

Payment System Licensing Application

Introduction

In order to promote safe, secure and efficient payment mechanisms within the country, the Central Bank of Egypt has defined this application process for the licensing of providers of payment system services. This is part of the broader goal of the Central Bank of Egypt to facilitate a healthy financial system.

The Central Bank of Egypt, as the supervisory authority, is charged with the responsibility for the safety and soundness of payment systems. Controlling the entry of new payment service providers is a crucial part of this supervisory responsibility. In reviewing the suitability of an application for licensing a payment system provider, the Central Bank of Egypt needs to take into account the potential impact the proposal will have on the overall soundness of the sector. The goal of the Central Bank of Egypt is to ensure that there is sufficient capacity in the delivery of payment services to serve the needs of the financial sector in Egypt.

The licensing process will consist of an assessment of the payment system provider structure and organization, directors and senior management, ownership, operating plan, internal controls, projected financial condition, including capital base, rules, criteria for participation and other relevant information. The Central Bank of Egypt is the sole licensing authority and will ensure that payment system providers have suitable shareholders, adequate financial strength, sufficient expertise and integrity to operate the payment service in a sound and prudent manner. A sound and effective payments system is an essential part of a sound and effective financial system.

This document will detail the information required in the application for a license to operate a payment system. A well defined application process with objective criteria for the assessment of the application will ensure transparency. It is important that the criteria for the issuing of licenses are consistent with those applied in ongoing supervision so that they provide the basis for revocation when an established organization no longer meets the criteria. This process will help to ensure that only the most qualified payment service providers enter the market. Licensing regulations, as well as the supervisory tools, are designed to limit the number of payment service provider failures without inhibiting the efficiency of the payments market. The Central Bank of Egypt reserves the right to reject applications if it cannot be satisfied that the criteria set below are met.

I. Licensing Criteria

a. Ownership Structure and Suitability of Shareholders

The Central Bank of Egypt must be able to assess the ownership structure including the major shareholders. The assessment will review the past businesses, their integrity and financial strength of the shareholders to determine the ability to provide additional capital should it is required.

b. Operating Plan, Systems of Control, Internal Organization and Human Resources

The promoters of the applicant service provider must present a detailed operating plan, outlining the envisioned activities, the resources with which these activities will be performed, the organizational structure, details of the automated systems to be deployed including business continuity and the expected financial results in the form of pro-forma balance sheets and profit and loss accounts. The promoters will need to come to the Central Bank of Egypt and discuss their plan. The management of the Central Bank of Egypt will then form an opinion on the quality of the presentation and the ability of the promoters to defend and discuss the plan.

The operating plan should describe and analyze the market area from which the service provider expects to draw the majority of its business and establish a strategy for the provider's ongoing operations. The Central Bank of Egypt will determine if these arrangements are consistent with the proposed strategy and will also determine whether adequate internal policies and procedures have been developed and adequate resources deployed. This will include a determination as to whether appropriate corporate governance will be in place.

Lastly, the promoters must demonstrate that they will be able to staff the organization with qualified and professional resources. This will be of particular importance given the nature of the services provided.

c. Assessment of the Directors and Senior Managers

A key aspect of the licensing procedure is the evaluation of the senior management of the planned payment service provider. The Board of Directors and senior management must be sufficiently experienced and capable to serve the interests of the participants. The payment system management body should be discussed to assure the Central Bank of Egypt that there will be sufficient governance to ensure a well run and efficient payments service.

The directors who comprise the governing body should include the following characteristics:

- Competence as demonstrated by a minimum of five years experience
- Competence as demonstrated by level of education or training
- Ability to exercise independent and informed judgment, based on previous record of good business decisions.
- Reputation
- Possession of a particular skill that adds value to the board's deliberations
- Industry knowledge
- Management
- Leadership
- Strategy and Management

d. Financial Projections including Capital

The Central Bank of Egypt will review *pro forma* financial statements and projections for the proposed payment service provider. The review will determine whether the service provider has sufficient capital to support the strategic plan given start up costs and likely short term losses.

II. Licensing Application

a. General Information

- Signed memorandum of agreement and articles of association
- Incorporator' minutes of the meeting that include the election of the Incorporators committee that shall supervise the establishment procedures and the authorized signatories during the establishment.

b. Incorporators Information

- Data regarding the management body and the operator of the payment system, i.e. business name, registered address, Investment Authority registration number, amount of registered capital and the subject of business or activities,
- Details on the owners (including major shareholders and Board of Directors) and participants and a plan for the organization and operation of the system, including the distribution of responsibilities of tasks between banks participating in the system.

The persons proposed by the incorporators should use the following guidelines for the selection of the senior management and the management body. Professionally qualified shall mean:

- i. That persons proposed as members of the management body and the operator of the payment system and as managers reporting directly to the management body must have:
 - a. completed their higher education in the subject required for the professional conduct of their function,
 - b. have a minimum of five year's management experience working in the area of payment systems, the banking sector or payments related enterprise.
- ii. For persons proposed as members of the management body and as managers directly reporting to the statutory body, the Central Bank of Egypt may also accept as a professional qualification demonstration of significant knowledge of payment systems or in the banking sector and the completion of secondary professional education.
- iii. For persons proposed as members of the supervisory board of an operator of the payment system professionally qualified shall mean adequate knowledge and experience of the banking sector or other financial sector.

- iv. A person of probity shall mean a person not found guilty of a criminal offence, of negligence committed with regard to the exercise of a management position or of a premeditated criminal offence; these facts shall be attested and documented by an extract from the criminal records register not older than three months; and if the person is a foreign national, these facts shall be attested and documented by a similar certificate of probity issued by the competent body in the state of his residence.
 - v. The following details need to be provided for each of the senior managers and major shareholders:
 - a. Full name, address, contact details, legal status, of applicant's firm (where applicable)
 - b. Curriculum Vitae
 - c. Income Tax Department Clearance
 - d. Police Department Clearance
 - e. Reference Letters
- c. Business Plan
- A business plan shall be attached with the application including the following data and information:
 - i. Full description of the payment service activities the applicant intends to offer. For each activity, the applicant must fully describe the clients, the specified products and services and the scale of activity. The plan should detail competitive advantages and how this fits with current and future market conditions.
 - ii. Details of the applicant's business plan for the next twelve months for the commencement of activities. This should include the pro forma financial statements and projections of funds required to support the organization over this initial period.
 - iii. Details of the business plan for the first five years including financial statements for the period and additional services that are planned during this period.
- d. Projected Financial Statements
- The applicant must submit *pro forma* financial statements for each year of the first five years of operation. The financial statements must include the following:
 - i. Sources and uses of funds
 - ii. Projected cash flows
 - iii. Estimated income and anticipated expenses
 - iv. Assumptions used in calculating the estimations listed above.
- e. Policies
- The applicant shall provide clearly written drafts for each of the policies or procedures listed below.

- i. The criteria established for direct and indirect participation in the system. If participation in the system is conditional on membership or capital contributions, the application should also specify these conditions,
- ii. The principle of operation of the payment system (real time, net, etc.),
- iii. The draft rules or rules of the payment system, including liabilities, fees, etc.,
- iv. The operation schedule of the payment system,
- v. An analysis of the risk and measures to limit risks in the system arising from illiquidity or insolvency of participants in such systems including capacity to manage risk,
- vi. The measures to safeguard technical operations, including a contingency plan in the event of any operational disruption should the ordinary system fail to function,
- vii. The measures taken to secure the protection of electronic processing and the storage of data relating to the system of payments against disclosure, misuse, damage, destruction, loss or theft,
- viii. A declaration of the applicant that the submitted application and data contained in the application including its annexes is up-to-date, accurate and complete,
- ix. The place and date of the preparation of the application and the officially authenticated signature of the statutory body of the applicant.
- x. Principles of linkage to systems for payment services and other funds transfer between customer accounts.
- xi. A payment system management body shall establish the following operational arrangements:
 - a. rules and procedures setting out the rights and liabilities of the operator and the participants and the financial risks the participants may incur;
 - b. system rules shall stipulate:
 1. the operator of the payment system,
 2. the settlement agent of the payment system and the method for ensuring the finality of payments,
 3. the participants in the payment system,
 4. the conditions for participation in the payment system and the conditions for exclusion from the payment system,
 5. the rights and obligations of the participants and the operator of the payment system,
 6. the method of transmission and delivery of payment instructions, their form and structure,
 7. the method of transmission and the form of payment instructions and settlement instructions,
 8. the method of securing data against misuse,
 9. the method of settlement of payment instructions submitted to the payment system,
 10. the principle of operation of the payment system,
 11. the moment of acceptance of an order by the payment system, the period during which the payment system will accept orders, and the time when payment instructions become irrevocable,

12. the currency or currencies in which the payment system operates,
 13. the point of time when the settlement is considered final and irrevocable
 14. arrangements to permit settlement to be made in the event of the failure of a participant;
 - xii. procedures, controls and measures for the management of credit, liquidity and settlement risk, including rules determining the time when a payment instruction and a settlement is final;
 - xiii. criteria for participation in the designated payment system;
 - xiv. measures to ensure the safety, security and operational reliability of the designated payment system including contingency arrangements; and
 - xv. measures to ensure that the payment system will not lead to a monopoly in providing services and will not violate rules of monopoly in Egypt.
- f. Operational Procedures
- The applicant needs to provide detailed explanations of its operational procedures that will assure the Central Bank of Egypt that its operational regime will ensure safe and reliable processing of payments.
- g. Compliance Arrangements
- The applicant must provide documentation demonstrating what processes will be put in place to ensure conformity with the standards and regulations defined as part of the regulatory regime of the Central Bank of Egypt.
- h. Internal Audit
- Details of the internal audit function including structure, scope, reporting lines and the regularity of reporting must be provided as part of the application.
- i. Systems Plan including Business Continuity Plans
- An overview of the Information Technology functions, including scope, structure and reporting lines with an attached organizational chart must be documented and presented as part of the application.
 - Detailed descriptions including the systems, networks, system design and architecture and the application functionality of each of the systems used to support the processing of payments.
 - Plans and procedures must be presented and documented for the development and testing of application software used in the processing of payments.
 - A plan must be presented that details the information security that will be put in place including responsible individuals, organization, policies and procedures to ensure a highly reliable and secure processing environment for payments.
 - A description of the clearing and settlement (if appropriate) procedures and controls and the designation of the person responsible for maintaining the procedures.

- A description of the procedures that will be implemented to mitigate credit, liquidity, systemic and operational risk.
- A business continuity plan must be provided which includes disaster recovery and back-up arrangements for all systems involved in the processing of payments.

j. Human Resources

- A human resource plan must be prepared and submitted that details current staffing requirements and anticipates future needs. This should include plans for ongoing training and development of personnel.

III. Licensing Procedures

a. Submission of Application/Timeframes

- The Central Bank of Egypt shall decide on the granting of a license or the change of a license for the operation of a payment system.
- An application for the granting of a license or the change of a license shall be submitted by the payments system management body in writing to the Central Bank of Egypt.
- Upon submission, the applicant will be required to pay a fee of 10,000 LE with the completed application.
- The Central Bank shall have the ability to make requests for clarification and supplementary information as necessary in the process of evaluation.
- The Central Bank of Egypt must provide a response in writing to the applicant either granting preliminary approval or rejection of the application for the provision of payment services in Egypt.

b. Obligatory Conditions for Granting of License

- The following conditions must be fulfilled for the granting of a license:
 - i. The operator of the payment system is a registered company in the Republic of Egypt,
 - ii. The operator of the payment system has paid up registered capital of at least 1,000,000 LE, and this minimum sum must consist of financial deposits,
 - iii. Property used to pay up the registered capital has a transparent and trustworthy origin,
 - iv. The operator of a payment system has the technical and organizational prerequisites for the exercise of the activities of the payment system, including the functional, control and inspection mechanisms and risk management system appropriate to the scope of the payment system,
 - v. The persons proposed as members of the management body and the operator are professionally qualified and persons of probity, as defined below,
 - vi. The operator of the payment system has prepared a strategy and business plan for the payment system supported by realistic economic calculations,
 - vii. The liquidity of the settlement of orders accepted by the payment system is guaranteed,

- viii. Other conditions deemed necessary by the Central Bank of Egypt
- c. Central Bank of Egypt Payment System License Review Board
- A Payment System License Review Board composed of representatives of Central Bank of Egypt shall be convened to review the application and determine whether or not to grant a license for the operation of a payment system. The review board should be composed of representatives of both the Payment System and Banking Supervision Departments. It will require a presentation by the applicant at which the applicant will be expected to present and defend all of the information requested in this application document. The Central Bank of Egypt has the right to request further presentations should there be the need to gain additional clarification.
- d. Response to Applicant
- The applicant can expect that a decision will be rendered regarding the application in a period of no more than sixty (60) days from the date of submission of the complete application.
 - If an application is submitted that is not complete, the applicant will have a period of ninety (90) days to make it complete or the application will be dismissed.
 - In the event a decision is taken to deny granting an applicant a license for the operation of a payment system, the applicant will be informed in writing by the Central Bank of Egypt with the reasons for the rejection. The applicant is then entitled to an appeal process to discuss the reasons for denial and resubmit the application for license to operate a payment system.
 - If the Central Bank of Egypt issues a preliminary approval, it will specify the requirements and provisions necessary for obtaining the final licensing, including the following:
 - i. Full payment of subscribed capital.
 - ii. Completion of all Incorporation procedures.
 - iii. Proposed names for the Board of Directors.
 - iv. Proposed names for the general manager and other senior managers.
 - v. Proof of the presence of reliable administrative, internal controls and operations systems.
 - vi. An on-site visit by the Payment System Oversight Group
 - vii. All other requirements and provisions as stipulated by the Central Bank of Egypt.
 - Preliminary approval is valid for a period of six months. If the applicant is not granted final approval in that period, the preliminary approval will be rescinded.
 - The preliminary approval will be revoked if the applicant does not meet all of the requirements and provisions necessary for obtaining final approval.
 - If the provisions and requirements are met the Central Bank of Egypt shall issue a final licensing to the payment system service provider within ninety (90) days of the date of the new application in which the licensing applicant confirms that such requirements have been met.

e. Granting of a License to Operate a Payment System

- A license shall be granted to an operator of a payment system for an unlimited period of time, subject to these regulations, and may not be transferred to any other person, or assigned to a legal successor.
- A license shall be granted to an operator of a payment system for an unlimited period of time, subject to these regulations, and may not be transferred to any other person, or assigned to a legal successor.
- The operator of a payment system shall be obligated to submit to the appropriate court authority a proposal for the registration of and approval for the operation of a payment system to the business register. The operator of a payment system shall be obligated to submit to the Central Bank of Egypt an up-to-date extract confirming proper registration of the business entity.

DRAFT