

Appendix A

Supervisory initiatives to strengthen stability of financial sector

The State Bank of Pakistan continuously strives to preserve and promote the financial stability in the economy. For this purpose, it has further upgraded its financial stability functions by strengthening the **Macro-prudential Policy Framework (MPPF)**, and took various measures to address the emerging systemic risks and contain the vulnerabilities arising from cross-sectional dynamics and interconnectedness of the financial institutions.

Incidentally, the year under review was characterized by an unprecedented and paramount challenge of COVID-19 pandemic, which emerged as a global health crisis and posed multifaceted challenges, including implications for economic and financial stability. As the global community continues to suffer the severe impact of the COVID-19, many countries are seeing a resurgence of the infection rates even after over a year of the advent of the pandemic.

Under the policy support of government and regulators, Pakistan's financial sector has so far fared reasonably well, and showed resilience to the impact of coronavirus crisis. It has also managed to support the economy through continued lending and provision of financial services - including to the sectors most affected by the lockdown measures. SBP's Micro and Macro-prudential policy measures - alongside monetary, fiscal and other prudential policies - have helped to mitigate the short-term impact of the pandemic on Pakistan's economy. These pandemic-related measures are separately covered in the later part of this section.

Financial Stability- A Macro Perspective

As an initiative to improve the institutional arrangements of MPPF, the **National Financial**

Stability Council (NFSC) was established in May 2020, which includes members from the SBP, the Securities & Exchange Commission of Pakistan (**SECP**) and the Ministry of Finance. The NFSC is expected to discuss issues related to systemic risks, particularly those having cross-market and stability implications and suggest a coordinated policy response to address the threats to the financial system stability.

The scope of **Stress Testing guidelines** was broadened to incorporate guidance on Scenario Analysis (i.e. Macro-stress Testing) and Reverse Stress Testing (RST)²²⁰, while extent and coverage of sensitivity analysis were also enhanced. Besides conducting the regular sensitivity analysis, systemically important banks are required to conduct macro- and reverse stress test so that they can proactively identify their vulnerabilities to any adverse macro-economic developments.

SBP supported the government in introducing the **Naya Pakistan Certificate²²¹ (NPC)**, a new savings and attractive investment opportunity for overseas Pakistanis and residents with assets held abroad. In view of limited cross-border travel, this was one of proactive policy steps to spur inflows through formal channels, and add support to the current account. Naya Pakistan Certificates have attracted an investment of over USD 646 million. Further, Authorized Dealers are allowed to pledge the NPC, on the specific request of non-resident NPC holder, in favor of the Authorized Dealer's Overseas Bank Branches and Correspondents and issue guarantee/standby letter of credit in favor of their Overseas Bank Branches and Correspondents against pledge of NPCs.

In order to gauge and assess the views of market participants and independent experts about the

²²⁰ FSD Circular No. 01 of 2020;
<https://www.sbp.org.pk/fsd/2020/C1.htm>

²²¹ See Naya Pakistan Certificates;
<https://www.sbp.org.pk/NPC/index.html>

various emerging risks and effectiveness of policy framework, SBP conducted 5th and 6th waves of the **Systemic Risk Survey (SRS)** during the year under review, while 7th one was done in January 2021 (results of the 7th wave are given in Box 3). Keeping in view the peculiarity and unprecedented nature of the pandemic, the pandemic and its systemic implications were exclusively covered as a special section in the 6th and 7th waves of the survey.

As part of its efforts to share information and contribute to various regional and international studies, SBP provided its feedback on various international **surveys** and **consultative documents**. In addition, SBP provided updates to the **Financial Stability Board (FSB)** on SBP's COVID-19 related policies and measures. SBP also participated in **FSB Regional Consultative Group for Asia (RCG Asia)** Conference Calls where vulnerabilities and financial stability issues affecting Asia were discussed, along with other financial stability issues such as cyber incident response and recovery and roadmap for enhancing cross-border payments.

Since 2017, SBP has been participating in the reform efforts to improve Pakistan's ranking in the "Getting Credit" indicator of **Ease of Doing Business Index** of the World Bank. SBP, in collaboration with **SECP, World Bank** and **Board of Investment**, proposed legal amendments in the Financial Institutions (Secured Transactions) Act 2016, which were issued through a Presidential Ordinance in April 2020 to improve the underlying framework for Getting Credit as this will help the borrowers to access credit by pledging their movable assets.

Deposit Protection Corporation (DPC)²²² launched its website as part of its broader

communication strategy towards all its stakeholders, which focuses on making it easier for users to learn and locate valuable information about the roles and functions of DPC and its communiqués including circulars and guidelines²²³. DPC also made significant progress in guiding its member banks for the development of a comprehensive database for their protected depositors referred to as Single Depositor View (**SDV**). The information contained in this database shall be used for the reimbursement of guaranteed amount to protected depositors of a bank that would be declared as a failed institution by SBP.

Financial Stability- A Micro Perspective

Foreign Exchange Policy and Operations: External account stability is a key moot point for both financial and economic stability of the country. In an effort to facilitate the exporters and the manufacturers, SBP took a host of measures for streamlining the work processes of banks and simplifying the regulatory requirements and processes related to different foreign exchange matters.

SBP launched its **FX Regulatory Approval System (RAS)** for end-to-end digitalization of Foreign Exchange (**FX**) related case submission process with an aim to provide a fully digitalized platform to the business community and individuals in approaching banks for their foreign exchange related requests.²²⁴

SBP allowed exporters to dispatch the shipping documents of their exports' consignment to their foreign buyers without any limit, subject to the condition that the exporter's export over-dues are less than 1% and the exports of at least USD 5 million during the last three years²²⁵.

²²² Deposit Protection Corporation (DPC) established under the DPC Act 2016 as a subsidiary of State Bank of Pakistan to establish and manage the deposit insurance system in Pakistan.

²²³ SBP Press Release, October 20, 2020; <https://www.sbp.org.pk/press/2020/Pr-20-Oct-20.pdf>

²²⁴ EPD Circular Letter No. 18 of 2020; <https://www.sbp.org.pk/epd/2020/FECL18.htm>

²²⁵ EPD Circular Letter No. 05 of 2020; <https://www.sbp.org.pk/epd/2020/FECL5.htm>

SBP introduced a new mechanism to enable companies in Pakistan to conveniently remit out **disinvestment** proceeds to their foreign shareholders with an objective to attract foreign investments by increasing investors' confidence and support ease of doing business²²⁶.

In order to further the objectives of establishing the **Special Technology Zones** under the Special Technology Zones Authority Ordinance 2020, SBP issued special foreign exchange regulations for entities operating in Special Technology Zones in Pakistan²²⁷.

To promote **Business-to-Consumer (B2C)** e-Commerce exports from Pakistan, a separate Module to implement e-commerce exports was also developed in **WeBOC** in collaboration with Pakistan Customs and other relevant stakeholders. Accordingly, a revised regulatory framework has been developed in view of the current business needs of e-commerce exports²²⁸.

To further enhance **ease of doing business** for the companies in Pakistan, a new mechanism was introduced for payments to globally recognized digital service provider companies against acquisition of digital services by local companies²²⁹.

Banking Conduct and Consumer Protection: An effective consumer protection and fair conduct regime is essential for preserving the trust in financial system and promoting its growth on sustainable basis. SBP conducted a **review of complaints** against Banks/ DFIs/MFBs from 2016 to 2019 to assess effectiveness of complaint management at banks and take policy measures in absence thereof. The salient features of the review are being published to emphasize SBP's narrative that responsible

complaint handling is the core element of **Fair Treatment of Consumer (FTC)**.

SBP in its endeavor to promote Responsible Banking Conduct and Fair Treatment of Consumers (FTC) developed **Key Fact Statement (KFS)** for deposit products. The standardized disclosures such as KFS increase consumer comprehension about a banking product's affordability and risks, leading to better decision-making, it also minimizes the risks of ineffective disclosures by standardizing the information provided to the consumer²³⁰.

SBP decided to reduce the reflection period from 15 years to 10 years for written off/waived loans of corporate borrowers in the **Electronic Credit Information Bureau (eCIB)** of SBP²³¹.

Payment Systems: To further improve the **digital payment services landscape** in the country and promote financial inclusion, SBP issued instructions to the banking industry for improving the acceptance of payment cards in the country. Since the launch **National Payment Systems Strategy** in November 2019, SBP has taken a number of steps to promote digitization of payment transactions in the country²³².

Roshan Digital Account²³³ for the Non-Resident Pakistanis (**NRPs**) was introduced in September 2020. Through this account, NRPs were facilitated to be fully integrated with Pakistan's banking and payments system. For the first time in the country's history, NRPs were able to open an account in Pakistan without requiring physical presence neither in Pakistan nor any embassy or consulate. Roshan Digital Account was also part of policies aimed at attracting foreign exchange into

²²⁶ FE Circular No. 05 of 2020;
<https://www.sbp.org.pk/epd/2020/FEC5.htm>

²²⁷ FE Circular No. 08 of 2020;
<https://www.sbp.org.pk/epd/2020/FEC8.htm>

²²⁸ FE Circular No. 07 of 2020;
<https://www.sbp.org.pk/epd/2020/FEC7.htm>

²²⁹ FE Circular No. 04 of 2020;
<https://www.sbp.org.pk/epd/2020/FEC4.htm>

²³⁰ BC&CPD Circular No. 02 of 2020;
<https://www.sbp.org.pk/cpd/2020/C2.htm>

²³¹ BC&CPD Circular Letter No. 02 of 2020;
<https://www.sbp.org.pk/cpd/2020/CL2.htm>

²³² National Payment Systems Strategy;
<https://www.sbp.org.pk/PS/PDF/NPSS.pdf>

²³³ SBP Press Release, September 10, 2020;
<https://www.sbp.org.pk/press/2020/Pr-10-Sep-20.pdf>

the country and it has helped rupee stabilize against dollar as well as supported current account. By end April 30, 2021, over 120,000 NRPs from 170 countries sent over a USD 1 billion to Pakistan through RDA. Investment in Stock Exchange through RDA crossed PKR 1.6 billion, whereas **Naya Pakistan Certificates** attracted an investment of over USD 646 million.

Islamic Banking: With a view to further strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, the **AAOIFI Shariah Standards No. 19 (Loan (Qard))**, No. 23 (Agency and the Act of an Uncommissioned Agent (Fodooli)), No. 28 (Banking Services in Islamic Banks), and No. 49 - Unilateral and Bilateral Promise (SS – 49) were adopted.²³⁴

Supervisory and Regulatory Oversight: Systemic importance and interconnectedness of financial institutions have significant bearing on the financial stability in the economy. SBP announced the designation of **Domestic Systemically Important Banks (D-SIBs)** for the year 2020 under the Framework for Domestic Systemically Important Banks (introduced in April 2018). The framework introduced by State Bank is consistent with the international standards and practices and takes into account the local dynamics. It specifies the methodology for the identification and designation of D-SIBs, enhanced regulatory and supervisory requirements for D-SIBs, and implementation guidelines. These enhanced requirements aim to further strengthen the resilience of the systemically important banks against shocks and augment their risk management capacities²³⁵.

²³⁴ IBD Circular No. 01 of 2020;

<https://www.sbp.org.pk/ibd/2020/C1.htm>

²³⁵ SBP Press Release, September 03, 2020;

<https://www.sbp.org.pk/press/2020/Pr-03-Sep-20.pdf>

²³⁶ BPRD Circular No. 02 of 2020;

<https://www.sbp.org.pk/bprd/2020/C2.htm>

The development of **Risk Based Supervision (RBS)** framework was completed during the year under review, and is set to be implemented by July 1, 2021 across SBP's Banking Supervision Group. Development of 'Risk Based Supervision Framework' was covered under Strategic Goal – 3 of SBP's Strategic Plan - Vision 2020.

Banks, DFIs and MFBs with majority foreign shareholding (Greater than 50%) were allowed to raise **Additional Tier 1** capital in the form of **Foreign Currency (FCY)** subordinated debt/ loan from their existing foreign sponsors subject to certain terms and conditions²³⁶.

SBP and the banking industry joined hands to create **Pakistan Corporate Restructuring Company Limited (PCRCL)**. **Corporate Restructuring Companies (CRCs)** are empowered under CRC Act 2016 to acquire, restructure and resolve the Non-Performing Assets (**NPAs**) of financial institutions and thereby reorganize and revive the commercially or financially distressed companies. It is expected that CRCs will evolve as vibrant economic agent, contributing towards the revival of sick industrial units and generating employment opportunities²³⁷. Consequent to the amendments in the Corporate Restructuring Companies Act 2016, SBP issued **guidelines for transfer and assignment of non-performing assets to CRCs**²³⁸.

In order to preserve integrity and safety of the financial system, certain amendments were made in the **Anti-Money Laundering (AML) Act** to strengthen the overall AML/CFT/CPF regime in the country. The SBP accordingly issued the revised **Anti-Money Laundering, Combating the Financing of Terrorism & Counter**

²³⁷ BPRD Circular No. 03 of 2020;

<https://www.sbp.org.pk/bprd/2020/C3.htm>

²³⁸ BPRD Circular Letter No. 40 of 2020;

<https://www.sbp.org.pk/bprd/2020/CL40.htm>

Proliferation Financing (AML/ CFT/ CPF) Regulations for Reporting Entities²³⁹.

Policy Response to COVID-19 Pandemic

The **COVID-19** pandemic involves severe ramifications for the health and economic wellbeing of humankind. It has also raised serious challenges and risks for the banking sector. These challenges mainly pertain to:

- Availability of bank credit and market liquidity to support economic activities during the pandemic as the seizure of bank credit and dry up of liquidity can affect economic and financial stability,
- Surety of the soundness of banks that could come under stress due to the pandemic,
- Provision of banking services in stable and safe manners, and
- Health, safety and physical wellbeing of banks' employees and general customers.

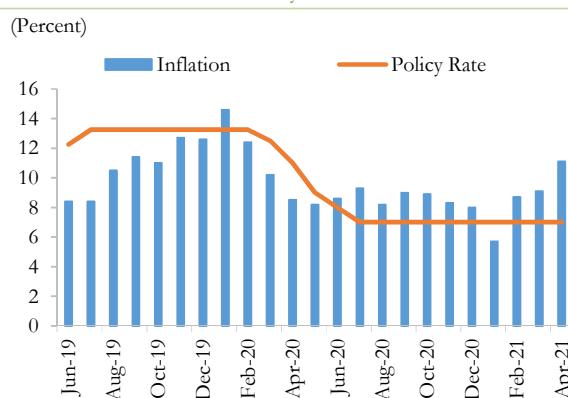
Though the coronavirus crisis originated outside the financial sector, the spillovers to financial institutions have so far been well contained partly due to extensive and prompt intervention by State Bank, the government, and other supervisory authorities. The strengthening of the supervisory framework in recent years has also helped the financial sector to be in more stable position than it was before the recent Global Financial Crisis of 2008.

The SBP took a host of contingency measures²⁴⁰ in the spheres of monetary and regulatory policy to address the challenges posed by the pandemic and cope with the strong feedback / pro-cyclicality effects between the economic and financial fragility.

Reduction in Policy Rate

As a **monetary policy** measure, the SBP cut the policy rate by 625 basis points from 13.25 percent to 7 percent (from mid-March to June 2020) to alleviate the burden of financial cost on businesses and households which were facing significant impairment in their ability to generate income and cash flows. The reduction in the policy rate was one of the largest among the emerging economies as SBP shifted its focus of monetary policy toward economic growth and employment during the pandemic. **(Chart A.1).**

Chart A.1: Inflation and Policy Rate



Source: SBP

Promotion of digital payments and Availability of uninterrupted financial services

SBP engaged with the industry to understand issues and challenges and formulate a policy response accordingly. In this vein, SBP conducted a **flash survey**²⁴¹ and based on the findings of the survey, advised banks/DFIs/MFBs to adopt different measures to **help fight the spread of COVID-19 pandemic**. SBP issued instructions/guidelines to ensure continuity of business operations during the ensuing lockdowns and **availability of financial services**.²⁴² In view of increased use of e-banking services and work-

²³⁹ BPRD Circular Letter No. 01 of 2021; <https://www.sbp.org.pk/bprd/2021/CL1.htm>

²⁴⁰ COVID-19 Measures; <https://www.sbp.org.pk/covid/index.html>

²⁴¹ BPRD Circular Letter No. 06 of 2020; <http://www.sbp.org.pk/bprd/2020/CL6.htm>

²⁴² SBP Press Release, March 23, 2020; <https://www.sbp.org.pk/press/2020/Pr-23-Mar-20.pdf>

from-home arrangements and resultant increase in cyber threats, financial institutions were advised to exercise due diligence and implement stronger and robust cybersecurity measures to counter **cyber risks** associated with remote access functionality.²⁴³

SBP also strived to promote the digital payments and reduce the contact-based dealing amid the pandemic²⁴⁴. Banks were, inter alia, instructed to waive the fee on interbank fund transfer and facilitate the payment of fees, loans repayments etc. through internet/mobile banking.

Amid growing concerns about the potential impacts of the pandemic, SBP introduced a comprehensive **regulatory package** whose key highlights were:

- Reduction in banks' capital conservation buffer (**CCB**).²⁴⁵
- Deferment of payment of principal on loan obligations.
- Rescheduling/Restructuring of the financing facilities of such obligors, who are unable to service the mark-up amount or need deferment exceeding one year.
- Reduction in Cash Reserve Requirements against FE-25 Deposits.²⁴⁶
- Increase in the regulatory limit on extension of credit to SMEs.
- Increase in borrowing limits for individuals.
- Reduction in margin call requirements on bank financing against the security of shares.

SBP Rozgar Scheme

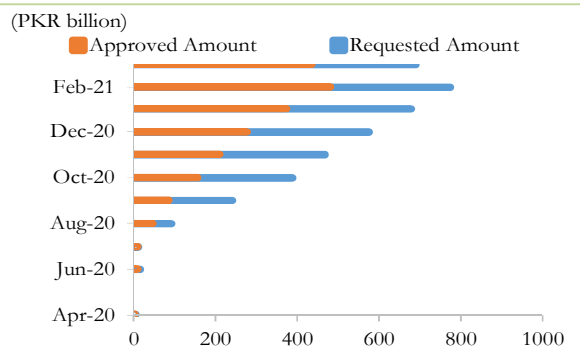
In order to preserve the employment in the country, SBP introduced a concessional **refinance**

facility²⁴⁷ to fund the payment of salaries. In this regard, the Ministry of Finance also introduced a **risk-sharing facility** to support bank lending to SMEs and small businesses to avail SBP's Refinance Facility to support employment. Federal Government allocated PKR 30 billion under a credit risk sharing facility for the banks spread over four years to share the burden of losses due to any bad loans in future. This facility was aimed to incentivize banks to extend loans to collateral deficient **SMEs** and small corporates with sales turnover of up to PKR 2 billion to avail financing under SBP refinance scheme.²⁴⁸ Further, the regulatory retail portfolio limit was enhanced from PKR 125 million to PKR 180 million to support the growth of credit to the retail sector and SME.

Facilitating New Investment

SBP introduced a concessional **Temporary Economic Refinance facility**²⁴⁹ to promote investment in both new projects and expansion or BMR of existing projects. At end March 2021, a total amount of PKR 436 billion was approved against the requested amount of PKR 690 billion since the introduction of the scheme in March 2020 (**Chart A.2**).

Chart A.2: TERF Performance



Source: SBP

²⁴³ PSD Circular No. 03 of 2020;

<https://www.sbp.org.pk/psd/2020/C3.htm>

²⁴⁴ SBP Press Release, March 18, 2020;

<https://www.sbp.org.pk/press/2020/Pr-18-Mar-20.pdf>

²⁴⁵ BPRD Circular Letter No. 12 of 2020;

<https://www.sbp.org.pk/bprd/2020/CL12.htm>

²⁴⁶ DMMD Circular No. 08 of 2020;

<http://www.sbp.org.pk/dmmd/2020/C8.htm>

²⁴⁷ IH&SMEFD Circular No. 06 of 2020;

<https://www.sbp.org.pk/smeffd/circulars/2020/C6.htm>

²⁴⁸ IH&SMEFD Circular No. 09 of 2020;

<https://www.sbp.org.pk/smeffd/circulars/2020/C9.htm>

²⁴⁹ IH&SMEFD Circular No. 01 of 2020;

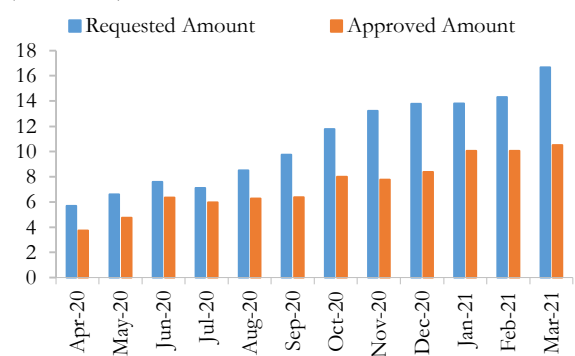
<https://www.sbp.org.pk/smeffd/circulars/2020/C1.htm>

Support for the Health Sector

To support the **health sector** and enhance its capacity to fight the pandemic, SBP introduced a **refinance facility**²⁵⁰ for the health sector. Moreover, all federal and provincial government departments, hospitals in public and private sectors, charitable organizations, manufacturers and commercial importers were allowed to make **Import Advance Payment** and **Import on Open Account**, without any limit, for the import of medical equipment, medicines and other ancillary items for the treatment of COVID-19.²⁵¹ Over the last 12 months, PKR 11 billion were approved against the requested amount of PKR 17 billion. **(Chart A.3).**

Chart A.3: RFCC Performance

(PKR billion)



Source: SBP

Loan Extension and Restructuring Package

SBP announced **Debt Relief Scheme**²⁵² to facilitate the borrowers in restructuring/rescheduling and deferment of their loans. It aimed to preserve the solvency of the borrowers and enable them to combat the temporary economic disruptions. All categories of customers – corporate, commercial, SME, agriculture and retail - benefited from the facility. The approval rate for the applications received

²⁵⁰ IH&SMEFD Circular No. 03 of 2020; <https://www.sbp.org.pk/sme/d/circulars/2020/C3.htm>

²⁵¹ EPD Circular Letter No. 09 of 2020; <https://www.sbp.org.pk/epd/2020/FECL9.htm>

²⁵² BPRD Circular Letter No. 13 of 2020; <https://www.sbp.org.pk/bprd/2020/CL13.htm>

under the scheme has been 97% as of April 16, 2021.

The major beneficiary of this scheme has been the individual borrower. Especially, the MFBs have significantly supported their 1.7 million small borrowers, extending the repayments on loans of PKR 121 billion, which approximately constitutes half of total loan portfolio of MFBs. Further, SBP expanded the scope of relief package for the borrowers of MFBs with additional measures to better enable them to deal with the adverse implications of the pandemic. Whereas an amount of PKR 718 billion, out of total PKR 911 billion, restructured and deferred loans related to corporate and commercial borrowers. The scheme expired on March 31, 2021 **(Table A.1).**

Table A.1: Category wise applications and approved amount

Category	No. of Applications Received	No. of Applications Accepted	Amount Approved (in PKR Billion)
Corporate / Commercial	3,172	2,878	718
SME	10,835	10,406	28
Consumer Finance	100,519	65,161	22
Housing Finance	2,959	2,140	10
Agriculture Financing	29,954	27,216	12
Microfinancing	1,736,113	1,717,665	121
Total	1,883,552	1,825,466	911

Relief for Exporters and Importers

Due to the COVID-19 pandemic Pakistan's exporters were facing declining demand in overseas markets and problems in executing existing orders. To support exporters in these challenging circumstances and to prevent current liquidity problems from turning into solvency problems amongst exporters, SBP announced the following measures:²⁵³

BPRD Circular Letter No. 14 of 2020; <https://www.sbp.org.pk/bprd/2020/CL14.htm>

IH&SMEFD Circular Letter No. 3 of 2020; <https://www.sbp.org.pk/sme/d/circulars/2020/CL3.htm>

²⁵³ IH&SMEFD Circular No. 05 of 2020; <https://www.sbp.org.pk/sme/d/circulars/2020/C5.htm>

- Allowed Six months additional period for making shipment/performance under Export Finance Scheme (**EFS**) for FY 2019-20.
- Reduced export performance requirement under EFS Part-II from 2 times to 1.5 times against financing of FY20 and FY21.
- Relaxed eligibility criteria for availing finance under LTFF during January 01, 2020 to September 30, 2020 from USD 5 Million or 50% exports of total sales to USD4 Million or 40% exports of total sales. Under LTFF, one-year additional period was allowed for making projected exports in each category falling in calendar year 2020.

SBP extended time for settlement of foreign currency loans amid COVID-19 pandemic to facilitate the exporters and importers by allowing extension up to 180 days in settlement of their export and import loans under **FE-25 foreign exchange loan Scheme**²⁵⁴. SBP also eased 100 percent **cash margin requirement** on the import of certain raw materials to support manufacturing and industrial sectors and further enhance their capacity to contribute towards the recovery of the economy amidst the pandemic.

Moreover, SBP has enhanced the existing limit from USD 10,000 to USD 25,000, or equivalent in other currencies, per invoice allowed to banks to **make advance payment**²⁵⁵ on behalf of manufacturing & industrial concerns and commercial importers for import of raw material, spare parts and machinery. These measures were in continuation of facilitating export-oriented industries and manufacturing concerns in the backdrop of ease of doing business and promoting exports' growth to contribute in improving economic outlook of the country.

²⁵⁴ EPD Circular Letter No. 17 of 2020; <https://www.sbp.org.pk/epd/2020/FECL17.htm>

SECP's Initiatives and Policy Response to COVID-19

The **SECP** is the financial regulatory agency whose objective is to develop a modern and efficient corporate sector and a capital market to encourage investment and foster economic growth in Pakistan. It regulates and supervises **non-banking financial firms** including insurance companies, securities firms and capital market, NBFCs, etc. The SECP took a number of initiatives to improve the performance, operations, systems, and supervisory monitoring of NBFCs during the year under review.

The SECP established a dedicated **Systemic Risk Wing** that is mandated to identify and mitigate threats to financial stability of the regulated financial markets. Further, **Systemic Risk Review Committee** was reorganized to ensure oversight of untoward developments with a potential to pose systemic risk shocks.

The **Private Funds Regulations, 2015** were revamped to catalyze growth in the private funds industry by offering increased flexibility, efficiency and ease of doing business.

Amendments in the **NBFC Rules 2003** and **NBFC Regulations, 2008** were made to create an enabling environment and eliminate regulatory bottlenecks through perpetual licensing, minimum documentation and lesser regulatory approvals to access credit lines from **PMIC**.

The first ever microfinance sector specific **Social Impact Fund (SIF)** was set up to provide enhanced liquidity to the nonbank microfinance sector.

To facilitate further growth of the mutual fund industry and to safeguard the investor's interest, the SECP took the following initiatives:

²⁵⁵ EPD Circular Letter No. 04 of 2020; <https://www.sbp.org.pk/epd/2020/FECL4.htm>

- a. Approval granted for the launch of Pakistan's first Shariah compliant **Exchange Traded Funds (ETFs)**.
- b. Detailed guidelines issued for assessing suitability and standard risk categorization of **Collective Investment Schemes (CIS)**, to curb miss-selling of mutual fund products to the investors.
- c. Provision of digital platform for investment in mutual funds launched with the name "**Emlaak Financials**".
- d. Prescription of detailed mechanism for **digital account opening** by Asset Management Companies (**AMCs**).
- e. A number of amendments were made in **Voluntary Pension System** regulatory framework to revamp the regulatory structure and introduce relaxations for 'ease of doing business' and growth of the sector.

Policy Response to COVID-19²⁵⁶

- The maximum period of borrowing by mutual funds for redemption purposes extended from 90 days to 365 days.
- Extended time period for classification of non-performing securities from 15 days to 180 days.
- Allowed NBFCs to defer repayment of principal and reschedule the loans based on borrowers' request, without affecting the credit status of such borrowers;
- Allowed PMIC to defer principal repayments and reschedule its loans to NBMFCs.

Insurance and Takaful Sector

Centralized Insurance Repository was launched to store and share details of life insurance and family Takaful policies electronically.

The SECP notified the **Corporate Insurance Agents Regulations, 2020** to provide comprehensive regulatory framework for business undertaken through corporate insurance agents (including banks) and technology-based distribution channels.

The SECP issued **Guidelines on Cybersecurity Framework for Insurance Sector, 2020** to ensure security and resilience of IT infrastructure of insurance companies and warrant the privacy and confidentiality of the data.

Policy Response to COVID-19

The SECP advised insurance companies to:

- Waive non-mandatory requirements for claims processing and use alternative methods for verifying the authenticity of claims.
- Consider extension in grace period of payment of premiums, preferably through digital or online payment modes.
- Ensure electronic issue of pre-authorizations for treatment in on-panel hospitals, expand list of panel hospitals and consider claims incurred at non-panel medical institutions.

The SECP provided:

- Relaxation and relief to the insurance industry by extending the timeline for renewal of insurance brokers' and surveyors' licenses.
- Relief to the insurance sector by extending the regulatory reporting deadlines and relaxations from the IFRS – 16.
- Relief to companies/entities from the requirements of accounting standards in relation to their AFS Equity Investments by allowing them to show impairment loss as at March 31, 2020 in the statement of changes in equity.

²⁵⁶ SECP Response to COVID-19; <https://www.secp.gov.pk/sec-response-to-covid-19/>