

5 Payment and Settlement Systems

5.1 Overview

Payment systems are the procedures, instruments, and channels used by financial institutions to transfer funds among themselves, either on their own behalf or that of their customers. An efficient, secure, and reliable payment system reduces the cost, safeguards financial stability and promotes economic activities in an economy. Moreover, it is an essential tool for the effective implementation of monetary policy, and for the smooth functioning of the money and capital markets.

During FY11, effective and timely measures were taken by issuing instructions and guidelines to commercial banks for better controls on Alternate Delivery Channels ADCs. Banks were advised to standardize their ATM operations and improve internal monitoring on major occasions especially during long weekends, Ramadan/ Eid holidays, etc. Over the last couple of years, Pakistan has faced severe natural calamities like heavy rains and floods in certain parts. Realizing the needs of disaster affected people, further instructions were issued to all banks to facilitate Watan card holders and deploy at least one POS terminal at all their branches located in flood affected areas. The banks and switch operators were required not to levy any transaction charges on these cards. In order to further improve and to ensure round-the-clock availability of ATM services, special inspection teams were deputed to carry out surprise checks to verify on-site operational status of ATMs installed in various cities/ towns across the country.

With a view to provide greater flexibility and wide range of value added services to customers, banks were allowed to launch a number of innovative card products during the year under review. Customer Fund Transfers facility was also launched in February 2011 through Pakistan Real Time Inter-Bank Settlement Mechanism (PRISM) system and Multiple Credit Transfers facility for bulk payments through this system has also passed the testing phase and will be available for banks in the next financial year.

Electronic Payment and Refund System (EPARS) project initiated under World Bank sponsored Tax Administration Reform Program (TARP) with the collaboration of SBP, Federal Board of Revenue and Commercial Banks is in advanced development phase. Currently four commercial banks are the participants in the pilot launch which will be further extended to the banking industry after its successful completion. Phase-I of User Acceptance Testing (UAT) has been completed and work is underway for UAT phase-II.

5.2 Real Time Gross Settlement (RTGS)

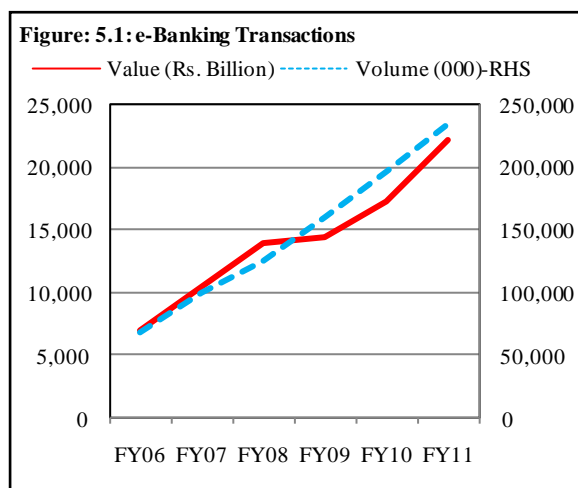
PRISM is a gross settlement system wherein both processing and final settlement of funds transfer instructions take place in real time. Banks can now execute funds transfer transactions through remote terminals provided at their premises by SBP. Various types of transactions settled through PRISM System include Government Securities (PIB/ MTB), Interbank Funds Transfers, Retail Clearing Batches and Customer Transfers. PRISM System currently has 43 Participants including 35 Commercial Banks, 7 DFIs and 1 Microfinance Bank.

Customer Transfer facility launched in February 2011 through PRISM System was aimed at facilitating retail customers for sending urgent payments on the same day. Till June 30, 2011 customer transaction valuing Rs1.53 trillion were settled through the system. During FY11, total number of payments settled through PRISM were 328,700 valuing Rs81.87 trillion compared to 302,000

payments valuing Rs73.85 trillion in the last year showing an increase of 8.6 percent and 11 percent in the number and amount of transactions respectively.

5.3 e-Banking and its Composition

The volume of E-banking has reached 234.9 million transactions showing an increase of 19.5 percent against an increase of 23.0 percent recorded last year. The total value of transactions touched Rs 22.2 trillion showing an increase of 27.8 percent against an increase of 20.6 percent recorded last year (see **Figure 5.1**).



ATM is one of the most widely and commonly used channel for comparatively small value cash withdrawals. Its share in total number of electronic transactions has recorded the highest increase of 59 percent. During FY11 the average value of ATM transactions¹ was recorded at Rs 8,750 compared to Rs 7,826 during previous year. The share of Real Time Online Banking (RTOB) and Point of Sale (POS) in e-Banking transactions was 32 percent and 6.1 percent respectively. The share of other e-Banking channels such as Call Centres, Internet and Mobile Banking, however, remained comparatively lower. In terms of value, the contribution of RTOB was 93.2 percent since it is mostly used for business to business (B2B) transactions. During the year under review, ATM contributed 5.4 percent in the value of transactions.

5.3.1 Network of Real time Online Branches

During FY11, banks have expanded their online branch network from 6,671 to 7,416 showing a growth of 11 percent compared to 10 percent growth recorded in the last year. The share of online branches in the total branch network has increased from 73 percent to 78 percent.

5.3.2 Automated Teller Machines (ATMs)

During FY11, banks have added 735 new ATMs to their network, bringing the total number of ATMs in the country to 5,200 reflecting a growth of 16.5 percent as compared to 11.7 percent growth recorded last year.

5.3.3 Transactions through ATMs

In terms of volume, ATM transactions depicted an increase of 19 percent during FY11 as compared to an increase of 27 percent in the last year. In terms of value, the amount of ATM transactions increased by 33 percent as compared to the increase of 35 percent recorded last year. Apart from cash withdrawals, ATMs are also used for inter-bank funds transfers, cash deposits, payment of utility bills etc. On an average, 73 transactions are executed per ATM per day in the country.

5.3.4 Number of Cards (Credit/Debit/ATM)

As of June 30, 2011, total number of cards in circulation has reached up to 14 million showing a growth of 33 percent as compared to 10.5 million recorded last year.

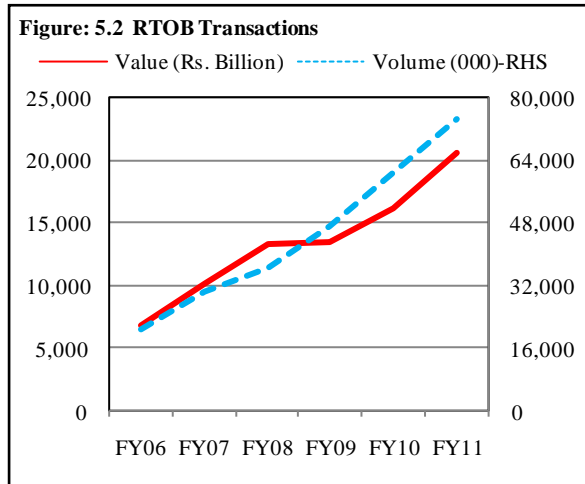
¹ The average size of ATM Transactions = Total Amount /Total number of transactions. Here the total numbers of ATM transactions include cash withdrawal, cash deposit, IBFT, utility bills payment, and deposit of Payment instruments.

5.3.5 Real Time Online Banking (RTOB) Transactions

Banks are offering RTOB channel for conducting various C2C, C2B and B2B transactions online. During FY11, in terms of volume, RTOB transactions increased by 22.8 percent as compared to an increase of 28.2 percent in the last year. In terms of value, the amount increased by 27.5 percent as compared to a growth of 19.7 percent last year (see **Figure 5.2**).

5.3.6 Point of Sale (POS) Transactions

Due to the reason that banks assess viability in the business of ATMs and its services instead of placing POS machines where businesses are low and banks strict Credit Card issuing policies, the total number of POS terminals stood at 37,232 as compared to 52,049 recorded in the last year. In terms of volume, POS transactions in the country reached 14.3 million showing a decrease of 8.8 percent as compared to 14.3 percent decrease recorded last year. In terms of value, the amount of transactions reached Rs 69.44 billion showing a decrease of 7.9 percent as compared to the decrease of 15.8 percent recorded last year.

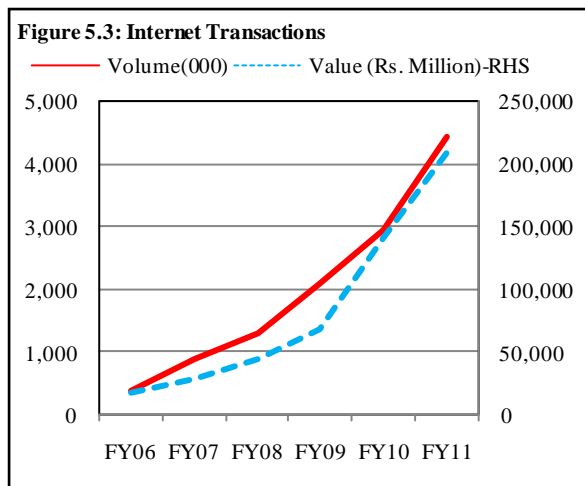


5.3.7 Call Center Banking

Numbers of financial transactions through call centers or IVR reported during FY11 were 0.8 million involving an amount of Rs 6.6 billion. At this level, it showed a decline of 22 percent in volume, and 6 percent in the value as compared to 8 percent increase in volume and 16 percent decrease in value recorded last year. That was again due to a decrease in Credit cards as well as further developments in all other ADCs for Utility Bills Payment services.

5.3.8 Internet Banking

Internet banking includes payments and electronic fund transfers (EFT). During FY11, banks reported 4.4 million transactions involving an amount of Rs 208 billion, which shows an increase of 50 percent in volume and 48 percent in value compared to an increase of 41 percent in volume and an increase of 107 percent in value recorded last year (see **Figure 5.3**).



5.3.9 Mobile Banking

At present, only a few banks are offering financial transactions through mobile phone. The volume of transactions was recorded at 3.4 million for FY11 compared to 0.6 million recorded during the last year. In terms of value, it reached at Rs 8.7 billion as compared with Rs 2.2 billion reported in the last year.

5.4. Paper Based Banking

FY11 witnessed a growth of 1.8 percent in the volume of paper-based banking transactions as compared to 2.2 percent increase in the previous year. The value of transactions increased by 10.8 percent against 2.0 percent increase recorded during the preceding year.