

803 NATIONAL RETAIL PAYMENT SYSTEM (NRPS)

Adoption of the NRPS Framework. It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the NRPS Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of the BSFIs. The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and *Appendix 126*. This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and AML/CFT.

Definition of terms. For purposes of this Section, the following definitions shall apply:

- a. *Automated Clearing House (ACH)* – a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.
- b. *ACH Participant* – a financial institution duly licensed by the Bangko Sentral that is a Payment System Management Body (PSMB) member, and undertakes clearing in and is a signatory to at least one (1) ACH.
- c. *ACH Participant Group (ACH-PG)* – a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.
- d. *Channel* – the means by which an electronic financial product or service is delivered, e.g., internet, phone, ATM.
- e. *Clearing* – the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.
- f. *Clearing Switch Operator (CSO)* – provides clearing switch services.
- g. *Direct clearing participant* – a financial institution that is: (a) duly licensed by the Bangko Sentral and is authorized to provide electronic financial and payment services; (b) engaged in holding of

funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the Bangko Sentral and a PhilPaSS member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS and maintains a DDA with the Bangko Sentral, to settle its clearing obligations.

- h. *Electronic payment* – synonymous to electronic fund transfer (EFT); refers to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions. This excludes domestic remittance transaction under existing Bangko Sentral regulations.
- i. *Fund* – any unit of value that forms the consideration or object of transactions.
- j. *Interoperability* – enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.
- k. *NRPS* – a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.
- l. *Payment instrument* – any instrument, whether tangible or intangible, that enables a person to transfer funds.
- m. *Payment order* – an order or message requesting the transfer of funds to the order of the payee.
- n. *Payment system* – the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.
- o. *PSMB* – a private industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral to develop and enforce rules and agreements pertaining to members’ clearing and settlement activities in accordance with the NRPS Framework and applicable Bangko Sentral regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members’ clearing activities.
- p. *Point of Interaction (POI)* – a hardware and/or software whereby a customer or user is able to

query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

- q. *Retail payments* – payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments. ¹
- r. *Settlement* – an act that discharges obligations in respect of fund transfers between two (2) or more parties.
- s. *Sponsored into Settlement Member* – PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPASS.
- t. *Settlement sponsor bank or Sponsoring bank* – PSMB members who undertake settlement directly through PhilPASS.
- u. *Working Group* – In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

Purpose and scope. The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per ACH basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one (1) of the following characteristics:

- a. the payment is not directly related to a financial market transaction;
- b. the settlement is not time-critical;
- c. the payer, the payee, or both are individuals or non-financial organizations; and
- d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

NRPS key principles. Under the NRPS framework, sound governance shall be performed by a PSMB, an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in *Appendix 126*, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. The CSOs shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in *Appendix 126*.

Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS framework:

- a. Minimum requirements to offer Electronic Financial and Payments Service (EFPS). *EFPS*, which shall require Bangko Sentral approval in accordance with Sec. 701, refer to BSFI products and/or services that enable consumers to carry out or initiate payments electronically, financial transactions and other related services through a point of interaction. To offer EFPS, BSFIs shall conform to the following requirements:
 - (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;
 - (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;
 - (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and
 - (4) BSFIs shall conform to Sec. 701 the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and

services provided in *Appendix 79*.

b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item "a" of the specific rules applicable to transactions performed under the NRPS Framework shall be consistent with the following:

(1) On consumer pricing –

(a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.

(b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost-effective means of delivering service.

(c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account to account fund transfers shall not be considered as domestic remittance transactions under Sec. 298.

(2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.

c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Nine for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item "a" of the specific rules applicable to transactions performed under the NRPS Framework:

(1) The originating institution (OI) shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the OI to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the OI.

(2) The receiving institution (RI) shall be responsible for monitoring, including appropriate

watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.

- (3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.
- (4) Nothing in the above rules shall prevent an OI or RI from instituting or implementing additional procedures to comply with AML laws and regulations, and other applicable laws and regulations, prior to executing a transaction performed under the NRPS framework, or debiting/crediting a client's account.

d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

Reports. BSFIs participating in the NRPS governance structure shall comply with regular reporting requirements, which will be covered by a separate issuance.

Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

Sanctions. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in this Section and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of R.A. No.7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

- a. Suspension of offering new electronic financial products and services;
- b. Suspension/revocation of authority to provide electronic financial products and services; and

- c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System.

(Circular No. 980 dated 06 November 2017)

Footnotes

1. Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Service line Payment Systems Policy and Research, World Bank, October 2012, available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Developing_a_comprehensive_national_retail_payments_strategy_for_GPW_10_20%28v1%29.pdf.