**KARANDAAZ PAKISTAN**

**Request for Proposal (RFP)**

# 52

2ND October, 2018.

**Regulatory Framework for Digital Banks in Pakistan**

**SECTION 1. LETTER OF INVITATION**

RFP no. 52

2nd October, 2018, Islamabad

1. The purpose of this RFP is to solicit bids from companies interested in providing consultancy services for “Regulatory Framework for Digital Banks in Pakistan”. The RFP is designed to assess whether organizations are able to provide the services required, and through a competitive and fair assessment, select a winning vendor for a goods and services year-long contract.
2. Karandaaz Pakistan invites sealed proposals from interested and eligible organizations. More details on the Services required are provided in the Terms of Reference (Section 4 of RFP).
3. The company will be selected under open competitive procedures, in accordance with the procurement policies and procedures of Karandaaz Pakistan.In the event of any conflict or inconsistency in terms and conditions of the request for proposal, Karandaaz Pakistan procurement policies and procedures shall prevail.
4. The full RFP is available at [**www.karandaaz.com.pk**](http://www.karandaaz.com.pk).

Both financial and technical proposals must be submitted before close of Business on 03rd November, 2018. Offerors must prepare four hard copies of the technical proposal and one hard copy of the cost proposals, and submit in separate **sealed** envelopes to the attention of ‘The Procurement Department’ 1-E, Ali Plaza, D Chowk, Mezzanine Floor, Naziumudin Road, Blue Area, Islamabad, Pakistan. The proposal should also be sent to the following email address: [**procurement@karandaaz.com.pk**](mailto:procurement@karandaaz.com.pk) with the subject line: Responding to RFP No 52. “Regulatory Framework for Digital Banks in Pakistan”.

Yours sincerely,

**The Procurement Department**

Karandaaz Pakistan

**SECTION 2. INSTRUCTIONS TO FIRMS**

**A. General**

1. **Scope of Proposal**

Karandaaz Pakistan issues this Request for Proposal (RFP) for the following services:

Consultancy Services to formulate “Regulatory Framework for Digital Banks in Pakistan.”

Throughout this RFP:

1. The term “in writing” means communicated in written form (e.g., by mail, e-mail, fax)
2. “Day” means calendar day
3. **Fraud and Corruption**

Firms shall comply with Karandaaz Pakistan’s policy regarding fraud and corruption given in Section 3 of the RFP.

1. **Eligibility**

Karandaaz Pakistan may specify certain minimum qualification criteria in the Terms of Reference e.g. minimum years of relevant experience.

The firm has an obligation to disclose to Karandaaz Pakistan any situation of actual or potential conflict that impacts its capacity to serve Karandaaz Pakistan’s best interests. Failure to disclose such situations may lead to the disqualification of the firm or the termination of its Contract. Karandaaz Pakistan’s policy with regard to conflict of interest is given in Section 3 of the RFP.

Firms shall provide such evidence of their continued eligibility satisfactory to Karandaaz Pakistan, upon request.

1. **One Proposal Per Firm**

Each shall submit only one proposal, either individually or as a partner in a joint venture. A firm that submits or participates in more than one proposal shall cause all the proposals with the firm’s participation to be disqualified. However, this does not limit the participation of subcontractors and individual experts in more than one proposal.

1. **Cost of Preparation of Proposal**

The firm shall bear all costs associated with the preparation and submission of its proposal. Karandaaz Pakistan shall not be responsible or liable for those costs, regardless of the conduct or outcome of the bidding process.

**B. Request for Proposal**

1. **Contents of the RFP**

The RFP includes the documents listed below and any Addendum issued in pursuant to point 8 of this section ‘Amendment of RFP’.

Section 1 - Letter of Invitation

Section 2 - Instructions to firms

Section 3 – Procurement Policy – vendor conduct

Section 4 - Terms of Reference

Annexure A – Proposal Submission Form

1. **Clarification of RFP**

All questions and/or clarifications regarding this RFP must be submitted via email to Procurement@karandaaz.com.pk no later than 5:00PM local time on 10th October, 2018. All correspondence and/or inquiries regarding this solicitation must reference the RFP number. No phone calls or in-person inquiries will be entertained; all questions and inquiries must be in writing

Questions and requests for clarification—and the responses thereto—will be circulated to all RFP recipients who have indicated an interest in bidding by 5:00PM on 15th October, 2018.

Only the written answers will be considered official and carry weight in the RFP process and subsequent evaluation. Any verbal information received from a Karandaaz employee or other entity should not be considered as an official response to any questions regarding this RFP.

1. **Amendment of RFP**

At any time prior to the deadline for submission of bids, Karandaaz Pakistan may amend the RFP by issuing an Addendum.

Any Addendum issued shall be part of the RFP and will be communicated via the Karandaaz Pakistan website. Firms are advised to monitor the site for updates.

To give prospective firms reasonable time in which to take an Addendum into account in preparing their bids, Karandaaz Pakistan may, at its discretion, extend the deadline for the submission of bids, pursuant to point 17 ‘Deadline for Submission of Proposals’ of this section.

1. **Split order**

As required Karandaaz Pakistan can split the order.

**C. Preparation and Submission of Proposals**

1. **Language of proposal**

All documents relating to the proposal shall be written in the English language.

1. **Documents Comprising the Proposal**

The proposal shall consist of the following:

1. Technical proposal
2. Financial proposal

The documents and the required information mentioned below in the table must be provided with the technical proposals.

|  |  |  |
| --- | --- | --- |
| **Sr. No** | **Required Documents** | **Checkbox** |
| 1 | Letter of participation for the proposal specifying interalia nature of consortium with lead firm/consultant clearly mentioned. | ☐ |
| 2 | Registration Certificate(s) | ☐ |
| 3 | Tax registration number and/or Jurisdiction | ☐ |
| 4 | Name, website, address and contact information of the company | ☐ |
| 5 | Company profile(s) | ☐ |
| 6 | References from last two assignments, preferably from a relevant assignment. | ☐ |
| 7 | Technical proposal should include the following | ☐ |
|  | a. Description of approach, methodology, and work plan in responding to the terms of reference. | ☐ |
|  | b. Work plan will include:   1. Activities to be completed as part of RFP 2. Timelines 3. Plan for deliverables as per ToRs | ☐ |
|  | c. Brief of completed and on-going projects of the firm, specifically related to Digital Banks as defined in ToRs | ☐ |
|  | d. Composition of proposed team and Curriculum Vitae (CVs), of key experts and team, highlighting relevant experience along with their assigned role. | ☐ |
|  | e. Details of on-ground team including number of proposed days and timelines of the lead expert and the team in Pakistan. | ☐ |
|  | f. Comments and suggestions on the terms of reference, counterpart staff, and facilities to be provided by the client; | ☐ |
| 8 | Filled in compliance matrix\* with self-evaluation by the consultant | ☐ |
| 9 | Any other document attached, please specify | ☐ |

* **Please print this table and check submitted items in the column provided. Include this right after the title page of Technical Proposal. This will suffice as compliance matrix.**

1. **Currencies of Bid and Payment**

Firms may express the price in PKR (Pak Rupees) only. International firms should also specify the applicable dollar exchange rates used to calculate the price in PKR which will be assessed as per point 26.

1. **Proposal Validity**

Proposal shall remain valid for ninety (90) days after the proposal submission deadline date established by Karandaaz Pakistan. A proposal valid for a shorter period shall be rejected as non-responsive.

In exceptional circumstances, prior to the expiration of the proposal validity period, Karandaaz Pakistan may request all firms who submitted their proposals to extend the period of validity of their proposal for a specified additional period. The request and the responses shall be made in writing. If the firm agrees to extend the validity of its proposal, it shall be done without any change in the original proposal and with the confirmation of the availability of the key experts. The firm has the right to refuse to extend the validity of its proposal in which case such proposal will not be further evaluated.

If any of the Key Experts become unavailable for the extended validity period, the firm shall provide a written adequate justification and evidence satisfactory to the Client together with the substitution request. In such case, a replacement Key Expert shall have equal or better qualifications and experience than those of the originally proposed Key Expert. The technical evaluation score, however, will remain to be based on the evaluation of the CV of the original Key Expert.

If the firm fails to provide a replacement Key Expert with equal or better qualifications, or if the provided reasons for the replacement or justification are unacceptable to the Client, such Proposal will be rejected.

1. **Proposal Security**

In this procurement, a proposal security is not required.

1. **Alternative Proposals**

Alternative proposals shall not be considered.

1. **Format, Signing, and Submission of Proposals of Proposal**

The firm shall prepare and email a scanned copy of the documents comprising the Proposal as described in point 10 on official company letterhead. Each document shall be signed by a person duly authorized to sign on behalf of the firm. All pages of the proposal shall be initialled by the person or persons signing the proposal.

Both financial and technical proposals must be submitted before close of business on 03rd November, 2018. Offerors must prepare four hard copies of the technical proposal and one hard copy of the cost proposals, and submit in separate **sealed** envelopes to the attention of ‘The Procurement Department’ 1-E, Ali Plaza, D Chowk, Mezzanine Floor, Naziumudin Road, Blue Area, Islamabad, Pakistan.

The proposal should also be sent to the following email address: [**procurement@karandaaz.com.pk**](mailto:procurement@karandaaz.com.pk) with the subject line: Responding to RFP for “Regulatory Framework for Digital Banks in Pakistan”.

The Proposal shall contain no alterations or additions, except those to comply with instructions issued by Karandaaz Pakistan, or as necessary to correct errors made by the firm, in which case such corrections shall be initialled by the person or persons signing the Proposal.

1. **Deadline for Submission of Proposals**

Proposals must be received by Karandaaz Pakistan no later than close of business on 03rd November, 2018.

Karandaaz Pakistan may extend the deadline for submission of proposals by issuing an amendment in accordance with point 8 ‘Amendment of RFP’, in which case all rights and obligations of Karandaaz Pakistan and the firms previously subject to the original deadline shall then be subject to the new deadline.

1. **Late Proposals**

Any Proposal received late by Karandaaz Pakistan will be considered only at the discretion of the evaluation team.

1. **Withdrawal, Substitution, and Modification of Proposals**

Firms may withdraw, substitute or modify their proposals by giving notice in writing before the deadline for submission of proposals prescribed in point 16 ‘Deadline for Submission of Proposal’ of this section.

Each firm’s withdrawal, substitution or modification notice shall be prepared, sealed, marked, and delivered in accordance with point 15 ‘Format, Signing, and Submission of Proposals of Proposal’, with the subject line as: Responding to RFP for “Regulatory Framework for Digital Banks in Pakistan - “WITHDRAWAL,” SUBSTITUTION” or “MODIFICATION” as appropriate. No Proposal may be substituted or modified after the deadline for submission of proposals.

**E. Proposal Opening and Evaluation**

1. **Proposal Opening**

Karandaaz Pakistan shall open the proposals, including modifications made pursuant to point 18, on the business day following the deadline, as per point 16.

1. **Confidentiality**

Information relating to the examination, evaluation, comparison, and post-qualification of proposals, and recommendation of contract award, shall not be disclosed to firms or any other persons not officially concerned with such process until publication of the contract award. Any effort by a firm to influence Karandaaz Pakistan in the examination, evaluation, comparison, and post-qualification of the Proposals or contract award decisions may result in the rejection of its Bid. Notwithstanding the above, from the time of proposal opening to the time of contract award, if any firm wishes to contact Karandaaz Pakistan on any matter related to the bidding process, it should do so in writing at the address indicated in point 7 ‘Clarification of RFP’.

1. **Clarification of Bids**

To assist in the examination, evaluation, and comparison of proposals, Karandaaz Pakistan may, at its discretion, ask any firm for clarification of the firm’s proposal. The request for clarification and the response shall be in writing, but no change in the price or substance of the proposal shall be sought, offered, or permitted except as required to confirm the correction of arithmetic errors discovered by Karandaaz Pakistan in the evaluation of the proposals in accordance with point 25 ‘Correction of Errors’.

1. **Preliminary Examination of Proposals**

Prior to the detailed evaluation of proposals, Karandaaz Pakistan shall first review each Proposal and check the power of attorney or any other form demonstrating that the representative has been duly authorized to sign the proposal, initialization of all pages, etc.

1. **Determination of Firm’s Eligibility and Qualifications**

Then Karandaaz Pakistan shall determine whether the firm meets the eligibility and qualification requirements of the bidding documents. Firms failing to comply with the eligibility criteria indicated in point 3 ‘Eligibility’ shall be disqualified.

Further, Karandaaz Pakistan shall determine whether the proposal is substantially responsive to the requirements of the bidding documents.

Karandaaz Pakistan’s determination of a proposal’s responsiveness is to be based on the contents of the proposal itself. A substantially responsive proposal is one, which conforms to all the terms, conditions, and specifications of the RFP, without material deviation or reservation. A material deviation or reservation is one (a) which affects in any substantial way the scope, quality, or performance of the service; (b) which limits in any substantial way, inconsistent with the RFP, Karandaaz Pakistan’s rights or firm’s obligations under the contract; or (c) whose rectification would affect unfairly the competitive position of other firms presenting substantially responsive Proposals.

1. **Evaluation of Technical Proposal**

Karandaaz Pakistan shall evaluate the technical aspects of the proposals received, applying the evaluation criteria specified in this point. Each proposal that is not rejected for reasons stated in these Instructions will be given a technical score.

The evaluation criteria, relevant sub-criteria, and point system to be used to evaluate the Technical Proposals shall be:

Technical Proposal + Presentation (80% of Total Score)

Maximum score of Technical Evaluation is 80. Technical Evaluation process will comprise of:

1. Scores based on the technical proposal Documents (60 marks). Firms scoring at least 30 marks (50%) will be eligible for the Presentations.
2. Presentations (20 marks).

Further breakdown of 80 marks based on Technical Proposal Documents and Presentations (60 + 20) is as follows:

1. Proposed approach, methodology, and work plan based on understanding of terms of reference.

**(20 marks)**

1. Relevant past experience of the applicant firm(s) and the proposed team, especially with regards to:
2. Digital Banks
3. Working at high level with the Central Banks
4. Building industry consensus

**(20 Marks)**

1. Competencies and expertise of the lead consultant and on-ground team.

**(20 Marks)**

As part of Technical Evaluation process, Karandaaz will request consultants attaining at least 30 marks (50%) against the abovementioned criteria to deliver presentations to the evaluation committee or its designees.

1. Presentations

**(20 Marks)**

Firms scoring less than 50% on the technical evaluation will not qualify for financial evaluation.

1. **Correction of Errors**

Proposals determined to be substantially responsive shall be checked by Karandaaz Pakistan for any arithmetic errors. Errors shall be corrected by Karandaaz Pakistan as follows:

Where there is a discrepancy between the amounts in figures and in words, the amount in words shall govern.

The amount stated in the proposal shall be adjusted by Karandaaz Pakistan in accordance with the above procedure for the correction of errors and, with the concurrence of the firm, shall be considered as binding upon the firm. If the firm does not accept the corrected amount, the proposal shall be rejected.

1. **Currency for Price Evaluation**

For evaluation and comparison purposes, Karandaaz Pakistan shall convert all proposal prices expressed in US Dollars into an equivalent amount in PKR, using the selling exchange rates established by the State Bank of Pakistan on the date of proposal opening specified in point 19 ‘Proposal Opening’.

1. **Evaluation of Proposal Price and Ranking :**

Financial Proposal (20% of Total Score)

Cost proposals submitted will be evaluated according to price reasonableness determination under full and open competition and known market conditions.

Evaluation of the cost proposal will consider, but will not be limited to, the following:

* Cost reasonableness;
* Consistency with the technical proposal;

20 points will be awarded to the lowest responsive bidder while rest of the bids will be allocated points according to following formula:

Points of a Bidder = (P1/ P2)\* 20

Where:

P1= Price of Lowest Responsive Bidder

P2= Price of the Bidder

**F. Award of Contract**

1. **Award Criteria**

Subject to 31 below, Karandaaz Pakistan shall award the contract to the firm whose proposal has been determined to be substantially responsive to the RFP and which has the highest combined technical and financial score, provided that such firm has been determined to be eligible in accordance with point 3.

1. **Karandaaz Pakistan’s right to accept Any proposal and to reject any or all proposals**

Notwithstanding point 28 above, Karandaaz Pakistan reserves the right to accept or reject any proposal, and to cancel the bidding process and reject all bids, at any time prior to the award of contract, without thereby incurring any liability to the affected firm or firms or any obligation to inform the affected firm or firms of the grounds for Karandaaz Pakistan’s action.

1. **Notification of Award and Signing of Agreement**

The firm whose Proposal has been accepted shall be notified of the award by Karandaaz Pakistan prior to expiration of the proposal validity period in writing. This letter (hereinafter and in the contract called the “Letter of Acceptance”) shall state the sum that Karandaaz Pakistan shall pay the contractor in consideration of the services as prescribed by the contract.

The Agreement shall incorporate all agreements between Karandaaz Pakistan and the successful firm. It shall be signed by Karandaaz Pakistan and sent to the successful firm, within seven (7) days following the Letter of Acceptance’s date. Within seven (7) days of receipt, the successful firm shall sign the Form of Agreement and deliver it to Karandaaz Pakistan.

Karandaaz Pakistan will also promptly notify in writing each unsuccessful firm. After publication of the award, unsuccessful firms may request in writing to Karandaaz Pakistan seeking explanations of the grounds on which their Proposals were not selected. Also, Karandaaz Pakistan shall entertain a complaint from any firm that claims to have suffered or that may suffer, loss or injury due to a breach of a duty by the company in the conduct of this bidding process. Such requests shall be addressed on below mentioned email ID:

**proccomplaint@karandaaz.com.pk**.

**SECTION 3. PROCUREMENT POLICY – VENDOR CONDUCT**

1. **Corrupt or fraudulent practices**

Bidders, suppliers, contractors and their agents (whether declared or not), sub-contractors, sub-consultants, firms or suppliers, and any personnel thereof, shall observe the highest standard of ethics during the procurement and execution of contracts.

Karandaaz Pakistan shall not award contract if it is determined that the bidder, or any of its personnel, or its agents, or its sub-consultants, sub-contractors, firms, suppliers and/or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question. As part of bidding/ solicitation documents, Karandaaz Pakistan will seek declaration of ‘Non collusive non corrupt practices’ from each bidder. Format for such declaration is prescribed in section 3 of the standard bidding document. In pursuance of this policy, following terms are defined as follows:

1. “Corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;
2. “Fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;
3. “Collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
4. “Coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;
5. “Obstructive practice” is deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation.
6. **Avoidance of conflict of interest**

Any firm participating in the procurement process should disclose any actual or perceived conflict of interest situation/condition. Any firm found to have a conflict of interest shall be ineligible for award of a contract.

A firm shall be considered to have a conflict of interest in a procurement process if:

1. Such firm is providing goods, works, or non-consulting services resulting from or directly related to consulting services for the preparation or implementation of a project that it provided or were provided by any affiliate that directly or indirectly controls, is controlled by, or is under common control with that firm; or
2. Such firm submits more than one bid, either individually or as a joint venture partner in another bid, except for permitted alternative bids. This will result in the disqualification of all bids in which the bidder is involved. However, this does not limit the inclusion of a firm as a sub-contractor in more than one bid. Only for certain types of procurement, the participation of a bidder as a sub-contractor in another bid may be permitted subject to the company’s no objection and as allowed by the standard bidding documents applicable to such types of procurement; or
3. Such firm (including its personnel) has a close business or family relationship with a professional staff of the company who: (i) are directly or indirectly involved in the preparation of the bidding documents or specifications of the contract, and/or the bid evaluation process of such contract; or (ii) would be involved in the implementation or supervision of such contract unless the conflict stemming from such relationship has been resolved in a manner acceptable to the company throughout the procurement process and execution of the contract; or
4. Such firm does not comply with any other conflict of interest situation as specified in the standard bidding documents relevant to the specific procurement process.
5. **Duty of care**

The supplier in performance of services for Karandaaz Pakistan shall exercise duty of care. Duty of care holds the supplier responsible for the safety and well-being of its personnel and any third party affected by its activities.

**SECTION 4. TERMS OF REFERENCE**

**Thematic Area**: Digital Financial Services (DFS)

**Project Title: Formulation of Regulatory Framework for Digital Banks**[[1]](#footnote-1) **in Pakistan**

**Expected Start Date:** November, 2018

**End Date:** May 2019

**Task Manager:** Director Knowledge Management & Communications (KMC)

**About Stakeholders**

**KARANDAAZ PAKISTAN**, a not-for-profit company established in 2014 and registered with the Securities and Exchange Commission of Pakistan under section 42, is promoting access to finance for small businesses through commercially directed investments and financial inclusion of individuals. Karandaaz has financial and institutional support from leading international development finance institutions; principally the United Kingdom Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

Karandaaz Pakistan operates through four program verticals:

1. **Karandaaz Digital**: Provides technical assistance and services to promote financial inclusion through technology enabled solutions. Karandaaz Digital is working with national regulators, public agencies, private corporations, and technology entrepreneurs to strengthen national payments infrastructure, digitizing government to people payments, corporate supply chains, and supporting FinTech innovation in Pakistan.
2. **Karandaaz Capital**: Provides growth capital through credit facilities and private equity investments in small and medium size enterprises (SMEs) with the objective of generating commercial financial returns for Karandaaz and support broad-based employment generation in Pakistan.
3. **Karandaaz Knowledge Management and Communication**: Develops and disseminates evidence-based insights and solutions to inform the core themes of the company, including innovation, women entrepreneurship and youth, and to influence the financial eco-system to promote financial inclusion in Pakistan. Regulatory and Policy analysis and advocacy to address the remaining policy barriers to digital financial inclusion is part of KMC.
4. **Karandaaz Innovation**: Innovation Challenge Fund (ICF) running under Karandaaz Innovation provides risk capital and grants to partners with an aim to generate innovative yet practicable solutions for solving complex problems in areas of financial inclusion and entrepreneurship. The Fund is especially focused on addressing stubborn barriers faced by SMEs, women and youth in accessing appropriate financial services and participating in the economy.

**The State Bank of Pakistan (**SBP) is incorporated under the State Bank of Pakistan (SBP) Act, 1956, which gives the Bank the authority to function as the central bank of Pakistan. SBP Act mandates SBP[[2]](#footnote-2) to regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country’s productive resources. Improving the efficiency, effectiveness and fairness of the banking system through strengthening and streamlining the regulatory and supervisory framework are amongst the six main goals of State Bank of Pakistan (SBP)’s Strategic Plan (2016-2020)[[3]](#footnote-3). Pakistan’s National Financial Inclusion Strategy (NFIS)[[4]](#footnote-4) has set the target for access to formal account to 50% by 2020 and acknowledges that a rapid and substantial financial inclusion is achievable through Digital Transactional Accounts.

**About the Project**

The term **“Digital Banks”** in this RFP is being used to refer to Digital-only Banks/Virtual Banks/Challenger Banks/Neo Banks/online-only banks and other similar types of Banks (referred to as “**Digital Banks”** henceforth).

The main objective of this assignment is to assist State Bank of Pakistan (SBP) in ascertaining and formulating a comprehensive Regulatory Framework for Digital Banksin order to create an enabling environment for extending low cost Digital Financial Services (DFS) to the unbanked and underbanked population of Pakistan. Keeping in view the importance of technological innovations/Fintechs for financial inclusion, modern modes of banking services and demand from the industry, SBP is considering developing an enabling regulatory environment and framework (including licensing criteria and operating framework) for Digital Banks. Responsibility of Promulgation of the new regulatory framework remains with the SBP.

This assignment would entail building on SBP’s preliminary research work and further review of international practices on regulatory frameworks for Digital Banks (including licensing criteria, operating framework), different types of Digital Banks created in different jurisdictions; and product and services offered by these Banks. Based on these findings and using knowledge of Pakistan’s financial industry, the Consultant will identify and recommend building blocks for Digital Banks including product and services; identify unique risks; and recommend proportionate regulations. Specifically, consultant will undertake:

* Landscape analysis of Regulatory Framework in different jurisdictions (interalia, UK, EU, HK, SG, India, and Korea) will be conducted where regulations for Digital Banks have been introduced.
* Gap Analysis of existing banking regulations in Pakistan will be done for Digital only banks and/or allowing existing banks to establish standalone Digital banks.
* Extensive stakeholder’s consultation in Pakistan will also be conducted as part of the assignment.

Based on the review and extensive stakeholders’ consultation, specific deliverables of this assignment will include interalia: a) Detailed Assessment Report/Comparative landscape analysis for consensus building; b) Drafting Licensing Criteria for Digital Banks including but not limited to definition, scope of activities, ownership structure and capital requirements.; c) Drafting Operating Framework for Digital Banks; and d) consolidated regulatory framework along with implementation roadmap including capacity building plan of SBP officials to implement the overall regulatory Framework for Digital Banks.

150 million (75% teledensity) biometrically verified mobile phone subscribers and 55 million mobile broadband (3G/4G subscribers)[[5]](#footnote-5) have enabled huge opportunity for establishment of Digital Banks in Pakistan, where more than 90% of the population has access to the most affordable ICT services in the world[[6]](#footnote-6). The consumers’ use of electronic payments in Pakistan has grown significantly in recent years, and the trend will accelerate in coming years due to Vision of SBP on provision of DFS especially to financially excluded segment of population. Consumers’ demand for more choices, immediate availability and direct access to ready-to-use services are also on the rise. At the same time technology companies and Fintechs are rapidly expanding their activities to financial services, continually innovating and competing and in some cases collaborating with the existing players to offer digital services. Cloud computing and innovative business models for service delivery of digital banking services are on the rise. However, the banking sector and market players at present needs regulatory direction to offer services as a standalone Digital Bank. Fintechs also need an enabling regulatory environment that supports innovation without any trade-off with stability, integrity and consumer protection.

In order to support SBP in creating an enabling environment based on international best practices, Karandaaz Pakistan intends to hire services of a contractor of international repute to assist SBP in formulating regulatory framework for Digital Banks in Pakistan. The scope of work and responsibilities of the Contractor are described in detail in the following section.

**Scope of Work**

The consultant(s) or consulting firm/consortium (“**Consultant or Contractor**)” will assist State Bank of Pakistan in ascertaining and formulating Regulatory Framework for Digital Banks in Pakistan. After conducting in-house research, SBP’s Banking Policy & Regulations Department (BPRD) has prepared a detailed concept Note to introduce the category of Digital Banks in Pakistan. By undertaking this assignment, it is envisioned that the Consultant will help SBP to further build on the concept to enable uptake, ownership and strengthen understanding of digital banks (inclusive of definitions, regulatory and operating models considered best fit for Pakistan’s financial industry and landscape, proposal and formulation of comprehensive Regulatory Framework for Digital Banks).

Consultant will conduct a detailed comparative analysis based on a global scan of digital banks in other countries (including UK, Hong Kong, Singapore, India, etc.). The comparative analysis should be complemented with a review of Pakistan’s financial landscape and a stakeholder consultation. In the light of comparative analysis and stakeholder consultations, the Consultant will recommend and develop consensus around a model regulatory framework within the SBP decision makers. Based on the preliminary steps, the Consultant will formulate a comprehensive regulatory framework (including licensing criteria and operating framework) for Digital Banks in Pakistan.

As mentioned above, this assignment would entail review of international best practices on regulatory frameworks for Digital Banks, including licensing criteria, operating framework, and product and services offered by these Banks. Based on the review and extensive stakeholders’ consultation, scope of this assignment will include:

* 1. Detailed Assessment Report/Comparative landscape analysis for consensus building;
  2. Drafting Licensing Criteria for Digital Banks including but not limited to definition, scope of activities, ownership structure and capital requirements.;
  3. Drafting Operating Framework for Digital Banks; and
  4. Implementation Road Map including capacity building plan of SBP officials to implement the overall regulatory Framework for Digital Banks.

This assignment has been distributed in following four activities:

**Activity-I: Comparative Analysis, industry consultation and Consensus Building**

The consultant will conduct a detailed comparative analysis based on a comprehensive global scan of digital banks in other countries (including UK, Hong Kong, Singapore, India, etc.). Detailed assessment report will define digital banks; identify building blocks for Digital Banks including product and services; identify risks to introduce proportionate regulations; and compare different regulations. The comparative analysis should be complemented with a review of Pakistan’s financial landscape and a stakeholder consultation. Consultant will also carry out an extensive industry consultation on expectations regarding the definition, scope of activities, ownership structure and capital requirements. Consultant will also focus on the need to establish Digital-only Bank regime in Pakistan especially when the existing bank are also authorized to enhance and serve market segment through Digital Financial Services. Based on the comparative analysis and stakeholder consultations, the Consultant will recommend and develop consensus among Steering Committee members and SBP Management around definition of Digital Banks, building blocks including products and services, and proposed model of regulatory framework. Consultant may also suggest visit of potential jurisdictions for deeper exposure and first-hand knowledge of relevant/replicable Digital Banking models and Regulatory Frameworks.

**Activity II: Drafting Licensing Criteria**

Landscape analysis of licensing criteria for digital only banks in different jurisdictions (interalia, UK, EU, HK, SG, India, and Korea) will be conducted where regulations for Digital Banks have already been introduced. Consultant will also review existing licensing criteria in Pakistan related to Commercial Banks, Microfinance Banks, Payment System Operators/Payment System Providers (PSO/PSP) and Third-Party Service Providers (TPSP) etc. to conduct gap analysis for introducing licensing criteria for Digital only banks and/or allowing existing banks to establish Digital banks. Based on the study of different jurisdictions and existing licensing criteria of various regime under SBP domain in Pakistan, the consultant will formulate a draft licensing criteria for establishment of Digital Banks in Pakistan. The draft will be presented to the project Steering Committee to generate in-depth debate and develop consensus among Steering Committee members and SBP management on licensing criteria, including definition of Digital Banks, scope of activities, ownership structure, capital requirements (MCR &CAR), cash reserve requirement, liquidity requirement and maximum number of branches etc. After consensus, draft licensing criteria for Digital Banks will be amended by the consultant. This draft will be shared with industry stakeholders for feedback before its finalization by the senior management of State Bank of Pakistan. In this regard, Consultant will assist Banking Policy & Regulations Department (BPRD) by presenting the Licensing Criteria to the senior management/competent forum of SBP for their approval.

**Activity-III: Drafting Operating Framework**

Subsequently, the consultant will be advising on the comprehensive operating framework for Digital Banks in Pakistan, by means of a concise integrated draft framework. The draft-operating framework shall, at a minimum, include:-

1. Instructions on digital on-boarding, Corporate Governance for Digital Banks, cloud computing for digital banks, Group Outsourcing, use of Artificial Intelligence/data analytics, Privacy and data protection regulations, cyber security measures for digital banks, regulatory sand box approach, policy on Application Program Interface and consumer protection for digital banks etc
2. Instructions on retail finance including Microfinance, Agriculture, SMEs, Housing and consumer protection etc. through review of existing regulations of SBP.

Consultant will be reviewing the existing regulatory framework(s), such as Prudential Regulations for SMEs Financing, Agriculture Financing, consumer financing, outsourcing, consumer protection, enterprise IT Governance Framework, Branchless Banking Regulations, PSO/PSP and TPSP etc. Consultant will also review the existing international regulatory practices with regards to digital on-boarding, Corporate Governance for Digital Banks, cloud computing for digital banks, Artificial Intelligence/data analytics, Privacy and data protection, cyber security measures for digital banks, regulatory sand box approach, policy on Application Program Interface and consumer protection etc. Subsequently, industry Consultation with focused group on key areas will also be held. Based on the review and consultation, the consultant will share the recommendations in the form of a draft operating Framework and presentation to the SteerCo. for their advice and subsequent approval by the senior management of SBP. Once approved, draft operating framework will be shared with the industry for their feedback before its finalization. Meanwhile, the consultant will remain engaged to provide responses to any queries raised during this process. In parallel, Consultant will also be working closely with the Legal Team of SBP/Legal Consultants appointed for the purpose for identifying the need of any new laws/rules/regulations or amendments in the existing legal Framework required for working of Digital Banks in Pakistan.

**Activity-IV: Consolidated Regulatory Framework for Digital Banks:**

Consultant will prepare a Comprehensive Regulatory Framework for Digital Banksin Pakistan encompassing Licensing Criteria, operating Framework as well as Capacity building plans for SBP officials and implementation roadmap of the overall regulatory framework for Digital Banks in Pakistan.

**Deliverables**

Work of the Consultant(s) will be milestone based and subject to the satisfaction of the Steering Committee, comprising of high level officials of SBP and Karandaaz Pakistan. The Consultant shall provide updated status report every 30 days, a full report on the completion of each task, and the final integrated report of all deliverables. Consultant shall provide the following deliverables in English:

2.1 An **inception report** with proposed work plan, templates of the intermediate and final reports, list of primary and secondary literature, list of stakeholders the consultant proposes to meet, plans for the consultation process, including meeting schedules, and a detailed project plan with costing and final timelines. This report will be finalized in consultation with the SBP.

**Comparative Analysis, industry consultation and Consensus Building:**

2.2 **Detailed assessment/comparative analysis report and Presentation** on international best practices for Digital banks. A detailed comparative analysis based on a global scan of digital banks in other countries (including UK, Hong Kong, Singapore, India, etc.) and presentation to Steering Committee and SBP Management for consensus building. Detailed assessment report will define digital banks; need to establish Digital-only Bank regime in Pakistan especially when the existing bank are also authorized to enhance and serve market segment through Digital Financial Services, identify building blocks for Digital Banks including product and services; identify risks to introduce proportionate regulations; and compare regulatory requirements for digital banks in different countries. Consultant may also suggest visits to the countries, where Digital Banks are already working, for deeper exposure and first-hand knowledge of relevant/replicable Digital Banking models and Regulatory Frameworks. Relevant working papers and minutes of meetings of industry consultations and all steering committee meetings will also be required.

**Licensing Criteria:**

2.3 Report on Landscape analysis of licensing criteriafor digital only banks in different jurisdictions (UK, EU, HK, SG, India, and Korea etc.). This may also include interalia review and gap analysis of existing licensing criteria for Commercial Banks, Microfinance Banks, Payment System Operators/Payment System Providers (PSO/PSP), Third Party Service Providers (TPSP) in Pakistan. Visits to replicable jurisdiction will be finalized based on outcome of the assessment report and landscape analysis of licensing criteria.

2.4 Stakeholders’ consultation schedule, relevant working papers and minutes of meetings of extensive industry consultation, including a day long workshop, to gauge industry expectations regarding the definition of digital only banks, scope of activities, ownership structure, capital requirements (MCR & CAR), cash reserve requirement, liquidity requirement and maximum number of branches etc.

2.5 Based on the review and consultations, comprehensive recommendations for licensing criteria on Digital Banks in Pakistan, including definition, scope of activities, ownership structure and capital requirements (MCR & CAR), cash reserve requirement, liquidity requirement and maximum number of branches etc. Deliverables will include a) Draft Licensing Criteria; and b) Presentation to SteerCo.Power Point presentation will encompass interalia detailed outcomes of industry consultation, proposed recommendations and reasons/justifications for key decisions.

2.6.Minutes of the SteerCo meetings on deliberations, advice and decisions to finalize comprehensive Draft licensing criteria.

2.7. Comprehensive draft Licensing Criteria and Presentation based on feedback of Senior Management of SBP.

2.8. **Final Licensing Criteria for Digital Banks/Virtual Banks** and updated Presentation based on feedback of relevant stakeholders**.**

**Operating Framework:**

2.9. Detailed assessment report on international best practices on operating framework for Digital Banks. This report may also include review and gap analysis of existing frameworks (such as Prudential Regulations for SMEs, Agriculture Financing, consumer Financing, outsourcing, consumer protection, enterprise IT Governance Framework, Data Protection, Branchless Banking Regulations and PSO/PSP etc.) to enable operations of Digital Banks in Pakistan.

2.10. Detailed assessment report on international best practices on digital on-boarding, Corporate Governance for Digital Banks, cloud computing for digital banks, Artificial Intelligence/data analytics, Privacy and data protection, cyber security measures for digital banks, regulatory sandbox approach, policy on Application Program Interface and consumer protection etc.

2.11 Minutes of meetings of industry consultations with focused groups on key areas of Operating Framework for Digital Banks in Pakistan.

2.12 Based on review and consultations, consultant shall formulate comprehensive draft recommendations on Operating Framework for Digital Banks in Pakistan. Deliverables will include a) Draft Operating Framework; and b) Presentation to SteerCo). Power Point presentation providing detailed outcomes of focused group consultation, proposed recommendations and reasons for key decisions will be presented by the Consultant to the SteerCo.

2.13. Minutes of the SteerCo meetings on deliberations, advice and decisions to finalize comprehensive Operating guidelines to be shared with the focused group for their feedback.

2.14 **Final Operating Framework for Digital Banks** and updated presentations.

**Consolidated Regulatory Framework:**

2.15. **A Comprehensive Regulatory Framework for Digital Banks** in Pakistan encompassing Licensing Criteria, operating Framework as well as capacity building plan for SBP officials and implementation roadmap of the overall regulatory framework for Digital Banks in Pakistan.

2.16. Consultant shall assist SBP to entertain stakeholders’ queries on licensing criteria. While processing the first batch of applications for Digital Banks in Pakistan, the consultant will also assist SBP for conducting due diligence of these proposals.

2.17. At the successful completion of the project, subject to satisfaction of the Steering Committee, consultant shall submit 5 hard copies and soft copies of Final Regulatory Framework for Digital Banks and Presentation(s) including any business or econometric models to Karandaaz Pakistan.

**3. Timelines**

3.1 It is expected that the project will be completed in six months, including final deliverables of Licensing Criteria and Operating Framework. Deliverables mentioned above (2.1 to 2.17) would be signed off by the Steering Committee. The tentative delivery timelines and milestones, subject to formal approval by the Project Steering Committee, are as follows:

|  |  |
| --- | --- |
| ***Milestone*** | ***Timeline (expected date of milestone)***  Starting from initiation of the Project |
| Initiation of Project | Signing of Contract with the consultant |
| Delivery of Inception Report as mentioned at 2.1 | 02 weeks |
| Deliverables of **Comparative Analysis,** as described at 2.2 | 02 months |
| **Final Licensing Criteria:** Deliverables 2.3 to **2.8** | **3 Months after initiation of the Project** |
| Deliverables as described at 2.9 to 2.11 | 4 months |
| **Operating Framework:** Deliverables as described at 2.12 to **2.13** | **5 months after initiation of the Project** |
| **Comprehensive Regulatory Framework for Digital Banks/Virtual Banks** as described at **2.14** | **6 months** |
| **TOTAL** | **Six (06) months** |

3.2 Consultants shall also remain accessible to provide explanations/answers to the queries of SBP and Karandaaz Pakistan for an **additional period of not less than three (3) months** (beyond six months period i.e. after the successful completion of the Project).

**Qualifications**

The consultant will be an international consultant or consulting firm/ consortium having expertise in Banking sector, preferably related to Digital Banks (As explained earlier, Digital-Only Banks/Virtual Banks/Challenger Banks/Neo Banks/online only Banks and other similar types of Banks are being referred to as “Digital Banks”). The consultant will be selected through a competitive selection process. The consultant is expected to demonstrate:

4.1 Proven expertise in the formulation of regulatory frameworks in collaboration with the Central Banks or relevant Policy makers. Proven experience in providing services of a similar nature in a range of different regions of the world, preferably in UK.

4.2. Strong knowledge of Digital Banks, their operations, risks associated with them and regulatory international best practices around different jurisdictions, especially in UK. Knowledge of/direct experience of formulating regulatory regimes for Digital Banks will be highly preferred.

4.3 Minimum 15 years of experience in financial sector policy making, including for Financial institutions/mobile financial services sector /payment system operators of developed economies or equivalent. Direct experience of policy/regulatory support to Digital Banks is highly desirable/preferable.

4.4 Have staff with minimum five years of experience in all relevant areas, preferably expertise and knowledge of Digital Banks.

4.5 Excellent understanding of the legal, regulatory, financial and economic aspects of the Financial sector, especially Digital Banks.

4.6 Thorough understanding of the working and different working models of Digital Banks around the globe, especially in UK.

4.7 Strong knowledge of digital payment system architectures such as domestic or international payment schemes including VISA, Mastercard, UPI etc. and product design for technology savvy market segment.

4.8 Deep technical understanding among market solutions for payment switches, aggregators, mobile financial services, data integration, fraud and cybersecurity, digital identity and digital accounts.

4.9 Having Knowledge and Skill set for understanding mobile money/payments systems/core banking system, especially Digital Banks.

4.10. Excellent interpersonal and communications skills are required for building consensus among a range of stakeholders including senior management of SBP. Very strong presentation and facilitation skills required to lead consensus building and consultation sessions.

**Ownership/Control of Work and Product/Publication**

The ownership of all copyright and other intellectual property rights in respect of any data compilations, research, spreadsheets, graphs, reports, diagrams, designs, work products, software, or any other documents, developed in connection with this Contract will exclusively vest in and remain with Karandaaz which shall have all proprietary rights therein, notwithstanding that the Contractor or its employees may be the author of the intellectual property. All documents relating to the intellectual property or otherwise connected with this Contract, the services, or duties must be returned or delivered to Karandaaz at the time of the expiration or termination of this Contract. The Contractor agrees not to publish or make use of any of the intellectual property, or documents relating thereto, without the prior written approval of Karandaaz, and where approval is granted, without proper attribution to Karandaaz.

**Task Manager/Reporting**

Director KMC

**Payment**

Karandaaz will pay the Contractor’s invoice within thirty (30) business days after a) Karandaaz’ approval of the Contractor’s Deliverables, or b) Karandaaz’ receipt of the Contractor’s invoice, whichever is later. Payment will be made in PKR on USD, as agreed, to the account specified in the Contractor’s invoice. All payments shall be made after deliverable approval by the concerned departments.

**PROPOSAL SUBMISSION FORM**

Dear Sir/Madam,

Having examined the Solicitation Documents, the receipt of which is hereby duly acknowledged, “THE FIRM NAME” undersigned, offer to provide consulting for “INSERT REFERENCE NUMBER” to Karandaaz Pakistan in accordance with the Price Schedule attached herewith and made part of this proposal. “THE FIRM NAME” undertake, if our proposal is accepted, to commence and complete delivery of all services specified in the contract within the time frame stipulated.

“THE FIRM NAME” agree to abide by this proposal for a period of 90 days from date fixed for opening of proposal in the invitation for proposal, and it shall remain binding upon us and may be accepted at any time before the expiration of that period.

We understand that you are not bound to accept any proposal you may receive.

Dated: this------day of -------2018.

**Name, Designation and Signature of the “firm Representative”**

1. The term **Digital Banks** for this assignment refers to Digital-Only Banks/Virtual Banks/Challenger Banks/Neo Banks/online only Banks and other similar types of Banks. [↑](#footnote-ref-1)
2. http://www.sbp.org.pk/about/Intro.asp [↑](#footnote-ref-2)
3. <http://www.sbp.org.pk/spd/Strategic.pdf> [↑](#footnote-ref-3)
4. <http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf> [↑](#footnote-ref-4)
5. Pakistan’s Telecommunications Sector Indicators <https://www.pta.gov.pk/en/telecom-indicators> [↑](#footnote-ref-5)
6. The Global Information Technology Report 2016 “Innovating in the Digital Economy” Page 34 & 280 <http://www3.weforum.org/docs/GITR2016/WEF_GITR_Full_Report.pdf> [↑](#footnote-ref-6)