

7 SBP Subsidiaries

7.1 SBP Banking Services Corporation (SBP-BSC)

SBP Banking Services Corporation is a fully-owned subsidiary and operational arm of SBP. The Corporation is primarily mandated with provision of banking services to Federal/ Provincial Governments and Banks, management of currency, facilitation in expanding outreach through development finance schemes devised by SBP, besides carrying out operations and adjudication relating to foreign exchange, through its 16 field offices across Pakistan. SBP-BSC also plays an important role in seamless delivery of services in the areas of procurement, engineering, medical services and internal bank security. During FY19, various initiatives taken by SBP-BSC continued to bring improvement in its operational areas. These initiatives include online collection of taxes and duties through ADCs, continuation of implementation of Currency Management Strategy and SBP policies in areas of financial inclusion, agriculture, SME finance etc. and automated verification of foreign trade-related reporting statements.

7.1.1 Banker to the Government

During FY19, SBP-BSC processed about 9.4 million Government transactions (receipts and payments), as compared to 8.1 million in FY18 showing an increase of 16 percent. Further, its field offices and network of NBP branches, collected around Rs 3,868 billion for FBR.

Besides carrying out the operational activities, SBP-BSC made dedicated efforts to familiarize the taxpayers with the newly introduced mechanism for tax payment through ADCs.

Similarly, automation is being carried out in the processing of AGPR and AGs payments by developing online connectivity. Similar dedicated efforts were made for reduction of cash payments at all fronts. Moreover, efforts were made to shift manual pension payments to Direct Credit System. SBP-BSC Accounts Department is also coordinating with FBR for shifting Income Tax Refunds from manual bills to cheques to improve the security of these payments.

7.1.2 Payment Systems Support

Considering the importance of efficient and secure payment system in the country, SBP-BSC is focusing on automation of business through consultative approach between various stakeholders and development of inter-departmental IT connectivity. It now plans to do away with manual processes, using IT and Business Process Re-engineering (BPR), for the benefit of SBP/ SBP-BSC as well as our primary stakeholders i.e. Governments, banks and general public.

7.1.3 Currency Management

During the year under review, SBP-BSC in coordination with Finance Department-SBP operationalized comprehensive policy guidelines/framework for monitoring CMS at commercial banks through establishment of Currency Management Hubs at Regional Level. These Hubs have carried out examination of 226 Cash Processing Centers (CPC), 196 Cash Feeding Branches (CFB), 116 linked branches and 406 standalone branches across the country in FY19 to ensure that good quality/ machine-authenticated currency notes are issued by banks.

During the rollout of Phase – II of Currency Automation Strategy (CAS), the contract for procurement of four Banknote Destruction Systems (BDS) was awarded in January 2019 and these systems are expected to be fully operational by June 2020. Phase - III of the automation strategy was formally initiated in February 2019, whereby nine Banknote Processing and Authentication System (BPAS) and three BDS shall be procured/ installed till December 2021.

Traditionally, the demand for the fresh currency notes across Pakistan is high generally and particularly on the eves of Eid-ul-Fitr and Eid-ul-Azha. Like previous years, SBP-BSC continued the SMS-based service (8877) for the general public to acquire fresh banknotes during Eid festivals. This facility was broadcasted through press releases and print media. During Ramadan 2019, this facility was offered in 142 cities of Pakistan through more than 1,700 branches of commercial banks, and 16 field offices of SBP-BSC. This endeavor enabled SBP-BSC in expanding the outreach and availability of fresh banknotes to more than 3 million citizens across Pakistan and this facility was availed by over 2.6 million customers, reflecting an increase of 18 percent as compared to FY18.

In order to facilitate the customers, a new procedure for claiming prize money through commercial banks was introduced, whereby the prize money claimants can now submit their claims at designated commercial bank branches. Further, after successful implementation of the Electronic Queue Management System (EQMS) pilot project at SBP-BSC North Nazimabad, SBP-BSC initiated the process for installation of EQMS at all SBP-BSC field offices. This development is expected to improve customer service and delivery standards significantly across all offices.

7.1.4 Financial Inclusion

SBP-BSC facilitates in expanding the outreach of development finance schemes of SBP by providing operational support and arranging awareness sessions across Pakistan. Development Finance Support Department (DFSD) of SBP-BSC facilitated AC&MFD of SBP in monitoring agriculture credit disbursement target of Rs 1,250 billion allocated to 52 Participating Financial Institutions (PFIs) for FY19. DFSD has also coordinated with Agriculture Finance Units (AFUs) at SBP-BSC field offices and monitored 451 activities for the period July 2018 to May 2019, which include, 214 awareness programs, 66 capacity-building sessions, 76 Focus Group meetings, 35 review meetings and Training of Trainers sessions of NFLP and 19 seminars/ workshops and other activities in areas of agriculture finance, microfinance, housing & infrastructure, SME and Islamic banking.

During FY19, DFSD rolled-out NFLP Street Theatres as a key SBP initiative to increase financial inclusion. The program was implemented countrywide in FY19 through 16 SBP-BSC field offices, 31 banks, and several partner institutions, wherein a total of 89 programs were conducted. Further, DFSD, in coordination with Statistics & Data Warehouse Department and Information Systems Department of SBP initiated a project to establish NFLP Data Acquisition Portal for obtaining data directly from banks thereby increasing reporting process efficiency.

Moreover, DFSD conducted a research study on the role of Financial Technology (Fintech) in promotion of development finance, including interviews with internal and external stakeholders and formulation of recommendations for these entities. The Department also designed and conducted a survey, with input from Research Department SBP, for assessment and course correction of NFLP, and targeted the actual participants of the program.

During FY19, 6,058 loans amounting Rs 7,054 million were processed for guarantee issuance to 20 PFIs under Credit Guarantee Scheme for Small & Rural Enterprises. Moreover, 66,387 transactions of 12 executing agencies (banks) related to Prime Minister Youth Business Loans (PMYBL) were processed for disbursement of subsidy amounting Rs 890 million. Further, funds of Rs 10.7 billion (approximately) were managed under various credit guarantee and mark-up subsidy schemes.

7.1.5 Foreign Exchange Operations

FEOD took various developmental initiatives during FY19 to bring efficiency and improvements in its existing operational processes keeping in view the organizational objective to bring automation / paperless environment through use of latest technology. FEOD was the first department at SBP-BSC to successfully implement the Automated Case Management System under the umbrella of KM project. The verification and scrutiny process of EE-1/ EF-1 Statements was also automated during the period resulting in reduction in average turnaround time from 19 days to under 8 days besides increasing efficiency and accuracy. The project for establishment of Electronic Data Interchange with Pakistan Customs is also being pursued which will facilitate the department in monitoring the trade transactions in a robust manner. Moreover, the project of 'Data Universe' was actively pursued, which involved integration of data from Web-Based One Customs (WeBOC), International Transaction Reporting System, Export Overdue Reporting System (EORS) and T-24 in a single platform to attain a holistic view of all stakeholders/ effective monitoring. The first phase of the project was completed during the period wherein data from ITRS and T-24 was successfully integrated.

FEOD lodged 11,261 complaints in Foreign Exchange Adjudication Courts against delinquent exporters who failed to repatriate export proceeds within stipulated time. A total of 7,456 cases were decided in FY19 through effective pleading & prosecution at FEA Courts. FEOD also defended and pleaded 29 appeals in Foreign Exchange Regulation Appellate Board.

The inward and outward FX transactions were scrutinized with wide-ranging perspective of ML and TF. During FY19, more than 14,056 cases of commercial, private and trade related remittances were processed by the FEOD. Additionally, various capacity-building programs for officers of FEOD and relevant staff of commercial banks were arranged to enhance their skills set.

7.1.6 Resolution of Foreign Exchange Overdue Cases

During FY19, Adjudicating Courts decided 7,682 cases referred by Foreign Exchange Operations Department against the delinquent exporters and importers under relevant provisions of FERA as compared to 5,857 cases in FY18 which resulted in realization of USD 175 million and USD 133.7 million respectively.

7.1.7 Human Resource Management

In order to optimally fill the gaps due to attrition of employees opting for early retirement, resignations etc., young graduates having requisite qualifications and experienced personnel were hired from the market (totaling 182) at various hierarchical levels both in regular and contractual cadres through structured external recruitments as per approved Manpower Plan.

7.1.8 Strategic and Corporate Affairs

Strategic and Corporate Affairs Department (SCAD) is primarily mandated to act as a Secretariat to the SBP-BSC Board of Directors and its Committees. During the year, SCAD adopted paperless environment for conduct of meetings of the Board and its Committees. The Department also prepared the Annual Performance Review (APR) of SBP-BSC, duly approved by the Board consisting of key achievements and future outlook of SBP-BSC. The Department spearheaded the Annual Business Planning exercise for all departments and field offices of SBP-BSC where more than 400 developmental and operational projects were reviewed, rationalized and approved by the Management. SCAD provided first level helpdesk support for effective utilization of T24 Banking and Currency system across the organization, resolving close to 15,000 incidents during the year. SCAD also provided secretarial services to various Management Committees of the SBP-BSC including Head of Department and Chief Manager Forums.

7.1.9 Internal Audit

SBP-BSC's Internal Audit Department (IAD) strives to assure independent and objective-based audit, in order to add value to the operations of organization. During FY19, IAD conducted twenty-five full-scope annual audits. These included sixteen field offices across the country and nine departments at Head Office Karachi.

During FY19, the main focus of IAD remained on bringing continuous improvement in its operations and adding value to the organization's dynamic environment. IAD embarked upon four development projects, namely, (1) Technology Audit Universe for SBP-BSC, (2) Concept paper on Potential of Data Analytics in IAD, (3) Alignment of Control and Risk Rating System with ERM Framework and (4) Revision of Internal Audit Charter. All these projects were completed successfully in a timely manner. Technology Audit Universe project has set the path for a medium-term technology audit plan with the consent of all stakeholders. The concept paper on Data Analytics has highlighted the roadmap for adopting "Continuous Auditing", initially in selected areas. Further, the alignment of IAD's Control & Risk Rating System (CRRS) with ERM Framework is a major milestone achieved by IAD. It is expected that this alignment will assist to identify, assess and rank risks on a common risk ranking framework. The results of these activities led to improvements in overall internal control environment.

7.1.10 General Services

During FY19, General Services Department (GSD) carried out 126 procurement projects worth more than Rs 1,560 million, primarily related to IT equipment, Cash Handling Machines, Security-related equipment, consultancies and services.

GSD strived to enhance efficiency in the procurement process. In this regard, roles and responsibilities' matrices have been defined for segregation amongst various indenting departments and GSD. Management Information System formats have been introduced by defining benchmark timelines against each stage of procurement. The consolidated procurement plan of GSD and field offices was uploaded on the websites of PPRA and SBP. During FY19, Medical Services Division catered to 30,427 individuals. Moreover, GSD, through its printing press facilitated in printing of 281,300 copies of booklet on NFLP as well as 70,000 books on NFLP-Youth program.

Engineering Department has been entrusted with the responsibility of providing continuous support, maintenance and renovation at SBP and its related subsidiaries. During FY19, the most noteworthy achievements include, (a) Completion of Residential Block (Bachelor/ Family) at SBP-BSC Quetta, (b) Digitization of Engineering drawing records and (c) Preparation of contract management manual having International Federation of Consulting Engineers as general condition of contracts for mega building projects likely to be carried out in near future.

IBSD continued its efforts for strengthening security measures at SBP and SBP-BSC at NIBAF. During FY19, a 2-day in-house leadership development program for Security Officers of HOK and Southern Region was conducted. In addition, regular Physical Efficiency Tests of security personnel were carried out besides firing practice. The Department focused on capacity-building through on-the-job training, in-house firefighting practices and periodic mock/ tabletop exercises. Further, the Department is planning to improve coordination with Police/ Rangers/ Civil Defense and Fire Brigade in order to enhance its operational readiness to cope with potential safety and security challenges.

7.2 National Institute of Banking & Finance (NIBAF)

NIBAF continued to expand its learning activities in FY19 by taking new initiatives in the area of central banking and commercial bank operations. In order to extend outreach of training functions and fulfill needs of the financial industry, NIBAF opened three new campuses at provincial capitals, i.e., Lahore, Peshawar and Quetta during FY19. In line with SBP's Vision 2020, NIBAF increased trainings for the priority sectors (Microfinance, SME, Agriculture, Islamic Banking and Housing) across Pakistan. Similarly, NIBAF launched NFLP that aims to impart training on financial literacy to 1.6 million children and youth over a period of five years. NIBAF also signed MoU with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and SECP during FY19 to work as a training partner. In terms of training volume, NIBAF conducted over 424 programs during FY19, resulting into 32,448 man-days training.

7.2.1 Trainings Programs for SBP

NIBAF conducted training programs for SBP equivalent to 14,238 man-days of learning during FY19. These included a focused training of over 23 weeks for 22nd batch of State Bank Officers Training Scheme during FY19. In addition, NIBAF arranged over 196 on-the-job training programs (translating into 6,884 man-days) in FY19 for SBP officials to equip them with latest developments and improve their knowledge base and competencies. These training programs covered diverse areas such as communications & interpersonal skills, risk management, cyber security, AML/CFT, risk-based supervisions, etc. In particular, NIBAF offered three training programs, of 6-days each, on leadership development through experiential learning for senior officers of SBP.

7.2.2 Training Programs for SBP-BSC

During FY19, NIBAF conducted over 53 training programs which account for 4,235 man-days. These include 5-weeks program for new inductees of Officer Training Program of SBP-BSC that covers almost all the operational aspects of SBP-BSC as well as trainings on productivity improvement such as teamwork, work management, communications and presentation skills. Similarly, short-duration programs on skill development offered by NIBAF for SBP-BSC included areas such as currency management, risk management, conflict resolutions, project management, cyber security, budget planning & management, procurement under PPR rules, communication &

soft skills, etc. These programs yielded 1,994 man-days of training. NIBAF also arranged Management & Leadership Development Program (MLDP) of 11-days duration for senior officers of SBP-BSC. This program covered topics on team building, communication, integrity, people management, decision-making and conflict management etc.

7.2.3 International Training Programs

NIBAF organized two international training programs and a seminar on SAARC finance during FY19. Specifically, two international training programs were held under Pakistan Technical Assistance Program with the support of SBP and Economic Affairs Division (EAD), GoP, while SAARCFINANCE seminar was arranged in collaboration with SBP.

The 49th International Central Banking Course was attended by 25 mid to senior level foreign delegates from central banks of Côte d'Ivoire, Ethiopia, Jordan, Gambia, Kyrgyz Republic, Sri Lanka, Zimbabwe, Afghanistan, Nepal, Maldives, and Cambodia. The 46th International Commercial Banking Course was attended by 18 senior officials representing nine countries including Côte d'Ivoire, The Gambia, Cambodia, Algeria, Egypt, Zimbabwe, Mauritius, Afghanistan and participants from SBP and domestic commercial banks. The participants of these programs also visited export oriented industries of Pakistan and met business community of Faisalabad Chamber of Commerce & Industry.

SAARCFINANCE seminar on "Internal Audit: Emerging Challenges and Effective Practices in Central Banks" was attended by 36 senior level officials from the central banks of SAARC member countries including Afghanistan, Bangladesh, Bhutan, Nepal, Sri Lanka and Pakistan. In addition, officials from Finance Division, SECP and AGP represented their institutions.

7.2.4 Training Programs for Commercial banks

NIBAF also implemented comprehensive training programs for commercial bankers in Islamic banking and development finance.

7.2.5 Training Programs on Islamic Banking

During FY19, NIBAF conducted 4 iterations of Islamic Banking and Certification Course, which attracted enrollment of around 88 participants from the banking industry and two foreign participants from Kyrgyzstan. It also arranged 10 training programs of 5-days each on Fundamentals of Islamic Banking Operation during FY19. These programs attracted 297 officials from banks, academia and Chamber of Commerce.

7.2.6 Training Programs on Micro Finance

Keeping in view the importance of microfinance sector for economic growth and poverty alleviation, NIBAF jointly with SBP arranged 12 iterations of 5-days Middle Management Development programs in seven cities across Pakistan. These programs were attended by 339 officials from MFBs including FINCA, UMFB, Khushhali Bank, NRSP Bank and other MFBs.

7.2.7 Training Programs on Housing Finance & Small and Medium Enterprises

With a support from SBP, NIBAF conducted 56 training programs during FY19 on financing to small and medium enterprises and these included 48 regular training programs covering different aspects of

SMEs, and 8 awareness programs on SME banking covering 628 participants held in 8 different cities.

7.2.8 Training Programs on Agriculture Financing

NIBAF conducted 26 training programs on agriculture financing during FY19 that were attended by 1,027 officials (equivalent to 2,737 man-days) from commercial banks, specialized banks and MFBs. These programs also included 3 awareness programs for agriculture stakeholders in Peshawar, Multan and Quetta covering 165 participants.

7.2.9 Training Programs for Other Stakeholders

NIBAF arranged two iterations of “Foreign Trade Certificate Course” during FY19 which were attended by 53 officials. These programs covered important aspects of foreign trade, SBP regulations and Foreign Exchange Manual, international conventions, various forms and procedures of exports and imports, SBP refinance schemes etc.

7.3 Deposit Protection Corporation (DPC)

7.3.1 Major Contributions and Achievements during FY19

Since its establishment, DPC has taken various steps within its mandate to protect small depositors and strengthening the financial system stability regime. DPC launched the deposit protection mechanism effective July 01, 2018. All scheduled banks were declared as compulsory member institutions of deposit protection mechanism and banks started to pay the prescribed premium accordingly. DPC has started investing the premium received from banks in secured investments (government securities/ sukuk) and will build-up a pool of funds for any eventuality.

As required under Section 7(3) of the DPC Act, 2016, Shariah Compliant Deposit Protection Mechanism for Islamic Banking Institutions has been provided through DPC Circular No. 05 dated November 05, 2018.

In February 2019, DPC has been admitted as member of International Association of Deposit Insurers, the global body of deposit insurers, that aims to contribute towards enhancement of deposit protection effectiveness and safety by promoting guidance and international cooperation.

In order to develop depositors’ awareness, DPC has publicized its formation and limit of protected deposit up to Rs 0.25 million per depositor per bank through national newspapers. Further, DPC has also emphasized all the member banks to formulate a communication strategy to educate their depositors about the deposit protection mechanism.

7.4 Pakistan Security Printing Corporation (PSPC)

The management remains committed to reform PSPC to ensure that best market practices are followed and the Corporation upholds the high standards set by SBP. Accordingly, the vision of PSPC has been redesigned to meet the goals of SBP. During FY19, the management focused on process improvement for which a team of consultants was hired to review workload and identify redundancies. In the next year, PSPC plans to take corrective actions and restructure the organization in light of the consultants' report. Further, some new machinery has also been procured to enhance the production capacity to meet the increasing indent.

PSPC managed to achieve the remarkable feat of producing more than 3700 million pieces in FY19, i.e. 7.4 percent more than the previous year. PSPC has consistently met higher indents every year which enables SBP to implement its Clean Note Policy and replace soiled banknotes from circulation. It also plans to move to machine based inspection system, initially for higher denominations, to keep itself ahead of global trends for quality checks of final products. The Corporation has also started implementing principles of lean production and conducts timely preventive maintenance to ensure quality standards.

PSPC is making efforts by adopting following Strategic goals under SBP Vision 2020:

7.4.1 Maintaining Quality, Security, and Quantity of Banknotes

In a cash-oriented economy like Pakistan, it is essential to educate public and cash handlers regarding security features of banknotes to detect counterfeits. Therefore, PSPC has made quality a vital part of its organizational mission. It has taken up several projects to widen the scope of quality control, increase quality checks and enhance the inspection time at each point of the production line to eliminate printing errors. During FY19, PSPC doubled the frequency of quality checks in CUTPAK Department which is responsible for cutting and packing of the products.

PSPC works in close coordination with SBP to ensure no counterfeit banknote and prize bond is circulated in the economy. It ensures embedding of security features into all its products before State Bank releases them into the market. PSPC has a fully equipped lab that forensically analyses any suspected counterfeit products in the market as reported by SBP and law enforcement agencies. The lab is capable of running advance tests and follows international standards. PSPC plans to expand its forensic analysis capacities across Pakistan to reduce lead time in verification of genuineness of products.

7.4.2 Aligning HR policy with SBP Benchmarks

In order to align the policies of PSPC, existing HR policies are being revised and brought at par with SBP's policies, where applicable. In the first phase, policies pertaining to recruitment, promotion, whistle blowing, corporate social responsibility and code of conduct are being revised.

Further, to meet the ISO standards and eliminate safety hazards, PSPC is investing in running safety campaigns, conducting awareness sessions and first-aid trainings to all the employees. PSPC has also taken steps to ensure that each department plays an important role towards a sustainable environment.

7.4.3 Re-engineering Business Processes to support Automation

PSPC installed new machines to increase efficiency, eliminate ink wastage, reduce the risk of human error and automate the facility to make the process seamless. The recently installed machines include a new Intaglio machine, and a Finishing and Packing machine. In addition, the management undertook a campaign to re-commission old machines to enhance production capacity.

7.4.4 Implementing a Modern Information Management System

To strategically align the IT goals and implement a modern information management system, PSPC developed multiple ERP modules to automate, streamline, and support business processes such as, Cash Purchase System, Purchase Bid Documentation and Document Management System. Several dashboards have also been developed by the PSPC to ease and systemize the business processes.

The PSPC website has also been launched which displays necessary data to maintain transparency and public record. The website will also help to reduce the cost of procurements by avoiding costly advertisements in newspapers for procurements under Rs 2 million.

7.4.5 Improving Corporate Governance and Internal Control Framework

PSPC functions under a Board consisting of experienced members. After acquisition by SBP, Procurement Committee, Risk and Investment Committee, Audit Committee, Human Resource Committee and Nominations Committee were formed to guide PSPC management through the crucial transitional phase.

Continuous risk management lowers the risk of disruption and assesses the potential impacts of disruptions. Through this capability, the organization builds an effective program that provides a planned response, recovery and restoration mechanism to safeguard the interests of key stakeholders, their reputation and value-enhancing activities. PSPC has developed an Enterprise Risk Management system and constituted an ERM Committee for managing uncertainties of the business. Further, to ensure business continuity in case of any unforeseen event or disaster, a BCP Manual has been developed and shared with the BCP Committee. To improve corporate governance, Audit Charter of PSPC has also been developed. Accordingly, amendments have also been made in the article of association to improve the practice of Corporate Law.