



PBA's campaign on Low Cost Housing, Mark-Up Subsidy scheme

PBA's awareness campaign to highlight the incentives being offered by banks through the Prime Minister's, mark-up subsidy scheme for Low Cost Housing was released in two phases starting from February 2021.

It was an aggressive campaign on behalf of the banks who had opted to advertise under the PBA platform.

Directed towards the lower income segment of the country, the campaign has been aired in two bursts since February 2021, with

the second run highlighting the enhanced facilities for borrowers, which were announced by SBP on March 25, 2021.

Information regarding access to the joint call centre – set up with the help of PBA, SBP, HBL, Faysal bank and Meezan bank, to handle all queries regarding the Low Cost housing financing – was also included in the latter part of the campaign.



Prime Minister Imran Khan's
Naya Pakistan Housing Scheme

Mera Pakistan Mera Ghar



Pakistan Banks' Association



Through SBP and NAPDHA's housing finance incentives, your bank can give you:

- Up to 20 years' financing for your own home
- Reduced mark-up/profit rate (as applicable) starting from 3%
- Easy monthly installment payment plan



To facilitate bank customers regarding the loan/financing process and requirements, a joint call centre has been established.

The joint call centre number – 033-77-786-786 – is open 24 hours to answer loan/financing queries.



Pakistan's success is in its people's prosperity.



Inclusion of banks in essential services by GoP, NCOC



The matter was taken up by PBA with the regulators, following the issue of Law Enforcement Agencies (LEAs) visiting bank branches to enforce COVID 19 SOPs and issuing warnings or sealing the branches.

PBA had requested member banks to send in a list of the branches pressured by LEAs, which was submitted to SBP.

Subsequently, on the request made by PBA to SBP on the subject, the Government of Pakistan, via an announcement released by NCOC, included banks in essential services and exempted bank branches from 50% work at home policy.

LCH – joint call-center

The Steering Committee (SC) on Housing Finance, chaired by Governor, SBP, asked PBA to take on the initiative of setting up and overseeing a joint call center, dedicated to handling the incoming calls pertaining to Low Cost Housing (LCH). Closely assisted on the technical, operational & commercial aspects by a small working group of relevant technical seniors from HBL, Meezan & Faysal Banks, the joint call centre has been set up and managed by Pak Telecom Mobile Limited (Ufone) under the PBA platform and is available 24/7.

Since commencing operation in April 2021, a substantial rise in calls from potential customers has been recorded at the joint call centre.

The main purpose of this initiative was to provide standard information on the Product, explain its parameters, required documentation and the process of application. Based on the prospective customer's location and preference, the call center agents are also able to forward these calls to the individual bank's call center as leads.

The contact number for the call center – 033-77-786-786 – has also been widely publicised by the banks' individual marketing and via PBA's print media campaign on Low Cost Housing.

The cost of the set-up and running of this joint call center will be shared by banks participating in the Low Cost Subsidy scheme.

Self-Assessment Checklist for SBP Guidelines and Institute of Internal Auditors (IIA) Standards

The PBA Working Group (WG) on Internal Audit (IA), has developed a self-assessment checklist to facilitate compliance of banks with SBP regulations, IIA standards and other local & international regulatory / Group requirements and best practices, a task, all banks are expected to undertake.

To facilitate the PBA members, the self-assessment checklist, covers in detail, the requirements for the following frameworks and Guidelines in particular, which are directly impacting the Banks:

1. Enterprise Technology Governance & Risk Management Framework (<https://www.sbp.org.pk/bprd/2017/C5-Annex.pdf>)
2. Shari'ah Governance Framework (<https://dnb.sbp.org.pk/ibd/2018/C1-Annex-A.pdf>)
3. Guidelines on Internal Audit Function (<https://dnb.sbp.org.pk/bprd/2019/Guidelines-C2.pdf>)

The self-assessment checklists were circulated to Chief Internal Auditors of member banks in June 2021 for their assistance in evaluating the current status of its compliance in their respective banks, with the above Framework and Guidelines.



Strategy meetings



Mr. Philip M. Lovegren, US Treasury's representative in Pakistan, based at the US Embassy, Islamabad, along with Mr Fahd Zaidi, Economic Specialist, US Consulate General, Karachi, visited PBA office and met with Mr Tawfiq Hussain, CEO, PBA, on June 21, 2021, to discuss Pakistan's economy and matters pertaining to the banking sector



Zoom meeting held between PBA senior management led by Mr Tawfiq Husain and SBP team led by Mr. Jameel Ahmad, Deputy Governor, SBP, to discuss the progress on the e-KYC project. Final selection of vendor has been made and approved by PBA, EC. Selected vendor has submitted Proof of Concept (PoC) and the agreement will be signed shortly.

Federal Budget follow-up

After the proposed Federal budget 2021/2022 was presented in the National Assembly, Mr Tawfiq Husain, CEO, PBA wrote a letter to Mr. Shaukat Tarin, Federal Minister for Finance and Revenue, to highlight two main taxation matters impacting banks, which were not taken into consideration in the proposed Federal budget.

The focal point of the letter was the tax rate for banks which is currently at 35%, whereas the rest of the corporate sector is taxed at 29%. The addition of 4% super tax also levied only on banks is discriminatory in nature and it was brought to the Finance Minister's attention that to make the tax structure equitable, the banks' tax rate should be brought down to 29% and the supertax at 4% for banks be abolished.

The other main point addressed was the Bank deposit placements which are at a tax disadvantage when compared to investments in stocks and mutual funds. The Finance Minister was urged to review the difference in withholding tax levied on profit earned on banks deposits – ranging from 15 to 35 percent, depending on amount earned – whereas the dividend earned via shares or mutual funds is taxed only 10 to 15 percent, irrespective of amount earned.

PBA's main assertion was that tax rate should not determine an individual's decision of placing cash in banks or in shares & mutual funds. The Finance Minister was requested to correct this disparity in tax treatment on profit on debts.

PBA's letter was given full coverage in Business Recorder, published on June 23, 2021.



Implementation Manual for Green Banking Guidelines

PBA was requested by State Bank of Pakistan to provide its feedback on the draft of the 'Environmental & Social Risk Management (ESRM)

for Pakistan Financial Sector - Green Banking Implementation Manual'.

SBP has played a pioneering role in integrating the E&S risks into overall credit assessment and had developed the Green Banking Guidelines for the Pakistan Financial Sector in 2017. The objective was to establish a minimum standard, ensuring that a level playing field be maintained in the financial sector and also to promote a sustainable business model in Pakistan.

Following the guideline implementation in Pakistan for three years, banks identified the challenges of managing E&S risks in lending, the resources and tools that are required to do E&S due diligence meaningfully and the different levels of implementation in the banks.



Now, SBP's newly developed, 'Green Banking Implementation Manual', is intended for identifying and managing those E&S risks.

Meetings were held by the PBA, Working Group (WG) comprising officials from SBP, PBA, select banks & IFC and the discussions included the IFC supported sustainable banking project to increase the share of value of bank loans in line with Green banking Environmental, Social & Governance (ESG) standards.



CROs of all member banks were asked to review the 'Environmental & Social Risk Management (ESRM) for Pakistan Financial Sector - Green Banking Implementation Manual' and subsequently their collective feedback was compiled and sent to SBP, on June 23, 2021.

Matters Submitted to SBP

April 1, 2021 – June 30, 2021

❑ PBA federal budget proposals 2021-22:

As per PBA's annual undertaking, the proposal for FBR on the Federal budget – based on PBA's member banks' suggestions – was formulated and sent to FBR with a copy submitted to SBP. A cover letter to the detailed budget proposal, covered the most important budget related recommendations.

❑ SBP's Draft guidelines on Financial Crimes Risk Management

SBP had informed PBA that the draft Guidelines on the subject have been prepared by them as an initiative to improve the understanding of its Regulated Entities (REs) and to guide them towards mitigating the risk posed to and from SBP REs with regard to Financial Crimes Risk Management. PBA members' comments were sought on draft guidelines and their response was sent to SBP.

❑ 14-day quarantine of all deposited cash

On March 23, 2020, SBP had issued a circular providing special guidelines to quarantine and/or disinfect the cash received from hospitals and clinics due to the outbreak of Covid 19. Following a surge of the pandemic, SBP subsequently instructed banks to quarantine re-issuable cash for fourteen (14) days or more as well.

With continuous guidance provided by SBP, the banking industry as well as the general public continued their vital economic activities, while simultaneously safeguarding against risks of COVID-19.

With the Government of Pakistan's efforts, the rate of infections and mortality in the country steadily declined and the government has relaxed some restrictions earlier placed to contain the spread of COVID-19.

On PBA's, General Banking Sub Committee's recommendation, PBA has proposed to SBP that the temporary requirement placed on banks to quarantine re-issuable bank notes (received from sources other than hospitals and clinics) may also be lifted/withdrawn.

❑ **Revision of Chapter 12 (Exports) of Foreign Exchange Manual**

SBP informed PBA that they have revised the regulatory instructions pertaining to Exports from Pakistan given under Chapter 12 of the Foreign Exchange Manual.

Chapter-14 mainly concerns commercial payments such as freight and passage collections by foreign airlines/shipping companies, acquisition of services from abroad, royalty/franchise/technical fee, remittance of profits of foreign banks/companies, remittance of information technology sector/ digital service provider companies and so on.

The changes suggested in Chapter 14 are aimed towards promoting ease of doing business by simplifying existing instructions, removing redundancies and delegating more powers to Authorized Dealers for facilitation of the stakeholders.

PBA's members were requested to review the revised/draft chapter 14 (Commercial Remittances) of the Foreign Exchange Manual, and provide their views/suggestions. Member feedback was consolidated and sent to SBP on June 16, 2021.

❑ **Draft instructions on the revised Basel III Market Risk**

SBP had requested PBA for its feedback on the 'Draft Instructions on the revised Basel III Market Risk.' The revised draft has been released to address the structural issues pertaining to the regulatory boundary between the trading and the banking book, weaknesses in the VaR- based framework incoherent risk capture; and insensitive nature of the standardized approach towards sensitive matters.

The draft instructions, according to SBP, are built on the existing Basel 2 standardized approach as a simplified alternative.

PBA members were requested to review the Draft and the comments received were consolidated and seen by the PBA, Risk Sub Committee and sent to SBP on May 17, 2021 after their review and approval.

❑ **Implementation of National Security Standards in Pakistan**

To help standardize indigenous development of information security (INFOSEC) products, components, services and procedures in Pakistan in line with modern trends, the National Telecom & Information Technology Security Board (NTISB), Cabinet Division is in process of formulating and implementing National Security Standards (NSS) for Cryptographic & ITSec Devices to evaluate and certify trustworthiness of Communication Security (COMSEC) and Information Technology Security (ITSec) products.

Since implementation of NSS will affect the banking sector, SBP had requested PBA to provide feedback on the extract from NSS and its implementation plan.

PBA asked its members to review the extract and its implementation plan. The comments received were consolidated at PBA and reviewed by the PBA Cyber Security Forum (CSF) before being sent to SBP on May 21, 2021.

Based on feedback later received from SBP on the strategic aspects of NSS, the matter was discussed again by the PBA CSF in a Zoom meeting on May 26, 2021, with SBP in which PBA members' concerns were communicated.

❑ **Draft guidelines on Supply Chain Finance (SCF)**

SBP had announced that the guidelines on Supply Chain Financing (SCF) will serve as guiding principles for banks in developing SCF business model, effectively serving SME financing needs.

Accordingly, Head of SMEs of PBA's Member Banks were requested to review the draft guidelines on SCF. The feedback received was sent to SBP on June 17, 2021.

❑ **Customers' Digital Onboarding Framework for Banks / Microfinance Banks (MFBs)**

PBA was requested by SBP to provide its feedback on the Draft 'Customers' Digital

❑ Regulations for Payment Card Security – PSD Circular Letter No. 2 of 2021

PBA's, Consumer Banking Sub Committee has addressed the issue of the deadline given via the mentioned circular, which has instructed Card Service Providers (CSPs) to ensure that their cardholders activate their new EMV Chip and PIN cards before the deadline of June 30, 2021. Since card activation is the customer's prerogative they cannot be forced into activating the cards though the banks are endeavouring to educate customers in this regard.

A letter drafted by PBA's Consumer Banking Sub Committee, requesting that banks be given certain relaxations pertaining to PSD Circular Letter No. 2 and for an extension for the implementation deadline from June 30th 2021 to December 31st 2021, has been sent to SBP.

❑ Development of standard checklist of maximum legal/property documents required by Banks for disbursement of housing finance

A standard checklist of maximum legal and property documents required by banks prior to disbursement of housing finance – taking into account various types of mortgages and provincial variations in the documents – has been developed by PBA's Legal Sub Committee with the assistance of Meezan Bank.

The Sub Committee's report on the checklist of title/property documents, including properties falling in various jurisdictions across Pakistan, AJK and GB was submitted to SBP, on May 04, 2021.

❑ Financial Inclusion of Persons with Disabilities (PWDs)

To facilitate and make financial services accessible to Persons with Disabilities (PWDs), an SBP Working Group (WG) had made certain recommendations, following which a Master Circular for financial inclusion of PWDs has been developed which consolidates all earlier regulatory instructions and augments these in the light of proposed recommendations by the SBP WG. .

The final draft of the Master Circular for PWDs was sent to PBA with the request to provide its feedback on the same.

PBA members reviewed the draft of the circular and the feedback was submitted to SBP in May.

Onboarding Framework for Banks/ Microfinance Banks (MFBs)'.
SBP has informed that in line with the goal of financial inclusion and digitization of banking services, SBP has taken many initiatives including the introduction of Branchless Banking and Electronic Money Institutions. In collaboration with Commercial banks, SBP had also introduced Roshan Digital Accounts (RDAs) last year by issuing a specific framework to the designated banks.

According to SBP, based on the tremendous success of RDA, they have now devised a comprehensive 'Customers' Digital Onboarding Framework for Banks/ Microfinance Banks (MFBs)' to facilitate banks/MFBs to remotely onboard customers by using digital channels. PBA's Digital Banking Working Group reviewed the comments submitted by PBA's members and a consolidated response to the Draft was prepared and submitted to SBP on May 3, 2021.

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❑ Image-based Clearing – Draft Circular letter

An SBP circular on facilitation regarding paper-based Clearing Operations – in the wake of Covid19 – was issued in April 2020, which permitted Banks/MFBs to make arrangements with the Clearing House – NIFT(National Institutional Facilitation Technologies) – for clearing their cheques through Image-based Clearing (IBC) functionality as per the agreed SOPs between NIFT and banks.

A Draft circular letter regarding implementation of Image-Based Clearing has now been drafted to make the clearing process more efficient. PBA was asked for its members' input on the Draft by SBP, which was taken and then reviewed by PBA's General Banking Sub Committee. A response has been submitted to SBP with members' comments.

❑ Digital Bank Regulatory Framework – Exposure Draft

PBA was informed by SBP that a project on Development of Digital Bank Regulatory Framework has been initiated by them. As part of the project scope, landscape analysis of sixteen select jurisdictions on digital bank regulatory regimes were carried out and a comprehensive

❑ **Centralization of Bank Accounts at SBP, Banking Services Corporation (BSC)**

To finalize a centralized environment for Commercial, Islamic and Microfinance Banks' accounts at SBP BSC's Karachi Office, PBA coordinated successive meetings in April, between the Heads of Operations & Treasury departments of member banks with SBP. The aim was to ensure a smooth transition of the process. Guidelines for banks under the new centralized environment were also shared by SBP BSC with PBA.

In November 2019, SBP had initiated the proposal to centralize banks' accounts so that only one current account of each bank would be maintained at the Karachi office.

PBA coordinated with banks at the time to get their input regarding the proposal, which was received favourably by PBA's members.

❑ **Annual Financial Statements (AFS) format for Microfinance banks (MFBs)**

SBP has prepared an updated draft of the 'Annual Financial Statements Format for MFBs' as the existing format had become dated since it was first drafted in 2003.

Since the last issuance of the AFS format, significant developments have taken place, which necessitated the change in disclosure requirements for AFS format of MFBs.

PBA was asked to review the draft and take members' input on the matter. PBA's Microfinance Sub Committee examined the draft and the consolidated feedback of members has been sent to SBP.



industry-wide market survey was also conducted by SBP, to assess the market expectations.

Based on these consultations, a draft -- Digital Bank Regulatory Framework (Exposure Draft) -- has been prepared by SBP which was sent to PBA with a request for review and member banks' input. The draft was shared with PBA's members and their response was consolidated and sent to SBP.

❑ **Draft circular - pricing of Interbank Fund Transfer (IBFT) services**

SBP had requested PBA to provide feedback of all member banks on the draft circular on pricing of Inter Bank Funds Transfer (IBFT) services.

In March 2020, SBP had waived all charges on Interbank Fund transfer services for the purpose of curtailing the spread of Corona Virus by limiting physical interaction of citizens at branch level.

Now, with the purpose of providing a pricing regime on IBFTs to all Financial Institutions, SBP's draft circular on IBFT services was prepared following consultations with internal and external stakeholders and PBA was also asked for its input. PBA members' consolidated response was submitted to SBP in April.



Matters in the pipeline

(As on June 30, 2021)

- 1. E-Kyc:** PBA has been working towards developing the Blockchain/eKYC platform for the banking industry since early this year. After screening several vendors, a final selection of vendor has been made and approved by PBA, EC and the Proof of Concept is currently being assessed.
- 2. Development of Database for screening of proscribed persons and PEPs:** user ID for initial testing of the portal has been provided by the vendor and the PBA Working Group is testing it before activation.
- 3. Cyber frauds in banking:** PBA's awareness campaign is scheduled to go on air in July, 2021. The call to action will be emphasized for possible victims of cyber fraud.
- 4. 1 Link Services:** to address the notice issued by the Khyber Pakhtunkhwa Revenue Authority (KPRA) regarding 1-Link's taxable services and the withholding/sales tax, the draft advisory has been sent to the members of the PBA, General Banking, Sub Committee for review.
- 5. Electronic Fund Transfers (EFT) Regulations:** PBA, General Banking, Sub Committee has been requested to review the matter.
- 6. AML/CFT/CPF regulations of SBP – New Biometric & Verisys Service:** member banks are examining additional points for more information to be included in the verification form which PBA will recommend to SBP for NADRA.
- 7. Income Proxy Model:** PBA has informed its member banks about the decision taken by the Steering Committee (SC) on Housing and Construction Finance that banks/DFIs will develop and deploy income estimation / proxy models for assessment of income and repayment capacity of their informal income applicants aspiring to avail home finance under Government's Markup Subsidy Scheme (G-MSS) for Housing Finance.
This is a major project of PBA, which can later be expanded to apply the model for other consumer lending products.

Meetings held

(April 1 – June 30, 2021)

- ♦ **Meetings with PBA Executive Committee**
 - May 27, 2021
 - April 7, 2021
 - **EOGM**
 - May 04, 2021
- ♦ **Sub Committee Meetings**
 - **Accounting & Taxation:**
 - May 20, 2021
 - May 18, 2021
 - April 7, 2021
 - **General Banking**
 - June 10, 2021
 - May 31, 2021
 - **Consumer Banking**
 - June 15, 2021
 - May 26, 2021
 - April 7, 2021
 - **Treasury**
 - April 9, 2021
- ♦ **Working Groups**
 - **PBA Technology**
 - April 21, 2021
 - **Environmental & Social Risk Management**
 - June 10, 2021
 - **Internal Audit**
 - April 8, 2021
 - **Compliance**
 - April 28, 2021

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