Currency Management

2 Currency Management

Currency Management Department (CMD) aims to ensure efficient end-to-end distribution of good quality banknotes and coins through careful monitoring of stock positions. The Department undertakes this responsibility, with the help of its four Issue Circles, located in provincial headquarters. Additionally, CMD also manages printing, distribution and operational aspects of Government Savings Schemes such as National Prize Bonds, Premium Prize Bonds (Registered) and other National Savings Schemes, on behalf of the Central Directorate of National Savings (CDNS). With a view to bringing currency management practices in the organization at par with the international best practices, CMD continuously endeavors to introduce new technologies, while ensuring that they are compatible with local environment and requirements.

2.1 Overview

With a view to ensuring effective policy implementation regarding currency management and government savings schemes, CMD maintains close coordination with SBP's Finance Department and the Central Directorate of National Savings in discharging its responsibilities. CMD's foremost objectives include ensuring: i) equitable and smooth distribution of good quality banknotes and withdrawal of soiled notes through 16 Field Offices, 224 NBP chest/sub-chests and commercial banks; ii) operational management of all government savings schemes and draw arrangements for National and Premium Prize Bonds; iii) issuance of comprehensive instructions to ensure implementation of SBP's Currency Management Strategy (CMS), and iv) alignment of currency management framework with the international best practices in a phased manner.

To achieve the above-mentioned objectives, SBP and SBP BSC have put in place various measures, such as procurement of state-of-the-art currency processing and authentication systems, coordination with Finance Department to introduce more sophisticated banknote security features and conduct of awareness sessions across the country etc. It may be mentioned here that CMD maintains close liaison with respective SBP departments to facilitate Law Enforcement Agencies (LEAs) in combating counterfeiting in all forms of currency.

Box 2.1: Achievements during FY18

- Successful implementation of CMS Phase-II & Initiation of 2nd Phase of SBP BSC's Automation Strategy through procurement of multiple Banknote Processing & Authentication Systems (BPAS) and Banknote Destruction Systems (BDS)
- An all-time high receipt as well as expedient destruction of soiled banknotes through soiled receipt rationalization and destruction targets for SBP BSC Field Offices, after implementation of CMS
- Phased procurement and installation of Desktop Note Sorting machines for all SBP BSC Field Offices
- Research & Development for secure, cross country movement of government treasure
- Successful commencement of Premium Prize Bonds Scheme Phase II, issuance of SOPs and system development through Information Systems Department within tight deadlines
- Direct credit of prize money and face value of winning NPBs into claimant's bank account
- Timely and successful completion of significant number of Business Plan Projects
- Internal and external stakeholder satisfaction through issuance of guidelines encompassing Customer Services, Health & Safety Measures etc.
- Overall system-based and manual Business Process Re-engineering for achieving efficiency gains

CMD believes that introduction of advanced security features in banknotes/prize bonds only bears fruitful results when all users are fully aware of their nature/purpose. To ensure dissemination of this knowledge at all levels, CMD facilitates conduct of awareness sessions at various forums through its Field Offices across the country. CMD also ensures free of charge distribution of brochures and pamphlets containing security features of banknotes/prize bond, to commercial banks and other stakeholders.

In view of its operational expertise, CMD regularly provides input to Finance Department regarding demand projections for currency notes and coins. During FY18, CMD has provided active support to Finance Department in ensuring smooth implementation of second phase of Currency Management Strategy, in addition to providing feedback for issuance of various instructions/policy frameworks. CMD has also put in place internal measures to ensure success of second phase of CMS. One of the most significant achievements in this regard has been high number of soiled notes received from commercial banks and subsequently destroyed. This has been made possible through issuing comprehensive instructions regarding revised examination procedures, rationalizing receipt of soiled balances from commercial banks in view of business volume and assigning destruction targets to SBP BSC Field Offices, leading to voluminous and expedient processing of unfit banknotes.

2.2 Circulation of Banknotes

In view of the global proliferation of technologies, Pakistan has also experienced a steady increase in the usage of online and Point-of-Sale (PoS) banking and payment channels. However, Pakistan's economy is still very much cash-centric, as is evident from the steady increase Notes-in-Circulation (NIC), as per trends presented in **Table 2.1**. The annual growth in NIC during FY18 was 15.2 percent (22.6 percent for FY17). The NIC as a percentage of Gross Domestic Product (GDP) stood at 14.1 percent in FY18 compared to 13.1 percent in FY17.

Table 2.1: Bank Notes in Circulation (Figures in billion)

Years	Nominal GDP (MP)[8]	NIC [9]	NIC as % of GDP	NIC (%) Change Over Previous Year
FY12	18,276.4	1,777.1	8.9	11.1
FY13	20,046.5	2,042.5	9.1	14.9
FY14	22,385.7	2,309.2	9.2	13.1
FY15	25,168.8	2,726.5	9.9	18.1
FY16	27,443.0	3,424.5	11.8	25.6
FY17	29,075.6	4,199.0	13.1	22.6
FY18	31,962.6	4,838.3	14.1	15.2

[8] Pakistan's GDP (http://www.sbp.org.pk/ecodata/GDP_table.pdf)
[9] Statement of Affairs—June 22, 2018 (http://www.sbp.org.pk/publications/statements/2018/22-Jun-2018-issue.pdf)

2.3 Issuance of Fresh Notes

CMD consistently endeavors to ensure circulation of good quality banknotes, through prompt and smooth supply of fresh cash to all the stakeholders throughout the year, in general, and during religious festivals, in particular. This distribution is undertaken through active and timely coordination with 16 SBP BSC Field Offices, 224 NBP Chest Branches and commercial banks across the country. As per data presented in **Table 2.2**, significant value increase has been observed in FY18 as against slight increase in pieces during the same period. It may be mentioned here that this trend is due to issuance of higher denomination banknotes significantly. Fresh banknotes amounting to Rs 1,199 billion were issued to the general public during FY18.

Figure 2.1: Notes-in-Circulation Values (in Trillion Rupees)

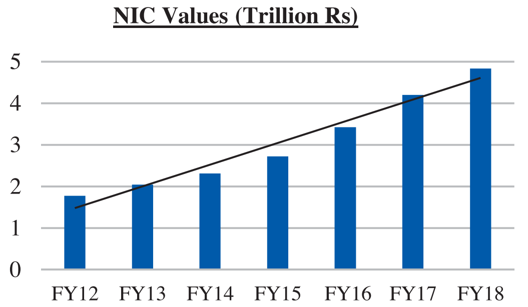

Table 2.2: **Issuance of Fresh Bank Notes**

(Pieces and Values in millions)

Year	Lower Denomination (Rs 100 & Below)				Higher Denomination (Rs 500 & Above)			
	Pieces	%age Increase	Value	%age Increase	Pieces	%age Increase	Value	%age Increase
FY13	1,246		44,800		530		475,000	
FY14	1,727	38.6	53,262	18.9	458	(13.7)	436,736	(8.1)
FY15	1,254	(27.4)	42,217	(20.7)	475	3.7	496,002	13.6
FY16	1,906	52.0	62,011	46.9	704	48.3	849,335	71.2
FY17	2,529	32.7	79,008	27.4	610	(13.4)	902,452	6.3
FY18[10]	2,341	(7.5)	71,926	(9.0)	837	37.2	1,128,042	25.0

2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

Every year, SBP BSC puts in place special measures to meet the enhanced demand of fresh cash on the eve of Eid Festivals. The issuance of lower-denomination fresh banknotes to the general public on religious occasions is managed through collaboration of SBP BSC Field Offices with commercial banks.

The 8877 SMS service launched by SBP BSC in 2015 for issuance of smaller denomination banknotes to general public successfully continued over Eid-ul-Fitr 2018, with 1,519 designated e-branches of commercial banks as well SBP BSC's 16 Field Offices, providing the service in 132 cities. The service launch and mechanism/procedure as well as its booking status was conveyed to the general public on a timely basis through periodic Press Releases. The service received overwhelming public response as 2.2 million people availed this service in Ramazan 2018 as compared to 1.5 million people last year – a significant increase of 50%. Additionally, banks were also provided substantial quantity of higher denomination banknotes for ATMs to ensure their smooth operations before and during Eid holidays. Special teams were also deputed to inspect ATMs and ensure uninterrupted availability of fresh cash to general public during Eid holidays.

2.4 Mechanization of Currency Management Operations

CMD has been endeavoring to automate/mechanize currency operations of SBP BSC in line with international best practices through procurement of banknote processing and authentication systems. After successful procurement, installation and operational testing of the high-end systems installed at SBP BSC, Karachi, CMD has initiated the second phase of SBP BSC's automation strategy by

[10] Globus Figures as on June 30, 2018

initiating the procurement process for further sophisticated, state-of-the-art processing, authentication and destruction systems. CMD is also actively facilitating the Field Offices in procuring and deploying Desktop and Countertop Note sorting machines. Further, CMD has actively collaborated with Finance Department in identifying and shortlisting of note sorting and authentication machines for procurement by commercial banks.

2.5 Monitoring of Currency Operations

As a part of its mandate and to ensure that instructions pertaining to currency and prize bond operations are adhered to by all banks, CMD oversees onsite examination/monitoring of National Bank of Pakistan and commercial banks branches through 16 Field Offices of SBP BSC. NBP's examination is focused on the chest/sub-chest branches which are designated for government business under an Agency Agreement. Additionally, CMD also keeps a close watch on the balance positions present in NBP chests/sub-chests for timely replenishment and diversion of soiled balances. In FY18, CMD devised an exhaustive holding capacity review process encompassing all possible factors in order to ensure that the holding capacities allocated to NBP branches are commensurate with their needs, and allow them to perform their assigned tasks effectively. For commercial banks, CMD has developed a comprehensive onsite monitoring mechanism, which is focused on ascertaining that all banks are meticulously complying with the requirements of SBP's Currency Management Strategy and its enhanced scope across the board. The same is slated for rollout in FY19 and will be implemented with active participation of SBP BSC's Regional/Field Offices.

2.6 Government Savings Schemes

In addition to currency operations, SBP BSC also manages Government savings schemes on behalf of CDNS. CMD is striving to re-engineer savings schemes procedures to bring efficiency in terms of time, cost and HR needs. To this end, CMD has recently launched Phase II of Premium Prize Bonds (Registered) Scheme, under which all processes have been automated through T-24 and detailed SOPs issued to SBP BSC Field Offices. To facilitate the general public further, CMD in collaboration with ISD, has undertaken system development to allow customers the option to obtain prize money and face value of winning Prize Bonds (higher denominations in first phase) directly into their accounts. A brief overview of various savings schemes is given below:

2.7 National Prize Bonds

National Prize Bonds (NPBs) are bearer instruments available in eight denominations as elaborated in **Table 2.3.** The sale and encashment of these Bonds is carried out by all SBP BSC Field Offices, authorized commercial bank branches and National Savings Centres. Draws of all denominations of NPBs are held only at nine SBP BSC Field Offices on quarterly basis as per schedule announced by the CDNS. As on 30th June, 2018, the overall value of NPBs held by the general public increased by Rs 101.5 billion, reaching a total of Rs 844.9 billion.

Table 2.3: Total NPB Sale & Encashment at SBP BSC Field Offices (Rs in million)

Denom.	Net Outstanding Value Held by Public FY16	FY17				FY18				Net Outstanding Value Held by Public (FY18)
		Sale	Encash-ment	Prize Money Payment	Net Value for Year FY17	Sale	Encash-ment	Prize Money Payment	Net Value for Year FY18	
100	7,677	1,017	290	566	727	1,121	285	697	836	9,241
200	24,071	3,065	1,308	1,918	1,757	3,353	1,169	2,126	2,184	28,012
750	71,007	12,740	3,457	6,709	9,283	13,691	2,315	7,694	11,376	91,666
1,500	82,515	7,136	3,768	7,492	3,368	12,167	2,341	7,938	9,826	95,709
7,500	71,734	7,573	4,016	6,214	3,557	10,340	1,783	7,084	8,557	83,848
15,000	112,266	32,015	10,878	10,634	21,136	27,297	6,614	12,939	20,682	154,085

25,000	93,322	35,589	10,678	8,636	24,911	37,809	9,440	11,738	28,369	146,602
40,000	182,980	46,806	13,756	16,522	33,049	28,869	9,127	19,577	19,742	235,771
Total	**645,572**	**145,941**	**48,151**	**58,691**	**97,788**	**134,647**	**33,074**	**69,793**	**101,572**	**844,934**

Further, prize money payment has also increased mainly on account of two reasons: (a) lesser encashment and greater holdings of all denominations of NPBs by the general public; and (b) increase in the number of series in every denomination.

2.8 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in 1966 by the CDNS, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.4**.

Table 2.4: Number of DSC Cases handled by SBP BSC Field Offices

Sr.	Office	FY16			FY17			FY18		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	97	0	0	6	0	0	8	1	1
2.	D. I. Khan	3	0	0	4	1	1	5	0	0
3.	Faisalabad	269	453	453	20	69	69	61	87	87
4.	Gujranwala	36	0	0	4	0	0	12	0	0
5.	Hyderabad	133	117	113	80	189	174	26	42	42
6.	Islamabad	107	272	272	25	220	195	110	216	46
7.	Karachi	6,105	31,506	1,540	2,476	4,024	4,024	1,025	3,082	3,029
8.	Lahore	2,880	723	723	181	691	691	215	896	919
9.	Multan	0	0	0	0	0	0	0	0	0
10.	Muzaffarabad	23	8	8	0	16	16	9	1	1
11.	N.Nazimabad	723	1,889	761	135	405	380	138	475	445
12.	Peshawar	26	61	47	35	57	54	29	40	40
13.	Quetta	35	237	237	66	103	103	64	144	75
14.	Rawalpindi	847	828	719	184	369	316	23	75	86
15.	Sialkot	188	89	89	24	53	53	87	58	58
16.	Sukkur	148	144	46	12	18	18	20	41	41
Total:		**11,620**	**36,327**	**5,008**	**3,252**	**6,215**	**6,094**	**1,832**	**5,158**	**4,870**

2.9 Special Savings Certificates

Special Savings Certificates (SSCs) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle income investors with steady income. The SSCs are available in various denominations, starting from Rs 500/- and going up to Rs 1 million with a maturity period of three years. Profit coupons are payable bi-annually, currently at the rate of 6.8 percent for the first five and 8.0 percent for the last coupon. A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of SSCs for the last three years is given in **Table 2.5.**

Table 2.5: Number of SSC Cases handled by SBP BSC Field Offices

Sr.	Office	FY16			FY17			FY18		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	38	5	5	0	1	7	0	1	5
2.	D. I. Khan	0	0	0	0	0	0	0	0	0
3.	Faisalabad	433	907	907	47	153	247	67	196	225
4.	Gujranwala	8	4	4	0	0	0	1	1	1
5.	Hyderabad	260	1,047	1,047	220	286	547	52	112	170
6.	Islamabad	195	306	306	21	91	158	310	331	58
7.	Karachi	36,594	46,496	46,496	4,291	7,356	12,380	1,800	12,592	13,942
8.	Lahore	5,872	1,599	1,599	671	1,549	3,242	980	1,689	2,166

9.	Multan	0	3	3	0	0	0	0	0	0
10.	Muzaffarabad	0	4	4	0	6	6	0	2	2
11.	N. Nazimabad	3,757	5,670	5,670	1,054	1,852	2,345	1,347	2,343	3,475
12.	Peshawar	125	41	41	61	179	279	40	79	174
13.	Quetta	10	18	18	35	55	99	31	23	15
14.	Rawalpindi	1,803	702	702	267	460	1,526	107	229	392
15.	Sialkot	62	144	144	8	37	54	41	145	40
16.	Sukkur	154	40	40	2	8	20	02	11	19
Total:		**49,311**	**56,986**	**56,986**	**6,677**	**12,033**	**20,910**	**4,778**	**17,754**	**20,684**

2.10 Premium Prize Bonds (Registered) Scheme

SBP BSC, in collaboration with CDNS, introduced a new "Premium Prize Bonds (Registered) Scheme" with Rs. 40,000/- denomination from March 10, 2017. This initiative is aimed at formalizing investments in Government Bonds, enhancing financial inclusion and a step towards documentation of economy as maintaining a bank account is mandatory for investment in this scheme. The scheme is unique in the aspect that these Prize Bonds are eligible for both prize money (as admissible in the scheme) and profit payment at 3% per annum. The 1st prize of Rs. 40,000/- denomination PPB is Rs 80 million. The first draw for Rs. 40,000/- PPB was held at Peshawar, on June 12, 2017 and the prize money amounts against prize winning bonds were directly credited into the bank accounts of respective investors within 3 working days from the date of draw. A snapshot of the business conducted for Rs. 40,000/- PPB in FY18 is given in **Table 2.6**.

Table 2.6: Total PPB Sale & Encashment at SBP BSC Field Offices (Rs in Million)

Sr.	Denom	Sale	Encashment	Prize Money Payment	Profit Payment	Value Held by Public
1.	40,000/-	3,625	1,302	252	103	5,245
Total:		**3,625**	**1,302**	**252**	**103**	**5,245**

2.11 BPR/IT Developmental Initiatives

SBP BSC, as an organization, believes in efficiency gains through effective deployment and utilization of IT solutions and updation wherever required. During FY18, CMD actively pursued development of various reports/queries to improve data consolidation and analysis. Other recent, significant Business Process Re-engineering (BPR) and IT-related initiatives undertaken by CMD include:

(i) System developments for direct credit of prize money and face value of winning National Prize Bonds.
(ii) Oracle module for maintaining cash handling machines' information.
(iii) Advance stamping of National Prize Bonds.
(iv) Customer facilitation through merging counters for NPBs sale.
(v) Encashment and multiple prize money denominations/draw number claims.
(vi) Revisiting fresh notes examination mechanism.
(vii) Rollout of pilot phase of Electronic Queue Management System (e-QMS) at SBP BSC, North Nazimabad, Karachi.
(viii) Institution of centralized pigeon holes/lockers for deposit of personal cash by officials deputed in examination/destruction/vaults.
(ix) Facilitating National Bank of Pakistan in submitting balance details through SBP's Data Acquisition Portal (DAP-4).
(x) Analysis and development to discontinue manual reports in favor of Globus environment.
(xi) Email alerts to ensure timely communication of Currency Transaction Report as per Anti Money Laundering Act 2010.
(xii) Uploading of Active Tax Payers list in system to automatically check customer status etc.

Further, as part of its on-going developmental projects, CMD is exploring various IT solutions, dashboards, T-24 reports etc. to ensure quicker data reporting for analysis and onward submission to higher management for timely decision making. It is pertinent to mention here that during FY18, CMD has also undertaken various developmental initiatives through Business Plan Projects.

1.12 HR Capacity Building

In addition to bringing about operational improvements, CMD is also committed to strengthening its human resource by facilitating its officers in availing training and development opportunities, both domestic and foreign. For this purpose, a considerable number of officers have been nominated for training at various international forums such as programs hosted by Currency Research, European Central Bank, Central Bank of Japan, Currency Conference's Strategic Meeting etc. Additionally, officers have also been nominated for various training programs conducted by National Institute of Banking and Finance (NIBAF) and other reputable institutions like the Institute of Bankers Pakistan (IBP), and the Pakistan Society for Training and Development (PSTD) etc.

1.13 Future Outlook

1. CMD will be playing its part in smooth implementation of CMS, acquiring/deploying sophisticated, one-stop cash handling solutions and policy/framework for streamlining currency operations.
2. CMD has rolled out 2nd Phase for procurement of Banknote Processing and Authentication Solutions (BPAS) and Banknote Destruction Systems (BDS) for different SBP BSC Field Offices.
3. After PSPC's acquisition, CMD will continue to provide all possible support for process improvement, mitigating supply side constraints and enhancing overall printing infrastructure.
4. CMD will further refine lifting/diversion of soiled balances in order to ensure quicker disposal.
5. To ensure meticulous compliance of CMS, CMD will rollout development of multiple Onsite Cash Monitoring Hubs in two phases. The 1st Phase i.e. deployment of onsite monitoring teams for 30 big cities is envisioned to be rolled out by 1st half of FY19.
6. CMD recently initiated direct credit of prize money equal to or greater than Rs. 93,000/- and face value of winning National Prize Bonds (Bearer) to claimant's bank account, enabling claimants to receive payments directly into their bank accounts instead of visiting SBP BSC Field Offices. The general public response to this initiative is not only overwhelming, but also encouraging for Field Offices, enabling them to process prize money claims more efficiently.
7. CMD is looking into expanding the outreach of National Prize Bonds Scheme by allowing commercial banks to process prize money claims. SBP BSC and CDNS have also launched a "Premium Prize Bonds (Registered) Scheme", initially with Rs 40,000/- denomination, eligible for bi-annual profit in addition to the prize money paid through active bank account only. Rs 100,000/- denomination Premium Prize Bonds (Registered) will also be introduced in due course.
8. The organization is also in the process of developing a procedure for enhancing the outreach of PPBs by utilizing the branch network of commercial banks. In the initial phase, this outreach will be expanded to 6 large commercial banks to gauge public response and assess further feasibility.