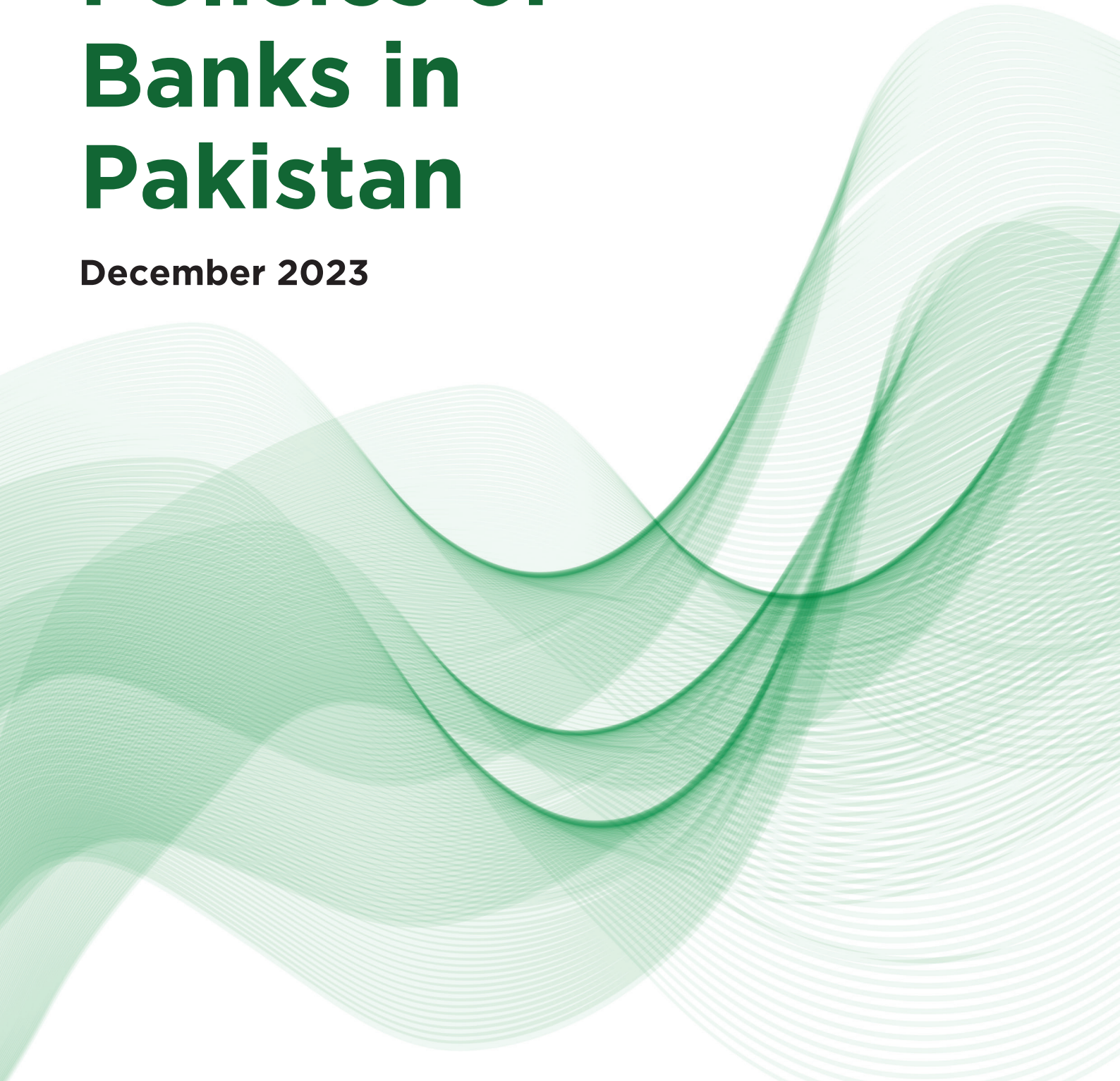




Fair
Finance
Pakistan

Benchmarking the Sustainability Policies of Banks in Pakistan

December 2023





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ABOUT FAIR FINANCE PAKISTAN

FF Pakistan seeks to strengthen the commitment of FIs in Pakistan to social, environmental, and human rights standards. FF Pakistan urges these FIs to respect and enhance local communities' social and environmental well-being and integrate ESG criteria into their business operations.

ABOUT LAHORE UNIVERSITY OF MANAGEMENT SCIENCES (LUMS)

LUMS is one of South Asia's top academic institutions recognized for its research intensity and teaching excellence. Over the past 35 years, LUMS, known for its high academic standards and quality, has paid particular attention to access, relevance, and collaboration with an increasing focus on addressing the Global South's grand challenges.

AUTHORSHIP

Fair Finance Pakistan led the development of this report. The report was written and researched by Dr. Abid Aman Burki, who conceived the study, developed the methodology for bank selection, analyzed data, and drafted the report. Momina Athar collected the data, conducted statistical analysis, and prepared the results. The assessment of the theme Financial Consumer Protection was carried out by the independent research organization Profundo. Asim Jaffry, Country Program Lead, Fair Finance Pakistan, drafted the case study.

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ABBREVIATIONS

ABL	Allied Bank Limited
CEDAW CSO CRPD	Convention on the Elimination of All Forms of Discrimination Against Women Civil society organizations Convention on the Rights of Persons with Disabilities
EnvRM ESG	Environment Risk Management Environmental, social, and governance
FI F4D FFGI FFA FFI FFP FTEs	Financial Institutions Finance for Development Fair Finance Guide International Fair Finance Asia Fair Finance International Fair Finance Pakistan Full-Time Equivalents
GHG GRI	Greenhouse Gas Emissions Global Reporting Initiative
HBL	Habib Bank Limited
ICESCR IFC ILO IPCC ISO	International Covenant on Economic, Social and Cultural Rights International Finance Corporation International Labor Organization Intergovernmental Panel on Climate Change International Standardization Organization
MCB MNEs NAB NBP	Muslim Commercial Bank Multinational Enterprises National Accountability Bureau National Bank of Pakistan
OECD	Organization for Economic Cooperation and Development
PACRA PEPs PSX	Pakistan Credit Rating Agency Politically Exposed Persons Pakistan Stock Exchange
SBP SEMS SDG	State Bank of Pakistan Social and Environmental Management System Sustainable Development Goals
TCFD	Task Force on Climate-Related Financial Disclosures
UDHR UNCBD UNEP UNFCCC UNGPs	Universal Declaration of Human Rights United Nations Convention on Biological Diversity United Nations Environmental Program United Nations Framework Convention on Climate Change UN Guiding Principles on Business and Human Rights

FOREWORD

Finance cannot be neutral. Financial institutions must drive the shift our society needs today.

The integration of Environmental, Social and Governance (ESG) criteria in the banking and financial industry and investment practices is a rising trend globally actively contributing towards achieving the Sustainable Development Goals (SDGs), mitigating adverse environmental impacts, reaching sustainable economic development, and alleviating poverty.

In Pakistan, sustainability is no longer an option but a necessity for banks and financial institutions. Increasing stressors such as climate change, air pollution and the coronavirus (COVID-19) pandemic have strengthened the case for sustainable finance to safeguard the future of its people. Banks in Pakistan must therefore play an essential role in going beyond profit-making and realizing their responsibility on the impact of investment decisions on climate and society.

The Fair Finance Pakistan Policy Assessment reveals significant vulnerabilities in banking policies among the major Pakistani commercial banks. Most notably, these fall under climate policies, nature, tax, labour rights and financial consumer protection. The results help Pakistani commercial banks fulfil their environmental and social responsibilities, enhance their position in global markets, and attract responsible investors worldwide.

Pakistan's financial sector must be repurposed to accelerate the transition towards low carbon economy and help meet Pakistan's climate goals. Even though, the State Bank of Pakistan's 2017 Green Banking Guidelines and the 2022 Environmental Social Risk Management (ESRM) implementation manual are promising feats for banks to move in the direction of solving society's challenges, a swift transition from reporting to compliance is required to set trajectory for Pakistani banks towards sustainable finance.

Banks should reboot their investment portfolio to introduce innovative products that link the market with clean technology for net zero transition and contribute to lessen air pollution that reduces life expectancy by up to 4 years in Pakistan. Prioritizing financial consumer protection and disclosure of human rights and labor rights practices related to investments and financing is also a necessary element to elevate banks role in the protection of the society.



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EXECUTIVE SUMMARY

Background

Bank policies are crucial indicators that demonstrate the priorities of banks and determine their strategic direction and operational activities. They function as standards against which the banks' dedication to sustainable development, particularly in environmental, social, and governance concerns, can be gauged.

The pursuit of sustainable finance has witnessed the emergence of global initiatives that have been adapted at the national level. In Pakistan, the State Bank of Pakistan, in 2017, formulated the Green Banking Guidelines, which recognized the financial sector's responsibility in facilitating policy measures aimed at transitioning the country's economy towards a low-carbon and climate-resilient future.

In November 2022, the State Bank of Pakistan (SBP) introduced the Environmental and Social Risk Management (ESRM) Implementation Manual to ensure compliance with the minimum environmental and social risk management standards outlined in the 2017 Green Banking Guidelines (GBGs). The manual provides banks with the necessary policies, procedures, and tools to identify and manage environmental and social (E&S) risks. This implementation manual was introduced three years after the GBGs were introduced, giving banks sufficient time to adopt green banking practices.

The SBP is expected to introduce a Sustainable Finance Framework (SFF), which represents a significant advancement in establishing a supportive regulatory framework for financial institutions. This framework is anticipated to outline the regulator's expectations for integrating sustainability principles into various aspects of banks, including corporate governance, risk management, operational procedures, and overall strategic direction. Notably, the SFF is expected to emphasize environmental, physical, and transition risks and their potential impact on the financial system. Although it is premature to make definitive statements, the framework is anticipated to include financial products and services that integrate Environmental, Social, and Governance (ESG) criteria to promote economic growth while addressing environmental challenges. Under this framework, banks may be required to formulate and implement customized transition plans to align with sustainability policies, with mandatory disclosure of sustainable finance information in their annual reports.

This report marks Fair Finance Pakistan's inaugural bank policy assessment report. It assesses five major Pakistani banks across ten cross-cutting themes. This assessment aims to establish a baseline for sustainable finance in the country and guide banks in effectively integrating ESG principles, particularly in adopting a sustainability framework. This push for sustainable finance can be vital in addressing ESG risk

issues across their lending and investment portfolios in line with global best practices and fostering the green finance sector in the post-COVID-19 economic recovery. The success of its implementation in Pakistan will be pivotal in the coming years.

FF Pakistan seeks to strengthen the commitment of FIs in Pakistan to social, environmental, and human rights standards. FF Pakistan urges these FIs to respect and enhance local communities' social and environmental well-being and to integrate ESG criteria in their business operations. FF Pakistan takes a systems view of the emerging net-zero economy and works to repurpose finance to play a catalytic role in driving this transition.

FF Pakistan is a Fair Finance Asia (FFA) member, working to ensure that FIs operating in Asia are responsible for ESG criteria in their business activities and investment decisions. FFA aspires to reduce inequality in Asia by creating an enabling policy environment for integrating social and environmental considerations among FIs in the region and ensuring that FIs advance the interests and needs of local communities towards their well-being. Currently, FFA is operational at the regional level and in 10 countries across Asia: Bangladesh, Cambodia, India, Indonesia, Japan, Lao PDR, Pakistan, Philippines, Thailand, and Vietnam. FFA's regional Executive Team (ET) is stationed in Phnom Penh, Cambodia. FFA is part of Fair Finance International (FFI), a global network that is also active in Belgium, Bolivia, Brazil, Colombia, Germany, Netherlands, Norway, Peru, South Africa, and Sweden that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards.

Comprised of 18 members, the FF Pakistan Coalition mobilizes urban citizens through digital platforms to advocate for positive change in marginalized communities affected by environmental degradation, aiming to reduce extreme inequalities (SDG 10) and influence financial sector policies while promoting transparency and human rights.

FF Pakistan promotes the integration of ESG criteria by the financial sector in its business strategies and processes. Such ESG criteria should cover a broad range of topics, including, among others, the respect for local communities' rights, which the companies financed by Pakistani banks might adversely impact. FIs have an immense impact on society as a whole. Hence, finance cannot be neutral and must take a broader role for societal good.

With this context, FF Pakistan has assessed for the first time the sustainability policies of a selection of five Pakistani banks using the Fair Finance Guide International (FFGI) Methodology, a comprehensive tool for assessing and comparing the ESG policies of FIs. Developed by FFI with policy research expert Profundo, the methodology is used to evaluate FIs'

approach to sustainability across 21 themes, including corruption, human rights, and climate change. It is based on international sustainability standards and UN Conventions and is regularly updated. The FFGI methodology evaluates FIs' expectations of investee companies' behavior and their internal policies. Transparency is emphasized, and the presence of elements in policy documents or reports determines scores. This data forms the basis of constructive, fact-based dialogue across the sector for more responsible and sustainable policies and practices. In this report, FF Pakistan has assessed five banks on ten themes, including:

- Seven cross-cutting themes: climate change, corruption, gender equality, human rights, Labour rights, nature, and tax.
- One sector theme: arms.
- Two operational themes: financial consumer protection and transparency and accountability.

By evaluating the socio-environmental policies of Pakistan's five leading banks, FF Pakistan's inaugural policy assessment report aims to provide a comprehensive ranking and valuable insights for consumers, investors, the financial sector, regulators, academia, policymakers, parliamentary committees, and civil society. The selected banks include the Muslim Commercial Bank (MCB), Habib Bank Limited (HBL), National Bank of Pakistan (NBP), Allied Bank Ltd. (ABL), and Meezan Bank.

How were banks selected for assessment?

FF Pakistan conducted a scoping study in May 2021 to select five banks for the policy assessment. The selection process emphasized comparability, representativeness, and diversity. Five banks were selected through purposive sampling and sample weights. These banks offer a balanced representation of the private and public sectors, including large and medium-sized banks. The selected banks had varying credit ratings and significantly influenced project financing.

Policy assessment of the selected banks

The assessment targeted five major commercial banks: the NBP, MCB, HBL, Meezan Bank, and Allied. Four banks remain the same as those identified in the scoping study. However, one bank, Bank Alfalah, was replaced by another private bank, ABL, to provide better coverage of the private sector banks in Pakistan.

NBP is the largest public sector bank, while HBL, MCB, and ABL are the top private sector banks, formerly state-owned and privatized in the 1990s-2000s. Meezan Bank is the leading domestic Islamic bank. Furthermore, Meezan Bank operates exclusively within the domestic market, setting it apart from the other four banks.

Timeframe, process and scoring approach

All themes, except consumer protection, were assessed between November 7, 2022, and August 8,

2023, employing data gathered in 2021.

The assessment of the theme of financial consumer protection was conducted between October 1, 2023, and November 30, 2023, based on the most recent information disclosed as of October 1, 2023, by the five selected banks.

All banks were given the opportunity to comment on the detailed draft results of the assessment during one round of feedback. Their feedback was analyzed and integrated into the final assessments when substantiated and aligned with the methodological approach.

The assessment of each theme resulted in a score between 0 and 10, with 0 being the least desirable score and 10 being the most desirable score (excellent policies).

The themes encompass various aspects such as climate change, corruption, gender equality, human rights, labor rights, nature, taxes, arms, financial consumer protection, transparency, and accountability.

Key Findings

All banks scored low on the themes assessed, as evidenced in Table 4. The highest average scores are observed for the themes of financial consumer protection, 4.62 out of 10, corruption, 3.18 out of 10, gender equality, 1.48 out of 10, and transparency and accountability, 1.08 out of 10. For all the other themes, the average score for the five banks is inferior to 1 out of 10, which reveals a lack of public policies on most of the sustainability topics assessed.

Climate Change: The average score of banks assessed for the climate change theme is 0.52. HBL, Allied, MCB, and Meezan banks have committed to reducing greenhouse gas emissions (GHGs) from their internal operations, while NBP has received no score in this area. Regarding the banks' lending and investment activities, none have developed climate policies aligned with the Paris Agreement.

The only bank reporting a coal policy is HBL, which is committed to achieving zero coal-related exposure by 2030. However, this is not a science-based target as it still allows the bank to finance coal expansion until 2030.

Allied and HBL report that they conduct environmental impact assessments for large-scale projects.

Corruption: Banks received an average score of 3.18 out of 10 on the theme of corruption. All five banks had policies on disclosing bribery, implementing anti-money laundering measures, and addressing corruption. HBL, MCB, and Allied have implemented additional policies to prevent terrorism financing and financing related to proliferation. All banks except Allied disclosed that they verify the ultimate beneficial owner(s) of the companies they finance. HBL stands out for specific safeguards for Politically Exposed Persons (PEPs). However, none of the banks reported

their participation in decision-making processes related to international norms and legislation nor disclosed how they address corruption issues with the companies they invest in or finance.

Gender Equality: The average score of banks assessed for the gender equality theme is 1.48 out of 10. The findings reveal that all five banks adopted policies to prevent gender-based discrimination and violence in the workplace. However, NBP and Allied received partial scores because of the incomplete coverage of gender-sensitive commitments. HBL achieved the highest score among the banks as it disclosed a mechanism to address gender-based discrimination concerning customers.¹ None of the banks reported measures for equal participation and access to senior positions, with the highest reported representation of women on boards at 12.5% at the time of the analysis. Targeted professional development initiatives and pay equity management systems were absent from all the banks' reporting. None of the banks disclose how they apply a gender lens to their lending and investment activities.

Human Rights: Pakistani banks scored an average of 0.72 out of 10 in human rights policy ratings. None of the banks disclosed human rights policies related to their investment or financing, which raises concerns and is not aligned with the UN Guiding Principles (UNGPs) on Business and Human Rights (BHR).

Labor Rights: Banks scored an average of 0.96 out of 10 in labor's rights policy. Most assessed banks lack policy commitments to international labor rights standards or adherence to national laws for worker welfare, resulting in no scores in this area for internal operations. None of the banks have formulated public labor rights expectations for their clients and investee companies. The only exception is HBL, which reports it excludes harmful labor practices from its financing. Banks scored an average of less than 1 out of 10 for this theme.

Tax Policies: All assessed banks reported an average score of 0.36 out of 10 on this theme. None of these banks disclose a responsible tax policy. The banks that operate globally do not disclose profits, revenues, subsidies, or taxes in countries outside Pakistan (country-by-country reporting).

Nature: The FFG framework mandates nature as a core theme, integrated into SBP's Green Banking Guidelines and the Pakistan Stock Exchange's minimum SDGs for listed companies. However, banks have not prioritized compliance.

Arms: Mandatory in the FFG framework, the arms theme aligns with the Ministry of Interior's Arms Control Policy in Pakistan. However, SBP does not mandate the arms theme in its regulations. Despite Pakistan signing international treaties, banks lack policies towards this theme as they got zero scores.

Financial Consumer Protection: Although there is still room for improvement, the research finds that the assessed banks perform best on this theme with an average score of 4.6 out of 10.

Overall, the five banks have clear policy commitments to providing customers with clear information about their products and services. However, none of them have laid out any concrete steps taken towards the fair treatment of customers in a non-discriminatory way. The research also finds that four banks (Allied Bank, Meezan Bank, NBP, and HBL) have committed to informing their customers promptly of any changes to the charges for products and services. The study also shows that only three banks (HBL, Allied Bank, and Meezan Bank) publicly commit to respecting customers' privacy by not disclosing their customers' private data to other third parties without prior consent. The study finds that while all the banks provided staff training on the products and services offered to customers, only Allied Bank, MCB, and HBL have staff training on the fair treatment of customers.

Transparency and Accountability: All five banks reported an average score of 1.08 out of 10 on this theme. All banks have made public the names of unlisted companies they have invested in and the sectors of listed companies they invest in. HBL and Meezan Bank disclose investments in the government. However, HBL and MCB received partial scores for lack of clear documentation on risk control and grievance mechanisms. None disclosed the transparency and accountability practices of invested companies.

Comparison with other Asian Countries

We also present a comparison of the assessment scores the selected Pakistani banks attained with those of several Asian countries. At the same time, the scores in categories such as climate change, corruption, gender equality, human rights, and transparency and accountability are either better or on par with scores from countries like Indonesia and Thailand. Pakistani banks exhibit notably lower scores in categories like nature, labor rights, tax, and arms, Pakistani banks when compared to their counterparts in these other nations.

1. HBL Nisa | Habib Bank Pakistan

The 2008 global financial crisis significantly impacted the global community due to risk-taking policies adopted by FIs. This crisis led to bank bailouts in Organization for Economic Cooperation and Development (OECD) countries and had implications for developed and developing nations. In response, international agreements aimed to strengthen financial institutions and protect society from irresponsible actions of financial institutions and their clients. However, further efforts are needed to bring about essential changes in the banking sector to prevent similar negative consequences (Gelder et al., 2020).

The global community faces numerous social and environmental challenges that necessitate a sustainable and responsible financial sector in each country. This sector must provide financial, lending, and underwriting services while adhering to responsible policies that prevent environmental and social harm. Responsible investment and financing policies are crucial as these investments' negative social and environmental impacts often affect vulnerable communities disproportionately. In addressing these concerns, CSOs have played a significant role in reporting social and environmental issues to hold companies and financial institutions accountable (Gelder et al., 2020).

As a global network, FFI uses a rigorous methodology to assess, report on, and campaign for more responsible investment policies and practices. Benchmarking financial institutions' investment policies and practices in critical areas, such as human rights and climate impact, enables consumers, policyholders, and citizens to demand more socially responsible, fair, and sustainable investments. FFI builds on a pioneering model developed in the Netherlands in 2009, followed by a similar initiative in Brazil in 2011, which demonstrated the potential for positive change in how the financial sector invests.

In this context, the FF Pakistan coalition has taken the proactive step of regularly evaluating Pakistan's banking sector policies. The primary aim is to assess how banks' socio-environmental policies align with the FFGI methodology theme assessment criteria, closely linked to the Sustainable Development Goals (SDGs) and Pakistan's commitments. As detailed below, the FFGI methodology incorporates themes grouped into cross-cutting and sectoral categories, focusing on the conditions set by FIs for the companies they lend to and operational themes that pertain to the institutions' internal policies. For this assessment, the FFGI 2021 version was used, which sets out the elements against which the CSOs collaborating in FFI will measure FI ESG criteria in its finance and investment policies. It mandates all policy assessments across nine core themes. The version of the methodology used in this inaugural assessment has 23 themes in total. The most updated version of the methodology was published in February 2023 with eight core themes and a total of 21 themes.

This report presents the inaugural evaluation of the socio-environmental policies of five leading commercial banks in Pakistan in 2023, based on data from 2021. The evaluation thoroughly analyzes publicly available documents from the selected banks, culminating in a comprehensive ranking highlighting the scope of their socio-environmental responsibility policies. The assessment findings offer valuable insights pertinent to diverse segments of society, including consumers, investors, the financial sector, regulators, and organized civil society.

² During the period from 2008 to 2009, the US Treasury Department allocated around \$200 billion to numerous US commercial and investment banks through the Capital Purchase Program. The aim of this initiative was to enhance liquidity within the financial system. <https://money.cnn.com/news/specials/storysupplement/bankbailout/> (accessed on 30st July 2023). The global financial crisis had repercussions on numerous developing countries, including Pakistan, as evidenced by research (Griffith-Jones and Ocampo (2009). Pakistan experienced the impact of international inflation, which led to fiscal and current account deficits. Additionally, other macroeconomic indicators were affected, compelling the country to seek financial assistance from the International Monetary Fund (IMF) in November 2008. <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr08303> (accessed on 30th July 2023).

As part of the FFA network, Fair Finance Pakistan seeks to strengthen the commitment of FIs in Pakistan to social, environmental, and human rights standards. FF Pakistan urges these FIs to respect and enhance local communities' social and environmental well-being and to integrate ESG criteria in their business operations. The FF Pakistan coalition comprises 18 members, including think tanks, consumer protection groups, business community with expertise in finance, advocacy, and research, mainly located in urban areas for easier access to financial institutions. The coalition aims to mobilize urban citizens, mainly through digital platforms, to advocate for positive change in marginalized communities affected by projects causing environmental degradation, like coal mines. Building on Oxfam's Finance for Development (F4D) project, the FF Pakistan Coalition aims to reduce extreme inequalities (SDG 10), establish partnerships to influence financial sector policies, promote transparency, and advocate for human rights at the country level.

3 FAIR FINANCE GUIDE INTERNATIONAL METHODOLOGY (2021)

The FFGI utilizes an assessment methodology and scoring system grounded in established international standards, conventions, and widely accepted guidelines for responsible business practices. The FFGI themes align broadly with the SDGs and are categorized into cross-cutting, sectoral, and operational themes. While cross-cutting and sectoral themes primarily focus on conditions imposed by FIs on the companies they lend to, operational themes center on the institutions' internal policies. Among the 23 themes, nine are considered core themes mandatory for FFGI coalitions when assessing financial institutions, including insurers, pension funds, and MDBs.

The FFGI Methodology evaluates FIs' expectations of their investee companies' behavior and assesses some policies and procedures within the institutions. An assessment that leverages the FFGI methodology focuses on underlying principles rather than the specific investment decisions made by the institutions. However, elements formulated for operational themes like Transparency and Accountability involve evaluations concerning the institutions' business operations. The score for each theme is determined by the number of elements present in the FI's policy documents, website, or annual report divided by the total number of expected elements.

3.1 Fair Finance Guide Themes

The FFGI Methodology utilizes an assessment methodology and scoring system that draws from established international standards, conventions, and widely accepted guidelines for responsible business practices.

FFI has established a comprehensive assessment framework to hold banks and corporations accountable for their impact on social and environmental issues the public faces. This framework includes a set of 23 themes, divided into three categories: 9 cross-cutting themes, ten sector themes, and four operational themes (Table 1). cross-cutting themes address international sustainability issues across various sectors and financial institutions. The sector themes focus on sensitive industrial sectors where specific policies are necessary. The operational themes examine the internal operations of banks and financial institutions, which can influence their investment decisions (Gelder et al., 2020). Among the 23 themes of the FFI, nine are classified as mandatory themes (highlighted in Table 1), indicating that coalition countries must consider these themes while assessing banks and financial institutions.

3.2 Policy Assessment Using the FFGI Methodology

The policy assessment using the FFGI methodology centers around the expectations of FFI/FFA that FIs should adhere to ESG and sustainability standards in their policies. Internal policies and procedures of the financial institutions are also subject to evaluation. FFI requires FIs to make their policies, or at least a summary of them, publicly accessible, such as on their website or in the annual report. The specific name

or title of the policy document is not a critical factor if relevant elements are covered. The assessment focuses on underlying principles rather than the decision-making process for investments and financial services. The score for each theme is based on the number of included elements in the policy documents, website, or annual report, divided by the total expected elements.

Table 1: FFI’s cross-cutting, sector and operational themes

Cross-cutting themes	Sector themes	Operational themes
Animal welfare	Arms	Consumer protection
Climate change	Financial sector	Financial inclusion
Corruption	Fisheries	Remuneration
Gender equality	Food	Transparency & accountability
Health	Forestry	
Human rights	Housing and real estate	
Labor rights	Manufacturing industry	
Nature	Mining	
Tax	Oil and gas	
	Power generation	

This policy assessment evaluated five major Pakistani banks across the ten themes highlighted in green.

The assessment sheet used is standardized across all policy assessments, allowing each country to focus on themes relevant to their specific context. The sheet contains an inbuilt scoring system that generates scores automatically after data entry, providing a total score for each theme based on the individual scores for each element within that theme, divided by the total expected score.

4 HOW WERE THE BANKS SELECTED FOR ASSESSMENT?

In May 2021, FF Pakistan conducted a scoping review focusing on the nine mandatory themes identified by FFI methodology (Burki, 2021). This review was instrumental in selecting the five FIs to be engaged by the FF Pakistan’s coalition for assessment. The selection process adhered to three core principles: comparability, representativeness, and diversity. The banks chosen for assessment were carefully balanced to ensure unbiased representation, effectively encompassing various aspects of the banking sector.

The sampling method targeted listed commercial banks involved in crucial financial activities like accepting deposits and providing loans. These banks hold significance in project financing, corporate lending, and retail banking, all aspects examined by FFI. Due to their large size and substantial dealings with the corporate sector and international financial institutions such as the Asian Development Bank (ADB) and International Finance Corporation (IFC), they are relevant targets for advocacy efforts. Additionally, their extensive customer base through deposits provides opportunities to address responsible banking issues and involve FF Pakistan in such endeavors.

The process for selecting the initial sample of banks involved identifying 19 commercial banks listed on the Pakistan Stock Exchange (PSX). Data was collected on three key variables - market capitalization, total assets, and net revenue - and the banks were ranked based on size. The top six banks were classified as large, the next six as medium, and the last seven as small. Representative banks were then chosen for each size category based on their appearance in all three variables within that category. Inclusivity was ensured by adding one Islamic bank (Meezan Bank) to the list of medium banks through purposive sampling. The final sample included 12 banks, with three public and nine private sector banks. The banks were further categorized into large, medium, and small banks. However, the distribution was disproportionate to the actual market share of banks based on the selected criteria and requires further refinement.

The decision on the number of banks selected for the first policy assessment by FF Pakistan was influenced by available resources and the yearly assessment requirements using the FFGI Methodology (2021). Typically, starting coalitions engage up to five banks. Since assessing all 12 banks was impractical, FF Pakistan capped the number at five banks. Through purposive sampling and sample weights, five banks were chosen: three large and two medium banks, including both private and public sector banks, along with Meezan Bank, a full-fledged Islamic bank. (see Table 2).

The selected banks offer a balanced representation of private and public sector banks, including many large banks with international presence, such as HBL, NBP, and MCB. These banks have significant intermediary relationships with international financial institutions (IFIs). Additionally, the selection covers high-performing and low-performing banks, as evidenced by their Pakistan Credit Rating Agency credit ratings. For example, HBL, MCB, and NBP have AAA ratings, while Meezan Bank and Allied Bank have AA+ ratings. These banks are also significant players in project financing, with Meezan Bank being the largest Islamic bank focused on sustainable finance and the well-being of stakeholders. However, one apparent weakness is the lack of demonstrated commitment to sustainability, as none of the banks selected for assessment have adopted specific environmental and social benchmarks for managing project financing risks, despite some boards, like MCB's, adopting green banking guidelines by the SBP in 2017.

Table 2: Selected banks for engagement by bank bands and ownership

Selection criteria	Bank bands	Bank ownership	
		Private	Public
Size is informed by three variables (market capitalization, total assets, and net revenue), weights are informed by average shares of the variables, and numbers are chosen by random sampling.	Large (3)	MCB, HBL	NBP
	Medium (2)	Meezan, Allied Bank	
	Small (0)		
	Total (8)	4	1

Source: Burki (2021)

5 POLICY ASSESSMENT OF SELECTED PAKISTANI BANKS

This is FF Pakistan's first policy assessment that focuses on five major commercial banks in Pakistan: NBP, MCB, HBL, Meezan Bank, and ABL. The NBP is the largest public sector bank offering various conventional banking services to private clients and the government. HBL, MCB, and ABL are the four largest private-sector banks. They were previously state-owned banks but were privatized in the 1990s and the 2000s as part of the government's financial liberalization and privatization policy. Meezan Bank is the largest full-fledged Islamic bank in the country's private sector. Moreover, Meezan Bank is the only one of these five banks whose operations are solely domestic (Burki, 2021). These banks are evaluated based on their policies regarding non-financial disclosures across various thematic areas, as shown in Table 1.

The assessments focus on evaluating responsible and sustainable banking practices and policies. It involves examining how FIs incorporate progressive conditions in financing companies and projects. To conduct thorough policy assessments, FFI utilizes "publicly available" policies through channels like their website, annual reports, or sustainability reports. Publicly available information, reports, and policies for the calendar year 2021 were considered to conduct the assessment. Financial consumer protection data was assessed till October 1, 2023. Data retrieved from October 1, 2023.

The assessment process underwent three rounds of validation to ensure precise data entry and interpretation. First, the data sheets were filled with guidance from Profundo - an independent research organization based in the Netherlands. It specializes in analyzing international commodity chains, the financial sector, policy developments, and the impacts of businesses and financiers on sustainability. The datasheets were shared with Profundo for accuracy verification. Second, the results were communicated to the respective banks, and their feedback was sought. Follow-up calls were made to ensure the banks received the data sheets. Two banks requested clarification on the data sheet entries, leading to

productive meetings. All banks except MCB agreed with the scores in the data sheets. Unfortunately, MCB did not respond to meeting requests. Additionally, Meezan Bank provided feedback on two corruption-related elements, but it did not necessitate any assessment changes. The results are presented and discussed below.

5.1 Study Focus

This report's policy assessment encompasses nine themes, broadly classified into three domains: environment, social, and governance. The themes include climate change, corruption, gender equality, human rights, labor rights, nature, tax, arms, financial consumer protection, transparency, and accountability (Table 1).

Table 3 presents the mapping of mandatory themes for commercial banks in Pakistan. Notably, all FFGI themes, except labor rights, are legally relevant to the national context. Though the Constitution includes provisions for labor rights in Articles 11, 17, 18, 25, and 27(e), their implementation remains weak or non-existent. Most themes, except labor rights and arms, are pertinent to the commercial banking sector. Other national labor laws do not directly cover the financial sector except for the minimum wage and workers' contributions to old-age benefits, as labor legislation was devolved to the provinces under the 18th Constitutional Amendment. The mandatory theme of arms has not received attention in any of the frameworks. Lastly, all mandatory themes align with one or more sustainable development goals. More details are provided below.

Other national labor laws do not directly cover the financial sector except for the minimum wage and workers' contributions to old-age benefits, as labor legislation was devolved to the provinces under the 18th Constitutional Amendment. The mandatory theme of arms has not received attention in any of the frameworks. Lastly, all mandatory themes align with one or more sustainable development goals. More details are provided below.

5.1.1 Environment

Climate Change: This assessment considers climate change through adherence to several international standards and frameworks, including the United Nations Framework Convention on Climate Change (UNFCCC), the Intergovernmental Panel on Climate Change (IPCC), the Kyoto Protocol, the Greenhouse Gas Protocol, and the Task Force on Climate-Related Financial Disclosures (TCFD). These guidelines are closely aligned with Sustainable Development Goals (SDGs) 7, 12, and 13. In addition to these international standards, specific guidance on climate change is also available through the SBP's Green Banking Guidelines and the Pakistan Stock Exchange's minimum SDGs requirements for listed companies.

Nature: This assessment encompasses international frameworks such as the United Nations Convention on Biological Diversity (UNCBD), the CEO Water Mandate, the IFC Performance Standards, and the OECD Guidelines for Multinational Enterprises (MNEs), among others. These issues align closely with Sustainable Development Goals (SDGs) 6, 12, and 15. Moreover, they are also part of the SBP's Green Banking Guidelines and the Pakistan Stock Exchange's minimum SDGs requirements for listed companies.

Table 3: Mapping of mandatory themes for their relevance to the commercial banks

	Relevance to the national context	Is Pakistan’s commercial banking sector relevant to this theme?	Aligned with at least one SGD target
Climate Change	Yes, Pakistan announced its Climate Change Policy in 2012 with the objective to pursue sustained economic growth by tackling climate change issues. After approval of the Parliament, the Planning Commission developed a national SDG framework with targets for 2030.	Yes, part of SBP’s Green Banking Guidelines, 2017. Also, part of PSX’s minimum SDGs for listed companies along with detailed reporting requirements.	Yes
Corruption	Yes, NAB Ordinance 2000 is in force, and FIA can investigate financial and cybercrime, among others.	Yes, SBP has an anti-money laundering policy. Banking Mohtasib entertains complaints on corruption in state-owned banks.	Yes
Gender Equality	Yes, Pakistan’s SDG Goals include a commitment to achieve gender equality.	Yes, in SBP’s draft policy for “Banking on Equality Policy: Reducing the Gender Gap in Financial Inclusion.”	Yes
Human Rights	Yes, the Ministry of Human Rights has been established to protect human rights as per the Constitution of Pakistan and international human rights conventions ratified by Pakistan.	Yes	Yes
Labor Rights	No, labor rights are contained in the Constitution in Articles 11, 17, 18, 25, and 27(e), but implementation of the laws is weak, or the laws are non-existent.	None exist, except minimum wage and old age benefit contributions.	Yes
Nature	Yes, it is part of SBP’s Green Banking Guidelines.	Yes. It is also included in PSX’s minimum SDGs for listed companies.	Yes
Tax	Yes, the Federal Board of Revenue’s income, corporate, and sales tax regimes are in place.	Yes	Yes
Arms	Yes, the Ministry of Interior has an Arms Control Policy regulating the possession, use, stockpiling, and transfer of arms and prohibited and non-prohibited bore weapons. After the passage of the 18th Amendment to the Constitution, provinces got the right to make their own arms control acts.	None found	Yes
Financial Consumer Protection	Yes, Circulars 6 and 13 by SBP provide guidelines for financial consumer protection: Banking Ombudsman established under the Banking Companies Ordinance 1962, consumer and banking courts set up under FIO 2001, banks internal grievance redressal cells	Yes	Yes
Transparency & Accountability	Yes, it is covered in SBP’s Handbook of Corporate Governance under financial disclosure and auditors.	Yes	Yes

Source: Burki (2021)

5.1.2 Social

Gender Equality: The theme aligns with Pakistan’s commitment to gender equality, which is evident in its support for SDG 5. The State Bank’s draft policy for “Banking on Equality Policy: Reducing the Gender Gap in Financial Inclusion” underscores the importance of gender equality. Additionally, this theme is an integral part of the State Bank’s Handbook of Corporate Governance and the Pakistan Stock Exchange’s minimum SDGs requirements for gender equality among listed companies. It draws from international frameworks such as the Universal Declaration on Human Rights (UDHR), the International Covenant on Civil and Political Rights (ICCPR), ILO conventions, the UNGPs on BHR, OECD Guidelines for MNEs, and the IFC Performance Standards.

Human Rights: This theme is informed by ILO conventions and other international standards such as the UDHR, UNGPs on BHR, and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Pakistan has established the Ministry of Human Rights to strengthen institutional mechanisms for safeguarding human rights, as outlined in the Constitution of Pakistan and international human rights conventions that the country has ratified. These conventions include the International Covenant on Economic, Social, and Cultural Rights (ICESCR) and the Convention on the Rights of Persons with Disabilities (CRPD). SDGs 5, 8, 10, and 16 closely align with the objectives of this theme.

Labor Rights: This theme is founded on ILO conventions and other international standards, including the Global Living Wage Coalition, UN-CRC, CEDAW, and ISO 45001:2018. In Pakistan’s commercial banking sector, only a few labor rights, such as minimum wage and old age benefit contributions, exist due to the devolution of labor legislation to provinces under the 18th Constitutional Amendment. Consequently, banking and financial sector workers are excluded from collective bargaining rights under the Provincial Industrial Relation Acts implemented in 2011.

Arms: This policy is developed in line with international humanitarian law and agreements concerning weaponry. However, its significance to Pakistan is limited as it has not been addressed in any frameworks relevant to the banking sector.



5.1.3 Governance

Corruption: This policy is influenced by the UN Convention against Corruption, OECD Guidelines, and ISO 20400, covered under National Guidelines for Responsible Business Conduct (NGBRC’s) Principle 1. SBP has enacted an updated anti-money laundering policy, and Banking Mohtasib can entertain complaints related to corruption in state-owned banks.

Financial Consumer Protection: This pertains to various standards in the Global Reporting Initiative (GRI), Equator Principles, UNGPs on BHR, and the UNGP Reporting Framework. These standards are also covered in the SBP’s Handbook of Corporate Governance under the section on financial disclosure and auditors.

This is based on the OECD Guidelines for Multinational Enterprises on consumer interests and the UN Guidelines for Consumer Protection; it is also aligned with the Financial Institutions (Recovery of Finances) Ordinance 2001, SBP’s Fair Treatment of Customers Framework and banks internal redressal mechanisms.

Tax: This is based on GRI and OECD Guidelines, and it is also aligned with the Federal Board of Revenue’s policies for income, corporate, and sales tax regimes.

All themes, except consumer protection, were assessed between November 7, 2022, and August 8, 2023, employing data gathered in 2021. The assessments below are rated on a scale of 0 to 10, where 0 represents the least desirable and 10 is the most desirable.

6.1 Overall Assessment of the Banks

Table 4 presents an assessment of the banks across the nine FFGI themes. The assessed banks performed best on the financial consumer protection theme, with an average score of 4.6 out of 10. The banks performed better in the themes of corruption, followed by gender equality, transparency, and accountability (Figure 1). However, they scored the lowest in the themes of nature and arms, with no reported information on any of the elements. The banks' scores in the remaining themes were also relatively poor.

Table 4: Cumulative scores of banks across different themes

Themes	Banks				
	HBL	Allied	MCB	Meezan	NBP
Climate Change	1.2	0.6	0.4	0.4	0
Corruption	5	2.5	4.2	2.5	1.7
Gender Equality	4.4	0.6	1.2	0.6	0.6
Human Rights	2.3	0.3	0.7	0	0.3
Labor Rights	4.8	0	0	0	0
Nature	0	0	0	0	0
Tax	0	0	0.6	0.6	0.6
Arms	0	0	0	0	0
Financial Consumer Protection	4.7	5.8	3.7	4.7	4.2
Transparency & Accountability	2.3	0.8	0.7	0.7	0.9

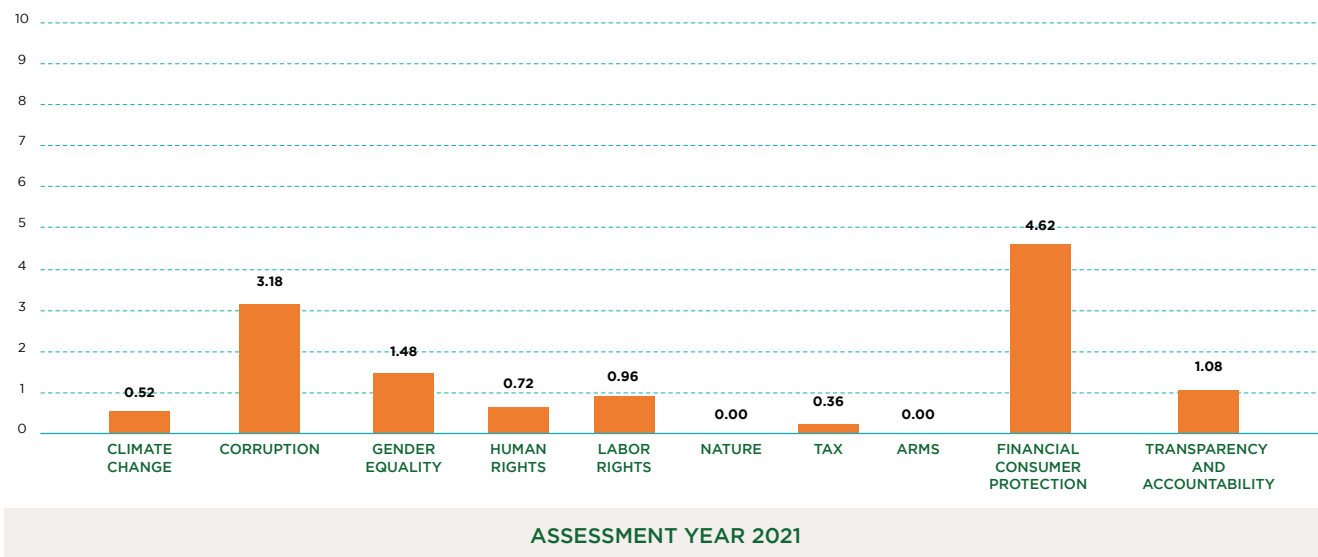


Figure 1. Average scores of five banks across themes

6.2 Climate Change

The average score of banks assessed for the climate change theme is 0.52.

6.2.1 Internal Procedures and Practices on Climate Change

Figure 2 shows that the internal operations of HBL, Allied, MCB, and Meezan banks have demonstrated tangible and measurable commitments to reduce their GHG emissions, while NBP did not receive a score in this area.

6.2.2 Climate Change Policies and Practices in Investee Companies

Out of the evaluated banks, Allied and HBL stand out as the only ones that have implemented environment assessment systems - the Environment Risk Management (EnvRM) System and HBL's Social and Environmental Management System (SEMS), respectively. These systems enable these banks to conduct thorough environmental impact assessments in their investee companies when financing large-scale projects, showcasing their dedication to aligning financial activities with environmental considerations.

The only bank reporting a coal policy is HBL, which is committed to achieving zero coal-related exposure by 2030. However, this is not a science-based target as it still allows the bank to finance coal expansion until 2030.

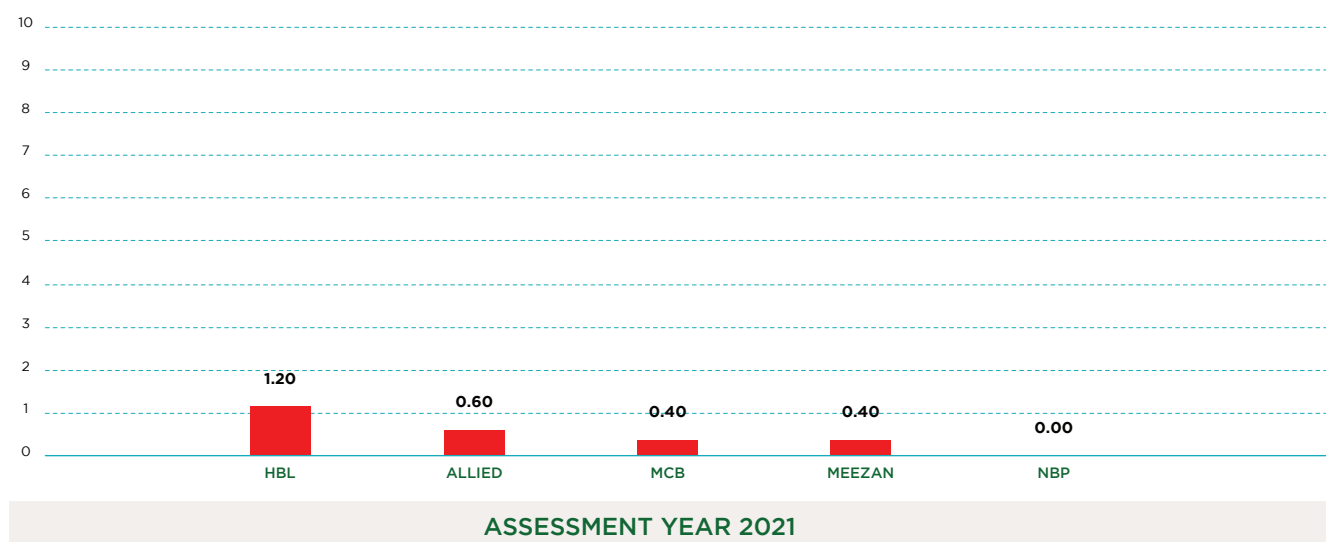


Figure 2. Evaluation of Banks' policy commitments to climate change

6.3 Corruption

6.3.1 Internal Operations and Practices on Corruption

Figure 3 reveals that out of the ten themes assessed, Pakistani banks scored, on average, second highest after addressing corruption in their policies. For instance, all five banks have well-defined policies on disclosing bribery, implementing anti-money laundering measures, and other measures to address corruption. Additionally, all banks, except Allied, disclose that they have set up mechanisms to verify the ultimate beneficial owner(s) of the companies they finance. HBL stands out among the assessed banks for implementing specific safeguards while dealing with PEPs, whether through direct or indirect business relations. However, none of the banks have reported participating in decision-making processes related to international norms and legislation, specifically concerning lobby practices.

6.3.2 Corruption Policies in Investee Companies

None of the banks have provided any disclosure concerning questions related to the companies they invest in or finance. When banks do not disclose the companies they invest in or finance, it can expose them to various ESG-related risks. Transparency and responsible banking practices are crucial to mitigate these risks, as they empower consumers to make informed decisions. If consumers discover that their banks are not as transparent as they assumed, they may choose to change their banking preferences.

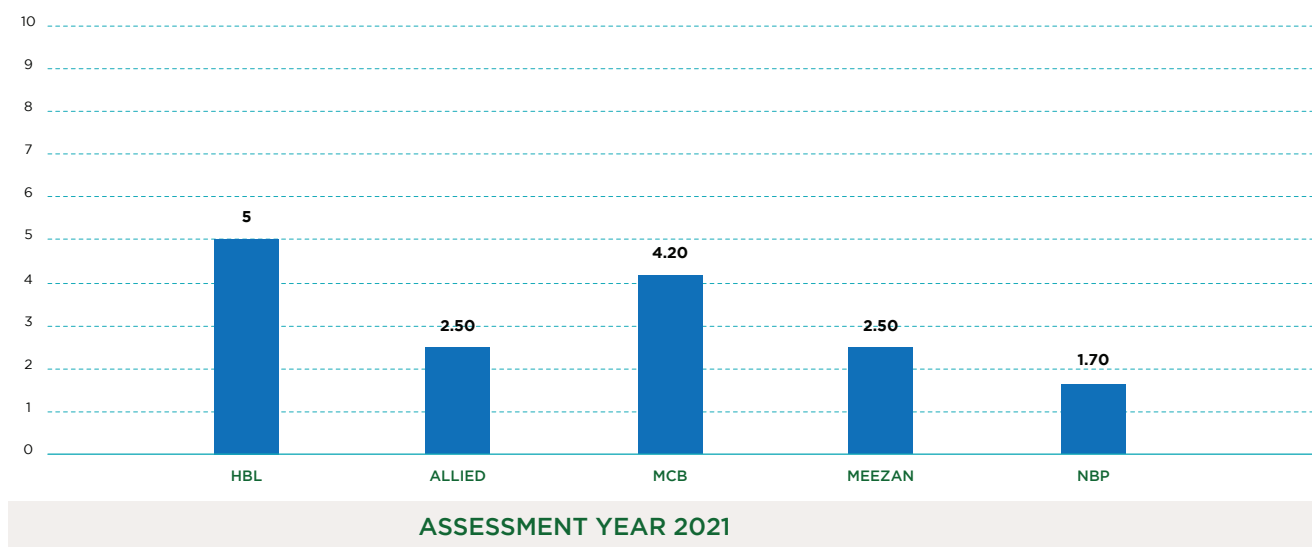


Figure 3. Evaluation of Banks' policy commitments to corruption

6.4 Gender Equality

6.4.1 Internal Operations on Gender Equality

The results in **Figure 4** indicate that all five banks have widely adopted policies to prevent gender-based discrimination and gender-based violence in the workplace. Each bank has implemented measures to counter gender-based discrimination in employment and occupation, as well as policies addressing various forms of gender-based violence, such as sexual, physical, and verbal violence. However, NBP and Allied have received partial scores for these elements, as their policies do not fully cover all aspects of a gender-sensitive zero-tolerance commitment. Additionally, among the five banks, the assessment found that HBL is the only one that has introduced a mechanism to address gender-based discrimination concerning its customers through the Nisa initiative. Nisa, designed by women for women, focuses on meeting the financial needs of women and empowering them with greater opportunities and financial independence.³ However, HBL received a half score for this element as the Nisa program is specific and does not apply to all bank interactions with its clients.

All banks failed to report measures to ensure equal participation and access for women to senior-level positions. The highest reported percentage of women on the board of directors was 12.5%, and in senior

³ HBL Nisa | Habib Bank Pakistan

positions, it was 9% (Allied Bank). These figures fall far below the recommended 30% or 40% cutoff. Furthermore, none of the banks disclosed any targeted professional development initiatives, such as training programs, to promote equal access to senior-level positions for women. Moreover, none of the banks indicated having systems in place to manage pay equity.

Addressing the issue of the gender pay gap in the workplace is of utmost importance for ensuring equal participation of women in leadership positions. The presence of women in senior and middle management roles indicates their access to decision-making positions in the workplace. Unfortunately, according to a survey conducted in 2021, women in Pakistan⁴ occupy only 5.7% of senior managerial positions, which is significantly lower than the global average of 27.1% and falls short of the target of 50% set by SDG indicator 5.5.2 (ILO, 2020). This suggests that there is a need for further action to address the gender pay gap and promote gender equality in the workplace.

6.4.2 Gender Equality in Investee Companies

No banks disclosed information on gender equality pertaining to the companies they invest in or finance.

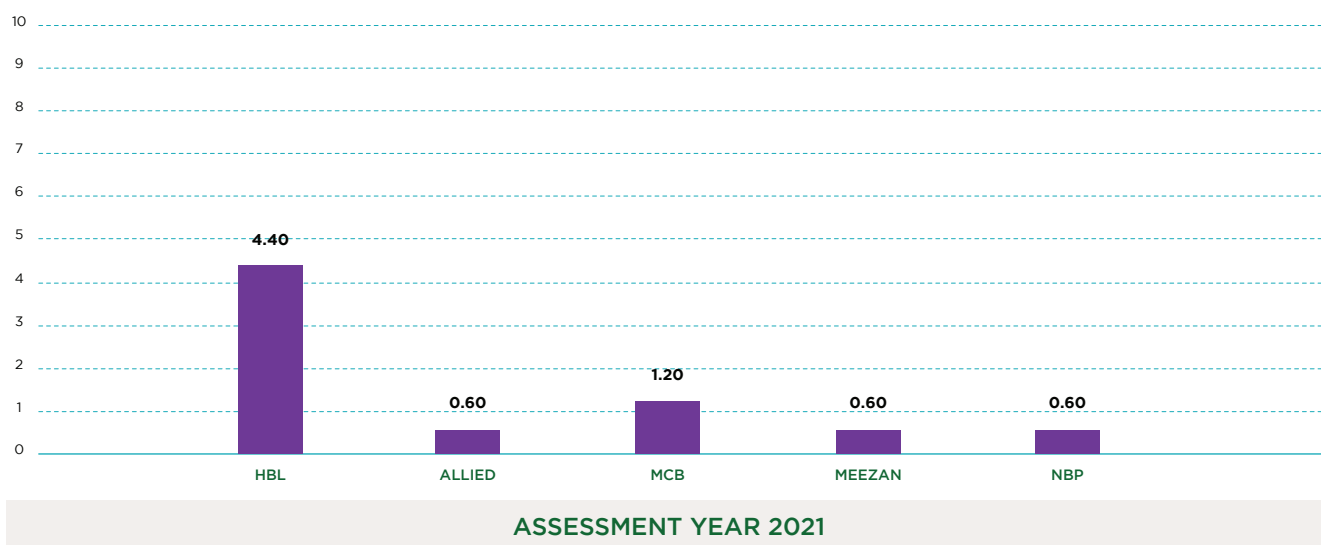


Figure 4. Evaluation of Banks' policy commitments to gender equality

6.5 Human Rights

6.5.1 Human Rights in Internal Operations

Although all five assessed banks do not fully comply with the UNGPs on BHR, four, excluding Meezan, have shown policy commitments to human rights (Figure 5). These banks have declared a zero-tolerance policy towards discrimination in employment and occupation. However, Allied and NBP received partial scores for this element as their policies were found to be lacking in addressing all aspects of gender, race, ethnicity, sexuality, and physical ability.



Photo: Fair Finance Pakistan

⁴ Female manager rate worldwide 2021 | Statista

6.5.2 Human Rights Policies in lending and investment activities

None of the banks have disclosed information on human rights policies concerning the companies they invest in or finance.

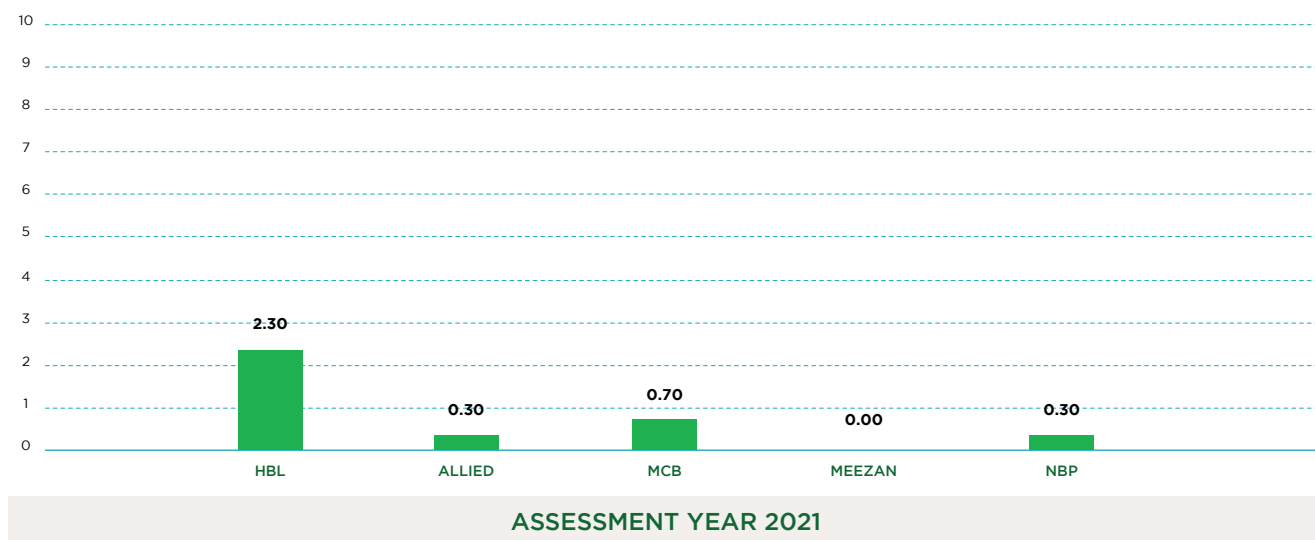


Figure 5. Evaluation of Banks' policy commitments to human rights

6.6 Labor Rights

6.6.1 Labor Rights Compliance in Internal Operations

Figure 6 reports the results of the banks' policy commitments to labor rights. None of the assessed banks have reported any policy commitments to international labor rights standards or adherence to national laws and guidelines for the welfare of workers, resulting in a lack of scoring in this area for internal operations.

6.6.2 Labor Rights Compliance in Investee Companies of the Assessed Banks

Labor rights compliance is important for commercial banks to maintain their reputation and uphold ethical and responsible banking principles. It is also central to safeguarding the well-being and rights of workers. Except for HBL, none of the banks have disclosed any information related to companies they invest in or finance. HBL received a score for including practices such as harmful or exploitative forms of forced labor and harmful child labor in its exclusion list.

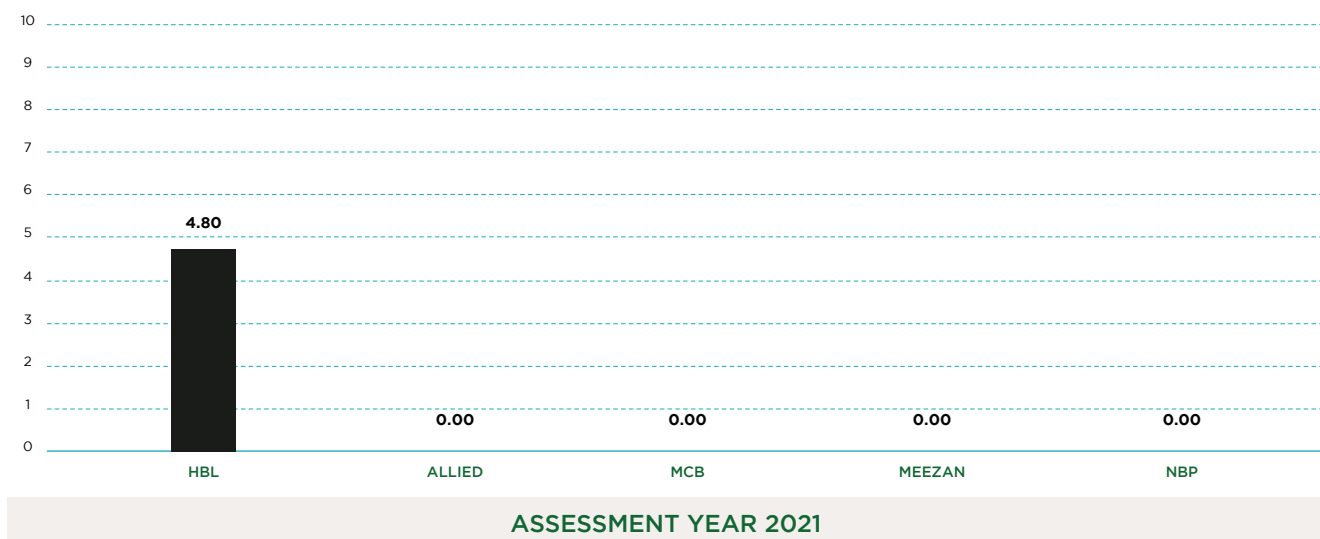


Figure 6. Evaluation of Banks' policy commitments to labor rights

6.7 Tax Policies

6.7.1 Internal Operation and Tax Policies of the Assessed Banks:

The results in **Figure 7** show that none of the five assessed banks have demonstrated policy commitments in their internal operations towards tax policies, primarily due to the lack of public disclosure on tax transparency. Only Meezan Bank received a score on one element for disclosing information on its revenues and profits in Pakistan. However, Meezan Bank did not provide information on other financial components like Full-Time Equivalents (FTEs), resulting in a partial score being awarded. The other four banks operate globally but have not disclosed any details regarding their profits, revenues, subsidies, or taxes in countries other than Pakistan, where they operate.

6.7.2 Tax Policies of Investee Companies of the Assessed Banks:

None of the banks have disclosed any information regarding the tax policies of the companies they invest in or finance.

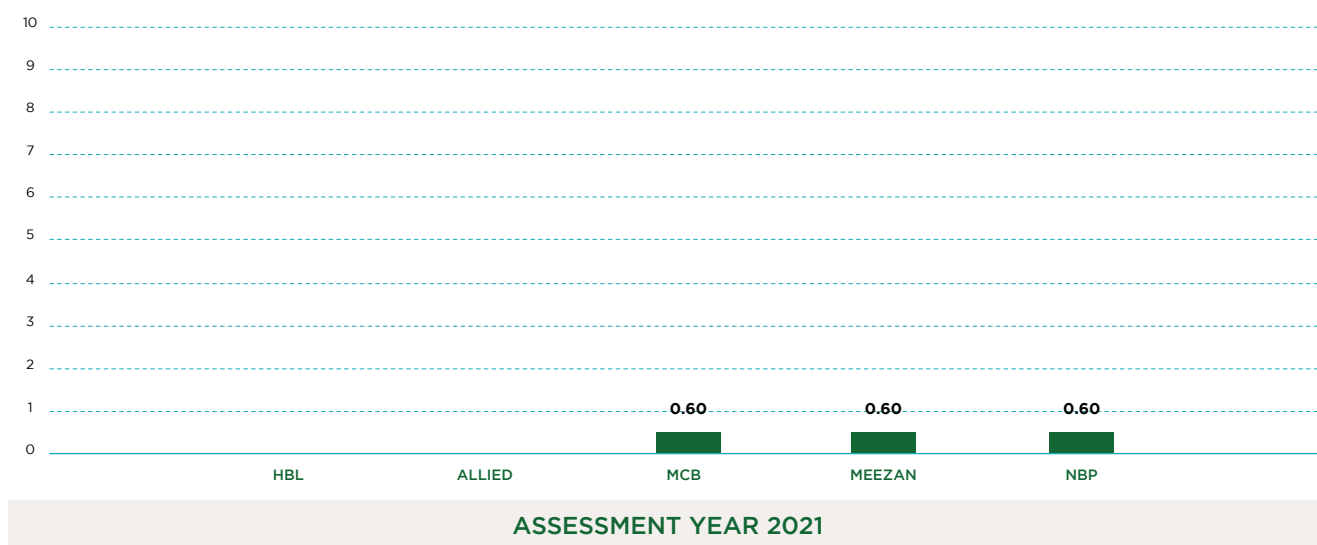


Figure 7. Evaluation of Banks' policy commitments to tax

6.8 Transparency and Accountability

6.8.1 Transparency and Accountability in Internal Operations of the Banks:

Each bank has made public the names of unlisted companies they have invested in and the sectors of listed companies they invest in. Furthermore, all banks have provided their portfolio breakdown, categorizing investments based on region and industry. Notably, HBL and Meezan Bank have gone even further by disclosing the names of the governments they have invested in.

Regarding their finance and investment framework concerning environmental and social issues, relevant information has been provided by Allied, HBL, and MCB. However, HBL and MCB have received only half a score in this area due to the lack of clear documentation on their intended control of social and environmental risks and the specific processes and standards applied to manage these associated risks.

None of the banks have disclosed the establishment of a complaint or grievance mechanism for individuals and communities that may be negatively impacted by their activities, particularly non-customer and non-employee stakeholders. Additionally, no information has been provided by the financial institutions for the remaining elements.

6.8.2 Transparency and Accountability in Investee Companies

Transparency and accountability in investee companies are essential for commercial banks to make informed investment decisions, protect their reputations, and meet stakeholder expectations (Figure 8). Non-disclosure poses reputational and financial risks to banks, making transparency a fundamental aspect of responsible and sustainable investment. However, none of the assessed banks disclosed transparency and accountability practices in the companies they invested in or financed.

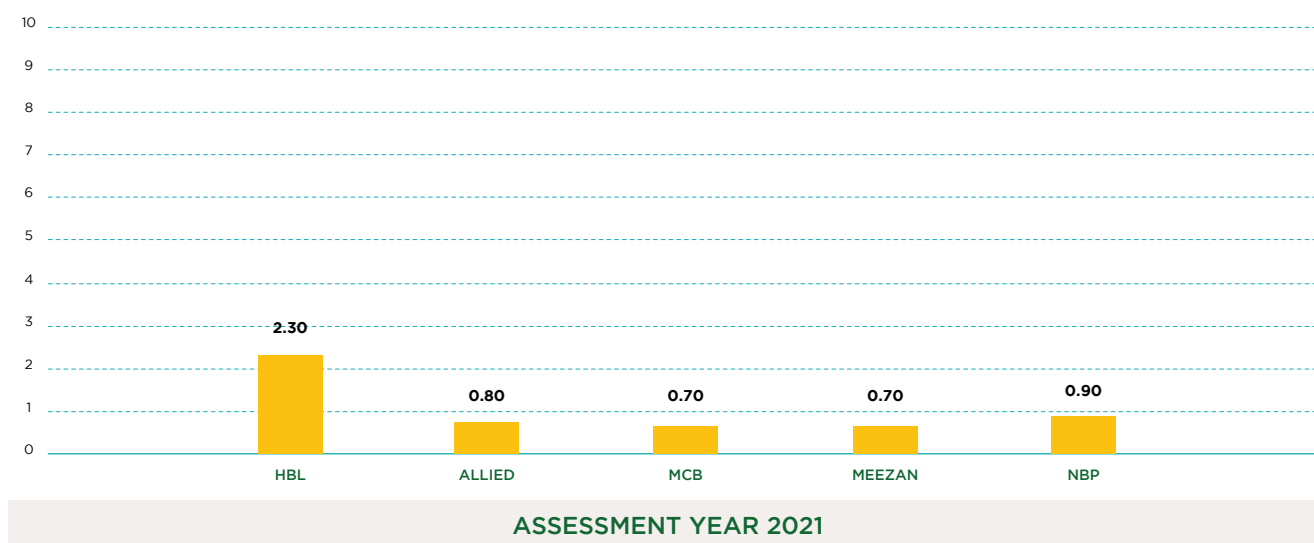


Figure 8. Evaluation of Banks' policy commitments to transparency and accountability

6.9 Nature

The FFG framework mandates nature as a fundamental theme, which is also an integral component of the Green Banking Guidelines established by the State Bank of Pakistan (SBP). Moreover, this theme is integrated into the minimum Sustainable Development Goals (SDGs) required for listed companies at the Pakistan Stock Exchange. However, it is pertinent to note that banks have not accorded adequate priority to comply with these guidelines. In this regard, the World Wide Fund for Nature (WWF)⁵ and the International Union for Conservation of Nature (IUCN)⁶ have actively engaged in conservation initiatives in the country. It is worth mentioning that the report has not delved into the theme of nature due to the absence of scores related to this topic among any of the banks, as evidenced by **Table 4**. Consequently, the report does not include any corresponding graphs or interpretations for these themes.

6.10 Arms

The inclusion of the arms theme is also mandatory within the FFG framework. The Ministry of Interior, Government of Pakistan has an Arms Control Policy that regulates the possession, use, stockpiling, and transfer of arms and prohibited and non-prohibited bore weapons. After the 18th Amendment to the Constitution, provinces were given the authority to create their own arms control acts, but the SBP does not mandate the arms theme as it is not part of any of the SBP regulations. Pakistan signed the Arms Trade Treaty (ATT) in 2013, which regulates the use of international trade in conventional arms, and the Convention on Certain Conventional Weapons (CCW), which regulates the use of specific types of weapons that may be considered excessively injurious or have indiscriminate effects. However, Pakistani banks have not prioritized addressing the laws on arms in their policies, as shown in Table 4, and the report has not included any scores related to arms for any of the banks due to the absence of scores on this theme.

⁵ https://www.wfpak.org/about_us_/strategy_/#

⁶ <https://iucn.org/our-work/topic/ecosystem-restoration/restoration-initiative/projects/pakistan>

6.11 Financial Consumer Protection

The policy assessment shows that assessed banks perform best on this theme, with an average score of 4.6 out of 10. However, all the banks still have room for improvement. Allied Bank is the frontrunner in this theme with a score of 5.8, followed by Meezan Bank and HBL with 4.7, and the remaining banks scoring between 3.7 and 4.2 out of 10 (Figure 9).

All five assessed banks disclose a policy describing customer rights and responsibilities, including disclosures and transparency on the products and services offered. Some banks directly reference the 'Know your Rights & Responsibilities' policy document published by the Banking Conduct & Consumer Protection Department of the SBP. This document covers a range of responsible banking themes, including disclosure and transparency, ethical and fair conduct, consumer empowerment, privacy, and grievance redressal.

HBL, NBP, and Allied Bank commit to fair treatment of and non-discrimination against their customers; however, none of the banks disclose any concrete measures taken towards the fair treatment of customers.

Customer complaint redressal is another crucial element of consumer protection. While all the assessed banks have a customer complaint service, only Allied, NBP, and MCB disclose their complaint handling process. All the assessed banks provide their customers with information on how to contact the Banking Mohtasib Pakistan (Ombudsman), an independent statutory body established to resolve disputes between consumers and banks. Customers can file a complaint with the Ombudsman if they are dissatisfied with the complaint redressal at their bank.

Transparent communication and accessibility considerations for people with disabilities and vulnerable groups are also assessed in this study. Most banks, except MCB, address fair and transparent communication in their policies. These banks also commit to providing special assistance to vulnerable groups such as senior citizens and persons with disabilities. The research also finds that four banks (Allied Bank, Meezan Bank, NBP, and HBL) have committed to informing their customers of any changes to the charges/fees for products and services in a timely manner. MCB only discloses this commitment to its customers' use of Internet banking services.

The study also shows that only three banks (HBL, Allied Bank, and Meezan Bank) publicly commit to respecting customers' privacy by not disclosing the customers' private data to other third parties without prior consent. The NBP privacy policy only covers Internet banking web application services and does not explicitly state that the bank will ask for the customers' prior consent.

A sound remuneration structure for sales staff and authorized agents is an effective way to encourage responsible business conduct, fair treatment of consumers, and avoid conflicts of interest. However, none of the assessed banks disclosed their policies on remuneration structures.

The study also assessed whether banks train their staff and authorized agents on consumer rights and consumer protection and products and services offered to customers. Allied Bank, MCB, and HBL have staff training on the fair treatment of customers. All five banks disclose that they provide staff training on products and services offered to clients. It is important to note that none of the banks mention that these training programs also cover authorized agents. This oversight should be addressed to all agents as they should all be able to understand and clearly explain to (potential) customers the characteristics, including the risks associated with the products and services they are offering.

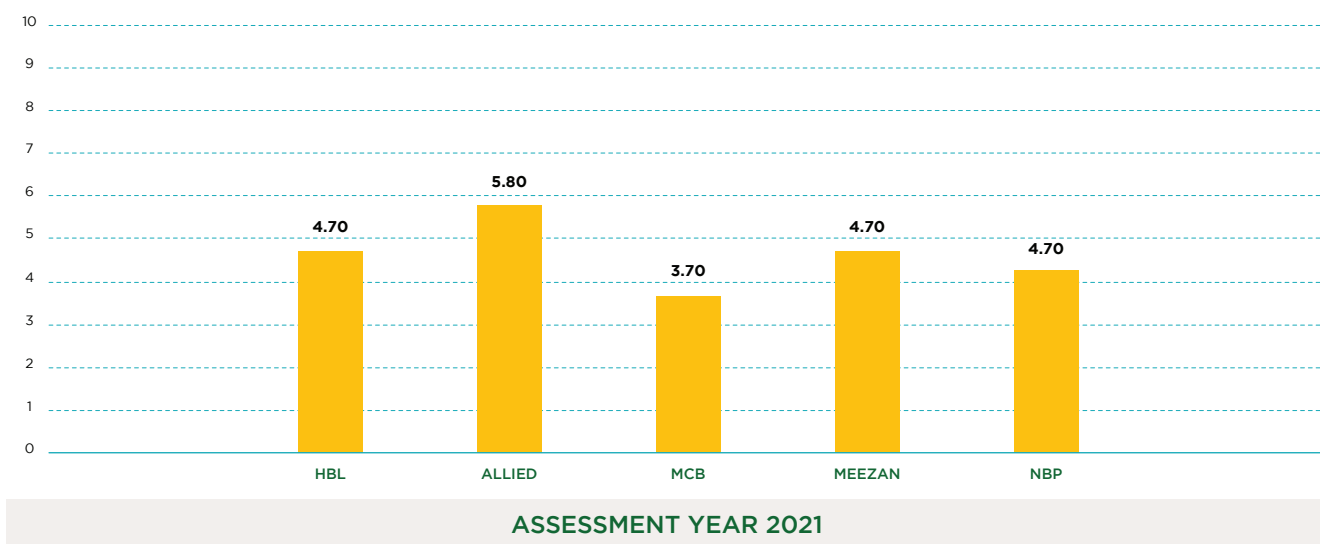


Figure 9. Evaluation of Banks' Financial Consumer Protection

The Dark Side of Banks in Pakistan

Ensuring consumer protection and safeguarding consumer rights are integral to bank sustainability. It paves the way to a more robust finance sector, where well-informed consumers can form relationships of trust with banks.

Even though assessed Pakistani banks score relatively better in consumer protection policies compared to the other themes assessed in this study, they still score low at 4.6 out of 10 on average.

Minimal policy commitments on human rights by Pakistani banks highlight a greater scope for improvement. Consumer loan practices for banking products and services often do not consider human rights standards. The lack of consumer protection in the financial sector can have severe social and economic consequences, including the risk of financial crisis due to banks' lack of transparency in relation to the market, the growth of debt, and the over-indebtedness of customers. Because of the impact on the lives of individuals and society, consumers must be aware of and understand the risks and particular conditions of each financial product.

The case study below offers insights into current banking practices for loan recovery and observes banks' role in protecting Pakistani society. It highlights the urgency to foster a responsible financial system that offers transparency, redress mechanisms, and consumer information privacy.

In recent years, Pakistan has seen an increase in the number of Pakistani households that have taken on risks and obligations of consumer lending that they do not fully understand due to "unfair and deceptive practices coupled with low levels of general and financial literacy."⁷ On average, one-fifth of households (22.01%) in Pakistan are in debt, and approximately 7 million households out of 31.64 million have borrowed a loan yet to be paid.⁸

Global Trends

A look at the global view lends more perspective. A report of the US Financial Crisis Inquiry Commission, which described the events and the system that propelled the American nation towards the 2008 financial crisis, concluded: "There were widespread failures in financial regulation and supervision; dramatic failures of corporate governance and risk management at many systemically important financial institutions, etc."⁹ The mortgage and consumer exploitation led to about four million families losing their homes to foreclosure, and another four and a half million slipped into the foreclosure process or were seriously behind on their mortgage payments. With retirement accounts and life savings swept away, nearly \$11 trillion in household wealth vanished.¹⁰

⁷ <https://www.centerforfinancialinclusion.org/diagnostic-review-of-consumer-protection-in-pakistans-financial-sector>

⁸ 'First Estimates for household debt and indebtedness in Pakistan', 2021

⁹ <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>

¹⁰ <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>

The result was a sweeping financial regulation reform with the passage of the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act in 2010.¹¹

The Anti-Predatory Lending Act consolidated the responsibility for financial consumer protection to a single agency, the Bureau of Consumer Financial Protection, to ensure that financial product markets are fair, transparent, and competitive.¹²

In 2013, The World Bank, in conjunction with Fin-CoNet, conducted a Global Survey on Consumer Protection and Financial Literacy, which noted: "The function of financial concession under protection supervision is far behind prudential supervision in terms of available methodologies for compliance monitoring, range and nature of enforcement actions, and supervisory skills."¹³

Banks' money is people's money. In retrospect, consumer protection policies and redress mechanism practices by banks in Pakistan have failed to address these complexities fully. FF Pakistan interviewed banking lawyers during the development of this case study who shared the legal landscape of banking courts in Pakistan. The evidence below shows that the banking laws are primarily structured to favor banks in Pakistan. Illegal banking sector practices on consumer protection add to the woes and have been observed to infringe on human rights and labor rights. FF Pakistan observed that current banking practices do not protect consumers and impede fairness.

Below are some major examples:

Banks' auto loan recovery practices go against the law.

1

Most cases of auto loan recovery are handled outside the Court. Banks engage third-party repossession agencies or agents to whisk away cars from homes or busy roads, often mishandling family passengers. This practice is contrary to the banking law, which states:

Section 19 of the FIs (Recovery of Finances) Ordinance 2001 - FIO 2001 allows banks to recover cars through a bailiff after the decree is passed in favor of the bank. Banks could not legally repossess a car before filing or passing the decree.

Section 20, FIO 2001 states that the sale of a vehicle bought under an auto loan is a punishable offense of up to three years imprisonment.

However, misappropriation of auto loans is common when the customer sells off their car and files a First Information Report (FIR) with the police claiming the vehicle is stolen. However, banks claim only 0.10% of such cases under insurance recovery. In contrast, in most cases, the customer is bound to pay the bank loan as per law or face punishment. This holds even for cases where the customer is faced with genuine loss of car due to robbery.

¹¹. <https://obamawhitehouse.archives.gov/economy/middle-class/dodd-frank-wall-street-reform>

¹². https://www.law.cornell.edu/wex/dodd-frank_title_XIV

¹³. <http://documents1.worldbank.org/curated/en/775401468171251449/pdf/887730WP0v20P10port0CPFL0Box385258B.pdf>

National banks have shown little commitment to consumer protection compared to global banks.

2

In the case of a merger or acquisition, it has been observed that large national banks follow internal policies for loan recovery from the acquiring banks' customers. Their loan recovery policies differ from those of global banks operating in Pakistan.

For instance, when MCB acquired MIB in 2016, it offered MIB customers up to three years to pay off the principal loan and at least 50% of the markup.

On the contrary, Standard Chartered Bank facilitated up to 50% off of the total loan from clients when it acquired the Union Bank in 2006.

Global banks such as Standard Chartered Bank Citibank avoid litigation and have negotiated loan recovery mechanisms better than their national counterparts.

Banks' engagement of law-enforcing agencies for loan recovery is contrary to the law.

3

Many banks in Pakistan engage law enforcement agencies, i.e., the Federal Investigation Agency (FIA), National Accountability Bureau (NAB), and the police to recover loans. By law, these agencies have no reason to be involved in the matter but are most often used by banks to harass the defaulter. These practices have been challenged in the Courts and were successful in restricting the role of FIA and NAB, whereas police involvement was wholly rebuked.

Mian Ayaz Anwar vs. SBP, 2019 CLD¹⁴;
Mushahid Shah vs. Federation of Pakistan, 2017 CLD 1217 filed at the Lahore High Court and the Supreme Court of Pakistan, respectively, aggrieved by various actions taken by NAB and FIA at the behest of the Banks to recover and settle the debt of the Banks. The Courts ruled out NAB and the FIA's inquiry and interference as an infringement of customers' fundamental right to a fair trial under Article 10A of the Constitution.

"FIA has no jurisdiction in such matters, and the impugned provision grants immense discretionary powers to the FIA or any nominated Government agency so as to prejudice the basic rights of the customer."

Lack of data protection undermines consumer safety and loan prospects.

4

Banks undermine consumer data protection by sharing credit reports through the credit information bureaus (CIB) with member banks and other financial institutions. This action has a legal cover in Pakistan, which undermines consumers', particularly women's safety.

Under Section 25A Banking Companies Ordinance 1962, SBP instructs banks to bind them to maintain Credit Information Bureau (CIB) data, without which a banking license can be canceled.

In its circular dated 2020¹⁵, SBP reduced the reflection period of written-off/waived loans and advances for corporate borrowers from 15 years to 10 years. Accordingly, the financial relief given to any corporate borrower by the financial institutions will be reflected for ten years from the date of reporting to the electronic Credit Information Bureau or eCIB of SBP.

In light of this circular, if we look at the opportunity index for a customer, they have to wait a period of 10 years to be cleared for subsequent loans. It is a significant barrier

¹⁴. <https://sys.lhc.gov.pk/appjudgments/2018LHC2873.pdf>

¹⁵. <https://www.sbp.org.pk/cpd/2020/CL2.htm>

for micro, small, and medium enterprises, people associated with agriculture, and others to conduct business. This condition must be relaxed for small businesses to take loans easily. The lawyer community advocates that this clause should be effectively administered to members of parliament and individuals contesting for elections as it determines how they use their influence to waive off loans despite being able to pay.

Islamic mode of financing protects consumers but is not fully adopted.

5

In interviews with banking lawyers, FF Pakistan learned of unfair loan repayment structures given legal protection under the banking laws. For repayments of loans, Section 10b of the FIO 2001 entitles banks to adjust administrative expenses first, charge a markup, and lastly deduct the principal amount. In other words, a client has no choice, contrary to the global banking system, which has a different equation on administrative, interest, and principal payments percentage and time tenure.

Section 10b, FIO 2001 states: Any payment made to a financial institution by a customer in respect to finance shall be appropriated first against other amounts relating to the finance and the balance, if any, against the principal amount of the finance.

Aslam Khaki vs. Federation of Pakistan (P L D 2000 S C 225): The Federal Shariat Court of Pakistan passed the judgment in support of Circular 13 and Circular 32, SBP. Banks were given direction to align their loan structures in line with Islamic principles and to not charge a markup on renewal.

This judgment was challenged in the Supreme Court of Pakistan. The government did not agree on the basis that the Islamic mode of financing would not be able to compete with global financial systems. In 2003, the Supreme Court of Pakistan remanded the case to the Federal Shariat Court, which decided that Islamic modes of financing developed by Islamic scholars, economists, and bankers serve as a better alternative to interest. *Farooq Brothers vs. UBL20: SBP* conceded to adopt Islamic mode of financing guidelines

Farooq Brothers vs. UBL¹⁶ SBP conceded to adopt Islamic mode of financing guidelines

There are some merits and demerits that give enough space to the consumer to pay back their liabilities. For instance, we learned on average, the Lahore High Court decides on 10 to 15 cases on financial consumer protection daily. In most of these cases, the judge gives up to two years to the consumer to start returning the loans, in contrast to banks' standard 90 days for the next payoff. Hence, many consumers file cases against the banks to buy time for the return.

High interest rates, hidden charges, and ambiguity in terms and conditions while offering personal and auto loans and credit card services disserve customers. Terms and conditions are often written in fine fonts and illegible for innocent consumers. Floating Kibor¹⁷ rates prevent customers from paying their planned installments on time. Credit card users complain of hidden charges /finance fees charged under different heads in their first credit card bills that they are unaware of, whereas the bank maintains these were all informed before taking the product. All these practices are an infringement of human rights.

Regulatory Landscape on Consumer Protection in Pakistan

On the part of the Regulator SBP, in 2008, the Consumer Protection Department was established, and Customer Facilitation Centers were set up at the Department across sixteen Field Offices of the Regulator's Banking Services Corporation to redress consumer complaints.¹⁸

In a circular issued on August 29, 2014, the SBP asked all banks and financial institutions to self-assess, develop, and implement their own framework for 'fair treatment of consumers.'

¹⁶. <https://www.federalshariatcourt.gov.pk/Judgments/S-P%2030-L1991%20Riba%20Case-28.04.2022.pdf>

¹⁷. KIBOR is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds.

¹⁸. <https://www.sbp.org.pk/bprd/2008/CL31.htm>

The Presidents/ Chief Executives
All Banks/DFIs/MFBs

Dear Sirs / Madam,

FINANCIAL CONSUMER PROTECTION

Recent developments in financial sector, both at home and abroad, have proved that adequate Financial Consumer Protection is crucial to the Financial Stability of the Banking industry. An effective Financial Consumer Protection Framework is indeed a major imperative for creating fair market infrastructure where consumers make informed financial decisions, have confidence in the Banking industry, understand and exercise their rights, and have effective recourse for their grievances.

State Bank of Pakistan in its endeavor to foster Financial Consumer Protection across the industry has issued several market conduct instructions for banks, however, it has been noticed that Financial Consumer Protection is perceived to be limited to complaint handling only. In order to disseminate the real connotation of Financial Consumer Protection, the State Bank of Pakistan has prepared the attached descriptive note entailing the meaning, significance of Financial Consumer Protection, the global trends in this regard and the conduct expected from banks and DFIs for the advocacy of Financial Consumer Protection.

Banks/DFIs/MFBs are advised to develop and implement their own Financial Consumer Protection Framework, duly approved by their BODs by July 1, 2015. It is expected that the Banks/DFIs/MFBs will inculcate conducive culture enduring fair and quality customer service while delivering banking services to their customers.

Kindly acknowledge receipt.

Encl : Financial Consumer Protection- Beyond Compliance

Yours Faithfully,

Sd/-

(Muhammad Akmal)
Director

Financial Consumer Protection - Beyond Compliance, Circular issued by SBP, 2014

To understand the current policies and regime of the Regulator on financial consumer protection, FF Pakistan, in its meeting on June 23, 2023, with the Consumer Protection Department at the SBP, learned

- a) The Regulator has not conducted any due diligence of financial consumer protection mechanisms undertaken by banks since its inception in 2008.
- b) In practice, all banks share a common database for consumers; the regulator has no regulatory law on data protection.

These findings pose serious questions about the role of the SBP.

Consumers are reportedly described as golden eggs by many bankers in Pakistan. The high interest rates on banking products and loans make the risks of recovery worthwhile for a bank. The SBP reported for the quarter ending December 31, 2022, consumer sector's (credit cards, auto loans, consumer durable, mortgage loans, and others) non-performing loans (NPLs) stood at Rs 32.16 billion compared to corporate sector NPLs at Rs717.29 billion and small and medium-sized enterprises (SMEs) at Rs74.85 billion.

"Imagine giving Rs 300,000 to four million people. The interest earned on this amount is significant because of the high rate charged compared to the low rates extended to a company. An organization can access rates as low as Kibor plus 2%, whereas an individual is charged Kibor plus 12%."
Excerpt from Aurora Magazine news feature 'Making Loans Personal,' February 2023

Ambiguous Loan Return Terms and Conditions:

In discussion with a banking lawyer, FF Pakistan learned that if a citizen defaults on a personal loan and wants to return it after a few years, the law permits them to file a case with the banking court and will be required to present evidence for the delay. The bank will not be asked to present any evidence. However, the bank cannot ask for additional money other than the contractual amount.

For instance, if a customer has borrowed Rs. 500,000 with Rs. 250,000 as markup for six years, and if they defaulted after one year, by law, they are required to only pay the markup until the date of termination, besides the principal amount. If a bank wants the complete markup, it must wait six years for

the entire loan to be paid off.

Data abuse:

The State Bank of Pakistan has remained silent on bank raids on the houses of defaulters. Moreover, the law (Section 25A, 1962 Banking Ordinance) compels banks to share data of Pakistani citizens and does not favor data protection. When a client approaches a bank for a loan, the electronic Credit Information Bureau - eCIB shares credit history with all other banks. Therefore, consumers are vulnerable at all loan procurement stages.

Loan recovery mechanisms damaging social fabric:

At the consumer level, the means of force or threat by banking agents cause humiliation to the client and, in many cases, become dangerous. Several incidents of people dying by suicide have been reported by the media over the years, citing damage to social, mental, and emotional well-being as key reasons.

KARACHI CHRONICLE: Harassment of bank loan defaulters

Published May 17, 2008



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In the last week of April, twenty-six-years-old Muhammad Tufail of New Karachi committed suicide under immense stress as he had defaulted on a bank loan and was being hounded by recovery agents. On April 30, a division bench of the Sindh High Court restrained five commercial banks from harassing an alleged defaulter Anwar Mahmood, a dealer in artificial jewellery, who lives in Federal-'B' Area.

Today banks offer loans for everything under the sun, from a family holiday abroad to redecorating the house to house-building loan, and their most popular facility is car-leasing. Most of the borrowers are from the lower and upper middle class, small business entrepreneurs, shopkeepers, transporters and bus operators. In all such loans, the mark-up is reasonable and the repayment is through easy-to-pay instalments, often tailored to

**BUSINESS
RECORDER**
Founded by M.A. Zuberi

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Subscribing is the best way to get our best stories immediately.

Twenty-six-year-old Muhammad Tufail of New Karachi committed suicide under immense stress as he had defaulted on a bank loan and was being hounded by recovery agents. This happened despite the orders of the division bench of the Sindh High Court, which had restrained five commercial banks from harassing another alleged defaulter, Anwar Mahmood, a dealer in artificial jewelry in Karachi.

Reported by The Business Recorder, April 2008¹⁹

If the borrower fails to pay up to 30 days after the due date, the bank recovery department is allowed (Section 19, FIO 2001) to chase the client through phone calls and house visits. In the next step, the recovery agents visit the granter's neighbors and friends, forsaking the client's privacy and causing a considerable reputation loss. They access personal data from illegal apps to trace default client's houses,

¹⁹. <https://www.dawn.com/news/300982/karachi-recovery-agent-held-in-defaulter-s-suicide-case>

mobile numbers, car registration, etc., and use this information to trace family members such as wives, sisters, aunts, and relations, which not only puts the client's reputation at risk but also jeopardizes the safety and security of their family. Additionally, these harmful practices destroy the social fabric and cause unparalleled human suffering.

“Since 2000, Anwar Mahmood, an artificial jewelry dealer, has been using credit card and personal loan facilities from five banks: Standard Chartered, ABN Amro, NIB, Habib, and Askari. He had been making regular payments since 2000 but defaulted in 2007 when he suffered a loss of Rs 9 million because of market fraud. He had to sell his shop on M. A. Jinnah Road and inform the creditor banks. Having paid the bulk of the principal amount, he sought relaxation in the markup, but the banks continued to demand compound interest, raising the outstanding amount to Rs 3 million.

The bank recovery department started making threatening calls, sent a team to his residence, and harassed his wife, five daughters, and ailing mother. He sought police protection, but no one came to his rescue. Hearing the case, the Sindh High Court restrained the five banks.”

Karachi Chronicle: Harassment of Banks Loan Defaulters, May 17, 2008²⁰

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Man driven to suicide by predatory lending app, says family

Threats, blackmail as Rs13,000 loan turns into spiralling Rs1 million debt

Imran Aaghar | July 12, 2023

RAWALPINDI: A 42-year-old man took his own life in Rawalpindi after being unable to repay a loan he had taken from a predatory digital lender.

According to the complaint filed with the Race Course police station, Muhammad Masood borrowed Rs13,000 from one such online lender. He had taken the loan to cover for the school fee of his two children and his house rent, said the complaint filed by the victim's brother Muhammad Muzzamil.

However, Masood did not realise that the amount had been lent at exorbitant rates. Within a couple of weeks, the amount owed was as high as Rs70,000

According to Masood's widow, he lost his job around six months ago. He had been unable to find gainful employment and was facing difficulties to make ends meet. This is what made him turn to online lending apps.

During this time, he received threatening calls from the lender warning him of grim consequences.

In order to pay the first lender, he borrowed from another app. Soon, his dues were in excess of one million rupees.

“A 42-year-old man took his own life in Rawalpindi after being unable to repay a loan. During this time, he received threatening calls from the lender warning him of grim consequences. The family said that the threats and blackmail drove him to suicide. He was found hanging at his home. His wife says that the lenders were still threatening his family “even after my husband's suicide.”

Reported by Express Tribune on July 12, 2023²¹

“25-year-old Tahira is a school teacher and earns Pakistani Rs 35,000 (USD 111) salary. She took a bank loan of Rs 200,000 (USD 700) to open an academy and agreed to monthly installments of Rs 10,000 (USD 35) for two years. Tahira's father married off her younger sister with this money after her in-laws threatened to break the marriage. Her father fell sick, and Tahira had to pay for his medicines and look after her family of five members, for which she could not pay her due loan installment. Tahira was harassed by the banking agent who called her late at night using his personal number. He also visited her house with other agents and damaged her social reputation. Tahira was forced to take a loan from her neighbor to pay off the bank's installment and is worried about how she will pay off her neighbor while the next bank installment is also near. Tahira's respect as a woman was compromised by the unfair practices of banks.”

FF Pakistan observed this incident in Lahore city during the development of this case study. The name has been changed to protect identity. Excerpt from a journalistic piece of self-experience on car lease by banks in Pakistan reported in The Business Recorder, 2008

²⁰. <https://www.brecorder.com/news/3513068>

²¹. <https://tribune.com.pk/story/2425841/man-driven-to-suicide-by-predatory-lending-app-says-family>

A lack of laws and regulations also affects consumers of automobile loans. Heads of automobile lease teams in banks partner with court bailiffs primarily working on criminal activity. Together, they harass clients and take bribes to stall or delay recovery. The bribes are equally divided amongst the protagonists, thus becoming an open window of corruption.

“Some five years ago, I applied for a car-leasing loan, which was rejected although all the conditionalities and documents necessary for getting the loan were in order. I was told I was not eligible for the loan. No reason was given officially, but a kindly young bank officer told me that no bank would give a car-leasing loan to certain people. They included personnel of the armed forces, policemen, lawyers, judges, and journalists. It is well-known that banks are now desperate to recover loans and have employed repossession agencies registered with the Securities and Exchange Commission of Pakistan. How much recovery has been possible is not known, but it is a fact that the methods used for recovery are not at all decent. They are designed to put pressure on the defaulter to insult him or her and also to threaten dire action. These methods are used only against borrowers who do not have influence with higher authorities to put counter-pressure on the banks. It is only the socially challenged borrower who is targeted.”

Excerpt from a journalistic piece of self-experience on car lease by banks in Pakistan reported in The Business Recorder, 2008²²

Loan recovery mechanisms infringe labor rights:

Gaps in loan recovery practices by banks not only harm the consumers but also negatively impact human resources hired for loan recovery.

Banks often hire young boys and girls freshly out of college with 12 years of education as loan recovery agents. Many of these young people belong to low-income groups and are keen to join the banking sector. Popularly known as commission agents, they are hired at meager salaries of Pakistani Rs. 25,000 and are mostly lured in for up to 8% commissions on each sale.

Banks set high annual targets for loan recovery agents and hike the commission rates for each successful sale. No training or psychological assessments are offered to these young resources, who often work long hours and are pressured for maximum sales of banking products.

Such practices exploit talent and keep profit over human dignity. These agents are often abused over the phone at the frontline of loan recovery. Consumers have been observed to develop personal grudges and harass loan agents. In many instances, these agents are left to look for themselves and have to file a First Information Report (FIR) at local police stations after they receive a threat to life by the defaulted consumers.

The Business Recorder published a story about how persons with influence threaten loan agents on default loans.²³

“A judge of high standing had got a Honda Accord on a car-leasing loan from a leading international bank. After the first few installments, he defaulted. The bank at first attempted to get back their money through polite verbal requests. But the judge was arrogant and refused to pay. Finally, three bank officers were sent to the judge’s residence to take possession of the Honda. The judge rang up the police and told them to come and arrest the bank officers under Section 504 of the Pakistan Penal Code, which defines “Intentional insult with intent to provoke the peace” and carries a maximum punishment of up to two years imprisonment or fine or both. The police arrived and not only arrested the bank officers but beat them up for “harassing” the ‘poor judge.’”

In other words, what started as a dream job for many young people becomes a nightmare for most. Without the banks’ support to ensure their personal safety and professional development, many loan agents resign from their jobs within a year or two and accumulate severe stress.

This situation of labor rights abuse warrants urgent attention. The question is when the consumer protection department of SBP will intervene.

These practices raise a big question on the financial sector, particularly banks’ role in the overall protection of society. It points towards the need for urgent and necessary actions to regulate law and institutional arrangements that safeguard consumers in the financial marketplace.

²². <https://www.brecorder.com/news/3513068>

²³. <https://www.brecorder.com/news/3513068>

7

COMPARISON WITH OTHER ASIAN COUNTRIES

This section compares the assessment scores achieved by the chosen Pakistani banks against scores from various other Asian countries (**Tables 5 to 7**). Notably, the scores in categories such as climate change, corruption, gender equality, human rights, and transparency and accountability are either better or on par with scores from countries like Indonesia, Thailand, India, and Cambodia. However, concerning categories like nature, labor rights, tax, and arms, Pakistani banks exhibit notably lower scores when compared to their counterparts in these other nations.

Table 5. Evaluation scores of Pakistani banks

	Climate Change	Corruption	Gender equality	Human rights	Labor rights	Nature	Tax	Arms	Trans & Acc	Finan. Cons. Protect.	Avg across themes
HBL	1.20	5	4.40	2.30	4.80	0.00	0.00	0.00	2.30	4.7	2.47
Allied	0.60	2.50	0.60	0.30	0.00	0.00	0.00	0.00	0.80	5.8	1.06
MCB	0.40	4.20	1.20	0.70	0.00	0.00	0.60	0.00	0.70	3.7	1.15
Meezan	0.40	2.50	0.60	0.00	0.00	0.00	0.60	0.00	0.70	4.7	0.95
NBP	0.00	1.70	0.60	0.30	0.00	0.00	0.60	0.00	0.90	4.2	0.77
Average	0.52	3.18	1.48	0.72	0.96	0.00	0.36	0.00	1.08	4.62	1.28

Table 6. Evaluation scores of Indonesian banks (assessment year 2020)

	Climate Change	Corruption	Gender equality	Human rights	Labor rights	Nature	Tax	Arms	Trans & Acc	Avg across themes
Permata Bank	0	3	0	0	0	0	0	0	2	0.5
DBS	2	4	4	4	3	3	3	7	3	3.7
HSBC	4	5	3	6	5	4	5	3	4	4.4
BRI	0	4	2	0	0	0	0	0	4	1.1
BCA	0	3	0	0	0	1	0	2	2	0.8
BNI	0	3	0	0	0	0	0	0	3	0.8
Maybank	0	3	2	0	0	1	1	0	0	0.7
Danamon	0	3	1	0	1	2	0	0	3	1.1
Mandiri	0	3	0	0	0	1	2	0	3	0.8
BJB Banks	0	3	1	0	0	0	0	0	3	0.7
CIMB NIAGA	0	3	0	0	0	0	0	0	3	0.6
Average	0.6	3.4	1.2	0.9	0.9	1.0	0.9	1.1	2.6	1.4

Table 7. Evaluation scores of banks in Thailand (assessment year 2020)

	Climate Change	Corruption	Gender equality	Human rights	Labor rights	Nature	Tax	Arms	Trans & Acc	Avg across themes
Kasikorn Bank	0	4	0	1	1	0	1	2	2	1.2
Siam Commercial Bank	1	4	0	1	0	0	0	2	2	1.0
Krung Thai Bank	0	4	0	0	1	0	0	0	1	0.6
Bank of Ayudhya	0	4	0	0	0	0	1	0	2	0.8
TISCO Bank	0	4	0	0	0	0	1	0	1	0.7
Bangkok Bank	0	4	1	0	1	0	0	0	0	0.7
Kiatnakin Bank	0	4	1	0	0	0	0	0	0	0.6
Thanachart Bank	0	4	0	0	0	0	1	0	1	0.6
Thai Military Bank	0	4	0	0	0	0	0	0	0	0.5
Average	0.1	4.2	0.1	0.2	0.3	0.0	0.3	0.4	1.1	0.7

As the nation grapples with one of the most severe economic and political crises in recent memory, the crucial role financial institutions must assume in rebuilding our economy and society cannot be overstated. An evaluation of policies within major Pakistani banks reveals significant vulnerabilities, particularly in nature, labor practices, tax policies, and arms-related policies.

The results show that the banks scored better for financial consumer protection and corruption policies but were overall low on all other themes, especially nature and arms. HBL, Allied, MCB, and Meezan showed commitment to reducing greenhouse gas emissions in their internal operations, whereas NBP lacked a score in this area. All banks had anticorruption policies. All banks addressed gender-based discrimination; however, HBL stood out for its Nisa initiative. All five assessed banks disclose a policy describing customer rights and responsibilities, but none of the banks disclose any concrete measures taken toward the fair treatment of customers. Labor rights policies were lacking for all banks except HBL. Tax policies lacked public disclosure, and in transparency and accountability policies, risk control and grievance mechanism documentation were lacking.

The Pakistani banks' assessment scores were compared with those of other Asian countries. They match in terms of climate, corruption, gender, rights, and transparency. However, they lag in nature, labor, tax, and arms against their counterparts in those nations, revealing disparities across categories.

These findings show that several ways exist to address banks' scores and performance. These findings underscore the importance of encouraging banks to adopt comprehensive environmental policies that not only address nature preservation and climate change mitigation but also prioritize climate adaptation strategies to enhance their overall scores and performance. The bank can promote partnerships with environmental organizations to develop and implement sustainable practices. Banks should be encouraged to develop and implement gender-sensitive policies that promote diversity, inclusion, and equal opportunities to ensure gender equality. Banks can establish programs for women's professional development, mentorship, and career advancement in leadership roles. Moreover, they should monitor and disclose their gender equality initiatives and progress.

In human rights and labor rights, the banks should be advocated to adopt clear policies on human rights and labor rights, including adherence to international standards. They should encourage the disclosure of human rights and labor rights practices related to investments and financing. Moreover, they should establish grievance mechanisms to address human and labor rights concerns.

For financial consumer protection, banks should have clear policies on the fair treatment of their customers and report concrete measures to ensure that customers are not discriminated against. Furthermore, it is critical that representatives of the bank, both staff and authorized agents, receive adequate training to understand and clearly explain to (potential) customers the characteristics, including the risks associated with the products and services they are selling. Regarding data protection, Banks should also disclose a customer's privacy policy, which provides clear guidelines on how customers' data may be collected, processed, held, used, and disclosed. Such a policy should include a commitment to not disclose customers' data to other parties without their consent.

For transparency and accountability, banks should be encouraged to enhance transparency in their investments, including the clear documentation of risk control and accountability practices. They should also promote the regular reporting of investments, governance structures, and social and environmental frameworks. Banks are also encouraged to disclose information about the companies they invest in or finance.

The banks should develop and disclose tax policies that promote transparency and compliance with tax regulations and ensure public disclosure of relevant financial components. Finally, banks should support the implementation of anti-corruption measures, including robust anti-bribery and anti-money laundering policies, terrorist financing, and proliferation financing.

This policy assessment primarily relies on the disclosure of bank policies, which may not provide a complete picture of real-world implementation. It is strongly recommended that both regulatory authorities and civil society take proactive measures to monitor banks' operations closely, ensuring genuine compliance and effective policy implementation, with the inaugural assessment serving as a valuable reference. This objective can be realized by launching public awareness campaigns that

underscore the essential role that banks are expected to play in addressing pressing environmental, social, and governance concerns.

ESRM Green Banking Guidelines allow banks to determine their own approaches for incorporating environmental and social criteria into their policies. The initial banking assessment outlined in this report establishes benchmarks for Pakistani banks. It highlights areas where policies need further strengthening as they progress towards sustainable finance in the years ahead. This approach can enhance the global competitiveness of banks as it aligns with international standards on ESG criteria and human rights integration. Furthermore, this report recommends fostering increased collaboration between banks and stakeholders, including regulators and civil society organizations. Such partnerships can enhance banks' ability to integrate ESG principles seamlessly into their policies and operational systems.

9

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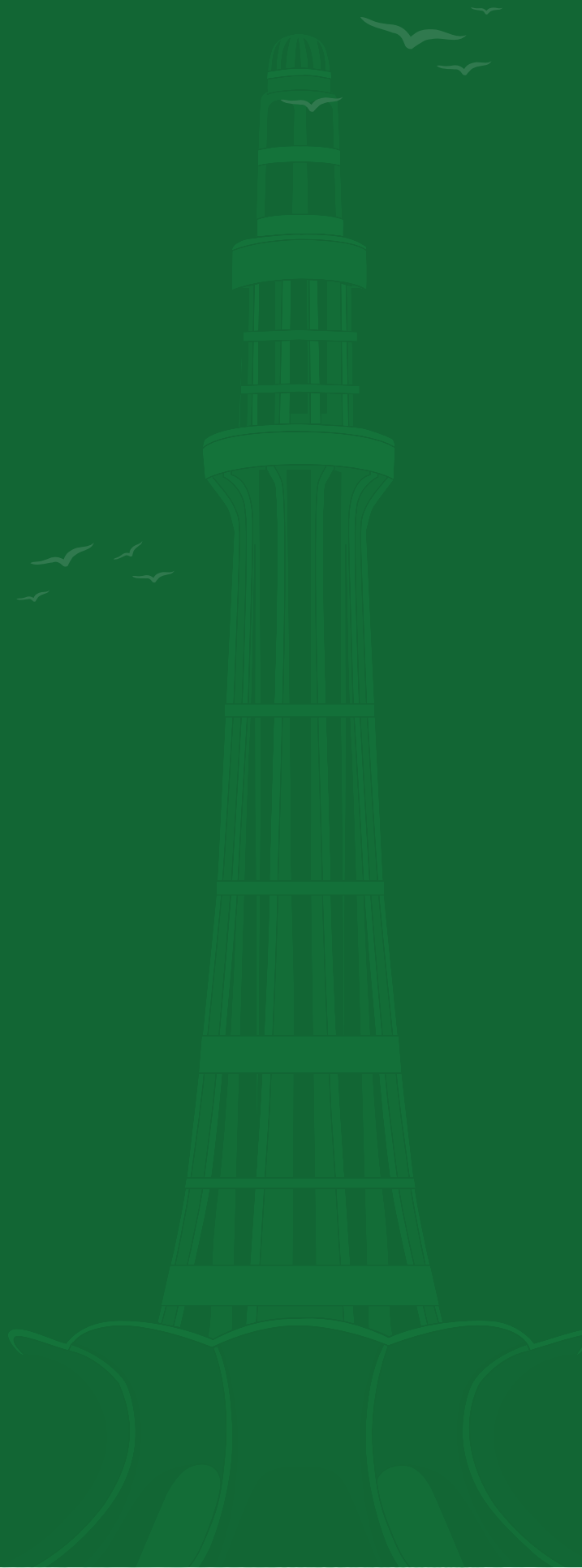
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Finance cannot be neutral. Its role has to be repurposed to address society's challenges and must redouble efforts for clean air, clean water and save the liveable planet for our future generations.



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