

## 2 Banking Services to the Government & Banks

BSC continued to perform banking services to the Government on behalf of State Bank of Pakistan, meeting demands of the Federal, Provincial and District Governments through its 16 field offices across Pakistan in an efficient manner.

### 2.1 Overview

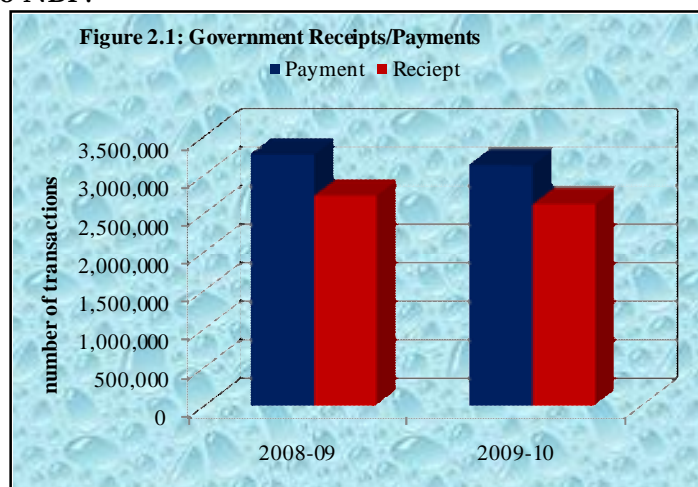
BSC performs banking services to the Government on behalf of State Bank of Pakistan meeting demands of the Federal, Provincial and District Governments through its 16 field offices across Pakistan in an efficient manner under clause 21 of SBP Act 1956 and 15(3) e of the SBP BSC Ordinance 2001.

As a banker to the Government, SBP BSC is providing following services to the Governments.

- Collection of revenue and making payments on behalf of Government Departments.
- Reporting of transactions of revenue collection to Federal Board of Revenue (FBR) on daily basis through online network under Collection Automation Project (CAP).
- Making arrangements with National Bank of Pakistan (NBP) to perform banking functions as an agent through its extensive network so that government departments can be facilitated.
- Monitoring of Debtor Balances and Charging of Markup on the overdrawn balances.
- Monitoring of Government receipts and payments made by branches of NBP and commission payments thereon to NBP.

### 2.2 Management of Government Accounts

SBP BSC is mainly responsible for opening and maintenance of accounts of federal/ provincial/ local governments and consolidation of receipts and payments made on behalf of these governments accounts Figure 2.1. Data pertaining to the Government transactions is reported to the stakeholders



including Accountant General of Provinces, Accountant General Pakistan Revenue, Pakistan Railways and other concerned Departments on regular basis. The daily position of Government balances is also provided to the Finance Department, SBP for onward submission to the stakeholders. During the year daily cash position and balances are also reported to the selected stakeholders through email to expedite their reporting. During FY-10 around 5.79 million transactions pertaining to government receipts/payments were

**Table 2.1: Office-wise Government Receipts/ Payments**

*number of transactions*

Office	2008-09			2009-10		
	Receipt	Payment	Total	Receipt	Payment	Total
Bahawalpur	44,767	72,387	117,154	48,085	71,689	119,774
D.I. Khan	27,359	24,821	52,180	29,521	27,889	57,410
Faisalabad	185,780	159,975	345,755	145,499	144,537	290,036
Gujranwala	81,536	67,979	149,515	64,966	81,624	146,590
Hyderabad	78,632	165,639	244,271	72,090	125,469	197,559
Islamabad	178,165	741,000	919,165	183,058	489,946	673,004
Karachi	785,446	500,997	1,286,443	798,362	612,554	1,410,916
Lahore	547,349	383,859	931,208	499,512	426,210	925,722
Multan	133,963	163,711	297,674	121,254	128,434	249,688
Muzaffarabad	49,364	50,464	99,828	45,675	49,490	95,165
N. N. Karachi	41,224	14,210	55,434	55,338	9,034	64,372
Peshawar	153,108	165,675	318,783	175,822	198,370	374,192
Quetta	38,501	182,937	221,438	41,532	160,293	201,825
Rawalpindi	271,237	406,130	677,367	245,890	438,859	684,749
Sialkot	116,253	139,357	255,610	99,399	131,398	230,797
Sukkur	21,243	43,317	64,560	15,341	41,695	57,036
Head office	-	2,671	2,671	-	9,471	9,471
<b>Total</b>	<b>2,753,927</b>	<b>3,285,129</b>	<b>6,039,056</b>	<b>2,641,344</b>	<b>3,146,962</b>	<b>5,788,306</b>

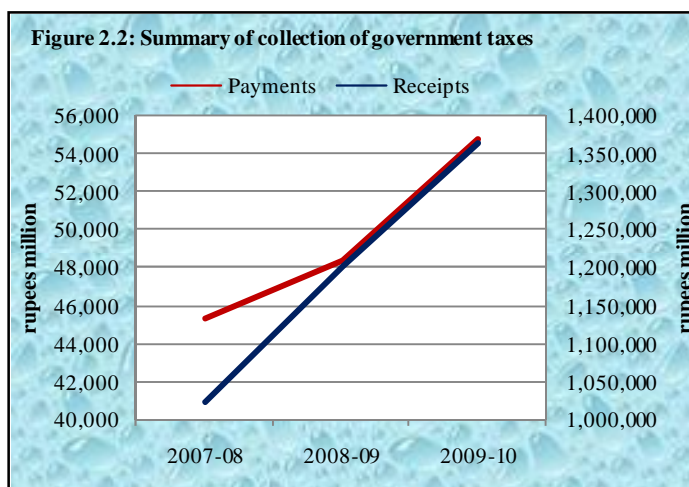
processed by BSC offices compared to 6.03 million transactions in FY09. In monetary terms it amounts to Rs.4.1 billion of receipts and Rs.3.9 billion of payments Table 2.1.

### 2.3 Reporting of Zakat Balances

Collection, disbursement, consolidation, maintenance and reporting of Zakat account is also one of the important responsibilities of Accounts Department of SBP BSC. Zakat deducted/deposited by different agencies is reported to Ministry of Religious Affairs Zakat & Ushr and the amount from Central Zakat Fund is transferred to Provincial Zakat Funds on the advice of the ministry. During the year under review, around Rs.4.82 billion was collected as zakat as compared to Rs.5.54 billion collected last year.

## 2.4 Contribution towards Tax collection

The tax revenue collected 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. 1,364 billion as compared to Rs. 1,200 billion last year Figure 2.2 and the same was reported to FBR electronically on daily basis. The summary of FBR receipts and payments for the year is given in Table 2.2.



**Table 2.2: Tax Head-wise Summary of Collection of Government Taxes**

(Rupees in Millions)

Head of Account	Receipts			Payments		
	2007-8	2008-09	2009-10	2007-08	2008-09	2009-10
Sales Tax	399,508	473,453	537,553	18,337	21,683	15,169
Central Excise	84,115	126,214	133,490	84	104	64
Customs	159,304	154,988	163,083	22,103	13,240	23,762
Income Tax	379,893	446,121	530,471	4,750	13,321	15,744
<b>Total</b>	<b>1,022,820</b>	<b>1,200,776</b>	<b>1,364,597</b>	<b>45,274</b>	<b>48,348</b>	<b>54,739</b>

### 2.4.1 Technology up gradation for better Tax collection

For the past many years federal taxes used to be collected through the manual payment challans by the SBP BSC and NBP. In 2005, Federal Board of Revenue with the help of Sate Bank of Pakistan and National Bank of Pakistan launched Collection Automation Project (CAP) which is now operational in all the branches of SBP BSC and NBP for collection of Federal Taxes by issuing Computerized Payment Receipt (CPR).

CAP II System has also been successfully implemented in NBP and its expansion to SBP BSC offices is in progress. FBR and NBP launched this electronic payment system through Direct Debit Facility (DDF) for account holders of NBP. A web based system "CAP-II" was introduced by FBR to facilitate taxpayers further. This system is in the process of providing an additional facility to tax payers for preparing single as well as multiple challans. The facility will expedite the tax collection process with minimum staff involvement. Staff will only enter Payment Slip ID No (PSID) and Computerized Payment Receipt (CPR) will be generated on confirmation of the payment by counter staff. User Accepting Test of the CAP-II for users of Islamabad office has been performed by FBR/Pakistan Revenue

Automation (Pvt) Limited (PRAL) and users showed their confidence and satisfaction on the services. This project is expected to be implemented during the financial year 2010-11.

In addition to the above, now FBR under the Tax Administration reforms (TARP), in consultation with the commercial banks and SBP has launched third phase of CAP system titled as EPARS (Electronic Payment and Refund System)

The EPARS will provide the facility to tax payers for making the payments electronically by debiting their bank accounts maintained in the commercial banks and similarly tax refunds would be directly credited to the beneficiary's accounts with least manual intervention. Initially the system will take care of only Federal Taxes, but its design would be able to handle the provincial Tax collection as well as Tax refunds.

For the successful implementation of EPARS a series of meetings and discussion have been held during FY10 between FBR and SBP and other stake holders, wherein different modalities/ regulations of the system were discussed, designed and finalized. SBP BSC is providing every possible support to FBR to make this project of national importance a success. All the tasks assigned to SBP BSC are being completed timely and it is hoped EPARS would be successfully launched very soon.

## 2.5 Payment and Settlement Services

Payment and Settlement Systems (PSS) being a critical part of the economic and financial infrastructure contribute to the overall economic performance and financial stability by facilitating efficient financial intermediation. Information Technology stimulates significant developments in the payment and settlement systems in recent years which can be categorized as; a) adaptation of the existing payment products for use on new changes brought about by technology i.e., the card schemes with their everywhere acceptance network and adaptation of card based payments over the internet has enabled the use of such products across the globe; b) The new channels of delivery i.e., Internet/ mobile based products enabled by the technology have now become important means of payments which brought in non-bank players into the payment arena. The role of SBP BSC being an operational arm and facilitator of payment and settlement system assumes critical importance, given the pace and complexity of changes as well as the risks involved in the system.

### 2.5.1 Clearing Services

The BSC has supported SBP in carrying out the supervision of automated clearing services provided by the National Institutional Facilitation Technologies (NIFT). The NIFT was incorporated in September 1995 as a joint venture between a consortium of six banks and entrepreneurs from the private sector. The NIFT provides a nationwide mechanism to process and settle the transactions between the commercial banks in extensive coordination of BSC offices across the country. The NIFT collects the outward clearing directly from each and every branch and then arrange processing, presenting, returns processing, providing the net position to BSC and necessary scrolls, reports and advices for accounting entries to all commercial banks.

After discontinuation of manual clearing, instruments are required to be standardized for this purpose, NIFT has established image based clearing systems by introducing high speed MICR Reader/ Sorter equipment from NCR, for efficient electronic clearing. In order to supplement the efforts of the NIFT, the BSC initiated a project relating to standardization of financial instruments few years back. The first phase of the project was completed, in which all the instruments of commercial banks and other financial institutions were standardized and made machine readable. While the second phase of the project wherein the government departments would be pursued for standardizing their financial instruments has already been started and is in progress. During the year 2009-10 the total number of instruments cleared through NIFT was 72.049 million as compared to 73.489 during the previous year Table 2.3.

S.#	Clearing service	No. of Instruments
1	Normal clearing	68,479,416
2	Same Day Clearing	551,690
3	Inter City clearing	2,999,095
4	Dollar clearing	19,730
<b>Total</b>		<b>72,049,931</b>

#### 2.5.2 Contribution towards Real Time Gross Settlement

The Real Time Gross Settlement (RTGS) project has been in operation since July 2008 in the country with the name of Pakistan Real Time Inter Bank Settlement Mechanism (PRISM) continued to provide online real time settlement services to 43 participation institutions. All commercial banks, five Development Finance Institutions (DFIs) and one Microfinance bank are direct members of the system. The overall launch of the system was done in phases to enable the participants to gradually adapt to the system with minimum inconvenience. The SBP and BSC's RTGS Team fully facilitated the system participants in gradually moving from the cheque based payment mechanism to the new online real time system. BSC Karachi office ensures that the payments from indirect members to RTGS direct participants are promptly made so that their overall liquidity position is timely managed. The payment and settlement of home remittance transactions under Pakistan remittance initiative were started to settle in PRISM since August, 2009 resulting speedy transfer of funds to the end beneficiary. National Clearing Company of Pakistan Limited (NCCPL) provides clearing facility to the capital market and prepares the net of securities and cash obligations for trades. Transactions executed in capital market within the country are now settled in PRISM through MT-103 (third party transfer) for speedy settlement of cash leg of this netting.

Period	Volume	Value
Jul-09	22,284	5,555.20
Aug-09	22,281	5,690.53
Sep-09	23,234	5,469.98
Oct-09	26,412	6,318.60
Nov-09	22,025	4,980.24
Dec-09	24,955	6,372.48
Jan-10	25,475	6,468.14
Feb-10	22,687	5,624.08
Mar-10	27,228	6,793.97
Apr-10	26,722	6,285.14
May-10	24,094	6,263.61
Jun-10	26,247	7,017.44
<b>Total</b>	<b>293,644</b>	<b>72,839.41</b>

During 2009-10, the PRISM settled payments of around Rs.73 trillion with a total volume of more than 293,000 payments Table 2.4 on an average around 980 daily payments valuing of Rs.242 billion has been settled during the year.

## 2.6 Operational Work Relating to National Savings Schemes

In terms of an agreement signed in June, 1949 between the Federal Government and the State Bank of Pakistan, the SBP is responsible for management of the public debt and the issuance of new loans by the Federal Government and to act as an agent for the Federal Government in Pakistan in the management of the public debt. The work relating to issue, supply, sale, encashment and handling of prize bonds, holding draws thereof and other saving instruments of the Federal Government or of a Provincial Government was transferred to SBP Banking Services Corporation pursuant to its creation on 2nd January 2002 as a fully owned subsidiary of the State Bank of Pakistan in terms of SBPBSC (Bank) Ordinance 2001. Currency Management Department of SBP BSC is currently managing the following Government Schemes:

- i) National Prize Bonds Scheme
- ii) National Savings Certificates Scheme

### 2.6.1 National Prize Bonds

The Prize Bonds are bearer in nature and are available in denominations of Rs.200, Rs.750, Rs.1,500, Rs.7,500, Rs.15,000 and Rs.40,000. The sale of National Prize Bonds (all 06 denominations) is carried out through all 16 field Offices of SBP BSC, authorized branches of Scheduled Banks and National Savings Centers of CDNS. Draws are held on periodic basis,

Field office	First Prize		Second Prize		Third Prize	
	FY09	FY10	FY09	FY10	FY09	FY10
Karachi	90	80	191	343	235,678	254,263
Lahore	130	180	410	622	169,952	185,147
Peshawar	27	35	174	127	121,491	130,867
Faisalabad	43	41	102	92	104,415	117,240
Rawalpindi	32	48	142	162	69,188	98,231
N.N.Karachi	67	80	248	289	63,929	74,823
Hyderabad	49	33	136	111	51,568	56,499
Islamabad	21	21	73	86	37,453	25,886
Multan	9	7	69	23	31,092	20,439
Quetta	17	11	54	44	25,544	23,076
Sukkur	12	17	49	31	22,724	16,742
Sialkot	9	11	22	42	17,102	19,950
Gujranwala	11	8	29	40	14,189	19,802
Dera Ismail Khan	4	4	11	23	5,528	8,169
Bahawalpur	2	3	16	13	4,376	7,952
Muzaffarabad	2	6	4	6	2,929	3,419
<b>Total</b>	<b>525</b>	<b>585</b>	<b>1,730</b>	<b>2,054</b>	<b>977,158</b>	<b>1,062,505</b>



under the directives of the CDNS, Islamabad at different BSC offices as per draw schedule announced by CDNS.

During FY 10, the field offices of SBP BSC settled 1,065,144 cases of prize money payment as compared to 979,413 during FY09 showing an increase of 9% as per detail mentioned below in Table 2.5 & 2.6.

Description of Prizes	Number of Prizes	
	2008-09	2009-10
First Prize	525	585
Second Prize	1,730	2,054
Third Prize	977,158	1,062,505
<b>Total</b>	<b>979,413</b>	<b>1,065,144</b>

During the year under review, the aggregate sale and encashment of National Prize Bonds was Rs.129 billion and Rs.91 billion as compared to Rs.106 billion and Rs.91 billion in FY09. The total value of the prize bonds held by the investors as on June 30, 2010 was Rs.235 billion as compared to Rs.197 billion as on June 30, 2009 showing an increase of 20%. During FY10, BSC field offices paid prizes of Rs.19 billion as compared to prize money of Rs.14 billion paid in FY 2009, which was 34% higher than prize money paid during last year. The Table 2.7 below gives the denomination wise detail of bonds' sale, encashment and prize money paid during the FY09 and FY10.

S #	Denom.	2008-09				2009-10			
		Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC	Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC
1	200	6,081.20	5,403.57	973.267	14,364.13	7,928.94	6,266.41	1,276.25	16,026.66
2	750	12,427.26	10,852.63	2,030.37	29,456.28	14,211.02	9,980.32	2,783.63	33,686.99
3	1,500	14,738.66	12,486.10	2,370.96	33,126.40	17,363.99	11,844.76	3,181.90	38,645.62
4	7,500	20,823.37	18,468.57	2,193.01	31,853.18	23,246.61	17,362.79	3,107.89	37,737.01
5	15,000	23,040.21	21,079.19	2,630.42	37,576.35	30,443.40	21,958.61	3,690.88	46,061.15
6	40,000	28,780.00	22,950.68	3,817.94	50,209.60	36,286.44	23,510.84	4,739.00	62,985.20
<b>Total</b>		<b>105,890.71</b>	<b>91,240.73</b>	<b>14,015.96</b>	<b>196,585.94</b>	<b>129,480.39</b>	<b>90,923.72</b>	<b>18,779.55</b>	<b>235,142.62</b>

### 2.6.2 Special Savings Certificates (SSC)

Special Savings Certificates (SSCs) Scheme was introduced in 1990 by CDNS with the prime objective to provide an avenue to the middle and lower income group, household and small investors to invest their savings in an investment guaranteed by the government with steady income. These certificates available in multiple denominations of Rs.500/-, Rs.1,000/-, Rs.5,000/-, Rs.10,000/-, Rs.50,000/-, Rs.100,000/-, Rs.500,000/- and Rs.1,000,000/-, have a maturity period of three years and six profit coupons each payable after the end of six months. At present, the profit on first five coupons is paid @11.6% p.a. and @ 12.0% p.a. on the last coupon. However, if the profit is not withdrawn on due date it automatically

stands reinvested and would be considered for payment of profit on completion of the next 06 months' period; at the rate applicable on the date of such deemed re-investment.

Zakat is deducted at the time of actual encashment at the rate of 2.5 percent on the principal amount where applicable. As per instructions of the Federal Government the withholding tax is deducted at source at the rate of 10 percent of profit earned on SSCs, in case the amount of investment exceeds Rs.150,000/-.

During the year under review, 15,075 cases valuing around Rs.18 billion in respect of sale of SSC(R) were handled by SBP BSC field offices as compared to 43,428 cases involving approximately Rs.37 billion during last year, showing a substantial decrease of about 52% in terms of amount, presumably due to shifting of investment by the Senior Citizens to Bahbood Savings Certificates<sup>1</sup> having high profit rate i.e. 14.16% p.a. as compared to SSCs i.e. 12% p.a. The office wise detail of number of cases for sale, encashment and profit payments is given below in Table 2.8.

S#	Field	Sale		Encashment		Profit Payment	
		FY09	FY10	FY09	FY10	FY09	FY10
1	Bahawalpur	-	47	-	-	-	-
2	Faisalabad	1,246	931	1,121	487	1,203	1,160
3	Hyderabad	875	1,064	1,080	415	1,772	1,403
4	Islamabad	162	88	229	101	193	185
5	Karachi	14,085	6,526	18,694	14,070	20,345	20,096
6	Lahore	8,471	2,888	17,487	2,159	25,562	5,391
7	Multan	4	2	6	3	8	4
8	Muzaffarabad	20	6	15	4	16	18
9	N. N. Karachi	15,166	1,969	14,499	1,363	10,217	5,195
10	Peshawar	224	129	331	132	605	377
11	Quetta	21	10	15	6	17	21
12	Rawalpindi	2,922	1,312	1,469	806	1,767	1,963
13	Gujranwala	2	9	-	2	4	3
14	Sialkot	131	69	133	42	131	214
15	Sukkur	99	25	100	33	115	63
<b>Total</b>		<b>43,428</b>	<b>15,075</b>	<b>55,179</b>	<b>19,623</b>	<b>61,955</b>	<b>36,093</b>

### 2.6.3 Defence Saving Certificates

Defence Saving Certificates (DSC) scheme is a long term investment scheme introduced in 1966 with a tenor of up-to 10 years. These certificates are available in multiple denominations of Rs.500, Rs.1000; Rs.5000; Rs.10,000; Rs.50,000; Rs.100,000; Rs.500,000 and Rs.1,000,000 .

<sup>1</sup> SBP BSC has not been allowed by CDNS to undertake sale encashment etc of Bahbood Certificate.



During the year under review, BSC Field Offices handled 9,035 cases valuing little over Rs.5 billion for sale of DSCs as compared to 10,055 cases involving around Rs.8 billion during FY09 showing decrease of about 33% in the value of investments due to reasons explained in SSCs section above. Details of work handled by field offices are mentioned in the Tables 2.9 and 2.10 given below:

S #	Field Offices	Sale		Encashment		Profit Payment	
		FY09	FY10	FY09	FY10	FY09	FY10
1	Bahawalpur	5	50	52	59	47	59
2	Faisalabad	376	842	893	3,691	869	3,691
3	Hyderabad	286	318	385	319	365	319
4	Islamabad	123	74	372	398	370	375
5	Karachi	4,110	5,159	8,902	10,411	8,902	10,411
6	Lahore	1,019	898	10,719	1,877	10,719	1,877
7	Multan	1	8	11	9	11	9
8	Muzaffarabad	8	10	14	2	14	2
9	N. N. Karachi	1,804	606	2,886	1,816	2,881	-
10	Peshawar	49	47	300	307	300	298
11	Quetta	91	63	94	68	93	68
12	Rawalpindi	2,106	895	1,381	1,442	1,603	2,382
13	Sialkot	24	6	219	165	219	165
14	Sukkur	52	57	113	98	111	98
15	Gujranwala	1	2	-	1	-	1
<b>Total</b>		<b>10,055</b>	<b>9,035</b>	<b>26,341</b>	<b>20,663</b>	<b>26,504</b>	<b>19,755</b>

To facilitate the General Public in providing facility to purchase/ encashment of SSCs/

S #	Instrument	Sale		Encashment		Profit Payment	
		2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
1	SSC	43,428	15,075	55,179	19,623	61,955	36,093
2	DSC	10,055	9,035	26,341	20,663	26,504	19,755
<b>Total</b>		<b>53,483</b>	<b>24,110</b>	<b>81,520</b>	<b>40,286</b>	<b>88,459</b>	<b>55,848</b>

DSCs near to their vicinities, seven more Scheduled Banks named M/s Habib Metropolitan Bank Limited, Arif Habib Bank Limited, Bank of Tokyo-Mitsubishi UFJ Ltd., Standard Chartered Bank (Pakistan) Limited, JS Bank Limited, HSBC Bank Middle East Limited and

Barclays Bank PLC, Pakistan have been authorized by CDNS to deal with the National Savings instruments i.e. Defence Savings Certificates and Special Saving Certificates through their branch network in Pakistan.

<b>Table 2.11 Total value of Sale &amp; Encashment of SSC and DSC at Field Offices</b>					
<i>rupees in million</i>					
S #	Instrument	Sale		Encashment	
		2008-09	2009-10	2008-09	2009-10
1	SSC	36,789.19	17,786.95	21,771.69	5,909.19
2	DSC	7,613.32	5,071.07	25,369.21	16,067.77
<b>Total</b>		<b>44,402.51</b>	<b>22,858.02</b>	<b>47,140.90</b>	<b>21,976.96</b>