



# Banking Regulation, Supervision and Payment Systems

By

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At

SBP Workshop for Journalists



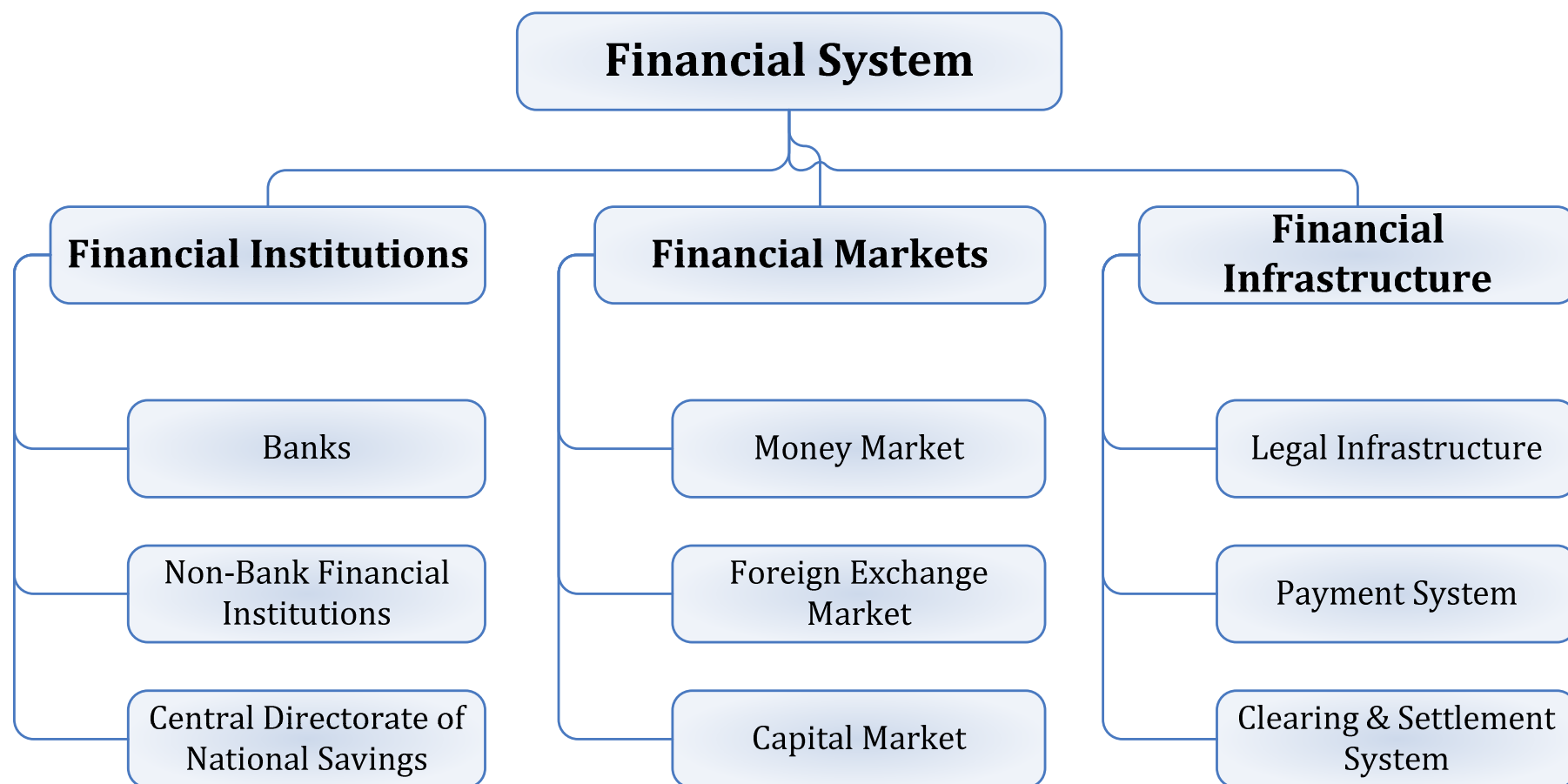
# Agenda

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- ▶ Structure of Financial System
- ▶ Statutory Mandate
- ▶ Legal and Regulatory Framework
- ▶ Structure of Banking Cluster
- ▶ Supervisory Framework
- ▶ Financial Consumers Protection
- ▶ Payment Systems

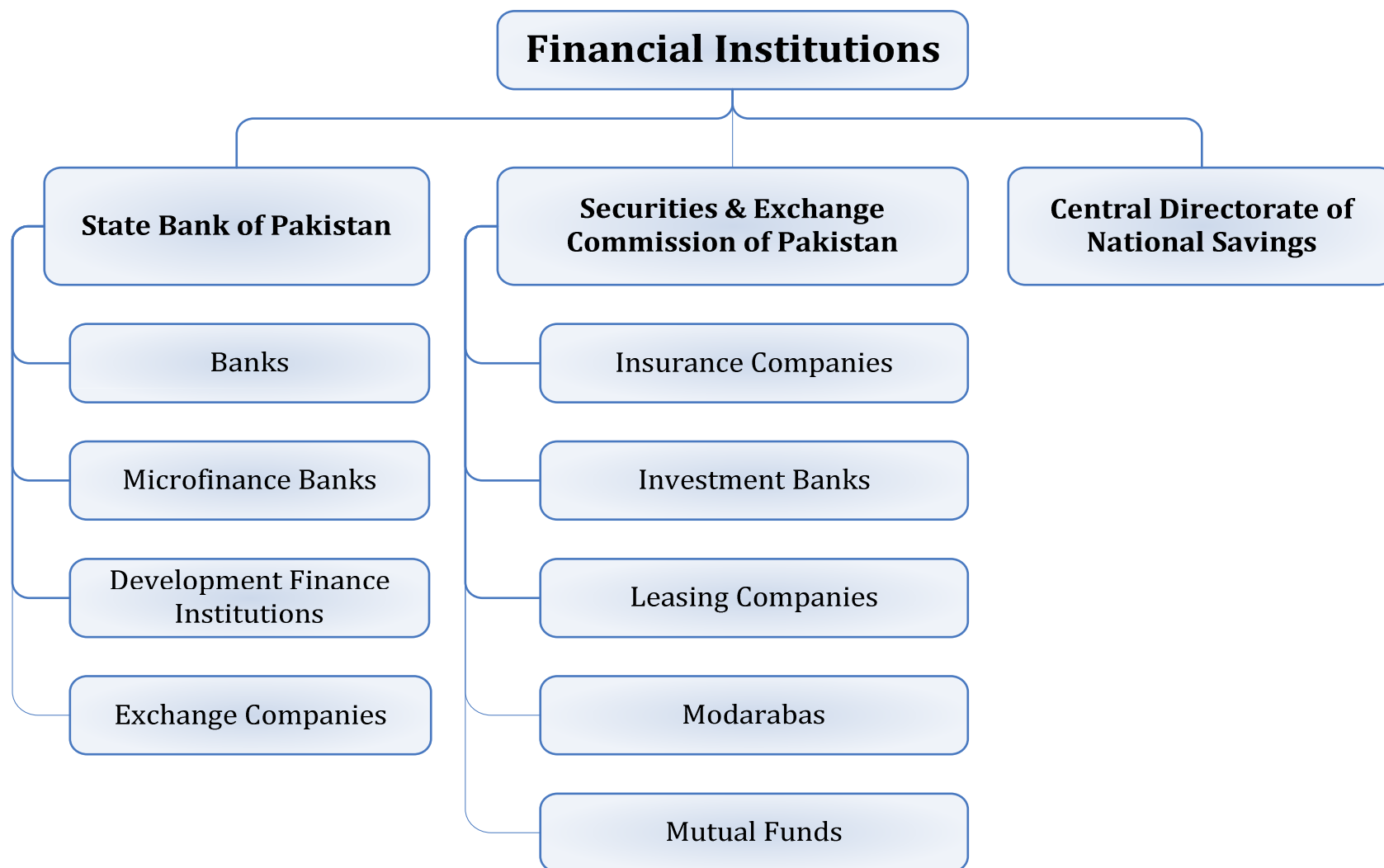


# Structure of Financial System





# Structure of Financial System





## Structure of Financial System-Size

As on March 31,2015	Number	(PKR billion)	% of total Assets
Financial sector (Overall)	335	14,381	100%
(percent of GDP)		53%	
Banking system:	37	12,528	87%
State-controlled banks	5	2,224	15%
Local private banks	22	9,854	69%
Foreign banks (branches)	6	264	2%
Other-Specialized Banks	4	186	1%
Nonbank financial institutions:	298	1,853	13%
DFIs	8	183	1%
MFBs	10	71	0%
Investment companies	7	10.48	0%
Insurance companies	52	881	6%
Others	239	708.2	5%
GDP at market prices (PKR billion)		27,384	
Source: SBP- <a href="http://www.sbp.org.pk/ecodata/fsi.asp">http://www.sbp.org.pk/ecodata/fsi.asp</a> & SECP <a href="http://secp.gov.pk/SCD/scd_mss.asp">http://secp.gov.pk/SCD/scd_mss.asp</a>			



# Structure of Financial System-Banking Sector

Indicators	CY11	CY12	CY13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Key Variables	PKR Billion							
Total Assets	8,171	9,711	10,487	10,752	11,115	11,129	12,106	12,528
Investments (net)	3,055	4,013	4,313	4,662	4,512	4,717	5,310	5,954
Advances (net)	3,349	3,804	4,110	4,014	4,189	4,209	4,447	4,336
Deposits	6,244	7,294	8,311	8,151	8,774	8,740	9,230	9,236
Borrowing	675	1,027	723	1,006	719	759	1,001	1,377
Equity	784	882	943	956	976	1,002	1,207	1,248
Profit After Tax (ytd)	112	118	112	33	74	115	163	52
Non-Performing Loans	592	615	607	602	595	608	605	620
Non-Performing Loans (net)	182	176	139	134	122	136	122	123
Key FSIs	(percent)							
NPLs to Loans (Gross)	15.7	14.5	13.3	13.4	12.8	13.0	12.3	12.8
Net NPLs to Net Loans	5.4	4.6	3.4	3.3	2.9	3.2	2.7	2.8
Net NPL to Capital	23.1	19.9	14.7	14.0	12.5	13.6	10.1	9.8
Provision to NPL	69.3	71.5	77.1	77.8	79.5	77.6	79.8	80.2
ROA (Before Tax)	2.2	2.0	1.6	1.9	2.1	2.2	2.2	2.6
CAR	15.1	15.6	14.9	14.8	15.1	15.5	17.1	17.4
Advances to Deposit Ratio	53.6	52.2	49.5	49.2	47.7	48.2	48.2	46.9

Note: Statistics of profits are on year-to-date (ytd) basis.

Source: <http://www.sbp.org.pk/ecodata/fsi.asp>



## Structure of Financial System- DFIs

Indicators	CY11	CY12	CY13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Key Variables	PKR Billion							
Total Assets	144	140	149	151	165	171	176	182
Investments (net)	81	79	79	85	94	106	108	116
Advances (net)	47	46	45	47	47	47	49	50
Deposits	12	14	9	12	12	13	15	13
Borrowing	65	58	67	65	73	77	74	80
Equity	59	60	63	63	69	71	76	77
Profit After Tax (ytd)	1	0	4	1	3	4	7	2
Non-Performing Loans	16	18	17	17	17	17	15	15
Non-Performing Loans (net)	7	7	6	6	5	5	4	4
Key FSIs	(percent)							
NPLs to Loans (Gross)	29.3	31.8	30.0	29	29	29	25	25
Net NPLs to Net Loans	14.4	14.7	12.2	67	69	69	75	75
Net NPL to Capital	11.3	11.6	9.1	12	11	11	8	8
Provision to NPL	59.4	63.1	67.5	9	8	7	5	5
ROA (Before Tax)	1.9	0.9	3.6	4.1	4.7	4.6	5.4	5
CAR	159.5	55.2	50.3	50.1	44.4	44.9	44.8	46
Advances to Deposit Ratio	386	340	506	380	405	366	324	384

Note: Statistics of profits are on year-to-date (ytd) basis.

Source: <http://www.sbp.org.pk/ecodata/fsi.asp>



## Statutory Mandate

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Preamble “.....State Bank to regulate the monetary and **credit system of Pakistan** and to foster its growth...”

Section 9-A: The Central Board shall, in order to secure monetary stability and **soundness of the financial system** (a) Formulate and monitor monetary and credit policy ....

(SBP Act, 1956)





# Legal & Regulatory Framework

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- Primary laws/legislations
- Prudential Regulations (Corporate/Commercial, SME, Consumer, Agriculture and Microfinance)
- Guidelines (Licensing, Risk Management, Customer Complaints, Branchless Banking etc.)
- Circulars and Instructions (Capital Requirements-MCR-CAR, Disclosure of Financial Statements, Customer Facilitation)
- A comprehensive supervisory mechanism
- Consumer Protection

# Statutory Mandate-

## Supporting Legal Framework



### ■ Legal Framework

- The SBP Act, 1956
- The Banking Companies Ordinance, 1962(BCO)
- The Banks (Nationalization) Act, 1974
- Microfinance Institutions Ordinance, 2001(MFIO)
- Payment System & Electronic Fund Transfer Act, 2007
- The Financial Institutions (Recovery Of Finances) Ordinance, 2001
- Anti Money Laundering Act, 2010
- Foreign Exchange Regulations Act

### ■ Key Legal Powers

- Licensing of banking companies (section 27 of BCO and 13 of MFIO)
- Power of the State Bank to give directions (section 41 of BCO and 22 of MFIO)
- Inspection (section 40 of BCO and 21 of MFIO)
- Monitoring and surveillance (various sections)
- Enforcement(various sections)



# Structure of Banking Cluster

## Banking Policy and Regulation Group

- Banking Policy and Regulations Department
- Exchange Policy Department
- Islamic Banking Department

## Banking Supervision Group

- Off-site Supervision and Enforcement Department
- Banking Inspection Department-I
- Banking Inspection Department-II
- Consumer Protection Department

## Development Finance Group

- Islamic Banking Department
- Agriculture Credit and Microfinance Department
- SME Finance, Infrastructure and Housing Finance Department



# Supervisory Framework

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- ▶ SBP uses CAMELS system for supervision of banks; commonly used in a number of other regulatory jurisdictions.
- ▶ Key Elements of Supervisory Framework
  - ▶ On-site Inspection
  - ▶ Off-site Surveillance
  - ▶ Financial System Assessment
  - ▶ Other sources
- ▶ Outcomes of Supervisory Assessment
  - ▶ Enforcement Actions
  - ▶ Bank Resolution



# Supervisory Framework

**CAMELS FRAMEWORK:** A risk rating system that measures risk within a bank based on quantitative and qualitative analysis.

Component	On-site	Off-site
C: Capital	✓	✓
A: Asset Quality	✓	✓
M: Management	✓	X
E: Earnings	✓	✓
L: Liquidity	✓	✓
S: Systems and Controls	✓	X
S: Sensitivity to other risks	X	✓

# Supervisory Framework- Off-Site Supervision and Enforcement



## Continuous Supervision of individual banks

- ▶ Inspection findings
- ▶ Quarterly assessment on CAELS framework
- ▶ Periodic surveillance of banks through Monitoring of liquidity, Asset quality indicators, and stress testing of individual banks
- ▶ Other Supervisory Assessments
- ▶ Continuous follow-up on the issues of supervisory concern

## Assessment of Financial System

- ▶ Publication of Quarterly Performance Review of Banking System
- ▶ Publication of Financial Stability report on Half yearly basis
- ▶ Uploading quarterly statistics including Financial Soundness indicators of Banks, DFIs and Islamic Banks
- ▶ Stress Testing of banks
- ▶ Preparation of dataset on selected factors e.g. equity investments, large borrowers etc
- ▶ Standalone Studies on Banking Sector Issues



# Financial Consumer Protection

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- ▶ Legal provisions allow SBP to protect the interests of depositors and general public.
- ▶ Institutional arrangement comprise:
  - ▶ Dedicated Consumer Protection Department;
  - ▶ Banks' own consumer complaint cell,
  - ▶ Banking Mohtasib; and
  - ▶ E-CIB Credit Information Bureau
- ▶ General and e-CIB related complaints handling; Major areas include ATMs issues, account operations & deposits, credit cards, personal loans, misbehavior/misconduct of branch officials and remittances.
- ▶ Assistance to Election Commission of Pakistan (ECP) in scrutiny process of candidates contesting General Elections 2013.





# Financial Consumers Protection

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- ▶ Consumer Protection Framework updated regularly through issuance of guidelines and instructions. Some of the recent measures:
  - ▶ Guiding Principles on Fairness of Service Charges
  - ▶ Guidelines for Banking Service to Visually Impaired/Blind Persons
  - ▶ Descriptive note on “Financial Consumer Protection-Beyond Compliance”
  - ▶ Various instructions for curbing mal practices in the offering of products and services by the banks;
    - *Introduction of Enhanced Security Features for Cheques*
    - *Introduction of Credit Card Summary Box*
    - *Consumer Education & Awareness*
  - ▶ Accessibility of Banking Infrastructure for Special Persons.
  - ▶ Capacity building measures for banks and other stakeholders
  - ▶ Regular improvement in separate Regulations for Consumer Finance facilitates for credit risk management as well as minimization of consumer inconvenience.







# Payment Systems

- ▶ In the widest sense, payment systems consist of Systems, Instruments & Channels and technology that facilitate the transfer of money to the widest range of users.

## Systems

- Clearing Houses for cheques and electronic payments,
- Real Time Gross Settlement System,
- Shared ATMs Network; 1Link & M-net
- Branchless Banking, SWIFT etc

## Instruments

- Cheques, Pay Orders, Demand Draft, Telegraphic Transfers, Money Transfers, Plastic Cards (ATMs ,Debit, Credit and Prepaid Cards)

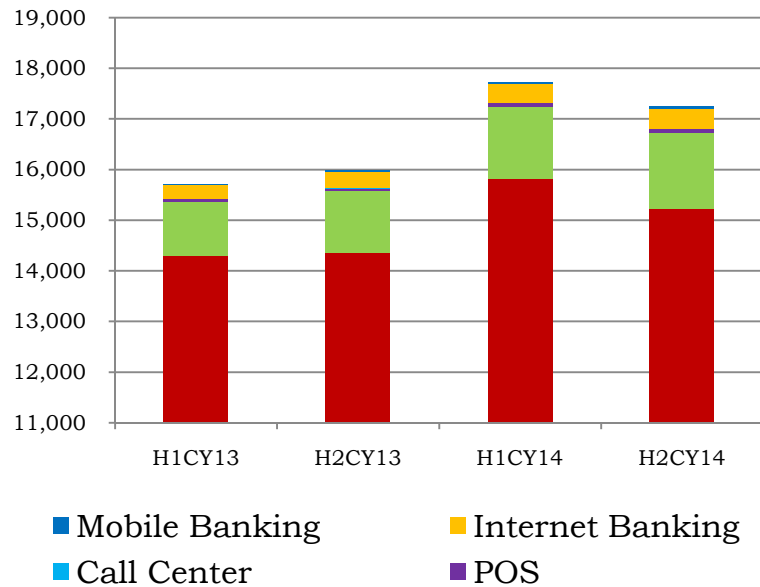
## Channels

- Banks,
- Real time online Branches(RTOB),
- ATMs,
- Internet & Mobile Banking

# Payment systems- E-Banking volume and Infrastructure



Value of E-Banking Transactions (PKR billion)



Payment Systems Infrastructure - Quarter Wise

S. No	Infrastructure	1st Quarter FY14	2nd Quarter FY14	3rd Quarter FY14	4th Quarter FY14(P)
1	Automated Teller Machines (ATMs)	6,823	7,684	8,016	8,240
2	Point of Sale (POS) Machines	33,741	33,734	33,802	34,428
3	ATM Only Cards	957,769	996,161	958,229	957,807
4	Credit Cards	1,341,917	1,335,976	1,333,674	1,333,827
5	Debit Cards	20,799,465	20,048,084	22,019,675	23,061,171





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# Thanks

# Legal framework:

Document Name	Web Link
The SBP Act, 1956	<a href="http://www.sbp.org.pk/about/act/SBP-Act.pdf">http://www.sbp.org.pk/about/act/SBP-Act.pdf</a>
The Financial Institutions (Recovery Of Finances) Ordinance, 2001	<a href="http://www.sbp.org.pk/about/ordinance/r_ordinance.htm">http://www.sbp.org.pk/about/ordinance/r_ordinance.htm</a>
The Banks (Nationalization) Act, 1974	<a href="http://www.sbp.org.pk/1_frame/BanksNationalizationAct1974.pdf">http://www.sbp.org.pk/1_frame/BanksNationalizationAct1974.pdf</a>
The Banking Companies Ordinance, 1962	<a href="http://www.sbp.org.pk/publications/prudential/ordinance_62.pdf">http://www.sbp.org.pk/publications/prudential/ordinance_62.pdf</a>
National Accountability Ordinance	<a href="http://www.sbp.org.pk/1_frame/NAB_Ord_1999.pdf">http://www.sbp.org.pk/1_frame/NAB_Ord_1999.pdf</a>
Payment System & Electronic Fund Transfer Act, 2007	<a href="http://www.sbp.org.pk/psd/2007/EFT_Act_2007.pdf">http://www.sbp.org.pk/psd/2007/EFT_Act_2007.pdf</a>
Anti-money Laundering Act 2010	<a href="http://www.sbp.org.pk/about/act/Anti-Act-2010.pdf">http://www.sbp.org.pk/about/act/Anti-Act-2010.pdf</a>
Pakistan Coinage Act	<a href="http://www.sbp.org.pk/about/act/PakistanCoinageAct-906.pdf">http://www.sbp.org.pk/about/act/PakistanCoinageAct-906.pdf</a>
The Negotiable Instruments Act, 1881	<a href="http://www.sbp.org.pk/about/act/Negotiable%20InstrumentsAct-1881.pdf">http://www.sbp.org.pk/about/act/Negotiable%20InstrumentsAct-1881.pdf</a>
Foreign Exchange Regulations Act	<a href="http://www.sbp.org.pk/fe_manual/appendix%20files/appendix%201/appendix1.htm">http://www.sbp.org.pk/fe_manual/appendix%20files/appendix%201/appendix1.htm</a>

