



## PBA Working Group on Technology and Digitization: developing automated income estimation model for Low Cost Housing

The 'PBA, Technology Working Group (WG)', set up by the Steering Committee (SC) for Housing and Construction Finance (chaired by Governor, SBP), is overseeing the design, development and deployment of an automated income estimation and credit assessment methodology for the Naya Pakistan / Low Cost Housing initiative. This Working Group, 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 WG has appointed a Consortium of consultants comprising four entities;

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



*Agreement signed between CEO, PBA, Tawfiq Husain and CEO, Tasdeeq, Mumtaz Syed to formalise the agreement of a Consortium of four entities – Aequitas Information Services Limited, Pakistan Credit Rating Agency; Analytics (Private) Limited & Creditinfo.*

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



## Mr Shaukat Tarin, Advisor to the PM on Finance & Revenue visits PBA

Mr Muhammad Aurangzeb, Chairman, PBA, and Mr. Tawfiq Hussain, CEO & Secretary General, PBA, welcomed Mr Shaukat Tarin to the PBA office on November 16, 2021. Some of the PBA Executive Committee members were present in person while others participated via Zoom. Matters pertaining to the economy in general and the banking sector in particular were discussed.

[Full press release at;

<https://www.brecorder.com/news/40136195> ]





## Governor SBP inaugurates PBA joint Call Centre - Mera Pakistan, Mera ghar

Pakistan Banks' Association, on behalf of all its member banks and with the support of Ufone, launched its 'Mera Pakistan Mera Ghar, Helpline' in 2021.

The Joint Call Centre (JCC) of banks was set up for the convenience of low cost housing prospective borrowers across Pakistan.

The formal inauguration ceremony for the JCC was held in October 2021, where the Governor, State Bank of Pakistan, Dr. Reza Baqir, formally inaugurated the Ufone Call Center in Islamabad.

Chairman, NAPHDA, Lt. Gen. (Retd.) Anwar Ali Hyder; Chairman, PBA /President, HBL, Mr. Muhammad Aurangzeb; CEO, PBA, Mr. Tawfiq Hussain and Presidents/CEOs of some banks were also present at the occasion.



## Revised, recommended process (SOPs) for advances/loans to Sugar Mills

A 'Risk Management process' for banks has been developed by PBA's Risk Management, Sub Committee, following a recent judgement of the Supreme Court of Pakistan which states; "... first charge on the sugar produced by the mills will be of growers and not the banks, which pledge the sugar for advancing credit to sugar mills." The purpose of the 'Risk Management process' is to enable better risk management for PBA member banks.

The risk management SOPs were first circulated to PBA members as an advisory for their guidance in October 2021. Subsequently, the Pakistan Sugar Mills Association (PSMA) reverted to PBA, requesting a review of the SOPs as some practical difficulties were being faced by the sugar mills, particularly on the issues pertaining to Growers and Working Capital Finance. PBA was also requested by SBP to address PSMA's concerns through a consultation process. Based on discussions with the PSMA, the SOPs have been revised, with an amended, suggested process of financing against the Cane Procurement Receipt. Additional considerations requested by PSMA regarding miscellaneous costs, sugar prices, operational expenses and other financing aspects were also circulated by PBA to its members as recommendations and for guidance only. Member banks were advised to assess all factors independently, according to their own risk appetites, policies and guidelines for their final course of action.

## Enhancing digitization initiatives in banks/MFBs

SBP's draft circular on 'Enhancing digitization initiatives in banks/MFBs' was sent to PBA, requesting feedback from banks on the instructions intended for circulation by SBP regarding digitization of corporate payments.

SBP had issued the regulatory instructions to facilitate and promote digitization in the banking sector through usage of digital channels for banking and payment services and to facilitate small businesses/corporates, encouraging them to adopt digital means of payments.

Members' feedback was reviewed by PBA's Working Group on Digital Banking and submitted to SBP in October 2021. To further discuss digitization of corporate payments and to overcome the challenges posed by the circulation of open cheques, FBR held a joint meeting with PBA and SBP in November, 2021 where a committee was formed to finalize a road map for digitization of corporate payments with an emphasis on Future Value Transaction (FVT).

PBA was subsequently also asked to provide feedback from its members on the comments given by the Digitization Committee. PBA Members' observations were sought and sent to SBP on December 17, 2021.



Meeting of FBR's BIC and the PBA, EC. Mr M. Aurangzeb, Chairman, and Mr Tawfiq Hussain, CEO, led the discussion from PBA



## IMF delegation's visit to PBA

Ms Teresa Daban Sanchez, the outgoing Resident Representative to Pakistan for the International Monetary Fund, and her successor, Ester Perez Ruiz, called on the CEO, PBA at the PBA office on November 18, 2021.

## Matters submitted to SBP

October 1, 2020 to December 31, 2020

### ❑ Standardization of Quick Response (QR) Codes for Payments in Pakistan

With the purpose of adopting innovative and ease-of-use means of financial transactions, the State Bank of Pakistan has been in the process of shifting increasingly towards digital channels of payments.

In this regard, a circular on standardization of QR Codes in the country to comply with EMVCo's (credit card companies) specification was released by SBP in September 2019. Now, the QR Standard to facilitate payments for merchants as well as individuals in Pakistan has been designed by SBP which provides the requirements, technical specifications and interoperability guidelines on QR Codes, besides highlighting the roles and responsibilities of the concerned stakeholders.

The QR Standard and Draft Circular of the same were sent by SBP to PBA for feedback and comments of member banks. Members' feedback was reviewed by the PBA Consumer, Sub Committee and the consolidated response was submitted to SBP.

### ❑ World Bank Assessment on Insolvency and Creditor/Debtor Rights

The Insolvency and Creditor Rights (ICR) Report on the Observance of Standards and Codes (ROSC) is an independent assessment conducted by World Bank, which benchmarks a country's insolvency and creditor/debtor rights practices against international standards. PBA participated as a representative of the banking industry in a meeting of the Coordination Committee (CC) held in October 2021, where an assessment of the effectiveness of Creditor Rights & Insolvency in Pakistan under the ICR and ROSC was discussed.

Subsequently, the World Bank shared a draft report on its assessment of Pakistan's insolvency and creditor/debtor rights with SBP.

PBA was requested by SBP to share its members' feedback on the draft report. The members mostly found the report to be comprehensive in addressing laws related to Insolvency and Creditor / Debtor rights, however, some comments given by members focused on Enforcement of Security Rights over Immovable Assets; Financial Institutions Secured Transaction Act (STA 2016) and Legislative Framework Assessment.

The feedback was consolidated and submitted to SBP by PBA in November, 2021.

### ❑ **Employees Old-Age Benefits**

PBA was requested by SBP to review the draft amendments in the Employees Old Age Benefit Act, 1976 (section 49), initiated by the Ministry of Overseas Pakistanis & Human Resource Development (MOPHRD). The purpose of the amendments is to improve registration of employees and industrial establishments and to strengthen the Employees' Old-Age Benefits Institution (EOBI).

Since the amendment relates to bank details of employees of various establishments and their salaries – protected under various secrecy provisions of banking laws, as well as general laws – the MOPHRD was advised by the PM's office to consult with SBP regarding their proposed amendment.

The Working Paper and comparative matrix of amendments, was sent to PBA for feedback of the banking industry which were collated at PBA and were submitted to SBP in mid-December, 2021.

### ❑ **Draft instructions for employees of government corporate entities for housing finance under G-MSS**

In order to facilitate the employees of Public and Private Sector entities, in availing housing finance under government mark-up subsidy scheme, SBP has decided to allow alternative arrangements for the banks to secure their financing risk instead of following housing finance Prudential regulations (PRs). The draft instructions on bilateral arrangements of banks with government/corporate employers for disbursement of housing finance to their employees were shared with PBA for feedback and legal consultation to be done on behalf of banks.

The input received from banks and their legal consultants – M/s MTC – was sent to SBP in November, 2021.

### ❑ **Revised PRs for Corporate Commercial Banking**

SBP had sent the revised Prudential Regulations (PRs) for Corporate / Commercial Banking (Risk Management and Operations), requesting feedback/comments of the banking industry. The revised PRs were drafted by SBP after seeking suggestions from all banks / DFIs in October 2020 as well as the changes made to the PRs through various Circular/Circular Letters from 2015 to 2021.

Comments of the PBA, Risk Sub Committee were sought, particularly on the points having a material impact on the banking industry. PBA's consolidated response was sent to SBP on November, 22, 2021.

### ❑ **Expiry of customers' identity documents**

As per SBP circular No 19 (June 7, 2021, Regulation [2]), banks were given a deadline of December 31, 2021 to update identity documents of customers (in case of expiry of CNIC or other identity document).

PBA member banks had requested an extension of this deadline till June 2022 and the PBA General Banking, Sub Committee deliberated on the request considering the challenges faced by banks in reaching out to a large number of customers nationwide. The request to extend the deadline has been submitted to SBP along with the banking industry's request of approaching NADRA to restore its Bulk/Offline Verification Service for Banks. This service would help the banks to comply with SBP directives of updating customers' records who may have updated their CNIC with NADRA but not shared the information with banks. This would allow customers' accounts to remain operational for banking services. SBP response is awaited.

### ❑ **PBA Annual General Meeting (AGM)**

PBA's 56th AGM was held on October 28, 2021 where the PBA Audited Annual Accounts for the year ending June 30, 2021 were presented and approved.

Among other agenda items, the appointment of auditors, Yousuf Adil, Chartered Accountants was also confirmed for the year 2021/2022.

#### ❑ 4th Working Group Meeting on Environmental and Social Risk Management (ESRM)

The State Bank of Pakistan (SBP) and International Finance Corporation (IFC) have formulated a Steering Committee (SC) and a Technical Working Group (WG) under Pakistan Sustainable Banking Project which focuses on providing regulatory guidance and on improving banks' knowledge and capacity. Under the Sustainable Banking Project, training programs are conducted on Environmental and Social Risk Management (ESRM).

The project's goal is to increase the share and volume of bank loans screened against improved Green Banking Guidelines (GBGs) and to increase the number of intermediaries to provide Environmental, Social & Governance (ESG) training to banks after IFC exit.

The technical Working Group includes representatives from SBP, IFC and PBA and its fifth meeting was held on December 14, 2021, to review the progress and have a final discussion on the draft ESRM Implementation Manual for GBGs before forwarding it to the SC. A revised reporting template was also discussed in the meeting which will be forwarded to the Steering Committee prior to the National Banking Conference to be held in January 2022.

#### ❑ IFRS 9 - Proposed recommendations

The 'parallel run' of IFRS 9 is being carried out by banks/DFIs/MFBs since July 2020 as per SBP's circular issued in October 2019. SBP's 'IFRS 9 application instructions' were issued at the time to ensure 'a smooth, robust and consistent implementation of IFRS 9 in the banking industry'.

The aim of the parallel run of the 'application instructions' was also to achieve standardized practices with respect to the expected credit loss accounting and to draw out SBP's expectations from the Financial Institutions. With the final implementation of the IFRS-9 coming up in 2022, a list of proposed recommendations – based on the parallel run undertaken by banks – were prepared by PBA's Accounting & Taxation Sub Committee and were submitted to SBP in November 2021 for consideration.

#### ❑ Mandatory targets for Housing and Construction Finance

PBA Members had raised certain concerns on the SBP Circular on the subject (*circular, dated July 15, 2020*), and removal of the cap on Investment/Financing in Real Estate Investment Trust (REIT), Pakistan Mortgage Refinance Company (PMRC) and Micro Finance Banks (MFBs).

SBP had allowed banks/DFIs to count specific exposures on an aggregate basis and capped at fifteen percent (15%) of the assigned targets at quarter-end.

Following up on Members' request and after obtaining feedback from PBA's, Risk Sub Committee, an email was sent to SBP suggesting the removal of the fifteen percent cap on exposures which may serve as an extra incentive for banks to fund REIT projects. SBP response is awaited.

#### ❑ Issuance of statement of accounts to account holders

With the banking sector's shift towards online banking channels, and more and more customers availing financial services through internet banking and mobile devices, SBP has decided to revisit instructions contained in BPRD Circular No. 02 dated January 05, 2010 and issue new instructions on Issuance of Electronic Statements of Accounts (eSoA) through registered Email/ WhatsApp .

Aligning regulatory requirements with changing customer preferences and expectations and to help support 'Clean Green Pakistan' initiative of the Federal Government, the eSoA will be sent free of charge to customers, subject to consent of account holders.

PBA was asked for feedback on the draft circular, 'Issuance of statement of accounts to account holders' which includes security guidelines, confidentiality clauses and access/storage procedure of the e-statements. The draft was reviewed by PBA's, General Banking Sub Committee and the comments were submitted to SBP, following which a meeting was also held in October 2021 to further discuss PBA's suggestions on the draft circular.

# MATTERS in the pipeline

As on December 31, 2021

## 1. Blockchain/e-KYC platform for the banking industry

Following approval of Proof of Concept (PoC) by the PBA, EC, the vendor has completed PoC and will submit report in January 2021, after which the selection process will be initiated.

## 2. Draft Islamic Foreign Exchange Master Agreement

The final draft of the Islamic FX Master Agreement is being reviewed by PBA's legal team, Mandviwalla & Zafar (M&Z). Once legal review of the draft is concluded and concurred by PBA's Treasury and Capital Markets Sub Committee and its Executive Committee, further necessary action will be taken.

## 3. National Financial Inclusion Program (NFLP): non-usage/in-active bank accounts

The PBA, Project Team formed to address the matter of inactive bank accounts as per SBP's advice, has shortlisted project proposals from three consultants to carry out an in-depth survey/research to understand the key reasons for inactivity in customers' bank accounts.

The proposal for the final selection of the consultant has been referred to the PBA EC for consideration and final approval.

## 4. Manual for Green Banking Facilitation in Pakistan

A draft 'Manual for Green Banking Facilitation in Pakistan' has been prepared by SBP in collaboration with IFC (International Finance Corporation) for the purpose of supporting banks in capacity building and developing of green products that will address climate change in Pakistan. The draft was sent to PBA by SBP for input of member banks and a consolidated sectoral feedback which PBA has shared with its members.

## PBA Meetings

October 1, 2020  
to  
December 31, 2020

### Sub Committees

- **Accounting & Taxation**  
November 19, 2021
- **Risk**  
October 28, 2021
- **Treasury**  
November 4, 2021

### Forums

- **Cyber Security**  
October 20, 2021

### Workings Groups

- **PBA Technology**  
November 01, 2021
- **Internal Audit**  
November 5, 2021

### PBA AGM

October 28, 2021

### EC Meeting

October 10, 2021

October 22, 2021

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