3 Strengthening Financial System Stability and Effectiveness

SBP made further improvements to strengthen the financial stability regime during FY21. Key achievements include: progress towards Macro Prudential Policy Framework (MPPF); development of a consolidated supervision assessment model, adoption of Risk-based Supervision Framework, designing of Lender of Last Resort (LOLR) facility, and revision of stress testing guidelines. SBP also continued progress on the FATF action plan and strengthened its supervisory regime with multi-dimensional efforts to identify and mitigate potential risks in the financial sector, and issued various guidelines to improve effectiveness of its regulatory regime. During FY21, SBP also took measures to improve banking conduct and consumer protection and enhance financial inclusion. In this regard, among a number of other measures, a major initiative was introduction of policy for inclusion of Persons with Disabilities.

3.1 Institutionalization of Financial Stability Framework

3.1.1 Macroprudential Policy Framework (MPPF)

SBP is working towards formulating and implementing a comprehensive and well-structured Macroprudential Policy Framework (MPPF) to ensure system-wide stability of the financial sector. In this regard, SBP has strengthened the process of assessment and communication of systemic risk. Further, to ensure a well-structured institutional setup for MPPF, a National Financial Stability Council (NFSC) has been established in coordination with Ministry of Finance (MoF) and Securities & Exchange Commission of Pakistan (SECP).

3.1.2 Framework for Identification of Domestic Systematically Important Banks (D-SIBs)

SBP, in line with the Basel Committee on Banking Supervision (BCBS) guidelines, issued a framework for regulation and supervision of Domestic Systemically Important Banks (D-SIBs) in Pakistan in April 2018 and carries out its annual assessment for designation of the D-SIBs each year by end June. In the assessment made during FY21, National Bank of Pakistan, Habib Bank Limited and United Bank of Pakistan were designated as D-SIBs.

3.1.3 Strengthening of Stress Testing Framework

SBP uses various stress testing approaches to assess the resilience of banks against hypothetical but plausible extreme scenarios, which include single-factor sensitivity analysis and multi-factor dynamic macro stress tests. SBP over the years has brought improvements in its stress testing framework on regular basis to align it with the best international practices.

To further strengthen the risk management capacity of banks/DFIs, SBP issued revised set of stress testing guidelines in September 2020. The revised guidelines require Microfinance Banks and Islamic Banks/Islamic Bank Branches to conduct sensitivity analysis according to shocks, specifically designed for these institutions. In addition, D-SIBs are now mandatorily required to conduct scenario analysis (Macro-stress testing – MST) and Reverse Stress Testing (RST).

3.1.4 Publication of Financial Stability Review, Mid-Year Performance Review of the Banking Sector and Quarterly Compendium

SBP conducts stability assessment of the financial sector and publishes it annually through its flagship report Financial Stability Review (FSR). Besides covering the performance of the financial system, the review highlights emerging risks and associated vulnerabilities and identifies necessary measures taken to mitigate the risks. The FSR specifically provides assessment on resilience of banking sector to various endogenous and exogenous shocks.

In addition to FSR, SBP also published the Mid-Year Performance Review of the Banking Sector, which addressed the performance and risk analysis of the banking sector for the period January-June 2020. Alongside, SBP continued to disseminate banking sector's data through its regular publication of Quarterly Compendium (QC) Statistics of the Banking System on its website. The compendium includes Financial Soundness Indicators (FSIs) and other statistics of Commercial banks, Islamic banks, Microfinance Banks and Development Financial Institutions.

3.1.5 Systemic Risk Surveys

SBP conducts biannual SBP's Systemic Risk Survey (SRS) to assess the potential risks to the financial system. SRS helps gauge the views of market participants and experts about various existing and emerging risks that can potentially undermine the stability of the financial system.

3.1.6 Strengthening of Consolidated Supervision Framework

SBP has been regularly monitoring the banking sector based on consolidated supervision framework. In this regard, SBP and SECP have set up a dedicated Joint Task Force to monitor and manage the risks posed by financial conglomerates. During FY21, a consolidated supervision assessment model was developed to infuse the element of objectivity and quantification in the assessment and to ensure that all key aspects are covered in a holistic manner.

3.1.7 Crisis Preparedness Initiatives

A well-functioning financial safety net is crucial for preserving and promoting stability of the financial system. The Lender of Last Resort (LOLR) facility is an integral element of financial sector safety net, as it helps a bank in overcoming short-term liquidity strains, preventing any panic behavior among depositors and containing the possibility of bank run and contagion risk. As per the requirement of Section 17-G of the SBP Act, 1956, SBP is working on the development and implementation of an operational framework for the LOLR facility.

3.1.8 Cooperation in Banking Supervision

To share information and contribute to various regional and international studies, SBP participated and provided feedback on various international surveys and consultative documents. SBP updated the 2020 IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) and also participated in the Fund Macroprudential policy survey. The Macroprudential Policy survey collects information on institutional aspects of the Macroprudential Policy Framework in member countries and measures that have been adopted for containing systemic risk. Moreover, SBP also participated in FSB Regional Consultative Group for Asia (RCG Asia) Conference Call in

May 2021, where risks to financial stability arising from COVID-19 pandemic and the challenges to recovery were discussed.

3.2 Supervisory Developments

3.2.1 Development and Implementation of Risk Based Supervision Framework

SBP made a paradigm shift in its supervisory approach with the development and implementation of Risk Based Supervision (RBS) Framework that replaced the framework based on CAMELS/ CAELS methodology. All the regulated entities under SBP's supervisory ambit are now assessed under RBS regime. The framework was developed in collaboration with Toronto Centre (TC) under the Long Term Country Engagement (LTCE) program. SBP's RBS framework follows the international best practices and has been aligned with local industry dynamics. RBS, being a forward-looking framework, would help in better understanding of regulated FI's risk profile with reference to both external and internal risks. This will facilitate the supervisors in early identification of problems, efficient deployment of supervisory resources towards more risky areas and articulating prompt and specific responses to financial stress. For achieving the core objectives of RBS framework, onsite and offsite supervisory functions at SBP have been integrated and aligned with the supervisory structure, as followed by other jurisdictions as well under the RBS regime.

3.2.2 Financial Action Task Force (FATF) Action Plan and Pakistan's Mutual Evaluation

Pakistan is currently reporting progress under FATF Action Plan and the recommended actions, as envisaged under Pakistan' Mutual Evaluation Report (MER). In line with GoP's high level commitment to comply with international AML/CFT standards and requirements, Pakistan has further strengthened its AML/CFT regime in light of its engagement with FATF.

The details of regulatory, supervisory and other prominent actions taken by SBP – as suggested under the FATF Action Plan and MER - are mentioned below:

SBP AML/CFT Regulatory Regime

- In the light of Pakistan's Mutual Evaluation and subsequent amendments in the Anti Money Laundering Act, 2010, SBP has revised the AML/ CFT/ CPF Regulations. The requisite standards have been incorporated in to these regulations to the satisfaction of international assessors of Asia Pacific Group – the FATF styled Regional Body (FSRB). These regulations provide further clarity on implementation of AML/CFT/CPF requirements on different issues such as Risk Based Approach, Customer Due Diligence, Reliance on Third Party, and Targeted Financial Sanctions etc.
- SBP issued detailed guidelines to Regulated Entities (REs) for enhancing the understanding and effective implementation of Targeted Financial Sanctions Regime under UNSC Resolutions.
- SBP in coordination with SECP ensured completion of FATF Action Plan items pertaining to financial sector in Oct 2020.
- The significant improvement in Pakistan's technical compliance ratings, with regard to FATF 40 Recommendations, has been achieved. Pakistan has achieved rating of <u>Compliant</u> or <u>Largely Complaint</u> on 35 Recommendation including some of the important recommendations such as money laundering offence, terrorist financing offence, customer due diligence, record keeping,

suspicious transaction reporting, Politically Exposed Persons, regulation and supervision of financial institutions etc.

- Pertinent to mention that technical compliance ratings for Recommendations 14 – Money and Value Transfer Services (MVTS) and Recommendation 32 – Cash Couriers have been revised to Compliant and Largely Compliant from earlier ratings of Partially Compliant respectively.
- Previously, the exchange companies were allowed to export foreign currencies through individual cash couriers. In view of emerging AML/CFT standards and to further streamline the business of Exchange Companies, the export of foreign currencies was allowed on consignment basis only through Cash in Transit (CIT) companies. This initiative would address the vulnerability of cash smuggling under the garb of regulatory permissions.
- Moreover, significant outreach, awareness, and capacity building sessions have been arranged by SBP to increase the understanding of SBP regulated entities and its supervisory staff concerning ML/TF risks, AML/CFT, and TFS obligations.

Supervisory Actions

- Updated AML/CFT/CPF Inspection Manual to incorporate relevant developments in light of FATF recommendations.
- Developed red flag indicators to identify the persons acting on behalf or at the direction of proscribed/designated persons or entities. The red flag indicators were also shared with the regulated entities for effective identification of such persons.
- Conducted on-site inspections, including two thematic inspections, designed to capture emerging risks, i.e., the risk of proliferation financing and the risk associated with the accounts of proscribed entities.
- Ascertained the level of compliance of the financial groups in the banking industry with FATF's requirements on group supervision.
- Revised AML/CFT penalty scale in light of the sanctions rules under amended AML Act by applying principle of proportionality based on size and economic importance of the regulated entities.
- The risk assessment of Branchless Banking Channel has been carried out in February-March 2021, as part of National Money Laundering/ Terrorist Financing Risk Assessment, identifying vulnerabilities and their associated controls. Further, SBP conducted awareness and capacity building sessions for its Regulated Entities to increase understanding of ML/TF risks and AML/ CFT obligations.

Other Measures

- In addition, SBP officials remained part of several committees, both at national and multi organizational levels, to contribute for the national requirements. SBP efforts played an important role in achieving compliance with remaining actionable items under the FATF's Action Plan and helped Pakistan implement the recommended actions.
- SBP has contributed significantly in National Risk Assessment (NRA) activities for improving understanding of ML/TF risk and update of different laws for strengthening of AML/CFT legal regime at national level.

- The Asia Pacific - Joint Group (AP - JG) rated Pakistan's performance against action items pertaining to illegal Money and Value Transfer System (MVTS) as largely addressed during their review published in February 2021.
- The progress on curbing illegal Hawala Hundi has been achieved through active coordination between SBP, Federal Investigation Agency (FIA) and other related stakeholders. Pakistan demonstrated performance through legal amendments, active inter agency cooperation, improvement of internal governance and actions, international cooperation, awareness raising campaigns and capacity building initiatives.
- SBP is ensuring effectiveness in implementation of Targeted Financial Sanctions (TFS) area in collaboration with Ministry of Foreign Affairs (MoFA) and National Counter Terrorism Authority NACTA Pakistan (NACTA).
- In the area of Financial Intelligence, the active coordination between State Bank and Financial Monitoring Unit (FMU) has assured effectiveness of regulatory beef up, and supervisory actions.

3.2.3 Cybersecurity Assessment Framework

A risk-based cybersecurity inspection framework was developed to strengthen and improve the supervisory oversight on cyber risk of the banking industry. The framework was developed after considering various cybersecurity related standards and best practices. The framework comprises methodologies for assessment of inherent cyber risk and related quality controls.

3.2.4 Supervisory Methodology for Assessment of Credit Bureaus

To perform supervisory oversight over private sector credit bureaus, 'Risk Based Supervisory Framework for Credit Bureaus' was developed. The framework includes parameters for assessment of risks and related control functions in line with SBP's overall risk based supervisory philosophy. The framework also includes formats and data reporting templates, specific to credit bureaus.

3.2.5 Parallel Run of Inspection Workflow under Knowledge Management (KM) project

Parallel run of Inspection Workflow system under Knowledge Management project started with five Regulated Entities (REs). The workflow allowed inspection departments to effectively manage inspection assignments while maintaining electronic record of all steps involved in the process, starting from formation of inspection teams, assignment of roles & responsibilities, issuance of inspection directives, receiving information from selected REs, issuance of draft and final inspection reports, processing points of contest on draft inspection reports and managing compliance reports.

3.2.6 Implementation of Bank Space

A private cloud service was activated under KM Project to address the challenges of data collection from REs for inspection purposes. The features available in Enterprise Content Management system of SBP were utilized for developing an in-house private cloud service for REs, named as Bank Space. The said service was fully isolated from the internal systems, with adequate security controls allowing REs to directly upload data on Bank Space, accessible to inspection teams. Both the REs and inspection teams can access Bank Space over the internet from in and outside of their organizations.

3.2.7 Red Flag System for Assessment of Foreign Exchange Operations

Red flag system for assessment of FX operations of REs was developed to complement RBS. The system aims to identify the red flags triggered by regulatory breaches, violations of FE regulations, applicable Government's Acts and notifications. With the help of data analytics, risky areas would be identified to assist in developing risk profile of the REs in trade and FE operations.

3.2.8 Revision of RACER Framework

Risk Assessment and Control Evaluation Regime (RACER) for inspection of Exchange Companies (ECs) was developed in 2016 and revised in January 2019. However, in order to broadly align it with RBS framework, revision of RACER was undertaken. The revised framework for ECs is aligned with overall RBS framework for both on-site and off-site assessments. The supervisory framework covers assessment of money laundering/terrorist financing risk, legal and regulatory non-compliance risk and operational risk as well as assessment methodologies for operational management, governance, internal audit, compliance, earnings and capital to determine composite risk rating of the ECs.

3.2.9 Study of Supervisory Approaches/ Practices in various Jurisdictions on Enforcement Regime

In view of supervisory transition towards RBS framework and in the backdrop of FATF action plan, a project was undertaken to propose way forward for the SBP's enforcement regime. In this regard, seven jurisdictions were selected including developed and developing economies. A comparative analysis was carried out based on eleven aspects/ parameters, grouped into three broad categories of legal mandate and scope, supervisory methodology and transparency, and market discipline.

3.2.10 Revision of Penalty Scale for Exchange Companies

Penalty scale for Exchange Companies was revised for rationalizing the penalty amounts considering the nature of violations and size of companies. The revised scale has increased emphasis on administrative actions especially for flagrant violations of SBP instructions.

3.2.11 Revision of Off-site Supervisory Framework for Exchange Companies

The off-site supervisory framework for Exchange Companies was revised keeping in view nature of business of the sector as well as size, scope, availability of financial data, etc. of the ECs. This updated framework provides enhanced information on each company and its governance structure. Similarly, the framework assesses the company's quality of compliance along with its financial performance for a particular financial year.

3.2.12 Development of Compendium/Reference Document of the Enforcement Actions & Case Studies on Past Resolutions of Problem REs

To ensure availability of major resolution/ enforcement actions taken by SBP, a project titled "Development of Compendium/Reference Document of the Past Enforcement Actions & Case Studies on Past Resolutions of Problem REs" was initiated. The compendium / reference document would serve as a reference, especially for the officials involved in the enforcement and resolution of problem REs.

3.2.13 Revised Guidelines for Transfer and Assignment of NPAs to Corporate Restructuring Companies

SBP and the banking industry joined hands to create Pakistan Corporate Restructuring Company Limited under Corporate Restructuring Companies Act 2016. Corporate Restructuring Companies (CRC) acquire, restructure and resolve the non-performing assets (NPAs) of financial institutions and thereby reorganize and revive the commercially or financially distressed companies. These companies are expected to evolve as vibrant economic agents contributing towards the revival of sick industrial units and generating employment opportunities. Consequent to the amendments in the Corporate Restructuring Companies Act 2016 during the year under review, the SBP's guidelines for the transfer and assignment of non-performing assets to CRCs were revised so that the Banks/DFIs may appoint CRCs as their agent under an agency agreement to recover their NPAs.

3.3 Supervisory Activities

SBP performs offsite monitoring and onsite assessment to assess the safety and soundness of the financial institutions as well as their compliance with applicable laws and regulations. Despite COVID-19 pandemic, offsite monitoring and enforcement activities were conducted on regular basis whereas onsite assessments were carried out as per approved annual plan. Moreover, additional assignments were also undertaken based on nature and severity of the issues.

3.3.1 Thematic Inspections

Thematic inspection is a supervisory tool which focuses on assessment of risk in a particular business activity across banking industry. Onsite thematic inspections are used to identify inherent risks due to non-compliance with regulatory regime or adverse practices in specific area across industry and to facilitate issuance of further guidance or direction to the industry in addition to enforcement action against non-compliant institutions.

In this regard, thematic inspections of 'Consumer Grievance Handling Mechanism' and 'Call Center Management' were conducted. The main objectives of thematic inspections were to review the overall process of consumer grievance handling mechanism including oversight role of board/senior management, adequacy and effectiveness of banks' policies and procedures and functions of complaint & call center management.

3.3.2 Special Inspections and Assignments

- **Monitoring effectiveness and implementation of COVID-19 support measures**

Pursuant to SBP's announcement of loan deferment and restructuring scheme in the wake of COVID-19, a cross functional committee was formed to monitor effectiveness and ensure smooth implementation of the scheme. For regular monitoring, statistics related to the scheme were prepared and updated on weekly basis. Issue concerning the unapproved cases were duly analyzed and discussed with Regulated Entities (REs) for possible resolution.

- **Monitoring of COVID-19 cases in Financial Institutions**

SBP monitored the daily position of COVID-19 positive cases in banks, DFIs and MFBs and used this information to engage with REs for assessing compliance with COVID related SOPs. Moreover, special inspections were conducted to ascertain the adherence with the SOPs in randomly selected branches.

3.4 Strengthening Regulatory Framework

3.4.1 Policy Reforms for promotion of Real Estate and Housing Sector

To boost activities in real estate, housing and construction sector, SBP has undertaken the following measures:

- Banks/DFIs have been allowed to make investments in Real Estate Investment Trusts (REITs) up to 15 percent of their equity against the existing limit of 10 percent. This move will not only increase investment in REITs, but would also enable banks/DFIs to diversify their investments. Further, risk weights applicable on banks/ DFIs' investments in the units of REITs have been significantly lowered (from 200 percent to 100 percent).

- SBP allowed banks/DFIs to create their own Special Purpose Vehicles (SPVs) to sell mortgage loans on 'true sale' basis. The revised instructions further allowed parent bank/DFI to act as arranger, structuring agent, administrator, servicing agent and originator for its SPVs.

- In order to promote the low cost housing in Pakistan, banks and DFIs were allowed to apply a risk weight of zero percent, for capital adequacy purposes, on the guaranteed portion of eligible low cost housing finance portfolio covered under the Risk Sharing Facility (RSF). Banks and DFIs were also allowed an exemption from the applicability of implementation and reporting of internal credit risk rating models/ scorecards for this sector until September 30, 2022.

3.4.2 Digital Onboarding of Customers

During FY21, the digital onboarding of customer framework project was initiated to enable remote account opening of bank for resident Pakistanis. This framework would help financially excluded persons including women in opening of accounts without visiting bank branches and would promote access to finance.

3.4.3 Digital Bank Regulatory Framework

SBP issued "Digital Bank Regulatory Framework- Exposure Draft" for public consultation vide its press release dated March 26, 2021. The framework provides a structured roadmap for entities who wish to set up digital banks. The framework would enable Fintechs to offer digital banking services, which is currently only limited to payment services. It also provides path for an existing Electronic Money Institutions to graduate into digital banks.

3.4.4 Implementation of Cash Management and Single Treasury Account Rules, 2020

Federal Government promulgated the Cash Management & Treasury Single Account (CM & TSA) Rules, 2020 to strengthen the fiscal management. In accordance with these rules, all banks/DFIs/MFBs have been advised to conduct KYC of Federal Government's bank accounts and were advised not to open Federal Government accounts without prior authorization of Ministry of Finance.

3.4.5 Financing Against Shares of Group Companies

SBP has allowed companies to seek financing against shares of their listed group companies. This change in policy would enable investors in raising liquidity for further investment in new business opportunities and ventures leading to greater economic activity. The change in regulation would also benefit the capital market by encouraging sponsors of companies to consider listing on the stock exchanges and promote documentation of the economy, transparency and good corporate governance practices as well.

3.4.6 Outsourcing to Cloud Service Providers (CSPs)

Cloud computing solutions serve as the catalyst for digital banking transformation. In order to enable Financial Institutions (FIs) to benefit from cloud service providers located inside and outside Pakistan in a secure and safe manner, SBP issued instructions on Outsourcing to Cloud Service Providers (CSPs) vide BPRD Circular No. 04 of 2020.

The circular allows FIs to outsource their non-core business support processes such as HR Modules, Data Analytics, Risk Modelling and Customer Relationship Management Tools etc. However, the instructions have prohibited to place those banking applications under cloud-based outsourcing arrangements that are used to store and process customers' information.

3.4.7 Branch Network Expansion

To enhance the outreach of financial services, SBP issued 706 new branches/offices licenses to commercial banks/microfinance banks during FY21, despite challenges posed by the COVID-19 pandemic. The banks/MFBs were also allowed to open those branches during FY21, which were approved for year 2020 but could not be opened due to the pandemic. Out of these new branches, 19 percent of branches were opened in rural, underserved, and unbanked areas. Special focus remained on the priority areas of Baluchistan, Khyber Pakhtunkhwa, AJK and Gilgit Baltistan for which 135 new branches were approved under Annual Branch Expansion Plan 2021.

Further, SBP in collaboration with other government /state institutions facilitated the opening of Pakistani banks' branches/offices along the Afghan border areas to provide formal banking channels for cross-border trade/business operations.

3.4.8 Other Regulatory Developments

- Due to ongoing pandemic, SBP advised the REs to continue utilization of NADRA Verisys in place of Biometric Verification till December 31, 2021. Moreover, banks were advised to update their systems so as not to mark accounts dormant up till December 31, 2021.
- The Board of Directors of the foreign bank's subsidiaries and DFIs have been allowed to delegate authority to a relevant board committee to review/approve credit facilities over and above minimum threshold.

3.5 Enhancements in SBP's Conduct Regulation and Supervisory Regime

SBP is committed to delivering an effective "Fair Treatment of Consumers". During FY21, SBP took following regulatory measures to strengthen banking conduct and consumers' protection:

3.5.1 Financial Inclusion of Persons with Disabilities (PWDs)

SBP introduced a comprehensive policy for 'Financial Inclusion of Persons with Disabilities (PWDs)' The policy aims at improving financial independence for PWDs by making financial services accessible and ensuring adequate employment opportunities for PWDs within the banking sector. In terms of regulatory intervention, all banks in Pakistan, are required to cater to the special needs of all categories of PWDs including physically handicapped, visually impaired and those with hearing and speech disabilities.

Banks are advised to ensure availability of all essential forms and documents in braille script, provision of sign language interpretation services, ramps at entrances and ATM cabins in branches. In addition, banks will have to meet the prescribed job quota requirements for PWDs and align their human resource policies and capacity-building initiatives in line with the specific needs. With a special focus on women with disabilities, SBP prescribed a quota of at least 25 percent women induction to be met by banks while employing PWDs. Banks are also required to set up model branches across the country in line with the stipulated infrastructural/ technological and human resource guidelines.

3.5.2 Key Fact Statements for Deposit Products

SBP in its endeavor to promote responsible Banking Conduct and Fair Treatment of Consumers (FTC) recognizes the importance of standardized disclosures. Standardized disclosures such as Key Fact Statements (KFS) increase consumer understanding about a banking product's affordability and risks, leading to better decision-making. KFS also minimizes the risks of ineffective disclosures for banks by standardizing the information provided to the consumers. SBP issued KFS for deposit products to further strengthen the FTC regime of the banking industry. SBP earlier issued KFS for consumer credit products and Most Important Document (MID) for third-party products.

3.5.3 Improving Grievance Handling Mechanism at Banks

To ensure responsible grievance handling by banks, SBP has been addressing gaps in the grievance handling processes of individuals through extensive engagements with the banks. In this regard, SBP issued revised instructions to further enhance the grievance handling mechanism at banks.

3.5.4 Handbook on the Conduct Regulations

In recent years, financial consumer protection has become an emerging priority for policymakers around the world for the long-term stability of the global financial system. Apart from its need in times of any financial crisis, the increasing usage of financial services requires strengthened financial regulations to protect consumers. World Bank in its revised good practices on Financial Consumer Protection has also emphasized the importance of effective conduct regulations as these not only provide guidelines for conduct principles and rules but also form the basis for effective conduct supervision and enforcement. Keeping in view the global trends/practices and local requirements, SBP developed a handbook on conduct regulations for internal use by SBP officials that would serve as a baseline for enhancing the regulatory and supervisory framework of the industry's conduct.

3.5.5 Guidelines on Quality Data Reporting

Quality of data reported to the Credit Information Bureau for dissemination in the Credit Information

Reports (CIR) and supervisory objectives is critically important. SBP issued instructions for quality data reporting in eCIB after a detailed assessment of the mechanisms of member Financial Institutions (FIs) for credit data reporting to the eCIB. These instructions are based on the guidelines issued by World Bank Committee for Credit Reporting and would serve as self-governed instructions to improve data quality reporting in eCIB. Further, consumer complaints and legal cases would also reduce over time.

3.5.6 Ease of Doing Business (EODB) - Credit History Reporting in the Credit Information Reports

SBP, reduced the reflection period of written off/waived loans and advances for corporate borrowers in the CIB report from 15 years to 10 years after detailed research of international practices and in line with the World Bank reporting guidelines.

Similarly, SBP started reporting two years history of negative/overdue information for consumer/individual borrowers in the Credit Information Reports in line with international practices from July 2021. Currently, CIRs reflect negative/overdue information for consumer/individual borrowers for one year. This change would assist in enhancement of credit assessment capability of current and potential customers of member FIs, which would expand credit by reducing risks of default and enabling the FIs to lend to new segments.

3.5.7 Dispute Resolution Mechanism for Licensed Credit Bureaus

Being cognizant of global trends/practices and local requirements in institutionalizing licensed credit bureaus in Pakistan, SBP introduced guidelines on Dispute Resolution Mechanism (DRM) to all the licensed credit bureaus for compliance and submit their complaints' data as per prescribed formats. SBP also prescribed processes and procedures for ensuring effective DRM operations. This would strengthen consumer confidence in the credibility of CBs' credit information and would assist credit bureaus to utilize complaints' data for highlighting procedural, system-related and/ or reporting deficiencies for further improvement.