



Payment Systems Review

2nd Qtr. (Oct — Dec.) FY13

February 13, 2013

Points of Interest:

Principles for Innovative Financial Inclusion

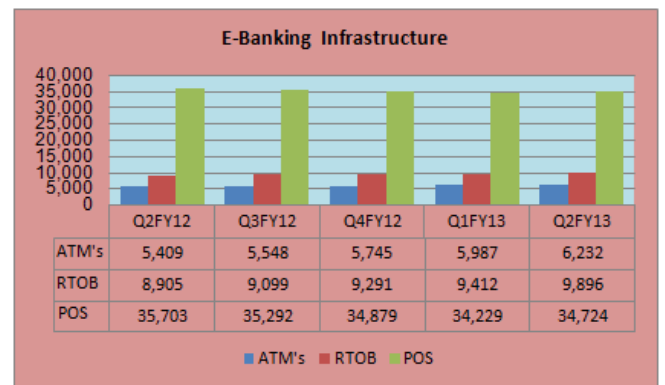
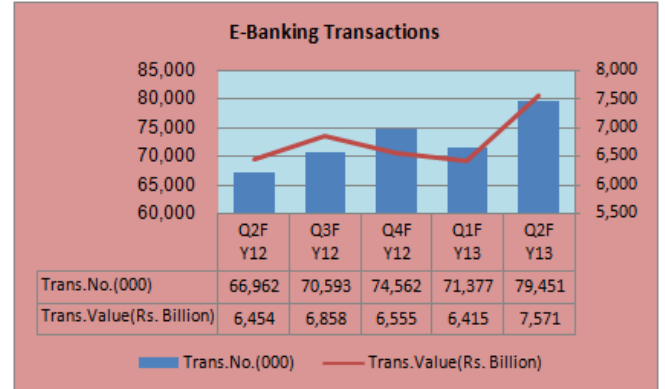
Intelligent ATM machine - where you can cash in your old mobile

During the second quarter of FY13, the infrastructure of Payment Systems in the country maintained an increasing growth trend. A total of 245 more ATMs were installed by various banks bringing the total number of ATMs to 6,232 in the country. Altogether, 484 more bank branches were added to the network of Real-Time Online Branches (RTOB) which makes a total of 9,896 branches which can now offer RTOB services out of 10,523 which constitute 94 percent of bank branches across country.

The number of plastic cards in the country also increased by 5.33 percent compared to the numbers recorded in the preceding quarter. By the end of quarter under review, there were 20.72 million plastic cards issued in the country.

The volume of overall e-banking transactions during this quarter depicted a growth of 11.31 percent to 79.45 million and the value of transactions increased by 18.02 percent to Rs. 7.6 trillion as compared to the figures reported in the first quarter of FY13. The volume and value of RTOB transactions also increased by 14.29 percent and 18.82 percent respectively as compared to transactions reported in the previous quarter of current fiscal year.

In terms of volume of overall e-banking transactions, ATM transactions has a major share of 61.12 percent and an average value per transaction stands at Rs. 9,779. In comparison with transactions reported in the first quarter of current fiscal year,



the overall volume of ATM transactions increased by 10.68 percent and the value increased by 10.33 percent. In overall e-banking transactions the share of ATM transactions in terms of value is 6.27 percent during current quarter.

The volume and value of transactions through POS terminals stood at 4.5 million and Rs. 22.1 billion which showed a growth of 5.06 and 6.25 percent respectively as compared to the figures reported in the first quarter of current fiscal year.

During this quarter, the recorded volume and value of large-value payments through RTGS was 121,663 and Rs.42.13 trillion respectively. This showed a 10.35 percent increase in the volume and 9.46 percent in the value as compared to the figures reported in the first quarter of current fiscal year. The major portion for the increased number of overall PRISM transactions this quarter was contributed by IBFT which increased by 14.06 percent as compared to the last quarter. Similarly, the largest contribution in the value of overall PRISM transactions in this quarter was due to securities settlement which increased by 14.96 percent.

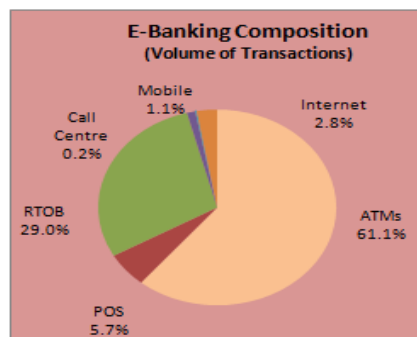
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Quarterly Comparison of E-Banking growth

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E-Banking Growth Trend— Quarterly Comparison

Quarterly E-Banking Trend

E-Banking Transactions

	Qtr1 FY13		Qtr2 FY13		Quarterly Growth	
	Volume (000)	Value (Rs. Billion)	Volume (000)	Value (Rs. Billion)	Volume	Value
ATM	43,876.79	430.42	48,561.30	474.89	10.68%	10.33%
RTOB	20,181.08	5,847.41	23,064.54	6,947.71	14.29%	18.82%
POS	4,328.83	20.77	4,547.84	22.06	5.06%	6.25%
Call Center	166.03	2.09	158.08	2.05	-4.79%	-2.23%
Internet Banking	2,019.79	109.97	2,209.29	118.24	9.38%	7.52%
Mobile Banking	804.17	4.18	909.62	5.62	13.11%	34.67%
E-Banking	71,376.70	6,414.83	79,450.67	7,570.57	11.31%	18.02%

E-Banking Infrastructure

	As of September 30, 2012	As of December 31, 2012	Quarterly Growth
ATM's	5,987	6,232	4.09%
Real Time Online Branches	9,412	9,896	5.14%
POS	34,229	34,724	1.45%
Credit Cards (000)	1,274	1,271	-0.23%
Debit Cards (000)	17,588	18,572	5.59%
ATM Only Cards (000)	806	874	8.44%

*Branchless Banking data is not included

In the retail payment systems, Microfinance Banks data are not included.

Discrepancy may occur due to rounding of data.

ATM machine - where you can cash in your old mobile

Most of us have an old mobile phone floating around in a drawer somewhere. Now, inventors are hoping to get people recycling their old phones by rolling out a recycling 'ATM' which can take an old mobile and pay out an agreed price on the spot. The machine is sophisticated enough that it can even see if a screen is cracked, the kiosks evaluate unwanted goods for resale and recycling - hoping to inspire people to go green. Just because a new phone has come out, old devices still have a value as either an affordable alternative, spare parts, or even melted down for the residual value of the metals inside.

Californian company ecoATM, with support from the National Science Foundation (NSF), has developed the system that lets consumers trade in those devices for reimbursement or recycling. Company co-founder Mark Bowles said: 'The basic technologies of machine vision, artificial intelligence, and robotics that we use have existed for many years, but none have been applied to the particular problem of consumer recycling. 'But we've done much more than just apply existing technology to an old problem - we developed significant innovations for each of those basic elements to make the system commercially viable.' Using artificial intelligence (AI) ecoATM kiosks can differentiate varied consumer electronics products and determine a market value. If the value is acceptable, users have the option of receiving cash or store credit for their trade - or donating all or part of the compensation to one of several charities. The ecoATM finds second homes for three-fourths of the phones it collects, sending the remaining ones to environmentally responsible recycling channels to reclaim any rare earth elements and keep toxic components from landfills. More than 300 kiosks are to be rolled out across the States by the end of the year. The system began as a wooden-box prototype that required the presence of an ecoATM representative to ensure that users were being honest with their trades.



Payment Systems Developments at SBP

During the period under review: Cheque Truncation system was a long awaited technology that was planned to be implemented in Pakistan. The project was finally materialized during QTR 2 FY 13 and in order to implement Cheque Truncation System in Pakistan, an introductory session on Cheque Truncation was productively arranged by Payment Systems Department (PSD) with the coordination of NIFT on 9th January, 2013 at Auditorium, LRC, State Bank of Pakistan, Karachi. Cheque Truncation depicts three dimensions as low cost, easy & swift access and efficient settlement of Cheque transactions in payment systems. In this regard, with collaboration of PBA, the Cheque Truncation Committee is recently formed in order to encourage the banking industry to instantly initiate & implement Cheque Truncation System in Pakistan. Cheque Truncation is settlement of clearing transactions on the basis of images and electronic data without the physical movement of the instruments. It is the conversion of physical cheque into electronic form for transmission to the paying bank.

News & Updates...

NBP launches first-ever 'Solar ATM'—National Bank of Pakistan (NBP) has launched first-ever Solar ATM at its Defense Housing Society Branch, Korangi. This ATM functions with solar energy without much dependence on electricity. NBP intends to install more ATMs on solar energy so as to use natural resources to reduce burden on electricity and fuel.

State Bank of India , NCR partner for voice-guided ATMs—State Bank of India (SBI) has entered an agreement with US-based global technology company NCR for voice-guided ATMs, online media outlet indiainfoline.com unveils.

The ATMs are aimed at helping people with physical disabilities and those that are considered visually impaired. Almost 2,500 of the bank's ATMs will be transformed into 'talking ATMs', with software and hardware features which allow a person with a disability to operate the machine independently for a transaction.

Additionally, the ATM will offer the customer a blanked out screen, to avoid shoulder surfing by any by-stander trying to access customer data during the transaction. With India having one of the largest visually impaired populations in the world, the NCR 'talking ATM' uses a text-to-speech engine which allows voicing-out the text on the screen in multiple languages.

Debit cards gain territory over credit cards—Debit cards continue to gain market share from credit cards and the use of electronic and mobile payments continues to register a considerable increase, a new report point out. According to the World Payments Report (WPR1) 2012 released by Capgemini, RBS and Efma, debit card transactions continue to become more popular than other types of payment

methods because they allow people to bypass the use of cash more easily.

However, the same source unveils that as more consumers turn to electronic, mobile and debit payments, industry innovation will continue to focus heavily on these payments methods. Statistics indicate that there were around USD 28.3 billion electronic and mobile payment transactions around the world in 2011, while in 2010 more than one in three non-cash payments globally were made using a debit card, which is up by 15.2 percent.

The reports also mentions that with only 2.1 percent of all mobile users make mobile payments, the potential for additional growth is still huge, with mobile payments expected to reach USD 17 billion by 2013 and e-payments USD 31.4 billion by 2013. Globally, the volume of non-cash payments remains concentrated in developed markets, with North America, Europe and Mature Asia-Pacific accounting for 79.5 percent. However, the BRIC block is diverging, with Russia and China boosting payment volume increases of more than 30 percent, while Brazil has become the second-largest payment country in the world, after the US. India's payment volume has jumped at 10 percent and has great potential for future growth, but is still the BRIC payment laggard.

Eufiserv, Pulse team up for global ATM transactions—Pulse, a subsidiary of Discover Financial Services, has entered an agreement with Brussels-based cooperative company Eufiserv Payments allowing cards issued by Eufiserv member banks to participate in the Pulse global ATM network. Under the terms of the agreement, ATM transactions conducted by Eufiserv member cardholders will be enabled at ATMs in the Pulse global ATM network. In addition to expanding acceptance for Eufiserv members in key destina-

tion markets, the agreement also will increase Pulse's global ATM volume. The arrangement will be implemented in two phases. Pulse and Eufiserv will focus first on European markets, followed by acceptance opportunities in other Pulse ATM markets where Eufiserv cardholders travel. The companies also plan to look at future opportunities for Eufiserv participants' card members, both in Europe and around the world. In recent news, Pulse has entered a long-term deal with financial institution Motorola Employees Credit Union (MECU), to become the latter's network provider for PIN debit.

Apple files patent application for human ATM network—Apple Inc. has applied for a patent on an "ad hoc cash dispensing network" that would link up people who need money with others with cash to lend. Think of it as a mobile cash dispensing system. Imagine you're on your way to a restaurant when you realize you forgot your wallet. No problem. You open the Apple app on your Smartphone, punch what you need and the request along with your location are broadcast to others in the vicinity who are also signatories to the service. Once both sides of the transaction are satisfied, the lender passes you the cash. Simultaneously, a payment equivalent to the cash plus a service fee are deducted from your iTunes account and transferred to the lender. Finextra's account is also worthwhile. It's too soon to say when or even if the technology will become reality, but it's clearly a sign that the move toward digital money is accelerating it also shows that the world of payments and banking as we know it is headed for a period of upheaval. Traditionally the banks have dominated but more recently a host of other new players, Google, PayPal, Microsoft, Apple, plus a slew of start-ups has entered the space and they're looking for a piece of the action.



Principles for Innovative Financial Inclusion

The Principles were developed in 2010 by the Access through Innovation Sub-Group (ATISG) of the G20 Financial Inclusion Experts Group (FIEG). The Principles were originally published in the Sub-Group's official report to the G20 and endorsed at the Toronto Summit in May 2010, to underpin the Financial Inclusion Action Plan endorsed at the Korea Summit in November 2010. The year-long FIEG process resulted in the establishment of the Global Partnership for Financial Inclusion (GPFI) by G20 leaders at the Seoul Summit in November 2010 to take forward its various commitments on financial inclusion with broad stakeholder participation. AFI participates as an implementing partner in several GPFI work streams. This includes supporting the subgroup that promotes awareness and use of the G20 Principles together with CGAP. Tasked with raising awareness and collecting further examples of the Principles in action, AFI has reprinted the G20 Principles in this executive brief, along with some examples of how developing country policymakers are bringing these Principles to life. Helping to make the Principles more widely available to its network is one step towards AFI's aim to compile a comprehensive report on the application of the Principles through a number of country case studies.

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound spread of new approaches. The following principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. These principles for innovative financial inclusion derive from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries.

- 1. Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
- 2. Diversity:** Implement policy approaches that promote competition and provide market based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
- 3. Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.
- 4. Protection:** Encourage a comprehensive approach to consumer protection that recognises the roles of government, providers and consumers.
- 5. Empowerment:** Develop financial literacy and financial capability.
- 6. Cooperation:** Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
- 7. Knowledge:** Utilize improved data to make evidence based policy, measure progress, and consider an incremental "test and learn" approach acceptable to both regulator and service provider.
- 8. Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
- 9. Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

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