



BANKING CONDUCT LANDSCAPE IN PAKISTAN



Banking Conduct

- The way a bank interacts with its customers or public while pursuing its business goals.
- From Supervisory Perspective a Banking Conduct Regime includes Laws, Regulations and Guidelines on:

Organizational Culture (Management Oversight, Policies, Practices)

Affordability & Suitability

Pre & Post Sales Disclosure

Customer Account Handling & Maintenance

Grievance Resolution

Consumer Empowerment

- Within banking organization conduct is inculcated through written policies & practices and codes.

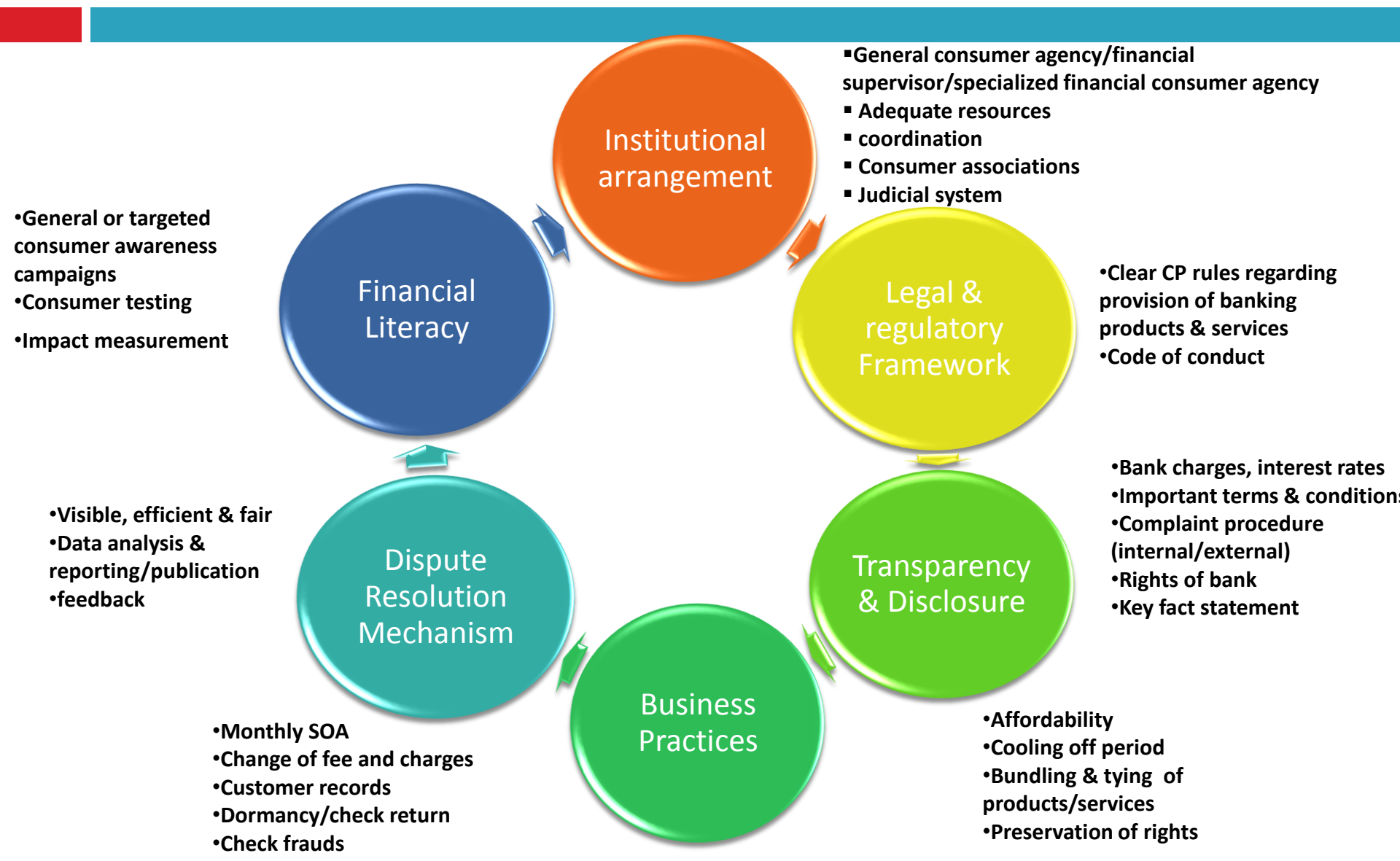
International Standards

- **World Bank : “Good practices for Financial Consumer Protection”**
 - Consumer Protection Institutions.
 - Disclosure and Sales Practices.
 - Customer Account Handling and Maintenance.
 - Privacy and Data Protection.
 - Dispute Resolution Mechanisms
 - Guarantee Schemes and Insolvency.
 - Consumer Empowerment & Financial Literacy.
 - Competition and Consumer Protection.

International Standards

- **OECD : “ G 20 principles on Financial Consumer Protection”**
 - Legal, Regulatory and Supervisory Framework .
 - Role of Oversight bodies.
 - Equitable and Fair treatment of consumers.
 - Disclosures & Transparency.
 - Financial education and awareness.
 - Responsible Business Conduct of Financial Services Providers and Authorised Agents.
 - Protection of Consumer Assets against Fraud and Misuse.
 - Protection of Consumer Data and Privacy.
 - Complaints Handling and Redress.
 - Competition.

Areas falling under Banking Conduct



Banking Conduct Landscape in Pakistan

□ Institutional & Legal Arrangement

□ State Bank of Pakistan

- Prudential as well as Conduct supervision entrusted under Section 41 of BCO, 1962 .

□ Others

□ Banking Mohtasib of Pakistan-External grievance redressal forum

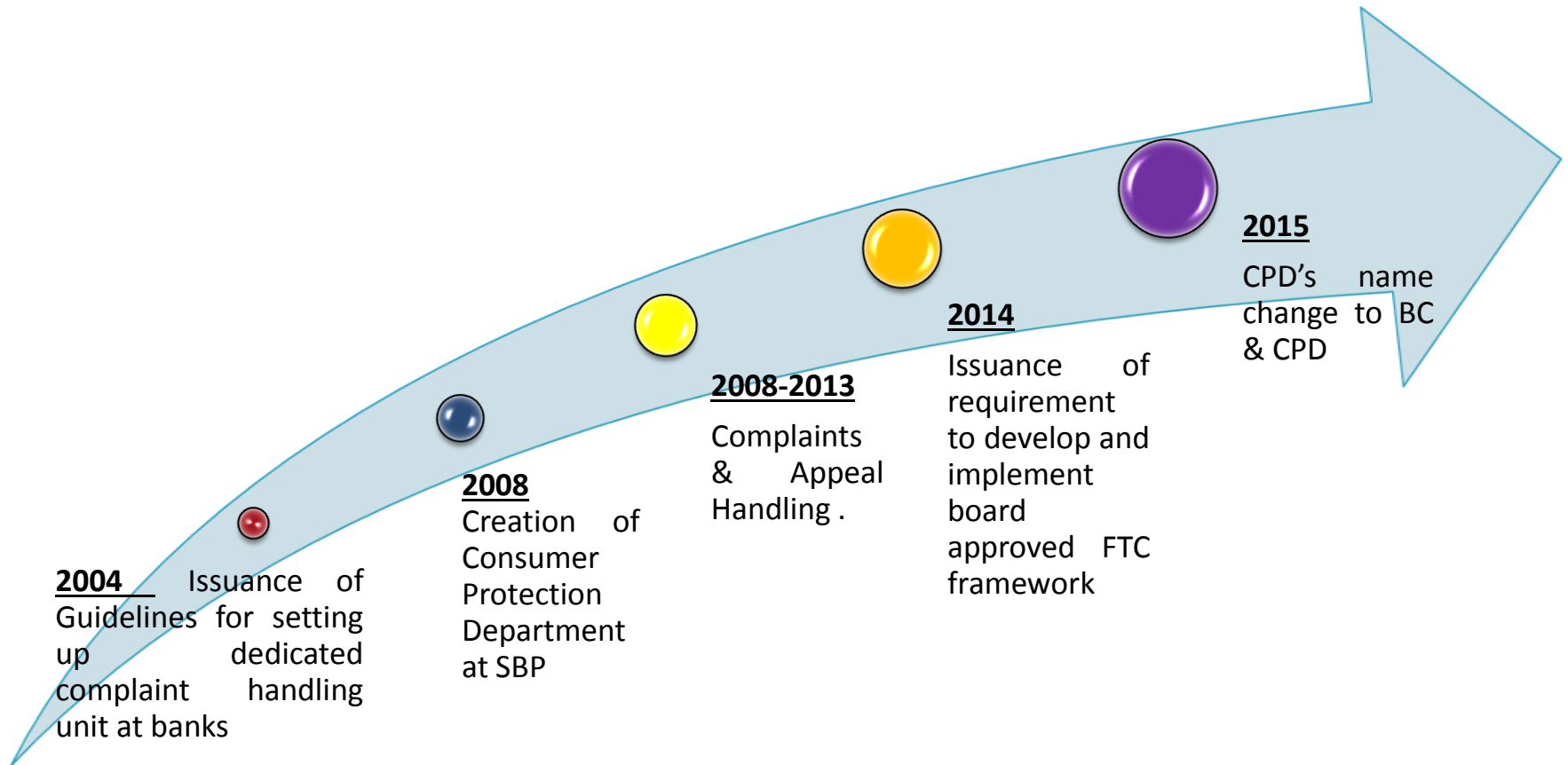
- Section 82 of BCO, 1962 and
- Federal Ombudsmen Institutional Reform Act 2013

□ Competition Commission of Pakistan

□ Ombudsmen

□ Courts

Evolution of Conduct Regulation & Supervision at SBP

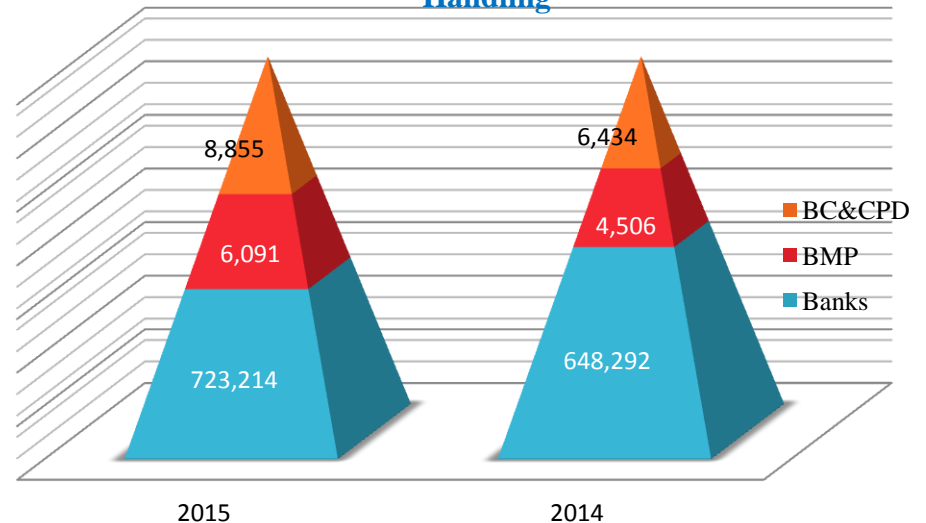


Snapshot of consumer complaints

Product or service area

ATMs	24.73%
Account Operations & Deposits	20.65%
BISP Complaints (mostly due to ATM)	14.34%
Misbehavior/ Misconduct	9.92%
Credit Cards	9.47%
Personal Loans	5.30%
Remittances	3.73%
Auto Finance	2.38%
LC / BG / TC	1.83%
Pension Problems	1.81%
Utility Bills	1.80%
Miscellaneous	1.65%
Frauds & Forgeries	1.54%
House / Mortgage Finance	0.64%

Comparative Analysis of Industry Wide Complaint Handling



Banking Conduct Issues

Culture

- ❑ Conduct not given due recognition within organization.
- ❑ Lack of explicit policy/Framework on FTC.
- ❑ Inadequate resources allocation to SQ/FTC.
- ❑ Inadequate weightage of FTC in employee performance assessments and trainings.
- ❑ Obsolete consumer handling policies due to lack of market/consumer engagement.

Product design and offering

- ❑ Unstructured/inadequate suitability assessments.
- ❑ Inadequate information to the customer; pre as well as post sale.

Operational inefficiencies

- ❑ ATM downtimes and other payment & settlement inefficiencies.
- ❑ Non delivery of commitment.
- ❑ Complex/inefficient e banking interfaces.
- ❑ Poor account handling and maintenance.

Complaint handling

- ❑ Limited to “fire fighting”. Lack of preventive actions based on analysis of complaints data.
- ❑ Complaint function not integrated with business and operations.

Recent Market Conduct Regulations

- **Sale of Third Party Products by Banks:** These instructions were issued in the backdrop of rising complaints relating to deceptive sales of Bancassurance and other third party investment products. The instructions require disclosure requirement and additional controls.
- **Fair Treatment of Customers Framework (FTC):** Banks/DFIs/MFBs vide CPD Circular 4 of 2014 have been advised to develop and implement Financial Consumer Protection Framework, duly approved by their BODs, by July 1, 2015.
- **Guiding principles on Fairness of Service Charges:** Being non prescriptive, the guidelines set forth high level principles that bank need to follow while devising their schedule of charges for the consumers.
- **Consumer Grievance Handling Mechanism:** With SBP's 2020 vision to focus on core supervisory activities, the complaint handling function in banks have to be fair, efficient and effective. These guidelines give directions on conducive culture, communication with the complainants, TATs, record retention, annual disclosures and regulatory.

Recent Market Conduct Regulations

- **Effective Disclosures:** Recognizing the fact that transparency in disclosures gives customer the opportunity to make informed decision and avail the service that best suit their needs, SBP has issued disclosure requirements for Credit Cards, personal loans, Mortgage and auto loan products.
- **Guidelines of Business Conduct:** In order to exert self-discipline on the banks with respect to responsible banking and promote healthy competition and ethical practices SBP has issued Guidelines of Business Conduct for Banks.
- **Conduct Assessment Framework:** To help banks gauge their state of Conduct, SBP has developed a “Conduct Assessment Framework” which is a self assessment model to be used by the banks themselves and share their findings with SBP. This framework will help identify grey areas and eventually help banks improve their conduct. The model is under pilot run and will shortly be issued as an annual exercise.

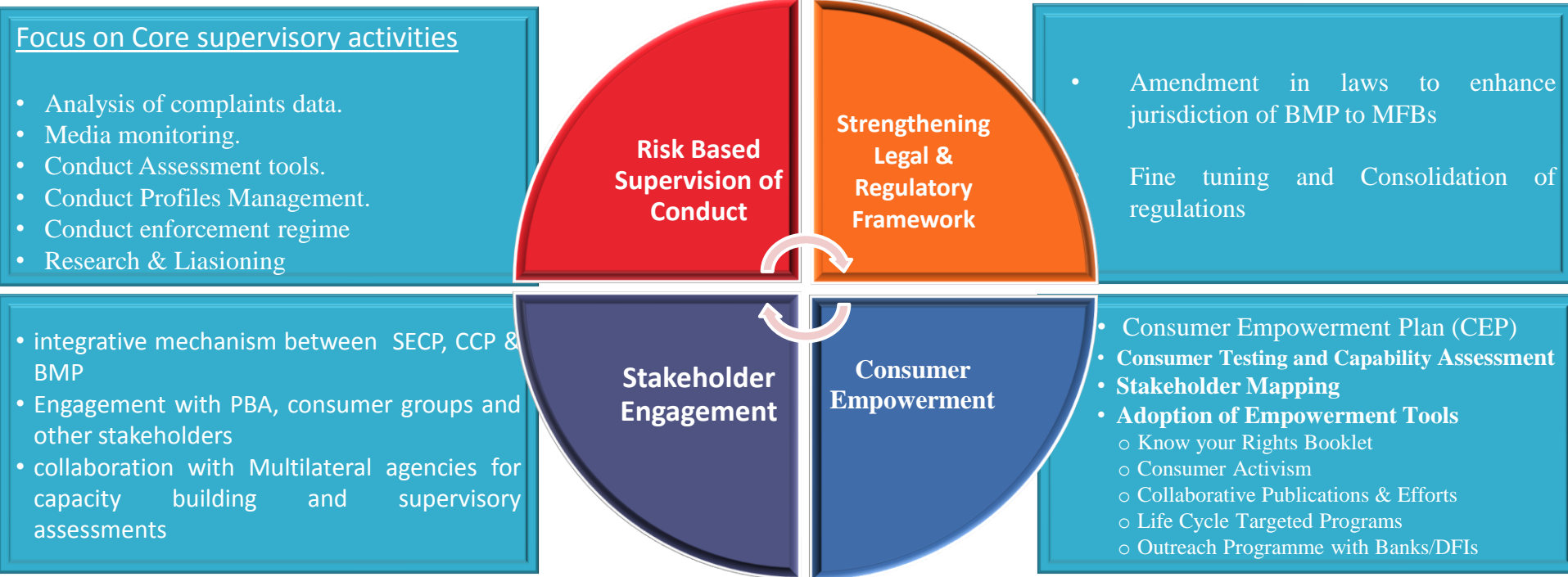
Recent Market Conduct Regulations

- **Prevention of Fraudulent Payment Instruments:** Provision of safe and secure payment instruments is one of the vital features of an effective financial consumer protection regime. Realizing the same, minimum security features as well as the internal controls for processing of cheques and Pay Orders have been issued by SBP. After the said instructions, the complaints against fraudulent cheques and pay orders have come down to almost zero.
- **Equal Banking opportunities:** SBP has also ensured provision of equal banking rights for visually impaired and special person by issuing guidelines on banking for visually impaired and customers with physical disability. This has helped banks invade untapped or discouraged segments of the market in a Responsible way. This step has been largely appreciated by the stakeholders.

SBP Vision-2020

- **Strategic Goal 3 : Improve the efficiency, effectiveness and fairness of the banking system.**
 - Strengthen the Fair Treatment of Consumers (FTC) regime
 - Key Activities
 - SBP to step back from direct involvement in resolving customer disputes with banks while strengthening the effectiveness of the Banking Mohtasib Pakistan dispute resolution regime.
 - Strengthen FTC requirements and implement monitoring, evaluation and a supervisory program to assess the level of industry compliance.
 - Establish a joint working group with SECP to ensure consistency in application of conduct standards across the financial sector.

Conduct Supervision - Strategy



Regulatory Expectations

- **Right tone at the top**
 - Business conduct should be given same priority as given to business targets
 - Reflected in policy and procedures
 - Dissemination to the frontline staff
 - Considered in employee assessment
 - Appropriate monitoring and controls
 - Adequate resources & training

- **Customer should be seen being treated fairly**

- **Product design and offering**
 - Put yourself in the shoes of customer
 - Equitable treatment of customer

- **Complaints are feedback not criticism**
 - Should be used to improve product design and delivery
 - Efficient and fair

- **Consumer empowerment is your corporate social responsibility**



Thank you