

# 1 Banking Services to Governments and Banks

*As a statutory obligation on behalf of State Bank of Pakistan (SBP), SBP Banking Services Corporation carries out operational work as Banker to Governments and Banks through its 16 Field Offices and a wide network of 224 authorized branches of National Bank of Pakistan (NBP). Besides Bank of Punjab (BoP) is also providing collection services to the Government of Punjab. SBP BSC Accounts Department oversees these operations by providing comprehensive policy guidelines to the field offices. In addition, Accounts Department prepares Annual Accounts of the Corporation, while also managing and monitoring its budget making process.*

## 1.1 Overview

Banking services to government and banks is one of the main functions of SBP BSC, which aims at ensuring effective and efficient delivery of banking services to all its stakeholders. Therefore, coordination with external stakeholder i.e. Government Departments, banks, general public, NIFT and ILink for ensuring efficient and secure flow of funds in the banking system is an important task performed by SBP BSC.

## 1.2 Banker to the Government

In terms of Section 21 of SBP Act 1956, State Bank of Pakistan performs the function of Banker to the Government. Under clause 15(3) of the SBP BSC Ordinance 2001, SBP BSC has been inter-alia entrusted with the responsibility of collecting revenues and making payments on behalf of Federal and Provincial Governments through its field offices and Accounts Department.

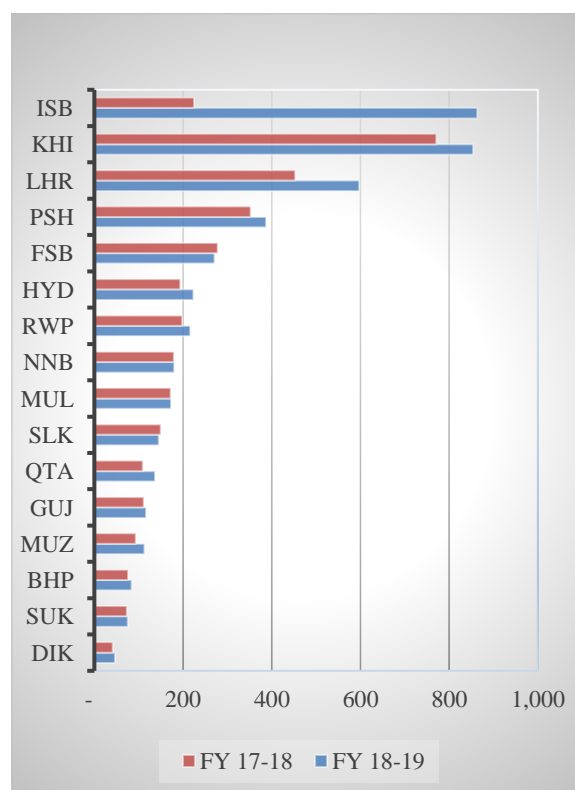
### 1.2.1 Collection of Government Revenue

SBP BSC provides revenue collection services to Federal and Provincial Governments, which includes tax and non-tax revenues. The primary stakeholders in this regard are Federal Board of Revenue (including Internal Revenue Services - IRS, and Pakistan Customs), Punjab Revenue Authority, Sindh Revenue Board, KP Revenue Authority, Baluchistan Revenue Authority, Azad Jammu & Kashmir Government, Excise and Taxation Departments, Food Departments, Pakistan Railways, Central Directorate of National Savings etc.

During FY19, the total number of transactions pertaining to the Government collection carried out by the SBP BSC Field Offices was 4.5 million as compared to 3.5 million transactions in the preceding year showing an increase of 29%.

**Table 1.1: Number of Receipt Transactions FY19 and FY18 (Office-wise)**  
(Number of Transactions in '000)

Field Office	FY19	FY18	% change
Islamabad	863	224	285%
Karachi	854	771	11%
Lahore	597	453	32%
Peshawar	387	352	10%
Faisalabad	271	278	-3%
Hyderabad	223	194	15%
Rawalpindi	216	198	9%
N.Nazimabad	180	179	1%
Multan	173	172	0%
Sialkot	145	150	-3%
Quetta	137	109	25%
Gujranwala	116	111	4%
Muzaffarabad	113	93	21%
Bahawalpur	84	76	11%
Sukkur	75	73	3%
D.I.Khan	46	42	11%
<b>Total</b>	<b>4,480</b>	<b>3,475</b>	<b>29%</b>

**Figure 1.1: Number of receipt transactions in FY19 & FY18**

### 1.2.1.1 Collection for Federal Board of Revenue

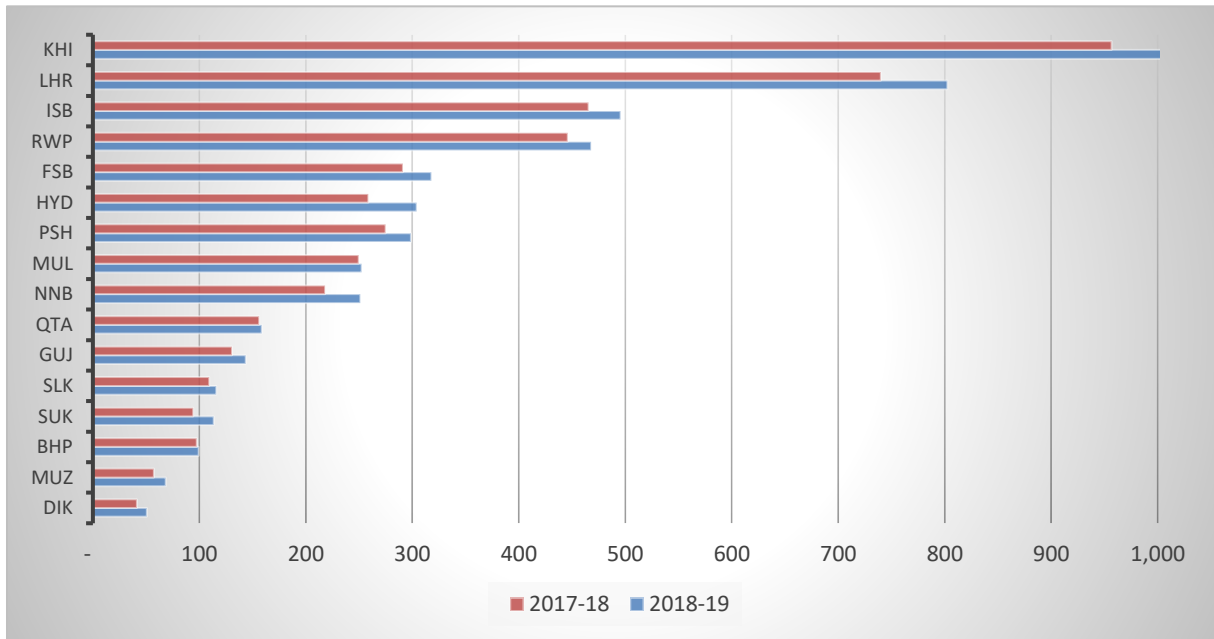
Another function performed by SBP BSC is collection, consolidation and reporting of FBR taxes. The FBR tax revenue collected by SBP BSC Field Offices and the network of NBP branches on behalf of the Government and credited to the relevant accounts during the year was around Rs 3,868.4 billion. The summary of FBR receipts and payments (refunds) for the last three years is given as under:

Tax Type	Receipts			Payments		
	FY 17	FY 18	FY 19	FY 17	FY 18	FY 19
Sales Tax	1,332.3	1,522.6	1,450.4	43.8	70.1	21.3
Federal Excise	1,333.4	1,539.1	1,461.2	0.2	0.6	0.1
Customs	197.4	205.9	226.1	12.8	14.9	17.1
Income Tax	531.7	648.8	730.7	19.2	19.2	33.2
<b>Total</b>	<b>3,394.8</b>	<b>3,916.4</b>	<b>3,868.4</b>	<b>76.0</b>	<b>104.8</b>	<b>71.7</b>

### 1.2.2 Making Payments on behalf of Government

SBP BSC also makes payment on behalf of Federal and Provincial Governments, which includes salaries, pension, vendor/supplier payments, debt repayments etc. The primary stakeholders in this regard are Accountant General for Pakistan Revenue (AGPR), Accountant Generals of provinces, Finance Division/Departments, Pakistan Railways, Central Directorate of National Savings, Pakistan Post, Food Departments, etc.

During FY19, the total number of transactions pertaining to the Government payments carried out by



**Figure 1.2: Number of Payment Transactions in FY19 and FY18**

the SBP BSC Field Offices was 4.9 million as compared to 4.6 million transactions in FY18 showing an increase of 6.5%.

### 1.2.3 Transactions and Balances

The management & reporting of accounts of Federal & Provincial Governments is one of the main responsibilities of SBP BSC. Data pertaining to Government transactions carried out in various accounts is reported to respective stakeholders i.e. Accountant General of provinces, Accountant General Pakistan Revenue, Pakistan Railway and other Departments on daily / periodic basis. The daily position of Federal Government balances is also provided to the Finance Department of State Bank of Pakistan for onward circulation to relevant stakeholders.

The total number of Government transactions increased from 8.1 million in FY18 to 9.4 million in FY19 showing an increase of 16%.

The yearly trend of Government transactions processed by SBP BSC offices is given at **Table 1.3**.

Financial Year	Number of Government Transactions
<b>FY19</b>	9,426
<b>FY18</b>	8,063
<b>FY17</b>	7,046
<b>FY16</b>	8,011
<b>FY15</b>	7,062

**Figure 1.3: Number of Payment Transactions in FY19 and FY18**

#### 1.2.3.1 Reporting of Zakat Balances

SBP BSC plays an important role in Zakat collection, disbursement and reporting of its balances. During the year under review, the total collection of Zakat was Rs 9,256 million as compared to Rs 7,382 million collected last year showing an increase of 25.4%.

### 1.3 Banker to the Banks

State Bank of Pakistan also performs the role of Banker to the Banks. In order to contribute towards this role, SBP BSC, vide its 16 Field Offices maintains current and SGLA accounts of all scheduled banks and NBFIs. These accounts facilitate banks in maintaining their cash and liquidity reserves (CRR and SLR) as required under Banking Companies Ordinance, 1962 as well as to meet the monetary policy and risk management objectives of SBP as allowed in Section 36 (2) of SBP Act 1956. Interbank settlement of commercial banks is also carried out through these accounts. Further SBP BSC Field Offices provide remittance/online transfer facilities to Banks so that they can efficiently manage their liquidity requirements. During the FY19, 6,452 online transfers were allowed to banks amounting Rs 4,692 billion.

### 1.4 Payment System Support (PSS)

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 also contributes towards economic growth by reducing the transactional cost and time substantially.

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 contribution of PSS to financial stability, State Bank of Pakistan has been actively working to reform the Payment and Settlement system in the country. Number of developments have been carried 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.

#### 1.4.1 Clearing and Settlement Services

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. 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 in 27 major cities and adjoining 357 Industrial and Commercial towns. 43 banks and their 12,294 branches avail NIFT clearing services. Accounts Department oversees the automated processing of financial instruments carried out by the NIFT.

The clearing services offered by NIFT include:

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

During FY19, the total number of instruments processed through NIFT were 59 million as compared to 64.7 million during the previous year.

Sr. No.	Clearing service	FY 19	FY 18
1	Normal clearing / Return	56,165	60,667
2	Same Day Clearing	1,032	1,035
3	Inter City clearing	1,691	2,870
4	Dollar clearing	14	16
5	Special clearing	134	125
<b>Total</b>		<b>59,036</b>	<b>64,713</b>

## **1.5 Major Achievements**

### **1.5.1 Government Collection through Alternate Delivery Channels (ADCs)**

The project for FBR collection through ADCs was initiated from March, 2018; however, collection under this mechanism remained very low. Accordingly, SBP BSC made dedicated efforts under following major categories to familiarize taxpayers with this facility:

- **Awareness among taxpayers**  
Numerous sessions were arranged with Chambers of Commerce and Industry and presentations were delivered to create awareness among business community regarding this mechanism. Further, banking staff of SBP BSC Field Offices was guided to provide information to general public visiting offices regarding this mechanism.
- **Awareness among bankers**  
Meetings were arranged with banks to deposit their own taxes through this mechanism and constant follow-up was maintained. Resultantly, deposit through instrument based mechanism was reduced from about 1771 cheques in March 2019 to 218 cheques in June 2019 i.e. 88% decrease.
- **Initiation of ADC collection for Government of Punjab (GoPb).**  
Mechanism was designed and implemented for collection of GoPb in coordination with Finance Department SBP, Payment Systems Department SBP and Information Systems Department SBP and same was launched in Dec 2018.
- **Initiation of Over the Counter (OTC) collection facility by Banks for ADC collection.**  
To facilitate corporate tax deposit and to give tax payers the option for human interaction, OTC facility was introduced whereby all bank branches were advised to accept FBR collection through ADC. This initiative was greatly appreciated across the board.
- **Examination of Commercial Bank Branches.**  
To ensure availability of OTC facility across all bank branches, an examination exercise was carried out through SBP BSC Field Offices whereby 1,034 branches of commercial banks were examined.

As a result of all the aforementioned efforts, approximately Rs 171 billion were collected through ADCs during FY19.

### **1.5.2 Automation in Processing of AGPR/AGs Payments**

The payment process for cheques issued by AGPR and AGs has been automated through developing system connectivity with these departments resulting in significant efficiency.

### **1.5.3 New Design Payment Instruments**

All the paper-based financial instruments of SBP BSC (i.e. HOK Cheques, Cheques for Commercial Banks, Payment Orders, Government Drafts and Bank Drafts) have been re-designed to present a modern look while complying with the security features relevant standards. Additionally a review of security features was carried out and several security features were added thereby making SBP BSC instruments more secure.

### **1.5.4 Banking Forum**

To establish a mechanism for continuous improvement through discussions and dialogue, a Banking Forum has been established within SBP BSC. This forum aims at deliberation on operational matters, review of business processes and suggestions for improvements, discussion on frequent banking related audit observations and to develop plans for their mitigation, sharing of knowledge and experiences, improve communication and coordination among HOK and Field Offices and to review International Best Practices.

### **1.5.5 Reduction in Cash Payments**

During the year, a process has been initiated to reduce cash payments to Government Departments at SBP BSC counters. For this purpose, detailed deliberations are underway with Accountant General Khyber Pakhtunkhwa, Balochistan and Punjab to design a mechanism for payment in their bank accounts through SBP BSC.

Further, during the year, with the coordination of the office of Accountant General (AG) Sindh, manual pension payments at Hyderabad office have been eliminated by conversion to Direct Credit System. This initiative brought 50% reduction in the average number of payment instruments at Hyderabad office. Accounts Department is coordinating with AG offices of other provinces to further reduce cash payments to bring it to minimal.

### **1.5.6 Improvements in Payment Processes**

- Through fixation of clearing return time for SBP BSC Field Offices, saving of around 1-2 hours in the overall clearing cycle time has been achieved.
- With a view to improve security of Income Tax Refunds, FBR was approached to convert their payment mechanism from vouchers to cheques. As a result of continuous follow-up, vouchers have been discontinued at 9 out of 14 Field Offices where refunds are handled.
- With improved controls, turnaround time at cash counters for government payments has been reduced.

### **1.6 Future Outlook**

Besides assisting in development and operation of efficient, effective and secure payment system in the country, SBP BSC aims to continue its contributions towards the role of Banker to the Government and Banker to the Banks. In this regard, its primary focus is on Business Process Reengineering through consultative approach between various stakeholders and development of inter-departmental IT connectivity. SBP BSC plans to do away with manual processes, which are not only time consuming but also costly, using information technology and business process re-engineering, for the benefit of SBP BSC/SBP as well as our primary stakeholders i.e. general public, Governments and banks. In order to achieve this objective SBP BSC is working with other stakeholders for enhancing scope of ADCs for collection of government revenues, using platform of Micro Payment Gateway for government payments and shifting payments through cheques to Electronic Fund Transfer.