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SYNERGYdentsu

China-Pakistan Economic Corridor is a project geared towards regional connectivity, with ramifications that not only benefit China and Pakistan but are also expected to have significant positive impact on Iran, Afghanistan, India and the Central Asian Republics as well. The CPEC is a subset of China's 'One Belt One Road' mega plan that aims at the execution of a long term strategy of trade and transport footprint expansion across Asia, giving China much-coveted access to the Middle East through the deep waters of Gwadar.

Realization of this Chinese aspiration is also anticipated to bring benefits of great multitude to Pakistan, firstly by transforming Balochistan into an economic hub and capitalizing on Pakistan's geo-strategic location and connecting point between China and Central Asia.

Pakistan also expects to use the multi-billion dollar Chinese investment to significantly enhance its industrial capacity and economic productivity backed by greater energy supply. It anticipates doing this through improved geographical linkages and upgraded road, rail and air transportation systems that facilitate a higher volume of trade flow. It is also eyeing opportunities of transfer of knowledge and experience with its Chinese friends.

CPEC is now at a critical stage where the realization of the aspirations is well underway. There has been significant progress in the 21 industrial, 8 infrastructure and 12 Gwadar-related projects that have been commenced under the CPEC banner (with several industrial projects now being operational). 4 rail-based mass transit and 6 provincial projects are also in different stages of feasibility and beyond. In addition to this, 9 Special Economic Zones have also been proposed to be set up as part of the CPEC to boost industrial development.

A Special Economic Zone (SEZ) refers to designated areas in countries with special economic regulations with business and trade laws that differ from other areas in the country and are architected to be conducive to foreign direct investment. SEZs are identified and demarcated to boost economic activity.

The federal government will set up two SEZs, including the development of an industrial park at Port Qasim, near Karachi (with 1,500 acres of land). The second SEZ will be in the Islamabad Capital Territory; Fata, AJK, GB and the provinces will have one SEZ each, as well.

Punjab aspires to set up a China Economic Zone along the M-2 motorway in Sheikhupura district (5,000 acres). Sindh will establish its China Special Economic Zone at Dhabeji, 80 km from the Karachi airport (1,000 acres). Khyber Pakhtunkhwa will set up Rashakai Economic Zone at Nowshera (1,000 acres) for fruit, food packaging, textile, stitching and knitting industries. Balochistan will set up an SEZ in Bostan, 23 km from Quetta airport (1,000 acres with 200 being developed already) for industries of fruit processing, agriculture machinery, pharmaceuticals, motorbikes assembly, cooking oil, ceramics, cold storage and electric appliances. Gilgit-Baltistan will establish an SEZ at Moqpondass (250 acres) while AJK will establish a SEZ at Bhimber. In FATA, a boundary wall has been constructed around the Mohmand Marble City with 60 percent of the site having been developed and the remaining expected to be completed by June 2018.

SEZs are universally recognized as engines of economic growth and development. The 1970s and 80s saw a number of successful SEZs in Asia driving economic growth in the region, particularly in East Asia. Since then, China has found SEZs to play a pivotal role in economic reforms, UAE has successfully used SEZs for economic diversification and Vietnam used SEZs as a tool to attract FDI. India, Malaysia, Philippines and Indonesia have also deployed SEZs for economic growth. In all these cases, it has been evident that streamlined industrial policies designed upon clear objectives and with national policy frameworks enjoy maximum effectiveness.

China, in particular, presents the ideal case study for using SEZs to bring about economic and industrial revolutions. It has employed 30 million workers in SEZs (which amounts to 50% of total employed workforce in SEZs around the world) and through the same has boosted FDI by over 45% and augmented its GDP growth by over 20%.

In 1980, China established its first SEZ, the Shenzhen Special Economic Zone. What was heretofore a sleepy fishing village of 30,000 residents was activated with special tax benefits and preferential treatment to foreign investment. Shenzen grew at an alarming pace with its GDP per capita increasing by 24,569 percent between 1980 and 2014 - by 2016 its population stood at nearly 12 million. Today, China has over 1800 SEZs and Shenzhen is quoted as one of capitalism's greatest success stories; it is a megacity known as a world-class technology hub and is one of the busiest financial centers in the world.

However, there is no one-size-fits-all model that works for every country. There are no short cuts here. Pakistan has to design a cohesive and clear industrial policy that is geared towards achieving its economic goals, and all overcomes socio-economic challenges like unemployment and income inequality.

Moreover, the success of Pakistan's SEZs would heavily depend on energy supply and infrastructural connections that integrate the SEZs with national and international supply chains to attain inclusive growth. It should learn from China, where infrastructure availability proved crucial to success of SEZs. China used SEZs to establish industrial clusters with linkages to support domestic industries and technology transfer. On the other hand, lack of complementary infrastructure emerged as a major cause inhibiting success of SEZs in India.

In the initial phase, Pakistan should ideally focus on inherent industries where it has latent comparative advantage and where its abundant human skills are optimally capitalized such as leather, textile, food processing and marble. It would also be essential to develop the skills of labor in order to maximize on technology transfer opportunities presented by our economic collaboration with China. Of note, is an initiative by the Khyber Pakhtunkhwa government, whereby it signed MoUs with China to establish vocational centers in areas surrounding its SEZ. Educational institutions and industries should come together to better understand the skills required in the future and thereby produce a workforce better aligned with industrial demand.

Pakistan's SEZs should be designed to amplify the productivity and trade flow of its existing industrial clusters in Sialkot, Gujranwala, and Faisalabad etc. with a focus on export and value addition. Private investment (joint ventures/ independent) should be encouraged through incentives to develop SEZs. Pakistan should prioritize putting Pakistani goods and produce on the CPEC.

Also, considering the contribution of service sectors in Pakistan's economic productivity, services specific economic zones should also be established with a focus on financial, accounting, legal and construction.

Going forward, foreign policy will be more important than ever as harmonious relationships with neighboring countries will prove essential to realize the dream of regional integration and inclusive growth. Meanwhile, relationships with USA, Russia, Afghanistan, Iran and India will also need to be balanced along with the time-tested relationship Pakistan enjoys with China.

The CPEC is still a work in progress, but it has already pushed Pakistan's economy up by several rankings on the global competitiveness scale. According to a World Economic Forum Report published in September 2017, Pakistan now ranks 115th out of the 137 countries. While this ranking is still low compared to neighboring countries, it posts a considerable improvement from its previous 122th position last year, and its 133th position in 2014. Robert Frost may never have imagined his words to be contorted into such a mercenary context but: we have many [thousands] of miles to go, before experiencing the much-promised economic awakening.

Sirajuddin Aziz
Editor-in-Chief

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IMPORTANCE OF RISK CULTURE IN FINANCIAL INSTITUTIONS

By: Zuhaib Pasha

'Risk Culture' can well be described as a set of social and behavioral norms, exercised individually or collectively, to understand, discuss and act on the current and future risks faced by an organization. The importance of risk culture cannot be ruled out in any form of business, may it be in the private or public sector.

However, the dynamics and significance of risk culture change altogether in case of financial institutions (FIs). The nature of FIs operations make it distinct from all other forms of businesses leading to more intrusive, consistent and strict regulatory regime. As such, FIs — no matter wherever they may be — are required by regulators to establish strong governance, risk and compliance functions to reduce conflict of interests between various stakeholders. However, in spite of enhances in regulations and supervision practices, the chances of management making such decisions (individually or collectively) that may inflict heavy losses on FI or even lead to its failure, still remain.

The history of FIs is replete with failures of risk management and internal control systems in both developed and developing countries and markets. The past financial crises have shown that several FIs faced huge losses or even failures by 'executing' decisions (that went unnoticed by risk and control functions) that were excessively risky and beyond institutions' capacity / appetite. Several scandals have been unfolded around the world that found bankers engaged in discriminatory lending, excessive risk taking (short-term), 'rogue' trading practices, market manipulations (the LIBOR rate) and several other practices which have led to a view that it is not as much about the failures of controls as it is about moral deficiency – an indication of poor risk and corporate culture.

Currently, the FIs around the world are investing heavily to improve their risk models and re-engineer their processes and monitoring structures to support timely detection and mitigation of potential risks. However, no model of risk management can be successful in providing the desired results unless the FIs make a conscious effort to manage people's attitudes and behaviors towards risks across all lines of defence (line management, compliance/risk function and internal audit). A strong risk culture, hence, plays a critical role in influencing the actions and decisions taken by individuals within the institution.

The financial sector regulators around the world have, of late, taken cognizance of the importance of risk culture and issued guidelines to FIs to establish and promote a more participative, open and strong risk culture supported by robust corporate governance practices to safeguard the interest of their shareholders against any reckless decision-making by a handful of individuals.

As the risk culture is all about norms, beliefs and attitudes of people towards risks, it may become hard for any FI to reverse such beliefs or attitudes overnight. For this to happen, the FIs need to implement a thorough, focused and consistent long-term awareness drive to sensitize employees about the value of 'strong risk culture' and how they and the institution would benefit from it.

The strong risk culture values difference of opinion, promotes challenging of decisions, encourages open discussion and learning from risk failures. It promotes the mindset that 'If we see it, we will dig further down, measure it and no matter how bad it may look like, we will try to manage it". A sound risk culture promotes sound risk-taking, and ensures that risk-taking activities beyond the institution's risk appetite are recognized, assessed, escalated and addressed in a timely manner.

The 'poor risk culture' on the other hand, is one where all efforts are made to just pass the buck on to stay out of 'trouble', remain vary of accepting and recognizing risks and are afraid of what they 'don't know'. The poor cultures promote the mindset that "if we don't see it, it doesn't exist" or even "if it does exist, we won't make any effort to address it because at the end it may turn out to be nothing at all". A poor risk culture does not allow open discussion on issues pertaining to risk management and risk communication can be considered as one key factor in assessing a FIs risk culture. If risk is not discussed openly, at all levels, and at all times, it may never be the part of employee's decision-making process. In order to replace 'risk' as the language of an organization over 'reward', the best way available is to link the objectives/activities/strategies of any business unit to FI's overall risk appetite. If employees make their day to day decisions while keeping the risk appetite in consideration, then risk management will become part of their conscience, and reflect in all their actions/decisions.

While it is hard for anyone to provide an exact description of risk culture of an entity, however, the risk cultures can be easily observed and compared among various similar entities to identify and differentiate between 'poor culture' and 'strong culture' entity. This assessment can be further complemented by knowing 'how' decisions are made and how 'risks' are rewarded in the entity. A misaligned risk-reward system creates strong incentives for decision makers to take risky decisions that are more aligned with their own personal interest than that of the entity. The decision-making process can effectively explain a great proportion of entity's risk and corporate culture and is of utmost importance from a corporate governance perspective as well. The good news is that the regulators now have started integrating evaluation of entity's risk culture and decision-making process in their overall supervisory processes to better understand the risk profile of a financial entity.

Let alone the commercial FIs, several Central Banks (CBs), have established risk management functions to manage a variety of idiosyncratic risks (both financial and non-financial) that they face in pursuit of their policy, regulatory and operational objectives. The risk management function and the 'right' risk culture may enable CBs to make 'more' informed policy decisions by adopting a 'forward looking' approach, anticipating the behavior of FIs, financial markets & economy; and their impact on CBs balance sheet under various scenarios.

While the FIs, generally, have realized the need of effective governance, risk and compliance functions in helping them realize their true potential, there is still a lot that needs to be done on both regulatory as well as industry fronts to change the risk cultures at FIs. It is high time now for regulators to be hard with FIs on risk management and control systems and work proactively and consistently with financial sector players to foster responsible banking practices supported by superior Governance, Risk and Compliance functions, founded upon strong risk culture/values.

On the other hand, the FIs need to recognize the importance of risk culture in instituting robust risk management & control processes and make conscious and consistent efforts to internalize the right risk and corporate culture in their operations, enabling them to meet the growing regulatory expectations business challenges and risks that lie ahead. Besides, it is time that the risk managers should also change their approach towards risk management, moving it away from a function that merely focuses on 'what may go wrong' towards a more 'value additive' function that should provide line managers, decision makers with the ways, means and strategies to help them achieve the long term goals and objectives of the organization. ■

> **"THE HISTORY OF FIs IS REPLETE WITH FAILURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS IN BOTH DEVELOPED AND DEVELOPING COUNTRIES AND MARKETS."**

Financing a sustainable future

Financing green projects is both potentially profitable and essential for the future health of our planet. But, as ALEXA ROBERTSON reports, the challenge lies in educating our Institutions on the integration of the necessary systems, and turning long-term payback into 'bitesize chunks'.

"Every new infrastructure project should be green. Every new building should be energy-efficient, every new road should be aimed at being carbon-reducing. But how do we translate these wonderful ideas into practical, bankable products?"

The world, it seems, is going green. In much the same way that climate - friendly thinking is increasingly impacting the way we live, the cars we drive and the food we eat, it is also becoming both a viable and ethically desirable area of growth in the world of finance.

Green Finance – the linking of funds raised by banks to specific climate-friendly, carbon-reducing projects – has, according to its advocates, the potential to revolutionize the way that financial institutions operate. The funding of green projects is also essential for the creation and maintenance of environmentally sustainable infrastructures, while banks' support and promotion of sustainable finance products can give out an important message about their commitment to environmental issues.

Since 2008, when the World Bank made its first green bond issue, the market has grown to be worth around $ 200 bn and, according to the International Capital Market Association (ICMA), is still developing rapidly.

Roger Gifford, Chair of the Green Finance Initiative and former Lord Mayor of London, believes that it is in the provision of green loans that great new opportunities lie.

"Green loans are different from other loans in that the proceeds are specifically allocated to a particular carbon-reducing project which is then monitored on an ongoing basis," says Gifford. And if this is securitized, the investors in the bond that represents funding for the green loans being made then know that they are supporting a really worthwhile project, he adds.

"The challenge is to persuade a bank to introduce a separate accreditation of projects just so it can make a loan to it, when they can do the loan without separate accreditation anywhere. Our argument is that, by doing so, banks can revolutionize their processes internally and lead to better practice."

MAXIMIZING VALUE

There are a huge number of benefits, Gifford believes, in educating staff about the value of sustainable finance. By creating their own green bonds, banks are telling the world that they have better internal procedures around green finance and give a strong signal about the direction they are heading in.

But, while London is forging ahead with environmental finance activity, the UK as a whole is yet to maximize the opportunities being offered through this relatively new market.

One of the issues, says Gifford, is the lack of comprehensive, up-to-date qualifications to educate internal staff on the benefits and processes required to integrate a solid, scalable green finance model – particularly he believes, with regards to green-tagging, the process of assessing a loan to consider whether it could qualify as a 'green' loan.

"Green-tagging isn't mandatory but if we do things that are climate-friendly we are ticking the government's agenda, ticking the G20 agenda and just behaving in a much more responsible way. We are also, of course, addressing climate risk," says Gifford. "Qualifications and other programs of study could play a valuable role here in helping people to understand what green finance is and why it can be so important for the future of the world."

"Many business schools have courses in environmental science, and the Green Finance Initiative is working to facilitate the creation of qualifications that combine that with credit analysis courses." This would be unique to the UK, and potentially very attractive to other countries, he believes.

The potential benefits to banks of offering competitive green finance products, particularly those relating to large-scale infrastructure products, are huge. This is particularly so when one considers that almost every infrastructure project could – or should – qualify as climate-friendly.

IDEAS IN PRACTICE

"In a way, every new infrastructure project should be green. Every new building should be energy efficient, every new road should be aimed at being carbon-reducing. So the question is how do we translate these ideas into practical, bankable products?

"One of the tasks we have is to make infrastructure finance a more easily investable area. In the US they have the municipal bond market which is active and tax-attractive for people to invest in."

"We have a different model in the UK and we have to think cleverly about how to build Crossrail 2 or the new Heathrow Airport or whatever it is in a climate-friendly way. We also need to find a way to turn the current 20 or 30-year payback into two to five-year bitesize chunks that banks can take on."

"The question is how we integrate it into our financial system in the same way that we've integrated it into the way we buy cars, or the way we insulate our homes."

EMBEDDING 'GREEN' THINKING

With global populations growing rapidly and people becoming increasingly conscious of the environmental impact of their behaviors, banks have an unprecedented opportunity to play a vital role in the delivery of sustainable, eco-friendly projects.

"My belief is that the requirement for environmental finance is here to stay and the question is how we integrate it into our financial system in the same way that we've integrated it into the way we buy cars, or the way we insulate our homes. As a society, we are quite good at thinking energy conscious now and being green in our behavior," says Gifford.

"The world's rising population means that we need clean food, clean water, clean energy, more than ever, so I don't think this subject is ever going to go away, whether you believe in the specifics of climate science or not." ■

This article first appeared in April / May 2017 issue of Chartered Banker magazine.

TAKAFUL

SHIELD FOR ISLAMIC ECONOMIC SYSTEM

By: Syed Ahzam Ahmed

Human activities are subject to the risk of loss from unforeseen events for which an individual or entity is in need of financial compensation against losses. We now know this concept as insurance, which evolved with the need of Marine insurance that has been practised in different forms since the 14th century. However, there is an evidence of a form of Marine insurance practised somewhere around 1700 BC, that was in line with the principle of shared responsibilities among the community.

Takaful is a concept that has been practiced for over 1400 years. Its origin roots from the Arabic word 'Kafalah', which means 'guaranteeing each other' or 'joint guarantee'. In the 12th century, Seljuk Sultan Ghayas Uddin compensated the traders who faced theft in his territory from the state treasury. Serious efforts were made in modern times, in 1970s, to come up with an Islamic alternative to the conventional insurance.

The first Takaful Company was set up in Sudan in 1979, almost simultaneously followed by another one set up in Bahrain. The Government of Pakistan issued 'Takaful Rules 2005' on September 3rd, 2005, giving the country a viable and compatible Islamic operational model after which Dawood Family Takaful and Pak Qatar Family Takaful acquired licence to operate as a first-ever Shariah compliant Life Takaful operator of Pakistan. Pak Qatar Group launched Pak Qatar General Takaful after their successful launch of Family Takaful.

As conventional insurance involves the elements of excessive uncertainty (gharar) in the contract of insurance, as profitability of an insurance company depends entirely upon gambling (maysir), which completely depends upon the outcome of future events i.e, amount of claims to arise against underwritten assets. Moreover the investment activities are based on interest (riba) based contracts.

However, Takaful is based on the Wakalah-Waqf model, where the Takaful company acts as a Takaful operator (Wakeel) and forms a pool (Waqf), in which every policyholder contributes some amount which is then used for compensating any loss arising to policy holder participating in that Waqf pool. Insurance companies, as a Takaful operator, charge their Takaful management fee separately and is not entitled to share any benefit of surplus in the Waqf pool left after compensating each and every claim. The fund available in the pool is invested in shariah compliant avenues, profits realized are returned to the waqf pool thereafter.

The investment made is based on Mudarabah based model and thus excludes gharar, maysir and riba from conventional insurance system to form Takaful way of Insurance.

Under Article 230 of the Constitution of the Islamic Republic of Pakistan, the Council of Islamic Ideology was established. One of the important assignments of the Council was to scrutinize the laws in-force in the light of Quran and Sunnah and recommend steps to the Government on how to bring those laws in accordance with the Islamic ideology and teachings.

Under the law, Takaful operator pays a defined loss from Waqf pool, i.e. Participant Takaful Fund (PTF). The loss is borne by PTF, based on the contributions (premium) of policyholders. The liability is then spread amongst the policyholders and all losses divided among them. Therefore, the policyholders are both the insurer and the insured. Under Waqf deed 5 (5.1) (vii) any donation made by the shareholders shall be the income of the PTF. Contributions to the PTF are for the purpose of pooling of the risks amongst participants to provide relief to them against defined losses as per PTF rules and Participant Membership Document (PMD). As such, participants (policyholders) are the owners of the fund and entitled to its surplus (profits), if any. The Takaful operator acts as a management of the 'Participants Takaful Fund'.

After the introduction of regulations governing the Islamic insurance market, two full - fledged Takaful companies started their operations in 2007. These companies have shown substantial growth since inception, still their size relative to the conventional insurance footprint in Pakistan shares only 3% of the total premium collected during 2016-17 as stated by "The Insurance Association of Pakistan" in their Year Book 2017. This contributes 0.01% in GDP.

With recent regulatory action last year, conventional insurance companies are allowed to enter into Takaful industry via Takaful windows. this was due to amendment in the set of rules governing the Islamic insurance industry which had earlier disallowed conventional insurance companies to enter the Takaful market without setting up their independent subsidiaries with separate paid-up share capital.

The Takaful business has been struggling since its inception despite adequate capital injections from sponsors. General Takaful operators rely heavily on Islamic Banking Car Ijarah business. It provides a complete Shariah-compliant banking solution for Islamic Banking customer, but on the other side with the introduction of Takaful window, the share of car Ijarah business is not enough for a profitable business for existing full-fledged Takaful operators.

Although many other products are still to be introduced under Takaful, the progress is hampered due to Shariah-compliance reasons. It contributes to low market penetration and customer need of complete set of products according to their requirements. New and innovative products meeting participant's requirements need to be developed. Some products like travel insurance and crop insurance are still to materialize. Many small and mid-sized businesses are left untapped, which reflects a complete focus on large size companies where sustainability of business with such clients always remains on risk. Same reflection is found in the balance sheet of Takaful operators where the business revenue shows high dependency on Islamic Banks. These individuals and firms mainly belong to the middle and lower income bracket, and they find an opportunity to conduct riba-free businesses and trade by availing loans from Islamic banks. Many conventional banks have instituted branches dedicated exclusively for Islamic banking products and services.

But the reliance on Islamic Banks is not enough for a stable market competition. Necessary steps must be taken to penetrate in non-banking sectors to compete with Takaful windows and conventional insurance companies which already have their strong footprints in the industry. Pak Qatar Takaful, a Market leader in Takaful Industry, closed their booked revenue at Rs. 701 mn in General Takaful and Rs. 6.7 bn in Life business in the year 2015, marks a sustainable growth, but it is still way behind the market leaders of conventional industry like EFU, Adamjee and Jubilee insurance companies.

The Insurance industry in Pakistan contributes almost 0.9 percent of the gross domestic product, of which Takaful industry shares 3% percent of the insurance industry, whereas insurance sector in India contributes 3.8% of total GDP and Turkey, where the contribution is 1.45% of GDP. In the 200 million population of Pakistan, insurance penetration is very low where the majority of the population is left uninsured and unaware.

> **"With recent regulatory action last year, conventional insurance companies are allowed to enter into Takaful industry via Takaful windows."**

The growth of Islamic banking in Pakistan forecasts the growth in Takaful industry. The Economic Survey covering the banking sector conducted by KPMG for the year 2016 also confirms that the asset base of Islamic Banking Industry stood at Rs. 1.88 trillion. The deposits of the full-fledged Islamic Banks marked a growth of nearly Rs. 125 bn (14.8%) to close at Rs. 967 bn during 2016 as against Rs. 842 bn a year ago.

The data reflects the growing popularity of Islamic banking system in Pakistan. People have their firm believe in the Islamic modes of financing which is working in its true spirit. These figures are pointing towards a gradual but positive and stable shift towards Islamic banking. A large number of Pakistanis have exhibited reluctance to commercial banking because of their strong faith against riba-based transaction.

Awareness amongst the masses is the biggest challenge. As 75% of our population falls in the lower income bracket located in undeveloped rural areas, the poverty level of such areas are so low that they cannot afford to have Takaful. Thus, the only affordable segment of consumers available to the insurance and Takaful industry is the 20% middle income people, who can be educated and regulated into getting their assets and lives insured. From human resource perspective, trained Takaful individuals

> Although many other products are still to be introduced under Takaful, the progress is hampered due to Shariah-compliance reasons."

are very rare in the market. Quality training is a vital need to establish a team of professionals.

The Re-Takaful (Islamic reinsurance) sector has proven its growth with increasing capacity and well-rated securities. The sustained and improving double-digit growth in the Takaful market, along with the strong take-up of Islamic financing in both the retail and commercial grounds, provides opportunities for Re-Takaful operators.

However, no one can safely claim that Re-Takaful have enough capacity to support Takaful growth across all lines of business. The industry has not had a smooth ride as it struggles to step out of the shadows of their reinsurance counterparts. Unfortunately, the fact is that not all Takaful companies have Re-Takaful as their default option, with management still preferring to deal with the conventional reinsurers that they have had long-standing relationships with.

Since inception, the main vision for Takaful remains to create an inclusive insurance environment, taking into account different religious sensitivities, which would ultimately lead to increased penetration globally. In that regard, there has been a visible increase in insurance penetration in places like Malaysia and pockets of the Gulf Cooperation Council (GCC). In this regard, a pro-active and long-term support by the government and regulator of Islamic finance is crucial and has been proven in Malaysia. No other country has been able to replicate the success story so far as the support has not been so phenomenal elsewhere.

The Securities and Exchange Commission of Pakistan (SECP) must play its part in promoting the Islamic economic system. The SECP is a regulatory body in Pakistan, and is looking after insurance as one of its divisions. SECP has to provide a supportive environment for the customers, as well as for Takaful operators based on Shariah principles in their growth by creating awareness of Takaful based system in Pakistan towards a sustainable growth.

There is an even greater responsibility on the Takaful industry to advance and provide substitute of conventional insurance in Shariah-compliant practices, towards building a vibrant and stable Takaful platform that provides sound risk management solutions tailored for the Muslim community.

Conclusively, the Takaful industry is still in its developing stages and needs proactive assistance from regulators, and requires raising awareness among the masses. Rather than relying on an Islamic Bank-based clientele approach, business penetration must be increased in all other segments. In the long run, the industry would also ideally need to come up with products that reflect a strong Takaful identity to open up new market segments. This will make the Takaful industry a default choice for protection against all odds.

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Financial Inclusion and Economic Development in Pakistan

By: M. Subtain Raza, Dr. Jun Tang

Financial inclusion is the process that ensures access, usage and availability of the formal financial system to all members in an economy. The subject has been widely studied and several initiatives have been launched globally to promote financial inclusion in the population. Recognizing its importance to development, financial inclusion was also included in the UN's Millennium Goals.

Financial inclusion means that adults have access to and can effectively use a range of appropriate financial services. Such services must be provided responsibly and safely to the consumer and sustainably to the provider in a well regulated environment. At its most basic level, financial inclusion starts with having a deposit or transaction account at a bank or other financial institution, or through a mobile money service provider, which can be used to make and receive payments and to store or save money. Yet 2 billion or 38 percent of adults reported not having an account in 2014 (Demirguc-Kunt et al., 2015). Financial inclusion also encompasses access to credit from formal financial institutions that allow adults to invest in educational and business opportunities, as well as the use of formal insurance products that allow people to better manage financial risks.

Worldwide, 62 percent of adults reported having an account – either at a financial institution such as bank or through a mobile money provider - in 2014 according to the Global Findex database (Demirguc - Kunt et al., 2015). Not surprisingly, account ownership varies widely around the world. In high - income OECD economies account ownership is almost universal: 94 percent of adults reported having an account in 2014. In developing economies only 54 percent did. There are also enormous disparities among developing regions, where account penetration ranges from 14 percent in the Middle East to 69 percent in East Asia and the Pacific.

Poverty and income inequality remain a stubborn challenge in Asia and the Pacific despite the region's rapid economic expansion in previous decades, which lifted millions out of poverty. Financial inclusion is often considered as a critical element that makes growth inclusive as access to finance can enable economic agents to make longer-term consumption and investment decisions, participate in productive activities, and cope with unexpected short-term shocks. Understanding the link between financial inclusion, poverty, and income inequality at the country level will help policymakers design and implement programs that will broaden access to financial services, leading to reduction of poverty incidence and income inequality.

Relationship between Financial Inclusion and Economic Development

Various studies have been conducted by renowned social scientists to find the relationship between financial inclusion and economic development. Some are as under:

1. Prof Younis, the Nobel laureate, who originated the idea of eradicating poverty thirty years ago through his novel idea of banking the unbanked. Younis states that poverty, is not created by poor people, but is an external imposition created by the theoretical framework and concepts we have formulated and by deficiencies in the system we have built and the institutions and policies we have designed. He gives this example of financial institutions – "they refuse to provide financial services to nearly two-thirds of the world's population."

2. Martinez, a social scientist posits that access to finance is an essential policy tool used by governments and policy makers to stimulate economic growth. By making finance available and affordable to economic agents,

there is a growth of economic activities and hence growth of output. Financial inclusion offers a platform for both low and high income earners to be integrated into the financial system for inclusive growth.

3. Beck, a renowned manager argued that financial inclusion reduces income inequality and alleviates poverty. Naturally, the lower the level of poverty, the higher is the level of human development. Thus, financial development leads to human development.

4. Law, a learned policy maker, stressed that a well-developed financial system is critical for economic development. It is likely that, through the entry of new firms, financial development promotes economic growth, and institutional reforms that extend access have, in turn, facilitated and supported financial development

5. Allen, a western scholar concluded that financial inclusion is typically measured by gauging how many people own and use formal financial products, financial development is concerned with macro-level indicators, such as the size of the stock market and a country's ratio of credit to gross domestic product (GDP). Many factors influence a country's level of financial inclusion and financial development, including income per capita, good governance, the quality of institutions, availability of information, and the regulatory environment

FINDINGS: AN INITIATIVE TO TRACE RELATIONSHIP BETWEEN FINANCIAL INCLUSION & ECONOMIC DEVELOPMENT

The significant role of inclusive financial system has been widely acknowledged by policymakers and prevailed as policy urgency in many countries including Pakistan. The writers have recently conducted a research to determine the impacts of main primer e.g., financial inclusion on economic growth in terms of Human Development Index (HDI) in Pakistan.

A connection between financial inclusion and economic development in Pakistan has been proved. The study assessed available sources of detailed data on financial inclusion and economic development and established the relationship between financial inclusion and economic development in Pakistan and accorded relevant recommendations. The research design selected for data analysis was meta-analysis. Secondary data was collected from United Nations Development Program (UNDP) and International Monetary Fund (IMF). Data analysis from the year 2010 to 2015 was performed by using descriptive statistical approach, regression and correlation analysis which interprets that there is a positive relationship between financial inclusion and economic development, resultantly; increase in financial inclusion may lead to an increase in economic development. Various correlation tests and regression tests i.e. the Pearson correlation matrix highlighted the significant correlation between the dependent variable Human Development Index (HDI), independent variable number of bank branches and number of bank accounts at 0.985 and 0.952 respectively.

HUMAN DEVELOPMENT INDEX

The Human Development Index (HDI) is a composite measure of health, education and income developed in 1990 by economists Mahbub ul Haq and Amartya Sen. It is an alternative to purely economic assessment of national progress, such as GDP growth and serves as a frame of reference for both social and economic development. (Refer to Table 1 & Statistics 1, 2)

Overviewing the data on FI and HDI shows positive relationship as described by Table 1 and Graph 1 & 2 having financial inclusion and HDI Parameters in Pakistan.

FINANCIAL INCLUSION

Financial inclusion is measured by various measures, the two most widely used measures of accessibility are the number of bank accounts (per 1000 adult population) and the number of bank branches and ATMs (per 1000 km^2). The data on the number of bank accounts (per 1000 adult population) and the number of bank branches and ATMs (per 1000 km^2) was collected as prepared by International Monetary Fund and also Financial Access survey yearly reports on Pakistan for the period between 2010 and 2015. For each country it is calculated, based on the reported number of depositors per 1000 adult population and the number of financial institutions branches and ATMS per 1000 km^2. (Refer to Statistics 3, 4 & 5)

CONCLUSION

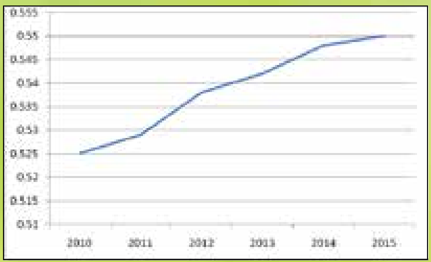
Financial inclusion is an important aspect of development. Access to finance enhances the ability of people to engage in economic activities that lead to development. Although financial inclusion has become topical on the global policy agenda for sustainable development, economic literature on financial inclusion is still in its infancy. The nutshell of the recent study is that economic growth and poverty alleviation is connected with the development of a more inclusive financial services sector. There is utmost need for the Government of Pakistan to prioritize the importance of financial inclusion and devise policies that are more inclusive for greater economic development. Finally, extensive efforts are needed to explore new horizons of financial inclusion, its indicators and determinants as well as its impact on development.

The recent study has revealed that by increasing financial access we can increase economic development in Pakistan. Statistical analysis established that the number of bank accounts (per 1000 adult population) and the number of bank branches (per 100,000 people) have a positive relationship, thus by increasing these two financial access indicators we can increase economic development in Pakistan. Along with various poverty eradication and employment generation programs, the government should also focus on financial inclusion policies as a means of ameliorating poverty. This can be viewed from the use of the HDI which is a composite measure of health, education and income as opposed to GDP. The analysis showed that by increasing financial inclusion HDI also increases which is a measure for both social and economic development. Finally, there is need for more actions to connect prompt economic growth and development through inclusive participation of all economic agents in the financial system. ■

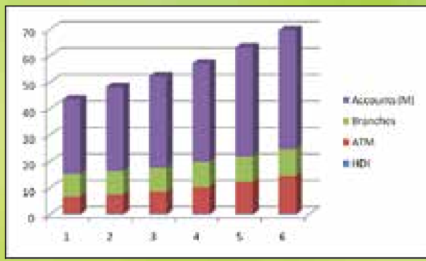
Table 1: Periodic data on Financial Inclusion & HDI

Economy	Year	HDI	ATM	Branches	Accounts (M)
Pakistan	2010	0.525	6.208489	8.636619	28.154
Pakistan	2011	0.529	7.034817	8.813971	31.713
Pakistan	2012	0.538	8.098537	9.059896	34.447
Pakistan	2013	0.542	9.902968	9.385293	37.204
Pakistan	2014	0.548	11.73983	9.662368	41.192
Pakistan	2015	0.55	14.00088	10.04051	45.012

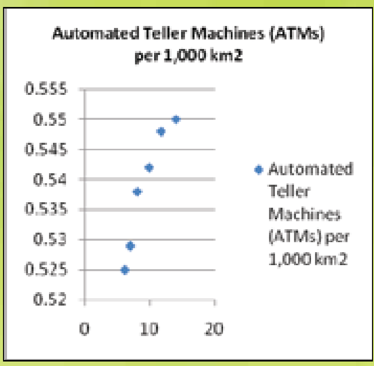
Statistics 1: Periodic description of HDI in Pakistan

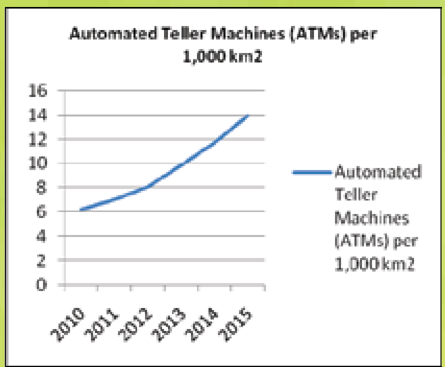


Statistics 2: HDI trend in Pakistan

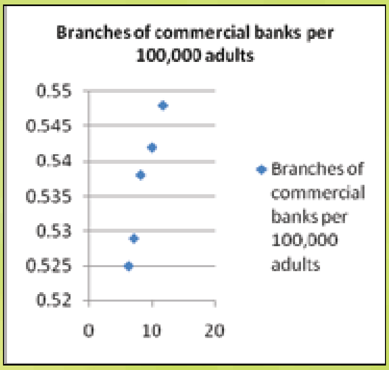


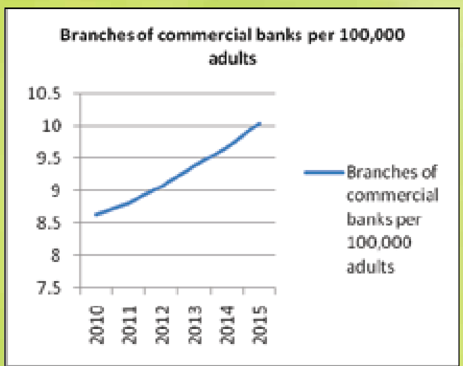
Statistics 3: HDI trend vs ATMs and Periodic increase in ATMs in Pakistan



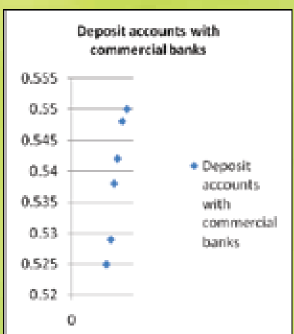


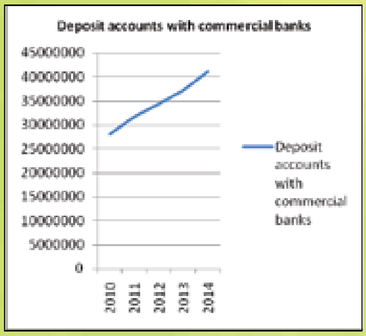
Statistics 4: HDI trend vs Branches and Periodic increase in Branches in Pakistan





Statistics 5: HDI trend vs Accounts and Periodic increase in Accounts in Pakistan





HOW TO INCREASE FORMAL FLOWS OF REMITTANCES TO PAKISTAN

The article analyses the remittance market in Pakistan and suggests various ways to increase the flow of remittances into the country.

By: Ahsan Nisar

The remittance market for sending foreign exchange into Pakistan using remittance transfers both by overseas workers and the rest of the Pakistani diaspora, as well as by other agents for both legal and illegal transfers, can be broken down into the following:

1. Remitters from overseas who demand Pakistani rupees in exchange for a foreign currency to be paid in Pakistan through official or unofficial channels.

2. The remittance market within Pakistan that transfers both officially recorded remittances through banking and other recognized channels under an overall regulatory framework supervised by the State Bank of Pakistan (SBP), as well as unofficial remittances through domestic networks linked with foreign networks abroad.

3. Receivers of remittances — mainly households and families — that are sent through official or unofficial channels, use these remittances for their own needs or to upkeep or purchase new assets for the remitter.

Any attempt to divert the flow of remittances from unofficial to official channels requires an analysis of each of the above three segments of the remittance market to determine why remitters prefer one channel over the other.

Indeed, it would be a strange coincidence that the worldwide growth in official remittances has been substantial due to increase in the transfer of illegally earned funds abroad.

Illegal Transfers and Remittances

Illegally gotten gains, are transferred back to Pakistan through remittances and thus legalized since these transfers are not questioned. These flows include:

- The so-called 'whitening' of 'black' money generated in Pakistan which is then converted into US dollars or other foreign currency through domestic moneychangers, sent abroad and then brought back as remittances through existing or fictitious Pakistanis living abroad.

- The receipt of kickbacks and commissions on deals with international companies in contracts awarded to them in Pakistan which are then transferred back in part or whole as remittances.

- The under-invoicing of imports of machinery and goods and services to avoid full payment of import duties, after which the nonpaid amount of the cost of the import is sent back through a domestic moneychanger in foreign currency.

- Illegal earnings through the drug trade (or other related activities) that are transferred back to Pakistan in the form of official remittances and thus are legalized.

As far as the 'whitening' of 'black' money is concerned, such transactions would not result in a net addition to the total size of official remittance flows. This is because converting domestic currency into a foreign currency would need buyers of the local currency. These transactions, if made through remittances, would require a Pakistani working abroad or a member of the larger Pakistani diaspora to 'demand' these rupees and then send them back as remittances. Since he or she would only do so if already planning to transfer money to Pakistan, when such a remittance is sent it does not add to the total amount of remittances flowing into Pakistan.

On the other hand, the transfer of part of or all illegal foreign exchange earnings—from kickbacks, the drug trade and other sources—as remittances does lead to an increase in official remittances. However, the transfer of such illegal earnings, including non-taxed earnings by Pakistanis abroad, might not occur through the official remittance channel for fear of being detected; hence, those making such transfers prefer the use of the unofficial hawala route.

How large, then, are these illegal flows being remitted through official channels and how much through illegal channels? While it is extremely difficult, if not impossible, to quantify them, one needs to be somewhat cautious in inferring that illegal flows account for a significant part of the rapid growth in official remittances in the past decade. Indeed, it would be a strange coincidence that the worldwide growth in official remittances has been substantial due to increase in the transfer of illegally earned funds abroad.

Informal Channels

Besides hawala-type systems, informal channels can take a variety of forms: ethnic stores, travel agencies, money changers, counter services or hand delivery. Another informal remittance channel is in-kind remittances, which is the sending or carrying of remittances in the form of goods for personal use or for resale in the informal market. The practice of in-kind remittances has become quite widespread and more significant since the introduction of liberal import policies allowing duty-free imports. However, goods brought in under personal baggage are not recorded as remittances or imports.

Households Receiving Remittances: Why do They Prefer Official or Unofficial Channels of Transfer?

What factors underlie the demand for unofficial or hundi transactions and how can these be influenced? Understanding the practices, procedures and regulatory structures of the international value transfer system with particular focus on third-party settlement is, therefore, immensely important. Similarly, understanding the behavior of overseas migrants and their families towards the use of banking or non-banking channels to transfer money home is important to attract more money through official channels. Research shows that those migrants, who send remittances home through hundi, are not systematically different in socioeconomic terms from those who use the banking channel to transfer money. It is thus difficult to identify the migrants with certain characteristics who might be identified as a target group for using the banking channel.

Some of the possible reasons suggested for not using the banking channel included the high transaction cost involved, the non-availability of a bank, the long distance to the nearest bank, the long waiting times involved and uncooperative behavior of bank staff. Secondly, migrants and their families appear hesitant in using the banking channel. Migrants account for this hesitation by saying that "the banking procedure is difficult for us. We get money through hundi at our doorstep."

Thirdly, migrants abroad with households, particularly in the Middle East, live in groups and usually have an informal group leader who manages the transfer of money through informal sources. Further, this type of common living arrangement creates a network among the migrants, which enables them to send money home through a mutual friend visiting Pakistan. The larger the household, the less likely it is to receive remittances through the banking channel. Thus, opening new bank branches in high-migration rural or urban areas, as is generally believed, may not be the only solution to channeling more remittances through banks.

Moreover, longer stays abroad appear to enable workers to find informal ways of sending money home. It is not easy to explain why but there could be several reasons. For example, long-stay migrants' preference for informal channels may be associated with their legal status abroad. Illegal workers are more likely to use the non-banking channel than legal workers. It can also be argued, however, that illegal workers are likely to be new migrants rather than long-stay workers.

Cost, Speed and Ease of Sending Remittances

A key driver of the flow of remittances, especially the choice to send remittances through official channels, is the cost involved. These costs have decreased in recent years but still vary across countries. However, this average hides considerable variation according to the place from where remittances are sent, their destination and the financial channel used.

> "Some of the possible reasons suggested for not using the banking channel included the high transaction cost involved, the non-availability of a bank, the long distance to the nearest bank, the long waiting time involved and uncooperative behavior of bank staff."

Pakistani overseas workers are considerably reluctant to send remittances through official channels regardless of their educational qualifications or whether the amount was being sent to homes located in rural or urban areas. This behavior proves a strong lack of confidence in the working of the financial system in their home country. Is it a deep-rooted fear that additional 'costs' may be incurred when collecting their remittance through banking channels? Is it that they do not want 'others' to know that they are receiving these funds? Or is it simply the convenience of home delivery of remittances through hundi and hawala? Improving governance and curtailing corruption within the country will downsize the demand for foreign currency abroad. It is also possible that a section of the diaspora wants to conceal their income because of the host country's taxation system and hence opts for hawala.

Some of the ways through which formal remittances could be increased in Pakistan are:

- ***Attracting remittances to acquire assets (land, houses, bonds) or set up educational and health facilities for families of workers overseas.***

In most countries, governments have established organizations and welfare institutions that offer opportunities to overseas workers to acquire land/houses through schemes that they have launched as well as to contribute to the establishment of schools, colleges and hospitals in towns or rural areas that have a concentration of families of overseas workers. Pakistan has set up a number of such organizations, the most prominent of which is the Overseas Pakistanis Foundation (OPF).

- ***Attracting Remittances to Foster Higher and Inclusive Growth in Migrants' Home Countries***

A major development challenge is to attract remittances for investment in establishing businesses—small, medium, and even large firms—that would enhance economic growth and create new job opportunities. Similarly, investments by overseas workers in various types of government-sponsored bonds and in the stock market can supplement domestic savings for investment and infrastructure projects.

- ***Strengthening Remittances-transfer Infrastructure, including through the use of New Technologies (especially IT and mobile phones) to Channel Remittances***

As the pace of innovation quickens and new technologies rapidly emerge, they offer considerable opportunity for expanding access to and lowering the cost of channeling international remittances. In Pakistan, the rapid expansion of mobile phone use, with almost 60% of the population owning at least one, has led to mobile cash-out services or bill payment through mobile phones. ■

THE MOST IMPORTANT RESOURCE FOR BANKS

By: Syed Zaheer Haider Zaidi

An age-old saying is that the most important asset of an organization is its workers. If this saying is valid, and it is, then handling a work force becomes vital for the organization. Managing people is a continuous process from the time people join an organization until their retirement – and at times even beyond that.

In smaller businesses, this job is done by the owner (proprietor) himself, whereas in large-scale organizations (where ownership and management are divorced functions), it is the responsibility of the management. Why is it like that? Simply because the organization, on its own, is nothing and cannot look after its own affairs. Instead, it is being run by a team of individuals. The members of such teams are placed systematically, on different tiers. This process has an underlying perpetual process of recruitment/separation (on account of retirement, resignation, termination and death).

The importance of people management is undoubted but at the same time, managing human beings is indeed a delicate, complicated and a difficult job. People are individuals, having distinct behavior, different and sensitive natures, varying mindsets, emotional variations, different affiliations etc. The fabric of human relationship is very delicate, thus managing them requires skills and effective planning. Although many individuals can work in groups/teams but to evolve, a joint effort for the achievement of organizational goals is a difficult task for the management — making the management of people in a large-scale enterprise is a 'shared responsibility'.

People management dates back to the era when man first came to this world. However, for the process we are discussing in this article, the term 'Human Resource' was coined in the 1960s, when the value of labor relation began to gather attention and when notions such as motivation, organizational behavior and selection assessments began to take shape.

According to Business Dictionary, it is "the resource that resides in the knowledge, skills and motivation of people." Human resource is the least mobile of the four factors of production and (under right conditions) it improves with age and experience, which no other resource can do. It is, therefore, regarded as the scarcest and the most crucial productive resource that creates the largest and long lasting advantage for an organization.

Loads of books have been written globally on human resource (HR). In this article, some aspects of HR in the banking institutions will be discussed.

To achieve its objectives, any bank undergoes one of the most important processes, which is Strategy Formation. The importance of Strategy Formation is such that it is the business of the Chief

Executive of the bank and his senior colleagues, backed by strong analytical support. This process covers very important areas and human resource is on the top of the list.

With the passage of time, as a result of development, things became advanced and complex — globally — at an extremely high speed. In this scenario, advancement in technology remained in the limelight with great focus on Information Technology. Such changes did not, of course, remain in isolation. These changes, as a matter of fact, encompassed everything and organizations were no exception. Changing environment, a complex market, development of different financial instruments and cut - throat competition compelled the banks to realign their business strategies, on do-or-die basis. Thus, banks tuned themselves accordingly to meet the market challenges, with the result that their organizational setup, systematically, kept on becoming complex. The more complex the organization, the more difficult it is for humans to manage it.

In Pakistan, two major events, besides changes mentioned above, were purely local but had a great impact. That was the nationalization (1974) of banks (besides many other business houses) and privatization process (1992), when quite a number of banks were established in the private sector.

CHANGING ENVIRONMENT, A COMPLEX MARKET, DEVELOPMENT OF DIFFERENT FINANCIAL INSTRUMENTS & CUT-THROAT COMPETITION COMPELLED THE BANKS TO REALIGN THEIR BUSINESS STRATEGIES, ON DO-OR-DIE BASIS.

This period of about two decades, aggravatingly had an impact on the overall working of the banks in Pakistan. Dimensions of this impact were enormous but the worst affected asset was none other than the human resources. Staff behavior, quality of service, quality of loans, sense of responsibility among the staff, branch environment (working culture), staff training and grooming etc. were the long term damages done to the combined workforce. On the other hand, the global development made the challenges more severe.

Newly established banks in the private sector had market entry-level challenges and human resource was one of the major challenges; especially, at the time of recruitment of staff. Recruitment itself was a sensitive matter for them but high on the scale of sensitivity was to evolve a working culture, for the utmost betterment of the bank. These banks had to undertake a two-tier recruitment process, where they recruited fresh as well as semi-senior / senior staff members to form a working team.

After privatization, one of the nationalized banks adopted a well-thought out policy in this regard. They initiated a three-tier process: firstly, recruiting fresh graduates as Trainee Officers; secondly, fresh graduates from the prime business schools were inducted as Management Trainee Officers; and finally, they inducted senior/mid-level bankers from other banks. This staff-mix further integrated with the existing members of staff. Although, there were some negligible rifts and resistance but at the end of the day, this evolved altogether into a new culture which enabled the bank to grow enormously.

As a result of privatization, for some years the banking industry witnessed a very high number of switchovers. Even juniors switched their jobs quite frequently in those days. Quite a number of workers have been exposed to different working environments / cultures, thus they can feel the difference for better or otherwise. This, in turn, can enhance or reduce the staff-turnover, which is yet another barometer to gauge the environment and HR policies of the banks.

The bank's (field) officers go out in the market for soliciting new relationships and to increase existing business, that is external marketing. When different divisions / sections at a head level maintain cordial relationship with staff members, this is known as internal marketing. External marketing wins business and clients whereas internal marketing wins dedicated staff; both are vital for the growth of the bank.

Another equally important issue for the newly appointed, as well as existing employees, is their placement in branches and different segments of the bank. It should be done keeping the profile of the employee in view. For example, a management trainee officer in a bank, who graduated from one of the prominent business schools, was posted in a very busy branch located in the old city area of Karachi. After some time, his batch mates asked him what he had learnt so far. "Many non-standard terms", was his answer. He was surely a misfit in that branch. Instead, his placement in a corporate branch would have been beneficial for both him and the bank.

OPERATIONAL RISK

After some disastrous events and financial upheavals worldwide, the area of Risk came into the lime light. Therefore, this topic is of utmost importance to the banks, globally.

There are different types of risks like Credit Risk, Market Risk, Operational Risk etc. Since the topic of operational risk comes partly within the scope of this article, it would, therefore, be discussed briefly.

Operational risk is defined, broadly, as the risk of loss due to failures in people, processes, systems or external events. It can also take the shape of many other risks, in particular, regulatory and reputational risks. It can also include other classes of risk; such as fraud, security, privacy protection, legal risks etc. Operational risks affect client satisfaction, reputation of the bank and shareholder value. Moreover, they are not diversifiable (risks are diversified, to reduce the impact) and cannot be laid off; meaning that, as long as people, systems and processes remain imperfect, operational risk cannot be fully eliminated. Operational risk has a potential to become a very costly risk for banks, which have not managed it well. Unfortunately, the general attitude is that the most safety activities are "reactive" and not "proactive." Many organizations wait for losses to occur before taking steps to prevent a recurrence.

Operational risk, nonetheless, is manageable as to keep losses within some level of risk tolerance (i.e. the amount of risk one is prepared to accept in pursuit of his objectives).

Existence of operational risk makes effective HR Management (HRM) very vital for banks. Recruitment, rotation, placement and training of staff are very sensitive and important processes and the management of banks should attach due importance to them. This will ensure to minimize host of risks. For example, when talking about recruitment in the past, senior bankers during the recruitment process used to try to assess whether the applicant for the job, is "over-ambitious." Ambition is indeed a driving force, but excess of it might take a person to achieve (personal) targets even by employing unfair means. Banks, surely, cannot afford the glut of (personal) ambitions. Yes, indeed the mainstream ambition for the bank is required to enhance its business.

NEWLY ESTABLISHED BANKS IN THE PRIVATE SECTOR HAD MARKET ENTRY-LEVEL CHALLENGES AND HUMAN RESOURCE WAS ONE OF THE MAJOR CHALLENGES; ESPECIALLY AT THE TIME OF RECRUIT-MENT OF STAFF.

It is a policy matter that staff should not be stationed in a branch for more than a certain period (usually three years). Internal controls of banks have very vocal provisions on this and the internal auditors religiously point out overstaying staff members in their reports. It is a matter of concern that the field management does not attach due importance to rotations / transfers of the staff, mainly on the pretext of disturbances in the services to the clients due to movement of certain staff. This tendency indicates that the field management, usually, is not giving due importance to the succession plan. It would be desirable that the human resource department should ensure that such exercises are carried out, as and when deemed necessary. Same is the case with annual leaves. It is mandatory for the staff, to proceed on an annual leave. The good thing is that banks are adhering to this practice.

Some people are favored by natural aptitudes but all must train themselves to provide leadership in a way that the organization needs. The training policies should be such that the workers according to their respective levels of hierarchy are trained & refreshed, on different professional issues and aspects, to become competent enough. A continuously run training process ensures 'succession plan' is in place and produces leaders for the organization. Moreover, it addresses the issue of 'sudden leadership', where, in case of emergency an 'automatic choice' has to be taken. If the person who becomes an automatic choice is not trained enough, then it would rather be risky for the organization to make this choice.

Some of the benefits of the training process may be:

- Enhancement of technical knowledge, confidence and professionalism of the workers.
- Screening of staff members to know who are now ready for elevation or a more responsible position.
- Interactive sessions might expose any staff member who is nurturing an idea which might cause loss to the bank.

Perhaps these things in larger banks are not easy to do but banks can carry out such exercises, at least, for their existing branch managers and branch managers in the making.

State Bank of Pakistan (SBP), recently has taken a step in this direction. SBP has issued guidelines to establish continuous learning atmosphere for bankers posted in urban and remote area branches [BPRD Circular # 12, dated 30.9.2016]. Keeping the seriousness of the matter in view, it is desired that a policy in this regard should be prepared, which must be approved by the Board of Directors of the banks. The policy should cover training of all major functional areas of banking as well as related soft skills. Budget in this regard should be made part of an overall budget, duly approved by BODs. Moreover, HR Committee of the Board should monitor utilization of training and development budget. The most important point is that the banks are required to maintain a periodic MIS on training, which shall be reviewed by SBP during its on-site inspection.

ISLAMIC BANKING

In Pakistan, the market share of Islamic banking assets and deposits in the overall banking industry reached 11.40% and 13.20% respectively (SBP Islamic Banking Bulletin April-June 2016). Due to this one cannot ignore, the Shariah complied banking, while discussing the banking industry as a whole. Islamic Banks are exposed to some peculiar risks like Shariah Non-Compliance Risk and Rate of Return Risk (also its extension, Displaced Commercial Risk), which exist beside other normal risks. The participative nature of the contract, for example, in case of Musharakah and Mudaraba, enhances the technicalities and risk of Shariah based transactions. To handle such transactions by safeguarding the interest of the institution, workers have to be well prepared, technically. Thus, it has an additional dimension of the Human Resource, which is the shortage of trained and qualified workers. This makes HRM more challenging in Islamic Banking and accordingly the banks have to deal with it.

OPERATIONAL RISKS AFFECT CLIENT SATISFACTION, REPUTA-TION OF THE BANK AND SHAREHOLDER VALUE.

On one side we have developed extremely complex markets, intense challenges due to highly sophisticated IT, globalization etc. Banks have to make use of these developments to maximize the profits. On the other hand, with the passage of time, different risks are also becoming more complex thus more challenging; many of the risks were perhaps not even known to the banks some decades back. Banks have to avoid such risks to avoid losses. To reach a win-win situation, it is the need of the hour to develop human resource, to keep pace with the developments and to counter, to a great extent, the risks in any form. ■

By: Sohailuddin Alavi

ASSESSING TRAINING IMPACT

An Empirical Analysis of a Case Study

Encouragingly, continuous training of employees has gained much recognition in the professional world. However, if one attempts to analyze the emphasis on the training contents over the last two to three decades, a shift will be clearly visible from the cognitive (competence based) training to generally termed soft-skills training.

The common reasoning behind this shift is, firstly, the overly emphasized need for providing space to employees away from the hectic and rather stressful work environment. Secondly, increasing competition and the culture for quick-fix has rightly or wrongly led to the emphasis on selling over the functional competence, which in turn has encouraged the shift in training. Thirdly and rather more importantly, employee-hopping from one organization to another has constrained organizations from investing in their employees' development in the long term.

However, to showcase their commitment to employee development, organizations resort to modern training culture, as commented by a senior adviser of a large Pakistani commercial bank. A similar comment was made by an iconic industrialist of the country, "Why should I train employees for my competitors?". Last but not the least, influx of entertainer-trainers has contributed significantly in causing this rather ritualistic approach in training.

The shift, on one hand, has contributed constructively in strengthening the training culture across the world of work in Pakistan. However, on the other hand, it has been detrimental in many ways. For instance, it has caused bias against training as a worthy intervention amongst many organizations; distorted the learning motivation of the trainees; welcomed entertainer-trainers; converted employees' and organizational development opportunities into shallow activities; and last but not the least, turned training facilities into merely cost-driven hubs.

Having said that, the author presents the hypothesis that in modern times the impact of training in general has been low in terms of employees' learning, organizational development and productivity. The hypothesis was validated by conducting a survey in a large public sector organization. Although in many instances, the impact of training is reported on the basis of emotive-response of the trainees towards the end of the training event, or in some cases on the basis of trainees' performance in the paper/pencil evaluations. While the former approach is grossly inadequate, the latter approach does provide insight into the quantitative measure of learning by the trainees. However, it fails to unravel the extent of change in behavior at work. The survey focused on unraveling the impact of training in terms of change in the ultimate performance referred to as 'SMART Competencies' of employees as a basis to ascertain the impact on employees' learning, organizational development and productivity.

Survey Findings:

The sample organization was a public sector service-based institution, employing more than 20,000 persons. It was well-structured along the administrative lines. It had change management interventions in the recent past within the ambiance of prevalent administrative culture. The typical façade of the organization was still bureaucratic. Customer service had always been secondary to conformance to internal protocols. Business processes were lengthy and less customer friendly. Usual turnaround time was above the industry averages. Employees' career progression did not directly correlated with the improvement in their capacities or performance. The organization had a well-established training infrastructure and big budgets. But quality of training had been in the grey for quite some time.

"ON THE INTERNAL SIDE, THE TRAINING MANAGERS AND TRAINERS MOSTLY REPORTED TRAINING TITLES AND FEW REPORTED SKILLS AS THE PROBABLE IMPACT OF TRAINING. BUT NONE, SAVE FEW, REFLECTED UPON THE ULTIMATE PERFORMANCE ANCHORS AS TRAINING IMPACT."

The survey aimed at mapping the perception of the representative group from the field about the impact of training on building SMART competencies across the cadres; soliciting feedback on probable gaps and recommendations on training curriculum, methodology, and immediate training environment.

Initially, 14 General Managers (Human Resources) were given this survey. Later the survey was conducted across the line management. In all, 100 General Managers were given the questionnaire. The responses had been consistent across, hence we had basis to conclude that the findings were indicative. Besides, the internal perception of the training managers about the impact of training was also considered. Specific responses are summarized and reported hereunder.

TABLE 1: SMART COMPETENCIES

PROFESSIONALISM (DISCIPLINE *PER SE*): Moral character; social responsibility; independence of thoughts and decisions; commitment; attention to details; harnessed motivation; attitude; assertiveness; ownership; and, last but not the least predictable behavior and presentable personality	**EMPOWERMENT:** Job knowledge and skills; understand right and wrong; sense of direction; ability to make good decisions; know the outcome of one's own decisions and/or action; ability to think in terms bigger picture; and last but not the least, clarity of vision
PROFIT FOCUS: Focus on profitability; concern for effectiveness and efficiency; understand risks and their mitigation; ability to see opportunities and threats; ability to focus on bank's interests	**CUSTOMER FOCUS:** Value for customers; empathy for their problems; concern for their solutions; and, responsibility towards customers
PRODUCTIVITY AND PROFICIENCY: Doing right things right; systems thinking; business rationality; regulatory and policy compliance; product and process knowledge and skills; and, time management	**DEVELOPMENT:** Continuous learning and improving; expanding horizon; and, readiness to move to higher responsibility level

1. Impact of Training – External Perception

The respondents from the line management were asked to rate the impact of training in fostering the ("SMART Competencies") as a result of training programs, amongst the employees in general. The training managers and trainers were also asked to rate th impact of training on similar lines. However, they were asked to identify the training impact that they might consider in addition to rating the impact they were against.

About 65% or more respondents amongst the line managers reported low training impact on developing professionalism, empowerment, customer focus, productivity and development. About 50% respondents reported low training impact in fostering profit focus. We have basis to say that on the whole, training impact was reported "Low" by the line managers.

On the internal side, the training managers and trainers mostly reported training titles and few reported skills as the probable impact of training. But none, save a few, reflected upon the ultimate performance anchors as training impact. However, surprisingly, most of them reported the overall training impact as "Low". It also follows that there was a perception gap between line managers and trainers vis-à-vis target training impact.

See Figure No.1

2. Training Gaps – External Perception

Major gaps perceived by the respondents from the line management were: the training contents were not properly targetted; trainers' capacity needed improvement; same training topics (contents) were continued successively. Other gaps included: lack of continuity of training for individuals, lengthy training materials, less focus on case studies, communication gap, trainers without relevant background, lack of training follow-up, insufficient training duration, training not focused on resolving desk-related problems, trainees were not invovled, etc.

See Figure No.2

3. How to Make Trainings Useful for the Trainees

Major areas for improvement as identified by the respondents included the following: Training contents should relate with practices, faculty should adopt new techniques, and training at doorstep. Other areas included continuity of trainings per individual, reduced volume of training materials, pre and post training assessments, trainers from the field / operations are more beneficial, training material should be provided beforehand, trainings should be linked with career development, same trainings should be repeated with some intervals.

See Figure No.3

4. How to Make Training Useful for the Organization

Most important of all the improvements suggested was that the training faculty should have working expereince on the topic. Other important areas include: ensuring friendlier/mature behavior with the trainees, Training Needs Ananlysis (TNA) should be done participatively and short duration programs need to be offered at the doorstep. Finally, trainings need to focus on helping participants find solutions for their desk-related problems and trainings on new policies, procedures and products should essentially be conducted prior to implementation of the same.

See Figure No.4

5. Training Environment

Almost 50% respondents suggested change in the behavior of the trainers and training managers. Other dimensions include: fostering supportive environment, better treatment of the trainees and reduced daily training hours. About 50% did not respond to this question.

See Figure No.5

6. Physical Facilities

More than 50% of respondents believed there is a need to modernize the training rooms, introduce computer labs, provide access to internet and the library should have current materials. About 45% did not respond to this question.

See Figure No.6

"MAJOR AREAS FOR IMPROVEMENT AS IDENTIFIED BY THE RESPONDENTS INCLUDED THE FOLLOWING: TRAIN-ING CONTENTS SHOULD RELATE WITH PRACTICES, FACULTY SHOULD ADOPT NEW TECHNIQUES, AND TRAINING AT DOORSTEP."

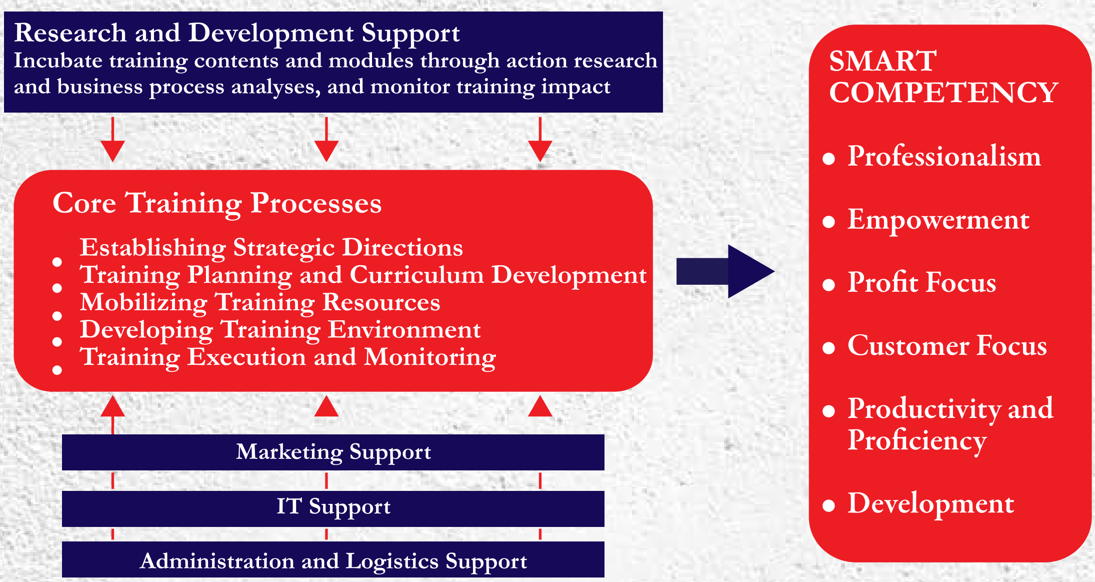
Conclusion:

The survey correlates with the hypothesis. However, the findings relate to a public sector organization and may or may not fully reflect the private sector organizations' training culture in totality. Yet, we have basis to say that the findings suggest deteriorating efficacy of the training interventions in general.

The respondents' suggestions provide leads to a multi-pronged strategy *see Table 2* to bring about the positive change, which includes revisiting the strategic directions in training, linking training with action research, correcting the core processes of training needs analysis (TNA), curriculum and content development, targeting the trainees, training methodology and training follow-up and need for changing the immediate work environment, together with physical facilities at the training centers for more focused learning. Last but not the least, the need for capacity building, professionalism and commitment from the training managers and trainers are significantly required.

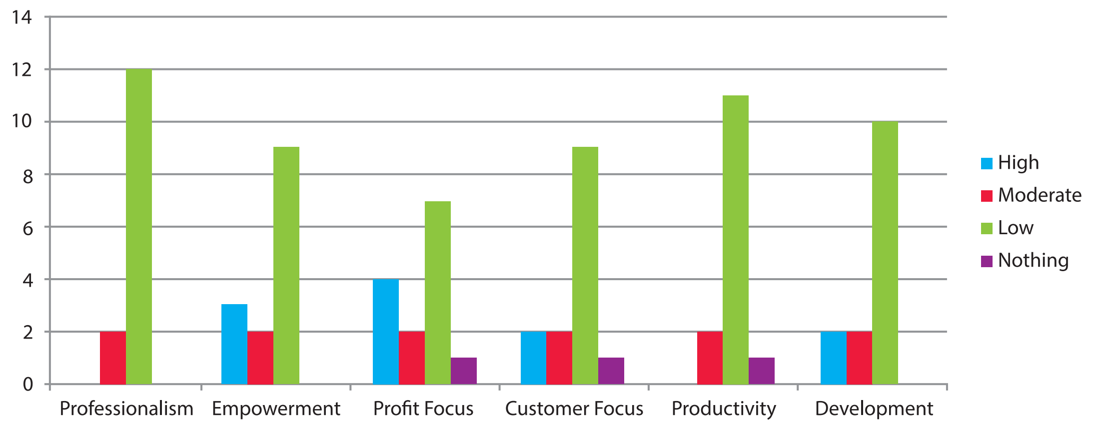
It is hoped that this preliminary discussion on training impact will cause a debate and discussion on the subject and will be followed by in-depth research in the direction, bringing a positive change.

Table 2: Multipronged Strategy (proposed)

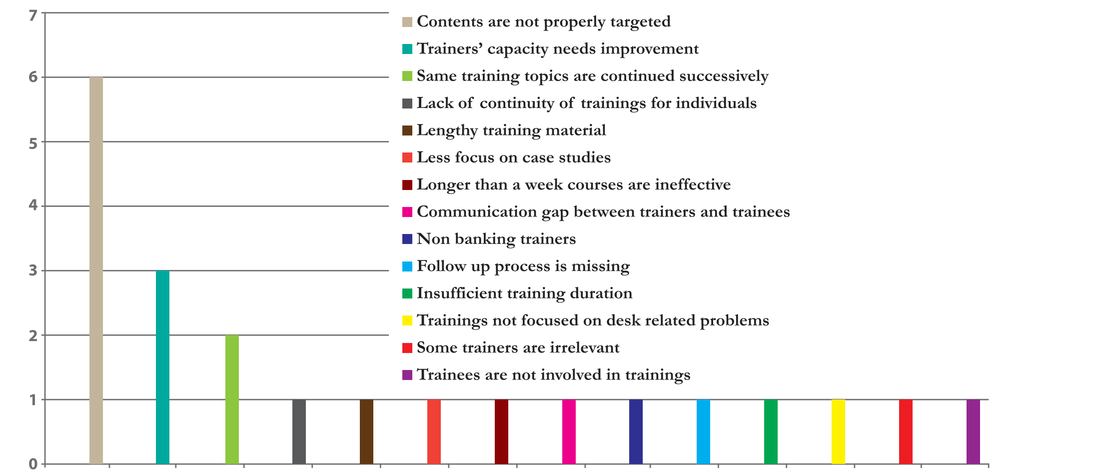


STATISTICS

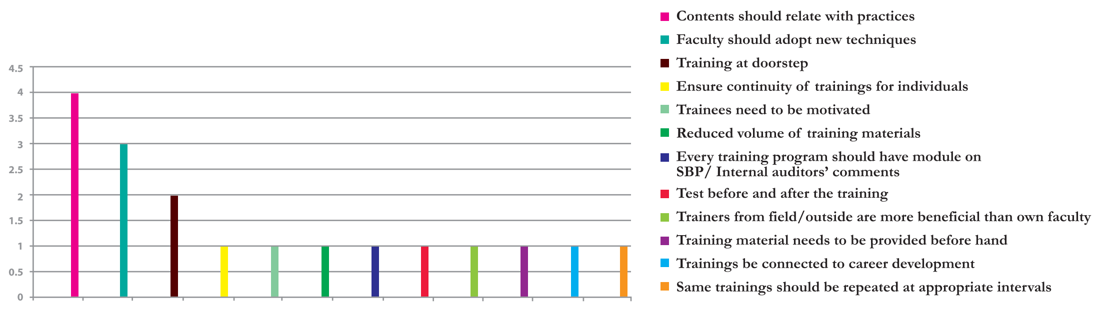
Impact of Training – External Perception (n = 100) *Figure No. 1*



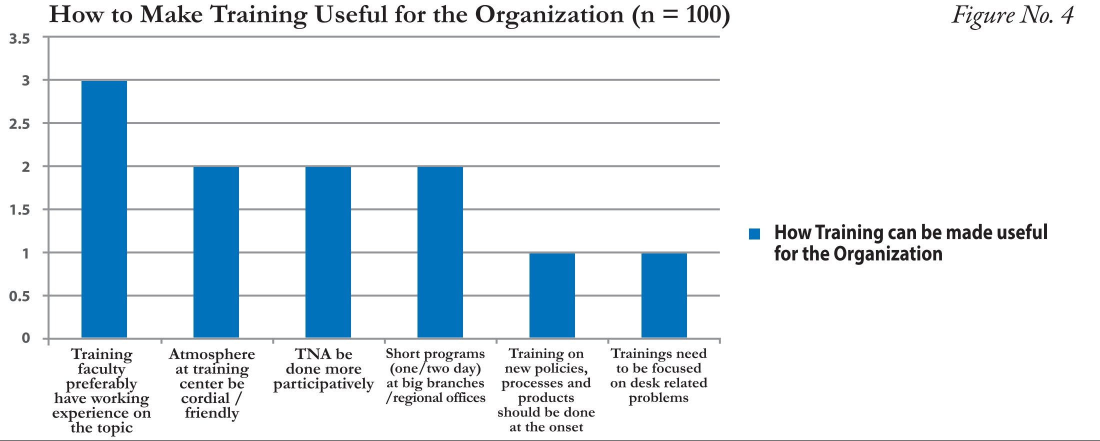
Training Gaps – External Perception (n = 100) *Figure No. 2*



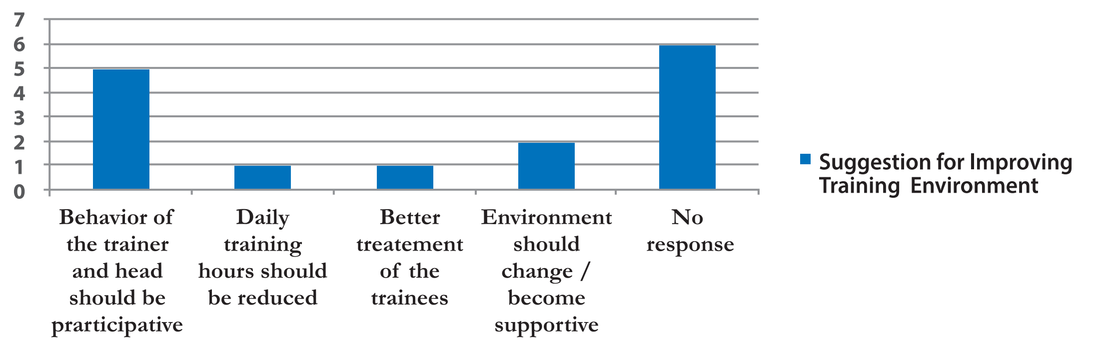
How to Make Trainings Useful for the Trainees (n = 100) *Figure No. 3*



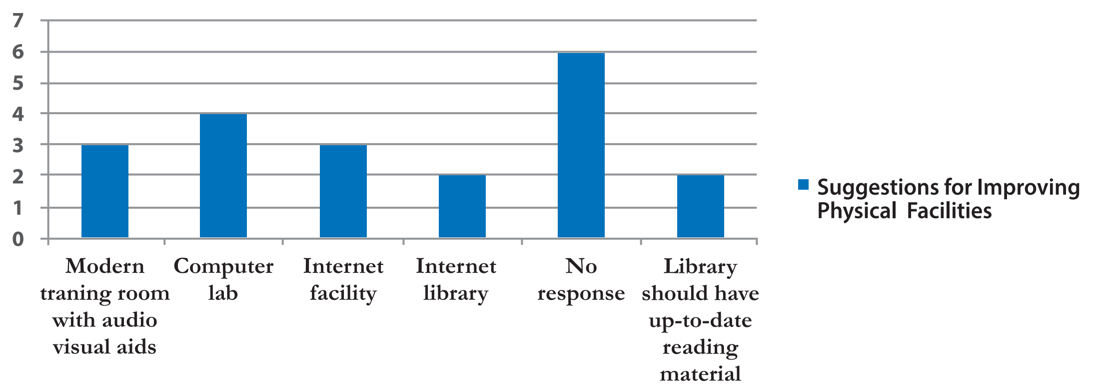
How to Make Training Useful for the Organization (n = 100) *Figure No. 4*



Training Environment (n = 100) *Figure No. 5*



Physical Facilities (n = 100) *Figure No. 6*



Wellbeing in the BALANCE

In an uncertain, highly competitive environment, taking care of employees is more important than ever. But balancing individual needs and business outcomes hinges on a delicate psychological contract.

"THE FIRST STEP TOWARDS PUTTING A PROGRAM IN PLACE THAT WORKS FOR YOUR COMPANY IS TO **UNDERSTAND YOUR OWN INTERNAL POPULATION.**"

The concept of compartmentalizing work and home life might sound appealing, but setting and retaining such neat boundaries vastly oversimplifies the situation for most. Instead, most people identify with a much messier reality in which anxiety about career and emotional, financial, physical and social issues transcends convenient boundaries. For a growing number – known as the 'sandwich generation' – this includes responsibility for the care of both children and ageing parents.

"Wellbeing is part of who we are at the Bank of England. It is not something that should be left at the door when we come to work," stresses Joanna Place, Executive Director of HR at the Bank of England. "We know that to get the best out of our people, we need to support them to bring their best selves to work."

Yet while the industry is starting to make good progress, there is often a critical disconnect when it comes to the perceived importance of helping employees to reconcile these pressures with the demands of the working day. Organizations need to recognize the benefits of helping employees to achieve work-life integration, rather than balance, says Cary Cooper, the 50th Anniversary Professor of Organizational Psychology and Health at Manchester Business School. This is particularly challenging amidst post-referendum uncertainty, he observes, during which the desire to avoid a 'black mark' from HR has resulted in increasingly unhealthy working practices. Indeed, over the past 12 months, almost a third (29%) of respondents to a 2016 Absence Management Survey from the Chartered Institute of Personnel and Development (CIPD) and Simplyhealth noted an increase in 'presenteeism', which sees employees coming in to work when emotionally or physically ill.

BEYOND COST-REDUCTION

There is plenty of compelling data to back up the argument for improving wellbeing support in terms of the costs associated with sickness absence and productivity. Research from the Centre for Mental Health, for example, states that the cost of presenteeism is around double that of absenteeism, £15 bn and £8 bn respectively.

But many companies are now looking beyond cost-reduction, to appreciate the more positive contribution that wellbeing can make to performance, loyalty and culture. Other drivers include attraction and retention of talent (i.e part of being an employer of choice), helping to sustain high performance, work-life balance and energy levels, or because the organization sees it as part of its culture, says Place.

HR directors first began to focus their attention on assessing stress and other aspects of wellbeing during the recession because of "regrettable turnover", notes Cooper. It used to be that the sector accepted a bit of churn, but as firms stripped back labor costs to a much leaner model, they realized they could not afford to lose key personnel. From an HR perspective, creating a culture that people want to work in has become vital in retaining and attracting talent.

"It's about creating a culture in which people want to go that extra mile because they feel valued and supported by their employer", says Cooper. The banking sector has, as a whole, understood the importance of this fundamental psychological contract now, he believes.

THE RIGHT TO CHOOSE

When you let employees choose where and when they complete their work, you're saying to them: we trust you and value you. This translates to fewer absences, higher productivity and greater job satisfaction.

Consultancy firm Gensler used a workplace performance index (WPI) to measure satisfaction and performance in 90,000 employees across 150 companies and concluded that giving individuals more choice – including flexibility in where and how they carry out their daily work – led to more engaged, more productive workers.

But the fact that UK banks have been good at providing a menu of flexible working options – and that every worker now has the legal right to request flexible working – is not always reflected in its adoption.

So how can organizations stop job insecurity and fear of being penalized professionally for choosing to work flexibly pushing employees towards presenteeism and low productivity?

"Our research has found that fewer men apply for flexible working, but when they do they are rejected significantly more often than women," says Cary Cooper. The reason, he says, is that it is still deemed more 'acceptable' when there is a clear reason for the request, such as childcare or eldercare.

Cooper believes that leaders and managers have a vital role to play in enabling everyone, not just careers and parents, to feel that they can request flexible working without fear of repercussion.

"At the moment, when men do work flexibly their job satisfaction increases, but the reason they don't is because they believe it will adversely affect their career." Senior management can lead by example, he says, but it's vital that line managers are carefully selected and equipped to have clear, open discussions with employees about the mutual benefits of working flexibly.

When banks first introduced their flexible work policies years ago, individuals had to negotiate with the company to show that they could do their job better if allowed to work flexibly, Cooper recalls. "That's a nice reminder of the fact that the wellbeing agenda rests on a reciprocal relationship in which both parties' needs must be met."

Most banks have been investing in wellbeing for a long time and are making real progress, agrees Paul Barrett, Head of Wellbeing at the Bank Workers Charity. "But it's not something that can be introduced as a quick fix or because it's the 'right thing to do'."

As well as providing support for employees facing existing difficulties through popular Employer Assistance Programmes (EAPs), approaching wellbeing on a strategic level allows you to address organizational issues. "Unless you tackle it head on, symptoms will just keep re-emerging," stresses Cooper. "Or people will leave."

LOOK INSIDE

An effective wellbeing strategy must be built from within, stresses Barrett. "The first step towards putting a programme in place that works for your company is to understand your own internal population."

Cooper advises a proactive approach that involves regular audits. "Instead of focusing on helping those who have already become unwell, or are facing other problems, identify, locate and correct the root cause," he says.

Collecting individual, anonymous data from a representative sample allows you to determine the key demographics. When that is aggregated it forms a picture of the problems facing a particular population segment, such as women, across the whole organization and helps identify high-risk areas. "Rather than sampling the entire bank or organization, you can use psychometrics to pinpoint the problem," says Cooper. It's critical that this auditing process is repeated regularly, because the workplace changes so dramatically that it's critical to know what a problem is before it escalates.

As outlined by the World Health Organization, an effective strategic approach should identify gaps, involve employees across the organization, align leadership engagement to program values, provide a sustainable offering and be aligned to other organizational processes, says Place. "Wellbeing must be integral to how an organization works, not just an add-on."

"We believe we can best support employee wellbeing in three ways," says Dianne Keith, Head of Inclusion and Diversity at Lloyds Banking Group. "We strive to foster an inclusive culture, champion agile and flexible working patterns and provide formal support mechanisms to all of our colleagues. Building a more inclusive and diverse organization removes the first hurdle to wellbeing by ensuring that every employee feels they can bring their whole self to work."

WHAT IS A WELLBEING STRATEGY?

A wellbeing strategy is the architecture that connects components such as EAPs to address a company's unique issues and foster a positive culture:

1. **Conduct regular wellbeing audits throughout the organization to identify and locate any problems. Diagnostic work will then help you to get to the root of the problem.**
2. **Take preventative measures to improve resilience and supply the tools to help individuals come to a solution that helps them to overcome problems in their work and personal lives and bring their 'best self' to work.**
3. **Provide the support systems, such as EAPs, for existing or unexpected problems.**

"IT USED TO BE THAT THE SECTOR ACCEPTED A BIT OF TURNOVER, BUT AS FIRMS STRIPPED BACK LABOR COSTS TO A MUCH LEANER MODEL, THEY REALIZED THEY COULD NOT AFFORD TO LOSE KEY PERSONNEL.

LEADING PRODUCTIVE PEOPLE

But creating a healthy and productive culture, in which individuals want to go to work every day, is largely up to line managers.

"Banks need to think through a strategy that gives employees respite from their work and the constant 'always on' culture without restricting others in working flexibly. For this reason, practices such as shutting down servers at weekends may be impractical.

"Managers hired pre-recession are very focused on delivering to the bottom line, but they can lack the social and interpersonal skills that are important when leading a productive and engaged team," says Cooper.

Banks don't, on balance, give sufficient weighting to these 'soft skills', which are important in setting manageable workloads and deadlines, supporting flexible working, managing with praise and reward and giving clear, constructive feedback. "Some people don't have these skills and should be moved to a different role, but the majority of them will just require training to develop this important skillset," says Cooper.

Santander's Positive About Mental Health training, for example, has seen 800 customer-facing managers attend a half-day programme, aimed at helping them to understand more about mental health issues, how to identify when a colleague may need help, and equipping them with the knowledge and confidence to support their teams. "We've been extremely pleased with the response from colleagues and their eagerness to take part and learn more," says Suzanne Hughes, Culture and HR Strategy Director at Santander.

When hiring, assess whether each candidate has equivalent technical skills and, if they do, the most important thing is to evaluate their social skills. A candidate might have delivered in a past role with a good company on paper, but what have they left behind them? Hiring managers unconsciously focus on criteria around past performance, but they should then be asking questions like:

- Would the candidate create a good team here?
- Would that team deliver?
- Would I be motivated by this person?
- Would I like to work with them?

BREAKING BARRIERS TO SUPPORT

But while prevention is preferable, both Cooper and Barrett stress that EAPs remain a key component of the wellbeing architecture in addressing pre-existing problems or matters beyond the control of an employer – and sometimes also the employee.

Concern around confidentiality is one of the main reasons why people don't make use of the EAPs and similar solutions that companies have in place, believes Cooper. "If banks are really going to invest, both financially and culturally, in wellbeing, it is essential that employees can seek help without the additional stress of worrying about their information being passed to HR." Mental health first-aiders are a useful, less formal support, provided that individuals go to the EAP if the situation develops.

"Over the past five years most banks have taken a more strategic approach to mental health, which is fantastic, but financial wellbeing remains one of the last remaining taboos in the workplace," says Cooper. That's understandable, he concedes, because it's not a problem most would associate with the sector; if you feel that you can't manage your own finances, why should you expect to be trusted with other people's? But the reality is that salary freezes and rising house prices mean many bank workers are struggling.

In 2015, research from the Money Advice Service underlined the scale of financial difficulties in the UK: it found that a third of middle-class families would need to borrow money to pay an unexpected bill of £500, Barrett highlights. But as well as being one of the four pillars of the Bank Workers Charity's wellbeing model (along with psychological, physical and social), financial wellbeing is now included by 59% of organizations with a staff wellbeing strategy, according to Close Brothers Asset Management.

"One of the most important things that organizations need to understand is the multidirectional nature of employees' problems," says Barrett. "If employees can't find help with financial problems it can easily spill over to affect their psychological and even their physical health," he concludes.

This article first appeared in December 2016/January 2017 issue of Chartered Banker magazine.

KEY TAKEAWAYS

e-CPD toolkit

For access to over 100 resources on the subject of wellbeing, simply log in to the members' area at www.charteredbanker.com and go to 'My CPD'.

INSIGHTS OF ISQ

An Interview with ISQ Gold Medalists

The IBP Superior Qualification (ISQ) is the only recognized professional banking qualification in Pakistan. ISQ is a three-tier qualification, the first level being the Junior Associateship of IBP (JAIBP). Every year, hundreds of candidates in Pakistan qualify the ISQ examination, which is accredited by the Chartered Banker Institute (UK), and progress in their banking careers. In this issue of the Journal, we present interviews of ISQ (JAIBP) Gold Medalists 2016 for the interest of our readers.

AMYNAH HEMANI

Kassim Parekh Gold Medal for securing Highest Aggregate Marks in Stage I, II and III of JAIBP in first attempt

SAHER SHAFIQ

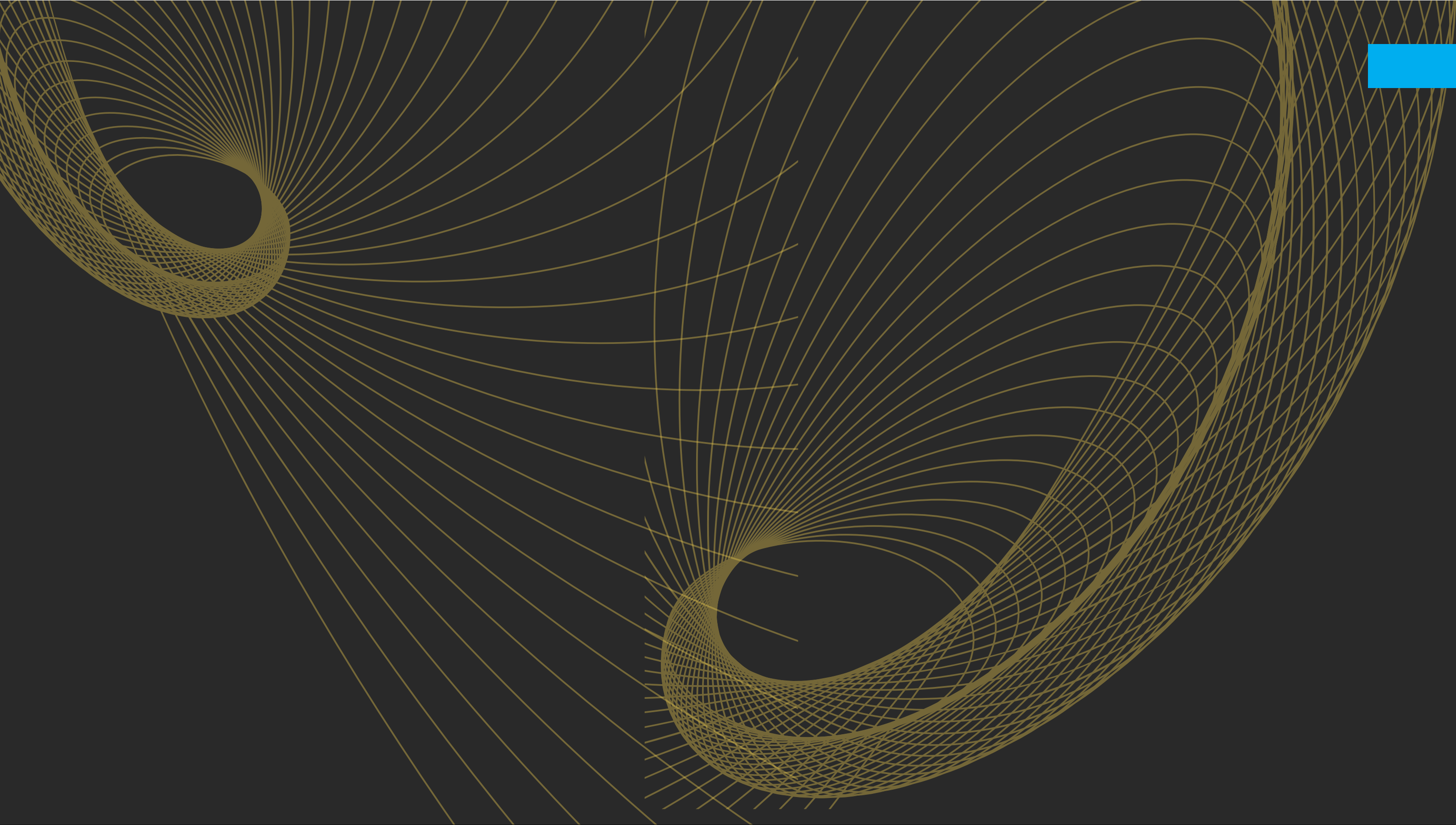
IBP Gold Medal for securing Highest Aggregate Marks in Stage I of JAIBP in first attempt

FAIZ MEHMOOD

SBP Gold Medal for securing Highest Aggregate Marks in Stage II of JAIBP in first attempt

RAFIA HANIF

SBP Gold Medal for securing Highest Aggregate Marks in Stage III of JAIBP in first attempt



TELL US ABOUT YOURSELF

AMYNAH HEMANI (AH): After graduating from The Institute of Business Administration (IBA) in 2015, I joined United Bank Limited as a Management Trainee. Since then, I have been associated with UBL as part of the Corporate, Institutional and Investment Banking Group. Currently, I am working as an analyst in the Project Finance and Advisory Division of Investment Banking Group.

SAHER SHAFIQ (SS): I'm a qualified Cost & Management Accountant, having five years' experience in the banking sector.

FAIZ MEHMOOD (FM): The world of finance has always intrigued me. After completing my A Level's in Accounting, Business, Mathematics and Economics, I pursued a bachelor's degree in Actuarial Sciences and Risk Management. I would consider myself lucky to have studied this degree in an era where the world's banking system had just moved out of the mortgage fueled financial crisis and risk management systems were gaining popularity. After completing my degree in 2015, I joined Bank Alfalah as a management trainee. Being a part of a growing bank at the start of my career provided me an opportunity to learn and grow with the bank. I believe that the management team of Alfalah made sure that we had the environment to develop and prosper. During my two years at Alfalah, I had the chance to work in Corporate, Retail and Investment banking; the latter being the final posting of my management trainee program. Working for Alfalah's investment banking, one of the most aggressive investment banking unit in the industry, was an amazing opportunity for me. We handled all transaction sizes be it a few billion rupees or several hundred billion. The same was true for the clients we handled, from SMEs to to-be-corporates to established blue chip companies. After two years of experience with Alfalah on the debt side of the market, I recently joined the Investment Banking Division of AKD Securities Limited, one of the leading brokerage houses of the country, for exposure to equity and hybrid capital markets.

RAFIA HANIF (RH): As a proud banker and JAIBP gold medalist, I have an MBA - Finance degree from Bahria University. It had always been my ambition to be a part of the financial sector of our country and during the second semester of my MBA, I was fortunate enough to be welcomed by Pakistan's leading financial service provider, MCB Bank Ltd. I joined the organization as a Trainee Business Officer, and after a year and a half I was promoted as a Branch Supervisor and a year later I got promoted as Branch Operations Manager.

How did you learn about the IBP Superior Qualification (ISQ) program?

AH: The management trainee program of UBL requires all trainees to appear for first two levels of the IBP Superior Qualification Program. As a management trainee, I appeared for both the levels to fulfill this requirement, however, appearing for the third level of the program was a personal choice.

SS: Through my office colleague.

FM: The ISQ program was something we were briefed about by our learning team at Bank Alfalah. Being a part of management trainee program we were required to complete 3 months of intensive classroom banking training. During this period we were encouraged by our Learning Division to pursue these exams. That's how I ended up enrolling for this program.

RH: At the time of our orientation at MCB Bank Ltd., we were intercalated with a complete roadmap for all the successful bankers who wish to climb up the ladder of success faster and want to take a lead — and that is when we were acquainted about ISQ, the rewards, incentives and the edge that it could provide us for growing faster in the banking industry.

What motivated you to pursue the ISQ_ JAIBP program?

AH: Apart from the mandatory requirement of the MT program at UBL, I realized that in order to excel in the banking sector, a certification from an institute in the banking industry was necessary. Being the only recognized Institute of banking in Pakistan, I decided to pursue the IBP - JAIBP program.

SS: To enhance my knowledge and make myself more competent in my profession.

FM: It's very difficult to say what exactly pushed me for JAIBP, but I could pen down a few reasons that made me pursue the examination. Firstly, as I have already mentioned, it was the learning team at Alfalah that pushed me for this. Secondly, I feel that it is very important to understand the career one pursues. I am a strong believer of the fact that the key to achieving is being sincere to your career and the first step is to understand and learn what you are expected to do. IBP's JAIBP qualification was the perfect solution to understanding the banking career.

RH: As I have always been more focused towards growth opportunities and always been keen to learn and explore, the idea of getting the ISQ qualification turned into a vow and resolution of the upcoming year. So basically the quest of learning, improving and climbing the ladder of success a little faster motivated me to pursue the JAIBP program.

Can you share some positive experiences about the program/examination?

AH: From the group study with my fellow management trainees to the welcoming nature of the staff at IBP during the examination, it has been a positive experience for me.

SS: The program has reconnected me with my studies again.

FM: Yes, during my program I got the opportunity to learn the theories behind our everyday banking practices. In addition, the post-exam session was a good networking opportunity with other bankers in the industry.

RH: My experience so far has been exceptional and stimulating, as IBP has not only accorded me expertise and enlightened my knowledge of banking but has also offered me affiliation with the Institute based on my distinction. This is indeed an honor for me and has given me the opportunity to advance my skills working with sophisticated professionals.

What were your anticipations or fears during the preparation of the exam? How did you manage to cope with the stress?

AH: It was my first experience of appearing for any exam along with a full-time job. However, due to the support of my office colleagues and supervisors, I managed to cope with the stress.

SS: I was confused about the exam pattern what type of paper it would be because there were no past papers available on the website. Then I started preparation form IBP books and by the grace of Allah I achieved success.

FM: Studying while working is difficult and I always feared not being able to take out enough time for my studies. For me, building the momentum to study was also very difficult. However, I always found that I could manage and build it if I studied with interest and I found the IBP content not only interesting but also very relevant.

RH: Initially I was a bit hesitant about the idea of enrolling for ISQ and simultaneously continuing my job, along with my MBA. Apparently it seemed difficult but I turned my apprehensions into a challenge and tried my best to prioritize the tasks so I could get enough time to prepare for JAIBP.

How will this qualification enhance your career? As a banking professional, where do you see yourself in the next 5-10 years?

AH: This qualification has helped me by imparting an in-depth knowledge about basic banking at the start of my career. Apart from this, it helped me in gaining knowledge about specialized areas of banking including Trade Finance, SME banking, Marketing and Accounting for Financial Services etc.

SS: This qualification boosts your career by increasing your knowledge. It is a comprehensive program through which you are able to understand all matters of banking which will be beneficial for your career.

FM: The completion of ISQ has put me in a network of seasoned bankers and financial advisors that provides me a competitive edge. I see the next 5-10 years of my career as challenging and rewarding. I am driven by my ambition to succeed at what I love and hence I have no role-specific goal set for myself for now.

RH: So far, this qualification has provided me an edge at my workplace and I plan to appear for AIBP as well. In the coming 5-10 years I see myself as heading one of the regions as Area Head Operations.

What suggestions do you have for improvement in the current ISQ program?

AH: The current ISQ program could be improved further by inclusion of more practical and scenario based questions in the exams. This would help the participants to learn from real life scenarios and cope with similar situations at work. Furthermore, the exam material (books) needs to be revised to add current, relevant information and remove outdated data.

SS: I would like to suggest to review the books. There are some irrelevant data that needs to be edited which increase the burden of books rather than increasing the knowledge.

FM: I don't think there is much that I could recommend for improvement. I believe that ISQ is based on a relevant and competent professional education system that matches industry standards.

RH: I would recommend for upgradation of the course books and include more practical/case study based questions in the exams, establish a bonding with the Alumni and keep us updated about any sort of trainings being conducted at IBP so we may not miss any opportunity to learn/ explore and groom ourselves.

Can you comment on IBPs role in conducting this program? How can its role be enhanced to facilitate candidates?

AH: IBP can facilitate candidates by providing clear information to current candidates and aspiring bankers about the various programs and affiliations it has with other renowned organizations along with the various trainings it provides on an ongoing basis. The overall experience with this Institute has been quite rewarding for my career.

SS: IBP plays a fundamental role in conducting ISQ program. Candidate enhance their qualifications because of IBP. It has a well organized set up which encourages bankers for this qualification. The overall experience is good because it reconnects us to learning, which is not possible in normal working conditions.

FM: IBP has been playing a very pivotal role in the banking industry. The institution has been developing the knowledge and skillset of aspiring individuals to meet the requirements of the financial sector employers. The contribution of IBP towards Pakistan's economy is hence undeniable.

RH: IBP is doing a great job in facilitating the candidates, I found all the activities conducted by IBP streamlined and well managed, but I think a little more focus is required from both IBP and the employers to collectively attract the candidates towards the certification programs as many of the young bankers still have no idea about this certification.

What message would you like to give to aspiring bankers? Why would you advise them to pursue the ISQ program?

AH: Being the only recognized qualification in the banking industry of Pakistan, I would advise all aspiring bankers to pursue the ISQ program.

SS: I would like to request all bankers to complete this certification because it will help in their career development.

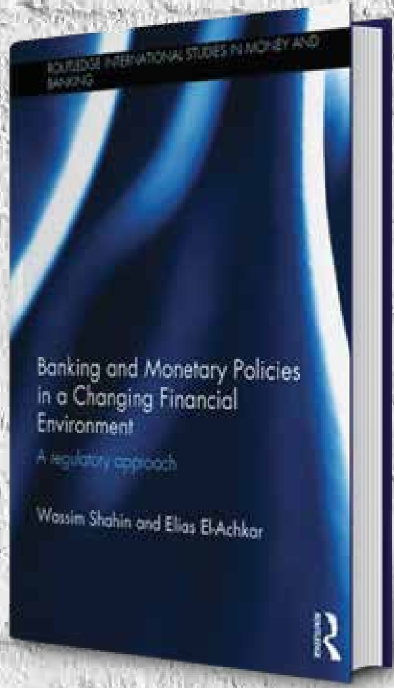
FM: The ISQ program is a strong stepping stone for individuals who aspire to pursue a successful career in banking. An investment in knowledge, as they say, pays the best interest.

RH: The picture is quite clear to all of us; business schools are providing a huge number of MBA's to the market every year, if you want to be a successful banker in this industry, then you really need to have an edge over other candidates. Here in Pakistan we have IBP that is offering quality programs to the young bankers that can actually let you stand out, so if you wish to be the sparkling star among others, make sure to enroll for IBP's ISQ examination and put all your efforts to reach the heights of success.

Banking and Monetary Policies in a Changing Financial Environment:

A Regulatory Approach

by Wassim Shahin and Elias El-Achkar



The 21st century witnessed major changes in the financial environment surrounding bank regulators and banks. *Banking and Monetary Policies in a Changing Financial Environment* delves into three of these developments and challenges.

The first change in the financial environment relates to the rise in the number and sophistication of financial and economic crimes which shaped the international regulatory architecture. New rules and regulations led to the creation of new strategies to combat these crimes, especially those concerning the spread of more advanced money laundering methods and techniques, terrorist financing after the 9/11 attacks, and the proliferation of weapons of mass destruction.

The second development concerns the global financial crisis of 2008 which drastically affected the regulatory environment of various international and domestic financial authorities causing major changes in bank lending and corporate governance policies, and in the development of the Basel III accord on capital adequacy for bank supervision. The third development manifests itself in the creation of a major European monetary union without a fiscal union and a giant European central bank impacting the conduct of monetary policy.

This book combines theory, policy, regulation and institutional approaches with empirical testing, analyzing applications and case studies of various international regulatory authorities and administrations, countries and jurisdictions, central banks and commercial banks.

This volume is suitable for those who study international Finance, Banking and White Collar Crime.

About the Authors

Wassim Shahin is Professor of Business Economics and Assistant Provost for special external projects at the Lebanese American University in Lebanon and served as the founding dean of the school of business in the same institution on its Byblos campus from 1996 to 2011.

Elias El-Achkar is Director of Research and Statistics at the Association of Banks in Lebanon and a university lecturer.

The Digital Banking Revolution

How Financial Technology Companies are Rapidly Transforming the Traditional Retail Banking Industry Through Disruptive Innovation

by Luigi Wewege

Over the past decade financial service innovations have contributed to a completely new way in which customers can bank, threatening the status quo of traditional retail banks, and redefining a banking model which has been in place for generations. These new technological advancements have facilitated the rapid emergence of digital banking firms and FinTech companies, leading to established banks being forced to swiftly increase their pace of digital adoption to stay relevant and stop mass client attrition to these agile financial start-ups. These threats come at an inopportune time for banks due to mature markets currently experiencing stagnant growth. This coupled with decreasing profit margins due to the competitive pricing of new entrants, and financial customer loyalty becoming ever increasingly more tenuous.

Reviews

"*The Digital Banking Revolution* captures the effects of disruption brought to the banking industry by emergent financial technology businesses. The author provides a fascinating examination of several companies who have recently developed new financial innovations and how they are demonstrably significant to the consumer."
— **Victor von Gierszewski**
Managing Director - TNS Global

"*The Digital Banking Revolution* is an informative read focused on the transformational changes facing traditional retail banks worldwide. It covers insightful well-researched analysis on: big data, customer engagement, disruptive technologies, mobile payments, and the changing financial behaviors of consumers, in particular millennials."
—**Michael A. C. Hart**
Chairman and CEO - TPS Capital

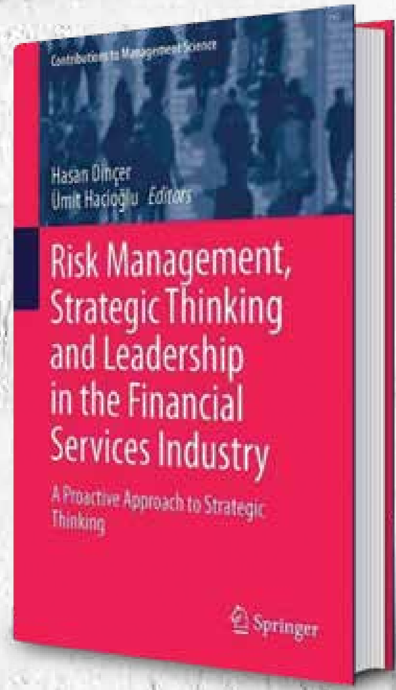
"*The Digital Banking Revolution* should be considered a survival guide for bank leaders, providing those in the industry with a strategic blueprint on how to adapt, evolve and succeed in this digital age."
— **G. Paul Warner**
Former Private Bank Director
- National Australia Bank

About the Author

Luigi Wewege is the Chief Executive Officer of Vivier & Co, a boutique financial services firm offering a complete banking package to its clients worldwide. Other roles include being an Instructor at the first online FinTech School, serving as the Principal of Palmetto Global Ventures a bespoke financial management consultancy, and is an invited member of the Young Entrepreneur Council considered one of America's most successful communities for business professionals. He holds a Master of Business Administration with a major in international business from the MIB School of Management. He also holds a Bachelor of Science in Business Administration with a triple major in finance, international business and management - cum laude from the University of Missouri - St. Louis. For more information, please visit his personal website here: www.luigiwewege.com.

Risk Management, Strategic Thinking and Leadership in the Financial Services Industry

by Hasan Dinçer & Ümit Hacioglu



This book presents a broad overview of risk management in the banking industry, with a special focus on strategic thinking and decision-making. It reveals the broader context behind decision models and approaches to risk management in the financial industry, linking the regulatory landscape for capital management and risk to strategic thinking, together with behavioral and cultural assessments.

About the Authors

Hasan Dinçer is an Assistant Professor of Finance at Beykent University, Faculty of Economics and Administrative Sciences, Istanbul - Turkey. Dr. Dinçer has BAs in Financial Markets and Investment Management at Marmara University. He received PhD in Finance and Banking with his thesis entitled as "The Effect of Changes on the Competitive Strategies of New Service Development in the Banking Sector". He has work experience in Finance sector as portfolio specialist and his major academic studies focus on financial instruments, performance evaluation, and economics. He is the executive editor of International Journal of Finance and Banking Studies (IJFBS) and the founding member of the Society for the Study of Business and Finance (SSBF).

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IN MEMORY OF SHAHEED MOHTARMA BENAZIR BHUTTO
شہید محترمہ بینظیر بھٹو کی یاد میں
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(Including 40 Upcoming Branches)
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SHORT TERM: A-1+
(JCR-VIS)
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• Women Empowerment Account
• Young Talent Account
• Foreign Currency Accounts
• Agriculture Loans • Lockers Facility
• Mark-Up Free Student Loans
• Small & Medium Enterprises (SME) Credits
• Islamic Banking • ATM Network
• VISA, PayPak & UnionPay Debit Cards
SMS Banking
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• Mobile Top-ups • Airline Ticket Payment
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