

NATIONAL PAYMENT SYSTEM DEPARTMENT REGULATORY AND OVERSIGHT REPORT

1 April 2020 – 31 March 2021



SOUTH AFRICAN RESERVE BANK





STRATEGY

STEP1

STEP3

STEP5

© South African Reserve Bank

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without fully acknowledging the *National Payment System Department Regulatory and Oversight Report* of the South African Reserve Bank as the source. The contents of this publication are intended for general information only and are not intended to serve as financial or other advice. While every precaution is taken to ensure the accuracy of information, the South African Reserve Bank shall not be liable to any person for inaccurate information or opinions contained in this publication. Unless indicated otherwise, data were supplied by the South African Reserve Bank.

This report is the seventh edition of the *National Payment System Department 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 2020 – 31 March 2021.

Comments and enquiries relating to this publication are welcomed and should be addressed to:

Head: National Payment System Department
South African Reserve Bank
P O Box 427
Pretoria 0001
Tel. +27 12 313 3424
Email: npsdirectives@resbank.co.za

<http://www.resbank.co.za>

Produced by the South African Reserve Bank

CONTENTS

1.	GENERAL OVERVIEW	2
1.1	INTRODUCTION	2
2.	DEVELOPING REGULATORY, SUPERVISORY AND OVERSIGHT FRAMEWORKS AND STANDARDS FOR THE NATIONAL PAYMENT SYSTEM	4
2.1	IMPLEMENTATION OF STRATEGY VISION 2025	4
2.2	THE REVIEW OF THE NATIONAL PAYMENT SYSTEM ACT 7 OF 1998	4
2.3	CONDUCT WITHIN THE NPS IN RESPECT OF DOMESTIC CARD TRANSACTIONS (DOMESTIC CARD ISSUING AND ACQUIRING)	5
2.4	CONSULTATION ON NPS POLICY AND REGULATORY MATTERS	5
2.4.1	LEVERAGING OF OPEN BANKING IN THE NPS	5
2.4.2	DESIRABILITY AND FEASIBILITY OF A DOMESTIC CARD SCHEME	5
2.4.3	POLICY POSITION PAPER ON CRYPTO ASSETS	5
3.	PROMOTING THE SAFETY, EFFICIENCY AND OVERALL RESILIENCE OF FINANCIAL MARKET INFRASTRUCTURES	6
3.1	DEBIT ORDER ABUSE	6
3.2	INTERCHANGE DETERMINATION PROJECT	7
3.3	CESSATION OF THE USE OF CHEQUES AS A PAYMENT INSTRUMENT	8
3.4	REGULARISING PAYROLL DEDUCTIONS	8
3.5	FINANCIAL MARKET INFRASTRUCTURE PERFORMANCE UNDER COVID-19	8
3.6	DOMESTIC SETTLEMENT SYSTEM ASSESSMENT AGAINST PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES	9
3.7	SADC-RTGS PFMI'S ASSESSMENT	10
3.8	FINANCIAL ACTION TASK FORCE MUTUAL EVALUATION	11
3.9	REVISION OF THE DIRECTIVE FOR CONDUCT WITHIN THE NPS IN RESPECT OF THE FATF EFT DIRECTIVE	11
3.10	SADC PAYMENT SYSTEM OVERSIGHT COMMITTEE ACTIVITIES	11
4.	MODERNISING THE PAYMENT INFRASTRUCTURE	12
4.1	REFORMS IN THE FASTER PAYMENT SYSTEMS	12
4.2	THE RAPID PAYMENTS PROGRAMME: A JOURNEY TO MODERNISATION	13
4.3	AUTHENTICATED COLLECTIONS	13
4.4	REFORMS IN THE DOMESTIC PAYMENT SETTLEMENT SYSTEMS	13
5.	EFFECTIVE OPERATION OF THE PAYMENT INFRASTRUCTURE AND SETTLEMENT STATISTICS	14
5.1	SELECTED STATISTICS FROM THE NPS	14
5.2	SAMOS PAYMENT SETTLEMENT STATISTICS	15
5.3	STAKEHOLDER MANAGEMENT: CUSTOMER SERVICES MANAGEMENT PORTAL IMPLEMENTED	16
5.4	THE SADC-RTGS	16
6.	COORDINATION OF EFFORTS IN REGIONAL AND CONTINENTAL INITIATIVES	18
6.1	SADC REGIONAL INITIATIVES	18
6.1.1	ENHANCING FINANCIAL INCLUSION IN SADC	18
6.1.2	FOSTERING FINANCIAL INTEGRITY IN SADC	19
6.2	CONTINENTAL INITIATIVES	19
6.2.1	CROSS-BORDER RETAIL PAYMENTS SCHEME: TRIPARTITE ENVIRONMENT	19
6.2.2	ASSOCIATION OF AFRICAN CENTRAL BANKS: PAN-AFRICAN PAYMENT AND SETTLEMENT SYSTEM PROJECT	19
7.	CONCLUSION	20
8.	ABBREVIATIONS	21



GENERAL OVERVIEW

1.1 Introduction

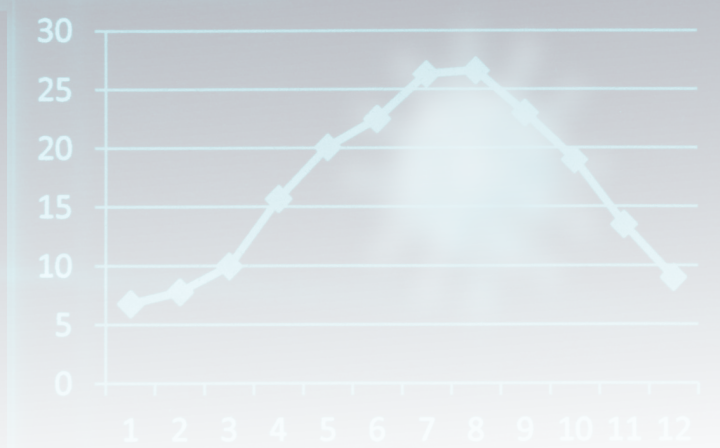
The South African Reserve Bank (SARB) hereby issues the seventh edition of the annual *National Payment System Department Regulatory and Oversight Report* for the period April 2020 to March 2021. The report is issued in the quest for the central bank to share relevant information relating to the operations, regulation and oversight of the national payment system (NPS).


Despite the impact of the coronavirus disease 2019 (COVID-19) pandemic that raged during the past year, the payment system ecosystem has remained resilient. In response to the changing payment landscape as well as the challenging economic environment, the SARB published a number of policy papers to gather insights from stakeholders to guide the adoption and development of appropriate policy positions to continue to protect the integrity of the payment systems, in alignment with the goals of the Strategy Vision 2025.

This report provides a progress update on initiatives geared towards promoting the safety, efficiency and overall resilience of payment systems as well as payment system financial market infrastructures (FMIs). Further, the report shares feedback on the journey relating to the modernisation of the payment system infrastructure through reform initiatives in both the retail and wholesale payment environments.

During the past year, the payment system infrastructure and settlement operations remained effective with no major incidents or events reported. The SARB continued to participate in and coordinate efforts in the Southern African Development Community (SADC) region through the execution of, among other things, identifying strategic focus areas relating to enhancing financial inclusion and fostering financial integrity of transactions in the region.

Additionally and in support of the aspirations of the recently launched African Continental Free Trade Agreement (AfCFTA), the SARB is actively participating in exploratory initiatives aimed to integrate payment systems across regions of the continent. In this regard, a continental project that has been initiated by the Association of African Central Banks (AACB) and coordinated by the AACB Secretariat, is taking shape with established execution structures tasked with delivery of identified deliverables where regular updates are provided to the AACB Governors.





DEVELOPING REGULATORY, SUPERVISORY AND OVERSIGHT FRAMEWORKS AND STANDARDS FOR THE NATIONAL PAYMENT SYSTEM

2.1 Implementation of Strategy Vision 2025

In support of the SARB's National Payment System Framework and Strategy Vision 2025 strategic plans, there has been significant progress in the execution of a majority of identified strategic initiatives as outlined in the implementation plan. The SARB, in collaboration with relevant stakeholders, continues to refine and evaluate these initiatives to ensure that they remain relevant and are in alignment with the ultimate strategic goals of the NPS as well as the attainment of the goals outlined in the Vision 2025 with guidance of the Payments Council. Despite the impact of the COVID-19 pandemic where a number of planned in-person engagements were postponed and some of the initiatives delayed and timelines readjusted, the SARB realigned some of the initiatives and remains resolute in ensuring that the Vision 2025 goals are realised.

2.2 The review of the National Payment System Act 7 of 1998

Following the publication of the policy paper titled 'Review of the National Payment System Act 78 of 1998', which outlines recommendations for proposed changes to the National Payment System Act 7 of 1998 (NPS Act), the National Treasury supported by the SARB, drafted the NPS Bill. At present, there are discussions between the National Treasury and the SARB on how to proceed with the NPS Bill process, where after the next steps will be communicated.

2.3 Conduct within the NPS in respect of domestic card transactions (domestic card issuing and acquiring)

A Directive for conduct within the national payment system, in respect of domestic card transactions (Directive 1) was gazetted on 21 February 2020, to prohibit domestic card issuing and acquiring by foreign issuers and acquirers who have not been authorised in terms of South African laws and are subjected to applicable rules, as well as to expressly state that all domestic card transactions are subject to South African legislation, provisions of payment clearing house agreements and clearing/settlement rules.

The effective date of the Directive was, however, later extended by a further six months. Consideration of this extension was due to the impact of COVID-19 and specifically to provide more time for impacted entities to fully comply with the Directive.

2.4 Consultation on NPS policy and regulatory matters

2.4.1 Leveraging of open banking in the NPS

In November 2020, the SARB issued a consultation paper on open banking. The consultation paper mainly proposed that banks/data holders provide access or share customer-permissioned data with third parties to enable customers to access innovative payment offerings facilitated by these third parties. The objective of the consultation paper was to gather insights that would enable the SARB to develop an appropriate policy and possible regulatory position on open banking activities.

Related to this subject, in November 2020, the SARB, Financial Sector Conduct Authority (FSCA) and Payments Association of South Africa (PASA) issued a consumer alert, warning consumers about risks associated with 'instant electronic funds transfer (EFT)' for online payments initiated through the technology known as screen scraping. This technology uses a customer's online banking credentials to directly access a consumer's payment facilities to effect online payments for e-commerce purchases. The SARB, in collaboration with relevant regulatory authorities, is exploring measures to mitigate the impact of these risks in the NPS while catalysing for implementation of safer solutions that will address the needs that are fulfilled through this practice.

2.4.2 Desirability and feasibility of a domestic card scheme

On 1 March 2021, the SARB published a consultation paper titled 'Consultation paper on the feasibility of establishing a domestic card scheme in South Africa'. The consultation paper seeks to gather input on the desirability and feasibility of establishing a domestic card scheme. Card schemes play a critical role in the card payment ecosystem. The schemes enable banks and designated clearing system participants (as card issuers) to issue cards to cardholders (consumers and businesses) to effect payment, withdraw cash and transfer funds. Currently, the South African card market is dominated by international card schemes, and the desirability of a domestic card scheme may be driven by the need to address specific domestic objectives that would otherwise not be met by the international schemes. In driving this initiative to conclusion and consideration of input gathered from the consultation process, the way forward will be aligned to the broad strategy adopted by the jurisdiction relating to digitisation of retail payments.

2.4.3 Policy position paper on crypto assets

The SARB has contributed its preliminary policy position and approach to crypto-asset payment use cases (crypto assets as a medium of exchange and store of value) that has been incorporated in the Inter-Governmental FinTech Work Group (IFWG) position paper on crypto assets. The IFWG paper was published in June 2021. Engagements on this matter will remain ongoing within the SARB relating to the impact of crypto-assets payment use cases on the NPS and other policy areas such as financial stability and monetary policy. A policy position will be refined over time to observe developments, explore/experiment and coordinate efforts with relevant stakeholders.



PROMOTING THE SAFETY, EFFICIENCY AND OVERALL RESILIENCE OF PAYMENT SYSTEMS AND FINANCIAL MARKET INFRASTRUCTURES

3.1 Debit order abuse

The SARB continues to work with the PASA and the sponsoring banks to curb debit order abuse (DOA) in the payment collections system and to balance the rights of payers (consumers) and users of the debit order system.¹

The DOA Steering Committee (SteerCo), established under the auspices of PASA, has adopted four-pronged model (payment collector/user; pre on-boarding, on-boarding and central registration of user profiles; monitoring for user questionable behaviour; and exit/termination of a user when necessary) to ensure that users of the different collections streams conduct their business in a manner that does not jeopardise the safety and efficiency of the NPS. The approach encapsulates various cross-checks and verifications across databases such as the South African Revenue Services, Companies and Intellectual Property Commission and BankservAfrica. In the near future, all new users of any collections stream will be verified by PASA. An initiative to verify the existing users of the different collections streams is also currently underway.

Further, and as part of the modernisation of the NPS, the SARB catalysed the initiation of the authenticated collections (AC)/DebiCheck project. This project is a first of its kind, and it seeks to address the increasing levels of abuse in the early debit order payment system known commercially as the early debit order (EDO) payment system.

From 1 May 2021, all new and renegotiated EDO mandates were originated in the AC/DebiCheck payment system and not in the current EDO payment system. EDOs would only be processed through the AC/DebiCheck payment system, while normal debit orders would still be processed later in the day, as per current arrangements.

¹ A user is any merchant that collects payments due to them via a debit order mandate.

Before 1 May 2021, consumers provided a mandate to a company or user to collect money from their bank accounts. In the new AC/DebiCheck payment system, consumers will provide authorisation to their banks, by way of an authenticated mandate, to release the funds from their accounts when a debit order is submitted by a company or user from whom they bought goods or contracted for a service.

The AC/DebiCheck payment system was implemented on 1 August 2018. Owing to the complex nature of the AC/DebiCheck system, a lengthy ramp-up period was required to ensure that all stakeholders in the EDO collections ecosystem had implemented and tested their internal processes and interfaces to the AC/DebiCheck payment system. Companies or users of the system had until 1 November 2019 to fully implement the AC/DebiCheck payment system. Since the implementation date, companies or users have been requested to start using the system for all EDO collections.

The AC/DebiCheck project is an initiative of the collections industry that ensures the safety and efficiency of the NPS, and the mitigation of rogue and fraudulent behavior in the EDO collections system.

3.2 Interchange Determination Project


The SARB continues to collect data to determine interchange² rates for automated teller machines (ATMs), cards and cashback at the point-of-sale (POS) devices. During the period under review, the interchange rates applicable to card-not-present (CNP) transactions – where the acquirer was not compliant with the 3D secure protocols – were adjusted upwards while the other card interchange rates remained unchanged. The rationale for the increase was to encourage the usage of protocols aimed at ensuring that only secure transactions are processed thereby mitigating fraudulent activities in the NPS. The SARB also revised upward the interchange rates for both ATMs and cashback at POS devices which revised rates will be implemented during the third quarter of 2021. The upward adjustments were aimed at encouraging/promoting the roll-out of ATM infrastructure and the provision of cashback at POS device services by the retailers.

In July 2020, the SARB launched a project – Review of the Interchange Determination Process – to review the entire interchange determination process in South Africa. The project focuses on:

- reviewing the current interchange determination process, taking into account international best practice where the outcomes will be treated as recommendations for enhancement to the current approach or proposals for a best-suited interchange process for the South African NPS; and
- investigating different interchange determination approaches and providing recommendations for a suitable approach to determine interchange rates for other payment streams that are not currently covered as well as possible special interchange rates for low-value payments, fuel and government payments (including payment of social benefits).

This initiative involved a desktop-based investigation of approaches adopted by other jurisdictions, informed by the latest developments in payments. Interviews were also conducted with identified subject matter experts regarding interchange approaches followed for the different payment streams in various markets. Further, stakeholders from the South African market were also engaged through interviews and surveys to solicit their views on possible interchange determination approaches that this jurisdiction consider. The project is expected to be concluded in the second half of 2021. The report will recommend measures that may be taken and approaches that may be adopted to enhance the current interchange determination process. Possible consideration will also be given to determining interchange rates for other relevant payment streams.

² 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.



3.3 Cessation of the use of cheques as a payment instrument

In November 2020, following an extensive consultation with the National Treasury, the Competition Commission, relevant regulatory authorities, government departments and stakeholders, a joint media statement was issued by the SARB, FSCA, PASA and the Banking Association South Africa (BASA), informing the public that the cheque payment method will be phased out as a payment instrument. To this end, issuing and the acceptance/collection of cheques have ceased, effective from 31 December 2020.

This decision was prompted by numerous challenges associated with the usage of cheques. These challenges include, among others, lengthy processing period of cheques; fraud perpetrated through the issuance of cheques; cheques being an expensive payment instrument; the restricted acceptance of cheques; declining usage; limited education and protection of the consumer; ageing interbank cheque processing infrastructure; and experiences with cheque usage from the impact of the COVID-19 outbreak. Social media platforms and other conventional media interviews were used by the SARB to raise awareness to the general public around the cessation of the usage of cheques as payment instruments.

3.4 Regularising payroll deductions

The objective of the payroll deductions project is to assess the impact of voluntary payroll deductions on the well-being of the employee, avoid preference of one collector of payments to another in terms of who gets paid first, as well as to maintain the effective functioning of the broader financial system through exploration of necessary regulatory intervention.

Further, the prospected possible regulatory options that may be explored would, in the main, seek to promote the safety, efficiency and integrity of the payroll deduction system that enhances the socio-economic conditions of employees. In this initiative, the SARB collaborated with the National Treasury, Department of Trade, Industry and Competition (the DTIC), Department of Employment and Labour (DEL), National Credit Regulator (NCR), FSCA and the Department of Public Service and Administration (DPSA).

Back in 2018, a 'Joint consultation paper: Regulatory proposals on payroll deductions' (consultation paper) was published for public comment. The consultation paper was a joint effort between the SARB and National Treasury, supported by the regulatory stakeholders and government departments stated above. The public comments received were considered and informed determination of final regulatory options under consideration.

Further consultation was undertaken with the South African Payroll Association (SAPA) to obtain specific information and to better understand the payroll deductions landscape, and to finalise an informed, robust and comprehensive regulatory position. Surveys were also undertaken with a representative spread of employers to gather further input that would contribute to a proposed regulatory option which is now being finalised. The public will be consulted on the preferred regulatory option prior to implementation.

3.5 Financial market infrastructure performance under COVID-19

Payment system financial market infrastructures (FMIs) adjusted well during the COVID-19 pandemic period and their resilience during the period assisted in maintaining the integrity of the NPS. Further, payment system FMIs have also considered modifying their 'work-from-home' policies going forward so that a balance is struck for split teams working from the primary operations site, alternate operations site and some staff operating from home. A rotational arrangement has also been embedded in this regard to ensure an effective means to mitigate risk.

3.6 Domestic settlement system assessment against Principles for Financial Market Infrastructures

During the 2020/21 financial year, the domestic settlement system operator assessed itself against the Bank for International Settlement (BIS) Committee on Payments and Market Infrastructures (CPMI) Principles for Financial Market Infrastructures (PFMIs). The self-assessment was conducted in line with the disclosure framework and assessment methodology prescribed by the Committee on Payments and Market Infrastructures-International Organization of Securities Commissions (CPMI-IOSCO).

The 2020 PFMI public disclosure document was prepared by the SARB and was published in March 2021. The self-assessment includes a description of the settlement system operations and describes how the system as an FMI complies with each principle that is applicable to it. Consideration was also given to previous independent assessments conducted by the regulators and overseers where recommendations to address compliance gaps to the PFMI were proposed.

Although no major changes had been effected in terms of the settlement system functionality, regulatory framework or rules of participation that impact the operation of the system since the last disclosure, in 2018, and notable changes had been implemented to embrace some key considerations and improve effectiveness of measures around the system relating to:

- Principle 17: addressing operational risk through the implementation of a third-level contingency system; and
- Principle 21: addressing efficiency and effectiveness through the implementation of the settlement system customer survey to assess the perceptions of the participants in the system on arrangements, actions and services provided by the operator.

The regression of observance of Principles 7, 13, 17 and 21, depicted in the Table 1 below, is cautionary based on delays that were experienced with the change in the approach of the Settlement System Renewal Programme that is currently underway – and due to be delivered in the next four years. The impact of COVID-19 has also resulted in significant delays in delivering strategic initiatives which would have improved compliance with the PFMI. It should further be noted that actions have been identified to address key considerations for principles rated as ‘broadly observed’. Table 1 below indicates a high-level summary of the 2020 self-assessment.

Table 1: High-level summary of the 2020 self-assessment

Assessment category	2018	2020
	Independent assessment by the World Bank	Self-assessment by the SAMOS operator
Principle		
Observed	1, 3, 4, 7, 8, 9, 12, 13, 15, 16, 17, 19, 20, 21, 22	1, 3, 4, 8, 9, 12, 15, 16, 19, 20, 22, 23
Broadly observed	2, 5, 23	2, 5, 7, 17, 21
Partly observed	18	13, 18
Not observed	0	0
Not applicable	6, 10, 11, 14, 24	6, 10, 11, 14, 24

Figure 1: Principles per assessment category 2018

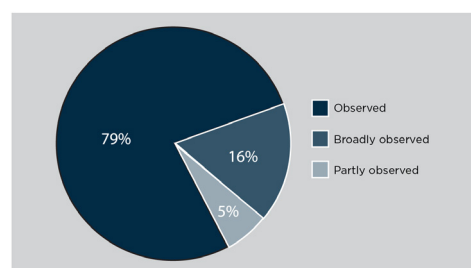
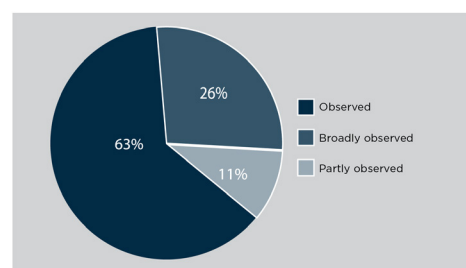


Figure 2: Principles per assessment category 2020



3.7 SADC-RTGS PFMLs assessment

On 6 April 2021, the SARB, in its role as the operator of the SADC-RTGS system, published a second PFMLs disclosure report. The assessment was conducted by the SADC-RTGS operator in line with the PFMLs disclosure framework and assessment methodology using the applicable PFMLs for central bank operated payment FMLs prescribed by the CPML-IOSCO.

The self-assessment, and therefore this disclosure, outlines the observance of the PFMLs based on the status of the operations of the SADC-RTGS as at 31 March 2020. Since the last disclosure in 2018, no major changes had been effected on the SADC-RTGS infrastructure encompassing the functionality, regulatory framework or rules of participation that impact the operation of the SADC-RTGS system.

In this process, consideration was given to the independent assessment conducted by the SADC-RTGS overseer, in collaboration with the World Bank during 2017/18. Out of this process, an assessment report outlining the recommendations for improvement were received by the SADC-RTGS operator in February 2018. Table 2 below indicates a high-level summary of 2017/18 assessment compared with the 2020 self-assessment results.

Table 2: Summary of 2017/18 assessment compared with the 2020 self-assessment results

Assessment category	World Bank assessment of Principle 2017/18	Operator assessment of Principle 2020
Observed	1, 2, 3, 4, 7, 8, 9, 15, 17, 19, 22	1, 2, 3, 7, 8, 9, 13, 15, 18, 22, 23
Broadly observed	18, 21, 23	17, 21
Partly observed	0	0
Not observed	0	0
Not applicable	5, 6, 10, 11, 12, 13, 14, 16, 20, 24	4, 5, 6, 10, 11, 12, 14, 16, 19, 20, 24

The ratings observed in Principles 17 and 21 are largely due to the delays experienced with the change of approach for the RTGS Renewal Programme. In addition, the COVID-19 pandemic has significantly impacted on delivery of strategic initiatives, which would have improved compliance with the PFMLs. However, the FMI Operator has identified interventions to address the key considerations of these PFMLs.

Figure 3: World Bank assessment of Principle 2017/18

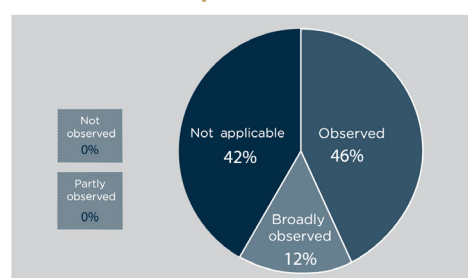
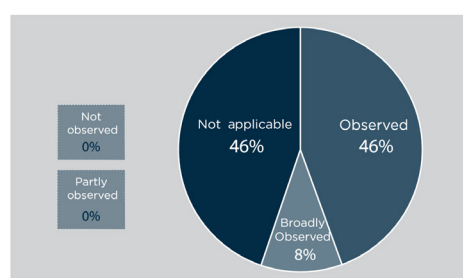


Figure 4: Operator assessment of Principle 2020



3.8 Financial Action Task Force Mutual Evaluation

The SARB actively participated in the Financial Action Task Force (FATF) Mutual Evaluation on the implementation of South Africa's anti-money laundering and combating the financing of terrorism (AML/CFT) controls and their effectiveness. The draft FATF Mutual Evaluation Report has been finalised and will be tabled at FATF Plenary in the second half of 2021 and later at the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Plenary, before its publication. There is noticeable improvement in the rating of FATF recommendations related to payment systems.

3.9 Revision of the Directive for conduct within the NPS in respect of the FATF EFT Directive

The SARB and the Financial Intelligence Centre jointly revised the FATF EFT Directive to address some of the interpretation and application issues in the current FATF EFT Directive. The revised FATF EFT Directive also introduces a R5 000 threshold for cross-border EFTs with less strict AML/CFT requirements to apply, in order to support financial inclusion objectives. The revised FATF EFT Directive will be gazetted, following conclusion of engagements with the BASA and the National Treasury, specifically on the application of the directive to payments undertaken within the Common Monetary Area of Eswatini, Lesotho, Namibia and South Africa.

3.10 SADC Payment System Oversight Committee activities

The SARB is the Lead Overseer of the SADC-RTGS system in terms of the SADC Payment System Oversight Committee memorandum of understanding. The primary responsibilities of the Lead Overseer are set out in the Oversight Guide and are mainly focused on coordinating the cooperation between the participating central banks to ensure the safety and efficiency of the regional payment system infrastructures. This role, as well as other cross-border activities are carried out in line with the regional payment systems integration goals within SADC, which is one of the Vision 2025 strategic goals.

The Payment System Subcommittee of the SADC Committee of Central Bank Governors (CCBG), in collaboration with the SADC Banking Association, has developed an interoperable and near real-time low-value electronic fund transfer credit payment scheme known as the transactions cleared on immediate basis (TCIB). Through this initiative, banks and non-banks (i.e. mobile network operators and money transfer operators) within the SADC region are eligible to participate in the TCIB payment scheme, subject to the authorisation by their respective domestic central banks.

It is envisaged that the TCIB will advance financial inclusion and, among other things, facilitate low-value cross-border payment services for remittances. Transactions will be cleared at the SADC Regional Clearing System Operator and settled in the SADC-RTGS system as well as other domestic RTGS systems for currencies that are not yet on-boarded on the SADC-RTGS. The TCIB initiative is currently in the final testing phase, and is expected to be implemented by the second quarter of 2022.



MODERNISING THE PAYMENT INFRASTRUCTURE

4.1 Reforms in the faster payment systems

In June 2020, the SARB issued a consultation paper on faster payments, proposing measures to improve the adoption of faster payments in South Africa. The paper was aimed at improving the speed and generally the efficiency of payments in the NPS, to better serve the South African economy and consumers. A formal policy position on this aspect of the payment system reform will be communicated shortly.

4.2 The Rapid Payments Programme: a journey to modernisation

In support of reforms in the retail payment system, the private sector has launched an initiative known as the Rapid Payments Programme (RPP). The initiative aims to support the Vision 2025 goals and the payment industry's Project Future³ architectural vision. The RPP includes not only the functional service design, but also a desired technical architecture for the deployment of low-value instant payments, a proxy service and request-to-pay services.

With the introduction of the RPP in South Africa, an inclusive way to pay that aims to deepen digital financial enablement, empower informal merchants with better access to digital financial services, and act as a reliable mechanism to effectively move money and enable transactions is envisaged.

³ Target state architecture for the future payments landscape. See <http://www.pasa.org.za/resources/project-future> for more information.

As at 30 April 2021, RPP has achieved several key milestones, including:

- completion of the scope of the RPP features for Product Release 1;
- completion of the functional requirements specifications for pay by proxy and instant clearing;
- completion of the technical specifications for pay by proxy, instant clearing and application programming interface messaging standards;
- finalisation of arrangements to fund the development of the rapid payments solution;
- conclusion of build agreements with RPP participants committing to the Build Phase; and
- commencement of the technical operator build for the rapid payments platform.

With the momentum garnered at industry level, the RPP has now transitioned into the Build Phase. The key focus now shifts from designing to arrangements for successful deployment. The RPP stakeholders are collaborating on establishing this middle mile infrastructure that will enable greater competition and inclusion in the NPS.

4.3 Authenticated collections

The AC/DebiCheck project achieved its second key milestone on 1 May 2021, as per the second amendment of the Directive for Conduct within the NPS, in respect of the collection of payment instructions for authenticated collections – Amendment 1 of Directive 1 of 2017.


As of 1 May 2021, all new and renegotiated EDOs have to be originated in the AC/DebiCheck system. The achievement of this milestone was significant as it was a culmination of the extensive effort of the industry to improve the safety and efficiency of the debit order collections system, despite the significant technical challenges, system complexities and numerous delays in the overall project.

The third and final milestone of the AC/DebiCheck project is scheduled for 31 October 2021, where the authenticated early debit order (AEDO) and non-authenticated early debit order (NAEDO) systems will be sunsetted. The SARB is committed to engaging with the industry and to continue working together to improve the overall efficiency of the AC/DebiCheck system as part of the broader modernisation initiative of the NPS infrastructure.

4.4 Reforms in the domestic payment settlement systems

In view of the goals and related strategies outlined in Vision 2025, the South African Multiple Option Settlement (SAMOS) Version 8 upgrade project was initiated to enhance the current SAMOS-RTGS system, to cater for the new ISO 20022 message standard. ISO 20022 is a global standard for payments messaging which improves the quality and richness of the data. The new messaging platform that incorporates the new standards is part of the Payments Industry Modernisation Project and will enable the transition to implement internal operational enhancements efficiencies through richer, structured and meaningful data. The development has commenced for the core and ancillary systems, with the planned implementation timeline of the third quarter of 2022.

The broader RTGS system renewal programme, which is a larger multi-year initiative, is also in the initiation phase. The programme will deliver a refreshed payment settlement offering to support the known and anticipated financial system requirements through leveraging of technology.



EFFECTIVE OPERATION OF THE PAYMENT INFRASTRUCTURE AND SETTLEMENT

5.1 Selected statistics from the NPS

Table 3 depicts the trend of the supply side statistics over a number of years relating to available facilities that are utilised to effect payment in the NPS. The usage statistics is available from reports of the payment settlement operator as well as the payment clearing house operators.



Table 3: Infrastructure access points and payment instruments

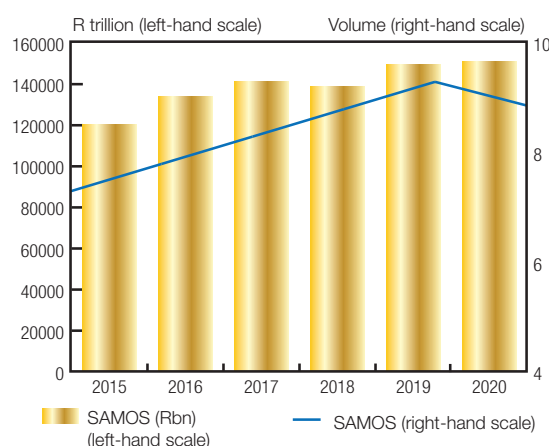
	2015	2016	2017	2018	2019	2020
Number of ATMs	28 906	29 643	30 671	30 706	31 439	31 278
Number of point-of-sale terminals.....	475 293	480 238	467 948	563 667	756 611	717 671
Bank owned	394 309	402 670	381 817	417 101	510 930	424 873
Bank supported	17 145	20 737	24 692	48 650	115 912	32 293
Merchant owned	63 839	56 831	61 439	97 316	129 769	260 505
Total cards.....	50 236 849	50 935 160	53 223 837	50 928 962	48 885 002	52 958 481
Number of institutions offering payment services.....	36	34	43	46	48	40
Banks.....	28	28	29	31	31	31
Payment financial market infrastructures.....	4	4	4	4	4	4
Central bank.....	1	1	1	1	1	1
Number of indirect participants in SAMOS	-	-	2	2	2	2

Source: SARB

5.2 SAMOS payment settlement statistics

The total value of payment transactions settled in the domestic RTGS – known as SAMOS system – increased by 1% from R149.5 trillion in 2019 to R151.2 trillion in 2020 (see Figure 5). In the same period, settlement volumes dropped from 9.3 million in 2019 to 8.9 million in 2020. Included in these figures, it is noted that wholesale payments settled in real time in the RTGS accounted for 91% of the settlement values in the SAMOS system, while retail payment settlement obligations submitted for settlement by payment clearing houses (PCHs) accounted for the remaining 9%.

Figure 5: Payment values and volumes settled in SAMOS



Source: SARB

The total value of retail payment transactions settled in SAMOS remained unchanged at R13.1 trillion when compared to the 2019 figure. EFT credits contributed a significant portion of 73.6% of the retail payment values, followed by cards at 11.8%. The EFT credits share of the total has shown a decline, from 74.5% in 2019, while the real-time clearing (RTC) system and the use of cards increased. It is also noteworthy to observe that cheques, which were officially phased out on 31 December 2020, accounted for a negligible share of 0.1% of the total retail payments in 2020.

Figure 7: Retail payment settlement values, 2019

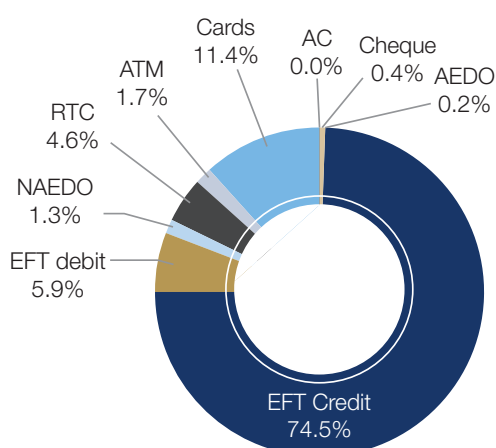
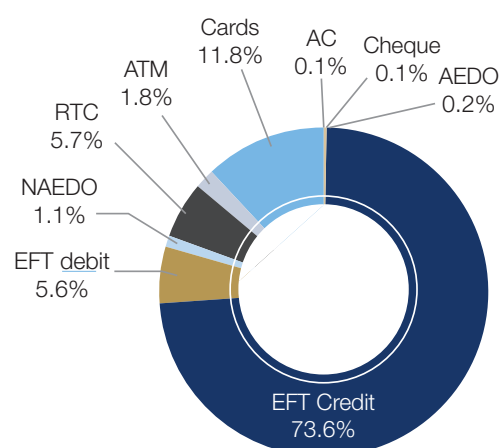


Figure 7: Retail payment settlement values, 2020



* AC: authenticated collection; AEDO: authenticated early debit order; NAEDO: non-authenticated early debit order; ATM: automated teller machine; RTC: real-time clearing

5.3 Stakeholder management: customer service management portal implemented

During the reporting period, an online customer service management (CSM) portal was implemented in support of both the domestic and regional RTGS system participants.

The primary goal of the CMS portal is to resolve the customer's issue/request as quickly as possible, provide a positive customer experience, and for customer to minimise the adverse impact of issues on business operations, thus ensuring that the best possible levels of service quality and availability are maintained.

The CSM portal introduced new and exciting features for interacting with the RTGS Customer Support Centre by enhancing the experience of interaction with participants through an online chat and self-help service with clear visibility of the status of requests and incidents logged. Furthermore, it provides the Customer Support Centre team with processes and capabilities which are designed to engage, diagnose and resolve customer issues while managing the overall customer experience through interactive and effective communication with customers.

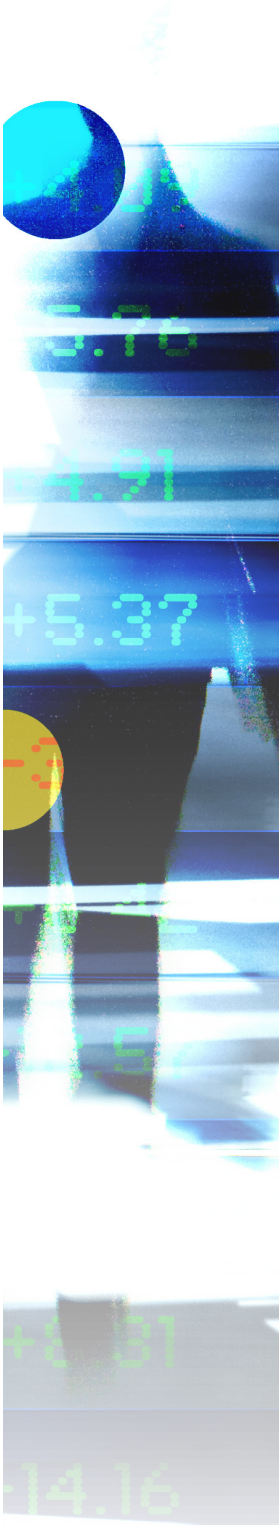
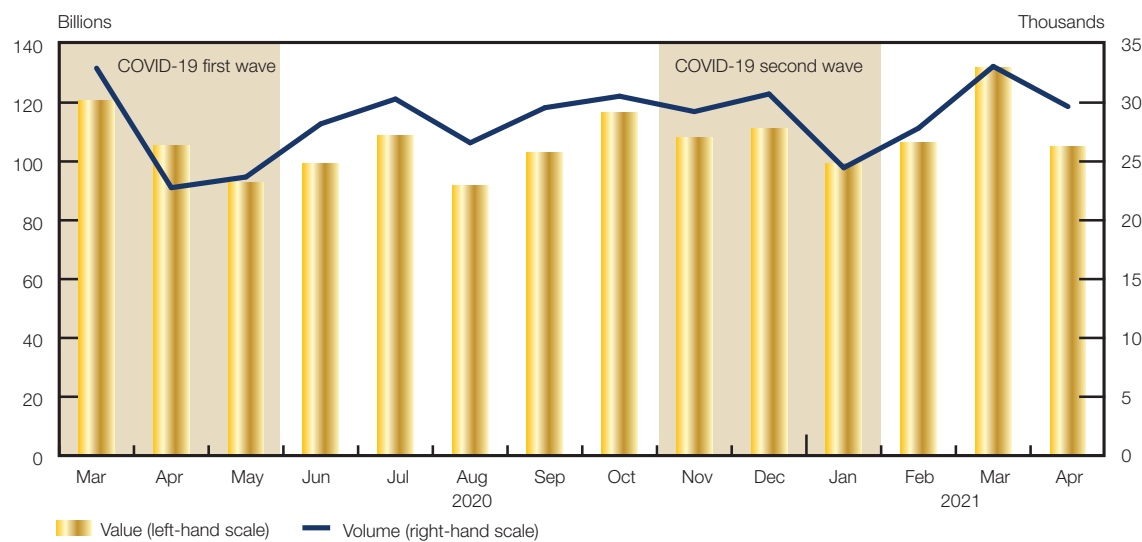
5.4 The SADC-RTGS

The advent of the COVID-19 pandemic in the past year has had a significant impact on the settlement system as observed in the payment flows through the SADC-RTGS over the 12 months up to March 2021. During the South African first wave and second wave of the pandemic, there was a decline in the transaction volumes and values while there was a pickup during the decline of these waves.

The total number of instructions settled over the period was 6.25% lower than the preceding 12 months, with significantly lower volumes recorded for April and May 2020 as well as January and February 2021. Notwithstanding this situation, the SADC-RTGS recorded the highest peaks since inception in both the number of instructions process per month (33 079) and total value settled per month (ZAR130.07 billion) March 2021.

The FMI operator also replaced the ResolveIT service management platform with a new CMS solution known as the ServiceNow CSM platform. The new CSM platform provides new ways for participants to interact with the SADC-RTGS Operator as well as the capability to self-register with necessary approvals, and for the user management to reside with the participant institution. Functionality includes an online chat with customer service agents, the ability to send requests, create cases, check status and close cases, all based on the user access rights.

Figure 8: Monthly transactions settled in SADC-RTGS system





COORDINATION OF EFFORTS IN REGIONAL AND CONTINENTAL INITIATIVES

6.1 SADC regional initiatives

The SARB is coordinating efforts by the SADC community under the auspices of the CCBG, to achieve policy objectives relating to enhancing financial inclusion and fostering financial integrity as well as leading the SADC financial technology initiatives that are relevant to central banks.

6.1.1 Enhancing financial inclusion in SADC

The objective of this focus area is to enhance financial inclusion in the SADC region. Identified strategic initiatives being undertaken in this regard include identifying metrics in the SADC financial inclusion framework to measure financial inclusion; develop innovative financial services and products to facilitate access to domestic and regional payment services; and to enhance the SADC payment system platform to create an enabling environment to include non-bank financial institutions to participate on the platform. The overall measure of success is to enable access to financial services and products to improve financial inclusion in the region.

6.1.2 Fostering financial integrity in SADC

The purpose of this focus area is to enhance and protect the integrity of the SADC financial ecosystem. The initiatives being undertaken are aimed to promote effective implementation of internationally accepted standards such as the FATF against money laundering and the financing of terrorism; harmonise AML/CFT policies to address digitised payment products; and to document payment system related rules and regulations to promote innovation and financial integrity. The overall measure of success would be to have arrangements and platforms implemented to track financial crime and be in a position to combat undesirable practices.

6.2 Continental initiatives

6.2.1 Cross-border retail payments scheme: tripartite environment

East African Community (EAC) initiated a cross-border retail payments scheme initiative within the tripartite environment. In this regard, a symposium was convened virtually on 23 November 2020, where stakeholders across the three regional economic communities (RECs) (Common Market for Eastern and Southern Africa (COMESA), EAC and SADC) were invited to participate. The objective of the symposium was to explore interest regarding a potential payment scheme for cross-border retail transfers within the tripartite in order to contribute to the broader regional integration objectives as a stepping stone towards the continental goals.

The symposium supported the exploration of the initiative, and representatives from the three RECs were tasked to pursue next steps in this regard. In pursuit of this objective, the three RECs met in January 2021 and recommended establishment of a technical committee that will be tasked with the development of proposals for a roadmap towards the implementation of a retail payments scheme. In this regard, Terms of Reference were drafted by the RECs where they requested nominations from each of the three regions to participate in the technical committee, per stakeholder category of regulators, banks, money transfer operators and switches as well as representatives of users/consumers. The technical committee will make proposals for the next symposium that might be scheduled in September 2021.

6.2.2 Association of African Central Banks: Pan-African Payment and Settlement System Project

A task force under the auspices of the Association of African Central Banks (AACB) has been established and is coordinating efforts to integrate regional payment infrastructures on the continent and it has commenced with assigned tasks. The task force has been assigned to undertake this work through two bespoke work streams. The one work stream is focused on the development of an interregional payment settlement framework, while the other is focused on the development of a mobile/retail payment strategy for the continent.

The work of the AACB Payment System Task Force was presented to the experts as well as ministers and central banks governors during the meetings of the African Union Specialised Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration, held from 1 to 4 December 2020.

At this meeting, it was indicated that a sub-committee of the STC on Finance, Monetary Affairs, Economic Planning and Integration will be established to develop and negotiate a continental payments regulatory framework which will enable the operation of cross-border payments systems on the continental basis.

This sub-committee will operate under the rules of procedure of the STC on Finance, Monetary Affairs, Economic Planning and Integration. This work will be aligned with the activities and deliverables of the AACB Payment System Task Force.



CONCLUSION

Although the past year was negatively impacted by the COVID-19 pandemic, the SARB replanned and prioritised its initiatives and programmes to ensure achievement of set goals. As evident from the update contained in this report, meaningful progress has been achieved under these circumstances.

Payment service provision continued without major disruption and oversight efforts to ensure the safety and efficiency of the system continued to be effective. A number of policy and regulatory positions and instruments were issued and in some respects implemented. Coordination arrangements with all the relevant stakeholders have been realigned to the new ways of work and interaction. These arrangements have been adjusted, where appropriate, to ensure that they are efficient and effective.

Abbreviations

AACB	Association of African Central Banks
AC	authenticated collection
AEDO	authenticated early debit order
AML	anti-money laundering
ATM	automated teller machine
BASA	Banking Association of South Africa
BIS	Bank for International Settlements
CFT	combating the financing of terrorism
CMS	customer service management
CNP	card-not-present
COMESA	Common Market for Eastern and Southern Africa
COVID-19	coronavirus disease 2019
CPMI	Committee on Payments and Market Infrastructures
CSP	Customer Security Programme
DEL	Department of Employment and Labour
DOA	debit order abuse
DPSA	Department of Public Service and Administration
DTIC	Department of Trade, Industry and Competition
EAC	East African Community
EDO	early debit order
EFT	electronic funds transfer
ESAAMLG	Eastern Southern African Anti-Money Laundering Group
FATF	Financial Action Task Force
FMI	Financial Market Infrastructure
FSCA	Financial Sector Conduct Authority
FSCF	Financial Sector Contingency Forum
IFWG	Intergovernmental Fintech Working Group
IOSCO	International Organization of Securities Commissions
MIRS	Market Infrastructure Resiliency Service
NAEDO	non-authenticated early debit order
NCR	National Credit Regulator
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
PCH	payment clearing house
PFMI	Principle for Financial Market Infrastructures
PSOC	Payment System Oversight Committee
RECs	regional economic communities
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
SSS	securities settlement systems
STC	Specialised Technical Committee
TCIB	transactions cleared on immediate basis
Vision 2025	NPSD framework and strategy document

