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This is the second issue of the *SADC Payment System Oversight Committee (PSOC) Report*, and it highlights activities of the SADC PSOC from April 2017 to March 2019. Data may include own calculations made for the purposes of this publication.

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SADC Payment System Oversight Committee member central banks



The SADC regional payment system

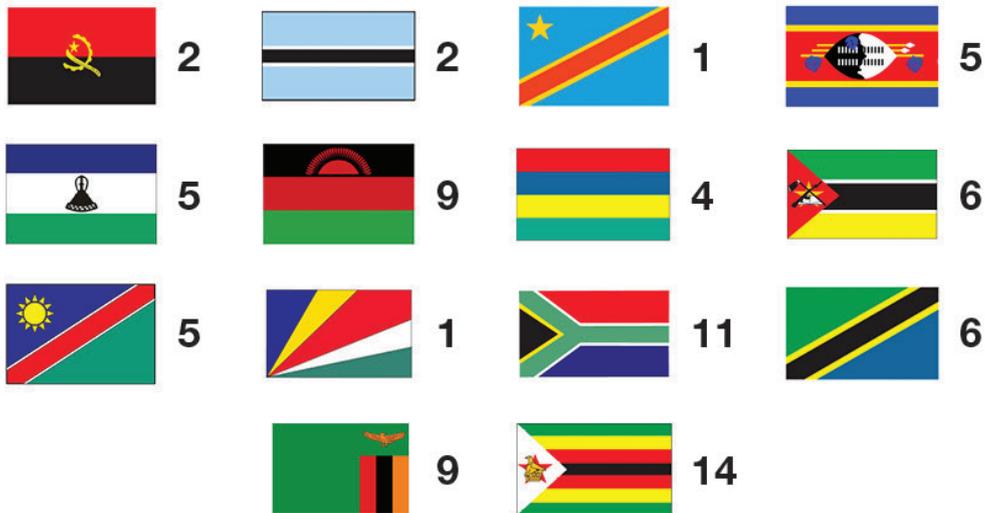


The SADC Regional Clearing and Settlement System Operator

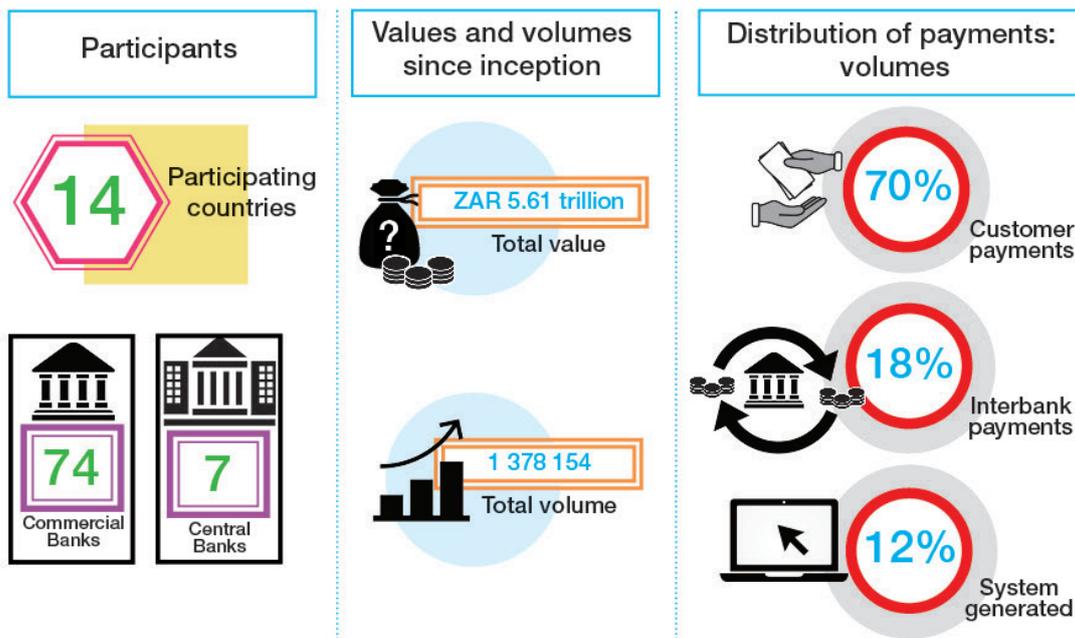


SADC-RTGS system in numbers

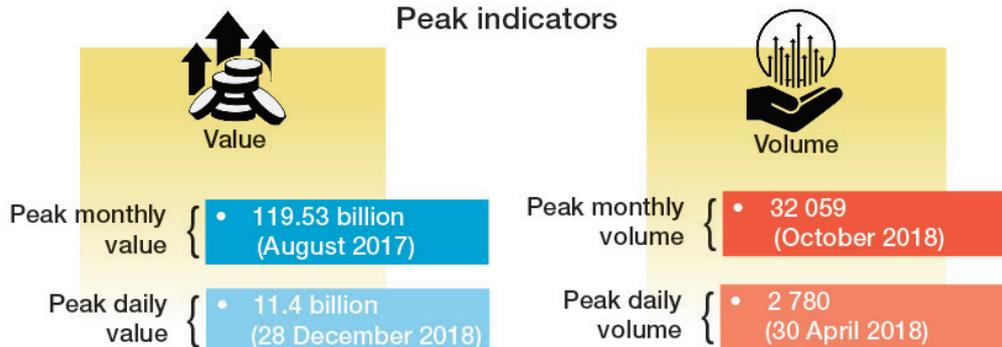
Participating banks per country



Main indicators



Peak indicators



Foreword

The journey of more than five years for the Southern African Development Community (SADC) Real-Time Gross Settlement (RTGS) system, commonly referred to as the SADC-RTGS, has been an interesting one, with phenomenal growth in participation and operations. As at March 2019, 81 participants have processed 1.38 million transactions amounting to ZAR5.61 trillion since implementation. This is affirmation that the system is well accepted, has the capability and has been functioning optimally with high availability and resilience.

There had been regular engagements with the user community to establish the efficiency and effectiveness of the system as well as the user satisfaction. A concerted effort has been made to better engage with other stakeholders through business relationship meetings, to establish the relevance and the need for the regional platform and if there are any other available options to make regional payments more seamless and user-friendly. Awareness campaigns have been launched and the participants are continually urged to sensitise the public about the SADC-RTGS service.

For the system to remain resilient and relevant to the market, the renewal project has been initiated to enhance technological, operational and functional aspects of the system. It is envisaged that the new system will have the support of the new financial message standard ISO 20022, a simplified account management and capability to provide retail payments. The new system will also be based on a new modern technology platform, which will make it easier to be supported. It is anticipated that the system will be implemented in the last half of 2021, failing which, first half of 2022.

The successful implementation of the high-value system paved the way to enable the introduction of the retail payments in the SADC-RTGS. In this regard, two payment schemes were initiated. One was the low-value cross-border electronic fund transfer (EFT) credit payment scheme and the other was cross-border low-value mobile fund transfers. There had been challenges with the EFT credit payment scheme and the payment industry is working on addressing the identified challenges. The mobile fund transfers evolved to be an interoperable payment scheme known as Transactions Cleared on an Immediate Basis (TCIB). The successful implementation of this scheme aims to change the retail cross-border payments landscape as it will transfer funds between banks and non-banks thereby advancing access to regional payment system and financial inclusion objectives. In this regard, robust and appropriate regulatory and governance arrangements will have to be made to accommodate these changes.

Innovation and financial technology developments in the payments landscape cannot be ignored, and as such, there is a need to explore and unlock their potential to transform payments in the region. Other aspects to be considered include the linkages of the SADC-RTGS system with other payment systems in the continent, to facilitate intra-Africa payments.

The support and involvement of the private sector and other bodies such as the World Bank, European Union, Bill and Melinda Gates Foundation, BankservAfrica as well as Finmark Trust on the SADC Payment System Integration Project is appreciated. It is also important to recognise the contribution made by the SADC Secretariat, Committee of Central Banks Governors, SADC Banking Association, SADC Payments Scheme Management Body and the user community to the success of the SADC-RTGS.

The SADC PSOC will continue to oversee the SADC-RTGS system as a financial market infrastructure, including matters relating to regional payments based on international best practice, to ensure the safety and efficiency of the system. The regulatory and oversight approach will endeavour to respond to the market needs to advance regional payments in a responsible manner, within a fairly regulated environment.



Tim Masela
Chairperson
SADC Payment System Oversight Committee



1. Introduction

This report covers matters relating to regional payments and the activities of the Southern African Development Community (SADC) Payment System Oversight Committee (PSOC) for the period April 2017 – March 2019.

2. The SADC Real-Time Gross Settlement system

The SADC Protocol on Finance and Investment (FIP) recognises that payment systems are critical infrastructures for the economic activities within the region. To execute the objectives of the SADC FIP, the SADC Real-Time Gross Settlement (SADC-RTGS) system was developed and implemented in July 2013. The SADC-RTGS journey started in May 2009 when the Committee of Central Bank Governors (CCBG) approved the establishment of the system. The journey is briefly depicted in Figure 1 below.

Figure 1: SADC-RTGS journey since May 2009



The SADC-RTGS was built based on the internationally accepted principles to ensure safety and efficiency of cross-border payments and to eliminate clearing and settlement risks. The system is owned by SADC and is currently hosted and operated by the South African Reserve Bank (SARB). It has been facilitating payments for over five years with minimal operational disruptions. Although the system currently settles in South African rand (ZAR) only, all SADC currencies and the United States dollar (USD) are approved as eligible currencies for settlement in the SADC-RTGS.

3. Cooperative oversight arrangements

3.1 Regional cooperative oversight arrangements

The SADC PSOC was established in April 2013 to oversee the cross-border payments and related activities, including the SADC-RTGS. The mandate of SADC PSOC includes ongoing payment system oversight aimed at reducing and eliminating cross-border settlement and systemic risks within the SADC region.

Since the SADC-RTGS is owned by SADC, central banks in the respective member countries have an interest and responsibility to promote the safety and efficiency of the SADC-RTGS system, including any payment matters pertaining to the region.

The cooperation among central banks on oversight arrangements is essential and encouraged, as per *Responsibility E on Cooperation with other authorities* as stipulated in the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Committee (IOSCO) in April 2012.

The 14 central banks of the participating member countries have signed a SADC PSOC Memorandum of Understanding (MoU) to formalise the cooperative oversight arrangements among the central banks for the SADC-RTGS system and other regional payment system activities. In this MoU, country leaders from the participating central banks are members of the SADC PSOC. The SARB has been appointed as the Chairperson of the SADC PSOC and Lead Overseer of the SADC-RTGS system. Madagascar attends SADC PSOC meetings as an observer while Comoros is yet to be involved in the SADC FIP payment activities.

3.2 Cooperative oversight on critical service providers

The operational reliability of a financial market infrastructure (FMI) may be dependent on the continuous and adequate functioning of third-party service providers that are critical to an FMI's operations, such as information technology and messaging providers. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging service is used in the SADC-RTGS system and this makes SWIFT a critical service provider for the SADC-RTGS system. The SARB, as the SADC-RTGS Lead Overseer, participates in the cooperative oversight of SWIFT led by the National Bank of Belgium.

4. Assessment of the SADC-RTGS against PFMI

According to the MoU for cooperative oversight of SADC-RTGS system, the PFMI serve as minimum standards against which SADC-RTGS system is assessed. In line with the recommendations of the MoU, the SADC-RTGS 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. addition of new initiatives, major new services and changes to the SADC-RTGS operations and risk management procedures). The self-assessment is reviewed by the Lead Overseer and is shared with the SADC PSOC members. As at March 2019, SADC-RTGS has conducted two self-assessments for 2014 and 2018, and these were published on the CCBG and the SARB websites.

The Lead Overseer periodically assesses the SADC-RTGS against the PFMI. The last assessment was conducted by the Lead Overseer, assisted by the World Bank, in October 2017. There were immaterial findings and recommendations were made to the SADC-RTGS operator to remedy the identified gaps.

5. Planned developments for SADC payments

5.1 SADC cross-border low-value credit transfers

As part of the SADC cross-border payments initiative, which commenced with the SADC-RTGS for large-value payments, the next phase will be to introduce the SADC low-value credit electronic funds transfer (EFT) service, firstly in the Common Monetary Area (CMA) region consisting of Eswatini, Lesotho, Namibia and South Africa, before moving on to the broader SADC region. The CMA member countries were required to clear and settle cross-border low-value credit transfer transactions as per the CMA Directive 1 of 2018 by October 2019.

Due to the challenges regarding the implementation of the payment scheme, the CMA payments industry was requested to formulate a recovery plan to meet the objectives of the CMA Directive. During the first quarter of 2019 the CMA payments industry opted to

develop a solution to address the Financial Action Task Force (FATF) Recommendation 16 requirements and other anti-money laundering and combating the financing of terrorism (AML/CFT) related requirements. The SADC Payment System Project Team will continue working with the industry towards the implementation of the CMA Directive. It is envisaged that once the low-value credit EFT payment scheme has been implemented within the CMA, it will be rolled out to the entire SADC region, in phases.

5.2 SADC instant payments: TCIB

The SADC instant payments was initially launched as the mobile payments project led by the SADC Banking Association. During the design phase, the mobile fund transfers payment scheme evolved to be a credit-push scheme to cater for transfer of funds from non-bank to non-bank, non-bank to and from banks accounts as well as from bank to bank accounts. This payment scheme is currently known as Transactions Cleared on Immediate Basis (TCIB) and is expected to be soft-launched during the second half of 2019.

In the TCIB payment scheme the funds will be applied immediately to the end user account, and interbank settlement will happen as agreed by the payments industry. The payment scheme is built on the ISO 20022 standard, to ensure compliance with FATF and other regulatory needs. Funds transfers in the TCIB payment scheme may be made in any SADC currency as well as the USD. The SADC PSOC will review the regulatory and participation requirements to accommodate non-banks in the payment scheme.

Most member countries in SADC have embraced the usage of mobile payments, which has assisted in improving financial inclusion in the region. It has been noted that mobile banking is highly successful in member countries where most of the population is unbanked or under-banked. It is envisaged that such markets may convert to the TCIB payment scheme.

5.3 Card payments scheme project

The possibility to settle all intra-SADC card transactions on SADC-RTGS will be pursued once the low-value credit EFT payments are implemented. The card associations and the banking community will be engaged to formulate viable arrangements for card payments within the SADC.

6. Current challenges

6.1 Currency of settlement

In July 2015, the CCBG approved all SADC currencies as eligible for settlement in the SADC-RTGS. In addition, the USD, which is widely accepted and used in the region, was approved as one of the settlement currencies. Following this approval, in December 2017 the SADC-RTGS system was enhanced to accommodate other SADC currencies, including the USD.

As the system is ready, countries have the prerogative to initiate a process to introduce their respective currencies into the SADC-RTGS system. The SARB led with the inclusion of the USD project which is expected to be finalised once the USD funding arrangements have been made.

6.2 SADC-RTGS fees

A concern regarding the high SADC-RTGS fees has been raised at different forums. The central banks have been mandated to address the matter with their respective participants. During the period under review, among the established reasons for high fees was the regulatory cost of compliance and maintenance of the relationships among the SADC-RTGS participants. The SADC PSOC will be engaging the different stakeholders to address the issues with a view of reducing the fees to make the service more affordable.

6.3 Continued usage of correspondent banking for ZAR-denominated SADC payments

There is continued preference and usage of correspondent banking within SADC. Some of the cross-border ZAR-based transactions are still settled via correspondent banking arrangements. The SADC PSOC will endeavour to explore possibilities of having a single business model for SADC payments and will mandate compulsory participation and settlement in the SADC-RTGS system.

6.4 SADC-RTGS operating holidays

The system operates based on the South African holidays, and efforts have been made to identify the common SADC holidays from which the system should operate. This will be implemented once operational arrangements have been made by the SADC-RTGS operator.

6.5 New payment system participants

The role of non-banks in payments has become noticeable. The challenge is how to incorporate these entities into the regional payments ecosystem while maintaining the safety and efficiency of the system. It is evident that there is a need to have relevant regulatory framework to bring the non-banks and financial technology (fintech) entities in the payments regulatory ambit.

7. SADC CCBG Fintech Workgroup

Technological innovation in the financial sector or fintech, has become an inescapable reality that will change consumer behaviour and the way the payments industry conducts business over the next few years. To keep abreast with fintech initiatives, the CCBG established a SADC CCBG Fintech Workgroup in March 2019 and it is chaired by the Payment System Subcommittee. The primary mandate of the workgroup is to analyse fintech developments, in relation to distributed ledger technology, central bank digital currencies, crypto assets, big data, open banking, including related regulatory and policy matters emanating from these developments. The workgroup will draw its membership from various member states and CCBG subcommittees such as the Payment System, Banking Supervision, Legal, Macroeconomic, Financial Market and Information and Communications Technology. The workgroup will formulate its terms of reference and will provide regular progress reports to the CCBG.

8. Cyber-resilience and payment-related risks

The safe and efficient operation of financial market infrastructures is essential for maintaining and promoting financial stability and economic growth. However, FMIs are not properly managed, they can be sources of financial and systemic risk, which may in turn compromise the stability of financial systems.

The CPMI and the board of IOSCO bodies published a document titled 'Guidance on cyber resilience for financial market infrastructures' to provide guidance for FMIs to enhance their cyber-resilience. The document encourages central banks to implement and embrace these guidelines as best practices to respond to cyber-attacks.

In order to manage and mitigate fraud and cyber-risks, SWIFT introduced a Customer Security Programme (CSP) to encourage the users to strengthen security of their local environments. All SADC-RTGS users are required to conform and confirm full compliance by conducting CSP self-attestations and submit to SWIFT, as prescribed.

The SADC PSOC expects all participating central banks to adhere to the guidelines to ensure compliance with the Swift CSP.

9. Change of name

Owing to legal pressures on trademarks rights, the CCBG decided to change the name from SADC Integrated Regional Electronic Settlement System (SIRESS) to SADC Real-Time Gross Settlement system in 2018. Efforts have been made to register the SADC-RGTS as a trademark.

10. Indicators information

Table 1 below depicts a graphical representation of participation and transactions processed through the SADC-RTGS system. The volumes and values reported in the graphs exclude intra-account transfers and interest charges.

10.1 Number of participants per country

The following 14 of the 16 SADC countries participate in the SADC-RTGS.

Table 1: Participation per country

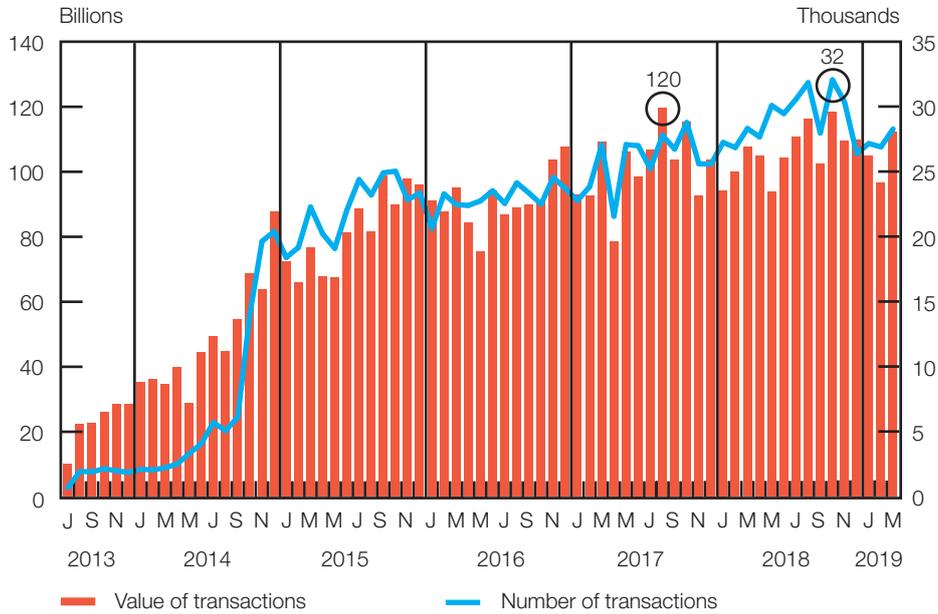
Country	Country flag	Number of participants
1. Angola		2
2. Botswana		2
3. Comoros		*
4. Democratic Republic of Congo		1
5. Eswatini		5
6. Lesotho		5
7. Madagascar		*
8. Malawi		9
9. Mauritius		4
10. Mozambique		6
11. Namibia		5
12. Seychelles		1
13. South Africa		11
14. Tanzania		6
15. Zambia		9
16. Zimbabwe		14
Total		81

* Not participating yet

10.2 SADC-RTGS milestone indicators

When SADC-RTGS started in July 2013 it settled a total of 687 transactions with a value of ZAR10.25 billion. The highest transactions peak in value was experienced in August 2017, at ZAR119.5 billion, and the highest peak in volume was in October 2018 with transactions amounting to 32 059 (see Figure 2).

Figure 2: SADC-RTGS transactions since July 2013



Since inception, the cumulative value of transactions settled in SADC-RTGS has been growing, with more member countries joining to participate on the system. By the end of March 2019 the cumulative number of transactions amounted to more than 1.5 million transactions with a value of ZAR5.61 trillion.

Figure 3 below illustrates the major transaction milestones achieved in the SADC-RTGS.

Figure 3: Transaction milestones

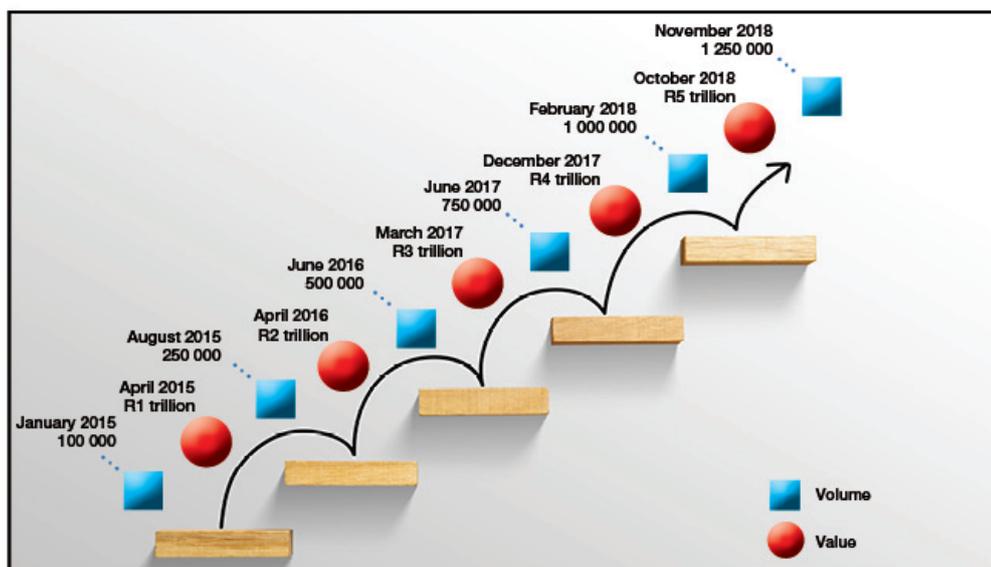
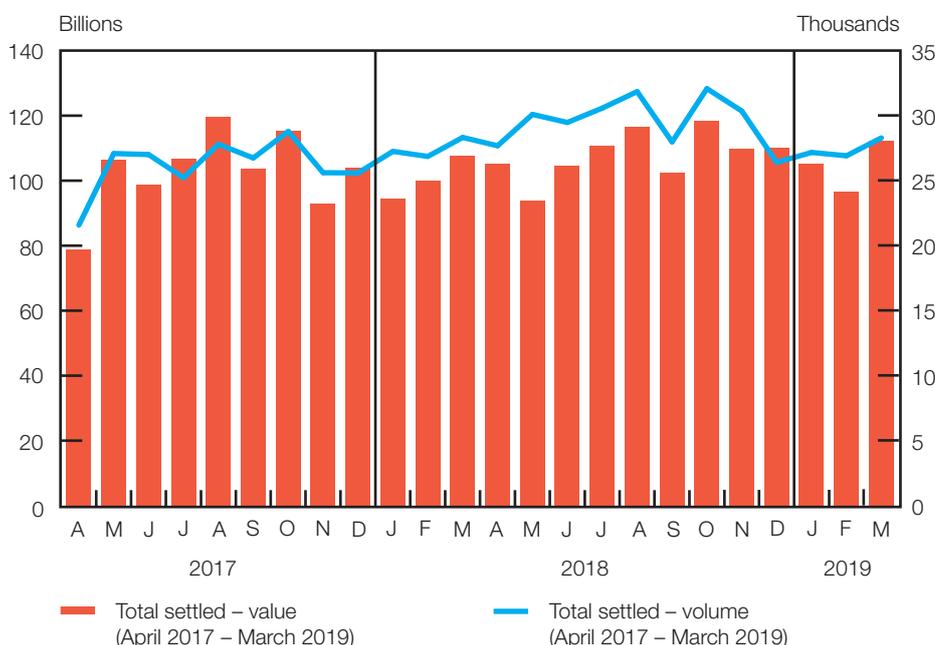


Figure 4 below shows the values and volumes for the financial years April 2017 – March 2019. For most of the months, the value has been over R100 billion and volumes over 25 000, which is indicative that the usage of the system is rather stable.

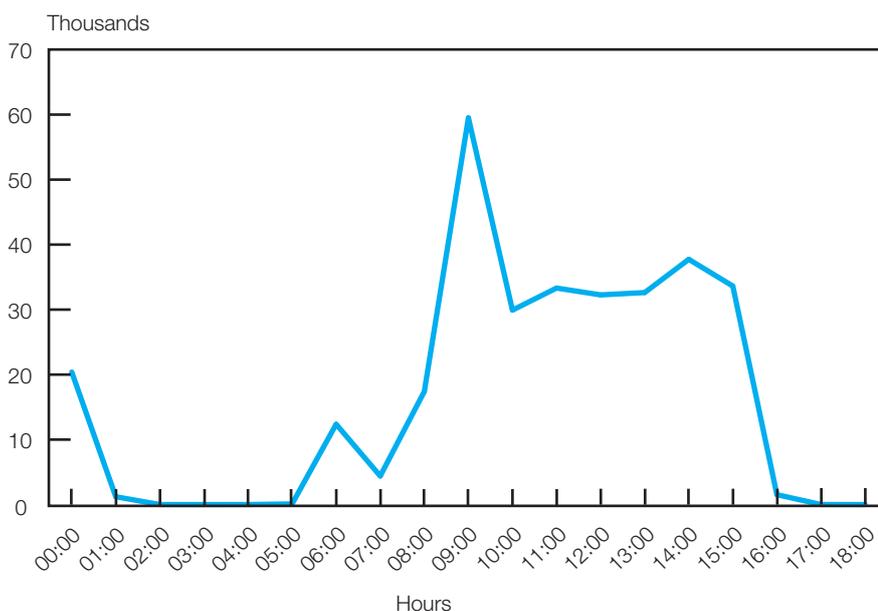
Figure 4: SADC-RTGS volumes and values of transactions



10.3 SADC-RTGS transaction processing

Figure 5 below illustrates the processing of transactions, per hour on a daily basis, excluding Saturdays and Sundays. The peak is usually around 09:00 due the funding of the system by the participants. The funding is utilised for settlement purposes as the system operates on a pre-funded basis. The SADC-RTGS system processes high volumes between 09:00 and 15:00.

Figure 5: SADC-RTGS transaction processing



10.4 Transactions in correspondent banking

Figure 6 illustrates the percentage of correspondent banking transactions processed through SWIFT for SADC member countries. On average, at least 40% of the volume of transactions that go through SWIFT are correspondent banking transactions.

Figure 6: SADC-RTGS versus correspondent banking

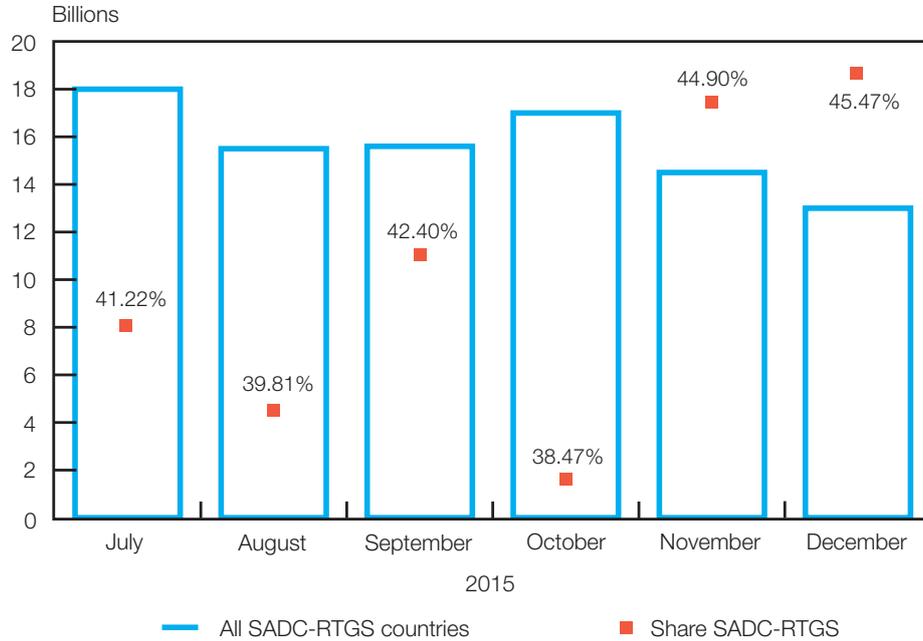
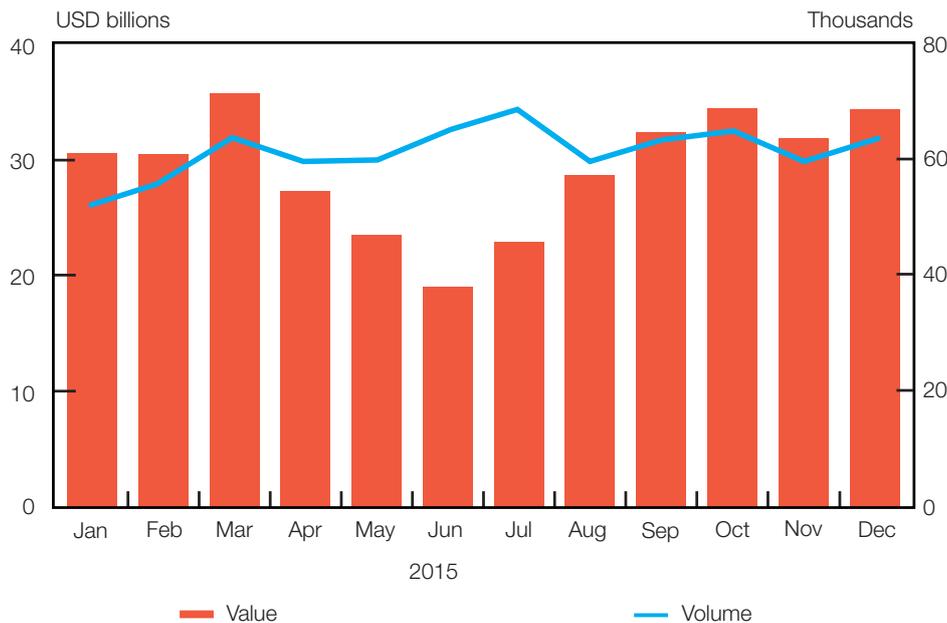


Figure 7 below shows the volumes and values of transactions, between SADC member countries, done through correspondent banking from January to December 2015. Once the USD currency is used in SADC-RTGS system, these transactions would increase the values and volumes of transactions processed in the system.

Figure 7: USD cross-border transactions in SADC region



Source: SWIFT Business Intelligence

11. Conclusion

The SADC PSOC will continue to foster cooperation among the SADC stakeholders to advance the objectives of the SADC FIP. Central banks will rally together to address the current participation challenges to ensure that the SADC-RTGS system becomes a platform of choice for regional payments. It is evident that engagement with authorities regulating cross-border transactions is necessary to provide a relevant regulatory framework for an efficient regional payment system.

With the anticipation of the introduction of retail payment schemes, focus will be on how to oversee a regional payment system with non-traditional payment participants. Oversight of inter-regional payments services appears to be imminent and the SADC PSOC has to be geared for such extended oversight responsibility.

The oversight approach will continue to be based on the best international standards and central banks will remain accountable for all the participants they authorised into the regional payment system.

12. Abbreviations

AML	anti-money laundering
ACH	automated clearing house
BA	Banking Association
CCBG	Committee of Central Bank Governors
CFT	combating the financing of terrorism
CMA	Common Monetary Area
CPMI	Committee on Payments and Market Infrastructures
CSP	Customer Security Programme
IOSCO	International Organization of Securities Commissions
DRC	Democratic Republic of Congo
EFT	electronic funds transfer
FATF	Financial Action Task Force
FMI	financial market infrastructure
ISO	International Organization for Standardization
MoU	Memorandum of Understanding
PFMIs	Principles for Financial Market Infrastructures
PSMB	Payment System Management Body
PSOC	Payment System Oversight Committee
RCSO	Regional Clearing and Settlement system operator
RTGS	Real-Time Gross Settlement
SADC	Southern African Development Community
SARB	South African Reserve Bank
TCIB	transactions cleared on immediate basis
USD	United States dollar
ZAR	South African rand



SADC Committee of Central Bank Governors