

# **Clarification and Frequently Asked Questions on the Interoperable Credit Transfer Framework**

## **Introduction**

The Bank had issued the Interoperable Credit Transfer Framework (ICTF) (effective since 1 July 2018) with the main objective of fostering an enabling environment that facilitates interoperability of credit transfer services to expand network reach and avoid market fragmentation.

To achieve the objectives set out in the ICTF and ensure the effectiveness of the framework, the Bank had continuously engaged the industry to identify and address implementation challenges. Based on the additional feedback received during these engagements, the Bank has undertaken further enhancements to the ICTF, which will take effect immediately.

Further clarification on these revisions and as well as other areas raised by industry players since implementation are incorporated in the following sections.

**Bank Negara Malaysia**

**23 December 2019**

## **1. Interoperable credit transfer services**

### *Permissible participation models for a shared payment infrastructure*

- 1.1 Some prospective eligible issuers of e-money sought for clarity on whether eligible issuers of e-money are required to enable interoperability of its credit transfer services through direct participation<sup>1</sup> in a shared payment infrastructure.
- 1.2 The Bank wishes to clarify that eligible issuers of e-money may access a shared payment infrastructure via any of the following access models:
  - (i) Direct participation, i.e. where an eligible issuer of e-money connects directly to a shared payment infrastructure for the purpose of sending and receiving payment and clearing messages, and to a participant of RENTAS for the purpose of performing settlement on the transactions made via the shared payment infrastructure; or
  - (ii) Indirect participation, i.e. where an eligible issuer of e-money connects to a shared payment infrastructure via a sponsor institution for the purpose of sending and receiving payment and clearing messages, and to a participant of RENTAS for the purpose of performing settlement on the transactions made via the shared payment infrastructure.
- 1.3 The Bank recognises the importance of enabling different access models to a shared payment infrastructure to facilitate the business models and needs of the industry players. To this end, the Bank encourages all industry players to explore a range of access options, whether directly or indirectly via a sponsor institution.
- 1.4 In relation to providing access to a shared payment infrastructure as a sponsor institution, the Bank has clarified in paragraph 5.2 of the revised ICTF that any financial institution with direct access to a shared payment infrastructure, whether bank or non-bank, may provide the sponsorship services to facilitate another institution to connect to a shared payment infrastructure for the purpose of sending and receiving payment and clearing messages.

### *Offshore processing of inter-bank and inter-scheme credit transfer transactions*

- 1.5 The Bank's primary objective in requiring inter-bank and inter-scheme credit transfer transactions to be processed onshore through a shared payment

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<sup>1</sup> For the avoidance of doubt, 'direct participation' refers to a scenario where an entity is granted approval by an operator of the shared payment infrastructure to connect directly to the infrastructure to facilitate credit transfer services.

infrastructure is to enable effective oversight, which in turn preserves the safety and integrity of credit transfer systems.

- 1.6 Following the issuance of the ICTF, the Bank received further representations from prospective operators of payment systems to allow the processing of inter-bank and inter-scheme transactions to be conducted offshore by leveraging on global systems to achieve greater economies of scale.
- 1.7 The Bank is committed to striking a balance between the need for effective oversight and fostering vibrant competition in Malaysia's payments landscape. To this end, the Bank will continue to require financial institutions (as defined under the ICTF) to participate (whether directly or indirectly) in the shared payment infrastructure<sup>2</sup>.
- 1.8 In addition to participating in the shared payment infrastructure that undertakes onshore processing of credit transfer transactions in Malaysia, the Bank wishes to emphasise that this does not preclude financial institutions from also participating in other payment systems, subject to appropriate safeguards. In this regard, the Bank has clarified in paragraph 7.3 of the revised ICTF that an operator of a payment system is required to obtain the Bank's prior written approval to process inter-bank and inter-scheme credit transfer transactions offshore. In assessing such applications, the Bank will have regard to, among others, the following factors:
  - (i) appropriateness of prudential safeguards to facilitate the Bank's oversight;
  - (ii) measures to mitigate market fragmentation risks, which may include facilitating interoperability between credit transfer systems in Malaysia;
  - (iii) measures to promote greater transparency to facilitate the industry players in making better informed decisions on which credit transfer system to participate in; and
  - (iv) other relevant matters (e.g. cooperation arrangements between the Bank and relevant financial regulatory authorities, exclusivity arrangements that may impair competition and market vibrancy of Malaysia's credit transfer landscape).

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<sup>2</sup> At this stage, the shared payment infrastructure refers to the Real-time Retail Payments Platform (RPP) operated by Payments Network Malaysia Sdn. Bhd. (PayNet).

## *Provision of common QR code under the interoperable QR code scheme*

- 1.9 Some financial institutions have requested for clarity on whether financial institutions are allowed to offer proprietary QR codes to customers in addition to the common QR code under the interoperable QR code scheme that is established by the operator of the shared payment infrastructure.
- 1.10 The Bank recognises the benefits of offering proprietary QR codes with innovative and value-added functions to enhance customer experience. In balancing these benefits with the envisioned outcome of interoperability, the Bank wishes to clarify the following:
- (i) At a minimum, banking institutions and eligible issuers of e-money must offer the common QR code to customers<sup>3</sup>; and
  - (ii) In addition to the common QR code, financial institutions may offer their proprietary QR codes to customers.

For the avoidance of doubt, banking institutions and eligible issuers of e-money are not allowed to offer only their proprietary QR codes to customers.

## **2. Customer protection**

### *Transaction limits*

- 2.1 Some non-bank e-money issuers have requested for clarity on whether the requirement for financial institutions to provide convenient means for their customers to manage their transaction limits is applicable to non-bank e-money issuers, considering that non-bank e-money accounts have smaller account limits as compared to bank accounts, hence posing lower fraud risks.
- 2.2 The Bank wishes to clarify that the requirement to provide convenient means for customers to manage transaction limits is applicable to all financial institutions, regardless of whether it is a bank account or a non-bank e-money account. While the approved account limit for respective financial institutions are based on several factors including the financial institution's business models and risk management capabilities, the option to manage transaction limits must be provided to customers to foster confidence in and encourage the usage of credit transfer services.

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<sup>3</sup> Namely, financial institutions that are a participant (whether direct or indirect) of the interoperable QR code scheme. In respect of merchant acquiring activities, banking institutions and eligible issuers of e-money are expected to ensure that their merchants display the common QR code. For the avoidance of doubt, at this stage, the interoperable QR scheme and common QR code refer to the PayNet's RPP QR scheme and RPP QR code, respectively.

### *Instant notifications*

- 2.3 Financial institutions also sought for clarity on the types of credit transfer services in which financial institutions are required to provide their customers with instant notification for any transaction made or received.
- 2.4 The Bank wishes to emphasise the importance of fostering customer confidence in the usage of credit transfer services. To this end, the Bank encourages financial institutions to provide customers with instant notifications for any credit transfer transaction made or received. At the minimum, financial institutions must provide instant notifications for real-time credit transfer transactions (such as those facilitated through the RPP).

### *Storage of sensitive customer data*

- 2.5 The Bank wishes to emphasise the importance of protecting data confidentiality of customers. To ensure that adequate safeguards are in place to mitigate the risk of any misuse, unauthorised or inadvertent disclosure of sensitive customer data, financial institutions who are not banking institutions are required to obtain the Bank's prior written approval before engaging a third party service provider, whether in or outside Malaysia, to perform an activity related to the storage of customer data for credit transfer transactions on behalf of a financial institution. Banking institutions on the other hand, are subject to the relevant requirements stipulated in the Policy Document on Outsourcing.
- 2.6 In assessing an application from a financial institution to engage a third party service provider, whether in or outside Malaysia, to perform an activity related to the storage of customer data for credit transfer transactions, the Bank will have regard to, among others, the following factors:
- (i) Whether the financial institution has satisfied itself that the level of security controls, governance, policies, and procedures at the service provider are robust to protect the security and confidentiality of information shared under the arrangement with the service provider; and
  - (ii) Whether the financial institution has put in place appropriate controls and safeguards to manage the additional risks including country risk arising from an arrangement with a third party service provider, where the service provider is located or performs the activity on behalf of a financial institution outside Malaysia, having regard to social and political conditions, government policies and legal and regulatory developments.

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