# Interoperability in payments
# - Reflections for the future

Global Payments Week 2018
*4 December 2018*

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

**Interoperable Payments**

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)*

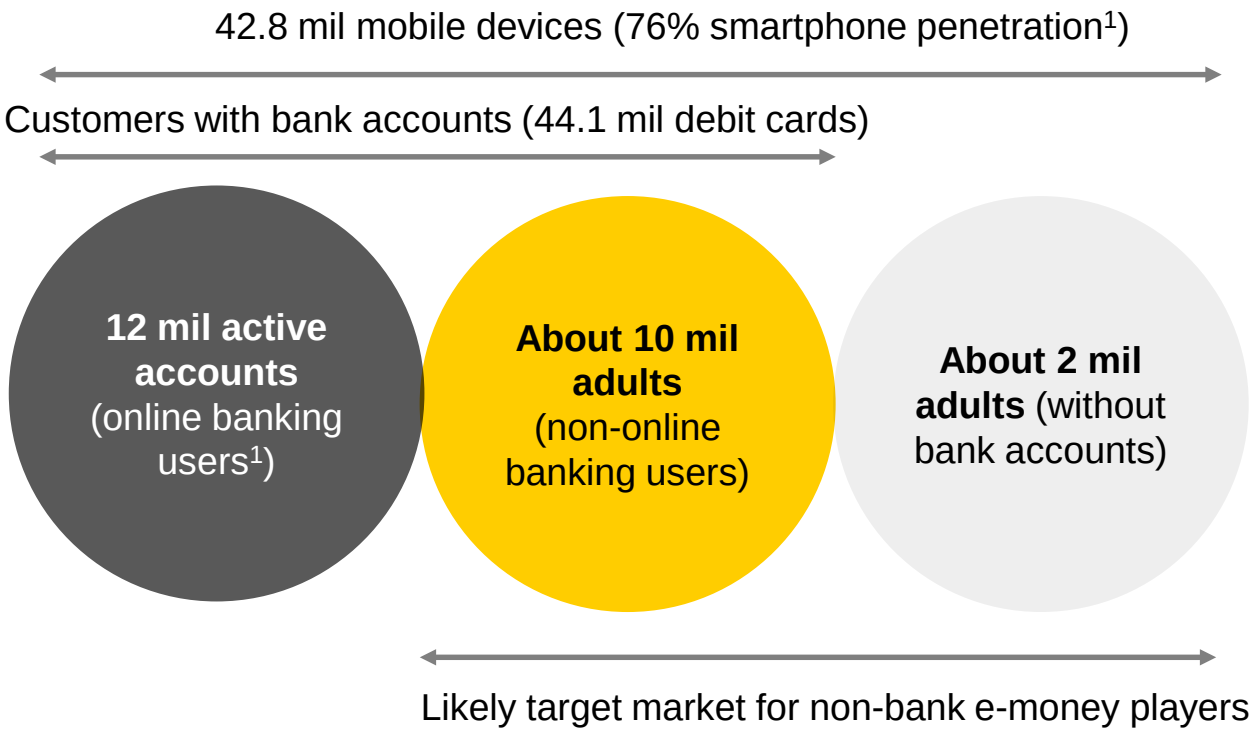
**1 Stability and public confidence**

- ✓ 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

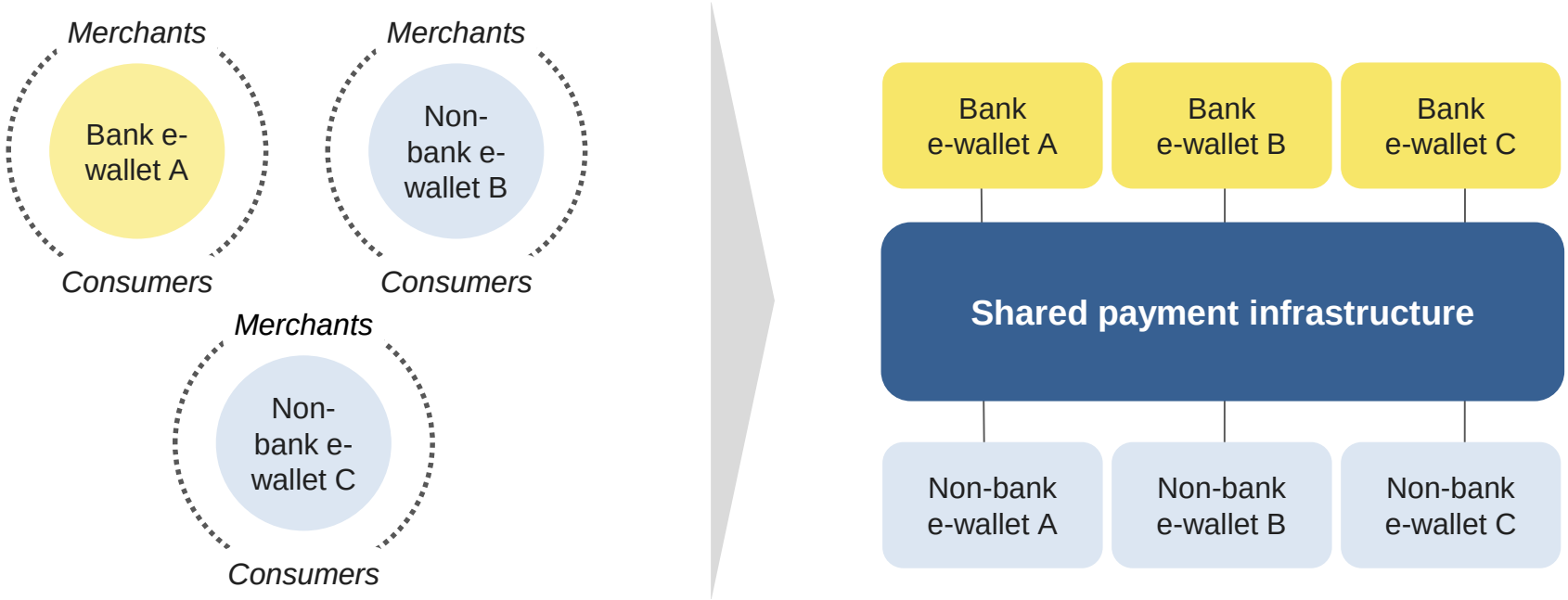



Source: BNM and MCMC (2017)

- 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

# 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