

October 20, 2014

**SBP ISSUES GUIDELINES FOR STRENGTHENING OF INTERNAL CONTROLS IN PAYMENT INSTRUMENTS**

In view of the inherent operational risks in processing, cancellation and issuance of Payment Order/Demand Draft/Cash Deposit Receipt/Banker's Cheque, ( collectively referred as the Payment Instruments); it has been decided that henceforth the banks/MFBs shall strictly observe the following controls, in addition to those already in place for the purpose:

According to CPD Circular letter No 05 of 2014, before processing the request for purchase of the Payment Instruments, the banks/MFBs shall ensure that the purchaser has properly narrated the name, Computerized National Identity Card Number/Smart National Identity Card Number, National Tax Number (for corporate entities), complete address, and contact details of both the purchaser and the beneficiary in the Payment Instrument purchase form; and described the purpose for which the Payment Instrument is required.

Before issuance of Duplicate Payment Instrument, the banks/MFBs shall obtain from the purchaser; Police Daily Diary Report No./copy of the FIR regarding loss of the original Payment Instrument; affidavit on non judicial stamp paper to the effect that original Payment Instrument has been lost before its delivery to the intended beneficiary, wherein he/she shall provide indemnity bond favoring the bank/MFB against all claims, suits, proceedings, actions, costs, losses, charges and expenses, which may arise against or suffered by the bank/MFB in consequence of paying the amount of the Payment Instrument. The related format may also be got vetted from the bank's Legal advisor/Legal Department.

The banks/MFBs shall immediately mark the original Payment Instrument as "CANCELLED" in the system before issuance of duplicate Payment Instrument to the purchaser; specifically mark the subsequent Payment Instrument as "DUPLICATE".

The banks/MFBs shall prescribe limits on the amount of Payment Instrument that may be subjected to the following requirements for cancellation/refund of Duplicate Payment Instrument: lawful discharge of the beneficiary for cancellation/refund of the Duplicate Payment Instrument in favor of the purchaser; the purchaser's undertaking as to the genuineness of the beneficiary's discharge in the Payment Instrument cancellation/refund request. The banks/MFBs shall promptly process request for cancellation/refund of the Payment Instruments where: no Duplicate Payment Instrument, irrespective of any amount, has been issued; the purchaser is the holder of the original Payment Instrument.

The banks/MFBs shall devise a standardized Payment Instrument Verification Form; upon request from the beneficiary(ies), verify the genuineness of the Payment Instrument along with other related details (number, amount, date, beneficiary/purchaser detail, etc.) free of cost/service charges; retain a copy of the Payment Instrument Verification Form in line with record retention policy; put in place stringent internal controls for printing, stock taking, issuance and storage of stationery used for printing of the Payment Instruments. All these arrangements shall be subject to regular review by the Internal Audit of the banks/MFBs; customize and adopt the security features for printing of the Payment Instruments as prescribed for printing of cheques by the State Bank of Pakistan from time to time; make available Instant Verification Markers at branches as well as at all clearing units whereby authenticity of the Payment Instruments, for an amount over a limit to be specified by the banks/MFBs, is to be verified;

endeavour to immediately resolve the disputed Payment Instruments transactions in accordance with applicable laws/rules/regulations and banks'/MFBs' own policies.

The banks/MFBs shall adhere to above instructions in letter and spirit. Any deviation or non-compliance of the above instructions shall attract punitive action against delinquent banks/MFBs under the relevant provisions of the laws.

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