

# 7 SBP Subsidiaries

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## 7.1 SBP Banking Services Corporation (SBP-BSC)

As a wholly owned subsidiary and operational arm of SBP, SBP Banking Services Corporation (SBP-BSC) continued to provide effective and efficient services to all stakeholders during FY18. The major functions performed by the Corporation included provision of banking services to Government and Banks, Currency Management, Foreign Exchange Operations & Adjudication and Development Finance. In addition, SBP-BSC is also responsible for procurement, engineering, medical services and internal bank security.

### 7.1.1 Provision of Banking Services to Government

The provision of banking services to Government is one of the primary responsibilities entrusted by SBP to SBP-BSC. In pursuance thereto, SBP-BSC maintains accounts of federal, provincial and local governments in its Head Office located at Karachi as well as 16 field offices. Besides maintenance of government accounts, SBP-BSC also provides services regarding government payments/ receipts, consolidation of government accounts and reporting thereof.

During FY18, SBP-BSC processed approximately 8.06 million transactions of government payments/ receipts through its field offices as compared to 7.04 million processed during FY17 showing an increase of about 14 percent. In line with SBP Vision 2020, Accounts Department in coordination with Finance Department-SBP and Payment System Department-SBP initiated various projects for the automation of government payments and receipts using advanced banking technologies and payment system infrastructure. For this purpose, a project has been initiated for online collection of FBR taxes and duties through ADCs including internet banking from March 20, 2018. An end-to-end automated system has been designed to process such transactions. Apart from taxpayer facilitation, this project has also allowed swift credit to government treasury.

Another significant initiative is online payment of sales tax refunds through Electronic Fund Transfer mode. Under this project, a new mechanism has been designed whereby sales tax refunds are now credited to bank accounts of taxpayers in a far efficient and seamless manner. SBP-BSC has also made concrete efforts for consolidation of payments through paper-based instruments for Military payments, which will bring efficiency in the overall system. Further, SBP-BSC also coordinated with Finance Department-SBP for development of SOPs regarding collection under Tax Amnesty Scheme (Declaration and Repatriation of Foreign Assets), besides providing assistance in collection.

### 7.1.2 Currency Management

Currency Management remained one of SBP-BSC's major responsibilities during FY18. In collaboration with Finance Department-SBP, SBP-BSC issued comprehensive policy guidelines for smooth implementation of Currency Management Strategy-Phase II for bringing SBP-BSC field offices and commercial banks at par with the automated environment. SBP-BSC also initiated the 2nd phase of its own automation strategy, wherein additional Banknote Processing and Authentication System (BPAS) and Banknote Destruction System (BDS) will be installed across Pakistan in a phased manner, after successful BPAS implementation at Karachi Office.

Along with high-end processing systems, Currency Management Department (CMD) also facilitated field offices in their capacity building by procuring and providing desktop banknote processing machines. Efforts are underway to augment this process through purchase of additional counter top

note authentication machines during the forthcoming year. It is expected that once completed, all field offices of SBP-BSC will handle banknotes, their segregation into fit/ unfit category and detection of counterfeit banknotes with enhanced efficiency. Similarly, CMD also focused on expedient disintegration of soiled banknotes against significant receipts, by undertaking business process re-engineering for destruction of different denominations of banknotes. Comprehensive instructions were issued by CMD in this context. These steps have resulted in disposal of a sizeable volume of such banknotes.

The distribution of fresh currency notes across Pakistan in general and on the eves of Eid ul Fitr and Eid ul Azha in particular, has remained a challenge for CMD across Pakistan. SBP and SBP- BSC have evaluated and implemented various options during last few years to ensure issuance of fresh banknotes on the eve of religious festivals in an efficient way. The most popular mean employed by CMD was usage of SMS based service for the distribution of fresh banknotes in various cities. Under this arrangement, any citizen can obtain fresh notes of small denomination in a specified quantity from a designated branch of commercial banks, by sending his/ her CNIC through an SMS to 8877. During the Ramadan 2018, this facility was offered in 132 cities through 1,500 branches of commercial banks, besides 16 field offices of SBP-BSC. This has helped SBP-BSC in expanding the outreach of availability of fresh banknotes of small denomination to over 2.2 million citizens all over Pakistan. Issuance of fresh notes under SMS was in addition to issuance of fresh notes of all denominations to commercial banks for their customers and government departments, who draw their monthly salaries from offices of SBP-BSC.

CMD issued Premium Prize Bonds (Registered) Scheme in FY17 in collaboration with Central Directorate of National Savings, which received positive response from public. The Department successfully launched Phase-II of this scheme, which is focused on system development for prize money payment, profit payment, stock management, pledging etc. To ensure smooth implementation of this phase, CMD issued comprehensive instructions to all SBP-BSC field offices and commercial banks. Moreover, CMD has undertaken business process review for payment of prize money and face value of winning National Prize Bonds, currently for prizes equal to or greater than Rs 93,000. Claimant also has the option to receive prize money and prize bonds' face value in his/ her bank account.

### **7.1.3 Financial Inclusion**

Development Finance Support Department (DFSD) facilitated Agriculture Credit & Microfinance Department (AC&MFD) of SBP in monitoring of agriculture credit disbursement target of Rs 1,001 billion allocated to 52 Participating Financial Institutions (PFIs) for FY18. DFSD coordinated with Access to Finance Units (AFUs) at SBP-BSC field offices for conducting regular target review meetings with banks as well as arranging follow-ups in biannual Agriculture Finance Focus Group meetings to identify regional level issues in agricultural lending. During FY18, all commercial banks and other PFIs disbursed Rs 973 billion as against disbursement of Rs 705 billion during FY17 thus achieving growth of around 38 percent.

DFSD coordinated with AFUs and monitored 530 activities in FY18, which included, amongst others, 171 awareness programs, 107 capacity-building sessions, 89 focus group meetings and 33 seminars/ workshops, attended by 18,907 participants. The Department also rolled out National Financial Literacy Program (NFLP) as a key SBP initiative to increase financial inclusion. The program was implemented countrywide in FY18 through 16 SBP-BSC field offices, 31 banks, and several partner institutions. For the purpose, master trainers of SBP-BSC field offices conducted 21 training sessions to train 382 field trainers from banks. With the combined efforts of SBP-BSC, banks and

partner institutions, 4,270 classroom sessions were conducted during FY18, which were attended by more than 100,000 participants, in excess of the target assigned to SBP-BSC. These sessions enabled more than 44,000 beneficiaries to open branchless banking/ Asaan accounts on spot. In order to obtain information from SBP-BSC field offices, a shared directory was created on the server with predefined formats, besides development of an information portal on SBP Electronic Board, for evaluating the progress of the program. DFSD also prepared business requirement document for NFLP data acquisition portal for obtaining data directly from banks.

The field offices of SBP-BSC during FY18 disbursed a sum of Rs 737.8 billion amongst participating banks under Export Finance Scheme (EFS). Similarly, refinance of Rs 30.3 billion was disbursed to banks for SMEs under EFS and Islamic Export Refinance Scheme. Teams constituted by SBP-BSC field offices carried out on-site verifications to ensure that all such financing facilities were utilized for value-added exports and as per instructions issued by SBP. These teams verified 12,532 loans valuing Rs 559.6 billion in 25 banks.

The Department also facilitated in extension of Long Term Financing Facility (LTFF), whereby financing was provided to exporters for employing new technology and/ or upgrading their existing plants and machinery. During FY18, Rs 41.66 billion were disbursed to borrowers through banks under LTFF Scheme.

During FY18, 7,449 loans aggregating to Rs 6,940.95 million were processed for up to 60 percent guarantee issuance to 18 PFIs. Similarly, 21,610 loans valuing Rs 1.31 billion were processed for issuance of guarantees to six PFIs under Credit Guarantee Scheme for small and marginalized farmers, while 49,168 transactions related to the Prime Minister Youth Business Loan scheme have been processed for payment of subsidy amounting Rs 594 million.

The Department manages funds of Rs 10.1 billion under various credit guarantee and mark-up subsidy schemes. In an effort to boost financing to SMEs by commercial banks, the SBP introduced "Policy for Promotion of SMEs". Further, SBP-BSC field offices organized 88 SME Finance Awareness Sessions in 45 cities across Pakistan to create awareness about the policy.

#### **7.1.4 Foreign Exchange Operations**

Foreign Exchange Operations Department (FEOD) is one of the core departments of SBP-BSC. Its prime functions include monitoring/ verification of trade transactions with a view to ensure timely repatriation of export proceeds and payment of genuine import transactions, approval of trade, commercial and private foreign exchange remittances, payment to exporters under various government schemes. It also manages SBP and Customs' joint booths at airports to facilitate exchange companies in export of currencies other than USD and import of USD.

A number of developmental initiatives were taken during FY18 in the area of automation, business processes re-engineering and improvement of operational infrastructure etc. In FY17, FEOD envisioned an automated workflow system, which was made part of Knowledge Management (KM) initiative of SBP. FEOD has completed the groundwork including development of Master Taxonomy sheets and case processing formats for implementation of KM. In order to involve stakeholders, an orientation session was arranged in April 2018 for the banking industry. In addition, FEOD is working on the establishment of Electronic Data Interchange (EDI) with WeBOC to monitor trade transactions in a robust manner. The data extracted through EDI will facilitate in development of a portal for authorized dealers (ADs) to enable them to conduct due diligence of exporters.

During FY18, FEOD took certain other initiatives. Instructions were issued to banks to report export overdue cases based on WeBOC data. As a result, reporting of Export Overdue (EOD) cases and recovery there-against increased four times i.e., by more than USD 1 billion. In order to conduct due diligence of trade and remittance-related transactions, an offsite surveillance mechanism has been established recently and it is being strengthened by developing a database. Further, Export Advance Payments were reconciled and about 50 percent payments were found as utilized by exporters based on data received from ADs. In addition, FEOD issued instructions for discontinuation of physical returns that resulted in substantial saving of resources for both ADs and SBP-BSC.

FEOD has been making payments of various government schemes during the year and handled nineteen such schemes. Under various schemes, FEOD disbursed around Rs 50 billion in FY18 as compared to Rs 30 billion in FY17. In order to dispose of cases efficiently, processing mechanism was devised based on automated calculator, which was developed in-house and integrated with the data extracted from WeBOC. This resulted in reduction in processing time by 50 percent.

FEOD also started to work on reducing turnaround time/ designed benchmarks for processing commercial and private remittance cases and put in place a centralized monitoring mechanism. During FY18, around 18,000 cases of commercial, private and trade related remittances including remittances against FE allocation were processed.

#### **7.1.5 Resolution of Foreign Exchange Overdue Cases**

Foreign Exchange Adjudication Department (FEAD) of SBP-BSC is responsible for adjudicating the cases pertaining to violations of certain sections of Foreign Exchange Regulation Act (FERA) 1947 as per powers vested in it under Section 23B of the said Act. During FY18, an all-time high record of repatriation of USD 133.7 million was achieved through adjudication process, as against repatriation of USD 78.7 million in FY17. In order to ensure prompt judicial process, three new courts were established at Lahore, Quetta and Rawalpindi during last year, which contributed towards realization of USD 34 million. During FY18, 5,857 complaints related to delinquent exporters/authorized dealers were disposed of as compared to 3,308 complaints during FY17.

#### **7.1.6 Human Resource Management**

During the year, Human Resource Management Department (HRMD) continued its focus on organizational development and change management initiatives in alignment with strategic objectives of SBP-BSC. The SBP-BSC's HR profile has undergone a major shift as a large number of employees with traditional skills mix, have been replaced with young, qualified and suitably trained officials. Vacancies resulting due to an ongoing early retirement incentive package were also filled. Accordingly, substantial recruitments (totaling 351) as per HR plan were made across various hierarchical levels at market competitive pay packages.

Being a premier national institution, SBP-BSC continues to attract, retain and motivate the best available talent from the market. In this context, market-based Compensation and Benefits Survey was conducted through external consultants. Based on the survey results and organizational dynamics, the SBP-BSC Board approved revision in compensation and benefits of officers. Further, in order to improve operational efficiency, Biometric Access Control and e-Attendance system has been introduced at HOK.



With a view to provide career development opportunities to talented employees, HRMD successfully completed the Promotion Cycle for FY18 whereby 218 employees were promoted. To ensure rotation of employees, a Bank-wide process was initiated, in light of job rotation/ transfer policy. Further, recognizing the need for development of its employees, Corporation has taken capacity building initiatives by providing trainings to 1,600 officers through NIBAF, e-Learning portal, participation in domestic and foreign training programs/ exposure visits offered at reputed central banks and renowned international fora.

#### **7.1.7 Performance in other Areas**

SBP-BSC's Internal Audit Department (IAD) performs independent activities, with the purpose of adding value to improve organization's operations. During FY18, IAD carried its audit engagements through three different streams of audits, i.e., annual, hub and thematic. Results of audit activities have led to improvements in overall internal control environment, which would go a long way towards supporting SBP-BSC in achieving its organizational objectives.

IAD also performs special assignments received from SBP-BSC Board Committee on Audit and other stakeholders. During FY18, various development initiatives were undertaken by the Department in line with IAD's Charter as well as global trends in internal audit which include initiation of Thematic Audit process, creation of Audit Forum to improve coordination, successful conduct of two Audit Conferences and implementation of IMU attachment program for IMU officials of different regions.

The procurement activities carried out by General Services Department (GSD) in FY18, include 45 major IT procurements whereby 28 related to consultancies and services, cash handling machines, security related equipment, stationary stock items and printing material. Further, in order to bring more efficiency in current procurement process, significant measures have been taken that include but not limited to a) reduction in lead time required for preparation of Annual Procurement Plan, b) assigning the role of contract management to indenting departments, c) standardized format for procurement requisition and d) timelines for Evaluation Committees to complete the assignment.

Engineering Department continued to play its role to promote, maintain and upgrade the physical working environment of the Bank and its related institutions viz SBP-BSC and NIBAF. During FY18, highest standard of quality of service delivery was ensured through standardized engineering procedures and processes related to civil, mechanical and electrical works. The latest endeavor to ensure transparent procurement and efficient delivery of service is its initiative to give an electronic footprint to procurement activities through implementation of e-Procurement system.

The role of Internal Bank Security Department (IBSD) has increased manifold during recent times, in the backdrop of prevailing security situation in the country. During FY18, IBSD continued its efforts for strengthening the security measures at SBP, SBP-BSC HOK and its field offices and NIBAF. IBSD prepared the Security and Safety Manual to provide guidelines/ SOPs to all field offices and employees. Moreover, the Department focused on capacity building through on-the-job training, in-house firefighting practices and periodic mock/ table top exercises.

#### **7.2 National Institute of Banking & Finance**

NIBAF continued its growth momentum in FY18. The overall training activities reached 43,882 man-days during this period, showing a growth of 25 percent over 34,844 man-days delivered in preceding period. Encouragingly, an increased role of capacity development initiatives for SBP-BSC, as well as growing focus on priority areas in financial sector, explain this improved performance.

NIBAF responded to increased training demand from SBP following revision in its training policy that makes specified number of training hours mandatory for each grade. In the priority sector, an aggressive training agenda for SMEs has been launched which included 100 trainings during 2018. Similarly, as a pilot project, an online library of 300 courses has been made available till end December 2018 to users in SBP and SBP-BSC.

In overall terms, NIBAF delivered a record number of 359 programs that trained 7,337 officials representing both local and international stakeholders. NIBAF has also made efforts to expand its pool of trainers, both in-house as well as from market and academia. Training facilities have also been upgraded to improve ambience and environment for learning and development.

### **7.2.1 State Bank of Pakistan**

To support SBP in its capacity development efforts, NIBAF undertook various initiatives to enhance the scope and effectiveness of its training programs. In overall terms, 205 programs were arranged which attracted participation of 3,837 SBP officers. These programs yielded 18,088 man-days training during 2017-18, considerably higher than 13,968 man-days achieved last year.

#### **Pre-Induction Training Programs**

During 2017-18, NIBAF successfully managed induction programs of 21st batch of SBOTS of 65 trainees, and 7th batch of Statistical Officers Training Scheme (SOTS) that comprised of 12 trainees. The focus remained on improving the training methodology and course contents in consultation with all concerned departments of SBP. Further, efforts were made to engage best trainers and experts from the market.

#### **Skills Up-gradation Training Programs**

NIBAF arranged 203 short duration programs for capacity development and skill upgradation of SBP officers. These programs resulted in 6,782 man-days training during the year, which was sharply higher than 4,615 man-days of training in preceding year. Some of the key interventions during FY18 included:

- **Training Programs on Leadership Development:** For the first time, a six day in-house program was designed for senior management (OG-7) of SBP and SBP-BSC. The program delivered by experts from the market focused on strategic thinking, values, use of emotional intelligence, and leadership skills. In addition, individual coaching sessions were arranged for Directors as a follow-up to this training. This exercise would help in determining the training needs of officers at senior level. For the middle management (OG-5 and OG-6), a six day training program was conducted that focused on leadership development, managing change and strategic thinking through experiential learning techniques.
- **Soft-skills Programs:** A number of soft skills programs under collaborative arrangements with leading training service providers were conducted. These included several programs including analytical report writing, creative and innovative thinking, leading with emotional intelligence, people management, presentation skills, teamwork, communication, stress management etc. NIBAF also conducted programs using premises of IBA, IBP and PSTD at Karachi, in order to effectively cope with the growing training demand. Further, to cater to training needs during the month of Ramzan, the concept of micro-learning sessions was introduced wherein training programs of 3 hours duration were launched.

- **Function-specific Programs:** In collaboration with Informa Middle East, NIBAF helped Risk Management Department of SBP in building its capacity on issues relating to Enterprise Risk Management. Under this arrangement, five programs were arranged wherein 64 officers from middle and senior management participated.

NIBAF also arranged several knowledge-sharing sessions i.e., on macro prudential policies, Basel Accord, balance of payment and external statistics, block chain technology and bitcoin, treasury operations, understanding SBP financial statements, finance for non-finance professionals, how to file tax return, practices of capital markets etc. In IT related programs, NIBAF conducted trainings on STATA, advanced MS excel, applied econometrics using E-views, SQL and MS Access, project management for IT professionals, IT/ Cyber Professional Security Course etc. NIBAF also arranged two refresher courses for OG-1 officers of 13 days. Multiple iterations of workplace harassment were also conducted for both SBP and SBP-BSC employees.

### 7.2.2 SBP BSC

NIBAF has also been actively engaged in capacity development of SBP-BSC officers. During FY18, 19,116 training man-days were delivered, surpassing the target of 14,777 by 29 percent.

#### Pre-induction

During FY18, NIBAF provided training to 134 officers (OG-2) hired under Young Professionals Induction Program (YPIP-6 and YPIP-7) and 214 recruits (OG-1) under Officers Training Program (OTP-7 and OTP-8). The curriculum for these programs was revised based on the feedback of trainees, who had received the training in past, subject professionals and other stakeholders. A special focus was given on activities to encourage teamwork, work management, presentation and writing skills.

#### Skills Up-gradation

During FY18, NIBAF conducted four iterations of Middle Management Program (MDP) for OG-3 officers of SBP-BSC wherein 89 officers participated. This program has been designed to sharpen managerial skills, such as use of emotional intelligence, effective management of people and teams, problem solving and decision making in challenging environment etc. The training methodology emphasizes on experiential learning using case studies, presentations, exercises and role-plays. For this purpose, NIBAF engaged seasoned trainers from the market. The senior management of SBP-BSC also shared their vision about the organization. In addition, 58 short duration training courses were conducted. These included programs on motivation, building dynamic teams, problem solving and critical thinking, communication skills, personal attitude towards high performance, customer service excellence, emotional intelligence, writing and presentation skills, critical and creative thinking, time and stress management and improving personal effectiveness etc.

In order to support training efforts, NIBAF arranged special pre-dinner talks wherein prominent scholars were invited. For example:

- Professor Ahmad Rafique Akhtar – a distinguished scholar delivered a lecture on ethics and values
- Ms. Maliha Husain discussed various aspects of harassment including legislative efforts made in Pakistan
- Dr Ijaz S. Gilani – renowned scholar shared insights on global trade and regional development with particular reference to CPEC

### **7.2.3 International**

As part of endeavors to become the institute of choice for capacity building of financial institutions and other Central Banks in the region, NIBAF continued to offer international courses in collaboration with SBP and Economic Affairs Division of Government of Pakistan. During FY18, NIBAF conducted two international training programs. The 48<sup>th</sup> International Central Banking Course was successfully conducted wherein 19 mid-level central bankers representing Ethiopia, Kenya, Lao PDR, Maldives, Madagascar, Sri Lanka, Sudan, Tajikistan and Vietnam participated.

NIBAF also offered 45<sup>th</sup> International Commercial Banking course, which was attended by 16 mid-level officials representing Afghanistan, Azerbaijan, Bangladesh, Chad, Indonesia, Kenya, Maldives, Nepal, Sri Lanka, Sudan, Somalia, Tajikistan, Tanzania, and Vietnam. Apart from classroom trainings, study visits of the participants were arranged to Faisalabad Chamber of Commerce and Industry and some export oriented industries.

NIBAF also facilitated a SBP conference under SARRC Finance program on Digital Financial Services and Financial Inclusion in SAARC countries. In this seminar, 43 delegates/ senior officials from SAARC countries including Afghanistan, Bangladesh, Nepal, Sri Lanka and Pakistan participated. In addition, participants from Ministries, FinTechs, banks offering branchless banking services and Pakistan Telecommunication Authority were also invited. In order to highlight initiatives in the area of digital financial services in Pakistan, an exhibition was organized for SAARCFINANCE delegates and participants wherein ten entities including banks, mobile operators, and Fintech firms presented their products and services.

NIBAF successfully entered into a strategic partnership with Toronto Centre for Global Leadership in Financial Supervision (TC) that offers capacity-building programs for financial supervisors and regulators. The MoU provides a framework for cooperation, including knowledge and expertise sharing and training and capacity building activities in areas related to financial supervision. Under the arrangements, TC would help NIBAF in organizing five learning sessions of 5-day each on "Risk Based Supervision Framework" for the central bank over next three years. NIBAF has already planned first session from July 30 at SBP, Karachi wherein TC would provide trainers/ resource persons for the program.

### **7.2.4 Priority Areas**

#### **Islamic Banking**

NIBAF aggressively pursued its training programs on Islamic banking to meet increased demand of trained professionals in Islamic banking industry. NIBAF conducted four iterations of Islamic Banking Certification Course, which were attended by 93 bankers from different commercial banks/ financial institutions. In addition, with the collaboration of Islamic Banking Department, NIBAF conducted 10 iterations of Fundamentals of Islamic Banking Operations (FIBO) course, which were held in Abbottabad, Gujrat, Swat, D.I. Khan, Lahore, Karachi, Bahawalpur and Muzaffarabad. It also included an exclusive FIBO course for AJ&K University. In recent years, the target audience for these programs has been enhanced from Islamic and conventional bankers to local shariah scholars and students of various universities.

#### **Micro Finance**

In order to help central bank in its development finance initiatives, NIBAF planned a series of training programs for middle and senior level management of micro-finance banks with the help of AC&MFD-SBP. NIBAF organized six iterations of Middle Management Development Program of



one week each for Khushali Bank, First Microfinance Bank and other MFBs/ MFIs. This program is primarily oriented for branch managers/ operation managers/ frontline staff of MFBs/ MFIs with prime focus on core areas related to branch banking such as KYC, regulatory framework and leadership development etc. wherein 133 officers participated.

NIBAF also offered two iterations of the “Executive Development Program” for top management and senior executives of Microfinance Banks. In these programs, 56 senior officers/ executives of various Microfinance Banks participated. The Executive Development Program covered areas such as corporate governance, regulatory framework, risk management practices, etc.

### **Infrastructure Housing & Small and Medium Enterprises**

NIBAF also launched an aggressive training agenda for SME sector in line with the roadmap announced by SBP. This agenda envisaged 100 training programs each in 2018, 2019 and 2020 for the SME sector with the help of IH&SMEFD. During FY18, a total of 60 programs of short duration were offered wherein 1,175 commercial bankers were imparted training across 22 cities, including Quetta, Faisalabad, Sargodha, Gujranwala, Sialkot, Multan, Bahawalpur, Gujrat, Sukkur, Hyderabad, Khairpur, Nawabshah, Peshawar, Abbottabad, Skardu, Gilgit, D.I. Khan, and Muzaffarabad.

### **Training program for other Financial Institutions**

As part of the initiatives relating to capacity building of the financial sector, NIBAF in collaboration with FEOD, SBP-BSC organized the third iteration of the Foreign Trade Certificate Program at Lahore with participation of 21 Commercial Bankers. This program is primarily oriented for trade finance officers/ executives for developing their skill-set and insights on foreign trade and SBP Foreign Exchange Policy Framework and its operational aspects. An important component of the program includes hands on experience of relevant business applications like International Trade Reporting System, filing of recently launched e-form and I-form as well as fulfilling other reporting requirements of SBP.

NIBAF also successfully conducted five training programs for commercial banks on issues important from regulatory perspective, such as AML and CFT, cheque handling and combating cheque frauds and Company Act-2017 etc. wherein 91 commercial bankers participated. Furthermore, a customized program was organized for the senior management of the State Life Insurance Corporation of Pakistan at Lahore. NIBAF intends to further expand its training intervention particularly with the start of its new campuses. In order to assess training needs of the banking sector at regional level, a number of meetings were organized with Regional Heads of Banks at Quetta, Peshawar, Lahore and Multan. Resultantly, a comprehensive training plan has been formulated which will be rolled out in 2018-19.

### **National Financial Literacy Program for Youth**

The SBP through NIBAF has launched a 5-year National Financial Literacy Program for Youth (NFLPY) to impart basic financial education amongst Pakistani Youth and School going Children for strengthening their money management skills and understanding of financial issues. The NFLPY program aims to directly reach 1.6 million target groups across the country with key messages of why and how to budget, save, invest, and use financial products and services:

- School going Children – from ages 9-12
- Adolescent – from ages 13-17
- University Youth – from ages 18-29

In this regard, necessary infrastructure is in place apart from hiring the services of Project Director from

market. The NFLPY activities would gear up in the initial phase for conducting TNA and focus group meeting across five selected districts.

### **7.2.5 e-Learning**

With a view to include e-learning based solutions in training agenda, NIBAF purchased an off the shelf library of 300 on-line courses for six months. As a pilot program, this initiative provides an excellent opportunity for self-learning to facilitate completion of mandatory training hours in line with the Training & Development Policy, 2015. These modules can also be accessed through smart phones and tablets. In order to facilitate employees, orientation sessions were also arranged. Moreover, supporting material has been placed at SBP website for easy access of the employees.

## **7.3 Deposit Protection Corporation**

Deposit Protection Corporation (DPC) has been established under the Deposit Protection Corporation Act, 2016 (DPCA) as a wholly owned subsidiary of SBP. The Corporation commenced its business on June 01, 2018. The objective of DPC is to compensate the depositors for loss incurred by them to the extent of the protected deposits in the event of failure of a member institution. The limit of protected deposits has been determined as Rs 250,000 per depositor per bank by DPC. Further, DPC shall provide deposit protection to Islamic Banking Institutions under Shariah compliant mechanism approved by the SBPs' Shariah Board.

### **7.3.1 Major Contributions and Achievements during FY18**

The establishment of DPC was envisaged as one of important milestones in SBP Vision 2020 under the strategic goal "Strengthening the Financial System Stability Regime". SBP has placed a comprehensive framework to ensure safety and soundness of the banking system of Pakistan. While key pillars of this framework, namely strong banking laws and regulations, and effective supervision have been in place for a long time, the introduction of Deposit Protection is a recent addition, which will further reinforce the resolution regime of SBP.

DPC launched the deposit protection mechanism effective July 01, 2018. All commercial banks have been declared as members of this mechanism. The required quarterly premium effective from first quarter of FY19 is being collected from banks. DPC has started investing the premium received from the banks in secured investments (government securities) and will build-up a pool of funds for any eventuality of a bank failure. All other features of the protection mechanism have been elaborated in DPC's Circular No.04 issued on June 22, 2018.

The international standards followed for designing a robust deposit protection scheme are laid out in "Core Principles for Effective Deposit Insurance Systems" issued by International Association of Deposit Insurers (IADI). The salient features of deposit protection mechanism in Pakistan are mostly in line with these principles.

Establishment of a formal deposit protection scheme will be beneficial for Pakistan. Such scheme will not only reduce burden on the exchequer but will also improve the financial stability in the system. Financial Stability is one of the top priorities of SBP, and its effective supervisory regime has ensured that depositors do not lose their money and their confidence in the system remains strong. Implementation of deposit protection will further strengthen the overall regulatory architecture and safety of deposits.

## 7.4 Pakistan Security Printing Corporation

SBP acquired 100 percent shares of Pakistan Security Printing Corporation (PSPC) from Federal Government in 2017 and became the sole producer of banknotes and prize bonds within the country. This initiative was taken in line with global practices. Central banks of Australia, France, India, Italy, Spain and Turkey among others, have their own banknote printing facilities. PSPC supports SBP in enforcing its Currency Management Policy by ensuring production of banknotes and prize bonds from printing to packing in line with required indent. Similarly, schedule of delivery provided by SBP-BSC is meticulously followed. In doing so, it adheres to the Clean Note Policy of SBP and is engaged in improving the quality and security of banknotes, which is vital for maintaining public confidence in national currency.

**Table 7.1: Output of PSPC**

Year	Banknotes and Prize Bonds Sales (Pieces in million)
2017 - 18	3,547
2016 - 17	2,828
2015 - 16	2,335
2014 - 15	2,192
2013 - 14	1,984

Following the acquisition of PSPC, the management developed strategic objectives for the organization and accordingly initiated a thorough review, restructuring and process re-engineering wherever necessary. PSPC is now operational round the clock for seven days a week in order to attain process efficiency and to meet the increasing demand of banknotes and prize bonds from SBP. Year-wise data of sales illustrates the increasing output supplied every year in **Table 7.1**.

PSPC managed to achieve the remarkable feat of delivering the highest ever production target in FY18 in spite of limited resources. SBP initially placed an indent of 3,250 million pieces, which was later revised downwards to 2.8 million due to production capacity limitation. However, the new management took the challenge and managed to deliver 3,547 million pieces of banknotes and prize bonds, which was a 25 percent increase over previous best high. This was achieved with the collective efforts of all PSPC employees. Accordingly, PSPC is committed to work towards the realization of SBP Vision 2020.

### 7.4.1 Maintaining Quality, Security and Delivery of Banknotes

In cash-oriented economy of Pakistan, quality and security of banknotes of paramount importance. Public grievances in past have motivated SBP to take measures such as Currency Management and Clean Note policy. Accordingly, PSPC has taken up various projects of Quality Control, which will enhance capabilities for inspection of banknotes before delivery to SBP. This will, in turn help in achieving SBP's goal of improving printing quality and longevity of banknotes.

In FY18, SICPA Laboratories of Switzerland conducted a series of analyses and evaluations, which focused on testing the resilience and durability of Pakistan's banknotes. It was confirmed through tests that the quality developed by PSPC was at par with leading international banknotes printed on standard cotton paper.

With the availability of inexpensive printing technology today, counterfeiting of banknotes has become easier. Therefore, it is extremely vital for security printers to be ahead of counterfeiters by employing latest security printing technology. Security printing around the world, hence, focuses on maintaining secure printing media by using limited-access materials and supplies. Additionally, unique or specialized technologies and multiple printing processes are used to produce secure products. In the same vein, PSPC also utilizes the most effective security printing methods for the production of banknotes.

At PSPC, various modern security features are incorporated into the currency of Pakistan. In fact, tests on PSPC printing quality of intaglio were conducted by SICPA Laboratories, which showed that PSPC printing is high end and was rated as “good”.

#### **7.4.2 Aligning HR policy with SBP Benchmarks**

The efficiency of an organization depends mostly on the quality of its human resource. To improve the situation in line with strategic goals of SBP, PSPC initiated the PSPC Leadership Induction Program wherein a batch of 54 trainees has been inducted comprising of both engineering and management graduates, who joined PSPC as Assistant Managers after completion of their training from IBA in June 2018. Further, existing HR policies of PSPC are being revised and aligned with SBP’s policies, where deemed necessary, under the guidance of HRC of SBP Board. This includes revision of entire HR Manual, including areas pertaining to recruitment, new compensation and benefits structure, whistle blowing, etc. Further, for encouraging team work and building organizational solidarity, regular sports events and annual gatherings are being organized. This teamwork and solidarity also translated into business processes as increased focus has been placed on forming interdepartmental committees.

#### **7.4.3 Re-engineering Business Processes to support Automation**

A major initiative was taken to establish Design Department, which would work in building capacity for complete indigenization of banknote design. Existing business processes are also being reviewed and re-engineered to support automation in all departments. A major exercise is underway for upgradation of the IT infrastructure. Further, a system of standardized and automated production environment is being introduced in the factory area to avoid loss of production time due to ink drying problems. Similarly, automation in Purchase and Inventory Management Department is also being carried out to reduce time lags and required human resource.

In organizations like PSPC, maintenance and evaluation of health, safety, and environment standards is crucially important. PSPC embarked upon enhancing its ISO certifications in Quality Management Systems (ISO 9001) as well as Environmental Management System (ISO 14001). PSPC completed work for an Integrated Management System under the 2015 standards. Subsequent to year-end, audit exercise was completed and PSPC was awarded the revised ISO certifications for both ISO 9001 and ISO 14001 under the latest i.e., 2015 standard.

#### **7.4.4 Improving Corporate Governance and Internal Control Framework**

To bring PSPC at par with international organizations and manage enterprise risks, the enterprise risk management exercise, commenced at PSPC with participation from all crucial departments. Through this exercise, PSPC hopes to reduce and manage business risks efficiently. To compliment this exercise, work has also started on business continuity planning for preparation in case of any major disaster or unforeseen threat to ensure smooth operations.

At this nascent stage of SBP acquisition, the management of PSPC is determined to enhance its physical infrastructure as well as influence its workplace culture to achieve SBP Vision 2020. At the same time, it seeks to establish PSPC as a globally recognized security printing corporation.