

Message from Managing Director SBP Banking Services Corporation

It gives me immense pleasure to present the Annual Performance Review of SBP Banking Services Corporation (SBP BSC) for FY19. The Corporation continued to achieve excellence in providing quality services to its customers and stakeholders in its diverse sphere of operations of banking services, currency management, foreign exchange, financial inclusion and support services.



SBP BSC made significant improvements in government tax collections through Alternative Delivery Channels (ADC) which extends the government collection to all commercial banks and payment of sales tax refunds through Electronic Fund Transfer (EFT) enabling direct credit to taxpayers' bank accounts. The usage of ADC has increased considerably during the last year and is expected to grow faster in the coming years with the induction of Micro Payment Gateway. In addition, SBP BSC made a transformational leap from one-cheque-per-person to one-cheque-per-bank system for various government accounts for pensions/salaries payments.

Modernization and automation of cash processing operations will continue and evolve with the use of high-end Banknote Processing and Authentication System (BPAS) at Karachi Office and its planned extensions. Additionally, SBP BSC is also procuring Banknote Destruction System (BDS) machines. These initiatives will pave way for overall improvements in the quality of currency in circulation, counterfeit detection while bringing overall efficiency in currency operations.

Establishing Electronic Data Interchange (EDI) with Customs Department, Government of Pakistan to enhance the monitoring of foreign exchange trade related operations and implementing automated case management system in foreign exchange operations under Knowledge Management Program are significant steps towards automation. This is besides implementing SBP policies related to trade, commercial and private remittances.

The support services provided by SBP BSC in procurements, property management, medical, printing and security remained at appreciable level despite the high magnitude and volume of these services. Moreover, the Corporation continued strengthening its HR hiring and capacity building through direct recruitment and local and foreign training programs.

I envision SBP BSC as an evolving organization with technology enabled business process re-engineering and consolidation measures. Formulation of first Strategic Plan 2021-25 will define our roadmap aligned with the objectives of SBP. On reshaping the business models, SBP BSC is evaluating the transfer of refinance operations to commercial banks while enhancing its offsite and onsite monitoring. Going forward, centralization of Issue zones and developing a centralized cash inventory management system will enable automation in currency accounting. AML/CFT regime will also be strengthened in the operations through procurement of Automated Name Screening Solution as well as through in-house development of Transaction Monitoring Mechanism. Establishing smart offices with better-automated functions and having greater regional outreach will help SBP BSC in increasing the implementation of development finance and initiatives like NFLP. I am confident that effective use of technology will be a great enabler in this vision.

I would like to thank the management team, officers and staff of SBP BSC for their unwavering efforts towards achieving the strategic objectives of the organization and I am confident that they will continue to strive with even greater enthusiasm and zeal. I acknowledge with deep appreciation the support and guidance of the Governor SBP and SBP BSC Board. I am confident that together with the support of our stakeholders, SBP BSC will achieve greater milestones in years to come.

Muhammad Ashraf Khan
Managing Director
SBP Banking Services Corporation

Executive Summary

Annual Performance Review (APR) for FY 2018-19 presents progress towards achieving strategic objectives and performance goals of SBP Banking Services Corporation (SBP BSC) which conducts various operations including the provision of banking services to Government and banks, managing currency circulation in economy, implementing SBP's policy instructions regarding foreign exchange operations and expanding financial inclusion activities at the grass root level in the country.

Banking services to the Federal and Provincial Governments (including collection of revenues and payments on behalf of the government departments) are provided, through 16 countrywide Field Offices of SBP BSC and designated branches of National Bank of Pakistan and Bank of Punjab. FY19 showed an upward trend whereby a surge of around 16% was observed as total of 9.4 million Government transactions were carried out compared to 8.1 million in FY18. Moreover, SBP BSC collected Rs 9.3 billion during FY19 in terms of Zakat collection and disbursement, compared to Rs 7.4 billion collected and disbursed in FY18.

In order to facilitate the tax payers and to digitize the system of deposit of FBR taxes, collection through Alternate Delivery Channels (ADCs) was initiated alongwith several awareness and promotion sessions held with Chambers of Commerce and Industry at different cities which resulted in collection of Rs. 77,338 million in last quarter compared to Rs 1,057 million during same period of FY18.

SBP BSC achieved efficiency in business process of Government Payments by integrating Financial Accounting and Budgeting System (FABS) of Controller General of Accounts (CGA) with T24 system of SBP BSC. The integration provided enhanced internal control besides real time reporting and reconciliation of payment made against each cheque of Accountant General Pakistan Revenue (AGPR) and Accountant Generals (AGs) by different field offices. During FY19, the Bank also moved from one-cheque-per-person to one-cheque-per-branch model for military cheques issued by Controllers of Military Accounts and Naval Accounts as well as one-cheque-per-person to one-cheque-per-bank system for pensions / salaries for most government departments.

With the emergence of new enabling technologies, retail payment systems are being transformed to enable the public to pay and receive money in real time. SBP BSC in collaboration with SBP and consultant McKinsey developed a conceptual framework of G2P Payments in Micropayment Gateway. This Gateway will offer swift retail payments with advanced Application Programming Interfaces (APIs) and directory services, which will simplify the payment mechanism in the country. With the implementation of this critical retail payment infrastructure, SBP BSC expects rapid digitization of public/ private collections and payments.

Ensuring adequate supply of good quality machine-authenticated banknotes across the country is amongst the core responsibilities of SBP BSC. With the advent of new technologies and proliferation of the internet age, Pakistan is experiencing a significant increase in usage of online banking channels and reliance on plastic money. However, soaring Currency in Circulation (CIC) indicates that Pakistan is still very much cash centric economy. During FY19, SBP BSC continued its drive for improving the quality of currency notes in circulation through regular supply of fresh/re-issuable notes to commercial banks and other stakeholders, timely withdrawal of soiled notes and destruction thereof and propagation of Currency Management Strategy (CMS).

Efforts to promote the use of technology and mechanization of currency operations/cash management continued during the year under review. For enhanced monitoring of Currency Management Strategy

(CMS) at commercial banks, SBP BSC in coordination with Finance Department SBP operationalized comprehensive policy guidelines/framework by establishing Currency Management Hubs (CMHs) at Lahore, Karachi and Islamabad. These Hubs carried out examination of 223 Cash Processing Centers (CPCs), 222 Cash Feeding Branches (CFBs), 127 linked branches and 445 standalone branches across the country in FY19 to ensure issuance of good quality machine-authenticated currency notes by bank branches to public and other stakeholders.

Managing the huge influx of soiled/ unfit notes from banks/ public was one of the major challenges that SBP BSC encountered after the introduction of Currency Management Strategy. Since lifting of soiled notes from the economy is a perpetual process therefore, SBP BSC made continuous efforts to lift the balances in a timely manner. To avoid bottlenecks, SBP BSC Field Offices outperformed the amplified destruction targets assigned to them. During FY19, SBP BSC rolled out 2nd phase of Currency Automation Strategy (CAS), whereas the contract for procurement of four Banknote Destruction Systems (BDS) was awarded in January 2019, and 3rd phase was formally initiated in February 2019. As part of the 3rd phase, nine Banknote Processing and Authentication System (BPAS) and three BDS machines shall be procured.

In order to facilitate general public on religious occasions, issuance of small denomination fresh notes through SMS service (8877) was ensured. With augmented geographical coverage through 1,700 designated e-branches in 142 cities, SBP BSC facilitated 2.6 million people in aggregate during Ramzan 2019 as compared to 2.2 million in past year. To mitigate the downtime of ATMs on religious occasions dedicated teams were deployed and real time complaint management through social platforms was ensured.

It was a year of innovation across the institution. Since SBP BSC Field Offices also manage the sale, encashment and prize draws of National Prize Bonds on behalf of the Central Directorate of National Savings (CDNS), an efficient procedure was introduced for claiming prize money through commercial banks. SBP BSC has also undertaken further steps to facilitate the customers by introducing mechanism through which prize bond holders can now submit their prize money claims at designated commercial bank branches.

SBP BSC also operationalized the National Financial Inclusion Strategy (NFIS) of SBP; exceeding the targets set at the start of the year. During the year, through its Access to Finance Units (AFUs) at Field Offices, the Corporation conducted 481 activities comprising of 191 awareness programs, 52 capacity-building sessions, 56 focus group meetings, 20 Seminars and Workshops and 35 review meetings targeting various priority areas such as Agriculture, Microfinance and SME sectors, Islamic Banking, Women Entrepreneurship and Green Banking. Enhanced targets under the National Financial Literacy Program (NFLP) were successfully met as 9,876 classroom sessions were conducted resulting in the opening of 115,452 accounts. NFLP Street Theatres were rolled-out countrywide through SBP BSC Field Offices, 31 banks, and several partner institutions and proved to be a major initiative to increase financial inclusion. SBP BSC through its Field Offices disbursed a sum of Rs 901.5 billion among participating banks in the Export Finance Scheme (EFS). Further, refinance amounting to Rs 40.2 billion was disbursed to banks for SMEs under EFS and Rs 174.5 billion for Islamic Export Refinance Scheme (IERS). FY19 saw a notable increase in disbursements under the Long Term Financing Facility (LTFF) as BSC disbursed Rs -57.2 billion—a 37% increase from previous year. A further Rs 6.1 billion was disbursed to borrowers under the newly introduced Islamic Long-Term Financing Facility (ILTFF) through PFIs. Rs 1.5 billion was disbursed to borrowers under Financing Scheme for Renewable Energy through financing banks / Development Finance Institutes (DFIs). Similarly, 7,702 loans amounting to Rs 8.6 billion were processed for

guarantee issuance to 20 PFIs. Moreover, 88,869 transactions of 12 executing agencies (banks) related to Prime Minister Youth Business Loan (PMYBL) were processed for disbursement of subsidy amounting to Rs 1.3 billion.

In its foreign exchange regime, SBP BSC has automated the verification and scrutiny process of EE-1/EF-1 Statements. Additionally, the project for establishment of Electronic Data Interchange (EDI) with Pakistan Customs is underway, which is expected to facilitate in robust monitoring of trade transactions. In order to strengthen monitoring the project of 'Data Universe' for integration of data from Web-Based One Customs (WeBOC), International Transaction Reporting System (ITRS), Export Overdue Reporting System (EORS) and T-24 in a single platform has seen substantial progress. The first phase of the project was completed during the outgoing year, wherein data from ITRS and T-24 were successfully integrated. Also, the inward and outward FX transactions were thoroughly scrutinized, whereby more than 14,000 cases of commercial, private and trade related remittances were processed, strengthening Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. As far as the cases against the delinquent exporters and importers are concerned, Adjudicating Courts of Foreign Exchange Adjudication Department (FEAD) decided 7,682 cases referred by FEOD during FY19. This resulted in all-time record realization of USD 175 million.

The dynamic nature of business at SBP and its subsidiaries demand provision of continuous support and efficient services in the areas of HR, Engineering Services, Procurement and Security services. During the outgoing year, SBP BSC inducted young graduates as well as experienced personnel at various hierarchical levels through structured external recruitments in order to optimally fill the skill and HR gaps due to attrition of employees opting for early retirement and resignations. Furthermore, the Bank trained 1,201 participants through National Institute of Banking and Finance (NIBAF) Islamabad and Karachi during FY19. Further, 316 participants were trained at prestigious domestic training institutions such as IBA, LUMS etc. whereas 11 participants attended foreign trainings for an insight into global best practices. SBP BSC enhanced efficiency in procurement services by assigning matrices for clear segregation of roles among various indenting departments, introduced benchmarks and timelines against each stage of procurement and developed an MIS for the same. The Bank completed various procurement projects primarily related to Cash Handling Machines, IT and Security-related equipment worth more than Rs 1,252 million. SBP BSC also made progress in terms of its infrastructure by completing construction of Residential Block at Quetta office. Furthermore, as part of alleviating financial claims of its contractors and consultants on mega projects, SBP BSC prepared a Contract Management Manual incorporating General Condition of Contract of International Federation of Consulting Engineers (FIDIC). Previously, the Bank was referring to standard bidding documents (Civil works) of Pakistan Engineering Council which also comprised of the Conditions of Contract of FIDIC for its building projects. SBP BSC also conducted Physical Efficiency Test (PET) of security personnel as an ongoing effort to strengthen the security measures at all of its premises.

Keeping in view the organizational objective of creating paperless environment through use of the latest technology, SBP BSC took various initiatives. The Corporation successfully implemented the automated case management system under the umbrella of Knowledge Management project in its Foreign Exchange Operations Department (FEOD). Going forward, the automated case management system is expected to be replicated in other departments of SBP BSC. Furthermore, SBP BSC also successfully initiated the practice of conducting the Board and its Committees meetings in a paperless environment. In this regard, a secure web portal was established through which relevant working papers are made accessible to members of the Board of Directors.

SBP BSC conducted its Annual Business Planning exercise for all departments and field offices where more than 400 developmental and operational projects were reviewed, rationalized and approved by the management. In order to assure independent and objective audit to all these SBP BSC operations, the Corporation internally conducted twenty-five full-scope annual audits. Moreover, the implementation of various audit projects like Alignment of Control and Risk Rating System with Enterprise Risk Management and Revision of Internal Audit Charter played a crucial part in establishing a strong introspective culture. As part of its Corporate Social Responsibility (CSR), SBP BSC offered summer and winter internship programs to students of major universities across Pakistan at Head Office in Karachi as well as the Field Offices. Various sports activities were also arranged for the employees of SBP, SBP BSC and NIBAF, which included tournaments of cricket, football, badminton and table tennis.