

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK **(Appendix to Sec. 803)**

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of BSFIs introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Sec. 803 and this *Appendix*. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

1. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.
2. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.
3. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and AML/CFT.

Retail payments under the NRPS Framework are 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 On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. It is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

1. Key Principles

- a. Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.
- b. Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.
- c. All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.
- d. All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.
- e. All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.
- f. All significant retail payment streams shall be covered by an ACH.

- g. Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.
- h. A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly related to the delivery of electronic financial and payment services to clients of a BSFI.
- i. Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

2. Objectives:

- a. To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
- b. To foster innovation and new business models;
- c. To promote fair access and competition amongst NRPS participants;
- d. To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
- e. To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as “coopetition”, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs

cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

1. Key Principles

- a. The retail payment transactions covered under the NRPS governance structure shall be as follows:
 - i. For card-based instruments, the card shall be both issued and acquired locally; and
 - ii. For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EFPS.
- b. The PSMB shall be a not-for-profit juridical entity.
- c. The PSMB shall adopt a Charter in consultation with the Bangko Sentral.
- d. The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:
 - i. All qualified direct clearing participants should be members of the PSMB.
 - ii. To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
 - iii. Each PSMB member shall be entitled to only one (1) vote.
- e. The PSMB shall be funded by the members on an agreed basis.
- f. The PSMB shall be governed by a PSMB board which shall observe the following principles:

- i. The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g., immediately preceding twenty four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.
 - ii. The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.
 - iii. The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).
 - iv. Each PSMB board member shall have one (1) vote.
 - v. No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.
 - vi. The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.
- g. The PSMB shall be independent from the clearing switch operator/s with respect to business operations.
 - h. All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

2. Objectives

- a. The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:

- i. Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.
- ii. Set policies and standards on clearing activities of PSMB members.
- iii. Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.
- iv. Manage members' conformance to multilateral retail clearing agreements.
- v. Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.
- vi. Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.
- vii. Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.
- viii. Promote fair access to the payment system amongst PSMB members.
- ix. Enable effective and efficient interface and interoperability using shared and resilient infrastructure.
- x. Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.
- xi. Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the

NRPS governance structure.

1. Key Principles

- a. ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.
- b. A payment stream can fall under only one (1) ACH.
- c. The formation of and participation in an ACH shall be open to all qualified clearing participants.
- d. The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.
- e. An ACH shall engage the services of only one (1) clearing switch operator.
- f. PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) ACH, provided the PSMB member meets the requirements for participating in such ACH.
- g. At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

2. Salient Features

- a. ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.
- b. The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.
- c. Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

D. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

1. Key Principles

- a. The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.
- b. Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.
- c. The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.
- d. The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.
- e. A CSO can extend service to multiple ACHs.
- f. Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral.

(Circular No. 980 dated 06 November 2017)

Footnotes

1. Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure 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_IO_20%2BvL%29.pdf.