

# **Regulations for Digital On-Boarding of Merchants**



**State Bank of Pakistan**

Banking Policy & Regulations Department

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## **Acronyms**

|            |                                                            |
|------------|------------------------------------------------------------|
| AML/CFT    | Anti-Money Laundering and Combating Financing of Terrorism |
| ATM        | Automated Teller Machine                                   |
| BPRD       | Banking Policy & Regulations Department                    |
| CDD        | Customer Due Diligence                                     |
| CNIC       | Computerized National Identity Card                        |
| EMI        | Electronic Money Institution                               |
| FMU        | Financial Monitoring Unit                                  |
| KYC        | Know Your Customer                                         |
| MFB        | Microfinance Bank                                          |
| ML/FT      | Money Laundering/Financing of Terrorism                    |
| m-POS      | Mobile Point of Sale                                       |
| NADRA      | National Database and Registration Authority               |
| PSD        | Payment Systems Department                                 |
| PS&EFT Act | Payment Systems and Electronic Fund Transfer Act, 2007     |
| POS        | Point of Sale                                              |
| QR         | Quick Response                                             |
| SBP        | State Bank of Pakistan                                     |
| UNSC       | United Nations Security Council                            |

## Definitions

**“Bank”** means a banking company as defined in Section 5 of the Banking Companies Ordinance, 1962.

**“Direct Credit Transfer”** is an electronic transfer of funds by the payer directly into the account of the payee.

**“Direct Debit”** preauthorized debit on the payer’s bank account initiated by the payee.

**“Electronic Money Institution (EMI)”** means an undertaking that issues means of payment in the form of Electronic Money and is duly authorized to do so.

**“Merchant”** under these regulations means any individual and self-employed persons who will accept digital payments from customers against the delivery of any legal goods or services.

**“Merchant on-boarding”** means process by which Banks/MFBs can open the accounts of merchants to accept payments via digital means.

**“Microfinance Bank”** mean company incorporated in Pakistan and licensed by the State Bank of Pakistan as microfinance banks for the purpose of providing microfinance services, especially mobilizing deposits from the public and providing credit to poor persons and micro-enterprises.

**“Money Laundering and Financing of Terrorism” or “ML/TF”** means the same as defined in AML Act 1997.

**“Payment System”** means a system relating to payment instruments, or transfer, clearing, payment settlement, supervision, regulation or infrastructure thereof and includes clearing, settlement or transfer of Book Entry Government Securities.

**“State Bank” or “SBP”** means the State Bank of Pakistan established under Section 3 of the State Bank of Pakistan Act, 1956 (XXXIII of 1956).

## **1 Preamble**

One of the challenges being faced in the digitization of retail transactions in Pakistan is the low number of digital payment acceptance points in the country. There are many reasons for this shortfall but the primary one is the process of merchant onboarding that requires a long list of documentation and an even longer process of due diligence by the banks for on-boarding of merchants of all types. Further, due to a number of reasons, merchant acquiring in Pakistan is a costly business and it takes many years before a merchant acquiring bank can even become profitable. As a result, the number of point-of-sale terminals which are primarily being used for conducting transactions and that too usually at high-end retail outlets, have been hovering around 50,000 in the country for quite some time now.

SBP has taken numerous initiatives to promote digital payment channels and instruments in the country including adoption and promotion of new technologies for efficient payment services in the country. Through these Regulations, Banks/MFBs will be targeting smaller merchants thus enabling them to accept payments digitally using a completely new variety of low-cost, tech-enabled payment instruments/methods like QR codes through mobile applications.

SBP has drafted these Regulations after extensive industry consultations aiming to provide a risk based framework for Banks/MFBs, for undertaking the digital onboarding of merchants in a standardized manner.

SBP is of the view that issuance of these merchant onboarding regulations will enable Banks/MFBs to quickly onboard a large segment of retail merchants and enable them to accept their payments digitally thus giving new payment options to the general public and broadening the base of financial inclusion in the country.

## **2 Objectives**

The objectives of these Regulations are:

- a) To outline minimum due diligence requirements for on-boarding merchants based on simplified due diligence process.
- b) To facilitate in on-boarding merchants at various financial services access points and channels.
- c) To promote digital collection of payments from the sale of goods and services.

## **3 Scope and Applicability**

- a) These regulations are applicable on Banks/MFBs, which may on-board individuals and self-employed merchants as per their institutional risk assessment framework.
- b) Banks/MFBs shall formulate merchant on-boarding policy in line with these regulations and duly approved the same from their Board.
- c) These regulations are not applicable on existing onboarding process of full-fledged merchants and Banks/MFBs shall onboard full-fledged merchants as per applicable laws and regulations.

## **4 Nature of Account**

- a) Banks/MFBs may offer these merchants accounts as Current, Savings or in any other remunerative category in Pak Rupees to individual and self-employed merchants only.
- b) Banks/MFBs shall ensure that one CNIC holder can open only one merchant Account in a Bank/MFB.
- c) Banks/MFBs shall ensure that Merchant Accounts are only used for digital collection of payments against the provision of legitimate goods and services. However, cash deposit into

these accounts are permitted subject to terms and conditions mentioned in sub section 9 (b& c) of these Regulations.

- d) Banks/MFBs may provide electronic payment instruments like ATM/Debit Cards, Credit Cards, Direct Credit Transfers, Direct Debit etc. as per their own policies and procedures.
- e) Banks/MFBs shall provide digital payment acceptance channels to these merchants that may include but are not limited to Point of Sales (POS) machines, m-POS, QR code, mobile payment applications, direct credit transfers, e-commerce gateways, etc. depending on their needs and requirements.

## **5 Minimum Requirements for Merchant Due Diligence**

Banks/MFBs shall adopt following minimum due diligence requirement for merchants at the time of onboarding:

### **5.1 Identity Information to be collected**

Banks/MFBs shall collect following information in manual or digital form from merchants at the time of account opening:

- i. Name of the merchant
- ii. Valid CNIC number of the merchant
- iii. Mobile number of the merchant
- iv. Any other two information fields that are not present on CNIC such as place of birth and mother's maiden name etc.
- v. Address
- vi. Merchant Type (by Profession)
- vii. Expected per month turnover

### **5.2 Documents Required**

Banks/MFBs shall collect following documents in manual or digital form from merchants:

- i. Electronic copy of front and back side of CNIC
- ii. Live picture or Digital photo
- iii. Any other document(s), if deemed appropriate

### **5.3 Account Activation**

Banks/MFBs shall activate Merchant Accounts after fulfilling following KYC/CDD requirements of merchant:

- i. Perform Biometric Verification or Verisys from NADRA. In case of NADRA Verisys, Biometric Verification shall be mandatory at the time of first cash out or within three months of opening of these accounts, whichever is earlier. These accounts shall be deactivated if Biometric Verification is not carried out within three months of opening of accounts.
- ii. Ensure Pre-screening of merchants' particulars against lists of entities and individuals designated by the United Nations Security Council (UNSC), lists of entities and individuals proscribed under the Schedule-I and Schedule IV of the Anti-Terrorism Act, 1997, respectively, and any other applicable sanctions lists.
- iii. Conduct Call Back Confirmation or generate One-Time Password (OTP) for verification from merchants.

- iv. Carry out full or Enhanced Due Diligence of merchant as per Banks/MFBs own risk assessment, in light of applicable laws and regulations (if applicable).
- v. Acceptance of terms and conditions of account provided in English and/or Urdu language by the merchant.

## **6 Account Opening Points**

- a) Banks/MFBs may offer opening of these merchant accounts at digital touch points such as mobile applications/ web portals/ ATMs/ digital kiosk etc. and at bank branches / Branchless Banking Agents, etc. Further, Banks/MFBs permanent staff may visit merchant place for opening of these accounts.

## **7 Transactions Limits**

- a) Banks/MFBs shall place following maximum transaction limits on merchant accounts:
  - i. Rs. 50,000 per month without Biometric Verification
  - ii. Rs. 500,000 per month with Biometric Verification
- b) The above Transaction limits will be separately applied on Debit and Credit transactions.
- c) Banks/MFBs may place lower transaction limits keeping in view their institutional risk assessment and high-risk geographical locations of merchants.

## **8 Merchant Account Balance**

- a) Banks/MFBs shall ensure that merchant accounts balance shall not exceed the following limits at any point of time:
  - i. Rs. 50,000 without Biometric Verification
  - ii. Rs. 500,000 with Biometric Verification

## **9 Restricted Activities**

- a) Banks/MFBs shall ensure that merchants on-boarded under these regulations do not perform functions of Banking, Electronic Money Institutions (EMIs), Branchless Banking Agents, or any other activity for which specific and separate permission is required from SBP under the relevant laws and regulations.
- b) All customers including Branchless Banking level "O" accountholders can top up/cash in their accounts up to Rs. 10,000/- per month through biometrically verified merchants. However, cash deposit shall only be used for digital payments.
- c) Total cash deposit in merchant accounts shall not exceed Rs. 100,000/- per month.
- d) Banks/MFBs shall not permit cross border outward remittance transactions from these accounts.

## **10 Security Measures**

Banks/MFBs shall take necessary security measures and adopt controls to ensure the data security, privacy and the safety of merchant accounts. These measures include but not limited to the following:

- a) Banks/MFBs shall ensure security of application, web-portals and digital channels for on-boarding merchants in line with international best practices.
- b) Banks/MFBs shall comply with SBP's instructions on security of payment channels, payment instruments, customer data etc. issued from time to time.

- c) Banks/MFBs shall also adopt international best practices on payment instruments and payment channel security standards such as Payment Card Industry Data Security Standard (PCI DSS) and Payment Application Data Security Standard (PA-DSS) etc.
- d) Banks/MFBs shall ensure a Third Party Security Audit of digital platforms used to on-board merchants such as mobile application, web portals etc.
- e) Banks/MFBs shall adopt two-factor authentication mechanism for conducting transactions of above Rs. 5,000/- initiated from the accounts.
- f) Banks/MFBs shall ensure security and integrity of data at all times.
- g) Banks/MFBs shall report to BPRD & PSD-SBP within two days in case of occurrence of an information security breach and update about its resolution.

## **11 Customer Support Services**

- a) In order to provide support to merchants and their customers, Banks/MFBs shall maintain a fully functional, round-the-clock Customer Support Service Centre that is able to log and escalate issues/disputes, and address queries in a timely manner.
- b) Banks/MFBs shall ensure that merchants prominently display the contact details of Banks/MFBs, including but not limited to email, phone numbers, webpages, social media platforms etc. for logging any complaint related to merchant or Banks/MFBs.
- c) Banks/MFBs shall maintain complete log of complaints along with their status to be reviewed by SBP as and when required.
- d) Where possible, Banks/MFBs shall conduct awareness sessions for merchants/customers for promoting usage of digital channels at merchant level.

## **12 Dispute Resolution**

- a) Banks/MFBs shall develop comprehensive dispute resolution framework including but not limited to roles and responsibilities of all the parties, liabilities, chargeback mechanism, turnaround time etc.
- b) Banks/MFBs shall comply with SBP's applicable instructions on consumer protection and grievances handling mechanism, issued from time to time.

## **13 Merchant Monitoring and Reporting**

- a) Banks/MFBs shall devise continuous monitoring mechanisms to ensure that Merchant Accounts shall not be used for purposes other than legitimate business transactions.
- b) Banks/MFBs shall formulate policy parameters on categories of merchants that will not be on-boarded under these regulations. These policy parameters shall be the part of Merchant Account Policy of the Banks/MFBs.
- c) Banks/MFBs shall monitor Merchant Account transactions through Automated Transaction Monitoring System and report suspicious transactions to Financial Monitoring Unit (FMU) as per law.
- d) Banks/MFBs shall immediately investigate a reported fraudulent activity and if the fraud is established beyond doubt, they shall terminate the merchant relationship and initiate appropriate action as per applicable laws and regulations and/or as per their policy.
- e) Banks/MFBs shall devise benchmarks for blacklisting merchants who have been found to be involved in activities that are fraudulent or illegitimate in nature and shall also immediately report to the other Banks, MFBs and EMIs. .
- f) Banks/MFBs shall report merchant activities on 15<sup>th</sup> of the month, following the end of each quarter to BPRD & PSD-SBP as per **Annexures A and B**.

**14 Provision of Records and its Retention**

- a) Banks/MFBs shall maintain record of account opening documents and verification from NADRA as per applicable laws and regulations as amended from time to time.
- b) Banks/MFBs shall ensure that necessary clauses are included in terms and conditions of their agreement with merchants, to provide SBP's access to their records including but not limited to their books of accounts as well as access to their premises.

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**Annexure A: Data on Merchants**

| Category                                          | No of Merchants at the start of Quarter (a) | No of Merchants added in the Quarter (b) | Total No of Merchants(a+b) | No of Transactions | Value of Transaction (PKR) |
|---------------------------------------------------|---------------------------------------------|------------------------------------------|----------------------------|--------------------|----------------------------|
| Merchants on-boarded after NADRA Verisys          |                                             |                                          |                            |                    |                            |
| Merchants on-boarded after Biometric Verification |                                             |                                          |                            |                    |                            |

**Annexure B: Data on Blacklisting & Frauds**

|                                                   | No of Blacklisted Merchants | Reasons of Blacklisting | No of fraudulent Transactions during Quarter | Value of fraudulent Transactions during Quarter | Nature of Frauds | No of Resolved Fraud Incidents |
|---------------------------------------------------|-----------------------------|-------------------------|----------------------------------------------|-------------------------------------------------|------------------|--------------------------------|
| Merchants on-boarded after NADRA Verisys          |                             |                         |                                              |                                                 |                  |                                |
| Merchants on-boarded after Biometric Verification |                             |                         |                                              |                                                 |                  |                                |

**\*Document Ends\***