



External Relations Department

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SBP issues revised Prudential Regulations for Consumer Financing

State Bank of Pakistan (SBP) has revised the Prudential Regulations for Consumer Financing with an aim to promote consumer financing in sustainable and fair manner while ensuring financial stability of the banks/DFIs. The revised regulations provide more discretion in decision making to banks/DFIs in line with their dynamic business environment.

It may be mentioned here that SBP periodically reviews its regulatory framework in order to align it with changing business environment and international best practices.

Under these regulations, amongst others, banks/DFIs are advised to develop common glossary of Important Terms and all banks will use these important terms in their loan documentation. The development of common nomenclature of Important Terms will not only complement the disclosure requirements of terms & conditions but will also facilitate the general public to better understand the terms of the loans and perform a meaningful comparison of the financing products offered by different banks.

Banks/DFIs have also been advised to initiate assessments for introduction of differentiated loan pricing in all consumer financing products, which inter-alia should be sensitive to loan product characteristics, borrowers' risk assessment, timely regular repayments and exemplary behavior

Banks/DFIs maintain general provision against performing consumer financing portfolio to protect them from the risks associated with the economic cyclical nature of this business. The revised regulations introduce tiered base general provision requirement linked with gross non performing loan ratio (GNPLR) of the banks/DFIs. The regulation aims to incentivize banks/DFIs which have lower GNPLR and promote better risk management practices. Banks/DFIs have been allowed six months time to achieve compliance with new or revised regulations.
