# MARKET INTELLIGENCE AND STRATEGIC RISK MANAGEMENT IN THE BANKING SECTOR OF PAKISTAN

Abdul Rafay[1]

**Abstract**

*The banking sector of Pakistan lives in a very dynamic environment with economic contingencies, regulatory impediments, and technological innovations. The performance of banks gets affected by market intelligence in an effective way to take the right decisions related to managing strategic risks successfully in turmoil situations. However, the banks are exposed to the financial and reputational risk while taking these wrong decisions as they currently do not have a proper approach toward integrating market intelligence into SRM frameworks. The objective of this research is to critically analyze the contribution of market intelligence in improving SRM practices within the context of the Pakistani banking sector. The study herein is necessitated by increasing pressures on banks to become resilient against global uncertainties, competitive forces, and changing customer requirements. The research utilizes a descriptive methodology to find out how market intelligence relates with SRM. Primary data will include surveys and interviews with financial industry professionals, while secondary data will include analyses of financial reports, market trends, and case studies from leading banks. Findings will help to expose important insights into how market intelligence can be operationalized in anticipating risks, finding opportunities, and improving decision-making in the banking industry. This research contributes to literature by presenting a strategic framework for market intelligence integration into SRM: Practical implications are useful for policy-makers and banking executives in Pakistan.*

**Keywords:** Market Intelligence, Strategic Risk Management, Banking Sector, Economic Volatility, Decision Making Frameworks, Risk Resilience

## INTRODUCTION

Pakistan's economy is thought to be the second biggest in South Asia (Shafiq & Nasr, 2010). The services sector, which includes financial, personal, social, and distributive services, is crucial to boosting the nation's economic growth (Ahmed & Ahsan, 2011; Iqbal, 2022; Zaheer et al., 2023). The services sector has grown at a faster rate than the industrial and agricultural sectors of the economy, contributing 58.1 percent of GDPin2013–14comparedto56.6percentin 2008–09. This data is based on the Pakistan Economic Survey (2014). Furthermore, Pakistan has seen that financial institutions make a substantial and robust contribution (about 9%) to the overall functioning of the economy and service sector (Pakistan Economic Survey, 2014).

The banking industry, insurance providers, stock exchanges, and development finance organizations make up Pakistan's financial services industry. In actuality, Pakistani banks constitute one of the most significant economic sectors and are essential to the entire productivity of financial services, accounting for about 95% of the local market (Aurangzeb, 2012). Furthermore, the primary sources of funding for other economic sectors in Pakistan include the local banks (Shafiq & Nasr, 2010). Accordingly, having a functioning banking system in Pakistan is essential for making better use of the country's financial resources (Molyneux & Wilson, 2007; Ahmed & Ahsan, 2011; Fahim et al., 2020; Zaheer et al., 2024). Many risks, including credit, markup, liquidity, market, foreign exchange, and solvency, are faced by financial institutions (banks) (Kabir et al., 2015). Due to its unparalleled banking services, credit risk management is regarded. In addition, they take on extra risks when drafting their financial contracts because of their infrastructure for liquidation, legal obligations, and Sharia SOPs that

[1]Scholar, Sir Syed University of Engineering and Technology, Karachi, Pakistan. Email: abdulrafay200278@gmail.com

they follow on a regular basis (Abdullah et al., 2012; Iqbal et al., 2024). In recent times, risk management has become essential for every sector of the economy to ensure that businesses can protect their interests while achieving their goals. By using risk management strategies, businesses may guarantee the attainment of their intended goals, reduce the impact of potential hazards to manageable levels, and enhance their prospects for quick capture (Hopkin, 2017) (Nawaz et al., 2022).

***Problem Statement***

Like many other banks across the world, the banking industry in Pakistan is exposed to a wide range of hazards, such as fluctuating economic conditions and constantly changing legislation. Although market intelligence technologies are readily available, the industry has difficulties in efficiently applying this information to guide strategic risk management choices.

***Research Statement***

Analyzing how Pakistan's banking industry use market knowledge to manage strategic risk. In order to help banks better navigate economic uncertainty, regulatory changes, and competitive challenges and ultimately ensure financial stability and sustainable growth in a dynamic environment, this research explores show market data drives risk strategies.

***Significance***

The significance of this research lies in its potential to support the banking industry's resilience in an unstable environment. It offers practical advice on how to use market data to make well-informed decisions, which in turn helps to advance financial stability, improve regulatory compliance, and guarantee the banking sector's continuous expansion in Pakistan.

***Research Question***

What are the best ways to use market information to improve strategic risk management processes in Pakistan's banking industry in the face of competitive challenges, regulatory changes, and economic uncertainty?

## LITERATURE REVIEW

Numerous investigations have been carried out to ascertain the profitability of banks. When Short (1979) investigated the connection between bank concentration and profit rate, the field of study on the factors influencing bank profitability got underway. The same study was expanded to twelve nations in North America, Europe, and Australia by Bourke (1989). Every banking organization needs to manage risk effectively and efficiently in order to maximize earnings. Any organization's performance is improved by effective risk management. The previous decade's financial crisis exposed banks' deficiencies in risk management procedures and performance, as they took on excessive risk and paid insufficient attention to the long-term impact of their actions on the performance of the bank (Mathghamhna, 2011). Selma et al. (2011) investigated Tunisian banks' risk management procedures.

According to their research, Tunisian banks are aware of how critical risk management is to improving both their bottom line and overall performance. The relationship between risk management and organizational performance was investigated by Saleem & Abideen (2011).They came to the conclusion that institutions utilizing efficient risk management techniques perform well. Conversely, Habib et al. (2014) investigated how Pakistani banks performed in relation to operational risk management. According to their research, operational risk management works well in Pakistani banking institutions whereas risk management can improve organizational performance. Based on research done on the Nigerian banking industry, Oluwafemi et al. (2013) found a strong correlation between risk management and bank performance.The same findings were reported by Soyemi et al. (2014) in a different study on the Nigerian banking industry. One significant factor influencing bank profitability is liquidity risk. A bank's incapacity to absorb a reduction in its obligations or to expand the asset side of the balance sheet gives rise to liquidity risk (Athanasoglou et al., 2008; Hassan & Iqbal, 2019). Typically, banks keep more liquid assets on hand to stave off bankruptcy. However, as more liquid assets are linked to lower rates of return, it follows that more liquid assets must also imply lower levels of profitability. This claim was corroborated by Molyneux & Thorton (1992), who discovered a negative correlation between a bank's liquidity and profitability.

According to Vaihekoskia (2009), there is a negative correlation between the price of liquidity risk and the systematic liquidity risk of stocks that yield higher returns. A negative correlation between stock returns and liquidity situation was also confirmed by Uddin (2009). Cooper, Jackson, and Patterson (2003) established that variations in credit risk result in adjustments to bank loan portfolios, which in turn impacts bank performance. According to Duca & Mclaughlin (1990), banks perform worse when they are exposed to more credit risk. Miller & Noulas (1997) also showed that there is a negative correlation between a bank's credit risk and profitability. Specifically, a bank's profitability declines as it becomes more exposed to high-risk loans since there is a greater chance of unpaid debts. According to Alshatti (2015), there is a strong correlation between Jordanian commercial banks' financial success and their credit risk management metrics. A study on the Ethiopian banking industry was done in 2015 by Gizaw et al. The findings showed that credit risk measurements have a big impact on the banks' profitability. In a different study on the Nigerian banking industry, Maxwell & Peter (2016) found the same association. According to data presented by Short (1979), banks' sizes and capital adequacy are related. Large banks may issue capital at a lower cost and generate higher rates of return than smaller banks. Bank size and profitability have a positive correlation, as verified by Akhavein et al. (1997). According to Reynolds & Ratanakomut (2000), capital adequacy declines with bank size; large banks have lower capital adequacy ratios than small banks, and capital adequacy and profitability are positively correlated (Arif et al., 2023; Kashif & Iqbal, 2022).

Yu (2000) discovered a favorable correlation between Taiwanese banks' profitability, liquidity, and capital sufficiency. Interest rate changes have a significant impact on the performance and expansion of financial institutions, which is a source of concern for the financial markets and institutions (Madura, 1989). Recessions and falling interest rates go hand in hand, increasing loan losses and slowing loan growth. Interest rate shocks, according to Saunders & Cornett (2003), cause losses in the market value of assets, which in turn have an impact on net worth. As interest rates rise, the market values of assets and obligations also decline. According to Laker (2007), operational risk is now a significant risk factor that financial organizations must deal with due to the growing reliance on specialized skills, technology, and complexity in banking.

## METHODOLOGY

This study is descriptive: it investigates thoroughly how market intelligence is being integrated with strategic risk management (SRM) concerning the banking sector in Pakistan. Research designs, methods of data collection, sampling strategy, and analysis techniques will be discussed in this section.

### *Research Design*
The design will be descriptive with respect to discovering the current practices, challenges, and opportunities for market intelligence use in SRM. This will permit a thorough understanding of contextual factors shaping strategic decision-making in the banking industry in Pakistan.

### *Data Collection*
Primary input is collected through semi-structured interviews with banking professionals, risk managers, strategists, and top executives in leading financial institutions. The survey intends to quantify the use of market intelligence among banks and its perceived impact on SRM. The interviews will provide qualitative insights into market intelligence's challenges, best practices, and strategic value.
These secondary sources include annual reports; market research publications, industry white-papers; and case studies, which depict a successful SRM framework in banking. These documents give a historical and analytical view of market intelligence trends and applications.

### *Sampling Strategy*
For the purposes of the study, a purposive sampling technique will be applied to make sure that key stakeholders from the banking sector are recruited. The participants are purposively selected according to their expertise and roles on risk management and strategy formulation within their respective institutions.

## DISCUSSION
Though full of opportunity, Pakistan's dynamic banking industry requires a strong relationship between market intelligence and strategic risk management (Iqbal & Ali, 2024). Banks may better navigate the constantly changing financial landscape by using effective information collecting techniques to understand market trends, competition strategies, and emerging threats. This becomes the first mate of great importance, steering the ship of strategic risk management and making sure the sails are trimmed to take advantage of favorable winds and steer clear of dangerous reefs. To begin with, picture the intelligence function as the sharp eyes peering across the horizon. Its instruments include competitive analysis, consumer sentiment analysis, and market research, which help banks spot lucrative markets, predict changes in laws, and fore see disruptive technology. Consider a bank using data to pinpoint rural people that are under banked. With this knowledge at its disposal, it can create microloans that are specifically suited to their need, broadening its market penetration and reducing the possibility of oversaturation in metropolitan areas. Moreover, market knowledge helps banks cultivate an environment of flexibility and agility. They can react quickly to rival moves, regulatory changes, and shifting customer preferences thanks to real-time analytics (Iqbal, 2023). Think about the growth of online banking. With the ability to quickly build and implement cutting-edge digital platforms, banks can minimize the danger of falling behind by staying ahead of the curve and utilizing knowledge about competition products and client uptake (Fareed et al., 2023). However, there are certain difficulties in the interaction between strategic risk management and market intelligence. Inadequate analytical abilities, information silos, and an abundance of data can all obstruct sound decision- making. Furthermore, danger is ever- evolving, necessitating ongoing awareness and education (Jalees, 2016). Imagine that a bank evaluates loan applications only using conventional credit rating techniques. It runs the risk of ignoring the possibility of unbanked people or erroneously assessing creditworthiness in an evolving financial environment.

Investments in advanced analytics and skill development, together with the creation of a collaborative work environment where information flows easily between departments, become essential.

All bank levels are able to take advantage of market insights thanks to the democratization of data, the dismantling of information silos, and the promotion of a culture of data-driven decision-making. Consider a bank where loan officers, risk analysts, and customer service representatives all use the same real- time market data to evaluate risks, customize solutions, and maximize tactics creating a harmonious flow of well-informed activity.

## CONCLUSION

The development and expansion of the banking industry depend heavily on risk management. The banking industry increases GDP and national growth. The findings indicated that risk management had an impact on bank performance notably. The profitability of major commercial banks in Pakistan is heavily influenced and determined by a number of factors, including the capital adequacy ratio, nonperforming loans, liquidity risk, operational risk, and interest rate risk. Large commercial banks should therefore focus on both the loan appraisal process and loan quality. Big banks should focus on strengthening their liquidity position as well in order to withstand the market's liquidity crisis. Salaries and other administrative costs are examples of operating expenses that should be in control. Large banks should hold a sufficient quantity of interest rate-sensitive assets to absorb interest rate variations in order to lessen the impact of interest rate shocks. However, the only factors that have an impact on Pakistan's small commercial banks' performance are credit risk and capital adequacy ratio. Small commercial banks should therefore continue to have the necessary capital to meet the compliance with legal criteria and to keep a steady place in the market. In addition, it is imperative for small commercial banks to prioritize the quality of loans they disburse and the loan assessment process in order to sustain their market position. The management and policy ramifications of this study could affect banks' management both domestically and internationally. First of all, because capital sufficiency and bank profitability are positively correlated, it has backed the Basel Accord on necessary capital. Moreover, the study's findings have also reaffirmed the need for the banking industry to control nonperforming loans, which is crucial given the local, national, and international environment. This is a major problem in Pakistan as well because, throughout the history of banking, loans that were taken on by political vested interests and later converted into nonperforming loans were accepted. This was one of the various justifications for the privatization of banks in order to have more control.

### *Policy Implications*

The research report recommended implementation that a number of bank risk management-related topics were only partially covered and offer some potential directions for future investigation. An opportunity exists. Future research should build on this work by using simulation to further translate CLDs to stock flow diagrams. This would help managers formulate more dependable and efficient risk management policies, processes, and systems. The current study examined three different types of banks in Pakistan: public, private, and international banks, as detailed in the limitations. On the other hand, risk management is equally significant and has an impact on the other financial irrespective of their size and kind of banking operations, organizations like microfinance banks and specialty banks. As a result, comparable study will be useful in identifying important facets of risk management and its relevance to these organizations' performance in emerging nations. Additionally, data from 20 of the 34 banks in three cities included in this study Pakistan; in order to get more thorough findings, future study can be expanded to include a larger sample and more cities. Given that our research has looked at how some elements relate to the risk management techniques, but research has not yet been done on a number of important factors, such as board size, makeup, and management quality. Consequently, there is a valuable opportunity for future study to go deeper into these areas of management quality, board composition, and size in order to enhance Pakistani banks' risk management procedures. Moreover, regression analysis indicated a significant contribution of roughly 58% to the performance of certain banks and implies that the other influencing elements have not been investigated in the current study. Hence, in order to strengthen risk management and boost the performance of banking institutions, more study may be done to examine these important aspects, which include the capital asset ratio, cost of bad and question loans, current ratio, and loan to asset ratio. Not to mention, in order to get more varied results, the current study may be expanded in the future by incorporating the banks of other nations or by comparing developing and developed nations. Furthermore, it can be helpful to comprehend the systems for managing risks in banks across many nations. Interesting and varied results could be anticipated by applying a comparable process, depending on some specific factors like market competition, laws, and economic situations.

## REFERENCES

Abdullah, A., Khan, D. A. Q., & Nazir, D. N. (2012). A comparative study of credit risk management: a case study of domestic and foreign banks in Pakistan. *Academic Research International, 3*(1), 371-377.

Ahmed, A. & Ahsan, H., (2011). Contribution of services sector in the economy of Pakistan. PIDE Working Papers, 2011: 79. Pakistan Institute of Development Economics. Available at: [Accessed 18 August 2012]

Arif, M., Zehra, K., Chishti, U. G., & Iqbal, M. N. (2023). Importance of Social Capital for Community Development. *Eye-The International Social Science Review*, *1*(1), 16-22.

Aurangzeb, D., (2012). Contributions of banking sector in economic growth: A case of Pakistan. *Economics and Finance Review, 2*(6), 45-54.

Bourke, P., (1989). Concentration and other determinants of bank profitability in Europe, North America and Australia, *Journal of Banking & Finance, 13*(1), 65-79.

Carey, A., (2001). Effective risk management in financial institutions: the Turnbull approach. *Balance Sheet, 9*(3), 24-27.

Cooper, M.J., Jackson, W.E. & Patterson,G.A. (2003). Evidence of predictability in the cross- section of bank stock returns. *Journal of Banking and Finance, 27*(5), 817-850.

Duca, J. & McLaughlin, M. M. (1990). Developments affecting the profitability of commercial banks. *Federal Reserve Bulletin, 76*(7), 477-499. Edn.): McGraw-Hill.

Fahim, S. M., Rasheed, A., Hassan, M., Asadullah. M., Hafeez, M. & Iqbal. M. N., (2020). E-Commerce: The Mantra of Urban Centers. *Reviews of Management Sciences*, *2*(1).

Fareed, S. A. Q., Jabbar, T., Makhdoom, S. F., & Iqbal, M. N. (2023). Influence of Digital Marketing on Purchase Decision: A Qualitative Study on Pakistani Customers. *International Journal of Trends and Innovations in Business & Social Sciences*, *1*(4), 122-128.

Gizaw, M., Matewos, K., & Selvaraj, S., (2015). The impact of credit risk on profitability performance of commercial banks in Ethiopia, *African Journal of Business Management, 9*(2), 59-66.

Habib, S., Masood, H., Hassan, S.T., Mubin, M., & Baig,U., (2014). Operational risk management in corporate and banking sector of Pakistan. *Information and Knowledge Management, 4*(5), 58-66.

Hassan, M., & Iqbal, M. N. (2019). An Impact of Bancassurance in life insurance domain of Pakistan: A Quantitative study through structural equation model (SEM). *Kuwait Chapter of the Arabian Journal of Business and Management Review*, *8*(4), 38-46.

Holmes, M., (2003). Measuring operational risk: A reality check. *Risk, 16*(1), 84- 87.

Hopkin, P., (2017). Fundamentals of Risk Management: Understanding, Evaluating and Implementing Effective risk Management. In The British Journal of Psychiatry (4th ed.). London, UK: Kogan Page Limited. https://doi.org/10.1192/bjp.112.483.211-a.

Iqbal, M. N. (2022). The Influence of Corporate Social Responsibility on Corporate Alliance Brand

Value: A Study on Bancassurance Services in Pakistan. *Foundation University Journal of Business & Economics*, *7*(2), 61-69.

Iqbal, M. N., & Ali, S. H. (2024). A review on the role of strategic leadership in corporate strategy development. *Eye-The International Social Science Review*, *2*(1), 1-7.

Iqbal, M. N., Omercic, J., & Usman, G. C. (2024). Impact of Corporate Governance Practices in Life Insurance Sector of Pakistan. *Reviews of Management Sciences*, *6*(1), 58-74.

Iqbal, M. N., Shaikh, N. N., & Dilshad, W. B. (2023). An Impulsive Buying Behavior of Customer: A Qualitative Study on Bancassurance Services in Pakistan. *Priority-The International Business Review*, *2*(1), 138-151.

Jalees, T. (2016). Bancassurance: a potential project in the life insurance sector of Pakistan to achieve consumer trust and awareness. *Market Forces*, *11*(1).

Kabir, M. N., Worthington, A., & Gupta, R. (2015). Comparative credit risk in Islamic and conventional bank. Pacific Basin Finance Journal, 34, 327-353. https://doi.org/10.1016/j.pacfin.2015.06.0012.

Kashif, O., & Iqbal, M. N. (2022). A Conceptual Framework on Evaluating SWOT Analysis as The Mediator In Strategic Marketing Planning Through Marketing Intelligence. *Priority-The International Business Review*, *1*(1), 1-9.

Molyneux, P. & Wilson, J.O.S., (2007). Developments in European banking. *Journal of Banking and Finance, 31*(7), 1907–1910.

Molyneux, P., & Thornton, J., (1992). Determinants of European bank profitability: A note. *Journal of Banking and Finance, 16*(6), 1173-1178.

Nawaz, M. N. I. D. M., Zakai, S. N. Z. S. N., & Hassan, M. H. D. M. (2022). An Exploration of the Factors Influences Customer Response towards Banking Products and Services. *Psocialsciences*, *2*(2), 170-182.

Oluwafemi, A.S., Adebisi, A.N.S., Simeon,O., & Olawale, O. (2013). Risk management and financial performance of banks in Nigeria. *Journal of Business and Management, 14*(6),52-56.

Pakistan Economic Survey, (2014). Ministry of Finance, Government of Pakistan. Available at: [Accessed 02 July 2014].

Saleem, S. & Abideen, Zain-ul- (2011). Do effective risk management affect organizational performance. *European Journal of Business and Management, 3*(3), 258-267.

Saunders, A., & Cornett, M.M. (2003). Financial Institutions Management; a Risk Management Approach. (4th edn). New York: McGraw- Hill/Irwin.

Selma, R.M., Abdelghani, E. & Rajhi, M.T. (2011). Risk management tools practiced in Tunisian commercial banks. *Studies in Business and Economics*, 55-78.

Shafiq, A., & Nasr,M., (2010) .Risk management practices followed by the commercial banks in Pakistan. *International Review of Business Research Papers, 6*(2), 308-325.

Short, B.K. (1979). The relation between commercial bank profit rates and banking concentration in Canada, Western Europe, and Japan. *Journal of Banking and Finance, 3*(3), 209- 219.

Uddin, M. H., (2009). Reexamination of stock liquidity risk with a relative measure. *Studies in Economics and Finance, 26*(1), 24-35.

Vaihekoskia ,M., (2009). Pricing of liquidity risk: empirical evidence from Finland. *Applied Financial Economics, 19*(19), 1547-1557.

Wei, R., (2006). An empirical investigation of operational risk in the United States financial sectors. Working paper. The Wharton School, University of Pennsylvania, Philadelphia, PA.

Yu, H.C., (2000). Banks' capital structure and the liquid asset-policy implication of Taiwan. *Pacific Economic Review, 5*(1), 109-114.

Zaheer, R. Iqbal, M. N. & Yousuf, U. (2023), Benefits of Social capital, Social Economy in community development: A Review Article, *Eye-The International Social Science Review*, *1*(2), 23-28.

Zaheer, R., Iqbal, M. N., & Chishti, U. G. (2024). Evaluating the Impact of Antecedents on Employee Turnover in the Banking Sector of Pakistan. *Priority-The International Business Review*, *2*(2), 75-87.