



Digital banking in Pakistan

Covid-19 has prompted a strong shift in behaviour of bank customers towards digital banking in Pakistan. Though Pakistan is still heavily reliant on cash transactions with customer preference remaining on COD (Cash on delivery) options, the trend of Digital Financial Services used by internet users reflects a promising future for Digital Financial services in Pakistan



Admittedly, the Covid 19 situation has had a lot to do with altering bank users' attitudes regarding digital banking. To keep the banking systems operating in a seamless manner during the Corona crisis, financial institutions (FIs) took several emergency measures to mobilize digital processes following the lockdown.

The State Bank of Pakistan added its support by announcing regulatory relief measures to support branchless transactions and the Government of Pakistan relief package was also disbursed through mobile and other digital modes to discourage the physical use of cash.



The banking industry's response to the extraordinary situation and the resultant surge in digital banking, shows Pakistan to be well placed in digital banking, and its role in innovating digital financial solutions. Some areas of focus include;

♦ Digitalization of Banking Models

Pragmatic, digital banking models are essential for effective Business Continuity Plans for sustainability. Banks are working at repositioning and optimizing branch network, while providing more services to customers through digital (and secure) channels at their fingertips.



♦ Cloud managed services



With SBP's support via, 'Enterprise Technology Governance and Risk Management Framework for Financial Institutions,' and its recent approval on 'Outsourcing to Cloud Service Providers' investments on cloud infrastructure and SaaS (Software as a Service); Platform as a Service (PaaS) and Infrastructure as a Service (IaaS), are being pursued for secure future digitalization ventures.

The future for Pakistani banks in the global, digital landscape is promising. FIs are adapting to the changes and adjusting their administrative procedures by minimizing paper documentation; people are financially more literate; the regulators are inclusive and adaptive and masses appear to be more inclined to adopt digitalized banking as a part of life. With the commitment of all stakeholders to ensure efficiency, transparency and reduced risk for bank customers, along with the government's support to upgrade infrastructure, Pakistan is getting well positioned in the digitalized age of banking.

CONCLUDED MATTERS

July 1, 2020 – September 30, 2020

- **Framework for Outsourcing to Cloud Service Providers (CSPs)**

Following PBA's feedback regarding the outsourcing of Cloud services, SBP has issued a circular on, 'Enterprise Technology Governance and Risk Management Framework for Financial Institutions (FIs)' and 'Framework for Risk Management in Outsourcing Arrangements by Financial Institutions' [dated, September 28, 2020].

SBP had sent an earlier revised framework to PBA, requesting a review of the updated Framework which was based on initial feedback from various stakeholders, including PBA. The revised framework was reviewed by the PBA Cyber Security Forum and their feedback / comments were sent to SBP in July, 2020.

- **Reporting Chart of Accounts (RCOA)**

On behalf of its members and on the advice of PBA's Accounting & Taxation Sub Committee, PBA requested SBP in early July 2020, for an extension date for the submission of Reporting Chart of Accounts (RCOA). The initial deadline of July 16, 2020 was extended by SBP for a week.

News item clarification



PBA took up the matter of the publication of a news item titled, 'Sharing of customers' data with FBR,' which appeared in various newspapers on, September 25, 2020 and was based on an FBR press release. The news item misinterpreted the fact, giving the impression that PBA and FBR

have agreed for banks to share customer information with FBR on **real time basis** (through direct access to banks' database). PBA discussed the newspaper coverage with the concerned seniors at FBR, who confirmed that the understanding between PBA and FBR is to seek customer data on a periodic basis, as defined under the Income Tax Ordinance, and not through online or real time access to customer bank accounts. PBA has requested FBR to issue a clarification in the press.

Revised guidelines

on RISK MANAGEMENT

In 2019 SBP had revised its 'Risk Management Guidelines' of 2003, to introduce new and important developments for managing financial and non-financial risks for FIs.

The revised guidelines were shared with PBA for feedback and the response given by PBA, was followed by necessary changes made by SBP.

In August 2020, SBP informed PBA that additional revisions have been made by them, particularly for, interest rate risk guidelines, operational risk guidelines and credit risk management for IFRS 9.

PBA was requested to again review the guidelines and PBA's feedback on the same was provided to SBP on September 9, 2020, after input from PBA's Risk Sub Committee.



MATTERS submitted to SBP

Feedback given: July 1, 2020 – September 30, 2020

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

SBP has been informed by PBA that banks will be developing their own system solution for analysis of trade related information or may opt to get the services from an external vendor.

- **Work from home - recommended / suggested guidelines from PBA Cyber Security Forum**

With the work environment disturbed due to Covid 19, and some bank personnel required to work from home, the PBA Cyber Security Forum took the initiative and developed the 'Work From Home Guidelines' for the benefit of PBA's members. These guidelines – mainly to mitigate cyber security risks – are baseline recommended measures. The Guidelines were circulated to all member banks to be used in conjunction with the policies & procedures of individual member banks.

- **Revised Guidelines for Management of *Shari'ah* Non Compliance Risk (SNCR)**

These were reviewed by the PBA Islamic Banking Sub Committee in June 2020 and feedback was given to SBP, upon which the amended guidelines were provided by SBP in July 2020.

- **Relief in cash reserve requirement for banks**

In order to facilitate banking companies achieve the mandatory targets for financing housing and construction of buildings, some incentives in the Cash Reserve Requirement (CRR) are being considered by SBP.

A draft circular on this matter was sent to PBA for comments.

The feedback received from PBA's member banks on the proposed amendments in CRR requirements were sent to SBP on September 25, 2020.

- **Coupon Stripping for Market Development**

SBP requested PBA's feedback on coupon stripping for eligible bonds, lot size, taxation pricing etc. PBA's Treasury & Capital Markets Sub Committee looked into the matter and subsequently a feedback was sent to SBP in August.

- **Corporate Insurance Agents Regulations 2020**

SECP had requested PBA for comments on the draft regulations and PBA's Consumer banking Sub Committee subsequently reviewed it. The consolidated feedback was sent to SECP in early August.

- **Revised Draft Foreclosures and Recovery Laws**

Following mandatory targets for banks to finance the housing sector, SBP has initiated the strengthening of the recovery and foreclosure laws through draft amendments in Financial Institutions Recovery of Finances Ordinance, 2001 (FIRO) and also on the Recovery of Mortgage-backed Security Ordinance, 2019 (RMSO) or any other law deemed necessary for the recovery regime.

PBA was asked to review both these documents and provide input to SBP which was done in July, after which changes were made in both the draft laws by SBP.

PBA was again asked to go over the amended draft laws and after PBA's members' and Legal Sub Committee's feedback on the amendments, it was conveyed to SBP.

- **Reduction of write-off reflection period in eCIB report**

On SBP's request, PBA's Risk Sub Committee reviewed the write-off reflection period which SBP is considering to reduce. The Sub Committee suggested that the 15-year write-off period should be retained to allow banks to make the most informed lending decisions possible. The recommendations have been submitted to SBP.

❑ Pensioners Biometric Verification - Meeting with NADRA and SBP

The Controller General of Accounts (CGA) GoP had requested SBP in June 2020, to work with commercial banks to keep the bank charges at a minimum for the bi-annual biometric verification of pensioners. On SBP's request, PBA had also provided SBP with the feedback received from banks regarding the preparedness of banks to implement the CGA's suggestion.

Subsequent to the feedback sent by PBA, SBP invited the banks' technical/IT teams to participate in a meeting with the Project Director, NADRA, to firm up the process where further concerns from the IT teams were communicated to NADRA for its consideration.

❑ Netting of Financial Contracts Bill, 2020

PBA was requested by SBP to review the amendments as suggested by the Ministry of Law & Justice and provide comments on the same. The PBA feedback / comments were sent to SBP on July 15, 2020.

❑ Amendments in the Collateral Management Companies (CMC) Regulations, 2019

As requested by SBP, PBA had sent its comments to SECP, in early July, on the draft amendments in the Collateral Management Companies (CMC) Regulations, 2019. The key recommendations by PBA had included feedback from banks on, certain allowances for or restrictions upon, Financial Institutions (FIs).

The updated CMC Regulations were communicated to PBA by SBP and our member banks were asked to convey their feedback (if any) directly to SECP.

❑ Clarification for filing of security interest in secured transactions registry (STR) under the Financial Institutions (Secured Transactions) act 2016

PBA's member banks asked for the issue to be raised with SBP since most of the moveable assets are either owned by banks or are within the control of banks. Hence, registration under STA cannot add any value. Consolidating the comments of member banks, PBA has requested SBP to provide guidance on moveable assets required to be registered under STA. The proposal is being considered by SBP

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❑ Tax neutrality for Islamic banking

SBP and GoP have worked on promoting Islamic Banking through banking provisions and resolutions regarding taxation issues and by granting a neutral tax regime for Islamic banking institutions (IBIs). Earlier this year, PBA was requested by SBP to provide information regarding any outstanding taxation issues faced by IBIs following which PBA's Islamic Banking Sub Committee provided its feedback.

In August, SBP responded with comments on PBA's previous feedback which were again reviewed and discussed with tax consultants of IBIs and the PBA, Islamic Banking Sub Committee. The feedback was sent on August 21, 2020 to SBP.

❑ Quarterly & Half-Yearly Financial Statements: COVID-19 related disclosures in the format of interim financial statements

Earlier in July, SBP notified PBA that it would be issuing instructions regarding COVID-19 impact disclosures in the interim financial statements of banks/DFIs, which were intended to be applicable from June 30, 2020 onwards.

PBA's response – which included requests from banks regarding relaxation in certain deadlines and reporting details – was duly sent to SBP in July.

❑ Reporting of data to FBR under sections 165/165A

To resolve the issues in reporting of data to FBR by the banks, IT teams of the banks and FBR are in constant touch through video conferences. PBA office is facilitating the discussions.

IBOR Transition & Transaction Management



To understand the implications of IBOR

(Interbank Offered Rates)

discontinuance and to discuss the background of this big change, a webinar was organized by PBA on August 7, 2020, via Zoom for its members. SBP representatives were also invited to attend.

Consultants M/S Fieldfisher conducted the webinar from London, focusing on fundamental considerations to be made during this transition.

Almost 80 participants attended the webinar.

Matters in the pipeline

(As on September 30, 2020)

♦ Development of Database for screening of proscribed persons and PEPs

With reference to AML/ CFT screening obligations of banks, a member bank had requested PBA to develop a centralized database of PEPs and local proscribed persons. PBA formed a smaller group/ task force of AML Heads to engage with vendors for developing database of proscribed persons and PEPs. The first round of presentations has been completed by the PBA Working Group with six presentations from different vendors. The review of vendors is in process.

♦ FX agreements – Conventional and Islamic

PBA's Treasury and Capital Markets Sub Committee had felt the need for standardized FX agreements for Pakistani market and is working on finalizing these in consultation with PBA's external legal counsel.

♦ Shared eKYC platform

In line with global trends and use of Fintech and other such innovations, a tech-based platform, for common benefit of banks, through which participating banks can access central KYC data and documents for customer due diligence, is being initiated through PBA.

The process of exploring the market began in April 2020, through PBA's Compliance / AML groups. Three vendors have been identified and selection will be finalized after due process and with the approval of PBA's EC.

Meetings held

(July 1, 2020 – September 30, 2020)

♦ SBP-PBA coordination meeting

- Governor, SBP and his senior leadership team and the PBA, Executive Committee (EC)

The meeting was held on August 24, 2020 and the main points of discussion included:

SBP side agenda:

- Interim report on Enhancing Digitalization in Banking Industry;
- Other matters discussed;
 - Centralized KYC (Know Your Customer) facility; Low Cost Housing; Pakistan Single Window (PSW) project; End to end digitalization of FX cases;
- Rozgar Scheme and Temporary Economic Relief Facility (TERF).

PBA side agenda

- PBA EC took up, once again, its suggestions regarding the penalty regime.
- PBA's EC informed the Governor about the work being done on;
 - Netting of financial contracts;
 - FX agreements (for conventional and Islamic banking);
 - Certification and training of traders of banks.

♦ Meetings with FBR on report of data under sections 165/166

- Banks' IT Teams and FBR Team

September 30, 2020

September 10, 2020

August 19, 2020

July 17, 2020

♦ Executive Committee

August 13, 2020

♦ Sub Committees

- Accounting & Taxation:

July 9, 2020

- General Banking

September 18, 2020

August 7, 2020

July 16, 2020

- Consumer Banking

September 29, 2020

August 25, 2020

August 18, 2020

July 28, 2020

♦ Forums

- Cyber Security

September 4, 2020

- Compliance

September 8, 2020

- Fraud prevention

September 25, 2020

July 17, 2020

♦ Working Groups

- Internal Audit

August 7, 2020

July 3, 2020

- Digital Banking

July 24, 2020

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