

Key Functional and Operational Areas

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1 CURRENCY MANAGEMENT

1.1 Overview

Currency management is one of the core functions of SBP Banking Services Corporation. Under Section 5 (b) of SBP Banking Services Corporation Ordinance 2001, SBP-BSC is entrusted with the responsibility of handling receipt, supply and exchange of banknotes and coins on behalf of the State Bank of Pakistan. This function basically relates to issue of banknotes and coins and withdrawal of unfit notes from the circulation. Currency management encompasses activities with the estimation of the requirement of notes of various denominations for issuance in the coming year, placing the indent for supply of fresh notes with Pakistan Security Printing Corporation (PSPC) through SBP, receipt of fresh notes from the PSPC, examination and storage of these notes in a systematic manner, taking measures to curb counterfeiting, issuing notes to commercial banks / chests and finally withdrawal of soiled notes from circulation and their destruction.

During FY07, SBP-BSC continued its efforts to improve the currency management system through close monitoring of the currency requirements. It maintained a steady supply of currency notes and coins of all denominations through its cash supply chain i.e. sixteen field offices, currency chests / sub-chests established at the designated branches of National Bank of Pakistan (NBP), government treasuries and commercial banks spread all over the country. Currency Management Department of SBP-BSC is vigorously monitoring and controlling the availability of banknotes and coins to meet the need of historical usage, seasonal and cultural events and growing demand for Automated Teller Machines (ATM). Management of currency is a big task as the value of currency in circulation increased from Rs784.4 billion as on 30th June 2006 to Rs893.4 billion as on 30th June 2007, which accounts for an overall increase of around 14 percent. The complexity and vastness of this task is also due to dependency of the general public on cash transactions as the share of electronic banking is quite small in total transactions in the economy. In addition, SBP-BSC also promoted awareness of the security features of currency notes among officials of commercial banks and general public as well as effectively assisted the law enforcement authorities in combating counterfeiting of banknotes during the year under review.

1.2 Implementation of Clean Note Policy

The strict implementation of clean note policy of SBP by the field offices of SBP-BSC continued during FY07. SBP-BSC focused on improvement of the quality of banknotes in circulation. In addition to regular supply of fresh notes, the speedy disposal of soiled notes, mechanization of cash processing activities and discontinuation of the practice of stapling banknotes have all contributed to improved quality of banknotes in circulation. SBP-BSC issued instructions to commercial banks to sort out banknotes into issuable and non-issuable categories. Only clean banknotes are to be issued to public, account holders and return the soiled notes to SBP-BSC field offices. To ensure that only clean notes remain in circulation, the field offices of SBP-BSC vigilantly kept on withdrawing the unfit notes from circulation. During FY07, a total number of 1.024 billion pieces of soiled banknotes of different denominations were processed and destroyed.

As a part of clean note policy, new design banknotes of Rs100, Rs500 and Rs1000 denominations with advanced security features have been put into circulation in the year under review in addition to introduction of Rs10, Rs20 and Rs5000 denomination notes during the previous year. Besides, plans are under way for introduction of new design banknotes of Rs5 and Rs50 denominations with advanced security features in near future while arrangements for issuance of Rs20 denomination notes in a new colour are in final stages. In order to implement clean note policy and to ensure quick removal and disposal of unfit notes from circulation, the special procedure for verification and destruction of soiled notes, at offices of SBP-BSC, has been extended up to Rs50 denomination notes.

1.2.1 Issuance of Fresh Notes and Coins

During FY07, the Issue Offices of SBP-BSC functioning at provincial headquarters continued to inject fresh notes in the market in response to increasing demand, through various channels viz., BSC's field offices, 226 currency chests / sub-chests established at designated branches of NBP and commercial banks. The demand of fresh currency notes of higher denominations from the commercial banks increased during the period under review due to increase in the number of ATMs. It is worth mentioning that the total number of ATMs has increased from 1,612 as on 30th June 2006 to 2,293 as on 30th June 2007 depicting an overall increase of 42.2 percent. Although the number of ATMs have increased but in overall context of automated banking in the country the share is very small compared to the number of un-automated transactions in banking sector. The demand of coins from public has also showed an increasing trend. During the year under review, around 1,633.8 million pieces of fresh banknotes and 698 million pieces of coins of various denominations were issued to public as compared to around 1658.8 million pieces of fresh banknotes and 568 million pieces of coins during the preceding year.

Table 1.2.1 (a) Issuance of Fresh Banknotes										
<i>(Figures in million)</i>										
Year	Denomination of Banknote (Rs.)								Total Pieces	Total Value
	10	20	50	100	500	1000	5000			
2005-06	622.036	210.124	168.733	413.495	104.685	139.809	-	1,658.882	252,360.490	
2006-07	594.108	188.520	151.575	381.848	137.844	145.863	34.074	1,633.832	440,630.030	

Table 1.2.1 (b) Issuance of Coins to the Public				
<i>(Pieces in million)</i>				
Year	Re.1	Rs.2	Rs.5	Total
2005-06	207.522	137.403	222.638	567.563
2006-07	286.807	165.049	246.089	697.945

1.2.2 Distribution of Notes to Public through Commercial Banks

SBP-BSC has taken appropriate measures for proper distribution of banknotes to general public through designated branches of commercial banks. Resultantly, the availability of fresh and good quality banknotes at commercial banks counters has improved considerably. Further, in order to ensure distribution of fresh currency notes on equitable basis and to facilitate the public and account holders in their vicinity following measures have been adopted from time to time:

- All commercial banks are provided with fresh notes in sufficient quantity for the purpose of issuance of fresh notes to general public.
- Process of distribution of fresh notes is being monitored by the Cash Monitoring Teams of the SBP-BSC field offices.
- While issuing fresh notes to commercial banks the series of fresh notes is being recorded to monitor proper distribution of banknotes and to check that fresh notes are not misused by the money changers and garland makers.

1.2.3 Automation of Currency Operations

A computerized system for issue and accounting of banknotes is operational in four Issue Offices of SBP-BSC. Automation of currency operations at SBP-BSC offices has ensured reliability and integrity of the processes relating to management of currency. Field offices share information with SBP-BSC Head Office and SBP through on-line system which is essential for quick decision, timely action and ensuring efficiency in cash operations. All the field offices have been interlinked through a wide area network (WAN) which

facilitates a secured and authenticated mode of data / information transmission without any time lag. The system is providing not only a control mechanism for minimizing risks but also help the senior management in decision making in currency management.

The process of automation has made further progress in the year under review. The Currency Globus system has been fully implemented except in certain areas like forged notes where efforts are underway to achieve full automation level. In most of the areas of currency operations, the manual work has been replaced with the automated work processes. All manual ledgers and books relating to currency operations have been discontinued in the Issue and Treasury (Cash) Division and the currency management units of the offices. The system generated statements / reports are now obtained at the close of banking hours thereby saving time and labour. Reports and statements of accounts generated through the system are providing accurate results. Further, end of the day (EOD) signal process is being executed efficiently without compromising any internal control. A log book relating to system problems causing delay in EOD is being maintained and reviewed for continuous improvement. As the users have become more proficient in working on the automated system, the element of human error has been minimized. With the continuous support of ISTD, all offices have benefited from automation. Major achievements included implementation of Management Information System (MIS) and reports generation relating to Currency matters.

1.2.4 Establishment of Automated Currency Sorting Cell

The establishment of Automated Currency Sorting Cell (CSC) is another milestone for improving the quality of banknotes in circulation. To accelerate the pace of sorting of currency notes, the CSCs have been established at Lahore and Peshawar offices during the year under review in addition to CSCs already working at Karachi and Multan offices. These Cells are engaged in sorting the notes into soiled and re-issue category, banding the packets and making bundles. The CSCs are also performing the function of segregation of the banknotes into different categories as under:

- a) ATM fit notes of Rs100 and above denominations.
- b) Re-issuable banknotes of all denominations.
- c) Machine detectable cut and claim banknotes of all denominations.
- d) Detection of forged / counterfeit notes
- e) Non-issuable banknotes due to graffiti.

Although CSCs are instrumental in providing services to the commercial banks for sorting of cash but their performance has not been satisfactory. The main reason for their low productivity is establishment of cash sorting cell by some of the commercial banks in their own premises and manual sorting of small denomination notes instead of sorting them on machines. SBP-BSC is continuously in dialogue with CSCs for improvement in the productivity but so far CSCs have not been able to increase efficiency and instead

asking for increase in per bundle rate of sorting of currency. The performance and demand of CSCs is under examination at CMD and matter may be decided on merit and as per terms of agreement executed for continuation or otherwise of the CSCs.

1.2.5 Mechanization of Currency Operations

Apart from establishment of Currency Sorting Cells at some of the offices of SBP-BSC, various efforts have been made to automate the currency operations in line with the technologies being used by the advanced countries. Up till now all the processes linked with counting of notes and coins have been mechanized in all the field offices. Besides, the process of destruction of cancelled notes has also been mechanized at offices, where possible. Further requirements of field offices for various machines / equipments for the year 2007-08 have been included in their business plans so that the process of mechanization could be documented and followed in an orderly and systematic manner. Presently the following machines / equipments are available with the field offices.

S #	Office	Coin Counting	Note Counting	Tri Color Stamping	Note Banding	Note Shredding	Others	Total
1	Bahawalpur	2	2	2	1	-	2	9
2	D. I. Khan	2	2	1	1	-	5	11
3	Faisalabad	2	4	2	4	1	20	33
4	Gujranwala	2	3	1	1	-	3	10
5	Hyderabad	1	2	1	2	2	8	16
6	Islamabad	2	4	1	2	1	7	17
7	Karachi	4	20	3	5	4	7	43
8	Lahore	2	9	2	2	2	17	34
9	Multan	2	6	1	2	2	5	18
10	Muzaffarabad	2	1	1	-	-	3	7
11	N. N. Karachi	2	4	1	2	1	2	12
12	Peshawar	3	7	1	2	2	17	32
13	Quetta	2	4	1	3	1	11	22
14	Rawalpindi	2	4	1	2	1	11	21
15	Sialkot	2	3	1	1	1	7	15
16	Sukkur	1	2	1	1	1	2	8
Total		33	77	21	31	19	127	308

1.2.6 Establishment of Quality Assurance Unit and Banknote Research Wing

With a view to adopt best practices in currency operations, a Quality Assurance Unit and Banknote Research Wing have been established at HOK and four Issue offices of SBP-BSC. The main objective of these units is to monitor components adopted in the series of new design banknotes / coins including quality of paper / metal, ink and security features thereof, identify their merits / demerits and submit their recommendations to higher authorities for consideration and taking up the matter with PSPC / Pakistan Mint through

Finance Department, SBP. Counterfeit notes detected / reported at SBP-BSC field offices are thoroughly examined at the Quality Assurance Unit and a detailed report thereon is prepared and conveyed to concerned quarters including the relevant field office.

1.2.7 Training on Security Features of Banknotes

Quality Assurance Unit has arranged training programs on security features of banknotes in collaboration with the PSPC. During the year under review, a total number of 115 officials of SBP-BSC offices were imparted training at PSPC. In order to improve the awareness and enhance the capacity building of the staff for quality assurance and detection of counterfeit notes the training process is continued on Training of Trainers (TOT) basis.

1.3 Combating Counterfeit / Forged Notes

SBP-BSC has taken various steps to minimize the threats of counterfeit / forged banknotes of various denominations. The introduction of new design banknotes embedded with advanced security features of internationally accepted standards is one of the strategies in this direction. To combat counterfeit currency notes / government bills the Prime Minister also constituted a ‘Task Force’ whose recommendations are being implemented. These recommendations included training of law enforcing agencies at PSPC to enable them to identify the difference between the genuine and a counterfeit note, supply of counterfeit detector equipments at all SBP-BSC offices, training of commercial banks’ staff in detection of counterfeit notes and interaction of officials of SBP-BSC with business community and market associations on currency management issues and counterfeit threats. Besides, to create awareness among the general public, pamphlets / posters containing security features of new design banknotes have been published and distributed among them as well as displayed at prominent places of all cities and villages of the country including field offices of SBP-BSC and selected branches of commercial banks.

1.4 Monitoring of Currency Chests / Sub-chests

National Bank of Pakistan is a service provider to all the stakeholders of SBP-BSC in the areas where a field office of SBP-BSC is not situated. For this purpose, a network of 226 currency chests / sub-chests has been established at different places in rural and urban areas (details are given in Annexure-XIV). SBP-BSC field offices consistently supply fresh / re-issuable banknotes according to their requirements and holding capacity and withdraw the soiled and defective notes from them for destruction. All these activities are carried out in a timely fashion to ensure seamless business continuity and efficient service delivery. These chests / sub-chests provide banking facilities to federal, provincial and local governments, financial institutions and other organizations / corporations. They also provide exchange facilities to general public. During FY07 the field offices carried out on-site examination of 187 chests / sub-chests in the area of their jurisdiction.

S #	Office	Branches Examined	S #	Office	Branches Examined
1	Bahawalpur	5	9	Muzaffarabad	3
2	D. I. Khan	5	10	N. N. Karachi	1
3	Faisalabad	14	11	Peshawar	17
4	Hyderabad	28	12	Quetta	26
5	Islamabad	6	13	Rawalpindi	10
6	Karachi	12	14	Sialkot	3
7	Lahore	9	15	Sukkur	25
8	Multan	23			
Total					187

1.5 Monitoring of Cash Operations at Commercial Banks

SBP-BSC offices are responsible for conducting on-site examination of the designated branches of commercial banks to ensure meticulous compliance of SBP / SBP-BSC directives with regard to clean note policy. During FY07, the cash monitoring teams of the field offices have conducted on-site examination of a total numbers of 3,335 branches of commercial banks as compared to 2,437 branches in the preceding year. The field offices have also recovered an amount of Rs4,407,000/- during FY07 on account of penalties imposed on commercial banks on violation of various instructions issued by the SBP-BSC as compared to a fine of Rs4,400,500/- recovered during the preceding year.

S #	Office	2005 - 06			2006 - 07		
		No. of Banks	No. of Branches	Penalties Realized (Rs.)	No. of Banks	No. of Branches	Penalties Realized (Rs.)
1	Bahawalpur	9	24	8,000	13	35	155,000
2	D. I. Khan	10	32	-	10	3	-
3	Faisalabad	29	208	77,500	30	238	996,000
4	Gujranwala	-	-	-	11	19	-
5	Hyderabad	22	164	53,500	22	117	-
6	Islamabad	16	47	2,500	32	112	97,500
7	Karachi	31	315	2,518,000	42	744	2,552,500
8	Lahore	34	1,033	294,000	40	1,356	69,500
9	Multan	20	145	347,500	20	69	21,500
10	Muzaffarabad	6	24	5,500	6	27	-
11	N. N. Karachi	21	140	264,500	19	149	155,500
12	Peshawar	19	25	1,000	14	293	48,000
13	Quetta	12	39	15,500	12	40	41,000
14	Rawalpindi	14	106	257,000	22	74	53,500
15	Sialkot	4	7	47,000	3	15	156,000
16	Sukkur	16	128	509,000	16	44	61,000
Total		263	2,437	4,400,500	312	3,335	4,407,000

