



SADC Payment System
Oversight Committee Report
2016/17



© Southern African Development Community (SADC)

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

This is the first issue of the *SADC Payment System Oversight Committee (PSOC) Report*, and it highlights activities of the SADC PSOC since its inception in April 2013 to March 2017. Data may include own calculations made for the purposes of this publication.

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

SADC PSOC Secretariat
National Payment System Department
South African Reserve Bank
P O Box 427
Pretoria 0001
Tel. +27 12 313 3733
E-mail: NPS-SUPPORT@resbank.co.za

<http://www.sadcbankers.org>



Contents

| | |
|--|---|
| Foreword..... | 1 |
| 1. Purpose | 2 |
| 2. Background | 2 |
| 3. Establishment of the SADC PSOC | 3 |
| 4. Governance arrangements and responsibilities of the SADC PSOC..... | 4 |
| 5. Review of the SIRESS self-assessment PFMI report | 5 |
| 6. Appointment of BankservAfrica as an RCSO | 5 |
| 7. Developments in the regional payments industry | 5 |
| 7.1 Retail payments and SIRESS | 5 |
| 7.2 Currency of settlement..... | 5 |
| 7.3 Exchange control regulations and SIRESS efficiency benefits..... | 6 |
| 7.4 SADC Payment System Model Law | 6 |
| 8. Statistical overview..... | 6 |
| 8.1 Number of SIRESS participants | 6 |
| 8.2 Number of transactions settled in SIRESS | 7 |
| 8.3 Value of transactions settled in SIRESS..... | 8 |
| 9. Conclusion..... | 8 |
| Abbreviations | 9 |
| | |
| Figures | |
| Figure 1: SIRESS payments..... | 2 |
| Figure 2: SADC payment system governance arrangements..... | 4 |
| Figure 3: SIRESS participants as at March 2017 | 6 |
| Figure 4: Volumes settled in SIRESS from July 2013 to March 2017 | 8 |
| Figure 5: Values settled in SIRESS from July 2013 to March 2017 | 8 |
| | |
| Tables | |
| Table 1 : Domestic participation versus SIRESS participation | 7 |

SADC Payment System Oversight Committee member countries



Angola



Botswana



Democratic
Republic of Congo



Lesotho



Malawi



Mauritius



Mozambique



Namibia



Seychelles



South Africa



Swaziland



Tanzania



Zambia



Zimbabwe



Foreword

The Southern African Development Community (SADC) Payment System Oversight Committee (PSOC) works together with the SADC Payment System Subcommittee to advance the objectives of payment, clearing and settlement systems as set out in the SADC Protocol on Finance and Investment document. In this regard, the SADC PSOC collaborates with various stakeholders to ensure the safety and efficiency of the regional payment system.

The SADC Committee of Central Bank Governors (CCBG) achieved a milestone when the regional settlement system, the SADC Integrated Regional Electronic Settlement System (SIRESS), was launched and implemented in July 2013. SIRESS received the support of the SADC member states since it facilitates trade and investment within the region. As at the date of this report, banks from 14 of the 15 SADC member states were participating in SIRESS and the 15th member state had indicated an intention to join SIRESS in the short term. Since inception to 31 March 2017, there were 83 SIRESS participants, and transactions to the value of ZAR3.1 trillion, with a volume of 712 099 transactions, had been processed on the system.

SIRESS offers an alternative platform to settle cross-border payments. The benefits of the system include faster settlement time, the reduction of settlement risk and the low cost of transacting. Participant accounts are prefunded and settlement takes place in the central bank's money – the South African rand (ZAR). Furthermore, the settlement period is reduced from three days to one day. Customers receive the monetary value on the same day and this optimises cash flow for their business operations.

SIRESS currently settles in ZAR only. The SADC CCBG recently approved that all SADC currencies and the United States dollar (USD) are eligible as settlement currencies.

Only high-value transactions are processed in SIRESS at this stage. As part of the roadmap, it is envisaged that regional retail payments will be introduced in the near future. The payment industry is currently working on the cross-border electronic fund transfer (EFT) low-value credits, remittances and mobile payments initiatives. In this regard, a regional clearing system operator has been authorised to facilitate the clearing of retail payments. All settlement will take place in SIRESS.

Through the continued support of the CCBG and the collaboration of the various stakeholders, the SADC PSOC and SADC Payment System Subcommittee will be able to realise the aims and objectives of the SADC cross-border payment system.



Tim Masela
Chairperson
SADC Payment System Oversight Committee

1. Purpose

The purpose of this report is to provide an overview of activities of the Southern African Development Community (SADC)¹ Payment System Oversight Committee (PSOC) for the period April 2013 to March 2017. The report highlights the key SADC PSOC activities during the period under review.

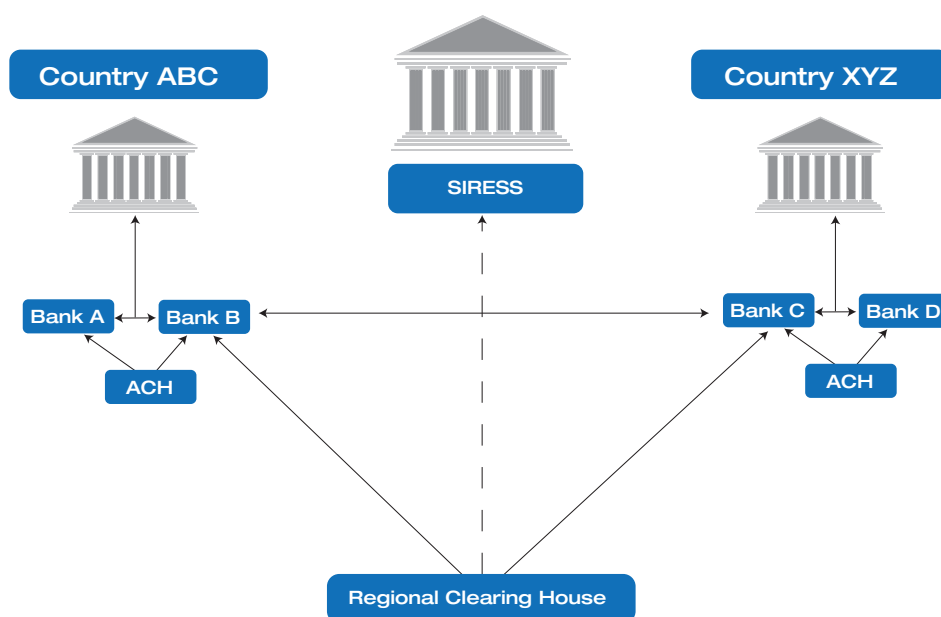
2. Background

Annex 6 of the SADC Protocol on Finance and Investment² advocates for SADC member states to cooperate in relation to payments, clearing and settlement in order to support trade and investment within the SADC region. To support these objectives, the SADC Integrated Regional Electronic Settlement System (SIRESS) was developed and implemented. SIRESS is owned by SADC through the Committee of Central Bank Governors (CCBG), and it is hosted and operated by the South African Reserve Bank (SARB). The operational activities of SIRESS are thus regulated and managed in terms of South African legislation. However, the SADC PSOC, in collaboration with the SARB, fulfills the oversight function.

SIRESS was implemented as a proof of concept for the regional settlement in the Common Monetary Area (CMA) countries³ on 22 July 2013. Banks from Malawi, Tanzania and Zimbabwe joined in April 2014, while Mauritius and Zambia joined in September of the same year. The Central Bank of Seychelles was on-boarded in July 2016, and banks from Angola, Botswana and Mozambique joined in October and those from the Democratic Republic of Congo (DRC) joined in November 2016. As at 31 March 2017, banks from 14 of the 15 SADC countries were participating in SIRESS. Madagascar has indicated its intention to have its banks join SIRESS in the near future.

With the implementation of SIRESS, participating banks opened settlement accounts in SIRESS to enable direct cross-border interbank payments on a real-time basis. Currently, for the high-value credit payments, the settlement accounts are prefunded, thereby eliminating settlement risk. As depicted in Figure 1 below, Bank B from Country ABC can directly make a payment to Bank C in Country XYZ using the SIRESS platform.

Figure 1: SIRESS payments



1 SADC is made up of 15 countries (i.e Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe).

2 See 'Protocol on Finance and Investment', Chapter 5, Article 8, Annex 6, 2006.

3 The CMA is made up of four countries (i.e Lesotho, Namibia, South Africa and Swaziland).

With the implementation of a solution for retail payments, cross-border payment instructions will be cleared at the regional clearing house level and be settled in SIRESS. The domestic transactions will continue to be cleared at the local automated clearing house (ACH) and be settled at the local real-time gross settlement (RTGS) or local settlement system.

SIRESS is available for settlement from Monday to Friday but is closed on Saturday, Sunday and South African public holidays. At inception, SIRESS business operating hours started from 00:00 to 15:30 Central Africa Time. Owing to business needs, the hours were subsequently revised to operate from 00:00 to 16:00.

A SIRESS Reporting Interface was initially provided as a temporary reporting application with limited functionality and few reports for the participants. To enhance the reporting, the SIRESSWeb application was implemented in November 2015. This application is used by the participants and central banks for, among other things, administrative instructions and near real-time position monitoring. However, should there be a need, SIRESSWeb may be used as a contingency tool to submit SIRESS instructions. It is envisaged that an advanced version of SIRESSWeb will be implemented during the third quarter of 2017. The added SIRESSWeb functionalities will include regulatory reporting and position monitoring for the regional clearing system operator (RCSO).

3. Establishment of the SADC PSOC

The SADC PSOC was established in April 2013 in terms of the Memorandum of Understanding (MoU) for cooperative oversight of SIRESS, which was signed by the governors of central banks participating in SIRESS. Each country whose banks join and participate in SIRESS becomes a member of the SADC PSOC.

The main objective of the SADC PSOC is to 'conduct the ongoing payment system oversight aimed at reducing and eliminating cross-border settlement risk and systemic risk'. The SADC PSOC regulates and oversees payment-related activities with the SADC region, including SIRESS and activities of the SADC Payment Scheme Management Body (PSMB). In this regard, the SADC PSMB is accountable to the SADC PSOC.

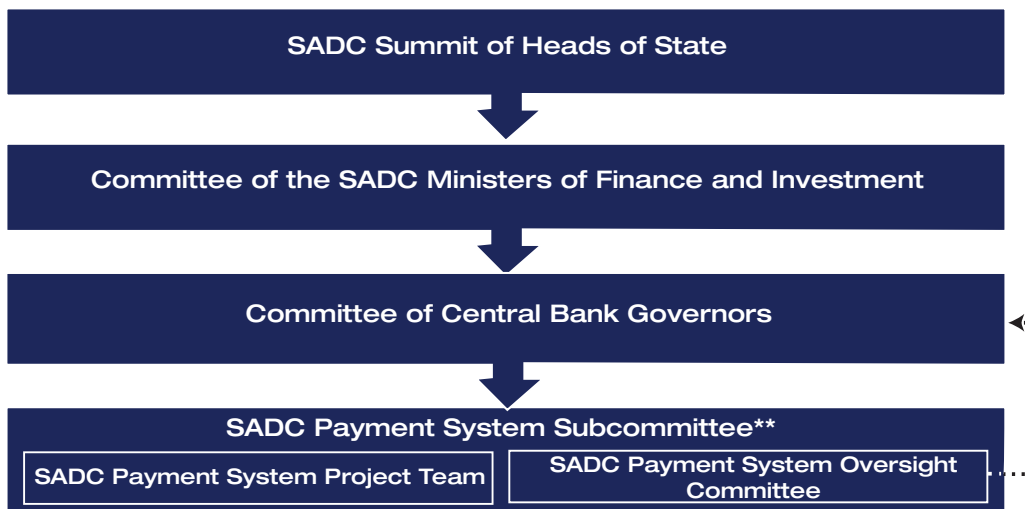
The SADC PSMB was established in terms of an MoU in September 2013, with the objective to organise, manage and regulate the participation in SIRESS, in high-value and various retail payment schemes. The members of the SADC PSMB consist of country representatives of commercial banks participating in SIRESS. The SADC PSMB is responsible for, among other things, authorising RCSOs as guided by the set criteria. Currently, the SADC Banking Association⁴ (SADC BA) provides Secretariat functions to the SADC PSMB.

⁴ All SADC countries have commercial banks representation in the SADC BA.

4. Governance arrangements and responsibilities of the SADC PSOC

The governance arrangements of the SADC payment clearing and settlement system project, which facilitates the implementation of Annex 6, are depicted in Figure 2.

Figure 2: SADC payment system governance arrangements



The SADC Payment System Subcommittee⁵ and the SADC PSOC are accountable to the CCBG. The SADC Payment System Project Team is responsible for the SIRESS project and works closely with the SADC BA to implement the initiatives set out in the SIRESS roadmap.

The SADC PSOC consists of country leaders of central banks participating in SIRESS. These country leaders are appointed by the governors of their respective central banks and are accountable for SIRESS and payment system oversight-related matters. A country leader may appoint a maximum of two designees. These designees may be delegated to conduct day-to-day oversight activities. However, the country leaders retain the responsibility to discharge their central bank’s oversight responsibilities in the context of the cooperative oversight arrangements. Furthermore, country leaders may assign projects to designees and these projects are signed off at the SADC PSOC level. The office of the SADC PSOC consists of the Chairperson of the SADC PSOC, the chairperson of designees, and the secretariat. The SARB executes these three roles in terms of the MoU, as it is the lead overseer of the cooperative oversight arrangement.

The SADC PSOC meets at least twice a year. Invitations are also extended to the SIRESS operator, SADC PSMB, SADC BA and any stakeholder that may be deemed necessary to attend and present reports at the meeting. In addition, the SADC PSOC interacts regularly with other stakeholders to address issues pertaining to developments and operations within SIRESS, including aspects relating to the participants in the system.

The activities of the SADC PSOC are guided by the SADC PSOC MoU and the oversight guidance document. Issues and differences that cannot be resolved at the SADC PSOC level are referred to the CCBG for further guidance.

⁵ The Payment System Subcommittee membership consists of country leaders of all central banks.

5. Review of the SIRESS self-assessment PFMI report

SIRESS has been identified⁶ as a financial market infrastructure (FMI) and is expected to adhere to the 'Principles for financial market infrastructures' (PFMIs).⁷ In this regard, the SIRESS operator is required to conduct a self-assessment against PFMIs at least every two years or when there is a material change in the system arrangements. The latest self-assessment report was completed and submitted in July 2014. Of the 24 PFMIs, SIRESS has assessed itself against the 18 PFMIs applicable to the payment system FMIs. The report was reviewed by the lead overseer and was presented at the SADC PSOC level. The SIRESS operator published the self-assessment report on the SARB⁸ and CCBG⁹ websites. The second self-assessment cycle commenced in the first quarter of 2017.

6. Appointment of BankservAfrica as an RCSO operator

Criteria for authorising a RCSO for the SADC retail payment schemes was proposed by the SADC PSMB and approved by the SADC PSOC in 2013. The criteria document was shared with the SADC ACH Association (SACHA).¹⁰ Subsequent to the release of the criteria, BankservAfrica (BSA) applied to be a RCSO. The SADC PSMB assessed BSA against the set criteria and made a recommendation to the SADC PSOC to approve BSA as a RCSO. BSA was subsequently authorised as a RCSO in June 2015 and the license is renewable every second year.

7. Developments in the regional payments industry

7.1 Retail payments and SIRESS

At present, SIRESS only settles high-value payments. The retail payments, including cross-border low-value EFTs, remittances, mobile payments and cards, are being considered for settlement in SIRESS. It is envisaged that the low-value EFT credit payment stream would be the first to be settled in SIRESS. The SADC Project Team, in collaboration with the SADC BA and BSA, leads these projects.

7.2 Currency of settlement

SIRESS was implemented as a single currency settlement system. As at the date of this report, settlement only took place in ZAR. In July 2015, the CCBG approved that all the other SADC currencies be eligible as settlement currencies in SIRESS. In addition, the US dollar, was also approved as one of the settlement currencies as it is widely accepted and used in the region. The CCBG directed the SADC Payment System Subcommittee to develop eligibility criteria for the inclusion of these currencies for settlement in SIRESS. In this regard, the following aspects will be taken into account:

- liquidity availability in the currency;
- currency volatility;
- currency convertibility;
- trade and investment flows; and
- exchange controls regulations.

6 See Information Paper: NPS06 on the SARB National Payment System Department's commitment to the PFMIs in the national payment system.

7 The PFMIs were issued by the Bank for International Settlements in April 2012.

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

9 <http://www.sadcbankers.org/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=83217ff2-0781-41cd-98d5-e4939aa5ff88&sarbitem=219>

10 SACHA membership is open to ACHs in SADC as well as to possible associate members.

7.3 Exchange control regulations and SIRESS efficiency benefits

The SIRESS participants raised issues relating to exchange control regulations and balance of payments reporting. Some of the exchange control regulatory requirements were impacting negatively on the SIRESS benefits. In this regard, the regulatory authorities and relevant stakeholders are in the process of harmonising and streamlining the regulations to ensure compliance thereof, and at the same time achieve SIRESS' objective of real-time settlement.

7.4 SADC Payment System Model Law

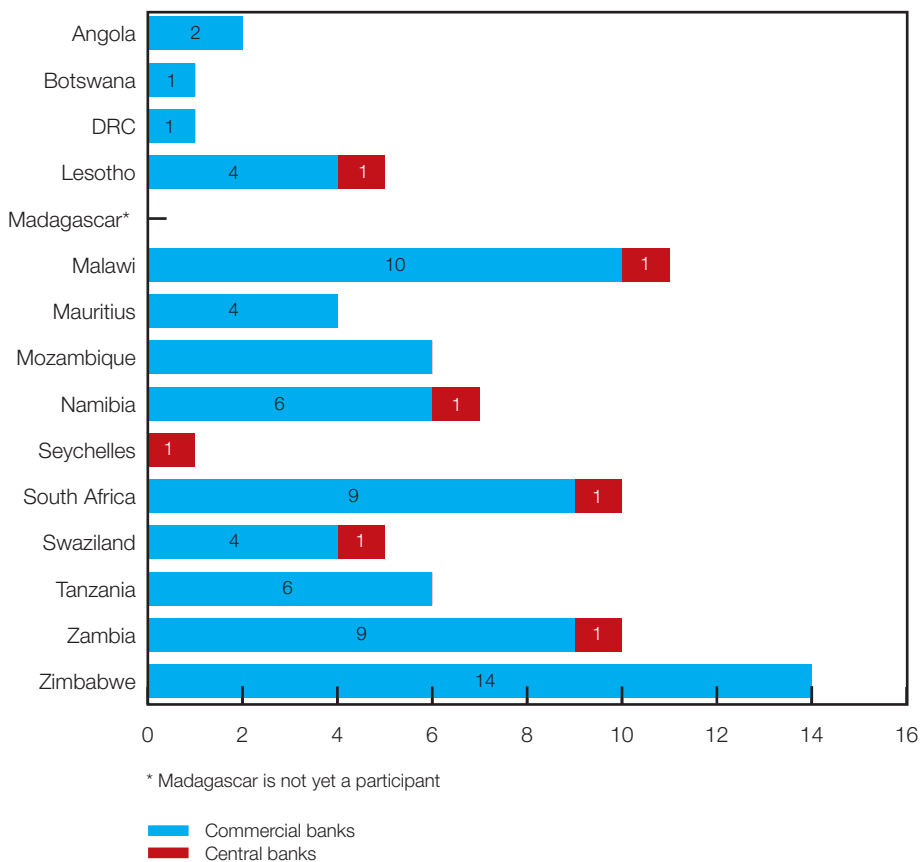
The CCBG Legal Subcommittee has been allocated the task to develop the SADC National Payment System Model Law, with the aim to harmonise payment legislation within the SADC region. Once approved by the CCBG, this model law is expected to be adopted by the SADC member countries in their respective legislative frameworks.

8. Statistical overview

8.1 Number of SIRESS participants

As at 31 March 2017, the number of SIRESS participants was 83 (comprising 76 commercial banks and 7 central banks) as depicted in Figure 2 below. Since the inception of SIRESS, four banks have been excluded as participants on the system for various reasons.

Figure 3: SIRESS participants as at March 2017



As at the end of March 2017, registered banks participating in their respective domestic RTGS or local settlement system within the region were estimated at 246, of which 31% or 76 participated in SIRESS, as depicted in Table 1. In this regard, the prospects of increasing SIRESS participation are still high. Banks that offer cross-border payment services are expected to join SIRESS, unless otherwise arranged with their respective country central banks.

Table 1: Domestic participation versus SIRESS participation

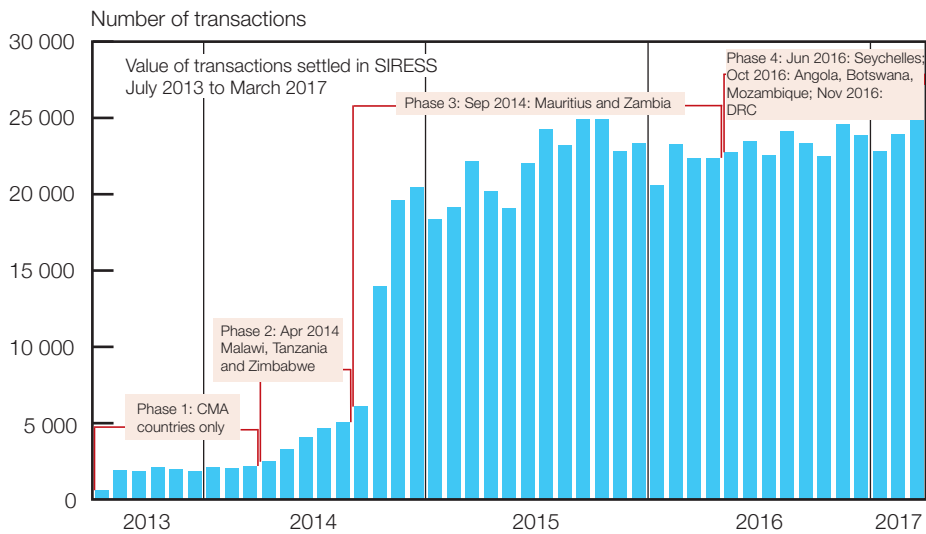
| No. | Country | Domestic RTGS or local settlement system | SIRESS participants | | SIRESS banks as a percentage of domestic banks |
|-------|--------------|--|---------------------|---------------|--|
| | | | Commercial banks | Central banks | |
| 1 | Angola | 31 | 2 | 0 | 6% |
| 2 | Botswana | 10 | 1 | 0 | 10% |
| 3 | DRC | 18 | 1 | 0 | 0% |
| 4 | Lesotho | 4 | 4 | 1 | 100% |
| 5 | Madagascar* | n/a | n/a | n/a | n/a |
| 6 | Malawi | 10 | 10 | 1 | 100% |
| 7 | Mauritius | 22 | 4 | 0 | 18% |
| 8 | Mozambique | 15 | 6 | 0 | 40% |
| 9 | Namibia | 9 | 6 | 1 | 67% |
| 10 | Seychelles | 8 | 0 | 1 | 0% |
| 11 | South Africa | 27 | 9 | 1 | 33% |
| 12 | Swaziland | 4 | 4 | 1 | 100% |
| 13 | Tanzania | 49 | 6 | 0 | 12% |
| 14 | Zambia | 18 | 9 | 1 | 50% |
| 15 | Zimbabwe | 21 | 14 | 0 | 67% |
| Total | | 246 | 76 | 7 | 31% |

* Madagascar is not yet a participant

8.2 Number of transactions settled in SIRESS

From July 2013 to March 2017, SIRESS settled a total of 712 099 transactions. This volume increased as banks from other countries joined SIRESS, as depicted in Figure 4. The highest volume settled since the implementation of the system was 27 158 in March 2017.

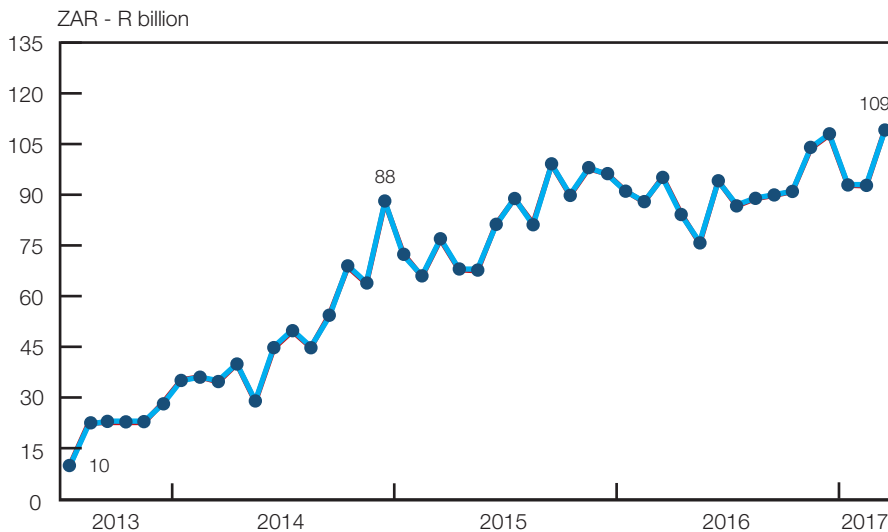
Figure 4: Volumes settled in SIRESS from July 2013 to March 2017



8.3 Value of transactions settled in SIRESS

Since inception, the cumulative value of transactions settled in SIRESS has amounted to ZAR3.101 trillion. There was a significant increase when banks drawn from other countries joined SIRESS in April 2015 and September 2015, as depicted in Figure 5 below. The highest value settled since inception was ZAR109.25 billion settled in March 2017.

Figure 5: Values settled in SIRESS from July 2013 to March 2017



9. Conclusion

The implementation of SIRESS is one of the initiatives that has been undertaken to realise the broader integration objectives within the SADC region. As the payments industry is dynamic, the SADC PSOC cooperative oversight approach will be reviewed regularly to ensure that it remains agile and relevant.

Abbreviations

| | |
|---------|---|
| ACH | automated clearing house |
| BSA | BankservAfrica |
| CCBG | Committee of Central Bank Governors |
| CMA | Common Monetary Area |
| DRC | Democratic Republic of Congo |
| EFT | electronic funds transfer |
| FMI | financial market infrastructure |
| MoU | Memorandum of Understanding |
| PFMIs | Principles for financial market infrastructures |
| PSMB | Payment System Management Body |
| PSOC | Payment System Oversight Committee |
| RCSO | regional clearing system operator |
| RTGS | real-time gross settlement |
| SACHA | SADC ACH Association |
| SADC | Southern African Development Community |
| SADC BA | SADC Banking Association |
| SARB | South African Reserve Bank |
| SIRESS | SADC Integrated Regional Electronic Settlement System |
| USD | United States dollar |
| ZAR | South African rand |