REGULATORY AND OVERSIGHT REPORT NATIONAL PAYMENT SYSTEM DEPARTMENT



1 April 2019 – 31 March 2020





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This report is the sixth edition of the South African Reserve Bank Regulatory and Oversight Report. The report provides an update on the execution of South African Reserve Bank's mandate relating to the National Payment System as well as an overview of the regulatory and oversight activities and initiatives during the period 1 April 2019 – 31 March 2020.

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REGULATORY AND OVERSIGHT REPORT

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GENERAL OVERVIEW



1.1 Introduction

The South African Reserve Bank (SARB) hereby issues the sixth edition of the national payment system (NPS) annual Regulatory and Oversight Report. The report provides an update on the execution of the SARB's mandate relating to the NPS, and highlights the regulatory, oversight and operational activities and initiatives undertaken during the period 1 April 2019 to 31 March 2020. The intended readers of the report are the participants in the NPS, users of the NPS, financial sector regulators, the public at large, as well as domestic, regional and international stakeholders.

During the reporting period, the SARB continued with reform and transformational initiatives in the NPS. Technological advancements as well as new innovative payment methods and entrants in the NPS were embraced. In response to these developments, necessary regulatory reforms, processes and procedures were implemented, while maintaining the overall effectiveness of the NPS.

The focus of this year's report is on the transformation journey in the following three pillars of the payment ecosystem:



The three pillars of the national payment ecosystem



The SARB is driving collaborative efforts by payment system stakeholders to achieve the goals of a future payment system landscape aligned to the National Payment System Framework and Strategy Vision 2025 (Vision 2025)¹.

The body of this report outlines achievements, challenges as well as planned actions that will be undertaken to realise set goals in the transformational journey of the NPS.

1.2 The transformation era

The payments landscape is changing rapidly and the needs of the users of the NPS as well as those of the broader financial system are evolving. While increased technological advancements, innovative payment methods, products and services, and new entrants in the payments industry present opportunities to the broader NPS, these may also pose unprecedented challenges from a regulatory, supervisory and oversight perspective. The SARB is continually monitoring these developments and responds accordingly to maintain the efficiency and accessibility of the NPS, while promoting its safety, integrity and stability.

Vision 2025 is available on the SARB's website, at http://www.resbank. co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/ Pages/Introduction%20and%20Overview.aspx.



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During the reporting period, the SARB reviewed the organisational structure of its payment function to ensure that it is aligned to changing circumstances and optimally capacitated to deliver on current and anticipated future activities. Below is the revised organisational structure that focuses on the following key delivery areas:



Clear policy positions and regulatory frameworks

Effective oversight NPS and supervision of providers of payment services and key payment system financial market infrastructures

Provision of safe and efficient payment settlement services

Enablement of effective payment system functions, comprehensive management of risks and compliance to relevant laws and other applicable provisions.



PILLAR 1 OF AN EFFECTIVE PAYMENT SYSTEM: **DEVELOPING REGULATORY, SUPERVISORY AND OVERSIGHT FRAMEWORKS AND STANDARDS FOR THE NATIONAL PAYMENT SYSTEM**

Reforming the regulatory, supervisory and oversight frameworks for the NPS will enable both new and existing service providers to leverage financial technology (fintech) to offer innovative payment products and services. South Africa as well as other jurisdictions around the world have observed the emergence of technology-enabled business models in payments and other financial services, and have thus embarked on regulatory reforms to support these developments. During the period under review, the SARB has delivered on the following strategic regulatory initiatives to support the transformation era in the NPS.



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2.1 National Payment System Framework and Strategy Vision 2025

Following the 2018 launch of Vision 2025², which sets out the goals and strategies for the payments industry, a Payments Council which is a representative of the Payments Industry Stakeholder Advisory Committee was launched on 2 April 2019 to replace the previous National Payment System Strategy Body. This Payments Council, which is led by the SARB and draws its members from relevant regulators, National Treasury and industry stakeholder structures was established to engage and collaborate on the implementation of the Vision 2025 strategies to realise set goals. Furthermore, the main objectives of the Payments Council include:

provide an inclusive and centralised forum for stakeholder engagement and collaboration on NPS-related strategy matters in the interest of financial stability. ensure that the interests of all stakeholders within the NPS are considered in the development of the NPS vision and strategy, and that identified strategies are executed effectively.

The Vision 2025 Action Plan was published in November 2019 to ensure the effective monitoring of the successful implementation of the Vision 2025 strategies in order to realise the goals set in the Vision 2025 document.

2.2 Review of the National Payment System Act 78 of 1998

Since the publication of the *Review of the National Payment System Act 78 of 1998 (NPS Act) Policy Paper*³ (NPS Act Policy Paper) in December 2018, the NPS Bill drafting team was established in February 2019, led by the National Treasury and supported by the relevant units of the SARB. During the period under review, the drafting team solicited, received and reviewed public comments on the NPS Act Policy Paper, and subsequently commenced drafting the NPS Bill.

The World Bank was also engaged to support this process to ensure that the NPS Bill aligns with international best practice.

² More information is available at https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/ Legal/Documents/Documents%20for%20Comment/Cheque%20Item%20Limit%20-%20Consultation%20Paper%20-%20 version%20for%20publication%20-%20latest%20version%20-%2001%20November%202018.pdf.

³ More information is available at https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/ Legal/Documents/NPS%20Act%20Review%20Policy%20Paper.pdf.

2.3 Screen scraping, application programming interface and open banking

During the past few years, the SARB has become aware of the emergence of screen scraping, application programming interface (API) and open banking activities in the NPS. Given the relevance of these activities, specifically in terms of the role they play and the impact they might have in the NPS, the SARB has embarked on a process to develop a consultation paper on screen scraping, APIs and open banking activities. The objective of the consultation paper is to assist the SARB in developing an appropriate policy position on these activities. The consultation paper will be published during 2020, and industry stakeholders will be expected to provide inputs or proposals on an appropriate policy position for these activities.



2.4 Cloud computing

The payments industry has become increasingly innovative and digital, and the participants in the payments environment are increasingly leveraging services. Regulators, however, recognise the opportunities and challenges presented by these developments in the digital world. The SARB has thus initiated a process to understand the impact of cloud computing on the safety and efficiency of the NPS. The SARB has also initiated discussions internally and with other relevant regulators to develop a policy position on cloud computing. It is envisaged that the policy position on cloud computing in the NPS will be conluded during 2020 for industry consultation.

2.5 Financial technology: crypto assets and an innovation facilitator

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The SARB's NPSD participates in, and contributes to, the work of the SARB's financial technology programme as well as the work of the Intergovernmental Fintech Working Group (IFWG). These contributions also went into the development of the revised policy stance on crypto assets (as described in Position Paper 2 of 2014 on virtual currencies) and the establishment of an Innovation Hub for South Africa. The Innovation Hub includes a Regulatory Guidance Unit, Innovation Accelerator and a Regulatory Sandbox.

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2.6 Financial inclusion

The National Treasury has the primary mandate to formulate financial inclusion policies and strategies. The SARB has initiated a process to develop a policy on financial inclusion in support of the National Treasury's mandate and this aspect has been adopted as one of the goals of Vision 2025.

2.7 Consumer financial education

One of the initiatives in the Vision 2025 Action Plan is the development of a consumer financial education strategy for the NPS. The SARB is collaborating with various stakeholders, including the Financial Sector Conduct Authority (FSCA), as well as the financial services industry to coordinate and facilitate development and implementation of a national consumer financial education policy and strategy. A coordination forum has been established under the auspices of the National Treasury in this regard, which meets periodically to engage in consumer financial education initiatives and other related cross-sectoral topics. The SARB will ensure that the consumer financial education strategy of the NPS is aligned to the national consumer financial education policy and strategy.

The SARB's capacity building and consumer financial education initiatives:

During the period under review, the SARB contributed to the building of payment system capacity through the annual NPS course internally as well as to the Financial Intelligence Centre (FIC), National Credit Regulator (NCR), FSCA, National Treasury and some of the Southern African Development Community (SADC) Central Banks. A three-day course that was held in September 2019, provided a basic understanding of the following:

- The legal, regulatory and supervisory framework of payment systems, participants and payment financial market infrastructures;
- The domestic and regional settlement systems;
- Overview of the role of the Payments Association of South Africa (PASA), BankservAfrica, MasterCard, Strate and VISA in the payments environment;
- The payment system as a gateway to financial inclusion;
- Innovation in payments; and
- Charting the future South African payments landscape: Vision 2025.

The SARB also partnered with Isolezwe (a regional news agency) in November 2019 to advance financial literacy through public engagement using one of the indigenous languages (isiZulu). The financial literacy public engagement was focused on the payment system-related consumer education initiatives and the debit order (direct debit) system developments geared at curbing debit order abuse in the NPS. The financial literacy public engagement was also streamed live on the SARB's social media platform. The partnership with Isolezwe is in line with the SARB's strategy to promote an understanding of the work of the SARB in the interest of ensuring that the society is aware of its rights and obligations.



2.8 Anti-money laundering and combating the financing of terrorism in the payments environment

The SARB is a designated supervisory body in terms of section 45 of the Financial Intelligence Centre Act 38 of 2001 (FIC Act). The SARB is responsible for regulating, supervising and enforcing compliance with the FIC Act and any order, determination or directive made in terms of the FIC Act for all the participants in the NPS regulated and supervised under the NPS Act. The supervisory function is executed in conjunction with the Prudential Authority (PA) under the auspices of a memorandum of understanding (MoU) between the SARB and the PA. To effectively execute its supervisory function and implement a supervisory framework for antimoney laundering and combating the financing of terrorism (AML/CFT) in the payments environment. During the period under review, the SARB initiated a process to identify, assess and understand the money laundering and terrorism financing (ML/TF) risks impacting the NPS. The process involves the development of a survey to gather data on the ML/TF threats and vulnerabilities in the NPS.

Electronic Funds Transfer Directive in respect of FATF Recommendation 16 on wire transfers

During the reporting period, the SARB, in collaboration with the Financial Intelligence Centre (FIC), finalised the review of the Financial Action Task Force (FATF) Electronic Funds Transfer (EFT) Directive 1 of 2015. In September 2019, a draft EFT Directive, Guidance Note and Joint Consultation Paper were published for industry consultation, and an industry workshop was held in October 2019. Comments received from the industry stakeholders have been considered and incorporated into a revised FATF EFT Directive and Guidance Note, where appropriate. The revised FATF EFT Directive and Guidance Note will be published during 2020.

During the period under review, NPS participants submitted their annual compliance declarations. The SARB is currently reviewing these compliance declarations and compiling feedback to participants. Furthermore, the Common Monetary Area (CMA) of Eswatini, Lesotho, Namibia and South Africa Interim Solution was introduced by the South African payments industry, in agreement with counterparties in the other CMA countries. The CMA Interim Solution was developed and implemented in September 2019 to ensure full compliance of transactions in the CMA with FATF Recommendation 16 on cross-border electronic transfers. The CMA Interim Solution involves the development of an additional file that carries the required accurate originator and beneficiary information to comply with the FATF EFT Directive 1 of 2015.

FATF is the global ML/TF standard-setting body. This intergovernmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society. As a policymaking body, FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. FATF has developed the FATF Recommendations or FATF Standards, which aim to ensure a coordinated global response to prevent organised crime, corruption and terrorism, with multiple countries, including South Africa, committed to implementing these FATF Standards.⁴

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⁴ More information on FATF is available at https://www.fatf-gafi.org/about/.



During the period under review, South Africa underwent its third evaluation by the FATF assessors since it joined the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)⁵ in 2002 and FATF in 2003. The evaluations determine the extent to which South Africa's framework for AML/CFT meets the FATF Standards. Essentially, the evaluation is intended to measure, in particular, how effective South Africa has been in implementing this framework and whether its legal framework technically complies with the FATF Recommendations.

The SARB collaborated closely with the FIC, relevant partners in government, other supervisory bodies, including the PA as well as relevant financial and non-financial sector stakeholders during the evaluation process. The SARB's contribution included the completion of relevant questionnaires and the provision of required information and inputs on the first draft of the evaluation report to the FATF assessment team. Once the assessment is concluded and the evaluation report is published, the SARB will be expected to implement the recommendations of the 2020/21 FATF Mutual Evaluation Report.

⁵ More information on ESAAMLG is available at https://www.esaamlg.org/.



2.9 Update on other regulatory initiatives⁶

2.9.1 The processing of retail payments in South Africa (domestic processing)

In 2013, the SARB became aware that some of the clearing system participants (mostly banks) were migrating the processing of their card transactions offshore. As a result, the SARB issued a notice requiring card-clearing members to consult the SARB prior to migrating the processing of their card transactions to offshore processors. Furthermore, the SARB took a decision on 2 July 2018 to impose a moratorium on the planned migration of the processing of card transactions offshore while a policy position on this matter was being consulted with the payment system stakeholders. Although this phenomenon was currently observed in the card payment system, the SARB policy position will be applicable in the broader retail payment systems as these systems are critical to the smooth functioning of the NPS and the broader economy.

The following processes were undertaken to arrive at the most appropriate policy option:

Consultation paper: The SARB issued a consultation paper titled 'Processing of payments in South Africa' in November 2018 where stakeholders were requested to comment on the SARB's proposed policy options.

Stakeholder engagement: The SARB discussed this matter with National Treasury; the Competition Commission; payment clearing houses including Visa, MasterCard and Bankserv Africa; Banking Association of South Africa (BASA); PASA and relevant clearing participants.

Industry workshops: Several industry workshops were held between March and June 2019. Industry stakeholders identified and deliberated on five possible options.

The SARB issued a draft Directive for Conduct within the National Payment System in Respect of the Processing of Retail Payments in South Africa, in December 2019, for public consultation. The main objective of the Directive is to address the offshore processing of domestic retail payments to mitigate potential sovereign and/or geopolitical risks and concerns relating to the loss of domestic processing capability. The Directive further provides for the conduct of participants involved in the processing of retail payment instructions such as the card, automated teller machine (ATM), EFT debit and credit as well as real-time clearing payments. This Directive should be finalised soon.

⁶ More information on the regulatory initiatives is available in the fifth edition of the NPSD Regulatory and Oversight Report. That report provided an update on, as well as an overview of, the regulatory and oversight activities and initiatives during the period from 1 April 2017 to 31 March 2019. https://www.resbank.co.za/ RegulationAndSupervision/NationalPaymentSystem(NPS)/Documents/Oversight/Regulatory%20and%20 Oversight%20Report%20-%202019.pdf.

2.9.2 Conduct within the national payment system in respect of domestic card transactions

The SARB was made aware of instances where card transactions are concluded between South African cardholders and merchants, but the issuing of the card and/or the acquiring of these card transactions is provided by entities that are not registered or incorporated in South Africa nor subjected to national laws and regulatory requirements. Therefore, although the transactions occur in South Africa between domestic parties, such transactions are processed as if they were international or cross-border transactions as they are processed through foreign issuing and/or acquiring entities.

As such, these institutions are not subject to regulation by the SARB as a payment system regulatory authority nor are they subject to regulation by the FSCA (in relation to the fair treatment of consumers) and the FIC thus creating opportunities for regulatory arbitrage.

As a result, after due consultation, the SARB published a Directive for Conduct within the National Payment System in Respect of Domestic Card Transactions in February 2020 to prohibit this practice.

2.9.3 Authenticated collections

The authenticated collections (AC) project went live on 31 October 2019, as per the Amendment of the *Directive for Conduct within the National Payment System in Respect of the Collection of Payment Instructions for Authenticated Collections: First Amendment of Directive 1 of 2017.* All participants in the early debit order (EDO) collections environment were expected to fully implement AC by 1 November 2019 and fully transition to the system by the sunset date of 31 October 2020. This milestone is a culmination of an extensive effort by the industry to improve the safety and efficiency of the debit order collection system for both users and consumers, and, most importantly, to curb debit order abuse.

Due to the negative impact of the COVID-19 outbreak, the SARB issued the Second Amendment of the Directive for Conduct within the National Payment System in Respect of the Collection of Payment Instructions for Authenticated Collections: Second Amendment of Directive 1 of 2017. The second amendment to this Directive extends the migration phase of the AC project by 12 months. The extension of the timelines to the AC project will provide industry the opportunity to address industry challenges and technical complexities currently facing the project.

2.9.4 Cheque item limits

During the 2019/20 financial year period, numerous engagements took place between the SARB and the industry stakeholders regarding the proposed reduction of the cheque item limit from R500 000 to R50 000. The proposal was informed by the rapid decline in cheque volumes, high cheque processing costs, and the risks associated with this payment instrument. In view of the goals outlined in Vision 2025, the usage of electronic payments is also promoted. The reduction of the cheque item limit is thus supporting the realisation of two of the Vision 2025 goals relating to cost effectiveness as well as financial stability and security.

2.9.5 The interchange determination project

Interchange is a fee that is paid by one payment system participant to another to compensate them for their costs in carrying out a transaction. In this regard, the SARB collects payment system cost and volume-related data from banks and other stakeholders on an annual basis to facilitate a transparent process for calculating interchange rates in identified payment streams. The analysis of the rates also takes into consideration qualitative factors as well as the prevailing market conditions. Should the need arise, the rates are adjusted and the payments industry is advised accordingly to implement the amended rates. Adjusted interchange rates relating to transactions emanating from ATMs were implemented in March 2019, while the adjusted rates for card-not-present (CNP) transactions were deferred to the second half of 2020. In line with Vision 2025, the SARB will be embarking on an initiative to review the entire interchange determination methodology and process during 2020/21 to ensure that the approach used in determining the rates remains relevant for the South African payments market. Broad stakeholder engagement will take place in this process.





PILLAR 2 OF AN EFFECTIVE PAYMENT SYSTEM: **PROMOTING THE SAFETY, EFFICIENCY AND OVERALL RESILIENCE OF FINANCIAL MARKET INFRASTRUCTURES**

3.1 The Principles for Financial Market Infrastructures

In South Africa, the payment, securities and derivatives financial market infrastructure (FMI) regulatory mandates are split between the SARB, the PA and the FSCA. Payment System FMIs are regulated, supervised and overseen by the SARB. The FMIs in the securities and derivatives environment, including central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs) are regulated jointly by the FSCA and the PA, as provided for in the Financial Markets Act 19 of 2012 and the Financial Sector Regulation Act 9 of 2017 (FSR Act).

Payment System FMIs are a critical component of the financial system. They support economic activity by providing a platform to transfer funds and settle transactions. The SARB, as the regulator, supervisor and overseer of the NPS, requires recognised Payment System FMIs that have the potential to pose a significant risk to the system to comply with the Principles for Financial Market Infrastructures (PFMIs),⁷ to ensure that the risks in the NPS are adequately controlled.

3.2 Adherence to the Principles for Financial Market Infrastructures in the national payment system

3.2.1 Self-assessment by the SARB against the five responsibilities of central banks, market regulators and other relevant authorities for FMIs

During the 2019/20 financial year, the SARB assessed itself, as the regulatory, supervisory and oversight authority for the NPS FMIs, against the five responsibilities of central banks, market regulators and other relevant authorities for FMIs. These responsibilities are outlined in the PFMIs. The self-assessment that was conducted against the five responsibilities of central banks, market regulators and other relevant authorities for FMIs is outlined below.

Table 1: Responsibilities applicable to central banks, market regulators and other relevant authorities for financial market infrastructures

Responsibility A: Regulation, supervision and oversight of FMIs

Responsibility B: Regulatory, supervisory and oversight powers and resources

Responsibility C: Disclosure of policies with respect to FMIs

Responsibility D: Application of the PFMIs

Responsibility E: Cooperation with other authorities

⁷ https://www.bis.org/cpmi/publ/d101.htm.

The self-assessment was conducted in line with the disclosure framework and assessment methodology⁸ prescribed by the Committee on Payments and Market Infrastructures-International Organization of Securities Commissions (CPMI-IOSCO). For each responsibility, there are key considerations, with questions pertinent to each key consideration. An on-site, desktop assessment approach was adopted for the selfassessment. Members of the assessment team responded to the questions linked to each key consideration. The responses were backed by supporting documents, including legal documents, MoUs and position papers. The outcome of the self-assessment highlighted that the SARB generally observe the responsibilities while identified gaps and recommendations to address same are outlined in the self-assessment report.

As highlighted above, all the identified areas for improvement supported by relevant interventions to improve the the SARB's observance of the responsibilities have been highlighted in the report. Most of the identified gaps will be addressed accordingly through the strengthening of the SARB's regulatory mandate as part of the review of the NPS Act.





A large-value payment system known as the South African Multiple Option Settlement (SAMOS) system, which is the domestic real-time gross settlement (RTGS) system owned and operated by the SARB.



BANKSERVAFRICA

A retail payment system (RPS), which clears retail transactions owned and operated by South African Bankers Services Company Limited (BankservAfrica) in respect of all the payment streams.

3.2.2 Assessments of the payment system financial market infrastructures against the Principles for Financial Market Infrastructures

The first set of assessments conducted by the SARB has been concluded on all the Payment System FMIs. In this regard, the SARB has assessed the following Payment System FMIs.

Generally, Payment System FMIs are observant of the PFMIs. Although the assessment process is treated as 'business as usual', the continued assessment of alignment and adherence to the PFMIs is an area of special focus for the SARB. Continued efforts for alignment between the regulators of Payment System FMIs namely the SARB, the FSCA and the PA, remain an area that is given focus, as it is imperative that all the Payment System FMIs in South Africa are subject to the same level of scrutiny while they are not unduly burdened by demands from multiple regulators.



A system which clears and settles the delivery of equities, bonds and money market transactions with a linked payment leg to facilitate delivery versus payment, owned and operated by Strate.



A large-value payment system, known as the Southern African Development Community real-time gross settlement system (SADC-RTGS), which settles regional cross-border transfers that require immediate settlement within SADC, owned by SADC central banks and operated by the SARB.

3.3 Cybersecurity for payment system financial market infrastructures

The payment system regulatory authority within the SARB continued its participation in efforts coordinated in the SARB to establish the Financial Sector Cybersecurity Resilience Working Group (FSCRWG) under the auspices of the Financial Sector Contingency Forum (FSCF). The FSCRWG is aimed at coordinating the activities for the financial sector to enhance cyber-resilience, including the establishment of a secure cyber-threat information-sharing platform among identified stakeholders in the financial sector. In an effort to enhance the cyber-incident response plans, the SARB participated in simulation exercises initiated by various stakeholders in the ecosystem. These initiatives aim to assist Payment System FMIs in raising awareness on cyber-risks in the settlement ecosystem, while also identifying potential gaps and vulnerabilities in the current incident management plans. The SARB has commenced with the development of a policy paper on cybersecurity to articulate its position on cybersecurity from an NPS perspective and to ensure that it is aligned to the guidelines issued by the CPMI-IOSCO to assist Payment System FMIs in enhancing cyber-resilience.

The SARB continued to participate in, and contribute to, the annual Society for Worldwide Interbank Financial Telecommunication (SWIFT) Customer Security Programme (CSP) in order to strengthen the existing security controls in and around the RTGS environment. A service provider will be contracted to conduct an independent review and provide assurance on the security controls that the Payment System FMIs have implemented or strengthened as a result of the implementation of the SWIFT CSP. This aims to further enhance the integrity and security of the environment in which Payment System FMIs operate.

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Third-level contingency for the domestic 3.4 settlement system

The SWIFT Market Infrastructure Resiliency Service (MIRS) has been identified as the solution that will advance the efforts of the SARB in terms of cyber-resilience for Payment System FMIs. MIRS as a generic RTGS system - available to central banks that use the SWIFT network - has been implemented to serve as a backup service for the RTGS system. The SWIFT MIRS was successfully implemented in production on 4 November 2019.

PILLAR 3 OF AN EFFECTIVE PAYMENT SYSTEM: **MODERNISING THE** PAYMENT **INFRASTRUCTURE**



Real-time gross settlement system 4.1 replacement programme

The RTGS Replacement Programme is an initiative that has been launched to replace the current RTGS systems with new generation RTGS solutions in order to address current business functionality and cater for evolving business and technical requirements due to advances in FinTech, regulatory changes and the changing business landscape. During August 2019 the SARB took the decision to re-assess its RTGS Replacement Programme approach and proceeded with a revised programme approach in February 2020.

The revised RTGS Replacement Programme approach is divided into two work packages as outlined below:

Work package 1

Upgrade of the current SAMOS RTGS system to cater for the new message standard based on the ISO 20022 requirements in alignment with the South African payment industry's project for Modernisation of Payments.

Upgrade of the current SADC-RTGS system to cater for operational enhancements and ISO 20022 standards in alignment to domestic RTGS requirements.

Work package 2

Development and implementation of a new SAMOS and SADC-RTGS application systems and related integration mechanisms.

The project is currently underway where the focus on the messaging layer is more advanced while the high-level planned activities have also commenced.

ISO 20022 is an increasingly established global language for payments messaging. Already used by payment systems in over 70 countries and in the coming years it will become the de facto standard for high-value payment systems of all reserve currencies, supporting 80% of global volumes and 87% of the value of transactions worldwide. By creating a common language and model for payments data, ISO 20022 significantly improves the quality of data across the payments ecosystem. Richer, structured, more meaningful data will enhance client experiences while improving compliance and efficiency. ISO 20022 is flexible enough to meet the needs of today and those of tomorrow.

4.2 Faster payments

The SARB has intensified the review of faster payments in South Africa. The need to improve the efficiency of the NPS is one of the drivers of the review of the broader retail payments offering, as in some instances it still takes consumers a day or two for a transaction to be cleared when payment is made across participants. South Africa was one of the early adopters of faster payments, but the market uptake is slow, the service is expensive, and not all the participants provide the service to their clients. Although the industry is involved in several initiatives to address faster payments, such as Rapid Payments Platform and Project Future (Modernisation of Payments), it is important that the SARB provides policy and regulatory certainty in this regard. During the period under review, the SARB developed a consultation paper on faster payments in South Africa, and consulted with National Treasury, PASA and other relevant financial sector regulators. Industry-wide consultation is planned to commence around mid 2020



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5.1 The South African **Multiple Option** Settlement system

The total value of payment transactions settled in the domestic RTGS known as SAMOS system increased by 7.5% in 2019 to R149.5 trillion, from R139.1 trillion in 2018 (Figure 1). Settlement volumes rose to 9.3 million in 2019, from 8.8 million in 2018. Wholesale payments settled in real time make up about 90% of the settlement values in the SAMOS system, while retail payment transaction obligations submitted for settlement by payment clearing houses (PCHs) represent the remaining 10%. reforms, processes and procedures were implemented, while maintaining the overall effectiveness of the NPS.



Figure 1: Payment values and volumes

The total value of retail payment transactions settled in SAMOS rose by 6.3% to R13.1 trillion in 2019, from R12.3 trillion in 2018. A significant portion (74.4%) of retail payment values comes from electronic funds transfer (EFT) credits, followed by cards at 11.6%. However, the share of EFT credits has declined somewhat since 2014, from 78% in that year to 74% in 2019, as real-time clearing (RTC) and the use of cards increased, while the share of cheques has decreased from 2.3% of the total share of retail payments in 2014 to 0.4% in 2019.



Table 1 below provides the payment system-related information collected from SAMOS participants through the Payment System Information Return (PAYIR).

Table 1: Infrastructure access points and payment instruments

	2014	2015	2016	2017	2018	2019
Total Cards	87 063 689	77 461 961	50 935 160	53 223 837	50 928 962	48 885 002
Number of Point-of-Sale Terminal	393 883	394 309	402 670	381 817	417 101	510 930
Number of ATMs	27 774	28 906	29 643	30 671	30 706	31 439
Number of institutions offering payment services	35	36	34	43	46	48
Number of Point-of-Sale Terminal	28	31	31	32	34	34
Banks	25	28	28	29	31	31
Payment financial market infrastructures	2	2	2	2	2	2
Central bank	1	1	1	1	1	1
Number of indirect participants in SAMOS	-	-	-	2	2	2

Source: SARB

5.2 The Southern African Development Community real-time gross settlement system

The regional RTGS known as Southern African Development Community (SADC) RTGS is hosted and operated by the SARB on behalf of the central banks of the SADC region. Since its inception in 2013, the take on of participants throughout the region resulted in an initial exponential growth in volumes and values of the SADC-RTGS. With most SADC countries having joined the system, growth in the figures has, however, since plateaued. Growth in volumes and values for 2019 contracted by 0.25% and 3.45% compared to the 10.75 % and 2.48 % growth in 2018.

Figure 4: SADC-RTGS system growth rates in volumes and values



In terms of the value and volumes of the transactions settled on a monthly basis during the period under review, there was still a steady increase on both fronts. The highest settlement value, of R120.5 billion, was reached during March 2020, which is the closing month for the period under review. The highest volume, of 32 976 transactions, was reached in the month of October 2019. It is anticipated that when additional settlement currencies are on boarded on the system, the volume and values settled are likely to increase.

Figure 4: Monthly transactions settled in SADC-RTGS system



CONCLUSION

The era of transformation has significantly shaped the execution of the regulatory, oversight and operational functions of the SARB in the NPS during the reporting period. The revised organisational structure greatly enhanced the SARB's capacity to deliver on current and anticipated future projects, and to respond to changing circumstances.

Key delivery areas include the formulation of clear policy positions and regulatory frameworks, effective oversight of Payment System FMIs and providers of payment services, and provision of safe and efficient settlement services.

Good progress has also been achieved in facilitating an effective payment system, promoting the safety, efficiency and overall resilience of the NPS and Payment System FMIs, and in modernising the payment infrastructure.

The settlement statistics shared in this report provide insights on the effectiveness, growth and stability of the NPS.

Abbreviations

AC	authenticated collection
AEDO	authenticated early debit order
AIP	application interface programming
AML/CFT	anti-money laundering/combating the financing of terrorism
ATM	automated teller machine
BASA	Banking Association of South Africa
BIS	Bank for International Settlements
CCP	central counterparties
CMA	Common Monetary Area
CNP	card-not-present
CPMI	Committee on Payments and Market Infrastructures
CSD	central securities depositories
CSP	Customer Security Programme
EDO	early debit order
EFT	electronic funds transfer
ESAAMLG	Eastern Southern African Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
	0
FIC Act	Financial Intelligence Centre Act 38 of 2001
FIC Act FinTech	
	Financial Intelligence Centre Act 38 of 2001
FinTech	Financial Intelligence Centre Act 38 of 2001 financial technology
FinTech FMI	Financial Intelligence Centre Act 38 of 2001 financial technology Financial Market Infrastructure
FinTech FMI FSCA	Financial Intelligence Centre Act 38 of 2001 financial technology Financial Market Infrastructure Financial Sector Conduct Authority
FinTech FMI FSCA FSCF	Financial Intelligence Centre Act 38 of 2001 financial technology Financial Market Infrastructure Financial Sector Conduct Authority Financial Sector Contingency Forum
FinTech FMI FSCA FSCF FSCRWG	Financial Intelligence Centre Act 38 of 2001 financial technology Financial Market Infrastructure Financial Sector Conduct Authority Financial Sector Contingency Forum Financial Sector Cybersecurity Resilience Working Group
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NAEDO	non-authenticated early debit order
NPS	National Payment System
NPS Act	National Payment System Act 78 of 1998
NPSD	National Payment System Department
PA	Prudential Authority
PASA	Payments Association of South Africa
PAYIR	Payment Information Return
PCH	Payment Clearing House
PFMI	Principle for Financial Market Infrastructures
PSMB	Payment System Management Body
PSOC	Payment System Oversight Committee
RPP	Rapid Payments Programme
RTC	Real-Time Clearing
RTGS	Real-Time Gross Settlement
SADC	Southern African Development Community
SAMOS (system)	South African Multiple Option Settlement (system)
SARB	South African Reserve Bank
SO	system operator
SSS	securities settlement systems
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCIB	transactions cleared on an immediate basis
TR	trade repositories
UAT	user acceptance testing
Vision 2025	NPSD framework and strategy document



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