

Performance Overview 2017-18

The SBP Banking Services Corporation continued to strive towards achieving excellence in delivering quality services to all its customers and stakeholders by making efforts to accelerate automation of its core and support functions through business process re-engineering, which resulted in efficient workload management, reduced turn-around time and better risk management.



The efforts to restructure the Corporation have also made considerable headway this year as all Group and Regional Heads have taken charge of their respective functions. These measures will facilitate SBP BSC in improving its service standards further, despite increase in the quantum of work and the changing market expectations.

In line with State Bank's primary responsibility to maintain a safe and efficient national payment system, the SBP BSC serves as a Banker to the Governments (Federal/Provincial/District), Banks and Development Finance Institutions (DFIs). SBP BSC also provides various banking services to SBP and its subsidiaries. All these services are primarily performed by its 16 Field Offices and a wide network of authorized branches of National Bank of Pakistan. Moreover, the Bank of Punjab is also providing collection service to the Government of Punjab. Besides extending these services, the Accounts Department of SBP BSC continued to undertake its responsibility diligently regarding provision of technical and operational support, data collection & consolidation and its reporting to SBP and major government authorities on periodic and need basis.

In line with SBP Vision 2020, SBP BSC worked in close coordination with the Finance Department of SBP, to bring critical improvements in key operational areas of payment and financial systems of the country, in general, and in rolling out government collections through Alternative Delivery Channels (ADCs), in particular. The taxpayers using ADCs can now directly deposit their dues in government accounts using ATMs and internet banking without visiting banks' branches. The new initiative started in March, 2018 and has led to collection of Rs 1.0 billion from taxpayers until June 2018. It is expected to be a major channel for deposit of government taxes in future on account of ease and convenience in its use. A major initiative of the current year was upgradation of the core banking system from Globus G-11 to a more advanced T-24 platform. The Information Systems Department (ISD)-SBP, was given active support from a large number of super users from Accounts Department, Strategic & Corporate Affairs Department (SCAD) as well as Field Offices of SBP BSC. The upgrade exercise involved conducting multiple mock exercises and User Acceptance Tests (UATs), and has resulted in improved system performance, better control environment, efficient archiving functionality and robust disaster recovery options.

During FY18, SBP BSC processed approximately 8.0 million transactions of government payments/receipts, registering an increase of 14.5% over the past year. SBP BSC, with the assistance of other players, helped in collection of over Rs 3.9 trillion tax revenue during FY18 i.e. 15% higher than last year. Banks deducted and deposited with SBP BSC an aggregate amount of Rs 7.3 billion as Zakat during the year. Despite growth in electronic banking transactions, the instrument-based payments did not see any decline as National Institutional Facilitation Technologies (NIFT) processed 64.7 million instruments during FY18 as compared to 64.5 million in FY17.

Notes-in-circulation (NIC) has been increasing steadily in the economy; on an aggregate basis the notes in circulation doubled during the last four years, thus posing a serious challenge of smooth distribution of fresh notes and lifting of high quantum of soiled notes from the market for subsequent destruction. Despite reduction in work force, the Currency Management Department of SBP BSC took various initiatives to ensure smooth and consistent supply of fresh notes throughout the year, especially during religious festivals and managed issuance of fresh notes amounting to Rs 1,199 billion to banks and public – a 25% increase over last year.

Like previous years, 8877 SMS service remained an effective tool for issuance of fresh notes of small denomination to the general public during the month of Ramadan as 1,519 designated branches of commercial banks and 16 Field Offices of SBP BSC jointly issued over Rs 40 billion to 2.2 million members of general public in 132 cities across Pakistan, as compared against Rs 25 billion issued to 1.5 million people in 120 cities last year. Additionally, Rs 367 billion were issued to commercial banks for their ATM operations and meeting the demands of their customers. To help Payment Systems Department (PSD) of SBP keep an effective oversight on ATM operations of banks during Ramadan, SBP BSC deployed dedicated verification teams across Pakistan and provided feedback to PSD by using a real-time complaint management regime through messaging service to dedicated WhatsApp groups. This helped the PSD in identifying the real cause for ATM downtime.

To improve banknotes distribution strategy, SBP BSC, in close coordination with Finance Department of SBP, developed and promoted “Interbank Exchange of Cash” platform as a pure market mechanism, enabling banks to handle daily demand/supply of fit banknotes independently. This will eventually limit the role of SBP BSC, in line with international best practices relating to the issuance of fresh notes only, and lifting of soiled notes from the market for destruction.

In the pursuit of Currency Management Strategy (CMS), the Corporation is in the advanced stages of procuring state-of-the-art processing, authenticating, and destruction systems for its major Field Offices. Likewise, all Field Offices have been equipped with desktop and countertop note sorters for processing of heavy amount of cash and ensuring provision of 100% machine authenticated banknotes at their cash counters. It is anticipated that the acquisition of Pakistan Security Printing Corporation (PSPC) by SBP will further augment efforts for effective currency management. These significant achievements are paving the way for a modern and fully automated cash market in Pakistan.

SBP BSC manages various savings schemes and National Prize Bonds (Registered and Bearer) on behalf of the Central Directorate of National Savings (CDNS). With a view to facilitating the holders of National Prize Bonds (NPBs), SBP BSC offered them a new option to receive payment of higher prize money as well as the face value of Prize-winning Bonds, through direct credit into their bank accounts. Encouraged by the overwhelming public response to this option, SBP BSC now plans to further expand it to all prize money amounts during the next fiscal year. Additionally, multiple new SOPs were put in place to improve services at sale/encashment counters. A successful pilot launch of electronic queue management system (eQMS) was conducted at North Nazimabad Office, Karachi. Based on the experience of this pilot project, the system is being replicated in other Field Offices as well, in a phased manner.

Though investment in Premium Prize Bonds is picking up, however, their issuance only from the Offices of SBP BSC constrained their outreach. In a bid to scale up the sale of these Bonds, SBP BSC has recently launched a project to issue them through selected branch networks of the five large commercial banks.

Foreign Exchange Operations Department (FEOD)¹ of SBP BSC has continued to provide support to SBP in implementing its policy instructions concerning foreign exchange by meticulously following the Foreign Exchange Manual and the policies related to trade, commercial and private remittances. In FY18, FEOD also started paying more attention to monitoring of transactions of foreign trade and their offsite verification. Operational efficiency of the Department has been improved through large-scale automation and enhanced capacity of the workforce.

FEOD in a bid to provide reliable and effective support to SBP has made an extensive usage of Web-Based One Customs (WeBOC) data to identify fake E-forms, duplicate payments against same or fake import documents. Further it has made use of WeBOC and International Transaction Reporting System (ITRS). This includes an initiative for discontinuation of submission of returns by the stakeholders in physical form. This has enabled ensuring integrity of the data as FEOD identified and rectified 38,056 discrepancies in data reported by banks. Furthermore, it has unearthed the identity of 161,799 undetected and unreported Electronic Forms-E (EFEs) by commercial banks.

FEOD is in the process of establishing Electronic Data Interchange (EDI) with Customs Department to further enhance its capacity to monitor FX operations relating to trade. As FEOD is using multiple applications therefore, a project “Integration of FX Data Universe” has been conceptualized for FY19 to ensure greater efficiency in use of IT-based system support for the purpose. Its completion will greatly help the FEOD to improve its oversight on foreign trade transactions falling in its domain.

Knowledge Management (KM) and ERM are two other major initiatives initiated by SBP BSC for gradual implementation. While KM is aimed at automating end-to-end workflows within and across the departments, ERM will strengthen the risk management capability at SBP BSC. The work on KM is likely to be completed during next financial year; however, the work in the area of ERM is still at an initial stage.

FEOD is also entrusted with the responsibility of making payment to exporters under various schemes announced by the Federal and/or Provincial Governments. During FY18, it handled around 19 schemes of Federal as well as Punjab and Sindh Governments and ensured timely disbursement of Rs 50 billion as subsidy to the eligible trade entities as compared to Rs 30 billion in FY17.

More than 19,000 cases of commercial, private and trade related remittances including remittances against FE allocation involving an amount of USD 3.9 billion and exposure of USD 89.3 million through issuance of bank guarantees were processed during FY18. Special attention was given to identification of duplicate and fake import documents. Due to these efforts, USD 12.8 million were repatriated to Pakistan during FY18, which were remitted abroad based on incomplete/incorrect documents as import payments. Further, complaints against 19 importers have been lodged with FIA for their failure to repatriate USD 10.5 million. Penalty of PKR 102 million has been recovered from importers for their failure to import goods within the specified regulatory period. FEOD also identified more than 400 illegal FX dealers at the behest of Exchange Policy Department.

¹ The policy and market for Foreign Exchange are dealt with and supervised by the Exchange Policy and Domestic Money Market Departments of SBP. BSC only deals with matter relating to commercial foreign exchange transactions.

FEOD's new instructions and active follow-up led to three-fold increase in timely reporting of 58,056 cases of export overdues involving USD 1,225 million by commercial banks and ensured timely repatriation of USD 887 million during FY18. This also helped in filing of 13,420 complaints by FEOD against exporters for non-realization of export proceeds amounting to USD 191.6 million to FEA Courts in FY18 as against 1,966 cases amounting to USD 78 million last year.

The responsibilities of FEOD relating to realization of stuck-up export proceeds by delinquent exporters and other areas managed by it, are now being actively supported by FEA forum handling complaints regarding violation of different sections of FERA-1947, in general, and Section 12(1), in particular. Three new Adjudication forums were established this year at Lahore, Quetta and Rawalpindi and the SOPs for recovery were revamped resulting in a record realization of export proceeds of USD 133.7 million during FY18 as against USD 78.7 in FY17. During the process, FEAD settled 5,857 complaints in FY18 as compared to 3,308 last year.

SBP BSC has been supporting SBP in developing a market-based inclusive financial system catering to the financial needs of all segments of the economy through facilitation in the implementation of different policies relating to three priority areas i.e. SMEs, Agriculture & Housing Finance, along with SBP's initiatives relating to Microfinance and Islamic Banking.

In the area of Development Finance during FY18, SBP BSC was entrusted with the task to launch a five-year National Financial Literacy Program (NFLP) to improve the skill set of the unbanked population in understanding elementary financial knowledge and also to persuade them to open Basic Banking Accounts. The program was rolled out across 77 districts of Pakistan through our all Field Offices, in collaboration with commercial/ microfinance banks and partner institutions (NGOs, Microfinance Institutions and Rural Support Programs), with the aim of reaching 1 million beneficiaries of which 50% should be women, in five years. To ensure availability of trainers in required numbers, SBP BSC, in coordination with NIBAF and individually, held 21 sessions for the training-of-trainers in which 382 bankers were coached as field trainers for conducting NFLP. Up to 30th June 2018, these trainers conducted 4,270 classroom sessions in most underserved districts of the country that were attended by nearly 100,000 individuals, of which nearly 35% were females wherein 47,000 participants also opened Mobile/Asaan accounts. In addition SBP BSC rolled out NFLP Student Ambassador Plan, which engaged university students to deliver lectures at NFLP sessions during their summer/winter vacation.

The SBP BSC also conducted a number of focus group sessions and meetings with stakeholders, bankers and farmers that facilitated disbursements of Rs 973 billion of financing to farmers against the target of Rs 1,001 billion for FY18.

SBP BSC continued to take various initiatives to ensure implementation of special schemes introduced by SBP in terms of which commercial banks can obtain re-imburement of their funds disbursed to eligible borrowers. SBP BSC Field Offices have managed disbursement of an aggregate amount of Rs 737.7 billion under the Export Finance Scheme (EFS). SBP has authorized SBP BSC to conduct verification of refinance loans availed under EFS and Islamic Export Refinance Scheme (IERS). During FY18, SBP BSC teams conducted verification of 12,532 cases under both EFS and IERS for which banks availed refinance of around Rs 560 billion in total; Rs 466.4 billion and Rs 93.1 billion for EFS and IERS respectively. The verification exercise resulted in the imposition of penalties of Rs 11.7 million on delinquent banks.

SBP has also initiated various credit enhancement schemes which have been implemented by SBP BSC since their inception. During FY18, SBP BSC issued guarantees to banks against financing of Rs 6.8 billion extended by them to different eligible borrowers belonging to 60 different sectors in order to support broad based financial growth. Further, subsidies amounting to Rs 844 million were

processed for onward submission to Finance Division, GoP, under the Prime Minister's Youth Business Loan (PMYBL) Program to promote young entrepreneurs and capitalize on Pakistan's young population demographics.

In order to properly disseminate policy initiatives of SBP and ensure their proper implementation by the financial sector, SBP BSC Field Offices conducted 89 focus group meetings pertaining to SMEs (20), Agri. Finance (17), Microfinance (19), Islamic Banking (17), Housing Finance (11), Islamic SME Finance (1) and Joint sessions (4). Apart from these usual interactive sessions, the SBP Governor also launched concessionary refinance and credit guarantee schemes for women entrepreneurs in remote and underserved areas.

At the inception of SBP BSC in 2001, its overall workforce was around 6,000, which has been reduced by around 54% as on end June 2018, thus posing a major challenge to meet the expectations of stakeholders, especially in view of increased workload in the organization. Therefore, the Human Resources Management Department (HRMD) has to undertake a massive hiring drive while ensuring compliance to the statutory quota requirements. These measures such as hiring of Young Professionals Induction Program for OG-2, and Officers Training Program for OG-1 batches enabled the induction of quality HR to meet the needs as assessed under a workload analysis conducted by an external consultant. In addition to direct hirings, HRMD also inducted specialized professionals in the areas of Security, Procurement and Engineering.

Many automation projects such as implementation of Biometric and Access Control System (BACES) and Executive Letter Management System (ELMS) at HOK were completed with the future goal of its implementation at all Field Offices in FY19 and onwards. A Performance Management System was implemented on Cash-Side officials to provide them equal career progression opportunities and ensure a seamless merger of Cash and General side. During FY18, Charter of Demand (CoD) with the Collective Bargaining Agent (CBA) for two years was concluded.

Training presents a prime opportunity to expand the knowledge base of employees while ensuring their personal growth in line with the business needs of the Bank. 3,444 participants were provided training at NIBAF and other prestigious institutes including IBA-Karachi, LUMS-Lahore, PSTD-Karachi, IBP during FY18. Twenty-eight officers were sent for foreign training, exposure visits and participation in seminars. SBP BSC has taken initiatives for e-learning through NIBAF e-learning Portal and in-house (LAMS), through which officers can enrich their knowledge in the areas of soft skills and specific functions. Taking a step towards self-improvement of employees in an automated way, an e-learning portal was also launched by NIBAF on test-basis, through which employees will be able to access and complete 300 different courses of soft and IT skills. Earlier, SBP BSC had also designed its own e-learning module (LAMS) using expertise of its own officers. Under this program, 285 officers registered themselves for appearing in examination process.

The dynamic nature of business at SBP and its subsidiaries demand provisions of continuous support and efficient services. General Services Department (GSD), Engineering Department and Internal Bank Security Department (IBSD) have ensured provision of common support services to SBP and its subsidiaries in a smooth and efficient manner. GSD has played a pivotal role in facilitating various departments in their procurement as per budgeted targets by offering services for procurement of goods and services in compliance with Public Procurement Regulatory Authority (PPRA) criteria. Lead-time in procurement has been reduced by rationalizing work processes and optimizing the use of technology. Moreover, the provision of Healthcare to eligible employees of SBP, SBP BSC and NIBAF remained one of the main services provided by GSD. The current year witnessed the use of various initiatives like online appointments and facility of medical team e-mail group. Similarly, the services provided by the printing press under GSD

remained of top quality whether it be a regular bulletin like “State Bank News” or different flagship publications of SBP and SBP BSC.

Considering the prevailing security situation and associated challenges, the role of IBSD has gained prominence in ensuring safe, secure and conducive work environment for the employees of SBP, SBP BSC, DPC and NIBAF. This year saw various initiatives like conducting regular Physical Efficiency Tests (PET) of guards and training of personnel for managing varying level of security threats to the organization. Establishment of fully equipped Quick Response Force (QRF) from available guards and increased coordination with external agencies are on the cards for the upcoming year to further fortify the security of the stakeholders. The development of security personnel and staff is an ongoing feature exercised by IBSD by keeping itself abreast with the upcoming security challenges.

Engineering Department has rendered common services to improve the physical environment of various buildings and departments of SBP and its subsidiaries. During the outgoing year, various upgradations relating to electrical, telecommunication, civil and HVAC systems were carried out in different buildings across Pakistan as also campus of NIBAF, Islamabad including limited residential facilities. Moreover, architectural designs for new office buildings at Islamabad, Gujranwala and female hostel in Karachi were approved from the relevant authorities. In the year ahead, the Department has planned to work on electronic platform for improvement of its procurement activities through e-Procurement System. Another initiative that will yield its benefit in coming years is formulation of Standard Operating Procedures (SOPs) for different engineering works and related activities.

During FY18, Internal Audit Department (IAD) conducted 87 audits as per its annual program or through its Hub. An important audit exercise started by IAD relates to Thematic Audit, and during the year the Department conducted 15 thematic audits and its scope was broadened to the areas of development finance and foreign exchange operations. The IAD intends to include Banking and Currency operations for Thematic Audit in FY19. Capacity of Internal Monitoring Units (IMUs) at Field Offices was also enhanced by arranging trainings, audit conferences through holding of meetings of Audit Forum, which were attended by all audit officers and select officials of IMUs.

IAD has played a crucial part in establishing a strong introspective culture by performing independent and objective assessment of organization-wide risk management and governance practices. The successful rollout of Quality Assurance and Improvement Program and implementation of Audit Management Software (AMS) has further enhanced the quality of internal controls in the outgoing year.

A detailed peer review of IAD’s practices, in collaboration with Internal Audit and Compliance Department (IACD) of SBP, against prescribed standards of Institute of Internal Auditing (IAA) is in planning phase. Realizing the crucial role of technology in SBP BSC’s operations, IAD is exploring the concept of “Technology Risk Assessment” to further re-inforce the organization’s internal control mechanism. Going forward, the alignment of IAD’s Control and Risk Rating System (CRRS) framework with the Risk and Control Self-Assessment (RCSA) framework of Enterprise Risk Management (ERM) will be very beneficial for the organization.

SBP BSC has also been undertaking various initiatives as a part of its Corporate Social Responsibility (CSR). On an annual basis, summer/winter internship programs were offered to students of major universities across Pakistan at Head Office in Karachi and all the Field Offices. Various sports and recreational activities were arranged for the employees of SBP, SBP BSC and NIBAF. Sports tournaments including cricket, football, badminton and table tennis were conducted in FY18.

It may be added here that despite SBP BSC's significant successes in the outgoing year, we are not oblivious to the need for pursuing excellence. We are keeping a close eye on the market trends and evolving needs of the stakeholders and aim to further automate different processes at SBP BSC. We are committed to providing intelligent solutions to dynamic business requirements. To achieve this, we will continue to plan and invest in innovation and governance as well as try to keep ourselves ahead of the curve.

The accomplishments presented in this report would not have been possible without the commitment and unwavering efforts of the management of SBP, its officers as also members of our unionized and non-unionized work force. I would like to thank all of them for their dedication and commitment towards achievement of strategic objectives of the organization. I acknowledge with deep appreciation the continuous support and guidance extended by SBP BSC Board, Human Resources, Security Review and Audit Committees, Governor State Bank of Pakistan, FRM, DFG, Operations and BPRG, to enable us to achieve our strategic objectives.

I am confident that with the support of all our stakeholders, the Corporation will continue to prosper and achieve greater heights in the times to come.

QASIM NAWAZ

Managing Director

SBP Banking Services Corporation