

SAARC Payments Initiative

Takes Off

SAARC Payments Initiative (SPI) is a regional payment group formed by member central banks/monetary authorities of the SAARCFINANCE Group to help each other to reform national payment and settlement systems (PSS) individually and regional PSS collectively.

The initiative of establishing the SPI was originated at the SAARCFINANCE Conference on "Towards a Regional Payments Group" held in Colombo in July 2007. The governors of the SAARCFINANCE Group approved the proposal of setting up of the SPI in October 2007.

On the request of the member countries, Central Bank of Sri Lanka (CBSL) led this initiative by carrying out the ground work to establish the SAARC Payments Council (SPC), the apex body responsible for policy making, taking forward the SPI and establishing the SPI Secretariat at the CBSL, Colombo, Sri Lanka.

The SPC is represented by the senior officials at the level of deputy governor/executive director of a member central bank/monetary authority who are in-charge of payment system development. The current Chairperson of the SPC is Dr Ranee Jayamaha, Deputy Governor of CBSL. Mrs J P Mampitiya, Director, Payments and Settlements Department of the CBSL acts as the Secretary of the SPC.

The inaugural meeting of the SPI and the first meeting of the SPC were held at the CBSL on 28 March, 2008. The first meeting of the SPC established the vision, mission, objectives, scope, organizational structure and the Road Map for PSS development in the SAARC region. The SPC meets quarterly in one of the member countries.

The second SPC meeting was hosted by the Reserve Bank of India (RBI) and was held in Hyderabad, India on 30 June, 2008. At this meeting, SPC members evaluated the current status and on going reforms of PSS in the member countries. The members found this stocktaking exercise to be useful and decided to further improve it by enabling the SPI Secretariat to prepare a final report on the current status of PSS in SAARC countries which could be presented to the Governors of the SAARCFINANCE Group at its next meeting to be held in Washington in October 2008. At the Hyderabad meeting, members also discussed the findings of the survey conducted among the member countries to assess the value of foreign remittance payments in SAARC countries. RBI undertook the responsibility of redesigning the format for collecting remittance inflows/outflows quarterly. The countries, which do not have National Payment Councils (NPCs) agreed to establish such councils to drive the PSS reforms in their own countries.

Message from the Chairperson



The rapidly changing global payment system infrastructure is challenging the existence of domestic and regional payment systems that are lagging behind in the pace of development of technology, communications and globalization. This calls each country to reform their payment systems to keep up with advanced technologies and complex processes. Given the nature of cross border transactions, the need to mitigate risks involved in them and the high cost of quality infrastructure, it is advantageous for countries in the SAARC region to undertake reforms collectively in coordination with each other. The SPI could help in attracting rich intellectual and resource capacity for payment system development in the region. Within the framework of SPI, all members are geared to collectively work with a clear vision and a Road Map.

As agreed at the Second SPC Meeting held in Hyderabad in June 2008, We are pleased to publish the first volume of SAARC Payments Bulletin. I wish to thank all SPC members for their continuous involvement in SPC activities and the valuable contribution to the SPI Secretariat to publish the Bulletin. On behalf of SPC members, I wish to thank the staff in the SPI secretariat for their support in designing the first Bulletin. I hope this Bulletin will help to increase awareness on the progress of SPI and PSS development in member countries.

SPI PROFILE

SAARC Payments Council:

- functions as the apex body, responsible for policy making and spearheading the payment reforms in the region;
- it is the working committee responsible to the governors of the SAARCFINANCE Group; comprises representatives nominated by the Governors of the SAARCFINANCE central banks;
- facilitates official commitment of member central banks to follow strategies set out in the SPI Road Map;
- facilitates obtaining the necessary technical/financial assistance from other relevant organisations; and
- ensures quality, relevance, timely and effective implementation of SPC decisions as well as deployment of resources with adequate system controls.

Objectives of the SPI

- Establish a forum for SAARC countries to collectively evolve a high level strategic direction and suggest a road map for payment and settlement reforms of individual member countries to reduce risk and increase efficiency and safety, in line with international best practice; and
- Standardize payment and settlement systems to create a level playing field in promoting regional harmonization and integration of countries for the development of intra regional payment and payment and settlement systems.

Mission

Facilitating the implementation of comprehensive reforms by ensuring safety, efficiency and stability in national payment systems through close coordination and co-operation consistent with the SAARC Payments Initiative.

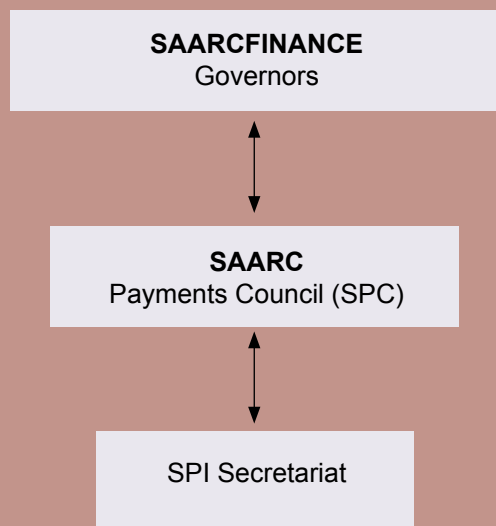
2015 Vision

An efficient, robust, stable and convergent payments system for the SAARC Region that benchmarks with international standards.

SPI Activities - 2008

- Stocktaking exercise of the status of PSS in SAARC member countries.
- Survey to assess the methodology used by each member country in collecting and deriving the remittance data.
- Standardize the collection of information/data on remittances to assess the volume of cross border transactions and relevant risks in the SAARC countries.

INSTITUTIONAL FRAMEWORK OF SPI



Future Events

Fourth Meeting of the SPC will be held in Pakistan in December 2008

SPI Secretariat:

- located at the CBSL Colombo, Sri Lanka initially for a period of two years;
- Secretary is Mrs J P Mampitiya, Director, Payments and Settlements of CBSL;
- SPI: assists SPC and coordinate SPI work;
- organizes country studies and assessments;
- facilitates designing and implementing specific technical assistance projects; and
- helps member countries to upgrade their PSS to international standards and best practice.

**GOVERNORS OF THE
SAARCFINANCE GROUP**



Dr D Subbarao
Chairman
Governor, Reserve Bank of India



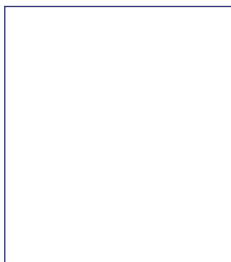
Mr Abdul Qadeer Fitrat
Governor
Da Afghanistan Bank



Dr Salehuddin Ahmed
Governor
Bangladesh Bank



Mr Daw Tenzin
Managing Director
Royal Monetary Authority of Bhutan



Governor
Maldives Monetary Authority



Mr Krishna Bahadur Manandhar
Governor
Nepal Rastra Bank



Dr Shamshad Akhtar
Governor
State Bank of Pakistan



Mr Ajith Nivard Cabraal
Governor
Central Bank of Sri Lanka

**MEMBERS OF THE
SAARC PAYMENTS COUNCIL**



Dr Raneer Jayamaha
Chairperson
Deputy Governor
Central Bank of Sri Lanka



Mr V Leeladhar
Senior Advisor
Deputy Governor
Reserve Bank of India



Mr Aziz Baraki
Bank Operation
Deputy General Director
Da Afghanistan Bank



Mr Khandakar Muzharul Haque
Executive Director
Bangladesh Bank



Mrs Rinzin Lhamu
Head, Banking Division
Royal Monetary Authority of Bhutan



Mr G Gopalkrishna
Executive Director
Reserve Bank of India



Ms Aishath Zahira
Deputy Governor
Maldives Monetary Authority



Mr Bir Bikram Rayamajhi
Deputy Governor
Nepal Rastra Bank



Mr Yaseen Anwar
Deputy Governor
State Bank of Pakistan



Mrs. J P Mampitiya
Secretary
Director, Payments & Settlements
Central Bank of Sri Lanka

(At the time of going to press, photograph of the Governor, Maldives Monetary Authority was not available).

PSS IN SPI MEMBER COUNTRIES AT A GLANCE

- SPI member countries conducted a stocktaking exercise of their PSS during the period of April-July 2008 to:
 - understand the current status of PSS;
 - enable them to reform their PSS to minimize risks and increase efficiency in line with international best practice; and
 - create standardized PSS to promote regional harmonization and integration of PSS for intra regional development of PSS.
- Central Banks (CBs)/Monetary Authorities (MAs) of each member country reported the status of PSS under 3 broad headings. The number of CBs/MAs which include primary and secondary policy goals are given in parenthesis:
 - Policy, operational and communication system;
 - Legal and regulatory structure; and
 - Technical and institutional infrastructure.
- Policy goals of PSS in member countries

Primary policy goals:

 - promote safety (6), efficiency (7) and control risks of PSS (6) financial inclusion (3).

Secondary policy goals:

 - promote financial system stability (6);
 - promote adoption of international standards (4);
 - ensure smooth and reliable PS in the country (3).
 - improve access to finance (2);
 - maintain public confidence in money (2); and
 - promote new electronic payment means (2);
- All member CBs/MAs:
 - have prepared Road Maps for PSS development;
 - are responsible for providing guidance and leadership;
 - have powers to formulate, adopt and monitor the implementation of PSS policy; and
 - play the leading role in PSS development (in 2 countries commercial banks also play a major role).
- Communication system

CBs/MAs communicate with stakeholders through:

 - National Payments Councils (4)
 - One to one and common meetings (7)
 - Circulars, directives and publications (7)
 - Moral suasion (5)
 - Establishing advisory committees among stakeholders (1)
 - Payment system development committee (2)

CBs/MAs communicate its PSS policy to the public through:

 - Media & publications (7)
 - Websites (7)
 - Bulletins (5)
 - Seminars (3)
- Major stakeholders of PSS:
 - CB/MA and commercial banks.
- Other stakeholders:
 - Financial Institutions/companies
 - Development Banks
 - Clearing Houses
 - Payment Card Service Providers
 - Telecom Service Providers
 - Government
 - Stock Exchanges
 - Central Depository Systems
 - Primary Dealers (PDs)
 - Post Offices
- Regulators of PSS

Payments and government securities settlement system

 - CBs/MAs

Private securities settlement system

- Securities Exchange Commissions/Boards
- Regulators' Role
 - Issue regulations/circulars/directions/guidelines (8);
 - Conduct on site + off site supervision (8);
 - Oversight (4 except Afghanistan, Bangladesh, Bhutan & Maldives).
- Legal Framework
 - CBs/MAs have legal and regulatory powers to regulate and oversee PSS.
- Legislation for PSS:
 - PSS Acts (3) CB/MA Acts (8)
- Availability of law to recognize electronic transactions/data protection/prevention of electronic crimes
 - Yes (4) No (4)
- 3 countries have amended laws recently and another 3 countries are developing laws to effectively engage in PSS development.
- Regulatory framework is being developed to oversee/supervise third party service providers in 2 countries (Already exists in India).
- A few member CBs have arrangements with other domestic regulators to promote safety + efficiency of PSS.

Operational & Technical Infrastructure

Existing infrastructure for clearing & settlements	Countries
Large value payment systems	
- RTGS	India, Pakistan & Sri Lanka
Small/retail value payment systems	India, Pakistan & Sri Lanka
One system for both large & small value	Afghanistan, Bangladesh, Bhutan, Maldives & Nepal
- End of day net settlement system	7 countries except Afghanistan
- Automated clearing system	Bhutan, India, Pakistan & Sri Lanka
- Manual clearing system	Nepal, Bangladesh, India, Maldives
- Partially automated gross settlement system	Afghanistan

Common Retail Payment Instruments/Infrastructure

Instrument	Countries
Cash & cheques	All countries
Credit/Debit transfers	7 countries except Bangladesh
Payment cards (Credit/Debit)	All countries
Automated Teller Machines (ATMs)	All countries
Electronic Fund Transfer Point of Sales (EFTPOS)	6 countries except Afghanistan & Bhutan
Internet/ Mobile banking	6 countries except Bangladesh & Bhutan
Giro	Afghanistan, India & Sri Lanka
Postal instruments	7 countries except Afghanistan
e-money	Only in Sri Lanka

PSS IN SPI MEMBER COUNTRIES AT A GLANCE (contd.)

- Trends
 - Heavy usage of cash.
 - Increased transactions in non cash payment instruments particularly payment cards.
 - Pricing policy
 - Do not charge a transaction fee or a flat rate.
 - Foreign exchange settlement systems:
 - CBs/MAs in 7 countries allow persons to maintain foreign currency accounts locally (except Bhutan).
 - In India, there is a guaranteed large foreign exchange trading and settlement system provided through a company, which operates as a central counterparty and other countries settle their foreign exchange transactions through correspondent banking arrangements.
 - Bangladesh Bank has an arrangement for interbank foreign exchange transaction settlement.
 - 3 countries (Bangladesh, Pakistan & Sri Lanka) have clearing systems for US dollar cheques and drafts.
 - Securities trading, clearing and settlement systems
 - Securities trading, clearing and settlement systems are available for:
 - Government securities;
 - Private securities;
 - CB/MA securities; and
 - Institutional bonds/securities.
 - 7 countries have Stock exchanges (except Afghanistan).
 - CBs/MAs handle systems relating to government securities.
 - Systems relating to private securities deal with Stock exchanges/their subsidiaries.
- | Systems | No. of Countries |
|---|---|
| Availability of trading systems | |
| • Government securities | 1 (only in India) |
| • Private securities | 7 (except Afghanistan) |
| Availability of clearing systems | |
| • Government securities | 5 (except Afghanistan, Nepal & Sri Lanka) |
| • Private securities | 6 (except Afghanistan & Nepal) |
| Availability of settlement systems | |
| • Government securities | 7 (except Afghanistan) |
| • Private securities | 7 (except Afghanistan) |
- Participants
 - Government securities: Governments, Institutional investors, Insurance companies, Commercial banks, PDs, Private individuals/Companies
 - Private securities: Brokers, Commercial banks, Investment/ Merchant banks, Insurance companies
 - Legal basis
 - Government securities: Treasury Bills/Bond Ordinances, CB Laws, Registered Securities Ordinances/Acts, Public Debt Acts.
 - Private securities: Companies Act, securities laws, regulations
 - India has a central counterparty for securities settlement.
 - Sri Lanka and India issue Scripless securities
 - Regulator
 - Government securities - CBs/MAs/Securities Exchange Commission
 - Private securities - Securities Exchange Commissions/Boards/Capital Market Development Authority
 - Settlement of securities transactions
 - Government securities : DvP mode 1 (Sri Lanka)
: DvP mode 3 (India)
 - Private securities : DvP2/DvP3 on T+3
(Bhutan & Sri Lanka)
Manually settled (Nepal)
 - Ongoing development programmes:
 - Large Value PSS
 - Introduce RTGS (Afghanistan, Nepal, Maldives)
 - Securities Settlement System
 - Introduce SSS (Nepal & Pakistan)
 - Retail Value PSS
 - Establish Automated Clearing House (ACH) (Bangladesh, Maldives & Nepal)
 - Standardize cheques to introduce Cheque Imaging & Truncation (CIT) System (Bangladesh, Pakistan & India)
 - Establish all island direct connectivity of banks to the CIT System based on T+1 (Sri Lanka)
 - Introduce interoperability of electronic payments (Bhutan & Maldives)
 - Establishment of a common payment switch (Sri Lanka)
Establishment of electronic fund transfer system (Bangladesh)
 - Introduce Service Level Agreement (SLA) for enhanced service delivery of ATM network and cheque clearing (Pakistan)
 - Introduce National Electronic Clearing services (NECS) (India)
 - Introduce mobile phone system (Afghanistan, Bangladesh, India, Maldives & Pakistan)
 - Issue chip based credit cards (Sri Lanka & Maldives)
 - Regulations
 - Introduce regulations/directions under PSS Act (India, Sri Lanka)
 - Other services
 - Introduce credit information bureau (Bangladesh, Bhutan & Maldives)
 - Establish a SWIFT Service Bureau (Sri Lanka)

GOOD BYE

Dr R B Barman



The SPC wish to place on record its sincere appreciation to Dr R B Barman for his unique contribution as a founder member of the SAARC Payments Council (SPC) to make the SAARC Payments Initiative (SPI) a reality with high standards. He will be remembered for his visionary thinking and the professionalism in articulating the vision, mission, scope,

objectives and the Road Map of the SPI. The SPC will remember his cordial relations, and greater insight to the PSS development by initiating an exercise to assess the volume of foreign remittances payments in the SAARC countries and to establish a common format for data collection on payment instruments.

The SPC and the SPI Secretariat wish him a very fruitful, healthier and contented retirement life.

Mrs K R M Siriwardhane



Mrs K R M Siriwardhane, who was the first Secretary to the SAARC Payments Council (SPC), retired from service in the Central Bank of Sri Lanka on 15th August 2008, having completed a career in the Central Bank spanning over 30 years. She was also the first Director of the Payments and Settlements Department of the Central Bank of Sri Lanka, which was set up in 2002. She was closely involved in the installation of the state-of-the-art technology introduced through the Real

Time Gross Settlement System (RTGS) in Sri Lanka. In her capacity as a resource person, Mrs Siriwardhane was able to contribute to the development of payment and settlement systems beyond Sri Lanka. Mrs Siriwardhane was instrumental in the expeditious completion of much of the groundwork in the initial stages of setting up the SPC. All SPC members will remember her dedication and pleasant interaction as the Secretary to the SPC, which have helped greatly in ensuring the success of the SAARC Payments Initiative (SPI) thus far. The SPC warmly appreciates her active involvement in the harmonization of payment and settlement reforms in the region.

The SPC and the SPI Secretariat wish her a very successful and satisfying retirement.

WELCOME

Shri G Gopalakrishna



G. Gopalakrishna, currently oversees the functioning of the Departments of Non-Banking Supervision, Foreign Exchange, Information Technology, Payment and Settlement Systems and Customer Service .

Mr Gopalakrishna has been working in the Reserve Bank of India for over 28 years mainly in the area of Banking Regulation and Supervision. Before being elevated as Executive Director in October 2007 he was the Chief General Manager of the Department of Banking Supervision. Prior to this he was the Regional Director for the State of Kerala. He has also worked as Member of Faculty at the Reserve Bank Staff College at Chennai.

Mrs J P Mampitiya



The SPC wishes to welcome warmly the new Secretary, Mrs J P Mampitiya, who has been appointed to the position, following the retirement of Mrs K R M Siriwardhane. Mrs Mampitiya has been the Director of the Information Technology Department of the Central Bank of Sri Lanka (CBSL) for the last four years and now holds the position of the Director of Payments and Settlements Department of the

CBSL. She has contributed significantly to the success of developing systemically important payment and settlement systems in Sri Lanka through technical advice and guidance. She was heavily involved in the installation of the RTGS and Scripless Securities Settlement System and a number of critical IT projects. She is a Director of the LankaClear Pvt (Ltd) which provides clearing facilities to banks. Her technical knowledge and practical experience are constantly sought after by the financial services industry.

NEWS ON RECENT PSS DEVELOPMENTS IN MEMBER COUNTRIES

Afghanistan



Installation of ATM terminals, introducing card payment systems and initiating mobile money transfer services are the recent developments in Afghanistan. Use of ATM facility is gradually increasing and debit card related services are also improving by developing POS and ATM infrastructure. Commercial banks have started to provide on line internet and phone based banking facilities to customers. The first mobile money transfer service (M-Paisa) was launched in February 2008 by a local mobile service provider. In addition, crediting salaries of non-government and government employees' to their own accounts by commercial banks are also in progress.

Bhutan



Royal Monetary Authority of Bhutan (RMA) has upgraded its manual cheque clearing facility into a MICR-based cheque truncation system with assistance from ADB. This system has shortened the time taken to settle the cheques to a week from around a month. Other major work is establishment of inter-bank Electronic Fund Transfer Clearing System (EFTCS) within RMA. This initiative will be undertaken under the World Bank project and is expected to cover drafting specific legislations, rules and regulations giving formal legal basis for PSS.

Maldives



Maldives Monetary Authority (MMA) has embarked upon an important national development project to modernize the financial sector in the country. Accordingly, a project for establishing RTGS for processing of high value payments and image enabled Automated Clearing House (ACH) for processing of low value payments has been commenced and planing to implement EFTPOS in early 2009. At present, payment system laws and regulations are being developed to empower the MMA to oversee and regulate PSS.

Pakistan



Pakistan Real Time Inter-bank Settlement Mechanism (PRISM) was launched on 1 July 2008. With the live operation of PRISM, Pakistan has joined the countries having robust and secured National Payment System compliant to BIS Core Principals on PSSS. At present 39 direct member institutions have started making their large value inter-bank payments via the system. The next RTGS feature for providing the facility of online trading of government securities is planned to be added in third quarter 2008.

Bangladesh



Cheque standardization with MICR technology has been finalized recently (standard routing number for each bank branch has been allocated). Setting up a state-of-the art image-based Automated Cheque Processing System (ACPS) in the country which will be put in place in early 2009. After implementation cheques clearing time is expected to be lowered down to t+1 day countrywide. The Bangladesh Bank has embarked upon formulating of a set of payment regulations. In order to accommodate the electronic payments the ICT Act has also been enacted recently and also updated Foreign Exchange Regulations.

India



The Payment and Settlement Systems (PSS) Act, 2007 has vested the powers on the RBI to regulate and supervise PSS in the country. The Board for Regulation and Supervision of PSS Regulations, 2008 and the PSS regulations, 2008 framed under PSS Act have come into effect from 12th August 2008. Consequent to the Act and the Regulations coming into effect, the Board for Regulation and Supervision of PSS has been reconstituted.

Nepal



Nepal Rastra Bank (NRB), in collaboration with Nepal Bankers' Association is planning to establish an entity which will manage and conduct an ACH in Nepal. NRB is in the process of formulating and implementing the PSS master plan under which, the implementation of the RTGS system and script security settlement system are included. Banks, financial institutions, other stakeholders and IT professionals are stimulating government and other related authorities to establish e-payment systems in the country. As a result, some initiatives are being taken to witness the commencement of e-payments in Nepal.

Sri Lanka



The Central Bank of Sri Lanka (CBSL) coordinated business continuity policies and plans at the operator level and participant level considering the systemic importance of the PSS and its participants. In addition to the Disaster Recovery Site, a PC based PSS and Securities Settlement System was also established to ensure continuity of operations in a disaster situation. A SWIFT Service Bureau was established to implement a more economical and safer SWIFT connectivity for all participants. This enabled participants to have back up SWIFT connections which were identified as a major weakness in participants' Disaster Recovery plans. Directions were issued to reduce the island-wide cheque realization time to T+1.

ROAD MAP

Key Elements of the Plan for 2008 (as agreed at 30 June 2008)

Purpose	Current Position	Future Activities	Responsible Institution	Time Target and Status
(1) To understand the payment systems in the SAARC Region on a comparable basis.	Evaluated the status of the PSS of member countries at the 2nd SPC Meeting.	Report filing gaps to be submitted by each member to the SPI Secretariat.	All member central banks.	15 July 2008
(2) Assess the volume of cross border remittance payments in the SAARC countries.	Reviewed the response to the survey on remittance at the 2nd SPC Meeting.	IMF's BOP Manual definition to be used and the format to be redesigned by the RBI and discussed at the next meeting.	RBI	30 August 2008
(3) Submit the Road Map of each member country's PSS development to the SPI Secretariat.			All member central banks.	30 August 2008
(4) Set up a National Payment Council/ Committee/Board.			SPC members to initiate action (except BB, RBI & CBSL).	To be reviewed at the September 2008 meeting.
(5) Annual International Conference.				Postponed to 2009
(6) Quarterly SPC Meetings.			CBSL SBP To be confirmed by MMA.	29 Sept. 2008 in Sri Lanka 18 December 2008 in Pakistan. March 2009
Operational Tasks				
(7) Paper on risk mitigation in foreign exchange settlement as may be applicable to SAARC countries.			RBI.	30 August 2008 To be submitted to 29 September meeting.
(8) Format of the SPC Bulletin to be submitted to members. Initially to publish the Bulletin in the SPI website.			CBSL to prepare SPI web design & circulate draft.	31 July 2008
(9) Data relating to domestic payment instruments by category to be collected and format to be developed for the same.			RBI	31 July 2008
(10) Budget for the SPI Secretariat.			CBSL to prepare an administrative budget.	29 Sept. 2008
(11) Communication through e-mails and avoid fax/courier service.			SPI Secretariat to follow and all SPC members to cooperate.	
(12) Obtain SAARCFINANCE Governor's approval for Road Map and Budget.	Being attended	Submit to October 2008 meeting.	SPI Secretariat	October 2008