



BANK OF PAPUA NEW GUINEA

DIRECTIVE ON RETAIL PAYMENT INSTRUMENTS 04/2019

1. Introduction

- 1.1. This Directive aims to provide a framework to support the development of retail payment instruments in Papua New Guinea by ensuring the safety, soundness and efficiency of payment schemes, thereby enhancing users' confidence in non-cash payment means and increase their use while promoting a consistency in treatment for all retail payment instruments.
- 1.2. To this end, any entity wishing to issue and manage a retail payment instrument and associated system must satisfy the licensing requirements of the Bank of Papua New Guinea ("Central Bank") for performance of payment services under the Oversight Directive 01/2018 and any further measure adopted by the Central Bank to this end.
- 1.3. The requirements for the issuance and management of retail payment instruments, outsourcing parts of relevant activities, use of agents and protection of customers, as established in the Oversight Directive 01/2018, are hereby complemented.
- 1.4. This Directive is issued in line with the Central Bank oversight functions over the national payment system under the National Payments System Act (NPSA) 2013, since prudent and safe management of payment schemes is crucial to ensure safety, soundness and efficiency of the payment system and the general functioning of the financial system, as well as wider acceptance and success of retail payment modes.
- 1.5. The Directive does not confer on any entity the right to conduct deposit taking business, which may only be conducted by licenced deposit taking institutions and commercial banks pursuant to provisions of the Banks and Financial Institutions Act (BFIA) 2000.

2. Scope and Objectives

- 2.1. This Directive covers non-paper based retail payment instruments, including internet, mobile and similar electronic payments, with special focus on e-money instruments.
- 2.2. The objectives are to:
 - a. Achieve and maintain public trust and confidence in non-cash means of payment;
 - b. Outline the standards to be observed by the issuers of retail payment instruments in relation to the operation of their schemes; and
 - c. Address specific issues of e-money instruments.

3. Definitions

- 3.1. *Acquirer* means the entity processing card payments on behalf of a merchant.

- 3.2. *Agent* means a person acting in the name and on behalf of, and so representing one or more issuers of a retail payment instrument *vis-à-vis* users. The issuer is the principal of the agent and is subject to all relevant Papua New Guinea rules on principal-agent relationship. By virtue of the agency agreement the agent is permitted to conduct solely and specifically the services indicated in the agreement in accordance with the directives received by the issuer.
- 3.3. *E-money* means electronically, including magnetically or in any other tangible or intangible device (such as a SIM card or a software), stored monetary value as represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions and which is accepted as a means of payment by persons other than the issuer.
- 3.4. *Issuer* means a type of Payment Service Provider. In an instrument or similar scheme where e-money is stored, this is the entity which receives payment in exchange for value distributed in the scheme and which is obligated to pay or redeem transactions or balances presented to it. These shall include deposit taking institutions, and any other entity licensed from time to time by the Central Bank.
- 3.5. *Merchant* means any person that accepts retail payment instruments, as well as e-money as payment for their goods and services.
- 3.6. *Outsourcing* means the contracting or sub-contracting of one or more activities relating to issuance and management of a payment instrument to an independent third party. Such third party provides services to the issuer without this giving place to any principal-agent relationship with the issuer.
- 3.7. *Retail payment instrument* means any tangible or intangible instrument, device or mechanism that enables an individual to obtain money, goods or services or to otherwise make payment or transfer money, regardless whether the user holds an account.
- 3.8. *Scheme* means the rules, standards and procedures governing the operational framework permitting the operation of the retail payment instrument and the linking of all stakeholders.
- 3.9. *User* means any person to whom e-money has been issued or any person who uses a retail payment instrument.

4. Licence

- 4.1. No issuer can issue and manage retail payment instruments unless it has been previously licensed by the Central Bank according to the Oversight Directive 01/2018 and/or any further measure adopted by the Central Bank.

- 4.2. In order to be licensed, an applicant shall submit to the Central Bank all information and documents that the Central Bank shall from time to time require for this purpose in accordance with its Oversight Directive 01/2018 under the NPSA 2013.
- 4.3. This Directive shall be interpreted in line with the requirements of the Central Bank as established in the Oversight Directive 01/2018.

5. Governance

- 5.1. The issuer must implement internal policies that are compliant with Central Bank requirements, including at a minimum:
 - a. Risk management;
 - b. Capital management;
 - c. Liquidity management;
 - d. Internal audit;
 - e. Business continuity plan;
 - f. Security of the network used for communication and transfers; and
 - g. Complaints and dispute management arrangements, redress mechanisms.

6. Operational requirements

- 6.1. An issuer shall establish adequate operational arrangements for its scheme, which shall include:
 - a. Rules and procedures setting out the rights, responsibilities and liabilities of the issuer, third parties providing parts of the activities in outsourcing, agents, merchants, users and any other relevant stakeholder;
 - b. Measures to ensure safety, security and operational liability of the scheme, including contingency arrangements and disaster control procedures, to be applied to all relevant systems, whether internal or outsourced, including systems and platforms;
 - c. Adequate interfaces to ensure interoperability, *i.e.*, that payment instruments belonging to a given scheme may be used in other systems installed by other schemes; and
 - d. Separate records and accounts for its activities related to the retail payment instrument that it provides from its other activities.
- 6.2. The Central Bank reserves the right to impose to issuers of retail payment instruments any relevant standards to ensure a safe and reliable issuance and management of an

instrument. More specifically, the Central Bank reserves the right to impose on issuers such conditions and limits on the nature of e-money products that may be offered, the quantity of e-money products that may be issued over a particular period and limits on the monetary values that may be transferred or funded to particular e-money products.

7. Risk management

7.1. An issuer shall establish an appropriate risk management infrastructure to mitigate financial risk and ensure safety and integrity of transfers. Likewise, it shall implement operational and security safeguards in proportion to the scale and complexity of the scheme.

7.2 An issuer shall ensure that they have resources and capacity in terms of expertise, hardware, software, and other operating capabilities to deliver consistently reliable service. Measures to ensure operational reliability shall include:

- a. An appropriate system(s) which is robust in its design, development, testing, implementation and monitoring;
- b. Strong internal controls for systems and personnel administration;
- c. Comprehensive and well documented operational and technical procedures to ensure operational reliability;
- d. A system(s) designed with sufficient capacity, which is monitored and upgraded ahead of business changes;
- e. Robust clearing and settlement arrangements, where relevant;
- f. Robust business continuity, including a reliable back-up system;
- g. Timely and accurate audit trail and the capability to provide statistical information and reports; and
- h. Adequate accounting systems and proper reconciliation processes.

8. Rights and responsibilities of each stakeholder

8.1. An issuer must clearly state the process to be followed for enrolling agents and customers, as well as acquirers must clearly state the process to be followed for enrolling merchants.

8.2. An issuer must ensure that the rights and responsibilities of all stakeholders (including users and merchants) are clearly set out in the relevant contracts.

- 8.3. The terms and conditions for the use of retail payment instruments should be easily accessible and understood.
- 8.4. An issuer shall put in place a system to maintain accurate and complete record of transactions executed by the relevant user.
- 8.5. An issuer must have an adequate fraud and risk management framework in place.

9. Consumer protection, education and privacy

- 9.1. Any issuer must put in place measures to address consumer protection, education and privacy.
- 9.2. It should in particular ensure that:
 - a. It adopts general policies on safe operations, privacy of customers information, reliable and quality service, transparency of product and services, and prompt response to inquiries, complaints, refund demands and disputes;
 - b. It puts in place an effective dispute resolution mechanisms; and
 - c. It provides adequate warning statements to users and merchants on the risk of loss arising from failure or insolvency of the issuer, lost or stolen payment instruments or access devices, or fraudulent transactions.
- 9.3. An issuer shall provide clear terms and conditions for use of the instrument, which should be made publicly available. The issuer must obtain acknowledgement from its users and merchants prior to their participation in the scheme.
- 9.4. Details should include at a minimum:
 - a. Type of payments that can be made;
 - b. Applicable fees and charges;
 - c. Availability of user's statement;
 - d. Procedures for reporting losses or stolen instruments/devices and means to lodge a complaint;
 - e. Refund policies;
 - f. Rights and responsibilities of users and merchants;
 - g. Termination rules; and
 - h. Redemption procedures, when relevant.

10. Prudent management of funds

- 10.1. An issuer shall manage the funds collected from users prudently to ensure timely refund of balances to users and payment to merchants.
- 10.2. Issuers shall also ensure that they have sufficient liquidity for their daily operations.
- 10.3. Funds collected from or on behalf of users should be deposited and managed separately from the issuer's working capital funds, and be adequately protected from any risk of insolvency and/or bankruptcy of the issuer.
- 10.4. An issuer that is not a Central Bank shall deposit the funds collected in exchange for e-money issued, in a trust account with one or more licensed commercial banks in a timely manner.
- 10.5. The Central Bank shall from time to time issue instructions on standards under this Section.

11. Other prohibitions

- 11.1. An issuer shall not:
 - a. Issue e-money at a discount;
 - b. Use the money collected from or on behalf of users to extend loans;
 - c. Extend credit to the user, or pay interests or profits on the e-money balances, or anything else that would add to the monetary value of the e-money; and
 - d. Associate, link or use the e-money scheme or platform to conduct or facilitate illegal activities.
- 11.2. Merchants and agents who are also users of e-money shall maintain a separate user account for making payments on their own behalf.

12. Reporting requirements

- 12.1. An issuer shall submit to the Central Bank:
 - a. Its audited financial statements on a regular basis, as the Central Bank shall determine;
 - b. Monthly transaction reports showing, among others, transactions with agents and between agents, total number of cash in/ cash out, bills paid and any other data the Central Bank may from time to time consider necessary for its oversight activities; and

c. Monthly reconciliation statement between the trust account balance and the total e-money in circulation.

12.2. Information on customers and customers' accounts for funds managed under 10.3 shall be kept by the relevant issuer in an easily accessible manner and put at the disposal of the Central Bank if so requested.

13. Respect of AML/CTF legislation and measures on electronic transfers and electronic operations

13.1. Issuers of retail payment instruments shall meet the requirements and comply with AML/CTF procedures, as well as rules, Directives and guidelines adopted by the Central Bank that may be issued by the Financial Analysis and Supervision Unit ("FASU").

13.2. They shall also ensure that any third party acting on their behalf or agents shall comply with relevant requirements under the AML/CTF Act 2015.

13.3. The terms of this section shall not imply by any means that agents are not liable for their actions under existing legislation on AML/CTF and other relevant legislation of the country.

13.4. Issuers of retail payment instruments under this Directive shall comply with all relevant laws and Directives on electronic transfers, as well as on electronic operations in payment systems.

13.5. Rules on authentication of payment transactions, execution of payment orders and other rules on users protection as established by the Directive on Electronic Fund Transfers 02/2018 shall apply to any issuer of retail paper-less payment instruments.

14. Existing schemes

14.1. Any entity offering retail payment instruments on the effective date of this Directive shall structure their organization, administration, and operations to the requirements of this Directive within six months from the effective date of this Directive or any extended period as the Central Bank may determine.

14.2. When submitting information and documents to obtain an authorization by the Central Bank under this Directive, entities seeking authorization must indicate and provide documentation on existing links between the different products offered, irrespective of the need for a bank account, measures in place to mitigate the risks assessed and any cases of shared use of infrastructures or operations, including the use of agents for the provisions of different banking services.

14.3. The Central Bank shall from time to time indicate what Sections of this Directive might not apply to authorised deposit taking institutions or other entities already providing payment services.