

## **Executive Summary**

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Banking Services Corporation (BSC) is a subsidiary of the State Bank of Pakistan (SBP). It derives general directions and prudence from the SBP's policies, and sets operational priorities for achieving the designated goals internally. BSC seeks State Bank's policy interventions to maximize the benefits of conventional as well as Islamic banking and to extend financial sector reach to earlier uncovered segments through financial inclusion program. It promotes implementation of SBP policy framework among financial institutions, and maintains close liaison with lead groups in industry, trade, commerce and agriculture. And helps resolve their credit related matters promptly taking SBP on board. With head office at Karachi, SBP BSC operates with 16 field offices across the country. Here is a brief of BSC performance and achievements during FY12.

### **Currency Management**

SBP BSC ensures sufficient stock of currency (notes & coins) to meet its demand throughout the year including seasonal fluctuations. In pursuance of the State Bank's clean notes policy, Currency Management Department (CMD) managed to issue 1.8 billion pieces of fresh currency notes of various denominations amounting to Rs. 443.6 billion during FY12; an increase of 16.7 percent over the previous year. The currency in circulation increased to Rs.1, 777.1 billion as on June 30, 2012 from Rs. 1,600.0 billion on the same date a year earlier.

To further strengthen the internal controls and to centralize the monitoring processes related to currency management, numbers of redundancies were removed from the earlier MIS reports. This made the monitoring of different currency positions more efficient. Moreover, CMD has developed a user manual/ Standard Operating Procedures (SOPs) for use of verifying officers who do the verifications of currency and prize bonds balances held at field offices as on 30<sup>th</sup> June, the formal end of the financial year.

### **Banking Services to the Government and Banks**

During FY12, approximately 6.4 million transactions pertaining to government receipts/payments were processed compared to 5.8 million last year. The collection of tax revenue during the year under review showed an impressive growth of around 21.8 percent and stood at Rs. 1,970 billion as against Rs. 1,618 billion collected in FY11. The payments made under refunds allowed by the concerned offices of the Federal Board of Revenue (FBR) grew from Rs. 76.6 billion in FY11 to Rs. 118.6 billion in the year under review. During the year under review total collection of Zakat stood at Rs.3.9 billion compared to Rs.3.6 billion collected last year. Moreover, after constitutional amendments passed under 18<sup>th</sup> Amendment Bill, where Zakat has been classified as a provincial revenue source, SBP BSC has facilitated Ministry of Religious Affairs with Zakat collection statistics available in terms of area of its collection.

During FY12, the monthly average value and volume of total transactions including RTGS, Depox and NIFT were Rs.9,377.7 billion and 31,246 respectively, which showed an increase of 14.1 percent in volume and 37.5 percent in the value compared to previous year.

### **Foreign Exchange Operations and Adjudication**

Foreign Exchange Operations Department (FEOD) sent 2,855 complaints against exporters to Foreign Exchange Adjudication Department (FEAD) in FY12 as compared to 2,107 complaints in FY11. Many lacunas were identified by the department in the process of data receipts and the same were taken up for priority action with the active intervention of the audit department. The observations of the audit department with regard to the banks included misreporting of the accounts, late reporting of the overdue cases and reporting of documents against payment DP/CAD /LC (sight) cases after six months. The reason for the renewed enforcement approach was to minimize the occurrences of foreign exchange realization lapses that are in turn reflected in an increasing pile of cases that merit the institutional intervention of the sister department FEAD. The department organized regular meetings with the stakeholders so that overdue statements are submitted in time. The department also took along the respective chambers of commerce and Customs officials to debate the rationalization of the processes and practices. To further disseminate the thought process, the department also organized pointed presentations for the stakeholders to bridge the gaps in perception.

FEAD, since its inception in 1990 recovered US\$ 258,861,479 upto June 30, 2012. During FY12, FEAD recovered highest ever foreign exchange of US\$ 43 million through disposal of 2,410 complaints, highest number ever achieved by the department. In addition, for the first time, the department disposed off 1,275 complaints against Authorized Dealers which resulted in reduction of time period to lodge complaints in Adjudication Courts. FEAD continued follow-up with the Revenue Authorities/ Government Departments to recover penalty due to which they recovered Rs. 22.964 million since inception out of total accumulated amount of Rs. 9.5 billion. During the current period an amount is Rs. 3.3 million was recovered.

### **Development Finance Support Services**

Development Finance Support Department (DFSD), SBP BSC organized 6 fairs and banking sector exhibition in unbanked districts all over Pakistan during FY12. The Access to Finance Units (AFUs) under DFSD housed in various field offices of BSC also undertook site visits to gauge the level of commercial banks commitment to the One Window Operation (OWO) initiative under the Agricultural Financing Pilot Project IV. These activities were aimed at changing the traditional perceptions of the banking sector players towards nontraditional avenues in banking, especially the unbanked sectors of society and economy. Apart from that, 86 seminars cum workshops were also organized in FY12. The AFUs participated in 17 similar programs organized by other stakeholders in their respective regions. Holding of these programs by private sector on their own is a healthy sign and reflects the growing interest among the stakeholders - an essential prerequisite for future sustainability of development finance initiative.

The DFSD also strived to create linkages between the regional/ provincial government departments as also the academia to improve further coordination between the two important stakeholders. A grand Zarai Mela in collaboration with commercial banks and Agri research institutes at Agricultural Research Institute was arranged at Tarnaab, Peshawar. Similarly, Agricultural & Industrial Awareness Convention was held in collaboration with leading commercial banks, insurance companies and microfinance banks at Hazara University Haripur campus. The department also organized 52 capacity

building programs for its fellow stakeholder banks, employees to facilitate the goal of overall financial inclusion.

### **Export Refinance and other Refinance Schemes**

The Export Refinance facility under the umbrella of the SME department of the SBP is managed by the EFS wing of the DFSD. During FY12 a total of 107,096 transactions relating to grant, repayment, remuneration (share of profit), fine and refund were executed by the BSC offices under EFS (Part I & II) and IERS compared to 146,278 transactions executed during FY11. Similarly 17,937 transactions relating to grant, repayment, and remuneration (share of profit) were executed under LTFF as against 14,794 transactions during the corresponding period last year. Moreover, a total of 7,995 cases amounting Rs.439.2 million during FY12 as against 8,942 cases amounting Rs. 1,243.8 million during FY11 were processed under Export Finance Mark Up Rate Facility. During FY12, the Development Finance Division (DFD) of BSC offices also conducted on-site verification of 15,804 export finance cases at 221 branches of commercial banks across the country to assess the compliance with the provisions of the SBP Export Finance & Islamic Export Refinance Schemes (Part I&II) both by the banks and the exporters. As a result of these efforts, fine amounting to Rs.10.8 million was recovered from banks/ exporters for violation of SBP instructions detected during the process. Thirty six (36) consolidated (Bank-wise) on-site verification reports were prepared and forwarded to Infrastructure Housing &SME Finance Department, SBP during FY12.

### **Credit Guarantee Schemes of SBP – Implementation thereof**

SBP in collaboration with the UK Department for International Development (DFID) launched two credit guarantee schemes namely “Microfinance Credit Guarantee Facility” (MCGF) in December 2008 and “Credit Guarantee Scheme (CGS) for small and rural enterprises” in March 2010 with a view to share credit risk with the banks for provision of funds to these priority sectors. Development Finance Support Department (DFSD) of SBP BSC handled all the operational aspects of the guarantees issued under both schemes as well as managed the guarantee funds. As of June 30, 2012, guarantee cover against Rs. 4,225 .0 million of loans sanctioned by commercial banks/DFIs under MCGF was issued, while 4,400 borrowers of commercial banks have been provided guarantee cover for a sanctioned amount of Rs.3, 053.0 million under CGS.

### **Human Resource Management**

A number of initiatives were taken to enhance the institutional capacity and achieve the objectives. The Performance Management System was further strengthened by arranging orientation sessions for stakeholders to create larger ownership. For capacity building of organization, a smart recruitment plan was introduced which would help in induction of talented human resources through an efficient mechanism. The guiding principle for future recruitments is to replace the outgoing staff through more qualified, technologically proficient and cost effective resources. Similarly, the professional development incentive program was introduced for upgrading the skill base of employees. In furtherance of organizational objective, the deputation policy for OG-1 and above employees was announced to provide career enhancement and opportunities for diversification of skills.

In the context of salary revision, the Bank's compensation & benefit structure was aligned with the market after conducting a salary survey from external consultants. The underlying objective is to inculcate pay for performance culture, attraction and retention of talent, rationalization of retirement benefits & provision of opportunities of career growth for high performers. For further improvement in the policies related to benefits at the time of retirement, the policy related to medical facility option on early retirement was revised. During the period, the charter of demand from CBA was also successfully negotiated which aimed at maintaining healthy industrial relations in the organization. NIRC was also facilitated in the holding of referendum for election of CBA in a peaceful and transparent manner.

### **Training and Skill Development**

Five hundred seventy four officers had interpersonal skills training. Ninety one officers were given training in Soft Skills, Function Specific and Middle Management Courses at different domestic training institutions like IBP and ICAP. In-House conduct of training program is another available training intervention where internally selected trainers deliver the courses. A total of 211 employees were trained under in-house training program during the year under review. Six officers who fulfilled the rigorous requirements as streamlined in the training policy were sent for international/foreign trainings to various institutes during FY12.

### **Internal Audit & Control**

The Internal Audit Department (IAD) has always focused on being a value adding arm in smooth functioning of SBP BSC by keeping an oversight and vigilance on effectiveness of internal controls, risk management, and governance processes. Establishment of Review & Enforcement Division (RED) introduced in FY12 led to enhancing of filtering and priority rationalization of audit observations and has contributed significantly in improving the overall quality of audit reports.

During FY12, using a risk based audit plan eight (08) departments at HOK and sixteen (16) field offices of BSC were audited, that raised 166 and 863 audit observations, respectively. In addition, Internal Audit Hubs performed 105 audit engagements and after revision in its target scope, it mainly focused upon high risk areas requiring frequent assurance. The integration of IT and financial audits this year assisted in providing a substantial review of the process of strengthening risk minimization practices. Emphasizing over capacity building of workforce, a vigorous training plan has been formulated after carrying out internal TNA of IAD. Further, in-house trainings and trainings through collaborative framework with two field offices served immediate training needs through a cost-extinguished delivery channel.

### **Quality Assurance**

The Quality Assurance Department of the SBP BSC has prepared a booklet on modifying the procedures of processing National Saving Scheme products. It is also working on procedures for claimed notes as well as prize bonds related counter level issues in close support from the Currency Management Department.

Quality Assurance facilitated Currency Management Department in reviewing existing practices on clearly payable and claim prize bonds procedure at BSC Karachi Office. In doing this, prevailing practices were critically analyzed and the gaps between the

instructions and existing practices were considered to make the processes more efficient and consistent with the available IT module on prize bond.

### **Support Services Management**

To promote safe, healthy and productive work environment in SBP and all its subsidiaries i.e., SBP BSC and NIBAF a comprehensive support services network has been established at SBP BSC. The network comprises of Medical Services Division of GSD, Internal Bank Security Department and Engineering Department which extends services in their respective area of operations. The prominent activities include: i) ensuring security of human and other assets of the Bank ii) maintaining congenial workplace environment, and iii) providing health care facilities to employees and their dependents. Apart from this printing press provides state of the art printing facilities to SBP and its subsidiaries for publication of their reports.

### **Future Outlook**

For achieving higher satisfaction level of stakeholders including SBP, a comprehensive development plan has been chalked out for FY13. A number of important activities in cash, banking, foreign exchange operations and development finance have been anchored for bringing operational improvements. Apart from this, on-going Business Process Reengineering (BPR) efforts have been augmented by establishing a high powered committee at HOK. The Committee has been mandated to gear up result oriented BPR efforts in coordination with core and support department at SBP and SBP BSC and come up with proposals making systems more efficient and economical without compromising internal controls.

The priority areas for improving quality of services by end of FY13 include;

- Bringing a phenomenal increase in verification and destruction of currency notes to meet destruction target of Rs. 3.0 billion pieces i.e., double than the last year's destruction;
- Introducing Image Management Module in remittance section to improve efficiency and turnaround time through eliminating manual checking of authorized signatories of government/ bank draft;
- Designing a new project to enable smooth payment of DLTL claims office wise so that the data is easily accessible to Authorized users of FEOD/ field offices instead of confining to only few officials;
- Holding a conference of major stakeholders to agree upon agenda of more proactive role of DFSD in resolving the issues confronting demand and supply side and develop creative and effective strategies aligned with the objectives of DFG-SBP;
- Creating ownership of PMS among all stakeholders about its effectiveness towards organizational development including capacity building and succession planning;
- Hiring well qualified young professionals at induction level as well as engaging few middle level specialized positions on permanent/contract basis;
- Development of Course Curriculum for Function Specific, Soft Skills and Professional Skills;

- Implementing of Audit software (Audit ware) followed by creating an environment for acceptance of the system within the internal auditors is one of key strategic goals of IAD;
- Developing an offsite surveillance mechanism through which the concept of efficient continuous auditing system could be introduced.