banks based on actual earnings, not guaranteed interest (especially in Islamic banks).
- CASA ratio (current + savings deposits to total deposits) measures cheap funding - higher is better for banks.

EXAM POINTER: Compare current, savings and term deposits on liquidity, return and purpose - a classic short question.

Lecture 4: Cheques, Pay Orders and Digital Payments

Key terms: cheque, pay order, demand draft, IBFT, RTGS, Raast

A cheque is a written order instructing the bank to pay a specified sum. Crossing a cheque (two parallel lines) means it can only be deposited, not encashed over the counter. A pay order/demand draft is a bank-guaranteed instrument used for safe large payments. Bounced cheques are a criminal offence in Pakistan under the relevant laws.

- IBFT (Inter-Bank Funds Transfer) moves money instantly between banks via ATM, app or branch.
- Raast - SBP's instant payment system - enables free, real-time transfers using phone numbers or IBANs.
- RTGS handles large-value same-day settlements between banks.

Lecture 5: Principles of Sound Lending

Key terms: 5 Cs of credit, credit appraisal, creditworthiness

Lending is the core of banking, and the 5 Cs of credit guide appraisal: Character (borrower's integrity and repayment history), Capacity (ability to repay from income/cash flows), Capital (own stake in the venture), Collateral (security offered), and Conditions (purpose of loan and economic environment). Weak appraisal leads to non-performing loans (NPLs) - the biggest risk in banking.

- Credit appraisal verifies income documents, bank statements, employer confirmations and credit bureau reports.
- The eCIB (Electronic Credit Information Bureau) of SBP records every borrower's credit history.
- Prudential Regulations cap exposure limits, e.g. per-party and group limits.

EXAM POINTER: Explain the 5 Cs with one line on what the credit officer checks for each - asked almost every term.



Lecture 6: Personal Loans

Key terms: personal loan, markup, debt burden ratio, DBR

Personal loans are unsecured (or lightly secured) loans for any legitimate purpose - weddings, medical needs, education. Because there is no collateral, markup rates are higher than secured loans. SBP's Prudential Regulations for Consumer Financing cap the Debt Burden Ratio (DBR): total monthly debt obligations generally may not exceed 50% of net monthly income, protecting borrowers from over-indebtedness.

- Eligibility: salaried individuals with minimum service period, verified income, clean eCIB.
- Pricing: 1-year KIBOR plus bank spread; processing fee and early-settlement charges apply.
- Risk: unsecured, so banks rely heavily on employer comfort letters and salary assignment.

Lecture 7: Auto Loans (Car Financing)

Key terms: auto finance, hypothecation, loan-to-value, residual value

Auto loans finance new and used vehicles, secured by hypothecation of the vehicle itself - the bank registers its charge and can repossess on default. The loan-to-value (LTV) ratio limits financing (e.g. up to 70-80% of the car's value); the borrower pays the rest as down payment. Comprehensive insurance is mandatory, assigned in the bank's favour.

- Tenors typically 1-7 years; floating rate linked to KIBOR.
- Used-car financing carries higher rates and lower LTV due to valuation risk.
- Islamic auto finance uses Ijarah (leasing) or Diminishing Musharakah instead of interest-based lending.

Lecture 8: Housing Finance and Mortgages

Key terms: mortgage, housing finance, foreclosure, Mera Pakistan Mera Ghar

Housing finance provides long-term loans (10-25 years) for purchase, construction or renovation of homes, secured by mortgage of the property - a registered legal charge. SBP has pushed banks to expand housing finance (mandatory targets, the Mera Pakistan Mera Ghar subsidised scheme), because Pakistan faces a large housing shortage and mortgage penetration is very low by regional standards.

- Title verification is critical: clear ownership, no litigation, approved housing society/authority.

- Fixed vs floating rates: long tenors expose both sides to interest-rate risk.
- Foreclosure laws let banks recover by auctioning the mortgaged property after due process.

EXAM POINTER: Why is mortgage penetration low in Pakistan? Discuss title documentation, foreclosure enforcement and affordability.

Lecture 9: Credit Cards

Key terms: credit card, revolving credit, minimum payment, grace period

A credit card gives a revolving credit line up to an approved limit. Purchases in the billing cycle are interest-free if the full balance is paid by the due date (grace period); otherwise markup accrues on the outstanding balance, and only a minimum payment (e.g. 5%) is required to keep the card active. Cash advances attract immediate markup plus fees - the most expensive borrowing on the card.

- Card types: classic/gold/platinum by limit and features; debit cards spend own money, credit cards borrow.
- Banks earn from interchange fees (paid by merchants), annual fees, and interest on revolved balances.
- Responsible use: pay in full monthly; minimum payments trap borrowers in long, costly debt.

EXAM POINTER: Explain the grace period and why paying only the minimum due is dangerous, with a numerical illustration.

Lecture 10: Credit Scoring and Credit Bureaus

Key terms: credit score, eCIB, DataCheck, credit history

A credit score summarises a borrower's repayment behaviour into a number used for quick decisions. In Pakistan, SBP's eCIB and private bureaus (e.g. DataCheck) collect loan histories from all member institutions. A clean record - timely payments, moderate utilisation - builds a good score; defaults, late payments and over-leverage damage it for years.

- Banks check eCIB before every approval; a bad report usually means rejection.
- Scores consider payment history, amounts owed, length of history, and types of credit.
- Borrowers can obtain their own credit report and dispute errors.

Lecture 11: KYC, AML and Customer Due Diligence

Key terms: KYC, AML/CFT, CDD, biometric verification, STR

Know Your Customer (KYC) means verifying identity (CNIC, biometrics via NADRA) and understanding the customer's profile before opening accounts. Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) oblige banks to monitor transactions, identify beneficial owners, and file Suspicious Transaction Reports (STRs) with the Financial Monitoring Unit. Customer Due Diligence is risk-based: higher-risk customers face enhanced checks.

- Pakistan's FATF grey-listing experience made AML compliance a top priority for banks.
- Red flags: large cash deposits inconsistent with profile, structuring (splitting transactions), rapid in-out flows.
- Non-compliance brings heavy SBP penalties and reputational damage.

EXAM POINTER: Define KYC and AML and explain why banks file STRs - a compliance question that appears regularly.

Lecture 12: Consumer Protection and SBP Regulations

Key terms: consumer protection, Banking Mohtasib, disclosure, fair treatment

SBP's consumer protection framework requires banks to disclose all charges, markup rates and terms in plain language (Key Fact Statements), handle complaints through proper grievance channels, and treat customers fairly. The Banking Mohtasib of Pakistan provides free, speedy justice against banks' maladministration - its decisions are binding. SBP also caps certain charges and mandates minimum profit on savings deposits.

- Key Fact Statement: a one-page summary of cost and terms every borrower must receive.
- Complaint ladder: bank's complaint cell -> SBP's complaint portal -> Banking Mohtasib.
- Unfair practices banned: hidden charges, forced insurance/bundling, misleading advertising.

Lecture 13: Digital Banking and Internet Banking

Key terms: internet banking, mobile banking, digital onboarding, RDA

Digital banking lets customers transact via apps and web: fund transfers, bill payments, card management, and service requests. SBP's digital banking framework has licensed fully digital banks, and the Roshan Digital Account (RDA) lets overseas Pakistanis open accounts remotely and invest in Naya Pakistan Certificates. Biometric and video-based onboarding now allow account opening without visiting a branch.

- Benefits: 24/7 access, lower cost per transaction, wider reach.

- Risks: phishing, SIM-swap fraud, social engineering - banks run awareness campaigns and use OTPs/biometrics.
- SBP's Customers' Digital Onboarding Framework standardises remote account opening.

Lecture 14: Branchless Banking and Mobile Wallets

Key terms: branchless banking, Easypaisa, JazzCash, mobile wallet, agents

Branchless banking delivers financial services through agents and mobile phones instead of branches - the model behind Easypaisa (Telenor Microfinance Bank) and JazzCash (Mobilink Microfinance Bank). Customers open mobile wallets with their SIM/CNIC, deposit cash at agents, and transfer money, pay bills and buy airtime from their phones. This has been Pakistan's main engine of financial inclusion, reaching millions without bank branches.

- Agent network: small shops act as cash-in/cash-out points.
- Level-based accounts: transaction limits rise with stronger KYC (biometric).
- SBP's Branchless Banking Regulations govern agents, wallets and safeguarding of customer funds.

EXAM POINTER: Explain how branchless banking promotes financial inclusion in Pakistan with Easypaisa/JazzCash as examples.

Lecture 15: Remittances

Key terms: home remittances, PRI, exchange companies, hawala

Home remittances from overseas Pakistanis are a lifeline for Pakistan's economy and foreign reserves. SBP's Pakistan Remittance Initiative (PRI) incentivises sending money through formal channels - banks and exchange companies - by reimbursing transaction costs. Formal channels (RDA, bank transfers, money transfer operators) compete with informal hawala/hundi networks, which are illegal and untracked.

- Remittances exceed exports in some years - their stability matters for the current account.
- Incentives: Sohni Dharti Remittance Programme rewards senders with points redeemable for prizes.
- Banks earn fee income and foreign-currency deposits from remittance flows.

Lecture 16: Bancassurance

Key terms: bancassurance, life insurance, bancatakaful

Bancassurance is the sale of insurance products through bank branches - life policies, health cover, credit-life (which repays the loan if the borrower dies). Banks earn commission; insurers get distribution. In Islamic banks the equivalent is bancatakaful. SBP/SECP regulate conduct:

products must be explained, mis-selling is prohibited, and customers get a free-look period to cancel.

- Credit-life insurance protects the bank's loan book and the borrower's family simultaneously.
- Key disclosure: insurance is optional and separate from the loan - forced bundling is unfair.
- Claim settlement ratios indicate an insurer's reliability.

Lecture 17: Customer Service and Complaint Management

Key terms: customer service, SLAs, complaint resolution, customer satisfaction

Service quality decides retention in retail banking, where products are similar across banks. Standards include turnaround times (SLAs) for account opening, card issuance and complaint resolution; SBP requires complaints to be resolved within defined timelines. Banks track Net Promoter Score and complaint root causes; unresolved complaints escalate to the Banking Mohtasib.

- First-contact resolution and proactive communication reduce complaints.
- Common complaints: unauthorised deductions, ATM cash issues, delayed loan processing.
- Service recovery paradox: a well-handled complaint can create a more loyal customer.

Lecture 18: Cross-Selling and Relationship Management

Key terms: cross-selling, relationship manager, customer lifetime value

Cross-selling offers existing customers additional products - a savings-account holder is offered a credit card, then auto finance, then bancassurance. It raises customer lifetime value and deepens the relationship, making switching costly. Relationship managers serve high-value (priority/privilege banking) segments with personalised advice. Ethical cross-selling is needs-based; aggressive mis-selling destroys trust and invites penalties.

- Needs-based selling: match products to the customer's life stage.
- Metrics: products per customer, share of wallet, attrition rate.
- Priority banking tiers offer dedicated RMs, fee waivers and lounge access.

Lecture 19: Islamic Consumer Banking

Key terms: Islamic banking, Riba-free, Murabaha, Ijarah, Diminishing Musharakah

Islamic consumer banking provides Riba-free alternatives: Murabaha (cost-plus sale) for goods, Ijarah (leasing) for vehicles, Diminishing Musharakah (partnership) for housing - the

bank and customer co-own the asset and the customer gradually buys the bank's share. Deposits are based on Mudarabah/Wakalah (profit-sharing), with profit declared from actual earnings. Shariah boards certify every product.

- Key difference: returns come from trade/lease, not interest on money.
- Late-payment charity (not penalty income for the bank) preserves Shariah compliance.
- Meezan Bank pioneered full-fledged Islamic consumer products in Pakistan.

EXAM POINTER: Compare conventional vs Islamic auto finance, naming the Islamic modes used and how the bank earns.

Lecture 20: Agriculture and Rural Consumer Finance

Key terms: agri credit, Kissan package, microfinance, group lending

Rural households need production loans (seeds, fertiliser) and consumption smoothing. SBP sets indicative agricultural credit targets for banks; specialised institutions (ZTBL) and microfinance banks/providers (Khushhali, NRSP) serve small farmers. Group lending and passbook-based crop loans reduce cost and risk where collateral is weak.

- Challenges: weather risk, price volatility, land-title documentation.
- Crop insurance (e.g. Crop Loan Insurance Scheme) protects both farmer and lender.
- Digital credit scoring using mobile/utility data is expanding rural outreach.

Lecture 21: SME Consumer-Adjacent Lending

Key terms: SME financing, SBP refinance schemes, cash-flow lending

Small and medium enterprises overlap retail banking: many SME owners borrow as individuals. SBP's refinance and credit-guarantee schemes encourage banks to lend to SMEs despite thin documentation. Cash-flow-based lending assesses business turnover via bank statements and POS data rather than collateral alone.

- SME Bank, SMEDA and SBP's Development Finance Support Department promote the segment.
- Common products: running finance, SME Asaan Finance (SAAF) scheme.
- Challenge: information asymmetry - banks use credit bureaus and psychometric scoring pilots.

Lecture 22: Pricing of Consumer Loans

Key terms: KIBOR, spread, APR, flat vs reducing balance

Consumer loan rates in Pakistan are usually floating: 1/3/6-month KIBOR plus a bank spread reflecting credit risk and costs. The Annual Percentage Rate (APR) includes fees, so it exceeds the nominal rate - always compare APRs. Flat-rate quotes look cheaper than reducing-balance equivalents: a 12% flat rate on a 3-year loan is roughly 21% on reducing balance - a classic disclosure issue.

- Components of spread: cost of funds, operating cost, risk premium, profit margin.
- Processing fees, documentation charges and early-settlement fees add to effective cost.
- SBP requires APR disclosure in the Key Fact Statement.

EXAM POINTER: Explain flat vs reducing-balance markup with numbers, and why APR is the right comparison metric.

Lecture 23: Non-Performing Loans and Recovery

Key terms: NPL, provisioning, classified loans, recovery

A loan becomes non-performing (classified) when payments are overdue beyond set days (e.g. 90 days for some categories). Banks must make provisions - setting aside profits against expected losses - per SBP provisioning rules. Recovery tools: restructuring/rescheduling for viable borrowers, negotiated settlement, collateral liquidation, and legal action through banking courts.

- Categories: substandard, doubtful, loss - with rising provisioning percentages.
- Early-warning signals: cheque bounces, limit excesses, delayed financials.
- Write-offs need board approval and do not extinguish the bank's right to recover.

Lecture 24: Fraud Prevention in Consumer Banking

Key terms: fraud, phishing, skimming, social engineering, transaction monitoring

Common frauds: phishing (fake bank messages/websites), SIM swap, ATM skimming, and social engineering where callers posing as bank staff extract OTPs. Banks fight back with transaction-monitoring systems, device fingerprinting, OTP/biometric authentication, and customer education - 'banks never ask for your OTP or password.' Liability frameworks increasingly protect customers who report promptly.

- Customer's duty: never share OTP/PIN; verify callers independently.
- Bank's duty: real-time alerts, cooling periods on new payees, quick blocking.
- SBP's digital fraud reporting and awareness campaigns (e.g. 'Apna OTP kisi ko na dein').

Lecture 25: Credit Cards vs Debit Cards vs Prepaid

Key terms: chargeback, interchange, prepaid cards

Credit cards extend the bank's money (borrow now, pay later); debit cards spend the customer's own account balance; prepaid cards spend pre-loaded value (payroll cards, gift cards, travel cards). Chargeback rights let cardholders dispute fraudulent or undelivered transactions - a key consumer protection in card payments.

- Interchange: the merchant's bank pays the cardholder's bank a fee per transaction.
- Travel/forex cards lock in exchange rates and limit exposure abroad.
- Choosing: credit for emergencies and rewards (if paid in full), debit for budgeting, prepaid for gifting/control.

Lecture 26: Wealth Management and Priority Banking

Key terms: wealth management, mutual funds, priority banking

For affluent customers, banks offer wealth management: mutual funds, government securities (T-bills, PIBs), and insurance-linked investments, matched to risk profiles through suitability assessments. Priority banking bundles these with dedicated relationship managers and lifestyle perks. SBP/SECP require risk profiling and clear disclosure that investments can lose value.

- Suitability: conservative/balanced/aggressive profiles drive product recommendations.
- Banks distribute AMC (asset management company) funds for commission.
- Estate planning and retirement products are the next frontier in Pakistan.

Lecture 27: Measuring Performance in Consumer Banking

Key terms: NIM, cost-to-income, ROA, NPL ratio, CASA

Key metrics: Net Interest Margin (interest income minus interest expense over earning assets), cost-to-income ratio (efficiency), ROA/ROE (profitability), NPL ratio (asset quality), CASA ratio (funding cost), and growth in deposits, advances and fee income. Digital metrics - app adoption, digital transaction share - now sit alongside them.

- A rising NPL ratio with falling provisioning coverage is a red flag.
- Cost-to-income below 50% indicates good efficiency for Pakistani banks.
- Segment profitability guides where to invest: cards, mortgages, or digital.

Lecture 28: Future of Consumer Banking in Pakistan

Key terms: fintech, open banking, AI, financial inclusion, NFIS

The future is digital: fintechs and Electronic Money Institutions (EMIs) compete in payments; SBP's National Financial Inclusion Strategy targets universal access; open-banking-style data

sharing and AI-driven credit scoring promise cheaper, faster decisions. Challenges remain: low financial literacy, documentation gaps, and cybersecurity. Banks that combine trusted brands with digital convenience will lead.

- Trends: instant payments (Raast), digital banks, BNPL (buy-now-pay-later), green financing.
- Regulatory sandboxes let fintechs test innovations safely.
- Financial literacy programmes (SBP's Banking Services Corporation) build informed customers.

EXAM POINTER: Discuss two opportunities and two challenges for consumer banking in Pakistan over the next five years. 

Lecture 29: Revision: Key Definitions to Memorise

- Consumer banking: banking services for individuals and small businesses.
- 5 Cs: Character, Capacity, Capital, Collateral, Conditions.
- DBR: Debt Burden Ratio - monthly debt obligations / net monthly income (cap ~50%).
- NPL: loan with payments overdue beyond the regulatory threshold; requires provisioning.
- KYC/AML: identity verification and anti-money-laundering controls; STR = Suspicious Transaction Report.
- CASA: low-cost current and savings deposits. KIBOR: benchmark floating rate. eCIB: SBP credit-information bureau.

EXAM POINTER: Examiners reward precise one-line definitions - memorise this list verbatim.

End of Handout - Good luck with your exams!