



Southern African Development Community
Committee of Central Bank Governors
Payment System Project

PROGRESS REPORT
FOR PERIOD OCTOBER 2007 TO MARCH 2008

1. Introduction

During the period under review:

- i. a risk reduction and mobile banking workshop was held. Following the workshop, Country Leaders were requested to complete a regulatory diagnostic for submission to a joint CGAP project to determine the enabling environment for mobile banking in the region. Input was received from 10 countries as at end February 2008;
- ii. the country leaders were requested to review and make comments on the suggested simplified payment system statistical tables for publication on the website; and
- iii. efforts continued to collect information on remittances in the region.

The Project aims to undertake further activities during the 2008 and 2009 period, subject to discussion and consideration by the country leaders. These include:

- i. surveying the effectiveness of implemented RTGS in member countries and possible assistance where required;
- ii. proposal on potential initiatives towards a single currency from the payments system perspective; and
- iii. on-going monitoring on the remittances and mobile banking fronts.

2. Risk reduction in retail payments and mobile banking workshop

The risk reduction and mobile banking workshop was held successfully in Centurion, South Africa from 15 to 17 October 2007. The workshop was divided into two sections. The first section was on sharing of the experiences by selected member countries on risk reduction initiatives and measures in retail payments. The second section dealt with mobile banking.

2.1 Sharing of experiences in risk reduction initiatives and measures in retail payment systems

Selected country members, which included Botswana, Malawi, Mozambique, Namibia, South Africa and Tanzania, were requested to share their experiences in risk reduction measures. It was clear that these countries take into account the international best practice, such as applying the Core Principles for Systemically Important Payment Systems (CPSIPS). In addition, contractual arrangements are formalised between participants in the various payment streams with important features such as participant failure to meet their obligations, handling of fraudulent transactions in the clearing environment and agreements on the applicable technical rules. In support of the risk reduction measures, some central banks have issued directives and position papers to address areas of low value payments, third-party service providers and non-bank system operator conduct.

The central banks have approached risk reduction initiatives in retail payment systems in terms of mitigation of credit, liquidity, operational, legal and reputational risk. Most of the central banks highlighted that the national payments related statutes have been promulgated to include regulations which define the requirements for recognition as payment system operators, governance of payment systems as well as operational rules and procedures and service level agreements. There are also standards that should be complied with on instruments such as cheques, EFT and other debit instruments.

Other arrangements include the electronic clearing rules and regulations for different payment streams. Additionally, the laws pertaining to anti-money laundering legislation, electronic evidence, prevention of corruption as well as the

enforcement of know-your-client rules have also been formulated. In several countries, the high values and time-critical payments are processed through the real time gross settlement system through the implementation of item limits.

2.2 Mobile banking issues

2.2.1 *Enabling environment for mobile banking:* The discussion focused on the policy issues for enabling mobile banking and characteristics for an enabling environment. The reasons for enabling mobile banking were highlighted to include greater efficiency in retail payments and the possible contribution towards poverty reduction. It was highlighted that an enabling environment is that which promotes sustainable market developments and public policy goals. Public policy goals include financial stability, greater economic efficiency and broader access to financial services as well as consumer protection. Two important models of mobile banking were highlighted, namely, the *Additive Model*, which views mobile banking as an addition to the existing banking channels for the banked customers. The second model is referred to as the *Transformational Model* which refers to the fact that a customer does not need to have a bank account. This model requires openness of the public policies to promote mobile banking.

2.2.2 *Electronic money regulation:* It was noted that a clear understanding of e-money was important to make important regulatory considerations. This included, among other things, what institutions were authorised to issue e-money, such as central banks, commercial banks, mobile network operators (MNOs) or any other entities. The importance of regulation was highlighted to include market confidence, public awareness, consumer protection and reduction of financial crime. Other public considerations such as financial inclusion, integrity of the payment system, consumer preferences and business efficiency were also highlighted. The principles for good regulation were discussed and included the facilitation of innovation, the maintenance of market competitiveness and facilitation of competition in the market. There were also concerns that were raised, which included the risks inherent in e-money, countering of money laundering and/or terrorism financing, evidence of money laundering, fraud and identity theft and the fact that excessive regulation could entail additional costs.

2.2.3 Legal and regulatory reforms to reduce remittance costs and the promise of mobile banking: Remittances are part of the broader retail payment systems, both domestic and cross-border and are part of an individual's access to financial services. The issues affecting remittances were highlighted and include, that remittances were usually expensive, sometimes slow, inconsistent and occasionally unreliable. In this manner it was noted that mobile banking (m-banking) can be one of the methods of solving the problems of distributing remittances to the recipients. However this required that there be an efficient and widely-deployed mechanism for the deposit of m-cash into accounts, the ability to convert m-cash into "real" currency and the possibility of the payment of bills with m-cash. The challenges facing m-banking in relation to remittances were highlighted due to the fact that the current m-banking models were operating within limited geographical and/or economic areas, unless these were integrated into national payment systems. It was further noted that for m-banking to serve as an effective remittance channel, the m-banking operators must have appropriate relationships with a variety of cross-border payment networks to enable the un-banked senders of remittances to have access to payment channels. The ability to transfer/ convert m-money into cash was noted to be currently limited.

3. Collection of information on remittances in the region

Only eight member countries were able to forward the collected information on remittances as at October 2007. The remaining countries have been reminded to send this information to enable the project core team to produce a combined report for the SADC region.

4. Funding

Further discussions have been held with the World Bank regarding possible future funding of the project initiatives. During the workshop on mobile banking a meeting was held with the World Bank representative and the Project Leader. However, no further feedback has been forthcoming relating to the submission that was to be submitted to the First fund in this regard.

5. On-going supporting projects

The video project, *Vulindlela* newsletter and use of the sadcbankers.org website continues to support communication and developments on the Project.

6. Interaction with other international institutions and bodies

The SADC Payment System Project Team continues to maintain good working relationship with international bodies, such as the World Bank, the Bank for International Settlements and other international organisations and institutions.

7. Project resources

7.1 Project team members

Mr Bheki Siqubu has left the employment of the South African Reserve Bank. Project management responsibility for the SADC payment system project has been allocated to Mr Gops Pillay with assistance from Mr Stephen Mkwanzazi. Other resources are allocated to tasks from time to time. Member countries are assisting frequently with surveys, questionnaires and presentations and research projects required for workshops and conferences.

8. Country-specific progress reports

The country-specific progress reports received by the Project Team have been included as Annexure 1.

9. Conclusion

The SADC Payment System Project Team remains grateful for the co-operative working relationship with the payment systems project country leaders and the support of the CCBG and its Secretariat.