

# 1 *Banking Services to Government and Banks*

*As part of its statutory mandate set forth in BSC Ordinance 2001 and other functions delegated by SBP from time to time, BSC provides banking services to federal & provincial governments and financial institutions through its 16 field offices and authorized bank branches across the country. Additionally, BSC provides operational support to SBP which encompasses payment systems and maintenance of accounting & financial records.*

## 1.1 Overview

BSC is entrusted with providing banking services to federal & provincial governments, and banks through its network of 16 field offices as well as agency arrangements across the country. These agency agreements authorize designated branches of NBP and Bank of Punjab to perform government banking operations on its behalf. BSC also closely monitors local clearing houses as well as performs settlement of interbank and 1-link transactions to ensure smooth functioning of payment systems.

### 1.1.1 Banker to the Government

As part of its statutory obligation of being banker to the government, BSC performs various functions in this ambit including but not limited to opening and maintenance of Government accounts and collection of designated revenues and payments. Additionally, BSC provides other services to federal and provincial governments such as remittances and safe deposit facility. Discharging its advisory responsibilities with an aim to enhance operational efficiency vis-à-vis SBP's vision, BSC also continually evaluates existing instructions, SOPs, and mechanisms to implement various improvements in its operations.

### 1.1.2 Banker to the Banks

As banker to the banking industry and as part of its regulatory responsibilities, BSC maintains Current and Subsidiary General Ledger Accounts of all scheduled banks and NBFIs. The notable services offered to the banks through account operations are maintenance of cash and liquidity reserves while ensuring timely and adequate availability of cash across Pakistan.

### 1.1.3 Payment System Support

In order to facilitate payments through the banking system, BSC provides clearing and settlement services to banks and governments through various channels. BSC also assists SBP in implementation of NPSS besides providing inputs to Payment Systems Department, SBP, on policy formulation.

### 1.1.4 Financial Services

BSC derives its mandate from BSC Ordinance as well as policies approved by its Board of Directors from time to time. In line with these provisions, BSC ensures proper maintenance of accounting and financial records, and preparation of financial statements. In addition, BSC is also focused on developing,

maintaining, and monitoring a sound internal control environment for reliable financial reporting through an organization wide framework of ERM. The ERM framework is implemented across BSC and all reported incidents are monitored regularly as envisaged in the framework and related operational policies. BSC also aims to warrant judicious allocation and utilization of its resources to achieve its objectives through a well-planned budgeting process which assigns due weightage to the implementation of financial controls.

### 1.2 Key Stakeholders

- Federal and Provincial Government Departments
- Commercial Banks and NBFIs
- AGPR, Accountant Generals of Provinces, and Military Accountant General
- Finance Division / Departments
- 1-Link
- CNA
- Pakistan Railways
- Pakistan Post
- Central Directorate of National Savings
- Federal and Provincial Revenue Authorities including excise and taxation departments
- National Institutional Facilitation Technologies
- Controller of Military Accounts
- CAAF

### 1.3 Key Performance Highlights during the Year

#### *Box 1.1: Key Performance Highlights during FY21*

##### **Digitalization of Govt. Receipts**

- Collaborated with Finance Department SBP and FBR to implement collection of income tax of corporate clients and custom duties (more than Rs. 1 million) through ADCs and OTC, resulting in timely credit to Government Treasury and reduction in reconciliation issues

##### **Digitalization of Internal Payments**

- Payments to vendors, suppliers, pensioners were paid directly through bank account transfers instead of cheques, thus achieving process efficiency, reduced workload, and HR savings

##### **Reduction in CNA and CAAF Cheques**

- Coordinated with CNA and CAAF for centralization of cheques, resulting in workload reduction and leaner processes

##### **Centralized Issuance of Income Tax Refunds**

- Digitalized Income tax refunds for issuance through centralized FBR treasury resulting in instant credit to beneficiary's account

##### **Centralization of Commercial Bank Accounts**

- Centralized commercial bank accounts maintained with all BSC field offices at Karachi Office, resulting in better liquidity management, more efficient work processes, and HR savings

### 1.4 Operational Performance

#### 1.4.1 Collection of Government Revenue

As part of its banking services, BSC provides revenue collection services to federal and provincial governments which includes tax and non-tax revenues. During FY21, BSC maintained its enhanced focus on digitalization of payment systems and further strengthened its digital payments platform as underlined in NPSS. For this purpose, one of the key initiatives was enhancing the usage of ADCs and OTCs in government revenue collections through continuous orientation sessions for officials and trade bodies across the country.

Under the ADC initiative, BSC expanded its tax collection scope and services by capitalizing on banking industry’s IT infrastructure i.e. internet banking, mobile banking, and ATMs, as well as commercial bank branches. These efforts resulted in enhanced collection of taxes, through means of ADC across the banking sector. These efforts were further bolstered by awareness sessions arranged by BSC to create awareness among various segments of taxpayers and to encourage them to use ADCs and OTC services for tax payments. These well-received orientation sessions resulted in a remarkable usage of ADC and OTC channels, an overview of which is given in Fig 1.1 and 1.2, exhibiting an increase of 225 percent in transaction numbers and 615 percent in total value.

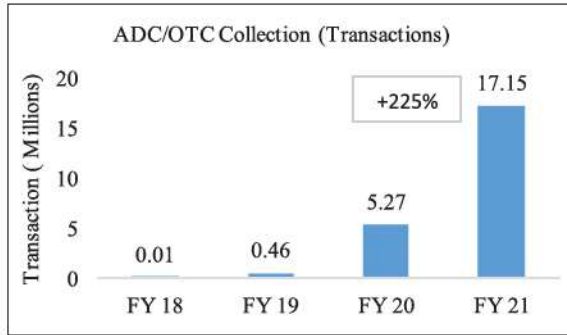


Fig 1.1: ADC / OTC Collection (Transactions)

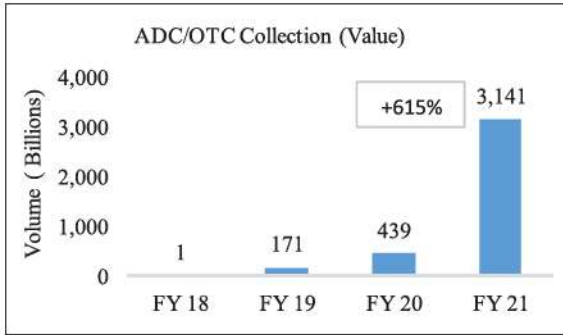


Fig 1.2: ADC / OTC Collection (Value)

#### 1.4.1.1 Collection for Federal Board of Revenue

Taxes and duties collected by BSC on behalf of FBR during the year were Rs. 4,962.34 billion. The summary of FBR receipts and payments (refunds) for the last two years is given as under (Table 1.1). Both receipts and payments show an upward trend over the last year.

Tax Type	Receipts			Payments (Refunds)		
	FY20	FY21	Change	FY20	FY21	Change
Customs	669.20	802.51	20%	12.40	19.97	61%
Federal Excise Duty	249.70	276.80	11%	0.40	0.0002	-100%
Income Tax	1,525.60	1,720.92	13%	28.40	20.50	-28%
Sales Tax	1,656.00	2,162.11	31%	93.30	209.86	125%
<b>Total</b>	<b>4,100.50</b>	<b>4,962.34</b>	<b>21%</b>	<b>134.50</b>	<b>250.33</b>	<b>86%</b>

### 1.4.2 Making Payments on behalf of Government

BSC also makes payments on behalf of federal and provincial governments, which primarily include salaries, pensions, vendor / supplier payments, debt repayments, and others. During FY21, the total number of transactions pertaining to the government payments carried out by BSC were 5,144 thousand as compared to 4,903 thousand in the previous year, showing a slight increase of 5 percent. (Table 1.2)

### 1.4.3 Zakat Collection and Disbursement

BSC, through its network of field offices and authorized agents, plays an integral part in Zakat collection and disbursement. BSC also ensures timely reporting of balances to concerned stakeholders. During FY21, the total Zakat collection was Rs. 6,190 million, showing a substantial decrease of 22 percent over last year's collection i.e. Rs. 7,929 million.

*Table 1.2: Number of Govt. Payment Transactions (Figures in '000)*

Field Office	FY20	FY21	Change
Karachi	858	1,258	47%
Lahore	697	726	4%
Rawalpindi	424	480	13%
Islamabad	913	478	-48%
Faisalabad	282	340	21%
Multan	334	326	-2%
Hyderabad	248	315	27%
Peshawar	259	270	4%
N. Nazimabad	240	242	1%
Quetta	142	154	8%
Sukkur	100	135	35%
Gujranwala	113	109	-4%
Sialkot	99	106	7%
Bahawalpur	90	94	4%
Muzaffarabad	61	66	8%
D. I. Khan	43	45	5%
<b>Total</b>	<b>4,903</b>	<b>5,144</b>	<b>5%</b>

### 1.4.4 Consolidation of Government Payment Instruments

As banker to the government, BSC is dedicated to bringing efficiency in government payment processes. With this objective, BSC approached different government departments including Military Accountant General for consolidation of salary and pension cheques. As a result of continuous coordination and collaboration with departments, CNA have consolidated their payment instruments on average from 13,000 to 1,500 cheques per month. Similarly, pension cheques of CAAF have been decreased from 800 to 80 cheques on average per month. This has significantly reduced requirement of over the counter facilitation at 16 field offices. Going forward, similar initiatives with other stakeholders are also underway.

## 1.5 Development Initiatives

### 1.5.1 Centralization of Bank Accounts

Historically, banks were maintaining separate and independent accounts at 16 field offices for their day-to-day operations. With an aim to enhance digitalization and ensure transparency as well as to achieve greater operational efficiency in banking operations, these bank accounts have been consolidated and centralized as a single account for each bank at Karachi Office with effect from 1<sup>st</sup> July, 2021. This initiative has not only made account operations more efficient by consolidating all allied activities of account maintenance, but has also assisted the banks in effectively managing their liquidity.

### 1.5.2 Centralized Issuance of Income Tax Refunds

During FY21, as per FBR's proposal on centralization of income tax refunds, the process has been end-to-end digitalized and accounts of beneficiaries are now directly credited without involving any physical instruments or manual interventions. This has resulted in reducing the turnaround time from three days to one day.

### **1.5.3 Digitalization of Internal Payments of BSC**

In addition to digitalizing processes involving external stakeholders, BSC has also focused on revamping and digitalizing its internal payment processes. Last year, all paper-based instrument payments to employees, vendors, suppliers, and service providers were shifted to direct credit to bank accounts. During the current year, pension payments of SBP and BSC have been successfully shifted to direct credit to bank accounts through RTGS.

### **1.6 Future Outlook**

BSC is fully committed to improve its operations and to strive for enhancement in its customer service standards for its external and internal stakeholders. BSC will also keep its focus on digitizing its infrastructure and minimizing manual operations through maximum utilization of technology and reengineering of current business processes. Further, BSC will continue to provide policy, operational, and payment systems support to SBP with an aim to develop and operate an efficient and secure national payment system.

In line with the above broad objectives, BSC is currently pursuing various projects including but not limited to extending assistance to SBP in implementation of Micro Payment Gateway called 'Raast', enhancing reach of ADC / OTC, consolidation of cheques for remaining Govt. departments, and reduction of Govt. cash payments.