



State Bank of Pakistan

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Importance of safe, efficient & ubiquitous Payment Systems Helps in

- Achieving the financial stability objectives
- Increasing access
- Lowering cost of financial services
- Increasing financial inclusion
- Effective implementation of monetary policy

Legal Framework of Payment Systems (PS) in Pakistan



- Payment Systems and Electronic Funds Transfer Act 2007
- Pakistan Real Time Interbank Settlement Mechanism (PRISM) RTGS Rules, 2008
- Electronic Transactions Ordinance 2002
- Cyber Crime Prevention Ordinance 2008
- Banking Companies Ordinance 1962
- Foreign Exchange Act 1947
- Companies Ordinance 1984
- Pakistan Telecommunication (Re-organization) Act 1996



PSEFT Act 2007 - Coverage

The Act mainly covers the following areas:

1. Payment Systems & Operations

- ✓ Designation of PS Participants
- ✓ RTGS
- ✓ Governance and Operational arrangements of PS participants

2. Payment Instrument

- ✓ Designation of PS Instruments
- ✓ Security
- ✓ Third Party
- ✓ Cheque Truncation

3. Clearing & Other Obligation

- ✓ Clearing Houses, Audit and Inspection
- ✓ Participants Responsibilities in case of failure of Clearing House
- ✓ Settlement Provision and Rules

4. Supervisory Control of SBP

- ✓ Issuance of Model Clauses
- ✓ Service Providers other than Financial Institutions



Role of SBP in the PS

SBP Strategic Plan 2016 – 20

“SBP Vision 2020”

- Strategic Goal 1: Enhance the effectiveness of monetary policy
- Strategic Goal 2: Strengthen the financial system stability regime
- Strategic Goal 3: Improve the efficiency, effectiveness and fairness of the banking system
- Strategic Goal 4: Increase financial inclusion
- **Strategic Goal 5: Develop modern and robust payment systems**
- Strategic Goal 6: Strengthen SBP’s organizational efficiency and effectiveness



Role of SBP in the PS

- Regulator, Operator and Facilitator
- SBP-Strategic Plan for 2016-2020, emphasizes:
 - **Strategic Goal 5: Develop modern and robust payment systems**
- Establishing LVPS for interbank settlements
- Bringing efficiency in retail payment processing for the banking customers
- Recent technological developments for ADCs
- Supporting Financial Inclusion by increasing access to financial services at a lower cost
- Innovations has attracted **non-banking players, processors and innovators** in financial services and specifically in payments services markets

Establishment of Payment Systems Department at SBP

- Established in 2002
- RTGS Project under TABS program initiation in 2004
- Payment Systems & Electronic Funds Transfer Act promulgated in 2007
- Completion of the RTGS Project in 2008

Functions and Operational activities of PSD



• **Payment Systems Policy & Regulations**

- ❖ Development of Policy, Circulars, Rules, Regulations and Guidelines in pursuance of PS & EFT Act 2007.
- ❖ Researching new businesses and technology developments and trends
- ❖ Strengthening the PS regulatory framework for new initiatives
- ❖ Designating Payment Systems

• **Secretariat for SAARC Payments Initiative**

- ❖ Conducting SPC meetings bi-annually on rotation basis and seminars in SAARC member countries
- ❖ Coordinate with member countries
- ❖ Development of Policy documents (e.g. Road Maps, Plans)
- ❖ Timely Implementation of SPC decision
- ❖ Collection of countrywide data
- ❖ Coordination with IFIs
- ❖ Review of International Payment Systems development

Functions and Operational activities of PSD



- **PRISM (RTGS) Operations Management**

- ❖ Settlement of Inter-Bank Funds Transfer
- ❖ Settlement of Government Securities
- ❖ Settlement of Multilateral Net Settlement Batches through NIFT
- ❖ Large Value Customer Transfers
- ❖ Standardization and Automation (e.g. IBAN implementation) of payments systems instruments, networks and processes
- ❖ Settlement of Disputes
- ❖ Service Bureau Operations

- **Payment Systems Oversight**

- ❖ Oversight of Alternative Delivery Channels – ADC (ATM, POS, Internet & Mobile Banking etc)
- ❖ Oversight of Payment Systems Instruments e.g. Credit, Debit and Pre-Paid cards
- ❖ Customer Issues Coordination
- ❖ Assessment and authorization of emerging payment systems services and providers
- ❖ Data Collection and Analysis on Large Value and Retail Payment Systems including e-Frauds
- ❖ Quarterly reviews on Domestic Payment Systems
- ❖ Coordinated inspections



Overview of Payment Systems

Following are major institutions and systems that are playing a key role in country's Payment and Settlement Systems

- Pakistan Real-time Interbank Settlement Mechanism (PRISM) (RTGS of Pakistan)
- National Institutional Facilitation Technologies (Pvt.) Ltd. (NIFT)
- 1LINK (ATM Switch/ IBFT service provider)
- Mnet (ATM Switch)
- Central Depository Company (CDC)
- National Clearing Company of Pakistan (NCCPL)



Overview of Payment Systems

ATM SWITCHES

- 1-Link
- M-Net
- Interconnected with each other

CLEARING HOUSE

- NIFT - National Institutional Facilitation Technologies (Pvt.) Limited
 - Joint venture between a consortium of more than six banks and private sector
 - Provides **semi-automated clearing** services for cheques through
 - More than 25 Nationwide Centers
 - Covering more than 180 Cities
 - Serving more than 8,000 branches of more than 40 banks



Modes of PS in Pakistan

- Paper-Based
 - Cash/ Cheques/ Pay Orders/ Cashiers Cheque/ Demand Drafts/ Mail Transfers
- Electronic Based
 - ATMs (Automated Teller Machines)
 - POS (Point of Sale)
 - RTOB (Real Time Online Banking)
 - Internet
 - Mobile Phone
 - Call Center / IVR (Interactive Voice Response)

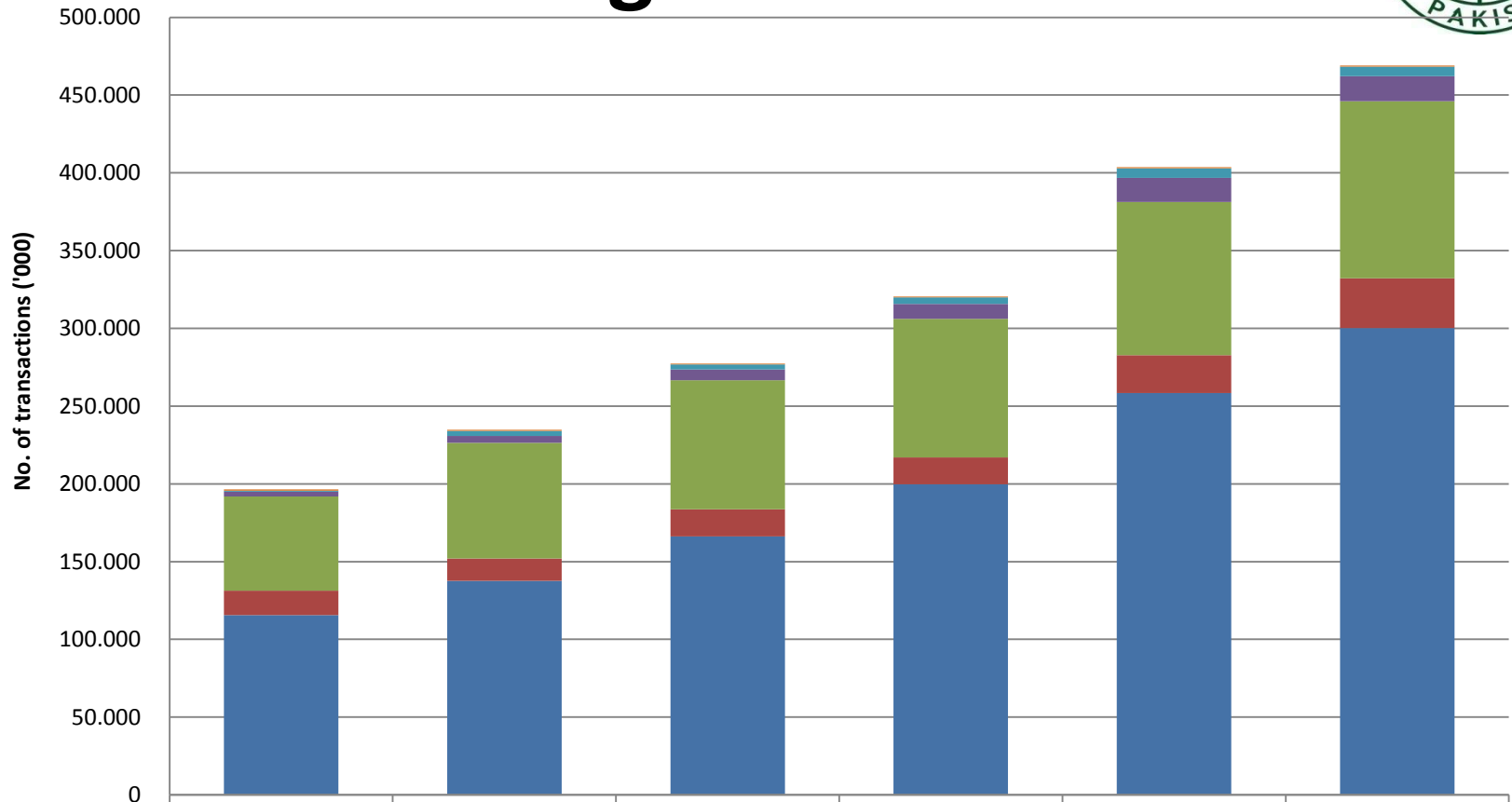


E-Banking Infrastructure

S.No	Infrastructure	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15 ^P
1	ATMs	5,200	5,745	6,757	8,240	9,597
2	POS Machines	37,232	34,879	33,748	34,428	41,183
3	Credit Cards	1,384,814	1,231,000	1,223,271	1,333,827	1,369,958
4	Debit Cards	12,631,959	15,984,000	20,202,558	23,061,171	25,024,235
5	ATM Only Cards	1,484,005	1,673,132	932,971	957,807	900,270
6	Total Bank Branches	9,362	10,020	10,395	11,199	11,937
7	Online Branches Network	7,117	9,291	9,827	10,640	11,315
8	Internet Registered Users	839,948	1,005,428	1,246,373	1,478,301	1,811,707
9	Mobile Registered Users	916,780	1,383,588	1,807,306	1,671,693	2,267,688
10	Call Center Registered Users	7,920,193	9,635,522	11,565,713	13,910,779	16,624,377



E-Banking Transactions



	FY10	FY11	FY12	FY13	FY14	FY15
Call Center Banking	1.003	778	663	639	666	766
Mobile Banking	600	3.286	3.121	4.150	6.167	6.139
Internet Banking	2.962	4.436	6.925	9.589	15.552	15.999
RTOB Transactions	60.615	74.407	83.070	89.058	98.491	113.800
POS Transactions	15.677	14.287	17.447	17.311	24.293	32.035
ATM Transactions	115.677	137.659	166.158	199.779	258.483	300.231

Payment Systems Department



Major Developments

- Legal Framework – Drafting PSEFT ACT 2007
- RTGS implementation and increasing utilization
- Regulatory Framework for ATM Operation
- Development of Guidelines for Credit Card Business in Pakistan
- Implementation of Security Standards on POS Network (PAN Masking)
- Standardizing Paper Instruments
- ATM Network Performance
- License Agreement with NIFT to manage systemic risk and introduce efficiency



Major Developments

- Implementation of International Bank Account Number (IBAN)
- Introduction of innovative Payment Products / Systems (Prepaid Cards, Mobile Banking, Ecommerce)
- Development for SAARC Payment Initiative
- Utility Bills Payment on ATM Network
- Facilitating Governments' Social safety initiatives like BISP, Khidmat Cards etc
- Branchless Banking through mobile network



Major Developments

- **Regulations for the Payment Service Providers and Payment Systems Operators:**
 - Regulation for the Payment Systems Operators and Service Providers were issued in October, 2014
 - Remove entry barriers for companies interested to establish Payment Gateways, Electronic Clearing Houses, ATM Switches and Payment Schemes.
 - These regulations besides increasing competition in existing market place, would help in building a robust, efficient, secure and ubiquitous payment systems infrastructure.



Recent Developments

- **Regulations for the security of the Internet Banking**
 - Security of internet banking has become a major concern world-over
 - SBP in consultation with Pakistan Banking Association is working for the development of regulations for the security of Internet Banking.
 - Require FIs in Pakistan to implement a formal Internet Banking Security framework containing administrative, technical and physical safeguards.



Recent Developments

- **Prepaid Card Regulations:**

- SBP is working on the Prepaid Card regulations in consultation with the Pakistan Banking Association.
- These regulations will help in the development of prepaid card market in Pakistan by enabling banks to distribute cards through the Authorized Seller thus tapping the huge network of large retailers and distribution companies.



Existing Projects

- **Cards Security Regulations**
 - SBP encourages banks to adopt global security standards such as PCIDSS, EMV and PADSS
- **Oversight framework**
 - Oversight of payment and settlement system is governed by the SBP Act, 1956, and PSEFT Act, 2007.
 - In order to ensure the promotion, regulation, monitoring and supervision of payment systems to reinforce in their performance, an oversight framework will be developed
- **Straight Through Processing (STP)**
 - SBP encourages banks to implement STP integration of core banking with RTGS and PRISM.



Challenges

- Legal affirmation
 - Designation & Authorization
 - e-Money and e-money institution
 - Cheque Truncation
- Systemic, Operational & Developmental
 - Risk Management at Clearing House level and in FX Settlement
 - Obsolescence of Technology components Authorization
 - Enhancing RTGS Role
 - Industry BCP standards & SOPs



Challenges

- Retail PS development
 - Cash dominance
 - Card acceptance
 - Credit Transfer
 - Direct Debit
 - Number of ATMs & POS
 - Security concern
 - Debit Cards - EMV Compliance
 - ADC's PCI DSS and PA-DSS Compliance
 - Avoiding Tax Registration
- Government
 - Government Transaction



Thank you!