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**POLITICALLY EXPOSED PERSONS:
Understanding the Basic Concepts**

**PERFORMANCE INHIBITORS IN
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EDITORIAL



Muhammad Mazherul Haq
Editor

Living Beyond Means: A False Fantasy

"Cut your coat according to the cloth", while this proverb gives a clear message to live within our available resources, it concurrently allows us to arrange a bigger piece of cloth to cut the coat of the desired size. As such it is a call of an individual or a nation to go for i) exploiting extra resources to enjoy better living standards, ii) spend time in maneuvering the existing resources or otherwise, and iii) start living beyond means by hook or by crook.

Since the known resources are scarce with seemingly uneven distribution, there always prevails fierce competition for acquiring possession between the haves and have-nots and even among those who find them less privileged. All kinds of fair and unfair means are adopted in order to gain control over maximum possible resources. This competition has been a common cause of hatred and jealousy among individuals and most of the times results into a war or a war-like situation among individuals/nations since medieval times.

However, in this acclaimed modern age when the world has changed into a global village, and agony and pain at one place is felt across the board, the intensity of resource grabbing struggle has been appeased to a larger extent by adopting the alternate approaches which include, but are not limited to, i) providing financial support to the resource lacking nations or people, ii) helping them in better utilizing of their tapped and un-tapped resources and iii) taking benefit of being declared as most favored nation or different trade related relaxations offered by the supporting countries.

Countries going through persistent i) fiscal and ii) balance of payments deficits, usually seek support from developed countries and international lending institutions to finance their short and medium terms strategies to remove the structural deficiencies fueling the deficits. At the receiving end, advantage of financial aid could effectively be availed only if an unconditional unidirectional resolve is posted to spend each bit of the borrowed money towards

improving income generating capacity. "Where there is a will there is a way"; a number of quotable instances are there to witness where the resource deficit countries came out of the vicious cycle of poverty and emerged as developed nations by exploiting the potential of foreign aid.

During 1950s and 1960s, Pakistan took fuller advantage of foreign aid to bridge the resource gap and successfully moved from 'take-off' stage of economic growth to 'self-sustained' economic growth by generating new domestic investment. Consequently, the private investment rose from 42.5 percent of total investment in 1959-60 to 53.3 percent in 1969-70. Specialized financial institutions like Industrial Development Bank of Pakistan (IDBP) and Agricultural Development Bank of Pakistan (now Zarai Taraqati Bank Limited) were established to meet the growing need of capital for bringing shift in productivity in large-scale manufacturing and agricultural sectors.

Unfortunately, the trends set in fair utilization and channelizing of foreign aid for development purposes during 1960s to 1980s could not be maintained after 1990s, because of frequent instances of using a significant part of foreign aid for serving the interest of a small influential group of the society and the political elite in the government circle. Moreover, the mishandling of foreign aid, which has continued over the last 20-25 years, has put us in a debt trap like situation.

Are we going to adopt 'living beyond means'? Answer: We are already in the state of living beyond our means. In federal budget 2021-22, and even prior to that, we had to resort to external resources to finance a certain portion of current expenditures, as well.

Living beyond means could never be a prudent call unless it means stretching oneself beyond his/her known skills and abilities, which could be useful for oneself and others, and be a source of real happiness - and not a false fantasy.

IBP OFFERS



CERTIFICATION COURSE IN HOUSING FINANCE LEGAL FRAMEWORK, MORTGAGE, MONITORING & DOCUMENTATION

In order to support the initiatives taken by the SBP to develop necessary systems, processes and market infrastructure for housing and construction, especially low cost housing finance and to translate the vision of the Prime Minister of Pakistan into reality, IBP with due guidance from the SBP has formulated four certificate courses on Housing Finance for the following banking officials:

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CREDIT RISK AND PRODUCT STAFF

COLLECTION AND RECOVERY STAFF



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IBP TRAINING CALENDAR JULY - SEPTEMBER 2021



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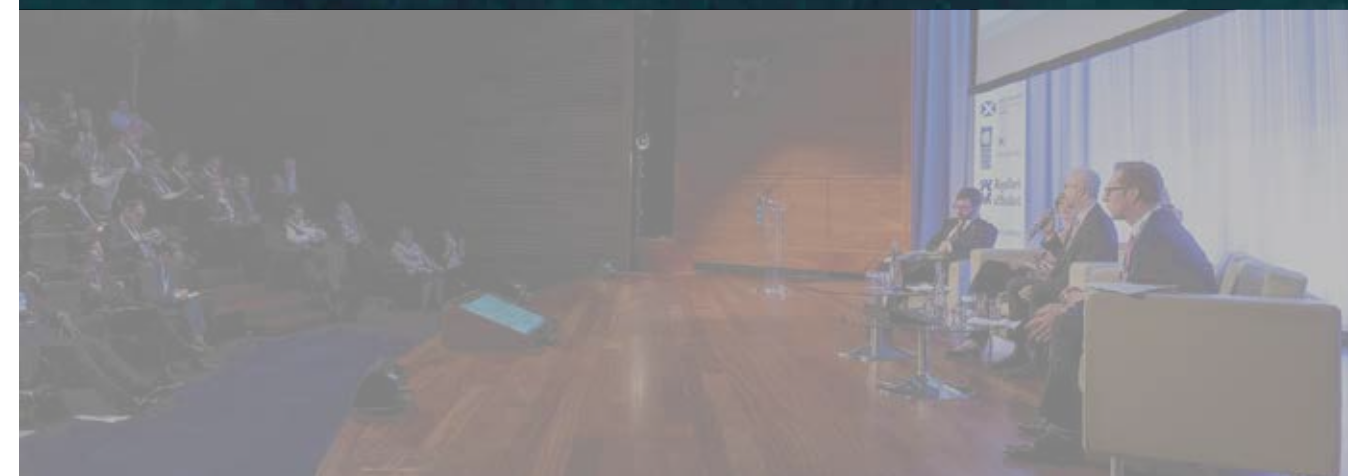
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IBP NEWS CORNER



Financing a Sustainable Future **Climate and Beyond**



The Ethical Finance 2021, a virtual summit conducted by Global Ethical Finance Initiative (GEFI), was held from June 8 to 10, 2021. It was themed "Financing a Sustainable Future: Climate and Beyond". GEFI is a non-profit organization dedicated to enabling finance to deliver positive change.

This three-day summit was attended globally by banking and finance professionals. The first day showcased regional overview of Australasia, South East Asia, South Asia and West Africa with focus on climate finance and natural capital, ahead of COP26. On day two and day three the long-term future of ethical finance, looking at financing the sustainable development goals, social impact (the "S" in ESG) and leadership for the journey ahead were explored. The Governor of State Bank of Pakistan, Dr. Reza Baqir presented the keynote address on day three.

The Institute of Bankers Pakistan had the privilege to partner with the organizers at this global event and also to present the regional showcase for South East Asia on the first day of the event (afternoon session 3:30pm to 5:00pm). This session presented a unique opportunity to showcase progress being made in sustainable finance in South East Asia to a local and global audience. It forwarded the mission of The Institute of Bankers Pakistan as a progressive organization committed to driving forward this important agenda.

Mr. Omer Shaikh, Founder and Managing Director, Global Ethical Finance Initiative gave his opening remarks on the initiatives of State Bank of Pakistan in the areas of Sustainable Financing, Climate Change and Environment Friendly Financing.

Ms. Sima Kamal, Deputy Governor State Bank of Pakistan opened the South Asia session, with a regional overview of sustainable finance in South Asia, addressing

balancing sustainable development with economic growth, women's financial inclusion in Pakistan, and COVID-19 recovery, to ensure sustainable financing and steady growth for the industries in Pakistan, among other topics.

Speaking at the occasion, she said, "Balancing sustainable development while pursuing an agenda for economic growth is a challenging task, particularly in countries in South Asia where we need to balance a need and a desire for urgent and quick growth with an equally important desire for ethical financing, so that we encourage the adoption of growth strategies which don't compromise long-term stability."

She discussed these challenges on three levels: Climate Change and Green Financing; Financial Inclusion, with particular emphasis on reducing gender gap; and identifying and tackling areas of Market Failure. Thanking the organizers and the participants, Ms. Kamil called it an "exciting journey" and welcomed further support and ideas ensuing from the discussion at the conference.

The session was followed up by a panel discussion of senior banking experts. The moderator of the panel discussion was Mr. Ghulam Muhammad Abbasi, Director Islamic Banking Division, SBP. The industry experts included Mr. Azhar Aslam - Head of Islamic Banking & Governance, Standard Chartered Bank Pakistan; Mr. Mujahid Zuberi - Head of Corporate and Investment Banking, Dubai Islamic Bank; Mr. Muhammad Shoaib - CEO of Al Meezan Investment Management; Ms. Khawlah Usman - Director Marketing & Sales, The Institute of Bankers Pakistan; and Dr. Shah Md. Ahsan Habib, Professor at Bangladesh Institute of Bank Management.

The participants shared their views on climate change and its effects on the agri-based economy of Pakistan, Islamic & sustainable financing practices as the future of

financing, ethical financing towards carbon-free infrastructure projects, female inclusion, etc. Mr. Faisal Hussain, Director Research & Development IBP presented the vote of thanks and wrapped up the session.



Dr. Raza Baqir, Governor of the State Bank of Pakistan, presented the keynote address: "The 'S' in ESG: Why It Matters", on day three. (ESG stands for Environmental, Social, and [Corporate] Governance, a set of standards for a company's operations that socially conscious investors use to screen potential investments.) Dr. Baqir described the shift in central banks' role and how they justified it through the Global Financial Crises to this present COVID-19 pandemic. He said that the role of central banks has been evolving since the Global Financial Crises in 2007 and in the right directions, particularly with reference to the COVID-19 pandemic.

"It is encouraging to know that Central Banks globally are increasingly embedding ESG objectives into their mandate and mainstream activities." He emphasized

how important it is today for central banks to take into account social considerations which now they "cannot afford to ignore".

With particular reference to the role of SBP in contributing to a better society, Dr. Baqir elaborated upon SBP's strategic objective to promote inclusive economic growth in the country. "To this end, SBP adopted a comprehensive 5-Year National Financial Inclusion Strategy 2023." SBP has been espousing goals through its strategic plan and several ongoing initiatives, including branchless banking, digital payment systems, Islamic banking, allocating targets to enhance agriculture, SME, and reducing gender gap through financial inclusion of women. The Governor emphasized in particular one initiative from the social dimension, i.e. helping people realize their dream of owning a house through its Housing Finance initiatives.

Furthermore, the Governor highlighted how SBP tried to keep the social dimension in its interventions at the forefront in its interventions and support measures in the ongoing pandemic. Mentioning three significant interventions made by SBP, with profound social implications particularly against the backdrop of the COVID-19 pandemic, he highlighted voluntary deferment of principle and interest payment of loans; Rozgar (Employment) scheme, and direct concessional loan facility for health sector. Interestingly, a major chunk of the beneficiaries of the two former schemes were SMEs and people from the lower strata of society.

Dr. Baqir thanked the organizers and hoped that lots of new ideas and thoughts exchanged by various panelists on the Ethical Finance 2021 platform will help policymakers to make better and informed decisions and turn a new leaf towards sustainable growth.



Videos of the messages and panel discussion may be accessed on the following links:

- <https://www.efx.global/sustainable-finance-in-south-asia/>
- <https://www.efx.global/sustainable-finance-in-south-asia-sima-kamil/>
- <https://www.efx.global/the-changing-role-of-central-banks-dr-reza-baqir/>

Training Roundup



During the quarter April-June 2021, IBP conducted 20 Regular and 24 Customized online training and e-Learning programs, in addition to holding a certification course in AML/CFT Compliance. Over 2165 participants were trained in the sessions.

Significant topics of trainings included: Foreign Exchange: Regulatory Framework; The Impact of Cloud Computing on Banking Sector; SBP Guidelines on Compliance Risk Management; Trade Based Money Laundering; The Role of Design Thinking in Banks, ISACA COBIT5: Business Framework for Governance and Management of Bank IT; Green Banking Guidelines for DFIs; Micro Payment Gateway; SBP Inspection, Regulatory Compliance and Banks' Operations; Role of Banks in Mutual Evaluation of Pakistan (AML & CFT Measures); Treasury Operations and Risk Management; Smart Analytics with Lookup Functions in Excel; Mitigation of Cyber Security Risks and Transaction Monitoring and STR.

An international training program on 'CBCI Business Continuity Training' was also conducted, which was

facilitated by Mr. Paul Breed -Member of the Business Continuity Institute (BCI).

Business Continuity is about building and improving resilience in business, it is about identifying key products and services and the most urgent activities that underpin them. Once that 'analysis' is complete, then it comes to devising plans and strategies which enable to continue business operations and to recover quickly and effectively from any type of disruption; whatever its size or cause. Effective Business Continuity Management (BCM) within an organization depends on it becoming adept in the discipline while demonstrating evidence of due process. This normally involves training people to become competent in all technical and management aspects of BCM, running and improving a business continuity management system, and having documentary evidence of all plans, processes and procedures. Therefore, IBP and BCI joined hands to bring an internationally recognized training aimed at developing understanding of BCM and its implementation.



Progressive PAKISTAN

COUNTRY  SPOTLIGHT

by Chartered Banker magazine

The Islamic Republic of Pakistan is by most standards a young country – its founding in 1947 was not without both complication and conflict, and historical political divisions have frequently laid obstacles in its mission to forge a path as an influential and modern Islamic republic. Today, however, the impact of decades of globalization – along with economic growth across South Asia – puts the country in a strong position, most significantly demonstrated by its increasingly dynamic banking and finance sector.

As the world's fifth most populous state, Pakistan is nothing if not a significant player in the South Asia region. Its current economic indicators do, however, tell a story of a country that up to now has been relatively slow to develop in its infrastructure, health and education, and business environment.

The hesitant pace of growth and development can be viewed through the lens of a challenging domestic political scene that saw the country struggle until recently to establish a more stable democracy. However, Pakistan has benefited from structural reforms in recent years that have injected new impetus into its continuing transformation as a modernizing republic.

A \$6.3 billion cash facility from the International Monetary Fund (IMF) in 2013, for one, was designed to help Pakistan stabilize its public finances and address energy supply shortages, and measures to attract much-needed foreign investment brought inflows of \$3.1 billion in 2019-20 – of which the financial sector was the second-highest beneficiary.

Despite some bumps in the road, the positive consequences for banking and financial services in the country are now being felt across the board in Pakistan. The country's central bank, State Bank of Pakistan (SBP), notes the progress made in financial inclusion across such a vast population, saying: "In June 2018, we had 64 million unique accounts in operation, which reflects a penetration of more than 50 percent of Pakistan's adult population. As of June 2020, we now have 73 million unique accounts, of which 61 percent are active."

These accounts are a mix of traditional branch accounts and digital/mobile platforms – the very territory that is ripe for further expansion. And, given that the Pakistan Telecommunication Authority (PTA) reports some 93 million citizens as having broadband access, the potential for further penetration looks promising.

It could be cited that there are three ways in which the country's financial sector has managed to blossom under such a transformative environment for banking worldwide. A key piece in the jigsaw is the autonomy that SBP now enjoys in making vital monetary policy decisions. The reforms go back to 1994, with further powers being subsequently granted in 1997.

"The changes in the State Bank Act gave full and exclusive authority to the State Bank to regulate the banking sector, to conduct an independent monetary policy, and to set limits on government borrowing from SBP", which had been enacted in the SBP Act 1956. "SBP formulates and monitors monetary and credit policy, and in determining the expansion of liquidity, it takes into account the Federal Government's targets for growth and inflation that the Bank [operates] in a manner consistent with these targets."

Secondly, the momentum for digitization in Pakistan means increasing the share of online banking, whether that includes retail point-of-sale payments or opening and using e-wallets issued by FinTechs. SBP has

capitalized on the digital shift by collaborating with the Pakistani government to allow its citizens living abroad easy access to retail investment opportunities back home by launching the Roshan Digital Account (RDA).

But perhaps a most prominent characteristic of the financial sector here is the growth and development of a highly developed alternate – or Islamic – banking system.

The Islamic Banking Impact

As an Islamic republic, Pakistan is strategically and culturally well placed to develop Islamic finance products. It is one of the very few jurisdictions to enjoy explicit constitutional support for it, and this in turn has increased incentive and backing for its development from the state.

According to SBP, the government has used a number of legal and regulatory initiatives to help nurture Islamic banking. As part of the National Financial Inclusion Strategy, it is determined to increase the share of Islamic banking to 25% of the banking industry and its branch network to 30% by 2023. SBP has enjoyed a pivotal role in promotion and development of the Islamic banking industry and, as a result, is recognized today as a stable and resilient segment of the overall sector.

Although often seen as niche banking instruments, Pakistan has been cannily nurturing a sub-sector of Shariah-compliant* products and services since the early 1980s, with the result that it has grown substantially in both appeal and reach.

SBP reports 22 Islamic banking institutions operating in the country, including "five fully fledged Islamic banks, one specialized bank and 16 conventional banks with Islamic banking branches". In the financial year ending 2020, a further 361 branches were added to a network already spanning 3,274 branches in 122 districts. Lower-income citizens are also part of the commitment to growth, with banks such as NRSP and MCB-Islamic offering a range of Islamic microfinance solutions.

S. Fahim Ahmad, a Karachi-based Senior Adviser to the UK Islamic Finance Council (UKIFC), has more interest than most in the positive impact of Islamic finance. A former senior banker with Citibank and passionate supporter of sustainable charities, he was asked to set up Pakistan's representation to the Global Islamic Finance UN SDGs Taskforce, which aims to ensure that it can actively engage with the 17 UN Sustainable Development Goals (SDGs) and make Islamic finance part of this global initiative.

"The team at State Bank of Pakistan were easily convinced of the benefits of such a cause," he explains. "They had never done this before, as their role is more that of a regulator. But they are in a position to manage the banks much better than I could."

In November 2020, the Pakistan chapter of the Taskforce was launched, enrolling the support and participation of seven Islamic and conventional banks

which it was felt could best drive forward the mission. Its four key objectives include enhancing engagement with the UN SDGs – but also to promote Principles of Responsible Banking (PRB); facilitate alignment tools that deliver on additional areas such as green financing and the Global Ethical Finance Initiative (GEFI); and share international experiences.

“This collaboration between SBP and UKIFC is a novel concept,” continues Ahmad. “The idea is to replicate this in other markets. We have had to catch up in many respects with developed Islamic finance markets, and this is a good chance to make up for that.”

This level of engagement is a far cry from the early days when legal issues tended to slow the growth of Islamic banking in Pakistan.

Finally, after 2000, the founding of the country’s largest Islamic bank, Meezan, was made possible when the SBP agreed to scope out proper guidelines and a regulatory framework. Today, Islamic banks in Pakistan are so successful, they have a surplus of liquidity, which inevitably needs to find a home in investment instruments that are considered halal (permissible or lawful).

**Shariah law is Islam’s legal system. It acts as a code for living that all Muslims should adhere to, including prayers, fasting and donations to the poor. Source: [bbc.com/news/world-27307249](https://www.bbc.com/news/world-27307249)*

Pakistan Banks on Faith

A recent joint survey held by SBP and the UK Department for International Development identified an “overwhelming demand” for Islamic banking, regardless of whether or not the respondents were urban or rural. A huge majority (94.51 percent) came out in favor of the prohibition on interest, with 88.4 percent regarding contemporary bank interest as a similarly prohibited practice.

Even non-banked respondents echoed the sentiment, at 98 percent and 93 percent respectively, and 62 percent of those who are banked would willingly pay more for Islamic banking products due to religious preferences.

“There’s no doubt in my mind that there’s a huge demand for Islamic finance products,” adds Ahmad. “The impact of wider regional change in 1979–1980 had fundamentally changed the relationship we have since had with Islam, and the younger generation is, by extension, now more into Islamic banking.”

However, there is still no global uniformity among Shariah scholars about the acceptability of different products – and there is extensive room for growth yet. What will make Islamic banking take off in Pakistan? Ahmad argues that this will happen if the government uses it on a large scale, for example through sovereign or corporate bonds in sovereign sukuk.

“Social good is a key part of Islamic finance,” he adds. “Islamic banks hold a lot of liquidity as we know, and if they can deploy that into productive, socially impactful use, the whole economy will benefit.”

Pakistan’s Digital Dividend

In a short space of time, Pakistan’s commitment to digitization has been fronted by the enthusiastic support of government and public sector. And with a tech-savvy population whose median age is only 22,

“During the past four quarters, the number of registered mobile phone banking users increased by three million to reach 8.9 million.”

The Institute of Bankers Pakistan



the prospects for further expansion in banking and finance could not be brighter.

Pakistan’s recent and rapid digital infrastructure development is best seen through its penetration performance in telecoms and of the internet. SBP reports how the country’s “cellular tele-density has increased from 60.7 percent in June 2015 to 82 percent in December 2020”. Broadband penetration “has more than quadrupled to 43 percent by December 2020, from only 8.9 percent in June 2015.”

The trigger for this rise was the auction of 3G and 4G spectrum licenses in 2014 – and with a view to the future, the PTA granted two more mobile operators the opportunity to conduct 5G trials in January 2020.

The resulting impact on the banking landscape is clearly yielding results. Digital payment transactions are already on the rise and this is similarly reflected by the surge in e-commerce use and new digital products coming on stream. SBP figures show how 936 million e-banking transactions were made by customers in financial year 2019–20–equating to Rs. 69 trillion–worth of commerce during that year.

The most promising uptake was seen in internet banking and mobile transactions, according to SBP: “During the past four quarters, the number of registered mobile phone banking users increased by three million to reach 8.9 million. Encouragingly, the volume of mobile banking transactions reached 104 million valuing Rs. 2.3 trillion compared with Rs. 866 billion in 2020. Similarly, internet banking transactions were recorded at 63 million, valuing Rs. 3.4 trillion compared with Rs. 1.7 trillion over the same period.”

Even the Pakistani diaspora worldwide is getting in on the act, thanks to a state and private collaboration in September 2020 to launch RDAs for overseas and non-resident Pakistanis. They permit holders to open digital accounts remotely, with reception being highly positive. Currently, eight banks are part of this initiative, with more set to follow soon.

As with other jurisdictions worldwide, however, the shift towards contactless and e-wallet transactions is strengthening the hand of the non-bank sector too. This has not been lost on SBP which, in 2019, responded by enabling “electronic money institutions” access to Pakistan’s payments ecosystem. It is only a matter of time before the pace of innovation injected into the sector will transform people’s payment habits across the country.

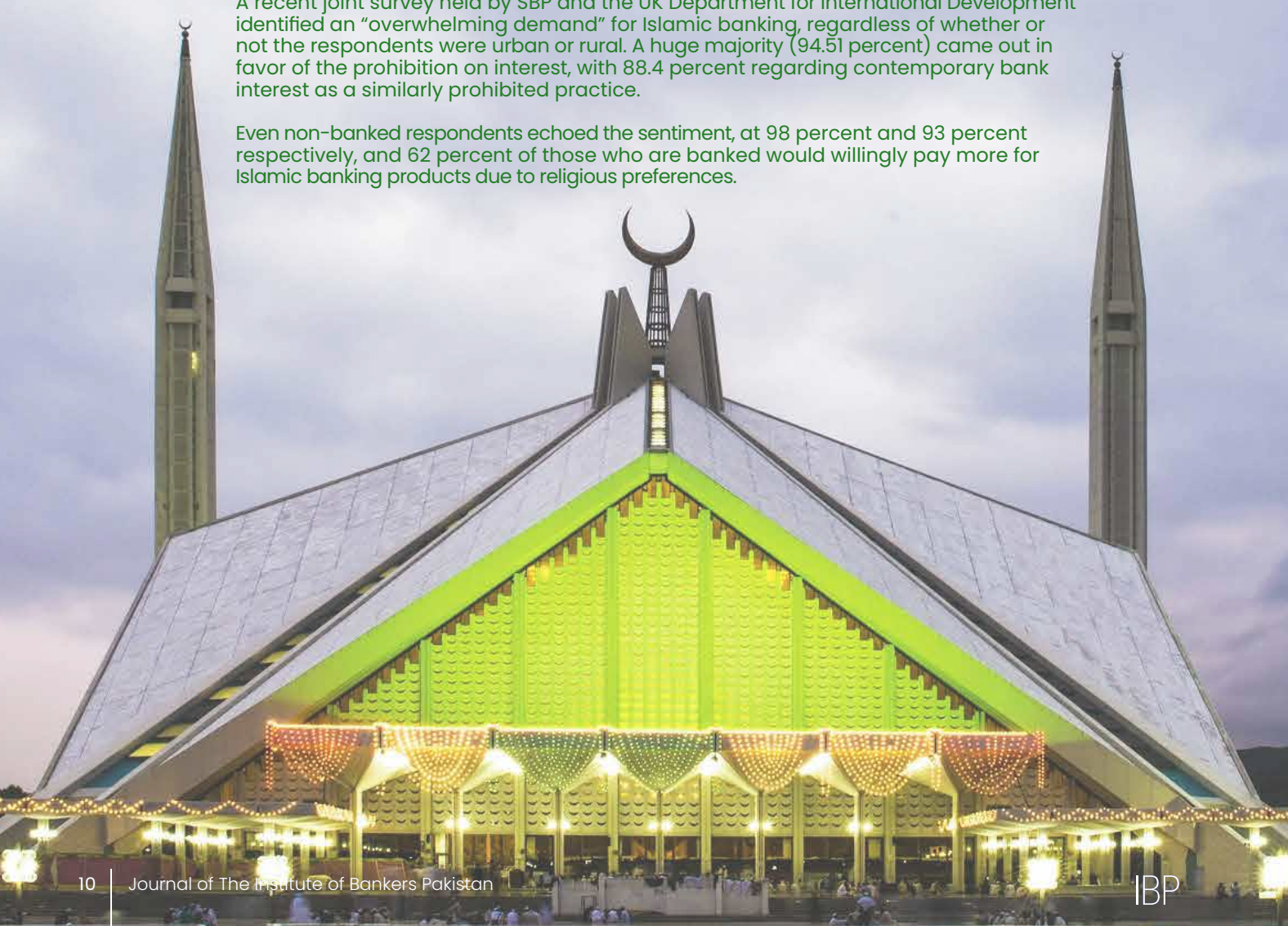
Facing the Future with Confidence

As the world starts to deal with the economic fallout from the coronavirus pandemic – which, in many countries, is still in full flow – Pakistan’s financial sector seems to have shown a healthy degree of resilience in the face of the shock of 2020. SBP puts this down to capital buffers put in place over the long term to strengthen the banks’ position. The higher capital adequacy ratio (CAR) of 19.5 percent at the end of September 2020 put Pakistan beyond the minimum local and global requirements for its banking system. Liquidity has also been uninterrupted following state interventions to support key parts of the economy during this period.

From this position of strength, therefore, Pakistan is able to focus on at least three priorities among many that will shape its financial sector into a growing force for the economy: continued digital transformation, affordable lending instruments for housing, and programs to reduce the gender gap in access to finance.

On the digital front, the Digital Pakistan Policy and the National Financial Inclusion Strategy are two initiatives that hold promise in the battle to reduce the informal economy and make FinTechs a productive addition to the domestic market. In particular, the launch of Raast, an instant digital payment system, will be an innovative step forward in reducing citizens’ reliance on cash while making transactions cheaper.

Long-term property lending policies – where SBP has given mandatory lending targets to banks on their



“This collaboration between State Bank of Pakistan and the UK Islamic Finance Council is a novel concept... we have had to catch up in many respects with developed Islamic Finance markets, and this is a good chance to make up for that.”

UK Islamic Finance Council

housing portfolios and developers are being offered incentives – should help boost a sector badly in need of modernization to benefit future homeowners.

Third is the launch of SBP's Banking on Equality Strategy, where a “gender lens” will be applied to the industry to ensure increased financial access for women based on a set of approved measures.

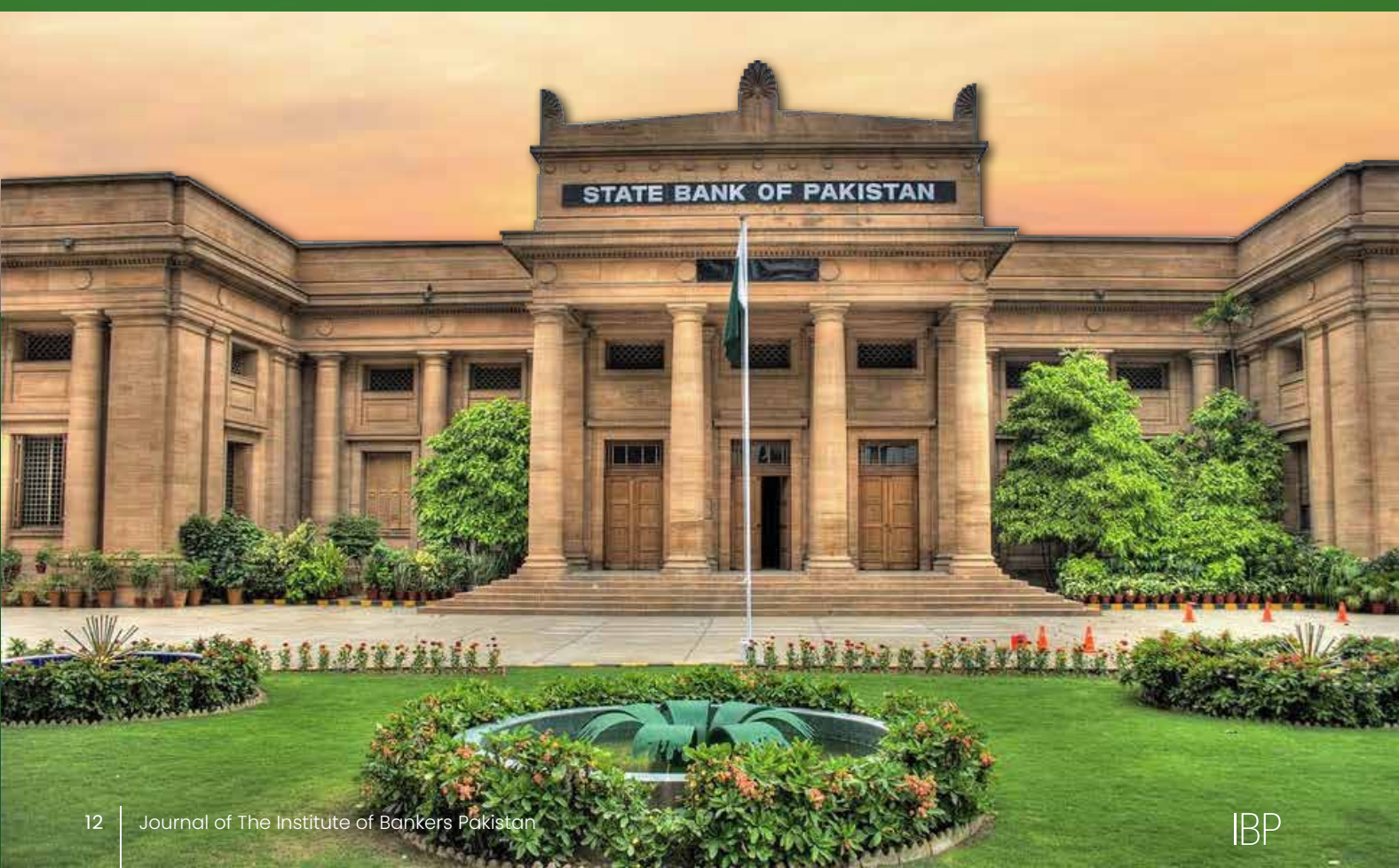
When viewed in the context of an often-turbulent history, there's little doubting the progress made to date in Pakistan's journey of banking and finance. The policies, commitment, and liquidity – three factors crucial to any developing economy – should herald a more prosperous and dynamic economy well into this century. ■

About IBP

The Institute of Bankers Pakistan (IBP) is a global partner of the Chartered Banker Institute. It was established in 1951 and has been at the helm of providing sector-specific training, recruitment and knowledge assessment services for the banking industry in Pakistan. Its main program, the IBP Superior Qualification (ISQ) is the nation's only recognized professional banking qualification and is recognized by State Bank of Pakistan. The IBP also partners with the Bangor University Business School, delivering the Chartered Banker MBA.

No One Left Behind

According to State Bank of Pakistan (SBP), women are disproportionately underserved by the country's financial system. With only around 25 percent of bank accounts held in the name of women (even fewer are actually active), it has been widely accepted by government that economic development cannot be achieved without a healthier approach to reducing the gender gap. The bank has therefore created a policy entitled Banking on Equality: Reducing the Gender Gap in Financial Inclusion to ensure a manageable but proactive shift towards women-friendly business practices. The draft policy was presented in December 2020 for consultation.



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IMPEDIMENTS

IN DOCUMENTING PAKISTAN'S ECONOMY

BY: MUHAMMAD AHMAD

Introduction to Undocumented Economy of Pakistan

The economy of Pakistan, like any other economy is of two types: 1) documented or formal economy and 2) undocumented or black economy. Documented economy connotes that the business as well as employment is registered with the relevant registration authorities, as well as taxation authorities. On the other hand, undocumented economy is not registered with the authorities and consists of the following two types:

- Legal businesses which may be unreported (for tax evasion) or unrecorded (due to practical difficulties in documentation).
- Illegal businesses activities which are restricted or banned by the state; for example, trading in alcohol in Pakistan.

Undocumented or informal economy does not contribute to fiscal revenue and is also more susceptible to potentially damaging activities e.g. terrorist funding. Percentage of the unrecorded business has declined in developed economies over past few decades primarily due to digitalization of processes and the appealing perks of the registered businesses. However, the rising trend of unrecorded economy is a major challenge for developing countries. In Pakistan, informal economy is soaring and is under-reported to be around one-third of the total GDP in FY 19; however, plummeting formal sectors of the economy dictate that the fraction of informal economy is actually above half of the GDP.

Impediments in Documentation

Over the last several years Pakistan has been experiencing a growing fiscal deficit which surfaced mainly on account of poor tax collections and the situation can hardly be controlled even if the expenditures are kept at low, particularly the development expenditure, which in turn results into slowing down the economy. Tax-to-GDP ratio in Pakistan has conventionally remained below the 15 percent average in the South Asia and it squeezed to 11.6 percent in the year 2018-19 due to escalating fraction of undocumented economy. The table below exhibits the distorting situation:

	2017-18	2018-19
Overall Tax to GDP Ratios	13.00%	11.60%
FBR Tax to GDP Ratio	11.17%	9.93%
Overall Tax collection-actual	4.47 Trillion	4.47 Trillion
FBR Tax collection-actual	3.84 Trillion	3.83 Trillion
FBR Tax collection-target	4.40 Trillion	4.40 Trillion

Sources: Economic Survey of Pakistan 2017-18 & 2018-19 and newspaper articles related to FBR press conferences

Obstructions faced by Pakistan in documentation of the economy are endless. However, following are the major impediments i.e. the leading causes of failure of documentation policies, which can be classified into three categories.

- 1- Structural Impediments
- 2- Sector Specific Impediments
- 3- International Trade Impediments

Impediments falling under aforementioned categories have been analyzed below in depth:

1. Structural Impediments

a) Complex Layering of Formal & Informal Economy
In the research studies of the economy of Pakistan conducted by ILO in 2017, it was highlighted that the sectors of Pakistan's economy consist of complex layers of the documented and undocumented value chains which make the documentation of the whole economy very difficult, unless the value chains are individually studied at higher cognitive levels for identification of informal supplies at various stages of the production and supply cycle. Among the problematic supply chains, the garment and textile industries are worth mentioning. Informal supplies in such case may be documented by encouraging the small-scale businesses/suppliers to join together to form the documented co-operative societies to reap the benefits of economies of scale.

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Corruption reduces transparency in the formal sectors and is an important cause of the swelling informal economy. Specifically, corrupt practices in the taxation system are an impediment in the strategic plans of increasing the tax base because they create the perception that the undocumented business assets/profits can be prevented from seizure/penalties through corrupting the tax officials, if confiscated.”

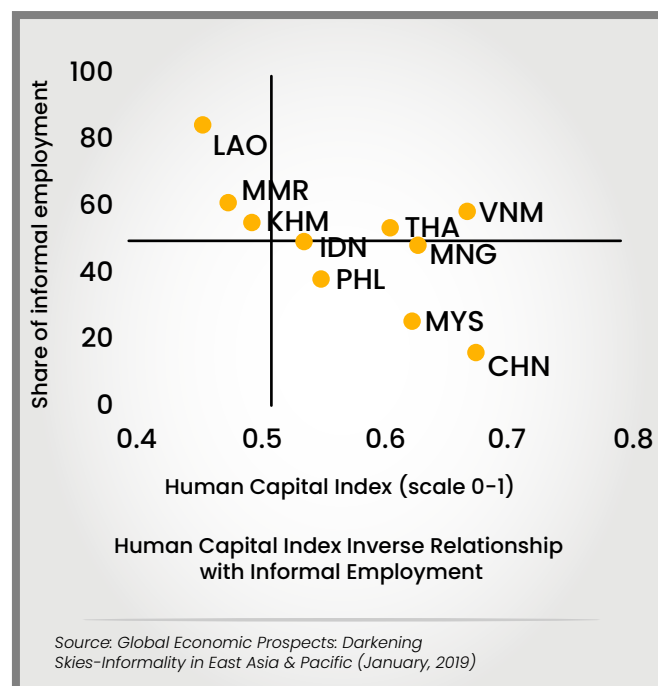
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Another quandary of the value chain complexity is the forward and backward integration wherein informal practices are amalgamated with the documented business lines. For example, the sugar mills cultivate the sugarcane themselves under the backward integration and attempt to control the supply network of the sugar. The identification of the unrecorded sales fraction becomes very tough in business cycles where the entire value chain is controlled by the same entity because the data for cross-verification is not available for such segments of the economy.

b) Workforce Structure & Trends

According to updated Poverty Reduction Strategy Paper (PRSP) of Pakistan, almost four-fifths of the labor force in non-agriculture sectors works for the undocumented economy. Moreover, the informal economy expands with the rising size of unemployed workers in the formal economy, which results in further expansion of informal economy as the increased flow of labor force towards the informal sector, in turn, increases the output of the informal sector i.e. creates a cyclic effect of expansion of the informal economy.

In Pakistan, the government also hesitates in eradicating labor-intensive informal sector due to the pressure of rising unemployment rate because the formal economic activity is incapable to accommodate the otherwise unemployed workers. Such expansion in informal sector due to economic crisis in the formal sector can only be seized if the underlying problems of the documented economy are rectified by the effective monetary and fiscal strategies. Secondly, the workforce also lacks the technical skills required in the national as well as international documented markets. Studies have found that the rise in higher education in the youth has negative relationship with the growth of informal sector. Same is evident from the below analysis of Asian Countries:



Therefore, the revamp of the education system of Pakistan is necessary to improve the Human Capital Index (HCI) to generate the skill pool required for the growth of legalized businesses.

Besides exclusion from taxation, the workers are also exploited by the employers in the informal entities. This dilemma may be resolved by educating the laborers about their state-protected employment rights e.g. minimum wage rate, working hours etc. in the documented sector. Their whistle blowing may also help the state in the identification of such undocumented businesses and forcefully document them

under the stance of employment rights exploitation, regardless of the volume of their business revenue.

c) Preference of Cash Over Bank Dealings

In Pakistan, besides the business community, the consumers also prefer to deal in cash. According to a report published by McKinsey Global, where share of digital payment is 55 percent in UK and 49 percent in USA, it is less than 1 percent in Pakistan. State Bank of Pakistan (SBP) reported that more than 60 percent of business is conducted in cash in the economy of Pakistan. Cash based employment is common in hiring labor for construction, production factories and other similar small scale businesses.

Cash based businesses, services and employments are very difficult to be monitored effectively, thus a major proportion of economic output evades documentation and taxation simply due to the fact that it operates under the shade of cash dealings. Though the business confidence in the banking sector had overall improved in the past decade, the Business Confidence Index (BCI) has declined to 43 in June-19 from 49 in Dec-18 (as per SBP), which indicates that the cash preference for business dealings has increased this year.

d) Complexities of Wealth/Income Declaration Processes

A study conducted in 2019 by PwC in collaboration with World Bank has ranked taxation system of Pakistan at 161 out of the 190 countries, with respect to the ease of filing tax return and the total time required to be spent in meeting the taxation requirements.

Pakistan was ranked at 172/189 in the study published by World Bank five years ago (2014). Thus, the position has improved slightly due to the introduction of electronic return filing leading to the reduction of the personal interaction with the taxation authorities. But still, for the community, the tax collection and submission in Pakistan demands significant time and efforts for taxation as compared to other countries. The electronic return filing process is not user-interactive. Moreover, in the electronic declarations, on-hand facilitation is also very limited. Although the tax consultancies have grown in number for tax registration/filing support but the cost of their service is borne by the return filers themselves. It keeps discouraging their aspiration for documenting their activities. Boosting the share of formal economy in the economic activity is far from reach unless the electronic process is made user-interactive and supreme quality facilitation desks are made available free of cost by the state.

e) Bureaucratic Corruption Due to Manual Systems

Corruption reduces transparency in the formal sectors and is an important cause of the swelling informal economy. Specifically, corrupt practices in the taxation system are an impediment in the strategic plans of increasing the tax base because they create the perception that the undocumented business assets/profits can be prevented from seizure/penalties through corrupting the tax officials, if confiscated.

As per the 'Transparency International' report of 2018, Pakistan scored 33/100 points in the 'corruption perception index (CPI)'; in the CPI index, a low score

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In spite of being a very high output generating sector of the country, income tax collection from the agriculture sector was about Rs. 2 billion for the year ended June 2019, which is just about 0.03 percent of its contribution to GDP. ”



indicates more corruption and less transparency. In CPI index of 180 countries, Pakistan was ranked at 117 in the report indicating that 116 countries were perceived to be less corrupt than Pakistan during the year 2018. In the same report of 2019 (expected to be published in February 2020), corruption perception index of Pakistan is expected to be further distorted as per findings of the source reports released till date which are considered in the CPI.

Former executive of Google and recently appointed head of Digital Pakistan Initiative, Tania Aidrus claimed that e-governance can enhance transparency, reduce corruption and can improve accountability of the incumbent government. Particularly, e-procurement in the public sector can eradicate tribulations of suspicious government expenditures. She insisted on the dire need of the technological infrastructure because its lacking is not only the cause of devastating level of bureaucratic corruption but is also an obstacle in documenting the economy, because the business activities being carried out manually are more difficult to be monitored than the web-based activities.

f) 'Trust Gap' in Documentation

In Pakistan, the lack of public confidence in tax collection system is an important cause of the under-documentation of the economy. Public confidence in the taxation system is the first to get damaged during economic crisis. People opine that heavy taxation makes their earning prone to ineffective and corrupt practices in the public expenditure. Another factor for declining public confidence is the lack of sufficient benefits for tax filers, discouraging the informal economy from registering for taxation.

Moreover, in recent years, Pakistan has announced various amnesty schemes (e.g. in 2012-13, 2016, 2018 and 2019) with varying success rates. Such amnesty schemes have increased the tax revenue and theoretically increased the tax base but have also deteriorated the confidence of tax filers as amnesties allow the concealed income streams to be taxed at much lower rate than

regular tax payers. Therefore, the government must cover the trust gap between the registered businesses and the state by reducing the money laundering opportunities for the undocumented businesses in the form of amnesties.

The purpose of taxation is to provide welfare to the society by taxing the high income groups. Indirect taxation, however, confuses this purpose of taxation as indirect taxes are majorly borne by the subsistence level consumers. It also generates the perception that the system is unable to directly tax the GDP contributors and indirect taxation is being imposed to run the state.

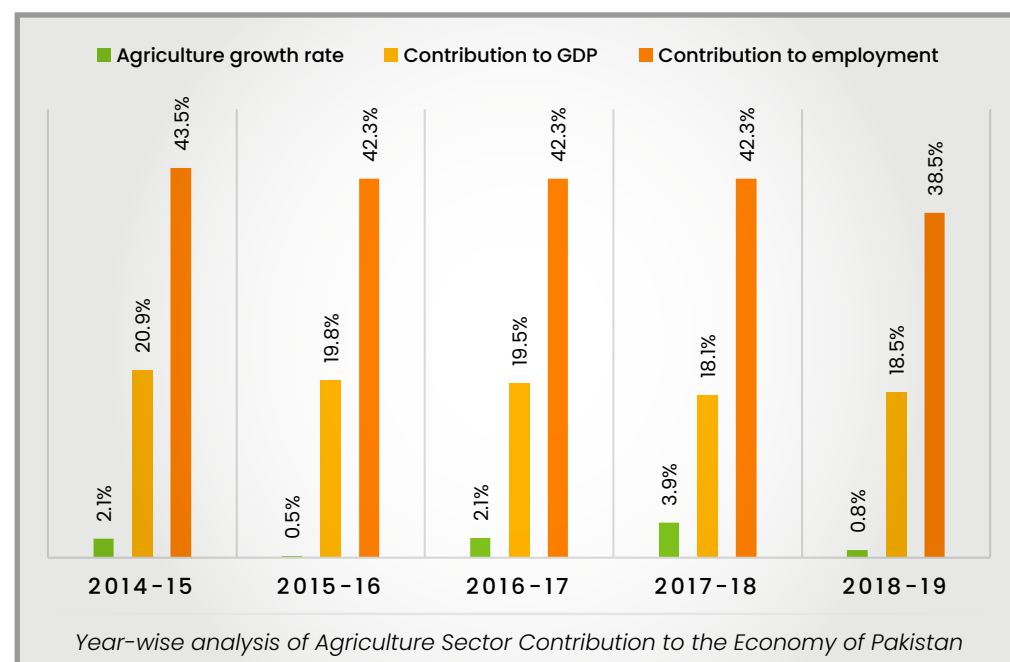
Revival of the public confidence in taxation is very hard to achieve and is dependent upon embedding the sense of effectiveness, transparency and accountability in the provision of welfare to the society by the incumbent government.

2. Sector Specific Impediments

a) Agriculture – The Giant Undocumented Sector

Agriculture sector is one of the largest sectors of Pakistan, contributing almost one-fifth share in the total GDP. Besides this, 38.5 percent of people are dependent upon agriculture for their source of income as per Economic Survey of Pakistan Report 2018-19. In spite of being a very high output generating sector of the country, income tax collection from the agriculture sector was about Rs. 2 billion for the year ended June 2019, which is just about 0.03 percent of its contribution to GDP.

Taxation of the agriculture is a provincial matter as per the Constitution of Pakistan – 1973 and thus does not fall in the ambit of federal government. On the contrary, provincial revenue authorities lack technical and human resources to harvest the benefit out of this widely spread sector. Lack of their system-based collaboration with FBR also deprives the provincial authorities from the real-time data of agricultural income exemptions claimed under FBR.



Agricultural taxation is also prone to outdated political system which is mainly dependent upon the feudal system. Every government is afraid of losing the massive vote bank of farmers by aggressive taxation reforms in the agriculture sector. Interestingly, subsistence level farmers are unable to comprehend that they will be exempt in any system of progressive taxation and are thus easily exploited by the feudatories.

The whole agricultural process is effectively informal i.e. from the supply of raw material to the sale of agricultural produce in the market. The important role of middlemen in the shape of 'arthis' for provision of informal agricultural lending, supply of seeds/fertilizers and commissioning the ultimate sale of agricultural produce, hinders the documentation of the agricultural sector.

b) Challenges with the Trading Sector

Trading sector consists of whole-sellers and retailers. As Pakistan is an import oriented country, the trading sector (18.86 percent of GDP in 2018-19) has larger share in the national income than the manufacturing sector (13.04 percent of GDP in 2018-19). In spite of being the largest service sector of the country, majority of the traders, especially retailers, are not registered. According to FBR, among 4.0 million traders in Pakistan, only 0.393 million actually pay the taxes.

The fundamental problem with the trading sector is that it consists of millions of small-scale retailers who have both local as well as national unions. Tax reforms by the incumbent governments always face significant resistance by such associations in the form of shutter-down strikes across the country. A recent attempt by the government to document the small-scale retailers by putting a CNIC requirement for their procurement from tier - 1 retailers/wholesale dealers also resulted in traders' boycotts/strikes, pushing the government to its knees.

c) Timber - The Undocumented Natural Resource Trade

Timber is a gigantic undocumented natural resource sector of Pakistan. In contrast to the world average of one-fourth geographical coverage of forests per country, only 4.6 percent of Pakistan's land consists of forests. This scarcity of forests and the UN demand of controls over deforestation resulted in prohibition of the logging of state-owned woods in Pakistan long ago. However, the inflating demand of timber in the rural areas for energy consumption, coupled with the outdated laws of forestry, established an illegal mafia for smuggling, cutting and selling the variety of timber over the last few decades.

Household consumption of firewood for cooking and heating is the only suitable option in the villages, especially in the hilly areas, because the alternate sources of energy i.e. electricity and gas are either not available or are very expensive in such areas.

Besides deforestation, the import of raw wood and associated wooden materials is the alternate option and Afghanistan has remained the key supplier in this respect. But due to import duties and tariffs, the documented import of wood becomes very expensive and is thus smuggled into Pakistan. According to United Nations Office on Drugs and Crime (UNODC) report, forgery of the papers and the collusion of the corrupt government officials allow such trade. The situation is aggravated by the involvement of the political forces in this high-profit industry. In Budget 2019-20 of Pakistan, import duties have been reduced from 3 percent to 0 percent on wood and from 11 percent to 3 percent on wooden veneering panels. However, due to the perception of the temporary nature of the relaxation in import duties, illegal timber trade seems not to be deterred by the reduction in import duty.

3. International Trade Impediments

a) Defective Borders of Pakistan

Unfortunately, Pakistan has a poorly controlled border system which makes undocumented trade relatively easy and economical. Regarding documentation of Pakistan's across-the-border trade, the following boundary markers appear to have major share in the ungoverned movement of goods:

i) Durand Line (Pak-Afghan Border):

Durand line is the official border between Pakistan and Afghanistan which is 2,611 km in length and is characterized by streams, rivers, mountains and physical landmarks rather than fencing. However, Pakistan officially reported

in January 2019 to complete fencing of 900 km of Durand Line and the critical 1,200 km is claimed to be barricaded by 2020. However, the non-fenced part of the border is surrounded by tribal areas which are under the least control of the incumbent government. The porous and poorly administrated border is an uncontrolled trade zone resulting in a loss of revenue for the government and is difficult to be controlled due to its geographical jurisdictions.

ii) Pakistan-Iran Border:

Pakistan shares the ground border of 909 km with Iran, starting from the tri-border with Afghanistan to Gwadar Bay. This borderline is also not walled and is infamous for undocumented trade. Between Pakistan and Iran, Taftan and Mand are official border crossing points but still multiple routes are illegally used for smuggling Iranian Oil Products into Pakistan; which resulted in revenue loss of above Rs. 60 billion to the government during the period July 2018 - March 2019. During the same period, Oil Companies Advisory Committee (OCAC) also recorded one quarter of decrease in oil sale by OMCs as compared to the corresponding period in the previous year, which is a clear indication of rising Iranian oil smuggling. Majority of the people involved in such unlawful activities are poor and unemployed, hailing from nearby villages, whose seizure will not resolve the underlying predicament of the regional poverty.

Pakistan and Iran have officially agreed multiple times to fence the complicated Pak-Iran border for which work was initiated by Pakistan in April, 2019. However, the natives of near-border regions of Balochistan are not in favor of being circumscribed by a walled border from the people of Sistan - Balochistan, Iran whom they consider to be their brothers.

b) Challenges of Transit Trade

Transit trade under the international trade is the transfer of goods from the exporter to the importer through intermediary countries where the trading countries do not have a shared border. Pakistan plays the intermediary role for land-locked nations to allow them to trade with the rest of world through its sea-ports. For this purpose, it has signed transit trade agreements with the neighboring countries under certain terms and conditions.

However, transit trade has its own trade documentation challenges and contributes a significant share in the undocumented economy of Pakistan. Goods supplied into Afghanistan duty-free through seaports of Pakistan, are also smuggled back into Pakistan. It has been observed that Afghanistan reports a fraction of its import to the International Trade Center rather than the actual transfers. For example, in 2019, Afghanistan reported only \$14.8 billion import value while as per Pakistan's customs record; it cleared goods bearing worth three times more than this falsely reported figure, which is a clear indication of illegal re-export of the remaining goods into Pakistan. Pakistan is strained to bear the burden of undocumented leakages because the access of Pakistani goods into the countries like Turkmenistan, Uzbekistan and Tajikistan is dependent upon this trading route unless the infrastructure of the alternate routes is created.

Future Outlook of Documentation

The future outlook of documenting the economy of Pakistan relies upon the goal congruence of the economic sectors of Pakistan and the state. Transparency of the government operations, paradigm shift in bureaucratic systems, non-political decision making and the non-biased policy reforms in taxation may lead to restore the confidence of the workforce/businesses in the legalization of their affairs. The documentation of the undocumented economy is an aspiration of every nation, it takes years of endeavors, even if the agenda of the legislative assemblies is synchronized with the requirements for documentation of the economy. Therefore, we must play our part in building the documented economy patiently and must hope for the better future of the country. ■

This Essay was awarded First Prize in IBP Essay Competition 2019.



POLITICALLY EXPOSED PERSONS

UNDERSTANDING THE BASIC CONCEPTS

By: M. Subtain Raza, CFE, CAMS



The term 'PEP', Politically Exposed Person, received global attention in 2003 when it became the part of FATF's, (Financial Action Task Force) regulations announced to combat the financial crimes related to Money Laundering (ML), Terrorist Financing and recently added feature of Proliferation Financing (PF).

FATF's latest definition of politically exposed person (PEP), revised from 2003, is as follows:

- ◊ Foreign PEPs: individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or Heads of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.
- ◊ Domestic PEPs: individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Not all countries subscribe to the concept of domestic PEPs with respect to regulatory requirements/application of due diligence. For example, US law, specifically Section 312 of the USA Patriot Act and its implementing regulations provide for enhanced due diligence for SFPFs (Senior Foreign Political Figure) only, defined as: "a current or former senior official in the executive, legislative, administrative, military, or judicial branches of a 'foreign' government... a senior official of a major 'foreign' political party; and a senior executive of a 'foreign' government-owned commercial enterprise."
- ◊ Persons who are or have been entrusted with a prominent function by a state owned enterprise or an international organization, it refers to members of senior management, i.e. directors, deputy directors and members of the board or equivalent functions.

Such persons may potentially act to abuse their roles to commit money laundering crimes and related predicate offenses. Financial institutions, non-financial institutions and the professions are thus obliged to implement specific measures to detect this type of misuse of financial transactions when they occur. Specifically, the FATF guidance requires countries to enact legislation, requiring institutions to adopt measures beyond normal customer due diligence to determine if the institution — be it a financial or non-financial institution — is doing business with such a PEP and what level of risk is posed by those transactions. Steps to protect the institution against such threats may need to be adopted. In certain circumstances, the relevant authorities may need to be notified. The implementation of these PEP identification requirements has, in practice, proven a very difficult, time-consuming and not inexpensive challenge for state authorities as well as financial and non-financial institutions.

Similar to the FATF definition and to comply with their proposed action plan, the Regulating bodies in Pakistan including State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), Central Directorate of National Saving (CDNS), The Institute of Cost and Management Accountants of Pakistan (ICMAP) and The Institute of Chartered Accountants of Pakistan (ICAP) have consequently been issuing instructions to their regulated entities to deal with the PEPs. Initially, the lead was taken by the State Bank of Pakistan to mention a comprehensive

set of instructions to establish business relationship with PEPs, as defined by FATF.

AML/CFT Regulations issued by State Bank of Pakistan in 2012 mentioned exclusive instructions to be observed by the Regulated Entities (RE) while establishing business relations with PEPs. The updated version of AML/CFT/CPF issued in January 2021 mentioned 'politically exposed persons or PEPs' as individuals who are entrusted with prominent public functions either domestically or by a foreign country, or in an international organization and includes but is not limited to:

- ◊ Foreign PEPs: Heads of State or of government, senior politicians, senior government officials, judicial or military officials, senior executives of state owned corporations and important political party officials;
- ◊ Domestic PEPs: Heads of State or of government, senior politicians, senior government officials, judicial or military officials, senior executives of state owned corporations, important political party officials;
- ◊ International organization PEPs: members of senior management or individuals who have been entrusted with equivalent functions; and
- ◊ Provided that middle ranking or more junior individuals in the above referred categories are not included in the definition of PEPs. REGULATION – 5

In SBP AML/ CFT Regulations 'Regulated Entities (REs)' mean financial institutions licensed/authorized and regulated by the SBP under any law administered by SBP, and includes:

- ◊ Banks;
- ◊ Development Finance Institutions (DFIs);
- ◊ Microfinance Banks (MFBs);
- ◊ Exchange Companies (ECs)/ Exchange Companies of 'B' Category (ECs-B);
- ◊ Payment Systems Operators (PSOs);
- ◊ Payment Service Providers (PSPs);
- ◊ Electronic Money Institutions (EMIs); and
- ◊ Third Party Payment Service Providers (TPSPs).

Close Family Members and Close Associates of PEPs

One major problem in identifying and dealing with PEPs is that the pool of potential targets that must be considered at both the onboarding and ongoing monitoring phases is far larger than the immediately targeted and already large PEP pool. Indeed, due diligence here needs to take account of a far broader range of persons, including members of the PEP's family and their close business associates. Family or close associates of PEPs may, of course, be beneficiaries of the crime. Also, PEPs may employ these groups to hide their criminally sourced funds or assets. FATF recommendations require that both family members

and close associates are to be considered PEPs because there exists this potential that they may abuse their relationship to the client PEP to move the proceeds of crime or abet the property's placement and disguise, including for terrorist financing purposes.

A focus on these individuals exponentially widens the category of persons who must be subject to due diligence analysis and presents significant definitional challenges.

FATF admits the scope of the terms 'family members' and 'close associates' depends to some extent on the socioeconomic and cultural structures within the PEP's jurisdiction. The organization notes, "Identifying such persons is also challenging since the number of persons who qualify as family members and close associates is fluid and may change significantly over time." There is the suggestion that national authorities should provide financial and other institutions with relevant working definitions or examples. Nevertheless, "such working definitions and examples should not be interpreted too narrowly or too widely." Rather than solving the problem, such an approach may simply reinforce it.

In some national categorizations, for example, close family could include a PEP's direct family members, their spouse or civil partner, children and parents of that person. Institutions are, at the same time, required to take a proportionate and risk-based approach to family members who fall outside this definition. Where a PEP is determined to be a higher risk, a wider circle of family members will need to be included.

Known close associates present potentially even more acute definitional problems. The FATF approach is extremely wide. Close associates here include [known][sexual] partners outside the family unit; prominent members of the same political party, civil organization, labor or employee union as the PEP; business partners or associates, especially those that share [beneficial] ownership of legal entities with the PEP or who are otherwise connected. The UK Money Laundering Regulations, for example, provide a more technical approach and identify close associates as (i) individuals known to have joint beneficial ownership of a legal entity or a legal arrangement or any other close business relationship with a PEP; or (ii) an individual who has sole beneficial ownership of a legal entity or a legal arrangement that is known to have been set up for the benefit of a PEP.

The difficulties in identifying these groups are far greater than identifying PEPs because their political exposure may not be readily visible. Significantly, of course, relevant information as to the identity of these individuals may, at least to some extent, be dependent upon the customer (the PEP) themselves. The information available to the financial institution may vary greatly depending upon the service they are providing. In private banking contexts, the relevant information may be more readily accessible than in general retail transactions.

In determining whether a person is a known close associate of a PEP, FATF guidance makes clear that

firms only need to take into account information in their possession as well as credible information that is publicly available. This puts a premium on having access to a sound database.

SBP Instructions on Close Associates and Family Members of PEPs

As per SBP Regulations on AML/CFT/CPF, 'Family member of a PEP' includes—

- ♦ Spouse of the PEP; and
- ♦ Lineal descendants and ascendants of the PEP and siblings of PEP.

With respect to PEPs and their close associates or family members, the SBP REs shall:

- ♦ Implement appropriate internal policies, procedures and controls to determine if a customer or beneficial owner is a PEP or a close associate or a family member of a PEP, both prior to establishing a business relationship or conducting a transaction throughout the course of the business relationship.
- ♦ Obtain approval from the senior management to establish or continue business relations or want to execute financial transaction where the customer or a beneficial owner is a PEP or subsequently becomes a PEP, a close associate or family member of PEP.
- ♦ Establish, by appropriate means, the sources of wealth and the source of funds of customers and beneficial owners identified as PEP, a close associate or family member of PEP.
- ♦ Conduct enhanced ongoing monitoring of business relations with the customer or beneficial owner identified as PEP, close associate and family member of PEP.

PEPs and Inherent Risk

The purpose of identifying PEPs is to determine both the level of risk posed to an institution and the steps that need to be taken to protect the institution from the threat posed by criminal conduct undertaken by a client PEP, the ultimate beneficial owner who is a PEP, or family or close business associates of that PEP. To that end, it is important to recognize that not all PEPs pose an equally high threat.

Hierarchies of PEPs: In practice, there is a spectrum of PEPs, from those who have significant control over resources and assets in any particular country — and which might pose the highest risk to the institution — to those who are to be located just above junior or middle-ranking officials. Consequently, some categorization models differentiate between, on the one hand, genuinely prominent functions, such as heads of state, ministers, senior judicial officials, high-ranking officers, senior executives and senior officials of major political parties (presenting the highest risk), and, on the other, a set of functions that may be considered to fall within the definition but could also be excluded

“FATF explicitly emphasizes that its PEP requirements should not be interpreted in any way as an effort aimed at stigmatizing PEPs. It would thus, according to FATF, be wrong to refuse a business relationship with a PEP just because a client is identified as a PEP.”



depending upon the level of corruption within a given jurisdiction. This latter group may include city mayors and governors, leaders of federal regions, members of parliament and heads of supranational bodies. Ultimately, a risk-based approach should be employed to determine where on a PEP spectrum a particular individual is to be found and the level of risk presented to the institution.

Foreign and Domestic PEPs: Approaches to identifying and then dealing with PEPs often differentiate between foreign PEPs and domestic PEPs. The consensus is that foreign PEPs are more dangerous than domestic ones, not least because an institution may not have firsthand knowledge of the circumstances of a foreign PEP. FATF admits that "it is extremely difficult for financial institutions and [non-financial institutions] to determine which customers would be considered PEPs in a foreign country." The largest risks are when a PEP seeks to establish a relationship with a financial institution outside their home jurisdiction without any discernible explanation or business rationale. Of course, it is not always the case that domestic PEPs present more of a risk than the foreign category, especially in relation to smaller financial institutions with limited exposure to overseas financial markets. It should be noted that some jurisdictions do not have a requirement to search for domestic PEPs. This lack of focus may, in a number of countries, reflect political pressures where too much self-analysis, especially in financial affairs, is regarded as decidedly unwelcome. The Wolfsberg Group states that financial institutions should assess the risk posed by PEPs regardless of whether they are foreign or domestic and apply appropriate due diligence standards.

Red Flags and Risk

Just because a client is identified as a PEP does not mean that he or she cannot be onboarded or that work cannot be undertaken for them. All it means is

that actual risks must be identified and quantified. This will allow the institution to take the necessary steps to protect itself in any relationship with a PEP. Indicators that the PEP may present a lower risk could include:

Geographical factors – The PEP's function is within a jurisdiction that has low levels of corruption, strong state institutions, well-developed registries for owners, strong records for investigating political corruption, an independent judiciary, free press, political stability and fair elections.

Product factors – The PEP wishes to access a product or service that the institution has assessed to pose a low level of money laundering risk.

Personal factors – A PEP may present a low risk where they are subject to rigorous disclosure requirements or they do not have executive responsibilities (for example, an opposition member of parliament). In such circumstances, despite the identification of a PEP, simplified due diligence may suffice at the onboarding phase.

Conversely, indicators that a PEP may pose a higher risk include:

Geographical factors – The PEP's function is within a high-risk country with high levels of corruption, weak anti-money laundering defenses, extensively organized criminality, limited free press, a criminal justice system that lacks independence and limited transparency of registries.

Product factors – The PEP wishes to access a product the institution has assessed as having a high risk of being exploited for money laundering purposes.

Personal Factors – The PEP may be identified as displaying a lifestyle or personal wealth that is inconsistent with legal sources of wealth or income, is subject to (credible) allegations of financial irregularity, can influence public procurement projects, especially where they are not subject to competitive tender, or can influence the allocation of valuable government licenses.

Conclusion

FATF explicitly emphasizes that its PEP requirements should not be interpreted in any way as an effort aimed at stigmatizing PEPs. It would thus, according to FATF, be wrong to refuse a business relationship with a PEP just because a client is identified as a PEP. Such actions would be contrary to both the letter and spirit of the relevant FATF recommendation. Given the tens of thousands of domestic and foreign PEPs, de-risking at the slightest indication of a PEP is not a real possibility for financial and non-financial institutions. Doing business will inevitably mean having to onboard persons in prominent political positions. Institutions must, therefore, have confidence that they have the software to properly identify such PEPs and be able to use that software to reach the correct risk decision, and ultimately, the correct business decision. ■

Performance Inhibitors in Organizations

By: Sohailuddin Alavi



Often times, even smart employees fail to perform in the real world of work. It is not a theoretical hypothesis, but a challenge our organizations often ignore to recognize. Naively, some managers assume that an employee's performance has a cause-effect relationship with his capacity to do a job. But in reality, performance is an outcome of complex factors and their abstract interaction. World-renowned authority on leadership, author, reformer, and organizational consultant Stephen R. Covey, pointed out in his book 'Principle Centered Leadership', that employees' performance depends 80 percent on the effectiveness of the organizational system and 20 percent on their motivation and competencies. Presence of 80:20 effect may not prove similar in all sorts of situations. Nevertheless, as we know that employees respond to their immediate work environment, we can contemplate that organizational system has a dominating role in managing employees' performance.

Examples abound of highly motivated and competent employees not performing in a given work environment. When the work environment becomes restraining; when supervisors focus on controlling rather than helping their employees; and, when the money replaces intrinsic motivation, then employees – no matter how competent they may be – resort to just their physical presence and give least output. Their major concern shifts to avoidance of reprimand and receiving pay cheques. In such an environment, they demand more money for doing less and less work.

Let us analyze different performance inhibitors within the permeable boundaries of our modern organizational system and how each of them may tend to deter our performance:

Hiring Process – Paradoxically, we take for granted that when we hire a person with the smart capacity, his performance will be guaranteed automatically. Hence, organizations often attempt to select best of the best candidates. However, they fail to give attention to organizational work culture; given resources; and, most importantly potentials to satisfy employees' needs and expectations with the compatibility of the smart fresh hiring. Consequently, as organizations are constrained by their environment and resources to satisfy the diverse wish-list of their employees, they fail to unleash employees' work potentials.

Reality Shock – As the employment negotiations proceed between the organization and prospective employee, sometimes organizations present a rosy picture of the career prospects and make superficial commitments only to attract the incumbent. However, often he or she enters into the organization to receive reality shock as what was said and committed proves to be untrue. This often leads to dissatisfaction and sometimes results in the employee quitting.

Structure – There have been instances of organizational chaos whereby employees are restrained from performing to the best of their potential, for example where job responsibilities are not clearly defined, which often times lead to uncertainty of what is expected from the employees. There are real life scenarios where employees are not given any job description, hence, they standby for the surprises from their managers in respect of what to do next. At times employees are not adequately empowered i.e. given sufficient autonomy and even ownership of their tasks. Examples abound: In a typical hierarchical setup where the juniors are required to articulate a report or a letter on their own but they cannot sign it nor own it. Likewise, it is common that employees are neither given complete information nor shown a bigger picture hence, they work blindly. Too many reporting relationships also constrain the employee from focusing in one direction. Last but not the least, some structures encourage internal unfair competition, which displaces employees' attention from work to politics.

Status Incongruence – Employees' interrelationships and coordination are restrained as organizations over-emphasize ranks and status of individual employees

across the hierarchy. This is often manifested in communication protocol and participative decision making; people senior in ranks usually prevail over their juniors and top down communication is the only legitimate channel. Similarly, rewards and recognition are applied based on ranks, not on contribution values. A junior, who may be more technically capable to manage the task, is not just denied the reward commensurate to his contribution but his or her morale, self-esteem and confidence are also damaged by keeping him or her in forced supervision, sometimes by less qualified persons.

Morale & Motivation – Both factors are complementary to each other and equally necessary to help employees perform. Ironically, there is a general misnomer that higher satisfaction would improve motivation. The truth is that satisfaction affects morale and esprit-de-corps i.e. a feeling of accomplishment and mutual loyalty shared by the members of a group. Although generally believed, it does not cause motivation. Motivation is about ownership of responsibility, commitment and passion, which are primarily the outcome of one's control over the task and its perceived value. Guaranteed satisfaction in the absence of work motivation causes complacency among employees.

Learning Opportunities Denied – Employees are denied opportunities to learn; hence they fail to sustain their performance over time. Employees are not encouraged to think about out-of-the-box solutions, introduce any innovation at work or incorporate new learning, if any, on the job. Furthermore, employees are denied job enlargement or enrichment, exposure to different work positions, etc. All these contribute in burning out the capacities of employees.

Unwarranted Expectations – Many a times employees are either directly demanded or put in a situation which entails certain unethical, immoral and even unlawful actions. Obviously, in such situations some succumb to the demands and go corrupt. However, generally employees feel threatened, take a back seat and decide to withdraw from the work.

Favoritism – It is about giving undue support to blue-eyed employees. As a natural consequence, other employees, however smart they may be, are ignored so much so that they are not given front line responsibilities. This, on one hand causes lowering of employees' morale and self-esteem and on the other hand, overrides the well-established principle of 'right person for the right job.' As a result, employees' focus is displaced from constructive contributions to dysfunctional lobbying and networking for their personal gratification. Consequently, group productivity is contained to the minimum.

Theory 'X' Syndrome – Most probably as a critical parental attitude and sometimes to overcome their inferiority complex, managers feel secure in managing their junior employees from Theory 'X'* perspective. Being critical on employees' potentials, denying or barring their thinking process, and deliberately undermining their achievements are a few manifestations of it. In this situation, even highly

capable employees are restrained to perform. They would rather find ways to avoid undue criticism from their seniors and would reduce their work participation to the minimum.

Group politics – Parallel to the organization's interests are the interests of employees, which often come first. Unless employees' interests are harmonized with the organizational system, or in simple words, made directly contingent on organizational interests, employees detract their energy towards their personal interests. Even more sadly, as different employee-groups represent rather conflicting interests, each group struggles to dominate over the other. This political process on one hand pushes organizational interests at the back burner and on the other hand promotes competing [win-lose] culture among employees.

Uncertainty – It is natural that we perform our best when the permeable conditions are in order and certainty prevails. It has two dimensions; firstly, whether work proceeds in order and as planned or chaos prevails; and secondly, whether the organization's future is projected as secure and progressive, or uncertain. When the work is done in order and the organization is seen as progressive, employees tend to feel confident and are able to perform. But when chaos in the immediate environment and uncertainty of the organization prevail, employees fail to focus on their performance.

Harassment – When managers illegitimately threaten and exploit their employees, either as a tactic to get extra performance or to secure their personal interests, is work harassment. Such practices when continued on sustained basis, cause wide level dissatisfaction and psychological or even physical withdrawal of employees.

Peer-to-Peer Biases – Little attention is given to how people communicate with each other on an interpersonal level, whether across ranks or laterally. Stereotyping and other sort of biases are ignored which is discouraging for employees who are sensitive to such behaviors and may not be able to raise their voice for fear of being ridiculed further. Jokes on ethnicity, someone's martial choices or personal life situations, physical features etc. are common examples. Such a condition, if continues, leads to demoralization and alienation of the employees, which is manifested in their reduced work participation.

The impact of an office environment with one or more of these performance inhibitors may impede an individual's overall performance in the workplace. Different work situations which we all may have encountered may present different sets of performance inhibitors. However, some may be more common than others in most of the situations. Inhibitor feedback and testing should be conducted by organizations in consultation with a trained psychologist to minimize their negative impact and offer feasible solutions to tackle them. ■

* Theory X and Theory Y were first explained by McGregor in his book, 'The Human Side of Enterprise,' and they refer to two styles of management – authoritarian (Theory X) and participative (Theory Y).

Q&A

Financial Monitoring Unit (FMU) is a Financial Intelligence Unit of Pakistan which is mandated to counter Money Laundering (ML) / Terrorism Financing (TF). FMU was established under the Anti Money Laundering Ordinance, 2007 in October, 2007 which was subsequently enacted as an act of parliament as Anti Money Laundering Act, 2010 (<http://www.fmu.gov.pk/wp-content/uploads/2020/03/Anti-Money-Laundering-Act-2010-as-amended-upto-Feb.-2020.pdf>) in March, 2010. Pursuant to the AML Act, FMU has also issued AML Regulations, 2015 (<http://www.fmu.gov.pk/docs/AMLRegulations2015.pdf>).

The core function of FMU is the receipt of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) and after analysis disseminate financial intelligence to law enforcement agencies/Regulators/-Supervisors for inquiry or investigation of ML/TF and other related offences including any administrative or regulatory action.

This issue of the IBP Journal answers some of the most commonly asked questions about Suspicious Transaction Reports (STRs) for Reporting Entities.

Legal Requirements Relating to STRs

Q-1. What is an STR and under which law STRs are required to be filed?

ANS: An STR is a suspicious transaction or activity related to money laundering or terrorism financing, which is required to be filed by the reporting entities as per section 7(1) of AML Act, 2010. In order to identify a suspicious transaction or activity, the reporting entity should have effective systems and mechanisms in place to identify and report suspicious transaction/activity. The access to the related databases like Proscribed Persons/Entities' records, Risk Screening Databases, etc. may also be acquired by the Reporting Entities (REs), wherever possible.

Q-2. Which Reporting Entities are required by AML Act to report STRs?

ANS: STRs are required to be reported by the 'reporting entities' defined under section 2(xxiv) of AML Act, 2010 which categorizes financial institutions and non-financial businesses and professions as reporting entities under sections 2(xiv) and 2(xii) of the Act. Further, under Section 7(2) of AML Act, 2010, government agencies/-authorities can also report an STR to FMU.



Q-3. What does FMU do with the STR reported with it by a reporting entity?

ANS: Upon receiving an STRs, FMU conducts analysis and in cases of suspected ML/TF offences, disseminates financial intelligence to the relevant law enforcement agencies and also refer regulatory/administrative issues, if any, to the relevant regulator or administrative body. FMU also maintains a database of the reported STRs/CTRs and can share information with financial intelligence units of other countries under reciprocal arrangements. In this context, sections 6(4)(a) to section 6(4)(e) and section 6(5) of AML Act, 2010 can be referred.

Q-4. What is the timeframe for filing an STR?

ANS: As per section 7(1) of AML Act, 2010, the reporting entities are required to promptly report an STR i.e. without any delay. When the suspicion is formed by the reporting entity after analysis of the related transactions or activities, the STR should be filed immediately to FMU.

Q-5. How long do reporting entities need to keep the record of STRs?

ANS: According to section 7(4) of AML Act 2010, the reporting entity is required to maintain all the records related to STRs for a period of at least 10 years. Further, sections 7(A) to 7(D) of AML Act, 2010 also creates a liability on the reporting entities for conducting Customer Due Diligence (CDD), setting certain requirements of CDD, related to record-keeping and other incidental issues.

Q-6. Is there any protection for reporting entity or its officers under AML Act for filing an STR?

ANS: Section 12 of AML Act, 2010 provides that no civil, criminal or disciplinary proceedings can be conducted against the reporting entity and its officers. The same has also been reinforced via regulation 8(2) of AML Regulations, 2015.

Q-7. Is there any criminal sanction against non-reporting of an STR?

ANS: Under section 33 of AML Act, 2010, any person willfully failing to comply with the STR reporting requirement will be liable for an imprisonment of five years or fine up to PKR 500,000 or both. In case of entities, the relevant regulatory authority can also revoke the license or registration of such entity and necessary regulatory/administrative action can also be taken.

Q-8. Are there any sanctions in AML Act, 2010 against breach of confidentiality related to STR reporting?

ANS: The reporting entity shall have measures in place to ensure the confidentiality of STR related data. As per section 34 of AML, Act, 2010, any violation or unauthorized transmission of data or information by any officer or representative of the reporting entity can lead to imprisonment of five years or fine up to PKR 2,000,000 or both. The confidentiality of the STR data has also been reemphasized via regulation 8(1) of AML Regulations, 2015.

Q-9. Can FMU freeze accounts/funds based on STRs received?

ANS: The Director General, FMU can issue a freezing order based on the information received in STRs as per section 6(6) of AML Act, 2010 for a period not exceeding fifteen days. As per regulation 7(1) of AML Regulations, 2015, the reporting entity may approach the Director General FMU for freezing of an account or property stipulating the reasons or grounds for freezing.

Q-10. Under which section(s) of the law, FMU is empowered to get information from the reporting entities as to analyze the STRs?

ANS: Section 6(4)(b) of AML Act, 2010 empowers FMU to get information/record from any agency or person in Pakistan to analyze the reported STRs/CTRs and the related agency or person is required to provide the requisite information promptly to FMU. Further, Section 25(1) of the act may also be referred which requires reporting entities and other authorities to provide requisite information/records to investigating/prosecuting agencies and FMU. Moreover, as per section 25(2) of the act, whoever willfully fails or refuses the provision of the requisite information, shall be proceeded against by its respective department or organization of misconduct and such officer shall also be liable for an imprisonment for a term which may extend up to five years, a fine which may extend to rupees one million or both, and the respective organization shall be liable for a fine which may extend to rupees ten million.

Reporting Process of STRs

Q-11. How can a reporting entity file an STR?

ANS: The reporting entities can report STRs via goAML Web which is a web-based system for reporting of STRs. First the reporting entity and its related officer(s) need to register themselves on goAML. After successful registration, the reporting entities can report STRs to FMU. Paper-based reports are no more accepted by FMU and all the reporting needs to be done online via goAML. The reporting entities can access goAML web via link <https://goamlweb.fmu.gov.pk/PRD/Home> or www.fmu.gov.pk/goaml.

Q-12. Are there any guidelines or manuals issued by FMU for the reporting of STRs?

ANS: FMU has issued necessary manuals / guidelines for registration and reporting of STRs. FMU has also issued advisories and/or guidance documents related to STR reporting. These can be accessed from FMU's website and goAML web. The relevant information/documents can be accessed via link <https://goamlweb.fmu.gov.pk/PRD/Home/Help> and <http://www.fmu.gov.pk/circulars-notifications/fmu-circulars/>.

Further, FMU has also created a goAML Helpdesk (goamlhelpdesk@fmu.gov.pk) to respond to the queries and assist/facilitate the Reporting Entities in reporting of STRs/CTRs. Moreover, registered reporting entities are required to raise the related queries/issues through goAML Message Board.

Q-13. How many types of STRs can be reported on goAML?

ANS: There are two types of STRs which can be reported by the reporting entities on goAML i.e. STR-A (Activity based STR, i.e. adverse media news, attempted transaction, etc.) and STR-F (Transaction based STR, i.e. high volume of cash transactions, transactions inconsistent with profile, etc.).

Q-14. Which STR type the reporting entity needs to create when the suspicion is a mix of both activity as well as financial?

ANS: If a reporting entity has both suspicions of STR-A and STR-F in a particular case, the reporting of an STR-F shall be opted.

Q-15. Can a supplementary STR be reported to FMU?

ANS: The reporting entity is required to report a supplementary STR when some additional information is available. To report a supplementary STR, the reporting entity may submit a new STR while providing reference of the related STR(s) or initial STR in the reason for reporting.

Q-16. How many transactions can be filed in an STR?

ANS: There is no minimum or maximum limit of transactions for reporting an STR and the reporting entity is required to report all the related suspicious transactions in a report. Further, STR can also be reported without any transaction performed as activity-based STR.

Q-17. Is there a threshold defined for reporting of an STR?

ANS: There is no threshold set for the reporting of an STR and STR reporting is done against suspicious transactions or activity, either executed or attempted, irrespective of any threshold.

Q-18. What would be the mechanism to amend or correct the information already shared under reported STRs?

ANS: If an STR is submitted by the reporting entity and such report has been accepted on goAML, there is no direct mechanism available to reporting entities as to amend the report. Therefore, reporting entities are advised to authenticate and verify the information prior to submitting the report on goAML. However, for amending an already accepted report, the reporting entity can approach FMU in writing preferably via goAML Message Board to facilitate the requisite amendment(s).

Q-19. Is there any acknowledgment provided by FMU against the reported STR?

ANS: FMU provides a system generated acknowledgment through goAML system against each reported STR via goAML Message Board. The registered person(s) of each Reporting Entity also receives notifications of the related messages on their email addresses registered on goAML.

Q-20. If an STR is rejected, what would be the process to resubmit the rejected STR?

ANS: Whenever a report is rejected on goAML, the reason(s) for rejection can be accessed from the acknowledgment of the report in goAML Message Board and the rejection reason can also be accessed from the tab Submitted Reports. In order to resubmit a web report, the reporting entity can revert such report and resubmit after incorporating the relevant amendments. However, for reports submitted via xml file, the report may be submitted again after executing the relevant changes in the data/file.

Q-21. Should reporting entities terminate relationship with customer after filing of an STR?

ANS: Keeping in view the level of risk posed by the client, it depends on reporting entity's own internal control and compliance policy. However, in certain case(s), the reporting entities shall terminate the business relationship as given in section 7D(1)(a) of the act and may also terminate relationship in other scenarios as defined in any regulations issued by the regulatory/supervisory body.

Q-22. Is a reporting entity required to freeze accounts/funds after filing of an STR?

ANS: There is no requirement for freezing of funds related to the suspect or funds available in the suspect's account after reporting of the STR. However, funds must be frozen by the reporting entity wherever it is required by any law for instance if a person is listed on 4th Schedule the reporting entity needs to freeze the available funds as per the relevant provision(s) of Anti-Terrorism Act, 1997.

Q-23. Do the reporting entities need to report STRs against all the customers who are Politically Exposed Persons (PEPs)?

ANS: Reporting entities do not need to report STR against all the customers who are PEPs. However, the reporting entities are required to closely monitor the transactions/activity of PEPs and conduct Enhanced Due Diligence of their relationships, their family members and associates and STR is required to be reported if any possible ML/TF element is suspected.

Q-24. Can a single STR be filed against multiple interlinked individuals/entities?

ANS: The reporting entity can file an STR against multiple interlinked individuals/entities. But, in such scenarios, the reporting entity is required to analyze the relationships/associations in detail which may specifically be reflecting within the field of Reason for Reporting. Further, the reporting entity must stipulate the sources of information including the facts & findings in detail for linking of the related individuals/entities.

Q-25. Is there any exemption given to the government accounts with respect to reporting of STRs?

ANS: There is no exemption for reporting of STRs related to transactions or activity conducted in government accounts.

Q-26. Does FMU provide any feedback to the reporting entity against the reported STRs?

ANS: FMU provides cumulative feedback to the reporting entities through arranging meetings, seminars, compliance forums, etc. The feedback is also provided directly to a particular reporting entity, as and when necessary.

Q-27. If the suspected criminal activity has been committed in a foreign jurisdiction or a foreign national is found to be involved in a suspicious activity, is the reporting of an STR still required?

ANS: In both scenarios, the reporting entity shall report an STR to FMU.

Q-28. Can a reporting entity withdraw an already reported STR?

ANS: An STR cannot be withdrawn by a reporting entity however, additional information can be shared with FMU preferably through the reporting of a supplementary STR.

Q-29. If a transaction has been reported as a Currency Transaction Report (CTR) and later the same transaction is also identified as a suspicious transaction, then would it be mandatory for the same transaction to be reported as an STR too?

ANS: CTR is a threshold-based report which is required to be reported by a reporting entity when a cash transaction above a specified threshold is conducted which in its case is PKR 2 million and above or equivalent. However, in the scenario if a transaction has been reported as a CTR and later on the reporting entity identifies the same transaction as suspicious, then the reporting entity is required to also report that transaction as a suspicious transaction in an STR.

Other/General Questions

Q-30. How STR is different from CTR?

ANS: STR is a Suspicious Transaction Report which is reported when a suspicious transaction/activity involving money laundering and terrorism financing is indicated. However, CTR is a Currency Transaction Report which is required to be reported when a cash transaction is equal to or exceeds the specified threshold i.e. PKR 2 million and above or equivalent.

Q-31. Does the reporting of an STR against an individual infer that the individual is involved in a criminal activity?

ANS: STR reporting against an individual does not make him a criminal unless he/she is proven guilty in a court of law.

Q-32. What should the reporting entity do if the information of the STR reported is published on media?

ANS: If any such apparent breach of confidentiality is noticed by the reporting entity, the same may be brought immediately in the notice of FMU.

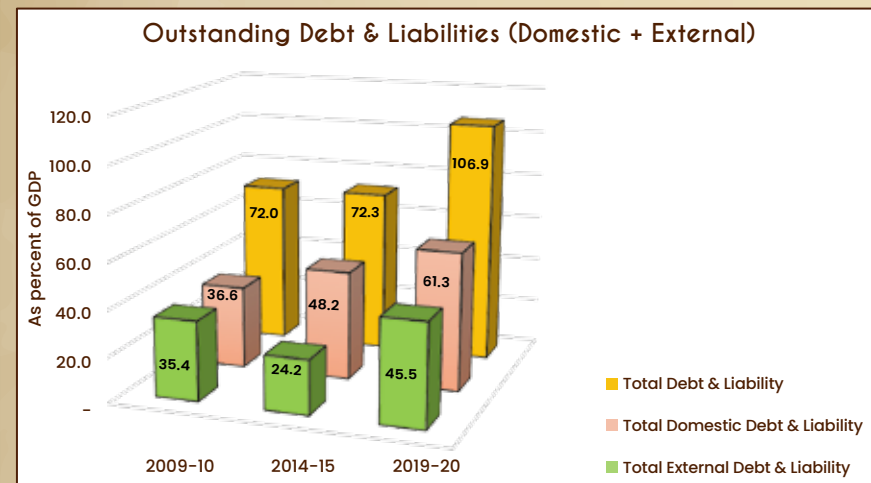
Source: https://www.fmu.gov.pk/docs/faqs_str.pdf

First appearing in IBP's quarterly Journal (October-December 2020), 'Rewinding the Reel' feature allows the readers to see the changes appear in the composition, magnitude and significance of key economic variables over a period of time. Availability of consistent time series in terms of its definition, components and source of its origin are the main factors which determine the depth we can go into the past. This graphical presentation of previous data with minimal narration, gives readers complete freedom to draw inferences on their own about the policies adopted in the past, sustainability of the existing policy stance, as well as looking into its future prospects.

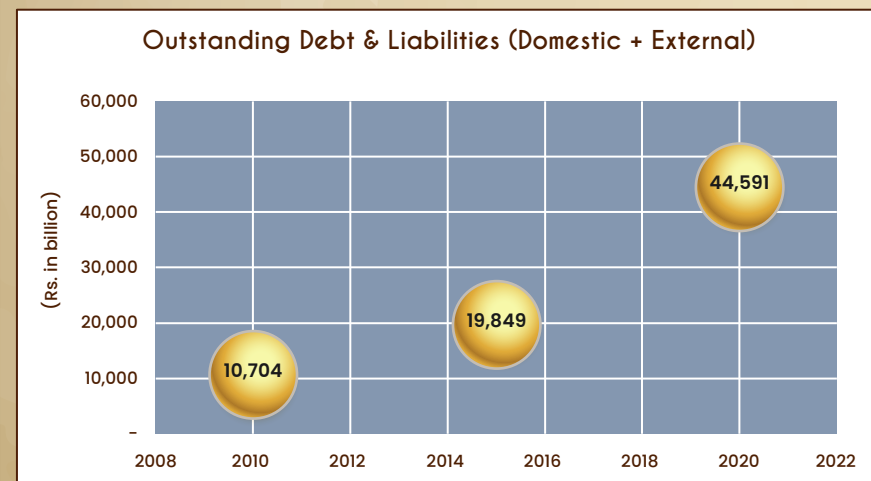


Changing Composition of Debt and its Rapid Mounting Burden

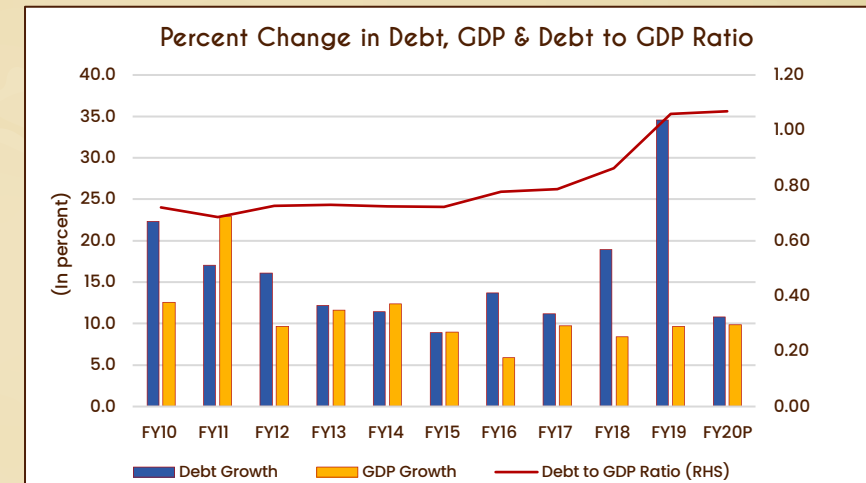
'Changing Composition of Debt and its Rapid Mounting Burden' is the topic which has been taken up for this quarter.



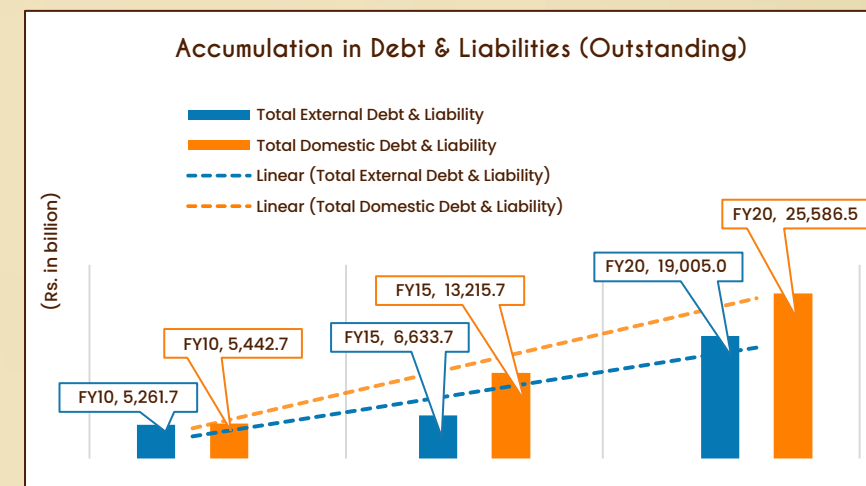
The striking feature in total outstanding debt and liabilities¹, has been that during last ten years it rose from 72.0 percent to 106.9 percent of GDP (at current market price). In other words, the amount of total debt and liabilities exceeded the value of GDP in Fiscal Year 2019-20.



During the span of last ten years (2010-2020), the total outstanding debt and liabilities in the first five years (2010-2015) rose by an average annual growth of 17.1 percent, while during second half (2015-2020) it rose by 24.9 percent per year.

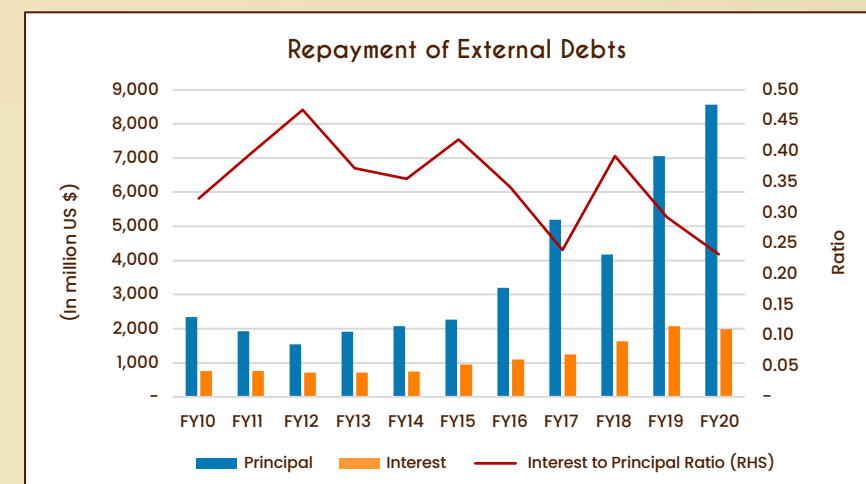


During last ten years, accumulation of total debt has been quite steep, particularly during FY19 when outstanding level of total debt and liabilities rose by record high 34.6 percent over the previous year.



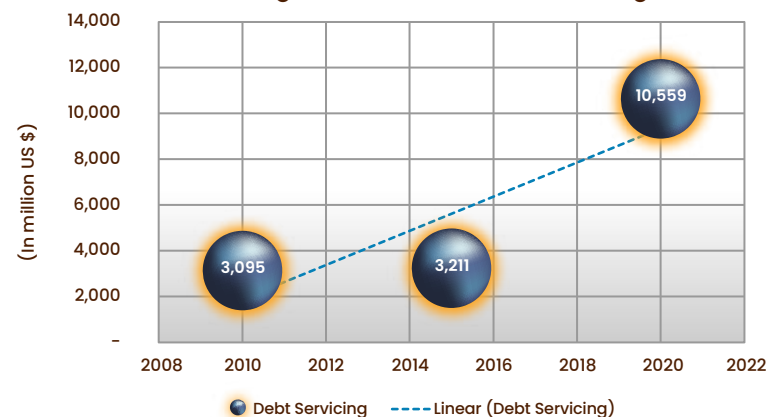
During last ten years, domestic debt has been seen rising steeper than the external debt. At almost the same level in FY10, domestic debt rose by 370 percent, while in case of external debt it rose by 271.2 percent, by the end of FY20.

Repayment of External Debts (Debt Servicing)



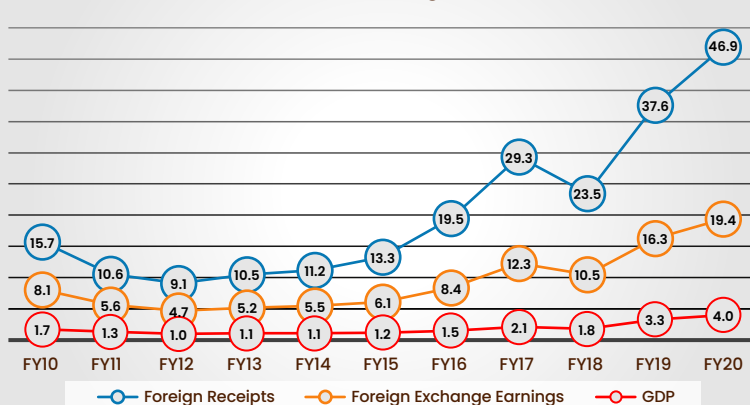
Payment of principal amount registered sharp growth during FY10-20, however, rise in interest payment remained proportionately less than that. The annual average growth in principal payments during FY10-20 registered at 24.2 percent while it was at 14.8 percent for interest payments.

Mounting Bill of External Debt Servicing



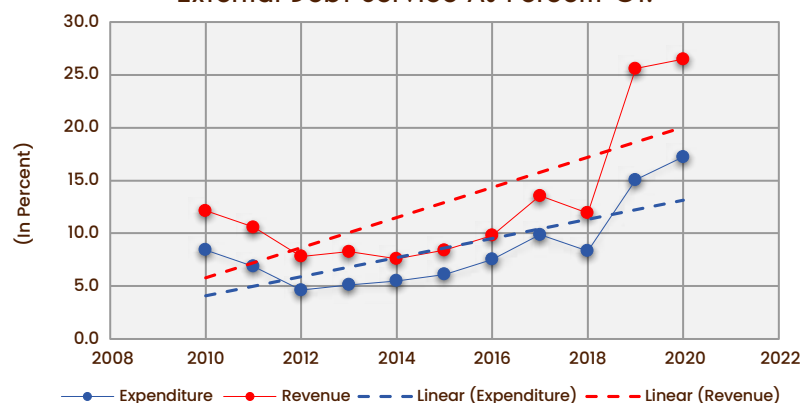
Vertical growth in external debt servicing was witnessed during 2015-20 when it grew by almost 230 percent. Moreover, of these five years, the rise in first two years was at around 50 percent per year and for remaining three years it was recorded at around 21 percent.

External Debt Servicing As Percent of:



When compared with the foreign receipt of the country, external debt servicing reached as high as 46.9 percent by the end of FY20, almost tripled from its level in 2010. In terms of GDP and foreign exchange earnings, external debt servicing also increased significantly.

External Debt Service As Percent Of:



External debt servicing consumes a larger chunk of revenues in federal budget. Seen at almost an average of 10 percent during 2010-18, it abruptly went up to 26.5 percent by the end of FY20. The linear trend shows that over time, growth in revenue is less than the growth in expenditure.

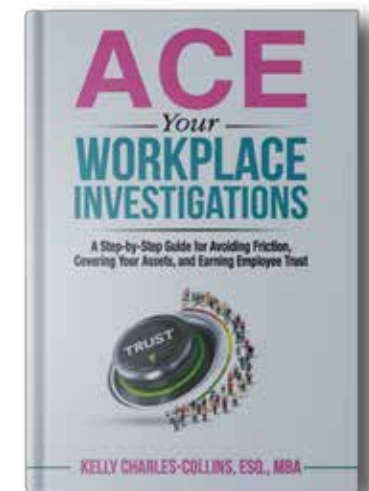
¹ External liabilities include Central Bank deposits, SWAPS, Allocation of SDR and Nonresident LCY deposits with Central Bank. Source: Statistics & Data Warehouse Department SBP

As per Fiscal Responsibility and Debt Limitation Act, 2005 (FRDLA) amended in June 2017, "Total Debt of the Government" means the debt of the government (including the federal government and the provincial governments) serviced out of the consolidated fund and debts owed to the International Monetary Fund (IMF) less accumulated deposits of the federal and provincial governments with the banking system.

ACE *Your* WORKPLACE INVESTIGATIONS

A Step-by-Step Guide for Avoiding Friction, Covering Your Assets, and Earning Employee Trust

By: Kelly Charles-Collins, Esq., MBA



Synopsis

Employee complaints are a cost of doing business. If you want to reduce those costs and earn employee trust, you must address employee complaints by conducting effective workplace investigations.

Author and Attorney Kelly Charles-Collins, an authority in HR issues and Employment Law, offers a fresh perspective on conducting workplace investigations. With over 20 years of experience successfully defending companies ranging from small businesses to Fortune 100 companies, Charles-Collins reframes the risk management discussion around workplace investigations from reactive to proactive — focusing on the benefits rather than the burdens.

Using a case study and interactive exercises, you will discover how to:

- Save time and money by standardizing your investigative process
- Enhance your company atmosphere, culture, and environment
- Convert your "peanut gallery" employees into your "raving fans"
- Preserve company assets without sacrificing employee satisfaction and productivity
- Revolutionize your thinking

Whether you are a business owner, Human Resources professional, or member of the management team, embrace the opportunity to find out what is going on in your business, affecting your employees' productivity, eroding employee trust, and ultimately impacting your bottom line.

About the Author

Kelly Charles-Collins, Esq., MBA has been successfully defending small businesses to Fortune 100 corporations against employee lawsuits since 1998. She aids her clients by providing them with day-to-day preventive counseling, developing company policies, training management and employees, assessing and implementing workplace solutions, and conducting workplace investigations.

As a trial attorney, Charles-Collins understands the tangible and intangible impact of deficient, non-existent, or inconsistent application of processes and policies on the workplace and its employees. She is also a skilled public speaker, author, arbitrator and Human Resources expert. These experiences enable her to understand the personal motivators and internal business factors that drive decision-makers. With her proactive approach to human resources risk management, Charles-Collins works with organizations to develop healthy, inclusive, respectful, environments that deliver results. Conducting effective workplace investigations is an essential part of that process. She has presented at various corporate forums and also had a featured article in the Tampa Bay Parenting Magazine, The Tampa Bay Business Journal and appeared on internet radio on That Business Show.

Political Economy of Bad Governance

Reflections on Interplay of Elite Structures, Governance and Public Policy Choices

By: Jamil Nasir

Synopsis

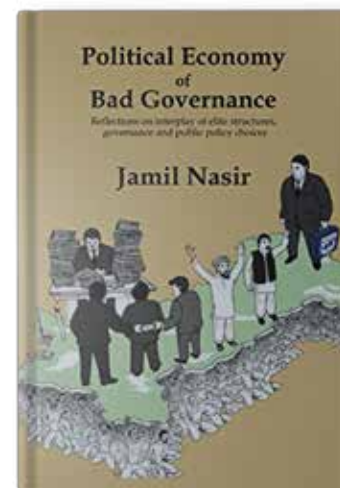
This book reflects on how narrow social and political elite structure of a society induce bad governance and sub-optimal public policies. Numerous important questions are raised for their possible answers from the political economy perspective. Why do we see poor governance and elitist policies in democracies of the Third World despite principle of one man, one vote? How do rent-seeking and culture of patronage perpetuate bad governance? How is governance trap created due to elitist structures and policies and why is such a trap responsible for poverty? How do bad governance structures serve the interests of the elite at the expense of the masses? How does social capital impact governance? What is the nexus between rent-seeking and inequality? Does good governance require heroes? Why is non-farm rural economy neglected at public policy level? Why does corruption persist despite all rhetoric against it? Why cannot we raise due taxes? Why are IMF prescriptions bad for long term economic growth etc.?

The book provides students and researchers a rich menu of issues and topics for further research in the areas of political economy, governance, corruption and taxation. It is written in a captivating style and brings together insights from multiple academic papers and reports.

Reviews

"A thought-provoking book brilliantly written in an engaging style."

– Imad Al-Khayyat, Chief Economic Analyst OPEC, Vienna, Austria



"This book is a grand tour of the political economy and governance of Pakistan from one who really understand the nexus. It is an excellent read indeed."

– Michael J. Lawn, North American Market Specialist, Bloomberg LP, New York, USA

"An exciting account of governance and political economy of the developing countries; a must read for governance experts."

– Ibrahim Bangura, Governance Specialist, AFDB, Abidjan, Cote d'Ivoire

About the Author

Jamil Nasir is Columbia alumnus and a Chevening Fellow on Economic Governance and Reforms. He is a public policy practitioner having over two and half decades of experience mainly dealing with implementation of tax and trade policies in Pakistan. He holds Master's degree from Columbia University in Economic Policy Management. He also holds Master's degrees in Economics, Business Administration and a postgraduate diploma in WTO laws. He has contributed to various journals and leading newspapers of Pakistan on economic development related issues.

THE GREAT DEVALUATION

How to Embrace, Prepare and Profit from the Coming Global Monetary Reset

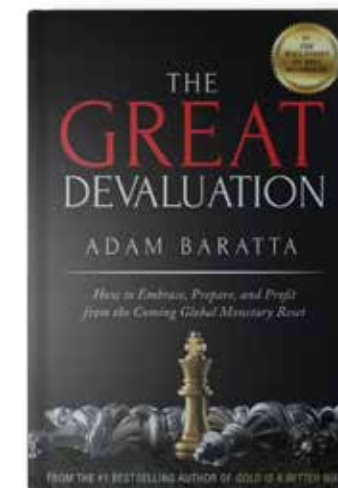
By: Adam Baratta

Synopsis

What happens when central banks lose control of the monetary system? We do not have to speculate—The Great Depression of the 1930s tells us everything we need to know about what to expect in case of a financial collapse. The problem is, very few people understand just how close we really are to repeating this slice of history. All the warning signs are there—asset bubbles, explosive debt, social inequality, and political tensions, to name a few. And yet, we have been able to look the other way, potentially to our peril—until now.

Former Hollywood storyteller Adam Baratta brings monetary policy to life in this follow-up to his national bestseller, *Gold Is A Better Way*. You will learn how and why Federal Reserve policies have facilitated an explosion in government debt and have systematically undermined the world financial system in the name of profit. The result? An out of control system where financial inequality has become a ticking time bomb set to blow up the global economy.

In *The Great Devaluation: How to Embrace, Prepare, and Profit from the Coming Global Monetary Reset*, national bestselling author and leading gold investment strategist Adam Baratta shines a spotlight on the state of the monetary system and the Federal Reserve. Baratta brings a fresh and engaging perspective to a topic that investors urgently need to understand. He tells the story of how the Federal Reserve grew to be the secretive, ultra-powerful institution it is today, and how its tactics have resulted in an economy that is on its last, wobbly legs.



Reviews

"*The Great Devaluation* may be one of the most timely books ever written on the state of the global economy. Baratta sums it up simply enough with the following idea:

'What seems *crazy* in normal times becomes *necessary* in a crisis.' "

– #1 Business Bestseller (*Wall Street Journal*, *Amazon*, *USA Today*)

About the Author

Adam Baratta is one of the most dynamic voices in the field of investments and precious metals today. A former award-winning screenwriter, director, and producer, Baratta has turned his passion towards the investment industry and the pendulum shift he sees coming as inflationary pressures return to the global economy. He is the co-owner of Advantage Gold, the highest rated precious metals firm in the United States, a member of the Inc. 5000.

The Shield of SILENCE

How Power Perpetuates a Culture of Harassment and Bullying in the Workplace

By: Lauren Stiller Rikleen

Synopsis

S *The Shield of Silence* compellingly argues that sexual harassment and other negative behaviors will not be stopped unless the condition that drives victims and bystanders into silence – the overriding fear that reporting misconduct will result in retaliation – is eliminated.

This book combines fascinating research, extensive interviews, and strategic recommendations for addressing workplace misconduct, it is a must-read for anyone interested in the ongoing conversation about what is acceptable, and what is not, in the workplace.

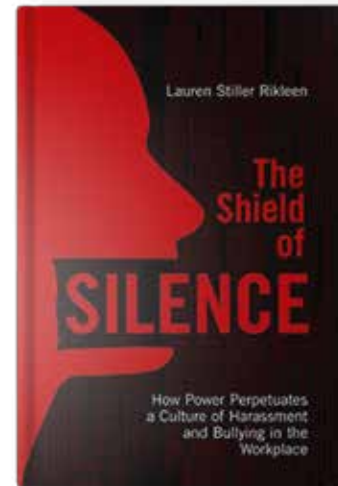
Reviews

"This critically important book details the myriad institutional barriers that have contributed to the devastating 'culture of silence' surrounding victims of workplace harassment. Relying on an impressive range of social science data and expert opinion, Rikleen draws a compelling picture of the harms such silence imposes on victims, bystanders, employers, and on our collective commitment to a more just society. Her insightful and comprehensive suggestions for reform are required reading for anyone seeking to eliminate workplace discrimination."

– **Deborah Epstein, Professor and Co-Director, Georgetown University Law Center, Domestic Violence Clinic**

"If you care about ending sexual harassment and misconduct in the workplace, *The Shield of Silence* is a book you need to read. As Lauren Stiller Rikleen so carefully documents, the link between workplace culture and misconduct is powerful – and not always seen or understood. For those of us who want to see change, Rikleen points directly at managers and employers whose leadership is critical in this journey. This book provides a detailed road-map that can help move the #MeToo movement towards historic improvements in the workplace."

– **Karen Dillon, Author of the New York Times Best-Seller, *How Will You Measure Your Life***



"Lauren Stiller Rikleen's new book, *The Shield of Silence: How Power Perpetuates a Culture of Harassment and Bullying in the Workplace*, is a must read. The book courageously shows the systemic issues that cause victims of workplace misconduct to stay silent and, in too many cases, to leave the workplace entirely. The book also shares key strategies on what companies can do to change this."

– **Samorn Selim, CEO and Creative Joy Director of Career Unicorns**

About the Author

Lauren Stiller Rikleen, president of the Rikleen Institute for Strategic Leadership, is a nationally recognized speaker, consultant and trainer who provides practical strategies for changing workplace culture, removing obstacles to women's leadership and advancement, minimizing the impacts of unconscious bias and strengthening multi-generational teams. Rikleen is a dynamic thought-leader on issues impacting employee engagement and workplace culture. She has been interviewed by and written for media outlets around the country. Rikleen is the author of more than 180 articles, and 3 other books: *You Raised Us, Now Work With Us: Millennials, Career Success and Building Strong Workplace Teams*; *Ending the Gauntlet: Removing Barriers to Women's Success in the Law*; and *Ladder Down: Success Strategies for Lawyers From Women Who Will Be Hiring, Reviewing and Promoting You*. Rikleen has a distinguished background of leadership roles in community and national organizations. She is also the recipient of numerous awards recognizing her dedication to creating a workplace culture where everyone can thrive and succeed.

BANKING ON IT

How I Disrupted an Industry

By: Anne Boden

Synopsis

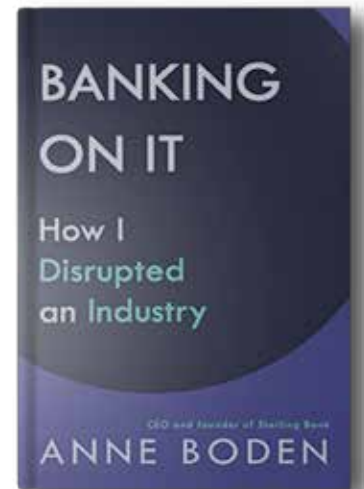
S *Banking on IT* is the first-hand account of one woman's quest to rebuild Britain's broken banking system. After a lengthy career at the top of some of Britain's leading banks, Anne Boden had become disillusioned with the status quo – the financial crash had broken trust in the whole sector but there seemed to be little appetite to make the most of emerging technologies to revolutionize customer experience. Increasingly frustrated with the inertia within the industry she decided to shake things up herself by doing something totally radical – setting up her own bank. In this awe-inspiring story Anne reveals how she broke through bureaucracy, tackled prejudice and successfully countered widespread suspicion to realize her vision for the future of consumer banking. She fulfilled that dream by founding Starling, the winner of Best British Bank at the British Bank Awards in 2018, 2019 & 2020, and in doing so has triggered a new movement that is revolutionizing the entire banking industry.

Reviews

"Anne Boden decided to launch a new "challenger" bank she seemed like neither the typical staid financier nor the archetypal fintech founder. Her creation was the successful startup Starling, but as this tell-all book outlines it was not an easy birth."

– **Rosamund Urwin, *The Sunday Times***

"Top 5 Best Business Books Of The Year 2020"
– ***The Times***



"If there was ever a business book suitable for TV adaptation, this is it."

– **Claer Barrett, *Financial Times***

"A banking blockbuster."

– ***The Observer Magazine***

"Sent shockwaves through the tight-knit world of UK tech and venture capital."

– ***Yahoo Finance***

About the Author

Anne Boden is the CEO and founder of Starling Bank, the UK's first digital-only bank which she founded in 2014. She graduated in Computer Science and Chemistry and started her career at Lloyds Bank where she helped establish the UK's first real-time payments system. She has held various executive-level jobs in the banking sector, including being Head of EMEA Global Transaction Banking across 34 countries for RBS and ABN AMRO, before leaving to start her own bank that could realize the potential of technology in financial services. Boden received an MBE in 2018, for services to financial technology and sits on the board of UK Finance, which represents more than 250 firms in the banking and finance industry.

IBP TRAINING CALENDAR

JULY - SEPTEMBER 2021*



OPERATIONS & GENERAL MANAGEMENT	COMPLIANCE & REGULATIONS	TRADE FINANCE	CREDIT & RISK	ISLAMIC FINANCE
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*For latest updates, fee structure and timings please visit <https://ibp.org.pk/trainingcalendar/>

DATE	TRAINING	JULY	FACILITATOR
July 10, 2021	SECP AML/CFT Regulations		Sumera Baloch
July 12, 2021	Credit Risk Modeling		M.A. Hijazi
July 13, 2021	Analysis of Financial Statements: An Effective Risk Management Tool		Murtaza Rizvi
July 14, 2021	Insight on Financial Crime: Challenges Faced by Financial Institutions		Usman Ali Khan
July 15, 2021	Fintech Evolution and its Role in Financial Inclusion		Fahad Shahab
July 16, 2021	Understanding of Business Impact Analysis		Syed Azhar Hussain
July 16, 2021	SBP Mandatory Requirement for Import, Export & Inward/Outward Remittances		Ejaz Qadri
July 17, 2021	FATF and AML Requirements in Pakistan		Kamran Hyder
July 17, 2021	Regulatory Requirements for On-site and Off-site Inspection of Banks		Atta Ullah Memon

DATE	TRAINING	JULY	FACILITATOR
July 24, 2021	SBP Guidelines on Stress Testing		Javaid Ismail
July 24, 2021	Customer Complaint Handling Skills		Erum Saleem
July 26, 2021	Effective Email Communication		Aisha Bela Malik
July 27, 2021	Treasury Operations and Derivatives Management		Faisal Sarwar
July 28, 2021	AEOI Regulatory Framework		Shamwail Sohail
July 29, 2021	Credit Risk Review		M.A. Hijazi
TRAINING	AUGUST **		FACILITATOR
Risk Based Auditing			Aamir Shaukat Hussain
SBP Guidelines on Fair Treatment of Customers			Sundus Saleem
Operational Excellence & Risk Management in Banks			Faisal Anwar
AML/CFT Regulations for Electronic Money Institutions (EMIs)			Sumera Baloch
IT Risk Management			Syed Muhammad Ali Naqvi
Impact of Digitization on International Trade			Ahmir Mansoor
Certification Course in AML/CFT Compliance			Multiple Trainers
Developing a Branch Business Plan			Sehba Ehsan
Audit of Foreign Exchange Transactions			Ejaz Ahmed Qadri
COBIT 2019 Framework: Introduction & Methodology			Atta Ullah Memon
Well-Being at Work: Creating a Positive Working Environment			Rabia Omar Hassan
Foreign Exchange: Regulatory Framework in Pakistan			Rana Salim Saleem

TRAINING	AUGUST	FACILITATOR
Risk Based Approaches in International Trade		Aqeel Muslim
Housing Finance Legal Framework, Mortgage, Monitoring & Documentation for Front Office Staff		Faisal Murad
SBP Green Banking Guidelines and Best Practices		Syed Asim Ali Bukhari
TRAINING	SEPTEMBER **	FACILITATOR
Basel III: Standards, Issues, Challenges and Implications		Javed Ahmed
SBP Guidelines on Internal Audit		Atta Ullah Memon
Key Requirements of IFRS Standards for Banking Industry		Hassan Marfani
Financial Modeling and Business Valuation		Saad Usman
Digital Forensics and Cyber Security		Syed Muhammad Ali Naqvi
Create a Financial & Sales Dashboard in Microsoft POWER BI		Rahim Zulfiqar Ali
Shari'ah Governance Framework for Islamic Banking Institutions		Asim Hameed
Corporate Valuation		Faisal Sarwar
Credit Administration and Operations		Adnan Adil Hussain
FATCA and CRS Global Reporting Compliance		Shamwail Sohail
Signature Analysis and Fraud Detection		Naveed Elahi Malik
National Payment System Strategy		Syed Muhammad Taha
Enterprise Risk Management		Aamir Shaukat Hussain
Workplace Stress Management		Saifuddin Ahmed
Understanding Letter of Credit - Processing, Documentation and Issues		Aqeel Muslim

****Dates to be announced.**

UNMATCHED BANKING CONVENIENCE



- Foreign Currency Accounts
- Sukoon Current Account
- Asaan Account
- Women Empowerment Account
- Young Talent Account
- Small & Medium Enterprises (SME) Credits
- Islamic Banking

- Auto Finance
- Nasheman Home Finance
- Agriculture Loans
- ATM Network
- Debit Cards
- SMS Banking
- Home Remittance



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