

South African Reserve Bank directives for the conduct of non-bank stakeholders in the NPS take effect on 6 December 2007

Background

In terms of section 10 (1) (c) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989 – the SARB Act), the South African Reserve Bank (the Bank) is required to perform such functions, implement such rules and procedures and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems. Furthermore, the National Payment System Act, 1998 (Act No. 78 of 1998 – the NPS Act) provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa, and for connected matters.

The National Payment System (NPS) encompasses the entire payment process from payer to beneficiary and includes settlement between banks. The process includes all the tools, systems, mechanisms, institutions, agreements, procedures, rules or laws applied or utilised to effect payment. The NPS enables the circulation of money, that is, it enables transacting parties to exchange value.

In terms of the NPS Act, the Bank may from time to time, after consultation with the payment system management body, issue directives to any person regarding a payment system or the application of the provisions of the NPS Act (section 12).

Conduct of non-bank stakeholders in the NPS

Recently the role of non-bank stakeholders has become more prominent in the payment system both domestically and internationally. There has been a significant increase in non-bank stakeholders providing payment services to their customers in an environment that was normally considered to be the exclusive domain of banks.

The Bank has taken cognisance of these developments and acknowledges that the provision of services relating to payment instructions by persons other than banks, in certain circumstances, adds value to the users of the NPS in a broader market, provided that risk in the NPS is controlled.

During September 2007 the Bank issued directives aimed specifically at the conduct of non-bank stakeholders operating in the payment system, which have up to now operated in a mostly unregulated environment. The directives, which become effective on **6 December 2007**, require compliance with basic operational risk reduction measures including the requirements for disaster recovery and business continuity capability. These measures are aimed at ensuring continued safety and efficiency in the NPS.

The first directive is aimed at persons providing payment services to third persons, typical examples being the acceptance of money or proceeds of payment instructions by a retailer and other outlets for payment of utility bills or persons involved in the payment of salaries on behalf of employers to employees.

The second directive is aimed at persons involved in the processing of payment instructions into or out of the clearing environment on behalf of two or more persons. Several banks and many of the larger retailers and corporate companies in South Africa employ the use of privately owned non-bank stakeholders (i.e. system operators) to process and submit their payment transactions into the clearing system. System Operators are being used extensively because of the value added services they provide to their clients. System Operators are, in terms of the directive, required to apply for authorisation to act as such from the Payments Association of South Africa (PASA), in terms of criteria which have been agreed to by the Bank.

As this is the first time that non-bank stakeholders will be subject to regulation in the NPS, the Bank has consulted widely before issuing the directives.

The directives can be viewed in Government Gazette number 30261 dated 6th September 2007 and also on the Bank's website (www.reservebank.co.za). The criteria for System Operators can be viewed on the PASA website (www.pasa.org.za).

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