



South African Reserve Bank

National Payment System Department

**Position Paper –
Bank Models in the National Payment System**

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1. Executive summary

This document outlines the various sponsorship arrangements that can be in effect in the National Payment System (NPS). It is intended to identify and regulate such relationships. This position paper is issued by the National Payment System Department (NPSD), in consultation with the Payment Association of South Africa (PASA).

2. Objective

There are various ways in which a bank can participate in the NPS and the objective of this paper is to provide some guidance to banks with limited knowledge to enter the complex clearing arena.

3. Purpose

From a payments perspective, banks can be divided into two categories, namely non-clearing banks and clearing banks. This paper sets out the differences between a non-clearing bank and a clearing bank (a bank that is permitted to clear and settle) and provides details of subcategories within which a clearing bank could operate.

It is important to note at the outset that, although this paper provides a basic framework for banks to identify their position in respect of payment services, the paper is not intended to serve as a complex set of rules in this regard. The comprehensive set of rules is available from PASA, the payment system management body.

4. Categories of bank

Guidelines for distinguishing between clearing banks and non-clearing banks are documented, in order to enable each bank to identify into which category it falls relative to the business that it pursues or intends to pursue and, in particular, to

enable a non-clearing bank to establish whether (and when) it needs to become a clearing bank.

4.1 Non-clearing banks

A non-clearing bank:

- (a) Is regulated by the Registrar of Banks.
- (b) Is not a settlement system participant as defined in the National Payment System Act, (Act No 78 of 1998, NPS Act) and may not:
 - i. Provide to its clients, any of the payment services defined hereunder in section 5, Payment services.
 - ii. Clear domestic payment instructions to, or from, other banks as normal part of its business.
 - iii. Be a signatory to any payment clearing house (PCH) agreement.
 - iv. Operate a South African Multiple Option Settlement (SAMOS) account at the South African Reserve Bank (the Bank).
 - v. Enjoy membership of PASA.

4.2 Clearing banks

A clearing bank:

- (a) Is regulated by the Registrar of Banks.
- (b) Is required to be a member of PASA in terms of the NPS Act.
- (c) Is a settlement system participant as defined in the NPS Act, and therefore has to:
 - i. Operate a SAMOS account at the Bank, unless operating by the arrangement with the Bank as a sponsored clearer.
 - ii. Be a member of one or more PCH participant groups (PCH PGs).
 - iii. Provide, to its clients, one or more of the payment services defined hereunder in section 5, Payment services, and recognised by the PCH PG of which it is a member.
 - iv. Clear domestic payment instructions to and/or from other banks as a normal part of its business.

- v. Be a signatory to a clearing agreement and, consequently, be a member of a PCH and be subject to the entry and participation criteria of each applicable PCH.

5. Payment services

The provision of payment services to clients is what most immediately distinguishes a clearing bank from a non-clearing bank. It is the provision of such service that would require a non-bank to re-evaluate its position. Therefore, for the sake of clarity, a definition of what payment services to clients actually entails follows below.

5.1 Definition of payment services

Payment services may be defined as being the services whereby a bank enables its clients to:

- (a) Make third-party payments by providing its clients with the means to issue payments to the clients of another bank or the other bank itself, through direct access to their (the bank's clients') bank accounts.
- (b) Receive payments directly into their (the bank's clients') accounts from clients of another bank or the other bank itself.
- (c) Withdraw cash at another bank.

5.2 Provision of payment services

A bank usually provides payment services by:

- (a) Issuing any paper-based debit-pull payment instruments (including the facility to sign debit orders) with itself (the bank) designated as the paying bank, by:
 - i. Providing clients with cheque books in the clients' own names (that is, the client is detailed as the drawer on the cheque).

- ii. Giving clients the facility to allow the clients of another bank to withdraw funds electronically from their accounts (that is to sign a debit order).
- (b) Issuing any card-based debit-pull payment instruments with itself (the bank) designated as the payment bank, by:
- i. Providing clients with credit cards and/or debit cards and/or fleet cards in the clients' own names, by which cash can be withdrawn from another bank or goods/ services can be purchased under signature, personal identification number (PIN) or other acceptable authentication.
- (c) Providing the collection facilities for debit-pull payment instructions, such as cheques, debit orders, automated teller machines (ATM) withdrawals and/or point-of-sale (POS)-initiated transactions, by:
- i. Giving clients the facility to deposit, for collection, cheques and or card sale slips drawn by the clients of other banks directly into their (the bank's clients') own accounts.
 - ii. Giving clients the facility to initiate, for collection, electronic debits (including electronic funds transfer (EFT) debits, card payments, etc.) on instruction by the clients of other banks.
 - iii. Giving clients (of other banks) the facility to withdraw cash at its (the bank's) ATMs.
- (d) Providing facilities to pay away and/or receive funds through credit-push payments, such as credit orders, stop orders, standing orders, salary payments, account transfers (payments), etc., by:
- i. Giving clients the facility to initiate the transfer of funds directly from accounts held by the clients to another account in another bank.
 - ii. Giving clients the facility to accept electronic credits into accounts from which payments of transfers can be made by the clients.

6. Categories of clearing banks

In order to adopt a realistic approach to practical business considerations, different categories of clearing bank are defined.

Although all categories of payment require significant co-operation between counterparties, different payment types are acknowledged to have unique features with regard to risks, skills and national standards. The different categories of clearing have been defined with this in mind and should enable easier supervision of participants, provide assistance to new entrants and allow for natural growth paths, while (in general) meeting all of the fundamental principles contained in the Blue Book and Vision 2010.

In any specific PCH, within a payment stream, a bank may (select to) operate in any one of the following categories of clearing bank, provided that such operation is in accordance with the rules laid down in the “Bank models within the National Payment System – Rules for participation in clearing”.

6.1 Direct clearing (DC)

This is the model for a bank that provides all or some of the payment services defined above and which will belong to applicable PCH PGs by participating in the applicable PCHs in its own right.

6.2 Sponsored clearing (SC)

This is the model for a bank that, in a specific PCH, provides some of the payment services, as defined above, by virtue of an agreement with a direct clearing bank, in terms of which agreement the sponsored clearing bank’s settlement obligation within the PCH is fulfilled by the sponsoring bank on behalf of the sponsored clearing bank.

6.3 Mentored clearing (MC)

This is the model for an entrant bank into a particular PCH. The bank will participate as a direct clearer, but will have a contractual arrangement with another direct clearing bank for purposes of guidance and assistance

when problems are experienced and/or skills that are not available within the entrant bank are required.

6.4 Agency clearing (AC)

Only a direct clearer may conclude an agency clearing arrangement with any other clearing bank in order to provide clearing services to the clients of the other bank via the practice of credit transfers. This means that facilities are offered to other clearing banks in order to allow clients of such other clearing banks to make deposits with such banks and to transfer the funds so deposited to the clients' banks. This service must be covered by a specific PCH agreement approved by PASA.

6.5 Technical outsourcing (TO)

Any bank can provide operational facilities to process payments or manage settlements for another participant bank in any PCH (or all PCHs) within any payment stream (or in all payment streams). The participating bank, however, remains the principal for all clearing and settlement agreements into which it enters.

A clearing bank is not restricted to participation within the same category of clearing in all PCHs. Adoption of a particular category of clearing may be complex. Therefore, clearing banks should refer to PASA for the more comprehensive book of rules "Bank models within the NPS – Rules for participation in clearing" in order to obtain clarity before taking a position in dealing with another bank.

7. Compliance by all banks

Each bank will be required to annually confirm its status as a clearing or non-clearing bank to PASA before 30 November of each year, providing the details as documented in this position paper. Furthermore, each clearing bank will have to

provide details of its participation in the various categories of clearing and any agency, sponsorship and/or mentorship arrangements. The format of such reports is to be agreed between PASA and the NPSD. PASA will be required to compile all the information and submit the information to the NPSD before 31 January of each year.