

2 Currency Management

Currency Management is one of the core operational areas of SBP BSC as it deals with printing, distribution, management and withdrawal of banknotes and coins - including National Prize Bonds and Premium Prize Bonds. These functions are undertaken through 16 SBP BSC Field Offices and 224 NBP Chest branches falling under the jurisdiction of four Issue Circles.

The primary focus of Currency Management is to manage end-to-end distribution of good quality notes in circulation and disposal of soiled banknotes. We endeavor to match the cash handling procedures in the country with international best practices to set a benchmark for the industry to evolve and employ globally trusted technologies for managing currency operations in Pakistan.

2.1 Overview

SBP BSC strives to ensure implementation of policies and guidelines relating to currency management and government saving schemes issued by the State Bank of Pakistan (SBP) and Central Directorate of National Savings (CDNS). For effective management and execution of the delegated functions, we

require close coordination with SBP, Pakistan Security Printing Corporation (PSPC), Pakistan Mint and CDNS. Accordingly, we endeavor to:

- i) Judicious and smooth distribution of good quality banknotes and withdrawal of soiled notes through our office branch network, NBP chest/sub-chests and commercial banks;
- ii) Operational management of government saving schemes and winning prize arrangements for National and Premium Prize Bonds;
- iii) Arrange for timely printing and effective stock management of currency notes and prize bonds in coordination with Pakistan Security Printing Corporation (PSPC);
- iv) Issuance of comprehensive instructions to Office(s) network for effective implementation of SBP's Currency Management Strategy (CMS). Furthermore, propose new developments for aligning of currency management framework with international best practices,
- v) Effective implementation of CMS through rigorous on-site examinations and monitoring by Cash Monitoring Hubs (CMHs) across Pakistan.

Box 2.1: Achievements during FY19

- Onsite examination of 1,027 branches of commercial banks through Cash Monitoring Hubs (CMHs) for monitoring the implementation of Currency Management Strategy (CMS).
- Record destruction of 2.4 billion pieces of soiled banknotes at SBP BSC Field Offices.
- Issuance of fresh cash through '8877' SMS-based service to over 3 million people.
- Direct credit of all prize money and face value of winning National Prize Bonds (NPBs) into claimant's bank account.
- Facility to lodge prize money claim at designated branches of commercial banks.
- Internal and external stakeholders' satisfaction through issuance of guidelines and initiation of project for installation of Electronic Queue Management System (EQMS) across SBP BSC Field Offices.
- Business Process Reengineering (BPR) in manual and system operations through successful completion of around 15 BPR projects aiming to improve customer service.

The objective of all this is to maintain/ improve the quality of currency notes in circulation and to enhance our counterfeit detection capabilities. Moreover, we have also aligned our operational capabilities to complement SBP's CMS. For this purpose, SBP BSC has embarked on the journey of automating its currency handling/ processing practice by introducing Currency Automation Strategy (CAS). Thereby, different SBP BSC offices are being equipped with state-of-the-art Banknote Processing & Authentication Systems (BPAS) with automated destruction for higher denominations, and fully automated off-line Banknote Destruction Systems (BDS) for lower denominations. In addition, our branch network routinely arranges multiple awareness sessions on banknote security features for the general public at multiple locations/ forums across the country. The ambit of the training sessions was broadened to include orientation sessions with visually impaired persons. During the current year, we specifically included a number of such sessions to educate differently abled members of our society on the security features of Pakistan's currency notes.

2.2 Circulation of Banknotes

Pakistan's economy is very much cash-centric despite ongoing developments in usage of online and point-of-sale banking and payment channels in line with the global advancement and increase in internet usage. This behavior is evident from the ever increasing Notes-in-Circulation (NIC), as per trends presented in **Table 2.1**. The annual growth in NIC during FY19 was 13.4 percent. The NIC as a percentage of Gross Domestic Product (GDP) stood at 13.8 percent in FY19. This implies that close to fourteen percent of GDP is circulating as cash in the economy.

Years	Nominal GDP (MP) ¹	Notes In Circulation (NIC) ²	NIC as % of GDP	NIC (%) Change Over Previous Year
FY12	20,046,500	1,785,523	8.9%	9.9%
FY13	22,385,657	2,052,850	9.2%	15.0%
FY14	25,168,805	2,312,641	9.2%	12.7%
FY15	27,443,022	2,726,621	9.9%	17.9%
FY16	29,075,633	3,424,646	11.8%	25.6%
FY17	31,922,303	4,167,247	13.1%	21.7%
FY18	34,618,576	4,689,514	13.5%	12.5%
FY19	38,558,769	5,319,186	13.8%	13.4%

¹ Pakistan's GDP (http://www.sbp.org.pk/ecodata/GDP_table.pdf)

² Statement of Affairs—June 28, 2019 (<http://www.sbp.org.pk/publications/statements/2019/28-Jun-2019-issue.pdf>)

2.3 Issuance of Fresh Notes

Our main focus area is ensuring availability of good quality banknotes across the country. This, we achieve, through prompt and smooth supply of fresh cash during the year, especially on religious festivals to ensure provision of fresh cash to all stakeholders. This distribution is undertaken through active and timely coordination between our 16 SBP BSC offices, NBP Chest Branches and commercial bank branches across the country. As per data presented in **Table 2.2**, moderate increase has been observed in FY19, both in terms of pieces and value both for higher and lower denominations.

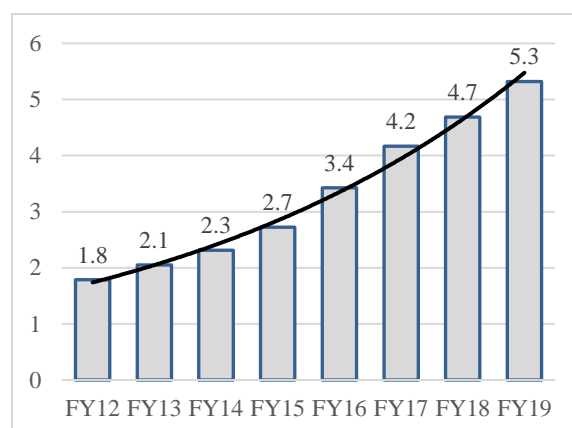


Figure 2.1: Notes in Circulation (in trillions)

Year	Lower Denomination (Rs. 100 & Below)				Higher Denomination (Rs. 500 & Above)			
	Pieces	%age Increase	Value	%age Increase	Pieces	%age Increase	Value	%age Increase
FY13	1,246		44,800		530		475,000	
FY14	1,727	38.6	53,262	18.9	458	(13.6)	436,736	(8.1)
FY15	1,254	(27.4)	42,217	(20.7)	475	3.7	496,002	13.6
FY16	1,906	52.0	62,011	46.9	704	48.3	849,335	71.2
FY17	2,529	32.7	79,008	27.4	610	(13.4)	902,452	6.3
FY18	2,341	(7.4)	71,926	(9.0)	837	37.2	1,128,042	25.0
FY19 ³	2,473	5.6	77,301	7.5	880	5.1	1,226,150	8.7

2.3.1 Fresh Notes distribution on Eid

The '8877' SMS-service launched by SBP BSC in 2015 for issuance of smaller denomination banknotes to general public successfully continued during Eid-ul-Fitr 2019. The scope of this service was enhanced to 142 cities through 1,702 designated e-branches of commercial banks as well as 16 Field Offices of SBP BSC. The launch of service, its mechanism as well as its booking status was conveyed to the general public through Press Releases of SBP on a timely basis. As a result, the service received an overwhelming public response with issuance of Rs 54 billion fresh notes to general public directly. In Ramzan 2019, around 3 million people availed this service as compared to 2.2 million people facilitated last year. Additionally, banks were also provided substantial quantities of higher denomination banknotes for ATMs to ensure smooth operations before and during Eid holidays. Special teams were also deputed to inspect ATMs to ensure uninterrupted availability of good quality cash to general public during Eid holidays.

³ T24 Figures as on June 30, 2019

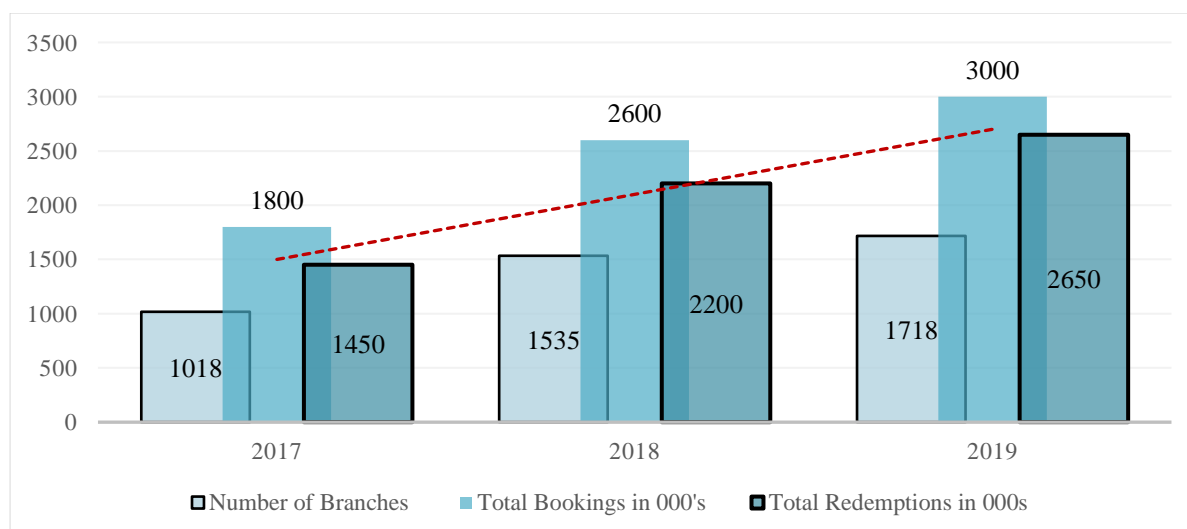


Figure 2.2: 8877-SMS Service Trend

2.4 Monitoring of Currency Operations

SBP BSC also oversees the monitoring/ onsite examination of 224 NBP chests / sub-chests and commercial bank branches. Recently, the onsite monitoring mechanism has been revamped to ensure compliance of commercial banks with SBP's Currency Management Strategy (CMS) through restructuring of the administrative/ functional framework for cash monitoring and developing comprehensive guidelines for examination. Three specialized Cash Monitoring Hubs (CMHs) have been established at Karachi, Lahore and Islamabad staffed by dedicated officers for the purpose to ensure rigorous examinations in accordance with instructions under CMS and with specific focus on high risk cash management areas. During FY19, these hubs examined 1,027 branches country-wide and imposed penalties on violation of instructions under CMS. The CMH teams also conducted awareness sessions during the on-site examinations visit for better understanding and capacity building of the cash officers of commercial banks.

Moreover, during FY 2018-19 on-site examination of NBP Chests was carried out. Each chest branch was visited twice with rigorous follow-up to get the irregularities/ observations rectified. The matter was also escalated to higher management of NBP regarding recurring observations to improve the customer service through chests and subsequently, enhance the quality of notes in circulation.

2.5 Mechanization of Currency Management Operations

Currency Automation Strategy (CAS) within the SBP BSC Field Offices was initiated in 2015 with an aim to equip the Bank with the requisite infrastructure to meet the regulatory requirements outlined in the CMS. Based on a comprehensive need assessment, the overall requirement of medium-to-high-end machines was outlined with a structured and phased roadmap to ensure steady automation throughout the Bank's pan-Pakistan operations by installing/deploying:

- High-end BPAS and BDS systems for efficient processing and destruction of banknotes deposited by commercial banks.
- Small-to-medium sized (Countertop & Desktop) banknote sorting machines at the Bank's front-end operations, as SBP BSC also directly caters to the needs of the general public.

The first phase of the strategy-involved procurement of 2 high-end BPAS, which have been successfully operating at SBP BSC Karachi since August 2016. For the current year, CMD is also in the process of placing an order for additional 09 BPAS machines which are expected to be installed at

06 Field Offices by December 2021. To align the Bank's destruction capabilities with international best practices, for 4 BDS systems were procured in February 2019 and these systems are expected to be installed and commissioned by June 2020. Furthermore, procurement of additional 3 BDS machines is expected to be undertaken in year 2019-20.

As of March 2018, 141 Countertop & Desktop banknote sorting machines (CNS & DNS) are operational across 16 Field Offices and these machines are playing a pivotal role in ensuring that only good quality and machine-authenticated banknotes are issued over the Bank's counters. While some of these machines, installed at cash dealing counters (CNS) shall be perpetually retained, the DNS machines have been supplied as a stopgap arrangement until the eventual deployment of BPAS across major SBP BSC Offices. These pool offices shall then serve as processing and destruction hubs for the Bank's overall automation needs.

A joint committee having representation from both SBP & BSC is also facilitating commercial banks in procuring Desktop and Countertop Note sorting machines by conducting hand-holding exercises encompassing demonstrations and stress testing of machines brought in at the Bank's premises, against pre-defined parameters. In addition, the SBP & BSC actively collaborate for identification and short listing of note sorting and authentication machines, streamlining the procurement process of such machines for commercial banks by ensuring that these machines meet CMS requirements.

2.6 Government Saving Schemes

The management of Government Savings Schemes on behalf of CDNS is another major operational area. In collaboration with CDNS, we strive to modernize the operations of savings schemes to achieve operational efficiency in terms of time, cost and HR needs. The issuance of Rs 40,000 Premium Prize Bonds (registered) is one example whereby all processes have been automated through T-24 Banking Module. Further, to enhance the customer service and facilitate the general public, in collaboration with the Bank's IT team we have undertaken various system development projects including payment of prize money and face value of winning prize bonds through bank accounts. A brief overview of various savings schemes is given as under:

2.6.1 National Prize Bonds (NPB)

National Prize Bonds (NPBs) are bearer instruments available in seven denominations. The holder of these bonds is eligible for a prize in draws held on quarterly basis. The sale and encashment of these bonds is carried out at SBP BSC offices, authorized commercial bank branches and National Savings Centers across Pakistan. The draws of NPBs are held at nine SBP BSC Offices on quarterly basis as per schedule announced by the CDNS at the start of each year.

As on 30th June, 2019, the overall value of NPBs held by the general public increased by Rs 39.6 billion, reaching a total of Rs 884.6 billion. Further, prize money payment to general public has also increased due to lesser encashment, increase in the number of series sold and greater holdings by the general public. During the fiscal year 2018-19, NPBs amounting to Rs. 154.3 billion were issued while Rs. 114.7 billion were en-cashed by general public, as elaborated in **Table 2.3**.

Table 2.3: Total NPB Sale & Encashment at SBP BSC Field Offices (Rs in Millions)									
Denom.	FY18				FY19				Outstanding Value Held by Public FY19
	Sale	Encashment	Prize Money Payment	Net Sale	Sale	Encashment	Prize Money Payment	Net Sale for FY19	
100	1,121	285	697	836	1,256	307	841	949	10,189
200	3,353	1,169	2,126	2,184	2,600	1,021	2,426	1,579	29,591
750	13,691	2,315	7,694	11,376	14,514	2,733	8,957	11,781	103,448
1,500	12,167	2,341	7,938	9,826	15,763	3,308	9,468	12,455	108,165
7,500	10,340	1,783	7,084	8,557	23,568	4,784	9,063	18,784	102,632
15,000	27,297	6,614	12,939	20,682	34,704	12,669	15,489	22,035	176,121
25,000	37,809	9,440	11,738	28,369	27,501	13,476	14,894	14,025	160,628
40,000 ³	28,869	9,127	19,577	19,742	34,446	76,417	25,858	(41,971)	193,801
Total	134,647	33,074	69,793	101,572	154,352	114,715	86,996	39,637	884,575

The National Prize Bonds of Rs. 40,000/- denomination have been withdrawn from circulation by the Government of Pakistan w.e.f. June 24, 2019. The issuance of fresh bonds of cited denominations were already discontinued w.e.f. February 15, 2019. Consequently, negative net sale for the cited denomination can be observed during FY19. The holders of these bonds have been given three options to replace / en-cash these bonds till March 31, 2020:

1. Conversion to Premium Prize Bonds Registered
2. Replacement with Special Savings Certificate (SSC) / Defence Savings Certificate (DSC)
3. Encashment at Face Value into Bank Account.

During the outgoing fiscal year, in order to enhance outreach of prize money payment mechanism and make the claim process easy and efficient, commercial banks have been entrusted with the responsibility to accept prize money claims from general public on behalf of the Bank.

2.6.2 Premium Prize Bonds (PPB)

SBP BSC, in collaboration with CDNS, introduced a new Rs 40,000 Denomination “Premium Prize Bonds (Registered) Scheme” parallel with the bearer Rs. 40,000/- National Prize Bonds from March 10, 2017. This initiative is a step towards documentation of economy as maintaining a bank account is mandatory for investment in this scheme. The scheme is unique as these Bonds are eligible for both prize money (as admissible in the scheme) and profit payment as per rates notified by Government of Pakistan. With a view to facilitate general public and bring efficiency in the processes, the bi-annual profit and prize money (if any) are credited directly into the bank accounts of the investor. The 1st prize of Rs 40,000/- denomination PPB is Rs 80 million. The prize money amount against prize winning bonds is also directly credited into the bank accounts of respective investors within 3 working days from the date of draw. A snapshot of the business conducted for Rs. 40,000/- PPB in FY19 is given in **Table 2.4.**

Table 2.4: Total PPB Sale & Encashment at SBP BSC Field Offices (Rs in Millions)						
FY.	Denom	Sale	Encashment	Prize Money Payment	Profit Payment	Outstanding Value Held by Public
17-18	40,000/-	3,625	1,302	252	103	5,245
18-19	40,000/-	4,211	1,794	256	174	7,664

³ Rs. 40,000 denomination has been withdrawn from circulation w.e.f. June 24, 2019

During FY19, all branches of six commercial banks i.e. National Bank of Pakistan (NBP), Habib Bank Limited (HBL), United Bank Limited (UBL), MCB Bank Limited, Allied Bank Limited (ABL) and Bank Alfalah Limited (BAFL) were authorized to deal in Premium Prize Bonds (Registered) and it is expected that this initiative will enhance the outreach of this scheme by utilizing their extensive branch network.

2.6.3 Special Savings Certificates (SSC)

Special Savings Certificates (SSC) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle-income investors with steady income. These certificates are available in various denominations, starting from Rs 500/- and going up to Rs 1 million with a maturity period of three years. Profit coupons are payable biannually, at the rate of 12.7 percent for the first five and 13.9 percent for the last coupon, as on 1st July 2019. A comparison between number of cases handled by field offices of three regions of SBP BSC for sale, encashment and profit payment of SSCs during the last three years is given in **Table 2.5**.

Region	FY17			FY18			FY19		
	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
North	349	736	1,969	457	641	626	255	668	1,249
Center	726	1,740	3,550	1,089	2,032	2,437	1,890	2,411	2,248
South	5,602	9,557	15,391	3,232	15,081	17,621	7,041	7,707	19,145
Total	6,677	12,033	20,910	4,778	17,754	20,684	9,186	10,786	22,642

2.6.4 Defence Savings Certificates (DSC)

Defence Savings Certificates (DSC) Scheme, introduced in 1966 by CDNS, is a long-term investment option with a maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. The profit rate is 13.01 percent as on 1st July 2019. A comparison between number of transaction cases handled by field offices of three regions of SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.6**.

Region	FY17			FY18			FY19		
	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
North	248	663	582	176	332	173	201	551	723
Center	235	813	813	383	1,042	1,065	607	1,615	1,624
South	2,769	4,739	4,699	1,273	3,784	3,632	2,495	4,572	6,469
Total	3,252	6,215	6,094	1,832	5,158	4,870	3,303	6,738	8,816

2.7 Business Process Reengineering and Information Technology Initiatives

Being a dynamic organization, SBP BSC believes in effective use of technology and IT solutions for maximizing efficiency gains and improved operations. During FY19, in the area of currency management, significant BPR and IT-related initiatives have been undertaken for improvement in customer delivery standards and cash operations. These include:

- Comprehensive assessment of medium-sized banknote machines and revised Standard Operating Procedures (SOPs) to enhance machine utilization and HR efficiency.
- Automatic retrieval of Taxpayer Status in T-24 System.
- Screening of Proscribed Individuals in T-24 system under National Counter-Terrorism Act (NACTA) and United Nations Security Council (UNSC).
- Roll-out of Expeditious Verification Procedure across 6 SBP BSC Field Offices.
- Initiation of project for Installation of EQMS across SBP BSC Field Offices
- Strategizing destruction of banknotes and reduction in aging of soiled balances.
- SOPs for issuance of re-issuable balances of commercial banks.
- SOPs for prior preparation of balances for examinations.
- Discontinuation of manual sealing on packets and introduction of printable packet banding machines
- Automatic printing of Withholding Tax (WHT) Certificates for small prize money payments paid in cash, saving customer's visit and time.
- System-based Stock Management in Premium Prize Bonds (Registered).

2.8 Future Outlook

At institutional level, in collaboration with SBP, we are working on multiple projects with the overall aim of developing and modernizing currency operations internally as also across the banking industry. For the purpose, several technological and infrastructural changes are underway. Additionally, we are focusing on comprehensive review of currency operations in SBP BSC with a view to bring efficiency, HR optimization and to remove process redundancies.

After completion of procurement of 9 BPAS Machines SBP BSC will possess machine processing capabilities, at par with global industry standards for central banks. It is expected that this will add in enhancing counterfeit detection and will also improve the overall quality of banknotes circulating in the economy in line with SBP's Currency Management Strategy. Moreover, the feasibility of an Inventory Management System (IMS) is also being explored. IMS, if implemented, will be a multi-year phased project through which we envision to integrate all stakeholders involved in the cash lifecycle on a single shared platform through Electronic Data Interchange (EDI). Automation of Issue Department Accounting is also under process whereby data of SBP BSC Field Offices will be uploaded automatically in books of Issue Offices.

Furthermore, initiatives such as direct credit of prize money have not only significantly improved the efficiency of public debt operations managed by the Bank, but also reduced dependency on cash. In the future, we shall endeavor to broaden these projects for the other public debt schemes such as SSCs / DSCs to further improve the overall public debt operations. Similarly, deliberations are underway for future projects such as the sale of Premium Prize Bonds (Registered) from National Savings Offices to enhance the outreach of the scheme and the issuance of scripless registered bonds. All such projects would not only leave a positive impact on existing structure of operations but also enable optimum utilization of resources.