

## GEARING UP FOR MARCH 1998

The moment of truth for the South African payment-system reform initiative is upon us. The concept of an online real-time interbank settlement system, first mooted in 1994, is now entering the final phase of preparation. The system has been the subject of intense discussion in the banking industry, and resolution of the specifications and implementation details has involved a major feat of interorganisational collaboration. The project has made remarkable progress and has achieved all its milestones thanks to the excellent co-operation received from banks and the excellent efforts of the system development team. The Governor of the SA Reserve Bank, Dr C L Stals, has indicated that the SAMOS system provides an ideal vehicle to modernise and change the monetary-policy execution approach of the Reserve Bank. This edition of the NPS Update focuses on the latest developments which are aimed at the introduction of the system on 9 March 1998.

## The initial participants

**T**wenty-one banking institutions, including four branches of foreign banks, have indicated that they wish to participate in the South African Multiple Option Settlement (SAMOS) system from the outset, that is, from 9 March 1998.

These banking institutions will therefore have access to the interbank settlement facilities offered by the Reserve Bank, as well as intraday and end-of-day loan facilities available for settlement purposes. Participation in the settlement system is also a prerequisite for membership of the Payment Association of South Africa (PASA), which will manage the different payment streams and interbank clearing arrangements. The institutions that will participate from day one are:

- ABSA Bank Limited
- Boland Bank PKS Limited / NBS Bank Limited
- Citibank N.A.
- Credit Agricole Indosuez
- Fidelity Bank Limited
- First National Bank of Southern Africa Limited
- FutureBank Corporation Limited
- Habib Overseas Limited
- HBZ Bank Limited
- International Bank of SA Limited
- Investec Bank
- Mercantile Bank Limited
- Nedcor Bank Limited
- Rand Merchant Bank Limited
- Regal Treasury Private Bank Limited
- Saambou Bank Limited
- Société Générale
- South African Bank of Athens Limited
- TA Bank of South Africa Limited
- The Standard Bank of South Africa Limited
- The State Bank of India

## Connecting to SAMOS

The banking institutions are connecting to the SAMOS system in a steady stream and according to an agreed schedule. To date 19 institutions have successfully exchanged messages with SAMOS from their premises.

## Pilot project

The connected banking institutions are participating in a pilot project in order to ensure that all participants can familiarise themselves with the system and that the technical connectivity between the Reserve Bank and participants is stable and reliable. The pilot project will also provide participants with an opportunity to test the systems integration with their existing in-house applications and business processes. The pilot project is progressing according to schedule, and both of the available message carriers, that is, MQSeries and SWIFT, are available for sending and receiving messages.

## CONTENTS

Gearing up for March 1998 . . . . .	1
The initial participants . . . . .	1
Connecting to SAMOS . . . . .	1
Pilot project . . . . .	1
SAMEX and SAMOS Training . . . . .	2
Security arrangements . . . . .	2
SAMOS charges . . . . .	2
SAMOS and the new monetary-policy operational procedures . . . . .	3
What's happening... . . . .	3
Synchronising settlement practices in the financial markets with the NPS. . . . .	3
New appointment . . . . .	3
Publication of NPS Act for general comment . . . . .	3
Southern African Development Community (SADC) payment system project . . . . .	4
SADC central bank Website launch . . . . .	4

## SAMEX and SAMOS training

A training site, equipped with a typical participating bank's infrastructure, was established at the Johannesburg Branch of the Reserve Bank. The training site offers institutions facilities at which they can simulate the real-life situation and work with other participants in order to test the system. Training of representatives of the first four institutions commenced on 15 September 1997.

The course programme spans a period of five days and the programme includes, *inter alia*:

- An overview of the SAMOS system.
- The operating environment utilised by the SAMEX application.
- An explanation of the settlement schedule and the settlement windows.
- The types of different settlement instructions and their use.
- Authorisation procedures.
- Procedures and instructions for providing and managing collateral.

The practical part of the programme includes a full-day simulation exercise, which enables delegates to utilise and experiment with the system, that is, transactions are generated, the operating windows are used, the position monitor is used and end-of-day square-off is practiced. Delegates are also given briefings on the technical components of the system, including SARB<sup>TR</sup>LINK security architecture, MQ Series concepts and user-installation procedures.

The training programme is based on a "Train the Trainer" concept, and delegates will be responsible for training the users of the system within their own institutions. In order to enable delegates to impart their newly acquired knowledge, they are supplied with a complete set of training material, on a compact disc, which includes:

- A copy of the user manual in Word97.
- Copies of the presentation slides used by the instructors during the training programme.
- The latest version of the SAMEX software.

## Security arrangements

Interbank fund transfers are primarily of a high value. Therefore, it is imperative that the security architecture applied to protect the payment messages has to be sound and, *inter alia*, address the following two specific requirements:

- Authentication, which is a digital signature on all messages in order to ensure the irrefutability, authenticity and integrity of each message.
- Encryption, in order to ensure confidentiality between the sender and receiver.

By these means, the Reserve Bank will ensure that a message was originated by a valid participant and that there has been no tampering with the message *en*

## Reserve Bank Training Centre Johannesburg



## SAMOS charges

The Reserve Bank has furnished all banking institutions with the initial charge structure for connection to, and use of, SAMOS and SARB<sup>TR</sup>LINK. These charges will apply from 9 March 1998 to 31 March 1999. The principles applied and the approach followed in determining the charges have been documented and are available to any banking institution. Position papers in this regard can be obtained from the Payment System Division or can be downloaded from the NPS section of the Reserve Bank's Web Site ([www.resbank.co.za](http://www.resbank.co.za)).

Since, at this stage, it is extremely difficult to predict the level of use, the charges are based on conservative estimates of the transaction volumes. Any over- or underrecovery of costs will, however, be taken into account when the charges for the next financial year are determined.

*route*, thereby ensuring complete security and confidentiality.

In order to achieve the required level of security, the Reserve Bank will establish a SAMOS certification authority (CA). The SAMOS CA will issue digital certificates through which participants will be identified and which will enable the exchange of payment messages between the banking institutions and the Reserve Bank, in a secure manner. The Reserve Bank will manage the certification process for banking institutions participating in the SAMOS system.

## SAMOS and the new monetary-policy operational procedures

A discussion document, containing the proposed new monetary-policy operational procedures that could be implemented by 9 March 1998, has been published by the Reserve Bank. The new electronic settlement facilities provided by the SAMOS system will support the new monetary-policy operations by ensuring the rapid transmission of monetary-policy actions through the interbank and short-term money market.

The following features of the SAMOS system will enable banking institutions to capitalise on the proposed new accommodation arrangements:

- Banking institutions will be able to manage their intraday liquidity positions through the position monitoring facility. The position monitor will also enable institutions to manage their minimum cash reserve requirements, which will be available for settlement purposes during the day, but which will have to be maintained at certain levels over a specified time period.

- Institutions will be able to receive funds, obtained through a repurchase agreement with the Reserve Bank, in real time.
- The dynamic collateral-management component of the system will enable banking institutions to obtain loans automatically from the Reserve Bank (under certain conditions), under the envisaged intraday marginal lending facility.

In order to provide for efficient liquidity management, the SAMOS system can also automatically release the financial instruments as soon as the loan facility is no longer required, that is, on receipt of incoming funds.

The NPS team is closely monitoring developments relating to the new monetary-policy arrangements in order to ensure that the SAMOS system and the collateral-management component of the system cater for the operational requirements of the new procedures.

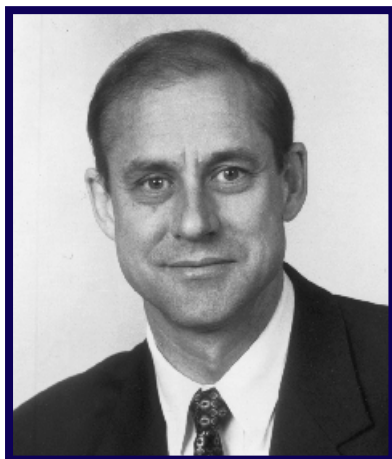
## What's happening ...

### Synchronising settlement practices in the financial markets with the NPS

A strategic planning session, which included all major stakeholders involved in settlement in the financial markets, was held on 6 and 7 October 1997. The parties represented included the Johannesburg Stock Exchange, the Bond Exchange of South Africa, the Bond Issuers Association, the South African Futures Exchange, settlement banks, scrip issuers, the Financial Services Board, the Central Depository, the Reserve Bank, the Registrar of Banks and PASA. The main aim of the workshop was to develop a shared

vision of how the financial markets could capitalise on the advantages of the new payment-settlement arrangements and the NPS in general. The meeting decided to formulate a vision and a strategic framework for the modernisation of the financial markets' infrastructure in South Africa, along similar lines to the NPS Framework and Strategy document. The workshop produced an outline of ideas and concepts that will be explored further by a smaller task group.

### New appointment ...



Mr Mark Shuttleworth has been appointed Projects Director of the Payment Association of South Africa (PASA) and his responsibilities include the implementation of the objectives and policies of PASA.

### Publication of NPS Act for general comment

The draft NPS Bill, supporting NPS agreements and arrangements (alluded to in the previous NPS Update), has been approved in principle by the Reserve Bank, the Council of South African Banks and the Payment Association of South Africa. The draft NPS Bill has now reached a stage of being ready to be submitted to the Minister of Finance, whereafter it will be published in the Government Gazette and circulated generally for comment. The working group that drafted the Bill, comprising legal advisers from various banks, members of the Payment System Division and an academic, will then consider the various inputs received, prior to the draft Bill being presented to the Cabinet.

# What's happening ...

## Southern African Development Community (SADC) payment system project

In line with South Africa's responsibility for the SADC Finance and Investment Sector, the SADC Committee of Central Bank Governors decided to launch a project on payment systems in the region. The objectives of the project are to assist the 12 individual SADC countries with the development of domestic payment system strategies and development plans, as well as the definition of a co-ordinated regional approach to cross-border payments.

To date, sensitisation workshops have been conducted in Botswana, Malawi, Mauritius, Namibia, Swaziland, Tanzania and Zimbabwe. These workshops were aimed at making key stakeholders aware of the broad spectrum of payment-system issues and the strategic importance of payment systems to national economic activity and growth. Sensitisation workshops in the remaining SADC countries

are planned to be completed by the end of April 1998, whereafter a third regional payment system workshop will be held in order to consolidate progress, share experiences, debate issues of mutual benefit and agree on regional project initiatives.

The current sensitisation efforts are complemented by a stocktaking process, in order to gather information on each country's present payment system. This phase will culminate in the publication of a document, referred to as the SADC Green Book, which will be similar to the Bank for International Settlements' (BIS) Red Book on the Payment Systems in the Group of Ten Countries. The planned publication date for the SADC Green Book, which will be published by the BIS, is mid-1998.



Delegates who attended a workshop held at the Reserve Bank during September 1997, to discuss the CD business processes relating to the SAMOS system.

**Back: L to R**

Don v.d. Merwe (FNB), Johnny Pienaar (ABSA), Koos Kühn (SARB), Ray Ayres (CD), Brian Woods (CD), Edward Leach (SARB), John Verhoog (FNB), Rui Nobrega (Société Générale)

**Front: L to R**

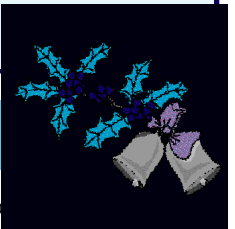
Johann Bence (SARB), Rita Roper (CD), Norman Stegmann (Nedcor), Japie Hornsveld (SARB, Jhb), Peter Rawlings (FNB), Yvette Piller (Société Générale)

## SADC central bank Website launch

A Web site for SADC central banks was implemented on 7 November 1997. The site, which has been developed by and which will be maintained by the Reserve Bank, can be accessed at "www.sadcbankers.org".



*We wish you a  
Merry Christmas  
and  
a Prosperous New*



## What does... mean?

<b>COSAB</b>	Council of South African Banks
<b>CA</b>	Certification Authority
<b>NPS</b>	National Payment System
<b>PASA</b>	Payment Association of South Africa
<b>SADC</b>	Southern African Development Community
<b>SAMEX</b>	SAMOS External (System)
<b>SAMOS</b>	South African Multiple Option Settlement (System)
<b>SUSA</b>	S.W.I.F.T Users of South Africa
<b>S.W.I.F.T</b>	Society for Worldwide Interbank Financial Telecommunication

## From the editor

If you would like your name to be added to the "editorial database" or need additional information regarding the South African National Payment System (NPS), please contact:

**Ms Pat Smith**  
**SA Reserve Bank**  
**Payment System**  
**Division**  
**PO Box 427**  
**PRETORIA**  
**0001**

National: (012) 313-3460 (Voice)  
(012) 313-3934 (Fax)

International: +27 12 313-3460 (Voice)  
+27 12 313-3934 (Fax)

**E-mail address:**  
SARBNPS@gwise.resbank.co.za  
**Internet web site:**  
<http://www.resbank.co.za>

Design & Layout:  
Mariëtte van Zyl