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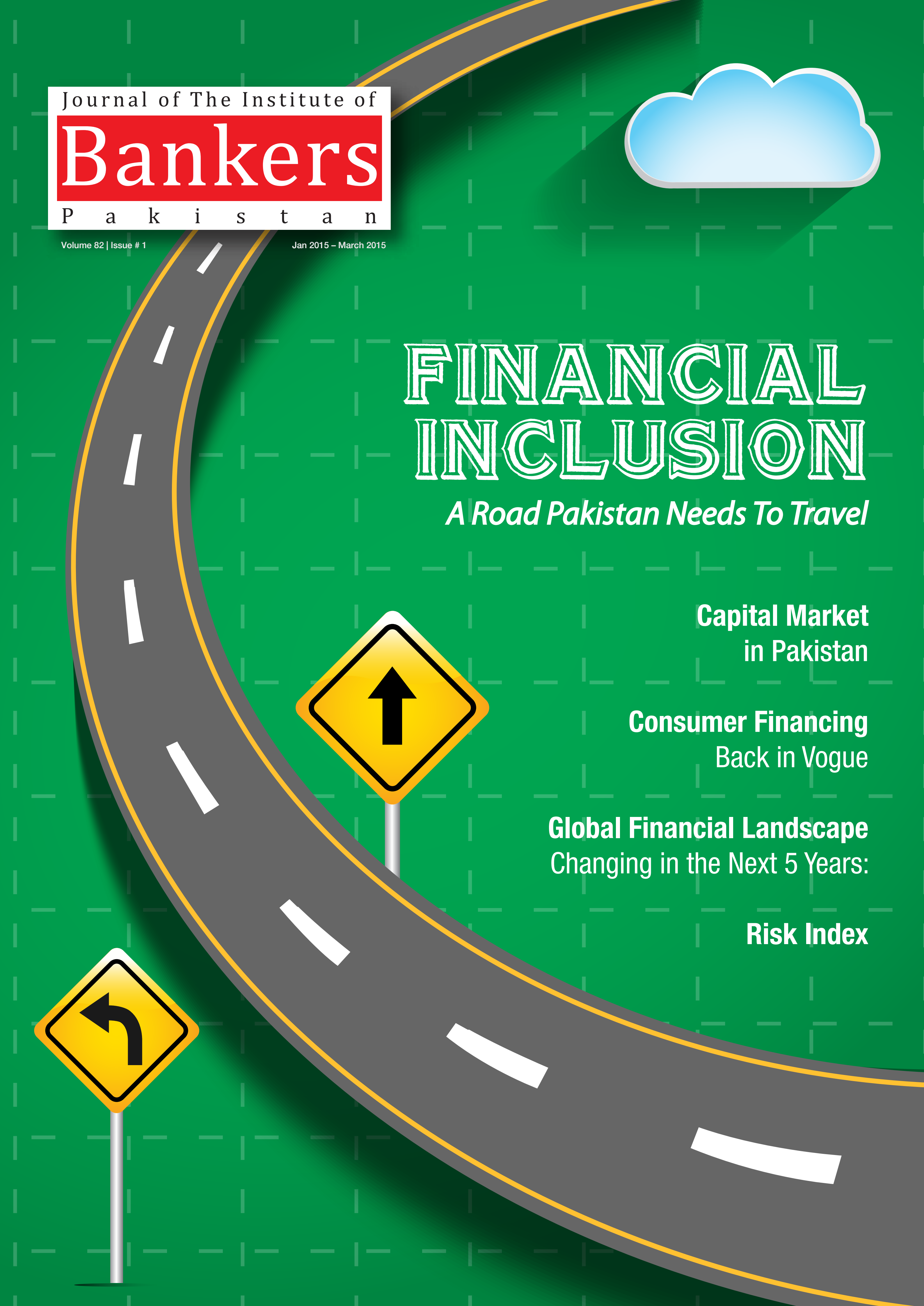

FINANCIAL INCLUSION

A Road Pakistan Needs To Travel

Capital Market
in Pakistan

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Back in Vogue

Global Financial Landscape
Changing in the Next 5 Years:

Risk Index

editorial

The year 2014 was beset with myriad developments altering the Country's economic landscape. Inflationary pressures exhibited a deceleration – with major monetary indictors reflecting the falling trend of inflation. The reduction in oil prices and decelerating inflation also renew hope of improved competitiveness of Pakistani exports. Supplementing this is the expectation of augmentation in economic productivity as GDP growth is on course to surpass the FY14 outcome.

Fiscal deficit has been contained and efforts towards government borrowing curtailment have also been witnessed. This progress towards fiscal consolidation - and subsequent reduction in budgetary borrowing - along with the relaxed monetary stance adopted by the SBP, emerge as encouraging drivers of private sector credit growth. Meanwhile, constrained economic productivity, slower deposit growth faced by banks, challenging security situation, falling commodity prices, and continued energy shortages continue to pose challenges to private sector credit supply. Growth in credit to private sector during Jul-Feb FY15 has remained subdued at Rs 158.9 billion compared to Rs 298.3 billion in the same period of FY14. Nonetheless, growth in private sector credit is expected to pick up pace as a result of the loosened monetary stance adopted by the SBP.

Owing to recent foreign exchange inflows, decelerating import growth and strong workers' remittances, external sector outlook continues to improve as current account deficit has shrunk in in Jul – Feb period of FY15 as compared to same period last year. Falling international cotton prices and stiff competition in low value-added textiles are expected to exert more pressure on our struggling exports, in a global arena that is already plagued by weak demand. Meanwhile, foreign exchange inflows have contributed in maintaining an upward trajectory in foreign exchange reserves and stable currency parity.

CPI inflation touched a low of 4.3 percent in December 2014, and average CPI inflation during July-December 2014 marked at 6.1 percent, a deceleration that was driven by the plunging international oil price and decline in other global commodity prices. A broad based declining trend in inflation is expected in the near future as the outlook of inflationary pressures in the medium to long term remains contingent upon prices of commodities and oil. In alignment, the SBP has revised its projection of average CPI inflation downward to 4.5 – 5.5 percent for FY15, an estimate that is well below the initially assigned target of 8 percent.

The interbank market remained tight in H1-FY15, despite the relaxed monetary stance. Going forward, the realization of expected external inflows is likely to reduce the budgetary borrowing requirements from scheduled banks and improve liquidity conditions in money market.

The banking sector closed the first quarter of 2015 with its deposits posting a growth of 12.38 percent year-on-year and amounting to Rs. 8.51 trillion; meanwhile, advances grew by 8.09 percent and stood at Rs. 4.43 trillion and investments grew by 26.68 percent to be recorded at Rs. 5.7 trillion. As of end of Dec'14, the sector's stock of NPLs had marked at Rs. 604.7 billion, and the infection ratio stood at 13.56%.

The SBP decided to reduce the policy rate by 50 basis points from 8.5 percent to 8.0 percent effective from end of March 2015. Going forward, the banking industry will need to strategize the generation of growth and profitability in the relaxed interest regime while businesses will be expected to utilize the favorable interest environment to mobilize sustainable enhancement in economic productivity. Revenue generation through broadening the tax net and reduction of tax evasion will also play in an important role by strengthening fiscal discipline. If the macroeconomic challenges, as detailed earlier are addressed, we see Pakistan's economy to be more robust in the remaining fiscal year.

Sirajuddin Aziz
Editor-in-Chief


TPS ENABLING CONVENIENT TRANSACTIONS
Millions of Pakistanis use different electronic banking channels for their everyday financial needs.
A retired government officer draws pension from an ATM near his home while a housewife pays electricity bill through her mobile phone without leaving her house. A young man sends instant money through internet banking to his father in another city while another person takes cash out from the ATM from 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 on a Sunday while a businessman settles his hotel bill in a US hotel through his Pakistani debit card. A petrol pump owner pays for its purchase to the distribution company through his mobile phone, while his employee receives his salary on the payroll prepaid card.
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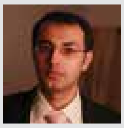

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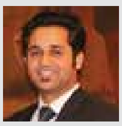

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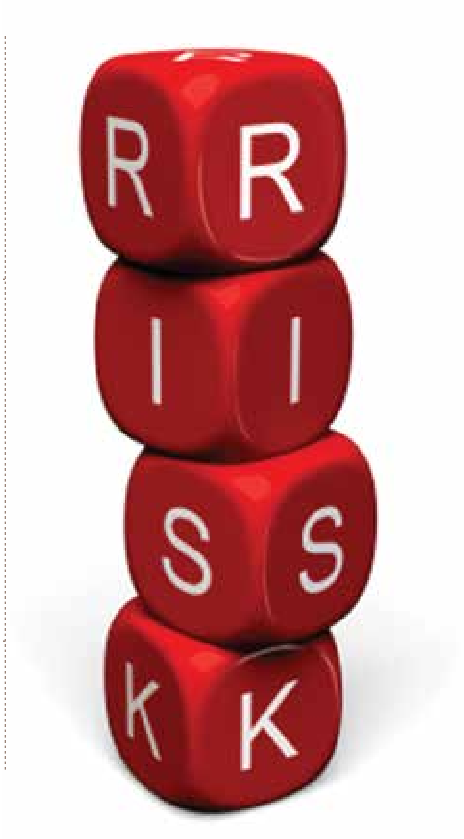

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FINANCIAL INCLUSION

A Road Pakistan Needs To Travel

By Subtain Raza

Financial inclusion is a key determinant of sustainable and inclusive growth which could unleash the vast unseen potential of savings consumption and investment propensities of the less fortunate strata of society. Financial inclusion is the process of ensuring access to appropriate financial products and services e.g., bank account, savings, insurance and cheaper credit facility. Financial Inclusion is target towards underprivileged groups such as weaker sections and low-income groups at a reasonable cost in a fair and transparent manner by mainstream institutional players.

The financially excluded section largely comprises of marginal framers, landless laborers, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior sector and women. To achieve greater financial inclusion, financial services should reach the poor of socially excluded group's particularly poor people. Micro finance banks and other financial institutions have played a vital role in filling this gap.

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. The importance of an inclusive financial system is widely recognized in

FINANCIAL INCLUSION

"Financial inclusion can help individuals to deal with poverty, especially the challenges of irregular income and occasional large bills."

policy circles and has become a policy priority in many countries. Several countries across the globe now look at financial inclusion as a mean to more comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress.

Financial inclusion can help individuals to deal with poverty, especially the challenges of irregular income and occasional large bills. It can also pull them out of poverty through improved education and health care. For micro-enterprises, financial inclusion can provide resources for setting up and expanding and for improving risk-management. On a macro scale, it can enhance economic growth by mobilizing savings. It can also draw more firms into the formal sector, raising tax revenues and making workers eligible for better protection and benefits.

Five main barriers to financial inclusion are the distance to a bank, lack of financial infrastructure, restrictive regulations, governance failures and lack of suitable products.

Generally there are many reasons why individuals or groups may not take full advantage of mainstream financial service providers. The World Bank recently published a study that shows globally the most frequently cited reason for not having an account is the lack of enough money to use one. The next most commonly quoted reasons are that banks or accounts are too expensive and that another family member already has access to an account (a response identifying indirect users). The other reasons reported include banks being too far away, lack of proper documentation, lack of trust in banks and religious reasons.

In Pakistan, the financial institutions' willingness to expand have been stinted by slow technologic advances, weak legal foundations, and unsuitable financial processes and products. Poor socioeconomic conditions, gender bias, and low levels of basic education and financial literacy remain barriers, but perhaps the single strongest driver of low demand for financial access has been income. Furthermore, financial institutions limit their services expansion to individuals and enterprises with a high and predictable income. And yet there is nothing inherently un-serviceable about low-income, informally employed, rural, or female clients.

Financial Inclusion Statistics

Approximately 2.5 billion adults worldwide lack access to a formal bank account, which amount to 50% of the world's adult population. Most of these people are concentrated in developing economies, where account penetration with a formal financial institution in 2013 was 41% on average, but with wide disparities across regions, ranging from 18% in the Middle East and North Africa to 39% in Latin America and Caribbean.

Besides, 22% of adults worldwide report having saved at a formal financial institution in 2013, while 9% report having originated a new formal loan. In financial inclusion, the top five countries include US, Korea, Canada, UK and Germany; where as Nigeria, Uganda, Pakistan, Ghana and Egypt are least inclusive.

Role of Banks in Financial Inclusion

Initiatives for financial inclusion have come from financial regulators, governments and the banking industry. Over 90 developing countries representing 75% of the world's unbanked population have signed the Maya declaration aimed at poverty alleviation through financial inclusion. The banking sector has taken a lead role in promoting financial inclusion. Legislative measures have been initiated in some countries. For example, in US, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only rich neighborhoods. In France, the law on exclusion (1998) emphasizes an individual's right to have a bank account. The German Bankers' Association introduced a voluntary code in 1996 providing for a so-called "everyman" current banking account that facilitates basic banking transactions. In South Africa, a low cost bank account, called Mzansi, was launched for financially excluded people in 2004 by the South African Banking Association. In UK, a Financial Inclusion Task Force was constituted by the government in 2005 in order to monitor the development of the process. Several African countries have harnessed the unique aspects of mobile banking to drive financial inclusion. A G-20 (Group of Twenty) Financial Inclusion Experts Group has been launched. The Principles for Innovative Financial Inclusion serve as a guide for policy and regulatory approaches with the objectives of fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping to provide conditions for fair competition and a framework of incentives for the various banking, insurance, and non-banking entities involved and delivery of the full range of affordable and quality financial services.

Financial Inclusion in Pakistan

Financially-excluded people account for 85 percent of the population in Pakistan and this means that the financial exclusion is a new kind of apartheid, depriving a large chunk of the population of multiple financial services, while Only 35 percent population in China is financially excluded; this figure is 65 percent in India .According to Pakistan Access to Finance Survey (A2FS), only 15 percent of the population has access to formal financial services whereas out of the remaining 85 percent, only 51 percent are informally served and 34 percent are completely excluded.

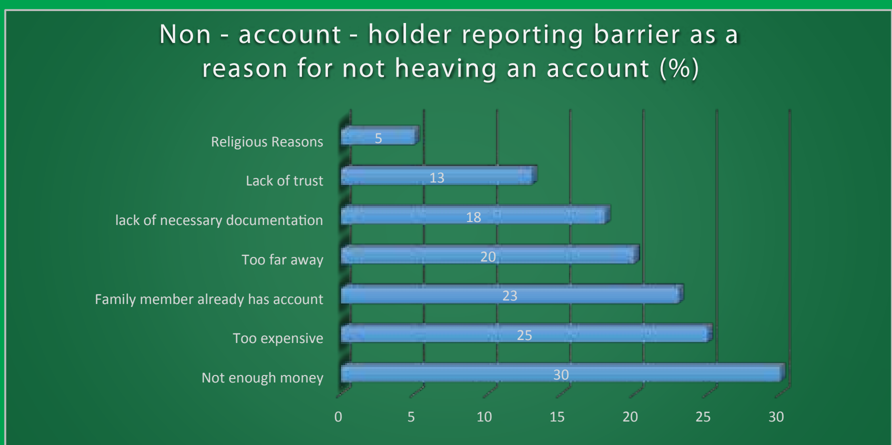
The average Pakistani household remains outside the formal financial system, saving at home and borrowing from family or friends in cases of dire need. Fourteen percent of Pakistanis are using a financial product or service of a formal financial institution (including savings, credit, insurance, payments, and remittance services). When informal financial access is taken into account, 51 percent of Pakistanis have access to finance. Informal access can occur through the organized sector (though committees, shopkeepers, moneylenders, hawala/hundi money transfers, and so forth), or informally through friends and family. In comparison, 32 percent of the population has access to the formal financial system in Bangladesh, and this figure amounts to 48 percent in India and 59 percent in Sri Lanka (World Bank, 2008c). Of the nearly 34 percent of Pakistanis who do not engage in either the formal or informal financial system, we estimate about 19 percent have voluntarily excluded themselves through lack of understanding, awareness, need, due to poverty or for religious reasons. Financial exclusion precludes people from reducing risk, managing fluctuations in income, and investing in microenterprises or in health and education.

SBP is pursuing a multipronged approach to tackle the challenge of high financial exclusion in the country. In this context various conventional and non-conventional measures were adopted by SBP to boost financial inclusion like:

On 20th January 2012 first ever National Financial Literacy initiative was launched in Pakistan. The program has objective to impart basic financial literacy to poor and marginalized people of Pakistan. The National Financial Literacy Program (NFLP) is broadly in line with these guiding principles. NFLP pilot will impart financial education and awareness on six personal finance themes namely budgeting, savings, investments, debt management, financial products, branchless banking and consumer rights & responsibilities to about 50,000 beneficiaries from low income strata. We should not ignore the important peer effects of the direct beneficiaries which is very likely to be spread around a community. Those who have received education can pass on their knowledge to friends and family, thereby increasing the impact of the education.

SBP introduced Basic Banking

Figure 2: Financial Inclusion Barriers



Account (BBA), a simplified financial product for low income consumers. BBA aims to reduce costs for consumers by removing more expensive facilities and requires no minimum balance, and neither does it have complex terms and conditions thereby reducing administrative and management costs.

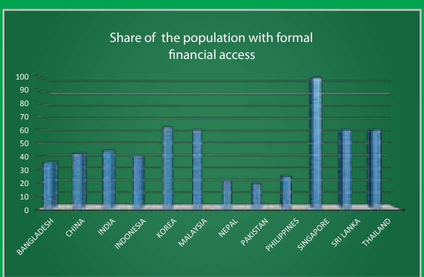
Microfinance Regulatory Framework

SBP introduced Microfinance Banking Regulations in 2001 to specifically meet the demands of low income consumers. These regulations have been improved to a world class microfinance regulatory framework, ranked number one for the last two years in a row by "the Economic Intelligence Unit" of UK's 'The Economist' magazine. In Microfinance, SBP and Pakistan Microfinance Network (PFM) has developed a multi-faceted microfinance strategy to triple the number of microfinance (MF) beneficiaries from 1 million to 3 million by 2010 and then to 10 million by 2015. To support this program, SBP has encouraged commercialization of the microfinance industry so that it becomes financially and socially sustainable.

SBP had formed the National Branchless Banking Consultative Group with representation from branchless banking industry players including banks, mobile operators and technology service providers. "This group is actively working on different protocols including agent code of conduct, agent sharing models, interoperability schemes and consumer protection framework".

SBP has adopted innovative solutions to overcome geographical barriers, including branchless banking through retail agents and harnessing technology via mobile-phone banking.

Figure 3: Formal Financial access



The Branchless Banking Regulations were introduced in 2008, clearing the way for development of branchless and mobile phone banking services in Pakistan. The retail network of banks has overwhelmingly multiplied due to agents and mobile phone channels. In less than three years, there are now 18,000 branchless banking outlets, augmenting and surpassing the 10,000+ conventional bank branches. Consequently, branchless banking has played a pivotal role in providing efficient Financially Inclusive Government to Person (G2P) payments to welfare beneficiaries of Benazir Income Support Programme (BISP), Watan Card and Bait-ul-Maall. "

In Islamic banking, SBP has been promoting Islamic Banks (IBs) to provide formal financial services to the population that thus far has excluded itself for faith reasons. A separate Islamic Finance Strategy paper has been developed which projects, based on the growth rate of IBs that Islamic finance will grow to constitute almost 12% of the banking system within five years. So far, IBs have no branches in rural areas, where they clearly have a substantial customer base to explore. SBP, under its new branch licensing policy, expects rural IB branches to increase at the rate of 20% of all new branches opened.

To encourage sound growth of IBs, SBP has laid out a separate prudential regulatory and supervisory framework that conforms to the framework of the Islamic Financial Service Board (IFSB) in the development of which Pakistan has played a key role. To ensure proper due diligence in the development of Islamic Finance (IF), SBP has constituted a Shariah Advisory Board, which approves broad policy, the regulatory framework and new

Islamic financial products. SBP is working to develop a proper liquidity management framework and new instruments to allow the IBs to grow and compete with conventional banks in a prudent and sound manner. The establishment of Islamic MFBs has also been encouraged. Constructive progress has been made with the inclusion of Sukuk as eligible instruments under the SLR. In September 2008, a first issue by the GOP of Ijarah Sukkuk worth Rs. 6.5 billion has given IBs a major boost by providing them with a risk- free SLR eligible instrument. The plans also call for a segregated depositor protection fund for IBs.

Banking in rural areas will be promoted by new innovative approaches to branching. Existing SBP rules call for banks to establish at least 20% of their new branches in rural areas. As competition for deposits grows and different types of rural lending are found to be profitable, it is expected that banks will find their rural operations to be increasingly attractive. Innovative products and methods of selling them will also increase banks' reach and may change the "brick-and-mortar" nature of branch operations. Commercial banks have been given the option to open full-fledged branches, sub branches (with limited general banking functions), booths (for collection of various fees and bills), Mobile Banking Units and Sales and Service Centers. Similarly, SBP has also introduced

"SBP HAS ADOPTED INNOVATIVE SOLUTIONS TO OVERCOME GEOGRAPHICAL BARRIERS, INCLUDING BRANCHLESS BANKING THROUGH RETAIL AGENTS AND HARNESSING TECHNOLOGY VIA MOBILE-PHONE BANKING."

Branchless Banking Regulations with the objective of providing banks with cheaper non-traditional delivery channels (retail agents, mobile phones) to increase their outreach to un-banked and rural communities.

SBP projects financial penetration ratios to be raised through an enabling policy environment and the various outreach programs described above from a national coverage of 19,000 persons per bank branch in 2007 to 15,000 in 2012 and 12,000 in 2017. The coverage of ATM outlets is projected to increase from 57,000 persons per ATM in 2007 to 12,000 in 2017.

Although Government, banks and Regulator have devised many handy policies and strategies to boost up financial inclusion but there is bigger dodge that need be bridged by focused intents and actions like;

There is need to diversify banks focus away from large companies to smaller companies, farmers and the household sector.

Bank should open small extension counters at organization providing public utility services such as local schools, primary health care centre, village mandies, farmers association and bus stops etc.

SBP and Government should give the suggestion to commercial banks to promote the financial product and services of banking through all the educational institution (primary, secondary & higher secondary)

SBP should circulate directives that commercial banks have a certain percent of their portfolio in small loans. In addition, important social considerations should be paid into loan decisions. The government could also add extra incentives to lend in rural areas.

The government of Pakistan should help to expand financial literacy among the population, particularly in low-income families. That can be done by teaching it in primary schools, high schools and colleges.

Post office employees should be trained and given incentives to market savings, investment and pension products. Some of these products have already been developed by the post office but have not been marketed effectively.

The banks should be instructed to manage all possibilities and to disseminate its service to remote area. The banks should egg on the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should promote the banks to espouse financial inclusion by means of financial assistance, advertisement and awareness program.

Globally, electronic wallet was introduced by Google three years back through a mobile app. Among foreign mobile wallets, PayPal is a very popular among the small and medium IT services providers. Similar model should be promoted in Pakistan.

Microfinance is considered a powerful tool for promoting financial inclusion and poverty alleviation. Although Pakistan's microfinance industry is still developing, the industry is striving hard to make a positive impact on the lives of thousands of people. The State Bank of Pakistan has made tough regulations for the industry. The microfinance industry comprises microfinance banks (MFBs) and microfinance institutions (MFIs). According to the SBP rules, MFBs can accept deposits, while MFIs can disburse loans to borrowers. Thus, 50 percent of the industry does not accept deposits. So, attentions should be paid to these alarming intimidations.

Telecom companies should be armed with trained human resource, permitted to provide payments and money transfer services after fulfilling specified terms and conditions. There is a need to increase the number of telecom agents and provide them with the mandate to act as branchless banking agents. Through this, we can expand the locations where the people will be able to open their mobile accounts, pay utility bills, transfer remittances and funds and pay back installments without any hassle. Almost 122 million people have SIM cards but only 15 million have bank accounts. If each SIM holder is given an opportunity to open a bank account, financial inclusion can be extended and the amount of Rs1 trillion, which is in circulation, can be brought into the formal sector.

Pakistan post has more than 13, 000 branches across the country and reaches out to 20 million households. It offers savings scheme, insurance scheme and have recently started offering remittances as well. Financial exclusion may be alleviated by having reforms in Pakistan Post.

Financial inclusion can be boosted by new delivery channels, such as ATMs, banking agents, PoS and mobile phones. So there is utmost need to find out Innovative projects and new markets having lower cost of delivery enable systems and procedures to be more efficient and provide new ways of meeting the larger demand for financial services.

In nutshell, Government, Banks, Telecom sector, Pakistan Post, Microfinance Network, academia and the regulator need to build a taskforce which will address issues such as optimization of contributing factors to enhance Financial Inclusion and reduce impediments through consolidation measures such as strategic alliances, accessibility, financial literacy innovative delivery channels and creation of niche marketing efforts.

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The Nation's Bank

By Shan Saeed

Global Financial Landscape

Changing in the Next 5 Years:

Prudent Banks are more Risk Competent

Global Economic System:
Uncertain is the Only Word

The tail end risk and systematic risk are getting higher globally. The global economy is hoping to see the recovery light at the end of the tunnel, however, Europe and Japan present a bleak picture. Asia is the driving force to re-balance the economy while China improves upon her structural reforms. Banks are facing new charges of manipulations, fraud and tampering with currency rates.

What has actually changed in the last 10 years is that banks have made abnormal profits but ignored the basic rule to mitigate their risk on their books. Books are filled with unhealthy assets and mismatch in asset-liability portfolio making them vulnerable to exogenous risk and uncertain markets as we navigate thought turbulent times. According to John Huizinga - Professor of Economics at Uni of Chicago, Booth School of Business, USA, "We have borrowed future growth rate" This statement is significantly relevant taking into account the QE which is unleashed in the global economy by few central banks.

Risk management has taken a new form in the corporate importance in many banks with global repute. Most prudent banks are drilling down the culture among their employees to become better in managing risk in face of rising global market fears. I believe that risk management is a corporate culture issue. To manage risks effectively over time, employees must put the firm's welfare and the preservation of important client relationships ahead of everything else. Risk is risk and no one can be perfect at managing it. Banks that can manage risk effectively can stay ahead of the competitors in these arduous times to maintain sustainable profits and lowers risk on their balance sheet.

Banks need to follow the prudent way of managing risk in order to avoid operational, reputational and market risk. According to my good friend and author of the book Economic Warfare, Ziad Abdelnour [Wharton graduate' 1984] - CEO Blackhawk Partners based in New York, USA, FIVE elements in managing risk are extremely important for the banks and are absolutely indispensable ingredients of success in managing risk. They are shorten with acronym PEACE - People, Escalation, Accountability, Culture and Focus energy.

1. People - Key to Risk Prudence

Banks need to encourage clear communication strategies at all levels. If staff is not comfortable with certain accounts or clients, then proper action needs to be done in order to avoid reputation risk. It should be escalated to the decision makers immediately. Escalation means communicating risk concerns to higher levels of management, getting more fingerprints on potential problem risks and challenging the notion that a business group leader ought to make independent decisions on risks that affect the entire firm. Hiring of people, doing back ground checks with previous employer/business schools, educational credentials validity, community activities, police check, criminal records and above all recommendation of the references should be run on defined process and procedures. No favoritism or nepotism should be tolerated at any levels. If these processes are not followed then criminals and fraudulent activities happen in the banks. Newspapers and magazines globally are deluged with stories in the last 10 years.

2. Escalation - All levels

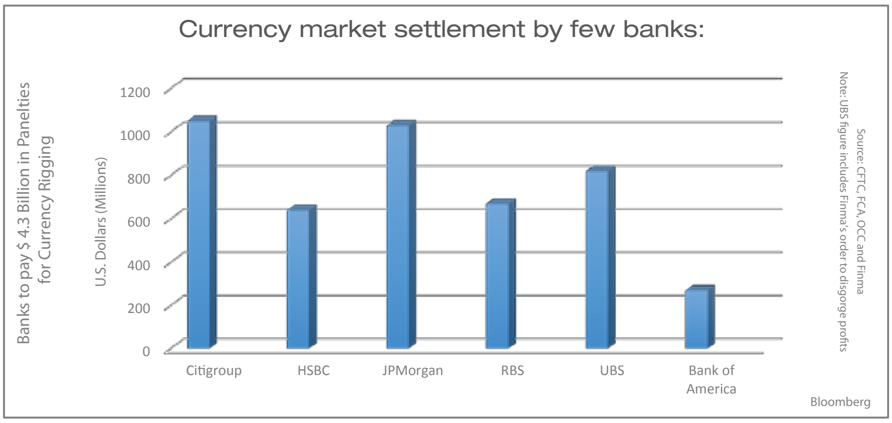
Banks are accountable for every penny to the account holders. Bankers are not above law. Regulators have punished those banks in the last 6 years for the wrongdoings and malpractices in many advance economies and financial markets. All rewards and punishment should be based on performance and efficiencies. Manipulation, misrepresentation of products features / benefits and cheating with client's funds should be dealt with strict penalties and lessons. Global banks are still paying huge penalties for their misdeeds and mal-practices.

3. Accountability - All levels

At all levels, accountability brings out the best in human effort to reduce risk and give the optimum performance that benefits all stakeholders. Of course, means acknowledging that people are responsible for what their business groups do, and, equally important, holding senior management responsible for evaluating all aspects of risk, including the quality of the people with whom the bank chooses to do business with. According to the latest figure and my market intelligence reports, global banks have paid $73 billion in fines on various accounts of mismanagement and misrepresentation of facts with clients. Regulators have come down very hard globally on well reputed banks in order to send strong message to the market.

4. Culture of Risk Mitigation- Strategic Intent

The greatest risk protection, however, comes from ascribing as much status, prestige and compensation to those bankers/partners/associates engaged in control functions as to those running businesses - and in constantly rotating partners back and forth between risk control and business operations. The importance of risk and compliance needs to be communicated and inculcated to the DNA of all bankers who want to pursue their profession with honesty and integrity.



5. Focused Efforts - Renewed Emphasis

Stress testing vs healthy balance sheet. Far from being over, the impact of the financial mess we are still witnessing today, not just in the US but on a global basis as well, is still being felt the world over and we believe it will sooner than later affect not only rules and regulations but Wall Street leadership as well. In the so-called modern-day age of high-tech wonders and medical miracles, we now have a titanic problem the world has never seen before: Derivative liability on a scale that boggles the mind.

What is even more puzzling is the fact that 90% of the people have absolutely no understanding or the slightest clue how this is now going to affect the financial markets.

U.S. banks' derivative bets of $245 trillion, concentrated in five banks, are 14 times larger than the USA GDP size 17.5 trillion. A failed political system that allows unregulated banks to place uncovered bets 15 times larger than the U.S. economy is a system that is headed for catastrophic failure. As the word spreads of the fantastic lack of judgment in the American political and financial systems, the catastrophe in waiting will become a reality.

In a nutshell, I strongly believe going forward, global banks will be focusing on more of these lines in order to become risk competent in the face of global financial uncertainty. I think, banks will be more and more cautious in terms of risk coming out from proprietary trading, but rather from facilitating client objectives. Banks will have to build a strong capital base in order to weather the storm and become resilient. This means giving advice to clients in a more accountable, actionable and responsible way which frequently requires the banks to support the client through prudent behavior and solid balance sheet commitments at the strategic level in order to avoid reputational and operational risk.

IN MEMORY OF SHAHEED MOHTARMA BENAZIR BHUTTO

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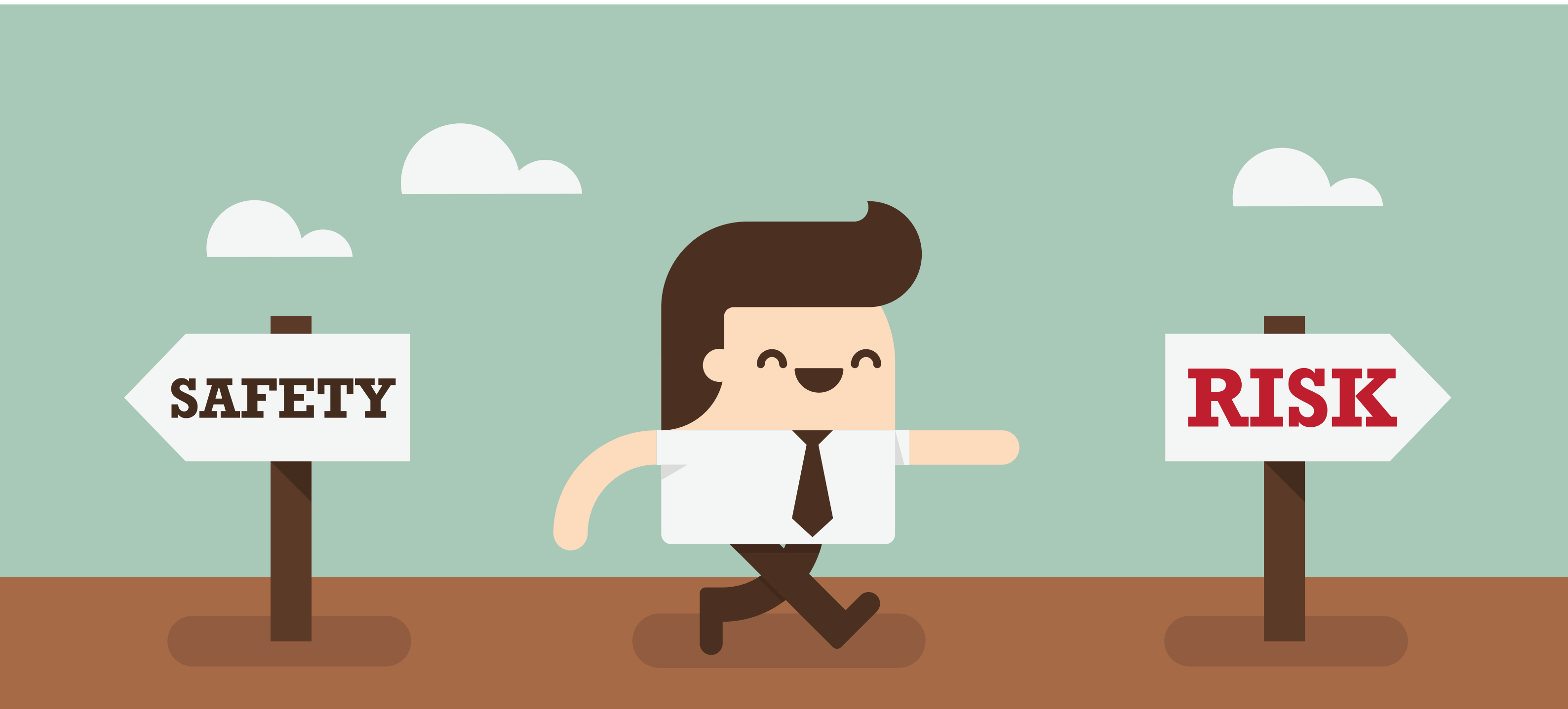


By Asif Ishaq

RISK INDEX

Generally speaking, financial theory views returns as being related to risk. Higher risk needs to be compensated by higher returns in order to be undertaken by risk-averse shareholders. Banks face risks, such as credit risk, interest rate risk, liquidity risk, exchange rate risk, operational risk, etc. Aside from developing specific indicators to measure each of the above risks, a "Risk Index (RI)" can also be created that encompasses all types of risk in a single

RI, expressed in units of standard deviations of ROA, is a measure of how much a bank's accounting earnings can decline until it has a negative book value. Risk Index attempts to capture the likelihood of a bank's earnings in a given year becoming low enough to exhaust the bank's capital base and thus, the likelihood of the bank becoming insolvent. Higher values of RI imply lower insolvency risk because higher values correspond with higher levels of equity relative to a potential shock to the earnings of a bank. Thus, banks with risky loan portfolios can maintain a low risk of insolvency as long as they are adequately capitalized.

The index was first performed by Hannan and Hanweck (1988), who further derived the probability of the book value insolvency (Π) i.e. the probability that the bank's losses in a certain period exceed the book value of the bank's equity or the probability that the assets value of the bank becomes lower than the value of its liabilities.

The relationship between RI and Π is an inverse one, with higher RI-ratios indicating a lower probability of insolvency. If the assumption is made that the potential ROAs of the business are normally distributed, then the one-period probability of insolvency can be calculated as a function of RI ratio as mentioned below. However, empirical studies indicate that ROAs are not normally distributed but instead are "fat-tailed," so that the actual probability of insolvency may be greater than that calculated using the assumption of normality.

Moreover, this one-period probability may understate the true probability of insolvency because it measures the risk of a single-period loss being so large it wipes out equity. In reality, insolvency often occurs after a sequence of smaller losses occurring over several periods indicating that serial correlation between negative shocks may exist.

It should be noted that a value or interval that serves as benchmark for the risk index (i.e. for detecting whether a banking system or a bank is in a safe or a risky position) does not exist instead its trend behavior is analyzed. Specifically, an upward trend indicates a favorable development whereas a downward trend signals a negative development.

The empirical form of this index is:

$$RI = [\, E(ROA) + CAP \,] \,/\, \sigma ROA$$

$$\Pi = 1 \,/\, [\, 2\,(RI)2 \,]$$

Where:
E(ROA) = expected return on assets
CAP = EM-1(Inverse of Equity Multiplier*)
σROA = Standard deviation of ROA
Π =Probability of book value insolvency

Globally, this index, which is a measure of the soundness and stability of the financial institutions is becoming more important. If a bank or a banking system is characterized by a high return on assets, a high level of capitalization and a low volatility of ROA then the bank or the banking system is considered safe i.e. it has a higher risk index. It is interesting to note that the index includes all these components because each of them has a special connotation: ROA indicator is regarded as the best measure of bank's performance; its volatility is seen a standard measure of risk in finance and the capitalization level represents a standard for the banks' stability and safety.

"BANKS WITH RISKY LOAN PORTFOLIOS CAN MAINTAIN A LOW RISK OF INSOLVENCY AS LONG AS THEY ARE ADEQUATELY CAPITALIZED"

Figure 1 . Risk Index and Probability of book value insolvency of Pakistan's Banking Industry over the period of 10 Years

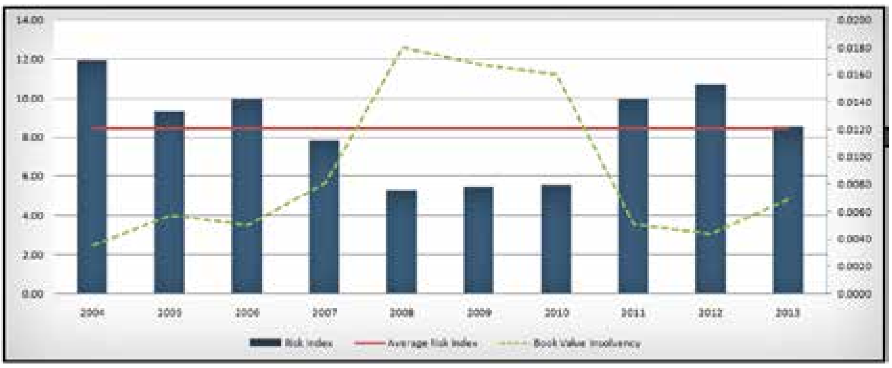
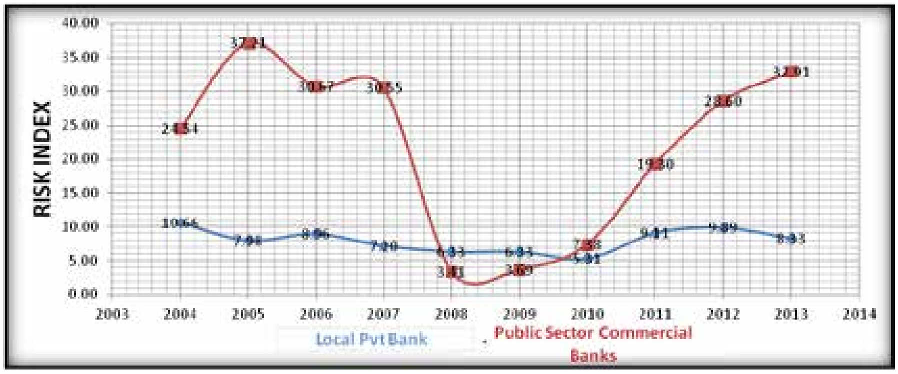


Table 1. Pakistan's Banking System's Risk Index and the Probability of book value insolvency

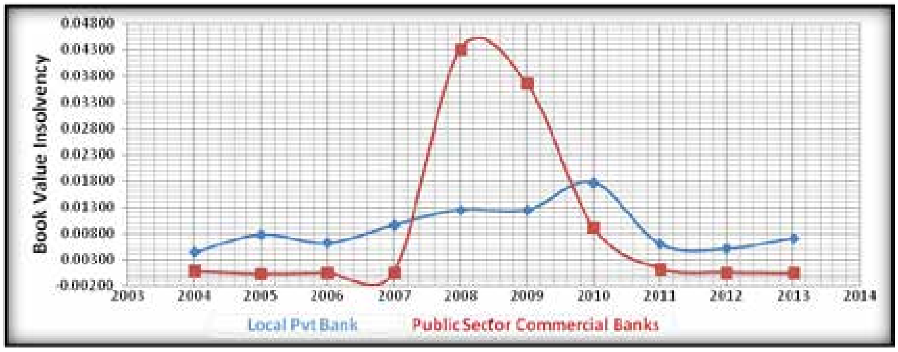
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Risk Index	11.89	9.31	9.94	7.86	5.27	5.46	5.58	9.93	10.65	8.50
Average Risk Index	8.44	8.44	8.44	8.44	8.44	8.44	8.44	8.44	8.44	8.44
Book Value Insolvency	0.0035	0.0058	0.0051	0.0081	0.0180	0.0168	0.0161	0.0051	0.0044	0.0069

Figure 2 . Risk Index – Local Private Banks Vs Public Sector Commercial Banks



Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local PvT Banks	10.66	7.98	8.96	7.20	6.33	6.33	5.31	9.11	9.89	8.33
Public Comm Banks	24.54	37.21	30.67	30.55	3.41	3.69	7.38	19.30	28.60	32.91

Figure 3 . Book Value Insolvency – Local Private Banks Vs Public Sector Commercial Banks



Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local PvT Banks	0.00440	0.00785	0.00623	0.00964	0.01249	0.01249	0.01772	0.00603	0.00511	0.0072 1
Public Comm Banks	0.00083	0.00036	0.00053	0.00054	0.04311	0.03665	0.00918	0.00134	0.00061	0.0004 6

Figure 4 . Components of Risk Index – Pakistan's Banking Industry.

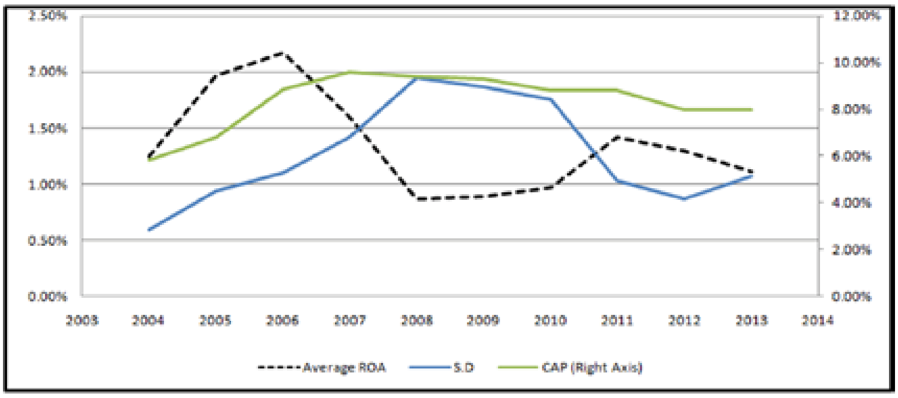


Table 2 . The components of Risk Index for Pakistan's Banking System

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average ROA	1.24%	1.97%	2.17%	1.60%	0.86%	0.88%	0.97%	1.42%	1.30%	1.11%
Standard Deviation (ROA)	0.59%	0.94%	1.11%	1.42%	1.94%	1.86%	1.75%	1.03%	0.87%	1.07%
CAP (Right Axis)	5.83%	6.82%	8.82%	9.57%	9.38%	9.29%	8.78%	8.78%	7.96%	7.96%

Figure 5 . Risk Index for Top 5 Banks

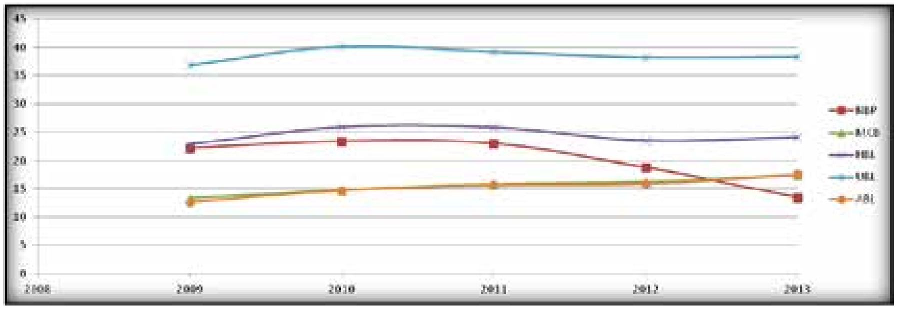
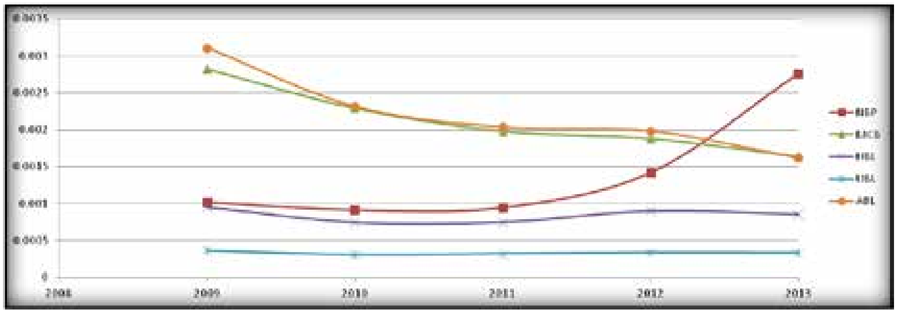


Figure 6 . Probability-Book value Insolvency , for Top 5 Banks



NEAR TO DEFAULT	RISKY	WATCH-LIST
SILK Bank	Al-Barka Bank	BURJ Bank
KASB Bank	Askari Bank	Faysal Bank
SUMMIT Bank	JS Bank	SAMBA Bank
BoP	Dubai Islamic Bank	First Women Bank Ltd.
	NIB Bank	

During recent years, Pakistan's Banking System has been characterized by a fast expansion of its activity as is evident by the increase in total assets, the expansion of the loan portfolio, deposit collection, the variety of products and services provided, the increased competition, the earnings after taxes and by other quantitative and qualitative Indicators. However, in 2008, when the global economy was overcome by the financial crisis, the banking system started to show signs of a slowdown and deterioration in financial indicators (RI).

Figure 1 shows that the banking industry enjoyed relatively high Risk index in the year 2004 and remained above the industry average (8.4) till 2006 . However, from the year 2007, it started declining and reached as low as 5.27 (2008) and remained below the industry average till 2010 due to high volatility in the ROA resulting in high probability of book value insolvency. The industry showed progress from year 2011 onwards with stable earnings and accepted E(ROA).

Furthermore, on the basis of the results in table 3, banks have been classified into three categories (Near to Default , Risky and Watch-List) due to their low & declining trend in RI value.

Fig. 2 & 3 compares the Risk Index and Probability of Book value insolvency for local private banks and Public sector commercial banks. From the fig. & table, we can observe that RI obtained for Public sector banks are much higher than that obtained for Private sector banks indicating that Public sector banks are safer as compared to Private banks and the probability of book value insolvency is lower.

Also, Fig. 5 & 6 compares the RI and PBVI of the Top 5 banks of the Industry. Risk Index for UBL remained the highest since 2009 among the peers, followed by HBL. ABL & MCB remained toe to toe in the last 5 years. NBP stood 3rd from 2009 till 2012 and later lost its competitiveness in the year 2013 where it had the lowest RI among the TOP 5 banks.

Table 3. Risk Index of Individual Banks

		2009	2010	2011	2012	2013
LOCAL PRIVATE BANKS	AlBaraka Bank (Pakistan) Ltd..	9.288469	5.369841	4.156632	4.009837	3.251944
	Allied Bank Ltd.	12.68418	14.69004	15.65705	15.86824	17.55496
	Askari Bank Ltd.	4.546433	4.322093	4.373557	4.695738	3.971192
	Bank AL Habib Ltd.	17.96012	19.27977	19.77806	21.12137	24.97617
	Bank Alfalah Ltd.	18.74666	16.66951	17.76255	17.93257	18.3466
	BankIslami Pakistan Ltd.	20.41491	16.46862	10.92461	9.14032	9.24224
	Burj Bank Ltd.	22.65606	12.50661	12.29305	7.649823	6.083032
	Dubai Islamic Bank Pakistan Ltd.	6.515778	6.351928	5.758194	5.06338	4.287799
	Faysal Bank Ltd.	7.878752	7.266511	6.875304	6.721268	6.591237
	Habib Bank Ltd.	22.87654	25.93329	25.87401	23.52813	24.14647
	Habib Metropolitan Bank Ltd.	30.80205	30.7197	31.19668	32.46501	33.53252
	JS Bank Ltd.	9.307808	9.170731	8.533867	6.755651	5.098438
	KASB Bank Ltd.	**2.215413**	**0.597921**	**0.609686**	**0.087856**	**-0.16278**
	MCB Bank Ltd.	13.30076	14.75757	15.87725	16.2869	17.44319
	Meezan Bank Ltd.	23.19464	23.71568	21.14625	19.786	20.21108
	NIB Bank Ltd.	10.55054	2.575123	2.985802	2.586224	3.088731
	SAMBA Bank Ltd.	8.058681	6.472313	6.175713	5.643261	6.093238
	Silk Bank Ltd	**-0.47662**	**1.698697**	**1.507756**	**1.603589**	**2.320521**
	Soneri Bank Ltd.	15.37948	13.70288	14.99109	14.80789	15.96188
	Standard Chartered Bank (Pakistan) Ltd.	10.80722	11.94343	12.46658	12.23958	12.69499
	Summit Bank Ltd	**3.033625**	**1.093955**	**1.142985**	**0.251857**	**0.451492**
	United Bank Ltd.	36.91468	40.18901	39.25333	38.27831	38.40107
PUBLIC SECTOR COMMERCIAL BANKS	First Women Bank Ltd.	12.00788	9.976076	12.71685	10.78796	8.098347
	National Bank of Pakistan	22.15639	23.38644	22.98427	18.75693	13.45709
	Sindh Bank Ltd.				30.8212	43.31144
	The Bank of Khyber	13.21715	11.94397	15.76984	15.15605	13.52013
	The Bank of Punjab	**0.616108**	**0.232844**	**1.007787**	**0.979712**	**1.183292**

COMMERCIAL BANKING

PROBLEMS & SOLUTIONS

By Dr. S. Sabir A. Jaffery

The writer has given detailed answers to some problems which bankers face in their professional lives.

Q.1 **Rashid and Nasir are partners in Jaffar Sons. They want to open a current account at my branch with either to operate upon the account singly. They have signed the firm's name instead of their own names on the account opening form and specimen signature card in their respective handwritings. Shall I accept this mode of operation?**

Ans. Signing the firm's name instead of partner's own name is in order but it has its own hazards. This is why the practice could not get recognition in India and Pakistan. In my long banking career, I have seen only one case when firm's name was being signed. You may accede to their request but then you will be exposed to great risk. As an alternative, you may impose a condition that cheques will be signed in the presence of a bank officer who will verify the writing.

Q.2 **Hamid, Zahid, and Sajid are partners of m/s Khalid Sons. The firm has a current account with instructions to be operated upon by any of them singly. Zahid passes away. Later, a cheque signed by Zahid is presented who at the time of signing the cheque was duly authorised to sign. The cheque is in order in all respects. Will the cheque be paid?**

Zahid was also a partner in Siddiqui Bros. This firm has an O.D. account with Dr. balance Rs. 375,000/- against the security of approved shares in the name of Mrs. Tayyaba Zahid and the personal guarantee of Lal Chand, a local landlord of very good means. How will this account be dealt with to secure bank's interest?

Ans. (i) The cheque in question will not be paid as the mandate to operate the account was determined with the death of one of the partners. Surviving partners may be asked to open fresh account with fresh mandate. However, the existing account, presumably in credit balance, may be allowed to continue for a while to help the firm to wind up its business, if so requested by the surviving partners.

(ii) Any future credit in the account will reduce to that extent the liability of the deceased partner and he will not be held liable for any fresh withdrawals, which will be treated as new debt. Hence, the account should be broken forthwith.

Surviving partners may be asked to open fresh account with fresh mandate. Further, fresh documents should be executed by the surviving partners and fresh personal guarantee and fresh letter of pledge of shares should also be obtained.

Q.3 **There is a firm ABC & Co. with A, B, and C as partners with a mandate authorizing any one of them to sign singly. In the mean time, B retires from partnership and his authority to sign is revoked. Later, a cheque signed by B before his retirement is presented. How will the bank deal with such a situation?**

Ans. Ordinarily, the cheque should be returned unpaid under this situation. However, a conscientious banker would prefer to contact the existing partners before returning the cheque. If any of the existing partners validates the cheque, it will be duly paid, failing which, the cheque will be returned.

If the account has debit balance, it should be broken to avoid application of rules in Clayton Case. Moreover, if the bank decides to allow the account to continue with the remaining partners with the credit facilities already extended in the account, fresh documents should be obtained of a new account availing the previously sanctioned facilities.

Q.4 **What documents should I require to open an account of a public limited company? (limited by shares). What is the utility of these documents?**

Ans. You will need the following documents invariably to open the account of a joint stock company:

(1) Certified true copy of the Memorandum of Association of the company: It is the constitution of the company It prescribes the limit within which the company has to operate. It contains the following vital information about the company:

(a) Name of the company with the words "limited" at the end.

(b) Address of the registered office of the company.

(c) Object for which the company is being established. This clause should be self-contained. It should be drafted with due diligence preferably with the assistance of some professionals. Any activity that falls beyond the limits drawn by this clause shall be ultra vires and absolutely void and illegal.

(d) A clause stating that the liability of its members shall be limited to the amount of the shares held by them.

(e) Amount of authorized capital and its split into number of shares, with face value of each share, shall be declared in unequivocal terms.

(2) *Certified true copy of the Articles of Association:* It contains the rules and regulations of the company to carry out its activities to achieve the object as stipulated in the object clause. If any amendments were made to it, the latest and duly amended copy may be obtained. In case the company has not constituted its own articles of association, it may adopt Table A.

(3) *Certificate of Incorporation:* This is the 'birth certificate' of the company. That is, company's legal existence begins only after this certificate is issued. The original certificate should be called for along with a photocopy. The copy may be attested and kept on record while the original may be returned.

(4) *Certificate of Commencement of Business:* This is invariably required from a newly incorporated company. A company already in operation need not be asked for this certificate. A certified copy of it may be kept on record and the original be returned after examination.

(5) If the company is in operation for some time, then a copy of the latest audited balance sheet and profit and loss account should be obtained and kept on record.

(6) A certified copy of the resolution of the board of directors appointing your bank as banker of the company and the mode of operation on the account.

(7) A list of directors incorporating their names and addresses. This list should be updated whenever there is any change in it.

(8) Account opening form signed by all the directors and the specimen signatures card(s) duly signed by those who are authorised to operate the account as stipulated in the board's resolution with their signatures attested by the chairman / secretary of the company.

The memorandum and articles of association should be thoroughly studied and their extracts relating to the vital rules, regulations and powers of directors as regards to borrowing, attaching assets of the company, drawing, accepting and endorsing bills of exchange and promissory notes on behalf of the company and other relevant provisions of these documents, be drawn and kept on active file to be meticulously followed in all transactions of the company.

Q.5 A joint stock company declares profit and issues dividends for its shareholders. The entire amount of dividends is deposited with the main branch of the bank in a special dividend account opened for the purpose. The dividend warrants issued by the company are payable at any branch of the bank at which these are presented for payment. The paying branch will pay a warrant to the debit of its main branch where company's dividend account is opened. The debit advice of the paying branch will be responded by the main branch to the debit of the company's dividend account.

(i) Before all the dividend warrants are paid the company goes into liquidation. and a receiver is appointed. Will the bank pay the dividend warrants after appointment of the receiver?

(ii)An outstation branch pays the dividend but before the advice reaches the main branch, the receiver is appointed. Will the advice be responded by main branch by debiting the company/s dividend account?

Ans (i)The bank will not pay any dividend warrant after appointment of the receiver. The entire balance lying in the company's dividend account will be placed at the disposal of the receiver.

(ii) Since the amount has already been paid by the bank (any branch will be treated as bank), the bank by exercising its right of setoff will have the authority to debit company's account.
nd strong regulator, supports higher ratings of the sector in the rating universe. This trend is expected to continue in the future.

CONSUMER FINANCING

Back in Vogue

By Mohammad Arifeen

Consumer financing is a service which is laid out to provide clients with the needed finance to make personal purchases varying from buying a car to a house. It is divided into different types of products. Personal loans are given for the payment of goods, services and expenses and are comprised of running finance and revolving credit to individuals. The idea of consumer financing is to provide consumers with financing support to increase their consumption and to boost their standards of living.

Consumer financing in the past has significantly contributed to economic turnaround of Pakistan by accelerating consumption and investments. There has been a phenomenal increase in private consumptions due to easy availability of credit from banks.

Consumer financing was introduced for the first time in Pakistan around 1990 by Citibank (a foreign bank) and it instantly turned out to be a great success. Seeing this success, many local as well as other foreign banks introduced cost effective financing schemes. These schemes were so tempting that people started availing them without knowing their negative effects .

Pakistan's banking sector in the past years has productively engaged itself in consumer financing by introducing different products such as credit cards, auto loans, housing finance and personal loans etc. The robust growth of consumer financing in the previous years in the first place was ascribed to the flexible economic policies set according to the principles of free market economy and huge liquidity available to the banks in the aftermath of 9/11.

Earlier, banks played their strategic role in promoting economic development in the country. In the last twenty years, three eminent foreign banks took the lead in introducing credit cards in the banking sector. But unfortunately, this was limited to top bureaucrats and businessmen. Later on, the task of consumer financing was triumphantly taken by top Pakistani banks. They provided the facilities of consumer financing to both the middle class and the higher salaried class. They also contributed in augmenting the standard of living of the middle class, which is the back bone of any economy.

Aggressive marketing continued at an accelerating pace. Consumer finance was encouraged by the State Bank of Pakistan to boost the economic growth through demand- pulls pressure.

Every sector of consumer financing from credit card to car purchasing in Pakistan witnessed a sharp decline during the fiscal year 2009-10. The overall consumer financing declined by Rs 50 billion, or 17 percent, during the year under review over the previous fiscal year. The outstanding stock of consumer loans fell to Rs 244 billion in 2009-10 against Rs 294 billion in 2008-09.

There was lethargic growth in consumer financing in the past few years. Consumer financing, having grown at a fast pace till 2008, became inactive and even turned negative between 2008 and 2011, because of low economic growth and banks' reluctance to it to contain bad loans. However, from 2012, there was some improvement. Banks restarted to make new loan packages, realizing that years of no or low activity in this area was affecting the growth of their interest income.

expectation in the last fiscal year while the overall economy remained under pressure owing to rising inflation, higher cost of production and an agreement with IMF.

Subsequent to the 2013 democratic general election, people anticipated economic improvement which encouraged banks to enhance their consumer financing.The Expected Economic Conditions Index went up three consecutive times between November 2013 and May 2014, showing people's overall cheerfulness about the economy's future. Banks responded to the positive feelings and consumer financing saw a significant increase primarily on the back of credit extended for the purchase of vehicles.

Significant growth was witnessed in consumer loans during July-March 2013-14 as it increased to 9.8 percent against 4.2 percent registered in the same period of financial year 2012-13. Consumer financing started gaining strength since November 2012 and continued its upward trend during July- March, 2013-14. Consumer durables registered a dramatic growth of 88.2 percent in credit expansion followed by 17.8 percent growth in auto and 13.9 percent in personal loans. It is appropriate to mention here that increased growth in auto finance is largely owing to the auto finance facility actively marketed by leading Islamic banks.

"Pakistan's banking sector in the past years has productively engaged itself in consumer financing by introducing different products such as credit cards, auto loans, housing finance and personal loans etc."

The data showed that even well-advertised credit card business also fell significantly. The loans under the credit card declined to Rs28 billion from Rs35 billion the previous year. The profitable credit card business, which has great influence in developed and developing economies, failed to get substantial headway in the domestic market.

Car purchasing was the second highest attraction for the consumers but the outstanding loans in this particular sector showed an abrupt fall during the last couple of years.The outstanding loans for car purchasing fell to Rs64 billion till June 30, 2010. The same was Rs 78 billion in 2009 and Rs105 billion in 2008. Loans for house building under the consumer financing dropped to Rs 54.5 billion from Rs 61 billion the previous year. In the fiscal year 2008, it was Rs 66 billion. The private sector performed much below the

In making personal loans, most banks judge the credit worthiness of borrowers by their monthly income levels and set ceilings accordingly. Sometime back, the NBP introduced its 'Cash n Gold' scheme, which offered up to Rs35, 000 in personal loan against each 10 grammes of net contents of gold (in the form of jewellery or gold bars).The interest rate under the scheme was also a bit lower than the going rate on personal loans and that has made this scheme a huge success.

Habib Bank's acquisition of the consumer loan portfolio of Citibank in April 2013 also made an impact on consumer financing trends. The taking over of this clientele, by a large network bank like HBL, has made local banks' competition fiercer. 'Salary Plus,' an overdraft facility for HBL account holders (also launched in April 2013) and similar schemes of other banks continue to enlarge personal loan volumes.

The marked decline in consumer financing in the past was also owing to the increase in policy interest rate by the SBP amid fears of rising inflation rate. This move was widely criticized by businessmen and economists and is not a cure to curb the price-hike. Interest Rate in Pakistan averaged 12.48 percent from 1992 until 2015, reaching an all time high of 20 percent in October of 1996 and a record low of 7.50 percent in November of 2002.The State Bank of Pakistan cut its key interest rate for the second straight meeting by 100 bps to 8.5 percent in January, citing lower inflationary pressure due to falling oil prices.

Bankers are of the opinion that consumer financing will contribute a larger part of profits of the banking industry with the recovery of economy. The major macroeconomic indicators have improved further since the last monetary policy decision of November 2014. CPI inflation and its expectations continue to follow a downward trend with some exceptions. In the last two months of November and December 2014, trade

deficit declined. Furthermore, considerable foreign exchange inflows have contributed in maintaining an upward direction in foreign exchange reserves.

It may be clearly mentioned that while the recent drop in international oil price has induced low inflation and improved trade outlook.The speed and intensity, with which the inflation has come down and continues to recede, can induce expectations of rather low inflation, which may induce additional consumption.Thus, the recent reduction in domestic commodity prices may lead to further reduction in interest rate and increase consumer financing from commercial banks.

The State Bank should implement a favorable policy which enhances the access of consumer financing products to the fixed and deprived sections of the society by keeping the interest rates at a nominal level. This would consequently help to boost business activities and growth in the country.The Commercial Banks must introduce any innovative financing for improving the economic and social lot of the majority of the people who are working in private companies with low fixed income and with no security.

SUMMIT VISA PREPAID CARD

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CAPITAL MARKETS IN PAKISTAN

By Saeed Ahmed Siddiqui

Capital markets are the barometer of economic health and an important component of the financial sector of an economy. It is a vehicle which collects capital from the areas where it is in surplus for transferring the capital to the areas where it is short in supply and needed badly.

The capital market performs two important tasks: first, it facilitates mobilization and intermediation of private savings and second, allocation of medium and long term financial resources for investment through a variety of debt and equity instruments of both public and private sector. Capital market plays a crucial role in mobilizing the domestic resources and channelizing them in most productive investments. An efficient capital market provides attractive opportunities of investment to both local and foreign investors. Timely flow of information provides fair chances to participants in potential profits nevertheless capital market of Pakistan has mostly been under the control of a few rich families and groups.

SALIENT FEATURES OF CAPTIAL MAREKT:

Salient features of capital markets of Pakistan are:

Debt Capital Markets:

It is the market where debt securities are transected and from where business enterprises (companies) and government can acquire long term funds. Debt capital market is composed of private placement as well as organized markets and exchanges. This market deals in the financial instruments that pay interest. In this market, different bonds and loans are taken as prime financial instruments. Debt capital market, on the basis of element of interest is also called 'fixed income market'.

National Savings Schemes (NSS):

The Central Directorate of National Savings CDNS performs the function of deposit bank and sells securities issued by the government through 37 saving centers working throughout Pakistan. NSS, especially focusing on individual savings, sells different types of securities. NSS schemes are available for a period of 3, 5 and 10 years. Segment of Subsidized Scheme (Pensioners benefit account and Behbood Fund) are also available.

Government Securities:

Pakistan Investment Bonds (PIBs), as government securities, provide benchmark to the debt markets. The government of Pakistan is committed to provide long term papers in the market to develop the long end of the government debt yield curve.

Mudarbas:

Mudarba, as distinctive Islamic business model, has played a very important role for non-banking finance sector. Mudarba has achieved fast growth in profitability terms. Mudarba sector has now created its own place in the financial sector and is now capable to create its own market in the financial sector of Pakistan.

Mutual Fund:

Growth rate of mutual fund, in 2009-10 was 4.4% a year which increased to 10% in 2010-11 and total assets reached to Rs. 275 billion proving its rapid growth.

Investment Banks:

Investment banks have been facing multiple problems in Pakistan like low capitalization, high cost of funds and limited avenues for mobilization.

Voluntary Pension System:

Government of Pakistan intends to reform existing pension system. Fortunately, the dependency rate for Pakistan is favorable for converting existing defined benefit system into defined contribution system.

Real Estate Investment Trusts (REITs):

REITs is an addition to the capital markets in Pakistan therefore, adjustment in frame work would be required prior to joining investment community. Some amendments in REITs regulation were made in 2010 to remove impediments blocking its growth. In the light of these amendments, fund size for launching the REITs projects was reduced from Rs. 5 billion to Rs. 2billion. Moreover, Hybrid concept was introduced and also the registration fee of REIT property was reduced in Punjab and Sindh. Stamp duty of REIT property was reduced from 2% to 0.5% and from 2% to 1% on property sale. Stamp duty in Sindh has been reduced from 3% to 2.5%. Registration fee on purchase of property through REIT has been waived in both the provinces and fee on sale has been reduced from 1% to 0.5%.

Leasing:

Various problems are being faced by the leasing sector in Pakistan like liquidity issue, low capitalization, limited resources for mobilization, high cost of funds, level of non-performing rates, limited outreach etc.

Settlement System:

PRISM (Pakistan Real Time Inter-bank Settlement System) began as a result of growing awareness of sound risk management so that the settlement of large value funds may be made easier.

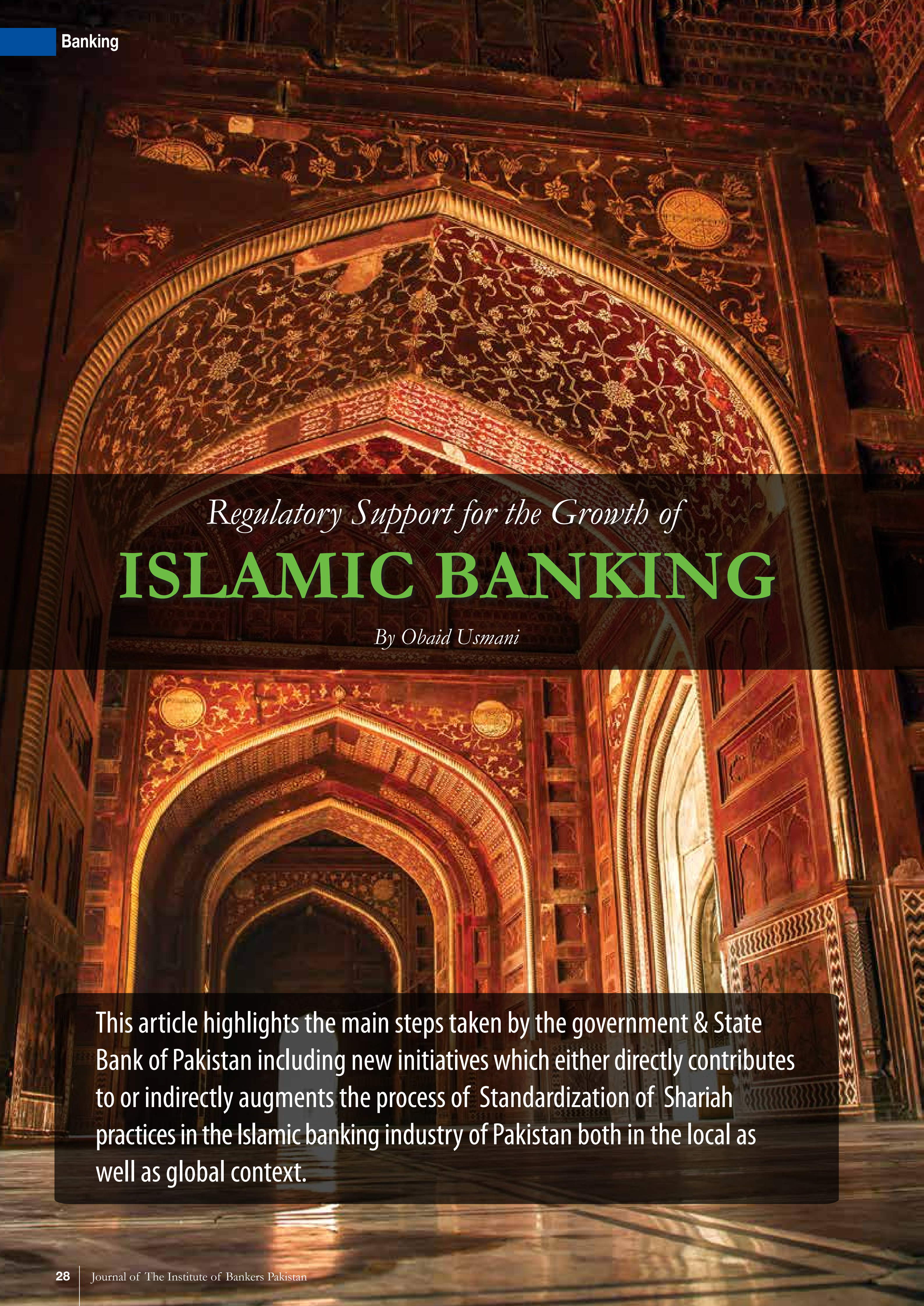
> "An efficient capital market provides attractive opportunities of investment to both local and foreign investors."

Pakistan Mercantile Exchange Limited:

Pakistan Mercantile Exchange Limited NCEL (National Commodity Exchange Limited) is the first demutualized online commodity exchange. This exchange was established in April, 2002 and commenced its activity in 2007. PMEX provides a regular platform for trading of commodities and currencies for future contracts. The product portfolio of PMEX has been designed to cater speculative and hedging needs of different stakeholders and investment groups. The future contracts presently available in PMEX are the different size contracts of gold and silver and the contracts of rice, palm oil, crude oil, sugar, cotton and interest rates.

Derivative Markets:

For providing investors with basic hedging instruments, financing options and increased investment alternatives, deliverable future contracts and cash-settlement future contracts are available for trading in at the three stock exchanges of Pakistan.



Regulatory Support for the Growth of

ISLAMIC BANKING

By Obaid Usmani

This article highlights the main steps taken by the government & State Bank of Pakistan including new initiatives which either directly contributes to or indirectly augments the process of Standardization of Shariah practices in the Islamic banking industry of Pakistan both in the local as well as global context.

A Brief Overview about Islamic Banking in Pakistan

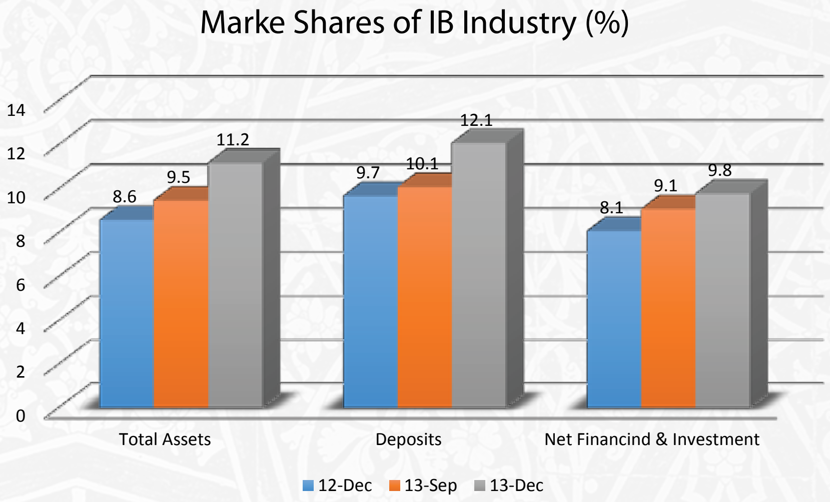
Pakistan, in recent years has showed strong inclination towards Islamic Banking. The first Commercial Islamic Bank in the country was established in the 2002, and within 13 years only, the Islamic Banking share is more than 10% of the entire Banking Industry. Over the last decade, Islamic Banks have been successful in providing end to end alternatives to all conventional banking products. The support coming from the central bank of the country is one of the major factors of the rapid growth of Islamic Banking industry. With more than 1400+ Islamic Banking branches and a 20%+ growth in deposits, assets, financing and investments, the Pakistani Islamic Banking industry is set to become the hub of Islamic Banking of the region.

Coming to the core of Islamic Finance, Shariah compliance is the single most important aspect for the Islamic Banking & Finance industry. The credibility of Islamic Banking Institutions (IBIs) not only depends on the financial health of the institution but also on its adherence to the Shariah. Under the current strategy for promotion and development of Islamic Banking as a parallel, viable and compatible banking system, State Bank of Pakistan has taken a number of steps to ensure Shariah compliance by IBIs and for standardization of Shariah practices.

The State Bank of Pakistan has played a dominant role in enabling the Islamic Banking Industry to not only sustain but rapidly grow many folds.

National Steering Committee for Promotion on Islamic Banking

The Steering Committee for the Promotion of Islamic banking was constituted by Ministry of Finance (MoF), Government of Pakistan in December 2013 comprising of leading Shariah scholars, bankers and officials from SBP. The main objective of the Committee is to carry out an objective review of the current paradigm of Islamic banking and to formulate a comprehensive policy framework for an Islamic financial system in the country including the review of the legal framework and suggest recommendations. Further, the Committee has also been given the task to review the existing taxation regime to remove the impediments of taking the industry to next level of growth and development by finding practical ways and means to participation based modes as modes of Islamic finance.



Steps Taken for Promotion of Islamic Banking by SBP:

- Establishment of a Shariah Board & a separate Islamic Banking Department at SBP to directly supervise & monitor the Islamic Banking industry.
- Instructions for Shariah Compliance in IBIs.
- 5 year Strategic Plan for Islamic Banking Institutions
- Introduction of Shariah Governance Framework
- Adoptions of AAOIFI Standards.
- Islamic Export Refinance Scheme.
- Media Campaign for Promotion of Islamic Banking.
- Islamic Open Market Operation – Liquidity Management Solution
- Minimum capital requirement
- Center of Excellence for Islamic Finance

Establishment of a Shariah Board & a Separate Islamic Banking Department at SBP

The Shariah Board of SBP advises on the procedures, laws and regulations pertaining to Islamic Banking in line with Shariah principles. All the instructions / Guidelines pertaining to the Islamic banking Industry is issued after the approval of SBP Shariah Board.

Besides having a Shariah Board, a separate Islamic Banking department is also in place at SBP with highly qualified & seasoned professionals who are engaged in policy making and various projects to strengthen the Islamic Banking industry.

Instructions for Shariah Compliance in IBIs:

In order to strengthen the Shariah compliance mechanism within IBIs and to ensure that all relevant Islamic banking regulations are complied with in letter and spirit, IBIs are required to introduce Shariah compliance mechanism as a part of their control structure as per the Shariah Compliance Framework issued by the State Bank of Pakistan. The Shariah Compliance Framework covers the main aspects for carrying out the operations of the IBIs such as monitoring Shariah compliance, review of documentation, conflict resolution, training and internal Shariah Audit.

Another important aspect of these instructions was the Fit & Proper Criteria of the IBI's Shariah Advisor. Each Islamic banking institution (i.e. Islamic Bank and conventional bank having Islamic Banking Branches) is required to appoint a Shariah Advisor as per Fit and Proper Criteria prescribed by SBP. The requirement for Shariah Advisors to meet the said criteria ensures that they have adequate and relevant education, knowledge and experience, which in turn plays a vital role in harmonization of Shariah Practices in different Islamic banking institutions.

Shariah advisor of the bank is responsible to ensure that all the products and services, operations and documents of the bank are compliant / consistent with the Shariah Rules and Principles outlined for the respective modes of financing. Before launching any new products the banks are required to get formal approval from the Shariah Advisor regarding Shariah compliance of the product and its related documents.

SBP conducts Shariah Compliance Inspection on the basis of recently developed Shariah Compliance Inspection Manual for Islamic Banking Institutions. Shariah Inspection helps in identifying variation in procedures adopted by different banks. The decisions on Shariah Inspection findings are also a source that helps in achieving the goal of having standardized procedures for Shariah practices in the Islamic banking industry.

5 Year Strategic Plan for IBIs (2014-2018)

The Strategic Plan focuses on critical issues and includes necessary initiatives for improving public acceptance and promoting Islamic banking as a distinct and viable system for meeting the financial services need of the public in general and business community in particular. The strategy paper has chalked out a detailed plan with time bound objectives which will prove to be beneficial for the industry. The main structure of the strategy paper is given below:

Enabling Policy Environment

Enabling legal, regulatory, supervisory, liquidity management framework, taxation regime and financial accounting & reporting framework.

Shariah Governance & Compliance

The focus in this area will remain on standardization and harmonization of Shariah practices, as well as on creating distinct Islamic banking products and services.

Awareness & Capacity Building

Efforts will be made for coordination and collaboration amongst internal and external stakeholders, enhancing awareness about Islamic finance, and building capacity of the stakeholders.

Market Development

Initiatives will be undertaken for product diversification.

Shariah Governance Framework

The State Bank of Pakistan has developed a comprehensive Shariah Governance Framework (SGF) for IBIs which covers points such as an effective mechanism for the BOD oversight of the IBI's Shariah compliance environment, accountability of executive management in implementation of the framework, an independent and effective Shariah Board appointed as per Fit and Proper Criteria of SBP with one of its Shariah Scholar members working as Shariah Advisor to advise the bank on day to day and routine Shariah issues, a Shariah Compliance Department, a Shariah compliance review mechanism to assess the operative effectiveness of the Shariah governance and compliance framework introduced by the SB and BOD and an independent Internal Shariah Audit Unit.

Adoption of AAOIFI Shariah Standards

The introduction of international players in the Islamic banking industry has further necessitated the need to bring our industry at par with the global Shariah standards. Shariah Standards developed by Accounting and Auditing Organization for the Islamic Financial Institutions (AAOIFI) are an important and effective source available for bringing in the desired standardization in the Shariah practices.

" Coming to the core of Islamic Finance, Shariah compliance is the single most important aspect for the Islamic Banking & Finance industry. The credibility of Islamic Banking Institutions (IBIs) not only depends on the financial health of the institution but also on its adherence to the Shariah. "

In order to bring the industry at par with the international standards and also achieve standardization of Shariah practices locally, a mechanism for adoption/adaptation of these Shariah standards has been developed by SBP. According to this mechanism, the meetings of Shariah Advisors of all IBIs are being held with a view to thoroughly study the AAOIFI Shariah Standards one by one, for their possible adoption / adaptation in the Pakistani market. Till now, SBP has adopted 6 AAOIFI Standards in Pakistan.

Islamic Export Refinance Scheme

The State Bank of Pakistan has been facilitating trade & commerce specially exports business through various schemes with concessional financeing facilities. In this regard, Shariah compliant Export Refinance Scheme (EFS) is

" Coming to the core of Islamic Finance, Shariah compliance is the single most important aspect for the Islamic Banking & Finance industry. The credibility of Islamic Banking Institutions (IBIs) not only depends on the financial health of the institution but also on its adherence to the Shariah. "

No.	AAOIFI Shariah Standards Adopted by SBP
1.	Default in Payment by a Debtor
2.	Murabaha to the Purchase Orderer
3.	Ijarah & Ijarah Muntahia Bittamleek
4.	Mudaraba
5.	Investment Sukuk
6.	Sharika (Musharaka) & Modern Corporations

already in place. The IERS scheme is further being reviewed to better facilitate the businesses in the country through a Shariah compliant manner.

Media Campaign for Promotion of Islamic Banking

One of the major steps the State Bank of Pakistan has taken to tackle the awareness challenge was the launch of mass media campaign for promotion of Islamic Banking supported by all players in the industry. Lack of awareness and understanding of Islamic finance and its business and operating model has been one of the key causes of confusion and misperception about Islamic finance. The plan thus gives extensive focus on intensifying the awareness efforts both at industry and individual intuitions level.

Islamic Open Market Operations Solution for Liquidity Management

The biggest challenge faced by the Islamic Finance industry was the lack of availability on Rupee denomination sovereign Sukuk for deployment of excess funds of the Islamic Banks and the option of OMO for IBIs. The State Bank of Pakistan in collaboration with the industry developed an OMO alternative in form of Bai Muajjal, which is being used for the benefit of the industry on frequent basis.

Minimum Capital Requirement for Islamic Banks

Some Islamic banks / windows in particular were facing difficulties in meeting the Minimum Capital Requirements of SBP. Therefore, SBP, taking a bold step, has revised the MCR for Islamic Banking Subsidiary from Rs. 10 billion to Rs. 6 billion in 2014. This will allow existing Islamic Banks to continue their operations without worrying much about the MCR and at the same time, this step will encourage conventional banks to establish Islamic Banking subsidiaries.

Center of Excellence for Islamic Finance

The State Bank of Pakistan is working with leading academic institutions of Pakistan for establishing a world class Center of Excellence for Islamic Finance. The center will have a comprehensive set of education and training programs for various audience groups, state of the art research facilities, partnerships with the industry and buy-in of key stakeholders. The center will ensure output of quality human resources and capacity building, which will support to achieve the target growth of Islamic Banking & finance in the country in the time to come.

Risks to MICROFINANCE in Pakistan - *A Study*

By Ammar arshad

Risks to Microfinance in Pakistan is the second study of its kind, which seeks to map the risks being faced in Pakistan's microfinance sector as seen by various stakeholders. The first study, conducted in 2011 by the Pakistan Microfinance Network (PMN), served as a starting point in the discussion on risks and threats encompassing the Pakistan microfinance sector. This study aims to update the risks highlighted in the initial publication in the face of changing business and macroeconomic environment while keeping in mind the new initiatives and developments in the microfinance sector.

The report describes risks as viewed by a sample of stakeholders: practitioners, investors, donors, researchers and consultants.The views of the stakeholders were recorded through an online survey which ranked risks in terms of severity, trend and Microfinance Providers' ability to cope with the risk. The key findings of the survey show macro-economic trends and security as the topmost concerns for stakeholders in the micro-finance industry (Table 1). The ranking of macroeconomic trends has not budged since the first risk survey in 2011 and is still perceived as the biggest threat faced by the sector.

The fastest trending risk according to the survey is competition, which was ranked at number 11 in the risk survey of 2011 (as depicted in table 2). Growth in outreach in the last couple of years, particularly in urban areas, has led to a sharp increase in competition and hence it is currently being perceived as the fastest rising risk in the industry. Competition is followed by security which holds the same position as the previous survey. Although microfinance operations are limited in the highly volatile regions of Khyber-Pakhtunkhwa (KPK) and Balochistan, the overall threat in terms of security remains high making institutions cautious of entering even slightly risky areas.

In terms of preparedness, MFPs feel least prepared to deal with risks that emerge outside their institutions. The top two risks in terms of lowest ability to cope are both external and include natural disasters and political interference.

The survey targeted different stakeholder groups including practitioners (whose numbers far outweigh other respondents), policymakers, donors and investors (including equity investors and commercial banks), researchers and consultants working in microfinance. Practitioners have been further categorized into MFBs and non-bank MFPs in order to capture perceptions unique to each group.

Practitioners - MFBs

MFBs perceive profitability as the most severe risk followed by competition - the current growth of the sector is driving competition to a new level. Similarly, they seem comfortable with regulations as they think this is the least of their problems. Unlike some other stakeholders who ranked development and delivery of appropriate products as key risks, MFBs seem confident about their ability to do so. Risks that are perceived to be rising include the usual suspect but also include managing technology.

Practitioners –Non-bank MFPs

Generally, macro or environmental risks seem to be worrying non-bank MFIs more than micro-risks that relate to their own institutions. As they worry about profitability or credit risk, they are equally worried about factors such as security, inflation, interest rates and natural disasters. Nonbank MFPs have ranked macroeconomic trends as the most severe and fastest rising threat in the sector – the persistent energy crises and inflation have severely affected small scale MFIs which are most vulnerable to such shocks. Sustainability also seems to be a key concern as most non-bank MFPs remain unprofitable and continue to rely heavily on funding. Issues around staffing, operations and corporate governance continue to be considered less significant over the years.

Furthermore, the study also provides a global comparison of top risks which shows that stakeholders in Pakistan perceive exogenous/external risks (such as macroeconomic trends and security) to be the greatest threats for the microfinance sector, while globally, the most pressing risks facing the sector are those of the day-to-day running of the business i.e. over indebtedness and credit risk.

Table 1

Top Ten Biggest Risks (2011 position in brackets)		
1	Macro-Economic Trends	(1)
2	Security	(4)
3	Profitability	(2)
4	Credit Risk	(3)
5	Inappropriate Regulation	(25)
6	Competition	(24)
7	Political Interference	(12)
8	Interest Rates	(7)
9	Managing Technology	(17)
10	Natural Disasters	(13)

Table 2

Top Ten Fastest Rising Risks (2011 position in brackets)		
1	Competition	(11)
2	Security	(2)
3	Macro-Economic Trends	(1)
4	Managing Technology	(6)
5	Too Little Funding	(18)
6	Credit Risk	(3)
7	Strategy	(24)
8	Political Interference	(12)
9	Foreign Exchange	(23)
10	Interest Rates	(7)

Table 3

Rank	Severity	Fastest Rising	Least Ability to Cope
1	Profitability	Macro-Economic Trends	Political Interference
2	Competition	Security	Natural Disasters
3	Credit Risk	Competition	Security
4	Macro-Economic Trends	Managing Technology	Inappropriate Regulation
5	Managing Technology	Credit Risk	Interest Rates
6	Natural Disasters	Strategy	Macroeconomic Trends
7	Operations	Product Development	Religious Influence
8	Political Interference	Too Little Funding	Managing Technology
9	Fraud Internal	Political Interference	Profitability
10	Inappropriate Regulation	Staffing	Liquidity

Table 4

Rank	Severity	Fastest Rising	Least Ability to Cope
1	Macro-Economic Trends	Macro-Economic Trends	Management Quality
2	Security	Security	Natural Disasters
3	Profitability	Competition	Transparency
4	Natural Disasters	Managing Technology	Competition
5	Credit Risk	Credit Risk	Political Interference
6	Interest Rates	Strategy	Managing Technology
7	Competition	Too Little Funding	Operations
8	Strategy	Unrealistic Expectations	Fraud External
9	Unrealistic Expectations	Staffing	Profitability
10	Inappropriate Regulation	Interest Rates	Fraud Internal

Table 5

Top Ten Risks to the Microfinance Sector					
	Pakistan		South Asia*		Global*
1	Macro-Economic Trends	1	Political interference	1	Over indebtedness
2	Security	2	Over indebtedness	2	Credit Risk
3	Profitability	3	Client relationships	3	Competition
4	Credit Risk	4	Regulation	4	Risk management
5	Inappropriate Regulation	5	Risk management	5	Governance
6	Competition	6	Funding	6	Strategy
7	Political Interference	7	Competition	7	Political Interference
8	Interest Rates	8	Liquidity	8	Management
9	Managing Technology	9	Credit risk	9	Regulation
10	Natural Disasters	10	Management	10	Staffing

**Microfinance Banana Skins 2014*

NEW FACE of FINANCE

By Christian Doherty

Christian Doherty reports on the secured multi-billion-pound lending market opening up for alternative providers who have spotted opportunities.

Ever since the financial crisis of 2008, a cottage industry of alternative finance providers has appeared. Some of the players have flourished as businesses have explored alternative ways to source finance in the absence of straight bank lending.

As a result, there has been a surge in the popularity of a whole range of alternative funding strategies, with FDs and treasurers casting around for solutions to restricted cashflow and more expensive credit.

For many growing businesses, sourcing debt finance is a matter of finding lenders willing to buy into their business plans. This is where crowdfunding comes in.

Crowdfunding has come a long way since 80s rockers Marillion took a call from their record label informing them it declined to underwrite the band's US tour, leaving them with few options. But when keyboardist Mark Kelly, an early Internet enthusiast, posted the news up on fan site, within a few weeks enough committed fans had pledged donations to underwrite the band's tour.

It soon became clear that the democratic, transparent "Kickstarter" model – using the Internet to bring donors together with artists – was ripe for commercial application. Soon, a cohort of like-minded entrepreneurs in the US and UK wholeheartedly embraced "the crowd" to develop funding platforms for smaller businesses.

Despite their reputation among some observers as risky, P2P peer-to-peer or lenders are increasingly visible players on the funding landscape. Funding Circle and Zopa, for instance, both received the Government's seal of approval in late 2012 when Vince Cable announced an investment of £20m and £10m into each provider respectively.

Both Funding Circle and Zopa have taken the next step in crowdfunding, from helping businesses sell equity to sourcing commercial lending. Indeed, since launching, Funding Circle says it has placed £330m of lending to over 5,500 businesses.

Funding Circle says it can offer borrowing businesses quick access to funds, with debt priced by auction; so those offering investment make a bid, then the borrower gets the lowest rates on offer. Typical deals would see a company borrow £40,000 of expansion capital from around 300-400 individual investors, paying a rate of 4 per cent over three years.

However, companies looking for large-scale borrowing may be frustrated. Funding Circle's typical loan amounts are, unsurprisingly, small – loans of up to £550,000 are available to businesses that meet the minimum turnover size of £100,000, but usually deals come in under six figures.

To meet that growing need, other platforms are emerging to deal in larger tranches of debt. US dealmaker Prosper boasts one investor with $35m lodged on the platform ready to put it to work.

But for SMEs unable to prise open their bank manager's wallet, crowd-sourced debt is offering a genuine alternative. It offers – say the lending platforms – a straightfor-

ward liberation from the restriction of bank lending, circumventing their often restrictive credit policies.

Take ThinCats (they market themselves as the antidote to fat cat bankers): launched in 2011 by a syndicate of business angels looking to lend to growing firms, it aims to "bypass the banks – and their charges – by lending directly to small businesses".

In some ways, ThinCats marks the latest iteration (and possible future shape) of P2P lending – it focuses on getting to know both investors and borrowers, and, in common with the banks, does demand security from those seeking finance.

ThinCats also aims to solve one of the most pressing and thorny problems to have bedevilled crowd-based financing platforms – the lack of a secondary market to sell either shares or debt. With its secondary market facility, launched last year, it now offers investors the option of selling their debt to others before the end of the term.

There are downsides, however. For many businesses, raising capital via the crowd is not entirely straightforward, promising either a large number of unknown small investors on their share register or having to deal with the platform as a nominee for the entire crowd. If the former, there are administration costs: if the latter, the individual shareholder has no vote in the progress of his investment: and in either case, the Directors' duty to carry out anti-money-laundering checks is delegated to the platform.

In addition to that, the exact status of equity crowdfunding from the perspective of the Financial Conduct Authority (FCA), which has so far made only limited preliminary statements, is not fully clear. The FCA says it is working on a set of standards for crowdfunding, but a clear set of rules has yet to emerge.

Given the genuine concern prompted by the post-crisis credit crunch, back in 2010 the Government promised to step in and become a significant player on the lending scene. Some of its efforts have been more successful than others.

The Funding for Lending Scheme (FLS), which came into effect in the summer of 2012, is the flagship vehicle to boost lending. Simply put, the scheme involves the Bank of England funnelling liquidity into the major banks with the remit to boost lending to households and businesses. Under the FLS, banks can access cheap loans on the condition they lend to businesses. They can borrow £5 from the Bank for every £1 of net lending to SMEs.

"FUNDING CIRCLE AND ZOPA BOTH RECEIVED THE GOVERNMENT'S SEAL OF APPROVAL IN LATE 2012."

However, the latest figures show that net SME lending from banks fell by £435m between April and June 2014, following a decline of £719m in the first quarter. Just over £3.2bn was drawn from the Funding for Lending Scheme in the second quarter of 2014, according to the Bank of England.

Alongside the FLS sits the Business Finance Partnership (BFP), another government-backed scheme. In addition to putting funds onto the aforementioned P2P funding platforms, BFP capital has been placed with five top fund managers (including HayFin and M&G) who will lend to approved-growth businesses.

Some £400m has been earmarked for direct lending, while a further £100m will be channelled through non-bank providers including mezzanine finance funds.

The third, and most established, is the Business Growth Fund (BGF). At its launch in 2011, then director Stephen Welton said: "Fundamentally, for the Business Growth Fund to be successful – and I would judge our success in, say, ten years' time, not in a year's time – we need to still be here in ten years' time, continuing to provide long-term capital to exactly the same companies. Because this equity gap, as coined in the 1930s, isn't temporary. It will always be here because there will always be small companies. And we are here to plug that gap."

"THE EVIDENCE SO FAR WOULD SUGGEST THAT THE BUSINESS GROWTH FUND IS NOW A SERIOUS PLAYER ON THE INVESTMENT SCENE."

The evidence so far would suggest that the BGF is now a serious player on the investment scene. Designed after a private equity model, the fund takes minority stakes in growing companies and has made a number of successful investments.

For those more established businesses, commercial finance has been a common part of the alternative finance landscape for years, but in common with crowdfunding, there has recently been a move towards using technology to "democratise" the offering.

Platform Black is one of several new websites that allow businesses to cut out the middleman and sell their invoices to investors eager to buy SME debt. Promising to deliver cashflow on demand, Platform Black is marketing itself to both investors and companies looking for short-term working capital to finance both operations and long-term investment.

Platform Black isn't alone. Other invoice trading platforms have sprung up in order to provide competition to commercial lenders as well as the big banks' commercial finance offerings.

Market Invoice is one of the biggest, and its USP is the transparency of the system, which allows those buying invoices to better understand those businesses they are helping to finance. It is focused more on the larger end of the market, and is marketing itself to companies that supply to Blue Chip (ie annual revenues of £50m-plus) customers.

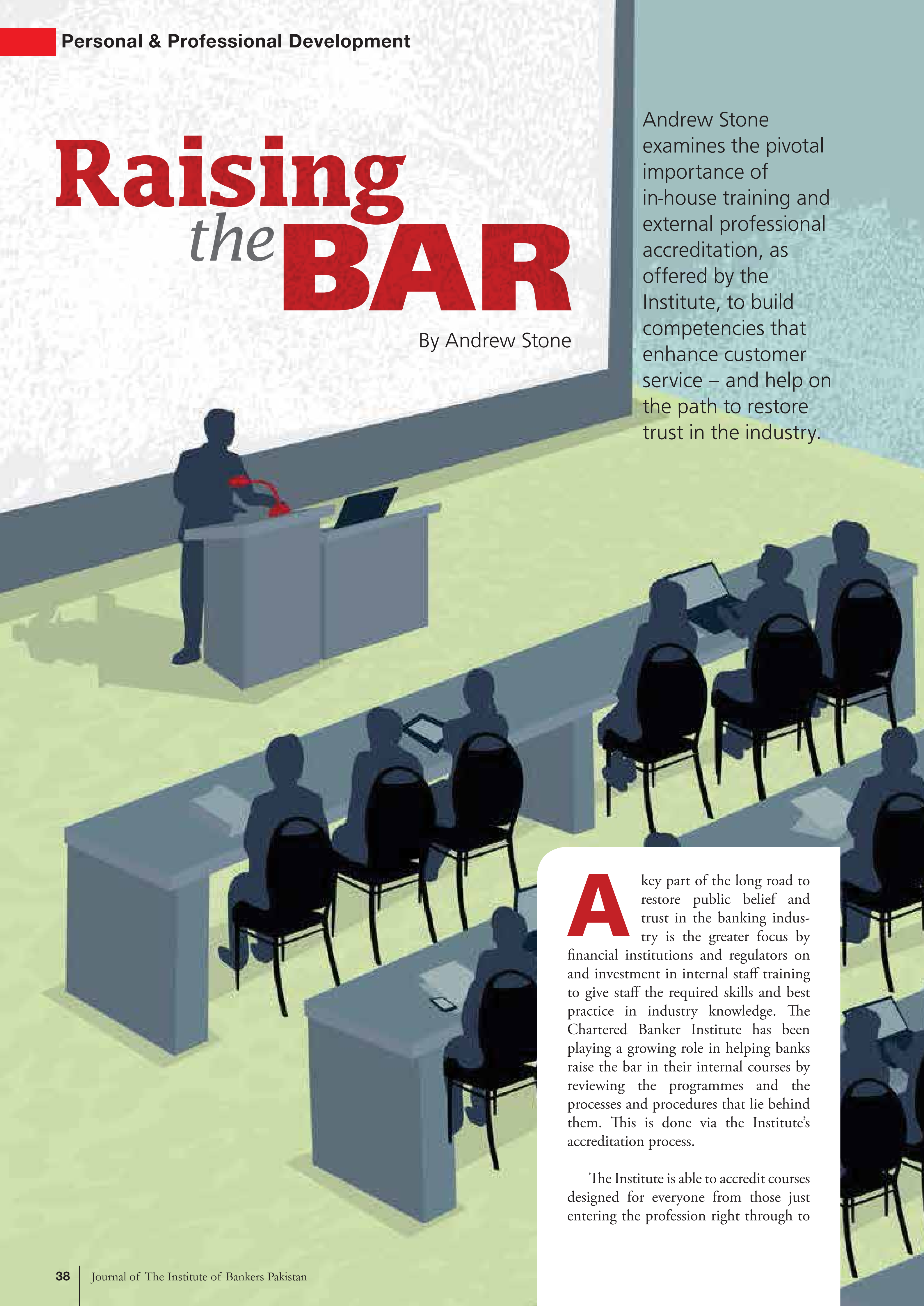
Under its model, a typical transaction looks something like this: a borrower with a turnover between £1m-5m submits an invoice of £100,000 at 30 days to MI. It immediately is advanced 85 per cent of that. It is then subject to a buyer's fee of 1.25 per cent per 30 days, and pays a 0.99 per cent fee to MI. On that £100,000 invoice, pre-settlement, it amounts to fees of £2,240. Once the invoice is paid, then the remainder (£12,760) is settled, at a final rate of 97.79 per cent. All of these offerings have one thing in common: a clear stated distance between what they offer and what the banks can do. It's now up to the banks to respond.

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

Raising the BAR

By Andrew Stone

Andrew Stone examines the pivotal importance of in-house training and external professional accreditation, as offered by the Institute, to build competencies that enhance customer service – and help on the path to restore trust in the industry.



A key part of the long road to restore public belief and trust in the banking industry is the greater focus by financial institutions and regulators on and investment in internal staff training to give staff the required skills and best practice in industry knowledge. The Chartered Banker Institute has been playing a growing role in helping banks raise the bar in their internal courses by reviewing the programmes and the processes and procedures that lie behind them. This is done via the Institute's accreditation process.

The Institute is able to accredit courses designed for everyone from those just entering the profession right through to

MBA level, explains Jennifer Mallon, the Chartered Banker Institute's Head of Accreditation and Professional Development.

"The Institute's accreditation activity has been expanding considerably in the last five years, and we're now working with more banks over a wider spread of business areas. We also accredit programmes from UK university qualifications and a growing range of international programmes too. It's the whole breadth. Our accreditation service caters for programmes covering everyone from new entrants to chief executives."

Part of the advantage of accrediting a training programme through the Institute is that as well as ensuring it is aligned and suited to the internal working processes and culture of the bank, the Institute will also work to help ensure students also gain a grasp of the wider context of their jobs.

As Mallon points out: "Some qualifications and jobs in banks can be quite specialist and we can give individuals a broader picture of what goes on.

"It sets the context of what banks are all about, covering ethics and professionalism, what the economic issues are that they need to be aware of around credit and risk, for example. It aims to promote broad banking knowledge so staff can relate the theory to their day-to-day job."

Raising standards in the profession is something the Institute has an unrivalled experience of, adds Mallon. "We are the oldest banking Institute in the world, with nearly 140 years of experience raising the quality of bankers and the reputation and standing of the profession.

"Because the Chartered Banker brand is powerful in the UK and internationally, it adds credence to what the banks are doing internally. We also work with more than 100 banks worldwide and we have a range of specialists working for us whose expertise we can draw on."

The Institute's accreditation is the most sought-after banking and financial services accreditation benchmark. As the only organization able to confer

Chartered Banker status, the Institute has experts with banking backgrounds as well as subject matter and educational experts.

This breadth of experience and wide industry exposure gives the Institute valuable insights into the most effective course content, structuring and assessment methodologies, says Mallon. "We see a lot of programmes and we see best practices, which means we can explain to others how they can enhance and improve their programmes."

Gaining accreditation is a rigorous process, says Mallon. "We review the content, processes and procedures of each course looking at their quality, consistency and robustness. We also review the assessment methodology as we need to be able to measure that someone has learned and improved.

We put together a report and make recommendations and/or identify areas that need to be fulfilled before we grant the accreditation. This is all subject to our own internal quality and sign-off measures."

Mallon adds: "The accreditation process also involves ongoing conversations on a more informal level to keep those managing the programmes up to date on progress. If we identify a significant gap, rather than saying 'sorry, the accreditation is 'unsuccessful', we will try to work with them to meet that need."

The standard, however, remains high, explains Mallon. "Accreditation is not something they buy from us. There is no guarantee a programme will be accredited. If the quality is not there, if we do not think it's a good programme, we will decline to accredit it."

High standards give those running and managing the courses confirmation of the value of the value the full accreditation process. It gives them the satisfaction of knowing they are doing a good job by being held to a high standard. They value the feedback process we give them and it is a validation of all the hard work they have been doing and of their and the bank's commitment to improving their people."

Banks, staff and ultimately their customers all benefit from this process, says Mallon. The banks gain assurance that the quality of their internal programmes is as high as it can be, that they offer consistency and that they are getting a good return on their investment in their people. It also helps retain good quality people: "People feel valued and it also adds an important external validation to the work they do."

> *"High standards give those running the courses confirmation of the value of the training."*

It can also help individuals get closer to achieving Chartered Banker status, she adds. "While accreditation is not a qualification, it can provide credit into our qualification framework, meaning individuals who have completed an accredited programme may find their route to a professional banking qualification can be slightly shorter than someone who is doing it without this benefit."

Ultimately, accreditation is good for business as the end customer will get more value from skilled professionals whom they trust, says Mallon. "It is no longer sufficient to simply do a good job any more. Bank customers are looking for people to have completed comprehensive training and development programmes and to have professional qualifications.The bar has been raised. This will become more of a business-as usual activity for the banks."

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We Are As THE FLUTE

We are as the flute, and the music in us is from thee;
we are as the mountain and the echo in us is from thee.

We are as pieces of chess engaged in victory and defeat:
our victory and defeat is from thee, O thou whose qualities are comely!

Who are we, O Thou soul of our souls,
that we should remain in being beside thee?

We and our existences are really non-existence;
thou art the absolute Being which manifests the perishable.

We all are lions, but lions on a banner:
because of the wind they are rushing onward from moment to moment.

Their onward rush is visible, and the wind is unseen:
may that which is unseen not fail from us!

Our wind whereby we are moved and our being are of thy gift;
our whole existence is from thy bringing into being.

View on Banker

"Bankers are driving us to hell in a vehicle, we are paying the installments on"
Anonymous

"You could carve out the inside of a brick and hide your money in it for safe keeping. It's certainly safer than keeping it in the bank!"
Nicole McKay

interesting quotes

We are shaped by our thoughts; we become what we think. When the mind is pure, joy follows like a shadow that never leaves.
Buddha

Give me six hours to chop down a tree and I will spend the first four sharpening the axe.
Abraham Lincoln

It is better to lead from behind and to put others in front, especially when you celebrate victory when nice things occur. You take the front line when there is danger. Then people will appreciate your leadership.
Nelson Mandela