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editorial.

Muhammad Mazherul Haq
Editor

Does the Normal Distribution Advocate Unequal Distribution? A Point to Ponder

Big and small, tall and short, fat and thin, high and low, rich and poor, more or less and many similar phenomena can better be understood and represented when viewed in terms of their comparative and superlative degrees in all shapes and situations. Every known thing in this world, visible or invisible, follows some pattern in terms of its size, severity, diversity, and relativity. However, since we human beings are passing through an evolving stage, we discover new dimensions of different subjects and objects, in our quest to reach perfection. On every coming day we resolve new challenges using the best available techniques and manage to achieve the highest confidence level, but eventually it always remains < 100 percent, with a wider gap in the analysis pertaining to the social sciences.

While collection of data is the very first step for doing analysis, making intelligent tables, drawing charts and reviewing them critically come as the second part in reaching any early conclusions. In later stages, advanced mathematical and statistical techniques are used for obtaining presentable and more precise results. In between both these stages, and even thereafter, the judgmental interpretation of trend(s) emerging from the data, either primary or secondary, always remains on the cards. However, it may vary from person to person because it depends upon the bent of mind of an interpreter and his/ her insightfulness about the subject matter.

In statistics, average, standard deviation, and the coefficient of correlation are the three widely used basic measures, which individually or in combination, are helpful to estimate the population parameter from the outcomes of the sample study. It is the use of these statistics that make it possible to produce things on a massive scale. For instance, the manufacturing of garments is a glaring example where the values of average, standard deviation, and correlation of coefficient drawn from a representative sample are the core statistics for preparing the extra-small, small, medium, large, and extra-large sizes of garments. Information on the average height of the people, their deviation from the average height and the relationship among the neck-size, arm-length, and the shoulders are the deciding factors for preparing garments which fit to most of the population of that region/ country.

The smart use of statistics in almost all fields effectively addresses the challenges arising from the variations in size, volume, magnitude and even prevail in the measurable behaviors which appear as an integral part of nature. Data on many naturally occurring phenomena when plotted on a piece of paper produces a shape of a bell curve which is also known as a normal distribution. Why does it tend to form a shape of bell curve? The answer is very straight forward. Let's take the height of 10th grade students in schools of a town with aggregate population of 200 students. After arraying the data, the outcome would be that there are a few students with greater height and similarly a few students with smaller height, while majority of students will fall close to the average height. This data arranged in ascending order will show the number of smallest students first, then smaller and then small, followed by tall, taller, and tallest and will represent a normal distribution, i.e., the trend usually found in almost all natural phenomena.

When a graph of this normal distribution is plotted by taking number of students on X-axis and height on Y-axis, you will find a shape of bell curve appearing on the paper, also known as the normal curve. As an empirical rule, 68.2 percent of the observations appear within (+)/(-) one standard deviation of the mean; 27.2 fall within (+)/(-) exceeding one to two percent standard deviation; and 4.3 percent within (+)/(-) exceeding two to three standard deviation.

Similarly, the statistics of marks obtained by students in an exam, variation in outside temperature during a year, size of buildings in a city, holding of wealth by people, health condition of people in a community and lot more are examples of normal distribution where the observations concentrate more toward the value of the mean, while outlier are few at both the ends of the normal curve.

Performance Rating and the Bell Curve

Now comes the much-debated topic: why does the Management apply forced ranking (Bell Curve) while finalizing the performance rating of their employees? This is done just to remove abnormality in the organization-wide performance rating distribution and bring it closer to the normal distribution – a naturally sustainable option.

It may, therefore, be concluded that many naturally occurring phenomena tend to approximate the normal distribution despite inequality in size, magnitude and severity observed in the data on each of the phenomena. It's not a new-normal but the natural normal.

The normal distribution, therefore, should never be mingled up with equal distribution. The universal truth advocates that some people get bigger pieces of cake and some smaller, as an inherent characteristic of a normal distribution.

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PAKISTAN BANKING AWARDS 2022

Recognized as the most prestigious and widely celebrated awards in the banking industry, the 'Pakistan Banking Awards', 7th edition, were distributed in a ceremony held on December 9, 2022 in Karachi. The Governor, State Bank of Pakistan (SBP) and President of The Institute of Bankers Pakistan (IBP) Mr Jameel Ahmad graced the occasion as Chief Guest.

Jointly organized by the IBP, the DAWN Media Group and A.F. Ferguson & Co. (a member firm of the PwC Network) the Pakistan Banking Awards, the first of their kind, were launched in 2016 and are considered the industry's definitive benchmark for excellence in banking. The awards encompass participation from Microfinance, Islamic Banks and Non-banking financial entities, in addition to the Commercial Banks.

In his keynote address, the Governor SBP, Mr Jameel Ahmad, highlighted the importance and need for enhancing financial inclusion, promoting digitalization of financial services, and adopting innovative solutions to address the impending climate change.

He stressed upon the need to enhance financial inclusion as a key enabler for social and economic development. Further, he outlined the importance of leveraging digital technologies in promoting inclusion and highlighted its role as a key driver for future growth of the banking sector. "We must not be content with just raising the number of unique bank accounts, but aim to integrate the use of financial services by individuals, entrepreneurs SMEs and large businesses in their day-to-day transactions. I believe that technology-driven financial innovation is a game changer for Pakistan," he said.

"I will encourage all the banks to take full advantage of the enabling infrastructure put in place by the State Bank of Pakistan in the shape of customer onboarding and digital bank frameworks at the instant payment system 'RAAST' to position themselves for the future. I would also like to emphasize here that while embracing technology banks must remember therefore most and fundamental responsibility of delivering quality services to the customers and supporting the economy," he added.

The Governor noted the pressing need to address climate risks facing the country and recommended that the banking sector take on a leading role in assessment of climate risks facing the country and come up with innovative and sustainable solutions to minimize its downsides.

"It would be vital for the banking sector to adopt standard industry-wide taxonomy and data definitions that enable macro level financial stability and stress testing assessments. Secondly, a transition to a low carbon greener economy requires a shift in production and consumption patterns which require sizeable investment by the private sector for adopting green practices... I would encourage the banking sector place to take a holistic view and incorporate climate considerations into their financial inclusion and digital transformation initiatives," he said.

Adding a further note, the Governor said, "In order to better align our collective interest with the forces shaping the industry, IBP may also consider recognizing industry efforts in the fields such as women empowerment and sustainable finance through special excellence awards categories. Doing so, would honor the efforts of innovators in these domains and encourage others to step up and play their part in building a more inclusive greener Pakistan."

The SBP Governor, who is also Chairman of the Council and President of The Institute of Bankers Pakistan, acknowledged the valuable contributions and efforts of the organizers, facilitators and the esteemed jury, for arranging the prestigious awards and in promoting a culture of professional excellence in the banking industry.

The winners were selected by a distinguished jury consisting of five experts from the corporate, banking and financial sectors. As always, a neutral, transparent and impartial evaluation process was adopted to determine the best performers for these awards.

The eminent jury comprised of former SBP Governor Syed Salim Raza (Chairman of the Jury); former President/CEO Faysal Bank Limited Naved A. Khan; MD & CEO English Biscuit Manufacturers (Pvt) Ltd Zeelaf Munir; Former MD Citibank Javed Kureishi; and former Regional Head of Citibank Middle East and Pakistan Shehzad Naqvi.

Earlier, in his welcome address, Mr Mansur-Ur-Rehman Khan, Chief Executive of The Institute of Bankers Pakistan (IBP), lauded the efforts of the organizing partners for their commendable work and appreciated the participating banks, financial institutions and non-bank entities for their endeavors. Emphasizing on the significance of the key role to be played by skilled bankers, Mr Khan said that the IBP provides a variety of training and development interventions to best suit requirements of the trainees keeping in view the SBP's priority areas and fresh initiatives.

"The Institute of Bankers Pakistan renders authenticated support to banks in terms of capacity building of their staff on all priority and important subject matters in the shape of benchmark ISQ Qualification, Certification Programs, Regular and Customized Training Programs and e-Learning platform enabling them to undertake their task with the desired precision," he said.

Mr Mansur-Ur-Rehman Khan urged the banking community to benefit from the Islamic Banking Courses offered by IBP and ensure readiness of their staff towards implementation of Islamic Banking in the country.

He apprised that," In order to supplement and support the recent steps taken by the Government and SBP, IBP had launched two short duration certification courses of 3 and 5 Days and an Islamic Banking Diploma Program for developing necessary capacity building amongst the staff of the banks."

Various banks, financial institutions and non-bank entities bagged the coveted awards for their outstanding performance in nine different categories. This year saw a new award category for Best Housing Finance besides other categories; the details of the award winners are as follows:

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HABIB BANK LIMITED received the Best Bank Award and was also declared the Best Bank for Agriculture; **MEEZAN BANK LIMITED** got the Best Consumer Bank Award; **THE BANK OF PUNJAB** received the Award for the Best Bank for Small and Medium Businesses; **HBL MICROFINANCE BANK LIMITED** received the Best Microfinance Bank Award; **BANK ALFALAH LIMITED** bagged the awards for the Best Digital Banking as well as won the Best Bank in Housing Finance Award; and **KASHF FOUNDATION** won the award for the Best Innovative Business.

He also advised senior bankers to take full advantage of skills and knowledge upgradation opportunities available with the IBP by nominating officers to take part in IBP's knowledge sharing interventions. "My advice to the senior bankers present here would be to take fuller advantage of skills and knowledge upgradation opportunities available with the IBP by sponsoring more and more officers to take part in IBP's knowledge sharing interventions. I assure you that by your regular patronage to the capacity building efforts of your employees, the quality of services and products will improve significantly," he said on the occasion.

Highlighting the endeavors of the Institute to further the objectives of Green Banking, Mr Khan said, "In order to support the Green Banking Initiatives of SBP, IBP has collaborated with Chartered Banker Institute, U.K. for marketing, promotion and offering of Certificate Programs related to Green Banking and Climate Risk."

He also highlighted that the IBP's eILM platform has been successful in marginalizing the time and space constraints associated with the classroom trainings. "During the previous year around 19,600 bankers from various leading banks were enrolled in e-Learning programs offered by the Institute," he said.

Mr Hameed Haroon, CEO of Dawn Media Pvt Ltd and representative of the organizing partners of PBA, elucidated on the significance of the Pakistan Banking Awards. Addressing the audience, he said, "The event has grown in stature and every year the awards are coveted across the industry not only for necessary professional excellence but for their rigorous impartiality and wisdom."

He lauded the efforts of the distinguished jury, organizers and their respective front end teams, while commending the efforts of the pioneers who worked for the establishment of these coveted awards in 2016, particularly Mr Husain Lawai, and Mr Shabbar Zaidi.

"The quality of submissions grows every year not only in numbers but data submitted. I look forward to further development and transformation both in the banking sector and in the reputation and recognition achieved by PBA as we continue in the next consecutive year," he stated.

Mr Haroon said that effective banking regulation contributes to mitigation of risk and aiding in conservation of scarce resources such as foreign exchange and energy. However, "We must be alert to the danger that the over rigorous framework might inhibit growth and innovation. We need to demonstrate that the Pakistan banking system and Awards will withstand the test of austerity we are likely to encounter in the next few months because austerity is a kind of responsibility that has to be built into our system in order for the economic and banking sector to grow."

Adding on, he said that positive innovations particularly in financial technology is transforming the nature of relationship between banks and customers.

The Chairman of the Jury Syed Salim Raza, highlighted the contribution of banks over the first six months of the year. Speaking at this occasion, he said, “Banks’ balance sheet expanded 16 percent, earnings were strong, NPL’s low, which are the signs of good management and mature judgement. With difficult times ahead, we have the noose and collective wisdom to go through this as a resilient financial structure, under the guidance of the State Bank of Pakistan.”

Syed Salim Raza highlighted that Pakistan’s economy was dysfunctionally reliant on imports and in these difficult conditions require restructuring, and mainly on part of the banks. Citing the examples of leaders in growth and transformation economies like Japan, South Korea, Taiwan etc, he said that through proper quantitative planning, their imports were time-bound, and eventually industries were set up to produce their own raw material.

The former Governor SBP emphasized that the need of the hour is to reduce reliance on imports. “In our case the state has discouraged long term decision making to reduce this reliance,” he said.

He advised that, “Banks should form think tanks, adopt a sector, think around it, perhaps create a subsidiary, and join hands on particular projects as banks are strong and well informed and excellent people are here for the long term, I see you as the best placed more than any other entity, of course along with the regulator support.”

The ceremony was attended by senior executives and eminent professionals from Pakistan’s banking and finance industry. Ms Shahla Naqvi, Senior Manager Publications and Communication at the IBP hosted the event.

GALLERY

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Financial inclusion, digital transformation of financial services and climate change –these are the areas where we must focus on collectively, as among other factors, they will be vital in shaping the banking industry, going forward."

- Mr Jameel Ahmad, Governor SBP & President IBP
















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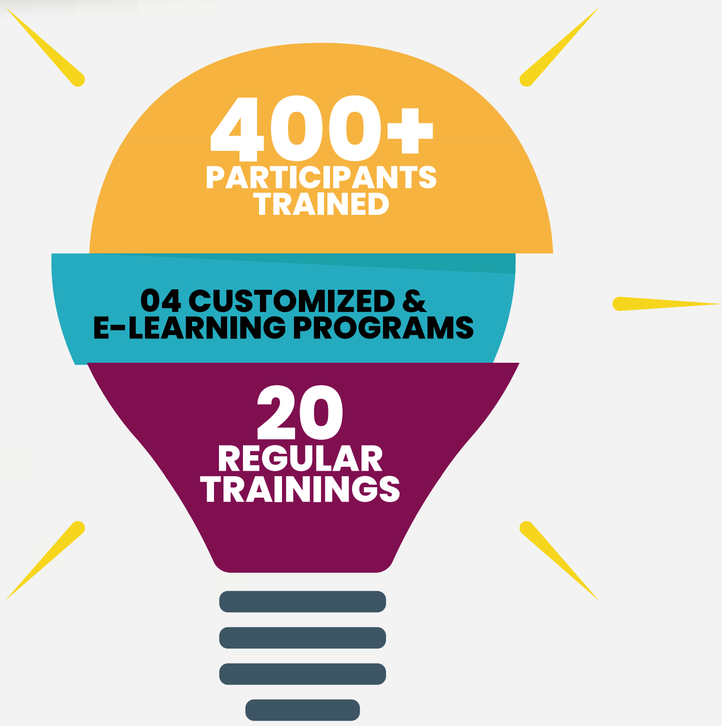
Training Roundup
October - December 2022

During the quarter October – December 2022, IBP conducted 20 Regular and 4 Customized training and E-Learning programs. Over 400 participants were trained during this period.

Significant topics of trainings included: Gender Sensitization; Branch Internal Control Procedures for Cheque Payment-SBP Guidelines; Trade Risk Profiling; Modern Digital Banking: Digital Transformation in Pakistan; Regulatory Framework for Foreign Currency Accounts (FCY) and Relevant AML/ CFT Guidelines; Compliance Goals Vs Money Laundering Schemes; Reviewing Fair Treatment of Customers (FTC); Transaction Monitoring and STR; Credit & Market Risk Management.

IBP has also conducted 2nd batch of certificate course on Certified Sanction Specialist Professional (CSSP); 20 participants were trained in this program.



IBP TRAINING CALENDAR 2023

To view details on upcoming training sessions for 2023, please visit our website link:

https://ibp.org.pk/trainingcalendar/

WEBINAR

DIGITAL FINANCIAL LANDSCAPE AND NEO BANKING

Keeping in line with the State Bank of Pakistan's (SBP's) initiatives, The Institute of Bankers Pakistan (IBP) conducted a webinar titled Digital Financial Landscape and Neo Banking on Thursday, December 8, 2022.

State Bank of Pakistan (SBP) has launched licensing and regulatory framework for setting up digital banks in Pakistan as a separate and distinct category in the banking business. Digital banks are also termed as Neobanks. Neobanks are classified as an online bank, internet-only bank, virtual bank or digital bank that operates exclusively over the internet/ through digital means without traditional physical branch networks.

These Neobanks will enable an environment to effectively:

- Promote financial inclusion (which is considered as a challenge for the Pakistani Economy)
- Effective KYC
- Provide credit access to unserved and underserved
- Provide affordable/cost effective digital financial services
- Encourage application of financial technology and innovation in banking
- Foster new set of customer experience
- Further develop digital eco-system

Similarly, with the introduction of Roshan Digital Account (RDA) the State Bank of Pakistan (SBP) has enabled the banking industry for digital onboarding. Going forward, banks other than the ones giving RDA facility will also provide their customers with the digital onboarding facility.

These topics are currently of importance at the time when SBP is on the verge of issuing licensing for Digital Banking Services.

The webinar was organized by the Research and Development (R&D) department at IBP in collaboration with the Institute's Marketing & Sales (M&S) department.

The speakers included local and international experts, including:

- **Mr. Tahir Naeem,** Senior Joint Director heading the Digital and Branchless Banking Division in Banking Policy and Regulations Department (BPRD) of SBP. He shared the SBP initiatives and illustrated the future roadmap towards digitization of financial services in Pakistan.
- **Mr. Omar Mansur,** the Global Enterprise Lead at Codebase Technologies. He elucidated on the global trends in digital financial services.
- **Ms. Zein Malhas,** CEO of Blink, Neo Bank subsidiary of Capital Bank of Jordan. Ms Malhas discussed the reason of creating a Neo Bank within a commercial bank and elaborated on the journey of Blink.
- **Mr. Hassan Waqar,** CEO of MoneeMint, UK. He presented the need of Ethical Financial Services and the idea behind MoneeMint.

The speakers' segment was followed by a question and answer session where the guest speakers responded to the queries put forth by the participants.

The 2-hour session was attended by banking professionals, representatives of fintech, students, industry experts etc. from within and outside Pakistan. The webinar was moderated by Mr Faisal Hussain, Director Research & Development, IBP.

There were 248 registrations in the webinar which was casted on Zoom and the Institute's Facebook page at:

https://www.facebook.com/IBPakistan/videos/538707431649538

WHAT WOMEN WANT

The increasing role of women as advisers is an encouraging move towards the fabled 'financial equality', but is having a more gender-balanced industry enough to guarantee that women get the advice they need? Here, we examine the current relationship between females and the financial industry, how this came about, and what needs to be done to rectify this.

The UK currently ranks 23rd on the global gender gap index, placing it behind European counterparts including France, Germany, and Ireland. Meanwhile, in 2020 it was reported that almost 90 percent of women still work for companies that pay them less than male colleagues, and that in nine out of 17 sectors in the economy, men earn 10 percent more on average than women.

COVID-19 has done nothing to rectify this – far from it. In fact, according to warnings from international institutions including the UN and the World Economic Forum, the pandemic could turn the clock back on women's economic progress by as much as half a century, with women almost twice as likely to have lost their jobs during the pandemic.

Earning ability is just one factor when it comes to women's subpar experiences with the financial industry – 91 percent of women feel that advertisers do not understand them, and 84 percent feel misunderstood by investment marketers. Meanwhile, around 75 percent of women feel misperceived by the sector and more than one-third say they have been patronized.

A Better Future for All

Insuring Women's Futures (IWF) is a programme established and led by the Chartered Insurance Institute. Its purpose is to improve women's financial resilience in order to secure a better future for all.

Sian Fisher, IWF's Chair, says: "Women themselves say that they have less confidence around financial services generally – and there's a great deal of research that supports this.

But actually, the evidence suggests that women are on the whole very good with money. They're good with budgets, they're good at saving, they're more risk averse, in particular around stock market investments. All that being said, there's no doubt that there's a lower competence level, particularly around understanding pensions."

In order to try to counter this, IWF undertook a rigorous piece of work that, using government data, examined the female life journey. The aim was to look at the differences between how women and men live their lives, and why.

Fisher continues: "What is the impact of these differences on their financial resilience? And does this result in women feeling as though they aren't being properly engaged with – because the people who are supposed to be helping them with financial services simply don't understand the realities of their life experience?

We wanted to track the perils and pitfalls of the natural way that women live their lives, which in turn impacts their financial resilience in relation to men. So, we extrapolated data from various reports and then plotted it in a way that enables us to compare these journeys.

"The pandemic could turn the clock back on women's economic progress by as much as half a century."

The stats are all there and they are quite shocking. For example, at the end of life, the average woman has earned only 64 percent of the average man's earnings."

What's more, the average man accumulates five times the pension pot of the average woman by the age of 65, with a man having £179,091 and a woman of the same age typically having just £35,800.

Fisher states that much of this can be attributed to the fact that women often make choices that do not work in their favor from a financial perspective. "They often take on student debt, they go into low-paying jobs. Obviously, women have children, which means they take career breaks.

On the whole, because women tend not to invest as much as men, having cared for everybody else, they often have very little left to look after their own care. And at the end of life, women also often live in poor health for much longer than men do. All of this builds up."

Moments that Matter

As a result of their findings, IWF sought to look at the 'interventions' that could be made by individuals, employers and the government– "things that could be done to nudge women when the time is right to do so," says Fisher. These are called The Six Moments that Matter.

These six moments are: growing up, studying and requalifying; entering and re-entering the workplace; relationships: making and breaking up; motherhood

“Assuming that the male and female journeys are exactly the same, and that men and women are looking for exactly the same things from financial services, is Error 101.”

Sian Fisher,
Insuring Women’s Futures

and becoming a carer; later life, planning and entering retirement; ill health, infirmity and dying.

“I’m eternally grateful for the five women from our sector who came together entirely voluntarily to champion the need for rigorous analysis of the lifetime financial position of women, as opposed to men, and supported me in establishing Insuring Women’s Futures,” says Fisher. “Jane Portas, in particular, played an integral part in this work by designing the amazing framework used across the programme and authoring the various research reports. I said to her, ‘Your “Six Moments that Matter” will be six moments that change the world for women’.

The concept is that these are life circumstances at which an intervention would make the greatest difference to the ultimate, long-term outcome,” says Fisher. She offers getting divorced as an example – stating that help at that point could make a huge difference to financial settlements and the position women find themselves in 20 years down the line. “It’s a bit like doing a normal risk assessment of a business or a situation – you would then have an intervention framework, which is about mitigating the risk and trying to find a positive way forward.

The purpose of these interventions is to make sure that women are helped to understand the financial implications of what they are doing. For example, when it comes to things like maternity leave, one would think there would be places that would give women really good advice about how to minimize the impact of this period on their finances. But frankly, women have to scramble around all over the place to find anything at all.”

Focus on the Individual

As well as knowing when to intervene, Fisher is adamant that financial advisers in particular must keep the disparate experiences of men and women front of mind when working with them. “Financial advisers must have a picture in their minds that isn’t of an average life. Assuming that the male and female journeys are exactly the same, and that men and women are looking for exactly the same things from financial services, is Error 101.

They have also got to bear in mind the sensitivities that women are likely to have in terms of the way that they like to be spoken to about money, and the way in which women relate to conversations about finance, and the things that actually put them off.” Jargon is a case in point – with almost one-third of women stating that too much is used. In fact, many women report that their confidence decreases when the language is too technical or impersonal. Instead, according to a report by WealthiHer, women of all levels of success want to be guided and feel comfortable asking seemingly simple questions. They also lean toward consultation, while men tend to prefer autonomy. In short, women are seeking collaboration, education and partnerships.

Also of vital importance is not treating women as a single customer segment. Instead, factors such as age, race, ethnicity, educational levels, marital status, profession and income must be considered.

This approach – one whereby women are not bundled together because of their sex but are in fact treated as individuals – is absolutely imperative to Fisher. “It’s about listening and understanding exactly what the client is actually asking you, and asking of you. It’s not about what you’re an expert in, and therefore what you could sell her. It’s not what the relationship is worth, but why is she actually speaking to you? And what is it she’s looking for? It’s the approach to the individual customer, not the approach to women as a whole, that makes the fundamental difference.” ■

This article originally appeared in the Winter 2022 issue of Chartered Banker magazine and is reproduced by kind permission of the Chartered Banker Institute.

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A JOURNEY TOWARDS INSTITUTING DIGITAL PAYMENT SYSTEM

A Comparative Analysis of Initiatives taken by State Bank of Pakistan (SBP) and Saudi Arabia Monetary Authority (SAMA)

Compiled by: Muhammad Mazherul Haq and Muhammad Abdul Basit Adil*

Being custodian to the value of money in an economy, the central banks have to perform the traditional and developmental functions to achieve sustainable macro-economic stability. The traditional functions, which are generally performed by central banks almost all over the world, are usually classified into two groups: (a) the primary functions including issue of notes, regulation and supervision of the financial system, bankers' bank, lender of the last resort, banker to Government, and conduct of monetary policy, and (b) the secondary functions including the agency functions like management of public debt, management of foreign exchange, etc., and other functions like advising the government on policy matters and maintaining close relationships with international financial institutions.

The central banks, as one of their core functions, take necessary measures to foster the transactional demand for money by ensuring that an efficient payment system is in place to settle the retail and the wholesale payment obligations. In instituting robust payment system, central banks typically seek efficiency and safety in the payment systems. More recently, accessibility, the effective protection of customers and the existence of a competitive environment are also being considered as important objectives by many central banks.

After enjoying monopoly over hundreds of years, the physical transaction of money to settle payments was first challenged in 1871, when Western Union (then the Western Union Telegraph Company) started Electronic Fund Transfers (EFTs) as a method of payment for transferring financial resources. Since then, EFTs have become influential without involving a physical interchange of real money between the sender and recipient. Later come the 'charge card', an initial type of credit, recognized as a had been a popular electronic payment mechanism in the first quarter of the twentieth century.

With the passage of time, the payment methods are passing through evolution in tandem with technological advancements. Retail transactions are moving from cash to card and other electronic settlement mechanisms, and business-to-business settlements are moving from cheques and other paper instruments to electronic instruments. In addition, electronic settlement is progressing from daily batch processing to online, near real-time 24/7 instant payments.

While non-cash payment interventions started to take place as early as 150 years ago, the responsibility of central banks in sponsoring robust payment systems has increased manifold in recent times when rapid innovations in Information Technology (IT) made it safer and more reliable to transform from paper-based payment systems to IT based paper-less payment solutions.

Globally, between 2018 and 2021, the number of non-cash retail payment transactions have increased at a Compound Annual Growth Rate (CAGR) of 13 percent; while in emerging markets, that figure is 25 percent. Some of the fastest growth occurred in emerging markets in Africa (Morocco, Nigeria, and South Africa) and Asia. Strong growth is expected to continue in some emerging markets over the next few years, with projected CAGR of 15 percent between 2021 and 2026.

Four major trends have driven the growth in digital payments. First, the pandemic accelerated the shift from cash to contactless digital payments that was already under way among consumers. Second, e-commerce continued to grow and evolve, with global volumes increasing by 25 percent between 2019 and 2020 and expected to grow by 12 to 15 percent a year to 2025. Third, the government pushed for cashless payments to facilitate interoperability, plug tax leakages, and ensure the effective distribution of aid accelerated the take-up of new digital payment systems. Finally, investors' appetite for digital payments grew, leading to a proliferation of payments-focused fintechs. In Africa, for instance, these firms accounted for about 40 percent of the $5.2 billion in tech start-up capital in 2021.

To develop a fair idea about what is happening in Pakistan and around us in the context of digitization of payment systems, a comparative analysis of the ongoing efforts being undertaken by State Bank of Pakistan (SBP) and Saudi Arabia Monetary Authority (SAMA) – Central Bank of Kingdom of Saudi Arabia is presented below.

SBP'S INITIATIVES

To embrace the transformation in payment methods from physical to digital, with success and to boost its ongoing efforts, State Bank of Pakistan (SBP) has launched the Digital Financial Services (DFS) which includes a broad range of financial services accessed and delivered through digital channels. DFS can be a catalyst in increasing financial inclusion, improving living standards, reducing poverty, decreasing fiscal deficit, and providing equal income opportunity to all Pakistanis.

Presently, different types of payment systems are available through different platforms, and these can be divided into two major categories i.e. Large Value Payment System and Retail Payment Systems. The Pakistan Real Time Interbank Settlement Mechanism (PRISM) is a large-value payment system of Pakistan which is owned and operated by SBP. It enables its direct participants to settle their payment obligations in Real Time and on gross basis.

Retail Payment Systems (RPS) generally have higher transaction volumes and lower average values compared with large value/ wholesale payment systems. Recent developments in retail payment systems provide customers with a wide array of choices with a greater level of efficiency and safety in their transactions. The tools available for RPS include Real Time Online Banking (RTOB), Auto Tellers Machines (ATM), Point of Sales (POS), Internet Banking, Mobile Phone Banking, Call Centers/IVR Banking and the E-Commerce.

STATE BANK OF PAKISTAN

Raast

Pakistan's Instant Payment System

پل بھر میں - ملک بھر میں

RAAST is Pakistan's first instant payment system that will enable end-to-end digital payments among individuals, businesses and government entities instantaneously. The state-of-the-art Pakistan's Faster Payment System will be used to settle small-value retail payments in real time while at the same time provide a cheap and universal access to all players in the financial industry including commercial banks, microfinance banks, government entities and fintechs (EMIs & PSPs).

RAAST has the capability to address some key industry challenges within the payment ecosystem which include i) limited interoperability, ii) high cost of digital payments to the end users, iii) poor users' experience and iv) lack of adequate data protection and authentication.

> While non-cash payment interventions started to take place as early as 150 years ago, the responsibility of central banks in sponsoring robust payment systems has increased manifold in recent times when rapid innovations in Information Technology (IT) made it safer and more reliable to transform from paper-based payment systems to IT based paper-less payment solutions."

SAMA'S INITIATIVES

A key objective of the Financial Sector Development Program (FSDP) under the umbrella of Kingdom of Saudi Arabia's (KSA) Vision 2030 is to provide choice in payment options for consumers and businesses with a view to increasing the share of (more efficient) digital payment transaction for consumers to 70 percent of all consumer payment transactions by 2025.

Saudi Arabia Monetary Agency (SAMA) - Central Bank of KSA, as one of the FSDP stakeholders, has led the development and promotion of payment options and choice and has encouraged the delivery of faster, more efficient digital payment as one of its key strategic objectives. To achieve this, the Saudi Central Bank has 'built-out' the broad payments ecosystem within the kingdom from a regulatory, technical and operational viewpoint, delivering on multiple programs, initiatives, and investments with key stakeholders in the financial sector.

To measure progress and to facilitate a greater insight into national payment habits, SAMA has undertaken the National Payments Usage Study – an assessment of payment activity among consumers, businesses, and government actors within Kingdom of Saudi Arabia.

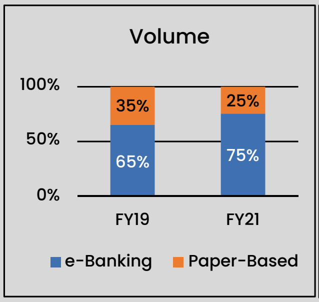
This study is based on the outcomes of the cross-country survey held in 2021 employing global best practice in terms of data collection and processing and uses similar methodologies to those employed in the equivalent 2019 study, thereby allowing for direct comparison of results and a quantification of change(s) over time.

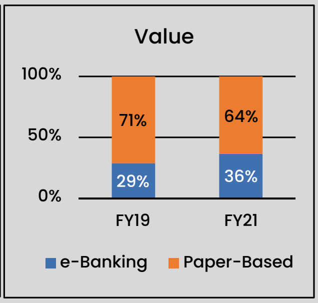
The survey for the study was conducted in 2021 among over 1,500 consumers and 218 businesses, and the findings revealed that for the first time, cash has ceased to be the most common mode of payment across all economic sectors in KSA.

Considering the similarities found in the efforts being undertaken by SBP and SAMA to promote digital payment systems, a comparative analysis has been done based on the latest documents available on the subject, including the Payment Systems Review 2021 issued by the SBP and the National Payments Usage Study issued by SAMA in 2021.

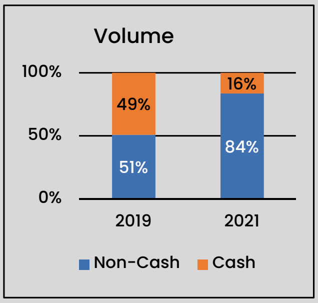
01

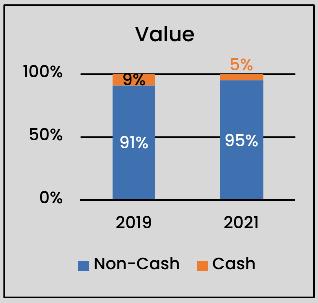
The statistics given in the Payment Systems Review for the year ended June 30, 2021 showed that during Financial Year starting from July 18 to June 19 (FY19), 35 percent of total business payment transactions were made in paper-based, compared to only 25 percent in FY21. The share of overall value of these paper-based transactions decreased from 71 percent to 64 percent over the same period. This change reflects a moderate increase in the use of e-banking in executing the transactions in Pakistan.





Results of the study showed that in 2019, 49 percent of total business payment transactions in the Kingdom were made in cash, compared to only 16 percent in 2021. The share of overall value of these cash transactions decreased from 9 percent to 5 percent over the same period. This change reflects a fast-growing trend of use of non-cash instruments in executing the transactions in Kingdom of Saudi Arabia.





02

The data showed that, excluding ATM cash withdrawals, 980.2 million payments were executed in Pakistan in FY21 with an impressive growth of 20.7 percent registered over FY19. Of these, 598.7 million (61 percent) across all sectors of the economy were undertaken using e-Banking payment means. E-Banking payments include online debit/ credit banking facility, Point of Sales (POS), internet banking, mobile phone banking, call centers/ IVR banking and e-commerce.

The study estimated that, excluding ATM cash withdrawals, approximately 11.3 billion payments were executed in KSA in 2021, which represents a substantial increase compared to 2019. Of these, 7 billion (62 percent) across all sectors of the economy were undertaken using non-cash payment means. Non-cash payments include cards payments, credit transfers, direct debits, bill payments, e-wallets transfers and instant payments on the SARIE platform.

03

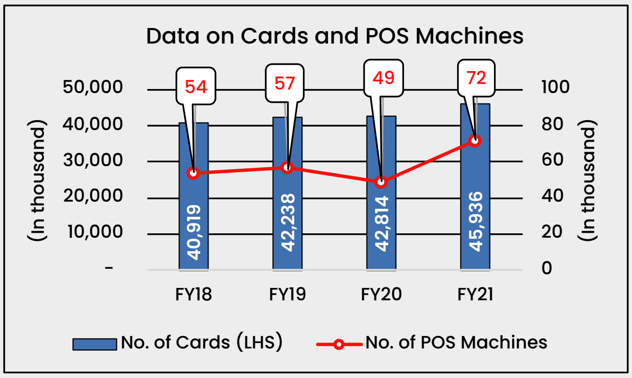
In January 2021, as an integral part of the National Payments Strategy, RAAST was introduced an Instant Payment Systems (IPS) that facilitates bank account to bank account transactions (across the industry) at a relatively low cost and – as the name implies – at near to real-time. No charges on RAAST related services. No minimum transaction size is defined. Instant payments into accounts whether it is a wallet or account or branchless banking.

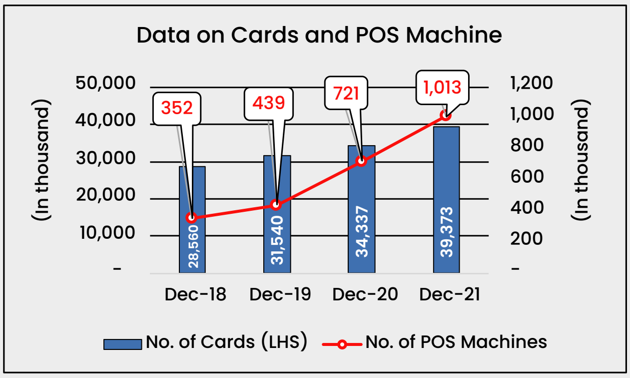
In February 2021, the Kingdom introduced an Instant Payments capability under the 'SARIE' (IPS) scheme title. The system provides real-time account-to-account transfers with an average cost of SAR 0.50 per payment up to SAR 500, increasing to SAR 1 per payment for transfers between SAR 500 and SAR 20,000 (this compared to a cost of typically SAR 7 for same-day interbank transfers previously charged by RTGS).

04

As of End-June 2021, there were 45.9 million total cards in circulation which mainly comprised of Debit cards (65 percent), Social welfare cards (18.4 percent), ATM only cards (12.6 percent), Credit cards (3.7 percent), and Prepaid cards (0.3 percent). Collectively, these cards processed 708.7 million transactions amounting to Rs 8.4 trillion during FY21. The number of debit cards at the end of FY21 has been 29.8 million, observing a YOY growth of 11.8 percent and annualized growth of 13.8 percent during the last 4 years.

As of End-December 2018, 28.6 million cards were in use which increased to 39.4 million by End-December 2021. Measured in August 2021, approximately 57 percent of all consumer payments were cashless. The majority of these transactions were made at shops and retail outlets using payment cards (52.5 percent of consumer payments and 80 percent of all non-cash payments were made by cards in 2021). The rise of non-cash payments has been extraordinary in recent years and looks set to continue.





05

The data published in the SBP's review showed that transaction through large-value payment system i.e. PRISM recorded growth of 68 percent by volume and 6.8 percent by value in FY21 compared to FY19. Similarly, the combined share of e-Banking and PRISM in the total value of transactions rose from 75 percent in FY19 to 77.8 percent in FY21 and further to 81.1 percent in FY22.

The growth in the value of e-Banking transactions over FY19 was spurred by major uptake in mobile phone banking with an annual average growth of 422.4 percent. and mobile phone banking by 165.1 percent.

When viewed overall, business users in the Kingdom have continued their move to a 'less cash' payments community. The Saudi Central Bank's analysis showed that 84 percent of all business payments in 2021 were processed using electronic payment means - compared to just 51 percent in 2019.

This increase above was largely due to a substantial shift in salary payments by Microbusinesses to direct credit (from 17 percent non-cash in 2019 to 59 percent in 2021) and a substantial movement in payments to vendors (from 28 percent to 76 percent) for both Micro and SME segments.

06

The volume of bill payments in Pakistan through digital channel in FY22 (101.1 million) was higher than physical paper-based mode (59.9 million). Contrary to this, value of online bill payment (Rs 0.8 trillion) was less than the latter (Rs 2.2 trillion). In comparison to previous year an increasing trend was observed in number of online bill payments (22.7 percent), however, there was a negative trend for over-the-counter (OTC) bill payments (-7.2 percent).

The SADAD payments system has supported the migration of recurring payments to non-cash since its introduction in 2004. These include telecom and utility bills, rent and mortgage payments, home fuel and car loan repayments as well as well as other regular bills such as home and medical insurance premiums. Around 94 percent of bills (over 293.1 million bills) issued by the government sector and utility companies were settled through SADAD system in 2001.

07

In 2021, 395.8 million transactions worth Rs 151.6 trillion were carried out using paper-based instruments. These transactions showed a decline of 14.9 percent in volume, however, remained marginally higher by 1 percent in the value of transactions when compared with the same numbers in FY19.

In 2021, for the first time in the Kingdom, cash ceased to be the most frequently used payment method across the Saudi economy. When measured across all payer categories, cash accounts for 38 percent of all payments by volume, and represented just 6 percent of the value of all payments made.

STATE BANK OF PAKISTAN	البنك المركزي السعودي SAMA Saudi Central Bank
In the last five years, significant progress has been observed in the usage of Internet Banking and Mobile Banking channels showing annualized growth in number of transactions of 38.3 percent and 106.1 percent respectively.	The number of transactions per capita in KSA has more than doubled over the last 2 years, from 11 transactions per month in July 2019 to over 25 transactions per month in August 2021. Consumer payments are estimated at 277 transactions per capita for the full year 2021.
09	
In Pakistan, five banks are in the business of open-loop POS acquiring whereas, four banks are providing closed-loop services on POS. The turnover of 88.8 million POS transactions valuing Rs 453.1 billion was recorded in FY21 as compared to 70.3 million transactions valuing Rs 364.2 billion in FY20, showing a YoY growth of 26.3 percent by volume and 24.4 percent by value of transactions.	For the first time in the Kingdom, cards became majority payment means in 2021 and remain the primary source of cashless transactions growth. The overall transaction volume through POS card transactions were 5.2 billion in 2021 compared to 1.6 billion in 2019, which represents a growth of over 3.1 times.
10	
In April 2019, SBP issued Regulations for new entities called E-Money Institutions (EMIs). EMIs are those fintechs that offer innovative, user-friendly, and cost-effective low-value digital payment instruments like wallets and prepaid cards and will digitize cashless payments like merchant checkouts, e-commerce, government receipts, bill payments, cross border remittances, etc. As of June 30, 2021, five Payment Systems Operators/Providers (PSO/PSPs) had commercially launched their EMI operations.	While still a relatively modest share of overall payments in the kingdom, Digital Wallets introduced in 2017 have increased their relative share substantially in recent years and already accounted for approximately 0.3 percent of all consumer transactions. At the same time, 7 percent of respondents reported that they had some experience of using e-wallets for a payment in the recent past, reflecting its strong potential for future growth.
11	
Digital Payments increased dramatically in the last decade, due to improved mobile technology. The market needs fast, secure, and easy-to-use payment systems, Real Time Payment is an answer to modern needs.	These latest results show that, while significant progress has been made in recent years in providing Consumer Payment Choice – especially in supermarkets, pharmacies and petrol stations – there remains a significant opportunity to support further change in consumer behavior away from (less efficient) cash transactions and towards non-cash payments.

* *Muhammad Mazherul Haq and Muhammad Abdul Basit Adil are engaged at IBP as Head and Assistant Manager Publications & Communication Department, respectively.*

Sources:

Image is inspired from <https://www.sbp.org.pk/dfs/index.html>
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(All retrieved in November/December 2022)

PAKISTAN'S DFS JOURNEY

01

BCO, 1962 | MFIO, 2001
Foundational legal framework for banking

02

Electronic Transactions Ordinance, 2002
Enabling Framework

03

Touchpoint & Channel
Customers have multiple options of Financial Services Touchpoints - POS, ATMs

04

Payment System and Electronic Funds Transfer Act, 2007
Enabling law for payment systems

05

Branchless Banking Regulations, 2008
Regulatory framework for mobile based and agent based banking

06

IBAN Implementation, 2012
SBP Standardizes all Banking Account Numbers

Establishment of PRISM, 2008
Pakistan's first Real Time Gross Settlement (RTGS) system is established

07

Rules of PSOs/PSPs, 2014
Regulations for Payment Systems Operator and Payment Services Provider

08

Regulations for EMIs and Digital Onboarding, 2019
Electronic Money Institutions are introduced to extend DFS. Institutions can Onboard merchants Digitally

09

National Payment Systems Strategy, 2019
NPSS is Launched paving the way forward

10

Launch of Raast Bulk Transfers, 2021
Pakistan's First and very own instant payment system is launched

11

Customers Digital Onboarding, 2021
End-to-end customers digital onboarding services is launched

12

Digital Banks, 2022
Roll out licensing and Regulatory Framework for Digital Banks

13

Launch of Raast P2P Transfers, 2022
Person to person funds transfers is launched

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Q&A

Environmental and Social Risk Management (ESRM) in Lending

The State Bank of Pakistan (SBP) has played a pioneering role in integrating environmental risks into overall credit assessment and developed the Green Banking Guidelines (GBGs) for Pakistan's financial sector in 2017. The Objectives were to ensure a level playing field for the financial sector and promote a sustainable business model in Pakistan.

Since the issuance of the GBGs, banks and DFIs have identified several challenges, including identifying and managing environmental risks in lending, the resources and tools required to perform due diligence meaningfully, and the different levels of implementation among banks/DFIs, making it difficult for the SBP to fully understand the quality of implementation.

To ensure compliance of minimum standard for environmental & social risk management in the financial sector under GBGs, SBP has recently issued the Environmental and Social Risk Management (ESRM) Implementation Manual. The Manual provides tools and procedures to strengthen and accelerate the implementation of the risk management section of GBGs.

The ESRM Implementation Manual builds on the work banks/ DFIs have conducted after the GBGs were issued in 2017.

We are presenting Q&A pertaining to ESRM for the benefit of our readers.

Q1. What is the meaning of ESRM for Financial Institutions (FIs)?

ANS: An Environmental and Social Risk Management (ESRM) system is a *framework* that *integrates social and environmental risk management* into a Financial Institution's (FIs) core business processes. It is a set of actions and procedures that are implemented concurrently with the FI's existing risk management procedures.

Q2. What are some of the key E&S risks banks should consider in lending?

ANS: Environmental risks: Air, water, sound pollution, waste management, land contamination, loss of biodiversity.

Social risks: Basic human rights, land acquisition and involuntary resettlement, community health safety and security, indigenous people and cultural heritage and labor issues including remuneration and wages, working hours, health and safety, disciplinary procedures, discrimination, child labor, forced labor, freedom of association.

Q3. Why should banks care about E&S risks?

ANS:

- If the banks' clients are impacted by litigation, fines, shutdown of business, loss of international market share due to Environmental and Social (E&S) reasons then Nonperforming Loans **(NPL)** may increase.
- Managing E&S risk is a requirement of the Central Bank so it is a **compliance** issue for the financial sector. In addition, all clients must abide by all E&S related local laws and regulations.
- **Decrease in the value** of collateral may result from E&S issues in the collateral and there might be additional cost of cleaning up as the collateral is in the bank's book. For example, if a contaminated piece of land has been taken as collateral then it will be difficult to get premium-selling price in the market. Further, the bank might have to incur additional cost of cleaning up.
- E&S risks could lead to **reputational risk.**
- Financial Institutions care about E&S issues to enhance Shareholder value and **brand** promise. Proper E&S Management System attracts international investors.

Q4. A bank finances hundreds of industries and chances of fatal accident happening in any of them is quite low. Why spend time and resources for something that might or might not happen?

ANS: It is impossible to predict where and when an accident will happen, and hundreds and thousands of lives will be lost and how much of financial loss the bank will have to bear. According to 2009-2011 study, 126 workers have died only due to electrical accidents alone. There are high worker fatalities for fire, in mining sites due to mine collapse in garments industries and other manufacturing units. However, if the banks have a process in place, they know that they have measures in place for mitigating against such risk. No bank would want to be branded as one that finances polluting and unsafe industries. Industrial fatalities have become a common concern and numbers of incidents are rising every day. There have been many legal cases recently which hamper project delivery and results in delays. Therefore, unless and until some actions are taken, banks will keep on writing off loans as the E&S risks were not managed properly.

Q5. We understand Climate Change is a reality but what link does it have with banking?

ANS: Climate change is set to have a dramatic economic impact. It is already altering the availability of and demand for resources, supply and demand for products and services, the performance of physical assets, and the need for innovation. Failure to consider climate change in investment strategies can undermine projected financial returns and affect the non-financial risk management of institutions, particularly on development, environmental, and social issues. For example, extreme events like flood and drought or cyclone may disrupt supply chain, CAPEX and OPEX might increase, workers and staff might be impacted, or their productivity might decrease. Therefore, bankers need to identify these risks prior to lending.

Applicability of the ESRM Implementation Manual

Q6. Will asking about E&S issues create barrier to accessing finance for businesses?

ANS: No. Just like any other risk, E&S risk will also be considered as a core credit risk and once the process of due diligence will be streamlined, on one hand it will reduce transaction processing time, on the other it will ensure that the banks are not financing environmentally and socially harmful businesses. The idea is to finance high-risk projects, fully knowing what the E&S risks are and managing them properly. ESRM does NOT mean saying "no" to all high-risk projects.

Q7. Financial Inclusion is important for Pakistan. If we ask so many questions to our micro and small clients, then they will have difficulty in accessing bank funds. How do we deal with this situation?

ANS: The ESRM Implementation Manual takes a risk-based approach. The E&S footprint of micro and small businesses is very limited. If they are not involved in any Exclusion List activities like having child labor or involved in gambling or alcohol, banks can finance the same and there is no need for any additional due diligence. The ESRM Implementation Manual provides a threshold for different types of transactions and there are different tools and checklists introduced to reduce unnecessary work burden of banks/DFIs.

Q8. Will there be any threshold for such E&S due diligence for example loans as small as Micro or SMEs will not require to go through this process?

ANS: The process of due diligence will be different for Microfinance and SMEs as compared to that for bigger loans. The standards will not be compromised but the due diligence will be much lighter for small businesses for the obvious reason that their impact on the environment and society is not that significant.

Q9. If the bank is struggling to recover money and the transaction is a Non-Performing Asset, then what is the point of imposing E&S rules for that transaction?

ANS: All new loan proposals (received after the issuance of the ESRM Implementation Manual) for the applicable categories will have to be screened against required E&S standards. The requirements of this Implementation Manual will not be applicable for earlier loans in the banks/DFI's portfolio or loans that have been marked as Non-Performing Asset or for restructuring. However, for renewal ESDD will have to be done.

Q10. Is the ESRM Implementation Manual going to override the Green Banking Guidelines rolled out by SBP in 2017?

ANS: No. The ESRM implementation Manual has been designed to help banks/DFIs in compliance of SBP's Green Banking Guidelines (GBGs). The GBGs have three main pillars: Managing Environmental Risk in Lending, Green Business Facilitation and Own Impact Reduction. The ESRM Implementation Manual provides procedures, tools and templates related to the first pillar of Managing Environmental Impact in Lending with an addition of social risks.

Q11. Banks/DFIs have developed Green Banking Policy as a requirement for SBP's Green Banking Guidelines issued in 2017. After the ESRM Implementation Manual is issued, what will the banks/DFIs be required to do?

ANS: The ESRM Implementation Manual provides a template for developing banks/DFI's E&S policy and procedure. Once the Implementation manual is issued, banks/DFIs will need to develop E&S Risk Management policy and ESMS (procedural document) in line with the guidance provided in the implementation manual and align with the bank's credit approval procedure for managing E&S risks adequately.

Q12. The Green Banking Guidelines have both Green Finance and Environmental Risk Assessment. Why is a new Implementation Manual needed? Should the banks scrap everything that has been done so far and start from scratch?

ANS: The ESRM Implementation Manual builds on the work banks and DFIs have conducted after the Green Banking Guidelines were issued in 2017. Therefore, progress made to date still holds and there is no duplication. This ESRM Implementation Manual only provides tools and procedures to strengthen implementation of the Green Banking Guidelines.

The ESRM Implementation Manual introduces the following features to be more streamlined, interactive, and user-friendly in nature:

- The manual provides a robust, auto-generated quantitative risk rating system to reduce the subjectivity of a qualitative risk assessment method listed in the Green Banking Guidelines.
- The manual has a bigger focus on social and climatic risks, which are becoming relevant and crucial for Pakistan.
- The E&S Due Diligence (ESDD) Checklist in the manual incorporates guidance notes to assist Relationship Managers in performing E&S due diligence.
- The manual, in addition to investment threshold, defines applicability based on sector-specific E&S impacts and the loan categories have been expanded to include retail, trade, microfinance, small and medium enterprises (SME), corporate financing, and project financing. The manual introduces a differentiated risk-based approach.
- The organizational roles and responsibility defined in the manual are built upon the principles of integration of E&S risks into a bank or FI's overall credit policy. The manual clearly delineates the responsibility of different functions of a bank/DFI in terms of E&S risk assessment and the decision-making process based on E&S risk rating.

Q13. If a bank plants 5000 saplings along Lahore-Islamabad Highway, can that be considered as ESRM?

ANS: Planting 5000 saplings is a great initiative and shows the bank's commitment towards the environment and this activity is considered as Corporate Social Responsibility (CSR). However, it is not enough. When a bank identifies and manages its E&S risks in their lending products and services, it is considered as ESRM, which is part of their credit appraisal process.

ESMS Implementation

Q14. What challenges do the FIs Face in implementing ESRM?

ANS:
- Lack of resources both in terms of personnel and physical.
- Lack of training for employees and lack of understanding of the clients.
- Lack of leadership and guidance from senior management.
- Time consuming and perceived as additional work burden.

Q15. What is the current practice in the FIs in terms of ESRM?

ANS: The current level of implementation varies significantly from bank to bank. Some banks don't have any processes in place to identify and manage E&S risks, other's collect IEE and EIA report and NOCs as a procedure, some international banks follow their global policies and processes in managing E&S risks.

Q16. Why is it not enough to rely on government approvals and licenses? Why do banks need to do their own E&S due diligence?

ANS:
- The process of IEE and EIA is for transactions beyond a certain threshold. There are no specific requirements for SMEs where there are risks of pollution, child labor, discrimination and harassment, unsafe working conditions etc.
- IEE, EIA and NOCs come with definite recommendations. Since the banks do not have any process of dealing with E&S risks, these recommendations may not be considered while making credit decisions nor are they monitored for compliance leading to a situation where these risks are left unattended and unmanaged, so the banks need to put in place policy and processes to manage E&S risks in lending.
- The banks are investing money and its only prudent to identify all risks including E&S risks. They do site visits prior to lending and instead of relying only on licenses and permits they see first-hand the situation in a client's operation, thus best suited to do proper E&S due diligence.

Q17. What is an ESMS?

ANS: An Environmental and Social Management System is a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees. An Environmental and Social Management System states a financial institution's commitment to environmental and social management, explains its procedures for identifying, assessing and managing environmental and social risk of financial transactions, defines the decision-making process, describes the roles, responsibilities and capacity needs of staff for doing so and states the documentation and record-keeping requirements. It also provides guidance on how to screen transactions, categorize transactions based on their environmental and social risk, conduct environmental and social due diligence and monitor the client's/ investee's environmental and social performance.

Q18. What are the costs involved in setting up an ESMS in a bank?

ANS: The main cost of implementing ESMS is training staff to understand the E&S risks in lending. The banks can train their own trainers or key staff and these trainings are currently being offered by IFC and SBP. Developing an ESMS is done in-house, and all the tools, templates and checklists are provided in the ESRM Implementation Manual so there is no need to hire a consultant to set up the process. EIA or ESIA and the cost of doing the same is borne by clients and not by the bank. Only in the case of large and complex project finance where additional information is required to make a credit decision, the banks may hire independent consultants/ firms to carry out a study. This might incur cost for the bank if the client is not willing to pay for it.

Q19. NEQS have already classified different sectors as High, Medium and Low risk as per E&S risks. Why cannot banks follow this classification? Why do bankers need to do their own E&S due diligence?

ANS: NEQS classification is at the sectoral level and that banks are required to do E&S due diligence at the transaction level. The NEQSs classify industries based on their pollution level, the industries with liquid effluents are classified into three categories (A, B or C) while the industries with gaseous emissions are classified into two categories (A or B). As an example, a leather processing unit may be classified by NEQS as high risk given the toxic liquid effluent they discharge, however the bank might be financing an ISO certified Leather Unit that has robust procedures in place to manage all its liquid waste, has an Effluent Treatment Plant so no polluted water is discharged. In this case, the bank might categorize this client as low risk. Therefore, banks will need to consider NEQs classification to understand the level of E&S due diligence that would be required; however, banks will need to do their E&S due diligence at transaction level to make an informed credit decision.

Q20. In case of loan files, what sort of documents need to be maintained in loan files?

ANS: Some banks have online systems and information is stored digitally while others maintain documentation in physical files. Every loan file should have a fully completed ESDD checklist, copies of all permits, Environmental Protection Agency clearance certificate/ NOCs, fire license, factory license, buyer's audit report, ESAP, E&S covenants in the loan agreement, and subsequent supervision reports following disbursement.

Q21. Clients are reluctant to provide any E&S related information. They will not sign a loan agreement that has E&S clauses in it and the bank will just lose the client. What can the bank do?

ANS: First, the ESRM Implementation Manual is issued by SBP and all banks in Pakistan would be requesting similar information from the clients. Which means there will be a level playing field for managing E&S risks and the banks will not lose business. If E&S risks are identified and not included in legal documents, then there is no way a client can be compelled to comply with the E&S requirements. Gradually, clients will understand that in order to do banking in Pakistan, they will need to comply with local laws and regulations.

Q22. What can a bank do if the borrower does not implement E&S action plan post disbursement?

ANS: Banks/DFIs first need to identify the gaps, document them in a time bound action plan, which will be part of the loan agreement to make sure clients do comply. In the action plan there might be condition precedents—things the client will have to do before the first disbursement. There might be covenants, which will be considered events of default— if the client does comply, the bank may move out of the transaction and the loan will be prepaid. For example, if the client starts employing child labor in its operation knowing fully well it is an excluded activity. If there are other challenges in implementation, maybe the client does not have the capacity or the resources, maybe they have applied for a license but there are delays at the government office— the RM will initiate fresh discussion with the client, draw up a revised action plan and the client's risk rating might be revisited.

Q23. What has been done to enhance ESRM implementation so far?

ANS:

- An Environmental and Social Risk Management (ESRM) Implementation Manual has been developed, which will complement SBP's Green Banking Guidelines issued in 2017.
- Awareness raising for the financial sector is ongoing (both Bankers and Trainers)
- SBP will be actively monitoring progress of the implementation of the ESRM Implementation Manual, so a Green Banking Monitoring and Evaluation Reporting Template has been included in the Manual.

Further details available at:
https://www.sbp.org.pk/smefd/circulars/2022/CL12-Annex-4.pdf

Source:
https://www.sbp.org.pk/smefd/circulars/2022/CL12.htm

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Add-ons to SBP POLICY REGIME

October-December 2022

The primary objective of this feature is to highlight changes, or 'add-ons' to the SBP policies, on a quarterly basis to provide the readers better glimpses and comprehension of the central bank's policy regime, as well as being an easily accessible time-lined reference guide.

All circulars are easily accessible in the PDF of the Journal, available on the following link on the IBP website: https://ibp.org.pk/quarterly-journal/

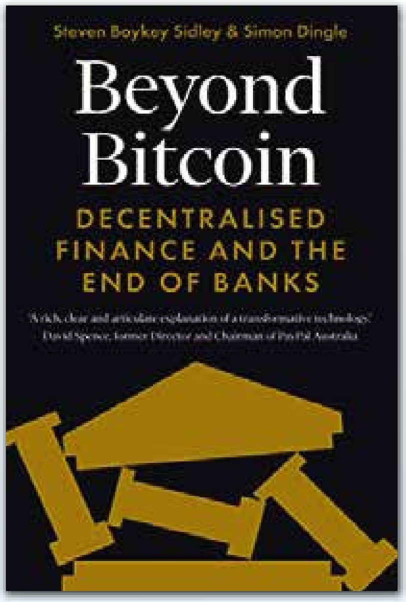
S#	Circular No / Issued on	Subject Matter
1	AC&MFD Circular No. 03 of 2022/ December 21, 2022	Markup Waiver and Financing Schemes for Farmers in Rain/Flood Affected Areas Under Kissan Package- 2022 https://www.sbp.org.pk/acd/2022/C3.htm
2.	AC&MFD Circular No. 04 of 2022/ December 21, 2022	Markup Subsidy and Risk Sharing Scheme for Farm Mechanization (MSRSSFM) https://www.sbp.org.pk/acd/2022/C4.htm
3.	BPRD Circular Letter No. 28 of 2022/ October 05, 2022	Public Holiday https://www.sbp.org.pk/bprd/2022/CL28.htm
4.	BPRD Circular Letter No. 29 of 2022/ October 25, 2022	Discontinuation of Hard Copy Submission of Regulatory Returns https://www.sbp.org.pk/bprd/2022/CL29.htm

5.	BPRD Circular Letter No. 30 of 2022/ October 25, 2022	Shareholding Returns-Banks/DFIs/MFBs https://www.sbp.org.pk/bprd/2022/CL30.htm
6.	BPRD Circular Letter No. 31 of 2022/ October 26, 2022	Improvement In Operations of CCTVs https://www.sbp.org.pk/bprd/2022/CL31.htm
7.	BPRD Circular Letter No. 32 of 2022/ November 08, 2022	Public Holiday https://www.sbp.org.pk/bprd/2022/CL32.htm
8.	BPRD Circular Letter No. 33 of 2022/ November 28, 2022	Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing (AML/CFT/CPF) Regulations https://www.sbp.org.pk/bprd/2022/CL33.htm
9.	BPRD Circular Letter No. 34 of 2022/ December 12, 2022	Amendment in Domestic Systemically Important Banks (D-SIBs) Framework https://www.sbp.org.pk/bprd/2022/CL34.htm
10.	BPRD Circular Letter No. 35 of 2022/ December 21, 2022	Public Holiday https://www.sbp.org.pk/bprd/2022/CL35.htm
11.	BPRD Circular Letter No. 36 of 2022/ December 26, 2022	Temporary Waiver of OTP/Callback Confirmation Requirement on AMA Accounts https://www.sbp.org.pk/bprd/2022/CL36.htm
12.	BPRD Circular Letter No. 37 of 2022/ December 30, 2022	Margin Restriction on Import of Items https://www.sbp.org.pk/bprd/2022/CL37.htm
13.	BPRD Circular Letter No. 38 of 2022/ December 30, 2022	Bank Holiday https://www.sbp.org.pk/bprd/2022/CL38.htm
14.	BSD-2 Circular Letter No. 01 of 2022/ December 29, 2022	Revision in Reporting Template of Quarterly Reporting Chart of Accounts (RCOA) https://www.sbp.org.pk/bsd-2/2022/CL01.htm
15.	DMMD Circular No. 18 of 2022/ October 17, 2022	Government of Pakistan Ijara Sukuk https://www.sbp.org.pk/dmmd/2022/C18.htm
16.	DMMD Circular No. 19 of 2022/ October 31, 2022	Rate of Remuneration on Special Cash Reserve Account Maintained With SBP Against Deposits Raised Under Fe-Circular 25 of 1998 https://www.sbp.org.pk/dmmd/2022/C19.htm
17.	DMMD Circular No. 20 of 2022/ November 25, 2022	SBP's Policy Rate and Overnight Repo/ Reverse-Repo Facilities https://www.sbp.org.pk/dmmd/2022/C20.htm
18.	DMMD Circular No. 21 of 2022/ November 30, 2022	Rate of Remuneration on Special Cash Reserve Account Maintained With SBP Against Deposits Raised Under Fe-Circular 25 of 1998 https://www.sbp.org.pk/dmmd/2022/C21.htm
19.	DMMD Circular No. 22 of 2022/ December 30, 2022	Rate Of Remuneration on Special Cash Reserve Account Maintained with SBP Against Deposits Raised Under Fe-Circular 25 of 1998 https://www.sbp.org.pk/dmmd/2022/C22.htm
20.	DMMD Circular Letter No. 06 of 2022/ December 01, 2022	Government of Pakistan Ijara Sukuk https://www.sbp.org.pk/dmmd/2022/CL6.htm
21.	FE Circular No. 07 of 2022/ November 08, 2022 (EPD)	Cross-Border Transactions through Debit/ Credit Cards https://www.sbp.org.pk/epd/2022/FEC7.htm

22.	EPD Circular Letter No. 18 of 2022/ November 08, 2022	Home Remittances Agency Arrangements of Exchange Companies with Foreign Entities https://www.sbp.org.pk/epd/2022/FECL18.htm
23.	EPD Circular Letter No. 19 of 2022/ December 09, 2022	Change in Reporting Frequency - Online Data Submission https://www.sbp.org.pk/epd/2022/FECL19.htm
24.	EPD Circular Letter No. 20 of 2022/ December 27, 2022	Import of Goods https://www.sbp.org.pk/epd/2022/FECL20.htm
25.	SH&SFD Circular No. 13 of 2022/ December 29, 2022	Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) https://www.sbp.org.pk/smefd/circulars/2022/C13.htm
26.	IH&SMEFD Circular No. 12 of 2022/ December 12, 2022	Prime Minister's Youth Business & Agriculture Loan Scheme (PMYB&ALS) https://www.sbp.org.pk/smefd/circulars/2022/C12.htm
27.	IH&SMEFD Circular Letter No. 12 of 2022/ November 09, 2022	Environmental & Social Risk Management (ESRM) Implementation Manual for Financial Institutions https://www.sbp.org.pk/smefd/circulars/2022/CL12.htm
28.	CMD Circular No. 03 of 2022/ October 25, 2022 (SBP BSC)	Extension in Last Date for Encashment/Conversion/Re-demption of Rs.40,000/-, Rs.25,000/-, Rs.15,000/- & Rs.7500/- Denomination National Prize Bonds Withdrawn from Circulation https://www.sbp.org.pk/CMD/2022/C3.pdf

Beyond Bitcoin

Decentralised Finance and the End of Banks



By: Steven Boykey Sidley & Simon Dingle

Synopsis

The first book for a popular audience on the transformative, democratizing technology of 'DeFi'.

After over a decade of Bitcoin, which has now moved beyond lore and hype into an increasingly robust star in the firmament of global assets, a new and more important question has arisen. What happens beyond Bitcoin? The answer is decentralized finance - 'DeFi'. Tech and finance experts Steven Boykey Sidley and Simon Dingle argue that DeFi - which enables all manner of financial transactions to take place directly, person to person, without the involvement of financial institutions - will redesign the cogs and wheels in the engines of trust, and make the remarkable rise of Bitcoin look quaint by comparison. It will disrupt and displace fine and respectable companies, if not entire industries. Sidley and Dingle explain how DeFi works, introduce the organizations and individuals that comprise the new industry, and identify the likely winners and losers in the coming revolution.

Reviews

"A rich, clear and articulate explanation of a transformative technology."
—David Spence, former Director and Chairman of PayPal Australia

"Looking backward to move forward, this book is a masterclass on the evolution and expansion of the crypto world and its possible futures. Essential for those wanting to move beyond the headlines."
—Herman Singh, Associate Professor, University of Cape Town Graduate School

"The gripping story of the great financial disruption and its portents, told with wit and insight."
—Ray Hartley, Research Director, The Brenthurst Foundation

"Everyone who cares about money is trying to get their heads around DeFi, and what it may mean for financial institutions. This book explains it all, with sparkle, depth and clarity."
—Michael Jordaan, ex-CEO of First National Bank and co-founder of Bank Zero (South Africa)

About the Authors

Steven Boykey Sidley has worked extensively in technology and finance and is an award-winning novelist, playwright and columnist. An American citizen, he currently lives in Johannesburg. *Beyond Bitcoin* is his sixth book.

Simon Dingle is an author, broadcaster and entrepreneur with extensive experience in cryptocurrency. He has been on the founding teams of several fintech firms, including cryptocurrency exchange Luno and open banking provider Curve.

CASHLESS

CHINA'S DIGITAL CURRENCY REVOLUTION

By: Richard Turrin

Synopsis

Cashless is the first and only book that dives deep into the design and use of China's new central bank digital currency. This represents a roadmap for our shared digital currency future and a long-term threat to US dollar dominance.

China is changing the very nature of money and borrowing heavily from cryptocurrency to cement its role as the world's financial technology leader. *Cashless* is written by the best-selling author of *Innovation Lab Excellence,* an award-winning expert in fintech innovation, career banker, and technology expert who has experienced China's cashless revolution firsthand as a former US resident living in China. It reveals how:

- China's digital currency can help you better predict and navigate the cashless future coming to the US—and the world
- Your company may be tempted to use China's digital currency to make cross-border payments
- The EU, UK, Japan, and India are developing digital currencies
- Digital payment will change our relationship with money and promote financial inclusion

Cashless shows you the future. It offers a comprehensive analysis of China's digital payment systems so that you can better prepare for the rise of digital currencies. It is a must-read for all business leaders and professionals looking for a decided competitive advantage.

About the Author

Rich Turrin is the international best-selling author of *Innovation Lab Excellence*. He is an award-winning executive previously heading fintech teams at IBM, following a twenty-year career heading trading teams at global investment banks. Living in Shanghai for the last decade, Turrin experienced China going cashless first-hand and has a unique combination of banking and technology skills that allow him to bring the exciting story to life. Turrin is an independent consultant whose views on China's astounding fintech developments are widely sought by international media and private clients.

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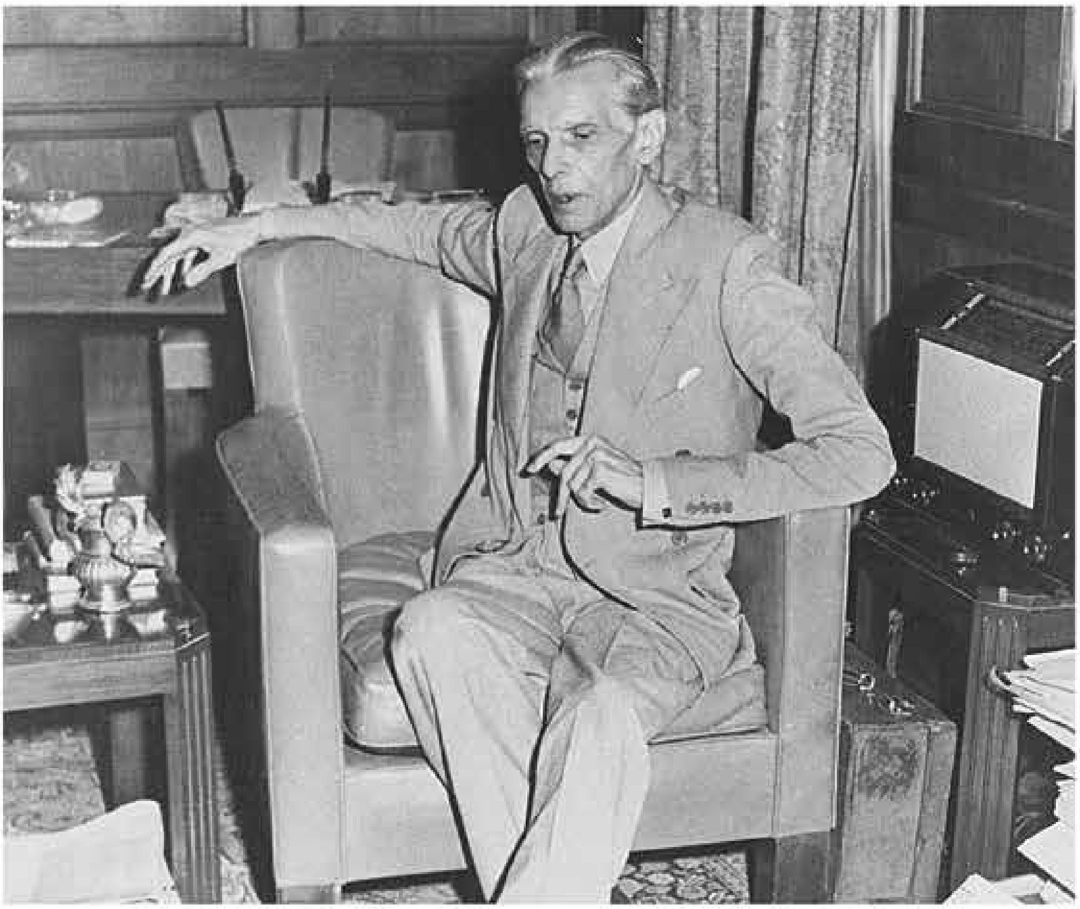

"We ... in general and young men in particular do not know the value of money. A paisa saved today is two paisa tomorrow, four paisa after that and so on and so forth. Because of our addiction to living beyond means and borrowing money we lost our sovereignty over this Sub-continent."

Mohammad Ali Jinnah
Founder of Pakistan
(Ziarat, 1948)

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