



The Legal Framework of the National Payment Systems

In 2013, the Central Bank of Oman (CBO) in collaboration with The World Bank worked on developing a national strategy for payment systems. The team began the exercise by assessing the ground situation and holding in-depth analysis and studies on the rapid developments in the payments and technology sectors, so that it can bring on-board and implement successful ways to develop this vital sector of the financial system that supports modern financial technology (Fintech). One of the outcomes of this strategy is the legal framework of the national payment systems.

CBO has envisaged that, legal and regulatory framework will contribute in enhancing the work and operation of Sultanate's payment infrastructure and systems established by CBO. This endeavour will ensure high quality, safe and fast payment services for customers, and extend these services to include those people and areas, which have not been covered by banking services so far, thereby ensuring financial inclusion. This framework provides a significant platform for not only keeping up with the technological advancements, but also to attract innovators and customers to the financial and banking sector, which shall contribute in the further growth and development of the national economy in Oman.

1. The National Payment Systems Law (NPSL)

Due to the absence of legislation governing the operations of the payment activities in Oman, the Central Bank has worked on a law that regulates the national payment systems, in collaboration with other national & international organizations. The National Payment Systems Law was promulgated on 20th Feb 2018 in accordance with Royal Decree No. 8/2018.

We can say that a pioneering work has been accomplished, as there is no special law in the region for payment systems. The regional Central Banks have only issued instructions on payment operations, and this is being reassessed by many countries



as these regulations does not represent the appropriate & complete legislative framework for the payment systems.

The law includes (76) articles categorized under (11) chapters. The most important aspects covered in the law are:

1. Licensing all activities related to payment systems for the banking sector and non-bank institutions that provide services related to payment systems.
2. The obligations pertaining to Payment System Participants, Payment System Operators and Payment Service Providers.
3. The oversight and supervision of the national payment systems.
4. Ensuring “Finality” on payments that are routed through the systems.
5. Protection rights of the payer & the payee being users of electronic payment systems. For example, enabling the criminal penalties related to direct debit mandate.
6. Enabling the developments of innovative ideas to provide payment services.
7. The legal status of “e-money” and how to deal with it.
8. The criminal penalties to be imposed in the case of not abiding to the law provisions.

2. The Secondary Regulation to the NPSL

H.E. Sultan bin Salim bin Said Al Habsi, Deputy Chairman of the Board of Governors of the Central Bank of Oman, issued the decision No. 1/2019 dated 22 July 2019 promulgating the Executive Regulation of the National Payment Systems Law, which is accordingly published in the Official Gazette on 28th of July 2019, and has come into force on the day following the publication date.



This regulation is detailed and covers matters related to the execution of the provisions of the law, and is a necessary complement to the legal framework of the payment systems, especially since this legal framework is the first of its kind across the region and represents a major achievement of the Sultanate.

The Regulation includes (89) articles, divided into eleven chapters covering the following topics:

1. Licensing: The provisions of the Regulation are detailing the requirements and conditions of the license, and the approvals granted by CBO to payment service providers, system operators, participants, settlement agents and all parties that form partnerships or act as agents of the licensees in line with the implementation of the policies of the payment systems targeted by the Central Bank of Oman.
2. Electronic Money: The Regulation provides all necessary requirements for the issuance of electronic money as well as the rules for the regulation, oversight & supervision of e-money CBO.
3. Direct Debit: In order to keep abreast with technological developments and provide effective payment tools, this payment instrument has been created in the National Payment Systems Law. The Regulation provides the necessary and detailed provisions for the use of this instrument. It is expected that the use of direct debit will exceed that of paper cheque, which shall in help achieving the policy of reducing the use of cash in the payment process. This, in turn, will have a positive effect on the banking system in various financial transactions such as financing and payment through instalments.
4. The Regulation also includes a chapter on the automation and electronic cheques clearing, which is currently managed and operated by CBO.
5. The Central Bank Supervisory and Regulatory Authority: It is well known that the establishment of effective and secure payment systems requires to have in place a regulatory framework with clear powers and authorities, since the regulatory



framework constitutes an important pillar for the payment system in any country.

6. In addition, the regulations include several chapters and provisions dealing with those issues which the law provides for referral to the Regulation. This includes regulating the engagement of third parties and appointing agents, which will enhance the financial inclusion and the dissemination of payment services in many areas, as well as strengthen the partnership between financial, technological and other sectors, such as communications, in order to provide payment services to the public. The Regulation also include a chapter on administrative sanctions, which is an important tool within the CBO's supervisory and regulatory jurisdiction.