

1 Currency Management

1.1 Overview

Currency management is one of the core functions of SBP Banking Services Corporation. Under Section 5 (b) of SBP Banking Services Corporation Ordinance 2001, SBP-BSC is entrusted with the responsibility of handling receipt, supply and exchange of banknotes and coins on behalf of the State Bank of Pakistan.

The currency management by SBP-SC aims to build and maintain public confidence in the currency by preserving its value and integrity and by making available adequate stock of currency notes to meet the demand for currency and facilitate proper functioning of the economy.

The currency management includes; the yearly estimation of the requirements of currency notes of various denominations for issuance in the coming year, help in placing the indent for supply of fresh notes with Pakistan Security Printing Corporation (PSPC) through SBP, preparation of schedule for receipt of fresh notes from the PSPC, examination and storage of these notes in a systematic manner, issuance of these notes to commercial banks/ chests and finally withdrawal of soiled notes from circulation and their ultimate destruction. Taking measures for detection of misprinted fresh notes and forged currency notes also remains hallmark of the currency management process.

The distribution of currency notes is carried out by BSC through its four issue circles located at Karachi, Lahore, Quetta and Peshawar offices along with currency chests/ sub-chests established at the designated branches of National Bank of Pakistan (NBP), government treasuries and branches of commercial banks spread all over the country. A computerized system for issue accounting function is operational in all the four Issue Offices. During FY08, SBP-BSC continued its efforts to improve the currency management system through close monitoring of the currency requirements. Efforts were also made to maintain a steady supply of currency notes and coins of all denominations across Pakistan. In addition, SBP-BSC also promoted awareness of the security features of currency notes among officials of commercial banks and general public besides effective assistance of the law enforcement authorities in combating counterfeiting of banknotes during the year under review.

1.2 Establishment of Currency Management Department

As the value of currency in circulation increased from Rs.893.4 billion as on 30th June 2007 to Rs.1,046 billion as on 30th June 2008, i.e. by almost 17 percent, the efficient management of currency has become more important. Although the electronic banking and the use of plastic money has increased in recent years in Pakistan but the complexity of currency management still remains mainly due to traditional higher dependency of the general public on cash transactions. Accordingly with a view to streamline currency management activities in an efficient and effective manner across the country, the functions relating to currency management previously dealt with by Accounts Department of the SBP-BSC has been transferred to a newly created Currency Management Department (CMD) which is now fully functional as from 7th August 2007.

1.3 Implementation of Clean Note Policy

During the year under review, BSC continued its efforts to ensure adequate availability of fresh and clean banknotes and supply of coins in the economy. For the purpose, the CMD took various steps including vigorous monitoring of the issuance of fresh as well as good quality notes to general public through commercial banks. In addition to regular supply of fresh notes, the speedy disposal of soiled notes, mechanization of cash processing activities and strict compliance of stopping the practice of stapling banknotes have contributed towards improving quality of banknotes in circulation. These efforts were further intensified in respect of distribution and monitoring of supply of fresh notes to commercial banks and general public on special occasions like Eid-ul-Fitr, Eid-ul-Azha etc at all field offices/ branches of commercial banks. For ensuring that commercial banks comply with the instructions issued by BSC, special monitoring teams examined the distribution of fresh notes to general public by branches of commercial banks. Where irregularities observed, punitive actions have been taken. These efforts yielded encouraging results and generally good quality banknotes are now available in circulation, though more efforts are required to improve the situation to the desired level.

During FY08, a new orange-green-yellow colour banknote of Rs.20 denomination with revised colour scheme was also introduced as a part of SBP efforts to improve the security, durability and aesthetic quality of banknotes. The security features of new colour banknote are similar to the existing brown colour banknote of Rs.20 denomination issued in 2005. The new colour banknote would facilitate the public to identify and distinguish the colour combinations of new designed banknotes of Rs.10, Rs.100, Rs.500, Rs.1000 and Rs.5000 introduced earlier.

In pursuance of the Clean Note Policy of State Bank of Pakistan, all commercial banks in Pakistan are required to sort out banknotes into issuable and non-issuable categories. Only clean banknotes are to be issued to public and account holders whereas the soiled notes are to be deposited by these commercial banks to the field offices of SBP-BSC. For the purpose the field offices are required to ensure that the unfit notes are withdrawn from circulation for their destruction as per procedure. During FY08, soiled banknotes of different denominations in large quantities were withdrawn from circulation out of which a total number of 1.157 billion pieces have been destroyed.

1.3.1 Issuance of Fresh Notes and Coins

During FY08, the Issue Offices of SBP-BSC functioning at all provincial headquarters continued to inject fresh notes in the market through various channels viz., SBP-BSC's field offices, 226 currency

Table 1.3.1 (a) Issuance of Coins to the Public

Year	<i>(Pieces in million)</i>			
	Re.1	Rs.2	Rs.5	Total
2006-07	286.807	165.049	246.089	697.945
2007-08	166.954	122.586	77.335	366.875

chests/ sub-chests at NBP branches and branches of commercial banks. It may be worth mentioning that at the beginning of the Clean Note Policy in 2003 the need for injection of fresh notes was higher. As a result of continued and sustained pursuit of the said policy and issuance of fresh notes in large proportions during the subsequent years, the requirement for injection of fresh notes has been stabilized. During the year under review, around 1,408.2 million pieces of fresh banknotes and 366.9 million pieces of coins of various denominations were issued to public as compared to around 1,633.8 million pieces of fresh banknotes and 698 million pieces of coins issued during the preceding year as described in the Table 1.3.1 (a & b).

Table 1.3.1 (b) Issuance of Fresh Banknotes

Year	Denomination of Banknote (Rs.)							(Figures in million)	
	10	20	50	100	500	1000	5000	Total Pieces	Total Value
2006-07	594.108	188.520	151.575	381.848	137.844	145.863	34.074	1,633.832	440,630.030
2007-08	640.040	159.233	13.335	310.104	121.436	143.187	20.870	1,408.205	349,517.210

1.3.2 Distribution of Notes to Public through Commercial Banks

In order to ensure distribution of fresh currency notes on equitable cum need basis and to facilitate the public and its stakeholders the SBP-SC continued to employ following measures during the year under review:

- All commercial banks were provided with fresh notes in sufficient quantity for the purpose of issuance of fresh notes to general public/ clients through their counters as also ATMs.
- Process of distribution of fresh notes supplied to banks by the offices of BSC is being monitored by the Cash Monitoring Teams of the SBP-BSC field offices. The branches of commercial banks were also advised to maintain following record along with acknowledgments in respect of fresh notes issued by them:
 - Copy of CNIC obtained from general public
 - Names of their account holders (including corporate clients)
- A web based system (www.sbp.org.pk/help/freshnote.htm) for making complaints regarding non-availability of fresh notes from branches of commercial bank is also operational to facilitate general public.
- Opening of special counters at all SBP-BSC field offices on special occasions like Eid or launching of new design banknotes etc.

1.3.3 Automation of Currency Operations

A computerized system for issue and accounting of banknotes is operational in four Issue Offices of SBP-BSC. Automation of currency operations and maintenance of data at SBP-BSC offices have ensured reliability and integrity of the processes relating to management of currency. This has also helped in improving the efficiency of cash management.

The implementation of the process of automation in SBP-BSC has made further progress during FY08. The Currency Globus system has almost been fully implemented at all offices, however constant efforts were continued during the year under review for improving different segments of the system in order to improve efficiency and reliability. In some areas system based controls have been introduced for replacing manual controls with the automated work processes while elimination of manual processes in other areas are also being planned. The manual ledgers and books relating to currency operations have been discontinued in the Issue and Treasury (Cash) Division and the currency management units of the offices. The system generated statements/ reports are now obtained at the close of banking hours thereby saving time and labour. Further, end of the day (EOD) signal process is being executed efficiently without compromising any internal control. A log book relating to system problems causing delay in EOD is being maintained and reviewed for continuous improvement.

1.3.4 Establishment of Automated Currency Sorting Cell

The Automated Currency Sorting Cells (CSCs) were started in the selected field offices of BSC for improving the quality of banknotes in circulation by accelerating pace of sorting of currency notes. During FY08, CSC at Lahore office became fully operational in addition to CSCs already working at Karachi, Peshawar and Multan offices. These Cells are required to undertake work relating to sorting the notes into soiled and re-issuable category, banding the packets and making bundles besides sorting the re-issuable notes as ATM fit notes of Rs.100 and above denominations.

Although CSCs are instrumental in providing services to the commercial banks for sorting of cash but their performance has not been fully geared up to their potential. The main reason for their low productivity is establishment of cash sorting cell by some of the commercial banks in their own premises and manual sorting of small denomination notes instead of sorting them on machines. SBP-BSC is continuously in dialogue with CSCs for improvement in the productivity but so far CSCs have not been able to increase their efficiency. The performance of CSCs is being examined by CMD for a decision by the management about their continuation or otherwise.

1.3.5 Mechanization of Currency Operations

Apart from establishment of Currency Sorting Cells at some of the offices of SBP-BSC, various efforts have been made to automate the currency operations in line with the technologies being used by the advanced countries. Up till now all processes linked with counting of notes and coins have been mechanized in all field offices. Besides, the process of destruction of cancelled notes has also been mechanized at few offices and efforts are underway to mechanize these operations at remaining field offices. Presently the following machines/ equipments are available with the field offices.

Table 1.3.5 Machines/ equipments available with the field offices as on 30-06-2008

S #	Office	Coin Counting	Note Counting	Tri Colour Stamping	Note Banding	Note Shredding	Others	Total
1	Bahawalpur	1	3	1	1	-	8	14
2	D. I. Khan	1	3	1	1	-	7	13
3	Faisalabad	3	3	2	3	1	6	18
4	Gujranwala	3	2	1	1	-	2	9
5	Hyderabad	3	3	1	2	2	11	22
6	Islamabad	6	2	1	-	1	12	22
7	Karachi	16	5	3	5	4	17	50
8	Lahore	9	4	2	2	4	73	94
9	Multan	7	4	1	2	4	14	32
10	Muzaffarabad	1	2	1	1	-	2	7
11	N. N. Karachi	2	2	1	4	1	8	18
12	Peshawar	4	4	1	2	3	18	32
13	Quetta	3	2	1	3	1	17	27
14	Rawalpindi	6	3	1	2	1	30	43
15	Sialkot	2	3	1	1	1	7	15
16	Sukkur	2	1	1	1	1	4	10
Total		69	46	20	31	24	236	426

1.4 Combating Counterfeit/ Forged Notes

Counterfeiting of currency is stated to be one of the oldest crimes. With the recent spurt in international terrorism, counterfeiting of currency notes has gained momentum and the

targeted countries are flooded with counterfeit currency notes to destabilize the administrative, social and economic balance of the country. Pakistan is also facing problems in respect of counterfeit currency.

Being an operational arm of State Bank of Pakistan, it is the responsibility of SBP-BSC to check, analyze and suggest measures for controlling the menace of counterfeiting in the country by employing following strategies.

1.4.1 New Design Banknotes

SBP has taken various steps to minimize the threats of counterfeit/ forged banknotes of various denominations. The introduction of new design banknotes embedded with advanced security features of internationally accepted standards is one of the strategies in this direction. In FY08, a new orange-green-yellow colour banknote of Rs.20 denomination with revised colour scheme was also introduced as a part of State Bank's continuous efforts to improve the security, durability and aesthetic quality of banknotes. The security features of new colour banknote are similar to that of brown colour banknote of Rs.20 denomination presently in circulation.

1.4.2 Public Awareness Programs

One of the factors for circulation of counterfeited currency notes in the country is the lack of awareness in the general masses about the genuineness of currency notes. Accordingly, with a view to enhance the awareness of major stakeholders, SBP-BSC has pursued multipronged strategies during the year as described below:

- Commercial banks have been advised to educate customers and display posters containing information on the security features of banknotes over the counters. Chief Managers of various field offices of SBP-BSC also visited training academies of banks, trade bodies, market committees, local chamber of commerce and consumers associations to disseminate knowledge about proper use of currency notes and allied problems.
- To create awareness among the general public, pamphlets/ posters describing security features of new design banknotes have been published and distributed among them as well as displayed at prominent places of all cities and villages of the country including field offices of SBP-BSC and selected branches of commercial banks.
- As a part of public awareness program, SBP-BSC has also arranged special training sessions for the cashiers and various branch managers of commercial banks about general features and look and feel characters of different categories of notes as also in-built security features and detection of fake/ counterfeit notes.

1.4.3 Establishment of Research and Systems Division

Besides Quality Assurance Unit and Banknote Research Wing working at HOK and four Issue offices of SBP-BSC, a specialized "Currency Research and Systems Division" has been established at CMD with the main objective to monitor components adopted in the series of new design banknotes/ coins including quality of paper/ metal, ink and security features thereof, identify their merits/ demerits and submit their recommendations to higher authorities for consideration and taking up the matter with PSPC/ Pakistan Mint through Finance Department, SBP. Counterfeit notes detected/ reported at SBP-BSC field offices are thoroughly examined at the Quality Assurance Unit and a detailed report thereon is prepared and conveyed to concerned quarters including the relevant field office.

1.4.4 Establishment of Forensic Laboratory

At present, Forensic Laboratory at PSPC is carrying out examination of counterfeit currency notes/ Prize Bonds referred to by the SBP-BSC due to lack of advanced equipments at its department. However, keeping in view the complexity of counterfeiting wherein hi-tech instruments and technology are being used in printing of counterfeit notes and the time lag involved in getting response/ opinion about currency notes/ Prize Bonds referred to PSPC, there was an immense need of developing such expertise within SBP-BSC. Responding to this, the SBP-BSC planned to establish a high tech forensic lab at its head office Karachi. A complete feasibility exercise including equipments identification, budget allocations and approval has been completed during FY08 and procurement of necessary equipments is in final phase.

1.4.5 Training on Security Features of Banknotes

Currency Management Department has arranged training programs on security features of banknotes in collaboration with the PSPC with a focus on detection of counterfeit banknotes. During the year under review, a total number of 105 officials of SBP-BSC, commercial banks, law enforcement agencies and other relevant agencies were imparted training at PSPC in order to enhance their understanding of security features of banknotes. The details of officials provided training during FY08 are as under.

SBP BSC officials	66
Commercial bank officials	15
Police and law enforcement agencies officials	24
Total	105

In order to improve the awareness and enhance the capacity building of the staff for quality assurance and detection of counterfeit notes, the training process has been organized on Training of Trainers (TOT) basis.

1.5 Monitoring of Currency Chests/ Sub-chests

National Bank of Pakistan is a service provider to all the stakeholders of SBP-BSC in the areas where a field office of SBP-BSC is not situated. For this purpose, a network of 226 currency chests/ sub-chests has been established at different places in rural and urban areas (as detailed in Annexure-XIV). These chests/ sub-chests provide banking facilities to federal, provincial and local governments, financial institutions and other organizations/ corporations. They also provide facilities for exchange of currency notes to general public. SBP-BSC field offices constantly supply fresh/ re-issuable banknotes according to their requirements and holding capacity and withdraw the soiled and defective notes from them for destruction. All these activities are carried out in a timely fashion to ensure seamless business continuity and efficient service delivery. During FY08, the field offices carried out on-site examination of 46 chests/ sub-chests in the area of their jurisdiction.

Table 1.5 Currency Chests/Sub-chests at NBP branches examined during FY08

S #	Office	Branches Examined
1	Bahawalpur	2
2	D. I. Khan	2
3	Faisalabad	7
4	Hyderabad	2
5	Islamabad	2
6	Karachi	2
7	Lahore	7
8	Multan	2
9	Muzaffarabad	2
10	N. N. Karachi	2
11	Peshawar	2
12	Quetta	8
13	Rawalpindi	2
14	Sialkot	2
15	Sukkur	2
Total		46

1.6 Monitoring of Cash Operations at Commercial Banks

The field offices of SBP-BSC are responsible for conducting on-site examination of the designated branches of commercial banks to ensure meticulous compliance of SBP/ SBP-BSC directives with regard to Clean Note Policy. During FY08, the cash monitoring teams of the field offices have conducted on-site examination of a total number of 3,620 branches of commercial banks as compared to 3,335 branches in the preceding year. The field offices have also recovered an amount of Rs.2,395,500/- during FY08 on account of penalties imposed on commercial banks on violation of various instructions issued by the SBP-BSC as compared to a fine of Rs.4,407,000/- recovered during the preceding year.

Table 1.6 On-site examination of commercial banks by SBP-BSC field offices

S #	Office	2006-07		2007-08	
		No. of Banks	No. of Branches	No. of Banks	No. of Branches
1	Bahawalpur	13	35	18	139
2	D. I. Khan	10	3	11	58
3	Faisalabad	30	238	30	301
4	Gujranwala	11	19	3	3
5	Hyderabad	22	117	16	62
6	Islamabad	32	112	23	126
7	Karachi	42	744	38	696
8	Lahore	40	1,356	41	1420
9	Multan	20	69	18	84
10	Muzaffarabad	6	27	10	29
11	N. N. Karachi	19	149	19	126
12	Peshawar	14	293	31	266
13	Quetta	12	40	18	97
14	Rawalpindi	22	74	21	117
15	Sialkot	3	15	12	49
16	Sukkur	16	44	9	47
Total		312	3,335	318	3,620