

Message from Managing Director, SBP Banking Services Corporation

I am extremely delighted to present the Annual Performance Review of SBP Banking Services Corporation (BSC) for the financial year 2015-16 which was an eventful year for the Corporation from many perspectives. During the year, a number of strategic initiatives were taken to provide better and efficient banking services, improved circulation of fresh currency notes and strengthening BSC's ability to implement State Bank's policy instructions regarding foreign exchange operations, besides helping it in expanding the outreach of financial services in the country.



Restructuring of the Corporation was one of the important strategic initiatives taken during the year, in terms of which Groups were created at Head Office Karachi, besides creating three Regional Offices to club the sixteen Field Offices as per their locations to improve their oversight. This restructuring paved the way for creation of OG-7 and OG-8 posts in the organization and is likely to meet the growing business requirements as well as improve synergies between Functional Departments and Field Offices. This will also reduce the number of officers reporting directly to Managing Director, thus allowing him to focus on strategic matters. Resultantly, an officer of BSC has been promoted as Director in the Officer Grade-7 for the first time. All other Grade -7 officers are on deputation from the State Bank. Slowly and gradually the management of BSC will be entrusted to officers having worked in different positions across the Corporation which will make its operational policy formulation more robust.

Another important milestone of the management relates to the proposed amendments in SBP BSC Ordinance, 2001. The modified Ordinance in BSC when enacted, would improve the governance framework by empowering the Board of SBP BSC regarding appointment of its Auditors and expand the working scope in areas of operations incidental to our core functions etc, without compromising the overarching role and control of SBP. The proposed amendments also define the process of appointment of an Acting Managing Director, SBP BSC, in case of a vacancy. The BSC has also modified its Expenditure Regulations to enhance monetary powers delegated by the Board to its management. The proposal has been agreed by the Board's Audit Committee¹. The management also worked on development of a paper on the "Operating Performance on a Sustainable Business Growth Basis". Other initiatives include the opening of revenue collection centers at strategic locations for efficient collection and its reporting to the Government, improving the efficiency of cash management and setting up of Cash in Transit (CIT) companies to achieve the goals envisaged under the Currency Management Strategy of SBP.

During the year, SBP BSC (Bank) continued to provide banking services to the Federal and Provincial Governments, their attached departments as also other stakeholders at its all offices, though the level of these services at our North Nazimabad Office are very limited. Efforts are being made to enhance the quantum and level of Government banking operations as also provision of advances to banks under SBP schemes at this office gradually. The main functions in this area include transfer of funds, payment of pensions, collection of revenue, making payments on behalf of Government departments and reporting the revenue collection transactions to Federal Board of Revenue (FBR) on daily basis through online network etc. During the year, BSC collectively conducted 7.95 million (approx) transactions of Government payments and receipts through its Field Offices as compared to 7.06 million (approx) transactions last year, thus reflecting year on year increase of 13%. The Bank is also coordinating with AGPR for a single solution for online issuance of cheques, payments and reconciliation with active coordination of SBP's Finance Department. A test phase was initiated at our Islamabad Office, and upon its successful implementation it was expanded to Karachi, Lahore, Peshawar and Quetta. It is expected that in FY17 this will be expanded to other offices of SBP BSC. The Bank has also been successful in enhancing its role

¹ The Board of SBP BSC has since approved them in its meeting held on 27th August 2016.

in efficient revenue collection through its Field Offices & NBP branches and has achieved significant improvements in revenue collection due to improved systems and processes as well as enhanced monitoring which aggregates at Rs 3,183.3 billion vis -a -vis Rs 2,636.9 billion last year, showing an increase of 21%.

The outgoing financial year also witnessed major achievements in currency management operations of the Bank. The Currency Management Department (CMD) of BSC, working in close coordination with SBP's Finance Department, developed a comprehensive strategy for the management of currency operations in Pakistan. This strategy envisaged automation of currency operations not only in all offices of SBP BSC, but also made it mandatory for banks in Pakistan to dispense the bank notes only after being authenticated with machines. This will bring a paradigm shift in the currency management, besides reinforcing the efforts of SBP and SBP BSC to ensure that the banking sector is not used as a tool to circulate counterfeit notes in Pakistan. The strategy will also ensure implementation of Clean Note Policy of the State Bank.

During the year, the Corporation also procured two High Speed Banknote Authentication and Processing Systems (BPAS) and the briquetting system for disposal of shredded waste in an environmental friendly manner. These machines, capable of authenticating 100,000 banknotes per hour and online destruction of unfit notes, have been successfully installed at our Karachi Office. The BPAS machines are also capable to prepare packets and bind them into bundles of ten packets. The Corporation intends to install these machines at other Field Offices, keeping in view the quantum of notes managed by them. In addition to BPAS, the Corporation has also started procuring note authentication machines for performing its daily transaction-based work at the counters of its different offices. To streamline the procurement process, the Corporation is also working on assessing our total needs of BPAS, Desktop and Counter-Top note authentication machines.

Issuance of fresh currency notes on the occasion of Eid-ul-Fitr and Eid-ul-Azha has remained a challenging task for the management of SBP and SBP BSC. In order to facilitate the general public in the supply of fresh currency notes, the '8877- SMS' based service was successfully managed for the second year running, on these religious festivals. This year, the outreach of this scheme during Eid-ul-Fitr 2016 was expanded to 500 branches in 100 cities and small towns across Pakistan as compared to 335 branches last year. Over a million individuals obtained fresh currency notes by using SMS service during Ramadan, 2015.

SBP BSC has made significant progress in managing foreign exchange operations by its Foreign Exchange Operations Department (FEOD). During the year, the management has focused on automation of work processes, out of which the most prominent was automation of Export Form (E-Form) in Web-Based One Customs (WeBOC). This milestone was achieved with the active coordination and lead role of SBP's Exchange Policy Department and Pakistan Customs. With the successful launch of electronic E-Form, the Corporation, Exchange Policy Department and Customs also coordinated in launching of electronic I-Form². This will help curb malpractices in multiple payments against a single import consignment and use of non-banking channels to settle import payments. Monitoring of import payment was further strengthened by adding essential fields in the decades-old import schedule with the help of Exchange Policy and Statistics & Data Warehouse Departments of SBP.

In order to automate Part-II (Performance-based facility) of the Export Finance Scheme, the verification and scrutiny process of EE-1/EF-1 statements has also been initiated through the system-based calculation of total Export Earnings (EE-1) and subsequently Export Performance (EF-1) of exporters, which is expected to mitigate the financial risks and lead towards a robust system-based performance and limit allocation for exporters. In addition, for effective and efficient reports, an Analytical Cube has been developed for preparing consolidated reports, analyzing the

² The Electronic I-Form was made applicable as from 1st September 2016.

data trends, cross referencing and monitoring of monthly data received from Authorized Dealers through International Transaction Reporting System (ITRS). Moreover, the prototype has been developed for the risk-based monitoring of FE returns using ITRS data. FEOD vigorously followed the exporters for repatriation of stuck-up export proceeds and managed to get repatriation of US\$ 301 million in FY16 as compared to US\$ 296.5 million in FY15. During the year, Drawback of Local Taxes and Levies (DLTL) Schemes announced by the Ministry of Textile Industry and Ministry of Commerce were also dealt by FEOD, and detailed guidelines, along with Excel worksheet, have been issued to facilitate the banks in lodging cases/claims for payment of subsidy. During the year, the FEOD also disbursed Rs 5.94 billion subsidy in respect of around 3,000 cases under different schemes announced by the Federal and Provincial Governments in respect of exports made by Textile, Sugar, Wheat and Sports Goods, Surgical Instruments, Leather Garments etc, and Importers/Manufacturers of DAP Fertilizer. The efforts of Foreign Exchange Adjudication Department (FEAD) in ensuring realization of stuck up export proceeds from 1,369 cases referred to them by FEOD also resulted into repatriation of US\$ 57.7 million during the year. The FEAD also took up complaints against banks filed by FEOD on account of banks' failure to meet their obligations set out under Foreign Exchange Regulations Act, 1947 (FERA).

During 2015-16, the Corporation enhanced its focus to augment SBP's strategic objective of expanding the financial inclusion in the country through Development Finance Support Department (DFSD) and its units. The DFSD facilitated the Agriculture Credit & Microfinance Department of SBP (AC&MFD-SBP) through periodic follow up and review meetings with 36 Participating Financial Institutions across 143 districts for monitoring the disbursement of Rs 600 billion target set by SBP for agriculture sector. A sum of little over Rs 500 billion was disbursed by different Field Offices of SBP BSC under the Export Refinance Schemes. The DFSD also developed a modified set of standardized documents for the on-site verification of EFS cases by the verification teams of different Field Offices who are required to ensure that the commercial banks have complied with the instructions of SBP issued in this regard. These modified forms have also helped our verification teams to ensure consistent reporting of irregularities, which in turn facilitated the DFSD to consolidate these reports on bank wise basis. The DFSD also managed work relating to issuance of Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in respect of 8,572 loans amounting to Rs 6 billion.

During FY16, the offices disbursed Rs 500.09 billion and Rs 81 billion under the Export Finance Schemes and Islamic Export Refinance Schemes of SBP. The DFSD and its units across BSC also facilitated DFG in implementation of a number of initiatives/ programs through its Access to Finance Units (AFUs) for information dissemination, capacity building, awareness creation, and development of linkages with stakeholders in SMEs, infrastructure & housing finance, agriculture and horticulture sectors etc.

The working strength of SBP BSC (including SBP deputationists) has reduced considerably from 5,981 at the time of its creation to 2,807 as on 30th June 2016. During the outgoing year, the working strength of the Corporation has been reduced by about 550 due to early retirements, superannuation and deaths. The resultant HR gap was managed through fresh induction of 81 officers under the Young Professionals Induction Program (YPIP) and 78 officers under Officers Training Program (OTP) during the year, while 253 officers and unionized staff were promoted. Regarding improvement in HR policy framework, a number of policies have been reviewed, improved, and introduced which include Absorption Policy, Reward & Recognition Policy, Code of Conduct, Communication Policy, Whistle Blowing Policy etc.

An Employee Engagement Survey conducted by an external management consultancy firm, M/s Grant Thornton Consulting Pvt. Ltd. revealed that the employee engagement level across SBP BSC is at 59% which is quite close to the global average of 62%. Moreover, a Workload Analysis Project has also been taken up to assess the optimal staff requirements. Training and improvement of skill set of employees remained a special focal activity. A number of training initiatives were

taken this year to augment the skill sets of employees by sending them for training/exposure visits/workshops at domestic and international institutions.

SBP BSC intends to hold a 'Strategic Planning Conference' to redefine its Vision and Mission statements and develop the strategic goals, tactical objectives and business goals for the next five years in line with SBP Vision 2020. Holding of this conference was planned to be held during the outgoing year, however, the consultant could not be hired as none of the responding firms could fulfill the eligibility criteria. Another initiative taken by the management during the year was to translate forms, in use of general public, in Urdu, for facilitating a larger segment of society, which shall be available for public consumption shortly.

An important function performed by the SBP BSC relates to the healthcare and medical services. In this regard, efforts are being made for provision of the optimal health care services to the Bank's officers and staff which include, among others, the following: i) undertaking a comprehensive review of the Bank's formulary, ii) ensuring the cost effective procurement by minimizing the role of middleman, iii) broadening the network of hospitals, labs, and consultants across Pakistan, iv) conducting the Health Awareness Sessions on various topical issues, v) issuance of medical photo ID cards, vi) installation of Queue Management System, and vii) introduction of online appointment system, etc.

A number of activities are being performed by the Bank in the field of Corporate Social Responsibility (CSR) which include: (i) Summer/Winter Internship Programs offered to the students of Pakistani universities/institutes accredited by Higher Education Commission (HEC), which provide students an insight about the core functions and working of the Bank, (ii) Outreach Programs in the shape of conferences/seminars/exhibitions/workshops/capacity building programs, etc. aimed at educating the stakeholders/academia/general public about topical issues, and (iii) Promotion of sports and healthy recreational activities which has earned a good name for the Bank. The notable activities in the arena of sports & recreational activities included the holding of SBP Governor's Cup Interbank Cricket and other tournaments, display of outstanding performance by SBP cricket team at various national-level tournaments, formation of State Bank's Women Cricket Team and the start of 1st SBP Women Cricket Championship 2016, Opening Ceremony of the newly-constructed State Bank Cricket Pavilion, and holding of a grand Fun Gala and musical event during FY16.

I would like to take this opportunity to express my deepest gratitude to the Honorable Governor and the members SBP BSC Board for their unflinching support and continued guidance as well as my colleagues for their efforts and commitment towards achievement of our strategic objectives and accomplishment of responsibilities assigned by SBP to its operational arm.

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Managing Director
SBP Banking Services Corporation