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EAC Cross Border Payments DFS Interoperability

Agenda

1. Interoperability: Not Only Infrastructure
2. EAC Industry-Led Domestic Interoperability Influence
3. Rule Setting Process: Introduction, Principles and Process
4. Current Updates

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East African Community (EAC) Cross Border Payments

Effective interoperability depends on finding the right balance between Governance, Business and Technology arrangements for participants.

Governance. Decision making to manage shared processes, and rules, operations, and risk.

Business. Models must work to balance economic interests of interoperability participants and users.

Technology. Infrastructure must exist to connect participants and transfer payments and related data.
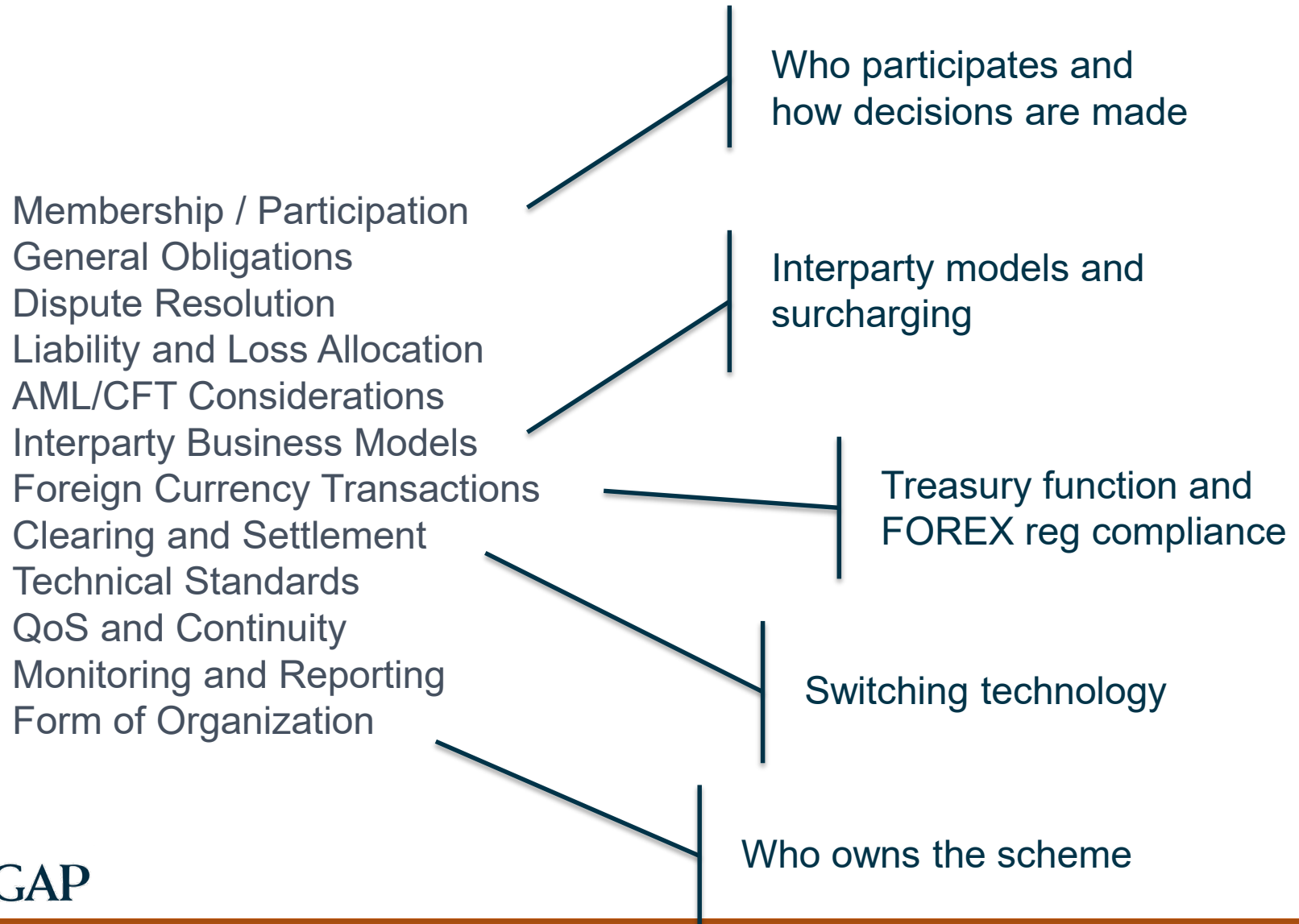
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Schemes vs. Switches

Interoperable Schemes

1. Define the technical standards to the participants of the scheme

2. Define the revenue splits between participants of the shared platform

3. Define the business rules

4. Define rules and standards around risk and fraud

5. Define rules around disputes and customer protection

6. Create a common brand and acceptance/payments mark for the participants

7. Can be domestic or international

Interoperable Switches

1. Implement the standards to ensure messages can pass

2. Facilitate the passing of the transaction and calculation of revenue splits

3. Monitor and track the transactions to ensure compliance to business rules

4. Monitor and track the transactions to ensure compliance to risk rules

5. Facilitate the arbitration process in a dispute

6. Can be linked to one scheme or scheme agnostic

7. International payment switches are generally Visa, MasterCard, Amex, Diners, many domestic switches exist

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Scheme Decision Making

Membership / Participation
General Obligations
Dispute Resolution
Liability and Loss Allocation
AML/CFT Considerations
Interparty Business Models
Foreign Currency Transactions
Clearing and Settlement
Technical Standards
QoS and Continuity
Monitoring and Reporting
Form of Organization

Who participates and
how decisions are made

Interparty models and
surcharging

Treasury function and
FOREX reg compliance

Switching technology

Who owns the scheme

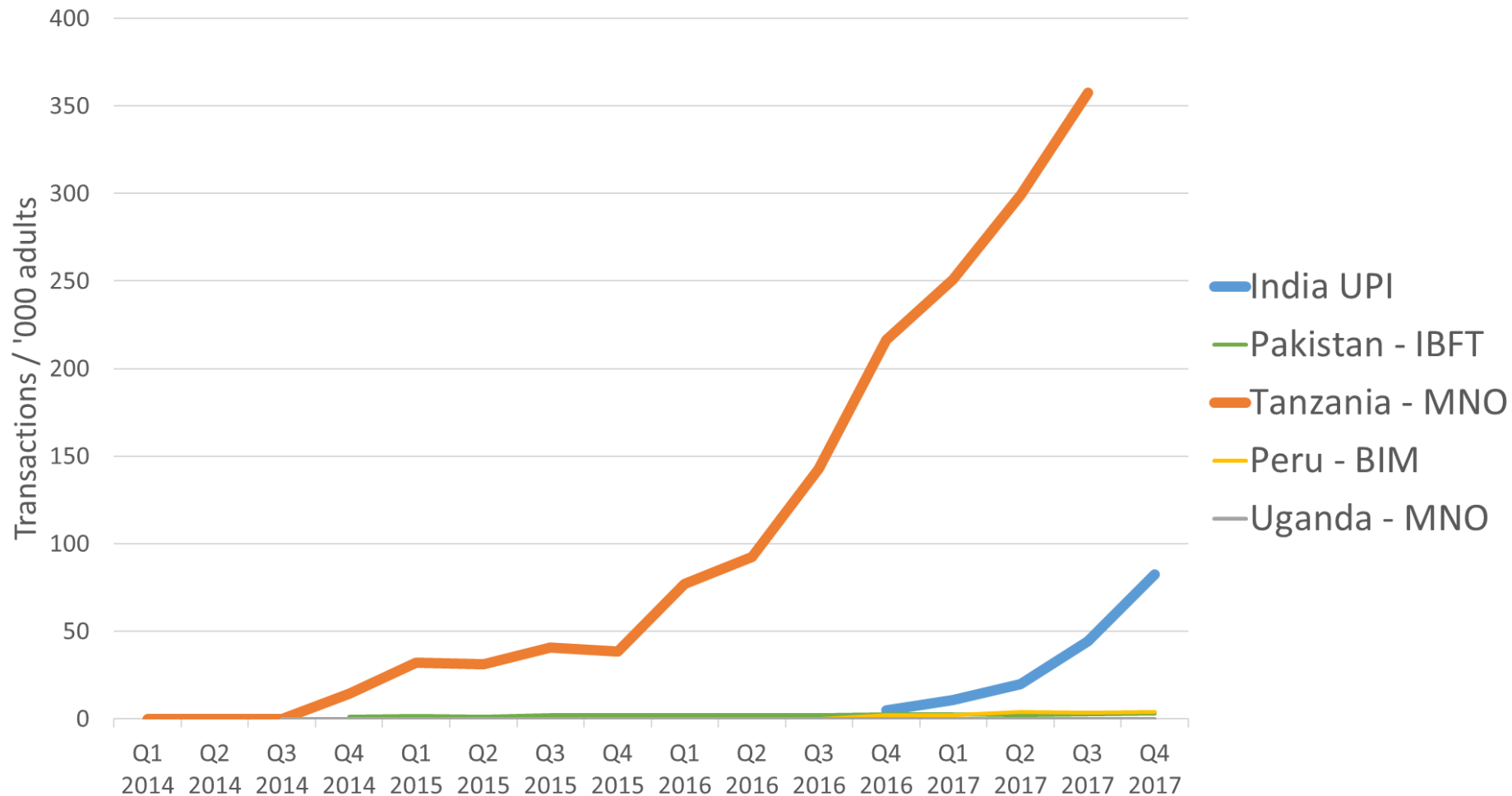# Forms of Interoperability

Level		Definition
1	**Theoretically interoperable**	System of one participant is capable of connecting to another. Typically, the issuer must have a core electronic banking system.
2	**Technically interoperable**	Standardized interfaces exist for trustworthy message exchange between parties. Standardized interfaces must be physically in place for exchange.
3	**Functionally interoperable**	Interfaces and systems function to required level of robustness. Systems must be able to connect based on agreed standards and specifications (uptime, response time, etc.).
4	**Interconnected**	Business rules enable exchange of value between participants. Agreements must be in place defining fees, rules and risks of the exchange.
5	**Effectively interconnected**	Interconnection achieves intended objectives (e.g. is not impeded by high fees or technical issues). Effective interconnection requires that systems are not only interconnected, but are being used by customers. For example, low-income clients are not discouraged from using the service by higher costs or technical glitches.

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EAC Industry-Led Domestic MFS Interoperability Influence

- This EAC industry-led project has been heavily influenced by EAC domestic interoperability projects in Tanzania, Uganda, Kenya and Rwanda
- Agnostic industry facilitators have played key roles :
  - Tanzania (IFC), Uganda (FSDU), Rwanda (AFR)

- Agnostic facilitators helped to
1. facilitate a process for the creation of a domestic Mobile Money payments scheme
2. create market structures allowing the business to align with the regulatory requirements, and the technology can follow
3. facilitate a process between interested participants where the following broad principles would be defined:
   - Levels of interoperability (i.e. Bank to MFS or MFS to MFS)
   - Transaction sets to be included
   - Rules of engagement between shared platforms and infrastructure (e.g. Agents)
   - Sharing and managing non competitive areas (e.g. Fraud)
   - Competitive areas falling outside of the scope (pricing and product propositions)
   - Revenue flows and cost sharing models (e.g. Interchange, carriage fees, scheme fees)
   - Privacy and transaction validation
   - Cross network mapping of account identifiers

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Five markets with technical interoperability, but different results

Interoperable Transactions per Thousand Adults

Legend:
- India UPI
- Pakistan - IBFT
- Tanzania - MNO
- Peru - BIM
- Uganda - MNO

Y-axis: Transactions / '000 adults (0, 50, 100, 150, 200, 250, 300, 350, 400)

X-axis: Q1 2014, Q2 2014, Q3 2014, Q4 2014, Q1 2015, Q2 2015, Q3 2015, Q4 2015, Q1 2016, Q2 2016, Q3 2016, Q4 2016, Q1 2017, Q2 2017, Q3 2017, Q4 2017

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Rule Setting: Guiding Principles

1. This project must carry the support/endorsement of EAC Central Banks

2. This is industry's project, decisions made by participants and not dictated by technology

3. Industry should aim on working out an all encompassing solution including rules/governance, business models and then technical enablement

4. This project is grounded in the business of interoperability and interparty agreements and must be supported by a commercial business model for the providers

5. Priority use cases should determine where initial focus lies as not everything can be solved at once (potentially P2P, Cash Out)

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Who sets the rules?

1. Industry (wallet issuers) should lead the development of scheme rules; with the endorsement of the regulators.

2. Ideally, decision making should proceed on the basis of 'one participant, one vote'.

Approach for EAC Cross-Border Payment Interoperability

Phase 1: Alignment & Research *(January 2017-December 2017)*

- Policy/regulatory understanding and approach
- Research: Market Demand Study; Infrastructure Landscaping
- Alignment: industry; development partners

Phase 2: Rules and Standards *(January 2018 - TBD)*

- Industry and regulator engagement
- Creation of EA rules and procedures
- Design of technical model

Phase 3: Implementation Planning and Knowledge Products *(TBD)*

- Plan implementation
- Publish knowledge products (e.g., industry-led scheme playbook)

As of April 2019

1. Research on cross border payments has been conducted

2. Industry facilitation is continuing – leading to agreed on scheme rules including business model, governance etc

3. CGAP has frequently engaged and briefed regulators in the region

4. Industry is exploring options on how to implement the scheme rules

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Other Tools and Resources

- **Examples of scheme rule sets (IFC)**

- **Provider business model toolkit (CGAP)**

- **Switch business model toolkit (CGAP)**

- **Interchange calculation (CGAP)**

- **Various research interventions (CGAP/IFC)**