



Nepal Rastra Bank

Payment System in Nepal: Status, Progress and Initiatives

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Objectives, strategy and setups for the payment system modernization in the NRB:

- **Objective** is “to develop a secure, healthy and efficient payment system”.
- **Strategy** is to “Promote efficient and effective payment system”.
- Establishment of ***Payment & Settlement Policy Unit as a Division*** under Banks and Financial Institutions Regulation Department (BFIRD).
- ***Departments and Offices of NRB, responsible*** for efficient, secure and effective payment system:
 - The BFIRD, Banking Office, Currency Mgmt. Department, Public Debt Mgmt. Department, Foreign Exchange Mgmt. Department, Financial Mgmt. Department and,
 - Seven NRB Offices outside Kathmandu Valley



Overview and structures of payment system:

Nepal Rastra Bank (Settlement Authority)

Bank and
Financial
Institutions

(Participant
BFIs)

Electronic
Cheque
Clearing
System
(NCHL-
ECC)

SWIFT
Payment
and
Transfer
System

Internet
Banking,
Mobile
Phone
Banking
and
Branchless
Banking
System

ATM and
POS
Machine

Private
Sectors
Service
Providers

Customers
(Government
, Corporate
and
Household)





Types & structure of payment institutions:

Types & Structure	Mid-July 2012	Mid-July 2013	Mid-July 2014
Commercial Banks	32	31	30
Development Banks	88	86	84
Finance Companies	70	58	53
Micro Finance Financial Institutions	23	31	33
Sub-Total	213	206	200
NRB permitted Cooperatives (with limited banking activities)	16	16	15
NRB permitted FINGOs (with limited banking activities)	34	31	29
Insurance Companies	25	25	25
Employees Provident Fund	1	1	1
Citizen Investment Trust	1	1	1
Postal Saving Bank	1	1	1
Total	292	282	272



Other types of institutions, and government in payment system:

- Besides these above institutions, following others and GON agencies are in operation in relationship with the payment mechanism,
- Cooperatives of more than thirty thousands (especially saving & credit cooperatives of more than 13 thousands) licensed by GON,
- NEPSE, Central Depository System of CDS, Merchant Banks and Brokers, regulated by SEBON,
- A large part of payment is made by different government agencies (for tax collection and expenditures purpose)
- Recently NCHL and many other private sector payment service providers (Hello paisa, eSewa, fonPay, e-banking etc)



No. of BFIs branches involved in payment system:

Branches of BFIs (As of Mid-July, 2014)

	Number of Branches		% share	
	Mid-July 2013	Mid-July 2014	Mid-July 2013	Mid-July 2014
Financial Institutions				
Commercial Banks	1486	1547	59.63	59.41
State owned banks	506	563	20.30	21.62
Private banks	980	984	39.33	37.78
Development Banks	764	818	30.66	31.41
Finance Companies	242	239	9.71	9.17
Total	2492	2604		

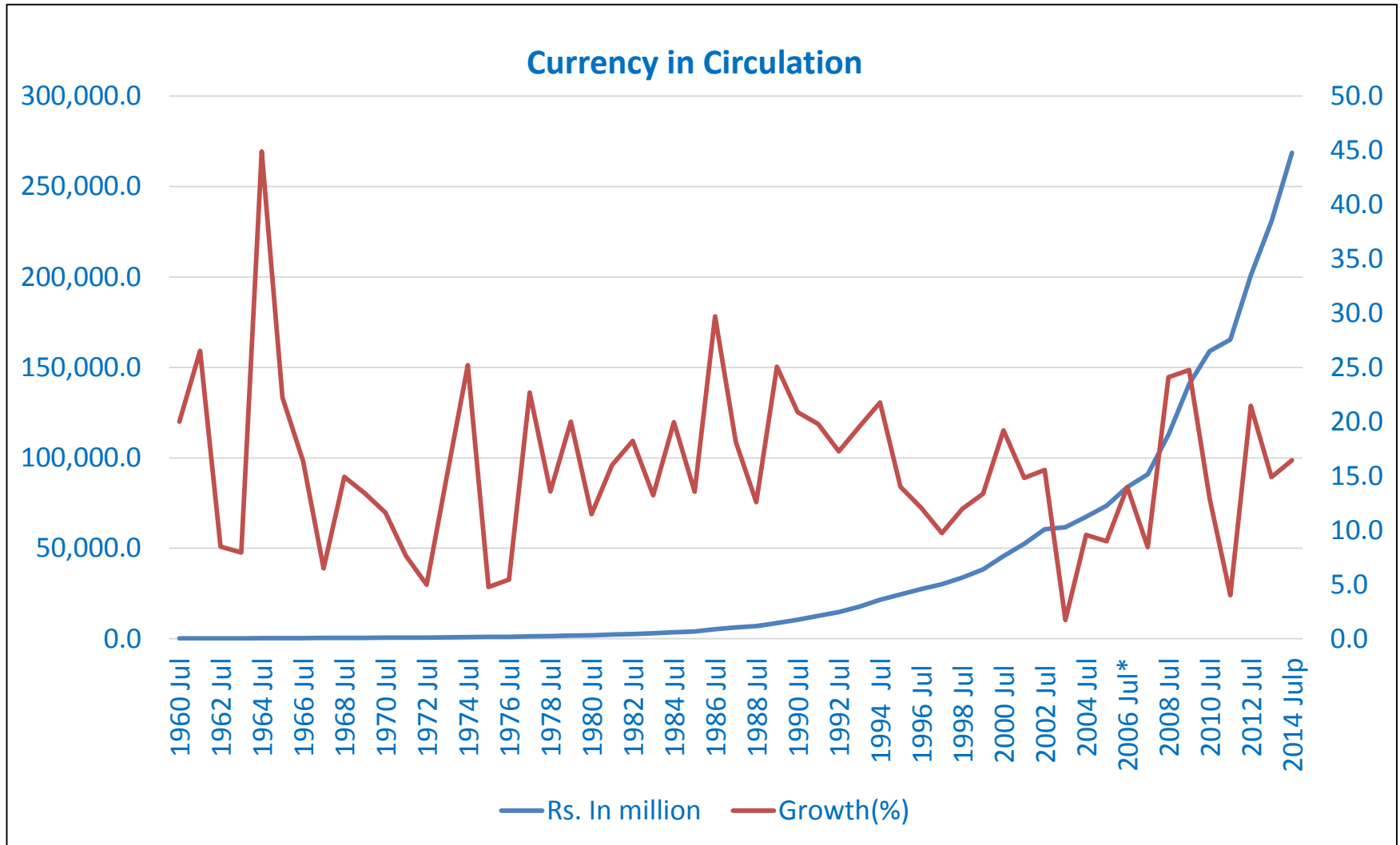


Major payment instruments: existing ones and recent development:

- **Cash payments**
 - Domestic and Foreign Currencies
- **Paper-based payment instruments**
 - Cheques, Drafts, T.T./M.T., Pay Orders, M. Cheques
- **Electronic based payment instruments**
 - e-cards (Debit Cards, Credit Cards, Prepaid Cards)
 - e-banking Internet Banking, Mobile Banking (Mobile Wallet)
 - Credit Transfers, Direct Debit
- **Other payment instruments**
 - Postal Orders/Money Transfers from Postal Saving Bank Branches.

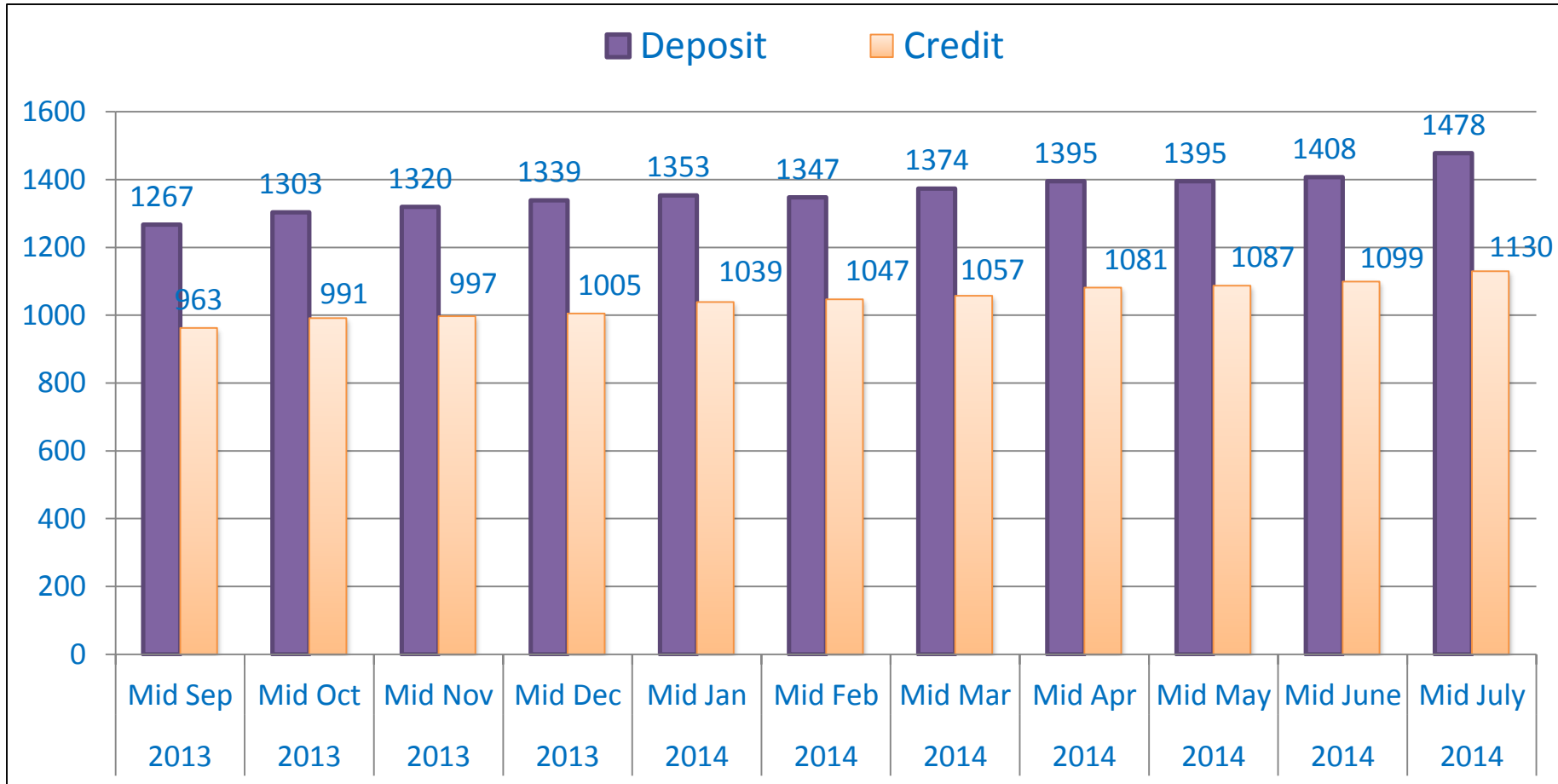


However, cash is still the major dominant payment instrument:





Banks lead model now-a-days is becoming a **major payment channel (Rs. In billion)** in terms of **deposit, credit, transfers, travelling, utility payment, remittance etc.**





Recent update of overall payment structures and instruments: Bank Lead Model

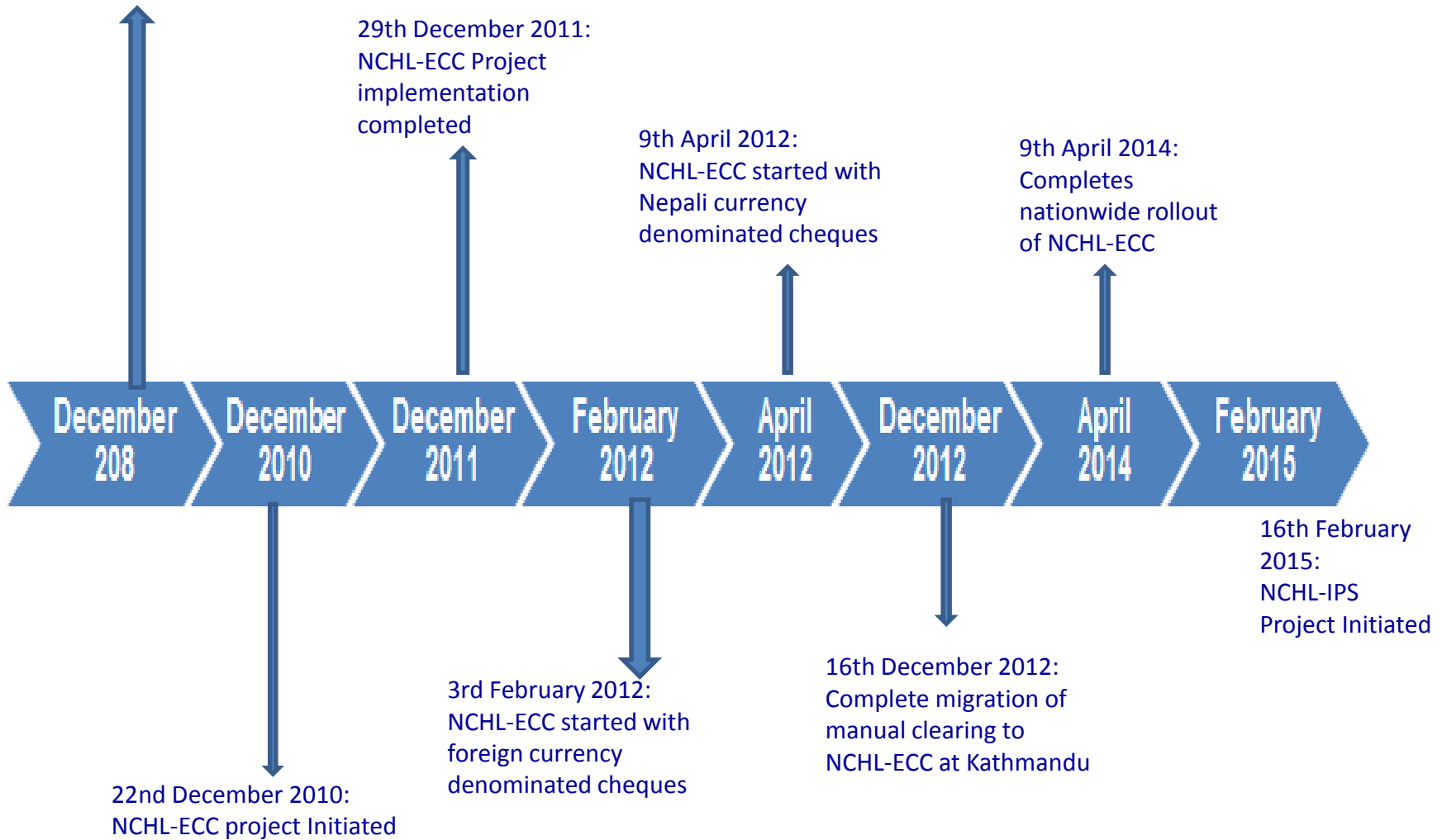
Mid-Dec 2014

Other Information	Class "A"	Class "B"	Class "C"	Overall
No. of Branches	1638	829	239	2706
No. of ATMs	1416	226	30	1672
No. of Debit Cards	3707529	413511	24365	4145405
No. of Credit Cards	59352	0	0	59352
No. of Deposit Accounts	10295092	3563911	557698	14416701
No. of Loan Accounts	657237	242906	49634	949777



23rd December 2008:
Company incorporated
under Nepal Company
Act 2063

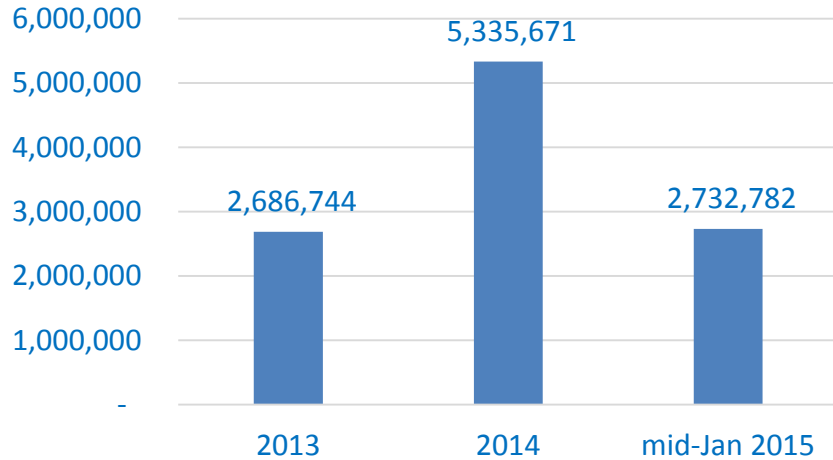
Progress on modernization of payment: a pioneer step toward modernization by the establishment of NCHL



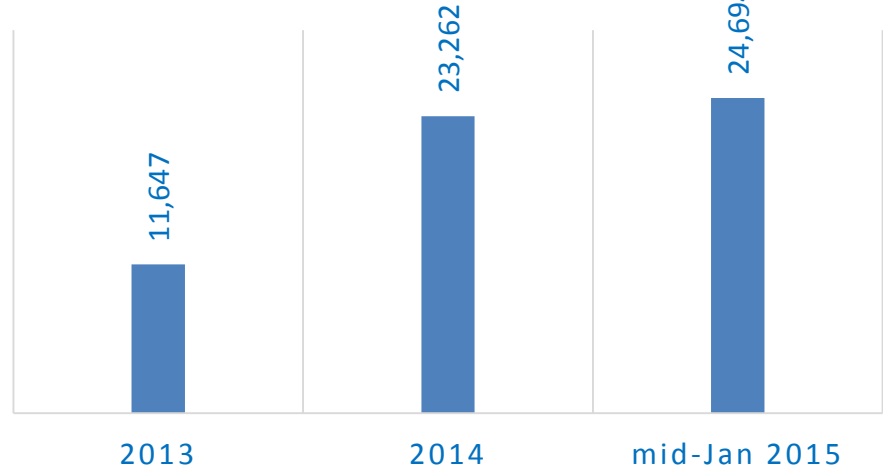


Use of paper based instruments through NCHL-ECC:

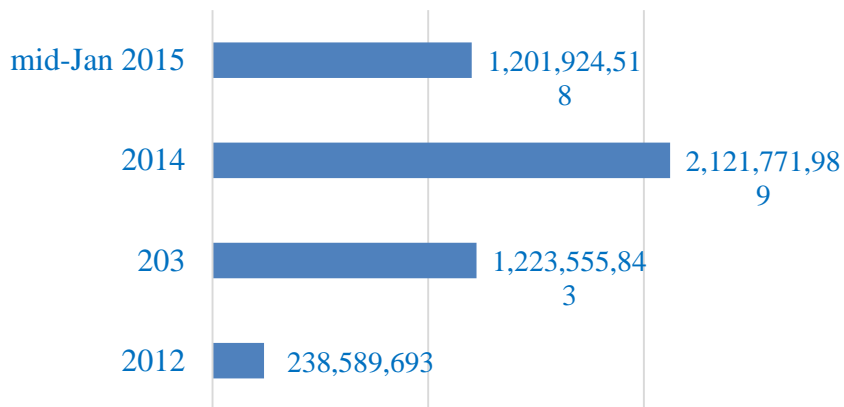
Total no. of cheque count



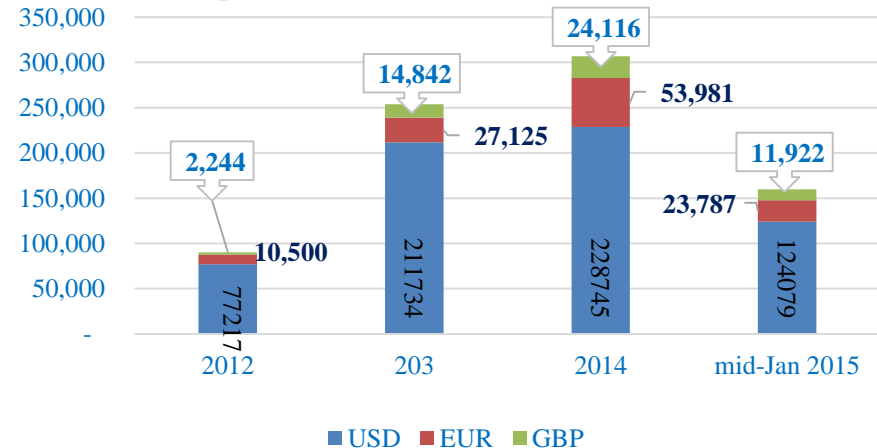
Average no. of count



Cheque amount in NPR (('000))

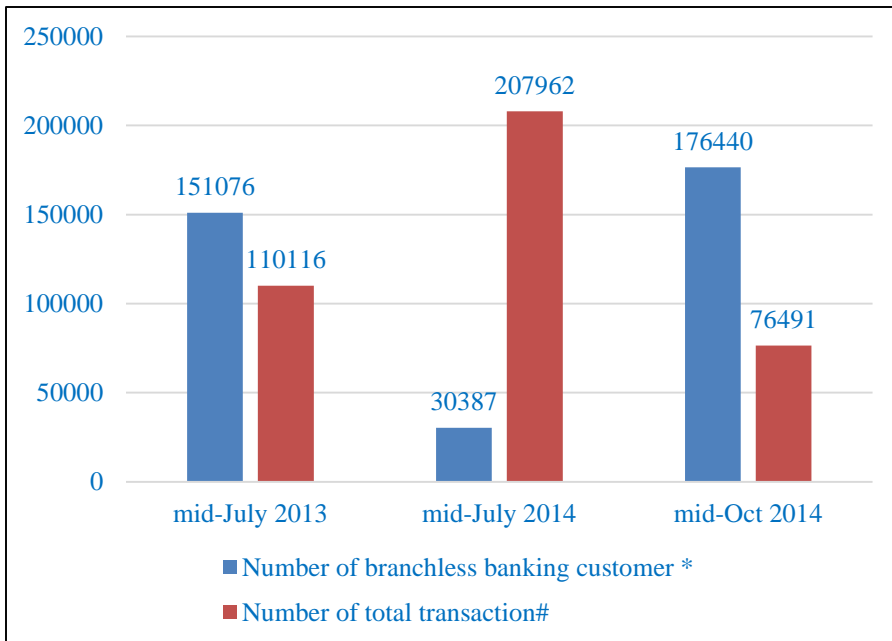
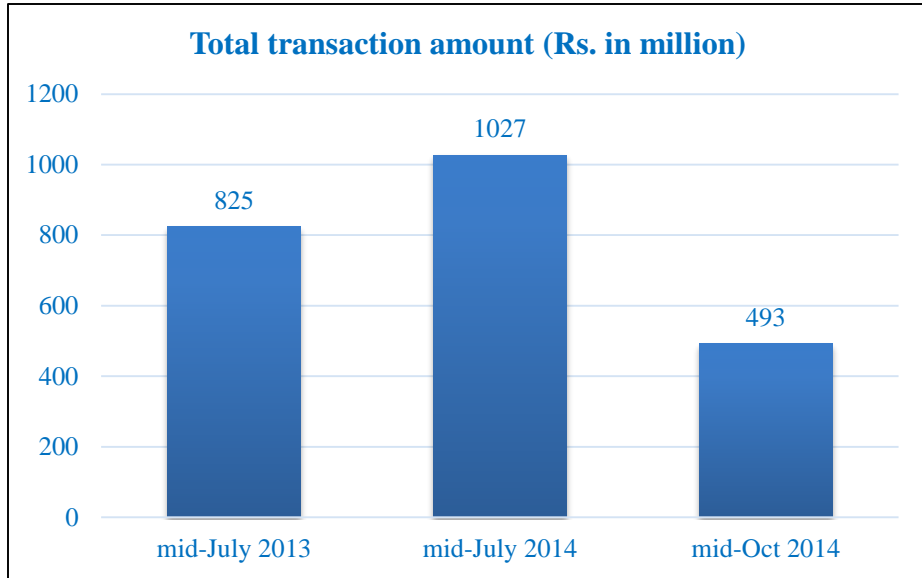
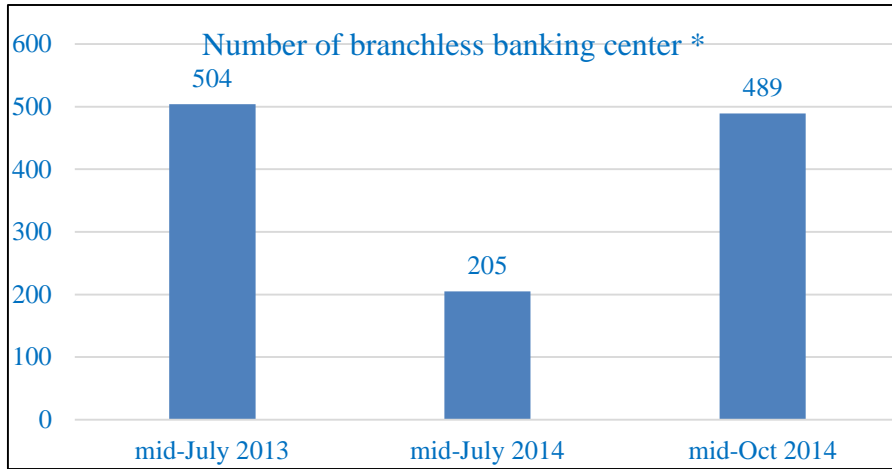


Cheque amount in other currencies ('000)





Branchless banking:



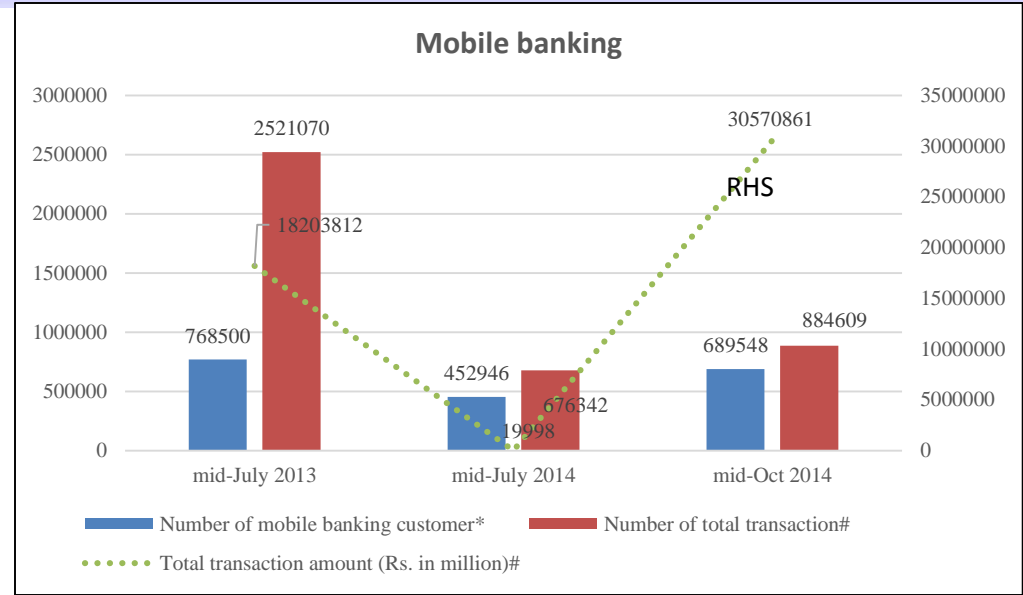
- Nepal Rastra Bank has given top priority to branchless banking both for access to finance, credit and inclusive growth for the economic development of the country,
- Branchless banking is gaining popularity among customers and service providers,
- Branchless banking has been promoting click banking from the traditional brick banking.



Nepal Rastra Bank

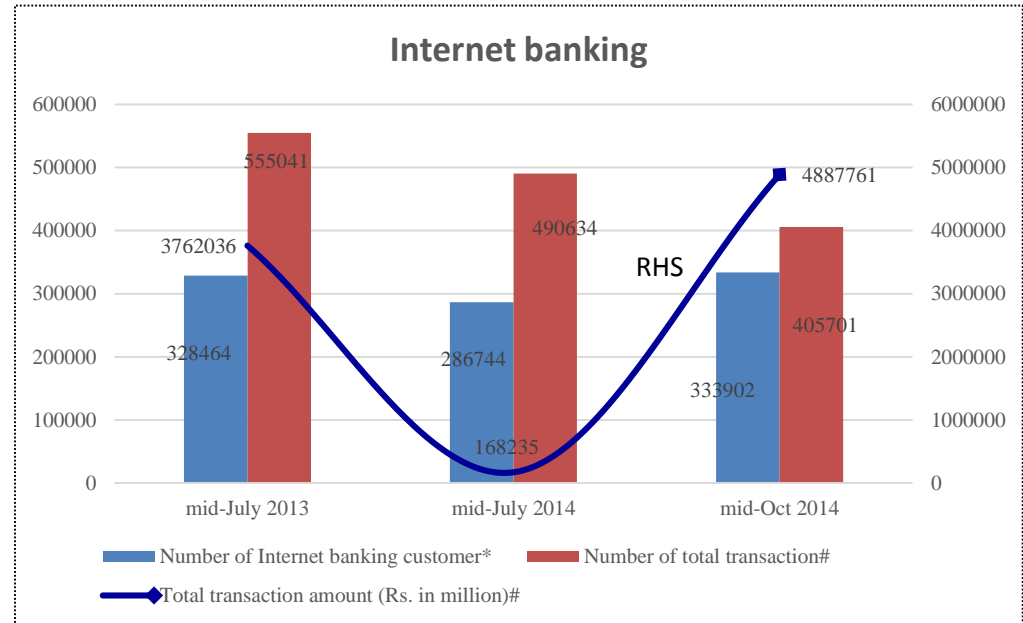
Mobile banking:

- Mobile banking in Nepal could be one of the major driving force towards modernization of payment system,
- The present situation of excessive use of cash can be minimized if the available mobile banking facilities could be utilized by promoting e-payment with coordination to Telecoms.
- Likewise, the present situation of access to finance of less than 40 percent could be extended through the use of mobile banking as more than 80 percent population have access to mobile access in Nepal.



Internet banking:

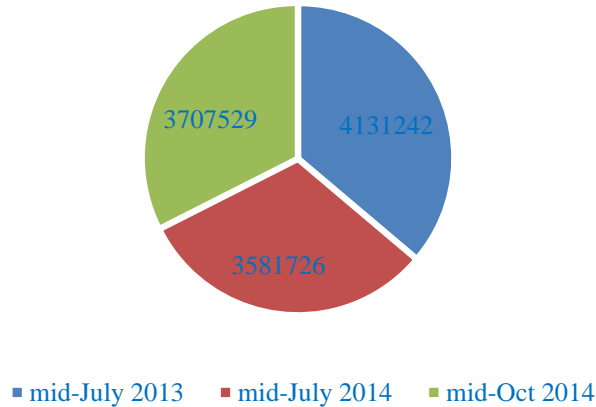
- Internet banking has been gaining popularity but limited only in urban areas,
- The main problem in the internet banking is associated with the payment institutions which doesn't provide maximum features in relationship to payment instrument ,
- Minimum features in this instrument are limited to e.g. balance check, and alert of transactions (deposit and credit transfers ;salary etc)
- Internet banking system is expected to boost internet banking for large value payment with the operation of IPS soon,
- Shortage of electricity and lack of inter-bank payment system infrastructures could be the major problems associated with the internet banking



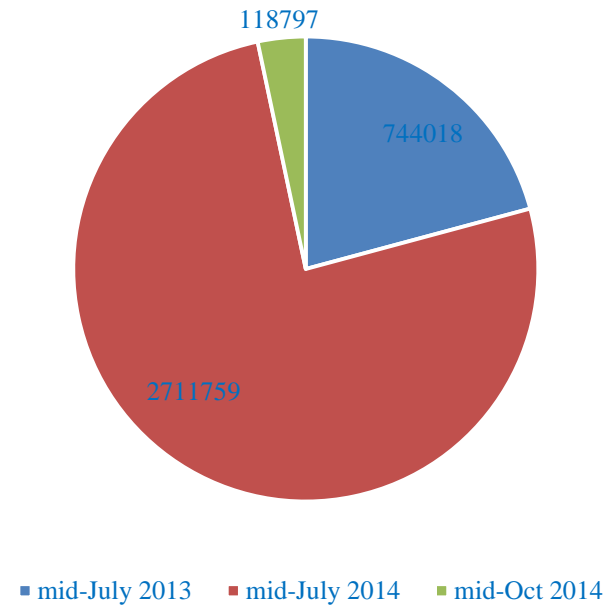


E-card: debit cards:

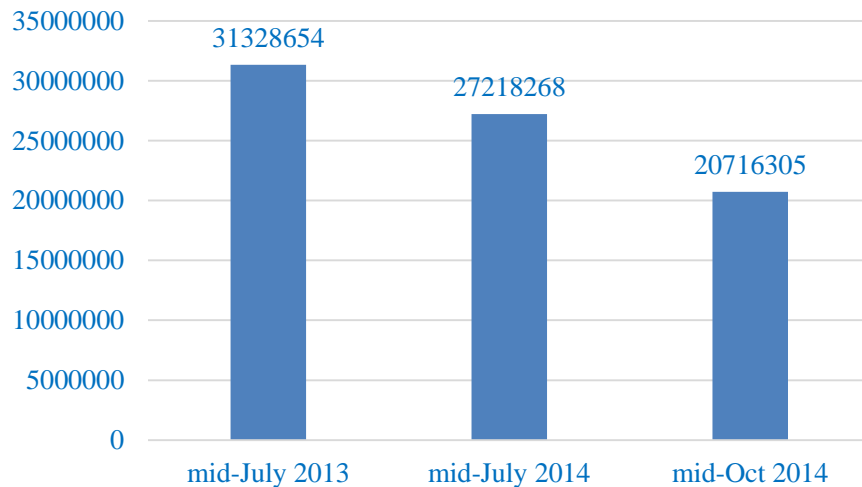
No. of debit card holder



Total transaction (Rs. in million)



Total no. of debit card transactions

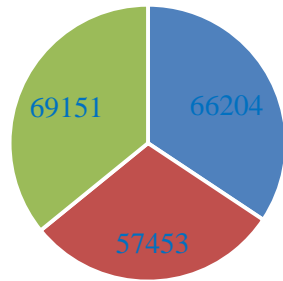


- Debit card is one of the popular e-payment instrument in Nepal preferred both by the payment institutions and customers,
- ATMs infrastructures, electricity, cash management and security are the major problem associated with the debit cards.



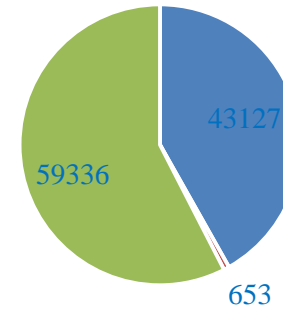
E-card: pre-paid cards:

No. of prepaid card holder



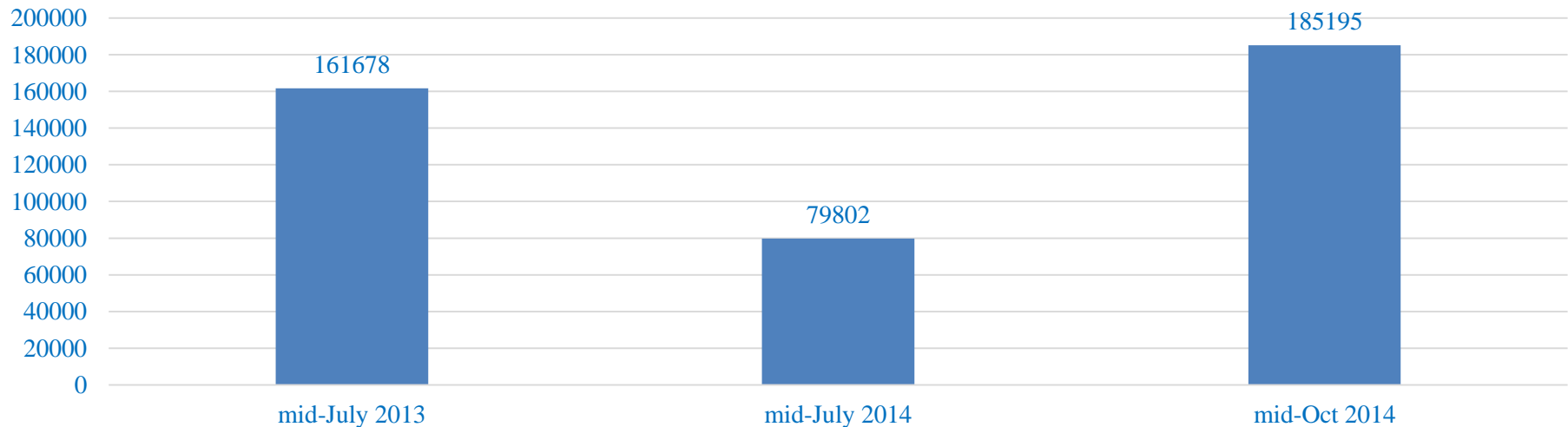
■ mid-July 2013 ■ mid-July 2014 ■ mid-Oct 2014

Total transaction (Rs. in million)



■ mid-July 2013 ■ mid-July 2014 ■ mid-Oct 2014

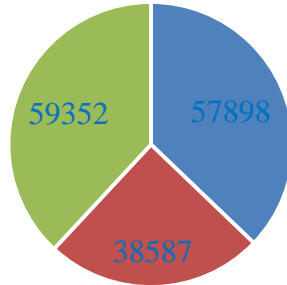
Total no. of prepaid transactions





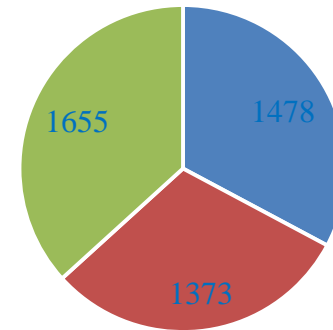
E-card: credit cards:

No. of credit card holder



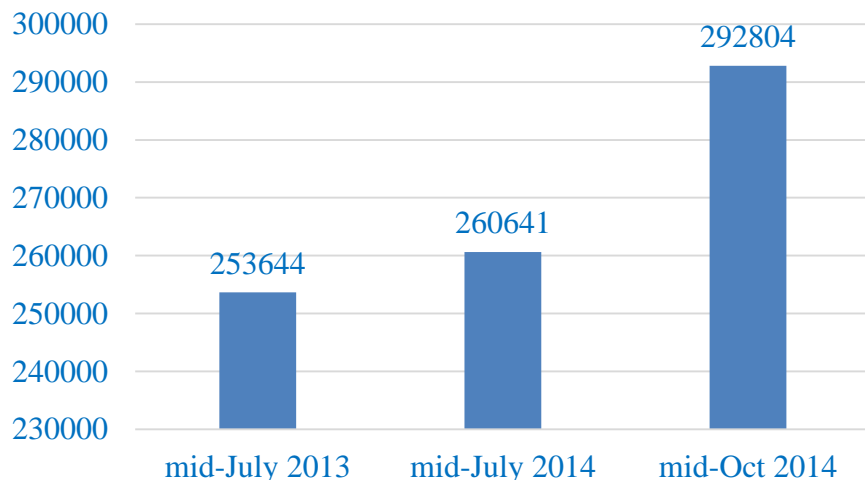
■ mid-July 2013 ■ mid-July 2014 ■ mid-Oct 2014

Total transaction (Rs. in million)



■ mid-July 2013 ■ mid-July 2014 ■ mid-Oct 2014

Total no. of credit card transactions



- Number of credit cards issued and used so far are negligible as compared with debit cards,
- Credit card has been issued mainly for the selected peoples and high profile professionals (businessman, industrialist etc.) only,
- Credit card is being used mainly in urban areas for those of extremely credible peoples and travelers.



Payment and settlement infrastructures:

- ATM Infrastructure
- Internet Banking System
- Mobile Banking System
- Branchless Banking System
- Remittance Payment System
- Point of Sale/Transaction Infrastructure
- SWIFT Payment Network
- Any Branch Banking Service System
- Nepal Clearing House-ECC (operationalize all over the country)
- Interbank Payment System: to be operationalized
- Central Depository System (NEPSE): to be operationalized



Latest progress: PSPU

- NRB has set up the *Payment and settlement Policy Unit (PSPU) as a Division* under Banks and Financial Institutions Regulation Department.
- It has *responsibility for the development of Payment and Settlement Systems (PSS) in Nepal.*
- The recently established PSPU is *drawing initiatives on PSS.*
- The PSPU is *responsible for oversight functions, forming laws, bylaws and regulations related to PSS, formulate and implement the strategies*



Recent Developments and Initiatives: Others

- **High value** customer payments are made by cheque for more than **NPR 100 million**.
- NRB has procured **General Ledger (GL) system** which provides the facility of fund transfers between accounts; government securities public debt management; treasury operations and an internet banking facility for commercial bank.
- The **interbank clearing system (retail level) operated by Nepal Clearing House (NCH)**. NCH recently operates a cheque truncation and clearing service all over the nation.
- The **debit card switching and clearing systems operated by SCT and others**. For e.g. Himalayan Bank acts as the settlement bank for SCT. Other than SCT, Nepal Investment Bank Limited and Nepal Electronic Payment Services (NEPS) has a connection to number of banks which manage card and card transactions.
- **NEPSE operates Automated Trading System** in Kathmandu valley and in other five major cities of the country.
- **CDS and Clearing Limited (CDSC)** has been set up for Central Securities Depository (CSD) system which will perform all clearing and settlement services for securities (to be fully operationalized).
- Mandatory use of **MICR Technology and Electronic Cheque Clearing (ECC) system**.



Other recent developments and initiatives:

- BFIs are taking various *initiatives for retail electronic payments* in the spheres of internet/ mobile banking, cross-border inward remittances and cards;
- The initiatives pertaining to *creation of networks of clusters* for card-based payment services (ATM and EFTPOS through SCT and two other providers);
- *Different product offerings in mobile banking* (e.g. Hello Paisa) and remittance products;
- Motivation to establish *payment mechanism/institutions (e-payment, card, fund management, transfer etc) by private sectors*;
- *Mobile payment services have started to be offered through agreements* between mobile network operators and BFIs. Some of the popular and innovative mobile payments services are MNepal, E-sewa, Fonepay etc;
- *POS and POT machines are also gaining* popularity in the medium of payment.



Further issues toward reform & modernization of payment system:

- Compliance/adherence with the *international best practices* (Basel: CPMI and IOSCO), principals and the comprehensive legal frameworks;
- *Financial market infrastructure* and facilities;
- Fully *automation of payment system* and reducing cash and paper-based instruments, like cheques and commercial bills etc;
- Use of *modern technology and implementation of RTGS*;
- Robust *regulatory arrangement and coordination mechanism* among the financial sector regulators;
- *Strong and effective oversight upon the payment system*;
- Controlling *fraudulent activities* including illegal withdrawals in payment system;
- *Suitable policy for large value and retail value payment.*

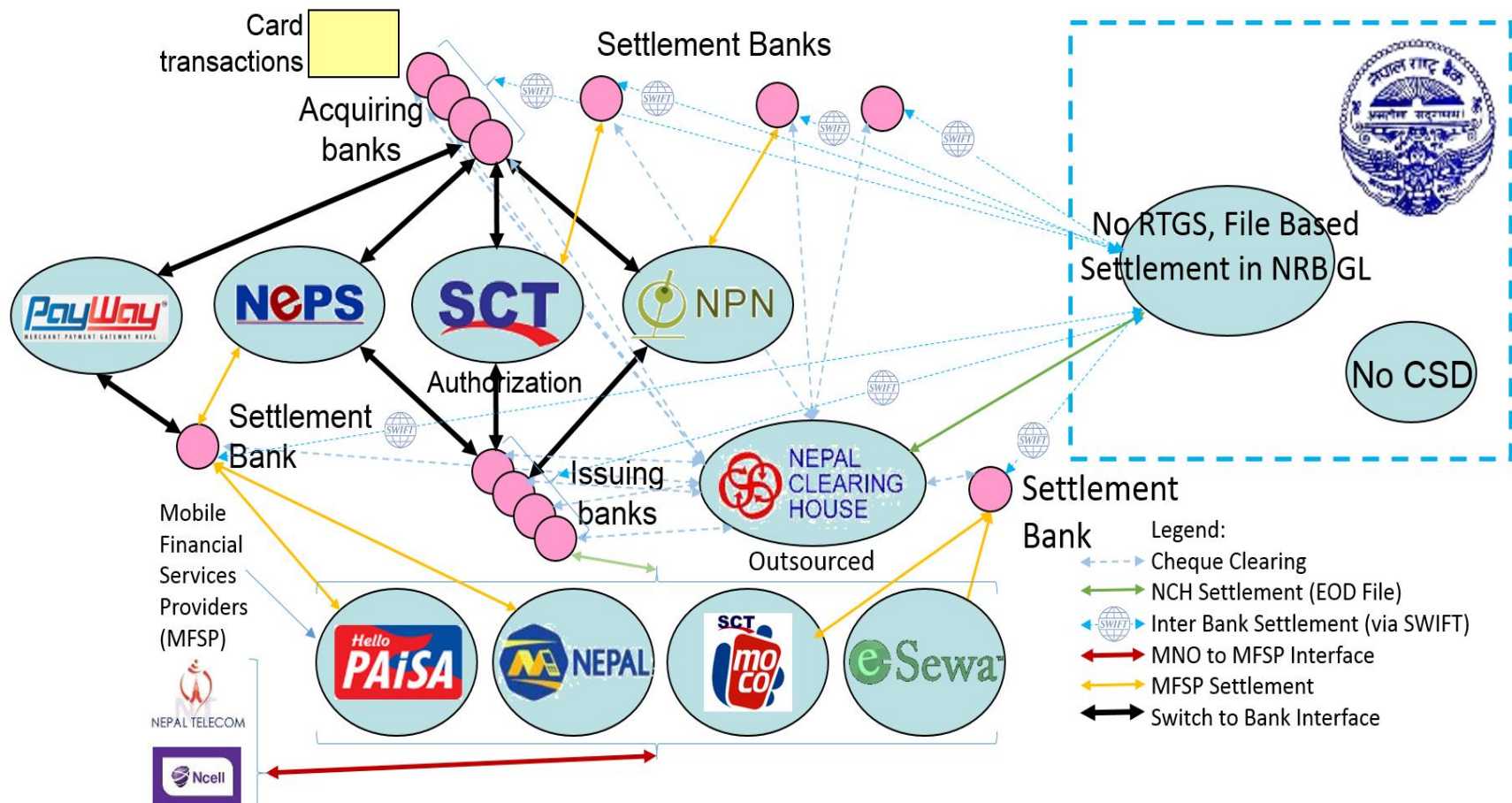


Progress at present for the advancement of modern digital payment system:

- Preparation and implementation of Payment System Development ***Strategy, oversight policy framework and roadmaps***;
- Establishment of ***Payment and Settlement Policy Unit*** under the Banks and Financial Institutions Regulation Department;
- Formulation of Payment & Settlement ***By-law*** (to be operationalized soon);
- Study on establishment of ***Real Time Gross Settlement (RTGS) System, Payment Gateway and National Financial Switch*** (to be finished within mid-July 2015 and establishment and procurement process will be initiated to fully operationalize these within 2 years);
- Preparation of ***Payment System Act (to be completed by mid-July 2015) and other necessary regulations*** (subsequently);
- Technical assistance proposal for the modernization of PS and implementation of roadmaps has been approved by the NRB just recently (DFID and UNCDF will provide technical assistance to NRB , GIZ to provide GON and AsDB and World Bank to SEBON and NEPSE).

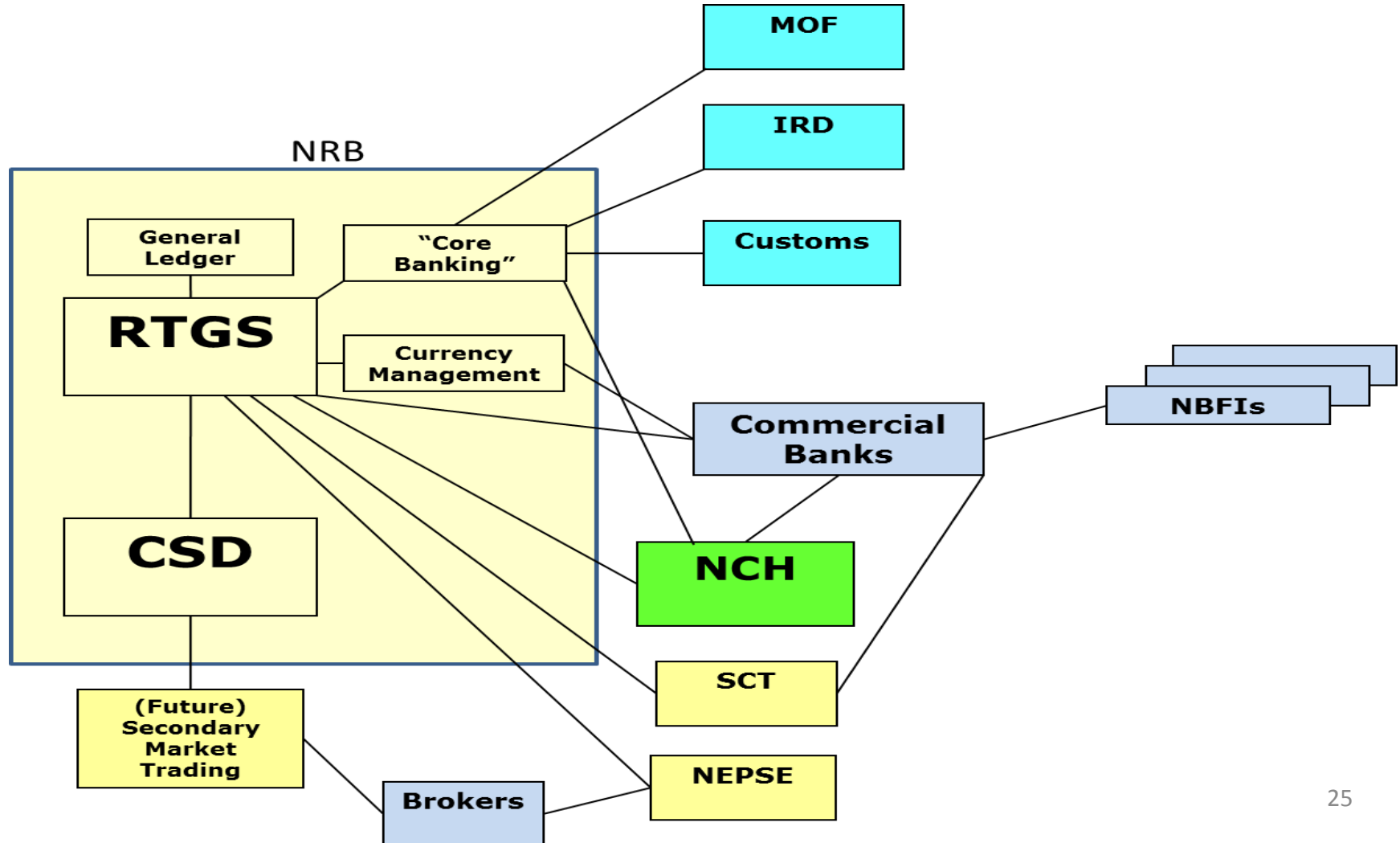


Hence, NRB's envisages to move from this present payment system tomodern & digital payment mechanism





....by the establishment of RTGS, NFS preparation and strengthening the necessary legislations, enforcement of payment oversight and others within 2 years time.





Thank You!!

**Many Thanks for the SAARC Payment
Initiatives!!!**