

2 Payment Systems

2.1 Payment and Settlement Systems

Payment and Settlement Systems being an important component of financial infrastructure play an instrumental role in the financial stability of the country; and their smooth, safe, reliable and efficient functioning promotes economic activities by boosting consumers' confidence on these systems.

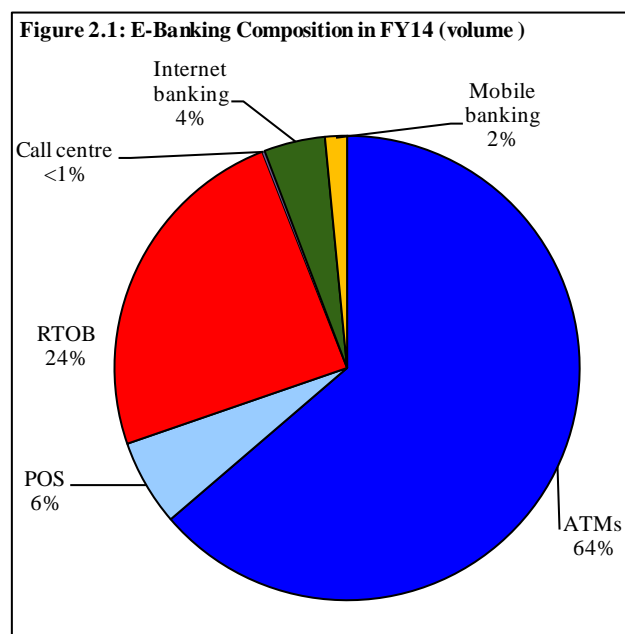
In Pakistan, Payment Systems infrastructure is gradually transforming from traditional paper-based mechanisms to electronic modes through channels like ATMs, Real Time Online Banking (RTOB), Mobile Banking, Call Centers and Internet Banking. Moreover, settlement of Large Value Payments through Pakistan Real-time Interbank Settlement Mechanism (PRISM) - the Real Time Gross Settlement (RTGS) system of Pakistan, managed by SBP, has greatly facilitated financial markets in reducing the settlement and systemic risks.

2.2 Retail Payment Systems

Retail Payments are generally consumer payments of relatively lower value conducted either through paper-based instruments (cheques, pay orders, demand drafts, telegraphic and money transfers etc.) and / or electronic channels like ATMs, Point of Sale (POS), Internet Banking, Real Time Online Banking (RTOB) etc. **Fig. 2.1** shows the composition of banking transactions carried out through electronic channels referred here as e-banking in which ATM remains the most preferred mode of conducting payments (64 percent) followed by RTOB (24 percent).

Over the past 5 years, e-Banking transactions have witnessed a significant growth in the country. Compared to FY09, the volume and value of such transactions have increased by 154 percent and 134 percent respectively. Compared to FY13, the volume and the value of e-banking transactions increased by 26 percent and 13 percent respectively during FY14. However, number of transactions through Call Centre & IVR Banking have decreased from 0.9 million in FY10 to 0.7 in FY14. The reason for this decline was due to significant shift of consumers towards other more convenient electronic channels such as Mobile Banking, Internet Banking, ATMs etc.

As public in Pakistan heavily relies on ATMs for cash withdrawals especially during festive occasions like Eid, SBP has been focusing on improving the availability of ATM related services in the country. Specific instructions and guidelines have been issued to commercial banks from time to time to ensure maximum availability of ATM services round the clock and their performance is continuously being monitored by oversight desks.



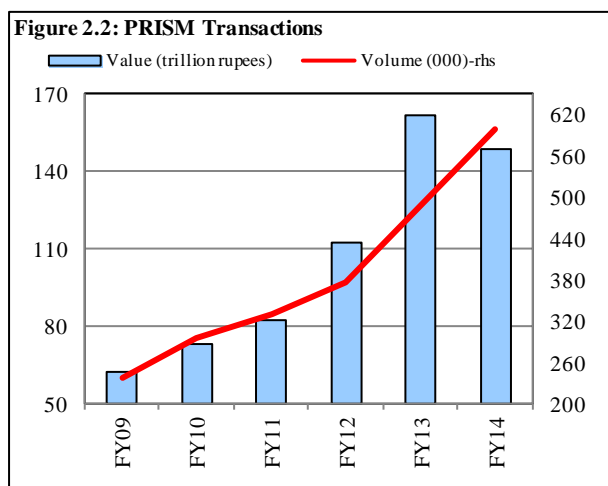
Number of Points of Sale (POS) / Merchants offering goods & services on credit & debit cards has considerably decreased from 52,000 in FY10 to around 33,748 till FY13. Negative viability of the POS for acquirers has mainly attributed to the above decrease. Number of Credit Cards has also declined from 1.7 million in FY10 to around 1.2 million till FY13. The main reason attributed to this decline is a shift of consumers to Debit Cards that are equally useable at ATMs and POSs.

SBP has undertaken a major initiative of standardizing the Financial Articles in the country. In its first phase, the industry wide implementation of International Bank Account Number (IBAN) based on ISO 13616 was achieved. IBAN will reduce transcription errors as well as facilitate smooth integration of various payment systems. During FY14, after extensive consultation with the banking industry, SBP issued a new standard for standardizing the layout, sizing, stamping and security features of customers' cheques. The new standard is derived from best international practices and also includes IBAN in place of regular account number. Banks have been advised to start issuing cheque books to their customers as per the new format latest by 1st January 2015. Adoption of new standard by the banking industry will significantly increase the speed and overall efficiency of cheque clearing system, reduce the processing costs in the longer run and minimize chances of errors and forgeries.

2.3 Large Value Payment System

PRISM System provides real time settlement of government securities, interbank fund transfers, other inter-bank obligations arising from clearing of paper based instruments and payments of individual consumers and corporate customers of the banks over certain limits. Currently, PRISM has 45 direct participants consisting of Commercial Banks, Development Finance Institutions (DFIs), Microfinance Bank and Central Depository Company (CDC).

In FY14, the volume and value of transactions processed by PRISM system crossed 600 thousand and Rs.149 trillion respectively as compared to 236 thousand and Rs.62.2 trillion in FY09 (**Figure2.2**) This indicates an increase of 154 percent in volume and 140 percent in terms of value.



Further, during FY14 the PRISM system settled Rs. 75 trillion (50.3 percent) worth of government securities, Rs. 61.5 trillion (41.2 percent) worth of interbank bank settlements and Rs. 12.7 trillion (8.5 percent) worth of paper based instruments were cleared through NIFT.

2.4 Regional / International Payments

State Bank of Pakistan is currently managing the Secretariat for SAARC Payment Council (SPC). SPC is a forum of Central Banks of SAARC countries to collectively develop strategies for the improvement of payment systems in the SAARC region. The Secretariat is playing an active role in developing and promoting cooperation among member countries and reforming their national Payment and Settlement Systems (PSS) to facilitate trade and investment flows in the region. The SPC meets bi-annually in one of the member countries on rotation basis.

SBP also realizes that robust payment mechanisms are essential for financial stability and supporting financial inclusion in the country; Payment (Systems) Service Providers (PSPs) and Payment System Operators (PSOs) are also important components of Financial Market Infrastructure (FMI) of the country. There are various applications areas in which these PSPs and PSOs generally operate in the market such as Electronic Payment Gateway Service Providers, E-Commerce Gateway Service Providers, Automated/ Electronic Clearing Houses, Switch Operators, Remittance Gateway Service Providers, Payment Schemes and Point of Sale (POS) Gateway Service Providers. SBP is in the process of finalizing rules for establishing and operating such businesses of PSO and PSP in Pakistan.

Table 2.1 Payment & Settlements Systems

Item		FY09	FY10	FY11	FY12	FY13	FY14 ^P	CAG %
1. Electronic Banking and its Composition								
No. of Transactions	Million	159.8	196.5	234.8	277.4	320.5	405.4	20.5
Value of Transactions	Trillion Rs.	14.4	17.3	22.1	26	29.7	33.7	18.5
2. Real-time Online Banking (RTOB) Transactions								
No. of Transactions	Million	47.3	60.6	74.4	83.1	89.1	98.5	15.8
Value of Transactions	Trillion Rs.	13.5	16.2	20.7	24	27.1	30.2	17.5
3. Automated Teller Machines (ATMs)								
No. of Transactions	Million	91.1	115.7	137.7	166.2	199.8	258.5	23.2
Value of Transactions	Trillion Rs.	0.7	0.9	1.2	1.6	2	2.6	30.0
4. Point of Sale (POS)								
No. of Transactions	Million	18.3	15.7	14.3	17.4	17.3	24.3	5.8
Value of Transactions	Billion Rs.	90	75	70	80	87	124.6	6.7
5. Internet Banking								
No. of Transactions	Million	2.1	3	4.4	6.9	9.6	17.3	52.5
Value of Transactions	Billion Rs.	68	141	209	365	498.8	684.1	58.7
6. Mobile Banking								
No. of Transactions	Million	0.1	0.6	3.3	3.1	4.2	6.2	128.3
Value of Transactions	Billion Rs.	0.2	2.2	8	12	27	67.4	220.3
7. Call Center & IVR Banking								
No. of Transactions	Million	0.9	1	0.8	0.7	0.6	0.7	(4.9)
Value of Transactions	Billion Rs.	9	7	7	7	8.1	9.5	1.1
8. Numbers of:								
i. Online Branches		6,040	6,671	7,416	9,291	10,013	10,640	12.0
ii. ATM		3,999	4,465	5,200	5,745	6,757	8,240	15.6
iii. Credit Cards (in Million)		1.7	1.6	1.4	1.2	1.2	1.3	(4.9)
iv. Debit Cards (in Million)		6.4	8.2	12	16	20.2	23.1	29.7
v. Point of Sale (POS)		49,715	52,049	37,232	34,879	33,748	34,428	(7.1)

P - Provisional as on 30th June 2014, CAG - Compound Annual Growth