

Remarks by Mr. Daniel Mminele, Deputy Governor, South African Reserve Bank, on the occasion of the Annual National Payment System Cocktail Function – 18 November 2010, Centurion, South Africa

Good evening ladies and gentlemen.

Thank you for accepting our invitation and welcome to the 2010 annual cocktail function for payment system stakeholders and participants in South Africa. Although this is traditionally an evening of relaxation, mingling with colleagues and business partners, and of just saying “thank you” for another year of good co-operation, it is also an appropriate occasion to reflect on the year gone by and look at a few things that await us in the year to come.

The past year has been a trying one in the domestic and global economy and was full of challenges in many respects.

At this time last year, we were all cautiously optimistic about where the global economy was heading. Following significant monetary and fiscal policy stimulus packages we had seen a re-emergence from the recession across a broad front. The collaborative approaches to dealing with the crisis seemed to be having the desired effect. While there were some risks to the outlook, there was similarly an acute awareness of the need to continue the repair work to various elements of the global financial system so as to ensure that the recovery could become self-sustaining, with the private sector replacing the public sector as the main engine for the recovery.

We subsequently saw international and domestic growth moderating and divergent trends emerging, with developing countries and emerging markets continuing to do relatively well, while advanced economies were struggling. This got compounded by underlying sovereign and banking vulnerabilities, which, given the recent turmoil in sovereign debt markets, remain a significant

challenge. Another challenge has been the low yield environment in developed countries, which has resulted in significant inflows into emerging markets, which are putting appreciation pressure on their currencies and contributing to uneven and unbalanced recoveries, while harbouring the risk of facilitating the build-up of asset price bubbles.

The global crisis, and the lessons we are still learning from it, has also reinforced the need to work towards robust systems in the financial sector, including the payment and settlement system.

On the international front, the Bank has, during 2010, been actively involved in the activities of the Bank for International Settlements (BIS) Committee on Payment and Settlement Systems (CPSS). South Africa joined this committee when its membership was expanded late last year from the G10 countries to include all G20 countries. In the aftermath of the global crisis, the CPSS, in collaboration with the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO) has been involved in several projects aimed at reviewing principles and standards for the financial sector. Besides the main CPSS the Bank is involved in workgroups relating to liquidity and operational risk management as well as retail activities. It is anticipated that a general review of standards will be concluded in early 2011. In this regard, the Bank has been approached by the CPSS Secretariat to arrange a general consultation session for the South African and SADC financial sector in South Africa in early 2011.

Another important area of the Bank's work in the international arena has been its involvement as part of the foreign-exchange Continuous Linked Settlement (CLS) system oversight group, chaired by the Federal Reserve Bank of New York. Among the many things highlighted by the global crisis is a realisation that there are certain critical systemically important systems in the international payments settlement environment, to which major players are interlinked and which deserve special attention from international regulators. CLS, although it has

proven its resilience during the crisis, is one of those systems receiving closer attention.

On the domestic front, the Bank has been dealing with some fairly tough issues, not least of which those arising out of the recommendations of the Banking Enquiry Report as they relate to interchange and access to the NPS. Following intensive consultation between the National Payment System Department (NPSD), National Treasury, Competition Commission and Department of Trade and Industry, proposals were put forward by the NPSD to facilitate a process to review the interchange rates in the various payment streams. In terms of these proposals the Bank will appoint a facilitator to meet with stakeholders and determine, on a consultation basis, the parameters which need to be taken into consideration for interchange determination in each payment stream. Following this process an organisation will be appointed to process the data provided by stakeholders in terms of the parameters and to calculate the interchange rates in each payment stream, including cards. It is expected that this process will take between 6 to 12 months to complete. The Competition Commission and National Treasury have supported these proposals, which will help address one of the key recommendations from the Banking Enquiry Report.

As for the recommendations relating to “Access to the Payment System” contained in the report, these have largely been dealt with by the Bank in terms of the Vision 2010 strategies that have been implemented over the past few years including the period during the course of the enquiry. To bring closure to this matter the NPSD is finalising a position paper to be published in early 2011. In this regard, one of the changes that has occurred in the past few years, and which deals with the recommendations, is the creation of the National Payment System Advisory Body. This body, which met earlier this afternoon, provides for representation of both bank and non-bank stakeholders in the NPS. It has been expanded in its operation to include consultation on a strategic level, but now also provides for consultation on the operational level of the NPS.

On the settlement system provision, the SAMOS version 7 project is well under way. The project was initiated on the back of a benchmarking exercise that was conducted with 6 of the central banks that operate RTGS systems that interface into the CLS system. The results of the benchmark exercise enabled the Bank to make a decision to enhance the current settlement infrastructure and applications with specific focus on the following:

- To standardise the settlement network to reduce complexity and use enhanced standard offerings from the network service provider SWIFT.
- To enhance the main settlement application and front end systems in line with changes to the network as well as incorporating other changes put forward by the settlement system stakeholder community.

All requirements for the enhancement of the application system and related infrastructure have been agreed between the NPSD and the participant community. The infrastructural component implementation and the development of application system enhancements by both the Bank and stakeholder participants are under way. User acceptance testing of the enhanced system and infrastructure by NPSD is scheduled to commence in January 2011 with implementation scheduled for May 2011.

In terms of its oversight role, other than the international aspects mentioned before, the Bank has continued to interact with the clearing and settlement banks and the Payment Clearing House operators, but has placed a specific focus on the role of non-bank operators and third party service providers this year. Visits have been made to the highest volume/value operators in the system to measure their compliance to directives.

Furthermore, our own need for information over the past several years and the need to provide a comprehensive view of the NPS to different bodies, including the domestic financial industry, Government, the SADC Community, the BIS and the World Bank, required that meaningful information be collected from

participants and collated. As the information required went beyond that which is available from the clearing and settlement systems, an NPS Information Return was developed and implemented to gather and provide a broad perspective of the payments landscape within South Africa. This process has been developed over a period of eighteen months to a point where the data is now reliable. With the information collected and aggregated, the Bank can, for the first time, provide a holistic view of the South African payments industry.

On the regional front the SADC project team is currently working on a model for integration of the payment system in the region in terms of the SADC integration plan. A model system for implementation in the CMA, as a platform for the SADC process, has been proposed and has received support from the CMA Governors at their November 2010 meeting.

In conclusion, therefore, 2010 has been a busy and challenging year. Not only have we seen developments in regulation internationally but also many developments on the domestic and regional front, including the launching of new innovative payment system initiatives. The year 2011 will again bring its challenges, but I am confident that we will deal with these successfully as we have dealt with them in the past.

May I take this opportunity to thank the banking community, the Payments Association of South Africa, clearing house operators and non-bank stakeholders represented here today for their continued co-operation with the Bank.

Finally, allow me to also convey my appreciation to my colleagues from the National Payments System Department, under the able leadership of Dave Mitchell, for their important contribution to ensuring the soundness, safety and efficiency of the payments system in South Africa.

Thank you.