

Sectoral Matters

Arising

October 1, 2020

to

October 31, 2020

▪ **Housing and Construction Finance**

A high level Steering Committee on Housing and Construction Finance has been set up by the State Bank of Pakistan under the Chairmanship of the Governor, SBP, with the objective of increasing housing finance in the country and to provide low cost housing to the lower income segment of the country. This is also expected to be a catalyst for jump starting the economy from the negative impact of Covid 19.

The Steering Committee (SC) includes Presidents/CEOs of seven banks that have volunteered to be part of it – (HBL, NBP, UBL, FBL, BAFL, MBL and BoP).

Under the SC, individual teams are engaged in various work streams required to create a more enabling environment and one such stream is for use of technology and digitization for housing finance activities.

It was decided by the SC that this work stream be set up under the aegis of PBA, comprising CEOs from BAFL, HBL, FBL and PBA, with SBP as observer. The objective of this work stream is to oversee the design, development and deployment of an automated income estimation and credit assessment methodology for Naya Pakistan Housing initiative, and it is called the PBA Working Group (WG) on Technology.

The WG has appointed Mohsin Tayebaly & Co (MTC) as a legal consultant and is working on the appointment of the Project Manager. A technical consultant will also be appointed shortly.

Once the project cost is approved by PBA's Executive Committee, the proportionate share of each member will be communicated for reimbursement to PBA on the basis of PBA's existing allocation methodology.

While initially this credit assessment methodology will primarily be used for Housing and Construction Finance, it is expected that this can, at a later date, be used for other consumer lending products, as well.

▪ **Market Treasury Bills (MTBs) – maturity on lunar holidays**

In the instance that MTB maturities fall on a lunar holiday (Eid, Ashura, etc.), and to ensure that MTB investors are treated fairly and are protected from the potential loss of profit due to lunar holidays, PBA had requested SBP and the Ministry of Finance (MoF) to formally establish a protocol at the time of announcement of the auction calendar.

The PBA Sub Committee on Treasury and Capital Markets had advised SBP that the maturity dates of MTBs be preponed to the last working day before the holiday, in which case the maturity price would be adjusted accordingly as well.

SBP has responded to PBA, agreeing that a better planned calendar for announcement of MTB auctions is most essential and has approved PBA's suggestion, requesting PBA to share an auction calendar option created on the possible lunar dates, on a year to year basis. That will provide the basis on which SBP will subsequently suggest an auction calendar and MTB maturities to MoF.

▪ **Executive Committee (EC) strategy session**

The PBA, EC, held a strategy session at the PBA office on October 29, 2020. The objective of the session was to brainstorm and discuss new areas of focus for PBA's activities, apart from the existing ones.

New areas, like, inclusive development (Agri, SME & housing finance); digital banking and use of blockchain technology for E-KYC and development of database of proscribed persons and PEPs; and enhanced media engagement to keep all external stakeholders better informed and updated on the banking sector's narrative on emerging important matters pertaining to PBA's members. were considered.

- **Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing**

PBA had informed SBP that its members would be either developing their own system solution for analysis of trade related information or may opt to get the services from an external vendor.

SBP had given the deadline of September 30, 2020 (extended from April 30, 2020 due to the Covid 19 constraints) for banks to develop their distinct, trade related risk profile.

While PBA's members have initiated the risk profiling process, the continuing Corona situation is still impeding their progress, so, PBA has requested SBP to further extend the above deadline to December 31, 2020.

- **Curbing Online Banking frauds**

In view of the rising reports of Online Banking Fraud, SBP had requested PBA to provide the industry's input regarding the relaxed requirements currently in effect for customers' verification for mobile/internet banking.

The earlier requirements for activating online banking channels included the customer's request, following biometric verification. These conditions were waived in the changed working environment resulting from Covid19 and the subsequent lockdown.

Based on PBA's General Banking Sub Committee's feedback, the response was sent to SBP on October 7, 2020.

- **Draft Policy for Equity Investment Abroad**

SBP is proposing a revision in the existing Policy of Equity Investment Abroad to facilitate the residents of Pakistan in meeting the requirements for such investments. The initial draft of the revised policy is available on the SBP website. The draft policy recommends replacing the existing Para 13 of Chapter 20 of Foreign Exchange Manual. SBP is consulting all stakeholders regarding the proposed change and has asked PBA for its feedback. Following a review of the initial draft of the revised policy by PBA's member banks, the feedback was sent to SBP on October 9, 2020. SBP is expected to engage further with PBA on this.

- **Revised draft template for Complaints Publication**

To ensure that 'Fair Treatment of Consumer (FTC)' remains a vital and effective practice within all Financial Institutions (FIs), a review of Consumer Complaints against Banks/DFIs/MBFIs for 2016-19, was published by SBP on July 23, 2020 – albeit without mentioning names of any of the FIs.

To further reinforce responsible complaint handling, SBP informed all banks that it also plans to publish bank-wise complaints data for which a revised draft template has been created. The proposed revised Publication is to be backdated from September 2020 onwards and issued on a quarterly basis.

PBA was requested to provide feedback on the said template, which was reviewed by PBA's member banks, and their comments were subsequently consolidated and sent to SBP on October 9, 2020.

- **Investment of liquid funds by Microfinance Banks (MFBs)**

It was brought to PBA's notice that as per Prudential Regulations (PRs), the MFBs are allowed to invest in fixed income securities only and they would like the opportunity to invest in Cash / Money Market Funds as well.

The matter was reviewed by PBA's Microfinance Sub Committee, which has formally requested SBP to allow MFBs to use same criteria mentioned in Circular 4 of 2013 or give guidance in some way so that MFBs may benefit from a higher return.

- **BCP during emergencies**

SBP had requested feedback from PBA regarding the Business Continuation Plan (BCP) and preparedness for emergencies – as handled by commercial banks – following the devastating rainfall in the last week of August 2020, which had inundated Karachi and, in turn, affected the working conditions of several organizations, including banks. PBA, General Banking, Sub Committee, had assessed the members' responses regarding the measures taken to continue operations during the disaster, lessons learned and the policy decisions made. Feedback was also received on the possible events that have been identified where the BCP arrangements may be invoked and the authority to invoke the same.

After PBA's review of the feedback was sent to SBP on October 16, 2020

Matters in the pipeline

Ending
October 31, 2020

1. **Recent Trusts Acts in Sindh, Punjab and Khyber Pakhtunkhwa;** implications being reviewed by PBA, in consultation with Mr Khozem Haidermota.
2. **Development of Database of proscribed persons and PEPs;** Financial & Technical Proposals obtained and under review by PBA.
3. **Draft Islamic Foreign Exchange Master Agreement & Draft Conventional Foreign Exchange Master Agreement;** legal opinion sought on both the draft agreements.
4. **Fraudulent Transaction Dispute Handling (FTDH);** Members' comments being reviewed before submission to SBP.
5. **Institutional Risk Assessment Framework (IRAF) –** Members' comments received and being reviewed by PBA before submission to SBP.
6. **Draft circular on sale of third party products:** Members' feedback received and being assessed by PBA Consumer Banking, Sub Committee for onward submission to SBP.
7. **E-KYC:** selected vendors asked to arrange Proof of Concept (PoC). Final selection to be made after successful verification of PoC by a group set up by PBA and in consultation with SBP.