**REPLIES**

**Points requiring clarifications in relation to the Request for Proposal No. 52 on formulation of the Regulatory Framework for Digital Banks in Pakistan**

We have the following queries/ clarification requirements with respect to certain content mentioned in the Request for Proposal (RFP) and for which your feedback/ expectations from the consultants is sought:

| **S.No** | **Reference to the RFP** | **Relevant Extract from the RFP** | **Clarification/ Information Required** | **ANSWERS** |
| --- | --- | --- | --- | --- |
| 1 | Section 2, Instructions to Firms, (C) Preparation and Submission of Proposals, 7 (f) | Comments and suggestions on the terms of reference, counterpart staff, and facilities to be provided by the client  | Clarification is requested on whether the comments and suggestions are mandatorily required within the proposal | **Yes. Even “No comments” on ToRs and vendors expectations regarding counterpart staff at SBP/KRN and facilities required by the consultant will suffice.** |
| 2 | Section 4, Terms of Reference, 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 span of Digital Banking may be quite wider and may include other entities/ functions, particularly the following:* Digital light banks focusing on niche customer segments/ economic sectors/ products (e.g. AI enabled digital lending etc.)
* Payment banks/ institutions
* Micro digital banks/ institutions
* Mobile only banks
* Digital brand/ function of a commercial bank
* Digital subsidiary of a commercial bank

Clarification is requested on whether the term ‘Digital Banking’ used within this RFP may also cover the above listed. | **Yes.** **Please refer to Scope of Work – Activity-I. “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.”****It is expected that the consultant will facilitate SBP to build consensus around the definition and building blocks of “digital banks” based on the comparative analysis and stakeholder consultations.** |
| 3 | Section 4, Terms of Reference, About the Project | The main objective of this assignment is to assist State Bank of Pakistan (SBP) in ascertaining and formulating a comprehensive Regulatory Framework for Digital Banks in 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. | Digital banking may also intend to have a commercial purpose beyond much needed financial inclusion agenda of outreach to unbanked or underbanked. Clarification is requested on whether the required regulatory framework for digital banking is to:* primarily facilitate low cost digital financial services to the unbanked/ underserved markets; or
* address both the objectives of ensuring low cost digital financial access to the unbanked/ underserved markets AND undertaking of commercial banking activities through digital means, catering to different deposit, credit, purchasing/ spending, payment, collections, trade, remittance, insurance, investments and ancillary financial needs of customers.
 | **This will cover both the objectives.**  |
| 4 | Section 4, Terms of Reference, Scope of Work, 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.). | Apart from the countries specifically included in the RFP, is there any criteria for selection of benchmark jurisdictions e.g. a combination of those that are digitally mature such as EU (specifically Germany, Switzerland), and Australia, and those that have similarities to Pakistan e.g. Middle East, Turkey | **Proposed regulatory Framework may not be based on a specific benchmark jurisdiction.** **Reference of some countries in the RFP are examples of some countries where regulatory frameworks for Digital banks already exist and can be compared.** **It is at consultant’s discretion to propose additional jurisdictions and can be a part of technical proposal (Please refer to section 11.7.f.)** |
| 5 | Section 4, Terms of Reference, Scope of Work, Activity – I: Comparative Analysis, Industry Consultation and Consensus Building | The comparative analysis should be complemented with a review of Pakistan’s financial landscape and a stakeholder consultation. | Information is requested on who constitute the term ‘stakeholders’?Are stakeholders classified as ‘external stakeholders’ and ‘internal stakeholders’? If yes, who would constitute as ‘external stakeholders’ and who would constitute as ‘internal stakeholders’?Will these stakeholders be separate from those within the industry whom consultants are required to interact with? Which party to the contract will be responsible for onboarding stakeholders, including those with from the industry that the consultants are required to interact with e.g. Karandaaz or the consultants?Will these stakeholders be separate from the members of the Steering Committee or be representatives of the same organizations to which the Steering Committee members belong? Specifically, who would be members of the Steering Committee? Apart from the above, the RFP states that the Consultant will recommend and develop consensus among Steering Committee members and SBP Management. Would such assistance be provided in the form of a working group? If so, which part to the contract would set up the working group and who would be its members? | **Please refer to section 11.7.a and ToRs section on Deliverable 2.1 “inception report”. We are expecting that as part of the approach and methodology, the consultant will be proposing the stakeholders and preferred methodology (workshop, meeting, working groups, surveys etc.) of consultation activity.** **Internal stakeholders may include Steering Committee and other relevant officials of State Bank of Pakistan (SBP) and Karandaaz Pakistan. While external stakeholders may include other regulators, Ministries, Commercial Banks, Microfinance Banks, Digital Financial Service Providers, PSO/PSPs and Fintechs etc. and may also include industry focused groups.****If deemed necessary, consultant may propose any relevant stakeholders deemed necessary to reach out for this assignment.** **Please refer to section 11.7.a and ToRs section on Deliverable 2.1 “inception report”. We are expecting that as part of the approach and methodology, the consultant will be proposing the stakeholders and preferred methodology (workshop, meeting, surveys etc.) of consultation activity.** **Meetings with internal stakeholders at SBP and KRN as well as industry consultations with other regulators, Commercial Banks, Microfinance Banks, Digital Financial Service Providers, PSO/PSPs and Fintechs etc. should be included.** **Consultant may also request any additional requirement / facilitation as per “Section 2, Instructions to Firms, (C) Preparation and Submission of Proposals, 7 (f)” of RFP.** |
| Consultant will also carry out an extensive industry consultation on expectations regarding the definition, scope of activities, ownership structure and capital requirements |
| 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. |
|  | **Steering Committee will have high-level representation of SBP officials and KRN nominees. Internal stakeholders may include other officials of both organizations. SBP and KRN may facilitate such arrangements.**  |
| 6 | Section 4, Terms of Reference, 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 |  |
| 7 | Section 4, Terms of Reference, Scope of Work, Activity – I: Comparative Analysis, Industry Consultation and Consensus Building | 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.  | The span of Digital Banking may be quite wider and may include other entities/ functions, particularly the following:* Digital light banks focusing on niche customer segments/ economic sectors/ products (e.g. AI enabled digital lending etc.)
* Payment banks/ institutions
* Micro digital banks/ institutions
* Mobile only banks
* Digital brand/ function of a commercial bank
* Digital subsidiary of a commercial bank

Additionally, clarification is requested on whether the scope of this RFP is restricted to the development of a regulatory framework that governs digital banks only, or also address the banks’ relationships with third parties (together with their enablement) which may facilitate in setting up digital platforms, contribute in product/ service delivery or partner in wider eco-system collaborations, such as the following:* FinTechs (technology provider, API developers, aggregators, other firms etc.)
* NADRA, credit bureaus, telcos, utilities and social media companies etc.
* On-line retailers
* Companies with e-commerce platforms
* Financial services organisations e.g. insurance, asset management and other companies

Apart from the above, clarification is also requested on whether the scope of the project may entail any support in the build-up of an eco-system of digital/ FinTech/ crowdfunding entities, or the possibility of scope enhancement in this regard. | **This may come under comprehensive global scan of digital banks in other countries as part of the comparative analysis (Activity-I). Further, consultant is expected to build on SBP’s concept note, which may hint on the current approach, which is subject to change on the outcomes of comparative analysis of different jurisdictions.** **Regulatory Framework is expected to cover the full ecosystem, including arrangements with third parties.****This is currently out of the scope of this project, however, indication of next steps will be useful.** |
| 8 | Section 4, Terms of Reference, Scope of Work, Activity – I: Comparative Analysis, Industry Consultation and Consensus Building | Consultant will also carry out an extensive industry consultation on expectations regarding the definition, scope of activities, ownership structure and capital requirements. | Clarification is requested on how such consultations would take place. Would it be through discussions of a working group should one be formed, or through surveys.If consultations are to take place through surveys, then would these only be restricted to members of steering committee and working group members? Can the consultant seek responses to surveys from any other stakeholder as they deem fit? | **Please refer to section 11.7.a and ToRs section on Deliverable 2.1 “inception report”. We are expecting that as part of the approach and methodology, the consultant will be proposing the stakeholders and preferred methodology (workshop, meetings, surveys etc.) of consultation activity.****These consultations should NOT be limited to just the internal stakeholders. Consultations would entail stakeholders from entire financial sector ecosystem. Independent industry views need to be the part of this activity.**  |
| 9 | Section 4, Terms of Reference, Scope of Work, Activity – III: Drafting Operating Framework | 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. | Confirmation is requested on whether the existing regulatory frameworks that are to be reviewed for the purpose of this engagement pertain only to those that are issued by the State Bank of Pakistan. | **Yes, however, during the review, if any gaps are identified in light of comparative analysis of international best practices, certain regulatory frameworks under jurisdiction of other regulators (PTA, SECP, etc.) might be included as well.**  |
| 10 | Section 4, Terms of Reference, Deliverables (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 | Clarification is requested on what is meant by the terms *“list of primary and secondary literature”* | **This is the base of assessment /comparative analysis report. This may include:*** **Relevant policy and regulatory documents in different jurisdictions**
* **In-house study(ies)/research on Digital Banks, if available.**
* **Any other relevant studies research on Digital Banks.**
 |
| 11 | Section 4, Terms of Reference, Deliverables (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. | Clarification is requested on the "Regulatory Sandbox approach". Which entity shall own the ‘Regulatory Sandbox’ specifically to provide the test environment for Digital Banking providers and Fintech? Will there be both Central Bank provided innovation center/ sandbox facility or options for using sandbox environments at any of the following:* National incubation centers
* Those operating under public private partnership modes
* Bank’s/ Banking Group’s own innovation center

Further, does the regulatory sandbox approach mean both business regulation and technical standards and/or incubator operating environment?Will the sandbox be applicable to digital banks only, or also on the banks’ relationship with third parties, facilitating in setting up digital platforms, contributing in product/ service delivery or partnering in wider eco-system collaborations, such as the following:* FinTechs (technology provider, API developers, aggregators, other firms etc.)
* NADRA, credit bureaus, telcos, utilities and social media companies etc.
* On-line retailers
* Companies with e-commerce platforms
* Financial services organisations e.g. insurance, asset management and other companies
 | **This would be the part of assignment. Consultant would be listing down different approaches and will be recommending the best options based on the relevancy and success in different jurisdictions.** |
| 12 | Section 4, Terms of Reference, Deliverables, Consolidated Regulatory Framework (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. | Clarification is required on whether our availability will be required to address SBP queries if any, for conducting due diligence of the first digital bank proposal within the first batch of applications for digital banks that it receives, or for all applicants within the first batch.Information is requested on the estimated number of applications for the first batch of applications of digital banks in Pakistan.Clarification is requested on whether such assistance is required in addition to the 3 months periods (beyond the six months period) mentioned in clause 3.2 of the RFP. | **This refers to all applicants within the first batch.****Enabling regulations may result in higher numbers.** **It is anticipated that this assistance will fall within estimated time lines of this assignment. Please note that timeline of 3 months is based on execution of earlier deliverables.**  |
| 13 | Section 4, Terms of Reference, Qualifications | 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.4.6 Thorough understanding of the working and different working models of Digital Banks around the globe, especially in UK. | Considering the leading digital banking capabilities in certain EU countries, providing replicated models across the region, will the knowledge and experience preferences be flexible to include the same? | **Yes. Experience with digital banking regulations in multiple jurisdictions is acceptable.** |
| 14 | Section 1: Letter of Invitation | Both financial and technical proposals must be submitted before close of Business on 31st October, 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 | Would it be possible for the technical and financial proposals to be emailed by close of business October 31, 2018 but for the hard copies to be received within two working days from October 31, 2018? | **YES.** |

**Additional Queries:**

1. Will it be acceptable to e-mail copies of the response on Oct 31 with hard copies (Date and time stamped) by courier?

**YES.**

1. Will there be notification from Karandaaz if there is any delay beyond the stated timeline for assessment and award of the contract?

**YES.**

1. Please clarify “As required Karandaaz Pakistan can split the order.”

**Split order is at the sole discretion Karandaaz.**

4.                  Please clarify re Financial Proposal – issues of currency for billing and payment

* 1. *“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.”*
	2. *Payment will be made in PKR on USD, as agreed, to the account specified in the Contractor’s invoice”*

***For comparison purposes PKR value shall be considered, however payments shall be made as specified in contract i.e PKR locally and in USD in case of international account.***

5.                  When do you foresee the technical presentation will take place?

 **2nd to 3rd week of November, 2018.**

6.                  Licensing 2.3 does “replicable” refer to jurisdictions chosen through the research and GAP analysis?

 **Yes**

7.                  Please confirm “close of Business on 31st October, 2018” is 5 pm Islamabad.

 **Yes. Its Pakistan Standard Time.**

1. The RFP indicates that the selected consultant will be required to undertake extensive industry consultation on expectations. To ascertain scope, please could you provide guidance on how many stakeholders interviews will be required? Will these cover executives from SBP, Karandaaz, Fintech companies, selected commercial banks?

**Please refer to section 11.7.a and ToRs section on Deliverable 2.1 “inception report”. We are expecting that as part of the approach and methodology, the consultant will be proposing the stakeholders and preferred methodology (workshop, meeting, surveys etc.) of consultation activity. Meetings with internal stakeholders at SBP and KRN as well as industry consultations with other regulators, Commercial Banks, Microfinance Banks, Digital Financial Service Providers, PSO/PSPs and Fintechs etc. should be included.**

1. Which companies will be part of the project steering committee (SBP, Karandaaz, others)?

**Steering Committee will have high-level representation of SBP officials and KRN nominees.**

1. We understand that the industry consultation will help refine the definition of a “digital bank”. But as a starting point, is it assumed that a Digital Bank will undertake core banking activities such as accept deposits and extend credit (both secured and unsecured)? Or will it only offer digital “transactional” accounts? Will additional financial services products be in scope such as insurance?

**It is NOT limited to Digital Transaction Accounts (DTAs). “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..”**

**Please refer to Scope of Work – Activity-I. “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.”**

**It is expected that the consultant will facilitate SBP to build a consensus around the definition and building blocks of “digital banks” based on the comparative analysis and stakeholder consultations.**

1. The comparative analysis to be undertaken will identify “building blocks for Digital Banks including products and services”. Does the scope of the review cover products & services for all types of target customer segments that a Digital Bank could cater to such as under/un-banked individuals, mass market individuals, high net-worth individuals, small and medium sized businesses, large corporations?

**Yes. This may include interalia current best practices of the “Digital Banks” and all allowed product and services in different jurisdictions.**

1. The RFP suggests UK, Hong Kong, Singapore, and India to be covered in the global scan. Will it be in the consultant’s discretion to propose additional jurisdictions?

**Yes. Reasons for selection of additional/other countries should be a part of technical Proposal. Please refer to section 11.7.f.**

1. To understand the scope of the effort better, what are the expectations in relation to the allocation of time effort / resources (e.g., X% to Activity I: Y% for Activity II…)

**Please refer to “Deliverables” and expected “Timelines” mentioned in RFP.**

1. For the gap analysis, will the consultant be expected to have detailed knowledge of the banking and related laws in Pakistan?

**Yes**.

1. Will the consultant be required to develop recommendations on the structure of the regulatory organisation for Digital Banks based on international benchmarks / case studies?

 **Yes. Please refer to “Deliverables”, section 2.5 to 2.7, 2.12 to 2.15.**

1. What are the policies governing the proposed project relating to travel and accommodation expenses for international consultants?

**Consultants are required to make their own travel arrangements including visa, boarding and lodging arrangements keeping in mind the timelines and requirements of the project. A visa facilitation letter will be provided if required.**

1. Will the consulting team be required to be “on-the-ground” for most of the project duration or would it be acceptable to undertake part of the work remotely? (such as the comparative analysis / global scan etc.)

**Please refer to section 11.7.a, section 25 and ToRs section on Deliverable 2.1 “inception report”. Part of the work, which does not require on-the-ground activities may be conducted remotely, however, on-ground-presence during industry consultation, consensus building activities within SBP, and as required by the Steering Committee, is highly desirable and an important part of the proposal.**