



**SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)
PAYMENT SYSTEM PROJECT**

NPS progress report for period April 2010 to March 2011

NAMIBIA

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1. Introduction

This report provides an overview of the Bank of Namibia's (the Bank) activities aimed at promoting a safe and efficient national payment system in Namibia. The report highlights activities, which the Bank initiated on payment system reform over the period of April 2010 to March 2011. The activities undertaken are; version upgrade of Namibia Inter-bank Settlement System version upgrade; Reduction of Cheque item limit to 500 000; implementation of early settlement of Card, EFT and Cheque PCH batches; formulation of NPS Vision 2015; petrol card project; e-money activities and oversight issues.

2. Settlement System developments and projects

2.1 *NISS Version upgrade*

In 2010, the Bank initiated the project to upgrade NISS from Version 3 to Version 5. The project entailed replacing all of the previous hardware infrastructure as well as a change in network architecture. All banking institutions are connecting via the Bank's Virtual Private Network (VPN). NISS Version 5 introduced significant changes in the end-user interface from an application based to a web based platform. These changes made NISS more user-friendly and reduced the licensing costs to the banking institutions.

2.2 *Early Settlement of PCH batches*

During the first quarter of 2010, the Namibian banking industry implemented the Directive on Early Square-Off in NISS to facilitate the early settlement of PCH batches. The Bank considers Payment Clearing House (PCH) batches as systemically important because in total they represent a significant proportion of the daily settlement in NISS. Previously, retail PCH batches were settled late in

the day when NISS participants' treasury operations were closed. This excluded participants from entering the inter-bank market should they be short at settlement time. The failure of a NISS participant to honour its obligations in PCH batches late in the evening, when inter-bank financial markets are closed could cause systemic risk in the payment system together with the potential to affect statutory requirements. Compliance with the early square-off directive ensures that participants, who are short, can better manage their liquidity needs through the interbank market.

3. Retail system developments and projects

3.1 Introduction of Cheque limit of 500 000

On 10 June 2010, the Namibian banking industry implemented reduction of cheque item limit from 5 000 000 to 500 000. Lowering of item limit on cheques will channel payments through to NISS and EFT, thereby reducing the settlement risk in retail payment streams. In addition to reducing settlement risk, the reduction of item limit for cheque will increase the value of payments settled on an immediate finality basis in NISS and EFT and will reduce industry risk and exposure to cheque fraud.

3.2 Petrol Card project

The Namibian banking industry has made some progress although slow with implementation of petrol/fuel card solution to handle fuel purchases via debit and credit card. Currently, petrol/fuel card transactions are considered part of the South African fuel transaction processing environment from an issuing and acquiring perspective. Namibia (NAMSWITCH) does not process fuel transactions. Therefore the strong drive to enable the acceptance of branded (MasterCard/Visa) debit and credit cards at fuel outlets. The required legislature enabling the purchase of fuel on Visa/MasterCard debit/credit cards is already in place in Namibia. The existing proprietary South African fuel cards (Petro/Garage) will be phased out over time.

3.3 Card Fraud

Card fraud has become an increasing problem in Namibia. One of the main forms of card fraud was through the skimming or cloning of debit and credit cards with specialized equipment. It was made evident in 2009 that there was no legislation in place that criminalized the possession of such equipment in Namibia. As such the the amendments to the Payment System Management Act, 2003 (Act No. 18 of 2003) that were gazetted on 6 May 2010 included the criminalisation of cloning devices in Namibia. This has given local law enforcements authorities and prosecutors the legal powers to arrest and prosecute persons in possession of card cloning devices.

The Bank together with the industry has intensified efforts to curb this problem in order to ensure safety in the card payment system. In line with the NPS Vision 2015, the industry is committed to implement relevant international standards, which include EMV and PCI DSS standards to mitigated card fraud.

4. E-money and mobile banking initiatives

4.1 Authorised Mobile payment service provider

During the first half of 2010, the Bank authorized MobiCash Payment Solutions (Pty) Ltd to provide mobile payment services in Namibia in terms of Section 5 (4) of the Payment System Management Act, 2003 (Act No. 18 of 2003). MobiCash Payment Solutions is the first mobile payment service provider in Namibia.

The MobiCash product known as MobiPay allows unbanked Namibians to have access to payment services by allowing them to transfer money from person-to-person; purchase utilities such as pre-paid electricity and airtime or purchase goods and services at retail outlets country-wide via mobile phones.

5. Oversight issues

5.1 Launching of the NPS vision 2015

The payment system is dynamic and new demands and opportunities arise as a result of market requirements and technological developments and therefore, new challenges are facing the NPS and new strategic direction is required.

The Bank in collaboration with the banking industry has developed a new vision, strategies and objectives for the future of the Namibian NPS. The NPS Vision 2015 provides high-level strategic direction for the Namibian payment system up to 2015. The Vision places enormous responsibility on the Bank to ensure that Namibia develops and maintains a world-class payment system, which meets the needs of the economy by 2015.

5.2 *Payments Association of Namibia (PAN)*

In terms of the interim agreement reached between the Bank and the Bankers Association, the Bank is continuing to provide logistical and operational support to PAN Office. PAN has now appointed an independent chairperson and has recruited full-time employees with the Chief Operations Officer managing day-to-day operations of PAN.

5.3 *Oversight visit to NAMSWITCH*

As part of its oversight role, the Bank undertook onsite visit to Bankserv during the first quarter of 2010. The objective of the visit was to assess the NAMSSWITCH infrastructure and operations. This was after the Disaster Recovery (DR) testing of NAMSWITCH, which involved all banks in Namibia. Based on assurance from Bankserv, NAMSWITCH is a separate entity from SASwitch. It is ring-fenced and is not impacted by what happens to the SASwitch.

6. Conclusion

Going forward, the Bank will continue engaging the stakeholders with the view to modernise the payment systems in line with the NPS Vision 2015.

Implementation of appropriate regulatory and international standards will lead to safety and efficiency in the Namibian payment system. This is expected to result in increased confidence in the NPS by the public.