



Rules for Digital On-boarding of Merchants

State Bank of Pakistan

Payment Systems Department

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Acronyms

AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
BODs	Board of Directors
CDD	Customer Due Diligence
CNIC	Computerized National Identity Card
EMI	Electronic Money Institution
EDD	Enhanced Due Diligence
FMU	Financial Monitoring Unit
ML/TF	Money Laundering/Terror Financing
NADRA	National Database and Registration Authority
PSD	Payment Systems Department
PS&EFT Act	Payment Systems and Electronic Fund Transfers Act, 2007
PSO/PSP	Payment System Operator/Payment Service Provider
SBP	State Bank of Pakistan
STRs	Suspicious Transactions Reports
UN	United Nations
UNSC	United Nations Security Council

Definitions

“Acquiring institution” means an Electronic Money Institution (EMI), and any non-banking entity duly authorized by SBP to on-board merchants under these Rules

“Direct Credit Transfer” is an electronic transfer of funds by the payer directly into the account of the payee

“Direct Debit” preauthorized debit on the payer’s account initiated by the payees

“Electronic Money Institutions (EMIs)” means the same as defined under Regulations for Electronic Money Institutions issued vide PSD Circular No. 01 of 2019, April 01, 2019

“Merchant” under these Rules means any individual and self-employed person who accepts digital payments from customers against the delivery of legal goods or services

“Merchant on-boarding” means process by which Acquiring institutions open the accounts of merchants thus enabling them to accept payments via digital means

“Money Laundering and Terror Financing or ML/TF” has the same meaning as described in AML Act 2010

“Payment Instrument” means the same as defined in PS&EFT, Act, 2007

“Payment Services” for the purpose of these Rules mean the services that enable the customers to make payments for goods and services, bill payments, fund transfers, cash deposit and withdrawal from e-money accounts and any other service defined by SBP from time to time

“Payment System” means the same as defined in PS&EFT Act, 2007

“PSOs/PSPs” mean the same as defined in the Rules for PSOs/PSPs issued by SBP vide PSD Circular No. 3 dated October 23, 2014

“SBP” means the State Bank of Pakistan established under Section-3 of the State Bank of Pakistan Act, 1956

“Suspicious Transaction Report or STR” means as defined under AML Act 1997

1 Preamble

One of the challenges being faced in the digitization of retail transactions in Pakistan is the low number of digital payment acceptance points in the country. There are many reasons for this shortfall but the primary one is the protracted process of merchant on-boarding that requires a long list of documentation and an even longer process of due diligence by the banks due to which it usually takes months before a merchant can be on-boarded. Further, due to a variety of reasons, merchant acquiring in Pakistan is a costly business and it takes many years before a merchant acquiring bank can even become profitable. As a result, the number of point-of-sale (POS) terminals that are primarily being used for conducting transactions, that too usually at high-end retail outlets, has been hovering around 50,000 in the country for quite some time now.

SBP has taken various initiatives to promote digital payment channels and instruments in the country including the adoption and promotion of new technologies and enabling non-banking entities like the electronic money institutions to deliver innovative and efficient payment services in the country. With the recent issuance of Regulations for Electronic Money Institutions (EMIs), new Payment Service Providers (PSPs) are now ready to enter the market. Most of these EMIs will be targeting smaller merchants thus enabling them to accept payments digitally using a completely new variety of low-cost, technology enabled payment instruments/methods like QR codes. The ubiquity of mobile apps is not only enabling small merchants but also mobile merchants, like taxi drivers, food delivery providers, and self-employed women who provide cooked food, drapery services etc. to accept payments digitally without buying and maintaining the more costly POS machines.

SBP is of the view that issuance of these merchant on-boarding Rules will enable EMIs to quickly onboard a large segment of retail merchants and enable them to accept their payments digitally thus giving new payment options to the general public and broadening the base of financially included in the country.

2 Objective

The objectives of these Rules are:

- a) To outline minimum due diligence requirements for on-boarding merchants based on simplified due diligence process.
- b) To facilitate in on-boarding merchants at various financial services access points and channels.
- c) To promote digital collection of payments from the sale of legitimate goods and services.

3 Authority

These Rules are being issued in exercise of the powers conferred upon SBP under Section 3 of Payment Systems & Electronic Fund Transfers (PS&EFT) Act, 2007.

4 Scope and Applicability

These Rules are applicable to Acquiring institutions which include EMIs, who may on-board merchants defined in these Rules through digital channels such as mobile applications, and web portals etc. Acquiring institutions shall formulate merchant on-boarding policy in line with these Rules, and get the same approved from their Board.

5 Nature of Account

- a) Acquiring institutions shall ensure that one CNIC holder can open only one Merchant Account in their Acquiring institution.

- b) Acquiring institutions shall ensure that Merchant Accounts are only used for digital collection of payments against the provision of legitimate goods and services.
- c) Acquiring institutions may provide electronic payment instruments like Debit Cards, Credit Cards, Direct Credit Transfers, Direct Debit etc. as per their own policies and procedures.
- d) Acquiring institutions shall provide digital payment acceptance channels to these merchants that may include but are not limited to POS machines, m-POS, QR code, mobile payment applications, direct credit transfers, e-commerce gateways, etc. depending on their needs and requirements.

6 Digital Merchants

For the purpose of these Rules, the digital merchant shall include small businesses or individuals providing legitimate goods and services like transport, home deliveries, small grocery and kiriyana stores etc. Acquiring institutions are especially encouraged to facilitate the digital on-boarding of women providing services from their home like cooked food, drapery services, handicrafts, tuition services etc.

7 Process of Merchant On-boarding

While Acquiring institutions may directly onboard any category of merchants, in-person, by fulfilling the requirements mentioned in subsequent sections, they may also remotely onboard merchants digitally.

8 Minimum Requirements for Due Diligence

Acquiring institutions shall follow the following minimum due diligence requirements:

I. Minimum Information to be collected

- a) Name of the merchant
- b) Valid CNIC number of the merchant
- c) Mobile number of the merchant
- d) Any other two information fields that are not present on CNIC such as place of birth and mother's maiden name etc.
- e) Address
- f) Merchant Type (Acquiring institutions may assign appropriate category similar to the ones mentioned in Section 6)
- g) Expected per month turnover

II. Documents Required:

Merchant shall be required to upload:

- a. Front and back end of CNIC
- b. Digital photo or live picture
- c. Any other document as deemed appropriate by Acquiring institutions

III. Account Activation

Acquiring institution shall activate Merchant Accounts after fulfilling following KYC/CDD requirement of merchants:

- a) Biometric Verification or Verisys from NADRA. In case of NADRA Verisys, Biometric Verification shall be mandatory at the time of first cash out or within three months of opening of these accounts, whichever is earlier. These accounts shall be deactivated if Biometric Verification is not carried out within three months of opening of accounts.
- b) Pre-screening of merchants' particulars against lists of entities and individuals designated by the United Nations Security Council (UNSC), lists of entities and individuals proscribed

under the Schedule-I and Schedule IV of the Anti-Terrorism Act, 1997, respectively, and any other applicable sanctions lists.

- c) Call Back Confirmation or generation of One-Time Password (OTP) for verification from merchants.
- d) Carry out full or enhanced due diligence of merchant as per Acquiring institution own risk assessment, in light of applicable laws and regulations (if applicable).
- e) Acceptance of terms and conditions provided in English and/or Urdu language of Merchant Account by the merchant

IV. Transactions Limits

- a) Acquiring institutions shall place following maximum transaction limits on merchant accounts;
 - i. Rs. 50,000 per month for accounts opened remotely through NADRA Verisys
 - ii. Rs. 500,000 per month after Biometric Verification
- b) The above transaction limits will be separately applied on Debit and Credit transactions
- c) Acquiring institution may place lower transaction limits keeping in view of their institutional risk assessment and high-risk geographical locations of merchants.

V. Maximum Account Balance

- a) Acquiring institution shall ensure that merchants' account balance shall not exceed the following limits at any point of time:
 - b) Rs. 50,000 till Biometric Verification
 - c) Rs. 500,000 after Biometric Verification

9 Restricted Activities

Acquiring institutions shall devise continuous monitoring mechanisms to ensure that on-boarded merchants abide by the following clauses:

- a) Acquiring institution shall ensure that merchants on-boarded under these Rules do not perform functions of Banking, Electronic Money Institutions (EMIs), Branchless Banking Agents, or any other activity for which specific and separate permission is required from SBP under the relevant laws and regulations.
- b) Acquiring institution shall not permit cross border outward remittance transactions from these accounts.

10 Security Measures

Acquiring institutions shall take necessary security measures and adopt controls to ensure the data security, privacy and the safety of merchant accounts. These measures include but not limited to the following:

- a) Acquiring institutions shall ensure security of mobile application, web-portals and digital channels for on-boarding merchants in line with international best practices.
- b) Acquiring institutions shall comply with SBP's instructions on security of payment channels, payment instruments, customer data etc. issued from time to time.
- c) Acquiring institutions shall also adopt international best practices on payment instruments and payment channel security standards such as Payment Card Industry Data Security Standard (PCI-DSS) and Payment Application Data Security Standard (PA-DSS) etc.
- d) Acquiring institutions shall ensure a Third Party Security Audit of digital platforms used to on-board merchants such as mobile application, web portals etc.

- e) For conducting transactions, Acquiring institutions shall adopt two-factor authentication mechanism on transactions of above Rs. 5,000/- initiated from the accounts.
- f) Acquiring institutions shall ensure security and integrity of data at all times.
- g) In case of occurrence of an information security breach, the Acquiring institutions shall report to SBP's Payment Systems Department within two days of the event and update about its resolution.

11 Customer/Merchant Support

- a) In order to provide support to merchants and their customers, Acquiring institutions shall maintain a fully functional, round-the-clock Customer Support Service Centre that is able to log and escalate issues/disputes, and address queries in a timely manner.
- b) Acquiring institutions shall ensure that merchants prominently display the contact details of Acquiring institutions, including but not limited to email, phone numbers, webpages, social media platforms etc. for logging any complaint related to merchant or Acquiring institution.
- c) Acquiring institutions shall maintain complete log of complaints along with their status to be reviewed by SBP as and when required.
- d) Wherever possible, Acquiring institutions shall conduct awareness sessions for merchants/customers for promoting usage of digital channels at merchant level.

12 Dispute Resolution

- a) Acquiring institutions shall develop comprehensive dispute resolution framework including but not limited to roles and responsibilities of all the parties, liabilities, chargeback mechanism, and turnaround time etc.
- b) Acquiring institutions shall comply with SBP's applicable instructions on consumer protection and grievances handling mechanism, issued from time to time.

13 Merchant Monitoring & Reporting

- a) Acquiring institutions shall devise continuous monitoring mechanisms to ensure that Merchant Accounts shall not be used for purposes other than legitimate business transactions. In this regard, Acquiring institutions shall also formulate policy parameters on categories of merchants that will not be on-boarded under these Rules. These policy parameters shall be the part of merchant on-boarding policy of the Acquiring institutions.
- b) Acquiring institutions shall monitor Merchant Account transactions through Automated Transaction Monitoring System and report suspicious transactions to Financial Monitoring Unit (FMU) as per law.
- c) Acquiring institution shall immediately investigate and report fraudulent activity (ies) and once the fraud is established beyond doubt, Acquiring institution shall terminate the merchant relationship and initiate appropriate action as per applicable laws and regulations and/or policy of the Acquiring institution.
- d) Acquiring institutions shall devise benchmarks for blacklisting merchants who have been found to be involved in activities that are fraudulent or illegitimate in nature. Further, they shall monitor the merchants against the sanctions lists on ongoing basis.
- e) Acquiring institutions shall report merchant activities on 15th of the month, following the end of each quarter to SBP-PSD as per Annexures A and B.

14 Provision of Records

- a) Acquiring institution shall maintain record of account opening documents and verification from NADRA as per applicable laws and regulations as amended from time to time.

- b) Acquiring institution shall ensure that necessary clauses are included in their agreement terms and conditions with merchants, to provide SBP with their records including but not limited to their books of accounts as well as access to their premises.

15 Miscellaneous

- a) Acquiring institutions shall ensure that all relevant laws and regulations issued by SBP are adhered to at all times.
- b) SBP shall not be liable for any losses incurred to Acquiring institutions, or their customers due to application of these Rules.

Annexure A: Data on Merchants

Category	No of Merchants at the start of Quarter	No of Merchants added in the Quarter	Total No of Merchants	No of merchants Graduated to Next Category	No of Transactions	Value of Transaction
Small merchants remotely on-boarded						
Small merchants biometrically on-boarded						

Annexure B: Data on Blacklisting & Frauds

	No of Blacklisted Merchants	Reasons of Blacklisting	No of fraudulent Transactions during Quarter	Value of fraudulent Transactions during Quarter	Nature of Frauds	No of Resolved Fraud Incidents
Small merchants remotely on-boarded						
Small merchants biometrically on-boarded						

Document Ends