



State Bank of Pakistan
PAYMENT SYSTEMS DEPARTMENT

**4th Quarterly Report of Retail Payment Systems
Of Pakistan
(Paper Based and E-Banking)**

**4th Quarter Report
(April–June) FY 2006-07**

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Retail Payment Systems of Pakistan

(April – June) FY 2006-07

EXECUTIVE SUMMARY

TOTAL RETAIL PAYMENTS

During Q4 FY 06-07, total 112.5 million retail payment transactions were recorded valuing Rs. 34.8 trillion; this shows a growth of 6.4% in numbers and 17.9% in amount.

E-BANKING

The volume and value of e-banking transactions during Q4 FY 06-07 reached at 28 million and Rs.3.1 trillion respectively, recording a growth of 9.7% in numbers and 14.2% in amount.

CARDS

Total number of active cards grew by 4.8% reaching the level of 5.8 million. Credit Cards recorded growth of 2.1% having reached at 1.69 million while Debit Cards recorded growth of 5.1% and stood at 3.98 million.

INFRASTRUCTURE

Total number of ATM machines as of Q4 FY 06-07 reached at 2,294, depicting an increase of 5.5 % over the previous quarter. The Real Time Online Branches (RTOB) reached at 4,179 and now constitutes 54% of total branch network in the country. As of Q4 FY 06-07, number of POS terminals available to customers were 46,329; reflecting a growth of 7.2% over the previous quarter.

ATM TRANSACTIONS

Total number of ATM transactions increased by 9.3% in Q4 FY 06-07 and stood at 14.4 million, whereas the amount of such transactions was Rs.88.2 billion; showing a growth of 10.4% over the previous quarter.

ONLINE BANKING

The number of Online Banking transactions grew to 8.9 million, reflecting an increase of 12.7% as compared to the previous quarter. The value of transactions through Online Banking recorded during this quarter was Rs.3 trillion showing an increase of 14.3 % over the previous quarter.

OTHER E-BANKING CHANNELS

The number of transactions on other E-Banking channels (POS, Internet & Call Center/IVR, and Mobile) recorded during the quarter under review was 4.6 million, reflecting a growth of 5.8% over the previous quarter. The value of such transactions was Rs.25.1 billion; reflecting an increase of 14.2% from the previous quarter.

TRANSFORMATION

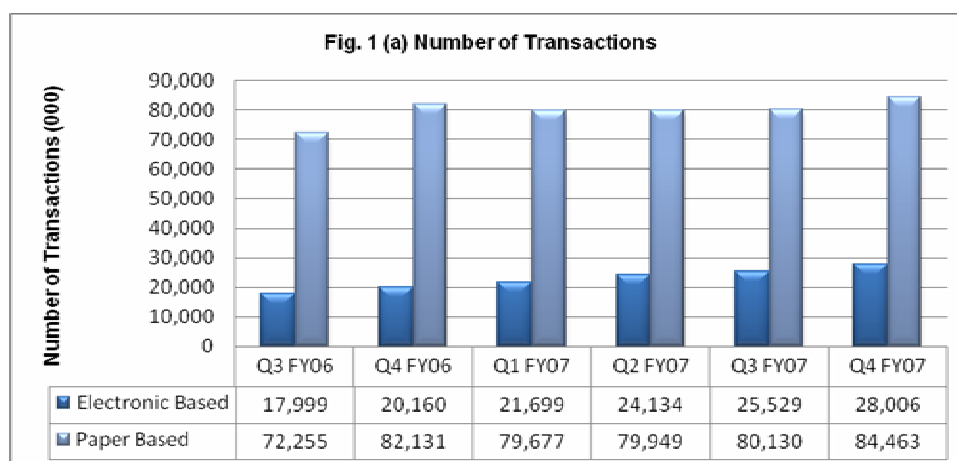
The use of electronic channels is consistently growing as contribution of electronic transactions increased to 24.9% in number terms and in value terms constitute 8.8% of total retail transactions, as compared to 24.2% and 9.1% respectively in the previous quarter. However, the value of electronic transactions has declined, compared with the previous quarter due to heavy tax payments through paper based instruments.

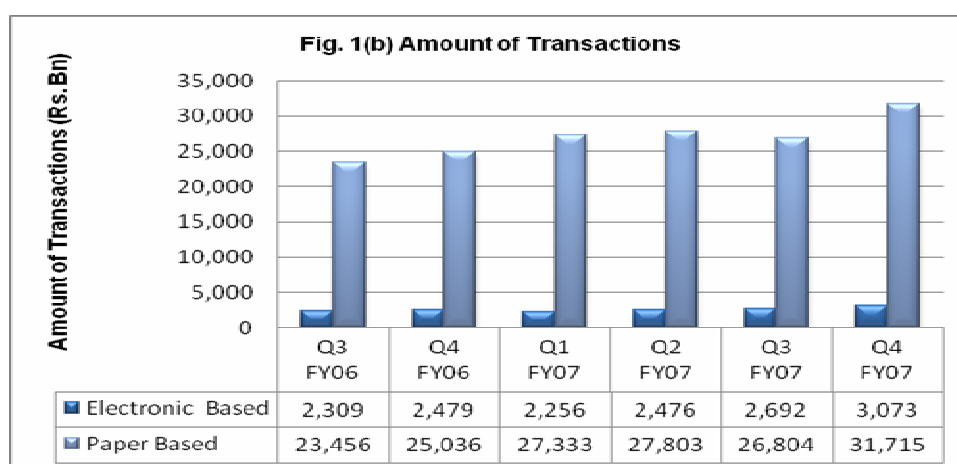
1. INTRODUCTION

Retail payments are mainly made by consumers and between commercial counterparties to purchase goods and services. At the retail level, most transactions use paper based instruments. However electronic mode is also getting momentum with the passage of time. Retail payments in Pakistan comprise of various paper-based and electronic instruments from conventional cheques to modern smart cards. The Payment Systems Department compiles a quarterly report based upon various paper based and electronic instruments reported by commercial banks. This report focuses on the transactions of retail nature through ATMs, Cards, RTOBs, POS machines, internet banking, cross border card based transactions, etc. During Q4 FY 06-07 volume of retail payment transactions registered a growth of 6.4% and the value of transactions increased by 17.9%. In the last quarter the volume increased by 1.5% but value decreased by 2.6%.

As per commercial banks, the fiscal year closing, heavy transactions in government accounts and tax payments were the major reasons that caused changes in volume as well as value of retail banking transactions during Q4 FY06-07.

Trend of paper and electronic based transactions and value since Q3 Fy06-07 is given in the figure 1(a) and 1(b).





1.1 Retail Payments through Paper Based Instruments

Q4 FY 06-07 witnessed a growth of 5.4% in numbers of paper based transactions and an increase of 18.3% in terms of value of paper based retail payment transactions as compared to an increase of 0.2% in numbers and decrease of 3.6% in value observed in the preceding quarter. Closing of the fiscal year was the major reason for increase in number and value of paper based transactions during the current quarter.

1.2 Retail Payments through E- Banking

Electronic banking transactions have posted a growth of 9.7% in terms of numbers and 14.2% in terms of value during the current quarter. In the previous quarter, growth in volume was 5.8% while value increased by 8.7%.

1.3 Transition to E-Banking

During the last six quarters the transition from paper based banking to e-banking has been gradual in terms of number of transactions. The growth in terms of value has also been gradual but this quarter showed slight decline compared with the previous quarter due to heavy tax payments to government treasuries through paper based instruments. (Table 1(a) and 1(b)):

**Table 1-(a): Comparison of Number of Transactions in
Retail Electronic and paper based Payments**

Number of Transactions (000)						
Number (000)	Q3 FY06	Q4 FY06	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07
Electronic Based	17,999	20,160	21,699	24,134	25,529	28,006
Paper Based	72,255	82,131	79,677	79,949	80,130	84,463
TOTAL	90,254	102,291	101,376	104,083	105,659	112,469
% Composition						
Electronic Based	19.9%	19.7%	21.4%	23.2%	24.2%	24.9%
Paper Based	80.1%	80.3%	78.6%	76.8%	75.8%	75.1%

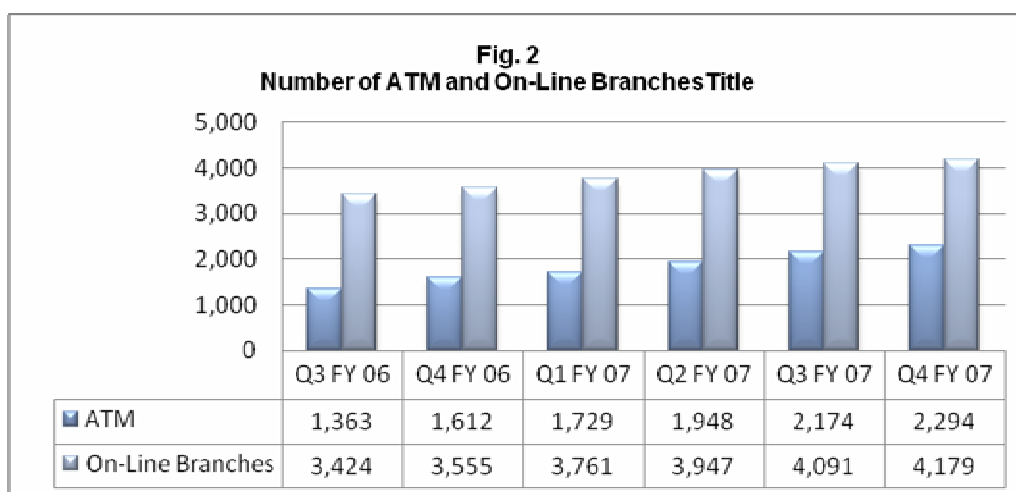
**Table 1-(b): Comparison of Amount of Transactions in
Retail Electronic and paper based Payments**

Amount of Transactions (Rs. In Billion)						
Amount (billion)	Q3 FY06	Q4 FY06	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07
Electronic Based	2,309	2,479	2,256	2,476	2,692	3,073
Paper Based	23,456	25,036	27,333	27,803	26,804	31,715
TOTAL	25,765	27,515	29,590	30,278	29,503	34,788
% Composition						
Electronic Based	9.0%	9.0%	7.6%	8.2%	9.2%	8.8%
Paper Based	91.0%	91.0%	92.4%	91.8%	90.8%	91.2%

2. ELECTRONIC BANKING IN PAKISTAN

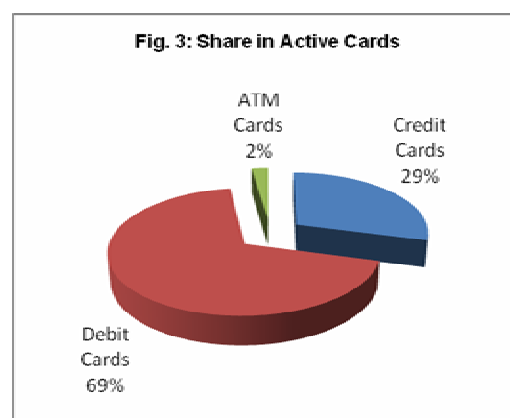
2.1 Online Branch Network & Automated Teller Machines (ATMs)

During this quarter, banks converted 45 manual/computerized branches into online branches and added 44 new online branches, raising the total number of online branches from 4,090 to 4,179. The total number of online branches recorded for this year is 4,179 out of total 7,719 branches. The share of online branches in the total branch network increased from 53% in the previous quarter to 54% in the current quarter. Similarly, during the Q4 FY 06-07, banks have added 120 new ATMs in their network, bringing the total number of ATMs to 2,294, reflecting a growth of 5.5% as compared to 11.6% growth in the previous quarter. The trend in number of ATMs and On-line Branches since Q3 FY06 is given in figure 2.



2.2 Number of Cards (Credit/Debit/ATM)

At the end of Q4 FY 06-07, total number of 5.8 million valid credit, debit and ATM only cards were in circulation showing an increase of 4.8% from 5.5 million as of previous quarter (Figure 3).



2.2.1 Credit Cards

Total number of credit cards increased from 1.663 million to 1.698 million in Q4 FY 06-07, registering a growth of 2.1% over the previous quarter.

2.2.2 Debit Cards

Total number of debit cards (Excluding ATM only cards) increased from 3.788 million to 3.983 million in Q4 FY 06-07, showing an increase of 5.1% over the previous quarter.

2.2.3 ATM Only Cards

Total number of ATM cards was 0.134 million reported by banks for Q4 FY 06-07 as compared to 0.098 million in the previous quarter showing an increase of 36.5% over the previous quarter.

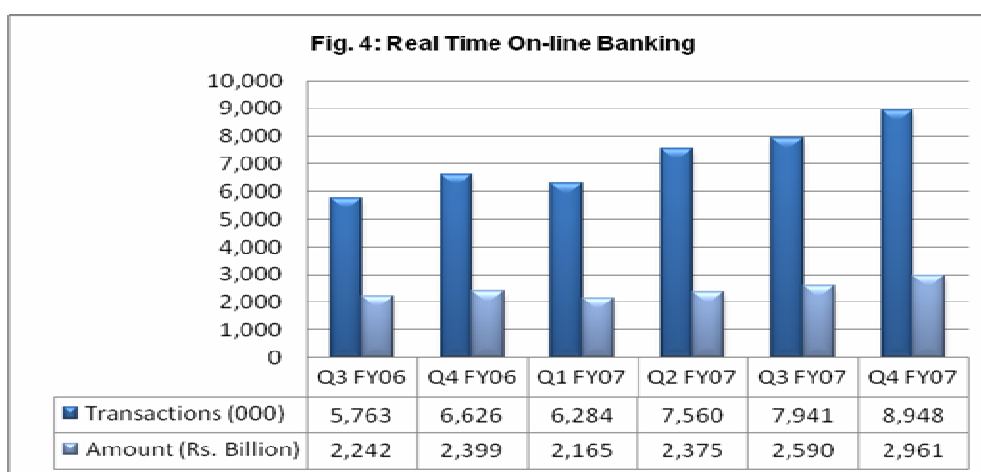
2.3 Smart Cards

Out of the total 5.8 million debit and credit cards, chip based smart cards were 0.315 million, representing 5.4% of the total active cards. During this quarter the number of chip based cards increased by 7.5%.

3. VOLUME ON E-BANKING CHANNELS

3.1 Real Time Online Banking Transactions

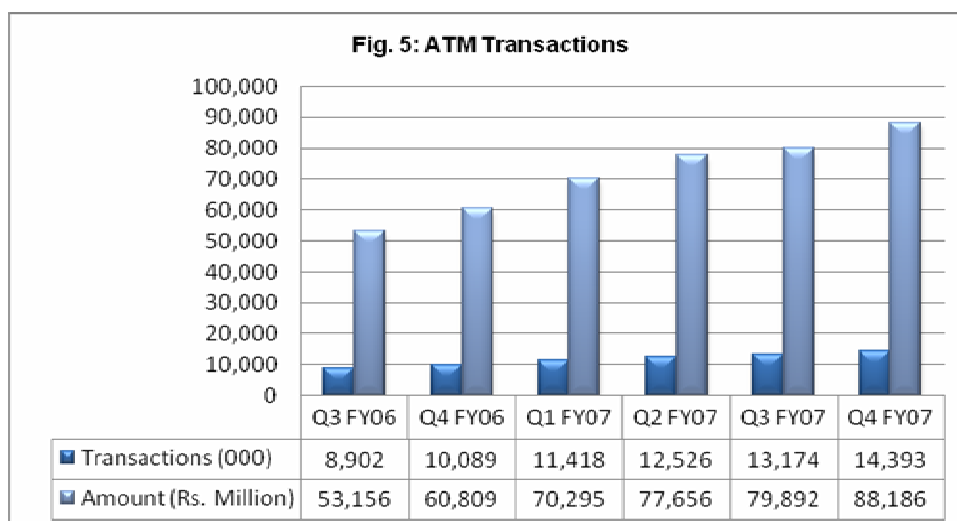
During Q4 FY 06-07, the number of RTOB transactions increased by 12.7% and their value increased by 14.3% as against previous quarter's growth of 5.0% and 9.0% respectively. The trend in RTOB growth since Q3 FY06 is given in Fig. 4:



3.2 Transactions through ATMs

ATMs transactions during the Q4 FY 06-07 registered an increase of 9.3% while their amount increased by 10.4% as against an increase of 5.2¹% and 2.9¹% respectively in the previous quarter. ATMs were used 99% for cash withdrawal and only 1% was used for other purposes like Cash Deposits, Payment of Utility Bills and Account to Account Fund Transfers. On average, 70 transactions were executed per day per ATM and average transaction size was Rs. 6,127. Growth in the use of ATMs since Q3 FY06 is given in Fig. 5

1: Data has been adjusted for Qtr 3 07



3.2.1 Fund Transfers

During Q4 FY 06-07, account-to-account funds transfer transactions made through ATMs were 0.103 million, showing an increase of 30.0%. The value of such funds transfer was Rs.4.6 billion, depicting an increase of 29.4%. Funds transfer through ATMs includes mostly intra-bank transfer and small portion of inter-bank funds transfers. The inter-bank fund transfer is only offered by few banks on 1Link switch.

3.2.2 Cash Deposits

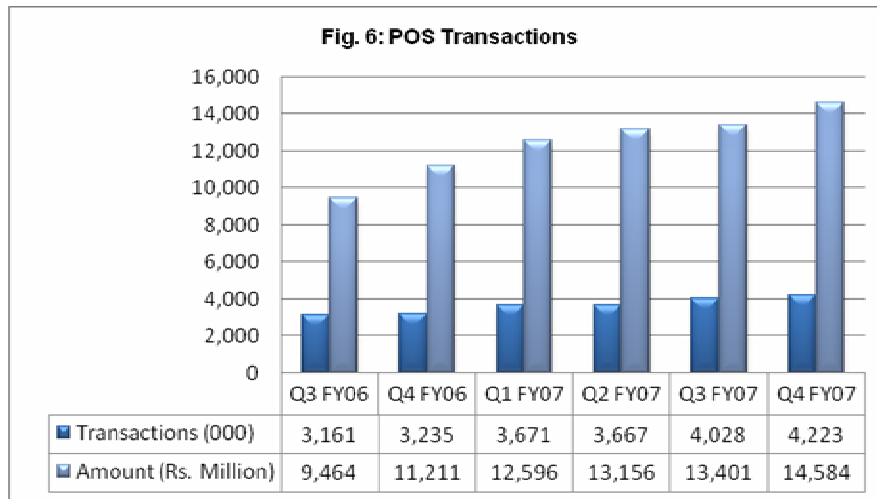
Quite a few banks are providing the facility of cash deposit through ATMs. The mechanism for cash deposit is envelope based; i.e. Cash is not directly fed into the machine. During Q4 FY 06-07 only 1,590 transactions of cash deposit through ATMs were reported as compared to 1,603 transactions during the previous quarter showing a decline of 0.8% in number and 2.1% increase in the amount of transactions from the previous quarter.

3.2.3 Utility Bills Payment

During Q4 FY 06-07, banks reported 7,440 transactions of Utility Bills payment through ATMs involving an amount of Rs.8.2 million as compared to 6,650 transactions of Rs.8.3 million in the previous quarter, registering an increase of 11.8% in numbers and decline by 1.8% in amount. One of the reasons for growing use of ATM for payments of utility bills is that banks have started implementing Payment Systems Department's guidelines issued on December 18, 2006 in which banks were advised to offer facility of utility bills payment across ATM network in phases.

3.3 POS (Point of Sale) Transactions

The numbers of POS transactions increased by 4.8% while the amount of such transactions increased by 8.8% during this quarter. The previous quarter showed an increase of 9.8% in numbers and an increase of 1.9% in value of transactions. Transactions through POS since Q3 FY06 are given in Fig. 6:



3.4 Call Centre Banking

Banking through Call Centre/Integrated Voice Response (IVR) is also included in the electronic banking channels. The number of transactions through such channels reported by the banks for Q4 FY 06-07 were 0.170 million involving an amount of Rs.2.286 billion, showing an increase of 16.9% in numbers and 8.3% in amount over the 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 some banks which offer interbank funds transfer facility. Internet banking in Pakistan is growing slowly but at a steady pace. During Q4 FY 06-07, banks reported 0.270 million transactions involving an amount of Rs.8.3 billion, this shows growth of 12.5% in numbers and an increase of 27.2% in amount over the last quarter.

3.6 Cross Border Transactions through E-Banking

Cross border transactions include only those transactions which were executed using either an ATM / POS machine or through Internet. 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 Boarder Payment Transactions Through E-Banking

(Rs. In Millions)

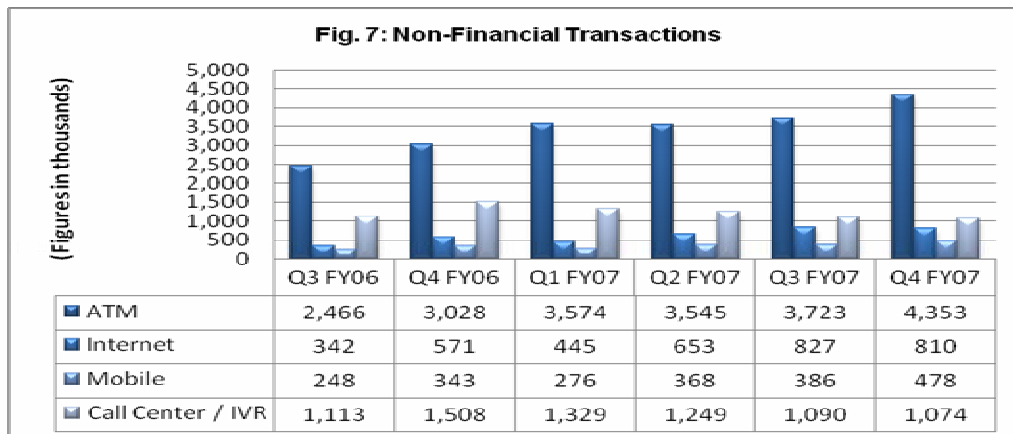
Means of Transaction	Inflow of Money (Inward remittance)		Outflow of Money (Outward remittance)		Net	
	Q3Fy06-07	Q4Fy06-07	Q3Fy06-07	Q4Fy06-07	Q3Fy06-07	Q4Fy06-07
ATM	2,075	2,132	(230)	(259)	1,845	1,873
POS	2,467	2,554	(1,609)	(1,674)	859	880
INTERNET	49	44	(137)	(241)	(88)	(196)
Total	4,591	4,730	(1,975)	(2,174)	2,615	2,556

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The above table indicates that the volume of cross border e-banking transactions (net inflow) decreased by 2.3% as compared to a decline of 29% reported in the previous quarter.

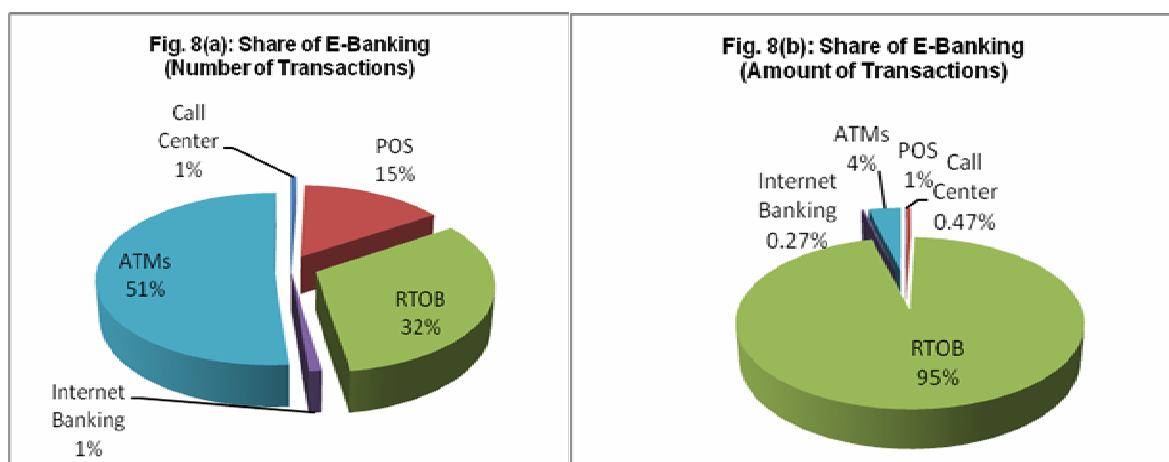
3.7 Non-financial E-banking transactions

All the 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 6.71 million as compared to 6.02 million in the previous quarter as shown in figure 7.



3.8 Contribution of ATMs, POS & Real Time Online Banking in E-Banking Operations

ATMs are commonly used for small value cash withdrawal. Therefore, the share of ATM transactions in the total number of electronic transactions was highest i.e. 51%. Whereas, the share of Online Banking, POS, Call Centre and Internet Banking in the total E-Banking business was 32%, 15%, 1% and 1% respectively. However, in terms of amount, the contribution of online banking is 95%, since this channel is mostly used for B2B transactions. Share of POS, Internet and Call Center banking is very nominal (less than 1%) as reflected in figure 8(a) and 8(b).



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