

Journal of The Institute of

Bankers

P a k i s t a n

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June 2014

Asia's new frontiers

Domestic debt sustainability in question


First Quarter 2014

Performance Review

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The end of Pakistan's fiscal year 2013-2014 found the economy posting a continued lackluster performance that remained stunted by the plaguing energy crisis, reduced flow of FDI, low revenue generation, mounting domestic debt and falling investment and savings. A dismal real GDP growth of 4.1% during FY14 remained below the target of 4.4%, climbing only slightly over the previous 3-year average of 3.7%. This economic growth featured as one of the lowest in the region.

The budget of FY15 was presented with an aggregate outlay of PKR 4.3 trillion –this total budget outlay is 8% higher compared to that of FY14. This ambitious budget envisages a relatively higher economic growth of 5.1% to be attained by attracting higher investment.

The paucity of foreign direct investment flows in the past few years had been a growing economic concern. However, revival of the same is on the horizon with estimations of FDI marking at approximately USD 1 billion in FY14. IMF's Extended Fund Facility (EFF) and other external foreign currency flows including the auction of 3G/4G licenses and floatation of bonds in the international market have contributed to the stabilization of PKR /USD exchange rate. As a measure to attract FDI, Budget FY15 has reduced corporate tax rate to 20% if the investment is in a new industrial undertaking or a construction or a housing project. The Budget anticipates forex reserves to increase to USD 22 billion by the end of the fiscal year.

All is not well in the other aspects of the external account. Trade deficit is emerging as a considerable concern, with total imports estimated to be around USD 41 billion in 2014, compared to total exports of USD 26 billion. Workers' remittances continue to provide cushion in the external account; the growth trajectory of remittances has significantly contributed in generating foreign exchange inflows.

Meanwhile, domestic debt has been spiraling upward and thereby exerting pressure on the domestic interest rates, in addition to crowding out the private sector investment. Public debt has witnessed a particular spike in April '14 due to the USD 2 billion raised through floating Euro Bonds at 7.25% & 8.25% - rates that are considerably higher than of comparable bonds floated internationally.

The growth in domestic debt has caused higher inflation and a tightened monetary policy; interest rates have suffered an upward pressure which has further crowded out the private sector. Despite slow economic growth, the inflation rate exceeded its target and emerged as one of the highest inflationary pressures among the economies in the region. In another ambitious goal, Budget FY15 envisages containing the inflation within 8%.

Investment, which was targeted to stand at 15.1% in FY14, has continued to decline and has reduced from 19.3% of GDP in FY06 to the present state of 14% of GDP. Despite a tightened monetary and interest regime, the savings rate also remains low. As

per budget FY15, investment to GDP ratio will be increased to 15.7% (targeted at 14% in budget FY14) and savings to GDP ratio is to be increased to 14.2% in FY15 (targeted at 12.9% in budget FY14).

Revenue generation in the form of taxation, the leading cause of high fiscal deficit, has remained under 10% of the GDP for the past few years, and is one of the lowest in the region. FY14 has witnessed a slight improvement in this aspect, with tax to GDP increasing marginally to 10.6%, which is only slightly lesser than the budgeted target of 10.9%. Fiscal deficit, too, has also been contained to 5.8% of GDP and is lower than budgetary target of 6.3%.

Budget FY15 has announced an aspiring FBR tax collection target of PKR 2,810 billion to enhance Tax to GDP ratio to 11.5% by end of FY15 and contain the fiscal deficit at 4.9% of GDP. There is an urgent need of structural reforms in taxation as approximately 61% of the FBR's tax revenue during FY14 emanated from indirect taxation. Fundamental reforms would be more efficacious rather than the proposed taxation enhancement measures based on withholding taxes and other such changes.

According to estimates, the energy crisis has cost Pakistan's economy a hefty 2% every year. The vital, yet stagnant power and gas sectors, have registered a growth of 3.7% - which nonetheless is an improvement compared to the previous year's negative growth of 16.3%. In a positive development, the resolution of power sector's circular debt has resulted in alleviation of power shortages and has contributed to the growth in the industrial sector. Budget FY15 has proposed subsidies for power sector to be reduced to PKR 229 billion.

PSDP budget has been enhanced to PKR 525 billion, up from PKR 425 billion in the previous year, while aggregate expenditure for development projects (mostly comprising long term infrastructure projects by the Federal Government) is budgeted at PKR 839 billion.

Last but woefully not the least, education and health indicators remain bleak in the face of declining public expenditure by the provincial governments in these sectors. Cutting back on vital investments such as education, healthcare and development to fund stop-gap measures of fiscal deficit control reflects poor vision and policy. Pakistan ranks 164th out of 173 countries in terms of expenditure on education and the future of the nation deserves better than what budget FY15 has laid out for it.

On a concluding note, despite all the economic challenges detailed above, the foremost challenge that the Government will face in FY15 and the years to follow is: consistent policy design and efficient implementation.



Sirajuddin Aziz
Editor-in-Chief

IBP WELCOMES NEW CHIEF EXECUTIVE



Muhammad Haroon Rasheed
Chief Executive

Muhammad Haroon Rasheed took over as Chief Executive, Institute of Bankers Pakistan, on June 10, 2014. He succeeds Mr. Mushtaq Jindani who completed his six-years tenure as IBP Chief Executive. Prior to his assumption of the office of IBP Chief Executive, Mr. Rasheed was the Executive Director at State Bank of Pakistan.

Mr. Rasheed, who is a Fellow Chartered Accountant (FCA), Certified Information Systems Auditor (CISA) and Certified Fraud Examiner (CFE). During his CA program he won Irtiza Husain Gold Medal and J. P. Patel Memorial Gold Medal. He is the twelfth Chief Executive of the Institute of Bankers Pakistan. Mr. Rasheed has over 20 years of experience in banking and industry while at SBP, he has worked as Executive Director - Financial Resources Management (CFO); Chief Risk Officer; Head of Treasury Operations; Executive Director - Human Resources; Comptroller Finance and Managing Director - SBP-BSC.

Mr. Rasheed has worked extensively on a various subjects internationally and in Pakistan including but not limited to member, National Council (Governing Body); Member, Audit Committee, Quality Assurance & Ethics Committee, Examination Committee, Education Committee (Past) - Institute of Cost & Management Accountants of Pakistan and Member, Governing Body, Chairman, Finance Committee - Pakistan Cricket Board (PCB), Chairman - Financial Sector Coordination Committee and Constitution Reforms Committee (South Asian Federation of Accountants)

Mr. Rasheed's interest include Corporate Governance, Competitiveness Capacity Building, Accounting, Regulatory Compliance, Human Resource, Credit/Collections, Treasury and other associated themes.

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AIJAZ AHMED SHAIKH is pursuing his PhD from an accredited university located in Finland. Aijaz is a former Joint Director-State Bank of Pakistan, member-European Marketing Academy (EMAC) and associated with Sukkur IBA as 'Assistant Professor'. His research interests include cross-cultural consumer behavior, e-Marketing, global mobile banking services adoption, e-Banking and m-Commerce.



SAMIYA MUKHTAR has multi-faceted experience and carries the distinction of working in different divisions at PACRA. Over the years she has developed expertise in research and rating of Commercial Banks, NBFCs, Microfinance Banks, Power Sector, and Utilities.



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The Role of **BOARD OF DIRECTORS** of banks

By Philip Forrest

Who carries the heaviest responsibility for the success of a bank? Many observers might suggest that the CEO, and his or her senior management team, would be charged with the highest duty to deliver profitability and financial soundness. And yet the CEO too has a reporting line. The CEO reports to the Board of Directors, a group which may include one or more full-time executives of the bank – the CEO himself is typically a member of the Board – and a number of non-executive directors who could hold directorships of several other companies as well, or who hold full time jobs elsewhere.

So, what is the role of the Board, and how

In essence, managers manage while directors direct. It is the Board that is responsible for setting the direction of the bank; the directors must decide the answers to questions such as:

- What kind of a bank do we want to be? What is our vision, our mission, and what are the values we will stand by?
- Which activities will constitute our primary focus? (For example, retail versus wholesale versus investment banking?)
- Where will we operate? (Local versus regional, national, or international?)
- Will we focus on lending to certain industries, and exclude others? Do we have the skills that will provide competitive advantage in given areas? Which products will we offer our customers?
- Where will we set our risk appetite, both for credit exposure and for balance sheet/financial management?

Within the resulting framework the bank's strategy will be developed. This will be flexible enough to change in response to changing economics, markets and competitive pressures, as the bank seeks the best ways to achieve the mission and vision.

"THE BOARD MUST 'OWN' THE STRATEGY; THE TASK CAN BE DELEGATED, BUT THE RESPONSIBILITY CANNOT BE PASSED ON."

While strategy setting is often delegated to management, the Board of Directors retain absolute responsibility for it. The Board must "own" the strategy; the task can be delegated, but the responsibility cannot be passed on.

Having agreed on a direction, the Board must decide who will take the bank forward. In other words, they need to appoint the CEO, set his or her remuneration, establish KPIs and rules of engagement, and so forth. In some cases, the Board might also involve itself in the hiring process for levels below the CEO.

Another important role for the Board is the setting of policies, procedures and reporting requirements. These would cover every aspect of the business that the Board would feel it needs to control, or be consulted on, or be kept up to date on. Some of the issues that the Board of any bank would want to consider would include:

- What level of credit exposure can be approved by management, and what needs to be reported to or approved by the Board itself?
- What concentration limits are to be imposed (on individual borrowings, group exposure, industry exposure, collateral types, etc.)?
- At what point should problem credits be advised to the Board?
- What credit grading systems will be used?
- What financial structures will be imposed on the bank's balance sheet (gearing levels, loan to deposit ratios, liquidity ratios, FX exposure, and so on)?
- What expenditures can be approved at management level; and what reporting is required to ensure that the bank's technology is adequate, safe and reliable?

"DIRECTORS NEED TO FEEL COMFORTABLE THAT THEY WILL RECEIVE ALL THE NECESSARY INFORMATION TO ASSURE THEM THAT THE BANK IS BEING SOUNDLY MANAGED, IS NOT TAKING ON EXCESSIVE RISK, IS MEETING ALL ITS COMPLIANCE OBLIGATIONS, AND IS CREATING VALUE FOR THE LONG TERM."

- What reporting is required to ensure that all compliance levels are fully adequate?
- In what format does the Board wish to see monthly management accounts?
- Should internal audit teams report

Directors need to feel comfortable that they will receive all the necessary information to assure them that the bank is being soundly managed, is not taking on excessive risk, is meeting all its compliance obligations, and is creating value for the long term. They will set the reporting and delegation limits accordingly.

Through these reporting requirements, and through Board meetings, dialogues with the CEO and other senior managers, input from internal audit teams and compliance officers, and whatever other sources of information they can develop, the Board must continually satisfy itself

that performance is on track, risks are controlled, and obligations can be met. A fundamental part of the director's job is to regularly ask the "what if" questions: what would be the impact on our bank if interest rates go up, or our currency devalues? What if the economy slows? What if real estate markets drop?

The directors need to know what's going on, because they are accountable to the shareholders, as well as to the regulators, the government, and other stakeholders. In essence, the shareholders appoint the directors to be responsible for corporate governance, and the directors appoint the managers to carry out the task.

To recap, the directors:

- "own" the direction and strategy of the bank;
- appoint the CEO;
- set the policies that will allow the Board to carry out its governance obligations;
- monitor the performance, and the general health of the bank, and guide management as appropriate;
- accept responsibility and accountability for the outcomes.

Thus, the directors decide what needs to be done, hire someone to do it, make sure it's done, and accept responsibility if it doesn't work out. This responsibility isn't to be taken lightly; shareholders have the right to remove directors who don't perform, and the laws of the country can deliver harsher penalties for inadequate governance. As just one example, directors in many jurisdictions can be imprisoned for permitting a company or bank to trade while technically insolvent. In at least one Asian country I know, there are theoretically more than fifty ways for a director to go to jail.

In usual circumstances, the role of a director is stimulating and intellectually rewarding, and provides rich opportunities for contributing to the success of an organization.

"THE DIRECTORS DECIDE WHAT NEEDS TO BE DONE, HIRE SOMEONE TO DO IT, MAKE SURE IT'S DONE, AND ACCEPT RESPONSIBILITY IF IT DOESN'T WORK OUT."

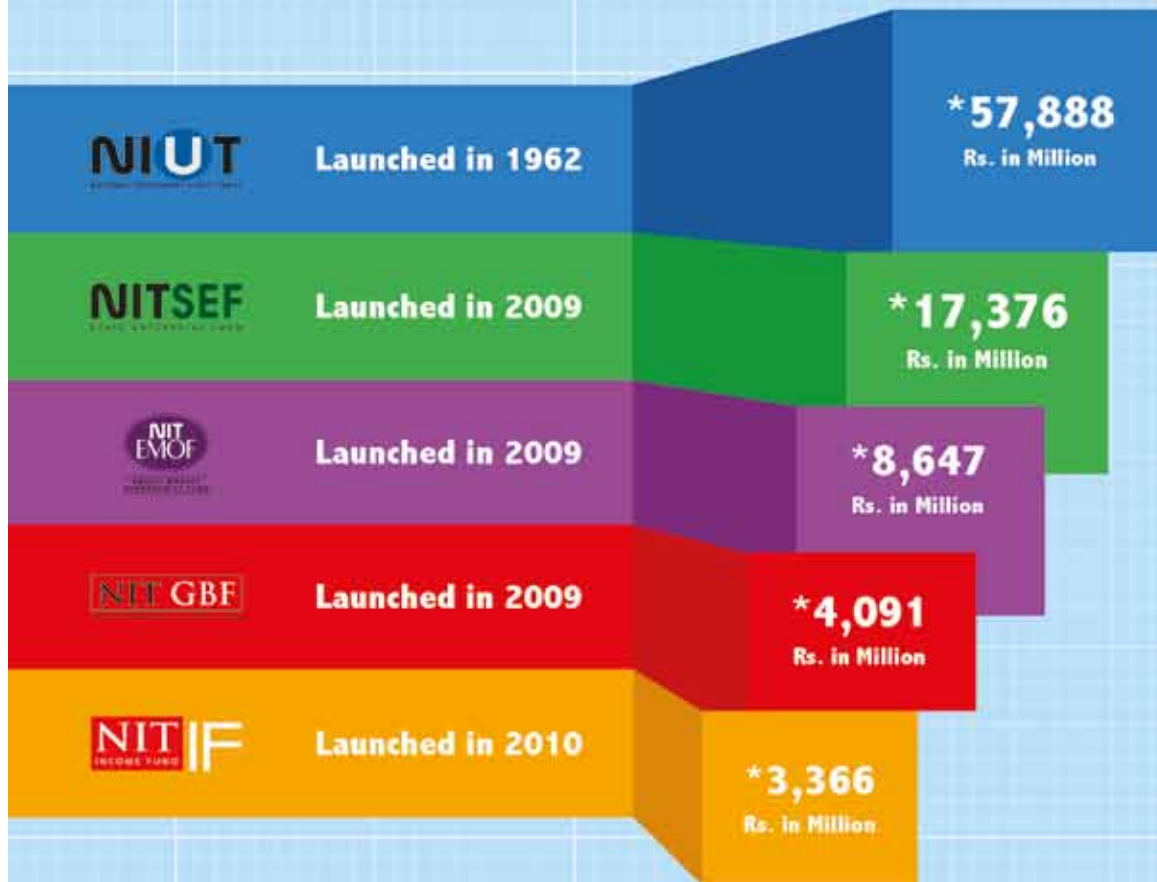
Perhaps the most important thing a Board of Directors can do is to set the "tone at the top". If the Board sends signals that it will accept second-rate standards, then the result is likely to be a second-rate bank. On the other hand, if it signals that excellence is the benchmark, that corners cannot be cut, and that sloppy process cannot be forgiven, then these signals will filter down throughout the organization, and an outstanding bank with a strongly positive culture will follow.

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ASIA'S NEW FRONTIERS

By Arthur Allan

When it comes to innovation, Asian banks often steal a march on their western counterparts. Their appetite for change mirrors that of their customers – but it's also driven by the fear of hungry new challengers in the region's own banking sector. Arthur Allan reports.

A busy retail centre. Young shoppers cluster round the colourful touch screens that line the walls of a shop unit. The place has the look and feel of a fashion or technology store; in fact, it's a bank. A remote village. A local strolls up to an ATM. But this is no ordinary "hole in the wall". Here the villager is able to open an account, have a debit card dispensed on the spot, or even buy and sell gold.

A different ATM – this time on a city street. A customer approaches. Biometric scanners confirm her identity. She goes on to complete a transaction she's already begun on her mobile phone. If she needs help, she can see and speak directly to a customer adviser, using the machine's video-conferencing capability.

These scenarios might or might not provide a glimpse into the future of banking. But each of them is a reality now. And each can be found in Asia: the village ATM is located in rural Turkey, while the other two examples are from Singapore.

Unfettered by traditional thinking, and relatively unscathed by the aftermath of the financial crisis, Asian banks are taking the opportunity to innovate.

"BANKS IN THE REGION RE-INVEST 5 PER CENT TO 20 PER CENT OF THEIR REVENUES IN INNOVATION."

Banks in the region re-invest 5 per cent to 20 per cent of their revenues in innovation – and tend to exempt these investments from any budget-cutting exercises, according to research by the business intelligence service, The Asian Banker.

But it found that the innovators do so out of "dire necessity": "It is not a fancy engagement, but a response to severe market challenges and regulatory constraints and pressures."

Kenny Lam, Partner, Head of Retail and Digital Banking Asia, works with private banking clients across Asia. He sees two primary reasons for the region's capacity to break new ground.

"Asian banks don't have a lot of legacy issues with their IT systems," he says. "In fact, in countries such as China and Taiwan, the IT systems they do have are so outdated that they might just as well discard them entirely and

jump two or three steps ahead. That jump is largely justified by the returns they get out of taking it.

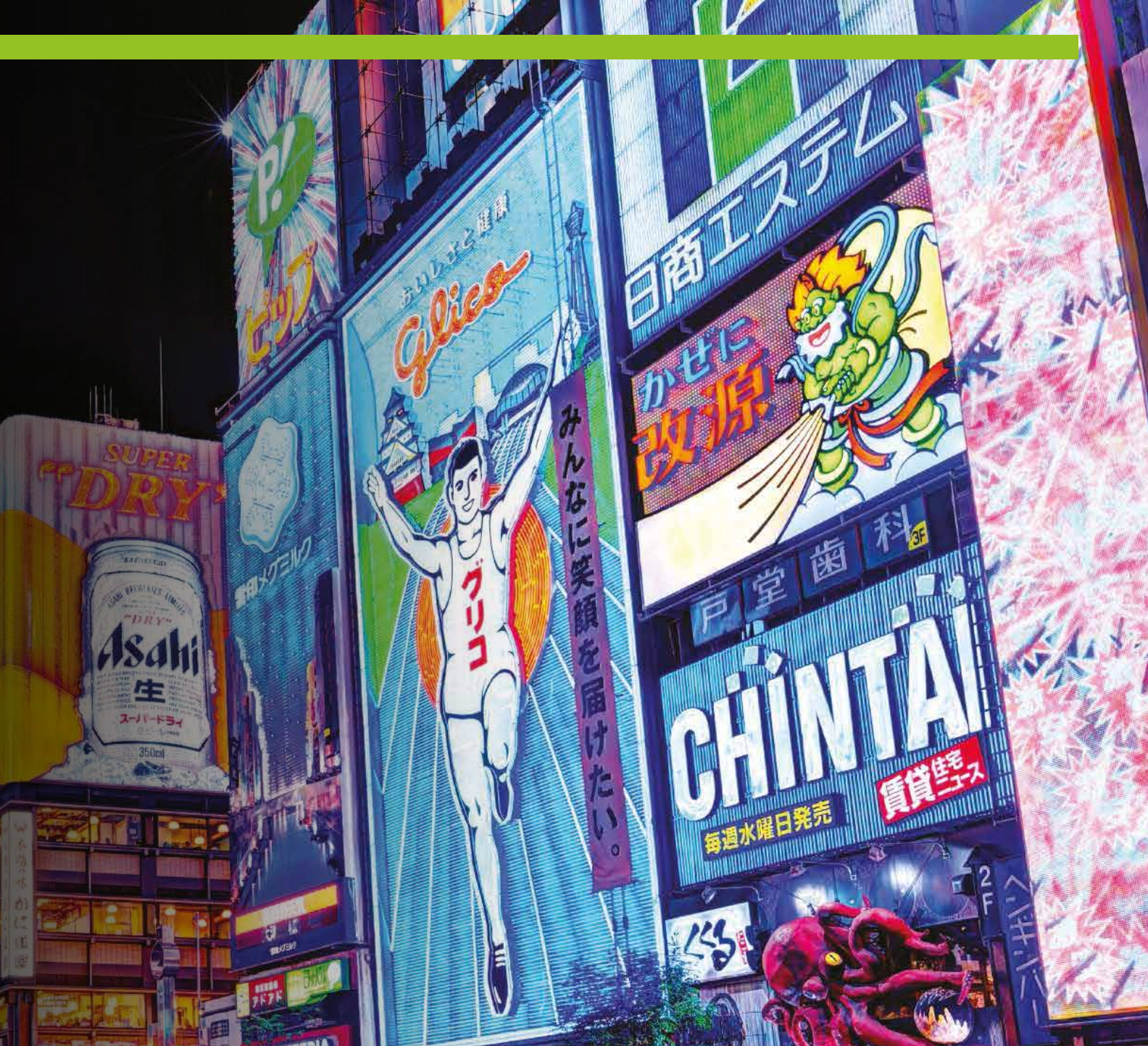
"Secondly, a lot of markets in the region are keen to adopt new things. People have stopped the sequential process of evolving into new technology: they just jump right into it.

"In China, for example, 800 million people are now using smartphones. In markets such as Taiwan, South Korea and even India there is now widespread acceptance of smartphones. Consumers are changing rapidly, so their banks are more willing to take the plunge than in other markets."

He cites the example of a local Hong Kong branch which has just set up a digital branch, allowing customers to open an account in 15 minutes without any paper involved, or to complete a mortgage application remotely.

"It was a big thing for this bank to change not only the look and feel of the branch, but also its back-office processes," Lam points out. "It would have been unthinkable for the bank just a year or two ago."

The continent's retail banking revenue will touch \$900 billion by



2020, according to a recent McKinsey study - that's growth of 14 per cent every year from 2010.

By then, the region is also expected to have become larger than Europe in terms of personal financial assets. It will be second only to the US in terms of wealth management services.

The burgeoning middle classes in these economies represent huge opportunities for Asian banks. The drive to carve themselves a big slice of this market is the prime incentive for the creation of new, personalised services.

To do so, Lam believes, they must become customer-centric in a way that balances the hunger for digital services with the growing tendency of consumers across Asia to use multiple channels when buying financial services products. Many banks are striving to become what he calls "multi-channel integrators", incorporating their digital offerings into the existing branch-based networks.

That's not an easy step for most Asian banks, many of which have long depended even more heavily on vast

physical branch networks than their counterparts elsewhere. But they are rising to the challenge.

"Banks have changed a lot even in the past nine months," Lam notes. "They are spending a lot less money on traditional media, and a lot more on thinking about how to influence product purchases through social media, post-service transactions, ATMs and mobile phones."

An example is Citibank's introduction of machines that link its physical and digital banking channels, allowing

ASIAN PIONEERS

EXTREME MACHINES

ATMs that act as branches are being introduced by Turkey's KuveytTürk Bank as a way of reaching potential customers in remote locations. The bank has dubbed them "extreme ATMs", or XATMs.

The experimental network is designed as a low-cost way to reach people without bank accounts. They offer a range of services available in bricks-and-mortar branches, from opening an account to handling cheques and issuing cards.

Meanwhile, Ziraat Bank offers "video teller machines", which it claims as a world first. Customers can speak to customer-service representatives by video conference in a booth, as well as carrying out a range of transactions.

YOUTH APPEAL

Singapore's OCBC Bank has targeted the youth market with its FRANK brand. Its distinguishing feature is a network of attractive shop units kitted out with touchscreens – closer in style to an Apple store than a traditional branch. Customers can choose their debit and credit cards from a range of designs "to suit their personalities", according to the bank.

FRANK also offers a tailored savings concept that allows customers to name their savings goals – such as "My new moun-

tain bike" – and see a graphic representation of how close they are to their target.

TECH EXCHANGE

Asian banks may be able to innovate free of the vast legacy IT systems that weigh down their western counterparts. But the gulf between frontline employees and technology staff can still cause problems. OCBC takes the unusual step of obliging its IT experts to get to know the retail end of the business. Tech staff spend up to a year working as part of the business team. Besides a better understanding of the needs of the business, the IT staff develop personal relationships with their non-techie colleagues, aiding IT-based innovation. Some Asian banks now adopt the reverse approach, sending business staff on intensive IT training.

SOCIAL BANKING

In 2012 Turkey's DenizBank became the first to let its customers access their deposit and credit card accounts through Facebook.

Users can use the bank's Facebook "branch", or app, to send money to their Facebook friends as well as making bank transactions and applications.

The facility is now used by 10 per cent of the bank's online customers.

customers to do almost all their banking outside a traditional branch.

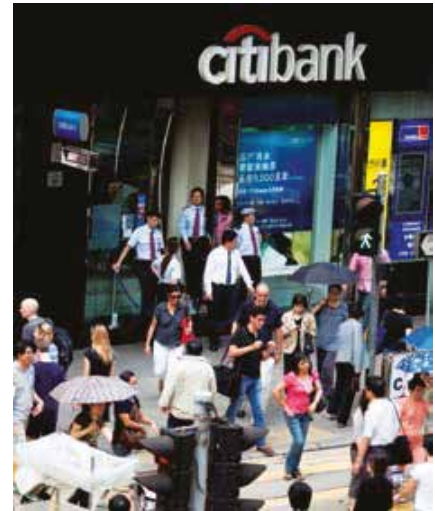
Customers in Singapore, Manila and Kuala Lumpur can use "Citibank Express" machines to open accounts and to apply for loans and cards. The machines are equipped with online banking connections, video-conferencing and biometric customer recognition. A customer can start a transaction on a computer or mobile and complete it on Citibank Express, or vice versa.

"IN CHINA, 800 MILLION PEOPLE ARE NOW USING SMARTPHONES."

Chris Kay, Global Head of Ventures and Incubation for Citi Ventures, says the ability to rapidly set up the machines and add new features is key to the bank's strategy.

"We don't expect it to replace branches, but it will simplify our customers' lives, generate new value for Citi and help to transform the financial services industry," he claims.

But the established Asian banks don't have it all their own way. They face many challenges as they attempt to turn huge populations – including millions who don't yet have a bank account – into customers.



Unlike western banks, they face real and aggressive competition from outside the banking sector.

Jack Ma, founder of the e-commerce platform Alibaba, has made good on his warning that he planned to "stir things up" in the conservative Chinese banking sector. Alibaba's online investment product, launched last year, quickly became the biggest in the country.

Since then, Tencent, another internet service portal, has further shaken the banking industry with its own investment product, linked to the popular messaging app WeChat.

Lam says the challengers have an unassailable weapon: data. "Banks lack the traffic of Alibaba – it has hundreds of millions of pieces of data on a daily basis, giving it an instant connection with its clients".

"It's very hard for the banks. They can't compete on pricing; they have to compete on service".

"But the jury is still out on whether the Alibaba model is sustainable. Right now they have investment products that are giving out very high yields – they are losing money on it."

Arthur Allan is a business journalist.

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

ASCENT *to the* PEAK

By David Kenmir



Over the last couple of years, the three Rs – risk, regulation and reputation – have been driving a shift in how the banking sector responds to its consumer, corporate and wider stakeholder base.

High-profile scandals such as PPI, the sale of interest-rate hedging products to SMEs and LIBOR, have also helped focus attention on how customers are treated, how firms behave towards each other and how they operate in the market. And it's not just banks – it's actually quite difficult to spot a sector where there hasn't been a scandal or crisis that isn't linked to culture and conduct. Health, energy and the car industry are just a few to have been affected recently.

As a result many boardrooms up and down the country are now much more focused on how the conduct agenda applies to their day-to-day business.

Conduct is a big mountain to climb and while most banks have started the ascent, others in the financial services industry, such as insurers and asset managers, for example, are only now beginning to arrive at base camp. So what can your business do to get on top of the conduct agenda?

PICKING UP THE PACE

The first priority is to analyse where your products and offerings could be vulnerable. Simply following historical compliance routines isn't enough – this needs to be taken up a level, with thematic reviews into all aspects of the business.

With new competition powers, the Financial Conduct Authority (FCA) is now taking a much more in-depth and holistic view of businesses. Considering what constitutes a good outcome and demonstrating that enough has been done to deliver it will be crucial, ideally before any issues bubble to the surface. Did the product provide the customer with the service and facilities they actually needed? Are practices harming

“More could be made of social media to analyse and address issues before they escalate.”

competitiveness in the banking sector or preventing individuals from moving?

GET CLOSER TO THE CUSTOMER

As part of a business health check, it's vital to engage with customers to gauge their needs, ensuring this is reflected in design, marketing and sales practices and monitoring outcomes through the product lifecycle.

As well as using more traditional-based customer surveys and studies to get a better idea of how customers feel and what they want, in this digital age – and with increasing numbers of people using digital banking – more could be made of social media to analyse and address issues before they escalate.

Within the board, we're seeing the emergence of chief customer officers, with conduct and other customer protection regulation forming a key part of their remit. This focus on outcomes and how they're being achieved reaches beyond sales and marketing. Outsourcing is a clear case in point. Are incentives to lower administration costs compatible with the service expectations of customers, for example?

WALK THE TALK

It's not just about the products and collateral. Your people and how they conduct themselves plays a crucial role in how your organisation is perceived in the market – and by the regulators.

People don't tend to act on the spur of the moment or in isolation. Their behaviour is usually influenced by the environment in the organisation, so the tone needs to be set – and demonstrated – from the top.

You need to be able to clearly articulate what you're in business to do and why it's important. Do your policies, processes and procedures drive the behaviours needed to propel the business forward? Are your staff really putting customers first or are other priorities such as sales and cost-control targets still winning out?

It's hard to examine all behaviours all the time, so focus on those “moments that matter” – explicit interactions and decision points where there is a risk that behaviours could have a disproportionate impact on outcomes.

Reshaping your culture may seem like a huge undertaking and there's always the temptation to put it in the “too difficult” pile

or wait until other pressing priorities are out of the way. But culture change can provide a useful catalyst for tackling the other challenges from market perception to sharpening customer targeting and product tailoring.

MEASURING CHANGE – AND SUCCESS

So how do you know you're doing the right thing?

Lag indicators such as complaints monitoring aren't enough to make sure you're delivering the right outcomes, as by then it will be too late. In contrast, lead indicators such as staff engagement can provide a good indication of whether employees buy into the need to put the customer first and are doing this in their day-to-day work.

Don't wait for a disaster before addressing conduct head on. Fines are growing but these are only part of the cost. The expense of remediation can be even greater and there's the risk of negative publicity at a time when customer trust is already challenged.

“It's actually quite difficult to spot a sector where there hasn't been a scandal or crisis that isn't linked to culture and conduct.”

There are competitive as well as compliance benefits. In particular, conduct could provide a valuable catalyst for closer customer understanding and engagement and developing a genuinely customer-centric culture at a time when these are emerging as crucial market differentiators.

Clearly, embedding conduct risk and the associated cultural behaviours with a business can't be achieved overnight. It's a journey – and being clear about your destination is just as important as the steps you take to get there. You could say it's a bit like moving to a foreign country – you may know a few phrases but it's only with time and effort that the language becomes second nature.

David Kenmir will be speaking at the next PwC Banking Insights event, to be held on 23 April, on the subject of Conduct Risk and Consumer Credit. For more details, visit www.charteredbanker.com

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DomesticDebt

sustainability in question

The State Bank of Pakistan (SBP) could not have said in any other words. In its latest Annual Report, SBP has stated that country's rising domestic debt and domestic debt servicing are proving too stressful for country's fiscal accounts. Rising interest payments during last few years have not been met by any significant rise in revenues, thus creating large fiscal imbalances to be financed by domestic debt.

By Rahila Khatri



The share of domestic debt in total public debt increased to 66% in 2012-13 compared to 47% in 2000-01. Further, interest payments on domestic debt constitute of 93% of total interest payment on debt. In SBP's own words, "government is consistently borrowing to finance its debt servicing", which is a debt trap. SBP goes on further to say that unless supported by sustainable economic growth, the only way out would be similar treatment given to the external debt when it was rescheduled in December 2001.

5 Billion Rupees per Day

Government's domestic debt stands at PKR 10.8 trillion (as of Mar'14), compared to PKR 7.6 trillion in Jun'12 - a phenomenal increase of PKR 3.2 trillion in just 21 months. The mathematics of this gets even starker as Government has added PKR 5.1 billion in debt every day. Consequently, debt servicing expense for year 2012-13 increased by over 11% year-on-year to PKR 910 billion despite a reduction in interest rates. Such mounting debt is likely to have adverse consequences for the economy as it increases vulnerability to exogenous shocks and restricts economic growth. On the other hand, Government's revenues have hardly shown growth during this period and could barely keep up with the pace of increase of debt and its servicing costs. The power sector is to blame as untar-geted power subsidies account for roughly one-third of the total increase in domestic debt in last two years. Consequently, it has been eating up bulk of fiscal budget, which has led to this large accumulation of debt. However, recent increase in power tariff should help.

Government has reportedly released a promising picture for fiscal accounts. SBP has stated that only way out of this "Debt Deficit Spiral" is high economic growth.

Changing Debt Profile

The country'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. At the end of 2012-13, Pakistan's total public debt stood at PKR 14.5 trillion, an increase of PKR 1.6 trillion or 12% from previous year comprising entirely of domestic debt. This translates into total public debt-to-GDP ratio of 63.3%, exceeding maximum limit of 60% set under Fiscal Responsibility and Debt Limited (FRDL) Act, 2005. Moreover, lack of external funding has resulted in burgeoning of domestic debt, which increased to 66% of total public debt in 2012-13, compared to 52% in 2005-06. Additionally, stock of domestic debt has seen substantial transformation in terms of greater reliance on short term floating debt (market treasury bills) rather than historically high proportion of unfunded debt (saving schemes etc.) -- leading to shortening of maturity profile of domestic debt. Floating debt accounted for 55% of domestic debt in 2012-13, compared to over 40% in 2005-06. Besides, aggravating the fiscal outlook, high dependence on short term debt raises concerns about debt sustainability due to increasing rollover and interest rate risks.

Debt Servicing Eating Up Revenues


Increasing stock of public debt has greatly expanded debt servicing expenditure, which crossed PKR 1.5 trillion in 2012-13 from PKR 1.3 trillion in the previous year. Out of this, a sum of PKR 910 billion amounted to servicing of domestic debt alone. Interest payment consumes more than one-third of the country's total revenues and claims greater share of tax revenues, compared to other developing countries; resulting in excessive containment of public investment. In the absence of material fiscal reforms, persistently large debt servicing not only aggravates government's debt burden and undermine debt repayment capability, but also hinders development expenditure that is necessary to propel the country on sub-optimal growth path.

Structural Reforms have Taken Forever

Despite having large government subsidies (exceeding over 76% of budgeted subsidies for 2012-13), majority of Public Sector Enterprises (PSEs) remain loss-making entities that weigh heavily on the country's fiscal position. Hence, few PSEs became a major drain on government resources and are viewed to be in need of reform due to increasing economic difficulties owing to distorted policies and inefficient management. Improving performance and management of PSEs is critical to foster sustainable development of the economy. In this regard, there is a dire need to initiate comprehensive fiscal reforms to raise revenues, restructure loss-making PSEs, and contain untar-geted subsidies. Though restructuring and sell-off of PSEs would help in containing fiscal deficit, this is easier said than done. So is raising tax revenues. However, perpetual delay in taking much needed steps has led to alarming situation of the country's indebtedness. The current government seems bent on tackling challenges and has given details for the process of privatization of 32 PSEs. Nevertheless, the government may no longer be in a position to take tough decisions specifically on tax reforms and the need to tax the untaxed, that is, agriculture sector.

Playing Hostage

Given rising debt burden and the not so stellar performance on revenue side, we believe that the government may no longer have the strength to pull an action similar to that of Turkey that recently raised interest rates to defend its currency. Such a move by Pakistan would only make our interest payments more unaffordable and would lead to more indebtedness -- a cycle, which may already have reached a tipping point. Our monetary policy tools could very well be hostage to fiscal concerns as higher interest rates than current levels would have put the much needed strength in Pak Rupee (PKR) and could have helped build the country's foreign exchange reserves.



By Muhammad Ahmed Khan

CYBER CRIME THREAT TO FINANCIAL SECURITY

Like many professionals with little time to spare, I also prefer using online banking services. Just a few clicks and I am done with moving my funds from one account to another or pay my bills, however it is a convenience that comes with some risks. Getting robbed at ATMs may be a case of being at the wrong place at the wrong time, but today online banking activities are also a point of vulnerability as it can affect you while sitting inside your home or offices.

About a month back I received an email with the originator's ID as IT administrator of the bank where I maintain an account stating that a security system upgrade will be carried out over the coming weekend. It was something unusual because in the past my bank never informed me about such activities so I got suspicious. The second paragraph of the mail stated that in order to ensure accuracy and fault-free completion of the exercise I must reply to the email within forty eight hours confirming my account number as well as my password for the online banking ID which was already mentioned in the mail. This part of the mail confirmed my suspicion that someone through "Phishing scheme" was trying to obtain my password. Obviously, I ignored the mail but could not help thinking that

despite great efforts put in by financial institutions towards reinforcing the internet security measures and the rapid growth in online banking services, the theft of banking information has become a common criminal activity.

According to research results released in South Africa earlier this year, estimated worldwide losses from phishing attacks cost more than US\$ 1.5 billion in 2012. If we assume the uptime of phishing attacks had remained the same as 2012, the approximate figure for the year 2013 may have been more than US\$ 2 billion (Source: EMC – Leading global service provider in the field of business operations information technology)

The picture is not too rosy even for plastic card holders. Last February, a global study of more than 5,200 consumers across 17 countries conducted by ACI Worldwide (NASDAQ: ACIW) and Aite Group, revealed that one-in-four respondents has been victimized by credit, debit or pre-paid card fraud during the past five years.

In addition to stealing access codes for personal bank accounts- and corporate bank accounts – cyber criminals also steal the numbers of credit cards and other types of payment cards. The “two-factor authentication security method”, whereby the bank provides you with a security token, is not always sufficient. So, in order to protect yourself from cyber-criminals you need to learn more about the techniques they use to breach your internet security and get to your money.

My encounter with the phishing mail was just one of the many tricks employed by the fraudsters; some of the other

“The rapid growth in online banking services, the theft of banking information has become a common criminal activity.”

weapons in their armory are:

A- FAKE WEBSITE WINDOWS:

The windows mimic the appearance of the user's bank's website and ask the user to enter their username and password. The fake page looks exactly like the one usually displayed by the bank's website, the only difference being that it asks for customer's private details that his/her bank normally wouldn't, which enable hackers to take over the account.

B- SPOOFING AND PHISHING:

Fraudsters start sending emails in an attempt to capture user's banking credentials and other security details. A phishing e-mail usually looks as if it came from user's bank and asks to check his/her account details by clicking on a link.

C- KEY-LOGGER TROJANS:

Cybercrooks can spread pieces of malware over the web and via e-mail attachments, to covertly record user's keystrokes. While the user has no idea of their existence, fraudsters can find out the PIN, passwords and other internet security information and use them to their advantage.

While the fight against the cyber fraudsters is being fought by the financial institutions and IT gurus; a greater degree of self-discipline can help improve our security mechanism for online banking activities, within the

context a few tips are appended below:

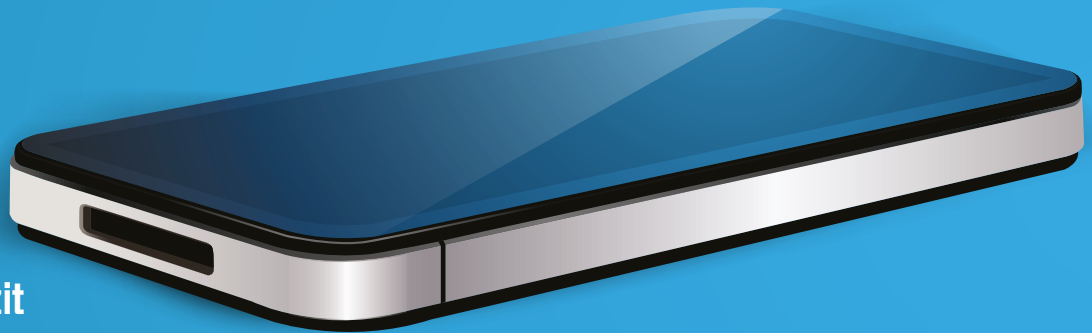
1. Secure your login using User ID, Password.
2. Change your password regularly.
3. For passwords avoid using sequential characters or numbers as well as names, birthdays, personal telephone numbers etc.
4. Never share your login details with anyone.
5. Disable auto complete function for the password.
6. Change your password immediately if you suspect it has been revealed.
7. Always log off from your online session when you leave your computer unattended, even for a little while.
8. Never conduct online banking from a public or shared computer.
9. Never send your login user ID, password, smart card pin, or any login information via email or phone.
10. Never respond to emails providing you a link to your online banking site or seeking your login details.

The list is by no means exhaustive but provides a guide map for protection. The internet security control mechanism is getting better; so are the tricks and methods of fraudsters who are out to deprive you from your money.

Mobile Banking: A Digital Disruption

By Aijaz Ahmed Shaikh

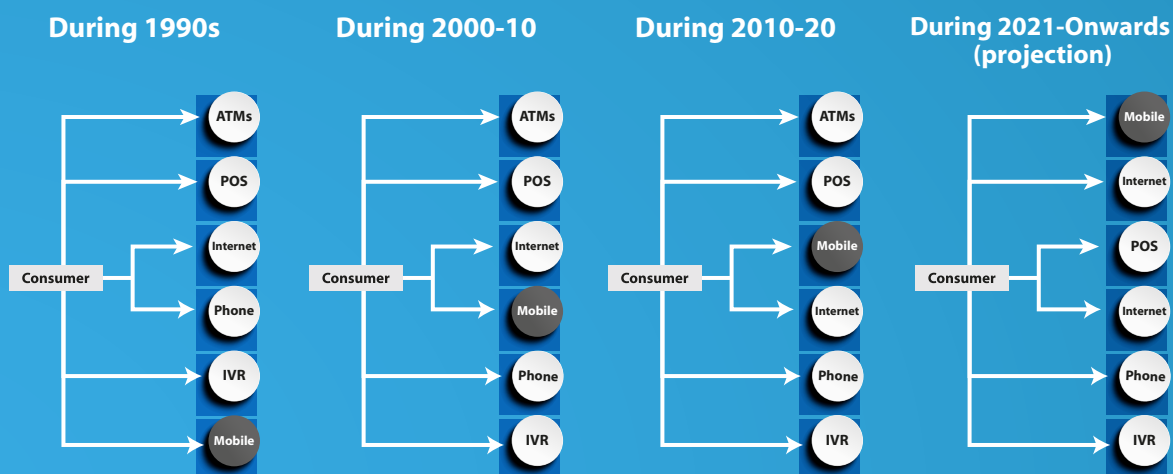
Famous mobile banking (m Banking) models such as M-Pesa (Kenya), Wizzit (South Africa), Easypaisa/Omni (Pakistan) and GloFirst card (Nigeria), developed during the last two decades, have allowed both banked and under-banked population to access traditional banking services such as transfer money, make purchases, and even pay utility bills using a portable device such as cell phone. These successful models have provided numerous benefits to consumers. Consequently, m-Banking has been considered a 'digital disruption' by the industry based on the fact that, sooner or later, the mobile will become mainstream; its growth has been predicted phenomenal; and its usage inevitable.



M-Banking offers an unmatched convenience and is considered relatively a low-cost service. Further, business has viewed the development of m-Banking as a 'creative destruction' where the m-Banking has transformed the banking practices and money transfer business in both developed and developing countries.

Juniper Research, which specializes in the identification and appraisal of high growth opportunities across the mobile telecoms, content, and applications sectors, has estimated that by end 2017, more than 1 billion mobile phone subscribers will use their mobile devices for banking purposes, compared with slightly more than 590 million users noted earlier. Considering this exponential growth of m-Banking usage, Capgemini, one of the world's foremost providers of

How m-Banking will overtake (and disrupt) other banking channels in Pakistan



consulting, technology and outsourcing services, in one of its market reports published recently, has confirmed that the high number of technology initiatives taken by banks with m-Banking being the top priority. It indicates that the Banks now want to take customer engagement and service up a level with the help of m-Banking to provide customers with a true 'anytime, anywhere and any device' service.

The recent interest in disruptive literature has ignited numerous differing arguments for the exact definition of disruptive technologies. Clayton Christensen, one of the Harvard Business School professors and disruption guru, argued that disruptive technologies usually produce the products and services that are typically cheaper, smaller and often more convenient to use than traditional products. He further argued that a disruption has the potential to displace an existing market, industry, or technology and produces something new and more efficient and worthwhile. His extensive work on disruptive technology received much attention from the

researchers and professionals working in diverse disciplines including new product development, marketing, strategy, management, technology management, and so forth. Christensen's book 'The Innovator's Dilemma (1997)' has sold over 200,000 copies since its release in May 1997 and has received extensive coverage in business education and publications.

Digital disruption can also be defined as 'a technology that changes the basis of competition by changing the performance metrics along which firms compete'. Similarly, disruptive technologies can be considered scientific discoveries that break through the usual product/ technology capabilities and provide a basis for a new competitive paradigm.

These definitions entail several requisites. For example, a technology or innovation will be considered disruptive if it is accepted and recognized by the industry or competitors as disruptive. Here the case of Nokia is worth quoting. The Nokia Corporation, one of the market leaders in mobile communications and mobile

devices, was unable to consider Android, a fabulous application developed for smart phones, as disruptive. Samsung and iPhone, on the other hand, realized the potential of Android and became market leaders in smart phone industry leaving Nokia profoundly shackled and dejected. Paradoxically, the capacity to survive a technological shift may be a function of the firm's marketing competence, but the management must beware of ignoring innovation and technological developments

“ Digital disruption can also be defined as ‘a technology that changes the basis of competition by changing the performance metrics along which firms compete’ ”

Famous m-Banking Models

S. No.	When Started	m-Banking Model	Where Started
1	FNB	2009	South Africa
2	Easypaisa / Omni	2009	Pakistan
3	BankO	2009	Philippine
4	MTN MobileMoney	2009	Ghana, Uganda, Rwanda, and Yemen
5	M-Pesa	2007	Kenya
6	Wizzit	2005	South Africa
7	G.Cash	2004	Philippine

taking place that, apparently, may not initially meet the needs of their existing customers. Perhaps, the business in this case could reinforce the notion of marketing competence and could also explore whether the business leaders with stronger marketing capabilities are more adept at taking advantage of the opportunities offered by disruptive technologies. After all, the disruptive innovations help redefine the market place and they bring to the market a very different value proposition than had been available previously.

It is believed that the companies that have tried to manage mainstream and disruptive business within a single organization or product

usually fail. Nonetheless, the m-Banking initiative in Pakistan provides a classic example. While retaining alternative delivery channels (ADCs) network (such as ATMS, internet banking, phone banking) and after recognizing the strategic significance of mobile technology, the banking industry in Pakistan introduced m-Banking as a new banking channel. Initially, SMS or text banking is dominating the m-banking services but with the passage of time, the service providers and software developers were involved in this initiative. As a result, few dedicated, safe and downloadable applications were developed and offered to consumers to facilitate faster and safe m-Banking largely on smartphones and tablet PCs. These

“The m-Banking initiative in Pakistan provides a classical example. While retaining alternative delivery channels (ADCs) network (such as ATMS, internet banking, phone banking) and after recognizing the strategic significance”

corresponding developments, on the one hand, lessen the effect of disruption on other e-banking channels and, on the other hand, help the banking industry to expand the consumer base by bringing a huge untapped under-banked population under the banking portfolio.

Along all these disruptions which have changed the banking culture and consumer mind-set, one question strikes my mind that how fast these developments will make the bank branch network obsolete? In this reference, Anthony Browne, the chief executive of the British Bankers' Association, admitted his lack of bank branch attendance and said "I realize this is a strange confession from the

“The capacity to survive a technological shift may be a function of the firm's marketing competence, but the management must beware of ignoring innovation and technological developments taking place”

10 Major Disruptive Innovations & Developments Related to Banking Industry:

S. No.	Innovation/Development
1	Auto Teller Machines (ATMs)
2	Smart Phones / Mobile Technology
3	EMV / Chip-based Payment Cards
4	Near Field Communication (NFC)
5	Dwolla (an online and mobile payment system)
6	Kickstarter (Crowd Funding)
7	Bitcoin
8	Easypaisa
9	PayPal
10	Web 2.0 (Social Networking sites)

“ I realize this is a strange confession from the head of the British Bankers’ Association, but I haven’t visited my branch since last year – and I’m not alone ”



head of the British Bankers’ Association, but I haven’t visited my branch since last year – and I’m not alone.” Although it may seem exaggerated, but according to a market survey conducted in October 2013 by GFT Technologies, it has been predicted that by 2025 there won’t be any bank branches. GFT market survey further reported that by adopting m-Banking behavior, customers are implicitly stating that they either don’t have the time or don’t want to spend the time visiting branches or even ATMs. Consequently, banks can reposition themselves as partners in saving their customers time and money when they offer convenient and easily accessible ways to bypass the physical banking environment.

To conclude, the future of banking is digital. It is imperative that the banking industry and the service providers should realize the full value of m-Banking, nurture disruptive innovations and their likely impact on their operations, profitability and branch network. The bank management may also keep themselves informed that what it will take for m-Banking to become more embraced and how it could offer a different value proposition to the

consumer, who are the new and emerging competitors in mobile financial services, and how should banks in Pakistan respond to them – ignore, fight, challenge or adopt their best practices?

The banks that have answers to these questions will reap the benefits, become more stable and quickly become the leaders of mobile banking’s future. Further, McKinsey Global Institute, the business and economics research arm of McKinsey & Company, in one of its market reports published in May 2013 concluded that in addition to business, policy makers and societies need to prepare for future technology, too. To do this well, they will need a clear understanding of how technology might shape the economy and society in their country over the coming decade. They will need to decide how to invest in new forms of business, education and infrastructure, and figure out how disruptive economic change will affect comparative advantages. The government will need to create an environment in which citizens can continue to prosper, even as emerging technologies ‘disrupt’ their lives.

(Note: For the convenience of readers, this article has used the word ‘innovations’ & ‘developments’, ‘Business’ & ‘Industry’ interchangeably)

Suggested Readings:

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CREDIT RAAAATING

PENETRATION IN PAKISTAN

By Samiya Mukhtar

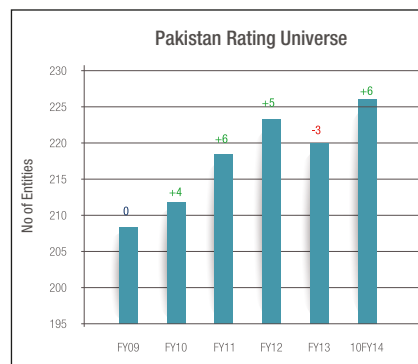
Credit Rating is an objective opinion on a company's relative ability to honor its financial obligations. History of credit rating in Pakistan dates back to 1994 when the first credit rating agency was established. In 1996, the first rating was assigned to a corporate TFC. Currently, rating services are being offered by two credit rating agencies (CRA). CRAs assess overall risk profile of the rated entity and assign rating based on their standard scale (Typical scale starts from AAA: exceptional credit quality ends at D: default). A company may opt to have an entity credit rating or instrument credit rating or both. The debt issued by companies in the form of any specific instrument (TFC, Sukuk, and Commercial Paper) is generally rated separately.

The demand for credit rating is driven by any or all of the three stakeholders: investors/lenders, issuers, and/or regulators. Economic activity is relevant as increased economic activity spurs financing requirement of companies; in turn prompting fresh issuance of debt. Finally, CRAs are engaged to assess these issuers' ability to repay on a timely basis.

Rating penetration in Pakistan is low. Although rating services are there for about twenty years, the rating universe has not expanded much. Only one out of every 300th company carries a credit rating. Since credit rating is mandatory for almost all financial institutions, these (Banks, NBFIs, DFIs, and Insurance) comprise more than 50% of Pakistan's small rating universe. Rating penetration in the corporate sector is much lower. The graph shows the outstanding rating universe at end of each period. We have been able to add only 18 entities (net addition) in last 6 years in the rating universe.

Rating Culture in Pakistan is predominately regulations driven. For all financial institutions that raise deposits from general public, rating is mandatory. Very few corporations in Pakistan are rated. Meanwhile, the corporate bond

market is very small - only 5% of total credit to private sector. Lately, we have seen an increasing interest in issuance of Sukuk as Islamic mode of financing by corporations. The draft regulation on Sukuk by SECP proposes this type of Islamic instruments to have a mandatory rating. Bonds directly issued to public require rating as one of the prerequisite for listing. PPTFC are still not required to be rated. However, a large number of PPTFCs issued in past few years were rated on the demand of investors to enable them to comply with their investment policy. The growth of this segment of Rating Universe is contingent upon new issuances. We are yet to achieve the 2008 level of debt issuances. Fresh debt issued by companies (Corporate and Financial Institutions) was PKR 44 bln during 2013 compared with PKR 88 bln during FY08.



“ Under the current approach, in the instance of a higher rating the banks benefit in terms of capital allocation against the respective rated exposure. The banks are required by SBP to internally rate all their clients (obligors). ”



Increasing the Rating Penetration requires focused efforts of raters, regulators, and lenders/investors. This can be achieved through multiple means which include, i) improving Rating awareness, ii) enhancing role of bankers, iii) active role of key regulators - SBP and SECP, iv) development of corporate debt market.

Improving Rating Awareness:

Many companies have very good credit profile. However, either lack of awareness (less clarity on what value does a rating adds to the company's profile) or resistance to deal with a third party excludes them from being part of the Rating Universe. The rating awareness is relatively higher in KSE-100 Index companies; 50% of these are rated.

Disclosures in financial statements can improve rating awareness. Currently, these provide return based information to the investors. Risk based disclosures will not only add value to the financial statements but also make the investor more aware of risk profile of the company.

CRA's, together with other stakeholders, can play a prominent role in improving rating awareness by highlighting rating value to potential rating market. One of the biggest benefits to a rated company is ability to compare one's self with its peers. The rating exercise enables them to identify the relative benchmark – be it ownership, governance, management quality, business, or financial risk indicators.

Rated entities with international operations tend to appreciate the rating value as rating awareness is relatively high in these markets. The rating reports themselves are of high value as these contain comprehensive coverage of rated entity's profile and related risks. Ratings do reflect an entity's openness to transparency and help companies bring financial discipline in their businesses.

Enhancing Role of Bankers:

Under the current approach, in the instance of a higher rating the banks benefit in terms of capital allocation against the respective rated exposure. The banks are required by SBP to internally rate all their clients (obligors). Much cost has been incurred to develop banks' internal rating systems. However, true benefit to banks is yet to accrue. The lending decisions and internal risk management guidelines have yet to incorporate the Ratings – external or internal. Having a credit rating as a pre-requisite to any loan sanction can help expand rating universe.

Active Role of Key Regulators:

Regulators have a key role in enhancing the rating penetration of any country. We have witnessed this in many countries where rating penetration is high. For example in India, companies crossing a minimum threshold of debt have to get themselves rated. In India, bank loan ratings are very common. Similarly in Bangladesh, banks have to allocate higher capital against unrated exposure, as apposed to the scenario in Pakistan.

The Basel II requirements as applicable in Pakistan do not distinguish between a BBB (lowest investment grade category) exposure and unrated exposure. The risk weight for BBB category exposure is same as an unrated exposure compared. Banks operating in Bangladesh allocate higher risk weight to unrated exposure vis-a-vis a BBB category exposure.

Development of Corporate Debt Market:

Most important of all is development of a vibrant debt market – a market that supports new issuances, liquidity, transparency, and right pricing. Such market considers 'Ratings' an essential input; not the only input. Additionally, pricing of debt is aligned to risk profile of the issuer. The primary and secondary debt markets are at very nascent stage in Pakistan.

Increased rating penetration will benefit corporate and financial markets equally. The rated companies will know their risks better. Knowing that some risk exists is the first step. To investors, ratings disclose risk profile of the market and reduce information asymmetry. Ratings carry significant value where public money is involved.

We should play our role and contribute towards development of knowledgeable, transparent, and vibrant debt markets.



FIRST QUARTER 2014

By Bilal Arshad

Performance Review

After undergoing profitability decline in 2013 due to low interest rate environment and increased costs on savings accounts, banking sector posted year-on-year earnings growth of 20.4% in 1Q'CY14 as net interest income and non-interest income increased, and provisioning expense declined (based on our sample of 27 large, mid-size and small banks). Among Big 5 Banks, UBL posted highest net income growth of 31.8% year-on-year to PKR5.2bn on the back of balance sheet growth. HBL registered profitability growth of 20.2% to PKR6.1bn due to drop in provisioning expense, and increase in non-interest income and interest income on the back of targeted reduction in high cost deposits. ABL recorded earnings growth of 14.6% year-on-year to PKR3.2bn on the back of strong interest and non-interest income due to growth in interest-bearing assets and healthy fee income and capital gains respectively.

NBP exhibited profitability growth of 3.7% to PKR3.1bn as a result of enhanced non-interest income. However, the positive impact of improved non-interest income was curtailed by increase in Non-Performing Loans (NPL). MCB underwent 4.4% year-on-year decline in profits to PKR5.5bn due to significant increase in operating expenses owing to growth in operational infrastructure, which offset increase in non-interest income on account of strong foreign exchange income.

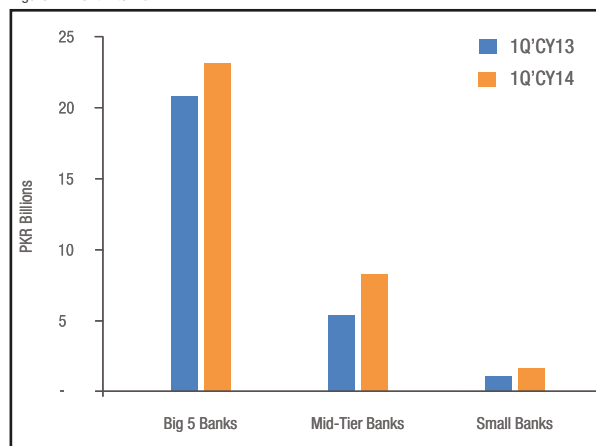
Among Mid-Tier Banks, AKBL registered highest percentage growth of 269.8% year-on-year to PKR1bn owing to increase in revenues on the back of non-fund income from foreign exchange and equity markets, and reversal in provisioning expense as bank carried out aggressive recovery campaign to reduce NPL. However, SCB posted the highest Profit After Tax (PAT) of PKR2.2bn in 1Q'CY14, registering an increase of 59.2% year-on-year due to increase in non-interest income, and reduction in provisioning and operating expenses. BAHF reported PAT of PKR1.4bn, reflecting increase of 17.1% over corresponding period last year on the back of growth in interest and non-interest income, which offset the impact of increase in operating expenses from branch network expansion. BAFL posted 11.6% growth in earnings to PKR1.1bn due to increase in interest and non-interest income.

Among Small Banks, CITI posted largest net income of PKR0.49bn in 1Q'CY14, depicting decline of 4.3% from corresponding period last year due to significant decline in non-interest income. BOK registered second highest earnings of PKR0.25bn, reflecting decline of 20.4% year-on-year, due to increase in provisioning and operating expenses as bank opened new branches and hired new staff.

Deposits on the Rise

Among Big 5 Banks, UBL's deposit increased by highest percentage at 20.2% year-on-year to PKR847bn in 1Q'CY14,

Figure 1: Profit After Tax



Source: Banks' Financial Statements

fueled by growth in Remunerative and Non-Remunerative Current Accounts. Non-Remunerative Current Accounts comprised 35.2% of UBL's deposits, highest percentage among Big 5 Banks, which implies that UBL is in better position to take advantage of interest rate hikes compared to its peers as Minimum Deposit Rate (MDR) on Savings Accounts is pegged with SBP repo rate. HBL remained volume leader among Big 5 Banks with largest deposit base of PKR1,307bn.

Among Mid-Tier Banks, HMBL posted the highest percentage increase of 31.6% to PKR270bn in deposits on the back of large increase in Fixed Accounts and Savings Accounts. BAFL had the largest deposit base to the tune of PKR501bn among Mid-Tier Banks, while SCB had the highest percentage of Current Accounts in its total deposits at 42.4%.

Among Small Banks, CITI had the largest percentage increase of 52.7% in deposits, which stood at PKR54bn in 1Q'CY14, due to significant growth in Fixed Accounts. JSBL

Figure 2: Snapshot of Big 5, Mid-Tier and Small Banks

(PKR Millions)	Big 5 Banks*		Mid-tier Banks**		Small Banks***	
	1Q'CY14	YoY Change	1Q'CY14	YoY Change	1Q'CY14	YoY Change
Net Interest Income	48,461	6.4%	24,940	17.0%	5,854	14.6%
Non-Interest Income	22,342	22.9%	11,877	24.3%	2,247	-1.9%
Provision & Charges	1,683	-37.7%	1,597	-11.4%	463	47.7%
Profit After Tax	23,233	12.4%	7,794	46.0%	1,218	54.7%
Return on Equity	15.9%	-0.1%	13.9%	3.7%	5.6%	2.0%
Net Interest Margin	3.9%	-0.1%	3.4%	0.2%	3.4%	0.1%
Advances/Deposits Ratio	46.7%	-3.7%	52.2%	-1.2%	51.4%	0.7%
Non-Performing Loans (NPL)	266,270	6.0%	238,449	-8.0%	37,467	-10.3%
NPL Coverage (Specific)	77.8%	-0.9%	70.0%	8.9%	71.6%	11.1%
Portfolio Infection Rate	11.7%	0.3%	15.1%	-2.8%	12.7%	-4.6%
Investments/Deposits Ratio	59.8%	2.5%	54.2%	0.1%	60.1%	-0.6%
Cost/Income Ratio	48.8%	1.3%	63.3%	-4.0%	71.5%	-5.5%

“Among Big 5 Banks, UBL's deposit increased by highest percentage at 20.2% year-on-year to PKR847bn in 1Q'CY14”

had the largest deposit base of PKR83bn among Small Banks and HSBC (Oman) had the largest percentage of Current Accounts in its total deposits, although it had the smallest deposit base among Small Banks.

Advances Up 6.3%; Investments Increase by 14.6%

HBL had the highest percentage increase of 13.3% year-on-year to PKR555bn in Advances among Big 5 Banks. However, NBP had the largest volume of advances to the tune of PKR608bn. NBP also had largest year-on-year percentage increase of 35.9% in Investments, which stood at PKR452bn in 1Q'CY14. Among Mid-Tier Banks, NIB had the largest percentage increase in Advances of 22.9% to PKR87bn while HMBL had the largest percentage increase of 65.8% to PKR229bn in Investments. With the exception of DB, which had small Advances base of PKR7bn (78.3% increase year-on-year), JSBL had the largest percentage increase in Advances of 59.8% to PKR35bn among Small Banks, while CITI underwent largest percentage increase of 138.1% year-on-year to PKR46bn in Investments.

“Among Small Banks, CITI had the largest percentage increase of 52.7% in deposits, which stood at PKR54bn in 1Q'CY14, due to significant growth in Fixed Accounts”

In 1Q'CY14, NBP had the highest Advances-to-Deposits Ratio (ADR) of 59.7% (down from 70.4% in corresponding period last year) among Big 5 Banks. MCB had the highest Investments-to-Deposits Ratio (IDR) of 73.7%, up from 71.2% last year. Among Mid-Tier Banks, NIB had the largest ADR of 87.3% and HMBL had the largest IDR of 84.8%. While SILK had the highest ADR of 77% and SAMBA had highest IDR of 89.1% among Small Banks.

Non-Performing Loans Decline Slightly

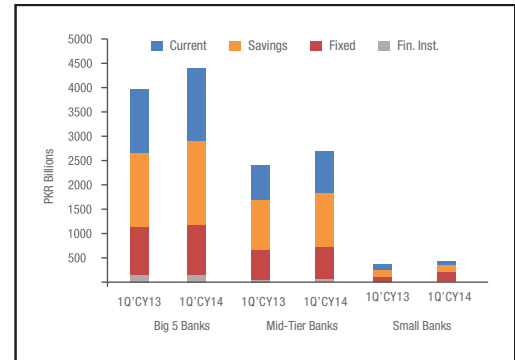
NBP underwent largest year-on-year increase of 31.9% to PKR120bn in Non-Performing Loans (NPL) among Big 5 Banks in 1Q'CY14. AKBAL underwent highest percentage increase of 20.6% to PKR32bn in NPL among Mid-Tier Banks, while BOP had the largest volume of NPL, which stood at PKR58bn. Among Small Banks, FWB experienced largest percentage increase of 33.5% in NPL to PKR1bn, while KASB had the highest NPL volume of PKR11bn in the group.

ABL, BAHAL and BARCLAYS had the lowest Portfolio Infection Rate (as measured by NPLs/Gross Loans) of 7%, 2.5% and 3.8% in their respective categories in 1Q'CY14. Although Public Sector Banks had high NPL, SINDH had Portfolio Infection Rate of only 0.2%.

Net Interest Margins Remain Stable

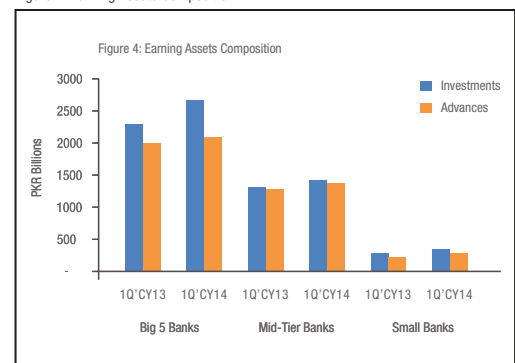
Banking spreads were under pressure in 2013 owing to increased cost on saving deposits due to tight regulatory measures. Banking spreads hit 9 year low of 6.02% in 1Q'CY14 compared to 6.21% in corresponding period last year as

Figure 3: Deposits



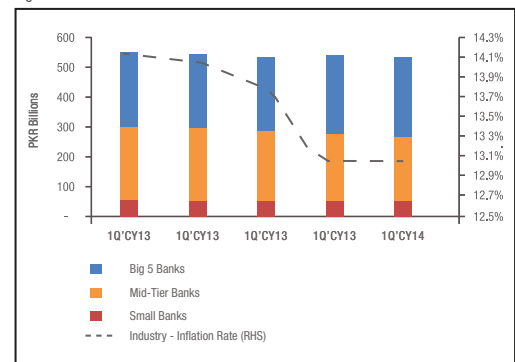
Source: Banks' Financial Statements

Figure 4: Earning Assets Composition



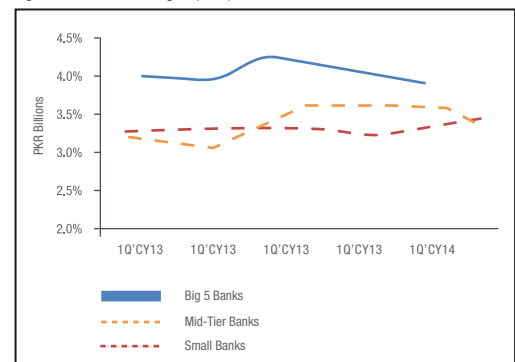
Source: Banks' Financial Statements

Figure 5: NPL and Portfolio Infection Rates



Source: Banks' Financial Statements

Figure 6: Net Interest Margins (NIMs)



Source: Banks' Financial Statements

“ ABL, BAHL and BARCLAYS had the lowest Portfolio Infection Rate (as measured by NPLs)”

yields on outstanding loans fell. However, higher asset growth resulted in improved overall profitability and net interest income for banks during 1Q'CY14.

Among Big 5 Banks, MCB had the highest Net Interest Margins (NIMs) of 9.7% in 1Q'CY14 down from 10% during 1Q'CY13. AKBL and SILK had the highest NIMs to the tune of 5.7% and 5.6% respectively, compared to 6% and 3.7% respectively, in their respective groups.

Non-Interest Income Registers Strong Growth

HBL posted highest percentage increase of 46.9% year-on-year to PKR5.7bn in non-interest income among Big 5 Banks in 1Q'CY14. Fees, commission and brokerage income comprised largest chunk of HBL's non-interest income, whereas bank's income from foreign exchange dealing registered largest year-on-year increase. NBP had highest non-interest income of PKR6.1bn in the group.

In Mid-Tier category, AKBL registered the highest percentage increase of 86% to PKR1.5bn in non-interest income, while SCB posted highest non-interest income of PKR2.3bn. SILK had the highest non-interest income of PKR0.45bn among Small Banks.

Cost-to-Income Ratio is Maintained

Cost/Income ratio (as measured by Operating Expenses/Sum of Net Interest Income & Non-Interest Income) of MCB increased from 33.5% in 1Q'CY13 to 37.7% in 1Q'CY14, which was lowest among Big 5 Banks.

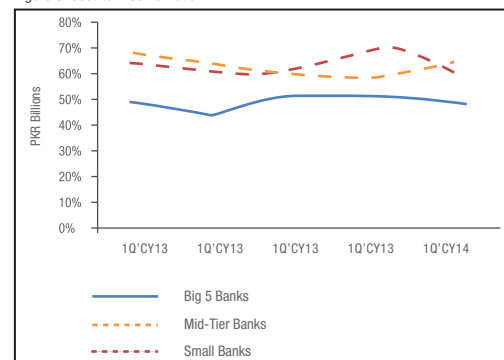
SCB and CITI had the lowest Cost/Income ratios of 46.7% and 33.3% respectively in 1Q'CY14, down from 56.8% and 64.1% respectively a year ago, in their respective groups.

Sector Outlook

Banking margins will remain strong as banks have invested heavily in longer tenure government bonds since beginning of CY14, locking in higher rate of return, which is risk free. Government's fiscal borrowings from commercial banks had been crowding out private sector credit for the past many years. Current Government stance to contain fiscal deficit within 5% of GDP in FY15 will likely free up liquidity and lending to private sector could pick up, albeit gradually as key growth sectors have overcapacities and the country's economic growth remains anemic.

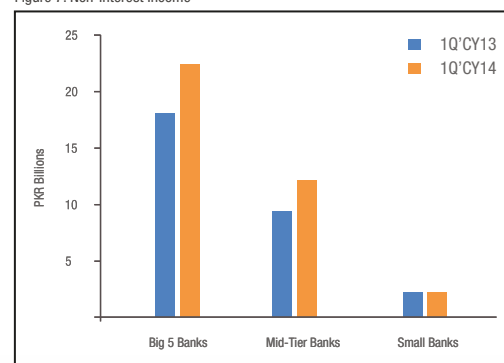
“ Among Mid-Tier Banks, HMBL posted the highest percentage increase of 31.6% to PKR270bn in deposits ”

Figure 8: Cost-to-Income Ratio



Source: Banks' Financial Statements

Figure 7: Non-Interest Income



Source: Banks' Financial Statements





PERSONNEL POLICIES: PANACEA FOR CORPORATE AILMENTS

By Dr. Sabir Ali Jaffery

Human Resource is the most important and highly valued asset of any organization. While, at the same time, they are most difficult to manage. They are not robots who may be controlled by movements of a couple of switches and made to work in machine-like-style. Rather, they are living beings. They have emotions. They feel, think, and react. On the top of everything else, the human nature varies from person to person so that different persons tend to behave differently in the same situation.



“SATISFIED AND MOTIVATED WORKFORCE IS THE KEY FACTOR SUBSCRIBING TOWARD THE GROWTH OF AN ORGANIZATION.”

Creating, grooming and managing a committed work force in pursuit of common goal is a highly demanding task which cannot be accomplished by means of a well-structured, functional and effective personnel policy. Like any other policy, personal policies, to be meaningful and effective, should also be directed toward set objectives, and steered by well-defined principles and code of conduct.

While simultaneously committed to the objectives of the organization, the primary objective of a fruitful personnel policy is to determine optimum strength of work force ordained to high quality performance, thereby ensuring best possible results at lowest cost.

Satisfied and motivated workforce is the key factor subscribing toward the growth of an organization. As against this, a disgruntled and demotivated workforce as a result of discrimination and partiality in promotions and postings, authoritative leadership style averse to the interests of workers, pay, perks, and other incentives not matching with a competitive market, abusive centralization of authority, unrealistic spans and levels of control, absence of systematic method for solving grievances and managing conflicts, poor working conditions, and ill-health and tension generating environment, and so on, tends to have irreversible adverse effects on the growth of the organization.

An effective personnel policy adequately takes care of the variables inherent in a setup prevents all sorts of ill-feelings, grievances, and conflicts that normally emerge in the process of human interaction.

Quantification of Current and Future Staff Strength:

The action plan of a self-contained personnel policy begins with fixing of staff strength of each working unit (Region, Zone, Division, Wing, Department, Cell, or by whatever name) on work-load basis, which is called the proposed strength. Next, it compiles unit-wise list of the existing employees and compares the existing strength vis-à-vis the proposed strength to draw the resultant surplus or deficit, as the case may be. Simultaneously, it also works out future strength for different levels of responsibility, corroborating with the expansion plan of the organization after giving due allowance for retirement and turnover rate.

Lay-off, Selection, Recruitment:

Lately, a large number of people were employed by several organizations under political pressure. Most of them are good for nothing. Companies' unproductive administrative expenses shot up because of this episode. Services of these employees have to be dispensed with. But it would attract great socio-political turmoil which would be exploited by political circles for their vested interests, in the name of rising unemployment. Golden Hand Shake Scheme, or any thing alike, is one way of getting rid of them without much uproar. This would, of course, cost the enterprise one-time heavy expenses. However, it still seems to be a better bargain when compared with continuous substantial monthly expenses to be incurred for a long period.

The overall shortfall in the existing staff strength which cannot

The nature of people has been precisely categorized in two sets of assumptions developed by Douglas McGregor commonly known as “Theory X” and “Theory Y” These sets are fundamentally different from one another. For example, according to Theory ‘X’, average human beings have inherent dislike for work and, therefore, have to be “coerced, controlled, directed, and threatened” to get them to work. Conversely, according to Theory ‘Y’, average human beings exercise self-control in striving for the objectives to which they are committed. They learn under proper conditions ‘not only to accept responsibility but also to seek it.’

be precluded by reshuffling or inter-departmental transfers may be overcome by outsourcing, that is, by way of hiring persons of requisite experience and qualification from the industry.

Recruitment of fresh graduates for future needs will pass through the process of entry tests and interviews. In any case, however, merit alone must be the deciding factor for selection and recruitment.

Long due importance has been given to merit in hundreds of write-ups and continuous stress has been laid on it as the nucleus of personnel policy. Nevertheless, it is still too seldom found in use as a deciding factor in personnel policies, particularly at public sector organizations.

Training:

This is the second most important element of a successful personnel policy. Its purpose is to improve job performance in an organization. Properly organized training promotes job enrichment and therefore adds to job satisfaction which, in turn, contributes to the efficiency, ultimately resulting in enhanced profitability of the organization. These benefits of training have secured it a permanent place in the discipline of personnel management. Thus, there has arisen a consensus that training should be a continuing process.

Broadly speaking, training may be divided into the following areas of knowledge: skill, attitude, and behaviour. All these areas are properly taken care of by systematic and exhaustive training programs pursued enthusiastically by competent trainers.

The tools of training which have earned it the title of The Essence of Personnel Policy are the subject matter of a full text book. However, to provide some insight to the readers, these are briefed :

Motivation:

Motivation is the driving force behind all workers which make them work whole

heartedly, resulting in improved performance. It is a general term that applies to all sorts of drives, desires, needs, ambitions, expectations, and so on.

There is no fixed list of motivators. Any thing that in the given situation influences an individual's behaviour and makes a difference in what he or she will do is motivator for him or her. Nevertheless, there are certain well known and established motivating factors which under all circumstances make a personnel policy effective and fruit-bearing. These may be referred here as without them the impact of a successful personnel policy cannot be visualized.

Job Analysis:

It can be defined as determining what is done in a particular job as distinct from how a job is done by a skilled worker.

Job Description:

It refers to the written statement of the tasks and responsibilities associated with a particular job which provides guidance to the job-holder as regard the extent and limits of his or her responsibilities and authority. It also serves as a criterion for the selection of suitable candidate for a job and provides a format for designing training program for him.

Job Rotation / Enlargement / Enrichment:

The objective is to make work interesting and stimulating for the workers which would improve quality and increase quantity of output. This can be done in one of the three ways as under.

Job Rotation:

It means interchange of jobs between different workers of the same status, thereby eliminating boredom from doing the same job for a protracted period.

Job Enlargement:

It means that a worker attends to an extended range of work of related nature. For example, if in a branch of the bank one person processes inward

telegraphic transfers and the other outward T.Ts., with job enlargement one clerk will deal with both the inward and outward telegraphic transfers.

Job Enrichment is one of the most forceful motivators. It relates to Herzberg's theory of motivation. Experiments at several leading multinational companies proved that because of employing job enrichment technique productivity increased, absents and turnover were reduced, and morale improved. It has now been proved beyond doubt that workers will work harder if their jobs were enriched and expanded so as to give them greater control over their work and more freedom from their supervisors.

Performance Appraisal / Incentives / Disciplinary Actions:

These influence the workers directly and severely. The fundamental principle characterizing all these managerial activities is that these should invariably be based on merit and merit alone.

Appraisal:

The purpose is to assess how well or how poorly the incumbent is performing. People should know that their performance is being evaluated systematically and in a reasonably objective manner and personal whims and views of the boss do not play dominating role in assessment. Appraisal should be an on-going process. Stereotype reporting on A.C. forms once a year do not serve the purpose.

Incentives in whatever form should be related as to how well the employee has performed. Special increment or incentive bonus given to a blue-eyed worker may not please him as much as it displeases the rest.

Disciplinary Actions:

Such actions should base on tangible evidence against a worker regarding voluntary violation of set rules and regulations. Again, the punishment awarded should be in proportion to the offence or dereliction. The person at fault should know that he or she is not

“PROPERLY ORGANIZED TRAINING PROMOTES JOB ENRICHMENT AND THEREFORE ADDS TO JOB SATISFACTION WHICH, IN TURN, CONTRIBUTES TO THE EFFICIENCY, ULTIMATELY RESULTING IN ENHANCED PROFITABILITY OF THE ORGANIZATION.”

being victimized, and there is no tinge of vendetta in the action taken against him.

Grievance Solving and Managing Conflict:

Grievances are the byproduct of human interaction. These should be settled at an early stage by discussion / negotiation between management and workers before frustration or resentment builds up. It is, therefore, desirable to have a grievance solving procedure laid down with the agreement of staff unions. Unfortunately, unions in our organizations have assumed a negative role by way of presenting unreasonable demands every now and then and claiming unjust benefits. Management should be capable to handle such situations tactfully. Cordial management-union relations go a long way in affecting lasting upsurge in efficiency and productivity.

Conflict is a part of organizational life. It may take place between individuals, between individuals and groups, and between rival groups. It may be managed either by developing interpersonal relationships or through bringing about structural changes. It is a very difficult task indeed but in any case it has to be resolved as its effects are disastrous and far reaching.

Span of Management:

There is a limit to the number of persons a manager can supervise effectively. This limit has to vary from situation to situation depending upon the volume and nature of work a subordinate has to deal with. Thus, there can be no hard and fast rule as regard to the organization levels. However, a wide span of control is associated with few organizational levels;

a narrow span, with many levels. As far as the efficiency of workers is concerned, much depends on the size of the span of control. It must, therefore, be decided at the highest level in an organization after due thought and deliberations as to how many subordinates can be effectively managed by a superior. Both the large and the short span may be undesirable when a middle path will have to be adopted which could be discovered only by experience.

Decentralization / Delegation of Authority:

Authority is the power conferred on a person to make decisions according to his / her wisdom, of-course within the laid down rules and regulations of the organization. This decision making authority when dispersed is called decentralization and the function of dispersing is called delegating.

As an organization grows, it becomes impossible for one man to make all the decisions. There is always a limit to the number of persons a superior can effectively supervise. Once that limit is surpassed, authority must be delegated to subordinates, who will make decisions within the area of their jurisdiction.

There cannot be absolute centralization or complete decentralization in a structured organization. As, in the first case, there will be one man show with no organization in the literal sense. While, in the later case, the position and status of the superior will cease to exist. In either case the efficiency will have a set back. A reasonable mix of the two, depending on the situation, is the appropriate answer.

Leadership Behavior and Styles:

Leadership is the quality of influencing people so that they willingly and enthusiastically contribute toward achieving the organization's goal. It demands following.

There are numerous theories of leadership styles. But, practically speaking, there is either autocratic style or democratic style. To these have been added exploitive-authoritative and participative styles. As the titles themselves suggest, an authoritative leader simply directs and wants unconditional obedience. He does not believe in inviting his subordinates to share in decision making process. As against this, there is a leader who, no doubt makes the decision himself, but encourages his subordinates to participate in the decision making process. This style operates as a motivating force, and the workers take the decision of the leader as their own decision, and put in their best to make it a success. Obviously, this style of leadership yields far better results.

The outcome of this discussion is that the work force in any organization, even in this age of advance automation, is the real power to stimulate efficiency and productivity.

Next, human being is a very complex creature. To make him work with willingness is a great challenge which can be successfully met only through a well structured and self-contained personnel policy that comprises all the variables stated above. With such a personnel policy, any organization can relish a highly congenial and friendly environment susceptible to growth and advancement.



Reputation rules

By Bob Souster

BOB SOUSTER explains why, when it comes to professional life, it's critical that the correct support team of expert advisers is in place.

THE SCENARIO

Gavin works as a small business adviser in a branch of a retail bank. For the past few months, he has kept in touch via LinkedIn with Sasha, a friend from university. During this time they have shared information on their respective careers to date and aspirations for the future. Gavin has always admired Sasha, who was a star student and one of the brightest people he had ever met. It transpired that they work in neighbouring towns. Sasha now runs a successful business advisory firm and is a qualified accountant and tax practitioner.

Purely out of interest, Gavin had a look at the website of the firm in which Sasha was previously a partner. It looked very impressive, with a client list that included some well-respected local companies. Sasha's colleagues were all well qualified and very experienced, and there was a section of the site devoted to client testimonials, all pronouncing a high degree of satisfaction with the firm's services.

During a review meeting with Beth, a client of the bank, Beth mentioned that

her tax adviser had retired and she now needed advice on some urgent tax matters. Anxious to be of help to his client, Gavin put Beth in touch with Sasha, suggesting that he had always found Sasha enthusiastic and capable. Thanking Gavin for his help, Beth decided to contact Sasha in order to seek advice.

Some weeks later, Beth telephoned Gavin and informed him that Sasha had let her down badly. Sasha was invariably indecisive on many matters on which advice was sought, and some of the information received was clearly out of date and sometimes plainly wrong. Sasha rarely returned telephone calls, and made excuses to put off appointments. The business relationship deteriorated to the point where Beth sought and paid for alternative advice and decided not to pursue any further business dealings with Sasha. However, after hearing nothing for several weeks, Beth received an invoice demanding professional fees for advice given and work carried out on Beth's behalf. The invoice was substantially more than expected, and Beth doubted whether some of the work itemised in

"Sasha was invariably indecisive on many matters and some of the information received was clearly out of date and sometimes plainly wrong."

the invoice had been carried out at all. In the most recent communication between them, Sasha informed Beth that if the fees were not paid urgently, it would be necessary to consider legal action for monies due.

Beth pointed out that the whole unfortunate episode would leave her out of pocket, as she feared she would have no choice other than to pay Sasha for fear that failure to do so would damage her reputation. Beth made it clear that she was very disappointed with Gavin's recommendation.

What are the ethical implications of this scenario?

THE ANALYSIS

The case is relevant to numerous concepts in business ethics, including accountability, responsibility, diligence and technical competence. It also concerns reputation, that most treasured asset that can take years to build and yet be lost in minutes.

Accountability and responsibility

Gavin did not have to refer Beth to Sasha, and did so of his own free will. In doing so, he took on a responsibility that extended beyond his duty as a representative of the bank. Though well intentioned, he was wrong to do so, as he had no idea of what service could be expected, or what ultimately would be provided by Sasha.

Many of us have positive perceptions of people we meet in academic, business or private life, even though we have no idea of their professional competence. In this case, Gavin's opinion of Sasha was based on the Sasha he knew in a completely different environment when they were studying together.

Accountability in this case lies with the bank, as it is the bank that employs Gavin and may be judged by its customer on the basis of advice given. In most similar scenarios, it is the employer that takes ultimate responsibility (that is, accountability) for the actions of its officials.

Diligence

In giving advice, an appropriate level of diligence is essential. Even though the advice was free in this case, it may not be without consequence. The customer will undoubtedly no longer trust Gavin, and in turn may lose faith in the bank, as Gavin acted as its proxy.

Before directing a customer to seek specialist assistance from a third party, it is necessary to be confident that the service promised will have a reasonable prospect of being delivered. Of course, Gavin had no experience of what Sasha could deliver in terms of technical competence or customer service. Beth was failed on both

counts, as the advice received seemed to be below the standard expected and the level of customer commitment and service was seriously deficient.

Technical competence

Technical competence is the foundation stone of ethical behaviour in professional life. This is underpinned by professional qualifications, but also experience and skills that cannot always be measured by the ability to pass examinations. There are plenty of examples of exemplary students who are hopeless in business, as well as brilliant businessmen and women who are hopeless at examinations. Gavin's credentials may be reinforced by



“Many of us have positive perceptions of people we meet in academic, business or private life, even though we have no idea of their professional competence.”

letters after his name and testimonials, but the ability to deliver results is how he will be judged by the client.

In his naivety, Gavin believed the “hype” on the website without taking the trouble to validate what he had seen.

In conclusion

So what are the lessons of the case? In banking we rely on our own expertise and that of our colleagues, but also the support that can be provided by other professionals. Banking depends on forging relationships with experts in other related fields. Just as the customer looking for a mortgage needs to make contact with an estate agent, a solicitor, perhaps a surveyor and others, a business client like Beth may need to be referred to accountants, tax advisers and other professionals. This is actually supported by legislation and rules – for example, the

Mortgage Conduct of Business (MCOB) rules relating to lifetime mortgages and home reversion plans acknowledge that the adviser need not be an expert on tax or state benefits, but should direct the customer to seek appropriate advice. The key word here is “appropriate”.

It is a long-standing practice in many financial institutions that where a customer needs specialist advice, referrals can be made to a panel of providers rather than one specific provider. In this way, the customer makes the choice and takes responsibility for selecting the adviser.

In the words of a famous song, “The best things in life are free...” but free advice is dangerous, both to the giver and the recipient.

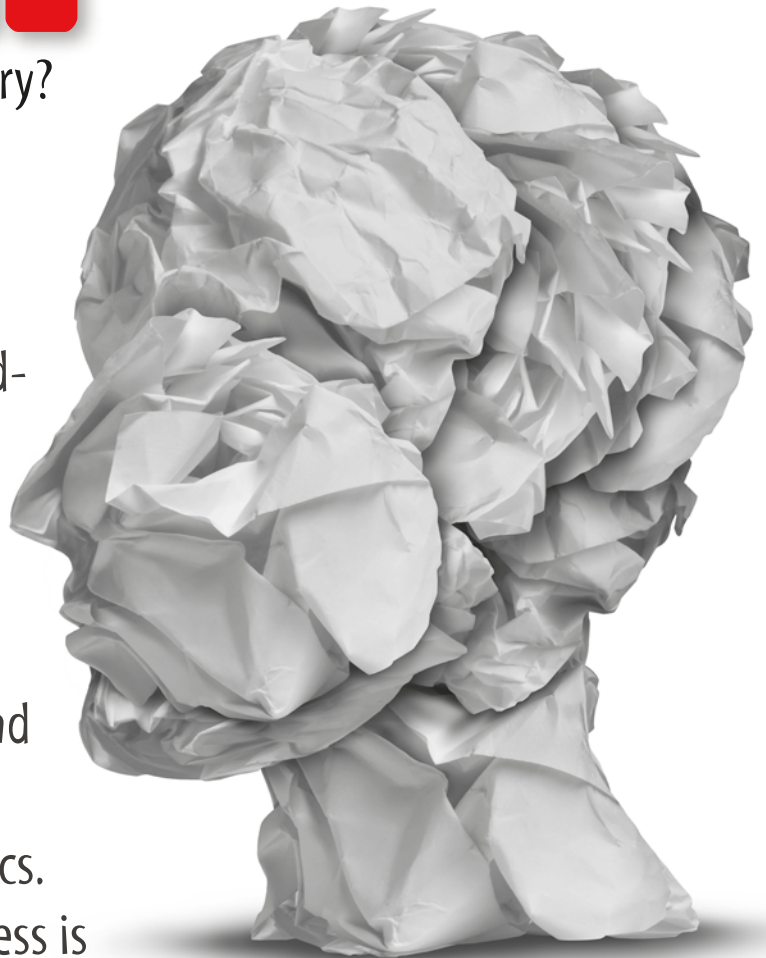
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Professional **STRESS**

When is the Lemon Dry?

By Hansruedi Schuetter

Pressure at the workplace is unavoidable due to the demands of the contemporary work environment. Pressure perceived as acceptable by an individual may even keep him or her alert, motivated, able to work and learn, depending on the available resources and personal characteristics. On the other hand, work-related stress is the response people may have when presented with demands and pressures that are not matched to their knowledge and abilities and which challenge their ability to cope. Such stress may damage an employee's health and his business performance.



What drives a reasonably intelligent person to take his or her own life?
How much stress must a person endure before all nerves snap?

The most recent cases that fall into a worldwide pattern of suicides in the financial industry were William Broeksmit, a retired Deutsche Bank risk executive who was found dead in his London home in January. It was reported that he appeared anxious over regulatory probes at Deutsche Bank. Gabriel Magee, a vice-president in technology operations at JPMorgan Chase, died after falling from the firm's 33-storey London headquarters. These suicides were followed by others around the world, including another one at JPMorgan in Hong Kong and a French banker who jumped from Bred Banque Populaire's headquarters. She reportedly had questioned her superiors before the lethal plunge, a claim the bank refuted.

Most shocking was certainly the case of 21-year-old Moritz Erhardt who died from an epileptic seizure last August. Erhardt had been nearing the end of his seven-week internship with Bank of America Merrill Lynch's investment division. It is said that he had worked through the night eight times in two weeks at the firm's London office to impress his bosses. While stress at work has not been proven as the cause of death, it is nonetheless hard to dismiss as a major contributor.

Such is the pressure on the interns who so desperately chase those lucrative investment banking jobs that one of them confided to a journalist: "There were nights when I could have gone home at 11pm but that would have been career suicide. Instead, I used to pretend to be busy working until 2am, then be back at my desk at 7am." And another added: "I thought I would get credit for going home, so that rather than being exhausted, I was rested. Instead I got feedback that this was one of the reasons I had been passed over for the position." Working six or even seven days a week is common, with a 110-hour work-week nothing out of the ordinary, the interns claim.

How much juice can you squeeze out of a lemon?

Stress occurs in a wide range of work circumstances but is often made worse when employees feel they have little support from supervisors and colleagues, and little control over the work process.

The most stressful type of work is therefore that which poses inappropriate and excessive demands on the employee's capabilities. A recent trend in the Western world to cut training budgets only exacerbates the issue.

The corporate climate in the financial industry has substantially tightened, some may say deteriorated. The financial world's aggressive, hard-working culture may be hurting itself, professionals advising on mental health in the industry say. Numerous bankers cannot wait for their retirement, many seek and happily accept early retirement. But not everybody is eligible for it. Working life goes on for many who feel the squeeze of higher workload, longer working hours, higher internal competition, tighter budgets and the permanent fear of being laid off. And inevitably there are those who break like Zurich Insurance Group's CFO, Pierre Wauthier who killed himself last August, leaving behind a suicide note in which he described himself as demoralised because of a new, aggressive tone at Zurich Insurance.

Stress levels are probably at their highest when the business model fails or when the regulator breathes down the bank's neck with an investigation and with a fine for corporate misbehaviour or, as of late, even with a fine for operational mistakes. Employees typically bear the brunt of the burden. Managers no longer take the time to listen to employees and thus cannot detect early signs of exhaustion. Performance becomes more important, often motivated by those managers' intrinsic desire to demonstrate loyalty to the firm in hard times, or, to formulate it differently, their own

“The financial world's aggressive, hard-working culture may be hurting itself, professionals advising on mental health in the industry say. Numerous bankers cannot wait for their retirement, many seek and happily accept early retirement”

survival instinct. In many cases, neither the Human Resources department nor the managers are sufficiently skilled to respond to such situations. The employer-employee relationship deteriorates. Respondents to a recent study by the Geneva School of Business Administration used statements like "employees who do not leave the firm become mercenaries." This is when the climate becomes toxic.

Numerous studies advocate that staff recognition and respect are a sound basis for a healthy work environment. Humans feel a basic need to accomplish, to create, to feel satisfaction, and to feel meaningful. Some even call it a fundamental human need. Rewarding work is an important and positive part of our lives. However, when the work environment denies people an opportunity to utilize their

“Promotions mostly include additional managerial responsibilities for which the successful employee has never been trained and may not be ready”



capabilities, it causes stress. And when a worker's achievement is hijacked by a superior, frustration adds to the ailments.

Isn't employee stress often used as a scapegoat to excuse bad management practice?

It is much easier to become a father than to be one, says the proverb. And, looking back in my career, brilliant bankers often made bad managers. Promotions mostly include additional managerial responsibilities for which the successful employee has never been trained and may not be ready. Some of the wiser managers I encountered appointed a chief of staff, someone who could take over that unfamiliar, unsuitable or even undesired part of their management role. Prerequisite, though, is both a critical self-assessment and honest admittance of the relative weakness.

The traditional response of management has been to blame the victim, looking at stress as an individual or personal problem that workers bring from home to work. While this may be true in individual cases, it does not necessarily mean that there is no work-related component in the underlying reason for the stress. After all, we do spend half of our day at work, and from the other half, we cut away a good part for our nightly sleep. How many pensioners feel empty for the first few months after retiring? A part of their lives has been removed without immediately embraceable replacement.

It is therefore much too easy to entirely blame the victim. Stress is a reaction of the body to a situation. As soon as the brain perceives the situation as dangerous, it sends messages that stimulate the extra energy needed to

fight the danger or run away from it. The heart starts beating faster in order to get more blood to the muscles, adrenaline and other hormones are released to provide more energy, additional stomach acids are secreted, and respiration increases. All these changes are intended to prepare the body for action. However, when these bodily processes are constantly functioning, our body works overtime. Under such circumstances, the entire system is weakened and the weakest spots are the first to show signs of strain. If this burden continues over a prolonged period of time without adequate chances for relaxation, the entire body may start to break down. Burn-out is the modern word for it.

In summary, the stress cycle includes the danger stimulus, the removal of the danger, and finally a state of relaxation.

Whether it is increased workload, eye-strain from staring into computers, unpredictable or unexpected disciplinary action by a supervisor, or never being complimented about the quality of work we produce, all these factors feed the danger stimulus. Since we have got used to working in stressful environments, however, we may be unaware of the body's reaction. But even if we are not conscious of it, the demands of being in

“Such was the pressure on the interns who so desperately were eyeing those lucrative investment banking jobs that one of them confided to a journalist”

a constant state of alert take their toll on our physical health and emotional well-being.

Relaxed and happy staff are always the most loyal and the best performers. What does it take to achieve happiness and job satisfaction?

The pat on the back and a word of thank you works wonders. At one point in my career I had a treasury back-office on the verge of dropping everything and walking out. After a week of tripling the normal number of deal

tickets, causing the back office to work overtime into the late nights and incur lack of a private life and most of all sleep, the twenty-odd staff were ready to quit with immediate effect, even without a job at hand.

Upon hearing this from the head of department, I forced the Treasurer to take half of the office to lunch that day, and the Managing Director to entertain the other half the day after.

This is all it took: Somebody actually said “thank you”, and the smiles

were back on their faces. Unfortunately, it was also needed to make the seniors understand that the situation was severe; their first reaction was to dismiss it as a temporary issue.

One of the most important rules in life is balance. The balance in your diet as well as the balance in your activities. Workers without any social activities outside their working hours are more likely to succumb to stress at work. Switching off does not need to be learnt, it needs to be practised.

Stress occurs in a wide range of work circumstances but is often made worse when employees feel they have little support from supervisors and colleagues, and little control over the work process.



Family life is a good change to the work environment. However, if there is a crisis at home and this is matched with high stress levels at work, the breakdown may occur. We therefore may need a third pillar of support.

Already the old Romans taught us: Mens sana in corpore sano – a healthy mind in a healthy body. To promote an additional avenue of relaxation and switching off, some banks sponsor a

number of staff initiatives, like internal clubs, interest group gatherings or joint staff outings. Yet others provide their staff with subsidies to membership clubs, in particular sports clubs.

Independently carried out staff satisfaction surveys can play an important role in creating a balance between demanding job requirements and a personal sense of achievement. The

corporate performance shall be the first to sustainably benefit.

In short: The more quality time bankers enjoy outside the office, the more balanced and resistant they are to stress, leading to stronger performance and a better bottom line for the firm. It is in the employer's hands whether he wants to squeeze the lemon dry or cultivate it to enjoy a rich harvest season after season.



Practical Problems on **COMMERCIAL BANKING** *& their Solutions*

By Dr. Sabir Ali Jaffery

Q.1 Ahsan Saleem, a prestigious customer of your bank, countermanded payment of his cheque for Rs.3.5 million issued in favour of m/s Durables (pvt.) Ltd. He, being out of station, telephoned the branch to note his instructions which would be followed by letter. The phone call was made late in the evening on 23rd. April 2014 when no authorized person was available at the branch. The call was received by the dispatcher who advised the caller to send the instructions in writing. Mr. Saleem instructed his accountant on telephone to write the letter and deliver it at the branch forthwith, who complied with the instruc-

tions promptly. But, as no one was available at the branch, the letter was dropped in the mailbox installed there for this purpose.

Next morning, i.e. on 24th April, the mail was collected from the box as usual. Incidentally, the letter of Mr. Saleem's accountant remained stuck up in the mailbox and could not be taken out with other mail. The cheque was presented in clearing that very day and paid in due course. Later in the day, Mr. Ahsan Saleem turned up at the branch to confirm receipt of his letter and to authenticate it with his authorized signature when he was informed that the

cheque had already been paid. Mr. Saleem sued the bank for damages on the plea that after knowing of his intention to countermand the cheque the banker should have been on alert and deferred the payment in the interest of his customer.

What would be the bank's defense?

Ans. The bank would take the defense on the ground that the cheque was not effectively countermanded. Its dropping into the mailbox could at the most constitute constructive delivery, which has no legal validity in respect of commercial transactions. The view is upheld in the judgment in *Curtice v.*

London, City and Midland Bank Ltd. [1908] 1 K.B. 293.

The facts of the case and the observations made by their lordships were as under:

On 31st. October, Curtice, a customer of the defendant bank, stopped by telegram payment of his cheque for Sterling 63 issued in favour of one Mr. Jones. On the evening of the same day, the telegram was delivered by messenger but as the bank was closed it was put into the branch letter box. However, it was not brought to the notice of the authorities until the 2nd. November whereas the cheque was paid on the 1st. November. The bank advised Curtice that the stop payment instructions had been received too late to be acted upon. The plaintiff brought an action against the bank claiming that it was not entitled to debit his account with the amount of the cheque in the wake of the stop instructions having been delivered at the bank well in time for the bank to act upon them.

HELD (CA) The action failed on the ground that the cheque had not been effectively countermanded.

COZENS HARDY MR: There is no such thing as constructive countermand in a commercial transaction of this kind. In the opinion of his Lordship, on the admitted facts of the case, the cheque was not countermanded, although it may well be that it was due to the negligence of the bank that it did not receive notice of the customer's desire well in time to stop the cheque.

Q.2 M/s Haq Enterprise is a partnership firm with Athar-ul Haq, Azhar-ul Haq, Abbas Navivala, and Sher Ali Sopariwala as partners, each with 25% share in profit and loss of the firm. Mr. Sopariwala, an octogenarian and most affluent of the four, decided to retire as partner of the firm. At that moment of time, the firm's overdraft account shows

a debit balance of Rs. 800,000 against pledge of listed shares quoted at 10% discount with symptoms of further decline in their face value.

Sopariwala approaches the bank with the request that on payment by him of 1/4th. of the amount that the firm owes to the bank, to which he is liable as per the terms of the partnership deed, he may be absolved of the firm's liability towards the bank, and a certificate be issued in that behalf. The branch manager is not inclined to accept the proposal but has no solid ground to substantiate his viewpoint. While, on the other hand, the Officer-in-charge Credit Department suggests that the pledged shares will still fetch almost 50% of the outstanding balance, thereby substantially reducing the firm's liability. In that situation, according to him, a repayment of Rs.200,000 is not a bad bargain.

Advise the branch management on the offer of Sopariwala in the context of the Partnership Act.

Ans. Partners' liability towards the debt of the firm is unlimited. Moreover, all the partners are severally and jointly liable to the debt. Hence, Mr. Sopariwala is liable for the entire amount that the firm owes to the bank. The proposal is, therefore, not tenable. On the other hand, he being the most affluent of all the partners, the bank may have to fall upon him for recovery. The bank should also contact other partners of the firm to ascertain whether they would be willing to continue their partnership without Mr. Sopariwala in which case they may be required to execute new partnership deed and open a fresh account and replenish the security to adequately cover the advance, failing which the advance may be recalled and account be stopped and necessary action taken to recover bank dues.

Q.3 Hakeem Sons is a partnership firm with three partners, namely, Khalid, Sajid, and Shahid. The account is operated by either Khalid or Sajid

singly. A cheque for Rs.90,000/- is issued in favour of Bahria Town (pvt.) Ltd. by Khalid, being an installment of the purchase price of the piece of land acquired to establish an assembly plant of the firm. Before the cheque is presented in clearing, Shahid countermands it. Accordingly, the cheque is returned by the bank.

A couple of days later, Sajid withdraws the countermanding instructions earlier initiated by Shahid. The cheque is presented again by a special messenger of the collecting bank with a request to issue payment order for the proceeds of the cheque.

Was the bank within its right to return the cheque in compliance with the instructions given by Shahid who was not authorised to operate upon the account? Will the countermanding instructions be treated as revoked on receipt of Sajid's instructions? Will the banker's action be different if the instructions to cancel the countermanding instructions were given by Shahid?

Ans. All the partners of a firm, irrespective of whether any of them has no authority to operate the account, have authority to revoke instructions given by other partner. Hence, bank was obliged to honour the countermanding instructions given by Shahid although he had no authority to operate the account. Thus, the action of the bank in returning the cheque in compliance with the instructions of Shahid was valid.

However, all the partners must sign the letter withdrawing the earlier instructions of countermanding payment of the cheque. The bank should not carry out the instructions given by any one partner.

Bank's action will be the same even if the cancellation was signed by Shahid himself.



Q. 4 A cheque presented against a bill lodged for collection expected to have been realized till then was returned for want of funds with the reason “Refer to drawer”. The customer sued the bank on two counts:

- (i) wrongful dishonour
- (ii) damages for loss of his reputation owing to the reason of return given by the bank.

Will the bank be able to defend the suit successfully?

Ans. The drawer before issuing the cheque should have ascertained from the bank whether the proceeds of the bill had been realized. Drawing against expected funds in absence of any arrangement with the bank was tantamount to ‘drawing against insufficient funds’. Under banker-customer relationship, bank was not obliged to pay the cheque in question in the given situation. Hence, the customer’s claim will fail.

The reason of return given by the bank was inappropriate. The term ‘Refer to drawer’ was initially introduced as a very mild reason of dishonour but, as the practice evolved, it assumed the impression of very serious form of refusal of payment by the bank, which tells adversely on the credibility of the account-holder. The appropriate reason in the given situation should have been “Effects not cleared; please present again.” The reason given by the bank owing to its negligence was libelous as per the established practice for which the bank shall be held liable.

Q. 5 You have a current account at your branch opened one month ago with an initial balance of Rs.5,000/-. Since then no transaction was made through the account until a couple of days ago when a demand draft for Rs.1,250,000/- issued by one of your outstation branches was deposited into the account. A cheque for Rs.1,000,000/- drawn payable to ‘cash’ is now presented on the counter. The cheque is in order in all respects and is drawn against the available funds.

Will you still withhold payment of this cheque? If so, on what ground?

Ans. A drawee bank is discharged of its liability when the payment made by it meets the requirements of “payment in due course” as provided for in Sec.10 of The Negotiable Instruments Act., analyzed as under:

“Payment in due course” means payment:

In accordance with the apparent tenor of the instrument;(ii) in good faith; and (iii) without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned.

Assuming that the payment would be in accordance with the apparent tenor of the cheque and with all the good intention, would it also meet the third requirement? Obviously not.

It was sufficient for a vigilant banker to be on alert that a heavy amount was

received for crediting into a new account opened with a paltry sum of Rs.5,000/- and which also did not carry any subsequent transaction. Moreover, immediate withdrawal of a major portion of that amount was one more reason for the banker to be overcautious.

One more factor that could not be ignored by the paying bank was that normally such heavy amounts are not withdrawn in cash. It was something unusual and therefore called for unusual vigilance.

These circumstances did afford “a reasonable ground for believing” that the title of the person to the cheque could be defective.

The payment of the cheque would, therefore, be declined for want of credit advice of the issuance of draft. In the mean time, necessary enquiry shall be made from the draft issuing branch. Much depended on the information received from that branch.

Some mild interrogation should also be made of the person presenting the cheque. Even if he proves to be a genuine holder, the payment should be deferred until satisfactory report and the relative credit advice were received from the DD issuing branch.



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Warrior of Light

A warrior of light knows that certain moments repeat themselves.
He often finds himself faced by the same problems and situations, and
seeing these difficult situations return he grows depressed, thinking that he is
incapable of making any progress in life.
'I've been through all this before,' he says to his heart
'Yes, you have been through all this before,' replies his heart
'But you have never been beyond it.'
Then the warrior realizes that these repeated experiences have but one aim
to teach him what he does not want to learn.



• "The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts." *Bertrand Russell*

• "Don't cry because it's over, smile because it happened." *Dr. Seuss*

• "I have learned that sometimes "sorry" is not enough.
Sometimes you actually have to change." *A. Meredith Walters*

• "People demand freedom of speech to make up for the freedom of
thought which they avoid." *Søren Aabye Kierkegaard*

• "A lie gets halfway around the world before the truth has a chance to get its
pants on." *Sir Winston Churchill*

• "I do not feel obliged to believe that the same God who has endowed us with
sense, reason, and intellect has intended us to forgo their use." *Galileo Galilei*

• "I'm living so far beyond my income that we may almost be
said to be living apart." *e e cummings*



• "Every day is a bank account, and time is our currency. No one is rich, no one is poor, we've got 24 hours each." – Christopher Rice

• "Money plays the largest part in determining the course of history." Karl Marx

• Bank failures are caused by depositors who don't deposit enough money to cover losses due to mismanagement – Dan Quayle

• A bank is a place that promises you to keep your money safe and then lends it to somebody else in order to make money for itself. – Anonymous

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