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## State Bank issues Branchless Banking Regulations

The State Bank of Pakistan has issued Branchless Banking (**BB**) Regulations, which will be applicable to all banks including Islamic and Microfinance banks with immediate effect, with a view to encouraging innovation and increasing outreach of the banking system.

The objectives of these Regulations are to define Branchless Banking activities as a new delivery channel to offer banking services in a cost effective manner; to broadly outline activities which constitute **BB** and to provide a framework for offering **BB** services and to serve as a set of minimum standards of data & network security, customer protection and risk management to be followed by the banks desirous to offer mobile banking services.

According to these regulations, only authorized Financial Institutions (FIs) can provide Branchless Banking services. Before applying for such an authorization, FIs should thoroughly prepare themselves in the light of these regulations. The process should start from top level strategic decision of entering into branchless banking activities. Once the decision is made, preparation of necessary policies & procedure manuals, strengthening of existing risk management & audit functions as required and identification of partners, service providers and agents should be done. The FI may then approach SBP for a formal authorization to conduct **BB**.

Banks wishing to provide branchless banking services or to bring in substantial changes in underlying technological infrastructure shall submit to the State Bank, an application describing the services to be offered / infrastructure modifications and how these services fit in the bank's overall strategy. This shall be accompanied by a certification signed by FIs President/CEO to the effect that the FI has complied with the some minimum pre-conditions including; an adequate risk management process is in place to assess, control, monitor and respond to potential risks arising from the proposed branchless banking activities; a manual on corporate security policy and procedures exists that shall address all security issues affecting its branchless/e-banking system, in line with these regulations; a business continuity planning process and manual have been adopted which should include a section on electronic banking channels and systems.

These regulations have been issued as part of the broader strategy to create enabling regulatory environment to promote Bank-led Model of branchless banking. However, as financial institutions cannot take on **BB** without the help of other market players like telecom companies, technology service providers, agents etc., knowledge of these regulations is also helpful for other parties to understand their roles and responsibilities.

Under these regulations, permissible **BB** models and activities have been outlined. At present only bank-led model of branchless banking is allowed at present which may be implemented in different ways. Firstly, it can be implemented either by using agency arrangements or by creating a joint venture between Bank and telecom firm/non-bank. Further, the mobile phone banking which make up for large part of branchless banking can be implemented by using one-to-one, one-to-many and many-to-many models or

alternate channels. It is the responsibility of the FI to carry out detailed analysis of pros and cons of each model before offering any of them.

In addition, these regulations also prescribed several **BB** activities including opening and maintaining a **BB** Account, account-to-account fund transfer, person-to-person fund transfers, cash-in and cash-out, bills payment, merchant payments, loan disbursement/repayment and remittances. A risk-based approach to customer due diligence is outlined to optimize the gains of Branchless Banking and to extend financial services outreach to the unbaked strata of the society.

However, the ultimate responsibility for branchless banking lies with the FI. FI may, however, take steps it deems necessary to safeguard itself against liabilities arising out of the actions of its agents, service providers or partners. Within the FI, Board of Directors (BOD) is responsible for strategic decisions, senior management for effective oversight and compliance and audit functions for ensuring soundness of internal controls and adherence to rules, regulations and operational guidelines.

Under these regulations, BOD and Senior Management of banks must ensure that the scope and coverage of their internal audit function has been expanded to commensurate with the increased complexity and risks inherent in branchless banking activities and the Audit department has been staffed with personnel having sufficient technical expertise to perform the expanded role. It is also incumbent upon the BOD and FIs' senior management to take steps to ensure that their FIs have updated and modified where necessary, their existing risk management policies and processes to cover their current or planned branchless banking services. The integration of branchless banking applications with legacy systems implies an integrated risk management approach for all banking activities.

These regulations also deal with consumer protection and consumer awareness. Appropriate customer protection against risks of fraud, loss of privacy and even loss of service is needed for establishing trust among consumers as trust and customer confidence is the single most necessary ingredient for growth of **BB**. As banks will be dealing with a large number of first-time customers with low financial literacy level, they need to ensure that adequate measures for customer protection, awareness and dispute resolution are in place.

Likewise, customer awareness is a key defense against fraud and identity theft and security breach. Customer awareness program should cover, at minimum, usage of Branchless-Banking account, account activities and protection against fraud, SIM/account blocking procedures in case of mobile is lost / snatched. To be effective, banks should implement and continuously evaluate their customer awareness program. Methods to evaluate a program's effectiveness include tracking the number of customers who report fraudulent attempts to obtain their authentication credentials (e.g., ID/password), the number of clicks on information security links on websites, the number of inquiries, etc. (For complete text of **BB** Regulations, please visit our website [www.sbp.org.pk](http://www.sbp.org.pk) )

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