APAC FINTECH PAYMENTS FORUM FEBRUARY 2023

Best Practice for Cross-Border Interlinkage

FINTECH PAYMENTS FORUM

With a vision to improve lives everywhere through payments

Prepared by

EPA ASIA

FINTECH ASSOCIATION OF JAPAN

SFA SINGAPORE FINTECH ASSOCIATION

FAOM

fintech indonesia

FinTechNZ

TFA

FINTECH ASSOCIATION OF HONG KONG

India FinTech Forum

FINTECH ALLIANCE.PH

FinTech Australia

paymentsnz

TABLE OF CONTENTS

Foreword 3

Introduction 5

Thailand 6

- Infrastructure 6
- Paytech 7

Singapore 8

- Infrastructure 8
- Paytech 9

Indonesia 10

- Infrastructure 10
- Paytech 11

Philippines 12

- Infrastructure 12
- Paytech 13

Malaysia 14

- Infrastructure 14
- Paytech 16

Wrap Up 17

3rd Instalment of the Fintech Payments Forum run by EPAA

The focus of the 3rd APAC Fintech Payments Forum was to understand the best practices for cross-border linkages. This area is especially important in the ASEAN region in the context of the Memorandum of Understanding on Cooperation in Regional Payment Connectivity (herein referred to as the RPC).

The audience heard from nine total speakers from Indonesia, Malaysia, Singapore, Thailand and the Philippines. Firstly, the audience heard from four speakers from central banks and payment infrastructure providers on the infrastructure panel. The questions posed to the speakers were focused on what each jurisdiction has been doing concerning cross-border payments and why cross-border payments have been a driver for GDP growth. The panel was moderated by Nigel Lee, EPAA Advisory Board Member and SVP APAC, Ingenico.

Secondly, the audience heard from the paytech panel, comprising five speakers representing fintechs and regional fintech associations. This panel was focused on three questions: Firstly what the key success factors are to make the vision of the RPC become reality? Secondly, considering that 60% of the ASEAN population are either unbanked or underbanked, and micro, small, and medium enterprises comprise 70% of the workforce, how do traditional stakeholders stay relevant with emerging fintechs, and what collaboration and partnership is required to make the RPC work. Lastly, as a concluding 'quickfire', what can policymakers outside of ASEAN learn from the region's advanced progression in the space of cross-border payments? The panel was moderated by May Lam, CIO, Australian Payments Plus.

Foreword
Nigel Lee, EPAA Advisory Board Member and SVP APAC, Ingenico

The APAC Fintech Payments Forum run by EPAA was a great opportunity to discuss what the best practices for cross-border linkages are from regulators and fintechs in the region.

Using cross-border payments as an enabler for GDP growth was a common theme that presented itself in several presentations. There are two key drivers to ensure this outcome.

- Firstly, the size of cross-border flows, which encompasses more money being transacted and transferred.
- Secondly, the speed of the flows. The faster money can be moved between geographies, the more it can assist GDP growth.

Success factors were a common topic in many presentations, and three stood out.

- Firstly, any cross-border linkage needs to be economically viable for all stakeholders to be successful.
- Secondly, safety and security of existing linkages and domestic systems cannot be compromised.
- Lastly, use-case driven domestic coverage is critical to ensure issuing and receiving side adoption.

Domestic adoption in the region has been driven by the extensive use of QR codes, a form factor that is not prevalent in Europe and U.S.

The focus of the region has been on creating bilateral linkages between domestic payment networks. While this is a step in the right direction towards addressing the frictions associated with cross-border payments, it will become increasingly difficult to manage individual linkages as the number of linkages increase. Project Nexus by the Bank for International Settlements Innovation Hub is an important development that could address the issues associated with maintaining many bilateral linkages.

Thank you to all the panellists for the excellent contributions, and to all attendees for making the event a success.

Introduction

Speaker: Jo Yeo- *Head, Payments Development and Data Connectivity Office, Monetary Authority of Singapore*

In November 2022, the RPC was agreed upon by the central banks of the ASEAN 5. Bank Indonesia (BI), Bank Negara Malaysia (BNM), Bangko Sentral ng Pilipinas (BSP), Monetary Authority of Singapore (MAS), and Bank of Thailand (BOT) have agreed to address current frictions with cross-border payments and thereby create new business opportunities and promote inclusive growth within the region. The end goal is to make cross-border payments cheaper, more transparent, faster, more convenient, and safe.

MAS has implemented instant payment linkages with Thailand, providing instant person-to-person (P2P) transactions between residents. Similar arrangements with Malaysia and India are in the pipeline. Furthermore, MAS is involved in the Bank for International Settlement Innovation Hub's Project Nexus which is aiming to create a multilateral payments network.

At the centre of this shared vision is interoperability. Interoperability opens the possibility of international and regional connectivity that can power commerce and enables instant and inclusive payments for everyone.

Thailand

Speaker: Pariwat Kanithasen - *Deputy Director, Payments and Fintech, Bank of Thailand*

Panel: Infrastructure

Successful domestic fast payment system

PromptPay was launched in 2016 as Thailand's instant payment system and has since seen 15 million registered accounts. Furthermore, 7 million merchants are using QR codes to accept payments from customers. Having a robust domestic fast payment system and QR payment system was an essential starting point for Thailand to connect these systems with regional equivalents.

In April 2021, Thailand and Singapore linked their PromptPay and PayNow instant payment systems. This was the first-ever linkage between any two countries' domestic fast payment systems. Since its inception, there have been approximately 500,000 users of the linkage. Furthermore, QR payments have played an important role in cross-border person-to-merchant (P2M) transactions. Thailand has developed linkages with Vietnam, Malaysia, Indonesia, Singapore, and Japan, allowing tourists, migrant workers, and others to use their Thai banking application(s) to scan QR codes overseas to make payments. Arrangements with Hong Kong and India are currently being developed. Such arrangements are important in enhancing financial inclusion, as it allows individuals without credit or debit cards to be able to spend and receive money overseas.

User experience

Any successful cross-border payment linkage needs to have the user experience at the centre. It must be as easy as possible to make and receive these payments. For example, in the PromptPay-PayNow system, you only need the recipient's phone number or email address, and the system does the remaining leg work to identify the recipient. Furthermore, funds are received instantaneously because that is most beneficial for the users.

Multilateral linkages

The current arrangements are all bilateral linkages between Thailand's and other regional payment systems. However, creating bilateral linkages can cause a strain on human and IT resources. Therefore, Thailand is also exploring multilateral linkages through Project Nexus.

Thailand

Speaker: Chonladet Khemarattana - *President, Thai Fintech Association*

Panel: Paytech

Why are cross-border payments so important?
The payments ecosystem is an important underlying infrastructure that enables other economic activities and fintech areas. Realising the goals of the RPC will make cross-border economic activity easier and enable development in other fintech areas.

Domestic adoption first
Thailand has embraced mobile payments and mobile banking evidenced by high levels of online purchases, and the statistic is that an average Thai person is using e-banking and digital wallet applications 416 times per year on average. This has set the scene for Thailand to successfully link PromptPay and PayNow in Singapore for P2P transfers, and their QR payment system with several countries in Asia.

Competition and collaboration
Despite the high penetration of mobile banking and digital payments, many in Thailand remain underbanked. BOT recently announced a new financial landscape for Thailand to invest in open infrastructure, open data, and open competition. Along with this, Thailand will award new digital banking licences, and this will be the first time since 1997 that there will be new banks operating in Thailand.

Collaboration (and competition) between incumbent financial institutions, new digital banks, and fintechs will allow for more innovative solutions to integrate the unbanked and underbanked into the Thai financial system. For example, these developments could see the use of alternative data for credit checks for loans to prevent people from using loan sharks.

Singapore

Speaker:Lawrence Chan- *Group CEO, NETS Singapore*

Panel: Infrastructure

NETS is comprised of three internal companies, of which the NETS entity and BCS are involved in realising the goals of the RPC. NETS entity is the domestic debit scheme in Singapore, and there are currently six commercial banks that operate in the NETS network. BCS is the MAS-appointed industry clearinghouse to clear designated payment systems in Singapore (e.g. fast payments like PayNow, cheques and domestic batch transfers).

The scope of NETS' involvement in cross-border payments is twofold. Firstly, with respect to P2P transfers. In April 2021, Thailand, and Singapore's domestic fast payment networks, PromptPay and PayNow were linked, allowing residents of Singapore and Thailand to transfer funds directly to other residents with only a phone number or email address. Secondly, concerning P2M transactions. Initially, NETS would enable merchants in Singapore to accept foreign fast payment methods like UnionPay, AliPay Plus and WeChat. More recently, NETS has been involved in working with different jurisdictions to enable two-way P2M transactions via QR codes. Currently, Thai bank account holders can use their Thai payment apps to make P2M payments in Singapore with a QR code, and vice versa.

Success factors

Three success factors to make cross-border payment systems effective include:

1. Economics: The economics involved in rolling out a cross-border payment solution needs to be investigated first. Meaning that any pilot that is implemented must be scalable, and before the international scale is considered, the payment system must already have domestic scale. Domestic scale as a prerequisite allows users to build confidence in the system, which can be carried over when the system is used cross-border.
2. Safety and Security: Implementing cross-border payment networks cannot compromise the safety and security of domestic payment rails. The governance structure supporting cross-border payment arrangements needs to be built on trust, which is hard to build, yet easily lost.
3. Coverage: As many people and merchants need to have access to and accept the method of payment for a cross-border payment solution to be successful. NETS, as the scheme owner and acquirer in Singapore, has great coverage in the domestic market, and therefore has been and can continue to be a great facilitator for successful cross-border linkages.

Singapore

Speaker: Yogesh Sangle- *Global Head of Consumer Business, Nium, Singapore Fintech Association*

Panel: Paytech

The APAC payment ecosystem has leapfrogged many other regions in terms of progress towards the goal of making domestic and cross-border payments as frictionless as possible. Super-apps like Grab are doing well across the region and have helped to provide an ecosystem to build upon.

Cost

One success factor identified is cost, payments are already cheap in the region, however, they are not free everywhere, and this will be a big determinant of the success of any payment system. Associated with the cost are convenience and ease, there should be as few barriers as possible when it comes to executing a payment, and the result should make payments easy for people. Lastly, paytechs need to leverage new mechanisms put in place by central banks.

Financial Inclusion

When it comes to unbanked and underbanked populations, COVID-19 has significantly increased the exposure these groups have to digital payments. Stakeholders should continue to collaborate to ensure that this trend continues. This collaboration must have some element of forward-looking to address future problems.

Domestic success

For other markets outside of ASEAN, it is important to have a successful real-time domestic payment system, something that is lacking in the U.S. for example, before considering cross-border linkage.

Indonesia

Speaker: Dudi Bermawan Saputra- *Director, Bank of Indonesia*

Panel: Infrastructure

Payment connectivity within ASEAN has greatly improved over recent years through several bilateral arrangements. Successfully solving the cross-border payment problem can enable strong, sustainable, and inclusive economic growth and development in the region.

Key strategies

Firstly, QR payments are being used domestically and have started to be used in cross-border regional linkages. An arrangement between BI and BOT has been in place since August 2022, and arrangements with Singapore and Malaysia are expected to be complete in 2023. Secondly, regional interlinkage of fast payment systems to enable cross-border P2P transactions. Thirdly, standardise API, fourthly RTGS interlinking and lastly, effective anti-money laundering and combatting funding of terrorism frameworks.

Indonesia-Thailand QR connectivity

Progress of the Indonesia-Thailand arrangement is very positive as the use of the system is increasing. The main use case identified is enabling tourist spending for Thai tourists in Indonesia and vice versa.

Key takeaways

The RPC has great potential to facilitate international trade, financial integration, and sustainable economic growth in ASEAN. Solving these issues will also bring wider benefits to economies worldwide. However, regional cooperation and domestic collaboration between stakeholders are essential for the RPC's goals to be realised.

Indonesia

Speaker: Dina Artarini- *Head of AFTECH Payments System Department*

Panel: Paytech

Government support
Government support is an essential success factor for solving the cross-border payments problem. In 2022, Indonesia held the G20 presidency and emphasised how the G20 members and the ASEAN region can recover together, and stronger from the pandemic. This government support in Indonesia and within the region will go a long way in realising the goals of the RPC.

Collaboration: Financial Inclusion and Interconnectivity
Payment infrastructures play an important role in facilitating the financial inclusion of unbanked and underbanked populations. Government support in advancing payment infrastructures and digital payments, and collaboration between commercial banks and fintechs can help to facilitate this outcome.

Furthermore, effective collaboration between stakeholders can ensure interoperable and sustainable solutions to cross-border payment problems.

Philippines

Speaker: Mamerto Tangonan- *Deputy Governor, The Bangko Sentral ng Pilipinas*

Panel: Infrastructure

The Philippines has a lot to gain from a successful realisation of the RPC in three key sectors. Firstly, tourism, 36% of all tourists are from intra-ASEAN, secondly, trade, 21% of total trade is intra-ASEAN, and lastly, migrant workers make a significant contribution to workforces around the region.

Overview of BSP cross-border payment initiatives

The BSP has reiterated the key challenges associated with cross-border payments including cost, accessibility, lack of transparency and speed, and has identified that a solution to these frictions is essential for financial inclusion and economic integration domestically and regionally.

Implementing a solution to these issues starts with identifying use cases, some of which are identified above, including tourism spending, international trade, and remittances from foreign domestic workers back home. Collaboration between government and private sector entities including fintechs is an important next step. Lastly, is the development and implementation of bilateral and multilateral payment arrangements. Concerning bilateral arrangements, separate agreements with Singapore and Malaysia to provide cross-border interlinkage are currently being developed. The Philippines is also involved in the multilateral effort that is Project Nexus.

Best practices for successful cross-border linkages

1. **Market research:** Necessary research must be done to understand the current payment system(s) and to understand what consumers want out of new payment systems. This will ensure the sustainability, interoperability, and efficiency of new solutions.
2. **Communication:** Open and transparent communication between central banks is essential to build trust and enable effective collaboration.
3. **Collaboration:** Public-private collaboration between government and fintechs will allow for potential solutions to be reliable, and effective, and make use of the best infrastructure and technological standards.

Philippines

Speaker: Lito Villanueva- *Chairman, Fintech Alliance.ph*

Panel: Paytech

The Philippines is the fourth largest market for inward remittances in the world, with many of these remittances coming from Filipino foreign domestic workers across the region. Therefore, as mentioned above, the Philippines has a lot to gain from the RPC.

It seems like the RPC has come at the perfect time. The COVID-19 pandemic accelerated the adoption of digital payments domestically in the Philippines, and it is the perfect time to continue this momentum into cross-border linkage as the people are ready for these developments like account-to-account transfers between the different mobile applications.

Collaboration

The BSP has been at the forefront of promoting a sustainable digital economy for the Philippines. The Digital Payments Transformation Road Map has two key outcomes, firstly, convert 50% of transactions to digital, and onboard 70% of Filipinos to the formal financial system by the end of 2023.

All stakeholders including traditional banks, digital banks and fintechs are working towards an interoperable, digital payments ecosystem, which would go a long way in achieving the two outcomes set out above. Furthermore, the Government of the Philippines are fully committed to assisting with transforming manual payment practices in government areas to digital, as evidenced by a recently introduced bill in the Philippines legislature covering e-government payments and interoperable QR payments.

Regulatory framework

The regulator must be proactive and forward-looking, and this must be reflected in the regulatory framework. This will allow for creating the best possible solution(s) to the current frictions associated with cross-border payments.

Malaysia

Speaker: *Payments Network Malaysia (PayNet)*

Panel: Infrastructure

PayNet is Malaysia's premier payments network and central infrastructure for financial markets. We innovate, build, and operate world-class payment systems and financial market infrastructures that safely, reliably, and efficiently enable the functioning and development of Malaysia's financial system as well as the economy as a whole. Bank Negara Malaysia (BNM) is PayNet's single largest shareholder, with eleven Malaysian's Banks as joint shareholders.

Establishing domestic goals and growth

For years, PayNet has developed services and solutions excellency that benefit individuals, large and small businesses, as well as institutions. PayNet also continues to uphold the financial inclusion values and to actively strengthen the national journey in building a digitally literate, cashless society. To support the initiative, the National QR code system has been introduced and advocated by industries countrywide, resulting in a seamless transition for the domestic payment ecosystem. The interoperable QR standard between banks and non-banks have allowed instant, feasible payments and purchases by individuals, and one of PayNet's primary focus is to ensure sufficient support towards micro, small and medium enterprises (MSMEs). This has helped to establish their presence in the local digital economy, which has also been deeply impactful for them to accelerate transactions and expand their customer reach. Currently, 1.6 million merchants have accepted QR, with steadily rising numbers to come. Ultimately, this creates and cultivates a practical understanding on the QR payment culture between local individuals and businesses, as well as foreign visitors in Malaysia. Particularly, the QR enablement for MSMEs in the sub-urban and rural areas has helped fulfill the need for cashless behaviour post-pandemic. This has elevated their visibility and value in the domestic and international tourism that meaningfully contributes to the growth of our national economy

Since 2021, PayNet has been working closely with local counterparts and industry players i.e., banks and eWallets to realise the ASEAN-5 aspiration by 2025, through cross-border QR. These efforts are paramount to close regional payment gaps and guarantee a selective, safe parameter that can contribute to exponential transactions across industries and borders. Individuals, businesses and institutions in the tourism or professional industries will be benefitted immensely when these linkages are opened, and interoperability begins.

Accelerate active partnerships to enforce regional and global aims.
The regional payment landscape in recent years has vastly transformed to become the world's fastest growing in mobile wallets. The collective efforts for cross-border QR between the local banks i.e., Public Bank – being the first in Malaysia to enable, CIMB, AmBank, Maybank as well as eWallets such as Boost and Touch 'n Go (TNGD); together with regional countries such as Thailand (PromptPay), Indonesia (QRIS), and Singapore (NETS) will secure a positive outlook on an imminent growth in the ASEAN's digital economy and payments infrastructure. As recorded by the central bank, outward remittances grew by 10.5% to RM28.5 billion, contributed by foreign visitors. This has become crucial to strengthen the foundation in building regional network and foster its promising expansion. Consecutively, PayNet also aims at cross-border QR bilateral linkages with China, India, Philippines, and South Korea where initial talks and fundamental grounds have been cemented. PayNet's current and upcoming efforts reflect strong and active partnerships that facilitate the ease of building an effective cross-border linkage which will result in an enhanced end-to-end user experience and a seamless region wide acceptance. Further collaborations are evidently on-going with regional countries to cultivate the behaviour and consistently drive the usage of cashless cross-border payments.

Malaysia

Speaker: Ridzuan Aziz- *Country Director and Head of BD ASEAN, WorldRemit, Fintech Association of Malaysia*

Panel: Paytech

There are three important considerations when it comes to considering the development of fintech solutions in Malaysia:

1. **Conventional Economy:** Understanding how the conventional, western economy operates in Malaysia and among Malaysian residents will ensure that solutions are best adapted to the local population.
2. **Islamic Economy:** The unique cultural considerations associated with the Islamic economy are a further consideration for fintech solutions in Malaysia.
3. **Corresponding Themes:** It is important to consider how a specific fintech solution can be aligned with other themes or important areas like Environment, Social and Governance (ESG) and Sustainable Development Goals (SDG).

Payment infrastructure

The existing payments infrastructure has been designed to suit incumbent institutions like commercial banks and other industry players that existed when the system was devised. However, the infrastructure needs to be upgraded to allow fintechs to be effective.

Use cases

It is important to identify use cases that are important to the end users and critically think about how payments can help solve the pre-existing problems associated with the use cases. For example, understanding what experience and services the population wanted was an essential step in developing digital baking platforms in Malaysia. Collaboration with government and private sector entities is critical in devising successful and relevant solutions.

Paytech-user gap

Minimising the gap between paytech ideas, and the user expectation is important in ensuring any new paytech solution is successful. The flip side of understanding the user experience mentioned above is to ensure that our residents have the digital and financial literacy that will allow them to embrace the current technological advancements in the payments industry. By focusing on the user experience, and increasing literacy levels, the gap paytech-user gap can be minimised.

WRAP UP

Infrastructure Panel Moderator: Nigel Lee- *EPAA Advisory Board Member and SVP APAC, Ingenico*

Paytech Panel Moderator: May Lam- *EPAA Advisory Board Member and CIO, Australian Payments Plus*

Infrastructure vs Paytech

One key difference between the perspectives on cross-border payments between the two panels was the focus of the respective stakeholder. The paytech panel was honed in on different use cases and understanding of the user experience. Meanwhile, the infrastructure panel, driven largely by regulators, focused on providing connectivity and framework. This juxtaposition poses an interesting challenge for fintechs, how can they gain access to the new rails to bring the use cases to reality?

Scalability

The idea of scalability was a recurring theme throughout the infrastructure and paytech panels. An important consideration related to scalability is domestic relevance, and multiple panellists emphasised that strong domestic adoption is an important precondition to expanding a system to include cross-border payments. For example, PromptPay in Thailand was only effective in enabling P2P cross-border payments after it gained domestic uptake.

Role of the regulator

Regulators must play important, juxtaposing roles to facilitate successful solutions. They are important to create the foundational layers. However, when it comes to crafting outcomes, this is especially difficult for regulators because of their objectives. It is this part where fintechs can step in.

Collaboration

Collaboration between stakeholders like central banks, regulators, fintechs, commercial banks and users is undoubtedly essential to the implementation of successful domestic and cross-border payment systems. One important aspect of this collaboration is to understand and appreciate each stakeholder's different objectives and interests. Interests can be aligned, and solutions are more likely to satisfy all stakeholders.

We thank all parties involved in the APAC Fintech Payments Forum and a special thank you to the Fintech Associations who supported and collaborated in this third event.

We are looking forward to seeing you all in the next forum.

Please find more info about each association from their web page:

Emerging Payments Association Asia - https://emergingpaymentsasia.org/

Fintech Alliance PH - https://www.fintechalliance.ph/

Singapore Fintech Association- https://singaporefintech.org/

Fintech Indonesia- https://fintech.id/id

Fintech Association of Malaysia - https://www.fintechmalaysia.org/

Thai Fintech Association - https://thaifintech.org/

India Fintech Forum - https://www.indiafintech.com/

Fintech Australia - https://www.fintechaustralia.org.au/

Fintech Association of Hong Kong - https://ftahk.org/

Fintech New Zealand - https://fintechnz.org.nz/

Fintech Japan - https://fintechjapan.org/en/

Payments NZ- https://www.paymentsnz.co.nz/

Summarised by Liam Hardev Tierney

Liam Hardev Tierney is currently pursuing a Bachelor of Arts and Bachelor of Laws at the University of Sydney. He is interested in exploring legal challenges associated with implementing new technologies as well as how the law needs to adapt to effectively regulate technological development and implementation. There are several emerging technologies and applications of technologies in the payments field that makes it an exciting area for Liam and he is looking forward to getting exposure to these issues and hoping to pursue a career in relation to technology and the law.

FINTECH PAYMENTS FORUM

With a vision to improve lives everywhere through payments

"It is the long history of humankind (and animal kind, too) that those who learned to collaborate and improvise most effectively have prevailed."
Charles Darwin

FINTECH ASSOCIATION OF JAPAN
SFA SINGAPORE FINTECH ASSOCIATION
FAOM
fintech indonesia
FinTechNZ
TFA
FINTECH ASSOCIATION OF HONG KONG
India FinTech Forum
FINTECH ALLIANCE.PH
FinTech Australia
paymentsnz