



13th SAARC Payments Council Meeting
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**“Development of Payment and Settlement Systems in
Pakistan”**

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Contents



- Brief background and Update on International Banks Account Number (IBAN) – Phase-II
- E-Payment Gateway(s) in Pakistan
- Up Gradation of Pakistan Real Time Gross Settlement Mechanism (RTGS)
- Cheque Truncation System - CTS
- Standardization of Financial Instruments
- Payment Systems Vision 2013 - 2018



IBAN: *International Bank Account Number*



Phase wise Implementation in Pakistan



- IBAN is international standard for identifying bank accounts across the globe.
- Is already implemented in more than 50 countries (including EU, S. Arabia, Kuwait, and UAE).
- IBAN will bring more efficiency in both cross border transactions transfers & domestic electronic transfers.
- SBP introduced IBAN in 2012.
- Phase-1 which aimed at generation and notification of IBAN to customers has been completed.
- Phase-2 is in pipeline which pertains to implementation of operational use of IBAN for domestic and international transactions.



Composition of IBAN



- First two letters represent Country code i.e. PK for Pakistan as allocated by ISO is to be used for IBAN
- Next two numbers represent Check Digit
- Next four digits represent Bank Identification Code
- Next sixteen digits represent customer's bank account number

Example of IBAN in Pakistan:

PK00MUCB1234567890000001



e-PG: Electronic Payment Gateway



e-Payment Gateway



- Payment Gateway is an e-commerce application service that authorizes and automates payments for e-businesses.
- In Pakistan there is rising trend in use of ADCs.
- Need for provision of secure & efficient mechanism of e-payments.
- SBP has drafted concept paper and regulations on establishing e-payment gateways in Pakistan.
- Domestic e-Payment Gateway will reduce costs and will safely automate domestic OFF US transactions.
- E-PG will reduce interoperability issues of various ADCs.



Up Gradation of PRISM





- PRISM System initially aimed at automating interbank fund transfers only.
- At present handles all interbank fund transfers whether originating from clearing, clean or from repo transactions (Government Securities).
- Lack of vendor support (local & remote) and outdated hardware.
- PRISM System lacks robustness and scalability which a Systemically Important Payment System should be able to demonstrate.
- PRISM System's maintenance contract will expire in June 2014.
- Introduction of 3rd Party Fund Transfers resulted in increased volume of transactions in PRISM.
- Inclusion of bulk salary transfers, introduction of value limits on paper cheques & processing of fund transfers under Pakistan Remittance Initiative (PRI) will require more payment messages' capacity.

Cheque Truncation System



Cheque Truncation



- SBP has embarked on implementing Cheque Truncation System (CTS) in Pakistan.
- The risks and costs associated with manual clearing processes will be minimized.
- SBP aims to reduce settlement cycle of cheques to one day from existing average of two to three days.
- Cheque Truncation Committee has been formed to develop a road map for implementing cheque truncation in Pakistan.
- At the outset, a Hybrid System will be followed whereby only Inward Clearings will be automated.
- Banks will make Pay/No Pay decisions for cheques electronically via web portal.
- Initially 5 banks have agreed to participate in the pilot phase, thereafter all banks will be mandated to implement partial truncation by December, 2013.
- With the successful implementation of partial truncation in banking industry, SBP will oblige the banks to follow full truncation system.



Standardization of Financial Instruments



Standardisation of Financial Instruments



- SBP has been making efforts in bringing efficiency in Clearing and Settlement Processes.
- SBP is working on Standardization of Financial Instruments with its initial emphasis on cheques.
- It will minimize chances of fraudulent transactions and will bring efficiency in cheque clearing processes.
- Enhanced security features and legibility of cheques are focal points.
- All banks will be mandated to use Clearing Bank Specification-1 (CBS-1) i.e. using standardized single/multi-tone watermark logos on cheques for authentication etc. and use Instant Verification (IV) marker to ascertain genuineness of cheque paper.



Vision 2013-2018



Vision 2013 - 2018



- Payment Systems Department (PSD) is working on drafting Vision 2013-18 to outline a strategic direction for the future of Payment and Settlement Systems in the country to meet domestic and regional Payment Systems objectives.
- The focus of Vision will be:
 - An effective oversight and regulatory framework
 - Promote the use of electronic payment systems in the country and financial inclusion through financial literacy programs
 - Integration of various Securities Settlement Systems in Pakistan to reduce settlement risks





THANK YOU

