South African Reserve Bank

Opportunities and challenges: the South African national payment system

An address by Mr Francois Groepe,
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at the PASA International Payments Conference

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1. Introduction

Ladies and gentlemen, good morning.

It is an honour and a pleasure to address the second PASA International Payments Conference, and I would like to thank the organisers for the invitation to open the proceedings.

The timing of this conference is highly appropriate as we are entering a new phase in the South African payment and financial regulatory environment, coupled with significant changes to the international regulatory architecture and framework. Not only do we have to contend with challenges in our domestic environment, but we need to be cognisant of the challenges facing the global economy, such as pedestrian growth, low commodity prices, increased geopolitical risks, and a high degree of market uncertainty and volatility. All these factors combined make the economic and financial environment very challenging and rapidly evolving.

This morning, I will take a look at the current payment system landscape, highlighting some of the opportunities and challenges that we can expect to face in the near future and where we, the regulators, would like to see the national payment system in the next few years.

2. Legislation, regulation, governance, and the South African national payment system

The South African payment system has not escaped the fallout of the most recent global financial crisis. Following the crisis, global regulators increased their scrutiny of payment systems and of financial market infrastructures (or FMIs). This has resulted in numerous regulatory reforms, including legislation to strengthen the financial regulatory architecture.

South Africa will have new, far-reaching and overarching, financial sector legislation by the end of 2016. From a payment system perspective, it will include the introduction of new and more comprehensive regulations as well as expanded oversight and supervision by various regulators.

Furthermore, as you are aware, the Committee on Payments and Market Infrastructures (or CPMI) of the Bank for International Settlements (BIS) as well as the International Organisation of Securities Commissions (IOSCO)[1] published new principles for FMIs in April 2012.

As a result of the new international and domestic regulatory requirements, as mentioned above, it has become necessary to re-evaluate the National Payment System Act 78 of 1998 (NPS Act). The factors that will have to be taken into account include access and participation criteria, licensing criteria in line with international standards for FMIs, the governance arrangements in the payment system, as well as the role of the payment system management body, including that of a self-regulatory organisation (SRO).

[1] The International Organisation of Securities Commissions (IOSCO) is an association of organisations that regulate the world's securities and futures markets. For more information, please see https://www.iosco.org.

As part of this work, the South African Reserve Bank (SARB) commissioned an assessment of the effectiveness of the payment system management body, namely the Payments Association of South Africa (PASA). The purpose of the review, known as the PASA Effectiveness Review, was to address any inadequacies in the regulation of the participants in the payment system and to evaluate the role of PASA in assisting the SARB in discharging its mandate. The SARB published the report last week.

The recommendations of the PASA Effectiveness Review cover four themes, namely mandate and strategy, the governance framework, the regulatory model, and membership. I would like to highlight some of the main findings and recommendations contained in this report.

The report found that the PASA mandate was too restrictive and that it disadvantaged non-banks, hence it proposes that the PASA mandate be clarified and that it be expanded to include non-banks such as card networks, card associations, retailers, and merchants.

Regarding the governance framework, the review found that the PASA Council was not adequately representative of the rapidly changing payments environment and of the various categories and levels of participation and participants in the national payment system. In order to strengthen the governance framework, it is recommended that the PASA Council be composed of a majority of independent non-executive councillors, representative of all the stakeholders in the national payment system and better reflecting our country's demographics.

As far as the regulatory framework is concerned, it was found that there were deficiencies relating to the enforcement framework and that the self-regulating model impacted on the objectivity of the payments clearing house (or PCH) environment. In order to enhance the credibility of our regulatory framework, it is important that compliance be enforced in a consistent, fair and transparent manner, hence it is proposed that an independent Compliance Enforcement Committee be established. This should result in compliance being enforced without fear, favour or prejudice, and should enhance the credibility and integrity of the compliance enforcement process within the national payment system. We further propose that a thorough review of the SRO model be undertaken in order to consider its appropriateness and, if it is decided to retain this model, consideration should be lent to the changes required in order to ensure that any potential conflicts of interest are avoided.

Finally, the review found that the current membership composition was not representative of the broader national payment system industry and that the level and quality of representation was inadequate. More perturbing were the concerns raised pertaining to the poor meeting attendance. In response to these findings, it is proposed that PASA membership be expanded to include non-bank participants in the national payment system and that arrangements be put in place to enhance the effectiveness of PASA.

The SARB intends to continue interacting with a wide range of stakeholders as we work alongside PASA towards further improving the functioning of the national payment system. Together, we also aim to improve the levels of innovation as well as the safety and soundness of the national payment system and, going forward, also that of all systemically important FMIs.

The SARB also embarked on a consultation process to consider a payment system framework and strategy up to 2025. As with previous framework documents, the SARB consulted widely – and it intends to publish its proposal by the end of 2016.

The themes in the Vision 2025 document include the following:

- competition and collaboration in the national payment system;
- regulation and governance in the national payment system;
- standards, interoperability and innovation;
- cybersecurity; and
- financial inclusion.

As these topics indicate, the SARB will cover a rather broad scope.

This brings me to another matter that I would like to raise with the executive management of our banks as well as with non-banks participating in the payment system.

From the above, it is evident that payment system and related matters need to be elevated from the back office to the boardroom. This has happened at the SARB and other central banks. Executives should no longer ignore the importance of the national payment system and its infrastructure, or the risks and threats (e.g. that of cybersecurity) in this environment. The national payment system is a critical and systemically important FMI, hence the SARB will interact with all participants in this environment to ensure that the necessary attention and priority is given due to the important role that it plays within our financial system and the implications of any potential failure for financial stability.

3. Innovation and cybersecurity

Recent reports have highlighted several high-level cybersecurity breaches, not only in banks but in service providers and critical infrastructures in the financial and payment systems.

In June 2016, the CPMI and the IOSCO published a document titled *Guidance on cyber-resilience for financial market infrastructures.*[2] This document highlights the importance of the safe and efficient operation of FMIs in the maintenance and promotion of not only financial stability, but also economic growth. This publication intends to give guidance to industry to enhance its cyber-resilience, and hopes to provide regulators and authorities with a set of internationally agreed guidelines to effectively support, oversee, and supervise FMIs.

Regulators are encouraged to cultivate a culture of awareness and an understanding of the risks inherent in the cyber-environment. All participants should not only be aware of but also understand their role and the importance of improving their cyber-resilience position at every level within the organisation. In

[2] Available at http://www.bis.org/cpmi/publ/d146.htm

this regard, the SARB will host a conference on cybersecurity in August with the objective of creating a platform for various role players in the financial sector to further strengthen their cyber-resilience.

Globally, there has been a wave of innovation in the payment environment, ranging from mobile payments to real-time low-value payments. Advances in technology and access to the Internet have facilitated innovation in various payment technologies. The financial technology (or FinTech) revolution has played a key role in the development of innovative and disruptive technology, and is changing the way in which we look at financial, payment, banking and mobile services, to name but a few.

What we are witnessing at the moment is this: where inefficiencies are perceived within the system, savvy service providers find a technology solution to overcome the inefficiency and provide the service in a cheaper and more efficient manner. Such innovation is especially prevalent in the payment, mobile, remittance and online environments, such as online shopping and e-commerce.

Although FinTech is providing many exciting opportunities, it should be balanced by efficiency, safety and financial stability considerations. It is not the role of regulators to hamper innovation, but the SARB is jointly responsible for financial stability, which includes aspects such as cybersecurity, infrastructures, and a safe and efficient financial system. We therefore need to strive towards achieving a healthy balance when we respond to these developments.

Recently, many central banks – including the Bank of England, the Reserve Bank of India, the Bank of Japan and the Singapore Monetary Authority – have launched FinTech working groups and/or collaboration.

In June 2016, the Bank of England advised that it would collaborate with FinTech firms on measures that could support its ‘mission’ as a central bank.

The Reserve Bank of India has appointed an inter-agency FinTech working group to 'review and appropriately reorient the regulatory framework and respond to the dynamics of the rapidly evolving FinTech scenario'.

Earlier this year, the Japanese and Singaporean authorities announced plans to develop a hub for technological development.

These are but four examples of FinTech developments where central banks are adopting a proactive position in collaborating with the non-bank industry.

The SARB acknowledges that FinTech companies have an important role to play within the financial system. I believe that FinTech can play an important role in the country's development and, through efficiency gains, can not only assist in reducing frictions within the payments value chain and the broader economy, but also has the potential to stimulate growth and create employment opportunities. The SARB is currently reflecting on its regulatory approach towards certain FinTech developments and will address these endeavours in due course.

4. Conclusion

I have attempted to highlight some of the opportunities and challenges facing the South African payment system, in the near future and over the longer term.

To be successful, it is important that we achieve the right balance between safety, efficiency and risk – and that we continue with the collaborative approach started in 1995.

The first framework and strategy document for the payment system was published in November 1995, and the real-time gross settlement system (the SAMOS system[3]) was introduced in March 1998. It is with pride that I can say that the South African national payment system has been extremely successful and resilient in the past 20 years.

[3] South African Multiple Option Settlement system

However, the world has changed. We have seen the worst global financial crisis in recent history, and innovation and technology are changing the world at a pace never seen before.

Although we have been successful in the past, the time has come to look to the future, embrace change, and continue on the path by providing clear and unambiguous direction of where we want to see the future payment system: servicing the country as a whole, from wholesale real-time payments to real-time low-value payments – anytime, anywhere, safely, efficiently, and in a way that is affordable to all.

Thank you.