

7 SBP Subsidiaries

7.1 SBP Banking Services Corporation (SBP-BSC)

SBP Banking Services Corporation (SBP BSC), a wholly-owned subsidiary and operational arm of SBP, is committed and fully onboard for implementation of SBP initiatives and policies in line with the Vision 2020. A number of initiatives have been taken by SBP-BSC to bring further improvement in its major operational areas i.e. currency management, foreign exchange operations and government banking. The initiatives include procurement of High Speed Banknote Processing and Authentication System, use of SMS based services for issuance of fresh cash, efforts to initiate automation of government payments in collaboration with AGPR and provincial treasuries and replacement of paper-based E-Form with electronic E-form to facilitate exporters in partnership with Exchange Policy Department of SBP and Customs authorities.

7.1.1 Currency Management

The SBP-BSC in collaboration with the Bank has embarked on implementation of the SBP Currency Management Strategy in commercial banks as well as all SBP-BSC field offices. During the year, two high speed Banknote Processing and Authentication System (BPAS) were installed at SBP BSC Karachi for processing banknotes. Each of these machines can process up to 100,000 notes per hour, which includes authentication, sorting, packing into packets and bundles and destruction of soiled/unfit notes. The BPAS has also been connected with a modern briquetting system to convert the destroyed banknotes material into small bricks for subsequent use in landfills and/or power plants. The installation of BPAS is a major step towards reforming the cash processing function in SBP BSC as it will not only significantly enhance its capacity to process large quantities of cash but also enable it to detect even finest quality of counterfeit banknotes. Similar machines will also be installed in Lahore, Rawalpindi and Peshawar to cover central and northern regions respectively.

In order to facilitate general public in obtaining fresh banknotes from banks on Eid festivals, SBP BSC had initiated an SMS based service last year. Under the facility any citizen could avail fresh notes of small denomination in a specified quantity from designated branches of commercial banks, by sending his/her CNIC in an SMS to 8877. This year the service was expanded to 500 branches of commercial banks in 115 cities across the country enabling over 1.1 million citizens to obtain fresh banknotes from banks in a transparent and dignified manner. The SMS based service has helped SBP BSC in expanding the outreach of availability of fresh banknotes of small denomination to smaller cities and towns as earlier in the commercial banks based model, the outreach was largely restricted to big cities and people in smaller cities had only limited opportunities to obtain fresh banknotes from banks. The service will be expanded to at least 1000 branches next year covering maximum possible districts and tehsils across the country.

7.1.2 Automation of Foreign Exchange Operations

The automation of E-Form (Export Form) completed and launched during the year was a flagship project of SBP BSC, which will not only facilitate exporters in hassle free system based filing of E-form with Customs Authorities after verification by his/her bank but would also bring transparency and eliminate circulation of fake E-Forms. After smooth automation of E-Form in WeBOC (i.e. Web-based software for custom clearance), the automation of Import Form (I-Form) was also initiated through the said system by linking the payment module with the customs' cleared consignments. Once completed the electronic I-Form would help in curbing malpractices in the form of multiple payments against single import consignments and use of 'Hawala' to settle import payments.

Furthermore, in order to automate the 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 the exporters, which is expected to mitigate financial risks and lead towards a robust system-based performance and limit allocation for exporters.

7.1.3 Capacity Building in International Trade

In order to deepen and broaden the understanding of SBP BSC staff in international trade and foreign exchange markets, a number of in-house training programs were organized on the subject. Further, the concept of attachment program was introduced wherein BSC staff was attached with foreign exchange operations of designated commercial banks to have hands on experience in the area thus improving their knowledge and understanding of international trade and foreign exchange markets. Further, considering the overall modest capacity of Authorized Dealers in foreign exchange, a specialized training program was designed and is being offered in collaboration with National Institute of Banking & Finance (NIBAF) for the officers of Authorized Dealers to enhance their capacity in foreign exchange business.

7.1.4 Resolution of Foreign Exchange Overdue Cases

The non receipt of export proceeds for considerably long periods has been a challenge for SBP-BSC. A special dedicated department i.e. Foreign Exchange Adjudication Department exists in the BSC to adjudicate cases of non-receipts of export proceeds by the exporters and levy fines and penalties on the exporters who failed to bring the export proceeds within the time lines given by the department. During FY16 an amount of USD 57.7 million was repatriated in the country through judicial proceedings as against the repatriation of USD 49.4 million in the previous year. The number of complaints registered, have reduced to 3,718, out of which 2,782 were disposed of, compared to 4,669 complaints received during previous financial year (FY15) out of which 2,085 were disposed of. The ratio of complaints received and disposed of improved significantly from 45 per cent (FY 15) to 75 per cent in FY 16.

7.1.5 Promotion of Financial Inclusion / Access to Finance

The presence of SBP-BSC in 15 regions across the country gives it an inherent advantage to promote SBP initiatives for development of an inclusive financial system amongst the relevant stakeholders at local level. During the year, it remained actively involved in assisting SBP to disseminate and implement its financial inclusion policies and strategies through regular focus groups meetings and rigorous follow up with all stakeholders particularly the banks' regional management thus enabling SBP to monitor the challenging target of disbursements of Rs 600 billion to the agriculture sector. The BSC also implements SBP's Export Finance Schemes (EFS) and disbursed a sum of Rs 500 billion under the schemes during FY16. It also prepared a set of standardized documents for on-site verification of EFS cases by its teams to ensure consistent reporting. Further, under Credit Guarantee Scheme (CGS) for Small and Rural Enterprises launched by SBP in 2010, the BSC issued guarantees to 13 Participating Financial Institutions (PFIs) during the year against 8,572 loans aggregating to Rs 6.009 billion sanctioned by them.

7.1.6 Strengthening Humane Resource Capacity

The SBP-BSC human resource mix has been undergoing a major change since last 4-5 years wherein the old staff having skills mix incompatible with the current business needs of the organization are being replaced by young professionals and graduates of reputed business schools and educational institutions. Only during FY16, 550 employees opted for early retirement and 369 young professionals were recruited to replace them. This transformation in the employees mix has

significantly improved the skills mix thus enabling BSC to improve its performance. This trend is likely to continue during next 3-4 years when bulk of employees having incompatible skills mix would be replaced by young professionals under the ongoing voluntary early retirement scheme. The challenge now is to ensure effective utilization of the significantly improved skills set to achieve organizational objectives.

To improve efficiency and effectiveness, an organization wide work load analysis project was initiated in BSC during the year with the help of an external consultant to determine the ideal head count for different functional areas. Further, a comprehensive organization wide restructuring plan was prepared which was approved by the SBP BSC Board. Moreover, in order to have more flexibility and operational mandate, the BSC Ordinance 2001 was reviewed and certain amendments were proposed, which were approved by BSC Board. The proposed amendments were sent to Ministry of Finance Government of Pakistan for initiating the process to get these amendments approved by the Parliament. An Employee Engagement Survey for all officers was also successfully conducted during the year to gauge employees' satisfaction and motivation levels. All these initiatives are aimed at transforming the BSC into a robust and vibrant organization having the capacity to help SBP in implementing its policies and strategies for development of an inclusive financial system in the country.

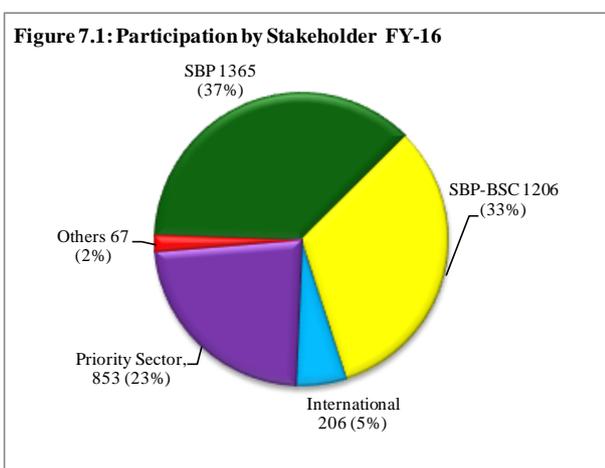
7.2 National Institute of Banking and Finance (NIBAF)

The successful attainment of SBP's strategic goals critically hinges upon the capacity of its human resource to deliver. With its primary mandate to develop and nurture the human resource base of SBP and SBP-BSC, under its renewed initiatives, NIBAF structured its 137.2 training weeks Business Plan for FY 16, to address the capacity building needs as envisaged in the SBP and SBP-BSC Training & Development policies introduced during the year. Further, NIBAF leverage its facilities to better serve the financial sector through specialized and advanced level trainings aimed to augment SBP's regulatory efforts most importantly in the area of Islamic banking, AML, SME, Microfinance, etc.

Aligned with the SBP Vision 2020, NIBAF in collaboration with HR teams of SBP and SBP-BSC carried out training need analysis as part of the business plan by holding meetings at department/cluster level to ascertain their training needs, identify skill-gaps and accordingly structure/design course contents.

As against the target, NIBAF conducted 158.56 weeks of trainings during the year out of which SBP received 60.9 weeks, SBP-BSC 42.5 weeks, priority sectors 34.4 weeks, International 15.9 weeks while other financial institutions 4.8 weeks of trainings (**Figure 7.1**). The total training activity was 21.4 weeks higher than the last year largely due to significant increase in international trainings and Islamic banking trainings.

Further, the institute engaged with Pakistan's Bank Association and Financial Monitoring Unit to explore the possibility of launching courses on Anti Money Laundering and Combating Terrorist Financing for commercial banks & financial institutions. Toward this end, an MoU was signed



between NIBAF and Financial Monitoring Unit whereby FMU will provide technical expertise for conducting the programs to be rolled-out shortly for frontline staff of commercial banks/financial institutions.

7.2.1 International Training Program

International programs are regular feature of NIBAF business Plan. In FY16 NIBAF successfully conducted the 46th course on central banking for international participants, held under the aegis of SBP and Economic Affairs Division as part of Technical Economic Assistance Program. The course received a good response and total 13 friendly developing countries participated in the program. The objective of program was to share and discuss latest trends and technological developments in central banking, major economic developments around the world that impact central banks' policies, and strengthen bilateral relations. Further, due to strong demand for Islamic banking programs combined with international programs this year NIBAF also introduced some special customized programs delivered to bankers/ officials of the region including from Afghanistan. Moreover, while working closely with Ministry of Economic Affairs Division, NIBAF also organized a three weeks English language course for central bankers and mid-level officers from the Central Asian Republics (CARs) under the Pakistan Technical Assistance Program (PTAP, The program focused in particular on improving the English language proficiency of the participants through interactive learning sessions and participation.

Apart from conducting these training programs, NIBAF hosts and facilitates the SAARC Finance seminars and conferences organized by SBP and attended by central banks and ministries of Finance representatives from SAARC countries. Further, as a strategic partner of International Centre for Education in Islamic Finance (INCEIF-Global Islamic University Malaysia), NIBAF continued to conduct examinations of Masters in Islamic Finance Practice (MIFP) of INCIEF.

7.2.2 Priority Sector

SBP Vision 2020 has a special emphasis on improving financial inclusion levels through promotion and development of Islamic Finance, SME & IH finance, Agri Finance and microfinance etc. NIBAF as training arm, is actively engaged with different stakeholders to create necessary capacity for growth and development of these sectors. In FY16, a number of iterations of Islamic Banking Certificate Course (IBCC) and Fundamentals of Islamic Banking & Operations (FIBO) were conducted. Similarly specialized and focused program were developed in the area of Microfinance to facilitate the growth of the microfinance sector by enhancing the skill levels of human resource working in the microfinance institutions and banks. A total of 3.6 weeks of trainings were conducted at Islamabad and Lahore wherein 113 officials from Microfinance Banks/Microfinance Institutions participated. A number of programs were also conducted for SME & Housing finance including SME Lending techniques, non-performing loans, Recovery/Foreclosure and risks in housing finance, processing & documentation etc, wherein 100 commercial bankers participated.