

Ariff Ali: Presentation on the National Payment Systems Bill 2020

Presentation by Mr Ariff Ali, Governor of the Reserve Bank of Fiji, to the Parliamentary Standing Committee on Justice, Law and Human Rights on the National Payment Systems Bill 2020, 22 January 2021.

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Salutation

Honourable Chairperson;

Deputy Chairperson; and

Members of the Parliamentary Standing Committee on Justice, Law and Human Rights.

A very good morning to you all. Please allow me to firstly extend my appreciation to the Committee for this opportunity to present the National Payment Systems (NPS) Bill and hopefully respond to any related queries or clarifications that you may have.

Introduction

Honourable Chair and Members, for several years now the Reserve Bank of Fiji (RBF) has been working to reform Fiji's payment system in alignment with international best practises. The reform requires both a supportive and forward-looking payment system legislation that will provide an enabling and guiding framework to create a transparent and level playing field and support our move towards a less-cash or cash-reduced society with innovative digital payment solutions.

This Bill promotes interoperability, enhanced connectivity, the protection of stakeholders and ultimately aims to reduce costs to consumers. The absence of such a framework could potentially allow unregulated and unaccountable operators to enter and operate payment systems within the country, which could threaten the safety of our consumers and the stability of our financial system. The NPS Bill not only offers Fiji this protection but encourages innovation and the development of payment solutions that will encourage commerce, industry and economic growth.

Honourable Members, I wish to provide context to this reform by firstly defining what a payment and national payment system is.

What is a National Payment System?

At the most basic level, a payment system is defined as any system used to settle financial transactions through the transfer of monetary value. At the aggregate and macro level, the national payment system constitutes the complete ecosystem relating to the initiation and settlement of financial transactions in the country. It refers to the entire matrix of institutional and infrastructure arrangements, including systems for the payment, settlement and clearing of transactions.

The Bank of International Settlements, an international financial institution and payments standard-setting body notes that a national payment system forms an integral part of an economy's financial system and comprises a number of distinct components including payment instruments, infrastructure, financial institutions, market arrangements and the supporting legal environment. As I have alluded to earlier, the objective of a payments systems is to connect economic actors (individuals, governments, businesses) so that they can pay and be paid. At a national level, the system should create efficiency and network effects, promote seamless linkages, manage risks, foster innovation, promote financial inclusion, protect consumers and ultimately support monetary policy and financial stability. Honourable Members, I will next talk a bit about RBF's responsibilities in relation to the national payment system.

The RBF and the NPS

Apart from its other roles, the RBF 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.

Since payments form the foundation of all financial transactions, the failure of a particular payment system to deliver payments means that businesses may not be able to buy or sell their goods, individuals will not be able to receive their salaries or make retail purchases and government will not be able to receive taxes, purchase public goods or pay out social benefits. 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. In this regard, the RBF has taken the lead role in drafting this Bill. In carrying out our role of ensuring financial stability, the RBF has guided and noted a number of significant developments in Fiji's payment systems landscape over the years. A few highlights include:

- ♦ The introduction of FIJICLEAR in 2007. FIJICLEAR is the country's Real Time Gross Settlement System (RTGS) which settles large value interbank and customer transactions. FIJICLEAR transactions have increased seven-fold since the service was introduced over twelve years ago i.e. from around 20,000 transactions to over 140,000 annually.
- ♦ In the last decade, the volume of ATM transactions doubled from 12.6 million transactions per year in 2010 to 23.2 million at the end of 2019.
- ♦ Similarly, EFTPOS transactions have tripled since 2010, from 1.8 million transactions to 5.4 million at the end of 2019. □ In the last 5 years usage of internet banking transactions grew by 109 percent. Over the same period usage of cheques fell by 57 percent.
- ♦ In 2010 the RBF, with its limited licensing powers over payment systems, issued conditional approvals to Vodafone and Digicel to offer digital wallet services in their country through their M-PAiSA and Digicel Mobile Money products. These digital wallet solutions allow customers to make person-to-person cash transfers, purchase goods and services from selected merchants, add to their Unit Trust investments and make a range of bill payments including town rates, LTA fines, etc.
- ♦ Since 2011 we have witnessed an eight-fold increase in the volume of mobile money payments, i.e. from 0.3 million to 2.3 million transactions in 2019.
- ♦ Similarly, the number of customers' actively using mobile money has grown over 7 times to 150,000 customers at the end of 2019 from 20,000 customers in 2014.
- ♦ In value terms, payments totalling \$71.1 million were processed through mobile money platforms in 2019 compared to around \$13.1 million in 2014. The value of electronic money in circulation has also increased significantly to \$32.2 million at the end of 2019 compared to around \$4.5 million five years ago.

Payment System Oversight in Fiji

Honourable Members, as my predecessor, Governor Whiteside highlighted to this Standing Committee five years ago when providing RBF feedback on the Fiji Interchange Network (Payments) Bill, there is no specific overarching legislation governing Payment Systems in Fiji. In early 2000, when the RBF was contemplating setting up its Real Time Gross Settlements System, the Bank had to resort to its powers under the RBF Act (Cap 210) to issue a regulation

to enable it to put this system in place. 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. This project seeks to create an enabling legal environment for the current and future payment needs of our country, based on observable trends, experiences and best practises in developing and developed countries. I am pleased to announce the completion of this step through the drafting of the proposed legislation, which is the subject of our submission today.

The National Payments System Bill is the culmination of countless hours of hard work and collaboration with a range of stakeholders including Government, our multilateral development partners: the World Bank Group, the International Finance Corporation and the Commonwealth Secretariat, and domestic stakeholders including the banking and financial industry players.

The National Payments System Bill

Honourable Members, the National Payment Systems Bill 2020 is the legal framework which provides the umbrella legislation for all payment systems operating wholly and partially in Fiji. The Bill, which is aligned to international best practices and provides protection for all stakeholders including consumers, strengthens the regulatory framework of Fiji's payment systems by covering all aspects in a transparent, consistent manner. Other key benefits of the Bill are:

- ♦ Vesting clear powers with the Reserve Bank to oversee, regulate and supervise payment systems in Fiji, including non-bank and non-financial institutions providing payment services. This is vital to not only ensure the safety of the funds of all users but also maintain confidence in these systems and Fiji's financial system as a whole.
- ♦ Providing legal certainty around the finality of payments and protecting all aspects of the payment system and its users. The Bill offers protection against the insolvency of either the system operator or its participants and extends coverage to all activities that are associated with the sending, receiving and processing of payment orders, transfers of money, the issuance and management of payment instruments, payment, clearing & settlement systems and service providers operating wholly or partially in Fiji.
- ♦ In Fiji's debt securities market, all Government and statutory body securities such as bonds, treasury bills and promissory notes are currently issued in physical certificate form. The Bill allows for dematerialisation of these securities i.e. converting paper-based securities to electronic form which will significantly impact the timeliness and efficiency of their trading, support the development and also enhance the liquidity of the securities financial markets in Fiji.
- ♦ The Bill also allows for the setting up of a Central Securities Depository or CSD in Fiji which will modernise the infrastructure for debt security registries, depositories and settlement and essentially make related transactions for Government and the private sector safer, faster and more convenient. The introduction of a Central Securities Depository honours Fiji's commitment to the London Stock Exchange of dematerialising the Fijian Government Green Bond by 2024.

Motivations and Benefits of the Reform

Honourable Members, the National Payment Systems Bill is a step towards modernising our national payments system. Therefore please allow me to highlight the compelling reasons motivating our efforts around the reform. Despite the notable developments in Fiji's payments landscape over the years, the upgrade of our payment systems has a critical role to play in fostering private sector led commerce. While demand for payments has grown with the advancement of innovative technological solutions, the payment regulatory and infrastructure

landscape in Fiji has comparatively lagged. The proposed reform entails enacting the necessary legislation and regulations and backing this up with the appropriate ICT infrastructure and support to enable the following:

- ♦ broadening of the range of payment instruments and services;
- ♦ improvement of cost efficiencies;
- ♦ enhancement of interoperability and resiliency;
- ♦ greater management of risks and provisions of effective oversight;
- ♦ the promotion of overall efficiency and stability; and
- ♦ Strengthening consumer protection.

The reform at large, also aligns to Government's Digital Payment Roadmap 2019 and 5-Year and 20-Year National Development Plans. These Plans and the reform will also address developments for the increasing financial inclusion of our vulnerable population by ensuring that affordable and effective payment products and services are available to the underserved sectors of the economy including MSMEs, the poor and low-income families; as well as the increasing globalisation of payment systems, with resulting drive for regulatory harmonisation, fraud prevention and customer funds safeguarding.

Consultations on the Bill

Honourable Members, prior to the tabling of the Bill in Cabinet last month, consultations for the Bill were held with the Ministry of Economy, the Ministry of Communications, the Association of Banks in Fiji, the Fiji National Provident Fund, the Finance Companies Association, the Insurance Council of Fiji and the Office of the Solicitor-General.

Conclusion

Honourable Chair and Members of the Standing Committee, I wish to conclude with the following points: □ This is a major reform that will revolutionise a critical part of the everyday commerce and industry.

- ♦ A modern, efficient and reliable payments infrastructure is essential to encourage innovation and commerce, the growth and development of financial markets and improve the transmission of monetary policy.
- ♦ The capability of dematerialisation and clearing and settling a wide range of transactions according to international standards will also enhance the business environment which will in turn attract foreign investment.
- ♦ The overall reform is aimed at making a positive holistic impact on Fiji's payment ecosystem. As the national payment system develops, the experience for payment system participants is expected to improve. Businesses are expected to see efficiencies in operations, including declining cash-handling costs and lower administration costs due to increased interoperability between payment system providers, leading to a decline in perceptions of payments as a barrier to doing business.
- ♦ Finally, end-users will gain access to a greater variety of products through increased interoperability between payment service providers, which will aid financial inclusion and in turn positively impact the lives and welfare of all Fijians.

Honourable Chair and Members, thank you again for this opportunity to discuss the National Payment Systems Bill and we welcome any questions that you may have.