



Licencing Framework for Digital Banks

A brief by Sanie Khan

Key Topics Covered in the Presentation

Licensing Framework for Digital Banks

<u>Legal Framework</u>	The Licensing Framework of digital banks has been issued under Section 27 of the BCO 1962.
<u>Regulatory Guidelines</u>	Licensing Requirements
	Type of Licenses
	Suspension, Revocation, or License Cancellation: Legal Provisions
	Eligibility Criteria for Digital Bank Sponsors
<u>Application Process</u>	Pre-Application Consultation With SBP for Digital Bank License
	Filing of Application
	NOC for formation of Digital Bank
	In Principle Approval
<u>Launch</u>	Operational Readiness
	Pilot RUN
	Commencement of Operations
<u>Minimum Capital Requirements</u>	MCR FOR DRB AND DFB
	MCRs FOR INITIAL THREE YEARS

Table of contents

01

Introduction

02

Regulatory
Framework

03

Application

04

NOC

05

Pilot Run

06

Launch



01

Introduction

Pakistan's Digital Banking Framework

The State Bank of Pakistan, after a series of consultations with stakeholders, introduced the Licensing and Regulatory Framework for Digital Banks:

- **Framework for Digital Banks:** The framework establishes the groundwork for digital banking operations, outlining regulations, licensing procedures, and compliance requirements to ensure a robust and transparent banking environment.
- **Digital Retail Bank (DRB):** Within this framework DRBs are envisioned to provide accessible and affordable digital financial services, thus promoting financial inclusion across the nation.
- **Digital Full Bank (DFB):** DFB framework accommodates Digital Full Banks which are equipped to serve corporate, commercial, and retail customer segments. DFBs are poised to drive innovation and enhance financial services for a broader spectrum of clients.

This comprehensive framework sets out to revolutionize the nation's financial sector by promoting inclusivity, innovation, and growth.



Objectives of Digital Banking

Promote Financial Inclusion

“Enhance Access to Banking Services for All, ensuring financial inclusion and economic empowerment across Pakistan.”

Serve The Underserved

“Extend banking services to marginalized communities, fostering equitable financial access nationwide”

Affordable Financial Services

“Make banking and financial solution accessible to all nationwide”

Fostering Innovation

“Drive Technological Advancements, fostering innovation and growth in Pakistan

Customer Happiness

“Prioritize Customer Satisfaction, Ensuring Seamless Banking Experience Nationwide

Carveout Digital Ecosystem

“Shape thriving Digital Environment, Driving Economic Growth.

What is Digital Retail Bank – DRB



Definition/Scope

Digital Retail Banking
Encompasses accessible and affordable banking services tailored to retail customers, fostering financial inclusion and Economic Empowerment Nationwide.



Objective

Empower target demographics with accessible financial services, driving economic growth and fostering financial inclusion across Pakistan's diverse population.



Access To Credit

Extend Credit Accessibility to Underserved Segments, stimulating Economic Growth, Entrepreneurship, and empowerment across diverse communities.

What is Digital Full Bank – DFB



Definition/Scope

Digital Full Banking
Encompasses accessible and affordable banking services tailored to Corporate, Commercial and Retail Customers, fostering financial inclusion and Economic Empowerment Nationwide



Objective

Provide Comprehensive Digital Services to Banking Services, Target Audience, Corporate Commercial and Retail Sector.



Access To Credit

Utilizing Digital Data Analytics, Assessing Risk Profiles, and Tailoring Credit Solutions to Diverse Customer Segments for Enhanced Accessibility



02

Regulatory Guidelines

Adherence To Commercial Bank Licencing Requirement



The Licencing Criteria Governing Commercial Banks, whether Conventional or Islamic remain applicable to respective Digital Bank Counterparts Under this framework. These Requirements are not waived unless found inconsistent with this framework, in which case, this framework takes precedence. Therefore, Any restatement of general licensing criteria for commercial banks is for emphasis only and does not negate additional unmentioned requirements



DRB



DFB

Type of Licences



Digital Retail Bank

Digital Retail Banking as Defined by SBP is a banking institution primarily serving retail customer segment.

Its focus lies in providing financial services tailored to individuals and small businesses, promoting financial inclusion. DRB must adhere conditions of commercial banks



Digital Full Bank

Organize this section by starting with an introduction to set the context. Break down your main analysis into subsections. Encourage engagement through a call to action or discussion prompt, and offer additional resources for readers to explore further. Keep the content concise and maintain a clear flow

Digital Bank Sponsors

International DFS entity" refers to fintechs operating **outside** Pakistan, dealing in payments, remittances, and **lending**

Groups owning a traditional bank are **ineligible**, unless proposing a digital bank subsidiary

Eligible Sponsors of Digital Banks

Traditional Bank with 1 Year DFS experience

International bank or DFS entity with three-year successful track record

EMI with one-year DFS experience, convertible into digital bank

Majority stakeholders of entities with three-year DFS track record.

Individuals/entities with three-year experience in finance/technology, holding ≥5% equity stake in proposed digital bank

Suspension, Revocation and License Cancellation

SBP has the authority to suspend, revoke, or cancel licenses if the applicant, sponsors, or the digital bank fail to comply with licensing requirements. Additionally, SBP holds discretion in approving or refusing requests within the framework.

Pre-Submission
Consultation

Application
Submission

NoC from State Bank
of Pakistan

In-Principle Approval



03

Application & Launch

Operation Readiness

Pilot Run

Launch

Evaluation

Pre-Application Consultation Mandatory for SBP Digital Bank License

Before embarking on the application process for a Digital Bank License from the State Bank of Pakistan (SBP), it is imperative for prospective applicants to engage in consultative written correspondence with the SBP. This preliminary communication stage serves as a legal and procedural requirement, enabling applicants to seek clarification and guidance regarding the application process. Only upon receiving affirmative consent from the SBP following this consultation can applicants proceed to formally file their application for the Digital Bank License. This pre-application stage ensures that applicants are well-informed and prepared before entering the official application process, thereby streamlining the overall licensing procedure and promoting compliance with regulatory requirements.

Application Process for SBP Digital Bank License

Specify conventional or Islamic DRB variant

Pay non-refundable of PKR 1,000,000/-

Meet Completeness Requirement

Incomplete Application Will be Rejected

Feasibility Study and Business Plan
Projections and 5Y Breakeven

Sponsor Financial Health and Fit and
Proper Test

No Objection Certificate

- ✓ If the SBP finds the application satisfactory, it may issue a No Objection Certificate (NOC)
- ✓ It enables the incorporation of the proposed Digital Retail Bank (DRB) as a public limited company with the Securities and Exchange Commission of Pakistan (SECP).
- ✓ The NOC might be subject to specific terms and conditions.

In Principle Approval (IPA) by SBP

- ✓ Subsequent to receiving the NOC from SBP, applicant applies to SECP for incorporation of DRB as a public limited company, establishing office in Pakistan.
- ✓ After incorporation and meeting NOC terms, applicant applies to SBP for IPA within six months of NOC issuance.
- ✓ Application includes certified incorporation documents, Memorandum of Association, Articles of Association, and other advised documentation.
- ✓ If application meets requirements, SBP may grant IPA outlining pre-pilot operations terms.
- ✓ IPA remains valid for 12 months from issuance.
- ✓ Applicant may request IPA validity extension at least two months before expiry, providing rationale. SBP may extend validity at its discretion.

Operational Readiness

Upon achieving operational readiness and fulfilling IPA terms, applicant applies to SBP within IPA validity for a restricted license to begin pilot operations. Application includes:

- i. Board resolution authorizing application for the restricted license.
- ii. Detailed board-approved report demonstrating operational readiness, supported by adequate documentation across governance, organizational structure, processes, and technology.
- iii. Evidence of security deposit placement with SBP.
- iv. Enforceable bank guarantee from sponsor to cover non-fulfillment of Minimum Capital Requirement (MCR) commitments.

SBP may request additional documentation related to operational readiness. SBP assesses readiness and compliance through on-site inspection, possibly supplemented by third-party assessment if deemed necessary

Pilot Stage Under Restricted License

- After meeting all SBP requirements, including operational readiness assessment, the applicant may receive a restricted license to commence pilot operations.
- Pilot stage duration: Minimum of three months.
- The restricted license is non-renewable and valid for a fixed term, not exceeding nine months from the date of issuance.
- In case of delays beyond the license validity period, the DRB can apply to SBP for a second restricted license with justification.
- SBP may, under exceptional circumstances, issue a second restricted license for a specified period, not exceeding six months from the date of issuance.
- During the pilot stage, the DRB must adhere to the conditions specified in Regulation 6 of the Regulatory Framework (Part-B) for Digital Banks.

Commencement of Commercial Operations(I)

Following conclusion of pilot operations and compliance with all terms under the restricted license, including meeting MCR, applicant applies to SBP for commercial operations license within stipulated time. Application includes:

- a) Board resolution authorizing application.
 - b) Detailed board-approved report on readiness, covering pilot outcomes, infrastructure, and necessary documentation like cyber security assessments.
- SBP may request additional documentation.

Commencement of Commercial Operations(II)

- ❑ SBP evaluates readiness via on-site inspection and may advise third-party assessment if needed.
- ❑ Upon meeting SBP requirements within restricted license validity, including MCR, SBP may grant license for commercial operations under transition phase, with new terms.
- ❑ DRB initiates commercial operations within specified timelines, marking transition phase start.
- ❑ During transition, DRB must comply with conditions outlined in Regulation 7 of Regulatory Framework (Part-B) for Digital

Minimum Capital Requirement(MCR)

Bank	MCR at grant of restricted license (PKR billion)	MCR at commercial launch (PKR billion)	MCR During each financial year after the year of commercial launch/DFB license (PKR billion)		
			Year 1	Year 2	Year 3
DRB	1.5	2	2.5	3	4
DFB	6.5	N/A	8	10	-

Digital banks must adhere to the Minimum Capital Requirement (MCR) specified by SBP, with sponsors responsible for funding any incurred losses to ensure continuous compliance until the bank achieves at least the break-even point.

Permissible Customer Segment

CUSTOMER SEGMENT	DIGITAL RETAIL BANK	DIGITAL FULL BANK
Retail	Primary focus	Allowed
Corporate/Commercial (e-wallets/digital payment accounts)	Limited to e-wallets/digital payment accounts, up to 40% of total deposits	Allowed
Corporate/Commercial	Not allowed	Allowed
Female Inclusion/Credit Access Goals	Encouraged	Encouraged

Note: DRBs primarily serve retail customers, with limited corporate/commercial engagement for e-wallets/digital payment accounts, while DFBs have wider customer segment access including retail, corporate, and commercial.

Both are encouraged to pursue female inclusion and credit access goals.



Thanks

Do you have any questions?



ceo@sems.pk
+971 50 319 1094
+92 333 233 2909
www.sems.pk

CREDITS: This presentation template was created by [Slidesgo](#), and includes icons by [Flaticon](#), and infographics & images by [Freepik](#)

