

ANNEXURE A

COUNTRY-SPECIFIC PROGRESS REPORTS TO THE COMMITTEE OF CENTRAL BANK GOVERNORS IN SADC PERIOD APRIL 2006 TO MARCH 2007

REPORTS

At the time of publication there were no reports available from the following countries, namely, **Angola, Botswana, DR Congo, Lesotho** and **Mozambique**.

MALAWI

1.0 Introduction

This report covers the period from April 2006 to March 2007. During this period Malawi continued to implement various payment systems reform activities as outlined in the National Payment Systems Vision and Strategy Framework. Emphasis was on working towards interconnectivity of auto teller machines (ATMs), reviving National Payments Council (NPC) meetings, strengthening oversight capabilities of the Reserve Bank of Malawi (RBM) and interfacing RTGS with RBM's backend system – MIDAS.

The RBM continued to play the leadership role in all the payment systems activities that were carried out during the period under review in respect of funding, providing human resources as well as policy guidance. The NPC and Bankers Association of Malawi (BAM) complemented the efforts by the RBM.

2.0 Sensitisation, information gathering and stocktaking

During the period under review, the sensitisation campaign was mostly carried out by commercial banks either individually or through BAM. Commercial banks embarked on promotional activities through which information on payment systems related products and services were disseminated to the general public. The awareness campaigns were done through the print as well as the electronic media and placement of billboards in various strategic areas.

The Payment Systems Division of the RBM continued to collect information. Some of the information collected included volumes and values processed through the RTGS, Electronic Cheque Clearing House and the smart card scheme.

In its continued efforts to gather relevant information that would enable the NPC to implement a vibrant national payment system, the NPC Task Force on Minimum Standards for Computer Hardware and Software visited Bankserv and the South African Reserve Bank (SARB) in October 2006. The purpose of the visit was, among others, to acquire as much information as possible on the operation of various payment schemes that are available in the South African banking industry.

3.0 Vision and Strategy Issues

The Malawi's National Payment Systems Vision and Strategy Framework that was prepared and endorsed by all payment systems stakeholders continues to be the reference and guiding document in the process of payment systems modernisation in the country.

4.0 Conceptual Design, technical, business process specifications and development

Most of Malawi's payment systems reform projects have surpassed the conceptual design stage. Some projects have been fully implemented while others are at an advanced stage of implementation.

5.0 Procurement and Implementation

During the period under review, two projects namely interface of RTGS with MIDAS and interconnectivity of ATMs is at the implementation stage.

The interface of RTGS with MIDAS is being implemented by the RBM and Perago who are Malawi's suppliers of the RTGS software. The interfacing software is called the Gentran Integration Suite. Upon successful implementation of the interface, all RTGS member institutions will be encouraged to interface the RTGS with their backend systems.

The project on interconnectivity is being handled by a Task Force that was formed by the NPC. The Task Force has already identified a suitable model that will interconnect all ATMs and POS devices.

6.0 Oversight Development Initiatives

The RBM does not have a fully fledged payment systems oversight section. Efforts are however underway to strengthen oversight capabilities of the RBM. Meanwhile, arrangements are at an advanced stage for the Bank of Norway, through the International Monetary Fund (IMF), to provide technical assistance on payment systems oversight. Terms of reference for the technical assistance were drawn in November 2006.

7.0 Other payment system project management issues

In order to have a well coordinated approach to payment systems project management, the RBM revived NPC meetings. The organisational structure of the NPC was also reviewed and streamlined. Following the review, the NPC has seven permanent wings namely the National Executive Committee, the Steering Committee, the Secretariat and the following subcommittees: Clearing Management, Settlement Management, Automation and Standards, Legal and Risk Management.

8.0 Conclusion

Malawi has made tremendous strides in modernizing payment systems. All major stakeholders have been active in the payment systems activities that were carried out during the period under review. In order to ensure that the new products and facilities are well managed in accordance with internationally accepted best practices, Malawi shall continue to learn from countries that have robust payment systems within and outside the region.

NAMIBIA

1. Introduction

In the year 2006, the Namibian banking industry continued with the stabilization of the and problem solving of Code Line Clearing solution implemented in July 2005, Flowing out from the implementation of Cheque Processing System, the industry

agreed on to introduce a national five day clearing cycle which will facilitate quicker access to funds for bank customers. Parallel to this the industry agreed to investigate the feasibility of cheque truncation in Namibia. The Namibian banks have agreed on the vendor and the business requirements for the Card Switching solution. The solution will provide a switch for Namibian banks which will switch domestic automatic teller machine and point of sale transactions.

2. Sensitisation, information gathering and stocktaking

The sensitization, information gathering and stocktaking phase has successfully been completed and has been closed.

3. Vision and Strategy issues

The first draft of the vision and strategy document has been completed. This vision was set for 2005. Bank of Namibia has already started the process of reviewing the vision and strategy document. It is envisaged that during the course of 2007 the Namibian banking industry will review the payment system vision and strategy with an objective to assess its relevance and take stock of new developments.

4. Conceptual design, technical specifications and development

No significant conceptual design and technical specifications were carried out in 2006. As far as the Cheque Processing System is concerned, the focus in 2006 was on stabilization and problem solving and enhancement of the system. The awarding of Card Switching System project to Bankserv Pty Ltd kick-started the conceptual design and technical specification processes, which will be completed in earlier February 2007.

5. Procurement and implementation

5.1 *Card Switching System Project*

The final project to be implemented as part of the national payment system reform projects is the Card Switching System project. The aim of this project is to establish local infrastructure for all ATM, debit and credit card and point-of-sale transactions. These types of transactions are currently processed through South African banks and settled at the South African Reserve Bank. The tender to establish "NamSwitch", has been awarded to Bankserv (Pty) Ltd. by the Bankers Association

of Namibia -. The first phase of this project is scheduled for completion end of September 2007.

6. Oversight development Initiative

The Bank of Namibia has finalized its Oversight Framework in 2006 and is now continuing working on the practical implementation of the oversight framework, by *inter alia* developing guidelines/procedures on how to carry out oversight on a micro and macro-level, i.e. oversight in practice; and defining the scope of ongoing oversight tasks (day-to-day collection of data, incident follow up, ex-post statistical analysis, on-site inspections etc..)

The Bank issued a certificate of commencement of business to the Payments Association of Namibia (PAN) in August 2005. Thus far PAN has adopted the constitution and has appointed representatives to serve on PAN. PAN has also established different PCH Participant Groups for each of the payment streams (EFT, CARD and Cheque). The constitutions and rules for each of the participant groups are being drafted. PAN has also established a Risk Advisory Committee which advises on risk and registration of new payment system service providers.

7. Current Project Management issues

The Cheque Processing System implemented on 18 July 2005, was a challenging project for the Namibian industry. Not only did it involve implementation of shared multi-bank centralized infrastructure, but it also required a complete re-engineering of the business processes of cheque processing in the industry. Because this project was multi-bank in nature, it required skilled project management approaches to deliver the project on time. The normal project management issues were experienced, namely; resources, skills and time. The stabilization of the Code Line Clearing System and resolving of problems is still continuing.

8. Conclusion

For the year 2007, the focus of Namibia banking industry will be on the following payment system reform projects:

- ❖ Significant work still has to be done to resolve all outstanding problems which are still hampering the smooth operation of cheque processing system implemented

in 2005.

- ❖ The Namibian banking industry has agreed on reduction in clearing cycle to 5 days. This project is envisaged to be completed in 2007. Parallel to this the Namibian banking industry is continuing with the feasibility on implementation of cheque truncation in Namibia
- ❖ In 2006, Bank of Namibia initiated a feasibility study for the implementation of single Central Securities Depository in Namibia

SOUTH AFRICA

1. Introduction and a brief overview

The Bank continued to provide an efficient settlement system and to strengthen its payment system oversight role.

During the current year, the Bank maintained the high availability of the South African Multiple Option Settlement (SAMOS) service and its interfaces to the Continuous Linked Settlement (CLS) system used to settle the Rand leg of foreign exchange transactions traded through that system. During the current year, the Bank for International Settlements (BIS) Committee on Payment and Settlement Systems (CPSS) initiated a survey on how foreign exchange (FX) settlement risk is currently being managed within countries of the CLS settlement currencies. South Africa also participated in the survey. The Bank coordinated collection of survey data within our payment settlement community. The draft consolidated report of the survey results worldwide has been finalised.

In its oversight role and its effort of improve the integrity and effectiveness of the national payment system (NPS), the Bank issued a directive for conduct within the National Payment System in respect of banks involved in the collection of payment instructions in the early debit order payment clearing houses to outlaw practices where certain persons' payment instructions were granted preferential treatment over others. The Bank considers such preferential practices as contrary to the efficiency, effectiveness and neutrality of the NPS. This is in line with objectives established as a result of the new National Credit Act.

The Bank is currently finalizing arrangements for issuance of two further directives that will introduce regulation to parties other than banks involved in provision of payment and related services. The directives will be aimed at creating minimum contractual and operational requirements for persons (non banks) involved in the provision of third party payment services and system operators. These stakeholders currently operate in a largely unregulated space.

A new vision and strategy document for the NPS, the “Vision 2010” has been issued. This document maps out strategies, principles, objectives and a high level direction of the NPS up to 2010. A further document, The National Payment System 1995 to 2005 was completed. This document outlines the development of the South African National Payment System during the ten year period 1995 to 2005.

2. Developments during the period under review

2.1. Payment System Oversight

The Oversight of the national payment system (NPS) is continuously being developed. Developments in both the local and international payment system environments were monitored and where applicable, changes were implemented to reduce risk in the domestic payment system. In the period under review further progress was made with the finalisation of directives for the conduct of participants in the NPS.

Oversight visits to participants in the domestic settlement system continued to be a focus area for the National Payment System Department (NPSD) of the South African Reserve Bank.

2.2. South African National Payment System Stakeholder Issues

The NPSD revised the membership of the South African National Payment System Forum (SANPAY). Currently, membership includes officially constituted associations and bodies that represent individual, corporate and government stakeholders within the South African NPS. The first meeting under the revised membership criteria was held to discuss issues of importance to stakeholders.

2.3. Operational issues in the NPS

2.3.1. Continuous Linked Settlement related

As the Rand has joined the Continuous Linked Settlement (CLS), the National Payment System Department (NPSD) embarked on the implementation of procedures that facilitate the smooth settlement of the Rand leg of CLS transactions. CLS is a service that reduces foreign exchange settlement risk by settling both legs of a foreign exchange transaction simultaneously. The core of these procedures is a SARB/CLS co-ordination manual that outlines relevant actions to be carried out by the involved parties. The manual also includes procedures agreed upon by both CLS and the South African Reserve Bank for the purpose of ensuring a coordinated approach to problem and change management. Procedures for Business Continuity were also implemented and these are tested regularly with CLS and the applicable participants.

2.3.2. Business Continuity Issues and capability of the settlement system

A Business Continuity Plan (BCP)¹ for NPSD and specifically the settlement system has been reviewed and updated based on a revised format adopted by the Bank. The revised plan was tested with positive results. This plan is comprehensive and addresses all the relevant aspects of Business Continuity Management required to ensure continued execution of business processes of the department in the event of a disaster. Three Disaster Recovery tests of the settlement system technical infrastructure were conducted in the past year.

2.3.3. CMA Oversight developments

South Africa is a member of the common monetary area (CMA) with three other countries (also SADC member states), namely Lesotho, Namibia and Swaziland. These countries are collectively referred to as the CMA countries.

Important developments, especially on payment system oversight initiatives, have been remarkable. The terms of reference were developed jointly by CMA countries

¹ Collection of procedures and information, which is developed, compiled and maintained in readiness for use in the event of an emergency or disaster.

to govern the management of risks and oversight initiatives in the area and these were finalised in 2004. This was in line with the international developments in the treatment of cross-border transactions.

Cross-border correspondent banking agreements are being finalised. These agreements relate to the management and the treatment of the CMA cross-border transactions.

3. Future developments and the way forward

3.1. Foreign exchange settlement

Upon the inclusion of the South African Rand as a settlement currency on the Continuous Linked Settlement (CLS) System, the South African Reserve Bank was invited to participate in the Bank of International Settlements Foreign Exchange Risk sub-group of the Committee on Payment and Settlement Systems (CPSS). During 2006, the South African Reserve Bank together with other members of the sub-group will carry out a survey of how banks and other selected institutions manage the risks they can incur when settling foreign exchange transactions. More than 100 institutions around the world that are active in the foreign exchange market will be invited to take part in the survey.

3.2. Upgrading of the real time gross settlement system (SAMOS)

With the planned implementation of version 6.4 of the settlement system, changes are being made to provide for an ISIN number to uniquely identify financial instruments. Previously instruments were not uniquely identified on the settlement system by means of an ISIN number. This upgrade of the settlement system will pave the way for the settlement of money market instrument trades on a PVP basis.

3.3. Revised Vision and Strategic Framework – Vision 2010 published

The NPSD developed a high-level strategic framework for the domestic payment system for the period up to 2010. This document emanated from “The South African National Payment System (NPS) Framework and Strategy document” (“The Blue Book”) that was published in 1995. The new document, entitled “The South African

National Payment System (NPS) Framework and Strategy document (Vision 2010)” was published in 2006.

4. Conclusion

The continued relationship management through both oversight visits and communication through customer service centre of the operations of the NPS, remains an important element in the efficiency of the SANPS.

The above coupled with the business continuity planning issues are indeed an integral part of a robust national payment system in the country.

Through the revised vision and strategy that is being reviewed, it is expected that the SANPS will play a pivotal role in both the CMA and SADC.

SWAZILAND

1. Introduction

During the period under review there has been some progress more especially in the implementation of the RTGS project.

2. Sensitisation

Completed

3. Information gathering and stocktaking

Completed

4. Vision and strategy issues

Completed

5. Conceptual design and technical specifications

In-progress

6. Developments

6.1 Technical Assistance by IMF Payment Systems Advisor.

The visit by Mr. Mike Robotham in furtherance of the technical assistance provided through the IMF initiative to the country was from 22nd November 2006, to 1st December, 2006. The stated objectives of his Technical Assistance Mission to Swaziland, as illustrated in the Terms of Reference, were to provide sustainable payment systems Technical Assistance as part of a planned peripatetic Technical Assistance support program for Swaziland in the furtherance of the reform and modernization of the National Payments System (NPS) focusing on the following specific areas:

1. Conduct a review of the progress of the reform and modernization program in line with the recommendations provided during the previous visit of the Payment Systems Technical Assistance expert and the “Framework and Strategy” document developed by the Central Bank of Swaziland (CBS).
2. Provide Technical Assistance in the progression of the Swaziland Interbank Payment and Settlement System (SWIPSS) Real Time Gross Settlement System (RTGS) and attend relevant meetings that include, SWIPSS Implementation Committee & SWIPSS Steering Committee and assist in the progression of the RTGS system implementation;
 - Review the “Initial Study” document prepared by the supplier (Montran) and the Central Bank of Swaziland;
 - Assist in the development and structure of collateralization requirements of the SWIPSS; and
 - Assist in the development of the SWIPSS Rules and Procedures together with the Terms and Conditions.
3. Review the progress of the revised clearing and net settlement arrangements and review the Swaziland Automated Electronic Clearing House (SAECH) rules in light of the new “high value” cheques clearing arrangements. Review progress of SAECH Service Level Agreement (SLA), and SAECH statistical data;

4. Undertake a review of the progress of the Swaziland National Clearing and Settlement (NCSS) Bill, and other supporting legislation with the CBS Legal Officer, and Bank management, and attempt to meet with the Ministry of Finance;
5. Provide advice surrounding the clearing, and settlement modalities of the Swaziland Building Society;
6. Review internal discussions to commence preparations for the introduction of Image truncation; and
7. Provide foundation for the development of the Swaziland “Oversight Framework”.

6.2 Revised Clearing Arrangements

The revised clearing arrangements are operating smoothly with all the banks being fully participative. The clearinghouse processed 1,135,519 transactions valued at E14, 919million for the twelve months to 31st March in 2006.

6.3 Oversight

The overseeing of the two systematically important Payment Systems will be implemented before the end of this financial year, after going live on our RTGS in May 2007.

6.4 Swaziland National Clearing and Settlement System Bill

A final draft of the above Bill is still awaiting promulgation.

6.5 Real Time Gross Settlement System Project (RTGS)

In an effort to distinguish this system from other payment systems and to create and attach value this RTGS system has been renamed “Swaziland Inter-bank Payment and Settlement System (SWIPSS).

A lot of progress has been done to see the project to its completion. Key success factors include the following:

- **Initial Study Programme**

Montran, the selected vendor to install the system, visited the country for an initial study program. The initial study was aimed at Montran gathering information, making analysis and specifications on the Central Bank's and participants' current systems, to be able to customize an RTGS application and interfaces that are suitable for the requirements of the country's operations. After this program Montran prepared a report which the Central Bank reviewed and made corrections thereof. This exercise was completed by signing of the document on 18th December 2006 by the Central Bank.

The SWIPSS system was planned to be operational during the first quarter of 2007 but some project slippage was experienced in the area of hardware acquisition (CISCO Routers) and final agreement of the "Initial Report". It is estimated that the "live date" for the SWIPSS system is more likely to be the second quarter of 2007 assuming that no further encumbrances are encountered. It should be recognized that the implementation of the SWIPSS system is a complex exercise that embraces many departments in all Participants inclusive of the Central Bank of Swaziland.

- **Hardware and System Testing**

The hardware to be used in the system has been delivered to the Central Bank. Further to that it has been installed and tested.

With regard to harmonization with future reforms and modernization initiatives, the Swaziland Automated Electronic Clearing House (SAECH) upgraded its computer equipment (both hardware and software) in the first quarter 2007 to facilitate settlement in the upcoming SWIPSS/RTGS

- **Task Teams**

In order to implement the project smoothly and efficiently a few task teams have been set up to look into the issues that need immediate attention and special expertise.

1. RTGS Rules and Procedures Task Team

Develop RTGS (SWIPSS) Rules and procedures manual for both participants (users of RTGS system) and CBS using template provided by Montran and submit to Steering Committee for comments, finalization and adoption by end of February 2007.

2. Legal Framework Task Team

- a. To provide and submit draft of Service level agreements between RTGS participants and Central Bank of Swaziland as per Montran Draft Sample by 28th February 2007.
- b. Ensure that the NATIONAL CLEARING AND SETTLEMENT SYSTEM (NCSS) Bill includes SWIPSS operations and recommend way forward by end of January 2007.
- c. Review and vet all legal documents submitted for application/use in the SWIPSS operations.

3. Public Awareness Task Team

To come up with a strategy for public awareness of the RTGS system; what it is and what they stand to benefit from it as Banks' customers.

7. Other Payment Systems Project Management Issues

Future planning concerning the implementation of additional Payment System services are to be phased in as illustrated in the Swaziland Framework and Strategy document over the coming years as follows:-

- a. The introduction of image based "Truncation" for cheques that will contribute to the overall reduction of the clearing cycle in Swaziland.
- b. The development of switching systems that will provide inter-bank facilities for payments using plastic cards media.
- c. Intergration of RTGS Services within the SADC region.

- d. The integration of Payment Systems on both regional and international.
- e. The development of e-commerce payment system solutions.
- f. The continued examination of legislation that will be required to support the future NPS developments together with a National Payments Systems Bill and the Central Bank of Swaziland Oversight mandate.

TANZANIA

1. Introduction

The Tanzania National Payment Systems modernization project was established in 1996, with the aim of developing an efficient payment system to meet the broader needs of the economy.

This report summarises the activities carried out by the Directorate of National Payment systems at the Bank of Tanzania for the period April 2006 to March 2007.

2. Sensitisation, information gathering and stocktaking

The Bank has several sensitisation strategies to the payment system stakeholders and the general public. During the period, the Bank has issued *Malipo* newsletter, updated its website on payment system issues, and is in the process of preparing a payment system seminar for members of parliament.

Information gathering has been a continuance activity of the Bank. Payment system information is collected on monthly basis from various institutions offering payment system services as part of the oversight activities.

In the month of November and December 2006, the Bank made a cross-country stocktaking and situation analysis of the national payment system. Information and analysis of the stocktaking would assist in the development of the new NPS Vision and Strategic Framework 2011.

3. Vision and Strategy issues

The Bank of Tanzania has incorporated the review of the NPS Vision 2005 and the formulation of the new Vision 2010/11 in the Banks 5 year Corporate Plan 2006/07 to 2010/11. During the months of November and December 2006, the Bank conducted an assessment of the NPS Vision and Strategic Framework 2005 achievements. The results of the assessment revealed that most of the objectives set in Vision have been achieved. Currently, the Bank is working on the developments of a new NPS Vision and Strategic Framework 2011. This new vision will continue with the rolling activities from the Vision 2005 and add new objectives.

4. Conceptual design, technical, business process specifications and development

The Bank has ensured that payment systems developments are in tandem with international standards. In the reporting period, the Bank facilitated development of interfaces for the Tanzania National Net Settlement Service, which is a card switch for Visa domestic transactions. The Bank has also been instrumental in the developments of a local card switch run by consortium of banks known as UmojaSwitch.

5. Procurement and Implementation

The Bank together with VISA implemented a switch known as the Tanzania National Net Settlement System (TNNSS). This system facilitates settlement of visa card based domestic transactions. The process involves VISA submitting a multilateral net file to the Bank, which is the settlement agent, and the net file is settled in TISS (Tanzania Inter-bank Settlement System)

Furthermore, the Bank is in the process of implementing SWIFTNet FileAct service for secure transfer of files between clearing house members and the clearing house. Currently clearing participants submit their clearing files to the clearing house using diskettes. This service which is secure and reliable will replace the usage of diskettes.

6. Oversight development initiatives

The Bank continues to conduct the oversight of payment systems through the Oversight department of the Directorate of National Payment systems. The primary objective of this arrangement is to enhance safety and efficiency of the payment systems as they play a fundamental role in the economy in the functioning of financial markets and facilitating transfer of monetary value.

The oversight function involves continuous monitoring and assessing the country's payment systems. The output of this monitoring is reports which are issued weekly, quarterly and annually. An annual assessment of the payment systems is normally conducted by the Bank, so as to assess the systems compliance to national and international standards on safety and efficiency of the payment systems. The Bank also gives consultative advises to payment system operators in order to induce change where necessary.

The Annual Oversight Report elucidates the findings of the annual assessment of the country's payment systems for the financial year 2005/2006 and does comparisons with the status of the previous financial year. Generally, the assessment of the payment system is positive overall. It reveals that the Tanzania payment systems, broadly complies with the international benchmarks on payment systems. In particular reference is made to large value payment systems in Tanzania which are the Tanzania Inter-bank Settlement System (TISS) and Dar-es-Salaam Electronic Clearing House (DECH).

The directorate is also in the process of coming up with documents that will guide the procedures for general oversight and onsite oversight.

The Bank also monitors implementation of electronic payment schemes to ensure that they are safe, efficient and consider wider outreach of such services.

7. Other payment system project management issues

Other NPS issues include:

Capacity building: The Bank sends its staff to attend various workshops, seminars, conferences, attachments and trainings on payment systems related issues. This

has enabled the staff to gain better understanding on the issues pertaining to payment systems.

NPS legal framework: The bank has drafted amendments proposals to the Evidence Act and new legislative proposals for an NPS law and Electronic Transaction law. In addition, the Bank made inputs to the Law Reform Commission of Tanzania on the development of an E- Commerce legal framework.

ZAMBIA

1.0 Introduction

This report reviews the developments that took place in the Zambian National Payment Systems between April 2006 and February 2007. During the period under review, the Bank of Zambia implemented some initiatives intended to boost efficiency, safety and soundness of the payment systems. In undertaking these programmes, the Bank consulted a broad spectrum of relevant stakeholders.

2.0 Sensitisation, information gathering and stocktaking

During the period under review, the Bank of Zambia undertook the following activities:

2.1 Sensitisation and Developments on the National Payment Systems (NPS) Vision and Strategy: 2007-2011

Review work was carried out to gather information and take stock of where the NPS is and where it is to be driven. The Bank of Zambia convened a three day workshop from 8-10 November 2006. The objectives of the workshop among other issues included the review of the National Payments System Vision and Strategy for 2002-2006 in terms of achievements and outstanding matters. The 2007-2011 National Payments Systems Vision and Strategy was developed after this review for presentation to the National Payments systems Committee. The stakeholders that took part in the development process were drawn from diverse institutions and sectors nation-wide. The process provided significant sensitisation by the central bank to the participants and included:

- (a) Information gathering and stocktaking during the period taking into account the Self-Assessment and SADC Peer Review deficiencies highlighted to refocus the strategies;
- (b) Desk Research was on other NPS jurisdictions
- (c) Re-aligning the outstanding 2002-2006 strategies; and

It is expected that the National Payments Systems Vision and Strategy 2007-2011 will be approved by the National Payments Systems Committee during the first quarter of 2007.

2.2 Stocktaking on the ATM/POS Retail Payment Infrastructure

The Bank of Zambia conducted surveys and held discussions with various commercial banks that have ATM/PoS infrastructure, merchants and Zambia Telecommunications Limited which is the telecommunications service provider. This was aimed at finding ways of improving services provided to consumers using ATM/POS facilities. These meetings culminated in the Bank of Zambia working with the BAZ technical committee to come up with ATM/POS card standards as well as minimum standards for the communication network.

A tripartite working party was constituted, comprising Zambia Telecommunications Limited (ZAMTEL), the Bank of Zambia (BOZ) and commercial banks through the Bankers' Association of Zambia (BAZ) to work out the standard specifications for ATM/POS equipment, software and communication protocol that would ensure quality service delivery to customers. The same working party is also looking at the pricing arrangements. This is aimed at resolving the connectivity problems currently faced at both ATMs and PoS terminals.

3.0 Vision and strategy issues

The 2007-2011 Vision and Strategy document was developed following a consultative approach, through desk research and holding of a workshop with the stakeholders. The current vision which is, to uphold a world class payment systems that meets domestic, regional and international requirements that provides for the following broad strategies to ensure that the vision is attained:

- Risk Management
- Sound Legal Framework
- Efficient Payment Practices and public awareness
- Effective Management of the National Payment Systems Structures
- Payment Instruments and Infrastructure.

4.0 Conceptual design, technical, business process specifications and developments

4.1 Real Time Gross Settlement (RTGS)/Zambian Inter-bank, Payment and Settlement System (ZIPSS)

The RTGS/ZIPSS) conceptual design has had no significant change from the time of introduction in June 2004 save for enhancements of Liquidity Optimisation Module (LOM), Statutory Reserves, and Tax Payment mechanism.

4.2 Zambia Electronic Clearing House

The Zambia Electronic Clearing House Limited (ZECHL) which facilitate for the processing of Physical Interbank Clearing (PIC) and Direct Debit and Credit Clearing (DDACC) has been upgraded with new technology called SYBRIN being implemented, with new functionalities added to enhance cheque and electronic small value payments processing. This has reduced cost through reduced Batch Processing Controls and eliminated the cheque amount encoding. ZECHL is also making enhancements to provide a cheque verification service. Further consultations are being made to facilitate for the implementation of cheque truncation in the clearing house.

5.0 Procurement and implementation

5.1 Implementation of the Reserves and Charges Modules

The Bank of Zambia is implementing two additional modules on the RTGS. The Reserves module will enhance management of liquidity and statutory reserves maintenance by commercial banks in the payment system. The Charges module will facilitate easy computation of the transaction charges levied on participants by the

Bank of Zambia arising from transactions on the RTGS. This module has been necessitated by an increased volume of transactions and resultant charges since the introduction of the RTGS.

5.2 Implementation of Straight Through processing (STP)

Following the implementation of the RTGS /ZIPSS, the focus is now directed on STP to leverage the benefits of electronic or automated payments. To this effect an industry wide project has been initiated to implement STP on all commercial banks payment platforms. STP is expected to be implemented by end of March 2007.

5.3 Implementation of the Tax Payment Stream

Bank of Zambia has for some time now been liaising with Zambia Revenue Authority (ZRA) and Bankers' Association of Zambia (BAZ) to introduce a mechanism to allow tax payers to make payments through the ZIPSS/RTGS. These efforts have culminated in the introduction of the Tax Payment Stream on the ZIPSS/RTGS. The Tax Payment Stream is a more secure and efficient means of paying taxes than the use of a cheque/cash. The stream is expected to be implemented by 1st February 2007.

5.4 Implementation of Visa National Net Settlement Service (V-NNSS)

Bank of Zambia is working with VISA International to provide for Settlement facilities. It is expected that this will be implemented within the second quarter of 2007. This will reduce operational cost, foreign exchange risk exposure and attract more transactions.

5.5 Phased Implementation of the Item Value Limits (IVL)

To ensure a wide selection of payment options, the Bank of Zambia has been driving the implementation process of the Item Value Limit (IVL), which aims to set cut off limits on cheques and Direct Debit and Credit Clearing (DDACC) payment streams. When implemented, IVLs are expected to enhance the safety and efficiency of large value transactions. The phased implementation of IVL will begin with the BOZ suppliers and other creditors' payments in January 2007, commercial bank suppliers and other creditors by February 2007, and an industry-wide implementation by March 2007.

6.0 Oversight development initiatives

6.1 Enactment of the National Payment Systems Bill

Activities are still being undertaken to ensure that the Payment Systems Bill is enacted. Various meeting, sensitisation to the parliamentarians and other Stakeholders has have been undertaken. The Bank of Zambia is expecting the Bill to be considered for enactment in the January/February 2007 parliamentary sitting.

Further work on the Act will also involve the drafting of prescriptions, guidelines and regulations. The documents will ensure that the Bank of Zambia responds in time to the developments in the payment systems, to give such developments enforceable legal backing.

6.2 Oversight Framework

The oversight framework is still in draft form. The oversight framework expands on the mandate provided in the National Payment Systems Bill. It provides the terms of reference for the oversight function and the scope of Oversight function.

7.0 Other project management issues

Other issues, which the Bank of Zambia, in conjunction with the relevant stakeholders, is considering to undertake in 2007 include:

- (i) Linking the Government of the Republic of Zambia (GRZ)-Ministry of Finance and National Planning to the RTGS system;
- (ii) Full Linkage of the Zambia Revenue Authority to the RTGS system;
- (iii) Linking the Lusaka Stock Exchange (LuSE) to the RTGS system;
- (iv) Linking the Zambia Electronic Clearing House Limited to the RTGS system;
- (v) Capacity building for the Payment System members of staff.

ZIMBABWE

1. Introduction

The report covers developments that have taken place from April 2006 to March 2007.

The main focus during the period under review was on the following:

- a) Ensuring that financial institutions have Disaster Recovery sites and Business Continuity Plans (BCP) for their systems.
- b) Implementing the mandatory SWIFTNet Phase II Migration Project.
- c) Enhancing efficiencies in the RTGS system through the implementation of Straight Through Processing (STP) which enables end to end processing of transactions with minimal human intervention.
- d) Promoting electronic means of payment and continuous deepening of Oversight activities.

2. Sensitisation, Information Gathering and Stocktaking

2.1. *Sensitisation*

On-going activity

2.1.1 The Reserve Bank of Zimbabwe (RBZ) continued with efforts aimed at increasing the usage of the ZETSS (RTGS) system by employing various measures which included the following:

- Removing ZETSS transaction charges levied by the Central Bank to participants.
- Directing stock exchange players to use ZETSS for high value share transactions.
- Encouraging corporate to corporate payments of high value nature to be processed through the electronic system.

2.1.2 The Reserve Bank provided support on efforts by the banking industry to promote electronic means of payment, particularly on the use of plastic cards at Point of Sale (POS) machines in retail outlets. This drive resulted in the total volume of card based transactions increasing by 21% from 2005 to

2006. In value terms, card transactions increased by 1 248% during the same period.

2.2. Information Gathering and Stocktaking

On-going Activity

2.2.1 Zimbabwe was able to timeously provide updates to the SADC Payment Systems Project as requested, as the Central continued to explore better ways of gathering information through the use of regional and international guidelines.

2.2.2 ZETSS utilization maintained an upward trend with an average utilization level of 85% being recorded in 2006. A peak of 95% was registered on a single day during the year. This was a significant increase compared to the average of 78%, with a peak of 94% registered on a single day in 2005.

2.2.3. Volumes of transactions processed through ZETSS increased by 156% between 2005 and 2006. The growth in volumes could be attributed to the increasing awareness by the public, particularly corporates to use the electronic system when making high value time critical payments instead of using cheques.

3. Vision and Strategy Issues

Using the 2000 Framework and Strategy document as a guide, the Central Bank, in collaboration with the banking industry, put in place measures aimed at enhancing efficiency of the payment system. These measures included the official launch of the straight through processing (STP) project as well as the promotion of electronic means of payment. The Strategy and Framework document is now six (6) years and due for review. Consultations with all relevant stakeholders will be made in order to align the document to policy changes, taking into account developments to-date as well as addressing future needs of market players.

4. Conceptual Design, Technical, Business Process specifications and Development

- 4.1. Completed for the ZETSS (RTGS) system.
- 4.2. The introduction of the Central Securities Depository (CSD) system in February 2006 went a long way in addressing some of the challenges that were being experienced by the banking industry in the securities market.
- 4.3. The CSD system is interfaced with the ZETSS system to facilitate better management of collateral and credit facilities in ZETSS and achievement of Delivery versus Payment (DvP). Securities traded in the system include government Treasury Bills and Reserve Bank Financial Bills. Plans are underway to incorporate government local registered stocks in the CSD system and to address any shortcomings identified by users since the launch of the system. Twenty-six (26) out of the twenty-eight (28) institutions that participate in ZETSS are also participants in the CSD system.
- 4.4. The use of the Electronic Financial Surveillance (eFS) system continued to strengthen the Central Bank's capacity to electronically monitor transaction flows within the financial sector. The eFS system enables the monitoring of all transactions that are done using the SWIFT system for inter-bank communication. eFS has contributed to the country's compliance with anti-money laundering reporting requirements. The system has also assisted in the monitoring of suspicious transactions with the ultimate goal of controlling money laundering and the financing of illegal and suspicious activities.

5. Procurement and Implementation

- 5.1. Completed for the RTGS, CSD and Financial Surveillance systems.
- 5.2. The SWIFTNet Phase II Migration is in the implementation phase.

6. Oversight Development Initiatives

- 6.1. Financial Sector Assessment Program (FSAP)
The Reserve Bank actively participated in the Financial Sector Assessment Program (FSAP) self evaluation exercise for SADC Countries which was coordinated by the SADC Payment Systems Project Team. The exercise was

meant to assess each country's adherence to the CPSS BIS Core Principles for Systemically Important Payment Systems (CPSIPS). ZETSS, which is Zimbabwe's systemically important payment system (SIPS), was found to be in compliance with the CPSS BIS CPSIPS with a rating of "Observed" being earned in most of the areas assessed during the SADC FSAP Peer Review Workshop held in South Africa in March 2006.

6.2. Business Continuity Plans (BCPs)

The Reserve Bank is fully aware of the risks associated with heavy reliance on electronic systems and the effects of any natural and man-made disasters that may occur. Such disasters have put pressure on countries to embrace measures that ensure business continuity in the event of disaster occurring. Zimbabwe, like other countries world-over is no exception to the need to be in a state of preparedness.

The Central Bank therefore made it mandatory for all RTGS and CSD participants to have Disaster Recovery (DR) sites and Business Continuity Plans (BCPs) in place. Assessment and reviewing of participating institutions' BCPs were undertaken to guarantee the adequacy of the contingency arrangements.

6.3. Framework for Oversight of Payment Systems and the Framework for Recognition of Payment Systems

In order to enhance its oversight activities and to be in line with international best practice, the RBZ has gone a long way towards finalizing the Framework for Oversight of Payment Systems and the Framework for Recognition of Payment Systems. Notwithstanding the fact that these documents are not yet publicized, they are already being used to give direction to the Central Bank in carrying out the oversight function.

The Framework for Recognition of Payment Systems sets out the RBZ's requirements for the recognition of payment systems as mandated by the National Payment Systems (NPS) Act (*Chapter 24:23*). The Framework for Oversight of Payment Systems explains the Reserve Bank's oversight role and outlines the principles applied by the Bank in assessing the infrastructure and operations of payment systems.

7. Other Project Management Issues

7.1. Straight Through Processing (STP) Project

The STP project definition and standards of operation were finalized during the course of 2006. The STP Standards document is a set of rules and procedures to be followed by all RTGS participants in employing end to end processing of transactions. The implementation of the Project was officially launched in December 2006.

7.2. SWIFTNet Phase II Migration Project

The Zimbabwean banking community is in the process of implementing the mandatory SWIFTNet Phase II Migration to meet the deadline of 2008 for all SWIFT users. Zimbabwe's deadline for completion of the Project is 30 September 2007. In order to ensure a smooth migration, the Reserve Bank took the initiative to coordinate financial institutions in implementing the Project as failure by any Zimbabwean institution would present a risk to the country's payment systems.

Financial institutions are currently upgrading their SWIFT infrastructure to comply with the new SWIFT requirements. The Project involves upgrading the security management within the SWIFT system.

7.3. Collaborative Efforts with Zimbabwe Stock Exchange

Collaborative discussions between the Central Bank and the Zimbabwe Stock Exchange (ZSE) aimed at modernizing the stock exchange in line with regional and international trends were intensified. The collaborative dialogue culminated in a mutual understanding of the need to take concrete steps to enhance efficiency in the equities market, managing inherent risks in the current processes and reducing the securities settlement cycle to internationally acceptable standards.

8. Conclusion

The Central Bank remains committed to maintaining a stable financial system through providing a modern and robust payment system. The consultative approach which was maintained with all relevant stakeholders within and outside Zimbabwe, significantly contributed to the achievement of various milestones in the payment systems modernization process.