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First Quarter 2013
Performance Review

Look to the East

Formal vs Informal Learning

Mobile Banking
Over the years and now

BUDGET 2013-14
A STEP FORWARD?

editorial

Responsible Innovation in Banking

Banking, in its most primeval practice, can be traced back to 2000 BC in Babylonia; a more evolved and relatively modern form of banking dates back to early 14th century in Italy. But the IBP is not a historical journal and this editorial is not an extract therefrom.

With its prehistoric pedigrees, the now increasingly dynamic and crucial economic backbone industry of banking has undergone many changes and phases. Lending in grains and barter paved way for the many shifting forms of currency transactions and now boast a vast portfolio of structured products and services customized as per the financial requirements of customers. Reviewing its history makes one appreciate how critically innovation is interwoven into its evolvement, and how the industry has completely transformed into the global financial landscape we witness today.

Could such progress have been achieved with conservative stagnancy instead of proactive innovation? The answer is simple and broad-spanned – sustainable growth rarely generates out of a conservative maintain-the-status quo strategy; significant advancement calls for us to exit our comfort zones, try something new, even fail sometimes and learn from our lessons, but keep moving forward. There is always room for improvement and therefore, innovation. Bankers better keep their seat belts on, because there are still many phases of innovation to steer ourselves through.

Innovative ideas are manifest in different forms. Innovation in product development is one of the forms that has been subject to much criticism following the recent global financial crisis. Structured products, in particular, bear the lion's share of suspicious critique with reference to the financial turmoil that we continue to witness today. This has also led to the term of reference that the bearers and conducers of financial modernization must embrace in practice: 'responsible innovation'.

A financial institution's – just like any other corporation's – foremost obligation lies to its stakeholders; banks must cater to the financial needs of its customers, and flexibly design product offerings accordingly, but in doing so it must not lose sight of its primary duty to protect its stakeholders' investments. In the event that banking institutions get carried away at the back of their temporarily unbridled ambitions, internal risk management functions and external regulatory bodies have been assigned the authority to bring them back in line within banking and investor law. Therefore, it is a cautionary imperative for financial and regulatory reforms to complement financial modernization.

The relatively unsung, and less touted, technological innovation has proven to be the fundamental driver of growth and globalization of the banking industry. Anyone who has ever transmitted funds across the world almost-instantaneously, bought something from three continents away by punching in a credit card number and withdrawn money on-the-go from the godsend ATMs, can testify to that. In the obvious presence of these, there is little need to further delve into examples of the compliance controls, transactional convenience, trading platforms and report generation capacity that information technology and its systems have bequeathed to us, in order to illustrate the subject point.

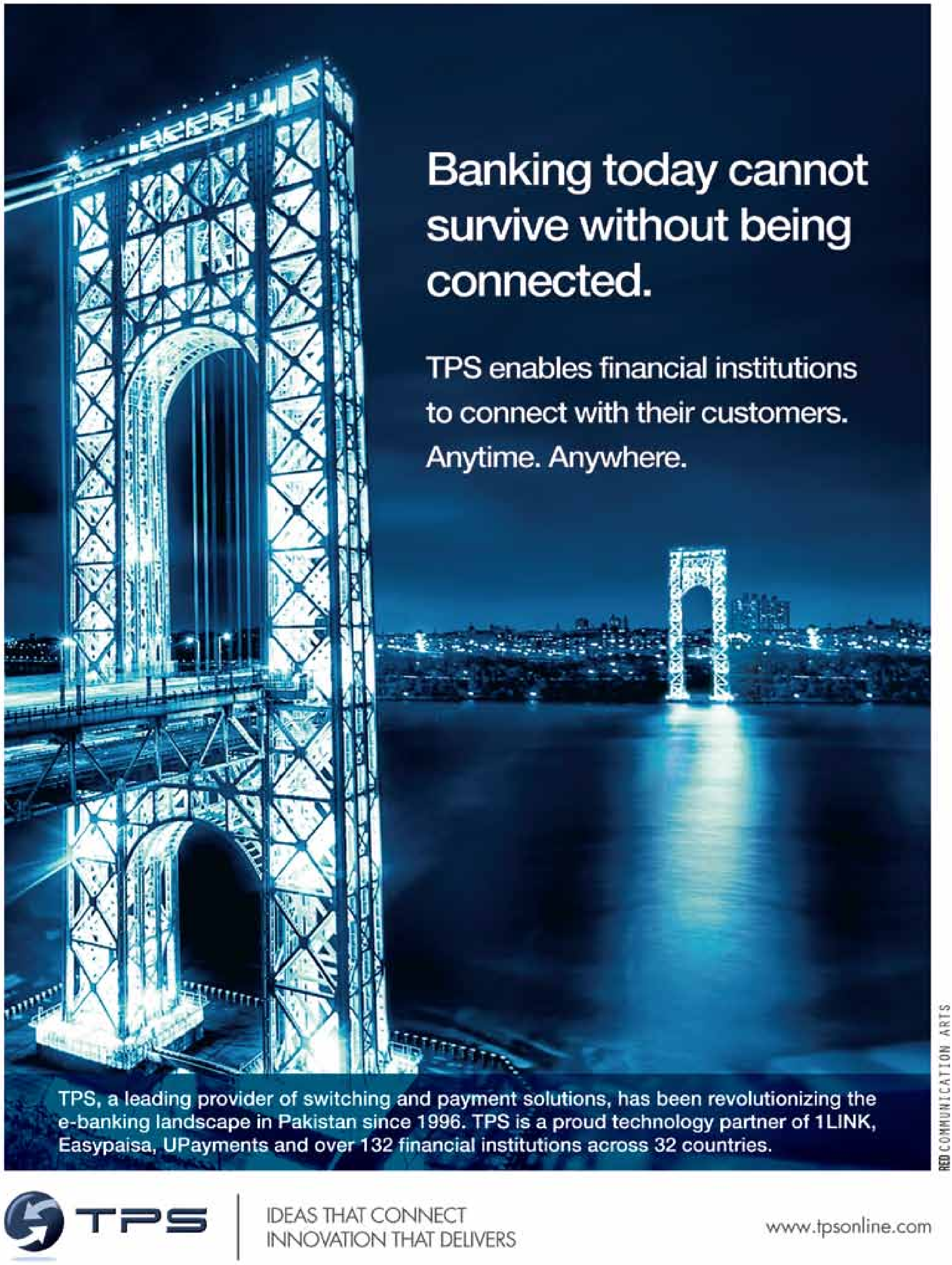
At its crux, and broadest, innovation in any sphere and industry is a creative mindset – a paradigm of thought, a cognitive approach and an institutional culture that must be inculcated within and encouraged by banking institutions. It is the ability, willingness and freedom, to think out of the box even if it is to achieve the same outcome as any other conservative approach, but through a different route. And there is no reason that a conservative outlook cannot be conducive for, or facilitate innovation – the tried and tested old can often times serve as an efficient check and balance for the new.

A good measure to add assurance and certainty into innovative advancement in the banking sector is to design the same such that it improves modern financial systems for the real economy's development. The pasttwenty years of financial innovation – and the lessons/experiences therein – teach us that dichotomy between the financial sector and the real economy bodes turmoil for both realms. Highly leveraged trade and funds generation through interest mechanism does yield in financial highs and economic booms – but when it fails, it experiences an unprecedented fall too.

Exemplary case in point: micro-saving and micro-investment programs that encourage individuals and households to save small amounts over significantly long time periods. These are outcomes of creative product development that promote financial inclusion while contributing to the augmentation of quality economic output.

They say that those who forget the past are likely to fail twice as much. Let us learn from mistakes that aggressive growth oriented banks (and other financial institutions) have made in the past, and head forward into the future armed with our creativity and sound financial controls. With an armory so well stocked, no milestone will be far enough.

Sirajuddin Aziz
Editor-in-Chief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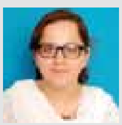

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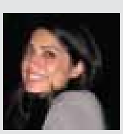

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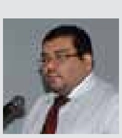

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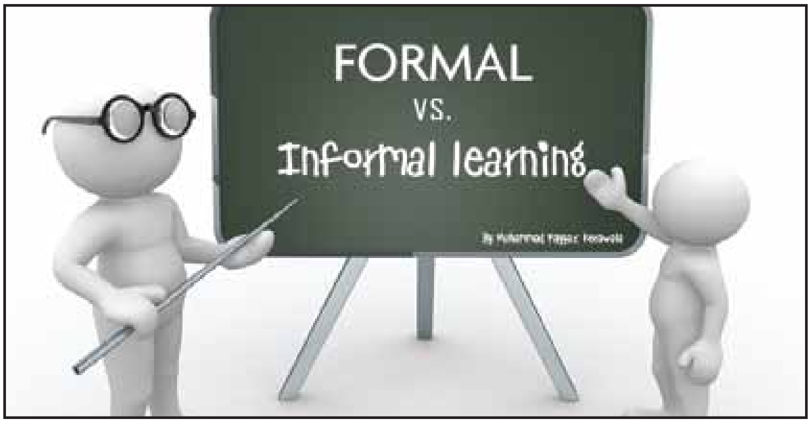
contents



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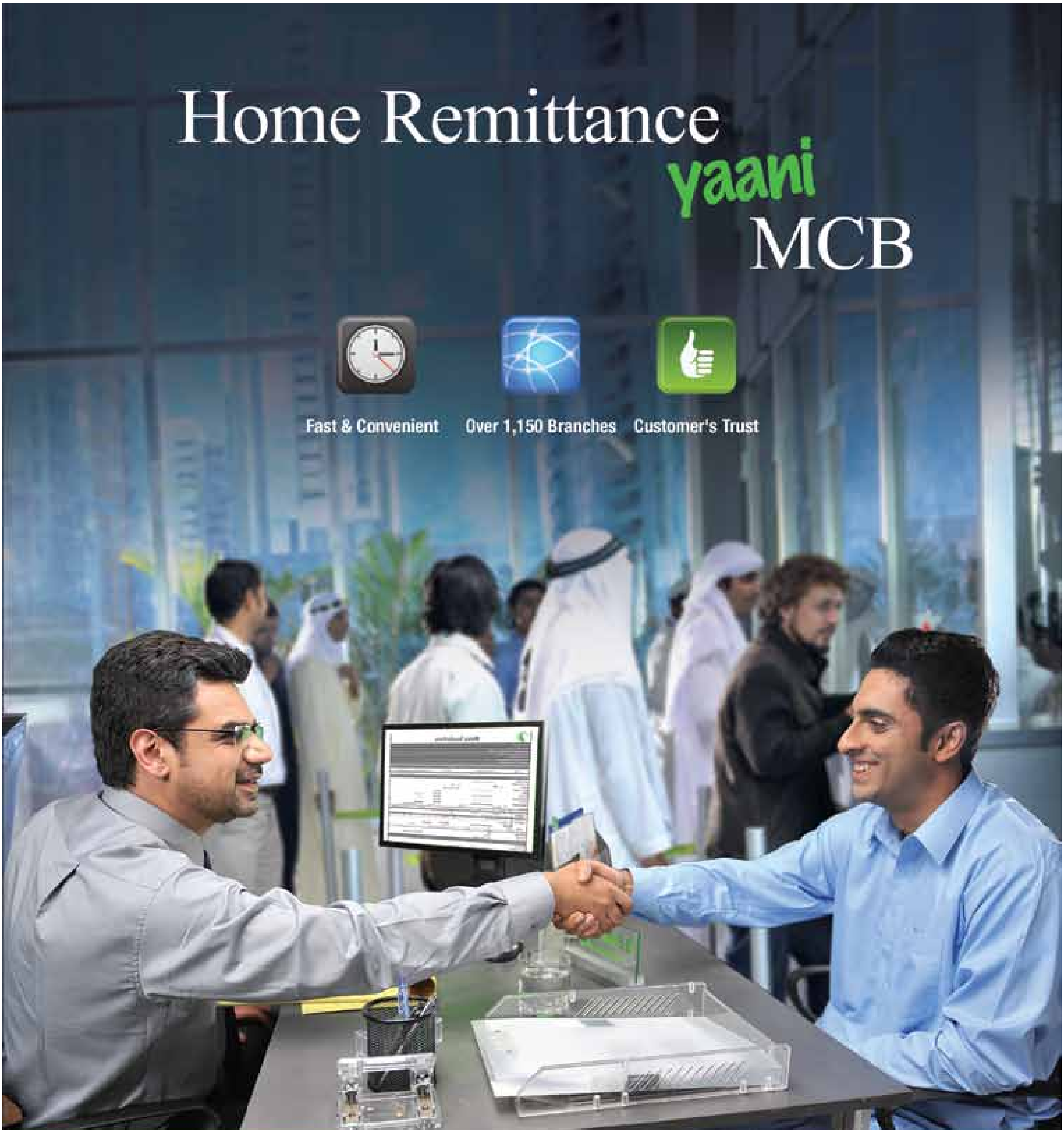

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Federal Budget 2013-14 is a step forward by the newly elected government with renewed focus on revival of economy through reducing fiscal deficit, clearing energy sector inter-corporate debt, reducing untargeted subsidies, increasing revenue mobilization and minimizing tax evasion, and privatizing inefficient Public Sector Enterprises (PSE). However, despite having simple majority in parliament, the incumbent government avoided tough decisions on structural reforms such as broadening the tax base and rather relied on old-school measures by raising indirect taxes (increase in GST, turnover tax) and income levy, which further burdens existing taxpayers. In general, the budget 2013-14 is an attempt to revive business confidence and investment in a difficult economic situation at the expense of contracting the formal economy.

BUDGET 2013-14

A STEP FORWARD?

SALIENT FEATURES

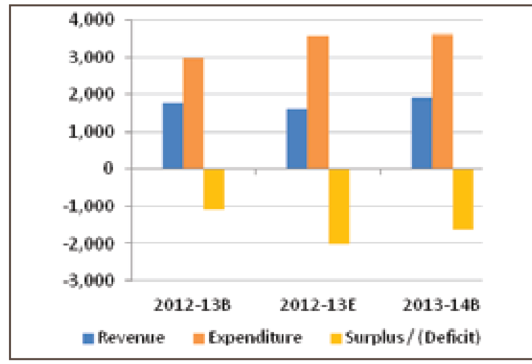
In a bid to balance austerity and stimulus, federal budgetary outlay for 2013-14 has been envisaged at PKR 3.98 trillion, up 14.6% from revised estimates for fiscal year 2012-13. Despite 1% reduction in corporate income tax, an ambitious tax revenue target of PKR 2.60 trillion representing 65% of total outlay compared to revised estimate at 61% of outlay in 2012-13 has been set, which includes FBR tax revenue target of PKR 2.47 trillion (up 23% from revised estimates of 2012-13). On the expenditure front, current expenses have been marginally increased to PKR 2.83 trillion from current year's revised level with notables including 40% year-on-year (YoY) reduction in power tariff differential subsides and 36% YoY higher developmental allocation at PKR 1.16 trillion. The actual implementation of these measures will be crucial in achieving the fiscal deficit target of PKR 1.65 trillion or 6.3% of GDP from a burgeoning 8.8% of GDP in current year, while attaining GDP growth target of 4.4% and keeping average inflation in check at 8% for 2013-14.

REVENUES – MORE TAXES, FEW PAYERS

A tax-to-GDP ratio below 10% indicates the fractured state of tax machinery of country where total tax revenue target of PKR 2.5 trillion in the current year is to be missed by a high margin of 15%. With a resolve to enhance tax-to-GDP ratio to 15% in next five years by expanding the tax net, the government has set forth an ambitious target for total tax revenue at PKR 2.6 trillion or 10.6% of GDP, up 22% from current year's estimate, in spite of 13.5% growth targeted in nominal GDP in 2013-14. A substantial chunk of the tax revenue is estimated to flow from higher indirect taxes (21% YoY) on the back of 1% increase in Sales Tax and doubling of Turnover Tax to 1% whereas direct taxes are also budgeted to rise by 25% YoY. While attempts have been made to discourage tax evasion with substantially higher penalty on non-filing of tax returns, no concrete steps have been taken to expand the tax base and bring agriculture income into the tax net. Non-tax revenues are budgeted at PKR 822 billion, up 15% from last year revised target of PKR 712 billion on the back of receipts of PKR 120 billion from sales of 3G telecom licenses and an additional PKR 112 billion under the head of defense services in Coalition Support Fund (CSF) along with an additional PKR 68 billion in dividends from Public Sector Enterprises (PSE).

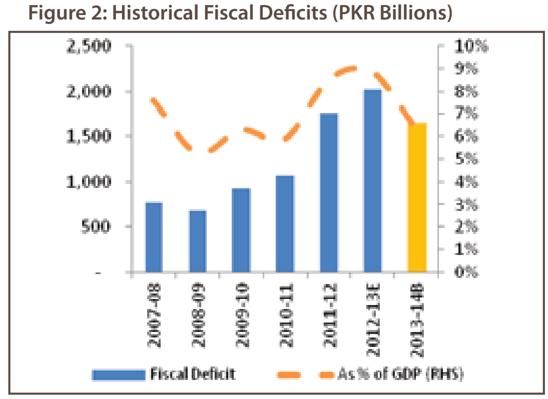
"A SUBSTANTIAL CHUNK OF THE TAX REVENUE IS ESTIMATED TO FLOW FROM HIGHER INDIRECT TAXES"

Figure 1: Fiscal Situation (PKR Billions)



Source: Banks' Financial Statements

Figure 2: Historical Fiscal Deficits (PKR Billions)



Source: Banks' Financial Statements

Figure 3: Fiscal Snapshot

(In PKR Billions)	2012-13 Budgete	2012-13 Estimate	%Δ	2013-14 Budgete	%Δ
Revenue					
Tax	2,504	2,125	-15%	2,598	22%
FBR Revenue	2,381	2,007	-16%	2,475	23%
Non Tax	730	712	-2%	822	15%
Gross Revenue	3,234	2,837	-12%	3,420	21%
Less: Provincial Share	1,459	1,221	-16%	1,502	23%
Net Federal Revenue	**1,775**	**1,616**	**-9%**	**1,918**	**19%**
Expenditure					
Current	2,396	2,720	14%	2,829	4%
Interest Payment	926	1,029	11%	1,154	12%
Defense	545	570	5%	627	10%
Subsidies	209	368	76%	240	-35%
Federal PSDP (Net)	360	388	8%	540	39%
Net PSDP	873	851	-2%	1,155	36%
Less: Provincial Share	513	463	-10%	615	33%
Other Develop. Exp.	154	107	-30%	172	60%
Net Lending	50	362	622%	50	-86%
Federal Expenditure	**2,960**	**3,577**	**21%**	**3,591**	**0%**
Federal Deficit	-1,186	-1,962	65%	-1,674	-15%
Provincial Balance	80	-62	-178%	23	-
Overall Fiscal Deficit	**-1,106**	**-2,024**	**83%**	**-1,651**	**-18%**

Source: Banks' Financial Statements

Following measures have been taken to address revenue mobilization and provide relief to the masses:

REVENUE MOBILIZATION MEASURES:

- General sales tax rate has been increased to 17% from 16%
- Further sales tax of 2% imposed on taxable supplies to non-registered person Income support levy of 0.5% has been

imposed on all net moveable assets in excess of PKR 1million, from tax year 2013

- Minimum tax rate on turnover has been enhanced from 0.5% to 1%
- Maximum tax rate on salaried and non-salaried individuals has been raised from 20% to 30% and 25% to 35% respectively, with six additional slabs for salaried class
- Transactions of margin financiers, trading financiers and lenders subject to withholding tax at 10% of profit or markup or interest earned
- Withholding tax rate on cash withdrawals from banks has been raised to 0.3%
- All kinds of financial services subject to FED at 16%
- Non-registered commercial and industrial consumers, having monthly bill in excess of PKR 15,000, will pay additional sales tax at 5% on electricity and gas
- Withholding tax imposed on hotels, marriage & community halls, issuance and renewal of license to cable operators, and foreign produced films & dramas
- Rate of initial depreciation allowance on plant and machinery has been reduced from 50% to 25%.

RELIEF MEASURES:

- Corporate tax rate for non-banking companies has been reduced by 1% to 34%
- Tax Holiday for projects in special economic zones is extended to 10 years
- Dividends received by banks from Money Market Funds and Income Funds will be taxed at 25% for Tax Year 2014 onwards, instead of being increased to 35%
- Allocation to Income Support Program increased to PKR 75billion with 20% hike in monthly allowance to PKR1,200 per month
- Pensions of retired government employees increased by 10% with increase in minimum pension to PKR 5,000 per month from PKR 3,000 per month
- Custom duty reduced by 25% to 100% on import of hybrid electrical vehicles
- Loans ranging from PKR 100,000 to PKR 2,000,000 will be made to small businesses at subsidized mark-up of 8% and zero mark-up loans will be provided through PKR 5 billion microfinance scheme

EXPENDITURE – FOCUSED ON DEVELOPMENT

The budget 2013-14 aims to limit the growth in total current expenditure (including foreign

Figure 4 : Financing of Deficit

(In PKR Billions)	2012-13	2013-14	
	Estimated	Budgeted	%Δ
Net External	18	90	397%
Domestic	2,006	1,482	-26%
Non-Bank	430	507	18%
Bank	1,576	975	-38%
Privatization	-	79	-
Total	**2,024**	**1,651**	

Figure 5: Tax Revenue Composition 2013-14

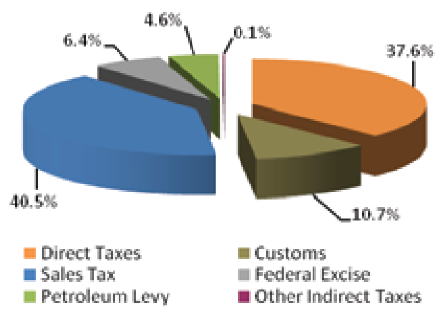


Figure 6: Non-Tax Revenues

(In PKR Billions)	2012-13	2013-14	
	Estimated	Budgeted	%Δ
Profit from SBP	200	200	0%
PTA (3G Licenses)	0	120	NA
Defense	181	112	-38%
Dividends	64	68	7%
Interest (PSE & Others)	40	37	-6%
Others	228	284	25%
Total Non-Tax	**712**	**822**	**15%**

Figure 8: Current Expenditure 2013-

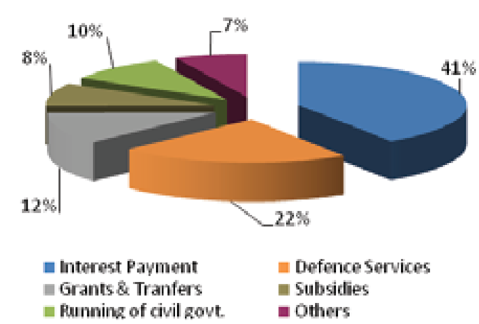


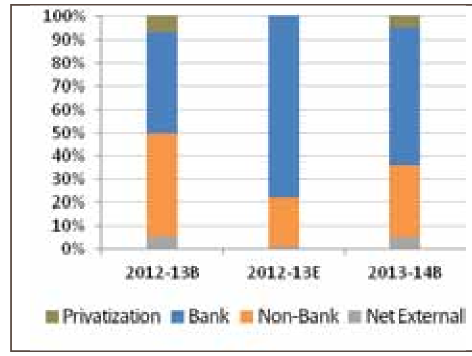
Figure 7 – Tax Revenues

(In PKR Billions)	2012-13	2012-13		2013-14	
	Budgeted	Estimated	%Δ	Budgeted	%Δ
Tax Revenue	**2,504**	**2,125**	**-15%**	**2,598**	**22%**
Direct Taxes	**932**	**779**	**-16%**	**976**	**25%**
Income Tax	914	761	-17%	949	25%
Indirect Taxes	**1,572**	**1,346**	**-14%**	**1,622**	**21%**
Customs	248	241	-3%	279	16%
Sales Tax	1077	865	-20%	1,054	22%
Federal Excise	125	122	-2%	167	36%
Petroleum Levy	120	115	-4%	120	4%

Figure 9: Subsidy Allocation

(In PKR Billions)	2012-13	2013-14	
	Estimated	Budgeted	%Δ
Subsidies	**368**	**240**	**-35%**
WAPDA / PEPCO	265	165	**-38%**
KESC	84	55	**-35%**
TCP	0	0	**-**
USC	6	6	**0%**
PASSCO	6	9	**45%**
Others	6	5	-11%

Figure 11: Deficit Financing



Source: Banks' Financial Statements

loan repayments) at 10% YoY to PKR 3.20trillion, mainly through significant reduction in untargeted subsidies. A large portion has been allocated to interest payments to the tune of PKR 1.15 trillion (up 12%YoY). While Defense budget has been raised by 10% YoY to PKR 627billion, a key feature of the budget is significant reduction of 35% YoY in budgeted subsidies expenditure to PKR 240billion on the back of 40% YoY cut in tariff differential subsidies. The government's plan to clear the energy sector circular debt in two phases and rationalize power tariffs will be crucial to meet the subsidies target, which has seen significant slippages in past. On positive note, targeted subsidies under Income Support Programs have been enhanced to PKR 75 billion from PKR 58 billion this year. In line with the new government's development agenda, the size of Public Sector Development Program (PSDP) budget has been increased significantly by 36% YoY to PKR 1.16trillion, which includes provincial share of PKR 615 billion (up 33% YoY). Actual allocation of PSDP to this scale hinges to a large extent on achieving tax collection target and budgeted non tax revenues, where any slippages will result in cut in development expenditure, as has been the case in the past.

BUDGETARY DEFICIT - HIGH AND INFLATIONARY

The Federal Budget 2013-14 aims to contain consolidated budgetary deficit at PKR 1.65 trillion or 6.3% of GDP from an estimated high of PKR 2.02 trillion or 8.8% of GDP the on going fiscal year. Wide subsidy over-runs with no cushion from development expenditure coupled with planned partial resolution of circular debt to the tune of PKR 326 billion (1.4% of GDP) before the year-end will lead to over 83% slippage in fiscal deficit for 2012-13, which is largely financed through banking channels (PKR 1.58 trillion). Although subsidies for coming year should be around target given planned settlement of energy sector circular debt, slippages in budgeted tax revenues will have to be adjusted with development budget to contain the deficit at 6.3%. On the financing side, given risks to budgeted external flows of PKR 576 billion, the burden of deficit financing will be borne by domestic sources, where borrowing from banks could well exceed PKR 1 trillion in coming year. This not only puts the Medium Term Budgetary Framework (MTBF) at risk where inflation could surpass the targeted 8% but also crowds out the private sector credit, which will be crucial to achieve the growth target of 4.4%.

"THE GOVERNMENT'S PLAN TO CLEAR THE ENERGY SECTOR CIRCULAR DEBT IN TWO PHASES AND RATIONALIZE POWER TARIFFS WILL BE CRUCIAL TO MEET THE SUBSIDIES TARGET, WHICH HAS SEEN SIGNIFICANT SLIPPAGES IN PAST."

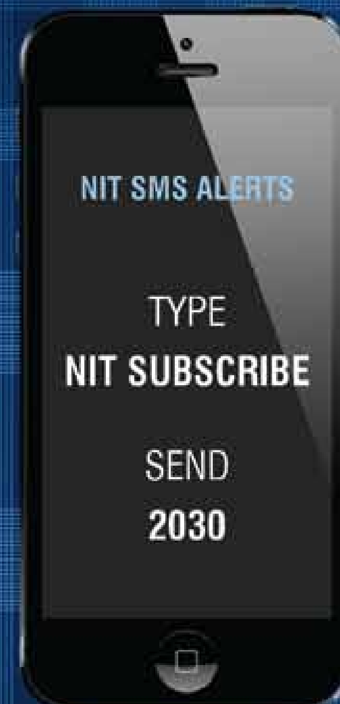
Figure 10 – Current Expenditure

(In PKR Billions)	2012-13	2012-13		2013-14	
	Budgeted	Estimated	%Δ	Budgeted	%Δ
Current Expenditure	**2,396**	**2,720**	**14%**	**2,829**	**4%**
Interest Payment	926	1,029	11%	1,154	12%
Domestic	846	952	13%	1,065	12%
Foreign	80	77	-4%	89	16%
Pension	129	167	30%	171	2%
Defense Services	545	570	5%	627	10%
Grants &Transfers	312	335	7%	337	1%
Subsidies	209	368	76%	240	-35%
Civil Govt. Affairs	240	251	5%	275	9%
Pay & Pension Reforms	35	0	-	25	-

Sector- Wise Implications	
Sector	Budget Implications
Banks	Freezing tax on income from Money Market Funds/Income Funds at 25% will be positive for banking sector. Further, increase of 0.1% withholding tax on cash withdrawal is likely to discourage cash withdrawals and encourage inter-bank transfers. However, this step will negatively affect financial inclusion in the economy. FED at 16% will be passed on to customers. Unlike other sectors, corporate Tax rate for banks has been kept unchanged at 35%.
Cement	Budget 2013-14 is largely positive for cement sector as PSDP allocation has been increased significantly with focus on low cost housing and infrastructure development, corporate tax rate reduced by 1% to 34%, no change in FED and withholding tax on dealers has been reduced from 0.5% to 0.1%. However, the increase of 1% in GST on retail price instead of ex-factory price will be passed on resulting in around 3% price hike, which coupled with taxes on real estate developers affects the sector.
Autos	Reduction in duty on imported hybrid vehicles, 10% ad valorem tax on vehicles of 1800CC and above, and increased taxes on registration of new vehicles will hurt automobile industry. Higher withholding tax on purchase of motor vehicles will also deter sales growth.
Fertilizers	Higher subsidy allocation of PKR 30 billion for urea imports compared to only PKR 10 billion utilized this year indicates increased reliance on imported urea going forward coupled with lack of conviction on government's part to increase gas supply to the sector. PKR 35.34 billion has been earmarked for Gas Development Surcharge, which may result in increase in feed gas tariff in future, leading to hike in domestic fertilizer prices. The sector will benefit from lower corporate tax rate, while increase in GST to 17% at retail level will be passed on by manufacturers, further reducing price differential between local urea prices and already bottomed out international urea prices.
Oil & Gas	Refineries and Oil Marketing Companies (OMCs) will continue to be subject to 0.5% turnover tax while benefiting from reduced corporate tax rate of 34%. Government's decision to settle circular debt of around PKR 500 billion in 60 days will improve liquidity of energy chain especially OMCs.
Electricity	Power sector subsidy has been budgeted at PKR 220 billion (PKR 165 billion for WAPDA and PKR 55 billion for KESC) compared to PKR 349 billion this year, indicating possible rationalization of tariff differential. Additionally, the planned resolution of circular debt in 60 days will inject liquidity in the cash strapped energy chain.
Textiles	Adjustable advance tax at 0.1% of gross sales will be collected on sales to distributors, dealers and wholesalers, while advance tax at 0.5% of gross sales will be collected on sales to retailers. While imposition of sales tax on finished goods will affect the sector, the doubling of turnover tax and reduction in corporate tax will have marginal impact on the export-oriented sector. The reintroduction of a zero rating scheme for intermediary textile products is positive for the sector.
Insurance	The reduction in corporate tax rate to 34% bodes well for insurance companies. On the other hand, FED at the rate of 16% is applicable on all kinds of financial services including insurance.
Telecom	Government has set ambitious target of PKR 120 billion for auction of 3G licenses in coming months, which will increase Average Revenue Per Unit (ARPUs) for cellular companies but also result in high leverage and decreased payout.
FMCGs	The increase in sales tax will increase end-prices of consumer products and may slow consumption. FED on aerated beverages has been increased from 6% to 9% coupled with introduction of capacity based taxation. Three tier structure of chargeability of FED on cigarettes is replaced by a two tier specific rate structure. Sales tax exemption on milk preparations, obtained by replacing one or more constituents of milk by another substance, has been withdrawn.

January 07, 2012

PIONEER OF CO-BRANDED ATM FACILITY IN THE MUTUAL FUND INDUSTRY



November 07, 2012

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Look to the East

Fifty years after its inception, Islamic finance is experiencing rapid growth. owan Morrison explains, it's now developing its customer service through training and technology to further strengthen its offering.

While the UK banking industry continues to face an uphill struggle to regain the public's trust, further afield, towards the East, Islamic banking has been quietly building itself up as a global financial force to be reckoned with. Under Islamic law, accepting bank interest or charging fees on loans is not permitted, meaning sharia-compliant products are typically asset-backed and with investment only made in businesses not considered as "sinful".

Islamic banks profit from the buying and selling of goods and services, sharing the profits, and the risks, of investments with their customers. There are several financial instruments used – for instance, an ijara leasing scheme means the bank buys goods on the customer's behalf and generates funds by "renting" it back to them. With a murabaha scheme, the bank agrees a mutually acceptable marked-up price for property or goods at the outset .received by the bank seen as a reward for taking on risk. There is also a joint venture option called musharaka, where the bank and customer contribute capital to a venture and share in the profits and risks. When first introduced in the 1960s, no-one could have foreseen the influence and strength sharia-compliant banking would hold by 2013. A $1.1 trillion global industry, seeing growth at a rate of 15 per cent year-on-year, Islamic finance is now a crucial part of the offering of some of the world's most influential finance companies, with the appetite of a growing Muslim population for this form of banking showing no signs of slowing. Because of their unique approach to investment, Islamic finance providers also weathered the economic crisis well, with the Asian Banker Research Group recently reporting that the world's 100 largest Islamic banks have set an annual asset growth rate of 26.7 per cent, and the global Islamic finance industry is experiencing average annual growth of 15-20 per cent. Despite major international banks such as HSBC, Barclays and Standard Chartered scaling back their Islamic business, it is felt that this is partly due to being unable, or unwilling, to compete with local banks.

Among those leading the charge in this regard are banks in markets such as Malaysia, Pakistan and Turkey – with Malaysia in particular seen as one of the world's most important centres for thought leadership in Islamic finance, based on a solid 30-year-old industry. The country also issued the world's first Islamic bond, or sukuk, in 2002 and now leads global market growth in this area, with 78 per cent of total issuance. Central Bank data shows that Islamic banks have added 111.5 billion ringgit ($36 billion) in assets over the past two years, bringing their share of total banking assets to 19.6 per cent in December 2012. The Malaysian government has ambitious targets for developing this still further, looking to a 40 per cent share of Islamic domestic financing by 2020. Malaysia's neighbour, Indonesia, despite being inhabited by the world's largest Muslim population, is far less developed in sharia-compliant banking, although commentators believe there is huge potential for this to be addressed.

Pakistan is another Muslim nation seeing burgeoning enthusiasm for sharia-compliant banking, expected to reach the one trillion PKR mark by 2015. This is seen in some ways as a response to the financial crisis, says Ahmed Ali Siddiqui, Head of Product Development and Sharia Compliance, Meezan Bank. "The overall impact of the financial crisis was moderate in the Pakistani banking sector, as many instruments such as derivatives are less used here. However, the industry was indirectly affected as the economic downturn impacted on our corporate business houses.

"People's confidence in the Islamic banks increased due to their stability and asset-backed transactions, and avoidance of speculative transactions."

He continues: "A key piece of learning from Pakistan is the variety of Islamic banking modes and products which have been developed in the local market, and the innovative sukuk structure we have. The banking industry here is also putting training programmes for staff as a high priority, offering different levels for different functional areas and working with local Institutes to make arrangements for qualifications. This is crucial to keep on top of the fast pace of change we are experiencing."

This progress is also being felt in Turkey, which describes its Islamic banks as "participation banks". The Turkish sector is not currently as developed as other Islamic hubs, but it has been reported that a target of 10-12 per cent market share will be achievable over the next few years, with banks from outwith the country already showing interest in launching new participation banks in Turkey. Options with regard to raising funds through a sukuk

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"PEOPLE'S CONFIDENCE IN THE ISLAMIC BANKS INCREASED DUE TO THEIR STABILITY AND ASSET-BACKED TRANSACTIONS, AND AVOIDANCE OF SPECULATIVE TRANSACTIONS."

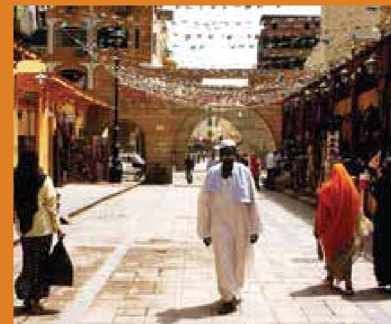
" WE ARE EMBRACING THE LATEST TECHNOLOGIES AND INFRASTRUCTURE, AND TRAIN OUR STAFF SO WE CAN PROVIDE THE BEST POSSIBLE SERVICE TO OUR CLIENTS."

issuance are also being explored, with only two issued to date. "The future looks good for Turkish banking," says Osman Akyuz, Secretary General of the Participation Banks Association of Turkey. "After the 2001 stock market crash, tour banking officials have created very sound banking legislation and the government established the BRSA – an independent banking supervision and regulation agency. Now, Turkish banking is highly trusted and one of the most resilient in the world."

2012 figures from the Participation Banks Association of Turkey, show that Turkey's four participation banks accounted for 5.1 percent of Turkey's circa 1 trillion lira – although small, this is double what it was in 2005 and it continues to grow at an even faster rate. The participation banking sector is also addressing issues around a perceived lack of qualified personnel to smooth the transfer from conventional banking. Akyuz agrees: "We are embracing the latest technologies and infrastructure, and train our staff so we can provide the best possible service to our clients. Our member banks are also making inroads into social media to further enhance this."

As indigenous Islamic banks continue to address areas such as customer service and employee training and development, alongside strengthening their range of sharia-compliant products and seeing the commercial benefits of issuing sukuk bonds, it would seem their proposition can only continue to gain market share.

EGYPT: THE BIRTHPLACE OF ISLAMIC FINANCE



At the time of writing, post-revolutionary Egypt is on the verge of economic collapse, faced with a significant budget deficit approaching 10 per cent of GDP. A proposed loan of $4.8bn from the IMF is being seen by commentators as simply not enough to address the country's systemic issues and levels of violence and ongoing political dissent.

Egypt is considered as the birthplace of Islamic finance, with the launch of Mit Ghamr Savings Bank in 1963, which at one point had 53 branches. This development slowed following corruption scandals and the country seeking a more secular financial system under Mubarak. Now with an Islamist President, Mohamed Mursi, it has been expected that Egypt will again seek to grow its Islamic finance industry.

There are currently just three out of 39 banks in Egypt that are fully sharia-compliant: Faisal Islamic Bank of Egypt, Al Baraka Egypt Bank and the Egyptian Saudi Finance Bank. The expansion of these banks has been cautious, with Faisal Islamic, for instance, holding only 30 branches in Egypt, compared with Commercial International Bank's 153 branches and HSBC's 100.

With just one in 10 adult Egyptians holding a bank account, according to figures from the World Bank, it has been difficult to see how Islamic banks can find a way to penetrate the market in any meaningful way. However, Egypt's main agricultural bank, Principal Bank for Development and Agricultural Credit (PBDAC), has just launched Islamic retail services at 18 Islamic branches to meet increasing demand in rural areas, and the country is preparing to raise as much as $1bn by June from the sale of its first sukuk, or Islamic bonds.

Islamic banking in the UK

The Islamic Finance Council UK is the leading specialist Islamic finance promotional body in the country, active in the arena of capacity building, sharia assurance and government policy advisory. Saftar Sarwar and Omar Shaikh, IFC Board Members, outline the growth of Islamic banking in the UK

Over the last 15 years, Islamic banking in the UK has been growing steadily, supported by a proactive UK Government creating an enabling tax and regulatory environment.

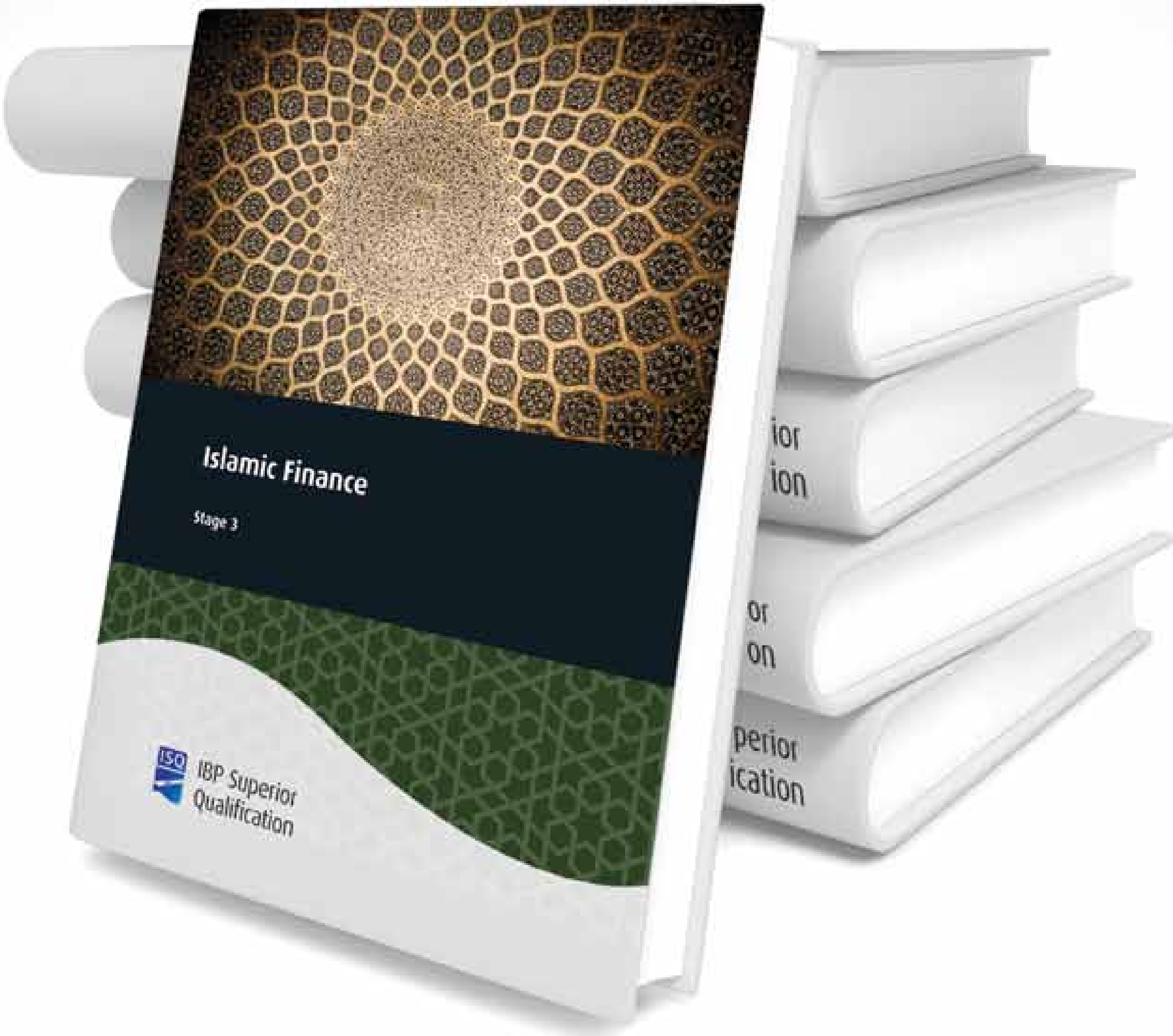
Islamic banking in the UK is divided between a few key areas. First, there are "standalone" fully Islamic banks. These include one retail bank, Islamic Bank of Britain (IBB), and four wholesale/investment/asset management led banks, Bank of London and Middle East, Gatehouse Bank, QIB UK and the European Islamic Investment Bank. Collectively, these banks now have a balance sheet of nearly £2bn and are capitalised predominately by Gulf shareholders. The wholesale banks actively finance Gulf investors targeting UK real estate.

Alongside standalone banks, a number of leading international banks operate "Islamic-windows", having a segregated banking business delivering Islamic banking solutions. These include Barclays, Deutsche Bank, UBS, Lloyds Group, HSBC and Standard Chartered, among others. Their services are primarily aimed at affluent or corporate customers. For example, Kuwait Finance House bought Motherwell Bridge Ltd a few years ago, financed by sharia-compliant funding from RBS. The Shard, the UK's tallest building, is largely funded using Islamic financing.

While the UK banking sector has witnessed a near collapse, the Islamic banks have not suffered from the same problems, and the principles of Islamic finance prevented Islamic funds from being invested in overly leveraged companies.

The Islamic finance market, now worth over $1.5trn, continues to be one of the fastest growing segments within the global financial arena. Buoyed by strong petrodollars and a changing consumer appetite towards a more ethical form of finance, the future for Islamic finance remains strong.

This article was first published in Chartered Banker, the magazine of the Chartered Banker Institute.


Islamic Finance
Stage 3
ISQ IBP Superior Qualification

By Saad Hashemy

FIRST QUARTER 2013

Performance Review

BANKING SECTOR PROFITS DECLINE

Banking sector profits declined by 13.1% year-on-year during 1QCY13 ending a successful run of profit growth during the last several quarters. Big 5* banks underwent earnings decline of 15.1% year-on-year to PKR 20.7bn during first quarter of 2013. Mid-Tier** banks posted profit of PKR 5.3bn, registering decline of 4.3% year-on-year. Continuous monetary easing together with increase in profit rate from 5% to 6% on savings accounts has reduced the banking sector bottom line. MCB exhibited the highest profitability growth of 3.5% among Big 5 banks, while BOP led the Mid-Tier group with year-on-year earnings growth of 140.5% during 1QCY13. NIB posted earnings of PKR 0.51bn in first quarter of 2013 compared to loss of PKR 0.15bn during same period last year, on the back of increased Net Interest Income (NII) and decreased provisioning expense.

Banking sector deposits increased at an average rate of 15.3% year-on-year to PKR 6,380bn on consolidated basis during 1QCY13, while total advances grew at an average rate of 8.3% year-on-year to PKR 3,287bn over the same period. Although there was slight improvement in credit offtake by private sector, banks continued to channel more funds towards investments, which went up by an average of 30.1% to PKR 3,577bn during first quarter of 2013.

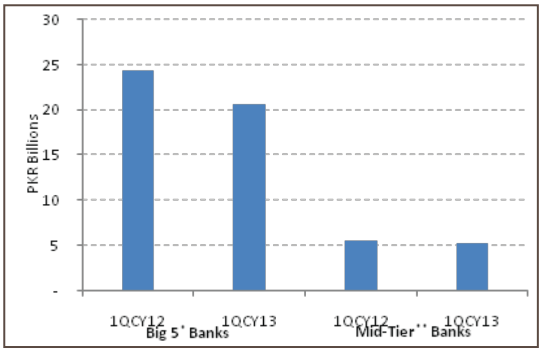
DEPOSITS UP 15.3%

Banks continued to build up their deposit base during 1QCY13. Big 5 and Mid-Tier banks' deposits registered year-on-year growth rate of 17.6% and 11.6% respectively, bringing each group's cumulative deposits to PKR 3,975bn and PKR 2,405bn respectively. HBL exhibited the highest year-on-year deposit growth rate of 29.9% among the Big 5 banks, with deposit base of PKR 1,249bn during 1QCY13. SNBL registered the highest deposit growth rate of 24.5% among Mid-Tier banks; however, BAFL had the largest deposit base to the tune of PKR 451bn within the group. Within the deposit mix, the high cost fixed deposits of Big 5 banks grew at 12.7% to PKR 1,023bn, while that of Mid-Tier banks decreased by 3.3% year-on-year to PKR 681bn during 1QCY13. HBL and SMBL displayed the largest year-on-year increase of 36.6% and 166.1% in fixed deposits among Big 5 and Mid-Tier banks respectively.

During 1QCY13, current accounts and savings accounts (CASA) for Big 5 and Mid-Tier banks escalated by 21.7% and 20.5% year-on-year respectively. MCB and SCB had CASA-to-total deposits ratio of 85.1% and 88.5% respectively, highest among their respective categories. State Bank of Pakistan's (SBP) directive to pay minimum profit rate of 6% on

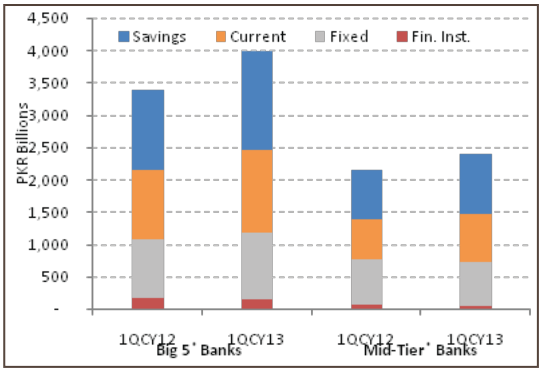
"HBL EXHIBITED THE HIGHEST YEAR-ON-YEAR DEPOSIT GROWTH RATE OF 29.9% AMONG THE BIG 5 BANKS"

Figure 1: Profit After Tax



Source: Banks' Financial Statements

Figure 3: Deposits



Source: Banks' Financial Statements

Figure 2: Profitability Snapshot of Big 5* & Mid-Tier Banks**

(PKR Millions)	Big 5* Banks		Mid-Tier** Banks	
	1QCY13	YoY Change	1QCY13	YoY Change
Net Interest Income	45,537	-8.4%	21,092	-3.4%
Non-Interest Income	18,172	6.1%	9,784	5.5%
Provision & Charges	2,704	31.5%	1,803	-39.7%
Profit After Tax	20,678	-15.1%	5,339	-4.3%
Return on Equity	16.1%	-5.2%	10.3%	-1.0%
Net Interest Margin	4.0%	-1.3%	3.2%	-0.6%
Advances/Deposits Ratio	50.4%	-3.9%	53.4%	-2.3%
Non-Performing Loans (NPLs)	251,282	-2.5%	259,222	1.7%
NPL Coverage (Specific)	78.6%	5.0%	61.1%	2.5%
Portfolio Infection Rate	11.4%	-1.3%	17.9%	-0.9%
Investments/Deposits Ratio	57.3%	8.6%	54.1%	2.8%
Cost/Income Ratio	47.5%	6.0%	67.2%	5.5%

Source: Banks' Financial Statements

average monthly balance in savings account, has resulted in increased cost of funds for banks, leading to shrinking interest margins (NIMs) and reduced bottom lines.

ADVANCES INCREASE BY 8.3%; INVESTMENTS UP 30.1%

Advances of Big 5 and Mid-Tier banks grew 9.2% and 7.0% YoY respectively, to PKR 2,004bn and PKR 1,284bn respectively, during 1QCY13. On the other hand, Investments of Big 5 and Mid-Tier banks underwent increase of 38.5% to PKR 2,276bn and 17.7% to PKR 1,301bn respectively indicating sector's tendency to invest in government securities to earn risk-free return. NBP and BAFL posted the highest year-on-year percentage increase of 20.1% and 16.3% respectively, in advances among their respective groups. HBL and SMBL outperformed their peers by undergoing the largest year-on-year percentage increase of 73.6% and 56.6% respectively, in investments.

Advances-to-deposits ratio (ADR) of Big 5 and Mid-Tier banks dropped to 50.4% and 53.4% respectively in 1QCY13 from 54.3% and 55.7% respectively a year ago. ADRs of NBP and NIB stood at 70.4% and 83.6% respectively, highest among their respective groups. Investments-to-deposits ratio of Big 5 and Mid-Tier banks increased to 57.3% and 54.1% respectively in 1QCY13 from 48.6% and 51.3% respectively during corresponding period last year.

"CURRENT ACCOUNTS & SAVINGS ACCOUNTS (CASA) FOR BIG 5 AND MID-TIER BANKS ESCALATED BY 21.7% & 20.5% YEAR-ON-YEAR RESPECTIVELY."

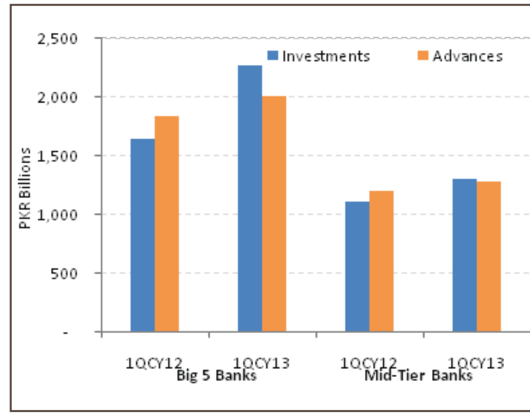
NON-PERFORMING LOANS DECLINE

Non-performing loans (NPLs) of Big 5 banks were reduced by 2.5% year-on-year to PKR 251bn during 1QCY13, while that of Mid-Tier banks increased by 1.7% year-on-year to PKR 259bn. MCB registered highest year-on-year reduction of 6% to PKR 24.7bn among Big 5 banks in its NPLs during 1QCY13; meanwhile, NBP had the highest NPLs to the tune of PKR 90.8bn among the group. Despite posting year-on-year reduction of 7.4% in 1QCY13, BOP had the largest NPLs to the tune of PKR 68bn among Mid-Tier group. Portfolio infection rate (as measured by NPLs/Gross Loans) of Big 5 and Mid-Tier banks decreased to 11.4% and 17.9% during 1QCY13 from 12.7% and 18.8% respectively during corresponding period last year. ABL and BAHL had the lowest portfolio infection rates of 7% and 2.6% among Big 5 and Mid-Tier banks respectively.

INTEREST YIELD AND NIMS CONTRACT

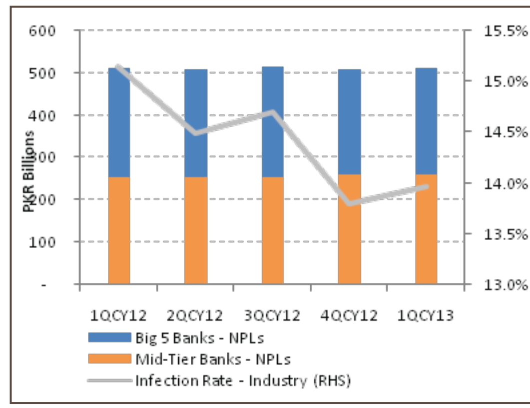
Banking sector margins remained under pressure owing to interest rate cuts of 450 basis points over past two years coupled with increase in profit rate on savings account from 5% to 6%. Net interest margins (NIMs as measured by Interest Yield minus Cost of Funds) of Big 5 and Mid-Tier banks declined from 5.3% and 3.7% respectively during 1QCY12, to 4% and 3.2% respectively in 1QCY13. This will further contract given the SBP's recent regulation (effective

Figure 4: Earning Assets Composition



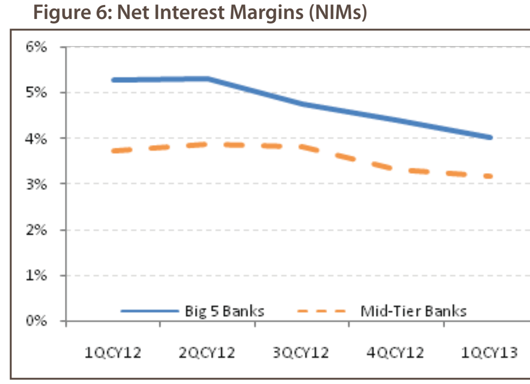
Source: Banks' Financial Statements

Figure 5: NPLs and Portfolio Infection Rates



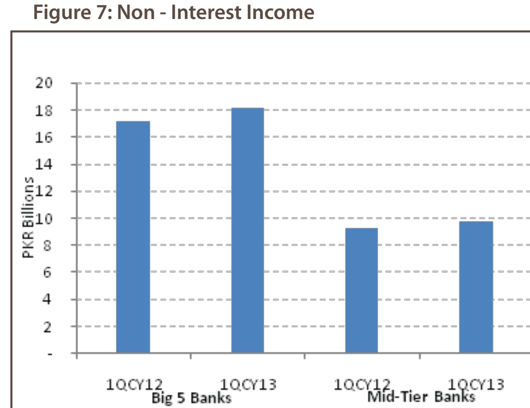
Source: Banks' Financial Statements

Figure 6: Net Interest Margins (NIMs)



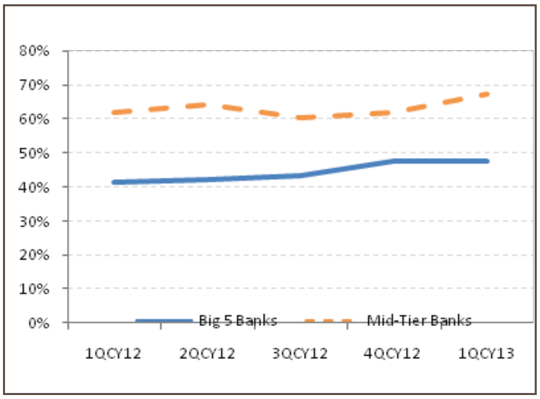
Source: Banks' Financial Statements

Figure 7: Non - Interest Income



Source: Banks' Financial Statements

Figure 8: Cost-to-Income Ratio



Source: Banks' Financial Statements

Key:

*Big 5 Banks	**Mid-Tier Banks
• Allied Bank Limited (ABL)	• Askari Bank Limited (AKBL)
• Habib Bank Limited (HBL)	• Bank Al Habib Limited (BAHL)
• MCB Bank Limited (MCB)	• Bank Alfalah Limited (BAFL)
• National Bank of Pakistan (NBP)	• Faysal Bank Limited (FABL)
• United Bank Limited (UBL)	• Habib Metropolitan Bank Limited (HMBL)
	• NIB Bank Limited (NIB)
	• Soneri Bank Limited (SNBL)
	• Standard Chartered Bank (Pakistan) Limited (SCB)
	• Summit Bank Limited (SMBL)
	• The Bank of Punjab (BOP)

Mid-Tier Banks list was subject to availability of detailed financial accounts by May 28, 2013.

SBP's recent regulation (effective April 1, 2013) of profit on savings account to be based on average balances (rather than the practice of minimum balances).

NON-INTEREST INCOME CONTINUES UPWARD SPREE

Non-interest income, including fee/commission income, income from dealing in foreign exchange, dividend income and capital gains, remained a key profitability driver for banking sector. Non-interest income of Big 5 and Mid-Tier banks exhibited year-on-year growth of 6.1% and 5.5% to PKR 18.2bn and PKR 9.8bn respectively in 1QCY13. NBP and BOP outperformed other players in their respective groups by undergoing the highest year-on-year growth of 42.2% and 50.1% to PKR 5.6bn and PKR 0.8bn respectively, in non-interest income. Non-interest income growth was driven by realized and unrealized capital gains, which increased by 111.7% and 143% to PKR 2.5bn and PKR 2.2bn for Big 5 and Mid-Tier banks respectively.

COST-TO-INCOME RATIO ESCALATES

Cost/Income ratio (as measured by Operating Expenses/Sum of Net Interest Income & Non-Interest Income) of Big 5 and Mid-Tier banks increased from 41.5% and 61.7% respectively during 1QCY12, to 47.5% and 67.2% respectively in 1QCY13. MCB and HMBL had the lowest cost-to-income ratios of 33.5% and 46.5% among Big 5 and Mid-Tier banks respectively.

SECTOR OUTLOOK

Interest rate cuts to the tune of 450 basis points over last two years together with increase in effective profit rate on savings accounts will keep banking sector margins under pressure. Growth in non-interest income and reduction in NPLs have provided support to the sector's bottom-line; however, decrease in yield on government securities will likely lead the banks to find new investment and lending avenues. High double digit deposit growth on the back of monetary growth of over 15% during current fiscal year will provide much needed support to the sector's bottom line.

> "NON-INTEREST INCOME, INCLUDING FEE/COMMISSION INCOME, INCOME FROM DEALING IN FOREIGN EXCHANGE, DIVIDEND INCOME AND CAPITAL GAINS, REMAINED A KEY PROFITABILITY DRIVER FOR BANKING SECTOR."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By Neelum Azmat

Significant public investment, effort by socially motivated institutions and microfinance providers has been made to uplift the millions living in poverty in Pakistan. Sustainable economic and social development is a slow process, with impact becoming visible over years.

The Scope of Micro INSURANCE in Pakistan

> "THE CURRENT REGULATORY FRAMEWORK DOES NOT COVER MICROINSURANCE, WHICH HAS NOT ONLY CREATED A GAP THAT CAN ALLOW UNHEALTHY PRACTICES TO EMERGE IN THE MARKET"

Imagine a rural farmer cultivating a relatively small piece of land borrowing from a microfinance provider, who manages to improve his income and make a reasonable living. He sends his children to school, improves his living conditions and provides for his family's basic needs. However, a calamity like the floods in 2010 and 2011 hit the region, destroying not only his standing crops but also setting back the advances made in terms of household income, home building and education. Similarly, illness of a family member or death of the bread earner can push the poor deep into poverty. Thus, just like the people with stable and higher incomes, perhaps even more, these segments require tools for managing their risks.

In addition to credit, for a long time the poor seemed to lack access to insurance services but the advent of microinsurance in recent years is changing this fact. Microinsurance refers to insurance products and services designed specifically for low income individuals or households. Microinsurance does not refer to a mere compact version of the traditional insurance products with lower premiums and coverage but rather needs to be seen as products designed specifically for the clientele at the base of the pyramid. With special focus on the capacity and needs of these clients, such products typically have small ticket size in terms of coverage amount, with flexible timelines. Microinsurance covers the same areas as traditional insurance, such as life insurance, health, disability, livestock, crop and asset insurance.

Globally, MI covers about 500 million beneficiaries. This includes covering the poor's crops, animals and other assets alongside life and health. The potential market for MI, in terms of premium is estimated to be almost USD 40 billion, with a total of about four billion people globally needing microinsurance to hedge their high vulnerability. The largest proportion of these low income households is in South Asia. In Pakistan, according to a study by the Securities and Exchange Commission of Pakistan conducted in 2012, the potential market for life insurance is about 31.5 million individuals, with nearly an equal market for health microinsurance. This does not include the dependants on the policy holders, adding which would increase the potential market three folds, to approximately 80 million!

Despite the great need for microinsurance in Pakistan given the vulnerability of poor to natural disasters such as floods and earth quakes and man-made disasters such as conflict, and absence of well established government safety net programs, microinsurance products in the market today are limited in both range and outreach: by the end of 2012, the number of policy holders was 2.9 million, with a sum insured of Rs. 36.1 billion, mostly in credit-life and some in health insurance programs run by microfinance providers working in Pakistan .

The microinsurance landscape is expected to undergo a transformation in the near future. SECP, the main regulator of the insurance sector, is reviewing the insurance regulatory framework to incorporate microinsurance explicitly. The current regulatory framework does not cover microinsurance, which has not only created a gap that can allow unhealthy practices to emerge in the market but had also left the policy direction unclear for sector stakeholders. With this in view, SECP has worked on drafting regulations for microinsurance in consultation with private sector and it is expected that these rules will provide a standard operational definition of microinsurance, as well as clear roles and responsibilities of insurance providers, their agents and use of technology. Also keeping in view, the limited financial literacy levels of the target segment SECP will be laying emphasis on issues of client protection within the framework. In addition to the Rules, SECP is also taking a leading role in market development and is working to develop a national strategy for microinsurance in Pakistan[1].

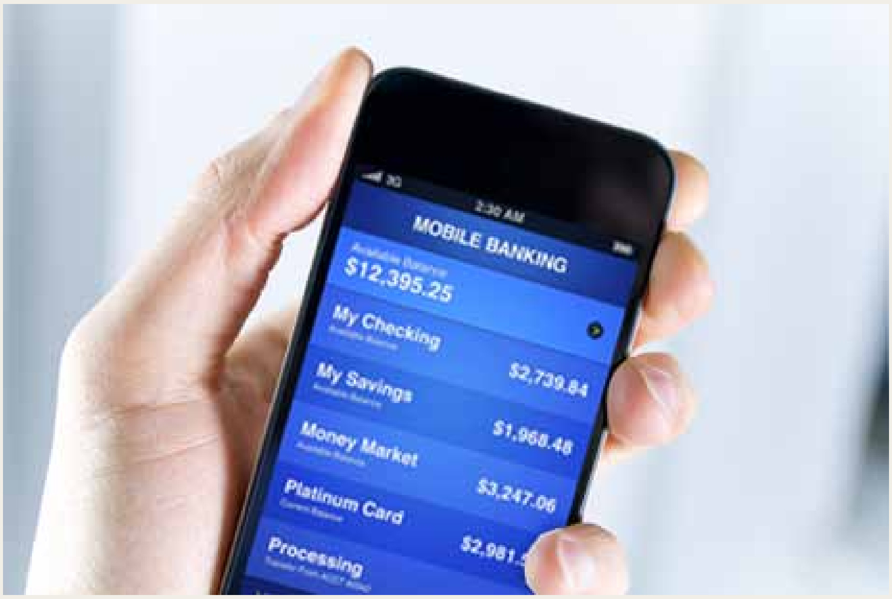
In addition to the policy framework, it is important that business models and innovative products be tested to create a demonstration effect in the market. To this effect, the Pakistan Poverty Alleviation Fund has been involved in piloting index-based insurance products for both crops and livestock for the first time in Pakistan. After being successful in India, these products could prove groundbreaking in terms of providing protection to the small farmers against natural calamities and also allowing insurance companies to offer the products at affordable premiums.

Clearly, there is a need for insurance services at the base of the pyramid. It is a relatively new financial area for the BOP market, and much is needed to enhance outreach, product development and market research. With a clear policy and regulatory framework in place, donors and funders will need to come together to support research, pilots and data analytics to prove a business case for MI. Service providers, too, will need to think outside the box and come out of their comfort zone to look at MI not just as a CSR activity but as a sustainable business line – one that is not financially lucrative but also creates social impact.

[1] *Source: Pakistan Microfinance Network*

MOBILE BANKING
over the years and NOW

By Aijaz A. Shaikh



Mobile technology has evolved into a popular, fast-growing communication tool. With the aid of technology, consumers access the Internet wirelessly to search for and research information, products, and services from anywhere and at any time. The rapid pace of technological development has created opportunities for financial service providers to offer their services via multiple electronic channels.

Mobile phones, since last decade, have emerged as one of the most promising but so far marginally adopted channels for accessing financial products & services by consumers. Hence, innovation in mobile technology and associated applications, especially since early 2000, has provided a great potential for financial institutions and telecom companies to introduce mobile-based financial services.

The mobile payment systems offer a variety of financial functions, including micropayments to merchants, bill-payments to utilities, P2P transfers between individuals, and long-distance remittances. Currently, different institutional and business models deliver these systems. Some are offered entirely by banks, others entirely by telecommunications providers, and still others involve a partnership between a bank and a telecommunications provider. Mobile banking has, therefore, changed the financial landscape when portable devices such as mobile phones were considered an alternate delivery channel in delivering various services to the consumers.

Different regions of the world use various terms for mobile banking such as m-banking, branchless banking, m-payments, m-transfers, m-finance, pocket banking, phone banking, mobile phone banking, SMS banking, mobile financial services and cell phone banking. Mobile banking was initially developed to reach the unbanked consumers living in rural and other remote areas especially in the case of developing countries like Pakistan, Philippine, Bangladesh, India and Kenya.

According to the statistics published by the International Telecommunication Union (2011), by the end of 2011, there were approximately 5.98 billion mobile subscriptions worldwide, which was equivalent to 87% of the world's population. This was a substantial increase from 5.4 billion in 2010, and 4.7 billion subscriptions in 2009. Nearly a billion and a half mobile subscribers lived in the developed countries suggesting that the mobile subscription industry in these countries was quite saturated. On the other hand, 4.52 billion subscribers in the developing countries indicate a 79% penetration rate, which signals a potential for growth in these regions. With regard to banking, a significant number of adults (2.7 billion) in the developing world have no access to basic banking services. This lack of access constrains growth and prosperity for both consumers and the economy. Using mobile phones for banking (m-banking) offers tremendous opportunities to enhance growth and development.

Mobile banking was first introduced in the late 1990s by a German company called 'Paybox', in collaboration with Deutsche Bank. Initially, the service was deployed and tested mostly in European countries, including Germany, Spain, Sweden, Austria, and the UK. In developing countries, Kenya took the lead and introduced a text based mobile banking service called M-Pesa in 2007. By 2012, there were more than 7 million registered

FINANCIAL SERVICES	NON FINANCIAL SERVICES
Utility Bills Payment	Balance Enquiry
Merchant Payments	Mini-Bank Statement
Inter (and Intra)-Bank Fund Transfer (Including Remittance, Salaries, Shopping, Donations etc)	PIN Change
Mobile Balance Recharge	Cheque Book Request

M-Pesa users in Kenya. In 2009, Pakistan introduced a revolutionary mobile banking product called 'easypaisa' developed and introduced by Tameer Microfinance Bank in collaboration with Telenor, a Norwegian mobile telecoms company. By 2012, there were more than one million easypaisa users in Pakistan.

Being an important component of electronic banking, mobile banking is used in most countries as an Alternative Delivery Channel (ADC) for conducting different financial and non-financial transactions (see Table 1). Other major ADCs include Automated Teller Machines (ATMs), phone banking, real-time online banking (mostly used for intra-bank fund transfers), Point of Sale (POS) Terminals and Internet banking.

The global perspective suggests that a consumer uses different devices to access mobile banking services such as cell phones, smart phones, Personal Digital Assistances (PDAs) and also tablets. In most of the developed countries and also in few developing countries like Pakistan, the PDAs have been fast replaced by smart phones for conducting banking transactions. In addition, few countries have also excluded tablets for conducting mobile banking transactions since they have already been used for internet (net) banking.

Among the most prominent antecedents (or factors) which hinder the acceptance and usage of mobile banking services, different empirical studies conducted in different regions of the world have persistently found trust and satisfaction the most significant antecedents in mobile banking services adoption and a surrogate for continuous usage of mobile banking services. As said by Muhammad Yunus, founder of the Grameen bank, 'There is no legal instrument between the lender and the borrower at Grameen. We feel our relationship is with people, not with the papers. We built up the human link based on trust. We place trust in people, and the result is that in turn they trust us'.

Other major antecedents influencing mobile banking adoption include education and awareness, service cost, perceived enjoyment, perceived ease of use, loyalty, service quality, trialability, compatibility, information quality, innovation and security. The industry (and the policy makers), therefore, may need to understand the significance of these antecedents or factors while defining a set of regulations and ensuring operational simplicityin offering mobile-based products and services to the consumers.

> "There were approximately 5.98 billion mobile subscriptions worldwide, which was equivalent to 87% of the world's population"

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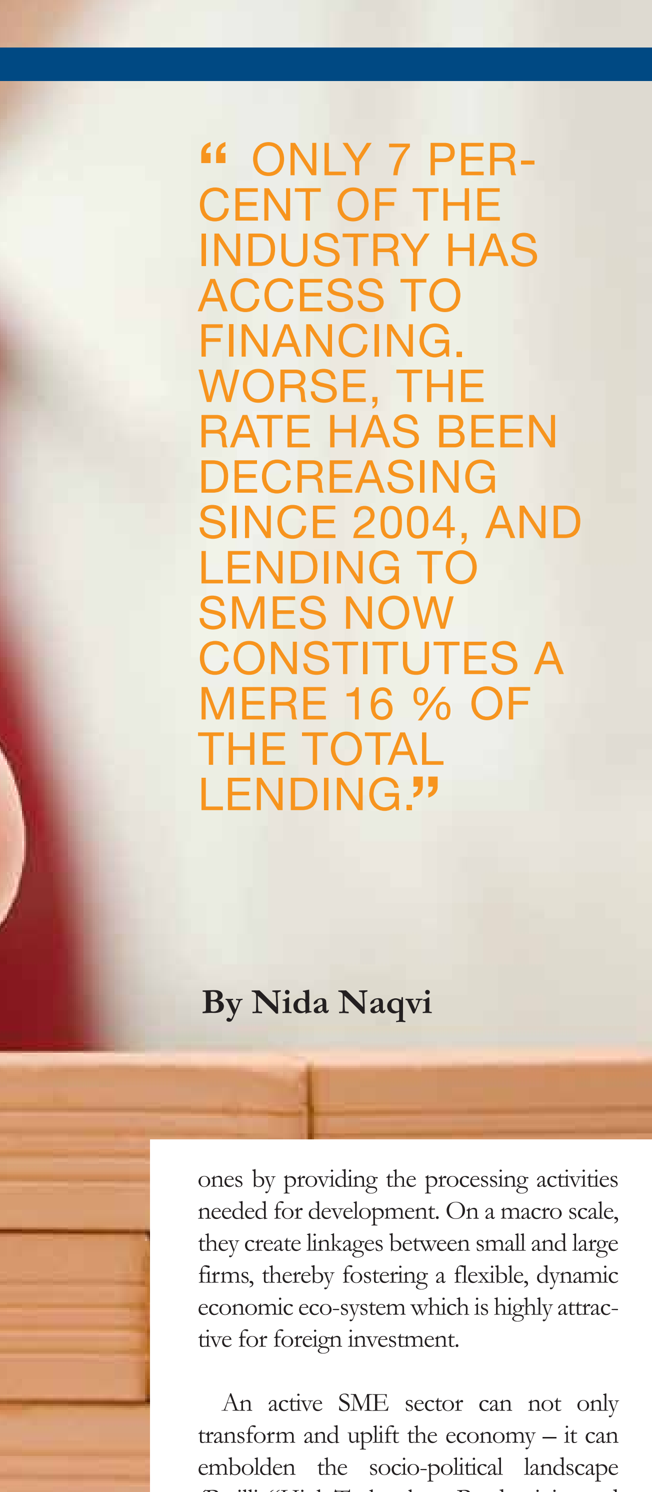
Facilitating SMEs

Pakistan is a country comprising of small businesses. Out of the 3.2 million business establishments existing in the country, 99% are SMEs (P. Bianchi and MD Parilli, “SMEs: A Comparative Approach to Latin America and the European Union). The significance of this number is astounding. What is even more astounding is how this sector, the beating heart of the Pakistani economy, is largely ignored and underdeveloped.

A healthy SME sector can transform an economy. SMEs are more labor intensive than larger firms and have lower capital costs, two factors which weigh heavily in job creation in an expanding economy. They are more flexible than larger businesses because of their small nature, making them more adaptable to fluctuating market conditions. This provides a resiliency in the face of economic downturns – a particularly important feature given the nature of the current global – and particularly Pakistan's - economy. They play a key role in transitioning agriculture-based economies to industrial



“ONLY 7 PERCENT OF THE INDUSTRY HAS ACCESS TO FINANCING. WORSE, THE RATE HAS BEEN DECREASING SINCE 2004, AND LENDING TO SMES NOW CONSTITUTES A MERE 16 % OF THE TOTAL LENDING.”

By Nida Naqvi

ones by providing the processing activities needed for development. On a macro scale, they create linkages between small and large firms, thereby fostering a flexible, dynamic economic eco-system which is highly attractive for foreign investment.

An active SME sector can not only transform and uplift the economy – it can embolden the socio-political landscape (Parilli, “High Technology, Productivity, and Networks”). Research shows that when SMEs take an important role in production, the democratization of economic and social life is more likely to follow. This occurs for two main reasons. Firstly, a large number of people assume economic responsibilities and start to value their own skills and capabilities. This constitutes a key element in a dynamic society (Cooke and Wills, 1999; Becattini, 2000; Parrilli, 2004a). Secondly, an economic system which is based on dynamic SMEs can change the structural landscape of social interaction. It can help individuals and their respective social and family nuclei to structure systemic networks of interaction among firms and between firms and other institutional actors. This organizational network promotes social cohesion, which in turn helps to spur local economic development. (Becattini, 1990; Putnam, 1993; Platteau, 1994; Schmitz, 1995; Cowling and Sugden, 1999; Bianchi, 2000; Parrilli, 2004a).

Unfortunately, in Pakistan, where these economic, social, and political changes are so desperately needed, SMEs are being choked off from their mobilizing, transformative potential.
Ultimately, the problem boils down to access to finance. SMEs do not have it, and therefore, they cannot grow, expand and enlarge the national economy along with their own expansion.

Only 7 percent of the industry has access to financing. Worse, the rate has been decreasing since 2004, and lending to SMEs now constitutes a mere 16 % of the total lending.

In the SME Baseline Survey 2009 (Pakistan), 84% of total respondents had not applied for a bank loan in the past 2 years, and only 1.6% had applied for a loan to start a new venture. Out of the 84% who did not apply for a loan, 37.5% said it was because of the high interest rates (SMEDA, SME Baseline Survey).

Meanwhile, in countries throughout Asia, such as China, India, Japan, Korea, and Thailand, the governments have aptly recognized the need to promote SME development and have allocated resources and designed policies towards that end. While these countries have adopted vastly different approaches to their own economic development, the common denominator is their attention to SMEs. They have provided SMEs with incentives to start and expand their ventures, financial resources, and business development services. Hence, these Newly Industrialized Countries (NICs) have grown and expanded at a remarkable rate (Approaches to SME Development, Amaar Naveed, SMEDA Research Report).

If Pakistan wants to follow in their footsteps, GoP will need to recognize that opportunities for growth lies with the small businesses sector. The model followed by most of these countries is the creation of SME Support Funds – such as Business Development Support Equity, Credit Guarantee Schemes, Venture Capital Funds, and Matching Grants. Such support funds not only spurred entrepreneurs to enter the scene but also gave support to existing businesses to expand.

Significantly, the banks need incentives to lend to SMEs, as their current low lending rate is due to the high proportion of NPLs with respect to SMEs. The unmitigated backlog in the banking courts means that the banks cannot expend the time or the resources to recover on these loans. A dedicated SME court is an option that has been discussed, and it would expedite collection of these loans for the banks, which would encourage them to lend more.

If the financial system is deployed in such a way, whereby banks can feel comfortable lending to SMEs, then they can innovate in fresh ways to encourage SME investment. For example, in Britain, there is no interest charged on the first 10,000 invested. If banks were to adopt such a policy, it could proliferate the rapid growth and expansion of existing businesses and spur new entrants into the scene – entrepreneurs who can bring fresh ideas and technological innovation to the market.

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By Philip Forrest

How Regular Coaching can Reinforce the Credit Culture

Everybody supports the idea of coaching. Most people agree that regular passing of wisdom and experience from seniors to juniors is potentially a huge contributor to performance and productivity enhancement.

People might also agree that most of the skills learned at training workshops will be largely forgotten if they aren't quickly reinforced by coaching. And yet… from our surveys of the banking industry and from anecdotal evidence, it is clear that most managers don't coach regularly. The reasons range from not having enough time, to not having the confidence (what if I don't know as much as he does??), to not wanting to offend (I don't want to discourage her by suggesting she is not doing a good job).

But coaching isn't about telling subordinates what are they doing wrong; coaching is not teaching. Neither is the coach expected to have all the answers. (Even Tiger Woods and Roger Federer have coaches, who wouldn't pretend they are better at the task than Tiger or the Fed.) Rather, effective coaches and coaching methods create an atmosphere and ask the questions that will encourage the staff member to find his or her own answers. People respond much better to criticism and advice from themselves, than to criticism and advice from others.

When it comes to credit, it's quite easy for seniors to find regular coaching moments. Every time a member of the team puts forward a credit submission, it is an opportunity to guide analytical thinking while at the same time reinforcing the bank's credit culture.

If you are a link at any point in the credit chain and are given a proposal for support or approval, I suggest that, before you open the file, you say to the analyst or relationship manager: "Tell me in your own words, without using any numbers, why you think this is an appropriate company for our bank to lend to." If there is some initial hesitation, you might add "Explain why you believe this is a well-managed company that makes a good product, is well positioned in its industry, and is generally robust enough to make us feel comfortable that it will continue to meet all its obligations, including the payment of principal and interest."

The first time you ask, the answer may well be a bit weak but sometimes asking the question is more important than the answer you get. You can be sure that the second time he or she submits credit to you, he or she would have thought carefully about whether and why this is the sort of deal we want to do.

Why no numbers? Of course the quantitative analysis is important, and it should all be in the submission, but by asking for a non-numeric assessment we are sending a message: the ratios don't provide the answers, they only raise the questions. We want to get behind the numbers to the reality of how the company is travelling.

Instead of asking for the leverage ratio, have them tell you whether the company would be able to raise more debt if it had to? Or is it already undercapitalized? Has debt been growing faster than equity, or faster than the overall business? Should this concern us? Is it managing the operating cycle effectively? Does the company have good supplier and customer relationships? How strong are other banking relationships? How deep are shareholder pockets?

You can't – and shouldn't want to – cover everything at each of these coaching sessions. But sometimes you might ask them to describe what they see as the main risks in the borrower's industry. And describe how they manage those risks, and why you think they are acceptable risks for our bank's shareholders to accept. Also, tell me about the risks within the business, and why you are comfortable with those.

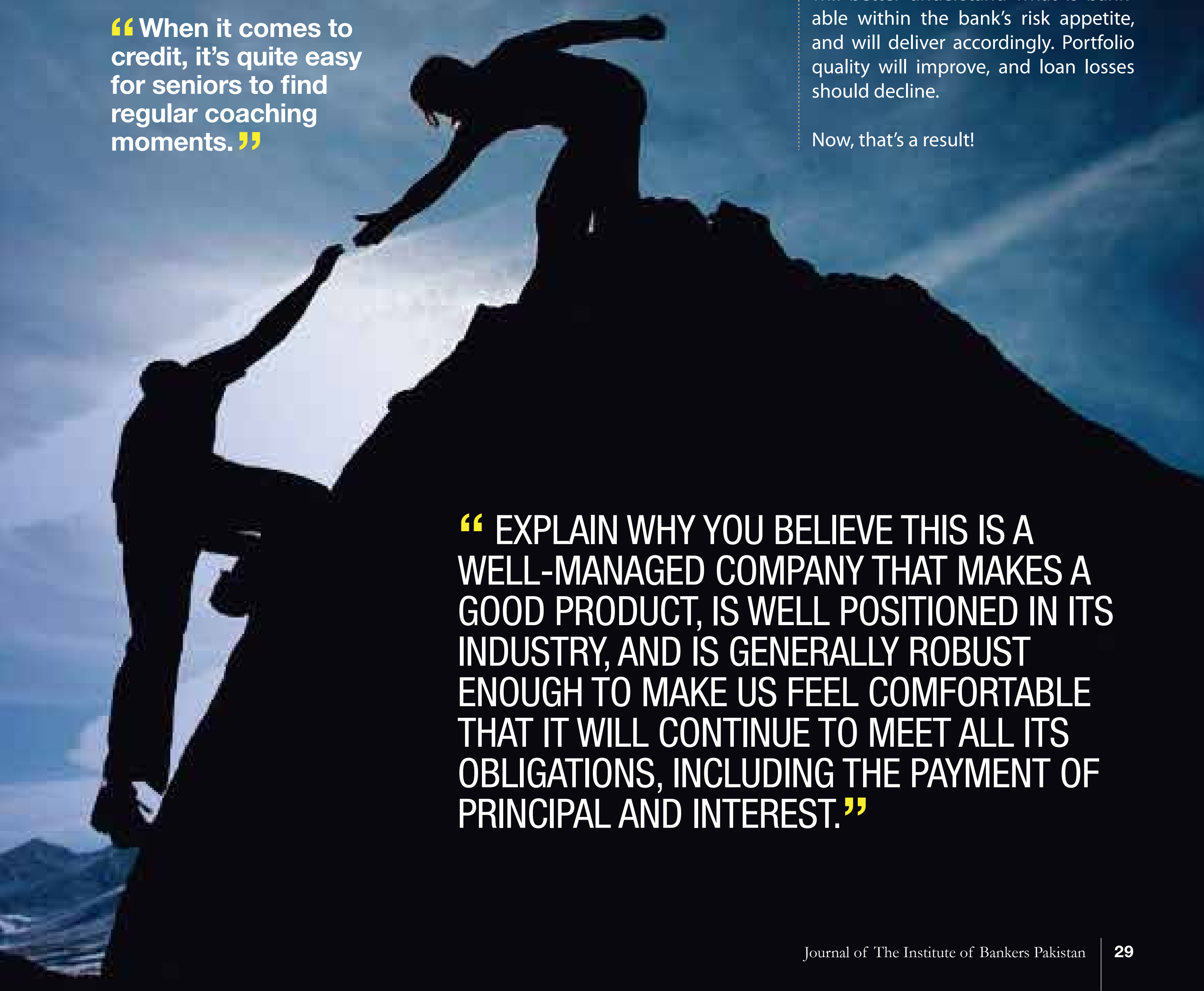
On another occasion you might focus on loan structuring. Tell me why you have chosen this structure; why does it make sense for the borrower and our bank? Tell me how the covenants and conditions and collateral help to offset the risks you have identified.

These sessions don't need to take a lot of time, but they will send a powerful reminder of what is important to the credit process and culture of the bank. Analysts will henceforth be prepared, and will ask better questions of their borrowing customers. They will always think carefully about credit quality and why the loan proposal is supportable. Isn't that exactly what we are trying to achieve?

After each session, you might ask some questions to yourself, such as have I helped this person to produce more focused credit submissions in the future? Have I helped this person to better understand "the way we manage credit at our bank"? Have I strengthened the risk culture at our bank?

Over time, credit submissions will be better written, with stronger focus on the key issues. Fewer "unapprovable" loans will waste the time of senior management. Relationship managers will better understand what is bankable within the bank's risk appetite, and will deliver accordingly. Portfolio quality will improve, and loan losses should decline.

Now, that's a result!



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"EXPLAIN WHY YOU BELIEVE THIS IS A WELL-MANAGED COMPANY THAT MAKES A GOOD PRODUCT, IS WELL POSITIONED IN ITS INDUSTRY, AND IS GENERALLY ROBUST ENOUGH TO MAKE US FEEL COMFORTABLE THAT IT WILL CONTINUE TO MEET ALL ITS OBLIGATIONS, INCLUDING THE PAYMENT OF PRINCIPAL AND INTEREST."

By Hansruedi Schütter

The question I received last week from a bank in Karachi caught me by surprise. "Why is reputation risk excluded in the Basel II operational risk definition?" Someone in risk management actually thought about reputation risk management! Indeed, it is a good question, and typically the answer is not very difficult. But it's important to ask the question in the first place.

I remember about 12 years ago when the Basel Committee on Banking Supervision formulated regulatory ideas that would eventually be embedded in the International Convergence of Capital Measurement and Capital Standards, better known as Basel II. Lots of ideas were proposed, discussed, revised, rejected – in short, regulators and risk managers of the banking industry tried to break new ground, particularly in the area of operational risk, which even lacked a formal definition prior to the Basel II consultation period.

There was indeed a moment when some regulators felt that reputation risk should be covered by a regulatory capital cushion. Wow! Yours truly felt seriously challenged by the lack of his own intelligence to understand how such a capital charge should be calibrated. I could not wait for the next joint meeting between the BIS Risk Management Group and the IIF Working Group on Operational Risk, of which I was a member, to ask my questions:

- What factors should go into the reputation risk capital model?
- How would the parameters be determined?
- How credible would the outcome be? Could I sell this to my Board as a justifiable charge?
- Under what circumstance and on what basis would the national regulator impose and justify additional reputation risk capital under Pillar 2?

On the more down-to-earth aspect, my questions were about contagion and ripple effects.

If due to a persistent rumour Bank A needs to put up extra reputation risk capital under Pillar 2, how would the market react?

- Would an additional Pillar 2 charge be perceived as confirmation that indeed something is not right?
- Would Bank A be forced by other market participants to pay higher funding cost?
- Would higher funding cost not automatically create the image of a lesser rated bank?
- And would such events cause a regulator to further increase the Pillar 2 requirement?
- Do we see the beginning of a vicious downward spiral?
- And just when do depositors panic and run on the bank?

As it turned out, the idea of a regulatory capital charge for reputation risk was and remained exactly that: an idea. My brain felt vindicated: Nobody had a mathematical formula to quantify reputation risk, and the Risk Management Group was not about to go into a lengthy debate on my more practical aspects. The idea died in that very meeting.

We all know that negative news wipes out many positives. Markets fall faster than they rise, and a reputation grown over decades can be wiped out by a single incident. Wasn't ten years ago the City of London regarded as the premier banking centre and its banks enjoyed a tremendous prestige? Today, the reputation of banks has hit an all-time low. The man in the street is disgusted by the bonus culture that thrives despite governmental bail-outs, and many bank customers benefit from regulatory orders for restitution, in particular in misselling cases. Customers are further not impressed by the service they get from these erstwhile pillars of the economy. Two million customers fed up at poor treatment from banks and insurers took their cases to the Financial Ombudsman in the past year – a rate of one every six seconds.

> "THERE WAS INDEED A MOMENT WHEN SOME REGULATORS FELT THAT REPUTATION RISK SHOULD BE COVERED BY A REGULATORY CAPITAL CUSHION"

Reputation Risk is Consequential

In the case of the UK banks, their reputation is simultaneously under attack from strategic, corporate governance and operational failures. Today's media networks ensure that such news reaches every corner of the world instantaneously, and social networks increasingly add their share to this global reach. But social media have another, more dangerous component. Rumours spread like wildfire. Spreading a malicious rumour has never been easier and more effective than today.

On 24 September 2008, Bank of East Asia in Hong Kong issued a statement to counter "malicious rumours" about its stability, as queues of customers seeking to withdraw funds formed outside some of its local branches. It condemned the rumour mongers, declaring that it had sufficient funds to meet customers' requests, and noting that its capital adequacy ratio was above the industry average, at 14.6 percent. A man was identified and arrested 6 months later for circulating rumours online and calling on people to withdraw their money from Bank of East Asia.

This is a beautiful showcase for reputation damage originating from an external cause and without any apparent fault by the bank itself. Reputation risk can therefore have its roots just about anywhere, and not only in operational failures – which answers the initial question.

Managing Reputation Risk

Reputation can be erratic and unpredictable. This does not mean that we cannot manage it. On the contrary, it needs to be managed. But by whom? I don't know of any company employing reputation risk managers. What we do find, though, are brand managers. This is both interesting and important.

Companies spend a lot of time, money and effort to build a powerful brand. And along with it, habitually comes a reputation.

But the higher you fly, the deeper you may fall. The more you promise, the more you can disappoint. The stronger your market share, the more envious or misgiving you encounter with competitors. The more established your brand, the more you have to lose. Your reputation as the basis of your brand is mainly a function of your ability to manage expectations. When your reputation is under attack, a poor response means almost certain loss of market value, if not death. Implicated in the Enron scandal, Arthur Anderson's reputation was so badly damaged that it closed its door. It did not help anymore that years later a judge cleared Arthur Anderson's name posthumously.

Nobody can prevent errors or mistakes with absolute certainty. Operational risk management is designed to ensure that these errors remain the exception rather than the rule. Reputation management picks up the challenge to deal with those problems that could not be contained in the normal course of business and blew out of proportion. While the brand is managed from a position of strength, reputation is often managed from a defensive position.

When disaster strikes, the financial loss may hurt less than the consequential loss of reputation. Highly skilled professionals are required to control the damage. In a world of sensationalism, press statements are often ripped apart, interpreted or even quoted out of context. You may well choose not to comment on an incident for lack of facts on your table, but those who are not available for comment are always in the wrong, are perceived as having something to hide and thus do a disservice to both their brand and reputation. Much of reputation management is therefore about fast and reliable information flow. You don't want to hear in the evening news that you had a problem.

On occasion, reputation may be additionally impacted by coming across as being evasive in the wake of an incident. Dos and don'ts in an emergency may vary from case to case, but under all circumstances, it is vital to quickly know what happened, to inform without too many details and to assume responsibility. Carefully worded explanations may be given in a second phase, when the initial sensation adrenalin level has gone back to average. It is important that you take over the process from the first minute. You may be attacked, but you must take the lead and manage the attack as your defence strategy.

Assuming responsibility is all very fine as long as you are responsible. But often, you rely on third party services and contractors with specialised knowledge. What if they messed up? – This is your problem and none of the customer's concern! Your customer deals with you as a counter party, not with your service providers. Your reputation depends not only on your own performance but also on your choice of providers, contractors, consultants, the service level agreements negotiated with them and, in the worst case, on your as well as their disaster recovery and business resumption plans. You may be able to recover your financial losses through litigation, but such recoveries cannot give you back the original value of your brand name.

Most companies I know task Corporate Communications with managing reputation. But not every one of these companies is prepared for a reputation hit. To be prepared and informed, Corporate Communications must have a much closer working relationship with various departments in the organisation. Operational risk managers and compliance officers should definitely share information with Corporate Communications on a frequent and regular basis. It might be a good idea to sit in each other's morning meetings. Or if you like it more socially, brief each other regularly over coffee. News and information may thus travel both ways. Corporate Communications get facts internally, whereas risk management may get market talk or rumours in time to prevent escalation and further damage.

It is not impossible to manage reputation, but it is a challenge. Information and advance knowledge will give a skilful PR professional a fair chance to defend you brand and reputation and thus preserve your earnings, market share and social standing.

"REPUTATION MAY BE ADDITIONALLY IMPACTED BY COMING ACROSS AS BEING EVASIVE IN THE WAKE OF AN INCIDENT."

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- Mobile Postpaid Bill Payment and Top-up Facility
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- Funds Transfer
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- Cash Deposit
- Cash Withdrawal
- Banker's Cheque.

JWT

Isn't it interesting how a person may pick up items from friends, neighbors, or colleagues more quickly, when compared to formal education given to him at the school, college or even the workplace? You may have heard the following statistic: people learn 70 to 80% of what they need to know to perform their jobs through informal means.

We are all wired to learn. We learn constantly and in so many ways. Not a single day goes by in our lives when we don't add to our repository of knowledge, skills and/or competencies. It is very likely that this learning, taking place at home, at the workplace or elsewhere, is a lot more important, relevant and significant than the kind of learning that occurs in formal settings.

However, learning outside the formal setting is usually not well understood, not easily recorded and as a consequence, not appropriately valued. Researchers have mostly focused on formal learning, instead of taking into account the complete learning that occurs in the life and career of any person.

This leads us to a few key questions: How do we differentiate between formal and informal learning? How to include informal learning into the organizational plans? How can one evaluate the success of these learning events?

The Organization for Economic Co-operation and Development (OECD) undertook research to define and describe these terms. Formal learning refers to any programs which are designed in specific formats, have specific time duration and are mostly instructor-led. These programs are highly institutionalized, bureaucratic, curriculum driven, and formally recognized with grades, diplomas and certificates [Merriam, et al – 2007]. They

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include the formal education systems – school, college, university; training programs at the workplace; diplomas, professional qualifications, etc.

In contrast, informal learning is used to describe learning that takes place independently from structured programs. This learning occurs in a variety of places, such as at home, work, and through interactions with the society.

Formal learning is organized and structured, and has learning objectives. From the learner's standpoint, it is always intentional: i.e. the learner's explicit objective is to gain knowledge, skills and/or competences. Informal learning is not organized, has no set objective in terms of learning outcomes and is never intentional from the learner's standpoint. It is often referred to as learning by experience or just as experience.

Examples of non-formal education for adults include community or non-credit adult education courses, sports or fitness programs, professional conferences and continuing professional development.

The benefits of formal learning are quite evident. Consistency is the first benefit as organizations can conduct same programs for all relevant employees with the surety that same content is delivered to each and everyone. If designed well, the programs can include a variety of approaches to appeal to all learning styles and be useful for a wider audience. Also, the content is usually updated and current as per the needs of the learners.

Informal learning has its own benefits. Informal learning is less costly as usually no formal setups are required. Learning informally is more personal and less intimidating. This allows the learners to openly express themselves and encourages participation. The topics and items discussed through informal channels are not bound due to any reason. It is believed that the internal resistance to learn something new drops significantly when a person is learning in an informal environment.

The Langevin blog (www.langevin.com/blog) presents a three-step strategy that can help any organization incorporate informal learning.

Step 1: You first need to have a clear understanding of the informal ways people learn. Surfing the internet, talking with co-workers, reading trade journals/newspapers, and watching people perform their tasks either live or through YouTube are all just a few informal ways that people learn their jobs. Once you have a clear understanding of informal learning, you can choose methods/strategies that will work for your company.

Step 2: Any initiative requires upper-management support, and encouraging informal learning is no exception. As training leaders, we need to "pull-out all the stops" by marketing/promoting informal learning. Talk to as many leaders as possible in your organization about the benefits of informal learning and the strategy you plan to implement. Hold lunch-and-learns, town hall meetings, and attend management meetings where you can communicate the values of informal learning. Encourage all levels of management to allow their employees time to share their knowledge. Don't be too critical of people who are talking at the water cooler, for example, because it could be informal learning in action.

Step 3: Few new initiatives get incorporated successfully without some form of incentive. Incentives could be as simple as free donuts in a break room where people can meet and share, to gift cards, days off, or fun/friendly competitions for helping others perform better in their jobs. Be creative when creating incentive programs!

Once the organization has been able to provide opportunities for their employees to learn in informal setting, the next step is to evaluate the success rate for such events. It is indeed difficult to record how much and up to what level have the employees been able to learn in these events. A good way to achieve the same may be to encourage the learners to record their own learning through tools provided by the organization. This way the organization is aware of the new knowledge and skills acquired by their employees without going through much hassle.

Recently, a new solution called the Experience API (xAPI) was developed by Advanced Distributed Learning (USA Government). The xAPI is a component of the Training and Learning Architecture (TLA). Its purpose is to store and provide access to learning experiences. The xAPI enables tracking of learning experiences, including traditional records, such as scores or completion. It also records learners' actions, like reading an article or watching a training video. It allows storage of all formal and informal learning events by creating a Learning Record Store (LRS). Organizations are now looking to create tools which will allow their employees to record all learning experiences and events through this method. Such solutions mean that organizations can gauge the success of the learning events – both formal and informal – that have been setup for their employees.

Formal education, training and learning events are not going away. They form the basis for transfer of knowledge, skills and attitudes to employees by the organization. However, the impact of informal learning is being slowly recognized. Organizations globally are now looking to create a blend of formal and informal learning events to provide maximum support to their employees. It is time that organizations do the same to maximize the potential of their human workforce. Once organizations recognize informal learning as a handy tool and build it into the organizational culture and processes, they may experience improved operational efficiency leading to higher output and profitability.

Customer care without borders

BY CHRISTOPHE LANGLOIS

It's now rare to find a bank without a Facebook or Twitter presence. But it's even rarer, argues CHRISTOPHE LANGLOIS, to find one that knows how to fully leverage the powerful benefits of social media platforms.

In the past 18-24 months, social customer care has rightly become one of the most popular applications of social media by brands. The chances are that people are, having conversations about your brand on a daily basis, good or bad. For financial services, in particular, this is a fantastic engagement opportunity – first, to identify your most vocal brand ambassadors and increase customer acquisition and, second, to turn your angry customers into your champions and increase retention.

It's difficult to exaggerate the importance of the social media platforms in a financial services sector struggling to regain customers' trust. These platforms are forcing the pace in one of the most profound tr ansformations the banking industry has experienced. And the irony is that, at a time when customers' purchasing power is shrinking, their potential to boost (or damage) the reputation of global brands is simultaneously growing to unprecedented levels.

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Few people believe in marketing messages any more. But nowadays, whether you're an electronics company or a retail bank, clients expect the same excellent level of customer support, whenever and wherever they need it, as well as an intuitive and personalised experience. Behaviours and expectations are changing rapidly when people bank, pay or manage their money. They don't necessarily have the time or desire to visit a branch and wait in line to do basic transactions. They want more control, transparency and convenience.

"Couch banking", banking as a companion activity, is a real new trend. People want to know how their money is invested and favour ethical or green investments – the concept of "civic banking" was introduced by Spain's Caja Navarra's CEO back in 2004. Huge numbers of us are now researching online for peer recommendations and product reviews before buying a product or subscribing to a service. So, expect to hear even more about digital wallet, near field communication, game techniques to engage audiences (gamification), online personal financial management, voice of the customer. And expect to hear much more about social media.

If brands like Dell, Starbucks or Ford prove every day the value of social media and its positive and direct impact on their business, how big is the opportunity in a highly regulated financial services industry, providing intangible products that nobody wants but everybody needs? The truth is, it's gigantic in virtually every single area, activity and market segment from retail banking and wealth to commercial and corporate banking.

Overall, however, I believe financial institutions are poorly advised. They focus too much on marketing and sales, and they usually use the wrong key performance indicators to measure "success". While it's now extremely rare to find a bank or an insurance firm without some kind of Facebook and Twitter presence, it's unfortunately even rarer to find a financial institution which knows how to use those very different channels and leverage the unique specificities and benefits they offer.

It is now time to get the basics right. It's already too late to play the "regulator's card" or the fear of "loss of control" in social media as excuses to avoid engaging with your clients in a more transparent and honest way online. There's no turning back. Someone opened this particular Pandora's Box a long time ago. It's also one of the easiest applications with which to measure success. The most common criteria are:

- impact on inbound calls to your contact centres
- higher "Net Promoter Score" share of voice
- brand sentiment
- earned media (press and blog coverage) social media activity (number of RT and Thank You tweets, number of likes, comments and shares on Facebook...)

PLATFORM PATHFINDERS

- **Caja Navarra** (Spain) "introduced the concept of 'civic banking' in 2004".
- **ABSA Bank** (South Africa) and NAB (Australia) are "among the best of those using their Facebook wall for customer support".
- **ASB Bank** (New Zealand) was the "first bank to launch a 'virtual branch' on Facebook".
- **Credit Agricole** (France) launched a "similar chat via its 'social media bank', Tookam.com".
- **UBank** (Australia) "does a good job on Twitter with its multi-purpose account".
- **American Express** "does a great job with its Twitter customer care account @AskAmex."
- **Banco Sabadell** (Spain) uses a dedicated application "inviting fans to leave questions or ideas".

Social media is much more than Facebook and Twitter, of course, but, in the context of customer care, it's a good place to start. The recommendations here are gleaned from our Social Media Watch series, which tracks 1,680-plus Twitter accounts and 1,350-plus pages and apps on Facebook in more than 75 countries, providing a unique global insight into best practice.

FACEBOOK: Your key success criteria here shouldn't rely primarily on your number of "likes", but rather the level of activity on your wall and other applications. Last October, Facebook introduced a new "people talking about" metric, essentially to measure activity more accurately. There are three key ways to provide customer care on your official Facebook brand page:

- **Wall:** brands can let their "fans" post directly on their wall, and not just react to one of their official wall posts. This is potentially an excellent demonstration of your willingness to engage

transparently with your community. South Africa's ABSA Bank and Australia's NAB are among the best of those using their Facebook wall for customer support.

- **Tab:** brands can opt to use a dedicated application inviting their "fans" to leave their questions or submit their ideas. Spain's Banco Sabadell uses one of these applications to capture its customer feedback.
- **Chat:** last September, New Zealand's ASB Bank (part of Commonwealth Bank of Australia) became the first bank to launch a "virtual branch" – arguably a somewhat basic chat service – on Facebook. A few months later, France's Credit Agricole launched a similar chat via its "social media bank", Tookam.com.

One way to humanise the experience further is to create individual Facebook users for your customer reps like Peru's Interbank. If you like this approach, it's worth challenging its practicality in banking: think low volumes of requests, efficiency of your response process (permanence on paid leave?), personal branding (what happens when your "well-known" employee leaves?)

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Don't be afraid to open up, but do recognise there are risks: so, be prepared to minimize the overall vulnerability by posting clear user guidelines whilst checking the page regularly. Moderate it whenever you see fit, but don't get rid of relevant criticisms and negative feedback. Two thirds of the Facebook pages we monitor, for example, have an open wall and just a fraction of those pages clearly display moderation guidelines. Without a simple set of guidelines, you limit your ability to get rid of abusive comments without generating negative comment.

TWITTER:

Unlike Facebook, Twitter is not a destination, so no-one can leave a critical or an abusive comment on your account. (On the other hand, your account can be hacked. You wouldn't be the first bank – ask First Direct. And there are immediate steps to eliminate that risk.) Three key ways to provide customer care on Twitter are via:

- **Main account:** most brands start supporting their clients via their official corporate account. This is usually due to the Twitter proficiency and vision of the brand, and a lower volume of requests. Australia's UBank does a good job on Twitter with its multi-purpose account.
- **Dedicated account:** creating a customer care account is an efficient way to make a statement and demonstrate your recognition of Twitter as a channel which matters, and your willingness to engage with your clients wherever convenient. American Express does a great job with @AskAmex.
- **Individual accounts:** I'd challenge the practicalities of this approach in financial services, mainly because of the low volumes. Recently, Italy's Webank decided to downsize its team.

Success on Twitter means following these steps:

- find a good name
- increase trust
- make it more personal
- create a content and response strategy (syntax, outreach, service tweets, tips...)
- maximise Twitter's virality.

Engaging on social media is not an option any more. The sooner you start, the greater your ability to adapt to the next social revolution and connect with your future clients and employees

.I'd like to add a few more recommendations:

- humanise your team, but don't over--individualize your social media accounts
- manage expectations and tell people what your opening hours and your service level agreements are
- respond to people – but you don't have to respond to every piece of negative feedback. Just give your customers air-time
- maximise the syntax, hence the visibility, of your tweets and work on your "call-to-action".

Beyond these "basics", your next key challenges will be to confirm the identity of the users, "Know Your Followers", and to integrate your social customer care effort into your customer database.

Now for some very positive news: considering 90 per cent of financial institutions aren't active on Twitter, provided you start now, you can still have a good shot at becoming the most social bank in your country, and potentially in the world.

Invitation: Among many other projects, for the past six months the Visible Banking team have been working on a global report on customer support on Twitter where we benchmarked more than 200 accounts in 14 countries all across industries. We invite you to contact us and express your interest.

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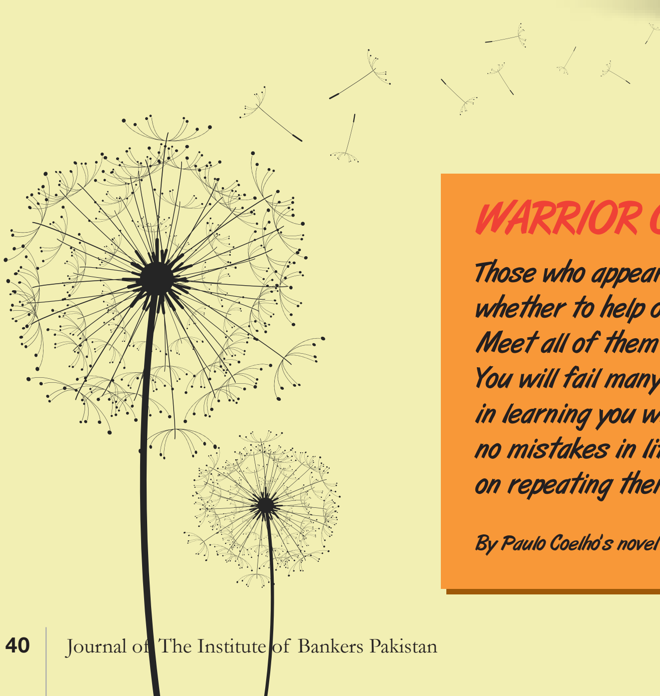
View on Bankers

on lighter side

Interesting Quotes

- The key to being a boss is having a completely clear desk. And a hidden drawer for the rest of the work.
  Pam Brown
- Luck is what happens when preparation meets opportunity.
  Lucius Annaeus Seneca
- The wiliest boss raises controversial points at the meetings called at 4:30 pm on Fridays - they get little opposition.
  Anonymous
- For to have faith, is to have wings.
  J.M. Barrie
- Not everything that can be counted counts and not everything that counts can be counted.
  Albert Einstein
- If everything seems under control, you are just not going fast enough.
  Anonymous

- Banks lend by creating credit. They create the means of payment out of nothing. **Ralph M Hawtry**
- Suckers think that you cure greed with money, addiction with substances, expert problems with experts, banking with bankers, economics with economists, and debt crises with debt spending **Nassim Nicholas Taleb**
- What is robbing a bank compared to founding one? **Bertolt Brecht**
- With a group of bankers I always had the feeling that success was measured by the extent one gave nothing away. **Longford, Lord**
- If you would like to know the value of money, go and try to borrow some. **Benjamin Franklin**



WARRIOR OF LIGHT

Those who appear in your life,
whether to help or to harm, are all sent by God.
Meet all of them with a peaceful heart but a warrior's spirit.
You will fail many times but in failing, you will learn and
in learning you will find your way. Remember there are
no mistakes in life but only lessons and lessons will keep
on repeating themselves until learned.

By Paulo Coelho's novel Warrior of Light.