

# Network & Financial Management





# Banking Services to Governments & Banks





# 1 Banking Services to Governments and Banks

*As a statutory obligation on behalf of State Bank of Pakistan, the SBP Banking Services Corporation carries out the operational work relating to the Banker to Governments and Banks through its 16 Field Offices and a wide network of authorized branches of National Bank of Pakistan (NBP). Moreover, Bank of Punjab (BoP) also provides collection service to the Government of Punjab for E-Stamping, Punjab Revenue Authority (PRA) and Land receipts.*

## 1.1 Overview

In terms of section 21 of SBP Act 1956, read with section 15 (3) (e) of SBP BSC Ordinance 2001, SBP BSC provides banking services to the Federal, Provincial and District Governments through its Field Offices, National Bank of Pakistan (NBP) and Bank of Punjab (BoP). It also provides banking services to banks falling within the domain of each Field Office.

### **Box 1.1: Services Provided to Governments, Banks and Non-Bank Financial Institutions**

- a) Collection of revenues and payments on behalf of departments of Federal and Provincial Governments.
- b) Reporting of transactions to Federal Board of Revenue (FBR) on real time basis vide Collection Automation Project (CAP II).
- c) Facilitating Government Departments for settlement of payments and receipts through agents of SBP i.e. National Bank of Pakistan and the Bank of Punjab (receipts only).
- d) Operational work relating to public debt transactions.
- e) Maintenance of current accounts of Commercial Banks and Non-Bank Financial Institutions (NBFIs).
- f) Remittance facilities to Governments and financial institutions regarding transfer of funds.

## 1.2 Management of Governments' Accounts

Government banking is one of the primary responsibilities entrusted to SBP BSC by SBP. In pursuance thereto, SBP BSC maintains accounts of Federal, Provincial and Local Governments in its Head Office and 16 Field Offices. Besides maintenance of Government accounts, SBP BSC also provides services regarding Government payments / receipts / remittances, consolidation of Government balances maintained across the country and reporting thereof to the concerned stakeholders i.e. Finance Department-SBP, Accountant General of Provinces, Accountant General Pakistan Revenue (AGPR) and Pakistan Railways etc.

During FY18, SBP BSC processed approximately 8.0 million transactions of Government payments/receipts through its Field Offices as against 7.0 million in FY17, depicting an increase of about 14% (Table 1.1).

Transactions	2017-18	2016-17	2015-16
Receipts	3.47	2.74	3.74
Payments	4.59	4.30	4.27
Total	8.06	7.04	8.01

Being an operational arm of SBP and the facilitator of payment and settlement system for governments, the Accounts Department of SBP BSC provides operational support to Finance Department and Payment Systems Department (PSD) of SBP. As part of SBP's Vision 2020, the Accounts Department, in collaboration with Finance and Payment Systems Departments, has initiated various projects for automation of Government payments and receipts using advanced banking technologies and payment systems infrastructure. For this purpose, Accounts Department facilitated

and coordinated with Finance Department in developing a mechanism for online collection of FBR taxes and duties through Alternative Delivery Channels (ADCs) e.g. ATMs and Internet Banking. The new mechanism initiated from 20<sup>th</sup> March 2018, provides an end-to-end automated system to process such transactions using ADCs. Under this facility, the taxpayers can now deposit their dues while sitting at their homes/offices without visiting banks' branches. Apart from facilitating the taxpayers, this project has also allowed expeditious credit to the Government Treasury. The usage of this mechanism is slowly picking up and since its start and up to 30<sup>th</sup> June 2018, an amount of Rs 1.0 billion was paid by tax payers to the Government.

Another important project is online payment of sales tax refunds through Electronic Fund Transfer (EFT) mode. Under this project, a new mechanism has been designed whereby thousands of sales tax refunds are now credited to the bank accounts of tax payers in a more efficient and effective manner. Previously, such payments were made through the process of individual Government cheques drawn in favor of each beneficiary.

Accounts Department has also made concerted efforts for consolidation of military payments. Under the existing procedure, one cheque is issued to each beneficiary pertaining to each payment, which results in issuance of huge number of Government cheques. Accounts Department, after various meetings with the Controllers of Military Accounts and Naval Accounts, has devised a procedure for consolidation of cheques whereby one cheque per bank is being issued at few military units, in Quetta, Karachi, Lahore and Rawalpindi. Moreover, Accounts Department is further planning to bring the benefits of such consolidation at other units for which efforts are underway.

Apart from these projects, the Department also facilitated the Information Systems Department (ISD)-SBP as an active partner to undertake a comprehensive upgradation of core banking system of SBP BSC (i.e. Globus implemented in 2004-05) to T-24, bringing it in line with the advanced technology available across the globe. This upgradation allowed significant improvements in computing and transactions processing of the Corporation, besides allowing better controls. Some of the technical benefits of this upgradation include:

- High scalability and system performance due to improved architecture.
- Faster end of day process due to multithread logic of T-24.
- Enhanced Security features.
- Efficient archiving functionality that will reduce operational overhead of data maintenance.
- New modules can be procured and added (Treasury Trader Module, Biometric Security, International Bank Account Number, etc.)
- Twenty-four hour transaction capturing facility for retail banking.
- Robust disaster recovery options.
- Single view of customer's entire product portfolio.

### **1.3 Reporting of Zakat Balances**

Maintenance, consolidation and reporting of Zakat Account to the Ministry of Religious Affairs is one of the important functions being performed by SBP BSC, especially after the 18<sup>th</sup> Constitutional Amendment, as the data is to be prepared/reported as per the source of deduction of Zakat by the authorized institutions. During the year under review, around Rs 7.3 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 8.1 billion in FY17.

#### 1.4 Reporting to Federal Board of Revenue

One of the vital tasks performed by SBP BSC is collection, consolidation and reporting of data pertaining to FBR taxes. In order to streamline the reporting of tax collected by the Field Offices as well as to facilitate the tax payers in obtaining evidence of tax deposit promptly, the SBP BSC has been using Collection Automation Project II (CAP-II) – a system of FBR – which has ensured reporting of tax collection to FBR on real time basis.

The tax revenue collected by SBP BSC Field Offices and network of NBP branches and credited to the concerned accounts of Federal Government during FY18 was around Rs 3,917 billion as compared to Rs 3,395 billion in FY17, depicting an increase of more than 15% (Table 1.2).

Head of Account	Receipts				
	FY14	FY15	FY16	FY17	FY18
Sales Tax	1,011	1,114	1,345	1,333	1,539
Federal Excise	151	165	187	197	206
Customs	263	335	452	532	649
Income Tax	880	1,024	1,199	1,332	1,523
<b>Total</b>	<b>2,305</b>	<b>2,638</b>	<b>3,183</b>	<b>3,395</b>	<b>3,917</b>
Notes:					
1. Totals may exhibit slight difference due to separate rounding off.					
2. Aforementioned figures may slightly vary from FBR as adjustments have not been accounted for.					

#### 1.5 Banker to Banks

SBP BSC maintains Current Accounts of banks to facilitate both computations of Cash Reserve Requirements mandated by SBP and day-to-day operational requirements of banks. Previously, only NBP was involved in Government collection process, but with the establishment of ADCs, all banks can now take part in the process of collecting Government revenues. This initiative has been appreciated widely by banks since it allows them to offer another service to their customers/account holders.

#### 1.6 Clearing House Services

SBP BSC supports SBP in carrying out the supervision of automated clearing services provided by National Institutional Facilitation Technologies (NIFT) in order to process and settle transactions between commercial banks across the country. During FY18, around 64.7 million instruments were processed through NIFT in normal, special, same-day, intercity, dollar and return clearing, as against 64.5 million in FY17.

Accounts Department and Payment Systems Department have developed detailed guidelines covering the processes, timelines, responsibilities as well as dispute resolution mechanism in order to standardize further the clearing operations in the country.

#### 1.7 GL and Reconciliation / Budget

Accounts Department has prepared financial statements for the year ended on June 30, 2017 in accordance with the International Financial Reporting Standards (IFRS). In pursuit of implementing the best accounting practices and to effectively utilize ERP Oracle Application, the Department has developed / revised various policies and practices in Budgeting, Reconciliation and Asset Management to further strengthen the monitoring and control mechanism.

## 1.8 Major Achievements

Major achievements of Accounts Department are mentioned below:

### **Box 1.2: List of Major Achievements**

1. A new mechanism for collection of FBR duties and taxes through ADCs. After extensive efforts, in terms of rules / procedural changes as well as system developments, this project was made live on 20<sup>th</sup> March 2018.
2. Automation of Sales Tax Refunds using Electronic Funds Transfer (Online) mode. Under this mechanism, SBP BSC, Islamabad is processing Sales Tax Refunds.
3. Upgrade of Banking Globus to T-24. SBP BSC's core banking software (Globus) was upgraded to the near latest version, significantly improving its capability and efficiency.
4. Consolidation of military cheques whereby processing of thousands of cheques on monthly basis would be reduced to less than a hundred per month.
5. Automated solution for checking claims of banks regarding reimbursement of TT charges against home remittance. Previously such checking used to be conducted manually. Now Audit Command Language (ACL) - based mechanism has been developed for efficient and effective monitoring/reconciliation.
6. Coordination with Finance Department for development of SOPs regarding collection under Tax Amnesty Scheme (Declaration and Repatriation of Foreign Assets). Furthermore, the Department assisted Finance Department-SBP in the aforementioned collection process.
7. Implementation of Maintenance Module and i-Asset Modules in ERP Oracle for better controls in Asset Management.
8. Revamping of fixed asset disposal policy and enhancement of Asset capitalization limit.

## 1.9 Operational Projects

Major operational projects of Accounts Department are mentioned below:

### **Box 1.3: List of Major Operational Projects**

1. Following revisions in SBP BSC Expenditure Regulations (ER) have been approved by the SBP BSC Board:
  - a. Powers of SBP Governor and the Management Committees were enhanced.
  - b. Revision in Para 46 (Recruitment Charges) of SBP BSC ER in order to make fee payments to testing agencies on sharing/partial basis.
  - c. Delegation of MD's Power to Director HRMD under ER 40-ii (Training Schemes - NIBAF related trainings).
2. Incorporation of various system-based validation controls to ensure that valid cheques/ bills are passed.
3. Standardization of SOPs for Clearing Operation through short credit of remote bank branches.
4. Developed a centralized file sharing mechanism to provide access of donor Powers of Attorney (PoA) to Field Offices.
5. Development of various reports in system regarding Government reporting, budget monitoring, etc. for efficiency.

## 1.10 Future Outlook

1. The outlook of SBP BSC in Banking, Payment Systems, Accounting and Finance is primarily derived from SBP's Vision 2020. Thereunder, Accounts Department aims to further improve the efficiency and effectiveness of its banking operations through Business Process Reengineering (BPR) as well as by adopting automated technologies. The Department will continue to modernize its systems & procedures and rationalize the decision making process through improved methodology for workload assessment that will enable it to rationalize its resource allocation.
2. The Department plans to introduce and implement out of the box and modern solutions to the Government banking system, such as collections and payments through e-banking/online banking, that will be promoted through non-traditional channels such as ATMs, internet banking accounts, mobile banking accounts etc. Further, a well-connected and integrated model is being considered for improved communication with all Government banking stakeholders which would allow swift and smart reporting.
3. The Accounts Department aims to tackle the areas of risk as well as workload by undertaking BPR projects both internal and external (i.e. in coordination with Government Departments) in order to do away with the redundant practices, besides developing an efficient Government banking system able to achieve excellence of service delivery with minimum cost.