

**ADDRESS AT THE INAUGURAL DINNER OF
PICIC COMMERCIAL BANK ON
JUNE 29, 2001.**

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I am delighted to be present here on this auspicious occasion of the Inaugural of PICIC Commercial Bank. I am particularly happy because this acquisition of Gulf Commercial Bank by PICIC fits in very well with my endeavors to promote mergers, acquisition and consolidation in the financial sector. As PICIC has turned the corner and has become a strong, well functioning institution I trust the PICIC Commercial Bank will emerge, over time, as a leading bank of the country.

On this occasion, I would like to share my expectations from this new bank. But at the same time I would share my views about the ingredients of a successful bank. These views reflect my reading of the banks which have had good performance on a sustainable basis, had grown significantly, created value for their shareholders and rendered service satisfactory to their customers. I hope the Board and Management of the PICIC Commercial Bank would give serious consideration to some of these ideas and try to adapt and adopt them for their bank.

First, you should hire, train, retain and motivate high quality human resources. In this world and age where knowledge and skills have become the indispensable tools of enhancing value, investment in human resource development and upgradation will have higher returns. But in banking business, attitude and behavior of the staff are equally important. A professional who possesses the requisite competencies but lacks the right attitude is unlikely to be useful to the bank. Thus in selecting and training your staff you should not focus on technical skills alone but also on the soft skills too. The Management should itself set the standards of professionalism, integrity, initiative and drive for their staff. This is the way when loyalty to the institution and competencies will reinforce each other. Second, it should establish systems and procedures for managing the various types of risks in a prudent manner. The traditional and conventional means of obtaining collateral and securities to buttress the loan products is not going to help very much. Credit Risk, Market Risk, and Operational Risks have to be identified, managed and mitigated both for the portfolio as a whole as well as for off-the-balance sheet items. Capital adequacy will, in near future, be determined more and more by the capacity for internal risk management by the banks. The sooner you prepare yourselves for it the better off you will be. Third, you should develop new products and services, which are at the

cutting edge and ahead of the curve. Those who pioneer new products earn huge windfalls in the initial years after the launch of the product till such time as the competition catches up. They then move on to develop other innovative products. The name of the game is to stay ahead of the curve. Pakistan's banking industry has not progressed very much beyond the 1960s when a few lending and liability products dominated the entire spectrum. Since then, financial innovation has caught on and spread like wild fire in a large number of developing countries but we are still stuck with the same narrow range of receiving deposits and granting loans. This is the least profitable line and an aggressive bank has to continuously come up with new products, instruments, services and techniques. Fourth, a successful bank has to establish a sound IT platform both for internal communication and management but also to remain connected to clients, shareholders, investors, regulators and other stake holders. Technological upgradation can open up new opportunities for improving competitiveness by reducing costs of transaction and capturing higher margins. Information-based activities can generate income through fees and have become a major source of profitability of banks in a number of countries. Asset-based securitization in which bank assets are marked and thus stripped off the balance sheet is very much in line with Islamic mode of financing and has also favourable

implications for credit extension. In order to match the maturity structure of assets and liabilities you may have to float long-term debt instruments. This has not been done by any bank so far and you can set the pace. Fifth, the PICIC Commercial Bank has to broaden its customer base and geographical spread. If you continue to chase the few hundred of prime borrowers they will gain because their margins will be shaved off but your earning growth will suffer. For example, profits in lending for consumer financing are quite substantial. Most bank branches are concentrated in large cities and most loans and advances are granted to a few thousand larger borrowers. For a successful expansionary business model this approach has to be abandoned. Diversification of customer base will help in risk management also. Sixth, there are several areas of business which are begging for credit but have been neglected due to the customary relationship banking practices we have developed in this country. SMEs, agriculture and IT are the areas where credit absorption opportunities are unlimited and the margins are high, default rates are low and competition is almost non-existent. This would require an expanded branch network in attractive business centers but more important techniques of credit appraisal totally different from the current practices. These practices are relevant to the Corporate Sector but not for the SME sector. For this purpose, sectoral profiles have to be developed

which will form the basis for credit approval. If the PICIC Bank finds this area as its market niche then the orientation, training of staff as well as the procedures have to be changed in a radical fashion. Seventh, you have to set high standards of business ethics. Please do not cut corners or turn your face the other way if you suspect that the transaction does not meet proper prudential norms and standards. Do not deviate from the first principle of banking i.e. KNOW YOUR CUSTOMER. If you have to lose business in order to uphold ethical standards by all means do so. You will come out as the ultimate winner in the long run.

I realize what I have described above is a tall order. But every long journey begins with a first step. We are all entitled to have our dreams. This dream may not be fulfilled in my life time but I am sure this will happen in the life spa of my children and grand children.