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ROLE OF BANKS IN DEVELOPMENT OF SMEs IN PAKISTAN

COMPLAINT RESPONSE MANAGEMENT

Going Beyond Rhetoric

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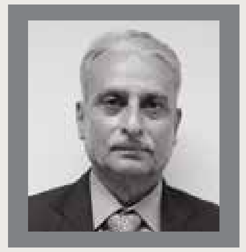
editorial



Rafi Ahmed
Editor

Accolades to Belt and Road Initiative

The Belt and Road Initiative, known by its more popular acronym BRI, is the brainchild of the Chinese President Xi Jinping, who founded this novel concept and unfurled it in the year 2013. This is China's behemoth flagship venture of global ramifications, which is totally apolitical in character and nature. It is a massive new trade corridor project that is also referred to as the New Silk Road. The Silk Road was an ancient nexus of commerce routes that linked the East and West. It was also instrumental in facilitating trade and cultural exchanges between the many countries traversed by it. The Silk Road acquired its name from the flourishing trade in silk which passed the routes in the Han dynasty's era.

The BRI succeeded to a large extent in marching forward with the concept of seamless trade routes leading to socio-economic and cultural integration of the countries who have partnered for accomplishment of the lofty goal. This is evident from The Second Belt and Road Forum for International Cooperation (BRF) held on April 25-27 which, according to Beijing Review, witnessed the grand assembling of some 5,000 participants from more than 150 countries and 90 international organizations, including heads of states and governments, leaders from the UN and the International Monetary Fund (IMF). The number was much more than the participation in the First BRF two years ago.

Another remarkable feature of the gigantic venture can be gauged from the fact that during the forum, cooperation agreements worth over $64 billion were signed at a CEO conference. To date, 126 countries and 29 international organizations have signed agreements with China under the framework of the Belt and Road Initiative, with Italy and Luxembourg the latest signatories. Greece and other countries have reposed keen interest in the BRI.

According to the official protocol as outlined in its objectives, BRI aims "to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries." The venture, now in its initial stage, recognizes that financing arrangements for the development of the Belt and Road should benefit all businesses and populations in a way that supports sustainable and inclusive development. Financing should also be provided for enhancing technological capabilities, skills development and job creation particularly for the youth and women. BRI's policy vigorously supports the efforts to promote inclusive finance, encourage governments, policy financial institutions, development finance institutions and commercial financial institutions to strengthen cooperation to ensure access to financial information and services for all, and provide proper, stable and affordable financial services for SMEs. It also relates to improving or developing transportation, energy, mining, IT communications sector and covers industrial parks and special economic zones.

By the end of 2017, the trade volume among countries and regions covered in the Belt and Road Initiative accounted for 13.4 percent of the global trade volume and 65 percent of the trade volume in the European Union, according to the recent BRI report. In future it is expected that the trade volume would substantially rise.

The report focused on 41 countries taking part in the initiative to evaluate and analyze these countries' trade, investment development and future trends from four dimensions: scale, facilitation, risks and potential during 2012-2017.

In the future, these countries and regions expect to become new bright spots of global economic and trade growth. Currently, 131 countries and 30 international organizations have joined the initiative, through which China has made investments of more than $90 billion to these countries and regions. When realized, it would be indeed not only a Game Changer but the very nature of the game would be re-engineered.

China Pakistan Economic Corridor (CPEC) is also an integral but a smaller part of the broad-based BRI venture. It is an ambitious platform to promote greater regional connectivity. CPEC, despite the names of Pakistan and China attached to it, is not specific to only these two countries. It will also have affirmative domino effects on Iran, Afghanistan, India, Central Asian Republics and the vast region beyond. The expansion and development of geographical congruence with improved infrastructure such as road, train and air transportation system which, would no doubt contribute towards much needed free exchanges of prosperity and people to people contact, leading to a greater understanding through educational, socio-cultural enhancement and increased flow of trade. This would be providing an impetus and verve to have maximal businesses co-operation to result in a well-connected, integrated region of shared destiny, harmony and development. It would be rather based on the thinking of that great apostle Nelson

editorial

Mandela, who always laid stress on all parties in any arrangement or pact, coming out as winners, not as losers in the game. During his recent visit to Pakistan, the Chinese Vice President Wang Qishan, also emphasized the progress on the CPEC and the recently launched second phase, he observed that CPEC has come a long way over the past five years and it is rapidly extending to new priority areas including industrial parks and livelihoods.

Both the CPEC and its umbrella organization BRI's focus is also on peaceful co-existence, mutually beneficial trade and respect for the integrity, sovereignty and security of all the countries, who are part of this initiative or even outside of its orbit. Its positive outcome would be all-round prosperity. BRI is the first initiative of its nature in the history of mankind when diverse countries, spread all over the world, have combined for friendship, trade and prosperity, not for war or destructive activities. BRI would also bring about millions of peoples in years to come to rise above the menace of poverty levels.

As a result of mutually beneficial relationship between the two countries, Pakistan and China have signed a Memorandum of Understanding on the construction of CPEC. Currently, there are 44 projects in progress, of whom 21 are energy projects, 8 relate to infrastructure, 12 projects alone cater to Gwadar port — the starting point of the entire Corridor. CPEC is a 3,218 km route, to be constructed over next several years, comprising of highways, railways and pipelines. The estimated cost of the project is $ 75 billion, out of which about $ 45 billion will ensure that the corridor becomes operational by 2020. The remaining investment will be spent on energy generation and infrastructure development. The $ 45 billion CPEC will pass through Gilgit-Baltistan province in the north with direct connection to Kashgar in China's Xinjiang province to rest of the world through Chinese-operated Gwadar port. It is hoped that this awesome mega project would further strengthen the existing relationship between Pakistan and China, it is also expected to revolutionize the economy and help overcome Pakistan's perennial power scarcity.

One example of CPEC's advantage for China is the shortening of distance and time lags in exports and imports. 80% of China's oil is presently shipped from Strait of Malacca to Shanghai, distance is around 16,000 km and takes at least two months or even more, with Gwadar becoming operational, the distance would be decreased to less than 5,000 km. If all goes well and on schedule, 21 agreements on energy — including gas, coal and solar energy will supply additional electricity to Pakistan. According to China Daily, these projects would provide up to 16,400 MW of energy altogether. As part of infrastructure projects worth approximately $11 billion, a 1,100-km long motorway will be constructed between the cities of Karachi and Lahore, while the Karakoram Highway between Rawalpindi and the Chinese border will be fully modernized. Pakistan's railway network will also be extended to eventually connect to China's Xinjiang Railways in Kashgar. A network of pipelines to transport liquefied natural gas and oil will also be laid as part of the project, including a $2.5 billion pipeline between Gwadar and Nawabshah in Sindh to transport gas from Iran. Apart from the above projects, there are also three high-tech ones being undertaken such as Cross Border Optical Fiber Cable, Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB) and Early Warning System (EWS) for Pakistan Meteorological Department.

The BRI intends to construct a trade and infrastructure network connecting huge swathes of landmass in Europe and Asia to Mainland China, with the ambitious ideals of translating dreams into reality and seeking common areas in the form of development and prosperity, which would certainly radically change for good the lives of vast segments of population. BRI is not just a club of rich, it is a transcontinental long-term policy and investment program which aims at acceleration of the economic integration of countries along the route of ancient Silk Road. Its current major focus is on countries in Asia, Eastern Africa, Eastern Europe and Middle East, which mainly host a region of emerging markets.

According to its official outlines, the BRI combines two-pronged initiatives: the Land-based Silk Economic Belt comprising of six development corridors and the 21st Century Maritime Silk Road.

The Silk Road Economic Belt is a long-term vision for the infrastructural development, connectivity and economic cooperation of Eurasia and is spanning six development 'corridors', namely:

1. New Eurasian Land Bridge Economic Corridor (NELBEC)
2. China – Mongolia – Russia Economic Corridor (CMREC)
3. China – Central Asia – West Asia Economic Corridor (CCWAEC)
4. China – Indochina Peninsula Economic Corridor (CICPEC)
5. Bangladesh – China – India – Myanmar Economic Corridor (BCIMEC)
6. China – Pakistan Economic Corridor (CPEC)

As President Xi Jinping had said, "China should guide economic globalization, cushion its negative impact and deliver its benefits to all countries". This has been imbibed as the cornerstone in Chinese policy. A dynamic, innovation-driven growth model is being undertaken and it is the advent of the unfolding of the Fourth Industrial Revolution at an exponential rather than a linear pace, as quoted by another expert on BRI. Currently more than a third of the world's GDP and two thirds of the world's population would be impacted.

As aptly summed up: when First BRF took place, the Belt and Road Initiative was "still a child growing up". But now the initiative has become an adult, which means that it has become an important factor in the global economy. It has grown up. The dream has come true and its translation would contribute positively towards the long-awaited globalization of world economy, as all the beneficiary countries would be unified in pursuit of common goals of peace, prosperity and poverty reduction. And China would be a harbinger of such a transformation as the economic super power. According to Chinese philosophy: **Better to light a candle than to curse the darkness.**

COMPLAINT RESPONSE MANAGEMENT

Going Beyond Rhetoric

By: Sohailuddin Alavi

Someone once had rightly written, "Banks sell performance of their people". In the contemporary competing culture, do banks really build focus on this statement in defining their customer service standard — and of course customer complaint response processes beyond rhetoric?

This article explores the situation, particularly vis-à-vis Complaint Response Management Process. Any below average service to customers is something that at times customers have to digest under the disguise of lack of awareness of their rights or complacency, but for how long. This can be gauged from a recent incident, which was observed in a big local commercial bank. It was seen that there was a customer who had reported service standard violation to the Customer Complaint Center via email. He was promptly responded with much commitment from the said center on the email. Subsequently, an officer from the concerned branch contacted the complainant. He was seemingly pretentious about the incident and tried to diffuse the whole thing at his level. When the complainant refused to accept the officer's explanation, waxed with eloquence, he was then contacted by the area management group over the phone. The lady speaking on the phone was very polite. However, in the first place she intelligently attempted to downplay the severity of the complaint by referring to it as 'low service' whereas the complaint had much clearly identified violations of service standards and apathetic response of the staff on site, including the Branch Manager. After presenting a few lame excuses in an apologetic manner she tried to convince the complainant that this will not happen again without giving any commitment to specific remedial action that the management intends to take; like improving service policies and employees' performance monitoring processes, etc. After a long conversation, she finally came to her point and requested the complainant to close the complaint. In a nutshell, the strategy, which both the bank representatives had followed was of diffusing the incident by using rhetoric conversation, or rather tactfully putting the complaint under the carpet which can be termed as a lackluster approach to solve the grievances of the customer in question.

Having set the stage, let us discuss a pragmatic approach to complaint response process and identify the gaps in the present scenario that prevents the process from moving beyond rhetoric.

Complaint Management System

Complaint Management System exists within the echelons of all the banks, with some variations depending on the strategic outlook, size of the bank and last but not the least, work culture. The system usually operates independent of operational hierarchy, reporting directly to the senior management. Having said this, in some banks the Complaint Management System is a multi-tiered organization allowing the aggrieved customers to escalate their grievances to higher levels in case of no response from the front end (call center). Some banks, however, do not offer complaint escalation per se, leaving the aggrieved customer only to interact with the front end (call center) in the first instance as well as at a later stage in case of no response.

In addition to the internal Complaint Management System, a Customer Protection Department operates at the State Bank of Pakistan and also a Banking Ombudsman Office was established, as an independent body, now working under the Federal Finance Ministry. Both departments are open to receive complaints from the aggrieved bank customers directly. These departments function as mediators between the aggrieved customers and banks, generally acting as saviors of customers' interest. Definitely, the introduction of these departments is a positive contribution towards resolution of customer grievances.

Types of Customer Complaints

It is observed that customer complaints relate to a variety of manifestations: common complaints relate to undue financial compromise facing the customers; lack of compliance to the basic service delivery standards; and last but not the least, mishandling of customers by the bank staff.

One can say that all the manifestations of customer grievances listed above have their roots in the staff performance, which in turn largely a dependent variable of organization systems: policies, authority, processes and employees' performance management, especially discipline.

Complaint Response Management System

There is considerable evidence that unfortunately banks usually follow a stereotypical approach towards resolving the complaint. It would not be wrong to say that as per usual practice, once the complaint is received by the customer complaint department, it shifts the responsibility of investigating and redressing the complaints to the operations management. In majority of the instances operations management spend their resources in defusing the complaint, for they are part of the hierarchy to which the subject staff also belongs. Hence the operations management takes a competing position vis-à-vis aggrieved customer and defends their position instead of maintaining neutral position as justice entails. Mostly they work with this objective of convincing the aggrieved customer to close the complaint. They succeed in doing this by dealing with the customer at emotional level to cool him down, without really redressing the situation. Hence, while they get a clean chit, the vulnerability of reoccurrence of similar incidents may happen again.

Where customer grievances relate to financial compromise, banks initially try to save their neck through technical or legal arguments to support their actions notwithstanding the validity of the underlying issue. They only compensate the customers either in case if they fail to sustain their arguments or the customer happens to know someone influential to prevail in the situation. In respect of complaints relating to violation of basic service or harassment, again the operations management representing the concerned branch or staff takes a defending position and by using rhetoric they try to cool down the customer with the sole motive of saving the branch or concerned staff. Their target is generally to convince the customer to close the complaint.

Some banks give the right to their customers to escalate their complaints in case of unsatisfactory response from the front end. However, there are banks, which do not recognize this right of their customers but compel them to accept the fate they get from the front end.

It is the choice of aggrieved customer to engage the Customer Protection Department of SBP or Banking Ombudsman in the resolution process. Their inclusion does improve the chances of redressing customer grievance. But unfortunately, these organizations have more of advisory or mediating role hence, they are constrained by their mandate to require banks to mend their policies and processes so as to prevent reoccurrence of similar situations leading to customer grievance.

Way Forward

It would be interesting to outline an effective Complaint Resolution Management system before proceeding to highlight the missing ingredients and build recommendations.

At the onset, it is a recognized fact that internal work environment plays a significant role in mending people's performance. Having said this, an effective complaint resolution management should primarily focus on plugging the loop holes in the internal work environment besides redressing the customer grievance in a bona fide manner. In short, a complaint from the customer is a whistle blown against the system in particular.

Going forward, it is imperative to put in place an independent structure to investigate, analyze and redress complaints in a fair and just manner. Engagement of personnel from the operations only distorts the whole

> **"Where customer grievances relate to financial compromise, banks initially try to save their neck through technical or legal arguments to support their actions notwithstanding the validity of the underlying issue. They only compensate the customers either in case if they fail to sustain their arguments or the customer happens to know someone influential to prevail in the situation."**

process, for obviously they are directly or indirectly responsible for the lapse in performance.

A scant review of the existing complaint resolution management reveals a number of missing ingredients in the backdrop of an effective Complaint Resolution Management framework:

- In the existing scenario it seems that the Customer Complaint Department engages the second tier of operations management to further investigate and redress the complaint, which presents a clear conflict of interest. Besides, it also allows the concerned branch to tag the customer. Doing so the customer will be vulnerable to face biased attitude and harassment from the concerned branch staff.

- Besides, it appears that Complaint Resolution Management lacks any serious attempt to remove the impediments to quality customer service, hence the causes remain intact, only to recur in the shape of more incidents of this nature in the future. So there is a dire need for the Complaint Resolution Management to work in tandem with the concerned parties.

- It seems that all efforts are directed towards defusing the grievances of the customers at the psychological level alone. Hence the whole process becomes futile.

In view of the strategic business rationale of a robust Complaint Resolution Management, it is imperative to consider the following improvements:

a. Complaint Resolution Management responsibility needs to be assigned to an independent team, preferably within the echelons of Internal Audit.

b. The head of Complaint Resolution Management team should report to Audit Chief / Board Audit Committee.

c. All complaints should be considered as alerts and a close analysis of relevant policies and processes needs to be conducted in order to determine the reasons that cause performance lapses by the staff.

d. The Complaint Resolution Management team should directly communicate with the aggrieved customer and should not route communication through the operations team.

e. Remedial actions should ideally consist of appropriate performance reinforcement along with recommended changes in the policies and processes.

f. Lastly, the customer identity should remain confidential from the operations to avert any chances of customer vulnerability to face biased attitude and harassment from the concerned branch in future. ■

FLIP MORTGAGES

Q. Please explain Equitable and Registered Mortgages.

Ans. First of all let us clear a common mistake we incur every time, when pronouncing the word mortgage, it is simply pronounced as 'Morgaje', the letter 'T' is just a silent additive. But most of us speak of it with a hard 'T', which is not a fact. In the times of middle English era, it was pronounced as it was written, that is morgage. But it somehow changed later on.

A common dictionary defines mortgage as "a means of conveyance of an interest in property as security for the repayment of money borrowed and the deed by which such a transaction is carried out."

But now it usually refers to the context of Home Loans being offered by banks and other financing agencies. The term mortgage gained wide-spread usage, with the advent of Consumer Banking in commercial banks, in early 1990s, when banks embarked on offering Home Loans under their ambitious Consumer Banking Portfolio, other loans which fell under this umbrella were Easy Personal Loans and Car Financing Loans. It was this very time when the word 'consumer' entered the banking lexicon, otherwise there used to be only 'customers'.

Whenever a customer is granted such a loan against mortgage of property, the banker-customer relationship undergoes a change as it assumes the context of mortgagor-mortgagee relationship, in which case the banker or lender is the mortgagee in whose favor the mortgage is effected and the customer (borrower) becomes the mortgagor.

Mortgage is further explained in legal jargon under Section 58 (a) of the Transfer of Property Act, 1882, "A mortgage is the transfer of interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability. The transferor is called a mortgagor, the transferee a mortgagee, and the instrument if any by which the transfer is effected is called a mortgage-deed".

Now coming to the differences between **registered** and **equitable mortgage.** In a **registered mortgage**, the borrower has to create a charge on the property with the registrar through a formal, written process, as a proof of transfer of interest to the lender as security for the home loan. Registered mortgage is also known as Deed of Trust. It is also called Legal Mortgage, which is effected by registration and deposit of mortgage deed with the lenders. The registered or legal mortgage entails registering the document, creating the charge on the property by the mortgagor in favor of the lender, with sub-registrar / registrar.

In case of an **equitable mortgage**, it means creating a charge on the property by handing over the title deeds of the property by its owner to the lender and written confirmation of handing over the title deeds for the intent to create a charge on the property for the amount borrowed. In both types, there must be an agreement to mortgage by the borrower in favor of the lender.

Equitable mortgage does not incur any stamp duty. Registered mortgage will incur stamp duty based on the amount lent or amount for which charge has been created. Sometimes, amount lent may be more but mortgage will be registered for a nominal amount to avoid stamp duty.

Nowadays, registered mortgages are preferred by banks as it is more foolproof and safe method of securing against loans involving immovable property. But sometimes in view of personal credit-worthiness and goodwill of the borrower, the banks relax the criterion and also allow equitable mortgages. It all depends on the nature of banker-customer relationship which determines which mortgage the banker adopts for their borrowers.

In both the cases, whenever the borrower repays the loan according to the terms and conditions of the home loan agreement, the title of the property and other documents are handed back to the borrower. The rights of the lender (as created during the legal process) will be revoked on the property. When the entire outstanding amount is adjusted or repaid back, the lender releases a mortgage. A release of a mortgage known as Redemption Deed is the removal of the lender's lien on the borrower's property. Local registrar office is the appropriate department to file mortgage releases after clearance received from the lender side. The equity of redemption refers to the right of a mortgagor in law to redeem his or her property once the debt secured by the mortgage has been discharged.

Customer **Retention** in Banks

By: Rafi Ahmed

Apple Co-founder Steve Jobs had once rightly said: “Get closer than ever to your customers. So close that you tell them what they need well before they realize it themselves”.

It is very easy to attract and create customers but a rather tricky but not at all impossible a rubric and protocol to retain them. As pointed out by Steve Jobs you need empathy or telepathy to get too proximal and earn their confidence.

Banking Industry in Pakistan is a hyper-competitive one, with almost overlapping products, services, goals and ambitions to serve the customers and accomplish the corporate targets. The competitors comprise of Commercial, Microfinance Banks, Development Financial Institutions (DFIs), Investment Banks, Mutual funds etc. So it is of utmost importance if the customer base is not only expanded but the satisfaction level should be such that the existing ones are retained as well and they have a lifelong association with the concerned bank. All banks have in place Effective Customer Retention Strategies to retain the existing customers. These may not be written but implied. Customer retention is best described as the policy pursued by the banks to reduce customer attrition. The main aim of the banks is to have such programs which enable them to lose only a minimal number of customers and retain the loyalty of the existing ones.

The customer life cycle simply defines various multifarious phases which customers undergo when they are considering the selection of a financial institution and then remaining faithful to a particular bank brand. This implies that they are then addicted to the brand, since all the banks are branded with crystal clear names, tradition and history, which have earned public acceptance and goodwill over a number of years due to their trustworthiness, transparency, credibility, durability and dependability.

The customer base involves three stages, attracting customers, then creating customers, which is followed by retention which means commanding their loyalty. Although it is the prime goal of all banks to add more customers to its client list all the time, but if they fail in retaining the old or existing ones, then it is futile, just like a ship with holes, which continues to sink, despite superficial repairs being carried on. This also means that once the customers have entered into a contractual relationship with the bank, it should be ensured that they continue to stay with the same institution, the affiliation should be lifelong. The buzzword should be: Once a Customer, Always a Customer.

However, despite best efforts to retain the customers, some percentage of their attrition is undeniable and it is happening, which is also sometimes beyond the control of the bank. This is a worldwide phenomenon and Pakistan's scenario is no different. But some of tools for avoidance of attrition can be improved or changed accordingly.

Some common causes of customer attrition are well-known, as listed here:

- Poaching of customer by other banks offering better terms which also leads to substantial deposit departure
- Sub-standard customer services
- Shifting of workplace or residence by some customers
- Deficiency in some vital products
- Absence or less responsive customer grievance handling mechanism
- Customer behavior such as frequent cheque bouncing, which leads the bank to close their accounts
- Increased Frequency of ATM down-time (Uptime is a computer industry term for the time during which it is operational. Downtime is the time when it is not operational, it is the reverse)
- Recurring lack of cash in the ATM or absence of ATM in that particular branch where the customer maintains account
- Information Technology disruptions

As already mentioned banking is a hyper-competitive industry, as such banks compete with each other and with other financial institutions as well. Since almost all banks have somewhat similar products and services with only a marginal variation in add-ons, what makes the difference are the service costs, service quality and standards followed. The price is more in case of acquiring new customers than to retain the existing ones; some surveys show that reducing some customers who are not so lucrative could increase the profits. But retention means a raise in the level of happy customer experience index. Customers who go out of the bank satisfied without any quibbling are the satisfied long term lot, each one of whom are word-of-mouth marketer for the bank itself. The word-of-mouth publicity is free of cost but dependent on how much the customers are contented and secure with the bank staff who deal in customer service. Even grumpy customers can be attracted and calmed with effective communication tools. Thus customer happiness index must be a top priority.

At one time or another nearly all institutions generally commit mistakes in customer dealings. The resourceful and brilliantly shrewd ones know how to convert a customer with a grievance into a lifelong satisfied partner.

“Since almost all banks have somewhat similar products and services with only a marginal variation in add-ons, what makes the difference are the service costs, service quality and standards followed. The price is more in case of acquiring new customers than to retain the existing ones, some surveys show that reducing some customers who are not so lucrative could increase the profits. But retention means a raise in the level of happy customer experience index.”

Customer retention is focused on cultivating brand loyalty. All the banks strive with carefully contrived promotional campaigns. As John Tschohl, an American customer service quality guru, has stressed that the customer loyalty is greater when they have experienced service recovery. What does service recovery entail? It simply means the standard service be restored, which was being offered prior to the customer complaint. Service recovery is a well-programmed mechanism of retrieving aggrieved customers to a level of satisfaction with a bank. Service recovery differs from complaint management, as it lays more emphasis on service lapses and the bank's immediate reaction and action it takes to ameliorate the wellness of the customers.

Though banks spend quite hefty sums in marketing of their products and services but they ignore the core issue of training their employees as to how to combat customer defection. Since most relevant and critical persons in resolving the core issues in the bank are in direct rapport with the customers, it is their concern and task to alleviate the issues.

However, John Tschohl estimates that less than 2 percent of companies use service recovery techniques, which is not a happy augury. Most of bank staff keep the issues under the mat instead of promptly solving the problems. Many employees will dither or delay or pass on to others what is their immediate job as they are shy or hesitant in facing the customers. As a consequence, it sometimes takes an unfavorable turn when the issues are aggravated with the irritated customers even resorting to electronic media by posting their complaints on Facebook and Twitter.

Though banks spend quite hefty sums in marketing of their products and services but they ignore the core issue of training their employees as to how to combat customer defection. Since most relevant and critical persons in resolving the core issues in the bank are in direct rapport with the customers, it is their concern and task to alleviate the issues. Customers only know the persons with whom they are in daily contact over day-to-day affairs and will not take their complaints to the CEOs or the GMs. The aggrieved customers will converse to whoever is on the other side of the phone. Those bankers keen on customer retention ought to follow the Golden Rules of Customer Retention that can lead ultimately towards happy customer experience outcome.

1. **Say Sorry:** The first cardinal rule of prime importance is to say the oft-repeated but necessary cliché, that magic word sorry and regret for any lapse and offer an alternate preference.

2. **Take prompt action:** All complaints should be resolved or give the customers a fixed timeline. But the customers must be responded to in a very courteous way, in this way the bankers would be using a magical wand. Or at least apply balm to afford some immediate relief.

3. **Own responsibility:** It has become a recurring practice in some banks that employees pass on the blame to others, even sometimes to regional or head office. This is repulsive in customer service as today's clientele is much clever than those who are handling the grievance, moreover they are least interested or bothered about the hierarchy. So an immediate, transparent ownership of the lapse is imminent but must be tackled at the branch level.

4. **Decision-making power to employees:** Employees in the Complaint Handling Mechanism need to be vested with more powers to take decision at their own end to save time. Every branch staff, entrusted with complaint resolution, should be allowed to take prompt action without taking recourse to seek permission from their superiors or overseers for approvals in case the issue is not complex as it warrants superior sanction. This takes much time and results in dilly-dallying, leading to customer defection.

5. **Make things right and better:** Customers will be glad and satisfied, if the branch management not only makes things better but does not allow such lapses to become a regular occurrence. Banks have devised a number of strategies for creating and promoting their brands and then developing loyalty, to achieve the desired, optimum results in their retention plan.

6. **Know your customers well:** Since customers are the most valuable assets of any bank, so bankers ought to have a full grasp of the psyche and even the most essential details of the customers' banking needs and their personality traits. Banks usually offer more or less similar products for nearly the same cost. But to gain competitive edge, they need to expand their product quality beyond core services to include additional value-added features. Today's customers pay for the value that they derive from a product or a service. For example, if customers value convenience, they need to be offered services such as electronic banking and other facilities.

A personal touch is indeed very essential to the art of customer retention. One senior-most banker narrated how he used to keep track of those customers whose cheques were sent for clearing and they needed money for some urgency, so he made it sure that the clearing mechanism in the branch is efficient and timely attention is taken. He was also of the view that personal out-of-the-way touches bring magic to customer happiness and remembered how he had to take the sick son of one of his customers to a hospital in emergency as the customer could not reach in time. That customer was so enthralled and beholden that he remained the customer in that bank for life despite many ups and downs.

Even the most alienated customer can be restrained from quitting provided the bankers employ tact, toleration, patience, persuasive and problem-solving skills. Shrewd bankers have the knack of retrieving lost customers back to the fold again. Another crucial factor which the bankers ignore is the massive induction of millennial customers into the arena of banking. These people born in mid-1980s or 1990s have an altogether different set of habits and attitudes, while retaining them it is necessary to observe their lifestyles and trends, as they are a totally different segment as compared to the existing or traditional customers. Their banking expectations are trendy, so the bankers must deal with them in quite a different way, as such there is a need to convert them into happy customers.

Conclusion

One of the effective tools in customer retention, which is nowadays applied is the use of 'switching barriers', a hindrance that customers will have to face in case they switch over from one bank to another. These include account closing fees, contractual obligations, risks, interruptions of service. Besides there are also other costs involved, which may arise if the customer quits such as disruption and opportunity costs, emotional costs, waiving off credit / debit card fees, reducing or doing away with e-banking charges. There is also a risk a totally unknown environment. In fact, switching barriers are effective marketing strategies that put tabs on customer transfer to other banks. The switching barriers constrain the customers from leaving their present bank to move to another one. Such customers need only to be made aware and reminded carefully about such factors. Robert Valenzeula (an Australian customer services expert) is of the view that customer loyalty has powerful effect on the profits, even if the retention rate rises to 5 percent.

Sometimes emotional attachments also play a vital part in customer retention. For instance, some banks offer the children school savings schemes, under which accounts are opened in their names with minimal deposits and the children are required to deposit small amounts saved from their pocket money. This is a future investment in customer creation and retention practiced by some banks. Whenever these children grow up the brand loyalty of those banks would be automatically ingrained in their minds, so most of them would prefer those banks that took care of them as children, now to take care of them as adults. Retaining existing customers is a much easier business than inducting newer ones, as these involve considerable costs in having so many accessories such credit cards and other paraphernalia.

As Shep Hyken, the noted American customer services expert had said "If you have the goal to deliver an experience so great that the customer will return and recommend you, then you are on the path to success".

Customers are our lifeblood and roving ambassadors at large, so all out efforts should be made to satisfy and retain them. Lastly, remember the meaningful quote of Henry Ford: *"It is not the employer who pays the wages. Employers only handle the money. It is the customer who pays the wages".* ■

QUOTE

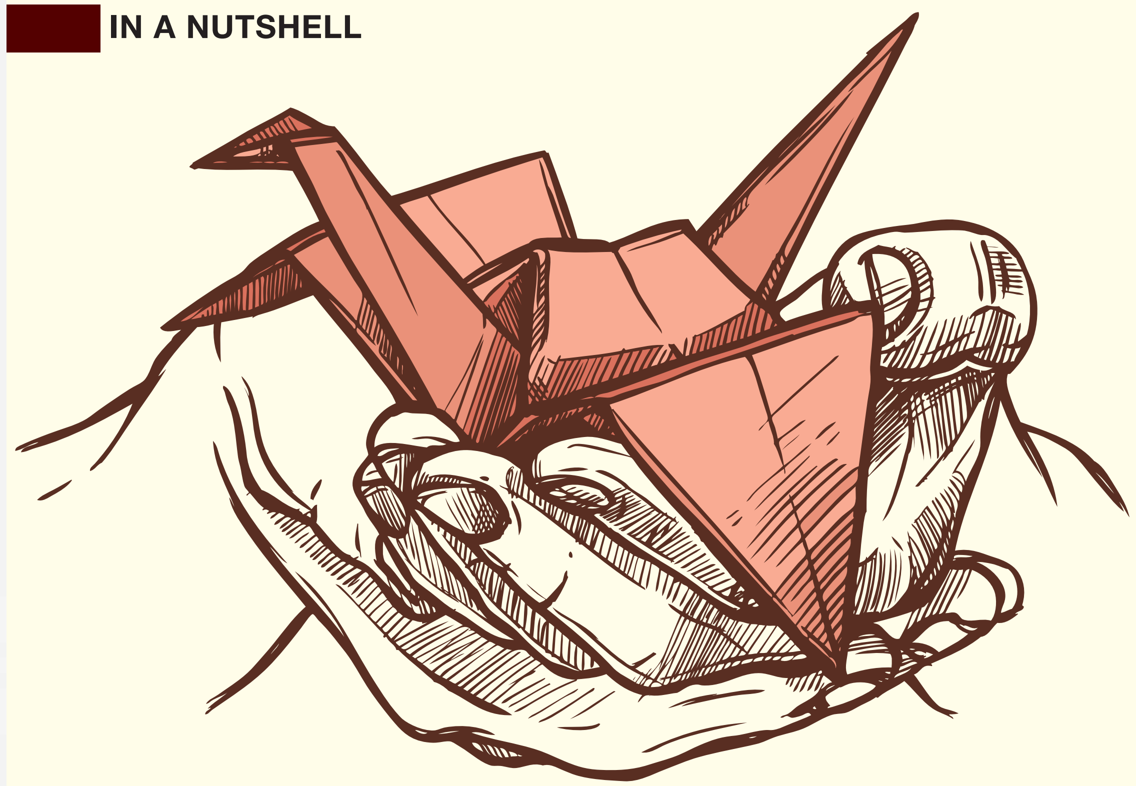
A HUNDRED WISE MEN SITTING TOGETHER WILL END UP SAYING THE SAME THING, WHILE IN A GROUP OF A HUNDRED FOOLS EACH ONE WILL SAY A DIFFERENT THING.

(PUNJABI SAYING)

BANK JOKE

SWISS BANK. A GUY WHISPERS: "I WANT TO OPEN A BANK ACCOUNT FOR 2 MILLION DOLLARS."

SWISS BANKER ANSWERS: "YOU CAN SAY IT LOUDER. IN OUR BANK POVERTY IS NO CRIME".



RUSTIC WISDOM

An elderly farmer approached a bank and submitted his application for a paltry sum of Rs. 12,000. The Credit officer discussed his request and started the paperwork.

"What are you going to do with this small amount of Rs. 12,000?", he asked.

"I am going to the weekly cattle market to purchase a goat, as one of my goats died a few days ago."

"Do you possess any security against the loan you have applied?"

"Well, what is this animal called a security?", the farmer retorted.

"Security is anything which has value equivalent to the amount of loan which is taken to secure it, in case of non-payment of the loan, which can be sold off to realize the defaulted amount. Do you have land deed?"

"Yes, I do have but for such a small amount, how can sell my land which feeds me and is like my mother, so I cannot give its documents."

"So what else do you have, any cattle or gold?"

"My wife's gold was sold off for the education of my only son and as for livestock I possess three buffaloes which are no longer of any use, fit to be put under the knife."

"Do you have any thresher or tractor?"

"Yes but they are rusted hulks."

At last a couple of days passed and his loan application was approved and the man was given the required amount against personal credit-worthiness.

Exactly after a month, the farmer visited the bank and adjusted the loan. He counted 12 notes of Rs. 1000 denominations and began concealing the extra ones which he had, mostly of higher denomination. The credit officer inquired of him as to what would he do with the extra amount.

"I would place them under the mattress of my bed for safekeeping", he replied.

"It would be good if you deposit the money which you have in the bank, it will be safe in the bank and in case of need you can withdraw it."

The farmer pondered for a few seconds, then asked the bank officer, "Will the bank hand over something as a security for my money?" ■

THE DYNAMICS OF LETTER OF CREDIT

By: Aqeel Muslim

This brief write-up is aimed to provide rudimentary knowledge to equip the readers and those engaged in Finance of International Trade with a bird's eye view about the Letter of Credit, how it works and why all steps are important to complete the trade / LC cycle. This introductory article would be beneficial for the new entrants and young trade officers to understand the trade cycle.

What is Letter of Credit (LC)

Letter of Credit (LC) is an undertaking issued by a bank for the account of the buyer or for its own account, to pay the seller against the value of the draft and/or other documents provided that the terms and conditions of the credit are complied with. LC is governed by the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. UCP 600 which is applicable all over the globe.

Availability of Letter of Credit

Under UCP 600, LC can be available with:

- Payment – The payment at sight against complied presentations / documents.
- Negotiation – The payment with or without recourse to the beneficiary or bona fide holder against complied presentation of documents under the letter of credit.
- Acceptance by drawee bank – payment at a future determinable date against compliant documents – A tenor draft is normally required for presentation under an acceptance credit and is drawn on the acceptance bank rather than the LC issuing bank.

Usance Credit – Payment at a future determinable date against complied presentation. A tenor/usance draft is normally required (but not mandatory) for presentation under a usance credit and is drawn on the issuing bank. Usance credit is available by negotiation, acceptance and deferred payment. A tenor draft is not required for presentation under a deferred payment LC.

Parties to a Letter of Credit

Beneficiary
Beneficiary is normally the seller under the sales contract and the party who will receive payment under the LC if it fulfills all the terms and conditions of the credit.

Applicant
Applicant is normally the buyer under the sales contract and the party that initiates the request to the LC issuing bank to issue LC on his behalf. The LC applicant normally maintains banking facilities with the issuing bank.

LC Issuing Bank
An Issuing (LC opening) bank is the bank that issues the LC in favor of a beneficiary (seller) at the request of the LC applicant. The issuing bank is normally located in the applicant's country with established banking relationship with the applicant. By issuing an LC, the issuing bank under-takes to pay the beneficiary the value of the draft or other documents if all the terms and conditions of the LC are complied with.

LC Advising Bank
An advising bank (or sometimes known as notifying bank) is the bank that advises the LC beneficiary that there is an LC issued in his favor. Advising bank is normally located in the seller's country and is either appointed by the issuing bank or LC applicant. Its primary responsibility is to authenticate the LC to ensure that the it comes from a genuine source.

LC Confirming Bank
A confirming bank (normally also the advising bank but not necessary) is the bank that adds its own undertaking to pay the LC beneficiary if all terms and conditions of the credit are met. Such undertaking is in addition to that given by the issuing bank at the request of the beneficiary's bank. The confirming bank will only confirm an LC upon satisfactory evaluation on the conditions of the issuing bank and its domicile country.

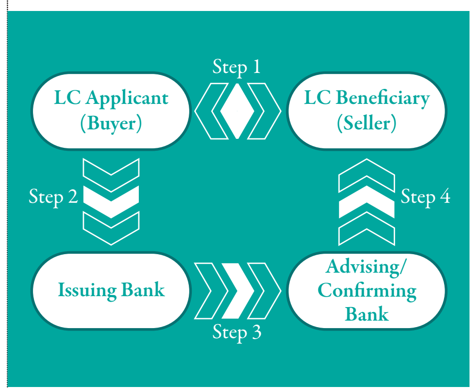
Negotiating Bank
A negotiating bank is the bank that examines the shipping documents / drafts presented by the beneficiary and offers values to such drafts or documents. Negotiation could be in the form of purchasing or agreeing to purchase the drafts or documents presented.

Reimbursing Bank
A reimbursing bank is the paying bank appointed by the LC issuing bank to honor claims submitted by the nominated or negotiating bank.

Nominated Bank
A nominated bank is a bank authorized by the issuing bank to pay, negotiate, issue a deferred payment undertaking or accept drafts under the LC. If the LC does not specify a nominated bank, the LC is deemed as freely negotiable and any bank that accepts documents from the beneficiary can be the nominated bank. A nominated bank is not bound to pay under the letter of credit unless it has added its confirmation to the credit.

Flow Chart of Letter of Credit

Stage 1: LC Issuance and Advising/ Confirmation



Step 1: Buyer and seller conclude the sales contract and agree to use an LC as the method of payment.

Step 2: Buyer approaches the issuing bank to issue an LC on his behalf in favor of the seller with all the terms and conditions specified.

Step 3: Issuing bank issues the LC and requests the advising bank to advise or confirm the credit to the LC beneficiary (seller).

Step 4: Confirming / advising bank authenticates the LC and sends the LC to the beneficiary.

Stage 2: Presentation of Documents and Settlement (Sight LC with reimbursing bank)

Step 5: Beneficiary prepares and dispatches the goods to the applicant's country.

Step 6: Beneficiary presents the documents and drafts to the nominated bank.

Step 7: Nominated bank (nominated as the negotiating bank) checks documents presented against the LC's terms and conditions and seeks instructions from seller on documentary discrepancies, if any.

Step 8a: Nominated bank forwards the drafts and/or documents to the issuing bank.

Step 8b: If documents are clean or discrepancies are accepted by seller's indemnity, nominated bank claims reimbursement from the appointed reimbursing bank.

Step 8c: Reimbursing bank pays the nominated bank against a valid reimbursement authority received from the issuing bank and statement from negotiating bank that the documents complied with LC's terms.

Step 9: Nominated bank credits the net proceeds into the beneficiary's account.

Step 10: Issuing bank checks documents presented against the LC's terms and conditions. If documents are complied / clean in all respects, issuing bank pays off the reimbursing bank.

Step 11: Issuing bank presents documents to the applicant for payment.

Step 12: Once payment is received from the applicant, issuing bank releases documents to the applicant for release of goods from customs / port authorities. ■

BUSINESS INTELLIGENCE *IN BANKING*

By: Rahim Zulfiqar Ali

Business Intelligence (BI), in a nutshell, includes the applications, infrastructure, tools and best practices that enable access to data and analysis of information to expand and enhance decisions and performance. Business Intelligence is a process which involves data warehousing, data mining, reporting and querying capabilities, data analytics, interactive digital dashboards & data and process visualizations.

Business Intelligence is Intelligent Business for Banks

Business Intelligence is a set of methodologies, processes, architectures and technologies that transform raw data into meaningful and useful information used to enable more effective strategic, tactical and operational insights and decision-making. Business intelligence also includes technologies such as data integration, data quality, data warehousing, master data management, text and content analytics etc.

BI technologies provide historical, current and futuristic views of business operations. The common functions of business intelligence technologies are reporting, online analytical processing, analytics, data mining, business performance management, benchmarking, text mining and predictive analytics.

BI aims to support better business decision-making. Thus, a BI system can be called a decision support system (DSS). BI uses technologies, processes, and applications to analyze mostly internal, structured data and business processes while competitive intelligence gathers, analyzes and disseminates information with a topical focus on company competitors.

BI is responsible for enhancing the banking operations like identifying patterns, analyzing connections, addressing and resolving issues in real-time etc. Many financial institutions have already started benefitting from the BI technology. However, its full potential is yet to be discovered.

Business intelligence solutions are not new to the banking domain. It can further be defined as a blend of tools, techniques and technology together performing functions, which otherwise would have been performed by humans. Through real-time business intelligence, processing information becomes convenient and decisions can be made faster with accuracy. As a result of BI, more positive business results are observed. Business intelligence and analytics, rather Artificial Intelligence (AI) is expected to surpass human intellect by end-2019, as estimated by Google's Ray Kurzweil.

However, journey towards the future will not be as smooth as it appears. The banks and financial institutions struggle with a few major challenges in their way; two of the major ones being the presence of data silos and lack of experienced resources having hands on collecting data, analyzing and applying it for business gains.

Top 5 Benefits of BI Use in Banking System:

- Feed as much data as you want into BI software, it will never get overloaded as long as it is good, clean data.
- Faster reporting – Banking BI allows organizations to visualize both historical and current data in real time. This makes spotting patterns, potential bottlenecks and setting goals easier based on historic metrics. No more waiting for a report for two months after you requested it from finance.
- Business intelligence in banking connects across disparate systems, removing the need to generate reporting from each one individually.
- Business intelligence in banking allows organizations to measure big data on their customers in quantities never seen before to help increase customer satisfaction. Banks can have a deeper understanding of their customers with banking BI, allowing them to address concerns proactively.
- More accurate reporting – business intelligence in banking removes the need to manually wrangle data by plugging directly into core systems databases.

BI in banking evolved through manual systems to management information systems with computerization. Banks had efficient transaction recording systems before computerization also. The manual systems too had effectively provided the necessary reports for management and regulatory requirements. These reports were manually consolidated at lower offices and final reports were presented at head office level. These manual systems worked well as long as the scale of operations of the banks was small.

As the banks grew in size and expanded geographically the number of branch network grew by leaps and bounds and so the volume of transactions became quite large and manual operations became time consuming, burdensome and error prone. To cater to the load of operations from all bank branches spread across the country, banks had started using computers and slowly banks have become fully automated.

The manual management information system (MIS) in the banks had the following drawbacks:

- The data was layered in different silos
- There was a time lag in data collating
- Data quality was poor
- Unavailability of customer specific data
- Data granularity required for developing analytics (what if scenario, drill down)
- Timely non- availability of data to the decision makers
- Reporting activity competed with business activity for resources at the branch
- Data classification rules were not applied uniformly across the organization and also varied with time

Slowly, majority of the banks began using information technology for MIS. The inflexibility of COBOL programs and batch processing was soon overcome by powerful desktop systems with rudimentary database systems, which allowed banks to analyze data, once it has been received in manual form from the branches, the same was transcribed into machine readable formats and validated. Quite a few of regulatory reports were also produced in this way. These earlier initiatives laid the foundation stone of BI in banking.

Uses of BI in Banking

Banks can analyze their historical performance over time to be able to plan for the future. The key performance indicators include deposits, credit, profit, income, expenses; number of accounts, branches, employees etc. Figures and growth rates (both in absolute and percentage terms) are required for this analysis. In addition to time dimension, which requires a granularity of years, half year, quarter, month and week; other critical dimensions are those of control structure (areas, regions, branches), geography (countries, states, districts, towns), area (rural, semi-urban, urban, metro) and products (savings and current accounts, loans, overdrafts, cash credit). Income could be broken down in mark-up, treasury and other income; while various break-ups for expenses are also possible. Other possible dimensions are customer types or segments. Derived indicators such as profitability, business per employee, product profitability etc. are also evaluated over time. The existence of a number of business-critical dimensions over which the same transaction data could be analyzed, makes this a fit case for multi-dimensional databases (hyper cube or 'the cube').

Business Intelligence & Analytics for Banking Sector

Banks desire to use customer-related data on products, channel activities and profitability to improve the targeting of online campaigns and make business processes more seamless and effective.

By using a Business Intelligence (BI) solution to analyze organizational data, banks can improve and streamline operational efficiencies, increase product sales and marketing strategies and better develop customer service programs.

Following are the key points:

1. Increase in customer base
2. Increase in operational efficiency
3. Increase in customer satisfaction level
4. Customer behavior analysis
5. Adherence to guidelines
6. Staff performance analysis
7. Increase in profitability

> **"By using a (BI) solution to analyze organizational data, banks can improve and streamline operational efficiencies, increase product sales and marketing strategies and better develop customer service programs."**

Risk management in Banking with BI

In a promptly changing and uncertain financial world, banking institutions need to rely more on fact-based actionable information, gathered from ever-increasing data assets, to reduce risk wherever possible. The actionable information generated by a BI solution can mitigate risk in the banking sector by:

- Quickly and efficiently detecting and reducing incidents of fraudulent activity (eg: cases of credit card fraud) by tracking customer transaction history
- Calculating the probability that a customer will default on a loan and estimating the cost of recovery
- Accurately estimating the risk of customer loans
- Identifying financial assets and earning capacity of the borrower
- Analyzing the prevailing economic scenario
- Analyzing credit portfolios, enabling banks to quickly identify potential delinquency cases and act proactively as a preventative measure. Data analysis can also analyze trends in customer delinquency, from which new policies can be developed to reduce the rates of delinquency cases in the future
- Ensuring compliance with statutory and regulatory requirements

Improve operational efficiencies and boost profits with BI in Banking

Banks can reduce ongoing costs and maximize existing resources and expertise, by analyzing operational processes and activities to:

- Generate massive internal efficiencies (e.g. analyzing the performance of sales personnel, tellers and account managers)
- Understand growth patterns to maximize the chance of repeatability
- Track individual revenue streams to determine profitable and non-profitable services and products
- Set key benchmarks for crucial metrics such as the number of net new customers and their profitability, compare them against industry standards and track them towards defined goals
- Develop more effective marketing and sales campaigns through detailed and accurate customer segmentation
- Analyze and serve customer segments according to costs, profits and services used
- Identify and actively retain and pursue viable customers

Customer segmentation

A standardized BI solution allows banking institutions to accurately and efficiently segment their customer-base, in order to:

- Effectively tailor products and services
- Effective customer profiling

Improve customer satisfaction through understanding and transparency

Banks can further increase customer satisfaction ratings by proactively harnessing data to give clients superior insight into their individual transitional operations, allowing them to more effectively manage their finances by having:

- Real-time understanding of payments
- Real-time understating of spendings

This will enable customers to more easily manage finances by being able to track and analyze their spending and earning patterns.

Business Intelligence Tools used in Banks by Different Functions / Departments:

1. Oracle BI
2. POWER BI
3. QlikView
4. Tableau
5. IBM Cognos BI

Banking intelligence system implementation enables users to connect multiple and disparate system sets together to display interactive data visualization dashboards that would normally not be able to communicate across platforms. Mortgage loans, car loans and credit cards all fall under the executive supervision as report of monthly results of each department has to be filed on an ongoing basis.

Now all the data is in completely different core IT systems and must be extracted every time it needs to be analyzed. Consolidating that banking data is a monumental task and takes four people and at least two weeks to complete each month. That is the current scenario of most banks trying to get business intelligence in banking going. Imagine being able to install a software layer on top of all those separate core banking systems and databases that connects all of them to enable live reporting of all the data at once. This is how banking business intelligence works. While that might sound like the simplest fix of all time, a lot of work needed to be done in standardizing the underlying data before it can function in a useful way.

Operational Business Intelligence in Banking: Dashboard Design

Defined as an analytical display tool linked to multiple banking data sets across multiple systems, a banking dashboard is an integral element in business intelligence in banking. If one has the (enriched, standardized) data to crunch, then it can be tracked and displayed from business process flows to financial performance outcomes to key performance indicators. Key performance indicators, or KPIs, are specific quantitative measurements of the business effectiveness. Being able to visualize them allows bankers to track their organization's performance both currently and historically. It can also enable them to use predictive analysis to project the future performance, to an extent.

Business Intelligence in Banking – What Does the Future Look Like?

In order to stay ahead of the competition in a long run, BI solutions are imperative for banks as they enable them with capabilities to detect frauds, mitigate risks and reduce costs etc. While the modern consumers are being already exposed to BI through firms excelling in ecommerce, social media or mobile phone production spaces, they expect a similar type of (personalized) experience through their financial and banking services providers. ■

ROLE OF BANKS IN DEVELOPMENT OF SMEs IN PAKISTAN

By: Imran Sadaf

There exists a strong notion backed by empirical evidence that SMEs' expansion boosts employment, GDP and exports of a country in a considerable manner. Thus multiplier effect of SME on the economy makes it a centralized theme for any country. Though challenges, issues and prospects of the SMEs cannot be understood and deliberated without taking a holistic approach of all the stakeholders, however role of banks in development of SMEs will be the focused proposition in the analysis.

As per SBP definition, Small Enterprise (SE) should have maximum annual sales turnover of Rs. 150 million and a maximum of 50 employees. For Medium Enterprise (ME), it should have 51-250 employees for manufacturing and service concerns and 51-100 for trading concerns. ME should have annual sales turnover between Rs. 150 million to Rs. 800 million.

SME is a sector which altogether requires a different approach and strategy as far as its structural, social and business dynamics are concerned. All over the world, SMEs are hit by low funds from financial sector. SMEs in Pakistan are also confronted with low exposure due to various reasons emanating from both SMEs and financial sector. Generally, banks in Pakistan are reluctant to finance the needs of SMEs due to perceived high credit risk as well as other factors. There is a huge gap in what SMEs want and what banks offer. In the past, some of the banks have tried to replicate the imported models towards SME financing, but could not find the desired results. Without understanding the social and business values of the SMEs, banks would not be able to make it a profitable and sustainable business proposition. In Pakistan, there are around 3.2 million enterprises, SMEs contribute more than 90%, with a predominant chunk as sole proprietors. Out of 3 million SMEs, only 165,857 are availing banking finance despite the fact that 40% of SMEs maintain banking relationships with the banks in one way or the other. Further bifurcation of SMEs reveals that larger chunk of bank financing is dominated by small enterprises, while medium enterprises are deprived of their due portion of financing. By December 2017, SME loans were 9% of total private sector lending. This lower quantum in SME financing was spurred by rising NPLs, disinterest of the banks, high inflation and mark-up rates, availability of alternative investment channels and low credit to private sector. Banks found themselves in the safe position by not tying up their resources with SME portfolio. Perhaps the existing banking model with a particular mindset of lending may not allow the progress of SME financing at desirable level.

Activation of SME financing has been spurred recently by the intervention of State Bank of Pakistan and outstanding SME financing stands at Rs. 439.52 billion by December 2017. In the last two years, banks have been encouraged to adopt an aggressive but cautious approach to penetrate in the SME sector again. Certain lessons learnt by the banking industry from the last decade have been duly incorporated in the emerging strategies related to SME financing.

SME financing has depicted a steady increase during the last four years and decrease in NPL ratio as well. This trend shows the conscious and slow approach towards SME financing growth. Perhaps, banks are more calculated this time in extending the credit to SME sector. Private Banks are the leading finance suppliers in the SME finance market. Private Banks like HBL, Bank Alfalah have remained the market leaders in the SME financing, while share of NBP and Bank of Punjab is also considerable among the public sector banks. Islamic banks have also taken a leap forward.

In the context of sectoral distribution, banking loans in South Asian countries including Pakistan are more concentrated in wholesale, retail and manufacturing SMEs. Study of the recent data reveals that Manufacturing, Trade and Commerce constitute more than 70% of the SME financing in Pakistan. Working capital finance has constituted 72% of SME financing in the past twelve years, whereas trade finance and term investment portions stand at 13% each. It shows that a lion's share in SME financing is occupied by short term financing, while the long term financing is lagging far behind. Perhaps, this is the reason that SMEs have not been able to grow themselves into modern SMEs and corporations. Worldwide, businesses attract the funds through Initial Public Offerings (IPOs) and then meet their long term needs through capital markets or banks. In Pakistan, capital markets for SMEs are not that favorable to attract the initial funds, partly due to SMEs own structural issues. Low exposure of banks in term financing reflects the trust deficit on the solvency and long term performance of the SMEs. This trust deficit is built on the multiple factors such as the bank's own ability to evaluate the projects, collateral deficiencies and mismatch of long term liabilities. Quarterly SME report of SBP-2016 also reveals and reinforces the fact that more than 72% of the SME loans are limited to Rs. 30 million maximum.

Working capital needs of SMEs attract more credit in the form of running finance and trade finance as compared to term financing. The modernization and upgradation of SME business in Pakistan is missing and carrying the mismatch of quality SME products and services required to compete at international and national levels. Availability of term financing and project financing is crucial in building up the modern and profitable SMEs which will contribute to GDP and exports of the country. It may also be mentioned that State Bank of Pakistan has introduced refinance schemes for the SMEs at subsidized rates. These schemes address the long term financing needs of the SMEs, available at subsidized rates and easy terms. Such schemes are to be run through the banks which take their portion of risk with them as well and incorporate the risk premium in the ultimate financing.

The situation may vary among banks and individual SMEs; however, financing gap for SMEs in Pakistan has a few shared impediments. These include asymmetrical information between banks and entrepreneurs, high risk and cost associated with SME financing, collateral issues, poor documentation, easy access to informal finance, low financial literacy and complexity of deals. Above challenges can be exacerbated by institutional factors from banking sector such as poor knowledge of the SMEs, lack of expertise in SME dealing, corporate-based financing mindset, strategic avoidance from SME financing, hefty exposure in government papers and risk averse approach. Banks need to treat SMEs, better than traditional customers, who require more handholding and financial patronage in making of their credit proposals, documentations and cultivating close relationships. Traditional approach of addressing the SMEs will yield the same results and disinclinations in the form of entry barriers, documentation and collateral challenges. Banks need to de-learn the existing myths and methodologies and re-learn the evolving insights related to SME financing. Perhaps, the most unnoticed issue in SME financing is that banks replicate products/models for SMEs on existing relationship without customizing it as per the requirements of the client, thus shaping a fate of a failed relationship. This relationship based model yields lower revenues per unit on the SME portfolio as compared to corporate credit (Rs. 0.46 million vs Rs. 1.44 million).

> "SME financing has depicted a steady increase during the last four years and decrease in NPL ratio as well. This trend shows the conscious and slow approach towards SME financing growth. Perhaps, banks are more calculated this time in extending the credit to SME sector. Private banks are the leading finance suppliers in the SME finance market."

One of the reasons that banks are unable to bridge this gap is the perceived credit risk present in financing SMEs. This perception is primarily built upon the absence of credit history, stakeholder information, proper accounting system and valid sales receipts. There are no concrete and result oriented efforts from the banking industry to devise the customized strategy in order to overcome the above explained challenges related to SMEs. Most of these issues are structural and inherent in nature, which needs to be addressed at the holistic level by including other stakeholders as well. Relationship lending is the historic discourse used by the banks to establish a lending connection with the SMEs. This model is partly effective and successful with the existing set of SME clients, but does not construct or penetrate in the new market. Keeping in view the very low number of borrowers under 200,000, the need to tap new market and clients is huge as we have around 3 million SME entities operating in Pakistan. And to open up the gates for fresh SMEs, one needs to operate on market oriented strategy, not just relying on the relationship model solely. Some of the financing impediments faced by SME sector are outlined in the table below.

Some of the successful models of financing SMEs

Supply chain financing also termed as reverse factoring and supplier financing is a mode of financing that caters cash flow by allowing SMEs to stretch their payment terms to their suppliers and providing the early and direct payments to suppliers, thus creating a win-win situation for both the parties. Banks usually finance to the suppliers with the assurance of established financials. Through supplier financing, steady cash flows to the suppliers of the SMEs is made sure and it creates uninterrupted flow of funds through the supply chain. Some of the banks in Pakistan are offering supply chain financing for agricultural and SME finance. It has taken a good start and banks have been successful in formulation and marketing of supply chain products. SME's business and supply chain knowledge such as working capital cycle, point of sale, demand of the product and service, supplier credentials can be a catalyst for the banks to develop the rapport with the SME for the lending relationship. This knowledge base cannot be attained unless the dealing bank has the footprints of the locality and field. Enhanced knowledge of field is very vital, if banks really want to penetrate into the sustainable and growing relationship with the SMEs. Banks need to refine the business specific templates for SMEs to incorporate the business scale, project revenue and profitability, which would assist in the allocation of master limits for the SMEs.

FINANCING ISSUES AT DEMAND SIDE	FINANCING ISSUES AT SUPPLY SIDE
No collateral	High risk perception
Lack of credit history	High administrative cost
Lack of documentation/financials	Corporate mindset
Low financial literacy	Limited expertise to evaluate SME loans
Complex and time taking loan procedure	Alternative investment channels
Reluctance to tax filing	Creditworthiness of SMEs
Easy access to informal finance	Lack of strategic interest/benevolence gap
Asymmetrical information	Lack of study/assessment for SME loan demand
Lack of management professionals	Lack of innovation
Lack of succession planning	Lack of customized products and services
Highly uncertain business environment	Traditional lending methodologies
High cost of credit	Reliance on relationship lending
High moratorium period (turnaround time)	Untrained staff
Informal business structure	High NPLs

Program-based lending is another widely exercised approach to adhere to the SME financing needs. Program-based lending is pillared on the standard set of rules for credit extension to a group of clients bearing similar features or business needs. This kind of lending makes the life easy for the bank to process the loans and takes minimum time to process the case. Program-based lending tends to minimize the credit risk and acquire higher margin of profits. The basic and foremost requirement in this lending is the availability of required information (especially credit data) from the SMEs. To run the successful program-based lending in Pakistan, it needs the development of data, strategic direction from board of directors, assessment of innovations, ideas and market research.

Innovation while structuring the SME products is of prime significance as it would help in filling the gaps that exist between demand and supply of the financing. Product innovation with respect to the need of the SMEs such as equipment finance, receivable finance, modernization finance and rehabilitation finance can help the substitution of term debt and working capital needs of the SME business. Structuring of the products in line with the cash flow, supplier information and market information of the SMEs can be enabling for the banks to lend on trust basis. Banks with a local footprint are always in a better position to monitor the disbursed loans extended to SMEs.

Initiatives of State Bank of Pakistan

To stimulate increase in the quantum of financing to the SMEs, a comprehensive strategy has been formulated by the State Bank of Pakistan in consultation with the commercial banks and other stakeholders. Banks have been directed to achieve the target of 17% in overall private sector exposure of the banking industry. In the same vein, target of 500,000 SME borrowers is to be achieved by 2020. In order to achieve these targets, an enabling environment and some revolutionary initiatives have been taken in the likes of the SBP's nine pillars. These pillars serve on the different dimensions which contribute uniformly for the common cause of enhanced SME financing. Certain amendments and improvements in the prudential regulations have been made in order to enable banks to extend the credit. Key improvements in regulatory framework includes the empowering of CEO/Presidents of the banks to approve the program-based products instead of Board of Directors. It will pave the way for easy and quick introduction of the SME financing products in the market. Retail exposure limit has been increased to Rs. 125 million from Rs. 75 million. This enhancement shall definitely drive the cause of medium size and large size tickets in the light of requirements of SMEs. Small enterprises are relatively in better position as far as financing availability to them is concerned. It is largely due to the effective presence of MFBs in the market. Capacity of the MFBs has also been increased by stretching the financing limit of MFBs from Rs. 0.5 million to Rs. 1 million. Banks have been advised to reduce the turnaround time for dealing with SE and ME loans to 15 and 25 working days respectively. For the facilitation of the SME clients, loan application forms have been simplified by excluding the requirement of Basic Borrower Fact Sheet. Such regulatory interventions in favor of the SMEs will help to curb the impediments in the smooth financing of the SMEs. In future, a standardized loan application form is set to be devised for the SME cluster, creating the uniformity and ease for the clients. Handholding of the SMEs is the need of the hour, which is being addressed by banking sector of the Pakistan under the patronage of State Bank of Pakistan. Going forward, banks will establish dedicated desks for the SMEs which need non-financial advisory services. This initiative is anticipated to encourage financial awareness amongst the SMEs so that they are brought into the formal net of lending connect.

> "The situation may vary among banks and individual SMEs; however, financing gap for SMEs in Pakistan has a few shared impediments. These include asymmetrical information between banks and entrepreneurs, high risk and cost associated with SME financing, collateral issues, poor documentation, easy access to informal finance, low financial literacy and complexity of deals."

SBP's 9 Pillars of Policy for Promotion of SME Finance

1 PILLAR — Improving Regulatory Framework

2 PILLAR — Upscaling through Microfinance Banks

3 PILLAR — Risk Mitigation Strategy

4 PILLAR — Simplified Procedures for SE Financing

5 PILLAR — Program - Based Lending & Value Chain Financing

6 PILLAR — Capacity Building and Awareness Creation

7 PILLAR — Handholding of SMEs-NFAS

8 PILLAR — Leveraging Technology to Promote SME Financing

9 PILLAR — Simplification of Taxation Regime

Recommendations:

1. Development of SME in Pakistan is related to the collective approach of the stakeholders such as SBP, SMEDA and SECP. SMEDA and SECP can play their role in addressing the structural and fundamental issues of the SMEs.

2. Financial literacy of the SME clients is the need of the hour as a large chunk finds itself away from the doors of the bank, physically and psychologically.

3. Government and corporate guarantees for the small enterprises can help them raise the banking finance for their short term and long term needs. In this regard, SBIC guarantee program of USA can be studied.

4. Customizing the accounting system for SMEs can reduce the information asymmetry between SMEs and the banks as well as slash the information collection cost for the banks.

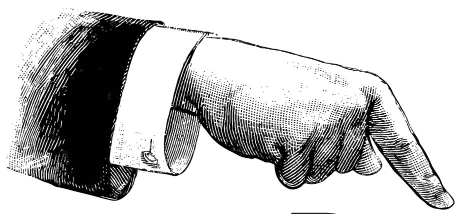
5. Technological intervention in the pre-disbursement and post-disbursement stages of lending bears multiple fruits on account of perpetual relationship between banks and SMEs. Technological interface provides the base of wide data for the banks to access the credit history, transactional data, credit requirement and repayment capacity. For instance, Experian Micro Analytics and Cignifi (the global models) give the credit scoring based on airtime usage of the clients.

6. Introducing tax incentives for SME financing products with social impact will motivate the supply and demand players in growth of SME financing.

7. There is a need to improve the transparency and provision of targeted information for the banks. Credit registries, credit bureaus and rating systems are options to capture the comprehensive database including credit history and financial information. Once such registries are developed, these will serve as the paradigm platform for the banking industry, removing a bulk of obstacles for the supply side.

8. Recent research on the SME finance enforces the fact that financial provision to SME is much fruitful, when accompanied with the consulting and advisory services to the SMEs. So, there is a dire need to educate and anchor the financially excluded segment of the SME clientele. ■

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



Simple Sound Advice to Bankers of 1863

In December 1863, Hugh McCullum, (1808-1895) the first American Comptroller of Currency and later the U.S. Secretary of the Treasury addressed a letter to all national banks. Those institutions had only lately been organized, and McCulloch wanted to make certain that their executives fully understood the responsibilities and expectations that came with their national charters. This advice is still valid today. Here are some extracts from his letter.

- Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to encourage speculation. Give facilities only to legitimate and prudent transactions.

- Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently unsafe. Large borrowers are apt to control the bank and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.

- If you doubt the propriety of discounting an offering, give the bank the benefit of the doubt and decline it. If you have reasons to distrust the integrity of a customer, close his account. Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him; even if his excess of expenditures can be explained consistently with his integrity, still dismiss him. Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.

- The capital of a bank should be reality, not a fiction; and it should be owned by those who have money to lend, and not by borrowers. The Comptroller will endeavor to prevent, by all means within his control, the creation of a nominal capital by national banks, by the use of their circulation, or any other artificial means; and in his efforts to do this, he confidently expects the co-operation of all the well-managed banks.

- Pursue a straightforward, upright, legitimate banking business. 'Splendid financing' is not legitimate banking. Never be tempted by the prospects of large returns to do anything but what may be properly done under the National Currency Act.

- Treat your customers liberally, bearing in mind the fact that a bank prospers as its customers prosper but never permit them dictate your policy.

(Sourced from Daring Opinion by Elie Elhadj)

If money doesn't grow on trees, then why do banks have branches?

SO THIS IS ENGLISH

Dare Diminutives

Among other characteristics or derivatives of English language are the words which come as diminutive or midgets, connoting smallness, shortness and littleness, or a smaller version of the bigger word. In language structure, a diminutive is a form of a word used to describe smallness of the object or quality named, intimacy or endearment.

The most common diminutives are formed with the prefix mini- and with suffix such as -let. Sometimes diminutives are used for names also with abbreviated names when people desire to be more informal, or as an affectionate term for someone or something.

An interesting example is minibus, here by adding a prefix mini- to bus we tend to dwarf it. Minibus, as everyone knows, is a small replica of its larger parent bus.

Another trait is to add a suffix at the end of a word such as in booklet, pamphlet, droplet (which means small drops falling off a tap or from rains.) More such examples of diminutives include circlet, a small circle; hillock a small hill; novelette, a short novel; wavelet, a ripple or small wave; rivulet, a small stream; coronet, a small crown; eyelet, a small hole. There is even a further diminutive of novelette which is known as novella. Some diminutives are even changed altogether such as Matty, which is a short form of Matthew or Maggie, as Margaret Thatcher, the former Prime Minister of Britain, was affectionately called. Even Britain has its short form: Brit. Sometimes it is shortened further, for example a young or small cat is known as kitten, but it is shortened once again as kitty. Another example is a long form of the diminutive maiden, which is derived from the word maid, a short word indeed, meaning a girl or young woman. Some weird words denote small forms by adding kin at the end, such as catkin (small cat) and manikin (a short person).

Then we have a common word darling which is a diminutive of word dear. There is fingerling which is used to describe a small fish; duckling, a young duck and gosling, a young goose.

Other fascinating examples include bullock, which is the diminutive of bull. In some cases, a diminutive is made by adding -y at the end of a word such as hanky for handkerchief. But a diminutive can also be made by adding -ette, in the end as in statuette and kitchenette. The short form of cigar is cigarette, which is longer than the parent word. In fact, all these three parent words mentioned above are smaller than their respective diminutives.

Here is another list of interesting diminutives of various objects, animals and birds:

Bird	Nestling	Latch	Latchet
Cock	Cockerel	Leaf	Leaflet
Eagle	Eaglet	Lock	Locket
Owl	Owlet	Part	Particle
Animal	Animalcule	Ring	Ringlet
Ball	Ballet	Tower	Turret
Brace	Bracelet	Verse	Versicle
Cask	Casket	Brook	Brooklet
Corn	Kernel	Dame	Damsel
Cover	Coverlet	Village	Hamlet
Eagle	Eaglet	Rose	Rosette
Flower	Floret	Sack	Satchel
Globe	Globule	Star	Asterisk
Ice	Icicle	Table	Tablet
Island	Iislet/isle	Tree	Sapling
Lamb	Lambkin	Weak	Weakling
Lance	Lancet	Wagon	Wagonette

A LEAF FROM OUR GOLDEN PAST

An Excerpt from

Quaid-i-Azam's Speech

On the occasion of the Opening Ceremony of The State Bank of Pakistan on 1st July, 1948.

"Mr. Governor, Directors of State Bank, Ladies and Gentlemen.

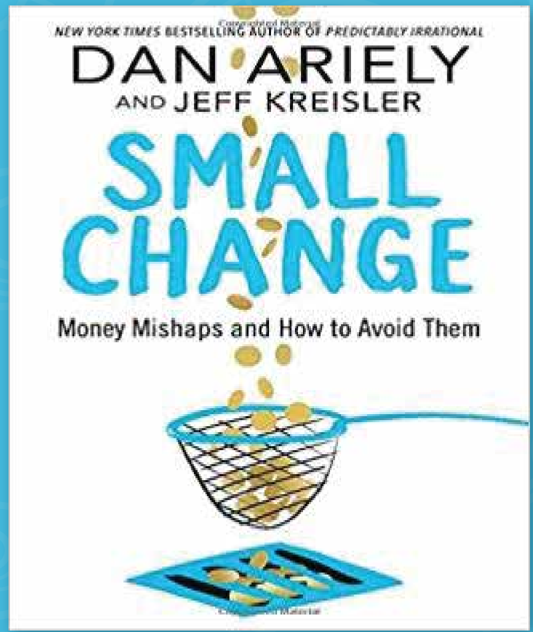
The opening of the State Bank of Pakistan symbolises the sovereignty of our State in the financial sphere and I am very glad to be here today to perform the opening ceremony. It was not considered feasible to start a Bank of our own simultaneously with the coming into being of Pakistan in August last year. A good deal of preparatory work must precede the inauguration of an institution responsible for such technical and delicate work as note issue and banking. To allow for this preparation, it was provided, under the Pakistan Monetary System and Reserve Bank Order, 1947, that the Reserve Bank of India should continue to be the currency and banking authority of Pakistan till the 30th September, 1948. Later on it was felt that it would be in the best interests of our State if the Reserve Bank of India were relieved of its functions in Pakistan, as early as possible. The State of transfer of these functions to a Pakistan agency was consequently advanced by three months in agreement with the Government of India and the Reserve Bank. It was at the same time decided to establish a Central Bank of Pakistan in preference to any other agency for managing our currency and banking. This decision left very little time for the small band of trained personnel in this field in Pakistan to complete the preliminaries and they have by their untiring effort and hard work completed their task by the due date which is very creditable to them, and I wish to record a note of our appreciation of their labours."

Stamps Gallery

First ever postage stamp of Pakistan was issued on 9th July 1948 with the motif of the crescent and star with a leafy pattern. This special postage stamp was designed by the well- known Pakistani artist A.R. Chaugtai and was approved by Quaid-i-Azam. This stamp is one of the four stamps that were issued to mark the first anniversary of independence. Three of the designs were notable sights (The First Constituent Assembly building, Karachi Airport Entrance and Lahore Fort Gateway). All the stamps carried the slogan "Pakistan Zindabad" (Long Live Pakistan) – a form of prayer for the new born state. This set was printed in London by Thomas De La Rue Company as Pakistan did not have its own printing press then. (Source: SBP Museum)

SMALL CHANGE:

Money Mishaps and How to Avoid Them



By Dan Ariely and Jeff Kreisler

Blending humor and behavioral economics, the New York Times bestselling author of Predictably Irrational delves into the truly illogical world of personal finance to help people better understand why they make bad financial decisions and gives them the knowledge they need to make better ones.

Why does paying for things often feel like it causes physical pain? Why does it cost you money to act as your own real estate agent? Why are we comfortable overpaying for something now just because we have overpaid for it before?

In *Small Change,* world renowned economist Dan Ariely answers these intriguing questions and many more as he explains how our irrational behavior often interferes with our best intentions when it comes to managing our finances. Partnering with financial comedian and writer Jeff Kreisler, Ariely takes us deep inside our minds to expose the hidden motivations that are secretly driving our choices about money.

Exploring a wide range of everyday topics –from credit card debt and household budgeting to holiday sales–Ariely and Kreisler demonstrate how our ideas about dollars and cents are often wrong and cost us more than we know. Mixing case studies and anecdotes with tangible advice and lessons, they cut through the unconscious fears and desires driving our worst financial instincts and teach us how to improve our money habits.

Fascinating, engaging, funny and essential, *Small Change* is a sound investment, providing us with the practical tools we need to understand and improve our financial choices, save and spend smarter and ultimately live better.

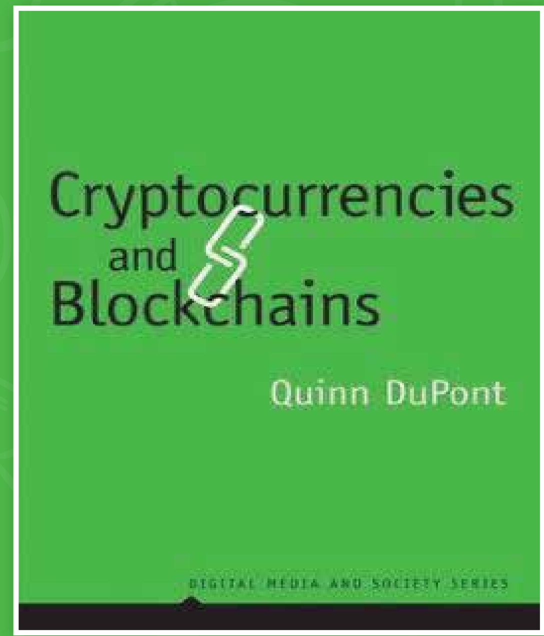
(Published in the US as *Dollars and Sense.)*

ABOUT THE AUTHORS

Dan Ariely is the James B. Duke Professor of Psychology and Behavioral Economics at Duke University, and is the founder of the Center for Advanced Hindsight. His work has been featured in the *New York Times, Wall Street Journal, Washington Post and Boston Globe.* He lives in North Carolina with his family.

Jeff Kreisler is typical Princeton educated lawyer turned award-winning comedian, author, speaker, pundit and advocate for behavioral science. He uses humor and research to understand, explain and change the world. His first book was the satire *Get Rich Cheating.*

Cryptocurrencies and Blockchains



By Quinn Dupont

From their shadowy origins in Bitcoin to their use by multinational corporations, cryptocurrencies and blockchains are remaking the rules of digital media and society. Meanwhile, regulators, governments, and the public are trying to make sense of it all.

In this accessible book, Quinn DuPont guides readers through the changing face of money to show how blockchain technology underpins new forms of value exchange and social coordination. He introduces cryptocurrency and blockchain technology to readers in terms of their developers and users, investment opportunities and risks, changes to politics and law, social and industrial applications and what this all means for the new economy. The author argues throughout that, rather than being a technical innovation, cryptocurrencies and blockchains are social technologies enabling developers and users to engage in unprecedented experiments with social and political levers.

Cryptocurrencies and Blockchains dispenses with hype and offers sober reflection on this crucial and timely topic. It is essential reading for students and scholars of culture, politics, media, and the economy, as well as anyone who wants to understand, take part in, or change the future of work and society.

REVIEWS

"This book cuts through the hype and presents, in layperson's terms, the developments and applications of blockchain, offering lessons on how we will imagine human systems, governance and accountability in a world of distributed computational processes and decentralized authority. A real tour de force."

— Bill Maurer, University of California, Irvine

"Amid all the hype surrounding cryptocurrency, this book provides a refreshingly balanced perspective on what matters – and does not matter –about these new forms of money. Quinn DuPont provides a well-informed analysis of the cryptocurrency terrain, which should be required reading for students and researchers, as well as anyone who wants to get involved in this exciting new world but might be wary of doing so."

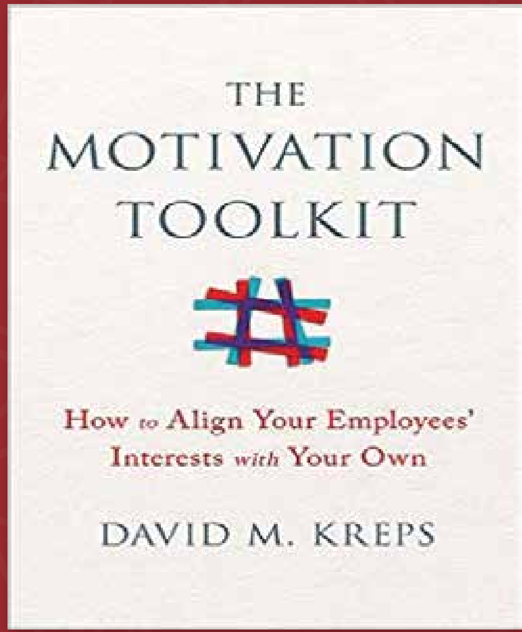
— Nigel Dodd, London School of Economics and Political Science

ABOUT THE AUTHOR

Quinn DuPont is Research Associate in the Information School at the University of Washington.

The Motivation Toolkit:

How to Align Your Employees' Interests with Your Own



By David Kreps

Getting your employees to do their best work has never been easy. But it is a particular challenge for knowledge workers, who must attend to many different tasks and whose to-do list is often ambiguous, requiring outside-the- box thinking. Lists of dos and don'ts are rarely effective. Instead, your best bet is to align their interests with your own — the heart of motivation — and set them free to use their own drive and creativity on their, and your, behalf.

But how do you align their interests with your own? How do you avoid incentive schemes that warp priorities, encourage perfunctory and sloppy work, or cause unethical behavior?

In The *Motivation Toolkit,* economist and management expert David Kreps offers a variety of tools, drawn from the disciplines of economics and social psychology, that you can adapt to your specific situation to achieve better motivation. This starts with understanding both the economic and social relationship your employees have with their work, their jobs, and your organization, then using that understanding to find economic or psychological motivators that will work.

Whatever your business, and whether you are a newly minted manager, a seasoned executive hungry for your employees' best work, or a curious leader looking for new ways to be effective, *The Motivation Toolkit* will prove a useful and enlightening read.

REVIEWS

"Understanding motivation is a critical and integral part of successful management and leadership. In *The Motivation Toolkit,* David Kreps has done the impossible: written a thorough, thoughtful, and insightful book on this important topic. Highly recommended for the leadership of all organizations—corporations, government entities, nonprofits, partnerships, start-ups and more."

— Robert A. Jeffe, Chairman and Founder of the Central American Healthcare Initiative, former Senior Vice President of General Electric, and board member of GE Capital

"With characteristic rigor and insight, David Kreps explains the foundations, both economic and psychological, of the relationship between employer and employee, and provides the serious leader with a flexible toolkit they can tailor to their situation."

—John Donahoe, CEO of ServiceNow and former CEO of eBay

"Artfully details the enormous complexities involved in achieving employee alignment and provides a variety of situation-dependent tools to help ensure that an organization's human capital is empowered to meet its long-term objectives."

— Steven A. Denning, Chairman of General Atlantic

ABOUT THE AUTHOR

David Kreps is the Adams Distinguished Professor of Management at the Stanford Business School, where, over a forty-year career, he has taught courses from Decision Making Under Uncertainty to Managerial Economics to Operations to Human Resource Management. A leading economic theorist, he is a past recipient of the John Bates Clark Medal, a Distinguished Fellow of the American Economic Association, and a member of the National Academy of Sciences. He is the author of several books, including *Microeconomics for Managers, Game Theory and Economic Modeling* and *Strategic Human Resources: Frameworks for General Managers* (with James Baron). He lives in Stanford, California.

BOND