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CONSUMER CREDIT
OPERATIONAL CHALLENGES

THE ARCHITECTURE OF INTELLIGENCE

LIQUIDITY MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS

CRYPTOCURRENCIES & GLOBAL FINANCIAL SYSTEM

IBP

editorial

Rafi Ahmed
Editor

Workplace Harmony

As the Roman historian Sallust (died 35 BC) had rightly remarked, "harmony makes small things grow, lack of it makes great things decay". A workplace is an equal opportunity venue, which consists of people of diverse races, gender, class, culture, religions, backgrounds and origins. This is in itself a micro-world indeed. This is true of modern corporates, including banks.

Workplace is that place where we spend almost the entire day; we spend most of our Active-Years in the officialdom. But many of the workplaces (if not all), are lacking in harmony amongst their employees and the various departments. Now let us see what is actually harmony: it is simply agreement, accord and orderly, pleasing arrangement of parts; and amicable, peaceful, congenial and coordinated setup and workflow. Although all organizations have faced this situation at one stage or another, but few take the issue seriously. Workplace harmony, particularly with reference to banking scenario, depends on a number of important factors:

1. Proper Information of Corporate Goals and Vision
2. Avoidance of Conflicts
3. Effective Communication Skills
4. Effective Leadership
5. Emotional Intelligence

If the organization intends to enhance and ensure workplace harmony, it has to identify the reasons which affect the harmony, which if allowed to linger on, would result in Toxic Culture Syndrome. A toxic workplace is noted for its interpersonal and interdepartmental squabbling, which harms the overall interest and working of the organization. A toxic workplace is marred by unpleasant and harmful feelings affecting productivity, efficiency and competency of the organization. This type of work culture is noted for its unprofessional and unethical conduct of employees. This needs to be avoided at all costs. As regards toxic employees, they chart relationships with colleagues not by organizational structure, but by those whom they favor.

W. Harder defines a toxic work environment as an environment that negatively impacts the viability of an organization. He is of the opinion: "It is reasonable to conclude that an organization can be considered toxic, if it is ineffective and hold that toxicity arises when employees suffer a breach in psychological contract."

However, majority of the employees are positively motivated but are confused by idle talk, but these factors harm both the organization and those employees who are not at all involved in this negativity.

The outcome of such negativity may be in the shape colleagues experiencing stress and becoming uneasy over whether they, or someone they care about in the workplace, may be affected.

First of all, it is vital to create awareness among the employees about the corporate goals and vision of the organization in question, in order to generate pride, enthusiasm and sense of belonging. This can be achieved with regular meetings and consultations. Even the junior most employee should also be part of those meetings. Once the vision and goals are shared, it will enable the top management to remove any misgivings and misunderstandings amongst the employees. Secondly, it is important to showcase that the organization reflects equal opportunities both in hiring and post-hiring phases, it treats all employees on egalitarian and transparent footing.

As conflict has both positive as well as negative overtones, it must be examined carefully and used for the ultimate advantage of organization. Management has to study the situation to settle it. Thomas and Schmidt have reported that managers spend up to at least twenty percent of their time in dealing with conflict situations.

There are mainly three types of conflicts as noted below:

Intrapersonal conflict is when an employee has to cope with internal conflict about his/her own self, deeds, thoughts, feelings, values. An intrapersonal conflict is mostly value-related, for example an employee has to offer a false pretext to a caller on telephone, whom the branch manager wants to avoid. It may be that his position is not unethical but the situation warrants avoidance due to some sound tactical reason or in the interest of the company itself. This is also known as Value Conflict which arises due to beliefs which are not in

editorial

accordance with those of the employee's own values. Values are beliefs that people ascribe meaning to their lives.

Interpersonal conflict relates to conflict between two persons in the same organization and department and is the most common conflict. For example, there are two business managers who may be competing for the same financial and human resources available in the department. Then there is a vivid example of two branch managers of the same bank and situated across the road, aiming for the same customer deposits. These are commonplace but sometimes found to be a healthy trend as it accords a competitive spirit to both the contestants.

All organizations comprise of a grid embracing several divisions, departments and sections. **The interdepartmental conflicts** are not so much personal in nature as they are due to factors inbuilt in the corporate structure. To cite an instance, suppose the Business Department requires more manpower for its expanding operations but the HRD limits the number of staff due to any reason such as budgetary constraints or company policy. People tend to forget that one department's success is the success of other departments as well and all are like synergy. Instead of being jealous of that department's achievement, one must feel proud and share its joys, as all departments are interlinked with the same grid. A homogeneous grid should at no cost become a gridlock.

Poor **communication skills** create disruption in the workplace harmony. It also causes a lot of misunderstanding. Appropriate communication in the workplace is vital for achieving the desired results while also creating a sound environment and shunning high stress-levels. Poor communication begins as a minor issue, but in the long run, it can pose to be damaging. Settling disputes directly and promptly through healthy communication habits has a decisive effect on performance. Poor communication can give rise to a scenario in which everything on the action list is urgent, creating an aura of tension in the department and exhaustion. Good communication on the other hand, causes a sense of soundness and uniformity, while poor communication unleashes a sense of uncertainty causing tension, which compromises competence and the end-results.

Any organization lacking effective leaders cannot perform to its optimal capacity and attain its corporate targets successfully. **Effective leadership** traits include positive character, honesty, integrity, trustworthiness and ethics. Leaders act to take ownership and ensure others' success in the organization. Strong leadership also calls for transparent communication skills. Employees or leaders who avoid candid confrontation are being passive- aggressive. Rather than face-to-face encounter, using emails and notes to communicate solely without resolving the on-going issues is a form of the trouble. Deliberately avoiding tasks and assignments, without providing reasoning, is also a form of passive-aggressive behavior in the workplace. Besides, there should be a zero-tolerance towards intimidation, blame game and other negative activities in the workplace. Service-delivery organizations, such as banks, require leaders — not bosses — to accomplish tasks and meet targets.

Emotional intelligence is the ability to be in control, calling for the just expression of one's emotions and to manage interpersonal relationships wisely and tactfully. Negating to use one's emotional intelligence may result in complete fiasco in listening to the vital customer base or ignore feedback on competitors in the industry.

In order to create a congenial and amicable workplace, it is necessary for the management to adopt preventive measures, which may not always be cent percent effective. Interventions to negative behavior in the workplace should be taken with caution. A four-tiered treatment is recommended by Dr. Gerald Hickson at the Vanderbilt University School of Medicine. This approach starts with an informal intervention, then if that is not productive, moves on to a true intervention, an authoritarian intervention and lastly, discipline as a tool.

If the management intends to consider bettering harmony in the workplace, then it should be started proactively. The first step is to recognize any possible cause for disharmony, face it headstrong and resolve the same. Some very simple, basic tips are as follows:

- Appreciate little things to make the colleagues happy and motivate them
- Adopt an open door policy
- Avoid unnecessary visitors, phone calls and meetings
- Build up a harmonious teamwork and socialize outside of workplace

There must be some greening effects also in the office atmosphere and this is possible with placing of plants at different focal places, such as near windows and on tables. One of the most important plant is the Spider plant which removes obnoxious gases and toxic air from the office premises, besides Snake plant and Money plant which can be put in a bright bottle full of water. Another important step would be to display some interesting art work, such as abstract paintings to enrich the workplace atmosphere.

To sum up, as Douglas Conant aptly said: To Win in the marketplace, you must first win in the workplace.

The Contributors

Sohailuddin Alavi is an author and consultant. He has authored books on Decision Making, Ethics, Organization Management & Leadership and writes for a number of reputed professional magazines. Currently he is associated with KTG Group as Executive Director, responsible for Corporate Planning & Strategy and is also Head of its Due Diligence Team.

Jauhar Ali was formerly a Director at IBP.

Haroon Jan Baryalay is a partner at Axis Law Chambers, Islamabad.

Akram Khatoon is a prominent senior banker who was the founder President/CEO of First Women Bank Ltd from 1989 to 2004. She is a prolific writer on topics of current interest such as Banking, Finance, Financial Inclusion and Economy.

Aqeel Muslim is a Trade Finance specialist with rich experience in Trade, Forex, Treasury Back Office & Transaction Banking. He is now working as SVP & Head of Trade Finance Operations in National Bank of Pakistan. He has done his Masters in Business Administration (M.B.A.) in Finance.

Rafi Ahmed was formerly Senior Vice President/ Head of Learning & Development in Summit Bank Ltd and in the Training/Consumer Divisions of MCB Bank. He has authored a book of short stories, Notes from My Noctuary.

Kelechi Okeke is a Customer Experience Analyst, Trainer, Content Developer, and Graphic Designer.

Shumail Rafi is a Foreign Trade & Credit Officer in Bank Al Habib Ltd.

Amin Rehmani is Director Product Development and Pedagogy at IBP. He earned his doctorate from University of London. His areas of expertise include Curriculum Planning and Development, Learning, Assessment, Quality Assurance and Training. Prior to IBP, he worked with Aga Khan University.

Naeem Baig, formerly a senior banker, is a writer/ novelist based in Lahore.

Shamim Junejo is Branch Manager in Summit Bank Ltd.

CONTENTS

PUBLISHED BY
The Institute of Bankers Pakistan
Moulvi Tamizuddin Khan Road
Karachi 74200, Pakistan
92 (21) 111-000-IBP (427)
92 (21) 3568 3805
www.ibp.org.pk

EDITOR
Rafi Ahmed

DIRECTOR ACADEMIC OPERATIONS
Faisal Hussain

MANAGER PUBLICATIONS
Shahla Naqvi
92 (21) 35277 529
publications@ibp.org.pk

ADVERTISING
Muhammad Akram
92 (21) 35277511
m.akram@ibp.org.pk

DESIGN
M. Jahangir Ishaq
Haris Jamshaid

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IBP Honors Senior Bankers with Fellowship

Ghalib Nishtar
President, Khushhali Microfinance Bank Ltd.

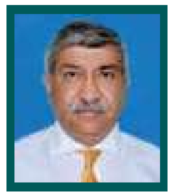
Ghalib Nishtar was part of the process initiated by the Government of Pakistan to reform the financial sector under the Microfinance Sector Development Program with the objective of providing sustainable financial services access to the low income segments of the market. Under his leadership, Khushhali Microfinance Bank has emerged as Pakistan's largest microfinance institution with a nationwide presence across the country. Prior to Khushhali Bank, he has over 20 years of management experience with leading banks including Bank of America and National Bank of Pakistan.

Abid Ajmal
SEVP & Chief Risk Officer, AL Baraka Bank Ltd.

Abid Ajmal is presently SEVP/Chief Risk Officer in Al Baraka Bank. He is a professionally qualified commercial banker with 40 years rich experience in Finance of International Trade, Credit Management, Project Finance, Islamic Banking and Shariah Compliant Finance, Product Development and Resource Mobilization.

Syed Kazim Raza,
SEVP- Group Head, Retail Banking, Al Baraka Bank Ltd.

He has a profoundly rich experience in Branch Banking, Product Development, Wealth Management, Channel Management, Consumer Banking, Marketing, Branding and Business Analytics, Sales Governance and Process Optimization, besides Strategic Planning & Leadership.



Rayamond Kotwal
Chief Financial Officer (CFO), Habib Bank Ltd.

His banking career spans more than 21 years with a rich experience in the domain of Financials. He has a distinguished exposure to Consumer, Corporate and Investment Banking, apart from serving as the CFO in Habib Bank Ltd. (HBL), he also served as the CFO in United Bank Ltd. (UBL) and NIB Bank Ltd.

Talha Saeed
Executive Director / Group Head Wholesale Banking & SME, Silkbank Ltd.

Talha Saeed is responsible for Corporate Banking, Treasury, Financial Institutions, Investment Banking and SMEs. He is noted for being a specialist in the field of SME and setting up new businesses, also involved as a certified trainer.

Jamal Nasir
Head of Human & Organizational Development, Habib Bank Ltd.

He has very rich experience in Human Resource Management and Development, spanning three decades. Apart from managing HR, he is also involved in Learning, Development and Execution of HR strategy besides implementation of innovative HR systems and automation processes in his current bank. He has worked in three leading banks namely: UBL, Standard Chartered Bank and ABN Amro Bank.

Ariful Islam
Deputy CEO & Executive Director, Meezan Bank Limited.

Ariful Islam is a Chartered Accountant from England and Wales and a Fellow member of the Institute of Chartered Accountants of Pakistan (ICAP). He joined Meezan Bank in April 1999 as the bank's first Chief Operating Officer and subsequently elevated to the position of Deputy CEO of the bank. He has previously worked with Faysal Bank Limited and MCB Bank Limited, where he held various senior management positions. He has over 33 years of experience in the financial sector.

CONSUMER CREDIT:

OPERATIONAL CHALLENGES

By: Sohailuddin Alavi & Jauhar Ali

Consumer credit is an established financial product which serves as an important tool to accelerate economic growth across the globe. The concept of this segment of credit portfolio is based on the need for an institutional arrangement for making available to consumers financing support to enhance their consumption and improve their day-to-day standard of living. In this sector, growing importance is attached to consumption, which in turn, generates a chain of economic activities that ultimately lead to economic growth.

It thus stands out as a source of financial stability and uplifts the economic and social status of the household. By facilitating the consumers to buy the goods and services they need today and pay for them later this credit segment has become a part of life for millions of people world-wide.

Consumer finance has grown at a rapid pace and has emerged as one of the most promising asset products for banks, specially in mature economies. The demand for consumer credit is potentially huge as it offers lucrative business proposition for banks and financial institutions (FIs). From economic development perspective, consumer finance is perceived as an indicator of economic growth and offers an alternate channel for banks and financial institutions to diversify their credit portfolio and expand their earnings base.

In Pakistan, the evolution of consumer finance portfolio is more of a recent phenomenon. Yet, it has recorded a rapid growth and in a short span of just over a decade or so it has developed into a lucrative business proposition for banks. Under the umbrella of consumer finance, banks and other financial institutions offer a wide range of lending products such as credit cards, personal loans, consumer durables, auto finance and many more.

The present-day upsurge in consumer lending is attributable to a number of drivers such as increased consumption needs, easy access to consumer products, financial liberalization process, the influx of liquidity in the banking sector due to high inflow of remittances in the aftermath of 9/11 incident, easy monetary policy stance of the State Bank of Pakistan and convenience to pay back at an agreed future date. The easy access to purchasing power provided to the consumers by the consumer loans facility has greatly helped to improve the living standard of the consumers and increase aggregate demand in the economy. The sectors which benefited the most in the process have been automotive industry, consumer durables and housing.

The recent phenomenal growth of consumer financing products and services apart, there are still considerable untapped market potentials that need to be harnessed. The State Bank of Pakistan (SBP) has introduced an elaborate regulatory framework for the consumer credit operations in order to facilitate Banks and FIs to unleash the untapped market potentials on the one hand and to ensure safety of the depositors' money and banks' interest on the other. The institutions offering consumer financing would do well to benefit from these regulations and take appropriate measures to tap the untapped market potentials in order to ensure the growth of a vibrant consumer credit market on sustainable lines.

Notwithstanding the multifaceted benefits that it offers, consumer credit is not an unmixed blessing or altogether a risk-free proposition. Like other forms of credits, it is also vulnerable to the risk of losses to the financial institutions which at times may be humongous owing to the nature and level of improper management, lack of professionalism and deviation from established rules and procedures. Moreover, non-availability of credit history and business data of the consumer-borrowers, aggressive selling so much so that standard policies are deliberately deviated, and the role of the third party agencies have been some of the debilitating factors that contributed to the vulnerability of consumer finance to the risk of losses. Yet, other negative impacts of the increased volume of consumer lending on the macro-economic front have been noticed as increased imports of consumer durables due to the inability of our industry to compete with the Chinese products, which swelled the country's import bill, thus exerting pressure on local currency, speculation in the real estate which inflated the prices beyond the obvious and last but not the least it led to demand pull inflation to an alarming extent.

It is pertinent, therefore, that timely effective measures are taken to overcome the bottlenecks that may impede the ongoing rapid growth of this vibrant consumer credit market on sustainable lines. It has been felt that the banks/financial institutions are cognizant of the risks and should have already strategized to avert the risk but, if not, it would be advisable that the consumer financing decisions are made subject to the risk management criteria pursued while processing applications for other forms of credit facilities. The process may inter alia include, identifying source of repayment and assessing customer's capacity to repay, his/her past dealings with the bank/DFI, if any, and the customer's net worth and the purpose for which the consumer financing is required, besides the latest information obtained from a Consumer Credit Information Bureau about the credit history of the customer and a written declaration from the customer containing details of all the credit facilities availed from other banks/financial institutions. Further, the assessment report may also incorporate the aggregate amount of fixed and variable expenses of the borrower as part of an effective risk management process. Banks are also expected to take reasonable steps to assess and verify the income of borrowers through different modes and, depending upon the underlying risks, review and update income assessment mechanism on periodical basis. The reasonable timeline for periodical review of income assessment mechanisms shall be specified in the relevant board approved policy. While doing so, the constraints and dissatisfactions perceived by customers from time to time in trying to avail of the consumer financing also need to be addressed simultaneously.

> "Notwithstanding the multifaceted benefits that it offers, consumer credit is not an unmixed blessing or altogether a risk-free proposition. Like other forms of credits, it is also vulnerable to the risk of losses to the financial institutions which at times may be humongous owing to the nature and level of improper management, lack of professionalism and deviation from established rules and procedures."

Consumer Credit Supply Chain Analysis

A typical consumer credit supply chain consists of a set of output and outcome variables as the end product of the chain, policy and regulatory environment and a set of five stages of credit application processing. Efficacy of prospecting borrowers and their due diligence are critical to the quality of a future credit. Hence, major risk vulnerabilities are generally spotted at the selling and applicant due diligence stages. Inhibitions to process credit proposals and make right decisions at the later stages are very much dependent on the efficacy of first two stages – garbage in, garbage out.

A good consumer credit decision has the following manifestations of output and outcome, namely: quality loan portfolio, improved profitability, minimized risk and growth on the internal level and higher living standard, increased economic activity, increased investment and economic growth on macro level.

Selling has focus on prospecting buyers of consumer credit on the premise that "More is Better". Selling is generally driven by quantitative business targets. Next stage is due diligence of the prospects (applicants). Applicants' personal and financial data is obtained and analyzed to assess their legitimacy and financial capacity to afford a credit. A minor deficiency in the legitimacy or financial capacity of the applicant may lead to rejection of the loan application, which means lesser sales. Subsequent stage is of analyzing the applicant's data in a holistic manner followed by preparing a Credit Proposal Document. This document is then considered for approval / denial in the fourth stage.

Bank Credit and Policy Framework and Regulatory Compliance

> "A typical consumer credit supply chain consists of a set of output and outcome variables as the end product of the chain, policy and regulatory environment and a set of five stages of credit application processing. Efficacy of prospecting borrowers and their due diligence are critical to the quality of a future credit."

What has been mentioned above underlines the importance of each of the five stages in making credit decisions on merit in order to control the output and outcome. In the following lines, let us analyze each stage in somewhat detail to unravel the risk vulnerabilities.

Gap Analysis

The consumer-credit supply chain has three major loose links: Banks' organizational structures are less synergistic, which have led to dysfunctional competition within banks' functionaries — sales staff gets target to sell more that directly conflicts with risk managers' role in ensuring quality assets portfolio. Although theoretically the coexistence of the two provides for weeding out the potentially bad loans, in practice it is observed that at times the former eclipses the latter. Another pertinent weak link is that of inaccessibility of valid and reliable credit history and business data of the borrowers, especially of the self-employed ones. In many cases, banks' rely on the information provided by the borrowers. Last but not the least, third party borrower due diligence agencies lack resources and confidence of the banks: banks have no or little control on third party due diligence agencies on adherence to prudent practices and integrity management in conducting customer investigations and preparing reports. Let us look at each risk factor in detail:

- **Loose Link "Prospecting and Selling"**

Gone are the days when there were fewer banks and comparatively scarce liquidity and the customers used to run after the banks for credit. The ongoing is the buyers' market in which so many banks with fairly good levels of liquidity compete for customers in the same cluster. All this has mandated a shift from introvert to extrovert selling culture. As nothing comes free, this shift has come with many risk vulnerabilities, which if not squared, can result into losses which at times may be huge enough to lead to bankruptcy.

Why is selling so vulnerable? The answer is simple. Banks give targets and promise carrots for the successful attainment but do not make the sales team responsible for the output and outcome. Moreover, banks often ignore the significance of integrity breach, which may be potentially hazardous for future growth. Banks tend to grow through interdependence and cooperation of all the actors across the supply chain. But when one process team begins to compete with the other blindly their goals tend to conflict, so it leaves them in the lurch.

The sales team is all out for maximizing the quantitative targets. In doing so, particularly in the absence of a holistic perspective and robust integrity management system, they have all the right and wrong means at their disposal to sell. This statement, however, cannot be generalized across the industry but is true in many scenarios. It is also noticed that there has been incidents of the use of unfair means such as bribery which has led to illegitimate connivance of sales individuals with the prospects. Once, the authors were in discussion with the Area Sales Manager and a Branch Manager of a Commercial Bank. The bank needed a positive income estimation report from the income estimation agency. During the discussion, it transpired that a positive income estimation report could be obtained easily, if not from one agency, it could easily be obtained from another agency — money makes the mare go.

- **Loose Link "Due Diligence"**

The due diligence process of a consumer credit consists of checking applicant's primary data like residence verification, employment verification, income verification and projected future income estimates or debt servicing ability and last but not the least, verification of assets with a view to assess applicant's net worth and financial solvency. Assets valuation generally does not apply in consumer credit, unless the ticket value is high such as house financing. Although the above is the minimum standard prescribed under the SBP Prudential Regulations for Consumer Credit, in the context of emerging FATF regulations and their widening implications, it would be pertinent to expand the scope of due diligence to also cover screening of the applicants from FATF perspective.

The process of due diligence should be independent and free from influences. In a recent interaction with Director, Consumer Protection Department of SBP, it transpired that "under the Credit Bureaus Act, 2015, private credit bureaus can collect and disseminate the credit data from both financial and non-financial institutions including retailers, insurance companies, utility providers and landlords, as notified by the federal government. They can undertake credit scoring, consolidate credit data for analysis and research purposes, etc. This would also increase the coverage, scope and accessibility of credit information for better credit decisions".

"The consumer-credit supply chain has three major loose links: Banks' organizational structures are less synergistic, which have led to dysfunctional competition within banks' functionaries– Sales staff gets target to sell more that directly conflicts with risk managers' role in ensuring quality assets portfolio."

Regarding importance of due diligence in lending decisions, the Managing Director of a top of the line private credit scoring agency when contacted observed that, "Future of consumer credit in particular lies in the quality of due diligence. Currently, our due diligence system is in infancy stage but I am positive it will soon evolve into a full-fledged system. It is only a matter of time when we will have a due diligence system of international standard. Inaccessibility to business /credit data by public (agencies included) is the major handicap facing the agencies".

The advantage of delegating the pre-approval due diligence of credit applicants is clear: independent opinion. Moreover, it is economical for banks to outsource this function as it is a field work and prospects can be as widely dispersed as one can think of. But, doing this requires specialized market knowledge. However, it is observed that such agencies are vulnerable to undue influence by the applicants and bank's sales team to get the reports as per their desires. The former is an integrity issue (or lack of integrity management system) while the latter is so because of the fact that agencies' reward i.e. repeat business is mostly dependent on the satisfaction level of the sales team. Any deviation or resistance can be a havoc for long term business prospects of the agency: Can any agency afford this?

The sales team generally demands certain criteria to be met in the report, such as a positive confidence level irrespective of the stable income sources and objective evidence of the claimed income and pricing of assets at a higher side to increase net worth etc. Moreover, they expect to overlook grey areas of the applicant such as when the applicant's ownership of assets or a business is unclear, business sustainability is doubtful, risk factors are abnormal or if any other legal or commercial lacunas are present. In short they want a clean report whereby they can sell the credit, however riskier it may be otherwise.

It would be unfair to pinpoint the dysfunctional role of the sales team alone. The outside agencies are also equally responsible, for in order to get repeat business, the standards of prudence are often compromised as some of the agencies offering valuation services often succumb to the customer's demand and knowingly compromise with the quality of credit report they guarantee. The diligence process is thus reduced to a mere completion of formalities. For example, Income Estimation Reports merely contain certain accounting distortions to reflect desired financial position, rather than the real worth of the asset, with total disregard to its impact and implications on projected income of the customer and his/her repayment capacity. Similarly, assets' values are often ascertained on the basis of quoted prices on certain websites or in the market, which are merely "asking-prices." In doing so, the distinction between "income verification" and "income estimation" is ignored. As a result, the report is more of a quasi-income verification rather than income estimation.

"It would be unfair to pinpoint the dysfunctional role of the sales team alone. The outside agencies are also equally responsible, for in order to get repeat business, the standards of prudence are often compromised as some of the agencies offering valuation services often succumb to the customer's demand and knowingly compromise with the quality of credit report they guarantee. The diligence process is thus reduced to a mere completion of formalities."

Way Forward

Fixing the loopholes will be the key to improving efficacy of the supply chain. It is felt that it would be pertinent to make the following interventions:

- **Responsible Credit Prospecting and Selling Policy-** Performance of sales personnel should be linked with credit quality. Their performance indicators should have a blend of quantitative and qualitative targets. In the Philippines, the credit sales persons are asked to write an indemnity in favor of the bank to protect loan losses.

- **Expanded Role of Credit Administration (CAD)-** It needs to be enlarged to cover quality assurance of out-sourced processes. Furthermore, the CAD may ask for basis of the report in order to ascertain its objectivity and reliability. One of the commercial banks in Pakistan has already initiated this practice, others may follow suit. Moreover, some banks have the practice of internally reviewing the assessment of third party agencies to ascertain the reliability of their reports.

- **Integrity Management System-** An integrity system should be developed to deter potential connivance between various players in the sales and ensure due diligence process.

- **Due Diligence Standards for Third Party Agencies-** Due diligence standards should be defined in verbatim and a comprehensive training of staff should be conducted for third party agencies.

- **Monitoring and Evaluation-** A robust monitoring and evaluation system of third party investigation agencies should be put in place to ensure compliance of standards, efficacy of the operational processes and integrity system through periodic audits. Pakistan Banks' Association can play an important role in this regard.

- **Accountability-** Changes in the policy is needed to make sales team, CAD team and third party investigation agencies accountable for violating prudential regulations, banks' internal policies and standards due to malafide intentions or otherwise. ■

Liquidity Management in Islamic Financial Institutions

By: Haroon Jan Baryalay

The scarcity of liquidity management tools for Islamic banks is a recurrent theme for policymakers and regulators in many jurisdictions that are trying to promote Islamic banking. Given the inherent limitations on Islamic banks, coupled with the fact that Islamic banking is still in its early stages of development, most national banking systems have yet to create the mechanisms to enable Islamic banks to best manage short-term liquidity.

Islamic interbank and money markets (where they do exist) lack the volume and diversification of conventional markets leading to a sectoral disadvantage from the outset. An attendant problem to the scarcity of instruments is the lack of secondary market trading of Islamic financial instruments. The excess liquidity of Islamic banks not only eats into their profitability and therefore their long-term viability, it also dampens the effect of monetary policy interventions in the financial markets by central banks. The onset of Basel III liquidity coverage requirements is likely to exacerbate the problem as Islamic banks will need to maintain high-quality short-term liquid assets.

Malaysia, a pioneer in Islamic banking, established an Islamic interbank money market in 1994 which has evolved into an active market offering a range of Shariah compliant instruments based on Murabahah, Sukuk, Wadiah, Qard and others for Islamic banks to manage liquidity. Malaysia adopts a liberal Shariah interpretation relating to trading in debt which has allowed Islamic banks to offer a diverse range of products.

Some of the commonly adopted instruments and mechanisms used elsewhere are discussed in the following.

Sukuk

Domestic and international Sukuk issuances are an increasingly important tool used to absorb excess liquidity of Islamic banks. Sukuk have the added advantage that, depending on their rating, they can be counted as high-quality liquid assets, thereby helping Islamic banks to meet their Basel III liquidity coverage obligations.

The International Islamic Liquidity Management Corporation (IILM) is an international organization with the specific mandate to issue Sukuk to absorb the excess liquidity of Islamic banks. The IILM issues Sukuk in tenors ranging from three months up to one year which are denominated in US dollars. Such Sukuk can be traded globally through an international primary dealer network, making them highly liquid instruments. A US dollar-based instrument is likely to be less attractive to Islamic banks in countries with strict foreign exchange laws or where currency fluctuations could pose additional foreign exchange risk.

The government of Bahrain has put in place short (six months) and medium to long-term (two to ten years) Sukuk Ijarah programs, as well as a Sukuk Salam program whereby the central bank issues 91-day short-term Sukuk with aluminium as the underlying commodity. The State Bank of Pakistan issues medium-term three-year floating rate government Sukuk Ijarah on behalf of the government of Pakistan and is actively looking to expand its Sukuk issuance program as well as introduce new mechanisms.

Commodity Murabahah

Islamic banks, in many jurisdictions including GCC countries, use commodity Murabahah for short-term liquidity placement. However, the commodity Murabahah may not be suitable for overnight placements given the time required to consummate the sale and purchase of commodities.

Commodity Murabahah can be used as a replacement for repurchase (repo) and reverse repo transactions. The advantage of commodity Murabahah is that it enables Islamic banks to place funds with conventional banks thereby increasing the size and depth of the Islamic interbank market. The Central Bank of the UAE has introduced an Islamic certificate of deposit based on commodity Murabahah, which is issued in tenors ranging from one week to five years. The disadvantage of commodity Murabahah-based instruments is that they cannot be traded at a value other than par.

> "The excess liquidity of Islamic banks not only eats into their profitability and therefore their long-term viability, it also dampens the effect of monetary policy interventions in the financial markets by central banks."

Wakalah interbank deposits

As an alternative to Murabahah, Islamic banks have also used Wakalah placement agreements to place funds with other Islamic banks on a short or medium-term basis. Such Wakalah deposits have been used most widely in Oman. A major advantage of Wakalah is that such transactions are cheaper and quicker to execute due to the absence of commodities in the process. The disadvantage of Wakalah is that the returns on a Wakalah deposit can only be determined at the time of repayment, and hence it does not guarantee a pre-determined return to the investing bank. In addition, their status as deposits requiring repayment could be questioned in case of bankruptcy. Furthermore, Wakalah deposits cannot be placed with conventional banks, unless arranged through their Islamic windows and it can be ensured that the funds are used in a Shariah compliant manner.

Conclusion

Although a variety of approaches have been adopted in different jurisdictions, much work remains to be done to diversify the mix of available options for Islamic banks to manage their short to medium-term liquidity and this is an ongoing process. The divergence in Shariah interpretations across different jurisdictions has so far stifled a truly global approach toward tackling this issue. However, standard-setting bodies such as AAOIFI and the IFSB are playing an important role in bridging this gap.

Liquidity management continues to remain at the core of the issues that regulators need to address to ensure the healthy growth and development of the Islamic banking sector. ■

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Cryptocurrencies and Global Financial System

By: Akram Khatoon

Will the advent of cryptocurrencies be acceptable to the global financial system?
The use of emerging digital / cryptocurrencies, apart from creating apprehensions in the minds of majority of people involved in settlement of global financial transactions, has also become a cause of concern for the central banks.

The use of digital currencies like Bitcoin is likely to have an adverse impact on their monetary policy, particularly of developing economies, fraught with danger of unusual increase in flight of capital as well as an engineered boost of money laundering due to absence of banks as intermediaries in such international financial transactions.

Digital currencies now posing as an alternate means of payment, which if globally accepted in course of time, would either eliminate or lessen the role of central banks for controlling the financial system of their countries. The advent of Bitcoin currency is gradually gaining ground despite the fact that this digital currency does not enjoy that degree of trust of people as is the case with legal tender currency issued and controlled by the central bank of a country. A number of cases of frauds and breach of trust have been experienced by people indulging in use of Bitcoin currency. This is directly linked to recent upsurge in money laundering cases, which ultimately leads to clandestine flight of capital and terror incidents, particularly in developing countries, as is the case with Pakistan, which is facing massive infiltration of terrorists from surrounding countries.

At the close of the last century, when use of Internet spread wildly all over the globe, there were apprehensions on the part of central bankers regarding advancement of information technology causing emergence of digital products and related procedures, which may upset the existing system of controlled legal tender currency. This adversely impacts overall monetary policy of a country and recent years have witnessed these apprehensions coming true in the form of Bitcoin and other cryptoassets.

According to Dong He, Deputy director of IMF Monetary and Capital markets department, "cryptoassets are digital representation of value made possible by advancement in cryptography and distributed ledger technology, which prompted the use of Bitcoins as an engine of financial transactions all over the globe. Cryptoassets are denominated in their own unit of account and can be transferred peer to peer without an intermediary (a bank/ financial institution)".

> **"At the close of the last century, when use of Internet spread wildly all over the globe, there were apprehensions on the part of central bankers regarding advancement of information technology causing emergence of digital products and related procedures, which may upset the existing system of controlled legal tender currency."**

It appears that digital currencies derive market value from their potential to be acceptable as a medium of exchange for other currencies to be used for payment as well as store of value.

The value of cryptocurrencies is based on the assumption/expectations that other people/countries will also value and use them. Since valuation is linked to beliefs, which are not covered legally and are without backing of an intermediary (financial institution) and totally outside the ambit of monetary policy of the country concerned, these digital currencies experience high volatility of price.

It is also being felt at international level, including IMF and World Bank, that the advent of cryptocurrencies would reduce the role of central banks to issue their own legal tender currencies. Swedish central bank governor, Stefan Ingves, has stated that only 13% of business involves use of cash and it is possible that with increasing move towards use of digital currency or cryptoassets, would compel central banks to issue their own digital tokens.

Similarly, lot of concern has been expressed by the Managing Director of IMF Christine Lagarde regarding recent development in financial technology in the form of Bitcoin currency and other cryptoassets. According to her, lethargic attitude of financial institutions, even in economically rich countries, with regard to regulating emerging digital products, as these are likely to disrupt financial services and global payment systems. She did not rule out the possibility of IMF creating its own cryptocurrency to eliminate these digital currencies, having no backing of financial institutions and central banks for settling transactions done internationally. She pointed out that IMF's Special Drawing Rights (SDRs), a sort of currency IMF created to serve as an international asset that can incorporate technology similar to cryptocurrency. She also revealed that IMF is directly looking into the possibility of embracing this latest financial technology for devising Special Drawing Rights, for making it more effective and less costly mode of settlement of international transactions for its member countries.

It must be mentioned that considerable efforts have been made in advanced countries and some emerging economies to promote financial technology (Fintech). This implies new applications for processes, products or business models being adapted to financial institutions, which comprises of provision of one or more complementary financial service and product as end- to-end process via an intermediary.

> **It is also being felt at international level, including IMF and World Bank, that advent of cryptocurrencies would reduce the role of central banks to issue their own legal tender currencies. Swedish central bank governor, Stefan Ingves, has stated that only 13% of business involves use of cash and it is possible that with increasing move towards use of digital currency or cryptoassets would compel central banks to issue their own digital tokens.**

Dong He is of the opinion that rise of cryptoassets and wider use of distributed ledger technology may result in account-based payment system to one that is value or token based. In account-based system, transfer of claims is recorded in accounts through a bank / financial institution, whereas value or token based system simply involves transfer of payment object, whether paper currency or a commodity, with involvement of an intermediary (bank). If the value or authenticity of payment object like Bitcoin can be verified, transaction goes through regardless of the involvement of an intermediary.

For IMF to create its own cryptoasset in the form of Special Drawing Rights as stated above is alright, but use of cryptoassets and digital currencies would disrupt monetary policy process of central banks. If central bank money no longer defines the unit of account for most economic activities and those units of accounts are provided by cryptoassets, then central bank's monetary policies will become irrelevant.

Dollarization in some developing economies (as frequently happens in Pakistan also) depicts a similar situation. That is when a large part of the domestic financial system operates with a foreign currency, as such the monetary policy of that country becomes disconnected from the local currency.

Despite all apprehensions regarding the difficult situation being encountered by central banks regarding monetary control in the country, in a scenario of increasing use of cryptocurrencies / assets, Christine Lagarde advises global central banks to come up with planning to make fiat currency better or more stable units of account and to devise an effective monetary policy while at the same time adapt new ideas and technology coming unhindered all over the globe. Besides that, governments need to apply strict regulations to control money laundering and use of cryptoassets by terrorists. Further strict measures need to be taken for strengthening consumer protection and preventing tax evasion posing a threat in case of financial transactions through cryptocurrencies. ■

> **Dollarization in some developing economies (as frequently happens in Pakistan also) depicts a similar situation. That is when large part of domestic financial system operates with a foreign currency, as such the monetary policy of that country is disconnected from the local currency.**

Critical Analysis of Trade Based Money Laundering (TBML): In Light of SBP Guidelines

By: Aqeel Muslim

TBML (Trade Based Money Laundering) is one of the most sophisticated techniques of cleaning dirty money, and TBML red flags are hardest to detect. By definition, TBML is the process by which criminals use a legitimate trade to disguise their criminal proceeds from their undisclosed sources or means.

What is Money Laundering?

Money Laundering is the process by which criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities. The term 'Money Laundering' is also used in relation to the financing of terrorist activity (where funds may, or may not, originate from crime). The word laundering is used for cleaning dirty clothes. Similarly, money laundering is used to clean the dirty money or black money.

Terrorist Financing?

This method used to fund terrorism from legal or illegal sources might be generated by use of charity, business, Non-Governmental Organizations (NGOs) as a front company. This includes the following modes:

- Collecting a large sum of donations or payments from non-existent services.
- Wiring funds to accounts in locations of conflict.
- Withdrawing sums in cash for purchase of explosives and weapons.
- Using charity company accounts to pay expenses of operatives.
- Supplying legitimate finances with profits from criminal activities i.e. Money Laundering.
- Investing un-used money in financial institutions until needed further.

Typical Money Laundering Process

Predicate Crimes: Corruption and bribery, fraud, organized crime, drug and human trafficking, environmental crime, terrorism and other serious crimes.

Placement: Initial injection of Dirty Money or property/asset in the financial system.

Layering: The rotation of dirty money or property/asset in the financial system by creating a long trail of transactions to disguise the origin and beneficial owner.

Integration: The merging of proceeds after going through the layering procedure back into the system for purchase of assets in a way that they appear to be originated from the legitimate activities

Risks involved in Money Laundering

Reputational Risk

The potential that adverse publicity regarding a bank's business practices, whether accurate or not, will cause a loss of confidence in the integrity of the institution.

Operational Risk

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Weaknesses in implementation of banks programs, ineffective control procedures and failure to practice due diligence.

Concentration Risk

Concentration risk is the potential for loss resulting from too much credit or loan exposure to one borrower. Lack of knowledge about a particular customer who is behind the customer, or what the customer's relationship is to other borrowers, can place a bank at risk in this regard.

Legal Risk

Legal risk in the shape of potential lawsuits, adverse judgments, unenforceable contracts, fines and penalties generating losses, increased expenses for an institution, or even closure of such an institution.

The Economic and Social Consequences of Money Laundering

Money laundering hurts your community's and your country's reputation. It damages the institution's reputation. It allows criminals and terrorists to use our financial system for illegal purposes. Failure to take proper procedures to detect can be subjected to legal penalties, increased crime, corruption, economic distortion, instability and loss of tax revenue.

KYC

KYC means "Know Your Customer". It is a process by which banks obtain information about the identity and address of the customers. The KYC procedure is to be completed by the banks while opening accounts. Banks are also required to periodically update their customers' KYC details.

Customer Due Diligence (CDD)

Customer Due Diligence (CDD) is a set of policies and procedures, which aims to verify the client details, identify the beneficial owner and where relevant, verify their identity and to obtain information on the purpose and intended nature of business relationship.

CDD Measures to be Taken: Identifying the customer and verifying the customer's identity using reliable, independent sources, documents, data or information. Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner, such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements, this should include: Financial institution's understanding the ownership and control structure of the customer; understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship; conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customers, their business and risk profile, including where necessary, the source of funds.

> "Money Laundering hurts your community's and your country's reputation. It damages the institution's reputation. It allows criminals and terrorists to use our financial system for illegal purposes. Failure to take proper procedures to detect can be subjected to legal penalties increased crime, corruption, economic distortion, instability and loss of tax revenue."

Categories of CDD

Standard / Simplified Due Diligence (SDD):
SDD requires lower levels of CDD, monitoring and approval.

Enhanced Due Diligence (EDD):
EDD requires more in-depth and frequent scrutiny and review of customer.

Anti-Money Laundering

A set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions. Anti-Money Laundering processes and controls help banks and financial institutions to protect themselves and their reputation from criminals.

Key Elements of Anti-Money Laundering

- The AML program plays a vital role in combating crime by acting as a gatekeeper, preventing criminal gains from being placed within the financial institutions.

- A minimum mandatory standard for AML and CFT is set, based on the requirements of the UK Financial Services Authority (FSA) and industry guidance such as the Joint Money Laundering Steering Group (JMLSG).

- A risk-based due diligence is performed on all new customers, including verification of their identity and, where appropriate, an assessment of the source of their wealth and funds.

- Sophisticated software systems are used to monitor transactions for suspicious behavior associated with AML and CFT.

- Ensure compliance with all suspicious activity reporting required by the regulators and law enforcement agencies in our markets.

- Ensure robust training program for all staff concerned in handling investigations.

The Trade Finance e-learning program aims to give, particularly to Trade Finance staff, a detailed understanding of money laundering techniques in trade finance and equip staff with the knowledge to spot money laundering risks.

International Laws and Regulations on AML

- U.S. Patriot Act
- FATF Recommendations
- Wolfsberg Standards on AML

Trade-Based Money Laundering

The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origin.

Common Forms of Trade-Based Money Laundering

- Under Invoicing
- Over Invoicing
- Over Shipment
- Under Shipment
- Falsifying Description of Goods
- Phantom Shipment

Anti-Trade Based Money Laundering (Anti-TBML)

Financial institutions and other trade-related enterprises can pursue several in-house avenues to mitigate TBML risks to their business. Best practices related to mitigating TBML risks include the following:

How To Detect an Unusual Transaction

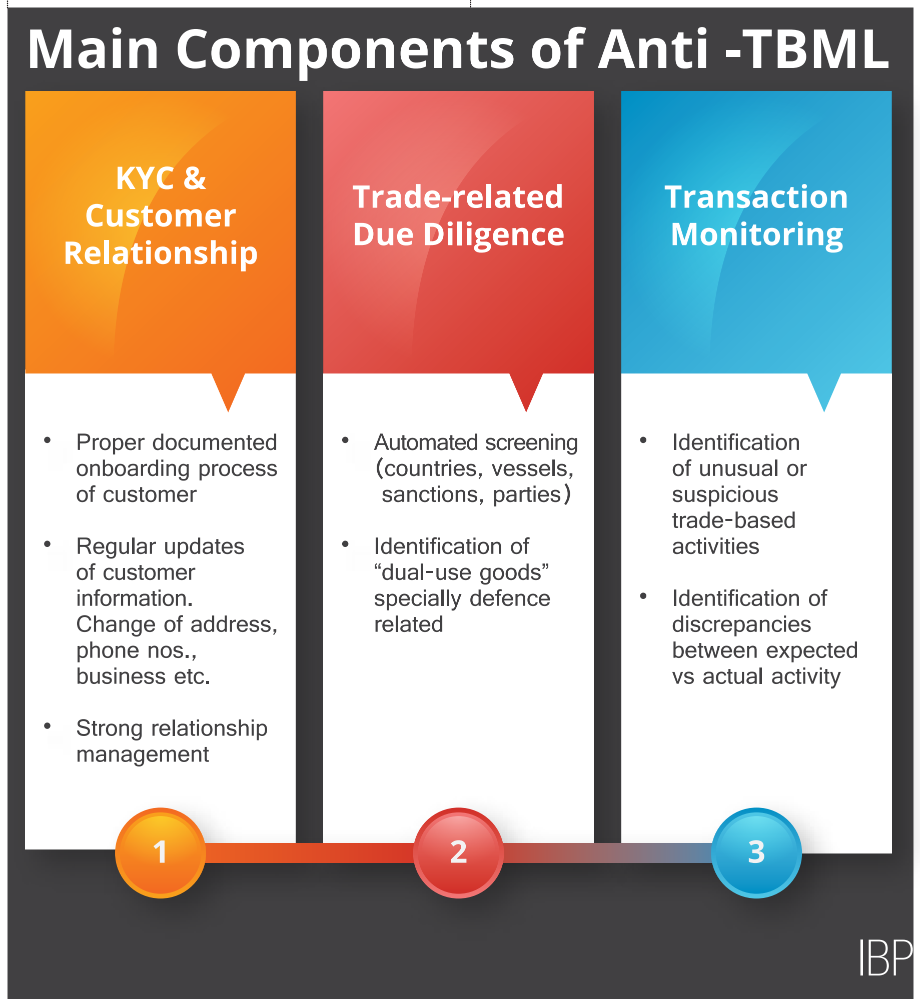
Round Figure Bills Submission/ Payment-Detailed Description

Bill amount (not the amount remitted or received) ending in 4 zeros(0000.00). Review transaction in light of the following:

1). Line of business of parties.
2). For material discrepancies accepted by the Issuing Bank/Applicant.
3). Whether the transactions involves connected parties.
4). Involvement of high risk countries.
5). Involvement of tax haven countries.
6). Transactions where the buyer and the seller are located in a High Risk Country.

Review the transactions in light of the following:

- Check the rounded value or rounded value with decimals.
- Check whether payment has been made to an unrelated party.
- Check whether the transaction is between related parties.



Changing the LC Beneficiary or Bank Contract Payee's Name and Address just before Payment is to be made:

Transactions to watch out for:

- Bills under LC or Bills on Collection
- Review the transactions depending on the query raised and the response from the Relationship Manager/Customer.

In case, no comfort can be derived based on the review, escalate to higher authorities.

Out of Line with Customer Business:

Example- A consultancy company is shipping steel, or size of shipment is inconsistent with regular activities. The description of goods in the transaction does not appear to be consistent with the line of business of the client. Review the report or automated alert to ascertain genuineness of the alert. Once it has been ascertained that the alert is not on account of an incorrect data entry, check for the party's website on the internet to ascertain whether or not the goods are in line with their business. If the result is negative, please escalate to higher authorities.

Payment to a Third Party Other Than Transaction Stake Holders:

Import bills where the applicant / drawee requests to make payment to a party that appears unrelated to the transaction. Export bills where the presenter requests for payment from a party that appears unrelated to the transaction. Transactions, where we have received a prior request to assign proceeds and documents under transferred LC, need not be reviewed, unless the assignee or transferee is located in a High Risk Country. Review the transaction (and response from RM) to see if it makes commercial sense to make payment to an apparently unrelated party.

There could be valid reasons, such as;

- Payment is being made to an entity who is vendor / supplier to the beneficiary/ drawer
- Payment being made to a bank which has financed the transaction

Where it is established that the payment is being made to a supplier, attempt to check on their line of business and where possible, on their size and ability to handle the order. In case no comfort can be derived based on the review, escalate to higher authorities.

Connected Beneficiary/Applicant, Drawer/ Drawee:

Parties, who have relationship with each other i.e. related parties and they share the same address, provide only a registered agent's address, have other address inconsistencies.

- Check whether the buyer or seller are located in a tax haven
- Check for round value bill amount
- Check whether payment has been made to an unrelated party
- Attempt to verify the price of goods
- Attempt to verify shipment details

Any pattern is identified at a client level or in case no comfort can be derived on the review, escalate to higher authorities.

LC Applicant Country is Different From Issuing Bank Country:

Review transactions where the applicant country is different from the issuing country. Check whether the buyer is located in a tax haven country, or in a High Risk Country. Where applicable and possible, attempt to verify the price and shipment. If the above checks cannot be performed or are not conclusive, check i.e. Line of business of parties and check for material discrepancies accepted by the Issuing Bank/Applicant. In case of suspicion or reasonable doubt, escalate to higher authorities.

Buyer/Seller Within Country – Goods Moving Outside Country:

Where applicable and possible attempt to verify the price and shipment, if the above checks cannot be performed or are not conclusive, check i.e. Line of business of parties, check for material discrepancies accepted by the Issuing Bank/Applicant. In case of suspicion or reasonable doubt, escalate to higher authorities.

- Method of payment appears inconsistent with the risk characteristics of the transaction.
- Payment before shipment to a new supplier in a High Risk Country.
- Advance payment effected but shipment not effected prior to expiry.
- Payment to parties other than transaction stake holders.

Review the alert and seek an explanation from the Relationship Manager of the Customer. In case no comfort can be derived based on the review, escalate to higher authorities.

Unusual / Sudden Surges in Transaction Size:

Any transaction, the value of which is double the average value of transactions over the last six months and 50% higher than the highest value transaction over the same period. This check is to be done separately for Import and Export transactions. Create a year database to arrive at average transactions amount and then alert those transactions, done 15% above that average value. These checks would be to ascertain whether the unit price is significantly different from the market price and whether we are able to verify shipment. If the above checks are satisfied, no further checks to be conducted. Or else, check for material discrepancies accepted by the Issuing Bank/Applicant. Check the line of business of the parties. Check whether the transaction makes commercial sense and is not illogical. In case no comfort can be derived based on the review, escalate to higher authorities.

Trade-Based Money Laundering

The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origin.

Common Forms of Trade Based Money Laundering

- **Under Invoicing**
- **Over Invoicing**
- **Over Shipment**
- **Under shipment**
- **Falsifying Description of Goods**
- **Phantom Shipment**

IBP

Detect any Attempt to Disguise/ Circumvent Countries Involved in the Transaction:

- Trans-shipment through one or more jurisdictions for no apparent economic reason.
- IMB report of the Bill of Lading must be checked.
- Transaction documents and result of sea searcher check and response from IMB.
- Review the shipment routes to ascertain whether or not the same is a regular trade route.

In case no comfort can be derived based on the review, escalate to higher authorities.

Fraudulent Documents/Phantom Shipping / Non-availability of Shipping Documents:

IMB report of the Bill of Lading must be checked to validate the authenticity of the Bill of Lading. Check transaction documents or result of sea searcher or response from IMB. Review the response from IMB against the Bill of Lading. In certain cases there may be some minor mismatch in information, such as the actual shipment date differs from BL, by a few days or vessel name is different-particularly in an FOB transaction. In case no comfort can be derived based on the review, escalate to higher authorities.

Suspicious Transaction Reports (STR) or Suspicions Activity Report (SAR)

Suspicious Activity Report (SAR) or Suspicious Transaction Report (STR) is a medium to report suspicious transaction or activities in one's operational or business unit to Compliance Group, which untimely reports it externally to FMU as per the law. STRs / SARs are also required to be reported on the potential attempts by the launderers, even if the bank has been able to stop the actual transaction from taking place.

Any transaction which meets one or more of the following characteristics is to be considered as suspicious:

- If the transaction (or series of transactions) is inconsistent with the customer's legitimate business or personal activities.
- If the transaction is inconsistent with the customer's known transaction profile i.e. in terms of nature, volume or value.
- If the transaction does not make economic sense.
- Any fraudulent transaction/ suspected fraud.
- The ground rule to be followed here in one of suspicion as opposed to conclusive evidence and the judgment of decision in this regard should be left to the Country Money Laundering Compliance Officer.

A SAR should be filed with FMU by the Compliance Group if a transaction is suspicious as defined in the red flags annexed to the regulation and AML Act of 2010. For this purpose Trade Department must report any suspicious transaction to Compliance Group as internal STR / SAR in accordance with the AML/CFT Procedures regarding reporting of STRs.

- A sanctions-related transactions is also considered suspicious.
- The transaction does not comply with the client's usual business pattern (i.e. the transaction has both an AML issue and is sanctions-related).
- Indicates involvement of a sanctioned party and trade in items supporting e.g. arms proliferation, nuclear proliferation, or drugs trafficking indicates intention to circumvent sanction (circumvention can itself be a criminal activity).

Elements of Investigation:

4 Mandatory Checks

- Relationship of Parties/ Cross Share Holdings
- Goods Description / In Line of Business of the Stake Holders
- Movement of Goods (IMB and Sea Searcher facility)
- Common Pricing Factors ■

Please note this is the second article published on TBML in view of importance of the subject.

"Any transaction, the value of which is double the average value of transactions over the last six months and 50% higher than the highest value transaction over the same period. This check is to be done separately for Import and Export transactions. Create a year database to arrive at average transactions amount and then alert those transactions done 15% above that average value. These checks would be to ascertain whether the unit price is significantly different from the market price and whether we are able to verify shipment."

The word 'intelligence' has undergone so widespread a use, that it hardly needs any definition at all. It is referred in the dictionary as capacity for learning, reasoning, understanding and similar forms of mental capacity. Intelligence is not the sole property of humans only. Other non-humans have also been blessed with this capability.

The Architecture of Intelligence

By: Rafi Ahmed

Aron Keith Barbey, an American cognitive neuroscientist, could easily have become the owner of any giant e-commerce company at 41 years, but instead he chose the rocky and difficult path to delve into and explore the mysterious and complex world of the human brain. 'Cognitive' refers to the mental mechanism of perception, memory, judgment, and reasoning. His pioneering research work studies the principles of brain organization that involve executive control, reasoning, and decision making; while neuroscience deals with structure and multi-dimensional functions of the nervous system and brain.

The team of neuroscientists, led by Aron Barbey, is successful in mapping out the physical architecture of intelligence in the brain and carried out extensive studies of the brain design and structures, integral to general intelligence and to dynamics of intellectual functioning, such as verbal comprehension and working memory. It was discovered that intelligence relies on an amazingly confined neural system. Many brain regions and the links between them were found to be more significant for general intelligence. According to these structures are located mainly behind the forehead, behind the ear and at the top rear of the head and in "white matter association tracts" that interlink them. While interacting with individuals with brain damage, the researchers also discovered that brain regions for planning, self-control and other aspects of executive function overlap to a significant extent with areas essential to general intelligence.

The study offers new insights that intelligence depends not on one brain region or even the brain as a whole, but involves specific brain areas working together in harmony.

We have been hearing of Intelligence, then came IQ or intelligence quotient defined by the experts as: A total score derived from several standardized tests designed to assess human intelligence.

Alfred Binet, a French psychologist, was perhaps the first person who is credited with the invention of the first IQ test, the Binet–Simon Test in 1904, in response to the French Ministry's demand to design a method that would determine the study levels of students in educational institutes and propose remedial measures to improve the lot of those students, particularly their mental levels.

"It was discovered that intelligence relies on an amazingly confined neural system. Many brain regions and the links between them were found to be more significant for general intelligence. According to him, these structures are located mainly behind the forehead, behind the ear and at the top rear of the head and in "white matter association tracts" that interlink them."

As if this was not enough, then emerged the science of emotional intelligence or EQ (Emotional Intelligence Quotient). The term Emotional Intelligence (EQ or EI) was popularized by Dan Goleman in his 1996 book of the same name.

It is described as the ability to recognize our own emotions and recognize, understand and influence the emotions of others. In practical terms, this means being aware that emotions can drive our behavior and impact people (positively and negatively), and learning how to manage those emotions – both our own and others – especially when we are under pressure.

For the banking industry emotional intelligence is a sine qua non or simply put, indispensable, as bankers have to deal with a diverse array of people with different personality types and needs.

The architecture of intelligence cannot be complete if all types of intelligence are not discussed, albeit briefly, in order to equip the bankers with the requisite skills and tools to manage the clientele excellently and in a better way. Although much has been written about the concerned subject and is in the knowledge of people, but as bankers we must understand it more deeply.

In 1983, Howard Gardener, the American developmental psychologist and a Harvard scholar came out with his innovative description of 9 types of intelligence. His research outcome is outlined in his 1983 book, *Frames of Mind: The Theory of Multiple Intelligences.*

Are detailed below:

1. Naturalist (Nature Smart)
2. Musical (Sound Smart)
3. Logical – Mathematical (Numbering / Reasoning Smart)
4. Existential (Life Smart)
5. Interpersonal (People Smart)
6. Bodily - Kinesthetic (Body Smart)
7. Linguistic (Word Smart)
8. Intrapersonal (Self-Smart)
9. Spatial (Picture Smart)

What other scientists thought were just interpersonal skills, Gardener thought otherwise and identified various types of intelligence.

An overview of the multiple intelligence theory, as summarized, is given below:

1. Nature Smart Intelligence

It signifies the human ability to discriminate among living things (plants, animals as well as sensitivity to other features of the natural world e.g. clouds, rocks, mountains, dust).

2. Sound Smart Intelligence

Having sound smart musical intelligence enables us to recognize, create, reproduce, and reflect on music, as demonstrated by composers, conductors, musicians, vocalist, and sensitive listeners.

3. Number Smart Intelligence

Number smart intelligence is the ability to calculate, quantify, consider propositions and hypotheses and carry out complete mathematical operations.

4. Life Smart Intelligence

This is sensitivity and capacity to tackle deep questions about human existence, such as the meaning of life, why we die, and how did we get here.

> "The architecture of intelligence cannot be complete if all types of intelligence are not discussed, albeit briefly, in order to equip the bankers with the requisite skills and tools to manage the clientele excellently and in a better way. Although much has been written about the concerned subject and is in the knowledge of people, but as bankers we must understand it more deeply."

5. People Smart Intelligence

People smart intelligence is the ability to understand and interact effectively with others. It involves effective verbal and non-verbal communication, the ability to note distinctions among others, sensitivity to the moods and temperaments of others, and the ability to entertain multiple perspectives.

6. Body Smart Intelligence

Body smart intelligence is the capacity to manipulate objects and use a variety of physical skills. This intelligence also involves a sense of timing and the perfection of skills through mind–body union. Athletes, dancers, surgeons, and crafts people exhibit well-developed bodily kinesthetic intelligence.

7. Word Smart Intelligence

Linguistic intelligence is the ability to think in words and to use language to express and appreciate complex meanings. Linguistic intelligence is the most widely shared human competence.

8. Self-Smart Intelligence

Intrapersonal intelligence is the capacity to understand oneself and one's thoughts and feelings, and to use such knowledge in planning one's life. Intrapersonal intelligence involves not only an appreciation of the self, but also of the human condition.

9. Picture Smart Intelligence

Picture Smart intelligence is the ability to think in three dimensions. Core capacities include mental imagery, spatial reasoning, image manipulation, graphic and artistic skills and an active imagination.

Challenging an old die-hard notion that intelligence is a single kind of human capacity, does not necessarily win acceptance. Gardener's book is still considered controversial but if we apply our common sense it is certainly true.

Apart from different types of Intelligences quoted above, there is another form which is known as Social Intelligence (SI)

Social Intelligence (SI) is the ability to get along well with others, and to get them to cooperate with you.

IBP

Social intelligence, which is almost equivalent to Gardner's *interpersonal* intelligence, is separate from, but complementary to emotional intelligence or Gardner's *intrapersonal* intelligence.

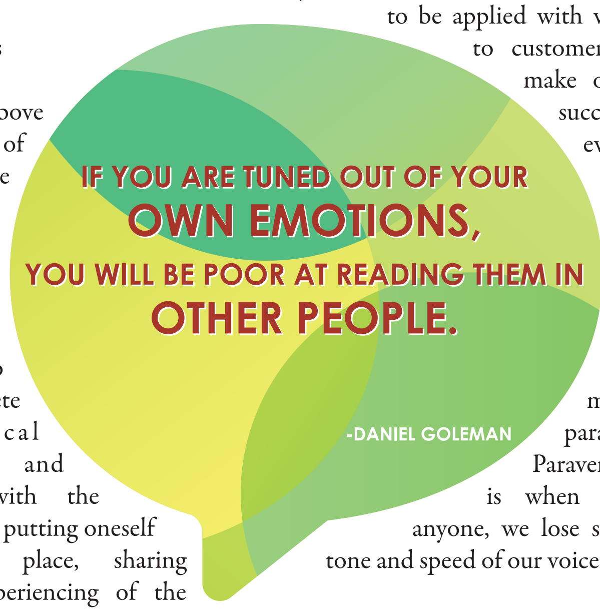
Intelligence or IQ is mostly what we all are born with. Genetics, the science of heredity, plays an active role in its creation and eventual development. Social intelligence is mostly acquired through experience, learning, reading etc. It is diplomacy, being tactful and use of common sense to understand others' perception.

In the realm of banking, we have to apply each one of the nine types of intelligences in order to fully understand, comprehend and analyze the customer mindset, psyche, demands and needs. But most particularly, we must focus on being life smart, people smart, self-smart and word smart, besides gauging the feelings and sentiments of our customer base to not only retain and satisfy the existing customers but also increase the clientele.

If we are to succeed in customer services, we must have five key essentials:

- Self-awareness
- Self-regulation
- Motivation
- Empathy
- Social skills

Of all the above essentials, one of considerable importance is empathy, though all others are no less significant. It means to be in complete psychological harmony and alignment with the customer and putting oneself in his/her place, sharing imagined experiencing of the feelings, thoughts, or attitudes.



This, no doubt, appears to be tough but not an impossible task to accomplish. It is not necessary to be a psychologist to have a command over these types of intelligence, in fact we are already applying many of them in our lives, but the same needs to be applied with verve and zeal to customer services, to make our portfolios successful. Whenever we talk to resolve customer issues, we should completely avoid irritation mode and avoid paraverbal tone. Paraverbal language is when talking with anyone, we lose sight of pitch, tone and speed of our voice.

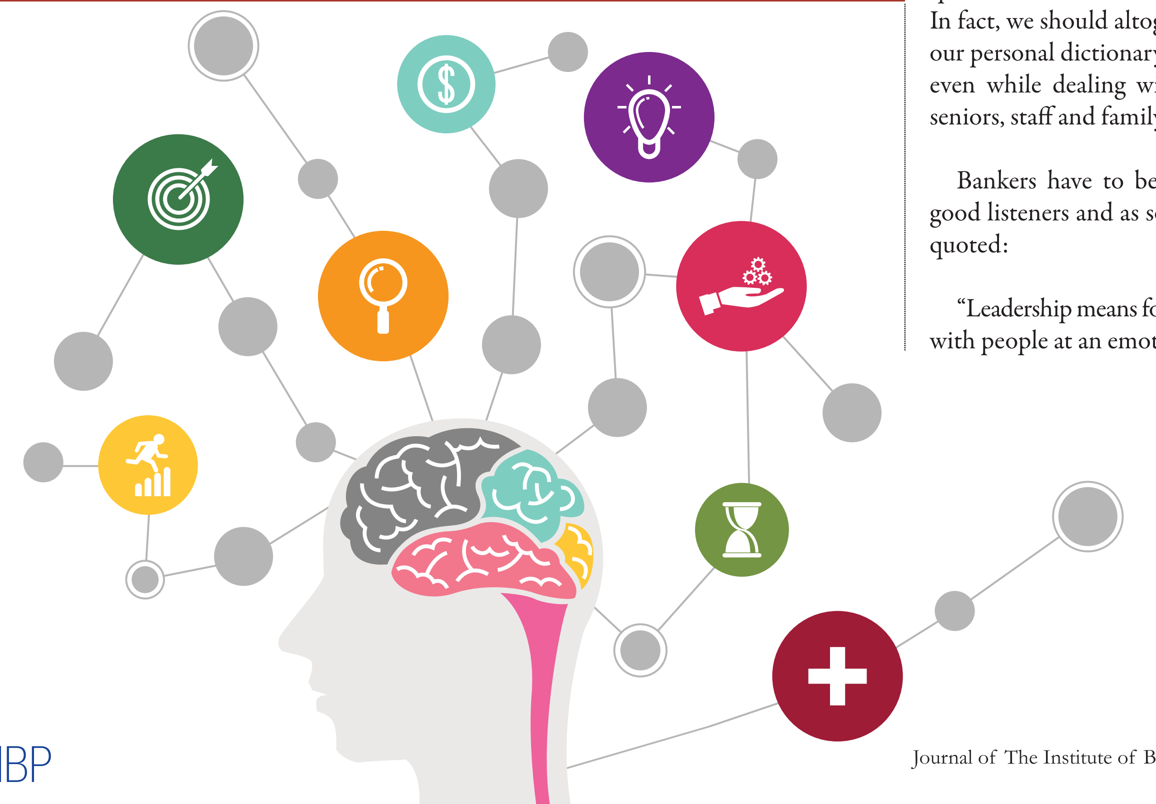
Paraverbal mode indicates as to how we speak or utter the words to reflect happiness, sadness, anger, determination or forcefulness. Some psychologists are of the view that it amounts for about 30% of what we communicate. Of all the emotions, anger is to be avoided. If a customer is speaking in high pitched voice or shouting, the banker must exercise complete calm and avoid any sign of anger in retaliation.

Shouting and raising one's voice are not liked at all by fellow-human beings, not to speak of customers who are our lifeblood. In fact, we should altogether omit it from our personal dictionary and never employ even while dealing with our colleagues, seniors, staff and family.

Bankers have to be good leaders and good listeners and as someone has rightly quoted:

"Leadership means forming a connection with people at an emotional level." ■

> "Social intelligence, which is almost equivalent to Gardner's *interpersonal* intelligence is separate from, but complementary to emotional intelligence or Gardner's *intrapersonal* intelligence."



Amazing Bank Customer Service Story

By: Kelechi Okeke

It should not always be stories of bad/horrible customer service that we read about, positive stories from everyday people can do wonders in motivating professionals in the field.

This story was shared by Joyce Byrd, about her touching experience with her bank. I hope you find it inspiring.

I live in Cumming, Georgia, and the county is Forsyth and it is the seventh fastest growing county in the United States. There are many people who were born here and have raised their families and lived here all their lives. Then there are many like me who have only lived here for twenty-nine years or less.

My heartwarming story is about my bank. I have banked at several banks in this town but I have been with this bank for the last fifteen years. The bank manager is one who stands out and goes above and beyond his job title in Customer Service.

My husband passed away four years ago and because of certain documents that go through the bank, he knew he had passed away. He called me and expressed his condolence and asked was there anything he could do for me. I thanked him and told him no. He said, "If you ever need us for anything, call me." I said ok and thought that was nice.

> **"My heartwarming story is about my bank. I have banked at several banks in this town but I have been with this bank for the last fifteen years. The bank manager is one who stands out and goes above and beyond his job title in Customer Service."**

I got sick and did not go by the bank for a couple of weeks. I got a call from him and he said, "Ms. Byrd, we haven't seen you at the bank, are you ok?" I told him I'm just not feeling well. He said, "Can we bring you something or do anything for you?" I told him no but I thought how nice of this man to care about a customer, to check on me and offer to help me.

I would never think of changing banks. He shows how much he appreciates my business when you walk in the bank he comes out of his office and calls you by your name and shakes your hand. That personal caring touch he gives makes him stand out in Customer Service.

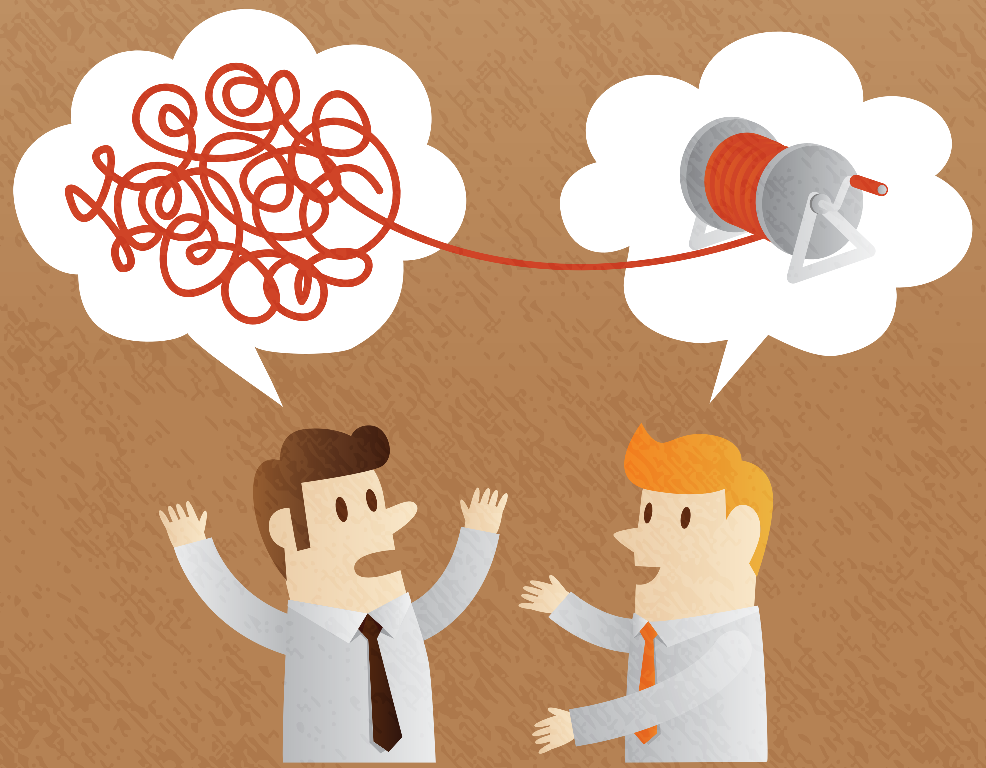
The manager did not just do his job, he took it a notch further by making the service more personal, as a result his customer feels valued and appreciated.

When customers feel that way, they will trust the organization to have their best interests at heart, this leads to loyalty. The stronger the loyal customer base is, the less threat competitors pose.

This story was first published online on 'CustomerThink'.

Learning TO LISTEN

Listening is a vital business skill and yet many people don't do it effectively. Chartered Banker discovers why this is a problem, and what can be done about it.



"You see but you do not observe," Sherlock Holmes famously chastised his investigative partner, Dr Watson. What irritated the fictional perfectionist is an act of neglect that we are all guilty of at times: that of not being fully engaged.

Our engagement should extend to proper listening too, not just hearing, argues Richard Mullender, a professional communications trainer who is also a former detective and expert in hostage negotiation. While both modes have their advantages, the credence talking is given in a commercial context stems from the competitive nature of business, he suggests. Talking is what gets people noticed, and if that's what is desired, it is what people will do.

The dominance of talking over listening is underscored by the fact that, over the past few decades, new communication technologies have evolved requiring mainly eye and finger co-ordination. This, says Julian Treasure, an expert in sound and communication, has seen the skill of listening – what we pay attention to and the meaning we make from it – become seriously undervalued.

Listening is not taught, so it is hardly surprising that most of us emerge as adults with this skill somewhat underdeveloped and with a predilection for sending rather than receiving most forms of communication, notes Treasure. The prevalence of social media 'personal broadcasting', even in high office, bears this out.

If we are not listening properly, there is almost certainly a failure to communicate effectively. "Miscommunication is one of the most significant and costly problems for business today," states Treasure.

With work, listening skills can be improved, and because most people don't even try to develop beyond the basics, an immediate advantage is on offer to those who do.

Matching the Filters

Rule number one is that the human listening experience is unique. Everyone unconsciously applies a set of filters created by a multitude of variables such as attitudes, beliefs, emotion, context, expectations and intentions. With listening and speaking forming a circular relationship, says Treasure, the way someone listens affects the way they speak, and vice versa, with this changing even within a single conversation.

> "Miscommunication Is One of the Most Significant and Costly Problems for Business Today."

In business, this interdependent relationship means adjusting the listening 'position' appropriately to match the various filters. This lets the listener alter their way of speaking to keep the conversation flowing and allows them to extract the most useful information.

Most people easily vary speech according to context; the challenge is to learn how to respond to the dynamics of listening in a similar way. In business, failure to build this rapport – with clients, teams, employees and so on – is extremely limiting.

Curiosity in Conversation

A good listener must know the purpose of their listening, advises Mullender. This will help them look for – and extract – relevant verbal cues from the conversation, ultimately allowing their goals to be achieved.

Regardless of this focus, humans have a natural curiosity that makes us ask questions. Uncurbed enthusiasm leads to constant interjections, which is a problem when it comes to 'professional' listening. Questioning a speaker mid-flow will be a distraction for them, often changing their line of thought, and possibly even the course of the conversation. Detail, opinion and a deeper understanding of the speaker that otherwise would have emerged can be lost.

"If you can hold back your questions and let the person explain something in their own way, often they will give you the answers you want," says Mullender. People will naturally talk to fill a silence, so only start asking questions if you haven't got the answers you need.

How to Practice

Achieving the necessary listening skills takes practice. Facts are easy to extract, says Mullender; it's when you begin to listen to the emotions and motivations contained in speech that the really useful information starts to emerge.

The easiest way to practice is simply to talk to people. People love to talk about themselves. It doesn't matter who it is – taxi drivers, supermarket checkout operators, anyone – they will all usually have something to say if you let them, suggests Mullender.

Taking a slightly different approach, Treasure refers to his set of five exercises for conscious listening improvement. From these he highlights the RASA technique: receive; appreciate; summarize; ask. Effective listening (receiving) takes full concentration; doing something else is a distraction. Appreciative noises and gestures help the flow. Summarizing at key points in a meeting or conversation can ensure there is understanding. Asking questions helps clarify ideas. As Mullender has said, asking at the wrong point is a distraction, but for Treasure, using open questions that do not attempt to direct the conversation in a particular way can be beneficial.

> "Listening Is Not Taught, So It Is Hardly Surprising That Most Of Us Emerge As Adults With This Skill Somewhat Underdeveloped."

Getting Set

"Listening gives you understanding," says Mullender. If you understand the values and motivations of the person to whom you are talking, you can form a rapport and, from that, begin to benefit more from that conversation. Selling a product, an idea or a solution, for example, suddenly becomes easier when you know an individual's motivations.

Both Mullender and Treasure agree that being able to understand the speaker's point of view 'in the moment' means recognizing that the other person is not necessarily wrong if you don't agree with them, but simply that they are coming from a different position – and that it is up to you, the listener, to readjust to that position.

SEVEN TIPS FOR BETTER LISTENING

- Every conversation is subject to certain filters such as beliefs, emotions and expectations
- Always work out what you really want from the conversation
- Use this to listen for the relevant verbal cues on those filters, and stay alert for them
- Change your listening/talking approach according to your perception of those filters
- Don't listen for agreement or disagreement with your point of view, listen to understand
- Let people talk: hold back on the questions, as often the best information comes from giving someone free rein
- Practice often

Once this is grasped, the listener can begin to use filters applied to any conversation as a control surface, helping to change the way they listen. This may see cynicism replaced by curiosity, or criticism by empathy. In a business context, it may become apparent that there will be no sale, but there may be an opportunity for an introduction to a new prospect. All of this requires a change of expectation and position.

"If you don't understand this, you will be arguing the wrong case, and will very quickly be on the back foot," says Mullender. In a business meeting, this could mean the end of the deal. In a hostage situation, it is a matter of life or death. These scenarios may be dramatically different, but the same listening techniques are used. And, with practice, they really do work. ■

This article was originally published in April/May 2018 issue of Chartered Banker magazine.

Email Etiquette

By: Shumail Rafi

According to RadiCati Group (a highly successful market research firm focused on the computer and telecommunications industry), the statistics, extrapolations and counting gathered by it estimate the number of emails sent per day* to be around 205 billion. 205 billion email messages per day means almost 2.4 million emails are sent every second and some 74 trillion emails are sent per year.

This means emails have assumed an integral and vital role and a necessity of the professional and personal chapters in our lives the world over. In Pakistan, it started gaining momentum in the mid-1990s. In view of sheer numbers and humongous proportions, there had always been a need for email etiquette. It connotes certain rules which guide the users what is appropriate and what is not appropriate. Following this simple code also averts blunders, mishaps and resultant lack of response from the receiver's side. A research study says that mistakes reflect a bad impression about the senders. If an email replete with silly typographical and poor grammatical lapses is received, the first and immediate impression is that the sender is careless, less intelligent, not dependable and also incompetent. So the response will be not appropriate. If one is to avoid the pitfalls of sloppy and shoddy emails, then some important points of the etiquette should be meticulously followed while drafting.

- There should be proper email format: with clear-cut heading in the subject line along with a brief outline such as Request / For your information (FYI) or For your action.

- Salutation: Always address the reader in a professional demeanor such as Dear Mr. Nadeem or Dear Ms. Nudrat, but make it as personal as possible, or if you do not know the addressee, then "To whom it may concern".

- The main theme of email should be rounded up in the opening sentence; ponder what you want the reader to do next, what action needs to be taken. Think about what you want to say in advance.

> A research study says that mistakes reflect a bad impression about the senders. If an email replete with silly typographical and poor grammatical lapses is received, the first and immediate impression is that the sender is careless, less intelligent, not dependable and also incompetent.

* Based on 2015 Figures

> The most preferable professional fonts include: Georgia, Verdana, Calibri, Times New Roman and Arial but use the one which is in vogue in your office correspondence. All in black and size 12 points.

- Never use capital letters for the entire email, as it connotes anger in email etiquette, or all small cases. But acronyms can be written in capital cases such as SBP, WAPDA, UNO etc.

- Review your grammar, spellings and punctuation, altogether avoid slangs and colloquial language, ensure that the language used is concise and professional in style and tone.

- Courtesy is the mainstay of all professional and personal emails.

- If the email is long, it should be divided into small readable and meaningful paragraphs.

- Add a signature block at the end containing your name, official position, address and mobile phone number.

- In the entire email, the font should be of the same point, type and color— if it is 12-point then 12-point should be used throughout, similarly, if some part is in Arial Font and other part is Calibri, only one type should be used. Color also should be uniform throughout such as black; red is to be avoided.

- However, some part of the email may warrant more attention of the reader, so it can be highlighted with yellow.

- CCs should be limited to the least possible numbers and only to those who are directly concerned with the subject matter or issue, to avoid any chains and backlash.

- While replying to any email of vital nature, avoid Reply All Button (if more persons are in CC) as it is altogether unnecessary. Using a larger audience and Reply All Button amount to courting trouble.

- Use of BCC – It means hiding email addresses. BCC can be used to protect someone's email from being divulged to others. In other words, if you send an email to Naveed, and BCC to Nadeem and Naseem, Neveed would not come to know that the other two have also received the same.

- The most preferable professional fonts include: Georgia, Verdana, Calibri, Times New Roman and Arial but use the one which is in vogue in your office correspondence. All in black and size 12 points preferable.

All the above codes are essential to avoid making shoddy or sloppy emails. ■

SO THIS IS ENGLISH...

We will begin with a box, and the plural is boxes,
But the plural of ox should be oxen, not oxes.
Then one fowl is a goose, but two are called geese,
Yet the plural of moose should never be meese,
You may find a lone mouse or a whole nest of mice,
But the plural of house is houses, not hice.

If the plural of man is always called men,
Why should not the plural of pan be called pen?
The cow in the plural may be cows or kine,
But a bow if repeated is never called bine,
And the plural of vow is vows, never vine.

If I speak of a foot and you show me your feet,
And I give you a boot would a pair be called beet?
If one is a tooth, and a whole set are teeth,
Why should not the plural of booth be called beeth?

If the singular is this and the plural is these,
Should the plural of kiss ever be nicknamed keese?
Then one may be that and three would be those,
Yet hat in the plural would never be hose,
And the plural of cat is cats, not cose.

We speak of a brother and also of brethren,
But though we say mother, we never say methren,
Then the masculine pronouns are he, his and him,
But imagine the feminine she, shis and shim,
So the English, I think, you all will agree,
Is the queerest language you ever did see.

Learning and Assessment in the Banking Sector:

The Institute of Bankers Pakistan (IBP)

By: Dr. Amin Rehmani

Learning, today, is a universal phenomenon, not only in the field of education, but in all walks of life. Learning is no longer limited to gaining academic qualifications but rather it is an ongoing process throughout one's lifetime. The concepts of knowledge-based society and meritocracy have thrown multiple challenges to all of us to keep ourselves updated with continuous research and flow of information in many fields of endeavors, particularly the ones in which we have knowledge and experience of working at a professional level.

This article focuses on learning and its assessment in banking education, drawing, of course, its principles from educational philosophy, psychology and pedagogy. We shall first discuss what is Learning and what are its various purposes.

What is Learning?

Educationists have debated the term over the last many decades and various learning theories have been developed. Most prevalent amongst them are Behaviorist, Cognitivism and Social Constructivism.

A) Behaviorist

Learning in this theory is based on observation and measurement of certain behavior as a result of a response or reinforcement. It either rewards as a result of regurgitation of information and factual knowledge or punishes a student for not having a sharp memory. Students are passive learners with no critical and creative thinking, because the responsibility of their learning lies on the teacher in a lecture-based setting. Teaching, therefore, is highly concrete and structured or pre-programmed, without any regard to what students can or cannot learn. It is not concerned with non-observable behavior that may be going through a student's mind. Knowledge is given, as the teacher is considered as its repertoire. Learning, therefore, is teacher-centered and passive.

B) Cognitivism

It grew in response to Behaviorism and emphasized on mental process and cognitive structures that connect various symbols in mind. The theory advocates that anybody can learn provided learning is at their mental level. Learner can actively assimilate and accommodate learning through unveiling and discovering. Problems and tasks are presented to address them. Learning, thus acquired in one situation, can be applied to many different situations. Inquiry-based learning approach is adopted in teaching and learning. Learning by doing motivates and gives ownership to one's learning. However, critics have said that since it is based on mental processes, it becomes individualistic and at times mechanical and lacks features of affective, social and cultural domains.

> "Learning in this theory is based on observation and measurement of certain behavior as a result of a response or reinforcement. It either rewards as a result of regurgitation of information and factual knowledge or punishes a student for not having a sharp memory."

C) Social Constructivism

Learning takes places in social settings, a theory propounded by a Russian Psychologist Vygotsky (d. 1934). According to this theory, individuals learn first in groups with language and culture playing important role. Learning is collective and collaborative rather than individualistic. To Vygotsky, it is a process that makes a learner part of knowledge community. The individual assimilation follows social and collective learning. Hence, learning with peers and in group settings is adopted as pedagogical approaches, thus knowledge is socially constructed. Here the assistance of an adult or a teacher is also crucial in helping a learner to move from one step to another in actualizing potentials, what Vygotsky calls 'Zone of Proximal Development'. A learner is fully engaged in the process of learning hence it is learner-centered.

Concept of Metacognition

Linked to cognitive theories, this concept was developed to mean 'thinking about thinking'. It is a self-realization of one's learning. The learner thinks about his or her learning deeply and reflects on it. At one point, while reading, you stop and ask yourself, "What did it mean?, I could not understand the concept". You think over it and try to make sense of your own learning. When you are able to make meaning out of your learning, you become the director of your own learning. The skill of metacognition helps in problem solving, in doing tests imaginatively, in understanding and applying knowledge to different situations. Having read a chapter, you pause and ask yourself, "What did I learn, what did not make sense?" This self-reflection and self-consciousness is the process of metacognition. One can put reflective notes on what has been learnt and not learnt and how one can improve upon it.

Surface and Deep Learning

These various approaches to learning denote levels and layers of learning from surface to deep learning. Surface learning is passive, given, uncreative, and is based on regurgitation of facts and information to be reproduced. It is teacher-led and curriculum-driven. Deep learning, on the other hand, is one in which the learner is actively involved. It is based on understanding, meaning - making and reflection. The learner is able to apply his or her learning and create new learning. Deep learning can only take place when the learner is thinking and reflecting upon his or her learning by making sense of it.

Learning and Assessment

Assessment and examination are inextricably linked with learning. Students, teachers, educational institutions, government bodies, all want to know the outcomes of learning, whether it is formative assessment at classroom level, summative assessment at institutional level or at national level through high stake examinations. It is putting value or passing judgement on one's achievements. Most assessments have usually been "of" learning i.e. to see how much has been learnt at the end of a course with little or no feedback on how to improve learning. Since the last few decades, assessment gurus came up with more learning- oriented concept of assessment which they called "Assessment For Learning" (AFL), which aims to support a learner in improving his/her learning, based on teachers' feedback. It is an ongoing assessment. Research has shown that when AFL is practised, it helps in doing much better in summative assessment. In most cases it is the assessment that drives teaching, learning and curriculum.

Learning and Assessment in the Banking Sector

The banking sector is not any different than any other sector where professional knowledge is valued and practised. Learning about banking is also part of the educational journey one embarks upon. Unlike academic qualifications, it is more professional and practical education. Knowledge and information about banking and financial related matters is also growing at an accelerated pace both nationally and globally. It is therefore, essential that one learns continuously on the job as well as through Continuous Professional Development (CPD). Most banks in Pakistan have Learning and Development (L&D) Departments which are responsible to assess needs and offer professional training to their staff at various levels of employment. Banking is no more limited to general banking, besides normal banking operations, it has rather specific and specialized areas such as Risk, Compliance, Anti-Money Laundering, International Trade, Digital Banking, Islamic Banking, Agricultural Finance, Capital Markets, Treasury, Wealth Management, Investments, Laws and Regulations etc. Within each area there are specificities, if one wishes to go deeper into it.

Most courses offered by banks are of shorter duration and specific to that bank's needs only. Some banks do encourage their employees to do courses outside their bank's offerings. Such courses are offered by government, semi-government and private institutions in Pakistan. The Institute of Bankers Pakistan (IBP) is one such institution which exclusively offers qualifications of longer duration as well as shorter courses for the Banking Sector.

IBP is the only institution in Pakistan that offers longer duration professional qualifications in Banking, known as IBP Superior Qualification (ISQ). Currently it is offered at two levels: Junior Associateship of IBP (JAIBP) and Associateship of IBP (AIBP). The Fellowship of IBP is awarded honorary to the senior most experienced bankers. There are a total of 24 courses in both the qualifications. The curriculum is drawn from the best practices in the banking sector as well as on practical need assessment of the banks. Besides core courses, it offers some specialized courses.

The eligibility criteria are given on IBP's website and in the printed leaflet. Having successfully passed all the 12 courses of JAIBP, one becomes eligible to do AIBP as well as to apply for the Associate Chartered Banker from Chartered Banker Institute (UK), which recognizes IBP's qualification.

No curriculum can remain static, hence periodic changes are made to it to incorporate latest developments occurring in the Banking sector. Currently, not only the curriculum, but the entire qualification is going through a change, revising existing courses as well as introducing new ones.

The qualifications are based on self-study mode and therefore it is important that candidates who register for the qualifications understand the learning and assessment ethos of these qualifications. To support their learning, online modules are also available and face to face coaching classes are held on need basis before each examination session, held twice a year in April and October.

> "The Institute of Bankers Pakistan (IBP) is one such institution which exclusively offers qualifications of longer duration as well as shorter courses for the Banking Sector. IBP is the only institution that offers longer duration professional qualifications in Banking, known as IBP Superior Qualification (ISQ). Currently it is offered at two levels: Junior Associateship of IBP (JAIBP) and Associateship of IBP (AIBP)."

IBP encourages deep learning and critical thinking as well as knowledge and application of practical professional learning. Drawing from Bloom's Taxonomy, emphasis is given to higher order thinking. Candidates are expected to show their latent potentials at application and analysis levels. They are encouraged to articulate their learning in their own words rather than regurgitate; unpack certain definitions, regulations and fixed banking laws with examples. In an Islamic Finance specialization paper, they have to write a project or a case study. The assessment is rewarded on how best a candidate articulates his or her learning. It is therefore, important for them to avoid selective study as well as rote learn certain aspects of the curriculum. They are also expected to widen their learning horizons by going beyond the prescribed books. The assessment is based on both Multiple Choice Questions as well as Subjective based written papers.

> "Linked to cognitive theories, this concept was developed to mean 'thinking about thinking'. It is a self- realization of one's learning. The learner thinks about his or her learning deeply and reflects on it. At one point, while reading, you stop and ask yourself, "What did it mean?, I could not understand the concept". You think over it and try to make sense of your own learning."

In learning about IBP courses, candidates are expected to follow Student Learning Outcomes (SLOs) based on Bloom's Taxonomy. The three basic levels of Taxonomy: Knowledge, Understanding and Application as well as the remaining three advanced levels namely, Analysis, Synthesis and Evaluation are illustrated in the figure below. Reflection on one's learning is also essential leading to metacognition. One has to make sense of his/her learning for better understanding and longer retention of concepts and ideas as well as their applicability.

The examination questions are derived from the action verbs given in the SLOs. A verb 'describe' would mean a simple explanation of something, whereas a verb 'analyze' in a question would mean more than a simple explanation, here a candidate has to demonstrate his/her analytical skills in responding to the question. A candidate may be expected to draw a certain conclusion from his analysis by synthesizing the content knowledge.

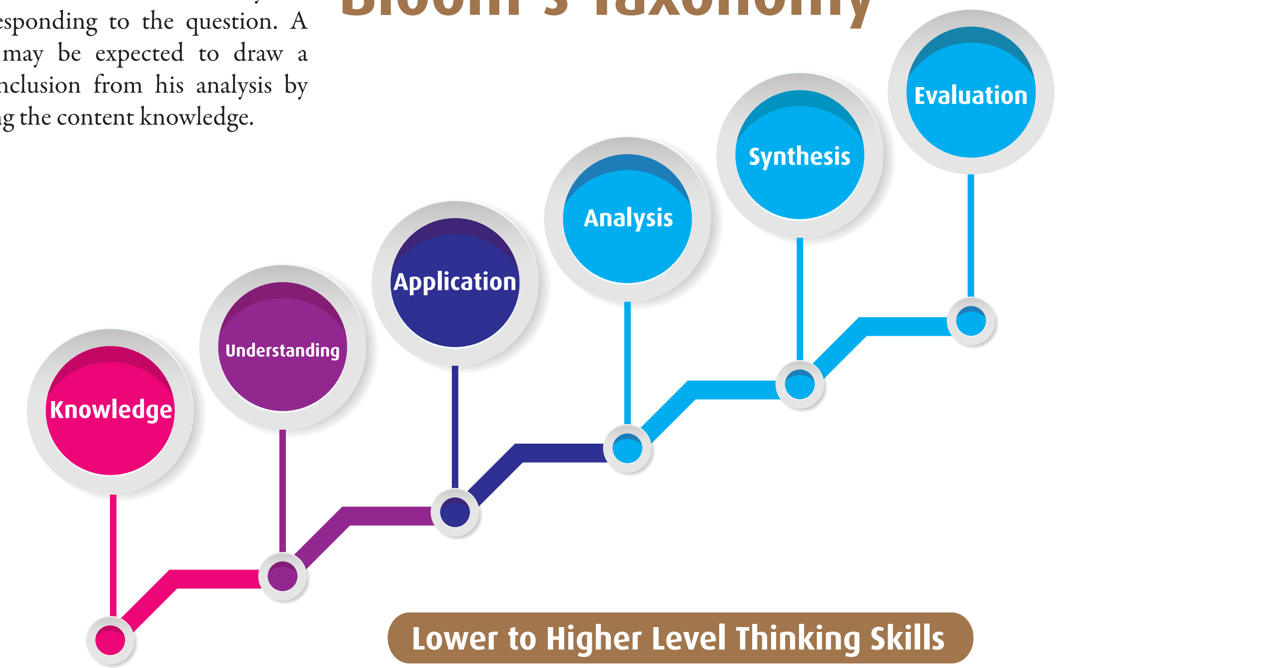
Although the assessment of IBP is summative and 'of' learning as it is based on high stake examinations, to support on going learning, IBP has a specialized reference library and now have access to online journals through the aegis of Higher Education Commission of Pakistan. Candidates are encouraged to visit IBP library to take advantage of both online journals and library books. IBP's weekly Economic Letter and Quarterly Journal are useful resources to tap on to for latest developments in the banking sector. Moreover, the e-learning portal is also available to support teaching and learning. E-Learning means learning through an electronic medium. The use of electronic medium enhances the learning experience by introducing rich content, animations, videos and high-end graphics that help the student grasp concepts quickly and effectively. The learning is interactive and engages all parties involved, students, teachers, and administrators.

Beside these qualifications, IBP offers short duration courses on an ongoing basis in a variety of areas where leading bankers and professionals conduct sessions and workshops. Some of the areas in which training is offered are as follows: Risk Management, Compliance and Audit, Information Technology, Operations and Bank Management, Trade, Credit, Retail Banking, AML/CFT, Islamic Banking, Treasury etc.

In the banking sector, one requires continuous learning to upgrade professional knowledge and skills. There are certain rewards attached to ISQ, given to the successful candidates through IBP and their own banks as well as the State Bank of Pakistan. Some banks have exemplified rewards by linking them with IBP qualifications for promotion and increment. ■

> "The use of electronic medium enhances the learning experience by introducing rich content, animations, videos and high-end graphics that help the student grasp concepts quickly and effectively."

Bloom's Taxonomy



TALENT MANAGEMENT

As defined by a management expert, "Talent Management is a unified strategy designed to help organizations make the best possible use of their human capital now and in the future, to use their human capital to help meet the organization's vision, and to ensure the maximum return from their talent by creating an attractive organizational culture that encourages happiness and commitment".

Before discussing the terminology of 'talent management' and developing a true understanding of the same, a clear distinction needs to be made between the two terms, recruitment and talent acquisition, both in widespread use in the domain of Human Resources. Both form an integral part of Talent Management. Recruitment and Talent Acquisition are considered as one and the same process, many HR Managers often intermingle the two terms as it is a paradox for them. But in fact they are not the same process. First of all, it is better to achieve clarity in order to enable us to distinguish between the two terms and understand the implications of both. Proper understanding may enable us to hire the right talent.

Recruitment

Recruitment is a linear action, meaning it is of one dimension only, that is widely used in Human Resources Management to identify an appropriate person to fill an appropriate vacant position. Recruitment is a reactive process which is accomplished whenever a slot falls vacant or a position is created, a new person must be hired to fill the vacancy. The basic aim of recruitment is to fill vacancies which are available in a bank or any organization. Recruitment is an ongoing process but it occurs whenever a vacancy arises and we have to select a viable candidate for the same.

> "Recruitment is a linear action, meaning it is of one dimension only, that is widely used in Human Resources Management to identify an appropriate person to fill an appropriate vacant position."

Talent Acquisition

Talent acquisition, on the other hand, is a proactive approach and is a broader term which encompasses recruitment and selection processes but is cyclical in essence or we can say it is repetitive, for instance every year the banks undertake the talent hunt exercise for trainee officers or probationary officers, management trainees and tellers. Talent acquisition is based on future hiring needs, and establishing a continuous availability of candidates. Talent acquisition, as a part of bank's overall strategy, means possessing a ready pool of talent which is trained and maintained as a talent conduit with the aim of using the same on long term basis and future needs.

Talent Management

It is a bank's undertaking to hire, retain and foster the most talented and the best employees found in the job market. Talent management is a broad-based term which embraces both talent acquisition and recruitment. It can be defined as an organization's undertaking to hire, manage, develop, and retain talented employees. It involves all the components of systems that are related to exceptional resource development and retention policy.

Talent management is an integral part of the organization's strategy that provides a platform to retain its best talents and skilled workforce. Related to employee recognition, it will ensure the attraction of top talent in competition with other employers. When a person is informed that he/she has been committed to management strategy, that will ensure that he or she will have full career growth, then the best talent is attracted. The commitment to provide proper growth opportunity for advancing their professional and personal skill-sets is a decisive factor for employee retention.

With the clarification of the differences between the two terms, it is necessary to discuss the following aspects briefly.

1. Planning

Creating a meaningful talent acquisition plan requires a thorough homework. When compared to recruitment, talent acquisition requires a serious in-depth analysis and forecast of the organization's future staffing needs.

2. Employee Divisions

Talent acquisition is based on the knowledge of the different employee segments within the bank itself, as well as various vacancies available in those segments. Not only one requires a full and real understanding of the bank's internal setup, one must also know the skills and competencies that each position requires for achieving the requisite targets.

> "It is a bank's undertaking to hire, retain and foster the most talented and the best employees found in the job market. Talent management is a broad-based term which embraces both talent acquisition and recruitment."

3. Bank Branding

It is the brands that go on to attract the best talent. It must be made certain that the bank's branding is impressive, so that it is helpful in talent acquisition. This involves nurturing a perfectly confident image and corporate culture, and establishing a reputation based on quality products and effective customer services. It is better to hire direct through the bank's advertisement than through sub-standard websites.

4. Talent Exploring and Management

Best talent comes from diverse sources. Through talent acquisition, we are undertaking and appreciating the different venues from where we can source applicants. Once a meaningful connection is established with prospective candidates, we have to cultivate and establish the relationships to the mutual benefit of both.

> "Talent management equips managers with a vital role in the recruitment process and in the ongoing development and retention of star-performers. Nowadays, every employee is included in talent management programs."

5. Analytics

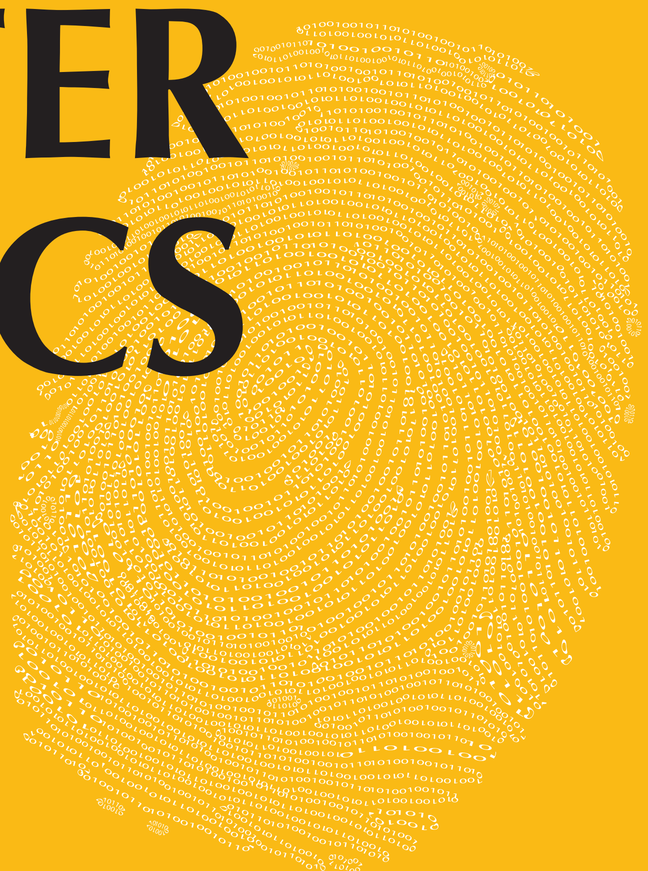
Lastly, no talent acquisition plan is complete without using key parameters and carrying out proper analysis.

What appears to draw a fine line in talent management, as differentiated by Human Resource managers and from organizations to organizations that emphasize such terms as human capital management, is their focus on the manager's functions — as opposed to dependence on Human Resources — which is a part and parcel of talent management. Talent management equips managers with a vital role in the recruitment process and in the ongoing development and retention of star-performers. Nowadays, every employee is included in talent management programs. ■

> "I really believe that everyone has a talent, ability, or skill that he can mine to support himself and to succeed in life."
>
> — Dean Koontz

> "When hiring key employees, there are only two qualities to look for: judgement and taste. Almost everything else can be bought by the yard."
>
> — John W. Gardner

COMPUTER FORENSICS



By: Naeem Baig

In recent years there has been a huge surge of interest in the forensic sciences and an unfortunate result with its less understanding has been that as the term 'forensic' has passed into more popular parlance so its original meaning has been lost. Forensics is now commonly accepted to refer only to the process of investigation i.e. act of finding something out, rather than being related to the workings of a court of law. As a result, a phrase, 'computer forensics', is often incorrectly used to refer to the processes and techniques employed to investigate the use of a computer regardless of whether or not there is any intention to present the finding in court.

> "With time, though, the range of devices which became subject to 'computer forensics' investigation broadened to include other digital devices such as laptops, PDAs, mobile phones, printers, fax machines, tablet PCs and so on. As a result, some practitioners now prefer to either use more specialized terms such as 'PDA forensics' or 'mobile phones forensics' or to use a term such as 'digital forensics' to include all digital devices."

Defining 'computer forensics' is a more difficult than it might first appear, partly due to some difficulty in defining what range of devices are referred to by the word 'computer' but mostly due to issues raised by use of the term 'forensics'.

At one stage the 'computer' in computer forensics was easily identified as a some what boxy device located in a dedicated computer room or under a desk (typically it would be a personal computer of the type first introduced in the late 1970s and in early 1980s and now prevalent in almost every workplace and home).

With time, though, the range of devices which became subject to 'computer forensics' investigation broadened to include other digital devices such as laptops, PDAs, mobile phones, printers, fax machines, tablet PCs and so on. As a result, some practitioners now prefer to either use more specialized terms such as 'PDA forensics' or 'mobile phones forensics' or to use a term such as 'digital forensics' to include all digital devices.

The word 'forensic' is derived from the Latin 'forensis', the literal meaning of which is 'off the forum' the place where debates and legal disputes took place in ancient Rome. As such, 'computer forensics' can properly be defined as the use of specialized techniques for the collection, preservation and analysis of electronic data with a view to presenting evidence in a court of law.

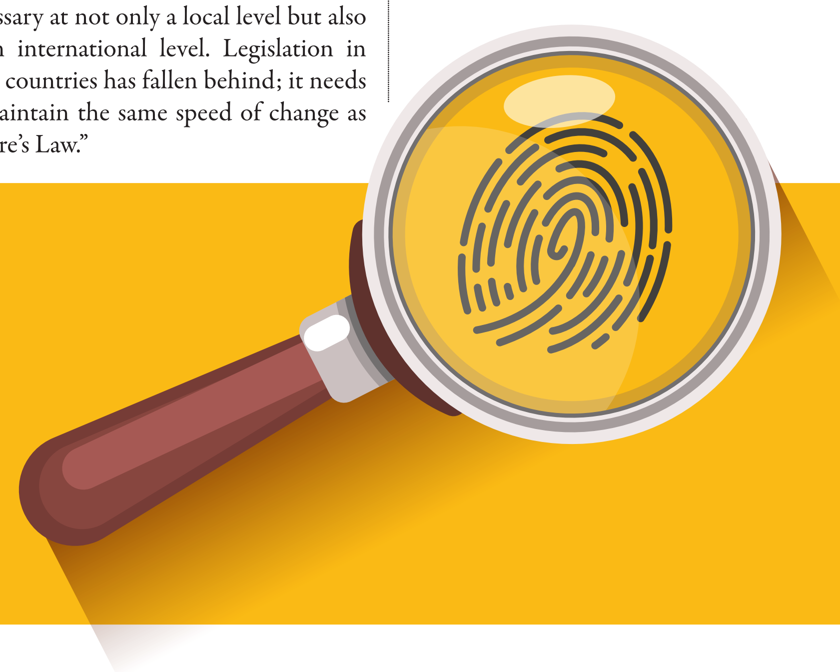
The distinction is critical, however, because of any investigation which aims to present digital evidence in court must be carried out in accordance with certain principles for the evidence to remain admissible (i.e. deemed reliable in accordance with the rules of evidence).

A report by the Fraud Advisory panel in the United Kingdom revealed that the average length of a serious fraud investigation totaled 33 months, costing the British taxpayers around sterling 100 million per year to fund in legally-aided cases.

Paul Wright, a Detective Sergeant in City of London Police, Team Leader of Specialized Hi-tech E-crime Unit, has spent last 10 years handling the forensics investigations at a local and international level. While asking him about the main challenges in computer forensics and what strategies can we employ to meet them both now and in the future, he said, "There are major challenges facing the world of information security, incident response and computer forensics is how best to understand and deal with the complex and dynamic developments in the ever-evolving world of the internet and digital information. If we do not invest in the skills necessary to police this ever-changing environment, we will have to contend with playing 'catch-up' in understanding how new technologies are associated with traditional and new crimes. However, with the use of forensic science, we need to continually seek cost effective ways of running digital and electronic investigations involving IT abuse and hi-tech crimes. To achieve this, we need to commit to training that allows for regular updates, provision of adequate funding and combine it with a commitment to quality".

> "Hi-tech crime is committed across cyberspace and does not stop at national borders."

In reply to a question, "What particular aspect of computer crime do you feel could be improved"? He said, "Hi-tech crime is committed across cyberspace and does not stop at national borders. More than with any other large-scale crime, the swiftness and flexibility of hi-tech crime leave our existing rules and regulations and legislation outdated. Such crimes can be perpetrated from any where in the world against any computer and I believe that efficient action to combat it is necessary at not only a local level but also at an international level. Legislation in most countries has fallen behind; it needs to maintain the same speed of change as Moore's Law."



Keeping in view these challenges and aspects of computer forensics, Pakistan also needs to make legislation in more specific laws in corroboration with International Cybercrime Laws to eliminate the cyber crimes, rapidly emerging in our society. At the same time, Pakistan Government's Ministry for Information Technology and The State Bank of Pakistan, need to design an efficient method for producing the best possible end-product for best practices in computer forensics. Recently in a seminar held by a Media Giant in association with a local University in Lahore, it was emphasized to keep focus on the formal education in respect of cybercrime and digital/computer forensics sciences to cope with the need of the day. ■

Testing, Testing...

Psychometric testing is a staple of human resources, but could it be used by professional advisers to help determine a client's appetite for financial risk? We explore the arguments for and against.

With the volatility of the markets showing little sign of abating, financial services clients are being thoroughly tested on how they really feel about risk. For some, nothing will have changed. But for others, it's leading to a reassessment of their approach to risk tolerance, their capacity to absorb it, and their goals.

When times are good, the client approach tends to be bullish. The emergence of genuine risk, however, reminds many of the downside. Context is clearly a powerful factor in any risk-based judgement, so professional advisers need to be able to read between the lines, moving beyond contextual influence to obtain a more accurate impression of a client's appetite for risk. But how best to do this?

Looking Long-term

In the world of HR, psychometric testing has long been a key means of evaluating the aptitude, personality and reasoning skills of employment candidates. It could serve an equally useful purpose for assessing the financial risk appetites of PFA clients. Up until now, though, psychometric testing in the client management space remains a rare beast as a means of exploring and explaining the fundamental elements of a portfolio, but it has the potential to be an effective part of a professional adviser's toolkit. Indeed, risk assessments using such tools can help clients to progress beyond their short-term context-influenced statements towards establishing a more consistent long-term view of risk.

The Whole Truth

It is essential that the psychometric test used in this setting is capable of revealing the client's deeply held views on risk tolerance. Merely offering a series of responses to complex risk-return choices, for example, will result only in measuring the client's current and contextually influenced state of mind.

To be useful, a test should therefore provide a high-level profile of the individual, defining their risk appetite across the board, not just for certain products. It must also facilitate a degree of risk-based flexibility for the adviser, to ensure the client is not over-focused on one aspect of the market and losing investment opportunities.

Both clients and their advisers should understand that outcomes of testing may not yield the results they were expecting; this is not an exact science. Furthermore, as critics of psychometrics point out, the results could give clients unrealistic expectations of success; they may even be used by some advisers to deflect criticism from the client if the portfolio fails to perform as anticipated.

As such, psychometric testing results must not be viewed in isolation. They are, however, a useful starting point for a deeper conversation about financial risk with clients. Cross-referencing information from both sources will allow advisers to better understand and educate clients, facilitating professional judgements on the most appropriate long-term investment approach.

Artificial Alternative?

There is no guarantee of the 'right' outcome on any financial investment, but other means of assessment are emerging that seem promising. The most notable of these is Artificial Intelligence (AI) software designed to calculate probable future market conditions. This information could be used to guide PFA assumptions made in client portfolio construction and, importantly, afford the most responsive approach to changeable market conditions.

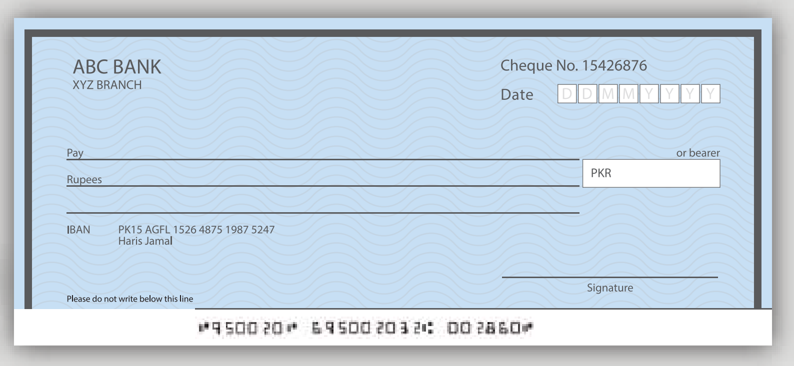
The advantage of AI is its capacity to analyze so much more data, from many more sources, and use complex algorithms to spot otherwise undetectable behavioral patterns. Rather as these systems are deployed in fraud prevention, it may be that appropriate data sources could be analyzed to detect patterns of risk-related behavior in clients seeking portfolio advice.

There is a caveat. The G20-led Financial Stability Board (FSB) found in its November 2017 study of AI in financial services that although this technology improved processing efficiency and regulatory compliance, the impact its use would have on data privacy, conduct risks and cybersecurity was a cause for concern.

For now, at least, the professional adviser remains the anchor in the process of portfolio-building, with professionally constructed and administered psychometric testing offering a complementary source of information. ■

"Clients And Professional Advisers Should Understand That Outcomes Of Testing May Not Yield The Results They Were Expecting; This Is Not An Exact Science."

This article was originally published in April/May 2018 issue of Chartered Banker magazine.



Q. What is a Mutilated Cheque?

Ans. Before discussing what constitutes a mutilated cheque, let us see what are the essential features of a cheque which are as follows :

- The name of the bank with its logo, (some banks do not print their logos) appears on the left corner of the cheque with the name of branch location and city.
- On the extreme top right, is the cheque number.
- Below the cheque serial no. is the date with day, month and year mini-boxes.
- Then comes the word 'Pay', on the right side corner of which is written 'Or Bearer'.
- Then 'Rupees in words', against which on the right side is the Numeric Amount Box, after which PKR comes the amount in figures. There is an extra line below this.
- Then IBAN & Account Number.
- Below which is the name of the Account holder.
- On the right side is the line below which is a space for signature. The account holder or the owner of cheque has to sign on this line.
- Lastly, there is an instruction on the downward part of the cheque : 'Please do not write below this line --------'.
- Below this line contains the MICR Code which is an abbreviation for Magnetic Ink Character Recognition. This contains Cheque No., Bank code, Branch Code, Account No. and MICR Code.

The position of bank name, branch and city names and account holder's name and account number on the face of cheque may vary from bank to bank, but the essential components remain the same. A cheque which lacks any or all of the essential features will not be honored.

Now let us move onto the question itself, it would be clear if the meaning of word Mutilation is seen. It means disfigured or damaged. A mutilated cheque may have any one or more components not clear or disfigured on its face. There might be ink spread on its signature or its numbers may be distorted, torn, crumpled, essential components erased, altered or excessive over- writing on its amount or any other part. A mutilated cheque can be spotted quite clearly, due to its shape and therefore is refused by the bankers to be honored, as it ceases to be a valid negotiable instrument.

Q. Nowadays, we often hear of Systemic and Systematic risks. Please clarify the difference between the two.

Ans. Systemic risk is commonly attributed to an event that can spark a crash in a certain industry or most particularly financial sector. On the other hand, systematic risk can be described as the overall market risk.

Since we are talking about financial domain, so systemic risk is a risk caused by an event at the bank level that is serious enough to cause chaotic and uncertain conditions, even domino effects, in the financial system.

The most classic example of systemic risk in the annals of recent banking history was the debacle of Lehman Brothers in 2008, which caused major fallouts throughout the financial system and the economy, huge loss of public confidence and the ensuing repercussions which are is still being felt. (Lehman Brothers Holdings Inc. was a global financial services firm, the fourth-largest investment bank in the United States, after Goldman Sachs, Morgan Stanley and Merrill Lynch). The sheer magnitude of Lehman Brothers and deep infiltration into the economy, caused its failure (Lehman Brothers filed for bankruptcy with $639 billion in assets and $619 billion in debt), to result in a domino effect that posed one of the greatest risk to the global financial system. Lehman's bankruptcy was the largest collapse of an investment bank since Drexel Burnham Lambert crashed, amid fraud allegations 18 years before.

On the other hand, systematic risk, which is also sometimes referred as market risk, is the in-built risk in the aggregate market that cannot be solved by diversification. Some common sources of systematic risk are recessions, wars, interest rates and others that cannot be avoided through a diversified portfolio. Though systematic risk cannot be solved with diversification, it can be hedged. The Great Recession of the late 2000s is a lesson of systematic risk, which officially lasted from December 2007 to June 2009, began with the exploding of $8 trillion housing bubble based on inflated speculation.

A Leaf from our Glorious Formative Years

The Great Leader Inspecting the first set of Pakistani Coins, **July 01, 1948**

An earlier currency note of Rs. 100 denomination with the Signature of Zahid Hussain, the first Governor of State Bank of Pakistan.

A 10-Rupee currency note bearing the signature of the then SBP Governor Mahboobur Rashid in both Bengali and Urdu languages.

Compiled by: Shamim Junejo

FITNESS WATCH

Whole Grains Help Your Heart

Dietary guidelines emphasize the importance of whole grains, but if that is not reason enough to get you eating them, may be this is: In a Harvard School of Public Health study of 42,850 men, those who ate more than 25 grams of whole grains per day, cut their risk of heart disease by about 15 per cent . Those who daily ate more than 11 grams of bran, the highest fibre part of whole grains, cut their risk by 30 per cent. Good sources include brown rice, oatmeal, whole bread, popcorn and bran muffins. The researchers are still trying to figure out how whole grains help the heart. It could be that fibre, plant sterols or other nutrients lower cholesterol, Or it may be the antioxidants, which help protect hardening of the arteries . Perhaps it is the simple fact that eating them keeps you feeling full and thus may help prevent obesity, a risk factor for heart disease. Three servings of whole grains will easily get you 25 grams.

Your Best Oil Options

Choosing among the myriad cooking oils out there is confusing. Some vegetable oils, like corn, are low in saturated fat, but do not offer much nutritionally, says University of Maryland food scientist Mark Kantor. Here are three healthy alternative oils:

OIL	HEALTH BENEFITS
PEANUT	HELPS YOUR HEART BY GIVING YOU A GOOD SUPPLY OF CHOLESTEROL – LOWERING MONOSATURATED FAT
CANOLA	IT HAS LITTLE ARTERY - CLOGGING SATURATED FAT AND LOTS OF MONOSATURATED. ITS OMEGA-3 FATTY ACIDS MAY HELP PROTECT AGAINST HEART DISEASE
OLIVE	IT IS LOW IN SATURATED FAT AND HIGH IN MONOSATURATED, WHICH DROPS BAD (LDL) CHOLESTEROL , NOT GOOD (HDL), AND DOES NOT RAISE TRIGLYCERIDES

Shaking Off Salt

One teaspoon of salt has all the sodium a person should consume in a day, according to Singapore Health Promotion Board. But nine out of ten people consume twice the amount, raising their risk of high blood and even stroke. Limiting sodium intake can be a challenge for those who cover their meals with salt or sodium-rich soy sauce. The Health Promotion Board has a few suggestions.

- When cooking choose fresh vegetables and meat, which have less sodium than processed food.
- Do not underestimate the sodium content in low salt products. They may be low in table salt but high in sodium, which can come in other forms.
- Taste your food before you add salt. It you have to add salt, do it sparingly.
- Many fresh foods contain natural rich flavors that will come out when not covered in salt or sauce. ■

Microfinance and Financial Inclusion

The Challenge of Regulating Alternative Forms of Finance

By: Eugenia Macchiavello

Following the recent global financial crisis there is a growing interest in alternative finance–and microfinance in particular – as new instruments for providing financial services in a socially responsible way or as an alternative to traditional banking. Nonetheless, correspondingly there is also a lack of clarity about how to regulate alternative financial methods particularly in light of the financial crisis' lessons on regulatory failure and shadow banking's risks.

This book considers microfinance from a legal and regulatory perspective. Microfinance is the provision of a wide range of financial services, particularly credit but also remittances, savings, to low-income people or financially excluded people. It combines a business structure with social inspiration, often resorts to technological innovations to lower costs (Fintech: e.g. crowdfunding and mobile banking) and merges with traditional local experiences (e.g. financial cooperatives and Islamic finance), this further complicating the regulatory picture. The book describes some of the unique dimensions of microfinance and the difficulties that this can cause for regulators, through a comparative analysis of selected European Union (EU) countries' regimes.

The focus is in fact on the EU legal framework, with some references to certain developing world experiences where relevant. The book assesses the impact and validity of current financial regulation principles and rules, in light of the most recent developments and trends in financial regulation in the wake of the financial crisis and compares microfinance with traditional banking. The book puts forward policy recommendations for regulators and policy makers to help address the challenges and opportunities offered by microfinance.

About the Author:

Eugenia Macchiavello is a Lecturer/ Adjunct Professor in Banking Law at the University of Genoa and Senior Research Fellow at the Genoa Centre for Law and Finance.

BULLSHIT JOBS

A THEORY

By: David Graeber

Be honest: if your job didn't exist, would anybody miss it? Have you ever wondered why not? Up to 40% of us secretly believe our jobs probably aren't necessary. In other words: they are bullshit jobs. This book shows why, and what we can do about it. In the early twentieth century, people prophesied that technology would see us all working fifteen-hour weeks and driving flying cars. Instead, something curious happened. Not only have the flying cars not materialized, but average working hours have increased rather than decreased. And now, across the developed world, three-quarters of all jobs are in services, finance or admin: jobs that don't seem to contribute anything to society.

In Bullshit Jobs, David Graeber explores how this phenomenon — one more associated with the Soviet Union, but which capitalism was supposed to eliminate — has happened. In doing so, he looks at how, rather than producing anything, work has become an end in itself; the way such work maintains the current broken system of finance capital; and, finally, how we can get out of it. This book is for anyone whose heart has sunk at the sight of a whiteboard, who believes 'workshops' should only be for making things, or who just suspects that there might be a better way to run our world.

Reviews:

"A brilliant, deeply original political thinker..."—**Rebecca Solnit**

"Graeber is an American anthropologist with a winning combination of talents: he's a startlingly original thinker...able to convey complicated ideas with wit and clarity."—***The Telegraph*** **(UK)**

"Graeber wants us to unshackle ourselves from the limits imposed by bureaucracy, precisely so we can actually get down to openly and creatively arguing about our collective future."—**NPR**

"A thought-provoking examination of our working lives."—***Financial Times***

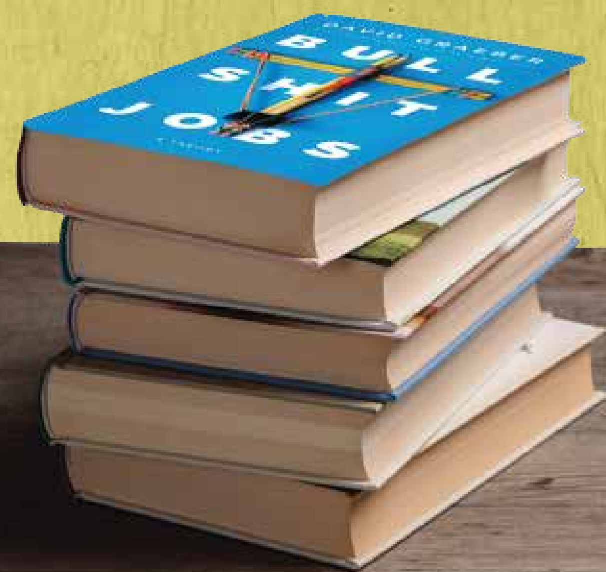
"Buoyed by a sense of recognition, the reader happily follows Graeber in his fun attempts to categorize bulls--- jobs into Goons, Flunkies, Box Tickers, Duct Tapers, and Taskmasters, which inevitably bleed together into Complex Multiform Bulls--- Jobs. It's funny, albeit painful, that we've gotten work so wrong and spend so much time at it."—***Bloomberg.com***

"Fresh...fascinating... Graeber's book is not just thought provoking, but also exceedingly timely."—**Gillian Tett, *The Financial Times***

"The book is more readable and entertaining than I can indicate... It is a meditation on debt, tribute, gifts, religion and the false history of money. Graeber is a scholarly researcher, an activist and a public intellectual."—**Peter Carey, *The Observer***

About the Author:

David Graeber is a Professor of Anthropology at the London School of Economics. He is the author of DEBT: The First 5,000 Years, and a contributor to ***Harper's, The Guardian***, and ***The Baffler.***



The Origins of Happiness

The Science of Well-Being Over the Life Course

By: Andrew E. Clark, Sarah Flèche,Richard Layard, Nattavudh Powdthavee and George Ward

What makes people happy? Why should governments care about people's well-being? How would policy change if well-being were the main objective? The Origins of Happiness seeks to revolutionize how we think about human priorities and to promote public policy changes that are based on what really matters to people. Drawing on a uniquely comprehensive range of evidence from longitudinal data on over one hundred thousand individuals in Britain, the United States, Australia, and Germany, the authors consider the key factors that affect human well-being.

The authors explore factors such as income, education, employment, family conflict, health, childcare, and crime-and their findings are not what we might expect. Contrary to received wisdom, income inequality accounts for only two percent or less of the variance in happiness across the population; the critical factors affecting a person's happiness are their relationships and their mental and physical health. More people are in misery due to mental illness than to poverty, unemployment, or physical illness. Examining how childhood influences happiness in adulthood, the authors show that academic performance is a less important predictor than emotional health and behavior, which is shaped tremendously by schools, individual teachers, and parents. For policymakers, the authors propose new forms of cost-effectiveness analysis that places well-being at center stage. Groundbreaking in its scope and results, The Origins of Happiness offers all of us a new vision for how we might become more healthy, happy, and whole.

Reviews:

"If policymakers want to improve lives, it is important to understand how people feel-and why. This book charts new territory, providing the first map of the long-term drivers of people's happiness. Along the way, it highlights both familiar and more groundbreaking routes to progress. There are helpful signposts in here for all those seeking different and better paths to advance people's well- being." **-Martine Durand, Chief Statistician and Director of Statistics of the Organization for Economic Co-operation and Development**

"This book-written by several masters in the field-brings our knowledge of well-being to a new level. It demonstrates how experiences and emotions in the early years link to adult outcomes, and highlights the importance of parental well-being to that of children. The authors provide new metrics for designing and assessing policies that can affect the welfare of millions of people throughout the course of their lives. This work is a must-read for the academic, policymaker, and informed citizen alike."**-Carol Graham, author of *Happiness for All? Unequal Hopes and Lives in Pursuit of the American Dream***

About the Authors:

Andrew E. Clark is a full research professor at the Paris School of Economics. **Sarah Flèche** is a research economist at the London School of Economics. **Richard Layard** is emeritus professor of economics at the London School of Economics and a member of the House of Lords. He is the coauthor of *Thrive* (Princeton) and *Happiness*.

Nattavudh Powdthavee is professor of behavioral science at Warwick Business School. He is the author of The Happiness Equation. **George Ward** is a PhD candidate in behavioral and policy sciences at the Massachusetts Institute of Technology. All of the authors are members of the Wellbeing Program at the London School of Economics' Centre for Economic Performance.

BOND