



Cyber-attack and key learnings from it

A special, 'learning from experience' Zoom session was arranged by PBA on February 28, 2022, for our Members on how to respond in the eventuality of a Cyber-attack.

Mr Amin Manji, Chief Technology Officer (CTO) of National Bank of Pakistan (NBP), made a presentation based on lessons learnt by NBP from their recent experience of handling a cyber-attack on October 30, 2021.

Mr Manji detailed how the anomalies were detected in his bank's server infrastructure by the monitoring team and the subsequent realization that the Bank had become a target of malicious cyber actors.

The crucial need to counter such attacks and conduct an information system audit and penetration testing to gauge/maintain readiness in combatting cyber-attacks was earlier discussed in a meeting held in November '21, at SBP, which was chaired by the Governor SBP and Director General FIA, with

Presidents of select banks/MFBs attending along with senior officials from SBP and FIA.

The PBA Zoom session on cyber threats was attended by CIOs/CISOs of 39 member banks of PBA. CEO/SG PBA, Mr Tawfiq Hussain, moderated the session and a Q&A session was held subsequent to the presentation in which 14 banks raised questions which were responded by Mr Manji.



Environmental and Social Risk Management



The second meeting of the Steering Committee (SC) on Environmental & Social Risk Management (ESRM) took place on March 03, 2022 which was also attended by Ms. Sima Kamil, Deputy Governor-DFS, FI, & IT.

The purpose of the meeting was to take stock of the progress made by the Working Group (WG) on ESRM with regard to successful implementation of the Pakistan Sustainable Banking Project. Six Working Group meetings have been held under the chairmanship of Executive Director – DFG, SBP – wherein substantial groundwork has been completed.

The Steering Committee (SC) and Working Group (WG) provide regulatory guidance on Environmental & Social Risk Management (ESRM) for Pakistan's Financial Sector and the WG includes representatives from IFC and PBA along with SBP and is committed towards promoting a sustainable business model in Pakistan.

PBA enabling Kamyab Pakistan Project (KPP) for Members

KPP is an initiative of the Government of Pakistan (Ministry of Finance), launched by the Prime Minister in October 2021, 'to transform the lives of the marginalised segments of the society'. Under this initiative, subsidized new micro loans will be disbursed through MFBs/ MFIs/ RSPs/ HFCs while the liquidity will come from Commercial Banks/ DFIs/ PMRC under 100% guarantee from the GOP.

PBA is coordinating with members to facilitate the Operational Framework of KPP.

Mr Zafar Masud's presentation was aimed at facilitating PBA members to understand the broader aspects of its Operational Framework as well as the main components & key features of the Kamyab Pakistan Project.

With a goal of providing more than 4,500,000 new loans by 2025-26, the KPP has specified the following key pillars;

- ♦ Kamyab Kissan – loans for small farmers
- ♦ Kamyab Karobar – loans for small enterprises & start-ups
- ♦ Kamyab Hunarmand – technical & vocational trainings for skill development
- ♦ Naya Pakistan Low Cost Housing – house loans for affordable housing under Government's Mark-up Subsidy Scheme (GMSS)
- ♦ Sehatmand Pakistan – health insurance for all new borrowers

27 participants from 17 member banks attended the Zoom presentation.

To create awareness and understanding of the Kamyab Pakistan Program (KPP) for more member banks to participate in this new initiative of GoP, PBA had arranged a Zoom presentation on February 3, 2022, given by Mr. Zafar Masud, President & CEO, Bank of Punjab, (and Convener of KPP) who was also joined by Mr. Imdadullah Bosal, Additional Finance Secretary (Internal Finance), MoF.



PBA's Zoom session for PBA members' information regarding the Kamyab Pakistan Program (KPP), held on February 03, 2022. PBA member, Mr. Zafar Masud, President/CEO, Bank of Punjab (and Convener of KPP) presenting the Concept Paper regarding the broad contours of KPP.



GoP/BISP income support seminar

PBA was invited to participate in a seminar via Zoom on January 31, 2022, organized by the Benazir Income Support Programme (BISP) on 'Innovation in Payments & Social Protection Programmes' and to make a presentation on innovative payment models to help BISP improve on its existing payment model. The session was chaired by Dr Sania Nishtar,

Assistant to the Prime Minister, and Chairperson, BISP. PBA CEO/ Secretary General, Mr Tawfiq Hussain led the PBA delegation and was joined by members of the PBA Digital Working Group. Mr Abrar Mir of HBL gave the presentation. The key objective of PBA's presentation was to suggest new and innovative conceptual models to help BISP design and develop an efficient payment system to help their beneficiaries. 🟡



IMF delegates visit PBA office

The new Resident Representative to Pakistan for the International Monetary Fund (IMF), Ms Ester Perez Ruiz, along with her colleagues Dr Zafar Hayat and Ms Saher Masood, called on Mr Tawfiq Hussain, CEO/SG, PBA to discuss matters pertaining to the economy and the banking sector. Some members of PBA's Executive Committee also attended the meeting.

Application Scorecard and Income Estimation Model

Mr. Joe Bowerbank From Creditinfo visited the PBA office on



March 30, 2022, to give an update to the PBA Technology Working Group on the Application scorecard and Income Estimation Model.

A Consortium of four entities – Creditinfo; Aequitas Information Services Ltd; Pakistan Credit Rating Agency & Analytics (Pvt) Ltd – has been engaged to develop personal scorecards and income estimation model for existing and potential borrowers of housing and construction finance.

Federal Budget and Tax Proposals for 2022- 23

As per past practice, the suggestions for the Federal Budget were obtained from members and were considered at the PBA office and by a smaller group of taxation heads and members of PBA's Accounting & Taxation Sub Committee.

The more important suggestions will now be sent to the PBA Accounting & Taxation Sub Committee for review. Their recommendations/suggestions will be sent to PBA EC and following their concurrence, to FBR and SBP.



PBA Accounting & Taxation Sub Committee meeting held on March 14, 2022 to finalize Members' input for the Federal Budget (2022-23)

Sectoral matters/ responses sent to SBP

January 1 – March 31, 2022

IFC Diagnostic Report on NPL Market - Action Items for PBA

The International Finance Corporation (IFC) conducted a diagnostic assessment of the Non-Performing Loan (NPL) Market in

Pakistan and SBP shared the assessment with PBA, requesting PBA's feedback.

Comments of PBA's Risk Sub Committee on the relevant action points on the diagnostic report for a possible roadmap for implementation were subsequently shared with SBP. On February 28, 2022 a meeting was held between representatives of SBP, SECP, PBA, PCRL and the MoF to further discuss IFC's proposal.

As agreed in the meeting, PBA's suggestions have been provided to SBP in writing. 🟡

Draft Framework for Outsourcing to Cloud Service Providers

To deliver better digital/financial services to banking customers, State Bank of Pakistan has been issuing regulatory instructions on cloud service providers and other technological and risk management governance since 2017.

SBP has now developed a framework for Outsourcing to Cloud Service Providers which will override previous regulatory instructions. The objective is to further facilitate all Financial Institutions, i.e. banks, MFBs, DFIs and digital banks and 'to harness the power of Cloud Services for greater resilience and improved services'.

PBA was asked by SBP to review the draft framework and provide members' comments for consideration. PBA's Cyber Security Forum deliberated on the draft and provided feedback which was consolidated at PBA and submitted to SBP. 🟡



❑ **NADRA's Offline Verification Service for banks – AML/CFT/CPF regulations for SBP's regulated entities**

In January 2022, PBA had requested SBP to approach NADRA to restore its Bulk/Offline Verification Service for banks so as to enable our member banks to comply with SBP directives of updating customers' CNIC records. Subsequently, a special service to facilitate the banking industry in updating expiry dates of CNICs was developed by NADRA, so that blocking of customer accounts with expired CNICs, as required under AML/CFT/CPF regulations, could be avoided.

PBA members have however raised some concerns regarding the additional customer information requested by NADRA to update CNIC details.

PBA, General Banking Sub Committee has reviewed this concern and accordingly, PBA has communicated the same to SBP, to be taken up with NADRA. 🟡

❑ **Prudential Regulations for Consumer Financing**

Some member banks had requested PBA to ask SBP for a revision in the regulation for unsecured lending products as defined in the SBP Circular (No. 29 of 2021) on Prudential Regulations for Consumer Financing.

PBA's Consumer Sub Committee reviewed the matter and suggested amendments in the Prudential Regulations which have been sent to SBP by PBA. SBP decision on PBA's suggestion is awaited. 🟡

❑ **Regulations for Payment Card Security**

PBA's Consumer Sub Committee had raised the point of enhancing the transaction limit without PIN code from Rs 3,000 to Rs 5,000 for customers' ease and to reduce check out time at points of sale.

The request has been submitted by PBA to SBP for consideration. 🟡

❑ **SBP's draft letter to all card service providers**

PBA was requested by SBP to provide its feedback on the draft letter prepared by SBP for all card service providers regarding enhanced regulatory oversight and promotion of domestic, person-to-person (P2P) fund transfers between payment cards, accounts and mobile wallets (*including branchless banking and EMI wallets*) through different channels / instruments.

PBA's Consumer Sub Committee reviewed the matter and gave its feedback, which was sent by PBA to SBP in March. 🟡

❑ **Draft Circular on Acquisition and Processing of Payment Cards and Bank Accounts**

State Bank of Pakistan had requested PBA for feedback on its draft circular containing instructions on the 'Acquisition and Processing of Payment Cards and Bank Accounts by Third Party Payment Acquirers'.

PBA's Consumer Sub Committee reviewed the draft circular and PBA's response has been sent to SBP. 🟡

❑ **Complaint boxes, registers, fax and suggestion boxes in banks/ATMs**

A member bank had raised the issue that the requirement of keeping fax and complaint drop boxes, registers as mandatory modes of lodging complaints in banks and to also keep complaint and suggestion boxes in ATM booths/cabins, may be discontinued as these have seen to be impractical for several reasons.

The matter was deliberated by the PBA, General Banking Sub Committee and on their recommendation a request to exempt banks and ATM to maintain physical complaint boxes and suggestion boxes, has been sent to SBP. SBP decision on PBA's request is awaited. 🟡

❑ **Complaint boxes, registers, fax and suggestion boxes in banks/ATMs**

A member bank had raised the issue that the requirement of keeping fax and complaint drop boxes, registers as mandatory modes of lodging complaints in banks and to also keep complaint and suggestion boxes in ATM booths/cabins, may be discontinued as these have seen to be impractical for several reasons. The matter was deliberated by the PBA, General Banking Sub Committee and on their recommendation a request to exempt banks and ATM to maintain physical complaint boxes and suggestion boxes, has been sent to SBP. SBP decision on PBA's request is awaited. 🟡

❑ **Promoting climate smart agriculture**

As per the action item ensuing from the December 2021 meeting of the ACAC, in which PBA was requested to develop a strategy to promote adoption of climate smart agriculture financing products in banks and start awareness campaigns for banks and farming community, PBA's Agriculture Finance Sub Committee gave its recommendations which were concurred by the PBA EC and sent to SBP on March 16, 2022. 🟡

❑ **Sindh Budget 2022-23 Invitation of Proposals - Sindh Sales Tax on Service Act, 2011 (Sindh Act No XII of 2011)**

Proposals for the Sindh Budget, 2022-23 have been sent to the Sindh Revenue Board (SRB) by PBA.

As per PBA's annual custom, members' suggestions were sought which were then reviewed by the PBA, Accounting and Taxation Sub Committee. The consolidated response with the Sub Committee's suggestions were then sent to SRB. 🟡

❑ **Revised format of financial statements for Banks/ DFIs**

SBP had informed PBA that they are in the process of implementing the International Financial Reporting Standards (IFRSg) on Financial Institutions (FIs).

❑ **SOPs for information sharing arrangements and a centralized fraud database**

In a meeting held in November '21 between the Governor SBP; DG FIA and Presidents/CEOs of some banks/MFBs, the main action item was to develop Standard Operating Procedures (SOPs) for information sharing.

As a first step, a draft of the SOPs for Information Sharing Arrangements between the Federal Investigation Agency (FIA) and Banks in Enquiries/ Investigations was prepared by the committee formed by SBP with representation from ED (BPRG); Director FIA and some banks. The draft was reviewed by the PBA Compliance Working Group and sent to SBP with their feedback, following which the SOPs were finalized.

These SOPs were also shared with PBA members who designated their Focal Points (FPs) and authorized officers for future coordination with FIA regarding investigations and enquiries. The list of FPs has been sent to SBP for onward sharing with FIA. 🟡

❑ **Instructions for Quality Data Reporting in ECIB of SBP**

The circular on, 'Instructions for Quality Data Reporting in ECIB of SBP' was issued by SBP in February 2021, which stated that independent validation of data on a monthly basis be submitted to ECIB-SBP as part of a routine process life cycle in addition to the requirement for internal audit findings / report on a half-yearly basis.

The PBA Working Group on Internal Audit discussed the directive stated in Clauses 2(3) and 2(6) of the said Circular. A request has subsequently been submitted by PBA to SBP to waive the requirement of monthly validation of data, enabling the banks to complete the submissions efficiently within stipulated timelines. At the same time, the Internal Audit Function will continue periodic Internal Audit of the Bank's risk management / compliance function as per existing protocol. This also includes a comprehensive review of banks' ECIB reporting mechanism which includes data

In this regard, the format of financial statements has been revised in order to meet the presentation and disclosure requirements under IFRS9.

SBP also requested PBA to provide feedback on the stated draft format. Comments were sought from members and reviewed / consolidated by PBA Accounting & Taxation Sub Committee and sent to SBP. ■

validation on a sample basis.

Independent audit will also continue to be carried out by Internal Audit Function on a half-yearly basis as per the directive. ■

Matters in the pipeline

(As on March 31, 2022)

1. Blockchain eKYC Platform for the Banking Industry

From amongst two vendors – AVANZA and E&Y – Avanza has completed and submitted its POC report which has been shared with SBP. The final selection of the vendor and next steps for the development of this capability leading to a sectoral launch of the eKYC platform are under discussion at PBA.

2. Draft Islamic Foreign Exchange Master Agreement:

The final draft of the Islamic FX Master Agreement was reviewed by the Islamic FX committee which suggested some amendments for revision by Mandviwalla & Zafar (M&Z), and for their formal, legal opinion, which is expected shortly.

3. National Financial Inclusion Program (NFLP) - Non-Usage/In-Active Bank Accounts:

A PBA Project Team / Working Group has been formed with representations from banks to address the inactive bank accounts issue. The Working Group with the concurrence of the PBA EC, has appointed a third party consultant – Nielsen IQ – to carry out an in-depth survey/ research to understand the key reasons for inactivity in customers' bank accounts. According to Nielson IQ, the possible timelines to complete the study will be 10 weeks starting from the initiation date of the Research Project.

Once the survey results are available, these will be forwarded to SBP and our members.

Meetings held

January 1, 2022 – March 31, 2022

Executive Committee

- Meeting via Zoom
March 4, 2022

Sub Committees

- Accounting & Taxation:
March 14, 2022
- PBA Agriculture
Finance
January 7, 2022

Forums

- Cyber Security
February 4, 2022
February 28, 2022
March 21, 2022

Working Groups

- Compliance
January 25, 2022
- Technology
(LCH Income
Estimation Model)
January 12, 2022
February, 8, 2022
March 15, 2022

OFFICE ADDRESS:

Pakistan Banks' Association
Ground floor, Islamic Chamber of Commerce Building
Clifton, Block 9, Karachi

CONTACT:

☎ : 92-21-3582-2986-87
✉ : pba@pakistanbanks.org