Currency Management

2 Currency Management

Currency Management Department (CMD) ensures uninterrupted supply of good quality banknotes and coins across the country by managing their stocks efficiently and effectively. The CMD performs this task with the help of four Issue Offices. Taking stock of latest developments and international best practices regarding currency processing, CMD has been striving to upgrade currency operations in Pakistan through introduction of comprehensive, state-of-the-art solutions, commensurate with our environment and challenges. The Department also manages the sale, encashment and prize draws of National Prize Bond on behalf of the Central Directorate of National Savings (CDNS).

2.1 Overview

Currency Management Department maintains close liaison with SBP's Finance Department, and Central Directorate of National Savings for seeking policy directions and dealing with matters relating to currency management and executing National Savings Schemes. CMD's utmost objective is to ensure: i) smooth and equitable issuance of fresh/re-issuable bank notes through 16 Field Offices, 224 NBP chests/sub-chests and commercial banks; ii) sale, encashment of Prize Bonds and Savings Certificates and conduct of Prize Bond draws as per laid down procedures; iii) implementation of SBP's Clean Note Policy through a comprehensive and fair system of onsite monitoring mechanism; and iv) alignment of the existing currency management framework with the prevailing best international practices.

CMD maintains close coordination with concerned SBP departments to facilitate the Law Enforcement Agencies (LEAs) in combating the counterfeiting of currency notes and National Prize Bond etc. This objective is being achieved through a multi-pronged strategy that includes procurement of sophisticated authentication and sorting solutions, working with Finance Department to introduce even more advanced security features in currency notes and conducting awareness sessions across the country for a wide range of audiences. Further, CMD is also restarting spadework for the establishment of a Currency Forensic Laboratory to enhance its internal capabilities for evaluating the type and ratio of counterfeiting.

Box 2.1: Achievements during FY17

- Successful installation of Banknote Processing and Authentication System (BPAS) and allied destruction solutions;
- Successful installation of desktop note sorters at Field Offices;
- Approval and Initiation of 2nd Phase of SBP BSC Automation Strategy;
- Issuance of instructions pertaining to "Banknote Packing" and "Interbank Exchange of Cash", in collaboration with Finance Department, SBP;
- Successful launch and management of "Interbank Exchange of Cash" through 16 Field Offices;
- Introduction and successful management of "Premium Prize Bond (Registered) Scheme";
- Introduction and successful implementation of 8877 SMS tool for distribution of fresh currency notes on Eid-ul-Fitr and Eid-ul-Azha;
- Active support during up-gradation of Currency Globus to T-24 Platform.

CMD believes that the security features of bank notes are beneficial as long as the end users are fully cognizant of their significance. To ensure that all stakeholders are aware of the sophisticated security features updated in bank notes and Prize Bonds from time to time, the Department, with the help of 16 Field Offices, conducts awareness programs regarding their security features across Pakistan. This information is also disseminated through posters and brochures which are provided free of charge to commercial banks and other stakeholders for awareness of general public.

CMD provides input to Finance Department for demand forecast pertaining to annual indent for printing of bank notes and minting of additional coins. Further, this year CMD remained actively involved in both policy and operational aspects of the First Phase of Currency Management Strategy which was issued in 2015. CMD has worked in close collaboration with the Finance Department for developing policy frameworks for “Bank note Packing Instructions” and successfully launched and managed the initial phase of “Interbank Exchange of Cash” through SBP BSC Field Offices.

SBP and SBP BSC not only believe in use of efficient IT solutions in all business aspects, but also actively pursue installation/updation of such interventions regularly. In line with this vision, FY17 witnessed updation and rollout of T-24 – an updated, faster and more efficient version of Currency Globus. CMD was actively involved throughout the process by evaluating the new environment and providing input/feedback for new developments. Further, CMD also took active part in the User Acceptance Testing (UAT) before rollout and on the rollout date i.e. May 12, 2017, CMD remained in close coordination with Systems and Procedures Division (SPD) of Strategic and Corporate Affairs Department (SCAD) and all Field Offices for timely communication and resolution of any issues pertaining to T-24 environment.

2.2 Circulation of Banknotes

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, as Notes-in-Circulation (NIC) have been steadily increasing, it is quite clear that Pakistan is still very much a cash centric economy. The NIC as a percentage of Gross Domestic Product (GDP) stood at 13.2 percent in FY17, which is slightly higher than 11.8 percent recorded in FY16. The trend in the movement of NIC during the last few years is presented in **Table 2.1.**

Table 2.1: Bank Notes in Circulation as Percentage of GDP

Years	Nominal GDP (MP) (Billion Rupees)[1]	NIC [2] (Billion Rupees)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY11	18,276.4	1,600.0	8.8	16.2
FY12	20,046.5	1,777.1	8.9	11.1
FY13	22,385.7	2,042.5	9.1	14.9
FY14	25,168.8	2,309.2	9.2	13.1
FY15	27,433.0	2,726.5	9.9	18.1
FY16	29,102.6	3,424.5	11.8	25.6
FY 17	31,862.1	4,199.0	13.2	22.6

2.3 Issuance of Fresh Notes

With a view to upholding the objectives of SBP’s Clean Note Policy, CMD has been consistently striving to improve the quality of bank notes in circulation. This is ensured through prompt and uninterrupted supply of fresh bank notes to all stakeholders throughout the year, in general, and on the eve of religious occasions, in particular. This supply is managed through the active support of 16 SBP BSC Field Offices and 224 NBP Chest Branches across the country.

[1] Pakistan Bureau of Statistics—GDP of Pakistan (http://www.pbs.gov.pk/sites/default/files//tables/table_04.pdf)
[2] Statement of Affairs—June 23, 2016 (http://www.sbp.org.pk/publications/statements/2017/23-Jun-2017-issue.pdf)

2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

SBP BSC puts in place special measures every year to meet the enhanced demand of fresh cash on the eve of Eid festivals. SBP BSC, in collaboration with its Field Offices and commercial banks, manages issuance of lower denomination fresh bank notes to the general public on religious occasions. Since FY13, SBP BSC has issued fresh bank notes amounting to Rs 981 billion to different stakeholders.

Table 2.2: Issuance of Fresh Bank Notes
(Pieces and Values in millions)

Year	Pieces	Percentage Increase (%)	Value	Percentage Increase (%)
FY13	2,103	16.1	519,800	17.2
FY14	2,185	3.9	489,997	(5.7)
FY15	2,330	6.6	573,253	17.0
FY16	2,610	12.0	911,345	59.0
FY 17[3]	3,139	20.3	981,459	7.7

SBP BSC, in collaboration with Pakistan Banks' Association (PBA), introduced a new SMS-based service in 2015 for issuance of smaller denomination fresh notes (i.e. Rs 10/-, Rs 50/- and Rs 100/-) to the general public on Eid Festivals through designated branches of commercial banks. Running successfully for the last two years, this service was expanded to 1002 branches of commercial banks in 120 cities for Eid-ul-Fitr 2017. The service has attracted overwhelmingly positive response from the general public, with 1.5 million people availing this facility for a total value of Rs 25 billion of small denomination notes, from June 12-June 23, 2017. Due to SBP BSC's timely communication to general public, pertaining to the service launch and detailed process of obtaining fresh cash through SMS tool, the response was quick and active to the extent that 40% of the total booking was redeemed by June 16, 2017. To ensure prompt and responsive customer service, CMD also set up Helpdesk in order to facilitate the general public.

2.4 Automation of Currency Management Operations

In view of sensitivity and complexity of currency management process, CMD has been continuously striving to bring currency operations in Pakistan at par with international best practices by paying special emphasis on automation at all steps. This objective is being achieved through various measures, most significant being successful Operational Acceptance Testing and regular usage of high-end one-stop Banknote Processing and Authentication System (BPAS) and Banknote Destruction System (BDS) at SBP BSC, Karachi Office. Further, CMD is overseeing the installation of Desktop and Countertop Note Sorting Machines at all Field Offices. Moreover, the Department has also been actively collaborating with Finance Department for short listing of acceptable banknote sorting and authentication machines for procurement by commercial banks.

2.5 Monitoring of Currency Operations

As part of overall Currency Management, CMD oversees onsite examinations of commercial banks' branches through 16 Field Offices in order to ensure that instructions relating to currency and Prize Bonds, issued by SBP and SBP BSC from time to time, are complied with. During the year under review, Field Offices examined 2,500 branches of commercial banks in their respective areas. SBP has a long standing agreement with the National Bank of Pakistan under which NBP performs treasury functions as an agent on behalf of the Central Bank through its 224 designated Chest branches linked with the Field Offices of the Corporation. The monitoring of compliance to operational requirements by NBP Chest branches has been assigned to SBP BSC by SBP.

2.6 National Prize Bond

National Prize Bond (NPBs) are bearer-type securities available in eight denominations as elaborated in **Table 2.3.** The sale and encashment of these securities is carried out by all the Field Offices, authorized commercial bank branches and National Savings Centres. Draws of all denominations of NPBs are held only at nine SBP BSC Field Offices on quarterly basis as per schedule announced by CDNS.

[3] Globus Figures as on June 30, 2017

As on 30th June, 2017, the overall value of NPBs held by the general public increased by Rs 97.78 billion (15%) to reach Rs 743.3 billion.

Table 2.3: Total NPB Sale and Encashment at SBP BSC Field Offices
(Rs in Millions)

Denom.	FY16				FY17				
	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Net Outstanding Amount
100	1,130	355	583	774	1,017	290	566	727	8,404
200	3,675	1,959	1,866	1,716	3,065	1,308	1,918	1,757	25,828
750	14,669	4,512	5,926	10,157	12,740	3,457	6,709	9,283	80,290
1,500	18,140	6,290	6,857	11,850	7,136	3,768	7,492	3,368	85,883
7,500	18,157	6,872	5,835	11,285	7,573	4,016	6,214	3,557	75,291
15,000	34,125	12,968	9,087	21,158	32,015	10,878	10,634	21,136	133,402
25,000	35,667	8,899	6,785	26,769	35,589	10,678	8,636	24,911	118,233
40,000	54,662	14,468	13,910	40,194	46,806	13,756	16,522	33,049	216,029
Total	**180,225**	**56,323**	**50,849**	**123,903**	**145,941**	**48,151**	**58,691**	**97,788**	**743,360**

Further, prize money payment has also increased, mainly on account of: (a) greater holdings of all denominations of NPBs by the general public; and (b) increase in the number of series in every denomination.

2.7 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced by CDNS in 1966, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs one million. The feature which makes this investment option lucrative is the automatic re-investment of profit amount in case of non-encashment, resulting in compounding of profit. The profit payment, currently at 8.68 percent per annum, is either on maturity or encashment with the number of years completed.

A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.4**.

Table2.4: Number of DSC Cases handled by SBP BSC Field Offices

S. No.	Office	FY15			FY16			FY17		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment
1.	Bahawalpur	3	40	4	97	0	0	6	0	0
2.	D. I. Khan	12	1	1	3	0	0	4	1	1
3.	Faisalabad	401	539	539	269	453	453	20	69	69
4.	Gujranwala	0	1	5	36	0	0	4	0	0
5.	Hyderabad	53	119	55	133	117	113	80	189	174
6.	Islamabad	59	171	276	107	272	272	25	220	195
7.	Karachi	46,240	29,011	0	6,105	31,506	1,540	2,476	4,024	4,024
8.	Lahore	494	925	1,252	2,880	723	723	181	691	691
9.	Multan	0	0	0	0	0	0	0	0	0
10.	Muzaffarabad	24	4	4	23	8	8	0	16	16
11.	N.Nazimabad	375	390	390	723	1,889	761	135	405	380
12.	Peshawar	87	30	30	26	61	47	35	57	54
13.	Quetta	99	145	145	35	237	237	66	103	103
14.	Rawalpindi	710	756	1,333	847	828	719	184	369	316
15.	Sialkot	25	16	15	188	89	89	24	53	53
16.	Sukkur	29	54	54	148	144	46	12	18	18
	Total:	**48,611**	**32,202**	**4,103**	**11,620**	**36,327**	**5,008**	**3,252**	**6,215**	**6,094**

2.8 Special Savings Certificates

Special Savings Certificates (SSCs) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle-income investors with steady income. These certificates are available in various denominations, starting from Rs 500/- and going up to Rs one million, with a maturity period of three years. Profit coupons are payable biannually, currently at the rate of 6.8 percent for the first five and 8.0 percent for the last coupon. A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of SSCs for the last three years is given in **Table 2.5**.

Table 2.5: Number of SSC Cases handled by SBP BSC Field Offices

S. No.	Office	FY15			FY16			FY17		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment
1.	Bahawalpur	0	1	3	38	5	5	0	1	7
2.	D. I. Khan	0	0	0	0	0	0	0	0	0
3.	Faisalabad	1,263	1,151	4,215	433	907	907	47	153	247
4.	Gujranwala	4	1	1	8	4	4	0	0	0
5.	Hyderabad	579	479	288	260	1,047	1,047	220	286	547
6.	Islamabad	62	151	438	195	306	306	21	91	158
7.	Karachi	84,788	38,179	127,933	36,594	46,496	46,496	4,291	7,356	12,380
8.	Lahore	1,834	2,967	2,376	5,872	1,599	1,599	671	1,549	3,242
9.	Multan	0	6	8	0	3	3	0	0	0
10.	Muzaffarabad	10	18	20	0	4	4	0	6	6
11.	N. Nazimabad	3,808	2,787	5,010	3,757	5,670	5,670	1,054	1,852	2,345
12.	Peshawar	82	143	301	125	41	41	61	179	279
13.	Quetta	55	42	63	10	18	18	35	55	99
14.	Rawalpindi	2,417	942	836	1,803	702	702	267	460	1,526
15.	Sialkot	30	67	67	62	144	144	8	37	54
16.	Sukkur	17	40	56	154	40	40	2	8	20
Total:		**94,949**	**46,974**	**141,615**	**49,311**	**56,986**	**56,986**	**6,677**	**12,033**	**20,910**

2.9 Premium Prize Bond (Registered) Scheme

SBP BSC, in collaboration with CDNS, introduced a new Rs 40,000/- denomination “Premium Prize Bond (Registered) Scheme” from March 10, 2017. This initiative is aimed at formalizing investments in Government bonds, enhancing financial inclusion and a step towards documentation of economy as holding a bank account is mandatory for investment in the above scheme. In this unique scheme, the Prize Bond are eligible for both prize money and profit payment at 3% per annum. The 1st prize for Rs 40,000/- denomination Premium Prize Bond (PPB) is Rs 80 million. The first draw for Rs 40,000/- PPB was held at Peshawar on June 12, 2017 and the prize money amounts against prize winning bonds were directly credited into the bank accounts of respective investors within 3 working days from the date of draw. A snap shot of the business conducted for Rs 40,000/- PPB is given in Table 2.6.

Table 2.6: Total PPB Sale & Encashment at SBP BSC Field Offices
(Rs in millions)

Sr. No.	Denom	Sale	Encashment	Prize Money Payment	Value Held by the Public
1.	40,000/-	3,001.8	80.1	12.0	2,921.7
Total:		**3,001.8**	**80.1**	**12.0**	**2,921.7**

2.10 HR Capacity Building

In line with SBP BSC’s efforts to broaden the officers’ knowhow about overall organizational practices, CMD is striving to provide its officers varied opportunities to acquire exposure about the best international practices on cash processing. To this end, a considerable number of officers were nominated to participate in various local and international programs, which included Cash Seminar arranged by

Czech Central Bank and Currency Conference in Malaysia etc. Further, officers have also been nominated for function-specific and soft skills training programs conducted by the National Institute of Banking and Finance (NIBAF) and other reputable institutions like the Institute of Bankers Pakistan (IBP), Pakistan Institute of Management (PIM), Pakistan Society for Training and Development (PSTD) etc.

2.11 Future Outlook

Since its inception, CMD has consistently endeavored to raise the standards of cash handling across SBP BSC and the country. Further, CMD has been an active participant in successful and smooth implementation of Currency Management Strategy through introduction of sophisticated cash handling solutions to streamline currency operations, both in SBP BSC and commercial banks.

The most strategically significant measures undertaken recently by SBP and SBP BSC have been the acquisition of Pakistan Security Printing Corporation (PSPC) and the approval and initiation of 2nd Phase of SBP BSC Automation Strategy. Assuming operational control of PSPC will allow mitigation of supply side constraints through phased enhancement of printing capacity and infrastructure. This will enable SBP BSC to improve quality of notes in circulation and satisfy public demand for fresh cash in a more strategic manner.

It may be recalled here that during last year, SBP BSC, Karachi Office was equipped with high-end banknote processing and destruction systems. The machines have now been running successfully for one year and their results are encouraging in all aspects, including sorting, authentication, counterfeit detection and both online and offline destruction. Bolstered by these positive results, SBP BSC has now entered the 2nd Phase of its internal automation strategy. SBP BSC, which has earlier installed two high-speed Banknote processing units along with briquetting plant in Karachi Office, now intends to equip more Field Offices with high-end, one-stop Banknote Processing and Authentication Solutions (BPAS) and Banknote Destruction Systems (BDS).

The variety of initiatives undertaken by CMD, as outlined above, are focused on both improving the quality of bank notes in circulation and enhancing the role of commercial banks in all aspects of currency management in a phased manner. To achieve a fully automated environment, wherein SBP BSC will handle fresh and unfit banknotes only and the major exchange of re-issuable currency notes shall take place between commercial banks directly. CMD has already introduced “Interbank Exchange of Cash” through all the 16 Field Offices. It is heartening to note that banks are actively using this platform and so far, Rs 94 billion worth of business has been conducted under this initiative. In addition to strategically motivated measures put in place on the currency side for both long and short run, CMD is also actively coordinating with CDNS and PSPC for automation of Prize Bonds operations.