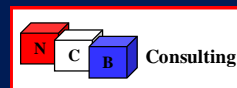


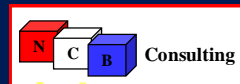
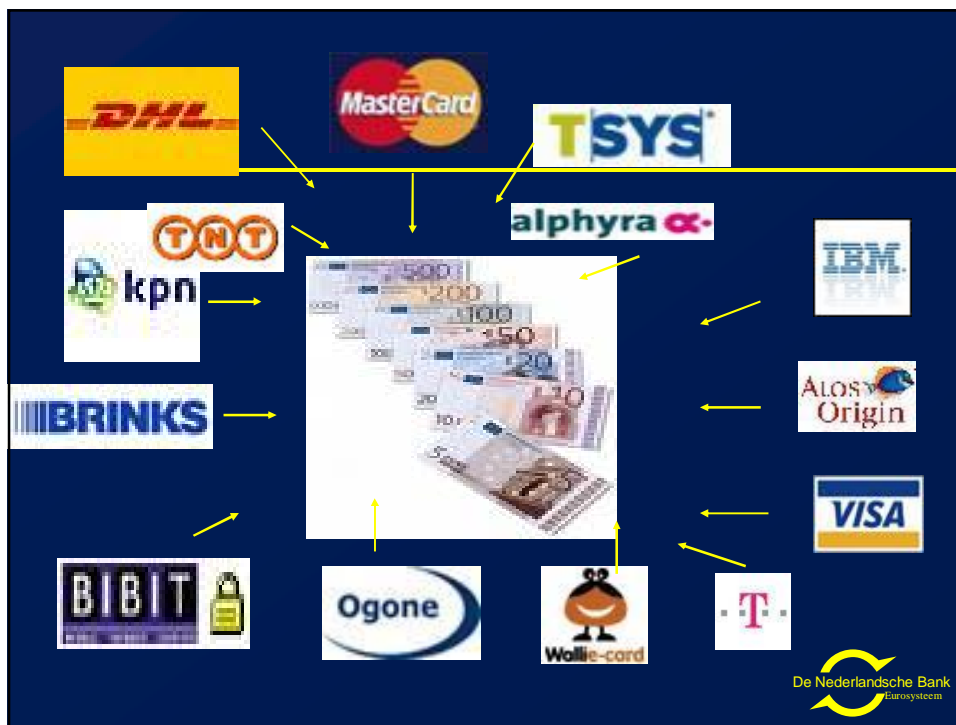


## Content



- Our world
- Objective of oversight
- General standards
- Development of standards
- Building block approach

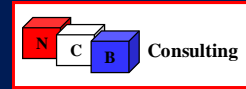




## Working definition of oversight

1. Monitoring of systems\*
2. Setting (inter)national standards
3. Assessing systems against standards
4. Induce systems to comply with standards

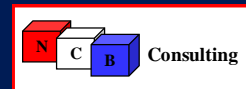
\* Systems: payment and securities settlement systems and payment instruments (whole infrastructure)



## Objective

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- Smooth operation of payment system
  - Smooth operation payment system
  - Confidence of public
  - Prevent implementation of efficient payment products
- Payment product: low to no systemic risk!

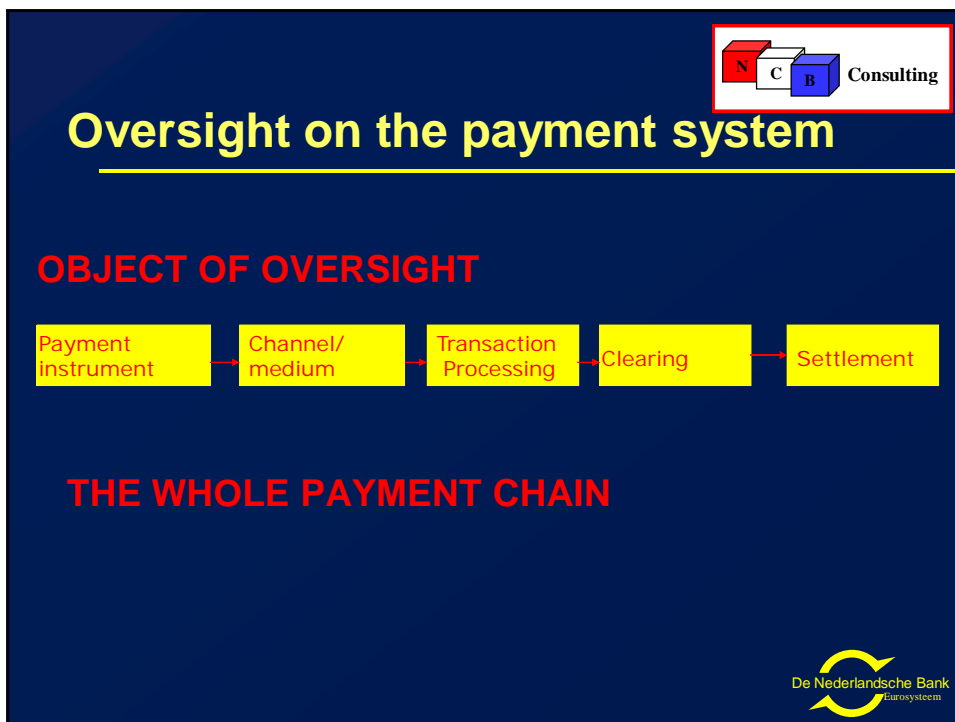
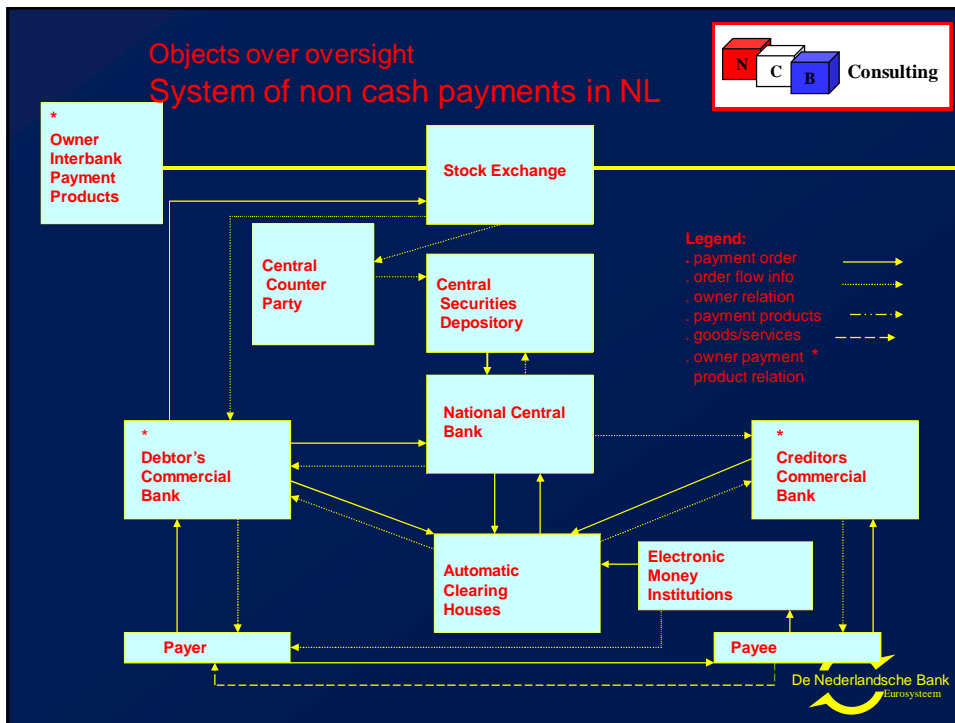


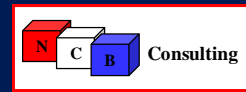
## Objects of oversight

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- **Payment systems**
  - Whole sale systems
  - Retail systems
- **Payment products**
  - Electronic purse
  - Direct debit
  - Credit transfer
  - Debit and credit cards
- **Securities settlement systems**
  - Clearing systems
  - Settlement systems





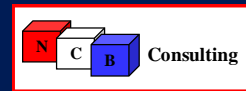


## INFLUENCING FACTORS

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Trends retail payments:

- European Consolidation
  - TARGET
  - SEPA
- Specialisation/Unbundling
  - Multiple operators/owners: card schemes, transaction networks, etc

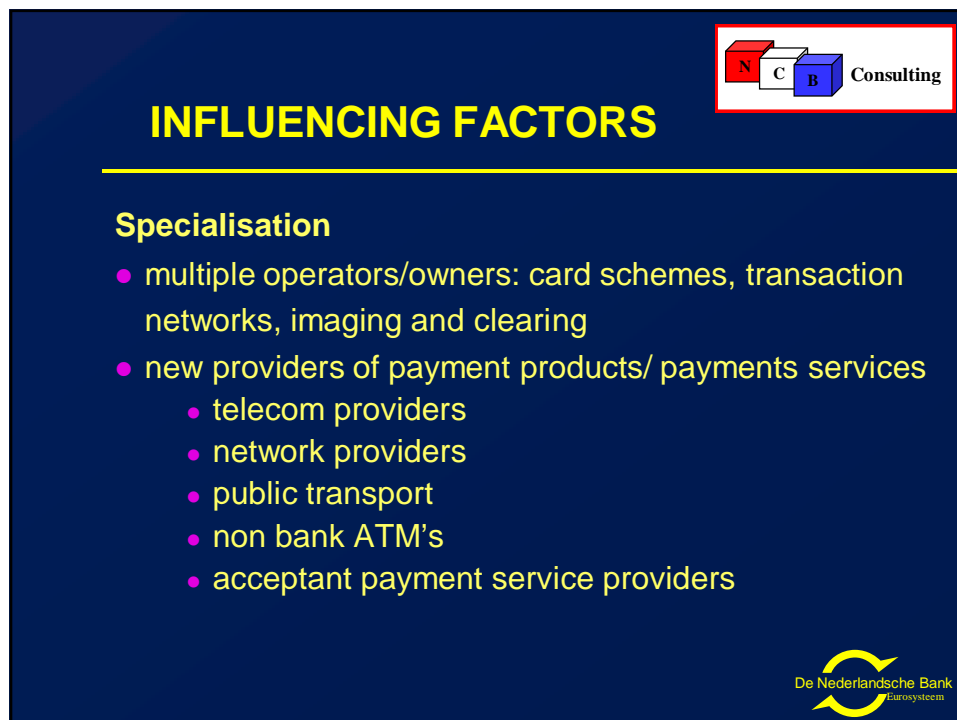
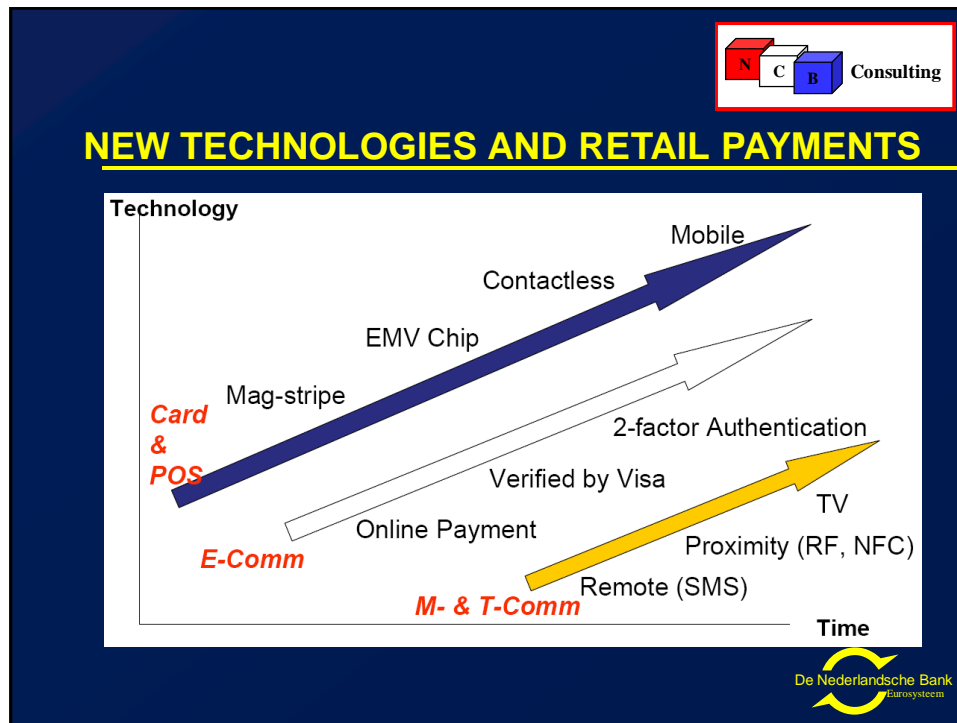


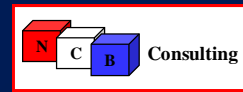
## INFLUENCING FACTORS

---

- Market developments
  - New technologies
    - contactless, mobile payments
    - internet
    - biometrics
  - New providers of payment services
    - telecom providers
    - public transfer
    - etc etc

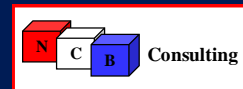






## Approach Oversight

- Monitoring market developments
- Drafting general policy guidelines
- Formulating standards and requirements
- Review specific products
- Drafting specific recommendations based on results review product



## Focus oversight

### on payment products

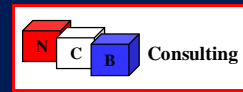
Determination payment products to be reviewed

Criteria:

- general and perception general
- expectations of public and politicians
- (expected) market share
- usage of innovative technology
- risks for users

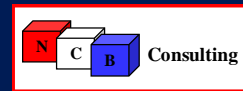
Serious violation  
confidence consumer





## Objectives for review

- Provider payment product
  - legal basis
  - financial situation
  - corporate governance / internal control
- Product itself
  - risks analyses
  - legal basis and product conditions
  - conditions for participation
  - security and reliability
  - user friendliness and efficiency

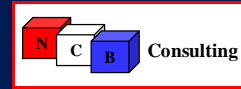


## Approach/ performance reviews

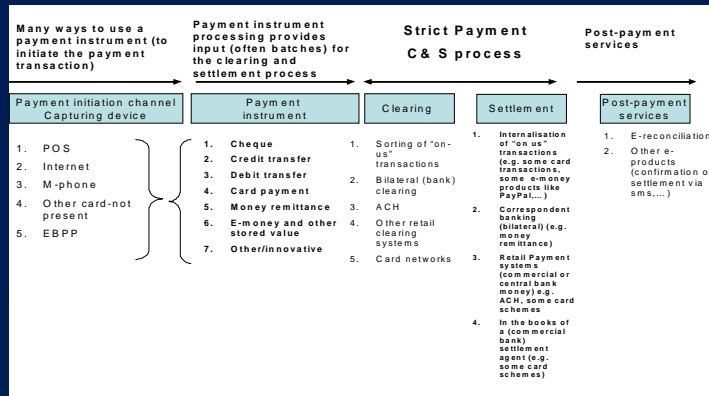
- All products in scope
  - Analyses on priority / planning
  - Assessments
  - Periodic discussions / interviews
  - Reports / monitoring
  - Incidents / disasters



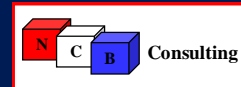




## NON BANKS IN THE PAYMENT SYSTEM



## Oversight on the payment system: the role model



Disadvantage of current basis:

- No legal instruments
- Standards pay to less attention to:
  - the control of the system operator/product owner
  - other participants in the chain

In addition:

- Supervision/oversight is split up over several authorities



## Cooperation oversight and prudential supervision

### Oversight

- smooth operation payment system
- resist systemic risk, violation trust consumers
- focus on (parts of) infrastructure
- service providers
- security & efficiency systems / products

Impact on payment system

### Supervision

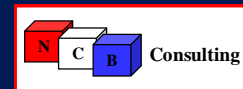
- protecting of creditors
- bona fides of institutions
- focus on individual financial institutions
- solvability, liquidity, operational reliability institution

Impact on institution

Financial health



## Oversight on the payment system

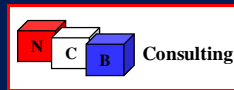


### Consequences:

- Gaps in control aren't detected
- Risks introduced by current other players aren't (timely) detected
- Risks introduced by new players aren't (timely) detected



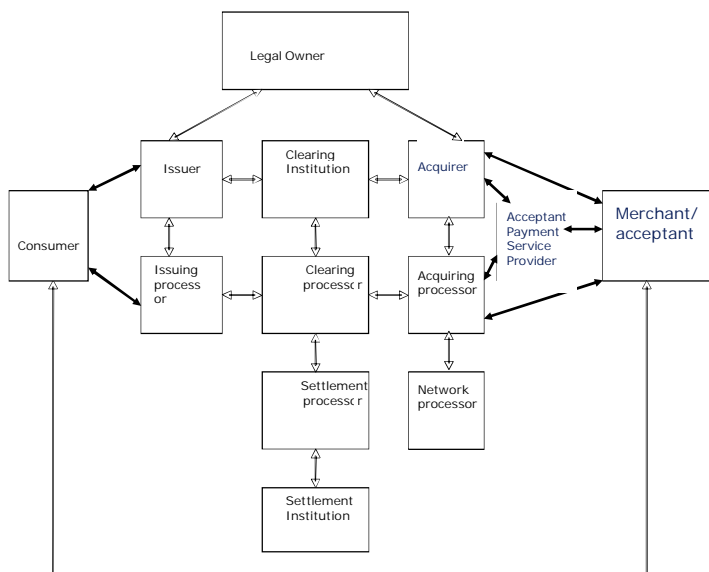
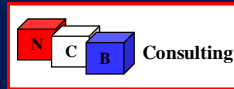
## Oversight on the payment system: the role model



To solve these problems our oversight approach is changed to:  
 A role based approach



## Scheme oriented organisation retail payments



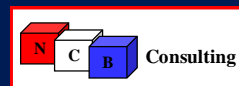
## Oversight on the payment system: the role model

### Possible roles in the payment scheme

Scheme owner	Consumer
Issuer	Merchant
Issuing processor	Card manufacturer
Acquirer	Card personalisation
Acquiring processor	Card destroyer
Network processor	SAM manufacturer
Clearing institution	SAM personalisation
Clearing processor	SAM destroyer
Settlement institution	POS manufacturer
Settlement processor	Acceptant Payment Service Provider



## Oversight on the payment system: the role model

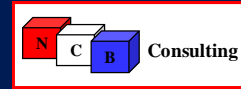


Advantages role based approach:

- Alignment with the scheme oriented organisation of the retail payments
- More efficient approach
- Improvement in the process of defining standards



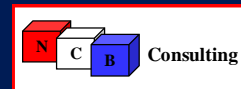
## Oversight on the payment system



From role based model  
to  
The building block approach



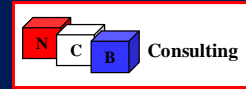
## Oversight on the payment system



Oversight based on standards like:

- Wholesale systems (e.g. Core principles for systemically important payments systems, SIPS)
- Retail systems (e.g. Oversight standards for Euro retail payment systems and (Subset of) Core Principles)
- Payment products (e.g. Recommendations for payment products)
- Securities settlement systems (CPSS/IOSCO Recommendations)
- Technical standards (ISO, ECBS, NVB,...)

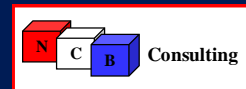




## Standards

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- Assessments based on standards
- Use of international standards if available
- By using standards the level of playing field is guaranteed
- Authority to set up minimum standards for the objects of oversight (oversight framework)



## Oversight standards

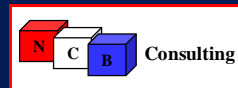
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### Retail

- **Framework for the Oversight on Card Payment Systems (ECB)**
- **Recommendations for Payment Products (DNB)**
- **Oversight standards for Euro Retail Payment Systems (ECB)**
- **Electronic Money Security System Objectives (ECB)**



## Main characteristics drafting standards



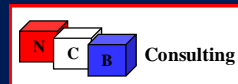
- Not by the industry but by the supervisors
- Lot of time required
- Mutual agreement requires high level formulation
- Inventing the wheel again

### Recommendation (Opinion NCB Consulting)

- Industry show your own responsibility and draft common standards for interbank payment products



## Oversight on the payment system



### Separate elements of the payment chain



### THE WHOLE PAYMENT CHAIN



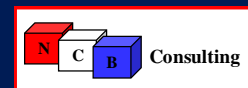
## Oversight on the payment system

### The roles in the payment scheme

Scheme owner	Consumer
Issuer	Merchant
Issuing processor	Card manufacturer
Acquirer	Card personalisation
Acquiring processor	Card destroyer
Network processor	SAM manufacturer
Clearing institution	SAM personalisation
Clearing processor	SAM destroyer
Settlement institution	POS manufacturer
Settlement processor	Acceptant Payment Service Provider



## (Our) definition of a payment product

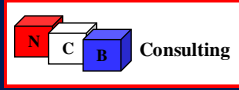
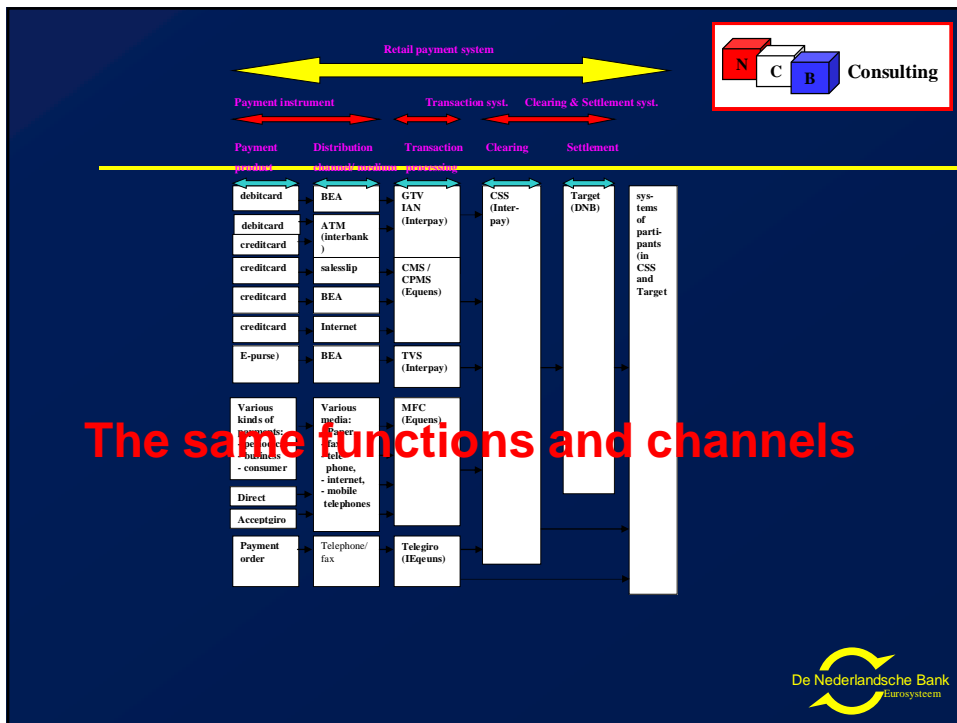


**All forms of an order or message to transfer funds (in the form of a monetary claim on a party) to the order of the beneficiary. The order may relate either to a credit transfer or to a debit transfer.**

**In the form the distribution channel is included.**







## Building block approach

### BUILDING BLOCKS APPROACH RETAIL PAYMENTS

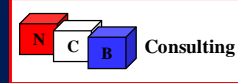
#### SPECIFIC REQUIREMENTS PER ROLE

##### Legend

- C = Cards
- E = E-purse
- DD = Direct Debit
- CT = Credit transfer
- AG = Accept Giro
- CH = Cheque (paper based)
- UP = Urgent Payment
  
- P = role in pre use phase
- O = role in operational phase
- A = role in after use phase

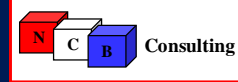
**BASIC ASSUMPTION:** Definition on principle level like oversight frame work for cards





## Building block approach

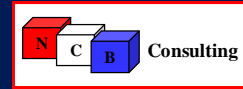
Roles	Specific Requirements
Card supplier (P)	<ul style="list-style-type: none"> <li>Continuity of maintenance f. i. via Escrow (C, E)</li> </ul>
Card destroyer (A)	<ul style="list-style-type: none"> <li>High security procedures (C, E)</li> </ul>
Card personaliser (P)	<ul style="list-style-type: none"> <li>High security procedures (C, E)</li> </ul>
SAM supplier (P)	<ul style="list-style-type: none"> <li>Continuity of maintenance f. i. via Escrow (C, E)</li> </ul>
SAM personaliser (P)	<ul style="list-style-type: none"> <li>High security procedures (C, E)</li> </ul>
SAM destroyer (A)	<ul style="list-style-type: none"> <li>High security procedures (C, E)</li> </ul>
Terminal manufacturer (P)	<ul style="list-style-type: none"> <li>Continuity of maintenance f. i. via Escrow (C, E)</li> </ul>
Legal owner	<ul style="list-style-type: none"> <li>Intellectual property (C, E, DD, CT, AG, CH, UP)</li> <li>Fair and open access (C, E, DD, CT, AG, CH, UP)</li> <li>Licensing (C, E, DD, CT, AG, CH, UP)</li> <li>Setting rules (C, E, DD, CT, AG, CH, UP)</li> <li>Monitoring compliance rules periodically (C, E, DD, CT, AG, CH, UP)</li> <li>Monitoring misuse (C, E, DD, CT, AG, CH, UP)</li> <li>Public relations product (C, E, DD, CT, AG, CH, UP)</li> <li>Maintenance product (C, E, DD, CT, AG, CH, UP)</li> </ul>



## Building block approach

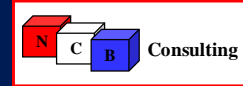
Consumer (O)	NO SPECIFIC REQUIREMENTS
Acceptant (O)	NO SPECIFIC REQUIREMENTS
Collecting agent (O)	<ul style="list-style-type: none"> <li>Unblemished behaviour status (DD)</li> </ul>
PSP (O)	NO SPECIFIC REQUIREMENTS
Issuer (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP)</li> <li>Equal division of any damage (C, E)</li> </ul>
Issuing processor (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP)</li> <li>Equal division of any damage (C, E)</li> </ul>
Acquirer (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP)</li> <li>Equal division of any damage (C, E)</li> </ul>
Acquiring processor (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP),</li> <li>Equal division of any damage (C, E)</li> </ul>





## Building block approach

Network operator (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP)</li> </ul>
Switch (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP in case the Switch is used)</li> </ul>
Switch processor (O)	<ul style="list-style-type: none"> <li>High availability (C, E, UP in case the Switch is used)</li> </ul>
Conversion institution (O)	NO SPECIFIC REQUIREMENTS
Conversion processor (O)	NO SPECIFIC REQUIREMENTS
Clearing institution (O)	<ul style="list-style-type: none"> <li>High availability (UP in case the Clearing institution is used )</li> </ul>
Clearing processor (O)	<ul style="list-style-type: none"> <li>High availability (UP in case the Clearing institution is used)</li> </ul>
Settlement institution (O)	<ul style="list-style-type: none"> <li>High availability (UP in case payment advice isn't considered as sufficient guarantee for the payment)</li> </ul>
Settlement processor (O)	<ul style="list-style-type: none"> <li>High availability (UP in case payment advice isn't considered as sufficient guarantee for the payment)</li> </ul>



## Building block approach

In case of only one organisation to fulfil the role periodically the healthiness of the financial situation of the role should be reviewed.

The conversion institution converts paper based payment orders into electronic format.

Function/process	Specific Requirements
Identification	<ul style="list-style-type: none"> <li>The initiator of every payment order should be identified by a unique identifier</li> </ul>
Authentication	<ul style="list-style-type: none"> <li>The initiator of every payment order should be authenticated</li> </ul>
Authorisation	<ul style="list-style-type: none"> <li>Based on the rules of the product/scheme every payment order should be authorized.</li> </ul>



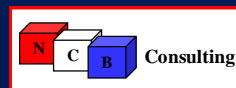
## Questions...

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## Time's up.....

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Thank you for your attention

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