

7 SBP Subsidiaries

7.1 SBP Banking Services Corporation (SBP-BSC)

The SBP Banking Services Corporation (SBP-BSC), a fully owned subsidiary of SBP continued to play its role as the operational arm of the SBP. SBP-BSC is engaged in managing currency operations, provision of banking facilities to the federal and provincial governments, financial institutions, managing foreign exchange operations and adjudication of cases relating to foreign exchange proceeds. It also supports SBP in expanding the outreach of financial system through dissemination of SBP policies and initiatives for development finance besides implementing SBP export refinance credit guarantee schemes. The SBP-BSC also works as the agent of National Savings Organization for sale / purchase of prize bonds and instruments (DSC, SSC, etc), managing prize money draws and payment of prize money claims. Besides these core assignments, the SBP-BSC also provides auxiliary services to SBP in the areas of engineering, procurement, medical services and internal bank security.

7.1.1 Currency Management

The availability of clean and fit banknotes having state of the art security features is amongst the primary responsibilities of central banks. Pakistan is predominantly a cash-oriented economy with relatively high CIC (Currency-in-Circulation) to GDP ratio of 13.2 percent. The CIC grew by about 17 percent during the year to over Rs 4 trillion in FY17 from Rs 3.424 trillion as at end-June 2016. Under the Currency Management Strategy (CMS) of the Bank, SBP-BSC continued its drive to automate currency management operations in all its 16 offices across the country. For the purpose two high-end Banknote Processing and Authentication System (BPAS) machines were installed at Karachi and 53 Desktop and Countertop note authentication and sorting machines were installed at SBP-BSC field offices. This has enabled SBP-BSC to process, sort and detect counterfeit banknotes in an automated environment and issue only machine authenticated cash to banks and public as required by the CMS.

The second phase of automation of currency management processes was also initiated during the year under which more BPAS along with Banknote Destruction Systems (BDS) would be procured and installed at the SBP-BSC offices having large cash volumes. While in the first phase of automation the focus was on building the capacity to issue only machine authenticated banknotes to public, in the second phase the end to end automation of cash processing function right from issuance to destruction will be made. This will bring huge efficiency gains, improve transparency and enable SBP-BSC to lead and steer the automation of cash processing function in the banking industry.

The issuance of fresh banknotes to public on special occasions like *Eids* is another important component of SBP-BSC's currency management function. For the purpose it not only issues large volumes of fresh cash to banks for onward issuance to their clients but also issues cash to the public from its counters. In order to ensure convenient and hassle free distribution of fresh cash to public, the SBP-BSC had initiated SMS based service in 2015 on pilot basis on a limited scale. Considering the huge success of the pilot project, the facility was expanded to over 100 districts and 500 branches in 2016 and to 1000 commercial bank branches in 120 cities for *Eid-ul-Fitr* during FY17. This service received overwhelming response from public as 1.5 million people obtained fresh currency notes of around Rs 25 billion using the facility.

7.1.2 Government Banking

As a part of its core functions, SBP-BSC maintains accounts of federal, provincial and local governments and consolidates the receipts and payments on their behalf. During FY17, SBP-BSC processed approximately 7.04 million transactions of government payments/receipts through its field offices as compared to 8.01 million transactions processed during FY16. The reduction in the number of transactions can largely be attributed to initiation of E-Stamping facility by Government of Punjab under which all non judicial stamp papers are issued by Bank of Punjab (BOP) through its branches in 36 districts across the province. The BOP is operating as SBP agent for collection of stamp duty in the province of Punjab.

In line with *SBP Vision 2020*, the Bank has initiated the automation of government payments and receipts which includes collection of government taxes through Electronic Fund Transfer (EFT) and Alternative Delivery Channels (ADCs) e.g. ATMs, Mobile Banking, etc. In this regard, the Sindh Revenue Board (SRB) has already started collection of their taxes through ADCs, whereas collection of taxes for FBR and Custom Authorities will also be initiated shortly. The Bank has also made concerted efforts for consolidation of payment through paper-based instruments for Central Military Accounts and Naval Accounts. Another significant initiative is the implementation of e-cheque reconciliation of Financial Accounting & Budgeting System (FABS), which provides a single solution on issuance of cheques by different government departments and reporting reconciliation of payments made against these cheques by SBP-BSC offices. The move would improve operational efficiency of SBP-BSC and would enable the government departments including AG, AGPR and DAOs to have real-time information.

7.1.3 Foreign Exchange Operations

The SBP-BSC being the SBP's operational arm is also responsible for ensuring smooth implementation of the Bank's foreign exchange policy. The Bank has delegated its operational forex functions like monitoring of forex transactions, follow up with delinquent exporters, processing banks' requests for approval of commercial foreign exchange remittances, etc to the SBP-BSC. The SBP-BSC undertakes these operations to facilitate all genuine trade and remittance transactions and check and discourage fraudulent practices by taking penal action against unscrupulous elements.

During FY17, the Bank approved around 17,000 cases of forex trade and successfully managed repatriation of USD 317.67 million from exporters who failed to repatriate proceeds of their exports within due date. It also managed verification of 577,478 entries in EE-1/EF-1 statements. During the year, the Bank disbursed approximately Rs 30 billion in 20,638 cases processed under various subsidy schemes. Further, 2,061 cases were referred to Foreign Exchange Adjudication Courts against delinquent exporters, importers and ADs for legal proceedings. The Bank recovered USD 18.25 million of duplicate imports and levied Rs 45.08 million penalties on importers who failed to ensure import of goods in Pakistan against advance payments. Bank approved 11,341 cases of Government's FE allocation, valuing Rs 205 billion.

For monitoring and verification of export performance of exporters and allocation of limit for Export Finance Scheme, Part-II, the Bank initiated automation of verification of EE-1/EF-1 statements. It is expected that this system will be available for confirmation of EE-1 and EF-1 statements for performance year FY18. The Bank has also established Airport Booth System (ABS) at the joint SBP-Customs Airport booths for recording and maintenance of data-base of FCY cash currency export and import by exchange companies. The testing of ABS is under process, which is expected to be functional at airport booths by December 2017.

7.1.4 Resolution of Foreign Exchange Overdue Cases

The SBP-BSC has been entrusted with responsibility of adjudicating the cases relating to the violations of different sections of *Foreign Exchange Regulation Act (FERA), 1947*. During FY17, the SBP-BSC helped repatriation of highest level of stuck up foreign exchange proceeds amounting to USD 78.7 million, which is 36 percent higher than the proceeds repatriated last year. The total number of complaints pertaining to the delinquent exporters/Authorized Dealers received on a country-wide basis stood at 2,503, whereas, 3,308 complaints were disposed of during FY17 as compared to 2,784 complaints during FY16. A total amount of Rs 4.873 million was also recovered from the defaulting exporters during FY17 in terms of penalty imposed under FERA.

7.1.5 Financial Inclusion

The SBP-BSC has been augmenting the Bank's efforts for expanding the outreach of financial system to the un-served and underserved areas and sectors of the economy including agriculture, SMEs, Microenterprises. The SBP-BSC arranged periodic follow-up and review meetings with participating financial institutions across 144 districts, for monitoring the achievement of Rs 700 billion indicative target for disbursements to agriculture sector during FY17. The SBP-BSC also supervises the refinance facilities to commercial banks against various schemes introduced by SBP, including Export Refinance Scheme (ERF), Islamic Export Refinance Scheme (IERS), etc. During FY17; Rs 481.46 billion was disbursed under ERFs while Rs 91.51 billion was disbursed under IERS. On-site verifications teams from eleven field offices of the SBP-BSC completed verification of 13,068 cases during the year aggregating to Rs 516.61 billion disbursed to commercial banks under various schemes.

The SBP-BSC also facilitated a number of focus group meetings, awareness programs, seminars and workshops for dissemination of SBP's policy initiatives regarding Islamic Banking, Agri Finance, Microfinance, SME Finance and Housing Finance at grassroots level. Other significant initiatives include preparation of feasibility studies for establishing fruit pulp units (mango pulp in Sindh and apricot in Gilgit), initiation of a project on economic mapping to facilitate policy makers and business owners in decision making regarding investment besides holding public gatherings (*Melas*) in different cities for awareness regarding SME Finance.

The credit guarantee schemes, largely funded with the support of Department for International Development (DFID), UK and Provincial/ Federal Governments are designed to help financial institutions to get acquainted with sectors perceived risky by them. Under the schemes, credit guarantees against lending of Rs 10.32 billion to priority sectors including Rs 1.85 billion to microfinance were extended to Banks/DFIs. Further, the SBP-BSC has also been playing a vital role in monitoring Prime Minister's Youth Business Loan Program (PMYBL) and processed subsidy claims of Rs 495.10 million during FY17.

7.1.6 Human Resource Management

The SBP-BSC has taken various organizational development initiatives as a part of its continued improvement plan. The SBP-BSC's HR profile has undergone a major shift whereby large number of employees with traditional skills mix has been replaced with young, qualified and suitably trained staff. This has been possible due to lucrative early retirement scheme under which bulk of the employees are opting for early retirement at the age of 55 years. During FY17, 237 employees retired and to fill the resource gap, 276 young officers were inducted at OG-1 and OG-2 level. To implement the succession planning and to keep motivation level intact, 309 employees were promoted in accordance with promotion policy. Further, the SBP-BSC reviewed and updated/improved a number of its existing policies including promotion policy for OG-1 and above officers, performance

improvement and separation policy, leave policy, code of conduct, reward and recognition, communication and whistle blowing policies. Also to improve operational efficiency, Performance Management and Leave Management Systems have been automated during FY17. The SBP-BSC during the year also constituted an Event Management Team (EMT) to organize different events, conferences, seminars in SBP-BSC and its field offices.

7.2 National Institute of Banking and Finance

In line with SBP's strategic goals, NIBAF further scaled up its training and development initiatives to effectively cope with the mandatory pre-inductions and on job training requirements of SBP and SBP-BSC. During FY17, a comprehensive training plan was developed pertaining to function specific programs, IT, soft skills and managerial skills. These largely included pre-induction training programs, skill up-gradation, management development, leadership, central banking, commercial banking and enterprise risk management. In collaboration with SBP and SBP-BSC, NIBAF also arranged specialized training programs to develop expertise and understanding of priority sectors.

This year, NIBAF conducted 207.2 weeks of training against the target of 166 weeks, which is 24.6 percent higher than the target set for the year and 32 percent higher as compared to the last fiscal year. Out of 207.2 weeks of training at NIBAF, SBP received 87.4 weeks of training; SBP-BSC 65.8 weeks, whereas international participants, priority sectors and other financial institution received 12.6, 38.8 and 2.6 weeks of training respectively. During FY17, more than 32 percent of overall training weeks were apportioned to induction level training programs. Specifically, NIBAF organized two pre-induction training programs namely, State Bank Officers Training Scheme and Economic Analyst Training Scheme for SBP attended by 40 and 20 officers respectively. Similarly, NIBAF organized induction level training for SBP-BSC that included two batches of Officer Training Program (OTP) and Young Professional Induction Program (YPIP). Apart from class room trainings, it included hands-on practice in IT Lab, exposure visits to SBP-BSC Field Office, financial institutions and NIFT (Table 7.1).

Table.7.1: NIBAF Progress During FY 17

	Training Program	Target Weeks	Total weeks
A	SBP (1+2)	67.0	87.4
	1. Pre Induction	42.0	44.3
	2. Skill Up-gradation	25.0	43.1
B	SBP BSC (1+2)	70.0	65.8
	1. Pre Induction	52.0	41.1
	2. Skill Up-gradation	18.0	24.7
C	International Training	4.0	12.6
D	Priority Sector		
	(i+ii+iii+iv+v)	17.2	38.8
	i) Microfinance	5.0	5.2
	ii) SME Finance	1.0	1.6
	iii) Islamic Finance	10.2	25.0
	iv) Agri Finance	1.0	4.2
	iv) NFLP	-	2.8
E	Other Financial Institution	8.0	2.6
	Total weeks (A+B+C+D+E)	166.2	207.2

To equip SBP and SBP-BSC officers with the latest developments and enhance their understanding regarding banking and finance, NIBAF conducted a number of skills up-gradation training programs spreading over 67.8 weeks, which were attended by around 3,619 officers of SBP and SBP-BSC. These courses include risk management, Basel Accord-current challenges and new developments, financial modeling, AML/KYC/CFT, Islamic capital market-Sukuk, corporate governance, situational leadership, payment and settlement system, issues in Pakistan Economy, financial markets and financial instruments, exchange policy and regulatory framework, financial stability, risk rating framework in banks, treasury operations, priority financing, audit, E-filing and withholding tax, communication, soft skills, time and stress management, etc.

Moreover, with a view to equip SBP and SBP-BSC officers with the latest tools and techniques, seven iterations of Management Development Programs (MDP) were conducted wherein more than 158 officers of SBP and SBP-BSC participated. The program included training on workers role in harmonious industrial relations, customer management skills, currency management, PPRA rules, mechanism and calculation of WHT, end user cyber security session, capacity building of adjudication officers, contract labor management, foreign exchange and soft skills programs.

NIBAF also hold an inter-institutional seminar on Forecasting and Financial Modeling, which was attended by the experts and policy makers of SBP, Ministry of Planning, Ministry of Finance and PIDE. The formal deliberations and presentations aimed at bringing harmony and consistency in forward looking monetary and fiscal policy framework and formulation.

7.2.1 International Training Programs

The regional developing countries including SAARC / ECO members, Africa, Far East, Central Asian Republics and Afghanistan were among beneficiaries of international training programs organized by NIBAF. Over the years a great deal of effort has been made for expanding outreach to international participants, which has translated into strong demand for NIBAF's training programs. During FY17, 12.6 weeks of training activities at the institute accounted for international training programs compared to 15.9 weeks last year. This includes international courses on central banking, commercial banking and English-language course for friendly countries with the support of SBP and Economic Affairs Division, GoP under Pakistan Technical Assistance Program. During FY17, NIBAF conducted four international training programs and a seminar on SAARC Finance wherein delegates from 23 countries participated including Afghanistan, Azerbaijan, Bangladesh, China, Cambodia, Ethiopia, Fiji, Indonesia, Kenya, Kyrgyz Republic, Libya, Maldives, Mauritius, Nepal, Sierra Leon, Sri Lanka, Sudan, Tajikistan, Thailand, Turkmenistan, Uganda and Zimbabwe. NIBAF also hosted a seminar on Financial Stability for SAARC region which was attended by more than 30 delegates representing Afghanistan, Bangladesh and Sri Lanka. The participants of SAARC countries deliberated on different aspects of financial stability and shared their experiences and knowledge in the perspective of global financial and economic integration.

NIBAF has also been playing an important role in enhancing professional development, human capacity building and productivity of neighboring country Afghanistan. Specifically, it organized a customized training program for 15 mid-level officers of Afghanistan International Bank (AIB) for progressive learning of commercial bank's operation with particular emphasis on the role and functions of credit administration and Special Asset Management (SAM). Notably, AIB signed a MoU with NIBAF where the later will facilitate AIB in capacity building of its human resources in the area of banking and finance.

7.2.2 Priority Sector Programs

In line with the *SBP Vision 2020*, NIBAF continued to organize various training programs to develop understanding and bridge the skill gap in the priority sectors i.e. Islamic banking, initiatives under National Financial Literacy program (NFLP) and micro-finance. During FY17, a series of iteration of Fundamental of Islamic Banking Operations (FIBO) and Islamic Banking Certificate Course (IBCC) were conducted. This includes seven iterations of FIBO at Hyderabad, Quetta, Lahore, Sargodha, Sialkot, Islamabad and Peshawar. The 5-days programs were attended by 231 participants of different financial institutions/banks besides academia. Further, NIBAF successfully arranged the 36th, 37th and 38th Islamic Banking Certificate Courses at Karachi and Lahore that were attended by over 102 officers representing different financial institutions. NIBAF's IBCC has received an overwhelming response and so far 1282 bankers and academician, both domestic and foreigner have been certified.

The program spread over 17- working days (96-hours) containing 16 modules wherein seasoned bankers / *Shari'ah* scholars imparted comprehensive quality contents.

Access of under-privileged communities to financial services through micro-finance is one of the important initiatives set under *SBP Vision 2020*. In order to improve understanding and skill set relating to micro-finance, NIBAF conducted three executive level programs for micro-finance banks and micro-finance institutions in Karachi and Lahore. Similarly, to enhance skill gap at branch level, three middle management development programs for FINCA micro-finance bank and for Khushhali micro-finance bank were organized. These training programs were attended by a total of 184 participants.

To create awareness regarding financial intermediation and its potential benefits among the general public, Train the Trainers (ToT) programs were organized under National Financial Literacy Program (NFLP). The ToTs were designed to train the trainers of SBP-BSC and commercial banks. It aimed at giving detailed orientation and exposure of the NFLP contents; develop an ability to follow the trainer's manual and to demonstrate requisite skills needed to effectively deliver the session at grass roots level. The workshops were run through a blend of approaches including trainers' presentations, follow-up discussions, role play and individual/group assignments beside field visits and de-briefing sessions. The scheme helped to identify the potential Master Trainer candidates. In all, 147 participants attended the ToTs from SBP-BSC and commercial banks.