

ASEAN PAYMENTS POLICY FRAMEWORK FOR CROSS-BORDER REAL-TIME RETAIL PAYMENTS WITHIN THE ASEAN REGION

IMPLEMENTING POLICY GUIDELINES (IPG)¹

This document provides the guiding principles on the implementation of the ASEAN Payments Policy Framework (called “Framework” throughout the document) for Cross-Border Real-Time Retail Payments within the ASEAN Region. These guidelines provide policy considerations aimed at establishing a common oversight approach for the ASEAN member-states (AMS) that are ready to adopt the Framework. The participation of any AMS is on voluntary basis taking into account the varying state of readiness of the AMS to take part in an interoperable real-time retail payment system in the region.

Attached to this document is Annex A which will be updated whenever the Working Committee on Payment and Settlement Systems (WC-PSS) has identified new and/or relevant use cases which may cover several areas, including types of payments-enabling technology, clearing models, and settlement arrangements. These use case(s) may be pursued by the AMS when applying the guidelines.

I. PRINCIPLES ON COOPERATIVE ARRANGEMENTS

- The Central Bank Governors and/or Finance Ministers of the ASEAN economic community will consider these guidelines when engaging in cooperative arrangements among themselves.
- The AMS participating in the cross-border RT-RPS will establish appropriate oversight arrangements pursuant to the Framework.
- They will take into account the following guiding principles to facilitate the implementation of a cross-border real time retail payment system (RT-RPS):
 - *Availability.* An interoperable RT-RPS is available 24/7 to the extent possible through a relevant modality;
 - *Accessibility.* Both domestic and international users are able to use their electronic devices or channels to make payments, which include remittances. This may be done through the adoption of an open infrastructure which facilitates the acceptance of payments from various sources of funds, among other options, as allowed by the participating AMS;
 - *Affordability.* The costs, if any, to be borne by the consumers and merchants should not be prohibitive to encourage the use of cross-border retail payment services;
 - *Sustainability.* The cooperative arrangements on cross-border retail payment systems should meet the current and future needs of consumers in the participating AMS. Innovations should be encouraged and competition should be promoted to further develop the cross-border retail payment systems in the region;

¹ Draft finalized during the 20th ASEAN WC-PSS Meeting held 20 September 2019, Manila

- *Safety*. The interoperable cross-border RT-RPS should be robust and resilient, and be able to protect the integrity and security of payment transactions, and the confidentiality of customer information; and
 - *Efficiency*. The interoperable cross-border RT-RPS should efficiently operate and support payments in the currencies of the participating AMS to the extent possible.
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- The participating AMS will take into account their respective domestic laws and regulations in their cooperative oversight arrangements. These arrangements may include provisions on sharing of relevant information among WC-PSS members in so far as may be allowed under their respective domestic laws and regulations.
 - To ensure that the objectives of the framework are achieved, the AMS may establish harmonized policies that promote the acceptance of safe, efficient and effective cross-border retail payments via various channels. The AMS may also adopt policies that aim to foster competition among payment service providers (PSPs)² including the new entrants.
 - The WC-PSS, being a technical working group, shall endeavor to perform the following tasks, among others:
 - Collect data from the AMS during the study of the WC-PSS on an emerging payments-related concerns;
 - Discuss and exchange concerns, experiences, and good practices related to cross-border retail payment systems;
 - Recommend to the Senior Level Committee (SLC) on how to implement regional cross-border retail payment systems in a manner that is suitable to the conditions of the AMS;
 - Coordinate with other working groups within ASEAN and with other relevant organizations on matters concerning cross-border retail payments;
 - Monitor the discussions and developments on cross-border retail payments within the ASEAN and in other international fora; and
 - Submit regular updates to the SLC on the implementation of the ASEAN RT-RPS.
 - Each participating AMS will monitor the implementation of the framework by the PSPs and the CSOs, as the case may be, in its jurisdiction, and report the progress of the implementation to the WC-PSS every January and August or at least a month before the WC-PSS meetings.
 - Any proposed change to the Framework will be referred to the WC-PSS secretariat for study and evaluation by the WC-PSS members.

² These include banks and non-banks such as e-money issuers and payment system operators.

II. CLEARING AND SETTLEMENT

- The AMS will facilitate clearing and settlement not only on domestic but also on broader regional scale. For this purpose, the AMS may consider adopting international standards such as the ISO 20022 international messaging and communication standard,³ and other internationally accepted standards that may be mutually agreed upon by the AMS. In addition, the PSPs in the participating AMS may also collaborate to set common business rules, agreements, tests, and working processes, to achieve interoperability among PSPs.
- The participating AMS may leverage on existing arrangements, practices, and technologies to efficiently clear and settle cross-border transactions. There are various possible clearing and settlement models for cross-border RT-RPS among the AMS. These models include sponsoring-to-sponsoring bank model,⁴ switch-to-switch model,⁵ and other models as may be agreed upon. In determining the appropriate model to adopt, the participating AMS may take into account the nature of their domestic payment systems, as well as their payment policies and infrastructures.
- The consumers and merchants may make and receive payments in their local currencies to promote and encourage usage of local currencies among participating AMS. The currency that will be used for the settlement of the clearing obligations between the PSPs of the consumers and merchants or between the sponsoring banks of those PSPs will be agreed upon by said PSPs/sponsoring banks, subject to approval of overseer when required.

III. RISK MANAGEMENT

- The participating AMS will ensure that the PSPs and CSOs in their respective jurisdictions identify, measure, monitor, and control the risks arising from their participation in the ASEAN cross-border retail payment system. At a minimum, the PSPs and CSOs should manage the following types of risk:
 - *Operational risk.* The PSPs and CSOs shall ensure that they have in place the necessary policies, processes, procedures, infrastructures and business continuity plans aimed at minimizing the potential operational losses that they may incur in view of their participation in the RT-RPS. The PSPs and CSOs should ensure that any outsourced function strictly complies with agreed upon standards. Additionally, the PSPs and CSOs should build confidence in the RT-RPS in the region by implementing security measures that will enable safe and efficient cross-border real time retail payments.
 - *IT risk.* The PSPs and CSOs should manage IT security risk to protect system integrity and reliability and ensure system availability. IT risk management covers a number of concerns including protection of processors, communication networks, technical operating infrastructure, cyber security and technology solutions.

³ Based on the 4th ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) on 06 April 2018, the Governors agreed to enhance connectivity (such as the adoption of ISO 20022)

⁴ Under this model, the PSPs in one AMS are sponsored into clearing and settlement by one or more banks in the other AMS.

⁵ The PSPs in one AMS connect to their local clearing switch operator (CSO) which in turn connects to the CSO in the other AMS.

- *Legal risk.* As the electronic payment channels can be used as quick means of laundering funds from illegal activities or funds meant to support these activities, the PSPs and CSOs shall comply with relevant laws, regulations, and guidelines on anti-money laundering, counter-terrorism financing, as well as with the Know Your Customer and Customer Due Diligence procedures. At the same time, the participating AMS shall observe each other's relevant data privacy laws and agreements on the cross-border flow of information.
- *Liquidity risk.* The PSPs and CSOs should maintain sufficient liquid resources to meet their payment obligations.
- *Credit risk.* The PSPs and CSOs should effectively manage their credit exposures to participants and other credit exposures arising from payment, clearing and settlement processes.
- *Settlement risk.* The PSPs and CSOs should take reasonable steps to confirm the effectiveness of cross-border recognition and protection of cross-system settlement finality.
- Risk-mitigating measures. Mechanisms to manage fraudulent activities and limit risk shall be established. These mechanisms may include, among others, security measures, transaction limits, daily aggregate limits, and rejection of suspicious transactions. For the purpose of ensuring a harmonized regulatory approach, the participating AMS shall endeavor to agree on a bilateral or a multilateral basis the particular risk-mitigating measures to be implemented based on the clearing and settlement model adopted by the participating AMS. The participating AMS may consider applying risk mitigating measures to address any systemic risk that may arise from the participation of PSPs and CSOs in the cross-border RT-RPS within the ASEAN region.

IV. PRICING OF RT-RPS SERVICES

- The participating AMS will promote competitive, transparent, and fully-disclosed pricing mechanism.
- The participating AMS will promote lower costs for merchants and consumers relative to the traditional means of making cross-border payments.

V. CONSUMER PROTECTION

- The participating AMS shall endeavor to uphold consumer protection, recognizing their rights and freedom of use of the cross-border RT-RPS. The participating AMS may adopt the following measures, among others:
 - The PSPs shall disclose to consumers their rights and the conditions for their use of the RT-RPS;
 - Before the transaction is executed, the PSPs shall provide the breakdown of the charges, as may be applicable, to the consumer, who shall be given the right to reject or proceed with the transaction;

- The PSPs shall afford consumers with means such as real-time notification through email, short messaging system (SMS), and/or other mechanisms to verify the status of their payments and retrieve the historical records of their transactions;
- The PSPs shall regularly communicate with their customers the necessary advisories to protect them from threats and frauds related to cross-border retail payments;
- The PSPs shall establish suitable communication channels for consumers that would like to request information or report incidents involving cross-border RT-RPS. Furthermore, the PSPs shall have in place appropriate conflict resolution processes which should ensure quick turnaround time for addressing concerns reported by consumers;
- The PSPs shall ensure that consumers' personal private data is protected from unauthorized access or use, and other data privacy concerns are appropriately addressed; and
- The PSPs shall offer cross-border retail payment services which are easy and convenient to use. They should develop user-friendly applications and provide for basic information and instructions to properly guide consumers when making payment transactions.

VI. DISPUTE RESOLUTION BETWEEN FINANCIAL INSTITUTIONS, PAYMENT SERVICE PROVIDERS, AND CLEARING SWITCH OPERATORS

- The clearing and settlement arrangements of the PSPs and the CSOs shall include provisions that will enable the prompt resolution of any dispute that may arise from or be related to the implementation of said arrangements.
- The provision on dispute resolution may include but is not limited to the following matters:
 - The procedure to be adopted in the event a dispute arises;
 - The arbitral committee or panel elected in accordance with agreed procedures;
 - The law/s to be applied to the arrangements and the dispute;
 - The referral of the dispute to alternative dispute resolution means pursuant to the law/s applicable to the arrangements; and
 - The language to be used in such proceedings.
- In adopting the procedure for the resolution of a dispute, the PSPs and CSOs shall consider the need to resolve certain disputes in an expeditious manner so as not to cause undue disruption in the smooth operation of the cross-border RT-RPS in the ASEAN region.