

SAARC Payments BULLETIN

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12th SAARC Payments Council Meeting, Dhaka, Bangladesh

The 12th SAARC Payments Council meeting was held on 18th November, 2012 at Pan Pacific Sonargaon Hotel, Dhaka, Bangladesh. The chief guest Dr. Atiur Rehman, Governor Bangladesh Bank announced the opening of the meeting while Mr. Inayat Hussain, Executive Director (Operations), State Bank of Pakistan chaired the meeting of SAARC Payments Council and welcomed the participants.

The meeting was attended by Mr. Dasgupta Asim Kumar, Executive Director, Bangladesh Bank, Mr. Jai Narayan Pradhan, Director Payment and Settlement Systems Department, Royal Monetary Authority of Bhutan, Mr. Vijay Chugh, Chief General Manager, Reserve Bank of India, Ms. Nilima Chhabilal Ramteke, General Manager, Reserve Bank of India, Ms. Aishath Nadhiya, Senior Manager, Banking and Payments Division, Maldives Monetary Authority, Mr. Rajan Bikram Shah, Director, Banking Office, Nepal Rastra Bank, Mr. S S Rathnayake, Assistant Governor, Central Bank of Sri Lanka and Mrs. Ranjani Weerasinghe, Director of Payments and Settlements, Central Bank of Sri Lanka.

During the meeting, the Chairman stressed upon SAARC member countries to actively look forward in bringing compatibility of payment mechanisms within the region. For the purpose, a consensus emerged to develop a database/ matrix by collecting data/ information of payment systems of SAARC countries in order to remain updated on regions PSS activities and to evolve common understanding of technical terminologies. Economic justification of investing in the Real Time Gross Settlement Mechanism by smaller countries was also the main topic of discussion among the member countries. Developing a new Road Map was also discussed and a team was framed to complete the task before the next meeting.



Recent Developments in Payment & Settlement Systems of Member Countries

INDIA

1. National Electronic Funds Transfer (NEFT)

A feature of continuous release of credit messages in the National Electronic Funds Transfer (NEFT) system has been introduced recently. The main objective for this is to provide maximum time to beneficiary / destination banks to process the inward NEFT transactions. This feature also envisages that networks of the banks are optimally utilized by spreading the release of messages throughout the one hour time window between the two batch settlements.

2. (WLA) White Label ATMs

The time for submission of applications was extended up to January 15, 2013 for taking on board entities having tied up with international ATM operators with expertise and who needed further time to obtain necessary clearances. Entities that are given approval will be given time period till June 30, 2013 to meet the capital requirements as also obtaining FIPB (Foreign Investment Promotion Board) permission for undertaking this activity. In principle approval has so far been given to five of the sixteen applicant entities to set up, own and operate WLAs. Further, seven are being recommended during the quarter ended March 2013.

3. Customer Service

In order to ensure continuous availability of ATM services on a 24x7 basis, banks were advised to place a quarterly review of ATM transactions to its Board of Directors, indicating, inter alia, the denial of services to the customers at ATM sites, reasons thereof, including on account of ATM running out of cash, and the action taken to avoid recurrence of such instances.

4. Security Measures

To strengthen the security of the electronic payment

channels and minimize the incidence of frauds, the Bank in consultation with various stakeholders issued guidelines under two broad categories.

(a) Securing card transactions

Banks were advised to put in place various measures for securing card transactions, including the following:

i) all new debit and credit cards to be issued only for domestic usage, issuing banks should convert all existing MagStripe cards to EMV Chip card for all customers who have used their cards internationally, (ii) all active Magstripe international cards issued by banks should have threshold limit for international usage, (iii) terminals installed at the merchants for capturing card payments should be certified for PCI-DSS (Payment Card Industry-Data Security Standards) and PA-DSS (Payment Applications - Data Security Standards), (iv) framing of rules based on the transaction pattern of the usage of cards by the customers in coordination with the authorized card payment networks, (v) all acquiring infrastructure that is currently operational on IP (Internet Protocol) based solutions are mandatorily made to go through PCI-DSS and PA-DSS certification, (vi) providing easier methods (like SMS) for the customer to block his card and get a confirmation to that effect after blocking the card, and (vii) build in a system of call referral in co-ordination with the card payment networks were mandated to the stakeholders.

b) Securing electronic payment transactions,

Under this category the banks have been advised to (i) provide customer induced options for fixing a cap on the value / mode of transactions / beneficiaries, (ii) put a limit on the number of beneficiaries that may be added in a day per account, (iii) a system of alert may be introduced

when a beneficiary is added, (iv) put in place mechanism for velocity check on the number of transactions effected per day / per beneficiary and any suspicious operations should be subjected to alert within the bank and to the customer, (v) introduction of additional factor of authentication for such payment transactions, (vi) considering of implementation of digital signature for large value payments, (vii) capturing of IP address as an additional validation check, (viii) to ensure that the security measures put in place by the sub members are on par with the standards followed by the banks itself so as to ensure the safety and mitigate the reputational risk, and (ix) exploring the feasibility of implementing new technologies like adaptive authentication, etc.

The above security measures are expected to be put in place by banks by June 30, 2013.

5. Other Developments

5.1 Technical Committee on Uniform Routing Code

The Technical Committee on Uniform Routing Code and study the feasibility of doing away with branch identifier in IFSC; (b) desirability of implementing IBAN replacing multiple identifiers for all financial transactions; (c) harmonization of all bank/branch codes (IFSC / BSR Code / MICR Code / SWIFT BIC etc.) has since submitted its final report to the Bank. The recommendations are being examined by the Bank.

5.2 Committee on GIRO¹

A Committee for Implementation of GIRO based Payment System has been constituted by the Bank. The broad terms of reference for the Committee are (a) Finalize the contours of the GIRO product (electronic and cheque) for the country; (b) Design the operational and procedural guidelines of the GIRO Payment System; (c) Draw up a roadmap for implementation of GIRO in India and (d) Lay down the transitional path for switch over from cheque

to electronic GIRO over a period of time. The Committee is expected to submit its report by June, 2013

5.3 International seminar

As a part of knowledge dissemination, an international seminar titled "*Seminar on Principles for Financial Market Infrastructures and Innovations in Retail Payment Systems*" was organized from February 14-16, 2013 at New Delhi. The conference was attended by participants from twenty three countries. Eminent speakers from Bank of International Settlements, World Bank, European Central Bank, Bundesbank and Honk Kong Monetary Authority were invited as guest speakers in the seminar. The first day of the seminar exclusively covered PFMI and the second day focused on the recent developments in the retail payments space across the world. Presentations were made by five countries.

¹ A GIRO transfer is a payment instruction from one bank account to another bank account which is initiated by the payer, not the payee and it enables anywhere, anytime, any bank for person-to-person and person-to-business transactions including payment of utility bills

PAKISTAN

1. E-Payment Gateway (E-PG)

In the wake of rising trend in use of Alternate Delivery Channels (ADCs), SBP found it necessary to ensure provision of a secure & efficient mode to facilitate e-payments which could ultimately promote e-commerce and boost public confidence by minimizing the fraudulent transactions.

Despite the presence and capability of local switches to process all domestic transactions, domestic OFF US transactions are routed via international schemes incurring extra costs for the banking industry.

Therefore, a domestic e-Payment Gateway is needed which will minimize the additional costs associated with the current routing mechanism besides safe authentication of domestic OFF US transactions. Further, this drive will also reduce the interoperability issues of various ADCs.

To serve this purpose, SBP is providing guidelines to establish E-Payment Gateways (E-PGs) in Pakistan.

2. IBAN

SBP has introduced International Bank Account Number (IBAN) in 2012 for identification of bank accounts across national as well as international borders. IBAN will not only bring efficiency in cross border transactions including remittances sent by overseas Pakistanis from IBAN Compliant Countries but it will also facilitate domestic electronic transfers.

IBAN implementation is in progress across banking industry in Pakistan. Phase 1 (generation and notification of IBAN to customers) has already been completed in January, 2013. Phase 2 implementation i.e. operational use of IBAN for domestic and international transactions is currently in progress.

IBAN Phase 2 implementation is more critical for the banking industry since it involves a number of information systems to be upgraded besides the heavy dependence of banks on different vendors

for IBAN implementation. Most of the banks have been able to implement IBAN in their core banking applications besides using IBAN in their internal operations. However, the operational utility of IBAN at alternate delivery channels like ATMs, Interbank Funds Transfers via switches etc. is still under way.

3. Up Gradation of RTGS System

State Bank of Pakistan has been operating Pakistan Real Time Interbank Settlement System (PRISM), since July 2008. The Contract for Supply, Implementation and Support of RTGS System was awarded to CMA Small Systems AB, including maintenance of the system for 5 years.

There has been a gradual increase in volume of PRISM System transactions since its inception. In addition to inter-bank transactions, SBP has also introduced 3rd Party Customer transfers in PRISM System including multiple credit transfers. In FY12, PRISM System processed around 1500 transactions per day amounting to PKR 400 billion. Although, the current volume of transactions is significantly lower than the installed capacity, the total installed capacity of the system (i.e. 18000 Payments) would be insufficient for the potential volume over the next 8-10 Years.

Moreover, SBP has proposed a number of initiatives to promote electronic payments through PRISM System. These initiatives include bulk salary transfers, introduction of value limits on paper cheques and fund transfers under Pakistan Remittance Initiative (PRI) which would require more payment messages' capacity than the current ability of the system. Further, to bring more efficiency in B2C, B2B, G2P and G2B payments, an RTGS application capable of handling significant transactions would be required by SBP.

Therefore, to ensure the safety, efficiency and reliability of PRISM System for such initiatives, SBP has proposed to replace the current RTGS software which would be able to handle estimated/ expected volumes in the coming years.

4. Cheque Truncation System

State Bank of Pakistan (SBP) has taken the initiative to implement electronic cheque processing infrastructure (Cheque Truncation System (CTS)) whereby the risks and costs associated with manual clearing processes would be minimized. SBP aims to achieve the following objectives after implementation of CTS in the country:

- The settlement cycle of cheques would be reduced to one day from an existing average of two to three days
- With the reduction of time in cheques' clearing, banks would be able to provide better customer services and increase operational efficiency by reducing the expenses and risks involved in physical movement of cheques for clearing process

Hitherto, various steps have been taken by SBP to implement CTS in the country. Cheque Truncation Committee (CTC) has been formed comprising of the senior officials of SBP and Commercial Banks to develop a road map in order to shift banking industry gradually from physical cheque processing to partial/full Cheque Truncation System. Further, it has been proposed to oblige banks to affix the clearing stamp on rear side of cheques to capture visible and clear images for efficient truncation of cheques.

Initially five volunteer banks are anticipated to participate in pilot phase of partial truncation; thereafter all banks would be mandated to implement partial truncation by December, 2013.

In partial truncation, only Inward Clearings (initially Intercity and Same day Clearings) would be automated by National Institutional Facilitation Technologies (Pvt.) Ltd (NIFT, the clearing house) whereby it would provide a web portal to all the banks to make Pay/No Pay decision of a cheque electronically. Further, nationwide clearing information would be available on this portal as soon as the clearing cycle is completed including scrolls, data, images, reports, settlement positions along with the processing of returns with electronic

score board, thus showing net position on countrywide basis.

With the successful implementation of partial truncation in banking industry, SBP will oblige the banks to follow full truncation system.

5. Standardization of Financial Instruments

SBP has been making efforts to bring efficiency in Clearing and Settlement Processes. Currently SBP is also working on Standardization of Financial Instruments with its initial emphasis on cheques. This effort will not only minimize fraudulent transactions being executed due to substandard cheques forms of cheques but simultaneously it will bring efficiency in clearing processes of NIFT.

Enhanced security features and legibility of cheques are the focal points in standardization of cheques. All banks will be mandated to use Clearing Bank Specification-1 (CBS-1) paper, have a standardized single/multi-tone watermark logos on cheques for cheques' authentication and also use Instant Verification (IV) marker to confirm the genuineness of cheque paper. Furthermore, standard cheque size with uniform length, height, width, and proper encoding of MICR line are also proposed as mandatory features of a standard cheque in the country.

6. Vision 2013-18

Payment Systems Department (PSD) of SBP along with various stakeholders of Payment System Industry is working on Payment Systems' vision (2013-18) in order 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 the Vision would 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

SRI LANKA

Application of Terminal Line Encryption Technology for Point of Sale Terminals in Sri Lanka

Sri Lanka experienced a rapid expansion in electronic payment transactions, particularly through electronic payment cards, during the past few years as such electronic payments are becoming very popular among the general public due mainly to the convenience in use. This expansion was facilitated by the growth of telecommunication infrastructure and other information and communication technology in the country. For instance, the total number of credit cards and debit cards in use as at the end of December 2012 were 952,256 and 10,374,803 respectively, against the population of 20 million in the country.

While payment cards become popular avenues for payment card frauds have also been rising during the past few years as the technology has become more sophisticated and accessible. Accessing account data relating to payment cards has been a major driver of fraudulent activities. Payment card frauds encompass a wide range of fraudulent activities and some of the more frequently encountered forms of fraud are the use of lost and stolen cards, obtaining cards through fraudulent applications, counterfeiting, skimming, tampering of Point of Sale (POS) terminals or PIN Entry Device (PED), and phishing.

Experience shows that the information transmitted through POS terminals has mainly been used for payment card frauds. When a payment card is used for a transaction at an online POS terminal, transaction information is transmitted to the relevant financial institution via a telephone line to obtain authorization and to perform the settlement. The transmitted data contains card identification details, particularly the account information and other data required to complete the transactions. These details are obtained through tapping of telephone lines by fraudsters for extraction of the card details while the transactions are processed. However, in order to extract data in the aforementioned manner, it is essential that the data transmitted are sent as plain text i.e. without encryption.

One of the latest solutions which could prevent data capturing in card based payment systems is the POS Terminal Line Encryption Technology. TLE is a simple solution for encrypting the terminal lines of acquirer networks, by protecting sensitive payment cards data. This technology is used to encrypt transaction data transmitted from POS terminal networks in a bid to avoid card frauds via telephone wire tapping. Encryption is currently used to protect data in transit, such as transferring data through Internet networks, e-commerce systems, mobile phones, Automated Teller Machines (ATMs) etc. TLE is also the standard solution for stakeholders wishing to introduce more secured features into their existing POS network infrastructure.

The National Payments Council of Sri Lanka, which is the highest policy making body for the national payment system in Sri Lanka, recommended to mandate the adoption of TLE for financial acquirers in payment cards operating in Sri Lanka, as a solution to mitigate the frauds related to payment cards, to minimize losses incurred by stakeholders of payment cards and to prevent the deteriorating public confidence in using payment cards. Accordingly, all financial acquirers were required to adopt the TLE application for their POS networks and the migration to TLE was completed by 31st March, 2013. This measure would enhance the safety of operations of the payment card industry in Sri Lanka complying with the international best practices while building customer's confidence to use payment cards for their day-to-day payment requirements.

SAARCFINANCE and Asian Clearing Union (ACU) Meetings conclude: Pakistan assumes ACU chair



SAARCFINANCE 26th GROUP MEETING
Hosted by State Bank of Pakistan
18 June 2013, Islamabad Pakistan



Mr. Yaseen Anwar, Governor, State Bank of Pakistan (SBP) hosted the 26th SAARCFINANCE Group meeting and 42nd ACU Board of Directors meeting at a local hotel in Islamabad on June 18 and 19, 2013. Dr. Fazeel Najeeb, Governor and Chairman, Maldives Monetary Authority chaired the SAARCFINANCE Group meeting. Pakistan also assumed Chair of the ACU and Governor SBP Mr. Yaseen Anwar chaired the 42nd ACU Board of Directors meeting.

Some of the key decisions taken in the SAARCFINANCE Group meeting were:

1. SAARCFINANCE history portal was launched based on the systematic collection and compilation of information on SAARCFINANCE activities of the past 10 years.
2. To start off the SAARC scholarship scheme, Reserve Bank of India offered one scholarship per year to an applicant from SAARC region.



ASIAN CLEARING UNION
42nd Meeting of the Board of Directors (Hosted by State Bank of Pakistan)
19 June 2013, Islamabad Pakistan



Pakistan assumed Chair of the ACU and Governor SBP Mr. Yaseen Anwar chaired the 42nd ACU Board of Directors meeting.

One of the primary objectives of the establishment of the Asian Clearing Union (ACU) is to promote monetary cooperation amongst the participants, and develop a closer relationship between their respective banking systems. This would then contribute to the expansion of trade and economic activity, within the ACU region.

In his inaugural address the Governor SBP said that in today's scenario, economic cooperation among the participants of the ACU is needed more than ever. The expansion of intra-regional trade and cooperation on other fronts, among ACU member countries will help absorb any further negative shocks in the global markets. With an increase in trade amongst ACU member countries, and an integrated financial system that reduces the cost of trade, the countries of the ACU will be able to diversify their trade and tap into some of the fastest growing markets of the region.

The Governors/ Deputy Governors of central banks of Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka participated in the meeting.

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