Journal of The Institute of
Bankers
Pakistan
Volume 87 | Issue # 1 January - March 2020

ANALYTICS USING MICROSOFT POWER BI
for Banking Sector

ISLAMIC FINANCIAL INSTRUMENTS
A Conceptual Framework

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An Effective Deterrent to Corruption

THE FUTURE OF BANKING
DIGITAL vs BRICK AND MORTAR

IBP

EDITORIAL

Rafi Ahmed
Editor

Mindfulness in Bankers

Mindfulness is described as keeping track of our thoughts from time to time, understanding of our thoughts, sensations, perceptions and the ecology in which we live and work, through a compassionate and supportive mind and eyes. Through mindfulness, our feelings are harmonized with our senses in the present situation without reverting back to the past or any perception or dreams about the future.

Mindfulness could be employed as a practical tool to act as a catalyst to prosper and succeed in all aspects of our life, notwithstanding professional careers. In the realm of banking, it enables us to unleash our full power inherent in us which, till now, may have been almost dormant or in a hibernating stage. It bestows us with living a life to the full contentment and exploiting to one's advantage our full potential. The only thing it requires from us is self-awareness and change in our outlook and activities. It makes us grasp the notion that if we could learn to make minor deviation in our thinking styles which could result in major impact on our life. In order to realize our full potentials, it requires judgmental skills and focus, to select where we exercise diligence, concentration and patience to achieve our goals. Mindfulness empowers us to take sagacious and timely decisions in our lives, whether personal, or most importantly, our professional aspects, it affords us the option of better alternatives and to change our life if we follow some very simple rules. It inculcates, in its wake, attentiveness, flexibility and lucidity in our personality.

Bankers are nowadays involved in highly frantic work pattern, so it is necessary and beneficial for them to practice mindfulness exercises. First of all, it is useful to declutter our minds, to eliminate all negative feelings and prejudices lurking in one's mind and to organize and prioritize one's commitments and tasks. It is also important to note that negative opinions about others need to be purged from the mind to allow it a healthy flow of positive energy. Keeping a diary is an excellent way to calm down one's mind by noting day-to-day thoughts and feelings. The notes thus jotted in our personal diaries, help us in removing negative feelings and improving working memory. Mindfulness also connotes purging the mind of emotional tensions or on the corollary of Greek Tragedy, undergoing catharsis which acts as a purgative for such repulsive feelings.

There is a myriad of mindfulness manifestations taking most minimum of our time. Meditation even for five minutes is sufficient to lower the stress levels. Whenever a timeline is given and is fast approaching, taking a five minute walk in the foyer of the office or just going outside for two minutes, thinking that we are elsewhere would make our task easy and meeting the deadline looks like a cake. Another way is to sit silently in a park, when free from work, with eyes shut amidst lush greenery, imagining another world for a few minutes and this brief act would certainly cleanse us of clutter in our minds and regenerate freshness. Walloping off two minutes or more out of office business and pausing with eyes closed with deep thinking can bring a lot of changes in achieving greater balance and performance in our life.

Applying psychotherapy is also one of the best methods to increase mindfulness, gazing a large-sized mural or framed spectacularly breath-taking scenery, enables us to visualize as if we are in that milieu, which relieves us of many emotional or other tensions and stress. If the scene is bucolic, then we can even imagine we are amidst an idyllic charm. Few bankers in conurbations or larger cities have the opportunity to visit or live in pastoral areas.

There are many advantages linked with mindfulness some of which include better decision making, improved communication skills, motivated leaders and stronger teams, definite well-being, exceptional creative and innovative approach and outcome, increased self-confidence level and higher resilience.

Contented and lively people with positive mindset are bound to generate enormous value for the banks for which they work. They also contribute towards the happiness index of the team. The staff can be more accomplished in the workplace if they can perceive more resilience, remain focused on their goals, be responsive and show empathy and strive for trustworthiness with their colleagues. Mindfulness can be a wonderful tool to equip people to value-add to the organization, construct resources and bring about great changes to the environment both at home and office. Besides, those with mindfulness are well-prepared to best their customer service trajectory.

The Contributors

Aftab Ali
is an experienced banker currently offering his services at a leading bank of the country. He is one of the winners who was awarded First Prize in IBP Essay Competition 2018.

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

Muhammad Subtain Raza
is a banker with vast experience in Anti-Money Laundering, Combating the Financing of Terrorism and Financial Fraud Risk Assessment & Management. He has done M.Sc, MBA, JAIBP & is a Certified Anti-Money Laundering Specialist from USA. He writes for various national and international journals.

Rahim Zulfiqar Ali
is a Microsoft Certified Trainer (MCT), Microsoft Certified Professional (MCP), Microsoft Office Specialist Expert in Excel 2013 & 2016 (MSOS, MSOE) & Member of International Association of Microsoft Certified Trainers (IAMCT). He is one of the youngest certified Excel & Power BI trainers in Pakistan.

Minagul Sohaib Aziz
is a banker with considerable experience in Operations, Compliance & Best Banking Practices. He writes on topics like Measuring Cost Efficiency in Islamic Banking, Managing Regulator Risk & Dividend Controversy. He has a Master's degree in Economics.

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

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

HEAD OF PUBLICATIONS/EDITOR
Rafi Ahmed

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

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

Design
M. Jahangir Ishaq | S. Haris Jamshaid

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To: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

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PAKISTAN BANKING AWARDS
THE INSTITUTE OF BANKERS PAKISTAN
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PAKISTAN BANKING AWARDS 2019

The Institute of Bankers Pakistan, Dawn Media Group and A.F. Ferguson & Co. Extend their Greetings to all the Winning Banks

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BANK THE UNBANKED AWARD

The 4th Pakistan Banking Awards Ceremony 2019 was conducted at Hotel Pearl Continental, Karachi on Friday, January 10, 2020. Its proceedings began with the recitation from Holy Quran. The Chief Guest of the event was the Governor SBP Dr. Reza Baqir who also gave away the awards to the winning banks.

The Governor State Bank of Pakistan, Dr. Reza Baqir while giving his keynote address, shared his views in three areas: the outlook for Pakistan's economy, areas where banks are doing well and finally areas where banks need to do more. On the outlook for the economy, the Governor emphasized that economic policies are addressing previously accumulated external and fiscal sector imbalances. On the external side, he noted that imbalances had arisen in the past because a fixed and overvalued exchange rate had widened the current account to a historically unprecedented monthly deficit of about $2 billion. To address this external imbalance, exchange rate flexibility and the shift to a market-based exchange rate system in May 2019 had significantly reduced the current account deficit and led to a notable improvement in FX reserves, net of borrowing. The Governor drew attention to the fact that Pakistan's history demonstrated that low and falling levels of reserves had been the leading cause of Pakistan's repeated need to seek financial assistance from international financial institutions and therefore the best way to avoid such developments in the future is to build and preserve the country's reserves. Dr. Baqir noted that preserving the policies of a market-based exchange rate system and zero lending of the State Bank to the government would help preserve reserves and, therefore, strengthen the country's financial sovereignty. Regarding fiscal imbalances, the Governor opined that the government had recently demonstrated significant improvement in revenue collection and was on course to reverse the trend of a growing primary fiscal deficit which would improve the sovereign's credit worthiness. The Governor noted that inflation had risen due to depreciation of the rupee, increases in utility prices and one-off factors related to temporary food supply chain disruptions. He expressed his confidence that monetary policy was appropriate to bring inflation down in the coming months and noted that real interest rates were in line with other emerging markets and Pakistan's history.

The Governor observed that there was growing recognition that economic policies are being successful in addressing previously accumulated imbalances and as a result the outlook for the real economy was beginning to improve. In this context, he observed that due to the depreciation of the exchange rate, Pakistan's exports had become competitive vis-a-vis Pakistan's competitors which strengthened the outlook for the export sector. He also pointed to the significant increase in government development spending outlays which were expected to feed into real activity in construction and allied sectors in the coming months. Finally, he noted that the business confidence surveys conducted by IBA and available on the SBP's website had shown that after a number of months of decline, businessmen's confidence was beginning to improve.

Turning to the performance of the banking sector, Dr. Reza Baqir said that it was encouraging that the industry's Capital Adequacy Ratio (17.1%), Leverage Ratio (4.9%), Liquidity Coverage Ratio (170%) and Net Stable Funding Ratio (150%) are all better than local and international minimum benchmarks. Adding further, he said that it is also a matter of satisfaction that the banking sector has remained stable and performed steadily despite recent economic shocks. He noted that gross non-performing loans had risen modestly lately to 8.8 percent in line with the slow - down in the real economy but that the net NPL ratio was 1.8 percent due to the fact that banks had provided for more than 80% of the non-performing portfolio. Governor Baqir also appreciated the efforts of the banks in partnering with the State Bank to successfully achieve the change to a market-based exchange rate system.

The Governor further said that despite impressive contribution by the banking industry, SBP expects that the banking industry will increase their contribution towards the economy further by increasing the lending to the private sector especially in the underserved sectors. These include SMEs, agriculture and less-banked geographical areas. The Governor noted that bank's appetite for taking risk to underserved clients has decreased which needs to be reversed while ensuring adequate credit quality and compliance. He also encouraged banks to devote greater attention to improving services especially to small retail customers and ensure fair pricing of various banking products including exchange rate conversion, return on deposits, mark-up on personal loan, advances and charges on banking services. Finally, the Governor appreciated the banks' efforts to improve the AML/CFT regime but noted that more needed to be done in this area.

> **THERE IS A GROWING RECOGNITION THAT ECONOMIC POLICIES ARE BEING SUCCESSFUL IN ADDRESSING PREVIOUSLY ACCUMULATED IMBALANCES AND AS A RESULT THE OUTLOOK FOR THE REAL ECONOMY IS BEGINNING TO IMPROVE. IN THIS CONTEXT, DUE TO THE DEPRECIATION OF THE EXCHANGE RATE, PAKISTAN'S EXPORTS HAVE BECOME COMPETITIVE VIS-A-VIS PAKISTAN'S COMPETITORS WHICH ARE STRENGTHENING THE OUTLOOK FOR THE EXPORT SECTOR.**
> **– DR. REZA BAQIR**

Earlier the Chief Executive of IBP, Mr. Mansur-Ur-Rehman Khan, in his welcome address, said that the Pakistan Banking Awards were launched in 2016 and since then, the event is held every year and acknowledged as a token of appreciation for the best achievers in no less than eight categories of Award. These Awards are jointly organized by IBP, The Dawn Media Group and A.F. Ferguson & Co (member firm of PWC network), as the Knowledge Partner. The Banking Sector is a prime mover for the economic growth, so it is imperative that its accomplish-ments are duly recognized and celebrated to motivate the banks to provide still better innovative services to the general public and industry, which indeed acts as a propellant for the economy to move forward. He briefly dwelt on the role of IBP and added that it is a major platform for talent development in the domain of banking and is an ISO 9001:2015 certified institution. Its distinguished alumni, comprising of high profile bankers is not only an asset of Pakistan's banking industry, but also applauded internationally for their contribution. IBP is committed to imparting knowledge in the form of globally recognized qualifications, quality trainings, recruitment and assessment services to nurture banking professionals. It focuses on empowering aspiring bankers with the skillsets required by the job market, while simultaneously providing employers with qualified human resource. He felt honored to be the torch-bearer of this knowledge sharing Institute, established more than six decades ago, to contribute towards the growth and development of human resource working in the banking and financial sector of Pakistan.

As a part of IBP's current strategy, it is not only focusing on the development of new certified courses but also revamping the existing ones and has recently included three certificate-awarding courses in the training calendar in line with the needs of the time:

- Financial Crimes, Frauds & Money Laundering
- SME Banking
- Islamic Finance

Referring to Pakistan Banking Awards, he said the event provides a forum to promote, recognize and celebrate the performance of the banks in various categories, which we believe, are defining moments in the dynamics of progressive banking. It will not be out of place to mention that selection of the Banks/ Financial Institutions for the Awards are made by an independent Jury. He hoped that those banks who have not submitted their entries this time should do so in future, so that the entire activity reflects a broad spectrum of banking profile.

The response received from the banking industry after the launch of Pakistan Banking Awards is promising. He thanked all the participating banks and looked forward to have them on board with IBP next year as well.

He elaborated that there is a firm view that collaborative efforts between the Regulator and the Institute of Bankers Pakistan need to be further strengthened, to enable a more responsive financial eco-system in Pakistan, which is the need of the hour. He expressed his gratitude to the Jury, comprising of prominent professionals, who have contributed devotedly, in keeping the entire evaluation process transparent. He also thanked IBP's partners, The DAWN Media Group and A.F. Ferguson & Co. for collaborating in this event every year.

Lastly, he extended his profound gratitude to the Governor, State Bank of Pakistan for gracing this event as the Chief Guest, setting aside some time out of his very hectic and challenging schedule. He extended his warm felicitations to the winners in advance and concluded with his remarks that today is the win-win situation for the banking sector.

Pakistan Banking Awards 2019 Ceremony was compered by Ms. Shahla Naqvi, Manager Publications in IBP. ■

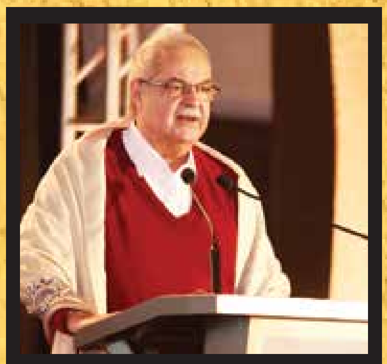
PHOTOSYNTHESIS






Despite impressive contribution by the banking industry, SBP expects that the banking industry will increase their contribution towards the economy further by increasing the lending to the private sector especially in the underserved sectors.

— Dr. Reza Baqir, Governor SBP





PHOTOSYNTHESIS









RECENT AMENDMENTS IN THE ANTI-MONEY LAUNDERING ACT 2010

The Institute of Bankers Pakistan (IBP) hosted a Breakfast Session on February 25, 2020 to deliberate on the amendments in the Anti-Money Laundering Act, 2010 (AMLA) passed on February 11, 2020 in the Senate.

The two key areas of focus during the discussion were:

- The effect of changes in the AMLA on the banking industry of Pakistan
- The impact of these changes on the FATF requirements for Pakistan

The session was attended by leading compliance management experts from several commercial banks and Mr. Faisal Anwar, a leading expert in compliance and business ethics, also attended the session to recap and present an overall view on the recent changes. Mr. Faisal Hussain, Director Research & Development moderated the session, he was assisted by Mr. Adnan Haider, Head of Research & Development, IBP.

PANEL OF EXPERTS

The Panel of experts comprised of the following:

Mr. Faisal Anwar	Industry Expert | Independent Consultant & Trainer
Mr. Faisal Hussain	Director Research & Development | The Institute of Bankers Pakistan
Mr. Haroon Khalid	Group Head Compliance | Bank Alfalah Limited
Mr. Syed Ali Zia Rizvi	Asst. GM/Head of AML - CFT Unit | Bank Al-Habib Limited
Mr. Abadullah	Chief Compliance Officer | Faysal Bank Limited
Mr. Muhammad Ismail	Country Head of Compliance | Meezan Bank Limited
Mr. Farooq Ahmed	EVP/Divisional Head Compliance | National Bank of Pakistan
Mr. Zeeshan Sharif	Head Compliance | Pak Oman Microfinance Bank
Mr. Tariq Yar Khan	Chief Compliance Officer | Soneri Bank Limited
Mr. Adnan Haider	Head of Research & Development | The Institute of Bankers Pakistan

ISSUES & INSIGHTS

The panel members presented their detailed views on the recent changes in AML Amendments and its impact on the banking industry. The common threads emerging from their analysis were:

- Overall, the amendments in AMLA are a step in the right direction, particularly considering the FATF imperatives and the need to embed them in the banks' operations.
- The role and accountability of the banks have increased with the imposition of higher amounts of financial penalties as well as non-financial enforcement actions including imprisonment of persons responsible for failure to comply with the law.
- The reporting deadline for STRs (Suspicious Transaction Reports) has been reduced from 7 days (from the date of determination of a transaction as suspicious) to "promptly".
- In the case of PEPs (and other sanctioned individuals), identity information (CNIC numbers) is not always available in the communication received from various sources. This can result in a large number of "false positives" delaying the process of name screening and reporting of such individuals/entities.
- Information sharing with banks remains an area for improvement.

CONCLUSION

Based on the above, the experts discussed the issues arising from the changes in AMLA. Their conclusion was as under:

- Information-sharing between banks and other stakeholders (e.g. regulators, FMU, FIA, NACTA) needs to be strengthened for increasing efficiency as well as efficacy in meeting the regulatory as well as FATF requirements.
- Capacity building also requires more attention so that more focused training & development solutions could be targeted at different segments of the staff, covering various functions & responsibilities.
- More effective solutions through RegTech (Regulatory Technology) needs to be looked into.
- SBP and PBA to be approached for getting clarity about the TAT for STRs and for obtaining assistance with regard to making the identification of PEPs easy.
- Regarding the Turnaround Time (TAT) for the submission of STRs, the term "promptly" needs to be defined specifically to avoid any confusion in its interpretation.
- The recently introduced harsh punishments (financial and non-financial) may lead to an unintended consequence of demoralization of the staff and a higher turnover making it difficult to find skilled replacements. This needs to be revisited through training programs.

MEASURES PROPOSED BY IBP

On behalf of IBP, Mr. Faisal Hussain, Director Research & Development proposed the following:

- IBP to introduce a mandatory certification for all bankers to ensure the skills and expertise required to handle AML cases are standardized with in the banking industry.
- IBP to manage a Compliance Helpdesk to facilitate the bankers' compliance-related queries.

The experts appreciated the contribution of IBP in the development of bankers in Pakistan and creating a congenial learning environment in the banking industry. They suggested that IBP should further increase its engagement with the banking industry to equip them with the tools to perform their responsibilities in this rapidly changing banking environment. It was also suggested that such breakfast sessions should continue and followed-up about other emerging issues.

PHOTOSYNTHESIS

Federal Minister for Planning Development and Special Initiatives Mr. Asad Umar, Country Head IGC Dr. Ijaz Nabi, Governor SBP Dr. Reza Baqir, Advisor to PM on Finance and Revenue Dr. Abdul Hafeez Sheikh and Country Head DFID Pakistan Ms. Annabel Gerry in the Seminar on Firms and Growth.

SBP Organizes Seminar on ‘Firms and Growth’

Governor State Bank of Pakistan (SBP) Dr. Reza Baqir, has said that there is a need to shift from an inward-oriented to an outward-oriented economy that puts a greater emphasis on exports to achieve high and sustained growth. He was addressing the audience of a day-long seminar on ‘Firms and Growth’ organized jointly by SBP, the International Growth Center (IGC), the Consortium for Development Policy Research (CDPR) and the Pakistan Business Council (PBC) at SBP Karachi on 13th January, 2020. The objective of the seminar was to share their research insights with policymakers, think tanks, academics, the private sector, media and the donor community. The seminar was focused on the need for creating an outward-looking economy, on issues surrounding macroeconomic stability, on identifying sectoral priorities and opportunities and on understanding the role of Small Medium Enterprises as drivers of growth.

Giving his introductory remarks, the Governor illustrated in his presentation the inward-oriented focus of Pakistan’s historical economic growth that has relied primarily on domestic consumption. He elaborated that Pakistan’s comparator countries have relied to a larger extent than Pakistan on exports as an engine of growth. He noted that the top 25 percent of emerging markets and developing countries have grown at an average rate of 7 percent since 2001. To reach this average growth rate it was critical for Pakistan to achieve significantly higher export growth. Amongst other issues, Dr. Baqir discussed two considerations in determining the outlook for exports: exchange rate and export diversification. On the exchange rate, he noted that addressing exchange rate over-valuation has helped to boost the country’s exports. He also noted that while the exchange rate had done its part more fundamental growth in exports needed to come from structural reforms beyond the exchange rate. In this context Dr. Baqir also contrasted the experience of different countries with export diversification. Comparing the structure of Pakistan’s exports between 2004 and 2017, Dr. Baqir noted that Pakistan’s exports had largely remained concentrated in very few sectors.

Furthermore, Dr. Abdul Hafeez Sheikh also addressed the seminar and discussed measures being taken by the government to improve the business environment. He also emphasized the role of export diversification and that the government was committed to work in partnership with the private sector to address the factors which had previously constrained Pakistan’s growth. Mr. Asad Umar spoke about the commitment of the new government to improving job creation, competitiveness and to put an end to the several policy biases of the government. He highlighted the government’s protection of uncompetitive sectors over the past many years which remained detrimental to economic growth. The morning session on ‘Moving From an Inward-to an Outward-looking Economy’ began with introductory remarks by Dr. Ijaz Nabi (Country Director IGC; Chairperson CDPR). Dr. Ijaz Nabi stressed the importance of improving the export strategy to ensure sustainable growth and the role of fiscal responsibility to avoid recurrent external account crises. After address of eminent speakers, a panel discussion with Ehsan Malik (CEO, PBC), Annabel Gerry (Head of DFID Pakistan) and Gonzalo Varela (Senior Trade Economist, World Bank) ensued. Overall, the session highlighted the importance of creating an outward-looking economy and the different contours of an export-oriented economic strategy that Pakistan would have to adopt in order to remain competitive in the international market. The final session of the day on ‘The Role of Small Medium Enterprises (SMEs) as Drivers of Growth’, which was chaired by SBP’s Executive Director Syed Samar Husnain, had presentations by Usman Khan (LUMS) on a new SME Policy for Pakistan and by Ali Choudhry (Research Advisor, SBP) on the constraints to bank lending in rural areas in the context of a randomized control trial. This session emphasized the importance of the SME sector vis-a-vis large-scale manufacturing in creating sustainable growth trends for Pakistan.

SBP Takes Major Steps to Boost Digital Payments in the Country

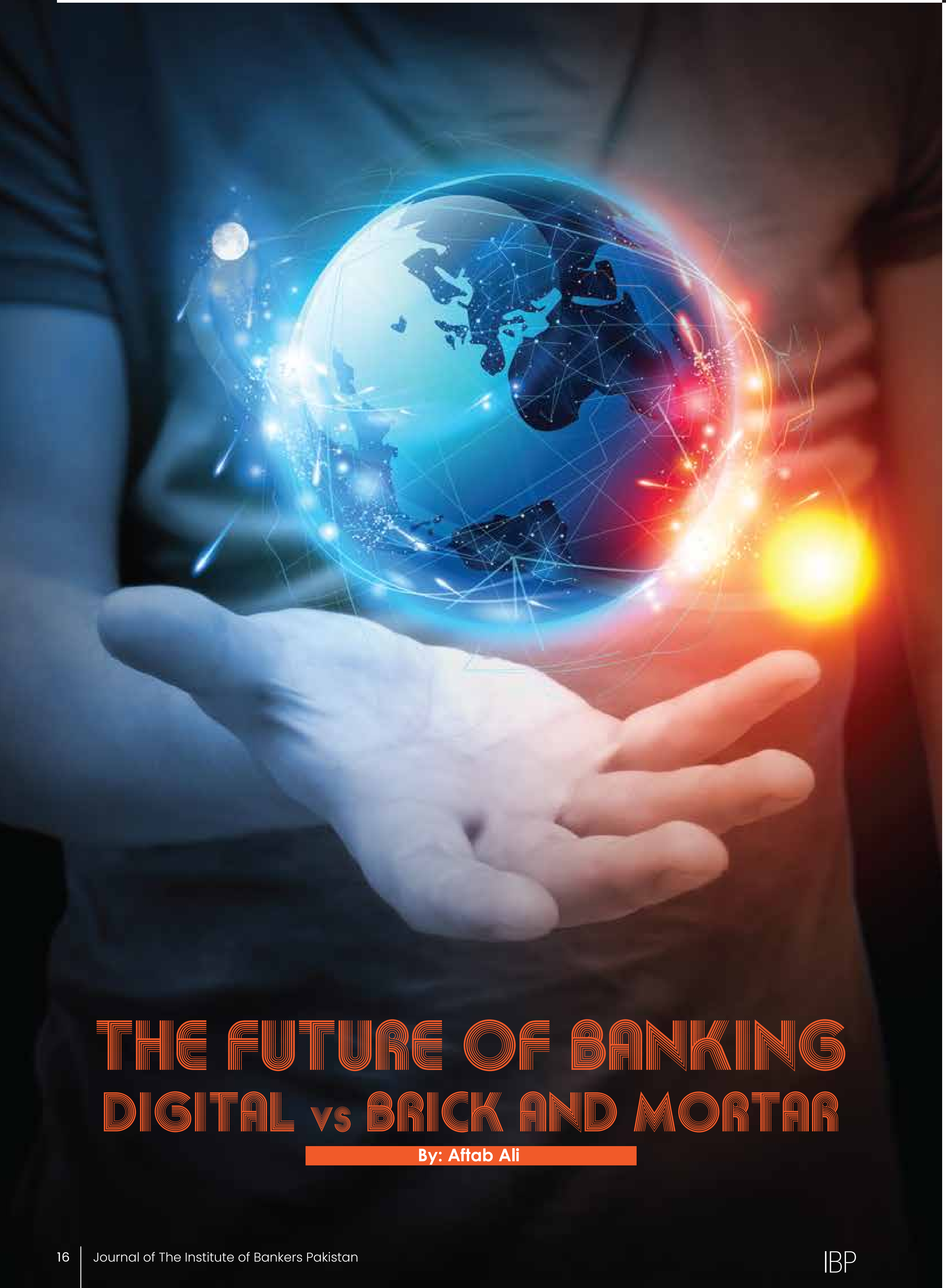
To further improve the digital payment services landscape in the country and promote financial inclusion, SBP has issued instructions to the banking industry for improving the acceptance of payment cards in the country. Specifically, SBP has taken three steps: One, the banks are now bound to offer the domestic payment scheme card, PayPak, to the customers as a first priority, whereas cards of international payment schemes like Visa, MasterCard and Union Pay may be issued on the request of the customer. Two, the merchant discount rate (MDR) i.e. the fee charged by banks to the merchants, will now be in the range of 1.5 to 2.5 percent. Earlier banks were allowed to charge any fee to the merchants. Three, the distribution of revenues generated from a merchant among the players including card issuer, card machine deploying entity and the payment scheme company, has also been rationalized to keep the incentives equitable among all the players. These measures are expected to increase payment card acceptance access points in the country and in turn will also help in digitizing the economy and promoting financial inclusion.

Addressing another gap in cheque clearing, whereby it took weeks to clear cheques in far flung areas of the country, SBP has allowed the use of Pakistan Real Time Interbank Settlement Mechanism (PRISM) for the settlement of cheques. This is expected to decrease the processing time for clearing of payment instruments in areas that are not easily accessible. This will also help the financial institutions in far flung areas to leverage digital channels for their clearing and settlement obligations.

It may be recalled that SBP launched the National Payment Systems Strategy in November 2019 and has since taken a number of steps to promote digitization of payment transactions in the country.

Seminar on Managing Crises in Emerging Markets

State Bank of Pakistan (SBP) in collaboration with Pakistan Business Council (PBC) hosted a seminar and panel discussion on ‘Managing Crises in Emerging Markets’ on Friday, February 14, 2020 at State Bank of Pakistan Head Office in Karachi. The seminar started with recitation of Holy Quran after which Governor SBP, Dr. Reza Baqir delivered the welcome address. Later, Deputy Director IMF, Mr. Athanasios Arvanitis gave a presentation followed by a discussion. The discussants included Ehsan Malik, CEO Pakistan Business Council; Khurram Husain, Financial Analyst at DAWN newspaper and Sakib Sherani, Chief Executive Macro Economic Insights. The panel discussion concluded with a Q & A session. Prominent members from the business and banking community, media persons, academia and financial analysts attended the seminar.



THE FUTURE OF BANKING
DIGITAL vs BRICK AND MORTAR

By: Aftab Ali

The year 1991 brought forth an entity that would revolutionize how people conducted their lives. It was the year when the World Wide Web went live to the world and many people will attest to the fact that life has never been the same ever since. The winds of change that the Internet has ushered in have led to a transition in the way people approach their personal lives and their work. Taking advantage of the scenario, many digital businesses like Amazon, AliBaba, Uber, AirBnB etc. have managed to rise to the top of their industries without a physical footprint.

THe trends in banking have also been going through a rapid but subtle transition. Online banking is increasingly becoming more popular. People make a trip to a bank branch once or twice a year while they interact with their bank 20 to 30 times a month on their mobile devices. A question therefore comes to mind, is there a possibility that digital banks will replace brick and mortar banks? What does the future hold for banking?

Digital banking is the digitization of all the banking activities that are otherwise only available to customers if they are physically present within the walls of a bank branch, such as the paying of bills and transfer of money. Many will argue that digital banks have a competitive advantage over conventional banks and the existing banks must undergo a digital transformation in order to compete with other banks in the arena, especially the purely digital challenger banks. This disruption caused by the rapid progression in digital technology can seem to be overwhelming but it is necessary to adapt to it.

The ability of people to manage their day to day activities via an app or a website such as ordering food or booking a flight, has transformed consumer preferences. Their higher expectations are reinforced by the frictionless transactions and seamless services that Internet business titans like Amazon, Uber and other similar ones provide. Consumers expect the same kind of amelioration in their experience of banking. Bankers can learn from the example of other industries to understand how important digital revolution is in this day and age and what happens when one reacts to it too slow. One such example is that of Walmart. Walmart figured that it was losing shares to Amazon but was hesitant to make a large degree of transition to being a digital business as it was certain that customers had stronger preferences for shopping in person. It continued to expand its stores physically while establishing an online shopping business that was consequently much inferior to that of Amazon's because their attention was diverted to their retail stores. What happened next was a steady loss of market shares that was only fixed by large investments in their online shopping business. Traditional banks can face similar repercussions.

Perhaps the greatest advantage that digital banks have over conventional ones is the convenience they provide. Digital banks can be accessed anywhere as long as there is an internet connection. Most people would consider it a chore to go to a bank branch if they can do the same tasks without leaving the comfort of their home or office. Digital banks are available 24/7, all around a year unless there is technical maintenance being done which is not the case for most banks in general. A few clicks on a computer or taps on a smartphone will allow users to access real-time account balances and information. Updating and maintaining one's account is also easier when done online, it takes a shorter amount of effort and time to change one's mailing address and look up current interest rates. With the availability of digital banking services on the smartphone and other mobile devices, one can use them on the go. It is easier to set up accounts online and require just as much information as conventional, for example it eliminates the need to re-enter information over and over again. Digital banks allow far greater transparency by giving customers instant notifications about their transactions and other information via email or instant messaging on mobile devices. The ease, agility, mobility and efficiency that digital banks offer, as a result, attracts a lot of customers.

Digital banks have a significantly lower amount of expenses for infrastructure and overhead costs which include utilities, rent, repairs, taxes, etc. This decrease in expenses allows digital banks to have a greater amount of funds available for them to pay more interest on deposits and charge lower rates on loans and mortgages. This cost reduction is easier for digital banks than it is for conventional banks who may face serious loss in their profits, if they were to do the same. Some digital banks offer high-yield chequing accounts and accounts can be opened with a relatively low amount of deposit, or none at all and have no account maintenance fees and no minimum balance. Digital banks, therefore, have the perk of being more economical.

Personalization is another important factor which the customer considers. According to the 2017 Global Consumer Pulse Research, there is a 33 percent chance of a customer to end a business relationship because of inadequate personalization. Fintech organizations provide most of the services that conventional banks provide in a better and economical way. Fintech is the use of technology in improving the providence of financial services. Digital banks employ the advancement in technology to improve personalized user experience. They can afford to do so in a better manner than conventional banks because of the lower infrastructure and overhead expenses. This allows digital banks to focus on the desires and changing needs of the consumers and to spend capital on figuring out the best way they can do so, while the conventional banks lag behind. Therefore, purely digital challenger banks pose a threat to conventional banks as these banks, which are mostly start-ups, do not have to bear the costs of digitizing their existing processes which can be expensive and that, coupled with low overhead expenses, allow them to focus and spend money on innovation to a greater extent. It is also easier to detect security breaches in digital banks because of the greater accessibility of accounts.

It is important to examine the consumers for a bank or any industry for that matter, to cater to their needs and preferences. Millennials are one of the largest generations in history and as they are reaching their prime age for spending, banks should be focusing on their behavior and predilection. Millennials are the driving force behind the continuing digital revolution and will continue to be so in the future. According to a survey carried out in the United States, most of the millennials have a college degree which makes them the most educated generation while 74 percent of them consider mobile banking to be very important in their lives.

These statistics clearly indicate that Millennials prefer digital banking over conventional banking to a great extent. The numbers speak for themselves. They have less trust in conventional banks because they had observed the devastation caused by the 2007 financial crisis; some of them first entered the work force during that period while some saw the unemployment and the problems in home ownership that their friends and family faced and the way that impacted their lives. 73 percent of them say that it is more likely that they will consider financial offers by Google or Amazon than they would by established international banks. Digital banks are also free from pollution as they reduce traffic, do not use paper, large buildings or a large quantum of electricity and gas. Millennials are the generation that will reshape the economy. They are comfortable with the Internet and they lean towards digital banks and the convenience they provide. Banks will increasingly adapt to their preferences in the coming years. That, along with judging how economical digital banking can be, it cannot be fallacious to predict that digital banks will grow exponentially, far more than conventional banks will be able to. In fact, it can also be speculated that the growth rate of conventional banks will not just decelerate but banks may shut down many of their branches as digital banking takes over and brings in more profit which will make bank branches burdensome and counterproductive. Jay Siddhu, the CEO of BankMobile says that there will be a reduction of 50 to 70 percent in bank branches in the next five years. If that really happens then at that rate, in ten years, bank branches may completely disappear.

The question to be pondered upon after taking these circumstances into consideration is that what could hold back digital banks from annihilating conventional brick and mortar bank branches. Perhaps it is the fact that no technology can supersede face-to-face human interaction.

Some complex transactions require human intervention and face-to-face interactions. No technology can brainstorm and have a discourse on complicated problems and reach a compromise that satisfies either party, only a human can do that.

In addition, international transactions using digital banks are more difficult and sometimes impossible. It is also more difficult to deposit cash. For those who receive payments in cash and deposit cash regularly, digital banking can be a hassle. It is more practical to use a conventional bank to do so.

A conventional bank offers the opportunity for the customer to develop a relationship with the bank in a way that digital banks cannot. The 2017 Global Consumer Pulse Research claims that 48 percent of customers want specialized treatment as a reward for being a good and loyal customer. Developing healthy personal relationship with a local bank reaps benefit to both the customer and the bank. The bank acquires a loyal customer and the customer is allowed to have facilities that come from being a loyal customer. The employees of the bank understand aspects of the customer's life and their distinctive needs and they can help accordingly. When such a customer needs a loan or a special service that may not otherwise be provided by the bank, he or she can avail the opportunity and can count on the employees of the bank to understand their problems and resolve the issues that they face. The customers are also prone to developing affiliation with certain employees they interact with at a bank, be it a bank manager or anyone else and this relationship may keep them loyal to their conventional local bank.

When faced with complex financial decisions, it is useful to employ the people who understand this business the best, rather than relying on your own knowledge and experience. To make big decisions in one's life and establishing one's financial goals, human assistance is necessary because no artificial intelligence can understand human psyche and evaluate prevalent conditions like a human can. The customers need a unique perspective to make complicated decisions like launching a small business or picking the right long term insurance strategy which only conventional banks can provide.

Banks can reach the peak of productivity and maximize their profits while keeping the customers satisfied by taking the best of both worlds. Digital banking has many advantages but there are some merits that are exclusive to conventional banks. It is only by enhancing what both areas have to offer that banks will achieve maximum success. What attests to this claim is the trend that Internet business titans have shown; Amazon owns more than 350 stores, Uber is purchasing cars, AirBnB owns real estate at an increasingly large extent. Being solely digital is not enough and when companies that started out as purely digital ones start to expand their business physically, they have a competitive advantage. Figuring the right ratio between a digital and a physical footprint may be the determining factor behind the success of any business and it is distinctive for each, as it is for banking.

"Digital banks allow far greater transparency by giving customers instant notifications about their transactions and other information via email or instant messaging on mobile devices. The ease, agility, mobility and efficiency that digital banks offer as a result attracts a lot of customers."

"Millennials prefer digital banking over conventional banking to a great extent. The numbers speak for themselves. They have less trust in conventional banks because they observed the devastation caused by the 2007 financial crisis; some of them first entered the work force during that period while some saw the unemployment and the problems in home ownership that their friends and family faced and the way that impacted their lives."

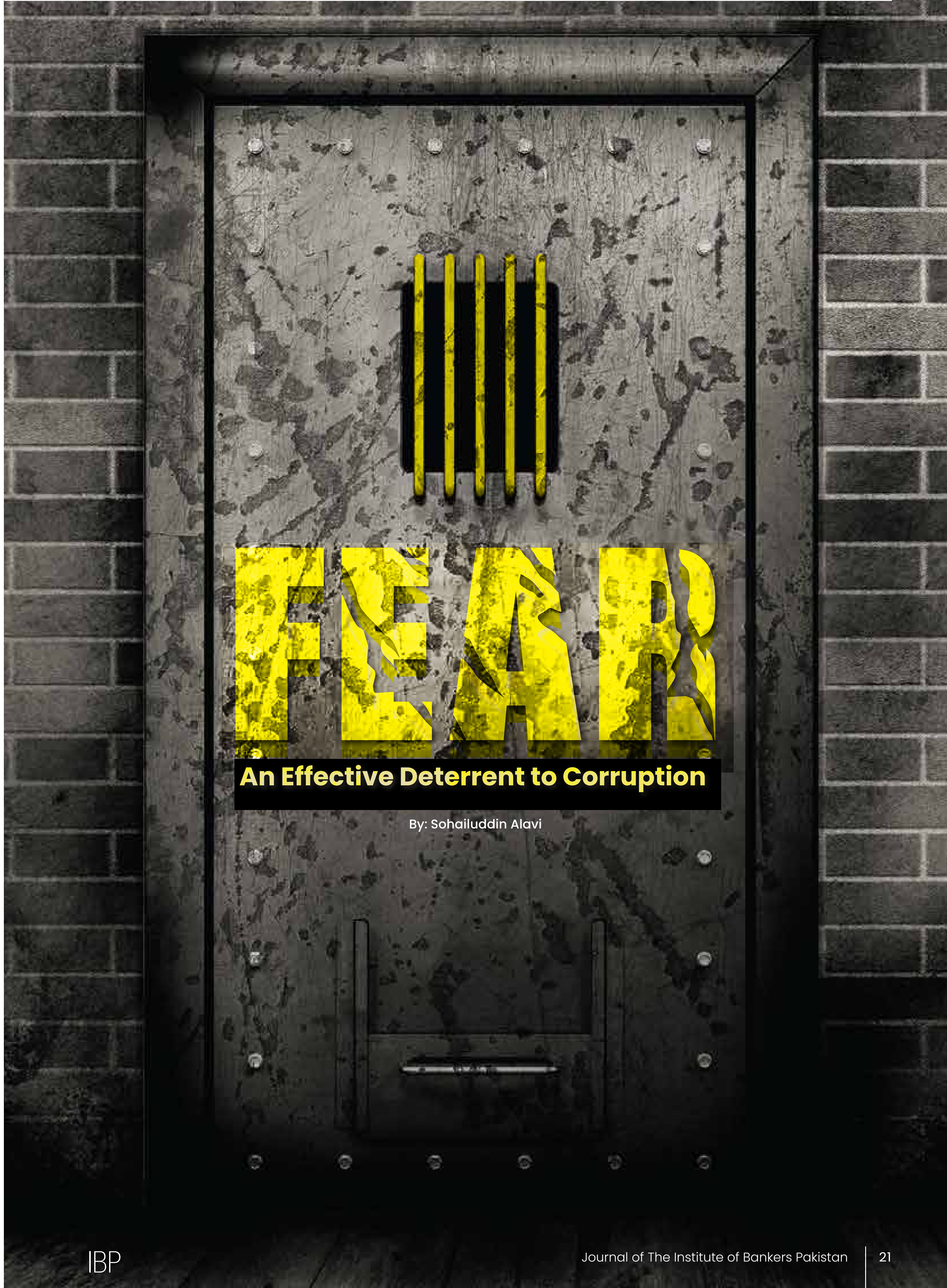
It may also be that future trends through the rapid progression in technology and the increasing automation of businesses will leave a craving amongst future generations for a 'human touch' which is being diminished. Perhaps the future generations will want to cut down on the use of technology and prefer human interaction in the way they conduct their business because it appeals more to their psyche and adds more meaning to their day to day experience of life. Future generations may resort to local bank branches more often than they do now because of the prevalence of digital banking.

So what is the future for banking? That is a tricky question and it is difficult to answer. Human behavior, which will ultimately define the future for banking, is difficult to predict. Yet, there are a few predictions that can be made with conviction. The rapid pace at which technology is advancing is showing no signs of slowing down, banks will have to stay on their toes to exploit this the most. The banks that are successful in doing so will be at the top of their game. Therefore, the banks of the future which are successful will have a great degree of digitization and will be employing the latest technology, but their local branches will not completely diminish as they will still be valuable to the bank, perhaps more than people realize, but the number of these branches will decrease significantly and so will the size of bank premises. The employees in a bank will be relatively fewer in number in the future but perhaps they will be more well-off. This may prove to be the most sustainable arrangement. The success of the banks in the future will also be dictated by the extent to which they can satisfy their customers and boost their banking experience more than ever before.

To impress their tech-savvy consumers and grow exponentially, the successful banks of the future will have to provide excellent customer service within brick and mortar banks and also use technology to enhance user experience and personalization outside their physical premises to interact with customers, along with other employees. Only those banks will succeed which can make use of Artificial Intelligence (AI) that serves their customer preferences and helps them in making financial decisions while providing a customer-friendly environment and also offering human support as well, if and when needed.

If they are successful in embracing the ever-changing scenario and adapting it fully, banks will thrive in the future. The banks that are too rigid – those who do not change –will have little chance of survival in the future. The future is uncertain and this factor of uncertainty must be considered in the long-term planning. Banks should work on crisis management, as there can be many unanticipated changes along the way and those that can rise to the occasion faster have a greater chance at success. ■

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



FEAR
An Effective Deterrent to Corruption

By: Sohailuddin Alavi

Corruption is rampant in most parts of the world. No country, no society and no organization can claim to be absolutely 100% corruption free. OECD, CIPE and many other international agencies have endeavored to develop policy guidelines and systems to avert corruption. It is a complex subject, it manifests in many colors and shapes across social, economic, political and last but not the least, moral aspects of individual and organizational life. Interestingly, corruption and fear are closely inter-related. In other words, it is plausible to address the menace of corruption by managing the fear perception.

The word 'fear' is defined as an apprehension, panic, horror, worry, concern, anxiety, etc. Fear could result from a number of underlying phenomena, such as fear of repercussion; fear of inadequacy; fear of losing; etc. Fear has significance in shaping the conduct of individuals and groups, especially in the context of corruption. Hence it can either encourage or deter corruption. Impact of fear can be positive in deterring corruption or negative by way of encouraging corruption, depending on the nature of fear and the stimuli in the immediate environment. Let us describe different manifestations of fear and their potential impact on corruption.

Fear of Repercussion is a very powerful fear in deterring corruption. It is a situation when one anticipates sure reprimand (punishment) if he or she does a wrong, however big or small. For instance, an infant might feel excited by looking at the candle flame until he touches the flame and gets hurt. Chances are that he shall never ever go close to the flame again for he shall always remember the hurt. A saying goes about boxing legend Muhammad Ali, that he used to carry a box of matchsticks. Every time he had a negative impulse he would light up the matchstick and take it close to his thumb and feel the heat of hell fire, in doing so he used to override his impulse. This follows that when punishment becomes a real experience as in case of the infant or turns into faith, it deters us from doing wrong be it small or big.

Likewise, real life experiences of reprimand to oneself or others have similar effect on disciplining our conduct. In Japan, government officials and their families are taken to jail to meet the prisoners. It is believed that by looking at the prisoners' plight the officials develop fear. However, fear should not be confused with encouraging positive behaviors: fear of repercussion only deters violations and would not encourage doing right. Positive (disciplined) behaviors follow positive values of the individuals and positive stimuli in the environment.

Fear of Inadequacy has a compelling effect on us to do more and more in order to succeed. In other words, it deters from becoming overconfident, thus complacent. The famous Hare and Tortoise race reminds us of this. While the Hare thought it was fully prepared to win the race, the Tortoise was more realistic about its weaker position and knew if he must win the race he has to steadily work harder towards his target. By applying this analogy in our daily life scenario, we find many examples of individuals and organizations that excelled but soon failed to sustain it only because they lived with this perception that they are already fully capable as individuals and competitive as organizations, hence stopped improving: they overcame the fear of inadequacy. Brian Joiner and his wife, authors of the book *Fourth Generation Management,* described this concept with reference to two competing companies. One was there much before the second came in. However, the newcomer soon out-performed the older one only because it was constantly improving to grow faster while the older company was complacent with its past achievements and normal growth pace.

Fear of Losing is a typical paranoia. Its effect on our conducts is dysfunctional (negative). It generally develops on the basis of scarce-mentality (believing that what we have is not enough) and low contentment, ultimately compels malpractices and corruption. It is more of a perception and blind belief rather than a reality. Often times we have seen that employees operating with this perception are easily manipulated by the employers and customers alike. They are easy to bribe or to be pressurized to extend undue favors. Likewise, businesses built on this culture are vulnerable to succumbing to bribes and a host of malpractices only to secure extra advantages. Last but not the least, individuals compulsively following social norms and customs only to avoid disapproval from the society, however unnecessary and costly, also fall prey to corrupt practices.

Fear and the Corruption Relationship

In the above context, fear can be termed either as 'Positive' or 'Negative'. Let us define positive fear as one that strengthens our inner courage and determination to say 'No' to corruption. It makes us disciplined internally. Negative fear, on the contrary, weakens our steadfastness hence we succumb to external pressures and indulge in malpractices and unwarranted social norms and customs, that in turn become cause of corruption.

Having defined fear and corruption, we can say that existence of a robust punishment mechanism in the immediate environment against illegitimate behaviors of individuals and organizations is very much needed to effectively combat corruption. Moreover, promotion of fair a competitive (not competing) environment would ensure a culture of continuous improvement. However, in the absence of an effective punishment mechanism, corruption would surely flourish. On the other side, if fear of losing prevails in a situation, it would also lead to malpractices and wasteful rituals which usually become underlying cause of corruption.

Colors of Corruption – Analysis of the Prevailing Scenarios

In our country, for instance, we have humongous evidences of corruption, where people have been able to escape legal repercussions, hence the fear is effectively diluted. The following cases present hypothetical situations, however they are very much valid on ground.

a. Majority of small restaurants operating in the cities are sole proprietorship businesses with an estimated daily turn-over between Rs. 50,000 to Rs. 200,000. Let us assume that conservative profit margin of such businesses is 40 percent, which means Rs. 20,000 to Rs. 80,000. Now look at the multiple dimensions of corruption such restaurants are involved in. Firstly, most of these restaurants are not registered with any taxation authority, which means no tax paid whatsoever. Then comes the encroachment of public space by these restaurants, which is now a common practice rather a norm. Unhygienic materials and processes prevail across these restaurants without realization of any doing wrong.

The question is what makes them indulge in all this corruption. The answer is simple, they have no fear to be reprimanded. Markets are flooded with smuggled imported and non-tax paid foreign and local products. All is being done with the connivance of government functionaries and encouraged by the apathy of customers towards buying illegitimate products; as long as they pay less for a product, it is okay. None of the players, including customers, fear repercussions, whatsoever.

b. Government functionaries openly demand bribes indiscriminately both for legitimate and illegitimate services from public. In case of illegitimate services, individuals willingly pay for a benefit while in case of legitimate services, individuals are compelled to pay or the service is denied. So much so that now the public has developed a complacent view on it and pay without hesitation.

c. Shopkeepers encourage cash transactions without cash-receipts to benefit customers as well as to conceal their revenues. Once again, there is no fear of being caught and punished, let alone moral responsibility.

d. Private enterprises like schools, hospitals, etc. are equally involved in corrupt practices. Hidden charges and over-billing are now accepted business norms.

e. Above all, as aggrieved persons reach out to the concerned agency for the redressal of their grievances against corruption, the concerned agency illegitimately demands bribes even before a complaint is registered. Likewise, blowing a whistle also invites personal threats.

The above cases are not exhaustive but perhaps reflect the prevailing corrupt scenario, prevailing basically for a lack of fear of reprimand and social apathy. A number of underlying reasons include archaic and lengthy legal proceedings; loopholes in the law and regulations; weak investigation and prosecution by the enforcing agencies; the system and processes are themselves corruption prone; etc. Likewise, the social deterrence against corruption is almost non-existent in our society. Though we talk about the menace of corruption but the society seldom condemns corruption by its actions, rather ironically every one of us is involved in corruption in our own way. In fact, as a society we not only give more respect but also make role models of people who are wealthy and powerful, irrespective of how they have earned it. In short, absence of fear and apathy are two major factors underlying the continuing corruption.

"Fear of punishment and freedom from the fear of losing together make a disciplined conduct."

The efficacy of 'Fear' is a complex function of a number of variables: The perceived legitimacy of the laws, regulations, systems and culture; transparency and efficiency of how punishments are enforced; and, whether the punishments awarded are proportionate to the severity of the corruption. In short, does a holistic reprimand system exist or not and secondly do people have this perception that they cannot escape the punishments?

A holistic reprimand system entails that corruption is treated from a multi-dimensional approach i.e. presence of anti-corruption laws, regulations and policy regime, efficient corruption monitoring framework, robust system to implement punishments and last but not the least, effective social deterrence. Put it simply, when a person indulging in corruption fears absolute chances of punishment and disapproval from the society, he/she is likely to be disciplined. It is also important that a person should have this conviction that he/she cannot escape from punishment for committing any illegal action. Realistically speaking, this kind of state of affairs is far from reality in many countries but should be approached optimistically.

Conclusion

Cleansing the society from the menace of corruption in the long-term entails that fear perceptions are effectively managed at both individual and group levels. While prevalence of credible laws (policies in case of organizations), systems and perceived security is a must, nurturing the minds of the young is imperative too. It is said that values of right and wrong are mostly developed at a tender age. It is therefore an opportunity that positive values are effectively inculcated in the minds of students in their primary schooling term, so that positive fear is inculcated and negative fear is washed away. ■

FATF

FULCRUM FOR FATF RECOMMENDATIONS

Money laundering, financing of terrorism and the financing of proliferation of Weapons of Mass Destruction (WMD) are grave menaces to world's security and the integrity of the financial institutions. To manage the growing concerns of money laundering, the G-7 summit established the Financial Action Task Force in 1989. FATF is an inter-governmental and independent body with key responsibility for developing worldwide standards to combat money laundering, financing of terrorism and financing of proliferation of WMD. The mandate of the FATF is to devise standards and ensure effective implementation of legal, regulatory and operational measures for the above-mentioned financial perils and to safeguard the integrity of the international financial channels and systems.

By: Muhammad Subtain Raza

The body has 36 members and works in collaboration with other major international organizations, including the International Monetary Fund (IMF), the World Bank, the United Nations and FATF Style Regional Bodies (FSRBs). The FATF issues a broad and consistent framework of management measures (recommendations) to cope with money laundering, financing of terrorism and proliferation of WMD.

Chronology of Revisions in FATF Recommendations

- In 1990, FATF introduced its 40 recommendations as an initiative to fight against money laundering.

- In 1996, FATF revised the recommendations by following the varying trends and techniques of money laundering.

- In 2001, FATF realized the significant impacts of funding of terrorist acts and terrorist organizations (attacks of 9/11) and initiated nine Special Recommendations on financing of terrorism.

- In 2003, FATF again revised the recommendations for efficient management of ML/FT.

- In 2008, the mandate of FATF was expanded in connection to financing of proliferation of WMD.

- In 2012, the body remodeled the forty recommendations to redress the perils of money laundering and financing of terrorism with effective measures.

Following were major changes lastly introduced in recommendations of Financial Action Task Force:

- The Risk-based Approach
- Transparency about the Ownership and Control of Legal Persons and Legal Arrangements
- International Cooperation
- Operational Standards
- New Threats & New Priorities
- Corruption & Politically Exposed Persons
- Financing of Proliferation
- Tax Crimes
- Terrorist Financing
- Clarifying Obligations

SUMMARY OF FATF'S 40 RECOMMENDATIONS

A. AML/CFT Policies and Coordination

1 - Assessing risks and applying a risk-based approach: In order to manage the detrimental consequences of money laundering and financing of terrorism, countries should require financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) to take appropriate mitigating measures; (a) identify (b) assess (c) take effective actions to combat their money laundering and financing of terrorism risks. After assessment phase, countries should devise and apply a risk-based approach (RBA) as a tool of prevention of money laundering and financing of terrorism.

2 - National cooperation and coordination: All countries should arrange for national AML/CFT policies and ensure that all authorities at policy making level and operational level have effective cooperation & coordination to fight against ML/FT & Financing of Proliferation of WMD.

B. Money Laundering and Confiscation

3- Money laundering offence: Based on the Vienna Convention and the Palermo Convention countries should criminalize money laundering offences.

4- Confiscation and provisional measures: By legislative and other measures as described in Vienna Convention, the Palermo Convention and the Financing of Terrorism Convention, countries should empower the competent authorities to freeze or seize and confiscate the (a) property laundered, (b) proceeds used in or intended for use in money laundering or predicate offences, (c) property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations, or (d) property of corresponding value.

C. Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction

5- Financing of Terrorism offence: Based on financing of terrorism convention, countries should criminalize the organizations and individuals engaged in financing of terrorism.

6- Targeted financial sanctions related to terrorism and financing terrorism: In compliance with United Nations Security Council Resolutions Nos. 1267 (1999) and 1373 (2001), countries should implement targeted financial sanctions regimes.

7- Targeted financial sanctions related to proliferation: In compliance of United Nations Security Council Chapter VII of the Charter of the United Nations (prevention, suppression and disruption of Proliferation of WMD and its financing), countries should implement targeted financial sanctions.

8- Non-profit organizations: To avoid the financing of terrorism by misusing the NPOs, the adequacy of laws and regulations should be reviewed by countries.

D. Preventive Measures

9- Financial institution secrecy laws: Countries should make sure that financial institution secrecy laws are not hindrances to the implementation of the FATF Recommendations.

Customer Due Diligence and Record-Keeping

10- Customer due diligence: Financial institutions should conduct due diligence measures and take steps to prohibit the presence of anonymous accounts or accounts in obviously fictitious names.

11- Record-keeping: To facilitate the competent authorities, the record of domestic and international transactions should be maintained for at least five years.

Additional Measures for Specific Customers & Activities

12- Politically exposed persons: Reasonable measures should be taken by financial institutions to determine whether a customer or beneficial owner is a domestic politically exposed person (PEPs) or foreign PEPs.

13- Correspondent banking: while extending cross-border correspondent banking, in addition to normal CDD measures, the financial institutions should determine the nature of business, reputation, quality of supervision, AML/CFT controls of respondent institution.

14- Money or value transfer services: Measures such as registration, licensing, monitoring and effective compliance for money or value transfer services should be taken by countries.

15- New technologies: New products and business practices may pose for money laundering and financing of terrorism risks. Countries and financial institutions should devise proper identification and assessment mechanisms for new products and business practices.

16- Wire transfers: In transactions of wire transfer countries should instruct the financial institutions to have monitoring and detecting measures both for originator and beneficiary. Financial institutions should process the wire transfers in accordance with United Nations Security Council resolutions, such as resolution 1267 (1999) & 1373 (2001) etc.

Reliance, Controls and Financial Groups

17- Reliance on third parties: Financial institutions may rely on third parties to perform the CDD measures by obtaining prior permission from its country.

18- Internal controls and foreign branches and subsidiaries: Financial groups should ensure the implementation of group wide programs against ML/FT. Measures for AML/ CFT should be in accordance the requirements of the home country.

19- Higher-risk countries: While going to have business and transactions with high risk countries (as per FATF), effective and proportionate measures such as enhanced due diligence and other counter measures should be applied by financial institutions.

Reporting of Suspicious Transactions

20- Reporting of suspicious transactions: If FI suspects that the funds are ensuing the criminal activity or having any connection to financing of terrorism, on prompt basis, financial intelligence unit (FIU) should be communicated about these suspicions.

21-Tipping-off and confidentiality: Law should endorse protection to financial institutions, their directors, officers and employees from criminal and civil liability on account of information disclosure to FIUs. Financial institutions, their directors, officers and employees should be prohibited by law to tip off the facts.

Designated Non-Financial Businesses and Professions

22- DNFBPs: Customer Due Diligence: Designated non-financial businesses and professions (DNFBPs) are casinos, real estates, dealers in precious metals and dealers in precious stones, lawyers, notaries, other independent legal professionals, accountants, trusts and company service providers. Customer due diligence and record-keeping requirements derived from Recommendations 10, 11, 12, 15 and 17 also apply to DNFBPs.

23- DNFBPs: Other measures: The requirements proposed in Recommendations 18 to 21 apply to all designated non-financial businesses and professions.

Transparency and Beneficial Ownership of Legal Persons and Arrangements

24- Transparency and beneficial ownership of legal persons: Misuse of legal persons for ML/FT should be prevented by adequate measures from countries. Adequate, accurate and timely information regarding beneficiary ownership and control of legal persons should be accessible to authorities.

25-Transparency and beneficial ownership of legal arrangements: Misuse of legal arrangements e.g., trusts for ML/FT should be prevented by adequate measures from countries. Adequate, accurate and timely information regarding beneficiary ownership and control of legal arrangements should be accessible to authorities.

Powers and Responsibilities of Competent Authorities, and Other Institutional Measures

26- Regulation and supervision of financial institutions: Necessary legal or regulatory measures should be taken to prevent criminals from holding or controlling or managing the financial institution for ML/FT purposes. Financial institutions should undergo sufficient regulatory and supervisory measures & be implementing the FATF Recommendations.

27- Powers of supervisors: To combat menaces of money laundering and financing of terrorism, financial institutions should give enough powers to supervisors for supervision, monitoring, compliance and inspection. Authority to compel for production of information, imposing disciplinary and financial sanctions should be given to them.

28- Regulation and supervision of DNFBPs: DNFBPs should be subject to regulatory and supervisory measures.

Operational and Law Enforcement

29- Financial Intelligence Units: For receipt and analysis of suspicious transactions and other ML/FT related information, a national center (Financial Intelligence Unit) should be established.

30- Responsibilities of law enforcement and investigative authorities: For effective money laundering and financing of terrorism investigations, countries should establish designated law enforcement authorities (LEAs) which perform with responsibility within the framework of national AML/CFT policies.

31- Powers of law enforcement and investigative authorities: The competent authorities engaged in AML/CFT operations should be empowered to compel for production of information, search of persons and premises. Countries should empower LE&IAs to have effective undercover operations, intercepting communications, accessing computer systems and controlled delivery.

32- Cash couriers: To prevent physical cross-border transportation of currency and bearer negotiable instruments, countries should empower their LEAs with legal authority. Declaration system and disclosure system should be used to restrain or stop this transportation.

General Requirements

33- Statistics: To build an effective and efficient AML/CFT system, comprehensive statistics on STRs, ML/FT prosecutions, investigations, convictions, property (frozen, seized, confiscated), mutual legal assistance and requests for international cooperation should be maintained.

34- Guidance and feedback: For application of national measures to combat money laundering and financing of terrorism, the competent authorities, supervisors and SRBs should formulate guidelines and provide feedback.

Sanctions

35- Sanctions: To deal with non-compliant (natural or legal persons mentioned in Recommendations 6, and 8 to 23,) of AML/CFT requirements, the countries should ensure for effective, proportionate and dissuasive sanctions.

International Cooperation

36- International instruments: Being a key player in combat of ML/FT, countries should take urgent actions to be party and implement fully the Vienna Convention, 1988; the Palermo Convention, 2000; the United Nations Convention against Corruption, 2003; and the Terrorist Financing Convention, 1999.

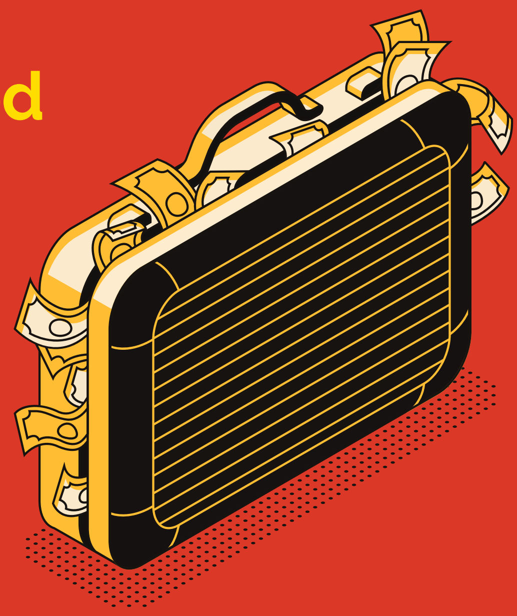
37- Mutual legal assistance: Treaties, arrangements or other mechanisms on mutual legal assistance should be developed by countries on rapid, constructive and effective footings.

38- Mutual legal assistance; freezing and confiscation: In terms of MLA, countries should have powers to extend prompt action by identifying, freezing, seizing and confiscating property as requested by foreign countries.

39- Extradition: Without any impediment, countries should honor the extradition requests on constructive and effective grounds.

40- Other forms of international cooperation: On lawful basis, countries should extend their international cooperation against money laundering, associated predicate offences and financing of terrorism.

> "In order to manage the detrimental consequences of money laundering and financing of terrorism, countries should require financial institutions and Designated Non-Financial Businesses & Professions (DNFBPs) to take appropriate mitigating measures"



ANALYTICS USING MICROSOFT POWER BI FOR BANKING SECTOR

By: Rahim Zulfiqar Ali

Analytics is the discovery, interpretation and communication of meaningful patterns in data. It also entails applying data patterns towards effective decision -making. In other words, analytics can be understood as the connective tissue between data and effective decision-making within an organization. Business analytics is the process of discovering, interpreting and communicating significant patterns in data and using tools to empower your entire organization to ask any question of any data in any environment on any device. Business analytics adds even more opportunities to drive desired outcomes such as optimization, cost savings and customer engagement.

Sifting through information to understand what matters and what does not is becoming more difficult. Visuals make analysis much easier and faster and offer the ability to see briefly what matters. What is more, most people respond far better to visuals than text—90 percent of the information sent to the brain is visual, and the brain processes visuals at 60,000 times the speed of a text. Those points make a strong case for the use of data visualization for analyzing and conveying information.

THE VALUE OF ANALYTICS

A New Way to Work

The nature of business is changing, and with that change comes a new way to compete. Keeping up with the demands of today's tech-savvy workforce means having a method for creating value and running quickly. Deliver speed and simplicity to your users while maintaining the highest standards for data quality and security. A centralized analytics platform where IT plays a pivotal role should be a fundamental part of your business analytics strategy. The combination of both business-led and IT-led initiatives is the sweet spot for innovation.

Visualize Your Data

You want to see the data signals before your competitors do. Analytics provides the ability to see a high-definition image of your business landscape. By mashing up personal, corporate and big data, you can quickly understand the value of the data, share your data story with colleagues and do it all in a matter of minutes.

ANALYTICS TREND

Amid the constantly evolving analytics market, the fundamental shift from IT leading the charge to pursue business analytics initiatives, to one where the business and IT share in this decision is now the new norm. There is no doubt that analytics has become strategic for most organizations today and as such, has introduced a new wave of both new consumers and new expectations.

What has changed is the way that decisions must be made in real time and shared with a wide audience. The workforce is changing and that change brings a new way to work. Gone are the days when training manuals were commonplace in the office—today's workforce expects to get up and run quickly with an intuitive interface. But it does not end there. While speed and simplicity are key, business leaders still have high expectations around data quality and security. A centralized analytics platform where IT plays a pivotal role is still a fundamental part of any analytics strategy. The combination of both business-led and IT-led initiatives is the optimal point for innovation.

We believe that putting analytics in the cloud is much more than just a deployment choice—it breaks down the barriers between people, places, data, and systems to fundamentally shift the way people and processes interact with information technology and each other.

TYPES OF ANALYTICS:

Augmented Analytics:

- Intelligent Search
- Smart Data Discovery
- Smart Data Preparation
- Natural Language
- Auto-suggest

Self-Service Analytics:

- Visualizations and Dashboards
- Global Transformation Policies
- Experience Continuity
- Smart Collaboration
- Knowledge Fabric
- Integrated Data Science

WHAT IS POWER BI?

Power BI is a business analytics service by Microsoft. It aims to provide interactive visualizations and business intelligence capabilities with an interface simple enough for end users to create their own reports and dashboards.

Microsoft Business Intelligence or Power BI is a suite of business analytics tools to analyze data and share insights. Monitor your business and get answers quickly with rich dashboards available on every device. Data Analytics field is growing exponentially!

Power BI can be used by any department of Banking sector. Data is the primary key and this tool is one of the most advanced tools for Visualizations and Analytics for various businesses.

ADVANCED ANALYTICS FEATURES OF POWER BI:

Quick Insights: This feature in Power BI is developed in conjunction with Microsoft Research and on a developing set of advanced analytical algorithms. This provides the user a new and intuitive way to search insights from the business data. A user can discover interesting insights from different subsets of data while applying advanced algorithms. With just one click, Quick Insights let the user find better visibility to data insights within a given span of time.

Ask a Question: This feature gives the user liberty to add a 'question' button within the report. This enables the user to carry out random analysis whilst developing a report or while reading it. This feature gives the freedom to ask a question in plain English (natural language).

Integration with R: Using R connector, a user can run R scripts in Power BI. Then, the resulting data sets can be imported into a Power BI data model.

Intelligent App Suggestions: The sophisticated model of this feature helps the users to list down their app based on popularity, relevance, content and review of other users.

Integration of Azure Machine Learning: With integration of Machine Learning in Power BI, users can now visualize the results of Machine Learning algorithms by just dragging, dropping and connecting data modules.

Data Shaping with R: The integration of R in Power Query editor enables the users to accomplish data cleansing and then, with just a few clicks, data shaping and advanced analytics of the data set can be performed.

Segmentation & Cohort Analysis: It is one of the simplest yet powerful ways to explore the relationship between data sets. It breaks or combines different data sets into one meaningful cluster. It then compares those clusters to identify meaningful relationship between the data sets. The feature also helps in developing a hypothesis of the available business data or understands the requirement for any further analysis. Clustering, Grouping and Binning are Power BI tools that take this process ahead.

Data Analysis Expression: DAX or Data Analysis Expression helps in achieving one or more values out of a data set by calculating multiple data with the current data. It is basically a set of functions that calculates with formulas/expressions. It works like Microsoft Excel minus the complexity with numbers and rows. DAX reports are easy to understand and build.

Integration with Microsoft Azure Stream Analytics: Power BI integration with Azure Machine Learning and Azure Stream Analytics allows users to get access to real-time data. Stream Analytics gives shape and combine different data sets. This powerful combination enables predictive intelligence allowing business users to take proactive action.

Data Visualization in Power BI: Power BI gives user better visibility of their data to find business insights in real-time. It gives you vast options of pre-built visualizations, add customization to the existing ones or choose from the expanding list of in-built visualization in the community gallery.

"Gone are the days when training manuals were commonplace in the office—today's workforce expects to get up and run quickly with an intuitive interface. But it does not end there. While speed and simplicity are key, business leaders still have high expectations around data quality and security."

WHY VISUAL ANALYTICS ARE IMPORTANT

Good data visualization is essential for analyzing data and making decisions based on that data. It allows people to quickly and easily see and understand patterns and relationships and spot emerging trends that might go unnoticed with just a table or spreadsheet of raw numbers. And in most cases, no specialized training is required to interpret what is presented in the graphics, enabling universal understanding.

PUT POWER BI TO WORK FOR YOUR BUSINESS

Companies in the financial services industry are using Power BI today, not only to track the latest balance sheet and profit and loss data, but to gain insights into delivering the best service to their customers.

Take Metro Bank, the first new major bank in the UK in over a century. It is using Power BI to gather rich and detailed operations data to obtain a full view of customer behavior, all within a single tool. Staff can combine account activity data with data from customer satisfaction surveys, wait times and more to understand and improve the customer experience. The reporting data is refreshed each night so staff can see an up-to-date view of the previous day, weeks, months or year.

RETAIL BANKING SOLUTIONS USING ANALYTICS

With many customers carrying out a multitude of different transactions daily, banks need help understanding business performance, analyzing their pipeline and growth and keeping an eye on profitability. Success requires continuous tracking of the business as a whole and the ability to view detailed performance information of individual products and lines of business.

Benefits:

- Analyzing customer profitability through a comprehensive perspective, assessing the profitability of industry, customer segments, loan types and geography.

"A user can discover interesting insights from different subsets of data while applying advanced algorithms. With just one click, Quick Insights let the user find better visibility to data insights within a given span of time."

- Visibility into the performance of different revenue channels and the close monitoring of the revenue generation of different customer divisions and territories.
- Leveraging historical data to provide insights to the year-over-year or month-over-month growth of different bank divisions; allowing strategic decisions to be made about which divisions require support and which are showing healthy growth.
- Monitoring pipeline health by setting strategic KPI targets for the sales pipeline and tracking the current pipeline against these targets.
- The ability to drill from summary level dashboards, that capture the holistic view of the organization, into the opportunity level details; thus, supporting the capability to do key investigations on the data and enabling sound decision-making.
- A live connection is with CRM online data, allowing these dashboards to continually update automatically. This ensures that the information displayed on these dashboards always provide the most current view of the business and how it responds to the strategic decisions of the company's leadership.

Key features:

- Totally scalable & secure
- Presents state-of-the-art interface controls
- Entirely cloud based
- Allows to search & drilldown
- Customizes metrics & KPIs
- Drives expertise & insights
- Points out where to focus on
- Accessible collaboration anywhere
- Real time information

BANKING CLIENTS AND RISK ANALYSIS

It enables total review of all banking credit risks, for management reporting and relationship banking dashboards. It provides drill into clients by relationship, location, risk weighting and more and also identifies credit risk at the regional level and drill into data at the individual client level.

It reviews all current bank deposits and loans across all key areas of the bank including retail, commercial and institutional banking. Besides it analyzes fee structure and optimizes future marketing spending.

Report Breakdown

Client Summary - Where are your key clients located? Which regions or suburbs have exposure to the most loans or deposits? Drill into key client information. Switch between key areas of banking relationships.

Client Details - Drill into key details at the client level. Quickly gain an understanding of where your greatest risks and opportunities are to grow margins.

Retail/Commercial/Institutional - Breakdown of key relationship areas within a bank. Review loan and deposit books in these key areas and quickly understand if pricing is appropriate or if marketing decisions should be changed to take advantage of current market opportunities.

CONCLUSION

The evolution of self-service tools advanced analytics to a broader audience. These accelerated the use of analytics since they did not require special skills. These desktop business analytics tools have gained popularity over the past few years, particularly in the cloud. Business users are excited about exploring a wide variety of data assets. While the ease of use is appealing, blending of data and creating a "single version of the truth" becomes increasingly complex. Desktop analytics are not always scalable to larger groups. They are also susceptible to inconsistent definitions. Today, humans are still doing most of the work, but automation is gaining support. Data from existing sources can be combined easily. The consumer works by executing queries, then gains insight by interacting with visual representations of the data and builds models to predict future trends or outcomes. These are all managed and controlled by people at a very granular level. The inclusion of data gathering, data discovery and machine learning provide the end user with more options in a faster time frame than ever before. ■

ISLAMIC FINANCIAL INSTRUMENTS

A CONCEPTUAL FRAMEWORK

By: Miangul Sohaib Aziz

Commercial banks around the globe have designed and utilized Islamic financial instruments according to the rules of Shariah. Section 5(b) of Banking Companies Ordinance - 1962 defines the business of banking as "banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise." By analyzing both sides of the balance sheet of any Islamic bank, it is quite clear that like conventional banks, Islamic banks can also efficiently provide most of the banking services. However, the assets-side of the balance sheet looks different in financing, but this is matched with liability-side products, where customers are not risk averse. This helps in channeling the flow of capital to risk assets and provide equitable distribution of profits and loss to be shared by all members of the financial system.

Activities of the Islamic banks in Pakistan since 2000, have perceived the success as banking of choice due to various Islamic Financial Instruments, which have visionary prospects towards economic growth. As State Bank of Pakistan has been playing a leading role in the promotion and development of Islamic Banking in the country on sound footings, so these instruments will have far-reaching effects on the economic development of Pakistan.

We will look into both sides of the balance sheet of an Islamic bank from financial instruments perspective.

1. Liability-Side Financial Instruments

a) Current Accounts

Current Accounts in Islamic Banks are chequing accounts that work on the basis of 'qard' (loan). It provides convenience to the customers by putting their money in Riba-free account and accessing it without any restriction of minimum balance maintenance. This product offers to the customers the ease of performing all their daily transactional needs in a safe and convenient way.

b) Savings Accounts

Savings Accounts of an Islamic Bank work on the basis of 'Mudarabah': Mudarabah is a partnership in profit whereby one party provides capital (Rab-ul-Mal) and the other party provides labor (Mudarib), wherein the customer (Rab-ul-Mal) deposits his money with Islamic Bank (Mudarib) in order to earn competitive returns on their deposit. These accounts provide comfort to the customers by depositing their money in a Riba-free account and earn Halal profits, without any limitation on withdrawals.

c) Investment Accounts

An Islamic bank's term deposits certificates are Mudarabah-based short term to long term deposit products with flexibility of return on monthly, quarterly, semi-annual and annual basis.

2. Assets-Side Financial Instruments

Before discussing the various types of Islamic financing instruments, let us have a look on the difference between conventional and Islamic mode of financing. In conventional mode of financing, the amount of Credit is disbursed to the customer.

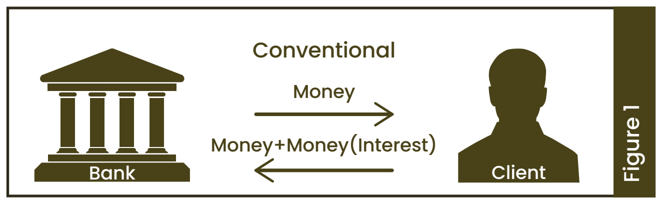


Figure 1

Figure 1 shows that there is no back end activity performed at all; just money is circulating between a bank and its clients.

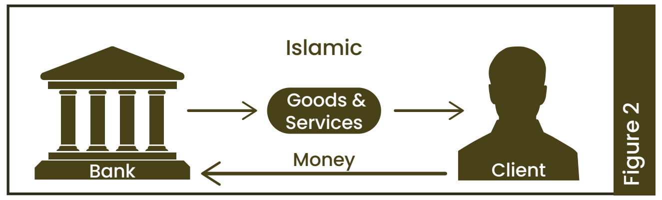


Figure 2

Under Islamic mode of financing, goods or services are delivered to the client and from client money pay back to the bank (figure 2). This helps in economic growth, as real activity in the economy are undertaken by economic agents. All Islamic financings are under the concept of loan in kind.

Now we will discuss various types of Islamic financial instruments used by Islamic banks around the globe.

a) Working Capital Financing Products:

Murabahah

Murabahah is a sale in which costs and profits are disclosed to the end customer. Different methods for payments of price of things purchased are present under Murabahah. The price can be:

- Prompt /on spot
- Deferred (to be paid in full on a particular date in future)
- Deferred with installments (equal or unequal installments of price to be paid during a particular period in future)

Payment methods break Murabahah into three types:

- Murabahah with spot payment of price, called *Murabahah Mu"ajjalah*
- Murabahah with deferred payment of price, called *Murabahah Muwajjalah*
- Murabahah with payment of price in installments during a certain period is also called *Murabahah Mu"ajjalah*

At Islamic banks, Murabahah is a short term financing facility in Pakistani Rupees and Foreign Currencies for purchasing raw materials or any other asset through bank.

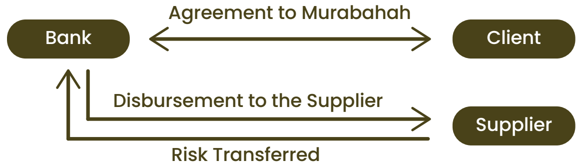
Murabahah can also be utilized as financing against imported merchandise (FIM), where the subject matter (imported goods) are kept as security.

Practical Steps in Constructing a Murabahah Transaction:

Consider the following simple Murabahah transaction process, where for simplicity we have excluded the concept of agency agreement, wherein parallel agency agreement, are also executed along with Murabahah agreement.

1. Client and Bank sign an agreement to enter into Murabahah

2. Bank gives money to supplier for purchase of goods



3. Client pays the price of goods purchased under Murabahah

Istisna

Istisna is simply a sale transaction where a commodity is transacted before it comes into existence. Istisna is the second exception where a sale is allowed without existence of the goods sold. The first one being the Salam.

Istisna is an order to a manufacturer to produce a specific commodity for the purchaser. It is necessary that the manufacturer uses his own material to manufacture the required goods. If the manufacturer provides his services to produce the item and the material is from ordering party, then this transaction will not be an Istisna transaction.

Istisna can be used for made-to-order commodities where a customer orders a specific good with some specifications to be manufactured in a particular period of time and delivered to him after completion.

Islamic banks use Istisna as a short term facility extended to exporters and local manufacturer to finance material, labor costs and overheads.

Processes Flow of Istisna

- A Customer approaches Bank with his/her request to finance for manufacturing of some items.
- Bank obtains full description of the work to be done with exact specifications.
- Bank then consults a contractor and obtains cost estimates of the project.
- Bank adds its profit and quotes an Istisna price to the customer.
- Upon agreement of the terms, including mode of payment and delivery date an Istisna contract is signed with customer.
- At the same time, a parallel Istisna contract is separately signed with the contractor, containing all the terms agreed upon.
- On the due date, contractor delivers the manufactured goods to bank, which in turns hands over to customer.
- The difference in amount received from customer and the amount paid to the contractor is the bank's profit.

Scope of Istisna

Istisna mode can be used in various situations such as:

- Real estate finance e.g. construction of residential and commercial buildings.
- Government projects e.g. dams, airports, seaports, dockyards etc.
- Financing of plant / building / machinery in factories.
- Hotels, hospitals etc.
- The modern BOT (Build, Operate and Transfer) arrangements may be structured through Istisna.

- **Tijarah**
A short term facility for working capital financing extended against finished goods.

- **Running Musharikah**
The bank enters as a partner and invests in identified primary and operating business activities of the customer.

b) Long Term Financing Products

- Ijarah (Leasing)

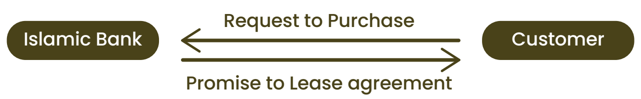
The literal meaning of Ijarah is to give something on rent. In Islamic jurisprudence, this term is used in two different situations. Firstly, it means to employ the services of a person on wages given in exchange of his hired services. This kind of Ijarah is not the subject matter of this article.

The second type of Ijarah, which is being used in Islamic banking, means: to transfer the rights of use of a particular property to another person in exchange for a rent claimed from him. " In this while, the ownership of the item remains with the bank (lessor), only the right of use is transferred to the person renting it (lessee). It is just like someone takes a house on rent and pays a rent to the owner of the house for use of his house, the ownership remains with landlord.

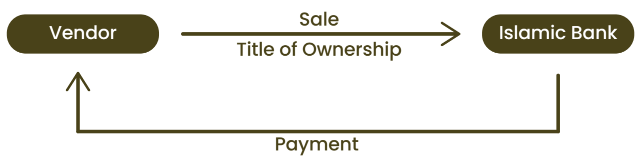
In Islamic banks Ijarah is a medium to long term Islamic leasing facility for procurement of plant / machinery, vehicles, etc. the subject matter of Ijarah may be purchased locally or imported by the customer.

Process flow of Ijarah

1. The customer approaches the bank with request for financing and enters into a promise to lease agreement.



2. Bank purchases the item, receives title of ownership and makes payment to the vendor.



3. The bank leases the asset to customer and receives rentals. After full payment, the bank sells the asset to the customer separately.

- Musharakah

Musharakah literally means sharing. This word has been derived from 'Shirkah' which means being a partner. Musharikah is the most ideal mode of finance as it confirms to the true spirit of Islamic financial injunctions. It is the most preferred financing mode in Shariah.

Shaarikat al-aqd (contractual partnership) means an agreement between two or more parties to combine their assets, labor or liabilities for the purpose of making profits.

In Islamic banks, Musharakah is being used as medium to long term financing facility where the bank injects equity in the customer's business and creates a partnership. The profit is shared between the bank and the customer in agreed ratio whereas the loss is shared by both the parties in proportion to their investment.

- Diminishing Musharakah

Diminishing Musharakah is usually done under shirkat-ul-milk. This type of Musharakah is primarily used for real estate financing. It involves the bank taking share in the ownership of a specific asset along with the customer and then gradually transferring complete ownership to the customer.

There are three different components of diminishing Musharakah:

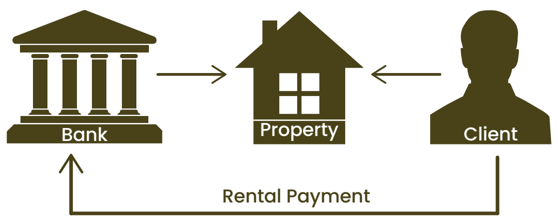
I. Joint ownership of the bank and the customer.
II. Customer as a lessee uses the share of the bank and pays rents.
III. Redemption of the share of the bank by the customer until he acquires full ownership, (gradual).

Step-by-Step Procedures of Diminishing Musharakah

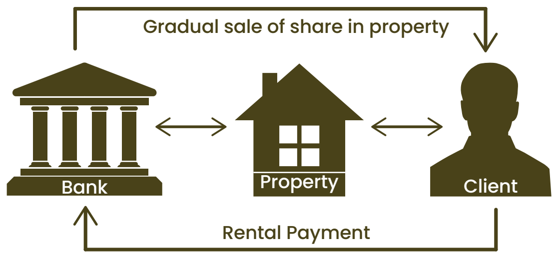
a) Customer approaches the bank with the request for financing.

b) The bank enters into a shirkat-ul-milk (joint ownership) agreement with customer and both of them pay their respective shares to the seller of the assets.

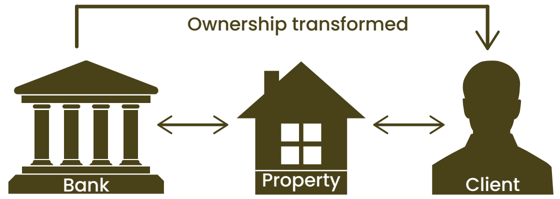
c) Customer pays rent for the use of bank's share in the property (as in the case of Ijarah i.e. second step).



d) The bank's share in the asset is divided into several "Units" as per mutual agreement. Customer purchases these units over a period of time. Thus the bank's share gradually decreases and at the same time the customer's share increases. This is done as mentioned in step-C, which is based on sale transaction.



e) Ownership of the asset is then transferred to customer upon full payment of the bank's share.



Scope of Musharakah

Musharakah can be successfully used in the following areas (which form the assets side of the Balance Sheet):

- Project financing
- Working capital financing
- Import financing
- Export financing
- Running financing

C) Trade Financing Products

- Sight Letter of Credit

Islamic Banks offers this facility to the customers for import of an asset as bank's agent from foreign buyer where the payments are made immediately to the beneficiary upon presentation of the correct documents.

- Usance Letter of Credit

This facility is provided to customer for import of an asset as bank's agent from foreign buyer where the payments are made at a predetermined future date after the confirming documents are presented.

- Murabahah Against Accepted Export Usance bill.

Under this, a Murabahah facility amount is disbursed to the customer and the accepted export bill is taken as a security under lien.

- Islamic Export Refinances Facility

This is short term facility extended to exporters based on different working capital financing products of the banks.

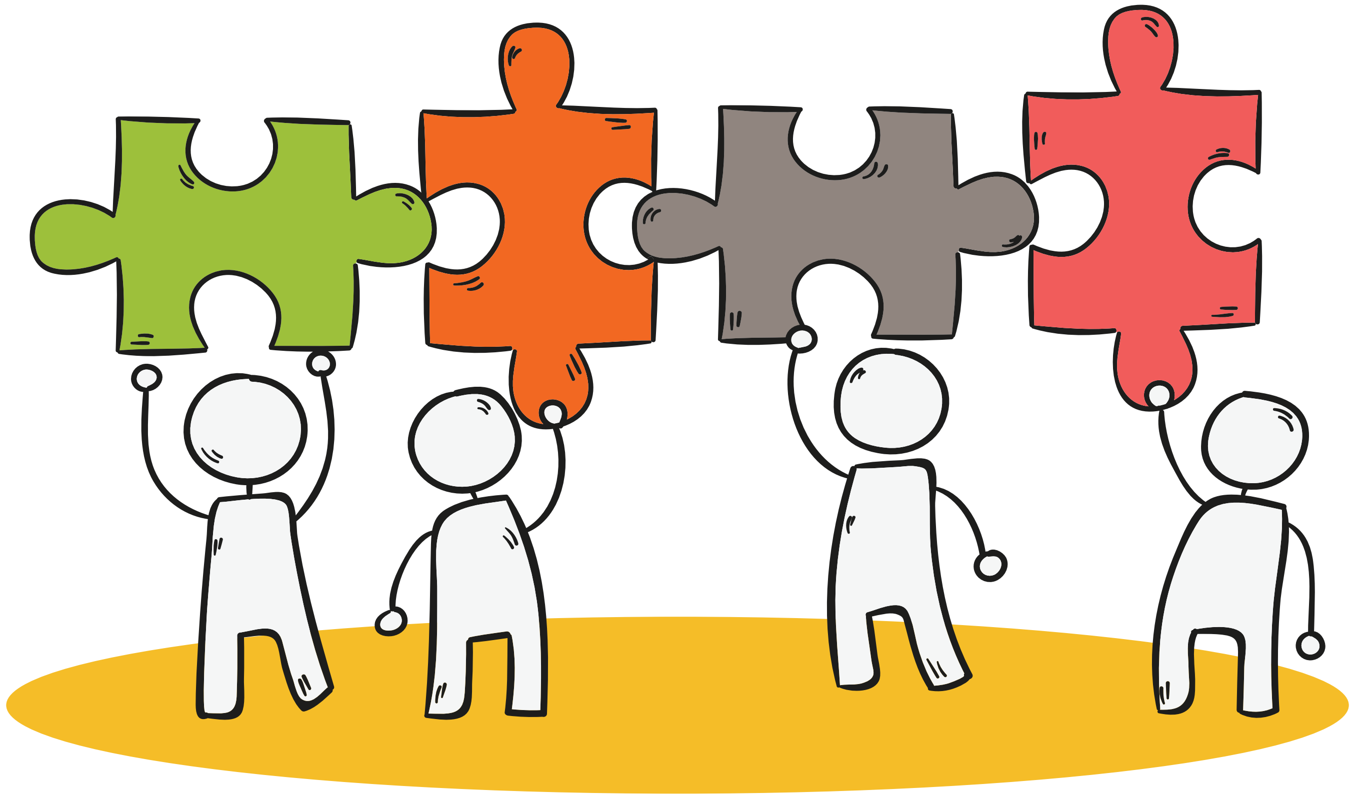
- Bai Salam

An Islamic alternate for sight bill discounting where the bank purchases foreign currency from exporter to be delivered on a future date, against immediate payment in local currency.

D) Guarantees

- Guarantee: (Bid/ Performance/Advance)
- Letter of Guarantee

A bank guarantee to indemnify a third party against default of payment, overdue or non-performance of contract by bank's customer. ■



QUINTESSENCE OF TEAMWORK IN BANKING

By: Rafi Ahmed

Teamwork is not only necessary but also a compelling force to reckon with. As Steve Jobs had rightly said once, "Great things in business are never done by one person, they are done by a team of people." Teamwork achieves more benefits than solo flights. Even among the tiniest of creatures, teamwork is at play and their very survival hinges on it. Take the example of ants, who live and forage for food together in a tightly-knit organization, with division of labor entrusted to each segment. Then we have honey-bees, who are famous for their beehives, which have a very intricate and complex architecture with workers, queen, drones, but all are part of a hectic team. On the other hand, we have lions and elephants, the higher forms of animal life, who work and live in teams and are thus successful in finding food and security.

The need for productive teamwork enables organizations, including the banks, to achieve their goals to the utmost satisfaction of the entire team and top management. The aim of every team is to lead towards project completion and improving employee motivation, at the same time harvesting more profit for the organization. The team is just like a woven fabric and has to be built Lego-style or brick-by-brick and then activated through a mechanism of leadership. No team can be formed without leadership and it cannot be left rudderless. For an accomplishing team, it is essential to have skills, discipline, determination, cooperation and a cool-headed leadership with a clear-cut target.

Today's banking industry is highly focused on configuring the question of what are the ways to make a successful team click. Banks are result-oriented organizations and as such, dependent on best teamwork to obtain the optimum results to their best satisfaction.

However, as noted by Jon R. Katzenbach, a leading practitioner in organizational strategies, "Teams always outperform working groups of individuals when the teams are properly understood and supported but many managers do not understand teams and most do not act on what they do know. This high-performance team must have a clear, specific purpose that is distinct from the purpose of its larger organization".

A team is termed as a group of people with related skills who are committed to a common purpose, performance goals and approach for which they hold themselves mutually accountable. For building a team, the leader must first of all be conversant with competencies which go into the making of effective teamwork. These ingredients which give rise to an effective team are as follows:

Clearness & Certainty in Guidance

Before developing and fostering a team, it is necessary to clearly mention the actual targets to be achieved and the necessary timelines should also be given. Both the targets and timelines should be reasonable and not beyond any human capability.

As Richard Spoon, an American expert on business leadership and consulting experience notes, "Without a clear sense of what the team needs to accomplish and how a successful outcome will be defined, it is impossible to assemble the right group of people to get there. The team should have the leeway to nurture and chart the perfect path to achieve desired results. There should also be non-interference till they complete their task. As an American President Theodore Roosevelt had once remarkably said, "The best executive is one who has sense enough to pick good people to do what he wants done and self-restrained enough to keep from meddling with them while they do it."

Communication

Communication is a key ingredient in the success or otherwise of any team. It is vital in all businesses but it is significant in a team build-up and working for forging an aura of close companionship and under-standing between members. All ideas and proposals should be discussed in an amiable manner, it must always be centered on open-door policy, in no case para-verbal language be used. The team members need to be given opportunity for a free and frank atmosphere. Any member hesitating from participation due to reserved nature or any other reason must be cajoled and encouraged to share his views, it may not be feasible but at least it may lead to more positive indicators.

"Banks are result-oriented organizations and as such, dependent on best teamwork to obtain the optimum results to their best satisfaction.

Managing Changes

An effective team always encourages risk taking and trial-and-error approach for change and better outcomes. Mistakes may be made but opportunities would also appear out of those mistakes. They also provide chances to rectify the errors and bring out problems into the fore. Someone has rightly retorted that all problems are opportunities in disguise. At the branch level, it is impossible to move forward without team spirit. As from the teller to operations manager to the level of branch manager, all are interdependent and have to work in tandem or synergy, otherwise due to ever-present competitor risk, they would not be able to succeed.

Delineated Roles

All teams with delineated roles require specific skill-sets, understanding, distinct styles which might change somewhat. For example, the marketing team of a bank at Head office level needs to complete makeover and value-addition in its present current account, that team will require a leader (not a boss) who is well-versed in the methodology of product market dynamics, then the team could easily be guided, of course the usual detailed discourse notwithstanding. In this scenario, the team must put out its best both collectively as well as individually, so that the newly-evolved product is marketed as a success, not to be construed as a damp squib. Since the team has amongst its members, thinking patterns of all hues and diversified experience, so there is a need for exploration from all angles. All teams have some members with exploratory instincts who can be relied upon for a wider canvas to enable the team to deal with all the issues at hand.

Answerability

Teams are assigned responsibility both at individual level as well as collectively in terms of a team, therefore they must accept the responsibility and avoid the blame game at all costs. All successes should be duly acknowledged and appreciated, any specific individual contribution needs to be rewarded adequately.

Commonality of Interests

A distinguishing trait of a successful team is that members put the common goal over individual interests. While achieving individual goals is a great personal morale booster, teams accomplish when they discern, appreciate and work with a common ambition and zeal.

Appreciating Dissenting Viewpoints

In the course of tasking, there may be diverse or dissenting ideas which are presented by some of the teammates. These should not be shunned or curbed but discussed and if found feasible then incorporated into the scheme of things. Presenting varied opinions within a team raises the team's performance. A team comprising of divergent views adds more color and credence, ultimately winning a competitive edge. Diverse opinions unleash innovation and creativity which are the hallmarks of a successful team. It has been noticed that the best team is a symbol of unity in diversity. Creating ideas is the decisive skill for all the teams. Brainstorming is necessary to arrive at a solution to any problem or hassles encountered by the team. Dynamic and efficacious use of ideas is the sine qua non for team success. Effective teams also believe in gender diversity, as such women members should also be inducted.

Collaboration

All teamwork requires close connectivity, cooperation, whether it is a game of cricket or football or hockey. The notion is easy enough: the more the team leader collaborates and communicates, the more he develops and creates.

Confidence

Team members who lack mutual confidence and do not possess the faith in their teams hardly scale the peak of success. Effective teams bring up solutions not problems. It must be remembered that the strength of the team is each individual member. The strength of each member is the team, very rightly pointed out by Phil Jackson.

Fun and Frolic

Continuous work induces boredom and monotony in many cases, so there should be enough time for fun and frolic to relax and enjoy some time out of any tedious task which may be assigned to them.

Leadership

Team leadership is very crucial to any team's success, as such team leaders have a heavy onus on their shoulders to motivate, encourage the team in all respects and treat every member on egalitarian basis. The leader should avoid behaving as a boss, nowadays bossing is just used in different context.

"Presenting varied opinions within a team raises the team's performance. A team comprising of divergent views adds more color and credence, ultimately winning a competitive edge."

Epilogue

Awareness about the essential features of a high-performing team can be of great assistance in any bank or corporate organization for that matter, in scaling newer unexplored heights of accomplishment. It leads to further progress of the organization. Some of the prerequisites are:

- Positivity and Pragmatic Attitude
- Commitment and Trustworthiness
- Open Door Communication
- Distinctiveness of Competencies
- Responsive to Changing Scenarios
- Determination and Innovative Space
- Personal Freedom to Experiment
- Result-Oriented Approach

Lastly, a team-leader must lead by examples and never insulate himself from the ideas and working of his teammates, he should act a bridge between his team and his senior management. He should be well-versed in solving conflict issues. A leader is a dealer in hopes, not a nay-sayer indeed. All individuals working in a branch are part and parcel of a team under the leadership of the branch manager, same is the case with various departments and divisions at head office and regional office levels, it is the leader who evolves a team at all levels and then delivers.

This simple equation best illustrates the role of a leader:
L + P + T+ M= TW = R (The **leader** works with **people**, evolves a **team** out of them, **motivates** the team and then through this **teamwork** delivers the outcome or **results**.)

As that great philanthropist Andrew Carnegie quoted, "Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organi-zational objectives. It is the fuel that allows common people to attain uncommon results." ■

Quip with Queer Laws

Parkinson's Law: Work expands to fill the time available for its completion.
— Cyril Northcote Parkinson

Murphy's Laws

- If you write anything criticizing editing or proofreading, there will be a fault of some kind in what you have written.
- Anything that can go wrong, will go wrong.
- At least one cheque will be "lost in the mail" every month.
- New systems generate new problems.
- When you don't have much work ... all your colleagues will be busy.
- Doctors only ask your name when the patient is not doing well.

Computer Law: Any given program, when running, is obsolete.

Hartman's Law: Any article or statement about correct grammar, punctuation, or spelling is bound to contain at least one eror (sic).

Graphic Design Laws: Your best idea is already copy-righted.

Printing Laws

- Your print job is always behind the largest print job in the queue.
- If it is about to print, the printer will get jammed.
- When they fix the paper jam, it will be out of paper.
- When you get the paper, it will be out of toner.

Mechanics Laws

- If it does not fit, force it ... If it breaks, it needed replacing anyway.
- If you drop a tool or small part while working on a car, it will roll to the exact center underneath the vehicle.
- If you have enough grease & a big enough hammer, you can put anything ... anywhere.
- Any instrument when dropped will roll into the least accessible corner.
  Corollary: It will not roll if it falls on shag carpeting and is small enough to hide.
- If you drop a tool or a part, it will roll to the exact center underneath your car, thus extending your repair enjoyment.
- If you drop an unbreakable object, it will always land on something more valuable. ■

PIONEERS WHO BUILT STATE BANK OF PAKISTAN BRICK -BY- BRICK

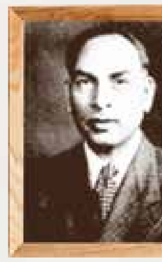
A Journey Towards Professional Excellence – 70+ years of State Bank

After independence in 1947, Pakistan inherited a weak financial system architecture, lacking a proper banking network and a central bank. Mr. Zahid Hussain, one of the senior most Muslim officers of the Indian Audit and Accounts Service who was serving in Delhi as Pakistan's High Commissioner to India was summoned in April 1948 and assigned the charge of a Special Division for the creation of a central bank named State Bank of Pakistan. The promulgation of May 12, 1948 State Bank of Pakistan Order as well as the Order for the amendment of the Pakistan (Monetary System & Reserve Bank) Order, 1947 required the Reserve Bank of India to relinquish its role in Pakistan on June 30, 1948. On July 1, 1948 Quaid-e-Azam, Muhammad Ali Jinnah inaugurated the State Bank of Pakistan, housed in Victoria Museum Building rented from Karachi Municipal Corporation. Travelling especially from Ziarat to Karachi against medical advice of his doctors indicated the importance that the Quaid had envisioned to this major milestone of the newly created country and impact that it would imprint towards the successful journey of the new nation in the area of banking and finance. Incidentally, this ceremony was also the last public function attended by the Quaid. After 13 years, Central Directorate of SBP shifted to its current Main Building location at I.I. Chundrigar Road.

GOVERNORS OF SBP

Mr. Zahid Hussain
(June 10, 1948–July 19, 1953)

Mr. Abdul Qadir
(July 20, 1953–July 19, 1960)



Mr. S.A.Hasnie
(July 20, 1960–July 19, 1967)

An Image of SBP's FE Circular No. 07 on Exchange Rates, issued way back 28 years ago on January 16, 1992.
Circulars/Notifications **- Exchange Policy Department**

Circulars/Notifications - Exchange Policy Department

F.E. Circular No. 07 **January 16, 1992**

All Authorized Dealers
In Foreign Exchange,

Dear Sirs,

EXCHANGE RATES

Effective 16th January, 1992, the State Bank of Pakistan will undertake purchase and sale of U.S. Dollar from and to Authorised Dealers at the following rates :-

BUYING PER U.S. DOLLAR		SELLING PER U.S. DOLLAR		
SPOT & FORWARD UPTO 6 MONTHS	SPOT & FORWARD UPTO 12 MONTHS	SPOT & FORWARD UPTO 6 MONTHS		SPOT & FORWARD UPTO 12 MONTHS
24.6800	23.9396	24.8034	25.7289	26.6544

2. The revised rates at which Authorised Dealers will buy from and sell U.S. Dollar to the public with effect from 16th January, 1992 are as under :-

	BUYING PER U.S. DOLLAR			SELLING PER U.S. DOLLAR		
	SPOT & FORWARD UPTO 6 MONTHS	SPOT & FORWARD UPTO 12 MONTHS		SPOT & FORWARD UPTO 6 MONTHS		SPOT & FORWARD UPTO 12 MONTHS
T.T.	24.6553	23.9149	T.T.& O.D.	24.8281	25.7536	26.6791
Clean O.D.	24.5742	23.8338				

Yours faithfully,
(GHULAM MUHAMMAD)
Senior Deputy Director

Q&A

Q. Please let me know the difference between Pledge and Hypothecation.

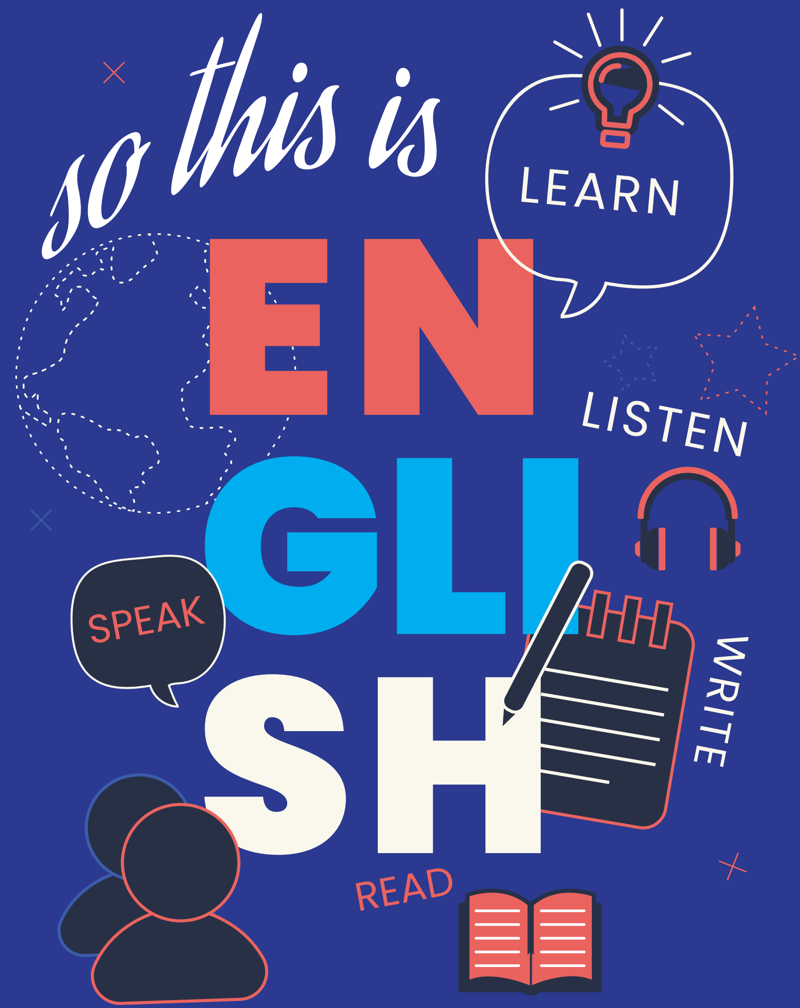
Ans. Before proceeding to the actual topic, since both are linked with the term 'charge', used in Credit Management, so first of all, it needs to be defined. A charge connotes an asset which is given as security against a loan or advance by a bank. The worth of a security offered as collateral may be either equal to or more than the quantum of loan, or it can be a major part of the loan. The charge is always created on the asset in the light of nature of security. In case of both pledge and hypothecation, movable goods are offered as collateral. Collateral is an asset that a lender accepts as security for a loan, in case of borrower's default, the lender may take hold of the collateral and sell it to recover his loss. Collateral can take the form of real estate or other kinds of assets, depending on what purpose the loan is used for. However, the terms 'Pledge' and 'Hypothecation' are more often lumped together as in both the cases movable goods or commodities are involved.

Pledge is a type of bailment under which the goods are delivered in order to provide security for paying off the debt. On the other hand, hypothecation differs in the sense that the charge is created but the goods, plants, machinery or crops remain in the hands of the borrower, this means there is no transfer of possession to the lender.

Pledge is a type of bailment in which the goods are kept in the custody of the banker as security for the payment of a debt or fulfillment of the contract. There are two parties involved in a contract of pledge, pawnor (borrower) and pawnee (lender or creditor). The title of goods pledged remains with the pawnor but the physical custody passes on to the pawnee. Thus the possession of the property passes to the lender with the transfer of the goods. *Section 172 of the Contract Act, 1872 describes it as: The bailment of goods as security for payment of a debt or performance of a promise is called pledge. The bailor is in this case called the "pawnor". The bailee is called the 'pawnee'. Pledge is valid when a deed of pledge is signed between the two parties. In case of default, the pledgee has the right to sell off after giving due notice.*

In case of hypothecation, a charge is created on goods, plant or commodities by the borrower in favor of lender but the property remains with the debtor. This means there is no transfer of goods in case of hypothecation to the lender. The person who creates a charge of hypothecation is called hypothecator and the lender is called a hypothecatee. It is governed under Hypothecation Agreement. *Hypothecation is defined in Financial Institutions (Secured Transactions) Act, 2016, in terms of which it means a charge created by a customer, on all or any present or after-acquired movable property, in favor of a secured creditor without delivery of possession of the movable property to such secured creditor.*

There are rights of the lender if default occurs, in pledge the lender can sell the goods pledged to settle his claims on the debt, while in case of hypothecation, if any violation occurs, then the hypothecatee has the right to take physical possession of the asset to recover the debt. The security is granted by means of a letter of hypothecation which usually provides for a banker's charge on hypothecated goods. In hypothecation, the banker reserves the right to inspect the goods hypothecated to him and can obtain periodic reports where needed. While accepting hypothecation of goods as a security, the banker must ensure that the borrower has a valid title to the goods. The hypothecation deed is an agreement which contains standard features and rules; which usually cover the following points: definitions, insurance to ensure good condition of the asset, inspection rules, rights and remedies of each party in case of any default, security details marked for hypothecation, sale realizations, insurance proceeds, liability of each party, jurisdiction prevailing, marking of the assets etc. This deed protects the rights of both the parties to the contract. ■



Brevity Is the Soul of Wit

Words are like leaves, and where they most abound,
Much fruit of sense beneath is rarely found.
– Alexander Pope

It is good to return to your school days by undergoing a refreshing bout and running into a time tunnel for tracing your childhood memories. Here are a few words which are one-word substitutions. Too many words or verbosity impede the smooth flow of thoughts and often create confusion. So in exhibiting our sentiments by speech, the narrower the compass of words is, the more energetic is the impression.

In English, we have different words for groups of people in different situations of life.

- A collection of people at a lecture or concert – **Audience**
- A number of people at a match – **Spectators**
- A minister representing a sovereign or a state – **Ambassador**
- A person who spends his money recklessly – **Spendthrift**
- A person who lives at the same time as another – **Contemporary**
- A lover of mankind — **Philanthropist**
- A lover of oneself – **Egoist**
- A lover of food – **Gourmand**
- One who plays for pleasure – **Amateur**
- A person who lives and works outside his native country – **Expatriate**
- One who walks in his sleep – **Somnambulist**
- A person who leads others in any field – **Pioneer**
- A short simple story designed to teach a moral or religious lesson – **Parable**
- One who makes an eloquent speech – **Orator**
- A speech which is delivered without any previous preparation — **Extempore**

The Creative Curve

How to Develop the Right Idea, at the Right Time

By: Allen Gannett

Synopsis

Big data entrepreneur Allen Gannett overturns the mythology around creative genius and reveals the science and secrets behind achieving breakout commercial success in any field. We have been spoon-fed the notion that creativity is the province of genius — of those favored, brilliant few whose moments of insight arrive in unpredictable flashes of divine inspiration. And if we are not a genius, we might as well pack it in and give up. Either we have that gift, or we do not. But Allen shows that simply, it is not true. Recent research has shown that there is a predictable science behind achieving commercial success in any creative endeavor, from writing a popular novel, to starting up a successful company, to creating an effective marketing campaign. As the world's most creative people have discovered, we are enticed by the novel and the familiar. By understanding the mechanics of what Gannett calls 'the creative curve' – the point of optimal tension between the novel and the familiar – everyone can better engineer mainstream success. In a thoroughly entertaining book that describes the stories and insights of everyone from the Broadway team behind Dear Evan Hansen, to the founder of Reddit, from the Chief Content Officer of Netflix to Michelin star chefs, Gannett reveals the four laws of creative success and identifies the common patterns behind their achievement.

Reviews

"*The Creative Curve* takes on one of the most pernicious beliefs about creativity — that it is limited to natural-born geniuses. In fact, as Allen Gannett argues so capably, we all have the potential to come up with ingenious ideas and make them a reality. Seasoned with lively anecdotes, *The Creative Curve* will take you through the science and practice of creativity so that you can start tapping into your own breakthroughs."
— Daniel Pink, author of *When* and *To Sell Is Human*.

"A juicy, rollicking tour along the path toward creativity. The good news is that there is no writer's block and if you want it badly enough, creativity awaits."
— Seth Godin, author of *Linchpin*

"To anyone who thinks they are uninspired, stifled, or creatively infertile... this book is for you. Allen Gannett shows that you aren't truly any of those things. You're just doing it wrong." **— Ann Handley, bestselling author of *Everybody Writes***

"Insightful, inventive and practical. . . *The Creative Curve* shifts our understanding of creativity from a difficult-to-repeat light-bulb moment into a well illuminated and researched path to continual inspiration and creative success." **— Shawn Achor, *New York Times* bestselling author of *Big Potential* and *The Happiness Advantage*.**

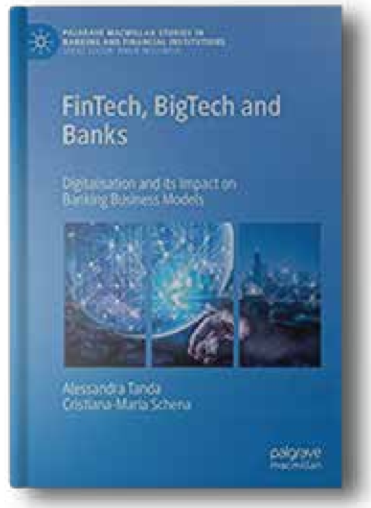
About the Author

Allen Gannett is the founder and CEO of TrackMaven, a software analytics firm whose clients have included Microsoft, Marriott, Saks Fifth Avenue, Home Depot, Aetna, Honda and GE. He has been on the '30 Under 30' lists for both *Inc.* and *Forbes*.

FinTech, BigTech and Banks

Digitalisation and Its Impact on Banking Business Models

By: Alessandra Tanda & Cristiana-Maria Schena



Synopsis

This Palgrave Pivot analyses the evolution of strategies and business models adopted by financial operators that employ technological solutions to deliver financial products and services. The analysis is performed on a proprietary dataset built on different sources that highlight important differences in strategical approaches taken by FinTech companies, TechFin and BigTech and banks (traditional and digital native). For each type, the authors underline their distinctive patterns, strengths and weaknesses. The main focus of the analysis in on the European market that is investigated also in the light of the difference and similarities with other markets (such as US and China). The unbundling and re-bundling of productive processes in finance, the treatment of information and the level of innovation in the customer relationship highlight the intense change that the banking activities of new financial services providers are currently dealing with, especially the retail segment. Despite the main international banks' implementation of innovative strategical approaches to take advantage of the digitalization of business and cope with competition, so far the level of the disruption brought by FinTech is not fully understood or widespread. This holds especially true for the smaller banks: the latter need to take a proactive approach to individuate a business model able to satisfy the new customer needs and the competitive pressure that are destined to increase and further evolve. This book addresses this and would appeal to academics, researchers and students of banking, FinTech and financial innovation alongside policy makers, regulatory authorities, FinTechs and banks.

About the Authors

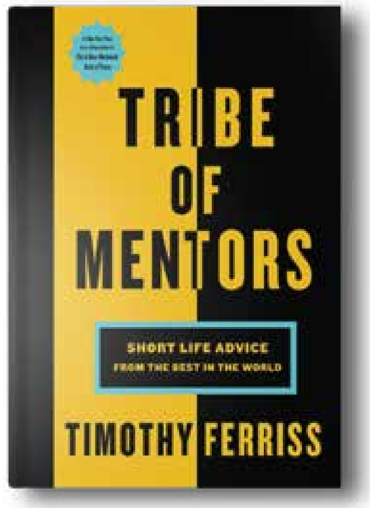
Alessandra Tanda is an assistant professor of Financial Institutions in the Department of Economics and Management, University of Pavia, Italy. She received her PhD in Financial Markets and Institutions in 2013 from Cattolica University of Sacred Hearth (Milan), Italy. She is the author of a number of contributions, including a book on FinTech in the volume of the Italian Regulatory Authority on Financial Markets (Consob).

Cristiana-Maria Schena is a full professor of Financial Institutions in the Department of Economics, University of Insubria, Italy. She is Director of the Research Center for Ethics in Business and Social Responsibility at the Department of Economics and Head of the course in Finance, Markets and Financial Intermediaries within the master's course in Economics, Laws and Corporate Finance. She is the author of several books and articles including a contribution on FinTech in the volume of the Italian Regulatory Authority on Financial Markets (Consob).

Tribe of Mentors

Short Life Advice from the Best in the World

By: Timothy Ferriss



Synopsis

Tim Ferriss, the #1 *New York Times* best-selling author of *The 4-Hour Workweek*, shares the ultimate choose-your-own-adventure book—a compilation of tools, tactics and habits from 130+ of the world's top performers. From iconic entrepreneurs to elite athletes, from artists to billionaire investors, their short profiles can help you answer life's most challenging questions, achieve extraordinary results and transform your life. This book contains their answers—practical and tactical advice from mentors who have found solutions. Whether you want to 10x your results, get unstuck, or reinvent yourself, someone else has traveled a similar path and taken notes. This book, *Tribe of Mentors,* includes many of the people we grew up viewing as idols or demi-gods. Less than 10% have been on the author's podcast (*The Tim Ferriss Show,* more than 200 million downloads), making this a brand-new playbook of playbooks.

Among other things, you will learn:

- More than 50 morning routines—both for the early riser and those who struggle to get out of bed.
- How TED curator Chris Anderson realized that the best way to get things done is to let go.
- The best purchases of $100 or less (you'll never have to think about the right gift again).
- How to overcome failure and bounce back towards success.
- Why Humans of New York creator Brandon Stanton believes that the best art will always be the riskiest.
- How to meditate and be more mindful (and not just for those that find it easy).
- Why tennis champion Maria Sharapova believes that "losing makes you think in ways victories can't."
- How to truly achieve work-life balance (and why most people tell you it isn't realistic).
- How billionaire Facebook co-founder Dustin Moskovitz transformed the way he engages with difficult situations to reduce suffering.
- Ways to thrive (and survive) the overwhelming amount of information you process every day.
- How to achieve clarity on your purpose and assess your priorities...and much more.

About the Author

Tim Ferriss has been called "a cross between Jack Welch and a Buddhist monk" by *The New York Times*. He is one of Fast Company's "Most Innovative Business People" and an early-stage tech investor/advisor in Uber, Facebook, Twitter, Shopify, Duolingo, Alibaba and 50+ other companies. He is also the author of four #1 *New York Times* and *Wall Street Journal* bestsellers: *The 4-Hour Workweek, The 4-Hour Body, The 4-Hour Chef* and *Tools of Titans*. The Observer and other media have named him "the Oprah of audio" due to the influence of his podcast, *The Tim Ferriss Show,* which has exceeded 200 million downloads and been selected for "Best of iTunes" three years running.

Save for Pakistan
Invest in Pakistan

"We ... in general and young men in particular do not know the value of money. A paisa saved today is two paisa tomorrow, four paisa after that and so on and so forth. Because of our addiction to living beyond means and borrowing money we lost our sovereignty over this Sub-continent."

Mohammad Ali Jinnah
Founder of Pakistan
(Ziarat, 1948)

Bank AL Habib

Bank AL Habib Limited

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