



South African Reserve Bank

Remarks by Mr Daniel Mminele, Deputy Governor, South African Reserve Bank, at the launch of the Foundational Payment Systems Course, Johannesburg, 11 June 2012

1. Introduction

Good morning ladies and gentlemen, and thank you for making the time to attend the launch of the Foundational Payment Systems Course, which I am delighted to be celebrating with you today.

As some of you will be aware, this course is the culmination of a two-year collaborative process, developed jointly by the Payments Association of South Africa (PASA), BANKSETA, Gijima and other participants in the South African payments industry. It is the first of its kind in South Africa and I believe it will be successful in opening doors for new and existing practitioners in the payments industry. The development of this course bears testimony to what can be achieved by working together as an industry.

I would like to share some thoughts with you on the Payment System and what this course means to the South African Reserve Bank and our payments community.

2. The National Payment System

The national payment system (NPS) is one of the pillars of financial stability, and plays an important and enabling role within the South African economy, by linking participants in the domestic financial system with each other, and also by linking the domestic system to the global financial system. A properly designed and well functioning payment system is the lifeblood of any modern economy. Apart from general losses from the economy not operating smoothly, the failure of the payment system can have devastating effects, resulting in systemic risk and contagion effects. The failure of a system, or a key participant, can cause other participants to fail and thus transmit shocks within the financial infrastructure, and also threaten the stability of the currency and financial markets in general. For central

banks, in addition to being the custodians with overall responsibility for the oversight of the payment system, the payment system is also a necessary vehicle for the implementation of monetary policy, and therefore, it is essential that this element of the transmission channel functions effectively and efficiently, while being safe and robust given its systemic relevance.

Most people are unaware of the systems and processes that are in place to enable payment instructions to be cleared and settled daily with minimal interference. As with other technologies, we have become accustomed to having payment services on demand. When we enter a shop or go to an ATM, we expect the service to be there every time and without any interruptions. Rarely do people consider the infrastructure required to accommodate the flow of payment instructions, they only expect that things must happen speedily, efficiently and safely. The only time we become aware of a problem is when the ATM is off-line, when we cannot pay with our card at a retailer or when our bank's internet site is not available for us to effect electronic payments.

It is fitting at this point to reflect on the structural capital that we have built over the years. Structural capital refers to the visions, systems, processes, rules, standards, legal and general payments knowledge utilised continuously to expand and enhance the NPS. These are certainly valuable assets that we have accumulated over time.

From the mid-1990s, the NPS was guided by the National Payment System Framework and Strategy document, the so-called "Blue Book" or "Vision 2005". The Blue Book was the culmination of the work and dreams of payment system visionaries. The 1995 Framework and Strategy document was updated by the Vision 2010 and, the third of the framework and strategy documents, Vision 2015, was published in December 2011.

Other assets include the directives, policies and position papers issued by the National Payment System Department of the Reserve Bank. The clearing rules, service level agreements, business continuity and disaster recovery plans and Payment Clearing House agreements all form part of our structural capital and ensure that we can manage and interact with one another in the payment system with increased safety and security.

Reflecting on developments and improvements to our structural capital, we can start at the core settlement domain. Here we have seen the continuous development of the Real-Time Gross Settlement System, namely, the South African Multiple Options Settlement system (SAMOS), of which the seventh version was recently implemented. At an international level, in December 2004, the South African rand was included as one of the currencies being

settled in the Continuous Linked Settlement (CLS) system, which helped to significantly reduce the foreign-exchange settlement risk. We have also witnessed the successful dematerialisation of the financial markets environment, with bonds, equities and money-market instruments having progressively shifted into the digital economy. We should be proud of what we have achieved over the past two decades. The tangible assets and the know-how have been fundamental to the success of the payments industry.

The list of achievements as an industry is long and will no doubt continue to grow. When it comes to system availability, soundness, risk reduction practices and governance arrangements, the South African NPS compares very favorably with the best in the world. Over the years South Africa has also become a respected participant and an important voice in key international payment system fora, while major strides have been made in contributing to the development of our regional payment systems infrastructure.

3. The importance of human capital

One of the critical success factors to the NPS is that of adequate staff capacity. Human capital is the skills, knowledge and ability to innovate, develop and implement the systems and infrastructure required. Therefore, without the development of people in the NPS, no structural capital can be accumulated. The development of skilled people in the NPS is important and an essential forerunner to the development of structural capital. People with the right payment skills, abilities, experience and commitment are hard to come by in the NPS, due to a number of factors, which I will now elaborate on.

To begin with, the payments environment is a complex one. It takes time to become familiar with the concepts, and the unique language that exists within the payments environment. Attracting talent to the NPS and then equipping the individuals with a firm grounding can sometimes involve a long and steep learning curve. This in itself can be problematic as in today's "instant" society there is a demand for quicker personal returns, resulting in personnel being attracted to other environments.

The second and more profound reason is that formal courses on payments have been very limited. This is not only confined to South Africa, but is a global problem. Simply stated, there are no formal tertiary qualifications that focus on the development of payments experts. This has been a serious challenge.

The third reason, closely linked to the second, is that without a properly structured approach to learning about payments, the growth path for many payments people is unclear. Human resources development is left to the individual to pursue a path that they engineer for themselves. After more advanced business training most people prefer to move off to other areas of interest within banking or move off to other industries.

Finally, there is the tendency that the profile of payments within the industry is sometimes relegated to, or merely seen as an operational issue, where it is deemed to be more of an administrative office function. Payments are in some cases seen as secondary to the core business. It is only on careful analysis that executives realise that this is simply not true, and that payments are mission-critical and most strategic.

I'm sure that you will agree with me when I say that most of the people in the payments industry have brought an eclectic mix of skills to the environment. Through the energy, synergy and "on-the-job" training provided by the more seasoned campaigners, the younger payments generation has developed their skills and expertise. This process, although very practical, is neither structured, optimal nor sustainable. Formalised training and the development of skills are therefore very important.

For some time now, business leaders in the NPS have expressed concern about capacity building in this industry. It is for this reason that we included human resource capacity building as an important theme in the Vision 2015 document. The critical success factors of this theme include active industry participation, co-operation and investment; efficient and coordinated training and learning programmes; and effective communication regarding capacity building. This course is a great start towards realising this objective. Building human capital is a serious matter and is an important agenda item for the Reserve Bank.

We have a big task ahead of us. Having a formal payments programme and being equipped with the right skills set should start the journey to addressing some of our challenges.

Now let me move on to what this celebration is about – the creation of a foundational course in payments.

I am therefore delighted to be a part of this launch of the foundational course in payments. It will form a means to initiate and equip new people into the NPS and may also provide those who have been in and adjacent to the payments environment with a broader view of the NPS and inspire people to make a career for themselves in the payments environment. The long-

term impact of bringing this complex topic into a structured programme could address the capacity constraints facing the payments environment. The intent is not to stop here – the journey has just begun.

4. Conclusion

In conclusion, allow me to convey my congratulations and appreciation to those of you, who have been part of this collaborative effort to create yet another important asset for the payments industry. I hope that the foundational payments course, and other future developments around the course, will inspire and educate a new generation of payment system practitioners who will ensure that our payments environment remains world-class and take it to even greater heights.

Well done and I wish you every success with the course.

Thank you