

## 2 Currency Management

*Currency Management is one of the core operational areas of BSC which primarily deals with issuance, management, and withdrawal of banknotes and coins. Under this function, Bank is also responsible for operational management of Prize Bonds, Government Savings Certificates, and Bank-wide implementation of a rigorous AML, CFT & CPF regime.*

### 2.1 Overview

BSC strives to ensure implementation of policies and guidelines relating to currency management and government savings schemes issued by the SBP and CDNS respectively. Accordingly, BSC consistently endeavors to adopt international best practices and to employ globally trusted technologies for following functions in Pakistan:

- i. Ensure adequate availability of good quality banknotes in the market and meet market's demand for currency for smooth functioning of the economy
- ii. Arrange for timely printing and effective stock management of currency notes and prize bonds in coordination with PSPC
- iii. Ensure swift withdrawal of soiled notes from the market and its subsequent processing with enhanced control environment to improve the overall quality of notes in circulation
- iv. Issue comprehensive instructions to BSC's 16 field offices for effective implementation of SBP's CMS
- v. Conduct on-site examinations through CMHs to ensure effective implementation of CMS strategy across the country
- vi. Implement BPRs to align BSC's existing currency management function with international best practices
- vii. Ensure effective operational management of Government Savings Schemes and Prize Bonds (Bearer, Premium / Registered) in coordination with CDNS
- viii. Conduct reliable and transparent prize bond draws
- ix. Develop an efficient and effective AML, CFT & CPF regime as well as strengthen it through continuous developments in the areas of technology, business processes, and HR capacity building
- x. Combat note counterfeiting in collaboration with LEAs in close coordination with SBP
- xi. Arrange public awareness programs on banknote security features for external stakeholders through network of 16 field offices

### 2.2 Key Stakeholders

- Federal and Provincial Governments
- Law Enforcement Agencies
- Pakistan Mint
- CDNS
- General Public
- State Bank of Pakistan
- PSPC
- Commercial Banks
- Currency Contractors
- National Bank of Pakistan

### 2.3 Key Performance Highlights during the Year

#### Box 2.1: Key Performance Highlights during FY21

##### Currency Operations

- Ensured uninterrupted supply of fresh notes across the country by issuing 4.356 billion pieces of banknotes valuing Rs. 1.59 trillion during FY21
- Record destruction of 3.1 billion pieces of soiled banknotes during FY21, which was 64 percent higher as compared to previous year
- Receipt of 2.7 billion soiled banknotes from commercial banks and NBP chests during FY21 to ensure removal of unfit notes from circulation and improving the quality of notes in circulation

##### Efforts to Combat COVID-19 Pandemic

- Issued detailed guidelines to field offices and commercial banks to curb the spread of COVID-19 pandemic
- Provided balance sheet relief of Rs. 49.4 billion to banks with regards to hospitals / laboratories quarantined cash
- Regular issuance of fresh banknotes to commercial banks for onward circulation to the general public

##### Government Savings Schemes

- Extended outreach of PPBs operations by authorizing 13 commercial banks to deal in PPBs
- Introduced SMS service facility for Direct Credit Payments to ensure prompt intimation to customer
- Revamped procedure for Defective NPBs through elimination of manual registers and introduction of direct credit
- Launched new denomination of Rs. 25,000 PPBs to make the scheme more attractive
- Managed the encashment of 25.6 million prize bonds of higher denomination withdrawn from circulation valuing Rs. 379.9 billion.

##### AML & CFT

- Issued BSC's inaugural AML, CFT & CPF Compliance Policy to delineate AML & CFT regime at BSC
- Implemented TMS for generating alerts against pre-defined criteria in order to identify suspicious transactions
- Conducted multiple training and capacity building sessions for BSC officials with an aim to enhance understanding of AML & CFT Regime

### 2.4 Operational Performance

#### 2.4.1 Circulation of Banknotes

Pakistan is a highly cash-centric economy with presence of informal markets and businesses mostly relying on cash for their operations. As such, the value of CIC continues to increase, despite surge in usage of online, point-of-sale, and other alternative payment channels. This behavior is evident from the consistent increasing trend of CIC, as per data presented in **Table 2.1**. The CIC witnessed an annual growth of 13.2 percent in FY21, with the CIC as a percentage of GDP stood at 15.4 percent, highlighting the cash centric nature of Pakistan's economy.

Year	Nominal GDP <sup>2</sup>	Currency in Circulation (CIC) <sup>3</sup>	CIC as % of GDP	CIC Change over previous year
FY20	41,726,683	6,492,272	15.6%	22.0%
FY21	47,709,325	7,349,493	15.4%	13.2%

<sup>2</sup> Pakistan's GDP- [https://www.sbp.org.pk/ecodata/GDP\\_table.pdf](https://www.sbp.org.pk/ecodata/GDP_table.pdf)

<sup>3</sup> Statement of Affairs- 25 June, 2021- <https://www.sbp.org.pk/publications/statements/2021/25-Jun-2021.pdf>

## 2.4.2 Currency Management

BSC endeavors to ensure availability of good quality banknotes across the country. The distribution of fresh notes is conducted through active and timely coordination between 16 field offices, 224 NBP Chest Branches, and commercial bank branches across the country. During FY21, the composition of fresh notes issuance regularized as effects of COVID-19 pandemic subsided. As evident from **Table 2.2** issuance of lower denomination banknotes increased by 100 percent in terms of pieces, mainly due to resumption of normal operations and regular issuance of fresh note tranches to commercial banks. On the other hand, the year on year decline in issuance of higher denomination banknotes was due to the extraordinary issuance of higher denominations during FY20 as part of payments for Ehsaas Program.

Year	Lower Denomination (Up to Rs. 100)				Higher Denomination (Rs. 500 & Above)			
	Pieces	% Increase	Value	% Increase	Pieces	% Increase	Value	% Increase
FY20	1,667	-32.6%	64,014	-17.2%	1,175	33.5%	1,611,167	31.4%
FY21	3,345	100.7%	151,535	136%	1,011	-6.2%	1,444,184	-10.3%

The CIC showed an increase of 12.8 percent YoY in terms of pieces. Moreover, the destruction of soiled banknotes shows an increase of 64 percent on YoY basis, due to automation of bank notes examination and destruction processes. (Fig 2.1)

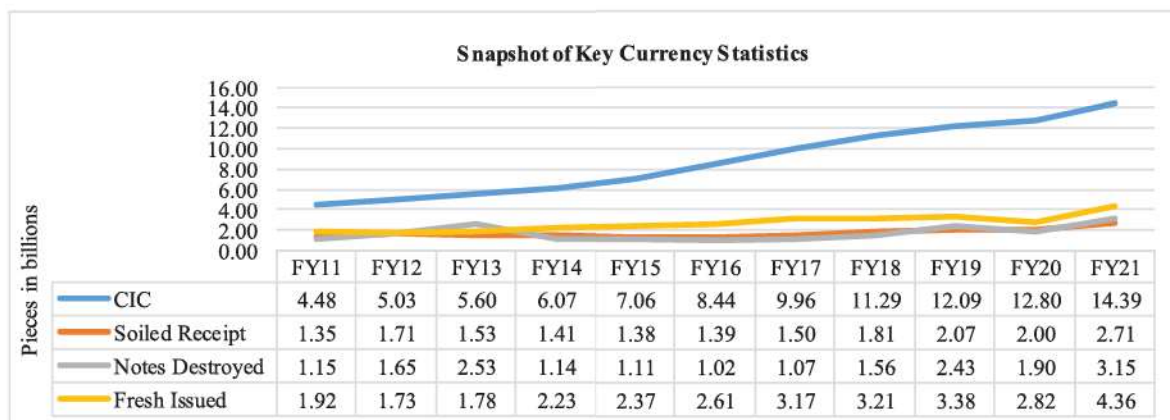


Fig 2.1: Snapshot of Key Currency Statistics

### 2.4.2.1 Counterfeit Reporting and Confiscation

After roll out of the CMS in 2015, the currency operations at commercial banks have been automated and banks are surrendering increased number of counterfeits to BSC reflecting an improvement in the counterfeit detection capabilities of the banking system. This is reinforced through conducting of on-site examinations by the CMHs as well as by the penalty imposition of 100 times the face value of the banknote if any counterfeit is detected during examination of balances at field offices.

### 2.4.3 Monitoring of Currency Operations

#### 2.4.3.1 Cash Monitoring of Commercial Banks

One of the objectives of the CMS was to ensure circulation of good quality banknotes and curb the increasing spread of counterfeits in the economy. In order to gauge the compliance of banks in connection with the CMS guidelines, three dedicated CMHs were constituted at Karachi, Lahore, and Rawalpindi in October 2018. CMHs were responsible for evaluating commercial banks' non-compliance in terms of 28 currency-related areas and impose penalties in connection thereto.

During FY21, CMHs examined 854 branches despite facing major lockdowns, constricted mobility, and closure of operations for about five months owing to COVID-19 pandemic. These included 269 Cash Feeding Branches, 143 Cash Processing Centers, 345 Standalone Branches, and 97 Linked Branches. Furthermore, during these examinations, CMHs imposed penalties amounting to Rs. 13.5 million (a decline of 37 percent) compared to Rs. 21.59 million from the previous year, highlighting effectiveness of the cash monitoring exercises and presence of a strong oversight mechanism over commercial banks.

In addition, on-site monitoring was further reinforced through a newly developed compliance mechanism whereby banks were required to tender compliance of their delinquent branches on quarterly basis. Compliance by the banks is expected to further improve after amendments in CMS guidelines which is being undertaken in consultation with Finance Department, SBP.

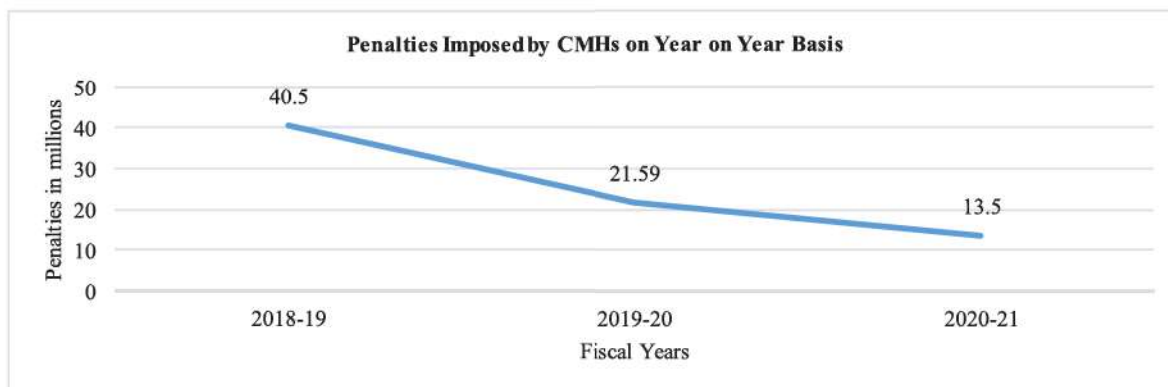


Fig 2.2: Penalties Imposed by CMHs on Year on Year Basis

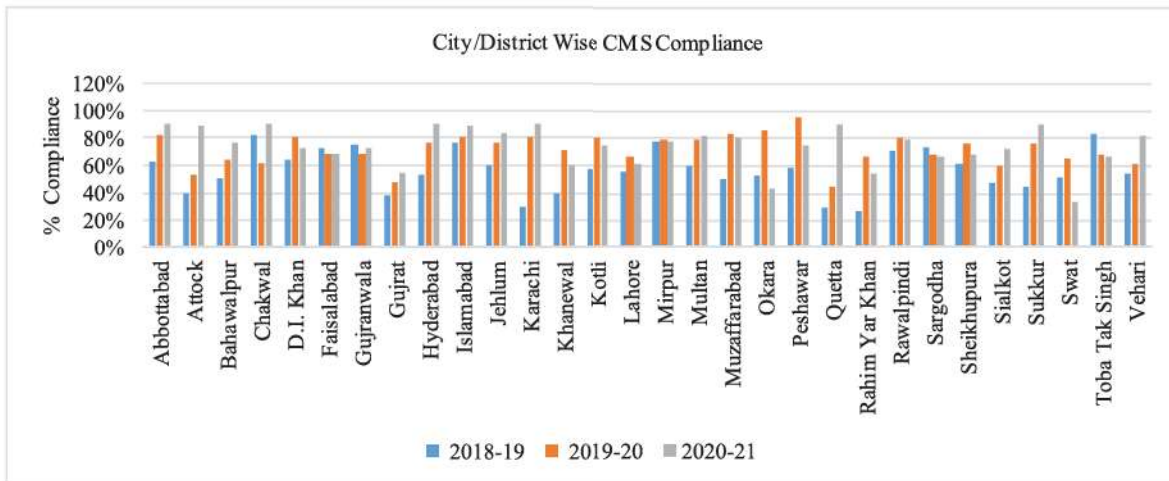


Fig 2.3: City / District Wise CMS Compliance

The CMH teams also conducted 47 classroom and online awareness sessions for capacity building of the cash officers of commercial banks to further improve the compliance.

### 2.4.3.2 NBP Chest Examination

During FY21, it was decided to conduct on-site examination of NBP Chest branches twice in a financial year. The first cycle was completed on a timely basis whereby 212 chest branches were examined with rigorous follow-up to get the irregularities / observations rectified. A comprehensive report, highlighting the non-compliant aspects and higher risk NBP branches, was submitted to the management. However, due to COVID-19 restrictions the second cycle could not be initiated.

### 2.4.4 Government Savings Schemes

Being an agent to the Government of Pakistan, BSC effectively managed operations of various NSS while observing NCOC guidelines regarding COVID-19.

Despite the pandemic and lockdowns, NPB instruments (prize bonds and certificates) amounting to Rs. 108.9 billion were issued during the outgoing fiscal year. Further, encashment related operations witnessed a substantial increase primarily due to withdrawal of Rs. 25,000, Rs. 15,000, and Rs. 7,500 denomination National Prize Bonds. During the year, NSS amounting to Rs. 398.9 billion were encashed at field offices constituting Rs. 137.9 billion, Rs. 144.9 billion, and Rs. 69.3 billion of Rs. 25,000, Rs. 15,000, and Rs. 7,500 denomination NPBs respectively.

Further, in the wake of COVID-19, business process re-engineering activity was continued where BSC focused on modernizing the operations of these schemes to achieve operational efficiency in terms of time, cost, and HR needs.

A brief overview of various Government Savings Schemes is given as follows:

### 2.4.4.1 National Prize Bonds

NPBs are bearer instruments available in four denominations i.e. Rs. 100, Rs. 200, Rs. 750, and Rs. 1500. The holders of these bonds are eligible for a prize in draws held on quarterly basis.

The sale and encashment of these bonds is carried out by all BSC field offices, authorized commercial bank branches, and National Savings Centers across Pakistan. The draws of NPBs are held at nine BSC field offices on quarterly basis as per schedule announced by the CDNS at the start of each year. Prize winning numbers are drawn by special children in presence of draw committee and general public attending the draw ceremonies.

The Government of Pakistan decided to convert bearer prize bond of higher denomination i.e. Rs. 7,500, Rs. 15,000, Rs. 25,000, and Rs. 40,000 into registered bonds. For the purpose, Finance Division GoP issued notifications regarding withdrawal of bearer prize bonds of Rs. 25,000, Rs. 15,000, and Rs. 7,500 during the year whereas Rs. 40,000 bearer bonds had been discontinued w.e.f. June 24, 2019. As of June 30, 2021, BSC has successfully encashed 99 percent of Rs. 40,000, 96 percent of Rs. 25,000, 75 percent of Rs. 15,000, and 55 percent of Rs. 7,500 denomination NPBs. Data pertaining to National Prize Bonds is elaborated in **Table: 2.3.**

Denom	FY20				FY21				Outstanding Value Held by Public
	Sale	Encashment	Prize Money Payment	Net Sale	Sale	Encashment	Prize Money Payment	Net Sale	
100	467	370	731	97	199	86	913	113	10,400
200	953	1,205	1,746	(251)	479	359	2,595	120	29,460
750	6,492	2,596	7,356	3,896	1,707	943	10,193	764	108,108
1,500	18,054	2,971	9,009	15,083	18,026	1,227	12,100	16,799	140,046
7,500	6,609	2,784	8,611	3,825	20,581	70,595	10,092	(50,014)	56,443
15,000	13,009	16,575	13,969	(3,566)	22,460	147,272	20,372	(124,812)	47,742
25,000	15,824	12,404	13,760	3,420	1,658	160,708	13,417	(159,050)	4,998
40,000	-	191,403	9,018	(191,403)	-	1,217	556	(1,217)	1,181
<b>Total</b>	<b>61,409</b>	<b>230,308</b>	<b>64,200</b>	<b>(168,899)</b>	<b>65,110</b>	<b>382,407</b>	<b>70,238</b>	<b>(317,297)</b>	<b>398,378</b>

Further, in order to promote digitalization of payments, BSC has taken various initiatives including Direct Credit of Prize Money, Face Value, and Profit payments etc. through RTGS which has not only significantly improved the efficiency of public debt operations managed by BSC, but has also reduced dependency on cash.

### 2.4.4.2 Premium Prize Bonds

Besides NPBs, BSC also manages the PPBs scheme whereby registered PPBs are issued in the name of investor after establishing identity through CNIC, National Identity Card for Overseas Pakistanis or Pakistan Origin Card. This scheme is a step towards increasing documentation of economy and enhancing financial inclusion as maintaining a formal bank account is mandatory for investment in this scheme.

The PPBs are eligible for both prize money (as admissible in the scheme) and profit payment as per rates notified by Government of Pakistan. The bi-annual profit and prize money (if any) are credited directly into the bank accounts of the investor and do not require personal visit for collection of profit or prize money.

A snapshot of the business conducted for PPBs in FY20-21 is tabulated below:

*Table 2.4: Total PPB sale and encashment at BSC field offices (Rs. in millions)*

PPB	FY20					FY21					Outstanding Value Held by Public
	Sale	Encashment	Net Sale	Profit	Prize Money	Sale	Encashment	Net Sale	Profit	Prize Money	
Rs. 25,000	-	-	-	-	-	15,625	491	15,134	30	105	15,134
Rs. 40,000	14,154	2,831	11,323	699	975	13,938	3,925	10,013	1,179	970	29,001
<b>Total</b>	<b>14,154</b>	<b>2,831</b>	<b>11,323</b>	<b>699</b>	<b>975</b>	<b>29,563</b>	<b>4,416</b>	<b>25,147</b>	<b>1,209</b>	<b>1,075</b>	<b>44,135</b>

### 2.4.4.3 Defence and Special Savings Certificates

DSC and SSC were introduced by CDNS in 1966 and 1990 respectively. DSC scheme provides long-term investment opportunity with ten years of maturity and annual profit accruing on the investment. The said certificates are available in denominations starting from Rs. 500 to Rs. 1 million. Whereas, the SSC scheme provides medium-term investment opportunity to the general public with a maturity of three years and bi-annual profit withdrawal facility.

During FY21, the net outstanding investment of DSC declined by two percent YoY whereas, the net outstanding investment of SSC grew by seven percent YoY to Rs. 66 billion and Rs. 55.2 billion respectively. A snapshot of the business conducted for SSC and DSC in FY20 & FY21 is tabulated below:

*Table 2.5: Sale and encashment of SSC and DSC at field offices (Rs. in millions)*

Scheme	FY20			FY21		
	Sale	Encashment	Profit	Sale	Encashment	Profit
DSC	14,629	5,422	6,725	4,153	5,271	6,868
SSC	34,761	29,738	3,522	10,501	6,868	3,840
<b>Total</b>	<b>49,390</b>	<b>35,160</b>	<b>10,247</b>	<b>14,654</b>	<b>12,139</b>	<b>10,708</b>

## 2.5 Anti-Money Laundering and Combatting the Financing of Terrorism Compliance

ML, TF&PF are a global menace and remain a threat for global as well as local economies including financial institutions. BSC is committed to having a robust and effective AML, CFT & CPF program to mitigate the ML / TF / PF risks. For this purpose and in line with international best practices, the AML & CFT Compliance Division adopted a three-pronged strategy i.e. 1) Introduction of Policies and Procedures 2) Technological Advancement and 3) Training & Capacity Building. Accordingly, various initiatives were taken during the year to strengthen prevailing AML & CFT regime at BSC and ensure compliance with legal / regulatory framework.

### 2.5.1 Introduction of Policies and Procedures

In line with applicable laws and regulations, BSC's inaugural AML, CFT & CPF compliance policy was issued delineating therein obligations and required actions under the AML & CFT compliance regime. The BSC Compliance Policy serves as guiding document for all departments, field offices, and employees with respect to AML & CFT obligations and measures.

Further, in order to develop better understanding of Sanctions Regime and STR / CTR regime at BSC, a detailed handbook for identification and reporting of CTR / STR was issued during the outgoing fiscal year. Additionally, numerous policy directives were issued to BSC departments at HOK and field offices including Red Flag Indicators for Reporting STRs while handling conversion / encashment requests of withdrawn NPBs.

BSC also implemented a customer identification mechanism for walk in / occasional customers. Further, BSC is in the process of enhancing customer due diligence mechanism by adopting Financial Action Task Force recommended Risk Based Approach.

### 2.5.2 Technological Advancement

As a part of AML & CFT Compliance Program, multiple system-based solutions were implemented during FY21, including enhancing scope of screening, in-house development of TMS and customer identification mechanism for walk-in customers (details available in Developmental initiatives section 2.6.9-10). Due to these technological interventions, significant increase was observed in STR reporting, as 729 STRs were reported in past five months as compared to 55 STRs identified by the dealing officials in the same period during the previous year, besides CNIC based real-time screening of customers.

### 2.5.3 Training & Capacity Building

Training & capacity building is a key component of the BSC's AML & CFT program. Therefore, a four-tier training program was developed, including senior management, middle management, AML & CFT focal persons, and concerned officials. Trainings were imparted to various BSC officials to foster their understanding of due diligence and STR reporting parameters. This enabled officers to focus on their responsibilities relating to AML & CFT regime and to analyze unusual / high-risk transactions. During the year, over 250 employees were trained in coordination with Banking Policy and Regulation Department, SBP and FMU. The number and quality of STRs also improved substantially during the fiscal year due to the concerted efforts to enhance understanding and awareness of BSC officials.

## 2.6 Development Initiatives

### 2.6.1 Currency Automation Strategy

In line with Currency Automation Strategy, installation of five BPAS was completed at BSC Lahore, Faisalabad, and Peshawar, while installation of remaining four machines shall be completed at Rawalpindi, Multan and Quetta during the next financial year. These BPAS machines are capable of high-speed processing, authentication, and online destruction of banknotes, providing 100 percent counterfeit detection, processing accuracy, standardization, and significant HR savings in comparison to the manual environment. It is expected that with the successful installation of the remaining BPAS machines, BSC's yearly capacity for processing and online shredding of higher denomination (Rs. 500 & above) banknotes will increase to approx. 1.4 billion pieces.

In addition, installation of four BDS at BSC Lahore, Faisalabad, Peshawar, and North Nazimabad was completed, while remaining three BDS shall be installed at BSC Rawalpindi, Multan, and Quetta by Q2 of FY22. With the implementation of BDS, BSC will be able to disintegrate more than 2.5 billion pieces of lower denomination (Rs. 100 & below) banknotes on a yearly basis in an efficient manner. In addition, these BDS machines are equipped with safety features and are manufactured as per approved international standards so as not to expose operators to any injury risks.



### **2.6.2 Centralization of Banknote Examination & Destruction**

To complement the above automation initiatives, the internal examination procedures and practices were also streamlined by introducing the concept of Pool and Linked Offices. In line with the revised business model, the banknote examination procedures were restructured and dedicated examination and destruction hubs were created at eight Pool Offices having been equipped with BPAS and BDS machines. Moving forward, the remaining Linked Offices shall only act as deposit hubs for banknote receipt, and shall remit their balances to Pool Offices for further processing. Apart from operational efficiency, the initiative shall improve the internal security controls in banknote processing and destruction and shall rationalize the HR needed for the same.

### **2.6.3 Elimination of Manual Examination**

Manual examination of banknotes at BSC was eliminated and in future all banknotes shall be processed on machines. The examination of lower denomination (up to Rs. 100) banknotes was shifted to desktop banknote authentication machines, with revised Minimum Productivity Levels for efficient processing of the same. The revised procedure has allowed field offices to effectively destroy considerable backlog of unexamined lower denomination balances.

### **2.6.4 Revamping of Evening Collection and Elimination of Defacement**

The process of Evening Collection was revamped in line with the Pool Structure and machine-based examination procedures, thereby enhancing efficiency of the entire process and automating front end counter operations. In addition, the practice of defacement of banknotes was eliminated which also improved the health and safety standards in cash examination.

### **2.6.5 Improvements in Vaults**

To improve the internal controls in vaults, Close Circuit Television (CCTV) surveillance system was installed in all vaults and the HR requirement of vaults was rationalized through merger of various currency vaults across field offices.

### **2.6.6 Digital Prize Bonds**

In order to modernize public debt management function, a detailed proposal for launching “Digital Prize Bonds Scheme” was submitted to Ministry of Finance. The proposal has been developed in line with the Government’s ‘Digital Pakistan’ drive. Through this initiative, BSC envisages to reach masses using digital delivery channels and enabling them to purchase / encash prize bonds through the said portal remotely.

### **2.6.7 Incentivizing and Enhancing Premium Prize Bonds**

A new denomination of Rs. 25,000 PPB was launched to make the scheme more attractive and give the general public an option to invest in smaller denomination PPBs. Moreover, the outreach of PPB operations was further extended by authorizing 13 more commercial banks to deal in PPBs. Accordingly, all 19 conventional commercial banks are now offering PPBs to their customers.

### 2.6.8 SMS Intimation for Direct Credit Payments

With a view to improve customer service delivery and enhance customer confidence, an SMS service was introduced for Direct Credit Payments whereby customers are able to receive intimation of their payments on real-time basis through SMS on their provided mobile number.

### 2.6.9 Implementation of Transaction Monitoring System

TMS was developed in core banking system i.e. T-24 system in-house to assist BSC officials in monitoring Prize Money claim transactions. The TMS is capable of generating alerts based on pre-defined criteria and quantitative red-flag indicators. Since development of TMS, significant increase has been observed in STR reporting showing a strong suspicion identification program.

### 2.6.10 Procurement of Screening Solution

In line with international best practice, BSC is in the process of procuring automated off-the-shelf Targeted Financial Sanction Screening Solution. To this end, a contract has been awarded to an international vendor during FY21 whereby system shall be deployed in FY22. The new system will enable BSC to screen individuals and entities based on multiple criteria such as name, aliases, addresses, etc. from diverse global watch lists.

## 2.7 Future Outlook

In line with its strategic direction and the changing business dynamics of cash operations in Pakistan, BSC endeavors to continue automating and modernizing currency and government savings operations at its offices. BSC also aims to focus on enhancement of documentation of informal economy, improving efficiency in examination procedures, and digitalization of various government schemes.

In addition, upgrading of currency logistics and storage infrastructure at BSC is under consideration. Moreover, consolidation of currency accounting and implementation of banknote inventory management system along with necessary software application enhancements are also underway.

In line with the international best practices and “Digital Pakistan” vision of the government, BSC in coordination with SBP and CDNS / Ministry of Finance is exploring options for issuance of a new Digital Prize Bonds Scheme, enabling customers to purchase desired prize bonds through online web-portal / mobile application. BSC will also consider using the digital platform for other public debt schemes such as SSCs / DSCs etc.

BSC is focused on strengthening AML, CFT & CPF regime through formulation and implementation of a risk based customer due diligence mechanism including development of centralized electronic Know Your Customer (eKYC). Further, existing IT solutions i.e. Transaction Monitoring System and Sanction Screening are planned to be upgraded to meet the evolving business needs and compliance requirements. Additionally, focused training program shall be imparted to BSC’s staff as part of compliance program.