

1 April 2017 – 31 March 2019



Regulatory and Oversight Report

National Payment System Department



South African Reserve Bank



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This report is the fifth 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 2017 – 31 March 2019.

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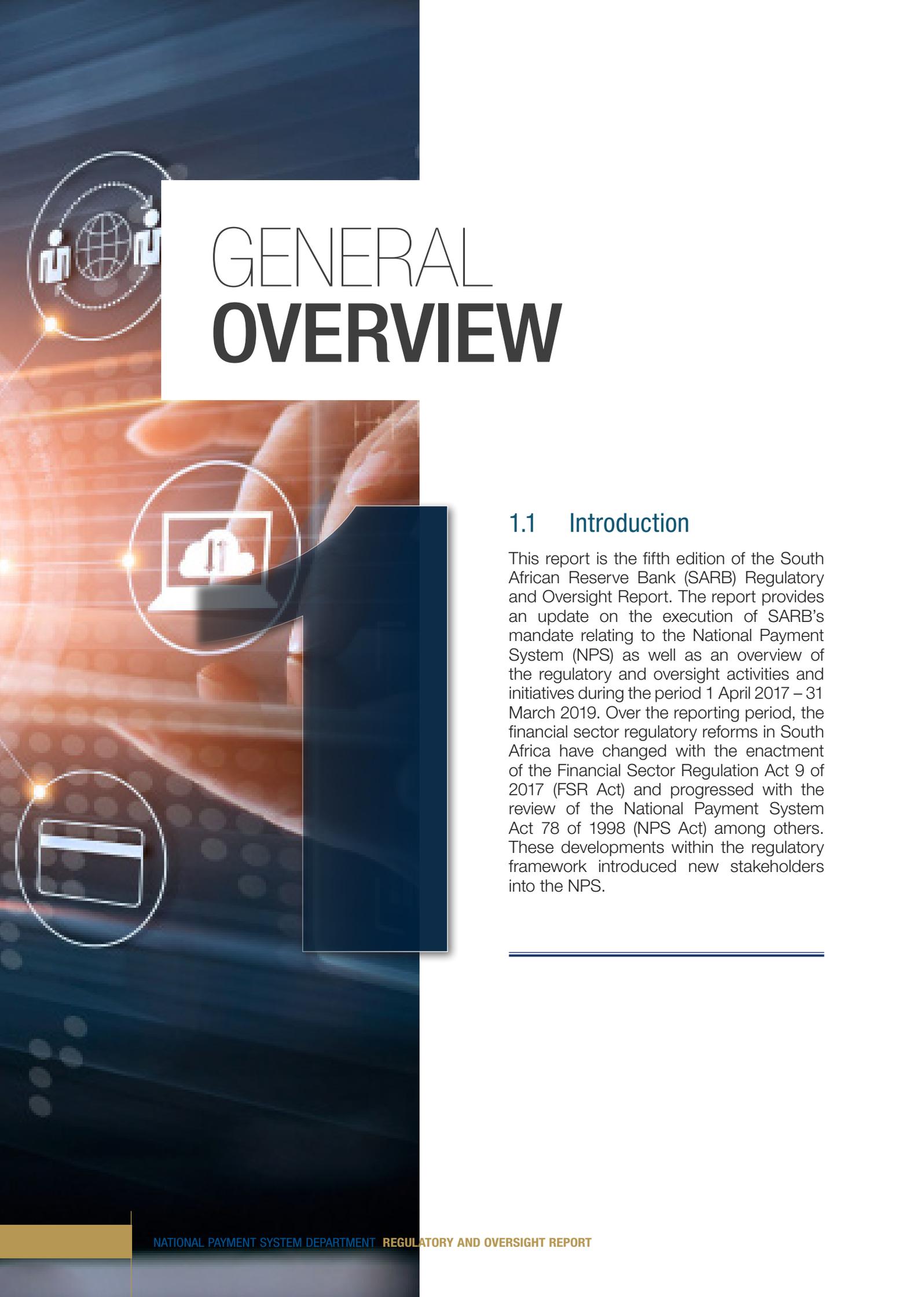
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GENERAL OVERVIEW

1.1 Introduction

This report is the fifth edition of the South African Reserve Bank (SARB) Regulatory and Oversight Report. The report provides an update on the execution of SARB's mandate relating to the National Payment System (NPS) as well as an overview of the regulatory and oversight activities and initiatives during the period 1 April 2017 – 31 March 2019. Over the reporting period, the financial sector regulatory reforms in South Africa have changed with the enactment of the Financial Sector Regulation Act 9 of 2017 (FSR Act) and progressed with the review of the National Payment System Act 78 of 1998 (NPS Act) among others. These developments within the regulatory framework introduced new stakeholders into the NPS.

1.2 What is the role of the SARB in the NPS?

In most countries, the mandate for the safety and efficiency of the payment systems is assigned to central banks. South Africa is no different in that the SARB is responsible for promoting financial stability and, as payment systems are integral to the maintenance of financial stability, this mandate is assigned to the SARB. In this role, SARB is the regulator, supervisor and overseer of the NPS; the operator of the domestic and regional settlement systems; and is responsible for maintaining the safety and efficiency of the NPS to promote the overall stability of the financial system. The SARB derives this mandate and power to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems from section 10(1)(c) of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act).



To execute the above-mentioned mandate, the SARB delegated the authority and power to manage, operate, regulate and supervise payment, clearing and settlement systems to the National Payment System Department (NPSD) in terms of the NPS Act.

The Head of NPSD, Mr Tim Masela, has been with the SARB for 25 years. He is responsible for four divisions within the NPSD namely Policy and Regulation; Oversight and Supervision; Domestic and Regional Settlement Services; and Business Support. All the activities of the NPSD are focused on improving and maintaining the safety and efficiency of the NPS.

The purpose of this Regulatory and Oversight Report is to provide an overview of the key activities of the NPSD as the regulator, supervisor and overseer of the NPS for the period April 2017 to March 2019.

The intended readers of the report are members of the public, participants in the NPS, users of the payment system, financial sector regulators and the NPSD's domestic, regional and international stakeholders.

REGULATORY ACTIVITIES

2.1 National Payment System Framework and Strategy Vision 2025

In March 2018, the SARB officially launched and published the National Payment System Framework and Strategy Vision 2025³ (Vision 2025). The overarching national payment system vision is to:

“Enhance the safety, efficiency and accessibility of the national payment system in a manner that promotes competition and minimises risk to the payments ecosystem by leveraging technological developments to extend the availability of digital payments to all sectors of society while meeting domestic, regional and international requirements for the benefit of all members of South African society.”

Vision 2025 comprises the following nine goals as listed below. Eight of the nine goals fall into two categories that form the cornerstone of the NPS relating to ‘safety’ and ‘efficiency’. Collectively, these goals serve to maintain the South African payment system’s world class status and simultaneously support and bolster national financial inclusion objectives.

1 More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Pages/Introduction%20and%20Overview.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Pages/Introduction%20and%20Overview.aspx)



Vision 2025 Industry goals



Promoting competition
and innovation



Financial
inclusion



Regional
integration



Transparency and
public accountability



Cost-effectiveness



Interoperability



A clear and transparent
regulatory and
governance framework



Financial stability
and security



Flexibility and
adaptability



Industry strategies and tactics



Vision 2025 advocates for, among other things, the need for a clear and transparent regulatory framework, that is, one that enables innovation for both incumbents and new entrants.

The South African payment system has served the country well thus far and has often been praised for its sophistication. However, the industry cannot be complacent about past achievements. Many view the NPS as the 'gateway to financial inclusion' and financial deepening, and the SARB has anchored its strategic initiatives in this area around the financial inclusion goal. Although not explicitly part of the SARB's mandate, the need for the payment system to contribute to this objective cannot be overlooked.

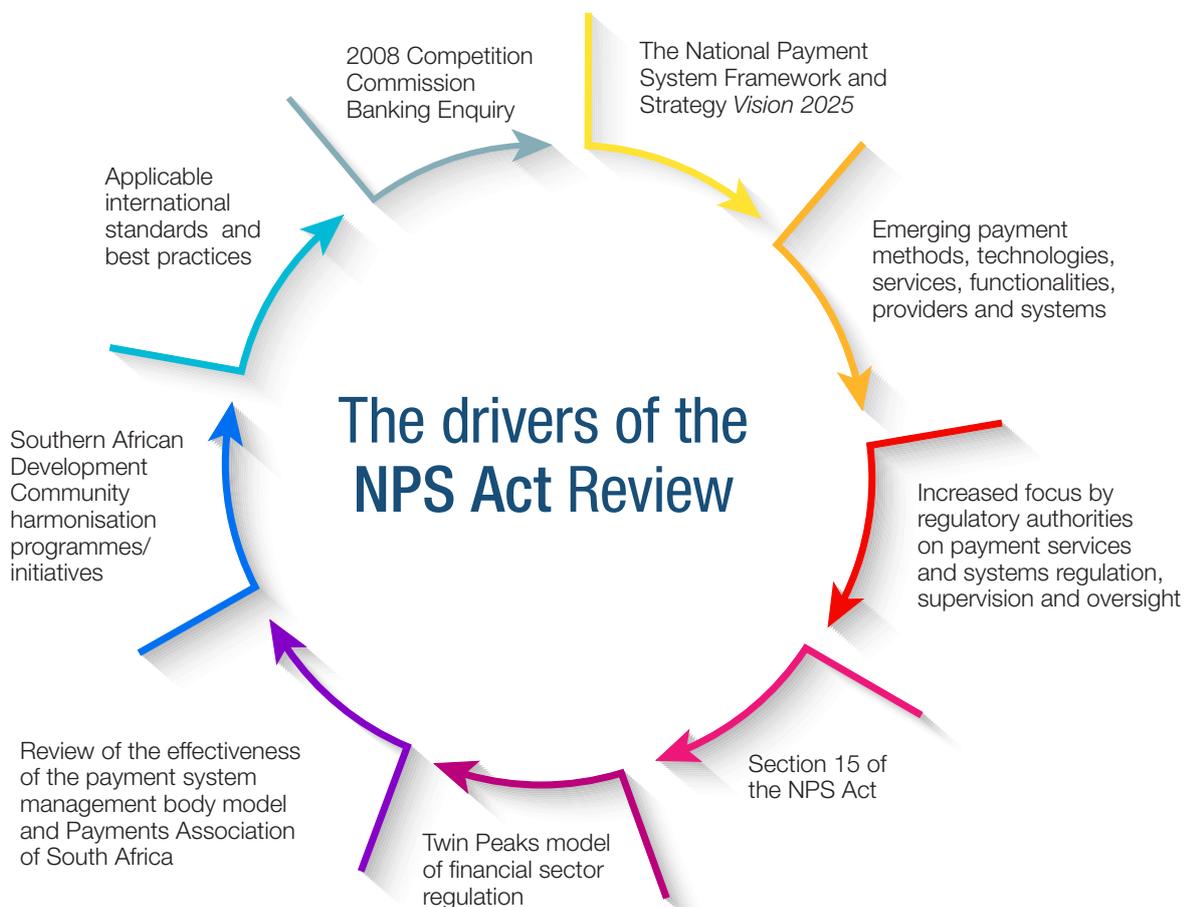
2.2 NPS Act Review

The SARB initiated the NPS Act Review process in 2015 and over the years developed the NPS Act Review Policy Paper that outlines proposed changes to the NPS legislative framework, specifically the NPS Act. In December 2018, the SARB and the National Treasury published the NPS Act Review Policy Paper for public comment.⁴

The overall purpose of the review was to examine the robustness and resilience of the NPS legislative and regulatory framework and to ensure that it is still relevant to the current situation. The following matters necessitated the review of the NPS Act and are the drivers of the NPS Act Review:

² More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Documents/Documents%20for%20Comment/NPS%20Act%20Review%20Policy%20Paper%20-%20final%20version%20-%202013%20September%202018.pdf](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Documents/Documents%20for%20Comment/NPS%20Act%20Review%20Policy%20Paper%20-%20final%20version%20-%202013%20September%202018.pdf)

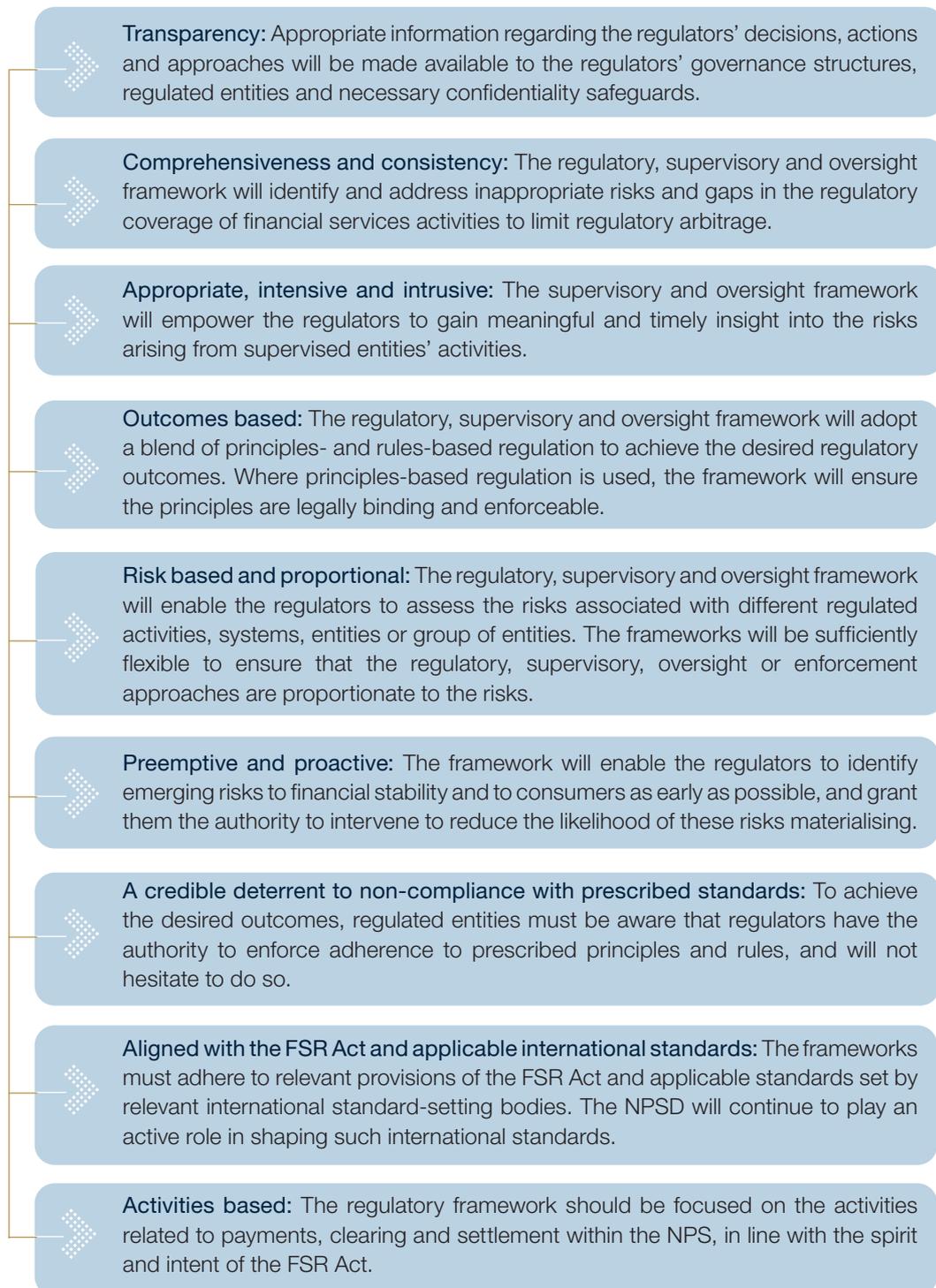
a. Drivers of the NPS Act Review



b. Main policy issues, principles, proposals and recommendations in NPS Act Review Policy Paper

Local and international experts extensively reviewed the recommendations outlined in the NPS Act Review Policy Paper. The paper was also reviewed against international best practices and standards, in line with national, regional and international developments as well as evolving changes in the payments industry.

The regulatory, supervisory and oversight frameworks proposed in the NPS Act Policy Paper aims to ensure that the following principles are entrenched:



The NPS Act Review Policy Paper identified gaps in the current NPS regulatory framework and made the following recommendations:

- Adoption of overarching principles
- Adoption of international and domestic financial sector regulatory standards
- Inclusion of public policy objectives
- Clarify the role of the SARB as payments regulator, supervisor and overseer
- Specify the mandate and objectives of the SARB
- Provision for powers and functions of the SARB
- Designation, regulation, supervision and oversight of systemically important financial institutions (SIFIs), systemically important payment systems (SIPs – also known as systemically important FMs) and non-systemically important payment systems (also known as prominent payment systems – PPSs)
- Designation of critical service providers
- Provide clarity on the regulatory approach, including the consideration of delegation and outsourcing
- Provide for functions of operators of payment, clearing and settlement systems (including SIPs and PPS operators)
- Provide for settlement in central bank money
- Clarify conduct regulation in the NPS
- Provide for transformation of the payment, clearing and settlement services
- Provide requirements for regional or international payment, clearing and settlement services
- Provide the framework for the regulation of new or unregulated service providers, services, systems and instruments (e.g. virtual currencies, distributed ledger technologies and financial technology companies)
- Prescribe settlement finality and value date
- Provide for risk management provisions
- Enhance clearing provisions
- Provide for enforcement/dispute resolution powers
- Provide for resolution, recovery, curatorship, judicial management or liquidation (section 8 of the NPS Act)
- Prescribe various forms of regulatory instruments

The SARB and the National Treasury have consulted the industry and the public on the NPS Act Review Policy Paper, and the drafting of the NPS Bill will commence during 2019.

2.3 Regulatory model review

During the period leading to 2017, the SARB, in consultation with the payment system stakeholders, was engaged in a process to review the regulatory model for the payment system. This process informed the development of the 'Reforms of the regulatory model for the South African national payment system'³ consultation paper published in July 2018 to solicit stakeholder inputs on the proposed model. The consultation paper proposed a future regulatory model for the NPS, highlighting implications for the SARB, Payment Association of South Africa (PASA) and other stakeholders. The SARB reviewed and consulted with the industry regarding the comments received. The salient proposals in the paper are outlined below:

3 More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/Documents-for-Comment.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/Documents-for-Comment.aspx)

Regulatory reform

The consultation paper on the 'Reforms of the regulatory model for the South African national payment system', which provides a review of the payment system management body (PSMB) model and the role of the PASA and the policy paper titled 'The review of the National Payment System Act 78 of 1998' recommended the following in relation to the PSMB model and functions of operators:

Proposals

1 The SARB should become the primary regulator, supervisor and overseer of the NPS.

2 The PSMB model should be discontinued, removed from the NPS Act and replaced with the proposed future regulatory model.

3 There should be clear separation between authority or public regulation and self-regulation.

4 The SARB may decide to delegate or outsource some of its non-core functions to a third party.

5 The payment, clearing and settlement system operators (SOs) should be required to adhere to standards set by the SARB.

6 The operators should develop technical and operational rules relating to the activities and infrastructures they provide.

7 The operators should monitor and enforce compliance with those rules by their respective participants.

8 The technical and operating rules should be approved by the SARB and be disclosed for transparency purposes.

9 The operators should be subject to the licensing, regulation, supervision and oversight of the SARB.

10 The operators should allow fair and open access to their respective systems in the interest of the NPS and public policy objectives.

2.4 Payroll deductions

In 2018, the SARB established a Payroll Deductions Steering Committee to discuss various issues associated with non-statutory payroll deductions and policy options. The committee comprised representatives from the SARB, National Treasury (Financial Sector Policy Unit and Office of the Accountant-General), Department of Labour (DoL), Department of Trade and Industry (the dti), National Credit Regulator (NCR), Department of Public Service and Administration (DPSA) and the Financial Sector Conduct Authority (FSCA). The committee approved the joint publication of a consultation paper on regulatory proposals relating to payroll deductions by the SARB and National Treasury.⁴ The consultation paper was published on 7 March 2018. This consultation paper proposed regulatory options, and for each option it outlined advantages, disadvantages/unintended consequences, proposed regulatory changes and objectives/principles justifying the option.

The objective of the consultation paper was to solicit stakeholders' input on the most appropriate regulatory option that should be adopted to address payroll deductions. The adopted regulatory option will also seek to harmonise and align the legislative requirements adopted by various government departments and relevant regulatory authorities with regard to payroll deductions. This optimal regulatory option should promote safety, integrity and efficiency of the broader financial system (including the NPS) and benefit/protect employees.

2.5 Domestic processing

In December 2018 the NPSD published a consultation paper on 'Processing of Payments in South Africa'⁵ for consultation with the industry. The consultation paper outlined the SARB's policy position on the processing of domestic payment instructions/transactions through retail payment systems in South Africa. Currently, the SARB and the industry are consulting on various policy options at the SARB's disposal.

2.6 Payment services policy

The SARB is in the process of reviewing its policy position on payment services. The review advocates for participation of non-banks in the provision of payment services without the need to partner with a bank. It furthermore calls for a new definition of payment service to address payment services offered by non-banks relating to, among others, mobile money, e-money, remittances, provision of payment accounts/transactional accounts to effect payment transactions and possible issuance of pre-paid cards. The recommendations relating to this review have also been included in the NPS Act Review Policy Paper.



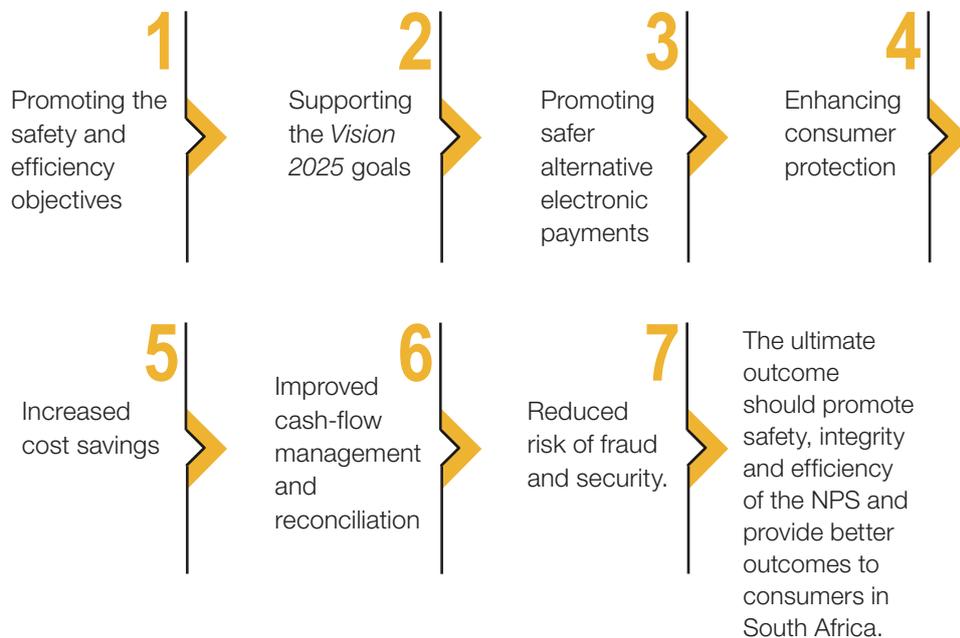
4 More information is available at [https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/Documents-for-Comment.aspx](https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/Documents-for-Comment.aspx)

5 More information is available at [https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Documents/Documents%20for%20Comment/Domestic%20Processing%20-%202014%20Nov%202018%20-publication.pdf](https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Documents/Documents%20for%20Comment/Domestic%20Processing%20-%202014%20Nov%202018%20-publication.pdf)

2.7 Cheque item limits

For the past number of years, there has been a significant decrease in the usage of cheques as a payment instrument. In this regard, the SARB, at the request of the payment industry, has found it imperative to review its policy stance on cheques and to decide on the best policy option that will address the needs of all stakeholders in the payments industry. The consultation paper on 'Reviewing the cheque item limit'⁶ was published in December 2018, for consultation with the industry. The objective of the consultation was to solicit stakeholder input (that of individuals, municipalities, government departments, financial service providers, businesses, consumer groups and other relevant stakeholders) on the proposed cheque item limit reduction from R500 000.00 to R50 000.00, including input on the proposed implementation time frame. The 'item limit' is one of the levers used to reduce the risks that payment instruments, such as cheques, introduce in the NPS and in the quest to promote safety, efficiency and integrity of the NPS. Introducing a lower item limit would reduce the risk of exposure to consumers, businesses and government users who still issue and accept cheques.

Benefits of the item limit reduction include:



2.8 Authenticated collections

In 2017, the SARB issued a directive in respect of the establishment of an authenticated collections (AC) mechanism to address the associated risks such as debit order abuse, and to maintain a safe and efficient NPS.⁷ The directive provides for the conduct of participants involved in the collection of payment instructions in the early debit order (EDO) environment. Subsequent to the directive, the payment industry launched the DebiCheck system during the second half of 2017. Through the DebiCheck system, customers will be able to authenticate EDO mandates through various channels made available at their respective banks.

6 More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/Documents-for-Comment.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/Documents-for-Comment.aspx)

7 More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/DirectivesForConductWithinTheNPS.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/DirectivesForConductWithinTheNPS.aspx)

Customers will receive notification from their banks that a mandate has been initiated and requires their authentication. The customer will have the full details of the mandate presented to them, ensuring that all mandates agreed to by a customer are legitimate.

Collectors will connect through their respective banks to the DebiCheck system and will be alerted when the customer has authenticated a mandate. Extensive industry testing and constant refinement of the system is still underway and it is expected that usage of the system will increase as the AC project progresses through the various project milestones.

The NPS, through its directives and constant updates from the industry and PASA, will continue to monitor the progress of the AC project and ensure that the DebiCheck solution improves market conduct, consumer confidence in the payment system and maintain safety and efficiency of the NPS.

2.9 Interchange determination project

The SARB has recently collected data – for the 2017 calendar year – that will be used to facilitate determination of interchange rates for its Interchange Determination Project (IDP). Once the IDP process has been completed, the revised interchange rates will be implemented. The IDP process is aligned to the National Payment System Framework and Strategy Vision 2025 themes of promoting completion and innovation as well as cost effectiveness. The SARB will continue to engage the stakeholders regarding IDP matters to ensure that the determined rates remain relevant to the payment market.

2.10 Anti-money laundering and combating the financing of terrorism: Electronic Funds Transfer directive in respect of FATF Recommendation 16 on wire transfers

During the reporting period, participants submitted their compliance declarations to the SARB, in accordance with sections 3.2 and 3.3 of the directive, for conduct within the NPS in respect of the Financial Action Task Force Recommendations for Electronic Funds Transfers Directive 1 of 2015 (FATF EFT Directive)⁸ issued in 2015. The information gathered from the declarations was valuable to the SARB in understanding and reviewing the areas of non-compliance with the FATF EFT Directive. The declarations further provided the participants with an opportunity to disclose additional and relevant information that the SARB could consider in relation to compliance with the FATF EFT Directive. The Prudential Authority (PA) over the years and in the years under review, has been assisting the SARB in supervising compliance with FATF EFT Directive. The FATF EFT Directive forms part of the Anti-money laundering and combating the financing of terrorism (AML/CFT) inspection scope for the inspections conducted by the PA, in collaboration with the SARB NPSD. The SARB NPSD was part of the PA's inspection team during the inspections undertaken in 2018 relating to FATF EFT Directive.

The Financial Intelligence Centre Amendment Act 1 of 2017 (FIC Act) has since been promulgated and is now effective. In line with the FIC Amendment Act, the SARB NPSD has decided to review the FATF EFT Directive. It is envisaged that the revised FATF EFT Directive and guidance note will be finalised and published late in 2019.

⁸ More information is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/DirectivesForConductWithinTheNPS.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/DirectivesForConductWithinTheNPS.aspx)



REGULATION AND OVERSIGHT OF **FINANCIAL MARKET INFRASTRUCTURES**

3.1 Background

The Bank for International Settlements (BIS) is an international organisation that fosters international monetary and financial cooperation. It also serves as a bank for central banks. The SARB joined the BIS in June 1971 and is an active participant in its meetings and activities. The meetings convened under the auspices of the BIS promote discussions and policy analysis among central banks, monitor developments in the financial system and develop policy positions in line with central bank mandates. Currently, the SARB serves on a number of committees of the BIS, including the Committee on Payments and Market Infrastructures (CPMI).

The CPMI and the Technical Committee of the International Organization of Securities Commissions (IOSCO) define financial market infrastructures (FMIs) as 'a multilateral system among participating institutions, including the operator of the system that is used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions'.⁹

FMIs are a critical component of the financial system and they support economic activity by providing a platform to transfer funds and settle transactions. Since financial transactions are concentrated in these FMIs, they may also be a potential source of risk to the financial system.

In 2012, in response to the global financial crisis, the CPMI and IOSCO completed a review of existing international risk management standards and issued the Principles for Financial Market Infrastructures (PFMIs)¹⁰ applicable to payment systems, securities settlement systems, central securities depositories, central counterparties and trade repositories.

The PFMIs are expressed as broad principles in recognition of FMIs. The PFMIs outline minimum requirements to ensure a common base of risk management across FMIs in the various jurisdictions and across the borders. In addition, the PFMIs also outline the general responsibilities of central banks, market regulators and other relevant authorities for FMIs in implementing these standards.



FMIs are similar to the plumbing of the financial system. FMIs provide financial services that enable the exchange of funds and/or other financial assets for individuals and firms to safely and efficiently purchase goods and services, invest in financial assets and manage financial risks.



The PFMIs are designed to help ensure the safety, efficiency and resilience of FMIs to support global financial markets. The SARB, as a member of the CPMI and IOSCO, has committed and adopted the PFMIs and responsibilities to be imposed on designated payment system infrastructures. The NPSD as the regulator, supervisor and overseer of payment system, imposes the PFMIs on FMIs that have the potential to pose a significant risk to the system, to ensure that the risk is adequately controlled. This section of this report outlines the activities of the NPSD in the adoption and implementation of the PFMIs.

9 This definition is available at www.bis.org/cpmi/publ/glossary.

10 These are available at www.bis.org/cpmi.

3.2 Regulation, supervision and oversight of FMIs

In South Africa, the payment, securities and derivatives FMI policy and regulatory mandates are split between the SARB, PA, FSCA and self-regulatory organisations responsible for the regulation and supervision of FMI participants. 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) fall within the regulatory ambit of the FSCA and PA, as provided for in the Financial Markets Act 19 of 2012 and the FSR Act.

3.3 Systemically important payment systems

In the process of recognising FMIs in the NPS, the SARB followed international best practice by categorising the payment system infrastructures as either retail payment systems or large-value payment systems. A retail payment system is a funds transfer system that typically handles a large volume of relatively low-value using various payment instruments, including cheques, credit transfers, debit orders and cards, while large-value payment systems are funds transfer systems that typically handle large-value and high-priority payments.¹¹

The CPMI defines a SIPS as 'a payment system which has the potential to trigger or transmit systemic disruptions. This includes, among other things, systems that are the sole payment system in a jurisdiction or the principal system in terms of the aggregate value of payments and systems that mainly handle time-critical, high-value payments or settle payments used to effect settlement in other FMIs. The SARB has recognised the following FMIs based on the criteria stated in PFMI Position Paper 1 of 2018:

¹¹ This definition is available at www.bis.org/cpmi/publ/glossary.

Domestic payment system FMIs¹²



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.



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.

¹² More information on the SAMOS system: [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/SAMOSSystem\(RTGS\)/Pages/SAMOSSystem\(RTGS\)-Home.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/SAMOSSystem(RTGS)/Pages/SAMOSSystem(RTGS)-Home.aspx)



International and regional payment system FIMs¹³



A large-value payment system known as continuous linked settlement (CLS) system, which facilitates settlement of foreign exchange transactions in designated currencies, including the South African rand, owned and operated by the CLS Bank International.



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.

¹³ More information on the CLS system is available at www.cls-group.com.
More information on SADC-RTGS: [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/RTGSOperation/Pages/default.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/RTGSOperation/Pages/default.aspx)



3.4 Cooperation and coordination of FMI regulators

The SARB, PA and FSCA are closely cooperating and coordinating their efforts in order to monitor FMIs that fall within their regulatory ambit, to ensure their adherence to the PFMI. The SARB, PA and FSCA cooperation supports effective supervision, policymaking and information sharing among the regulators. This cooperation and coordination helps to promote efficiency and avoids regulatory burden on the FMIs. The framework for cooperation and coordination on the assessment of the FMIs against the PFMI is set out in the memoranda of understanding (MoU) concluded among these regulators.

3.5 The adoption of the PFMI in the NPS

The SARB supported and implemented the Core Principles for Systemically Important Payment Systems¹⁴ within the payments environment since their publication in 2001. In 2013, the SARB published policy statements¹⁵ confirming its support for the PFMI in the NPS. In 2018 the SARB revised and published PFMI Position Paper 1 of 2018¹⁶ which is a consolidation of the PFMI information and position papers published in 2013, and to align the position paper with the changes in the legal and regulatory environment as part of the review of the NPS Act as well as to align it to the FSR Act. The revised position paper clearly outlines the SIPS and FMIs – in the NPS – that are expected to comply with the PFMI.

3.5.1 The process followed by the SARB to monitor the implementation of PFMI

The SARB payment oversight and supervisory team has conducted assessments of four recognised SIPS against the PFMI. The four FMIs that were assessed are:



SAMOS – the large-value payment system;



BankservAfrica – the retail payment system in respect of all the payment streams;



Strate – the 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; and



SADC-RTGS – the large-value payment system for regional cross-border transfers within the SADC region.

14 available at <https://www.bis.org/cpmi/publ/d43.pdf>

15 The position paper is available at www.resbank.co.za > Regulation and supervision > National Payment System (NPS) > NPS Legislation > Position papers > Position paper 01 of 2013. The information paper is available at www.resbank.co.za > Regulation and supervision > National Payment System (NPS) > NPS Legislation > Information papers and notices > Information paper NPS06 (related to Position paper 01 of 2013).

16 This position paper is available at [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Legal/Pages/PositionPapers.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Pages/PositionPapers.aspx).

These assessments, where applicable, highlight gaps identified and make recommendations to address such gaps to improve the payment system FMI's level of observance of the PFMLs. The SARB continues to monitor the implementation of recommendations made as part of its oversight and supervisory activities.

The SARB did not conduct an assessment on the CLS system, which settles foreign exchange transactions in designated currencies, including the South African rand. The CLS system is overseen through a cooperative oversight arrangement that includes the SARB and is led by the New York Federal Reserve Bank – under arrangements where CLS system's assessment against the PFMLs is undertaken by the New York Federal Reserve Bank supervisors.

These payment system FMIs are also required to conduct regular self assessments against the PFMLs and to provide the SARB with the outcome of the self-assessments. At present, self-assessments should be conducted at least once every two years and when major or material aspects regarding the FMIs' governance or business arrangements change. The SIPs are expected to rate their level of observance of the PFMLs using ratings of (i) observed; (ii) broadly observed; (iii) partly observed; (iv) not observed; and (v) not applicable.

Furthermore, FMIs are required to publish pertinent information including the outcome of their self-assessments on their websites, as prescribed by the PFMLs: disclosure framework and assessment methodology, and should ensure that these disclosures are always relevant and in line with the latest self-assessment.

3.6 Payment system FMIs owned and operated by the SARB

By publishing this report, the SARB documents and celebrates 22 years of achievements of the SAMOS system and 6 years' achievements of the SADC-RTGS system.

3.6.1 The South African Multiple Option Settlement system

The SAMOS system is a real-time gross settlement (RTGS) system – operated by the SARB – that facilitates the settlement of domestic transactions. The SAMOS system caters for the settlement of individual high-value payment transactions, obligations emanating from retail batches submitted for settlement by payment clearing houses as well as settlement obligations emanating from the clearing and settlement of bond and equity markets.¹⁷ For the past 21 years, the payment system reform initiatives achieved the following milestones:

¹⁷ Person approved and authorised by PASA to provide clearing services to system participants.

a. Payment system reform milestones achieved

Date	Milestone
April 1995	<p>The SARB, in collaboration with the banking industry, launched a project to reform the NPS and formulate a strategy that would enable South African banks and other intermediaries in the payment system to align the needs of the domestic economy and developments in the international community. This process culminated in the development of the South African National Payment System Framework and Strategy Document (the so-called 'Blue Book'), a long-term strategy which was published by the SARB in 1995.</p> <p>The initiation of the new payment processing infrastructure, to implement a new RTGS system that enables settlement between participating banks in central bank money with finality and irrevocability, was one of the projects initiated.</p>
March 1998	Implementation of SAMOS – owned and operated by the SARB.
August 1998	Implementation of an automated process for clearing of retail payment transactions through a payment clearing house (PCH) operator and electronic transmission of calculated obligations to SAMOS for settlement.
October 1998	Achievement of immediate intraday finality.
July 1999	Introduction of facilities to optimise liquidity utilisation for larger settlements through queuing and offsetting of transactions.
October 2001	Additional functionality to the liquidity optimiser for settlement takes place when all banks that have obligations in a batch have successfully funded such obligations.
September 2003	Introduction of the liquid assets functionality into SAMOS to enable the SARB to monitor the participants' reserving of collateral and the usage of liquid assets kept for prudential requirements in terms of the Banks Act 94 of 1990. The reserve account was also incorporated into SAMOS to facilitate access of liquidity for settlement.
August 2004	Implementation of same-day square off, to align the settlement cycle day with the calendar day. The requirement was same-day settlement where retail batches were submitted for settlement before midnight.
December 2004	Implementation of the Society for Worldwide Interbank Financial Telecommunications (SWIFT) Y copy service and inclusion of the rand in the continuous linked settlement CLS system to facilitate safe foreign exchange settlement in designated currencies.
April 2005	Implementation of interest compensation for participants with a credit balance as well as to penalty interest for participants with debit balances (loans) at end of day.
April 2008	The RTGS system was enhanced to enable inclusion of eligible collateral, should the SARB decide to accept additional securities as collateral for SAMOS loans.
2014	The SARB's initiation of a strategic review of the SAMOS system that could lead to the implementation of the ISO 20022 message standard for the SAMOS system as part of the renewal process.
February 2015– October 2017	Initiative to replace the current RTGS systems with a new generation RTGS solution that will address current business functionality and cater for evolving business and technical requirements due to advances in fintech, regulatory changes and changing business landscape. The new system has to enable modular design, quicker development turnaround and reduced time to market for changes in the payment environment and cater for multi-currency settlement.

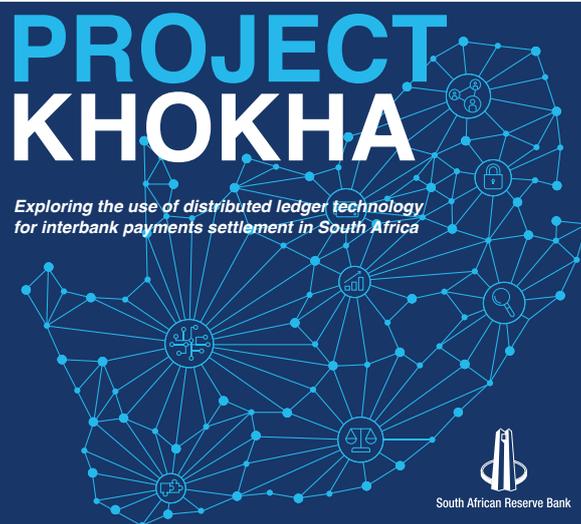
b. SAMOS system PFMI self-assessment

In February 2017, the SARB, in its capacity as the operator of the SAMOS system, published the first self-assessment report. The report was compiled in line with the disclosure framework outlined in Principle 23 of the PFMIs and outlines the observance of the principles based on the status of operations of the SAMOS system as at 31 December 2016. In May 2018, the operator published the second self-assessment against the PFMIs.¹⁸

c. SAMOS system initiatives and projects

Project Khokha

In June 2018, the SARB launched Project Khokha which is a proof of concept designed to simulate a 'real-world' trial of a distributed ledger technology (DLT)-based wholesale payment system. The project focused on providing participants with practical experience on aspects of using DLT in a realistic test environment where different deployment models were utilised. The results showed that the typical daily volume of the South African payments system could be processed in less than two hours with full confidentiality of transactions and settlement finality. Transactions were processed within two seconds, across a network of geographically distributed nodes, with distributed consensus providing the requisite resilience. The SARB was able to view the details of all the transactions to allow for regulatory oversight.



d. Non-similar contingency arrangements

The SWIFT Market Infrastructure Resiliency Service (MIRS) has been identified as a possible solution that will advance efforts of the SARB in terms of cyber-resilience for FMIs. MIRS as a generic RTGS system – available to central banks that use the SWIFT network – will serve as a backup service for the RTGS system.

A project to implement MIRS has been initiated with SWIFT implementation planned for the fourth quarter of 2018.

3.6.2 Southern African Development Community RTGS system

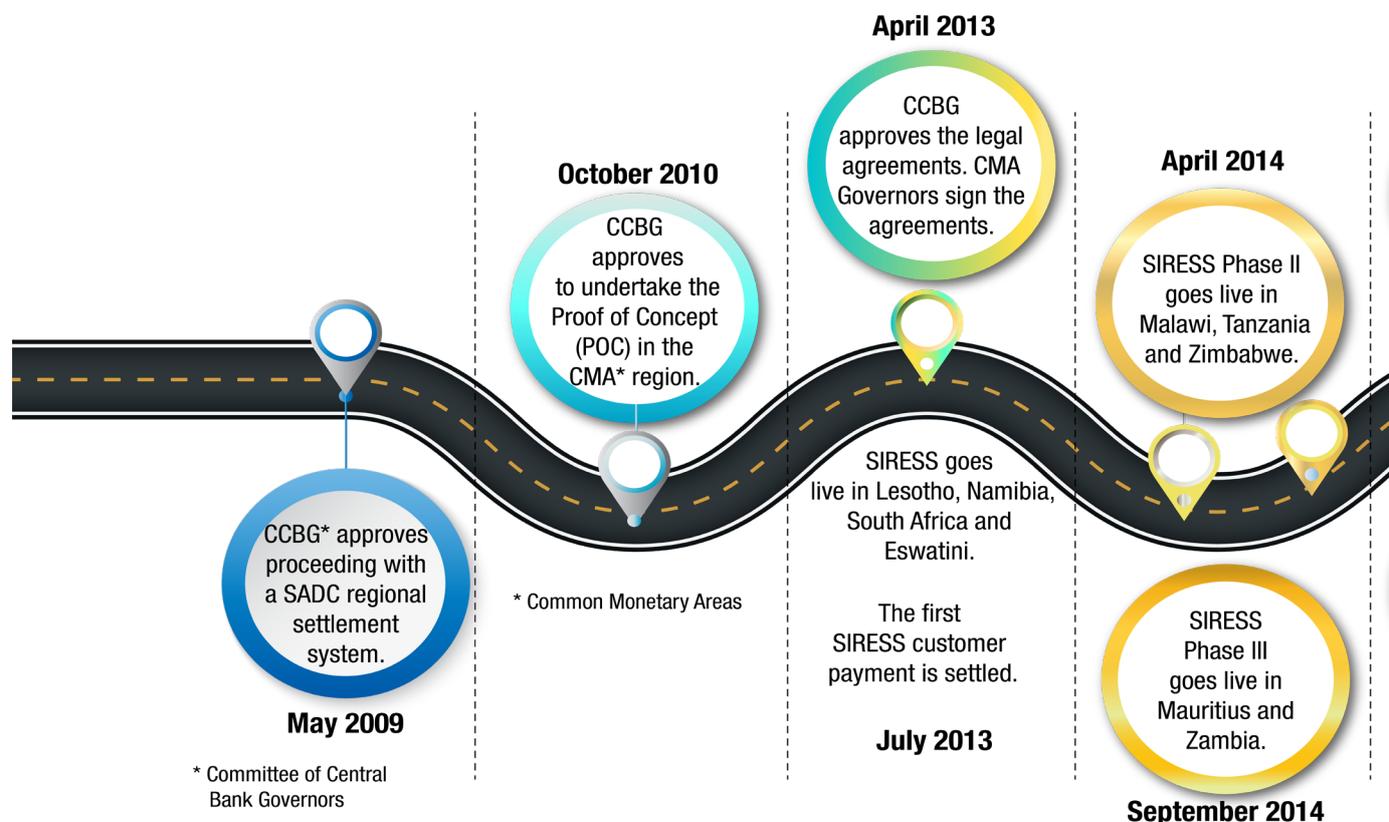
The SADC Protocol on Finance and Investment recognise that payment systems are critical infrastructures for economic activity within the SADC region. The implementation of a regional RTGS known as SADC-RTGS in 2013 was a major milestone achieved to support regional financial integration.

Prior to the implementation of SADC-RTGS, regional cross-border transactions were settled via correspondent arrangements. The regional RTGS provide benefits and counter-party risk is reduced as settlement is provided in central bank money. Settlement of regional transactions denominated in the South African rand and can be settled among participants in the region, in real time.

The SADC-RTGS is owned by SADC central banks, but is hosted and operated by the SARB.

¹⁸ Available at: [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/SAMOSSystem\(RTGS\)/Pages/SAMOS-self-assessment-FMI-Principles.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/SAMOSSystem(RTGS)/Pages/SAMOS-self-assessment-FMI-Principles.aspx)

The SADC-RTGS system has been operational for over five years with minimal or no noticeable operational disruptions and over 1.3 million cross-border transactions have been settled on the platform. During the past six years the SADC-RTGS system has achieved the following milestones:

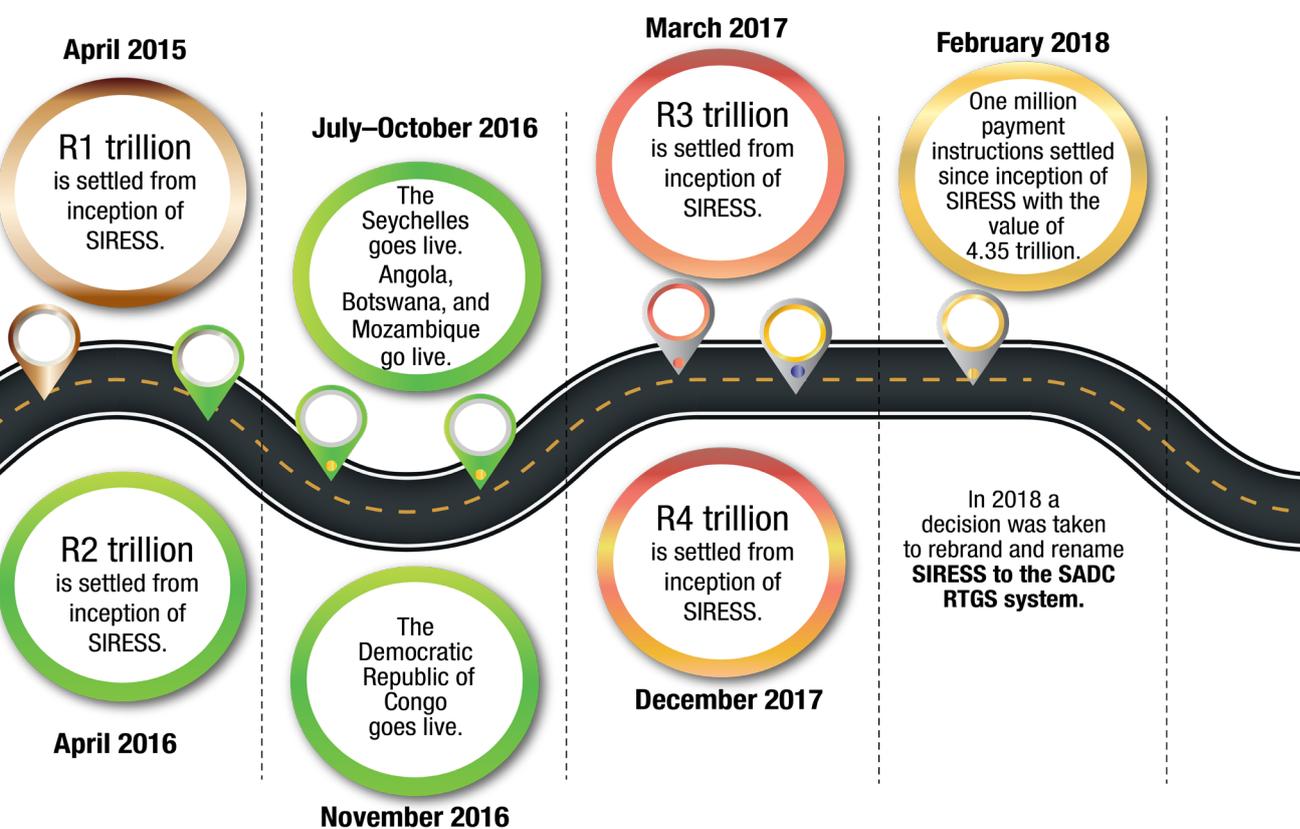


a) SADC-RTGS system PFMI self-assessment

The SADC-RTGS system operator is required to conduct a self-assessment against the PFMI at least every two years or when there is a material change (e.g. the addition of new initiatives, major new services and changes to SADC-RTGS system operations and risk management procedures) relating to the settlement services offered. In this regard, the SADC-RTGS system operator published the first self-assessment report against the PFMI on 30 July 2014, which was based on the assessment that was conducted in 2014.¹⁹ The self-assessment prepared by the SADC-RTGS system operator has to be shared with the SADC Payment System Oversight Committee (PSOC). In addition, the SADC PSOC is also expected to periodically assess the arrangements, design and operation of SADC-RTGS system against the PFMI. The SADC-RTGS system operator published the second self-assessment report against the PFMI on 31 March 2019,²⁰ which was based on the assessment that was conducted in 2017. The next self-assessment will be undertaken in 2019.

19 Available at: [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/RTGSOperation/Pages/SIRESS-PFMI-Self-assessment-reports.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/RTGSOperation/Pages/SIRESS-PFMI-Self-assessment-reports.aspx)

20 Available at: [http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/RTGSOperation/Pages/SIRESS-PFMI-Self-assessment-reports.aspx](http://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/RTGSOperation/Pages/SIRESS-PFMI-Self-assessment-reports.aspx)



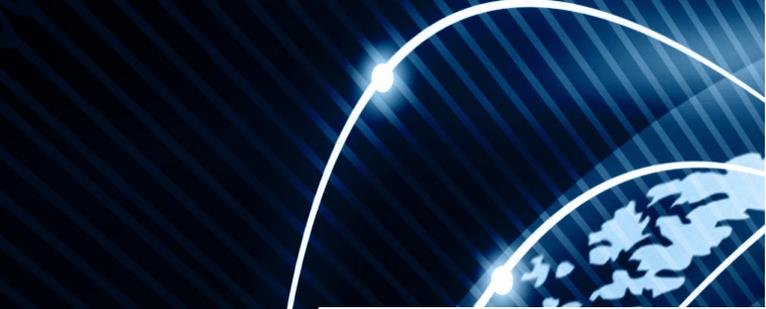
b) SADC-RTGS system initiatives and projects

SADC PSOC oversight report

The primary objective of the SADC PSOC is to oversee and supervise the operations of SADC-RTGS system, to ensure its safety. SADC PSOC consists of country leaders representing central banks whose domestic banks participate in the SADC-RTGS system. The SARB has been appointed as the lead overseer in terms of the memorandum of understanding (MoU) for the cooperative oversight of the SADC-RTGS system. In this role, the SARB chairs and provides a secretariat function to the SADC PSOC.

The SADC PSOC published its first oversight report in 2017.²¹ The report provides an overview of activities of the SADC PSOC for the period April 2013 – March 2017. In 2018, the SADC PSOC published the second oversight report highlighting the regional cooperative oversight arrangements, the SADC Payment System Integration Project, planned developments for SADC payment integration, issues and challenges, and innovation including payment trends in the regional payments landscape.

²¹ Available at: <http://www.sadcbankers.org/Lists/News%20and%20Publications/Attachments/230/SADC%20Payment%20System%20Oversight%20Committee%20Report%202016-17.pdf>



SETTLEMENT **STATISTICS**



4.1 SAMOS system

The total value of payment transactions settled in SAMOS for 2018 decreased by 1.7% to R139.1 trillion, from R141.5 trillion in 2017 (Figure 1). Settlement volumes increased from 8.3 million in 2017 to 8.8 million in 2018. About 90.4% of settlement values in SAMOS are wholesale payments settled in real time while 9.6% relate to retail payment transaction obligations submitted for settlement by payment clearing houses.

The total value of retail payment transactions settled in SAMOS increased by 7.5% to R12.3 trillion in 2018, from R11.5 trillion in 2017. A significant portion of retail payment values emanates from EFT credits, which make up 75.7% of total retail payment values, followed by cards at 10.9%. Despite its dominance in retail payments, the share of EFT credits declined from 78.1% in 2014 to 75.7% in 2018 as real-time clearing (RTC) increased, while the share of cheques decreased from 2.3% in 2017 to 0.6% in 2018.

Figure 1: Payment values and volumes settled in SAMOS

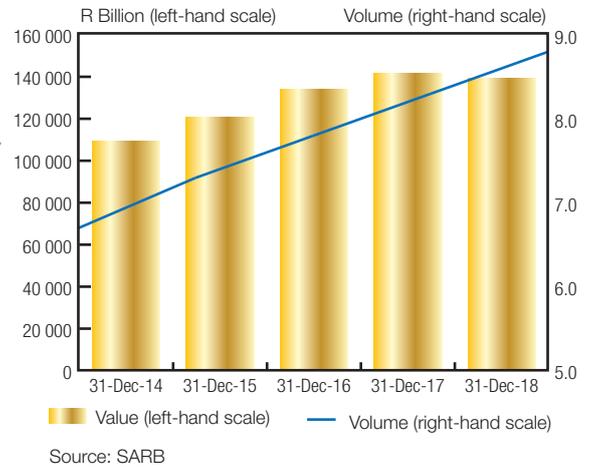


Figure 2: Breakdown of retail payment settlement values by instrument, 2014

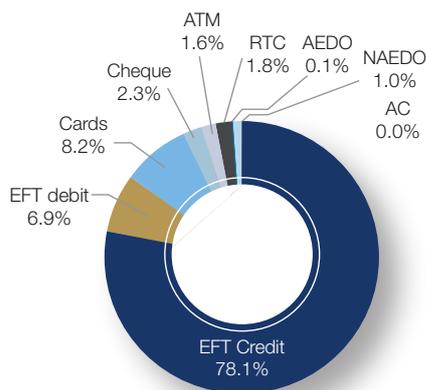
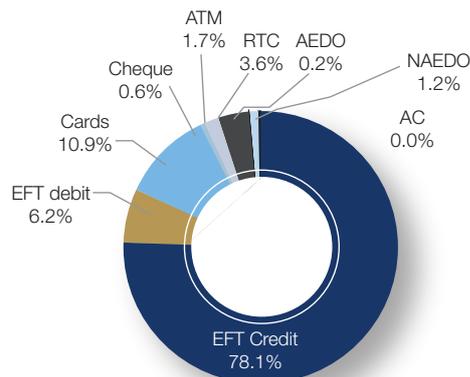


Figure 3: Breakdown of retail payment settlement values by instrument, 2018



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

Table 1 below indicates 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
Total-cards	61 303 189	50 236 849	50 935 160	53 223 837	50 928 962
Number of point-of-sale terminals	393 883	394 309	402 670	381 817	417 101
Number of ATMs	27 774	28 906	29 643	30 671	30 706
Number of institutions offering payment services	35	36	34	43	46
Number of direct participants in SAMOS	28	31	31	32	34
Banks	25	28	28	29	31
Payment financial market infrastructures	2	2	2	2	2
Central bank	1	1	1	1	1
Number of indirect participants in SAMOS	-	-	-	2	2

Source: SARB

4.2 SADC-RTGS system

Cumulatively, SADC-RTGS settlement volumes have breached the 1.3 million mark since the beginning of its operation in 2013. In August 2017, the monthly settlement value reached a peak at R119.5 billion (Figure 5).

Figure 4: Annual transactions settled in the SADC-RTGS system, 2014–2018

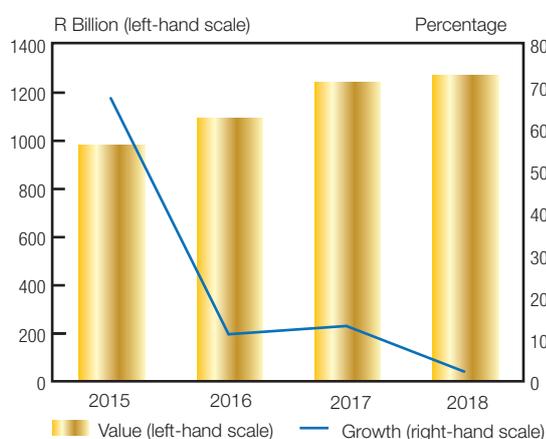
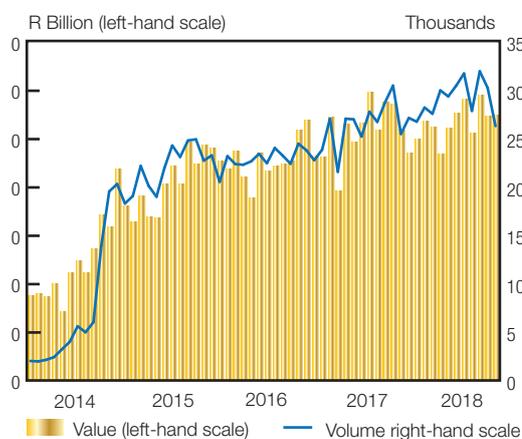


Figure 5: Monthly transactions settled in the SADC-RTGS system, 2014–2018



Settlement values in SADC-RTGS system are mainly made up of interbank payments, recording about 90.4% while the share of customer payments is about 9.6% (Figure 6). In contrast, settlement volumes are predominately from customers (69.7%) followed by interbank payments (18.1%) while interest paid to participants and transaction fee instructions to participants make up 5.9% and 6.2% respectively (Figure 7).

Figure 6: Share of transaction volumes by type

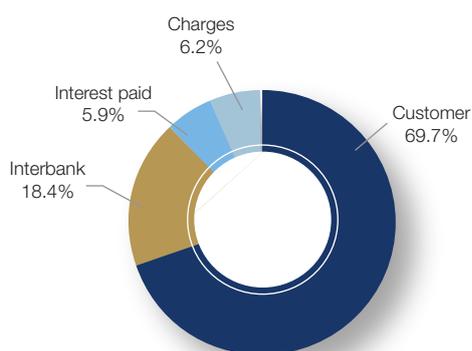


Figure 7: Share of transaction values by type

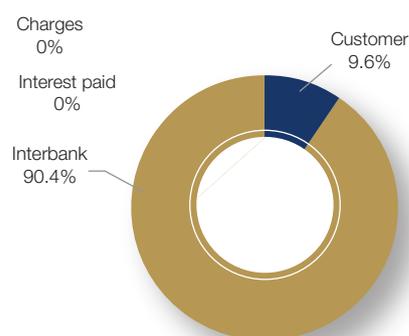


Table 2 below indicates participation in the SADC-RTGS system, with the number of member countries from which participating banks in the SADC-RTGS system are drawn. The number of member countries remains at 14, while the overall number of participants declined to 81 from 83 in 2017. There is one licensed regional clearing house operator which should commence clearing retail transactions soon.

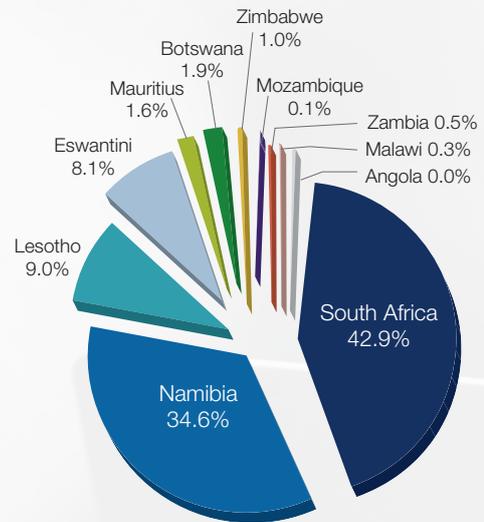
Table 2: SADC RTGS system participation as at December 2018

SADC-RTGS participation: countries	Number
Member countries	14
SADC-RTGS participation: banks	
Participating central banks (as participant banks)	7
Participating commercial banks	74
Total number of participants	81
SADC-RTGS participation: regional clearing and settlement operators	
Retail clearing operator	1
Retail streams	
None	0

Source: SARB

About 94.6% of payment values settled in the SADC RTGS system emanate from the Common Monetary Area (CMA) – South Africa (42.9%), Namibia (34.6%), Lesotho (9.0%) and Eswatini (8.1%) (Figure 8). The high concentration of these payments reflects that the system currently settles transactions in the South African rand, which is a legal tender in the CMA countries.

Figure 8: Share of payment values settled at SADC-RTGS by country, 2017–2018



Source: SARB

Abbreviations

AC	authenticated collections
AEDO	authenticated early debit order
ATM	automated teller machine
BIS	Bank for International Settlements
CLS	continuous linked settlement
CPL	continuous processing line
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payment and Settlement Systems
CVM	customer verification method
DLT	distributed ledger technology
EDO	early debit order
EFT	electronic funds transfer
EMV	Europay, MasterCard and Visa
FIC	Financial Intelligence Centre
FMI	financial market infrastructure
FSCA	Financial Sector Conduct Authority
FSR Act	Financial Sector Regulation Act 9 of 2017
IDP	Interchange Determination Project
IMSG	Implementation Monitoring Standing Group
IOSCO	International Organization of Securities Commissions
MIRS	Market Infrastructure Resiliency Service
MTO	money transfer operator
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
NPSSB	National Payment System Strategy Body
PASA	Payments Association of South Africa
PAYIR	Payment Information Return
PCH	payment clearing house
PFMIs	Principles for financial market infrastructures

PSMB	payment system management body
PSO	PCH system operator
PSOC	Payment System Oversight Committee
RFP	request for proposal
RTC	real-time clearing
RTGS	real-time gross settlement
RTL	real-time line
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989, as amended
SIRESS	SADC Integrated Regional Electronic Settlement System
SO	system operator
SWIFT	Society for Worldwide Interbank Financial Telecommunication