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Mapping the Forces Behind Financial Frauds

Benchmarking for Islamic Banks

Control Anger Before It Controls You

ECONOMIC GROWTH RATE AND DISADVANTAGED SEGMENTS: NEED FOR HARMONY

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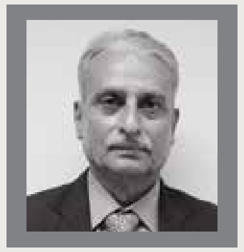

Rafi Ahmed
Editor

A Pandect of Banking Industry

The story of Pakistan's banking industry just hovers around more than 72 years and has served the nation well beyond its capability. Although the pioneer bankers had a modicum of wherewithal at their disposal but they donned the mantle of success and supported the nascent banking industry of a newly-independent state. In fact, the foundation of our banking industry was laid even before the very birth of the new state. The seeds which were sowed, bore fertile and fruitful trees which matured after the country attained freedom. Some of the seedlings were also transplanted all over the globe, notably Middle East and they sprouted and bore fruits much earlier than expected.

The first bank to be established on the soil of what constitutes present Pakistan was Australasia Bank, (the precursor of the present day Allied Bank). Could anyone imagine that the bank was formed on December 3, 1942, with an initial capital of just Rs. 0.12 million in the improvised garage of Khawaja Bashir Baksh's house near Lahore Railway Station. It assumed the scheduled bank status in 1946. The setting up of this bank was guided by inspiration it received from such prominent stalwarts like Zafar Ali Khan, Mian Iftikhar Hussain and Mumtaz Daultana, who was also in the then board of directors with Khawaja Bashir as the first Chairman, whose tiring efforts led to the success of the venture itself. Its profit in 1947-48 was Rs. 50,000.

However, the first bank to be formed on the specific advice of the founder of the nation was Habib Bank Ltd (HBL), which was established on August 25, 1941. Based in Bombay in 1941, HBL moved its operations to Pakistan in 1947, therefore becoming the first commercial bank to lay its foundation in the country. Its fixed capital was Rs. 25,000. Its Karachi Branch began operations in 1943.

But then the founder of Pakistan was very much concerned with the absence of any national bank manned by the citizens of the country in the then eastern wing, which was soon to form a part of our new nation. Its mainstay was jute and jute trade needed to be financed from the time of its harvest to market and then at processing and exporting stages. Just then Mr. Jinnah stressed the need for a robust bank in the eastern wing. With this vision in mind and at the request of Mr. Jinnah, such philanthropist-industrialists as Sir Adamjee Dawood established Muslim Commercial Bank with the active cooperation of Abul Hassan Ispahani. Thus Muslim Commercial Bank Limited was incorporated by the Adamjee Group on July 9, 1947. In the aftermath of partition, there was a severe dearth of people to run the banking industry, as there was massive flight of capital, banks and skilled banking workforce from the country. The state was in a vacuum as far as banking was concerned.

But all kudos and accolades to the sagacity, vision, foresight, entrepreneurship and talent of the genius of those legendary bankers of yore, who with limited resources at their disposal, went about as pioneers and created such a huge edifice of industry whose contribution to the internal and global banking domains is worthy of volumes of applauds. For decades, they remained the topnotch industry leaders in the international arena, whose skills and adroitness remain unmatched to even this day. Their legacy still remains on the palimpsest of glorious financial history of ours and being carried forward by the present crop of bankers.

What started out as a sudden outburst of epiphany in the mind of Khawaja Bashir in his Lahore porch, is now a globally recognized and well-heeled vibrant Banking Sector.

This could be gauged from the fact that in March 1947, just a few months away from independence, we had 46 scheduled banks with a network 487 bank branches operating in the areas now constituting Pakistan. However, within a span of eleven months, in July 1948, the banks were reduced to 38 with 81 branches, of which 25 were only of Pakistani-origin banks, namely: HBL, Australasia and MCB Bank etc. As already pointed out, this was due to crippling attempts on our inchoate economy by deliberately encouraging flight of capital, banks and exodus of skilled workforce. By the end of June 1951, we had 19 foreign banks left to meet the growing financial needs of the country.

Similarly, we had paltry bank deposits of Rs. 88.05 crores way back in 1948, which rose to Rs. 2,062 crores in 1973, on the eve of banks' nationalization. Compared to present status, deposits of all commercial banks stood more than 14 billion in September 2019. The rise is phenomenal by all standards.

The banking industry has now expanded by leaps and bounds in all aspects. Presently the banks number 45 with a total branch network of 15,549 spread all over Pakistan. Together they boast of 53.11 million accounts. 11 banks are defined as Microfinance Banks. It is quite encouraging that the number of Automatic Teller Machines have also exhibited a rise by addition of 214,

editorial

now they total 14,575 ATMs, which means only 974 bank branches remain without ATMs. The banking industry is awash with a multitude of products and services which cater to all segments of the population.

The latest figures, however, reveal that much needs still to be done as only 26 percent of the entire population of 208 million (or 20.8 crores) is in the fold of financial inclusion. Our Central Bank, SBP is contributing much in this domain by launch of new policies, programs, relaxations, regulations and motivational tools. But it is not the sole responsibility of the central regulatory body alone, all the 45 banks must come forward to take part in these venture of national significance, which have a wide-reaching impact on the soundness of financial health of both the people as well as our national economy.

For the last many years SBP, in close collaboration with the federal government, is striving for financial inclusion of the disadvantaged segments of the population and other vital sectors. It has assigned high priority status and accorded utmost importance to such neglected sectors as agriculture credit, microfinance, SME finance and low cost housing finance. Besides, it has also initiated and encouraged banks to adopt Green Banking practices in line with the global standards, to arrest the growing threat to our ecology and environmental degradation, a worldwide phenomenon indeed.

There is a drastic need to revisit the performance of the 11 Microfinance banks with their quite sizeable branch nexus of 1,166 to increase financial inclusion and bring about qualitative improvement in the lives of the financially-disadvantaged segments. The performance of MFBs is not up to the desired level, as they need to reach out to the shanty towns in the cities and rural populace in order to be effective. There is no need to maintain branches in affluent areas as the upper crust of our social fabric do not require micro loans. The MFBs should also come out of this complacency and their cocoons to reach out to those who require the most with their newer, more pragmatic and affordable packages to alleviate poverty. There is a need of innovation and imagination to accelerate and act as catalysts, rather than following run-of the mill approach.

One of the most impressive development and disruption in the banking sector is the emergence of branchless banking (BB). By the end of 2018, BB accounts increased by 4 million to 47.2 million, of which 37.5 million comprised of males and 9.6 million were females. However, the female percentage is very low, only 20 percent of the total. This gender-based inequality needs to be addressed on urgent basis. But the growth of BB accounts with a deposit base of Rs. 23,678 million are optimistic signs of what lies ahead. There is an urgent need to increase BB accounts in most remote and isolated regions of Baluchistan, Gilgit-Baltistan and Azad Kashmir and Khyber Pukhtunkhwa, so that more and more people benefit from such facilities. It is also noteworthy that more than half of the banks (27) are providing Internet banking services with 3.1 million internet users to their credit. While 15,408 branches are Real-time Online Branches (RTOB), this banking channel provides online banking facility to all its customers' across all the branch network of the same Bank. On the other hand, 12 banks are without any ATM facility, which means sooner or later they would have to cover this deficiency.

As mentioned earlier SBP had laid great emphasis on the hitherto neglected sectors, such as Housing Finance, Agriculture Finance, Microfinance and SME Lending. As far as Housing Finance is concerned, Rs. 6.0 billion was disbursed in the quarter April-June 2019 to some 60,441 borrowers by three streams: Conventional banks, Islamic banks and DFIs. This means that although the pace is slow but at least the ice has thawed.

The picture of SME Sector is by no means impressive as by March 2019, Rs. 470.08 bn were disbursed to 181,749 borrowers, if compared to the same period of 2018, there is a decline of 8.44 percent in the quantum of loans (Rs. 513.46 bn), but the borrowers increased only slightly. So much needs to be done in this sector and banks need to change their age-old paradigm and shed off apprehensions in SME finance.

Thus our banking industry is vibrant and responsive to frequent IT disruptions but it needs constant prods and props to be more focused to deliver the best optimum performance in order to come out with new more innovative products and services and strive for financial inclusion of the deprived segments which would no doubt go a long way forward to enhance our Key Economic Indicators. The only way to promote further progress is through increased financial inclusion, digitization and branchless banking.

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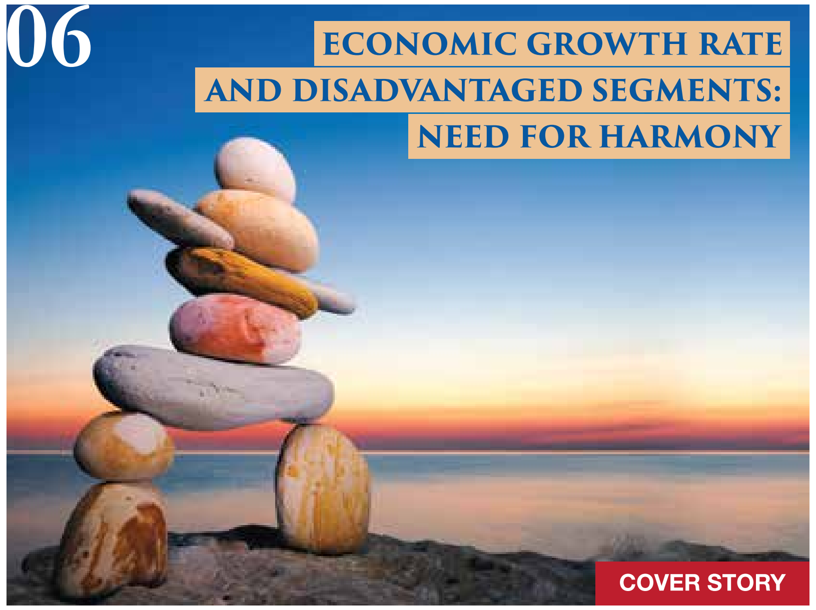

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ECONOMIC GROWTH RATE AND DISADVANTAGED SEGMENTS: NEED FOR HARMONY

By: Akram Khatoon

Rapid and sustainable GDP growth rate is taken as the most effective measure to reduce inequalities and poverty. Countries, while devising strategies to achieve Millennium Development Goals (MDGs), not only to sustain what has been achieved up to now, but also total eradication of inequalities and poverty through the program titled Sustainable Developmental Goals (SDGs) are striving to achieve high GDP growth rate. In spite of sluggish economic environment in a major part of the globe, as such reaching the set targets within specified period remains a distant dream as reflected from statistically calculated quantum of reduction in poverty based on increased per capita income of these countries. It has been witnessed that the plight of majority of the downtrodden has not been lessened.

No doubt, poverty has reduced in some of the urban pockets of these countries. According to a report by Commission on Measurement of Economic Performance and Social Progress set up by the French government, poverty statistics based on household income and expenditure surveys of various segments of society in quite a number of developing countries have depicted a static status of poverty among major sections of the poor. Positive quantitative change in per capita income of targeted countries has not brought qualitative change in social well-being of a major chunk of the population living below poverty line. With the exception of industrial and business hubs in these countries, poor living in less developed or rural areas are not better off economically, as well as socially.

Similarly, in the context of Pakistan, one can recall that during first decade of the current century, Pakistan had recorded economic growth rate of 8% and statistics revealed almost 10% reduction in poverty. But quite a number of people from low and middle income brackets were pushed below poverty line due to lack of job opportunities, pay cuts or loss of jobs due to restructuring process in quite a number of public sector entities and above all due to rising food inflation, which resulted in depletion of their assets. Actually these are distributional issues relating to resources and services, which falsify a positive official data on poverty reduction through increase in per capita income and economic growth rate in conjunction with non-economic dimensions of poor people's well-being.

It is a common scenario with low income developing countries that while recording poverty data based on growth rate and increasing per capita income, they continue to have more poor people due to higher population growth rate than the percentage with which poverty is declining in these countries. Secondly, increasing share of private sector, both in respect of social services and process of production is a favorable indicator of fast and sustained growth of economy. This is essential for alleviating poverty in the country, but either cut down or altogether elimination of public sector services would adversely affect a major section of the poor. Reduction in provision for subsidized or cost free services, like education and health care and transportation, would in reality aggravate the poverty status particularly in low income developing countries. On the other hand, standard official poverty statistics which are not based on standard household survey measures of well-being, in fact, overstate the improvement in welfare of impoverished population due to increasing role of private sector in providing essential social services.

As is evident in case of Pakistan, the private sector takes initiatives to provide social services, particularly quality education at all levels, have in reality resulted in increased financial burden on poor families. They are also in quest of quality education and want to send their children to private schools charging exorbitant tuition fees. Statistics in this regard reveal that only 25% of children from low and middle income segments are enrolled in private primary schools.

Household income and expenditure survey results, being the criteria for determining level of poverty, also mislead the facts. In this regard inequalities within households need to be taken into account as women and children in family are given lesser weightage. Measures taken for well-being of families are to be divided by household size, per capita income and consumption at family level, which in turn need to be based on realistic figures, pertaining to each member of the family with emphasis on gender and age groups.

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Among the various recent global imperatives emerged for fast improvement in economic growth rate, empowering women has been taken as critical for the world's economy and human welfare. Christine Lagarde, Managing Director of IMF is of the view that unfair and unequal treatment to women can marginalize them, which in turn will hinder the participation of women as producer individual contributing to society and economy in invaluable ways. In this regard, she emphasizes the role of policy makers and economic managers of a country to design policies that help women and girls access what they need for a fulfilling life, including education, health care, safe transport, legal protection against harassment, finance and flexible working arrangements. All these remain a missed opportunity in the pursuit of macro-economic stability and inclusive growth, which IMF ensures that all countries strictly follow.

In Pakistan, where women—particularly in rural areas — are totally ignored in census surveys, one cannot rely on information relating to weal of impoverished families just on the basis of economic growth rate resulting in improved per capita income. Due to Pakistani women's inaccessibility to social services like education, health care and its lacking in physical assets ownership, their percentage in economically disadvantaged population has exceeded 70%. Thus poverty rate reflected in official statistics is always lower than what realistic income distribution in the country would show.

Poverty in Pakistan continues to be much higher in rural and less developed urban pockets. Difference in incidence of poverty among rural and urban, which was 5% in 1991 increased to 18% in 2015-16 due to disproportionate impact of overall economic growth rate.

In Pakistan, during late nineties and early decade of 2000s, the financial sector and various state owned organizations gained significant growth momentum in their profitability, business expansion and overall operational efficiency, thus providing benefit to some skilled labor. However, the move to digitize banking transactions and use of advanced information technology in various private and public sector corporations, along with consolidation and restructuring approach, laid off a sizeable number of semi-skilled and unskilled work force and thus mitigated the expected well-being of the working class. Lately, due to mounting ratio of external and internal debt to GDP and slowdown in economy as a whole, will further enhance the number of people falling below poverty line.

However, to conclude in general terms, the emphasis of Commission on the Measurement of Economic Performance and Social Progress on use of household survey covering a set of data based on gender inequalities within household, environmental, rural and urban disparities and birth and death rates of a country is the realistic approach to determine the level of poverty. It is expected to give a true picture enabling governments to formulate economic policies ensuring sustainable well-being for disadvantaged segments of the population of a country. ■

The Future of Banking
Digital vs Brick and Mortar

By: Aisha Arif Hussain

This highly competitive fast-paced era undeniably belongs to jack of all trades along with being master of one too, be it a human, a bank or any institution. The credit for my sigh of relief goes to ABL that first enabled me to save my pocket money digitally and then facilitated me with 'My ABL' digital app on which I made the fee payment in the blink of an eye. Incredibly, dad spent entire life paying my fees and home bills by visiting brick and mortar locations. I wonder how!

This notion highlights an upheaval of one of the most noteworthy concerns of the banking sector which holds a tremendous impact on the entire banking industry in the long run and is likely to shake the bankers, financiers and customers bizarrely. Present epoch marks the 'renaissance' of banking towards 'digital' banking with exponential technology development that has not merely led banks to save time, efforts and expenses but most significantly allowed banks to think 'strategically smart' for their own. And, because of this, the dreams of innovations like 'card-free' ATM have turned into reality. For example, in the case of Citibank and Standard Chartered, the digital apps and smartphones have given them transactional networks comprising of a multitude of branches which was inconceivable in the last 20 years. Yet, it is essential to confess that even though the song of digitalization is being sung in every conference hall explaining the beautiful symphonies it can add to the banking sector, it cannot be fruitful at all if the actual audiences (i.e. customers) are not likely to embrace it.

The Essence of Digital vs Brick and Mortar Banking

Let us begin by comprehending about the gist of digital versus brick and mortar banking. Digital banking is all about moving the traditional activities of banking 'online' by avoiding the physical medium for simplistic banking programs, account services and management, bill payments, loan management, money transfers etc. Conversely, the brick and mortar (also called B&M) banking provides the physical branches for customers so they can go there to sort out their issues and to avail banking services physically while having enduring value and personal touch. Digital banking or e-banking is likely to revolutionize entire traditional brick and mortar institutions as it virtually allows customers to access every kind of service in no time and exertion. Inversely, the brick and mortar allows beautiful environment and management of customer relationships leading towards long-term bonding. As nothing can beat the emotional touch, pleasing smiles, counseling and problem solving of bankers at the physical location that earns customer loyalty and helps spread positive word-of-mouth about the bank. Nonetheless, the future of banking seems to clinch digital transformation by disrupting the industry with something exceptionally digitized than Bitcoin, cryptocurrency, blockchain etc.

> **Digital banking or e-banking is likely to revolutionize entire traditional brick and mortar institutions as it virtually allows customers to access every kind of service in no time and exertion. Inversely, the brick and mortar allows beautiful environment and management of customer relationships leading towards long-term bonding.**

The Exciting Roller - Coaster Ride of Countries and Banks towards 'Digital Banking'

Moving ahead, the banks having proactive focus have also gone for partnerships for development of the digitalized services and products, however, some have even acquired key competitors with avant-garde focus and their farsightedness is commendable. For example, recently BBVA has acquired 39% stakes of a digital-only 'Atom' Bank (UK) and strategically invested for supporting Atom's digital endeavors.

While, McKinsey's analysis predicted that through embracing digital banking, the developed nations like UK, those in Scandinavia and Western Europe are earning the highest revenues, (Scandinavia leading with 62%, followed by the UK and Western Europe with 57% and 51% respectively). Whereas countries like Southern Europe, Pakistan and India still have abundant untapped opportunities and scope of digitalization.

According to a research, the utilization of brick and mortar banks has reduced by 6% as the customers have started embracing the digital banking facilities. However, the statistics seem to be lesser than expected but one reason could be the ease and comfort of the current generation with brick and mortar banking unlike the youngsters aged 18-23 who are not using the banks currently, despite being technologically savvy and fond of 'smart work over hard work'. It has also been noted that the phone calls made to bank operators have decreased tremendously as tablets and smartphones have replaced visits to branches. However, it is the calls by customer service representatives that are unanswered and the links that are down that make brick and mortar banking stay heavily decorated for customers.

The Blessings and Disadvantages that Digital Banking Holds for Future

Interestingly, banks can save much money by not investing in expensive, lavish and attractive brick and mortar bank branches that are located in nearly every other street in all areas. Through Digital Banking, the tangible and intangible goals of banks would also be easily achieved with the money saved from mere 'maintenance' of physical branches (like electricity bill payments, asset maintenance etc.). The money, thus saved, could be utilized to catalyze the banking industry in further investment for the good of consumers, society, economy and environment in which we live. It might sound crude but it would not be incorrect to say, the future of banking belongs to those genius banks who would earn 'goodwill' from the same money that they now spend in renovating physical branches.

On the other hand, one of the harshest realities of future is the 'loss of jobs' that the infinite dedicated employees of banks might face. But then again, the immeasurable amount of salaries paid to employees would be saved and invested for the overall benefit of the community. The best example of this is the Commercial International Bank that developed a CIB Foundation for taking initiatives of sustainable development and financial education in Egypt.

The customers have started acknowledging the sense of 'community' now more than ever and they love the banks that are faithfully responsive to its needs. Achieving this goal looks more practical with digital banking because of the above-mentioned analysis. The finest footsteps of banks toward 'paperless service' leading to instant outcomes and big focus (of saving trees and ultimately the ozone layer) beautifully guide us towards the future of banking. This was unthinkable all over Asia some 15 years ago but now things are actually turning around and making sense for not only people but the environment as well. This is the true essence of revolution and more senses are triggering towards the 'digital' banking dominance.

Some of the most successful banks of the world like HSBC and Lloyds have announced the closure of their branches and downsizing while adapting to the digital banking technologies. Whereas HSBC has done lay-offs of 25,000 jobs internationally, the Lloyds went for 9,000 lay-offs and reduction of 200 branches for shifting their focus on the strategic digital realm. Amazingly, some of the newest banks like 'Atom' have acquired the license of being a digital-only bank by leaving all the brick and mortar traditions behind. Overall, the flow of banks towards digital banking is suggesting that the benefits of digital banking for the nation as a whole can outweigh the costs in the future.

Astoundingly, Allied Bank's recent innovation of 'digital lockers' with its robotic handling and 24/7 access is one fine step towards guiding us in the direction of digital banking. However, the irony is that the disadvantaged womenfolk of rural areas still prefer to tie their money/gold rings in their attire and feel it more safer. Whereas seeing from a different perspective, 'financial inclusion' can be a leading blessing of digital banking, but it is a blessing that would only be understood by educated people.

The RBS suggested that the refurbishment of brick and mortar branches is still going to take place regardless of the increase in the digital banking activities. On the other hand, the figures also show the increment in the use of digital banking by at least 10% per annum. The future of banking holds inclusion of the advanced biometric security features that is progressive towards getting control of swift money transfers instead of going into hassles of pin codes. The Microfinance banks of Pakistan are already doing wonders towards digitization like Telenor Microfinance Bank initiating 'Easy Paisa App' and winning the 'Banked the Unbanked' Award in 2016 and 2017.

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The Reinvention of the Business Model of Banking towards 'Digital Banking'

It is decipherable that the revolutionary initiatives of digital banking have turned around the maneuvers and operations of banking in terms of streamlining processes, reducing cost and giving time and space to the banks to think strategically big and wise for the future of banking. For instance, a digitally decentralized 'blockchain' has made it fool-proof, convenient and time-saving to effect international money transfers and reconciliation through keeping accurate records of loans and services while handling management effectively. However, the issue that needs to be emphasized is the likely cases of 'fraud' that can be accelerated at a fast pace.

Brick and mortar banking has got its own pros and cons as going towards digital banking can affect the banking workforce tremendously in terms of its peace of mind, earning and comfort with automation. However, it would be tactful to develop a 'new model' of the workforce that would likely make the existing staff educated and well-trained about digitization, while recruiting the new talent from generation 'Y' that is user-friendly with its applications.

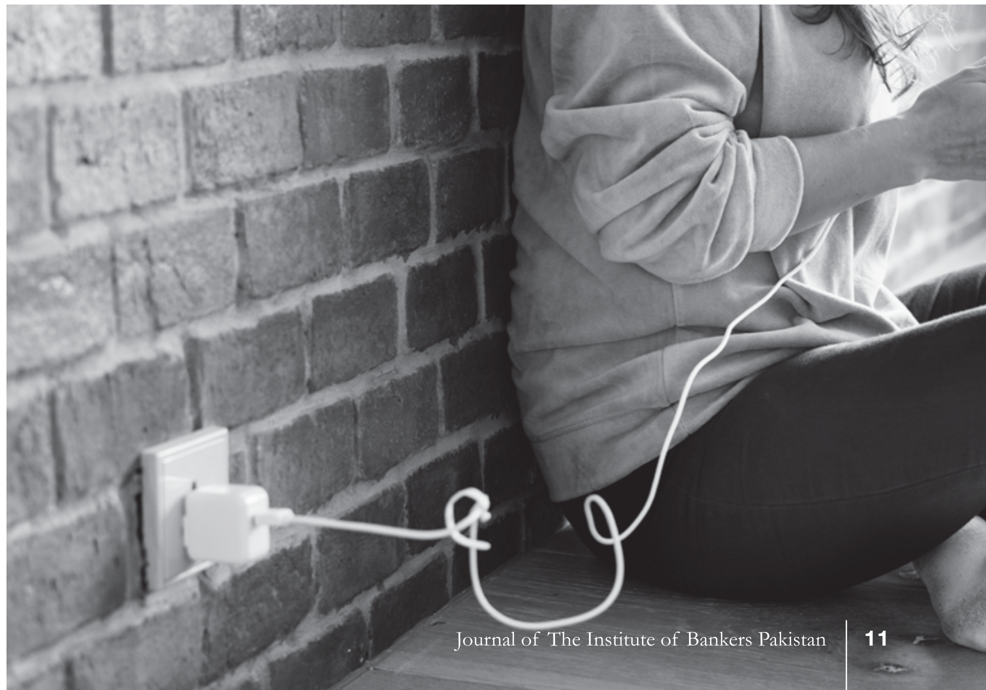
This is not a trivial but a 360-degree shift for the customers, bankers, government and economy. Banks concerned with the most-needed 'financial inclusion' have dived into the cloud-based platform with an exceptional amount of data and regulatory requirements while using disruptive technologies.

The statistics of Financial Brand by Joyce (2017) have shown the footsteps of banks on the digital transformation where more than 40% have already transformed their model towards digital branch, whereas approximately 50% have been planning to conceptualize their digital branch in future. This gives direction to the banks to harness themselves with:

- Proactive planning and development of innovative digital vision and digital products while collaborating with partners of financial technologies;
- Successful facilitation of multi-channel digitized and real-time interactions for customers;
- Development of agile platforms for easily meeting the regulatory obligations;
- Adoption of flexibility and innovation towards disruptive technologies, for example, IoT, beacons, virtual reality and tellers, robots, artificial intelligence, and chat bots while giving safe and easy offerings and processes.

The Generation Shift and Its Impact on the Future of Banking

The ongoing debate between brick and mortar banking versus digital banking gives rise to a notion that the customers cannot stop their continued reliance on relationship management with the banking specialist who is there for their support and advice in times of taking crucial financial decisions. Many organizations like Uber, Airbnb, Amazon and Alibaba have redefined customer expectations through their powerful exertion towards



digital platforms by offering integrated and frictionless offerings with seamless transactions. Nevertheless, the smartphones in customers' hands have revolutionized the interactions through apps, social media, Easy Paisa services etc. Now there is a natural and unavoidable shift in the expectations of customers from brick and mortar banking. However, the most interesting and undeniable fact regarding the future of banking is the generational shift from generation 'X' to millennials or generation 'Y'. Banks must shape their offers according to acquired traits of millennials as they cherish independence, smartness, empowerment and relationship building on digital platforms while ignoring the ones sitting next to them. Respectively, it is rational for banks to acknowledge this peculiar reality and cash it to their own advantage.

Challenges for Banks

One of the biggest challenges for banks is to deal with the threats posed by giant technology companies that have started offering the key banking functions that banks could only think of for the last 15 years. Since the beginning, brick and mortar banks have been playing a critical role in providing space and vicinity for taking complex financial decisions that throw an eloquent impact on its business. Likewise, a handful of brick and mortar banks appear to be necessary for acknowledging the financial aims and determining goals while rebalancing investment portfolios in various markets and currencies. Correspondingly, physical branches serve as 'facilitating spots' for creating plans of family legacy, career development, employer branding, training and development of employees. No matter what, the technology cannot completely take over the brain power because it is ultimately the 'employees' and not machines who are involved in strategic decision making and problem-solving for making banks profitable. However, a unification of both can do exceptionally well in the near future while 'digital-only' banking all over the world appears to be a story of distant future.

Cost and Benefit Analysis of Digital & Brick and Mortar Banking

Doing the cost and benefit analysis, brick and mortar branches are extremely costly to be set up, maintained and managed while being the sources of employment for a huge number of bankers who worked for the banking sector, while on the other hand digital banking has made it simple, cost-effective and time-saving for the banks to carry out their operations while connecting to the ever-shrinking globe to a few clicks. However, the brick and mortar branches are admired for being the reason of memory, physical help and marketing of the banks as they give the feeling of actual 'existence' of the bank.

The fact is that digital banking will still require banks to see time and resources as 'investment for future'. And, this investment can lead to further enhancement in the transparency, effectiveness, and efficiency of the banking sector while contributing towards good governance and economic growth . Reflecting from the analysis, there is still some uncertainty, but one thing is certain that the speed with which technological development and changes are occurring, it seems to be never-ending, showing least signals of decelerating.

Needless to admit, the brick and mortar business is the source of income for many banks and seeing it vanish in future will likely have radical repercussions. It is fundamental to acknowledge that every new change seems difficult in the beginning even if it is the best and only possible option. However, people are likely to gain acceptance from time to time. The key for banks is to 'influence' customers through exceptional marketing, smart promotions and innovative 'wow' services.

Where digital banking is reaping benefits to banks like Telenor Microfinance Bank, it can be smartly advertised as the 'dedication' towards customers. But, this has to be done by evidently helping them in terms of 'Corporate Social Responsibility; for instance, by fostering deep-rooted financial inclusion in rural regions of Pakistan. Unquestionably, it is fair enough for banks to pay more attention to their own advantages for being able to give greater benefit to their stakeholders in the future. However, the publicizing, campaigns and digital apps of banks have to be made creative, customer-friendly and cost-effective to the extent that they become irresistible to customers.

The Extracted 'Future of Banking'

The acceptance of digital banking is directly proportional to the amount of education and awareness of people who make up the majority of Pakistan and live mostly in rural areas. Keeping all things constant, no matter how exceptional the digital banking offers are, its acceptance and immersion will take time because it is a game of transforming the mindset.

The future of banking is a 'paradigm shift' and digital banking requires flexibility, adaptation, transformed banking models and change of conventional thinking of bankers and customers. In all likelihood, the customers would have a greater say, so banks with focused of mind-blowing and technologically savvy offerings would dominate in future. The near future lies in the harmony of brick and click and a hybrid amalgamation of digital and physical that would be benefiting the clients to the maximum potential. The processes, the criteria, and the trends are still with the farsighted banks as to how they will take over the brick and mortar through digitization.

The near future is going to witness a constructive war between convincing banks and the resistance of demographic dynamics. Conversely, if the entire banking industry would be digitalized, the customers would have no option other than accepting the digital tools that the banks bring to them. However, it would be practical to confer that the near future is beckoning us to witness the 'rat race' of banks in taking an edge over each other through tapping market opportunities with the help of digital transformation.

The future-oriented banks must capture the digital value chain by adapting innovative forecasting, correct need identification, sound planning, anomalies management of digital trial-and-error along with having rapid testing programs and cross-functional networking. The mindset can be executed towards 'holistic change' initiatives by addressing the digital capabilities while confronting digital banking dilemmas on time. ■

This is one of the essays which was awarded First Prize in the IBP Essay Competition 2018.

MAPPING THE FORCES BEHIND FINANCIAL FRAUDS

By: M. Subtain Raza & Dr. KM Loi

Fraud is any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

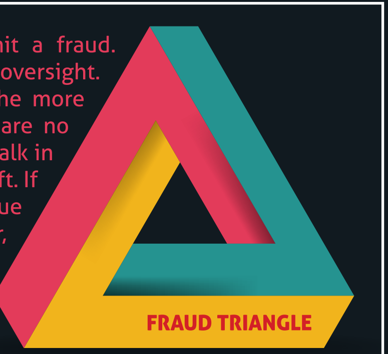
According to the latest Report to the Nations on Occupational Fraud and Abuse, published in 2018 by Association of Certified Fraud Examiners (ACFE), the median estimate was that fraud costs organizations 5% of revenues each year. In order to highlight the magnitude of this estimate, applying this percentage to the 2016 estimated Gross World Product of $75.6 trillion, results in a projected potential total fraud loss of up to $4.00 trillion worldwide.

Dominant Models to Explain Why People Commit Frauds: The main objective of this article to review the reasons why people commit fraud and to build on the theory in order to develop a model to better enhance our understanding behind the major factors which lead to the perpetration of fraud.

Fraud Triangle: Financial Pressure, Opportunity & Rationalization: The most widely accepted model for explaining why people commit fraud is the fraud triangle. This is a model developed by Donald Cressey (1953), a criminologist whose research focused on embezzlers – people he called "trust violators." One leg of the triangle represents a perceived non-shareable financial need. The second leg represents perceived opportunity and the final stands for rationalization. Pressure is the first leg of the fraud triangle. Cressey defined pressure as a non-shareable financial problem, or motive that drives a person to commit fraud. Cressey hypothesized that trusted persons become trust violators when they believe that they have such a problem. Perceived opportunity is the second leg of the fraud triangle. According to the fraud triangle theory, the presence of a non- shareable financial problem, by itself, will not lead an employee to commit fraud. All three legs must be present for a trust violation to occur. The perceived opportunity leg refers to the perceived ability to commit fraud. That is, the employee must perceive that he has an opportunity to commit the crime without being caught. In Cressey's view, there are two components to the perceived opportunity leg: general information and technical skill. General information is the knowledge that the employee's position of trust could be violated. This knowledge might come from hearing of other embezzlements, from seeing dishonest behavior by other employees, or just from generally being aware of the fact that the employee is in a position where he could take advantage of his employer's faith in him. Technical skill refers to the abilities needed to commit the violation. These are usually the same abilities that the employee needs for his position.

The third and final factor in the fraud triangle is rationalization. Rationalization enables the perpetrator to understand his illegal behavior, and it allows him to maintain his concept of himself as a trusted person. Rationalization is a necessary component that must occur before the crime takes place. In fact, the rationalization is part of the motivation for the crime. Because the embezzler does not view himself as a criminal, he must justify his misdeeds before he ever commits them. Cressey found that the embezzlers he studied generally rationalized their crimes by viewing them as essentially non-criminal, justified, or part of a general irresponsibility for which they were not completely accountable.

Opportunity is the ability to actually commit a fraud. Opportunity increases with ease and lack of oversight. The fewer steps involved to commit fraud, the more likely it is to occur. With inventory, if there are no restrictions on access and any employee can walk in at any time, there is greater opportunity for theft. If a salesperson can submit an order of any value without providing a customer's purchase order, there is greater opportunity to submit fake orders.

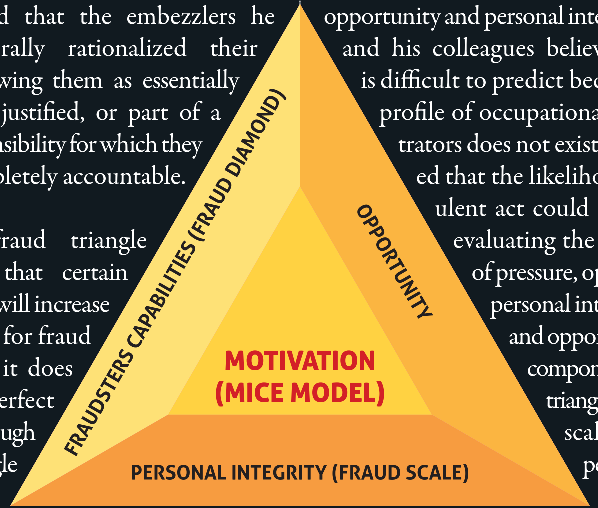


Pressure refers to a financial need. It is the catalyst that motivates an individual to commit fraud. For an employee, it may be that a family member lost their job, their house is in foreclosure or medical bills are piling up for a sick child. For an executive, it may be the need to meet board and investor expectations, budgeted sales targets or loans covenants.

Rationalization is how an individual justifies committing fraud. Most people, including fraudsters, consider themselves honest. The fraudsters often see themselves as victims of unusual circumstances and have to develop an explanation that makes illegal behavior acceptable. Rationalizations can range from helping oneself to helping others.

Common justifications for committing fraud: "I deserve it." "I'm only going to borrow the money." "I'm underpaid and overworked." "I have to take care of my family."

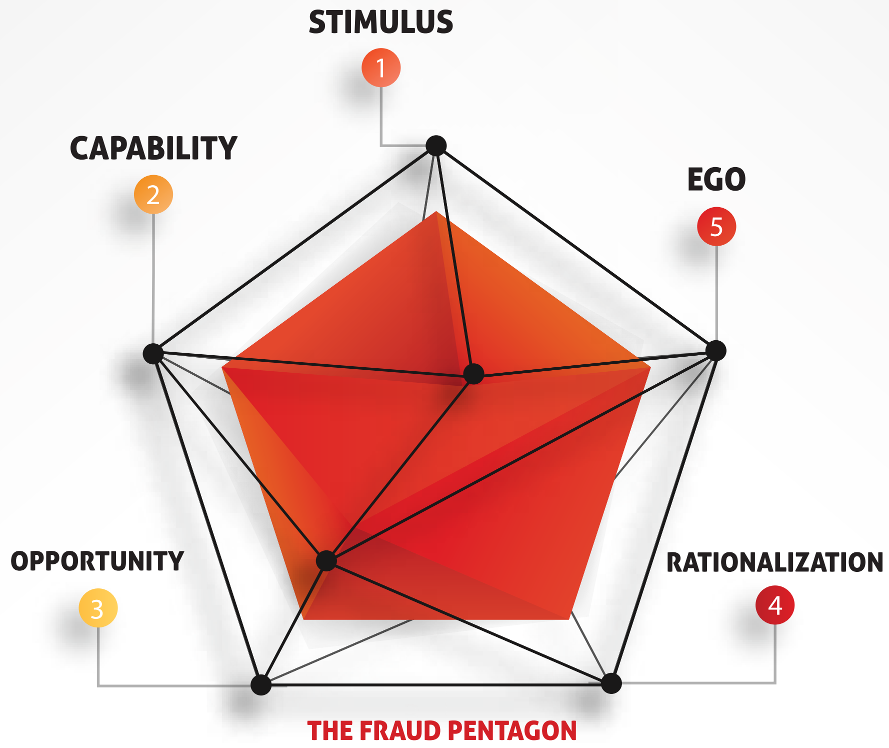
Cressey's fraud triangle demonstrates that certain characteristics will increase the likelihood for fraud to occur, but it does not provide perfect guidance. Although the fraud triangle helps explain the nature of many occupational offenders, it does not explain the nature of all occupational offenders. And although academicians have tested Cressey's model, it has still not fully found its way into practice in terms of developing fraud prevention programs. Thus, it seems that no single model will fit every situation.



Fraud Scale: However, later on Albrecht had introduced the fraud scale in "Deterring Fraud: The Internal Auditor's Perspective" (Institute of Internal Auditors Research Foundation) to be a tool to assess the likelihood of a fraudulent act through the evaluation of the relative forces of pressure, opportunity and personal integrity. Albrecht and his colleagues believed that fraud is difficult to predict because a reliable profile of occupational fraud perpetrators does not exist. They suggested that the likelihood of a fraudulent act could be assessed by evaluating the relative forces of pressure, opportunity and personal integrity. Pressure and opportunity are both components of the fraud triangle, but the fraud scale substitute's personal integrity for rationalization. The fraud scale is particularly applicable to financial statement fraud, in which sources of pressure (e.g., analysts' forecasts, management's earnings guidance and a history of sales and earnings growth) are more observable. With that in mind, the fraud scale posits that when pressure, opportunity and integrity are considered at the same time, one can determine whether a situation possesses a higher probability of fraud. The benefit of using personal integrity is that by observing both a person's decisions as well as the decision-making processes, his commitment to ethical decision making can be gauged.

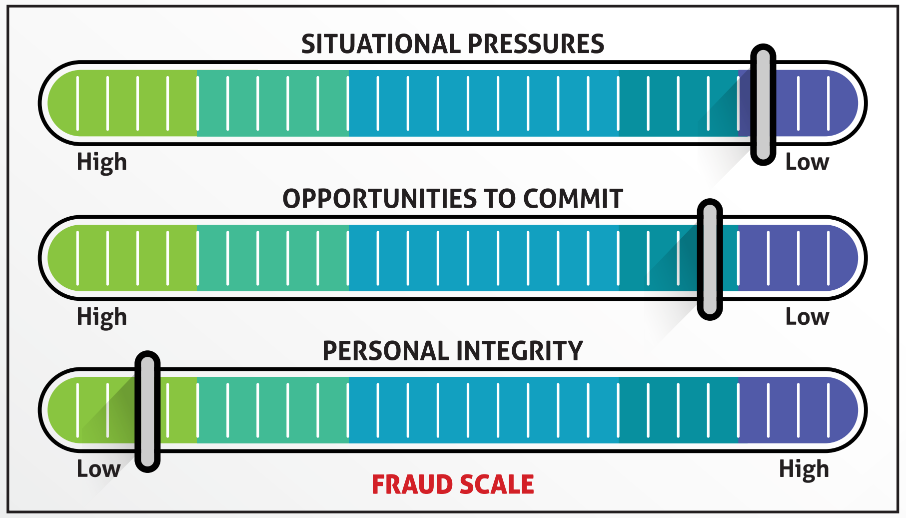
MICE Model: In 2010, Kranacher went further and suggested that the motivations of fraud perpetrators might be more appropriately expanded and identified with the acronym MICE: Money, Ideology, Coercion and Ego. Ideological motivators justify the means where they can steal money or participate in a fraudulent act to achieve some perceived greater good that is consistent with their beliefs (ideology). Coercion occurs when individuals may be unwillingly pulled into a fraud scheme, but those individuals can turn into whistleblowers. Ego can also be a motive for fraud, as often people do not like to lose their reputation or position of power in front of their society or families. This social pressure can be a strong motive to commit fraudulent act just to keep their ego. While the MICE heuristic does not explain all fraudulent motivations, and some fit several categories, it is easily remembered. In addition, it provides professionals with a broader framework within which to consider the likelihood of fraud.

The S.C.O.R.E. model is the acronym of the words: Stimulus, Capability, Opportunity, Rationalization and Ego.



The New Fraud Triangle Model: In 2012, working on the models developed so far, Kassem and Higson argued that it is significant for external auditors to consider all the fraud models to better understand why fraud occurs. They suggest that all the above models (Fraud Triangle, Fraud Scale and MICE Model) should be regarded as an extension to Cressey's fraud triangle model and should be integrated in one model, "the New Fraud Triangle Model" that includes motivation, opportunity, integrity and fraudster's capabilities. They believe that with their proposed model external auditors will consider all the necessary factors contributing to the occurrence of fraud thus, being able to effectively assess fraud risk.

The S.C.O.R.E. model: After reviewing the theoretical background behind the factors that force people to commit fraud, it is made clear that the fraud models in use need to be updated to adjust to the current developments in the field and the growing fraud incidents. In order to enhance the understanding behind the major factors which lead to the commitment of fraud, the authors build on the theoretical background and introduce the S.C.O.R.E. model. The name of this model is the acronym of the words: Stimulus, Capability, Opportunity, Rationalization and Ego. The first four elements of the model (Stimulus, Capability, Opportunity & Rationalization) stem from the Fraud Diamond (which is an extension to the Fraud Triangle), while the fifth is introduced in order to enhance both fraud detection and prevention as well as to broaden our understanding regarding the major determinants of fraudulent activities.



Conclusion: Fraud constitutes a complex, dynamic procedure which constantly adapts to the current environment. That is the reason why fraud is difficult to detect and even harder to prove in a court of law. Moreover, fraud has a very diverse nature and that is why not only there are many definitions, but also different fraud models have been developed in order to explain the reasons why fraud incidents occur. The overall aim of this article is to contribute to the development of fraud theory by trying to shed light on the key factors that play a major role in whether fraud will actually occur and developing a model which will serve as a theoretical benchmark for all future reference. ■

BENCHMARKING FOR ISLAMIC BANKS

By: Sarwat Ahson

The State Bank of Pakistan (SBP) recently issued guidelines for the Modaraba-based Islamic refinance scheme for the working capital financing of small and low-end medium enterprises. The subsidized rate will be 6 per cent as opposed to the regular rate of approximately 18 per cent.

In a market with a steeply upward sloping yield curve, financial institutions are facing the risk of higher defaults. Islamic banks may be faced with even more difficulties. They have large housing finance and car finance portfolios.

Islamic banks are not required to maintain a minimum deposit rate. Mostly, average bank customers move to other banks for better rates as the same is inelastic (barring large corporate clients). One can argue that Islamic banks should develop their own benchmarks in the wake of excess liquidity.

Critics of Islamic banking argue that the benchmarking of returns to conventional interest rates makes it synonymous with Riba. Islamic banks insist that the similar pricing of products does not make them noncompliant with Sharia.

After 60 years, the London Interbank Offered Rate (Libor) is going to be phased out by 2021. Libor has been criticized for being subjective and manipulated by banks. According to the Financial Times, deals worth $300 trillion are linked to Libor. Of course, it is not easy to replace it. But the watchdogs are serious about the exit strategy. Other jurisdictions are also shedding their attachment to the equivalent benchmark rates like Euribor.

To fill this vacuum, alternative benchmark rates, like the Secured Overnight Funding Rate (Sofr), are being experimented with. Sofr is a based on transactions in the US treasury repurchase market where banks and investors borrow or loan treasuries overnight. British Sonia and Swiss Saron are other similar examples.

In this backdrop, a discussion on benchmarking for Islamic financial institutions is timely. Internationally, Islamic financial institutions have a dollar-based benchmark of their own.

Thomson Reuters launched Islamic Interbank Benchmark Rate (IIBR) in 2011 in cooperation with Islamic Development Bank (IDB), Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) and Bahrain Association of Banks (BAB). The rate is not very popular and faces one of the lacunae that Libor also faces: subjectivity.

Research suggests the development of a real estate index as a benchmark for Islamic banks with housing portfolios. The margin for risk will be added to compensate for the residential-versus-commercial risk as well as the high-end locality-versus-suburban locality risk.

This will also strengthen their credibility with sceptics – a major impediment to its widespread adoption. The current Islamic banking portfolio is 15pc of total banking-sector assets. The SBP wants to grow it to 25pc by 2023.

The availability of credible data for the development of a real estate index is indeed a challenge. However, one of our neighboring countries has developed such an index in consultation with global experts. The index is able to weed out externalities and can result in a best-fitting model with limited data points. We need to perhaps find our own solutions.

Real estate investment trusts (Reits), companies that own and sometimes operate income-producing real estate, are another instrument that can benefit from such research and development.

Benchmarking the performance of Reits to a real estate index will give it a realistic picture. The off-take of Reits in Pakistan and their tax structure are a subject of another discussion.

Similarly, car Ijarah or rentals can also be benchmarked to alternate service providers. The engagement with customers is evolving and technology is democratizing access to finance. Rental agreements related to commercial cars and vehicles may be benchmarked to Careems and Ubers of the world.

The arguments against benchmarking to other-than-interest rates have their merits too.

> ***"The availability of credible data for the development of a real estate index is indeed a challenge. However, one of our neighboring countries has developed such an index in consultation with global experts. The index is able to weed out externalities and can result in a best-fitting model with limited data points. We need to perhaps find our own solutions."***

"Differences in the rates on particular products may lead to arbitrage if the central bank allows it," said Dr. Akram Laldin, a renowned Malaysia-based scholar of Islamic finance. Moreover, banks are connected with the international financial markets as well as local counterparts, which may lead to significantly different rates, making it difficult to do uniform transactions. Islamic banks must have a significant share before they can experiment with influencing the financial system.

The most practical solution, according to a senior banker, is that Islamic banks should develop their own rates based on Musharaka/Mudaraba agreements in the interbank markets. Recently, fixed-rate Sukuk were auctioned by the government of Pakistan. Similarly, more frequent sovereign issues can be used as benchmarks for long-term financing by financial institutions. Benchmarking to gold has had its own space in the academic circles.

In the light of changing dynamics in the financial sector, the discussion warrants some focused coordination among the academia, practitioners, regulators and digitization experts to develop more innovative solutions. ■

Courtesy: The Daily DAWN

By: Sidra Zaheer

MANAGING COMPLIANCE RISKS IN BANKS: ISSUES AND CHALLENGES

Could the financial crisis of 2008-09 have been avoided? The answer is "Yes". It could have been avoided if a significant compliance risk management framework was followed by banks. After the economic turmoil of 2008-09; that started with sub-prime mortgage crisis in the USA and blowout internationally, the significance and value of compliance risk management (CRM) and its effective working has been changed meaningfully.

Compliance risk management is the combination of compliance and compliance risk. For the better understanding of CRM, firstly it is important to comprehend what compliance and compliance risk are.

Compliance is the department which ensures that the financial institutions follow all compliance-related rules and regulations. More than a function, compliance is the sense of responsibility to abide by the law of the bank, both by its employees and customers. The existence of this department is foremost in this fast pacing era. It is now the internal police force of any bank without which the system cannot work at its full potential.

On the contrary, consequences of non-compliance of regulations result in compliance risks. Basically, compliance risk is the exposure of banks to financial loss and legal penalties they face when they fail to work in accordance with the stated policies of central bank or its own internal guidelines. Compliance risk is not only limited to financial forfeiture; it is also extended to integrity risk-the risk that damages the bank's name and reputation. For this reason, the Banks safeguard their integrity standards and strive to act in accord with all the external and internal rules and regulations. To achieve the goal of compliance, effective compliance risk management is the key to success.

> **"Compliance risk management (CRM) in banks is the identification and mitigation of the impact of any unfavorable uncertainty that can happen because of the violation of the rules of the bank that can harm the organization in the form of financial, material or reputational loss."**

Compliance risk management (CRM) in banks is the identification and mitigation of the impact of any unfavorable uncertainty that can happen because of the violation of the rules of the bank that can harm the organization in the form of financial, material or reputational loss. Managing compliance risk in banks is significantly important for robust processes and procedures. Efficient CRM shows that the bank and its employees are following the regulatory requirements along with its own internal policies because productive workings results in the optimization of profitability and goodwill. But in this modernized and fast moving world where vast numbers of customers, investors, stakeholders and regulators have put banks under pressure of improving their arrangements in ways that satisfy the growing requirements of compliance risk management.

At the same time these factors and challenging internal and external environment of banks has also created many preventable and inevitable issues and challenges for compliance risk management. These problems mainly include the scarcity of strong compliance culture, dependent compliance activities, weak general controls, non-cooperation of functions, feeble lines of defenses, insufficient resources of the compliance function, absence of CRM framework, non-identification of risky areas, challenging advanced technology, demanding requirements of regulators, increasing weak controls, lack of appropriate knowledge and rising costs are the issues that are creating problems for effective CRM which also deter target strategies to overcome deficiencies. If all the above stated issues and challenges of banks respond properly, then banks can achieve successful compliance risk management. Banks can save their resources and also achieve high performance in all fields. Before the solutions of all CRM issues and challenges, it is important to understand these problems, their reasons and their impacts.

The lack of strong compliance culture in banks is one of the vital issues of compliance risk management. Strong CRM culture reflects high ethical principles of the institution starting from the top management and flowing down the hierarchal line in a way that ensures the implementation of regulatory requirements and best standard practices. Low and questionable ethical standards of its management reflect poor compliance risk management that results in adverse consequences in terms of poor financial performance and low customer retention rate.

Although the management of compliance risk is the responsibility of all the personnel working in a bank but primarily, the immediate responsibility of establishing a resourceful independent compliance framework is the foremost duty of the top management and board of directors of the bank. This is another serious issue of banks regarding compliance risk management because either banking institutions are lacking in the creation of an independent compliance department or the established departments have failed to perform their duties effectively. This inadequacy, eventually results in the absence of effective compliance programs.

Synchronization among the functions of banks make them able to understand the drivers of risks, but the issue of lack of coordination and assistance of all the departments of banks, especially the functions with specific expertise such as risk management, Islamic, treasury, trade and credit has made the prolific working of CRM even more difficult. This lack of cooperation gives rise to several sorts of risks and these risks create problems and uncertainties for compliance risk management workforces.

Banks are trying to follow Three Lines of Defense (TOD) Model of risk management to identify and manage their compliance risks. But lack of knowledge and poor implementation of procedures have created many compliance risk issues in these lines of defense in banks. The departments and staff members, who serve as first line of defense, are mainly responsible for managing compliance risk that is intrinsic in day–to –day activities. But the underperformance of first line of defense marks basic CRM issues. For instance, as per the stated policy of banks, the daily transaction reports (DTRs) must be checked, reviewed and supervised by the authorized officials, also the DTRs must be tallied with the respective vouchers on daily basis. But this rule is not being followed on regular basis in banks. In this example the reasons of violation are unavoidable-huge number of transactions, less employee strength, burdened job descriptions of authorized officials make it difficult to perform this task on regular basis, along with this in many banks, IT systems are ineffective that makes it even more impossible to generate the reports on daily basis. So, CRM faces the issue of meeting the criteria along with overcoming all the above stated obstacles.

The second line of defense is the compliance function (CF). The basic role of this function is to assist departments and line managers in implementing and managing perils of non-compliance. This department is in charge for reporting all the risk profiles to the board and management on periodic basis. But substandard performance of CF is one more issue of CRM. Compliance officers are not aware of many other issues of non-compliance. For example, proper documented evidence of all the changes in customer records must be maintained by the bank officials but in many cases they work by following verbal instructions and do not maintain appropriate records. These changes many times does not come to the knowledge of compliance officers thus they oversight the lapses.

The third line of defense is the internal audit function. It works on behalf of the bank's board and is responsible to provide reasonable assurance regarding the effective working of its governance. In banks all the major errors and deficiencies are most of the times caught by the efficient working of audit groups; but in a different perspective this is an added issue of CRM because audit teams highlight the areas of deficiencies and give reasonable time for the rectification. Consequently, the focus of the employees turns towards the rectification of said issues and unintentionally they start ignoring many important areas that were previously flawless, but due to lack of required attention, those areas start facing issues. Thus until the irregularities of previous findings are rectified, new deficiencies will continue to occur.

Compliance risk management is an independent function. However, compliance officers have to work dependently because of the pressures of senior management, then CRM issues arise because dependent behaviors and decisions by the competent authorities may not be reliable or in the best interest of the bank.

Effective and well-organized compliance program defines all the methodologies and processes necessary to implement efficient CRM framework. This also includes CRM strategies and compliance risk policies. In banks either these guidelines are not properly designed according to the institutional needs or if they are perfectly shaped and described then weak implementation create issues for managing compliance risks.

Non-identification of main risk areas are also included in the list of issues. All the banking departments have their own importance but many areas are more prone to risk than others. For instance, dealing with negotiable instruments and pay orders issuance are very sensitive tasks in banking sector; many major frauds took place in different banks. It is very important to use modern technologies to identify the fairness of the instruments.

Advanced technology has also created many issues for compliance risk management. The value and benefits of high speed technology cannot be denied, it has been immensely influential in refining performance and bringing consistency across banks but it has made the multifarious activities of compliance even more challenging. Digital applications, mobile e-commerce, web based financial services have increased the risk level. To cater to this greater risk, banks must master the balancing act to protect both the customer and profitability. The identification of these risks is the responsibility of both compliance and internal control but due to lack of technological knowledge among the staff of these departments, major compliance risk management issues come to fore such as cyber frauds and technological errors.

"The lack of strong compliance culture in banks is one of the vital issues of compliance risk management. Strong CRM culture reflects high ethical principles of the institution starting from the top management and flowing down the hierarchal line in a way that ensures the implementation of regulatory requirements and best standard practices. "

There are a few rules that must be followed as per the policy of both the regulator and bank. This is the responsibility of compliance officer and competent authorities to ensure the fulfillment of these regulations but they are not being followed in letter and spirit because the systematic support is not available. For example, as per the regulators policy every employee must take leave for two weeks in a year to forestall likelihood of frauds by individuals but many banks are not following this rule because either they have less number of employees or they do have staff but do not have competent replacements for these seats. These situations create compliance risk management issues for banks.

Absence of sufficient resources to carry out compliance function effectively is another issue of CRM. In this context resources refers to the required expertise, knowledge and skill set of the compliance officers. In many banks compliance staff do not have proper knowledge of compliance laws thus they are unable to implement the strategies and policies of the bank. This unavailability of resources generates many complications for CRM such as the oversight of key errors that can make room for fraudulent activities.

Effective internal control system establishes when significant compliance risk analysis tools are used such as audit reports, procedure flows, basic indicators, risk charts and self-assessment. But in current banking industry deficiencies in the creation of these tools create difficulties for effective CRM. Self-assessment processes are weak due to deficient evaluation methodologies. Basic indicators are well defined but officials many a times ignore them. Risk charts and procedure flows are the tools that enable the competent authorities to better understand working styles and procedures however misconceptions about definition of data creates issues for productive CRM.

"Compliance risk management is an independent function. However, compliance officers have to work dependently because of the pressures of senior management, then CRM issues arise because dependent behaviors and decisions by the competent authorities are neither reliable nor in the best interest of the bank."

Independent evaluation verifies that all the activities are functioning in productive harmony for the betterment of organization, it also validates that compliance risk mitigation actions are in line but weak and inappropriate testing also included in the list of CRM issues because in many banks compliance function is not covering overall organization. The head offices and regional offices of banks and branches nearby to these offices have appropriate compliance testings but branches located in remote areas are often being neglected. Same ignorance can also be noted in the product testing of banks. Many products are launched just to increase the range of offered products without the required compliance risk evaluation.

Among above stated issues of CRM, cost is another major problem faced by banks. Basically compliance cost refers to the expenses sustained by banks to meet the regulatory requirements. These regulations are increasing rapidly thus these costs are also escalating, these costs in the financial sector are expected to double by 2022, which is difficult for many banks to meet. Ultimately banks try to avoid these regulations that results in the violations of rules by forming concerns for CRM. The non-compliance of these regulations also invites heavy penalties by the regulator and cause many adverse events like frauds in the banks.

All the above mentioned issues and challenges of CRM are the main cause of the let-down of banks in different areas and departments. But all these problems can be prevented if effective CRM framework is followed by banks. The most vital elements of a sound CRM includes strong compliance culture, efficient management, coordination among functions, reliable lines of defenses, satisfactory sources of compliance functions, proper identification of risk, knowledge of technology and regulatory requirements, effective testing tools and proper utilization of resources.

A competent management with foresight is the cornerstone of effective compliance risk management. The ethical cultural values that are foremost for the success of banks flow down from top management to all the lines of employees. To promote the culture of compliance, high ethical standards of its board and management are the most important factors. To achieve this parameter, a culture of merit- based hiring must be implemented, the employees who have given a major part of their lives to the institution must be promoted to senior positions as much as possible.

Besides competent top level officials, resourceful and independent compliance function is the solution to many issues faced by CRM. The required knowledge and skill set must be available in the compliance function to productively implement all the policies and procedures of the bank. This is only possible when the workforce is competent and experienced, along with adequate training also needs to be geared up in adopting innovations and improvement of already existing procedures.

Coordination among different functional departments of banks is very important for the appropriate application of compliance risk framework. In banks, sometimes compliance responsibilities are being divided among compliance function and internal controls, these departments must work in complete harmony to generate utmost results for banks. Also all other departments and the officials working there must convey accurate data and information to the compliance officers to safeguard the institution from all types of risks.

Control over compliance costs is also important to meet the organizational goals. But this reduction in cost must never be achieved at the cost of banks' reputation. Costs will be incurred in one way or another, either for the promotion of compliance risk management to optimize the profits of the bank or in form of penalties cost will be paid as repercussions of non-compliance by the regulator. So it is better to use the costs in more beneficial manner by trying to reduce the unnecessary costs.

The critical priority of banks must be to meet the regulatory variations and to ensure compliance with these supervisory requirements along with following their own set of rules and policies. Many incidents of fraudulent activities, embezzlements and penalties for defilement of laws have made the importance of CRM crystal clear for banks. The banking industry is now well aware of the consequences of violations. Risks are inherent in business activities they can never be completely eliminated, but they can be prevented. This prevention is only possible when banking sector as whole and banks as individual entities will play their due role in controlling and mitigating compliance risks. Managing compliance risk has become a primary ability that can be mastered by any bank just by following all the above stated basic parameters of success and by avoiding all the issues that hinder CRM. Compliance must be treated as a corporate cultural element. In order to strengthen the CRM programs from the core competency of the management and officers till the implementation of all the set policies in letter and spirit, efforts and monitoring must continue. ■

This is one of the Essays which was awarded First Prize in the IBP Essay Competition 2018.

CONTROL ANGER
Before It Controls You

As Dr. Chia Thye Poh, a Singaporean intellectual has rightly pointed out: Emotion is more powerful than reason. Emotion is the driving force behind thinking and reasoning. Emotional Intelligence increases the mind's ability to make positive, brilliant decisions.

By: Rafi Ahmed

All emotions are authoritarian in pattern, as they dictate our lives from shopping to choosing a profession, from career progression to selecting a life partner. They rule over us, our minds and bodies and decide how we deal with our fellow humans and other forms of life.

Paul Eckman, one of the most influential American psychologists, after his pioneering research and studies concluded that human beings are capable of making over 10,000 facial expressions; but only 3,000 are relevant to emotion. Paul Eckman identified six basic emotions that he suggested were universally experienced in all human cultures. The emotions he identified were happiness, sadness, disgust, fear, surprise and anger. He later expanded his list of basic emotions to include such things as pride, shame, embarrassment and excitement. Later on it was concluded that such basic emotions as joy and trust can be blended to give rise to the notion of love.

A more recent study suggests that there are at least 27 various emotions, all of which are highly interlinked. After analyzing the responses of more than 800 men to more than 2,000 video clips, researchers created an interactive map to show how these emotions are related to one another. As revealed by the senior researcher Dacher Keltner, a Berkley psychologist of repute, there are 27 distinct dimensions, not six, based on how hundreds of people reliably reported feeling in response to each video.

However, a latest study carried out in 2017 revealed that there are far more rudimentary emotions than previously assumed. In the study, researchers identified 27 different categories of emotion. Rather than being entirely distinct, however, the researchers found that people experience these emotions on rising and descending lines. The trajectory of all emotions is topped by happiness which is a universal phenomenon and applicable to all individuals, irrespective of age, gender, race, religion and language. Everyone strives for happiness whether it is in a home, mall, university, restaurant, workplace or sitting before TV. Our main focus in life is always to strive for and derive optimum happiness in all of our ventures. All of us are in a never-ending quest for happiness. On the contrary, unhappiness or sadness is the reverse of what is happiness and always created out of boredom, stress, anxiety neurosis, grief, depression and adverse health conditions. Sadness is the anti-thesis of happiness. While happiness creates ecstasy, prolonged sadness gives rise to depression.

Of all the six key emotions, Eckman has placed anger in the end as it weighs heavily on our lives and is the most complicated and a particularly powerful emotion, characterized by feelings of hostility, agitation, frustration, and antagonism towards others. Like fear, anger can play a part in the human body's fight or flight response. When a threat gives rise to feelings of anger, we may be tempted to fend off the danger and secure ourselves.

Anger is often displayed through:

- Facial expressions such as grimace or glower
- Body language such as adopting compelling postures or avoiding someone.
- Pitch of voice such as screaming or use of para-verbal language
- Turning red or becoming nervous, sweating profusely
- Destructive behaviors such as slamming or throwing temper tantrums.

Anger is mostly considered as an adverse, fleeting and pessimistic emotion but at times seem to be beneficial also. It can be a valuable aid to define our demands in facing any peculiar situation and it also forces us to respond and find solutions to things that are of concern to us.

However, anger can assume a complicated shape when it is displayed disproportionately and projected in such a manner which poses ominous perils to others. So if anger is not bridled it may turn highly offensive or go even berserk. Any unmanaged anger can create trouble in our mental and physical faculties and hinder us in arriving at a right and timely decision. It may be a potent cause for cardiac ailments and diabetes and also affects the digestive, nervous and sleep systems of our bodies.

In short, anger is a completely natural, usually robust human emotion. But when it gets out of control and turns destructive, it can lead to problems, problems at work, in our personal relationships and in the overall quality of our lives. So how to self-manage it, when working on a position in a bank or any office, where we have to interact with a wide variety of people from all walks of life?

There is a mechanism to manage anger. People employ a mishmash of both cognizant and unconscious methods to deal with their angry sentiments and their outright display. The three leading ways are **Expressing, Suppressing and Pacifying,** through which the experts have prescribed approaches to handle anger. One is the expressive way where people show off their offensive behavior. Second is suppressive anger where the emotion is cocooned up within and is not allowed to burst open. It is very catastrophic for the mind and body of any person and can lead to some health disorders. The ideal way to deal with anger is to make oneself tranquil and reduce the level anger. The third is pacifying or calming down which means controlling the feelings as well as our reactions. Self-control does not mean that the anger be suppressed but diminish the anger with reasons with one's own brainstorming.

Emotion is defined as a strong feeling emanating from a person's mood and relationship with others or in a peculiar situation. Some other words which also reflect emotion are sentiment, sensation, passion and reaction. There are various kinds of emotions that impact crucial aspects of our personal, familial and professional lives.

By resorting to the **Expressive** way, people show off their offensive behavior. But Expressing our angry feelings in an effective non-offensive manner is the best way to express angry behavior. People who are continuously mocking others, nagging on everything and passing contemptuous remarks have failed to constructively express their anger. It is therefore a foregone conclusion that they would soon culminate in many a flop relationship.

Second is the **Suppressive** way where anger can be suppressed and then morphed or deflected. This happens when we contain our anger, stop thinking about it and focus on something else more positive. The aim is to restrain and divert the anger and put a brake on its unfavorable impact and transfer it into more constructive channels of behavior. The risk inherent in this type of approach is that if it is not expressed properly, anger can rebound internally on the angry person. Anger turned inward may result in a disastrous outcome in the shape of hypertension, high blood pressure and depression.

Pacifying: eventually, the angry person should calm down inside. This means not just controlling one's outward behavior, but also controlling the internal responses, taking immediate measures to normalize the pulse, appease oneself, relax the body's response system and let the enraged feelings expunge. In order to achieve this level, it must be made crystal clear as to what are the needs and how to achieve them without inflicting damages to others. These are all self-exercises or self-control. Being emphatic does in no way connotes that one has to be repulsive or domineering, it simply means to be gracious enough to self and others as well. One has to purge the mind of angry feelings like Greek catharsis.

As Dr. Spielberger (an American psychologist famous for his development of the State-Trait Anxiety Inventory) notes, "when none of these three techniques work, that is when someone—or something—is going to get hurt."

Anger Management

The goal of anger management is to scale down both the emotional feelings and the physiological rumblings that anger causes. It is not easy to completely get rid of, or evade the people irking us, nor can we change them, but we all can learn to manage our reactions and how to live with them.

How to Deal with Anger Issues

Here are some of the effective means as suggested by psychiatrists, which if followed as a part of one's habit, will help to deal with anger issues better:

Deep Breathing: Deep breathing is an excellent way of getting rid of anger. Keep the rhythm of the breathing very slow. One can feel the nerves easing off and the anger slowly goes out of the mind.

Meditate: Learn meditation and practice it regularly. This will help to access the inner self and enable to start understanding the value of peace. When one knows the importance of peace of mind, you will not let anger live within you

Forgiveness: Develop the attitude of forgiveness which will help you in anger management. It can be done by accepting the fact that all of us are liable to commit blunders.

Smile: A simple yet effective way to defuse anger is to smile. A smile can act as a soothing salve to calm down any tense atmosphere. One can also laugh at oneself which will lead towards better stress management.

Some Tips to Mellow-down Temper

Keeping one's temper in control can be daunting. Just use simple anger management tips from taking a timeout to using "I" statements to stay in control.

Take a timeout - Counting from 1 to 10 is not just for children. Before reacting to a tense situation, take a few moments to breathe deeply and count to 10. Slowing down can help defuse temper. If necessary, take a break from the person or situation until one's frustration recedes a bit.

Once you are in peaceful posture, express your anger - As soon as you are thinking positively, express your frustration in a confident, but in no way confrontational, manner. State the reservations and needs lurking in your mind clearly and directly without any hesitation and without damaging others or trying to counter them.

> "There are three leading approaches through which people handle anger. One is the expressive way where people show off their offensive behavior. Second is suppressive anger where the emotion is cocooned up within and is not allowed to burst open. It is very catastrophic for the mind and body of any person and can lead to some health disorders."

Figure 1

Get some exercise
Physical activity can provide an outlet for one's emotions, especially if you are about to burst out. If you feel the tide of your anger rising go for a brisk walk or jog, or spend some time doing other favorite physical activities or engage in your best pursuits. Physical activity stimulates various brain chemicals that can leave you feeling happier and more relaxed than you were before you worked out.

Think before you speak
In the heat of the moment, it is easy to say something but which later brings regret and nothing else. Take a few moments to compose your thoughts and feelings before saying anything and allow others involved in the situation to do the same.

Identify possible solutions

Stick with 'I' statements
To avoid criticizing or playing the blame game, which might only increase tension — use "I" statements to describe any issue. Be respectful and remain to the point.

Do not keep animosity
Forgiveness is a powerful tool. If we allow anger and other negative feelings to elbow out positive feelings, we might find ourselves gulped up by own bitterness or sense of injustice. But if you can forgive someone who angered you, you might both learn from the situation. It is impractical to expect everyone to behave exactly as we want at all times.

Use humor to release stress
Humor can help dissipate tension. Do not scorn, it can hurt feelings and make the situation worse.

Practice relaxation skills
When your temper flares, put relaxation skills to work. Practice deep-breathing exercises, imagine a relaxing scene, or repeat a calming word or phrase, such as, "Take it easy." You might also listen to music, write in a journal, or do whatever it takes to encourage relaxation.

Know when to seek help
Learning to control anger is a challenge for everyone at times. Consider seeking aid for anger issues if your anger seems out of control, causes you to do things you regret or hurts those around you. You might require anger management counseling. With professional and self-help, we all can find out the Anatomy of Anger (see Figure 1).

In the end remember what the great sages said about anger and make it a practice to embrace their advice.

Benjamin Franklin: Whatever is begun in anger, ends in shame.

Aristotle: Anyone can become angry. That is easy. But to be angry with the right person, to the right degree, at the right time, for the right purpose and in the right way... that is not easy.

DISTINGUISHED LECTURE SERIES

Pakistan's Economy: Macroeconomic Challenges and Outlook by Dr. Reza Baqir, Governor State Bank Pakistan

The Institute of Business Administration (IBA), Karachi organized a distinguished lecture on "Pakistan's Economy: Macroeconomic Challenges and Outlook," by Governor State Bank of Pakistan, Dr. Reza Baqir, at the IBA Main Campus on September 30, 2019. The session was moderated by Executive Director IBA Karachi Dr. Farrukh Iqbal, who introduced Dr. Baqir to the audience. Attendees included members from the academia, corporate sector, media, the IBA faculty, students and alumni.

Dr. Baqir divided his lecture in three parts: causes of the current macroeconomic challenges faced by the economy, actions taken by the economic team to address those challenges and the results to date, and the outlook of the economy. He described two main causes of the current macroeconomic challenges. First was the growing current account deficit during 2015 – 2018 which in the context of an overvalued and relatively fixed exchange rate led to a pronounced depletion of the country's reserves. The second key cause was rising fiscal deficits and public debt which had put in doubt the country's credit worthiness.

To address these economic challenges, Dr. Baqir described three sets of actions that had been undertaken in the following areas: external, fiscal, and monetary. First, a series of exchange rate adjustments since late 2017 had helped reduce the exchange rate overvaluation. These culminated in a change in the exchange rate system in May 2019 to a market-based system so the economic authorities would no longer have to fix the value of the currency. He clarified that a market based exchange rate system was not a free float and allowed for the SBP to intervene to address disorderly market conditions. He noted that these actions had led to a pronounced improvement in the current account which had halved from its historic high of $2 billion monthly deficit. He also noted that behind the improvement in the current account deficit was a reduction in imports and improvement in export volumes even though export values had grown less due to a fall in international unit prices. "Ultimately what matters for employment and production is export volumes" said Governor SBP, emphasizing the importance of exports for the economy.

Dr. Baqir also briefly touched upon the actions taken by the government to address the fiscal deficit related challenges. Finally, Dr. Baqir noted that having to address the external and fiscal imbalances of the past meant that inflation had risen in part due to increases in the exchange rate, taxes and utility prices. This had necessitated a tightening of monetary policy which would help to bring inflation down. Commenting on the outlook, and in particular what would make this program different from earlier IMF programs, Dr. Baqir noted that the leading predictor of recourse to the IMF had been falling and low level of reserves. If Pakistan is able to build institutions that entrench reserve build-up and preserve them during times of capital outflows, it would allow Pakistan to self-insure against economic shocks and not have to seek assistance from the international financial community. He noted that two institutional reforms in the current program would help in this regard: the change to a market-based exchange rate system and zero borrowing of government from the State Bank which would help engender fiscal discipline. He ended his talk by emphasizing that from a longer term perspective, Pakistan's key challenge was to raise its saving and investment rates.

Following the lecture, Dr. Iqbal engaged with Dr. Baqir to delve into the macroeconomic trials and tribulations that Pakistan is currently facing and the solutions for overcoming them. A Q&A session between Dr. Baqir and the audience ensued. The event concluded with a note of thanks by Dr. Iqbal. A memento was also presented to Dr. Baqir.

Dr. Reza Baqir has previously worked at the International Monetary Fund (IMF) and the World Bank for twenty years. He holds an A.B. (Manga Cum Laude) in Economics from Harvard University and a Ph.D. in Economics from the University of California at Berkeley. His research is published in several esteemed journals of the economic profession, including the Journal of Political Economy and the Quarterly Journal of Economics.

TIME VALUE OF MONEY IN ISLAMIC FINANCE

BY: IMRAN SADAF

People prefer money which they possess now to money in future, due to deterioration in its purchasing or transactional power. Hence, it is assumed that present consumption is always preferable to future consumption

Time value of money serves as the cornerstone of the modern economic and financial system. All the notions and models of the finance such as consumer finance, business finance and government finance are based upon the time value of money. In Islamic perspective, existing concept of time value of money is not recognized legitimate due to its direct bearing on interest, which is prohibited in Islam. Nevertheless, Islamic economic jurisprudence accepts the monetary value of time, when tagged with pricing assets and their usufruct. Islamic trading and investment based contracts allow incorporating the incremental monetary value of time. In Islamic banking, a widely used trading product, Murabaha operates on the principle of the fact that price of the commodity transacted against deferred payment has time based implications as far as its monetary value is concerned.

Higher pricing in case of deferred payment (in bai mu'ajjal) contract cannot be attributed only to time preference as market forces are also considered the driving force to charge higher price in deferred payment sale. Hence, it has been allowed taking into account both the factors i.e. time preference and supply-demand equation.

While the same principle of appreciation in loaning not allowed as the money cannot be treated as commodity in Islamic Jurisprudence. In modern capitalist economy, there lies no difference between commodity and the money as far as commercial transaction is concerned as both are considered at even footing and can draw profit as per the agreement. In Islamic jurisprudence, money is a medium of exchange; it neither carries intrinsic value, nor serves as a store of value. Money is considered as a capital when it combines with other resources to carry out the productive activity like Mudaraba and Musharakah in which lenders share profit as well as loss.

The difference between the sale and the loan contract is that – from Sharia point of view- the former is based on justice and mutual interest, whereas the latter is based on benevolence (Ihsan). In sale contracts both parties are willing to profit from each other as much as possible due to its commercial value in nature, which implies that whenever the buyer is benefiting by deferring the payment, the seller has also a right to benefit by increasing the price; otherwise fairness is not achieved in such transaction.

On the contrary, the loan contract is based on Ihsan (benevolence), which means doing good without waiting for anything in exchange. And, if the lender charged the borrower interest on the loan, the essence of benevolence, an implied Sharia objective behind the loan contract stands violated.

The time value of money is a phenomenon that has been widely debated by Islamic scholars and economists (Kahf 1994; al-Masri 1990; Khan 2005). Its direct implications on the interest (Riba) make it controversial; particularly interest is calculated on the basis of time value of money in Islamic finance. Henceforth, time value of money is the established financial concept in conventional economics, which serves as the base line to advocate and justify the interest drawn on the loan amount.

There are two motives behind Riba based lending i) consideration against the time value of money; ii) compensation against the risk involves in terms of monetary loss. The main difference between profit and Riba is that Islam does not recognize money as separate mode of production. Money is only recognized once it is mixed with some Halal human efforts/commodities.

Thus the human effort, initiative and risk involved in a productive venture are more important than the money used to finance it. Islamic jurists consider money as capital only when it is invested in business. Accordingly, money advanced to a business in the form of a loan is regarded as a business debt and not as capital.

The Shari`ah has the genuine provision of converting money into assets on the basis of which one can measure its utility. While it admits the concept of money's time value to the extent of pricing in a credit sale, it does not endorse placing "rent" on money advances, as interest does in the case of credit and advances. This leads to an important conclusion: While money's time value is acceptable in the case of pricing assets and their usufruct, it is not acceptable in the case of any addition to the loan's or debt's principal. More precisely, its acknowledgment of time's value in credit transactions does not necessarily imply acknowledging the authority of providing an equivalent material compensation for this value in all cases. Time valuation is possible only in business and the trade of goods, not in the exchange of monetary values. ■

BANK OF ENGLAND

325 YEARS OLD

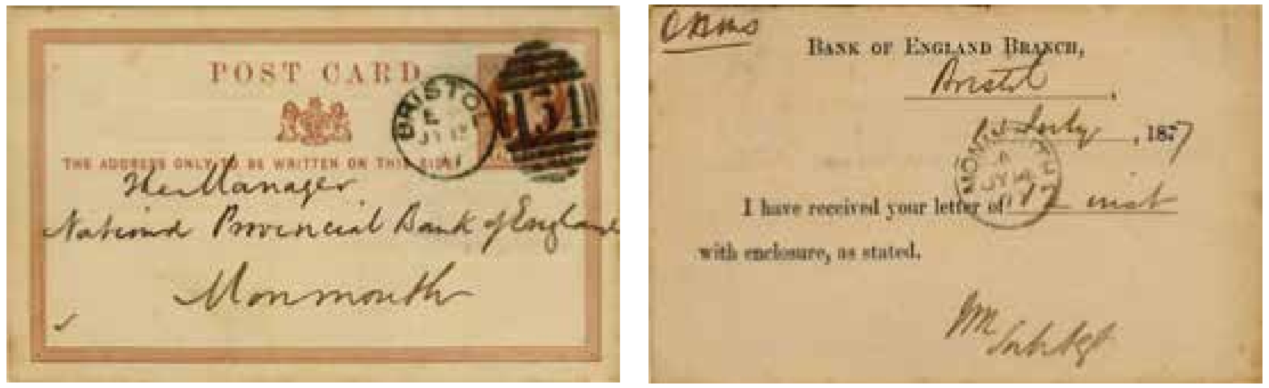
This year, the Bank of England will mark 325 years since it was founded. To mark this anniversary, the Bank of England Museum will open a new special exhibition, *325 Years, 325 Objects*. The Bank of England officially came into being on 27 July 1694, with the signing of its Royal Charter. Over 300 years later the Bank of England is the United Kingdom's central bank, at the center of a complex financial system, with well established roles in maintaining financial and monetary stability and regulating other parts of the banking system. It is also an employer, a body of staff, a workplace and a building that has evolved through periods of industrial, technological and social revolution. *(Courtesy Bank of England archives)*

Cash register made by National Cash Register Co., 1916, which was used in one of the Bank canteens until 1971 *(Bank of England Museum, A508).*

A part printed, part handwritten banknote for £40, dated 1702 *(Bank of England Museum, I/019).*

A key from the old Bank of England, c.1840–50 *(Bank of England Museum, A378A).*

Detail from a £40 note issued in 1702 to Elizabeth Head *(Bank of England Museum, I/019).*



A postcard from the Bank's Bristol Branch, acknowledging receipt of a letter *(Bank of England Museum, 2017/075).*

ECONOMIC WOES:

- The world's first Economist was Christopher Columbus: when he set sail, he did not know where he was going; when he arrived, he did not know where he was. And the entire trip was paid for by the government.
  - Ronaldo Costa Couto
- If all the economists were laid end to end, they would not reach a conclusion.
  -George Bernard Shaw
- Money is a matter of functions four: a Medium, a Measure, a Standard, a Store.
- An economist is an expert who will know tomorrow why the things he predicted yesterday did not happen today.
  - Laurence J. Peter (Canadian writer)
- You and I come by road or rail, but economists travel on infrastructure.
  - Margaret Thatcher

PREPOSITION-ED

Some Troublesome Prepositions

Please refresh your grammar which you had learned in your golden period of school days. Backtrack to a short and swift reverse journey into the world of grammar, which now almost all persons and specially children hardly study or remember. Let us go back to Parts of Speech, which had eight glorious parts to contend with, namely Noun, Adjective, Pronoun, Verb, Adverb, Preposition, Conjunction and lastly Interjection, which is the shortest one.

Now if we revisit preposition, it has a myriad of shapes and uses. A preposition, as you know, is defined as a word used to show the way in which other words are connected. It is used to express basic relationship between words.

You can express the relationships of time and place by the use of a preposition. It covers many different types of relationships: I can see you ***on*** Friday / ***in*** October / ***at*** 7pm / ***for*** an hour. Prepositions have multifarious uses. It ties a noun and pronoun to the rest of the sentence: Write your address ***in*** the notebook or see this one: This letter is ***from*** him. Prepositions in a sentence can be used to show space, time, direction, agency or association, etc; for example, It was done ***by*** the night watchman ***with*** a knife (showing agency). Then there are many troublesome ones, few examples are given here:

Agree with a person – I hope you will ***agree with*** me on this point.
Agree to a proposal or an opinion – I do not ***agree to*** your proposal.
Agree on a matter or terms – They all ***agreed on*** the terms fixed.
Agree about a subject of discussion – Have they ***agreed about*** the prices yet.
Capacity of (ability to contain) – This hall has a ***capacity of*** fifty seats.
Capacity for (ability to do things) – We are all praise for his ***capacity for*** hard work.
Pay in cash – Let me ***pay in*** cash
Pay by cheque – You can either ***pay by*** cheque or in cash ■

Trivia:

The longest word in English Language which has 45 letters.

Pneumonoultramicroscopicsilicovolcanoconiosis, a word that means a lung disease caused by the inhalation of very fine silica particles, specifically from a volcano; however the medical term of which is the same as silicosis. See how such a longish word has a short meaning: Silicosis – 9 letters only.

Franklin Delano Roosevelt (better known as FDR) served as President of USA the longest. But FDR feared the number 13 — a phobia called triskaidekaphobia. He avoided traveling on Fridays and the 13th day of each month. President Herbert Hoover also had the same affliction and would not dine with 13 people. He served for the longest period from 1933-1945.

Do Not Laugh

Joint Accounts

When a lady's husband died, she went to the bank to get her late husband's account in order. The young customer services officer looked up their joint account and then asked, "Which of you is deceased ?"

Three vampires walk into a cafe. "What can I get you?" asks the waiter, "Blood", orders the first vampire. "Make it two", says the second. The waiter looks at the third, "What about you, buddy ?" "Plasma," says the vampire. "Okay" replies the man. "Let me make sure I have got this straight. Two bloods and a blood light".

– Weston Davis

Quotes

Pessimism never won any battle. – Dwight D. Eisenhower

An intellectual is a man who takes more words than necessary to tell more than he knows. – Dwight D. Eisenhower

Adversity causes some men to break, others to break records. – William Arthur Ward

Push: the force exerted on the door marked "Pull". – Craig Swan

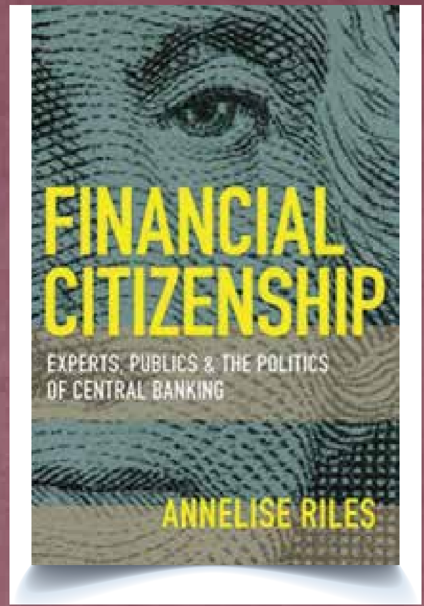
Interview

The Interviewer asked four job candidates the same question: " What is two and two?" The first candidate was a journalist. His answer was twenty-two. The second, an engineer calculated the answer to be between 3.999 and 4.001. The third applicant, a lawyer, cited a court case in which two and two was proved to be four. The last candidate was an accountant. When the accountant heard the question, he leaned across the desk and said in a low vice, "How much do you want it to be?".

FINANCIAL CITIZENSHIP

Experts, Publics & The Politics of Central Banking

By: Annelise Riles



Synopsis

Government bailouts; negative interest rates and markets that do not behave as economic models tell us they should; new populist and nationalist movements that target central banks and central bankers as a source of popular malaise; new regional organizations and geopolitical alignments laying claim to authority over the global economy; households, consumers, and workers facing increasingly intolerable levels of inequality: These dramatic conditions seem to cry out for new ways of under-standing the purposes, roles, and challenges of central banks and financial governance more generally. *Financial Citizenship* reveals that the conflicts about who gets to decide how central banks do all these things, and about whether central banks are acting in everyone's interest when they do them, are in large part the product of a culture clash between experts and the various global publics that have a stake in what central banks do.

Experts—central bankers, regulators, market insiders and their academic supporters—are a special community, a cultural group apart from many of the communities that make up the public at large. When the gulf between the culture of those who govern and the cultures of the governed becomes unmanageable, the result is a legitimacy crisis. This book is a call to action for all of us—experts and publics alike—to address this legitimacy crisis head on, for our economies and our democracies.

[*Financial Citizenship* is available as an open access e-book through Cornell Open and as a digitally enriched version through Einaudi Center Digital Publications.]

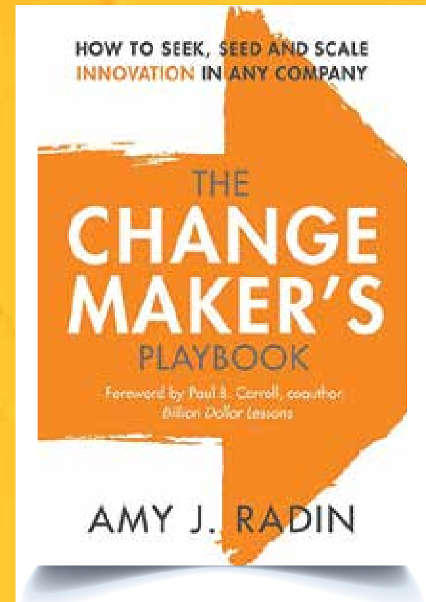
About the Author

Annelise Riles is the Jack G. Clarke Professor of Law in Far East Legal Studies and Professor of Anthropology at Cornell University. She is the founder and director of Meridian 180, a transnational platform for policy solutions. She has published widely, including the award winning *The Network Inside Out.*

THE CHANGE MAKER'S PLAYBOOK

How to Seek, Seed and Scale Innovation in Any Company

By: Amy J. Radin



Synopsis

In The Change Maker's Playbook, Amy Radin shares her insight-driven, down-to-earth approach to deliver innovation results under today's uncertain, complex, and rapidly changing conditions. Any leader in any size company, no matter the size or sector, feels the pressure to innovate, find new ideas and business models, and create enduring customer value. There is no one formula or set process to find and execute the ideas that achieve these goals; customers set moving targets, shareholders are unforgiving and demanding, and society expects companies to care about much more than the bottom line. The fast and furious forces of change stimulated by technology, demographics, lifestyles and economic, environmental, political and regulatory impacts — or any number of these in combination – are easy to see. They are easy to talk about. They are easy to intellectualize. The problem? The answers are hard to execute and require nuanced combinations of leadership, skills, strategy and tactics. On top of that, innovation has moved from an abstraction that will matter at some distant date to a front-and-center deliverable that must show evidence of impact in the space of the calendar quarter. In the stories, tools, techniques and advice inside The Change Maker's Playbook, leaders will find tangible steps to find and safeguard the plans that will deliver the sustainable business-changing impacts – new customers, new relationships, new sources of value and growth — their businesses need.

Separated from the pack of academic and consultant innovation theories, Radin's approach stems from her own experience sitting in the innovation hot seat at some of the world's most demanding companies and is bolstered by interviews with 50 corporate executives, founders and startup investors representing media, e-commerce, payments, healthcare, government, professional services, and not-for-profit sectors. The book walks readers through Radin's adaptive, 9-part framework, engaging them in ready-to-apply techniques. Her work shows leaders how to find the big ideas that will meaningfully address customer needs, take the insight from idea through implementation in a way that delivers in the short and long-term for the organization, and lead effectively through the obstacles that tend to derail or diminish innovation. Three phases – Seeking, Seeding and Scaling – organize the framework within an intuitive, logical and useable format, with concrete actions outlined every step of the way. The answer to the dilemma every business faces today is that innovation is exhilarating, rewarding and even fun when it is approached as a unique challenge, but it can also be polarizing, unpredictable and scary. Success requires that leaders rethink how they lead innovation. Leaders know they must set aside preconceived notions of what works, and look to those who have already walked in their shoes. This is why The Change Maker's Playbook was written, and why it will become an ongoing resource for any innovation leader.

Reviews

"As a fellow change maker, I've long admired Amy Radin's impact and resilience. In the *Change Maker's Playbook,* she offers a practical guide to getting to the other side of change in a way that creates value and meaning. An important resource for anyone looking to innovate better."
— Beth Comstock, author of *Imagine It Forward* and former Vice Chair, GE

"What businesses need today is change makers: driven leaders who turn market disruption into innovation opportunities, creating real impact and value. If you're up for this, Amy Radin's fearlessly focused and practical book is your next must read."
— David Rogers, Columbia School faculty and bestselling author of the Digital Transformation Playbook

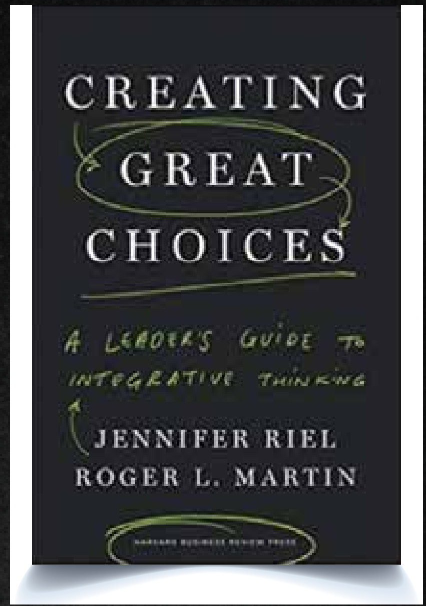
About the Author

Amy J. Radin is an advisor to leaders in companies of any size, from startup to top Fortune brands, needing to advance innovation priorities. From her extensive experience as a marketing, digital and innovation executive, she has been at the forefront of rewriting brands for the future that is upon us. She has moved ideas to performance as an American Express, Citi, E*TRADE and AXA executive and in advisory relationships with startups. She is a sought after keynote speaker and serves on the global board of directors of the AICPA. Amy is graduate of the Wharton School and Wesleyan University.

CREATING GREAT CHOICES

A Leader's Guide to Integrative Thinking

By: Jennifer Riel & Roger L. Martin



Synopsis

Move Beyond Trade-Off Thinking. When it comes to our hardest choices, it can seem as though making trade-offs is inevitable. But what about those crucial times when accepting the obvious trade-off just is not good enough? What do we do when the choices in front of us do not get us what we need? In those cases, rather than choosing the least worst option, we can use the models in front of us to create a new and superior answer. This is integrative thinking. First introduced by world-renowned strategic thinker Roger Martin in The Opposable Mind, integrative thinking is an approach to problem solving that uses opposing ideas as the basis for innovation. Now, in Creating Great Choices, Martin and his long-time thinking partner Jennifer Riel vividly illustrate how integrative thinking works and how to do it. The book includes fresh stories of successful integrative thinkers that will demystify the process of creative problem solving, as well as practical tools and exercises to help readers engage with the ideas. And it lays out the authors' four-step methodology for creating great choices, which can be applied in virtually any context. The result is a replicable, thoughtful approach to finding a "third and better way" to make important choices in the face of unacceptable trade-offs. Insightful and instructive, "Creating Great Choices" blends storytelling, theory, and hands-on advice to help any leader or manager facing a tough choice.

Reviews

"Creating Great Choices is the rarest of business books that teaches decision makers how to think, not what to think. I found it superb and wholly original".
— Malcolm Gladwell, Bestselling author, *The Tipping Point, Blink* and *Outliers, staff writer, The New Yorker*

"This book contains multitudes. Two talented strategists offer vivid stories to unlock your creativity, strong evidence to challenge your assumptions and practical exercises to sharpen your thinking. I'll be recommending it to leaders, students and anyone else who wants to get better at problem solving".
—Adam Grant, *The New York Times* – bestselling author, *Give and Take* and *Originals;* coauthor ***Option B***

"Integrative thinking is powerful. It provides a concrete way to leverage diverse voices and to collaboratively create better choices. I have worked hard to become a practitioner of this approach of finding the better third way, because I truly believe it leads to more effective and more creative choices. Creating Great Choices Provides an essential resource for thinking differently that can help leaders resolve some of their toughest problems."
— David Taylor, Chairman and CEO, Procter & Gamble

About the Authors

Jennifer Riel is an adjunct professor at the Rotman School of Management at the University of Toronto and strategic advisor to senior leaders at a number of Fortune 500 companies. She is coauthor, with Roger Martin and A.G. Lafley, of the *Playing to Win Strategy Toolkit* (HBR Press).

Roger Martin is an author, business school professor and strategy advisor to CEOs. He is Director of the Martin Prosperity Institute at the Rotman School of Management. Where he served as Dean from 1998 to 2013. He is a frequent contributor to Harvard Business Review and published nine books, including *Playing to Win* and *The Opposable Mind.*

Save for Pakistan
Invest in Pakistan

"We ... in general and young men in particular do not know the value of money. A paisa saved today is two paisa tomorrow, four paisa after that and so on and so forth. Because of our addiction to living beyond means and borrowing money we lost our sovereignty over this Sub-continent."

Mohammad Ali Jinnah
Founder of Pakistan
(Ziarat, 1948)