



PAYMENTS ASSOCIATION OF NAMIBIA

ANNUAL REPORT 2012





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PAN's aspiration remains to safeguard the safety and reliability of the payment system and to ensure that it conforms to international best practices and standards.

PAN AT A GLANCE

The Payment Association of Namibia (PAN) is a not-for-gain organisation, which is governed by a constitution and the Payment System Management Act, No. 18 of 2003. PAN was duly constituted on 12 August 2005 by the Bank of Namibia (BoN) as a payment system management body as contemplated in section 2 (2) of the Act. PAN's aspiration remains to safeguard the safety and reliability of the payment system and to ensure that it conforms to international best practices and standards.

The objectives of PAN are to manage, control and organise all matters affecting interbank payments, payment clearing and netting of interbank obligations within the payment system as well as:

- to provide a forum for the consideration of matters of policy and mutual interest concerning members;
- to act as a channel of communications between BoN, other regulatory agencies, any financial or other exchange, other public bodies, authorities and officials, the media, the general public and other private associations and institutions;
- to deal with and promote matters of interest to members and to foster co-operation between them; and,

- to fairly represent and promote the technical and related interest of all banking institutions.

2012 is a landmark year for PAN as the Namibian payment system expanded. Recognising the growth in the payments landscape and the coordinated changes within PAN, the PAN Management Council embarked on a comprehensive exercise based on a consultative approach to develop a long-term strategy for the PAN office. The strategy document of PAN covers the period 2012-2015 and is designed to ensure that:

- PAN is correctly positioned within the Namibian payments industry;
- a continued common understanding is achieved amongst industry participants;
- payment system participants are able to identify and prioritise resource requirements accordingly; and,
- alignment is achieved between the National Payment System Vision 2015, SADC Strategy and PAN's focussed activities, allowing PAN to assess, manage and prioritise the direction and developments within the Namibian and cross-border payments industries.

PAN has shaped its future to align the Association with the tremendous changes taking place in the payments landscape.



Currently, the members of PAN include the Bank of Namibia, First National Bank of Namibia, Standard Bank Namibia, Bank Windhoek, Nedbank Namibia and SME Bank Limited.



From left to right:
Lydia Iiyambo, Mberipura Hifitikeko, Annette Rathenam, Sarafina Hafenanye and Saima Herman

1.1 VISION

To be a guardian of a safe and reliable National Payment System (NPS) that conforms to international standards.

1.2 MISSION

To maintain a world-class payment system that meets domestic, regional and international requirements.

1.3 PURPOSE

To manage and regulate fairly, equitably and transparently the participation, innovation and development of the NPS and its stakeholders, for the benefit of the Namibian nation.

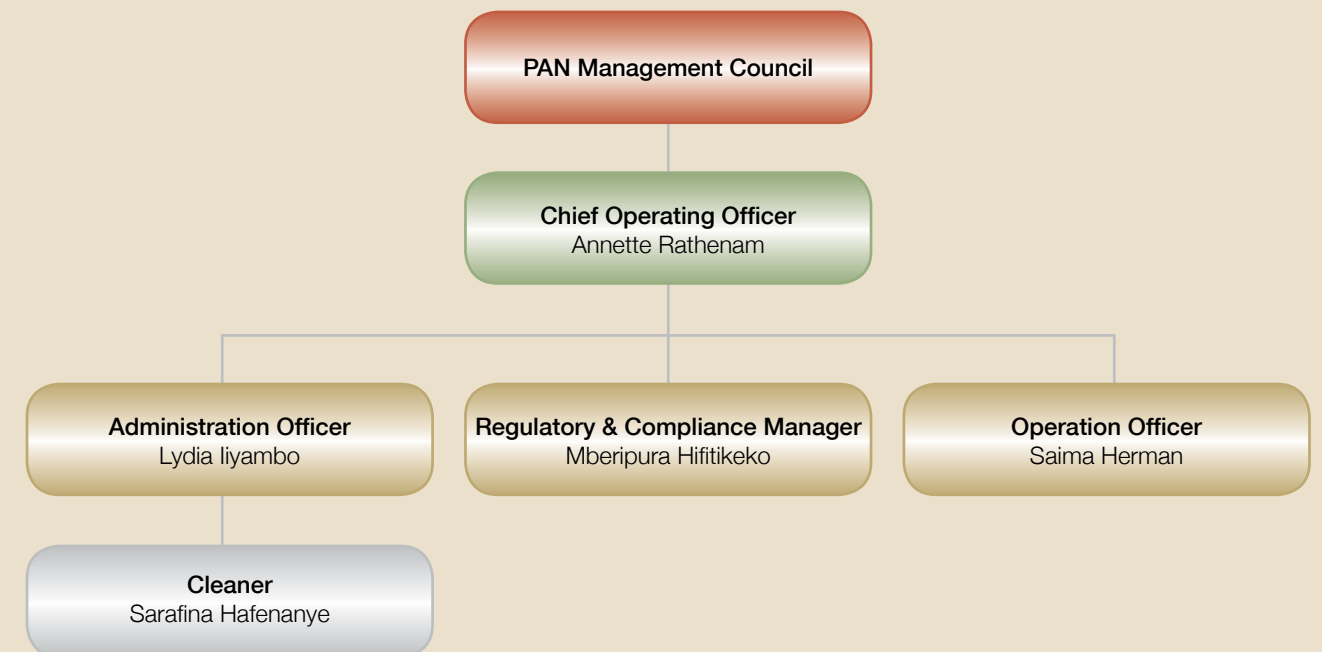
1.4 MEMBERSHIP

All members of PAN are defined in the Payment System Management Act No. 18 of 2003, as amended. Currently, the members of PAN include the Bank of Namibia, First National Bank of Namibia, Standard Bank Namibia, Bank Windhoek, Nedbank Namibia and SME Bank Limited.

1.5 PAN ORGANISATIONAL STRUCTURE

PAN is managed by the PAN Management Council that acts as a governing body and is responsible for the management of the PAN office to ensure that it achieves its objectives.

The PAN Executive Office comprises the Chief Operating Officer (COO), the Regulatory and Compliance Manager, Operation Officer, Administration Officer and Cleaner.





From left to right:

Ben Herunga, Kennedy Kandume, Nick Klazen, Albert Matongela, Ms Annette Rathenam, Chris Diemer, Herman Kruger, Fabian Tait and Moody Tembo

The Constitution empowers the Council to establish committees and sub-committees as it sees fit to assist in achieving the objectives of the Association.

1.6 CORPORATE GOVERNANCE

Establishment of PAN

PAN is established by an Act of Parliament and duly constituted as an association not-for-gain. It is recognised by the BoN as the payment system management body as stipulated in section 3 (1) of the Payment Systems Management Act, 2003, as amended.

PAN Management Council (photo above)

The PAN Management Council, which acts as the governing body of PAN, comprises an independent Chairperson, the COO of PAN, principal and alternate members appointed by their respective banking institutions, a principal and alternate representing the BoN and the COO of the Namibian Clearing House [Namclear Pty (Ltd)] as an invited non-voting member. The PAN Management Council operates on a consensus basis. However, if consensus cannot be reached, the PAN Constitution allows for voting and a casting vote for the Chairperson of the Council.

Chairperson of the Council

An independent Chairperson, who is not in any way connected to any of the member banking institutions, was appointed subject to the approval by the BoN.

Chief Operating Officer

The COO is the Executive Officer of the Association and is appointed by the Management Council. The COO manages the Association's affairs under the guidance of the Council. The COO's performance against agreed goals is assessed bi-annually by the Council, represented by the Chairperson.

Other PAN Structures

The Constitution empowers the Council to establish committees and sub-committees as it sees fit to assist in achieving the objectives of the Association. These forums are primarily constituted to consult on matters related to NPS and its strategies. Forums so constituted are entitled to invite participants or stakeholders in the NPS, other than members, to attend such meetings.

Bank of Namibia liaison arrangement

PAN consults on a regular basis with the Payments and Settlement Department of the BoN on issues of payment industry policy. Under the "Memorandum of Agreement" agreed to and signed in 2011, the BoN's responsibilities include inter alia; overseeing the operation of PAN, approval or endorsement of service providers registered by PAN and the approval of the criteria and conditions for the registration of service providers.

We continue to strive towards wider participation, innovation and development of the National Payment System to the ultimate benefit of the Namibian nation.



Mr Paul Hartmann

2. CHAIRPERSON'S FOREWORD

PAN is the outcome of collaborative efforts that began in 2002, when the Bank of Namibia and the banking institutions undertook a joint exercise to develop the Namibia National Payment System Vision and Strategy Document. One of the important components of this document involves the establishment of a Payment System Management Body. This body was initially designed to work as an umbrella body with responsibilities of establishing national standards for the payment systems and

instruments and to ensure that participants comply with best international practices.

The Vision and Strategy Document also envisaged that such a Payment System Management Body must play a central role in establishing and controlling individual payment stream associations representing the banks participating in each particular payment stream.

The view at the time was that although the overall responsibility of the oversight of payment systems should lie with the Bank of Namibia, the interbank payment and clearing systems should be managed by an association made up of participants in the National Payment System.

The rationale was to create a two tiered payments regulatory environment. This means that the central bank typically focuses on overseeing and regulating the National Payment System from a macro-prudential perspective. The Payment System Management Body on the other hand, deals with operational and technical policies, criteria, conditions and standards pertaining to payment instruments and clearing activities, while also ensuring that its members comply with prescribed regulations, policies and standards. The pioneering work on the Vision and Strategy fed into the promulgation of the Payment System Management Act in 2003. Naturally, the Act also provides for the establishment of a Payment System Management Body to manage the participation of its members in the national payment system, to act

as a forum to consider policy and technical matters and to foster co-operation among its members.

Our financial market infrastructure consists of the various systems, networks, and technological processes that are necessary for conducting and completing financial transactions. The National Payment System comprises modern infrastructure to transfer money between customers, suppliers, merchants, banking institutions and countries, including the use of payment instruments, such as cards, cheques and EFT payments.

The PAN Management Council provides the vision to ensure that risks in the National Payment System are adequately addressed through regulatory and mitigating measures to safeguard the integrity of the system. The interdependencies between service providers and banking institutions within the industry are adequately managed, while proper coordination among all stakeholders in the payment system is achieved through collaborative activities to ensure an efficient, safe and reliable national payment system.

The year under review saw a number of initiatives that are in line with National Payment System Vision 2015 and PAN's own internal Strategic Plan covering the period 2012-2015. Some of these include:

- intensifying international co-operation through exposure to international payment associations and their operations;

- getting involved in issues related to financial fraud and ways to combat these;
- creating a better public awareness of the role of PAN and increasing payment instrument and system literacy with a view of supporting financial inclusion;
- initiating legislative reforms and clarifying roles and responsibilities in the national payment system;
- supporting regional harmonisation of national and cross border payment system practices;
- bringing about changes to allow greater participation of non-banking institutions in the arena of the National Payment System; and,
- promote efforts to create new payment instruments that will address the particular needs of Namibian consumers.

In this regard, it is with a great sense of collective achievement that we look back on the past year. We also look forward to continuing to manage and regulate a national payment system that is fair, equitable and transparent. We continue to strive towards wider participation, innovation and development of the National Payment System to the ultimate benefit of the Namibian nation.

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PAN welcomes SME Bank Limited as a member of the Association and extends its best wishes for their future endeavours in the Namibian economy.



Annette Rathenam

3. REVIEW BY THE CHIEF OPERATING OFFICER

During 2012, PAN continued to safeguard the safety and reliability of the National Payment System (NPS), while pursuing the NPS vision to maintain a world class payment system and to meet domestic, regional and international requirements.

The membership of PAN increased to six when the SME Bank Limited became a fully licensed banking institution during the course of 2012. PAN welcomes SME Bank Limited as a member of the Association and extends its best wishes for their future endeavours in the Namibian economy.

The NPS Vision 2015 and in particular the infrastructure and technology strategic focus areas - has received high priority during the last year. New developments in this area are evident in the Namclear Namibian Clearing House Project, which involves replacing the current clearing and settlement system with an alternative, localised system operated by Namclear. The Project has also enhanced the interoperability between systems, through streamlining infrastructure and enhancing the capability aimed at giving more flexibility to Namibian consumers in future.

The Namibian payment industry has adopted the international standards of Europay Master Card & Visa (EMV) and Payment Card Industry Data Security Standard (PCI DSS) to safeguard card transactions against fraud. The EMV standards involve technological changes to cards, Automatic Teller Machines (ATM) and Point of Sale (POS) devices. The implementation of both these standards requires infrastructure changes to banking institutions' current ATM and POS networks. The PCI DSS process will progressively be phased in over the next two years and finalised

in 2015. The compliance deadline for the implementation of EMV standards was due on 31 December 2012 for ATM and POS devices, while debit and credit cards should be compliant by 2015. In this regard, banking institutions are not all on the same level of implementation, but the industry remained committed to ensuring the safety and security within the NPS.

The draft guiding principles for efficient debit order systems were issued by the BoN and are aimed at affording stakeholders an opportunity to pave the way towards solutions to current challenges such as early debit order and preferential treatment matters. The members, relevant stakeholders and regulators have discussed the proposed guiding principles in January 2013.

The NPS Vision 2015 objective of cross-border remittances was further improved by the phasing out of cross-border cheques which received the attention of the Association and the regional bodies, namely; the Southern African Development Community Banking Association (SADC BA) and Common Monetary Area Cross-Border Payment Oversight Committee (CMA CPOC). All stakeholders reached consensus that due to the high levels of fraud and the availability of alternate options of payment instruments to customers, it was necessary to take the next step to phase out cross-border cheques between South Africa, Swaziland and Lesotho by 22 July 2013. Cheques

deposited after this date will also not be cleared on collection basis and bank drafts will be phased out on the same date.

Access and participation in the NPS also found its rightful place on our action list this year, when the BoN issued the draft Determination on Access and Participation in the Namibian Clearing and Settlement Systems. The draft Determination deals mainly with the risk-based access and participation criteria in the clearing and settlement systems and lays down principles for the category of Non-Bank Financial Institutions' (NBFIs) participants in the clearing and settlement system. The draft Determination is expected to be gazetted during 2013.

The need for building strong relations and collaboration between PAN members was recognised as an important strategic goal. In the spirit of inclusiveness, the regulator, staff and stakeholders were the main drivers in the PAN Strategic Plan for 2012-2015 to achieve this goal. The Association will also pursue avenues to share knowledge and expertise by conducting training and educational sessions to stakeholders during the coming year.

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Reverend Vuyo Mhambi opening proceedings with a prayer

4. INAUGURATION OF THE PAN OFFICE

On the morning of 6 March 2012, delegates and invited guests arrived at Rieks House, for the official opening of the PAN Office. It was well organised and we received the blessing prayer from Reverend Vuyo Mhambi.

"The fact that we are witnessing the official opening of the office is sufficient evidence of the progress being made. Today, PAN has a functional executive office, Management Council, i.e. the de facto board of directors, and the various operational committees, such as the payment clearing house workgroups, which are responsible for pursuing the objectives of the Association as they relate to the various payment streams."

Mr Paul Hartman, PAN Chairperson



"I have no doubt that PAN will live up to its mission, "to maintain a world-class payment system that meets domestic, regional and international requirements."

Assistant Governor Mr. M. Mukete



"It is with great pleasure therefore, that I commission the office of the PAN together with its new logo and website. Please join me in congratulating the PAN on these achievements which pave the way towards an exciting and bright future for the National Payment System of Namibia."

Assistant Governor Mr. M. Mukete

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A number of shortcomings have been identified in the Constitution, which has prompted PAN to invite members to propose possible amendments by the end of September 2012.



Mberipura Hifitikeko

5. REGULATION AND COMPLIANCE HIGHLIGHTS

In line with PAN's responsibility to ensure a safe and efficient National Payment System, what follows is a summary of some of the noteworthy undertakings in the regulation and compliance space:

5.1 SME Bank Limited - PAN Membership

On 30 November 2012, the Small and Medium Enterprise Bank (SME Bank) Limited was granted authorisation to conduct banking business in Namibia. In accordance with section 3 (2) of the Payment System Management Act (PSMA) 2003, as amended, the PAN subsequently admitted the SME Bank as a member and ensured their full representation on all structures of the PAN.

5.2 Review of the PAN Constitution

A number of shortcomings have been identified in the Constitution, which has prompted PAN to invite members to propose possible amendments by the end of September 2012. The PAN Executive Office will be driving this process in 2013.

5.3 Service Providers

5.3.1 Entry and participation criteria for service providers

The Entry and Participation Criteria are the official assessment principles used to assess the operations of existing and new service providers. PAN has noted a number of service providers in the NPS who are operating without authorisation. Some have approached the PAN to acquaint themselves with the authorisation process and the relevant documentation has been issued to them. A public notice will be issued to notify all

unauthorised service providers to register with PAN by the end of 2013. This is also in line with PAN's strategic objective to identify and register all service providers by December 2013.

5.3.2 Service Provider Annual Authorisation Renewal

In June 2012, the PAN Management Council resolved to review the status of service providers annually. Subsequently, the PAN Executive Office informed registered service providers of the Council's decision to renew their registrations annually. It was also resolved that no blanket authorisation will be issued, but that authorisation is being considered based on the outcome of a product specific assessment and that each product type must be authorised. For new applicants, the initial application fee is N\$7,500. Should the application be successful, a further fee of N\$7,500 is due prior to the registration certificate being issued. All annual renewals will be subject to a fee of N\$7,500. Service provider assessment reports are forwarded to the BoN for final endorsement. The following service providers are currently registered with PAN to render payment services in the NPS:

- NamClear (Pty) Ltd
- PayM8 (Pty) Ltd
- RealPay (Pty) Ltd
- Smartswitch (Pty) Ltd

5.3.3 NAMCLEAR NAMIBIA CLEARING HOUSE PROJECT

In line with the NPS Vision 2015, the Namclear Namibian Clearing House Project made significant progress in 2013. The Project entails replacing the current clearing and settlement system with an alternate operation, owned and operated by Namclear and hosted in Namibia. The cheque stream was implemented and migrated successfully to a new and modern platform on 12 November 2012. The Card and EFT streams are expected to be implemented during the course of 2013.

5.3.4 PAN Stakeholder Forum

In line with its constitution, the PAN Stakeholder Forum (PSF) was launched on 18 January 2013. There has been an ongoing need to consult and act in collaboration with the various stakeholders in the NPS. The PSF will focus mainly on payment system related issues, most importantly, those issues that may have a risk-related impact on the NPS and its various participants. Furthermore, the PSF will act in the interest of the NPS as a whole and not in the interest of individuals or participant groups.

5.3.5 Compliance With EMV And PCI DSS

The main purpose of the EMV compliance project is to ensure the timeous implementation of the acceptance of domestic and international chip and pin cards in Namibia. The initiative is expected to curb card fraud locally and internationally. The Payment Card Industry Data Security Standard (PCI DSS) was adopted by the Namibian industry to

PAN continues to identify and solicit input from members, service providers and other stakeholders to remedy identified deficiencies.

encourage and enhance cardholder data security and to facilitate the broad adoption of consistent data security measures. PCI DSS provides a baseline for technical and operational requirements designed to protect cardholder data. The industry compliance deadline was 31 December 2012 for acquiring POS Terminals and ATMs, whilst 2015 is earmarked for issuing chip-based cards.

5.3.6 Preferential Treatment - Earlier Debit Order (Card Authenticated Transactions)

The BoN regards early debit orders as preferential payments that should not be allowed. In this regard, the Bank issued guiding principles for a more efficient debit order system in Namibia. PAN held a workshop in January 2013 that was attended by, amongst others, BoN, PAN members, service providers and other stakeholders, i.e. Micro-lending Association of Namibia and NAMFISA. At the same occasion, the Stakeholder Forum, represented by all the stakeholders as mentioned above, was launched. The workshop concluded that a technical sub-committee be established to solicit feedback on the aforesaid guiding principles and to envisage the way forward for an industry solution that complies with the guiding principles.

5.3.7 Draft Determination on Access and Participation in Namibian Clearing and Settlement System

PAN provided comments on the aforesaid Determination to BoN and it has been finalised. It is expected to be gazetted in 2013. It is also expected that the PAN Constitution and the Entry and Participation Requirements for service providers be revised to reflect our objective of inclusivity in the payment systems.

5.4 Overall Conclusion

As part of its ongoing review of compliance based entry and participation criteria, rules, agreements, constitutions and other NPS regulatory frameworks, PAN continues to identify and solicit input from members, service providers and other stakeholders to remedy identified deficiencies. As part of its Strategic Plan, PAN will further endeavour to develop a risk and compliance framework in 2013 for members and service providers to enhance risk and compliance within the NPS. PAN will continue to ensure that PAN, including Payment Clearing Houses (PCH's), service providers and the Stakeholder Forum will pursue the objectives of the NPS Vision 2015.

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6. THE NAMIBIAN PAYMENT SYSTEM

The current streams under PAN are as follows:

- The Payment Clearing House Card Group
- The Payment Clearing House Electronic Transfer Group
- The Payment Clearing House Paper Group
- The Financial Fraud and Security Committee
- The Immediate Settlement Group
- The PAN Stakeholder Forum

Card payments still remain by far the most common retail payment method, second only to cash payments.

6.1 Cheque

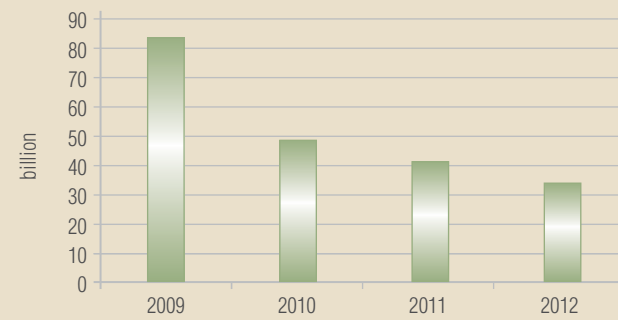
In 2012, the clearing house (Namclear) had processed over 2.8 million cheques with a total value of N\$34.9 billion, which is a significant decrease in value for cheques from N\$41.0 billion in 2011, N\$49.4 billion

in 2010 and N\$84,5 billion in 2009. The decrease in value and volume of cheque transactions can be attributed to the reduction in a cheque item limit of N\$500 000.00.

Chart 1: Cheque transaction volumes (2009 – 2012)



Chart 2: Cheque transaction values (2009 – 2012)



6.2 Electronic Fund Transfer (EFT)

During 2012, Namclear processed 12.66 million EFT transactions with a value of N\$291.8 billion, which represents an increase of 17.82% compared with N\$239.8 billion transacted in 2011. The increase in both volume and value of EFT transactions can be

attributed to more users finding it easier to process their transactions by EFT as well as the Government of the Republic of Namibia's introduction of its EFT platform.

Chart 3: EFT transaction volumes (2009 – 2012)

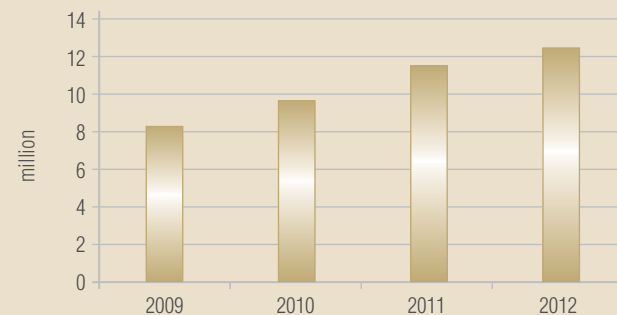
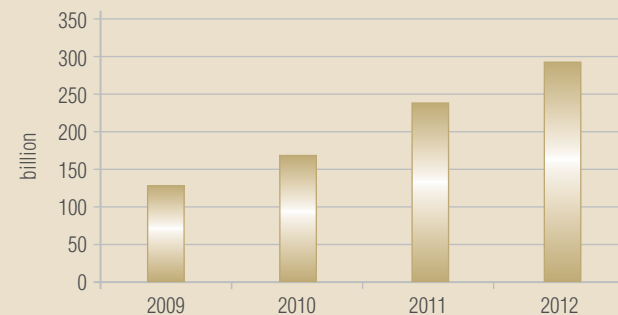


Chart 4: EFT transaction values (2009 – 2012)



6.3 Card

Card payments still remain by far the most common retail payment method, second only to cash payments. During the period under review, Namclear processed 12.4 million card transactions with a value of N\$3.1 billion, which represents an increase of 27% per cent in value when compared with N\$2.42 billion transacted in 2011. The volume

for card transactions processed in 2012 increased by 32 per cent compared with transactions in 2011. The overall ATM transactions processed in 2011 were 7.8 million with a value of N\$3.1 billion, which represents an increase of 25% in value when compared with the value of N\$2.35 billion transacted in 2011.

ATM

Chart 5: ATM transaction volumes (2009-2012)

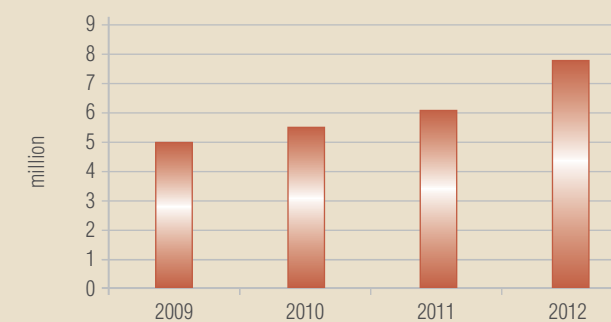
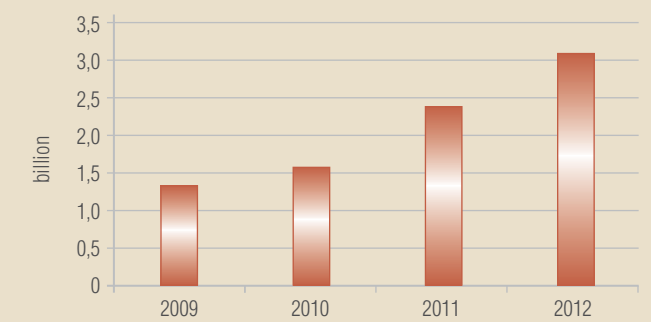


Chart 6: ATM transaction values (2009 – 2012)



Credit Card

Chart 7: Credit Card transaction values (2009-2012)

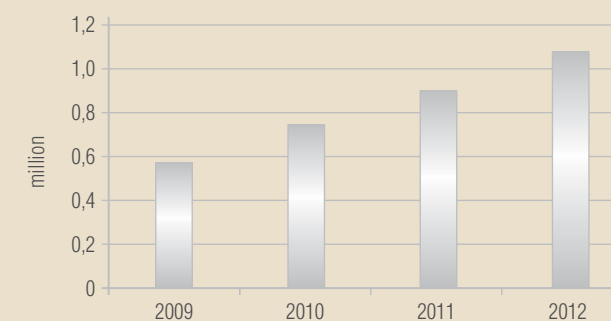
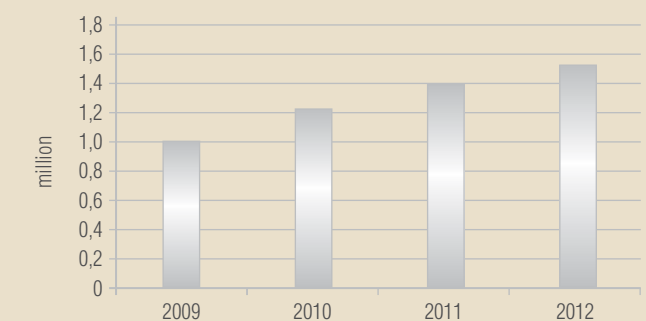


Chart 8: Credit Card transaction volumes (2009-2012)



2012 indicated a slight decrease in volumes of cheque transactions while EFT and card transactions show a substantial increase.

Debit Card

Chart 9: Debit Card transaction values (2009-2012)

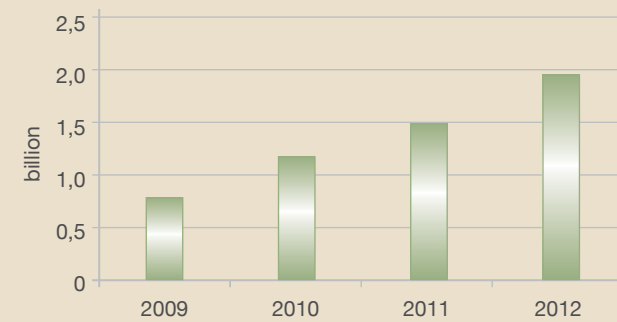
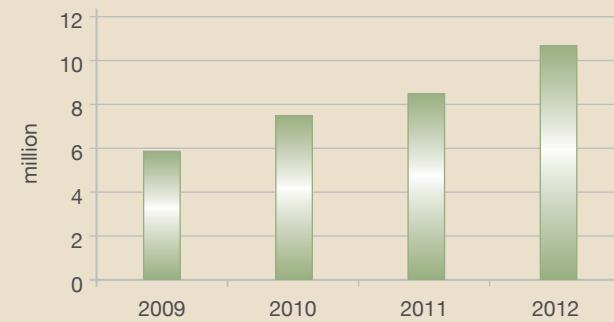


Chart 10: Debit Card transaction volumes (2009-2012)



Card Transactions

Chart 11: Card transaction values (2009-2012)

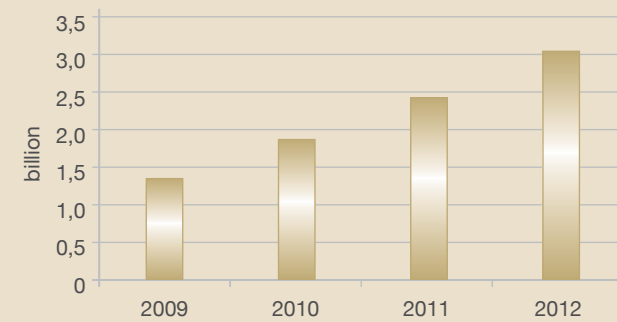


Chart 12: Card transaction volumes (2009-2012)

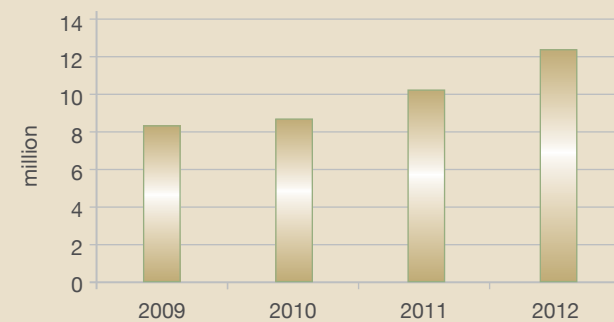
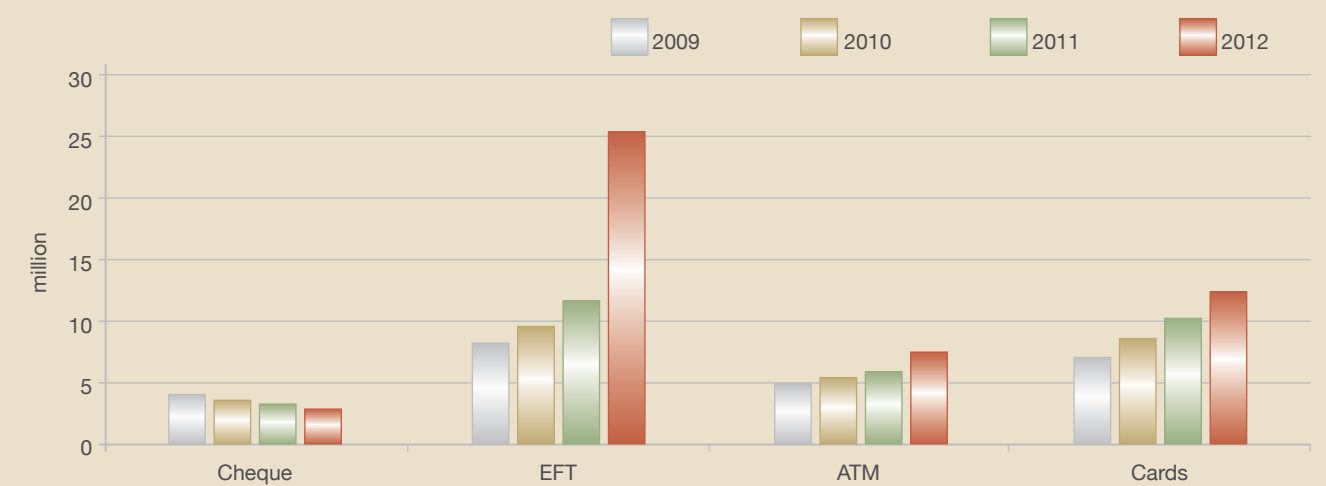


Chart 13: Comparison table (2009-2012)



The comparative number of transactions cleared and settled during the period from 2009 to 2012 indicated a slight decrease in volumes of cheque transactions. EFT and card transactions show a

substantial increase. This, as indicated above, can be attributed to more clients being comfortable with EFT as a means of transacting.

Comparison Volume Table

VOLUMES	2009	2010	2011	2012
Cheque	4 060 611	3 753 144	3 240 343	2 816 805
EFT	8,223,381	9,551,900	11,575,690	12 658 735
ATM	4 968 216	5 541 536	6 073 074	7 755 882
CARD	6 910 822	8 676 953	10 176 894	12 358 715

Comparison Values Table

VALUES	2009	2010	2011	2012
Cheque	84 493 796 750	49 427 097 927	41 012 924 679	34,856,886,299
EFT	127,223,402,911	167,980,001,002	239,808,787,802	291,812,339,606
ATM	1 348 909 224	1 581 928 314	2 350 483 498	3,139,514,798
CARD	1 386 785 453	1 896 323 333	2 419 552 472	3,062,355,216

Chart 14: Comparison values table (2009-2012) Billions

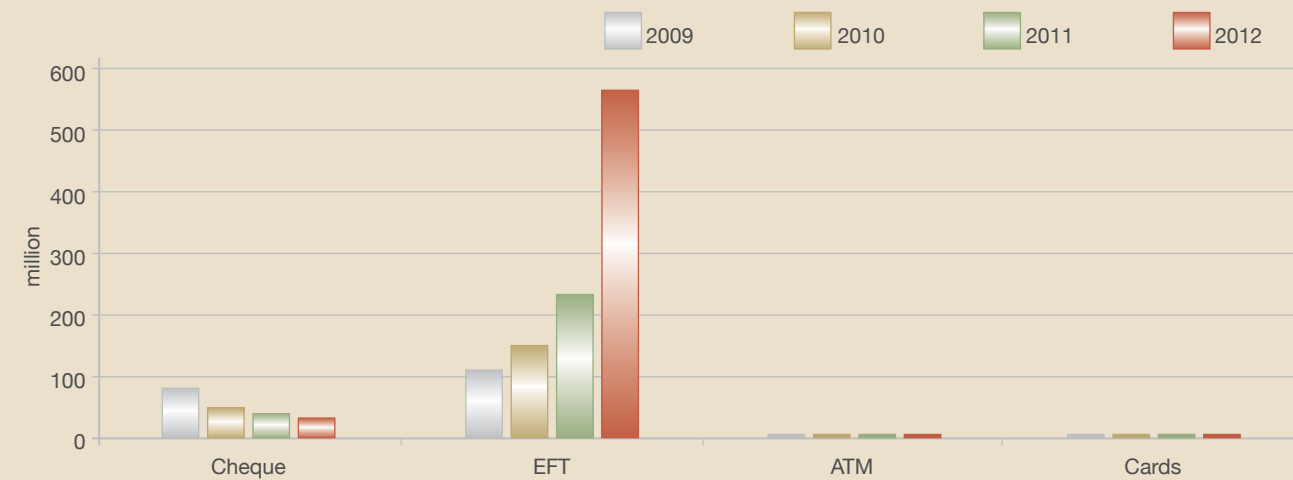


Chart 15: Fraud statistics

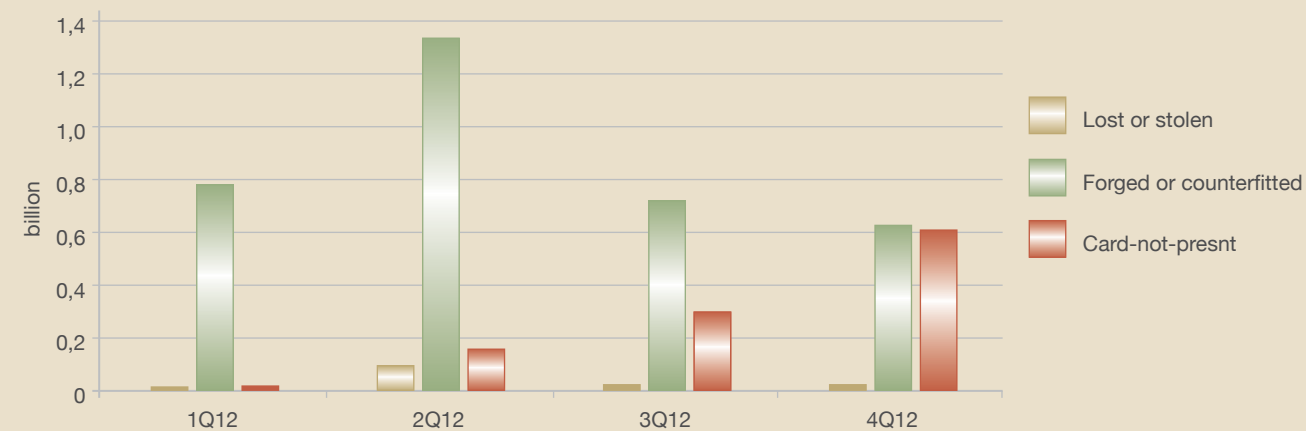


Chart 15 illustrates the type of fraud in the Namibian Payment System. The payment system industry uses this data to monitor fraud trends and to develop mitigating strategies. During 2012, the

Financial Institution Fraud and Security Committee (FIFSC) came up with a strategy document to counteract these fraud trends.

2012	Lost or Stolen	Forged or Counterfeit	Card-Not-Present	Card ID Theft
1 st Quarter	-	813,629	9,700	-
2 nd Quarter	102,000	1,370,000	166,800	-
3 rd Quarter	33,000	757,000	338,400	-
4 th Quarter	33,000	665,900	646,000	140,000

7. CONSUMER EDUCATION

THE SETTING OF MINIMUM OR MAXIMUM TRANSACTION LIMITS AND SURCHARGING ON DEBIT & CREDIT CARD PAYMENTS BY MERCHANTS

Introduction and Background

During 2012, PAN and the industry learned that some merchants are adding a surcharge (additional fee) to card transactions or are setting minimum or maximum transaction amounts as a condition for accepting debit or credit cards for payment. Such practices have a negative impact on consumers and are in direct violation of VISA International Operating Regulations.

PAN issued a notice to remind Acquirers and Merchants to comply with all card operating rules and regulations to protect the integrity of the payments system. The notice covered the following areas:

Merchants are reminded that they are required to:

- treat all debit and credit card payments like any other method of payment without additional costs (surcharges) added to the transaction value; and,
- honour valid debit and credit cards in their acceptance category regardless of the dollar amount of the purchase.

Acquiring banks are reminded to ensure that:

- merchants do not differentiate methods of payments by imposing a surcharge fee on any card payments; and,
- merchants do not impose a minimum or maximum purchase amount for the acceptance of card transactions.

Carrying large amounts of cash poses a risk to any individual. With a debit or credit card, one can pay for goods and services in a safe and secure manner. Cards also offer a fast and convenient way to shop. Penalising consumers for using payment cards is not only in contravention of card operating rules, but it unfairly shifts the cost of electronic payments onto the consumer.

The public is therefore encouraged to report any non-compliance with this notice to the PAN. If the PAN becomes aware of a merchant's non-compliance with any operating rules and regulations, we may notify the acquirer of such non-compliance and the acquirer must promptly ensure the merchant discontinues the non-compliance practice immediately.

Failure to comply with this notice, entitles the PAN to pursue any remedial measure(s) as provided under Section (16A) (1) of Payment System Management Act, 2003 (as amended), or the relevant card operating rules and regulations.

the banking community is looking forward to more consultations with BoN and PAN on policy issues for the improvement and modernisation of the National Payment System.

8. VIEWS OF CHAIRPERSONS OF PAYMENT CLEARING HOUSE PARTICIPANT GROUPS



Herman Kruger

8.1 MESSAGE FROM CHAIRPERSON: ELECTRONIC FUND TRANSFER PAYMENT CLEARING HOUSE

1. Introduction

The Electronic Fund Transfer Payment Clearing House (EFT PCH) discussed a number of issues of mutual concern with the participants during the year under review. Key focus areas that were discussed are:

2. Developments

EFT Legal Framework.

The reviewed EFT rules were signed off on 6 November 2012. There was a need for bilateral agreements between banks covering pricing and other aspects across products that needed to be drafted in line with the requirements of the Namibian Competition Legislation. Consultations in the industry are ongoing to ensure that these are developed during 2013.

SADC Payments Project.

Industry deliberations took place on matters falling under EFT Credit and EFT Debit streams. Comments were provided to the SADC Banking Association (SADC BA) on key documents including operational manuals, payment processing rules and Direct Debit Mandate Register Operating Model. The EFT PCH also took note of developments in streams falling outside the forum.

High Value Payments Discussions.

The forum discussed matters traditionally not falling under its mandate owing to non-existence of a PCH handling high value payments that require immediate settlement. Items discussed included the Namibia Interbank Settlement System (NISS) Agreement, Real Time Gross Settlement System (RTGS) transactions under N\$5 million and other matters. These issues are expected to fall under a new PCH forum to be created by PAN during 2013.

NamClear Clearing and Settlement Project.

Implementation of the project from the EFT point of view started in 2012 soon after the contract was awarded to a new vendor. Due to the complexity of the card environment, it was decided that the EFT solution will be the last to be implemented. Activities including development and System Integration Testing (SIT) are progressing well.

Payment Solution for Micro-lending Industry in Namibia.

The year under review saw much discussion on a need to find a solution that will disallow the practice of retaining pin and card by micro lenders while at the same time discouraging the practice of preferential treatment. Developments that followed include BON coming up with a policy document called, "Policy Considerations on the Conduct within the National Payment System in respect to the Collection of Payment Instructions in the EFT Debit Collection System". Industry provided comments on the document after which BON issued "Guiding

Principles for an Efficient Debit Order System in Namibia". It must be pointed out that the principles are being refined and the Stakeholders Forum is expected to play a significant role in finding a lasting solution for Namibia.

Deputy Chairperson of EFT PCH and Representation at SADC Payments Project meetings.

In November 2012, Ronda Reed of Nedbank Namibia replaced Bianca Maasdorp of Standard Bank as the Deputy Chairperson of the EFT PCH. Zane Kotze from Standard Bank was appointed the Alternative Representative for Namibia at SADC BA EFT Credit and EFT Debit regional streams, replacing Ms Maasdorp who also served in this position. Kathleen Nell of First National Bank is the new Principle Representative for Namibia at the SADC BA EFT credit and Debit region Stream.

3. Concluding Remarks

The industry continues to strive towards full compliance to regulations issued by the regulators. Furthermore, the banking community is looking forward to more consultations with BoN and PAN on policy issues for the improvement and modernisation of the National Payment System.



Ryan Geysler

The phasing out of proprietary fuel cards and South African forecourt devices in Namibia is still progressing and a study is being conducted on the cost of cash and debit/credit cards at fuel merchants.

8.2 MESSAGE FROM CHAIRPERSON CARD PAYMENT CLEARING HOUSE

The Namibia Clearing House System Replacement Initiative, which aims to replace the existing systems for cheque, EFT and card payment streams in Namibia, commenced in February 2012 after successful vendors had been selected. The major benefit of this project is to have the domestic clearing house and card switching system in-country and under Namclear's control to allow for extensibility and enhancements in the payment system of Namibia. Due to the online nature and increasing volume of card transactions, the card stream has faced the greatest challenges and banks have made huge efforts in preparation and testing to ensure a smooth implementation. The card phase is now nearing an end and the planned date for going live is in the first quarter 2013.

The SADC BA Payment Project has progressed well and the SADC Interbank Regional Electronic Settlement System (SIRESS) settlement capability will be implemented in 2013. This will allow for the other streams to start coming on board, including the card stream. Due to the fact that Namibia, like

South Africa, has an advanced card processing infrastructure, as well as a domestic card switch, little change is expected to arise from this specific initiative.

The phasing out of proprietary fuel cards and South African forecourt devices in Namibia is still progressing and a study is being conducted on the cost of cash and debit/credit cards at fuel merchants. The purpose of the study will be to gain a better understanding of these costs in order to determine the best way to migrate the current behaviour towards acceptance of debit/credit cards for fuel.

Namibian banks are committed to the Namibia National Payment System Vision 2015, with the current focus being EMV and PCI-DSS compliance. EMV intends to reduce the fraud risk exposure by ensuring that all acquirers can accept and process EMV (chip) debit/credit cards. The deadline for this phase was at the end of December 2012 and although much progress has been made, some banks still need to complete this exercise. The second part of this initiative will be for all banks to be issuing EMV cards to their customers by 2015.



Chris Diemer

The cheque stream was the first stream to migrate to the new system platform as part of the Namibian Clearing House System Replacement Initiative

8.3 MESSAGE FROM CHAIRPERSON PAPER PAYMENT CLEARING HOUSE

The main purpose of the Paper Payment Clearing House (Paper PCH) remains to monitor, discuss and resolve any cheque related incidents or issues the industry might experience in the clearing of cheques between the different member banks. In addition, the Paper PCH is the guardian of the PCH industry and agreed to clearing rules and regulations as reviewed and amended from time to time.

The cheque stream was the first stream to migrate to the new system platform as part of the Namibian Clearing House System Replacement Initiative, started in February 2012 after the vendor selection process had been completed. In order to ensure a smooth transition, several rounds of industry testing were conducted by the various stakeholders and the system implementation was completed successfully in early November 2012 with no inconvenience or impact on the public. The new system is stable and performing to expectations.

As part of the SADC BA Payment project, all stakeholders agreed that the clearing of cheques

will not form part of the regional integration since alternative means of electronic payments are available that are more effective and secure. As a result of this decision, cross border cheque payments will be phased out during the third quarter of 2013 and the process to engage and inform participating banks as well as the public at large, have commenced.

This change will require amendments to the clearing house rules and the Paper PCH has decided to use this opportunity to review the paper clearing house rules in its entirety in order to align current practices with the rules. This process will commence in early 2013 and should be completed within a period of 6 months.

The reduction of the cheque item limit from its current N\$500,000.00 to N\$100,000.00 remains under discussion and has not yet been finalised as alternative methods of payment for certain cheque payments continue to pose a challenge.

SME Bank has joined the Paper PCH as a new member in 2012 and I would like to extend a word of welcome to their representatives.



Bryan Eiseb

8.4 MESSAGE FROM CHAIRPERSON FINANCIAL INSTITUTIONS FRAUD AND SECURITY COMMITTEE

The Financial Institutions Fraud and Security Committee (FIFSC) is an interbank cooperative forum. The forum was initiated some years ago to serve as a platform for inter-bank dialogue on common challenges with regard to fraud and other commercial related crimes especially those perpetrated against banks. The FIFSC resorts operationally under the auspices of the Payments Association of Namibia (PAN).

The forum congregates monthly to discuss, determine trends and strategise on initiatives to minimise and curb the incidence of economic crimes.

With the growth and sophistication of economic crimes, the forum anticipated more vigilance and pro-activeness from all stakeholders to curb the

new trends and number of incidences of economic crimes. Card fraud including skimming, phishing, letterhead scams, advertising scams and smishing were identified as major concerns in the Namibian industry during 2012. PAN, in collaboration with the Bankers Association of Namibia (BAN), launched an advertising campaign to keep the public informed with valuable tips to avoid falling victim to fraudsters and educating the public of the techniques used by fraudsters.

During 2013, the forum envisages training and creating awareness, while at the same time, promoting public and private collaboration to enable the sharing of fraud knowledge and intelligence with the outcome of combating payments fraud.

In another effort to make the FIFSC more relevant and enhance its valuable contribution to the banking sector, the committee visited SABRIC, the South African Banking Risk Information Centre.

With the visit, the FIFSC aimed to learn more about SABRIC operations, its successes and challenges. The visit also served as a platform to establish and develop bilateral relations between members of the FIFSC and SABRIC and to establish a working relationship and strategic partnership with SABRIC for the sharing of information and skills. SABRIC was established in 2002 as a wholly owned subsidiary of the Banking Association of South Africa. In September 2003, SABRIC was incorporated as a non-profit company in terms of the Companies Act with a mandate to assist the banking and cash-in-transit industries in South Africa to combat organised crime.

In addition to these highlights, the members of the various banks have shared information regarding suspects, misdemeanours and other relevant crimes - a demonstration of the efforts by all stakeholders to curb the spread and effects of economic crimes across institutional borders. One of the major trademarks of the forum is that it realises that crime is a non-discriminatory phenomenon and in order to best address it, the forum adopted a collaborative and non-competitive approach.

- | 1. PAN AT A GLANCE | 2. CHAIRMAN'S FOREWORD | 3. COO REVIEW |
- | 4. INAUGURATION OF PAN OFFICE | 5. REGULATION AND COMPLIANCE HIGHLIGHTS | 6. THE NAMIBIAN PAYMENT SYSTEM | 7. CONSUMER EDUCATION | 8. VIEWS OF THE CHAIRPERSONS | 9. IPL | 10. GLOSSARY |



Albert Mutonga Matongela

9. IMPLEMENTATION OF THE SADC PAYMENTS PROJECT IN NAMIBIA

9.1 Introduction

2012 marked the second year of the implementation cycle of the SADC Payments Project in member countries. The SADC Payments Project kicked-off earnestly in January 2011 and is expected to be fully implemented in the Common Monetary Area (CMA) in 2015 and SADC-wide by 2018. The Namibian banking industry carried out a number of activities during 2012 in line with requirements from the SADC Banking Association (SADC BA). This report highlights key developments during the year from a Namibian perspective.

9.2 Developments

9.2.1 Meetings

In terms of the regional governance framework, each country must be represented at regional meetings of streams organised by the SADC BA. Domestically, participants should have meetings to address issues and apprise stakeholders on the status of the SADC Payments Project. The Namibian banking industry was well represented at regional meetings and action items arising from those meetings were channelled appropriately for industry deliberations locally.

9.2.2 Developments per Stream

The industry addressed issues that arose from various streams during the period under review as shown in the table on the following page:

Table: Developments in Streams of the SADC Payments Project

STREAM	PURPOSE	KEY DEVELOPMENTS
ATM/Card	To decide on preferred model for switching, clearing and settlement of ATM/card payments	Business models and rules are some of the items that were discussed under this joint stream. For example, one of the options is to incorporate VISA/MasterCard Associations in clearing/ settlement process for regional transactions given that the two brands are well established locally and regionally. With respect to the rules, the region is considering which payment processing rules will apply for regional transactions.
Bank Notes	To recommend the appropriate means of settling cross-border bulk note transactions.	The industry provided input on the business model requiring repatriation and consignment of ZAR to be via Bank of Namibia. Our regulator validated the model.
Cheques	To advise on the possibility of eliminating cheques for cross-border transactions.	The SADC BA Program of Work for Elimination of Cross-border Cheques was shared with the industry. The industry awaits a public notice to be issued in due course.
Credit Transfers for Immediate Settlement	To propose appropriate means to settle credit transfers requiring immediate settlement.	The industry reviewed the business model and payment processing rules applicable to this stream. Furthermore, the industry provided input on inter-bank payment compensation rules.
Delivery versus Payments	To propose appropriate means for settlement of cross border stock market trades.	The industry reviewed the business model and operational manual for the stream. Furthermore, the industry is looking forward to the conclusion of discussions on regional Central Securities Depository (CSD) at Committee of SADC Stock Exchanges COSSE/ SADC BA level.
EFT Credit	To recommend appropriate means for settling low value credit transfers.	Business model, exceptions handling process and payment processing rules were reviewed.

STREAM	PURPOSE	KEY DEVELOPMENTS
EFT Debit	To recommend appropriate means for settling low value debit transfers.	Business model, direct debit mandate register operating model, exceptions handling process and payment processing rules were reviewed.
Interbank Settlement	To undertake all necessary activities to ensure settlement of interbank transactions.	The stream was preoccupied with preparation of a list of possible agreements required for interbank settlement.
Person-to-Person	To establish the current regulatory framework for remittances.	The stream engaged itself with coming up with measures aimed at reducing the cost of low value cross-border remittances in the region. For example, consultations at regulators level on Financial Intelligence Centre FIC Lite initiative are ongoing.
Financial Markets	To propose processes for settling financial markets instruments.	In terms of this stream, the industry reviewed the operational manual and payment processing rules. Further, the industry gave its position on SWIFT accord matching service.
Financial Markets	To propose processes for settling financial markets instruments.	In terms of this stream, the industry reviewed the operational manual and payment processing rules. Further, the industry gave its position on SWIFT accord matching service.
SWIFT Implementation Group	To handle matters related to SWIFT.	The industry was sensitised on SWIFT YCopy service. Further discussions around industry participation in SWIFT Readiness Audit for SIRESS took place.
Joint Implementation Group	To attend to all settlement issues given that go live for SIRESS is July 2013.	The industry reviewed the project plan, test plan and SIRESS Functional Requirements Specifications. In addition, the identification of a project manager within each participant and service provider was a significant milestone during the period under review.

It emerged that central banks in the region have shown interest as participants in cross-border clearing and settlement process especially in areas such as securities, bank notes, electronic fund transfers and other payments.

We will continue informing the regulators and Bankers Association of Namibia (BAN) on the status of the SADC Payments Project going forward.

9.3 Role of Central Banks in Cross-border Payment Systems

The role of central banks in payment systems is not limited only to overseeing systems, providing settlement services or encouraging innovation. They are also participants because they can send or receive transactions for themselves or on behalf of their clients. It emerged that central banks in the region have shown interest as participants in the cross-border clearing and settlement process especially in areas such as securities, bank notes, electronic fund transfers and other payments. Our central bank was instrumental in discussions in-country on matters related to the SADC Payments Project.

9.4 Role of Payments Association of Namibia in the SADC Payments Project

PAN is involved in the SADC Payments Project from a compliance point of view. This is in line with the Payment System Management Act, NPS Vision 2015 and PAN Strategic Plan 2012 – 2015 that outlines PAN's involvement in regional payment integration initiatives. Our arrangement is not different from practices in other Common Monetary Area (CMA) countries where Payment Associations are involved in the SADC Payments Project from a compliance perspective. The industry kept PAN informed on the status of the SADC Payments Project through quarterly and regular reports at PAN Management Council and PAN PCH meetings.

9.5 SIRESS Implementation and Implication on Nostro Accounts

The implementation of the SADC Integrated Regional Electronic Settlement System (SIRESS) in July 2013 has implications on nostro/ vostro account flows. A nostro account is a bank account that is held in a foreign country by a local banking institution and denominated in the currency of that country. A vostro account is one in which the domestic bank (from the point of view of the currency in which the account is held) acts as custodian or manages the account of a foreign counterpart.

The position of SADC BA is that nostro accounts will be phased out when SIRESS and streams have gone live. During this time, cross-border payments will be settled via SIRESS and there will be no need for nostro accounts.

Elimination of nostro accounts poses challenges locally given that members of the Namibian banking industry have such accounts in the Republic of South Africa. The accounts are being used for clearing and settlement of South African Rands (ZAR) transactions within and outside the CMA. Concerns include:

- All counter-parties involved in the nostro accounts should be advised that the accounts are closed and payments will not be settled.

- How will foreign correspondents outside SADC who maintain ZAR accounts and prefer ZAR payments fund/settle ZAR payments? Our view is that there will not be any challenges provided that SIRESS can accommodate ZAR settlements to/from outside the wider SADC region.
- Correspondent banking/nostro account closure should not be part of the current project scope, but rather an individual participating bank decision.

The industry will share the above issues with SADC BA in good time at appropriate forums with a view to obtain clarity and be advised on the way forward. It will be ideal to communicate the closure of nostro accounts ahead of time to bring about certainty among participating members.

9.6 Concluding Remarks

The industry reviewed key documents and addressed issues related to the SADC Payments Project during the period under review. We will continue informing the regulators and Bankers Association of Namibia (BAN) on the status of the SADC Payments Project going forward.

9. GLOSSARY

Act - Payment System Management Act No. 18 of 2003

Banking Institution - means a banking institution authorised to conduct banking business under the Banking Institutions Act 2 of 1998, as amended

BoN Bank of Namibia - means the Bank of Namibia established in terms of the Bank of Namibia Act, No. 15 of 1997

Card PCH: - means a Payment Clearing House arrangements for Card (ATM, Debit and Credit) payment transactions

Cheque - essentially instructs the payer's financial institution to debit the payer's account for a specified amount and either to transfer that value to the payee's financial institution for credit to the payee's account or to pay out cash.

Cheque item limit- means the maximum value for which a cheque can be legally issued, processed and cleared within the Namibian National Payment System

Clearing - The exchange of payment instructions between the payer's bank and the payee's bank (or their agent.) which results in the calculation of payment obligations between system participants

Clearing House/Payment Clearing House (PCH) - Any formal arrangement between banks whereby participants exchange payment instructions.

CMA (Common Monetary Area) cross-border payments - links South Africa, Namibia, Lesotho and Swaziland into a monetary union

CMA CPOC- Common Monetary Area Cross-Border Payment Oversight Committee

COSSE - means the Committee of SADC Stock Exchanges established in 1997 as a collective and co-operative body of the various stock exchanges in Southern African Development Community (SADC) with a formal status under the SADC Finance and Investment Protocol (FIP).

Cross-border Transaction - A transaction where at least one of the parties is located outside the home countries

Credit card - means a card holder has been granted a credit line, enabling the holder to make purchases and/or draw cash up to a prearranged limit.

Debit card - is usually used for non-recurring electronic funds transfers at the point of sale (POS) to initiate payment to the vendor with an immediate debit to the cardholder's account. Debit cards perform other services, such as automated teller machine (ATM) withdrawals.

Determination - means a determination issued in terms of section 14 of the PSMA

Directives - means such directives, instructions, requirements, rules and procedures which may be approved by a PCH Participant Group (PG) as binding upon all members of that PCH and ratified by PAN, or issued by PAN or BoN;

EFT PCH - means a payment clearing house arrangements for Electronic Funds Transfer (EFT) payment transactions

EMV - (Europay Master Card & Visa) is a specification for interaction between chip cards and terminals

IPL - In-country Payments Leader

Namclear - means the company authorized by the Payment Association of Namibia to provide clearing services in Namibia and operating as payment system service provider as defined in the Payment System Management Act, 2003 (Act No. 18 of 2003)

NAMFISA - is a public body established in terms of the Namibia Financial Institutions Supervisory Authority Act, 2001 (Act No. 3 of 2001), the Act, and is tasked with the responsibility of regulating and supervising non-banking financial institutions in Namibia.

National Payments System (NPS) - means the payment system as a whole, and includes any payment system, settlement system, clearing system and payment system arrangement used in the process of effecting payment between payers and beneficiaries

NISS - means Namibia Interbank Settlement System, which facilitates the settlement of all domestic transactions in Namibia dollar at Bank of Namibia

Paper PCH - means a payment clearing house arrangements for cheque payment transactions or other paper bill payments

Payment instrument - means a designated instrument, whether tangible or intangible, that enables a person to obtain money, goods or services or to otherwise make payment.

Payment System - means a system that enables payments to be effected between a payer and a beneficiary

PCI DSS - Payment Card Industry Data Security Standard

PCH or Payment Clearing House - means an arrangement between two or more system participants governing the clearing of payment instructions between those system participants

| *SWIFT - means the Society for Worldwide Interbank
Financial Telecommunication* |

Payment Clearing House Participating Group (PCH PG) - means a payment clearing house participant group governing the affairs of the participants in one or more payment clearing houses and constituted by PAN

PSMA - Payment System Management Act (PSMA) No 18 of 2003, amended

RTGS - systems (RTGS) are funds transfer systems where transfer of money or securities takes place from one bank to another on a real time and on gross basis.

SIRESS - means the SADC Interbank Regional Electronic Settlement System and a component of the SADC Payments Project.

SIT - System Integration Testing - means a testing phase as encapsulated in the functional specification document for the NamClear Clearing and Settlement Project.

Sort at Source – means the process whereby the beneficiary of a payment instruction sorts each paying banks' payment instruction together and submit those payment directly to each paying bank, where the proceeds of such payment instructions are credited to an account in the name of the beneficiary.

SWIFT- means the Society for Worldwide Interbank Financial Telecommunication, a member-owned cooperative and global provider of secure financial messaging services since 1973.

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