

South African Reserve Bank

National Payment System Department

Consultation paper

Faster payments in South Africa

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1. **Introduction and background**

- 1.1 In terms of section 10(1)(c)(i) of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), the South African Reserve Bank (SARB) is required 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. Furthermore, the National Payment System Act 78 of 1998 (NPS Act) provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa, and to provide for connected matters. The power to perform the functions as provided in the SARB Act and the NPS Act are performed by the National Payment System Department (NPSD) within the SARB.
- 1.2 The NPS Act authorises the SARB to recognise a payment system management body (PSMB) established with the objective of organising, managing and regulating the participation of its members in the payment system. The NPS Act requires such a PSMB to be constituted to fairly represent the interests of its members; to have a fair, equitable and transparent constitution and admission rules for members; to enable the SARB to adequately oversee the affairs of the PSMB and its members; and to assist the SARB in discharging its responsibilities specified in section 10(1)(c) of the SARB Act.
- 1.3 The Payments Association of South Africa (PASA) was recognised by the SARB as a PSMB in 1998. Since this recognition, the SARB has exercised oversight responsibilities over PASA, as provided for in section 3 of the NPS Act. At present, PASA manages 19 payment clearing houses (PCHs), including the electronic credit payment instruction real-time clearing (RTC) PCH.
- 1.4 The faster payment service in the PASA environment is called RTC. An RTC transaction is an interbank electronic credit payment instruction issued by the

payer to the paying bank to transfer funds from the payer's account to the account of a payee (beneficiary), where payment should be effected by the paying bank for the credit of the payee account within 60 seconds.

- 1.5 Several jurisdictions are rapidly adopting faster payments and addressing the market need for immediacy of payments to benefit consumers, both individual and business. South Africa is one of the early adopters of interoperable faster payments for consumers with bank accounts, RTC offering having launched in 2006.¹ The service has thus been in existence for about 14 years. In the age of rapid technological developments, high-speed data networks and new opportunities in the payments environment, the expectation from NPSD was for South Africa to have faster payments that better serves the South African consumer (individuals and businesses) and the broader economy. Other closed-loop uninteroperable faster payments are offered by individual participants outside of the regulatory framework.
- 1.6 However, as at 2020, RTC is still generally offered as a 'premium service', and it is much more costly than the electronic funds transfer (EFT) credit offering. Furthermore, the consumer's experience is generally poor since certain participants that are offering EFT credit transactions do not participate in the RTC PCH. As a result, the South African consumer remains underserved and generally defaults to the traditional EFT credit service that results in delayed transfers of funds to the payee, usually in a matter of days. The current situation thus promotes multi-banking by small- and medium-sized businesses who wish to make or receive real-time payments using accounts held at several banks through an undesirable business practice known as 'sort-at-source'².
- 1.7 The low volume of transactions in the RTC compared to the EFT credit service also impacts on the NPSD's primary objective of promoting the efficiency of the national payment system (NPS) and achieving the goals articulated in the

¹ Committee on Payments and Market Infrastructures: Fast payments – Enhancing the speed and availability of retail payments, November 2016.

² The practice of users bypassing the central clearing system and submitting files directly to the paying banks, thus processing these transactions as 'on-us' transactions. (*Review of the National Payment System Act 78 of 1998, p23*)

National Payment System Framework and Strategy – Vision 2025 document (*Vision 2025*). This state of affairs has prompted the need for the implementation of the faster payments aligned to the NPSD's regulatory objectives and Vision 2025 within the South African NPS.

1.8 In this regard, NPSD had initially engaged with a number of stakeholders, including PASA and BankservAfrica Limited, on faster payments in South Africa. A decision has now been taken to broaden engagements with the wider community of NPS stakeholders in order to attain an industry-wide commitment to delivery of appropriate future proof faster payments that achieve the policy objectives of the NPS and address the growing consumer need of payments immediacy in South Africa.

2. **Purpose**

2.1 This consultation paper seeks to engage stakeholders and solicit input on the following:

- a) real and perceived issues that need to be addressed; and
- b) measures and actions that are required to ensure the adoption and delivery of appropriate future proof faster payments in South Africa to better serve South African consumers and the broader economy.

3. **Scope**

3.1 Notwithstanding the existence of RTC, the scope of the consultation paper broadly extends to the adoption and delivery of a faster payments that support the safety and efficiency of the NPS as a whole. This includes, among others, the overall construct of faster payments (i.e. the arrangements for participants, risk considerations, pricing, promotion, availability etc.) and the end-to-end processing of faster payments transactions.

4. **The definition of 'faster payments'**

4.1 The Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) defines a fast or faster payment as a

payment in which both the transmission of the payment message and the availability of 'final' funds to the payee occur in real time or near-real time, on a basis that is as near to 24 hours a day and 7 days a week (24/7) as possible.

5. Policy and strategic objectives

5.1 Primary policy objectives: The integrity and efficiency of the national payment system

5.1.1 The NPS facilitates the circulation of funds and money, enhances economic activity, and contributes to economic growth. It is thus important for the NPS to be appropriately regulated to promote its integrity, efficiency and safety. The NPSD continually monitors these objectives, not only from a financial stability perspective, but also to ensure the maintenance of a resilient NPS that meets domestic, regional and international standards.

5.1.2 Global markets are improving and innovating to enhance the efficiency of payment systems, at the same time providing consumers with faster, cheaper and more convenient products and services. Other countries that have adopted a faster payments system after South Africa, such as the United Kingdom (UK) where the Faster Payments Service was launched in 2008³, have seen phenomenal growth of faster payments in terms of both volume and value. In India, where the Immediate Payment Service was launched in 2010⁴, the picture is similar to that of the UK. Both countries have seen their consumers benefit extensively from faster payments.

5.1.3 As mentioned in paragraph 1.5 above, South Africa, as one of the early adopters of faster payments, has not fully realised the benefits of the faster payments offering to the South African consumer or economy. The delay in transmitting and receiving funds presents the following (non-exhaustive) list of challenges and inefficiencies in the NPS:

³ <http://www.fasterpayments.org.uk/our-achievements>

⁴ <https://www.npci.org.in/imps-volumes>

- a) undesirable business processes where the clearing system is bypassed ('sort-at-source') specifically when urgent payments are effected by consumers who hold accounts at different banks;
- b) the constriction of cash flow for small, medium and micro enterprises (SMMEs) and merchants that are heavily reliant on cash flow for a sustainable business existence; and
- c) consumers preferring to use cash instead of making electronic payments due to the immediacy of cash payments.

5.1.4 Continuous improvement to enhance the efficiency of the NPS is paramount for the NPSD, and any frictions in the NPS should be addressed to realise the efficiency goals.

5.2 Secondary policy objectives: financial inclusion and competition

5.2.1 Financial inclusion

- a) The immediate receipt of payments may attract the underbanked and unbanked to utilise the formal financial system to transfer funds, as money will be received quicker and safer than in the case of informal channels such as informal remittance services. This could lead to the underbanked and unbanked accessing appropriate transactional facilities and other financial products and services, including, but not limited to, consumer loans, mortgages, life and non-life insurance products, and savings.

5.2.2 Competition (including innovation)

- a) Safe and efficient faster payments may increase competition through the emergence of innovative products, services and new players that would meet the unfulfilled needs of consumers, including extending access to the underbanked and unbanked. These developments may, in some instances, also support improvements in the quality, convenience and efficiency of products and services, and also exert a downward pressure on fees or pricing.

5.3 Policy trade-offs: balancing the primary and secondary objectives

5.3.1 Trade-offs between the primary and secondary policy objectives require focused management and balancing by the NPSD. The following example is provided in this regard:

5.3.2 Safety versus efficiency versus financial inclusion

- a) Efforts to enhance the safety of transactions may constrain the speed and efficiency of faster payments. Similarly, controls that aim to reduce risk may be costly for the participant and the consumer and may constrain the efficiency of faster payments. Furthermore, the fulfilment of safety and efficiency objectives may result in unintended outcomes that hinder the promotion of financial inclusion as the underbanked and unbanked may feel discouraged to use these services due to factors such as stringent access requirements and pricing considerations, thus opting to rather use informal channels to transfer funds.

5.3.3 *Vision 2025* goals and strategies

- a) *Vision 2025* outlines nine goals and strategies that the SARB and the payments industry need to achieve. The goals and strategies that underpin faster payments or that may need to be considered when developing faster payments include consumer confidence and trust in electronic payment systems and related access mechanisms or technologies;
- b) increased competition leading to more consumer choice to utilise electronic payments due to greater convenience, lower cost and ease of access;
- c) consumers awareness of electronic payment alternatives, their rights and responsibilities visible, clearly communicated and understood;
- d) cost-effectiveness helping to drive the usage of electronic payments and assuring efficiency and scale for banks and other payment services providers;
- e) financial inclusion that entails access to and usage of electronic payments but also extends to access to savings, credit and insurance services;
- f) Safety and financial stability;

- g) Interoperability to make electronic payments convenient, affordable, fast, seamless and secure; and
- h) flexibility and adaptability.

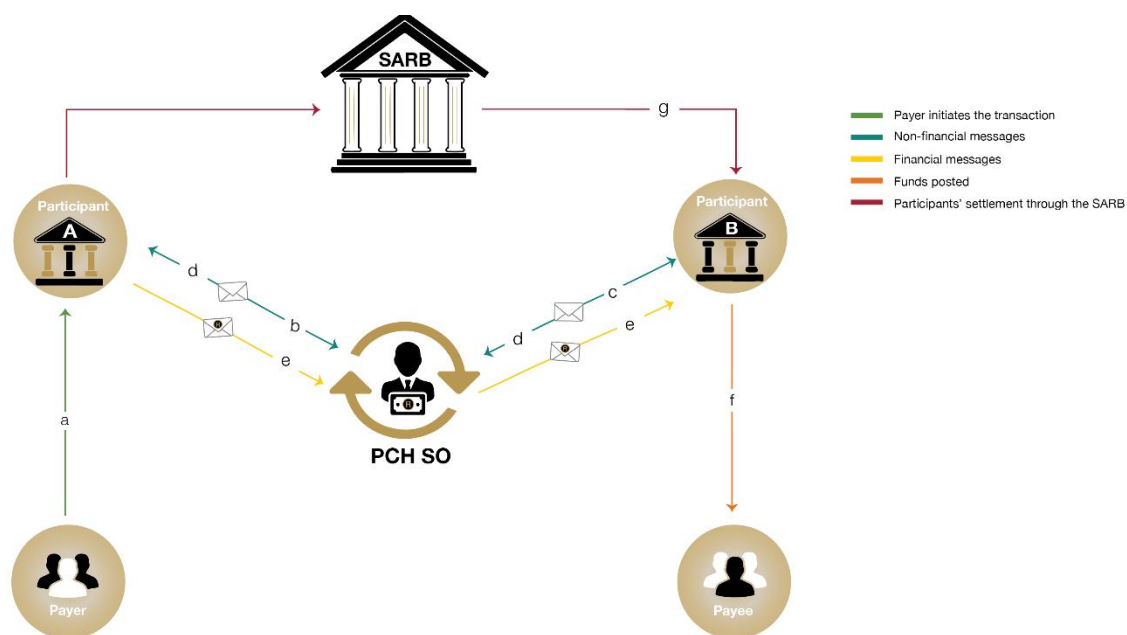
6. **An overview of faster payments**

6.1 The current process flow of faster payments

6.1.1 The following are typical steps in an RTC transaction:

- a) A paying customer of participant A uses a faster payments channel to make a payment to a payee who is a customer of participant B.
- b) Participant A screens the transaction for fraud and generates a non-financial message to the PCH system operator (SO).
- c) The PCH SO routes the non-financial message to participant B to check if its payee's account is valid and if it accepts credit transactions.
- d) Participant B sends a response message to the PCH SO, who routes the message to participant A.
- e) Participant A sends a financial message to the PCH SO, who routes the financial message to participant B.
- f) Participant B posts the funds into the payee's account.
- g) Participant A settles participant B (through SARB accounts) in the South African Multiple Option Settlement (SAMOS) system.

Figure 1: The current process flow of faster payments



Source: NPSD

6.2 Benefits of faster payments

The NPSD identifies the following (non-exhaustive) list of the main benefits of faster payments:

- 6.2.1 *Consumer and business benefits.* Faster payments allow for access to instant, convenient payment services and the ability to finalise time-sensitive payments. In this sense, they provide an avenue for efficiently discharging obligations, meeting the needs for time-sensitive payments, and avoiding the suspension of services due to a late delivery of payment, specifically in cases where the receipt of goods or services is conditional on a payee receiving payment from a payer. Further, payments provide a platform for effecting emergency payments, such as the last-minute payroll processing from businesses to employees. Faster payments also provide an alternative to cash and cheque transactions. They are also more convenient and safer, and facilitate efficient cash flow and liquidity management for businesses.

- 6.2.2 *The benefits to payment services providers.* Faster payments provide an opportunity for service providers to enhance the service experience of their customers. Faster payments also provide a platform for innovation in the enhancement of the financial product and service offering to customers.
- 6.2.3 *The benefits to the national payment system.* Faster payments enable the achievement of certain public policy objectives, such as efficiency, financial inclusion competition and interoperability, as well as the enforcement of certain policy positions that address practices such as sort-at-source, closed-loop systems and screen-scraping discussed in detail below. Faster payments contribute to the establishment of platforms where innovations thrives, and act as foundations for enabling the enhancement of retail payment systems offerings. Furthermore, they provide an opportunity for the adoption of electronic payments as an alternative to cash and cheques.
- 6.2.4 *Regional and global integration.* Another benefit of faster payments offering is the opportunity presented for integration with other systems offered on a regional and global basis.

6.3 Challenges of faster payments

The following are some of the main challenges relating to the current faster payments offering:

- 6.3.1 *Participation in the RTC.* The current reality is that not all clearing participants in the EFT credit service offer the real-time payment service, or they do not offer it from the same issuing and acquiring perspective as they do for the EFT service. This contributes to the low usage of faster payments in South Africa, as it restricts the reach of the service. This also confuses the end customers, due to lack of knowledge of which participants are offering the service, as opposed to the EFT credit service, which is offered by almost all the retail clearing participants.

- 6.3.2 *Consumer awareness and financial education.* RTC is generally not known or well understood by all consumer segments, specifically the low-income segment.
- 6.3.3 *Name of the service.* Participants that offer the service have chosen an overly technical name for the faster payments service i.e. RTC. The inclusion of 'clearing' into the name may have contributed to the confusion of 'ordinary' South Africans as they may not have necessarily associated RTC with faster payments.
- 6.3.4 *Availability, accessibility, convenience and ease of use.* RTC is not available in most channels. Faster payments can only be effected from a payer's account to a payee's account. In some cases, the service is not easy to use as it does not form part of the transaction flow of all credit push payments. RTC is also not available 24/7 as there are cut-off times for the processing of faster payments.
- 6.3.5 *Cost of the service.* The current cost of RTC transactions is too high for most consumers it costs much more than the standard EFT credit transaction. This negatively impacts the effectiveness of the faster payments service, and discourages the adoption and use of the service by consumers and small businesses.
- 6.3.6 *Interchange rates.* Currently, the interchange fees for faster payments are determined by participants on a bilateral basis. Some participants may be at a disadvantage based on their negotiation power, which may negatively impact the cost-efficiency and transparency of the interchange rate determination process determining applicable interchange rates.
- 6.4 General challenges associated with faster payments
- 6.4.1 *Sort-at-source.* NPSD is aware that some entities resort to sort-at-source in order to attain real-time processing of transactions, thereby circumventing the central clearing system in the NPS. This behaviour is generally prompted by the need for an immediate release of goods or an immediate discharge of a

payment obligation where waiting a day or two for funds to clear may be impractical for both the payer and the payee.

- 6.4.2 *Screen-scraping.* Other methods are used, where consumers, in an effort to expedite a transfer of funds, opt to use third-party instant EFT platforms which require the consumers to provide their online banking login details (screen-scraping) to facilitate the transaction on their behalf. This compromises online banking security, despite warnings issued by their participants. Such payment methods are generally used to conclude a transaction instantly, and to allow the consumer to also receive goods without delay.
- 6.4.3 *Usage of cash.* Some consumers resort to the use of cash as a faster payments method. In this case, the speed is measured by the time it takes for money to change hands. However, the use of cash makes consumers vulnerable to the risks associated with the handling of cash, including theft, counterfeit notes and possible loss.
- 6.4.4 *Closed-loop systems.* Some entities continue to develop, and encourage the use of closed-loop systems, in order for payees to receive their funds instantly. The increased demand for immediacy of payments promotes this phenomenon, which negatively affects interoperability.
- 6.4.5 *Credit risk.* Credit risk may arise between participants if the participant of the payee advances the funds of its customer before receiving the credit from the participant of the payer.
- 6.4.6 *Operational risk.* The continuous availability of faster payments and the speed at which they take place have an impact on operational risk, which may emanate from delays or an interruption of the service.
- 6.4.7 *Fraud risk.* Fraud risk also requires attention as payments move much faster. Fraud could occur in a situation where a fraudster manipulates a payer to send funds to a payee in a fraudulent manner. Reversing the flow of funds in this instance may be challenging.

6.4.8 *Money-laundering and terrorism financing.* Faster payments could be used to perpetuate illicit activity, such as money-laundering and terrorism financing. The speed of faster payments may be attractive to parties engaged in illegal activities, who may wish to access illicit funds instantly. The speed may cause parties to infer that the period for addressing suspicious transactions is minimal.

6.4.9 *Consumer protection.* Aligned to the previous points, the speed at which faster payments are concluded may raise challenges related to consumer protection against fraud or errors.

7. **Recommended principles, approach and processes for faster payments**

7.1 *Support policy, regulatory and strategic objectives and goals.* It is important that faster payments take into account various current and proposed future policy and regulatory requirements, objectives and goals. This includes Vision 2025 goals and strategies; the proposed recommendations on enhancing access to the NPS articulated in the policy paper titled “*The review of the National Payment System Act 78 of 1998*”, “*Directive for conduct within the national payment system in respect of the financial action task force recommendations for electronic funds transfers*” (FATF EFT Directive) compliance requirements, and the Financial Sector Conduct Authority’s consumer protection objectives.

7.2 *Focus on market and economic needs.* Efficient and sustainable faster payments should cater for both current and anticipated consumer payment needs and for the needs of the broader economy. These needs include having access to faster payments in a safe and cost-effective manner.

7.3 *Interoperable faster payments* - Efficient faster payments should enhance the convenience, affordability, and speed of payments. Where multiple faster payments are offered, these should be mutually interoperable to assist in achieving the objectives of competition, innovation and integration. This

includes interoperability between bank accounts and other store of values such as mobile wallets.

- 7.4 *Recognise and address the complexities relating to faster payments.* It is important to comprehensively understand all the core elements, including the technology/infrastructure, end-user service, underlying scheme, clearing and settlement, and the broader ecosystem and processes of faster payments system/s.
- 7.5 *Types of payments.* The faster payments should cover all types of EFT credit payments.
- 7.6 *Consumer awareness and financial education.* It would be important for consumers to be made aware of, and educated on, faster payments provided by participants. In educating consumers, the regulators and other stakeholders should be cognisant of the fact that South Africa comprises consumers at different educational and financial literacy levels. Appropriate awareness campaigns and consumer financial education are thus necessary across all consumer segments.
- 7.7 *Name of faster payments.* The adopted name used to identify or describe faster payments should be easy to recognise and consistent across the participants. It is crucial that consumers understand, from the name of faster payments, the distinction between faster payments and the EFT credit payment service, and that instant receipt of funds by the payee would be enabled.
- 7.8 *Availability, accessibility, convenience and ease of use.* Faster payments must be available through all the relevant channels such as mobile and ATM. The payment services providers must ensure that faster payments are easily accessible, user-friendly, and convenient for the consumer. Essentially, faster payments should form part of the 'normal' credit push transaction, and should be available 24/7/365 for an enhanced consumer experience.

- 7.9 *Cost of the service.* The cost of faster payments should be transparent and attractive to the consumer of the service and should not deter customer adoption of the service. In fact, faster payments should be made much cheaper at launch to enable adoption, with a strategy to recover costs as the volume ramps up over time.
- 7.10 *Timing.* The turnaround time for finalising a faster payments transaction needs to be agreed upfront by the payment service providers offering the service. This turnaround time must be efficient and may be capped at, for example, 30 seconds, based on the needs of the market being served.
- 7.11 *Transaction limits.* Maximum transaction limits should be set to mitigate the risk at industry level. Participants may also set individual value limits for their customers.
- 7.12 *Interchange rates.* The NPSD should determine interchange rates that are fair and facilitate the adoption of faster payments.
- 7.13 *Provision of a faster payments, including participation in the relevant PCH.* The provision faster payments from an issuing and acquiring perspective, should be mandatory for all participants in the EFT credit PCH, and other providers of electronic payments such as mobile wallets, to enable the full reach of faster payments. This should be achieved through a NPSD directive to all participants/providers.
- 7.14 *Risk Management Framework.* Risk management framework should be developed and implemented to identify, measure, manage, monitor and report all risks facing faster payments. The risk management framework should cover:
- 7.14.1 *Credit risk.* Arrangements have been put in place to manage this risk. If these are not sufficient, they should be revisited and addressed.

- 7.14.2 *Operational risk.* Arrangements need to be put in place to manage possible operational risks.
- 7.14.3 *Fraud risk.* Robust security, the screening of payments and payment limits are therefore necessary. Anti-fraud measures are crucial to mitigate fraud risk.
- 7.15 *Money-laundering and terrorism financing.* Measures should be implemented to ensure compliance with the FATF EFT Directive, the Financial Intelligence Centre Act, and other AML/CFT related laws and regulations, including requirements relating to transaction monitoring and screening capabilities.
- 7.16 *Consumer protection.* Measures relating to the type of payment, authentication, customer-determined parameters, value limits and notifications to the consumer on payments being processed on their accounts should be implemented to mitigate erroneous or unauthorised payments. A consumer protection regime should incorporate dispute resolution mechanisms supported by consumer education programmes.
- 7.17 *Clear regulatory framework.* The NPSD should develop a regulatory framework that will enable faster payments and provide policy certainty based on the above recommendations, including clearing and settlement.
- 7.18 *Integration.* The drive for the adoption of appropriate future proof faster payments, may be integrated in the *modernisation programmes* for achievement in a timely manner. In these processes, the industry must consider achievable deliverables that may be realised in the short-term pending the full implementation of major reform projects that may have a long delivery timeline.
- 7.19 *A cooperative and collaborative approach.* To successfully address the adoption of faster payment in an interoperable environment that will facilitate the attainment of the key goals of the NPS, a cooperative and collaborative approach should be adopted by the payments industry.

- 7.20 In the reform journey towards faster payments, the industry could *leverage the experiences of other jurisdictions* that have launched, and are offering, successful faster payments.
- 7.21 *Compliance with international standards.* Faster payments should comply with relevant international standards such as ISO20022 messaging to support data-rich payments.
- 7.22 Faster payments in South Africa should *be appropriate and future proof*, and should take into account and adapt easily to the rapid evolving innovations in the payments environment, technological advances and consumer use-cases.

8. **Conclusion**

- 8.1 The NPSD strives to continually drive the achievement of the national objectives of the safety, integrity and efficiency of the NPS, and to ensure that the NPS effectively serves every South African consumer and the broader economy. This can only be achieved through stakeholder and industry collaboration with the regulatory authorities;

9. **Comments and contact details**

- 9.1 Stakeholders are invited to share their comments on this consultation paper by 12 August 2020. Comments should be addressed to npsdirectives@resbank.co.za.

Abbreviations

BIS	Bank for International Settlements
CPMI	Committee on Payments and Market Infrastructures
EFT	Electronic Funds Transfer
NPS	national payment system
NPS Act	National Payment System Act 78 of 1998
NPSD	National Payment System Department
PASA	Payments Association of South Africa
PCH	payment clearing house
PSMB	payment system management body
RTC	real-time clearing
SAMOS	South African Multiple Options Settlement [system]
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989, as amended
SMMEs	small, medium and micro-sized enterprises
SO	system operator
UK	United Kingdom