



Payment Systems Review

3rd Qtr. (Jan.—Mar.) FY12

Date: 28 May 2012

Points of Interest:

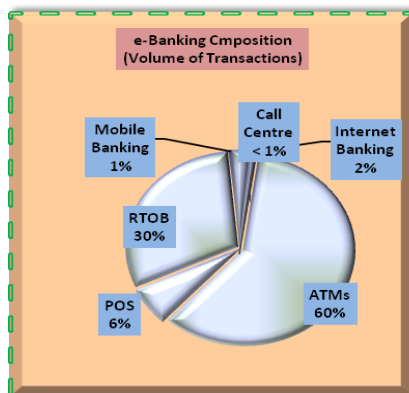
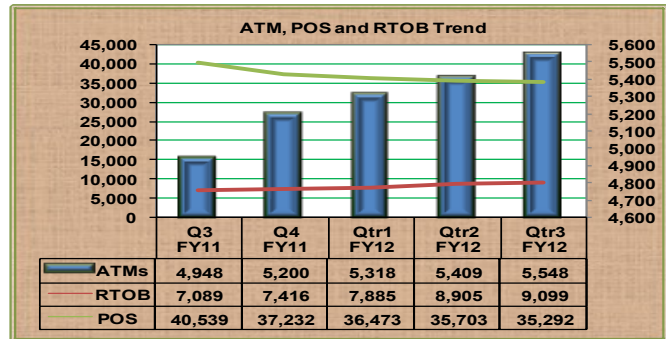
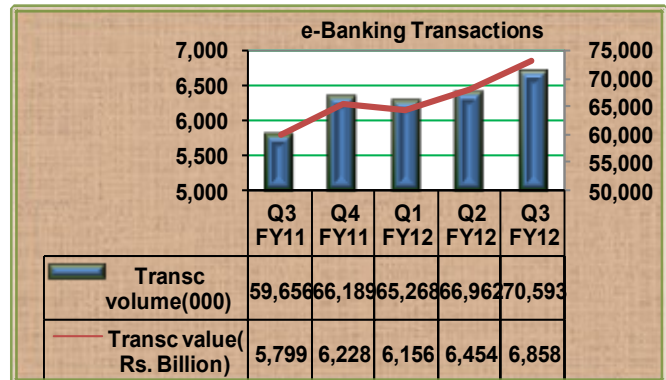
Real time Gross Settlement System (RTGS)

SAARC Payments Council (SPC) Meeting at Islamabad, Pakistan

The Payment Systems infrastructure in Pakistan showed continuous upward growth trend during 3rd Quarter FY12. A total of 139 more ATMs were added bringing the total number of ATMs in the country to 5,548 whereas 194 more bank branches were upgraded to Real-Time Online Branches (RTOB). Currently, 9,099 bank branches are offering RTOB services out of total of 9,948 bank branches across country.

The number of plastic cards also increased by 9.07 percent compared to the numbers recorded in the preceding quarter. By the end of quarter under review, there were 16.6 million plastic cards circulating in the country.

The volume of overall e-banking transactions in the country during the quarter under review regis-



tered an increase of 5.4 percent to 70.6 million. At this level, the value of these transactions also depicted a growth of 6.26 percent compared to the preceding quarter ended December, 2011. The overall number of ATM transactions also showed an increase of

5.1 percent and the value increased by 8.1 percent. The average value per ATM transaction stands at Rs. 9,831. The share of ATM transactions in total e-banking transactions' in terms of volume and value worked out to 59.6 percent and 6.0 percent respectively. Compared to the figures reported in previous quarter, the number of Real Time Online Branches (RTOB) transactions also increased by 5.72 percent whereas the value of transactions increased by 5.95 percent. The volume and value of transactions through POS terminals stood at 4.5 million and Rs. 21.05 billion depicting 6.2 and 7.6 percent growth respectively as compared

to the figures reported in the previous quarter.

Although the volume of large-value payments through RTGS increased by 8.8 percent, the value of transactions however recorded a decline of 8.2 percent. The decrease is due to decline in securities settlement value from Rs. 18.7 trillion to Rs. 16.1 trillion. Despite the above decline, the major portion of RTGS transactions continued to be in respect of settlements against securities followed by Interbank Funds Transfers and settlement of retail cheques through multilateral clearing contributing 57.7, 31.5 and 10.8 percent respectively.

Inside this issue:

Payment Systems Review - January - March 2012

Yearly Comparison of e-Banking growth

News & Updates—ATM Special

Payment Systems Developments at SBP

E-Banking Growth Trend— Yearly Comparison

Yearly E-Banking Trend						
E-Banking Transactions						
	Qtr3 FY11		Qtr3 FY12		Yearly Growth	
	Volume(000)	Value(Rs. Billion)	Volume(000)	Value(Rs. Billion)	Volume	Value
E-Banking	59,655.50	5,799.41	70,592.91	6,858.05	18%	18%
RTOB	19,233.91	5,424.74	21,414.87	6,323.80	11%	17%
ATM	34,830.94	305.01	42,096.23	413.86	21%	36%
POS	3,410.93	16.36	4,457.41	21.05	31%	29%
Call Center	188.08	1.58	161.91	1.86	-14%	18%
Internet Banking	1,104.04	49.93	1,842.13	94.74	67%	90%
Mobile Banking	887.60	1.78	620.37	2.73	-30%	53%
E-Banking Infrastructure						
	As of March 31,2011		As of March 31,2012		Yearly Growth	
ATMs		4,948		5,548		12%
RTOB		7,089		9,099		28%
POS		40,539		35,292		-13%
Credit Cards(000)		1,384		1,266		-9%
Debit Cards(000)		11,348		14,674		29%
ATM Only Cards(000)		694		678		-2%

News & Updates...ATMs Special

NCR, BNZ win IT award for predictive services installation: NCR Corporate and Bank of New Zealand have jointly won the 'Best ATM Installation and Management Project' at the Asian Banker 2012 Technology Implementation Awards. The award recognizes Bank of New Zealand for the first ever deployment by a financial institution of NCR Predictive Services—A technology that anticipates ATM and schedules maintenance before the machine actually breaks down. More than 40% of alerts from BNZ's ATM network are now predictive, meaning an engineer arrives to fix a fault before it has actually occurred. This has allowed the bank to reduce ATM downtime by one-third and achieve network availability of nearly 99 percent. Such revolutionary services may be worked out by commercial banks in Pakistan in the light of a dire need to reduce daily customer complaints/ issues of ATM downtime.

Rapid increase of ATM's in China—2012: As per RBR, strategic research and consulting report, titled "ATMs in China 2012", the number of ATMs in China

nearly tripled, putting the country on a footing to become the world's largest ATM market soon, surpassing the US, Brazil and Japan. In a survey, RBR found that Chinese banks identified growing customer demand and increasing fees for "not-on-us" transactions as major enablers for growth. In 2011, the number of ATMs in China increased by a record 59,000 terminals to a total of 339,000.

Public Sector Banks join hands to open ATMs, cutting costs—India: To bring down operational cost of ATMs by almost 30% India state run banks will collectively open approx. 65,000 ATMs in the current fiscal year. This will help banks reduce transaction cost as the member of ATMs in a particular geography will increase substantially, giving them more bargaining power in settling transaction charges with the vendors. However, it will result in lower margin for ATM vendors. The unified approach in installing ATMs or cash dispensation machines follows an earlier directive from the finance ministry which wanted banks to reduce transaction cost—the

price they pay to vendors for running the machines.

Facts about ATMs around the world:

1. There are over 1.2 million ATMs installed worldwide, according to estimates by Retail Banking Research Ltd.
2. In Malaysia and Singapore, you can apply for an Initial Public Offering (IPO) at an ATM.
3. In Brazil, some ATMs use palm and wrist vein biometrics to identify users.
4. In Qatar, the nation's largest wireless service provider uses drive-up ATMs for customer bill pay. The machine accept cash and cheques to pay their mobile phone bill.
5. A recent Harris Interactive poll found that the ATM was as vital to respondents as e-mail, equal in consumers' minds to cell phones and trailing only computers and microwaves in popularity.



Real-Time Gross Settlement System (RTGS)

The concept of Real Time Gross Settlement (RTGS) is not new. RTGS is now being used by almost all developed as well as developing countries of the world. RTGS is a mechanism that enables banks to make large-value payments to each other in real-time using online telecommunication facilities as well as state-of-the-art computer systems. It is one of the major developments in financial infrastructure to eliminate systemic & settlement risk by providing immediate and irrevocable funds transfers among the participating financial institutions.

As part of payment systems reform, the PRISM (RTGS) was implemented/ launched in July, 2008. The implementation of PRISM is one of the major financial infrastructure developments in the country and changed the structure of payment processes and reduced the operational and liquidity costs of the participants. In normal operations, the system does not expose its participants to credit risk having comprehensive features that allow its participants to properly manage their liquidity and operational risks. All PRISM participants (banks) are required to hold current settlement accounts with SBP BSC (Bank). The settlement of payments in RTGS is carried out according to the PRISM rules whereby participants accounts are debited and credited simultaneously and electronically.

RTGS system is also facilitating the banking industry to meet their regulatory obligations i.e. Cash Reserves Requirement (CRR) and Statutory Liquidity Reserves (SLR). Since banks have to maintain adequate CRR and SLR, this system will instantaneously update their bank accounts after carrying every transaction improving their liquidity management as the fund managers will have to provide more accurate estimates of their payment obligations based on the latest availability of liquidity in the system.

RTGS system always settles payments individually in central bank money and requires more balance in the settlement account of banks compared to the previous settlement system. The main features through which RTGS resolves banks' temporary liquidity shortage problems are Queue Management where the pending transfer instructions are queued and are released for settlement when the covering funds become available on the basis of FIFO plus priority principle; Priority in which participants assign different priorities to their payments based on criticality of the payments; Gridlock when activated by SBP, can offset large number of transactions on individual basis by reprioritizing payments in queue using different algorithms; and Intraday Liquidity Facility (ILF) a facility by SBP to facilitate settlement and is fully collateralized liquidity facility extended against approved government securities and reversed by the end of day.

Multiple Credit Transfer Facility

In order to further facilitate payment through PRISM System, SBP has introduced multiple credit transfers facility for 3rd parties. This new payment option allows banks to transfer bulk payments like salaries, remittances etc. to a single bank in a batch processing mode.

This facility can also be used by the retail customers for fund transfers through PRISM System. The lower value limit for multiple credit transfers is PKR 100,000. It is expected that extending such a facility through PRISM would not only enhance efficient fund transfers by banks, but will also result in cost reduction for such transfers as all inclusive transaction charges recovered by banks/ DFIs from their customers for each payment instruction sent using MT 102 are capped at Rs.50/-.

The RTGS system displayed significant growth in both transaction volumes and values. The table shows a Glimpse of growth since inception:

Year	Securities Settlements		Interbank Funds Transfer		Retail Cheques Clearing		Total	
	Numbers	Amount (Billion)	Numbers	Amount (Billion)	Numbers	Amount (Billion)	Numbers	Amount (Billion)
2008-09	46,205	26,837	147,646	25,409	42,815	10,443	236,666	62,689
2009-10	54,071	37,358	188,706	24,985	51,736	11,635	294,513	73,978
2010-11	57,860	39,068	221,780	31,035	50,208	12,729	329,848	82,832
July 2011 - March 2012	50,000	49,019	187,676	25,196	35,495	9,346	273,171	83,561

Payment Systems Developments at SBP

State Bank of Pakistan (SBP) has assumed the responsibilities of managing SAARC Payments Council (SPC) Secretariat with effect from 1st March, 2012 for a period of two years. Earlier, the Central Bank of Sri Lanka had managed this Secretariat for about three years. The Secretariat is housed in Payment Systems Department at 4th Floor of SBP main building, I. I. Chundrigar Road, Karachi.



11th SAARC Payments Council Meeting held on 23rd April 2012 at Serena Hotel Islamabad



State Bank of Pakistan hosted the 11th Meeting of the SAARC Payments Council (SPC) on 23rd April 2012 at Serena Hotel Islamabad. Mr. Azhar I, Kureshi Executive Director SBP, the new Chairman of the SPC chaired the meeting. SBP had also hosted 4th meeting of SPC on December 20, 2008 at Karachi.

The SPC acts as a forum of Central Banks and Monetary Authorities of SAARC countries to collectively evolve high level strategies and road map in the area of Payment and Settlement Systems (PSS) for reforming, upgrading and standardizing PSS in the SAARC region with a view to promote regional harmonization and integration of domestic PSS of member countries for the development of intra-regional payment systems.

During the recent meeting, the member countries namely Afghanistan, Bhutan, Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka discussed recent developments and reforms undertaken to develop their national PSS and shared their experiences with respect to new initiatives in their respective countries. Deliberations also focused on evolving ways to bring legal certainty, improve security and efficiency in the systems, spreading financial literacy, automation of various systems, upgrade structure of cross border remittances and strengthening regulatory and oversight regimes.

Contact:

Payment Systems
Department State Bank of
Pakistan
I. I. Chundrigar Road
Karachi

Phone: 021 3245 3448
021 3245 3413

Email:
arshad.khan2@sbp.org.pk
nadeeml@sbp.org.pk

Disclaimer

The information provided in articles, submissions and spotlights are those of the contributors and do not necessarily represent the views of State Bank of Pakistan or any other authority. It is the purpose of this piece to share a variety of information on the subject.

Although, great care has been taken in ensuring the correctness of the facts/figures we, however, accept no responsibility whatsoever for the accuracy of the contents reproduced from other sources.



Sitting on Chairs (L to R): Mir Aziz Baraki (Afghanistan), Aishath Nadhiya (Maldives), Mariyam Hussain Didi (Maldives), Ranjani Bandaranayake (Sri Lanka), Azhar I. Kureshi (Exec. Director, Chairman SPC), Vijay Chugh (India), A.K.M. Fazlur Rahman (Bangladesh), Jail Narayan Pradhan (Bhutan), Nilima Chhabilal Ramteke (India).

Standing (L to R): Zamir Afzal Khan (Joint Director, SBP), Rajan Bikram Shah (Nepal), Zafar Iqbal (Director, SBP), M. Arshad Khan (Sr. Joint Director, SBP), Syed Himyanuddin Ahmed (Bangladesh).