



SAARC Payments BULLETIN



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14th SAARC Payments Council (SPC) Meeting 9th December 2013, Kovalam, India



From Left to Right: Ms. Nilima Chhabilal Ramteke (India), Mr. Vijay Chugh (India), Mr. S. S. Rathnayake (Sri Lanka), Mrs. Ranjani Weerasinghe (Sri Lanka), Mr. G. Padmanabhan (India), Mr. H. R. Khan (India), Mr. Kazi Abdul Muktaadir Chairman SPC (Pakistan), Mr. Jai Narain Pradhan (Bhutan), Mr. Gopal Prasad Kaphle (Nepal), Mr. Md. Delwar Hossain Khan (Bangladesh), Mr. Mir Aziz Baraki (Afghanistan), Mr. Debashis Sarker (Bangladesh) and Mr. Rajan Bikram Shah (Nepal)

SPC members discussed necessary factors for financial inclusion and the presence of efficient and ubiquitous payment systems and pressing need for converging to international best standards. The new Road Map of SPC was finalized and accepted by all members. A discussion on implementation of the new Road Map also took place and appropriate task was given to the Technical Team to bring the spirit on each broad area covered namely Implementation/ Improvements in High-Value Payment & Settlement Systems, Development in Electronic Retail Payment Systems (ERPS), Risk Mitigation Measures for Payment & Settlement Systems, Promote Competition among Market Participants/ Access of New Participants, Improvement in Legal and Regulatory Framework, Improvement in the Governance structure, Financial Literacy Program and Improvement of Cross-Border Payment & Settlement Systems in the SAARC region.

The Chairman of the meeting highlighted the importance of Payment Systems for the economy and monetary policy transmission. He also highlighted the need for research and development in this area and stressed on the importance of sharing of data amongst member countries for effective research and studies for further developments. Initial discussion also took place on the concept of a Single Harmonized Payment Mechanism in the SAARC region.

Major Decisions of the Forum:

1. It was decided that a technical committee be formed who could meet twice a year with the main SPC meeting once a year. It was decided that the practice of bi-annual meetings will be continued till 2016.
2. Members formed a three member team to conduct trainings and seminar for the officials of SAARC central banks on the sidelines of 15th SPC meetings.
3. Formation of a technical committee was also decided by members who would look into the implementation of the Roadmap of SPC, as well as the feasibility to adopt harmonized payment systems.

Payment Systems Developments in SAARC Countries



AFGHANISTAN

Card and Mobile Payments Switch

Afghanistan Payment System (APS) a company which has been established by a consortium of commercial banks under the guidance of DAB, whose objective is to help in developing the retail banking market in Afghanistan by providing innovative electronic and mobile payment services that enhance the retail banking offering in the country. APS was established in close co-ordination with Da Afghanistan Bank with the purpose of fulfilling DAB's objectives for establishing a shared ATM/POS – mobile commerce network in Afghanistan. At present, apart from international card transactions which are cleared through the applicable international circuits, all card transactions are intra-bank only, and are cleared within the responsible bank. Once the national card and mobile payment switch is operational, which is intended to achieve full interoperability of card and mobile payment operations in Afghanistan, holder of cards issued within Afghanistan or in international card schemes will be able to execute transaction and make payments for goods and services directly at all POS and ATM terminals displaying the

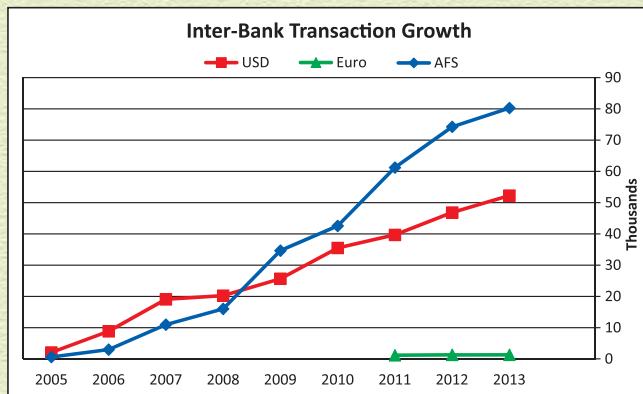
appropriate systems logo and settled electronically in commercial banks settlement account kept in DAB books via telecommunication link to the RTGS function of Automated Transfer System (ATS) which DAB is in process of acquiring.

So far three bank have joint APS and membership in APS is open to all institutions (banks and mobile network operators) involved in financial message transmission that operate in Afghanistan under licence from the appropriate Afghan authorities.

Reduction in the use of cash and transitioning to electronic means of payment is a major goal of both DAB and the government of Afghanistan for a number of reasons. These include particularly the desire to broaden access to finance and financial services across the population, as well as considerations of security and cost involved in moving around large sums of cash. The implementation of a national card and mobile payment switch is an important step in providing the basis for more widespread use of electronic payment instruments.

Afghanistan Clearing and Settlement System (ACSS)

In ACSS each payment is settled individually and immediately. ACSS is typically used by financial institutions for settlement of large-value and/or time-critical payments. Payments in ACSS are usually credit transfer and the system supports transactions in multiple currencies. In the last 5 years under the DAB de-dollarization project the trend of dollar transactions has been decreased while Afghani payments show notable growth.



Mobile Payments

Extending the outreach of financial services to un-

banked areas and communities in a cost effective way is an important ingredient in deepening financial markets. Branchless and mobile banking and payment is an efficient and cost effective way to extend financial services to un-banked communities. The use of mobile telephones to access banking and payment services is in an initial stage of development and implementation in Afghanistan, but the customers of this medium of payment are rapidly growing, most of banks in Afghanistan offering mobile banking services at this stage.



In addition to banks, the Mobile Network Operators (MNOs) offer a nation-wide mobile payment services.

The services offered by MNOs include cash withdrawals, person-to-person money transfers, disbursement and repayment of microfinance loans, airtime purchase, disbursement and receipt of salaries using banks windows and trusted agents facilities.

Welcome

Mr. Asim Iqbal, Director, Payment Systems Department, State Bank of Pakistan

The SPC members warmly welcome Mr. Asim Iqbal as the Secretary SPI (Member SPC) from the State Bank of Pakistan (SBP). Mr. Iqbal holds a Masters Degree in Business Administration from Institute of Business Administration (IBA) Karachi, Bachelors of Engineering from NED University of Karachi and Bachelors from University of Karachi. He is working with SBP since last 13 years on various positions. Mr. Iqbal has worked as a Team Lead during the IT implementation project under the World Bank programs of Financial Sector Deepening and Intermediation Project (FSDIP) and Technical Assistance for Banking Sector (TABS). He has also contributed in various payment systems projects such as project implementation of Real Time Gross Settlement System (RTGS) in Pakistan and Disaster Recovery Project of SBP. Mr. Iqbal is now performing his duties as Director Payment Systems Department since March 2014.





BHUTAN

RMA is in the process of forming the National Payments Council

The Royal Monetary Authority of Bhutan (RMA) established the Payment and Settlement Systems Department in April 2009 for the development of payment systems in the country and to take care of all functions relating to the efficiency of payment systems. During a very short period of its existence, the Department has implemented various electronic payment systems such as the National Electronic Clearing System Credit (NECS Credit), National Electronic Clearing System Debit (NECS Debit), National Electronic Funds Transfer (NEFT) System as well as operationalisation of Bhutan Financial Switch which facilitates the interoperability of ATMs and the Point of Sales (PoS) of banks. These electronic payment systems have been implemented in collaboration with the commercial banks as these systems are bank-led models requiring remitters and the beneficiaries to have bank accounts to avail these payment systems.

To further enhance the development of payment system in the country, RMA is in the process of forming the National Payments Council (NPC). The NPC will have representatives from all the stakeholders. The NPC will be responsible for providing overall guidance for the development of payment and settlement systems of the country aimed at providing safe and efficient payment systems to the people.

The broad objective of forming the National Payments Council is to have a common forum for the stakeholders to discuss matters relating to the development of the country's payment systems with a view to achieving the following:

- ▶ Facilitate co-operation among all the participants for development of payment systems in the country;
- ▶ Improve payment systems to facilitate trade and economic growth;
- ▶ Promote safety and efficiency of payment systems;
- ▶ Develop payment systems comparable with international standards;
- ▶ Facilitate the stability of the financial system;
- ▶ Promote sound practices and good governance in payment systems to safeguard against risks; and
- ▶ Promote the use of electronic payment systems aimed at moving towards less cash society.

Work relating to the formation of the National Payments Council has already been initiated and the Council is expected to be functional in due course of time.



INDIA

Developments in Payment and Settlement Systems

1. Paper Clearing

Grid Based CTS: The Reserve Bank of India has been operating the CTS at the National Capital (NCR) region of Delhi. However, with the NPCI now given the permission to operate the northern grid, the CTS operations at New Delhi have been handed over by the RBI to NPCI which would be part of the northern grid. Hence, all the three CTS grids are being operated by NPCI and RBI is no more operating any clearing house in the country.

With the implementation of grid CTS which would cover the entire country, a gradual closure of MICR centres has also begun. Accordingly the MICR CPCs in the country has reduced from 66 to 28.

Further, the Express Cheque Clearing System (ECCS) used for conducting clearing at small centres with low volume has since been operationalized at 1336 clearing houses.

2. Retail and Large Value Electronic Payment Products:

NEFT: The number of NEFT enabled branches stood at 1,09,967 of 156 banks. NEFT handled a record volume of 82.83 million transactions of value Rs.5312.23 billion in the month of March 2014. Further, to enhance the customer service at bank branches directions were issued to the banks related to i) education of their staff/officials about NEFT ii) availability of applications forms at all branches iii) prominent display of NEFT charges at branches, agents / business correspondents to carry a printed "charges card" in appropriate vernacular language iv) at par charges for customers for inter-bank NEFT transactions at both branch locations and CSP/ BC/ agent locations v) to invariably send positive confirmation of credit to beneficiary account and vi) suo-moto credit of penal charges to customer for delayed credit.

RTGS

The new RTGS system went live on October 19, 2013 which uses ISO20022 message formats. The timelines for adoption of ISO20022 messaging formats by banks has since been extended to June 30, 2014. As the system is stabilised the Bank is contemplating to enabling certain new features i.e. future value dated transactions and hybrid settlement in the system shortly. The RTGS enabled branches as at the end of March 2014 stood at 1,07,329. During the month of March 2014, the daily value of RTGS transactions averaged at Rs.3.6 trillion (includes settlements of Multilateral Net Settlement Batch emanating from CCIL, NPCI and RBI operated systems), of which the gross transactions (customer and interbank) accounted for Rs.3.0 trillion.

3. Other Developments:

i) Prepaid Guidelines

Reserve Bank of India had issued the first set of guidelines on Prepaid Payment Instruments (PPIs) in 2009 and these had undergone amendments from time to time. Keeping in view the developments in this segment a need was felt to carry out a comprehensive review of the guidelines in

consultation with all the stakeholders.

Accordingly, the RBI has released consolidated guidelines on PPIs on March 28, 2014. Changes carried out in the existing guidelines /instructions are enumerated below:

- Capital required for new PPI issuers raised to Rs.500 lakhs (from the existing Rs.100 lakhs) and the net-worth requirement of Rs.100 lakhs to be maintained at all times (from the existing requirement of positive net owned funds)
- Permissible credits and debits that can be made to escrow account has been clearly laid down.
- Reiterated the requirement of cautioning the PPI holders before forfeiting the balance amount in PPI upon the expiry of PPIs in the language / mode preferred by the holder.
- Clarified that amounts received on account of failed / returned / rejected transactions should be credited to PPI account immediately even if it results in exceeding the limits prescribed for that category of PPI.
- Mandated that PPI issuers are required to report incidences of frauds involving PPI issued by them on a quarterly basis or earlier.

ii) Technical Committee on Mobile Banking

The Technical Committee set up by the RBI to examine the options/alternatives for expanding the reach of mobile banking in the country submitted its report. The main recommendations of the committee are i) standardization of processes such as user registration, user authentication process and user interface; ii) development of common mobile banking applications and common technological platform; iii) providing of fiscal incentives / economic subventions to the stakeholders and technological platforms by Government; iv) simplification of m-PIN generation; v) enabling multiple channels (application, SMS, USSD etc.) for mobile banking; vi) P2P (Person to Person) transfer

based on mobile number and “Aadhaar” number; and vii) common USSD gateway for mobile banking.

iii) **Virtual Currency:** To examine the issue and monitor the developments, an inter-department group has been set up to watch developments associated with the usage, holding and trading of VCs under the extant legal and regulatory framework of the country, including Foreign Exchange and Payment Systems laws and regulations on a continuous basis. Based on the Group’s report and recommendations the RBI has decided to follow a “wait and watch” policy as the popularity of VCs in the country is not alarming. Nevertheless, the Reserve Bank of India has issued a cautionary advise to the users, holders and traders of Virtual Currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to.

iv) **Oversight of retail Payment Systems: Templates**

In order to carry out effective oversight based on risk based approach a customised version of self-assessment templates based on the CPSS-IOSCO Principles for FMI has been introduced for all retail payment operators.

5. Financial Market Infrastructure Clearing Corporation of India (CCIL)

i) **QCCP status to CCIL:** CCIL has been declared a Qualified Central Counterparty (QCCP) in the Indian jurisdiction on January 01, 2014. Considering its systemic importance in financial sector CCIL has been advised to adopt the Principle of Financial Market Infrastructure (PFMI) issued by Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commission (IOSCO). RBI will assess CCIL against these principles on an on-going basis.

ii) **Trade Compression in Forex Forward:** CCIL has been accorded approval for carrying out Portfolio Compression in Forex Forward Trades of members in this segment on March 20, 2014. This process helps in taking out redundant trades and brings down gross open positions and thereby risks and operating cost. Trade compression brings about huge efficiency gain in managing outstanding trade positions by markets in a CCP environment. In the event of a default, the number of trades to be closed out is likely to be at far lower levels. This also reduces capital requirements/leverage ratio due to reduction in outstanding trades. The release of counterparty limits, post compression, enables participants to initiate new positions.

Incidentally, CCIL has been running Portfolio Compression of non-cleared IRS trades since July 2011 and it has helped in reduction in outstanding trades in the market by about 50% since then.

iii) **Interest Rate Swaps (IRS) guaranteed settlement:** CCIL has been given approval for commencement of IRS guaranteed settlement. Accordingly, CCIL has done a soft launch of the system on 28th March 2014 after carrying out full testing of the system including validation of internal processes. As CCIL has been designated a QCCP for the Indian jurisdiction, the charge to capital required to be maintained by banker under the Basel norm would be less if the trades are cleared through the CCP.

CCIL has also been permitted to develop an anonymous trading system for trading Rupee IRS.

 **NEPAL****Formulation of Payment and Settlement Act:**

The ground work has been initiated for the formulation of payment and settlement Act. We are hopeful to submit within 6 month to parliament for approval.

Revision of Banking Operation Manual:

New Banking Operation manual is in revision stage which will assist to maintain uniformity in payment and settlement practices as well as it will reduce processing work thus transaction would be faster than before.

Electronic Cheque Clearing (ECC):

NRB has started inward practice for ECC in regional basis which is finally settled in central level. After 3-4 months, we will be fully able for ECC inward and outward centrally.

Study for Electronic Fund Transfer Or Inter Bank Fund Transfer:

A study about Electronic Fund Transfer within banks is in ongoing stage. In the same way RTGS is also in fast track to submit the report about this.



IBAN

SBP has introduced International Bank Account Number (IBAN) an ISO Standard 13616 in 2012 for identification of bank accounts across national as well as international borders. IBAN will not only bring Standardization efficiency in cross border transaction transfers including remittances sent by overseas Pakistanis from IBAN Compliant Countries but it will also facilitate domestic interbank electronic transfers.

IBAN implementation was divided into two phases i.e. in Phase 1 banks were advised to generate and notify IBAN based account number to customer and in Phase 2, banks were advised to make arrangements for the operational use of IBAN in electronic fund transfers. The deadline for phase 2 was extended to 31st December, 2013. Majority of the banks have reported successful implementation of IBAN at all ADCs. IBAN based account number's printing has also been made mandatory by SBP in cheque books in a recently issued Cheque Standardization Circular in order to further educate and familiarize banks' customers with the IBAN standard.

Security features in cheques enhanced

The State Bank of Pakistan issued fresh instructions for enhancing security features in cheques while some previous guidelines have also been amended.

"For paper security, banks are required to ensure that all cheques contain printer's logo or name as a watermark,". The watermark can be single or multi tone. However, it must be ensured that Magnetic Ink Character Recognition (MICR) readability is not adversely affected by such watermarks.

Further, the paper used for cheques must contain at least on Invisible Ultraviolet (UV) security features, such as UV fibres, UV Hi-Lites or any other.

At least the MICR code line shall be Impact Printed using the Bleed Through Technology, while the

usage of Bleed Through Technology on any other field of the cheque is optional for banks. It must be ensured that Bleed Through features in the MICR code line or any other place is not laser printed.

SBP is also working in the following projects:

1. SBP is working to establish a criteria and Develop Guidelines for e-Payment Gateway and other Payment Service Providers.
2. Work on a consolidated ATM Guidelines for its management and standardization is under progress.
3. SBP is working to develop a senior level Payment Systems Committee and a Working Group to monitor payment systems developments and to take major policy decisions.
4. Work is initiated on having a Committee to review, assess and suggest measures for prevention of electronic frauds in the financial institutions of the country.
5. Work on Debit Cards for cardholders' security and efficient dispute resolution is underway.
6. SBP Guidelines on 2-Factor Authentication on major electronic channels are being developed.
7. SBP is also working on the following developmental projects:
 - Guidelines for Pre-paid cards
 - Guidelines on Point of Sale
 - Concept Paper on Anti-Skimming counter-measures
 - Oversight Framework for the oversight of Retail, systemically and prominently important payment systems

1st SPC Seminar on Payment Systems

The SPI Secretariat, in coordination with the host of 15th SPC Meeting, Nepal, is organizing the 1st SPC Seminar on Payment Systems on 10th May 2014.

Seminar Speakers:

Mr. Esmond Lee

Executive Director (Financial Infrastructure)

Mr. Lee is presenting '**RTGS – Emerging Issues and Challenges**' to the participants covering new innovations in the Large Value payment systems and guidelines for addressing the associated risks; role of RTGS in NPS and Regional Payment Gateways; challenges encountered in the implementation of Next Generation RTGS System.

Profile:

Mr. Lee is responsible for financial infrastructure. He joined the Hong Kong Monetary Authority (HKMA) in 1993 as Head (Market Systems). From 1998 to 2000, he was the HKMA Chief Representative in New York. Since returning to Hong Kong in 2000, he served again as Head (Market Systems) before his promotion to the current position. Before joining the Monetary Authority, he was working in the Hong Kong Government as a principal economist.

Mr. Harish Natarajan

Senior Payment Systems Specialist

Mr. Natarajan is presenting '**Role of non-banks (online Payment Gateway Service Providers, Mobile Wallets etc.)**' to the participants covering the role that non-banks can play in payment systems, leveraging the reach of existing non-banks service providers; non-banks complementing banks in reaching the payment system/ products.

Profile:

Mr. Natarajan is a Senior Payment Systems Specialist with the Payment Systems Development Group, at the World Bank (April 2009 to present). His responsibilities include assisting countries in improving safety, reliability and efficiency of payments, remittances and securities settlement systems. He is currently working on projects in these areas in several countries in the Middle-east and North Africa; South Asia; East Asia and Pacific; Central Asia; and, Latin America and Caribbean regions. He also represents the World Bank in the retail payments working group of the CPSS-BIS. Prior to joining the World Bank, Harish worked with VISA Inc, in the South Asia region in various senior level positions in business development, operations and risk management.

Payment Systems in Pakistan at a Glance (As on 31st December, 2013)

Sr. No.	Description	Number
	Financial Institutions	
1	Number of Commercial Banks	38
2	Number of Microfinance Banks	10
3	Number of Development Financial Institutions	8
	Banks' Categorization	
4	Number of Public Sector Banks	5
5	Number of Local Private Banks	22
6	Number of Foreign Banks	7
7	Number of Specialized Banks	4
8	Number of PRISM Direct Participants	45
	Infrastructure	
9	Number of Online Branches	10,596
10	Number of Manual Branches	553
11	Number of ATMs	7,684
12	Number of Interoperable Switches	2
13	Number of Banks Managing POS	6
14	Number of Point of Sale (POS) Machines	33,734
	Banks' Services	
15	Number of Banks Providing Internet Banking	24
16	Number of Banks Providing Mobile Banking	13
17	Number of Banks Providing Call Center Banking	22
18	Number of Banks issuing Credit Cards	12
19	Number of Banks issuing Debit Cards	25
20	Number of Banks issuing Prepaid Cards	7
21	Number of Banks having ATMs	30
	Per 100,000 Statistics*	
22	Number of online Branches per 100,000 Population	5.7
23	Number of ATMs per 100,000 Population	4.2
24	Number of POS per 100,000 Population	18.3

* Population value equal to 184.35 million taken from SBP Annual Report FY13.

SAARC Payments Council (SPC)

Event Calendar

Past Events/ Meetings/ Pending Decisions

Country	2008	2009	2010	2011	2012	2013	2014	(Decisions/Projects)	
Afghanistan	-	-	-	-	-	-	-	Decisions	Projects
Bangladesh			7 th SPC Meeting held on 28 th March 2010 in Dhaka, Bangladesh		12 th SPC Meeting held on 18 th November 2012 in Dhaka, Bangladesh			The Secretariat, in collaboration with member countries will organize training/attachment program for the officers of central banks of SAARC countries.	In the 14 th SPC Meeting it was decided that the Technical Team will be preparing initial concept paper / feasibility report on the pros and cons of establishing a Single Harmonized Payment Mechanism for the SAARC countries.
Bhutan		6 th SPC Meeting held on 3 rd November 2009 in Thimphu, Bhutan				13 th SPC Meeting held on 29 th July 2013 in Thimphu, Bhutan		As per the scope of SPI, the Secretariat will be conducting assessment of existing Payment & Settlement systems of the SAARC countries and their developments to date to find out ways to meet current and future demands. The Secretariat will be submitting a report to SAARC members in the forthcoming meetings.	
India	2 nd SPC Meeting held on 30 th June in Hyderabad, India		8 th SPC Meeting held on 15 th November 2010 in Bangalore, India			14 th SPC Meeting held on 9 th December 2013 (hosted by Reserve Bank of India at Kovalam, India)			
Maldives				9 th SPC Meeting held on 30 th May 2011 in Male', Maldives					
Nepal		5 th SPC Meeting held on 29 th March 2009 in Kathmandu, Nepal					15 th SPC Meeting to be held on 9 th May 2014 in Kathmandu, Nepal	SPI Secretariat in collaboration with member countries organizing 1 st SPC half-day Seminar on the Payment Systems on 10 th May 2014 at Kathmandu, Nepal	
Pakistan	4 th SPC Meeting held on 20 th December 2008 in Karachi, Pakistan				11 th SPC Meeting held on 23 rd April 2012 in Islamabad			16 th SPC Meeting to be held in October/ November 2014 (Member countries to decide)	
Sri Lanka	SPC Inaugural Meeting held on 28 th March 2008 in Colombo, Sri Lanka	3 rd SPC Meeting held on 29 th September 2008 in Colombo, Sri Lanka			10 th SPC Meeting held on 28 th November 2011 in Colombo, Sri Lanka			17 th Meeting to be held in April 2015 (Member countries to decide)	

SPC Meetings held (to be held) to date:

Country	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Number of times SPC Meeting conducted	0	2	2	3	1	1 + 1 (15 th SPC Meeting to be held in May 2014)	2	3

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