Interoperability in payments
- Reflections for the future

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Interoperability a key catalyst to drive digital payments and to foster a vibrant payments ecosystem

1. Reduce market fragmentation
   - Lower likelihood of duplication of infrastructure
   - Enable wider access to payment services

2. Facilitate user-driven competition
   - Service providers able to compete on value-added services to consumers and merchants
   - Enhance user experience

3. Improve efficiency
   - Service providers able to unlock economies of scale by reducing fixed cost expenditures
   - Faster time-to-market for innovative solutions at a lower cost
Globally, a variety of approaches are observed to promote interoperability

**Technical Interoperability**
- Adoption of ISO20022 as the international messaging standard for payment systems
- Adoption of EMVCo specifications for Chip cards and QR Code payments
- Standardisation in the implementation of open API standards

**Commercial Interoperability (Reachability)**

**European Commission**
- Mandate payment service providers to ensure reachability of user accounts via an EU-wide credit transfer scheme and an EU-wide direct debit scheme

**Reserve Bank of India**
- Mandate a phased approach to enable interoperability for e-wallets, between e-wallets and bank accounts, and for payment cards

**Hong Kong Monetary Authority**
- Launched the Faster Payments System (FPS), allowing reachability of accounts between 21 banks and 10 Stored Value Facilities (SVF)
Policymakers to consider the potential trade-offs associated with technical and commercial interoperability

**Technical interoperability**

1. Market fragmentation and user experience
   - Diverging implementation of standards may impact user experience and market efficiency

2. Technology lock-in
   - Common standard may inhibit innovation by increasing the cost of migrating to a superior technology in the future

**Commercial interoperability (reachability)**

1. Stability and public confidence
   - Concentration and contagion risks

2. Market development
   - Risk of abuse of dominant position (in particular for large players)
   - Disincentive for incumbents to interoperate
   - Barriers to entry for smaller players may hinder innovative solutions
Risk of market fragmentation due to proliferation of e-money players in Malaysia

- About 12 million active accounts (online banking users\(^1\))
- About 10 million adults (non-online banking users)
- About 2 million adults (without bank accounts)
- 42.8 million mobile devices (76% smartphone penetration\(^1\))

Likely target market for non-bank e-money players

- Credit Transfer system is connected to 99.9% of bank accounts
- Surge of interest to provide mobile payment services with 45 approved e-money players as at 3Q, 2018

\(^1\) With at least one transaction in a month

Source: BNM and MCMC (2017)
Interoperable Credit Transfer Framework (ICTF) issued to promote interoperability while ensuring risks are managed.

1. Fair and open access to shared payment infrastructure
2. Interoperability of credit transfer services
3. Enhanced user protection

The ICTF seeks to foster collaboration at the infrastructure level and competition at the product/service level.
Points for reflection

1. Consider a diverse mix of policy tools with interoperability just a means to an end
   - Interoperability is not an end by itself, but a means to achieve greater efficiency and advance financial inclusion
   - Interoperability (mandated or encouraged) should consider each jurisdiction’s own circumstances taking into account market dynamics

2. Foster an enabling environment for interoperability in payments
   - This include removing technical and market barriers to interoperability (e.g. remove exclusivity and enable open and fair access)

3. Implement proportionate regulation to mitigate risk whilst not stifling innovation and market development
   - Consider a tiered or phased approach, with flexibility given to smaller players which pose a smaller risk to market fragmentation
Thank you