

Key Functional & Operational Areas

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- 1. Currency Management*
- 2. Foreign Exchange Operations and Adjudication*
- 3. Export Finance Scheme*
- 4. Payment and Settlement Systems*
- 5. Banking Services to the Government*

1 CURRENCY MANAGEMENT

1.1 Overview

Currency Management is one of the main functions being performed by the SBP BSC. In this context, BSC is actively engaged in managing the stock of banknotes and coins at field offices / currency chests / sub-chests, issuance of fresh notes, withdrawal and disposal of soiled notes from circulation and anti-counterfeit measures. The responsibilities of BSC have increased manifold since the currency in circulation rapidly increased from Rs.449.1 billion in January 2002 to Rs.784.4 billion on 30th June 2006. The Accounts Department of BSC is responsible to maintain quality of banknotes and its proper distribution through 16 field offices and 226 NBP Chests/ Sub-Chests scattered all over the country. The total holding capacity of these Chests /Sub-Chests amounted to Rs.73.4 billion. In order to meet cash transactions of the federal and provincial governments and remittance facilities to the public, currency chests of both notes and coins are also maintained at designated branches of the National Bank of Pakistan and nominated treasuries / sub-treasuries by the Issue and Treasury Divisions located at Karachi, Lahore, Peshawar and Quetta. Previously BSC was handling retail business of banknotes and coins manually, which was less efficient and time consuming. Recent years witnessed a paradigm shift in work procedures because of automation and mechanization of the process. With the implementation of on-line currency management system, BSC is in a better position to provide quality services to all stakeholders including government departments at federal, provincial and local levels, general public, and commercial banks.

1.2 Automation of Currency Operations

During FY06 Globus System has successfully been rolled out and the system is running live in most of the field offices of BSC. Transformation of work processes compatible with software applications has taken place successfully and human resource at the field offices have also been imparted with the Globus training to run the system efficiently. The data which was manually recorded has since been transferred to appropriate versions / modules of the system. All the reports and statements are now being automatically generated through online computerized system. The Globus system automates the entire activities of the currency operations at the field offices. Muzaffarabad Office had switched over to full-fledged automated currency operation through Globus with effect from 1st July, 2005 and the system worked efficiently till the devastating earthquake on 8th October, 2005. The earthquake badly damaged the basic infrastructure, logistic arrangements and the telecommunication facilities which resulted in the suspension of Globus operations at that office.

1.3 Clean Note Policy

The Clean Note Policy of the SBP continued during the year under review. In order to implement Clean Note Policy, a three-pronged strategy has been designed and implemented by BSC which included simplification of various procedures, on-site examination and automation and public awareness program. The measures taken by the BSC are discussed in the following paragraphs.

1.3.1 Non-Stapling of Banknotes

It was observed that stapling of the currency notes packet is one of the reasons for reducing the life of notes. With a view to implement the Clean Note Policy and considering that the stapling reduces the life of currency notes, the stapling of the note packets has been discontinued in phases. In the first phase staple pins were removed from Rs.10/- denomination notes in FY 04. In the second phase, while placing the indent with M/s. Pakistan Security Printing Corporation (PSPC) for FY 05, they were advised to discontinue the stapling of Rs.50/- and Rs.100/- denomination notes. Further, while launching Rs.20/- banknotes on 13th August, 2005 and Rs.10/- & Rs.5000/- denomination notes on 27th May, 2006, the same were issued without stapling. Stapling of the existing Rs.500/- and Rs.1000/- notes are being discontinued

from 1st July, 2006 and all new design banknotes are being supplied without stapling. Under the Clean Note Policy commercial banks have also stopped stapling the packets of notes up to Rs.100/- denomination. Instead, the paper banding is used for these notes, which has also helped in improving the quality of notes in circulation.

1.3.2 Establishment of Automated Currency Sorting Cell

The setting up of automated Currency Sorting Cell (CSC) is another milestone towards the SBP Clean Note Policy for maintaining the quality of banknotes in circulation. Under the existing system commercial banks are made responsible for sorting of banknotes. They have been advised to deposit only sorted balances in the form of re-issuable, soiled and defective notes with the SBP BSC. In order to facilitate commercial banks to carry out the sorting of notes at a nominal cost, automated CSC have been set up at field offices. The facility has been provided through three vendors; M/s. National Institutional Facilitation Technologies (NIFT) Pvt Ltd, House of Business Machines (Pvt.) Ltd. and Rayyanco Business System. This step has been taken in view of problems faced by commercial banks in connection with sorting of banknotes due to space / infrastructure problems, shortage of skilled personnel and lack of security arrangements.

The function of automated CSC is to segregate banknotes into different categories as follows:

- ATM fit notes of Rs.100/-, Rs.500/- and Rs.1000/- and other denominations.
- Re-issuable banknotes of all denominations.
- Machine detectable cut and Claim Notes of all denominations.
- Detection of counterfeits.
- Non-issuable banknotes due to graffiti.
- Counting, banding the packets and making bundles.

At present automated CSC are working at Karachi, Multan, Lahore and Peshawar offices. In the next phase, CSC will be set up at Faisalabad, Rawalpindi and other offices of the BSC.

1.3.3 Mechanization of Currency Operations

The management of BSC has given proper attention to mechanize the currency operations. As a result of these efforts the manual handling of receipt and supply of banknotes and coins has been reduced to a large extent. Field offices have been provided electronic note counting machines which are used for counting of fresh currency notes. All remittances of fresh notes received from Pakistan Security Printing Corporation are counted on these machines. In addition, the coin counting machines have also been provided to field offices for counting of coins of all denominations over the Coin Exchange Counters. BSC is proactively engaged in mechanization of various processes in anticipation of enhanced requirement of the notes / coins in the future.

Table 1.3.3 Installation of Machines at Field Offices							
S #	Field Offices	Coin Counting	Note Counting	Tri color Stamping	Note Banding	Note Shredding	Total
1	Bahawalpur	2	1	1	1	-	5
2	D.I.Khan	2	1	1	1	-	5
3	Faisalabad	2	3	1	2	1	9
4	Gujranwala	2	2	1	1	-	6
5	Hyderabad	2	2	1	2	2	9
6	Islamabad	2	3	1	2	1	9
7	Karachi	6	11	2	4	3	26
8	Lahore	2	8	2	2	3	17
9	Multan	2	6	1	2	2	13
10	Muzaffarabad	1	1	1	-	-	3
11	N.N. Karachi	2	1	1	1	1	6
12	Peshawar	3	4	1	2	2	12
13	Quetta	2	2	1	3	1	9
14	Rawalpindi	2	3	1	2	1	9
15	Sialkot	2	2	1	1	1	7
16	Sukkur	1	2	1	1	1	6
Total		35	52	18	27	19	151

1.3.4 Establishment of Quality Assurance Unit and Banknote Research Wing

The Board of Directors of SBP BSC in its meeting held on 21st December, 2005 decided setting up of “Quality Assurance Unit” and “Banknote Research Wing” at SBP BSC field offices. These Units would provide suggestions for improving the quality and durability of banknotes, insertion of latest security features in banknotes / Prize Bonds for eliminating / minimizing the forgeries in them and detection of counterfeit notes. In compliance to the decision of the Board, the requisite Quality Assurance Units and Banknote Research Wings have been established at Accounts Department, HOK and four Issue Offices. These units will chalk out program for curbing the circulation of forged notes and also timely awareness among the general public about the forged notes.

1.3.5 Environment Friendly Destruction of Soiled / Defective Notes

Previously the destruction of cancelled banknotes was carried out through incinerators which were causing environmental pollution. BSC has installed shredding machines at different field offices. Now the cancelled currency notes are shredded through these machines. The soiled/defective notes, after completing prescribed drill of verification, are being destroyed through shredding machines installed at most of the offices. Under the Clean Note Policy commercial bank branches are also authorized to receive soiled / defective notes from the general public and deposit the same with the field office of their respective area. The procedures relating to Claim Notes / Un-Claimed Cash / Forged Currency Notes have been successfully automated. The mechanized way for destruction of cancelled notes has improved efficiency in notes destruction and enabled destruction of cancelled notes without specified timings and prevents environmental pollution.

Table 1.3.5 Position of Cancelled Notes Destroyed During FY06 <i>(Pieces in million)</i>							
Month	Denomination of Banknote						Total
	Rs.5	Rs.10	Rs.50	Rs.100	Rs.500	Rs.1000	
Jul - 05	10.713	38.496	6.176	16.038	3.780	4.139	79.342
Aug-05	13.214	30.830	5.372	15.662	2.004	7.524	74.606
Sep -05	23.854	37.540	7.662	18.398	4.120	2.467	94.041
Oct -05	48.383	23.458	8.368	15.516	3.993	2.811	102.529
Nov-05	49.965	7.901	8.520	13.489	3.230	2.107	85.212
Dec-05	48.404	29.858	9.188	14.012	1.465	3.420	106.347
Jan -06	53.559	14.904	6.428	14.605	2.128	2.436	94.060
Feb -06	72.855	31.398	5.651	13.314	1.842	2.676	127.736
Mar -06	124.651	47.900	6.882	15.482	3.843	1.954	200.712
Apr -06	75.884	81.900	6.537	10.794	4.541	5.334	184.990
May-06	1.185	73.654	4.001	13.142	4.576	4.535	101.093
Jun -06	--	62.795	4.788	15.724	2.070	3.940	89.317
Total	522.667	480.634	79.573	176.176	37.592	43.343	1,339.985

1.4 Detection of Counterfeited Currency Notes

The detection of counterfeit / forged banknotes of various denominations has indicated that a large number of forged notes are in circulation. In order to effectively curb this illegal activity in the country, a high level 'Task Force' has been constituted for suggesting effective measures for combating counterfeit / forged notes. BSC has taken necessary measures to protect against counterfeiting. With a view to protect against high standard forgery in currency notes, the dealing officials of the BSC have been equipped with the Counterfeit Multifunction Money Detectors besides Ultra Violet Lamps. During the period under review, a number of counterfeit notes of different denomination were detected at the counters / examination halls of BSC field Offices. Legal action is being taken against the holders of forged banknotes and holders of forge banknote(s) were handed over to the law enforcing agencies for investigation and consequent trials in the court to have a final verdict in the matter. Currency Officer or his representative, a senior / experienced bank official, appeared in the court for the verification of confiscated forge currency note(s) during proceedings of the case.

1.5 Simplification of Systems & Procedures

With a view to simplify the systems and procedures, a committee was constituted under the chairmanship of Chief Manager, North Nazimabad Office, Karachi to update the Banking Department Manual (BD Manual). The committee has completed its job during the stipulated time (two months) and submitted the draft report to the Managing Director. The committee has also completed the work relating to updation of the Issue Department Manual (ID Manual) recently. The categorization of claim / defective / soiled note have been redefined in order to ensure quick disposal of such notes.

1.6 Training and Skill Development Programs

With a view to effectively implement Clean Note Policy some of the field offices have arranged training for cashiers of the commercial banks in their respective areas to enable them to properly sort out the notes as per standards prescribed by the SBP. They have also been briefed about the security features of old as well as New Design currency notes / National Prize Bonds to enable them to detect forgeries in these instruments.

Table 1.6 Training on Currency Management Imparted to the Employees of BSC during FY06		
S #	Field Offices	Number of Employees
1	Bahawalpur	11
2	D.I.Khan	2
3	Faisalabad	6
4	Gujranwala	3
5	Hyderabad	2
6	Islamabad	4
7	Karachi	10
8	Lahore	15
9	Multan	4
10	Muzaffarabad	2
11	N.N. Karachi	2
12	Peshawar	6
13	Sialkot	4
14	Sukkur	4
Total		75

1.7 Public Awareness Programs

During FY 06, SBP introduced new design banknote of Rs.10/- and new denominations of Rs.20/- and Rs.5,000/- banknotes. With the introduction of these notes BSC has launched a special campaign about security features of banknotes for awareness of the general public. The awareness campaign included displaying posters and handbills at all public places and distribution of these posters and handbills to Regional Chiefs/ Heads and Managers of all commercial bank branches as well as chests/ sub-chests with the instructions to display the same at prominent places in their branches. In addition, Chief Managers of field offices of BSC paid frequent visits to the branches of commercial banks in remote areas of their jurisdictions and met the stakeholders to apprise them of the security features of banknotes. Besides, press releases on security features of banknotes were also issued to the leading newspapers of the country. A presentation on the security features of currency notes was also arranged for the stakeholders of BSC by the Multan office to create awareness among them.

To redress growing complaints of customers with regard to commercial banks refusal for acceptance of small denomination banknotes and soiled / mutilated currency notes, the commercial banks have been directed to display Public Notice(s) outside and inside their branches at the prominent places indicating that “Small denomination banknotes and soiled / mutilated currency notes are accepted here for exchange purposes”.

1.8 One Window Facility – Exchange of Defective Notes

SBP BSC is endeavoring to provide quality services to its stakeholders. In this connection some of the field offices have introduced ‘One Window Facility’ for customers. This facility enabled the customers to get the exchange value of their defective/claim notes instantly without any delay.

1.9 Supply of Fresh / Re-issuable Notes & Coins

One of the core activities of the BSC is to ensure adequate supply of fresh currency notes / coins, and to maintain the quality of notes in circulation. A large number of commercial bank branches have been designated in different areas for the purpose of issuance of fresh notes to general public. These branches are being provided with fresh notes in sufficient quantity. The balances of fresh notes are issued to designated branches of commercial banks on the basis of their volume of work. In this respect, priority is given to the number of ATM Machines installed at their end. Treasury (Cash) Division keeps a close watch over the banks and ensures that the fresh currency notes issued to them go only to the bonafide members of public and clients rather go to the currency note brokers. All balances of Rs.5/- denomination

note held with the commercial banks / currency chests as on 30th June, 2005 (the date on which it ceased to be a legal tender) were withdrawn and destroyed by the field offices. Sufficient quantity of Rs.10/-, Rs.20/- and Rs.5000/- new denomination notes were issued to the public through BSC field offices, designated branches of commercial banks and NBP chests /sub-chests. Field offices have made proper arrangements to increase the supply of fresh / re-issuable notes and coins to cope with the increased demand of the same. A number of factors were responsible for the increase in demand of fresh notes, such as timely withdrawal of soiled / defective notes from commercial banks / chest branches, implementation of Clean Note Policy and increase in the number of online branches of commercial banks with the provision of ATM facilities to customers.

Table 1.9 (a) Distribution of Coins to the Issue Offices								
<i>(Pieces in million)</i>								
Circle	2004-05				2005-06			
	Re.1/-	Rs.2/-	Rs.5/-	Total	Re.1/-	Rs.2/-	Rs.5/-	Total
Karachi	60.000	24.400	102.500	186.900	64.000	29.800	125.550	219.350
Lahore	90.250	31.774	53.450	175.474	95.520	34.060	63.450	193.030
Peshawar	35.500	1.488	10.500	47.488	4.250	2.600	14.700	21.550
Quetta	--	--	--	--	--	36.244	21.657	57.901
Total	185.750	57.662	166.450	409.862	163.770	102.704	225.357	491.831

Table 1.9 (b) Fresh Notes received from PSPC during FY06								
<i>(Pieces in million)</i>								
Month	Denomination of Banknote							
	Rs.10	Rs.20	Rs.50	Rs.100	Rs.500	Rs.1000	Rs.5000	Total Pieces
Jul-05	--	--	--	1	--	11	--	12
Aug-05	61	38	24	58	6	8	--	195
Sep-05	40	33	12	40	15	13	--	153
Oct-05	105	34	11	47	14	20	--	231
Nov-05	51	14	8	24	--	12	--	109
Dec-05	37	25	7	34	8	18	--	129
Jan-06	49	25	14	29	12	14	--	143
Feb-06	35	22	9	31	5	12	--	114
Mar-06	44	7	7	26	10	6	--	100
Apr-06	73	10	13	47	11	6	15	175
May-06	41	8	9	28	5	14	17	122
Jun-06	46	12	17	47	17	14	8	161
Total	582	228	131	412	103	148	40	1,644

1.10 Varnishing of Banknotes

With the approval of the State Bank of Pakistan, Pakistan Security Printing Corporation (PSPC) has started varnishing of banknotes to enhance its longevity. So far 42 million pieces of new design Rs.10/- denomination banknotes have been supplied to all field offices for onward distribution to stakeholders. The varnishing of other denominations notes are being negotiated with the PSPC.

1.11 Issuance of New Design Banknotes of Rs.10/-, Rs.20/- & Rs.5000/- Denominations

The Governor, State Bank of Pakistan announced the launching of Rs.5000/- new denomination and Rs.10/- new design banknotes at the press conference held on 26th May, 2006. All the field offices of the BSC across the country started issuing these notes on 27th May, 2006. Earlier, this year a new denomination banknote of Rs.20/- was introduced with effect from 15th August, 2005. It was, however, the first time in the history of the country that a higher denomination banknote of Rs.5000/- was introduced. The advantage of introducing the said note is to provide convenience and facilitate higher

value transactions. Issuance of higher denomination note also economizes the expenditure on printing of lower denomination notes as higher denomination notes would reduce the consumption of these notes. These new design banknotes have high-tech security features to minimize the possibility of counterfeiting. The new banknotes also depict the architectural heritage of the country. Famous monumental structures of Pakistan – the Faisal Mosque, Islamabad; Mohen-jo-Daro, Larkana and the Khyber Pass, Peshawar, have been printed as the vignette on the reverse-side of Rs.5000/-, Rs.20/- and Rs.10/- denomination banknotes respectively. With a view to facilitate better handling of new notes, their size has been kept smaller than the existing notes. The salient features of new design banknotes are given in Annexure of the report.

1.12 Monitoring / On-Site Examination of Commercial Banks

In order to comply with the instructions issued by the Accounts Department of BSC on 5th March, 2004, all field offices are conducting on-site examination of designated branches of commercial banks to ensure meticulous compliance of SBP / BSC directive with regard to “Clean Note Policy” such as distribution of fresh notes to the bonafide members of the public / clients as well as soiled / defective notes are not in circulation. A total number of 2,437 commercial bank branches have been examined during FY 06. The purpose for examination of cash at commercial bank branches is not to impose penalties but to ensure proper implementation of the instructions and to discourage circulation of soiled / cut notes in the market. However on account of violations of SBP’s instructions, an amount of Rs.4.4 million has been recovered from commercial banks as a penalty. The details are as under:

Table 1.12 On-site Examination of Commercial Banks by SBP BSC Field Offices							
S #	Office	2004 - 05			2005 - 06		
		No. of Banks	No. of Branches	Penalties Realized (Rs.)	No. of Banks	No. of Branches	Penalties Realized (Rs.)
1	Bahawalpur	14	108	228,500	9	24	8,000
2	D. I. Khan	9	37	155,000	10	32	--
3	Faisalabad	27	446	97,000	29	208	77,500
4	Gujranwala	11	12	33,500	--	--	--
5	Hyderabad	20	266	181,500	22	164	53,500
6	Islamabad	27	106	310,500	16	47	2,500
7	Karachi	34	346	1,719,500	31	315	2,518,000
8	Lahore	34	708	1,645,500	34	1,033	294,000
9	Multan	20	332	223,500	20	145	347,500
10	Muzaffarabad	7	112	160,000	6	24	5,500
11	N. N. Karachi	18	306	7,000	21	140	264,500
12	Peshawar	25	552	1,030,500	19	25	1,000
13	Quetta	22	107	113,500	12	39	15,500
14	Rawalpindi	23	203	1,828,000	14	106	257,000
15	Sialkot	21	57	213,500	4	7	47,000
16	Sukkur	15	301	1,778,500	16	128	509,000
Total		327	3,999	9,725,500	263	2,437	4,400,500

Besides, on-site examination of cash transactions, these teams are also playing a proactive role in checking the implementation of SBP instructions regarding acceptance of utility bills and proper arrangements for facilitation to the general public. This has resulted in curtailing the complaints earlier received from various segments of the society.

1.13 Monitoring Chests / Sub-Chests

SBP BSC is responsible for the provision and maintenance of suitable and sufficient stock of currency notes and coins at NBP Chests / Government Treasuries located across the country where no office of BSC exist to meet all requirements of government as well as the public. During FY06, several chests / sub-chests were inspected and balances held by them were examined by BSC Monitoring Teams to ensure that the instructions issued by the BSC from time to time are being complied with meticulously. Chief Managers of the field offices kept a close watch on the balances held in the chest branches of NBP falling in their jurisdiction in order to ensure that the same do not exceed their prescribed holding capacity. BSC is also responsible for the provision and maintenance of sufficient stock of banknotes and coins for payment and exchange purposes at nominated branches of NBP and at Government Treasuries / Sub-Treasuries. Fresh / re-issuable notes are remitted according to their holding capacity, which has consistently been increasing with the constant increase in demand at both payment and exchange side. Seasonal increase in demand of currency notes for religious festivals and during Rabi and Kharif crops in rural areas has been met proactively by remitting special consignments to chest / sub-chest. Further, soiled / defective note balances were withdrawn in time to improve their holding capacity for fresh / re-issuable notes. It may be mentioned that a Currency Chest consists of both currency notes and coins and it enables to facilitate:

- i. Government Receipts and Payments.
- ii. Prevent the necessity of frequent remittances.
- iii. Easy and quick replenishment of balances.
- iv. Availability of fresh currency notes and coins in the area.
- v. Transfer of Funds under SBP Remittance Facility.

1.14 Other developments

The worst earthquake of 8th October, 2005 disrupted the economic activities in Azad Kashmir for a considerable period of time. However SBP BSC Muzaffarabad office remained functional / operative throughout the crisis. The NBP chest branch, Muzaffarabad was demolished completely. SBP BSC Muzaffarabad office provided all logistic arrangements for safe shifting of branch along with the currency balances in the premises of State Bank building. In order to keep the banking sector alive, Muzaffarabad office also provided suitable space to 'The Bank of Punjab' in Annexe Building to revive its operation. A large number of bank branches were demolished / destroyed by the disaster. SBP BSC Muzaffarabad concentrated to relocate them and extended all facilities to revive their functions. Consequently all branches of the area were made functional which extended a lot of facilities to affected people. Due to payment of compensation and rescue / rehabilitation operation, the demand for currency notes was increased manifold. The BSC took all measures to ensure adequate supply of currency notes of all denomination without disruption. The efforts made by the BSC enabled the commercial banks to open about 200,000 new bank accounts in the region.