

IBP Prize Award Ceremony at Lahore

Mr. Saleem Umar Chief Executive IBP,
Members of the Council of the Institute of Bankers Pakistan,
Mr. Barbruce Ishaq Chief Manager SBP BSC Lahore,
Fellow Bankers,
Distinguished Ladies and Gentlemen!

First of all I would like to congratulate the IBP for organizing this ceremony to award Prizes and Diplomas to the high achievers of Banking Diploma examination 2005 and the IBP Essay Competition 2005.

It would no longer be an exaggeration but a fair statement that the landscape of the banking system in Pakistan has changed drastically. Pakistan has undertaken first generation of reforms in recent years in the financial sector that have resulted in a sound and efficient system. However there are still challenges ahead for us which may be summarized as under:

1. The legal system is time consuming and costly for the ordinary market participants. There is a need to further strengthen this system.
2. Regulatory environment should be enhanced and updated regularly.
3. Consistent application and voluntary adoption of Corporate Governance Rules by the industry is need of the hour.
4. Financial sector should be opened up to the middle and lower income groups.

In my humble opinion the challenges to the Banking Sector are as under:

1. Basel Committee on Banking Supervision has finalized a new Capital Accord, Basel II, in June 2004. Capital adequacy requirements in Basel II have been made more risk-oriented by linking capital to operational risk and changing the risk measurement approaches for credit and market risks. In such a situation the role of regulator became more important. I may add here that SBP has already issued detailed guidelines for the phase-wise implementation of Basel II in Pakistan. (BSD Circular No. 3 of 2005 dated 31-3-2005)
2. Banks/DFIs are required to allocate capital for market risk in addition to the capital requirements for credit risk and therefore the capital adequacy ratio has to be improved.
3. Rising interest rates and soaring inflation may affect the repayment capacity of the borrowers who got consumer loan on easy terms.
4. Investment in equity stocks by banks needs a cautious approach.
5. In the present day e-commerce environment, the early adoption of technology will help banks to retain their customers.
6. Islamic banking is a relatively new concept in our banking system. More and more banks are seeking license to open Islamic Branch. At present two full fledged Islamic banks having 37 branches are operating in Pakistan. Moreover, there are 32 stand alone branches of different banks which are operating successfully throughout Pakistan. The banks should be fully prepared to run Islamic branches with the help of their Shariah Board, Shariah Advisors, Auditors and trained staff. The Banking Industry should understand that Islamic Banking is still underdeveloped and we should not work half-heartedly towards the growth of Islamic Banking. This is a sector where growth is expected and the banks should capture this opportunity.

7. According to the Labour Force Survey 2003-2004, the over all labour force participation rate is 30.41%. In today's era human resources are as important as financial resources to any organization. The Banks need to develop their human resources for future challenges and produce professionals having the desired expertise for specialized banking like Treasury functions, SME financing and Islamic Banking etc. This is the need of the hour that banks should develop their own Human Resources. To deal with this issue, Banks may enhance their collaboration with the educational institutions.
8. A sound risk management capability largely depends on banks' internal controls and procedures, particularly in respect of designing and implementing the prudent credit policies within the overall policy framework. The banks should have adequate internal controls, as per the requirement of International Standard for Auditing to avoid any trouble.
9. It has been observed over time that banks put their focus on treasury & corporate business while the operational side is often ignored. I would like to emphasize that the importance of operational side should not be underestimated. It is as important as other segments of banking and banks should strengthen and give incentives to those persons who are under taking operational business. The branch is the faces of the bank as it interact with public at large. So it must be given due recognition. The following points can show the helplessness of employees working on operational side:
 - ✓ Employees have to be at their seats before office timing to provide service to the customers. They also have to work till late night.

- ✓ To get the business and achieve the targets operations side employees are made to undertake incomplete transactions and break the rules but when it turns out to be a bad deal or if there are audit observations/objections, the person engaged in the transaction is penalized.
- ✓ Major portion of reward, increments and annual bonuses goes to business, finance, HR Personals. Very smaller share goes to portion to the employees involved in operational business.

In short, employees working on operational side are the backbone of any bank and no bank can flourish without the contribution of its operational side employees. No product or service can be fruitful without a strong operational team. As a matter of fact the employees of operational side are neglected and not given due incentives as provided to their colleagues in front offices/ marketing/ treasury etc. Resultantly, the operational side employees get frustrated. The banks should devise proper systems to ensure that the staff working on operational side are given due importance.

The other area we keep emphasizing upon the banks is the risk monitoring to avoid operational and credit losses and avoidance of regulator penalties. Needless to stress that all organizations are exposed to reputation risk. Mishandling of any transaction can expose an organization to reputation risk. Strong operational work force helps in building up a good business by contributing towards development of robust workflow and operational procedure for new products and services.

I would like to impress upon the diploma holders that this diploma should not be taken as an end to their professional qualification. The Institute of Bankers Pakistan has introduced a revised curriculum of Banking

Diploma. The institute is also offering Associate and Fellowship courses. I would urge you to take up these courses for your future grooming. I wish to thank all the banks who have put in place a transparent and merit based system of recruitment. The next step in this value chain of human resource development is the continuing education, training, testing and progression of in-service employees and identification of future managers of the financial industry.

I see bright, young, energetic faces among you. Many of you must be thinking that now they have completed their diploma and they would now easily switchover their jobs. However, I would not recommend so... With my more than three decades of experience, I would rather suggest you to enhance your professional skills by acquiring various trainings, courses, seminars; compete with your fellow workers and move upward within the organization. Frequent switching over jobs may affect your reputation as a committed banker.

In the end I would rather advise you, to share the knowledge you have acquired with your co-workers and work towards changing organizational behavior. Instead of complaining about the circumstances, let's take steps to take advantage out of an adversary. For in every challenge there lies an opportunity for the seeker.

I also congratulate all diploma holders, recipients of awards, medals, and distinction holders on their success, which is a result of their sheer hard work.

May the Almighty bestow us with His blessings.

Thank you.