

Product Disclosure Requirements



**Banking Conduct and
Consumer Protection Department
State Bank of Pakistan**

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1. Introduction

As the banking products and services have become more diverse and complex, it has become increasingly significant for consumers to make their financial decisions properly. Accordingly, consumers should be given relevant, timely, reliable and comparable information regarding banking products in a transparent manner to enable them to make informed decisions on products that best suit their needs.

2. Objectives

The Product Disclosure Requirements (PDRs) are aimed to facilitate consistency in disclosure of essential information on banking products and to promote prudent lending practices among banks/MFBs. Further, the enhanced disclosure requirements will exert financial discipline; minimize the practices of mis-selling of banking products and related complaints.

The objectives of PDRs are to:

- 2.1. address information asymmetries between consumers and banks/MFBs;
- 2.2. enhance consumers' understanding of banking products;
- 2.3. improve standards of transparency in the banking industry; and
- 2.4. increase and maintain market confidence and trust in the banking industry.

3. Applicability

PDRs are applicable to all types of Personal, Housing and Auto Finance products offered by banks/MFBs which are in addition to other relevant instructions issued by the State Bank of Pakistan from time to time.

4. Compliance with laws and regulations

Banks/MFBs will act within laws and regulations and refrain from acting prejudicial to its business, reputation, integrity and interest of depositors. If PDRs impose an obligation on banks/MFBs, in addition to obligations applying under any laws and/or regulations/instructions, the banks/MFBs will also comply with PDRs except where doing so would lead to a breach of a law and/or regulation/instruction.

5. General Policy Requirements

5.1. Board and Senior Management Oversight:

As a part of its governance responsibility, the Board or a Committee of the Board should ensure that proper systems and processes are in place to implement the PDRs.

5.2. **General principles for product related disclosure and transparency:**

Disclosures shall be:

- 5.2.1. well-timed;
- 5.2.2. comprehensible and concise;
- 5.2.3. truthful and relevant; and
- 5.2.4. consistent and comparable.

6. **Stages of Disclosure Requirements**

The banks/MFBs shall provide product related disclosure at the following stages of the product life cycle:

6.1. **Pre-contractual disclosure:**

This is the stage where a consumer intends to buy a banking product. Product offering advertisement forms the basis of this stage. Advertisement refers to promotional material relating to banking product and includes all forms of printed and published materials disseminated through print/electronic/telephonic mediums. Accordingly, banks/MFBs shall ensure that the advertisement:

- 6.1.1. design, presentation and content are clear, correct and not misleading;
- 6.1.2. does not contain a false statement which conceals important facts or creates a false impression;
- 6.1.3. emphasizes the important information in legible fonts (at least size 9) to bring a consumer's attention to pricing, charges, risk warnings, etc. if made part of the advertisement;
- 6.1.4. footnotes (not smaller than font size 8) are proportionate to the rest of the text and are easily readable;
- 6.1.5. highlights introductory period during which the product is offered free; and
- 6.1.6. is not describing a product as "free" or "no cost" if any fee, by whatever name it is called, or other implied charges are attached with the product.

The banks/MFBs shall also ensure that:

- 6.1.7. underlying assumptions/conditions for availing benefits of a product are explicitly stated in the advertisement;
- 6.1.8. advertisement notifying a consumer of a discount promotion shall specify duration of the promotional period and the terms and conditions which apply to that particular promotion; and

6.1.9. if an advertisement is short or general in its content, the consumer is informed of the availability of explanatory material giving details of the banking product. For ease of reference, a consumer may refer to web address where such material is placed (*Example Text: for more details, please log on to <http://www.abc.com.pk>*).

6.1.10. The information to be disclosed to a consumer includes, but is not limited to:

- a) key features of the banking product;
- b) benefits to which a consumer will or may become entitled,
- c) the circumstances and the time at which these benefits will or may be provided; and
- d) fees and charges that may be imposed.

6.2. **Disclosure at the time of entering into a contract:**

Prior to entering into contract banks/MFBs are required to highlight to the consumer the key contractual terms and conditions. Information to be disclosed to the consumer in precise form shall include but not limited to:

6.2.1. **Mark-up rate:** Inform the prospective consumer of the expected rate of mark-up that will be charged on the financing facility whether it is on fixed, variable or combination of fixed and variable rates. Further, the Annual Percentage Rate (APR) shall also be disclosed.

6.2.2. **Financing details:** Clearly disclose amount and term of finance along with number of installments and the amount to be paid for each installment. For the finance on variable markup rate, banks/MFBs shall inform the consumer that the total repayment amount will be based on the benchmark/reference rate (KIBOR, bank rate, etc.) agreed at the time of signing of finance agreement and that it is likely to be changed during the term of the finance.

6.2.3. **Lock-in Period and Early Settlement charges:** Indicate Lock-in period, if any, along with a calculation of charges/penalties, if the finance facility is terminated before the end of the lock-in period.

6.2.4. **Fees and charges:** Enlist applicable fees and charges, and their nature, including implied charges/penalties.

6.2.5. **Collateral:** Specify nature of the property/asset/valuable required as collateral.

6.2.6. **Margin:** Clearly mention percentage of the value of asset to be financed by banks/MFBs.

- 6.2.7. **Insurance:** State whether insurance coverage is required as a condition or an option of the finance facility and whether the insurance will be obtained from companies on banks'/MFBs' panel or any other company at the consumer's option.
- 6.2.8. **Third Party Guarantee:** Inform the guarantor, if any, of his/her rights and obligations and implications in the event of default by the consumer. It is also advised to provide the guarantor a copy of the Product Key Fact Statement and retain the acknowledgement thereof.
- 6.2.9. **Contact details:** Provide contact details of the complaint resolution centre for feedback/enquiry.

Product Key Fact Statements: Before disbursement of finance, provide duly signed product specific key fact statement, which at least contains disclosure as defined in annexed '**Product Key Fact Statement**'. However, banks/MFBs may also include additional disclosures as they deem necessary.

- 6.3. **Disclosure during the term of the contract:**
Banks/MFBs shall adopt continuous disclosure during term of the contract in the following manner:
 - 6.3.1. **Notice of changes:** Notify the consumer in writing of any change in mark-up rate on a variable finance facility. This notification shall include:
 - a) the date from which the new rate applies; and
 - b) the revised repayment schedule.
 - 6.3.2. Any other change, including but not limited to terms and conditions, features of banking product and the consumer's rights and obligations shall be communicated at least before a period of thirty days. The mode of notification should be in any agreed mode in addition to display at business premises and websites of banks/MFBs.
 - 6.3.3. **Disclosure on statement of accounts:** Besides usual details the loan statement should also indicate other charges along with dates of accruals. The statement shall be sent annually through acknowledged post at the address last made known to bank/MFB or through any agreed mode. However, due to specific nature and scale of activities, the same is not binding on MFBs.

For banking products for which periodic statements are issued only upon request, banks/MFBs shall ensure that the consumer has timely access to the information through other channels without undue cost.

7. Other Requirements

- 7.1. **Bundling and tying clauses:** Banks/MFBs are prohibited from bundling or tying services with the primary product without explicit written or verbal consent of the consumer on recorded lines.
- 7.2. **Additional features offering:** Banks/MFBs shall not offer additional features/ facilities with the existing product without explicit prior consent of the consumer.
- 7.3. **Procedure for termination of product:** Banks/MFBs shall clearly disclose to the consumer the procedure for termination of any product.
- 7.4. **Preservation of rights:** Except where permitted by applicable laws or in any communication/agreement with a consumer, banks/MFBs shall not exclude or restrict, or seek to exclude or restrict any liability arising from the bank's/MFB's failure to exercise its duty to act with skill, care and diligence in the provision of any banking product to the consumer.
- 7.5. **Debt collection:** Inform the consumer in advance about initiation of recovery as per 'Fair Debt Collection Guidelines' and other related instructions issued by SBP from time to time.
- 7.6. **Selling of loan portfolio:** If the loan portfolio is sold to another bank/MFB the same shall be brought to the notice of the concerned borrowers through standard public communication.
- 7.7. **Language requirement:** Banks/MFBs shall ensure that all information provided to a consumer is written in simple English as well as in Urdu language.
- 7.8. **Retention of Product Key Fact Statement Record:** Banks/MFBs shall retain a copy of 'Product Key Fact Statement' duly signed by the bank's/MFB's authorized officer and consumer as per their record retention policy.

Appendices

Name of the Bank			
Product Key Fact Statement			
Personal Finance			
A. Your financing need:			
Name of the product	Specify the name of the product.		
Finance amount	Rs. x,xxx,xxx/-		
Term of the finance	xx months		
Mark-up type	Fixed/variable		
B. Estimated cost of this financing:			
What Mark-up* (fixed/variable) will you be charged?	Amount	Rate	
	Rs. xx,xxx/- to be paid per month	X % (rate per month)	
	Rs. xx,xxx/- to be paid per year	X % (rate per year)	
	*In case of variable mark-up, specify that if mark-up rate increases/(decreases) by X% the monthly installment amount will increase/(decrease) by Rs. XXX approximately.		
What other charges will you have to pay?	Rs. xxx/-		
	Enlist charges i.e. one time charges, ongoing charges .The banks/MFBs may refer to their Schedule of Charges.		
What will be the monthly installment payable?	Rs. xx,xxx/-		
	Specify that in case of a variable rate financing, installment amount may vary with the change in benchmark/reference rate as agreed at the time of contract.		
What total amount will you pay for the financing?	Rs. x,xxx,xxx/-		
	Specify that in case of a variable rate financing, total repayment amount may differ from the amount disclosed at the time of contract due to change in benchmark/ reference rate.		
C. Early payments:			
Can you repay finance before the maturity?	DD-MM-YYYY		
	Specify the lock-in period in which the early repayments are not allowed.		
How can you repay finance before the maturity?	Briefly specify the procedure for early retirement of finance obligations.		
Will you have to pay any additional amount/charges for pre payment/ early retirement of the finance?	Specify the pre payment/early retirement penalties/charges of the finance along with time of the imposition, if any.		
D. Default/late payment information:			
What happens if you fail to fulfill your obligations?	Specify the implications of not paying installments on time. This will include recovery methods/rights of the bank as well as default reflection in credit reports.		
What penalty will you be charged for not repaying on time?	Default charges	Rate Applied	Manner of computing late payment charges
	Rs. x,xxx	X%	Computation
Can bank/MFB exercise right of set-off?	Inform consumer clearly about bank's/MFB's right to set-off any credit balance in the consumer's deposit accounts against any outstanding balance in the financing accounts.		
E. Other material information:			
What happens in case of death of borrower(s)?	Specify implications on the finance facility in the event of death of the borrower(s) or joint borrower(s) during the tenor of financing.		
What are the guarantor's obligations?	Mention obligations of the guarantor(s), if any, in case of default.		
What documents will be provided to you?	Enlist all documents that will be provided to the borrower(s).		
Where you can get assistance and redress?	Provide contact details of the contact centre/complaint handling unit.		
Borrower's Signature and Date		Authorized Banker's Signature, Stamp and Date	

Name of the Bank			
Product Key Fact Statement			
Housing Finance			
A. Your financing need:			
Name of the product, if specified	Specify the name of the mortgage finance product.		
Type of the product	Outright Purchase/Renovation/Construction		
Finance amount	Rs. x,xxx,xxx/-		
Term of the finance	xxx months		
Mark-up type	Fixed/Variable/Hybrid		
Loan to value ratio	Loan to Value Ratio*= Mortgaged Amount/Appraised Value of the Property.		
	*specify that the reference ratio is based on pre disbursement value		
B. Estimated cost of this loan:			
Annual Percentage Rate (APR)	x.x%		
	Specify formula as per Housing Finance Prudential Regulation requirement.		
What Mark-up (fixed/variable)* will you be charged approximately?	Amount	Rate	
	Rs. xx,xxx/- to be paid per month	X % (rate per month)	
	*In case of variable mark-up, specify that if mark-up rate increases/ (decreases) by X%, the monthly installment amount will increase/(decrease) by Rs. XXX approximately.		
What other charges will you have to pay?	Rs.xxx/-		
	Enlist charges i.e. one time charges, ongoing charges etc.The banks/MFBs may refer to their Schedule of Charges.		
What will be the monthly installment payable?	Rs. xx,xxx/-		
	Specify that in case of a variable rate loan, installment amount may vary with the change in benchmark/reference rate as agreed at the time of contract.		
What total amount will you pay for the finance?	Rs. x,xxx,xxx/-		
	Specify that in case of a variable rate loan, total loan amount may differ from the amount disclosed at the time of contract due to change in benchmark/reference.		
When will the existing variable mark up rate as per finance agreement expire?	Specify the expiry date of the term of the finance as calculated in accordance with variable rate.		
When will the mark-up rate as per finance agreement be renewed?	Specify the renewal dates over the period of finance and mention the upcoming renewal date.		
What additional documents will be required for renewal of finance agreement?	Enlist documents required for renewal of the finance agreement.		
C. Early payments:			
Can you repay finance facility before the maturity?	DD-MM-YYYY		
	Specify the lock-in period in which the early repayments are not allowed.		
How can you repay finance before the maturity?	Briefly specify the procedure for early retirement of the loan.		
Will you have to pay any additional amount/ charges for pre payment/ early retirement of the financing facility?	Specify the pre payment/early retirement penalties/charges along with time of imposition, if any.		
D. Default/late payment information:			
What if you fail to fulfill your repayment obligations?	Specify the implications of not paying installments on time. This will include the recovery methods/rights of the bank as well as default reflection in credit reports.		
What penalty will you be charged for not repaying on time?	Default charges	Rate Applied	Detail of computing late payment/default charges
	Rs. x,xxx	X%	Computation
E. Other material information:			
What insurance avenues do you have?	Specify details of insurance coverage required as a condition of the loan facility from bank's panel of insurers and whether the insurance is mandatory.		
What happens in case of death of borrower(s)?	Specify implications on the finance facility in the event of death of the borrower(s) or joint borrower(s) during the tenor of the loan.		
What are the guarantor's obligations?	Mention obligations of the guarantor(s), if any, in case of default.		
What documents will be provided to you?	Enlist all documents required under PRs to be provided to borrower(s).		
Where you can get assistance and redress?	Provide contact details of the contact centre/complaint handling unit.		
Borrower's Signature and Date		Authorized Banker's Signature, Stamp and Date	

Name of the Bank			
Product Key Fact Statement			
Auto Finance			
A. Your financing need:			
Name of the product	Specify the name of the product.		
Vehicle required	New /used/locally manufactured/imported Vehicle		
Financing required	Rs. x,xxx,xxx/-		
Term of financing	xx months		
Mark-up type	Fixed/variable		
B. Estimated cost of this financing:			
Annual Percentage Rate (APR)	x.x%		
What Mark-up (fixed/variable)* will you be charged?	Amount	Rate	
	Rs. xx,xxx/- to be paid per month	x % (rate per month)	
	*In case of variable mark-up, specify that if mark-up rate increases/(decreases) by X% the monthly installment amount will increase/(decrease) by Rs. XXX.		
What other charges will you have to pay?	Rs. xxx/- Enlist charges i.e. one time/ongoing charges etc.		
What will be the monthly installment payable?	Rs. xx,xxx/- Specify that in case of a variable rate loan, installment amount may vary with the change in benchmark/reference rate as agreed at the time of contract.		
What total amount will you pay for the financing?	Rs. x,xxx,xxx/- Specify that in case of a variable rate loan, total loan amount may differ from the amount disclosed at the time of contract due to change in benchmark/reference.		
C. Early payments:			
Can you repay loan/finance before the maturity?	DD-MM-YYYY Specify the lock-in period in which the early repayments are not allowed.		
How can you repay loan/finance before the maturity?	Briefly specify the procedure for early retirement of the loan.		
Will you have to pay any additional amount/charges for pre payment/ early retirement of the loan/finance?	Specify the pre payment/early retirement penalties/charges of the loan along with time of the imposition.		
D. Default/late payment information:			
What if you fail to fulfill your repayment obligations?	Specify the implications of not paying installments on time. This will include the repossession/auction of vehicle subject to serving of mandatory notices as well as default reflection in credit reports.		
What will you have to do to acquire back your repossessed vehicle?	Specify the procedure through which the borrower(s) can acquire back his repossessed vehicle.		
What penalty will you be charged for not repaying on time?	Default charges	Rate Applied	Manner of computing late payment charges
	Rs. x,xxx	X%	Computation
E. Other material information:			
What insurance avenues do you have?	Specify details of insurance coverage required as a condition of the loan facility from bank's panel of insurers and whether the insurance is mandatory.		
What happens in case of death of borrower(s)?	Specify implications on the loan facility in the event of death of the borrower(s) or joint borrower(s) during the tenor of the loan.		
What are the guarantor's obligations?	Mention obligations of the guarantor(s), if any, in case of default.		
What documents will be provided to you?	Enlist all documents that will be provided to the borrower(s).		
Can you sell your vehicle to a third party during the tenor of the loan/finance?	Inform the borrower about the prohibition of sale of vehicle to a third party during the term of the contract.		
Where you can get assistance and redress?	Provide contact details of the contact centre/complaint handling unit.		
Borrower's Signature and Date		Authorized Banker's Signature, Stamp and Date	