

5 Payment and Settlement Systems

5.1 Overview

Payment System is a way of transferring value between different parties in the economy and determining partly economic costs. The purpose of an efficient, secure and reliable payment system is to reduce the cost, safeguard financial stability and to promote economic activities in an economy. Its design and impact on economic growth is considered to be optimal if it is well-organized to allow the quick and effective value transfers while imposing a minimum of additional costs and risks. Therefore, the small and large value payment mechanisms and securities settlement systems are vital and essential tools for the effective implementation of monetary policy as well as maintaining the integrity of financial system.

Effective measures were taken during FY12 to keep the progress going on the major projects. During the year, instructions were issued to the industry to keep up with the international developments and also to improve local systems that are more likely to raise disputes for various Alternative Delivery Channels (ADCs). In the light of previous circulars on the management of ATMs in the country, SBP has issued instructions to the industry on Ramzan/ Eid occasions and decided to continue surprise inspections throughout the country to ascertain the compliance level and putting heavy penalties under the relevant laws. In order to further improve the operations of Pakistan cards, issued to the flood affectees, SBP has advised all those banks that have their ATMs machines installed in affected areas to ensure that their ATMs are operational and that cash is replenished in a timely manner, with no service charges on cash withdrawal transactions. Various approvals were also given to banks on a variety of products containing diversified functionalities to facilitate customers saving time on every transaction performed and can use their money in a risk-free environment.

As per Government of Pakistan's notification for the observance of five days working week, SBP also issued instructions on the management and uptime of ATMs on weekends as well as revising cut-off timings for the settlement in PRISM (RTGS) system. With a view to provide greater flexibility and to enhance payment transfer facilities through PRISM system, SBP has also decided to allow multiple credit transfers (using MT 102) for 3rd party transfers to facilitate non-critical payments of Rs.100,000 and above. This is in addition to further facilitate customers' time critical payments of Rs. one million and above and can be used for processing the bulk payments (i.e. salaries and remittances etc). On remittances front, SBP has decided to charge a flat fee of Rs. 1000/- per transaction for each fund transfer instruction in lieu of a uniform rate of 0.07 percent previously levied on such transactions.

An important development during FY12 was that SBP assumed responsibilities of managing the Secretariat of SAARC Payment Council (SPC), housed at Payment Systems Department, for a period of two years with effect from 1st March 2012. SPC is a forum of central banks and monetary authorities of SAARC countries to collectively evolve to develop high level strategies and road maps for the development of intra-regional payment systems.

Another big mile has taken by SBP to bring banks account codes in standardize format to increase the efficiency in processing of payments for domestic as well as cross border transactions. International Bank Account Number (IBAN) international standard (ISO 13616-1:2007), for identifying bank accounts across borders, has been implemented in Pakistan in consultation with Pakistan Banks Association (PBA). The initiative will eliminate delays in the credit transfers and enable the payment/

clearing systems to electronically validate account number without manual intervention. Relevant guidelines were also issued to the industry, containing details of how IBAN can be generated along with its validation processes and phase-wise implementation plans for the industry.

5.2 Large Value Payment System (Real Time Gross Settlement System - RTGS)

RTGS is a system where both processing and the final settlement of fund transfer instructions take place in real time. Banks execute funds transfer through remote terminals provided at their premises by SBP. There are various types of transactions settled through PRISM system which include government securities (PIBs/ MTBs), interbank fund transfer, multilateral net settlement batches and customer transfers. Currently, PRISM has 43 participants, consisting of 35 commercial banks, 7 DFIs and one microfinance bank.

Table 5.1: Different Types of Transactions

volume in numbers; values in billion rupees

Transaction Types	FY11		FY12		Change volume (percent)	Change value (percent)
	Volume	Value	Volume	Value		
Government securities (Interbank)	57,007	38,119	66,622	64,559	17	69
Fund transfer (interbank & customer transfer)	221,485	31,021	260,898	35,118	18	13
NIFT	50,208	12,728	47,430	12,854	-6	1
Total	328,700	81,868	374,950	112,532	14	37

Table 5.1 shows that the total number of payments settled through PRISM during FY12, showed an increase of 14 percent in volume and 37 percent in value as recorded last year. A break-up of the total showed that the number of government securities transactions increased from 57,007 to 66,622 transactions in FY12, thereby showing an increase of 17 percent. The value of such securities settled through PRISM system also increased by 69 percent to Rs. 64.5 billion.

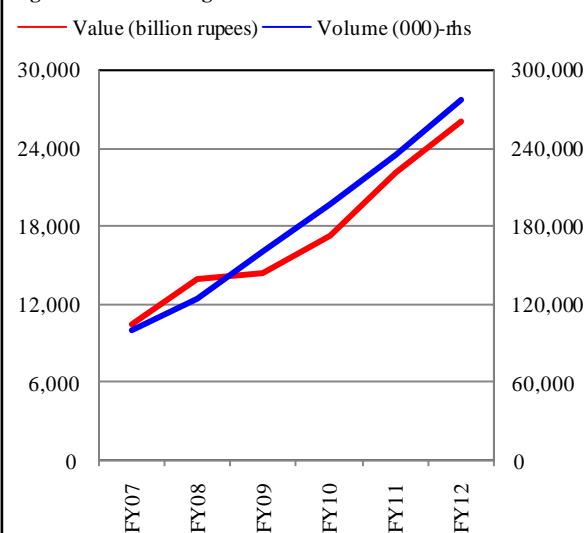
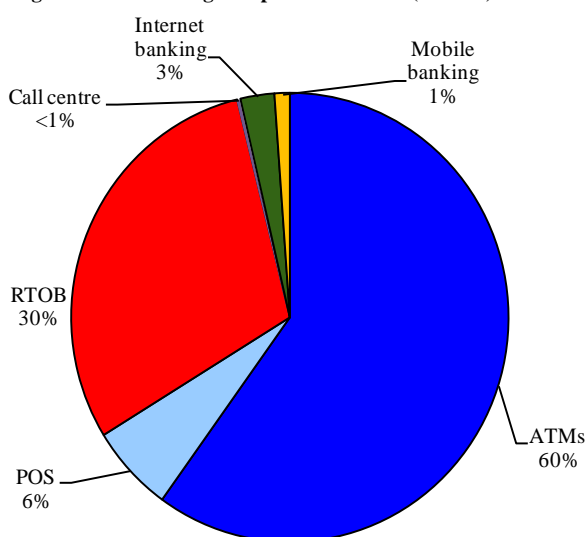
The interbank fund transfer and customer transfers through PRISM also registered a growth of 18 percent in volume and 13 percent in value as compared to the last year. The multilateral net settlement batches sent by NIFT also recorded an increase of 1 percent in the value of transactions. However, the decrease in the number of NIFT transaction may be attributed to the introduction of a five day week.

5.3 Retail Payment Systems

The scope of retail payment systems in Pakistan is becoming wider as more and more electronic instruments are added in the e-commerce stream which helps developing the core banking solutions even stronger. Previous products and various developments in the market such as the introduction of pre-paid cards are making customers more vigilant towards their financials and converting the unbanked population into under-banked and fully banked. There was increase witnessed in the numbers of ADCs as well as transactions performing through such channels during FY12. Bank and other financial institutions, in the presence of attached risks, are adopting various ways to minimize risks, in order to capture and sustain a healthy competition in the market.

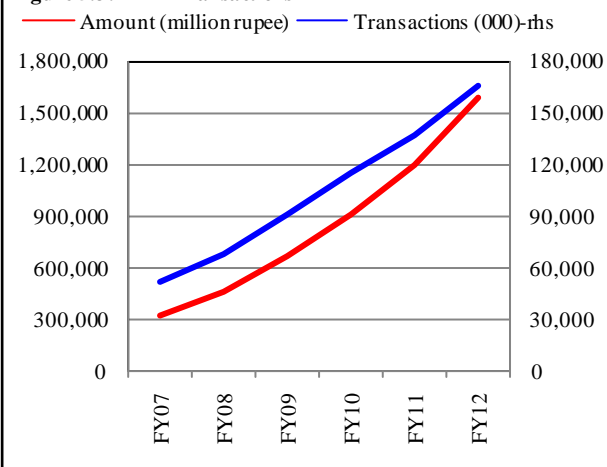
5.4 Electronic Banking and its composition

Electronic banking (e-banking) has made considerable impact on our financial industry in the last 10 years. It is getting increasingly popular as the volume and value of transactions have shown a significant growth trend. The volume and value of e-banking transactions in the country showed growth of 18 percent each compared to growth of 20 percent and 28 percent respectively during last year (see **Figure-5.1**). The percentage composition of e-banking in terms of volume remained almost same during FY12 as in the last year (see **Figure 5.2**).

Figure 5.1: E-Banking Transactions**Figure 5.2: E-Banking Composition in FY12 (volume)**

5.4.1 Automated Teller Machine (ATMs)

ATM is an innovative service delivery channel that offers diversified financial services like cash withdrawal, funds transfers, cash deposits, payment of utility bills, cheque book requests and other financial enquiries. Payments through this mode still possess the highest in overall e-banking transactions, showing an increase of 21 percent in numbers and 33 percent in value during FY12, as compared with the increases of 19 percent and 32 percent respectively recorded last year. The average value per ATM transaction recorded during the year was Rs. 9,559, as compared to Rs. 8,695 last year (see **Figure 5.3**). During FY12, 545 new ATMs were added by banks to their network, bringing the tally to 5,745 total machines all over the country.

Figure 5.3: ATM Transactions

5.4.2 Real Time Online Branches

The network of real time online branches in the country expanded to 9,291 during the year, showing a growth of 25 percent compared to 11 percent last year. The share of online branches in the total branch network also increased from 78 percent to 93 percent.

5.4.3 Point of Sale (POS)

The number of POS terminals decreased by 6 percent to 34,879 during FY12, as compared to a decline of 28 percent in last year. The reason of this decline was due to the stringent credit card issuance policies of banks coupled with their strategic decisions to decline investments in POS terminals.

In terms of volume, POS transactions in the country showed an increase of 22.1 percent to 17.4 million, as compared to 8.8 percent in the last year. In terms of value, with an increase of 15.4 percent, the amount of transactions reached to Rs. 80.1 billion as compared to the decrease of 7.9 percent last year.

5.4.4 Internet Banking

Internet banking includes payments such as utility bills and mobile top-ups etc. and electronic fund transfers. During the current fiscal year, banks reported 6.9 million transactions, involving an amount of Rs.365 billion. This showed an increase of 56 percent in volume and 75 percent in value terms, as compared to the increases of 50 percent and 48 percent respectively during last year.

5.4.5 Mobile Banking

The scope of mobile banking in the country is improving as more banks are joining hand to hand in providing quality and secure services through this mode of payment. The volume of transactions was recorded at 3.1 million during the year, compared to 3.3 million last year. In terms of value, it reached 12.2 billion as compared to Rs. 7.7 billion reported in the last year.

5.4.6 Real Time Online Banking

Banks in Pakistan are offering RTOB channel for conducting various C2C, C2B and B2B transactions online. During FY12, the overall volume of RTOB transactions increased by 11.6 percent as compared to an increase of 22.8 percent last year. In terms of value, the amount increased by 16.1 percent as compared to a growth of 27.5 percent recorded last year.

5.4.7 Number of Plastic (Debit/Credit) Cards

The total numbers of plastic cards in the country reached to 17.95 million i.e. 28 percent increase compared to 33 percent last year. However, debit card sustained the major contributor, with a share of 89 percent in the total number of cards.

5.5 Conclusion

According to the figures of FY12, the future of e-banking in the country is bright as the transactional growth in all electronic banking channels witnessed expansion in the last five years that reflects the increasing use of e-banking services in the payment system infrastructure. This is an encouraging development as e-banking facilities provide a viable solution for expanding the outreach of financial services to remote areas as well as nurturing the unbanked population. As banks are continuously improving their technological systems, new electronic products are maturing to push the financial institutions to strengthen their systems and, at the same time, creating synergetic environment for both the customers as well as financial institutions.