

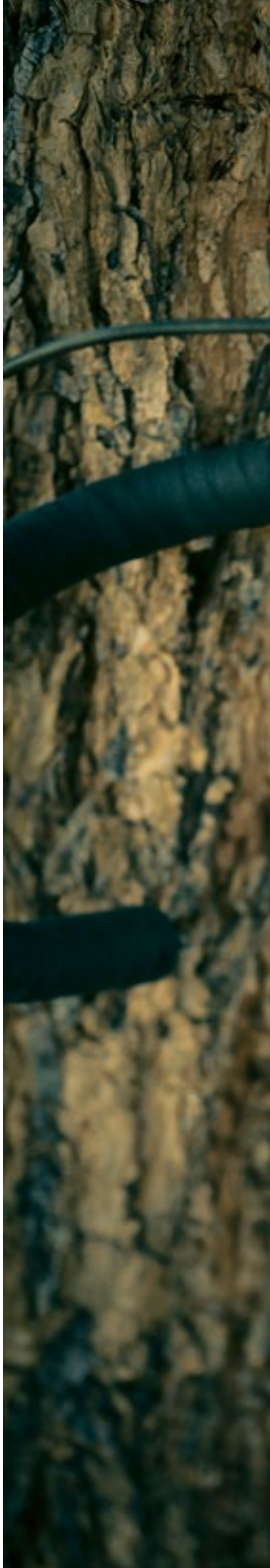


ANNUAL REPORT 2016

FINDING PURPOSE **IN THE JOURNEY**

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PURPOSE

To manage and regulate fairly, equitably and transparently the participation, innovation and development of the National Payment System and its stakeholders, to the benefit of the Namibian nation.

VISION

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

MISSION

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

CORE VALUES

COLLABORATION

We embrace stakeholder unity to achieve synergy on the journey of achieving our Vision.

INTEGRITY

We uphold sound business ethics that safeguard the interests of stakeholders at all times.

RESPECT

We value and treasure the contribution of people from all walks of life.

TRANSPARENCY

We share relevant information freely and accept responsibility for our actions.

FAIRNESS

We are consistent in our application of policies, procedures, regulations and rules.

INNOVATION

We are proactive in sourcing ideas and solutions that propel the National Payment System forward.

EXCELLENCE

We are in pursuit of perfection in everything that we do.



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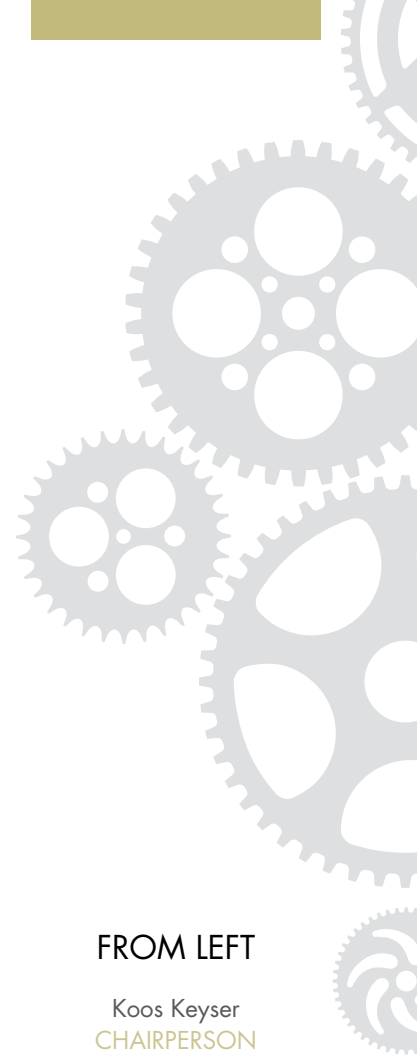
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MANAGEMENT COUNCIL





FROM LEFT

Koos Keyser
CHAIRPERSON

Annette Rathenam
CHIEF OPERATING
OFFICER – PAN

Chris Diemer

Zane Kotzé

Candy Ngula

Shaun Seboa

MANAGEMENT COUNCIL

CONTINUED



FROM LEFT

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Gerald Riedel



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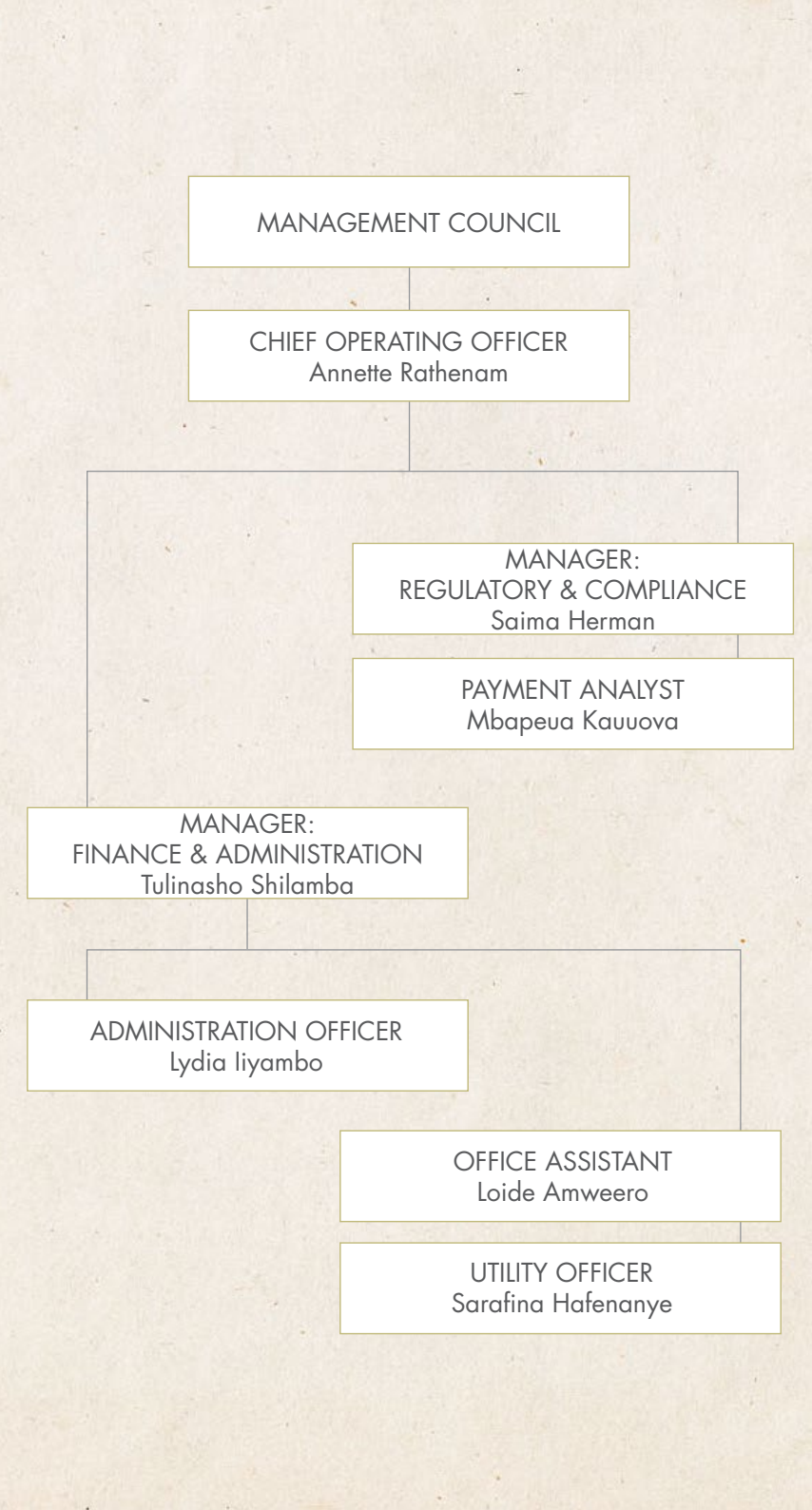
Mbapeua Kauuova
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UTILITY OFFICER



LIST OF ABBREVIATIONS



ATM	Automated Teller Machine
EFT	Electronic Fund Transfer
EMV	Europay, Mastercard and Visa
EnDOS	Enhanced Debit Order System
ISO	International Organization for Standardization
NISS	Namibia Inter-bank Settlement System
NPS	National Payment System
PAN	Payments Association of Namibia
PCH	Payment Clearing House
PCI DSS	Payment Card Industry Data Security Standard
POS	Point-of-Sale
PSD	Payment System Determination
PSD-4	Payment System Determination on Conduct of Card Transactions within the National Payment System
PSD-7	Payment System Determination on Efficiency within the National Payment System
SADC	Southern African Development Community
SIRESS	SADC Integrated Real Time Electronic Settlement System

In the current reporting year, we gained some momentum in pursuance of our Vision to be an internationally reputable National Payment System (NPS). In doing so, we continued to safeguard the interests of all stakeholders in accordance with the Payment Association of Namibia (PAN) Vision 2020. Effective collaboration with these stakeholders contributed towards the ongoing enhancement of NPS infrastructure and efficiencies. The contribution underscored the importance of working within the parameters of our seven mutually agreed-upon core values, namely Collaboration, Integrity, Respect, Transparency, Fairness, Innovation and Excellence. As we build on the past to pursue improvement, PAN sharpened its focus on its three strategic corporate development themes – Stakeholder synergy, NPS integrity and NPS capacity. Various activities were conducted under these themes, as discussed in more detail below.

STAKEHOLDER SYNERGY

The reporting period saw PAN refine its principles of project governance, its project management framework, and its test methodology and test processes for changes and enhancements to the payment systems in Namibia through general projects. Besides enhancing our time management on projects, these refinements also aim to boost stakeholder synergy.

PAN also continued participating and cooperating in the Southern African Development Community (SADC) Regional Payments Projects and various regional bodies during the year under review. We strengthened awareness among all stakeholders to ensure ongoing compliance with regional standards, rules and timelines.

Another highlight of the past financial year was the conducting of an industry stakeholder satisfaction survey, which included all PAN stakeholders. The results of the survey will be made available during the first quarter of 2017, and should assist the sector in setting more effective goals and timelines for at least the next two years as set out in the Namibia National Payment System Vision 2020.

PAN's objective to promote financial inclusion encompasses activities such as working on new products within the industry, and expanding PAN's existing merchant and agent base. Furthermore, to ensure no institution is left behind, service



Koos Keyser
CHAIRPERSON

providers registered with PAN also work to expand merchant networks throughout Namibia by way of specialised products. In addition, PAN conducts an ongoing national campaign at various fairs and shows to educate all consumers about fraud-related issues, as well as other campaigns through the Financial Literacy Initiative. Over the past few years, PAN has distributed over 100,000 information pamphlets such as PayWise booklets on how to recognise, avoid and report fraud. These were distributed across the country to individuals as well as to micro-, small- and medium-sized enterprises.

CHAIRPERSON'S REVIEW

CHAIRPERSON'S REVIEW

CONTINUED

NPS INTEGRITY

In respect of maintaining the integrity of the NPS, participants in the various PAN structures persist in their quest to enhance public consumer access to the various payment systems. Through its Management Council and various industry action committees such as its Payment Clearing Houses, PAN ensures adherence to the regulations and standards that apply to the NPS in general, and to interoperability in particular. In respect of compliance with international standards, PAN's current integrity-enhancing drive is focused on two principal areas: International Organization for Standardization (ISO) standards for card payment and electronic fund transfer (EFT) streams, and the Payment Card Industry Data Security Standard (PCI DSS). These standards' overall aim is to reduce the risk of fraud.

With regard to the security and global interoperability of payment cards, the review period saw PAN continuing to monitor the replacement of magnetic stripe cards with versions that comply with the so-called EMV Standard (originally devised by Europay, Mastercard and Visa). The new cards are more difficult to clone because they are embedded with a microprocessor chip activated via a unique personal identification number (PIN). The industry has made robust progress with the replacement of the old magnetic strip cards with the new PIN-and-chip cards. The full rollover is expected to be achieved during 2017.

Compliance with the PCI DSS remains a challenge for several institutions in our jurisdiction. Efforts are being redoubled to implement this standard as soon as possible. Thus, although measures to mitigate the risk of fraud are already in place, a stronger drive to ensure full industry compliance with the PCI DSS has begun.

The interoperability of a payment system benefits all its participants. Consumers, merchants, governments and enterprises alike find that a system's interoperability facilitates the making and acceptance of payments. However, since market forces and the unrelenting demand for new technology drive the constant evolution of payment instruments, it is up to regulatory bodies such as PAN to identify standards that are relevant to the national payment system concerned and to the industries they serve. In this way, a baseline can be established against which to measure and monitor these standards as new payment instruments emerge.

In this regard, the duty of the Management Council is to ensure that PAN, as a self-regulatory body, complies with all relevant standards, and that it mitigates industry risk to the greatest extent possible by enhancing the infrastructure, safety, security and cost-effectiveness of the NPS. To this end, PAN reviewed its Compliance Enforcement and Dispute Resolution Policies during the review period.

Furthermore, PAN is considering whether Namibia should formally adopt the Bank for International Settlements and International Organization of Securities Commissions' Principles for Financial Market Infrastructures. Taking this step would bring about the diligent assessment and risk management of core NPS systems, including but not limited to the continuous monitoring of the availability of such systems. Meanwhile, consideration is being given to the requirements and the ability of significant market infrastructures to adhere to the full scope of requirements in relation to adequacy, effectiveness and relevance in Namibia. They are the Namibia Inter-bank Settlement System (NISS), Namclear, and the Central Security Depository. A pronouncement from the Bank of Namibia is expected in this regard in due course.

Meanwhile, Namclear has been revising its funding and governance model, which will be finalised during 2017/18.

NPS CAPACITY

During the review period, the Bank of Namibia and the Namibia Financial Institutions Supervisory Authority (NAMFISA) commissioned a study on building a highly skilled workforce in the country's financial sector. Besides being able to inform the Government's recent Harambee Prosperity Plan 2016/17–2019/20, the study is also a broader, long-term development tool associated with the Namibia Financial Sector Strategy 2011–2021 geared towards achieving the nation's Vision 2030. Augmenting this skilled capacity in the financial industry is in line with the Namibia National Payment System Vision 2020, particularly its goal to ensure that the required skill and capacity is achieved to maintain the integrity of the NPS to a standard comparable to both regional and international best practice. PAN therefore participated wholeheartedly in the survey and workshops associated with the study while it was under way. A report on the study's findings is expected to be published during 2017.

In conclusion, I wish to thank not only my fellow Councillors for their contributions to the NPS, but also all the participants in the PAN structures, the PAN Executive Office, and the Bank of Namibia. With your constant and dedicated support, each year that passes will witness the successful implementation of our Vision 2020 strategies, and help to create the future that our nation deserves.

Koos Keyser
CHAIRPERSON
MANAGEMENT COUNCIL
Payments Association of Namibia



Annette Rathenam
CHIEF OPERATING OFFICER

The PAN Management Council undertook an extensive stakeholder survey during the past financial year to gauge the level of satisfaction from system participants (i.e. the central and commercial banks) and service providers (i.e. system operators, the automated clearing house, and paying/collecting facilitators). The primary aim of the survey is to assist PAN in determining the needs and perceptions of its stakeholders more precisely, which will allow PAN to enhance the performance of its primary duty to provide a world-class payment system that meets domestic, regional and international requirements. The secondary aim of the survey was to validate the outcome of the Namibia National Payment System Vision 2020 and to ensure that our stakeholders remain committed to the five-year agreement it represents. The survey findings are expected to be released in 2017.

In our endeavour to achieve this Vision and maintain the required integrity of the NPS, we also rely on the guidance provided by PAN's Management Council. The Council's input is imperative in ensuring that the NPS maintains standards in line with regional and international best practice. In this regard, Councillors' knowledge and skills in corporate governance were consolidated through supplementary training during the year under review, which will further enhance the leadership and commitment they offer PAN.

In our pursuit to ensure that the NPS offers the highest possible quality of service through its infrastructure, safety, security and cost-effectiveness by complying with agreed and evolving standards, PAN has further undertaken to support its objectives through an appropriate, well-researched and relevant governance structure that clearly defines the roles, representations, responsibilities and decision-making authority of key stakeholders. In this regard, the reporting period saw the approval of a revised Project Management Framework and Project Governance Principles, and the reassessment of its Test Methodology Policy. The Policy reassessment will continue as a work in progress during 2017. Also targeting the outcomes of enhanced timeliness, collaboration, infrastructure, safety, security and cost-effectiveness is our intention to revise the following core documents in the 2017 financial year:

- PAN's Constitution
- Governance Principles and Funding Policies
- Entry and Participation Criteria
- Compliance Enforcement Policy, and
- Dispute Resolution Policy.

A sub-committee of the Card Payment Clearing House (PCH) was established to discuss the challenges the PCI DSS faces, while the interchange rate – i.e. the fee charged by banks that covers the cost of handling and credit risk inherent in a bank credit or debit card transaction – is being revised.

CHIEF OPERATING OFFICER'S REVIEW

CHIEF OPERATING OFFICER'S REVIEW

CONTINUED

While the issuing of chip-and-PIN cards has steadily increased in the industry in general and has gained momentum during the reporting year in particular, most system participants remain challenged with the magnetic stripe cards that continue to prevail in the market. The challenge has therefore been taken up to motivate customers more definitively to collect their new chip-and-PIN cards.

The Enhanced EFT Project, launched in 2016 to create various payment options for customers to migrate from cheque to electronic payments, has proved to be very complex and challenging. Nonetheless, all industry participants have committed their resources and through collaboration managed to commence system integration testing in December 2016. We wish to thank all stakeholders for their continued support and dedication to ensure that together we reach our aim to align with regional and international standards in respect of EFT payments.

The Council and PAN remain confident that, once all the above compliance matters have been addressed, it will boost confidence in the NPS even further, and will strengthen the mitigation of fraud.

We also believe that 2017 will prove to be a pivotally positive year as we continue to work towards actualising our Vision 2020.

In conclusion, I wish to thank the PAN Executive Office Team, all NPS participants and service providers, and the Bank of Namibia for their continued support and dedication to PAN's overall Vision, Mission and Core Values. I remain confident that, together, we will bring about change that will benefit not only the payment ecosystem, but also the domestic economy and, therefore, the future of all Namibians.

Annette Rathenam
CHIEF OPERATING OFFICER
Payments Association of Namibia





We believe that 2017 will prove to be a pivotally positive year as we continue to work towards actualising our Vision 2020.

Annette Rathenam - CHIEF OPERATING OFFICER



COMPLIANCE HIGHLIGHTS



Saima Herman
REGULATORY AND COMPLIANCE MANAGER

The year under review was a busy and challenging one for the industry in terms of implementing various projects as well as the five-year Namibia National Payment System Vision 2020 which was launched in 2015. The reporting period was also characterised by the dominant themes of Stakeholder synergy, NPS integrity and NPS capacity across the Namibian consumer payment landscape, as PAN remained committed to delivering on its mandate to deliver payment system improvements through industry policy, standards, rules development and thought leadership. In our role as a self-regulatory body for payments, we bring rigour to the application of existing regulation, as well as an inquisitive, front-footed approach to supporting the requirements of the emerging payment landscape.

In this facilitative role, 2016 saw us –

- conduct industry consultations on key payment issues and improvements that need to be seen
- engage stakeholders widely on payment matters, namely with the Ministry of Finance, the National Planning Commission, and the Gesellschaft für Internationale Zusammenarbeit (GIZ)
- undertake research on the national domestic card scheme as well as on the interchange rate (i.e. the fee charged by banks that covers the cost of handling and credit risk inherent in a bank credit or debit card transaction), and
- consult with stakeholders in terms of their satisfaction with payment industry services.

NPS PARTICIPANTS

During the reporting year, Letshego Bank Namibia, Bank BIC Namibia and Atlantico Namibia obtained full PAN membership, bringing the total of fully authorised members to 11. MobiPay withdrew from NPS participation in 2016, although they retain their licence from the Bank of Namibia in respect of the Payment System Determination (PSD-6) on Criteria for Authorisation of Participants in the Clearing and Settlement Systems.

SERVICE PROVIDERS

The reporting year welcomed an additional member – Innervation – to the existing foundation of businesses that provide innovative solutions to the payment services industry. Table 2 illustrates the range of fully registered payment service providers in Namibia as at the end of the reporting year.

PAN has always encouraged dialogue with payment service providers. We therefore invite all newcomers to register before commencing with operations. To ensure that the registration process is not cumbersome, PAN launched a

TABLE 1: Membership status

NUMBER	NAME	STATUS
1.	Atlantico Namibia	Full Member
2.	Bank BIC Namibia	Full Member
3.	Bank of Namibia	Full Member
4.	Bank Windhoek	Full Member
5.	EBank	Full Member
6.	First National Bank	Full Member
7.	Letshego Bank Namibia	Full Member
8.	Nedbank	Full Member
9.	SME Bank	Full Member
10.	Standard Bank	Full Member
11.	Trustco Bank	Full Member
12.	MobiPay	Withdrawn

Source: PAN

TABLE 2: Payment service providers registered with PAN

NUMBER	NAME	TYPE OF SERVICE PROVIDER	STATUS
1.	ATM Solutions	System Operator (Automated teller machine deployment services)	Fully Registered
2.	eCentric	System Operator (Card-acquiring services)	Fully Registered
3.	Fidel lipumbu Mobile Technology	System Operator (Chip-and-PIN card payment solution)	Fully Registered
4.	Hyphen Technology Namibia	System Operator (Management and processing services in respect of payment)	Fully Registered
5.	Innervation	System Operator (Integrated card-switching services)	Fully Registered
6.	Namclear	Automated Clearing House (Payment clearing house service provider)	Fully Registered
7.	National Payment System	System Operator (E-commerce and integrated point-of-sale payment processing services)	Fully Registered
8.	PayMate	Paying/collecting Facilitator (Collecting facilitator – Cards)	Fully Registered
9.	RealPay	Paying/collecting Facilitator (Collecting facilitator – EFTs)	Fully Registered
10.	SmartSwitch	System Operator (Transaction-switching services to Namibia Post Limited)	Fully Registered
11.	Virtual Card Services	System Operator (E-commerce for card-based services)	Fully Registered

Source: PAN

COMPLIANCE HIGHLIGHTS

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COMPLIANCE HIGHLIGHTS

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review of its documentation during the year under review in respect of entry and participation criteria. The review aims to ensure all risks are covered, relevant documentation is requested when applications are submitted, and efficiency prevails in terms of the lead time. These actions speak to our endeavour to enable an optimally efficient registration process in the NPS.

SPECIAL PROJECTS

PAYMENT SYSTEM DETERMINATION (PSD-4) ON CONDUCT OF CARD TRANSACTIONS WITHIN THE NATIONAL PAYMENT SYSTEM

Since 30 June 2013, all domestic interbank card transactions have been required to be switched via the domestic switch, Namclear, whereas international card transactions are switched via international networks.

In respect of the dispensation granted until 31 March 2017 for the phasing out of fleet cards, industry participants have been encouraged to notify and engage with their customers with sharpened focus in terms of alternative solutions that are available.

PAYMENT SYSTEM DETERMINATION (PSD-7) ON EFFICIENCY WITHIN THE NATIONAL PAYMENT SYSTEM

The PSD-7 addresses enhancing the efficiency of the NPS across the spectrum, namely in the card system, the cheque clearing system, the electronic fund transfer system, and the immediate settlement system.

No efficiency-enhancing projects were targeted for the cheque payment system during the reporting period, since efforts are under way to phase out the use of cheques by 31 December 2017 in favour of more secure, electronic payment options. The reporting period therefore saw the financial industry hard at work in respect of rolling out the necessary communication strategies to inform clients about alternative payment methods they could soon utilise.

Efficiency within the card system will be formally assessed during the 2017/18 financial year.

To enhance efficiency within the immediate settlement system, the industry has been investigating the adoption of straight-through processing. Straight-through processing has the potential to ensure the efficient and rapid facilitation of payments for businesses and other categories of payment service consumers.

DRAFT PAYMENT SYSTEM DETERMINATION (PSD-8) ON THE IMPOSITION OF ADMINISTRATIVE PENALTIES WITHIN THE NATIONAL PAYMENT SYSTEM

The Draft PSD-8 compiled during the reporting year and being considered by the Bank of Namibia provides guiding principles and criteria for the application of administrative penalties which the Bank may impose on authorised participants that have neglected to comply or have delayed complying with any of its Directives, Determinations, Guidelines, Standards, Circulars, Specifications, Orders or Notices. It also contains specified criteria that may be used by the Bank to determine an appropriate administrative penalty to be levied on authorised participants in breach of such compliance.

In the year ahead, the following are to be reviewed and enhanced where necessary: the Namibia National Payments System Vision 2020, the PAN Constitution, PAN Entry and Participation Guidelines, PAN Funding and Governance Policies, the PAN Compliance Enforcement Policy, the PAN Risk Management Policy, and the development and implementation of Enhanced EFT Rules, Schedules and Agreements. New projects are also being planned in the EFT, Card and Immediate Settlement streams to span at least the next two years.

Saima Herman
REGULATORY AND COMPLIANCE MANAGER
Payments Association of Namibia

The Enhanced EFT Project was set up in terms of PSD-7 (see also Compliance highlights chapter above) and is under consideration for implementation in 2017. The Project aims to replace the existing EFT system managed by Namclear with a state-of-the-art, internationally recognised financial industry message scheme, namely the ISO 20022 standard. This solution will introduce more efficiency as well as more effective control of the NPS's domestic EFT component. The proposed message scheme entails innovations in the delivery of three existing payment methods, as detailed below.

ENHANCED DEBIT ORDER INSTRUCTIONS

With this new payment method, banking customers will be able to submit a debit order request with multiple tracking days, which improves the collection success rate. For example, if a paying customer does not have sufficient funds in his/her account at the time of collection, the debit order will automatically and systematically be represented for a specified tracking period; with each representation, the chances for payment being met increase. This solution will additionally provide an improved dispute management process and a more robust regulatory management process for debit order originators, ensuring that consumers are protected from rogue collectors.

ENHANCED CREDIT TRANSFERS

With this innovation, the banking customer will be able to submit beneficiary payment instructions that will be accumulated and bulked before being transferred and cleared between one bank and another. In addition, credit transfers have been enhanced to be processed automatically and more seamlessly between banks. The better data being produced in this way will improve settlement success, and enhance customer validation procedures across the NPS.

NEAR-REAL-TIME CREDIT TRANSFERS

This solution enables the banking customer to submit, clear and settle beneficiary payment instructions to customers of other banks in a space of less than ten minutes. The issuing customer will also receive a notification of the transaction's success or failure almost immediately.



OTHER BENEFITS OF THE ENHANCED EFT SOLUTION

The Enhanced EFT solution has been designed to complete as much of the common NPS functionality centrally in Namclear. This entails improvements in the following aspects of payment services:

- The existing EFT settlement process now supports the Enhanced EFT solution, which increases Namclear's automation capacity as well as that of the various

Trevor Cracknell
PROGRAMME
MANAGER

PROGRAMME HIGHLIGHTS

PROGRAMME HIGHLIGHTS

CONTINUED

NPS participants, and facilitates better reconciliation processes, all of which result in reduced settlement risk across the financial services industry.

- The solution reduces the level of effort entailed in conducting end-to-end processing by each of the banks as part of the NPS.
- It improves the turnaround time in respect of transaction authorisation and clearing, while processes to introduce a new banking institution into the clearing environment have been optimised.
- The solution also improves the quality of data transfer and tracking due to improved technical and data validation between the banks and Namclear, and vice versa.
- Standardisation and consistency in payment execution processes across the NPS will be enhanced and aligned with international benchmarks for best practice.
- The solution offers standardised tracking and reporting on the success or failure of payments across the industry to improve visibility and predictability, as well as reduce the volume of bank customer queries and disputes.
- The proposed centralised transaction lifecycle management at Namclear improves overall efficiencies and turnaround times in respect of dispute and unpaid transaction processes.
- The potential for fraudulent and erroneous transactions and reversals is reduced.
- Provision is made for the automatic reversal of a time-barred transaction.
- The solution enables business intelligence derived from centralised data warehousing, making such data available for credit management processes and anti-money-laundering initiatives in the industry, and
- Intra-day settlement sessions are introduced that will enable multiple EFT clearing sessions between banks, and improve their payment turnaround times.

Due to the technical nature of the Enhanced EFT Project and the extent of change demanded from all its participants, during the reporting period PAN established a central Project Management Office to enable the careful coordination required to see the successful implementation of this solution across the board. The Project also offers a platform from which the NPS can be introduced to new participants.

The Project is administered via a phased approach. The enhanced debit order instructions stream will initially be deployed, followed by the combined streams of enhanced credit transfers and near-real-time credit transfers. The implementation strategy involves a pilot period and a subsequent bank-customer migration period, which is intended to reduce the risk that the new EFT streams pose to the NPS. The Enhanced EFT solution will run parallel to the existing EFT system for the duration of the 18-month migration. Implementation is scheduled to commence in June 2017, while full migration is expected to be achieved by the end of 2018.

The reporting year saw the project launch inter-bank, user-acceptance testing, which will roll over to its anticipated completion in May 2017. This testing stage has already resulted in several necessary changes being made to EFT rules and EFT processes in the industry. Such amendments are then included in further training and testing initiatives as the project develops. Customer readiness and migration strategies have also already been defined within each of the banks, and are being implemented in tandem with system development and delivery processes.

Besides the banks originally included within the project scope, by the end of the reporting year four more had been added. All these banks have complied with the regulatory processes set out by the Bank of Namibia, and have subsequently commenced with EFT onboarding procedures for both the project and Namclear.

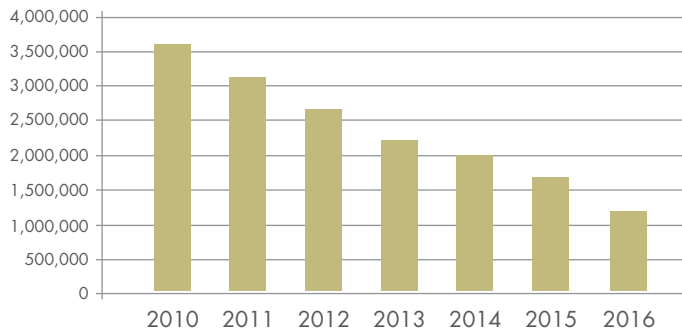
The project offers Namibia an immense opportunity to have its NPS ranked among the most technologically advanced on the continent. Not only will the project push the country to the forefront of NPS digitisation globally, but it will also add considerable value to all NPS users and, ultimately, the Namibian consumer.

Trevor Cracknell
PROGRAMME MANAGER
Payments Association of Namibia

CHEQUE PAYMENTS

As part of its cheque reduction strategy, which aims to see the phasing out of these instruments by 31 December 2017, the payment industry reduced the item limit for cheque payments from N\$500,000 to N\$100,000 as of 1 February 2016. The industry's decision to phase out cheques as a method of payment was based on a cost-benefit analysis, the outcome of which underlined not only the need to migrate from paper to electronic payments due to declining cheque volumes and the increasing cost of maintaining outdated infrastructure, but also the uncertainty of payment receipts and the potential of fraud.

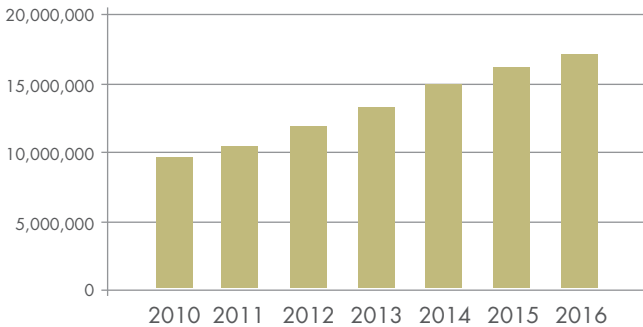
FIGURE 1: Cheque transaction volumes, 2010–2016



ELECTRONIC FUND TRANSFERS

EFTs increased by 10% in volume and by 13% in value in 2016 in comparison with their 2015 levels (see Figures 3 and 4). This increase was mainly due to the migration from paper payment to electronic payment methods.

FIGURE 3: EFT transaction volumes, 2010–2016



In 2016, Namclear processed and cleared 1.2 million cheques (2015: 1.8 million) with a total value of N\$11 billion (2015: N\$32 billion), respectively representing a 33% decline in volume and a 63% drop in value compared with the previous reporting year's figures (see Figures 1 and 2).

FIGURE 2: Cheque transaction values, 2010–2016 (N\$)

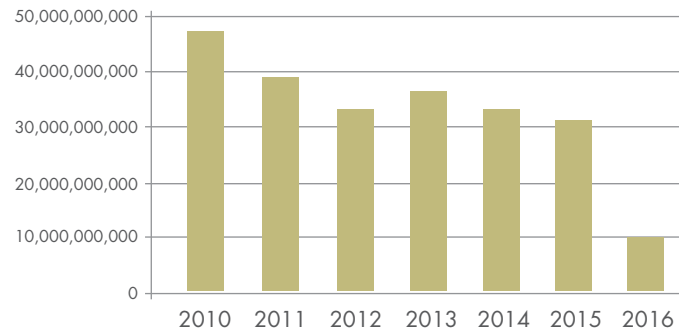
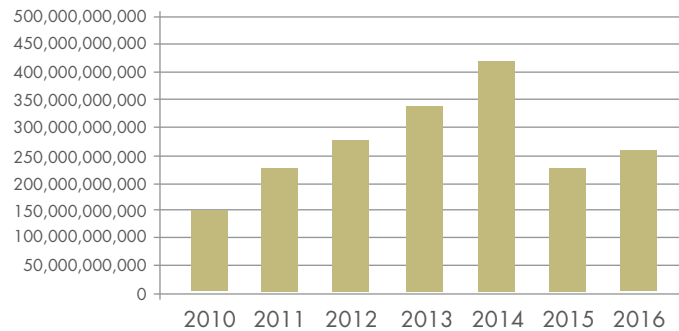


FIGURE 4: EFT transaction values, 2010–2016 (N\$)



THE NATIONAL PAYMENT SYSTEM

THE NATIONAL PAYMENT SYSTEM CONTINUED

THE NAMIBIA INTER-BANK SETTLEMENT SYSTEM

The NISS is a real-time gross settlement system owned and operated by the Bank of Namibia. Time-critical payments are processed and settled by the NISS in accordance with the principles of finality and irrevocability. Thus, once a transaction has been settled by the NISS, it cannot be undone because it will also have been settled across the relevant NISS participant's books at the Bank of Namibia.

The NISS also settles retail payment transactions from Namclear.

The total value settled through the NISS in 2016 increased by 6% compared with 2015, namely from N\$699.03 billion to N\$739.99 billion, while the volume of transactions increased by 12%, i.e. from 62,131 transactions in 2015 to 69,327 in 2016 (see Figures 5 and 6 and Table 3).

FIGURE 5: NISS transaction volumes, 2010–2016

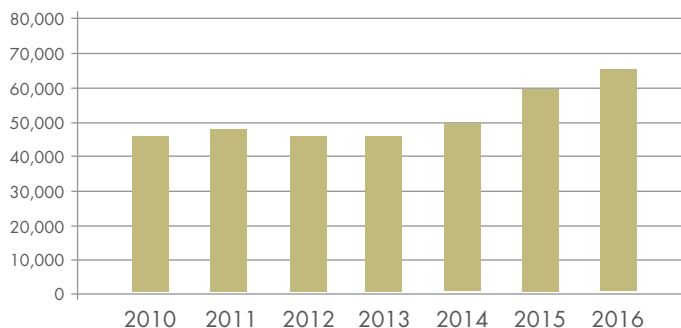


FIGURE 6: NISS transaction values, 2010–2016 (N\$)

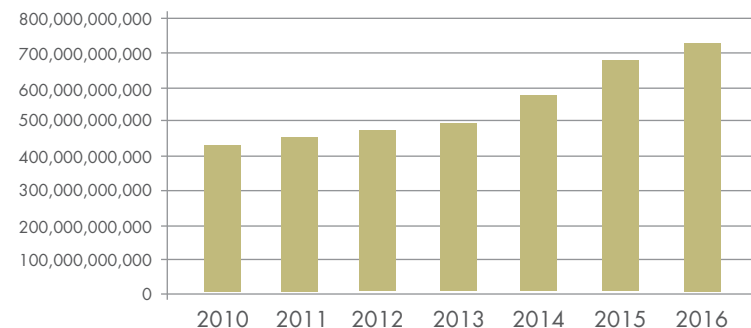


TABLE 3: NISS total settlement statistics, 2010–2016

YEAR	VOLUMES	VALUES (N\$)
2016	69,327	739,988,338,663
2015	62,131	699,036,552,849
2014	52,658	613,355,759,811
2013	49,049	516,335,326,917
2012	49,453	480,173,170,140
2011	50,315	454,078,209,632
2010	48,731	445,857,866,806

Source: PAN

CARD PAYMENTS

The reporting period saw Namclear process 40 million card payments with a total value of N\$21 million. Compared with the previous financial year's figures, this represents a 27% increase in card payment volumes, and a 24% increase in values (see Figures 7 and 8, which also show that both volumes and values have practically doubled since 2014). The increase is attributable to Payment System Determination (PSD-5) Standards for a Basic Bank Account and Cash Deposit Fees, which became effective on 15 March 2015. PSD-5 requires that each bank offer at least one basic account for every Namibian

citizen or permanent resident, and that such an account should attract no cash deposit fees, monthly fees or account management fees. All one is obliged to produce to open such a basic bank account would be one's valid identity document and N\$20. It is not clear what impact the implementation of the PSD-5 has had on individuals, but its implementation could have contributed to the higher figures.

FIGURE 7: Card transaction volumes, 2010–2016

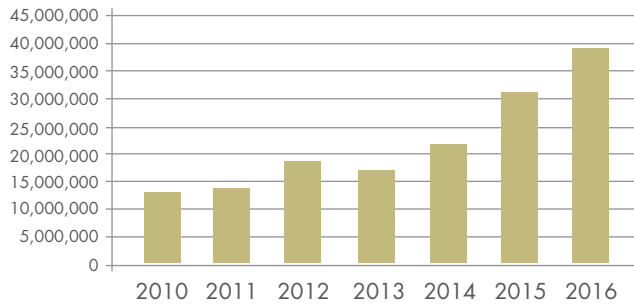
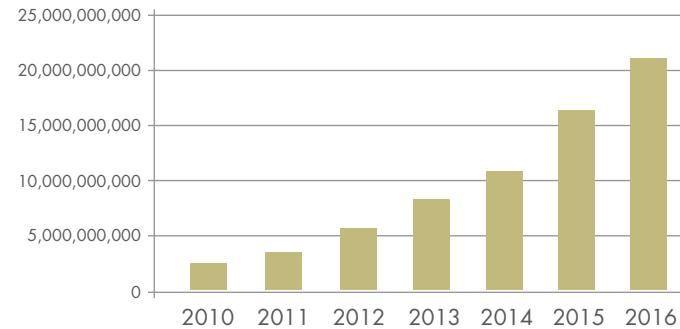


FIGURE 8: Card transaction values, 2010–2016 (N\$)



THE NATIONAL PAYMENT SYSTEM

CONTINUED

A comparison of the various types of transactions cleared and settled during the seven-year period from 2010 to 2016 indicates a steady decline in cheque transaction volumes (see Table 4 and Figure 9) and values (see Table 5 and Figure 10). The statistics for card and EFT transactions, on the other hand, show Namibian consumers' increasing preference for these two payment

methods over the same seven years. As mentioned above, this increase can be attributed to more clients migrating from paper-based to electronic instruments of payment. This is a move in the right direction: as transactions are increasingly conducted via electronic payment methods, this complements the steady and ultimate phasing out of cheques by 31 December 2017.

TABLE 4: Comparison of volumes by mode of transaction, 2010–2016

YEAR	2010	2011	2012	2013	2014	2015	2016
Cheque	3,753,144	3,240,343	2,816,805	2,441,975	2,157,362	1,870,368	1,254,622
EFT	9,551,900	11,575,690	12,658,735	14,264,400	15,676,630	16,196,746	17,815,891
Card	14,218,489	15,444,892	20,114,597	18,741,428	22,492,936	32,209,668	40,793,248

Source: PAN

FIGURE 9: Comparison of volumes by mode of transaction, 2010–2016

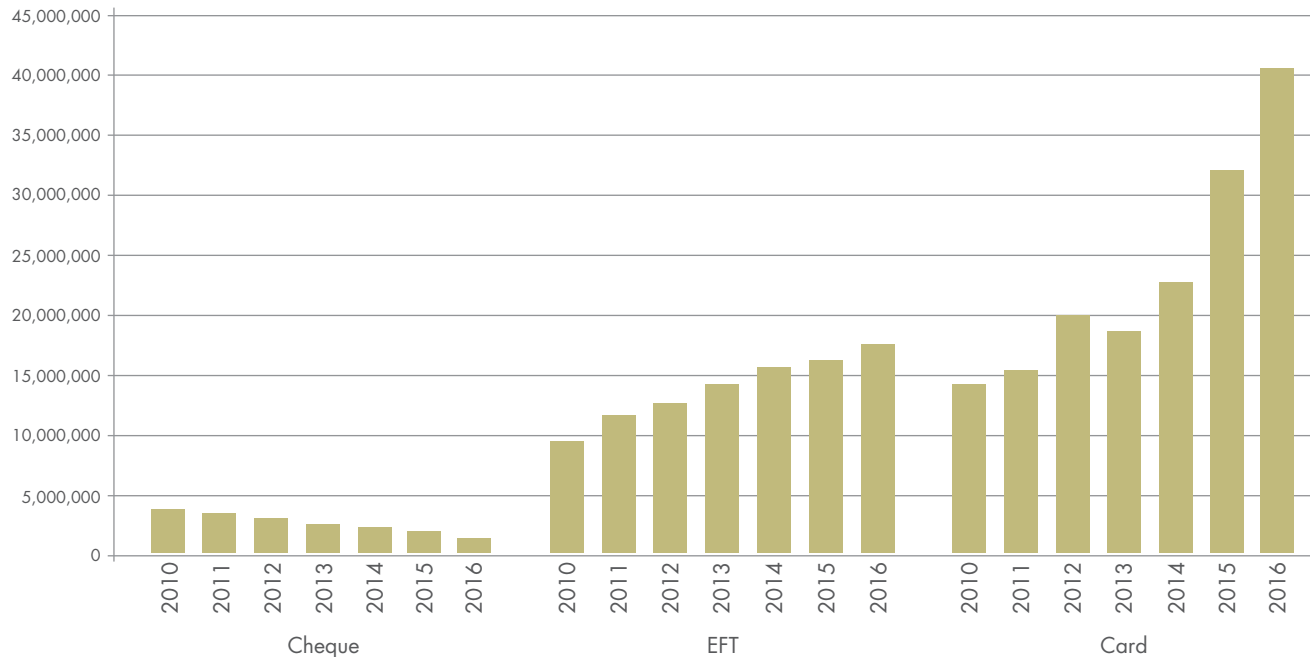
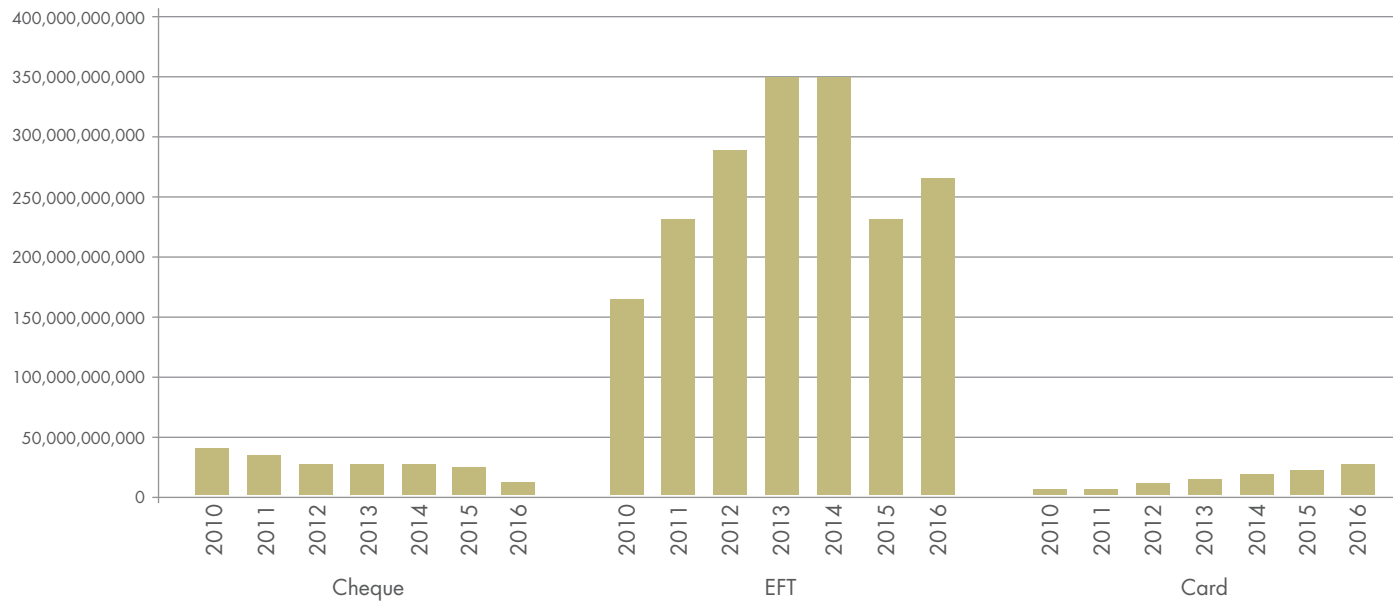


TABLE 5: Comparison of values by transaction type (N\$), 2010–2016

YEAR	2010	2011	2012	2013	2014	2015	2016
Cheque	49,427,097,927	41,012,924,679	34,856,886,299	36,073,403,560	34,946,987,863	32,524,170,039	11,970,865,119
EFT	167,980,001,002	239,808,787,802	291,812,339,606	355,315,701,969	430,468,033,555	238,172,691,853	268,434,519,205
Card	1,394,891,216	1,610,098,732	3,139,514,798	2,417,796,547	11,777,732,581	17,353,890,264	21,568,189,422

Source: PAN

FIGURE 10: Comparison of values by transaction type, 2010–2016 (N\$)



THE NATIONAL PAYMENT SYSTEM

CONTINUED

MESSAGE FROM THE CHAIRPERSON OF THE ELECTRONIC FUND PAYMENT CLEARING HOUSE



Nelao Tulimeke Hauliyondjaba
CHAIRPERSON

During the year under review, the domestic payment industry had fruitful discussions on the finalisation of the Namibia National Payment System Vision 2020. The aim of this Vision was to continue developing and maintaining a world-class payment system to meet domestic and regional payment system objectives.

Another significant milestone reached during the reporting period was the finalisation of the Enhanced Debit Order System (EnDOS). EnDOS is the first among other solutions envisaged by the Enhanced EFT Project to optimise the EFT system currently managed by Namclear. The implementation of EnDOS is envisaged for 2017.

Other key developments in respect of the Enhanced EFT Project during the 2016 financial year entailed industry participants working towards finalising and signing off the Functional Specifications of the Enhanced EFT Project, the Project Management Framework, and the Project Governance Principles. Meanwhile, the Industry Test Methodology is being finalised.

The risk aspects of the Enhanced EFT Project are monitored by a Steering Committee which meets twice a month to manage the Project's technical implementation. Committee representation comprises the 11 banking institutions and the non-bank PAN Stakeholder Forum participants, which include service providers amongst others. The Committee is required to issue monthly project reports to PAN's Management Council and to the Bank of Namibia to keep them abreast of developments.

We are very proud of the Project's progress as all stakeholders would collectively have achieved the visionary milestones to improve access, interoperability and standards in the NPS, become more efficient through the speed of transactions, more product offerings, enhance the NPS infrastructure, safety and security and cost-effectiveness.

I wish to thank all the stakeholders for their contributions towards the achievement of our Vision 2020 goals and request your assistance to continue in this stride to enhance the NPS for our nation, the region and globally.

The year 2016 will forever be known for the significant challenges and exciting developments that it brought along in the card payment system. The principal complexities the PCH addressed during the reporting period involved the introduction of a National Card Scheme and compliance with the so-called EMV Standard originally set up by Europay, MasterCard and Visa for chip-and-PIN cards.

Although the year under review saw no additional issuers joining the PCH, there were many key discussions with the industry.

A particular highlight during the reporting period was that all issuing participants met the compliance deadline of 31 March 2016, thus enabling safer card spending nationwide.

On the other hand, Bank Windhoek, Nedbank and Standard Bank were finding it difficult to finalise the phasing out of their magnetic stripe card bases and replace them with chip-and-PIN cards. It should be acknowledged that the replacements constitute an epic and ongoing process, which is required to be completed by 31 March 2017. Consequently, the industry is considering a milestone approach to the process instead, setting a final deadline for all replacements by a future date to be confirmed.

In respect of compliance with the phasing out of fleet cards by 31 March 2017 as prescribed in PSD-4, several issuing banks indicated during the reporting year that they would be unable to meet the stated deadline. An extension on this deadline is under consideration.

Another challenging journey for issuing banks is to comply with the Payment Card Industry Data Security Standard (PCI DSS). The progress is ongoing.

Interchange discussions at Card PCH level were also launched in 2016. From these forums, it became clear that any modifications in the current interchange models would impact all issuers and merchants that receive a credit or debit. In other words, the bank that maintains the merchant bank account passes the payment instruction to the issuing bank for it to receive payment. A significant amount of discussion and consultation is needed, therefore, so that these impacts can be understood better. The interchange discussions also made it evident that



Ryno Snyman
CHAIRPERSON

any new entrants to the Card PCH needed to appoint persons with the correct level of card-issuing expertise to represent their institutions.

In closing, although 2016 certainly had its challenges, to witness all participants operating from a level playing field, where a lack of transparency and uncompetitive behaviour were not tolerated, was a very positive experience.

Thank you to all our Card PCH participants and to PAN for your hard work in 2016. We look forward to further successes in our joint undertakings in 2017.

MESSAGE FROM THE CHAIRPERSON OF THE CARD PAYMENT CLEARING HOUSE

MESSAGE FROM THE CHAIRPERSON OF PAPER PAYMENT CLEARING HOUSE

During the year under review, the Paper PCH continued to focus on phasing out cheques as a payment method. Following a cost-benefit analysis which showed that declining volumes of cheque payments were concomitantly increasing the cost of clearing them, the Paper PCH engaged the industry at several successful meetings to discuss speeding up the phasing-out process, among other related issues.

One of the key developments during the reporting period involved reducing the N\$500,000 item limit for cheque payments within the NPS to N\$100,000 as from 1 February 2016. The reduction caused a dramatic decline in cheque fraud, even to the point of eliminating it almost entirely.

Since cheques are a costly and obsolete payment option, the reporting year saw the industry refocus on encouraging customers and businesses to use alternatives. Over the past few years, retail markets have also assisted in diminishing cheque payments with a “No cheques accepted” approach. PAN also continues to drive home the benefits of reducing the cheque item limit and the complete phasing out of cheques: the process will ultimately lead to greater efficiency because alternative payment methods do not have the disadvantage of generating uncleared effects.

Existing and emerging electronic payment methods have become the pre-eminent means of transacting in an efficient and secure manner, and will therefore continue to form an integral strategic focus area for all stakeholders. Through collaboration with Cheque, Electronic Fund Transfer and Card participation groups, further work will be undertaken by the individual financial institutions to enhance service offerings to customers through innovation.

The sentiments voiced by some customer groups regarding the inadequate network coverage and availability in certain parts of the country are very valid and duly noted. To address the concerns raised and challenges being experienced by the farming v community and other businesses regarding this problem, ongoing engagements with relevant stakeholder are held to determine how quickly and comprehensively the issue could be addressed.

In the meantime, PAN plans to promote the migration of paper payments to electronic payments by researching viable alternatives to cheques to enhance the existing electronic payment methods as well as facilitating new and emerging electronic forms of payment. The products that are available to bank customers include mobile banking, internet banking, money transfers, electronic transactions above N\$100,000, e-money, cards and cheques.



Martina Hendricks
CHAIRPERSON



Venencia Olobilwe
CHAIRPERSON

With great pleasure the Immediate Settlement PCH reports that the total number of its members increased from eight to nine during the year under review, following the addition of Bank BIC Namibia. Members of this PCH now comprise the Bank of Namibia as well as Bank BIC Namibia, Bank Windhoek, EBank, First National Bank, Letshego Bank Namibia, Nedbank, the SME Bank and Standard Bank.

During the reporting period, all participants signed off on the PCH Rules, as required by the regulatory framework establishing the PCH.

Another industry development in 2016 was the Bank of Namibia and Namibian Stock Exchange's envisaged founding of a central security depository company. This effort strives towards establishing a paperless market in Namibia. Such a company would electronically execute all settlements that involved the movement of shares, while the cash leg would be settled through the NISS.

Also receiving the industry's attention in the past financial year was the NISS's Straight-through Processing Project. The journey towards the Project's implementation became a reality for Immediate Settlement PCH participants when they commenced with analysing its functional specifications. The outcome of this analysis will pave the way for NISS operations to become electronic end-to-end, which will bring about the efficiency intended by the PSD-7.

The next two years hold numerous challenges and opportunities, particularly in respect of all participating banks' implementation of straight-through processing. We are confident that, in the spirit of collaboration and commitment, the industry will continue to deliver excellent payment systems to the benefit of all stakeholders and regulatory authorities within the NPS.

MESSAGE FROM THE CHAIRPERSON OF THE IMMEDIATE SETTLEMENT PAYMENT CLEARING HOUSE

MESSAGE FROM THE CHAIRPERSON OF THE FINANCIAL INSTITUTIONS FRAUD AND SECURITY COMMITTEE



Johnny Truter
CHAIRPERSON

MISSION

The mission of the Financial Institutions Fraud and Security Committee (FIFSC), as stated in its Constitution, is to help reduce financial crime being committed against financial institutions. This mission includes promoting the security of financial institutions' staff and customers as well as protecting the integrity of the Namibian payment industry and its individual systems as secure assets in the service of all stakeholders, both national and international.

OBJECTIVES

The mission is to be fulfilled by attending to several identified objectives. The critical objectives are, firstly, to increase public awareness of financial crime and other security-related matters, and secondly, to use the FIFSC as a platform for the confidential discussion of financial crimes committed against financial institutions and members of the public. The Committee also assists financial institutions by way of sharing information and networking with industry employees, and by providing training opportunities where relevant.

STRATEGY

The FIFSC's strategy is not only to focus on fulfilling its mission and achieving its objectives, but also, in so doing, to enhance the safety and security of all its stakeholders.

Review of 2016

PARTICIPANTS

The four major commercial banks, i.e. Bank Windhoek, First National Bank, Nedbank and Standard Bank, have always participated actively in the FIFSC. This is to be expected, considering their proportionate transaction volumes in the NPS. During the reporting year, the FIFSC membership was augmented by EBank, Letshego Bank Namibia, the SME Bank and Trustco Bank. Hopefully all local banking institutions will join the FIFSC and find value in being a member. The FIFSC also looks forward to their contributions in the shared fight against financial crime.

Other stakeholders involved in the financial-crime-fighting arena, who are also FIFSC members and attend its meetings, are the Bank of Namibia and law enforcement agencies such as the Financial Intelligence Centre and the Commercial Branch of the Namibian Police. The Anti-corruption Commission also occasionally attends meetings.

TRAINING

During August 2016, the United States Secret Service provided a four-day training seminar on financial crimes to FIFSC members. The seminar covered US Dollar counterfeiting and financial crimes in general, including the following:

- Skimming overview
- Investigative techniques during early stages (covert investigation, minimal leads)
- Evidence recovery and investigative value
- Post-arrest/overt investigative techniques
- Impact of information-sharing
- Intelligence-building and ongoing efforts
- Phishing as a cybercrime
- Online banking malware
- Mobile banking malware, and
- Banking system keylogging.

Towards the end of the reporting period, the FIFSC sponsored an Advanced Cybercrime, Law and Security Workshop for PAN members and the Namibian Police. The Workshop focused on the legal aspects of cybercrime and how it is investigated.

RAISING AWARENESS

The FIFSC was invited to participate in a discussion on financial crime on the national broadcaster's Talk of the Nation television show during the past financial year. Following very positive feedback on the FIFSC representatives' contributions, this awareness-raising opportunity will be exploited again in future.

As in previous years, the FIFSC's 2016 print campaigns to raise awareness of financial crimes targeted the entire population. Pamphlets were accordingly distributed in Eenhana, Gobabis, Grootfontein, Katima Mulilo, Keetmanshoop, Lüderitz, Mariental, Okahandja, Okahao, Ondangwa, Ongwediva, Oshakati, Oshikango, Otjiwarongo, Outapi, Rehoboth, Ruacana, Rundu, Swakopmund, Tsumeb, Walvis Bay and Windhoek.

These campaigns are supplemented by similar initiatives carried out by various individual FIFSC members.

FINANCIAL CRIME STATISTICS

As per regulatory requirements, financial institutions regularly provide the Bank of Namibia with financial crime statistics. After due processing and analysis of these data, the central bank's Payment and Settlement Systems Department issues a quarterly Fraud Report. Being the only industry-wide synopsis of its kind, the Report serves as valuable input for all FIFSC members, who use it to validate and strengthen their actions against fraud. The Bank of Namibia plans to hold further discussions with the FIFSC to articulate their respective mutual requirements more specifically, and to look at enhancing the value of these statistics for the industry.

TRENDS IN FINANCIAL CRIME

Throughout the reporting year, FIFSC members report on financial crimes for discussion at our monthly meetings. Where certain trends emerge from these discussions, they need to be addressed proactively with awareness-raising and monitoring; if no action is taken, financial losses will simply increase. Many of the trends observed during the past financial year were reflected in the Bank of Namibia's Fraud Report for the Third Quarter of 2016, and are detailed below.

IDENTITY THEFT AND FRAUD

Identity theft is prevalent in Namibia. Such theft allows for fraud in general to increase as it allows a fraudster to pretend to be the real client. During the reporting year, a specific trend in this regard was detected in the Ministry of Home Affairs, where syndicates were facilitating the issuance of fraudulent 'original' identity documents. This poses an additional challenge for financial institutions, who have always been faced with the need to identify their clients accurately. With their clients increasingly shifting to electronic and mobile banking platforms, financial institutions will see a rise in fraud on such payment channels through phishing and pharming. Financial institutions will therefore be advised to investigate using biometric client identification in future.

CHEQUE FRAUD

Although cheque fraud loss incidents are still prevalent, the figures will reduce as the industry phases out cheques. However, identity theft makes it difficult to proactively deter and prevent cheque fraud. Tough economic circumstances assist fraudsters who buy goods with forged or stolen cheques because businesses release the goods before clearance instead of losing the sale. For this reason, many businesses no longer accept cheque payments.

CARD FRAUD

Between the second and third quarters of 2016, card fraud increased by an alarming 310%. Of this total 95% constituted card fraud with credit card fraud alone making up 83%. Following the increased replacement of magnetic stripe cards with chip-and-PIN cards, card fraud has migrated as expected to the card-not-present type of crime in this category. Nonetheless, card fraud is expected to decline after 31 March 2017, when chip-and-PIN cards will be the only type available in the industry.

MESSAGE FROM THE CHAIRPERSON OF THE FINANCIAL INSTITUTIONS FRAUD AND SECURITY COMMITTEE

CONTINUED

POS FRAUD

Several cases of point-of-sale (POS) fraud were reported to the FIFSC during the past financial year. In some instances, merchants were duped by foreign fraudsters to accept payment for goods or services to be delivered in the future against a card payment. The fraudsters then supplied card numbers issued by foreign banks and therefore the transactions were processed manually. The merchant then immediately transfers funds to the fraudster as commission or payment.

DATING FRAUD

In this type of financial crime, fraudsters use social media to meet usually older women. Under various false pretexts, these women are convinced to transfer money to the fraudster. Namibia saw an increase in this form of fraud during the reporting year, although more substantial statistics are still lacking.

CHANGE OF BANKING DETAILS FRAUD

Financial institutions and other businesses lose money through this scheme as well. This kind of fraud entails businesses failing to verify requests for a change in a client's banking details. On the positive side, an increased awareness of this type of fraud reportedly led to a decline in such activities during the reporting year. Statistics are not yet available for this category of fraud.

CLASSIFIED AD FRAUD

Despite public awareness by financial institutions, fraudsters still managed to trick more victims into transferring money to pay for goods advertised in the classified sections of various local newspapers during the year under review. Some of these advertisements were even organised via cell phone by prisoners in custody. Corrupt prison staff and police officers also assist them in return for a reward. Statistics are not yet available for this fraud type.

MULE BANK ACCOUNT FRAUD

In this type of fraud, the criminals ask whether they can use their victim's bank account to receive a deposit, under the pretence that it is for a valid reason such as a bonus payment from an employer. The account holder is then instructed to withdraw or transfer the money to enable the fraudsters to have access to it. This type of money laundering, which an unsuspecting client enables via the fraudster's crime, renders both parties criminally liable for fraud or theft. Financial institutions are expected to heighten awareness among their clients about this type of fraud.

E-WALLET BANKING FRAUD

E-wallet banking can be used by fraudsters to launder money. Financial institutions were therefore urged to be more vigilant and proactive in terms of preventing fraud via this product. The nature of e-wallet banking suits fraudsters because since it is impersonal, it leaves no paper trail, it is quick to execute, the funds are immediately available, and the cash is accessible from anywhere in the country. Statistics are not yet available for this category of fraud.

INTERNET BANKING FRAUD

Internet banking fraud happens when fraudsters infiltrate electronic devices such as computers by means of malware or keyloggers and obtain a victim's personal bank account numbers, logon details, password, etc. Criminals then use the information to log on to internet banking fraudulently, transferring their victim's money directly to themselves or others, or amending their victim's beneficiaries' details, e.g. changing a beneficiary account number to one under the fraudster's control.

E-MAIL INSTRUCTION FRAUD

In this type of financial crime, fraudsters take over their victim's e-mail account, usually a free address such as Yahoo, Gmail or Hotmail, and then begin corresponding with the client's bank to arrange for

fund transfers. Controls like client or transaction verification should be strong enough together with vigilant staff to provide protection.

LOAN APPLICATION FRAUD

Here, fraudsters apply for loans with forged documents. If the loan is successfully disbursed, the funds are immediately transferred to another bank or withdrawn in cash. The person whose identity was stolen in this way will only become aware of the crime once loan instalments begin to be debited against his/her account. Syndicates connect with corrupt human resources staff in businesses, who assist them in processing the loan applications.

Strategy for 2017

Besides continuing to strive to fulfil the FIFSC's mission and objectives, we will also again focus on providing a platform for industry-wide discussion, networking, and sharing of experiences among our members with the aim of preventing and detecting financial crime. We will also be encouraging our members to use this collaboration proactively to heighten awareness of financial crime among the public in general, and among their customers in particular. As is customary for the FIFSC, we will continue to identify opportunities for training, especially as regards combatting the growing phenomenon of cybercrime.

FUTURE FINANCIAL-CRIME RISK MANAGEMENT

It should be noted that the categories of financial crime reported on above by our members do not constitute an exhaustive list. With our already stressed economy coming under further pressure via negative developments in South Africa and elsewhere, coupled with the growing domestic levels of unemployment, a surge in financial crimes should be expected. At the same time,

rapid technological change opens new avenues for fraudsters, who are quick and innovative in capitalising on such opportunities.

In addition, banking is becoming increasingly faceless as clients are pushed to use new technologies for various reasons, including saving costs. The challenge to financial institutions, therefore, is to correctly identify their customers, and to verify that identity. This needs to be immediate and unnoticeable by the client, with preferably as few false positives as possible. The same principle applies to transaction screening: clients want their bank to be as unintrusive as possible when it comes to their personal space; on the other hand, clients also expect their banks to be sufficiently familiar with their account usage so as to be able to effectively screen all their transactions, allow the valid ones, and prevent anything fraudulent or out of keeping with their account history.

In South Africa and further abroad, financial institutions are implementing the use of biometric technology to correctly identify their clients and to verify that identity. Biometrics authentication entails using measurable and distinct physiological features such as a fingerprint, the retina, the face or veins in the hand. These features are tested against the record of them in the relevant institution's database. Usually a combination of technologies is used. Together with a fact known only to the client in question, such as a password, biometric authentication is very reliable in preventing identity fraud. As mentioned earlier in this report, the Government also needs to ensure the integrity of national identity documents by rooting out syndicates who falsify these instruments in collaboration with corrupt Home Affairs officials.

Financial institutions collect an enormous volume of data from their clients over time. With today's technology, this data can be analysed to reveal individual clients' financial behaviour patterns

over time. Such analyses would assist in projecting almost infallibly whether a specific transaction could have been conducted by a client or whether it constituted fraud. This involves real-time transaction monitoring across all payment channels, including ATM withdrawals, in-branch withdrawals, internet banking, EFTs and, especially, credit and debit card use. Different algorithms are gradually developed by the system itself to allow it to improve on efficiency and scalability over time. The greater the volume of transactions that are directed through the system, the more detailed the client profile will become, and this information can be used to improve client profiling results, and produce fewer false positives.

Research on real-time transaction monitoring systems is available to enhance the security of NPSs. This could become a research and development project for Namibia in the future.

CLOSURE

The members of the FIFSC would also like to express their appreciation to PAN for its valuable assistance and services during 2016. Without PAN's commitment, the FIFSC would not be as successful as we believe it currently is. We would also like to thank the financial institutions for actively participating in achieving the FIFSC's strategic objectives, which flow into and support the PAN Vision.

MESSAGE FROM THE CHAIRPERSON OF THE FINANCIAL INSTITUTIONS FRAUD AND SECURITY COMMITTEE

CONTINUED

MESSAGE FROM THE CHAIRPERSON OF THE PAN STAKEHOLDER FORUM

The PAN Stakeholder Forum (PSF) is formally recognised as the non-bank payments representative body. During the year under review, the PSF continued its activities and initiatives with the aim of contributing towards shaping the future of the NPS. Our official status requires us to focus our participation, contribution and commitment towards the strategic initiatives of the NPS as contained in the Namibia National Payment System Vision 2020.

In the 2016 reporting year, the PSF upheld its purpose to provide a discussion forum to foster and facilitate collaboration among stakeholders in the NPS. Specific attention was devoted to achieving its stated aims, which are as follows:

- To contribute to an efficient and effective NPS in Namibia
- To ensure that the interests of all participants within the NPS are considered
- To provide a collective forum for PSF stakeholders within the NPS to discuss and debate issues of mutual interest, and
- To provide input in respect of policy matters to the Bank of Namibia, as overseer of the NPS.

The global trend of non-bank payments is also in evidence locally, marking a fundamental shift in the structure of Namibia's NPS. The PSF is well-positioned to continue its contribution towards achieving the goals of the Namibia National Payment System Vision 2020 in this respect as well.

GOVERNANCE

The activities of the PSF during the past financial year included quarterly member meetings that were well attended and recorded. All members remained aligned with their obligations under the PSF Constitution and its resolutions.

MEMBERS

During the year under review, PSF membership increased by 2, bringing the total number of PSF members to 12.

The PSF is not restricted to payment service providers: it also includes associations representing industries such as the Long-term Assurance Association and the Microlenders Association of Namibia. Thus, the PSF continued to liaise with all payment



Pieter Swanepoel
CHAIRPERSON

service providers to promote inclusiveness and access to the NPS.

FOCUS AREAS AND INITIATIVES

ENHANCED EFT PROJECT

During 2016, the PSF's principal focus area remained its participation in the enhancement of the electronic debit order system, as per PSD-7. Hence, the PSF actively participated in the Enhanced EFT Project, contributing at Steering Committee as well as Rules Committee level. The Phase I roll-out of the Enhanced Debit Order System (EnDOS), which is eagerly awaited by its stakeholders, is anticipated to be implemented in 2017/18.

PSF WORK GROUP

The PSF Work Group, as a formalised bank and non-bank structure, evidences the ability of NPS stakeholders to participate and collaborate in the interests of the NPS overall.

During the year under review, PSF members contributed through the various PSF Work Group structures in respect of complex technical deliberations relating to the Enhanced EFT Project. This Project entails the consideration and implementation of multiple debit and credit streams as well as non-financial-transaction enhancements to the EFT capability.

INDUSTRY CONTACT

The PSF maintained and nurtured its industry contact during the reporting period, updating non-bank stakeholders in respect of NPS initiatives and the role of non-banks. In particular, the status of the Enhanced EFT Project was shared and discussed, ensuring that the needs of stakeholders were understood and considered in Project structures. In this context also, liaison with the Micro Lenders Association of Namibia as well as the Namibia Financial Institutions Supervisory Authority was ongoing.

EN ROUTE TO VISION 2020

Globally, a new era is dawning on the payment industry, making for closer synergy between bank and non-bank participants, with the goal of ultimately benefiting the economy and society at large. The PSF is excited to be part of this journey, and highly optimistic that the inclusion of non-banks already supports the strategic objectives of the NPS, namely to promote access to the system, boost innovation in payments, and build capacity within the various individual organisations. The PSF therefore remains committed to making meaningful contributions to this evolutionary process throughout NPS structures where it is represented.



MESSAGE FROM THE MEMBER OF THE SADC BANKING ASSOCIATION PAYMENT SCHEME MANAGEMENT BODY

INTRODUCTION

During the year under review, our Namibian representative and PSMB chairperson, Albert Matongela, requested to step down after fulfilling his role for the term period of 3 years. In the context of the change of in-country representatives, it would perhaps be of value to reiterate on the role of the PSMB in the SADC payments project, as part of this feedback.

THE PURPOSE OF THE PSMB

The PSMB is made up of individual delegates from each member country. This platform provides each representative country in SADC with the opportunity to inform the development of financial market infrastructure in support of their framework for an integrated regional payment environment. Being in the cooperative (non-competitive) space, the focus of our interventions are defining payments instruments, business rules, and messaging standards for interbank use. The goal is to ensure efforts translate to improved customer service, cost reductions, and efficiencies in the cross border payment environment, to the benefit of Namibian and SADC clients. Ultimately, Namibian clients would be able to transact with ease, safety, convenience and at a reasonable price within SADC.

THE REGIONAL CLEARING AND SETTLEMENT OPERATOR

During 2016, the licence for the Regional Clearing and Settlement Operator (RCSO) was renewed for an additional two years. BankservAfrica (based in South Africa) was thus authorised by the PSMB to operate as the RCSO for SADC.

SADC INTEGRATED REGIONAL ELECTRONIC SETTLEMENT SYSTEM (SIRESS)

The SIRESS system allows for settlement of financial transactions amongst member banks in SADC in South African Rand (ZAR), and is an integral step in achieving payment harmonization in the region. Although there were some initial concerns regarding the use of correspondent banking relationships instead of SIRESS in SADC to effect payments, those issues are addressed with dialogue between the regulator and commercial banks. Current pricing regimes applied to clients are also expected to come under scrutiny as the region gears itself for low-value payments. A decision is expected in 2017 from the Committee of Central Bank Governors (CCBG) on whether additional currencies will be allowed for settlement besides ZAR, effectively creating a multi-currency settlement system.



Shaun Seboa
MEMBER OF THE SADC BANKING ASSOCIATION
PAYMENT SCHEME MANAGEMENT BODY (PSMB)

PLANNED PAYMENTS STREAMS

Payments streams under consideration are Low Value Credit Transfers (EFT and Mobile), DVP (Payment leg of stock market and bond transactions; ATM/Card; Forex/Financial Market transactions. However, from a SADC project and in-country perspective, low value EFT credits will receive priority before focus is provided to other streams. Namibian banks and other member banks in the Common Monetary Area (CMA) are already looking at the best solution to route credit transfers via the RCSO using ISO20022 standards, with settlement being done via SIRESS.

SADC PAYMENTS SYSTEM MODEL LAW

The SADC Payments System Model Law draft has been finalized by the CCBG Legal Sub-committee and stakeholders in 2016, and will be presented for approval at the CCBG in 2017.

MEMBER COUNTRIES AND STATISTICS FOR DECEMBER 2016

Please see Table 6 on the right.

In conclusion, the facilitation of frictionless payments within SADC aims to enhance economic activity in the region. It is expected that by creating accessibility for clients and reducing the cost of trading for businesses, the amount of transactions amongst countries should potentially increase. By also increasing the turnover rate of that money (velocity), one can argue that it effectively increases the economic activity that money can support. However, we have a duty to the consumer and our various economies and legislative jurisdictions to enable these payments responsibly, by taking into consideration all associated risks and challenges, without compromising on the ultimate value to the end-user or client.

TABLE 6: Member countries and statistics for December 2016

TOTAL PER CONTRY	NUMBER OF PARTICIPATING BANKS INCL CENTRAL BANKS	TOTAL NUMBER OF SETTLED TRANSACTIONS (IN MILLIONS)	TOTAL VALUE OF SETTLED TRANSACTIONS (ZAR - IN MILLIONS)
Lesotho	5	3864	9828,72
Namibia	7	887	36297,59
South Africa	10	9970	45591,30
Swaziland	5	3104	11238,49
Malawi	12	1255	276,69
Mauritius	4	148	1798,57
Tanzania	6	207	43,34
Zambia	10	1882	366,026
Zimbabwe	14	772	956,65
Seychelles	1	30	0,329
Angola	2	1	0,000305
Botswana	1	1666	1288,11
Mozambique	6	111	27,426
DRC	1	-	-
SIRESS		23897	107713,28

Source: SADC BA

GLOSSARY

ATM/AUTOMATED TELLER MACHINE

An electronic device that operates in conjunction with a processor and network and allows customers to debit an account in exchange for cash and that may allow customers to effectuate account transactions

BANK OF NAMIBIA

Namibia's central bank established in terms of the Bank of Namibia Act, 1997 (No. 15 of 1997)

BANKING INSTITUTION

An institution authorised to conduct banking business under the Banking Institutions Act, 1998 (No. 2 of 1998), as amended

CARD PCH

A PCH arrangement for card payment transactions, e.g. debit or credit card transactions via ATMs and POSs

CHEQUE

A paper instrument that 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

CLEARING

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

CREDIT CARD

A card that grants its holder a credit line, enabling him/her to make purchases and/or withdraw cash up to a prearranged limit

CROSS-BORDER TRANSACTION

A transaction where at least one of the parties is located outside the home country from which the transaction originates

DEBIT CARD

A card usually used for non-recurring EFT POS transactions to effect payment to a vendor with an immediate debit to the cardholder's account; the debit card also performs other services, including ATM cash withdrawals

DETERMINATION

Directives published in Gazette Notices issued by the Bank of Namibia on any matter which is required or permitted by the Banking Institutions Act, 1998 (No. 2 of 1998), as amended, to address issues that are considered necessary and expedient to determine the prudent conduct of the banking business, and consistent with the best standards and sound financial management

DIRECTIVE

Such instruction, requirement, rule or procedure as may be approved by a PCH Participant Group as being binding on all members of that PCH and ratified by PAN, or as issued by PAN or by the Bank of Namibia

EFT PCH

A PCH arrangement for EFT payment transactions

EMV STANDARD

This Standard, initially devised by Europay, Master Card and Visa, is a specification to ensure the security and global interoperability of chip-based payment cards

ENTRY CRITERIA

Criteria laid down by PAN in consultation with the Bank of Namibia for participating in a certain stream of payment transaction

ITEM LIMIT

The maximum value for which a cheque can be legally issued, processed and cleared within the NPS

NAMCLEAR

The company authorised by PAN to provide clearing services in Namibia; operates as a Payment System Service Provider as defined in the Payment System Management Act

NISS/NAMIBIA INTER-BANK SETTLEMENT SYSTEM

A system facilitating the settlement of all domestic transactions in Namibia Dollars at the Bank of Namibia

NPS/NATIONAL PAYMENT SYSTEM

The payment system as a whole; includes any payment system, settlement system, clearing system or payment system arrangement used in the process of effecting payment between payers and beneficiaries

PAPER PCH

A PCH arrangement for cheque payment transactions or other paper bill payments

PCH/PAYMENT CLEARING HOUSE

An arrangement between two or more system participants governing the clearing of payment instructions between those system participants

PCH PG/PAYMENT CLEARING HOUSE PARTICIPATING GROUP

A group governing the affairs of the participants in one or more PCHs and constituted by PAN

PAYMENT INSTRUMENT

A designated instrument, whether tangible or intangible, that enables a person to obtain money, goods or services or to otherwise make payments

PAYMENT SYSTEM

A system that enables payments to be effected between a payer and a beneficiary

POS/POINT-OF-SALE TERMINAL

An attended access device located in or at a retailer/merchant's premises in agreement with a particular banking institution or system participant and that permits a cardholder to initiate and effect a transaction for the purchase of products or services sold by such merchant with a card





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