

CHAPTER 2

Strategic Framework

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CHAPTER 2

Strategic Framework

2.1 PRIMARY GOAL

[25] The primary goal of the NPS is:

TO ENABLE THE CIRCULATION OF MONEY⁵

[26] This goal emphasises the fact that the NPS is an enabler of economic activity. It provides the conduit essential for effecting payments, domestically and internationally. The NPS is a critical component of the financial system, which enables the transfer of money and supports economic activity throughout South Africa. In this sense, the NPS contributes to and is a prerequisite for a sound financial system.

2.2 OBJECTIVES

[27] The objectives of the NPS are:

- to provide effective mechanisms for the exchange of money between transacting parties;
- to ensure finality and irrevocability of both payment and settlement; and
- to enable the management, reduction and containment of systemic and other payment-related risks.

2.3 VISION 2004

[28] The South African NPS envisaged for the year 2004 will be characterised by the following:

2.3.1 Systemic risk in the NPS is under control

[29] Risks related to payment systems are well understood and managed by participants individually and for the system as a whole, across all payment streams. The risk profile of the NPS is acceptable to every participant in the system.

[30] The system is perceived by its users in the domestic and international markets as being stable, secure and robust.

2.3.2 The NPS is self-regulated

[31] The NPS is a self-regulating system, with minimal intervention from the authorities.

5. Money is used here in its broadest sense, that is, all forms of payment, such as cash, cheques, cards, electronic payments, etc.

[32] The SA Reserve Bank, as overseer of the NPS, is at all times in a position to monitor the system by means of access to information pertaining to individual banks and the system as a whole. Equally, individual banks are able to monitor their own positions, vis-à-vis other banks.

2.3.3 The settlement of domestic interbank obligations is effected on a same-day-basis

[33] All domestic interbank obligations are settled on the value date of the settlement instruction.

[34] Interbank settlement in central bank money takes place throughout the day.

2.3.4 Banks compete on an equal footing in the provision of interbank clearing and settlement services

[35] Banks, as financial intermediaries, participate on an equal footing in interbank clearing and central bank settlement processes.

[36] Only banks participate in the interbank clearing and central bank settlement processes.

2.3.5 The NPS is open

[37] The payment-service business is perceived to be open to both local and foreign participants that wish to provide payment services to customers. Participation is qualified by equitable risk-based and other entry criteria and adherence to accepted codes of conduct.

2.3.6 There is healthy competition amongst customer payment-service providers

[38] Customer payment-service providers compete freely in the provision of payment collection and payment delivery services to customers.

[39] An extended network of customer payment-service providers exists, which includes banks, corporates, retailers, utilities, etc.

2.3.7 The NPS is a national business asset

[40] The NPS is recognised by the business community as a national asset, supporting the emergence of South Africa as a global player in international financial markets and as the regional financial centre.

2.3.8 The NPS is easily accessible

[41] Individuals and businesses wishing to make domestic and international payments have access to the NPS in all areas of South Africa.

2.3.9 The NPS is cost efficient

[42] A shared payment infrastructure provides an economical and efficient mechanism for effecting payments, thereby alleviating the need to duplicate facilities.

2.3.10 The public is aware of NPS features

[43] The broad South African population is aware of, and educated in, the usage of NPS facilities and payment instruments.

2.3.11 The trading and payment domains are separate but integrated

[44] Although electronic trading systems in the different markets can link operationally with the electronic payment-processing infrastructure (NPS mechanism), finality of payment is achieved only through the intermediation of a participating bank.

2.3.12 The NPS supports electronic delivery versus payment (DVP) and payment versus payment (PVP)

[45] The NPS supports delivery versus payment from the trading markets (for example, the bond market) and payment versus payment from the foreign-exchange markets.

2.3.13 The NPS is internationally compatible

[46] The NPS is in harmony with international standards⁶, practices and systems. It is integrated into and/or co-exists with global payment systems.

2.3.14 Payment settlement time-lags resulting from trading transactions are in line with international practice

[47] The time delay between the trading transaction in the financial markets and the settlement of the associated payment instruction is in line with acceptable international practice.

2.3.15 The international community has an appreciation of the effectiveness of the South African NPS

[48] The international financial community is aware of the capabilities and features of the NPS and uses it to transact not only payments with South African financial institutions but also international payments in other markets.

[49] The South African payment system is respected internationally and is perceived as unlikely to trigger an international systemic problem or to succumb to such a crisis.

2.4 CRITICAL SUCCESS FACTORS

[50] The success of the NPS should be measured against achievement of the following critical success factors:

2.4.1 Adequate risk-control measures

[51] All participants have a clear understanding of their risks in the NPS and their liability in terms thereof.

6. For example, Lamfalussy Standards, Group of 30 Recommendations, etc.

[52] All payment streams contain appropriate risk-control and risk-containment measures.

[53] Sufficient information pertaining to payment-related risks is available for risk-control purposes.

2.4.2 Irrevocability of settled transactions

[54] All interbank settlement instructions processed through the central bank settlement system are irrevocable, and the finality thereof is guaranteed as a result of legal certainty having been obtained.

2.4.3 Synchronisation⁷ of delivery and payment

[55] The NPS provides for delivery versus payment (DVP), specifically in the financial markets. To this end, the NPS facilitates the synchronisation of delivery of scrip with the payment thereof.

2.4.4 Facilitation of monetary-policy execution⁸

[56] The NPS mechanism enhances the ability of the SA Reserve Bank to execute monetary policy.

[57] The NPS provides banks with the necessary information to manage their demand for central bank money and to react immediately to new market conditions or to unexpected shortages or surpluses.⁹

2.4.5 Sufficient liquidity

[58] Settlement banks are able to fund their settlement accounts.¹⁰

2.4.6 Confidentiality and security

[59] The NPS mechanism ensures the privacy of all transactions. The confidentiality required in a competitive environment cannot be compromised in any way by the mechanisms transporting information on payments through the NPS.

7. According to current market practices, the market settlement of trades is the net delivery of paper and the reciprocal payment (also referred to as scrip settlement and cash settlement). Market settlement takes place before interbank settlement and, therefore, does not imply finality of payment.

8. The payment system must facilitate and not neutralise the effective execution of monetary policy. Payment system practices must be in step with the objectives of monetary policy. A real-time high-value payment system will permit the transfer of funds requiring the utilisation of intraday liquidity. As a result, monetary dynamics will change in ways that may require the SA Reserve Bank to review monetary-policy execution. The SA Reserve Bank will investigate the effects on monetary-policy execution to ensure that payment-system developments are compatible with monetary policy.

9. Robert Reynders, Director, National Bank of Belgium : "Is Public Policy Regarding Payment Systems being Misplaced and Misdirected?", Payment Systems International Conference, Sydney, 1994.

10. This implies, *inter alia*, that:

- there is a sufficient stock of securities, acceptable to the central bank for collateral purposes;
- there is an active secondary market in such securities, enabling settlement banks to obtain such paper from other parties in the event of shortfalls in their own holdings for settlement purposes;
- acceptable collateral can take the form of securities and/or other acceptable less liquid assets; and
- liquidity can be provided through intraday accommodation accounts, on the same conditions as interday accommodation.

[60] All payment and settlement instructions are validated for authenticity.

2.4.7 Sound legal foundation

[61] Appropriate legislative provisions recognising agreements between participants are in place. This implies an appropriate and effective framework, which, *inter alia*:

- provides legal certainty with regard to the rights and obligations of the respective participants;
- provides a sound and enforceable basis for resolving conflicts between transacting parties, intermediaries and regulators;
- provides a legal foundation for clearing, netting and settlement arrangements between participants in each particular payment stream;
- creates a legal environment in which specified criminal activities are to be reported; and
- provides legal clarity in bank curatorship and liquidation situations.

2.4.8 Robustness¹¹

[62] The NPS is reliable and provides adequate protection to the financial system in crisis situations.

2.4.9 International compatibility

[63] The NPS complies with international standards and practices¹² to facilitate international transfers and ensure compatibility with payment instruments, systems and standards developed internationally.

2.4.10 National standards

[64] NPS standards exist on a national level and/or within a holistic context to enable:

- the smooth introduction and operation of payment instruments and the functioning of the system overall; and
- the effective technological integration of systems.

2.4.11 Adherence to national rules, regulations and procedures

[65] NPS rules, regulations and procedures provide sufficient clarity to facilitate the speedy resolution of disputes and ensure continuity in the interim.

2.4.12 Effective fraud-prevention and detection measures are in place

[66] Fraud occurrences in all payment streams are acceptably low.

11. "Robustness in a crisis is the real test of a payment system's strength, and the acid test applied by central banks as overseers." Peter Allsopp: "A Look at the Issues Surrounding Gross Versus Net Settlement", Payment Systems Worldwide, Spring 1994.

12. These cover, *inter alia*, issues such as the timing and finality of payment, the hours of operation, infrastructure and network facilities.

[67] All payment instruments and products made available to customers of banks and others adhere to a set of minimum fraud-detection standards.

[68] The NPS mechanisms are secure and have appropriate measures in place to prevent abuse and illegal access.

[69] Information is provided to NPS participants and authorities to support the prevention and detection of illegal activities.¹³

2.4.13 Equitable and transparent access conditions

[70] The NPS enables effective competition in the provision of payment services. This implies that recognised services provided by any NPS operator are available to all eligible participants, who are subject to the same cost structures and the same conditions¹⁴ (avoidance of competitive distortion).

[71] Customer payment-service providers from all spheres of business have access to the NPS mechanism, subject to predetermined criteria, rules and regulations.

2.4.14 Variety of payment instruments

[72] A sufficient variety of instruments is available to enable the selection of the most appropriate instrument for a particular situation, from a convenience, cost and risk perspective.

2.4.15 Service to all the people of South Africa

[73] The NPS enables the provision of payment services to:

- people in the metropolitan and the remote regions of the country; and
- the banked and the unbanked community.

2.5 FUNDAMENTAL PRINCIPLES

[74] The following are the principles guiding the development, deployment and management of the NPS:

2.5.1 Clearing and settlement of payments is the exclusive domain of banks

[75] The banks are the gateway to the payments clearing and interbank settlement facilities. Only banks can act as principals in central bank settlement.¹⁵

13. The NPS should incorporate measures to ensure that banks are able to comply with directives contained in, for example, the Drugs and Drug Trafficking Act of 1992 (money laundering).

14. These conditions may include, for example, volume discounts.

15. To obtain clarity on payment system risks and management of the risks, banks have to differentiate between their role as trading participants and intermediaries in the financial markets, as well as their roles as customer payment-service providers and intermediaries.

2.5.2 The provision of NPS services is not the exclusive domain of banks

[76] The role of non-bank institutions in the provision of payment services to their customers is formally recognised in the NPS.

[77] When a non-bank institution accepts payment instructions from a customer on behalf of a third party (beneficiary), it assumes the role of a customer payment-service provider (CPSP), acting as conduit to the NPS.

[78] All CPSPs are subject to an enforceable code of conduct.

2.5.3 The evolution of the NPS infrastructure is a co-operative responsibility

[79] The payment-service infrastructure is crucial to the smooth functioning of the whole economy. Banks, the SA Reserve Bank and customer payment-service providers will co-operate in the design, implementation and management of infrastructure components.

[80] To facilitate effective and open participation by all banks on equal terms, the ownership of the infrastructural components will not impede the utilisation thereof by any participant.

2.5.4 Risks and exposures are visible

[81] All payment-related risks should be identified, assessed and quantified as far as possible. To the extent that the NPS does not control risks, it provides the facilities and information for participants to manage their exposures.¹⁶

2.5.5 Participants are liable for the risk that they introduce into the NPS

[82] NPS participants, individually and, where applicable, jointly, are responsible for managing the risks that they introduce into the NPS.

[83] Participants, in either multilateral or bilateral clearing and netting arrangements, carry the risk of potential default of one or more of the participants concerned.

[84] Suitable risk-reduction measures will be applied to all clearing and netting arrangements.

2.5.6 A balance is maintained between risk reduction and cost

[85] The cost of risk-reduction strategies should in all cases be justified in terms of the potential systemic risks that they aim to address.

16. Principles of risk management proposed by the risk expert team.

2.5.7 SA Reserve Bank's response to a problem in the NPS will be in the interest of the system, not individual participants¹⁷

[86] In the case of a temporary intraday liquidity problem being experienced by a participant, the SA Reserve Bank, in its discretion, can act to provide liquidity.

[87] When a particular participant is deemed to be unable to overcome its liquidity problem, the central bank will ensure that proper procedures are carried out to facilitate controlled settlement.¹⁸

[88] The SA Reserve Bank's response in a systemic crisis is a discretionary action in the national interest, which would depend on the circumstances prevailing at the time. The emphasis will always be on the stability of the financial system as a whole, and assistance¹⁹ from the SA Reserve Bank is not guaranteed for any individual participant.

2.5.8 All banks are eligible to have a settlement account at the SA Reserve Bank

[89] All registered²⁰ South African banks, and only banks, are eligible to have settlement facilities at the SA Reserve Bank. Each bank is responsible for its own interbank indebtedness and can settle over its own account at the SA Reserve Bank.

2.5.9 All banks are entitled to clear payments under their own name

[90] A bank, providing payment services to its customers, should preferably participate in the interbank clearing process under its own name, thereby ensuring that all exposures are visible.

2.5.10 Settlement is subject to the availability of funds

[91] All interbank settlements require prefunding.

[92] Any arrangement to obtain accommodation from the central bank to prefund the settlement account is subject to general conditions that apply equally to all banking institutions.

17. "In this context, in central banking circles, the phrase 'constructive ambiguity' which was advocated by Gerald Corrigan, former President of the New York Federal Reserve Bank, is frequently quoted as an idea that provides a clue to the solution of this problem. The idea is to make mobilization of the safety net difficult to anticipate so that no one will come to expect and take it for granted that the authorities will always provide relief to any troubled institution. This phrase expresses an important philosophy of properly managing the safety net while avoiding the moral hazard problem ... Despite the word 'ambiguity', it is desirable that basic principles concerning the implementation of the safety net be broadly shared between the central bank and market participants, so that if there is instability in the financial system, the entities concerned can take concrete measures on the basis of this common understanding. These basic principles should not be so explicit as to leave no ambiguity in individual cases; at the same time, it must also be consistent enough to demonstrate that the central banks' response to the situation is not haphazard."

[Mieno, Y. 1994. Issues related to the maintenance of financial system stability and the role of the Bank of Japan, Address by the Governor of the Bank of Japan, at the Meeting on the Analysis of the Monetary System (Kin'yu Kenkyu-kai) in Tokyo, 1994-10-31. Bank for International Settlements, BIS Review, No. 203, November 1994, pp.1-2.]

18. In terms of the Banks Act, 1990, a curator is appointed by the Minister of Finance, on recommendation of the Registrar of Banks.

19. Assistance to a failing participant will be considered only if its failure severely threatens the stability of the financial system, in which case it will be applied as assistance to the system, rather than the participant.

20. This includes banks and branches of foreign institutions registered under the Banks Act, 1990, and Mutual Banks Act, 1993.

2.5.11 The responsibility for initiating the transfer of funds to an account resides with the payer

[93] In the exchange of payment instructions and interbank settlement instructions, credit push²¹ is the preferred practice whereby the payer (buyer) instructs his bank (the paying bank) to make a credit transfer.

2.5.12 Finality of payment follows settlement finality

[94] Final interbank settlement is achieved in central bank money.

[95] Settlement of interbank indebtedness is achieved once the entries have been passed over the settlement accounts of the banks held in the central bank, or once cash has been exchanged.

[96] Irrevocable finality of payment follows settlement finality.

2.5.13 Surveillance is necessary to ensure the safety and soundness of the NPS

[97] Although free-market forces, driven by the needs of the customer, fuel the development of the NPS, it is necessary that this evolution be guided to achieve synergy. Whilst market participants seek efficiency, the SA Reserve Bank²², as a non-competitive neutral agent, focuses primarily on the overall soundness and effectiveness of the NPS through surveillance.

[98] All bilateral and multilateral risk-reduction measures applied in interbank payment clearing and settlement will be agreed with the SA Reserve Bank, as overseer of the NPS, prior to the introduction thereof.

[99] All payment-related interbank exposures will be available to the SA Reserve Bank in its overseer capacity.

2.6 STRATEGIES

[100] The following are the main strategies for aligning²³ the current payment system with the envisaged NPS:

2.6.1 Systemic risk reduction

Strategy 1: Introduction of an online central bank settlement system to enable banks to effect interbank fund transfers electronically

[101] A major shortcoming in the current South African payment system is the lack of an online settlement system. To rectify this situation, a sophisticated settlement system

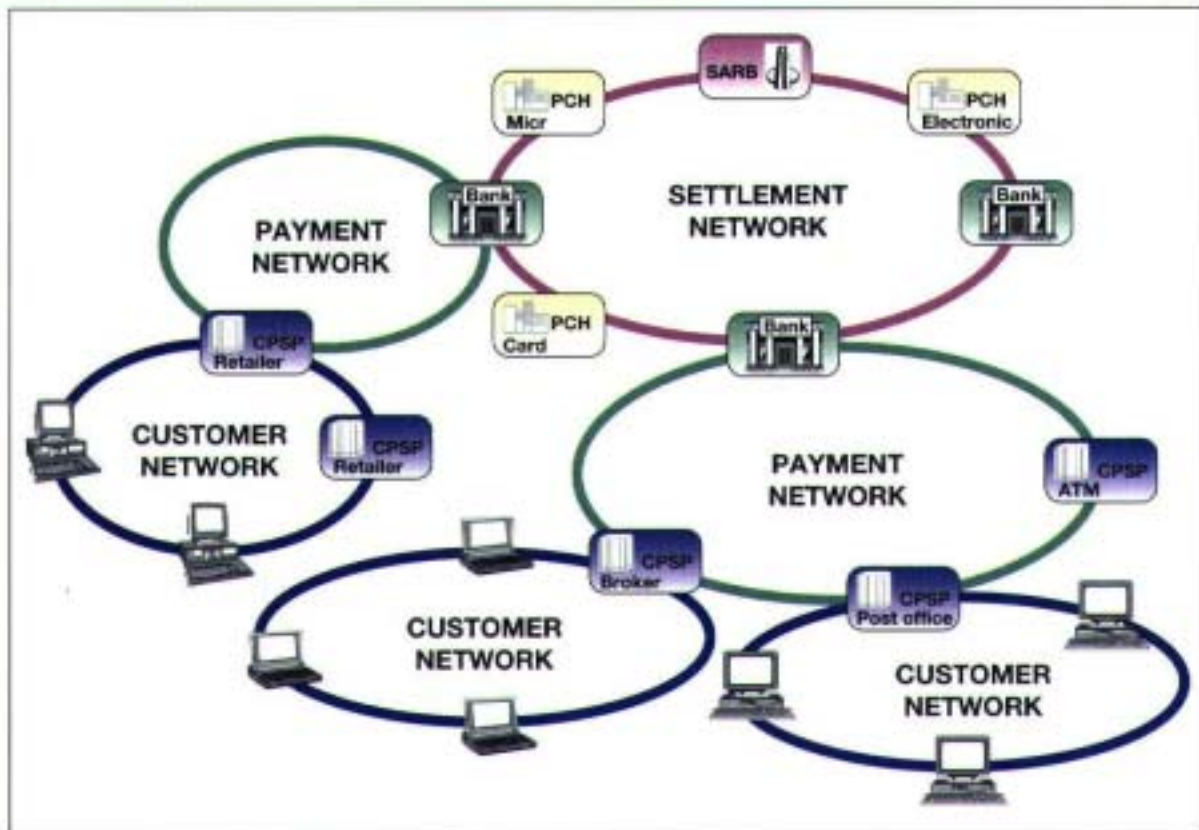
21. This does not preclude other instruments for low-value payments.

22. This role should be distinguished from other roles of the SA Reserve Bank, for example, those of market participant and clearer.

23. In implementing the NPS strategies, cognisance will be taken of existing business practices, procedures and legal precedents.

needs to be developed and linked to a highly secure settlement network (see Figure 7) to enable banks to make interbank fund transfers via the central bank settlement system. PCHs, depositories (for delivery synchronisation) and foreign-currency exchanges (for payment synchronisation) will also be able to have access to this network.

Figure 7: Payment networks



[102] The settlement system will provide facilities for banks to settle their obligations on an immediate real-time basis, or in a delayed settlement arrangement, providing guaranteed settlement. The settlement system will offer banks a range of settlement options, for example:

- immediate settlement, that is, settlement instructions effected in real time, on a gross basis;
- conditional settlement, that is, settlement instructions scheduled for processing at, *inter alia*, a specified time, scheduled date or other predetermined condition;
- delayed settlement, that is, individual settlement instructions accumulated in bilateral or multilateral interbank netting schemes negotiated amongst the banks, for settlement at the end of the day or upon reaching predetermined conditions; and
- concurrent settlement, that is, links to and dependency between settlement instructions.

[103] The conditions that will trigger settlement will be determined in conjunction with participating banks. These conditions could include, *inter alia*:

- predetermined cut-off times;
- any predetermined limit being reached;
- manual intervention; and
- end of the day.

[104] Banks will utilise the settlement network and central bank settlement system to effect interbank-fund transfers.

[105] Customers (end-users) will not have direct access to the settlement network and will therefore not be able to utilise this network to effect payments without the intermediation of a bank. It will be in the discretion of the customer's bank to use the online settlement facility to give its customer payment finality. This will be made possible by the bank first obtaining settlement finality for the interbank fund transfer associated with the customer-payment instruction. Banks' payment networks can be linked to the settlement network, thereby enabling banks to offer their customers facilities to obtain immediate payment finality and delivery versus payment where applicable.

[106] Banks, in co-operation with other CPSPs and trade exchanges (for example, the BME and JSE), will be encouraged to develop a sufficient variety of credit-push²⁴ and electronically based instruments to allow end-users to select²⁵ appropriate payment instruments.

Strategy 2: Introduction of measures to limit exposure build-up in bulk clearing processes

[107] Bulk clearing of customer payment instructions is necessary to cope with the high volumes of these instructions that need to be exchanged between banks. In the process, interbank obligations resulting from the payment instructions of bank customers will be determined.

[108] Each respective PSA will be responsible for introducing appropriate risk-containment measures in the PCHs designated by the PSA to perform its bulk customer payment-clearing operation.

[109] The intention is that PCHs will clear high-volume but low-risk customer payments and that banks will use more appropriate mechanisms²⁶ to clear high-risk customer payments (normally associated with high-value payment instructions). Owing to the relatively low potential systemic risk inherent in low-value customer payment clearing²⁷, the risk measures could be kept relatively simple and inexpensive. Possible measures to limit the total exposure that a PCH can build up could include a cap on the item value of a payment instruction that can be processed by a particular PCH and an absolute aggregate exposure cap ('PCH cap') on payment instructions processed. Furthermore, the PSA will need to introduce measures to ensure the timely completion of daily settlements should a participant be unable to settle. The measures introduced by PSAs in their PCHs will be agreed²⁸ with the SA Reserve Bank.

24. Apart from risk considerations, this strategy will also simplify the operational aspects of future payment systems.

25. The risk of customers being defrauded through the issuing of debit-pull payment instruments (for example, cheques) for which there are no funds in the payer's account should be reduced by the provision of electronic credit-push payment-instrument alternatives.

26. Risks associated with high-value customer payments will be greatly reduced if the banks clear these payments individually and channel them through the central bank settlement system to obtain settlement finality.

27. It is estimated that 95 per cent of the volume represents 2 per cent of the value.

28. In all cases, the preferred approach to reaching 'agreement' is through discussion and consultation.

[110] A PSA wishing to introduce a PCH for the clearing of high-value customer payments in bulk could do so on condition that appropriate risk measures are introduced. These measures, which would depend on the level of off-setting applied (refer to strategy 3 on netting schemes) and the time delay introduced, will be agreed with the SA Reserve Bank.

Strategy 3: Implementation of risk-reduction measures in bilateral and multilateral netting schemes²⁹

[111] The main advantage of netting interbank settlement obligations is that it limits the actual values that are exchanged between two banks (bilateral) and multiple banks (multilateral). To date, a multilateral netting process has been applied in all domestic interbank clearing systems to determine the settlement obligations resulting from interbank customer-payment clearing, irrespective of the values or risks associated with the particular payment instrument.

[112] Appropriate risk-reduction³⁰ measures thus have to be introduced in all netting schemes.

[113] Should a PSA, in the clearing of high-risk customer payments, wish to introduce or continue to use, the multilateral netting technique to determine interbank settlement obligations, prior to issuing settlement instructions to the central bank settlement system, it will be entitled to do so on condition that appropriate risk-reduction measures are introduced. PSAs will adopt measures that adhere to the minimum international standards³¹ and that will have been agreed with the SA Reserve Bank.

[114] To accommodate banks and facilitate the move from the current practice to an enhanced risk-controlled environment, a delayed settlement option (strategy 1) will also be introduced in the settlement system. This will offer the banks guaranteed settlement, based on collateralised bilateral and/or multilateral exposure limits, thereby reducing liquidity requirements. This facility will reduce both the time risk and the settlement risk.³²

Strategy 4: Introduction of risk-monitoring facilities to assist in the management of exposures

[115] The SA Reserve Bank will implement facilities to monitor all payment streams per participant and in total, across all PCHs, thereby enabling the Bank to obtain a holistic view of exposures in the NPS.

29. It is a worldwide trend that countries are moving away from established multilateral netting schemes for high-risk payments.

30. Risks result mainly from the fact that a bank incurs an exposure to a party with which it did not transact and from the operational and legal consequences associated with this practice.

31. For example, Lamfalussy's Standards. [Appendix A.1 refers]

32. The build-up of settlement risk in bilateral and, especially, multilateral interbank settlement arrangements will be contained by triggering settlement when mutually agreed exposure limits are reached, for example, when a bank reaches its predetermined net debit cap. This implies that multilateral netting is introduced in the settlement system, as a cost-reduction measure, as opposed to a clearing practice, especially as far as high-value/high-risk transactions are concerned.

[116] Banks will be able to access the settlement system to enable them to manage their own settlement exposures on a continuous basis.

[117] PSAs, in co-operation with their members, will introduce mechanisms to enable participants to manage their own risks.

Strategy 5: Introduction of same-day settlement

[118] Current settlement cut-off times, accommodation arrangements, practices and procedures will be adapted to achieve true³³ same-day settlement for and across all payment streams.

Strategy 6: Discouragement of financial sponsorship in the NPS between registered South African banks

[119] The practice of financial sponsorship of subclearers (as described in points 3, 4 and 5 in Table 4) will be discouraged in favour of direct settlement by all banks. Any registered South African bank will be able to participate in the interbank settlement process and/or clear payments through a PCH, under the conditions laid down by the particular PSA. Banks that do not have the necessary infrastructure can utilise another bank's infrastructure on a bureau basis, but such arrangements should not imply settlement guarantees.

[120] Alternative³⁴ arrangements available to banks for payment processing, clearing and settlement are listed in Table 4:

Table 4: Alternative arrangements for processing, clearing and settlement

	PROCESSING	CLEARING	SETTLEMENT
1.	Bank utilises own inhouse infrastructure	Bank clears in own name	Bank settles through own settlement account
2.	Bank utilises another institution's infrastructure (bank or NPS operator) on a bureau basis	Bank clears in own name	Bank settles through own settlement account
3.	Bank utilises own inhouse infrastructure	Bank clears in own name	Bank settles through another settlement bank - which therefore accepts financial sponsorship
4.	Bank utilises another institution's infrastructure (bank or NPS operator) on a bureau basis	Bank clears in own name	Bank settles through another settlement bank - which therefore accepts financial sponsorship
5.	Bank utilises another institution's infrastructure (according to its banker's arrangements) on a client basis	Bank clears as a client under its banker's name - the clearing bank reports agreed-upon statistics	As for any other client (this client bank is thus not a principal in the interbank-settlement process). Therefore, the banker of the client bank accepts financial liability for settlement on behalf of its client.

33. As opposed to the current practice of settlement being backdated for the previous value date.

34. In preferred sequence (according to settlement arrangement).

Strategy 7: Determining of collateral requirements and related management processes

[121] The provision of liquidity for settlement purposes will require a dynamic collateral-management system. This will enable banks to monitor and manage their intraday accommodation requirements and collateral that they place at the disposal of the SA Reserve Bank to facilitate the automatic conversion of collateral for funding of settlement accounts.

[122] The collateralisation required to cover intraday exposures and the cost of intraday liquidity will be negotiated, and a phased implementation approach will be followed. The nature and availability of securities or other instruments acceptable to the SA Reserve Bank will also be reviewed.

[123] In view of the measures taken to reduce payment-system-related risks, the prudential requirements (that is, capital and reserves, cash reserves, liquid assets) also need to be reassessed, to ascertain whether such cash reserves or liquid assets could be considered, in part, as collateral for settlement purposes.

2.6.2 Legal framework**Strategy 8: Revision of the statutory powers of the SA Reserve Bank regarding payment systems**

[124] Shortcomings in the current statutory powers of the SA Reserve Bank, in its role in the NPS, will be identified and amended in the South African Reserve Bank Act, 1989.

Strategy 9: Adaptation of the legal framework to ensure legal enforceability of payment-service agreements and legal certainty in respect of industry practices

[125] Legal certainty regarding domestic multilateral netting, in compliance with minimum Lamfalussy standards, will have to be obtained.

[126] The relevant Acts of Parliament³⁵ will be identified for possible amendments or a legal framework, in the form of a specific 'Payment System Act', may have to be drafted, to ensure that payment practices are legally sound, with cognisance being taken of regional and international practices and payment requirements.

[127] The legal foundation pertaining to finality of payment needs to be affirmed. This includes legal clarity on the role of a curator and the legal powers of any subsequently appointed liquidator.

35. The current payment system of South Africa is not governed by a specific 'Payment System Act', but functions within the general legal framework of the country. Apart from the common-law component, the following Acts could be relevant:

- The South African Reserve Bank Act, 1989;
- The Banks Act, 1990;
- The Mutual Banks Act, 1993;
- The Bills of Exchange Act, 1964; and
- The Insolvency Act, 1936.

2.6.3 Payment practices

Strategy 10: Introduction of a regulatory framework for customer payment-service providers (CPSPs)

[128] Legally enforceable rules and regulations, as well as a code of conduct applicable to all participants, will be formulated, published, implemented and enforced, in order to ensure sound payment practices.

Strategy 11: Creation of public awareness of the NPS

[129] The broad South African public will have to be made aware of the features of and risks involved in accepting and using payment instruments.

[130] The public will have to be made aware of the risks involved in lodging funds with unauthorised payment collectors.

2.6.4 Management of the NPS

Strategy 12: Establishment of an umbrella Payment Stream Association (PASA) and Individual Payment Stream Associations (PSAs)

[131] COSAB, in conjunction with the SA Reserve Bank, will establish PASA. PASA will be responsible for the establishment of PSAs.

Strategy 13: Introduction of licensing of NPS operators

[132] PASA will license operators to render NPS services, subject to predetermined criteria. It will also be possible for NPS infrastructural components to be provided by independent non-bank operators. These components may include the development, deployment and day-to-day operation of services, that is, systems, networks and facilities.

[133] The current infrastructure providers (under Bankserv) will be licensed to continue their specific processing functions, on condition that these facilities are deemed to be part of the NPS and are therefore accessible, on an equal basis, to all banks qualified to enter a particular payment stream.

Strategy 14: Creation of participation agreements for utilisation of NPS infrastructures

[134] PCH membership agreements will be created to formalise the participation of banks in the various PCHs.

Strategy 15: Establishment of a South African National Payment System forum (SANPAY)

[135] The SA Reserve Bank will establish a forum in which pertinent stakeholders will be represented.

Strategy 16: Establishment of NPS standards

[136] A function will be established to oversee the development of national standards and to ensure that South African standards are in harmony with international standards and, where applicable, comply with specific standards.

2.6.5 South Africa as regional financial centre**Strategy 17: Liaison with banks and financial authorities in the region**

[137] In conjunction with investigations into cross-border operations, the banks and the SA Reserve Bank need to liaise with central banks and other banks in the region to promote the use of the SA financial system.

2.6.6 Interface between the trading system and the NPS**Strategy 18: Review of financial market practices from an NPS perspective**

[138] Although the NPS cannot prescribe market practice, risks arising from market practice can be introduced into or manifest themselves in the NPS. For this reason, the NPS should influence and encourage developments in the market domain to contain systemic risk caused by contagion, and create a situation that will be acceptable to both market practitioners and NPS participants.

Strategy 19: Encouragement of electronic trading and payment mechanisms in trading systems

[139] The decision-makers responsible for the trading system will be encouraged to introduce delivery-versus-payment principles and supporting mechanisms (where applicable). To enable this, the exchange of deals, transfer of ownership of the scrip and the exchange of payments will have to be transacted in electronic format.

Strategy 20: Introduction of mechanisms to relay information associated with a payment to the beneficiary

[140] The NPS should facilitate the flow of information³⁶ accompanying an electronic payment, where applicable.

[141] Mechanisms to support the business applications of EDI (electronic commerce) will also be accommodated in the design of the NPS.

36. This would enable end-users to pay accounts and provide the beneficiary with pertinent end-user details relating to the payment. To facilitate the aforementioned, it will be necessary to devise a unique identification code for beneficiary institutions.

Strategy 21: Review of cross-border/foreign-currency market practices from an NPS perspective

[142] Cross-border and foreign-currency market practices will be reviewed, with a view to incorporating them into the NPS.