



Payment Systems Review

1st Qtr. (July—Sept.) FY12

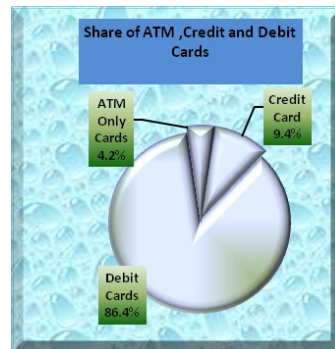
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Points of Interest:

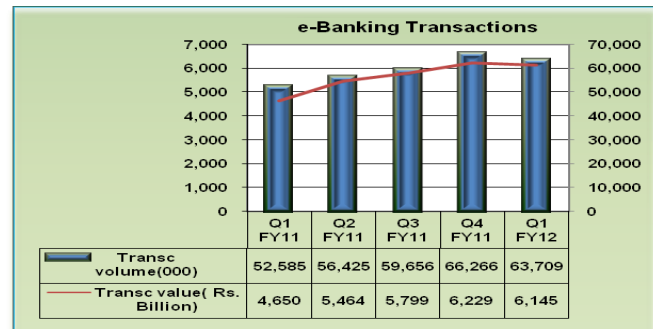
An introduction to SAARC Payment Initiative (SPI)

Snapshots of 5 years Payment Systems Developments in Pakistan

The Payment Systems infrastructure in Pakistan continued its growth momentum during the 1st Quarter of FY12 as 118 more ATMs were added in the market bringing the total number of ATMs in the country to 5,318 while 469 more bank branches were upgraded/ added to Real-Time Online Branches (RTOBs). A total of 7,885 bank branches are now offering RTOB out of total 9,651 bank branches in the country. The number of plastic cards also increased by 3.65 percent compared to the numbers recorded in the previous quarter. In total, there were 14.5 million plastic cards in circulation by the end of the quarter under review.



During the quarter under review, e-banking transactions settled at levels slightly lower than those in the previous quarter mainly as a reflection of overall economic activity in the country. The volume and value of overall e-banking transactions in the country during the quarter under review was recorded at 63.7 million and Rs.6.15 trillion respectively showing a decrease of 3.9 percent in the volume and 1.34 percent in value



as compared to the previous quarter. Similarly, ATM transactions showed 5.46 percent decrease in number of transactions and 0.04 percent decrease in value which resulted in an average value of Rs.9,222 per ATM transaction. At this level, the share of ATM transactions in total e-banking transactions' in terms of volume and value worked out to 58.2 percent and 5.6 percent respectively. The number of Real Time Online Branches (RTOB) transactions also decreased by 4.5 percent while the value of transactions decreased by 1.7 percent compared to the previous quarter. These transaction contributed almost 31 percent

of e-banking transactions and 93 percent in terms of value respectively. The volume of Large value payments through PRISM also showed a declining trend by 4.1 percent. However, value of transactions increased slightly by 2.7 percent compared to the previous quarter. The major portion of PRISM transactions in terms of value was in respect of settlements against securities which accounted for 56 percent of the total transactions followed by Interbank Funds Transfers at 30 percent and settlement of retail cheques through multilateral clearing at 14 percent.

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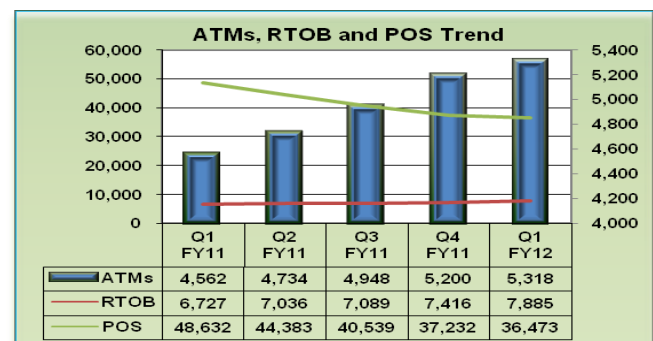
Payment Systems Review - July-September 2011

Yearly Comparison of e-Banking growth trend

News & Updates

Payment Systems Developments at SBP

A brief overview on Prepaid Cards—A new way to Bank



E-Banking Growth Trend— Yearly Comparison

	Qtr.1 FY11 (July – September 2010)		Qtr.1 FY12 (July – September 2011)		Yearly Growth (%)	
	Volume (000)	Value (Rs. Billion)	Volume (000)	Value (Rs. Billion)	Volume	Value
E-Banking	52,584.72	4,650.17	63,709.34	6,145.46	21	32
RTOB	16,458.93	4,329.08	19,598.66	5,694.49	19	32
ATM	30,934.41	262.52	37,093.32	342.06	20	30
POS	3,426.87	15.76	4,137.25	18.01	21	14
Call Center	214.58	1.85	169.82	1.79	-21	-3
Internet Banking	871.78	39.18	1,646.70	84.85	89	117
Mobile Banking	678.15	1.78	1,063.59	4.27	57	140
E-Banking Infrastructure						
	As of 30 September 2010		As of 30 September 2011		Yearly Growth (%)	
ATMs	4,562		5,318		17	
RTOB	6,727		7,885		17	
POS	48,632		36,473		-25	
Credit Cards(000)	1,677		1,363		-19	
Debit Cards(000)	8,697		12,553		44	
ATM Only Cards(000)	693		613		-12	

In the retail payment systems, Microfinance Banks data are not included.
Discrepancy may occur due to rounding of data.

Key findings:-

- Phenomenal growth was observed in the mobile and internet banking which was due to the higher consumer preferences and confidence on the usage of these ADCs for their financial transactions.
- The number of ATM only cards has declined due to the fact that banks are converting their 'ATM only' cards into Debit cards which can also be used on POS terminals.
- Strict Credit Card issuance policies of banks coupled with their strategic decisions continued investments in POS terminals resulted in negative impact on the number of Credit Cards and POS terminals.
- Development of other ADCs such as internet and mobile banking has also given downward push to the growth of Call Centre banking.

Snapshot - 5 years Payment Systems Development in Pakistan

14.5 million

Plastic (credit and debit) cards have been issued across Pakistan till the end of the Qtr. under review, indicating remarkable growth in overall e-banking.

The volume of ATM transactions has jumped from 11.4million (Qtr. 01 FY07) to the current figure showing a continuous upward trend in the market of Debit cards.

37 million

5,300+

ATM machines have been installed to date by banks in Pakistan.

Real time online branches showed tremendous growth.

7,885

12 million+

Debit Cards also depict a continuous upward trend over the last five years.

News & Updates

VISA launches bilingual website for Pakistan - The website will provide fundamental personal finance information in both Urdu and English on topics such as learning how to plan budget, preparing for the future, using a Credit Card wisely and spending responsibly. There are millions of people who do not have access to the convenience, reliability and security of digital currency or inclusion in the financial mainstream. This restricts people to cash and



carry existence, negatively impacts productivity and, ultimately, economic growth.

This initiative will help in the enhancement of financial literacy in Pakistan. A similar view would also serve the same purpose if banks adopt the same marketing strategies for their product features.

Pakistan enjoys best Telecom Regulatory environment in Asia Pacific, according to a survey conducted by an ICT policy and regulation think tank, "Pakistan has topped in Asia Pacific for having best Telecom Regulatory Environment (TRE)." Although, there is a tremendous improvement in the mobile banking but it is also evident that a huge market remained unbanked in the rural areas of Pakistan. Banks are now required to bring more focused approach along with both regulatory authorities in order to increase financial inclusion. The report said that Pakistan has topped the chart by hitting 3.3 TRE scores. Seven different dimensions of regulations (market entry, tariff regulation, interconnection, universal service, anti-competitive-practices, quality of service) are evaluated by the stakeholders. Survey results concluded that India, Pakistan and Indonesia have bettered their telecom regulatory environment. Bangladesh, Sri Lanka, the Philippines have seen the regulatory environments decline in effectiveness, while Thailand remained more-or-less the same.

The Nepal Rastra Bank, with a view to enhance the efficiency, volume and security of transactions, allowed Nepal Clearing House Ltd. (NCHL) for Electronic Cheque Truncation System. With the establishment of this, the existing manual clearing of cheques of banks and financial institutions through NRB's Clearing House has been discontinued from December, 2011. NCHL will use state of the art technology for cheque clearing under the name of NCHL-ECC system and will primarily provide cheque clearing services to the banks and financial institutions. After the establishment of ECC, NRB will facilitate nation-wide electronic processing of cheques which will be later extended to establishment of national payments gateway to facilitate an electronic payment system for all financial transactions in the country.

Payment Systems Developments at SBP

Circulars

During the period under review:

- PSD issued a circular in respect of Cut-off timings for settlement in PRISM system during Ramazan-ul-Mubarak to all RTGS participants (<http://www.sbp.org.pk/psd/2011/CL2.htm>); and
- To further ensure the provision of uninterrupted and efficient services to customers, PSD instructed through a circular all banks to strictly Monitor ATM cash and downtime during Ramazan/ EID Holidays (<http://www.sbp.org.pk/psd/2011/CL3.htm>)

International Banking Account Number (IBAN)

IBAN is an international standard (ISO 13616-1:2007) for identifying accounts across borders. The IBAN facilitates communication and processing of fund transfer related transactions while minimizing transcription errors. It allows exchanging account identification details in a machine-readable form and facilitates STP (Straight Through Processing). PSD is currently engaged with PBA (Pakistan Bank's Association) for early introduction of IBAN, as a standard, in Pakistan's financial industry. For the purpose, PSD has also provided draft guidelines on IBAN to all banks for feedback.



SAARC PAYMENTS INITIATIVE

The SAARC Payments Initiative (SPI) is a regional forum created by central banks/ monetary authorities of SAARCFINANCE Group to have common understanding and cooperation to help each other to move forward in reforming their national payment and settlement systems (PSS) and also to establish an appropriate regional payment system that facilitates trade and investment in the region.

The idea of establishing of a regional payment initiative in SAARC region originated in the SAARCFINANCE Conference entitled 'Towards a Regional Payment Group' held at Central Bank of Sri Lanka (CBSL) in July 2007. The Governors of the SAARCFINANCE Group approved the proposal for establishing SPI in a meeting held in Washington in October 2007. The SPI is primarily aims at strengthening the existing payment and settlement systems (PSS) in the SAARC region to facilitate an efficient, robust, stable and convergent PSS for SAARC region, that benchmarked with international standards.

The SPC acts as a forum of SAARC countries to: i) Collectively evolve high level strategic direction and implement a road map for PSS reforms of individual member countries; and ii) Standardize PSS to create a level playing field in promoting regional harmonization and integration of domestic PSS of member countries for the development of intra-regional PSS.

SPC Member Central Banks—all SAARC member countries are members of SPI - **State Bank of Pakistan, Reserve Bank of India, Central Bank of Sri Lanka, Nepal Rastra Bank, Da Afghanistan Bank, Bangladesh Bank, Royal Monetary Authority of Bhutan, Maldives Monetary Authority**

Vision of SPI:- *"Converging to internationally recognized benchmark for efficient and safe electronic payment and settlement system infrastructure to cater to the emerging needs of the region."*

Mission of SPI:- *"Collaborate and assist in implementing enhanced and cost effective use of electronic banking and payment systems as recognized in the statement of common objectives."*

SPC meets quarterly in a member country. Pakistan also hosted 4th meeting of SPC on December 20, 2008 at LRC Centre, SBP, Karachi.

Altogether 6 **SAARC Payment Bulletins** (bi-annual) have been published to date since inception in 2008, wherein all member countries shared information about their most recent payment systems developments and measures taken to promote PSS in respective countries.

The SPI Secretariat was located at the Central Bank of Sri Lanka CBSL initially for a period of 2 years to assist the SPC in coordinating its work. CBSL still continues to perform as the SPI Secretariat.

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Disclaimer

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...and why Prepaid cards? A new way to Bank



Because of poor credit history, most of the Credit Card application/ requests are rejected. The problem is that a credit card is needed for important business transactions like making hotel or airline reservations. For those with bad credit history, prepaid cards open up the possibility of engaging in these transactions.

The best part of the card is that spending cannot go so far as to

send the account holder into debt. On the other hand, unlike credit or debit cards connected to a deposit account, the prepaid ones won't help to establish or strengthen an individual's credit history, which in turn could hurt the chances to secure a loan or open a bank account in the future. However, it remains one of the best opportunities to bank the unbanked people.

Prepaid cards have made good progress in the country and are becoming a popular product among the customers especially the unbanked population. Various new services were also introduced by banks to be provided through prepaid cards for which SBP has granted approvals such as corporate liability cards for the disbursement of salary and other benefits. SBP has further strengthened the overall mechanism to issue prepaid cards by placing conditions on banks to be followed before issuing cards such as conditions on expense limits on the usage of cards, KYC, AML/CFT, security standards etc.