Overview

The financial sector of Pakistan has remained in a sound and stable state in CY16; though a few low to moderate level risks need to be closely watched.

The overall asset base of the financial sector has increased by 12.93 percent during CY16 (14.46 percent, on average, during CY14-CY16). Financial depth, measured by financial assets to GDP, has gradually improved from 65.57 percent in CY14 to 69.36 percent in CY15 and 72.76 percent in CY16 **(Table 1).** The steady rise in asset growth has been achieved amid a challenging global environment but evolving domestic landscape.

Table 1

Assets Composition of the Financial Sector

	CY13	CY14	CY15	CY16
Assets (PKR Billion)	14,371.2	16,502.3	19,068.9	21,535.2
Growth rate (Percent)	7.90	14.83	15.55	12.93
	Percent of Total Assets			
MFBs	0.41	0.43	0.52	0.79
NBFIs *(including DFIs)*	5.28	5.19	4.99	6.08
Insurance	3.91	4.06	4.18	4.35
CDNS	17.08	16.96	16.15	15.26
Banks	73.32	73.36	74.17	73.51
	Assets as Percent of GDP†			
MFBs	0.26	0.28	0.36	0.58
NBFIs *(including DFIs)*	3.39	3.40	3.46	4.43
Insurance	2.51	2.66	2.90	3.17
CDNS	10.96	11.12	11.20	11.10
Banks	47.07	48.10	51.44	53.49
Overall assets	64.20	65.57	69.36	72.76

†GDP is on FY basis.
Source: SECP & SBP.

On the global front, growth has decelerated. World GDP has been estimated to grow at 3.11 percent in CY16, down from 3.35 percent in CY15.[1] Primarily, slow growth in Advanced Economies (AEs) (1.69 percent) has been the drag; although, Emerging Markets and Developing Economies (EMDEs) have provided some uplift (4.13 percent).

[1] International Monetary Fund. (2017). World Economic Outlook: Gaining Momentum?, *April.*

Global financial markets have observed short-lived episodes of volatility during CY16 due to various political and macrofinancial shocks. Concerns about China's hard landing earlier in the year, muted and low oil prices, international trade slowdown, adoption of negative interest rates by Bank of Japan (BOJ), unexpected results of Brexit and United States (US) Presidential elections have all contributed to market jitters. However, markets rebounded at the year-end (and in early 2017) in anticipation of better economic prospects in the US and European Union (EU), stable commodity prices and higher investor confidence.

Ultra-low interest rates backed by Asset Purchase Programs (APPs) in some AEs (EU and Japan, in particular) have adversely affected the profitability of the banking sector. Policy normalization in the US (in 2016 and 2017) has provided some respite as some of the major banks in the US have posted decent returns lately; but this also has implications for tighter financial conditions in EMDEs (**For details see Chapter 1**).

Domestically, the financial sector has operated in a relatively enabling environment in CY16. Output (both GDP and LSM) has been increasing; inflation remains subdued; exchange rate is stable amid adequate reserves; government borrowing from banking sector has receded, law and order conditions have improved and economic prospects are encouraging, more so, in view of China Pakistan Economic Corridor (CPEC). Not surprisingly, performance of the banking sector has been satisfactory (**See Chapters 1 and 3.1**) and financial markets have performed smoothly (**See Chapter 2**). In addition, the corporate sector has also benefited from the favorable macrofinancial conditions and has posted robust profits (**See Chapter 3.7**).

The better performance of both the financial and non-financial sectors has improved the risk profile of the system as a whole. As indicated by the financial vulnerability index and the heat map, risks to the financial system have not only been reducing but also remain subdued (**Figure 1**).[2]

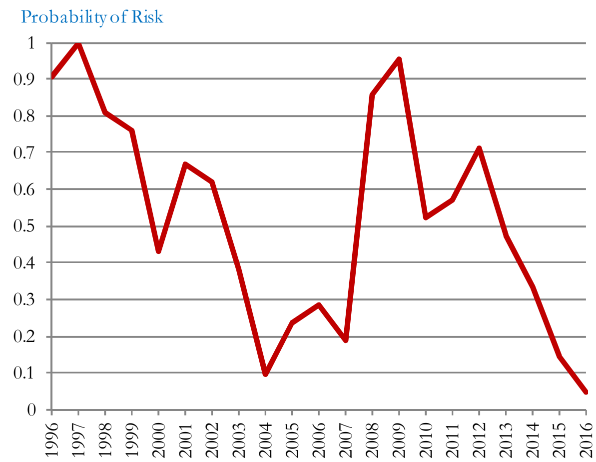
Banking sector – the key player of the financial sector –has performed well. The growth momentum in advances is encouraging as, mostly, the private sector is the beneficiary, while asset performance has improved with decline in infection ratios. Banks' profitability has moderated after seeing exceptionally high growth in the last few years, while capital adequacy remains high with some downwards adjustment, primarily, due to advances growth indicating better utilization of available capital.

The **asset quality** of the banking sector has remained satisfactory. Stagnant NPLs along with growing advances have pulled the infection ratio down to a decade low level of 10.01 percent at the end of CY16. Importantly, the high provisions coverage ratio against existing NPLs and decreasing risk to capital mitigates any major threats to the future profitability and solvency of the banks.

Figure 1

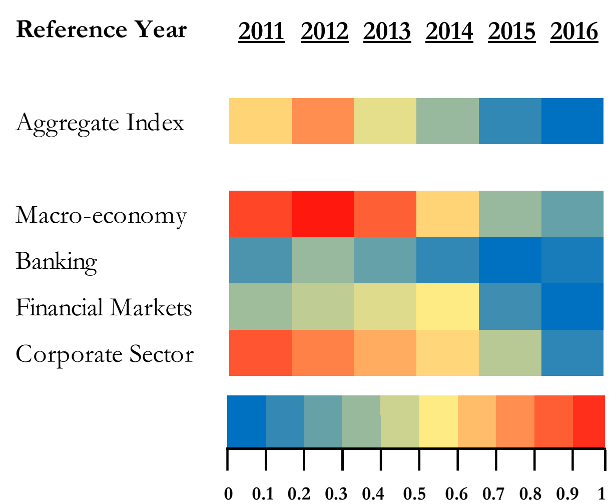
Financial sector stability has improved further during CY16

Financial sector vulnerability index



Source: SBP

Financial Sector Heat Map



Color Scaling of Heat Map

Note: The graph above presents the aggregate vulnerability index of the financial sector in terms of probability (ranging from 0 to 1). The financial sector heat map is an aggregating index of four sectors of the economy, as shown above, based on their respective cumulative probability distribution. The color scaling of the heat map depicts the degree of risk associated with the probability distribution with risk decreasing from dark red to dark blue. For methodology details, see Appendix A.

The fund based **liquidity** of banks has remained comfortable owing to large stock of government

[2] The Financial Stability Heat Map represents a comprehensive picture of stability of financial sector. The heat map considers four key dimensions of financial sectors i.e. (i) Macro-economy, (ii) banking, (iii) financial markets, and (iv) corporate. Risks in each dimension have been incorporated with an un-weighted average of key risk indicators. For details please see Technical Appendix. For methodology please see Aikman, David, Michael T. Kiley, Seung Jung Lee, Michael G. Palumbo, and Missaka N. Warusawitharna (2015). "Mapping Heat in the U.S Financial System", Finance and Economic Discussion Series 2015-59, Washington: Board of Governors of the Federal Reserve System.https://www.federalreserve.gov/econresdata/feds/2015/files/2015059pap.pdf

papers. While placement of most of securities in AFS category exposes banks' portfolio (and eventually Equity) to market risk in case of adverse rate movements, it does allow banks to effectively manage their liquidity needs. Core liabilities (i.e. customer deposits) have remained the prime funding source during CY16. Nevertheless, banks have increased their reliance on relatively costly non-core liabilities (financial borrowings); a potential risk to the bottom line if this trend continues.

After seeing high growth over the last few years, **profitability** of the banking system has moderated due to continuity in low interest rates and reduced volume of banks' investment in government papers (particularly, high yielding PIBs). Consequently, profitability indicators have witnessed some decline during CY16. However, these concerns are not deep as earnings from core sources remain intact and robust growth expected in private sector advances will support future earnings.

Capital adequacy ratio (CAR) of the banking sector remains robust and well above the regulatory minimum. With the much needed surge in private sector advances and strengthening of the capital requirements, CAR has adjusted downwards. Banking sector, in fact, has utilized the idle capital cushion to enhance the lending activity. Incidentally, banks are required to maintain higher minimum regulatory CAR in the coming years, mainly as Capital Conservation Buffer (CCB) rises. Banks, therefore, need to keep a close watch on these developments and devise their capital enhancement plans accordingly. (**For detailed risk analysis of banking sector, see Chapter 3.1**)

Stress testing is an important tool to assess the **resilience** of the banking sector under adverse scenarios. In addition to the baseline scenario, resilience of the banking sector has been assessed against two (02) hypothetical but coherent 'tail-risk' scenarios over three year horizon (Q1CY17-Q4CY19). The simulations reveal that the banking system is resilient to adverse domestic scenario but in case of extremely adverse global scenario the capital adequacy falls below the benchmarks (**For details see Chapter 4**)

Within the banking sector, **Islamic Banks** have maintained their growth trajectory; though some risks have surfaced. The investment growth has moderated due to low frequency of issuance of Sukuk coupled with maturity of Bai Muajjal Sukuk transaction of Islamic Banking Institutions (IBIs) with the Government of Pakistan. Thus, liquidity management poses challenges for IBIs. Further, due to decline in spreads and higher operating cost, profitability has gone down a little. Capital adequacy ratio, though well above the minimum required level, has moved down due to growth in financing. (**See Chapter 3.2**)

Financial markets, in general, have performed smoothly without any considerable disruption during the year. Volatility in the money, foreign exchange (FX) and equity markets has remained relatively muted, though, some developments need attention.

For instance, the fiscal consideration has continued to drive the liquidity need in the money market; though, prudent management by SBP has kept the market running smoothly. The kerb market exchange rate has witnessed some pressures towards the end of CY16. However, given the transitory nature of movements in the kerb market and adequate level of foreign exchange reserves, the FX market is expected to remain calm. The activity in PSX with high growth in KSE-100 index has outperformed various global benchmarks, yet rising Price-Earning (P/E) ratio in short span of time indicates significant role of sentiments behind the market movements. **(For details see Chapter 2)**.

The **non-bank sector** has managed to grow alongside the growing banking sector; their main competitor. The regulatory framework and non-existence of complex and high value structures (private equity funds and hedge funds) have contained the risks within the sector. Further, the demonstrated (financial crisis episode) toxic elements i.e. excessive leverage and illiquid investments are contained within the mutual fund industry (the major participant of NBFIs) through prudential limits.

Moreover, the major share of the NBFIs sector is concentrated in few large institutions, while other small institutions are facing solvency issues. The NBFIs, generally, have limited avenues for contingency liquidity support in times of stress. NBFI sector entities are also exposed to funding constraints. In the absence of any emergency liquidity assistance facility, liquidity risk can become severe **(See Chapter 3.5)**.

The **insurance** industry has expanded in terms of its assets due to improved industry conditions and better economic prospects. However, insurance penetration remains low and the industry continues to face concentration risk with a single life insurer constituting more than 60 percent of the entire insurance industry's assets. The industry also faces financial risks (liquidity, credit, market etc.) but has taken steps to strengthen its risk management framework. Briefly, the industry is expected to continue its expansion with significant growth expected in the Takaful segment **(See chapter 3.6)**.

The financial health of **corporate** sector has remained satisfactory with decent growth in the bottom line. The cash rich sector mainly relies on equity as the major source of funding. However, within the borrowing segment, banks are the main financiers. With corporates' strong repayment capacity, risk to financial sector remains marginal in the near term **(See chapter 3.7)**.

Lack of reliable and timely data limits the detailed assessment of financial soundness of the **household (HH) sector.** Encouragingly, a consistent rise in per capita income and high participation of youth in the labor force are positives for the HH sector. Concomitantly, high unemployment rates for females, low-level of savings and the high-level of borrowing (as percentage of HH income) pose risks to the financial soundness of the poorest households in the future **(see chapter 3.8)**.

The Financial Market Infrastructure (FMI) of Pakistan remains resilient and continues to function smoothly and efficiently. The rising interdependencies of different FMIs, although necessary and valuable from efficiency perspective, do pose supervisory challenges. However, SBP has strengthened the oversight mechanism and enhanced engagement with the institutions for upgrading safety, security and resilience of their systems.

In **payment systems**, the expansionary momentum of large value payments of Pakistan Real-time Interbank Settlement Mechanism (PRISM) has continued. In retail transactions, e-banking is fast replacing the paper based modes and the downtime of Automated Teller Machines (ATMs) has significantly improved.

In CY16, three Stock Exchanges were merged to form a single one i.e. Pakistan Stock Exchange (PSX), while National Clearing Company of Pakistan Limited (NCCPL) assumed the role of a Central Counter Party (CCP). The former event is expected to bring technological progression and operational efficiency while the later one would help minimize credit and liquidity risks **(See Chapter 5)**.

The **outlook** of the financial sector, in CY17, largely remains positive; though some risks appear on the horizon. First, moderation of profitability of the banking sector in CY16, after recent exceptional performance, may carry forward to CY17, if the monetary conditions and structure of the balance sheet of the sector follow recent trends. The growth in credit and high provision coverage ratio do provide reasons for some comfort. However, to minimize risk of future defaults and any impact on income, banks need to enhance their credit evaluation and monitoring standards.

Second, the exposure of the banks to the public sector, in terms of advances, investments, money market activities, off-balance sheet items and revenue generation remains significant. This not only challenges the financial intermediation function of banks and some non-banks, but is also susceptible to changes in government policy.

Third, as the financial sector integrates, the breadth of interconnectedness among banks and non-banks is bound to increase. Already many of the banks own Asset Management Companies and Alternate Payment Delivery systems; therefore, consolidated supervisory oversight has become imperative.

Fourth, the widespread use of technology, though useful for the end consumer, puts an additional burden on the institutions to protect and safeguard their vital systems and information technology infrastructures. The threat of nefarious cyber-attacks is real and omnipresent.

Fifth, asset prices, especially equity prices, have been rising at a brisk pace. Corporate performance and an enabling macroeconomic environment support this surge, but, investor sentiments are also playing their part. Though the banking sector's exposure to equities is within prescribed limits, it is vulnerable to corrections in asset prices.

Sixth, capital adequacy of the banking system, though substantially above the prescribed limits at present, needs further attention in view of enhanced regulatory requirements in the coming years, moderation of profits and expected increase in their risk profile as exposure to the private sector increases. Moreover, stress test results under severely adverse developments in the global scenario reveal that the capital adequacy of the banking system falls below the prescribed limits in the simulations.

SBP is cognizant of these emerging risks and have been taking measures to strengthen its regulatory and monitoring frameworks (including Macroprudential/Financial Stability), improve the efficiency and security of payments systems, enhance financial consumer protection and reinforce corporate governance regime (**For regulatory development in CY16 see Box B**).

Other than the financial sector, the corporate sector is likely to benefit from favorable economic conditions, particularly, the low borrowing costs, rising demand, improving security conditions, and better energy supply. The highly profitable corporate sector is a positive sign as it reduces the asset quality concerns of the lending financial institutions in the short to medium term. However, given the enabling environment, the corporate sector also needs to innovate in terms of production processes, product development, quality controls and price rationalizations.

Box A: Regulatory Developments-Perspective of Growth and Stability of Financial Sector

State Bank of Pakistan (SBP)-within its regulatory preview-continuously endeavors to increase resilience, ensure soundness, and improve efficiency of the financial system in general and banking system in particular. To achieve these objectives, SBP has introduced improvements in the regulatory and supervisory architecture to cater to the local needs amid changes taking place in financial landscape and to align it with international best practices. The improvements over the year are also very much aligned with the high level strategic goals set out in SBP Strategic Plan *"Vision 2020"*. The impact of the improvements is visible in the areas of legal, regulatory and supervisory framework, payments and settlements and financial inclusion.

Before going into specifics of these developments, it is imperative to take into account the measures taken by SBP for putting in place an appropriate Financial Stability Framework.

Global Financial Crisis (GFC) of 2008 paved the way for coordination between the international bodies and enhanced emphasis on focused approach on financial stability throughout the world. A recent paper issued jointly by the IMF, FSB and The World Bank on "Elements of effective macro prudential policies"[3], among others, suggested the presence of effective institutional arrangement encompassing mandate, powers and accountability as one of the key elements for effective implementation of the Macro-prudential policies. To this end, SBP under its "Vision 2020" has set "Strengthening of the Financial System Stability Regime" as one of the key goals.

For that purpose, a separate "Financial Stability Department (FSD)" has been established at SBP to identify and assess the risks to the financial system and disseminate the overall appraisal to the stakeholders. Besides, FSD has been entrusted to focus on resilience analysis of the banking system, identification and designation of Domestic Systemically Important Banks (D-SIBs), and macro surveillance through monitoring of large borrowing groups and financial conglomerates. This newly established setup also coordinates and collaborates with domestic and international bodies on the financial stability issues.

SBP has also established a management level Financial Stability Executive Committee (FSEC) for discussing and monitoring financial stability issues, taking decisions to remove systemic risks and facilitating coordination among various departments within the bank to protect and enhance the resilience of the banking system.

With regard to institutional arrangements, SBP and the Securities and Exchange Commission of Pakistan (SECP) have signed a letter of Understanding (LOU) on May 26, 2017 to establish a Council of Regulators to strengthen financial stability regime in the country[4]. Moreover, work is underway for establishing a National Level Financial Stability Council (NFSC).

Any Financial Stability framework is incomplete without having both the micro and macro surveillance frameworks in place **(Table A.1)**. By covering the macro surveillance under the newly established FSD, key elements of the financial stability have been put in place.

As part of its efforts to enhance coordination and cooperation on global front, SBP has been actively participating in international and regional financial forums and groups concerning financial stability.

SBP is an active member of Financial Stability Board (FSB) Regional Consultative Group for Asia (RCG Asia) since 2011. From July 1, 2015, SBP became the co-chair of FSB RCG Asia for two years. Since then, SBP along with Hong Kong Monetary Authority-the other RCG-Asia co-chair-has successfully conducted three meetings (two meetings in 2016) and a workshop on "Fintech and Cyber Security".

[3] http://www.g20.utoronto.ca/2016/imf-fsb-bis-macroprudential-policies.pdf

[4] "SECP-SBP establish the Council of Regulators to strengthen Financial Stability" http://www.sbp.org.pk/press/2017/Pr-SECP-26-May-17.pdf

Table A.1: Micro and Macro Surveillance Framework

Macro-surveillance	Micro-Surveillance	Regulation
Financial system Surveillance and Macro- analysis	Banking Supervision-On-site inspection and Off-site Supervision and Enforcement	Banking Policy and Regulations
Systemic Risk Assessment		Banking Conduct and Consumer Protection
Supervisory Practices Assessment	Bank Resolution arrangements	Payments Systems

Over the years, SBP has been enhancing capacity of its employees in the area of financial stability. As a result, SBP employees are now better equipped to implement international financial standards and contribute in international forums through participation in working groups of Basel Committee (*guidelines-prudential treatment of problem assets – definitions of non-performing exposures and forbearance finalized in April 2017*) and FSB (*Correspondent Banking Group*), and are engaging with other jurisdictions/ central banks for their capacity building.

Strengthening of regulatory and supervisory practices plays a key role in protecting the stability of the financial system. During the year, following set of **legislative reforms** has been introduced:

- Amendments in the Financial Institutions (Recovery of Finances) Ordinance 2001[5] to facilitate recovery of defaulted loans.
- Enactment of Corporate Restructuring Companies (CRC) Act, 2016[6] that allows formation of Asset Management Companies (AMCs), among others, for acquisition of banks' bad debts.
- Promulgation of Deposit Protection Corporation Bill 2016 that will strengthen the resolution regime and promote financial stability.[7] The preparatory arrangements to set up and operationalize Deposit Protection Corporation (DPC) are in their final stages.
- Amendment in Foreign Exchange Regulation Act, 1947 has been introduced to further strengthen the foreign exchange regime of the country.[8]

To **build the resilience** of the banking system, SBP is implementing Basel-III in line with the reform package introduced by the Basel Committee on Banking Supervision (BCBS).[12] CAR, including the Capital Conservation Buffer (CCB), will increase from 10 percent to 12.50 percent in a phased manner from December 31, 2015 to December 31, 2019. Currently, the applicable CAR plus CCB requirement is 10.65 percent. In 2016 SBP has adopted liquidity standards on "Liquidity Coverage Ratio (LCR)" and "Net Stable Funding Ratio (NSFR)".[9] Both of these ratios aim to achieve two separate but complementary objectives of promoting short term liquidity resilience of banks and reduction in the funding risk faced by them over a longer time horizon.

To ensure that the banks have sufficient capital to cover all the material risks and that their risk governance frameworks are effective, SBP has developed detailed guidelines on Supervisory Review and Evaluation Process (SREP). The guidelines entail a process of review and evaluation of effectiveness of the banks' Internal Capital Adequacy Assessment Process (ICAAP) and

[5] "Enactment of Laws", BPRD Circular Letter No.33 dated October 21, 2016

[6] "The Corporate Restructuring Companies Act, 2016", BPRD Circular Letter No.34 dated October 21, 2016

[7] "Enactment of Laws", BPRD Circular Letter No.33 dated October 21, 2016

[8] "The Foreign Exchange Regulation (Amendment) Act, 2016", EPD Circular Letter No. 11 dated October 07, 2016

[9] "Implementation of Basel III – Liquidity Standards", BPRD Circular No. 8 dated June 23, 2016.

soundness of internal risk governance framework through an independent assessment of banks' risk profile and risk management processes. Based on this assessment, SBP may take appropriate prudential measures and actions to address any supervisory concerns.

With a view to further **strengthen corporate governance regime** of banks, SBP has issued guidelines and disclosure requirements on Governance and Remuneration Practices.[10] These set of instructions provide detailed guidance to regulated entities to review remuneration practices and take into consideration the ever expanding risk profiles and the direct link of risk taking behavior with remuneration. It also aims at making the Board and senior management of Banks/DFIs more accountable and responsible, and to align their compensation with risk adjusted performance in a fair, transparent and timely manner.

To ensure proper performance evaluation of Boards, banks have been advised to conduct performance evaluation of Board of Directors on annual basis.[11] Also to bring independent judgment at the Board level, the minimum number of independent directors for banks has been increased to one third and the criteria for independence has been further strengthened.

SBP is taking continuous measures to prevent the use of banking channels for illicit transactions. Accordingly the Anti Money Laundering (AML)/ Combating the Financing of Terrorism (CFT) regime is being strengthened through appropriate regulatory and supervisory framework. In February 2017, SBP has issued revised Guidelines advising banks to enhance controls to make sure that they should not provide any banking services to proscribed entities and persons or their associated persons. To improve deterrence against possibility of opening and use of *benami* bank accounts, SBP has made it mandatory for banks and Branchless Banking (BB) operators to install biometric machines at all branches.

To **strengthen its supervisory tools** and improve processes, SBP has revamped its inspection manuals to align with the latest international standards in the field of banking supervision and Shariah inspection of Islamic Banking Institutions. It has also developed Risk Based Inspection methodology for exchange companies and AML-CFT.

Further, to proactively identify and address potential risks, issues and vulnerabilities that are common across the financial industry, SBP has adopted the supervisory approach of thematic/ focused inspections. This inspection tool, while allowing SBP to focus on industry wide risk areas, provides feedback for prompt policy intervention, if required.

SBP has also initiated work on updating its existing supervisory methodology to forward looking Risk Based Supervision (RBS). Development of RBS framework is one of the main components of technical cooperation agreement signed between SBP and the World Bank.[12] RBS would help SBP in prioritizing supervisory resources and articulating responses to financial stress besides more structured profiling of financial institutions. RBS will greatly help SBP to identify the problem and institute corrective action on proactive basis.

SBP continues to focus on efforts for enhancing the **credit demand**, in coordination with various stakeholders, so as to improve the flow of credit and increase credit to GDP ratio. SBP – in its capacity – has taken various measures to enhance private sector credit. Some of the key measures are given below:

- To facilitate SMEs' access to finance from formal sector and to increase share of SME financing in total private sector credit from existing 7 percent to 20 percent by 2020, a host of measures have been taken during the year:
  - SBP has introduced SME finance indicative targets for banks and DFIs from January 2016. The mechanism has worked well as financing targets set for the year have been achieved.

[10] "Guidelines and Disclosures on Governance and Remuneration Practices", BPRD Circular No.1 dated January 25, 2017
[11] "Guidelines on Performance Evaluation of Board of Directors", BPRD Circular No.11 dated August 22, 2016

[12] "SBP and WB ink agreement on Technical Cooperation for achieving SBP's Strategic Goals" http://www.sbp.org.pk/press/2017/Pr-WB-29-Jan-17.pdf)

- After promulgation of Financial Institutions (Secured Transactions) Act 2016, Government of Pakistan (GOP) and SBP are currently working on establishment of electronic secured transactions registry that will register charge on moveable assets of the unincorporated entities especially the SMEs to facilitate their access to finance against their moveable assets.
- SBP issued amendments in Prudential Regulations (PRs) for Small & Medium Enterprises (SMEs) in May 2016[13] to align them further with changing market dynamics. Revised regulations have rationalized the Sales and Employee parameters under Small Enterprise (SE) and Medium Enterprise (ME). Per party exposure limit has also been enhanced to facilitate SEs for availing more financing from the formal sector, while classification requirements have been rationalized to facilitate restructuring/ rescheduling of SMEs finance.

- With a view to promoting the infrastructure financing in Pakistan, SBP has issued Prudential Regulations for Infrastructure Project Financing (IPF).[14] These Prudential Regulations emphasize on important features of infrastructure project finance to facilitate the banks and DFIs to assess the cash flow generating capacity of the projects like the requirement of technical feasibility, comprehensive risk assessment, project insurance, technical monitoring of the project during loan tenure and requirement of supply and off-take agreements. The IPF regulations allow enhanced per party exposure limits of 5 percent (only for infrastructure projects) over and above 20 percent allowed under PRs for Corporate/Commercial Banking.
- SBP has issued revised financing scheme for renewable projects in June 2016.[15] Under category I of the Scheme, end borrowers can avail financing of up to Rs. 6 billion at 6 percent for up to 12 years for renewable energy projects. Under the category II, the scheme incentivizes renewable energy solutions of less than 1 MW for consumers at the same concessional rate of 6 percent.
- The role of private credit bureaus cannot be overemphasized in the credit risk assessment process of banks. To promote establishment of private sector credit bureaus, SBP has issued licensing criteria for their establishment and a set of regulations for their supervision under the Credit Bureaus Act, 2015.

Being cognizant of the vitality of **Financial Consumer Protection** and it's linkage with Financial Inclusion and Stability, SBP has revitalized its mandate in this area in the past few years. Subsequent to enforcement of an explicit Fair Treatment of Consumers framework and other related initiatives, SBP has further strengthened the conduct regulation and supervision regime as follows:

- In line with SBP's vision 2020 to foster a responsible and fair banking sector, comprehensive guidelines on complaint handling were issued by SBP. Accordingly, a conducive culture, Turn Around Time (TATs), record retention, annual disclosures and regulatory returns are the first ever inclusions in complaint handling instructions issued by SBP[16].
- Being cognizant of the need of standardized disclosure requirements for other consumer products, SBP has issued Key Fact Statements along with general Product Disclosure Requirements (PDRs) for personal, housing and auto loan products.[17]
- With the intent to help banks demonstrate Fair Treatment of Consumers (FTC), SBP has developed a Conduct Assessment Framework (CAF) to be used by the banks themselves.[18] This framework will serve as conduct monitoring tool for SBP to gather conduct data and address the gaps therein by adoption of different regulatory interventions.

[13] "Revised Prudential Regulations for Small and Medium Enterprises Financing", IH&SMEFD Circular No.2 dated May 6, 2016
[14] "Prudential Regulations for Infrastructure Project Financing (IPF)", IH&SMEFD Circular No.6 dated December 30, 2016
[15] "Revised SBP Financing Scheme for Renewable Energy", IH&SMEFD Circular No.3 dated June 20, 2016
[16] "Consumer Grievances Handling Mechanism (CGHM)", BC&CPD Circular No.1 dated February 29, 2016
[17] "Product Disclosure Requirements", BC&CPD Circular No.2 dated June 14, 2016
[18] "Conduct Assessment Framework for Banks", BC&CPD Circular No.3 dated November 4, 2016

Facilitation of the existing consumers and smoothening entry of the new customers remains the hallmark of the present day tech based banking services. Some of the measures taken for customer facilitation are listed below:

- Keeping the latest developments in view and to provide ongoing regulatory support to financial institutions for enhancing Branchless Banking (BB) services to low income/unbanked masses; SBP has issued revised Branchless Banking Regulations for the banking industry.[19]
- Besides, The Framework for Branchless Banking Agent Acquisition and Management for the banks has been issued by SBP.[20] The framework provides enabling environment for banks to ensure effective delivery of services via agent channel for better customer experiences and mitigation of risks arising from banks' dependence on agents.
- SBP and Pakistan Telecommunication Authority (PTA) signed a Memorandum of Understanding (MOU) for development of branchless banking in Pakistan. In this regard, SBP and PTA has issued regulatory framework on interoperability of branchless banking services.[21] The interoperability serves as a tool to provide a range of integrated services to the customers, resulting in wide uptake of digital transactional accounts. Through interoperable BB services, the customers can transfers funds between banking accounts and mobile-wallets through their cell phones having account of any bank and SIM of any telecom operator.

[19] "Branchless Banking Regulations for Financial Institutions", BPRD Circular No.9 dated July 12, 2016
[20] "Framework for Branchless Banking Agent Acquisition and Management", BPRD Circular No.6 dated June 21, 2016
[21] "Regulations for Mobile Banking Interoperability", BPRD Circular No.3 dated May 16, 2016