

TERMS OF REFERENCE

BACKGROUND

The Government of Pakistan has embarked on the task of establishing a wholly owned subsidiary of Pakistan Post as Pakistan Post Payment Services (PPPS) under Payment Systems Electronic Fund Transfers Act, 2007 (PSEFT Act) and obtaining authorization to operate the payment services (proposed) with a view of making optimal use of extensive outreach and presence of physical and operational infrastructure of Pakistan Post.

2. Pakistan Post has extensive outreach in all areas of Pakistan through the network of its post offices under active supervision of regional offices. Pakistan Post is currently doing domestic remittance business in the form of money orders, payments of international remittance, payments of pensions and taking saving deposits through its network. Through formation of a wholly owned subsidiary, Pakistan Post will surely be helpful in extending small credits to a large number population in underserved areas of Pakistan. Pakistan Post will continue to represent the Government as the owner of proposed payment services business through its subsidiary.

The Task

The payments, remittance and savings business is a specialized and technical business line which requires vision of sponsors/management, deep understanding of the target market, viable business model, appropriate organizational structure, and management capabilities to adopt innovation in products & delivery channels. To this end, Pakistan Post (PP) will require detailed guidance and legal assessment from a suitable consultant/legal firm on establishing a wholly owned subsidiary and authorization process of SBP under PSEFT Act and to develop a phased strategy for a fully operational and technologically proficient PPPS under PSEFT Act, 2007.

SCOPE OF WORK

2. The firm/Consultant would be required to look after the following aspects:-

Phase-I: Pre-Proposal Assessment

- Review existing infrastructure, review of present software designed to seek financial services, capacity & financial portfolio of PP.
- Review the SBP's legal and regulatory regime for formation of a payment services entity.
- Conduct legal assessment and advice for transformation/formation of proposed PPPS by PP including the viability, sustainability and risk assessment of the new entity.
- Assessment of all the possibilities for holding of customer funds in case a subsidiary is established
- Review of the legal and regulatory requirements for safeguarding of the funds generated from the general public by proposed PPPS.
- Review of the existing payment instruments of PP vis a vis The Post Office Act, 1898, PSEFT Act 2007, 1898 and rules and regulations issued by SBP from time to time.
- Suggest alternate solutions/options in case of occurrence of any legal/regulatory hindrance for transformation/formation of proposed PPPS bank by PP.
- Oversee, coordinate and finalize the authorization process of proposed business as PPPS.
- Review of the costs associated with formation of separate entity.

- Review of costs associated with technological ⁽¹³⁾ infrastructure including the software separately for each item that is considered essential for running a separate entity. This shall include cost of wallet system, Transaction Monitoring System and name screening solution etc.
- Assessment of cost to be borne by proposed PPPS along with recommendations for on-premises and hosting on cloud model.
- Review of costs associated with required HR, formulating policies, building processes and other required actions to comply with FATF/SBP regulations on AML/CFT.

Phase – II : Obtaining No Objection Certificate (NOC) from SBP for proposed PPPS under the legal and regulatory regime of SBP. Major areas of the activity will include:

- Conduct legal assessment in the context of formation/transformation of financial portfolio (except insurance business) of Pakistan Post into a provider of payment services.
- Drafting of detailed feasibility study, short & long terms business plans, Memorandum & Articles of Association etc. and sharing of MOA and AOA with SBP.
- Preparation of application package (complete in all respect), in accordance with provisions of PSEFT Act and rules, regulations, instructions and guidelines issued by SBP for the purpose.
- Filing the application with SBP under PSEFT Act for obtaining NOC from SBP for transformation/formation into PPPS.
- Coordinate with SECP for incorporation of the proposed PPPS (as a public limited company) consequent upon receipt of NOC from SBP.

The mutually agreed fee will be paid on completion of this phase.

Phase – III – Obtaining authorization for Pakistan Post Payment Services (proposed) from SBP.

- License application
- Application review and fulfillment of additional requirement.
- Pilot license
- Audit review by the State Bank of Pakistan (SBP) of the pilot level.
- Full license.
- Ensuring compliance with all the terms and conditions, general as well as special, as imposed by SBP, prior to submission of application for issuance of authorization to operate as proposed PPPS and holding of customer funds.
- Preparation and submission of application along with all the documents to SBP for authorization as PPPS.
- Assist and coordinate with SBP/Pakistan Post to address any observations/concerns, if any, raised by SBP during the process of issuance of authorization.

Phase – IV – Operationalization of Pakistan Post Payment Services (proposed).

- Development of IT system for proposed PPPS, Inclusive of all financial services.
- Development of mechanism for transferring the existing remittances business (domestic in the form of money order and international in the form of home remittance) portfolio of Pakistan Post to the newly formed PPPS keeping in view the regulatory requirements of SBP.
- Development of mechanism for transferring the existing saving accounts/certificates and pensions portfolio of Pakistan Post to the newly formed PPPS keeping in view the regulatory requirements of SBP.

- Development and implementation (14) of systems and controls in accordance with regulatory requirements of SBP.
- Advise on human resource retention, recruitment and assist in the process.
- Capacity building / Training of existing staff dealing with PP portfolio.
- Formulation of SOPs, operational manuals, risk management guidelines etc.
- Conducting the pilot test of the Pakistan Post Payment Services.

Phase – V – Obtaining Certificate of Commencement of Business from SBP for Pakistan Post Payment Services (proposed).

- Ensuring compliance with all the terms and conditions, if any, imposed by SBP prior to approaching SBP for issuance of Certificate of Commencement of Business for proposed PPPS.
- Assist SBP in conducting pre-commencement inspection of proposed PPPS business to validate their preparedness in the critical areas such as meeting with MCR, assessment of management team, implementation of core banking software/technology platform, formulation of policies for credit, market and operational risk management, procedure/process manuals regarding all products, operations, treasury and internal controls including audit function, IT systems, HR etc.
- The designation of Pakistan Post's wholly owned subsidiary as a Designated Payment System under the PSEFT Act and Payment Systems Designation Framework issued and as amended by SBP from time to time.

The mutually agreed fee will be paid on completion of second phase, which will be full and final settlement in respect of this contract.
