



STATE BANK OF PAKISTAN



3rd Quarterly Report on The Retail Payment Systems of Pakistan (*Paper Based and E-Banking*) January-March, FY09

Payment Systems Department
(Planning & Development Division)

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EXECUTIVE SUMMARY:

Total Retail Payments:

During Qtr-3, the volume and value of total retail payment transactions in the country reached at 121.7 million and Rs.38.9 trillion respectively showing increase of 1.1 percent in number and 2.5 percent increase in value as compared to 2.0 percent decline in numbers and 8.5 percent decline in value in the previous quarter.

Paper Based:

During Qtr-3, the volume and value of paper based transactions in the country reached at 81.7 million and Rs.35.3 trillion respectively showing decrease of 1.4 percent in numbers and 1.6 percent increase in value as compared to 2.8 percent decline in numbers and 8.3 percent decline in value in the previous quarter.

eBanking:

During Qtr-3, the volume and value of eBanking transactions in the country reached at 40.0 million and Rs.3.6 trillion respectively showing increase of 6.5 percent in numbers and 11.4 percent increase in value as compared to 0.2 percent decline in numbers and 11.3 percent decline in value in the previous quarter.

Debit & Credit Cards:

The quantity of cards (debit / credit /ATM) in circulation during Qtr-3 reached at 8.4 million which shows decline of 3.1 percent compared to 11.7 percent increase in the previous quarter. Here the quantity of credit cards has decreased by 6.2 percent as compared to 1.8 percent increase in the previous quarter reaching at 1.7 million. Debit cards has decreased by 2.5 percent as compared to 16.3 percent increase in previous quarter and stood at 5.8 million.

Infrastructure:

The total quantity of ATM machines during Qtr-3 reached at 3,783 registering a growth of 7.4 percent as compared to 7.6 percent increase in the previous quarter. The volume of Real Time Online Branches (RTOB) during Qtr-3 reached at 5,961 and recorded a growth of 1.8 percent as compared to 8.0 percent increase recorded in the previous quarter. The total quantity of POS terminal reached 48,399 showing a decrease of 1.1 percent in number as compared to 4.9 percent increase in previous quarter.

ATM Transactions:

During Qtr-3, the volume and value of ATM transactions in the country reached at 22.5 million and Rs.168.4 billion respectively showing growth of 5.2 percent in numbers and 10.2 percent increase in value as compared to 2.5 percent decrease in numbers and 3.4 percent decline in value in the previous quarter.

RTOB Transactions:

During Qtr-3, the volume and value of RTOB transactions in the country reached at 12.4 million and Rs.3.4 trillion respectively showing growth of 14.8 percent in numbers and 11.7 percent increase in value as compared to 3.0 percent increase in numbers and 11.8 percent decline in value in the previous quarter.

Other e Banking Channels:

During Qtr-3, the volume and value of eBanking channels (POS, Internet & Call Center/IVR, and Mobile) transactions in the country reached at 5.1 million and Rs.39.8 billion respectively showing decrease of 4.9 percent in numbers and 0.5 percent increase in value as compared to 2.9 percent increase in numbers and 0.4 percent increase in value in the previous quarter.

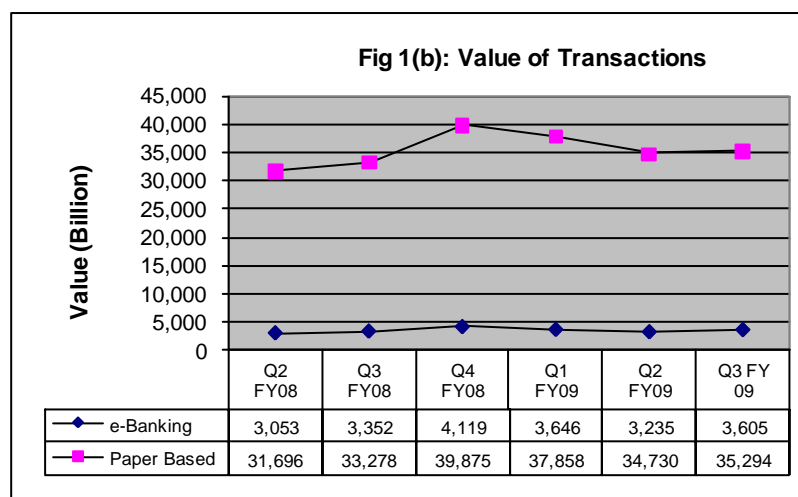
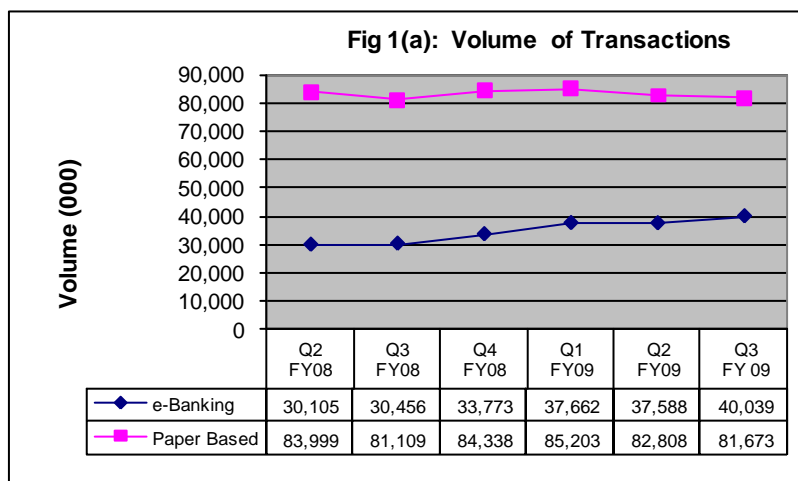
Transformation:

The use of electronic channels has been showing a consistent growth as during Qtr-3, the contribution of electronic transactions increased to 32.90 percent in numbers compared to 31.22 percent share recorded during previous quarter. In terms of value, the electronic channel's composition recorded 9.27 percent against 8.52 percent share recorded for the previous quarter.

1. Introduction

The retail payments in Pakistan comprise of various paper-based and electronic instruments from conventional cheques to modern smart cards. The system handles high volume and low value transactions through paper based (such as cheque) and non-paper based transactions (such as eBanking). The ease and comfort associated with eBanking has been gradually reducing the volume and value of paper based transactions in Pakistan. This report focuses on the transactions of retail nature through paper as well as electronic mode. During Qtr-3 FY2008-2009 the volume of total retail payment transactions registered a growth of 1.1 percent against 2.0 percent decrease in the previous quarter and value of total retail payment transactions registered a growth of 2.5 percent against 8.5 percent decline in the previous quarter.

The trend of paper and electronic based transactions and value since Q2 FY2007-2008 is given in the **Fig. 1a & 1b** below:



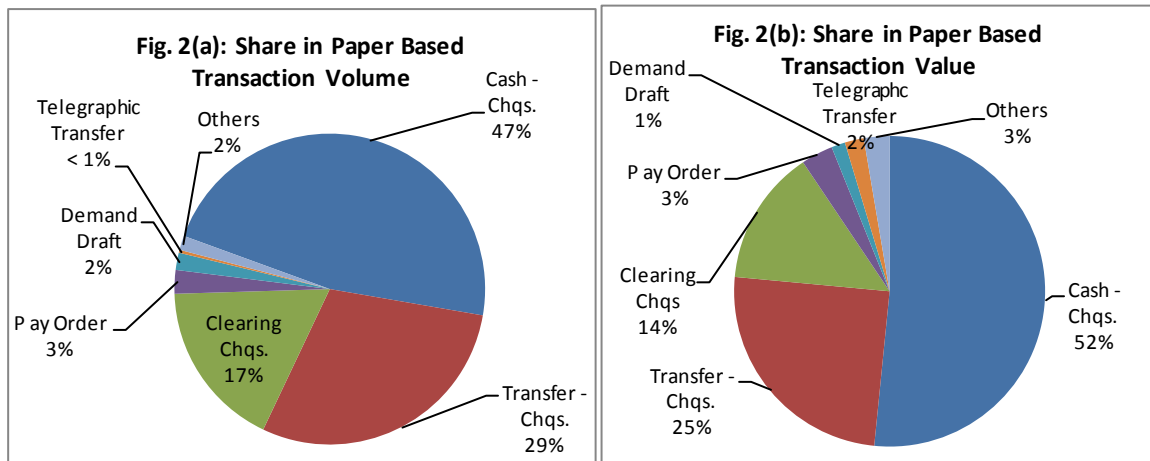
1.1 The Retail Payments through Paper Based Instruments

Qtr-3 FY2008-2009 witnessed a decline of 1.4 percent in numbers compared with 2.8 percent decline in the previous quarter (**Fig. 1a / Table-1**). The value of transactions increased by 1.6 percent against 8.3 percent decrease recorded during previous quarter (**Fig b**).

Table 1: Paper Based Instruments

Instruments	Qtr 2 FY09		Qtr 3 FY09	
	Number (million)	Amount Rs. (trillion)	Number (million)	Amount Rs. (trillion)
Cash – Cheques	40.3	17.7	↓38.5	↑18.2
Transfer - Cheques	23.2	8.8	↑24.0	8.8
Clearing - Cheques	14.2	4.9	↑14.3	↑ 5.0
Pay Orders	2.0	1.2	2.0	1.2
Demand Drafts	1.5	0.4	1.5	↑ 0.5
Tele. Transfers	0.4	0.8	↓ 0.2	↓ 0.7
Others	1.3	1.0	↓ 1.2	↓ 0.9
TOTAL	82.8	34.7	↓ 81.7	↑ 35.3

While looking at the composition of the paper based instruments, the cheques (such as cash, clearing, transfer) carry a major share i.e. 94 percent in volume and 91 percent in value. Here the cash cheques have been the most widely used paper based instrument with 47 percent share in volume and 52 percent share in value. The respective percentage share of all instruments is shown in the **Fig. 2a & 2b**.

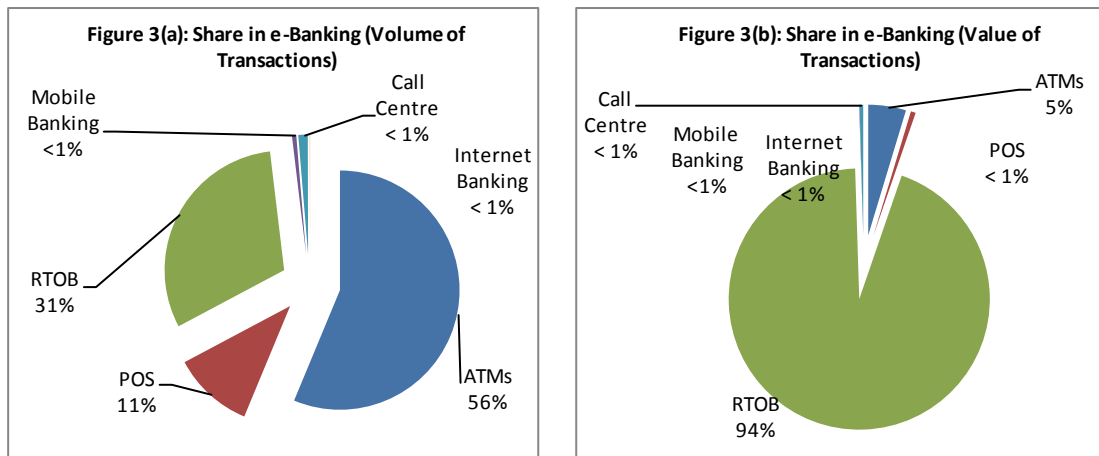


1.2 The Retail Payments through eBanking

In terms of volume, the electronic banking has recorded 40.0 million transactions showing 6.5 percent increase against the decrease of 0.2 percent recorded in the previous quarter. In terms of value, it reached Rs.3.6 trillion showing an increase of 11.4 percent against 11.3 percent decline recorded in the previous quarter (**Fig. 1a & 1b**).

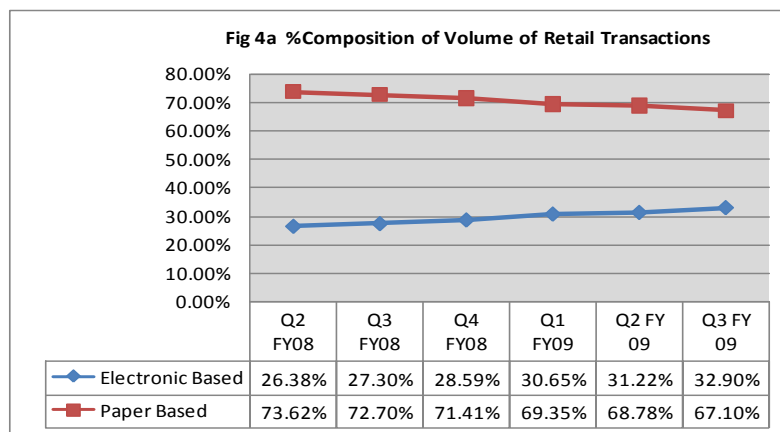
1.3 Share of ATMs, POS and RTOB in eBanking Operations

ATMs are commonly used for frequent but small value cash withdrawals, therefore, its share in total number of electronic transactions was recorded to be the highest i.e. 56 percent. During Qtr-3 the average size of ATM transactions¹ was recorded at Rs.7,474 compared to Rs.7,140 recorded during previous quarter. The share of Real Time Online Banking (RTOB) and POS in the total e-Banking was 31 percent and 11 percent respectively. Call Centre, Internet Banking and Mobile Banking however had comparatively low share in the total eBanking business (Fig. 3a). In terms of value, the RTOB contribution was 94 percent, since this channel is mostly used for B2B transactions. ATM transactions contributed 5 percent in the value of transactions. The share in value of POS, Internet, Mobile banking and Call Center banking is very nominal (Fig. 3b).

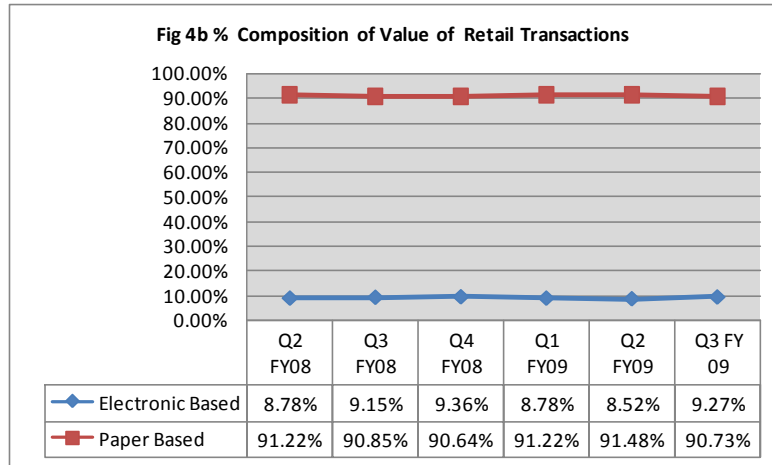


1.4 Transition to eBanking:

During the last six quarters the transition from manual (paper based) banking to e-banking has been gradual, yet consistent, in terms of both volume and value of transactions. The composition (in percentage) of electronic transaction increased to 32.90 percent of the total number of transactions as compared to 31.22 percent recorded last quarter. In terms of value, the same recorded to 9.27 percent as compared to 8.52 percent recorded last quarter (Fig 4a & 4b).



¹ The average size of ATM Transactions = Total Amount / Total number of transactions. Here the total number of ATM transactions include cash withdrawal, cash deposit, IBFT, utility bills payment, and deposit of Payment instruments

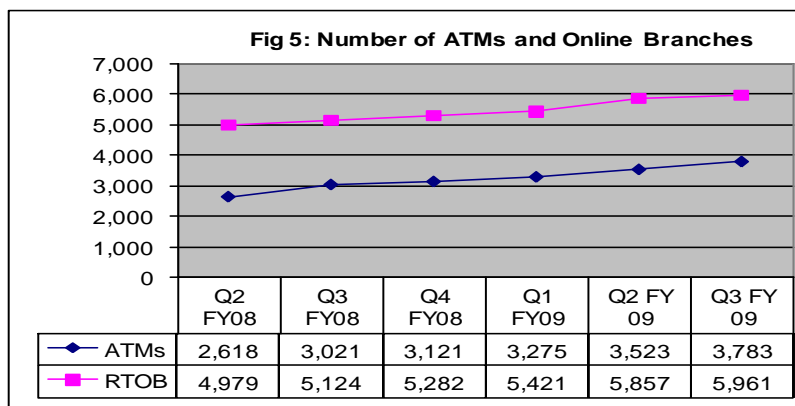


2. eBanking Infrastructure in Pakistan

2.1 Online Branch Network and Automated Teller Machines (ATMs)

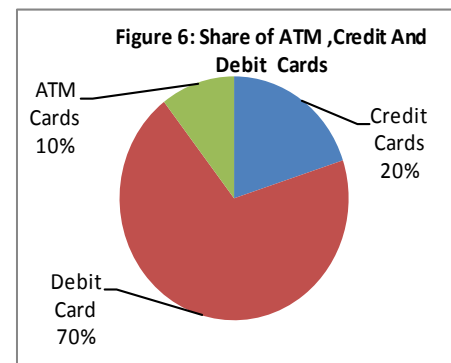
During Qtr-3, banks have increased their online Branch network 5,857 to 5,961, showing growth of 1.8 percent compared to 8.0 percent growth recorded in previous quarter.

The share of online branches in the total branch network has increased from 67.0 percent to 68.0 percent. Similarly, during Qtr-3, banks have added 260 new ATMs in their network, bringing the total number of ATMs in the country to 3,783 thus reflecting a growth of 7.4 percent as compared to 7.6 percent growth recorded in the last quarter (**Fig. 5**).



2.2 Number of Cards (Credit/Debit/ATM)

As of March 31, 2009, the total number of cards in circulation has recorded 8.4 million as compared to 8.7 million cards recorded in the last quarter showing decrease of 3.1 percent (**Fig. 6**).



2.2.1 Credit Cards

The total number of credit cards decreased from 1.8 million to 1.7 million in Qtr-3 showing decrease of 6.2 percent compared to 1.8 percent increase recorded in the previous quarter. Quantity of Islamic credit cards has reached at 2,798.

2.2.2 Debit Cards

Total number of debit cards has decreased from 5.98 million to 5.83 million in Qtr-3 showing decrease of 2.5 percent compared to 16.3 percent increase recorded in the previous quarter.

2.2.3 ATM Cards

During Qtr-3, the total number of ATM cards in circulation recorded at 0.879 million against 0.889 million cards reported during last quarter showing decrease of 1.1 percent compared to 4.1 percent increase recorded in the previous quarter.

2.2.4 Smart Cards

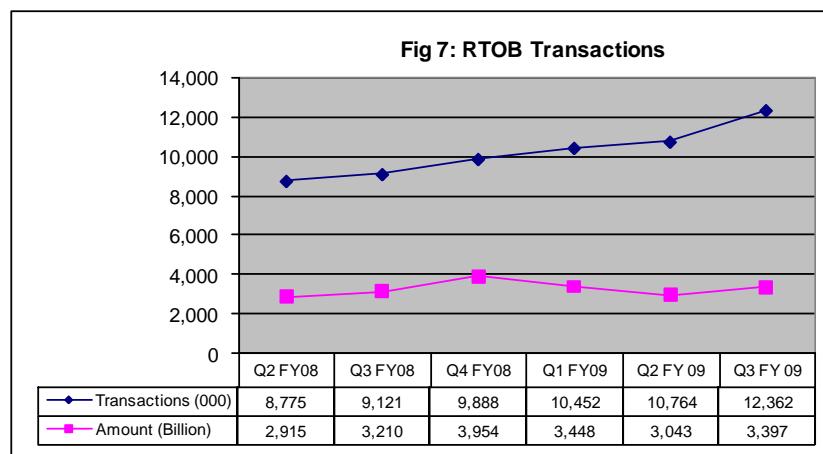
Smart cards are chip based card with enhanced memory and security features. Out of 8.4 million debit/credit/ATM cards, 0.423 million or 5.04 percent are chip based cards. During Qtr-3, however, the total quantity of chip based cards increased by 0.1 percent.

3. Volume and Value on E-Banking in Pakistan:

3.1 Real Time Online Banking (RTOB) Transactions:

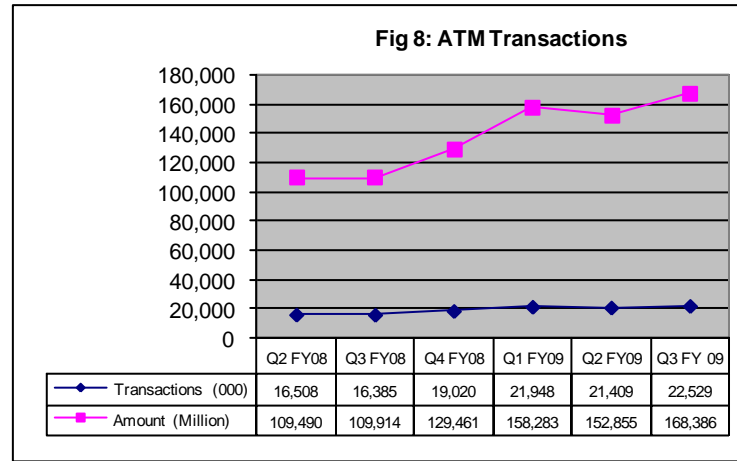
During Qtr-3, the total number of RTOB transactions increased by 14.8 percent as compared to 3.0 percent increase recorded last quarter. In terms of value, the amount increased by 11.7 percent as compared to 11.8 percent decrease in last quarter. Banks use RTOB channel for conducting various transactions which in fact constitute 94 percent of total e-Banking transactions value in the country.

(Fig. 7):



3.2 Transactions through ATMs

ATMs transactions during the Qtr-3 registered increase of 5.2 percent as compared to 2.5 percent decrease in last quarter. The amount of ATM transactions increased by 10.2 percent as compared to 3.4 percent decrease in last quarter. Apart from cash withdrawal, ATMs are also used for inter/intra bank funds transfer, cash deposits, payment of utility bills etc. In Pakistan, on average, 66 transactions were executed per day per ATM. The size of average transaction is Rs.7,474/= (Fig. 8).



3.2.1 Fund Transfers

During Qtr-3, account-to-account funds transfer transactions that were made through ATMs, were recorded at 0.494 million showing an increase of 51.7 percent compared to 0.7 percent increase recorded in last quarter. The value of such funds transfer was Rs.24.9 billion, depicting an increase of 44.8 percent compared to 0.6 percent increase recorded in last quarter. Funds transfer through ATMs mostly includes intra-bank transfer and small portion of inter-bank funds transfers.

3.2.2 Cash Deposits

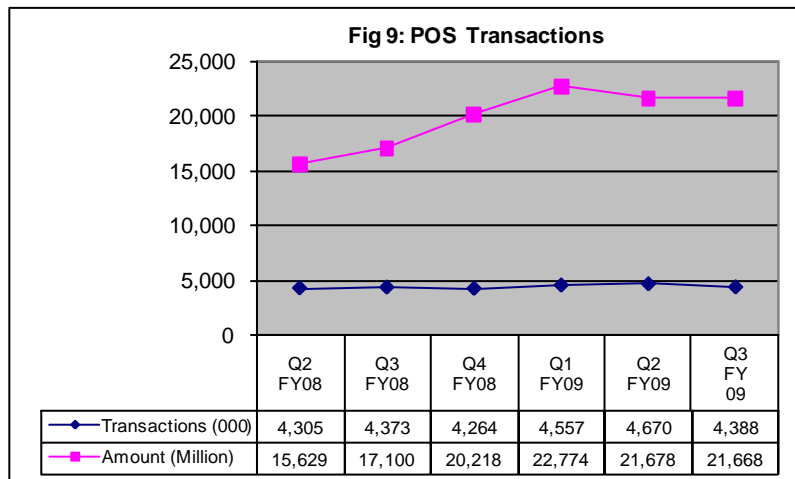
Quite a few banks are providing the facility of cash deposit through ATMs. The mechanism for cash deposit is either through single/bunch note acceptor or envelope based. During Qtr-3 only 5,556 transactions of cash deposit through ATMs were reported showing increase of 24.5 percent compared to 8.2 percent decline recorded in last quarter. In terms of value, the amount increased from 53.51 million to 56.98 million for the current quarter showing an increase of 6.5 percent compared to 12.7 percent decrease recorded in previous quarter

3.2.3 Utility Bills Payment

During Qtr-3, the utility bills payment transactions through ATMs reported 12,307 transactions showing increase of 75 percent compared to 14.4 percent increase recorded in last quarter. In value terms, the banks reported Rs.18.98 million as compared to 16.2 million recorded last quarter showing 17.4 percent increase compared to 71.4 percent increase in the last quarter.

3.3 POS (Point of Sale) Transactions

The total number of POS machines/terminals has reached at 48,399 placed across the country on different merchant locations as compared to 48,944 machines recorded last quarter which shows decrease of 1.1 percent. The number of POS transactions reached 4.39 million showing decrease of 6.0 percent as compared to 2.5 percent increase recorded in last quarter. The amount of such transactions reached Rs.21.67 billion registering decrease of 0.05 percent as compared to 4.8 percent decrease in last quarter (**Fig. 9**):



3.4 Call Centre Banking

Banking through Call Centre/Interactive Voice Response (IVR) is also included in the electronic banking channels. The number of transactions through such channels reported by the banks for Qtr-3 FY2008-2009 were 0.234 million involving an amount of Rs.1.781 billion. This shows an increase by 15.5 percent in volume and 7.6 percent decrease in value compared to 7.2 percent decrease in volume and 34.6 percent decrease in value recorded in last quarter.

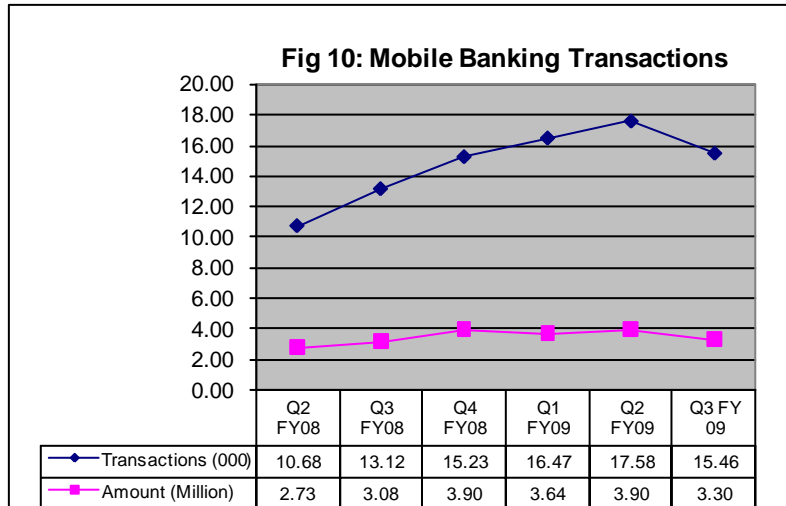
3.5 Internet Banking

Internet banking includes payments and electronic funds transfer (EFT). The funds transfer, however, is presently limited to intra bank account to account funds transfer except for a bank which offers interbank funds transfer facility through internet. Internet banking in Pakistan is growing slowly but at a steady pace. During Qtr-3 FY2008-2009, banks reported 0.510 million transactions involving an amount of Rs.16.370 billion; this shows a decrease by 2.8 percent in numbers and 2.1 percent increase in amount over the last quarter.

3.6 Mobile Banking

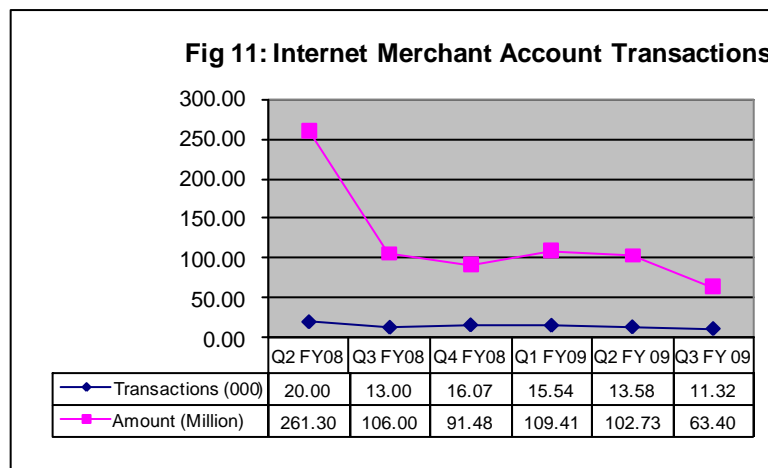
There are few banks which offer transactions through mobile. These transactions include payment through mobile (excluding utility bills payment), utility bills payment, A/C to A/c funds transfer and 3rd party A/c to A/C funds transfer.

The number of transactions reached to 15.46 thousand for the current quarter from 17.58 thousand in the previous quarter. This shows decrease by 12.1 percent in number of mobile transactions compared to 6.8 percent increase in volume recorded in previous quarter. In terms of value, it reached to Rs.3.3 million showing decrease of 15.4 percent compared to 7.2 percent increase recorded in the previous quarter (**Fig. 10**)



3.7 Internet Merchant Banking

Transactions done through internet merchant account are part of Internet Merchant (IM) Banking. There were a total of 19 internet merchant accounts in Qtr-3 FY2008-2009. Mostly service sector/NGOs are IM account holders. The number as well as amount of transactions done through internet merchant accounts is not consistent as transactions done are of seasonal nature and covers activities like air fares, college fee payments etc. This quarter registered a decrease by 16.6 percent in number against 12.6 percent decrease in the previous quarter. In terms of value, there was decrease of 38.3 percent against 6.1 percent decrease recorded for the previous quarter (**Fig 11**).



3.8 Cross Border Transactions through E-Banking (ATM, POS, Internet)

Cross border transactions include only those transactions which were executed using either an ATM / POS machine or Internet. ATM transactions include cash withdrawal through ATMs; the inflow of such transactions has increased by 9 percent compared to same 9 percent increase in the previous quarter whereas out flow decreased by 3 percent compared to 4 percent increase in the previous quarter. The POS transactions include purchases of goods and services by the customers. The inflow of POS transactions increased by 27 percent compared to 9 percent increase in the previous quarter while the outflow increased by 18 percent compared to 15 percent increase in the previous quarter. The internet transactions include the purchase of goods and services using foreign/local internet merchants. The inflow of internet transactions decreased by 1 percent compared to 9 percent increase in the previous quarter where as the out flow increased by 7 percent compared to 4 percent decreases in the previous

quarter. The foreign merchants include names like eBay, Amazon, Google etc. Internet transactions also include payment of fee for foreign universities and online courses like ACCA, CIMA etc.

The Comparison of cross border transactions, showing in-flow and out-flow of money through e-banking, is given in Table 2:

Table 2: Comparison of Cross Border Payment Transactions

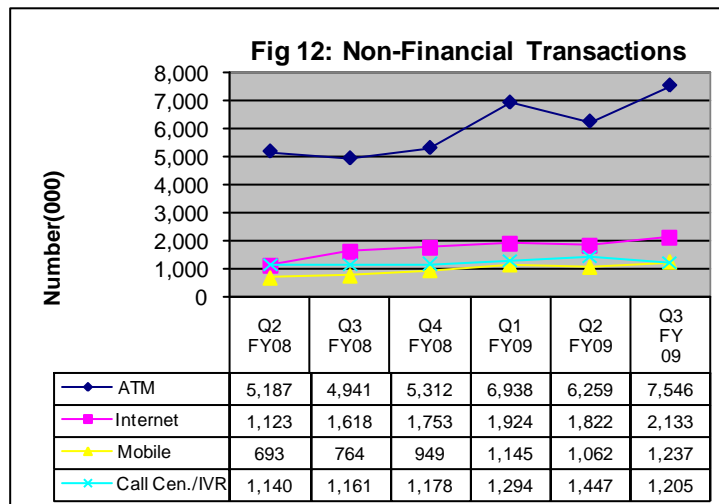
(Rs. In Millions)

Means of Transaction	Inflow of Money (Inward remittance)		Outflow of Money (Outward remittance)		Net	
	Q2 FY 09	Q3 FY 09	Q2 FY 09	Q3 FY 09	Q2 FY 09	Q3 FY 09
ATM	2,086	2,276	(419)	(408)	1,667	1,868
POS	3,306	4,206	(2,329)	(2,739)	976	1,467
INTERNET	64	63	(252)	(269)	(188)	(206)
Total	5,455	6,545	(3,001)	(3,416)	2,455	3,129

The above table indicates that the volume of cross border e-banking transactions (net inflow) increased by 27.5 percent as compared to an increase of 6.1 percent reported in the previous quarter.

3.9 Non-financial E-Banking Transactions

Channels of e-banking are also used for non-financial transactions like the balance inquiry, account statements, etc. The total number of non-financial transactions reported during the quarter was 12.12 million against 10.59 million recorded in the previous quarter as shown in **Fig. 12**.



4. List of Acronyms

ATM	Auto Teller Machine
I B	Internet Banking
CC	Call Center
POS	Point of Sales
RTOB	Real Time Online Branches
e-Banking	Electronic Banking
m-Banking	Mobile Banking
IMA	Internet Merchant Account
IVR	Interactive Voice Response
M B	Mobile Banking

Note: The discrepancy in figures may occur because of rounding off data.