

2 Banking Services to the Government and Banks

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2.1 Overview

Banking Services Corporation (BSC) being an operational arm of central bank provides a range of banking and payment settlement services to the country's financial system participants, Federal, Provincial and District Governments and their attached departments. These include receipt and payments on behalf of the governments and their attached departments, operation and maintenance of current accounts of the banks, collection of Zakat, as also facilitating the SBP in operation of Real Time Gross Settlement (RTGS) system.

In addition to these, the department also caters to the banking and payments services needs of government agencies like Pakistan Railway, Military Departments, Central Directorate of National Savings on transactional basis.

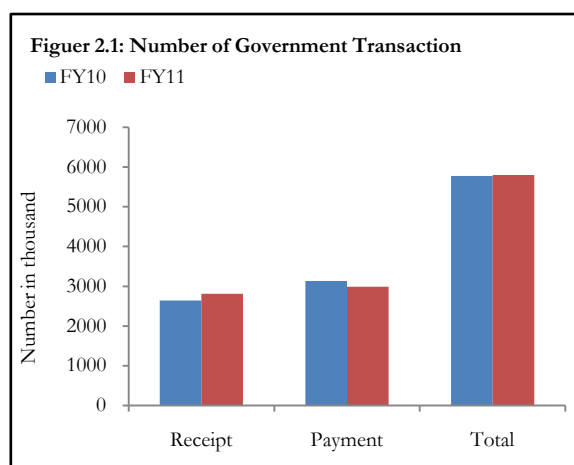
Banking services to Federal, Provincial and District Governments are provided by BSC under section 15(3)e of SBP BSC Ordinance, 2001 on behalf of the SBP to fulfill later obligatory requirements as laid down in section 21 of SBP Act 1956. These services are extended through 16 field offices across the country and include revenue collections & payments on behalf of government departments. BSC offices also provide following banking services to the government:

1. Facility of transfer of funds of government departments from one place to another.
2. Accepting money on account of the Federal Government and Provincial Governments and to make payments and to carry out exchange, remittance and other banking operations for them.
3. Payment of pension to the pensioners of various government departments.
4. Locker/ vault facilities to government authorities
5. Other banking services as and when required by the government departments.

In addition to above, under the agency agreement with SBP, National Bank of Pakistan also facilitates government departments through its wide network of branches in cash withdrawal/ deposit, government collection, payment and other banking transactions.

2.2 Management of Government Accounts

BSC through its 16 field offices provides central banking and related services as banker to the governments. The consolidation and reporting of Federal, Provincial, District Government and Zakat Accounts is one of the main responsibilities of SBP BSC's Accounts Department. Data pertaining to government transactions carried under various accounts is reported by the Accounts Department, SBP BSC Head office to Accountant General of Provinces, Accountant General Pakistan Revenue, Pakistan Railways and other departments on daily / periodic basis. The daily position of government balances is also provided to the Finance Department of State Bank of Pakistan for onward submission to concerned quarters. During FY11, around 5.79 million transactions pertaining to government receipts/payments were handled by BSC offices as compared to 5.77 million transactions in the preceding year (**Figure 2.1**).



BSC's transactional banking activities also involve the delivery of payment and related banking services to our stakeholders. The government agencies require service features that are common to only government these include service features, high standards of system reliability and availability of purpose built reporting and the flexibility to react quickly when changes in government policy require consequent changes to system and process and reporting requirements. The office-wise breakup of number of transaction or receipts and payments made at our different field offices during FY11 and FY10 are given in the **Table 2.1**.

Table 2.1 Office wise Government Receipts/Payments (Number of Transactions)

Office	FY10			FY11		
	Receipt	Payment	Total	Receipt	Payment	Total
Bahawalpur	48,085	71,689	119,774	38,250	68,356	106,606
D.I. Khan	29,521	27,889	57,410	25,612	30,689	56,301
Faisalabad	145,499	144,537	290,036	228,562	183,865	412,427
Gujranwala	64,966	81,624	146,590	84,824	76,407	161,231
Hyderabad	72,090	125,469	197,559	77,225	162,758	239,983
Islamabad	183,058	489,946	673,004	199,277	385,275	584,552
Karachi	798,362	612,554	1,410,916	813,787	599,223	1,413,010
Lahore	499,512	426,210	925,722	538,671	388,060	926,731
Multan	121,254	128,434	249,688	117,174	139,818	256,992
Muzaffarabad	45,675	49,490	95,165	56,713	42,170	98,883
N.N. Karachi	55,338	9,034	64,372	63,745	11,711	75,456
Peshawar	175,822	198,370	374,192	161,382	190,759	352,141
Quetta	41,532	160,293	201,825	48,335	161,290	209,625
Rawalpindi	245,890	438,859	684,749	237,674	414,811	652,485
Sialkot	99,399	131,398	230,397	109,172	96,069	205,241
Sukkur	15,341	41,695	57,036	12,674	35,650	48,324
Total	2,641,344	3,137,491	5,778,435	2,813,077	2,986,911	5,799,988

2.3 Reporting of Zakat Balances

SBP BSC is responsible for maintenance of Zakat account, its collection, consolidation, transfer of Zakat Funds to the relevant Zakat authorities and reporting to concerned

quarters. During the year under review, total collection of Zakat remained at Rs. 3.6 billion as compared to Rs. 4.8 billion collected last year. After 18th constitutional amendments, Zakat has been allocated as a provincial item. As its collection (deposit of the Zakat deducted/collected by banks to the offices of SBP BSC) is centralized therefore reports have been developed in Globus for bifurcation of position in respect of place of deduction of Zakat by banks and its deposit in the office of the SBP BSC. This will help in distribution of Zakat deducted by the commercial banks as per the place of deduction.

2.4 Reporting of FBR Transactions

Collection of government's revenues through field offices and NBP branches and its reporting to the respective governments is one of the vital tasks performed by the Accounts Department of SBP BSC. The Federal tax revenue collected by SBP BSC offices and the network of NBP branches on behalf of the government and deposited to the different offices of SBP BSC for credit to the relevant accounts during the year was around Rs. 1,618 billion as compared to Rs. 1,364 billion last year showing a considerable rise of about

18.6 percent. The payments/Refund made on behalf of government also showed a rise of 39.8 percent as the same grew from Rs. 54.7 billion last year to Rs.76.6 billion in the current year (Figure 2.2). The summary of FBR receipt/payments is given in Table 2.2.

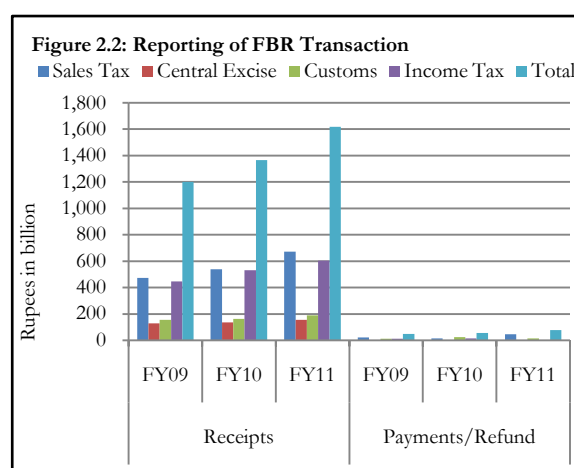


Table 2.2. Summary of FBR Receipts and Payments for the year

Rupees in millions

Head of Account	Receipts			Payments/Refund		
	FY09	FY10	FY11	FY09	FY10	FY11
Sales Tax	473,453	537,553	671,384	21,683	15,169	45,109
Central Excise	126,214	133,490	153,965	104	64	84
Customs	154,988	163,083	189,936	13,240	23,762	14,268
Income Tax	446,121	530,471	602,909	13,321	15,744	17,090
Total	1,200,776	1,364,597	1,618,194	48,348	54,739	76,551

2.4.1 Automation of Government collections

The Federal Board of Revenue (FBR) has set up e-facilitation center at the State Bank of Pakistan offices to assist taxpayers in preparing their electronic tax payments after successful implementation of e-tax payment at National Bank of Pakistan (NBP).

The implementation of the e-facilitation at the banks would help in maintaining better quality of tax payer's data. The collection automation project (CAP-II) has been launched at the SBP BSC to facilitate the tax payers.

Some of the major advantages of the system are that the tax payers could easily prepare their electronic tax payments with the help of e-facilitation centers. On the other hand, banks can electronically issue the computerized payment receipts to the tax payers. The information is instantly up loaded in the FBR data and reflected in the main tax payers

data base of the FBR. Efforts have been made to increase the data access speed from the tax payers to the FBR web-portal minimizing time for obtaining the Computerized Payment Receipt (CPR) from the banks.

After successful implementation of CAP-II system in the branches of NBP its further expansion to SBP is in progress. Currently the system is working in live environment at major offices of SBP BSC i-e Karachi, Lahore, Islamabad and Rawalpindi. Efforts are underway to extend the project to the remaining offices of SBP BSC in due course of time.

2.5 Payment and Settlement Services

Payment and Settlement Systems are the key components of financial system of any country. An efficient and well functioning payment system contributes towards the growth of an economy, stability of financial system and smooth functioning of the financial market. In recent years, great efficiency has been brought in the Payments System and a number of developments have been carried in both the Retail Payment System and Real Time Gross Settlement System(RTGS) which has not only reduced the risks associated with net settlement at the end of day but has also made the inter-bank settlement process more efficient. To perform banking functions on behalf of State Bank, SBP BSC focuses on stability and efficiency of the Payments and Settlement System, although the Payment System Department is housed in the State Bank of Pakistan, majority of the payment and settlement transaction are executed at our Karachi office using the platform of RTGS.

2.5.1 Clearing Services

As an operational arm of the SBP, SBP BSC has a critical role in implementation of efficient payment system. For this purpose clearing arrangements have been outsourced to National Institutional Facilitation Technologies (NIFT), which is responsible for the establishment and management of automated clearinghouse for providing a nationwide mechanism to process and settle the transactions between the commercial banks with the extensive coordination of SBP BSC field offices across the country. The automation of clearing operations has not only been extended to the cities where SBP BSC offices are located but some other major cities are also included in the grid. Besides these cities, small towns in surroundings of major cities are all availing clearing facility. Overall coverage of NIFT is extended to 185 cities where 5,571 branches of 40 banks are availing NIFT clearing services. Besides NIFT, National Bank of Pakistan is also providing clearing and settlement services at all those places where neither SBP BSC offices are located nor covered by NIFT. The clearing service provided by NIFT includes overnight clearing, same day - high value clearing, intercity clearing and local US Dollar clearing. During FY11, the total number of instruments cleared through NIFT was 72,179,730 as compared to 72,049,931 during the previous year (**Table 2.3**).

Table 2.3: Number of Instruments Cleared through NIFT

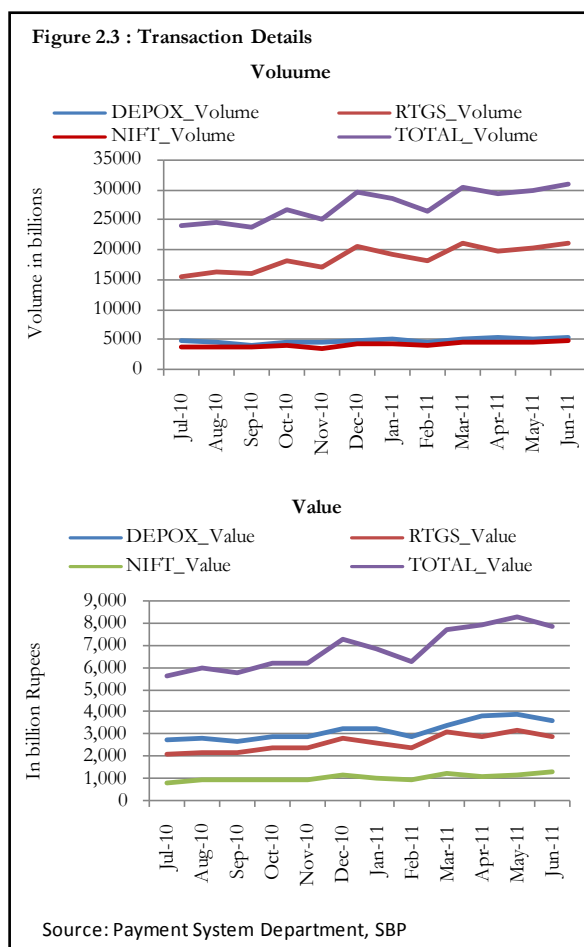
	Clearing service	FY10	FY11
1	Normal clearing	68,479,416	68,238,669
2	Same Day Clearing	551,690	662,095
3	Inter City clearing	2,999,095	3,259,069
4	Dollar clearing	19,730	19,897
Total		72,049,931	72,179,730

2.5.2 Real time Gross Settlement System

SBP owns and SBP BSC operates RTGS, which is a critical part of infrastructure of the Pakistan's financial system. It is used for real time payments and settlements by participant banks mainly scheduled banks those have been approved by the SBP to become member. The monthly average value and volume of RTGS transaction in FY11 were Rs. 2,585.1 billion and 18,457.1, respectively (Figure 2.3).

SBP continues to invest significant resources in maintaining and enhancing this system to ensure it operates to the highest standards of availability and resilience and keep pace with international best practices for RTGS systems.

SBP BSC through this system aims to provide platform to support technology driven payment system as well as reducing the risk associated with the current net deferred settlement arrangement. SBP BSC also provides through its 16 field offices, settlement services for banknote deposit and withdrawals by commercial banks and for high value transactions undertaken by the bank and its customers, including government agencies and official institutions. All this is been done with high customer services, integrity and stakeholders satisfaction in a professional manner.



2.6 Operational Work Relating to National Savings Schemes

In terms of the Agreement signed in June, 1949 between the central government and the State Bank of Pakistan, the SBP is responsible for the management of the public debt and the issuance of new loans by the Federal Government and to act as an agent for the Federal Government in Pakistan in the management of the public debt. The work relating to issue, supply, sale, encashment and handling of prize bonds, holding draws thereof and managing other saving instruments of the Federal Government or of a Provincial Government was transferred to SBP Banking Services Corporation, Karachi pursuant to its creation on 2nd January 2002 as a fully owned subsidiary of the State Bank of Pakistan in terms of SBP BSC (Bank) Ordinance 2001. SBP BSC is currently managing following government securities:

- i) National Prize Bonds Scheme
- ii) National Savings Certificates Scheme

2.6.1 National Prize Bonds

The Prize Bonds are bearer in nature, and are available in six denominations i.e., Rs.200, Rs.750, Rs.1,500, Rs.7,500, Rs.15,000 and Rs.40,000. The sale of National Prize Bonds (all 06 denominations) is carried out through all 16 field offices of SBP-BSC, branches of Schedule Banks and National Savings Centers of Central Directorate of National Savings (CDNS). The holder of the prize bonds, who has held it for a minimum period of two months from the date of draw is entitled to the prize money if the numeric number of the bonds so held, is declared as winning in the draws held on periodic basis. The draws are held at different offices of SBP BSC as per draw schedule announced by CDNS on yearly basis.

During FY11, the field offices of SBP BSC settled 1,185,706 cases of prize money payments as compared to 1,065,144 cases during FY10, showing increase of 11.31 percent as per the details mentioned below in Table 2.4.

Table 2.4 Number of Prizes Paid Against Winning Prize Bond

Field office	FY10			FY11		
	First Prize	Second Prize	Third Prize	First Prize	Second Prize	Third Prize
Karachi	80	343	254,263	156	564	283,071
Lahore	180	622	185,147	146	625	200,567
Peshawar	35	127	130,867	48	139	130,230
Faisalabad	41	92	117,240	29	138	153,154
Rawalpindi	48	162	98,231	40	223	99,101
N.N.Karachi	80	289	74,823	83	267	86,404
Hyderabad	33	111	56,499	31	159	66,817
Islamabad	21	86	25,886	20	81	33,798
Multan	7	23	20,439	19	96	19,418
Quetta	11	44	23,076	7	38	27,704
Sukkur	17	31	16,742	11	41	19,238
Sialkot	11	42	19,950	11	36	22,307
Gujranwala	8	40	19,802	13	75	20,603
D.I.Khan	4	23	8,169	9	12	7,927
Bahawalpur	3	13	7,952	19	26	8,149
Muzaffarabad	6	6	3,419	0	5	4,051
Total	585	2,054	1,062,505	642	2,525	1,182,539

During the year under review, the aggregate sale and encashment of National Prize Bonds remained Rs.139 billion and Rs.98 billion as compared to Rs.129 billion and Rs.91 billion in FY10. The total value of the prize bonds held by the investors as on 30th June, 2011 was Rs.276 billion as compared to Rs.235 billion on 30th June, 2010 showing an increase of 17 percent. During FY11, BSC field offices paid prizes of Rs.23 billion as compared to prize money of Rs.19 billion paid in FY10, which was 21 percent higher than prize money paid during last year. The Table 2.5 below gives the denomination wise detail of prize bonds' sale, encashment and prize money paid during the FY10 and FY11.

2.6.2 Special Savings Certificates (SSC)

Special Savings Certificates (SSCs) Scheme was introduced in 1990 by CDNS with the prime objective to provide an avenue to the middle and lower income group, household and small investors to invest their savings in an investment guaranteed by the government

Table 2.5 Total Sale & Encashment of National Prize Bonds at SBP BSC Offices Rupees in million

	Denomination in Rupees	FY11				FY10			
		Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued	Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued
1	200	7,452.4	5,921.9	1,337.5	17,557.2	7,928.9	6,266.4	1,276.3	16,026.7
2	750	15,698.3	9,532.0	3,241.2	39,853.4	14,211.0	9,980.3	2,783.6	33,687.0
3	1,500	18,429.0	12,200.2	3,768.7	44,874.4	17,364.0	11,844.8	3,181.9	38,645.6
4	7,500	26,688.9	20,985.0	3,600.0	43,440.9	23,246.6	17,362.8	3,107.9	37,737.0
5	15,000	31,130.8	23,130.2	4,427.0	54,061.8	30,443.4	21,958.6	3,690.9	46,061.2
6	40,000	39,523.3	26,070.1	6,229.8	76,438.4	36,286.4	23,510.8	4,739.0	62,985.2
Total		138,922.7	97,839.3	22,604.2	276,226.0	129,480.4	90,923.7	18,779.6	235,142.6

with steady income. These certificates available in multiple denominations of Rs.500/-, Rs.1,000/-, Rs.5,000/-, Rs.10,000/-, Rs.50,000/-, Rs.100,000/-, Rs.500,000/- and Rs.1,000,000/-, have a maturity period of three years with six profit coupon leaves each payable after the end of six months. At present, the profit on first five coupons is paid @13.20 percent p.a. and @ 14.0 percent p.a. on the last coupon. However, if the profit is not withdrawn on due date on the certificates issued before 15th November, 2010, it automatically stands reinvested and would be considered for payment of profit on completion of the next 06 months' period; at the rate applicable on the date of such deemed re-investment. For certificates issued on or after 15th November, 2010 if not encashed on maturity, the value i.e. principal plus profit due on such certificate shall cease to earn any further profit in terms of SRO (I)/2010 issued vide Finance Division Notification No.F.20(5)GS-I/2008-1590 dated 15th November, 2010.

Zakat is deducted at the time of actual encashment of these certificates at the rate of 2.5 percent on the principal amount where applicable. As per instructions of the Federal Government the withholding tax is also deducted at source at the rate of 10 percent of profit earned on SSCs, in case the amount of investment exceeds Rs.150,000/-.

During the year under review, 14,057 cases valuing Rs. 18,049 million in respect of sale of SSC(R) were handled by SBP BSC field offices as compared to 15,075 cases involving Rs. 17,787 million during last year. Bahbood Savings Certificates for the Senior Citizens with higher return is becoming more profitable source of investment for pensioners and senior citizens. The office wise detail of number of cases for sale, encashment and profit payments is given below in Table 2.6. Despite efforts by SBP BSC the CDNS has not yet authorized BSC offices to deal in sale, purchase and encashment of these certificates.

Therefore data on the Bahbood Saving Certificate is not presented here. It is expected that CDNS will consider our request and allow us to deal in Bahbood Certificates during next financial year.

2.6.3 Defence Saving Certificates

Defence Saving Certificates (DSC) scheme is a long term investment scheme introduced in 1966 with a tenor of up-to 10 years. These certificates are available in multiple denominations of Rs.500, Rs.1000; Rs.5000; Rs.10,000; Rs.50,000; Rs.100,000; Rs.500,000 and Rs.1,000,000 .

Table 2.6: Number of Cases of Special Savings Certificates® handled by the SBP-BSC Offices

	FY11			FY10		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 Bahawalpur	0	23	26	47	-	-
2 Faisalabad	221	339	504	931	487	1,160
3 Hyderabad	106	123	326	1,064	415	1,403
4 Islamabad	90	93	221	88	101	185
5 Karachi	6,998	23,862	23,675	6,526	14,070	20,096
6 Lahore	3,455	2,301	5,537	2,888	2,159	5,391
7 Multan	4	5	13	2	3	4
8 Muzaffarabad	27	26	34	6	4	18
9 N. N. Karachi	2,276	1,709	7,223	1,969	1,363	5,195
10 Peshawar	88	143	448	129	132	377
11 Quetta	7	34	126	10	6	21
12 Rawalpindi	687	571	707	1,312	806	1,963
13 Gujranwala	3	7	3	9	2	3
14 Sialkot	76	84	167	69	42	214
15 Sukkur	19	19	48	25	33	63
Total	14,057	29,339	39,058	15,075	19,623	36,093

During the year under review, BSC field offices handled 8,015 cases valuing Rs. 5,228 million for sale of DSCs as compared to 9,035 cases involving around Rs. 5,071 million during FY10. Details of work handled by field offices are mentioned in the **Table 2.7, 2.8, & 2.9** given below:

Table 2.7: Number of Cases of Defence Savings Certificates handled by the SBP-BSC Offices

	FY11			FY10		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 Bahawalpur	21	55	55	50	59	59
2 Faisalabad	157	367	359	842	3,691	3,691
3 Hyderabad	94	186	173	318	319	319
4 Islamabad	98	283	283	74	398	375
5 Karachi	4,776	10,451	10,451	5,159	10,411	10,411
6 Lahore	1,540	1,998	1,998	898	1,877	1,877
7 Multan	1	22	22	8	9	9
8 Muzaffarabad	2	1	1	10	2	2
9 N. N. Karachi	630	785	733	606	1,816	-
10 Peshawar	35	245	245	47	307	298
11 Quetta	165	397	397	63	68	68
12 Rawalpindi	426	1,186	1,311	895	1,442	2,382
13 Sialkot	18	63	63	6	165	165
14 Sukkur	52	90	90	57	98	98
15 Gujranwala	0	0	0	2	1	1
16 D.I.Khan	0	2	2	0	0	-
Total	8,015	16,131	16,183	9,035	20,663	19,755

Table 2.8: Total Number of Cases of National Savings Schemes handled SBP-BSC Offices

Instrument	FY11			FY10		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 SSC	14,057	29,339	39,058	15,075	19,623	36,093
2 DSC	8,015	16,131	16,183	9,035	20,663	19,755
Total	22,072	45,470	55,241	24,110	40,286	55,848

Table 2.9: Total value of Sale & Encashment of SSC and DSC at SBP-BSC Offices

Rupees in million

Instrument	Sale		Encashment	
	FY11	FY11	FY10	FY10
1 SSC	18,049.8	10,943.9	17,786.9	5,909.2
2 DSC	5,227.7	5,089.7	5,071.1	16,067.8
Total	23,277.5	16,033.6	22,858.0	21,977.0

2.6.4 Other Achievements

- All the Circulars in respect of National Savings Certificates issued since inception of SBP BSC have been uploaded on Electronic Notice Board (ENB).
- The time line for confirmation of outstanding position in PB-18 by the Public Debt Offices (PDOs) has been restricted up to 24 hours after receipt of request from the offices on PB-59;
- CDNS has acceded to SBP BSC's proposal for enhancement of honorarium to non-official participants of the draw committee (i.e. Chairman & two members from local CC&I) i.e. from Rs.450/- to Rs.1000/- and refreshment charges from Rs.15/- per person to Rs.30/- per person up to a maximum of 40 (forty) guests/ participants of draw proceedings;
- Version for lost/ stolen blank SSC/ DSC from the stock of the offices has been created in the Globus system through ISTD;
- Procedure for disposal of undelivered prize money claims has been framed in consultation with CDNS and issued to all offices for compliance thereof.