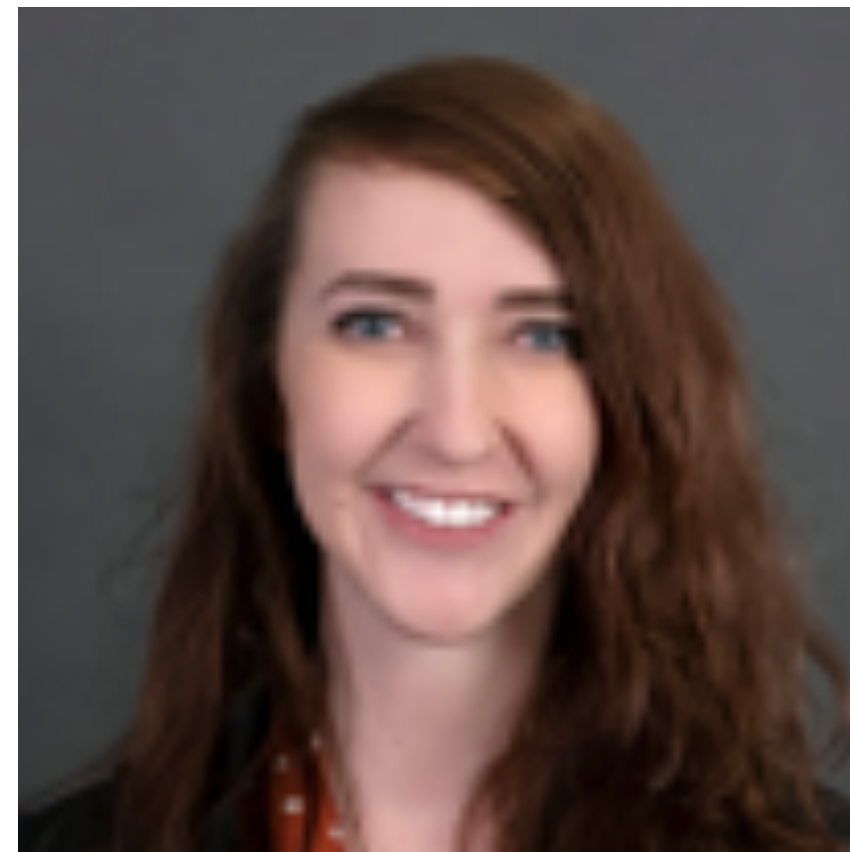


Scheme Governance

In Real Time Retail Payment Systems

Presenters



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About Glenbrook

- Glenbrook Partners is a payments industry strategy consulting, research, and education firm.
- Glenbrook helps clients derive unique value within commerce and payments ecosystems across the globe and in their local communities.
- We believe that efficient and inclusive financial services are vital to economic growth. At Glenbrook Partners, we are focused on helping our clients achieve these efficiencies and promote financial inclusion for the good of the global economy.

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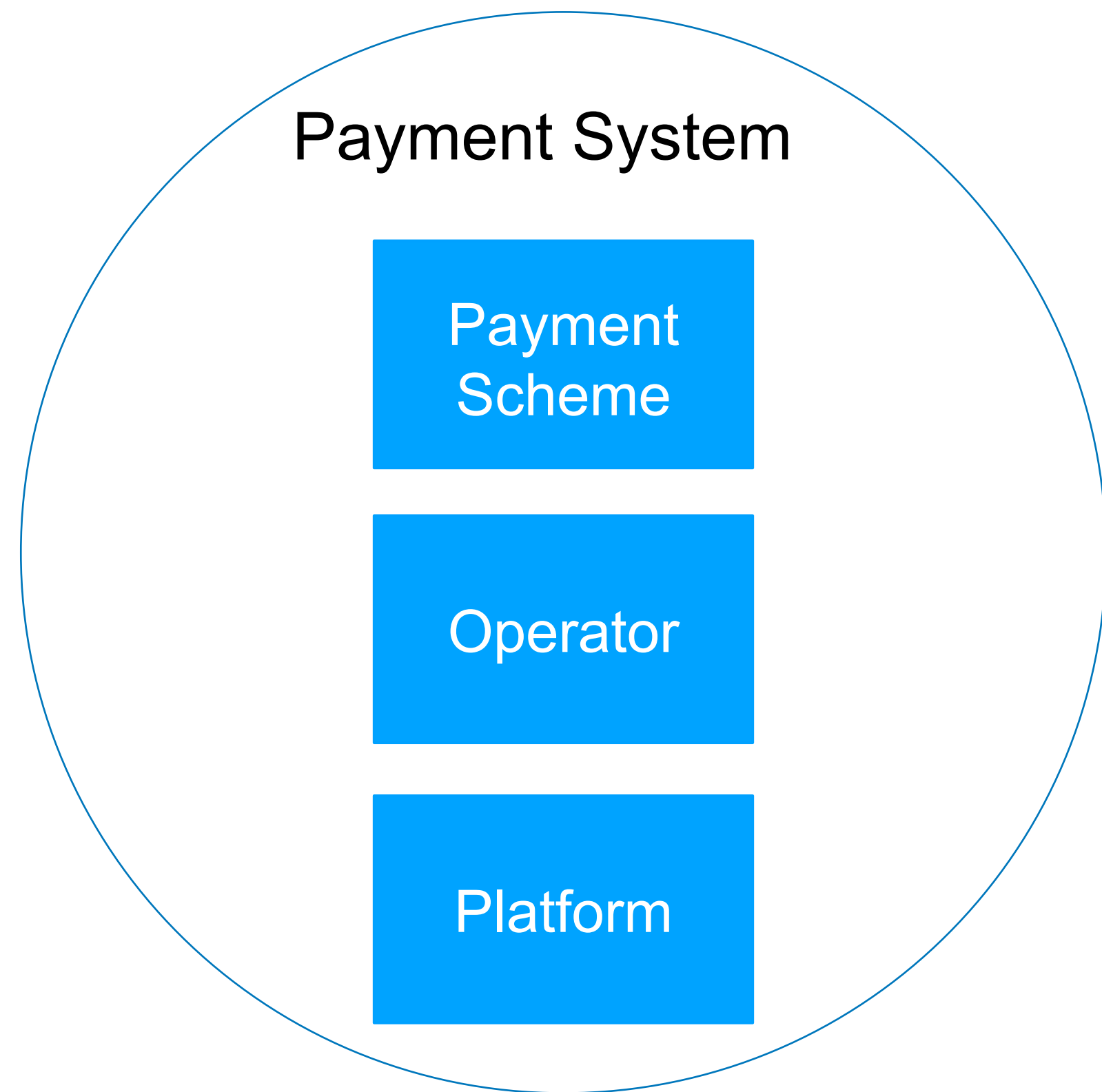
Agenda

- Intro to Governance
- Common Governance models and their alignment to the Level One Project Principles
- Implications for Mojaloop



Intro to Governance

Core components of a Payment System



Payment System: The system that facilitates transactions of monetary value between parties. A Payment System is comprised of a Scheme, an Operator, and a Platform.

- **Payment Scheme:** A set of rules, standards, and policies that outlines major Payment System decisions
- **Operator:** The entity that manages the platform of a payments system
- **Platform:** The processing entity that routes a transaction from one DFSP to another DFSP and may provide additional functions and features.

Grounding ourselves in Examples

	UK	Mexico	Tanzania
Payment Scheme	Faster Payments	SPEI	TIPS
Operator	Pay.UK	Banco de Mexico	Bank of Tanzania
Platform	Vocalink	Proprietary	Proprietary (leveraging Mojaloop)

About Payment Scheme Governance

Governance

Governance represents the collection of management approaches, decisions, and oversight functions within the Payment Scheme.

- Governance is essential
 - Provides structure for payment schemes to set objectives, operate
 - Sets the tone for everything that occurs in the scheme
- Governance can promote or deter financial inclusion
 - Certain models lend themselves to a pro-poor structure, though all can achieve financial inclusion goals

L1P Governance Principles to Drive Financial Inclusion

There are three critical components of governance that should be pursued to best promote financial inclusion.

These are:

Principles

**Equal
Ownership**

All direct participants of the scheme (banks and non-banks) are provided equal ownership opportunities in scheme governance as well as in scheme payment operations.

**Participant
Engagement**

Direct and indirect participants are provided formal and informal mechanisms to provide input on the direction of the scheme, including the scheme rules.

**Ensuring a
Pro-Poor
Posture**

The scheme operates as a not-for-loss and the entity managing the scheme maintains a pro-poor posture where payments are considered a shared utility not a profit maximizing activity.



Common Governance Models

and their alignment to the L1P Principles

Governance: *Structure Types*

Payment scheme governance models can be understood through three primary structures:

Central Bank Led

A Central Bank, or government entity, has authority over Payment Scheme rules

Commercial Led










A Commercial entity has authority over the Payment Scheme rules

Association Led

An Association (a group with a shared purpose) as authority over the Payment Scheme rules

Governance: Benefits and Risks of Structure Types

Our research identified strengths and weaknesses of each entity type relative to achieving the three financial inclusion components of governance.

Components	Central Bank Led	Commercial Led	Association Led
Equal Ownership	 Impedes <i>No requirement to include others in ownership opportunities</i>	 Impedes <i>No requirement to include others in ownership opportunities</i>	 Neutral <i>Ownership typically available but bank and non-bank equality at risk</i>
Participant Engagement	 Neutral <i>No requirement to include others but government led engagements tend to promote stakeholder engagement</i>	 Impedes <i>Structure tends to promote closed group thinking</i>	 Supports <i>Structure tends to promote stakeholder engagement and the identification of basic common industry interests</i>
Ensuring a Pro-Poor Posture	 Supports <i>Can mandate not-for-loss scheme and pro-poor posture</i>	 Impedes <i>Structure highlights risk of becoming profit seeking</i>	 Supports <i>Shared goals tend to promote utility focus</i>

Opportunity for Ownership - EXAMPLES



BANCO DE MÉXICO

Mexico, Banco de Mexico

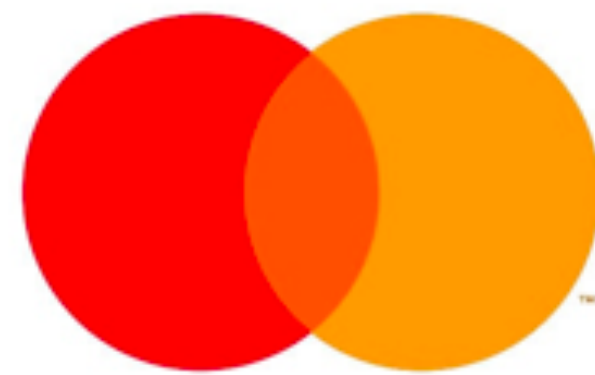
Banco de Mexico, as the Central Bank of Mexico, provides no opportunity for ownership by scheme participants



Namibia, Payments Association of Namibia (PAN)

Membership ('ownership') in PAN is open to all licensed providers, both banks and non-banks, who have equal representation opportunities

Participant Engagement - EXAMPLES



Global, Mastercard

Mastercard has formal direct and indirect participant forums, for example, Merchant Forums and Acquirer Forums. That being said, it is unclear to what extent these allow for the opportunity for formal feedback on scheme rules



South Africa, PASA

PASA is the rule making authority for multiple schemes in South Africa. As an Association with a full-bodied organizational structure, it seeks perspectives from members and non-members through various formal structures, including for input on scheme rules

Ensuring a Pro-Poor Posture - EXAMPLES



Peru, PDP, Bim

Pagos Digitales Peruanos (PDP) is a for profit Association, but the scheme they manage, Bim, is intended to promote financial inclusion in Peru by serving as a utility payments scheme for low value payments



Canada, Interac

Interac is now established as a for-profit corporation (previously a Corporation and an Association). That being said, it aims to provide the Interac scheme to participating institutions at a low cost, potentially forfeiting revenue to drive volume and inclusion

How Governance Models Interact with L1P Scheme Design Principles

Inclusive Participation and Low Cost

Models that allow a broad set of providers tend to promote open participation and *3rd Party Connection*, *Interoperable* services at *Scale*, as well as have a *Low Cost Mandate* that allows participants to compete on service to end users and value-added products.

Central Bank and Association models may be better positioned to support these principles.

Relevant Products and Services

All payments schemes offer payments services but not all services are relevant for increasing financial inclusion.

Push/Real-Time payments, *Irrevocable* transactions, accessed via a *Directory* of user aliases are all supportive of financial inclusion.

All three models are well positioned to support these principles.

Enabling Government Support

Creating supportive conditions for *Shared Fraud Management*, leveraging national infrastructures to support same day *Settlement* may more likely be found with the **Central Bank** led model.

Additional Benefits and Challenges of Governance Models

Central Bank Led

- **Potential benefits**
 - Policy alignment
 - Can mandate behavior
- **Potential downsides**
 - Willingness to include new market participants
 - Ability to consider market forces

Commercial Led

- **Potential benefits**
 - Ability to invest in innovation and take risk
 - Ability to pivot quickly
- **Potential downsides**
 - Bottom line mentality (quarterly focused, if public)

Association Led

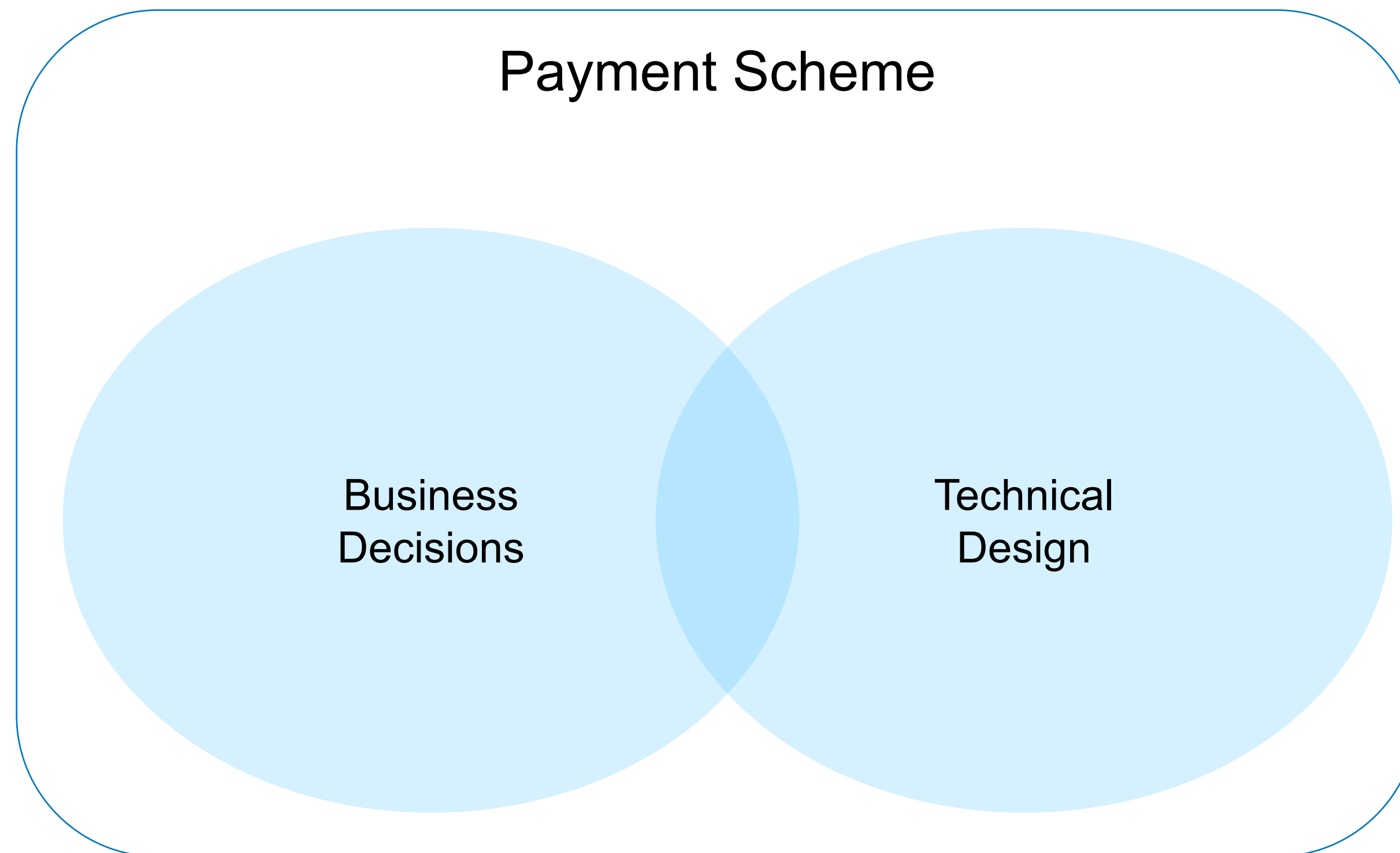
- **Potential benefits**
 - Ability to efficiently invest money in shared infrastructure
- **Potential downsides**
 - Understanding (and agreeing) where collaboration stops and competition begins
 - Difficult to change course quickly

“If you are talking about efficiently investing money with no profit margin – that’s when an Association structure makes sense to me. But what is always controversy in an Association- who does product development?”



Implications for Mojaloop

Governance is Likely to Influence Business Rules and Technical Design



- A Payment Scheme determines the business decisions and technical design of the scheme and system; spheres that inform and influence one another.
- Governance represents the collection of management approaches, decisions, and oversight functions within the Payment Scheme.

Ensuring Payment Scheme Governance Promotes Financial Inclusion

Governance models should be a deliberate consideration when creating or transforming a payments scheme.

In other words, the goal of enabling affordable digital financial services must be cultivated with supporting governance structures and activities. Otherwise, there is a risk that this goal will be marginalized alongside other desired outcomes.

Regardless of the governance structure selected, entities should work to ensure:

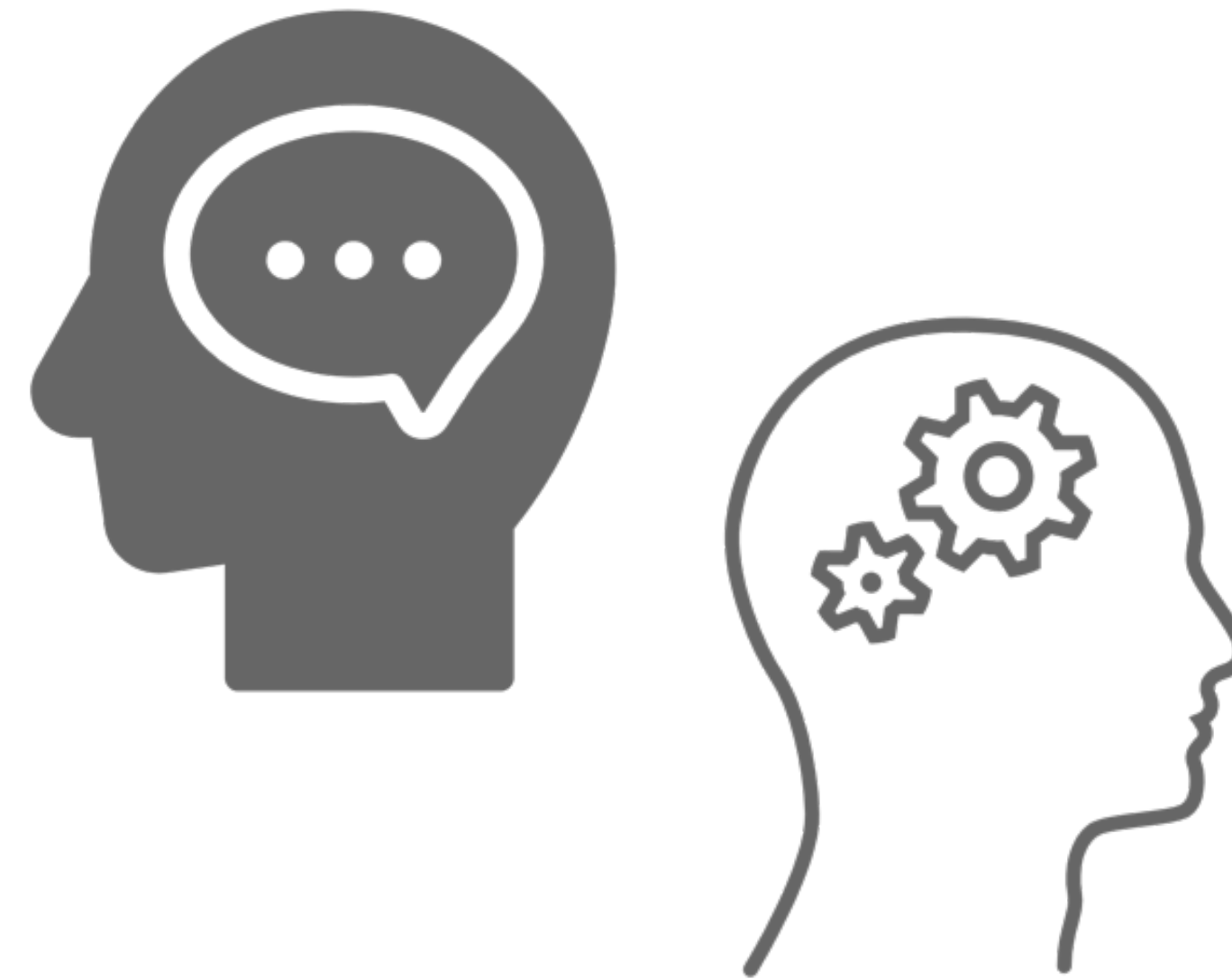
- All direct participants of the scheme (banks and non-banks) are provided equal ownership opportunities in scheme governance as well as in scheme payment operations.
- Direct and indirect participants are provided formal and informal mechanisms to provide input on the direction of the scheme, including the scheme rules.
- The scheme operates as a not-for-loss and the entity managing the scheme maintains a pro-poor posture where payments are considered a shared utility, not a profit maximizing activity.

Nevertheless, the most suitable governance structure may vary somewhat by country/regional circumstances and the mix of priorities.

Entities must evaluate how best to foster all principles that promote financial inclusion (governance and non-governance).

Considerations for Mojaloop

- What do we need to do as a community to ensure we can design and build for multiple governance models?
- How and to what extent do we advocate for models that are best suited for financial inclusion?



Thank you

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