



Sectoral Matters

November 1, 2020

to

November 31, 2020

❑ Housing and Construction Finance – Working Group on Technology

A high level Steering Committee (SC) 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 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/project 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/project 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 project cost will be borne by all the banks.

With the approval from the PBA EC, the WG has appointed Mohsin Tayebally & Co (MTC) as a legal consultant for the project and PWC as the Project Manager (PM). MTC will initially be addressing legal queries, vetting contracts, research, meeting with relevant stakeholders, conducting formal presentations and interviews for the purpose of bringing all stakeholders on board. It will later be geared primarily towards drafting of any law/regulation/amendments and documents/instruments required for implementation of the Programme. The scope of PWC, as a PM is to assist in the first pillar of this project i.e. engaging and hiring of the scorecard and income estimation consultant.

Once the project cost is approved for 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.

In terms of overall scope of project, it will entail development of personal scorecards for our existing and potential borrower base not only for housing, but possibly also for other consumer finance products.

Use of these scorecards based on data and repayment behaviour/history of borrowers would help the banks to take more informed credit decisions, potentially reduce credit losses and increase loan volumes.

❑ Meeting with Dr Inayat Hussain, Executive Director (ED), SBP, and Mr Tawfiq Hussain, CEO, PBA, and their teams at PBA office

The meeting was held on November 12, 2020, to discuss the rising problem of cyber-fraud impacting bank customers' accounts and negatively affecting banks.

The ED, SBP, briefed PBA that the fraud was primarily taking place by obtaining client account details through calls made by persons impersonating as SBP or bank officers.

He also briefed PBA about the measures taken jointly by SBP and the Pakistan Telecommunications Authority (PTA) and emphasized the need for collaboration between SBP, PBA, PTA, Federal Investigation Agency (FIA) as well as individual banks.

CEO PBA also informed the ED, SBP, of public awareness measures so far taken by PBA and suggested further efforts to spread the awareness amongst bank users regarding cyber fraud. It was agreed that joint efforts will increase between SBP, PBA and its member banks and Pakistan Telecommunication Authority to track and trace these fraudsters, block the SIMs and mobile devices used in these criminal activities. New public awareness campaign will also be launched, as in the past, through the platform of PBA.

PBA will keep its members updated on this important matter.

❑ Sale of Third Party Products

The State Bank of Pakistan requested PBA for a feedback on the master circular on Sale of third party products. PBA, Consumer Sub Committee reviewed the draft and the feedback was submitted to SBP. The provisions of the circular are applicable on bancassurance/bancatakaful and other investment related third party products offered by banks/MFBs/DFIs/ Islamic Banking Institutions (IBIs).

❑ Open Disclosure of Digitization Statistics

A draft format for disclosure of digitization related statistics of FIs has been created by SBP.

In this regard, a joint committee comprising officials from SBP and PBA was constituted to propose a mid-term strategy for continuity of essential financial services in Pakistan amid COVID-19 and to recommend measures to protect health and safety of banking professionals and customers.

The joint committee carried out a study to assess effectiveness of Internet Banking and Mobile Banking (IB/MB) channels in the industry. During the study, quality of IB/MB services being offered by the FIs was also assessed and to foster a healthy competition, SBP has decided to share the performance study of all banks regarding their digitization, which will be made available on the SBP website.

SBP had asked for PBA's feedback on the draft format for disclosure digitization related statistics of FIs, and PBA's response has been sent to SBP.

❑ Institutional Risk Assessment Framework (IRAF)

The State Bank of Pakistan (SBP) had introduced the concept of Institutional Risk Assessment Framework (IRAF) in 2004, which required submission of self-assessment questionnaires being submitted by the banks/DFIs on a half-yearly basis to SBP. It was to en-sure proactive assessment of the risks that banks were exposed to and in turn to strengthen the supervisory mechanism of the State Bank of Pakistan. Several questionnaires for self-assessment of banks/DFIs were subsequently prepared for this purpose.

One of the member banks approached PBA to take up the matter, with SBP, for discontinuing the IRAF Framework because several regimes for Risk Management have successively been introduced by SBP over the years and many of the regulations listed in the IRAF questionnaire have since been superseded. It was also pointed out that risk-based approaches and frameworks developed internationally and introduced by SBP include scientific approaches in line with best international practices for assessing/mitigating risks, for example; BASEL II, BASEL III, ICFR, ICAAP, RCSA, CRM Guidelines etc.

Even the model of the banking industry has changed considerably since the introduction of IRAF, hence, the purpose of IRAF is more or less redundant in current day banking.

PBA's Risk Sub Committee looked into the matter and following a feedback from other members, PBA has submitted the proposal of discontinuation of IRAF to SBP.

❑ Regulations for Payment Card Security

The comments of the PBA, Consumer Sub Committee, on the Draft Circular letter issued by SBP on Regulations for Payment Card Security, were submitted on November 11, 2020. The circular included the suggestion of improving the Payment Card Acceptance Infrastructure in Pakistan.

❑ Workshop on Interbank Fund Transfer (IBFT) Pricing

To discuss Interbank Fund Transfer pricing and to seek proposals from banks, SBP had organised a consultative session on November 03, 2020. The main point of discussion was the review of waiver of charges on fund transfer transactions (interbank/intra-bank) through digital channels.

PBA's senior executive and nominees from banks attended the consultative session and PBA's representatives from its Consumer Banking Sub Committee also provided input at the session.

Matters in the pipeline

Ending
November 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. 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.
- 6. E-KYC:** Review of Proof of Concept (PoC) of vendors in progress. Final selection to be recommended by PBA's Working Group to the Executive Committee for approval. SBP is being consulted on this.