



External Relations Department

ERD/M&PRD/PR/01/2021-29

March 26, 2021

SBP Develops Digital Bank Regulatory Framework Draft for Public Consultation

State Bank of Pakistan (SBP) has developed a Digital Bank draft Regulatory Framework for public consultation. The proposed Framework has been shared with the industry and placed on the SBP's website (at <https://www.sbp.org.pk/dfs/Digital-Bank-Regulatory.html>) for feedback. It is the outcome of an extensive study of international regulatory and industry best practices across several key themes in over 15 countries where digital banks or similar institutions operate in some form. A digital bank serves customers primarily through digital/electronic channels without having brick and mortar branches like traditional banks. SBP's goal is to provide an appropriate framework for the operation of Digital Banks in Pakistan. This initiative is part of the SBP's comprehensive efforts to promote digital financial services in Pakistan including, Roshan Digital Accounts (<https://www.sbp.org.pk/rda/index.html>), Raast faster payment system (<https://www.sbp.org.pk/dfs/Raast.html>), EMI licenses and operation (<https://www.sbp.org.pk/dfs/Players.html#c>), and other initiatives.

The proposed Framework entails Guidelines for Licensing, and Supplementary Regulations for Digital Banks. It sets out different types of digital bank licenses, constitution models, minimum eligibility criteria and competencies for sponsors; directors; and CEOs. This indigenous regulatory framework is designed to enable the industry exploit market demand and opportunities without compromising the safety and soundness of the financial system. Moreover, it also provides for investor-friendly, first-of-its-kind flexible requirements in Pakistan.

It merits mentioning here that Digital financial services in Pakistan are undergoing a progressive transformation journey, propelled by deep-rooted reforms and other enabling adjustments, instituted by SBP. Recent initiatives in this regard entail introduction of Electronic Money Institutions (EMIs), National Payment System Strategy (NPSS), instant payment system (RAAST), and Roshan Digital Account (RDA) etc. SBP initiated working on introduction of a separate framework for digital banks along the lines of regional regulatory trends with the key objectives to explore further avenues for financial inclusion, credit access to unserved and underserved, better customer experience, innovation in banking, and an inclusive digital ecosystem.

Key features of the proposed Framework include two types of digital banks: (i) Digital Retail Bank (DRB), a uniquely designed category for retail customer segments, and (ii) Digital Full Bank (DFB); minimum three years transition period for DRB, from commercial launch with certain business conditions and a minimum two years progression for DFBs from the grant of DFB license.

For DRB, initial Minimum Capital Requirement (MCR) is Rs. 1.5 billion for the pilot stage and Rs. 2.0 billion at commercial launch whereas total MCR is Rs. 4.0 billion with remaining Rs. 2.0 billion to be met gradually over the transition period. The proposed Framework encourages sponsors to pursue collaborative investment model to promote complementing set of non-bank innovative players. The proposed Framework also provides option for an EMI to transform into a DRB. For customers, access points are primarily digital and electronic



External Relations Department

channels. However, Digital Bank may use sales and service centers, branchless banking agents, other banks' branches for branding, customer complaints and cash transactions etc.

It may be mentioned here that a survey of SBP regulated entities was conducted to seek institutional views broadly around digital bank models, scope of activities, ownership structures, capital implications, eco-system collaborations, technologies and governance considerations. Three purpose-driven industry working groups were also constituted, which have been instrumental in sharing industry perspectives and providing feedback on various elements of this framework.

SBP now invites feedback on this Exposure Draft within 30 days (i.e. by April 25, 2021). Feedback should be sent at the email, feedback.digitalbanks@sbp.org.pk or address below:

Director
Banking Policy & Regulations Department
State Bank of Pakistan
I.I. Chundrigar Road Karachi, Pakistan.
