

7 SBP Subsidiaries

7.1 SBP Banking Services Corporation (SBP BSC)

SBP-BSC is a wholly owned subsidiary and operational arm of SBP. Established under the SBP-BSC Ordinance 2001, it is mandated to provide banking services to the Federal and Provincial Governments as well as Financial Institutions. Through its network of 16 field offices across Pakistan, SBP-BSC is entrusted with management of currency, credit management, facilitating the inter-bank settlement system, sale/purchase of savings instruments of the Government on behalf of Central Directorate of National Savings and to play an active role in expanding the outreach of SBP's devised development finance schemes. Further, it performs operational and monitoring functions related to Foreign Exchange (FE) and also conducts FE adjudication process as per relevant laws and regulations. SBP-BSC also ensures delivery of support services to internal stakeholders and SBP in the areas of procurement, engineering, medical and internal bank security.

7.1.1 Banker to the Government

SBP BSC is entrusted with the responsibility of collecting revenues and making payments on behalf of Federal and Provincial Governments. The total number of Government transactions increased from 9.43 million in FY19 to 13 million in FY20, showing an increase of 38 percent.

In line with the National Payment Systems Strategy (NPSS), SBP-BSC placed enhanced focus on digitization of payment systems. Dedicated efforts were made to increase the usage of Alternate Delivery Channels (ADCs) such as internet / mobile banking, ATMs and Over the Counter (OTC) facilities for collection of Federal and Provincial taxes for Public to Government (P2G) and Business to Government (B2G) transactions. During FY20, SBP-BSC Field Offices carried out 2.84 million transactions for Government collections as compared to 4.05 million transactions in the preceding year showing a decrease of 30 percent. This decrease is attributed to significant increase in ADC transactions which increased from 0.46 million to 5.27 million transactions, recording a growth of 1,046 percent, whereas collections through ADCs increased from Rs.171 billion in FY19 to Rs.439 billion in FY20.

For ensuring transparency, integrity and efficiency in Government to Public (G2P) payments, a proposal was floated to FBR in January 2020 for remodeling of income tax refund payments from paper-based instruments to direct credits into the taxpayer accounts. The proposal was endorsed by FBR and was also announced by the Federal Government in its FY21 Budget.

Additionally, vigorous coordination for consolidation of salary / pension cheques resulted in 82 percent reduction of CNA (Controller of Naval Accounts) salary cheques and 84 percent reduction in pension payments of CAAF (Controller Accounts Air Force). This initiative resulted in a more efficient Government's payments process with lesser HR requirement. Also, as a response arising due to COVID-19 pandemic, SBP BSC swiftly adapted its operations management strategy to ensure timely disbursement of salaries and pensions to the public servants.

7.1.2 Digitization of Bank's Internal Payments

Besides enhancing implementation of digitization of payments for external stakeholders, SBP-BSC also revamped its internal payment infrastructure and processes to closely align it with the NPSS. As a result, instrument-based payments (cheques / payment orders) made to vendors, suppliers and employees of the bank were discontinued and instead directly credited into bank accounts of the recipients.

7.1.3 Automation in Currency Management

Pakistan has one of the highest cash centric economies in the world, despite increasing usage of online and point-of-sale banking and alternative payment channels. Compared to the GDP, the consistent increasing trend of Notes-in-Circulation (NIC) is presented in Table 7.1.2.

Table 7.1.2: Comparison of GDP and NIC in FY20
(Rupees in million)

Year	Nominal GDP ¹⁵	Notes in Circulation (NIC) ¹⁶	NIC as percent of GDP	NIC Change over previous year
FY19	37,972,310	5,319,186	14.0%	13.4%
FY20	41,726,683	6,492,272	15.6%	22.0%

In pursuance of SBP's strategic goal to maintain good quality banknotes in circulation as well as to ensure effective implementation of SBP's Currency Management Strategy (CMS), SBP-BSC is gradually transforming its currency operations from manual to an automated environment. During FY20, four Banknote Destruction Systems (BDS) were installed at Lahore, Faisalabad, Peshawar and North Nazimabad offices. These facilities will be added in three more SBP BSC offices. Further, a contract for nine Banknote Processing and Authentication Systems (BPAS) was awarded in October, 2019 and their phased installation is expected to be completed by December, 2021.

The BPAS machines are capable of high-speed processing¹⁷, authentication and online destruction of banknotes providing 100 percent counterfeit detection, processing accuracy, standardization and significant HR savings in comparison to the manual environment. SBP BSC pursued multiple engagements during FY20 including vigilant surveillance of commercial banks for issuance of good quality banknotes.

Gearing towards digitization of Government to Public (G2P) payments, SBP BSC implemented the facility for payment of prize money and face value on National Prize Bonds (NPBs) through Branchless Banking Accounts as well as through RTGS to ensure instant credit of funds to the claimant's bank account. During FY20, it also effectively managed withdrawal of Rs.235.5 billion out of Rs.238.6 billion worth of Rs.40,000/- NPBs from circulation. Further, risk management framework was formulated to ensure compliance with local and international regulations.

¹⁵ Pakistan's GDP http://www.sbp.org.pk/ecodata/GDP_table.pdf

¹⁶ Statement of Affairs- 26 June 2020 <http://www.sbp.org.pk/publications/statements/2020/26-Jun-2020-issue.pdf>

¹⁷ Approx.30 banknotes per second

In the wake of COVID-19 pandemic crisis, SBP BSC issued fresh notes worth Rs.760 billion including Rs.89.08 billion for ‘Ehsaas Emergency Cash Program’ to ensure adequate supply of fresh and disinfected re-issuable notes to commercial banks in lieu of quarantined cash. Moreover, balance sheet relief of Rs.9.1 billion was also given to banks, facilitating them with regards to quarantined cash received from hospitals and pharmacies.

7.1.4 Supporting Financial Inclusion & Development Finance

In line with SBP’s strategic goal to increase Financial Inclusion, SBP-BSC facilitated in monitoring of agriculture credit disbursement target of Rs.1,350 billion allocated to 50 Participating Financial Institutions (PFIs) for FY20. During FY20, PFIs disbursed Rs.1,215 billion, with credit expansion of approximately 3.5 percent as compared to Rs.1,174 billion in corresponding period of previous year.

Under National Financial Literacy Program (NFLP), despite the restrictions due to COVID-19 pandemic, more than 254,000 participants were given financial education during FY20 against a target of 226,000 beneficiaries, through approximately 10,000 classroom sessions and 300 street theatre programs. This comprised of 70 percent participants from the rural areas as well as a significant improvement in female participation (57 percent in FY20 compared to 42 percent in FY19). The number of participants who opened a bank or mobile account at the end of the sessions also showed remarkable improvement from 53 percent in FY19 to 83 percent in FY20. Since the initiation of NFLP in August 2017, more than 600,000 adults have been imparted financial education.

As a measure to promote SME Finance, “Sectoral Development” initiative was devised which encouraged SBP-BSC field offices to focus on sectors of regional importance such as wooden furniture, marble products etc. and proposed viable measures for enhancing their access to finance. Under the refinance schemes for SMEs, more than 700 loans were refinanced amounting to Rs.1.828 billion up to June 30, 2020. Moreover, SBP BSC issued guarantees amounting to Rs.2.08 billion under credit guarantee schemes. Refinance Scheme Units (RSUs) disbursed Rs.1,096.24 billion under the Export Refinance Schemes and Rs.70.20 billion under Long Term Financing Facility. Further, subsidy and credit loss subsidy amounting to Rs.1.29 billion were processed under Prime Minister Youth Business Loan (PMYBL) scheme till Q3-FY20. Moreover, Refinance Scheme for Payment of Wages & Salaries to the workers and employees was launched to prevent layoffs of employees by business concerns impacted by the COVID-19 lockdown and Rs.37.39 billion were disbursed under the said scheme.

7.1.5 Monitoring of FE Operations and Realization of Export Proceeds

SBP BSC took various developmental initiatives to bring efficiency and improvements in its existing foreign exchange related operational processes. In this respect, SBP’s online portal, Regulatory Approval System (RAS), was successfully launched for submission of FE related cases under Knowledge Management (KM) project. Through SBP-RAS, bank’s customers receive system-generated updated status reports, at their email address provided by bank, from the time of case submission till its completion. In addition, customers also have the option to check the updated status of their cases on SBP’s website anytime.

SBP-BSC also implemented IMF's BPM-6 (Balance of Payments Manual 6) in coordination with SBP, which enabled electronic reporting of Export Advance Payment (EAP) and discontinuation of manual paper-based submissions. SBP-BSC continued to actively pursue establishment of an 'Online Portal for Government Subsidies on Export' with Ministry of Commerce (MoC) as well as development of an 'Electronic Data Interchange' (EDI) with Pakistan Customs for effective monitoring of trade transactions.

SBP BSC, under powers delegated by SBP, imposed penalties on Authorized Dealers (ADs) for FE violations.

In addition, 12,439 complaints were lodged in FEA Courts against delinquent exporters who failed to repatriate export proceeds within stipulated time, while 12,334 cases were decided through effective prosecution resulting in a realization of US Dollars 213.8 million as compared to repatriation of US Dollars 179.5 million against 7,682 cases in FY19. SBP BSC also successfully defended and pleaded 27 out of 36 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel that resulted in recovery of Rs.6.9 million fine, whereas the judgments on remaining 9 appeals are pending.

In addition, a total of 376 fake E-forms valuing US Dollars 5.23 million were also identified and referred to Collector of Customs (Adjudication) as compared to 26 fake E-Forms valuing USD 6.4 Million during last year. Further, genuineness of more than 19,800 manual E-Forms, forwarded by Customs, was also verified as compared to 37,205 E-Forms in FY19.

During the year, SBP BSC administered 19 Government subsidy schemes disbursing a total of Rs. 54.7 billion to exporters against 470,071 claims under Textile and Non-Textile subsidy schemes as compared to disbursement of Rs.49.7 billion in FY19. Further, penalties amounting to Rs.55.18 million were recovered from non-performing exporters against sugar export quota allocation.

To address the new evolving risks in the FE regime, a fresh approach was adopted to monitor money laundering and terrorist financing. In this regard, inward and outward FX transactions were scrutinized with a broader perspective of money laundering and terrorist financing. Further, a 'Money Laundering Risk Assessment Model' for risk profiling of FE related cases and a 'Name Search Engine' (containing names of approximately 22,700 blacklisted individuals and entities) for name screening were developed.

7.1.6 Human Resource Management

During FY20, SBP-BSC concentrated on improving its HR Management, including manpower planning, career development, performance management, distribution of workload, review of compensation and benefits structure in accordance with market-based remuneration. SBP-BSC also actively pursued workforce rationalization for achieving optimum HR strength especially in the wake of automation and BPR initiatives being undertaken by the Bank. The total staff strength in various grades by June, 2020 was 2,346 as compared to previous 2,545. SBP-BSC undertook various capacity building initiatives for strengthening the organization's talent pool. A number of local, institutional, and foreign trainings as well as e-learning sessions were organized for various participants.

7.1.7 Support Services to SBP and its Subsidiaries

SBP BSC also ensures delivery of support services to internal stakeholders and SBP in the areas of procurement, engineering, medical and internal bank security. During FY20, under strict compliance with PPRA and applicable World Bank's Procurement Regulations, a total of 177 procurement projects worth more than Rs.3.258 billion were carried out including the notable procurements of BPAS and SWIFT System upgradation. It is noteworthy to mention that SBP-BSC through its Medical Services Division remained at the forefront in implementing SBP's strategy to combat COVID-19.

7.1.8 Corporate Governance and Internal Audit Framework

In order to provide effective support to the Corporate Governance Framework of SBP-BSC, 16 meetings of the SBP-BSC Board and its Committees on Audit, HR, Security Review and Publications Review were conducted during FY20 and decisions were subsequently disseminated to the relevant stakeholders.

Internal audit of SBP-BSC assisted the Board's Audit Committee in its oversight responsibilities on internal controls, governance and business practices through provision of summarized audit results. During the year under review, 20 full scope annual audits were conducted including annual audits of 15 field offices and functional departments at SBP-BSC Head Office, Karachi. In addition, short-duration audits, aimed at reviewing critical business processes, were also conducted by Audit Hubs across the country. Two thematic audits were also carried out with respect to functioning of Internal Monitoring Units and User Access Management across SBP-BSC. During FY20, first-ever external quality assessment review of Internal Audit Department (IAD) of SBP-BSC was carried out by one of the big four audit firms.

7.2 National Institute of Banking & Finance (NIBAF)

NIBAF, being training arm of SBP, has been proactively expanding its work for capacity development of the financial industry to enable them to meet the emerging challenges of recent times.

During FY20, NIBAF managed to deliver 371 training programs, translating into 30,457 person days of training despite the fact that the class room training activities had to be suspended in mid-March 2020 due to COVID-19. NIBAF, however, arranged 28 Virtual Instructor Led Training (VILT) sessions both for SBP and commercial banks.

7.2.1 Programs for SBP and allied subsidiaries

During FY20, NIBAF successfully completed around 20 weeks training for 46 participants of 23rd batch of Officers inducted by SBP. This training program comprised of 20 different modules aiming to develop understanding on various functions of the central bank. NIBAF also arranged 174 programs for existing employees of SBP. These training programs included various function specific programs, such as risk management, cyber security, AML/CFT, Blockchain technology, use of artificial intelligence in financial markets, risk-based supervision and soft skill development trainings. Similarly, NIBAF for the first time arranged a one-day workshop which was exclusive for female officers of SBP as part of Women Day.

During FY20, NIBAF arranged around 61 training programs for SBP-BSC including two long duration pre-induction training programs, i.e., 6 weeks training program for 82 new inductees of Officer Training Programs (OTP-10) and 12 weeks training program on ‘Young Professionals Induction Program -(YPIP-8)’ wherein 72 trainees participated. NIBAF also arranged around 60 short duration programs for SBP BSC to improve knowledge and enhance understanding of their existing workforce.

7.2.2 International Training Programs

During FY20, NIBAF organized three international training programs viz. 50th International Central Banking Course, 47th International Commercial Banking Course and 4th English Language Course for Central Asian Republics (CARs). These programs were held under Pakistan Technical Assistance Program (PTAP) with joint support of SBP and Economic Affairs Division (EAD), Ministry of Finance. Foreign delegates from central/commercial banks and Ministry of Finance of 15 developing countries attended these programs.

NIBAF also hosted SAARC Finance seminar on “Emerging Trends in Good Governance of Banking Sector in SAARC Region”. The seminar was attended by more than 40 senior level officials/delegates from the central banks of SAARC member countries including Afghanistan, Bangladesh, Nepal, Sri Lanka and Pakistan.

7.2.3 Training Programs in Priority Sector

In line with strategic vision of SBP, NIBAF in close collaboration with SBP has launched several capacity development programs for the banking industry with a focus to promote financing to the priority sectors (e.g., SME, Agricultural and Housing finance and Micro-finance).

Islamic Banking

NIBAF actively conducted training programs on Islamic banking to meet increased demand of trained professionals in Islamic banking industry. This includes one iteration of Islamic Banking Certification Course and nine training programs of 5-days each on Fundamentals of Islamic Banking Operation (FIBO). These programs were held at Bahawalpur, Quetta, Peshawar, Faisalabad, Lahore, Sukkur, Sialkot, Hyderabad and Multan. Other training initiatives during FY20 are as under:

- Awareness program on Islamic Banking and finance for Chamber of Commerce and academia.
- Three capacity building programs exclusively for incumbent Islamic Banks’ Shariah scholars.
- Two specialized training programs of 2-days duration on Islamic Banking & Finance for the officials of Ministry of Finance and Federal Board of Revenue.
- Several advance-level short duration courses for senior officers of Islamic bank and one program exclusively for the benefit of Shariah Board members and key executives of Islamic Banks.

Programs to Promote Development Finance

During FY20, NIBAF arranged 34 programs on different aspects of SME banking across Pakistan. NIBAF also initiated extensive capacity building programs for banks in the area of housing finance and agricultural finance. During FY20, NIBAF introduced 5-day comprehensive training program for fresh ACOS/AFOs on various aspects of agricultural finance.

7.2.4 Training Programs for Other Stakeholders

During FY20, NIBAF managed to deliver 65 programs for commercial banks covering trainings on operational aspects of commercial banks as well as areas important from regulatory perspective for the central bank. NIBAF provided support to Pakistan Post in the area of AML/CFT.

7.2.5 National Financial Literacy Programs for Youth (NFLP-Y)

NIBAF has launched National Financial Literacy Program for Youth (NFLP-Y) with an aim to impart essential financial education to Pakistani youth and school going children for strengthening their money management skills and understanding of financial matters. By the end of June, 2020, NFLP-Y project has conducted 6,338 training sessions in ten districts through which 284,023 students were trained. In addition, NFLP-Y launched its eLearning Portal and Mobile Game (PomPak-Learn To Earn) on March 25, 2020. In a duration of just three months, it crossed 70,000 app downloads. So far, more than 78,000 have learners registered on NFLP-Y portal and over 30,000 have become financial literate through eLearning portal.

7.3 Deposit Protection Corporation (DPC)

During FY20, Deposit Protection Corporation (DPC) further introduced new measures to accomplish a comprehensive and reliable Deposit Protection Framework in Pakistan. This framework is crucial to ensure a swift and seamless payment mechanism to the depositors of a failed member institution. A sound process of reimbursement to depositor will ensure public trust in financial system and would further enhance the financial stability. Following is a brief of measures that have been taken during FY20.

7.3.1 Major Contributions and Achievements during FY20

- Establishment of Single Depositor View database or MIS in the banking systems of member institutions is very crucial to assess the total deposit of each depositor or the total liability of each institution towards its depositors. This would not only enable DPC to assess its own liability towards protected depositors at the time of payout, but would also provide the details of accounts of each depositor and the outstanding balance therein.
- Maintenance of pool of funds continued as DPC invested its funds in Islamic and Conventional treasury securities issued or guaranteed by the Federal Government.
- Website of DPC is being developed to provide information to general public, depositors as well as member institutions which will be launched soon. The core idea behind the website is to enhance public awareness on the concept and framework of deposit protection.

7.4 Pakistan Security Printing Corporation (PSPC)

FY20 was a difficult year for businesses in general and for industry in particular due to COVID-19 pandemic. Managing industrial units under strict lockdown imposed by the Government and ensuring availability and safety of required workforce was an uphill task compounded by supply chain disruptions. Most of the industrial units were compelled to close down due to unmanageable situation. PSPC being essential service industry had to operate under these difficult circumstances and meet requirement for enhanced delivery of fresh banknotes. With dedication and team spirit, PSPC was able to manage continuation of its normal operations and produce and deliver highest ever number of fresh banknote pieces to SBP.

The untiring efforts put in by the employees ensured delivery of more than 4,000 million pieces of fresh banknotes to SBP as compared to previous 3,722 million pieces, which is 8 percent higher than last year and highest ever in the history of PSPC.

7.4.1. Enhancement of the Production Capacity

An important aspect for growth of every business is the review and re-engineering of its business processes and by moving towards automation. PSPC has opted to balance its production line to bring in efficiency and cost-effectiveness in its core operations. During FY20, the corporation, as part of its capacity enhancement program, managed to acquire, install and commission new machines in its Intaglio printing and Finishing departments.

Commissioning of new Intaglio Machine was a major breakthrough in the Production Division, which has increased the production capacity of Intaglio printing of the Corporation by 30 percent. Similarly, the successful commissioning of UNO Machine in Finishing Department was crucial for completion of the indent for FY20. With the addition of new finishing machine, the capacity of Finishing department has increased by approximately 35 percent.

The Corporation has embarked on various other initiatives that would further enhance its capacities in different areas, which are at different stages of completion and would yield results in the next few years.

7.4.2. Efficiency improvement and waste reduction

During the year under review, the corporation initiated several projects for efficiency improvement and waste reduction. One of such improvement project was implementation of Lean Manufacturing in Intaglio department, which was started under the guidance and support of our associate company, M/s SICPA Inks Pakistan (Pvt.) Ltd and SICPA International of Switzerland. The project has resulted in substantial saving of expensive intaglio inks. The Corporation was able to improve its production capacity while reducing wastage at the same time. Encouraged with outcome of the project, the management has decided to extend the scope of the project to other production departments.

7.4.3. Countrywide deliveries of banknotes

In spite of the severe and stringent countrywide lockdown due to COVID-19 pandemic, the corporation managed the smooth and uninterrupted supply of banknotes across the country. The highest ever delivery of 829 million pieces was recorded in the month of June 2020.

7.4.4. Maintaining Quality of Banknotes

PSPC aims to continue reforming its policies and to adopt best market practices. PSPC has a fully equipped laboratory that forensically analyzes any suspected counterfeit product in the market as reported by SBP and law enforcement agencies. The laboratory is capable of running advance tests. During FY20, it benchmarked its operations with internationally acclaimed forensic laboratory at SICPA International, Switzerland. Additionally, to make sure that no counterfeit products are circulated, PSPC in collaboration with SBP-BSC has undertaken a project to establish a Document Analytical Paper Laboratory in Lahore. This will provide additional assistance in the fight against counterfeit products.

7.4.5. Upholding Health, Safety and Environment

Various support departments at PSPC provided extraordinary support and assistance during the pandemic and ensured that entire corporation remains functional while safeguarding the health and wellbeing of its workforce. The management at PSPC is committed to provide healthy, safe and clean workplace to its employees, visitors, internal and external stakeholders. Although, Health, Safety and Environment is a new department with limited resources but it has proven to be a vital one. To further strengthen the role of HSE, a Health, Safety and Environment GAP analysis study was conducted for benchmarking purpose.

During the COVID-19 pandemic, all safety measures proposed by international and national health institutes along with the government guidelines for the industrial workplace were implemented.

7.4.6. Security Enhancement at PSPC

PSPC, being a critical and strategic organization of the country is categorized as a KPID Alpha-1 facility. Due to its nature of business, PSPC has significant security risks which need to be managed effectively. For this purpose, latest technological advancements have been made to strengthen the security of the corporation and its employees. Further, supplementary physical measures and enhancements have been taken as well to increase the area coverage and create an additional layer of security.

7.4.7. Developments in Information Technology

Upgrading the information management is co-related to the overall performance of an organization. A strong and self-evolving information management system ensures and improves the productivity of the entire corporation.

The corporation was able to migrate File Storage Service, Email Service, Internet Proxy and Active Directory to a virtual environment to reduce their dependability on the server hardware and ensure their timely availability through rapid migrations in case of server hardware malfunctions or maintenance. Furthermore, a Disaster Recovery Site was established for an active backup environment where backups of domain controller, database and email are being maintained to ensure availability of IT related services in the event of a crisis or emergency situation. In collaboration with SBP, IT security assessment of IT infrastructure at PSPC was conducted to mitigate the potential cyber-security threats at PSPC.

7.4.8. HR Developments

PSPC continued to play a dynamic role to enhance and develop a performance-oriented culture and focused on improving knowledge, ability, skills and capability building of employees. To further promote the performance-oriented culture, all monetary benefits of the employees are linked to their yearly performance evaluation score. Major initiatives in the areas of workforce rationalization and automation has been taken to boost the effectiveness and efficiency of the business and its processes. The existing HR policies are also being revised.

The strategic partnership between PSPC and NIBAF has resulted in some critical programs, having huge impact on capacity building of PSPC's human resource were planned and organized. In total, 500+ hours have been spent on training and development of human resource, primarily focusing on managerial and leadership skills, communication skills, information technology, cyber security and core technical skills.