



Sectoral Matters

August 1, 2021
to August 31, 2021

Additional Tax on Income from Government securities

PBA has sent a letter to FBR, addressing the concerns raised by member banks on the above subject.

With the amendments made in Clause 6C of the Seventh Schedule to the Income Tax Ordinance, through the Finance Act 2021, a new taxation regime for income from Federal Government Securities was levied on banks which is currently applicable on 'Total Income' earned by banks. On PBA member banks' behalf, a request has been submitted to FBR that the basis of the calculation of the enhanced tax be reverted to the previous condition – i.e., on Additional Income from Additional investment in government securities, rather than on Total Income.

Development of Database of Proscribed Persons and PEPs

PBA has facilitated, through a lengthy process, and has found a viable database solution for screening of negative lists and PEPs.

A quality database screening solution with a favourable cost structure through local vendors was vetted at length by PBA's Smaller Working Group comprising representatives from MCB, HBL, UBL, NBP, ABL, ICBC & PBA Office.

After detailed analysis of different options, the Working Group selected the analytics company, Love for Data (LFD) with the option of, 'Pay Per Search' for screening.

Housing and Construction Finance - Scorecard and Income Estimation

The Steering Committee (SC) for Housing and Construction Finance, chaired by Governor, SBP, and with CEO's of six banks (HBL, FBL, BAFL, MBL, UBL & BoP), NAPHDA and Senior SBP officers as members, has set up a 'PBA, Technology Working Group (WG)' to oversee the design, development and deployment of an automated income estimation and credit assessment methodology for Naya Pakistan Housing initiative.

The PBA, Technology WG, comprises CEOs and teams of three banks (Bank Alfalah, HBL and Faysal Bank), CEO of PBA, with SBP present as an observer and it has been engaged since October, 2020, in creating a roadmap to ensure sustainable market-led financing of housing projects and mortgage financing for the underserved in the country.

To further develop automated and statistical credit assessment models as well as income estimation models using multiple and alternative sources of data, the PBA Technology Working Group has now appointed a Consortium of consultants comprising four entities;

1. Creditinfo
2. Aequitas Information Services Limited
3. Pakistan Credit Rating Agency
4. Analytics (Private) Limited

The appointment of this Consortium included a structured RFP process in which multiple local and international consultants participated and the process was overseen by Price Waterhouse Cooper (PWC) who were hired earlier by the Working Group upon approval by the PBA, EC.

Work on this project is scheduled to begin in September, 2022 and it will include development of personal scorecards for existing and potential borrower base not only for housing, but later 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.

Accordingly, PBA has informed its member banks about the availability of the screening solution. The banks can review their options and avail the service in their individual capacities as per the requirements of their respective institutions. The role of PBA was to facilitate the banking industry in finding a quality, yet economical solution, for screening requirements. PBA has also requested banks to inform PBA their willingness to acquire the solution by September 6, 2021, so that the service provider may be in-formed accordingly.

❑ **Joint Call Centre for LCH**

Since commencing operations in May 2021, the Joint Call Center (JCC), set up by PBA to handle the incoming calls pertaining to Low Cost Housing (LCH), has been steadily recording calls from potential customers.

However, to enable the JCC to operate at its full capacity of 5000 calls per day, a Monitoring and Development Committee (M&DC) has been formed to manage/monitor the call centre performance and next deliverables.

PBA has also been requested by the Steering Committee on Housing and Construction Finance (chaired by Governor, SBP), to manage a focused, SMS and digital media campaign to build awareness of both the product and call centre and to promote a series of SMS messages.

In this regard, and as per the Media strategy created by PBA's Media Working Group, a generic text message to market the JCC and the LCH packages has been finalized and will shortly be rolled out by member banks.



Once completed, this initiative, through the PBA platform, will be transformational for mortgage/consumer lending space in Pakistan. We will keep communicating to our members as we progress, the basic model of which is expected to be available in the next 6 months for use by the banks. The entire project, including, Expert Score; Income Estimation Model; Statistical Score; Meta Data App; Psychometric Score and Annual Model Review is expected to be completed in 30 months.

❑ **1-link, provincial sales tax**

In May 2021, the Khyber Pakhtunkhwa Revenue Authority (KPRA) had issued notices to banks, stating that 1-Link Pvt. Ltd is providing services to several banks throughout Pakistan through IT-based banking or allied services in the province of Khyber Pakhtunkhwa and such services are liable to KP sales tax, which was not being credited to KPRA. PBA's Accounting and Taxation Sub Committee had taken up the matter, co-ordinating with 1-Link and the banks, in order to resolve the issue and devise a system whereby banks could provide 1-Link with relevant depositor data and WHT could be charged and deposited with KPRA. The matter was settled in August and 1-Link issued an industry-wide statement confirming that they would deposit the tax to respective province /tax authority where they operate.

To help 1-Link in tagging transactions with a specific province/tax authority for payment of Federal/sales tax, banks will share a list of their ATM machines' IDs along with the province name where each machine is operational.

❑ **Delays in loan recovery cases**

The Steering Committee (SC) on Housing and Construction Finance (which is chaired by Governor, SBP), had asked PBA to write to the Supreme Court with a request to establish special benches to decide on FIRO (Financial Institutions Recovery of Finances Ordinance, 2001) related cases.

Subsequently, a letter was sent by PBA to the Honourable Chief Justice, Supreme Court of Pakistan, in August 2021, emphasizing the need to provide speedy disposal of loan recovery cases which otherwise tend to take five to seven years to decide. It was proposed that Provincial Courts place the cases before the special benches of their respective High Courts to ensure early recovery.



Matters in the pipeline


Ending
August 31, 2021

- 1. Blockchain eKYC Platform for the banking industry:** A final selection of vendor has been made following approval of Proof of Concept by the PBA, EC. The vendor is currently conducting POC with three banks and a final decision will be made after feedback is received from these banks.
- 2. Draft Islamic Foreign Exchange Master Agreement:** PBA, Treasury & Capital Markets, Sub Committee had addressed all the legal queries raised by PBA's legal consultants, Mandviwalla & Zafar (M&Z). The draft is now being further reviewed by M&Z.
- 3. Framework for managing risk of Trade Based Money Laundering (TBML) and Terrorist Financing:** PBA, General Banking (GB), Sub Committee is reviewing the issues faced while performing Price Due Diligence under the TBML Framework. Once the review is finalized, PBA will take up the matter with SBP.
- 4. National Financial Inclusion Program (NFLP) - inactive bank accounts:** A PBA, Project Team (PT) has been formed to address the issue raised by SBP. The PT will be carrying out an in-depth survey/research to understand the key reasons for inactivity in customers' bank accounts via a third party consultant.
- 5. Fraudulent Transaction Dispute Handling (FTDH):** Discussions between members of the PBA, Fraud Prevention Forum (FPF) and the SBP team are underway to decide a way forward.

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