

2 Banking Services to the Government and Banks

As a statutory obligation, SBP BSC, on behalf of State Bank of Pakistan, carries out the operational work relating to governments' banking business through its 16 field offices and a wide network of currency chests/ sub-chests established at NBP branches throughout the country.

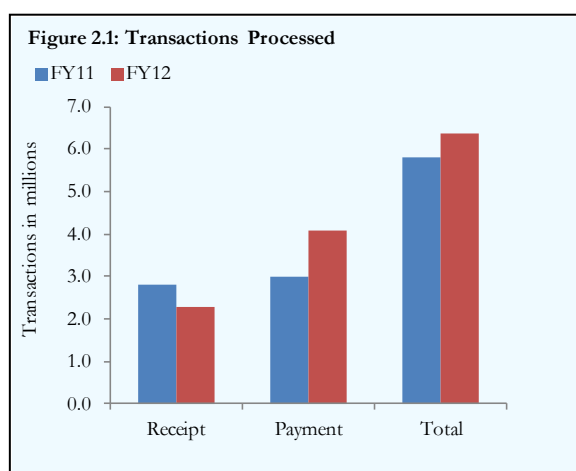
2.1 Overview

SBP BSC under clause 21 of SBP Act 1956 and 15(3) e of the SBP BSC Ordinance 2001 provides banking services through network of field offices across the country to the Government on behalf of State Bank of Pakistan. These services include:

- 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 settlement of government payments and receipts made by NBP as an agent to the SBP.
- Remittances facilities to the government for transfer of funds.

2.2 Management of Government Accounts

SBP BSC maintains accounts of federal/ provincial / local governments. Further consolidation of receipts and payments made on behalf of these governments and their reporting is also one of the key responsibilities of SBP BSC. Accounts Department also keeps a watch on debtor balances to check limits and charge mark up on overdraft balances. During FY12, an interface has been developed for providing position of Government transactions to Project to Improve Financial Reporting and Auditing (PIFRA). Under this arrangement, Accounts Department after having the transactions thoroughly checked sends the information to PIFRA through email on daily basis. During FY12 approximately 6.4 million transactions pertaining to government receipts/payments were processed by BSC offices compared to 5.8 million transactions in FY11 (**Figure 2.1**).



2.3 Reporting of Zakat Balances

Maintenance of Zakat account, its consolidation and reporting to concerned quarters is the responsibility of SBP BSC. During the year under review total collection of Zakat reached Rs.3.9 billion compared to Rs.3.6 billion in the previous year. After

constitutional amendments passed under 18th Amendment Bill, Zakat has been classified as a provincial revenue source. To facilitate Ministry of Religious Affairs, IT based reporting has been developed where Zakat accounts have been made available in terms of area/ province of collection.

2.4 Reporting of FBR Transactions

Collection of government revenues, its consolidation and reporting to FBR is one of the important tasks performed by Accounts Department. To facilitate the tax payers in depositing of tax, getting the credit for the tax deposited by them and for timely processing of their claims for refunds, wherever due, Federal Board of Revenue launched the Collection Automation Project (CAP) in joint collaboration with State Bank and National Bank of Pakistan. It envisages complete automation of the process of deposit of tax, as part of overall Tax Reforms Strategy and is an effort to enhance services to the taxpayers for facilitating them in meeting various tax obligations.

To report collection on real time basis and to bring efficiency in reporting system FBR launched latest version of Collection Automation Project named CAP-II in FY11. In its 1st year CAP-II was implemented in four offices, later on extended to nine more offices during the FY12. The tax revenue collected by SBP BSC offices and the network of NBP branches on behalf of the government during the year was approximately Rs.1,970.3 billion compared to Rs.1,618.2 billion collected in FY11 showing considerable rise of about 22%, with sales tax and direct tax, i.e., Income tax receipts registered an upward trends (**Figure 2.2**). The summary of FBR Receipts and Payments for the year is given in **Table 2.1**.

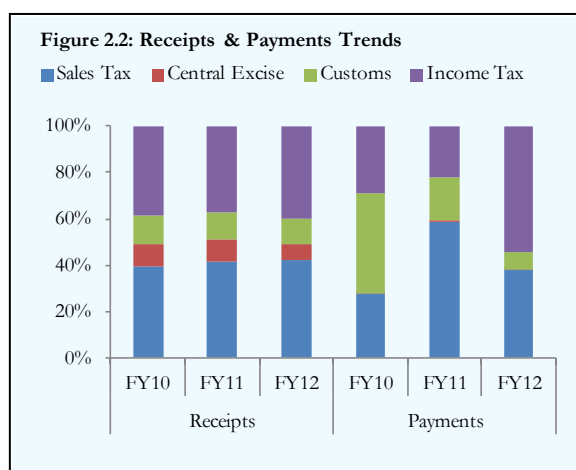


Table 2.1: Summary of FBR Receipts and Payments

Head of Account	Receipts			Payments/ Refund		
	FY10	FY11	FY12	FY10	FY11	FY12
Sales Tax	537,553	671,384	831,746	15,169	45,109	45,238
Central Excise	133,490	153,965	128,348	64	84	281
Customs	163,083	189,936	220,606	23,762	14,268	8,476
Income Tax	530,471	602,909	789,604	15,744	17,090	64,668
Total	1,364,597	1,618,194	1,970,304	54,739	76,551	118,663

Rupees in millions

2.5 Payment and Settlement Services

An efficient payment and settlement system is a key component of the financial and banking infrastructure. It contributes towards the stability of the financial sector by facilitating smooth functioning of financial and banking institutions. Moreover, its effectiveness results in substantial reduction in transactional cost and time.

In recent years, the speed and pace of developments in information technology have played a critical role in improving the level of sophistication of payment and settlement systems. Being cognizant of these developments and its contribution to financial stability, State Bank of Pakistan has been actively working to reform the Payment and Settlement system in the country. Numbers of innovations were brought in both the Retail Payment System and Real Time Gross Settlement System. To perform banking functions on behalf of State Bank, SBP BSC focuses on stability and efficiency of the Payment and Settlement System.

2.5.1 Clearing Service

The clearing of transactions is one of the major functions of payment system and SBP BSC has actively contributed in the development of automated clearing services in the country. BSC oversees the automated processing of financial instruments carried out by the National Institutional Facilitation Technologies (NIFT). For this purpose clearing arrangements have been outsourced to National Institutional Facilitation Technologies (NIFT), through execution of an agreement. NIFT deals, directly, with every branch of commercial banks in 26 major cities and about 269 Industrial and Commercial towns. More than 7,365 bank branches availed NIFT clearing services. The clearing services offered by NIFT include;

- Overnight clearing
- Same Day / High Value Clearing
- Inter City clearing
- Countrywide Local US Dollar Clearing

During FY12 the total number of instruments processed through NIFT was 72.8 million compared to 72.2 million last year (**Table 2.2**).

2.5.2 Real time Gross Settlement System

Real Time Gross Settlement Systems (RTGS) are mechanisms that enable banks to make large-value payments to one another in real-time using online telecommunication facilities as well as state-of-the-art computer systems. The payments are settled on gross basis in real time thus minimizing the systemic risks that are inherent in large-value net settlement systems.

The RTGS in Pakistan has been named as Pakistan Real-time Interbank Settlement Mechanism (PRISM). The PRISM comprises of two major applications, i.e., RTS/X and Depo/X. The RTS/X is funds transfer application operated through software installed by SBP at Participant's premises, whereas the Depo/X is securities settlement web based application and is connected in Real Time with RTS/X applications to ensure transaction in delivery versus payment basis.

The SBP BSC operates RTGS through its field offices across the country. Using this system, the banks holding accounts at SBP are able to operate their accounts in real time from their own premises via computerized network between SBP and the participating Banks. With RTGS, Banks are able to settle their large value transactions affecting their

Table 2.2: Number of Instruments Cleared Through NIFT

Clearing service		FY11	FY12
1	Normal clearing	68,238,669	68,473,503
2	Same Day Clearing	662,095	781,125
3	Inter City clearing	3,259,069	3,561,753
4	Dollar clearing	19,897	18,904
Total		72,179,730	72,835,285

accounts at SBP (e.g., inter-bank lending/ borrowing) immediately, provided sufficient balance is available in their account. At times, banks may face temporary shortage of funds in their accounts during the day. This shortage would be catered for in RTGS through the availability of intraday repos (a form of collateralized lending). Alternatively, the transaction can also be queued in the system until the required liquidity is available.

During FY12, the monthly average value and volume of total transaction including RTGS, Depox and NIFT were Rs.9,377.7 billion and 31,245.8 respectively, which showed an increase of 14.07 percent in volume and 37.46 percent in the value against last year (Figure 2.3).

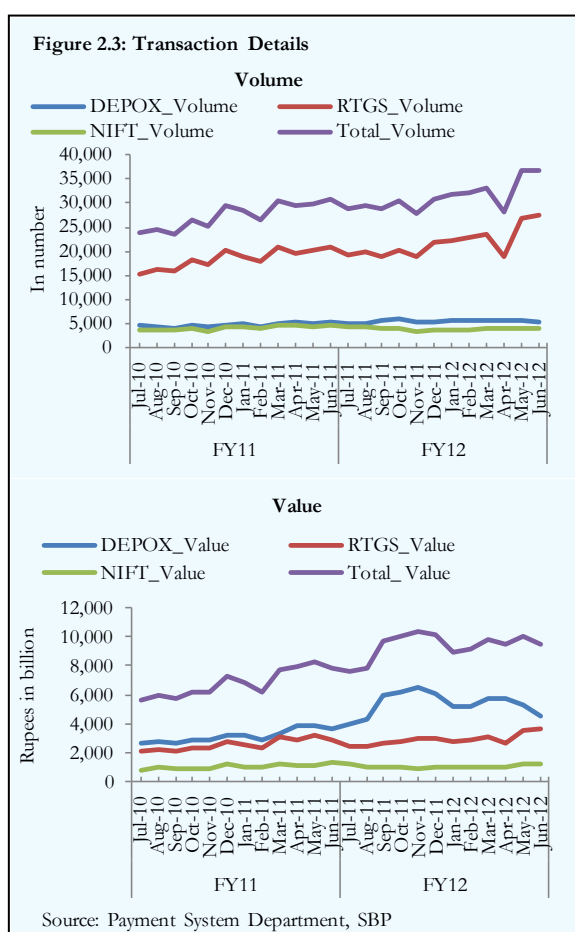
2.6 Establishment of System and Procedures Division

System and Procedures Division (SPD) has been established at Accounts Department with the objective to resolve day to day system related issues that are raised during business transactions. The main responsibility of SPD at HOK is to watch and guide all System and Procedure Units (SPUs) at BSC Offices for smooth running of system operations, improve performance level of users and get better understanding of the system.

2.7 Key initiatives of Accounts Department

Accounts Department in SBP BSC is mainly dealing with government accounts, budgetary activities, system supports, financial statements and policy related issues of banking services provided by field offices. All transactions are executed through system ultimately resulting in system based reporting of balances to all stakeholders. Further with the implementation of CAP-II, income tax receipts are reported on real time basis to FBR.

Accounts Department introduced and implemented budgetary controls for best usage of budget, speedy and transparent procurement process, and timely capitalization of assets, besides controlling expenditures. During the year, system based tagging of fixed assets was also carried out for security and database of the assets. The department also took up the issues in settlement of clearing with NIFT. As a result it was decided that there would be daily communication between the department and NIFT regarding status of the settlements and clearing.



As already mentioned with the rollout of Globus, number of steps has been taken to introduce system based checks to strengthen internal controls and simplification of processes. Some initiatives are as under:

- Established system based controls to restrict reversal of transactions by unauthorized persons.
- System based monitoring of assignment accounts of different government departments has been implemented to restrict unauthorized overdraft in the accounts.
- Developed new version for confirmation of PB-35 bonds from PDO before crediting the prize money to Government
- To facilitate public new version for direct payment of Prize Money of NPB of Rs.750 denomination has been developed.

For simplifying procedures and to align these procedures with new automated environment new SOPs have been implemented in different areas like:

- Revision of working procedures for Government Accounts and Remittances Unit
- Reimbursement of TT Charges on Home Remittances
- Govt. Credit of Prize Money under PB-35 bonds

2.8 Government Audit

Yearly audit of SBP BSC Offices and Head Office is undertaken by Auditor General of Pakistan (Director General Commercial Audit and Evaluation of Pakistan, Karachi) on regular basis. Internal Monitoring Unit coordinates with Finance Department, SBP and Government / Commercial Auditors to facilitate the timely completion of audit. This unit arranges provision of all requisite documents/ files to the auditors and ensures timely response to audit queries and memos.

2.9 System Based Internal Controls

Globus is the core transactions capturing / processing system used for SBP BSC's business operations. Internal Controls based in Globus were derived from the pre-automated internal controls prevalent in the manual environment. Various other internal controls have been developed as part of its implementation, recommendations from time to time made by Internal Audit as well as improvements suggested by operational staff during their usage of the system. Few of the internal control protocols in place include, one level of authorization (after input) exists as a control against any unintentional or erroneous input. Further, verified Signatures of authorized signatories are a manual control for verification of physical instruments that have been translated on the system in the form of scanned copies of these signatures that appear in Globus as images during the transaction of respective accounts. The system can also identify and restrict the entries of the stale cheques in the system. Same internal control protocol is in place as regards Globus Currency server. They include limits on the vault officials to transfer notes from a safe not more than the amount present in that particular safe in the system. Further it also restricts the users to appropriate reports or performs functions beyond a certain limit, the controls implemented as Group Policies, making use of IT networking tools available.

2.10 Operational Work Related to National Savings Schemes

In terms of Agreement signed in June, 1949 between the Central Government and the State Bank of Pakistan, the Bank is responsible for the 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, Karachi pursuant to its creation on 2nd January 2002 as a fully owned subsidiary of the State Bank of Pakistan in terms of SBP BSC (Bank) Ordinance 2001. SBP BSC is currently managing following Government Securities:

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

2.10.1 National Prize Bonds

The Prize Bonds are bearer in nature, and are available in Eight (8) different denomination of Rs. 100¹/-, Rs.200/-, Rs.750/-, Rs.1,500/-, Rs.7,500/-, Rs.15,000/-, Rs.25,000/- and Rs.40,000/-.

Sale of National Prize Bonds (of all denominations) is carried out through the 16 field offices SBP BSC Karachi, authorized branches of Schedule Banks and National Savings Centers of CDNS. No return is paid, on the face value of the prize bond, however, draws are held on quarterly basis, under the directives of the CDNS, Islamabad at different BSC offices as per draw schedule announced by CDNS. During FY12, the field offices of SBP BSC settled 1,312,798 cases of prize money payment compared to 1,185,706 during FY11 showing increase of 10.72 % as per detail mentioned in **Table 2.3 & 2.4**.

Table 2.3: Total Number of Prizes

Description of Prizes	Number of Prizes	
	FY11	FY12
1 First Prize	642	711
2 Second Prize	2,525	2,851
3 Third Prize	1,182,539	1,309,236
Total	1,185,706	1,312,798

During the year under review, the aggregate sale and encashment of National Prize Bonds was Rs. 162.2 billion and Rs.105.9 billion respectively, as compared to Rs.138.9 billion and Rs.97.8 billion respectively in FY11. The total value of the prize bonds held by the investors as on 30th June, 2012 was Rs.332.5 billion compared to Rs.276.2 billion as on 30th June, 2011 showing an increase of 21%. During FY12, BSC field offices paid prizes amounting to Rs.27.5 billion as compared to prize money of Rs.22.6 billion paid in FY11, which was 22% higher than prize money paid during last year. The **Table 2.5** gives the denomination wise detail of bonds' sale, encashment and prize money paid during FY11 and FY12:

Re-Launching of Rs.25,000 Denomination National Prize Bonds

The Prize Bonds of Rs.25,000/- denomination was first launched by the Government in 1995 and the same was withdrawn from circulation in 1999. The same denomination prize bonds has been re-launched by the Government vide Finance Division's Notification No.F.16 (5)GS-I/2011-1975 of December 23, 2011 in order to plug the wide gap between high valued prize bonds as well as to go for cost effective borrowing. This was offered on

¹ On November 16, 2012, National Savings Organisation has launched new prize bond titled "Student Welfare Prize Bond" of Rs. 100/- denomination.

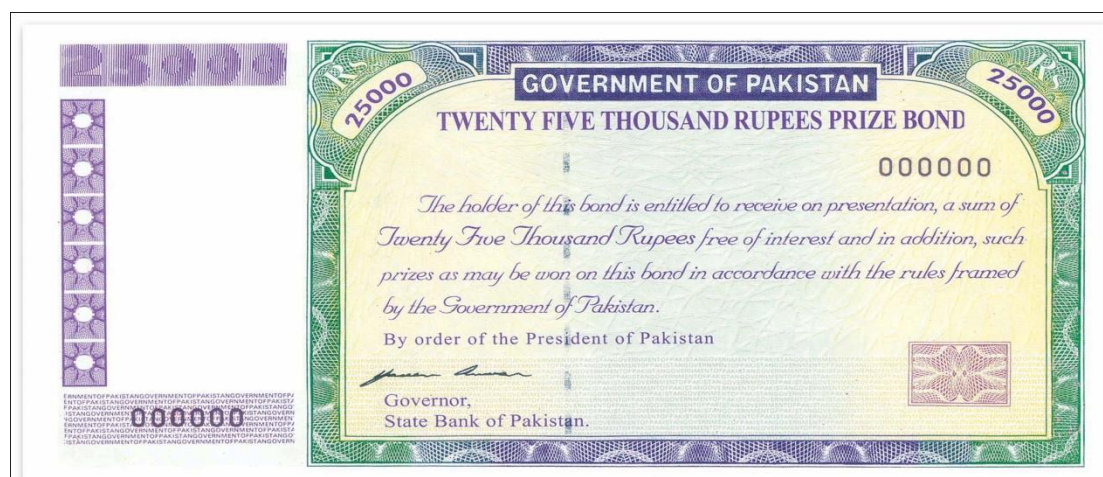


Table 2.4: Number of Prizes Paid Against Winning Prize Bonds

Field Offices	FY11			FY12		
	First Prize	Second Prize	Third Prize	First Prize	Second Prize	Third Prize
Karachi	156	564	283,071	195	820	304,893
Lahore	146	625	200,567	160	608	209,967
Peshawar	48	139	130,230	42	102	118,435
Faisalabad	29	138	153,154	26	154	215,417
Rawalpindi	40	223	99,101	30	171	105,197
N.N. Karachi	83	267	86,404	100	430	97,794
Hyderabad	31	159	66,817	69	161	77,838
Islamabad	20	81	33,798	21	95	35,053
Multan	19	96	19,418	22	103	19,548
Quetta	7	38	27,704	8	43	29,808
Sukkur	11	41	19,238	13	42	22,150
Sialkot	11	36	22,307	5	40	25,670
Gujranwala	13	75	20,603	8	29	25,575
D.I. Khan	9	12	7,927	7	23	8,474
Bahawalpur	19	26	8,149	3	22	8,877
Muzaffarabad	0	5	4,051	2	8	4,540
Total	642	2,525	1,182,539	711	2,851	1,309,236

Table 2.5: Total Sale & Encashment of National Prize Bonds at Field Offices of BSC

Deno.		Rupees in millions							
		FY11				FY12			
		Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public	Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public
1	200	7,452.4	5,921.8	1,337.5	17,557.2	7,175.6	5,936.2	1,599.2	18,796.6
2	750	15,698.3	9,532.0	3,241.2	39,853.4	15,695.4	11,342.0	3,831.2	44,206.7
3	1,500	18,429.0	12,200.2	3,768.7	44,874.4	18,951.6	14,478.9	4,426.3	49,347.0
4	7,500	26,688.9	20,985.0	3,600.0	43,440.9	19,601.5	20,252.0	4,220.2	42,790.4
5	15,000	31,130.8	23,130.2	4,427.0	54,061.8	31,787.6	23,987.0	5,856.8	61,862.4
6	25,000	-	-	-	-	31,611.6	3,760.9	369.1	27,850.8
7	40,000	39,523.3	26,070.1	6,229.8	76,438.4	37,407.7	26,139.9	7,244.9	87,706.3
Total		138,922.7	97,839.3	22,604.2	276,226.1	162,231.0	105,896.9	27,547.7	332,560.2

sale on February 1, 2012 through the counters of all SBP SBC Offices, authorized branches of Commercial banks and National Saving Centers. Prizes are paid on the same denomination bonds won in the draws held on quarterly basis as per **Table 2.6**.

Table 2.6: Re-Launching of Rs.25,000 Denomination National Prize Bonds

No. of prizes	Amount of prize	Total amount of prizes
1 st Prize	50,000,000	50,000,000
2 nd (3 Prizes)	15,000,000 (Each)	45,000,000
3 rd (1696 Prizes)	312,000 (Each)	529,152,000
Total Prizes Amount		624,152,000

Payment of 3rd Prize of Rs.750/- denomination bonds through one window operation

Earlier only payment of 3rd prize of Rs.200/- was being made to general public through one window operation at cash side besides payment of 3rd prizes of Rs.750/- and Rs.1500/- denomination bonds on the same day. Now payment of 3rd prize of Rs.750/- denomination National Prize Bonds has also been started by all Offices of SBP BSC through One Window Operation at Cash Side w.e.f. 20th June, 2012 in order to facilitate general public.

Automation/other achievements in respect of National prize bonds

Manual processing of PB-11² & PB-17 Registers has been discontinued w.e.f. 15th July, 2011

- A Version has been developed in Globus for a drawing advice (PB-27) in respect of payment orders which can be generated by PAU/PAD automatically on receipt of P.O. from NIFT for settlement thereof.
- Manual marking in PB-18³ for 3rd prize of Rs.750/- & Rs.1500/- has been discontinued from 50th draws onward being data available in the Globus,
- Manual reporting of PB-55⁴ to the concerned PDO for the prizes upto Rs.18, 500/- has been discontinued from 50th draw onward (held on April 16, 2012) being data available in the Globus.

2.10.2 Special Savings Certificates

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 are 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/-, with a maturity period of three years and six profit coupon leaves each payable after the end of six months. At present⁵, the profit on first five coupons is paid at the rate of 9.90% per annum while it is 10.50% on the last coupon.

During the year under review, 21,498 cases valuing Rs.29.4 billion in respect of sale of SSC(R) were handled by SBP BSC field offices as compared to 14,057 cases involving Rs.18.0 billion during last year, showing 17% increase in terms of amount, the office wise detail of number of cases for sale, encashment and profit payments is given in **Table 2.7**.

² Stock register of defaced (cancelled) & Defaced prize bonds

³ Prize Money Payment Register

⁴ Advice showing the payment of prize money of bonds issued by other PDO

⁵ Effective from October 12, 2012

Table 2.7: Number of Cases of Special Savings Certificates® handled by the SBP-BSC Offices

Field	FY11			FY12		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 Bahawalpur	-	23	26	3	6	6
2 Faisalabad	221	339	504	1,004	1,049	3,147
3 Hyderabad	106	123	326	505	661	351
4 Islamabad	90	93	221	97	135	231
5 Karachi	6,998	23,862	23,675	9,377	19,444	21,783
6 Lahore	3,455	2,301	5,537	5,886	2,598	6,745
7 Multan	4	5	13	6	24	25
8 Muzaffarabad	27	26	34	15	36	42
9 N. N. Karachi	2,276	1,709	7,223	3,356	4,800	8,053
10 Peshawar	88	143	448	115	167	476
11 Quetta	7	34	126	52	64	50
12 Rawalpindi	687	571	707	964	886	2,085
13 Gujranwala	3	7	3	1	2	3
14 Sialkot	76	84	167	86	94	168
15 Sukkur	19	19	48	31	55	70
Total	14,057	29,339	39,058	21,498	30,021	43,235

2.10.3 Defence Savings Certificate

Defence Saving Certificates (DSC) scheme is 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/-.

During the year under review, BSC field offices handled 8,844 cases valuing Rs.5.7 billion for sale of DSC compared to 8,015 cases involving around Rs.5.2 billion during FY11 showing an increase of 9% in terms of amount. Details of work handled by field offices are mentioned in **Table 2.8, 2.9 & 2.10**.

Table 2.8: Number of Cases of Defence Savings Certificates handled by the SBP-BSC Offices

Field Offices	FY11			FY 12		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 Bahawalpur	21	55	55	1	16	18
2 Faisalabad	157	367	359	556	1,713	1,710
3 Hyderabad	94	186	173	152	406	406
4 Islamabad	98	283	283	84	296	296
5 Karachi	4,776	10,451	10,451	4,892	6,744	6,744
6 Lahore	1,540	1,998	1,998	1,903	2,013	2,013
7 Multan	1	22	22	0	94	94
8 Muzaffarabad	2	1	1	11	9	8
9 N. N. Karachi	630	785	733	633	469	469
10 Peshawar	35	245	245	14	242	242
11 Quetta	165	397	397	124	451	451
12 Rawalpindi	426	1,186	1,311	382	1,191	1,420
13 Sialkot	18	63	63	35	66	66
14 Sukkur	52	90	90	57	129	125
15 Gujranwala	0	0	0	0	0	0
16 DI Khan	0	2	2	0	0	0
Total	8,015	16,131	16,183	8,844	13,839	14,062

Table 2.9: Total Number of Cases of National Savings Schemes handled at Field Offices

Instrument	FY11			FY12		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
1 SSC	14,057	29,339	39,058	21,498	30,021	43,235
2 DSC	8,015	16,131	16,183	8,884	13,839	14,062
Total	22,072	45,470	55,241	30,382	43,860	57,297

Table 2.10: Total Value of Sale & Encashment of SSC and DSC at field Offices

Instrument	Rupees in millions			
	Sale		Encashment	
	FY11	FY12	FY11	FY12
1 SSC	18,049.8	29,372.6	10,943.8	24,277.0
2 DSC	5,227.7	5,701.7	5,089.7	7,017.0
Total	23,277.5	35,074.3	16,033.5	31,294.0

Automation/other achievements in respect of National Savings Certificates Scheme

- Version created in the Globus for Stock management of blank profit coupons books received by the offices from RDNS Karachi.
- Mechanism has been developed for disposal of detached profit coupons (old pattern).
- Quarterly Verification of balances of profit coupon check books introduced at all BSC offices.
- A new enquiry/application named ‘Owner Personal Details’ has been developed in Globus, which will identify the CNICs expired during running cases.
- Mechanism has been developed for disposal of undelivered Payment Orders in respect of SSCs/DSCs.

2.11 Future Outlook

To further improve its operational efficiency, Accounts Department plans to take following initiatives during FY13 which include:

- To redefine the role of Internal Monitoring Units for further strengthening internal controls;
- Development of information dashboard based on real time streaming data on currency and other core operations for instant review by the top management.
- To introduce Image Management Module in remittance section to improve efficiency and turnaround time through eliminating manual checking of authorized signatories of government/ bank draft.