Response to feedback received
Interoperable Credit Transfer Framework

Introduction

The Bank issued today the policy document on Interoperable Credit Transfer Framework (ICTF). This policy document incorporates the proposals from the Exposure Draft issued on 7 December 2017 and has taken into account the feedback received during the consultation period.

The Bank received written responses from 35 respondents during the consultation period. The key comments received and the Bank's responses are set out in the following sections. Other comments and suggestions for clarification have been incorporated in the policy document.

Bank Negara Malaysia
16 March 2018

1. Scope of the ICTF

1.1 Some respondents requested for clarity on whether card-based payments, i.e. credit transfers initiated using debit, credit or charge cards, are included in the scope of the ICTF.

1.2 The Bank wishes to clarify that the scope of the ICTF covers all credit transfer transactions, including any credit transfer transaction where a payment card (e.g. debit card, credit card, charge card) is used as an identifier to generate the information required to make or to receive a credit transfer from a bank account[1] or an e-money account. As defined in paragraph 5.2 of the ICTF, 'credit transfer' refers to a payment service which allows a payer to instruct the institution with which the payer's bank account or e-money account is held to transfer funds to a beneficiary in another bank account or e-money account. For the avoidance of doubt, this excludes a conventional payment card transaction, where the customer's account is debited based on a request for approval submitted by the merchant to the issuer via the acquirer and the payment card network.

2. Interoperable credit transfer services

2.1 Paragraph 7.3 of the ICTF requires all inter-bank credit transfer transactions and inter-scheme credit transfer transactions to be processed in Malaysia via an operator of a shared payment infrastructure. Some respondents were concerned that this requirement may impede competition and innovation, and create a single point of failure.

2.2 The Bank wishes to emphasise that the requirement for onshore processing of inter-bank and inter-scheme credit transfer transactions is a prudential requirement to ensure that the Bank is able to practically achieve and maintain effective oversight to maintain the safety and integrity of credit transfer systems, and to ensure the integrity and stability of the financial system.

2.3 The Bank wishes to also highlight that the ICTF aims at encouraging a more competitive market for payment services through collaboration at the infrastructure level and competition at the product or service level. By leveraging on an interoperable shared payment infrastructure to avoid duplication of resources and expand network reach, the Bank envisions that the industry resources can be more efficiently allocated towards enhancing the value proposition to consumers and merchants through the provision of innovative and value-added services.

[1] This refers to a current account, a savings account or an account where a line of credit is extended by a banking institution to a customer such as a credit card account or a charge card account.

2.4 The security and resilience of shared payment infrastructure is a key priority to enable the safe and efficient functioning of the payment systems in Malaysia. In line with the Principles for Financial Market Infrastructures (PFMI), an operator of a shared payment infrastructure will be required to ensure that the shared payment infrastructure is supported by robust security controls and business continuity plans including adequate redundancies and disaster recovery sites to mitigate operational risks.

3. Fair and open access to shared payment infrastructure

3.1 Some respondents sought clarity on whether access to shared payment infrastructure is limited only to banking institutions and eligible issuers of e-money. An ‘eligible issuer of e-money’ is defined in paragraph 5.2 of the ICTF to mean an approved issuer of e-money with substantial market presence based on such criteria as may be specified by the Bank. The respondents further sought clarity on the criteria that the Bank will adopt in determining whether an approved issuer of e-money has substantial market presence.

3.2 The Bank wishes to clarify that access to shared payment infrastructure is open to any financial institution that fulfils the risk-based access requirements established by an operator of a shared payment infrastructure. In this regard, the Bank expects an operator of a shared payment infrastructure to ensure that its risk-based access requirements do not limit access to only banking institutions or eligible issuers of e-money.

3.3 The concept of an ‘eligible issuer of e-money’ is relevant only for the purpose of paragraph 7.1 of the ICTF where an approved issuer of e-money with substantial market presence is mandated to ensure interoperability of its credit transfer services with the credit transfer services offered by banking institutions and other eligible issuers of e-money, as well as to waive the transaction fee for any eligible credit transfer transaction up to RM5,000 per transaction.

3.4 In determining the criteria for ‘substantial market presence’, the Bank seeks to ensure that players of a sufficiently significant size are mandated to ensure interoperability of their credit transfer services to optimise network effects. As such, the Bank wishes to clarify that an approved issuer of e-money is deemed to have ‘substantial market presence’ if it fulfils any of the following criteria:

(i) the issuer has at least 500,000 active users (i.e. with at least one financial transaction[2] per month) for a consecutive period of six months;

[2] This includes reloading of an e-money account, fund transfer or purchase transaction.

(ii) the issuer has a market share of at least 5% of the total e-money transaction volume or transaction value in Malaysia for a given year beginning 2017;

(iii) the issuer has a market share of at least 5% of the total outstanding e-money liabilities in Malaysia for a given year beginning 2017; or

(iv) the issuer is an affiliate[3] of an eligible issuer of e-money.

4. Proportionate risk management

4.1 Some respondents proposed for the Bank to re-consider allowing 'No Customer Due Diligence (No CDD)' for the opening of e-money accounts while other respondents proposed for the Bank to consider imposing lower transaction limits for e-money accounts opened with 'No CDD' to mitigate money laundering and terrorism financing (ML/TF) risk.

4.2 The Bank wishes to highlight that the Bank adopts a risk-based approach in addressing any ML/TF risk arising from the e-money industry in line with international standards, such as the recommendations issued by the Financial Action Task Force (FATF)[4]. Under the ICTF, 'no CDD' is only allowed in circumstances where the ML/TF risk is assessed to be low (i.e. in the case of limited purpose e-money accounts where the e-money can only be used to make purchases at merchants that have undergone CDD by the issuer), while fund transfer and cash-out or withdrawals are not allowed.

4.3 Additionally, the Bank wishes to emphasise that the ICTF streamlines the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) requirements for bank and non-bank issuers of e-money and strengthens the requirements and parameters for 'No CDD' in the Bank's existing AML/CFT Guidelines. Under the existing Guidelines on AML/CFT – Electronic Money and Non-Bank Affiliated Charge & Credit Card (Sector 4) issued on 4 September 2013, CDD is not required for e-money accounts with a wallet limit of less than RM5,000 and transactions below RM3,000. The ICTF further limits the scope for customers to engage in ML/TF by introducing an additional cumulative annual transaction limit of RM50,000 per annum and prohibiting cash-out or withdrawals. The proposed cumulative annual transaction limit of RM50,000 per annum is lower than that of several other countries. In addition, e-money issuers are required to conduct on-going monitoring of transactions and to

3 An "affiliate" shall refer to an entity that controls, or is controlled by, or is under common control with, an approved issuer of e-money. In addition, it also includes relationships with other companies where non-controlling interests exists, but where significant influence is exercised. This may include a significant shareholder, joint venture, or special purpose entity, whether domestic or foreign.

4 The FATF Recommendations on International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation (February 2012).

establish adequate internal controls to ensure compliance with e-money account limits.

Scope of fee waiver requirement

4.4 Paragraph 7.1(c) of the Exposure Draft on ICTF requires banking institutions and eligible issuers of e-money to waive the transaction fee for eligible credit transfer transactions up to RM5,000 per transaction or such other amount as may be specified by the Bank. One respondent sought clarity on whether this requirement applies to cash advance transactions (e.g. short-term cash loans taken against the credit line on a cardholder's credit or charge card).

4.5 The Bank wishes to emphasise that the intended policy outcome of the fee waiver requirement is to promote the usage of more cost-effective e-payment instruments. In this regard, the Bank has clarified in the ICTF that the scope of the fee waiver requirement is to be limited to only credit transfers funded using a current or savings account (CASA) or an e-money account.

5. Customer protection

5.1 Paragraph 11.1(e) of the Exposure Draft on ICTF requires financial institutions to ensure that customer data are securely protected and stored onshore. Some respondents expressed views that storage of customer data onshore does not guarantee the prevention of loss, theft or unauthorised access.

5.2 The growing number of incidents globally relating to breaches of data security in recent years underscores the importance of instituting strong data security protocols. In this regard, the Bank wishes to clarify that the requirement for onshore storage of customer data is intended to achieve two key policy outcomes. Firstly, the Bank seeks to ensure that infrastructure used to store customer data can be subject to periodic audits by the Bank (including onsite examinations) as part of arrangements to maintain effective, continuing oversight of payment systems. Secondly, the Bank aims to ensure that in the event that customer data is compromised or breached, effective and timely intervention can be undertaken.

5.3 In respect of these outcomes, the Bank notes that there are inherent risks that arise from storing sensitive customer data offshore. Notably, such arrangements are likely to give rise to technical, operational and legal complexities that may in turn constrain the ability of the Bank and financial institutions to effectively undertake pre-emptive and remedial measures to mitigate the risk of data security breaches.

5.4 As such, the Bank has maintained the requirement for onshore storage of customer data. In limited circumstances (e.g. where payment services are offered only for specific and limited purposes), the Bank may allow offshore storage of customer data on a case-by-case basis.

5.5 Additionally, the Bank also wishes to clarify that the requirement is only applicable to non-bank financial institutions. As customer data handled and stored by banking institutions may be relevant to a variety of services provided by the banking institutions (e.g. deposit, loan/financing, payments, wealth management), requirements to safeguard the security of customer data are dealt with under other policy documents that are applicable to banking institutions. Accordingly, banking institutions will continue to be subject to data security requirements under those policy documents including those relating to outsourcing.

Bank Negara Malaysia
16 March 2018