**BANK SCHEDULE OF CHARGES**

**Guidelines for Standardization of ATM Operations**

ATM is among the most important e- banking delivery channels in Pakistan. It is becoming increasingly popular, as it facilitates accountholders to withdraw fast cash anytime, inquire balance, and transfer funds throughout the year. The SBP has issued separate guidelines for all the commercial banks and switch operators in order to curtail any inconvenience to the users of ATM services. The guidelines require the banks having ATMs to carry out cash balancing and reconciliation on every working day at the time fixed by their Head Office, other than the peak hours.

According to the guidelines, a process of “automatic credit” is to be carried out on the basis of verified individual transactions in which a customer’s account has been debited without any cash disbursement.

Moreover, the process of “automatic credit” is to be completed within the timeframe ranging from one to seven business days, depending on the manner of execution of transaction by a cardholder of a bank. In order to facilitate the customers and meet the objectives of the ATM, banks are also required to develop a detailed documented procedure for automatic credit and carry out training of relevant staff members. The guidelines necessitate Card Facilitation Centre (CFC) in every bank. CFC is a unit responsible for managing e-banking channels and maintaining database of cases (resolved/unresolved) of its own customers and balance in suspense account. In this regard, every branch ought to report to CFC the details of claims settled, outstanding claims and balance suspense account on daily basis, to enable quick response of queries.

It is mandatory for all the banks to identify at least two key personnel of CFC, who would be responsible for responding to the queries of customers, and their contact details are to be made available on website of the bank. Furthermore, customer must be informed in writing about the amount credited to his/her account by the issuing bank. Besides, the customers are not to be charged for minimum balance when their account has been debited without cash disbursement and time for which the amount remains payable. For providing secondary evidence to satisfy the customer against cash claims, banks are required to install external camera in ATM cabins in a way that PIN may not be captured.

Moreover, the guidelines obligate all banks to report details regarding the nature of transactions (automatic credit, claims processed or outstanding balance (suspense ATM cash), and total number and amount of actual transactions to the SBP’s Payment Systems Department (PSD). In addition, every bank is required to develop a numbering sequence for complaints and every complainant is to be issued a reference number.

These guidelines are applicable only on cards used on ATM machines for local currency transactions, which are carried out in Pakistan.

**Guidelines for Dealing with Customer Complaints:**

Keeping in view the complaints received by the SBP regarding financial losses, damage to the businesses, and delayed response of banks, the SBP has issued guidelines for dealing with the customer complaints. SBP observed that due to absence of proper mechanism for resolution of public grievances, the banks are unable to respond to the customer complaints promptly and efficiently. Therefore, these minimum guidelines require every bank and financial institution to designate a senior officer to deal with all sorts of complaints, whether they are received directly by the bank or referred to by other institutions including the SBP. All banks are obligated to provide contact details of such designated officials or any change with this reference to the SBP.

According to the guidelines, the person and the unit/section appointed for this purpose is responsible for acknowledging, addressing, handling and investigating all the complaints in a fair and prompt manner. The reply to the complaints ought to be clear and indicate the reasons of the decisions taken. The complaint unit is also required to identify complaints of recurring nature for taking immediate corrective measures in the related area. In addition, the unit has been guided to monitor and analyze the status and data of complaints for improving the system. Every bank or financial institution is also required by the guidelines to submit a regular report about the complaints to the management of the bank or financial institution for review.

The response time for the complaints has been fixed at 10 days under the guidelines. However, an interim reply can also be sent to the complainant explaining the reasons for delay, but the final reply is to be transmitted within 45 working days. Like other departments of the bank, the complaints department/unit is also required to be regularly audited by internal auditors to check the effectiveness and performance of the unit.

For raising awareness among the customers about the grievance redress procedure and complaint unit, the banks and DFIs are required to prepare a leaflet indicating the procedure for lodging a complaint and its resolution, and post the same on the notice boards at each of their branch/office and on the website. Besides, a copy of the leaflet is to be supplied to customer upon request. Moreover, the bank staff is to be provided appropriate training to enhance their skills so that an employee who is not directly involved with the complaint unit may investigate a complaint, if required.

The guidelines specify that the complaints forwarded by the SBP would be handled by the person who is the contact person for SBP in this regard. Whereas, the SBP would check the performance, effectiveness and function of the complaint section and strict actions would be taken against the bank or DFI and the concerned staff members for noncompliance with the procedures or mishandling of complaints.

**What is a Grievance?**

‘Grievance’ may be defined as a formal statement of complaint generally against an authority, or an institution. Most often, organizations establish a body or designate an officer who deals with complaints of the clients. Such a body plays important role for identification, intervention and resolution of issues that have the potential of becoming a grievance. When the circumstances do not allow prior resolution of issues and a grievance takes place, the redress forum is responsible for initiating a grievance redress process. The aim is to protect the citizens’ right to raise a genuine issue, lodge a complaint for a grievance, and have the grievance redressed in a timely manner.

**On line Credit Information Bureau (e-CIB)**

While developed countries have a long tradition of maintaining a centralized database of credit history of all borrowers, in many developing countries it is a relatively new development, given the scope and size of their lending activities. State Bank considers the functioning of an effective credit information bureau integral in promoting financial discipline and an essential tool for credit risk management by financial institutions. In its endeavor to facilitate financial institutions in making prudent lending decisions, the Credit Information Bureau (CIB) was established in 1992. Due to the rather small and largely secured lending extended to individual customers at that time, the initial focus of the CIB database was on capturing the *negative history* of large and medium sized borrowers, with outstanding loans equal to and above Rs 500,000 only. Over the years, SBP has significantly enhanced the scope of CIB operations. In April 2003, SBP enhanced the coverage and effectiveness of CIB by introducing e CIB online facilities, becoming in the process, the first credit history database of the region to introduce online access to its member financial institutions. This development enabled financial institutions to upload their data on loans directly into the CIB database and readily generate customer reports for their credit assessment purposes.

In response to the rapid growth in banks’ credit portfolio, e CIB’s reporting requirements and operational and IT platforms have been significantly upgraded. The scope of the CIB database was further enhanced during early 2004 when SBP launched a new project called the “e CIB data lowering limit” with the collaboration of Pakistan Banks Association (PBA) to achieve the following objectives:

* Abolishing the minimum limit of Rs 0.5 million and above for credit reporting and to expand the database to cover all loans of member financial institutions
* Changing the composition of the information to include more financial and non financial details of the borrowers
* Improve the overall operational efficiency of e CIB by upgrading the communication infrastructure, hardware and software, etc

The project aimed at transforming CIB into a state of the art credit information database with the ability to minimize the turnaround time of queries from financial institutions and providing a quick source of information. The project was successfully completed in June 2006 and brought significant improvements in

the overall operational and technological infrastructure of the CIB. The key improved features of the new e-CIB system over the old CIB system are summarized below:

* Existing credit reporting limits of Rs 0.5 million has been eliminated. Under the new reporting system, all outstanding fund and non fund based credit facilities, irrespective of the amount, are being reported to SBP
* Besides Banks and DFIs, for whom membership in e CIB is mandatory, a large number of NBFCs are also members of this database
* Product wise availability of loan information. Before implementation of the new system, such information was available in aggregate form only
* Improved efficiency in terms of speed, reliability and security of CIB data
* Deployment of high capacity servers, security firewalls, broader bandwidth, point to point data encryption
* Multi user and multi tiered Rich Client Data using latest programming tools, provided to 100 financial institutions. The software has been designed keeping in view the data collection requirements of all financial institutions and can be customized according to the needs of specific financial institutions. It can be deployed in both centralized and decentralized environments. The software is capable to efficiently collect, consolidate and report thousands of records from all branches of a large bank
* Highly sophisticated and completely automated Back Office (BO) system for processing data. With the implementation of the BO system the task of data processing has been reduced from 15 days to 3 days only
* Web based interactive data inquiry systems to provide online Credit Information Reports to financial institutions, and allow online amendment and updates
* Replaced the previous dial up system with a scalable Virtual Private Network (VPN) that allows financial institutions to connect to the e CIB more quickly and efficiently
* Comprehensive data validation rules implemented to ensure correct entry of records. A validation rule engine has also been developed for creating and implementing new data validation rules
* A new separate reporting system has been introduced for consumer and commercial borrowers. The CIB will collect consumer and corporate credit data on two separate specified formats and provides separate credit information reports for the consumer and corporate borrowers
* The credit report of the consumer also reflects the repayment history for the last twelve months
* Record of last four credit inquiries from the financial institutions has also been made part of the respective borrower’s credit report

**Redress Mechanisms for Consumer Complaints:**

**Banking Ombudsman**

The Federal Government established the Banking Ombudsman in 2005. The principal responsibility of the Ombudsman is to resolve the complaints through mediation and provide an amicable and acceptable solution where conciliation is not possible.

**Jurisdiction**

The Banking Ombudsman has been entrusted with the powers and responsibilities to entertain complaints lodged by the customer against the scheduled banks or by a scheduled bank against another bank, and provide the basis for an amicable and acceptable solution after giving hearings to the complainant and the concerned bank. Moreover, Banking Ombudsman has been given authority to make recommendations, to be communicated to the concerned bank for considering the issue, and in some cases to pass an order against the concerned bank. To improve the service standards and effectiveness, and remove the generalized systematic deficiencies, the Banking Ombudsman can recommend procedural improvements. SBP can inquire the banks involved in violation of laws and regulations on recommendation of the Ombudsman.

The authority and powers of Banking Ombudsman have been specified for private and public sector banks. In relation to all banks, Banking Ombudsman has been given the authority to entertain the complaints regarding bank’s failure to act in accordance with the laws, regulations, policy directives and guidelines,

which are time to time issued by SBP and inquire the delays or fraud in relation to the payment or collection of cheques, drafts or transfer of funds. Moreover, the Banking Ombudsman has also been allowed to consider the complaints regarding fraudulent or unauthorized withdrawal or debit entries in accounts, complaints from exporters or importers, complaints related to banking services and obligations including letters of credit, complaints from holders of foreign currency accounts, whether maintained by residents or non-residents, complaints relating to remittances to or from abroad and relating to payment of utility bills.

A noteworthy characteristic of the Baking Ombudsman is that it has some special powers, which do not apply to the private banks. The responsibilities of entertaining the complaints pertaining to corruption, negligence of duties by bank officers in dealing with customer and excessive delay in taking decisions can be exercised only in respect of public sector banks.

In addition, Banking Ombudsman has the authority to call for relevant information necessary for disposal of complaints, receiving evidence on affidavit and issuing commission for examination of witness, given that confidentiality would not be violated.

**Bar on Jurisdiction**

However, there are some matters which are outside the jurisdiction of Banking Ombudsman including the power to direct banks for giving loans and advances to a complainant. Similarly, the Banking Ombudsman has no authority to consider the complaints regarding the schedule of charges and any other policy matter of banks. Likewise, complaints pertaining to terms and conditions of service of the bank are not accepted by the Banking Ombudsman. Moreover, awarding the damages against banks is not within the jurisdiction of Banking Ombudsman. However, the authority for the compensation of loss suffered by aggrieved persons in pursuit of justice lies with him.

**Complaint Procedure**

The complaint handling process of Banking Ombudsman is centralized at the Karachi Secretariat. The complainant is required to file a complaint to the bank in writing stating the intention to refer the matter to the Banking Ombudsman if matter would not be resolved satisfactorily. The bank is required to resolve the complaint within 45 days, otherwise the complainant can file the case to Banking Ombudsman on the complaint form duly completed, signed and attested by an Oath Commissioner, attached to the letter of complaint. Moreover, the complainants are required to make sure that copies of all documents and relevant correspondence with the bank are also attached along with the form and letter of complaint.

The Banking Ombudsman entertains those complaints, which are filed by a customer against scheduled bank or by a scheduled bank against any other bank. Further, the rejected complaints, which have not been barred by time or have not been destroyed by the bank, are also entertained by the Banking Ombudsman. In this regard, the complainant has to send all related correspondence along with the complaint form without giving 45 days notice to the concerned bank.

When a complaint is lodged to the Banking Ombudsman, first all procedural requirements are confirmed and both parties may be required to provide additional information, if necessary. Informal complaints (i.e. walk in, e-mail, copies of letters or via telephone) are resolved by providing procedural guidance to complainant. In case of formal complaints, the banks are formally informed where necessary. Regarding informal complaints, the law allows to entertain only those complaints, which have been filed directly to Banking Ombudsman and made under oath.

The Banking Ombudsman may also visit the concerned bank to examine their books, procedures and processes relating to complaints. The case is closed if found unjustified. However, if a case is found to be genuine, then it would be resolved through mediation. The situation where conciliation is not possible, the Banking Ombudsman passes an order asking the bank to rectify the situation or compensate the loss of aggrieved.

The Banking Ombudsman solves the complaint within two months. However, some complaints may take longer to resolve if they are complex or information and copies of documents are not provided by the complainant. Therefore, a complainant is required to make sure that the complaint form has been filled in with clarity and copies of all the relevant documents are attached.

**The Right to Appeal**

The law provides the right to appeal to parties, the complainant and the bank. A complainant, dissatisfied with the decision of Banking Ombudsman, has the right to appeal to the Governor SBP within 30 days from the date of order of the Ombudsman. Moreover, a complainant, dissatisfied with the decision of SBP, has also been given the right to go to a court of law. However, the Ombudsman’s decision would be final, operative and binding upon the bank, if no appeal is filed or SBP does not uphold the appeal.

Several changes have been made in the Banking Companies Ordinance, 1962 through the Finance Act, 2007 empowering the Banking Ombudsman to issue commission for the examination of witnesses. In consideration of the changes, Banking Ombudsman does not entertain those cases, which have already been decided or handled by the SBP.

The time allowed to banks, to send the complaint to the Banking Ombudsman if not resolved, is reduced to 45 days from three months. Earlier, there was no time limit for disposal of an appeal filed with SBP against any order by the Banking Ombudsman, which has now been limited to 60 days. Unless an appeal is referred to the Governor SBP, the time limit for implementation of an order passed by the Banking Ombudsman has been increased to 40 days and submission of compliance report is compulsory, which was not required previously.

**Consumer Protection Department:**

* Keeping in view the growth in consumer banking and related consumer complaints, SBP has issued a circular on January 30, 2008 for the establishment of new department, namely Consumer Protection Department (CPD)
* The Department would resolve consumer complaints dealing with banks
* All banks and financial institutions would submit complaints and appeals against the orders passed by the Banking Ombudsman to the Consumer Protection Department

**Banking Courts for Recovery of Loans:**

* Under the Recovery of Finances Ordinance, 2001, the Federal Government has been entrusted with the authority to establish banking courts, appoint judges for each of such courts, and specify the territorial limits to exercise its jurisdiction
* Federal Government has established 29 banking courts throughout Pakistan for quick recovery of bank loans from defaulters
* The order of banking court would be final and no other court or authority would have power to revise, review or call, into question any proceeding, judgment, decree or order of banking court

**The Financial Institutions (Recovery of Finances) Ordinance, 2001:**

* The new recovery law provided a mechanism for expeditious recovery of stuck up loans, e.g., the law provided a comprehensive procedure for the foreclosure and sale of mortgaged property without the interventions of a court of law, and automatic transfer of all cases pending in any other courts to the banking courts for their early resolution
* Under the new legislation, banks may recover debt through summary procedure, and sell mortgaged property without intervention of the court

**The Payment Systems and Electronic Fund Transfers Act, 2007**

With the rapid development in technology, like other spheres of human life business and trade are also no more limited to traditional modes of delivery of products and services, as well as, purchase and payments in cash. A person sitting at one place can buy any product from another place through internet and can pay through secured online electronic channels like credit cards. Many countries around the world have formulated laws, rules and documentation procedures for secure fund transfer through electronic means.

The Government of Pakistan promulgated the Payment Systems and Electronic Fund Transfers Act, 2007 in order to encourage documentation of economy, supervise and regulate such payments and fund transfers, provide standards for protection of the consumer and to determine respective rights and liabilities of the financial institutions and other services providers, and their consumers and participants. The Act is aimed at providing regulatory framework for the electronic fund transfer services. Under the Act, the SBP has the

authority to designate a payment system as a designated a payment system and/or revoke designation of a designated payment system.

Under the Act, the SBP is also empowered to issue rules, guide lines, circulars, by-laws or directions as it may consider appropriate. A bank, financial institution, clearing house, service provider or any person authorized by the SBP to transact business under the Act and providing funds transfer facility is required to retain complete record of electronic transactions in electronic form and ensure secure means of transfer consistent with international standards. Clause 8 and 9 of the Act describe the reasons for disqualification of staff of a designated payment system and its effects respectively. According to the Act, the operator of a designated payment system is obligated to establish adequate governance arrangements which are effective, accountable and transparent or which may be required by the SBP to ensure the continued integrity of such system.

The SBP is empowered under the Act to nominate one or more clearing house to provide clearing or settlement services for a payment system and to formulate ‘settlement rules’ relating thereto. Besides, certain conditions have been imposed in the Act for the issuance of a designated payment instrument. The financial institutions and other institutions providing Electronic Funds Transfer (EFT) facilities are required to ensure that secure means are used for transfer of funds which are compliant with current international standards. In respect of each EFT initiated by a consumer, the financial institution holding such consumer’s account is required to provide documentary proof to the consumer of such transfer.

The Act further requires the financial institution to provide periodic statement of account to each consumer in respect of each electronically accessible account. It also lays down the procedures to be followed in case of errors or omission in electronic fund transfer (EFT) and the respective liabilities of the financial institutions and consumers in such circumstances. Under the Act, a consumer may also complain to the SBP regarding EFT in case of not being satisfied with the outcome of a complaint made to financial institution without prejudice to any right to seek any other remedy under the law.

**The Competition Ordinance, 2007**

The Government of Pakistan, in a bid to strengthen the competition policy and law, constituted Competition Commission of Pakistan. The Commission is responsible for promotion of competition and fair trade practices. The legal mandate comes from the Competition Ordinance, 2007. All regulated sectors, including the banking sector, fall within the purview of the Ordinance.

Section 4 and 10 of the Ordinance are particularly relevant in the context of banking sector, as they deal with prohibited agreements and deceptive market practices. Section 4 lays down that no undertaking or association of undertaking shall enter into any agreements or, in the case of an association of undertakings, shall make a decision in respect of the production, supply, distribution, acquisition or control of goods or the provision of services which have the object or effect of preventing, restricting or reducing competition within the relevant market unless exempted under the ordinance. Such agreements includes, but are not limited to fixing the purchase or selling price or imposing any other restrictive trading conditions with regard to the sale or distribution or any goods or the provision of any services.

Such agreements also include those, which involve dividing or sharing of markets for goods or services, whether by territories, by volume of sales or purchases, by type of goods or services sold or by any other means; fixing or setting the quantity of production, distribution or sale with regard to any goods or the manner or means of providing any services; limiting technical development or investment with regard to the production, distribution or sale of any goods or the provision of any service; or collusive tendering or bidding for sale, purchase or procurement of any goods or services; applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a disadvantage; and make the conclusion of contractors subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usages, have no connection with the subject of such contract.

Section 10 of the Competition Ordinance 2007 prohibits deceptive marketing practices (which are common in the banking sector). The law provides that no undertaking shall enter into deceptive marketing practices. The deceptive marketing practices shall be deemed to have been restored to or continued to or continued if an undertake restores to the distribution of false or misleading information that is capable of harming the

business interests of another undertaking; the distribution of false or misleading information to consumers, including the distribution of information lacking a reasonable basis, related to the price, character, method or place of production, properties, suitability for use, or quality of goods; false or misleading comparison of goods in the process of advertising or packing; fraudulent use of another’s trademark, firm name, or product labeling or packing.

The above review indicates that a number of mechanisms exist for dealing with public complaints and concerns that are associated with consumer financing. Still, the number of complaints is rising every year.

While this trend can be measured in proportion to the increasing number of borrowers and overall consumer financing portfolio, lack of consumer education and weaknesses in the grievance redress mechanism are among the major reasons for rising customer dissatisfaction. The Banking Ombudsman is a case in point. The complex complaint procedure and limited powers of the Ombudsman do not provide an incentive to many aggrieved customers to approach this forum against banks. The regulatory framework

**BANK SCHEDULE OF CHARGES**

**Guidelines for Standardization of ATM Operations**

ATM is among the most important e- banking delivery channels in Pakistan. It is becoming increasingly popular, as it facilitates accountholders to withdraw fast cash anytime, inquire balance, and transfer funds throughout the year. The SBP has issued separate guidelines for all the commercial banks and switch operators in order to curtail any inconvenience to the users of ATM services. The guidelines require the banks having ATMs to carry out cash balancing and reconciliation on every working day at the time fixed by their Head Office, other than the peak hours.

According to the guidelines, a process of “automatic credit” is to be carried out on the basis of verified individual transactions in which a customer’s account has been debited without any cash disbursement.

Moreover, the process of “automatic credit” is to be completed within the timeframe ranging from one to seven business days, depending on the manner of execution of transaction by a cardholder of a bank. In order to facilitate the customers and meet the objectives of the ATM, banks are also required to develop a detailed documented procedure for automatic credit and carry out training of relevant staff members. The guidelines necessitate Card Facilitation Centre (CFC) in every bank. CFC is a unit responsible for managing e-banking channels and maintaining database of cases (resolved/unresolved) of its own customers and balance in suspense account. In this regard, every branch ought to report to CFC the details of claims settled, outstanding claims and balance suspense account on daily basis, to enable quick response of queries.

It is mandatory for all the banks to identify at least two key personnel of CFC, who would be responsible for responding to the queries of customers, and their contact details are to be made available on website of the bank. Furthermore, customer must be informed in writing about the amount credited to his/her account by the issuing bank. Besides, the customers are not to be charged for minimum balance when their account has been debited without cash disbursement and time for which the amount remains payable. For providing secondary evidence to satisfy the customer against cash claims, banks are required to install external camera in ATM cabins in a way that PIN may not be captured.

Moreover, the guidelines obligate all banks to report details regarding the nature of transactions (automatic credit, claims processed or outstanding balance (suspense ATM cash), and total number and amount of actual transactions to the SBP’s Payment Systems Department (PSD). In addition, every bank is required to develop a numbering sequence for complaints and every complainant is to be issued a reference number.

These guidelines are applicable only on cards used on ATM machines for local currency transactions, which are carried out in Pakistan.

**Guidelines for Dealing with Customer Complaints:**

Keeping in view the complaints received by the SBP regarding financial losses, damage to the businesses, and delayed response of banks, the SBP has issued guidelines for dealing with the customer complaints. SBP observed that due to absence of proper mechanism for resolution of public grievances, the banks are unable to respond to the customer complaints promptly and efficiently. Therefore, these minimum guidelines require every bank and financial institution to designate a senior officer to deal with all sorts of complaints, whether they are received directly by the bank or referred to by other institutions including the SBP. All banks are obligated to provide contact details of such designated officials or any change with this reference to the SBP.

According to the guidelines, the person and the unit/section appointed for this purpose is responsible for acknowledging, addressing, handling and investigating all the complaints in a fair and prompt manner. The reply to the complaints ought to be clear and indicate the reasons of the decisions taken. The complaint unit is also required to identify complaints of recurring nature for taking immediate corrective measures in the related area. In addition, the unit has been guided to monitor and analyze the status and data of complaints for improving the system. Every bank or financial institution is also required by the guidelines to submit a regular report about the complaints to the management of the bank or financial institution for review.

The response time for the complaints has been fixed at 10 days under the guidelines. However, an interim reply can also be sent to the complainant explaining the reasons for delay, but the final reply is to be transmitted within 45 working days. Like other departments of the bank, the complaints department/unit is also required to be regularly audited by internal auditors to check the effectiveness and performance of the unit.

For raising awareness among the customers about the grievance redress procedure and complaint unit, the banks and DFIs are required to prepare a leaflet indicating the procedure for lodging a complaint and its resolution, and post the same on the notice boards at each of their branch/office and on the website. Besides, a copy of the leaflet is to be supplied to customer upon request. Moreover, the bank staff is to be provided appropriate training to enhance their skills so that an employee who is not directly involved with the complaint unit may investigate a complaint, if required.

The guidelines specify that the complaints forwarded by the SBP would be handled by the person who is the contact person for SBP in this regard. Whereas, the SBP would check the performance, effectiveness and function of the complaint section and strict actions would be taken against the bank or DFI and the concerned staff members for noncompliance with the procedures or mishandling of complaints.

**What is a Grievance?**

‘Grievance’ may be defined as a formal statement of complaint generally against an authority, or an institution. Most often, organizations establish a body or designate an officer who deals with complaints of the clients. Such a body plays important role for identification, intervention and resolution of issues that have the potential of becoming a grievance. When the circumstances do not allow prior resolution of issues and a grievance takes place, the redress forum is responsible for initiating a grievance redress process. The aim is to protect the citizens’ right to raise a genuine issue, lodge a complaint for a grievance, and have the grievance redressed in a timely manner.

**On line Credit Information Bureau (e-CIB)**

While developed countries have a long tradition of maintaining a centralized database of credit history of all borrowers, in many developing countries it is a relatively new development, given the scope and size of their lending activities. State Bank considers the functioning of an effective credit information bureau integral in promoting financial discipline and an essential tool for credit risk management by financial institutions. In its endeavor to facilitate financial institutions in making prudent lending decisions, the Credit Information Bureau (CIB) was established in 1992. Due to the rather small and largely secured lending extended to individual customers at that time, the initial focus of the CIB database was on capturing the *negative history* of large and medium sized borrowers, with outstanding loans equal to and above Rs 500,000 only. Over the years, SBP has significantly enhanced the scope of CIB operations. In April 2003, SBP enhanced the coverage and effectiveness of CIB by introducing e CIB online facilities, becoming in the process, the first credit history database of the region to introduce online access to its member financial institutions. This development enabled financial institutions to upload their data on loans directly into the CIB database and readily generate customer reports for their credit assessment purposes.

In response to the rapid growth in banks’ credit portfolio, e CIB’s reporting requirements and operational and IT platforms have been significantly upgraded. The scope of the CIB database was further enhanced during early 2004 when SBP launched a new project called the “e CIB data lowering limit” with the collaboration of Pakistan Banks Association (PBA) to achieve the following objectives:

* Abolishing the minimum limit of Rs 0.5 million and above for credit reporting and to expand the database to cover all loans of member financial institutions
* Changing the composition of the information to include more financial and non financial details of the borrowers
* Improve the overall operational efficiency of e CIB by upgrading the communication infrastructure, hardware and software, etc

The project aimed at transforming CIB into a state of the art credit information database with the ability to minimize the turnaround time of queries from financial institutions and providing a quick source of information. The project was successfully completed in June 2006 and brought significant improvements in

the overall operational and technological infrastructure of the CIB. The key improved features of the new e-CIB system over the old CIB system are summarized below:

* Existing credit reporting limits of Rs 0.5 million has been eliminated. Under the new reporting system, all outstanding fund and non fund based credit facilities, irrespective of the amount, are being reported to SBP
* Besides Banks and DFIs, for whom membership in e CIB is mandatory, a large number of NBFCs are also members of this database
* Product wise availability of loan information. Before implementation of the new system, such information was available in aggregate form only
* Improved efficiency in terms of speed, reliability and security of CIB data
* Deployment of high capacity servers, security firewalls, broader bandwidth, point to point data encryption
* Multi user and multi tiered Rich Client Data using latest programming tools, provided to 100 financial institutions. The software has been designed keeping in view the data collection requirements of all financial institutions and can be customized according to the needs of specific financial institutions. It can be deployed in both centralized and decentralized environments. The software is capable to efficiently collect, consolidate and report thousands of records from all branches of a large bank
* Highly sophisticated and completely automated Back Office (BO) system for processing data. With the implementation of the BO system the task of data processing has been reduced from 15 days to 3 days only
* Web based interactive data inquiry systems to provide online Credit Information Reports to financial institutions, and allow online amendment and updates
* Replaced the previous dial up system with a scalable Virtual Private Network (VPN) that allows financial institutions to connect to the e CIB more quickly and efficiently
* Comprehensive data validation rules implemented to ensure correct entry of records. A validation rule engine has also been developed for creating and implementing new data validation rules
* A new separate reporting system has been introduced for consumer and commercial borrowers. The CIB will collect consumer and corporate credit data on two separate specified formats and provides separate credit information reports for the consumer and corporate borrowers
* The credit report of the consumer also reflects the repayment history for the last twelve months
* Record of last four credit inquiries from the financial institutions has also been made part of the respective borrower’s credit report

**Redress Mechanisms for Consumer Complaints:**

**Banking Ombudsman**

The Federal Government established the Banking Ombudsman in 2005. The principal responsibility of the Ombudsman is to resolve the complaints through mediation and provide an amicable and acceptable solution where conciliation is not possible.

**Jurisdiction**

The Banking Ombudsman has been entrusted with the powers and responsibilities to entertain complaints lodged by the customer against the scheduled banks or by a scheduled bank against another bank, and provide the basis for an amicable and acceptable solution after giving hearings to the complainant and the concerned bank. Moreover, Banking Ombudsman has been given authority to make recommendations, to be communicated to the concerned bank for considering the issue, and in some cases to pass an order against the concerned bank. To improve the service standards and effectiveness, and remove the generalized systematic deficiencies, the Banking Ombudsman can recommend procedural improvements. SBP can inquire the banks involved in violation of laws and regulations on recommendation of the Ombudsman.

The authority and powers of Banking Ombudsman have been specified for private and public sector banks. In relation to all banks, Banking Ombudsman has been given the authority to entertain the complaints regarding bank’s failure to act in accordance with the laws, regulations, policy directives and guidelines,

which are time to time issued by SBP and inquire the delays or fraud in relation to the payment or collection of cheques, drafts or transfer of funds. Moreover, the Banking Ombudsman has also been allowed to consider the complaints regarding fraudulent or unauthorized withdrawal or debit entries in accounts, complaints from exporters or importers, complaints related to banking services and obligations including letters of credit, complaints from holders of foreign currency accounts, whether maintained by residents or non-residents, complaints relating to remittances to or from abroad and relating to payment of utility bills.

A noteworthy characteristic of the Baking Ombudsman is that it has some special powers, which do not apply to the private banks. The responsibilities of entertaining the complaints pertaining to corruption, negligence of duties by bank officers in dealing with customer and excessive delay in taking decisions can be exercised only in respect of public sector banks.

In addition, Banking Ombudsman has the authority to call for relevant information necessary for disposal of complaints, receiving evidence on affidavit and issuing commission for examination of witness, given that confidentiality would not be violated.

**Bar on Jurisdiction**

However, there are some matters which are outside the jurisdiction of Banking Ombudsman including the power to direct banks for giving loans and advances to a complainant. Similarly, the Banking Ombudsman has no authority to consider the complaints regarding the schedule of charges and any other policy matter of banks. Likewise, complaints pertaining to terms and conditions of service of the bank are not accepted by the Banking Ombudsman. Moreover, awarding the damages against banks is not within the jurisdiction of Banking Ombudsman. However, the authority for the compensation of loss suffered by aggrieved persons in pursuit of justice lies with him.

**Complaint Procedure**

The complaint handling process of Banking Ombudsman is centralized at the Karachi Secretariat. The complainant is required to file a complaint to the bank in writing stating the intention to refer the matter to the Banking Ombudsman if matter would not be resolved satisfactorily. The bank is required to resolve the complaint within 45 days, otherwise the complainant can file the case to Banking Ombudsman on the complaint form duly completed, signed and attested by an Oath Commissioner, attached to the letter of complaint. Moreover, the complainants are required to make sure that copies of all documents and relevant correspondence with the bank are also attached along with the form and letter of complaint.

The Banking Ombudsman entertains those complaints, which are filed by a customer against scheduled bank or by a scheduled bank against any other bank. Further, the rejected complaints, which have not been barred by time or have not been destroyed by the bank, are also entertained by the Banking Ombudsman. In this regard, the complainant has to send all related correspondence along with the complaint form without giving 45 days notice to the concerned bank.

When a complaint is lodged to the Banking Ombudsman, first all procedural requirements are confirmed and both parties may be required to provide additional information, if necessary. Informal complaints (i.e. walk in, e-mail, copies of letters or via telephone) are resolved by providing procedural guidance to complainant. In case of formal complaints, the banks are formally informed where necessary. Regarding informal complaints, the law allows to entertain only those complaints, which have been filed directly to Banking Ombudsman and made under oath.

The Banking Ombudsman may also visit the concerned bank to examine their books, procedures and processes relating to complaints. The case is closed if found unjustified. However, if a case is found to be genuine, then it would be resolved through mediation. The situation where conciliation is not possible, the Banking Ombudsman passes an order asking the bank to rectify the situation or compensate the loss of aggrieved.

The Banking Ombudsman solves the complaint within two months. However, some complaints may take longer to resolve if they are complex or information and copies of documents are not provided by the complainant. Therefore, a complainant is required to make sure that the complaint form has been filled in with clarity and copies of all the relevant documents are attached.

**The Right to Appeal**

The law provides the right to appeal to parties, the complainant and the bank. A complainant, dissatisfied with the decision of Banking Ombudsman, has the right to appeal to the Governor SBP within 30 days from the date of order of the Ombudsman. Moreover, a complainant, dissatisfied with the decision of SBP, has also been given the right to go to a court of law. However, the Ombudsman’s decision would be final, operative and binding upon the bank, if no appeal is filed or SBP does not uphold the appeal.

Several changes have been made in the Banking Companies Ordinance, 1962 through the Finance Act, 2007 empowering the Banking Ombudsman to issue commission for the examination of witnesses. In consideration of the changes, Banking Ombudsman does not entertain those cases, which have already been decided or handled by the SBP.

The time allowed to banks, to send the complaint to the Banking Ombudsman if not resolved, is reduced to 45 days from three months. Earlier, there was no time limit for disposal of an appeal filed with SBP against any order by the Banking Ombudsman, which has now been limited to 60 days. Unless an appeal is referred to the Governor SBP, the time limit for implementation of an order passed by the Banking Ombudsman has been increased to 40 days and submission of compliance report is compulsory, which was not required previously.

**Consumer Protection Department:**

* Keeping in view the growth in consumer banking and related consumer complaints, SBP has issued a circular on January 30, 2008 for the establishment of new department, namely Consumer Protection Department (CPD)
* The Department would resolve consumer complaints dealing with banks
* All banks and financial institutions would submit complaints and appeals against the orders passed by the Banking Ombudsman to the Consumer Protection Department

**Banking Courts for Recovery of Loans:**

* Under the Recovery of Finances Ordinance, 2001, the Federal Government has been entrusted with the authority to establish banking courts, appoint judges for each of such courts, and specify the territorial limits to exercise its jurisdiction
* Federal Government has established 29 banking courts throughout Pakistan for quick recovery of bank loans from defaulters
* The order of banking court would be final and no other court or authority would have power to revise, review or call, into question any proceeding, judgment, decree or order of banking court

**The Financial Institutions (Recovery of Finances) Ordinance, 2001:**

* The new recovery law provided a mechanism for expeditious recovery of stuck up loans, e.g., the law provided a comprehensive procedure for the foreclosure and sale of mortgaged property without the interventions of a court of law, and automatic transfer of all cases pending in any other courts to the banking courts for their early resolution
* Under the new legislation, banks may recover debt through summary procedure, and sell mortgaged property without intervention of the court

**The Payment Systems and Electronic Fund Transfers Act, 2007**

With the rapid development in technology, like other spheres of human life business and trade are also no more limited to traditional modes of delivery of products and services, as well as, purchase and payments in cash. A person sitting at one place can buy any product from another place through internet and can pay through secured online electronic channels like credit cards. Many countries around the world have formulated laws, rules and documentation procedures for secure fund transfer through electronic means.

The Government of Pakistan promulgated the Payment Systems and Electronic Fund Transfers Act, 2007 in order to encourage documentation of economy, supervise and regulate such payments and fund transfers, provide standards for protection of the consumer and to determine respective rights and liabilities of the financial institutions and other services providers, and their consumers and participants. The Act is aimed at providing regulatory framework for the electronic fund transfer services. Under the Act, the SBP has the

authority to designate a payment system as a designated a payment system and/or revoke designation of a designated payment system.

Under the Act, the SBP is also empowered to issue rules, guide lines, circulars, by-laws or directions as it may consider appropriate. A bank, financial institution, clearing house, service provider or any person authorized by the SBP to transact business under the Act and providing funds transfer facility is required to retain complete record of electronic transactions in electronic form and ensure secure means of transfer consistent with international standards. Clause 8 and 9 of the Act describe the reasons for disqualification of staff of a designated payment system and its effects respectively. According to the Act, the operator of a designated payment system is obligated to establish adequate governance arrangements which are effective, accountable and transparent or which may be required by the SBP to ensure the continued integrity of such system.

The SBP is empowered under the Act to nominate one or more clearing house to provide clearing or settlement services for a payment system and to formulate ‘settlement rules’ relating thereto. Besides, certain conditions have been imposed in the Act for the issuance of a designated payment instrument. The financial institutions and other institutions providing Electronic Funds Transfer (EFT) facilities are required to ensure that secure means are used for transfer of funds which are compliant with current international standards. In respect of each EFT initiated by a consumer, the financial institution holding such consumer’s account is required to provide documentary proof to the consumer of such transfer.

The Act further requires the financial institution to provide periodic statement of account to each consumer in respect of each electronically accessible account. It also lays down the procedures to be followed in case of errors or omission in electronic fund transfer (EFT) and the respective liabilities of the financial institutions and consumers in such circumstances. Under the Act, a consumer may also complain to the SBP regarding EFT in case of not being satisfied with the outcome of a complaint made to financial institution without prejudice to any right to seek any other remedy under the law.

**The Competition Ordinance, 2007**

The Government of Pakistan, in a bid to strengthen the competition policy and law, constituted Competition Commission of Pakistan. The Commission is responsible for promotion of competition and fair trade practices. The legal mandate comes from the Competition Ordinance, 2007. All regulated sectors, including the banking sector, fall within the purview of the Ordinance.

Section 4 and 10 of the Ordinance are particularly relevant in the context of banking sector, as they deal with prohibited agreements and deceptive market practices. Section 4 lays down that no undertaking or association of undertaking shall enter into any agreements or, in the case of an association of undertakings, shall make a decision in respect of the production, supply, distribution, acquisition or control of goods or the provision of services which have the object or effect of preventing, restricting or reducing competition within the relevant market unless exempted under the ordinance. Such agreements includes, but are not limited to fixing the purchase or selling price or imposing any other restrictive trading conditions with regard to the sale or distribution or any goods or the provision of any services.

Such agreements also include those, which involve dividing or sharing of markets for goods or services, whether by territories, by volume of sales or purchases, by type of goods or services sold or by any other means; fixing or setting the quantity of production, distribution or sale with regard to any goods or the manner or means of providing any services; limiting technical development or investment with regard to the production, distribution or sale of any goods or the provision of any service; or collusive tendering or bidding for sale, purchase or procurement of any goods or services; applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a disadvantage; and make the conclusion of contractors subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usages, have no connection with the subject of such contract.

Section 10 of the Competition Ordinance 2007 prohibits deceptive marketing practices (which are common in the banking sector). The law provides that no undertaking shall enter into deceptive marketing practices. The deceptive marketing practices shall be deemed to have been restored to or continued to or continued if an undertake restores to the distribution of false or misleading information that is capable of harming the

business interests of another undertaking; the distribution of false or misleading information to consumers, including the distribution of information lacking a reasonable basis, related to the price, character, method or place of production, properties, suitability for use, or quality of goods; false or misleading comparison of goods in the process of advertising or packing; fraudulent use of another’s trademark, firm name, or product labeling or packing.

The above review indicates that a number of mechanisms exist for dealing with public complaints and concerns that are associated with consumer financing. Still, the number of complaints is rising every year.

While this trend can be measured in proportion to the increasing number of borrowers and overall consumer financing portfolio, lack of consumer education and weaknesses in the grievance redress mechanism are among the major reasons for rising customer dissatisfaction. The Banking Ombudsman is a case in point. The complex complaint procedure and limited powers of the Ombudsman do not provide an incentive to many aggrieved customers to approach this forum against banks. The regulatory framework