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Bankers

Pakistan

A Banker's Role
in Prevention of

Money
Laundering
—— and
—— Terrorist
Financing

DEVELOPMENT PLANNING IN PAKISTAN 1947 - 71

A banker's role in prevention of MONEY LAUNDERING & TERRORIST FINANCING

OPERATIONAL RISK MANAGEMENTThe real use test

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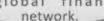
TPS ENABLING CONVENIENT TRANSACTIONS

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of Pakistanis use different electronic banking channels for their everyday financial needs.

A retired government officer draws pension from ATM near his home while a housewife pays electricity bill through her mobile phone without leaving her house. A young man transfer instant money through internet banking to his father in another city while another person draws cash from ATM at a shopping center to do grocery in the late evening. A young girl pays for her dresses at a boutique with a card swiped on the PoS while an old lady receives remittance from Dubai in her mobile wallet. A villager pays his utility bills at a nearby shop even on Sunday while a businessman settles his hotel bill in a US hotel through his Pakistani debit card. A petrol pump owner pays for purchase to the distribution company through his mobile phone, while his employee receives salary on the payroll prepaid card.

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editorial

lobal events related to terrorism changed political and economic landscapes around the world. They also greatly impacted preventative measures for money-laundering and the financing of terrorism, which have since then climbed at a fast pace on political and regulatory agendas.

The responsibility for countering terrorism-related payments and preventing laundering has been majorly transferred to the financial industry. Regulators have partnered with financial institutions to combat money laundering and the obligation of banks has increased over the years in this regard. Financial institutions were initially only motivated to comply with regulatory directives pertaining to AML & CFT to avoid being penalized; however, over time, the financial industry has become acutely cognizant of the negative impact of money laundering on their reputation, brand image and subsequently on their bottom lines.

Financial intermediaries are abused when they are used for monetary concealment and laundering, and this makes them a significant stakeholder in anti-money laundering endeavors/initiatives. In order to safeguard their assets, banks and other financial institutions are engaged in an ever-ongoing fight to deter financial crime and frauds. Hence, it is of paramount importance for financial institutions to completely comprehend and implement measures and policies for identification and risk assessment of their customers.

The nature of this strenuous obligation requires participation from top to bottom – and from front-end to back-end - in financial institutions. This requires strong communication and exemplified focus from the top management, along with demonstration of commitment to the fight against AML & CFT through regular trainings of staff to ensure inclusive awareness of the subject and the institutions objectives in this regard. Employees must possess updated knowledge of regulatory requirements, policies and ramifications of all aspects of money laundering related to finance.

It is common for institutions to defer required AML & CFT actions, policies, communication and training programs till they receive coercive regulatory directives. However, institutions should take a more proactive stance and consider AML & CFT a reputation management issue rather than a host of regulatory requirements.

Institutions should invest in automated and integrated technological architecture and solutions that execute and monitor AML & CFT sanctions efficaciously while minimizing risk. Capturing relevant data is a core requirement; in addition to this, data quality, data integrity and continuous monitoring are other aspects that require increased focus. Consistency and accuracy of source data are of foremost importance in the AML & CFT mechanism. A cohesive risk-based approach in which analysis of AML & CFT screening results and data banks is incorporated in revision of procedures geared towards risk mitigation, ensures optimal leverage of anti-money laundering efforts.

The increased regulatory focus upon AML and CFT measures - and the pressure of obligations arising out of the same - is encouraging institutions to allocate significant resources for combatting this global dilemma. While financial institutions are re-evaluating their policies and procedures in this regard, they should also understand that implementing measures is not a static step. Financial institutions have to play a role of active assistance to regulators and related agencies for elimination of wrongful transactions. The fight against money laundering and the finance of terrorism will only be sustainably effective if the stakeholders engage in constantly evolving their frameworks against combatting this malaise.



Sirajuddin Aziz Editor-in-Chief

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RE LAUNCH OF OMEGA PERFORMANCE

Relaunch of Omega Performance Awareness Session was held on 18th January 2016 at The Institute of Bankers Pakistan (IBP). More than 40 senior representatives from various banks participated in the event. Director Business – Khawlah Usman briefed the participants about the role of IBP and Omega Performance in paving the way for continuous learning and development.





"The conversion or transfer of property, knowing it is derived from a criminal offense, for the purpose of concealing or disguising its illicit origin or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his actions. The concealment or disguising of the true nature, source, location, disposition, movement, rights with respect to, or Ownership of property knowing that it is derived from a criminal offense. The acquisition, possession or use of property, knowing at the time of its receipt that it was derived from a criminal offense or from participation

in a crime".

inancing of Terrorism (FT) involves both legitimate and illegitimate money characterized by concealment of the origin or intended criminal use of the funds. The term *Terrorist* refers to any natural person who commits, or attempts to commit, participates as an accomplice, organizes or directs others or contributes to terrorist

Why Combat Money Laundering & Terrorist Financing?

Money laundering is the primary motive of mala fide circles to give their illicit funds a tint of legitimacy. Criminals derive significant sums of money by committing crimes such as drug trafficking, human trafficking, theft, investment fraud, extortion, corruption, embezzlement and tax fraud. In terrorist financing, the miscreant uses funds for illegal religious, political or specified purposes but the trail of money might not necessarily come from donations, governmental covert funds or aid from agencies. Terrorist financing may be supported both by legitimate and illegitimate proceeds. Money laundering and terrorist financing are serious threats to the legal economy and affects the integrity of financial institutions, jurisdictions and world. It also changes the economic balances in certain sectors. Fighting money laundering serves several purposes.

The Social, Economic and Security Aspects:

On a social note, it may lose public confidence due to imbalance of returns, rents and prices. Crime causes tangible and intangible damage to third parties, individuals and society as a whole. Money laundering can result in reducing the public's confidence in certain professions such as lawyers, accountants and notaries and economic sectors such as real estate, hospitality and banks and other financial institutions. Investing the proceeds of crime may also distort competition between businesses and entrepreneurs. Money laundering allows the criminal to start, continue and expand activities in legitimate sectors of the economy.

Why are Banks Important for Money Launderers & Terrorist Groups?

Criminal circles have been and are still exploiting the banking industry by using their instruments, products and services for disposal of criminal proceeds.

Electronic Transfers of Funds:

An electronic transfer of funds is preferred when someone intents to rapidly move money from one bank account to another, he or she sends a wire or electronic transfer of funds. It can happen within a country or across borders, and trillions of dollars are transferred in millions of transactions each day. EFT is any transfer of funds that is initiated by electronic means such as an automated clearinghouse (ACH), computer, automated teller machine (ATM), electronic terminal, mobile phone, telephone or magnetic tape. Electronic funds transfer systems offer money launderers a fast conduit for moving money between countries and accounts. Illicit fund transfers are easily hidden among the millions of legitimate transfers that occur each day. Systems like Fedwire, SWIFT and CHIPS move millions of wires or transfer messages on a daily basis. To avoid detection, the money launderer may take basic precautions, such as varying the amounts sent, keeping them relatively small and, where possible, using reputable organizations.

Bank's Initiatives to Prevent ML/TF:

Following practices and measures should be adopted by a bank to prevent ML/TF:

- Banks should monitor the movement of funds, they should detect, monitor and report the transfers that occur to or from a financial secrecy haven, or to or from a high-risk geographic location without an apparent business reason, or when the activity is inconsistent with the customer's business or history.
- Banks should report inward movement of funds transfers that are received on behalf of a foreign client, with little or no explanation or apparent reason.
- Banks should monitor the deposits, aggregated by small, incoming transfers of funds that are received or deposits that are made using checks and money orders or other financial instruments.
- Banks should prudently follow the money, which involves transfers or deposits, wired to another account in a different city or country in a manner inconsistent with the customer's business or history.
- Funds activity that is unexplained, repetitive or shows unusual patterns.
- Payments or receipts are received that have no apparent link to legitimate contracts, goods or services.
- Funds transfers that are sent or received from the same person to or from different accounts.

Correspondent Banking:

Correspondent banking is the provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank"). By establishing multiple correspondent relationships globally, banks can undertake international financial transactions for themselves and for their customers in jurisdictions where they have no physical presence.

Bank's Role to Prevent ML/TF Risks:

- Bank should determine the effectiveness of the respondent bank's AML controls e.g. due diligence on the customers it allows to use the correspondent account.
- Bank should understand that to what extent other bank is using its correspondent account by providing such facilities to other institutions ("nesting").
- Bank should practice risk based due diligence to mitigate the money laundering risks posed by foreign financial institutions.

- banks should refuse to entertain the correspondent account maintained for a foreign bank operating under an offshore license.
- It is mandatory for a banker to maintain records with the names and contact information of the owners of foreign banks for which they maintain correspondent accounts.

Payable Through Accounts:

In some correspondent relationships, the respondent bank's own customers are permitted to conduct their own transactions — including sending wire transfers, making and withdrawing deposits and maintaining checking accounts - through the respondent bank's correspondent account without needing to clear the transactions through the respondent bank. Those arrangements are called payable-through accounts (PTAs). PTAs differ from normal correspondent accounts in that the foreign bank's customers have the ability to directly control funds at the correspondent bank. This is different from the traditional correspondent relationship, where the respondent bank will take orders from their customers and pass them on to the correspondent bank. In these cases, the respondent bank has the ability to perform some level of oversight prior to executing the transaction.

Bank's Role to Prevent ML/TF Risks:

- Bank must consider that the foreign institutions having license from offshore financial services sectors with weak or absent bank supervision and weak licensing laws should not be allowed to use PTAs.
- PTA arrangements for respondent bank shouldn't be permissible where Customer Due Diligence policies and procedures have lapses.
- Currency deposit and withdrawal privileges for sub-account holders should be denied.
- Strict supervision must be practiced to follow the legitimacy of transactions.

Concentration Accounts:

Concentration accounts are internal accounts established to facilitate the processing and settlement of multiple or individual customer transactions within the bank, usually on the same day. These accounts are

also known as special-use, omnibus, settlement, suspense, intraday, sweep or collection accounts. Concentration accounts are frequently used to facilitate transactions for private banking, trust.

Some anti-money laundering practices for banks are as under:

- Inter-connect customer transactions in the customer's account statements.
- Banker should practice to have dual signatures on general ledger tickets.
- Prohibit direct customer access to concentration accounts.
- Never give options to customers for knowledge of concentration accounts or their ability to direct employees to conduct transactions through the accounts.
- Develop a system to retain transaction and customer identifying information.
- Practice should be observed to reconcile accounts frequently.

Structuring:

Designing a transaction to evade triggering a reporting or recordkeeping requirement is called "structuring." Structuring is possibly the most commonly known money laundering method. It is a crime in many countries and must be reported by filing a suspicious transaction report. The individuals engaged in structuring are runners, hired by the launderers. These individuals go from bank to bank depositing cash and purchasing monetary instruments in amounts under the reporting threshold. Structuring can be done in many settings or industries, including banking, money services businesses and casinos.

How a Banker Can Prevent Structuring:

- Banker should follow the deposits in accounts.
- Bankers should identify the runners.
- He should report the suspicious transaction report.
- Proper documentation should be made before allowing to deposit money.

Cuckoo Smurfing:

Refers to a form of money laundering linked to alternative remittance systems, in which criminal funds are transferred through the accounts of unwitting persons who are expecting genuine funds or payments from overseas. The main difference between traditional structure and cuckoo smurfing is that in the latter the third parties who hold the bank accounts being used are not aware of the fact that illicit money is being deposited into their accounts.

Banker's Practices to Combat Cuckoo Smurfing:

- Identify depositors who pay cash into third-party accounts.
- Banker should monitor unusual cash deposits.
- Deposits in third party account should be followed.

E-Purses & Pre Paid Cards

Electronic purses (also called e-purses or stored-value cards) are cards that electronically store value on integrated circuit chips. Unlike pre-paid credit cards with magnetic stripes that store account information, e-purses actually store funds on memory chips. Pre-paid cards have the same characteristics that make cash attractive to criminals: they are portable, valuable, exchangeable and anonymous. The cards, many of which are branded by Visa or Master Card, can be purchased and "loaded" with money by one person and used like regular debit cards by another person to make purchases or ATM withdrawals anywhere in the world. Prepaid payment cards provide access to monetary funds that are paid in advance by the cardholder. While there are many different types of prepaid cards that are used in a variety of ways, the cards typically operate in the same way as a debit card and ultimately rely on access to an account.

Measures Recommended for Banke:

- Limit the functions and capacity of smart cards (including the maximum value and turnover limits, as well as the number of smart cards per customer).
- Linking new payment technology to financial institutions and bank accounts.
- Requiring standard documentation and recordkeeping procedures for these systems to facilitate their examination.
- Allowing for the examination and seizure of relevant records by investigating authorities.

"Money laundering and terrorist financing are serious threats to the legal economy and affects the integrity of financial institutions, jurisdictions and world"

Know Your Customers & Customer Due Diligence: A Consolidated Approach

Anti-money laundering policies and procedures are used to determine the true identity of a customer and the type of activity that is "normal and expected," and to detect activity that is "unusual" for a particular customer. Many experts believe that a sound KYC program is one of the best tools in an effective antimony laundering program.

Key elements of KYC which should be followed by a banker to minimize the ML/TF risks are:

- Customer identification
- Risk management
- Customer acceptance
- Monitoring

A sound Customer Due Diligence (CDD) program is being considered as the best way to prevent money laundering. It is recognized that sound Customer Due Diligence (CDD) policies and procedures are critical in protecting the safety and soundness of banks and the integrity of banking systems.

Key elements of CDD which should be followed by banks to minimize the ML/TF risks are:

- Full identification of customer, business and source of funds
- Development of transaction and activity profiles
- Definition and acceptance of the customer
- Assessment and grading of risks Account and transaction monitoring
- Investigation and examination of unusual activities
- Documentation of findings

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AML/CFT REGIME

A Catalyst in Transition of Security Management Approach from Government to Governance Globally

By Muhammad Nawaz

he interaction between suspicious transaction reports and crime control policing practices aimed at controlling serious organized crimes and terrorism by following and halting dirty money has constructed new lines of thoughts in the field of governance of security practices globally. When flows of dirty money are detected and reported in the form of suspicious transactions, a successful reduction in serious crime can be seen locally and globally (FATF). It means that the suspicious transactions information have made us known that, for example, proceeds of street drug sale have deep connections with cross-border organized criminal networks. Resultantly, the crime control practices have transformed from traditional policing practices to intelligence based policing of crimes. For example; in Operation Trifecta led by the US government was an operation against a transnational drug lord. The operation was a 19-month international investigation in which Ismael Zambada-Garcia (a Mexican drug lord) was successfully arrested and prosecuted. Around 240 or higher drug sellers and associates in US and Mexico were arrested in the operation. Various federal agencies and financial institutions, and just about 67 states and local law enforcement agencies from 8 states took part in the operation.

In the current era, on the one hand, the scope and typology of criminal activities have transformed from simple street to national, and then to more complex transnational level; on the other hand, simultaneously, the crime control security approach has been phenomenally evolved, i.e., from 'pure government' to 'mixed governance (splitting of security governance into a wide variety of governmental nodes- public and private partnership).' In other words, the architecture of security management approach has been turned into a mix of states and non-state actors to address crime in a

holistic approach. It means that terrorism and serious organized crimes can only be controlled when there is a sound cooperation and interconnection between public agencies and financial institutions locally and globally. This new form of security governance is called nodal form of security governance which means multi-lateralization or pluralization of security governance arrangements. The nodal form of security governance envisagesa partnership of public and private actors for effective crime control strategies and actions. For example, the development of partnership amongst the Financial Action Task Force (FATF) which is an international inter-governmental autonomous organization, financial institutions, national law enforcement agencies, and financial intelligence unitis a clear manifestation of nodal form of security governance.

For example, both local and federal law enforcement agencies maintain their identities, priorities, and autonomy different from each-other. In other words, local law enforcement agencies are limited to prevent crime that directly affects community in a reactive way. They apprehend criminal and end the case by way of the conclusion of prosecution. The local law enforcement agencies only see criminal; and, therefore, they are incapable to see in the street crime a international connection. Conversely, federal law enforcement agencies are tied and limited to handle types of crime that have got national importance. Therefore, threats of crime at street level becomes low level priorities of federal law enforcement agencies,

and

However, there are few barriers which halts progress of nodal form of governance, i.e., varying scopes objecand tives of federal a n d local l a w forcement agen-

cies.



handling threats of national importance are beyond the capacity of local law enforcement agencies.

Forgoing in view, it is argued that financial surveillance in the form of suspicious transaction reports is a catalyst in evolution of nodal form of policing to control the dirty money and the predicate crime.

In the first part of the article, I have discussed evolution of scope and character of criminals. In the second part, I have discussed the phenomenal change in security governance arrangement. In the last section, I have summarized findings.

Crime: From Street to Transnational Presence

A crime in one country also affects other country. Criminal groups in one country have established strong networks with criminal groups of other countries. For example,a transnational network of Asian drug trafficker is a solid example pinpointing a multi-racial and multi-territorial based network of Asian smuggling ring. The ring members comprise of recruiters (snakeheads), logistic arrangers, private document arrangers (forgers), and middle-lad parties to destination of delivery parties in different countries. Likewise, FATF study also found that ISIS had nexus with Latin American drug traffickers, human smugglers, arms smugglers, and traffickers of cultural objects. This multi-racial and multi-territorial character suggest that regional character of crime has been transformed into a transnational character in a way of close regional and global alliances of criminal groups. Therefore, handling local organized criminals without regard to their connection with cross-border criminals seems inappropriate. The very fact of the multi-territorial and multi-racial and the need of integrated approach for crime control was also highlighted by Ms. Dobriansky (U.S., Under Secretary of State for Global Affairs, 2001). She said that the occurrence of transnational crimes had an impact on local level of a country. For e.g., nexus of human trafficking, drug trafficking, smuggling of firearms, smuggling of stolen cars, child pornography, money laundering, smuggling of currency and other commodities through

borders have haunted streets of American communities.

Phenomenal Change in Security Governance Approach

The State and non-state actors locally and globally are developing partnerships to appropriately utilize resources for following and halting dirty money flows, for example, proceeds of drugs or terrorist financing activities to curb serious organized crimes. For example, the UK government together with her international and local partners and agencies such as FIU-UK, UK-Border authority, law enforcement agencies of partner countries, private security companies, NGOs and others have established a National Crime Agency (NCA) to target the criminals and groups posing biggest threats to UK globally and locally (NCA, 2013). This development reflects the nodal governance of security based on risk-based approach for countering serious organized crimes. In nutshell, the main drivers of nodal governance are transnational character of crime, application of science of risk management in crime control strategies, and a sense of self-responsibility for mutual coopera-

a) Risk Management Approach

Approach of risk management in security governance has been emphasized progressively. The importance of risk management techniques in terrorist activities has gained importance after the 9/11 attacks. The 9/11 terrorist attacks sent a message to risk management experts that money is exclusively not a source to carry out terrorist activities. For example, expenditure for 9/11 attack was in between USD 175,000 to 500,000, and a loss of nineteen terrorists (FBI Report). However, US suffered financial loss of 135,000 billion dollars and over 3,000 death causalities. This unprecedented low-cost heavy-blow on human history has added a new dimension in assessment of means of terrorism (conventional things of life such as aeroplane can become a deadly weapon of destruction).

Risk management approaches vary across countries. For example, US approach is focused on Risk Prevention, UK is focused on Broad Risk Management, and Canada is focused on Risk Pre-emption (Svendsen, 2010). This difference in approaches emanates from the nature of threat that each country is individually confronted with. Svendsen (2010) explains that the Broad Risk Management of UK which is built around five "Ps" (Prevent, Pursue, Protect, Prepare and Persuasion) is an outcome of element of internal and external interconnection of threats of terrorism to UK. Further, risk management strategies are also affected by cost factor. So, priorities of risk management are set as to meet the dynamics of threat, i.e., immediate threat needs to be handled with optimal resources. However, there is a disadvantage that risks that are not serious slip under the radar, but they may become a serious threat in the future (Svendsen, 2010). However, intelligence based on FIU and financial institutions databases minimizes the risk of exclusion of potential threat because intelligence is a key to risk analysis model, and has a foreseeable impact on the model.

b) Multi-lateralization of Character of Policing

Post 9/11 attacks on US have a conveyed message that the traditional policing practices and state of coordination among law enforcement agencies was incapable to spoil the plans of terrorists. Such a lesson has pushed a new approach of governance of security necessitating an inclusive and calculated synchronization of intelligence (Kobach, 2006). This reformed approach of policing is termed as Intelligence-Led Policing (ILP). ILP uses processed intelligence in order to make effective decisions and applies resources of national and local level authorities to disturb and destroy organized crimes (Schaible, 2012). The intelligence led-policing model aims to achieve diffusion throughout states non-states actors of the country. A recent materialization of this model is National Intelligence Model in the UK. The National Intelligence collects data and process standards for the use of all police forces in the UK (Schaible, 2012). Take another example, Financial Crime Enforcement Network (FinCen) (FIU-USA) in furtherance of Section 314(a) of the USA Patriot Act of 2001 enables federal, state, local, and foreign (European Union) law enforcement agencies to tape into database of financial institutions to locate accounts and transactions of individual/ entity that may be involved in terrorism or significant money laundering offence. In nutshell, the ILP model is based on top-down crime management policy, and is assisted by intelligence technologies having local as well as national scope of monitoring activity.

The introduction of many soft intelligence technologies of security for intelligence led policing practices of most governments especially western governments confirms the concern that issues of national security are not separate from street crimes. In this regard, many intelligence technologies for strong surveillance particularly related to identity, location, home, and work have been introduced as to avoid threats of organized crimes (Levi and Wall, 2004). These technologies are mostly based on approach of exploiting of interactivity of communication information technologies (ICTs) in order to pinpoint risky individual or network. These technologies are termed as 'the Surveillance Assemblage'- a concept of functional entity that is based on interactive relationship of heterogeneous technologies (Levi and Wall, 2004). For example, Vigipriate program of France is a centralized threat detection program. The serious threat, for example terrorism, assessment is made by 6 specialized agencies such as Central Directorate of Internal Intelligence, Directorate-General for External Security, Directorate of Intelligence of Military, Protection Branch and Security Defence, National Directorate of Customs Intelligence, Financial Intelligence Unit of France (TRACFIN), and Financial Institutions.

c) Financial Institutions Being Front Policemen

Financial surveillance through partnership of Financial Intelligence Unit (FIU) and financial institutions has progressive role in combating crime of ML/TF globally and locally. Anti-money laundering laws on account operations have progressively established a strong environment of controls on financial activities. From multinational companies to an individual person in town, all entities/ persons are under strong financial surveillance. Financial Institutions are made bound by FATF standards

"Approach of risk management in security governance has been emphasized progressively. The importance of risk management techniques in terrorist activities has gained importance after the 9/11 attacks"

(2012) and national laws to strengthen their Know Your Customers (KYC), Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) regulations on their customers. These entities are made bound to report suspicious transactions reports and currency transactions reports to Financial Intelligence Unit of a country. For example, Section 311-314, 319(b), 325, 326, 351, 352, 356, 359, and 362 of USA Patriot Act contain provisions for financial and non-financial institutions to detect and report and prevent money laundering and financing of terrorism at national and local level (FinCen, USA).

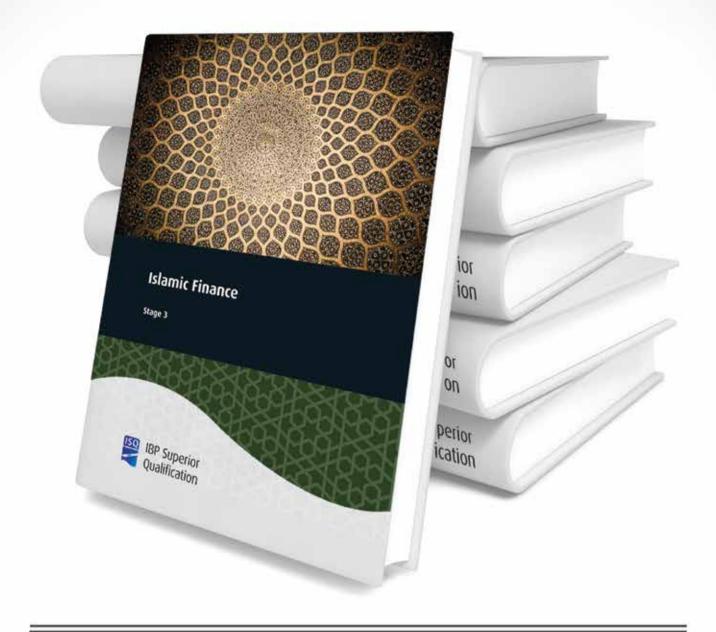
To make financial surveillance effective on crimes of ML/TF, different countries and international institutions have initiated joint training programs for officials of financial intelligence unit, financial institutions, and law enforcement agencies globally and locally. These joint training programs have cultivated a sense of cooperation and responsibility among officials in spite of diversity of their legal, administrative, financial, and operational frameworks (Gwintsa, 2010). For example, U.S. government has been spending millions of dollars on joint trainings programs at home and abroad. In this regard, King and Ray (2000) noted that 44 seniors FBI officers had been working in different parts of the world. These agents participated in joint investigation of transnational crimes with prior permission of host country. The objective of participation

was to ensure that crime did not affect US citizen abroad and did not land on soil of America.

However, sometimes these trainings do not produce positive results if free and fair trial of criminal is doubtful in the home country of criminal. Resultantly, all money and efforts may be lost and diplomatic relationships could be injured. For example, Pan Am flight 103 was bombed over Lockerbie, Scotland, and Libya was accused as a state that had sponsored the bombing. UK and USA governments demanded extradition of two suspects of bombing, who lived at that time in Libya and were Libyan nationals, under the Montreal Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation in which Libya, the UK and the USA were signatories. Since Libya was declared as a party to the Pan Am flight 103 bombing, the UK and the USA governments doubted free and fair trial of the suspects and, therefore, demanded their extradition. But Libya refused to cooperate. The case was then moved to UN Security council, and then moved to International Court of Justice. The key point is that despite mutual agreements and partnerships, lack of confidence on the criminal justice system of the partner country sabotages struggle against crime (Morris, 2005).

Conclusion

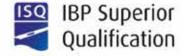
In summary, the evaluation of nodal form of security governance is a more effective response than that of traditional policing. The financial institutions perform a role of front police by filing suspicious transactions reports to Financial Intelligence Units which later on triggers a response to crime. The partnership among government agencies and financial institutions and development of soft intelligence technologies lead to conclude that that countries have reached at a point of consensus that crime on street has association with cross-border criminal mafias, i.e., occurrence of transnational organized crime. Therefore, attacking flows of dirty money which begins for example, from one country and ends locally requires a holistic approach in which international, national and local levels government agencies and private institutions must be interconnected.



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By Mahboob Ahmed

An operational risk is, as the name suggests, a risk arising from execution of a company's business functions. It is a very broad concept which focuses on the risks arising from people, systems and processes through which a company operates. It also includes other categories such as fraud risks, legal risks, physical or environmental risks.

he approach to managing operational risk differs from that applied to other types of risk because it is not used to generate profit. In contrast, credit risk is exploited by lending institutions to create profit, market risk is exploited by traders and fund managers, and insurance risk is exploited by insurers. They all however, manage operational risk to keep losses within their risk appetite the amount of risk they are prepared to accept in pursuit of their objectives. What this means in practical terms is that organizations accept that their people, processes and systems are imperfect and that losses will arise from errors and ineffective operations. The size of the loss they are prepared to accept because the cost of correcting the errors or improving the systems is disproportionate to the benefit they will receive and also determines their appetite for operational risk.

Since the mid-1990s, the topics of market risk and credit risk have been the subject of much debate and research, with the result that financial institutions have made significant progress in the identification, measurement and management of both these forms of risks. However, it is worth mentioning that the near collapse of the U.S. financial system in September 2008 and recent financial collapse in Portugal is a clear indication that our ability to measure market and credit risk is far from perfect.

Globalization and deregulation in financial markets, combined with increased sophistication in financial technology, have introduced more complexities into the activities of banks and therefore their risk profiles. These reasons underscore banks and supervisors growing focus on the identification and measurement of operational risk.

Events such as the September 11 terrorist attacks, rogue trading losses at KSE Pakistan in 2008, AIB (Allied Irish Bank), National Australia Bank, serve to highlight the fact that the scope of risk management extends beyond merely market and credit risk.

The list of risks (and, more importantly, the scale of these risks) faced by banks today includes fraud, system failures, terrorism and employee compensation claims. These types of risk are generally classified under the term 'operational risk'. The identification and measurement of operational risk is a real and live issue for modern-day banks, particularly since the decision by the Basel Committee on Supervision Banking (BCBS) introduce a capital charge for this risk as part of the new capital adequacy framework (Basel II).

DEFINING OPERATIONAL RISK:

To facilitate the risk management decision process in large corporations, the overall risk faced by these institutions is subdivided into different risk categories. These categories are defined through different causes and/or effects. In the banking industry, market risk is defined as the systemic risk inherent in the capital market, i.e. it is the risk that is not diversifiable through trading in financial contracts. Credit risk is defined as loss exposures due to counterparties' default on contracts.

With respect to operational risk, there does not yet exist a definition that the banking industry has agreed upon. First definitions were mostly based on an exclusion principle such as "every type of non-quantifiable risk" or "all risks but not market and credit risk". The current definition of operational risk proposed by the Basel Committee on Banking Supervision (BCBS) in its "The New Basel Capital Accord" (2001)

"the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events"

This covers the following new and growing risks faced by banks:

- The greater use of more highly automated technology has the potential to transform risks from manual processing errors to system failure risks, as greater reliance is placed on globally integrated systems
- Growth of e-commerce brings with it potential risks (e.g. Internal and external fraud and system security issues) that are not yet fully under-

stood. This is inherent with the complexity of the systems being used, in which security flaws are discovered and exploited every day

- Large-scale acquisitions, mergers, de-mergers and consolidations test the viability of new or newly integrated systems
- The emergence of banks acting as large-volume service providers creates the need for continual;
- Maintenance of high-grade internal controls and back-up systems
- Banks might engage in risk mitigation techniques (e.g. collateral, credit derivatives, netting arrangements and asset securitizations) to optimize their exposure to market risk and credit risk but which in turn might produce other forms of risk (e.g. legal risk)
- Growing use of outsourcing arrangements and the participation in clearing and settlement systems can mitigate some risks but can also present significant other risks to banks.

"In the banking industry, market risk is defined as the systemic risk inherent in the capital market, i.e. it is the risk that is not diversifiable through trading in financial contracts"

The difficulty in defining operational risk is two-fold. First, operational risk is mostly idiosyncratic as opposed to market and credit risk, which have a much larger systemic component, it will be difficult to pin down an industry-widely accepted definition. Second, a definition, somehow paradoxically, needs both to base upon and abstract from the few major incidents that originally initiated the discussion about operational risk.

As a response to the idiosyncrasy of operational risk, it seems much more reasonable to us to internally define and categorize operational risk for its management. Over the last years, banks in fact started to internally define operational risk based on causes and effects related to their specific exposure. A possible categorization could have the following structure:

- Operations risk due to transaction failures, rogue trading etc.
- Physical risk due to loss or damage of assets such as buildings or computers
- Crime risk due to internal and external fraud
- Legal/liability risk due to employment practices, workplace safety, or changes in the regulatory environment
- Country risk due to severe changes in the political system

A way of abstracting from major incidents could involve a bank-internal reporting of minor incidents and observations, which would lead to a better understanding of the underlying risk structures and thus improve the existing definitions of operational risk. Clearly, such a categorization will have to change as banks learn more details about its particular exposures to operational risk through new incidents.

THE MEANING OF OPERATIONAL RISK:

Operational risk covers all non-credit and market risks. This leaves a large palette, which includes the following:

Internal Fraud: This can be defined as intentional misreporting of accounts, employee theft and insider trading on an employee's own account.

External Fraud: This category includes robbery, forgery, and damage from computer hacking.

Employment Practices and Workplace Safety: For example, worker's compensation claims, violation of employee health and safety rules, organized labor activities, discrimination claims and general liability.

Clients, Products and Business Practices: For example fiduciary breaks, misuse of

OPERATIONAL RISK APPROACHES

Approach	Basic Indicator Approach	Standardized Approach	Advanced Measurement Approaches
Calculation of Capital Charge	Average of gross income over three years as indicator Capital charge equals 15% of that indicator	Gross income per regulatory business line as indicator Depending on business line,12%, 15%, or 18% of that indicator as capital charge Total capital charge equals sum of charge per business line	Capital charge equals internally generated measure based on: Internal loss data External loss data Scenario analysis Business environment and internal control factors
Qualifying Criteria	No specific criteria Compliance with the Basel Committee's "Sound Practices for the Management and Supervision of Operational Risk" recommended	Active involvement of board of directors and senior management Existence of OpRisk management function Sound OpRisk management system Systematic tracking of loss data	Measurement integrated in day-to-day risk management Review of management and measurement processes by internal/external audit Numerous quantitative standards -in particular 3-5 years of historic data

confidential customer information, improper trading activities on the bank's account, money laundering and sale of unauthorized products.

Damage to Physical Assets: For example, terrorism, vandalism, earthquakes, fires and floods.

Business Disruptions and System Failures: This includes hardware and software failures, telecommunication problems and utility outages.

Execution, Delivery and Process Management: For example, data entry errors, collateral management failures, incomplete legal documentation, unapproved access to given client accounts, non-client counterparty underperformance and vendor disputes.

Management Risk: This includes poor management and risk of corporate governance exposure.

DIFFICULTIES IN OPERATIONAL RISK MANAGEMENT:

It is relatively straightforward for an organization to set and observe specific, measurable levels of market risk and credit risk because models exist which attempt to predict the potential impact of market movements, or changes in the cost of credit. It should be noted however that these models are only as good as the underlying assumptions, and a large part of the recent financial crisis arose because the valuations generated by these models for particular types of investments were based on incorrect assumptions.

By contrast, it is relatively difficult to identify or assess levels of operational risk

and its many sources. Historically, organizations have accepted operational risk as an unavoidable cost of doing business. Many organizations now collect data on operational losses - for example through system failure or fraud - and are using this data to model operational risk and to calculate a capital reserve against future operational losses.

METHODS OF OPERATIONAL RISK MANAGEMENT:

Basel II and various supervisory bodies of the countries have prescribed various soundness standards for Operational Risk Management for banks and similar financial institutions. To complement these standards, Basel II has given guidance to three broad methods of capital calculation for Operational Risk as per below:

• Basic Indicator Approach - based on annual revenue of the Financial Institution

"Many organizations now collect data on operational losses - for example through system failure or fraud - and are using this data to model operational risk and to calculate a capital reserve against future operational losses"

- Standardized Approach based on annual revenue of each of the broad business lines of the Financial Institution
- Advanced Measurement Approachesbased on the internally developed risk measurement framework of the bank adhering to the standards prescribed (methods include scenario-based, scorecard etc.)

PRINCIPLES OF OPERATIONAL RISK MANAGEMENT:

Hazard Identification – using strict traditional procedures what analyze more and more hazards with the one of the following basic instruments: operations analysis or financial flow diagram, the preliminary hazard analysis, scenarios, logic diagrams, change of analysis, cause-effect.

Risk Evaluation – it is made in order to determine the fundamental causes and to establish the risk levels to use the risk

LEVELS OF OPERATIONAL RISK MANAGEMENT

In Depth	Deliberate	Time Critical	
In depth risk management is used	Deliberate risk management is	Time critical risk management is used	
before a project is implemented,	used at routine periods through	during operational exercises or	
when there is plenty of time to plan	the implementation of a project	execution of tasks. It is defined as the	
and prepare. Examples of in depth	or process. Examples include	effective use of all available	
methods include training, drafting	quality assurance, on-the-job	resources by individuals, crews, and	
instructions and requirements, and	training, safety briefs,	teams to safely and effectively	
acquiring personal protective	performance reviews and safety	accomplish the mission or task using	
equipment.	checks.	risk management concepts when	
		time and resources are limited.	
		Examples of tools used includes	
		execution check-lists and change	
		management. This requires a high	
		degree of situational awareness.	

OPERATIONAL RISK MANAGEMENT MATURITY MODEL

Maturity Level	Criteria	
Initial	Management recognizes that Operational Risk Management	
	needs to be addressed but there are no standardized	
	processes in place and Operational Risk issues (such as major	
	losses) are only addressed reactively.	
Managed	Management is aware of Operational Risk Management iss	
	and selected processes have been identified and implemented	
	but standardized measurement has not been implemented	
	across the organization.	
Defined	Standardized Operational Risk Management processes are in	
	place across the organization, performance is being monitored	
	but root cause analysis of problems is only occasionally being	
	applied.	
Quantitatively Managed	Standardized processes are in place and responsibilities and	
	process ownerships are clearly defined. Operational Risk	
	Management processes are aligned with business strategy.	
	Quantitative measurements, such as Key Risk Indicators (KRI),	
	are in place for all processes and economic capital is being	
	allocated against these measures. However, there are no	
	continuous improvement programs in place to align	
	Operational Risk with the organization's 'risk appetite'.	
Optimized	'Best practice' Operational Risk Management processes are in	
	place and are closely aligned with business strategies. Costs	
	and benefits of Operational Risk Management are defined, are	
	balanced against risks and are communicated and applied	
	across the whole organization.	

evaluation matrix in order to make the risk a priority, from the biggest to the smallest.

The Analysis of the Risk Control Measures – it is made in order to develop the management of each type of risk. A good evaluation is made only if the control options are explored at macro level and the hazard control is identified.

The Control Decisions - they must be taken by the proper person and at the proper time on the basis of proper support and data but knowing the financial authority for taking decisions, the limits and the risks that must be taken into account.

The Risk Control Implementationsupposes the implementation of the developed strategies. These strategies define: the individual responsibilities, the accountancy and the involvement of each person. They have as a result a positive impact on the mission and the existence of a more supportive package.

The Surveillance and Monitoring – suppose a systematic evaluation of the mission oriented on performing results of the operational risk management determined in real time and on valid data for future applications. To accomplish the conditions of a good evaluation, there has to exist a direct risk measure and a feedback mechanism.

COMPONENTS OF OPERATION RISK MANAGEMENT UNDER ENTERPRISE RISK MANAGEMENT:

Internal Environment: establishing the 'tone' of an organization, including "risk management philosophy and risk

"The greater use of more highly automated technology has the potential to transform risks from manual processing errors to system failure risks, as greater reliance is placed on globally integrated systems"

appetite, integrity and ethical values, and the environment in which they operate".

Objective Setting: ensuring that "management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite".

Event Identification: identifying internal and external events (i.e. risks and opportunities) that effect the achievement of a firm's objectives.

Risk Assessment: analyzing risks "considering likelihood and impact, as a basis for determining how they should be managed."

Risk Response: selecting 'responses' to identified risks and developing "a set of actions to align risks with the entity's risk tolerances and risk appetite".

Control Activities: establishing and implementing policies and procedures "to help ensure the risk responses are effectively carried out."

Information and Communication: identifying, capturing and communicating information that is relevant "in a form and timeframe that enable people to carry out their responsibilities."

Monitoring: Monitor the risk management process and modifying the process as necessary.

Until recently, the banking industry used to forget the management of operational risk. These risks considered to be qualitative rather than quantitative. Its importance increased when Basel Committee on Banking Supervision in its 1988 paper stated that most big losses in banking industry resulted from internal control weakness. At same time, the example of bankruptcies shows that there is a real important kind of risk different from market or credit risk.

These risks, defined as unquantifiable risk, every risk not market or credit risk or losses from inadequate or failed internal processes, people or systems, or even external events must be measured by latest methods. Nevertheless, there are many aspects almost impossible to quantify i.e. human resource, technology (especially e-banking), or reputation since they are qualitative.



COMMERCIAL BANKING Problems and Solutions

By Dr. Sabir Ali Jaffery

A current account titled as under is maintained at your branch.

"Khalid Farooqi Account Jami-a-tul Falah"

You receive a letter from the Secretary Jami-a-tul Falah asking you to allow operation on the account under the joint signatures of the secretary and the treasurer of the Jami-at. The letter has also attached to it a resolution passed by the Managing Committee of the Jami-at subscribing to this mandate. How would you deal with this letter?

Such instructions are normally received at the time of opening the account unless the mandate to operate the account is subsequently changed. Further, the title of the account indicates that it is not the account of the Jami-at. Nor it appears to be an individual's account. It is rather very much like a trust account which means that the bank had committed gross negligence at the time of opening the account.

In the given situation, there may be two, alternative to each other, possible solution, as under.

• If after due search it is established beyond doubt that it is Mr. Khalid Farooqi's individual account, Secretary of the Jami-a-tul Falah accordingly. At the same time, Mr. Khalid Farooqi will be advised to close this account and, in lieu of it,

open a fresh account with proper title representing his status vis-à-vis the account.

 Alternatively, if the account turns out to be that of a trust, it will be desirable to stop the account forthwith and Mr. Farooqi will be asked to sort out the issue with the Jami-a-tul Falah. The bank will act in conformity with the new situation as it emerges.

How would you differentiate between an administrator and an executor in conducting and managing the affairs of the property of a deceased person?

If a deceased person leaves a will in which some body is named to manage the affairs of his property after his death, the person so named is called the executor. .

If a person dies intestate, the court may appoint some body to conduct and manage the affairs of his property. The person so appointed is called the administrator.

The court may also appoint an administrator even when the will of the deceased is there but it does not name any person to act as executor, or when the name is duly given in the will but the person so named is not available for any reason to assume the responsibility entrusted to him.

The duties and rights of both the administrator and the executor are almost the same. The difference lies only in the manner of their appointment.

One Mr. Aitebar Khan has the following overdrawn accounts at your branch.

- (i) Account is in the personal name of Aitebar Khan with debit balance of Rs.17,578/-, secured by the personal guarantee of another accountholder to the tune of Rs.50,000.00.
- (ii) Account is in the joint names of Aitebar Khan and his widowed sister Zohra Khan. The balance in the account is Dr. Rs.31,000/-, secured by the shares of a quoted company valued at Rs.100,000/-

Mr. Aitebar Khan is reported dead. Ms. Zohra Khan approaches you to settle both the accounts. How will you proceed?

- (i) The account shall be broken forthwith. Ms. Khan and other legal heirs of the deceased will be asked to adjust the overdraft in the account. Simultaneously, guarantor will be approached with a request to make payment of the amount due to the banker under his guarantee.
- (ii) The account shall be broken. Personal representatives of the deceased and the joint accountholder will be advised to adjust the account. Ms Zohra Khan may be allowed to open a fresh account in her name with the debit balance transferred to it as the O.D. is sufficiently secured. Of course fresh documents shall have to

be executed by her should she decide to avail of the opportunity.

Mr. Aurangzeb Khan was a valued customer of your branch. At the time of his death his relationship with the bank stood as under.

- (a) A current account in the personal name of Mr. Aurangzeb Khan with credit balance;
- (b) A TDR in the name of Aurangzeb Khan maturing after nine months; and
- (c) A packet kept in safe custody the contents of which are not known.

One Mr. Ahsan approaches you claiming that the deceased had nominated him to conduct and manage his property after his death, and therefore he wants to lay hands on his funds with the bank. What will be your action in this situation?

Mr. Ahsan will be asked to show the will and advised to obtain probate from the competent court endorsing his authority to deal with the assets of the deceased.

On production of the probate, the funds in the current account will be released to the executor. However, the amount of the TDR will be paid to him after it matures.

The packet that was kept in safe custody will also be delivered to the executor on his producing the probate.

Farhat, Ghayoor, and Hameed are co-executors of the estate of late Ibrahim. They maintain a current account in that capacity which is to be operated by any of the three singly. In the mean time Farhat dies. Subsequently, a cheque signed by Farhat is presented in clearing. How would you deal with the cheque? What further action will be needed to allow the account to continue?

The executor had not signed the cheque in his personal capacity. Rather, he had signed the cheque in fiduciary capacity. Hence, it will be paid if otherwise in order.

Unless otherwise expressly stated in the will, the authority vested in Farhat will be transferred to the surviving executors who will be authorised to continue the account as hitherto. However, it is advisable to have a fresh mandate from them.

Give your considered opinion in the following situations.

- (a) Zaid and Umar are executors to the property of Bakar, the deceased. Zaid draws a cheque but its payment is stopped by Umar. Will the cheque be paid? In case stop payment instructions are withdrawn by Zaid, will the cheque be paid now?
- (b) In the above case, Zaid and Umar authorize an outsider to operate the account. Will this be admitted by the bank? If not, why not?
- (c) Zaid and Umar want to open an account to deal with the property of late Bakar. What should be the title of the proposed account?
- (d) In the above case instructions to operate the account are missing. In the meantime, a cheque signed by Zaid is presented for payment. How would you handle the situation?
- (a) Each executor is authorised to act independently. Thus the countermanding instructions given by Umar will stand good. Therefore the cheque will not be paid. Withdrawal of stop payment instructions requires signatures of all the executors. Hence, withdrawal by Zaid alone will not be valid, and will not be accepted by the bank.
- (b) Executors are not empowered to delegate powers to outsiders. Bank shall not, therefore, honour the mandate granted by the executors in favour of an outsider.
- (c) The title of the proposed account will be as under.
 - "Zaid and Umar--- Executors to the property of Bakar, deceased"
- (d) In the eyes of law, all the executors are considered as one person. Hence, any executor can act on behalf of other co-executor. Resultantly, cheque may be signed by either of the two.

It is, however, desirable to obtain self-contained instructions in this regard.



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MOBILE BANKING

Gaining Traction in Rising Economies

By Mohammed Arifeen

Since the introduction of branchless banking through cellular technology, Pakistan has seen a major increase in the number of mobile banking users. According to State Bank reports, in terms of mobile banking, the number of transactions has increased whereas the value of these transactions has risen.

he mobile sector makes a substantial contribution to Pakistani government revenues. It accounted for 7 percent of the \$31.5 billion in tax revenue collected in 2013. It is significant to know that while high taxation on the mobile sector may deliver short-term benefits for government but in the long- term it is ultimately detrimental.

As per latest SBP data, there were nearly 2 million registered mobile banking users in Pakistan as of December 2015. These numbers have been gradually increasing. During the September-December quarter last year, mobile banking users initiated some 1.5 million transactions. Nearly Rs 24 billion rupees moved in the banking system thanks to mobile banking that quarter.

Besides there were about 13 million non-financial transactions using mobile banking channels, the value of which is unreported by the SBP.

No doubt mobile sector in Pakistan has enabled millions of people to be connected and have access to latest information. This growth of mobile industry will be highly productive for both social and economic development of the country.

Mobile industry has the potential to increase the economic and social development of Pakistan in order to meet the objectives of PTA Vision 2025. According to GSMA Intelligence and World Bank report, 1 percent increase in mobile penetration can lead to

"The 3G/4G spectrum has revolutionized the lifestyle in Pakistan and is playing an important role in the socio- economic development"



a 0.28 percent increase in the GDP growth rate of Pakistan. World Bank indicated that every 10 percent increase in mobile broadband penetration can accelerate the economic growth of middle-income countries up to 1.38 percent.

Mobile industry has the potential to accelerate the economic and social development of Pakistan in order to realize the vision for creating brighter societies. There is a great need to understand the hurdles that are affecting the growth of mobile industry in general and mobile taxation in particular.

Mobile Banking has become another forum for the banks to provide financial services to their clients. The convenience factor for users is such that they can conduct transactions, like fund transfers, balance inquiries, utility bills payment, and often other financial services like brokerage & stock market transactions all through their mobile handsets, at any time of the day.

The growth in smartphone users has brought about a new era for banking in Pakistan. With smartphone penetration already reaching 10 percent of the mobile market and with the introduction of affordable smartphone brands such as Qmobile and Voice, the Pakistani consumer is being introduced to new shopping platforms.

The use of smartphone for conducting banking in Pakistan was a mean of assisting banks in reaching out to rural areas and expanding their consumer base. A more detailed analysis proved that a vast majority of these internet-cell phone users were also smartphone users. For this purpose, banks increased their investments in developing models and applications for smartphone users to conduct banking in Pakistan through their cell phones.

The 3G/4G spectrum has revolutionized the lifestyle in Pakistan and is playing an important role in the socio- economic development. The mobile broadband subscribers have reached the 14 million mark, since its launch, from only 4 million. It is expanding on an average by 1 million new subscribers every month.

In India, a SAP study showed that more than half of the country's mobile consumers were purchasing entertainment services, with other major purchases being clothes and footwear. In Pakistan, consumers have a number of hurdles to cross when making online purchases. For example, most banks do not allow online transactions unless one makes a call to the bank beforehand. While this is seen as a safety feature by the banks, it is difficult for consumers and a waste of time. Nevertheless, there are still online retailers in the country who are making it work.

Daraz.pk for example, is one of the few businesses in the country pioneering mobile commerce with great enthusiasm. More than 20 percent of transactions for Daraz take place on mobile devices. Considering the hurdles consumers face in making online and mobile transactions in the country, such a high number is indeed encouraging.

Mobile Banking growth in the developed economies is high for a glaring reason; it is also gaining traction in the rising economies. In Pakistan, where a large number of commercial banks are operating in a largely unbanked market, there are two variants of mobile banking in action. The first one is offered by the Commercial Banks, in which specific banking services are provided via mobile phones to the 'existing' customers who already have accounts in bank branches. Mobile handsets are also involved in Call Center Banking, another avenue used by the holders of over 20 million plastic cards (debit & credit cards) who make phone calls to the banks' call centers to check their account balances, get mobile top-ups, pay utility bills, among other offered services. Branchless Banking offers the second mobile banking outlet, also to those customers who may not have a formal banking account.

Pakistan government handled out Rs. 40,000 per family to nearly a million internally displaced persons (IDPs) through mobile service operator Zong's mobile SIMs. The government is attempting to ease the discomforts of displacement for such a large number of people displaced after the start of Pakistan Army's Operation Zarbe-Azb to root out terrorists from North Waziristan tribal agency. Zong is one of several mobile service operators offering Easypaisa m-money service.

People can acquire more reliable services from not only the internet service

provider but also the mobile operators are offering data volumes. Currently, all Pakistani Mobile Operators are providing mobile banking to Pakistani mobile users including Telenor (Easypaisa), Mobilink Jazz (Mobicash), Zong (Timepay), Ufone (Upaisa) and Warid (Mobile Paisa). Telenor has also introduced Telenor Easypaisa for the first time, which helped people to get payments from thousands of outlets spread all over Pakistan.

Mobile banking is the system which allows customer to transact through using the mobile device. The mobile device can be a mobile phone or a personal digital assistant. With the help of it you can access your bank account anytime anywhere. This is the most affordable way you can reach your bank account.

Leading Banks are providing mobile banking services. Standard Chartered Bank provides three categories of services under mobile banking, which are breeze mobile, SMS banking and alters. The MCB mobile banking service helps the client to make payment, inquire account balance and to view mini statement of the account, whether one is in office, at home or elsewhere in the world.

Dubai Islamic Bank also provides this service to its customers. This service lets its customer to avail to banking services any time anywhere. United Bank Limited also provides its customers branchless banking with the help of a mobile phone. The only thing is to have access to the internet with cell phone. HBL Phone Banking lets customers access their account any time. With the help of the mobile banking one can save time and avail banking services without going to the branch.

"Mobile Banking growth in the developed economies is high for a glaring reason; it is also gaining traction in the rising economies"

"Daraz.pk for example, is one of the few businesses in the country pioneering mobile commerce with great enthusiasm. More than 20 percent of transactions for Daraz take place on mobile devices"



The Bank Alfalah ltd has also teamed up with Warid Telecom in order to provide such banking to the customers. Since Alfalah is working in a number of cities in Pakistan therefore it would be easy for a larger population in Pakistan to avail services and would benefit many people. Phone banking which is also launched by Askari bank has made life of its customers very easy, with the help of the Askari Bank mobile banking, the clients can now avail all the services without reaching the bank branch physically. It helps the customer as well as the banker to deliver more services in less time in a competitive environment.

Bank Al Habib ltd provides banking services to the customers keeping in view the demand of the customers and also the competiveness in the society. It has helped its customers to decrease the distance between the client and banker, through the self service phone banking. 24/7 phone banking at Bank Islami has made a tremendous effect in its customers lives; they are just a call away. They can help you throughout the week; services are not even stopped on weekends. The banks promise to provide all the services on phone banking as well. With the help of it, you can make any kind of transaction and can also ask for a bank statement. Faysal Bank's Mobit is the mobile banking service being offered at the bank. With the help of Mobit one can now ask for the account balance details or any other transaction details.

It is keenly observed that telecom companies taxes on SIM sales and handset limit the investment in telecom sector therefore SIM activation tax should be reduced. Removal of these taxes will increase the number of telecom subscribers and as a result the users will grow.

This will provide the operators with more revenue and will ultimately result in higher tax amounts for the government of Pakistan. It was observed that once the SIM activation tax was reduced in the past it resulted in better mobile tapping and increasing the tax revenues for Pakistani government.

By reducing and rationalizing taxes on the mobile sector, the Pakistani government can not only increase digital and financial inclusion and economic growth, but it can also create higher tax revenues through more well organized and broader-based taxation. Furthermore, reforming mobile taxation has the potential to increase and enable the investment required to further expand mobile broadband network infrastructure.

Government needs to provide space by slackening taxation regime rather than burdening the mobile industry, forcing them to act as the extension of the FBR for tax collection. More than 80 million citizens remain disconnected. Widening access to mobile through sector-specific tax reductions has the potential to accelerate Pakistan's development, deliver a broad range of life-changing services and, as a result, support progress towards the elegant society.

The high tax incidence on cellular customer would not encourage the use of technology quickly in the country; accordingly the services of 3G would likely to be only in a few cities with

restricted generation of business and employment.

Rather than considering it a useful tool for economic revival, this is the easiest way to tax the middle and lower middle classes. Taxing the rich is the most difficult way. Additional taxation on mobile load card has imposed heavy burden on the downtrodden section of the society. More than 41 percent taxes on mobile phone users are unjust.

The State Bank of Pakistan, in collaboration with the World Bank, has developed a strategy to make a multifold surge in mobile account holders to over 50 million in the next five years, as branchless banking remains an effective channel to expand outreach of unbanked and under banked people.

The National Financial Inclusion Strategy, recently developed by the State Bank of Pakistan in collaboration with the World Bank envisions that the uptake of M-wallet accounts will cross 50 million over the next five years. The leading provider of mobile financial services in the country manages nearly Rs1.3 billion in 5.1 million mobile accounts. This is money that has made its way into the formal economy from an estimated Rs2 trillion informal economy.

At present, the number of bank account holders in Pakistan is approximately 10 percent while only a part of 2.4 million is using mobile bank accounts. It is important to mention here Mobile payments or Mobile Banking is an important source to strengthen the financial structure of the country and it is a new phenomenon for Pakistan.

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FINANCING HEALTH OVERCOMING THE CATASTROPHE

By Sarah Sayani



The article reviews Health Financing from the perspective of socioeconomic development and strengthening the financial and health system. Large portion of the money raised through any financing system, except foreign donation, is directly or indirectly collected from citizens. Therefore, in choosing any of the five financing method- general revenue, social insurance, private insurance, community financing and direct payments by the patients as Out of pocket expenditure (OOP); the central question each nation has to decide on the selection of the financing method that is most suitable to its socio-economic and political system? And to what extend?

he Power of Health-care Financing

The topic of health financing and its challenges is one that has been followed closely for quite some time, most significantly in the developing world of South and West Asia, the Middle East and Africa. Today, all across the world, Health Financing is at cross-roads with crisis of efficiency in budgetary allocation. As the pace of health financing accelerates, allocative efficiency and equity pattern in health-care spending often creates a deadlock. Health-Care Financing is the system of mobilizing money to fund health sector activities and evaluates

how this money is used in the system i.e. functioning on allocation.

The progress of health-care financing in the world today is fundamentally linked to improving the performance of health system and quality of human life. The promise of health-care financing is that it will make money available; pools risk, equalize the financial burden and control health-care cost. But if this promise is compromised then the health system is endangered with impoverishment of population from catastrophic health expenditure, lower access to health care and reduction in health status of the population. Moving the country forward in achieving its Millennium Development Goals targets and most recent Sustainable Development Goals prescribed by United Nation, to which "Good Health and Well-Being" ranks third target to achieve in the next 15 years. Therefore, it is critical to answer what can be the possible reason for health financing system failure to improve health status and quality of human life?

The global health challenges occur against a milieu of poverty, unstable economic growth and political uncertainty. The meager response to threatening diseases is exacerbated when money raised through any financing mode gets exploited thus immersing societies with catastrophic health expenditure. Evidence from HIES micro-data 2010-11 shows that 6.6 per cent and average PKR 4,938 amount of income is spent on health expenditure among poorest quintile of population.

OECD Health Data (2002) revealed that the United Kingdom is commonly assumed to rely on general revenues to finance its health system. In actual, only 76 per cent of country's health funds are from general revenue, 12 per cent are contribution from social insurance, 10 per cent are from private insurance and 2 per cent are from out of pocket expenditure or patient contributions. Lower contribution from public makes the system relatively sustainable and contributing to improve quality of life of its population. On the other hand, India had the same perception for relying mostly on tax revenues to finance health system. However, statistics shows that only 20 per cent of health expenditure is financed from tax revenues, about 70 per cent from

Table 1: Health-care Financing Sources in Pakistan (Rs. in Millions)

Sources	2007-08	2009-10	2011-12	% of 2011-12
Public Sources				
Federal Government	28,769	52,470	41,653	7.5%
Provincial Governments	27,244	47,180	105,515	19.0%
Districts/Tehsil Bodies	23,316	29,572	42,225	7.6%
Autonomous Bodies/Cooperation	6,843	8,277	9,343	1.7%
Total Public Sources	86,172	137,499	198,736	35.8%
Private Sources				
OOP	228,108	273,015	304,944	55.0%
Employer Funds	3,765	5,053	7,734	1.4%
Local/National NGOs	24,261	27,738	33,474	6.0%
Total Private Sources	256,134	305,806	346,152	62.4%
Official Donor Agencies	4,388	5,098	9,565	1.7%
Grant Total	346,694	448,403	554,453	100.0%

Source: National Health Accounts, Pakistan Bureau of Statistics

out of pocket expenditure and 10 per cent funded from miscellaneous sources.

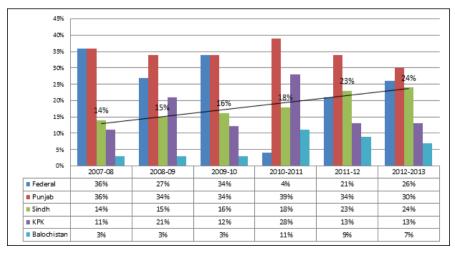
National Health Accounts, Pakistan Bureau of Statistics, GoP, (2012) shows that in Pakistan 55 per cent of health expenditure is financed from out of pocket expenditure and only 36 per cent are from Government sources, exacerbating quality of life of its population. Pakistan along with other developing countries is struggling to streamline health-care financing to save impoverished population from catastrophic health expenditure. Primary agenda of

health-care financing is reducing the possibility that individuals will be unable to pay for their health expenditures or will be impoverished while doing so.

Among the provinces highest share of spending is seen in KPK with lowest in Baluchistan. The Public Sector spending on health has increased on provincial level in post-devolution era (2011).

Irrespective of the increase in health expenditure by provinces, remarkably by Sindh over the years, the province is still faced with distributional inefficiency. The

Chart 1: Relative Share of Health Expenditure out of Consolidated (Federal and Provinces) Health Expenditure



Source: Public Health Accounts

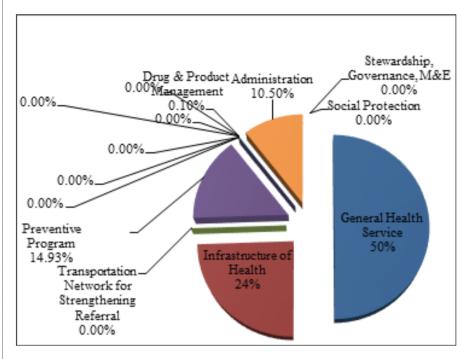
Sindh Health Budgetary Allocation 2013-2014 chart 2 below, shows that focus is given on Infrastructure Development with least concern on funding for Preventive Program Initiatives, Drug Supply and strengthening Transport system affordability for referrals that can help to ensure population-based public health. Attracting health-care provision to rural and marginal communities requires that the health-care financing system revamps its financing strategies towards efficient and equitable health-care interventions.

The provision of health service; the resource generation for health, which includes spending on, and development of human resource for health and material resources such as equipment and building; health financing and government stewardship are four main functions of health system. The efficiency and sustainability of any health system is analyzed on these functions. Health financing is an important yardstick in maintaining fair and efficient health system. Many developing countries do not perform well in mixing health financing sources to the socio-economic condition of the country. In these countries predominate source of health financing is out-of-pocket expenditure, that has the ability to exacerbate poverty.

Global statistics indicate that approximately 100 million people are impoverished and further 150 million suffer financial hardships creating a vicious health poverty trap. Out-of-pocket expenditure has forced seventy eight million people to fall below poverty line of USD 1.8 in eleven Asian countries to which Pakistan is a major contributor with 25% of population below poverty line of USD 1 a day. Among other, health financing is responsible for 70% of economic shocks in developing countries. (WHO 2005)

Catastrophic health expenditure is mostly prevalent in rural areas and increases with household having high number of women individuals and members above 60 years of age. Lower income families are at high risk of becoming poor due to health expenditure as compared to high-income families even though they have lower access to health-care and more prone to delay health needs. Such socio-economic conditions of Pakistan suggest that

Chart 2: Sindh Existing Share of Budgetary Allocation 2013-2014



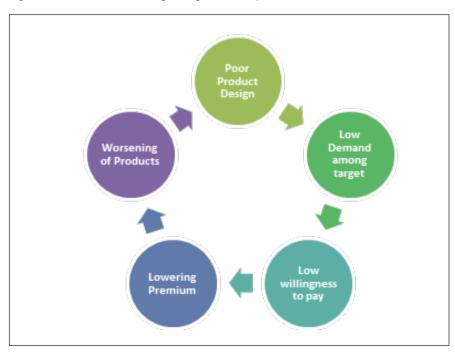
Source: Situation Analysis for Post Devolution Health Sector Strategy of Sindh Province-2011

financial risk protection should be priority in adopting health financing system.

Community Health Insurance- A Policy Option to Overcome Catastrophic Health Expenditure

The community based health finance encapsulates a wide range of health financing modalities such as micro-health insurance, community health funds, mutual health organizations, revolving drug funds and rural health insurance. The focus of all these financing mechanism is on resource mobilization, outreach to rural communities with limited access to government and private health-care providers (Hsiao, WC. 2001). A community health insurance scheme in Pakistan was initiated by Aga Khan Agency for Microfinance (AKAM) in 2007 targeting low income families in

Figure 1: Micro Insurance Package Design Vicious Cycle



Gilgit, Hunza-Nagar and Ghizat districts.

The micro health insurance package of AKAM was designed to safeguard poor families in community from catastrophic health expenses. The scheme involves voluntary enrollment for which premium paid by community managed the organization, and insurance agency was responsible to serve health service provider with its service redemption. The limit of coverage package was PKR 25,000/- a year per family member. The service package also includes free service vouchers, one for medical consultation, four for prenatal checkups and other free service includes five diagnostic test and some nutritional supplements and life insurance of one lead in family up to PKR 25,000/-(Zaida, S., and Sattar, A. 2014)

Micro Insurance Package Design

Situation analysis for post devolution health sector strategy for Sindh province (2011) says World Bank analysis of HIES survey that lowest income quintile spends almost 7% of monthly household income on health expenditure against an average of 5.2% by higher income groups. Approximately Rs. 750 per month is spent on health by poor household of rural Sindh. Dr. David Dror (2007) in his study of micro health insurance in India has identified the factor which promotes poor population willingness to pay premium. The factor is attractive product design that best suits their need rather than insuring company financial viability. Otherwise micro insurance can only create 'vicious cycle' (Dr. Dror 2007) as shown in figure 1:

In Pakistan, majority of catastrophic health expenses are due to primary health-care needs, with mother and child health and mal-nutrition in focus in post flood era. Therefore, in designing micro health insurance package special emphasis is required in health-care provision of primary health-care and MCH (Mother and Child health-care) needs with nutritional supplements. Funding to

"PRIMARY AGENDA OF HEALTH CARE FINANCING IS REDUCING THE POSSIBILITY THAT INDIVIDUALS WILL BE UNABLE TO PAY FOR THEIR HEALTH EXPENDITURES OR WILL BE IMPOVERISHED WHILE DOING SO"

Table 2: Measuring Outcome on Equity Parameter

Dimensions	Horizontal Equity	Vertical Equity	
Access	Level of population with similar needs have similar access to health-care service.	Level of intensive care provided to those in greater needs of it.	
Finance Risk Pooling	Effectiveness of premium based on socio economic conditions of population.	High income quintile pays more than lower income quintile. [Possible when premium blend with % of income]	
Expenditure	Appropriateness in distribution of health-care expenditure as per socio-economic needs of population.	Poor household with greatest risk of illness receive more health-care needs than healthier families. Such as discounted financing scheme and free vouchers.	
Outcomes	All household in catchment experience similar health-care outcomes		

educate population on basic health-care initiatives will add value to the micro insurance package in meeting its social-economic goal.

Measuring Effectiveness of Community Health Micro Insurance

The criterion to measure micro insurance performance on community level is constructed on an equity parameter. The equity addresses questions that relates to horizontal equity- the level of fairness among same income-level and vertical equity- the distribution of burden between rich and poor. Micro insurance equity outcome measurement is illustrated in table 2:

Lessons Learned from Global Evidence

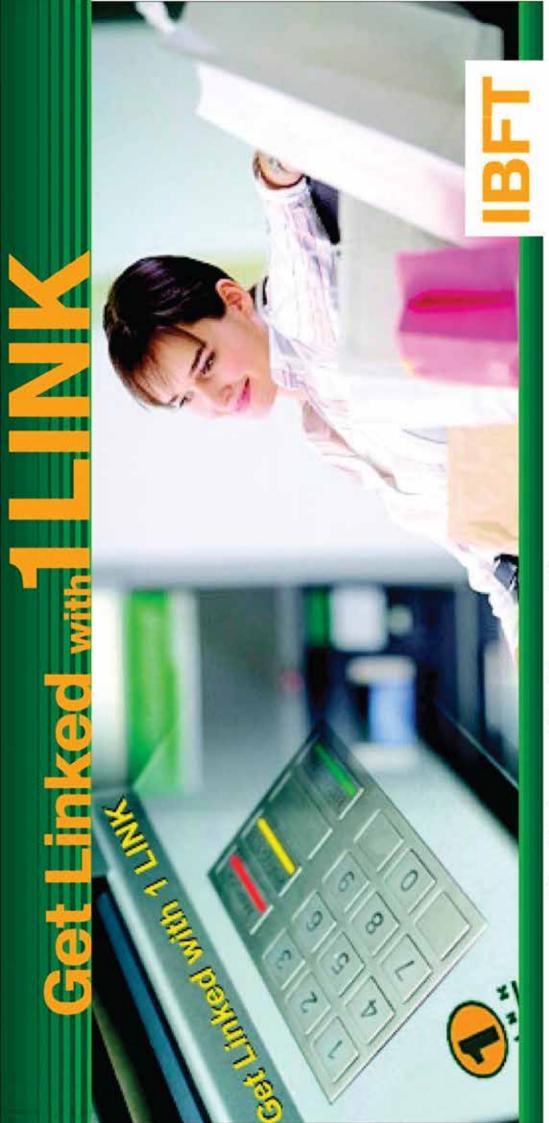
- Micro health insurance initiatives taken by BRAC MHIB, Grameen-Kalyan, and SSS Health Program in Bangladesh, all were focused on promoting front-line primary care service with emphasis to promote services.
- The National Health Card Scheme of Brundi shows that for micro health insurance to be sustainable for long-term, some sort of external financing is necessary as individual household premium is not enough to cover administration and product cost. (Arhin 1994)
- Grameen Bank health insurance program incorporates MCH services along with pregnancy related educational program and medicine supply in its insurance package to take care of MCH needs of population.

• India's Jan Arogya Bima (Dror 2007) analyze coverage effectiveness on low-probability illness with high cost, measuring 10% of the most lowest occurring illness with highest cost and its extend of hospitalization coverage. This can be a valuable measure of catastrophic health expenditure among rural population.

Action and Learning

Financing health is a complex phenomenon without any broad solution as multiple objectives pursued in the health system of each nation requires difficult tradeoffs. Unavoidably, decisions on financing health depend on each country's social norms and health priorities. The capacity of each financial option depends on various local features. It is not possible for us to deduce one best solution, nor to adopt an international practice due to its widespread usage. We have to be focused and flexible in choosing the best strategy that fits our country's social values.

Millions of people in Pakistan are trapped in a vicious circle of sickness, poverty and death. For them there will be no tomorrow if no action is taken today. Yet, a well define micro insurance program with objective of resource mobilization, fair financing and financial protection of poor population, is a wise decision to build stronger and sustainable health systems in Pakistan. Micro health insurance can prove to be a policy agenda combating poverty, hunger, sickness and destitute death. What we can do and what we fail to do in making health financing strategy will architect our entire health financing strategy for years to come.



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MARKET RISK MANAGEMENT

By Dr. Sabir Ali Jaffery

isk-taking is the essential ingredient of the core businesses—lending and borrowing---undertaken by banks and financial institutions. A financial enterprise that operates on the principle of sans-risk, i.e. 'risk-aversion', is akin to a weary sluggard horse confined to stable, being incapacitated to trample a racing track, and therefore disqualified to mount the victory stand. It is tantamount to a replica of a stagnant organization unable to adequately meet the credit needs of a viable society.

Conversely, a financial organization exposed to an un-managed risk is like a propeller-devoid boat drifting in turbulent waters, ordained to drown one day.

Risk Defined: State Bank of Pakistan in BSD Circular # 07 dated 15th August 2013 has defined risk as "a possibility that the outcome of an action or event could bring up adverse impacts". In simple words, risk is the adverse effect of an action or event. This may either be in the form of loss of earnings or as impairment in bank's ability to meet its business objectives, which hinders its ongoing business and curtails its potential to capitalize on the opportunities subscribing to growth.

Market Risk: Risks are multi-natural and multi-directional. Of these, one is categorized as market risk which denotes adverse effects on banks' assets as a result of movements in market rates or prices.

Market risk tends to reflect in securities portfolio and in such other instruments which are incidental to brisk trade.

Market risk may also arise out of

adverse movement in off-balance sheet items, such as: interest rates --- inherent in mismatching of deposits and loans; forex rates; and equity and commodity prices.

Interest Rate Risk: Banks' lending, funding, and investment activities have interest-rate risk in their fold. The variation in interest rate has two-fold impact:

- immediate impact is on net interest income; and
- long-term impact is on bank's net worth since economic values of assets, liabilities, and off-balance sheet items are affected by interest-rate variation.

Assessment of interest-rate risk is a two-fold phenomenon, as under:

- Earning Approach: Under this approach, the interest rate risk is measured apropos the difference between total interest expense and the total interest revenue.
- Economic Value Approach: Economic value of a bank refers to the present value of its future cash flows, which is affected both by changes in the quantum of future cash flows and the discount rate used for determining present value.

Forex Rate Risk: Impact of adverse movements in currency exchange rates on the value of foreign currency open position is categorized as Foreign Exchange Rate Risk, or Forex Rate Risk.

Impact of variation in exchange rates on forward deals also forms part of exchange rate risk. Other components of foreign exchange rate risk are default on the part of counter parties and sovereign or country risks.

Equity Price Risk: This category of market risk refers to the loss in earnings or to the impairment in the capital occurred due to the adverse changes in the value of equity related portfolios of a financial institution.

MARKET-RISK MANAGMENT;

Strategy Formation: Prerequisite of market-risk management-strategy is the quantification of the level of risk an organization is susceptible to assume. This synchronizes with the capital of the organization and the other risks it is exposed to.

Once the market-risk appetite of the organization has been determined, the strategy for taking such risk is formulated with a view to maximizing returns "at or below such level."

Further, the market-risk management strategy should fall in line with the economic conditions of the country, volatility of the market in which it will



predominately operate, availability of expertise capable to meet the expected challenges inherent in market operations, and, above all, the institution's portfolio and elasticity to diversification.

Finally, the strategy should be periodically reviewed, revised where needed, and promptly communicated down the line to the field force operating at the implementation level.

Organizational Structure: Salient components of the organizational structure charged with devising and implementing the market-risk management strategy include: (i) Board of Directors / Senior Management; (ii) Risk Management Committee; (iii) Asset-Liability Committee; and (iv) The Middle Office.

Board of Directors / Senior Management: The Head of the Planning and Development Department, or the department performing the same function with any different nomenclature, shall collect data, and based upon it, prepare the draft strategy of market-risk management, and submit it to the Board of Directors (BOD) for approval. The BOD, after due scrutiny, shall approve the strategy and rebound it for implementation to the department which had initiated it.

After the BOD approves the strategy, the senior management assumes the responsibility of transforming it into procedural methodology and ensures its proper implementation.

This function of the senior management shall include but shall not be restricted to ensuring adherence by all concerned to the prescribed policy and procedure of market-risk management.

It will also be the responsibility of the senior management to establish an effective built-in control system that would measure, monitor, and control market-risk of the organization, and shall identify well in advance any untoward lapse or deficiency.

Risk Management Committee: It is a high-powered committee constituted to supervise overall risk management functions of the organization, which primarily include controlling and monitoring of the integrated risk management comprising various risk exposures of the organization including the market-risk.

Strength and structural components of this committee vary from organization to organization, depending upon the size and volume of the business an organization undertakes.

Asset-Liability Committee: State Bank of Pakistan has recommended formation of Asset-Liability Committee also. Functions proposed for this committee, commonly known as ALCO, are almost identical to those of Risk-Management Committee. However, in a large size organization with different levels of hierarchy and with multiple level organizational set-up, ALCO may also be established to monitor and oversea the performance of Market-risk Management functions. By its very nature, ALCO is assumed to have the powers of reviewing and revising the overall Market Management Strategy of the organization in the context of various risks the organization is exposed to.

Middle Office: This set-up is a recent addition to various units performing risk management functions at different levels. Basically, it performs risk review function of day-to-day operation. Nevertheless, its prime concern relates to treasury operations of a bank.

Risk Measurement: Nature & Scope There is a wide range of management techniques available ranging from static management techniques (GAP analysis) to highly sophisticated dynamic model (Monte Carlo Simulation). Any of these

(Monte Carlo Simulation). Any of these which suits most to the requirements of the user may be employed. Selection of a system should also take in view the availability of trained staff and the requisite data.

Ideally speaking, an effective risk measurement system should. (i) assess all risk factors associated with assets, liabilities and off-balance sheet items; (ii) employ all the viable financial concepts and risk management techniques; and (iii) ensure that assumptions underlying the system are understood in their true perspective by all concerned.

Certain risk measurement techniques are worth mentioning.

(a) Repricing Gap Models: In a gap report interest sensitive assets (ISA), interest sensitive liabilities (ISL) and off balance sheet items (OBS) are arrayed into various time bands according to their maturity.

The size of the gap for a given time band is represented by the equation "ISA minus ISL plus OBS = GAP". If ISA exceeds ISL, the GAP is positive, and vice versa.

An interest sensitive gap ratio (IS GAP R) is also an indicator of bank's interest rate risk exposure (IRR).

IS GAP R = IS GAP / Bank's total assets = IRR

Interest Sensitive Ratio {ISR = ISA / ISL} could also be a meaningful indicator of bank's position.

(b) Net Interest Income: Gap schedules can provide an estimate of changes in bank's net interest income given changes in interest rates. This can be put into a formula as under:

(GAP) (Change in rate) = Change in NII.

(c) Economic Value: Arrangement of assets and liabilities in a GAP analysis can be extended to measure change in economic value of bank's assets due to change in interest rates.

There are also some more sophisticated IRR measurement systems employed by banks having complex risk profiles. These "simulation techniques" overcome the limitation of static gap schedules. These undertake detailed assessment of potential effects of changes in interest rates on earnings or economic value by simulating future movements of interest rates and their impact on cash flows.

(d) Value at Risk: Value at Risk (VAR) summarizes the predicted maximum loss within a given confidence level. Methods of computing it are: (i) Parametric method or variance-covariance approach; (ii) Historical Simulation; and (iii) Monte Carlo method.

Risk Monitoring and Control

Risk monitoring aims at evaluating the performance of banks' risk strategies, and policies and procedures. This function should be independent of units taking risk and report directly to top brass / BOD.

Key elements of internal control include internal audit and, periodical review, and aims at maintaining a viable risk limit structure.

DEVELOPMENT PLANNING IN Pakistan 1947 - 71

By Syed Mahdi Mustafa

Development planning may be defined as an attempt on the part of the government to harness the apparent and latent potentials of an economy as to best meet the basic needs, both physical and intellectual, of the society it governs at any point of time. The term – development planning – is mostly used loosely for such economies as are in a nascent state of development or are in a state of "take-off". This is a very limited definition of the term.

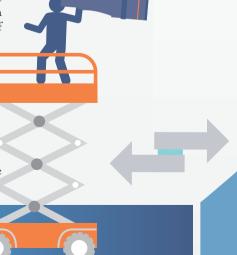
roadly, economic development may be divided in three categories namely market economy, command economy and mixed economy. In a market economy, the main vehicle of growth is based upon the interest rate policy with the government meeting essential social sector needs where sufficiency is lacking. In such an economy, the development onus rests mostly with the private sector. The present day U.S and most of Europe and some countries in Asia are classic examples of a market economy.

In a command economy, all economic decisions are centralized in a single body and the private sector stands somewhat totally relegated. Decisions are handed down from the top down to targets set at farm and factory levels. The former Soviet Union and the present day North Korea and former Burma (now Myanmar) have been and are examples of this type of planning.

In a mixed economy, both private and public sectors play equally crucial part in developing the economy. This approach is generally known as "indicative planning" under which broad targets are set to be achieved but are not mandatory. The government looks after development in sectors where private sector is shy due to long gestation periods, heavy capital investment and uncertain profit

margins. Most of the Asian countries including Pakistan belong to this type of planning.

Pakistan was besieged with a number of almost intractable problems only a few months after independence on August 14, 1947. War broke out on its border over Kashmir in November 1947. It did not have a central bank till July 1, 1948. India did not transfer foreign exchange funds in full as envisaged in the Partition Plan of 1946. The jute financial crisis erupted in September 1949. Migration of muslim population into Pakistan from India tested administrative expertise to extreme limits. The carnage of muslims in Calcutta wanting to move to East Pakistan was unprecedented in the same way as in east and west Punjab. Pakistan did not and possibly could not have planned machinery and was obliged to tackle the above problems with great



urgency and with top priority of resettling the refugees of the day.

Pakistan, with the help of the World Bank, launched its first six-year development program titled as "Colombo Plan, 1950-56, the name given to it because it was chalked out in the first meeting in the then Ceylonese capital.

The Colombo Plan was handicapped from its very beginning as data upon which the plan was to rest was both inaccurate and insufficient with man-power needs greatly lacking.

Although the Pakistan Industrial Development Corporation (PIDC) was launched in 1952, its impact on accelerated

Encouraged by the success of the Second Five Year Plan the government realized that the "take-off" stage of the economy had arrived. It was therefore thought prudent that a Perspective Plan be launched covering the period of 1965 – 85 with 1960 as the base year.

After the success of the Second Five Year Plan, the government launched the Third Five Year Plan 1965 – 70 in July 1965 hoping to take development further and faster. This did not happen.

India, without any provocation, launched a full – fledged military attack on September 6, 1965 but its attempt to capture parts of Punjab including Lahore was thwarted. A truce with the help of the then Soviet Union was arrived at and the war between the two countries

industrial development in the near future was fairly limited though some of its enterprises gained momentum later-on with the completion of Karnaphuli Paper Mill in East Pakistan. The government also provided numerous incentives for development of the textile sector in the Western and jute manufacturing sector in the Eastern wings of the country, both based on private sector initiatives, notwithstanding the track being right, the Colombo Plan was a banded by the World Bank relative to its financial assistance in 1954.

The government launched its first medium-term 1950-55 Plan with a view to capitalize upon stability gained by the economy. The hope, however, faded due to a number of factors. The most important of these were, firstly the plan document could not be finalized and published till end-December 1957. Secondly, much too high targets for various sector of the economy were set which, in hindsight, were almost unachievable.

After the military government took hold of the country in October 1958, it chalked

out the Second Five year Plan, 1960-65 and set targets backed by finances, domestic and external, to ensure achieve possible targets during the plan period. The implementation of the Second Five Year Plan, 1960-65 proved to be a great

success with annual growth rates average, above 5 %. The success also led to failures. The most vexing of these was the "disparity of income between the population base of East and West Pakistan. The government of the day, led by Ayub Khan, set-up

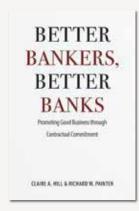
a Commission of six top economists from each wing of East and West Pakistan to redress the problem. ended with Pakistan not having lost a single inch of its territory.

The war however left scars and some of the development targets needed to be rewritten as greater budgetary outlays for defense needed to be allocated.

The British during their colonial rule over India had reduced East Bengal (later East Pakistan) to no more than a hinterland for Jute and tea, the two main export earners. Both were under direct control of Hindus from the then West Bengal and the British themselves while tea gardens in Sylhet were under full control of the British both in terms of production and trade. The situation in West Pakistan was different at the time. Although West Pakistan was a top exporter of cotton limited though to 21 single count yarn and grey cloth. It had only a single textile mill which produced some ready-made garments. East Pakistan did not have a single jute mill although it produced 80 % of world's jute needs.

A vacuum thus obtained at independence as local Bengalis needed to catch with their Western counterparts entailing a time lag. The disparity of income became the result.

In removing the disparity of income between the two regions, East Pakistan suggested that the per capita income and population of the province should be inversely related with the per capita income and population of West Pakistan. This would have resulted in equality of per capita income by 1980. Members of the Commission from West Pakistan advanced a formula under which the same objective could be achieved by 1985 and not by 1980. This was never accepted by the Eastern Wing and became the main economic bone of contention in seeking separation from Pakistan.



Taking financial risks is an essential part of what banks do, but there's no clear sense of what constitutes responsible risk. Taking legal risks seems to have become part of what banks do as well. Since the financial crisis, Congress has passed copious amounts of legislation aimed at curbing banks' risky behavior. Lawsuits against large banks have cost them billions. Yet bad behavior continues to plague the industry. Why isn't there more change?

In Better Bankers, Better Banks, Claire A. Hill and Richard W. Painter look back at the history of banking and show how the current culture of bad behavior—dramatized by the corrupt, cocaine-snorting bankers of The Wolf of Wall Street—came to be. In the early 1980s, banks went from partnerships whose partners had personal liability to corporations whose managers had no such liability and could take risks with other people's money.

A major reason bankers remain resistant to change, Hill and Painter argue, is that while banks have been faced with large fines, penalties, and legal fees—which have exceeded one hundred billion dollars since the onset of the crisis—the banks (which really means the banks'shareholders) have paid them, not the bankers themselves. The problem also extends well beyond the pursuit of profit to the issue of how success is defined within the banking industry, where highly paid bankers clamor for status and clients may regard as inevitable bankers who prioritize their own self-interest. While many solutions have been proposed, Hill and Painter show that a successful transformation of banker behavior must begin with the bankers themselves. Bankers must be personally liable from their own assets for some portion of the bank's losses from excessive risk-taking and illegal behavior. This would instill a culture that discourages such behavior and in turn influence the sorts of behavior society celebrates or condemns.

Despite many sensible proposals seeking to reign in excessive risk-taking, the continuing trajectory of scandals suggests that we're far from ready to avert the next crisis. Better Bankers, Better Banks is a refreshing call for bankers to return to the idea that theirs is a noble profession.

REVIEWS

- •"A thoughtful, modern exploration of a pernicious problem: excessive risk-taking in banking. Better Bankers, Better Banks offers an original and path-breaking perspective to the problem, including a brave remedy to reestablish professionalism and personal liability." Steven Davidoff Solomon
- "Better Bankers, Better Banks is a game-changer for the financial regulatory reform. Its proposal for 'covenant banking' is a serious formula for restoring trust in the financial services industry by requiring bankers to have skin in the game. Hill and Painter have figured out how to recreate the reputational benefits of general partnerships in an age of giant incorporated banks. This book should be required reading for anyone concerned with restoring a fair and stable banking system." Adam J. Levitin

ABOUT THE AUTHORS

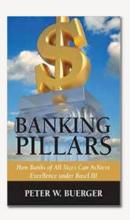
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Hill, C., & Painter, R. (2015). Better bankers, better banks: Promoting good business through contractual commitment. Chicago: University of Chicago Press. (ISBN: 9780226293059

(The book is available in IBP Library)





One of the biggest challenges for the banking industry in the aftermath of the financial crisis is in navigating new and changing regulations, many of which have emanated from the Basel III Accord. In Banking Pillars, author Peter W. Buerger walks readers through the various Basel III requirements regarding liquidity, risk weighting, stress testing and more, and how they are being put into practice in the United States and Europe. Banking Pillars summarizes the most import-

ant issues on the regulatory landscape to help financial executives and other interested readers absorb complex material in a clear and concise package. Ultimately, the book is about prudent and simple things in life that are important to human beings all over the world: having money (capital or solvency), having some cash in your pocket (liquidity), knowing your risks, operating with realistic and sustainable goals in mind, and acting as an honest businessperson.

With the risk manager in mind, Banking Pillars summarizes the most important issues on the regulatory landscape to help financial executives and other interested readers absorb complex material in a clear and concise package. The book summarizes key areas of modern banking and risk management, such as:

- Capital Adequacy For Banks
- Liquidity Standards Under Basel III

- Macroeconomic And Systemic Issues
- Stress Testing Best Practices for Banks
- Risk-Weighted Assets
- Governance and Risk Management
- Issues and Implications
- Risk reporting / disclosure
- Profitability
- Leverage Ratio
- Stress testing (DFAST)
- Capital planning (ICAAP, CCAR)

ABOUT THE AUTHOR

Peter W. Buerger is Managing Director of Risk & More and specializes in banking- and risk management-related consulting and advisory projects. Within the last three years, he has also provided tailored training services to banks, institutions, and corporations in many financial centers around the world, including North America, Europe, Africa, the Middle East, and Asia. Prior to this Peter worked in banking for 20 years with Commerzbank in Frankfurt and London and UniCredit in Munich. Peter holds an MBA from Long Island University in New York.

Buerger, P. (2015). Banking Pillars: How Bank of All Sizes Can Achieve Excellence under Basel III. United States: The Risk Management Association. ISBN: 978-1-57070-324-9

(The book is available in IBP Library)



Interesting Quotes

"I fear debt. I don't like being indebted to banks. I have a rule in life that I will get it when I can afford it." - **Vir Das**

"Happiness is a good bank account, good cook and a good digestion". - Jean Jacques Rousseau

"The modern banking system manufactures money out of nothing." - **Josiah Stamp**

"People who don't have money don't understand the stress," - Alan Dlugash



View on Bankers "When bankers get together over dinner, they discuss art. When artists get together over dinner they discuss money". – Oscar Wilde

Joke



"3 people get stranded on a remote Island A Banker, a Daily Mail reader & an Asylum seeker All they have to eat is a box of 10 Mars bars The Banker says "Because of my expertise in asset management, I'll look after our resources" The other 2 agree

So the Banker opens the box, gobbles down 9 of the Mars bars and hands the last one to the Daily Mail reader

He then says" I d keep an eye on that Asylum seeker, he's after your Mars Bar"



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