

# RESERVE BANK OF FIJI



## PRESENTATION TO THE PARLIAMENTARY STANDING COMMITTEE ON JUSTICE, LAW AND HUMAN RIGHTS BY THE RESERVE BANK OF FIJI

### **Honourable Chairman, Deputy Chairman and Members of the Standing Committee on Justice, Law and Human Rights**

Bula vinaka, and thank you for the invitation to talk to you today and share our thoughts on the Fiji Interchange Network (Payments) Bill 2016.

The Reserve Bank of Fiji sees the implementation of a national or Fiji Interchange Network (sometimes referred to as a National Switch) as an important development in our financial system.

Such a network is designed to allow the many forms of payment systems we currently have operating in Fiji, and which we may develop in the future, to electronically link or “talk” to each other through one national medium.

This legislation therefore is being established to govern the activities of the proposed national interchange network and all those parties who will become members by virtue of operating a payments system, which by necessity will need to be licensed to access the interchange. It also specifically establishes an Authority that will have the oversight, supervisory and regulatory powers over the Interchange, its members and its activities.

### **1. What is the difference between an Interchange and Payment system?**

Honourable Members, it is important to define what payment systems are and what an interchange is, in order to understand how they work and how they are linked. This can be done best by taking one or two easy examples and working through them.

Your typical ANZ debit (Access) Card is a form of **payment system**. All the banks in Fiji have their own debit cards which are similar payment systems designed for their own customers. Your Visa credit card or Mastercard are payment systems. Mobile money such as MPaisa and DigiMoney are payment systems. All these allow us to make payments and money transfers, and as befits modern technology these payments are all done electronically.

Cash is of course the most basic of payment systems going back in history. Personal cheques were also once a widely used payment system, though less so nowadays. If you go back far enough then Barter may also be considered.

The Reserve Bank operates a payments system only for the commercial banks called FIJICLEAR. The system allows the banks to electronically clear or settle their balances with each other and with the RBF on a real time basis. This is also the conduit for us to manage the supply of money if policy necessitates.

FIJICLEAR is an example of a large value payments system, the name being self-explanatory in that most payments going through are of large value. In contrast, most other systems cover retail or individual consumers catering for smaller transactions.

As I alluded to earlier, many payment systems nowadays run on electronic platforms. For instance you can use your ANZ debit card to make bill payments and transfers at ANZ ATM machines and pay for groceries at merchants that have ANZ Point of Sale (EFTPOS) Machines.

Because banks always look to achieve greater efficiencies they are also keen to share the use of their machines with the other banks and their customers. This is where **interchange** comes in. The banks create an electronic platform between themselves that allows the ANZ customer to use his card at a BSP or Westpac ATM or EFTPOS machine. The term commonly used by tech people to explain this is “interoperability”.

To date in Fiji, this sort of interchange or interoperability, while being pushed by the Reserve Bank over the years, has required the commercial banks to invest capital in ensuring their respective systems are compatible. As of today we see ANZ, Westpac and BSP have customer interchange. Westpac customers also have interchange with HFC while BSP customers have interchange with Bank of Baroda, and vice versa. Bred Bank is still a stand-alone system with no interchange available to its customers. As a new entrant in the market it needs to invest and insure compatibility with other banks’ systems. This can involve some considerable cost as well as long negotiations among the respective banks. HFC Bank and Bank of Baroda customers also do not have the advantage of interchange across all the banks.

So with just the example of bank debit cards we can see the benefit of the proposed National Switch or Interchange, as it will not limit access to customers of certain banks only. By virtue of the proposed law, all banks will be required to link in, enabling their card holders to draw cash or make payments from any ATM or POS machine throughout Fiji.

It is expected that other payment systems that share similar features will also be required to obtain a license and to link to the Interchange network over time.

## **2. What is the Reserve Bank’s responsibility in terms of Payment Systems and the proposed National Interchange Network?**

Honourable Members, apart from its other roles, the Reserve Bank is responsible for the soundness of Fiji’s financial system or what we term **financial system stability**. Since payments systems form an integral part of the financial system it is critical that the RBF has the necessary powers to approve, monitor and regulate the various payment systems.

Any breakdown in reliability, efficiency and safety of our payments systems and the delivery of payments will have critical repercussions on the financial system.

By example, the failure of a particular payment system to deliver payments can have many down the line issues. It could mean that transactions will not be done, companies may not be able to buy or sell their goods, individuals will not be able to receive their salaries and carry out retail purchases, government will not be able to receive taxes nor pay out benefits and make other payments and, customers of one bank will not be able to make payments to other banks.

This poses the question of reliability and credibility of the payment systems and affects the operations of commercial banks and financial markets as a whole. Where such payments are large, these can lead to instability in the financial system. This is why payment system stability is central to the oversight function of central banks all around the world.

### **3. What Payment System oversight do we have in Fiji?**

Honourable Members, let me say something about payment system oversight in Fiji.

At the current time, there is no specific overarching legislation governing Payment Systems in Fiji. In early 2000, when the Reserve Bank was contemplating setting up its Real Time Gross Settlements System the Bank had to resort to its powers under the Reserve Bank of Fiji Act (Cap 210) to issue a regulation to enable it to put this system in place. The “Reserve Bank Payment and Settlements System Oversight Regulation 2004” was eventually passed and FIJICLEAR was eventually established in 2007, with all the commercial banks licensed as members.

In 2013, the RBF started consulting with the World Bank to try to develop an overarching National Payments System legislation. These consultations involved the identification of key players together with the necessary infrastructure and legislative framework. A number of consultations have been undertaken with industry players. This work is still in progress and we hope to bring this legislation to Parliament in the near future.

### **4. What are the advantages of an Interchange Network and why we support this Bill?**

Honourable Members, the Reserve Bank is pleased to support the new legislation and we would like to cite some of the reasons for your information:

- i. This Bill is specifically for an Interchange that allows for the convenience of payments to pass through a single national platform or switch. It can be clearly demarcated from the overall payment system environment that still falls under the domain of the Reserve Bank.
- ii. Government is investing in the network infrastructure and setting up the system. In Fiji, the current interchange example to which I had alluded earlier has been based on bilateral arrangements between certain Banks and as such, interoperability amongst Banks has been an issue. Some banks in Fiji are not part of these bilateral arrangements or have limited access and as such their systems are not interoperable. I have mentioned these in my earlier example. I would just add that new entrants to the banking system will all face this problem. Total interoperability therefore, is an issue between banks. The Interchange will bring about total interoperability and allow even a new player to have immediate access. So the RBF is supportive of an interchange that links everyone and allows for total interoperability thus bringing efficiency and effectiveness in payments.
- iii. We also are hopeful that the national switch will bring about affordability through greater volumes of transactions that lead to lower costs and lower interchange fees which will flow on to the benefit of the consumers.

- iv. It is also expected that, as the national Interchange develops, it can also include new players, for example in the digital financial services area, such as mobile network operators.

## 5. Other Key Considerations in support of the Bill

### There are other key considerations that make us support this Bill.

#### (i) Part 6 Section 22 says:

- **An Application for a license must be made to the Authority in the prescribed form and must be accompanied by: (c) written confirmation from the Reserve Bank that the applicant’s payment services, payment system, rules and internal policies meet the standard required by the Reserve Bank:**
- This section establishes that, prior to players on the interchange being licensed by the new Authority, such players will first need to get the approval of the Reserve Bank. This provision allows the Reserve Bank to have oversight over the licensing processes and requirements by firstly approving those to be licensed according to our own standards. Without this approval, a payment service provider or a payment systems operator cannot participate on the interchange. This section allows the Reserve Bank and the Authority to work together to ensure that those who participate on the interchange are legitimate financial system providers or operators.

#### (ii) Part 8 Section 33 (1) ensures that the functions of the Reserve Bank over Payment systems, is intact.

This section says “The Reserve Bank –

- **Regulates payment systems in Fiji**
- **May, at any time, adopt general standards and criteria for the conduct of the activities of payment services or the operation of systems, either generally addressing the totality of entities or a specific category; and**
- **May, at any time, issue directives to a licensee with respect to the licensee’s governance, management, operations and relations with participants**
- These provisions establish and entrench the role of the Reserve Bank in the provision of oversight over all payments systems under this legislation. This in itself gives the RBF the powers to institute detailed regulations to ensure the development of both the requirements for those that will be members of the interchange and those who choose not to be members of the interchange.

## 6. Consultation on the Bill

- i. At this point I wish to further advise this Standing Committee that there has been consultation undertaken between the RBF and Ministry of Justice during the finalisation of this Bill. The RBF made its submission to the Minister for Justice in this regard, after which the key oversight requirements of the RBF were included.

## **7. Conclusion**

**Finally, Honourable Members, I wish to reiterate that the RBF is in support of this Bill to be called the Fiji Interchange Network (Payments) Act 2016. However, having said this, there are two areas that we feel need to be reinforced: -**

**i. The Robustness of the System and Infrastructure**

Millions of transactions will move through the interchange. It is therefore extremely vital that the interchange and supportive technology infrastructure is completely robust to withstand the volume of transactions for which it must cater. The interchange must allow for future adaptability given possible future demands.

**ii. Board Representation:**

The RBF, through either the Governor or the Deputy Governor, is to be represented on the Board of the proposed Authority. For the sake of ensuring the three pillars of Payments Stability, Financial Stability and Economic Stability are in place, this permanent representation, we feel, is warranted.

Again I take this opportunity to thank the Parliamentary Standing Committee for allowing the Reserve Bank to be heard in this instance.

Vinaka vakalevu.

**Barry Whiteside**  
**Governor**

3 March 2016