3 Ensuring Soundness of Financial Sector

3.1 Banking Supervision Group

3.1.1 Banking Inspection (On-Site) Department

On-Site Inspections: In order to achieve one of the main objectives of BID - to strive for soundness and stability of the financial system and to safeguard the interest of the stakeholders through proactive inspections - the department conducts on-site inspections of various banks as per approved inspection plan. During FY12, the department carried out on-site inspections of 26 banks, including 3 limited scope inspections and IS inspection of 6 banks. Various significant observations especially relating to classification, corporate governance, etc. were highlighted for timely enforcement actions by other relevant departments of SBP.

Preparation of Write off Reports: Besides conducting on-site inspections, BID also prepares statutory reports on write-off of loans, mark-up and other dues, or financial relief provided by the banking companies, in which established banking practices or authorized procedures have been departed from with a view to causing wrongful loss to the bank. Due to great emphasis placed by the Supreme Court of Pakistan on write offs/waivers allowed by the banks, BID prepared 34 write off reports of various banks during the year. In addition to regular write off reports prepared under Section 25-AA of The Banking Companies Ordinance, 1962, forty four (44) write off cases of Rs. 500 million & above were forwarded to BID by the Banking Policy & Regulations Department for review, 41 write off cases have been reviewed so far.

Other Special Investigations: BID also carries out special investigations on requests and complaints received from internal and external stakeholders. In this respect, BID conducted special inspections for verification of crop loan insurance premium claims (CLIP) of various banks, forwarded by Agriculture Credit & Microfinance Department (ACMFD) under the Scheme approved by the Ministry of Finance, Government of Pakistan. The reports on CLIP for the two half year periods from Jan. to June 2011 and July to Dec. 2011 were prepared and submitted to ACMFD. Further, BID also conducted the targeted inspections for verification of the TT reimbursement charges with respect to Pakistan Remittance Initiative, forwarded by SBP BSC. In addition, various special inspections at the request of other departments were carried out and complaints received from different quarters were examined.

Developmental Projects: BID initiated three developmental projects during the period. All the projects, viz. (i) Review of adopted internal control framework in banks (ii) Development of On-site Inspection Methodology and necessary checklists to enhance soundness and efficiency of alternative delivery channels and (iii) Development of On-site Inspection Methodology and necessary checklists to enhance soundness and efficiency of derivatives and alternate Product Policy framework have been completed. The first two projects have been approved and circulated to BID officials for compliance while third was submitted for approval to the competent authority.

Capacity Building: In order to build and enhance the skills of officers, trainings had been arranged in different areas, including Risk Management, Operational Risk, Asset Quality, Basel-III Challenges, Basel II Implementation and Time Management. Further, some of the BID officials also received domestic as well as foreign trainings in the relevant areas.

3.1.2 DFIs & Exchange Companies Inspection (On-Site) Department

Under the SBP restructuring exercise carried out in 2010-2011, DFIs & Exchange Companies Inspection (Onsite) Department (DECID) was established in April 2011 primarily to streamline and to strengthen the inspection process of specialized financial institutions, which includes Development Finance Institutions (DFIs), Microfinance Banks (MFBs) and Exchange Companies (ECs). In order to achieve this very objective, the department successfully conducted focused but risk-based inspections of these specialized institutions during its first year of operation, which finally resulted in the identification of new core issues/problems of these institutions. Further, much focused and more frequent inspections of all these specialized financial institutions also helped in improving Internal Controls, Risk Management and Corporate Governance Practices in these institutions. Besides, department has also focused on the capacity building of officers of the department by providing local and international trainings on supervision, microfinance, management, risk management, etc.

Performance of Inspection Plan FY12

As per plan first inspection plan of the department for FY12, the department completed 61 inspections of ECs, DFIs, and MFBs. In March 2012, the department took initiative to make inspections of ECs more effective and changed its traditional methodology. Under new approach, surprise inspections of few ECs were conducted without prior intimation to them. However, the overall time frame given in Inspection Plan 2011-12 for inspection of ECs has been meticulously followed, despite change of methodology. Several illegal business activities and serious regulatory breeches were identified while adopting revised inspection methodology. Besides, the department conducted four specialized IS inspections which included at least one inspection of each class of financial institutions i.e. DFIs, MFBs and ECs. During this period, some other assignments and projects were also completed by the department such as:

- Various special inspections of institutions were completed which related to complaints, branchless banking, branch licensing, pre-commencement operations, special investigations.
- Statutory report under section 25-AA of Banking Companies Ordinance (BCO), 1962 was prepared regarding write-off of loans, mark-up and other dues, or financial relief provided by DFIs.
- Suggestions and recommendations were provided to other departments of SBP on various policy issues and rules & regulations.

Initiatives

With a view to strengthen the ECs towards capacity building, documentation of all business transactions and development of corporate culture, the department planned a series of awareness programs for the Directors/CEOs/Senior Managers of the ECs in major cities of Pakistan (Karachi, Lahore and Rawalpindi). More than 150 directors and CEOs of ECs of both A and B categories, representing 52 companies, participated in these programs including the Chairman and President of Exchange Companies Association of Pakistan (ECAP). These workshops were aimed at creating awareness on the regulatory requirements, particularly on corporate governance, internal controls, Management Information Systems (MIS), and KYC/AML etc. and provide them guidance for the improvement. Moreover, the workshops will also serve as capacity building of exchange companies and contribute towards strengthening of oversight role of the board and senior management while conducting business operations more professionally.

3.1.3 Off-Site Supervision & Enforcement Department

Developments on Supervision Front: The promotion of financial stability is one of the core objectives of SBP. Off-Site Supervision & Enforcement Department (OSED) of the SBP is playing an important role to achieve this objective, through an efficient supervisory framework. Besides assessing the financial soundness and health of individual financial institutions under the CAELS framework, OSED follows-up on on-site inspection findings & observations on the performance of individual financial institutions in order to ensure compliance with the regulatory, policy and statutory rules and instructions. The SBP has also been striving to further streamline and improve the supervisory mechanism to keep at bay the various risks facing the financial system. The major developments during the period under review include the following:

***Framework for Monitoring Liquidity Risk Profile of Banks/ DFIs**:* Among various risks, liquidity risk holds paramount importance as its manifestation usually has the potential of triggering chain events, which can seriously undermine the financial health of banks, not only at individual level but at systemic level also. Although a bank itself is responsible for sound management of its liquidity risk, one of the fundamental principles for the management and supervision of liquidity risk issued by Basel Committee on Banking Supervision requires that supervisors should assess the adequacy of both bank's liquidity risk management framework as well as its liquidity position and should take prompt action if a bank is deficient in either area, so as to protect depositors and limit the damage to financial system. The SBP realized the need that an effective mechanism for monitoring the liquidity position of banks should remain in place at all times and should be capable enough to identify the liquidity risk profile of the supervised entities and should be proactive enough to forecast/ simulate the future positions so that corrective actions can be timely initiated.

The new liquidity risk monitoring framework project envisages using weekly data to use a set of indicators to assess buildup of liquidity stress, assist in identifying weak institutions and help take measure to forestall/ contain adverse liquidity fall outs. The project has incorporated certain indicators into weekly liquidity returns which were generally believed to be of utility in forming an opinion on the liquidity position of the bank. However, lessons from the liquidity crisis experienced in 2008 provided an opportunity in observing the actual behavior of the market during a stress period and resultant interaction of various liquidity indicators. The analysis of the data collected during that period revealed that certain broad generalization can be made about the vulnerability of an institution to liquidity risk. In addition to this book data, certain market indicators (analyzed only on macro level) having capacity to serve as early signs of building up of a liquidity stress were also identified. However, relying on only this data, a base line case can be made that can help in identifying the potential vulnerable institutions and also probable timing of the on setting of the stress; fulfilling in substantial way the objective of the project.

Refinement of the project entails capturing of institution-wise data as well so as to gauge the market behavior towards its riskier constituents and to know whether it emit certain signals that can be interpreted as early warning signs and thereby help form a view on the market alertness to shield it in case it goes contagion. Therefore, OSED believes it is a work in progress and further refinements can be made once the data is procured and analyzed.

3.2 Banking Policy and Regulation Group

3.2.1 Banking Policy & Regulations Department (BPRD)

Banking Policy & Regulations Department (BPRD) is one of the key departments of SBP, with the prime responsibility to achieve the regulatory objectives of SBP through improvements in existing regulations and through formulation of new rules/regulations. BPRD is carrying out some of the major functions performed by a central bank, like licensing of banks and their branches, mergers/acquisitions of banks/DFIs, corporate governance, banking laws & regulations, etc.

The department continuously reviews the legal and regulatory framework and formulates policies in light of the recent developments, the needs identified through ongoing surveillance system and by keeping an active dialogue with banks and other stakeholders. The key developments carried out by BPRD over the financial year are summarized below:

Entry of New Banks/Microfinance Banks: In August 2011, Industrial & Commercial Bank of China (ICBC) was allowed to commence its business operation in Pakistan with a network of two branches at Karachi and Islamabad. The commencement of business by ICBC - a top tier global bank - portrayed a positive message to the international community regarding the economic and financial outlook of Pakistan. In addition, new Microfinance Banking Licenses were issued to Waseela Microfinance Bank, Apna Microfinance Bank and Advans Microfinance Bank. A number of other international players, including top tier Turkish and Chinese Banks have also shown keen interest in our banking industry which is expected to materialize in the near future.

Opening of New Bank Branches: During FY12, the Banks/MFBs were allowed to open 657 new branches[1] which includes 464 conventional banking branches, 151 Islamic banking branches & 42 microfinance branches; as a result of which, the total number of bank branches in the country crossed 11,000 marks.

Overseas Expansion of Pakistani Banks: Presently, 8 Pakistani banks are operating in 36 countries of the world in different modes (i.e. branches, representative offices and subsidiaries/joint ventures). During FY12, SBP allowed Pakistani banks to further expand their overseas operations in Tanzania, Qatar, Tajikistan, Sri Lanka, Abu-Dhabi, Bahrain, Turkey and Hong Kong.

Branchless Banking Developments: To enhance the scope of the branchless banking (BB) and to use it as a tool of financial inclusion, SBP signed a Memorandum of Understanding (MoU) with Pakistan Telecommunication Authority (PTA). The objective of the MoU is to develop a technological and regulatory framework through consultative process, to strengthen the Mobile Banking in Pakistan. Further, the MoU is meant to develop a cohesive regulatory framework, in consultation with all the stakeholders and to assist each other in achieving the common objective of providing the low cost interoperable mobile financial services.

Facilitation in Various Government Initiatives: SBP has been facilitating Government of Pakistan (GoP) in its various initiatives, like financial assistance to flood affected persons through Watan Cards/Pakistan Cards, financial assistance to poor women through Benazir Cards and opening of various special accounts under Prime Minister's/Chief Minister's Special funds for relief of affectees. During FY12, SBP facilitated GoP in disbursement of relief funds to flood affected persons of Sindh Province through Pakistan Cards. In addition, SBP coordinated and facilitated Benazir Income Support Program (BISP), NADRA and the concerned banks in the process of disbursement of BISP funds to the beneficiaries through smart cards.

Corporate Governance: The State Bank of Pakistan has been involved in promoting a healthy corporate governance regime in the country over the years. SBP actively participated in the formulation of the new Code of Corporate Governance that has been issued by the Securities and Exchange Commission of Pakistan. SBP also played an important role in drafting the Corporate Governance regulations for public sector enterprises. Further, the definition of 'Executive Director' was amended to bring it in conformity with international best practices. Moreover, a new and

[1] Branches also include sub-branches and permanent booths.

enhanced Fit and Proper Test criteria for sponsors, strategic investors, members of Board of Directors, Chief Executive Officer (CEO) and key executives of banks/DFIs is in advanced stages of finalization.

Mergers & Acquisitions: During the year under review, there were one merger and one acquisition transactions involving commercial banks (i.e. acquisition of Mybank and its subsequent merger with Summit Bank) whereas two acquisitions transaction involving microfinance banks (viz. Network Microfinance and Khushhali Bank) were carried out and the new managements have taken-over control in these banks. Further, a change of control in one of the microfinance bank is in the process of completion whereas, a foreign fund has been granted in-principle approval to acquire management control in another microfinance bank.

Anti Money Laundering: In order to protect Banks/DFIs from risks, arising out of money laundering and terrorist financing activities, SBP advised them not to provide banking services to proscribed entities and persons or to those who are associated with such entities and persons, whether under the proscribed name or with a different name. Moreover, banks/DFIs were advised to conduct enhanced due diligence while establishing relationship with non-governmental organizations (NGOs)/not-for-profit organizations (NPOs) and Charities, to ensure that these accounts are used for legitimate purposes. The individuals who are authorized to operate these accounts and members of their governing body should also be subject to comprehensive Customer Due Diligence (CDD). In case of advertisements through newspapers or any other medium, especially when bank account number is mentioned for donations, Banks/DFIs will ensure that the title of the account is the same as that of the entity soliciting donations. Further, personal accounts shall not be allowed to be used for charity purposes/collection of donations. Besides, banks/DFIs were advised to implement transaction monitoring software by 30th June, 2012 and implement online AML trainings and tests systems for banks' front-end staff under a comprehensive plan with clear timelines.

Other Initiates: In order to facilitate customers to do more banking transactions, enhance banking coverage and documentation of economy, SBP advised the banks to stop recovery of service charges on deposit/withdrawal of cash at counters. In addition, to ensure that depositors of the banks are paid a reasonable profit on their savings; banks were advised to pay a minimum profit rate of 6 per cent p.a. on all Pak Rupee saving deposits. Moreover, in order to facilitate Federal Board of Revenue (FBR) for collection of Taxes, banks were directed to open dedicated branches for extended hours for collection of Taxes.

3.2.2 Banking Surveillance

Consolidated Supervision: Consolidated supervision of banks is an integral component of any effective banking supervision framework. The Basel Committee on Banking Supervision recommends that bank supervisor should supervise banks on consolidated basis. SBP has embarked on a well-planned program, focusing to build a sound and robust consolidated supervision framework for the financial sector, particularly banking industry, taking into account the recommendations of Basel Core Principles of Effective Banking Supervision. These measures will help to mitigate contagion risks arising from affiliates and other related party transactions. Moreover, these initiatives will improve competitiveness and performance of Pakistani banks in the international financial market.

During FY12, Banking Surveillance Department carried out a development project for establishing framework for consolidated supervision of banks and financial conglomerates. For this purpose, a set of regulatory returns have been developed in consultation with SBP-SECP's Joint Task Force for Managing the Risk Posed by Conglomeration in Financial Sector. Moreover, analysis framework for banking groups was formulated which primarily aims to: a) identify the structure and major activities of banking groups and b) delineate the monitoring mechanism for banking groups. Going forward, banking groups will be monitored along this framework. Since effective consolidated supervision requires adequate powers for bank regulator and ownership and corporate structures of banking and financial groups have significant bearing on their stability, certain amendments in the banking law were also proposed during FY12. These proposals are currently in consultation process with external stakeholders.

Prudential Regulations for Classification and Provisioning for Assets – Enhanced Benefit of Forced Sale Value: keeping in view the growth in lending portfolio and healthy performance of the banking sector, SBP gradually withdrew the benefit of forced sale value (FSV) of collateral. In the year 2007, FSV benefit on provisioning was completely withdrawn. The very aim of withdrawal was to address the risk of any adverse shocks to the asset prices of the loan collateral to create buffers in good times and to use this cushion in bad economic and business conditions.

With the change in economic scenario, persistent energy shortages along with law and order concerns, which affected the repayment capacity of the borrowers and overall performance of the banking system, SBP rationalized provisioning requirements over last few years and enhanced the benefit on Forced Sale Value (FSV) of collaterals held against NPLs. Thus, the buffers created in good times facilitated in stabilizing the financial position and capital adequacy of banks, particularly that of the small and medium sized banks.

Stress Testing – Guidelines and Other Developments: Stress testing is an important risk management tool that is used by banks as part of their internal risk management process. Recognizing its importance, SBP issued a set of guidelines on stress testing in the year 2005. The scope of those guidelines was limited to simple sensitivity analysis and the designed stress tests were largely rudimentary. Realizing the growing complexity of banking business and the need for a more sophisticated stress testing framework, SBP issued revised guidelines on stress testing during May 2012. The revised guidelines aimed at strengthening the stress testing framework at banks, refining the methodology to carry out stress tests, providing guidance on the advanced approaches to stress testing including scenario analysis and reverse stress tests. The revised guidelines also covered, separately, the guidance for operational risk stress tests and stress tests for Islamic banks to be designed as per their unique risk profile.

Strengthening of Capital and Implementation of Basel Accord: Consequent to changes in the international capital regulatory regime and to further strengthen SBP's instructions pertaining to capital adequacy, Quantitative Impact Assessment was carried out to assess the impact of newly proposed regime on capital adequacy of banks. The assessment indicates that apart from few banks, all other banks will be able to meet the capital requirements prescribed under Basel III. Keeping in view the results of assessment, SBP drafted revised instructions on capital and disseminated them among stakeholders for their input and comments. The draft instructions are mainly enhancements to the existing SBP Basel II instructions on the definition of Capital and related deductions while concepts like Leverage Ratio, Loss Absorption Clause and Capital Conservation Buffers are being introduced for the first time. Moreover, SBP plans to initiate discussions with the stakeholders in the coming years on other aspects of Basel III, like enhancing risk coverage on Counterparty Credit Risk, enhanced Disclosure Requirements, introduction of Countercyclical Capital Buffers, additional capital requirements for Systemically Important Financial Institutions and introduction of Liquidity Coverage and Net Stable Funding Ratios.

The review of first Internal Capital Adequacy Assessment Process (ICAAP) Document (1st component under Pillar 2 of Basel II), submitted by the Banks/ DFIs, manifested a great deal of diversity in terms of scope as well as coverage. To ensure consistency and uniformity, SBP has devised a format, prescribing minimum set of information for various components of ICAAP. This would not only help SBP in carrying out its responsibility under Supervisory Review and Evaluation Process (2nd component under Pillar 2 of Basel II) effectively but would also enhance the comparability of respective ICAAPs across different banks having similar business lines and risk profiles. The draft of ICAAP template was prepared in the light of global best practices and tailoring the same in line with the specific requirement of Pakistan banking industry. ICAAP reporting template will be issued shortly.

3.2.3 Islamic Banking

Islamic Banking

SBP is actively engaged in promotion and development of a robust and competitive Islamic banking industry in the country through its promotional and regulatory initiatives. The key measures and steps taken for the purpose during FY12 included the following:

Awareness and Capacity Building Programs:

The misperception about Islamic banking in the public, largely due to no or limited awareness, has been one of the key impediments in growth and development of the industry to its real potential. While SBP and the industry have been organizing awareness programs for business community, academia etc., there has been limited use of technology, particularly the electronic media to create the mass awareness. Therefore, considering the need and importance of the mass awareness, a mass media campaign has been designed in consultation with the industry. The basic theme of the campaign is promotion of Islamic finance for existing and the potential users and clearing common apprehensions, confusions etc. about Islamic banking and finance. It is expected that such industry-wide effort for creating the awareness would translate into demand creation and the growth of industry.

The dearth of qualified and suitably-trained human resources has also been among the main challenges faced by the rapidly-growing Islamic financial sector. Considering its critical importance, capacity building has been a vital component of our strategy for future development of the industry. The capacity building strategy includes active collaboration with reputed national and international institutions and targeted seminars & lectures by renowned scholars for the senior management, whereas training programs and workshops for lower and middle management are also being conducted. Through its training subsidiary, SBP organized five programs during FY12, including two Field Training Programs in Lahore, Hyderabad and Multan in which more than two hundred lower and middle management officers of the industry were trained. It also collaborated and partnered with Islamic Research and Training Institute (IRTI) for bringing home the international experts to extend exposure to local industry and organized two international programs, focusing on both theoretical and practical issues of Islamic finance.

Global Participation:

SBP continued its support during the year for international efforts and initiatives to improve the legal, regulatory, supervisory and risk management infrastructure of the industry. Besides actively participating in different working committees/groups of Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), the senior management including the Governor has been attending the Council and Board meetings to demonstrate our commitment with the objectives and mandate of these institutions. In this regard, as part of working groups and technical committees of IFSB, SBP has provided input on the development of Islamic Finance prudential standards on Liquidity Management and Stress Management issued by IFSB.

Regulations for Islamic Banking Industry:
Islamic Banking Department of SBP has been issuing specific regulations for further strengthening the Shariah compliance mechanism at Islamic Banking Institutions (IBIs). On this front, two set of regulations have been issued during FY12 regarding "Invoice of Murabaha Transactions" and "Accounting Treatment of Credit Murabaha".

Further, a detailed profit distribution and pool management framework has been developed in consultation with the industry, to bring standardization and improve transparency and disclosures in profit computation, distribution policies and practices of Islamic banks. The framework is likely to minimize confusions and misperceptions in the public about profit distribution practices of Islamic banks and, thus, would be instrumental in improving their repute.

Expansion of SBP Shariah Board Members:
Given the expansion of Islamic banking industry, Central Board of Directors has allowed expansion of the existing Shariah board. Shairah compliance being of utmost importance, the Islamic Banking Department created an additional position of Shariah Scholar in the Board. Various leading economists and scholars are also invited to attend meetings on special invitations to benefit from their input.

Survey Based Study on "Knowledge, Attitude and Practices of Islamic Finance in Pakistan":
In order to have a better understanding of dynamics of the industry, a survey-based study on "Knowledge, Attitude and Practices of Islamic Finance in Pakistan" was launched during the year. The study aims to quantify the demand of Islamic banking in the country and will measure the impact of demand-supply mismatch on the incidence of financial inclusion by collecting data from three categories; lenders, depositors (both Islamic and Conventional banks) and those who remain unbanked.

The results of this research will help in demystifying the paradox surrounding the industry, of being demand or supply driven, and in estimating the effect of religious beliefs on financial exclusion. The findings of this study are expected to benefit SBP, not only in the policy formulation but also be of interest to both incumbent as well as potential entrants to the market.

3.2.4 Consumer Protection
During the last decade, market for financial services and products has grown significantly and provided benefits to retail consumers. However, with the introduction of more sophisticated and complex consumer financing products/services, coupled with the lack of understanding, have exposed vulnerable consumers to unfair and deceptive sales practices. Consequently, this has led to the increasing number of disputes between the consumers/borrowers and their banks. In this backdrop, State Bank of Pakistan (SBP) role as an integrated dispute resolution authority to redress the grievances of financial consumers in a fair, transparent and prompt manner has increased manifolds. Keeping the importance of financial consumer protection in view, a dedicated Consumer Protection Department (CPD) is functioning since 2008. Its primary role has been to ensure that the banks should put in place an adequate consumer protection framework, introduce efficient delivery channels and adopt more customer centric practices. Thus, over the years, role of CPD has emerged as an Integrated Dispute Resolution Centre for redressal of grievances. Over the years, CPD has provided relief to thousands of aggrieved consumers/borrowers through inexpensive mediation as an alternate to the

courts. Besides, being an Appellant authority against the decisions of Banking Mohtasib Pakistan (BMP), CPD is also acting as "quasi judicial forum". SBP has also been directed by the superior courts (High as well as Supreme Courts) to dispose of certain writ petitions/suits/cases through Speaking Orders. The judicial system's confidence in SBP's complaint resolution process is an indicator that how well SBP is performing in the area of financial consumer protection as a regulator.

SBP considers a comprehensive consumer protection framework necessary to ensure that the consumers should have adequate access to information to bargain with financial service providers. Consumer education is integral to empower the consumers to be better positioned to take the responsibility for their own well-being and assume a more important role in exerting the market discipline on banks to drive greater efficiency, competition and innovation. Consequently, the banks need to evolve efficient consumer policies that must be based on financial education and transparent information disclosures which will have a positive impact on prices, quality of service and choice of products. These aspects are central to foster the confidence of consumers and help them make informed financial decisions and select the products best suited to their needs. Therefore, SBP is striving to harmonize the role of regulation, competition and financial education to achieve the objectives of consumer protection and financial sector stability.

Keeping in view the importance of consumer awareness and education, CPD had initiated massive campaign during FY12. As per roadmap developed for the purpose, CPD arranged the consumer awareness & education seminars in Higher Education Commission recognized universities/management institutes all over Pakistan, to enhance the level of understanding on consumer protection framework at grass roots level. Besides, consumer awareness and education related seminars were also arranged for the members of Chamber of Commerce & Industries, Consumers/Traders Associations, Trade Bodies and NGOs etc. with the collaboration of State Bank of Pakistan, Banking Services Corporations (SBPBSC) field offices across Pakistan. Further training sessions were also conducted in SBPBSC Offices located in Hyderabad, Sukkur, Bahawalpur, Multan, Lahore, Gujranwala, Sialkot, Faisalabad, Rawalpindi/Islamabad and Muzaffarabad for the banks. The very purpose of arranging these sessions were to discuss the most recurring nature consumer disputes/complaints and to make aware of the banks regarding consumer protection related instruction/guidelines for the effective complaint redressal mechanism.

Under the consumer education and awareness initiatives, CPD also arranged publishing of advertisement in English and Urdu language newspapers for the benefit of financial consumers and general public at large across Pakistan. The print media campaign exclusively focused on the emerging nature issues related to;

- handling of bank cheques,
- identity theft frauds,
- pension payment through direct credit to bank account, and
- unclaimed deposits

In addition to the above mentioned measures, CPD also took a number of policy initiatives in FY12 (**see Box 3.1**).

During FY12, a total of 9,038 complaints were received and handled by CPD. The complaints data for the year revealed that almost 80 percent of the total complaints remained concentrated among the big eight banks having wide network of ATMs & branches, large customer base and relatively significant consumer finance portfolios. Further, CPD received 68 appeals against the decisions of BMP. Out of these Appeals, 12 were disposed of being time barred. In 27 appeals (40 percent of total Appeals filed), the findings/decisions of BMP were endorsed and orders were upheld. Only in 2 cases, the decisions of BMP were set aside while in one case, BMP order was partially modified. However, in 11 cases, parties to the Appeal amicably settled their disputes by tendering letter of satisfaction before the issuance of Speaking Orders. The superior courts (High/Supreme Courts) also referred 15 writ petitions / suits / cases which fall within the supervisory jurisdiction of SBP and all were resolved up to the satisfaction of the parties.

Box 3.1: SBP Initiatives for the Consumer Protection

Consumer Protection Department took a number of policy initiatives during FY12, which include the following:

Streamlining the Procedure for Refund of Unclaimed Deposits: In order to facilitate the legal heirs of deceased unclaimed account holder/beneficiary of instrument in obtaining petty amount claims, without going into cumbersome process of obtaining succession certificates. All banks were allowed to submit unclaimed refund claims cases of the deceased account holders/ beneficiaries of instrument of Rs. 100,000 without obtaining the succession certificate, if they have satisfied themselves about the genuineness of the legal heirs and after observing all the stipulated requirements.

Sale of Third Party Products by Banks

Over the past few years, banks in Pakistan have ventured into the sale of Bancassurance and other third party products. While this initiative has been viewed as a positive development, complaints of mis-selling from the general public indicate that the focus of the banks has largely remained on pitching the sales and due attention was not given to the control and monitoring mechanism in relation to the distribution of third party products. To safeguard the interest of depositors/general public and prevent banks from incurring operational and reputational risks, the banks offering third party products were advised to comply with the standards as stipulated in CPD Circular No. 02 of June 29, 2012.

CPD is also striving to immaculate a crystal clear Consumer Protection framework for the banking sector, redressal hierarchy being the most important component of it. CPD is aiming to foster the collaboration efforts with the industry major stakeholders to proactively and efficiently induce a consumer protection regime across the industry.