Access to the National Payment System (NPS)

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What is the National Payment System (NPS)?

- The NPS is a broad concept that does not only involve payments between banks, but encompasses the total payment process.

- It includes the systems, mechanisms, institutions, agreements, procedures, rules and laws that come into play from the moment an end-user, using a payment instrument, issues a payment instruction to pay another person or business.

- The final settlement is irrevocable and takes place through accounts of the clearing banks in the books of the South African Reserve Bank (SARB).

- The South African legal framework empowers the SARB to oversee the NPS with the objective of ensuring its safety and efficiency.

- The SARB always acts in the interest of the payment system as a whole, and not in the interest of an individual participant.
Layers of Service Provision in the NPS

The national payment system

- Non-bank payment services
- Lighter regulatory oversight of NPS participants beyond this point

- Clearing and settlement banks
- SA Reserve Bank
- PCH operators
- Strict regulatory oversight of NPS participants

- System operators
- Switches
- Bureaus

- Payer service providers
- Beneficiary service providers

- Other payment role-player (e.g., retailers issuing in-store cards)
The Payment System Network

CLS NETWORK

Central bank

SARB

SETTLEMENT NETWORK

Central bank

CLS services

PAYMENT NETWORK

CUSTOMER NETWORK

Non-clearing bank

Clearing bank

Retailer

Post Office

ATM

CUSTOMER NETWORK

Broker

CUSTOMER NETWORK

PCH

PCH

PCH

PCH

BANKSERV

Non-clearing bank

Central bank
The Legal Foundation of the NPS

1. South African Reserve Bank Act
2. National Payment System Act (including Directives and Position Papers)
3. Payment Association of South Africa (PASA) Constitution
4. Payment Clearing House (PCH) Agreements
5. Service Level Agreements (SLA)
What is Access to the NPS?

Firstly, it refers to access to payment services for the public, such as debit card, credit card and other facilities.

Secondly, it refers to access to the payment system for service providers, including participants, providing payment services.

The above users have different requirements for accessing the payment system.

- End-users require access for transacting.
- Service providers require access to provide payment services to the end-users.
What Services are Provided in the NPS?

- Issuance of payment instruments.
- Processing of payment-related instructions.
- Provision of payment services to third persons.
- Payment clearing and settlement.

In all of the above there is a:

- business process element which ensures that payment instruments are effective in supporting the circulation of money.
- payment system infrastructure element which is the information and communication technology (ICT) products, services and components.
Access to the Settlement System in South Africa

- The highest level of access to the NPS is the access to the settlement system.

- The Bank for International Settlements (BIS) defines settlement as “an act that discharges obligations in respect of funds or securities transfer between two or more parties”.

- The core of the South African settlement system is the South African Multiple Option Settlement (SAMOS) system that is owned and operated by the SARB.

- SAMOS is a real-time gross settlement system.

- Settlement in SAMOS includes the rand settlement of all the financial market transactions, interbank transactions and the settlement of foreign exchange transactions with other international banks.
Access to the SAMOS System (2)

- Only South African registered banks are allowed to participate in the settlement domain.
- Due to its systemic nature, banking regulations and laws are strictly applied to ensure the safety and efficiency of the financial system.
- The participating banks need to adhere to these strict rules and meet statutory and prudential requirements set by the Registrar of Banks and the SARB.
- Settlement participants must have the ability to meet the liquidity, information & communication technology (including security) requirements set by the SARB, in order to participate in SAMOS.
Access to the Clearing System in South Africa

- The second level of access to the payment system is that of clearing.

- The BIS defines clearing as “the process of transmitting, reconciling and confirming payment orders or security transfer instructions prior to settlement, possibly the netting of instructions and the establishment of final positions for settlement”.

- The NPS Act defines clearing as “the exchange of payment instructions” and the Blue Book further states that it as “the physical exchange of payment instructions between the payer’s bank and the payee’s bank (or their agents)”.

- Traditionally, in terms of the NPS Act only banks were allowed to clear, but as the payment system evolved, non-banks are allowed to participate in clearing of payments.
Categories of Banks in the NPS

- **Non-Clearing Banks**
  - Regulated by the Registrar of Banks
  - Not clearing or settlement system participants as defined in the NPS Act and **may not**:
    - Provide payment services to clients.
    - Clear domestic payment instructions to, or from, other banks.
    - Be a signatory to any PCH agreement.
    - Operate a SAMOS account at the SARB.
    - Enjoy membership of PASA.

- **Clearing Banks**
  - Regulated by the Registrar of Banks
  - Must be a member of PASA in terms of the NPS Act.
  - Are clearing and settlement system participants as defined in the NPS Act, and therefore:
    - May operate a SAMOS settlement account at the SARB, unless operating as a sponsored clearer.
    - Are a member of one or more PCH participant groups (PCH PG’s)
    - May provide, to its clients, one or more payment services.
    - Clear domestic payment instructions to, or from, other banks.
    - Are a signatory to a clearing agreement and, a member of a PCH and also subject to the entry and participation criteria for each applicable PCH.

- **Designated Clearing System Participant**
  - The SARB may designate a party, to clear payment instructions in its own name.
  - Such party must also apply for membership of PASA, as only PASA members are able to clear payment instructions in the payment system.
Categories of Clearing in the NPS

- **Direct Clearing**
  - Provides all or some of the payment services and participation in the respective PCH’s in its own right.

- **Sponsored Clearing**
  - In a specific PCH, provides some of the payment services by virtue of an agreement with a direct clearing bank, in terms of which agreement the sponsored clearing bank’s settlement obligation within the PCH is fulfilled by the sponsoring bank on behalf of the sponsored clearing bank.

- **Mentored Clearing (MC)**
  - An entrant bank into a particular PCH will participate as a direct clearer, but will have a contractual arrangement with another direct clearing bank for purposes of guidance, reference and contact when problems are experienced and/or skills that are not available within the entrant bank are required.
Categories of Clearing in the NPS (2)

- **Agency Clearing (AC)**
  - Only a direct clearer may conclude an agency arrangement with any other clearing bank in order to provide clearing services to the clients of the other bank via the practice of credit transfers. Facilities are then offered to other clearing banks in order to allow clients of such other clearing banks to make deposits with such banks and to transfer the funds so deposited to the clients’ banks. This service must be covered by a specific PCH agreement approved by PASA.

- **Technical Outsourcing (TO)**
  - Any bank may provide operational facilities to process payments or manage settlements for another participant bank in any PCH (or all PCHs) within any payment stream, or in all payment streams. The participating bank, however, remains the principal for all clearing and settlement agreements into which it enters.
Other Participants in the NPS

- **Payment Clearing House System Operator (PCH SO)**
  - A person that clears on behalf of two or more settlement system participants.
  - Authorised by PASA to offer services to participants in a specific payment system.

- **System Operator (SO)**
  - Parties that are not banks or designated clearing system participants that provide services to two or more persons in respect of processing of payment instructions.
  - Includes the delivery and/or receipt of payment instructions from the bank and/or PCH SO.

- **Third Party Payment Service Provider (PSP)**
  - Money or the proceeds of payment instructions accepted from multiple payers on behalf of a beneficiary (i.e.; utility bill payments at retailers).
  - Money or proceeds of payment instructions accepted from a payer to make payment on behalf of that payer to multiple beneficiaries (i.e.; salary payments).
Payment Flows in the NPS

PAYER
The payer makes a payment at a retailer, who could be a BSP

CORPORATE CLIENT
The corporate client can send an instruction to the PSP
OR
The corporate client can send an instruction directly to a clearing bank

RETAILER
Offers payment services on behalf of a beneficiary (public pay utility bills here)
Receives payment for retail transaction
OR
via a BSP

BSP
Offers payment services on behalf of a beneficiary
(public pay utility bills here)
Receives payment for retail transaction
OR
via a BSP

SYSTEM OPERATOR
The System Operator sends the instructions to their clearing bank

PCH SO
The PSO processes the instructions. Clearing takes place, and is forwarded to SARB.

CLEARING BANK
The clearing bank send the instructions to the PCH SO

SARB (SAMOS)
Settlement takes place within the SAMOS system. The debits and credits are affected on the relevant settlement banks’ accounts.

PSP
Offers payment services on behalf of a payer.
The PSP sends the instructions to their clearing bank

SETTLEMENT BANK (BENEFICIARY’S BANK)
Debits the beneficiaries account

BENEFICIARY (Public)
Money is reflected on their account
Where to Find Information

www.resbank.co.za

- Regulation and Supervision / National Payment System (NPS) / Access to the NPS / Starter Pack for Participants within NPS

- Regulation and Supervision / National Payment System (NPS) / NPS Legislation / Position Papers / Position Paper 01 of 2007

- Regulation and Supervision / National Payment System (NPS) / NPS Legislation / Position Papers / Position Paper 02 of 2011
Questions