8 SBP Banking Services Corporation (SBP-BSC)

The Banking Services Corporation (BSC) - subsidiary of the State Bank of Pakistan (SBP) - continued its pursuits during FY12 towards providing good quality and prompt services to the federal, provincial and district governments, banking industry including SBP as well as the common man. For making its service standards more efficient, BSC undertook a number of new initiatives, aimed at improving the quality of services, and further enhancing the transparency. The management of the Corporation also continued to strengthen its role as an extended arm of the Development Finance Group (DFG) of SBP, in disseminating various initiatives of the Group across Pakistan, aimed at enhancing the financial inclusion in a predominantly unbanked economy. In addition, steps were taken to reinforce policies through programming of standard operating procedures, mainly based on IT based applications in the business areas of, government account, currency management, payments system, and foreign exchange operations

From the perspective of a common man, the availability of clean and durable bank notes is the cornerstone of any central bank services. Pakistan is a cash-oriented economy, as evident from the increase in Currency in Circulation (CIC) which stood at Rs. 1,777 billion, as on 30th June 2012 as against Rs. 1,600 billion as on 30th June, 2011 showing an increase of 11 percent (see **Figures 8.1 and 8.2**). In a society having more reliance on printed bank notes in payment of their obligations, as also for other day to day needs, managing availability of bank notes and coins across the country becomes more complex. A considerable increase in currency in circulation in the recent past has mandated Currency Management Department (CMD) of BSC to manage stocks of fresh and re-issuable notes held at field offices more aggressively, primarily due to less than adequate availability of remittance arrangements for currency movement in the bulk. Notwithstanding the operational difficulties, CMD has managed availability of bank notes and coins across Pakistan, in order to meet its commitment and resolve to provide the good quality bank notes. In a payment system, relying more on physical exchange of bank notes for settling payment transactions, the replacement of soiled bank notes and availability of good quality bank notes across Pakistan warrants both institutional commitment as well as operational innovation. CMD has been doing the needful towards this in a two pronged strategy; firstly through its operational commitment to pursue round-the-year Clean Note Policy (CNP) of the SBP and, secondly, through availability of the fresh notes on special occasions like Eid ul Fitr. It has also made it conditional on the banks to use the good quality notes for the ATM operations. Further, under CNP program, the banks were advised to devise strong internal control mechanism to check the compliance of instructions issued by CMD from time to time and submit the

Figure 8.1: Currency in Circulation (value)

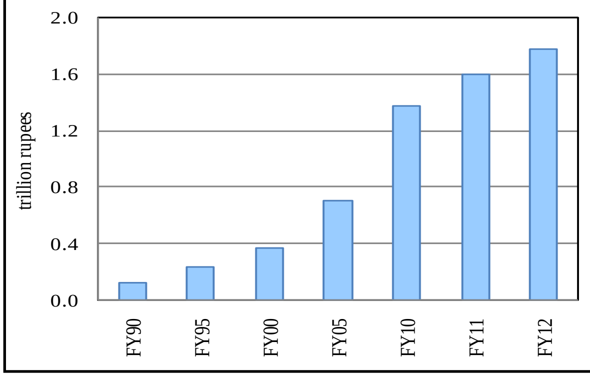
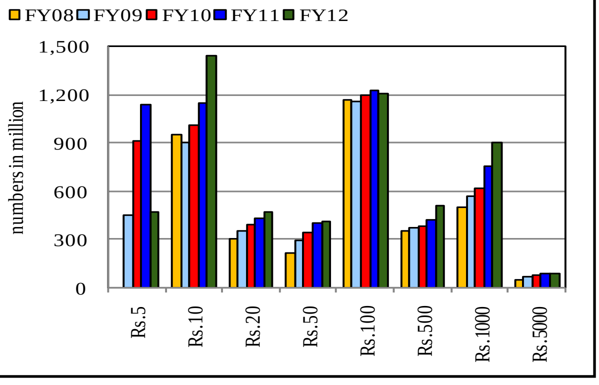


Figure 8.2: Denomination-wise Currency in Circulation



compliance certificate on 15th January of every year to the Director, CMD. The aim has been to implement the policy with stakeholders' cooperation and ownership. Further, category-wise database of all commercial banks, showing their performance to implement SBP clean note policy, has been developed to assist the CMD in taking the corrective action by aligning more resources to banks having relatively poor performance in this regard. It may be noted that, on an overall basis, fresh cash equivalent to Rs.443 billion was disbursed during FY12, as against Rs.380 billion disbursed in FY11, to banks and various other institutional and non-institutional stakeholders.

During the year FY12, SBP BSC remained focused on the consolidation of government receipts and payments. The procedure of checking debtor balances and limits as well as to charge mark-up on the overdraft balances was vigilantly followed and daily reporting mechanism was established under PIFRA arrangements. The resource mobilization for the government, in terms of tax receipts, was further automated with the active participation and cooperation of Federal Board of Revenue (FBR) through extension of CAP II Project at all field offices of SBP BSC, except Muzaffarabad. To achieve this automation, Corporation's Accounts Department heavily relied on the use of 'Information Technology' in order to augment the Central Bank's role as a banker to its stakeholders from amongst the federal, provincial and district governments. The progressive increase in the number of transactions relating to these stake holders dealt by all field offices of SBP BSC, approximating to 6.4 million during FY12, as compared to 5.8 million last year, clearly endorsed the same. It may be added here that the tax revenue (Federal Board of Revenue collections) collected by SBP BSC offices and the network of NBP branches on behalf of the government and credited during the year under review stood at around Rs.1,970 billion as compared to Rs 1,618 billion in FY11, showing an increase of 22 percent. The payments made under refunds allowed by the concerned offices of the FBR grew from Rs. 76.6 billion in FY11 to Rs. 118.6 billion in the year under review. The collection, disbursement, consolidation and reporting of Zakat account also remained one of the main responsibility/ core function of BSC's Accounts Department. Total collection of Zakat stood at Rs.3.9 billion during FY12 as compared to Rs.3.6 billion collected last year. Moreover, after constitutional amendments passed under 18th Amendment Bill, where Zakat has been classified as a provincial revenue source, SBP BSC has facilitated Ministry of Religious Affairs with Zakat collection statistics available in terms of area of its collection.

On account of managing the banking business of the government, SBP BSC remains engaged with the operational work relating to the National Prize Bonds Scheme and National Saving Certificate Scheme of Central Directorate of National Savings (CDNS). Sale and encashment of prize bonds of various denominations of prize bonds and payment of prize money were the areas where SBP BSC deploy all resources to administer the scheme efficiently. During FY12, total sale of Rs. 162.2 billion was handled as compared to the value business of Rs. 138.9 billion in FY11. Likewise, the encashment volume recorded at Rs. 105.9 billion during FY12, while in FY11, it was just total Rs. 97.8 billion. This transactional increase was also reported on prize money payments. The field offices of SBP BSC settled 1,312,798 cases of prize money payments as compared to 1,185,706 during FY11. While administering the regular prize bond scheme, SBP BSC also facilitated the CDNS in re-launching of Rs. 25,000 denomination of prize bond in February 2012 and sale business was handled across the 16 field offices of SBP BSC.

Moving forward, SBP BSC also managed the other schemes of CDNS, notably the sale, encashment and profit payments of Special Saving Certificates (SSC), Defence Saving Certificates (DSC). During the year under review, 21,498 cases valuing Rs. 29.4 billion in respect of sale of SSC and 8,844 cases of valuing Rs. 5.7 billion of DSC were handled, showing increase of 17% and 9% in amount for SSC and DSC respectively . Further, in order to mitigate all operational risks, SBP BSC strongly adhered to automated transactions and system-based procedures and introduced new applications to initiate enquiry procedures and mechanism for owner personal details and disposal of undelivered payment orders in respect of SSC and DSC.

Further, while focusing on the core business issues, SBP BSC remain aligned with the emerging developments in the areas of payment and settlement system, particularly to ensure that better clearing services are provided to the stake holders noteably the commercial banks and the public thorugh agreements with National Institutional Facilitation Technologies (NIFT). Arrangeemnts were made to provide overnight clearing, same day/high value clearing, intercity clearing, and Country-wide local US Dollar clearing. Due to such arrangements during FY12, the monthly average value and volume of total transactions including RTGS, Depox and NIFT were Rs.9,377.7 billion and 31,246 respectively, which showed an increase of 14.1 percent in volume and 37.5 percent in the value compared to previous year. While managing the payment side, more attention was paid to strengthen the net work between field offices, banks branches to settle their large value transactions affecting their accounts at SBP. On account of such operating mechanism much improvements have been observed in terms of managing the availability of intra-day repo and temporary liquidity shortfall in the accounts of commercial banks.

The Foreign Exchange Operations Department (FEOD) and Foreign Exchange Adjudication Department (FEAD) in the SBP BSC undertake the responsibility for implementation of foreign exchange manual, as illustrated through implementation of the Foreign Exchange Regulation Act (FERA) 1947, besides other functions as delegated by the Exchange Policy Department of SBP. Besides managing the commercial, private and government remittances and processing the cases related to specific subsidies as allowed by the federal government and the relevant ministries to specific exporters' categories like textile exporters, the FEOD is also responsible for ensuring realization of the export proceeds. As a sequel to the follow-up with the delinquent exporters who have failed to realize the export proceeds under stipulated time period, FEOD was successful in realizing around US $ 776.3 million in CY11 as against US $ 573.6 million in CY10. For the purpose of realization of proceeds, the FEOD issued 18,054 show cause notices to the delinquent exporters during FY12. In addition to it, the department also filed 2,855 complaints in FY12 against exporters for referral to foreign exchange adjudication courts under Section 23B of FERA 1947, as against 2,107 filed in FY11. It also facilitates the DFG of SBP in monitoring the performance of the exporters having availed the funding under Export Finance Scheme of SBP. The FEOD also undertook the responsibility of managing the R&D subsidy to the textile sector. In this regard, a total of 78,385 cases were paid in full, amounting to Rs.5.6 billion. During FY12, online Foreign Exchange Accounting Information System (FEAIS) was implemented. Consequently, various MIS have been developed in the area of remittances and foreign exchange allocation record of Govt. and semi Govt. departments maintained at FEOD. FEAD, through its 9 Courts in the country, has managed the repatriation of US $43 million in stuck up export proceeds during FY12 as compared to US $37.50 million in FY11, showing a growth of 15 per cent in current year.

The Development Finance Support Department (DFSD) continued with its efforts to help DFG in increasing the financial inclusion radius, by organizing promotional and awareness exercises for the stakeholders in the financial sector. Apart from organizing about 6 fairs and banking sector exhibition in unbanked districts all over Pakistan, field offices of BSC also undertook site visits to gauge the level of commercial banks commitment to the One Window Operation (OWO) initiative under the Agricultural Financing Pilot Project-IV (PP IV). These activities were aimed at changing the traditional perceptions of the banking sector players towards nontraditional avenues in banking, especially the unbanked sectors of society and economy. The set of activity included 6 Melas/ Fairs and Exhibitions in different parts of the country, arranged with the support of commercial banks, local chambers, traders associations and farming/ business communities of the respective areas. The active participation was made in 17 similar programs organized by other stakeholders in their respective regions during the period under review which indicates the growing interest of the stakeholders and participants in the initiatives undertaken by the Access to Finance Units (AFUs). Apart from that, 86 seminars-cum-workshops were organized in FY12, out of which 66 were organized by the various field offices of SBP BSC that were aimed at involving the stakeholders. The DFSD also strived to create linkages between the government policymakers as well as the academia, to minimize the traditional disconnect between the two important stakeholders. The SBP BSC's representatives played their due role as moderators in the focus group meetings, imparting training and better planning of their activities and future goals through Business Plans formulation. The department also organized 52 capacity building programs for its fellow stakeholder, and banks employees to facilitate the goal of overall financial inclusion.

The Export Refinance facility (under the umbrella of the Infrastructure, Housing & SME Finance Department (IH&SMEFD) of SBP) is managed by the Export Finance Schemes (EFS) division of the DFSD. During FY12, a total of 107,096 transactions relating to grant, repayment, remuneration (share of profit), fine and refund were executed by the BSC offices under EFS (Part I & II) and Islamic Export Refinance Scheme (IERS), as compared to 146,278 transactions executed during FY11. Similarly, 17,937 transactions relating to grant, repayment, remuneration (share of profit) was executed under Long Term Financing Facility (LTFF) as against 14,794 transactions during the corresponding year. Moreover, a total of 7,995 cases, amounting Rs.439.2 million, were processed under Export Finance Mark up Rate Facility during FY12, as against 8,942 cases amounting Rs. 1,243.8 million during FY11. Development Finance Division (DFD) of BSC offices also conducted on-site verification of 15,804 export finance cases at 221 branches of commercial banks across the country during FY12, to assess the compliance with the provisions of SBP EFS & IERS Schemes (Part I&II) both by the banks and the exporters. As a result, fine amounting to Rs.10.8 million was recovered from banks/ exporters for violation of SBP instructions detected during the process. Thirty six (36) consolidated (Bank-wise) on-site verification reports were prepared and forwarded to IH&SMEFD, SBP during FY12.

In collaboration with the UK Department for International Development (DFID), SBP launched two credit guarantee schemes, namely "Microfinance Credit Guarantee Facility" (MCGF) in December, 2008 and "Credit Guarantee Scheme (CGS) for small and rural enterprises" on March 19, 2010, with a view to share credit risk with the banks for provision of funds to these priority sectors. DFSD handled all the operational aspects of the guarantees issued under these MCGF schemes. So far, 17 guarantees for a sanctioned amount of Rs. 4,225 million has been issued under MCGF, while 4,400 borrowers of commercial banks have been provided guarantee cover for a sanctioned amount of Rs.3,052.9 million.

Seeking a risk minimized work environment has been the prime goal of the SBP BSC, since its operational commitments have direct bearing on the working of the Central Bank. The Internal Audit Department (IAD) has always focused on being a value-adding arm in smooth functioning of SBP BSC, by keeping an oversight and vigilance on effectiveness of internal controls, risk management, and governance processes. Dynamic working of Audit Committee has enhanced functional independence of IAD and led to revision of its TORs and governance structure of IAD in conformance to best practices. Further, establishment of Review & Enforcement Division (RED) led to enhancing of filtering and priority rationalization of audit observations and has contributed significantly in improving the overall quality of audit reports. It also ensures to align the audit work with audit plans and to monitor compliance of audit observations. During FY12, using a risk-based audit plan eight (08) departments at SBP BSC Head Office Karachi and sixteen field offices of the Corporation were audited, that raised 166 and 863 audit observations, respectively. In addition, Internal Audit Hubs performed 105 audit engagements and after revision in its target scope, it mainly focused upon high risk areas requiring frequent assurance. The integration of IT and financial audits this year assisted in providing a substantial review of the process of strengthening risk minimization practices. Emphasizing over capacity building of workforce, a vigorous training plan has been formulated after carrying out internal Training Need Assessment (TNA) of IAD. Further, in-house trainings and trainings through collaborative framework with two field offices served immediate training needs through a cost-extinguished delivery channel. Looking forward, IAD is working in a framework for assigning the audit and compliance ratings to field offices and departments, along with compiling and preserving audit documentation and working papers.

During the year under review, Personnel Management Department (PMD) took a number of initiatives to enhance the institutional capacity and achieve the objectives. The Performance Management System (PMS) was further strengthened by arranging orientation sessions for stakeholders to create greater ownership. For capacity building of the organization, a smart recruitment plan was introduced which would help in the induction of talented human resources through an efficient mechanism. The guiding principle for future recruitments is to replace the out-going staff through the more qualified, technologically proficient and cost effective resources. Similarly, the Professional Development Incentive Program (PDIP) was introduced for upgrading the skill base of employees. In furtherance of the organizational objective, the deputation policy for OG-1 and above employees was announced, so as to provide career enhancement and opportunities for diversification of skills.

In the context of salary revision, after conducting a salary survey from external consultants, the Bank’s compensation & benefit structure was aligned with the market. The underlying objective is to inculcate the performance centric culture, attraction and retention of talent, rationalization of retirement benefits & provision of opportunities of career growth for high performers. For further improvement in the policies related to benefits at the time of retirement, the policy related to medical facility option on early retirement was revised. During the period, the Charter of Demand from Collective Bargaining Agent (CBA) was also successfully negotiated which aimed at maintaining healthy industrial relations in the organization. Further, National Industrial Relation Commission (NIRC) was also facilitated in the holding of referendum for election of CBA in a peaceful and transparent manner.

During FY12, training objectives remained mainly focused on the steps that can sustain the capacity building initiatives in SBP-BSC in consultation with the concerned stakeholders. Accordingly, regular function-specific and soft skills trainings were conducted for departments/ field offices. In addition, special programs were arranged by Training & Development Department (T&DD) to develop the job-specific strategic/ leadership skills and functional needs in specialized areas which include:-

- Skills Development and Middle Management Training Programs for newly-promoted officers.
- Leadership Development Program, in collaboration with Institute of Business Administration, Karachi.
- Industrial Relations Programs were also designed and delivered for higher management to strengthen the union and management ties as well as to increase the effectiveness of this communication channel.

- Specialized Trainings at various local and foreign institutes, including National Institute of Procurement (NIP), Federal Judicial Academy and Office of the Superintendent of Financial Institutions (OSFI), and Bank of Canada.

In line with the management commitment to provide the developmental opportunities at all levels to its employees, the 1st Batch of In-House Trainers was selected through a highly transparent & rigorous selection process, with the objective to develop and maintain a pool of subject matter experts in all areas. The Corporation also remained committed to its social responsibility initiative by conducting 6-Week Summer and Winter Internship Programs for talented students from accredited institutions across the country.