



PAKISTAN BANKS' ASSOCIATION

Quarterly E-Newsletter

January 2024 Edition

Secretary General & CEO's Message



Dear Members,

As we end 2023 and welcome 2024, we are resuming our e-newsletter after a brief gap.

2023 has been a challenging year for our country and for the world, as a whole. Our country has had to deal with political uncertainty and serious imbalances in our economy. And our banking sector has had to deal with the resulting challenges.

Your association is working on several initiatives, the most important of which is the eKYC project, whose update is included in this newsletter. We request our members to give this project the importance it deserves.

Another push this year has been to get across the banking sector's story to the concerned external stakeholders. Going forward, you will see a consistent increase in our activities in this area. The focus of our efforts has been, and will continue to be, on the inequitable & discriminatory tax treatment of banks by the taxation authorities and by the government in office.

My team at PBA joins me in wishing you and your families a happy, peaceful & prosperous 2024.

May Allah Bless you, your families and our beloved country, Pakistan (Ameen).

Regards,

Tawfiq Hussain



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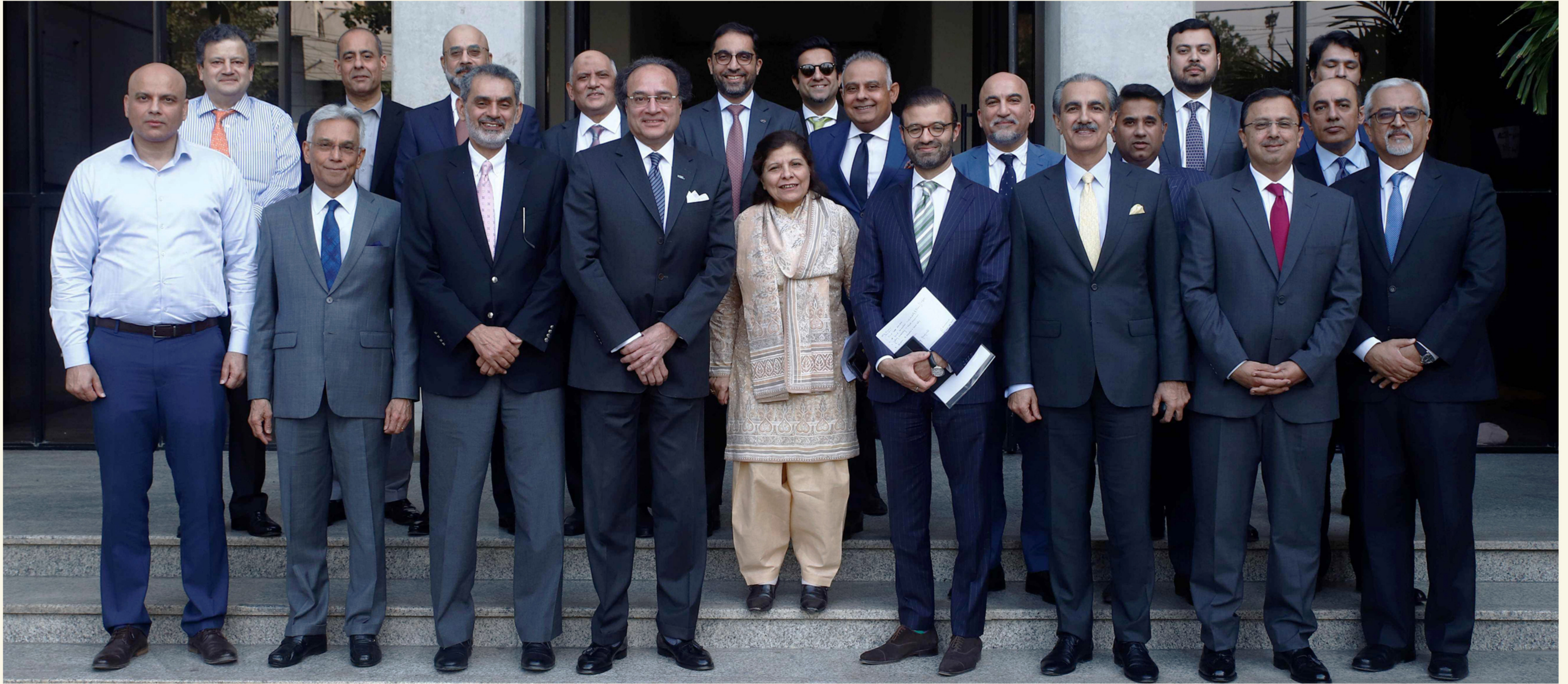
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News In-FOCUS

Federal ministers and SECP chief visit the PBA office

Karachi, November 17, 2023

Dr Shamshad Akhtar, Federal Minister for Finance, Revenue & Economic Affairs, Mr. Ahmed Irfan Aslam, Federal Minister for Law & Justice (& concurrently Minister for Climate Change & Environment Coordination), and Mr. Akif Saeed, Chairman, SECP, visited PBA in November. They were received by Muhammad Aurangzeb, Chairman - PBA, and Tawfiq Husain, CEO & Secretary General - PBA.

The purpose of the visit was to discuss, with the senior bankers there, the establishment of the proposed Pakistan Climate Change Fund, a strategic initiative of the Ministry of Climate Change & Environment Coordination. Discussions centered on the threat to Pakistan's socioeconomic and environmental sustainability from the effects of Climate Change. The possible role of the banks in Pakistan towards the establishment of Pakistan Climate Change Fund was also discussed during the meeting.

PBA conducts Trade-Based Money Laundering (TBML) Training

Karachi, November 30, 2023



Delivering upon its commitment to further strengthen the financial sector against local and global trade risks, PBA successfully conducted a training session in Karachi on Trade-Based Money Laundering (TBML) for member banks.

The TBML training at PBA was developed from the comprehensive three-day Train the Trainers (TTT) Program organized by The International Finance Corporation (IFC), an affiliate of the World Bank Group, held in October in Nairobi, Kenya. Two senior officers of the PBA, Amjad Iqbal, Head - Legal & Regulatory Affairs and Yawar Shamin, Head - Strategic Projects & Initiatives attended..... (cont.on page3)



...the TTT and then conducted the TBML training on November 30, 2023. The initiative serves the broader agenda of the IFC, to train officials from select bank associations, equipping them with the necessary knowledge and tools to counter trade-related money laundering, and in turn, train the member banks in their respective countries.

The objective of the training also aligns with the SBP requirement for financial institutions to implement robust measures in accordance with the regulatory framework and international standards, including regular training for staff to monitor, identify, and report any suspicion of TBML to the Financial Monitoring Unit (FMU).

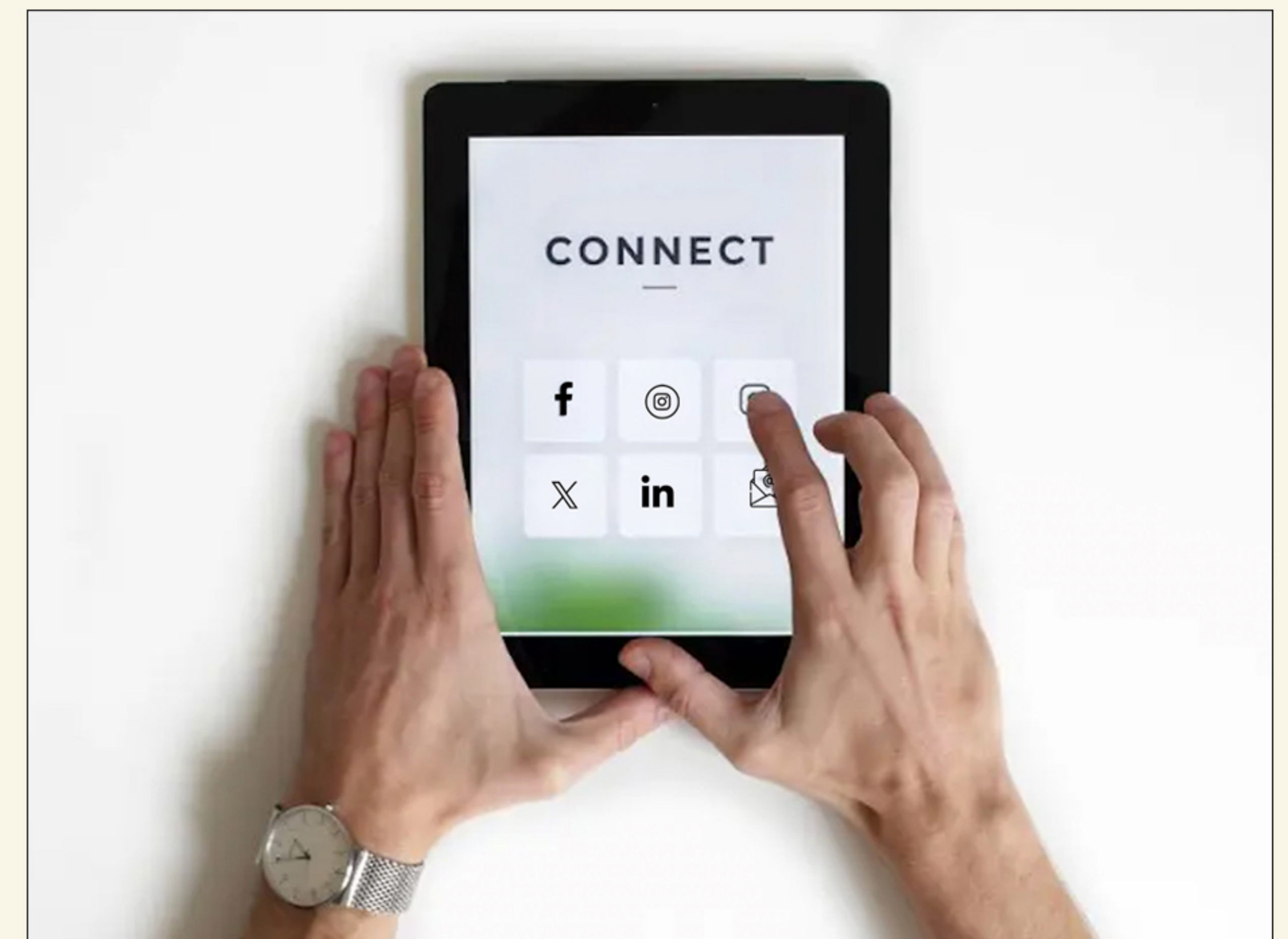


Activation of PBA's Social Media Handles

December 04, 2023

PBA's social media handles on LinkedIn, X (formerly known as Twitter), Instagram, and Facebook have been activated. PBA's presence on these platforms is another step towards further expanding its digital footprint and outreach. PBA aims to leverage its social media presence by connecting with its stakeholders i.e., member banks, government and regulatory bodies, and the general public. Through these avenues, PBA will continue to convey its thought leadership narrative, enhance financial literacy, and foster discussion on the ever-evolving financial landscape.

Active participation of all member banks will be key in making these platforms dynamic spaces for meaningful discourse, essential for the collective and sustainable growth of the banking community.



PBA's response to FBR S.R.O. 1771 (1)/2023 on proposed Real-Time Access to Information and Databases

December 08, 2023

An urgent meeting of PBA's Accounting & Taxation Subcommittee was called to discuss the Federal Board of Revenue's (FBR) S.R.O on the 'Real-Time Access to Information and Databases' request received on December 05, 2023. The meeting discussed and formulated an official response to the issued FBR's notice. After developing a consensus with the Sub-Committee and seeking advice from its external Legal Counsel, PBA sent a letter to FBR within the seven-day deadline.

The response has covered both legal and operational/technical arguments in the context of the banking sector, warranting its exclusion from the proposed S.R.O. and advocating for the recognition of the industry's unique perspective, duly acknowledged by the Income Tax Ordinance of 2001.



SBP-PBA Quarterly Coordination Committee Meeting

October 1 - December 31, 2023

The following matters were discussed with SBP during the 3rd quarterly SBP-PBA Coordination Committee meeting held on October 3, 2023.

a) SBP Agenda Items

1. Challenges in Customer Onboarding:

SBP apprised PBA about the challenges in customer onboarding, emphasizing the need for banks to simplify their onboarding processes. PBA suggested that it is a legal/compliance-related matter and in that perspective, requested SBP to look into publicizing penalties imposed on individual banks. SBP is currently reviewing further simplification in customer onboarding and will subsequently consult the wider industry. The discussion concluded with the need to strike a balance between simplification of onboarding processes and AML-related requirements.

2. Forced Conversions of Saving into Current Accounts:

SBP has received multiple complaints of banks forcibly converting savings accounts into current accounts, noting instances of mis-selling. Governor SBP urged PBA members to address the issue, warning of regulatory action if such practices continue and emphasized the need for banks to sensitize their teams to prevent such instances from occurring in the future.

3) Adoption of Person-to-Merchant (P2M) Raast Module:

SBP informed PBA about the low adoption of the Person-to-Merchant (P2M) Raast Module by most banks and recommended that the P2M Raast Module needs a strategic push from the top management of the banks. The discussion concluded with the suggestion for the banks to also sensitize their concerned teams as SBP continues to engage with banks for the early adoption and awareness of the P2M Raast Module.

4. Promotion of Home Remittances:

Governor SBP emphasized the banks' responsibility in promoting home remittances after SBP's efforts, including budget allocation against pending claims of the banks, and incentivising transactions through banking channels. He suggested that banks need to enhance their marketing efforts, create awareness, and incentivize the use of banking channels for home remittances. PBA members expressed appreciation for the timely release of claims and pledged strong support for this national cause.

5. Update on Exchange Company Reforms:

Governor SBP underscored recent initiatives by SBP to reform the exchange companies' sector and urged banks to comply with the specified timelines for establishing bank-sponsored exchange companies. He highlighted that these measures aim to formalize the exchange companies' sector and mentioned that an incentive structure for such companies would be developed in due course.

6. Industry-Wide BCP Drill focusing on Cybersecurity:

For "Development of Scenarios for Industry-wide BCP Drill" – a PBA-SBP coordination committee was set up in October 2023, subsequent to the discussion in the coordination meeting. The purpose of the said committee is to deliberate on the scope and other modalities of the Business Continuity Planning (BCP) drill with a primary focus on cybersecurity. The drill is meant to test the readiness of the FMIs as well as the associated organizations (banks) in case of a cyberattack.



SBP-PBA Quarterly Coordination Committee Meeting

October 1 - December 31, 2023

The following matters were discussed with SBP during the 3rd quarterly SBP-PBA Coordination Committee meeting held on October 3, 2023.

b) PBA Agenda Items

1. Expansion of Real-Time E-CIB checks for Digital Lending:

The lending business, specifically Consumer Finance remains at the heart of the digitization in Pakistan with the growing number of tech-savvy consumers and their evolving requirements. Therefore, any financial institution, which primarily relies on e-CIB issued by the SBP, as part of its decision-making will require its customer information to be digitally available 24/7. Credit history being an inherent part of the underwriting process, will be required to interact with the Loan Originating System (LOS) digitally, and be accessible to all banks, connecting with digital-based applications through Application Programming Interface (APIs). Hence, PBA requested SBP for the development of an API of e-CIB, which will enable all banks and financial institutions to automate their workflows, providing a seamless customer experience. **PBA has since submitted a proposal to SBP for its consideration.**

2. Application of FE Manual on Corporate/Business Cards:

Given the significance of the Corporate/Business cards in the financial landscape, PBA apprised SBP of the current challenges related to the application of its FE Circular No. 7 of 2022, on the said products. The documentation requirement mentioned in the FE Manual related to pre-approval/designation, payment receipts, etc., hampers the efficacy of a real-time product like Corporate/Business Cards. PBA, therefore, has requested SBP to consider waiving the applicability of the FE Manual on Corporate/Business Cards. It was also recommended that a reasonable annual cross-border per-party limit should be allowed for the aforementioned product offering. Following the discussion, **PBA has since shared with SBP, a detailed proposal with its recommendations.**

3. Cost of SMS:

Chairman PBA expressed concerns about the notable increase in the cost of SMS alerts for banking transactions in the past year, prompting a discussion on potential substitutes such as in-app notifications, emails, and biometric authentication. ED-DFSG underscored the importance of rationalizing the issue, considering regulatory requirements, and highlighting the significant role of SMS alerts within the liability framework, particularly in preventing penalties on banks in fraud cases. The discussion concluded with PBA exploring commercially viable solutions from a legal standpoint for liability determination and associated risks. **Subsequently, a proposal has been resubmitted to SBP.**

4. Subsidy Claims Against MPMG, Kamyab Jawan and Remittances:

PBA apprised SBP that while most of the pending claims against remittances have been addressed, claims against MPMG and Kamyab Jawan programs remain pending. PBA requested SBP for its continued support and to look into the issue of pending claims. SBP assured to pursue the Finance Division for payment of pending claims for MPMG and Kamyab Jawaan programs.

Projects in Progress

1. Update on the Shared Electronic Know Your Customer (e-KYC) Platform

The Shared eKYC Project was launched by the PBA at the request of the State Bank of Pakistan. After vendor selection and contract signing the project was formally kicked off in March 2023. Concerted efforts of PBA, the participating banks, the technology partners, and the SBP on the activation of this platform are currently underway.

The project is planned to be launched in a phased manner with eight banks deploying the platform in the first phase. Currently, the base software has been deployed at two of the participating banks with the other banks at various stages of readiness, verification, testing, and deployment.

The shared eKYC platform, through the use of blockchain technology, is meant to significantly reduce the time taken to complete due diligence during customer onboarding. The improved efficiencies of the Platform, backed by blockchain technology, will result in increased productivity and better customer experience. Once established, this blockchain connectivity, across all banks, can be leveraged for several other purposes such as TBML document verification, electronic clearing, etc.

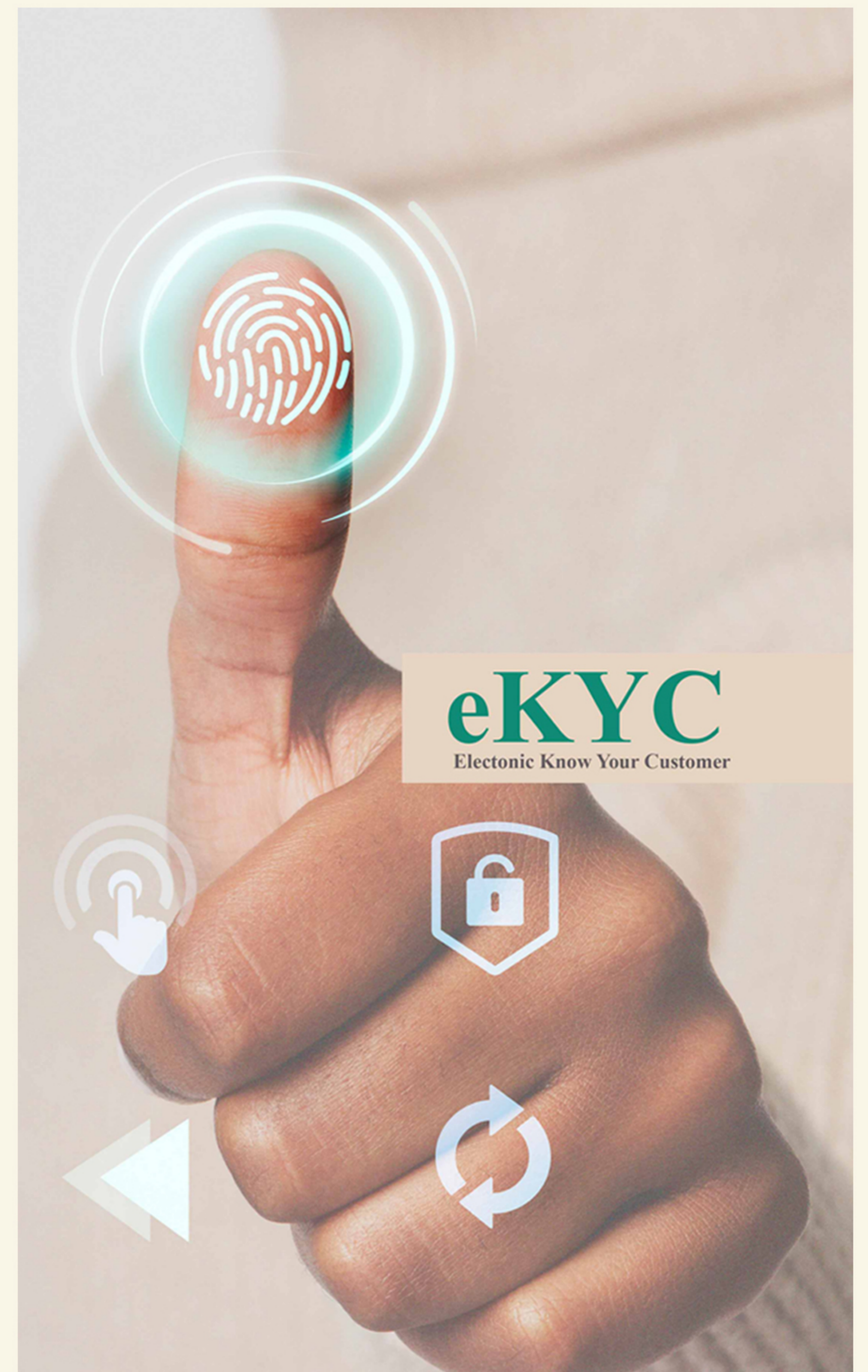
In addition, the Platform will also enable timely exchange and updating of customers' KYC or CDD information across the banking industry through a secure digital channel, standardization of KYC or CDD data, enhancing customer onboarding experience and cost saving for the banks.

Given the significance and utility of the Shared e-KYC Platform, both for banks and customers, the SBP, through a recent circular, has advised all banks to join the Platform and dedicate the required financial, technological, and human resources for its timely and effective implementation. These regulatory instructions from SBP related to the Platform have been issued on December 18, 2023.

To ensure seamless implementation of Shared eKYC across the sector, PBA continues to engage with the concerned banks' teams and the vendor, Avanza, regularly to monitor the progress and address any issues/challenges.

2. Credit Scoring / Income Estimation Model

The scope of the project involves the development of an application score and an income estimation model, that enables the banks/MFBs to evaluate household incomes and consequently underwrite any in-formal or low-income segments (a target market for Low-Cost Housing Scheme) based on different variables. In Phase I of the project, an application score has been created and a model where household income can be estimated via 12 different inputs has also been created. The assessment for the score includes an input of a total of 12 variables, i.e., 7 application variables and 5 bureau variables. Each variable for the income estimation model has been assigned a weightage signifying the confidence level of its input. The final score is then calculated as the weighted average of all available inputs; giving the banks/MFBs to conveniently undertake the underwriting process for its targeted consumers. The project is currently work in process and needs to be tested against additional information along with the pre-determined variables set in Phase I of the initiative.





Meetings Held

1. Executive Committee/Annual General Meeting

Executive Committee Meeting	20/10/23 at PBA Office
Annual General Meeting	27/10/2023 via Zoom

2. PBA Sub-Committee Meetings

1. Consumer Sub-Committee	Monthly Meeting on 10/10/23 via Zoom
2. Accounting & Taxation	Banks as Collecting Agents - PRA & SRB matters 01/11/23 via Zoom Accounting & Taxation meeting on 8/12/23 at PBA Office
3. Agriculture Finance	Strategy to promote Climate Smart Agriculture (CSA) financing CSAF Targets for FY 2023-24 on 13/11/2023 via ZOOM
4. PBA Investment Committee	PBA Investment Committee Meeting on 15/11/2023 at PBA Office
5. Treasury	PBA Treasury & Marketing meeting on 4/12/2023 via Zoom
6. Marketing & Communication	Quarterly Meeting on 28/12/23 at PBA office

3. Meeting of the Forums

1. Cyber Security	held on 13/10/23
2. Fraud Prevention	held on 03/11/23
3. Fraud Prevention (Social Engineering Fraud Coverage)	held on 15/12/23

4. SBP-PBA Coordination Committee Meeting

Meeting with SBP	3 rd SBP – PBA Coordination Meeting with Governor SBP on 3/10/2023 at SBP Boardroom
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5. Miscellaneous Meetings

1. Meeting with Farogh Naseem	Notifications issued by the Punjab Revenue Authority (PRA) & Sindh Revenue Board (SRB) with Taxation Heads of some banks on 1/11/2023 via Zoom
2. IMF Mission	IMF Mission virtual meeting with some banks' CEOs and a few EC Members on 6/11/2023 at PBA Office
3. Meeting with Federal Ministers & SECP Chief	Possible role of the banks in the establishment of the Climate Change Fund on 17/11/2023 at PBA Office