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The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

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THE RISE OF FINTECH

"The evolution of fintech companies has been notably pronounced worldwide, with over 30,000 fintech startups emerging. The top 20 fintech companies by market value include Visa, Mastercard, Intuit, Tencent, and others, with Visa leading with a market capitalization of $555 billion."

"Fintech industry continues to face multiple challenging futures like repetitive security breaches, low transparency, high competition, legal regulations, and a poor user experience."

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Inside






Message from President ICAP

Mr. Farrukh Rehman, FCA
President, ICAP

As we delve into the contents of the January-March 2024 edition of The Pakistan Accountant, a compelling theme emerges for this quarter: The Rise of Fintech. This issue encapsulates the transformative journey of financial technology and its profound impact on the global financial landscape, with a specific focus on its implications for Pakistan.

Highlighted in this edition are insightful articles penned by distinguished members of our community. The articles shed light on the pivotal enablers, regulatory frameworks, and success stories driving this dynamic evolution. From the introduction of innovative payment systems like RAAST to the creation of mobile wallets, this issue navigates through the various facets of Pakistan's Fintech landscape.

As accountants and finance professionals it is imperative to adapt, innovate, and embrace the disruptive forces shaping our industry. In today’s world we stand at the intersection of finance and technology, uniquely positioned to leverage these advancements to drive value, enhance compliance, and foster financial inclusion.

In the face of a constantly evolving digital landscape, the responsibility lies upon us to stay informed and adaptive. Through initiatives like this quarter’s issue on ‘The Rise of Fintech’, we strive to provide you with the insights to navigate the complex world of fintech.

I urge you to explore the highly informative articles and discussions presented, and to welcome innovation, collaboration, and embark on a journey of life-long learning.

Thank you for your continued support and engagement.

Message from Chairman MARCOM

This quarter, The Pakistan Accountant shines a spotlight on a topic that is rapidly shaping the future of finance: The Rise of Fintech. This issue provides insight into the implications of the rise of fintech and our role as chartered accountants in implementing this digital revolution.

Fintech is the future of finance and represents more than a mere technological advancement. It is the catalyst that is transforming the entire financial world. From blockchain and cryptocurrency to digital payments and an automated wealth management system – the number of possibilities is endless.

Staying ahead of the curve, evolving with the incoming developments, and finally understanding how this impacts our work and the clients we serve is imperative in our line of work. While the rise of fintech presents numerous opportunities for innovation and efficiency, it also poses challenges that cannot be overlooked.

I am pleased to feature informative articles contributed by esteemed members and insights from our respected members and industry experts on the significance of the rise of fintech and its transformative potential.

I hope this content will provide you with an enriching reading experience.

Mr. Husnain R. Badami, FCA
Chairman - Marcom

The Rise of Fintech: A Pakistani Perspective

Mr. Shaikh Farhan Abbas, ACA

The financial industry has undergone major changes due to FinTech, a wave of new technologies aimed at enhancing and automating financial services. This global trend has also taken hold in Pakistan, which is becoming a prominent hub for FinTech development.

As per Investopedia, FinTech refers to new technology that seeks to improve and automate the delivery and use of financial services and deals with digital banking, financial chatbots, cryptocurrencies, mobile payments, online brokerage services, and many other innovative financial technologies.

For finance professionals, FinTech's rise presents challenges such as the need for ongoing technological education and

"Pakistan's FinTech ecosystem is at an inflection point, driven by supportive government policies, increasing smartphone penetration, and growing awareness of digital financial services"

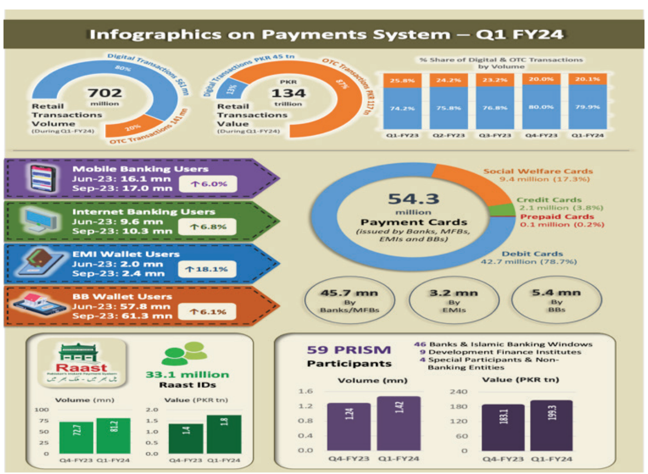
adaptation to new standards. However, it also offers opportunities through new tools and platforms that can optimize business operations, expand services, and create additional sources of income.

Rise of FinTech:

The rapid spread of 4G and 5G networks, along with widespread smartphone use, has accelerated FinTech growth. This modernization is evident in sectors like stock trading and banking. Notably, Pakistan's Roshan Digital Accounts initiative now enables overseas Pakistanis to establish bank accounts remotely from abroad.

As per SBP quarterly Payments Systems Review report, the retail transaction volume was 720 million. Among these transactions, digital transactions accounted for 561 million (80%) while OTC transactions were 141 million (20%) in Q1 2024. Mobile/Internet banking, EMI/BB wallet usage ranged between 6%-18% illustrating the scope and scale of digitization in Pakistan's economy (Exhibit 1 – Infographic from SBP report).

Exhibit 1



As per a 2023 McKinsey article, the FinTech sector in the Middle East, North Africa, and Pakistan (MENAP) is expected to generate revenues between $3.5 and $4.5 billion by 2025, which would boost FinTech's share of financial services revenue from less than 1.0 percent to approximately 2.0 to 2.5 percent. On the other hand, investor funding for FinTech start-ups in MENAP more than quadrupled from nearly $200 million in 2020 to approximately $885 million in 2022, according to MAGNiTT (Exhibit 2). Over the same period, the share of rounds exceeding $10 million increased from 4 percent to more than 15 percent.

Pakistan's FinTech Landscape

Pakistan, with its large population, growing tech-savvy youth, and significant unbanked population, presents a perfect condition for FinTech innovation. The country's FinTech ecosystem is at an inflection point, driven by supportive government policies, increasing smartphone penetration, and growing awareness of digital financial services.

Enablers of FinTech in Pakistan

- RAAST (Real-time Interbank Fund Transfer System): RAAST is Pakistan's instant payment system launched by the State Bank of Pakistan (SBP). It enables individuals and businesses to make real-time interbank fund transfers, promoting faster and more efficient payment transactions.

- **PayPak:** PayPak is a domestic payment scheme in Pakistan aimed at promoting financial inclusion by providing an alternative to international card schemes. It facilitates electronic transactions, including debit card payments and ATM withdrawals, primarily targeting the unbanked and underbanked segments of the population.

- **E-commerce Growth:** The growth of e-commerce platforms and online marketplaces in Pakistan creates opportunities for FinTech companies to offer payment solutions, such as digital wallets, online payment gateways, and secure transaction processing services, catering to the needs of online merchants and consumers.

- **Mobile Wallets:** The proliferation of mobile wallets, such as JazzCash, Easypaisa, and SimSim, provides convenient and accessible financial services to individuals across Pakistan. Mobile wallet platforms offer features like bill payments, money transfers, and digital payments, driving financial inclusion and digitizing transactions.

- **Regulatory Sandboxes:** Regulatory sandboxes established by the SBP allow FinTech startups to test innovative financial products and services in a controlled environment. This regulatory approach fosters innovation while ensuring consumer protection and regulatory compliance, encouraging experimentation and advancement in the FinTech sector.

- **Open Banking Initiatives:** Open banking initiatives promote collaboration and data sharing between financial institutions and third-party FinTech providers through standardized application programming interfaces (APIs).

- **Cybersecurity Infrastructure:** Investments in cybersecurity infrastructure and initiatives to combat cyber threats are essential for building trust and confidence in digital financial services.

- **Government Digitalization Efforts:** Government initiatives aimed at digitalizing public services and promoting digital payments, such as the Ehsaas Emergency Cash Program and the Digital Pakistan Vision, drive the adoption of FinTech solutions and contribute to the overall digitization of the economy.

FinTech Legal Framework

Laws and regulatory measures significantly impact the FinTech industry in Pakistan by setting the legal and operational boundaries within which companies must operate.

"Enablers such as RAAST (Real-time Interbank Fund Transfer System), PayPak, e-commerce growth, mobile wallets, regulatory sandboxes, open banking initiatives, cybersecurity infrastructure, and government digitalization efforts are fostering the growth of FinTech in Pakistan."

By providing a clear legal framework, these regulations also help foster investor confidence and encourage both local and international investment in Pakistan's FinTech sector. Some of the key relevant regulations are briefly discussed below:

- **Personal Data Protection Bill 2023:** This Bill aims to regulate the collection, processing, use, disclosure, and transfer of personal data, providing a mechanism for data protection and addressing offences related to data privacy rights.

- **Prevention of Electronic Crimes Act, 2016:** This Act addresses cybercrime, including unauthorized access to electronic systems, data breaches, and cyber fraud.

- **Financial Institutions (Secured Transactions) Act, 2016:** This legislation provides a framework for secured transactions involving movable assets, facilitating access to credit and finance.

- **Payment Systems and Electronic Fund Transfers (PS&EFT) Act, 2007:** This Act provides the legal basis for the regulation and oversight of payment systems and electronic fund transfers in Pakistan.

- **Electronic Transactions Ordinance, 2002:** This Ordinance establishes the legal recognition of electronic documents, records, and signatures.

Pakistan FinTech Success Stories

Several Pakistani FinTech startups have made significant inroads, addressing gaps in the traditional financial sector and offering innovative solutions to meet the needs of a diverse customer base.

- **EasyPaisa:** One of the country's first and most successful mobile banking solutions, it offers a wide range of financial services, including money transfer, bill payments, and savings accounts, catering to millions of Pakistanis, many of whom do not have access to traditional banking services.

- **JazzCash:** Provides similar mobile financial services. It has played a pivotal role in promoting financial inclusion by offering easy-to-use financial solutions, particularly in rural and underserved areas.

- **Finja:** A FinTech startup revolutionizing the way businesses and individuals transact. By offering innovative credit products and a digital lending platform, Finja is facilitating seamless transactions and empowering MSMEs and entrepreneurs with the financial tools they need to grow.

- **Karandaaz:** Funded by international donors, it focuses on financial inclusion and the development of digital financial services in Pakistan. It provides capital and support to FinTech startups, playing a crucial role in nurturing the ecosystem.

The Future of FinTech and Role of Accountants and Finance Professionals

The future of FinTech in Pakistan is poised for exponential growth, shaped by innovation, inclusivity, and integration. The convergence of AI, blockchain, and IoT with financial services is set to offer unprecedented opportunities for enhancing security, personalization, and efficiency.

For finance professionals, this growth means abundant opportunities to improve advisory services, reporting, and financial management through FinTech. It also opens doors for partnerships with startups, offering advanced solutions to meet changing business and individual financial needs.

The rise of FinTech in Pakistan is a testament to the country's entrepreneurial spirit, technological prowess, and commitment to financial inclusion. For accountants and finance professionals, this era of digital transformation offers exciting opportunities to redefine their roles, enhance their service offerings, and play a pivotal role in shaping the future of finance and lead others in this digital revolution.

Endnotes:

- State Bank of Pakistan – Payment Systems Review (Quarter ended)

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Fintech Unveiled: Navigating the Future of Financial Innovation

Mr. Muhammad Faizan, ACA

In the last decade, the evolution of fintech companies has been notably pronounced worldwide, with over 30,000 fintech startups emerging. The urge to develop fintech companies arose when access to loans from the banking industry became limited for certain market players.

The growth in the fintech market is driven by a variety of reasons. Firstly, increased usage of mobile phone applications and digital payment solutions has resulted in an increased number of consumers, leading to a surge in demand for fintech setups. Secondly, the COVID-19 pandemic has brought about a dramatic shift, forcing consumers to move towards digital solutions to adapt to distant and contactless dealings. Thirdly, regulatory changes have also enabled fintech companies to compete with traditional financial service providers. Finally, advancements in the field of technology, such as Artificial Intelligence and blockchain, have also resulted in successful fintech setups.

The creation of fintech companies, in general, has resulted in improved financial services as they attempt to target specifically those clientele portfolios which are professed to be untargeted or not attended to by incumbent institutions. Consumers seeking low cost use this platform for making

"The evolution of fintech companies has been notably pronounced worldwide, with over 30,000 fintech startups emerging. The top 20 fintech companies by market value include Visa, Mastercard, Intuit, Tencent, and others, with Visa leading with a market capitalization of $555 billion"

investments. SMEs and consumers seeking funds for their business startups find this platform to be a great opportunity to have access to funds. Henceforth, it is not astonishing that the number of fintech companies has bizarrely increased, fascinating billions of dollars in new investments in the past few years, such as Martinez Resano, Albaskat, and Beck et al.

Fintech services are gaining utmost success and becoming economically important in developed countries as compared to developing countries. Mobile payment companies collect up to 16% of the GDP in China but less than 1% in the US. Simultaneously, peer-to-peer lending (P2P) is attaining a position in retail and small & medium-sized lending in developed countries. In the US, fintech lenders provided 38% of unsecured personal loans in 2018 and financed more than 15% of the equivalent bank credit to small businesses. VISA is the largest fintech company leading ahead with a market capitalization of USD 500 billion, followed by Mastercard with a USD 389 billion valuation. There are twenty-five plus companies that have surpassed the US$ 10 billion decacorn mark. Nearly 10 of the top 20 fintech companies in terms of market capitalization are US-based.

Following is the list of the top 20 fintech companies by market value according to a 2024 report [Google Finances].

Rank	Company	Country	Market Capitalization
1	Visa	United States	$555 billion
2	Mastercard	United States	$428 billion
3	Intuit	United States	$184 billion
4	Tencent	China	$139 billion
5	Fiserv	United States	$87 billion
6	Ant Financial	China	$79 billion
7	PayPal	United States	$64 billion
8	Adyen	Netherlands	$50 billion
9	Stripe	Ireland	$50 billion
10	Nubank	Brazil	$42 billion
11	Square	United States	$41 billion
12	Coinbase	United States	$34 billion
13	Chime	United States	$25 billion
14	Polygon	India	$20 billion
15	Revolut	United Kingdom	$20 billion
16	Ripple	United States	$15 billion
17	UIPath	Romania	$15 billion
18	Blockchain.com	Luxembourg	$14 billion
19	Grab	Singapore	$15 billion
20	Plaid	United States	$13.4 billion

According to SP Global, investment in the fintech industry halved in H1 2023 despite an overall rising trend over the last decade. In 2012, investment in fintech amounted to USD 4 billion, which continued to surge to USD 67.1 billion in 2015, USD 147.9 billion in 2018, and USD 215.4 billion in 2019. By the end of 2021, fintech investment reached USD 210 billion. However, venture investment weakened to USD 46 billion in H2 2022 and to USD 23 billion in H1 2023.

Pakistan is ahead in the fintech industry with multiple leading fintech companies. In 2001, only a small fraction of the population had access to internet services, around 1.3%. This ratio intensified in 2012, reaching 10%, and by July 2021, nearly 54% of the population gained access to the internet, around 118 million citizens. Noticeably, the mobile phone diffusion ratio surpassed 77%, indicating a significant increase. This shows that with provided resources, fintech could be a booming industry in Pakistan.

> **"Pakistan is witnessing rapid growth in its fintech industry, with multiple leading fintech companies emerging. Despite advancements, challenges such as a cash-based economy, low literacy rates, and technological infrastructure limitations hinder the success of fintech in Pakistan. However, initiatives like the Roshan Digital Account demonstrate active regulatory efforts to promote fintech."**

The first fintech company in Pakistan was Easy Paisa, which initially provided money transfer services in 2009. Subsequently, it expanded its scope by providing a wide range of financial services through introducing a mobile application offering a first-ever digital fintech platform. Followed by Easy Paisa, different fintech startups came into existence, including Finja, CreditBook, Naya Pay, Jazz Cash, Keenu, Tez, Avanza Solutions, SadaPay, Autosoft, Foree, Abhi, Fonepay, Inov8, KarloCompare, OneLoad, PayPro, and Paysys Lab.

Despite these advancements, there are still a number of challenges that hinder the success of fintech in Pakistan. Firstly, Pakistan is still a cash-based economy where a good fraction of the population deals in cash. Secondly, the literacy rate in Pakistan is still low. According to the State Bank of Pakistan, the literacy rate in Pakistan is around 23% of the population. Thirdly, the unavailability of well-designed technological infrastructure may become a deterrent. A very usual example is internet power failure that may halt these services, rendering them unreliable. Paypal has not yet been introduced in Pakistan, which exhibits a colossal dearth of a digital platform in Pakistan. Despite these challenges, the Regulator is actively working in this regime as Roshan Digital Account is one of the leading examples of this decade in the fintech industry.

Nevertheless, with the rapid progression in the fintech business, it is imperative to pay equal attention to the ever-increasing cybersecurity risks and challenges that may become a blockade in the path of ongoing development. Among others, cybersecurity risks such as data breaches, phishing attacks, insider threats, DDoS Attacks, mobile security risks, involvement of third-party risks, Application Programming Interfaces vulnerabilities, ransomware attacks, and AI & machine learning risks are some of the leading challenges that the fintech industry is prone to and making radical investments to manage the risk.

McKinsey research shows that profits in the fintech industry are anticipated to grow almost three times faster than the traditional banking sector growth from 2023 to 2028. Based on this research, the following themes will form the next episode of fintech growth:

(a) Fintech will continue to benefit from the fundamental transformation of the banking industry, rapid digital innovation, and e-commerce advancement across the globe, particularly in developing economies.

(b) Despite pressure, fintech still has room for further enhancing its scope of providing financial services.

The banking industry hit a profit of more than USD 6.5 trillion in 2022 with YoY growth both in volume and revenue margin. In 2022, fintech business earned nearly 5% of the total net revenue of the global banking sector, ranging from USD 150 to USD 205 billion. This revenue generation is projected to reach USD 400 billion by 2028, representing a 15% YoY growth rate of revenue between 2022 to 2028.

Fintech business has taken a dip across the globe as the industry is grappling for revenue generation and running behind popularity. Two banks, namely Signature Bank and Silicon Valley Bank, in this battle went bankrupt as they made overinvestment in fintech projects that astoundingly failed to survive and became less money-spinning. Besides, a large lump of their investments was parked in digital currencies that ended up booming down. One of the reasons for failure is the extraordinary interchange and rebate fee that consumers failed to conform with.

Unlike traditional banking business, fintech startups have failed to comprehend that they, in actuality, are technology companies and their prime focus should be on actual software offering. Merely focusing on gaining profit margins and popularity has resulted in the loss of investors associated with them. Further, placing confidence in a stable macroeconomic eco-system is another cause of fiasco. There is an enormous need for fintech companies to rationally deliberate to re-silhouette this industry, circumventing the unpredictable times by understanding the actual dynamics to survive in the long run.

The writer is an Associate Chartered Accountant, working as Vice President, Habib Metropolitan Bank Limited, Pakistan.

Transforming the Financial Landscape and Driving Economic Diversification in the Middle East

Mr. Waqar Ahmed Khan, FCA

Fintech, short for financial technology, has rapidly emerged as a disruptive force reshaping the established financial sector. Its remarkable growth in recent years has transformed the landscape of the financial industry. The pursuit of financial inclusion, evolving consumer behavior, and technological advancements are among the key factors driving this surge. Examining the rise of Fintech through the lens of financial qualification offers insights into the evolving nature of financial services.

“Fintech has facilitated financial inclusion by offering services to the unbanked and underbanked populations, making financial services more accessible throughout the Middle East”

"Governments across the Middle East are actively promoting Fintech as part of their economic diversification efforts. Regulatory frameworks are being developed to ensure the stability and security of financial services while fostering innovation"

Fintech has played a crucial role in democratizing financial services, making them more accessible to a broader population. Traditional banking often involves complex procedures and strict eligibility criteria, posing barriers for individuals lacking a strong financial background. In contrast, Fintech companies harness technology to simplify processes, minimize paperwork, and offer more inclusive services, catering to a wider range of consumers.

As Fintech services become increasingly prevalent, there is a growing emphasis on financial literacy and qualification. Users must grasp the implications and risks associated with various financial products and services. Fintech companies are addressing this need by integrating educational components into their platforms, providing users with relevant information to make informed financial decisions. The rise of Fintech is thus accompanied by a heightened focus on empowering users with essential financial knowledge.

The integration of AI and machine learning in Fintech enables the development of personalized financial services. By analyzing user behavior, spending patterns, and financial goals, Fintech platforms can offer customized solutions and advice. This level of customization not only enhances the user experience but also fosters greater awareness of financial objectives and circumstances, aiding users in becoming more financially qualified.

The Middle East, traditionally reliant on oil-based economies, is undergoing a significant transformation with the advent of financial technology. Over the past decade, the region has witnessed a proliferation of Fintech startups and initiatives, revolutionizing the delivery and consumption of financial services.

With a large and tech-savvy youth population, the Middle East has embraced digital solutions, creating a conducive environment for the adoption of Fintech services. Rapid increases in mobile penetration and internet connectivity further facilitate the uptake of innovative financial solutions.

Governments across the Middle East are actively promoting Fintech as part of their economic diversification efforts. Regulatory frameworks are being developed to ensure the stability and security of financial services while fostering innovation. Initiatives like regulatory sandboxes provide Fintech companies with a safe space to test their products and services.

The entrepreneurial landscape in the Middle East is shifting, with a growing number of startups focusing on Fintech solutions. Support from incubators, accelerators, and venture capital firms is fueling the growth of these startups, contributing to the development of a vibrant Fintech ecosystem.

Impact on the Financial Landscape:

Fintech has facilitated financial inclusion by offering services to the unbanked and underbanked populations, making financial services more accessible throughout the Middle East.

The rise of Fintech aligns with the region's efforts to diversify its economy beyond oil, aiming to create a more sustainable and technology-driven economic landscape.

The Fintech boom has generated new job opportunities and increased demand for specialized skills, contributing to the development of a knowledge-based economy.

Consumers in the Middle East are benefiting from improved financial services, including personalized banking, digital payments, and robo-advisors, driven by competition between traditional financial institutions and Fintech startups.

Despite remarkable growth, the Middle East's Fintech sector faces challenges such as regulatory complexities, cybersecurity concerns, and the need for greater collaboration between traditional banks and Fintech players. However, with continued government support, increasing investment, and a culture of innovation, the outlook for the Fintech revolution in the region remains optimistic.

In summary, financial technology is undergoing a revolutionary transformation in the Middle East, reshaping traditional finance, promoting economic diversification, and unlocking new opportunities for individuals and enterprises. As the Fintech ecosystem evolves, the Middle East is poised to emerge as a global hub for financial innovation in the years ahead.

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The Rise of Fintech: A Paradigm Shift

Mr. Waqass Ahmad, FCA

"Out with the old, in with the new" perfectly encapsulates the notion of bidding farewell to traditional methods and welcoming new technological advancements in the financial industry. Let's take a look at how technology has been transforming the financial industry over the years.

Fintech companies utilize technology to offer alternative platforms for activities like business and consumer lending, personal financial investing, and securities settlement. Investment advisors and banks have also begun to adopt new

> **Regulatory bodies must incorporate accounting standards like IFRS 9, 15, 16, and 17 to ensure transparency and compliance within the fintech industry**

technologies by collaborating with Fintech companies and developing similar in-house techniques.

The history of Fintech companies doesn't date back before 2007, when industry participants started highlighting the potential for these firms to disrupt the banking industry and its intermediaries. The process is still evolving, and it will continue to do so. While we can't predict the ultimate impact, it's clear that data use, changing consumer preferences, and technological advancements will lead to long-lasting structural changes.

Credit

Credit providers, also known as alternative providers, have developed business models based on the advanced use of mobile devices, data analysis tools, and the internet. These are employed to provide customer convenience, meet their preferences, and offer convenience on loan extensions, automate loan funding, and expand customer sources. These alternative lenders are sometimes considered competitors to banks; however, their business models are highly dependent on banks to fund their loans. Banks have also provided seed funding, training, mentoring, workspaces, and other supports to new entrepreneurs and startups. There are numerous instances worldwide where banks have acquired alternative lenders. What initially appeared as competition has now transformed into a catalyst for the overall fintech industry, which is also the reason why the number of alternative lenders has substantially increased. Earlier, firms were labeled as peer-to-peer lenders since the business model they used served the purpose of directly matching retail investors with prospective borrowers to fund loans. This model has now evolved, and they are now called marketplace lenders, who have broadened funding sources by marketing loans to institutional investors such as banks and asset managers. Initially, alternative lenders also focused on unsecured installment debts; however, now the focus area has diversified for fintech, owing to the evolution of loans to include student loans, mortgages, etc.

Companies can now leverage technology to provide loans to smaller businesses in smaller amounts, which would not be profitable for traditional banks normally.

Digital Funds Handling

Fintech is revolutionizing the way consumers transfer money and pay merchants by using applications designed for convenience, mostly on mobiles with digital wallets. These wallets store debit cards, credit cards, and account information, thus reducing the need for checks and cash. Although such applications provide businesses and consumers with platforms to make payments, fintech firms still depend on bank-controlled traditional methods such as clearinghouses, debit and credit cards, etc. Therefore, fintech firms are required to work closely with banks to deposit consumer balances, settle payments, and transact.

Savings and Investments

Fintech, without a doubt, is making investment and saving more accessible to people regardless of their social and economic status. Robo-advisors and other financial management methods analyze consumer spending patterns and habits to simplify planning, investing, and saving. By innovating these tools, fintech firms can offer investment advice and budget management with less human interaction and need.

If we look at robo-advisors, a questionnaire is asked to determine the investment objectives of clients and analyze their risk tolerance. Robo-advisors use algorithms to create customized portfolios for clients and rebalance their portfolios accordingly. Cost-saving suggestions are also given to make investment easier.

Technology Ecosystem

These financial service providers rely on core systems such as mobile delivery, APIs, and big data. APIs are interfaces among multiple software programs or the rules that software programs follow to communicate with one another. Big data deals with data with large volumes that can be mined for further analysis and insights. These tools have become the core of fintechs. Also, traditional 9-5 banking sounds new to the ears, rather strange.

Challenges

One of the less highlighted but basic challenges of Fintech is the unpredictability of algorithms when it comes to nontraditional data. There is always a gap between new advancements in other domains and fintech. On the other hand, data security risk is a challenge we have been facing since the start. Although various methods are being introduced to avoid such risks, completely eradicating it will be difficult. Algorithm hacking is a scenario where an algorithm is used for unintended purposes. It is advised that regulators find a balance between the risks and opportunities while employing Fintech in the systems.

Role of Regulatory Bodies

With the changing dynamics of the financial industry, regulatory bodies need to be more mindful when it comes to incorporating accounting standards in the systems. IFRS 9 is one of the standards that cover financial assets and transactions that arise from digital payments. Moreover, IFRS 15 can be applied to revenue recognition that is linked to fintech services. IFRS 16 and 17 are somehow relevant depending on specific structures and arrangements in the fintech industry.

Although none of the IFRS standards is customized specifically for the fintech industry, entities operating in the given space will need to tailor existing standards as per the principles outlined and provide relevant disclosures to ensure transparency in financial reporting. It is also necessary to stay updated with all the new guidance and interpretations issued by these regulatory bodies to ensure compliance.

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The Game Changers

Ms. Javeria Zafar Malik, ACA

The Fintech industry is growing at an exponential pace in Pakistan and worldwide. Fintechs are disrupting the financial industry, challenging established financial players, and reshaping and empowering the financial ecosystem through their agile structures.

Their innovative solutions, user-friendly interfaces, affordability, and digital accessibility are key contributors to the increasing popularity of this industry day by day.

The adoption of disruptive technologies by Fintechs such as Artificial Intelligence (AI), Blockchain, IoT, Robotic Process Automation (RPA), Cloud Computing, Low Code & Open APIs, and Machine Learning is defining the fate of the Fintech industry.

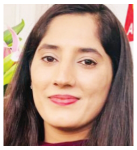
Pakistan, as a developing economy, has a large unbanked population, and Fintechs are playing a pivotal role in promoting financial inclusion.

In Pakistan, with the State Bank's focus on promoting digital services and cashless transactions, the scope of the Fintech industry is promising. Continued development in digital infrastructure for enabling digital transactions, penetration of smartphones, and mobile connectivity across the country are increasing Fintechs' access to a broader audience, helping tap into areas where traditional banking services are either not available or have limited availability. The startup culture is also providing fertile ground for Fintech entrepreneurs to launch new innovative ideas.

To encourage new business models, use cases, and technological solutions, the State Bank of Pakistan has introduced revisions by June 2023 in its already issued EMI Regulations 2019 to align with international best practices.

Digital payments, remittances, mobile wallets, and micro-lending are the most common digital services offered by Fintechs in Pakistan. However, with developments in digital infrastructure and the financial ecosystem, the emergence of Robo-advisors, RegTech, InsurTech, and Crowdfunding are also anticipated to mature.

The need of the time is to address and overcome the challenges faced by the Fintech industry, mainly in the area of regulatory compliance, data security, and consumer protection. These are necessary steps to pave the way for better acceptability of Fintechs through increased reliability at a larger scale and at the corporate level as well.



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From Disruption to Dominance: The Unfolding Fintech Narrative

Mr. Abdul Sammad, ACA

Introduction

Investment in financial technology companies has increased significantly in the past few years, and financial analysts claim that it will keep on increasing every year. Financial products and services are moving toward mobile devices, which were previously the domain of banks, salespersons, and desktops. This trend is increasing the ease and availability of technology on mobile devices but threatening the existence of face-to-face transactions.

Pakistan is fertile ground for fintech growth, with almost 73% of the population having access to cellular usage. In 2008, the State Bank of Pakistan (SBP) introduced branchless banking licenses, motivating Digital Financial Service Providers (DFSPs) to construct agent networks throughout the country. The startup of branchless banking provides an alternative to traditional banking, allowing convenient and inexpensive account ownership for a larger population of adults, proliferating into rural networks.

Considering fintech startups and the digital transformation of banking services, in this article, we will explore the challenges and collaborative opportunities arising from the interaction between fintech and traditional banking.

Overview of Fintech Disruption

The financial services opportunities are prominent in five key areas: payments, infrastructure, investments, insurance, and lending. In 2020, during the COVID-19 pandemic, there was a global spike in interest in payments as the usage of cash significantly declined. This was driven by frequent lockdowns and subsequent dependence on online shopping, social distancing behaviors, the use of contactless payment methods, and a dislike of cash transactions.

In Pakistan, the payments industry is dominated by well-known companies like EasyPaisa and JazzCash. These companies are the top facilitators of digital transaction accounts (DTA) for both private users and commercial enterprises.

Haball Private Limited, a local Fintech, has created a platform for automating business-to-business payments, and it is gaining market demand for its products. Through these payments, firms can control liquidity and make use of digital rails for timely, planned payments. They are now pursuing this potential.

RAAST is using contextual payments for the development of innovative new products and services. Contextual payments emphasize the rich data that can accompany the payments, providing details on the conditions of the contract and payment benchmarks. Participants in transactions can use this capability to save and use data to create patterns and increase cash flow predictability.

Currently, merchant aggregators such as PayPro and KuicPay are enabling non-bank sites like TCS (Courier Company), walk-in locations for cash payments. Through a collaboration with a top commercial bank, Pakistan Post's physical sites are also being incorporated into the DFS ecosystem. This will allow Pakistan Post's physical locations to serve as actual locations for collecting cash from online shoppers.

Fintech innovations including mobile banking, digital wallets, and peer-to-peer lending platforms are increasing customer experience, cost efficiency, and the speed of service delivery, challenging traditional banking models.

Opportunities for Collaboration

Partnerships with banks are thought to be advantageous for Fintechs that have sufficient funding, licenses, and regulatory permission. This lowers the risks that banks might encounter when considering a partnership with Fintechs that lack regulatory cover from the SBP due to a lack of license. However, because most Fintechs lack a proven business plan, banks are typically hesitant to provide resources, particularly as banks in Pakistan are seen as risk-conservative.

Collaborative partnerships between fintech startups and traditional banks can yield several benefits. For traditional banks, partnering with fintech firms provides access to cutting-edge technology and innovative solutions that can improve customer experience, streamline operations, and drive efficiencies. Fintech startups, on the other hand, benefit from the established infrastructure, customer base, and regulatory expertise of traditional banks.
One common form of collaboration is through white-label solutions, where fintech companies develop digital products or services that traditional banks can brand and offer to their customers. For example, a fintech firm specializing in mobile banking apps may partner with a traditional bank to develop a custom-branded app that enhances the bank's digital banking offerings.

"Pakistan presents fertile ground for fintech growth, with almost 73% of the population having access to cellular usage. The introduction of branchless banking licenses by the State Bank of Pakistan (SBP) has spurred the development of agent networks, providing convenient and inexpensive account ownership, particularly in rural areas."

Additionally, strategic partnerships can help traditional banks expand their reach and tap into new customer segments. Fintech startups often cater to niche markets or underserved populations that traditional banks may struggle to reach through traditional channels. By collaborating with fintech firms, banks can access these markets and offer tailored solutions to meet the unique needs of different customer segments.

Overall, collaboration presents a win-win opportunity for both fintech startups and traditional banks, enabling them to leverage each other's strengths to navigate the evolving fintech landscape and deliver value to customers in Pakistan's dynamic financial market.

Regulatory Considerations

Enhancing financial inclusion in any nation requires favorable regulations. Though there are still gaps in the regulatory environment that impede fintech innovation and scalability, Pakistan's regulators are seen as progressive, particularly in light of recent encouraging developments.

The primary regulators involved in creating the business guidelines for the government-established national financial inclusion agenda are the SBP, SECP, PTA, and NADRA.

Since the DFS ecosystem in Pakistan is led by banks, the SBP serves as the main regulator of the ecosystem. The SBP has spearheaded numerous steps over the years to promote the nation's DFS environment, including licensing and regulations. The SBP has been facilitating DFS more and more lately. Two major examples of this are the waiver of IBFT fees and the introduction of the RAAST program.

The regulator of scheduled banks is SBP; the regulator of non-bank financial companies (NBFCs) and microfinance institutions (MFIs) is SECP. The SECP has established an innovation office and a digital Secured Transactions Registry (STR), implementing significant changes for fintechs. The STR allows financial institutions to record charges or security interests of unincorporated entities on their movable assets, enabling fintechs to act as middlemen and lend required amounts. Hence, STR offers regulatory cover for business models without a clear framework, attracting fintechs in P2P lending, robo-advisory, crowdfunding, digital insurance, and microsavings.

The Pakistan Telecom Association (PTA) has the opportunity to encourage mobile operators to collaborate with the banking sector to support financial inclusion initiatives. Two main initiatives are the provision of telecom channels for ubiquitous access to financial services and the provision of telecom data for credit performance evaluation. This could enable innovative product development and reach unbanked customers without prior records.

NADRA, the national identity registrar in Pakistan, has been registering citizens' biometric identities since 2000. Digital identity is the underlying denominator for access to financial services, and the robust digital identity infrastructure enables providers to identify and onboard customers that comply with AML/CFT laws and KYC standards. DFS providers argue that citizen data should be available at near free or low cost to enable increased adoption and usage. NADRA's limited data fields and English translation may need to be further reduced for Fintechs to onboard new customers for early product trials without incurring significant costs. Hence, regulatory clarity and collaboration between regulators, banks, and fintech firms are important for innovation while managing risks.

"Pakistan's regulators, including the SBP, SECP, PTA, and NADRA, have made significant strides in enhancing the regulatory environment for fintech innovation. Initiatives such as the RAAST program, digital Secured Transactions Registry (STR), and collaboration between regulators and industry players are transforming the DFS ecosystem, attracting fintech firms and driving financial inclusion"

Conclusion

Pakistan is expected to see a surge in Fintech experts due to increased entrepreneurship, successful startups, and wider investment. While financial literacy and inclusion levels are uncertain, the trend in smartphone adoption is encouraging. Recent initiatives by the SBP and SECP are transforming the DFS ecosystem in Pakistan, attracting Fintech's to provide innovative solutions. These fintech's are increasingly recognized by financial institutions, aiming to cater to the unbanked population. The revised targets of the NFIS could drive change and attract additional regulatory support.

Pakistan's Fintech ecosystem is poised for significant growth, with the RAAST program likely to create market opportunities. The COVID-19 pandemic has led to a significant shift in digital financial technology adoption, with mobile banking transactions and internet banking transactions increasing exponentially. Smartphone adoption has doubled in the last two years, reaching 81 million by the end of 2019 (49% of mobile connections). By 2025, smartphone adoption among consumers is expected to shift to 70%, creating a market opportunity for fintech's.

Conducive regulation is crucial for financial inclusion, and Pakistan's progressive regulators have made progress, but gaps persist in the regulatory environment, hindering fintech innovation and scale. Fintech startups and traditional banks can benefit from collaborations with the SBP. This will allow traditional banks to access cutting-edge technology and innovative solutions, while fintech startups benefit from the established infrastructure and regulatory expertise of traditional banks. White-label solutions can be used to develop digital products or services, while strategic partnerships can help traditional banks expand their reach and tap into new customer segments. This collaboration presents a win-win opportunity for both fintech startups and traditional banks in Pakistan's dynamic financial market. Hence, collaboration of fintech's with traditional banks is important to remain competitive in the evolving financial landscape of Pakistan.

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Decrypting Fintech's Cybersecurity Paradox: Balancing Accessibility with Vigilance

Mr. Muhammad Hunain, FCA

In the ever-evolving landscape of the financial services sector, the convergence of finance and technology, popularly known as FinTech, has ushered in an era of unparalleled accessibility, convenience, and efficiency. The infusion of advanced technologies into financial operations has been revolutionary, empowering consumers and businesses alike. However, as with any rapid advancement, the reliance on technology has exposed FinTech to a myriad of cybersecurity challenges.

Data Breaches: A Severe Threat to Financial Systems

Data breaches have become an ever-looming threat to the sanctity of financial systems. Notable breaches in recent years, targeting major financial institutions, have underscored the vulnerability of financial data to nefarious actors. Given the sensitivity of financial data, robust encryption methodologies such as end-to-end encryption and tokenization are critical in ensuring its security. Complementing these measures, the enforcement of stringent access controls, continuous monitoring, and regular security audits can help identify and mitigate vulnerabilities, substantially reducing the risk of data breaches.

Phishing Attacks: The Pernicious Threat in the FinTech Sector

Phishing attacks have continued to be a persistent threat within the FinTech sector, with cybercriminals leveraging sophisticated techniques to deceive individuals into revealing sensitive information. Tactics such as email spoofing, the distribution of malicious attachments, and the creation of fake websites are often employed. It is imperative to educate users about the identification of phishing attempts and promote vigilance. Technologies like multi-factor authentication and robust email filtering systems serve as effective countermeasures against these attacks, reducing their efficacy.

Insider Threats: A Risk from Within the Organization

Insider threats pose a unique challenge to the security of FinTech organizations, as they stem from individuals within the institution who misuse or exploit their access to sensitive data. These threats can be either deliberate, involving malicious actions for personal gain, or inadvertent, arising from negligence. Establishing stringent access controls and implementing continuous monitoring of employee activities are essential in identifying potential insider threats. Regular cybersecurity training for employees fosters a culture of security awareness, decreasing the likelihood of insider incidents.

DDoS Attacks: A Threat to Service Availability

Distributed Denial of Service (DDoS) attacks are a significant risk to the availability of FinTech services, as they overwhelm systems with an excessive amount of traffic, resulting in service disruptions. These attacks target the availability of services, leading to financial losses and reputational damage. Investing in robust network infrastructure and implementing real-time traffic monitoring systems are critical in promptly detecting and mitigating DDoS attacks. Furthermore, having a well-defined incident response plan enables FinTech firms to promptly respond to and recover from such attacks, minimizing their impact.

Regulatory Compliance: Navigating the Complex Landscape

The FinTech industry operates within a complex regulatory environment, necessitating strict adherence to various regional and industry-specific compliance standards. Failure to comply with these standards can result in severe financial penalties and reputational damage. Employing adaptive security strategies that evolve with regulatory changes is vital in ensuring ongoing compliance. Collaborating with legal experts to accurately interpret and implement regulatory requirements is crucial for navigating this intricate landscape.

Conclusion

The evolution of FinTech has undoubtedly enhanced the accessibility and efficiency of financial services. However, this progress also demands an unwavering commitment to safeguarding sensitive financial data from the ever-evolving realm of cyber threats. A multi-layered approach, coupled with continuous education, collaboration, and adaptability to emerging threats, is essential for fortifying cybersecurity in the FinTech sector. By prioritizing these measures, FinTech companies can bolster the security of their systems and users, instilling trust and confidence in the digital financial landscape.

"Operating within a complex regulatory environment, FinTech companies must ensure strict adherence to regional and industry-specific compliance standards to avoid severe financial penalties and reputational damage. Collaboration with legal experts and adaptive security strategies are essential for navigating this intricate landscape"

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Fintech Revolution: Transforming Financial Services for All

Mr. Syed Imtiaz Abbas Hussain, FCA

"Technological progress and innovation have propelled the Fintech sector from the fringes to the forefront of financial services"

"Three themes will shape the next chapter of Fintech growth. Fintech will continue to benefit from the radical transformation of the banking and other financial service industry, rapid digital adoption, and e-commerce growth around the world."

The rise of Fintech is driven by convenience, speed, security, and negligible cost. Fintech has been challenging traditional banks and other financial services, which are known for their bureaucratic and cumbersome procedures. Take my example. Recently, I wanted to withdraw cash from a One-Link ATM of ABC bank (another bank), which was in my residential apartment's project, from my Bank Account No. 2 of XYZ Bank (my bank). However, the ATM denied the transaction as it operates only with prime Account No. 1. Then, I transferred funds from Account No. 2 to my Account No. 1 of XYZ Bank through my mobile phone and proceeded to withdraw cash from the One-Link ATM of ABC bank. These complex and scattered transactions were made possible only by Fintech (Financial Technology), from which I get the following benefits as compared to traditional banking:

- No need to drive a car and use fuel, saving time, money, and energy.
- No need to visit bank branches with bank cheque books, etc.
- No need to prepare and sign cheques, fearing their dishonor for any reason.
- No need to stand in bank queues to cash a cheque.
- No need to provide a copy of my CNIC (Identity Card) to the bank.
- No fear of security risks around bank branches.

Due to the unbelievable and immense benefits of Fintech, which is now on everyone's mobile phone, the majority of people never visit any branch of their banks, general insurance and life assurance or takaful companies, and even business malls and centers for years. Why don't they visit? Because they have put the power of Fintech to work for them:

- Digital transformation and technology advancements are crucial for the emergence of Fintech companies. These developments enable new business models and organizational forms to disrupt several industries, from travel and entertainment to financial services. The rapid rise in digital technologies has enabled Fintech companies to deliver financial services faster and more cost-efficiently. Individuals can now use digital wallets to pay bills, purchase physical items or digital content, send money to relatives or friends, pay for parking or taxis, and make donations, etc.
- Nowadays, consumers are shifting their purchases to online stores, and digital touchpoints have become essential in the customer journey, affecting both online and offline sales. In addition, the Fintech era has brought 24/7 access to financial services instead of being limited to banking or other financial service hours.

- Fintech companies can unbundle financial service offerings through innovative technologies because they are less affected by regulatory constraints and are willing to take on more risk than regulated banks.

- The global Fintech market is driven by customers' growing need for e-commerce and mobile banking platforms that offer a more user-friendly environment for conducting financial transactions.

- If you need a short-term loan or a payday loan, then with Fintech, it gets easier. You can simply discover many lenders online and get access to quick service. Traditional Banks may not have the same advantage and it would take months for them to get it done speedily. Fintech is a smart, efficient, convenient, and speedy way, and that's why it is preferred by most businesses.

Fintech trends are all about putting consumers first. The real driving force behind all of the industry-defining Fintech trends is consumers. Fintech has grown to where it is today because of its focus on serving consumers in ways that they had never been served before. For the phenomenal jump in Fintech usage, credit also goes to the COVID-19 pandemic which has removed all doubts on the operation of Fintech and also given confidence in its use to the public globally.

Technological progress and innovation have propelled the Fintech sector from the fringes to the forefront of financial services. And the growth has been fast and furious, buoyed by the robust growth of the banking and other financial services sectors, rapid digitization, changing customer preferences, and increasing support of investors and regulators. Fintech has profoundly reshaped certain areas of financial services with its innovative, differentiated, and customer-centric value propositions,

"Fintech industry continues to face multiple challenging futures like repetitive security breaches, low transparency, high competition, legal regulations, and a poor user experience."

collaborative business models, and cross-skilled and agile teams.

The growth of Fintech has continued in recent years, with users reporting that Fintech apps are helping them and their economic challenges. As a result, Fintech users are downloading more apps to manage their money and guide financial decisions. This increasing reliance is shaping consumer banking and other financial services expectations—as more expect to be able to easily connect their bank or other financial service accounts to the Fintech apps they rely on every day. Today, the average Fintech user has 3 - 4 apps and expects to see the number of Fintech apps consumers use continue to rise.

As of July 2023, publicly traded Fintech represented a market capitalization of US $550 billion, a two-times increase versus 2019. In addition, as of the same period, there were more than 272 Fintech companies, with a combined valuation of US $936 billion, a sevenfold increase from 39 companies valued at US $1 billion or more five years ago.

Observations

Just like other industry verticals, Fintech is also progressing in leaps and bounds. New and most advanced technologies have taken over the finance world by improving the overall financial services. They are also invaluable for retail investors in managing the stock market, small businesses, financial systems, and the insurance industry.The growth of cashless payment systems and other advanced technologies like machine learning, blockchain, automation, bank lending, or consumer lending has digitally transformed many businesses. The growth of Fintech has a profound effect on many finance startups and enterprise-level businesses.

Looking ahead, the Fintech industry continues to face multiple challenging such as repetitive security breaches, low transparency, high competition, legal regulations, and a poor user experience. Fintech companies can mitigate these issues when the right tech expertise is applied. But on the other side, there are several opportunities for Fintech yet to be unlocked. Revenues in the banking-based-Fintech industry are expected to grow almost three times faster than those in the traditional banking sector between 2023 and 2028.

Macro tailwinds are powering the growth of Fintech and the broader financial services ecosystem. Digital adoption is no longer a question but a reality as around 73 percent of the world's interactions with banks now take place through digital channels.

The demand and need for Fintech products are higher across developing economies. In 2022, for example, Africa had almost 800 million mobile accounts, almost half of the whole world's total.

The shutdown of the popular budgeting app Mint opened a large gap in the market, which is likely to drive other Fintech apps to innovate to capture that market. This may include newer apps or a shift from personal financial management apps to personal financial enablement (PFE) apps, which offer a wider range of services such as Robo-advising for investments, online mortgage lending, and other financial services.

Many consumers are thinking that AI (Artificial Intelligence) will revolutionize the Fintech industry in the next five years. Consumers are looking forward to AI helping them cut bill spending, negotiate lower rates, and provide budgeting advice. Fintech companies look for ways to leverage AI to provide faster service and expand their offerings.

Three themes will shape the next chapter of Fintech growth. Firstly, Fintech will continue to benefit from the radical transformation of the banking and other financial service industry, rapid digital adoption, and e-commerce growth around the world, particularly in developing economies. Secondly, despite short-term pressures, Fintech still has room to achieve further growth in an expanding financial services ecosystem. And finally, not all Fintech are being hit equally hard during the market correction: Fintech in certain verticals and at particular stages of growth are more resilient than their peers.

Fintech has entered a new era of value creation. The last era was all about companies being experimental—taking risks and pursuing growth at all costs.

Fintech will need to keep up with fast-evolving regulations and ensure they have adequate resources and capacity to comply.

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Redefining Finance: The Unstoppable Rise of Fintech

Mr. Adnan Mehmood Khan, ACA

Brief Overview of Fintech

Fintech, an acronym for "financial technology," signifies the convergence of contemporary technology and financial services with the objective of automating and augmenting the provision and utilization of financial services. Its utilization spans a wide array of applications, including but not limited to peer-to-peer lending, cryptocurrencies, and online investment platforms. Fintech transcends mere currency digitization; rather, it entails the integration of cutting-edge technologies to enhance the accessibility, velocity, and cost-effectiveness of financial services. In doing so, it democratizes the way in which individuals and businesses engage with financial systems and empowers them.

Significance of Fintech in the Modern Era

In the contemporary world, Fintech's importance cannot be exaggerated. The financial sector has been significantly transformed through the implementation of groundbreaking

> **"Significant technological advancements, including blockchain, mobile computing, artificial intelligence (AI), and big data analytics, have contributed significantly to the rise of Fintech."**

solutions that provide enhanced levels of convenience, efficiency, and security in contrast to conventional financial models. The exponential growth of Fintech implementation is indicative of a pervasive digital transformation that is affecting all industries. The operational procedures, customer service approaches, and competitive strategies of financial institutions are all being significantly impacted by this paradigm shift in a globalized economy. The influence of Fintech transcends transactions and affects regulatory frameworks, financial policies, and the global economic environment.

I. The Emergence of Fintech

Historical Background and Early Stages

The origins of Fintech can be identified in the nascent stages of financial transactions; nevertheless, it experienced substantial growth subsequent to the 2008 global financial crisis. During this specific era, there was a significant shift in public sentiment toward conventional banking establishments, and there was an increasing need for financial services that were more open, intuitive, and easily accessible. Initial advancements in Fintech were centered around money transfers, payments, and the rudiments of online banking; these developments laid the foundation for the subsequent Fintech revolution.

Technological Advancements Facilitating Fintech's Rise

Significant technological advancements, including blockchain, mobile computing, artificial intelligence (AI), and big data analytics, have contributed significantly to the rise of Fintech. Blockchain technology, for example, has enabled personalized financial services and risk management, whereas AI and big data have provided a secure and transparent framework for transactions. The integration of these technologies has facilitated the development of an ecosystem for financial services that is characterized by enhanced efficiency, inclusivity, and accessibility.

II. Key Drivers Behind Fintech's Popularity

Consumer Demand for Easy and Accessible Financial Services

In the digital age, there is a culture that prioritizes speed and convenience, these are two elements that Fintech addresses directly. Modern consumers demand that financial services be as streamlined and instantaneous as digital communication; this is driving the financial industry toward more user-centric solutions.

Technological Innovations

Developments in technology are fundamental to the evolution of Fintech. Blockchain technology ensures secure and transparent transactions, AI and machine learning enable more intelligent, individualized financial advice, and data analytics enables more precise risk assessments. In the financial sector, technologies such as blockchain, AI, and data analytics are not only improving existing services but also generating new opportunities.

Regulatory Changes Supporting Fintech Growth

The regulatory environment has undergone continuous changes in response to technological progress, thereby promoting the expansion of Fintech while safeguarding the interests of consumers and maintaining the integrity of the financial system. Open banking, which requires financial institutions to disclose information to third-party service providers, and the implementation of specialized licenses for Fintech companies have fostered an atmosphere that is more favorable to competition and innovation.

III. Major Fintech Innovations

Digital Payments and Mobile Banking

These developments have revolutionized the way individuals handle their finances, permitting instantaneous transactions, online account administration, and comprehensive financial services accessible via mobile devices. In addition to enhancing efficiency, this development has facilitated financial inclusion by granting access to banking services to populations that were previously underserved.

Peer-to-Peer Lending and Crowdfunding Platforms

These platforms have created novel funding channels by connecting borrowers with lenders or investors directly, thereby circumventing the need for conventional financial intermediaries. Particularly benefiting are individuals and small enterprises that may not have met the eligibility requirements for conventional loans.

Cryptocurrency and Blockchain Technology

A paradigm shift has occurred regarding financial transactions as a result of cryptocurrencies and blockchain technology, which prioritize decentralization, security, and transparency. This innovation presents a challenge to conventional banking models and provides global financial systems with fresh opportunities.

Robo-Advisors and Automated Investment Services

These services have significantly reduced the cost of engaging traditional financial advisors while providing algorithm-driven recommendations and portfolio management, thereby democratizing access to investment advice and wealth management. Investing has become more accessible to the general public, not just the wealthy, as a result of this innovation.

IV. Impact on Traditional Banking and Financial Services

Competition and Collaboration with Traditional Banks

The introduction of competition by Fintech firms has stimulated innovation in the conventional banking industry. Numerous well-established banks have opted to engage in partnerships with Fintech firms as a reaction, incorporating their groundbreaking solutions into their own products and services in an effort to surpass consumer expectations.

Disruption of Conventional Financial Paradigms

Traditional financial models have been challenged and disrupted by Fintech, compelling established institutions to reconsider their services and operations. This paradigm shift encompasses not only technological advancements but also fundamental reassessments of consumer interactions, revenue streams, and the nature of financial transactions themselves.

Enhanced Accessibility and Efficiency in Financial Services

Accessibility to financial services has been vastly enhanced by Fintech, especially for underserved communities across the globe. Moreover, through the optimization of processes, Fintech has achieved cost reductions and enhanced customer experiences, thereby establishing novel benchmarks for convenience and effectiveness within the financial industry.

V. Challenges and Regulatory Considerations

Security and Privacy Concerns

The transition to digital financial services gives rise to substantial apprehensions regarding the protection of data and privacy. Securing confidential financial data presents a technical and regulatory challenge that necessitates the implementation of advanced cybersecurity protocols by Fintech firms.

Regulatory Challenges and Compliance Issues

For Fintech companies, navigating the complex landscape of financial regulation is a formidable obstacle. They are required to strike a balance between the imperative for innovation and adherence to regulations aimed at safeguarding consumers and preserving the integrity of the financial system.

Balancing Innovation with Risk Management

Despite the fact that innovation is vital to the development of Fintech, it must be pursued responsibly. Maintaining an intricate equilibrium between advancement and stability, Fintech companies must guarantee that their innovations do not introduce systemic risks to the financial sector.

VI. The Future of Fintech

Predictions for Continued Evolution and Innovation

Fintech is anticipated to continue expanding and innovating, as emerging technologies such as artificial intelligence, blockchain, and quantum computation are positioned to propel further progress. These technologies are likely to facilitate the introduction of novel financial products, enhance security measures, and increase the level of personalization in financial services.

Emerging Technologies and Their Potential Impact

Fintech is poised for a paradigm shift due to the revolutionary potential of advanced biometrics and quantum computation, which present unparalleled prospects for security, efficiency, and customization. With their continued development, these technologies will almost certainly have a profound impact on the trajectory of financial services.

The Role of Fintech in Shaping Future Financial Ecosystems
Potentially resulting in more inclusive and effective financial systems, Fintech is anticipated to play a pivotal role in the evolution of global financial ecosystems. Its pivotal function in influencing the future of finance will be to advance financial inclusion, bolster security, and encourage innovation.

VII. Conclusion

Recap of the Transformative Role of Fintech

With the advent of Fintech, the financial services industry has been radically transformed, and a new era of efficiency, innovation, and accessibility has begun. The influence of this phenomenon transcends mundane financial transactions, as it affects economic models, regulatory policies, and global financial stability.

The Ongoing and Future Significance of Fintech in Global Finance

With its ongoing development, Fintech will persist in being a leader in financial innovation, exerting a critical influence on the trajectory of the worldwide financial ecosystem. The enduring influence and critical significance of this entity in the realm of finance are underscored by its contributions to economic growth, consumer experience, and financial inclusion.

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The Rise of Fintech: A Deep Dive into the Fintech Revolution

Mr. Usman Nasir Khan, ACA

The rise of financial technology (fintech) marks a significant transformation in the provision of financial services globally. Fintech, characterized by its reliance on automation, data analytics, and digital platforms, challenges traditional banking and financial practices with its disruptive potential, customer-driven perspective, and agility. This dynamic ecosystem encompasses a wide array of innovations, ranging from mobile payments to blockchain technology, fundamentally altering how organizations and individuals manage their finances.

In recent years, the fintech industry has experienced exponential growth, fundamentally reshaping the traditional landscape of financial services. With its ability to leverage technology to streamline processes, reduce costs, and enhance customer experiences, fintech has emerged as a potent force driving innovation across the financial sector. From mobile banking applications to peer-to-peer lending platforms, fintech innovations have democratized access to financial services, empowering individuals and businesses to transact and manage their finances more efficiently.

Pakistan, like many other countries, has witnessed a surge in digital mobile solutions, facilitating global connectivity and access to services. With over 145 million NADRA verified cell phone connections and more than 48 million individuals having access to 3G/4G/LTE connectivity, the country has experienced a remarkable increase in cellular density, which stood at 71.4% in recent years, up from 54.6% in 2008. This proliferation of mobile connectivity has laid a solid foundation for the expansion of digital financial services in Pakistan.

Recognizing the transformative potential of digital technologies in the financial sector, the State Bank of Pakistan (SBP) introduced different laws. The Digital Financial Services (DFS) in Pakistan are extended by Financial Institutions licensed under the following laws:

- SBP Act 1956
- Banking Companies Ordinance 1962
- PS&EFT Act 2007
- Rules for Payment System Operator/Payment Services Provider (PSO&PSP) 2014
- Rules for Electronic Money Institutions (EMIs) 2019
- Licensing and Regulatory Framework for Digital Banks Jan 2022

The following are the main players in Digital Financial Services:

- Banks: 44 banks with 16,121 branches provide a full range of financial services to Pakistanis.
- PSOs/PSPs (Payment System Operators/Payment Services Providers): Governed by the Rules for PSO&PSP 2014, they manage electronic platforms for electronic transactions and can collaborate with various entities for service provision.
- EMIs (Electronic Money Institutions): Introduced in 2019 by the State Bank of Pakistan to promote digital payments and financial inclusion. Offer user-friendly digital payment instruments like wallets and prepaid cards. EMIs undergo a three-stage licensing process.
- Government Entities: Key players in extending Digital Financial Services, enabling processes like dividend payments and salary disbursements through platforms like RaastPay.

Despite the rapid growth of digital financial services in Pakistan, significant challenges persist. Access to formal financial services remains limited, with only 23% of adults having access and a mere 16% owning a bank account, according to the Access to Finance Survey (A2FS) 2015. Limited interoperability between BB players, lack of open APIs at financial institutions, high transaction costs, and reluctance to collaborate with startups and fintech's have hindered the growth of the digital financial ecosystem in the country.

Customer awareness also presents a significant challenge for the successful uptake of digital financial services in Pakistan. Low smartphone penetration and reliance on basic phones among low-income customers further compound these challenges. Many BB accounts remain inactive, indicating insufficient demand for existing DFS solutions. Addressing these challenges requires the development of innovative, demand-driven products that can effectively cater to the diverse financial needs of Pakistan's population.

Despite these challenges, the potential for digital finance in Pakistan is immense. The market for digital financial services is projected to exceed US$ 36 billion by 2025, promising to boost GDP by 7% and create 4 million new jobs. Innovative solutions by fintech's, leveraging existing regulations and market dynamics, have the potential to propel Pakistan into the next generation of digital financial services, fostering financial inclusion and economic growth.

The State Bank of Pakistan (SBP) has introduced a licensing and regulatory framework specifically for digital banks, defining them as institutions offering financial services primarily through digital or electronic channels, without physical branches. The objectives of this initiative include promoting financial inclusion, providing credit access to underserved populations, offering cost-effective digital financial services, encouraging financial technology innovation, enhancing customer experiences, and advancing the digital ecosystem.

Under this framework, SBP may grant two types of digital bank licenses: Digital Retail Bank (DRB) and Digital Full Bank (DFB). DRBs focus on retail customers, while DFBs can serve retail, business, and corporate entities. DRBs require a minimum capital of PKR 1.5 billion during the pilot phase, increasing to PKR 4 billion over three years.

Following this phase, DRBs may become eligible for a DFB license, contingent upon meeting prescribed capital thresholds and fulfilling a two-year developmental period. In January 2023, the State Bank of Pakistan (SBP) issued no-objection certificates to five applicants for the establishment of digital banks. Subsequently, upon satisfying the requisite criteria, these entities have received preliminary approval to prepare for the operational launch of digital financial services. The five digital retail banks include HugoBank Limited, KT Bank Pakistan Limited, Mashreq Bank Pakistan Limited, Raqqami Islamic Digital Bank Limited, and Telenor Microfinance Bank Limited.

While primarily designed for new digital banks, traditional banks and Micro Finance Banks (MFBs) with viable business cases and satisfactory Digital Financial Services (DFS) experience may seek SBP approval to convert their institutions into digital banks.

In conclusion, the rise of fintech presents both challenges and opportunities for the financial sector in Pakistan. By leveraging technology and innovation, the country has the potential to revolutionize its financial services industry, fostering greater financial inclusion and economic prosperity for its citizens.

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Beyond Limits: The Unprecedented Surge of Fintech

Mr. Khizar Hayat, FCA

Surge Spain

For impulsive and synchronized outputs, manual and semi-manual processes in public, commercial, and trade domains have been rapidly replaced with ultra-high-tech digital, cellular, and wavelength silicone chips, along with smart software conversions.

Geographical Proximity

The emerging trend of digitalization has led to the dominance of globalization, facilitating sophisticated monetary settlements and enriching digital capital means. Total conversion from traditional variants would depend on widespread adoption across all regions, with minimal technological disparities among the masses and proper contractual safeguards.

Dimensional gaps would be addressed primarily through international cooperation, ensuring more equitable usage of technology across fewer handsets/nations, particularly in sectors facing scarcity:

- Commodities trades/portals.
- Development/Interconnection of International Consumers Free Trades Boxes.
- Trades Exchanges.
- Digital Capital International Platforms.
- International Donors or Funding Exchanges.
- Institutional Fintech Sourcing's.

Ease of Access

The essence of robust evolution has been realized through the integration of cellular respirations with sophisticated fiber optics infrastructure. This has led to a reshaping of borrowing, lending, and investing options, resulting in manifold capital formations and acrimonious growth prospects.

Investors' networks would be further expanded through mushrooming structures, with geographic regulators and operators participating actively.

Market Convergence

Duplexes in data management have transformed capital and monetary markets into spontaneous, soft arenas of margin booms or leans within established fintech frameworks. Prospective end users have revitalized access to these platforms through intracellular formations, subject to gradual upgradation of fintech infrastructure.
Rapid expansion in technological addons is leading to:

S - Services Executions Surpasses.

W - Windows of Flexibility to Flairs.

A - Arming's Supports.

P - Plunging with Knowledge Domains.

Novelty

Information strata's are subject to various disruptions caused by users, both authorized and unauthorized, including occasional intruders and internal or external system linkages. The novelty of Fintech lies in its probabilistic outcomes in terms of:

- Inputs.
- Processes.
- Rules of Operations.
- Logics for efficacious Health.
- Outputs.
- Variables.
- Softrich.
- Supports

Standardized Protocols

Baseline Operating Codes and Cross-Functional Regulations are specific to respective domains. Adaptation to standardization is a crucial step for global financial acceptability and suitability in promoting equality.

Notional Metrics

Fintech has revolutionized instantaneous execution, processing, and settlement, revitalizing traditional mechanics and information systems with digital strategies. Notional value metrics in developing countries, compared to developed ones, need to be carefully gauged for:

- Disparities in money markets
- Equilibrium in equity dealings
- Regional Capital arrangements
- Digital Commodities Trades
- Artificial Notional deflation

Secondary Confidence

From market leaders to state regulators, there has been cautious acceptance of evolving trades/business management fintech systems. Numerology in various versions would need to be reinforced to ensure:

- Uniformity/Coherence in global financial reach
- Transition of international domains to regional quality kiosks/chains
- Establishment of technical global forums for secure fintech operations

Soft Roles

The recent upsurge in fintech adoption has led to significant human capital intake and knowledge enrichment. Total convergence has paved the way for:

- Quality Fintech Product Alternative
- Sized Efficiencies in processes/products
- Alternatives/Options in Systems (Infosys, Techsys/E-Commerce)
- Refinement in Assurances
- Public Domain enhancements

Stretches

Adaptability & Prospects

With a presumption of leadership, the nascent industry in an expanding ecosystem would scale up, leading to substantial advancements. By 2022, fintech's accounted for 5 percent (or $150 billion to $205 billion) of the global banking sector's net revenue, and this share could increase to more than $400 billion by 2028.

Fintech dominance has expanded into:

I - Infosyst rapid innovative alternatives.
N - Nucs & Aeronautics Realms.
F - Fundamental out busters in financial handlings & settlements.
L - Logistics Tracks & Scheduling.
A - Artificial/Algorithmic supports.
T - TQM Modelings.
I - Internet of Things.
O - Orbits Traffic Modulings.
N - National Public Infrastructural Accretions & rehabilitations.

Sage Capital is yet to be fully catered to by novel Fintechs to integrate into the system:

- Extra liquid resources
- Parallel arrangements of flows
- Bankruptcy withdrawal & management
- Parallel Planning

The origin of fintech is traced back to the early 1990s, with startups such as the Financial Services Technology Consortium initiated by Citigroup. The main factors behind the rise and growth of fintech are advancements in digital technologies, including hardware, software, and the convergence of information and communication technologies. The first fintech service in Pakistan was introduced in 2009 by the telecom company Easypaisa, offering money transfer services. Later, it introduced a mobile app offering a wide range of financial services, making it Pakistan's first fintech platform.

Pakistan Single Window is a transformative initiative aiming to digitize Pakistan's cross-border trade. It simplifies trade procedures and motivates businesses by streamlining their current development to support them in becoming part of the global supply chain.

Meezan Bank has signed a Memorandum of Understanding with Total PARCO Pakistan Limited (TPPL) to provide fuel cards with a Radio Frequency Identification (RFID) system to the bank's employees.

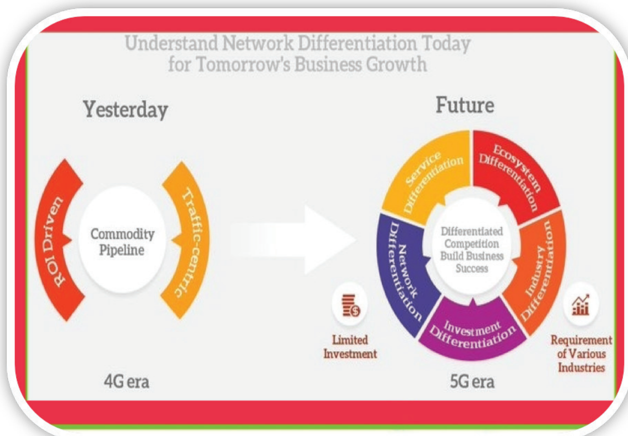
Ethiopia has emulated a giant dam on the Nile River bank, cited to serve 10 countries' resource squadroning. Through fintech technology, it aims to gain an edge over others in advance. Neuralink brain chip implants (US) have recently resulted in memory recovery.

The emulsification driven by Fintechs is much greater than conventional manual tethering processes. Emerging AI tools in New Zealand are boosting workflow productivity, categorized into various applications.

Punjab Safe City, a groundbreaking initiative of PITB and Provincial enforcement, aims to revolutionize law enforcement by leveraging Artificial Intelligence (AI) for facial and vehicle number plate recognition.

TECH4ALL is protecting China's Yellow River Delta and the iconic Oriental stork with AI and cloud technology, capturing videos and images and identifying various species. Wealth Pi Fund, with a remarkable track record of over 4.6B+ AUD (~3B+ USD) transaction experience in enterprise careers, has funded 118 projects without a single dollar of principal and return defaulted since its establishment in 2017.

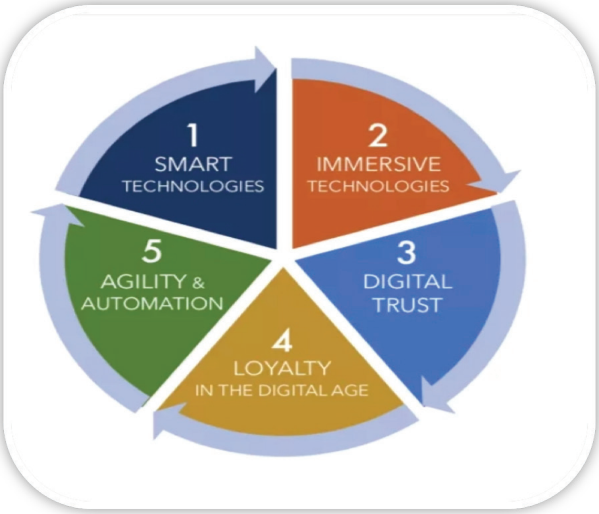
Now, the referred enterprise sets its sights on bringing the power of blockchain to the traditional fund industry and plans to launch a company aiming to raise 100M-200M USD in 2 years through Joltify chain, enhancing stable coin yield through premium funds backed by AUSTRALIAN REAL-ESTATE MORTGAGE.



Business Success is built around newer conception of " Business Processes Differenciations".Arena of 5 G enablers had led into optimal strategic congerences of:

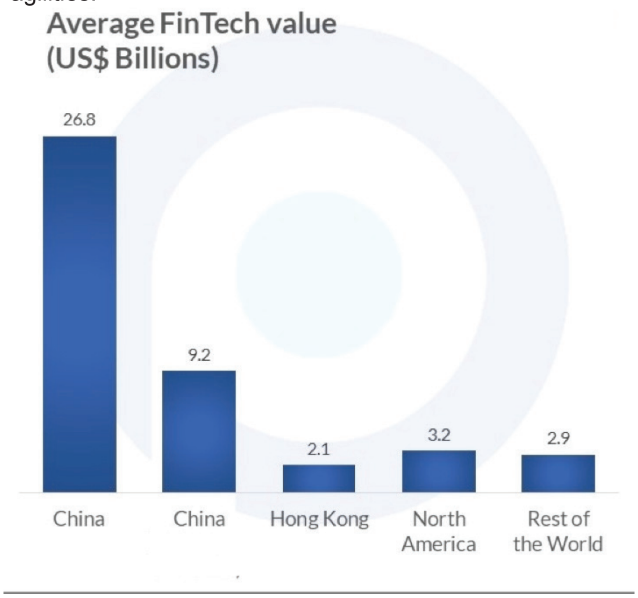
- Investment Differenciations.
- Industry Differenciations.
- Network Differenciations.
- Service Differenciations.
- Ecosystems Differenciations.

4 G (Commodity Pipeline) era being based on simpler traffic managent had been converged into 5 G Netwrork Differenciations culminating into probable business growth.



Fintech gadgets infusions may be superbly of greatest value creation keeping in view related-Tech- metrics:-

- Relative smarter technologies with cost resonances in bound.
- Immersive technological innovations leading to desktops facilitions.
- Robust wavelength spectral movements with recurring security.
- Fintechs branding is among the most superlatives .
- Futurestics implifications with regard to automation & agilities.



Just to glimpse up, the Territorial Segmentations of Fintechs value recently (on average basis) had been depicted into :-

- China ($ 26.8+9.2 Billion).
- HongKong ($ 2.1 Billion).
- North America ($ 3.2 Billion).
- Rest of World ($ 2.9 Billion).

Recent trendings of Global Fintechs Ecosystems had been mainly diversified into :-

- Capital Markets & Tradings.
- Enterprise Solutions.
- Banking & Payments.
- Lensing.
- Wealth & Investment management.
- Risk, Compliance & Regtech.
- Innovation Services.
- Services.
- Bloackchain.
- AI, Big Data & Machine Learning.

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FINTECH PHENOMENON: FROM EMERGENCE TO DOMINANCE

Mr. Muhammad Javed, ACA

Fintech is the use of technology to improve and innovate financial services. The fintech industry is becoming like an information technology sea, where different technologies are being explored to benefit individuals and businesses. Advancements in the development of hardware, software, and the convergence of information and communication technologies are the main reasons for the emergence of fintech companies. These developments enable new business models and organizational forms to emerge and disrupt several industries. Digital technologies like 5G, the Internet of Things, blockchain, artificial intelligence, big data, and substantial developments in data storage and management are opening new possibilities for fintech companies.

Through the use of digital wallets, mobile banking, and financial applications, people can pay their utility bills, make online purchases, send money to relatives or friends, pay for parking or taxis, and make donations with just one click. Fintech companies are now providing fast, cost-effective, and convenient services to customers. Forces driving fintech growth include money transfer, digital payment, funding platforms, alternate lending, financial software, and automation. Companies are coupling their core financial capabilities with open finance systems, allowing customers to securely share their financial data with third-party providers, thus driving fintech to the next level. Open finance has the ability to provide better access to financial services for the unbanked and underbanked populations globally.

The rise of fintech means the rise of technological access for customers and businesses. It provides access to know-how, tools, and capabilities via trusted and secure approaches. Technology is leveling the playing field by making financial capabilities more accessible, convenient, and secure for everyone worldwide.

The fintech industry is moving from hypergrowth to sustainable growth. Despite facing challenges, there are still opportunities yet to be unlocked. Investors are adapting to a new financial paradigm with higher interest rates and inflation, which has altered their assessment of risk and reward. After a period of hypergrowth, fintech is entering the era of creating value.

Research shows that revenue in the fintech industry is growing three times more than in traditional banking from 2023 to 2028. The annual growth rate is 15 percent compared to 6 percent in traditional banking. The use of digital wallets is projected to reach 4.4 billion by 2025, compared with 2.3 billion in 2020. This growth is driven by providing convenience and security features under fintech.

The radical transformation of the banking industry, increased digital adoption, and ecommerce growth are shaping the future of fintech. A three-step model for fintech growth includes building a strong core, expanding into adjacent industries that touch upon other industries, and expanding into different geographies.

The rise of fintech in Pakistan is facilitated by Payment System Operators/Payment Services Providers (PSO/PSPs), which are electronic platforms for clearing, processing, routing, and switching electronic transactions. As the State Bank of Pakistan (SBP) announces PSP licensing regimes for Electronic Money Institutions (EMIs) in Pakistan, this provides regulatory cover for fintech platforms to provide payment services to individuals.

In Pakistan, fintech is growing due to high bandwidth 3G/4G and mobile penetration, opening a new era of financial services. The focus is on mobile banking, digital payments, and lending to underserved populations in Pakistan. It is projected that fintech will reach 36 billion dollars and create 4 million jobs in Pakistan by 2025.

Key opportunities for the rise of fintech in financial services in Pakistan include:

1. Payments	Supply chain payments	B2B payment between different participant enable transaction domestically and internationally.
	Contextual payments	Use contracting term and payment milestone by user to develop pattern and predict cash flow
	Request to Pay (Direct debits)	Enable merchant to setup recurring authorization to debit customer accounts on agreed term.
	Over the counter (OTC)	To collect payment in cash at partner counter like retail payments TCS walk in customer for cash payment
	International remittances	Through digital means mobile wallets
	Tax payments:	Enabling infrastructure for digital collection of taxes
	Account pooling	Financial arrangement where fund from multiple individual or entities are consolidated into a single account.
	Merchant payments (e-commerce payment method aggregation):	Merchant payments aggregation offer a ubiquitous payment experience to customers irrespective of the bank holding the funds
2. Saving & investment	Crowdfunding	Crowdfunding is a way of raising money to finance project and business
	Access to mutual fund and stock exchange	Using fintech as access to mutual fund and stock exchange.
	ROCAs saving and credit rotating association	ROCAs saving and credit rotating association: a group of individuals who agree to meet for a defined period of time in order to save and borrow together
3. Infrastructure	Data aggregation	By using NADRA data to develop products that serve them best.
	Escrow platform	Reducing trust dilemma by using third party escrow platform can serve to overcome trust barriers.
	Credit Scoring	Model to estimate default probability. It uses alternative data sources like tax payments, mobile payments, and subscriptions for unbanked individuals and MSMEs.
	Collateral registry	Fintech, through secure transaction registries, acts as a middleman to record security interests of entities and individuals on their movable assets and lend the required amount to entities.
	Warehouse receipt financing	Fintech as warehouse receipt financing for farmers.

The emergence of fintech is introducing increasingly innovative products and services within the global financial sector, while also expanding financial inclusion in developing nations. However, the proliferation of fintech solutions can present risks if their implementation undermines competition, erodes trust, disrupts monetary policy transmission, or threatens financial stability.

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EMBRACING CHANGE: THE RISE OF FINTECH AND THE FUTURE OF CHARTERED ACCOUNTANTS IN PAKISTAN

Mr. Muhammad Ejaz Qadir, FCA

In today's rapidly evolving digital landscape, the convergence of finance and technology, known as FinTech, is reshaping the way we manage and interact with money. From mobile banking apps to blockchain technology, FinTech innovations are revolutionizing financial services globally. However, amidst this wave of transformation, there lies a crucial concern: Are chartered accountants in Pakistan adequately prepared to navigate this new era of finance?

The Education Gap: One of the fundamental challenges facing Pakistan's education system is the lack of emphasis on technical knowledge, particularly in the field of IT and technology. From an early age, students are not exposed to programming languages or given the opportunity to develop digital skills. As a result, our education system primarily produces a labor class society ill-equipped to cope with the rapid advancements in technology. Without a solid foundation in technical education, individuals risk becoming irrelevant in a world increasingly driven by innovation and automation.

The ICAP Dilemma: Within the realm of professional education, the Institute of Chartered Accountants of Pakistan (ICAP) plays a pivotal role in shaping the future of accountants in the country. However, a notable concern arises: Why does ICAP primarily focus on producing accountants who lack familiarity with the latest technology? The curriculum predominantly revolves around memorizing International Financial Reporting Standards (IFRS) and legal regulations, overlooking the importance of technological proficiency.

The Relevance of Technology Skills: In light of the rising tide of artificial intelligence (AI) and automation, the traditional role of chartered accountants is undergoing a profound transformation. Memorization of accounting standards and regulations alone is no longer sufficient in today's digital age. There is an urgent need for ICAP students to acquire proficiency in programming languages like Python and develop a deeper understanding of technological tools relevant to the finance industry.

Preparing for the Future: As FinTech continues to disrupt traditional financial practices, the future of chartered accountants' hinges on their ability to adapt to this changing landscape. Manual tasks that once dominated the accounting profession are gradually being replaced by automated systems powered by AI and machine learning algorithms. Chartered accountants must embrace this paradigm shift and equip themselves with the necessary skills to thrive in a digitally-driven environment.

FinTech is not just a buzzword; it represents a fundamental shift in how financial services are delivered and consumed. From algorithmic trading to robo-advisors, FinTech innovations are streamlining processes, reducing costs, and enhancing efficiency across the board. Chartered accountants must position themselves at the forefront of this transformation, leveraging technology to drive innovation and add value to their clients' businesses.

FinTech represents a catalyst for innovation, offering unprecedented opportunities to reimagine traditional business models and processes. In Pakistan, where the entrepreneurial spirit is thriving, FinTech innovation holds the promise of unlocking new avenues for economic growth and prosperity. From digital payments and peer-to-peer lending to blockchain-based solutions, FinTech startups are revolutionizing various sectors, including banking, insurance, and e-commerce.

In a country where bureaucracy and inefficiencies have long plagued business operations, FinTech presents a beacon of hope for enhanced efficiency and transparency. Automated accounting systems, blockchain technology, and data analytics tools are streamlining processes, reducing costs, and mitigating the risks of fraud and corruption. By embracing FinTech solutions, businesses can optimize their operations, improve decision-making, and foster a culture of accountability and trust.

While the potential of FinTech is undeniable, its widespread adoption in Pakistan faces regulatory challenges and hurdles. The regulatory landscape must evolve in tandem with technological advancements to foster innovation while safeguarding consumer interests and maintaining financial stability. Regulatory sandboxes, collaboration between industry stakeholders and policymakers, and robust cybersecurity measures are essential elements in creating an enabling environment for FinTech growth.

To harness the full potential of FinTech in Pakistan's business environment, organizations must develop a comprehensive FinTech strategy tailored to their specific needs and objectives.

This strategy should encompass the following key elements:

- Conduct a thorough assessment of the organization's current technological capabilities and identify areas where FinTech solutions can drive value and innovation.
- Raise awareness among key stakeholders about the benefits and opportunities of FinTech adoption.
- Forge strategic partnerships with FinTech startups, technology vendors, and financial institutions to access cutting-edge solutions and expertise.
- Collaborate with industry peers and regulatory bodies to advocate for a conducive regulatory environment that supports FinTech innovation.
- Invest in talent development initiatives to equip employees with the necessary skills and knowledge to leverage FinTech tools effectively. Provide training programs and professional development opportunities focused on emerging technologies, data analytics, and cybersecurity.
- Prioritize the needs and preferences of customers in the design and implementation of FinTech solutions. Leverage customer feedback and data analytics to tailor products and services that address specific pain points and deliver enhanced value.
- Implement robust risk management frameworks to mitigate potential risks associated with FinTech adoption, including cybersecurity threats, regulatory compliance, and operational challenges. Foster a culture of risk awareness and proactive risk mitigation across the organization.

Conclusion: The rise of FinTech presents both challenges and opportunities for chartered accountants in Pakistan. As we stand on the cusp of a digital revolution, it is imperative that ICAP reevaluates its curriculum to prioritize the integration of technology education. By empowering future accountants with the necessary technical skills and knowledge, we can ensure that they remain relevant and competitive in an increasingly digital world. Let us embrace change, adapt to new technologies, and chart a course towards a brighter future for the accounting profession in Pakistan.

The writer is a Fellow Chartered Accountant, working as the Head of Finance, Ansaldo Energia Spa, UAE.

Vibrant Role of Fintech's in Today's Digital Ecosystem

Mr. Shakil Khawaja, ACMA

Today's world is evolving at a fast pace and we are living in a Startup Eco-system, with many new Startups coming up, specially a large number of Fintech Startups that are emerging as well. Currently the Generation Z is very well adept with online platforms and paper-less transactions which has created a wider audience to serve for Fintech Startups in our country. With new and much improved products coming day by day in our digital ecosystem. Startups can be defined as businesses that have the power to disrupt the industries and in the process change the way a work is done usually and also by

> **" Fintechs are revolutionizing the financial sector globally, providing innovative solutions and disrupting traditional payment systems. They enable efficient and affordable financial services, benefiting both consumers and the economy as a whole."**

"Despite lagging behind developed economies, Pakistan has significant opportunities in the fintech sector. Fintechs offer a pathway to document the economy, promote digital inclusion, and stimulate economic growth by leveraging advancements in startups and fintech innovations"

doing it all at a larger scale. These are usually young companies initiated usually by young, dynamic professionals who think outside the box and they develop a product or service that is unique or distinctive in nature then, introduce it into the market and make it tempting and irreplaceable for consumers/customers as the case may be.

Startups are different from other businesses because of the way they go about doing things compared to traditional businesses. They tend to differ from traditional businesses in terms of speed and growth, as startups often aim to develop ideas very rapidly.

In our country you may be familiar with Careem, Daraz, Bykea, Easy Paisa, Jazz Cash, Food Panda and many more are startups. On a broader level, startups can work like any other company. A bunch of employees working as a group to create a new product or service that customers can potentially buy or consume or experience. Startups are different from other business because of the way a it goes about doing that as compared to traditional businesses. In terms of speed and growth they tend to differ from traditional business as Startups often intend to build on ideas very rapidly.

The word Fintech is usually associated as being just "an app", which is totally wrong, In fact App is only one of the tools that are offered by Fintech companies for using their services. Fintechs consists of a lot of different activities such as:

i) Transferring money through smartphones
ii) Depositing a cheque
iii) Applying for a loan/credit by use of the online digital platforms
iv) In fact, the applicability of scope of FinTech's ranges from industries like retail banking, consumer, and commercial banking, education to non-profit organizations.

Financial Technology (Fintechs) are truly transforming the industry of financial services the world over. Fintechs are permitting the financial industry to serve general public in innovative ways allowing them to deliver efficient services at lower prices than the traditional payment solutions. In fact, the emergence of the Covid-19 pandemic has been a blessing in disguise for startups and fintechs. As a result of physical lockdowns in traditional business marketplaces, many traditional customers/consumers switched to online solutions, skipping traditional physical marketplaces. This, in a way, fast-forwarded the adoption of artificial intelligence by many years and encouraged the revolution of online marketplaces at a very fast pace never seen before the pandemic, resulting in a sizable increase in the volume of transactions in startups and fintechs.

Important new developments have materialized during the year of the pandemic on the demand and sides including fast paced digital adoption, shifting of behaviours of customers/consumers towards digital platforms, and gradual increase of regulatory focus on the Fintechs. These developments have not only continued to persist globally but have also spread further at an exponential rate of growth.These developments have not only continued to persist globally but have also spread further at an exponential rate of growth.

Fintechs are basically linking financial services and digital technology and as a result they provide solutions that are innovative to customers/consumers, in fact serving the unserved and underserved sectors of the populations by improving customer shopping experiences and making innovative products and/or services for seamless access to financial services. In a startup or an application doesn't provide the financial services it can be termed as a fintech. Among several other areas one of the prominent area in startup eco system are payments along with opportunities in infrastructure, investments and insurance services.

Presently, there are many fintechs having the potential of disrupting the economy of Pakistan specially its payments eco system. Many players have been in this ecosystem in Pakistan including but not limited to Jazz Cash, Easy Paisa, Alpha, Ubank, Sadapay, Nayapay (encouraging cash less transaction at the convenience of doorstep of end users), Hysab Kytab, Dastak, Muawin (providing working capital facility to micro entrepreneurs), payit.pk, and Bookme.pk (online ticket booking app initially created for booking of inter-city bus tickets, but currently caters the wider audience including but not limited to train, air, cinema and cricket match tickets).

The payments segment in our country consists of well-placed players including EasyPaisa and JazzCash who took advantage of being first mover in the Fintech industry, leading facilitators of digital transaction accounts (DTA) by individuals and businesses.

Below, are examples of specific areas within the Fintech payment solution:

B2B Payments / Payment within Supply chain: Business to Business (B2B) payments, between different value chains partners, are of significant importance that power domestic and international trade. A local Fintech (Haball Private Limited) is focusing on this opportunity by developing a platform for B2B Payments automation. Payment Apps like MUAWIN also helps as it caters working capital needs of micro entrepreneurs.

Collection of Tax payment: Provincial governments have created a permitting infrastructure for digital collection of taxes like online receipt of vehicle excise taxes by online application by Government of Sindh. Multiple taxes being collected by Government of Punjab by its online applications. Further Punjab government has also announced subsidy on submitting tax digitally to encourage digital solutions.

Over the counter (OTC) payments / Retail payments: Allowing merchants to collect payments in cash at partner locations (these are non-bank locations) accelerates the e-commerce adoption. Merchant aggregators including but not limited to KuicPay and PayPro providing non-bank locations such as the walk-in centres of TCS (Pakistani courier company) for cash payments.

Direct debits/Request to Pay: Direct debits act as enablers for merchant collections. Using the direct debit rails, Fintechs enable merchants to set up recurrent authorization to debit accounts of customers.

Pooling of Accounts: Business use Liquidity management solutions to efficiently manage working capital between investment accounts and transactions.

Point of Sale - Merchant payments (e-commerce payments): Merchant payments accumulation enables merchants to offer a universal payment experience to customers regardless of the bank holding the funds.

Contextual payments: Contextual payments emphasis on the rich data that travels with the payments, telling the terms of contract and milestones of payment. RAAST will help enabling contextual payments.

International remittances: International Remittances (IR) see Fintechs with great interest globally. In Pakistan, there has been recent surge in enabling incoming IR onto digital platforms like Roshan Digital Accounts (RDA).

After the pandemic, there has been a global rise in the payments space. Furthermore, in recent times, there seems to be considerable regulatory support for Fintechs. The introduction of the RAAST program, a micropayment gateway by the SBP, in which online bank payments are possible using only the CNIC number, i.e., the Unique National Identity of Pakistanis, of the concerned persons wishing to exchange funds, will definitely have a positive impact and create considerable opportunities in markets for Fintech to capitalize on. This is a key step towards financial inclusion and will disrupt the current payment systems, auguring well for the economy of Pakistan.

Silent features of RAAST (Person to Person) System:
Raast is planned to operate in such a way that at a cost recovery model so that digital payments are made affordable to end users of all socio-economic backgrounds, It is designed in a way that almost real-time digital payments can be processed across diversified beneficiaries including but not limited to individuals, merchants, businesses, and government entities.

It facilitates all financial institutions to seamlessly interact with each other through a single link to the central infrastructure, as a result facilitating digital payments accessible across any channel to end users of any financial institution present in ecosystem. RAAST uses secure types of payment, making sure that each transaction is authorized by the payer offering enhanced data protection and fraud detection services.

Courtesy: https://www.sbp.org.pk/dfs/Raast.htm

Courtesy: https://www.sbp.org.pk/dfs/Raast.html

Transactions	Volume (million)	Values (Rs. Billion)
During Fiscal Year 2022		
Bulk Payments	0.1	15.2
Person to Person (P2P) Transfers	7.9	102.1
Total	8	117.3
During Fiscal Year 2023		
Bulk Payments	0.3	84
Person to Person (P2P) Transfers	154.6	3085
Total	154.9	3169

Source: State Bank of Pakistan

RAAST Person to Merchant (P2M)

In the month of Sep 2023, State bank of Pakistan announced the RAAST Person to Merchant (P2M) online payment system, it will enable merchants and small businesses to received instant payment from their customer via Secured Point of Sale (POS) Machines. The system works by use of QR Code.

The methodology is that with interoperability covered across all the platforms, Raast will get a boost when P2M is introduced in its true essence. In India it grew exponentially as well with UPI. It may seem a distant dream but can't be ruled out that people will be using no cash for their day-to-day transactions, in fact Raast's P2M functionality really has the potential to ignite a digital payment revolution in Pakistan.

When people will get used to the RAAST P2M, the convenience it offers as you don't need to carry cash anymore for purchase of day-to-day items from your neighborhood market and only need the usage of online banking application you currently are using for payment of petty payments as well, it can transform the whole digital payment landscape in our country.

As the economy will eventually be documented and the bank deposits will certainly increase gradually with more and more usage of digital services, the easy access of credit to private individuals will boost immensely, as now other than the government there will be enough bank deposits to cater the wider customer base i.e., general public.

As consumer preferences shift by each passing day to using digital technologies and with increasing smartphone usage rate, the potential consumers/customers for Fintechs will gradually rise. Realizing this shift of paradigm, many uptapped markets can also be captured by Fintechs.

At a Global level, Fintechs are getting great prominence in financial sector by every passing day. Fintechs provide innovative solutions and disrupts the financial services ecosystem at a very fast pace and as a result has generated a significant interest from potential investors, potential users and regulators.

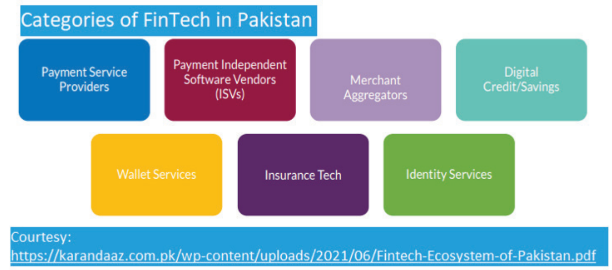
Fintechs have made it easy for governments in providing relief measures during pandemic and natural disasters such as Floods, providing stimulus funding to the Micro, that is government based specially to small and medium enterprises and households i.e. the general public.

Historically, account opening processes at banks have been very cumbersome, with strict requirements regarding know your customer (KYC). However, as a substitute to traditional banking, branchless banking has played a significant role in provision of suitable, reasonable and useful bank account opening to a larger population of adults usually untapped market earlier. In 2008 SBP introduced branchless banking licensing in Pakistan that initiated the push for Digital Financial Service Providers (DFSPs) to build networks of agents throughout Pakistan and aggressively take giant steps towards branchless banking, resulting in spread of formal financial services to tier 3 cities and flourished into rural areas of Pakistan.

In the year 2009 EasyPaisa took the first mover advantage in the branchless banking space and easily took a substantial market share, due to the ease of access and user-friendly platform it provided.

In the year 2016, resulting from greater emphasis on Anti Money Laundering (AML)/ Combatting the Financing of Terrorism (CFT) laws, SBP legislated mandatory biometric verification for agent assisted transactions [Over the Counter transactions (OTC)] beginning a new secure era of transactions.

The majority of significant Fintech's in Pakistan, can be categorized into the following seven categories based on their products and services portfolio.



(Figure: Categories of Fintech – Courtesy - https://karandaaz.com.pk/wp-content/uploads/2021/06/Fintech-Ecosystem-of-Pakistan.pdf)

Conclusion:

With every passing day Fintechs are indeed revolutionizing the financial and payment sector worldwide. It facilitates and expedites access to financial products and services including but not limited to payment processing and benefiting economy as a whole.

Although Pakistan is currently far behind developed and emerging economies of the world but Fintechs do present a great opportunity to our country in helping us not only document our economy but also getting a fair share of digital space available up for grabs due to constant advancement in startups and as a result grow our economy as a whole.

Considering the RAAST People to Merchant (P2M) is in place in true spirit in every marketplace at large, it can be a game changer for the economy of our country. It will immensely document the whole economy at a wider scale with public also reaping benefits of digitization.

The way Fintechs disrupts the traditional payment systems bringing customer experience to a new level also presents a whole world of opportunities for exciting e-commerce solutions and online-market places.

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The Institute of Chartered Accountants of Pakistan
CA PAKISTAN

The Fintech Frontier: Paving the Way Forward

Mr. Naqeeb Ur Rehman, ACA

INTRODUCTION

Fintech, short for financial technology, refers to the use of technology to deliver financial services in innovative and efficient ways. The fintech industry covers a wide range of applications, including mobile payment solutions, peer-to-peer lending platforms, robo-advisors, cryptocurrency, blockchain technology, crowdfunding platforms, and more.

A BRIEF HISTORY OF FINTECH

Although fintech appears to be a recent series of technological advancements, its fundamental concept has existed for some time. The inception of early credit cards in the 1950s marked the initial availability of fintech products to the public, as they eliminated the necessity for consumers to carry physical currency in their daily transactions. Over time, fintech progressed to encompass bank mainframes and online stock trading services. In 1998, the establishment of PayPal marked a milestone as one of the first fintech companies

primarily operating on the internet, a breakthrough further enhanced by mobile technology, social media, and data encryption. This fintech revolution has given rise to the mobile payment apps, blockchain networks, and social media-integrated payment options that are now commonplace in our daily lives.

HOW DOES FINTECH WORK

FinTech streamlines financial transactions for both consumers and businesses, enhancing accessibility and often reducing costs. It also encompasses companies and services that leverage AI, big data, and encrypted blockchain technology to enable highly secure transactions within an internal network.

TECHNOLOGIES THAT POWER FINTECH

Fintech is primarily driven by AI, big data and block chain technology - all of which have completely redefined how companies transfer, store, and protect digital currency.

- AI - is revolutionizing the FinTech industry by automating financial processes. With advanced algorithms and machine learning, AI systems can streamline tasks, increase efficiency, and reduce manual efforts. One significant area benefiting from AI automation is financial transactions.
- Big data - utilizing big data analytics enables companies to forecast market shifts and develop innovative, data-centric business strategies.
- Block chain - a contemporary technology in finance, enables decentralized transactions without reliance on a third party, leveraging a network of blockchain participants to monitor potential alterations or additions to encrypted data.

FINTECH IN PAKISTAN – POTENTIAL & OBSTACLES

Fintech has a lot of potential in Pakistan, but there are also a lot of obstacles that need to be overcome. The population's lack of financial literacy, especially in rural regions, is one of the biggest problems. A lot of consumers could be hesitant to use digital financial services as they are unfamiliar with them.

Pakistan, situated at the juncture of economic modernization, offers an ideal setting for a FinTech revolution, where startups can evolve into established brands. Beyond mere financial investments, the real potential of FinTech lies in digitally empowering populations that have yet to tap into the new generations of banking technologies. In this light, Pakistan emerges as a realm of promising opportunities. As an emerging economy,

Pakistan is strategically positioned for this transformative journey. Furthermore, concerns regarding inflation and financial inclusion have spurred the State Bank of Pakistan to prioritize digital challenger banks as part of a comprehensive, long-term economic strategy.

Examining Pakistan's financial landscape unveils three significant trends. Firstly, a mere 21% of the adult population possesses a bank card, underscoring a substantial untapped market. With 181 million mobile subscribers in a population exceeding 220 million, FinTech has the potential to address accessibility challenges by transforming mobiles phones into gateways for banking services.

Second, access to formal credit lines is limited, with only 3% borrowing from formal channels. FinTech can address this vacuum by providing seamless access to credit through tech-driven solutions. Lastly, Pakistan's cash-based economy with currency in circulation at around 15% of the GDP, presents an opportunity for FinTech to foster digital transactions and reduces reliance on cash.

Recognizing these opportunities, the State Bank of Pakistan has already launched a licensing and regulatory framework for digital banks in 2022, allowing five initial digital banks to begin operations in the country.

In a ground-breaking move, the Middle East, North Africa and Pakistan (MENAP)-based FinTech achieved a major milestone by securing a Payment Service Provider (PSP) license from Central Bank of Oman Positioned as the inaugural international FinTech, it is poised to revolutionize online and in-store payment infrastructure.

Pakistan is also setting a unique example, given demand of Shariah Compliant products. Of the 375 Islamic FinTech present globally, Pakistan ranks 8th among top 10 countries that produce 50% of Islamic FinTech's in the top five sub-sectors. Additionally, Pakistan is considered to be amongst the top five growing Islamic FinTech ecosystem as revealed by Global Islamic FinTech Report. The fact is also affirmed by a study conducted by United Nations Development Program in 2023.

A GLIMPSE OF THE FUTURE

The global ascent of FinTech is heralding a transformative era in financial landscapes worldwide. Pioneering technologies such as mobile wallets, digital payment platforms and block chain are reshaping traditional norms, bringing convenience to consumers and businesses. As per the recent report from Boston Consulting Group (BCG), investors anticipate FinTech revenues to grow exponentially from the current USD 245 billion to a staggering USD 1.5 trillion by 2030

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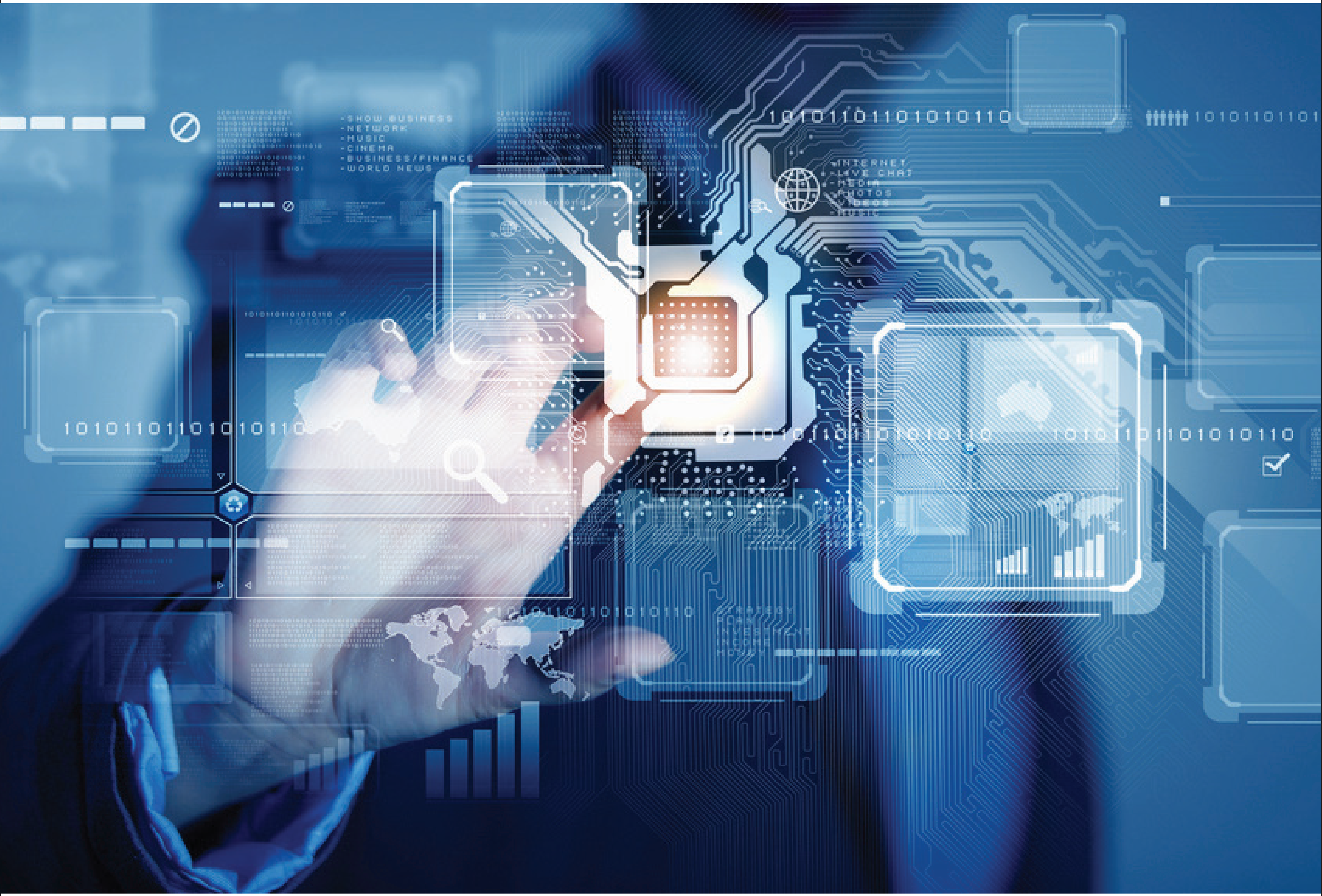
CA PAKISTAN

Digital Economy In Pakistan – Taxation & Challenges

Mr. Muzzamil Hemani, ACA



The term 'Digital Economy' refers to the economic activities that are conducted using Information Communication Technologies (ICT). Post COVID-19 pandemic, the world especially developing countries like Pakistan have transformed drastically in every sphere impacting human life. This is not only limited to doing business but rather how things have also changed in education, health, etc. are beyond imagination. People weren't ready to accept that employment could also be performed online remotely and in any part of the world one could desire, although this concept had existed before but was not widely accepted. Earlier, people would place less reliance on online shopping through available

> **"The pandemic has rapidly reshaped various sectors, emphasizing the need for legislative support in nurturing the digital economy for countries like Pakistan."**

"Pakistan's Income Tax Ordinance, 2001, offers tax exemptions and credits to foster the growth of startups, IT services, e-commerce, and online marketplaces, aiming to stimulate innovation and entrepreneurship."

e-commerce platforms but now these things have become new norms of our life. This huge transformation and then frequent development in Artificial Intelligence and the area of ICT requires that legislation should be such which could support the needs of this growing sector which would then result in more foreign exchange in Pakistan to support our ailing economy.

According to the statistics, the exports of Pakistan's tech industry are around USD 3 billion so far as compared to that of India which has exports of around USD 200 billion. However, the potential if rightly explored can take this number up to USD 10 billion. The government, besides the private sector needs to invest more in research and development of technology-related things so that more unique products can be developed and those doing such research should be given tax concessions at a minimum. The focused efforts would also let us export our services to countries other than the United States of America to whom our exports are more than 50 percent of the total ICT exports. The Statista of the population of Pakistan shows that one-third of our population is in between 15 and 35 years of age whereas, around 75 million are under the age of 15 years. If we work on our youth by providing them with requisite ICT education, incubation centers, platforms, and required financing then we can safely assume that our future would be very bright.

Now, let's briefly discuss the significant tax provisions applicable to Startups, IT Services, IT Enabled Services, E-Commerce, and Online Marketplaces under the Income Tax Ordinance, 2001 (the Ordinance).

The concept of "Startups" was initially introduced in the Ordinance through the Finance Act, of 2017, which added a definition under clause (62A) of section 2. Initially, profits and gains derived by Startups were exempt from tax, and there were no implications of minimum tax on turnover under section 113 of the Ordinance. However, subsequent Finance Acts brought amendments to these provisions.

The Ordinance defines a "Startup" as a business entity, whether owned by a resident individual, an Association of Persons (AOP), or a company, that commenced operations on or after July 1, 2012. The entity must be engaged in, or intend to offer, technology-driven products or services to any sector of the economy. Additionally, the entity must be registered with and duly certified by the Pakistan Software Export Board (PSEB). Furthermore, the startup must have a turnover of less than 100 million in each of the last 5 tax years, unless specified otherwise by the Board with the approval of the Federal Minister in charge.

Income derived by a certified startup is eligible for a 100% tax credit under section 65F of the Ordinance in the tax year of certification by the PSEB and the following 2 tax years. However, this benefit is contingent upon the timely filing of annual income tax returns, monthly sales tax returns, and, if applicable, the submission of required withholding tax statements. As per clause (43F) of Part IV of the second Schedule of the Ordinance, the provisions of section 153 shall not apply in the case of a startup, being the recipient of the payment, as defined in clause (62A) of section 2.

Further, the Ordinance also provides a 25% reduction in tax payable by woman enterprises on profits and gains derived from business activities taxed under the head "Income from Business." This reduction applies in cases where the tax credit under section 65F of the Ordinance is not applicable.
Now, to identify the difference between IT Services (ITS) and IT Enabled Services (ITES), the Ordinance distinguishes between both of them by defining IT services to include software development, software maintenance, system integration, web design, web development, web hosting, and network design. In contrast, IT enabled services encompass inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, human resource (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally produced television programs, and insurance claims processing.

The ITS and ITES were subject to a 100 percent tax credit under section 65F of the Ordinance till tax year 2022. However, vide Finance Act, 2022 the tax credit available to ITS and ITES were omitted. While, as per the provisions of section 154A of the Ordinance, the exports of computer software or ITS or ITES if the exporter is registered with and duly certified by the PSEB would be subject to a withholding tax rate of 0.25 percent of the export proceeds as final tax if the annual income tax returns and, if applicable, the submission of required withholding tax statements are fulfilled. Whereas, if conditions are fulfilled but PSEB registration is not available then this tax rate would be 1

> **“Despite positive intentions, governments struggle to keep pace with ICT advancements, leading to reactive strategies and challenges in tax clarity, enforcement, and infrastructure improvement for digital businesses.”**

percent of the export proceeds. While, if the filing conditions are not met then the income would be subject to a normal tax regime.

Taxation for online marketplaces and e-commerce is advantageous under the Ordinance. For online marketplaces, the tax on commission is set at 5% under section 233 if dealing with prescribed persons. However, if dealing with parties other than those prescribed, the tax rate drops to 0.25% under section 113, which is the minimum tax rate. Similarly, for e-commerce, the minimum tax rate is also 0.25% under section 113. Additionally, section 153 of the Ordinance applies to the supply of goods. It's important to note that the taxation mentioned is separate from the normal tax liability and Alternative Corporate Tax, if applicable.

In addition to offering traditional tax incentives, the Government is actively developing Special Technology Zones and Parks. Enterprises established within these zones will enjoy significant benefits, including a 10-year exemption from tax on profits and gains from the date of license issuance. Moreover, this exemption extends to taxes collected at the import stage under section 148 of the Ordinance on imported capital equipment. Furthermore, dividend income and long-term capital gains of any venture capital fund from investments in zone enterprises will also be tax-exempt for 10 years.

Besides the taxation support that can be given to the sectors relating to the Digital Economy, it should also be considered whether the existing workforce of the Federal Board of Revenue (FBR) and provincial tax authorities are such which could effectively enforce the provisions of the law. This is quite common that the businesses of IT or ITES sector park their revenue outside Pakistan in any foreign country due to the strict foreign exchange regulations in Pakistan. Resultantly, they only bring in that much foreign exchange through tax planning mechanisms which are required for incurring the expenses in Pakistan, and the remaining part which is the major one is not brought into Pakistan thereby, due to which we are getting less foreign exchange and ultimately the less share of our due taxes. Therefore, the government should consider making the relevant regulations that are friendly to this sector and at the same time train the workforce to effectively implement the Transfer Pricing laws to check whether base erosion and profit shifting are taking place or not.

To date, it seems that the government is unable to upgrade itself with the growing pace of ICT. The government is found to be reactive rather than proactive with its strategies about taxation. There seems to be a lack of clarity and knowledge amongst the officials regarding this sector due to which they are missing the opportunities to first impose and then collect the tax on time. It has also been found that the difference in rates of taxation of sales tax on services for this sector between provinces and the added issues of origination and destination principle creates confusion amongst the taxpayers. This could be harmonized through the Place of Provision of Services Rules as promulgated for other services by introducing similar tax rates and ending the disputes about the origination and destination of services. Moreover, to clarify what is meant by the term’s ‘freelancer’ and ‘freelancing’, the legislators should consider adding a specific definition under section 2 of the Ordinance and how the taxation of those who fall under the definition would take place should be explicitly mentioned.

Having said this, although there seems a positive intention of every government to focus on this area to boost exports, however, this should also be reflected in the policies they devise. Further, the policies should not be such which should change with the change of governments which we have witnessed in the case of taxation of startups as well as ITS and ITES. A consistent road map of 5 to 10 years should be provided. Moreover, the issues that could result in the decline of sales like disruption of the internet, poor connectivity, frequent load-shedding, etc. should also be addressed along with regulatory support.

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Exploring the Optimal Use of Fintech in Public Service Delivery

Mr. Sami Ullah Khan, ACA

Introduction:

In today's digital era, governments globally are increasingly turning to financial technology (fintech) solutions to improve public service delivery. Among these initiatives, some stand out as exemplars of successful integration and utilization of fintech to streamline operations, enhance efficiency, and elevate citizen satisfaction. In this case study, we examine one such remarkable instance to uncover the optimal use of fintech in public service delivery.

Case Study: Estonia's E-Government Transformation
Background:

Estonia, a small Baltic nation recognized for its progressive approach to technology, has emerged as a global leader in e-government transformation. Since gaining independence in 1991, Estonia has prioritized digital innovation and invested significantly in building a robust digital infrastructure to support various government services. One of the pivotal pillars of Estonia's digital transformation journey is its pioneering use of fintech solutions to revolutionize public service delivery.

Key Components of Estonia's E-Government Transformation:

1. E-Residency Program:

Estonia's e-residency program stands as a ground breaking initiative, enabling non-residents to establish and manage businesses online, access banking services, and remotely sign documents. Utilizing secure digital identities based on blockchain technology, e-residents can conduct business with Estonian entities, access government services, and engage in the country's digital ecosystem from anywhere globally. This innovative fintech-enabled program has attracted thousands of entrepreneurs and freelancers worldwide, fostering economic growth and international collaboration.

2. Digital Identity and X-Road Platform:

Estonia's digital identity system, anchored by the X-Road platform, serves as the foundation of its e-government infrastructure. X-Road, a secure data exchange platform, facilitates interoperability and seamless data sharing among government agencies, private sector entities, and citizens. Leveraging encrypted digital identities, Estonian citizens can access a myriad of government services online, including tax filing, healthcare, education, and voting. Powered by fintech, the digital identity system ensures data integrity and security while enabling efficient and convenient service delivery.

3. E-Tax System:

Estonia's e-tax system exemplifies fintech's transformative impact on public service delivery. The country's fully digital tax administration platform enables individuals and businesses to file taxes, make payments, and access tax-related information online. Through secure authentication mechanisms and encrypted data transmission, taxpayers can fulfill their tax obligations swiftly and accurately, reducing administrative burdens for both taxpayers and government agencies. The e-tax system has significantly bolstered tax compliance rates and streamlined revenue collection processes, bolstering Estonia's fiscal sustainability.

4. E-Health and Digital Prescription System:

Estonia's e-health initiative harnesses fintech solutions to enhance healthcare delivery and elevate patient outcomes. The country's digital prescription system allows healthcare professionals to issue electronic prescriptions directly to patients' digital identities, eliminating the need for paper-based prescriptions. Patients can access their prescriptions online, submit medication orders to pharmacies electronically, and receive medications without visiting physical healthcare facilities. This fintech-enabled e-health system promotes efficiency, transparency, and patient-centred care, resulting in improved healthcare outcomes and reduced administrative costs.

5. E-Voting:

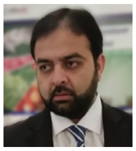
Estonia's e-voting system serves as a pioneering example of fintech's role in democratic governance and civic engagement. Since 2005, Estonian citizens have had the ability to vote in national and local elections using secure digital identities and encrypted online voting platforms. The e-voting system ensures vote integrity and confidentiality while enabling citizens to participate in the electoral process remotely. Fintech solutions underpin the e-voting system's security and reliability, allowing Estonia to conduct elections efficiently and transparently while maximizing voter turnout and engagement.

Impact and Benefits:

- Enhanced Efficiency: Fintech-enabled e-government services in Estonia have substantially reduced bureaucratic hurdles, minimized administrative delays, and improved service delivery efficiency.
- Increased Transparency: Leveraging blockchain technology and digital identities ensures transparency and accountability in government operations, fostering trust and confidence among citizens and stakeholders.
- Greater Accessibility: Fintech solutions have enhanced accessibility to government services for citizens, irrespective of geographical location or physical mobility, fostering greater inclusivity and equity.
- Economic Growth: Estonia's fintech-driven e-government initiatives have stimulated economic growth, attracted foreign investment, and created new avenues for entrepreneurship and innovation.

Conclusion:

Estonia's e-government transformation serves as a compelling case study of the optimal usage of fintech in public service delivery. By leveraging fintech solutions such as digital identities, blockchain technology, and online platforms, Estonia has established a seamless and efficient digital ecosystem that empowers citizens, promotes transparency, and drives economic prosperity. As governments worldwide aspire to replicate Estonia's success, the lessons learned from this case study underscore fintech's transformative potential in shaping the future of public administration and governance.



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RISK MANAGEMENT IN UNCERTAIN TIMES

Mr. Hamza Bilal, ACA

Risk Management: It entails continuously identifying, measuring, prioritizing, and managing the loss exposure faced by an organization due to its processes, strategy, culture, control environment, governance, or external factors like political, economic, technological, social, legal, and environmental dynamics.

Risk Management begins with defining the organization's mission, vision, strategy, risk appetite, tolerance level, key risk indicators, governance framework, risk champions, risk owners, and sponsors to ensure that risk management becomes an integral part of the culture and is integrated with the strategy.

Leadership must play a vital role in optimizing the utilization of the risk management framework and ensuring that risk management becomes an essential part of departmental and individual objectives.

Why Risk Management: Research indicates that the significance of an effective risk management culture grows with the business's growth, and the larger the scale of operations, the more important it is to have an effective risk management framework in place. Companies with effective risk management practices have successfully navigated through volatile business environments and challenges such as recession, Covid, inflation, technological obsolescence, geopolitical tensions, and emerging regulatory requirements. Let's briefly examine the key factors illustrating the importance of having good risk management practices in place:

Technological developments and artificial intelligence: Technology is significantly impacting working methodologies and quality of life, resulting in shorter product life cycles, obsolescence of existing solutions, personalized healthcare solutions, redundancy of operational skills, lower switching costs, increased competition, and increased research and development budgets for organizations. Artificial intelligence and robotic process automation can provide valuable insights into larger amounts of data and free human resources from day-to-day operational tasks, allowing more time for analysis, scenario building, and decision-making.

Cybersecurity risks have been rated by many organizations as among the top risks faced in 2024. Hence, companies need to review and update their data governance policies, invest in spreading awareness, and build controls that can prevent data loss.

Climate Change: Rising temperatures can impact fresh water supplies, hydropower generation, food security, coastline encroachment, declining forests, and species extinction. There are increased regulatory compliance requirements and increased awareness, resulting in customer loyalty shifting towards organizations operating in a more environmentally friendly manner. Concepts like net zero require organizations to monitor their emissions and manage their impacts, necessitating investments, transparency, objective setting, monitoring, and reporting along these lines.

Economic Factors: Based on research, global recession, changing interest rates, and rising inflation indices have been ranked by many industry leaders as top risks for 2024. Economic pressures require organizations to be efficient, economical, and resilient in their processes along with the adoption of technology.

Regulatory Compliance: Noncompliance with regulations can significantly impact the organization's brand equity and may also result in heavy fines and license cancellations. Regulations are evolving to adapt to technological developments, artificial intelligence, and climate change. Companies need to invest in ensuring regulatory compliance and staying up to date with all the latest developments in laws.

Talent Attraction and Retention: Due to the dynamic business environment, there is likely to be a widening gap between required and available skill sets. Research suggests that industry leaders rate hiring, developing, and retaining key talent as a key risk in 2024. Organizations need to invest in hiring, developing, and retaining the right talent, equipped with the latest technological development, change management, crisis management, leadership, and stress management skills.

Third-Party Risk: Organizations work with a wide range of stakeholders like vendors, regulatory agencies, customers, distributors, and employees. Companies need to be incredibly careful in selecting the right strategic partners to work with along their value and supply chains. New regulations like IFRS S1 & S2 also require disclosures about the environmental impact of business partners across the supply chain.

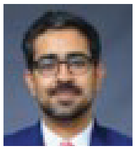
Geopolitics: It is a critical time with the highest number of military conflicts since the cold war. Russia-Ukraine and Israel-Palestine clashes are likely to significantly impact the landscape. Additionally, the likelihood of China and Russia challenging the USA's influence and credibility before their upcoming elections in 2024 may potentially lead to Cold War number 02 between these states, with a low risk of direct military intervention. This is going to have a substantial impact on the political economy, technological landscape, global alliances, and partnerships in 2024.

How Risk Management Framework Can Help: An Enterprise Risk Management Framework can assist organizations in ensuring the identification, measurement, prioritization, and implementation of appropriate risk mitigation strategies, which can help organizations navigate through uncertain times with greater success.

Industry leaders are strategizing their risk management approach through the following practices:

- Investment in crisis management and disaster recovery plans' development and trial implementation to help build required capabilities for managing crisis situations like natural disasters or diseases like Covid.
- Implementing the concept of three lines of defense - operational, risk management, compliance, and internal audit functions. Better liaison between all lines will ensure maximum benefit.
- Embedding risk management into strategy development and planning processes to ensure scenario building and planning.
- Investing in enhanced capability to identify both external and internal risks earlier.
- Defining risk appetite, tolerance levels, key risk indicators, breaking it down at the lowest level possible, measuring, and reporting at all levels.
- Embedding risk management into performance measurement systems and making it a core part of KPIs for all process owners.
- Investing in advanced tools, dashboards, data analytics software, continuous monitoring, and the use of the latest technology for identification, measurement, and reporting of risks.
- Centralizing risk management activities into strategic risk monitoring teams to ensure the visibility of organization-wide risk scores on a continuous basis.
- Sourcing materials, labor, and required resources from more politically stable economies.
- Strengthening compliance capabilities through having dedicated compliance functions in place, which ideally are independent from operations.
- Shifting to environmentally friendly energy sources.
- Embedding risk management as a vital part of the organization's culture.
- Investing in enhancing data governance controls and ensuring minimum potential exposure to cyber-attacks.

Conclusion: In today's dynamic and uncertain business environment, it is important to invest in risk management capability to ensure sustainable success for the organization over the long term.



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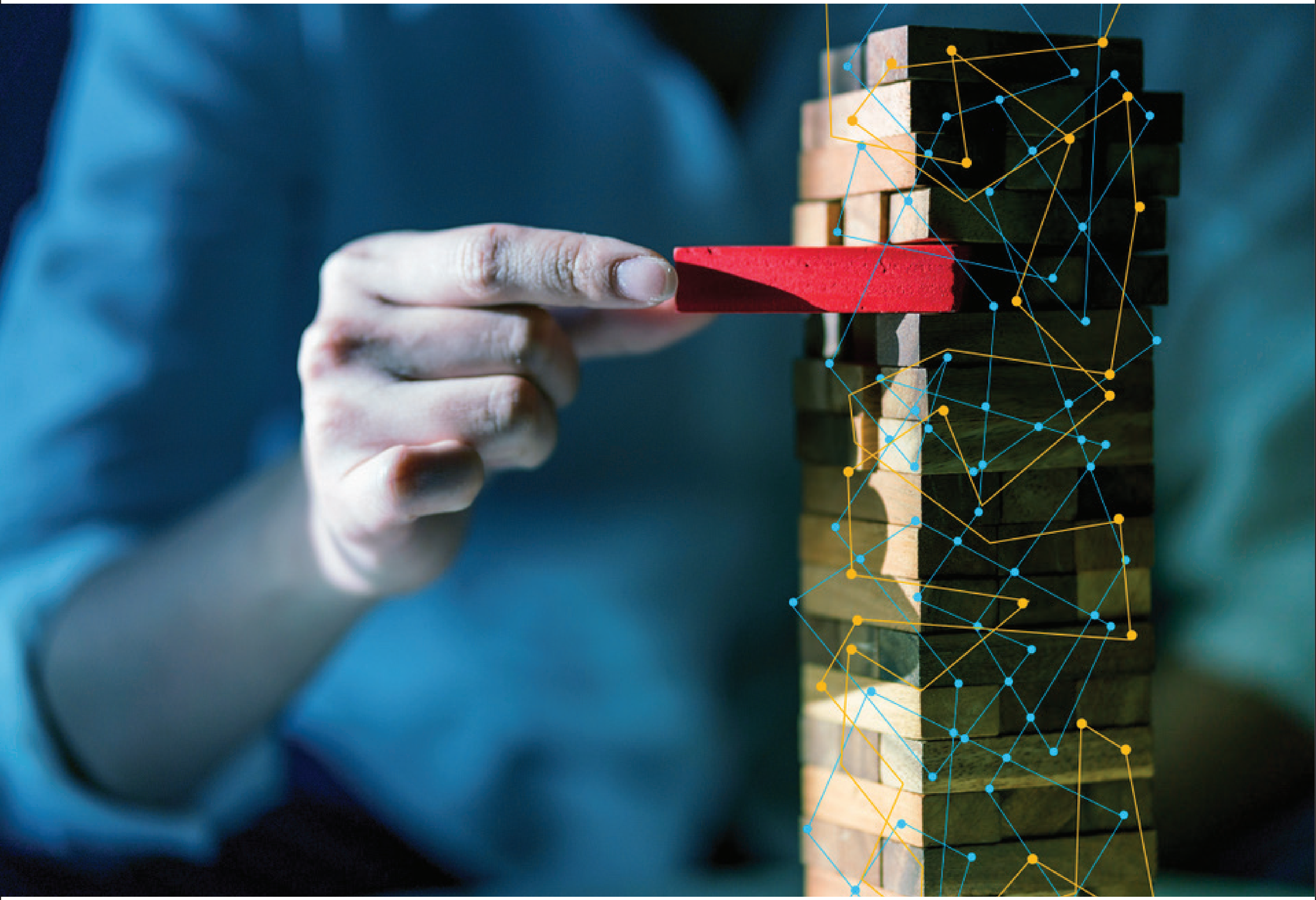
ISQM - Firm Risk Management Process

Ms. Farheen Mirza, FCA



Introduction

Under ISQM 1, the objective of the firm is to design, implement and operate a system of quality management (SOQM) for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm that provides the firm with reasonable assurance that:

i. The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

ii. Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

ISQM 1 now consists of eight components of quality management that operate in an iterative and integrated manner.

Brief Outline of ISQM 1

- **A new proactive and tailored approach on quality management, requires firm to switch from standalone elements to an integrated approach that reflects upon the system as a whole;**
- **ISQM 1 requires the firm to design, implement and operate a System of Quality Management' (SOQM) for audits or reviews of financial statements, or other assurance or related services engagements;**
- **Components of SOQM have been increased from the 6 to 8;**

Comparison between components of new ISQM 1 and ISQC 1

New ISQM 1	Current ISQC 1
The Firm's Risk Assessment Process	New component
Governance and Leadership for quality within a Firm	Leadership responsibilities
Relevant Ethical Requirements	Relevant ethical requirements
Acceptance and Continuance of Client Relationships and Specific Engagements	Acceptance and continuance of Client relationships and specific Engagements
Engagement Performance	Engagement performance
Resources (human, technology, intellectual)	Human Resources
Information and Communication	New component
Monitoring and Remediation Process	Monitoring
ISQM 2 'Engagement Quality Control Review'	New Standard

- **Expand requirements to modernize the standard including requirements to address technology, networks, and the use of external service providers;**
- **Enhanced requirements for monitoring and remediation of the SOQM as a whole, including effective and timely remediation of deficiencies;**
- **ISQM 1 requires firm to evaluate its SOQM at least annually and implement responses;**
- **ISQM emphasize on the documentation of firm's personnel about SOQM and design, implementation and operation of the responses.**
- **ISQM 2 emphasize the importance of the Engagement Quality (EQ) reviews and places high value on the eligibility, roles and responsibilities of EQ reviewer and documentatio**

The biggest change that ISQM 1 has brought is that firms now need to follow a risk assessment process.

The Firm's Risk Assessment Process

An effective risk assessment process is the foundation of an effective SOQM. ISQM 1 requires the firm to apply a risk-based approach in designing, implementing, and operating the components of the SOQM in an interconnected and coordinated manner.

A risk-based approach helps the firm tailor the SOQM to the firm's circumstances, as well as the circumstances of the engagements performed by the firm. This risk-based approach helps the firm effectively manage quality through concentrating on what matters the most to the firm.

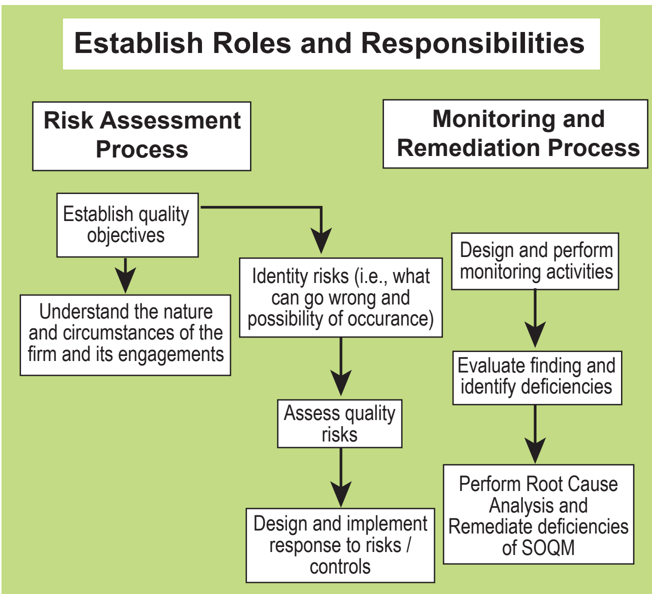
The firm's risk assessment process consists of:
- establishing quality objectives;
- identifying and assessing quality risks; and
- designing and implementing responses to address the assessed quality risk.

This principles-based approach is designed to enhance audit quality as it:
- is focused on quality outcomes;
- promotes proactivity by leadership in identification and assessment of risks and designing appropriate responses; and
- enables scalability (upwards and downwards) and tailoring to the firm's circumstances.

How the firm goes about establishing quality objectives, identifying, and assessing quality risks, and designing and implementing responses will vary from firm to firm. The firm's approach is influenced by the nature and circumstances of the firm, including how the firm is structured and organized. Both internal and external source of information may be used by the firm in the firm's risks assessment process.

Establish Quality Objectives	Identify and assess Quality	Risks Design & Implement Responses
Quality Objectives are the desired outcomes in relation to each component of the SOQM to be achieved by the firm. ▪ Firm may establish additional quality objectives and subobjectives to enhance the firm's identification and assessment of quality risks, design and implementation of responses.	Quality Risk is the risks that have the greatest impact on achieving the quality objectives. ▪ A risk qualifies as a quality risk when the risk has a reasonable possibility of occurrence and when the risk may adversely affect the achievement of one or more quality objectives (individually, or in combination with other risks)	The nature, timing and extent of the firm's responses to address the quality risks are based on and are responsibe to the reasons for the assessments given to the quality risks. ▪ Responses designed and implemented by the firm may operate at the firm level or engagement level.

Establish Quality Objectives	Identify and assess Quality	Risks Design & Implement Responses
▪ Quality objectives across the components are interrelated and interdependent.	▪ In identifying and assessing quality risms, the firm may determine that an additional quality objective(s) needs to be established. ▪ Identification, assessment and documentation of every possible risk is not required by ISQM 1. ▪ Documentation of the quality risks may include the reasons for the assessment given to the quality risks.	▪ When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed. ▪ The controlls/response to quality risks are required to be property designed and implemented, thereby helping the firm to achieve the quality objectives.



Evaluate the System of Quality Management

Scalability of Risk Responses

ISQM 1 is scalable and provides guidance that the nature, timing and extent of the responses to firm's quality risks is based on the nature and circumstances of the firm and its engagements and also how the firm is structured and organized.

Smaller firms are likely to have different quality risks than larger and more complex firms, thereby requiring a different response. For quality risks that are common across all firms of varying size and complexity, the nature, timing and extent of the responses may differ given the circumstances of the firm.

In a multiple partner firm, a formal risk assessment process may involve multiple individuals and numerous activities. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service-line level, with the outputs combined at the firm level)

In case of a small firm, the individual(s) assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks and responses may be less extensive than for a more complex firm (e.g., it may be documented in a single document)

This means that firms will not be able to follow a simple "checkbox" approach but would rather have to work actively to manage quality within their firms.

Examples in ISQM 1 that address scalability

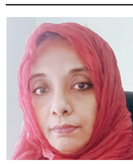
- Para A35: Assigning roles and responsibilities
- Para A39 and A52: The firm's risk assessment process
- Para A99: Resources
- Para A111: Information and communication
- Para A144, A156 and A166: Monitoring and remediation process
- Para A189 and A199: Evaluating the SOQM and performance evaluations
- Para A203: Documentation

The Institute of Chartered Accountants of Pakistan has adopted the Quality Management Standards issued by the International Auditing and Assurance Standards Board (IAASB) through ICAP Circular No. 6/2022 (dated November 25, 2022).

The Quality Management Standards are effective from December 15, 2023 and December 15, 2024 for the firms performing the audits of public interest companies and for the firms performing the audits of other than public interest companies, respectively.

ICAP Publications and Resources

ICAP Questions and Answers on ISQM 1, presentations and recordings of ICAP seminars and webinars on Quality Management Standards can be accessed at: http://www.icap.net.pk/quality-management-standards.



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A Smart Guide to Choose the Best Accounting Software for Your Business

Mr. Muhammad Ali, ACA

In today's digital world, accounting software plays a critical role in managing a business's finances.

Digital accounting software is designed to streamline accounting tasks such as income, expenses, invoicing, payroll, tax filings, and generating financial statements. Not only does it provide a clear and accurate picture of a business's financial health, but it also saves time and money. Choosing the right accounting software for your business can be overwhelming, given the multitude of options available in the market. However, by following a smart guide tailored to your business needs, you can streamline the process and find the best accounting software that aligns with your requirements.
Identify your Business Requirements:

Assess your business needs as every business is unique and therefore requires accounting software that caters to its specific requirements. Here are some questions to consider:

1. What is the size and complexity of your business operations?
2. What are the accounting tasks that your business needs to manage?
3. What is your budget for accounting software?
4. Does your business require cloud access or integration with other business software?

By answering these questions, you can identify the features and functions that your business requires and narrow down your options to accounting software that meets your requirements.

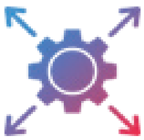
Key Considerations while Choosing Your Accounting Software:

Streamline Core Business Functions / Processes like billing and invoicing, tracking receipts and payments, manage customer and supplier accounts, inventory management, fixed asset lifecycle management, HR functions including self-service portal and payroll processing etc.

> **"Assessing the size, complexity, budget, and specific needs of your business is crucial to narrow down accounting software options that align with your requirements"**

User-friendliness plays a pivotal role in ensuring smooth adoption and efficient usage by your employees. An intuitive interface that requires minimal training can save time and resources, enabling your team to focus on core tasks. Look for software that offers a logical and user friendly layout, clear navigation menus, and easily accessible features.

Security Features should be a top priority when choosing a system. Weightage should be given to software which offers robust security features to protect your sensitive financial data like two-factor authentication, password protection, data encryption, access control and user permissions etc.



Scalability: Your business is to grow over time, so it's essential to choose accounting software that can scale alongside your business. Look for software that can accommodate increasing transaction volumes, additional users, and expanding functionalities without the need for a complete overhaul.

A Smart Guide to Choose the Best Accounting Software for your Business

Integration Capabilities enables your business to streamline operations, enhance data accuracy, and gain a comprehensive view of business financial performance. This empowers you to make data-driven decisions, optimize resource allocation, and drive business growth. Look for software that offers APIs for integration with other systems like CRM, e-commerce platforms etc.

> **“ Prioritizing software with robust security features and scalability ensures protection of sensitive financial data and accommodates business growth without the need for frequent overhauls ”**

Budget Considerations is crucial. Compare pricing plans and features to find software that fits your budget without compromising on essential functionalities. Evaluate ROI by calculating the cost savings and efficiency gains the software can bring. Look for discounts or promotions offered by software vendors or through partnerships. Choosing affordable accounting software ensures you get value for your money without overspending on unnecessary features.

Robust Reporting and Analytics features empower you to make informed decisions based on accurate and timely financial data. Look for software that offers customizable reporting options, allowing you to create tailored reports to your specific business needs. Real-time reporting capabilities provide up-to-date insights into your financial performance, enabling you to respond promptly to any deviations from your business goals.

Right Implementation Partner can significantly enhance your accounting software implementation project. Their expertise, resources, and support can help you overcome challenges, minimize disruptions, and achieve successful outcomes that align with your business objectives. While selecting implementation partner his experience, size, references, resources and cost should be considered.

Customer Support is a vital consideration. Opt for software that provides reliable customer support, ideally offering 24/7 assistance through multiple channels such as phone, email, and live chat. Responsive customer support ensures that any issues or queries are promptly addressed, minimizing disruptions to your business operations.

Trainings Resources are equally important. Look for software that offers comprehensive training materials, including user guides, tutorials, and FAQs. This enables your team to quickly onboard and effectively utilize the software's features. Some software providers even offer instructor-led training sessions or certification programs to enhance your team's proficiency.

Upgrades or Version Change are necessary for continued success and relevance of your accounting software. Regular software updates are essential for maintaining compatibility with evolving technology, addressing security vulnerabilities, and accessing new features that can enhance your business operations. Before committing to an accounting software solution, evaluate the software vendor's track record in providing regular and timely updates.

Trial Period or Demo is an invaluable opportunity to thoroughly evaluate accounting software before committing to a purchase. It allows you to test drive the software, assess its functionality, and determine if it aligns with your business needs. Utilize the trial period to explore the software's features, user interface, and compatibility with your existing systems and data.

Some of Key Accounting / ERP Software in Market

Tiers	Size of Organizations	Key Accounting Software / ERP
I	Large	SAP S/4 HANA, Oracle Cloud & EBS, Workday etc.
II	Medium	SAP By Design, Oracle NetSuite, Microsoft Dynamics & Odoo etc.
III	Small to Medium	SAP Business One, QuickBooks, Sage, Xero, FreshBooks, Wave, MYOB etc.

Conclusion

Choosing the best accounting software for your business can be a challenging task, but it can also be a rewarding one. By considering above mentioned points, you can find the software that meets your needs and budget. Remember, accounting software is not only a tool, but also a partner, that can help you grow your business and achieve your goals.

If you have any questions or comments, feel free to leave them below, or contact us for more information. We would love to hear from you. Thank you for reading, and happy accounting!

The writer is an Associate Chartered Accountant, working as CEO and Founder, CABCS (Pvt.) Limited, Pakistan.

ENHANCING TRUST, ENABLING COMPLIANCE

In any jurisdiction, trust and compliance are essential to the successful implementation of an efficient and resilient tax system.

Earlier in August 2023, the MIA Strategic Communication and Branding Team had the privilege of speaking with Dato' Sri Dr. Mohd Nizom Sairi, Chief Executive Officer/Director General of Lembaga Hasil Dalam Negeri (LHDN) or also known as HASiL on its vision for advancing the national tax system to support nation building.

According to Dato' Sri Dr Mohd Nizom, enhancing transparency and trust are at the core of changing taxpayer behaviours towards strengthening compliance. It is also critical to embrace digital transformation – including the upcoming e-invoicing initiative – to improve tax administration and ease compliance.

During the interview, Dato' Sri Dr Mohd Nizom stressed the importance of enabling real time taxation processes which will make tax compliance more automatic and less onerous. "It is

"Embracing digital transformation is paramount for improving tax administration and easing compliance. Real-time taxation processes and the upcoming e-invoicing initiative are key strategies advocated by HASiL to make tax compliance more automatic and less burdensome."

actually compliance by design, which means that when you are in the system, you just comply as you go along. That is the sustainable way of maintaining compliance at the highest maximum level. We cannot continue to be doing compliance traditionally in a hide and seek kind of situation, chasing and going after the non-compliant ones, which is an approach that has no end to it."

Along with real-time taxation, HASiL is advocating for cooperative compliance to enhance tax administration and governance. This will require accountancy and taxation professionals to change their mindsets and adapt to higher-value tax advisory roles whereby they are able to better predict and mitigate tax and business risks.

Dato' Sri Dr Mohd Nizom's insights are derived from long experience and expertise in the national taxation ecosystem. A holder of a doctorate from the Swiss School of Management and a holder of a master's degree from the Lawrence Technological University in the United States, he first joined LHDN on 13 November 1985. While climbing up the ranks, he amassed extensive experience in direct taxation including tax operations, tax compliance and collection, international taxation and tax training.

Throughout his career, Dato' Sri Dr Mohd Nizom has held several important positions at LHDN including as director of the Investigation Department, Malaysian Taxation Academy, Tax Compliance Department, state director of Perak LHDN, and deputy CEO (Management). In October 2021, he was promoted to Chief Executive Officer from the position of deputy chief executive officer (Taxation Operations), replacing his predecessor Datuk Seri Dr Sabin Samitah.

Below are excerpts of the interview with Dato' Sri Dr Mohd Nizom (answers have been edited for clarity and conciseness):

What steps can be taken to encourage nations to be more tax compliant? And what are the factors that influence what HASiL can do to incentivise or motivate tax payers and potential tax payers to be compliant?

When we talk about compliance, we are talking about behavioral management. Therefore, compliance to law and how to increase compliance to all the different laws that we have in place will basically require the same kind of initiatives or strategies. So be it tax law or any other law, I think one of the main things that we need to focus on to increase compliance is actually how the public perceives the whole system and the law itself. It is important that they have full trust that the law is good for them, and that the law is administered fairly and justly in the best manner and benefits the community as a whole. If we can increase that perception and feeling among the public, that is the best way to actually bring them to comply with the law. So, that is generally how we will approach administering the tax system in this country.

In this context, how can you enhance public trust and what steps are you taking to narrow the public trust deficit and to encourage compliance?

We have to look into how we can increase the trust of the public in the system itself from various angles. In terms of the efficiency of the system itself, justice and equity, equitable perspective of the law and the administration of the law are essential in terms of increasing transparency. When the public can feel or see (this transparency), then they will believe (in the system) and the trust will increase from there.

It is also important that we give the necessary services and advisory so that they can perform their obligation to the best of their ability and with ease, with no confusion or complication.

When the awareness is increased and the understanding is there, and they are provided with the necessary assistance or services made easily available to them, this will be the beginning of the journey of increasing the trust itself.

Of course, the other side of the trust equation is how the revenue is administered. This is on the Government as a whole. We (HASil) are at the revenue generating side, whereas that relates to the expenditure. We cannot just be increasing the trust at the collecting side; trust has to encompass the whole system.

How is HASiL using technology or digital revisions to improve not just your collections, but your services, your transparency, your efficiency, and of course, public trust?

We have actually undergone a process of transforming our IT background or services. This journey took us two years, where we integrated the various systems that have been developed over the past 15 years. We began digitalising from the mid-80s throughout the early 90s which accounts for probably almost 30 years of our digital transformation journey.

"HASiL advocates for cooperative compliance to enhance tax administration and governance. This entails shifting the mindset of accountancy and taxation professionals towards higher-value tax advisory roles, focusing on predicting and mitigating tax and business risks in real-time situations."

Since the whole IT infrastructure was developed phase by phase, at one point we ended up with various systems to deliver or accommodate all our services. To achieve a more seamless kind of communication and integrate these different systems, we have initiated the Hasil Integrated Tax System, which provides a more real-time experience.

For example, in the past, if you made a payment today, you would only see it in the ledger at the earliest by tomorrow. This has changed now. We provide a single gateway for taxpayers to log in and see all things related to their tax matters, whether it is communication, access to services or even viewing their tax positions. This is called MyTax which is available for individuals, as well as corporate taxpayers. So, nowadays when you do your e-filing, you do not need to wait until the next day to see it in your tax position. It is more real time. This is a major transformation that has received very good feedback from the taxpayers.

In addition, more and more of the physical over the counter services, be it lodgment of returns, making payments, and more recently, even the stamp duty process has been digitalised. Everything is now on an online system, from income tax to stamp duty. This means the services are available 24/7 and anywhere, anytime, providing taxpayers with more convenience and avenues to access the services. Of course, there is a lot more room for improvement, but the basic infrastructure is there.

What other tech innovations can we expect in terms of service improvements coming up?

One of the major initiatives that we are currently embarking on now is to establish an e-invoicing environment in Malaysia. This is something that has been done in many countries, where some have had it for more than 15 years in this region, with the Philippines being the latest adopter, I think.

According to our timeline (and as announced in Budget 2024 by the Prime Minister), we are going to start e-invoicing in place as of 1 August 2024 (deferred from the original date of 1 June 2024) with a certain group of companies with a turnover of more than RM100 million. The timeline will be extended until 2027 for individual taxpayers.

This initiative is part of the grand scheme of making taxation more real time earlier because this provides certainty which is of huge importance to businesses. If you want certainty, you cannot work on a historical basis, because at any point of time you are not certain. You have to wait until the time is completed and then you look backward and try to see how much your tax obligations are.

By making it more real time, at any point of time you know that you have complied with your tax obligation basically to some extent. With the help of e-invoicing, this will be made possible. Enabling real time is part of our journey of making compliance automatic. It is actually compliance by design, which means when you are in the system, you just comply as you go along. That is the sustainable way of maintaining compliance at the highest maximum level. We cannot continue to be doing compliance traditionally in a hide and seek kind of situation, chasing and going after the non-compliant ones, which is an approach that has no end. Designing compliance into the system is a sustainable way of going forward.

If we are talking about designing compliance systems, what about those outside in the shadow economy?

The digitalisation of the economy nowadays has made it a lot easier to bring those in the shadow economy into the net. For example, all sectors will be involved with e-invoicing. You can no longer be doing business in the country if you are not in the system, with the exception of illegal activities which are done under the radar. This is definitely going to reduce the shadow economy's size, and hopefully, it will be reduced to just the illegal activities. So, all legal activities will be captured within the net.

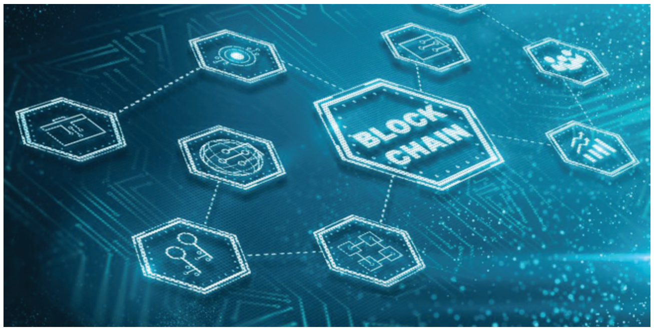
Handling the illegal activity is a different story altogether, but this is made possible by technology nowadays. In the old days, you do business manually and you make payment more on a cash basis, and this is a part of the shadow economy. If

"Increasing public trust in the tax system requires enhancing transparency, efficiency, and equity in administration. HASiL aims to bolster trust by ensuring fairness and justice in law enforcement, providing accessible services, and fostering awareness and understanding among taxpayers."

everything is electronic, and especially when there is an increase of e-payment mechanisms, everything will be captured within the system and we can reduce such activities. Also, when we have designed compliance into the system, part of the resources is to maintain the system while the other part of our resources can be used to look for those who are outside of this net, to bring them in. We already know that they are in the net because they are somewhat compliant already, so we just have to manage the infrastructure.

Speaking of infrastructure, do you use technologies like blockchain and data analytics to capture more of these people?

I think this is something that is inevitable. Artificial intelligence, using robotics in the process, are tools that we cannot do without as more businesses are online based on a digital platform nowadays. Many businesses are not seen physically, especially in the services industry. Even in the retail business, you don't see shops. Sometimes there are businesses that actually do retail but don't hold any stocks. They just manage in terms of being a supplier or producer to the consumer. If we do not keep up with these developments, definitely we will be missing a lot in terms of ensuring that these businesses are inside the net.



How do you ensure that your people are on board with all these innovations? How are you changing your culture?

In terms of training talents in the necessary fields, we are no longer just looking at tax law and the accounting perspective, but more and more at technology. We are creating more people who are good in the business process, and also at the same time adept in the technology process, because they have to be merged to support each other. In fact, in the IT industry now, what used to be support services should be the driver of the organisation. Otherwise, you will be slacking behind.

How do you think MIA can collaborate with LHDN to further improve education and professional development for tax professionals?

With regards to the accountancy profession and tax, the journey is actually towards compliance by design, to increase more cooperative compliance.

Therefore, the accountancy profession's role as the intermediary between the taxpaying community and the tax authority has to shift. Initially, accountants began as preparers, tax preparers, tax mitigators when there are disputes, but that was when tax was historical in nature, and you compute your tax for last year.

As we shift to more real time situations, the profession has to increase cooperative compliance activities. In future, the role of the profession should be looking at how to mitigate and how to avoid risk. What are the potential risks in terms of tax? How do you provide the right advisory in terms of how best businesses should be handling their tax matters? You have to make the shift from historical to current and future. That takes a lot of upskilling because historically the skills are more on computation.

Going forward, there needs to be more planning. The profession has to understand business more than in the past. Accountancy professionals have to move from just looking at figures and trying to compute the tax obligation, to understanding the business and identifying potential risks. This should be the direction that will be in line with the tax authorities' intention of managing behavior to enhance compliance. We are not focused on just the revenue but looking at how can we steer them to the right direction.

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