

Notice of the People's Bank of China on Regulating the Payment Collection Service

To the People's Bank of China ("PBC") Shanghai Head Office, branches, operation management offices, and central sub-branches in capital cities of provinces (autonomous regions) and sub-provincial cities; state-owned commercial banks, joint-stock commercial banks, and the Postal Savings Bank of China; clearing institutions; and non-bank payment institutions:

This *Notice* is hereby issued to regulate the payment collection service, protect the legitimate rights and interests of the parties, and forestall payment risks. The specifics are as follows.

I. Definition of the Payment Collection Service

1. In this *Notice*, "payment collection service" or "collection service" refers to the payment service in which, subject to the consent of the payer, a collecting agency engaged by the payee deducts funds from the payer's account at the payer account institution and transfer them to the payee at such frequency, amount cap, and other conditions as agreed by the parties, without requiring the payer account institution to further confirm each such transaction with the payer.

The collection service is applicable to specific payment scenarios where the payee is fixed and the payment frequency, amount cap, or other conditions have been agreed upon in advance and are relatively fixed.

2. In this *Notice*, "collecting agency" refers to an agency that makes payment instructions to the payer account institution and completes the subsequent funds transfer procedures in accordance with the payee's requests. Collecting agencies include banking financial institutions ("banks"), as well as non-bank payment institutions licensed for online payment services or bank card acquiring services ("payment institutions").

Payment institutions licensed for online payment services may provide collection services for online participating merchants; payment institutions licensed for bank card acquiring services may provide collection services for physical participating merchants.

3. In this *Notice*, "payer account institution" refers to an institution that opens a

bank settlement account or payment account for a payer, consisting of banks and payment institutions licensed for online payment services.

II. Payer's Authorization and Administration of Payer Account Institutions

1. A payer account institution should obtain the payer's authorization before or when providing collection service for the payer for the first time. The authorization should specify the name of the payee, the purpose of payment, payment account number, payment cycle or conditions, effective period for the authorization, service fees, and other relevant matters.
2. A payer account institution should establish risk management measures for its collection service in accordance with the payer's authorization and its own risk management strategies. For payers' authorizations that have been given non-face-to-face, more rigorous risk management measures should be put into place.

The payer account institution should, through an effective method, expressly inform the payer of the information relevant to the collection business, including without limitation relevant business risks, payment limits and other risk management measures, handling of disputes, ways of change and termination of the payer's authorizations, and the assumption of liabilities.

3. On the premise of risk control, a payer account institution should offer convenient means for payers to establish, change, or terminate their authorizations, and promptly inform payers of the status of their authorizations. Those means may include but are not limited to counter service, self-service equipment, the internet, telephone, and text messages.

The payer account institution should properly retain and timely update payers' authorization information and offer convenient means for the payers to inquiry such information.

4. A payer account institution should verify the elements of an authorization during each transaction. Where the authorization has not been given or its elements are inconsistent with the transaction concerned, the payer account institution should refuse to process the transaction and alert the payer to the risk.

The payer account institution should notify the payer through text message, WeChat, email, or other effective means previously agreed upon of the information concerning the collection service provided for each transaction. In the case of an abnormal transaction, the payer account institution should promptly contact the payer for verification and risk alert. The said information should include without limitation the name of the payee, the payment amount, and applicable payment scenarios.

5. A payer account institution should handle (including collection, storage, use, processing, transmission, provision, and public disclosure, etc.) the information needed for the collection service on a lawful, legitimate, and as-needed basis, and take the necessary measures to ensure information safety and security and prevent information leakage, tampering, or loss.

A payer account institution should, through an agreement or otherwise, expressly inform payers of the purpose, manner, and scope of information handling and obtain their consent. The institution should determine the rights and obligations of the parties to the agreement on an equitable basis, take appropriate measures to alert the payers to those terms of the agreement that have a material impact on them, and explain the relevant provisions.

III. Administration of Payees and Collecting Agencies

1. A collecting agency should perform customer identification procedures on the payees as required, and take effective measures to verify the identity of the genuineness and legality of each payee and its operational activity as well as the necessity of the payee's use of the collection services, and whether such use falls under the applicable payment scenarios specified in this *Notice*.

It is not permissible for collecting agency to provide collection services for unlawfully established organizations or illegal transactions.

2. A collecting agency should execute a collection service agreement with each payee. Matters to be set out in the agreement include without limitation the account for payment collection, the purpose of the funds collected, settlement cycle or conditions of the funds to be collected, service fees, risk management measures, and handling of disputes.

The payee's account for payment collection should be opened in its own name. If, for franchise operations under a single brand, group management, or otherwise, it is indeed necessary for the payee to use a non-like-titled account to collect funds through the collection service, the collecting agency should verify the identity documents of the owner of the payment collection account, and confirm that the payee is linked to the account and the account owner by a lawful funds management arrangement through a funds collection agreement or a similar arrangement.

3. A collecting agency should, for each transaction it handles, verify the transaction against the matters agreed in the collection service agreement as well as the authorization status of the payee and the payer during the handling process. The collecting agency should refuse to handle relevant processes if the service requested by the payee is inconsistent with the matters agreed in the collection

service agreement.

4. A collecting agency should conduct classification management of payees according to their designated risk ranks. With respect to payees of higher risk levels, a collecting agency may impose such measures as reviewing and retaining the authorization agreements between the payees and payers, setting a limit on the transaction amount, requiring deposits, or delaying funds settlement.
5. A collecting agency should periodically check the compliance of payees, and take effective measures to prohibit the abuse, lending, leasing, or selling collection service interfaces, or the falsification or forgery of transaction information. Where a payee is suspected of misusing the collection service interfaces or falsifying or forging transaction information, the collecting agency should investigate and verify the incident in a timely manner and take such measures as delaying funds settlement or suspending the collection service. If the payee is found to have falsified or forged the transaction information, the collecting agency should refuse to handle the transaction and promptly report the situation to the Payment and Clearing Association of China and relevant clearing institutions. Suspected illegal activities and crimes should be promptly reported to the public security organs.
6. When handling an inter-agency transaction, a collecting agency should send transaction information in accordance with relevant collection service rules of the clearing institutions and ensure the truthfulness, integrity, and traceability of information, and should not fabricate, tamper with, or withhold transaction information.
7. A collecting agency should handle (including collection, storage, use, processing, transmission, provision, and public disclosure, etc.) the information needed for the collection service on a lawful, legitimate, and indispensable basis, and take the necessary measures to ensure information safety and security and prevent leakage, tampering, or loss.

A collecting agency should, through an agreement or otherwise, expressly inform payees of the purpose, manner, and scope of information handling and obtain their consent. The collecting agency should determine the rights and obligations of the parties to the agreement on an equitable basis, take appropriate measures to alert the payees to those terms of the agreement that have a material impact on them, and explain the relevant provisions.

IV. Applicable Payment Scenarios of the Collection Service

1. If separate payment collection agreements have been executed by the payer and the payee, or the payer and the payer account institution, or the payee and the

collecting agency, the payer account institution may permit the payer to (and the collecting agency may at the request of the payee) make the following transactions through the collection service: fee payment for public services, government services, telecommunications services, or non-investment insurance; charity donations; credit card payments, or loan repayment to other institutions established with the approval of the banking regulatory authority under the State Council and qualified to offer loans; bank account deposits; funds collection; or payment of rent, membership fees, or other small sums meant to provide convenience to the public. See Appendix for the specific applicable payment scenarios.

2. If a tri-party payment collection agreement has been executed by the payer, the payee, and the payer account institution, then in addition to the applicable scenarios listed in the item (1), the payer account institution may permit the payer to (and the collecting agency may at the request of the payee) make the following transactions through the collection service: payment of education or training fees; repayment of loans granted by micro-credit companies; investment, either at regular intervals or fixed installment amount, in funds or wealth management products approved by or filed with the financial regulatory authorities under the State Council; or payment of investment insurance fees. See Appendix for the specific applicable payment scenarios.
3. A payer account institution may not refuse any payer who wishes to use the collection service to repay credit card debts or bank loans under its own name, except prohibited by laws, regulations, or regulatory rules.
4. Where a collecting agency handles funds collection or credit card or loan repayment services for the payee through the collection service, it should, in the case where such services involve funds transfers between a payment account and a bank account, comply with the provisions of the *Administrative Measures for the Online Payment Business of Non-Banking Payment Institutions* (Announcement No. 43 [2015] of the PBC) regarding the requirement that the bank account and the payment account be owned by the same customer.
5. A payer account institution or collecting agency should take effective measures to enforce the applicable payment scenarios of the collection service and should not transfer funds through the collection service for payment scenarios other than those specified in this *Notice*.
6. Payments in which a bank or payment institution sends a payment instruction to a payer account institution after each transaction and then immediately transfer the funds from the payer's payment account or bank account without further verification by the payer, are governed by the rules on PIN-free small payments under the *Administrative Measures for the Online Payment Business of Non-*

Banking Payment Institutions and should not be processed through the collection service.

V. Service Standards of Clearing Institutions

1. Any clearing institution that provides interchange and clearing services for the collection service should formulate detailed rules and message standards for the collection service. The relevant rules should be made available to its member institutions and submitted to the PBC.
2. A clearing institution should establish sound risk management mechanisms for the collection service, optimize its suspicious transactions surveillance models, and promptly alert member institutions to the collection service risks. It should take prompt and effective actions, including without limitation suspension of interchange and clearing services, against payees, payer account institutions, and collecting agencies that commit violations.

VI. Supervision

1. PBC branches should duly perform supervisory responsibilities within their jurisdictions, prioritize, in their inspection programs, the compliance check against this *Notice*, and raise the penalties on violations. PBC branches should promptly report serious violations to the PBC.
2. Where a bank or payment institution violates this *Notice*, the PBC or a PBC branch will, in the case of a minor offence, reprimand it through a public notice and order it to make corrections within a specified period; and, in the case of a serious offence or a failure to make corrections within the specified period, penalize it in accordance with the *Law of the People's Republic of China on the People's Bank of China* and *Anti-Money Laundering Law of the People's Republic of China*, and may additionally order clearing institutions to suspend their interchange and clearing services for its collection service.
3. Where a clearing institution violates this *Notice*, or continues to provide collection service-related interchange and clearing services when it knows or should have known that a member institution has violated this *Notice*, the PBC or a PBC branch will, in the case of a minor offence, reprimand it through a public notice and order it to make corrections within a specified period; and, in the case of a serious offence or a failure to make corrections within the specified period, penalize it in accordance with the *Law of the People's Republic of China on the People's Bank of China*.

VII. Ancillary Provisions

1. This *Notice* is applicable to banks and payment institutions that provide the collection service for payees and payers who are both their own customers.
2. This *Notice* takes effect in six months after the date of release. Banks, payment institutions, and clearing institutions should review their existing collection services against this *Notice*, formulate correction action plans, and implement them after submitting them to the PBC or its branch for approval.

PBC branches are hereby requested to forward this *Notice* to city commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives, village banks, and foreign-funded banks within their jurisdictions.