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Bankers

P a k i s t a n

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Special Edition

Role Of

SOCIAL MEDIA

in the Realm of Financial Services

RISKS AND COMPLEXITIES
Inherent in Foreign Trade

CHANGE MANAGEMENT
INTERVENTION IN A LOCAL BANK:
An Outsider's Review through the
Glass Ceiling

CYBER HEIST
A Lesson

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IDEAS THAT CONNECT
INNOVATION THAT DELIVERS

FROM THE DESK OF CE



Husain Lawai
Chief Executive-IBP

The Institute of Bankers Pakistan is the only accrediting and awarding body committed to providing professional education and technical training services for the banking industry in the country.

Since its inception over sixty-five years ago, IBP has been setting standards and continuously expanding and evolving to cater to the diverse needs and challenges posed by the banking and financial sector. IBP has been closely involved in broadening its scope of activities pertaining to international training programs, foreign collaborations, customized trainings, free seminars, etc.

IBP's banking qualification program, ISQ (IBP Superior Qualification) is the only recognized professional banking qualification in Pakistan and is accredited by Chartered Banker Institute (UK). It also leads towards Chartered Banker MBA (CBMBA) from Bangor University Business School (UK).

A very successful and recent addition to IBP's training services has been the launch of eILM (IBP Learning Management). This complete Learning Management System was launched in November 2016 to facilitate bankers accessing a holistic interactive online learning package.

As Pakistan's banking industry is exposed to numerous business risks, competitive working environment, fast paced growth, technological advancement and frequent changes in policies and procedures, hence, timely information, application of changes and knowledge sharing is imperative. IBP offers a wide range of training programs that cater to the financial services industry. These include Certified, Standardized and Assessment-Based Training Programs like Branch Manager Certification, Certified Bank Tellers, Branch Operations

Manager Certification, Islamic Banking Certification, Customer Services, SME Banking Certifications, Foreign Exchange Certifications etc.

IBP has partnered with various internationally recognized organizations which include IFC (International Finance Cooperation – World Bank), BCI (Business Continuity Institute – UK), Chartered Bankers Institute UK, Bangor University – UK and Omega Performance - Singapore to conduct internationally accredited programs & trainings in Pakistan. The Institute is also partnering with local universities in Pakistan to provide banking specific qualifications.

After the successful running of Certified General Bankers Program, The IBP School Program (TIS) successfully initiated the Certified General Banker for Microfinance Sector. This program allows fresh graduates to receive training on various facets of Microfinance business, providing opportunities to fresh graduates hoping to pursue a career in banking.

The 2nd Pakistan Banking Awards were launched in March 2017, following the overwhelming response and remarkable success of the First Pakistan Banking Awards in 2016. These annual awards are given to individual banks based on their performance, broadly in the spheres of development, finance, and customer services. The awards honor and promote the efforts of banks for developing new and innovative products and services, while giving them the incentive to enhance their performance for the coming year.

IBP will continue its efforts to enhance and sustain levels of professionalism as it nurtures the needs of professionals and aspiring entrants in the banking industry.

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- ▶ Efficient nationwide network
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Muhammad Subtain Raza is a banker having expertise in financial compliance with MBA, M.Sc (Hons.), and Junior Associateship of Institute of Bankers Pakistan. He writes for various national & international financial magazines.

Dr. S. Sabir Ali Jaffery (Late), an MBA (Gold Medal-IBA); M. Phil. (Gold Medal-KASBIT); and PhD (Business Management), was a veteran banker and regular contributor to the Journal.

Syed Zaheer Haider Zaidi is VP-Branch Manager at a leading Pakistani bank. He regularly contributes to finance and economic journals.

Banti Lal is M.A (Economics), FPFA, ACCA (Finalist).

Nazish Alim Qureshi is a risk-management specialist at a leading bank. Her area of expertise is IT Security.

Syed Danish Ali is a Senior Consultant at SIR consultants, the leading actuarial consultancy in the Middle East and South Asia. He is also a graduate of University of London in Sociology and Career ambassador of Institute and Faculty of Actuaries (IFoA UK). He has more than 75 publications across a range of international platforms and is a regular contributor to various research activities.

Nida Asad Is an MBA in Human Resource Management, and has worked as an Anti-Money Laundering Analyst at a leading bank.

Sohailuddin Alavi is an author and consultant. He has authored books on decision making, ethics, organization management and leadership and writes for a number of reputed professional magazines. He is also a partner at the Corporate Consulting Group and Senior Projects Consultant at a development consortium of NGOs in Afghanistan.



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OBITUARY

It is with deep regret that we announce the sad demise of Dr. Syed Sabir Ali Jaffery, on 16 September 2016. Dr. Jaffery was a veteran banker, with over 50 years of experience in banking and teaching, including all key areas of banking operations in senior positions, with international exposure in the capacity of Country General Manager. He was a highly qualified, literate professional with a B. Com, LLB, MBA (Gold Medal) from IBA, MPhil (Gold Medal) from KASBIT, and PhD from District of Columbia, USA. He was a great human being who always found great pleasure in sharing his knowledge and expertise with others. A Fellow of the Institute of Bankers Pakistan (IBP), Dr. Jaffery had been a regular contributor to IBP's *Quarterly Journal* over the past 10 years. He will be greatly missed by the banking fraternity.

ISLAMIC BANKING

OPPORTUNITIES AND CHALLENGES IN DOMESTIC AND GLOBAL ECONOMY

Highlighting the significance of research and training for capacity building of human resources working in the financial sector, The Institute of Bankers Pakistan (IBP) in association with IBA Center of Excellence in Islamic Finance (IBA CEIF) and support of Chartered Institute of Islamic Finance Malaysia arranged a conference on “Islamic Banking – Opportunities and Challenges in Domestic and Global Economy”. The event was held on Sept. 7th, 2016 at IBP Karachi office. Professor Datuk Dr. Syed Othama Alhabshi and Dr. Ahmed Musa Wang Yongbao were invited as speakers, currently serving as Deputy President Academic at INCEIF and Director at NWUPL China respectively. Both the speakers discussed various opportunities that Pakistan has in transforming its banking culture based on Islamic principles. Success stories of Malaysia in creating research centers through academia and developing laws that support the Islamic banking were shared. Furthermore, emphasis was made on synchronizing heart & mind towards a common objective of Islamic way of doing business. The awareness session ended up with determination to support central bank’s vision 2020 in enabling & promoting Islamic Banking for financial inclusion.



CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC) CHALLENGES & OPPORTUNITIES

The Institute of Bankers Pakistan (IBP) arranged a seminar on China-Pakistan Economic Corridor (CPEC) Challenges and Opportunities at the IBP Head Office on 16 December 2016. The purpose of the session was to highlight the impact of the Initiative of China Pakistan Economic Corridor (CPEC) on the economy of Pakistan. CPEC is the Flagship Project of the visionary and overreaching initiative of "One Belt One Road". Syed Hasan Javed, Former Ambassador of Pakistan to China and Mr. David Li Xiaoxin, Deputy CEO of Industrial and Commercial Bank of China Limited (ICBC), were invited as guest speakers. They emphasized on the growth and development potential of CPEC in Pakistan and the challenges of the project, both from the local and global perspective. Speaking further on the occasion, Mr. Husain Lawai, CE IBP focused on three primary areas, namely the amount of foreign exchange to be either saved or earned; the strategy for loan repayment and repatriation of profit from the equity investment in various CPEC projects; and whether there was a strategy to develop support industry and trained manpower for the planned projects. The highly informative and interactive session was greatly appreciated by the audience, mainly associated with the banking and finance sector.





IBP ORGANIZES GET-TOGETHER OF FELLOW MEMBERS

On Friday, November 11, 2016 a get-together of the Fellows was organized by The Institute of Bankers Pakistan (IBP). The event was chaired by Governor State Bank of Pakistan (SBP) Mr. Ashraf Mahmood Wathra. Senior Bankers, Practitioners and Financial Analysts attended the gathering wholeheartedly and appreciated the efforts of IBP in organizing the event.



ISQ

CONVOCATION & PRIZE DISTRIBUTION CEREMONY

IBP SUPERIOR QUALIFICATION

NOVEMBER 28, 2016

The Institute of Bankers Pakistan held its Convocation and Prize distribution ceremony to award gold medals, prizes and certificates to candidates for their outstanding performance in the IBP Superior Qualification (ISQ) exam for the years 2009-2015. The ceremony was held on November 28, 2016 at the IBP office.

The ceremony was attended by senior bankers and eminent members of the banking fraternity. Speaking on the occasion, Mr. Irfan Siddiqui, Vice President and Chairman of IBP Academic Board & Finance Committee, expressed his delight at being present at the event and appreciated the efforts of the ISQ qualifying candidates. He praised IBP for its efforts to train and assess bankers to produce skilled human resource and promote healthy competition.

The Governor of the State Bank and President of IBP, Mr. Ashraf Mahmood Wathra stressed on the importance of professional qualification for bankers in Pakistan. Highlighting the importance of skilled human resource, he urged banks to focus on training budgets and align their training policies accordingly. The Honorable Governor congratulated the successful candidates, and proceeded to award gold medals to the position holders.

Mr. Husain Lawai, CE IBP emphasized the efforts of IBP for improvements in the ISQ qualification. He highlighted the role of IBP in imparting trainings to produce skilled professionals at every level in the banking sector. He said that the ISQ is the benchmark qualification for bankers in Pakistan. Mr. Lawai commended the banks for planning training and development strategies to ensure recruitment of qualified staff. The Honorable CE presented certificates and cash awards to the position holders.

The ISQ is the only recognized professional banking qualification in Pakistan. It is a three level, self-study program: Junior Associateship of IBP (JAIBP), Associateship of IBP (AIBP) and Fellowship of IBP (FIBP). The JAIBP program of ISQ is accredited by the Chartered Banker Institute, UK in 2011. Since then, 1022 candidates have qualified for the Associate Chartered Banker title. Prior to 2011, 159 candidates qualified through comprehensive exam.

IBP awards gold medals to candidates who score the highest marks in each of the 3 stages of JAIBP. Special prizes are awarded to candidates secure high marks in different subjects. 19 gold medals and 159 other cash prizes were awarded to successfully qualifying candidates at the convocation.

19
GOLD
MEDALS

159
CASH PRIZES

GOLD MEDALISTS



SAADIA W. DURRANI
STAGE - I 2009



HARIS B. MAHMOOD
STAGE - II 2009



SUMBUL AKHTER
STAGE - III 2009



DANISH A. BHATTI
STAGE - I 2010



UMAIR AHMED
STAGE - II 2010



M. NAEEM
STAGE - III 2010



AMJAD IQBAL
STAGE - I 2011



HARIS HASSAN
STAGE - II 2011



ABID ALI
STAGE - III 2011



ASIM R. KHAWAJA
STAGE - I 2013



NEHA H. MEMON
STAGE - I 2013



BENAZIR BROHI
STAGE - II 2013



S. RIZWAN H. ABIDI
STAGE - III 2013



ADNAN RIZVI
STAGE - I 2014



S. HUMAIRA AKHTER
STAGE - II 2014



SOBIA PIRWANI
STAGE - III 2014



AMYNAB HEMANI
STAGE - I 2015



M. ADIL
STAGE - II 2015



RAMEEZ ALI
STAGE - III 2015

ISQ

CONVOCATION &
PRIZE DISTRIBUTION
CEREMONY

IBP SUPERIOR QUALIFICATION





Role Of **SOCIAL MEDIA** *in the Realm of Financial Services*

By Subtain Raza

With the progression of technology and developments in telecommunications, new media is reshaping in the market in which financial service provider companies are operating. This is an irreversible process of change and industry convergence that started in the nineties during the internet boom and whose outcome is yet to be explored.

What is Social Media?

Social media includes web-based technologies that enable mutual interfaces among people to create, disseminate and exchange information in virtual circles, communities and networks. Social media is distinct from traditional media (i.e. newspapers, television and radio) as it is comparatively inexpensive and accessible enabling anyone to access and publish information easily. Prominently for corporate disclosure, many social media forums provide an open arena where people are free to exchange ideas on companies, brands and products. It also provides an environment where firms can converse with stakeholders (including investors and customers) to promote their brand and improve their image.

Social media shares the characteristic of being digital and can be defined as 'websites and applications that enable users to create and share content or participate in social networking' (Oxford Dictionaries 2013). The following is a non-exhaustive list:

- Blogs
- Microblogs (Twitter)
- Social and professional networks (Facebook, LinkedIn, Google+)
- Forums
- Image and video-sharing platforms (YouTube, Instagram, Vine, Pinterest).

Some Facts about Social media

It is amazing to note that 350 million plus users suffer from "Facebook addiction syndrome". If Twitter was a country; it would have been the 12th largest in the world. LinkedIn signs up 2 new members every second. The average visitor spends 15 minutes a day on YouTube. Three million new blogs come online every month. 97% of the fans on Pinterest's

Facebook page are women. 5 million images are uploaded to Instagram every day. The Google +1 button is used 5 billion times every day. Over 75% of all Internet users use social media.

Social Media & Financial Sector

Social media is particularly a powerful channel of communication and therefore is of significant value to firms. Social media allows firms to contact their customers and vice versa, both pre- and post-sale. There are now more ways than ever to receive promotions, deals and points from financial services companies. Financial institutions are using the social web to facilitate payments, provide deals and gain customer's trust. Social media has become a standard channel of communications for customers. Digital devices are growing on an exponential level. Globally, 46% of consumers have access to social media with digital devices to make informed purchases. The top three social networks used by business marketers include LinkedIn (62%), Twitter (50%), and Facebook (30%). Social media facilitates two-way communications and enables banks and credit unions to talk with — not simply to — customers and members.

Some Reports on Social Media & Financial Sector

Financial Social Media reports that 44% of mass affluent consumers that use social media interact with financial institutions specifically. Possessing fun and friendly qualities, social media affords a distinct opportunity to sensationalize banking solutions with creative campaigns and positioning. A study performed by LinkedIn found that 63% of mass affluent consumers were motivated to take action after learning about financial products and services on social media — so there is legitimate value in talking banking on social media. Neustar reported that social media drives the most impressions, clicks and conversions at a low cost compared to other online paid channels. It is no surprise AdWeek indicates that social media advertising is expected to compose 19.5% of total marketing budgets by 2017. Social media affords the control, flexibility and precision required to obtain quality results within any budget,

proving to be a compelling supplement or alternative to various forms of traditional advertising. This approach to advertising better enables financial institutions of any size to compete in the same space, offering value to community banks and credit unions that may not have the same resources as some of their national competitors. A report by Accenture and the Partnership Fund indicated that global investment in FinTech ventures has tripled from around \$1 billion in 2008 to nearly \$3 billion in 2013. Many of these companies are using social media to revolutionize the traditional business models that the financial sector has relied upon for decades.

Social media is transforming banking relationships in significant ways, from improving customer service to allowing users to send money to others via online platforms. New financial technology companies are using social media data to help people get access to credit or even simply open a bank account. Social media can even impact your ability to get a loan. Integration is happening so quickly, it is possible to argue that social media platforms may be the banks of the future.

By providing the ability to share valuable information with the community, social media offers the means to demonstrate that the institution understands consumer needs and positions the bank or credit union as a leader in financial services. To be recognized as a reputable banking resource, financial marketers should share relevant content in the form of personal finance tips, industry updates, investment advice and more. Such insight also illustrates the supportive nature of the institution, increasing consumer confidence in the bank's or credit union's dedication to consumers' financial well-being.

High levels of penetration, use and engagement have meant that financial institutions are starting to recognize the opportunities social media can bring to their businesses. They are looking to gain a competitive advantage over other institutions while also trying to mitigate the threats posed by social media, such as when people share highly sensitive information publicly.



AREAS OF FINANCIAL SECTOR TRANSFORMATION BY SOCIAL MEDIA

There are five key areas where social media is changing financial services around the world:

1. Customer Service

A growing number of customers expect real-time responses from their service providers. Thus, more and more banks and insurance companies are adding social media (usually Twitter and Facebook pages) as a permanent channel for retail customer interaction, fully integrated into Customer Relationship Management (CRM) systems.

2. Marketing

Social media marketing can no longer be disassociated from a company's overall marketing strategy, forcing them to adopt not only a data-driven approach but also a test-and-learn mindset that can handle an ever - changing social environment. According to Accenture, the solid marketing strategy should be result oriented, formulate better segmentation, focused, real - time marketing, reduce acquisition costs and have a quicker time to market. All features are there in social media marketing.

Many online retail P2P lenders such as Lending Club and Prosper, and small business lenders such as Kabbage and OnDeck have grown exponentially by using online and social media as their core marketing channels. More traditional companies are also investing in social media integration. American Express, for example, links a client's Amex card with his or her social media profiles on platforms such as Facebook and FourSquare, and then delivers deals based on activity such as likes and check-ins. The credit card company has won awards for this social innovation.

3. New Product/Service Development

Social media is not just being used to deliver new products and services; it is also being used to design them. In Turkey,

DenizBank has revolutionized the banking model by offering banking services through Facebook: customers can connect to their Facebook account and access their bank account to initiate wire transfers and manage daily expenses by monitoring their credit cards. Another example is Barclaycard's Ring MasterCard, which was developed through crowd sourcing on social media to design and pick the most popular features for the new product.

4. Reducing Costs and Improving Efficiencies

In addition to using Facebook to reduce the costs of customer service, banks are using it as an alternative to online banking in an efficient way to process applications. In October 2013, ICICI bank, an Indian multinational banking

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TO NOTE THAT
350
MILLION
PLUS USERS SUFFER
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and financial services company, launched Pockets, a mobile app that allows users to login to their bank using their Facebook credentials. The app allows users to send money to friends, pay utility bills, recharge mobile phones, and buy movie tickets. The fact that banks are using Facebook credentials to verify identity marks an important turning point for banking institutions.

5. New Business Models

Chinese social media platforms are leading the way in the exciting area of creating new business models using social

media. A useful summary of the scale of this innovation in China is provided here by Bloomberg; an individual can pay their rent using Alipay from Alibaba, bank using WeChat's WeBank and buy mutual funds from Baidu. More than 100 million of the 815 million active users of Tencent's QQ messaging service have already integrated their bank cards with the QQ Wallet. Lenders are now using social media to credit rate applicants, and banks are asking people to use social media for references, meaning more people are receiving loans who would not have been given a second look previously. China has even given Tencent and Alibaba credit information bureau licenses.

Social Media in Pakistan

Pakistan is also part of this international social media network and it has become a new avenue or means not only used by companies and individuals to promote businesses in the country, but also to generate opinions regarding social and political issues. Social media has been gaining vast popularity among the masses in Pakistan mainly due to Facebook, Twitter, Skype, Instagram etc. The introduction of mobile broadband coupled with the influx of affordable smartphones had a catalytic effect on the use of social media in Pakistan. People turn towards social media to voice their opinions, experiences, suggestions and feedback on any topic or constituent of the society.

The pattern of social media use in Pakistan appears to be no different than the United States or the United Kingdom. The most popular social media website in Pakistan is Facebook, which has over 17.2 million users in the country out of a global total of more than 1 billion. Twitter and LinkedIn have 1.9 million and 1.2 million users respectively in Pakistan. Google Plus and Pinterest appear to have far fewer users in Pakistan, at approximately 64,000 and 115,000 respectively.

Fifty percent of people using Facebook in Pakistan are aged 18-24 years and 25 percent from age 25-34 and overall 70 percent Facebook users are male and 30

percent are females. An amazing fact is that the number of Facebook users has increased by 1 million from June - December 2012. Of all the online browsing and surfing, 27 percent of internet users in Pakistan are Facebook users. Social media is also more popular in Pakistan because of the accessibility of smartphones at reasonable prices. More and more people are using social media on their phones rather than desktops. Among the most popular social platforms, Facebook leads the way with more than 3 billion connections per day.

Challenges

In addition, regulative complexity and a traditional cultural mindset has meant that until recently, the financial services

sector has lagged behind some other sectors in their comprehensive adoption of social media and technology. Low internet penetration, lack of local content and language barriers are some of the general problems that also affect the social media adoption in Pakistan.

Many of the new players in the financial services sector are still trying to find long-term profitable business models that will stand the test of time. Generally, adoption has been slow and most traditional banks today have only implemented limited programs, which are often run in isolation from the core business and not as an integrated solution. The opportunities social media provides do not concern only customer service and marketing, but more fundamentally affect

the products and services themselves. New business models are changing the entire industry. Large, complex and highly regulated entities are being forced to learn how to innovate and roll out new ideas in agile ways to test and iterate quickly.

Finally, imagine a future where all deposits, payments, remittance and investment can be handled within social networks in easy and intuitive ways. The friction that exists across the industry today would be dramatically reduced. Social media is changing the way the financial services industry operates; the future is bright for increased financial inclusion, lower costs and better customer service.



Twitter

- 316 million monthly users
- 500 million tweets sent per day
- 77% of active users are outside the U.S
- 88% of active users are on mobile devices.
- 6 distinct communications networks
- 65% of users expect a response in less than two hours



LinkedIn

- There are 1.5 million groups on LinkedIn
- 27% of users access LinkedIn through their mobile device
- Over 3 million company pages
- 50% of LinkedIn users have Bachelor or Graduate degrees
- 45% of B2B marketers have gained a customer through LinkedIn
- LinkedIn is adding, on average, two members per second
- Only 20% of LinkedIn users are under the age of 30



Facebook

- 1.39 billion active monthly users as of December 31, 2014
- Every minute, 510 comments are posted, 293,000 statuses are updated, and 136,000 photos are uploaded
- Photos drive engagement on Facebook pages
- 45% of account holders become very paranoid if they cannot access Facebook.
- 23% of users check their accounts at least 5 times per day
- Drives more referrals than any other social platform



Instagram

- More than 16 billion photos already exist on the platform
- An average user has close to 40 photos
- 'MTV' is the most followed brand, with over 1.2 million followers
- 1,000 comments per second are posted
- More than 5 million photos are uploaded every day

RISKS AND COMPLEXITIES

Inherent in Foreign Trade

By Dr. S. Sabir A. Jaffery

Before getting on to the risks and complexities inherent in foreign trade, it is essentially desirable, at least for the young bankers, first to assimilate what precisely foreign trade is and also the modes and methods of international debt settlement.

What is International Trade?

International Trade is the name given to the process of buying and selling between buyers, sellers, and merchants in different countries. In a nutshell, it is a process of CROSS-BORDER buying and selling of goods and services. This may take place in a number of ways as under:


- (a) People may need to buy raw materials, goods, and services from countries other than their own because these are available there in better quality and / or on better terms than in the domestic market. Thus, they become importers.
- (b) Many people may have greater demand for their goods and services in overseas markets, resulting in higher profits. This prompts them to export.

- (c) People may act as middlemen between importers and exporters in different countries. Thus, without themselves being de facto buyer or seller, they initiate foreign trade.
- (d) Traders may undertake cross-border merchanting. This is the process whereby a trader in country 'A' buys goods in country 'B' and ships them directly to country 'C', without first getting them in country 'A'.

MODES AND METHODS OF INTERNATIONAL DEBT SETTLEMENT

Modes of Settlement-Terms of Payment

Modes of settlement, also called 'terms of payment' reflect the arrangement according to which the seller requires a guarantee of payment before he loses control of goods, while the buyer simultaneously desires to dispense with



“The documents tendered by the beneficiary of a credit at the advising/nominated bank must invariably conform to the credit. If they meet this requirement, they are compliant”

the money only after safe and timely arrival of goods, or receipt of documents of title to goods, conforming with the quality and quantity ordered for.

There are the following four different modes of international debt settlement:

- Open Account
- Advance Payment
- Documentary Collection
- Documentary Credit

Open Account

It means the exporter will dispatch goods to the importer and also directly send him all the relative documents, enabling the importer to take delivery of goods. The importer agrees to pay at a later date as per arrangement.

The arrangement offers least security to the exporter and greatest security to the importer. Despite exporters' apprehensions, Open Account Terms are not uncommon.

Managing Major Risks to Importers

These under Open Account Terms may be classified as follows:

Buyer or Credit Risk: It refers to the importer's failure to make payment of goods as per arrangement because either of incapability or unwillingness.

Up-to-date status report on the buyer, or reports on potential buyers by organizations such as Export Promotion Bureau, or Commercial Attaché/Counselor

of exporter's country operating in the importer's country can serve as a useful indication of creditworthiness and integrity of the importer. In addition, insurance cover may be obtained against the risk of non-payment by the importer. Various types of export credit guarantee and trade indemnity facilities are offered these days by a number of major insurance companies.

Country Risk: The exchange control measures of the importer's country may prevent the payment being made by the importer. Political, sovereign, and financial hazards may be responsible for this state of affairs.

Major banks provide political and economic reports on the situations prevailing in the countries with which their customers have trade relations. Embassies of exporters' countries operating on foreign lands are also supposed to furnish useful information in this regard. This kind of information helps the exporters in making decisions as to the modes of settlement. Insurance cover is also an alternative available to exporters.

Transit Risk: There is always a possibility of loss or damage to goods while on their way to the ultimate destination. Insurance cover and appropriate *incoterms* are the answers to this risk.

Exchange Risk: The exchange risk is imperative, irrespective of the terms of trade, if the consignment is invoiced in foreign currency.

Advance Payment

Under this arrangement, the seller gets full contract value in advance and the buyer is at all risks. This method is used when either the goods are in high demand, and/or in short supply, or the supplier enjoys monopolistic position.

Trade between various units of an organization, particularly within a family organization, or between agents and principal may also take place on advance payment basis.

Documentary Collection

The relevant Uniform Rules for Collection (URC) as revised from time to time, known as ICC Publication, shall apply to all collections and be shall be binding on all parties thereto, unless otherwise expressly agreed and provided that they are not inconsistent with any national, state, or local law and/or regulation.

Collection Defined Collection means handling by banks of documents as listed under URC 522 according to the instructions received in order to:

- (a) obtain payment and/or acceptance; or
- (b) deliver documents against payment and/or acceptance; or
- (c) deliver documents on other terms and conditions.

Collection may be clean or documentary. Clean collection means collection of

financial documents not accompanied by commercial documents. Documentary collection means collection of financial documents accompanied by commercial documents, or collection of commercial documents not accompanied by financial documents.

Risks Inherent in Collection

In documentary collections, banks act merely as agents and do not guarantee payment to the exporter. Hence, the exporter may face all or any of the following risks:

- (a) The buyer for any reasons may default by non-payment of the sight bill or non-acceptance of the usance bill.
- (b) The buyer may default by non-payment of his acceptance at maturity.
- (c) The remittance may be delayed or blocked by the government of the importing country for economic and/or political reasons.

Minimizing the Risks:

Adopting all or any of the following measures may reduce the risks listed above:

- (a) Obtaining status report on the buyer.
- (b) Evaluating the economic and political stability/standing of the importing country.
- (c) Taking out insurance cover under ECG and/or other insurance schemes covering exporters' risks.

- (d) Arranging with the importers to have their acceptance guaranteed especially where amounts involved are large. This is called Acceptance Pour Aval, which means the importer's bank will accept the bill of exchange and hence guarantee payment.

Documentary Credit

A documentary credit is a conditional guarantee given by a bank to a named beneficiary, thereby guaranteeing that payment will be made to him (to the beneficiary) provided that the terms of credit are fulfilled. These terms will state that the beneficiary shall submit the required documents to the named bank within the stipulated period.

Risk of Discrepant Documents

Documentary Credit is the safest mode of international debt settlement. However, there is the risk of discrepant documents having been negotiated at the cost of the negotiating bank.

Compliant / Discrepant Documents

The documents tendered by the beneficiary of a credit at the advising/ nominated bank must invariably conform to the credit. If they meet this requirement, they are compliant. There is no risk at all in negotiating compliant documents. Thus, interest of all the parties to the credit is fully secured.

If there is any irregularity in the documents, whether major or minor, the documents are discrepant. Banks have to

be at their guard when confronted with discrepant documents.

Handling of Discrepant Documents

Discrepant documents may be handled in one of the following ways to avert all chances of risk in negotiating such documents:

- (a) The exporter may be asked to rectify the irregularity and resubmit the documents.
- (b) Instructions may be sought from the issuing bank whether to accept the documents despite the irregularity.
- (c) The documents may be accepted on collection basis. In this situation, the issuing bank and the confirming bank, if any, are absolved of their obligations.
- (d) The exporter may be asked to furnish indemnity from his banker on receipt of which payment may be released under reserve.
- (e) For its own valued customer, the bank may like to negotiate the discrepant documents and pay under reserve.

Under options (iv) and (v) above, if the importer declines to accept discrepant documents, the exporter-beneficiary shall refund the amount received by him along with the interest accrued up to the date of refund.





By Syed Zaheer Haider Zaidi

Risk

From the Perspective of Banks and other Financial Institutions

Allan Greenspan, Chairman Federal Reserve of the USA, from 1987 – 2006, said: “The vast majority of banks did not fail because of the risks they knew but because of the risks they did not know.”

What is Risk?

It is the potential of gaining and losing something of value. Values can be gained or lost when taking risk resulting from a given action, activity or inaction, foreseen or unforeseen. Here the value is used as a diversified term which may include market reputation, physical health, social status, emotional wellbeing, financial wealth etc.

Risk can also be defined as coming across uncertainty and intentionally. Uncertainty is a potential, unpredictable, immeasurable and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty. In other words, Risk is, “when the outcome of an activity is not according to the expectation”. Human endeavors carry risk at all levels, but some are much riskier than others.

In the financial world, risk may also be defined as the possibility that an actual return on an investment will be lower than the expected return. There are, however, various other shades of risk in the financial world, depending on the specific transaction and discipline. As per ISO 31000 [2009] ISO Guide 73:2002, Risk is the 'effect of uncertainty on objectives'.

Douglas Hubbard contributed to the interesting debate of uncertainty and risk as:

Uncertainty: The lack of complete certainty, that is, the existence of more than one possibility. The “true” outcome/state/result/value is not known.

Measurement of Uncertainty: A set of probabilities assigned to a set of possibilities. Example: “There is a 60% chance this market will double in five years”.

Risk: A state of uncertainty where some of the possibilities involve a loss, catastrophe or other undesirable outcome.

Measurement of Risk: A set of possibilities each with quantified probabilities and quantified losses. For example: “There is a 40% chance that the proposed oil well will dry, which means the amount spent on “exploratory drilling” is lost and is a loss to the exploring concern. Thus it can be said that one may have “uncertainty” without risk, but not risk without “uncertainty”. We can be uncertain about the winner of a

contest, but unless we have some personal stake in it, we have no risk.

With the Development of Markets, IT and IT challenges, Globalization, Competition, Sophistication together with Complex Funding Requirements, Deterioration in Asset Quality etc. the banks and financial institutions started facing many types of risks.

In contrast, when things were relatively simpler, it was thought that the only considerable risk banks and financial institutions face is Credit Risk. Thus everybody, involved in the lending aspect of banking operations, concentrated on how to manage the Credit Risk. At this point, other risks were not seriously acknowledged.

As a matter of fact, now banks and financial institutions are on the cross road and facing variety of risks coming from all directions. At times they face a combination of two or more risks. For example, Operational Risk which is: the risk of loss from “inadequate or failed internal processes”, “people and systems” or from “external events”. Here, to manage one type of risk [Operational Risk], banks have to address different concerns like “internal processes”, “people and systems” and “external events”, to avoid actualization of any risk emanating from these sources.

As we know that energy can neither be created nor destroyed; rather, it transforms from one form to another. It can be said that risk, too, has this behavior. For example, in Islamic Banking scenario, banks may face some unique risks. Rate of Return Risk [RRR] is one of such risks, which arises due to an increase in benchmark rates. This risk, in turn, may cause the Displaced Commercial Risk [DCR] to crop up, where the Islamic bank may come under intense market pressure to pay a return that exceeds the rate that has been earned on its assets financed by “investment account holders” [IAHs].

To tackle this, banks may pay [market based] returns to the IAH by foregoing their [Mudarib] share in profits, meaning risk of lower profits. If banks do not do this then the IAHs might withdraw their deposits, causing Reputation Risk, Liquidity Risk and in extreme case, Run

on the Bank Risk. This is how risks, at times, change forms.

In 1973, after the collapse of Bretton Woods system of managed exchange rates, many banks booked large foreign currency related losses. Case of Germany's bank, “Bankhaus Herstatt added an international dimension to [financial] disaster, as banks outside Germany booked heavy losses on their unsettled trades with Herstatt.”

There were many other cases of bank failure, globally, on different pretext. This compelled influential quarters like G10 countries to pool their efforts to come up with a fortified defense against a host of risks.

Here, for the first time, the need of Risk Based Supervision was acknowledged and it was thought to set international

While this bush fire was getting air, those responsible for introducing and implementing Islamic banking as an alternative, were also finding ways to manage risks in their domain.

As a matter of fact, Islamic banks and institutes providing Islamic Financial Services IIFS are more exposed to risks. As apart from normal risks [to the conventional banks], they are exposed to some unique risks like Rate of Return Risk [RRR], Displaced Commercial Risk [DCR], Shariah Non-compliance Risk and Equity Investment Risk.

Based on the experience of the events occurred and still occurring around us, globally, it is felt that the need to widen the scope of the study of risk is having a lot to do with the infidelity of the market

As we know that energy can neither be created nor destroyed; rather, it transforms from one form to another. It can be said that risk, too, has this behavior.

standards in this regard. Such efforts were actualized in 1988, when Basel I was adopted in over 100 countries. It was indeed a good beginning but still fell short as Basel I took into account only Credit Risk. Despite this shortcoming, Basel I was a giant leap towards Risk Management, in banks and financial institutions.

Perhaps, it was then the supervisors and the market participants started seeing other risks like Market Risk, Investment Risk, risks related to the smaller size of the securities and its users, Operational Risk, Currency Risk, Exchange Risk, Commodity Risk, Country Risk, Availability of Credit Line risk, Shariah Non-Compliance risk [only for the Islamic Banks] and many more. Luckily, most of the supervisors and regulatory authorities throughout the world are now taking this matter seriously.

operators, managers and other stakeholders. Tragically, with the passage of time – globally – integrity of many individuals and groups of people has shown a [steep] downward trend.

In support of this, one can cite numerous incidents, worldwide, of “Inside Trading”, existence of “Cartels”, manipulation in the LIBOR/foreign exchange and commodities markets, role of brokers in dubious deals and never satisfying appetite of financial and other gains at corporate, political and personal levels. All these things contributed greatly in diversifying the subject of “Risk”, resulting in a series of disastrous events in banks and financial institutions globally. Some of the examples are Baring Plc [1995], Standard Chartered Bank [1992], Allied Irish Bank [2002], First National Bank of

Both Risk-taking Appetite and Risk Tolerance are not fixed, they expand and shrink according to the books of the financial institutions

Keystone [2001], J.P. Morgan Chase, Soc Gen, Busan Savings Bank South Korea, B. O. A, J.P. Morgan Securities, to name a few. On account of Unauthorized Tradings, Stocks Scandal, Embezzlement and Loan Fraud, Unidirectional acts of a trader in European Equity Index futures in 2007/2008, Internal Fraud [Bad Loaning], Deviation of own tariff like Overdraft fee rules, Improper Business/Market Practices etc. due to which banks booked colossal losses.

Ignoring the fraudulent motives of key managers of banks, one wonders what are the reasons or basis that some banks are more exposed to risks and some others are located low on the Risk Ladder?

Perhaps, it is due to the fact that the attitude towards risk taking varies from institution to institution. Some are highly prudent whereas some opt to be on the lower side of prudence. Some go all out for booking impressive numbers. In this pursuit, at times, they get out of the circle of prudence and indulge in not so healthy transactions.

We can say that among the [financial] market operators, varying moods of risk attitude like Risk averse, Risk neutral and Risk seeking, are found.

Basically, the attitude of the BoDs and the Management of an institution towards risk taking ascertains the Risk taking Appetite. Fanning of Risk taking Appetite without prudence is like opting for financial disaster. To the contrary controlled and well managed appetite means keeping the risk at a safe distance. This is why, very rightly, the regulatory authorities want the BoD / Senior Management to play their due roles in formulation and execution of the policies in this direction. Of course they are responsible to carry out business to earn

profit, but they must know the level of their Risk Tolerance [which looks at acceptable / unacceptable deviations from what is expected.] and operate accordingly. They may plan their business cycle in a way, to enhance their Risk Tolerance, to make cushion for additional risk taking, to increase profitability.

There should not be a mismatch between Risk taking Appetite and Risk Tolerance. Actually, Risk taking Appetite is at the front end whereas Risk Tolerance is at the back end. If high flood enters from the front end and the back end [i.e. Risk Tolerance] is not fortified then the flood would be gushing through, destroying everything on the way.

Both Risk taking Appetite and Risk Tolerance are not fixed, they expand and shrink according to the books of the financial institutions, but the BoDs approach towards risk is overwhelmingly important to decide the levels of these two.

Islam has covered the topic of risk management rather comprehensively. The same is implemented practically in all Islamic believes, worships and day to day dealings [muamlat].

Ikrah [Force, Coercion, Compulsion etc], Salat ul Khoaf [Prayers offered under fear] and to make a non-viable business deal under extreme undue influence / threat are few examples of risk management allowed by the Shariah.

In this regard, it is very important to note that the essential feature of the activities of Institutions offering Islamic Financial Services [IIFS] is the requirement to comply with Shariah rules and principles especially “the prohibitions of generating profits without bearing any risks”.

Regulatory authorities, throughout the world, are undertaking very tight monitoring of the operations of financial institutions. By making it a must for board to approve and monitor the objectives, strategies, overall business plans of the institution and to oversee that the affairs are carried out prudently within the framework of the law / regulations and high business ethics. Likewise, it is binding on the executive management to play its due role while carrying out day – to – day operations, well within the policies set by the [own] board of directors. For this, executive management and board members have to have deeper understanding of their key business risks and how to manage the same, which in turn, ensure the highest return for their shareholders. Otherwise, there is a possibility of erosion of capital or even loss of capital. Well researched guidelines BASEL I and Basel II are there for the guidance of the financial market operators. At home, State Bank of Pakistan is playing its due and active supervisory role to ensure financial discipline in the country.

Side by side, for IIFS there is an international standard setting organization IFBC [Islamic Financial Service Board, based in Malaysia] that promotes and enhances the soundness and stability of the Islamic financial services industry. For this purpose, it questions well researched global prudential standards and guiding principles for the industry like “Guiding principles of Risk Management for Institutions [other than insurance institutions] Offering only Islamic Financial Services – December 2005”.

While the Basel Committee on Banking Supervision (BCBS) has published documents setting out sound practices and principles pertaining to credit, market, liquidity and operational risks of financial institutions, G. P serves to complement the BCBS's guidelines in order to cater the specificities of IIFS.

Risk Management, in financial scenario, is indeed a mammoth undertaking which cannot be handled simply by one country or by an organization but it needs joint global efforts. This will ensure avoidance of negative impact on the savings of the masses, the earnings and the capital of the financial institutions, globally.

COMMERCIAL BANKING

Problems and Solutions

By Dr. Sabir Ali Jaffery

Q.1 A Pakistani importer buys goods for \$15,000/- when the exchange rate is \$1=Rs.106/- By the time the date of payment arrives, the rate of exchange becomes \$1=Rs.106.35. What would have been the consequences for both the Pakistani importer and US exporter, if the invoice had been drawn in Pak Rupees? Will the position change, if the invoice were drawn in US dollars?

Based upon the above data, find out the position of each, if USA trader was the importer and Pakistani was the exporter.

Ans. There may be eight different situations as under:

Pakistani Importer

Invoice in Pak Rs. 1,590,000/-
(\$15,000 @ \$1=106)
No gain, no loss

Invoice in \$15,000/-
He will have to pay Rs.1,595,250/- @
\$1=106.35 instead of Rs.1,590,000/-

Pakistani Exporter

Invoice in Pak Rupees
He will get Rs.1,590,000/- No gain, no loss.

Invoice in dollars.
He will get Rs.1,595,000/- (@ \$1=106.35).
Thus, a gain of Rs. 5,000/-

US Importer

Invoice in Pak Rs.
He will have to pay Pak Rs. 1,590,000/- which will cost him \$14,950.63 @ \$1=106.35 instead of \$15,000/-. Thus, he will save \$49.37

Invoice in US dollars
He will pay \$15,000/- Hence, no loss, no gain.

US Exporter

Invoice in rupees
He will receive \$14,950.63 For Rs.1,590,000/- converted @ \$1=Rs.106.35. Thus, a loss of \$ 49.37 to him.

Invoice in dollars

He will receive \$15,000/- Hence, no loss, no gain

Q.2 Distinguish between the Balance of Trade and Balance of Payments. How do they affect a country's exchange rate?

Ans. The Balance of Trade is the difference between a country's payments for its imports and its receipts of the proceeds of exports over a period of time, usually the financial year. Balance of Payments is a summarized statement of all items of payments and receipts, covering both the visible and invisible items and capital transfers between a country and all other countries over a period of time.

The exchange rate of a country is primarily based on the demand and supply of its currency in the international market. If the demand for home currency increases, say, due to increased exports, its value in terms of foreign currencies will also increase. Conversely, if the demand for foreign currencies increases, say, owing



to increased imports, value of home currency in terms thereof will depreciate.

To meet the additional demand for foreign currencies, more home currency will have to be pumped into the foreign exchange market. This additional supply of home currency will also adversely affect the value of home currency.

To sum up, the principle of demand and supply determines the price (value) of one currency in terms of another in the similar manner as it does in case of goods and commodities.

Q. 3 What is Red Clause Credit and Green Clause Credit? Discuss salient features of each.

Ans. Red Clause Credit: A red clause credit generally authorizes the designated negotiating bank to make clean advances, not exceeding the L.C. value, to the beneficiary before presentation of documents; the bank being under no obligation to monitor the use of such advances. The bank would get repayment with interest from the proceeds of the export bill when presented by the beneficiary.

In case of failure on the part of the beneficiary of a red clause credit to submit export documents on time and in order, the lending bank would have the right to

demand payment with interest from the issuing bank, which, in turn, would have recourse to the applicant.

The instructions to make the advance are written in red ink to make them distinct. This is why it is called Red Clause Credit.

Green Clause Credit: This type of credit is used in Australia wool trade under which, besides pre-shipment advance to exporter, the bank may also be asked to arrange for clearance and storage facilities.

Q. 4 Explain the role of nostro and vostro accounts in international settlements.

Ans. Nostro Account: A Pakistani bank's U.S. Dollar Account with its American correspondent is the former's nostro account with the latter, meaning "our account with you". In other words, from the point of view of a Pakistani bank, a nostro account is our bank's account in the books of an overseas bank, denominated in foreign currency. Normally, nostro accounts do not earn interest.

Nostro accounts are also called "Foreign Currency Accounts of Authorized Dealers". State Bank's prior approval is needed to open such accounts. The SBP prescribes from time to time limits for nostro accounts of a bank

after taking into account operational requirements of that bank. Credits to these accounts are treated inward remittances, and are allowed freely, while debits are outward remittances, and are subject to Exchange Control Regulations in Pakistan.

The foreign currency balances of nostro accounts of banks operating in Pakistan are held at the disposal of the State Bank of Pakistan.

Vostro Account: A foreign correspondent bank's rupee account with a bank operating in Pakistan, from the point of view of the latter, is vostro account, which means "your account with us". Foreign branches of Pakistani banks also have such accounts with their head offices in Pakistan. If funds are remitted from Pakistan, vostro account is used if payment is denominated in Pak rupees. These are also termed "Non-Resident Rupee Accounts of Foreign Bank Branches and Correspondents".

Credits to such accounts are outward remittances, equivalent to sale of foreign currency. These can only be made in respect of approved transactions. Debits, on the other hand, constitute inward remittances and are equivalent to purchase of foreign currency, which can be made without restriction. No prior approval is needed to open these accounts.



UNDERSTANDING MONETARY POLICY

By Banti Lal

The article aims to present an insight on the country's monetary policy, approaching step by step towards the strategic objective, history, effectiveness of monetary policy, making of monetary policy process, fundamental tools, light on the monetary policy outlook in the current scenario and its efficacy in economic growth.

P PRICE STABILITY

Price stability means general price level in an economy does not change, hence in other words, prices neither go up or down; there is no significant degree of inflation or deflation. Monetary policy is implemented to control rate of change in general price level, concerning interest rates and the supply of money in an economy can be used to keep prices stable.

The price level where the supply of money equals demand for it is the equilibrium price, which tends to be stable unless some outside factor changes demand or supply. In other words, prices will be stable when people have no more money or no less money than they need to make the purchases.

MONEY SUPPLY

The money supply or money stock is the total amount of monetary assets, for example, currency and other liquid instruments available at a specific time. There are several ways to define "money," but standard measures usually include currency in circulation and demand deposits. Public and private sector analysts have long monitored changes in money supply because of its effects on the price level, inflation, the exchange rate and the business cycle.

MONETARY POLICY

Monetary policy may be defined as a process through which supply of money is being controlled by government, central bank, or monetary authority controls targeting inflation and interest rate with an objective to ensure stability of

economy and general trust in the currency. The monetary authority has the ability to alter money supply and thus influence the interest rate to achieve policy goals.

Monetary policy rests on relationship between interests rate (price at which money can be borrowed) and total supply of money uses variety of tools to control one or both of these to influence economic growth, inflation, exchange rates and unemployment.

STRATEGIC OBJECTIVE

The prime objective of Monetary Policy is to focus on price stability, to help economy reach or maintain monetary equilibrium. An economy is at monetary equilibrium when quantity of money demanded equals the quantity of money supplied. Monetary Policy maintains value of coinage; print notes and prevent coins

from leaving circulation. The importance of price stability is an overruling objective of monetary policy requires effective management and anchoring of inflation expectations, central bank controls inflation relative to output growth and financial and exchange rate stability.

HISTORY

The Monetary Policy inception came from the late 19th century, where it was used to maintain the gold standard. Monetary policy is laid down in State Bank of Pakistan (SBP) Act of 1956.

Monetary policy is coupled with interest rate and availability of credit; instruments of monetary policy include short-term interest rates and bank reserves. Bank of England in 1694 acquired responsibility to print notes and back them with gold, the idea of monetary policy as independent of executive action began to be established.

EFFECTIVENESS OF MONETARY POLICY

Fiscal Year 2008 was an exceptionally difficult year; the domestic macroeconomic and political vulnerabilities coupled with a very challenging global environment caused slippages in macroeconomic targets by a wide margin.

Following are the key areas which need attention in effective monetary management:

- Policy making process effectiveness requires quarterly meetings of the SBP and the Government.
- For effective analysis of developments and policy making timely and quality information is extremely important due to weaknesses in the data collection and reporting mechanism constrains an in-depth analysis of current economic situation and evolving trends and hinders the ability of SBP to develop a forward looking policy stance.
- Unlike many developed and developing countries, there is no prescribed limit on government borrowing from SBP defined in the SBP Act or Fiscal Responsibility and Debt Limitation (FRDL) Act 2005.

- Another issue is to make a clear distinction between exchange rate management & monetary management. Currently, general perception is that, the State Bank is bound to keep the exchange rate at some predefined level and away from this level is then considered as an inefficiency of the SBP.

MAKING OF MONETARY POLICY

The interest rate decided through monetary policy reflects outlook of international factors like oil prices, as well as domestic factors i.e. food prices and revision of power tariffs highly sensitive elements in consumer price index (CPI) are used to measure prices of 481 commodities to achieve target of inflation and growth set annually by the Government to formulate country's monetary policy consistent with announced targets.

Earlier, the SBP was the sole architect of monetary policies but now responsibility of making of monetary policy has been shifted from SBP to Monetary Policy Committee (MPC) via amending the SBP Act 1956 in November 2015, "MPC has been constituted with the primary responsibility to decide about the monetary policy of the State Bank of Pakistan".

The MPC consists of ten members: the Governor (Chairman), three members of the Board, nominated by the SBP Board, three senior executives of the Bank, nominated by the Governor, and three External Members (economists) appointed by the Federal Government on recommendation of the SBP Board. The External Members are appointed for a term of three years.

In Monetary Policy decisions, the following factors are taken into account:

- Short-term interest rates
- Long-term interest rates
- Velocity of money through the economy
- Exchange rates
- Interest rate (CPI)
- Credit quality
- Bonds and equities
- Government vs. private sector spending and savings
- International capital flows
- Financial derivatives

POLICY TOOLS

These tools keep market interest rate and inflation at specified target value by balancing banking system's supply of money against demands of the aggregate market.

The primary tool of monetary policy is open market operations, entails managing quantity of money in circulation through buying and selling of various financial instruments, such as treasury bills, company bonds, or foreign currencies.

All these purchases or sales result in more or less base currency entering or leaving market circulation. Usually the short - term goal of open market operations is to achieve a specific short-term interest rate target.

Quantitative Tools

- Open Market Operations
- Bank Rate
- Cash Reserve Requirement
- Liquidity Ratio
- Special Deposit

Quantitative Tools

- Credit Rationing
- Credit Ceiling
- Moral Persuasion
- Direct Action
- Advertisement

With respect to maintain monetary stability depicted below are three (03) main approaches of monetary policy:

- Money supply mainly involves buying/selling of government bonds in public market, when the central bank disburses or collects payment for these bonds it alters the amount of money in the economy while simultaneously affecting the price (yield) of short-term Government bonds. The change in the amount of money in the economy in turn affects interbank interest rates.
- Money demand is sensitive to price i.e. interest rates charged to borrowers, in order to manage money demand major tool to conduct monetary policy (raising or lowering interest rate) for interbank offered rate. If nominal interest rate is very near to zero but cannot be lowered further, such a

State Bank of Pakistan cuts

POLICY

rate to 40-year low as growth target missed

situation is called liquidity trap can occur during deflation or when inflation is very low.

- Banking risk involves managing risk within the banking system. Banks must keep banking reserves to handle actual cash needs, but they can lend an amount equal to several times their actual reserves. The money lent out by banks increases the money supply, and too much money (whether lent or printed) will lead to inflation. Central banks manage systemic risks by maintaining a balance between expansionary economic activity through bank lending and control of inflation through reserve requirements.

MONETARY POLICY OUTLOOK

Neoclassical and Keynesian economics significantly differ on the effects and effectiveness of monetary policy on influencing the real economy; there is no clear consensus on how monetary policy affects real economic variables (aggregate output or income, employment). Both economic schools of thoughts accept that monetary policy affects monetary variables (price levels, interest rates). In economics, an expansionary monetary policy is one that seeks to increase the size of the money supply aimed at lowering the interest rates to achieve economic growth by increasing

the economic activity. Contractionary monetary policy seeks to reduce size of the money supply controlled by either a central bank or a finance ministry.

Monetary policy targets to keep inflation within a desired range with periodic adjustments to interest rate maintained for a specific duration using open market operations usually reviewed on a monthly or quarterly basis by a policy committee. The inflation targeting approach to monetary policy approach was pioneered in New Zealand. Interest rate is changed in response to various market indicators attempting to forecast economic trends, simple method "Taylor rule" adjusts the interest rate in response to changes in the inflation rate and the output gap.

The inflation in 2016 is low, although Consumer Price Index (CPI) so called inflation sustained its rising trend for seventh consecutive months and rose to 4.2% in April 2016 from 1.3% in September 2015, despite continuous increase on a yearly basis, would remain low as compared to annual average target of 6%. As per SBP, expansion in industrial activities and services sector would salvage some of GDP growth due to the losses arose in cotton and rice crops. Furthermore, uncertainty might arise if there was an adverse change in oil prices or workers' remittances.

In its monetary policy statement, the central bank said that the country would not achieve its GDP growth target of 5.5% in the period ending June 30, 2016; however, it would exceed its corresponding outcome of 4.2% in last year. The SBP expects inflation will likely attain a higher upland in next financial year, as rising global oil prices, imposition of new taxation measures and increase in electricity and gas tariffs would put upward pressure on inflation.

However, it has been observed, the real economic benefit of historic low interest rate could not be harvested until the government took measures for a sustainable industrial growth. Despite a low interest rate, borrowings of manufacturing sector were low and exports were declining, the cost of doing business that included power and gas tariffs in Pakistan was much higher compared to Bangladesh, India, Vietnam and other emerging economies. Under current circumstances, it appears that the house building and property sector would be real beneficiary of low interest rate.

It is imperative that the central bank of every country summarizes assessment of the health of economy in its monetary policy statement. An independent and effective monetary policy is essential for effective economic management in the country.

CYBER HEIST

A Lesson

By Nazish Alim Qureshi

While widespread and ever-increasing automation at financial institutions has brought tremendous production and operational efficiencies in the industry, it has simultaneously given rise to cyber threats and attacks on transactions conducted through online branches, branchless banking and the internet; payment systems for intra/interbank settlement and credit information of consumers etc. are also at risk. Meanwhile, a large-scale hacking attack may involve stealing a company or an individual's intellectual property; seizing and unauthorized usage of online bank accounts (leading to monetary loss); creating and distributing malware on the Internet of things (networks, computers, laptops, smartphones, tablets, smart TVs etc.) and illegally accessing and then disclosing confidential business information to the detriment of the firm's reputation.



Financial institutions, a major constituent of the national critical infrastructure, are the key target for cyber criminals and malicious insiders because they are the richest source of intellectual property and offer direct access to monetary assets. The multi-channel and distributed environment of financial firms offers a fertile ground for cyber crimes. However, the threat is not only from outsiders, as in many cases, insiders (with deep knowledge of security protocols) are also involved.

Globally, numerous institutions have faced multiple types of cyber heists and attacks over the last 15 years; these include AT&T, British Airways, Citigroup, Facebook, Gmail, JPMorgan Chase, HP, Saudi Aramco, Sony, etc. resulting in a loss of monetary assets, theft of confidential and intellectual information, and disclosure of nonpublic information etc. In an extreme case, Iran's nuclear program was allegedly sabotaged through a devastating malware attack.

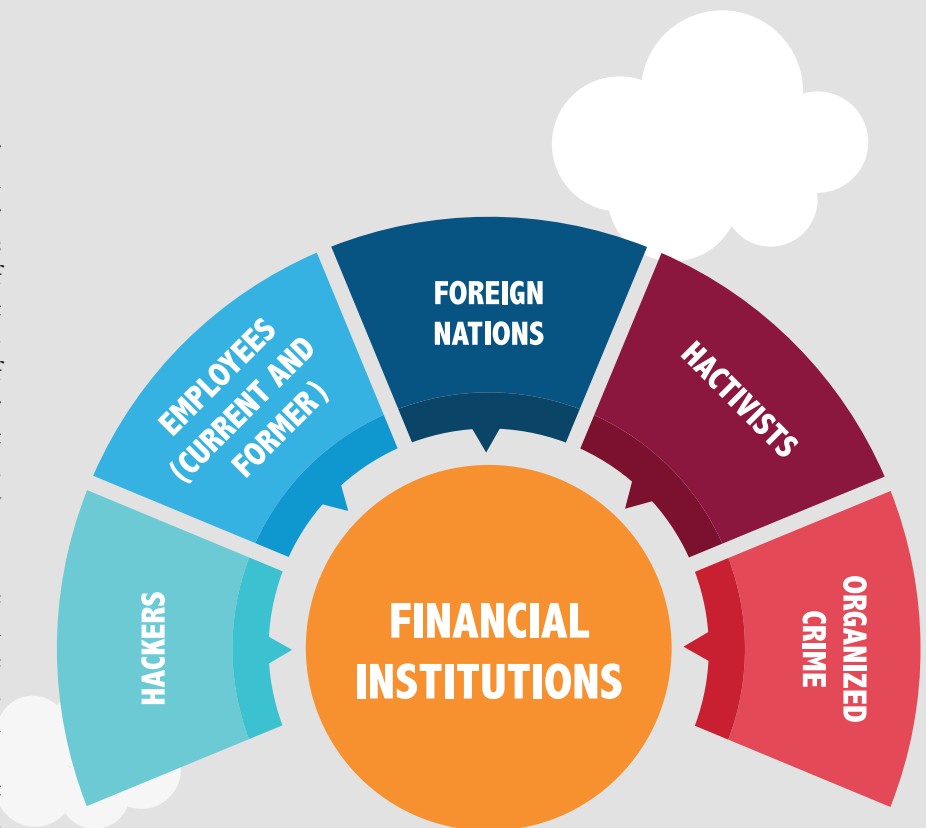
Because of the sensitivity of the damage and the consequential secrecy maintained by victims, many factors remain unknown and can only be guessed and based on reported or alleged claims in the public domain.

In the wake of one of the largest cyber heists in history, hackers and cyber criminals were able to direct the Federal Reserve Bank of New York to transfer about US\$ 1 billion from the account of the Bangladesh central bank in 2016. In the end, around US\$ 81 million were transferred from the Bangladesh central bank's account with the New York Fed to accounts in the Philippines through SWIFT.

SWIFT, or the Society for Worldwide Interbank Financial Telecommunication, is a Belgium-based cooperative that is owned by 3,000 banks and bills itself as "the world's leading provider of secure financial messaging services." It is now used by 11,000 banks globally, every day and processes around 25 million communications that collectively account for billions of dollars' worth of transfers.

As per multiple security analysts and experts, this breach happened through one or more threats such as:

- ▶ Malware
- ▶ Insider help



- ▶ Weak systems or controls or procedures
- ▶ Exploited vulnerabilities
- ▶ Compromised credentials

WHAT THE HEIST REVEALED

This heist has revealed cyber criminals and fraudsters can successfully:

- ▶ Compromise a financial institution's payment initiation system and environment by bypassing information security controls
- ▶ Obtain and use valid credentials with the authority to create, verify and authorize interbank messages
- ▶ Employ sophisticated understanding of funds transfer operations and operational controls
- ▶ Use highly customized and persistent malware to disable security event logging and reporting as well as other methods to conceal and delay the detection of fraudulent transactions
- ▶ Transfer stolen funds across borders to illicit beneficiary accounts quickly or in real time, to prevent institutions/authorities from recovering the funds.

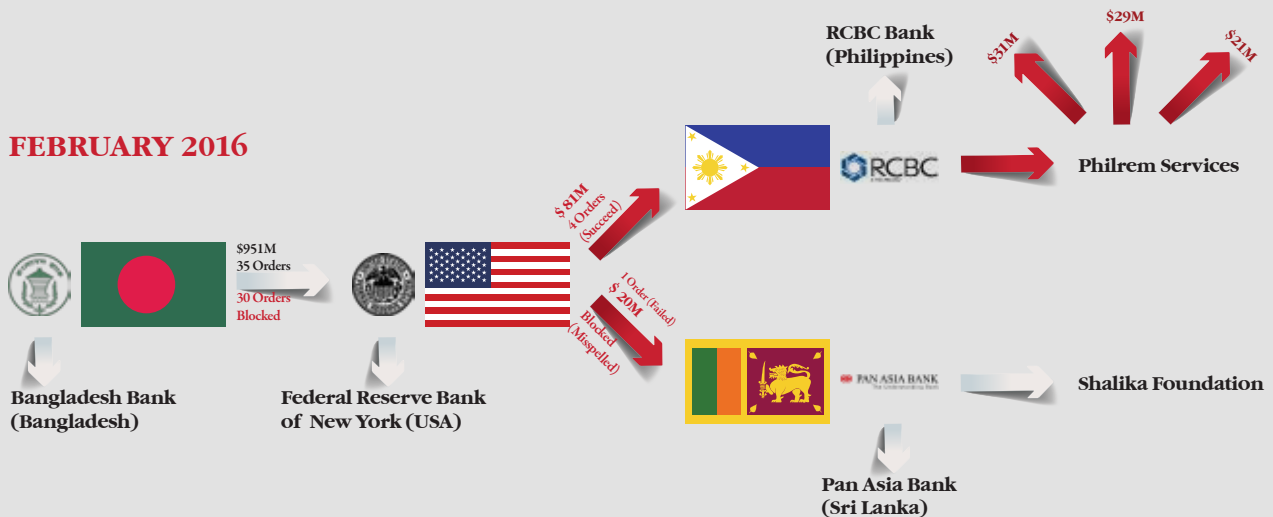
LESSON LEARNED

This major cyber heist incident should be treated as an eye-opener and attention should be paid to the institutions automated business environment. Due to the rising global threat of cyber heists, breaches and disclosure of confidential information, all stakeholders, including financial firms, government authorities, and customers, must collaborate and stay vigilant and risk aware against combating emerging cyber threats, attacks and associated risks in constantly evolving threat and attack landscape (see Table 1).

Cyber defense mechanisms across institutions must be optimized and made proactive. These should be supplemented by the following provisions:

- ▶ Active and mandated IT Security or Cyber Security governance with consistent mindset and oversight
- ▶ Skilled and experienced IT/Cyber Security professionals (with globally recognized certification(s) preferable like CISSP, CISM, CRISC, CEH, GIAC etc.)
- ▶ Effective policies and procedures
- ▶ Defense in Depth or layered approach IT/Cyber Security Framework (see Figure 1)

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- ▶ The hackers misspelled “Foundation” in their request to transfer the funds, spelling the word as “Fundation”
- ▶ This spelling error gained suspicion from Deutsche Bank, a routing bank which put a halt to the transaction in question after seeking clarifications from Bangladesh Bank

- ▶ Accountable roles and responsibilities
- ▶ Strengthening controls and counter measures
- ▶ Industry best practices and standards (COBIT, NIST, ISO, CIS, ITIL, PCI DSS, OCTAVE, SABSA, FISMA etc.)
- ▶ Regular training and periodic risk assessment

The above mandatory requirements assuring in the best interest, risk posture reduction and protection of institutional intangible assets, IT assets, enterprise, banking and infrastructure systems along with our own personally identifiable information both in our professional and personal lives.

As per CIS statement, “Organizations that apply just the first five CIS Controls can reduce their risk of cyber attack by around 85 percent. Implementing all 20 CIS Controls increases the risk reduction to around 94 percent”.

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CIS is a non-profit organization whose mission is to “enhance the cyber security readiness and response of public and private sector entities, with a commitment to excellence through collaboration”.

The CIS Critical Security Controls provide a highly practical and useful framework for every organization to use for both implementation and assessment (see Figure 1). Because the controls are developed by the community and based on actual threat data, they are an authoritative, industry-friendly and vendor-neutral approach to risk assessment and auditing of security.

Lastly, all collaborative and collective efforts against evolving cyber security challenges must be made in the best interest and protection of the national critical infrastructures like Banking & Finance, Defense, Telecommunications, Power grid, Dams & Irrigation, Oil & Gas and Healthcare etc.

CYBER THREATS LANDSCAPE

TABLE 1 (SOURCE: PROPRIETARY)

THREATS	ACTORS	MOTIVATIONS/ GOALS	TARGETS	ATTACK PATHS (TECHNIQUES & TOOLS)	ACTIONS (REMEDIATION/ MITIGATION)
<ul style="list-style-type: none"> • CREDENTIAL THEFT • INTELLECTUAL INFORMATION THEFT • INFORMATION MANIPULATION • VULNERABILITIES • SYSTEMS & NETWORKS HACKING • PHISHING/SPEAR PHISHING • SOCIAL ENGINEERING • ADVANCED PERSISTENT THREATS (APTs) • CRIME/FRAUD (E.G. CREDIT CARD FRAUD, MONEY LOSS, TRANSFER) • DEFACING • CYBER ATTACKS (DOS/DDOS) • TRANSNATIONAL • TERRORISM/HARASSMENT 	<ul style="list-style-type: none"> • HACKERS • HACTIVISTS • AMATEUR HACKERS • INSIDERS (VISITORS, CONSULTANTS, SERVICE PROVIDERS ETC.) • CURRENT EMPLOYEES • FORMER EMPLOYEES • FOREIGN NATIONS • AGENCIES • COMPETITORS • TERRORISTS • STUDENTS • INDIVIDUALS 	<ul style="list-style-type: none"> • PERSONAL IDENTIFIABLE INFORMATION • INTELLECTUAL PROPERTY (COPYRIGHT, TRADE SECRETS, LICENSE ETC.) • MILITARY OR POLITICAL DOMINANCE • MONETARY/ECONOMIC GAIN • CYBER WARFARE • ADVERSARY/RIVALRY • SABOTAGE • DEFAME • TERRORISM • HARASSMENT • ABUSING • EGO, PERSONAL ENMITY • ESPIONAGE 	<ul style="list-style-type: none"> • GOVERNMENT (FEDERAL, STATE, AND LOCAL) E.G. - E-BANKING - E-GOVERNMENT - E-COMMERCE • INDUSTRY E.G. - AEROSPACE & DEFENSE - BANKING & FINANCE - HEALTH CARE - PHARMACEUTICALS - INSURANCE - MANUFACTURING - OIL & GAS - POWER GRID - DAMS & IRRIGATION - ROADS & HIGHWAYS - TRANSPORTATION - RETAIL - TELECOMMUNICATIONS - ENTERTAINMENT - UTILITIES • UNIVERSITIES/COLLEGES • COMPETITORS • INDIVIDUALS • UNAWARE/UNTRAINED EMPLOYEES AND END USERS • CHILDREN 	<ul style="list-style-type: none"> • EMAILS • INTERNET BROWSERS • SOCIAL NETWORKING SITES / MEDIA • CHAT / IM • CREDENTIAL SHARING • CRACKING • FILE SHARING • DOWNLOADS • SNIFFING • EXPLOIT • INFECTED MEDIA (USBs, CDs, DVDs, STORAGE) • MALWARE • COMMAND & CONTROL • HACKING TOOLS ETC. 	<p>“THE CENTER FOR INTERNET SECURITY (CIS)” . 20 CRITICAL CYBER SECURITY CONTROLS FOR EFFECTIVE CYBER DEFENSE</p>

Figure 1 (Source: The Center for Internet Security (CIS) Critical Security Controls (CSCs) for Effective Cyber Defense)

In order to tackle the evolving cyber security challenges in combating internal and external cyber threats and attacks against institutions automated business environment, the following: Critical Cyber Security Controls for Effective Cyber Defense have been introduced by “The Center for Internet Security” (CIS) as an actionable, preemptive, conducive and enabling approach.

Inventory of Authorized and Unauthorized Devices

Actively manage (inventory, track, and correct) all hardware devices on the network so that only authorized devices are given access and unauthorized and unmanaged devices are found and prevented from gaining access.

Secure Configurations for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers

Establish, implement, and actively manage (track, report on, correct) the security configuration of laptops, servers and workstations using a rigorous configuration management and change control process in order to prevent attackers from exploiting vulnerable services and settings.

Controlled Use of Administrative Privileges

The processes and tools used to track/control/prevent/correct the use, assignment, and configuration of administrative privileges on computers, networks and applications.

Email and Web Browser Protections

Minimize the attack surface and the opportunities for attackers to manipulate human behavior through their interaction with web browsers and email systems.

Limitation and Control of Network Ports, Protocols, and Services

Manage (track/control/correct) the ongoing operational use of ports, protocols and services on networked devices in order to minimize windows of vulnerability available to attackers.

**CSC
1**

**CSC
3**

**CSC
5**

**CSC
7**

**CSC
9**

**CSC
2**

**CSC
4**

**CSC
6**

**CSC
8**

**CSC
10**

Inventory of Authorized and Unauthorized Software

Actively manage (inventory, track, and correct) all software on the network so that only authorized software is installed and can be executed and that unauthorized and unmanaged software is found and prevented from installation or execution.

Continuous Vulnerability Assessment and Remediation

Continuously acquire, assess, and take action on new information in order to identify vulnerabilities, remediate and minimize the window of opportunity for attackers.

Maintenance, Monitoring and Analysis of Audit Logs

Collect, manage and analyze audit logs of events that could help detect, understand or recover from an attack.

Malware Defenses

Control the installation, spread and execution of malicious code at multiple points in the enterprise while optimizing the use of automation to enable rapid updating of defense, data gathering, and corrective action.

Data Recovery Capability

The processes and tools used to properly back up critical information with a proven methodology for timely recovery of it.

**CIS CRITICAL
SECURITY
CONTROLS**

Secure Configurations for Network Devices such as Firewalls, Routers and Switches

Establish, implement, and actively manage (track, report on, correct) the security configuration of network infrastructure devices using a rigorous configuration management and change control process in order to prevent attackers from exploiting vulnerable services and settings.

Data Protection

The processes and tools used to prevent data exfiltration, mitigate the effects of exfiltrated data and ensure the privacy and integrity of sensitive information.

Wireless Access Control

The processes and tools used to track/control/prevent/correct the security use of wireless local area networks (LANS), access points and wireless client systems.

Security Skills Assessment and Appropriate Training to Fill Gaps

For all functional roles in the organization (prioritizing those mission-critical to the business and its security), identify the specific knowledge, skills and abilities needed to support defense of the enterprise; develop and execute an integrated plan to assess, identify gaps and remediate through policy, organizational planning, training and awareness programs.

Incident Response and Management

Protect the organization's information as well as its reputation, by developing and implementing an incident response infrastructure (e.g. plans, defined roles, training, communications, management oversight) for quickly discovering an attack and then effectively containing the damage, eradicating the attacker's presence and restoring the integrity of the network and systems.

CSC
11

CSC
12

Boundary Defense

Detect/prevent/correct the flow of information transferring networks of different trust levels with a focus on security-damaging data.

CSC
13

CSC
14

Controlled Access Based on the Need to Know

The processes and tools used to track/control/prevent/correct secure access to critical assets (e.g. information, resources, systems) according to the formal determination of which persons, computers and applications have a need and right to access these critical assets based on an approved classification.

CSC
15

CSC
16

Account Monitoring and Control

Actively manage the life cycle of system and application accounts – their creation, use, dormancy, deletion – in order to minimize opportunities for attackers to leverage them.

CSC
17

CSC
18

Application Software Security

Manage the security life cycle of all in-house developed and acquired software in order to prevent, detect, and correct security weaknesses.

CSC
19

CSC
20

Penetration Tests and Red Team Exercises

Test the overall strength of an organization's defenses (the technology, the processes and the people) by simulating the objectives and actions of an attacker.

CIS CRITICAL
SECURITY
CONTROLS



The Impact of DEEP LEARNING on Investments

Exploring the Implications One at a Time



By Syed Danish Ali

Up till recently, the artificial intelligence portion of data science was looked upon cautiously due to its history of booms and dooms. In the latest stream of events, major improvements have been shown in this field and now deep learning, the new leading front for Artificial Intelligence, presents a promising prospect for overcoming problems of big data.

Deep learning is a method of machine learning that undertakes calculations in a layered fashion starting from high level abstractions (vision, language and other Artificial Intelligence related tasks) to more and more specific features. The machine is able to progressively learn as it digests more and more data and its ability to transform abstract concepts into concrete realities has opened up a diverse plethora of areas

where it can be utilized. Deep learning has various architectures such as deep neural networks, deep belief networks, deep Boltzmann machines etc. which are able to handle and decode complex structures that have multiple non-linear features.

Deep learning offers us considerable insight into the relatively unknown unstructured data, which is 80% of the data that we generate as per IBM. While

traditional data analysis before 2005 focused on just the tip of the iceberg, the big data revolution sprang up and now deep learning offers us a better glimpse into the unconscious segment of data that we know exists, but are constrained in realizing its true potential. Deep learning helps us in both exploring the data and identifying connections in descriptive analysis. These connections also help us in forecasting what the result will likely be,

given the particular combination as the machine learns from the data.

Deep learning, in collaboration with other machine learning tools, has made headways in possible applications. All major giants like Google, IBM, Baidu are aggressively expanding in this direction, but start-ups are providing the most vivid applications so far. Kensho is a start-up that aims to use software to perform tasks in minutes that would take analysts weeks or months. Just like searching via Google, the analysts can write their questions in Kensho's search engine. The cloud based software, as per Forbes reporter, Steven Bertoni, can find targeted answers to more than 65 million combinations in the flick of a second by scanning over 90,000 actions which are as myriad as political events, new laws, economic reports, approval of drugs etc. and their impact on nearly any financial instrument in the world. Another start-up, Ufora is set to automate a large part of quantitative finance work undertaken by quants, especially on the stochastic modeling front. Even some hedge funds like Renaissance Technologies are proactively working on machine learning and deep learning algorithms to better see patterns in the financial data to exploit opportunities (which stocks are overrated or underrated, market is going strong on fundamentals or approaching the bubble stage and so on) to guide their investment strategies.

On the other hand, Firms like Narrative Science and Automated Insights working on text analytics are utilizing deep learning to create lively and interactive narrative reports out of data and numbers. This essentially means report written by a machine that reads like it is almost written by a human author. To elaborate this feature, Narrative Science's Quill platform undertakes statistical analysis of applying time series, regression etc. and then the semantic engine evaluates the important data signal from the unimportant noise as per the needs of the particular audience in question like different reasoning, if it is related to a quant or a trader of investments. The patterns are spotted and made sense out of in a holistic manner. Particular fuzzy attention is given to anomalies and elements of results that are deviant from the main normal body of the results to ascertain their impact and proper interpretation. It remembers

previous reports made so it doesn't become repetitive. Natural Language Generation is applied with a surgeon's precision and expertise in forming such a dynamic semantic engine.

Deep learning is a method of machine learning that undertakes calculations in a layered fashion starting from high level abstractions (vision, language and other Artificial Intelligence related tasks) to more and more specific features "



This is indeed a leap forward as report writing consumes a lot of human time and effort and also machines making such reports were unheard of before. Deep learning allows us not just to explore and understand the data better, but also to perform forecasts better. For the predictive analytics part, the start-up MetaMind is working to help financial firms assess chances of selling of stocks by going through corporate financial disclosures. It identifies from previous experiences when a particular combination of actions lead to a particular result to assess chances of the same result happening in the future.

Extrapolating this trend into the future might soon find their way into Mergers & Acquisitions (M & A) and will be able to come up with probability of some key event happening and the consequences of it when involved in a high stake M & A. Economists, financial experts and social scientists have elaborated immensely on key issues that lead to financial crises in

general as well as specifically for a particular meltdown. These can form the modeling methodology for the deep learning machine to analyze the cosmic scale of data available on any and every platform that it can garner. Such evaluation can perhaps help us to see patterns that we could have missed otherwise as well as to allow us to understand more accurately the sequential movements and mechanisms involved in a particular financial contagion and crisis. There is no guarantee that this will work. But perhaps it can shed some light inside the 'quantum black box' of financial crises. This seems to be the need of the hour with recurring financial hemorrhages such as EU crisis on Greek Debt as well as the recent massive and escalating falls in Chinese stock exchanges reminding us of the bitter past we faced in Wall Street Crisis of 2008-09.

Given all these developments, there are still a myriad of issues that need clarification with not just deep learning in specific but also with big data generally. Automation of such unprecedented scale and intensity raises the possibility of mass redundancies in labor force across the economy. Are we comfortable with giving up our controls to such applications without knowing the full implications of such a move? Not every innovation brings positive results or sustains in the long run. Technology is progressing rapidly at an unstoppable pace but can we manage the social consequences and make it sustainable in the long term? Human efforts are seemingly being diverted from other fields into IT which consequently can imply a concentration of power in one overlord field to the potential detriment of others. Are we ready for this? From a consumer point of view how ethical is it that marketing personnel know you so well that they make rational optimization very difficult on the part of the consumer?

These are all good questions and should be adequately and mutually tackled and addressed by all the stakeholders involved, such as the data scientists, government, professions and consumers so as to be able to reach a mutual policy that can better alleviate such concerns. The core aim of the policy should be to sustain technology for the benefit of our societies, to value creation, to reduce scarcity and reduce fragility of our systems as well as to generate more resources for our prosperity.



INTERNAL FRAUD

Should Monitoring Remain Confined to Customers Only?

By Nida Asad

Internal fraud is a developing problem around the globe. In 2014, 751 confirmed cases of employee fraud were recorded by Cifas Members to the internal fraud database. Despite the fact that internal fraud is being considered as a bigger threat for banks and should remain the primary focus of attention; management continues to worry about external fraud and customer due diligence. Unfortunately, 60% of bank fraud cases are a result of employee disloyalty.

To sustain amidst a competitive business environment, employers have opted to empower their staff and assign important duties down the chain of command. Delegation and empowerment has indeed refined the business operations and level of customer satisfaction. However, empowerment harvests the potential of deceit and pave way for fraudsters to misuse their authority. Internal fraud can be defined as malpractice or deceit that occurs within an organization, when an employee intentionally makes false representation, willingly fails to disclose necessary information, exploits a position of trust for personal benefit or causes loss to co-workers or organization.

In an effort to identify the reasons why staff participate in devious activities, Personnel Department must review the circumstances that provoke illegal behavior. Generally, the most serious threat of internal fraud has been centered on relatively senior workforce appointed on managerial positions. However, the junior staff now have an access to sensitive data which they can easily manipulate for their personal gains.

To recognize the risk and infer how to mitigate them, it is imperative to postulate the psyche of a fraudster. Two of the prominent situations that lead a person to commit fraud are:

- Compulsion (pushed into offence)
- Seduction (pulled into offence)

From developing researches, it can be deduced that fraudsters feel they have been pushed into crime due to financial challenges they have been facing. Also, they are compelled through greed, debts, gambling, addictions or family expectations. The explanation of indulging in offence in such situations is simple; "Desperation leads to creative crimes".

On the flipside, often fraudsters claim that they were almost seduced to commit violations because of system loopholes and poor management control. Since it was such

an easy catch, they kept repeating the offence.

There has been a substantial surge in identity theft during recent years. Some law enforcement agencies are convinced that terrorists and classified criminals are largely targeting financial service industry. Classified criminals are perhaps on an agenda of picking out staff, which is authorized to access sensitive data of customers as well as have a reach to bank reserves. In many instances, offence incorporated an employee retrieving clients' personal and confidential information to cause physical or financial damage. Unfortunately, with or without personal motives, banks' personnel choose to help these classified criminals, thereby causing a rise in events of organized internal frauds.

From inefficient hiring based on fraudulent applications to lack of technology to monitor suspicious deeds of employees, an employer may overlook genuine risks linked with banking operations. A single reported incident of staff fraud undoubtedly causes reputational damage, financial losses and regulatory complications for victimized financial institution.

So how can financial institutions safeguard themselves against organized internal fraud? To battle with the internal fraud successfully, banks need to examine the probable reasons why an individual commits fraud along with fraudulent staff members. In general, researchers have concluded that inside fraudsters are essentially; risk takers, self-deceptive, distrustful, low on self-esteem and often emotionally unstable. As narrated by Association of Certified Fraud Examiners (2014 Report to the Nations), the size of financial loss correlates to the fraudster's level of authority. The higher the rank of insider, the greater the amount of loss incurred. In terms of managing risk and fraud within a bank, it is essential that the board and senior management must effectively communicate to employees at all levels through clearly devised policy and example that there is zero tolerance approach.

The balanced implementation of precautionary measure is extremely necessary. Investigative procedures should not be biased on basis of ranking within institution. Other than being excessively alert during recruitment formalities, financial institutions must also invest in creating a combined database that may

enable the authorities to check if an applicant has past record of internal fraud.

Financial institutions must invest in specialist software that should be utilized to monitor staff transactions, generate alerts in an event of suspicious handling of account or sensitive data pertaining to customers or employers.

Fraud management strategy incorporates the notion of whistleblowing. It is noteworthy that staff can perform as an organization's line of defence against inside fraud. Banks should promote the idea of raising legitimate concerns and complaints, if they happen to observe some suspicious activity or witness any illegal act. Through proper whistleblowing policy, employers may get a chance to subside threat of fraud before it can cause any impact simply by getting timely information against fraudsters. However, whistleblowing policy itself may provide an opportunity for staff to wrongfully defame an individual. In order to avoid such instances, confidentiality instead of anonymity is to be encouraged.

Financial institutions must aspire to build a rigid anti-fraud culture that stands on integrity, truthfulness, caution and receptivity. When seeking to create a zero-tolerance for fraud culture internally, it is essential to formulate clear and guided policies that are religiously followed by HR and others. However, policies alone may fail to prevent internal frauds unless employers do not set examples and do not condone low-level deceptions. The fraudsters should be "named and shamed" openly in an appropriate forum as a warning for others.

Unmasking the Offence

Internal fraud develops like cancer within any organization. It is initially difficult to detect and the consequences it bears are much damaging for financial well-being of an affected entity. It is thus favorable to fetch for early indications of a potential fraud.

- Fraudsters may try to exploit their access to general ledgers. They may open fictitious accounts and use them to channelize illegal funds. Manipulation of suspense accounts and accounts payable may go unnoticed for years due to lack of auditors' efficiency. Hence, it is recommended that the auditing standards should be strengthened, particularly for journal entries and reconciliations. Accounting irregularities such as sketchy description of

transactions or bank account reconciliations that are not dated and fail to explain the status of outstanding transactions clearly denotes presence of fraudulent employees in the bank.

- Another indication of internal fraud is that fraudulent staff may try to access accounts that do not pertain to their scope of work. Repeated or excessive access to high-balance accounts and unnecessary logins to customer accounts after office hours should trigger an alert for the review of audit department, preferably via specialized monitoring program that would facilitate no personal bias.
- It has also been observed on several instances that fraudsters attempt to acquire full control of customers' accounts in various ways. For example marking victim's account as 'hold mail' or changing account statement mailing frequency to a longer span.

Unfortunately, Internal fraud is not confined to misdoing of employees; rather it also constitutes the devious behavior of employers. Employers' fraud may surface in shape of 'under the table' payment, avoiding workers compensation or wrongfully framing a disliked employee under whistleblowing policy or filing a false claim. The motive of employer in such cases is simply to gain either financial benefit or perhaps to satisfy ego, but sadly at the cost of somebody's channel of earning.

Such cases of fraud may as well cause damage to the goodwill of any financial institution. The fraud of employers should also be reported to government agencies for accountability.

Aftermath of a Fraud Incident

Fraud not only impacts the concerned bank and customers rather it impacts the society at large. The most disturbing consequence is perhaps the emotional distress fraud victims will have to live with. Often victims are unable to recover from financial loss and bankruptcy. The psychological trauma might even claim innocent lives after losing sense of security, self-esteem and dignity.

When frauds are uncovered, especially in financial institutions, the problem of public's damaged trust lingers. The morale shatters as employees will carry poor reputation along their whole career path even when they have not been the culprit themselves.

CHANGE MANAGEMENT INTERVENTION IN A LOCAL BANK: AN OUTSIDER'S REVIEW THROUGH THE GLASS CEILING

BY: SOHAILUDDIN ALAVI

In the context of ongoing globalization and the constant innovation of technology resulting in a constantly evolving business environment, change must be endeavored for transitioning individuals, teams and organizations to a desired future state. With the business environment experiencing constant modifications, organizations must learn to adapt to changes of all kind. The ability to manage and adapt to organizational change is an essential attribute required in the workplace today.





ny attempt to bring about an organizational change to face the challenges lying ahead is, however, quite a difficult proposition as change management programs may not always tend to produce desirable, perceptible and positive results. As the structure, culture and routines of organizations often reflect a persistent and difficult-to-remove "imprint" of past periods, which are resistant to radical change even as the current environment of the organization changes rapidly. Yet, every organization must consider change to respond to its emergent environment. State Bank of Pakistan for instance has demonstrated measurable success in implementing its change management program, though many organizations claim to have achieved success but not to the same extent.

In the following analysis, an attempt has been made to review the Change Management program undertaken at a local bank. The analysis has been done with reference to a framework, annexed as "A" and is based on considered and informed opinions of the bank's employees and those of its customers obtained randomly.

Though the bank's change management program was much in line with the industry practices but it was looked upon skeptically by many inside and outside of the bank for various reasons. The general perception is that initially, the bank's performance showed improvements in terms of profit growth, size of deposit pool, innovation and diversity in financial products. However, the management could not demonstrate any meaningful improvement in the overall governance per se, general level of customer service, employees' performance and morale, technology interface and last but not the least physical environment that contributes significantly to staff efficiency at the branches. All this serves as the basis to support the hypothesis that the correlation between change management interventions and the improvement indicators at the bank were not well established. The analysis, however, remains generalized as the bank had not developed strategic and operational KPIs for the change interventions.

CONCEPTUAL PREMISE

The bank's change management program has been assessed using the conceptual premise, namely: Drivers, Rationality,

Strategic Directions, Road Blocks and the Change Management Framework.

Drivers for change are generally external and internal. Externalities by and large include technology, re-regulations, interest margins, constituents, and last but not the least, Capital with "K". These factors cause shift in competition, products and performance. Internalities include general awareness of and commitment to improve and/or reverse deterioration in profits, performance, employee advantage, customer advantage etc. Externalities and internalities together provide objective basis for building Change-Rationality.

Rationality paradigm has three levels, namely: Performance level, Intervening level and the Root level. Performance rationality recognizes the need for improvement in revenue, compliance and facilitation. Intervening rationality identifies the need for improvement in products, services, efficiency and effectiveness. Finally, root rationality unravels the required changes in the organizational governance and policies, planning, processes, people and structure.

It is important to remember, however, that interventions must begin at the root level followed by intervening level before change in performance can be envisaged. Any attempt to change performance directly cannot be sustained.

This brings us to the next logical step in the change management process i.e. developing strategic directions for change. This entails deciding what to change across the organization. The organization should make policy decisions vis-à-vis strategic repositioning of the organization at the corporate and business levels, strengthening of governance environment, increase or decrease in capital and change in owners' composition, restructuring of assets, change in peoples' competence level, improvement in processes either via business process re-engineering or improvement, access to technology and change of soft image. It is pertinent to concurrently identify and ideally work out mitigation strategies for the most likely road blocks alongside deciding strategic

CHANGE MANAGEMENT FRAMEWORK



directions. Common road blocks include lack of clarity of directions, people across the echelons do not share the same perspective, vague/weak planning, stakeholders take competing positions vis-à-vis change, delayed or fragmented implementation etc.

Finally, all the steps described above need to be put together in a Change Management Framework. The framework firstly entails integrating multiple change interventions across the organization into one holistic plan. Secondly, it requires defining key-performance indicators and time lines for each intervention and the interdependences across the entire interventions. The framework will thus provide an efficient and effective basis for coordination, control and monitoring of various interventions at the operational as well as strategic levels.

CHANGE MANAGEMENT IN THE BANK

The bank is not just a commercial bank per se; its operations are much more complex. Besides maintaining profitable operations, the bank also performs other non-traditional banking functions. However, since it was mistakenly benchmarked with typical international commercial banks hence while building rationality for the change only profit growth was in focus. Consequently, the external challenges and internal problems facing the bank were distorted and on the

other hand strategies for the change were a typical replication of the practices in benchmarked banks.

The bank embarked upon its change management program almost at the same time as other Pakistani banks were preparing to change. De-regulation and privatization of the financial sector and stepping-in of numerous new local banks and few multinational banks in the Pakistani banking sector gave impetus to the process of change. The Central Bank of Pakistan (SBP) acted as the catalyst for change by providing new regulations on capital adequacy, consumer financing, prudential regulations etc. and emphasized on quasi guidelines relating to general business practices such as improving customer service, flat organization structure, need for delegation of powers at the sharp end etc. Banks preparing to change decided to induct senior Pakistani bankers with international exposure along with international banking consultants at the apex management. Perhaps, the idea was that these professionals were in a better position to replicate foreign banking systems and culture. The bank followed suit.

From the very beginning, the bank's management viewed that the major hurdle in the bank's progress has been the dilapidated capacities and frozen mindset of old employees across the echelons. Stereotype financial products, bureaucratic work culture, and lack of technology interface were other major challenges identified by the management. Consequently, the management considered the following change interventions:

- At the onset, the management casted afresh "Vision" for the bank which focused on broad market based operations.
- On the human resources side, the bank inducted a good number of Pakistani commercial bankers with international exposure, management experts, marketing and IT experts etc. The bank also introduced qualified fresh business graduates and identified fast track employees internally. The bank aggressively spent on Training and Development with a two-pronged agenda: improve the capacities of individuals and to bring about change from bureaucratic to commercial work culture.

- Marketing was given top most priority during the change process. A team of marketing professionals was inducted at the apex level. Consumer driven products on both sides of the balance sheet were developed and launched to increase deposits and sink deeper into the lending market.
- Massive investments were made in technology hardware and software.
- Considerable investment was made on improving the governance environment. Risk management, compliance and audit functions were adequately strengthened besides engaging the board members more intensively for due diligence of the management. Consequently, various board committees were activated.
- Senior management also gave much importance to changing the soft image of the bank in the market.

Coincidentally, the bank demonstrated increase in profits, deposit size, loan portfolio etc. However, it did not show any marked improvement in customer satisfaction (perception and tangible value), improvement in its branch environment (soft image), employees' performance and morale in general, technology interface, implementation of good governance environment in letter and spirit and last but not the least casting a business-like culture. Furthermore, the positive trends attained initially could not be sustained for long.

“THE BANK EMBARKED UPON ITS CHANGE MANAGEMENT PROGRAM ALMOST AT THE SAME TIME AS OTHER PAKISTANI BANKS WERE PREPARING TO CHANGE”

IMPACT ANALYSIS

In the following paragraphs, a brief yet an objective impact assessment of the efficacy of the bank's change management program has been presented using a conceptual premise given above. Structured discussions in an informal setting with various employees and customers and author's own first hand understanding of the ground realities provided much of the basis for the impact analysis.

The bank made considerable progress vis-à-vis other players in the financial sector during the years 2002 through 2004. Bank's financial profits and commercial deposit base showed consistent growth during the said period. The bank also introduced new financial loan products, particularly the consumer loan portfolio. It also rationalized its cost of doing business primarily on account of payroll by right sizing the organization. On the governance front, the bank invested in risk management, compliance and audit functions. The bank also made considerable investment in IT systems. On the HR side, the bank envisaged paradigmatic improvements through a series of interventions such as revisiting performance reinforcement policies, induction of sizeable number of management trainee officers and a number of trained professionals at the middle and senior level on contractual basis, decentralization of powers at the regional level etc. The bank also earned recognition of the best performing bank for many years continuously.

A common perception vis-à-vis reforms across the board has been unfortunately skeptical across the echelons and among the customers. The skepticism could be for many reasons. It is believed that the major limitation was that the new face of the bank was envisioned ignoring its holistic scope of business i.e. only the conventional side of the bank was considered for intervention, while other business functions were ignored in totality. Contrary to the general perception about the value attached to the branch banking network, it was also believed that the branches only had trivial significance in the overall value-chain. Hence, Head Offices were given more attention while the branches received peripheral interventions only. Moreover, the employees, both at the senior and operational levels, also believed that the interventions remained fragmented

and mostly in terms of business development alone. Consequently, improvements could not be sustained for long nor the improvements were attained holistically. More importantly, it was generally felt that the benefits of improvements were not equitably made available to the employees and customers across the board.

A thorough analysis of the bank's change management paradigm reveals a number of problem areas. Firstly, a cohesive organization - wide change plan and strategies were never put into paper to provide logic and unified directions to various segments of the bank. The individual divisions within the bank incubated and embarked upon the reforms in their respective domains with no inter divisional coordination and, even more ironically, without objective control mechanism. In short, the incubation and implementation of reforms lacked organization-wide rationality and framework. Also, the employees, especially the old ones, were not taken on board nor were given adequate opportunities to participate in the change process. Moreover, the management did not give importance to team bonding between regular employees and new comers nor did it establish an effective and efficient communication link with the employees on the change process - the employees generally lacked knowledge of the reforms and their rationality in particular. Hence, except for a few employees, many did not participate in the change process; rather regular employees were kept aloof while the consultant management and lateral inductees took the lead in the process in most of the situations; majority of employees engaged in the process lacked passion for and ownership of the change agenda besides understanding of the ground realities. Consequently, the interventions so designed lacked ground realities and ownership by the larger community of employees. Resultantly, the bank continually faced functionality problems despite the change management interventions.

- Much of the investment in systems failed to yield results as no performance indicators were identified at the onset of the intervention. For instance, to date majority of its branches are operating off-line which means no improvement in the customer service.

- The management had been focused on short term indicators, which automatically inhibited their commitment to strengthening governance. A couple of frauds in the branches of the bank are example of weak governance. In fact, it has been a big challenge to get the guidelines and standards adhered to, in letter and spirit by the operational management.
- Customer service at the branches had been far behind the expected standards. This is evident by delayed average transaction turn-around-time, dilapidated physical environment of most of the branches and unreliable work attitude of the staff in general.
- On paper, performance improvement has been one of the top priorities of the bank. Consequently, training budgets increased many times. Yet, ironically training interventions failed to improve the job performance. An outside consultant conducted a survey to assess the impact of training on performance. The variables included professionalism, empowerment, profit focus, customer focus, productivity, proficiency and development. Senior managers across the country were asked to respond to the survey. Sadly, the response was disparagingly shocking - 99% of the respondents were of the view that the impact of the training was trivial.
- Work environment had been much politicized. Management - Union interactions, employee postings and promotion decisions were greatly influenced by internal interest groups and external political affiliations rather than business rationale.
- The bank's culture had one of the strongest bureaucratic-models which could be experienced as soon as one enters the Head Office premises. Interactions with the employees at the branches or head offices further reinforced this reality. Ironically, departments and individuals operate in silos.
- Lateral inductions at the middle and senior level and induction of management trainee officers have caused more problems than synergies.

"FROM THE VERY BEGINNING, THE BANK'S MANAGEMENT VIEWED THAT THE MAJOR HURDLE IN THE BANK'S PROGRESS HAS BEEN THE DILAPIDATED CAPACITIES AND FROZEN MINDSET OF OLD EMPLOYEES ACROSS THE ECHELONS"

Inequity between the new and legacy employees had led to the lack of cooperation and blame-game environment and lowered satisfaction and self-esteem of the legacy employees.

- Empowering field management was a good concept but these interventions never passed the storming stage. Status incongruence, personal interests, rivalries etc. had been the major impediments. However, sadly the management did not demonstrate commitment to and facilitated the required bonding of the field management.

In a nutshell, disadvantages exceeded the advantages of the change interventions. Impact analysis suggests the following gaps in the change process:

- No explicit rationality for the change was conceived at the corporate level, which led to distortions and disharmonized reforms agenda across the divisions.

FRAMEWORK FOR CHANGE MANAGEMENT PROGRAM

DRIVERS

- a. Externalities
[Change in opportunities, competition, needs and expectations, regulations, environment etc.]
- b. Internalities
[Commitment to improve and/or reverse deterioration in profits, performance, employee advantage, customer advantage etc.]

RATIONALITY

- a. Performance level
[Revenue, Facilitation, Compliance]
- b. Intervening level
[Products & Services, Efficiency & Effectiveness etc.]
- c. Root level
[Governance, Planning, Policies, Processes, People, Structure]

STRATEGIES

- a. Repositioning & Strategic Planning
- b. Change in people competence level
- c. Business Process Re-engineering
- d. Technology
- e. Improve / change soft image

ROAD BLOCKS

- a. Lack of clarity of directions
- b. People across the echelons do not share the same perspective
- c. Vague / weak planning
- d. Stakeholders take competing positions vis-à-vis change
- e. Delayed or inappropriate implementation

- No strategic framework for the change management was developed, which weakened the implementation, coordination and control of the reforms. Change interventions were designed and initiated in silos and without an effective implementation strategy and controls.
- Employees were not prepared, both in terms of their attitude and capacities, to complement the other interventions for a successful change.
- Management's participation was confined to initiating the change interventions – photo session. It, however, failed to demonstrate commitment to the process and facilitate the change along the way.

LESSONS LEARNED

It is generally believed that an effective change management program should conform to certain pre-conditions such as:

- Holistic approach.
- Results focus – long term and short term both.
- Management's total commitment and unconditional support.
- Essentially strategic outlook complimented by operational knowledge.
- Teamwork outside the boundaries of hierarchies: Participation of people across the organization through all stages of change cycle, in letter and spirit.
- Systematic thinking: Problem diagnosis followed by home grown innovative interventions.
- Interventions should essentially conform to the given context: the legitimate social & psychological

contracts and the real challenges and opportunities on ground.

- Integration of directions and speed across multiple change interventions.
- 360° monitoring and evaluation of all change interventions in terms of outcome, output, time lines, budgets and individual (team) accountability followed by corrective actions and reinforcements.
- Last but not the least, transparency, legitimacy and rationality in all change interventions.

THE END OF ALCHEMY

Money, Banking and the Future of the Global Economy

The past twenty years saw unprecedented growth and stability followed by the worst financial crisis the industrialised world has ever witnessed. In the space of little more than a year what had been seen as the age of wisdom was viewed as the age of foolishness. Almost overnight, belief turned into incredulity.

Most accounts of the recent crisis focus on the symptoms and not the underlying causes of what went wrong. But those events, vivid though they remain in our memories, comprised only the latest in a long series of financial crises since our present system of commerce became the cornerstone of modern capitalism. Alchemy explains why, ultimately, this was and remains a crisis not of banking - even if we need to reform the banking system - nor of policy-making - even if mistakes were made - but of ideas.

In this refreshing and vitally important book, former governor of the Bank of England Mervyn King - an actor in this drama-proposes revolutionary new concepts to answer the central question: are money and banking a form of Alchemy or are they the Achilles heel of a modern capitalist economy?

EDITORIAL REVIEWS

"If [The End of Alchemy] gets the attention it deserves, it might just save the world." (Michael Lewis - Bloomberg View)

"An outstandingly lucid account of

postwar economic policymaking and the dilemmas we now face. . . . It is rare to encounter a book on economics quite as intellectually exhilarating as The End of Alchemy a dazzling performance indeed." (John Plender - Financial Times)

"Offers both a deeply examined critique of economics as usual, and practical, controversial ideas on policy. It's a rare achievement." (Clive Crook - Bloomberg View)

"I have read umpteen books about the financial crisis of 2007-2008 and its lessons. This is the cleverest one, brimming over with new ideas. While other 'lords of finance' publish memoirs, King has produced a brilliant analysis not only of what went wrong in the global financial system but also of what went wrong in economics itself." (Niall Ferguson)

"A sophisticated and highly approachable study of how modern finance has lost its way. Few individuals are more qualified than Lord Mervyn King to imagine the banking of the future. His book should be required reading." (Henry Kissinger)

"Mervyn King asks, 'Why has almost every industrialized country found it difficult to overcome the stagnation that followed the financial crisis in 2007-2008, and why did money and banking, the alchemists of a market economy, turn into its Achilles heel?' He

addresses these questions, and much more. For those endeavoring to understand the greatest financial crisis of our time and the future of finance, this highly provocative book is a must-read." (Alan Greenspan)

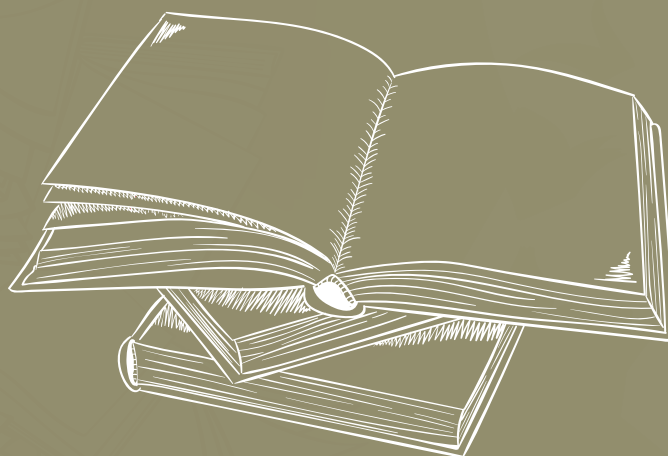
"Drawing on years of scholarly study of banking history and his real world experience in fighting financial panic, Mervyn King has set out a new framework for monetary and financial reform. Seemingly simple in concept, it challenges prevailing banking and market practice. The End of Alchemy demands debate and a well-reasoned response." (Paul A. Volcker)

"Mervyn King may well have written the most important book to come out of the crisis. Agree or disagree, King's visionary ideas deserve the attention of everyone from economics students to heads of state." (Lawrence H. Summers)

ABOUT THE AUTHOR

Mervyn King was Governor of the Bank of England from 2003-2013, and is currently Professor of Economics and Law at New York University and School Professor of Economics at the London School of Economics. Lord King was made a life peer in 2013, and appointed by the Queen a Knight of the Garter in 2014.

(This book is available in IBP Library)



FINANCIAL INCLUSION:

At The Bottom Of The Pyramid

As incredible as it may seem in this hyper-connected, technologically advanced era, half the planet's population exist as "Financial nomads"—those who nourish and shelter themselves without using traditional banking services. While the wealthy live at the top of a metaphorical pyramid, taking financial security and banking services for granted, there are billions of people who struggle at the pyramid's base in an exhausting state of financial exclusion and insecurity. Times are changing rapidly, but despite global uncertainty, technology has the capacity to reach and equip people in all walks of life. Advances in communications have reconfigured the ease with which we interact with our money—and these advances can provide innovative financial services to the unbanked and underserved around the world. Financial inclusion for all is indeed within our reach, and with this conviction, authors Karl Mehta and Carol Realini propose a vision for a better world and a blueprint to get there.

EDITORIAL REVIEWS

"The book reads like a fast-paced novel. I could not put it down and I can't wait for the sequel to find out what happens next.

It should be compulsory reading for every central bank, ministry of finance, and government official who is serious about empowering people. Every senior executive of any bank worth its salt should study this. There is something in it for everybody. " *Brian Richardson, CEO of Wizzit*

"Navigating the complex layers of the financial inclusion space is not an easy task, but Karl Mehta and Carol Realini manage to paint a clear, detailed landscape of the issues and challenges at hand with effortless prose that keeps us captivated and informed from start to end." *Rodger Voorhies, Director of Financial Services for the Poor, Bill & Melinda Gates Foundation*

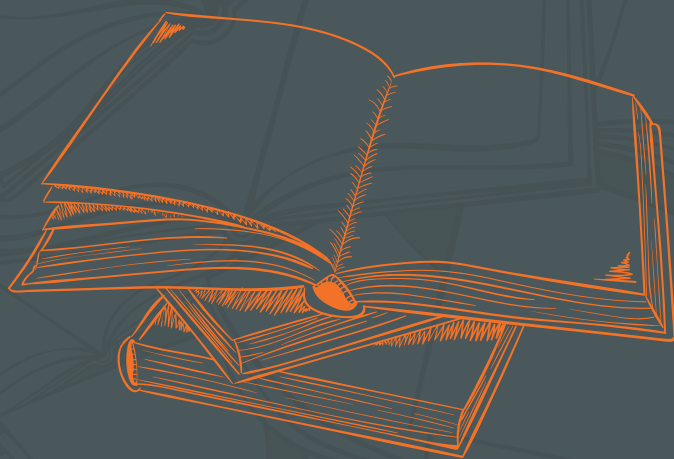
"Not only was it an easy and enjoyable read—it was authoritative and credible, written by those who are obvious experts in their field. The personal and real-life experiences supporting the concepts developed around innovation makes the content accessible to anyone—even to those who are new to the concept of financial inclusion. This is a book full of real knowledge and will help readers appreciate what authentic financial

inclusion is." *Jojo Malolos, former CEO of Smart Hub (Smart MC joint venture)*

"The end of poverty is coming our way, and this brilliant book explains how and why." *Professor Jeffrey Sachs, Director of the Earth Institute at Columbia University*

ABOUT THE AUTHOR

An expert in financial service innovation, CAROL REALINI is a serial entrepreneur and globally - recognized technology pioneer. Attending the World Economic Forum, she led global discussions on alternative banking. Recognized as a top woman in Silicon Valley, she sits on boards and advises financial services and mobile companies. For more information, please visit carolrealini.com KARL MEHTA is a serial entrepreneur and venture capitalist in Silicon Valley. He was founder & CEO of PlaySpan (acquired by Visa), a global alternative payment network. Karl served as the White House Presidential Innovation. He is an active investor in Edtech and Fintech and founder-CEO of EdCast Inc.



A CENTURY OF MONETARY POLICY AT THE FED:

Ben Bernanke, Janet Yellen, and the Financial Crisis of 2008

In this narrative history, David E. Lindsey gives the reader a ringside seat to a century of policies at the US Federal Reserve. Alternating between broad historical strokes and deep dives into the significance of monetary issues and developments, Lindsey offers a fascinating look into monetary policymaking from the Fed's inception in 1913 to today. Lindsey's three decades of service on the Federal Reserve Board staff allow him to combine the heft of scholarship with an insider's perspective on how the recent chairmen's and current chairwoman's personalities and singular visions have shaped policy choices with far-reaching consequences. He critiques the performances of Chairman Ben Bernanke and Vice Chair Janet Yellen during the prelude, outbreak, and aftermath of the financial crisis of 2008, situating them in the context of the Fed's century-long history. He also quantitatively explores an alternative to the conventional New-Keynesian theory of inflation, replacing so-called "rational expectations" with the Fed's inflation objective. This unique volume is a piece of living history that has much to offer economists and monetary policy and finance professionals.

EDITORIAL REVIEWS

"Lindsey is an experienced and thoughtful monetary economist who has spent much

of his career participating, at a high level, in the preparation and analysis of monetary policy and its administration at the Federal Reserve. This experience, together with his natural thoughtfulness and extensive reading in monetary history, has produced a book that is off the beaten track and relevant to fuller understanding of current issues." — Stephen H. Axilrod, former Staff Director for Monetary and Financial Policy and former Federal Open Market Committee Secretary, Board of Governors, Federal Reserve System, USA

- "Lindsey had a ringside seat as a senior official in the Federal Reserve Board, and has since remained a keen observer of monetary policy-making. From this vantage point, he has developed numerous acute and trenchant commentaries on this process, e.g., the effectiveness of later rounds of quantitative easing and the role of academic monetary theorists. Far from a whitewash of Fed activities in recent years, the book is often quite combative. Overall it is perceptive, well written, and entertaining. Well worth reading." — Charles A. E. Goodhart, Professor, Financial Markets Group, London School of Economics, UK; former Member, Monetary Policy Committee, Bank of England

- "Lindsey was intimately involved in shaping Federal Reserve policy for three decades. In this book he brings that perspective to an evaluation of the controversial policies that have ensued since the Great Recession. His penetrating critique is likely to be especially influential given his status as a Fed insider." — Anil K. Kashyap, Edward Eagle Brown Professor of Economics and Finance, University of Chicago Booth School of Business, USA

ABOUT THE AUTHOR

David E. Lindsey was a 29-year veteran of the Federal Reserve Board's senior staff when he retired in 2003. He became Associate Economist of the policymaking Federal Open Market Committee in 1984 and Deputy Director of the Division of Monetary Affairs in 1987. Lindsey received his PhD from the University of Chicago in 1970, writing his thesis under Nobel Laureate Milton Friedman

(This book is available in IBP Library)





IN MEMORY OF SHAHEED MOHTARMA BENAZIR BHUTTO

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