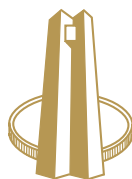


The National Payment System Framework and Strategy

Vision 2015



South African Reserve Bank

90th
Anniversary

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National payment system stakeholders

Government

National Treasury

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FirstRand Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited
Capitec Bank Limited
Mercantile Bank Limited
Investec Bank Limited
Citibank NA

Other stakeholders

Association of System Operators (ASO)
Third Party Payers Association (TPPA)
South African Retailers' Payments Issues Forum (SARPIF)
Payments Association of South Africa (PASA)
Payment Systems Stakeholder Forum (PSSF)
MasterCard Worldwide
Visa International
Altech Card Solutions
BankservAfrica
Direct Transact (Pty) Limited
Strate Limited

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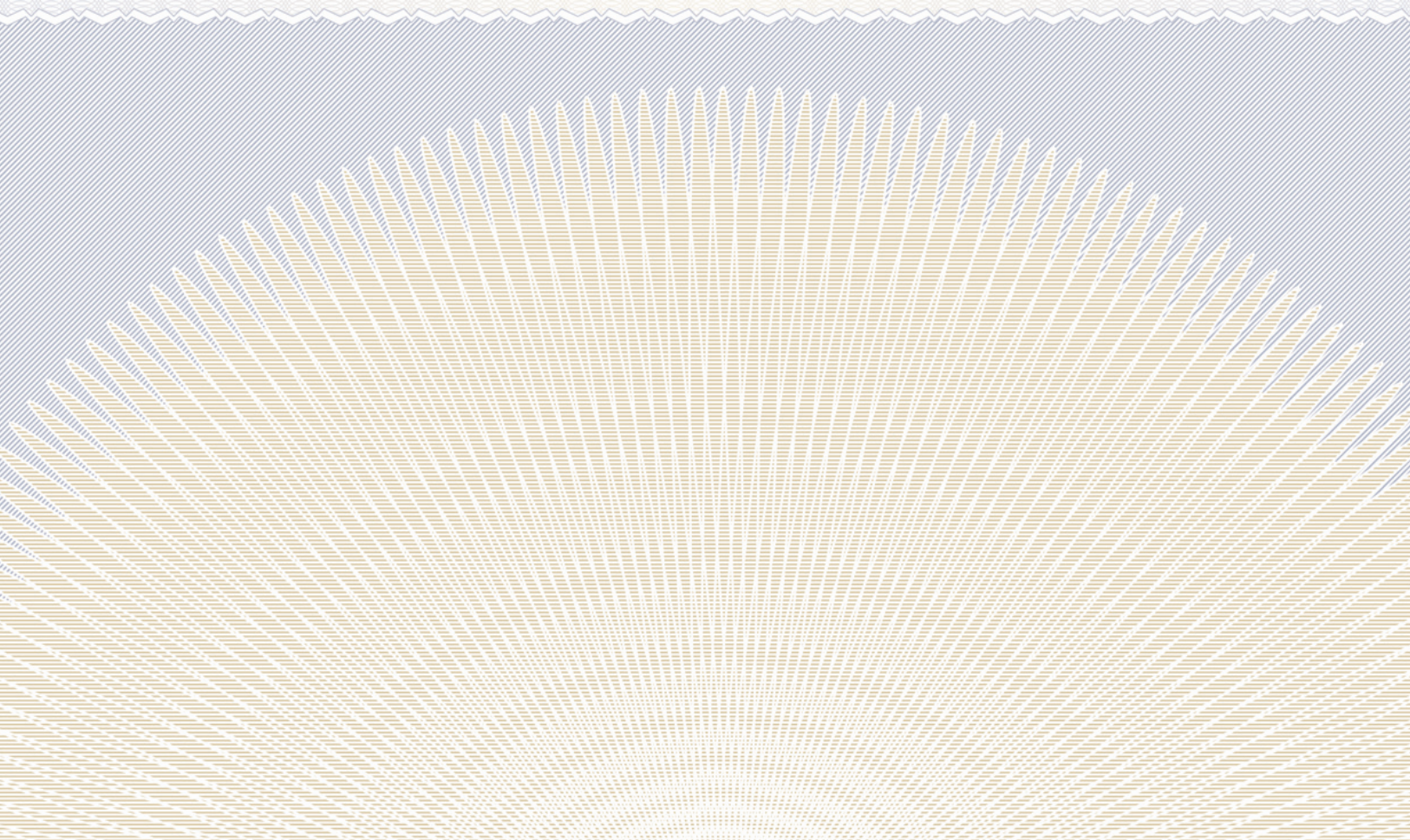
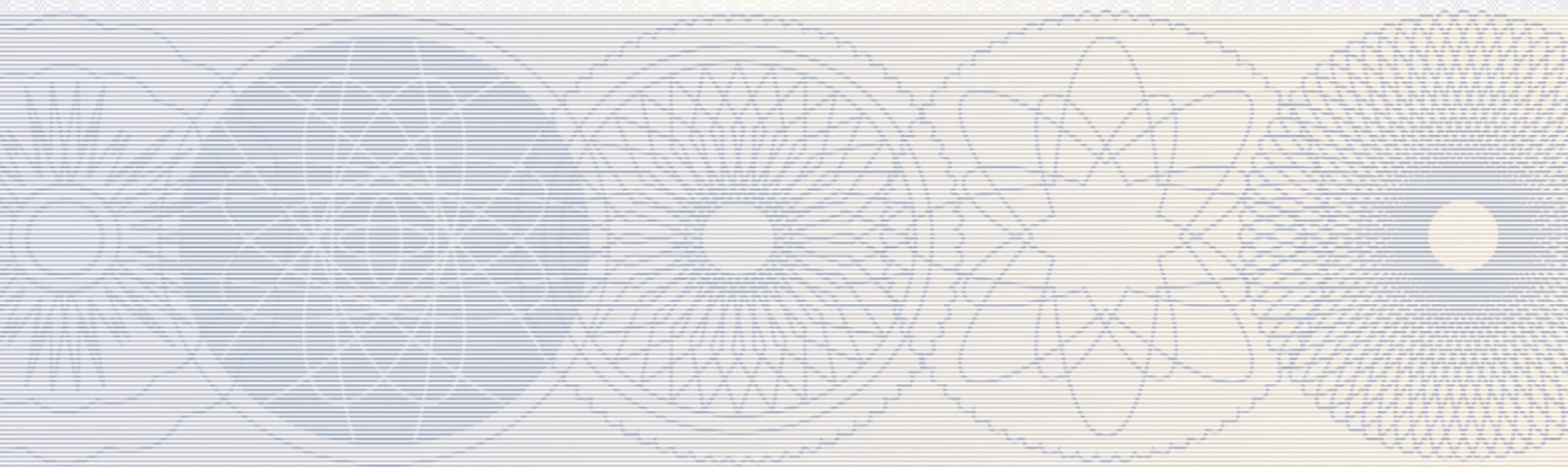
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Note

It is recommended that the 1995 South African National Payment System (NPS) Framework and Strategy (the *Blue Book*), as well as the 2006 Framework and Strategy document – *Vision 2010* (the *Vision 2010*) are read beforehand. They contain all the basic definitions and concepts discussed in *Vision 2015*.



Foreword by the Governor

Having achieved major milestones since the publication of the first *South African National Payment System Framework and Strategy* in 1995, the South African Reserve Bank (the Bank) released a further vision and strategy document in 2006, referred to as *Vision 2010*.

Most of the strategic objectives contained in *Vision 2010* have been attained, but several of the strategies, fundamental principles and critical success factors continue to be relevant as we move towards 2015. Although the South African payment system was unaffected by the recent global financial crisis, cognisance has to be taken of the many lessons and new initiatives in the international regulatory environment that resulted from these events, as well as the recommendations relating to the national payment system (NPS) contained in the *Banking Enquiry Report*, published in 2008. On the basis of this, *Vision 2010* has been reviewed, refined and adjusted for future developments to create a vision and strategy for 2015.

Vision 2015 is, once again, the product of interorganisational brainstorming, debate and consultation between the Bank, the banking industry and other specific stakeholders. This document contains a high-level vision and strategies to maintain a world-class payment system and meet domestic and regional payment system requirements.

The successful implementation of the stated strategies will, once again, depend on co-operation between specific payment system stakeholders.

We trust that this forward-looking *Vision 2015* will assist all participants in the NPS to meet the challenges that lie ahead.



Gill Marcus
Governor
South African Reserve Bank
Pretoria

Executive summary

In April 2006 a new framework and strategy document (*Vision 2010*) was published. Since the publication of this document, major strategic objectives envisaged in the publication have been implemented and achieved. Owing to the dynamic nature of the payment system, and national and international demands, new challenges are facing the NPS and a refinement of the strategic direction is required. The **purpose** of this framework is to provide **high-level updated** strategic direction for the payment system up to 2015. New objectives and strategies have been developed, and some of the *Vision 2010* objectives and strategies have been reconsidered, resulting in a refocus and/or redefinition for *Vision 2015*.

Major challenges up to 2015 include the following:

- To continue to evaluate opportunities for further access to the NPS and improve the participation of non-bank stakeholders in the clearing system and/or in the formal payment management structures. The recent financial crisis has re-emphasised the importance of sound risk management policies and practices in the maintenance of a safe and efficient payment system.
- To enhance the oversight of banks and non-banks. As non-bank stakeholders are playing a larger role in the payment system, effective payment system risk management policies need to be considered.
- To enhance communication among stakeholders regarding NPS matters. Communication augments payment system stakeholders' understanding of the multifaceted nature of the payment system, which at times appears to be complex and misunderstood.
- To participate in international workgroups and forums. Continued participation in international forums ensures that South Africa stays abreast of international developments spanning the many dimensions of the payment system.
- To enhance payment system human resources capacity in the broader NPS. An intensified focus on human resources capacity-building initiatives creates depth of knowledge and develops much-needed skills in the industry.
- To ensure high-level operational effectiveness of the payment system infrastructure. Operational effectiveness ensures the circulation of funds in the financial system and efficient liquidity management by participants. Failure of the infrastructure components of the payment system could result in substantial operational risk.
- To facilitate regional payment system infrastructure integration that meets the needs of the Southern African Development Community (SADC) region. The emphasis will be on commencing the process towards an integrated infrastructure.
- To formalise and implement an interchange determination process in South Africa that is fair, transparent and sustainable. This process should include all payment streams.

1. Introduction

The mandate of the South African Reserve Bank's National Payment System Department (NPSD) to oversee the payment system emanates from the enabling legislation which is the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (SARB Act), governing the Bank. Section 10(1)(c) of the SARB Act makes provision for the Bank to perform such functions, implement such rules and procedures and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems.

The first *South African National Payment System Framework and Strategy*¹ document was published in 1995. The document is commonly referred to as the “*Blue Book*” and at times as “*Vision 2005*”. With the achievement of the major milestones and objectives envisaged in the *Blue Book*, it was prudent to re-evaluate the NPS vision for the future, and to embark on new strategies and objectives to achieve the vision. In 2006 the new vision document, *Vision 2010*, was published.

Major milestones stated in *Vision 2010* have been achieved. However, some of the objectives listed in *Vision 2010* will require refinement as progress is made towards 2015. The major achievements include the following:

- Amendments to the National Payment System Act, 1998 (Act No. 78 of 1998) (NPS Act) to allow access for new players, for example, co-operative banks and designated clearing system participants.
- Enhancement of the structures of the National Payment System Strategy Body (NPSSB),² previously known as the National Payment System Advisory Body (NPSAB), to include non-bank participants in the formal payment system management structures.
- Continued enhancement of the oversight process, including the issuance of directives for non-bank participants. These non-bank participants include system operators³ and third-party payment service providers.⁴ These non-bank participants now fall within the regulated payment system environment and are subject to the Bank's oversight.
- Major progress made towards achieving SADC initiatives. These initiatives include capacity building for the payment system integration projects of the Common Monetary Area (CMA), and the hosting of many regional conferences and country-specific visits.
- Continued and expanded participation in international oversight structures. These structures include the Committee on Payment and Settlement Systems⁵ (CPSS) of the Bank for International Settlements (BIS) and the Continuous Linked Settlement⁶ (CLS) Oversight Committee.⁷
- The development of payment system education and awareness programmes.

Many of the strategies, fundamental principles and critical success factors contained in *Vision 2010* remain applicable and relevant to any new vision developed for the NPS, irrespective of the period. Therefore, some of the strategies, fundamental principles and critical success factors as stated in *Vision 2010* have been refined, adjusted and included in *Vision 2015*.

The **purpose** of this framework is to provide **updated** strategic direction for payment system development for the period up to 2015. Additional new strategic objectives, fundamental principles and critical success factors have been developed and added.

1 Both the *Blue Book* and the *Vision 2010* documents are available on the Bank's website: www.reservebank.co.za.

2 One of the strategies identified in the *Vision 2010* document was the establishment of an overarching payment system management structure. The Bank identified the need to consult and act in collaboration with the various stakeholders in the NPS. Accordingly, the Bank established the NPSAB in 2008 which is representative of all the regulated stakeholders in the NPS and other interested parties.

3 A “system operator” is any person who provides payment services to two or more persons in respect of payment instructions, which are typically from large retailers and banks.

4 “Payments to third persons” entail that a person who may, as a regular feature of his or her business, accept money or payment instructions from any other person for the purposes of making payment on behalf of the other person to a third person to whom the payment is due.

5 More information regarding the work of the CPSS can be obtained from the BIS website: www.bis.org.

6 CLS is a means of settling foreign-exchange transactions finally and irrevocably. CLS eliminates settlement risk, improves liquidity management, reduces operational banking costs and improves operational efficiency and effectiveness.

7 Participating central banks have established a co-operative oversight arrangement for CLS to provide a mechanism for mutual assistance in carrying out their individual responsibilities in pursuit of their shared public policy objectives for the safety and efficiency of payment and settlement systems, and their focus on the stability of the financial system. In particular, participating banks seek to promote a consistent oversight approach that achieves comprehensive oversight of the overall CLS system; enhances oversight efficiency by minimising the burden on CLS and the duplication of effort by participating central banks; fosters consistent and transparent central bank communications with CLS; fosters transparency among participating central banks regarding the development and implementation of applicable policies; and supports fully informed judgements when participating central banks make their independent, yet interdependent, oversight assessments and decisions vis-à-vis CLS.

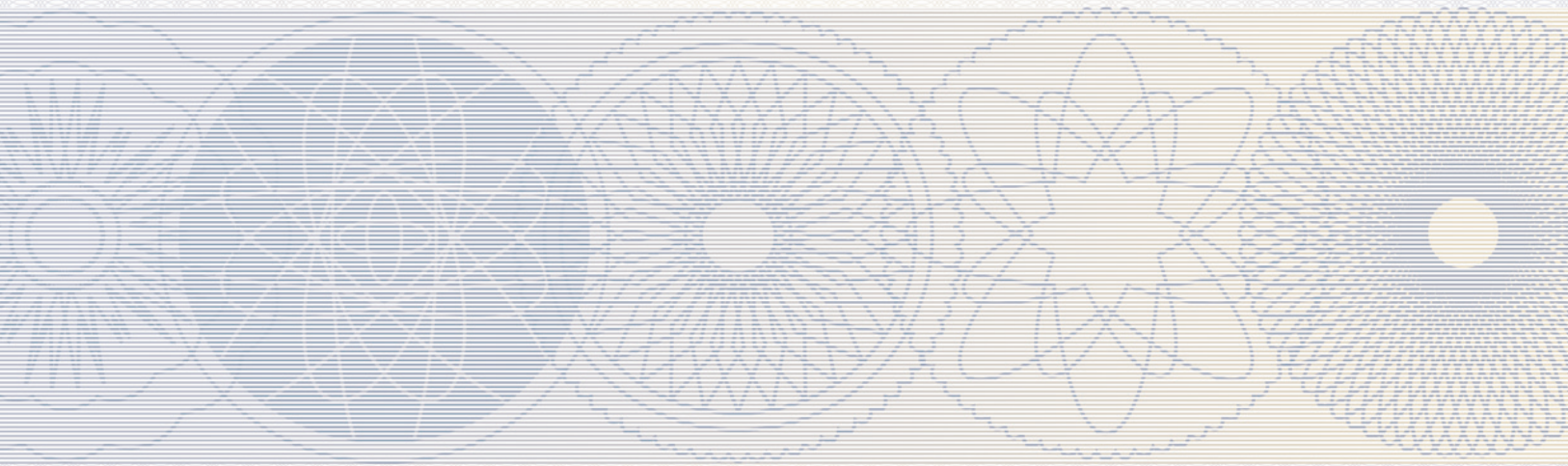


The methodology of *Vision 2015* is to

- establish an overall vision for 2015;
- state the **strategic objectives** for 2015;
- state the **visions, strategies, fundamental principles and critical success factors** for the main themes; and
- determine the **roles and responsibilities** in terms of the strategies.

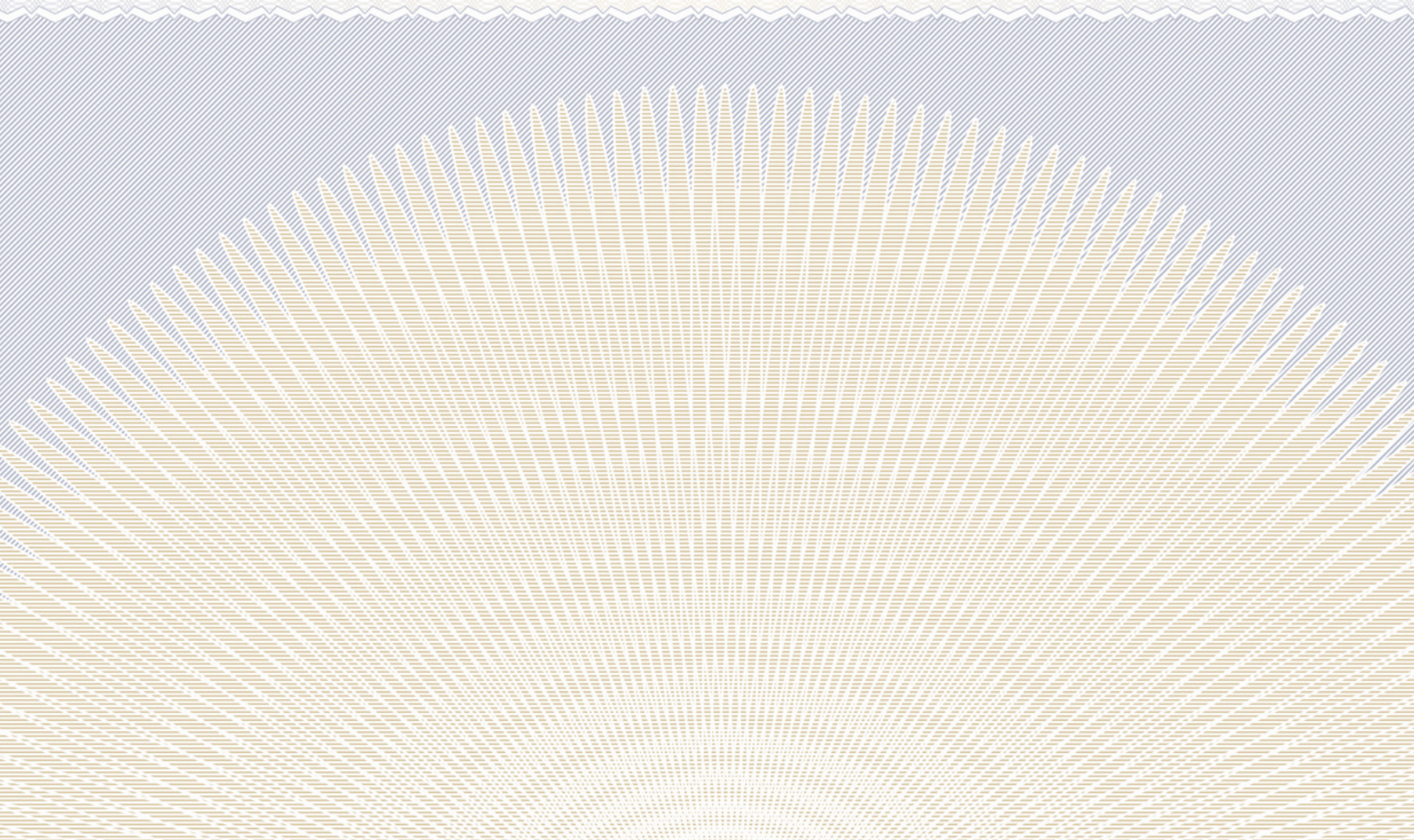
The main themes addressed are

- access to the payment system;
- oversight of the payment system;
- communication in the payment system;
- human resources capacity enhancement in the payment system;
- infrastructural development for the payment system;
- regional infrastructure integration of the payment system; and
- the interchange determination process.



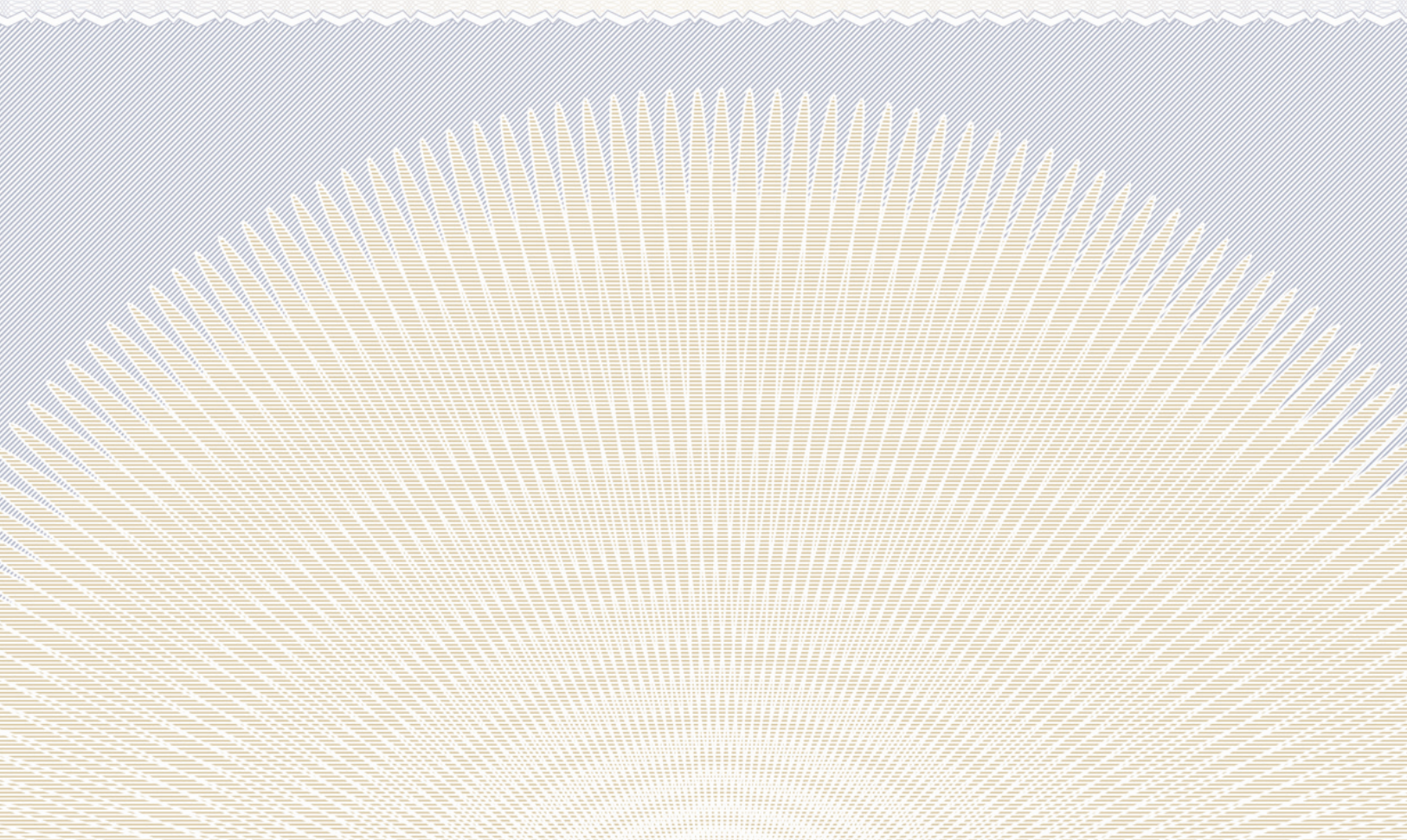
Vision 2015

To maintain a world-class payment system that meets domestic, regional and international requirements.





Main strategic objectives

1. Continue to evaluate and improve the participation of non-bank stakeholders in the clearing system and/or in formal payment system management structures.
 2. Enhance the oversight of banks and increase the focus on non-banks.
 3. Enhance communication among stakeholders regarding NPS matters.
 4. Participate in international workgroups and forums.
 5. Enhance payment system human resources capacity in the broader NPS.
 6. Ensure a high level of operational effectiveness of the payment system infrastructure.
 7. Facilitate regional payment system infrastructure integration to meet the needs of the SADC region.
 8. Formalise and implement the interchange determination process.
- 

2. Access to the national payment system

2.1 Introduction

For purposes of this document, “access to the payment system” refers to the participants who are providing payment system services. The public, including major corporate entities, utilise these payment instruments and services.

The services that the various participants provide in the payment system include the issuance of payment instruments, collection of payment instructions and the provision of payment services to third persons, clearing and settlement. These services comprise a business element and the payment system infrastructure, both of which ensure that payment products are effective in supporting the underlying purpose of the NPS, namely the circulation of funds in the economy.

Although most of the objectives stated in *Vision 2010* have been achieved, many of the strategies, fundamental principles and critical success factors remain applicable to the new *Vision 2015*. These strategies, fundamental principles and critical success factors have been adapted where required.

It is important, however, that competition considerations are taken into account. This aspect is balanced with safety and integrity considerations when participant access is addressed.

2.2 Vision

Formalised and regularised participation of all categories of bank and non-bank payment service providers in the NPS structures exist. These include the following:

- Registered banks⁸ in terms of the South African banking legislation. Only registered banks, qualifying in terms of the Bank’s payment system criteria, are eligible to clear and settle in their own name in the books of the Bank.
- Qualifying non-banks that, subject to the discretion of the Bank, are designated to be clearing participants in terms of section 6 of the NPS Act.
- Sponsored banks and non-banks that are designated⁹ by the Bank. These banks and non-banks use sponsorship arrangements through other qualifying banks for clearing and settlement purposes. Sponsoring¹⁰ banks, subject to criteria for sponsorship, are required to ensure that obligations arising from the clearing of sponsored banks are settled.
- Non-bank participants that include third-person service providers and system operators.
- Non-banks that are allowed to issue payment instruments. These payment instruments are linked to a credit line through which the non-banks provide credit to the public.
- Non-banks that issue prepaid instruments. These payment instruments are non-encashable and can be used by the unbanked and banked public.

Furthermore, development paths exist for non-banks to become designated clearing system participants, clearing and/or settlement banks in the payment system, without bringing risk into the NPS.

2.3 Fundamental principles

- 2.3.1 Liquidity, operational, credit, settlement, legal, systemic and reputational risks determine the entry criteria for banks and non-banks into the payment system.
- 2.3.2 Fair and transparent entry and participation criteria exist for all categories of participants.

8 “Registered banks” in this context has the same meaning as that of “a bank” as defined in section 1 of the Banks Act, 1990 (Act No. 94 of 1990).

9 Section 6(3)(a) of the NPS Act empowers the Bank to designate a non-bank as a non-bank clearing system participant if it believes that such designation is in the interest of the integrity, effectiveness or security of the payment system.

10 “Sponsorship” refers to the practice where one bank settles the payment obligations of another bank (financial sponsorship) and/or provides infrastructure sponsorship (technical sponsorship). With financial sponsorship the sponsoring bank accepts the settlement risk.

- 2.3.3 Safety, efficiency and competition considerations are taken into account when access is addressed.
- 2.3.4 Access criteria for participants are aligned with international best practice.

2.4 Strategies

- 2.4.1 Continue to evaluate and enhance non-bank participation in the payment system management structures.
- 2.4.2 Allow non-bank access to the NPS via directives.
- 2.4.3 Enhance growth paths for participants in the payment system.
- 2.4.4 Enhance entry criteria and other regulatory requirements for participants.
- 2.4.5 Introduce different tiers of participation in the clearing environment of the NPS.
- 2.4.6 Introduce designation for different levels of non-bank participation in the NPS. Different tiers of designation can be implemented by placing different criteria in the designation notice.
- 2.4.7 Amend legislation to enhance formal participation where required.
- 2.4.8 Conclude memorandums of understanding (MoUs) between the NPSD and other specific regulators.

2.5 Critical success factors

- 2.5.1 Appropriate, fair and transparent entry criteria for payment system participants with regard to the elements of safety, efficiency and competition.
- 2.5.2 Payment system management structures that include and represent all levels of participation.
- 2.5.3 Appropriate legislation to enhance formal participation in the NPS.
- 2.5.4 Co-operation between the Bank and other regulatory stakeholders.

3. Oversight of the national payment system

3.1 Introduction

Oversight of payment systems generally refers to the management of payment risks by central banks. According to the BIS, “oversight is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives, and where necessary, inducing change”.

As stated in *Vision 2010*, the oversight domain of the NPS entails the entire process of making payment; in other words, it entails the processes of (including but not limited to) enabling the payer to make a payment (i.e., issuance of payment instruments); the payer issuing a payment instruction via a payment instrument or other infrastructure; the institution receiving the payment instruction via clearing or otherwise; the process of clearing and settlement (where applicable); the beneficiary accepting the payment instruction; the beneficiary delivering the payment instruction to an institution for collection; the institution receiving and delivering the payment instruction for collection into clearing and settlement; and the beneficiary receiving the benefit of the payment. The described process, banks, third-person payment providers, system operators, payment clearing house (PCH) system operators¹¹ and agents of payers and/or beneficiaries are included in the system.

It is critical for South Africa to stay abreast of international developments relating to oversight and global developments that are aimed at enhancing risk management in the payment system environment. In this regard, South Africa and the Bank have benefited from the Bank’s membership of the CPSS of the BIS since 2009. As such, the Bank is able to contribute to, and take part in, international discussions on payment system principles and regulation, and has been privileged to be included in several of the workgroups of the CPSS. This is particularly relevant in considering lessons learnt from the global financial crisis experienced in 2008.

In this regard, the global financial crisis has resulted in a “rethink” of financial regulation, including payment system regulation and oversight. Together with the International Organisation of Securities Commissions (IOSCO),¹² the CPSS has reviewed all the principles relating to payment and securities settlement systems. These include the principles contained in the BIS reports on the *Core Principles for Systemically Important Payment Systems (CPSIPS)*, *Recommendations for Securities Settlement Systems (SSS)* and *Recommendations for Central Counterparties (CCPs)*.

The CPSS has released a consultative report that has combined the principles contained in the above-mentioned publications into one document in their reviewed form. This will, in its final form, be used as the standard for future oversight practices and evaluation during International Monetary Fund/World Bank evaluations.

One of the main focus areas is to reduce settlement risk in the securities settlement environment by formalising the trading, clearing and settlement of financial markets products. For example, actions are under way globally to bring over-the-counter products onto exchanges and/or strengthen the settlement risk management of these products, especially derivatives products.

Settlement risk in the financial markets environment is reduced by introducing delivery-versus-payment¹³ (DvP) for exchange-traded products and payment-versus-payment¹⁴ (PvP) for foreign-exchange (FX) trading. Attempts are made to bring more FX trading into the CLS environment. CLS settlement functioned smoothly during the financial market crisis, and record FX settlement volumes and values were recorded. Another focus area is specifically to address liquidity risks in the global payment system infrastructures. Liquidity risks played a major part in the financial crisis, especially as the global interbank market experienced severe problems as the availability of liquidity decreased substantially.

11 PCH system operators are licensed by the Payments Association of South Africa (PASA). A PCH system operator is a legal person that clears on behalf of two or more Bank settlement system participants (banks).

12 The International Organisation of Securities Commissions is an association of organisations that regulate the world’s securities and futures markets. Member agencies currently assembled in IOSCO have resolved, through its permanent structures, to co-operate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and to seek to address systemic risk.

13 Defined by the BIS as “a link between a security transfer system and funds transfer system that ensures that delivery occurs if, and only if, payment occurs”.

14 Defined by the BIS as “a mechanism in a foreign exchange settlement system which ensures that a final transfer of one currency occurs if and only if a final transfer of the other currency or currencies takes place”.

Efforts are being made on a global scale to identify systemically important financial institutions (banks and non-banks) proactively. A further step is to determine the interconnectedness and interdependencies of financial institutions that could exacerbate domino effects in the global financial system.

Although most of the **oversight** objectives as stated in *Vision 2010* have been achieved, many of the strategies, fundamental principles and critical success factors apply to *Vision 2015*, and are refined and adjusted for future developments.

3.2 Vision

The Bank's NPSD participates in international oversight forums and workgroups. Therefore, South African oversight arrangements and practices are aligned with international standards and best practice.

Oversight of the payment system involves international, domestic bank and non-bank oversight. The Bank co-operates with other regulatory authorities in effecting its oversight responsibilities. For example, the Bank is not primarily responsible for pricing and competition issues but co-operates with Competition Commission authorities and cognisance is taken of competition issues.

NPS forums, including structures consisting of bank and non-bank stakeholders, are well established.

3.3 Fundamental principles

- 3.3.1 The intensity of oversight is proportionate to the systemic risks (sources could be liquidity, operational, credit, settlement and/or legal risks) or system-wide risks posed by a payment system or participant.
- 3.3.2 Oversight is primarily aimed at the promotion of a safe and efficient NPS as a whole and not at individual participants.
- 3.3.3 The principle of credit-push¹⁵ as a payment methodology is promoted.
- 3.3.4 Participants are held responsible for the risks they introduce to the payment system.

3.4 Strategies

- 3.4.1 Identify systemic risk emanating from the payment system proactively.
- 3.4.2 Enhance the effectiveness of NPS oversight.
- 3.4.3 Continue to evaluate and enhance formal overarching payment system management structures, which include bank and non-bank participants.
- 3.4.4 Take cognisance of other regulatory developments and align the payment system where required.
- 3.4.5 Align South African oversight arrangements and practices with international best practice.
- 3.4.6 Continue to maintain a focus on non-bank oversight.
- 3.4.7 Continue to participate in international oversight workgroups and forums (e.g., BIS CPSS and CLS).

3.5 Critical success factors

- 3.5.1 Continued international participation in payment system matters.
- 3.5.2 An effective oversight process in the NPS.
- 3.5.3 An effective overarching payment system management structure.
- 3.5.4 Adequate oversight staff capacity in the central bank.

15 The payer initiates (push) the transfer of funds from an account. The payer can only do this if the payer has funds available in an account. With a cheque (a debit-pull methodology), a payer can write a cheque without having the funds available. The credit-push reduces risk in the payment system.

4. Communication on the national payment system

4.1 Introduction

Communication on payment system developments enhances the understanding of the public and stakeholders of the major developments in the broader payments arena. The payment system is a multifaceted environment that spans, among others, business, technology, legal and regulatory issues. At times the multifaceted nature of the payment system appears to be complex. Focused external communication will simplify the complex dimensions of the system.

Furthermore, it is important for the Bank and the payment system management body¹⁶ to be transparent regarding their roles and objectives in the payment system.

¹⁶ The payment system management body (i.e., the Payments Association of South Africa (PASA)) manages the conduct of its members in relation to all matters affecting the clearing environment.

4.2 Vision

Communication among relevant NPS stakeholders and other regulators takes place on a more formalised basis. NPS stakeholders and other regulators are aware of relevant developments in the payment system through effective communication strategies. The impact of legislative administration and amendments in the payment system is well understood.

4.3 Fundamental principles

- 4.3.1 NPS stakeholders and other regulators are well informed about payment system developments.
- 4.3.2 Well-informed stakeholders contribute to a more effective payment system.
- 4.3.3 Well-informed stakeholders enhance the oversight capabilities of the Bank.

4.4 Strategies

- 4.4.1 Ensure that sufficient payment system information is available to all stakeholders.
- 4.4.2 Utilise payment system management structures for effective communication.
- 4.4.3 Utilise conferences, summits and communication programmes.
- 4.4.4 Establish bank and non-bank strategy workgroups.

4.5 Critical success factors

- 4.5.1 Industry co-operation on communication matters exists.
- 4.5.2 Communication on payment, clearing and settlement is effective.
- 4.5.3 Payment, clearing and settlement information is widely available within legal requirements.

5. Human resources capacity enhancement in the national payment system

5.1 Introduction

The NPS environment is a complex business area that comprises many dimensions, for example financial markets, technology, legal and regulatory developments. Awareness, training and education will enhance the understanding of the public, participants and other stakeholders of the major developments in the broader payments arena.

The integration of the multifaceted nature of the payment system requires sound knowledge of all the payment system dimensions. Furthermore, staying abreast of international payment system developments requires a sound NPS knowledge base for enhancing the sophistication and effective functioning of the cross-border dimensions of the payment system.

5.2 Vision

An industry pool of highly skilled and knowledgeable payment system specialists exists. These specialists are knowledgeable about the different dimensions of the NPS. The NPS function is seen as a core and value-adding business area, and provides attractive career opportunities.

5.3 Fundamental principles

- 5.3.1 Payment system capacity-building programmes and/or initiatives are relevant and address industry needs.
- 5.3.2 Capacity-building programmes and/or initiatives are aligned with best practice.

5.4 Strategies

- 5.4.1 Involve key stakeholders in payment system capacity building.
- 5.4.2 Establish NPS “business school” training and education programmes.
- 5.4.3 Utilise conferences, summits and other capacity-building initiatives.

5.5 Critical success factors

- 5.5.1 Active industry participation, co-operation and investment.
- 5.5.2 Efficient and co-ordinated training and learning programmes.
- 5.5.3 Effective communication regarding capacity building.

6. Infrastructural developments for the national payment system

6.1 Introduction

The infrastructure element of the payment system, which comprises computer systems, computer networks, computer processing capacity and an integrated financial network (i.e., a communications network or mechanism facilitating financial transactions and information transfer), is a critical component of the system. Failure of the infrastructure components of the payment system could result in substantial risk, generally referred to as “operational risk”. One of the main sources of settlement risk in the payment system could be operational risk.

Operational effectiveness ensures the circulation of funds in the financial system and efficient liquidity management by participants. Operational risk emanating from the payment system infrastructure should therefore be minimised.

Common standards enhance the operational effectiveness of the payment system. Standards are defined as minimum requirements regarding infrastructure and design (e.g., technology, security and payment products), and business aspects (e.g., practices and arrangements) of the payment system industry. Standards ensure a common understanding of requirements.

A major objective of implementing standards is to enhance security and enable interoperability within the payment system. These standards focus on, among other things, the prevention of fraud, increasing trust, integrity, access to, and confidence in, the payment system.

6.2 Vision

The South African payment, clearing and settlement system infrastructure meets domestic requirements, including the linkages that the system has with international and regional infrastructure. The Bank, regulators and operators of the international and regional systems co-operate with one another.

Owing to the important role of interoperability in the payment system, competition among participants is focused more on product and service offerings than on infrastructure.

A high level of operational effectiveness is maintained, and real-time payment and settlement information is available. Information is shared with specific stakeholders and used, where appropriate, to further enhance information delivery in the NPS. In order to augment the operational effectiveness of the payment system, well-tested, efficient and effective business continuity planning (BCP) and disaster recovery (DR) systems and procedures are in place.

Emerging payment system technologies are monitored, researched and evaluated on a regular basis. Technology standards for security and communication exist, resulting in interoperability and integration capabilities. The payment system technology employed supports safety and efficiency.

Interoperable bank and non-bank infrastructure and processes are in place to allow unbanked persons to remit funds (e.g., mobile payments), both domestically and across the border, within specified limits. The footprint for such services is widespread and includes banks’ branch networks, Postbank and large retail chains.

The payment and transfer of funds via mobile devices are well established and interoperable. Regulatory requirements in this regard are balanced with the concomitant risks.

6.3 Fundamental principles

- 6.3.1 Common standards are implemented and are geared towards enhancing security and interoperability within payment systems.
- 6.3.2 Unless otherwise agreed with the Bank, international best practice and standards are adhered to.
- 6.3.3 Appropriate and effective BCP and DR processes are maintained across all critical components of the payment system.
- 6.3.4 Participants are responsible for the operational risk they introduce into the payment system (e.g., in respect of the outsourcing of infrastructure and other functionalities).

6.4 Strategies

- 6.4.1 Support payment system infrastructure initiatives that enable access to payment services.
- 6.4.2 Ensure that the capability of payment infrastructure owned by the central bank is maintained.
- 6.4.3 Ensure that the payment, clearing and settlement infrastructure is robust, and in line with domestic and international requirements and standards.
- 6.4.4 Continually review and update the payment, clearing and settlement infrastructure to ensure that the safety and efficiency objective is achieved.
- 6.4.5 Simplify and rationalise the South African payment settlement infrastructure.
- 6.4.6 Continue to ensure effective BCP and DR processes in the payment system.
- 6.4.7 Ensure that the capability of privately owned payment infrastructure is maintained.
- 6.4.8 Identify and rectify potential operational risks on a proactive basis, including the elimination of single points of failure in the payment system.
- 6.4.9 Ensure that payment system participants implement applicable standards.
- 6.4.10 Promote the principle of authentication for all payment instructions.

6.5 Critical success factors

- 6.5.1 Industry co-operation regarding infrastructure developments.
- 6.5.2 Efficient, trusted and resilient payment system technology.
- 6.5.3 Capable and sufficient human resources capacity.
- 6.5.4 Common standards for security, interoperability and integration.
- 6.5.5 Efficient and effective BCP and DR systems and procedures.

7. Regional infrastructural integration of the payment system

7.1 Introduction

As South Africa is regarded as the financial gateway into the SADC region and Africa, regional developments are receiving more attention from the business and government sectors. SADC cross-border payment, clearing and settlement systems are paramount in enabling the safe and efficient circulation of money, thereby facilitating regional economic development. Sound SADC payment, clearing and settlement systems enhance regional financial stability by providing, among other things, appropriate SADC payment system risk reduction measures.

An appropriate balance between private- and public-sector payment system infrastructure provision should exist in the domestic and regional environment. It is also important that an optimal level of payment, clearing and settlement infrastructure integration exists so as to derive the advantages from regional infrastructure integration.

Infrastructure integration could provide many benefits, which include network externalities, interoperability, reduced capital investment by the region and standardised payment system risk reduction measures. Common standards will enhance security and interoperability in the regional payment systems.

Regional infrastructure integration could provide some disadvantages, of which concentration risk¹⁷ is the most obvious and substantial. In order to enhance the operational effectiveness of the regional payment system and to address concentration risk, adequate BCP and DR arrangements need to be in place in the region.

17 Concentration risk can be defined as the risk that could result from a lack of diversification.

7.2 Vision

Integrated electronic payment, clearing and settlement infrastructure exists in the region, which promotes efficient circulation of money in the region as the basis for integration in the entire region. Furthermore, an appropriate cross-border settlement model for the region, based on the specific requirements of the region, is in place.

A sound legal framework in all jurisdictions underpins the payment, clearing and settlement developments in the region. Standards exist for SADC payment, clearing and settlement arrangements that are aligned with international best practice. Risk reduction measures are determined by the SADC Co-operative Oversight Group and implemented on a regional basis.

The Bank stays abreast of cross-border developments and best practice to reduce FX settlement risk. In order to achieve this, the Bank participates in international workgroups to discuss cross-border developments pertaining to payment, clearing and settlement. Furthermore, the Bank interacts and communicates with central banks and regulators, local and international, on cross-border payment, clearing and settlement developments.

7.3 Fundamental principles

- 7.3.1 The credit-push payment principle is the preferred payment method.
- 7.3.2 Electronic instruments are preferred to paper-based instruments.
- 7.3.3 PvP for cross-border settlement and DvP for securities settlement systems (SSSs) is the preferred settlement method.
- 7.3.4 A phased approach to SADC infrastructure integration is followed.
- 7.3.5 The SADC settlement system complies with the BIS CPSIPS.
- 7.3.6 The SADC infrastructure integration process is transparent.



7.4 Strategies

- 7.4.1 Facilitate and act as catalyst in regional infrastructure integration processes.
- 7.4.2 Follow a phased approach in SADC regional infrastructure integration processes embarking on the initial integration of CMA payment, clearing and settlement systems as a model for the wider SADC process.
- 7.4.3 Participate in SADC payment, clearing and settlement systems initiatives.
- 7.4.4 Participate in, and align, SADC regional oversight arrangements and practices.
- 7.4.5 Align SADC regional payment system standards and practices.
- 7.4.6 Participate in arrangements to provide a sound legal framework for the regional payment system.
- 7.4.7 Implement adequate BCP and DR arrangements for the region.
- 7.4.8 Stay abreast of international and other payment system developments on the African continent.

7.5 Critical success factors

- 7.5.1 Comprehensive strategy plan for SADC regional integration.
- 7.5.2 SADC stakeholder interaction, co-operation, support and commitment from all relevant authorities.
- 7.5.3 Harmonised SADC payment system legal frameworks in all jurisdictions.
- 7.5.4 The availability of management information system allows each country's clearing and settlement position to be visible.
- 7.5.5 Harmonised payment, clearing and settlement standards in SADC.
- 7.5.6 Adequate BCP and DR arrangements are in place for the region.

8. Interchange determination in the national payment system

8.1 Introduction

Interchange is a mechanism that enables both the issuing bank and the acquiring bank to offer or support a payment product and/or service, and ensures that both the paying client and the beneficiary would wish to use the payment product and/or service. Interchange achieves this by transferring value between acquiring/sponsoring and issuing/homing participants (in either direction) in a payment system. For example, interchange can flow in from an acquirer to an issuer in cards at point of sale, or issuer to acquirer in automated teller machines.

Interchange can be used to balance a so-called two-sided market to make it work more effectively, to compensate another participant in the payment system for work done on its behalf (i.e., a type of transfer pricing mechanism), or else can be used to achieve certain strategic or regulatory outcomes in the interest of the NPS.

Interchange thus plays an important role in creating an efficient payment system as it provides the incentive to introduce new payment mechanisms and enhances the viability of doing so.

Interchange is receiving attention on a global scale as the perception that interchange forms the basis of banking charges to the public exists, and that interchange, in general, is too high. What is sometimes overlooked in this line of argument is the fact that, in most cases, interchange serves as a subsidy to the consumer or initiator of the transaction, thus stimulating the use of electronic payments in preference to cash. In South Africa the competition authorities started investigating South African banking charges in 2006, with a more detailed focus on the role of banks in the determination of interchange levels. Part of the reason was to establish if there was a link between interchange and banking charges in South Africa, which were perceived to be too high. This investigation resulted in a report (*Banking Enquiry Report*¹⁸) that was published in 2008.

As a result of the recommendations made in the *Banking Enquiry Report*, a Steering Committee was formed between National Treasury, the Competition Commission and the Department of Trade and Industry, in consultation with the Bank. Workgroups were also established to deal with specific recommendations made in the report. The NPSD of the Bank has been taking part in workgroups, including the workgroup on interchange.

Card interchange complexities in other countries have often resulted in a regulator being forced to intervene to regulate the interchange setting. Examples are Australia, New Zealand and the United States of America.

After protracted consultation with all relevant parties, the Bank decided to **facilitate** an industry process on the determination of interchange.

8.2 Vision

An appropriate, transparent and effective interchange determination process is in place that meets the requirements of the South African payment system. Interchange levels are reviewed from time to time as the need arises to address changing payment system market dynamics. South Africa has the organisational, human resources and infrastructural capacity to determine the appropriate levels of interchange in the different payment streams.

18 The Panel of the Banking Enquiry, established in 2006 by the Competition Commission of South Africa to enquire into particular aspects of competition in retail banking and the national payment system in South Africa completed its work in June 2008. The Competition Commission released the *Banking Enquiry Report* in December 2008.

8.3 Fundamental principles

- 8.3.1 The Bank acts as a catalyst and facilitator for the determination of interchange, but not as an interchange and/or price regulator.
- 8.3.2 All payment mechanisms recognised by PASA are included in the process.
- 8.3.3 International payment card and other payment networks and/or schemes are subject to the domestic jurisdiction.
- 8.3.4 An independent expert entity is appointed to determine the interchange. This will include both the development of an interchange determination model based on sound principles and the application of the model in the various payment systems available in the NPS.
- 8.3.5 The funding for the interchange determination process is provided by all stakeholders (banks and non-banks).
- 8.3.6 The Bank provides the initial funding costs of the facilitator in order to ensure an independent and transparent process.

8.4 Strategies

- 8.4.1 Appoint an independent facilitator.
- 8.4.2 Appoint an independent expert entity for interchange determination.
- 8.4.3 Ensure the opportunity for adequate comment and consultation with specific stakeholders.
- 8.4.4 Monitor the progress made with the interchange determination process.
- 8.4.5 Implement the appropriate levels of interchange in the relevant payment streams.
- 8.4.6 Establish domestic organisational, human resources and infrastructural capacity to review, and determine the appropriate levels of interchange in the respective payment streams in future.

8.5 Critical success factors

- 8.5.1 A transparent, inclusive, fair and consultative approach, which takes the interests of all stakeholders into account, is adopted.
- 8.5.2 All stakeholders agree upfront that they will abide by the outcome of the process.
- 8.5.3 An independent expert entity and independent facilitator are appointed to ensure a fair and transparent process.
- 8.5.4 The development of adequate local expertise and capacity to ensure the ongoing review and implementation of interchange as required in new and existing payment systems.
- 8.5.5 A national capacity and capability for interchange determination exists.

9. Roles and responsibilities

Strategies		Role-players and responsibilities
2.	Access to the national payment system	
2.1	Continue to evaluate and enhance non-bank participation in the payment system management structures	SARB
2.2	Allow non-bank access to the NPS via directives.....	SARB
2.3	Enhance growth paths for participants in the payment system	SARB, PASA
2.4	Enhance entry criteria and other regulatory requirements for participants	SARB, PASA
2.5	Introduce different tiers of participation in the clearing environment of the NPS.....	SARB, PASA
2.6	Introduce designation for different levels of non-bank participation in the NPS. Different tiers of designation can be implemented by placing different criteria in the designation notice.....	SARB
2.7	Amend legislation to enhance formal participation where required	SARB
2.8	Conclude memorandums of understanding (MoUs) between the NPSD and other specific regulators	SARB
3.	Oversight of the national payment system	
3.1	Identify systemic risk emanating from the payment system proactively.....	SARB, PASA
3.2	Enhance the effectiveness of NPS oversight	SARB
3.3	Continue to evaluate and enhance formal overarching payment system management structures, which include bank and non-bank participants	SARB
3.4	Take cognisance of other regulatory developments and align the payment system where required	SARB
3.5	Align South African oversight arrangements and practices with international best practice	SARB
3.6	Continue to maintain a focus on non-bank oversight	SARB
3.7	Continue to participate in international oversight workgroups and forums (e.g., BIS CPSS and CLS).....	SARB
4.	Communication on the national payment system	
4.1	Ensure that sufficient payment system information is available to all stakeholders	SARB, PASA
4.2	Utilise payment system management structures for effective communication	SARB
4.3	Utilise conferences, summits and communication programmes	SARB, NPS industry
4.4	Establish bank and non-bank strategy workgroups	SARB
5.	Human resources capacity enhancement in the national payment system	
5.1	Involve key stakeholders in payment system capacity building	SARB, PASA
5.2	Establish NPS “business school” training and education programmes	SARB, PASA
5.3	Utilise conferences, summits and other capacity-building initiatives ...	SARB, NPS industry
6.	Infrastructural developments for the national payment system	
6.1	Support payment system infrastructure initiatives that enable access to payment services.....	SARB, PASA
6.2	Ensure that the capability of payment infrastructure owned by the central bank is maintained	SARB
6.3	Ensure that the payment, clearing and settlement infrastructure is robust, and in line with domestic and international requirements and standards.....	SARB

9. Roles and responsibilities (continued)

	Strategies	Role-players and responsibilities
6.4	Continually review and update the payment, clearing and settlement infrastructure to ensure that the safety and efficiency objective is achieved.....	SARB
6.5	Simplify and rationalise the South African payment settlement infrastructure.....	SARB
6.6	Continue to ensure effective BCP and DR processes in the payment system.....	SARB
6.7	Ensure that the capability of privately owned payment infrastructure is maintained.....	SARB, PASA
6.8	Identify and rectify potential operational risks on a proactive basis, including the elimination of single points of failure in the payment system.....	SARB, PASA
6.9	Ensure that payment system participants implement applicable standards.....	SARB, PASA
6.10	Promote the principle of authentication for all payment instructions....	SARB, PASA
7.	Regional infrastructural integration of the payment system	
7.1	Facilitate and act as catalyst in regional infrastructure integration processes	SARB
7.2	Follow a phased approach in SADC regional infrastructure integration processes embarking on the initial integration of CMA payment, clearing and settlement systems as a model for the wider SADC process.....	SARB
7.3	Participate in SADC payment, clearing and settlement systems initiatives	SARB
7.4	Participate in, and align, SADC regional oversight arrangements and practices	SARB
7.5	Align SADC regional payment system standards and practices.....	SARB
7.6	Participate in arrangements to provide a sound legal framework for the regional payment system	SARB
7.7	Implement adequate BCP and DR arrangements for the region	SARB
7.8	Stay abreast of international and other payment system developments on the African continent.....	SARB, PASA
8.	Interchange determination in the national payment system	
8.1	Appoint an independent facilitator	SARB
8.2	Appoint an independent expert entity for interchange determination..	SARB
8.3	Ensure the opportunity for adequate comment and consultation with specific stakeholders.....	SARB
8.4	Monitor the progress made with the interchange determination process.....	SARB
8.5	Implement the appropriate levels of interchange in the relevant payment streams	NPS industry
8.6	Establish domestic organisational, human resources and infrastructural capacity to review, and determine the appropriate levels of interchange in the respective payment streams in future.....	SARB

Key

NPS industry	All participants in the NPS
PASA	Payments Association of South Africa
SARB	South African Reserve Bank

10. Appendix 1: Summary of fundamental principles of *Vision 2015*

2.3 Fundamental principles for access to the national payment system

- 2.3.1 Liquidity, operational, credit, settlement, legal, systemic and reputational risks determine the entry criteria for banks and non-banks into the payment system.
- 2.3.2 Fair and transparent entry and participation criteria exist for all categories of participants.
- 2.3.3 Safety, efficiency and competition considerations are taken into account when access is addressed.
- 2.3.4 Access criteria for participants are aligned with international best practice.

3.3 Fundamental principles for oversight of the national payment system

- 3.3.1 The intensity of oversight is proportionate to the systemic risks (sources could be liquidity, operational, credit, settlement and/or legal risks) or system-wide risks posed by a payment system or participant.
- 3.3.2 Oversight is primarily aimed at the promotion of a safe and efficient NPS as a whole and not at individual participants.
- 3.3.3 The principle of credit-push as a payment methodology is promoted.
- 3.3.4 Participants are held responsible for the risks they introduce to the payment system.

4.3 Fundamental principles for communication on the national payment system

- 4.3.1 NPS stakeholders and other regulators are well informed about payment system developments.
- 4.3.2 Well-informed stakeholders contribute to a more effective payment system.
- 4.3.3 Well-informed stakeholders enhance the oversight capabilities of the Bank.

5.3 Fundamental principles for human resources capacity enhancement in the national payment system

- 5.3.1 Payment system capacity-building programmes and/or initiatives are relevant and address industry needs.
- 5.3.2 Capacity-building programmes and/or initiatives are aligned with best practice.

6.3 Fundamental principles for infrastructural developments for the national payment system

- 6.3.1 Common standards are implemented and are geared towards enhancing security and interoperability within payment systems.
- 6.3.2 Unless otherwise agreed with the Bank, international best practice and standards are adhered to.
- 6.3.3 Appropriate and effective BCP and DR processes are maintained across all critical components of the payment system.
- 6.3.4 Participants are responsible for the operational risk they introduce into the payment system (e.g., in respect of the outsourcing of infrastructure and other functionalities).

7.3 Fundamental principles of regional infrastructural integration for the payment system

- 7.3.1 The credit-push payment principle is the preferred payment method.
- 7.3.2 Electronic instruments are preferred to paper-based instruments.
- 7.3.3 PvP for cross-border settlement and DvP for securities settlement systems (SSSs) is the preferred settlement method.
- 7.3.4 A phased approach to SADC infrastructure integration is followed.
- 7.3.5 The SADC settlement system complies with the BIS CPSIPS.
- 7.3.6 The SADC infrastructure integration process is transparent.

8.3 Fundamental principles for interchange determination in the national payment system

- 8.3.1 The Bank acts as a catalyst and facilitator for the determination of interchange, but not as an interchange and/or price regulator.
- 8.3.2 All payment mechanisms recognised by PASA are included in the process.
- 8.3.3 International payment card and other payment networks and/or schemes are subject to the domestic jurisdiction.
- 8.3.4 An independent expert entity is appointed to determine the interchange. This will include both the development of an interchange determination model based on sound principles and the application of the model in the various payment systems available in the NPS.
- 8.3.5 The funding for the interchange determination process is provided by all stakeholders (banks and non-banks).
- 8.3.6 The Bank provides the initial funding costs of the facilitator in order to ensure an independent and transparent process.