



QUARTERLY, E-NEWSLETTER



**Pakistan Banks' Association
&
Avanza Group**

avanza
SOLUTIONS

**Shared eKYC, agreement
signing ceremony**



PBA launches eKYC platform

On March 02, 2023 PBA, on behalf of all its member banks, signed the project contract for the development and execution of Pakistan's first, blockchain based, national eKYC banking platform with the Avanza Group. The signing ceremony was held at the PBA office in Karachi.

The ceremony was attended by PBA Chairman, Mr. Muhammad Aurangzeb, who is also President HBL; Mr. Akhter Javed, Director BPRD, SBP; Mr. Tawfiq Hussain, CEO PBA, the signatory for PBA; Mr. Waqas Mirza, CEO Avanza Innovations; and Mr. Omer Khan, CEO, Avanza Solutions (Pvt) Ltd; the signatory for Avanza.

The eKYC (electronic Know Your Customer) project is part of SBP's ongoing efforts to strengthen the control infrastructure for Anti Money Laundering (AML)/Terrorist Financing (TF) in the country. PBA has been overseeing the planning and management of the project on behalf of the banking industry, under the aegis of the State Bank of Pakistan.

In addition to strengthening AML controls, the deployment of this platform will bring about efficiencies at participating banks and will result in improvement in customer experience, especially at the time of account opening, thus facilitating financial inclusion.

Avanza Group's eKYC platform, 'Consonance', is being implemented for PBA. The platform will use blockchain technology through which banks will be able to standardize and exchange, with customers' consent, their details via a decentralized and self-regulated network. This will be a support platform for Pakistan's banking industry and all participating member banks will be able to perform assessments of their existing, as well as new customers, by utilizing information/ data available with any other bank on 'Consonance'.

Once performed by a member bank, the eKYC data can be utilized by other banks for Customer Due Diligence (CDD), thus minimizing cost and effort in customer onboarding and improving the customers' account opening experience, thus facilitating financial inclusion.





PBA and Avanza jointly hosted over 100 senior officers from 32 banks/FI from across Pakistan at the, 'Project kickoff ceremony' of the National eKYC platform on March 15, 2023.

Speaking at the occasion, PBA CEO, Mr Tawfiq Husain urged the delegates to apprise their CEOs about the project, especially about the human and financial resources required, so that allocation for these can be made to ensure implementation of the project according to the expectations of the SBP.

Mr. Waqas Mirza of Avanza group gave a detailed presentation on the implementation strategy and timelines of the project. A joint Avanza/PBA panel answered a number of questions from the participants.

Pakistan's First Mediation Conference

On March 9, 2023, the Musaliha International Center for Arbitration and Dispute Resolution (MICADR), arranged a conference with Industry Leaders and Regulatory Bodies for information dissemination by mediation experts, judiciary and other relevant stakeholders with the aim of highlighting the effectiveness of Mediation as a globally recognized, time-tested dispute resolution mechanism.

PBA CEO, Mr Tawfiq Hussain, attended the conference, representing the banking industry and aired his views on how the new concept can potentially benefit the banking industry.



Digital Systems for Public Welfare

A seminar was arranged at the Aiwan-e-Sadr, Islamabad, on March 9, 2023, on the topic of 'Digital Systems for Public Welfare: Shortcomings and Remedies'. His Excellency, President of the Islamic Republic of Pakistan, Dr Arif Alvi was the Chief Guest at the occasion and it was attended by CEO, PBA, Mr Tawfiq Hussain, who was invited as a speaker.



Meeting at Governor House

On February 15, 2023, a meeting to address, 'Banking issues, disability initiatives of banks and women empowerment,' was held at the Governor House, Karachi, and chaired by Dr Arif Alvi, President of Islamic Republic of Pakistan, where the Banking Ombudsman, Presidents of banks and PTA and FIA representatives were present. CEO PBA, Mr Tawfiq Hussain, was in attendance on behalf of the banking industry, where some of the main points of discussion were;

- Public Awareness to safeguard interests of depositors.
- E-Commerce transactions.
- Transactional limits/ internet Banking
- Consumers' consent for internet-based facilities.
- Disability empowerment.
- Enhancement of Outreach to far flung areas.
- Call spoofing and role of PTA/FIA.

PBA-World Bank Round Table



On February 9, 2023, the World Bank's South Asia Regional Director for Equitable Growth, Finance, and Institutions, Mr. Mathew Verghis and his team members, visited PBA to discuss matters of interest pertaining to the banking industry and to take PBA EC's input on key matters.

PBA CEO, Mr Tawfiq Hussain, and other EC members attended the Round Table, where the key areas of discussion included;

- The overall profitability and health of the banking sector.*
- Impact of macro vulnerabilities on holders of domestic debt.*
- opportunities for greater financial intermediation to the private sector.*

Climate Smart Agriculture Finance



The implementation process of the Climate Smart Agriculture Financing (CSAF) within the banking industry and the 'Methodology for Allocating the Climate Smart Agriculture Financing (CSAF) Targets' for banks is being overseen by PBA's CSAF related smaller group.

In recent discussions held with SBP, the PBA CEO addressed the matter of high targets suggested to be assigned to banks for CSA financing and after deliberations it was agreed by SBP that instead of the initial financing target of 10% proposed by SBP, banks will now have a CSA financing target of 1% of the total Agriculture Credit Disbursement target for FY 2022-2023.

Climate Smart Agriculture (CSA) will primarily focus on the management of agricultural practices that address the issues pertaining to climate change and is also aimed at reducing carbon emissions.

Earlier in December 2022, in the annual meeting of the SBP's Agriculture Credit Advisory Committee (ACAC) held in Hyderabad and Chaired by Governor, SBP, PBA's presentation on the CSAF strategy was made by Mr Tawfiq Hussain, CEO, PBA, and then discussed by the ACAC members. In the meeting, Governor, SBP, had requested CEO PBA to set specific financing targets for banks for CSA products.

The initial CSAF strategy was drafted by PBA's Agriculture Finance Sub Committee and includes the comprehensive action plan for developing innovative CSAF products, assignment of product financing targets, adoption of specific KPIs, promotion of CSAF products and allocation of refinance limits to farmers.

Roshan Digital Accounts guidelines training



On the request of PBA members, a training session on the Regulatory Framework on Proceed Realization Certificate (PRC) was arranged by PBA in coordination with SBP, on January 19, 2023 (via Zoom).

The session was conducted by NIBAF (National Institute of Banking and Finance) in which officers from SBP's Exchange Policy Department delivered the training. The main focus of the training was the PRC requirements and guidelines issued by SBP on RDA (Roshan Digital Accounts) vide letter no.

EPD/FCA&HRD/166458/2022, and to address related questions raised by participants from PBA's member banks.

The training session was facilitated by PBA after questions were raised by members on the challenges being faced by banks regarding RDA and PRC requirements and guidelines.

Key Sectoral Matters

January 1 – March 31, 2023

❑ Sindh Budget

2023-24

Invitation of Proposals for the 2022-23 Sindh Budget (as per Sindh Sales Tax on Service Act, 2011 [Sindh Act No XII of 2011]), were sought from PBA in December 2022, and have been subsequently sent to the Sindh Revenue Board (SRB) by PBA. As per PBA's annual exercise, members' suggestions were taken into account and reviewed by the PBA, Accounting and Taxation Sub Committee. The consolidated response with the Sub Committee's suggestions were submitted to SRB on January 24, 2023 with a copy submitted to SBP.

❑ Fundraising for Turkey/Syria Earthquake

On February 8, 2023, PBA was requested by FBR to invite members for an urgent Zoom meeting held by Senator Mohammad Ishaq Dar, Minister for Finance & Revenue, on the 'Fundraising for the Devastating Earthquake Victims of brotherly Republic of Turkiye.' PBA's members were informed of the urgent meeting and all available CEOs/representatives of CEOs of member banks, joined in via Zoom. PBA was represented by CEO PBA, Mr Tawfiq Hussain, at the briefing which was also broadcast live to the nation.

❑ Housing and construction - structural impediments

PBA's feedback on the Ministry of Housing & Works, Government of Pakistan's revised draft strategy paper on 'Structural Impediments of Housing and Construction Sector', has been sent to the Ministry in January 2023. In November 2022, the Ministry of Housing & Works (MoHW), GoP, had requested a sectoral feedback from PBA on the draft strategy paper on structural impediments in the housing and construction sector, prepared by the Working Group (WG) constituted by Ministry of Finance, which includes PBA's representative.

Consultations with Mortgage heads of PBA member banks were carried out and a review was drafted at PBA and sent to the Ministry in November 2022.

The Ministry had then sent the revised strategy paper in December 2022 for further feedback from PBA and PBA's response on the revised draft was submitted to the MoHW, on January 6, 2023.

Since the launch of SBP's Markup Subsidy scheme in October 2020, PBA has been collaborating with SBP in several ways. PBA's Technology Working Group (WG) oversees the design, development and deployment of an automated income estimation & credit assessment methodology and the PBA Joint Call Centre (JCC) helpline has been handling incoming calls pertaining to Low Cost Housing (LCH).

Matters submitted to SBP

January 1 – March 31, 2023

Payment Deferment/Restructuring Options and Relaxation in Provisioning

In the SBP-PBA coordination meeting held on February 21, 2023 to discuss key matters affecting the banking sector, one of the main points of discussion was the matter of relief measures to be considered in the prevalent economic scenario and business conditions.

The coordination meeting with the Governor SBP and his senior leadership team, was attended by Chairman PBA, Mr Muhammad Aurangzeb, CEO PBA, Mr Tawfiq Hussain, and other EC members. It was decided that PBA would share specific suggestions on deferment/restructuring options with SBP.

Accordingly, the matter was discussed in detail by the PBA Risk Sub Committee and the Committee's recommendations with specific suggestions on the subject for SBP's consideration, were subsequently sent to the Deputy Governor, SBP on March 14, 2023 via email from Mr Tawfiq Hussain, CEO, PBA.

It was pointed out that banks are already substantively exposed to Credit as well as Market Risk because of;

- ♦ Rising Interest rates
- ♦ Volatility in Foreign exchange rates
- ♦ High Inflation
- ♦ Sovereign debt levels
- ♦ Deterioration in Country Ratings by ECAs
- ♦ Impaired GDP
- ♦ Significant reduction in FCY remittances
- ♦ Expected increase in non-performing loans

PBA has suggested that taking the above points under consideration, the IFRS-9 framework may be deferred for a year. SBP's response is awaited.

❑ Security of Digital Banking Products and Services

The State Bank of Pakistan (SBP) has been engaged with the PBA over the past few years to address the issue of frauds and forgeries taking place via digital financial services.

To further address this challenge, SBP has drafted a set of instructions for the purpose of introducing a control mechanism as per international best practices and the same was shared with PBA in March 2023 for members' input and feedback.

SBP's draft framework was shared with PBA members and based on their comments/input, a consolidated feedback was sent to SBP for consideration in the final circular.

❑ Improving payment card acceptance infrastructure in Pakistan

The PBA Consumer Sub Committee reviewed and discussed the SBP circular regarding, 'Improving payment card acceptance infrastructure in Pakistan,' (PSP&OD Circular Letter no 1, 2023), and was of the view that the Circular would have a detrimental impact on the push and investment into the payments ecosystem and digitization drive in Pakistan.

The Sub Committee had also deliberated on the feedback given by members on the draft circular in September 2022, and based on all observations, the PBA Consumer Sub Committee agreed that as per the points included in the SBP circular, the banks would potentially be moving from a digitally aspired economy to a more cash dominated economy.

Following the PBA EC's concurrence on the amendments drafted by the PBA Consumer Sub Committee, PBA's observations/recommendations have been sent to SBP for consideration.

❑ Consent management – OTP Services by NADRA

In February 2023, PBA received a notification from NADRA regarding, 'Consent management', introduced by NADRA for its additional security feature of the One Time Password (OTP) during online verification of a customer's identity.

PBA's Consumer Sub Committee and some of the Head of Operations of member banks deliberated on the points included in NADRA's circular and gave their input with proposed changes in some key areas which would materially impact banks' day-to-day operations, particularly for Customer Onboarding (Conventional, Digital and Consumer Lending) and Dormant Account Activation.

The proposed changes were sent to SBP in February 2023, and in March 2023 a response was received from NADRA regarding PBA's concerns with the suggestion to SBP of further meetings/discussions to resolve the potential hurdles for banks and their customers vis-à-vis Consent Management.

❑ Unauthorized Digital Payment services via lending Apps

The SBP has drafted a circular with instructions for regulated, financial entities to address the difficulties in protecting financial institutions and bank customers from unauthorized/unlicensed online platforms and mobile applications which attempt to disburse/collect loans and perform credit checks through integration with bank accounts of customers

PBA was asked by SBP to review the PSPOD draft circular, with instructions for digital lending businesses to only perform/use digital payment services of authorized entities licensed either by SBP or as non-banking finance company (NBFC/NBFI) by SECP.

The PBA Working Group on Digital Banking reviewed the draft circular and based on the WG's feedback/ comments a response with PBA's feedback has been sent to SBP.

❑ Routing Local POS Transactions Domestically

The PBA Consumer Sub Committee members addressed the challenges arising from the SBP letter (PSD&OD/Oversight /2275/2023) titled, 'Roadmap for Routing Local POS Transactions Domestically,' which was sent to different Merchant Acquiring banks on March 17, 2023. After detailed discussions held by the Consumer Sub Committee on the enablement of the domestic routing platform and the operational and systemic risks that may ensue resultantly, PBA's concerns were sent to SBP with the PBA EC's concurrence, on March 27, 2023. Some of the main points for reconsideration included, SBP's reduction in the IRF (to around 50% from the current levels) and the abolishment of the floor MDR limit. It was pointed out that these measures would stall the POS expansion across Pakistan and banks' ability to invest in building capacity. The Sub Committee's suggestions also included the formation of a committee by SBP which may include, but not be limited to, representation from banks of technical experts related to payment processing; cyber and information security; fraud; operational processes and other experts that may be required for the establishment of a domestic eco-system.

❑ Conversion of conventional banking into Islamic banking

As a first step towards the implementation of the Federal Shariat Court (FSC)'s Judgment on Riba (January 27, 2023), SBP had requested PBA's feedback/input on the proposed Working Groups to be formed for the Transformation Plan for conversion of conventional banking into Islamic banking. A Steering Committee (SC) has already been set up by the government to provide strategic guidance regarding implementation of the FSC Judgment on Riba. Under the SC umbrella, SBP has further set up a Committee for Transformation of Conventional Banking into Islamic banking and additionally, six Working Groups are proposed to be formed with their individual objectives and action plans. PBA was asked to facilitate the formation of the Working Groups and request members for nominations for inclusion in the respective WGs. The nominations received from members were sent to SBP by PBA on March 20, 2023.

❑ Enterprise Technology Governance & Risk Management Framework

PBA has provided its feedback/comments to SBP on the draft framework of amendments in 'Enterprise Technology Governance and Risk Management Framework for Financial Institutions', on February 3, 2023. SBP had requested PBA's feedback on the amendments necessitated due to latest developments in international best practices, information security standards, cyber threat landscape and the resulting cybersecurity requirements. PBA's Cyber Security Forum reviewed the subject draft and the cybersecurity issues that may have significant impact on banking operations. The feedback given by PBA included the following key areas, in which amendments were suggested by SBP;

- I. Cybersecurity Governance
- II. Cybersecurity in Enterprise Risk Management
- III. Cybersecurity Controls
- IV. Cybersecurity recovery and response
- V. Cybersecurity in third party services

Key matters in progress

As on March 31, 2023

- 1. Federal Budget and Tax Proposals, 2023-24:** suggestions for the Federal Budget for the fiscal year 2023-24, have been received from PBA members and reviewed at PBA office. After recommendations by the PBA Accounting and Taxation Sub Committee, the proposal is being put up for final approval by the Executive Committee. Once PBA EC concurrence is received, as per PBA's annual practice, the consolidated proposals will be submitted for consideration to FBR, with a copy to SBP, towards the beginning of April.
- 2. Centralized Fraud Database:** upon SBP's request, PBA is working at creating a reporting format for case studies, typologies and modus operandi of frauds & forgeries to be used by banks and reported to PBA on a quarterly basis. The information will then be disseminated to members for cautionary measures to be subsequently employed.
- 3. Sindh Finance (Amendment) Act, 2013-Recovery of Electricity Duty:** PBA members have pointed out the challenges following the issuance of the SBP letter (ref # BPRD/BLD-01/1122/2023, February 6, 2023) which requires scheduled banks, post offices and other bill collecting agencies to recover the Electricity Duty and credit the same into Government treasury under the specified Head of account. Additionally, the treasury receipt needs to be sent to concerned Electric Inspector on or before 15th of every month. PBA's General Banking Sub Committee is looking into the concerns raised by its members regarding this stipulation being enforced on banks.

Meetings held/attended

January 1 to March 31, 2023

Meetings with external stakeholders

- ♦ **National Financial Literacy Program (NFLP) Steering Committee meeting:** Secretary PBA attended the NFLP SC meeting at SBP as a member of the SC. Meeting was chaired by the Governor SBP, Chairman of NFLP Steering Committee.
 - *March 28, 2023*
- ♦ **Meeting with Azerbaijan Banking Association (ABA):** On the request of ABA, PBA's eKYC Working Group members had a zoom meeting with the ABA team to explain the basics of the eKYC project format.
 - *March 17, 2023*
- ♦ **Virtual meeting with The Organization for Economic Cooperation and Development (OECD):** The PBA team comprising some member CEOs and PBA CEO met with the OECD via Zoom for the 2nd Round Peer Review - Exchange of Information on Request (EOIR) discussion.
 - *March 15, 2023*
- ♦ **Meeting with Ombudsman:** Meeting at Governor House, Karachi, with the Banking Ombudsman, Presidents of banks and PTA and FIA representatives to discuss Transparency in Bancassurance, was attended by CEO PBA.
 - *March 15, 2023*
- ♦ **Meeting with SBP:** Zoom call held with PBA and member banks to discuss FX Master Agreements.
 - *March 8, 2023*
- ♦ **Meeting with SBP Governor:** Some EC Members met with Governor SBP at SBP office.
 - *February 21, 2023*
- ♦ **Meeting with SBP to discuss eKYC:** Final discussion of PBA team with SBP team.
 - *February 15, 2023*
- ♦ **Meeting with World Bank representatives:** on Equitable Growth, Finance & Institutions attended by EC Members.
 - *February 9, 2023*
- ♦ **Meeting with SBP:** discussion on PBA's role as envisaged by SBP in the National Financial Literacy Programme (NFLP) –II, Stream III.
 - *February 2, 2023*
- ♦ **Meeting with the Steering Committee (implementation of Federal Shariat Court):** 1st meeting of the SC for providing Strategic Guidance regarding implementation of Federal Shariat Court Judgment on Riba was held at SBP and presided over by the Minister for Finance & Revenue and attended by CEO PBA.
 - *January 27, 2023*

PBA internal meetings

Executive Committee meetings

- ♦ **Special PBA EC meeting scheduled by PBA Chairman.**
 - *March 27, 2023*
 - *January 9, 2023*
- ♦ **Preparatory meeting on Pakistan, 2nd Round Peer Review (EOIR) with the OECD**
 - *March 10, 2023*

Sub Committees

- ♦ **PBA Accounting & Taxation Sub Committee**
 - *March 8, 2023*
- ♦ **PBA Agriculture Credit Advisory Committee**
 - *March 3, 2023*
 - *February 22, 2023*
 - *February 8, 2023*
 - *January 6, 2023*
- ♦ **PBA Risk Sub Committee**
 - *February 28, 2023*
- ♦ **PBA Treasury & Capital Markets Sub Committee**
 - *January 23, 2023*

Forums

- ♦ **PBA Cyber Security Forum**
 - *March 3, 2023*
 - *January 27, 2023*
- ♦ **PBA Fraud Prevention Forum**
 - *February 22, 2023*
 - *February 17, 2023*

Working Groups

- ♦ **Shared eKYC Working Group**
 - *March 22, 2023*
 - *March 6, 2023*
- ♦ **PBA Project Income Estimation Model**
 - *March 20, 2023*
 - *March 9, 2023*
 - *March 7, 2023*

