



3rd March 2015

Senator Ishaq Dar,
Federal Minister of Finance,
Government of Pakistan,
Pak Secretariat Block F,
Islamabad

Sub: TI-Pakistan 25.2.2012 complaint on the misuse of Pakistan Remittance Initiative (PRI) and estimated loss to exchequer of 6.67 % on each US \$ 100, by alleged collusive practice of Banks and SBP, causing Loss to Exchequer of Rs 400 Billion
SBP Penalty(Inspection Report 2012) of NBP of 12.2.2015 verifying fraud on 2500 remittances
Fraud of National Bank of Pakistan Confirmed by State Bank of Pakistan in 2015

Dear Sir,

On 25th February 2012 Syed Adil Gilani, Adviser Transparency International Pakistan reported to the Governor State Bank of Pakistan a very serious complaint on the misuse of Pakistan Remittance Initiative (PRI) and estimated loss to exchequer of 6.67 % 6.67 % on each US \$ 100 by alleged collusive practice of Banks and SBP. **Annex-A**

The complainant had made following allegations;

According to F.E. Circular Letter No. 40 dated November 29, 2000 , following scheme was announced;

Keeping in view the difficulties experienced by the banks and to provide more incentive to the banks to accelerate Home Remittance, it has been decided that henceforth:

i)The minimum amount of remittance of US\$ 200/- to qualify for reimbursement of charges is reduced to US\$ 100/- or equivalent to other currency (per telex/swift charges)

ii)The reimbursement rate of SR 20/- is increased to SR 25/- for each remittance. From July 2001 to Jan 2012 the home remittance received is estimated to be about US \$ 69 Billion. The complaint has reported that 6.67% is dished out to banks with connivance of SBP , and each remittance received is broken into packages of above \$ 100 each without the knowledge of the remitter, and SR 25 are being shared by the colluding officers of Banks and SBP.

Total amount dished out of the exchequer is about US \$ 4.8 Billion in last 11 years. This is about Rs 400 Billion.

The incentive scheme from beginning is reported to be wrong, and the 6.67% benefit should have been passed on to the accounts of the remitters persons, which would be an incentive

The Joint Director SBP in its reply on 7.5.2012 denied the allegations of the complainant (extract quoted below) , that the remittance received is broken into packages of above \$ 100 each without the knowledge of the remitter, and SR 25 are being shared by the colluding officers of Banks and SBP. **Annex-B.**



Regarding your allegation that PKR 400 billion has been "dished out" from exchequer in last 11 years, please be advised that complete record of these transactions are maintained with SBP and review of our records from July 2001 to June 2011 transpires that the total amount of Home Remittances received during this period amounts to USD 59.130 billion, whereas the total amount of T.T charges claimed by the banks and paid by the State Bank of Pakistan during this period amounts to only PKR 11.695 billion. Hence, your averment that PKR. 400 billion has been misappropriated from the national exchequer on account T.T Charges during the said period is without any basis and is vehemently denied.

However, the Auditor General Pakistan after 2-1/2 years, did confirm the allegations sent to SBP on 25.2.2012, and the following report was published in newspapers on 28th June 2014, which claimed that only in FY 2011/12 Rs 5.3 Billion were earned by Banks illegally by breaking the home remittances. **Annex-C.**

"Banks earn Rs5.3bn illegally: report

"KARACHI: Banks illegally earned Rs5.3 billion in 2012 by mis-declaring the transactions being made as remittances, and the State Bank of Pakistan (SBP) kept accepting the false claims of banks, said 2013-2014 audit report of the accounts of public sector enterprises.

Banking sources said that no penalty was imposed on banks; neither any disciplinary action was taken to punish them for fraudulent income. They said some major banks were also involved in this illegal business.

During the audit of SBP, Banking Services Corporation (SBP-SC) accounts for the year 2011-12, it was observed that the management reimbursed an amount of Rs5.357bn to various banks on account of telegraphic transfer charges against home remittances sent by Pakistani residents abroad through banking channels, said the report. "The banks fraudulently split the transactions into \$100 of same individual on the same date to avail undue benefits of 25 Saudi Riyals for each transaction," said the report. "Further details of total split transactions were not provided to the audit," said the report. The report further stated that the matter was reported to the SBP on April 18, 2013. In its reply, it stated the banks would be penalised for split transactions under the revised standard operating procedure in future. "The reply was not tenable as recovery could not be made," said the audit report."

Note: In case AGP report of Fraud of Rs 5.3 billion has caused loss in one year, 2011, in 10 years, it may be loss to exchequer of over Rs 53 Billion.

According to the NAB Ordinance NAO 1999, Article 9 (quoted below) action shall be taken against the those in the State Bank of Pakistan who have been benefited, and all those who are found to be involved in this illegal act of committing corruption and corrupt practices and the misuse of authority.

(vi) 2[if he misuses his authority so as to gain any benefit or favour for himself or any other person, or 3[renders or attempts to render] 4[or willfully fails to exercise his authority to prevent the grant, or rendition of any undue benefit or favour which he could have prevented by exercising his authority];

(xi) if he, in his capacity as a banker, merchant, factor, broker, attorney or agent, commits criminal breach of trust as provided in section 409 of the Pakistan Penal Code, 1860 (Act XLV of 1860) in respect of property entrusted to him or over which he has dominion; and



(xii) if he aids, assists, abets, attempts or acts in conspiracy with a person or a holder of public office accused of an offence as provided in clauses (i) to (xi).];

10[(ix) if he commits the offence of cheating as defined in section 415 of the Pakistan Penal Code, 1860 (Act XLV of 1860), and thereby dishonestly induces members of the public at large to deliver any property including money or valuable security to any person; or

(x) if he commits the offence of criminal breach of trust as defined in section 405 of the Pakistan Penal Code, 1860 (Act XLV of 1860) with regard to any property including money or valuable security entrusted to him by members of the public at large;

TI Pakistan has recently received in this very case, another complaint of collusion between SBP and NBP. The Governor SBP, Mr. Ashraf Mahmood Wathra, was the SEVP in NBP in 2012, for which period the Auditor General Pakistan has deducted fraud of Rs 5.3 Billion.

The complainant has provided TI Pakistan a copy of the SBP Penalty (Inspection Report) of NBP dated **12.2.2015**, which has confirmed that NBP did split 2,500 single home remittance transaction under PRI in 2012, in its report for 31.12.2012. **Annex-D.**

In order to save culprits, , the Governor SBP, Mr. Ashraf Mahmood Wathra as Governor SBP has approved the revised Standard Operating Procedures for this fraud of splitting home remittance, **where only a penalty is to be imposed on the Bank who commits this fraud, and all officers of SBP and commercial Banks who participated in such fraud, cheating, have been exonerated.**

The minor penalty of Rs 5,000 od each breaking of remittance to units of US \$ 100 is imposed on NBP, which also is a loss to National Exchequer, and further burden on the citizen of Pakistan.

TI Pakistan requests the Minister to take immediate action against all those who were responsible for this national crime, including the Directors of the Board of SBP as well as Directors of the Board of the Commercial Banks who were involved in this crime.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,


Sohail Muzzafar
Chairman

Encl; 4 Annexes.

Copies forwarded for the information with request to take action under their mandate to:

1. Secretary to Prime Minister, Islamabad.
2. Chairman, BNAB, Islamabad .
3. Governor, State Bank of Pakistan, Karachi.
4. Chairman, Priem Minsiuers's Inmspection Commission, Islamabad
5. Registrar, Supreme Court of Pakistan, Islamabad.



25th February 2012.

Mr. Yaseen Anwar,
Acting Governor,
State Bank of Pakistan,
I.I. Chundrigar Road, Karachi.

Sub: Complaint on the misuse of Pakistan Remittance Initiative (PRI) and estimated loss to exchequer of 6.67 % due to the alleged collusive practice of Banks and SBP, causing Loss to Exchequer of Rs 400 Billion

Dear Sir,

Transparency International Pakistan has received a very serious complain on the misuse of Pakistan Remittance Initiative (PRI) and estimated loss to exchequer of 6.67 % by alleged collusive practice of Banks and SBP.

The complainant has made following allegations;

1. According to F.E. Circular Letter No. 40 dated November 29, 2000 , following scheme was announced;

Keeping in view the difficulties experienced by the banks and to provide more incentive to the banks to accelerate Home Remittance, it has been decided that henceforth:

i)The minimum amount of remittance of US\$ 200/- to qualify for reimbursement of charges is reduced to US\$ 100/- or equivalent to other currency (per telex/swift charges).

ii)The reimbursement rate of SR 20/- is increased to SR 25/- for each remittance.

2. From July 2001 to Jan 2012 the home remittance received is estimated to be about US \$ 69 Billion. The complaint has alleged that 6.67% is dished out to Banks with connivance of SBP, by each remittance received is broken into packages of above \$ 100 each without the knowledge of the remitter, and SR 25 on each remittance is being shared between the colluding officers of Banks and SBP.
3. Total amount dished out of the exchequer is about US \$ 4.8 Billion in last 11 years. **This is about Rs 400 Billion.**
4. The complainant has also stated that the incentive scheme from beginning is reported to be wrong, and the scheme should have been made for the 6.67% benefit should have been passed on to the accounts of the remitters persons.



**TRANSPARENCY
INTERNATIONAL - PAKISTAN**

5-C, 2ND FLOOR, KHAYABAN-E-
ITTEHAD, PHASE VII, DEFENCE
HOUSING AUTHORITY,
KARACHI PHONE: 35390408-
09 FAX: 35390410 EMAIL:
ti.pakistan@gmail.com
WEBSITE:
www.transparency.org.pk
Advisory Committee

Transparency International Pakistan request the Governor to kindly examine the allegations made by the complaint, and if the allegations are found to be correct, take immediate remedial measure to stop such illegal acts, and recover the illegal benefits availed by them and deposit it in the national exchequer account.

Transparency International Pakistan also request the Governor to get the F.E. Circular Letter No. 40 immediately amended, for the benefit to be passed on to the remitter.

This incentive to the remitters if approved, will surely increase the current level of home remittance by many fold within couple of years.

TI Pakistan is striving to have Rule of Law in Pakistan.

With Regards,

Syed Adil Gilani
Advisor

Copies forwarded for the information of:

1. Chairman, Public Accounts Committee, Islamabad.
2. Minister, Finance, Islamabad
3. Minister, Minister for Overseas Pakistanis, Islamabad
4. Chairman, NAB, Islamabad.
5. Registrar, Supreme Court.

A NON-PARTISAN, NON-PROFIT COALITION AGAINST CORRUPTION

Donations exempted from tax U/S 2 (36) (c) of I. Tax Ordinance 2001



TRANSPARENCY INTERNATIONAL - PAKISTAN

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Advisory Committee

F.E. Circular Letter No. 40

November 29,
2000

All Heads / Principal Offices
of authorized Dealers

Dear Sirs,

Reimbursement of T.T Charges against home remittances

Please refer to our Circular letter No. 21/EPP-1(96)poly-2000 dated the 28th July, 2000 on the above noted subject.

2. Keeping in view the difficulties experienced by the banks and to provide more incentive to the banks to accelerate Home Remittance, it has been decided that henceforth:

- i) The minimum amount of remittance of US\$ 200/- to qualify for reimbursement of charges is reduced to US\$ 100/- or equivalent to other currency (per telex/swift charges)
- ii) The reimbursement rate of SR 20/- is increased to SR 25/- for each remittance.
- iii) Authorized Dealers may share the reimbursement charges at their option instead of fixed SR 6/- and remit in foreign exchange to the concerned remitting agency accordingly.
- iv) The already conveyed benchmark will continue for the future remittances.

Yours faithfully,
-Sd-(M. R. MEHKARI)
Director

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A NON-PARTISAN, NON-PROFIT COALITION AGAINST CORRUPTION

Donations exempted from tax U/S 2 (36) (c) of I. Tax Ordinance 2001



Annexure^{SB} B

STATE BANK OF PAKISTAN
EXCHANGE POLICY DEPARTMENT
KARACHI

No. EPD/2126 /1(24)-2012

May 7, 2012

Mr. Syed Adil Gilani,
Advisor,
Transparency International Pakistan
5-C, 2nd Floor, Khayaban-e-Ittehad
Phase VII, Defense Housing Authority
Karachi.

Dear Sir,

Re: Complaint on the misuse of Pakistan Remittance Initiative

We write with reference to your letter dated February 25, 2012 on the captioned subject.

At the very outset, the State Bank of Pakistan (SBP) denies all adverse allegations and averments made in your aforementioned letter. The State Bank of Pakistan takes strong exception to the contents of your letter particularly when the allegations stated therein are unfounded and lack any basis.

Please find our response to the allegations raised by you in the said letter *in seriatim* below:

1. Please note that SBP's F.E. Circular Letter No. 40 dated November 29, 2000 referred in your letter has a specific reference to SBP Circular Letter No. 21/EPP.1(95)Poly-2000 dated the 28th July, 2000 (copy enclosed) on the subject of Reimbursement of T.T. Charges to banks on Home Remittances.

F.E. Circular Letter No. 40 dated November 29, 2000 referred in your letter is in continuation to the SBP Circular Letter No. 21/EPP.1(95)Poly-2000 dated the 28th July, 2000 and it provides guidelines on the Scheme of Reimbursement of T.T. Charges. The banks in Pakistan were advised vide this Circular Letter that the remitters should not be charged any amount for telegraphic transfer of remittances and the cost so incurred will be reimbursed to the banks by the State Bank of Pakistan on a monthly basis.

The scheme for reimbursement of T.T. Charges on Home Remittances to Banks is the Government of Pakistan scheme which is in existence since the year 1985 and was circulated to all authorized dealers by the State Bank of Pakistan vide Circular Letter No. 7174/ECP.I(95)-85 dated 3rd October, 1985. (copy enclosed).

The amount for reimbursement is allocated in the budget by the Ministry of Finance and they have advised the allocation accordingly to the SBP. The claims of the banks are paid out of the Government Account maintained with SBP-BSC (Bank), Karachi Office.

At the end of each month, the banks submit their consolidated claims for reimbursement on the specific format along with the covering letter clearly stating that the claims are in accordance with the pre-requisites of the Scheme. SBP-BSC (Bank), Karachi Office, reimburses the claims of the banks after scrutiny of the claim amounts and reconciles the figures with the AGPR, Karachi Office on monthly basis. Reconciled statements are also submitted to the Finance Division (MOF).

At present, the Government of Pakistan reimburses an amount of 25 Saudi Riyals per home remittance transaction subject to the following conditions:

a) The transaction for which charges are being reimbursed pertain to Home Remittance made by one individual to another;

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STATE BANK OF PAKISTAN
EXCHANGE POLICY DEPARTMENT
KARACHI

- b) The transaction for which charges are being reimbursed involve a minimum remittance of USD 100 (United States Dollars One Hundred only); and
- c) The remitter and the beneficiary have not been charged any T.T. Charges in respect of such remittance.
2. Your allegation that 6.67 percent of the Home Remittance received by Pakistan Remittance Initiative ("PRI") in pursuance of the said Scheme during the period of July 2001 to January 2012 was distributed to the Banks with the support of the State Bank of Pakistan is vehemently denied.

It is, however, to explain that PRI is a separate initiative in order to provide for an ownership structure in Pakistan for remittance facilitation, the Government of Pakistan through State Bank of Pakistan, Ministry of Overseas Pakistanis and the Ministry of Finance had launched a joint initiative called Pakistan Remittance Initiative (PRI) in April 2009. This initiative has been taken to achieve the objective of facilitating & supporting faster, cheaper, convenient and efficient flow of remittances.

The amount for reimbursement of T.T Charges is in accordance with the Scheme and is allocated by the Ministry of Finance, Government of Pakistan and that the claims of the banks in this regard are paid by the State Bank of Pakistan from an account of the Government of Pakistan being maintained with the State Bank of Pakistan at Karachi. The transaction is basically between an entity to entity (SBP to Commercial Bank) and there is no chance of any individual to pocket a penny out of the money allocated for the Scheme.

3. Regarding your allegation that PKR 400 billion has been "dished out" from the exchequer in last 11 years, please be advised that complete record of these transactions are maintained with SBP and review of our records from July 2001 to June 2011 transpires that the total amount of Home Remittances received during this period amounts to USD 59.130 billion, whereas the total amount of T.T. Charges claimed by the banks and paid by the State Bank of Pakistan during this period amounts to only PKR 11.695 billion. Hence, your averment that PKR 400 billion has been misappropriated from the national exchequer on account of T.T. Charges during the said period is without any basis and is vehemently denied.
4. Please be advised that the rationale behind this Scheme is to encourage overseas Pakistanis to remit money to Pakistan through proper channels and by lawful means. In terms of the Scheme, neither the remitter nor the recipient is charged the T.T. Charges and, therefore, both the remitter and the recipient are the ultimate beneficiaries of the Scheme. This is substantiated by the growth in Home Remittances during last ten years, which indicates the effectiveness of the Scheme and substantiates the initiatives taken by the State Bank of Pakistan to streamline Home Remittances.

We trust that the above clarifies the position. It is, therefore, requested to withdraw the letter dated February 25, 2012 as contents of the same do not reflect the true and factual position.

Yours faithfully,

Encls: as above

(Muhammad Imran Khan)

Joint Director

For and on behalf of
State Bank of Pakistan

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Banks earn Rs5.3bn illegally: report

By Shahid Iqbal

Updated about 3 hours ago



Report says amount earned by misdeclaring transactions being made as remittances, and the State Bank of Pakistan (SBP) kept accepting the false claims. —File photo

KARACHI: Banks illegally earned Rs5.3 billion in 2012 by misdeclaring the transactions being made as remittances, and the State Bank of Pakistan (SBP) kept accepting the false claims of banks, said 2013-2014 audit report of the accounts of public sector enterprises.

Banking sources said that no penalty was imposed on banks; neither any disciplinary action was taken to punish them for fraudulent income. They said some major banks were also involved in this illegal business.

During the audit of SBP, Banking Services Corporation (SBP-SC) accounts for the year 2011-12, it was observed that the management reimbursed an amount of Rs5.357bn to various banks on account of telegraphic transfer charges against home remittances sent by Pakistani residents abroad through banking channels, said the report.

“The banks fraudulently split the transactions into \$100 of same individual on the same date to avail undue benefits of 25 Saudi Riyals for each transaction,” said the report.

“Further details of total split transactions were not provided to the audit,” said the report.

To encourage banks and to boost remittances, Pakistan Remittance Initiative (PRI) was jointly launched by the State Bank, Ministry of Overseas Pakistanis and Ministry of Finance in 2009.

In January 2010, the State Bank issued a circular saying the government through State Bank will reimburse 25 Saudi Riyals equivalent in PKR per transaction to banks in Pakistan provided that it is home remittance with value equivalent or more than \$100.

The distribution bank and the overseas entity share the reimbursed amount as per their mutually agreed term.

The report further stated that the matter was reported to the SBP on April 18, 2013. In its reply, it stated the banks would be penalised for split transactions under the revised standard operating procedure in future.

"The reply was not tenable as recovery could not be made," said the audit report.

It further said the commission income of the SBP for the year 2012-13 decreased by 9.9 per cent and exchange gain decreased by 84.4pc from last year 2011-12.

The steep fall in the exchange gain of Rs6.7bn during 2012-13 as against Rs42.8bn during 2011-12, needs to be elucidated, said the report.

It further said that other operating loss was Rs1.02bn during 2012 compared to operating profit of Rs9bn requires explanation.

"The State Bank's share of loss payable under profit and loss sharing arrangement amounting to Rs2.4bn needed to be explained," said the report yet to be published.

Published in Dawn, June 28th, 2014

Date : 12-02-2015

Time : 02:47:50



STATE BANK OF PAKISTAN
NATIONAL BANK OF PAKISTAN

Annexure D

Penalty (Inspection Report) as of 31/12/2012

Sr. No	App/ Ann/ Ref No	Observations	Penalty Payable on Cases		Penalty Payable on Days/Months/Quarters		Amount
			No.	Rate	No.	Rate	
		instruments was served late to the account holders			0	0	2,550,000
80	Annexure E-32	Instances where three months notice in writing by 'Registered Post - Acknowledgement Due' were not served by the bank for unclaimed deposits / financial instruments	510	5,000	0	0	170,000
81	Annexure E-37	Instances where excess cash was transferred to commission account of the bank instead of transferring it to unclaimed account	34	5,000	0	0	12,500,000
82	Annexure E-39	Instances where a single home remittance transaction under PRI was broken into multiple transactions	2,500	5,000	0	0	270,000
83	Annexure E-40	Instances where the bank opened accounts on the basis of attested copies of NADRA receipt / token but did not obtain copies of renewed CNIC's within three months of opening of account	27	10,000	0	0	9,180,000
84	Annexure E-41	Instances where Debit Block was not marked for accounts without CNIC	918	10,000	0	0	7,044,000
85	Annexure E-42	Instances where bank did not inform / intimate its customers before marking the accounts dormant in system	14,088	500	0	0	12,500,000
86	Annexure E-43	Instances where ambiguous/incomplete/irrelevant CNIC numbers were mentioned in bank record (system) of the active account holders in violation of BPRD Letter No. BPRD/BLRD-09/2008-7/21 of August 15, 2008	2,500	5,000	0	0	130,740,000
87	Annexure E-44	Instances where ambiguous / incomplete / irrelevant CNIC expires were mentioned in the bank record (system) of active account holders in violation clause 2 b & 2 c of BPRD letter No. BPRD/BLRD-09/2009-8814 of 2010	26,148	5,000	0	0	2,380,000
88	Annexure E-45	Instances where the bank did not pay profit on PLS accounts	238	10,000	0	0	6,700,000
89	Annexure E-45	Instances where the bank did not pay profit on PLS accounts	335	20,000	0	0	2,135,000
90	Annexure E-45	Instances where the bank did not pay profit on PLS accounts	427	5,000	0	0	0
91	Annexure E-45	Instances where the bank did not pay profit on PLS accounts	0	1,000	0	0	27,473,000
92	Annexure E-46	Instances where the bank did not translate account opening forms in urdu for customers	27,473	1,000	0	0	201,530,000
93	Annexure E-47	Instances where the bank did not inform its active customers on expiry of their CNICs	40,306	5,000	0	0	1,980,000
94	Annexure E-48	Instances where cheques were returned giving ambiguous reasons	99	20,000	0	1,000	5,000,000
95	Annexure E-49	Instances where the bank did not update records / addresses of the account holders on account of undelivered half yearly statements	1,000	5,000	0	0	80,000
96	Annexure E-50	Instances where bank did not provide insurance for lockers	4	20,000	0	1,000	20,000
97	Annexure E-51	Instances where bank deducted excessive service charges from customer on minimum balance from accounts	20	1,000	0	0	68,700
98	Annexure E-67	Instances where the bank did not resolve the complaints within 45 days	9	1,000	597	100	26,000
99	Annexure E-68	Instances where the bank did not send complaint acknowledgement	26	1,000	0	0	