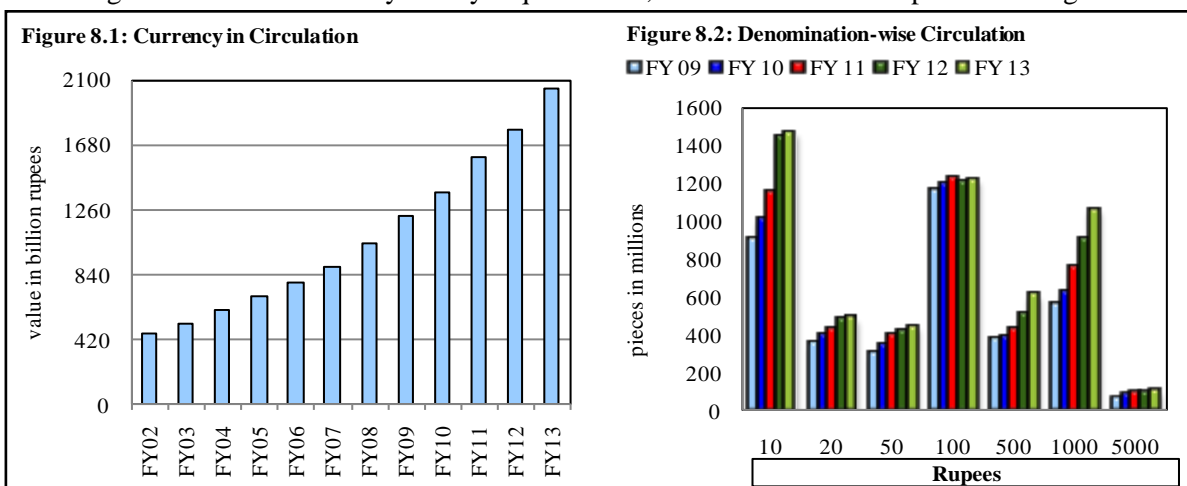


# 8 SBP Banking Services Corporation (SBP-BSC)

The SBP Banking Services Corporation (SBP-BSC), established in 2002, is one of the two subsidiaries launched by State Bank of Pakistan, the other one being National Institute of Banking and Finance (NIBAF). SBP-BSC is an operational arm of the SBP. Since its inception, it has shown unswerving advancement in its activities. Voyage of the Corporation witnessed an era of success with regard to its operations on different fronts including: (i) good quality and prompt services to the federal, provincial and district governments, banking industry (including SBP), as well as the common man; (ii) improving the quality of services, and enhancing the transparency; (iii) strengthening its role as an extended arm of the Development Finance Group (DFG) of SBP. The hardworking and committed staff of the Corporation continuously strives for displaying their best, so as to effectively assist senior management towards the policy formulation and implementation process, aimed at successful achievement of the organizational goals embodied in the mission and vision statements of the Corporation.

VISION STATEMENT	MISSION STATEMENT
To develop SBP-BSC into a dynamic and efficient organization equipped with requisite technology and human resource capable of extending sustainable support to the State Bank of Pakistan in achieving its objectives.	To provide excellent banking and financial services to stakeholders besides ensuring implementation of SBP policies in order to command their trust and respect.

A visible improvement was observed during FY13 in the journey of success made during the first decade of the Corporation’s progress. While unfolding the performance account of the Corporation during the year under review, one of the most important assignments relates with “Currency Management”. It hardly needs emphasis that the availability of clean and durable bank notes is the cornerstone of services performed by a central bank, particularly when seen from the perspective of a common man. It would be worthwhile to mention here that Pakistan is a cash oriented economy, as evident from the increase in Currency in Circulation (CIC) which stood at Rs 2,043 billion as on 30th June 2013, compared to Rs 1,777 billion on 30th June, 2012; showing an increase of 15 percent (Figures 8.1 and 8.2). In a society having more reliance on the printed bank notes in the payments of their obligations and for other day-to-day requirements, it becomes more complex to manage



availability of bank notes and coins across the country. A considerable increase in CIC during the recent past has suggested Currency Management Department (CMD) of the Corporation to manage more aggressively the stocks of fresh and re-issuable notes held at SBP-BSC field offices, primarily due to remittance arrangements for currency movement in bulk. Notwithstanding the operational difficulties, CMD has successfully managed availability of bank notes and coins across the country, in order to meet its commitment and resolve to provide good quality bank notes.

The replacement of soiled bank notes and availability of good quality bank notes across Pakistan warrants both institutional commitment as well as operational innovation, in a payment system relying more on physical exchange of bank notes for settling payments. CMD has been doing the needful towards this direction in a two pronged strategy; firstly, through its operational commitment to pursue round-the-year Clean Note Policy (CNP) of the SBP and, secondly, through availability of the fresh notes on special occasions like Eid ul Fitr. As a part of an ongoing process, it has also been made conditional on the banks to use good quality notes for ATM operations. Moreover, under CNP, banks have been advised to devise strong internal control mechanisms, in order to check compliance of the instructions issued by CMD from time to time, and submit the compliance certificate to the Director, CMD on 15th January every year.

The underlying philosophy has been to implement the CNP with the cooperation and ownership of stakeholders. Moreover, category-wise database of all commercial banks has been developed, thereby showing their performance with regard to implementation of SBP's CNP, taking corrective action by aligning more resources to banks having relatively poor performance in this regard. It would be worthwhile to mention here that, on an overall basis, fresh cash equivalent to Rs 518 billion was disbursed to banks and various other institutional and non-institutional stakeholders during FY13, as against Rs 443 billion in FY12.

On account of managing the banking business of the government, SBP-BSC remained engaged with the operational work relating to National Prize Bonds Scheme and National Saving Certificate Scheme of the Central Directorate of National Savings (CDNS). Sale and encashment of prize bonds of various denominations and the payment of prize money were areas where SBP-BSC deployed resource to administer the scheme efficiently. During FY13, total sale of Rs 155.0 billion was handled compared to Rs 162.2 billion in FY12 showing a decrease of Rs 7.2 billion in sale. Likewise, the encashment volume recorded at Rs 98.8 billion during FY13, while it was Rs 105.9 billion in FY12 again showing a reduction of Rs 6.7 billion. With a comparison of both the coefficients, a net decrease of Rs 0.5 billion can be witnessed towards the net outstanding position. The field offices of SBP-BSC settled 1,558,778 cases of prize money payments compared to 1,312,798 cases during FY12, showing a significant increase of 19 percent. While administering the regular prize bond scheme, SBP-BSC also facilitated the CDNS in re-launching of Student Welfare Prize Bond of Rs 100 denomination during November 2012, sales of which were handled simultaneously in all the 16 field offices of the Corporation.

The Corporation also managed other schemes of CDNS; notably the sale, encashment and profit payments of Special Saving Certificates (SSC) and Defence Saving Certificates (DSC). During the year under review, 11,751 cases (valuing Rs 24.2 billion) in respect of sale of SSCs and 5,741 cases (valuing Rs 23 billion) of DSCs were handled. The combined sale of SSCs and DSCs for the FY13 was increased by 36 percent compared to FY 12. During FY13, both SSCs and DSCs contributed almost equally in achieving the combined sale of Rs 47.6 billion, whereas major chunk of the total sale of Rs 35 billion pertained to SSCs in the previous fiscal year. Further, in order to mitigate all

operational risks, SBP-BSC implemented a new online system developed in Globus, for confirmation of PB-18 from Public Debt Offices (for prizes above Rs 18,500).

Being an operational arm of SBP, in its role as banker to the government, SBP-BSC provides specialized banking services to the federal as well as provincial governments through its 16 field offices all over the country. These services include collection of revenue, making payments and clearing financial instruments issued by the government. Moreover, government departments were facilitated in the transfer of funds within country. The consolidation and reporting of federal, provincial, district governments and zakat balances, is one of the key responsibilities of Accounts Department of SBP-BSC. Data pertaining to government transactions carried out in these accounts is reported to various stakeholders such as Accountant General Pakistan Revenue, Accountant Generals of the Provinces, Pakistan Railway, etc. on periodical basis. During FY13, around 6.30 million transactions pertaining to government receipts/payments were processed by the SBP-BSC offices. The tax revenue (FBR collections) handled by SBP-BSC offices and the network of NBP branches on behalf of the government, and credited to the relevant accounts during the year, was around Rs 1974 billion compared to Rs 1970 billion last year. The collection, disbursement, consolidation and reporting of zakat account is another prime responsibility of SBP-BSC Accounts Department. During the year under review, total collection of zakat amounted to Rs 4.1 billion compared to Rs 3.9 billion collected last year.

In addition to the functions delegated by the Exchange Policy Department of SBP, Foreign Exchange Operations Department (FEOD) and Foreign Exchange Adjudication Department (FEAD) in SBP-BSC undertake the responsibility for implementation of Foreign Exchange Manual, as illustrated through implementation of the Foreign Exchange Regulation Act (FERA) 1947. FEOD is also responsible for ensuring realization of export proceeds, besides managing the commercial, private and government remittances; and processing the cases related to specific subsidies as allowed by the federal government and the relevant ministries to specific exporters' categories like textile exporters. The details regarding major achievements of FEOD are presented in **Box 8.1**.

**Box 8.1: Significant Accomplishments of FEOD during FY13**

- As a sequel to follow-up with the delinquent exporters failing to realize export proceeds under the stipulated time period, FEOD remained successful in realizing around US\$ 500 million during FY13.
- For the purpose of realization of proceeds, FEOD issued 19,211 show cause notices (SCNs) to the delinquent exporters compared to 18,054 in FY12; whereas 8,730 SCNs were issued to Authorized Dealers (ADs) as against 6,930 cases in the previous year.
- Moreover, 3,467 complaints in FY13 were also filed by the FEOD against exporters for referral to Foreign Exchange Adjudication Courts for taking action under Section 23B of FERA 1947, as against 2,855 filed during FY12.
- The most significant step taken in the year under review was the lodgment of a huge number of complaints against those ADs who failed to provide pre-adjudication information for taking punitive action under FERA 1947 against those exporters who failed to repatriate export proceeds within prescribed period. In this regard 4,970 complaints against ADs were lodged in Foreign Exchange Adjudication Courts in FY13 as against 740 complaints in FY12.
- FEOD also facilitates the Development Finance Group (DFG) of SBP in monitoring the performance of the exporters having availed the funding under Export Finance Scheme of SBP.
- FEOD also undertakes the responsibility of managing R&D subsidy to the textile sector. In this regard, a total of 14,488 DLTL (Drawback on Local Taxes and Levies) claims (amounting Rs 1.4 billion) were paid as against 78,385 cases (amounting Rs 5.6 billion) paid in FY12.
- Various MIS have been developed in the area of remittances and foreign exchange allocation record of government and semi-government departments maintained at FEOD.
- After shifting from manual ledger system to system-based Foreign Exchange Accounts Information System (FEAIS), a total of 12,596 entries (involving Rs 149.3 billion) were cleared through FEAIS during FY13 as against 11,243 transactions last year.

The prime objective of the Foreign Exchange Adjudication Department (FEAD) is to adjudicate the complaints received from FEOD. Adjudicating Officers in FEAD exercise powers vested in them under Section 23B of FERA 1947, in order to undertake the legal proceedings and to dispense justice to the aggrieved parties. Details regarding noteworthy activities, performed by FEAD during FY13, are given in **Box 8.2**.

**Box 8.2: Major Achievements of FEAD during FY13**

- As a result of dedicated efforts of FEAD, a stuck up sum of US \$49.4 million was realized during FY13 compared to US\$ 43 million previous year.
- During FY13, FEAD processed 5957 complaints against delinquent exporters on country wide basis and disposed of 1,677 complaints through 9 courts.
- 445 cases against ADs for non-submission of pre-adjudication information/ documents were received, leading to the imposition of penalties worth Rs 0.1 million which were subsequently deducted from their accounts maintained with SBP-BSC.
- Moreover, improvements have been made in the database which now contains the comprehensive data pertaining to last eight years. This provides a useful tool for multidimensional analysis of the emerging trends and may also be helpful in the policy making by Exchange Policy and Microfinance Departments of the State Bank. It will be helpful for commercial banks (in coming years) in certifying the E- Form / granting loan to exporters / negotiating various instruments drawn on the basis of E-Form.
- A significant progress has also been made in the development of a system that will generate consolidated SCNs. The system generated consolidated SCNs are supposed to enhance accuracy and consistency in the database, along with saving on account of time and effort.
- For the purpose of capacity building of FEAD, a five-day training programme was conducted at Sindh Judicial Academy for Adjudicating Officers and the readers, with the support of Training and Development Department of SBP-BSC. FEAD also has a Recovery Cell to pursue revenue authorities/government departments for recovery of penalty from defaulting exporters. These authorities have so far collected Rs 24.0 million out of the total penalty amount of Rs 9.5 billion imposed by the FEAD Courts on defaulting exporters since inception. It shows the difficulties faced by our recovery cell in implementing orders of FEAD.

Development finance, being more inclusive, performs a crucial role in the progress of developing nations. In this regard, Development Finance Support Department (DFSD) of SBP-BSC and its field units across the country, support the Development Finance Group of SBP in their efforts through organizing conferences, seminars, workshops, exhibitions, fairs, and awareness programmes at grassroots level. The objective is to disseminate knowledge about policies, approach and initiatives for broadening and deepening of financial sector as well as to increase outreach of financial services to the un-banked/under-banked areas. Furthermore, DFSD and its field units also remained actively involved in the monitoring and implementation of various SBP's policies initiatives and schemes undertaken during FY13 including Pilot Project-IV for Farm, Non- Farm Sectors and Group Based Lending, Agriculture Lending Diversification Project 2013, Farmer Financial Literacy Program, Agri Indicative Targets, Credit Guarantee Scheme for Small and Rural Enterprises, Microfinance Credit Guarantee Facility, different concessional refinancing schemes for SMEs, Mark-up Subsidy and Guarantee Facility for Rice Husking Mills in Sindh, revised PRs for SME Financing. Glimpses from DFSD's performance during FY13 are embodied in the **Box 8.3**.

**Box 8.3: Major Achievements of DFSD during FY13**

- Focus Groups established at field offices for each of the Development Finance Sectors (viz. Agriculture, SME, Microfinance and Islamic Banking) are aimed to disseminate DFG-SBP policy initiatives, schemes and guidelines for the sectors; to discuss and evolve operational strategies for increasing outreach of financial services amongst the micro enterprises and low income communities in both urban and rural areas and to collect feedback on various SBP/government policies for growth and development. During FY13, 66 Focus Groups' meetings were held.
- During FY13, 153 programmes relating to awareness, information dissemination and capacity building were arranged and participated by DFSD and its field units. During the same period, DFSD and its field units also facilitated DFG-SBP Departments and local centers of Institute of Bankers Pakistan, in organizing their training and capacity building programmes for the credit officers of commercial/ specialized banks. Supplementing the

training initiatives, further 16 programmes on development finance related subjects and SBP Credit Schemes were also arranged by Access to Finance Units in different parts of the country, so as to meet specific training needs of bankers in their respective regions.

- DFSD also strived for creating linkages between government policy makers as well as academia, in order to minimize traditional disconnect between the two important stakeholders. During the year under review, 14 internship programmes for students and 5 in-house/on-site visits/meetings were held for faculty members of different educational institutions of the country, as also 18 in-house meetings and 27 on-site visits/ meetings with the representatives of provincial/ district administration, chamber and traders associations, SME Development Center, SME Business Support Fund, SMEDA, Society of Urban & Rural Entrepreneurship, Pakistan Agriculture & Dairy Farmers Associations, non-governmental organizations and model farms.

The significant role played by internal audit in the functioning of an organization needs not be over-emphasized. Internal Audit Department (IAD) of the Corporation provides value additive support through an integrated and ongoing feedback loop, not just for the current state of business processes but also for business process re-engineering. In the overarching architecture that facilitates risk management processes, governance and effective framework of internal controls, IAD of SBP-BSC acts as a crucial pillar within the architecture, through extension of independent and objective policy advice to the senior management.

Under consistent guidance by a vibrant Audit Committee (of the Board of Directors of SBP-BSC), IAD of the Corporation completed its obligations for objective and independent evaluation of control environment of the Corporation during the year. Further, impact of audit observations from July 2010 to April 2013 was assessed on the basis of value addition to the organization and improvements that were brought in the control environment.

Combined impact of approximately 48 percent audit observations resulted in recommendation of new and improved controls where new controls recommendations resulted from almost 27 percent and Improved controls resulted from almost 21 percent of audit observations. IAD of SBP-BSC further enhanced its IT audit scope during FY13 for covering those IT areas which are affecting SBP-BSC business operations. For this, a proposal was initiated and mutually agreed by IAD (SBP-BSC) and IA&CD and ISTD of SBP. As a result, IT infrastructure, application, change management, network, pre and post implementation, and business continuation plan design & arrangements are now part of SBP-BSC's IAD audit universe.

Annual audits of 16 SBP-BSC field offices and 6 departments of its head office, Karachi (HOK) were carried out by the IAD during the year under review. Further, 75 audit engagements were performed by audit hubs located at Karachi and Lahore. In total, 713 audit observations were highlighted in field offices, while 82 were noted in HOK during FY13. Key developmental projects completed by IAD during the year included Sampling Techniques for Auditors, Audit Rating & Compliance Rating Framework, and Audit Checklists & Audit Documentation.

During FY13, Personnel Management Department (PMD) of SBP-BSC continued with consolidation of its ongoing initiatives to strengthen the HR base of the Corporation in line with its strategic objectives. The results of previous measures to revise the early retirement incentives were apparent, as depicted by departure of 388 employees during the year, thereby reducing the workforce<sup>1</sup> to 3,589 from 3,919. As planned, the HR gap is being filled through a transparent and merit-based recruitment process by hiring (a much a lesser number of) professionally qualified, better trained, technology savvy resources on market based remuneration. In this regard, a batch of 54 OG-2s under Young

<sup>1</sup> The working strength of SBPBSC for FY13 excludes 309 contractual employees, thereby leading to an aggregate number of 3898 employees as compared with a total of 4113 employees during FY12.

Professionals Induction Programme (YPIP) and 48 Junior Officers (on contract) was inducted after a competitive process and rigorous pre-induction training. Further, in pursuance of establishing academia-industry linkage and to meet the short-term skill gap, a batch of 39 business graduates of reputed universities across Pakistan was selected and offered a two years Internship Programme under Management Apprenticeship Attachment Programme (MAAP). This was probably first such initiative in the financial sector, under which aspiring business graduates were provided with opportunity to gain valuable work experience and also complete their requirement for admission in masters programs.

There may not be two opinions about the fact that staff training is a strategic requirement for the success of any organization. Accordingly, this job is being accorded with high importance in the milieu of functions performed by the Corporation. In this connection, the focus of Training & Development Department (T&DD) of SBP-BSC during FY13 remained on closely aligning training objectives with the emerging priorities of the Corporation. To meet this end, T&DD worked in close collaboration with stakeholders in designing the need-based priority training programmes throughout the year. Broadly categorizing, the following training programmes were facilitated by T&DD during FY13:

- Skill Development Training Programs, based on IT applications like Globus and ERP, at NIBAF Islamabad and Karachi.
- Specialized Foreign Training programs, like International Commercial Cash Operations and Internal Auditing Seminars.
- 211 in-house training programmes at HOK/field offices ensuring ensure equal opportunities for personal and professional development at all levels and to meet office/departmental needs.
- Promotion-focused Fast Track Training Programmes for 522 OG-1 to OG-3 Officers in line with Career Development Policy 2009.
- Industrial Relations/Outsourcing Training Programs.
- Recruitment-driven training programmes for YPIP, Junior Officers Training Programme (JOTP) and MAAP, with full orientation to overall functioning of SBP-BSC.
- Need-based technical training programmes for FEAD and IBSD officials at Sindh Judicial Academy (5 days) and NIBAF Islamabad (1 day) respectively.

Moreover, SBP-BSC also conducted 6-week summer and winter internship programmes for talented students from accredited institutions across the country. In total, 61 such Internship Programmes were arranged in Dera Ismail Khan, Hyderabad, Islamabad, Quetta and Sukkur field offices.

Going forward, T&DD intends to augment its focus from supply to demand-driven training programs. It also aims to promote knowledge sharing culture, peer networking and exchanging internal best practices through arranging seminars, workshops, and in-house training programmes for employees working at all levels.