USAID E-PESO ACTIVITY

Comment on the Security Consultant TOR and Comments to NRPS-related Issues

DELIVERABLE 3b

Sub 242

2018-08-01

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1. EXECUTIVE SUMMARY

This report consolidates the individual outputs that were provided to the E-PESO project under Sub 242 Deliverable 3b “Comment on the Security Consultant TOR and Comments to NRPS-related Issues”.

The work was performed from end May 2017 until June 2018.

Johann Bezuidenhoudt

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Where previous documents have been copied or referenced the following terms have been updated so as to make this report current, they have in some cases been maintained where the context required it:

Current term	Historical term/s used	Comments
PPMI Philippine Payment Management Inc.	Payment System Management Body (PSMB)	PSMB is the generic term used by the BSP in its documentation PPMI is the industry registered and adopted name for the PSMB concept
PESONet ACH	EPCS	Rebranded EPCS with the change to an ACH
InstaPay ACH	Real Time credit push EFT ACH	Name adopted by the ACH
Secured Settlement Accounts (SSA)	Settlement Guarantee Mechanism or Settlement Guarantee Account	Name adopted by the BSP in Circular 1000

2. COMMENT ON THE SECURITY CONSULTANT TOR

Comments were provided to the E-PESO Project on the ToR that was being prepared for the engagement of a security consultant to assist the BSP.

An alternate assessment of the CVs of some of the candidates who has applied to perform the work was also performed.

Subsequently articles and security references were sent for information to the E-PESO and BSP teams.

See Annex A.

3. COMMENTS TO NRPS-RELATED ISSUES

Comments were made relative to NRPS-related issues raised by BSP, payments industry and/or E-PESO, from end May 2017 through to June 2018.

The subjects covered in detailed e-mails and phone calls included the following.

- Clarifications on scope of clearing rules and per financial institution rules
- Issue escalation process (for contentions on scope of clearing rules)
- Clarifications on bilateral clearing arrangements
- Clarifications on using bills payment for PESONet and/or InstaPay enabled services
- Considerations for BSP as a direct clearing participant
- Considerations for establishing a QR Code Technical Committee and its relationship to existing ACHs
- Discussions on Remittances and/versus E-Payments – inputs to E-PESO team in support of the BSP and payments industry
- Comments on the BSP's Draft NRPS Circular
- Advice on the abolishment of the charging of EFT reception fees by BSFIs
- Discussion on the place of FAO accounts in the NRPS
- Information on Cryptocurrencies and Cryptocurrency exchanges to the BSP
- Comment on the Lifting of Moratorium on ATM Fees

Some inputs / communications included in Annex B.

4. ANNEXES

4.1. ANNEX A: COMMENT ON SECURITY CONSULTANT TOR

1) Comment on the Security Consultant TOR

Provided inputs to the TOR prior finalization with the BSP.

2) Digital Security Expert Evaluation

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Monday, November 7, 2016 at 11:15 PM
To: Bernadette Ramos <bramos@epeso.org.ph>
Cc: Mamerto Tangonan-COP <mtangonan@epeso.org.ph>, "jaotriz@epeso.org.ph" <jaotriz@epeso.org.ph>
Subject: RE: Digital Security Expert Evaluation - Invitation to collaborate

Dette,

I have been through the two word documents and also all the CVs in the sub-folder.

The summaries and evaluation word documents appear to reflect the CVs produced and draw reasonable conclusions.

My take on the 4 candidates from their CVs (and where no CV from the evaluation report) is:

Item	CANDIDATE #1: Name: Leon Perlman (no CV)	CANDIDATE #2: Name: MicroSave Hildah Nduati and Vijay Chugh	CANDIDATE #3: Name: John C. Russell	CANDIDATE #4: Name: Miren Aparicio (no CV)
Core Experience Base	Regulatory Policy in service provision	Payments Policy and Operations - VC Information Security HN	Payment Switch Establishment and Operation	Payments Operations Corporate Banking (appears)
Knowledge of Banking related Cyber Security – core systems and payment systems	No direct security specialist experience or knowledge claimed	VC – no direct HN – PCI/DSS and Information Management No Cybersecurity claimed	PCI/DSS No Cybersecurity claimed	None shown

Regulatory Policy experience - General	Yes	Yes – RBI regulatory - VC	Kyrgyzstan	None on regulator side
Regulatory Policy experience – Cyber Security	None shown	None claimed	None direct	No cybersecurity
Regulatory Oversight experience	None shown	None shown	None shown	None shown
Operational Audit experience (FI side)	None shown	Extensive HN (core experience)	PCI/DSS audit experience	None shown
Cybersecurity Training	No	No	No	No
Securing and auditing environment Training	No	Yes	Securing Possibly	No

To specifically support the BSP on Cybersecurity – None of the four are network/cyber security specialists.

To look at policies and provide expertise - #2VC would clearly be of definite use having direct experience in the RBI and #2HN could provide input.

PCI/DSS compliance - #2HN and #3

E-money Issuance – no one has experience that they have claimed.

If the specifics of the ToR are relaxed – then the MicroSave team would probably assist the BSP the most in knowledge as far as payments operations and what information security and internal auditing should be required.

As it stands some of the candidates could do some of the scope of work, but the key requirement that of a cybersecurity specialist to address cybersecurity policy and training will not be supported by any of the candidates as none have specific experience and or skills therein.

Johann

4.2. ANNEX B: Comments to NRPS-Related Issues

1) On QR Codes and ACHs

Provided reference document on QR Barcodes: "QR Codes – specification thereof Ph JB 20180724 - Discussion Paper"

From: Johann Bezuidenhoudt
Sent: Saturday, 21 July 2018 11:32
To: 'Ma. Bernadette Ramos' <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RE: Follow-up on PPMI - QR Codes

Dette,

Additionally to the note below there may be some value in looking at things from the perspectives of four levels:

- Access
- Messaging
- Clearing and
- Settlement

QR codes are part of the access level and provide information to the messaging level in the same way as cards do. The access level is part of the competitive payments space. There are needs for standards on how this is done to ensure that the QR codes work across the industry ie everyone uses the same formats for the same applications so that standard equipment and applications can be built.

When you then look at the messaging and clearing levels between financial institutions that is where PPMI and its structures come into play governance wise as these are where the payment streams, such as real-time credit push EFT and real-time debit pull card at merchant, happen and are governed by the ACHs that cover the payment streams.

That there is agreement to technically standardise the content of QR codes for various payment operations that happen in the competitive space is important as it ensures that the messaging and clearing in the co-operative space will work. As such all the participants in the retail payments system should, in the same way that they agree on card standards, agree on QR code standards.

J

From: Ma. Bernadette Ramos <bramos@epeso.org.ph>
Sent: Saturday, 21 July 2018 02:57
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Follow-up on PPMI - QR Codes

Hi Johann!

Thank you so much for the comprehensive discussion on considerations for QR codes. Definitely worth sharing with BSP and PPMI.

Dette

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Senior Enabling Environment Advisor

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Mobile: +63 (917) 5308535

Email: bramos@epeso.org.ph

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Friday, July 20, 2018 at 4:29 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RE: Follow-up on PPMI - QR Codes

Dette,

Thanks for the swift response!

On QR codes. They can have two roles. One is as an information source eg a Merchant's till QR and as a payment instrument eg a customer presenting a specific QR code to trigger a payment. Depending on what the QR codes role is it may be a payment instrument or simply provide information so that it does not have to be entered manually.

What needs to be looked at is what payment stream a QR code feeds. In itself the QR code is not a payment stream that is cleared and should not thus be the subject of an ACH . In the same way that an ISO 7816 compliant card (any banking card magstripe or integrated chip NFC or contact) is not a payment stream but just an information carrier, a QR code is neither. If the payment stream is a new one in that it is cleared differently and has a different business model and set of rules then there is probably a case for an ACH, which usually not the case when one looks at the physical carrier of information, which is what a QR code is.

If all that is happening is that the QR code is being used to either supply the account details (and maybe amount) to which an InstaPay payment must be made or is being used to present a card token to a till that is cleared through the POS acquiring network then these fall under the InstaPay and POS ACHs in terms of the PAYMENT STREAM being used to clear the transaction.

There must be a technical standard agreed (and a guideline on who it must actually be implemented in the Philippines) which PPMI should issue from the InstaPay PG and WG, for how the QR code that feeds InstaPay (and the same for say a merchant payment). There are technical standards issued by

EMV for this that can (should) be used so that some futureproofing is achieved (same logic as why everyone uses 7816 and EMV for cards).

In the same way as there is not an ACH for InstaPay transactions generated off a mobile and those generated on a PC, there should not be a separate ACH for those generated from a QR code. The QR code governance issue is not clearing but the need for various technical standards and usage guidelines. Hopefully there will not be a misunderstanding here as it will impact the ACH governance as there will be 'bits in different ACHs' for the same payment stream clearing.

That said if there is a specific business reason for a separate ACH for QR codes then there may (but it is unlikely) be a reason to have a separate ACH. What is most likely is that there is a QR Code technical committee that the PPMI forms and that draws its members from the PGs for InstaPay and the merchant card ACH (or whatever it is called eg POS ACH) that defines the implementation rules for where QR codes are presented (and not cleared as the QR code itself is not a clearance).

Johann

From: Ma. Bernadette Ramos <bramos@epeso.org.ph>
Sent: Friday, 20 July 2018 09:43
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Follow-up on PPMI

Thanks Johann,

We will be assisting PPMI with the drafting of an NRPS/PPMI prospectus (for prospective PPMI members and ACH participants) as well as an NRPS / PPMI starter pack for current and new PPMI members. In the meantime, PPMI will review the recommendations contained in the E-PESO Report provided (Recommendations on setting-up a PSMB) on other areas for possible technical assistance to be requested. I have shared with them other reference documents - the procedures for establishment of new ACHs and the Criteria for Authorisation of Systems Operators.

Although she has not asked for it yet, I am anticipating that PPMI (and BSP) will be needing assistance in the determination of an ACH. Mert and I are aware of separate discussions on the possibility of setting up a QR Code ACH with the intention of going to the PPMI to apply. Although it is recognized that QR code payments may be push or pull, dynamic vs static, there seem to be some players who believe that QR warrants its own ACH.

Will keep you updated on these.

Happy weekend,

Dette

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3) Reference Documents Provided

Provide reference document “Code of Conduct for Indirect Access Providers”

4) Authorised Debit Orders for batch EFT ACH

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Tuesday, April 24, 2018 at 9:02 PM
To: Raymond Estioko <restioko@bsp.gov.ph>
Cc: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Authorised Debit Orders for the batch EFT ACH

Raymond,

The South Africans are busy adding customer approved mandates to their batch Debit Order system. This is a ‘halfway’ move compared to the Mandate system implemented in SEPA in Europe and may be a good middle ground if the Philippines ever decides to start debit orders. SEPA requires the existence of a mandate signed by the customer, in the Debicheck situation the customer has to, via their bank, agree that the debits may occur, say a pop up USSD request that they respond to agreeing after which the bank will allow debit orders to run on their account.

The system is called Debicheck and is being rolled out now.

The process is described at: https://www.debicheck.co.za/pages/ourProcess.html
The FAQ is at: https://www.debicheck.co.za/pages/yourQuestions.html

The rollout is happening and hopefully all parties will see the benefit.

Johann

5) Proposed Re-activation of BSP's EPCS+/PESONet account

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Tuesday, March 13, 2018 at 4:01 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Subject: Re: Proposed Re-activation of BSP's EPCS+/PESONet account

Dette,
I remember making a comment that the BSP will need to be deemed a licensed bank as as far as I know they are not. C980 and the PPMI’s constitution may require that they are in order to be direct

participants. You will need to check whether the BSP consider themselves to be a licensed bank, one would assume so as they hold deposits and participate in PhilPaSS.
Given the above is true the answers that RE gives below appear fine.
The question that you may want to ask is whether the FAD will participate in ACH PGs as a user of those ACHs. There may need to be an internal BSPP protocol to ensure that the supervision and policy of payments is separated from FAD and how the FAD would participate if necessary – which may be necessary say to transition PhilPaSS Remit to PESONet.
Johann

From: Ma. Bernadette Ramos <bramos@epeso.org.ph>
Sent: 07 March 2018 05:52
To: Johann Bezuidenhoudt
Cc: Mamerto Enrique Tangonan
Subject: FW: Proposed Re-activation of BSP's EPCS+/PESONet account

Hi Johann,

Sharing Raymond's responses to my earlier clarifications.

Thanks,

Dette

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From: Raymond Estioko <REstioko@bsp.gov.ph> on behalf of Raymond Estioko <REstioko@bsp.gov.ph>
Date: Wednesday, March 7, 2018 at 11:23 AM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Proposed Re-activation of BSP's EPCS+/PESONet account

Hi Dette and Mert,

Please see my response in blue font. It would be nice if EPeso can help us know the practice in other jurisdictions on this regard.

Thanks,

Raymond

From: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
To: Raymond Estioko <REstioko@bsp.gov.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>,
Date: 03/07/2018 11:13 AM
Subject: Re: Proposed Re-activation of BSP's EPCS+/PESONet account

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Hi Raymond,

I recall in one of the discussions we had with Johann before, BSP can also be a clearing participant but it has to abide with the clearing rules and requirements. It has to be rationalized as well how BSP should participate given that Circular No. 980 refers only to qualified BSFIs that can participate in ACHs / PPMI.

I would like to make the following clarifications in the meantime:

1. General

a. Proposal is for BSP to be the clearing participant, not just a customer of any bank? Yes, BSP will be a direct clearing participant.

b. PSO would be both the clearing participant as well as the operator for settlement processes? NO. BSP's Financial Accounting Department (FAD) will be the participant.

c. Similar to discussions we had regarding BTr participation, would BSP as clearing participant expect to participate in the PPMI as a member? I believe BSP should refrain from participation in the PPMI Board considering it is also the Overseer.

2. PESONet

a. BSP's clients would be the different departments? It should be FAD

b. As a clearing participant, BSP should also receive incoming payments as well (consistent with Circular 980 and clearing rules). I recall it was also identified that borrowers from closed banks still have to pay in cash through BSP or through partner banks; BSP will be both sender and receiver of funds.

3. InstaPay

a. BSP would make available a BSP accountnumber to BSP clients? BSP recognizes that unique account numbers should be assigned to its clients.

b. Does this assume that BSP client would enter BSP accountnumber and amount when making a payment to BSP? Yes.

Thanks,

Dette

--
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From: Raymond Estioko <REstioko@bsp.gov.ph> on behalf of Raymond Estioko <REstioko@bsp.gov.ph>
Date: Tuesday, March 6, 2018 at 6:23 PM
To: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>, "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Subject: Proposed Re-activation of BSP's EPCS+/PESONet account

Hi Mert and Dette,

You may want to give your comments on subject proposal of PSO to participate in PESO Net and InstaPay.

Thanks,

Raymond

6) Clarifications on Bilateral Clearing Arrangements (and some updates on TA to PPMI)

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Monday, March 12, 2018 at 5:26 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Subject: RE: Clarifications on Bilateral Clearing Arrangements (and some updates on TA to PPMI)

Dette,

Sorry for the delay in response on this – I am finally getting to clear my inbox. Along with queues to get my new passport – join the real world!

Is an FAO allowed for under the NRPS framework – as far as I see it the FOA is just another type of account at a bank (assuming is it is in PHP – USD ones are outside the domestic PHP clearing that the NRPS covers). As far as participation in the NRPS the bank holding the account is a participant and the foreign bank and their customer are the customer. There is a disconnect between NRRPS/C980 and the AML regs here. As far as the NRPS the bank as direct participant under C980 must obey these rules. There is a second and different layer that the AML needs to be satisfied as well and that requires funds source identification – which is the foreign bank's customer. There may have to be a rule to flag if the funds source is a foreign customer and their name and who did the KYC on them so that the recipient bank knows if there was a funds passthrough at the sending bank and can apply the correct AML rules.

I would still question why the FAO is in place unless there is good rationale for it pricewise.

You maybe need to speak with one of the big overseas banks who do FAO to understand all the rationale for doing it (other than the pain of setting up the account in the Philippines by the customer).

Johann

From: Ma. Bernadette Ramos <bramos@epeso.org.ph>
Sent: Friday, 23 February 2018 08:19
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Clarifications on Bilateral Clearing Arrangements (and some updates on TA to PPMI)

Hi Johann,

I was able to finally sit down and gone through our exchanges, particularly your clarifications (and corrections) you made on the bilateral clearing arrangements.

Are the following statements accurate –

- The current FAO (and funding of the FAO) as described below are allowed under the NRPS framework;
- However, with PESONet, it will be business that will dictate whether the FAO arrangement still makes sense for the both the foreign bank and/or the foreign bank's corporate customer.

I have additional questions on a separate issue in another email.

Thanks,

Dette

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From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Tuesday, February 20, 2018 at 10:37 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RE: Clarifications on Bilateral Clearing Arrangements (and some updates on TA to PPMI)

Dette,

I use BSFI here to mean a regulated local Filipino bank as opposed to a foreign bank.

What I am saying is that the decision mentioned in the original note is wrong ie" It was agreed that under Circular No. 980, it was clear that any credit instruction from foreign bank to domestic bank to the foreign bank's FAO account in domestic bank must be done through PESONet."

The only payments that must go through PESONet are those from a FAO to an account at different BSFI (and there is an argument for PhilPaSS if they are big enough – that is something for a different day).

The 3 FAO funding mechanisms described in your note below are not within the scope of 980.

FAO funding either using incoming USD mechanisms or PhilPaSS are outside the scope of 980. Movement from the FAO account on behalf of a customer for whom the account is kept to another account held by a business/customer at another BSFI/bank is clearing and must be done through the appropriate ACH under the PPMI as per Circular 980 (or via PhilPaSS in which case it is not). Movement within the BSFI holding the FAO account is simply movement between two accounts at the BSFI and is not clearing between two BSFIs.

Irrespective within BSFI transfers between accounts both held at that BSFI are outside the PPMI scope and thus the scope of 980.

The principles to be applied are wrt Circular 980:

1. Is it a retail transaction? - as PPMI only covers retail and not inter-bank-to-bank transactions. (In SA as an example this is different as the equivalents there of PDDTS and PhilPaSS would fall under PASA as all payments clearing [and because the RTGS is included settlement] does – something that is not under consideration for now in the Philippines)
2. Which participant (by definition direct) introduced the retail transaction to clearance and which different direct participant received the transaction from the clearance arrangement? By definition only direct participants are (must be) PPMI members and subject to 980 (and conversely no BSFIs may bilaterally clear and if they directly clear they must be PPMI members)

Further to the above there is a need to distinguish between a bank acting as a BSFI and a bank keeping accounts at another BSFI. The second appears to be the case here in terms of the scope of what they would use PESONet for ie to move funds from a FOA account at a BSFI to any other business/employees' accounts at other BSFIs as this is the only retail transaction that goes inter BSFI that is from a bank customer to the customer of another bank (the funding of the FOA – are either bank to bank or are through PhilPaSS which is outside the 980 scope) the FOA to another customer's account at another BSFI is retail and subject to 980. This BTW should be the situation now – either use PhilPaSS or EPCS.

That a foreign bank or for that matter a BSFI keeps an account at a BSFI that is a direct participant in the payment system does not as a result of the account holding make the holder of that account (foreign bank or another BSFI) a direct participant in the national payment system and thus does not qualify them as a PPMI member. That the foreign bank or BSFI may be sponsored into clearing by the BSFI (and by definition therefore sponsored into settlement as well) oes not make them a PPMI member. Furthermore movements between accounts within a BSFI are not retail clearing between to BSFIs irrespective of who holds the accounts.

If the foreign bank or BSFI independently happen to directly participate in a retail clearing arrangement then they must be PPMI members. However the two relationships are separate – the one is a customer relationship and the other is a participant one.

The PPMI is there to govern inter-participant (direct) clearing. It has and should not have jurisdiction over payments between accounts when the sender and receiver of the funds is the same BSFI.

Hope this helps.

Johann

From: Ma. Bernadette Ramos [mailto:bramos@epeso.org.ph]
Sent: Tuesday, 20 February 2018 03:20
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Clarifications on Bilateral Clearing Arrangements (and some updates on TA to PPMI)

Thanks for the further clarifications Johann.

The bilateral clearing arrangements I discussed earlier refer to the foreign banks in the Philippines as clearing participants in the Philippines (i.e. Citibank, Standard Chartered, HSBC), whose customers have accounts in the Philippines.

I was able to speak to a friend who is a retired banker to clarify more on these FAO arrangements, specifically how these FAO accounts are typically being funded now. He said that the foreign bank's (ex. Citibank) FAO account with local bank (ex. BPI) would typically be funded via:

1. the PDDTS (Philippine Domestic Dollar Transfer Service System – "The Philippine Domestic Dollar Transfer Service System allows online, real-time gross settlement of domestic inter-bank USD transfer instructions and third party account-to-account USD transfers. In addition, it provides a facility for online entry and settlement of FX Transactions where the PDDTS Participant enters the inter-bank USD and Peso transfer instructions in a single screen. The USD leg is settled via PDDTS while the Peso leg is transmitted to <i>PhilPaSS </i>for settlement by the BSP."
From http://www.pds.com.ph/index.html%3Fpage_id=1083.html Circular 980 does not apply here as a. PDDTS is not a retail payment system and is outside the PPMI jurisdiction and b. PhilPaSS is outside the PPMI.
2. PhilPaSS Circular 980 does not apply here as PhilPaSS is outside the PPMI. This would be the case when the foreign bank has their account at a different BSFI to the one where the FAO account is kept.
3. Treasury – I didn't really understand what this means This is where the BSFI holding the FOA account uses their treasury to move funds to the FOA account after the treasury has converted USD that they have received in the BSFI's own account overseas from the foreign bank to PHP. Eg BDO may have an account at Citi in New York. XYZ who is based in the US and have their account at Citi in NY and for whom Citi run a FOA account at BDO, uses their business access to Citi and to ask Citi to credit their FAO with a n amount of USD/PHP. Citi debit XYZ and credit BDOs account at Citi in NY in USD and then send BDO's treasury a message asking BDO's treasury to convert the USD they have just got in NY in their account to PHP and credit the FAO account for XYZ in BDO. The BDO treasury converts the USD to PHP (through whatever internal bookkeeping they do) and credit the FAO account.

He did say that SWIFT would be the last option as it would be the most expensive. Agree (see treasury above – which is probably the cheapest for USD incoming). The arguments above apply.

I'm still going over your earlier inputs so I'll get back to you for additional questions. In the meantime, upon discussion with Raymond, he has invited Citibank to explain the arrangements to them so hopefully there will be more clarity on current arrangements.

On a separate note, Mert and I finally got to speak with Melit last week. PPMI seems to be on its way to operationalization but major challenge is still the clarity and consistent understanding of PPMI's role amongst the BoD. We advised Melit that we are finalizing are plans until May so we would need her inputs on the relevant technical assistance we can provide PPMI until then. I am waiting for

Walter's confirmation whether he is still available to come to the Philippines in April. I owe you a document

Thanks,

Dette

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Senior Enabling Environment Advisor

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From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Monday, February 19, 2018 at 11:36 AM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RE: Clarifications on Bilateral Clearing Arrangements

Dette,

I hope that the response makes sense. Please feel free to call if you need any further clarification.

I have, as you will have read, a different take on things in that I see the accounts that the foreign banks have with BSFIs as BSFI customer acconts and so in payment terms the foreign banks are BSFI customers and the BSFIs are the clearers of the transactions (and thus the participants) and the foreign banks are not payment system participants when looking via their account arrangements in that they use their BSFI's systems as business clients and make business payments using these systems and funding the transactions from accounts kept at the BSFI as customers. And the foreign banks here are neither direct or sponsored participants in PESONet and do not have to be a PPMI member. This is the same as where a Filipino bank has a nostro account at a correspondent bank in say the USA – the bank is not a participant in the payment system in the USA, just a customer of the bank in the USA from a payments perspective (clearing and settlement).

As far as the foreign banks being participants in the payment system in the Philippines in their own right, that is something completely different. In this case the foreign bank runs their own set of customer accounts in the Philippines which are directly regulated by the BSP. The bank either sends payment batches of their customers' payments to PESONet itself as a direct participant or sends the batches via their sponsor. The customer accounts within the sponsor BSFI (if there is one) are not involved as funds sources, which is the case in the foreign bank as customer above.

Hope this makes sense?

Johann

From: Ma. Bernadette Ramos [mailto:bramos@epeso.org.ph]
Sent: Monday, 19 February 2018 04:51
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Re: Clarifications on Bilateral Clearing Arrangements

Thanks Johann!

It was a holiday here last Friday so didn't get to see your clarification until now. Thanks for your inputs.

Dette

--
BERNADETTE A. RAMOS
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From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Friday, February 16, 2018 at 12:20 AM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RE: Clarifications on Bilateral Clearing Arrangements

Dette,

If the foreign bank opens their own account or a FAO account in-country at a BSFI then the holders of those accounts are both customers of the BSFI. As such for this arrangement the foreign bank is not a participant in the payment system as they are not introducing transactions for clearance into the payment system (either as direct or sponsored participants) or settling the resulting obligations. The clearance and settlement are both the responsibilities of the BSFI where the accounts are held. Where the BSFI clears payments with other BSFIs on behalf of their customers (ie the holders of the two account types mentioned above) then those clearances are subject to Circular 980.

If the foreign bank wants to bring in funds from outside the country then they will be SWIFT payments and will go through the current incoming foreign funds clearance and settlement process into the foreign bank's account or the FAO account at the BSFI. (No impact on the NRPS requirements which only cover inter-BSFI payments in the Philippines). There are two use cases here:

- Where the BSFI has its own access to SWIFT then the funds come in direct – Circular 980 not applicable and PESOnet not involved
- Where the BSFI has a correspondent arrangement with another bank in the Philippines for incoming funds and needs to get the funds from the correspondent to the BSFI where the foreign bank's own account or the FAO account are. Here there are two ways – depending on the amount it could go through PhilPaSS (as per the current arrangements and if it is needed quickly during work hours), or it would go through PesoNet as a regular domestic inter-BSFI batch EFT credit push payment in which case 980 applies.

As far as the movement WITHIN the BSFI circular 980 does not apply as there is no inter BSFI clearing occurring – namely:

- Foreign incoming funds, this would be as per the above
- From the BSFI's treasury to the foreign bank's own account or the FAO account at the BSFI – standard internal bank transfers thus no payment system involvement and no PESONet
- From the foreign bank's own account at the BSFI to the FAO account at the same BSFI – the use case is a standard internal bank transfer within the BSFI between two of its clients' accounts – standard internal bank transfers thus no payment system involvement and no 980/PESONet
- From the FAO account to any of the corporate client's accounts within the same BSFI – standard within BSFI inter-client payments (On us EFT) – does not clear between two BSFIs and is therefore not within the inter BSFI clearance governance and thus falls outside the 980/PESONet requirement.

As far as payments from the FAO account at the BSFI to accounts of corporate clients at other BSFIs then the transfers will clear between two BSFIs and thus circular 980 applies and then the rules of whether the transfer needs to go through PhilPaSS (due to size) or PESONet then apply.

Hope this is clear
Johann

From: Ma. Bernadette Ramos [mailto:bramos@epeso.org.ph]
Sent: Thursday, 15 February 2018 05:47
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Clarifications on Bilateral Clearing Arrangements

Hi Johann,

In the PESONet ACH Steering Committee discussions yesterday, there was a lengthy discussion on the definition and scope of bilateral clearing arrangements.

In Circular No. 980, the provision states "All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral."

Currently, a lot of foreign banks have / had bilateral agreements with the domestic banks where the foreign banks open accounts with domestic banks on behalf of their client. The accounts with the domestic banks are for-the-account-of (FAO) accounts, meaning under the foreign bank's name for the account of its corporate client. When the client wishes to make a credit instruction to the domestic bank (say for salary disbursement or supplier payment), the foreign banks funds the FAO the either the foreign bank or the client accesses the domestic bank's online banking facility to initiate credit instructions from the FAO to the payee's account within the same bank.

It was agreed that under Circular No. 980, it was clear that any credit instruction from foreign bank to domestic bank to the foreign bank's FAO account in domestic bank must be done through PESONet. Considering that PESONet settlement is currently still once a day and there may be timing requirements (within the day) from the foreign bank's clients, the on-us credit instructions from the FAO account to the individual payees will still be necessary. The question was whether the on-us credit instructions from the FAO account to the individual payees are disallowed. Mert and I believe that since in this case, the foreign bank in this case is effectively a customer of the domestic bank, then it should be acceptable. Please note however, that the foreign banks also discussed in the meeting that they expect that these types of arrangements will no longer be necessary in the future because of cost. The relevant consideration at this point is the frequency of settlement.

We would appreciate your thoughts on this matter so we can help BSP resolve this issue.

Thanks,

Dette

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7) Clarifications on Using Bills Payment Processes for PESONet and/or InstaPay ACHs

From: Johann Bezuidenhoudt <jb@leonine.biz> Date: Thursday, March 8, 2018 at 10:26 PM To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph> Subject: Re: Clarifications on Using Bills Payment Processes for PESONet and/or InstaPay ACHs

Discussion looks good and in the right direction.

Have added some detail.

From: Ma. Bernadette Ramos <bramos@epeso.org.ph> Sent: 07 March 2018 04:14:03 AM To: Johann Bezuidenhoudt Cc: Mamerto Enrique Tangonan Subject: Clarifications on Using Bills Payment Processes for PESONet and/or InstaPay ACHs

Hi Johann,

We had a joint discussion with DBP and BSP's NRPS team the other day. DBP is trying to develop alternatives how the Bureau of Internal Revenue (BIR) can shift OTC tax collections through bank branches to electronic channels instead and clear these transactions through PESONet or InstaPay.

Just as a background:

On tax payments:

1 Currently, the BIR only requires large taxpayers to file and pay electronically. Non-large taxpayers have the option to pay electronically or over-the-counter (bank branches)
2 BIR has accredited a limited number of Authorized Agent Banks (AABs) who can connect their internet banking facilities / internet payment gateway facility These are bi-laterals and thus contrary to Circular 980 to BIR but they are also required to accept tax payments OTC at their branches (collect the completed forms and submit required reports at end of day). BIR pays AABs PhP 40 only for OTC payments (with accompanying reports) (Note from Dette: I don't believe that is necessarily a bilateral clearing agreement since BIR is not and FI. Besides, these arrangements have been in existence for several years already);
3 BIR also allows non-large taxpayers to do electronic filing and pay electronically using credit card and selected debit cards (banks participating in BancNet Online). Issue for credit cards though is that the MDR is passed on to the taxpayer. For debit cards, only limited banks can participate. Fees also passed on to the consumer Contravenes the BSP's sender pays stance

On PESONet and InstaPay:

1 PESONet's (and perhaps InstaPay's) clearing rules do not have provisions how a payer's bank should handle validation of reference numbers but allows message to include reference number; the reference field must be mandatory for all payments (mandatory to be part of the clearance instruction) and ideally should contain a reference. The field should allow for a full range of characters (numeric and alphabetic and a range of other characters like - * &) (Note from Dette: I believe that PESONet clearing rules allow this. I don't know about InstaPay)

On Current Bills Payment Processes here in the Philippines:

1 Billers typically have bilateral agreements with multiple banks for the bills payment service - this is exclusionary as the public who do not bank with the 'biller chosen banks' are excluded from billpay. Ideally all the customers of the biller should be provided an electronic means to pay bills - minimally via PESONet and if possible (or necessary) via InstaPay.
2 BancNet would also have agreements with billers to collect through BancNet enabled channels - BancNet should split this service off from its clearing activities as it competes with the clearing participants (Note from Dette: I believe BancNet has already transitioned this arrangement as part of moving out from value added services but I don't know what actual state is now)
3 Billers would provide the banks / BancNet their subscriber number or reference number validation routine - In most countries the billers who have the time and capability go to as many of the large BSFIs as they can and get themselves set up as a REGISTERED BENEFICIARY that a bank's customers can select. The only detail that then needs to be supplied are
    1 The customers reference at the biller - ideally an account number and not an invoice number as that changes - and the BSFI sets the validation rules as per those supplied by the biller
    2 The amount to be paid

Many the banks allow for their customer on setting the payment above up to save the beneficiary

(and the reference field) into their list of personal beneficiaries. This is good practice. The list of personal beneficiaries contain saved registered beneficiaries (as above) and saved personally specified beneficiaries. For personally specified beneficiaries the customer selects the bank and supplies an account number (the detail of which may be validated according to an algorithm/set of rules that the bank may supply) and a payee name, in addition to payment reference data (which is free form and not validated). Some payment schemes provide a facility to validate the beneficiary details in that the bank and account number are sent to the receiving bank who then responds with the name of the account holder. This for higher value payments is a valuable service to ensure that the payer is paying to the correct payee. (eg in SA when paying to a business one can enter the account number and bank and are asked for the company registration number of the business being paid and the recipient bank validates this and responds. This is a VAS that is charged for and popular when moving off cheques as it gives some assurance that the right account is being paid to). All these registered beneficiaries are then also available for repeated payments that the banks offer in that someone can set up payments to one of their saved beneficiaries that run for a certain amount every specified period or even just once at a specified future date.
Banks credit the biller's account next day / BancNet would include credits due to the biller's bank in the settlement report

1 Banks (assume the recipient bank) / BancNet (unless BancNet is intermediating this is not necessary - BancNet must reconcile with the recipient bank and the recipient bank must reconcile with the biller - suppose this does happen as BancNet is acting as a VAS bill pay provider and not as a clearance switch) would submit end-of-day reports to the biller next day that is used by the biller for posting payments
2 Billers pay banks / BancNet typically between PhP 7 – PhP 9 per payment

Applying the background as considerations on the feasibility of expanding tax collection options, I just want to check with you what we discussed during the meeting:

Taxpayer	Taxpayer's Bank	CSO	BIR's Bank
1 Files tax returns electronically	**4** Validates ref #	**6** Switches payment details + ref #	**7** Credits payment to BIR
2 Receives ref # from BIR	**5** Passes payment details + ref # to CSO		**8** Generates BIR's required reports
3 Pays tax via bank's channels			**9** Submits reports to BIR

This approach assumes the following:
Good practice is for the tax authority to have a box on a pdf document specifying what needs to be paid and the box specifies the REGISTERED BENEFICIARY account to be selected. Some countries also include the bank and account details to be paid to in case the beneficiary is not pre-registered at the bank the payer is at. Also for OTC payment they put a barcode (and there is an international

standard for this) that can be scanned - and in some countries eg France the barcode on the tax bill can be scanned by the bank's app and a payment triggered from the bank's app (here are variations on this theme that include the ability to debit order).

1 The Taxpayer's Bank to incorporate payment to BIR in its bills payment service on his internet / mobile banking (so taxpayer does not have to enter BIR's account number in an FT transaction); The BIR should be a REGISTERED BENEFICIARY are all BSFIs. the actual account of the BIR could differ between banks but this is not visible to the payer as all they see is that they are selecting to paying to the BIR. What must also be thought of beforehand and made VERY clear in the beneficiary description of the BIR is what it is for as typically the tax authorities what personal tax into one account, business tax into another and customs and excise into another and VAT into another and so have quite a few registered beneficiary accounts. Also where some small BSFIs do not have the facility to register a beneficiary the BIR could also print the details of the account to pay to.
2 The Taxpayer's Bank will validate the ref# issued by BIR's electronic filing system (BIR's bank, DBP, to provide the validation routine to Taxpayer's Bank); The tax payment reference number field that needs to be entered and the payer's bank needs to validate the ref# and hopefully the ref# has a checkdigit (or two) so as to reduce entry errors.
3 Instead of having a bilateral bills payment agreement with BIR, the agreement can be between taxpayer's bank and DBP; Exactly. This is INCLUSIONARY and non-discriminatory as then wherever a taxpayer keeps their account they can pay.
4 DBP to perform necessary reportorial requirements and submit to BIR

Most banks also provide a facility that the biller - BIR in this case can get the information of all the payments into their account. This can be standardised and ideally if the BIR specifies a file format that it insists all banks provide to it that could become a format that the ACH can adopt so that a biller can set itself up with a bank or banks and only have to develop one interface to receive all their payment information.

Is the approach sound? Would the approach be applicable either for InstaPay or PESONet? Both

Should be set up in both. In practice many countries run the payment initiation from teh same menu/system and simply include a checkbox that the payer checks if they want the payment to go instantly, with the default (cheaper often) that it goes in batch. Some countries do not ahve batch and so everything goes instantly. The use will determine the choice. Where the payment is needed instantly eg issuing a license that needs to be printed out and the payee is standing there waiting the the payment will have to go instantly, where the annual tax return has to get paid then batch will probably be okay 99% of the time and the payer should have the option to use InstaPay if they need to. (and this may also be determined by the value cut offs and if applicable time zones where different value ceilings apply - fraud mitigation issues).

Would appreciate your thoughts on this discussion.

Thanks,

Dette

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8) Costing of a real time low value retail credit push transaction

From: "johann@bezbiz.net" <johann@bezbiz.net>
Date: Sunday, February 25, 2018 at 6:16 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Subject: Costing of a real time low value retail credit push transaction

Dette,

If the InstaPay PG are looking for a reference price for an operative instant payment switch – attached please find an example.

Page 4 the table under 7.1 shows NIBSS the operator of the Nigerian Instant Payment clearing facility NIP charging N1 per clearance – this is 1/7 of a PHP ie PHP0.144 using today's exchange rate. NIBSS is part owned by the CBN the regulator, supervisor and central bank (same setup as BSP) so there may be some cross subsidisation.

The principle of the regulator forcing pricing on the agent industry is a different issue – but it does show that real time clearance can be done at a very low cost. And numbers like PHP 10 or 20 per transaction are high. If my memory PHP 5 was under discussion for EPCS (to drop from PHP 10) pre PESONet. There is a need for a costing exercise at PCHC and BancNet to look at what the real costs (marginal and directly attributable) are for the PESONet and InstaPay. But PHP 1 or 2 may well be possible as the clearance fee. If the fees get too high then EFT will be 'for the few' who need to pay large amounts.

As an aside, as far as the fixed NGN 35 cash-in cost that the Nigerian regulation sets – the 1% cost for a cash-in occurs at a cash-in of around PHP 500. Above that the customer scores and below they pay proportionally more. For cash -out it is PHP 700. Given that cash deposits at those amounts are free as are cash withdrawals at ATMs there is a disincentive for customers to use agents. And a disincentive to be an agent if the cash amounts go high as there is no commensurate fee income increase on top of the fact that at 1% cost to customer the agent only gets around 60% of this. Industry experience is that agents need around 1% per CICO to make a viable business, 0.6% average is low (and there is the need to have a rough average amount transacted to make sense of this if the fee is a single amount per transaction. Hopefully that will be addressed with time.

Johann

Reference document provided: "Regulatory Framework for Licensing Super-Agents in Nigeria"

9) Consultation on Issue Escalation Process

From: Johann Bezuidenhoudt <jb@leonine.biz>
Sent: Monday, February 5, 2018 4:53:20 PM
To: Ma. Bernadette Ramos; Mamerto Enrique Tangonan
Subject: RE: Consultation on Issue Escalation Process

Mert and Dette,
This is quite a detailed issue and I felt needed good explanation (should have been a report on its own) and it has taken some time to write.
There are wider principle issues here that need to be highlighted. These have been raised before – maybe now with a concrete example it is time for the BSP and PPMI to get everyone together and re-explain things. Specifically what is expected and what is prohibited.
I would suggest that the role of the BSP be made clear with the PPMI management and the separately the role of the PPMI structure – namely CLEARING and not the imposition of commercial conditions and how BSFIs must do business with their customers. All that the PPMI must ensure is that when a payment id introduced into the payment system for clearing that the rules and processes exist and are followed by all participants and that the risk is managed. My take is that the BSP is doing the correct thing and does not have to change the way they are working. What is necessary is that the participants in the InstaPay ACH PG are made aware of the difference between clearing activity ad commercial competitive domain activities and that clearing is in the PPMI and the others outside, and this is a great example to explain this.
On the current discussion
The two things that are being argued about are in fact a very good example to use. Namely the:

- Clearing (PPMI issue) - BSP imposing a cap on the InstaPay clearance amount (as a risk limitation measure) – a regulator prerogative (it could also have been done in the ACH PG had the PG agreed on a limit per transaction).
- Customer exposure management (individual BSFI issue)- Some banks wanting to impose on all participants a limit on all those participants' business exposure through the clearing governance process – something the group of banks can't do. Moreover this is anti-competitive as it stops a BSFI from allowing their small business customers, who have sufficient credit from making more than the PHP 50 000 payments in a day and will block some business initiatives (read innovation). If any BSFI wants to (for their own risk reasons) limit what their customers can send (eg to protect them from having their accounts hacked and large mounts quickly paid away) then the BSFI must be able to do so, because they want to do so, and not because their fellow banks impose it on them, which is the case being attempted here. Also it is pertinent to point out that this risk is not due to InstaPay only – the customer is exposed to billpay and to PESONet payments too and the BSFI should actually manage the overall exposure of their customer.

This is a good example where access to a common service is potentially being used by the big players to enforce commercial limits on their smaller competitors. The rationale around limiting what can be paid away from an individual account in a day is probably reasonable at this stage of InstaPay as there will be fraud attempts and every BSFI will be aware of this and may well limit each of their customer's ability to send large amounts each day (on a per customer basis), until each BSFI has an idea of the fraud profile that develops amongst their customer base, but that some banks can tell others what exposure management to apply should not happen as each bank must manage their own business.
With the SSA being implemented the main concern of settlement not happening after an obligation has been created through clearing is removed, so at a BSFI to BSFI level that risk is effectively neutralised, leaving the risk of 'speedy theft' from compromised accounts as the risk to manage. However there is an alternate view that the large players do not want small innovative BFSIs to offer products that will strongly compete with the banks' current offerings, such as instant payroll to a company's employees, and that the banks want a limit on individual senders to block a company

signing up with a BSFI and paying their whole payroll instantly to whatever their employees' BSFIs are. If this is the case, this is clearly uncompetitive and an attempt by the dominant players to abuse their position. This is exactly what the change from the old switch companies where the majority owners set the rules (even if they had nothing to do with clearing) and controlled access to clearing. Compare this to the new NRPS Policy where post clearing settlement risk is removed with the SSA making all participants credit worthy (backed by their SSA) and the PPMI where the governance covers clearing only and leaves the management of credit risk with each BSFI to manage directly (as part of the BSFI's internal process to fund a payment) with their customer outside the clearing arrangements.

Going into the above in more detail:

1. The BSP as its role of regulator and supervisor may impose requirements in two ways (which the BSP is doing):
    a. Directly to BSFIs where are requirement is imposed. Direct supervisory and oversight by the BSP of each licensee.

    These are the current regulatory requirements in terms of KYC, AML, CTF, retail pricing and customer protection. These are regulations governing the commercial competitive space and are what the BSFIs are subject to now. These are directly applied by the BSP on its licensees.

    An example relevant here is low level KYC accounts may not have more than say for example PHP 10 000 balance in them and if the account balance goes over that amount the account must be locked for withdrawals/payments away from the account until the account holder has been KYCed sufficiently to a level above that that allows for the balance to be accessed. This by the way is the good practice in payment terms as it means payments can be accepted and not sent back due to account limits coupled with the BSFIs self-interest to maximise deposits.

    b. Via a mandated common entity – in this case the PPMI. Regulation and Supervision of inter-licensee co-operative clearing activities.

    These are requirements that typically cover inter-BSFI relations and exchanges where there are two licensees parties involved. Here the BSP can state that a specific payment stream may not or must meet certain requirements (In this case InstaPay, may not support individual payments of greater than a certain amount).

    What the BSP must not (and is not doing) is impose requirements that have nothing to do with clearing via this structure – specific items being the pricing of retail payment transactions, the granting of credit to enable customers to make payments, the limiting of the amount of payments by value and volume customers can make as all of these are decisions that the individual BSFIs must make individually.

    Both the above are the BSPs prerogative and in some cases obligation to impose. Typically they are in forms such as prohibitions and imperatives on processes and minima and maximums on value. Where they are applicable on each BSFI ie what it must do in its operations then these are imposed directly. Where requirements are applicable on inter BSFI activities where there are two or more parties involved in a co-operative activity ie clearing a transaction then the requirements, they are imposed by the BSP via the common activity rules ie in this case the ACH clearing rules.
2. The PPMI must not (actually can not) be used to impose commercial decisions that have nothing to do with clearing on the other participants of ACHs.

An ACH imposing retail commercial business arrangements (ie conditions on the relationship between a BSFI and its clients) on its participants is anti-competitive and out of the scope of the PPMI and its ACHs. The PPMIs role is to ensure that the co-operative relationship between the participants in an ACH clearing arrangement has rules and that the clearing of transactions (a co-operative activity between two BSFIs) occurs within this framework. The ACH covers clearing only. The origination activities whereby the funds are raised within the BSFI is not a clearing related activity and is outside the jurisdiction of the PPMI and thus the ACH rules may not . Examples of this are say an ACH rule that requires that only customers with account balances below a certain amount may pay via that ACH. The value in a customer's account is a commercial arrangement between the customer and their BSFI and has no relation to the payment transaction that the customer originates with their BSFI and that the BSFI then submits for clearing as once the BSFI has accepted to submit the transaction the full responsibility for the clearance and settlement rests solely with the BSFI and the relationship with their customer is the BSFIs and not the ACHs.

Existing precedent

To draw on an existing real world parallel, the participants in the cheque payment stream through PCHC do not have a PCHC mandated limit on how many cheques an individual customer may write per day or the cumulative amount a customer can issue them for – this is an internal bank issue and no other banks tell that bank how to run its commercial banking relationship with its clients (If necessary, that is the role of the BSP as the regulator and the protector of the public).

From: Ma. Bernadette Ramos [mailto:bramos@epeso.org.ph]
Sent: Monday, 05 February 2018 02:48
To: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>; Johann Bezuidenhoudt <jb@leonine.biz>
Subject: RE: Consultation on Issue Escalation Process

Hi Johann,
Just want to check if you have inputs for us. Also want to check how you're doing on the report. Our meeting with Melit will be tomorrow instead and it would be great if we can provide her some inputs.
Thanks,
Dette
Get Outlook for Android

From: Ma. Bernadette Ramos
Sent: Friday, February 2, 2018 6:09:17 PM
To: Mamerto Enrique Tangonan; Johann Bezuidenhoudt
Subject: RE: Consultation on Issue Escalation Process

Thanks Johann.
Will wait for your inputs.
Dette
Get Outlook for Android

From: Johann Bezuidenhoudt <jb@leonine.biz>
Sent: Friday, February 2, 2018 5:58:37 PM
To: Mamerto Enrique Tangonan; Ma. Bernadette Ramos
Subject: RE: Consultation on Issue Escalation Process

Mert and Dette,

I have quite a bit to say on this. A lot being about principles. So busy writing something.

Will send it out in the next hour I hope.

Johann

From: Mamerto Enrique Tangonan [mailto:mtangonan@epeso.org.ph]
Sent: Friday, 02 February 2018 09:16
To: Ma. Bernadette Ramos <bramos@epeso.org.ph>; Johann Bezuidenhoudt <jb@leonine.biz>
Subject: Re: Consultation on Issue Escalation Process

Hi Dette,
My suggestions:

1. ACH participants may implement ~~different~~ more stringent limits and/or rules on its sending accountholders in accordance with its own internal business requirements / risk appetite provided it does not violate any of the clearing rules. In this case, if some ACH participants prefer to impose a limit per sending accountholder per day, they may do so, provided that (1) they may not impose similar or additional restrictions on other ACH participants, and (2) the more stringent limits may not apply on payment instruction received by the institution (or "when crediting to beneficiary accounts") ; [Note: does this also mean that the following statement is acceptable? – "Receiving Participant may set their own daily limits that may be below Php50,000 for as long as the reason is justified and communicated to the ACH Participants."? I think its enough to communicate it to other ACH participants without need of justifying to them. They may be asked to justify though by BSP if it wishes to do so.]

Re process of resolving the issue, I suggest to use the mechanisms in the governance structure, i.e. ACH -> PPMI -> BSP -> PPMI -> ACH. This way, the relevance and value of the structure will be ingrained in their heads early on.

Hope this helps.

Dette, Johann, what do you think of the condition (2) above where the institution may not apply additional restrictions when receiving funds?

Thanks
Mert

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Follow ePay Pilipinas on Facebook and Twitter.

From: Ma. Bernadette Ramos
Sent: Friday, February 2, 2018 1:42:41 PM
To: Johann Bezuidenhoudt; Mamerto Enrique Tangonan
Subject: Re: Consultation on Issue Escalation Process

Thanks Johann,

These are valuable inputs and I will relay to BSP and PPMI to help address the issues.

Are the following key messages valid?

1. Part of the clearing rules to be defined / determined would be the attributes of the payment to be cleared in the ACH, including the transaction limit
2. BSP is imposing the transaction limit on the ACH to PhP 50,000 / transaction for now;
3. ACH participants may implement different limits and/or rules on its accountholders in accordance with its own internal business requirements / risk appetite provided it does not violate any of the clearing rules. In this case, if some ACH participants prefer to impose a limit per accountholder per day, they may do so; [Note: does this also mean that the following statement is acceptable? – "Receiving Participant may set their own daily limits that may be below Php50,000 for as long as the reason is justified and communicated to the ACH Participants."?]

We would still need some guidance on how the issue should be resolved. Would it be

1. BSP address PPMI management PPMI management to the ACH participants?
2. BSP address the ACH working group and the PPMI directly?

If members of the ACH working group do not agree with the BSP, should this be a PPMI BoD issue?

Thanks,

Dette

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From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Thursday, February 1, 2018 at 5:28 PM
To: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>, "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Subject: RE: Consultation on Issue Escalation Process

Hi there, morning from Nairobi.

Agree with Mert.

The banks are confusing rules necessary to clear with internal product and risk management decisions. The BSP's requirement is a clearing rule value limit per transaction ie no Instapay clearance over PHP 50 000 per transaction. The cumulative value limit on InstaPay transactions per day is an internal per bank risk and product decision and if a BSFI wants to implement it in their business system then that is their decision, as another example if a bank decides it is only going to offer InstaPay for transactions below PHP 20 000 per transaction it can do so too.

What must be clear is what under the NPSI is for a BSFI to decide for themselves (or copy others if the want – ie note the optionality thereof) and what are necessary rules to ensure safe and efficient clearing.

There are <u>two separate issues</u> that are being discussed and hence the difficulty of agreeing anything as the discussion is at cross purposes. The one of a limit per transaction (ACH rule) and the other is how each bank wants to offer the InstaPay transaction in its product sets (individual bank decision).

The two issues are:

1. Per transaction treatment of the value amount cleared – ACH ruleset issue

This is a core point in the ACH ruleset. It is either imposed on the ACH by the regulator or set by the ACH participants in their rule setting process in the ACH Participant Group activities.
This is where the determination of what a payment transaction must and may have as attributes in order to be cleared in the ACH. In this case the key attributes are that it must be cleared in real time, must be transmitted with the destination BSFI identifier, the payee's account number (or an agreed proxy for the number that the destination BSFI can use to determine the account), a unique source transaction reference, must have a field for sender supplied transaction information, must have a sender identification information and a value.
Furthermore there may be rules around what each field must contain or how they must be formatted. An example is that the BSFI identifier must be say 5 digits and reference a BSFI that is in the InstaPay ACH PG list of ACH participants, clearly this list will be loaded at the InstaPay CSO and applied by it to each payment transaction as part of each clearance. The same applies to any other rules that apply on a per payment clearance operation.

Typically ACH rules apply to individual payments.
The BSP as regulator is requiring that for each transaction cleared that the rules to manage the risk of that transaction include:

a. Sender identification information must be provided for transactions above a certain amount, based on the AML requirements (if I remember tight – last I knew the discussion was that it must be supplied if the value of a transaction is above a certain amount)
b. That the value of each transaction that is cleared must for now be limited to PHP 50 000. And btw this is far less restrictive than the banks' requirement which fits within this.

And there may be other rules which the BSP will set in its role as supervisor and in its role of managing stability and risk in the financial system is obliged to do.
The InstaPay ACH will probably have two sections of clearing rules – those set by the participants and agreed in the ACH PG (and thus within the authority of the PG to change) and a section of rules imposed by the BSP as regulator that the ACH PG reflects in the ACH agreement's list of rules for completeness of which a and b above are examples.
What the ACH must have in its ruleset is that so long as an individual InstaPay transaction is within the value limit of PHP 50 000 (and meets all the other rules and is cleared and accepted by the receiving participant) that it must be credited to the receiving account immediately.

2. The exposure risk management by each sending BSFI – independent BSFI decision
As part of each BSFI's business it will manage its exposure risk as well as the structure and attributes of the payment products it offers its own customers. Based on the products that it offers it may limit certain facilities eg the number of free ATM cash withdrawals per month and the maximum value per withdrawal and the cumulative withdrawal total per month. Another example is fixed term investment accounts which may have the rule that EFT deposits and withdrawals are not permitted for business (then the account is not fixed term) and security/risk reasons (investment accounts tend to have large amounts in them). All these items are customer-BSFI specific.
As part of a BSFI's internal risk management decisions if the BSFI decides that they will limit the cumulative amount that a single customer may pay away in a day using InstaPay that is their business/risk management decision and they should implement it an manage it. If BSFIs copy each other in implementing this measure that is their product decision. This however should be decisions that the BSFIs take individually as part of their individual product and risk management and it is not part of the ACH clearing ruleset.
That the large banks want to internally limit each of their customers to a cumulative PHP 50k of InstaPay transactions per day is probably prudent given that InstaPay is new and they have not built up a history of fraud experience and management thereof. However this is an internal per BSFI decision.
This is a case where the banks are deciding to manage their internal operational risk. It is outside the ambit of the InstaPay ACH . And as such should not be in the ACH rules as it is a 'own business' BSFI decision (ie in the 'competitive domain'). It is not a collective decision necessary to enable and manage clearance in the InstaPay ACH.

Furthermore, I would note that the two rulesets are actually not stopping the maximum transaction value being reached ie a customer can initiate a InstaPay transaction of PHP 50k and it will clear. That their BSFI will allow them to do so only once a day under the BSFI's internal risk management framework is another issue.
It should also be noted that it is not the role of the CSO to manage any state relative to entities initiating or receiving payments, in other words that the clearing core should not retain records of the cumulative amount that each payment initiator has paid or recipients have received during a day as these two activities are the responsibility of the sending and receiving BSFIs respectively (and not the clearing core). The role of the CSO is to account the net settlement obligation of each BSFI participant and ensure it does not exceed their settlement obligation limit as supplied by the BSP for each clearance cycle. Good practice is to not store any client related data in the clearing operation.
On another point - If the BSFI has rules such as that the account is an investment account and thus can not receive EFT payments or the account has a maximum balance and the InstaPay payment would take it over that maximum balance then they may refuse the transaction. These are business rules that are between the BSFI and its customer.
Johann

From: Mamerto Enrique Tangonan [mailto:mtangonan@epeso.org.ph]
Sent: Thursday, 01 February 2018 05:56
To: Ma. Bernadette Ramos <bramos@epeso.org.ph>; Johann Bezuidenhoudt <jb@leonine.biz>
Subject: Re: Consultation on Issue Escalation Process

Hi Dette,

My 2 cents. This is not a clearing rule, so it may not be under the scope of the ACH. It also means that the ACH cannot limit the daily transaction per customer to Php 50k.

This may be in the competitive space. If some banks want to limit their customers to Php 50k/day, then that's their own lookout because they might lose customers who need to send more than that. If some banks don't put a daily limit, then they should be able to do so. When they do, even banks who impose Php 50k daily on their sending customers must credit funds transferred to their customers by other banks regardless on whether they exceed Php 50k/day or not.

What is important is all of the banks comply with the BSP regs especially on AML and e-banking. This is between the BSP and the individual banks. But there must be no collusion in the ACH that restricts competition.

What do you think, Johann?

Thanks
Mert

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From: Ma. Bernadette Ramos
Sent: Thursday, February 1, 2018 10:23:49 AM
To: Johann Bezuidenhoudt
Cc: Mamerto Enrique Tangonan
Subject: Consultation on Issue Escalation Process

Hi Johann,

Ben called me earlier today to consult on how to handle the resolution of some outstanding issues on InstaPay clearing rules. Before I go any further, Ben is already BAP's Managing Director (so you have a proper context on his perspective).

During the last discussion between BSP, PPMI and the InstaPay ACH working group to discuss the latest status of the InstaPay clearing rules, BSP instructed the working group to revise their clearing rules to align with the principles set forth in Circular No. 980. One of the issues raised was the matter of the PhP 50K limit. BSP's position is that the PhP 50K is the limit per transaction while it seems that the working group's proposal is PhP 50K aggregate per sending account per day. Ben's consultation is how the issue is supposed to be resolved.

It seems that Melit, as PPMI, already advised the working group to revise the limit in accordance with BSP's position. The members of the working group, particularly Noel Tagaza (BPI), Tovi Mendoza (BDO) and presumably Mark Perez (Metro) have gone to their respective CEOs to complain that BSP (and even PPMI) is forcing them to implement a rule which they feel should be their decision as ACH participants. The (or at least some of the) CEOs have already gone to Ben and wants to discuss this issue as a BAP matter. Ben had told them though that this is better discussed as a PPMI BoD matter.

His question then is, how should this matter be resolved? My opinion, while I am writing this down, is that it should be up to the ACH participants as a whole (subject to the proper voting). However, the ACH agreement has not yet been signed so how do you determine who gets to vote on the matter?

Hope to hear from you on this soon.

Thanks,

Dette

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10) PSD2 and the 'coming revolution'

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Wednesday, November 8, 2017 at 9:17 PM
To: Raymond Estioko <restioko@bsp.gov.ph>, "Ma. Bernadette Ramos" <bramos@epeso.org.ph>,

Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: PSD2 and the 'coming revolution'

Hi all,

Hope that you all had a good day today. And again well done!

The following is a useful summary of PSD2. Probably not coming to Manila yet, but some background on the issues, vagaries and concerns that are drifting around the EU is worth knowing.

http://www.bobsguide.com/guide/news/2017/Nov/8/countdown-to-psd2-what-you-should-know-ten-weeks-from-implementation/

The one big war that is still on is the issue of third party PSPs who screen scrape access to the banks. The PSP gets their client to provide their log-in details for the client's bank and the PSP uses these and logs in on their behalf. The big issue for the banks is that they have no contractual relationship with the PSP and are exposed when screen scraping occurs. PSD2 mandates that the banks provide APIs that the PSPs are supposed to use instead of screen scraping which is all well and fine, but means that the PSPs have to contract with the banks and that is where the 'rub' is as the banks get the upper hand and can charge for access. Issue is ongoing and not resolved.

Johann

11) RTGS Instant payment pricing

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Tuesday, October 17, 2017 at 10:05 PM
To: Raymond Estioko <REstioko@bsp.gov.ph>
Cc: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: RTGS Instant payment pricing

Dear Raymond,

I hope all is going well.
There is SIBOS going on at the moment. Some interesting announcements. https://www.forbes.com/sites/tomgroenfeldt/2017/10/16/gates-foundation-launches-open-platform-to-connect-mobile-finance-in-developing-world there is also detail at https://leveloneproject.org/
Project is in startup and some testing for cross border payments is happening.
One of the relevant articles is the following:
http://www.bankingtech.com/1034262/ecb-targets-new-rtgs-platform
Half way down they discuss the Target Instant Payment Settlement (Tips) platform, which is due to go live by November 2018. Interestingly the price per Tips transaction is said to be "In regard to Tips pricing, Manaa says there would be no entry or fixed fees, no account management or information fees and a maximum price per instruction of 0.2 euro cents for the first two years." PHP 12 per RTGS settlement.

One can probably assume that the retail pan-European EBA SEPA Instant Credit Transfer Scheme (SCT Inst) will be priced below this. SCT Inst currently has a max transfer value of €15,000 as far as I know.

All the best
Johann

12) Comments to Draft NRPS Framework Circular

13) Faster Payments in the US

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Thursday, August 17, 2017 at 4:18 AM
To: Raymond Estioko <REstioko@bsp.gov.ph>, "Ma. Bernadette Ramos" <bramos@epeso.org.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: USA Faster Payments - more info

Dear All,

Here is an interview with the person at the Fed in the US who ran the Faster payments taskgroup whose report I sent you a while ago. The workgroup is closed, but it may be worth reaching out to him for some comments and perspectives.

https://letstalkpayments.com/interview-with-sean-rodriguez-federal-reserve-system/

Hope all well.

Johann

From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Monday, July 24, 2017 at 10:21 PM
To: Raymond Estioko <REstioko@bsp.gov.ph>
Cc: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>, Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>
Subject: Fasterpayments in the USA

Dear Raymond,

I hope that this note finds you well.

The FED started a faster payments task force in 2015. Its charter can be found at:
https://fedpaymentsimprovement.org/wp-content/uploads/faster-tf-charter.pdf

Earlier this year the taskforce published the:
https://fasterpaymentstaskforce.org/wp-content/uploads/faster-payments-task-force-final-report-part-two.pdf

You may find the recommendations useful and close to what the BSP is doing:
Pg 33 'The path forward and next steps' – first step "Develop a governance framework proposal"

Also of interest is that they found it necessary to put a glossary of terms together and cite where they got them from:
https://fedpaymentsimprovement.org/resources/glossary/

The US has a bigger task as there are so many interested parties – but what is being recommended is much in line with what the BSP has been doing.

Have a great week
Johann
14) Draft Document on Discussions on Remittances vs. EFT
From: Johann Bezuidenhoudt <jb@leonine.biz>
Date: Thursday, June 29, 2017 at 2:08 PM
To: "Ma. Bernadette Ramos" <bramos@epeso.org.ph>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>, Jarette Aotriz <jaotriz@epeso.org.ph>
Subject: RE: Draft Document on Discussions on Remittances vs. EFT

Dette,

Thanks.

Attached with some comments. Changed the heading around.

I have assumed that the bits that were extracted from my reports have not been edited and only commented on where there possibly should be some change from what I originally wrote.

As far as the SEPA PSD. I would suggest that you look at the PSD2 (attached) that came out a while ago and repeals the PSD you are referring to – it splits up PSPs into various categories. I have looked and there are some points in the PSD2 that bear consideration. It is still being implemented and thus there may be some points that might change (the technical part is still being argued about). They refer to 3 types of PSPs – definitions 17, 18 and 19 of AS-PSP, PISP and AISP. I checked some of the definitions and the ones I checked are still the same.

Remitters, senders are sub categories of the broader category of payers
Beneficiaries and senders are sub categories of payees

That may be a step too far for now as what is necessary is to define what e-payments are.

Johann

From: Ma. Bernadette Ramos [mailto:bramos@epeso.org.ph]
Sent: Thursday, 29 June 2017 04:28
To: Johann Bezuidenhoudt <jb@leonine.biz>
Cc: Mamerto Enrique Tangonan <mtangonan@epeso.org.ph>; Jarette Aotriz <jaotriz@epeso.org.ph>
Subject: Draft Document on Discussions on Remittances vs. EFT

Hi Johann,

As mentioned in an earlier email, Raymond requested for E-PESO assistance in drafting the discussion paper to be used with AMLSG, FCPD and ISD1 for purposes of aligning definitions and policies regarding remittances and EFT.

Can you please go over this draft. Feel free to give suggestions on what other sections should be incorporated. I am also enclosing the SEPA document we were able to download which I have been using as reference for this document. (On a side note, I think this is a good document that BSP can also review and consider for their own payment policies not limited to the remittances vs EFT issue.)

Raymond is out the country this week. I expect to go over this document with him next week.

Thanks,

Dette

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