



External Relations Department

ERD/M&PRD/PR/01/2021-152

January 03, 2022

SBP announces a new era for banking with a Licensing & Regulatory Framework for Digital Banks

With the start of 2022, the State Bank of Pakistan has set the stage for the dawn of a new era for banking in Pakistan with the introduction of a Licensing and Regulatory Framework for Digital Banks in line with international best practice. This is the first step towards introducing a completely digital bank that will provide all the banking services, from account opening to deposit and lending, through digital means and the customers will not need to visit any bank branch physically. Digital banks are the culmination of the digital journey on which the banking industry embarked upon many years ago. The framework for digital banks being issued today is the latest in a series of recent initiatives by the State Bank of Pakistan towards digitalization of banking and payments solution in the country. Other recent digitalization initiatives introduced by SBP, which are gaining traction and have opened new avenues for introducing innovative solutions, include [customers' digital on-boarding](#), [Roshan Digital Account](#), [Raast - Instant Payment System](#), [Electronic Money Institutions licenses](#), [Asaan Mobile Accounts](#).

The newly issued licensing and regulatory framework provides details for setting up digital banks as a separate and distinct category in Pakistan. Digital bank is defined as a bank which offers all kinds of financial products and services primarily through digital platforms or electronic channels instead of physical branches. Under this framework, SBP may grant two types of digital bank licenses: 1) Digital Retail Bank (DRB); and, 2) Digital Full Bank (DFB). DRBs will primarily focus on retail customers while DFBs can deal with retail customers as well as business and corporate entities.

The framework mainly aims to enhance financial inclusion through affordable/cost effective digital financial services and is part of SBP's comprehensive efforts to promote digital financial services in Pakistan. The framework includes guidance regarding licensing requirements, potential sponsors and permissible use-cases during different phases. It also sets an expectation from applicants to have sound digital governance, robust, secure and resilient technology infrastructure, effective data management strategy and practices. As per the framework, digital banks are required to maintain a principal place of business in Pakistan to house the offices of its management, staff, other support operations and serve as the main hub/ point of contact for various stakeholders including SBP and other regulators.

The demand for banking services is also faith sensitive and there is a large market for Sharia compliant services. Over the years the Islamic Banking Industry has established a strong footing and gained a sizable share of the banking industry. Therefore, licenses for DRBs and DFBs may be obtained for both conventional and Islamic variants. Further, conventional variants of DRBs and DFBs may also offer Islamic banking services through Islamic windows as per existing practice.

Setting up digital banks will also require less capital relative to the brick-and-mortar banks currently in existence, encouraging new technology oriented entrepreneurs to enter this new realm of business. Minimum capital requirement for DRBs is set at Rs1.5 billion during the pilot phase that will gradually increase to Rs. 4 billion over a transition period of three years. Subsequent to completion of transition



External Relations Department

phase, DRBs may graduate to receive license of a DFB, subject to fulfillment of minimum capital requirement and completion of a two years progression phase.

SBP has developed and finalized this framework after an extensive consultative process. Earlier this year, SBP released an exposure draft of regulatory framework and a targeted survey was launched to invite feedback from a wide range of local as well as international stakeholders. Subsequently, a number of meetings were also held with all the stakeholders to further enrich the consultative exercise. The said framework covers all the essential guidance and supplementary regulations for a diverse range of possible applicants interested to set up digital bank in Pakistan.

In line with international best practices and assessment of the overall banking situation in Pakistan, SBP has decided to initially issue up to five (5) digital banks' licenses, which essentially means that SBP is looking to attract players with strong value proposition, a robust technological infrastructure, sufficient financial strength, technical expertise and effective risk management culture. Applications, in this regard, will be accepted till March 31, 2022 and applicants intending to apply for digital bank's license under this framework may submit their requests along with all the requisite documents at digitalbanksapplications@sbp.org.pk. However, prior to submission of their application for digital bank licensing, if required, interested applicants may approach SBP for any clarification at digitalbanksqueries@sbp.org.pk. For more information on SBP's digital banking framework see <https://www.sbp.org.pk/dfs/Digital-Bank-Regulatory.html>

SBP expects that a few Digital Banks will be operational in the course of 2022, and is confident that Digital Banks will play an important role in an inclusive and efficient expansion of the financial ecosystem in Pakistan.
