Bankers

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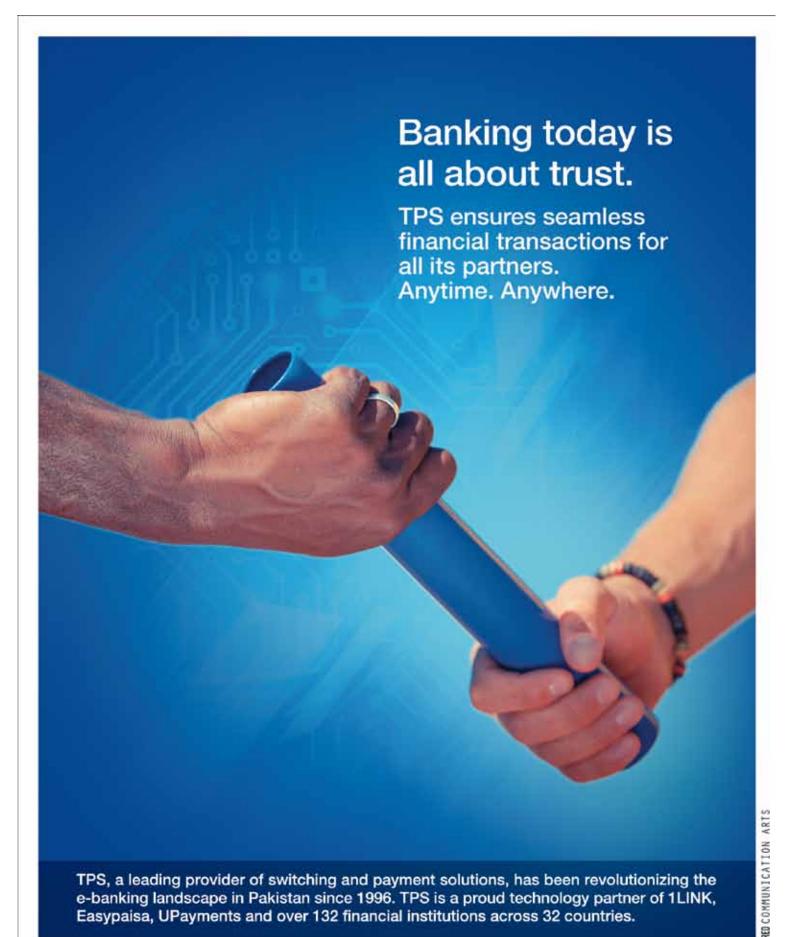
September 2013

A comment on the current interplay between Monetary and Fiscal Policy

Organizational Change & Development An HR Perspective

Islamic Microfinance Securitization
Structuring a Musharkah Sukuk







# editorial

usiness ethics, as a jargon and formal concept, graced the corporate stage for the first time following the US Civil Rights Act of 1964. The Act outlawed discrimination on the base of race, ethnicity or religion in business and public institutions.

A banker is a custodian; and it is his/her duty to safeguard not just the finances of the customers, but also their trust. There is a professional and moral obligation to determine the end use of money, after cautiously evaluating the risks and ethical considerations involved.

Globalization, dynamic environment, social interconnectedness, deregulation and technological advancements have aggravated the challenges for ethical business conduct and practices. When the bottom line, business growth and ethics are at crossroads, there is a need to rise above the numbers and decide the course of action based on panoramic deliberation.

External ethics encompass business practices and the impacts thereof, such as lending and investment decisions and their effect on the economy and society. Product marketing should be executed with full disclosure of pertinent information - customers now expect transparency as an integral part of the institutional culture and business practices.

Due to the fact that trust is often a bank's most valuable – albeit intangible asset- its credibility and repute are the make-or-break factor in its sustainable success and pursuits therewith.Limited liability and legal protectionscannot absolve companies in general, and banks in particular, from the ramifications of their actions.

Corporate ethical standards and beliefs are embodied and promulgated by employees. Front end staff translates business ethics policies into ethically considerate day-to-day operations and customer service. This renders training and development initiatives indispensible - inculcating the right values in employees is imperative. Moreover,

incorporating behavior aligned with corporate culture and corporate ethics in performance appraisals and linking rewards to the realization of core values and ethical standards, in addition to performance, prove effective in infusing business ethics in human resource bodies.

Internal ethics pertain to the employee satisfaction and customer service quality, benefits and equality. In the short term, the more financially feasible and tempting cost efficiency should not take precedence over moral concern, as in the long run ethical compromises cripple even the most financially sound enterprises and institutions. Banks are increasingly embracing the realization that being ethically considerate institutions enhances the overall market confidence and paves the way for sustainable profitability and growth opportunities.

As with any change that we desire to institute in our respective organizations, ethical conduct and moral culture can only be nurtured and truly infused in the organization if the leadership exemplifies the same with their business and personal conduct. Codes and policies remain glorifying words on paper until they are practiced and communicated in a top-down flow of change.

In the quest to be ethically cognizant and compliant, organizations need to be abreast of and in compliance with regulatory directives; in addition to this, corporations also need to focus upon self-regulation, and accept ethical obligations with responsibility. Integrity and professionalism are not just elusive jargon any longer - they now present themselves as the minimum service standard.



Sirajuddin Aziz Editor-in-Chief



	JAIBP —			
	Stage 1 9am-12 noon	Stage 2	Stage 3 2pm-5pm	Associateship 2pm-5pm
Monday 25 Nov 2013	Introduction to Financial Systems & Banking Regulations		Management Accounting for Financial Services	Advance Risk Management
Tuesday 26 Nov 2013	Information Technology in Financial Services		Finance of International Trade & Related Treasury Operations	Corporate & Banking Law
Wednesday 27 Nov 2013	Branch Banking	Economics (2pm-5pm)	_	Financial Planning & Budgeting
Thursday 28 Nov 2013	Business Communication for Financial Services	Lending: Products, Operations & Risks Management (2pm-5pm)		Anti Money Laundering Measures & Business Ethics
Friday 29 Nov 2013		Accounting for Financial Services (9am-12 noon)	Marketing of Financial Services (2:30pm-5:30pm)	Specialization Subjects* (2:30pm-5:30pm)
Saturday 30 Nov 2013		Human Resources Managements Organizational Behavior (9am-12 noon)	Specialization Subjects**	

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- For details regarding your assigned center and enrolled subjects, please refer to your admit card.

#### \*AIBP:

- 1) Financial Derivatives
- 2) Project Financing
- 3) Capital Markets
- 4) Strategic Human Resource Management
- 5) An Introduction to Insurance

#### \*\*JAIBP:

- 1) Microfinance
- 2) Agricultural Finance
- 3) Islamic Finance
- 4) SME Banking

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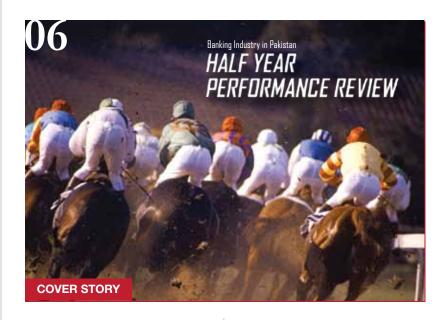
ability to deliver Individual & organizational results. As a Certified Executive Coach, accredited by International Coach Federation (ICF) and also a Certified Trainer by International Finance Corporation (IFC) and FranklinCovey, Pasha has facilitated several professionals reach their desired goals in organizations. Pakistan and PEPSICO to name a few. He has been associated with leading organizations.



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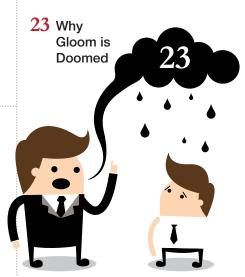
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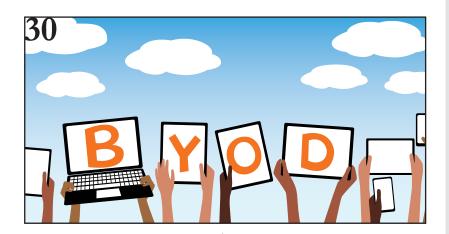
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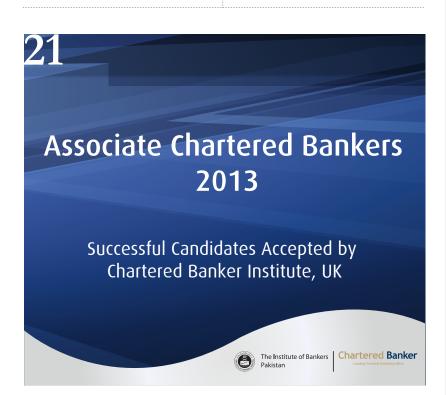
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# IBP LUNCHEON EVENT



The Institute of Bankers Pakistan hosted a luncheon event for the learning and development teams of banks at the Karachi Marriott on September 3, 2013. The purpose of the event was to highlight the progress made by the IBP in the arena of training and development.

The program was well-attended with over 40 delegates from leading banks participating in the event. Mr. Mushtaque Jindani, CEO, IBP initiated the proceedings with his presentation. He spoke about the effort put in to create capacity to build standardized content for training programs. Mr. Jindani introduced the launch of standard content for 21 short-duration training programs which the Institute will provide to the banking industry. The content of these programs are now available for purchase to facilitate the industry in using standard and accredited training content for their in-house delivery

Mr. Jindani also highlighted the key initiatives taken by the IBP in terms of the accreditation of IBP's banking diploma by Chartered Banker Institute, UK. Enrollment in the IBP diploma program – ISQ has multiplied since the accreditation.

Mr. Jindani's presentation was followed by Mr. Sirajuddin Aziz, CEO, Habib Metropolitan Bank Limited, who spoke about the need for collaboration and synergy to ensure success of all bankers in Pakistan. He appreciated the efforts put in by the IBP and encouraged all banks to ensure their active engagement.



In the Q&A and comments section, many bankers applauded IBP's efforts in the content development space – an area which banks have struggled with in terms of capacity and quality. They felt that over 60 years, the IBP has added real value to banking industry at large especially in the last 5 years.

The event was followed by a networking lunch during which the participants appreciated the efforts of the Institute for the wider interest of the industry.









#### BANKING SECTOR PROFITS DECLINED

Ongoing monetary easing has weighed heavily on banking sector margins, resulting in year-on-year decline of 15.3% in banks' consolidated profits during first half of 2013. Cumulative earnings of Big 5\*Banks experienced year-on-year decline of 11.7% to PKR42.2bn during 1H-CY13, while that of Mid-Tier\*\*Banks fell to PKR8.7bn, exhibiting a decline of 19.5% over the same period. Profit after Tax (PAT) of Small\*\*\*Banks registered the largest drop of 98.6% to PKR0.02bn on consolidated basis. MCB took the lead among Big 5 banks with year-on-year earnings growth of 6.1%, while BOP and BOK posted the highest profitability growth of 147.5% and 12.6% respectively among their respective groups in 1H-CY13. Decline in Net Interest Income (NII), due to declining interest rate environment and increased cost of funds resulted in PAT reduction for banking sector.

Banking sector's deposits augmented by 13.8% year-on-year to PKR7,191bn on consolidated basis during 1H-CY13. Cumulative advances of the sector increased by 2.9% year-on-year to PKR3,432bn, while total investments increased to PKR3,869bn, registering year-on-

year growth of 30.9% over the same period.

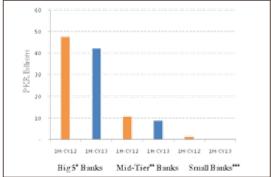
#### **DEPOSITS UP 13.8%**

Banks continued to a mass deposits, bringing the deposit base of Big 5, Mid-Tier and Small banks to PKR4,340bn (up 17.3% year-onyear), PKR2,505bn (up 9.6% year-on-year) and PKR346bn (up 3.7% year-on-year) respectively during 1H-CY13.ABL led the deposit growth among Big 5 banks with growth rate of 25.4%, however, HBL had the largest deposit base to the tune of PKR1,259bn. SNBL outshined other Mid-tier banks with year-onyear deposit growth rate of 16.5%, however, BAFL had the largest deposit base of PKR480bn among the group. ISBL stood first among Small banks with deposit growth rate of 37.3%, while SILK had the largest deposit size of PKR72bn in the category.

High cost fixed deposits of Big 5 banks grew by 16.8% year-on-year to PKR1,101bn, while lower cost Current Accounts and Savings Accounts (CASA) of the group underwent increase of 19.6% year-on-year to PKR3,050bn during first half of 2013. Meanwhile, Mid-Tier and Small banks reduced fixed deposits PKR640bn (down 13.9%) and

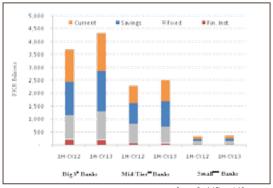
PKR119bn (down 7.8%) respectively, and increased CASA by 21.4% and 11.2% respectively. NBP posted the largest hike of 70.3% in fixed deposits among Big 5 banks, while HBL had the largest increase of 26.5% in CASA. BOP had the largest increase of 2.5% in fixed deposits and SMBL experienced the largest surge to the tune of 35.6% in CASA among Mid-Tier banks. Fixed deposits of FWB increased by 55.5% and CASA of JSBL escalated by 54.6%, highest among Small banks category.

Figure 1: Profit after Tax



Source: Banks' Financial Statements

Figure 3: Deposits



Source: Banks' Financial Statements

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

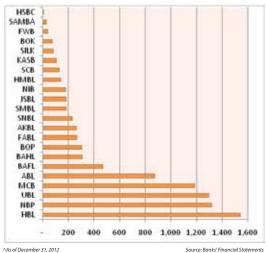
(PKR Millions)	Big 5* Banks		Mid-Tier** Banks		Small*** Banks	
	1H-2013	YoY Change	1H-2013	YoY Change	1H-2013	YoY Change
Net Interest Income	93,305	-7.0%	41,970	-5.0%	6,447	0.1%
Non-Interest Income	40,392	6.3%	21,073	11.3%	2,766	-16.5%
Provision & Charges	9,970	11.6%	8,322	49.2%	1,218	4724.0%
Profit After Tax	42,224	-11.7%	8,726	-19.5%	21	-98.6%
Return on Equity	15.5%	-4.6%	8.0%	-2.6%	0.1%	-6.5%
Net Interest Margin	3.9%	-1.4%	3.1%	-0.8%	3.5%	-0.3%
Advances/Deposits Ratio	45.5%	-6.6%	51.5%	-2.5%	48.6%	-3.4%
Non-Performing Loans (NPL)	252,206	-0.4%	258,301	0.9%	33,198	-3.3%
NPL Coverage (Specific)	79.5%	4.3%	63.4%	4.5%	61.0%	8.6%
Portfolio Infection Rate	11.5%	-0.4%	17.7%	-0.7%	17.6%	-0.3%
Investments/Deposits Ratio	54.6%	8.2%	53.2%	5.0%	48.1%	7.1%
Cost/Income Ratio	46.4%	4.9%	65.6%	2.7%	84.9%	10.1%

CASA-to-total deposits ratio of banking sector increased from 66.8% in 1H-CY12 to 70.4% in 1H-CY13, reflecting banks' focus on accumulating lower cost funds as State Bank of Pakistan's (SBP) directive to pay minimum profit rate of 6%,up from 5%, on average monthly balance rather minimum monthly balance of savings account had increased the cost of funds for banks, putting downward pressure on net interest margins (NIMs) and resulting in bottom line erosion. MCB, SCB and KASB had highest CASA-tototal deposits ratio of 85.9%, 89.7% and 77.8% respectively in their groups.

#### ADVANCES UP 2.9%; INVESTMENTS SURGED BY 30.9%

Big 5 banks' advances increased by 2.4% year-on-year to PKR1,974bn, while the group's investments swelled to PKR2,370bn (up 38%year-on-year) during 1H-CY13, reflecting the continued trend of putting funds in government securities instead of lending to private sector despite low interest rate environment. Advances and investments of Mid-Tier banks underwent increase to PKR1,289bn (up 4.5%) and PKR1,332bn (up 21%) respectively, while Small banks reduced loan portfolio by 3% to

Figure 6: Net Interest Margins (NIMs)



PKR168bn and increased investment portfolio by 21.7% to PKR167bn. NBP, BAHL and JSBL had the highest percentage increase in advances to the tune of 11.5%, 24% and 18.1% year-on-year respectively, while HBL, SMBL and SAMBA had the largest percentage growth of 51%, 65.2% and 151.8% year-on-year respectively in investments, among their respective categories.

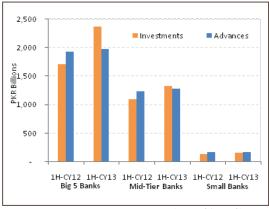
Investments-to-deposits(IDR) ratio of Big 5, Mid-Tier and Small banks increased to 54.6%, 53.2% and 48.1% respectively in 1H-CY13 from 46.4%, 48.2% and 41% respectively a year ago. Advances-to-deposits ratio (ADR) of Big 5, Mid-Tier and Small banks underwent decline to 45.5%, 51.5% and 48.6% respectively from 52.1%, 54% and 52% respectively. NBP, NIB and SAMBA had the highest ADR ratios among their group, which stood at 56.3%, 81% and 71% respectively.

#### NON-PERFORMING LOANS CONTAINED

Big 5 banks reduced Non-Performing Loans (NPLs) marginally by 0.4% year-on-year to PKR252bn during 1H-CY13, while Mid-Tier banks' NPLs grew by 0.9% to PKR258bn. NPLs of Small bank reduced by 3.3% to

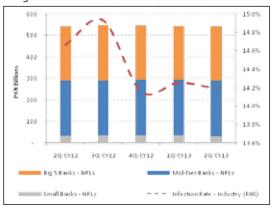
66 INVESTMENTS-TO-DEPOSITS (IDR) RATIO OF BIG 5, MID-TIER AND SMALL BANKS INCREASED TO 54.6%, 53.2% AND 48.1% RESPECTIVELY IN 1H-CY13 FROM 46.4%, 48.2% AND 41% RESPECTIVELY A YEAR AGO. 33

Figure 5: Earning Assets Composition



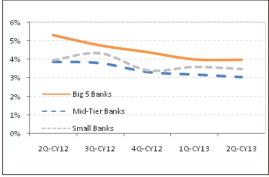
Source: Banks' Financial Statement

Figure 6: NPLs and Portfolio Infection Rates



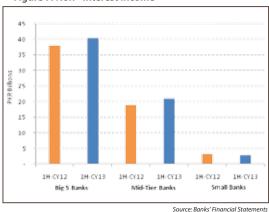
Source: Banks' Financial Statements

Figure 7: Net Interest Margins (NIMs)



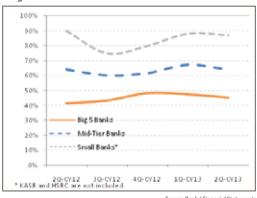
Source: Banks' Financial Statements

Figure 7: Non - Interest Income



Source: Banks' Financial Statements

Figure 9: Cost-to-Income Ratio



Source: Banks' Financial Statements

*Big 5 Banks	**Mid-Tier Banks	***Small Banks^^	
Allied Bank Limited (ABL)	Askari Bank Limited (AKBL)	First Women Bank Limited	
Habib Bank Limited	Bank Al Habib Limited (BAHL)	(FWB)	
(HBL)	Bank Alfalah Limited (BAFL)	HSBC Bank Middle East Limited (HSBC)	
MCB Bank Limited (MCB)	Faysal Bank Limited (FABL)	IS Bank Limited (ISBL)	
National Bank of Pakistan (NBP)	Habib Metropolitan Bank Limited (HMBL)	KASB Bank Limited     (KASB)	
<ul> <li>United Bank Limited (UBL)</li> </ul>	NIB Bank Limited (NIB)	Samba Bank Limited	
,	Soneri Bank Limited (SNBL)	(SAMBA)	
	Standard Chartered Bank	Silkbank Limited (SILK)	
	(Pakistan) Limited (SCB)	The Bank of Khyber (BOK)	

• Summit Bank Limited (SMBL)

• The Bank of Punjab (BOP)

^^Barclays Bank, Citibank, Deutsche Bank, HSBC Bank Oman S.A.O.G. and Sindh Bank are not included in the sample

PKR33bn during the stated period. MCB experienced the largest decline in its NPLS to the tune of 6.1% during 1H-CY13, while NBP had the largest stock of NPLs at PKR93bn. Among Mid-Tier banks, SMBL exhibited the largest percentage decrease in its NPLs of 9.6% year-on-year to PKR21bn during 1H-CY13, while BOP had the largest NPLs by volume to the tune of PKR65bn. SILK displayed the largest percentage decrease among small banks with NPLs declining by 6.2% year-onyear to PKR10bn during 1HCY12, while KASB had the largest stock of PKR12bn in NPLs in the group.

Portfolio infection rate (as measured by NPLs/Gross Loans) of Big 5, Mid-Tier and Small banks decreased to 11.5%, 17.7% and 17.6% respectively in 1H-CY13 from 11.9%, 18.4% and 17.9% respectively during corresponding period last year. ABL, BAHL and FWB boasted the lowest portfolio infection rates of 7.1%, 2.5% and 6.1% respectively in their respective groups over the stated period.

#### INTEREST YIELD AND NIMS **DECLINED**

Net interest margins (NIMs as measured by Interest Yield minus Cost of Funds) had been under pressure due to ongoing monetary easing and increased cost of funds on savings deposits. The situation was exasperated by the low growth in private sector credit demand. Owing to power shortages and structural issues, which hampered industrial activity and debt service ability of private sector, banks showed reluctance to lend to private sector and parked funds in government papers instead, which offered lower yields. NIMs of Big 5, Mid-Tier and Small Banks dropped to 3.9%, 3.1% and 3.5% respectively in 1H-CY13 from 5.3%, 3.8% and 3.8% respectively in 1H-CY12.

#### NON-INTEREST INCOME REMAINED **STRONG**

Non-interest income, including fee/ commission income, income from dealing in foreign exchange and dividend income, of Big 5 and Mid-Tier banks increased by 6.3% and 11.3% respectively to PKR40bn and PKR21bn respectively during 1H-CY13. However, Small banks' non-interest income underwent decline of 16.5% to PKR2.8bn. NBP posted the highest year-on-year growth of 24% in non-interest income among Big 5 banks, fetching PKR13bn during 1H-CY13. Among Mid-Tier banks, BOP registered the largest increase of 63.4% in non-interest income to PKR2bn. SAMBA exhibited non-interest income growth of 84.4% to PKR0.09bn, outperforming all other players in small banks category. Fees & commission (up 12.5% to PKR28bn) and capital gains (up 83.7% to PKR14bn) were the primary drivers of non-income growth as dividend income of our sample underwent decline of 42.2% to PKR5.7bn in 1H-CY13 compared to PKR9.9bn during corresponding period last year.

#### COST-TO-INCOME RATIO ESCALATED

Cost/income ratio (as measured by Operating Expenses/Total Revenues) of

**66** BIG 5 BANKS **REDUCED NON-**PERFORMING LOANS (NPLS) MARGINALLY BY 0.4% YEAR-ON-YEAR TO PKR252BN DURING 1H-CY13. WHILE MID-TIER BANKS' NPLS GREW BY 0.9% TO PKR258BN. ""

Big 5, Mid-Tier and Small banks increased to 46.4%, 65.6% and 84.9% respectively during first half of 2013 from 41.5%, 62.9% and 74.9% respectively during corresponding period last year. MCB, SCB and BOK took the lead in their respective categories for having the lowest cost-to-income ratios of 31.1%, 39.1% and 51.5% respectively in 1H-CY13.

#### **SECTOR OUTLOOK**

After witnessing decline in core earnings due to ongoing monetary easing and limited private sector borrowing, together with declining yields on government paper, banks have focused on increasing their non-interest income through capital gains on equity securities and fees & commissions on investment advisory, brokerage and custodian services. Banking spreads will remain under pressure as interest rates are expected to remain unchanged from current levels over next year, rendering treasury investments as less attractive and forcing banks to find other avenues for investments, including extending loans to private sector.



ore choice, greater convenience and new possibilities are increasingly at our fingertips in the era of the touch screen and the smart phone. These new digital tools in turn offer banks great opportunities to better understand their customers and to serve them at their convenience any time, anywhere.

But these tools are also bringing competition that could threaten technology laggards who underestimate the speed of the migration to digital banking. In the UK, 40 per cent of customers use smartphones now, less than a decade into their existence.

"The rapid adoption of mobile banking on smartphones and tablets has implications for the way customers access their savings accounts, putting pressure on banks to deliver in new ways," says Benjamin Ensor, a Research Director at Forrester. "The future of the branch is the smartphone or the tablet. The leading firms are using these to help the customer think about money in a different way."

One way to keep customers and win new ones will be to offer closer, more convenient and more rewarding links between current and savings accounts, he says. Many UK banks are already adopting at-a-glance type views and analysis of their spending and saving status, says Ensor. "There's a lot of interest in money management software and graphical overviews. Integration between savings and current accounts and better money management are becoming more important."

UK banks such as Lloyds and RBS have started innovating with such tools, he adds, but there is room for further innovation when it comes to helping customers manage their savings and current accounts in tandem. Ensor explains: "For example customers would like to be able to automate sweeping between accounts. Being charged for being overdrawn on a current account when they have savings in another account is something they perceive as unfair."

Some schemes, like Save the Change, in which purchase amounts are rounded up to the nearest pound and put into a savings account, are going to become common. Ensor says UK banks would do well to look at some good ideas coming out of Spain, France, Canada, the US and Turkey. Some trials are offering interesting insights into merging physical with digital banking services. One bank in Turkey, for example, is experimenting with small banking kiosks where customers can talk to advisers via a screen link and carry out full banking services.

While many of these are not directly related to savings products, it is important to keep an eye on the ways technology is changing banking services as a whole as it may offer insights that will lead to better savings products.

David Sayer, KPMG's global Head of Banking, believes one region in particular is worth watching: "It will be interesting to see what comes out of Africa next. The next generation of mobile banking will be happening there. With no branch infrastructure, when you combine the latest generation of smart phones with a contingent moving to mobile banking you will see innovation coming out of the continent. Barclays currently has the advantage there. It is active in Africa and it can bring some of that innovation to the UK."

A little lateral thinking could also yield new ideas and products, adds Sayer. There are other possibilities to deploy technology to help customers with savings of





"It is important to keep an eye on the ways technology is changing banking services as a whole as it may offer insights that will lead to better savings products"

another kind – for example money off their next meal. "Banca de Chile is enabling customers to use their smartphones to show them which restaurants will give them a discount if they use their bank card to pay as they walk down the street.

"Spain's sixth largest bank is attracting hundreds of thousands of customers because it uses retinal scans for security. While this is not related to savings it underlines the scope for seemingly trivial innovations in terms of convenience or reassurance to help increase customer engagement when developing new savings tools, products and functionality.

"There's also a value in addressing generation Y who are prepared to move to banks because of technology and convenience. It will also be interesting to see how segmentation works, attracting niche groups. We are going to see more of that as mobile banking and the internet are combined," adds Sayer.

At the heart of this deeper understanding of customer niches and needs will be data. Success may increasingly be measured by the extent to which the banks

can harness the information they hold about different customers, to give them useful insights, says Andrew Rush, global Head of Sales for ERN, which helps banks make the most from their transaction data.

"There's a wealth of information out there in terms of payment and transactional data that gives clear insight into customer life stages, which feeds through into opportunities to be more insightful about savings or experimenting with customer groups that might make good targets for promotions.

"The ability to make recommendations to customers in real time rather than waiting to send direct mail when you have less control over when the letter lands on their doorstep is another opportunity. We think that will increasingly be driven by smartphone conversations."

The challenge is harnessing this data, says Rush. "You need to invest in a single customer view first by pulling data from multiple sources and link to a single point so you can tell the story of an individual." Data is an increasingly important source of competitive advantage and harnessing it matters. Those that can make sense of their own transactional data and combine it with data being generated by real-time conversations with customers - for example through social media – are likely to be the most successful. The challenge for many of the larger banks lies in collecting and making sense of data from various legacy IT systems, says Rush.

And technology can also be a doubleedged sword, he warns. "With more information at their fingertips, the danger is that customers can switch money more effectively. They may be more willing to spread savings and investments across new providers and new entrants."

Ensor believes the winners will be those that keep the customer in mind. "It's not about one individual innovation, it's about pulling together a range of next- generation financial services, a range of technology to deliver a better customer experience – more personal, more empowering and more reassuring."

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



This article revisits the factors which exert a significant influence on consumer decision to accept or adopt the mobile banking (m-Banking) services in the country. It will, therefore, provide valuable insights regarding future precepts of m-Banking in Pakistan. To reach a decisive conclusion, the writer has included the most recent and highly reliable stats published by the renewed organizations such as the State Bank of Pakistan, Pakistan Telecommunication Authority, Consultative Group to Assist the Poor (CGAP), McKinsey & Company, Juniper Research, International Telecommunication Union and Communications Commission of Kenya.

-Banking is an emerging concept and its market potential is expected to be high. It has played a significant role in fostering financial inclusion and moving the consumers 'out of the bank queue and driving them into the mobile age'. M-Banking has emerged as a separate e-banking channel in Pakistan allowing consumers to access their financial information 'anytime anywhere' using cell phone, personal

digital assistance (PDAs) and even the tablets. Other e-banking channels include ATMS, POS, Phone, internet etc. As the demand for the m-Banking services and solutions have increased dramatically since last few years in Pakistan, more and more banks, microfinance institutions, and service providers are venturing into this innovative service with the purpose to extend client reach by reaching unbanked population, improve customer retention, achieve reasonably high opera-

tional efficiency, increase the market share, and provide new employment opportunities.

Considering the nature of m-Banking, various possibilities have been developed to conduct m-banking on portable devises such as by using special mobile applications that can easily be downloaded on to a cell phone or using (mobile) browsers that can be used with any smart phone or tablet having a Web



ACHIEVED THE
LANDMARK OF BEING
ONE OF THE TOP 10
COUNTRIES IN THE
WORLD HAVING
MORE THAN 100
MILLION MOBILE
SUBSCRIPTIONS.\*\*

browser or using dedicated applications that can be downloaded on to a tablet; or finally SMS services can also be used from any cell phone to access m-Banking services.

M-Banking in Pakistan was started and infused as a viable business model soon after the issuance of a separate set of regulations by the State Bank of Pakistan famously known as 'Branchless Banking Regulations, 2008'. The Tameer microfinance bank and its parent company Telenor started first ever mobile or branchless banking in Pakistan in October 2009 allowing, so for, safe and secure m-Banking services to its 'registered' customers to conduct financial transactions using their portable devices. 'Omni' launched by the United Bank Limited in April 2010 is also contributing significantly to the growth of m-Banking in the country.

Despite of the fact that the Consultative Group to Assist the Poor (CGAP) in one of their reports has claimed that 'Pakistan has become one of the fastest developing markets for branchless banking in the world', the m-Banking adoption ratio in Pakistan is otherwise showing a dismal picture as evident from one the reports published by Pakistan Telecommunication Authority . Hyperlink "http://www.pta.gov. The PTA report suggested that in May 2013, the total cellular mobile subscription in Pakistan has exceeded 125 million. Considering this, the figure of 2.4 million m-Banking accounts (or 1.90 per cent of total cellular mobile subscription) in Pakistan, as reported by the State Bank of Pakistan, is quite trivial. However, this slow adoption of m-Banking services is not limited to Pakistan but few other reports have discussed it being a global issue. Juniper Research, one of the leading analyst firms in the wireless sector, in their report has claimed that m-Banking users in the world will exceed 1 billion in 2017 representing just 15 per cent of global mobile subscription. The report acknowledged that around half of all mobile subscribers remain unbanked. with limited access to traditional financial services.

Another report published by International Telecommunication Union (February 2013) and subsequent

at www.mobithinking.com, reported discussed that at the end of 2012, there were 6.8 billion mobile subscriptions, which was equivalent to 96 percent of the world population (7.1 billion according to the ITU). This is a huge increase from 6.0 billion mobile subscribers in 2011 and 5.4 billion in 2010. The report further discussed that the mobile subscribers in the developed world is rapidly reaching saturation point with at least one mobile subscription per person. On the other hand, the mobile penetration in developing nations is around 89 percent of the population, according to the ITU. At the end of 2012 there were 5.2 billion mobile subscriptions in the developing world (76 per cent of global subscriptions). Mobile penetration in the developing world now is 89 percent, with Africa being the lowest region worldwide at 63 percent.

Pakistan has already achieved the landmark of being one of the top 10 countries in the world having more than 100 million mobile subscriptions. Yet, we have to learn a lot from 'Kenyan m-Banking experience'.

Certainly, Kenya has inspired many developments mobile on payments and m-Banking around the world. Stats published by Communications Commission of Kenya-CCK in July 2012 suggested that out the 29 million mobile subscribers in Kenya, 19 million users (or 66 per cent) are subscribed to mobile money services. The mobile money can be used in many other innovative ways in Kenya including paying utility bills or school fees, making in-store purchases, m-ticketing, phone top-ups, withdrawing cash from ATMs, sending money home from 45 countries overseas, people even have their wages and stock dividends paid into their account. All of this is achieved without needing a bank account, bank card, a smartphone or a post-paid contract, as further reported by CCK.

McKinsey & Company, a global management consulting firm, in one of

their research reports titled 'Mobile money: Getting to scale in emerging markets, 2012' has revealed three most critical success factors to implement after a provider has launched its m-Banking services deployment and starts to face execution problems. These factors include;

- Pay close attention to managing the agent network
- · Create a compelling product offering,
- Maintain corporate commitment

Let's now divert our discussion towards the m-Banking adoption challenges in Pakistan. We will discover and examine

M-Banking user satisfaction has, although, become a pervasive measure of success of effectiveness m-banking, but its impact has considerably been observed during the postadoption stage of m-banking usage and less during its initial adoption or pre-acceptance stage. More specifically, the post-adoption stage of m-banking indicates the continuous usage, which insisted that, although, the acceptance of the m-Banking is the basis of the relationship between the consumer and the service provider (including Banks), but its long term viability and successful implementation depend on its continuous usage by end-users or account holders.

trusted'. Trust reduces the risk and uncertainty and therefore allows the consumers to accept or adopt new service such as m-Banking more quickly. On the other hand, the switching cost is almost negligible for the m-Banking users and, therefore, the lack of trust will allow users to switch to other e-banking services such as ATMS, POS, Phone, internet etc. Consequently, the dream of bringing m-Banking revolution in the country cannot be materialized.

Usefulness of a service has a direct impact on consumer usage intention. The success and failure of any service largely depends on its level of usefulness. The usefulness of the Mobile-Banking



M-banking in Pakistan was started and infused as a viable business model soon after the issuance of a separate set of regulations by the State Bank of Pakistan famously known as 'branchless banking regulations, 2008.

each challenge or factor for the benefit of the industry, policy makers, students, and for the research.

Within the service paradigm and from a consumer perspective, the payments professionals, service providers and a handful of research papers have identified few but the most intriguing m-banking adoption challenges in Pakistan as:

- High Transaction Costs
- Trust in mobile technology and applications supporting m-Banking initiatives
- Usefulness and Ease-of-Use of m-Banking application and services
- Information and Service Quality
- Demographic factors such as age, gender, income, occupation, and educational background.

High Transaction Costs: As compare to other developing countries, m-Banking transactions cost in Pakistan is on higher side, revealed in a comparative study done by CGAP. This factor needs to be looked after properly by rationalizing the price schedule in comparison with other countries offering m-Banking services in the region and also considering the eroding income level of majority of the users in Pakistan. Nevertheless, in most of the developed countries such as Finland, this service is being offered without a charge.

Trust: If someone asks me 'why I am using m-Banking service?' My answer would probably be 'because I trust my service provider'. Contemporary Marketing and Management literature have defined trust as 'the tendency to trust in a business partner that is capable of being

services needs to be highlighted to users in Pakistan to ensure improved acceptance and adoption.

Ease of use, on the other hand, refers to the easiness of the service and use-friendly nature of technology. With a high percentage of uneducated but potentially 'user' population in Pakistan, it is inevitable to design, develop and offer solutions that can be learned easily, are effort-free, provide an extra level of convenience, reasonably secure and can be used by different groups of society in the country.

Information and Service Quality: Based on the notion that m-Banking user access their financial and accounting information anytime anywhere, the information and service quality therefore need to be ensured all the times. Information quality



#### "M-BANKING USER SATISFACTION HAS, BECOME A PERVASIVE MEASURE OF THE SUCCESS OF EFFECTIVENESS OF M-BANKING"

refers to the information relevance, accuracy and timeliness. Service quality on the other hand has two major dimensions i.e. quickly problems identification and meeting user expectations.

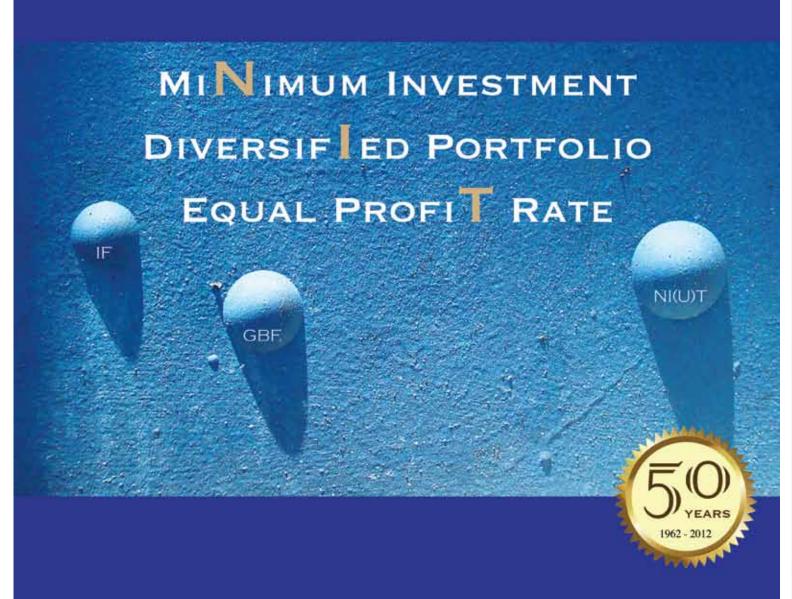
#### **DEMOGRAPHIC FACTORS**

In developing countries, extent research has observed the impact of demographic factors on the consumer behavioral intention towards the adoption of mobile banking. For example, considering a reasonably high level of illiteracy, lack of awareness, low levels of income and different cultural levels In Pakistan, the impact of demographic factors is as strong as other adoption factors such as Usefulness and Ease of Use. The impact of this factor can be controlled by focusing on comparatively younger population in Pakistan since they have been identified as the largest potential user of the m-Banking applications in near future.

With this I must conclude that considering the necessity of mobile banking for our country, our people and for our industry, a coordinated (or joint) efforts involving banks (Commercial, Microfinance), software houses (TPS, Avanza), service providers (1-Link, NIFT) and regulators (SBP, PTA, SECP) are required to design and start a systematic, highly organized and effective awareness campaign on mobile (or branchless) banking considering various demographic factors to reach the critical mass of users. Additionally, the development and deployment of 'low cost', more 'useful' and 'easy to use' solutions are essentially required to increase m-Banking adoption in the country. On trust, I must conclude that banks and service providers should augment their credibility and benevolence to gain and retain the consumer trust in order to extensively enhance the mobile banking acceptance across the country.

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It is interesting to note that when the policy rate peaked at 15% in 2008-09, domestic servicing-to-domestic debt ratio also touched its high of 15% while since the start of monetary easing in 2011, this ratio came down and stood at 10% in 2012-13. Further, despite a sizable increase of 25% or PKR 1.9trillion in domestic debt in 2012-13, the servicing of domestic debt merely grew by 12% or PKR 99billion.

By Shiv Sagar

### A COMMENT ON THE CURRENT INTERPLAY BETWEEN MONETARY AND FISCAL POLICY



he lower interest rates provided some cushion to already faltering fiscal account in terms of contained debt servicing. In addition, the recent shift towards shorter end of sovereign

shift towards shorter end of sovereign yield curve due to increasing share of floating debt entails high rollover and refinancing risk. In this regard, any reversal in monetary stance may have severe implications on fiscal balance as the government continues to solely rely on domestic sources for budgetary support.

Pakistan's debt profile has witnessed significant changes over past few years with heavy accumulation in recent years owing to fiscal imbalances and turbulent balance of payment situation. Lack of external funding has led to increased reliance on domestic sources, resulting in large accumulation of domestic debt, which now constitutes 67% of total public debt compared to 10 year average of 54%. The stock of domestic debt per se has seen substantial transformation in terms of increasingly greater reliance on short term floating debt (market treasury bills) rather than historically high proportion unfunded debt (saving schemes etc.), leading to shortening of maturity profile of domestic debt. On the other hand, the stock of external debt witnessed decline by the end of 2012-13 for the first time in 10 years on the back of repayments against International Monetary Fund (IMF) loan facility. Consequently, total external debt constituted around 33% of total public debt portfolio from its high of 50% in 2008-09, while in terms of GDP it stood at 21% compared to 29% in 2008-09.

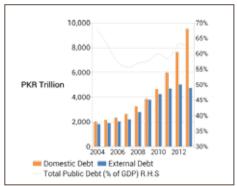
At the end of 2012-13, Pakistan's total public debt stood at PKR 14.3 trillion, an increase of PKR 1.6trillion or 13% from previous year comprising entirely of domestic debt. This translates into total public debt-to-

GDP ratio of 62% compared to a 10 year average of 60%, which is also the maximum limit set under Fiscal Responsibility and Debt Limited (FRDL) Act, 2005.

Debt Service Consuming Revenues Public debt is a charge on government budget and must be serviced through government revenues and/or additional borrowings. Increasing stock of public debt has greatly expanded debt servicing expenditure, which touched PKR 1.2 trillion in fiscal year 2012-13 from PKR 1trillion in previous year. Out of this, a sum of PKR 920billion amounted to servicing of domestic debt; more than double of amount serviced in 2007-08. The servicing of external debt stood at PKR 288 billion, up PKR 85 billion or 42% from last year mainly attributable to IMF repayments.

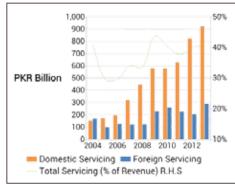
Cumulatively, public debt servicing consumed more than 40% of government revenues in 2012-13, exceeding general consensus limit of 30% considered to be sustainable in government documents. With substantial increase in shorter maturity domestic debt in past couple years, the share of domestic debt servicing out of government revenues shot over 30%, which remained below 20% until 2006. Structural weaknesses have taken their toll on government revenues as the country has one of lowest tax-to-GDP ratio (2012-13: 9.6%) in developing countries. The growth (10-year CAGR 16%) in government revenue failed to cope with ballooning expenditure owing to consistent slippages in budgeted subsidies and bleeding Public Sector Enterprises (PSE), resulting in heavy reliance on domestic borrowing to support fiscal gaps. In the wake of this, a high interest rate regime may not be a sustainable choice when the government is striving to kick start private investment to rejuvenate economic growth.

Figure 1: Pakistan Debt Profile



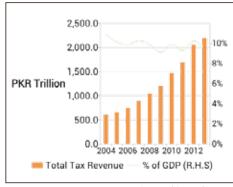
Source: Banks' Financial Statements

Figure 2: Public Debt Servicing



Source: Banks' Financial Statements

Figure 3: Tax Revenues



Source: Banks' Financial Statements

debt per se has seen substantial transformation in terms of increasingly greater reliance on short term floating debt (market treasury bills) rather than historically high proportion of unfunded debt



Q.1 I have at my branch a joint account under the title "Ghayoor Ahmad and Najma Ghayoor", which is operated singly by either of them. For some quite time, conduct of Mr. Ghayoor has been increasingly irrational which was noted by me and my other colleagues at the branch. I shared this information with Mrs. Naima who confirmed that he has some serious mental problem and is being treated by a neurologist and a psychiatrist of repute. Subsequently, she informed on telephone that Ghayoor Ahmad is admitted into Mental Hospital. At this point of time, the account shows a credit balance of Rupees 239,000/-Later, a cheque for Rs. 51,000/signed by Ghayoor Ahmad is presented in clearing. What should have I done under these circumstances?

Ans: Since an insane or mentally incapacitated person is not competent to contract, a cheque drawn by such a person is not a valid authority to debit his account. However, while declining payment of a cheque drawn by a person reported to be insane, the banker has to ascertain that he (the insane) is not

capable to make rational judgment about matters of his interest and therefore was not in a position to understand the effects of the transaction that he was making. If it is not established beyond doubt and the cheque is returned merely on the basis of hearsay, the banker may expose himself to the consequences of wrongful dishonor.

Moreover, in cases where a person becomes insane intermittently, the authority signed by him during the period when he was sane would be valid and effective in law.

Nevertheless, to overcome this complicated situation, bankers round the world have adopted the uniform practice of returning cheques where the drawer is reported to be insane.

As with the inanity the authority given to other joint accountholder is revoked, further operation on the account is suspended until contradiction of the earlier report by a competent medical authority.

As per the situation of the question, you should have immediately asked Mrs. Najma Ghayoor to report health condi-

tion of her husband in writing in unequivocal terms, preferably supported by a medical certificate. In addition to that, Medical Officer of the bedlam should be approached to give a report on the mental status of the patient.

Even if the cheque was presented before the precautions suggested above were taken by the bank, the information given by the wife who was also a joint accountholder could not be ignored without incurring the risk of debiting the account without a valid authority. Hence, the cheque should have been returned unpaid and the operation on the account were stopped pending ascertainment of true position.

Nonetheless, it is suggested by certain authors on banking laws that if the cheque so signed was drawn in favor of some government agency or autonomous body, the bank may use its discretion to pay the cheque, as there is little likelihood of the cheque being misused in such cases. This writer, however, does not subscribe to this proposition. Payment of a cheque made to sign by an insane person favoring Income Tax authority for payment of tax dues of a

third person by such third person being under fiduciary relationship with the insane drawer may be questioned with success at any future stage.

- Q.2 Jameel Brothers, a partnership firm of Khalid Jameel and Shahid Jameel, maintain following accounts at my bank.
- (i) A current account in firm's name at our Mcleod Road Branch, Karachi with debit balance as on date Rs. 59,800.00.
- (ii) A PLS savings account in the joint names of Jameel Ahmad and Sohail Ahmad at our Risala Road Branch, Hyderabad showing a credit balance of Rs. 107,364.00.
- (iii)A PLS savings account in the name of Shahid Jameel at our Abbotabad branch with a credit balance of Rs. 154,000/-
- (iv) A current account in the joint names of two brothers at our Washington DC branch showing a credit balance of \$.21,321.00.
- (v) Gold ornaments of the value of Rs. 500,000.00. sealed in a box lodged in safe custody with our Mcleod Branch.

A garnishee order issued by the Honourable Sind High Court is served on our Head Office ordering the bank to freeze all accounts maintained at any of our branches in the name of Jameel Bros. and / or the partners of the firm in their personal names and deposit with the Nazir of the High Court all balances in the said accounts up to a maximum amount of Rupees 175,000.00. within a fortnight from the date of receipt of the garnishee order.

Kindly advise how the order shall be met within the ambit of law visa-vis all the accounts listed above.

**Ans:** Of all the five accounts listed above only PLS account of Shahid

Jameel at your Abbotabad Branch (S.No. iii) shall be affected by the Court's order. But, before freezing the balance of this account, the bank will be within its right to first recover the amount of Rs. 59,800.00 of the debt outstanding in the name of the firm plus interest accrued thereon up to date. Assuming that the outstanding amount is inclusive of the interest, only Rupees 94,200.00 (Rs. 154000 minus 59,800.00) will be available to be remitted to the Court. This amount will be deposited with the Nazir forthwith accompanied by the position adequately explained. The accountholder will also be advised accordingly.

The balance in the joint account of Jameel Ahamd and Sohail Ahmad does not fall within the purview of the Garnishee Order as it does not belong to Jameel Ahmad in his personal capacity.

The Garnishee does not attract any balance maintained at any overseas branch. Hence the balance at your Washington Branch shall not be touched.

The ornaments lodged with the bank for safe custody shall also not be affected by the Garnishee Order.

Further, the bank is not supposed to know the contents of the sealed box and their vale. {Banks nowadays ask the depositors of sealed boxes for safe custody to declare the value of the contents for insurance purposes and also as a safeguard for assessing the claim at any future date in case of any mishap. But this does not affect the position of the bank in the given situation as items kept for safe custody are not subjected to garnishee orders}

Q.3 An insolvency petition is lodged by the creditors of Ahmad Abdullah who maintains a current account with credit balance. On receipt of notice, the bank stops payment in the account under advice to the accountholder. Ahmad Abdullah dies while the insolvency proceedings were on. His legal heirs claim the amount lying in his account. Will they be able to estab-

lish their claim in preference over the insolvency petition?

Ans: The insolvency proceedings shall continue despite the death of the debtor so far as it is necessary to realize and appropriate the property of the deceased. Further, if after adjudication, the property vests in the official assignee / receiver, the balance in the account shall be disposed of as per his directive, provided there are no contrary orders of the court.

Q.4 Two persons Zahid and Saeed maintain a joint account with the bank. The account is to be operated singly by either. One day the bank receives a notice that Zahid is involved in insolvency proceedings. At that point in time the account shows a credit balance of Rs. 79,847.00. Later, a cheque for Rs. 23,000.00. signed by Saeed is presented in clearing. How the bank would handle the situation? How the balance in the account would be disposed of?

Ans: No sooner one of the joint accountholders is involved in insolvency proceedings, the mandate for operating the account is determined. The account should be stopped forthwith as some of the balance of the account may have devolved or may devolve on the official assignee or the receiver after adjudication. The bank of its own cannot apportion the balance between the solvent party and the official assignee / receiver.

The cheque for Rs. 23,000 signed by the solvent joint accountholder should be returned. However, the reason of return should be worded with due care so that it does not adversely reflect on the creditworthiness of the solvent party. Nevertheless, before taking the drastic action, due care should be exercised to ascertain that the insolvency proceedings are in progress, or the adjudication order has been passed.

The balance in the account should be allowed to be withdrawn under the joint signatures of Saeed and the official assignee / receiver.

# Associate Chartered Bankers\* from Summer 2013 exams

The Institute of Bankers is pleased to announce the names of the candidates who have completed the requirements and have become eligible for the Associate Chartered Banker title.

AlBaraka Bank Ltd	Askari Bank Limited	Bank Islami Pakistan Limited	MCB Bank Limited
Zeeshan Khawar	Kashif Maqsood	Waqas Ahmed Anjum	Sina Ayub Awan
Hamid Farid	Sohail Mustafa		Imran Ali Soomro
	Muhammad Arslan Sheikh	Burj Bank Limited	M. Awais Ali
Allied Bank Limited	Aamir Hayat	Nida Irfan Chaudhry	Muhammad Umair Ashraf
Muhammad Tariq Ashraf	Inam ur Rahim Anjum	Sarraj Ahmed	Muhammad Ramzan Sajid
Shafqat Maqsood			Ghulam Mustafa
Muhammad Ahmad	Bank Alfalah Limited	Faysal Bank Limited	Atif Aziz
Wardah Shoaib Malik	Farwa Saghir	Muhammad Khalid Siddiqui	Hafsa Riaz Subzwari
Umair Khan	Numeria Ali	Mohsin Aslam	Muhammad Faizan Maqsood
Muhammad Qasim Nisar	Muhammad Zubair Akram	Sundus Ghulam Nabi	Muhammad Usman Saleem
Malik Rizwan Khurshid	Wajeeha Irum		Syed Abid Hasan Rizvi
Syed Salman Bukhari		Habib Bank Limited	Muhammad Anus Khan
Hafiz Yasir Saleem	Bank Al Habib Limited	Akbar Ali	Nazia Khalid
Shahbaz Haider	Fahad Amjad	Laila tul Qadr	Tanveer Hussain
Muhammad Adil Shakir	Shiraz Sadruddin	Atta Ur Rasool	Anas Ahmed Siddique
Muhammad Samme Akhter	Masood Javed	Imran Wazir	Hamad Yousaf
Shahana Sundus Sajjad	Qaiser Rouf	Usman Ali	Usman Ijaz
Rana Waseem Shahzad	Syed Qasim Sohail	Aftab Ahmed	Muhammad Majid
Danial Akhtar Sumbal	Ahsan Ahmed	Karim Kammruddin	Muhammad Hamid
Ahmad Ammar	Muhammad Haseeb Iqbal		Fiaz Ahmed Bhutto
Faisal Aftab	Muhammad Bilal	Habib Metropolitan Bank Limited	
Muhammad Furqan	Shaikh Ahmed Latif	Syed Ali Raza Abbas Naqvi	Meezan Bank Limited
Adnan Rahman	Muhammad Waqas		Muhammad Naveed
Shumaila Asnath	Faran Ali	JS Bank Limited	Adil Vawda
Muhammad Rizwan	Ali Raza	Syed Yasir Kazmi	
Abdul Salam			

Eligible Continued>>>

Khushhali Bank Limited Ghafoor Ahmed

Hina Jahangir



National Bank Of Pakistan

Abdul Hakim

Sabina Hanif

Usman Aziz

Leemon Mal

Muhammad Aamir Khan

Samiullah Abro

Sarfaraz Ahmed

Nabeel Zahoor

Sajid Hanif

Waseem Akhtar

Muhammad Sajid

Zain Ali

Rahat Anwar

Bismillah Naz

.. . ..

Nadeem Noor Zill E Abbas

Khalid Mehmood Khalid

knalid Menmood Knali

Muhammad Nouman

Abdul Hanan Bhutto Muhammad Waqas Kaleem

Ehsan Badar

Mirza Abid Baig

Zaheer Ahmed

Mohammad Waqas Vayani

Abdul Rehman Shaikh

Awais Aftab Butt

Humaira Anwar

Muhammad Ahsan Riaz

Iffat Zahra

Umair Masood

Usman Ali Shah Misbah Afzal

C 10 14 1

Sadia Maqbool

Muhammad Abid Hussain

Ibrahim Muhammad Yaqoob

Fayyaz Ahmed

Ali Abdullah

Muhammad Farrukh Javed

Ali Rizwan

Other Professionals

Hafiz Muhammad Fahim Sadiq

Sohail Chagani

Madiha Zaib

7 · I T

Zaid Tanveer Nazar

Muhammad Salman

Sabahat-Ul- Ain

**Sind Bank Limited** 

Faraz Iqbal

Soneri Bank Limited

Danish Muhammad Salim

**United Bank Limited** 

Sana Wagar

Khawar Hussain

Khurram Shahzad

Suboor Uz Zaman

Anum Javed

Amal Zia

Atif Aziz

Raidah Munir

Hammad Umar Shafique

Hira Iffat

Danish Hussain Shalwani

Qandeel Khowaja

Maryam Shakil

Yasir Rehman

Standard Chartered Bank

Syed Muhammad Murtaza Rizvi

Muhammad Rizwan Baig

State Bank Of Pakistan

Sumair Zafar

The Bank Of Khyber

Kiran Saleem Lakhani

Amjad Ali

The Bank Of Punjab

Fatima Rafique Chughtai

Nasir Sultan

Arshad Ali

The Punjab Provincial Co-Operative

**Bank Limited** 

Sumreen Kausar







# Why gloom is doomed

Line managers have a duty of care to all staff and, as BOB SOUSTER reports, the need for fairness and respect should always be a top priority.

#### THE CHALLENGE

ichard works in the IT department of XYZ Bank plc, where he leads a team of ten people working on a key strategy project. This project involves the installation and implementation of a new general ledger package which is considered to be crucial to the bank in bringing about cost savings in the future. Richard is seen as a highly motivated young man with a great future in the bank. He is also very popular with colleagues. He has been with the bank since graduating and has always been known for working long hours and never taking his full annual leave entitlement.

#### CHANGE IN CIRCUMSTANCES

Six months ago, XYZ Bank plc appointed Paul as the new Director of Technology. Richard now reports directly to Paul.

Two months ago, Richard contracted bronchitis which caused him to take five weeks off work, as he did not respond well to treatment and suffered from complications during his recovery. He returned to work before he was fit to do so as he was impatient to get back to his duties. Richard has now been back at work for three weeks.

#### REQUEST FOR ANNUAL LEAVE

Last week, Richard attended a project review meeting with Paul and mentioned during the course of discussions that he would be taking two weeks off next month for a family holiday. The final arrangements had not been made, but he had committed himself to visit his elderly parents and dates had been agreed several weeks before his illness. Richard had mentioned this trip to Paul's predecessor, who said it would be no problem.

"He has been with the bank since graduating and has always been known for working long hours and never taking his full annual leave entitlement."

To Richard's surprise, Paul reacted negatively to this development, saying that going off for a two-week holiday demonstrated a lack of commitment to the project as the schedule had already suffered by losing his services for the period of his absence due to illness. Paul suggested that Richard should make alternative plans and that if he

was not prepared to do so he should consider his position with the bank.

Richard was deeply offended by Paul's response as he felt that during his time with the bank he had shown himself to be highly dedicated and that it was not his fault he had been taken ill. He knew his parents would be very disappointed if he could not visit, particularly as they lived in Spain and did not see their son very often. Richard knew it would be difficult to rearrange the trip, as Rebecca, his wife, was expecting their first child only a few months after the planned trip.

BAD FEELING As a result of this meeting, Richard reluctantly cancelled the visit to his parents and informed Paul, who simply responded by saying: "I see. I should hope so." Discussing the issue with Rebecca, Richard concluded that he would carry on with XYZ Bank plc for the time being, but would get a job with another employer at the first opportunity.

Both Richard and Paul are Chartered Bankers.

EXAMINE THE ETHICAL OBLIGATIONS OF PAUL AND RICHARD IN THIS SCENARIO,>>>

By cancelling the trip to Spain and deciding to work on the project, Richard has demonstrated many of the qualities associated with ethical behaviour, including loyalty, commitment and a desire to support colleagues.

>>>

#### THE ANALYSIS

he outcome of this situation is an all-lose conclusion in which the employee has almost certainly committed himself to leaving, thereby depriving the bank of an enthusiastic and dedicated employee. Unless Richard keeps it all to himself, it is also likely to impact on attitudes of his colleagues and friends in the bank.

From Richard's point of view, he has demonstrated qualities that are valued and admired by employers. He has been

with the bank since leaving school and has never given less than maximum commitment to his duties. He has sacrificed

"All managers have a responsibility to their staff and should be aware of how to get the best out of their staff."

time with his family, both in the evenings and in terms of annual leave that he has not taken, all for the benefit of XYZ Bank plc.

Ethical commitments are often viewed from the perspective of duty, or the so-called deontological approach, and Richard's duty to the bank is only tempered by his commitment to his family. It is essentially about where Richard should draw the line.

Considering this from a consequentialist viewpoint, Richard knows that the project has suffered due to his unavoidable absence from work, and he probably knows that it will suffer further if he takes the leave as originally intended. He also knows that by not taking leave he will let down his parents and probably also his wife.

By cancelling the trip to Spain and deciding to work on the project, Richard has demonstrated many of the qualities associated with ethical behaviour, including loyalty, commitment and a desire to support colleagues. He has also succumbed to the emotional blackmail that can be utilised by those in positions of leadership and control, namely to question their qualities if they are not prepared to do what is best for the organisation.

TWO POINTS OF VIEW Paul has also demonstrated commitment to the bank by his insistence that Richard should not take time off. By doing so, he knows that the project

deliverables are more likely to come in on time and on budget. However, Paul has also shown some ethical shortcomings.

All managers have a responsibility to their staff and should be aware of how to get the best out of their staff. To do so, it is necessary to look beyond the job analyses and job descriptions. All individuals are unique, and people are infinitely more complex than machines and other resources.

PROFESSIONALISM IN THE WORKPLACE The first commitment in the Professional Standards Board: Chartered Banker Code of Professional Conduct is to treat all customers, colleagues and counterparties with respect and integrity. Paul knew that as a highly motivated employee, Richard would give in to his uncompromising



stance on the matter. As an experienced manager, Paul should also be aware that Richard's absence due to illness did not make the project grind to a halt, and that a further two weeks of absence would not result in its total collapse.

What if Richard deferred his trip to later in the year? By then the project would be finished, but Richard would be involved in a new project, maybe equally or more important than the previous one. Should he then put off the trip yet again?

And of course, if Richard was run over by a bus tomorrow, XYZ Bank plc would have to cope. In the words of one management philosopher: "The graves are full of indispensable corpses."

Commitment 7 in the Code is to act at all times in a fair, honest, trustworthy and diligent manner. Paul's insistence on Richard cancelling his arrangements certainly demonstrates a lack of fairness. Perhaps in only six months with the bank, he did not take the time to understand that Richard is driven and motivated, but it was his duty to do so, and he should certainly have been mindful of the potential consequences of treating a highly committed subordinate in a manner that suggests lack of care or even contempt. He will know better when Richard leaves, but he may not learn.

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

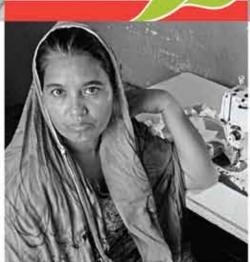
### Largest Micro Finance Bank in Pakistan



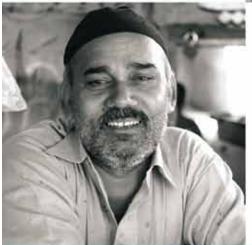
























n her speech at a "professionalism in banking" event last year, Lady Susan Rice was emphatic about the role language should play in the future of the banking industry: "Professionalism is a fundamental issue whether we work in a bank or use bank services. I think the way we talk and the words we use have a great influence on the way we think and the way we act. I would like us to stop referring to the banking industry and instead call it a banking profession."

She added: "The financial crisis has profoundly changed how we talk about the industry, and those who care about its future must work to reclaim the language of care and trust."

Lady Rice outlined how clarity is key in repairing the trust divide and how banks should be brave enough to redefine their actions as coming under the umbrella of a profession.

Despite the considerable challenges of recent years, the banking industry has

entered a transformational stage of its development, with a real opportunity to redefine how it is seen by existing and future employees and, of course, the public.

As Simon Thompson, Chief Executive of the Chartered Banker Institute, explains, banking meets the tests for a profession: "There is an asymmetry of information between banker and customer, there is a body of specialised knowledge and skill required to practise

"THE FINANCIAL CRISIS HAS PROFOUNDLY CHANGED HOW WE TALK ABOUT THE INDUSTRY, AND THOSE WHO CARE ABOUT ITS FUTURE MUST WORK TO RECLAIM THE LANGUAGE OF CARE AND TRUST."

banking, and there is a clear public interest involved.

"Professionalism is the quality that distinguishes – or should distinguish - the banker from the non-banker," he adds. "It denotes a trusted adviser to customers and gives a sense of pride to the banker."

To get employees on board, clarity in internal communications and training is also vital - both in helping employees to understand the products they are representing to the public and also in helping them to understand why the use of jargon can be alienating.

Javne Goodwins-Miller, Head of Retail Internal and External Communications at RBS, explains: "The role of the internal communications function in any business is to make sure its employees understand and believe in the strategy and are clear about how they can play their part in helping to achieve it. After the well-documented issues we experienced in 2009, we faced a mammoth challenge to rebuild our business. The share price had collapsed and staff engagement was at an all-time low."

Goodwins-Miller goes on to explain how in 2010, RBS stated its ambition to build the UK's "most Helpful and Sustainable bank". She admits it still has some way to go to achieve that goal but, over the last three years, RBS has striven to rebuild the pride of its people by focusing a collective energy on improving the customer experience.

She explains: "Helpful Banking has become our common cause. According to our annual staff engagement survey, 95

per cent of our people have a clear understanding of the goals and objectives of the division. Overall engagement scores have recovered year on year and are now up to 85 percent- significantly higher than pre-crisis levels."

RBS operates on an innovative "staff hears first" principle, ensuring employees are treated with respect, and enabling them to do their job more effectively, with a greater level of knowledge and understanding. Goodwins-Miller underlines how employee and customer communications are rooted in the same principles of customer-friendly, easy-tounderstand language with a clear and consistent tone of voice.

"We've also worked hard to control the volume of communications to employees so we're focused on a small set of messages designed to get the whole organisation thinking about the customer experience and how we can improve it," she adds.

In underlining the status of banking as a profession, the launch of the Chartered

Banker Professional Standards Board (CB:PSB) has been a great first step forward, explains Simon Thompson.

He says: "Before the Chartered Banker Code of Conduct for banks and bankers supported by detailed professional standards was launched, there was no common understanding of what was meant by the 'banking profession'.

"Now we know. A professional banker is an individual bound by the Code and who has met, as a minimum, the Foundation Standard for Professional Bankers. At last we have a foundation for banking professionalism that banks, regulators and policymakers can build on, led by the Institute."

This is also about providing customers with the standard they are clearly looking for from their bankers, continues Simon Thompson. "Holding an appropriate professional qualification is an important pillar of professionalism, demonstrating you have gained the knowledge and skills required to make competent, professional decisions. Nine out of ten customers expect bankers to have passed their banking exams. Shouldn't we give customers what they want?"

#### **CLEAR AND CONCISE**

Even before the financial crisis, the banks were criticised for using unfamiliar and even confusing terms and jargon in their communications – for instance, APR, endowment mortgages, PPI, among others. There followed considerable debate about where the responsibility lay for understanding these terms and whether banks have a moral obligation to ensure their products are as transparent as possible.

From this debate, there did come a certain amount of positive change, with banks becoming increasingly careful about what was "advice" and what wasn't; with less small print and more clarity in the information provided, around significant financial such as mortgages and transactions mortgages and investments. Is this still top priority for the banks?

"Our aim is to communicate with customers in a way that is both relevant and easy to understand," says Adam Harris, Function Leader, Marketing and Communications, The Co-operative Banking Group. "Whenever we produce new communications we look to avoid all jargon and ensure that our communications are as easy to understand as possible."

The Co-operative Banking Group has an ongoing review programme in place to continually check the language being used in customer communications, he adds. "We have made great progress in this area, and the feedback provided to us by customers is invaluable in ensuring we are producing suitable material for them."

The influx of new entrants such as Metro Bank and Virgin Money are ideally placed to put "plain English" at the centre of how they communicate with customers, from the very beginning. Says Brian Giles, Head of Communications at Virgin Money: "Virgin Money aims to be a better kind of bank and that includes helping customers to understand financial products and dropping the use of jargon. We aim to provide straightforward, transparent products, without any catches - and that includes the language we use."

Virgin is showing its dedication to this by launching several "jargon buster" guides, accessible to customers from its website. "We always have customers at the heart of everything we do - they are the starting point," Giles emphasises. "As such, we seek out and listen to feedback from customers and try to continuously improve the way we communicate. We always try to avoid jargon and in an effort to help our customers to understand some of the language used we have developed these guides."



Organizational change and development transform the organization by working with social and technical systems such as culture, work processes, communication, and rewards. Organizational change and development may be in terms of technical processes, for example, introducing a new product line or introducing a new ERP. On the other hand, it may also be social in its impact, such as, introducing a new performance structure, modifying corporate behaviors and values etc. In this article, an insight into the social aspect of change will be discussed.

he words "change & development" are two critical, but not necessarily co-related, terminologies which have garnered world-wide critique and acknowledgment. In a world which is essentially evolving in nature, the only tool of survival is identifying and addressing change for your benefit and utilizing it to your development. By identifying the need for an organization-wide change, not only does the organization display readiness for positive evolution, but it also exhibits willingness to modify the fabric as per the emerging workplace trends. As major stakeholders of the economic equation, organizations too are now appreciating the impact of change in their domains, and are devising ways to best utilize the catalyst.



Although capitalizing on the organizational readiness for positive social transformation is a plus, the question of ownership of the process is a major bone of contention. Whether the baton of organizational change and development lies with the top layer of management or the HR is a point to ponder. In essence, an organization embarking to deal with the soft restructuring/transformation should entrust the onus to the custodians of people in the company, since people are a social product altogether. By and large, companies invest heavily in the area of HR to develop, run and maintain the people-centric

#### "OUT OF THE 1536 COMPANIES THAT UNDER-WENT ORGANIZATIONAL CHANGE, ONLY 38% OF THE COMPANY MANAGERS CLAIMED THAT THE PROCESS SUCCEEDED IN INCREASING WORK PERFORMANCE."

processes, ultimately impacting the health of the organization.

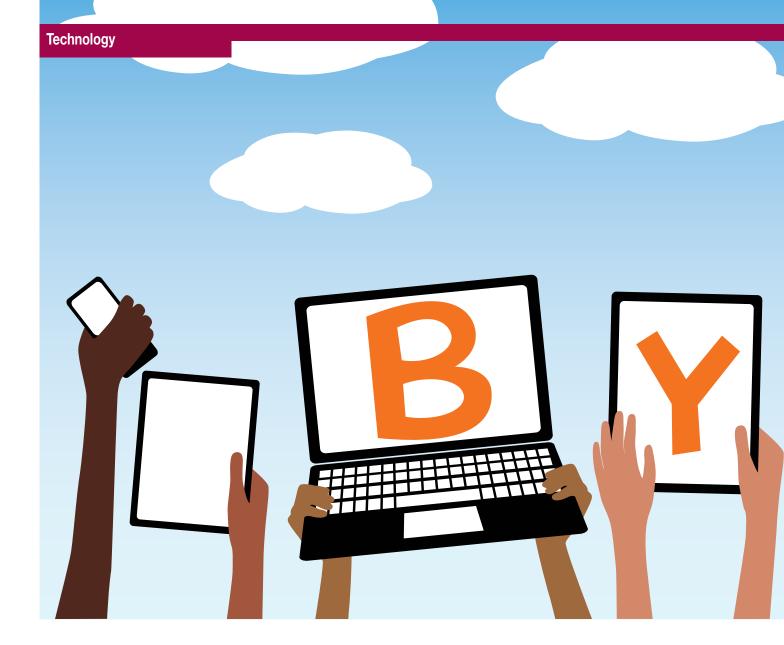
There have been instances in corporate history whereby organizations refusing to relinquish people ownership to HR have suffered a blow. Based on a five year survey conducted by the worldrenowned McKinsey consulting firm (Isern, & Pung, 2007), out of the 1536 companies that underwent organizational change, only 38% of the company managers claimed that the process succeeded in increasing work performance. One of the many causes of failure in this case was lack of HR perspective in the process of change, or one may even call it the HR-business partnership. Even though successful organizational development is the joint responsibility of the management and HR, it must be driven by the heart of the organization where talent management resides, notably the HR.

Chrysler Motor Company, an automobile giant, went nearly bankrupt with its outdated products and inefficient customer service, in 1990s, with huge overhead losses. As part of an OD initiative, the then President, Bob Lutz, designed and developed a Customer One rollout with his team of people from across the organization, and turned the company's losses into profits. They did this with the same people, but working in different ways. Involvement of people, focus on learning and clear objective setting were three core areas through which he turned the company around.

There are numerous examples of successful companies falling to pits because of managerial and procedural inefficiencies, but companies that fall the hardest are those that lose their talent to the competitors as they are unable to develop and grow their people. By bringing about a successful organizational change in response to evolving environmental trends, HR has the capacity to impact employees' career curves, performance and rewards, training and development and much more.

From the lens of HR, organizational change must lead to development for it to be successful and impactful. Creating a culture of performance which doesn't result in tangible and intangible rewards is a redundant exercise with increased costs and poor returns. As heart of the organization, HR is that one solitary change agent which has the power to completely turn the organization around in terms of employee affiliation, motivation and performance.

Thus, the prime custody falls on HR to ensure effective trickle of organizational change interventions from the top to across the board. These interventions should be objective-based, needed, measured and modified along time to ensure prolific changes. Failure to do so not only results in financial losses, but also dents the overall health of the organization. With proper HRbusiness partnership and employees intervention, effective OD and change initiatives result in substantial wins for any organization. These include profits, innovation, product and service quality, cost effectiveness, customer satisfaction, organizational flexibility, personal feelings of effectiveness, job, work, and life satisfaction. These factors, though soft in nature, make up the core of an organization and if managed well, may reap great results.



# Bring Your Own DEVICE

By Zahid Ali Quettawala

Bring Your Own Device (BYOD) is a recent phenomenon of the explosion of personal communications devices being used to conduct work-related tasks. Pakistan banking industry in its innovative streak is not far behind, allowing employees to access the corporate network with their personal mobile devices. The result has been overwhelming and businesses recognize that BYOD allows employees to be more productive. However, the growth in personal devices (BYOD) connecting to enterprise network is also enabling potential security risk.

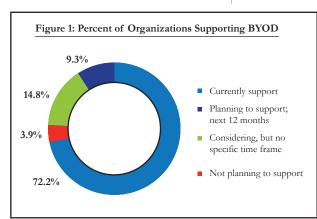
artner has predicted that by 2014, approximately 1 billion smartphones and tablets will be sold globally and 90 percent of organizations will support corporate applications on personal devices. In a recent report, Forrester revealed that around 60 percent of organizations in the US already permit BYOD. Good Technology, in a survey of companies in different segments, found that, among the total number of organizations surveyed across industries, 72 percent of organizations currently support BYOD (figure 1), and across the industries surveyed, the finance/insurance industry has the highest rates of BYOD adoption at 35 percent (figure 2).

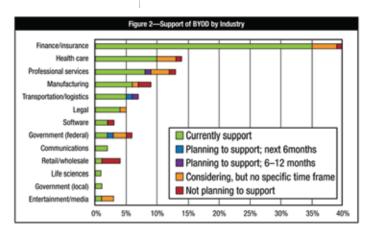
These studies show that organizations across various industry domains are adopting BYOD, albeit at different levels. It is too early to predict



what key factors are driving the levels of BYOD adoption. Organizational strategy, budgets, type of IT infrastructure in place, business growth, field user levels, technical support capabilities, resource scalability and business confidence in IT are some of the common considerations to BYOD adoption, irrespective of the industry.

The most common security objective for any mobile devices are; Confidentiality (ensure that transmitted and stored data cannot be read by unauthorized parties), and Integrity (detect any intentional or unintentional changes to transmitted and stored data). The risk matrix below highlights common risks to all mobile devices.





	BYOD Vulnerabilities, Threats and Risks				
No.	Vulnerability	Threat	Risk		
1	Information travels across less secured wireless networks	Malicious outsiders can do harm to the enterprise	Information interception resulting in a breach of sensitive data, damage to enterprise reputation, compromised adherence to regulation, legal action.		
2	Mobility provides the users with the opportunity to transverse enterprise boundaries	Mobile devices cross boundaries and network perimeters, carrying malware, and can bring this malware into the enterprise network.	Malware propagation, which can result in data leakage, data corruption and unavailability of necessary data.		
3	Bluetooth technology makes it very convenient for many users to have hands-free conversations; however, it is often left on and is then discoverable.	Hackers can discover the device and then launch an attack.	Device corruption, lost data, call interception, possible exposure of sensitive information		
4	Unencrypted information is stored on the device, with no authentication requirements and backup policy applied.	In the event that a malicious outsider intercepts data in transit or steals a device, or if the employee loses the device, the data are readable and usable.	Exposure of sensitive data, resulting in damage to the enterprise, customers or employees. Further, lost data may affect employee productivity.		
5	The enterprise is not managing the device.	If no mobile device strategy exists, employees may choose to bring in their own, unsecured devices, interacting with enterprise emails or store sensitive documents.	Data leakage, malware propagation, unknown data loss in the event of device loss or theft		
6	The device allows installation of unverified/unsigned third-party applications.	Applications may carry malware which may transform the device into a gateway for malicious outsiders to enter the enterprise network.	Malware propagation, data leakage, intrusion to the enterprise network		

In order to be effective, BYOD program should strike a balance between user-centric and device-centric strategies. Stakeholders, including customers, organizational functions (such as IT, human resources, sales, legal and

marketing), leadership and the executive board, have to be involved in policy framing to avoid loopholes and ambiguity. In the interest of the previously mentioned stakeholders, the keys to success include: • Define a clear and inclusive BYOD policy - A clear and crisp BYOD policy must be carefully crafted to ensure that the BYOD program remains sustainable over a period of time. To be sustainable, the policy must meet the requirements

of both IT and users, for example:

- o Secure sensitive and proprietary corporate data
- o Minimize overall asset ownership cost
- o Ensure that the user experience is not compromised
- o Allow mandatory updates, nondisruptive upgrades and technological innovation
- Focus on securing data-in-transit and data-at-rest the ability of smartphones and tablets to connect to the organization's intranet through public Wi-Fi and mobile networks, mandates the need for specific controls such as, encrypt data transmission through a Secure Sockets Layer (SSL) virtual private network (VPN) and create and deploy user identification/device certificates to quickly and easily provide users with secure access to corporate resources to protect data-in-transit.

However, to overcome these challenges, the organization should consider implementing the following compensating controls to protect the data-at-rest and, in turn, reduce the security risk to an acceptable level. iOS jailbreak or Android rooting detection to prevent compromise of devices, and the ability to remote wipe corporate data must be considered.

• Ensure compliance - Organizations must ensure that BYOD implementation is carried out in alignment with legal, regulatory and organizational standards. In consideration of these, a tracking mechanism has to be implemented to record the email details (i.e., the sender, recipient, time stamp, content) for purposes of legal e-discovery and regulatory compliance. Further, BYOD should be an integral part of the enterprisewide risk-assessment initiative, identifying opportunities and threats, and a risk management strategy must be in place for the same. Policies must be in place for asset management (to track access), configuration management, management, access management and security audits. Employees must be trained regularly on information security policies, and a strong password policy must be in place. IT controls like secure texting can be used to take care of security issues since these messages are on a closed network and the messages can be deleted by the hospital or concerned authority, or can be set to delete automatically. Devices and the network should be updated with the latest security patches; device integrity should be continually monitored; and data and application privacy, protection and entitlement should be enforced and monitored to prevent hacking and malicious attacks.

- Develop and manage a list of supported platforms and devices The BYOD policy should clearly state that any employee-owned device should be set up for business use before getting access and should be registered as a user's official device. This typically means that the IT group prepares the device for business use by:
  - o Enabling security features and MDM to implement security policies
  - o Enabling corporate network and data access
  - o Installing business applications
  - o Segregating business and personal data
- Include decommissioning as part of BYOD policy - A significant issue arises when it comes to ownership of the device when employees change or lose their device or leave the organization, and assumes even more significance when an employee moves to a competitor organization. There should be a formal decommissioning procedure defined to facilitate a smooth exit for employees and/or devices leaving the organization, or the company runs the risk of sensitive propriety data being compromised. An agreement should be signed between the organization and the employee that allows for wiping the complete device including personal and corporate data in the case of a lost device. An auto wiping can be enabled following a number of failed login attempts and an auto-lock can be activated in case of periods of long inactivity. The organization should also develop a process about which business

data or apps are to be removed or revoked upon employee departure. The organization could follow a semi-wipe option which would leave the employees with their personal information intact while wiping the business data.

- Use an affirmative contract for policy agreement The agreement between employee and organization should be equivalent to an affirmative contract. Both parties must assume accountability over the knowledge of what is in that contract, thereby ensuring no ambiguity in understanding. End users should be assessed on their knowledge of the BYOD usage policy and must sign the affirmation periodically (e.g., twice yearly). The user agreement should include clauses around the following at a minimum:
  - o Data wiping to prevent data misuse in case of lost/stolen devices
  - o Data access and camera use to prevent illegal/prohibited access and data sharing
  - o Email and social media usage
  - o Confidential/sensitive data-handling procedures
  - o Triggers for reporting data theft and misuse

BYOD is not a project or a program. It is a commitment to adopting technology and innovation, and as with all other tech initiatives the IT department should be at the center of it fueling business needs and advancement.

Though user experience is a key objective of BYOD, the organization's stakeholders (e.g., its customers and shareholders) are also of primary importance. A breach or misuse of sensitive. customer or financial data could be detrimental to the success of BYOD. Hence, an organization's BYOD implementation should be based on an effective strategy aligned to its business objectives (e.g., growth, productivity, mobility, faster time to market) with an effective support structure in place, monitored by MDM and data privacy policies since security and support are paramount to its success and scalability.







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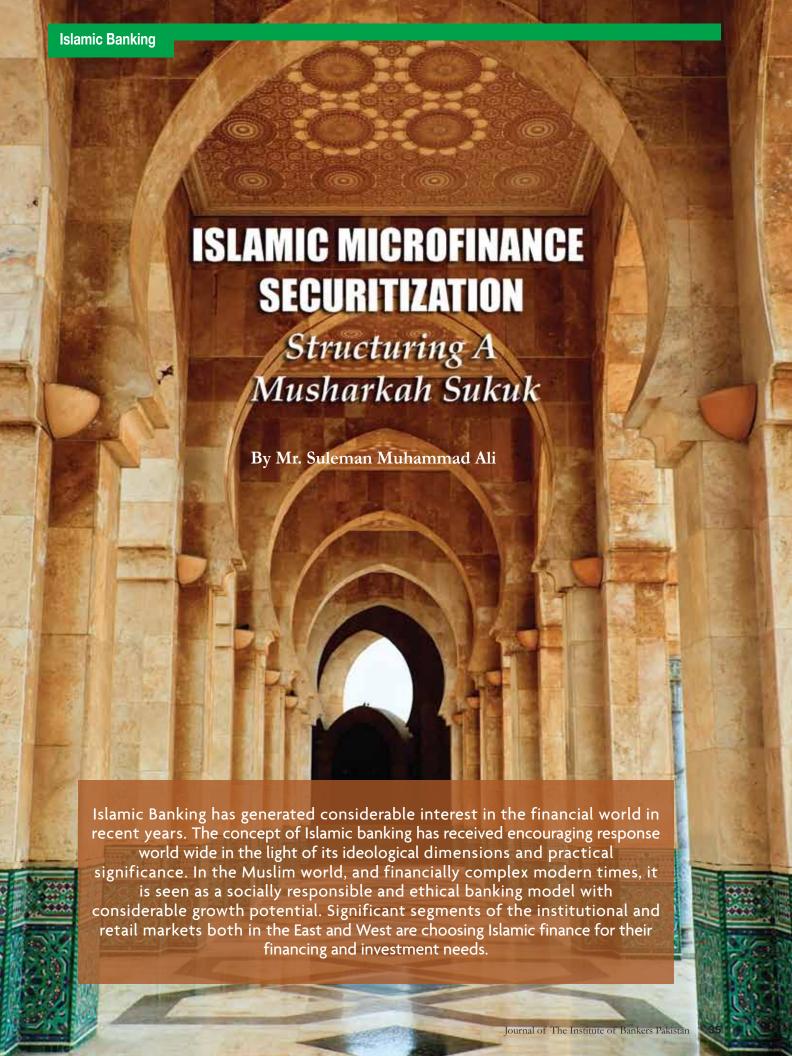
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t is agreed among scholars and intellectuals that the real benefits and the achievements of socio economic goals of Islam

like equitable distribution of income will not be achieved until and unless profit and loss sharing based modes of pure Musharakah and Mudarabah are adopted. Mufti Taqi Usmani (1998) states "the philosophy of Islamic economics cannot be translated into reality unless the use of Musharakah is expanded by the Islamic Banks". Hence venturing into the fields of Islamic Microfinance and that also on the basis of Musharakah and Mudarabah is a direct consequence of the purpose of existence of any Islamic Bank and an area in which governments of Muslim countries must focus on. However, given the various costs involved with Microfinance the venture becomes very unattractive when the costs, uncertainties and risks associated with true Musharakah and Mudarabah are added to the equation. Taking a more proactive approach such issues of risk and high costs can be easily hedged by developing innovative Musharakah and Mudarabah sukuk structures in the following manner:

First of all an interested government with a specific goal of poverty alleviation can set up a separate microfinance Special Purpose Entity (SPE) which shall collect funds from investors through sukuk issuance. Funds generated through issuance of sukuk shall be used to provide financing to micro enterprises on the basis of profit sharing modes of musharakah or mudarabah by the SPE.

#### **SPE MANAGER**

A separate Investment Management Company; Islamic Bank or Microfinance Bank can be appointed as investment manager to manage the SPE and its investments with micro enterprises on the basis of a Wakalah contract. Under this contract the investment manager shall act as a wakeel (agent) of the sukuk holders to manage the portfolio in return for a fixed fee as a percentage of the size of the portfolio managed.

#### MITIGATION OF RISKS

Under this structure the sukuk holders will be joint owners of the asset pool of the SPE and hence bear the complete risk of the performance of asset pool; since the asset pool will be based on equity based financing of Musharakah or mudarabah with micro businesses the risk and return of the sukuk holders shall depend on the actual performance of these micro businesses. Minimizing inherent risks associated with musharakah and mudarabah financing effectively is possible under this structure through the diversification of investment in large number of micro businesses. Financing to micro entrepreneurs and entities involve funding of relatively very small sums. The example of businesses in which the investments would be made would likely be small scale tea shops, taxi

#### PROVISION OF 3RD PARTY GUARANTEE

Risks associated with Musharakah and Mudarabah transaction executed by the SPE can also be hedged through the provision of 3rd party independent guarantee. Such guarantees can be against frauds or misappropriation by one of the partners as well as for the losses sustained by the micro business. This is allowed as per the AAOIFI Shariah Standard on Musharakah No "12" "Clause 3/1/4/3" which states: "A third party may provide a guarantee to make up a loss of capital of some or all the partners.....". Hence certain arrangements can be made where an independent party (not being the Investment Management Company or the microfinance customers who are entering into musharakah as partners) can guarantee the losses on a specific or all of

#### "THE PHILOSOPHY OF ISLAMIC ECONOMICS CANNOT BE TRANSLATED INTO REALITY UNLESS THE USE OF MUSHARAKAH IS EXPANDED BY THE ISLAMIC BANKS"

driving business, tailor shops, small farms, small buffalo den producing milk and etc. Investing Rs.100 million from the SPE funds in about 1000 such businesses by providing equity on the basis of musharakah would diversify the risk into thousand different assets where a chance of making a loss on the complete pool size of Rs100 million will only be a theoretical possibility. As compared to this a single corporate equity financing equal to the same amount of Rs 100 million based on musharakah to a new power plant or a garment factory unit will have a huge probability of making loss since there is no diversification of assets. The risks can be further diversified by investing a portion of SPE funds into other alternative avenues providing a fixed return for instance Ijarah Sukuk; thereby ensuring a semblance of stability to the overall returns of the pool.

the Musharakah transactions executed by the SPE. Many governments and donor agencies are keen to promote the microfinance sector and services in order to fight poverty and for this purpose they provide various incentives. For instance Pakistan Poverty Alleviation Fund (PPAF) - a World Bank funded government owned apex entity provides various guarantees and funding to various microfinance banks in Pakistan to boost the microfinance sector. Hence, an arrangement can be made with such entities to guarantee the loss on all of the SPE Musharakah transactions or at least up to a certain portion of the SPE assets. Alternatively, the government can also in its own capacity provide a sovereign non recourse guarantee to the sukukholders against the losses sustained by micro-businesses or the losses sustained by the SPE asset

# "A SINGLE CORPORATE EQUITY FINANCING EQUAL TO THE SAME AMOUNT OF RS 100 MILLION BASED ON MUSHARAKAH TO A NEW POWER PLANT OR A GARMENT FACTORY UNIT WILL HAVE A HUGE PROBABILITY OF MAKING LOSS SINCE THERE IS NO DIVERSIFICATION OF ASSETS."

The 3rd Party guarantee can also be arranged through a takaful mechanism under which a Takaful company can give this guarantee, and certain contributions shall be made by both the SPE and the micro customer into the Takaful fund.

#### PROSPECTS OF HIGH RETURNS

Profits on loans to microfinance entities are generally very high. The average nominal yield on gross loan portfolio in Pakistan is 21.3% while in Africa, Latin America and Middle East it is around 32%. This would ensure a very healthy return for sukuk holders; ideally with in the range of 30% to 35% return on investment annually. However the returns would vary depending upon the performance of the micro enterprises; the better the performance of the micro enterprises the higher will be the return for the sukuk holders and vice versa.

#### REDEMPTION OF SPE'S EQUITY INVESTMENTS

The equity investments of the SPE can be structured to be paid back through the following two methods

#### (i) Partial Redemption on the basis of Musharakah Mutanaqissa

Under Musharakah Mutanaqissa, the microfinance customers would after each interval purchase a certain percentage of SPE's Musharakah/Mudarabah investment share in their micro business based on the Actual Value (AV) of this share which shall in turn depend on the performance of the micro business over the period till the time of such purchase.

The AV at any time shall be calculated based on the following formula:

AV = Value of the initial investment + Accrued and undistributed profit share

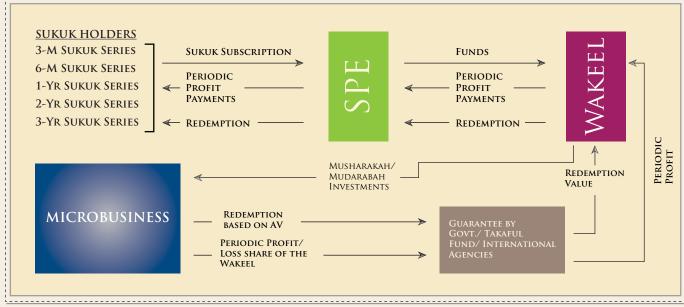
of SPE as per the profit sharing ratio – (SPE's share in accumulated loss)

The Value of percentage of SPE's Investment Share (VIS) to be purchased by the customer shall be the product of AV and percentage of SPE's investment share to be purchased by the customer.

Upon each such purchase the profit sharing ratio of SPE in the microbusiness would reduce exactly in proportion to the percentage of SPE's investment share purchased by the customer; ultimately at end the customer would completely purchase the Islamic bank's share and become the sole owner of the business. Mufti Taqi Usmani (1998) has also suggested Musharakah Mutanaqissa as an option to be used for financing based on Musharakah or Shirkatul Aqd .

#### (i) Bullet Redemption.

Under this mechanism the customer will after each agreed interval (for instance 1 month) pay to the SPE the amount of its share of profit for the interval as per the pre agreed profit sharing ratio based on the actual profit earned by the microbusiness during the interval. On maturity of the musharakah /mudarabah financing period the customer shall purchase the SPE's investment share in their business at Actual Value (AV) of this share based on the formula for calculating AV as mentioned above.



Pakistan Microfinance Review 2006. Pakistan Microfinance Network (PMN). 2006, <sup>2</sup>An Introduction to Islamic Finance by Mufti Taqi Usmani (1998)

## MATURITY PROFILE AND PROFIT DISTRIBUTION OF THE SUKUK

A series of sukuk with various maturity profiles can be issued against the SPE investment pool. That is the sukuk with short term maturities of less than one year and long term sukuk with more than 12 months maturity can be issued. The relationship between sukukholders shall be based on Shirkatul Aqd with each sukukholder being a musharakah partner to other sukukholders. Based on this relationship different profit sharing weightages can be assigned to different classes (based on maturity profile) of sukukholders; with short term sukuk series having a lower weightage than the sukuk classes having a longer maturity. These profit sharing weightages need to be agreed at the time of the issuance of each series of sukuk.

#### WHY WAIT FOR THE GOVERN-MENT?

Taking a more proactive role Islamic Banks can also take this initiative by setting aside or earmarking a certain amount of funds as a separate asset pool to be used for financing microfinance customers on the basis of Musharakah/ Mudarabah (for the purpose of brevity we will call this pool as Special Microfinance Musharakah Pool or SMMP). This SMMP can be marketed as a special deposit product which funds the microfinance customers and also earns a healthy return. The funds can be received by the Islamic bank on the basis Mudarabah under which the Islamic bank shall work as a Mudarib on behalf of the depositors and invest the funds in the pool. In this case, the risk of such initiatives would be directly be borne by the depositors and the profits of the pool shall be shared between the depositors and the Islamic Bank at a pre agreed profit sharing ratio. 3rd party guarantee mechanisms as discussed above may also be procured to cover the risk of the asset pool.

The above discussed mechanism provides a viable solution since most governments would be willing to give a guarantee if the SPE structure is capable of providing sustainable quantum of funding for the purpose of microfinance which also complies with Shariah and is easily accepted by the target microfinance market. Similarly, for the investors it is a winning combination since it provides the three major attributes of a conventional bond within the ambit of Shariah in the following manner: 1) it provides the guarantee of principal inform of 3rd Party Guarantee, 2) it provides the option of liquidating the investment by selling the securities in the secondary market at the market value this is allowed by AAOIFI Shariah Standard 17 on Investment Sukuk Clause 5/2/16 after the closing of subscription and commencement of activity with respect to investments based on Musharakah/Mudarabah with the micro enterprises and 3) with regard to the returns although these will not be fixed as is in the case of conventional bonds however through diversification of the portfolio of musharakah assets of the SPE; risk mitigating tools discussed above and the possibility of higher returns in certain periods would largely negate this perceived risk of variability of returns.

MTHE AVERAGE

NOMINAL YIELD ON

GROSS LOAN PORTFOLIO IN PAKISTAN IS
21.3% WHILE IN

AFRICA, LATIN

AMERICA AND

MIDDLE EAST IT IS

AROUND 32% \*\*\*

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#### WARRIOR OF THE LIGHT

A Warrior knows that an angel and a devil are both competing for his sword hand.

The devil says: "You will weaken. You will not know exactly when. You are afraid." The angel says: "You will weaken. You will not know exactly when. You are afraid."

The Warrior is surprised. Both the angel and the devil have said the same thing.

The devil continues: "Let me help you." And the angel says: "I will help you."

At that moment the Warrior understands the difference. The words may be the same but these two allies are completely different.

And he chooses the angels hand.

-Paulo Coelho.





## Interesting Quotes

- A lie gets halfway around the world before the truth has a chance to get its pants on.Sir Winston Churchill (1874-1965)
- The artist is nothing without the gift, but the gift is nothing without work. Emile Zola (1840-1902)

# View on Bankers on lighter side

In fact this is precisely the logic on which the Bank of England - the first successful modern central bank - was originally founded. In 1694, a consortium of English bankers made a loan of £1,200,000 to the king. In return they received a royal monopoly on the issuance of banknotes. What this meant in practice was they had the right to advance IOUs for a portion of the money the king now owed them to any inhabitant of the kingdom willing to borrow from them, or willing to deposit their own money in the bank - in effect, to circulate or "monetize" the newly created royal debt. This was a great deal for the bankers (they got to charge the king 8 percent annual interest for the original loan and simultaneously charge interest on the same money to the clients who borrowed it), but it only worked as long as the original loan remained outstanding. To this day, this loan has never been paid back. It cannot be. If it ever were, the entire monetary system of Great Britain would cease to exist."

- David Graeber, Debt: The First 5,000 Years



- In the End, we will remember not the words of our enemies, but the silence of our friends. -
  - Martin Luther King Jr. (1929-1968)
- "Nothing in the world is more dangerous than sincere ignorance and conscientious stupidity."- Martin Luther King Jr. (1929-1968)
- "If you can't explain it to a six year old, you don't understand it yourself." Albert Einstein



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