



PAYMENTS ASSOCIATION OF NAMIBIA

**ANNUAL
2011
REPORT**



PAYMENTS ASSOCIATION OF NAMIBIA



c/o Feld- and Rieks van der Walt Street, Rieks House,
Ausspannplatz

P O Box 134, Windhoek, Namibia

Email: info@pan.org.na

Telephone: +264 61 415 420

Fax: +264 61 415 430

www.pan.org.na

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ABOUT PAN

INTRODUCTION AND OBJECTIVES OF PAN

The Payment Association of Namibia (PAN) is a not-for-gain association established under the provisions of the Payment System Management Act (PSMA) No 18 of 2003. PAN is the payment industry's principal self-regulatory body and a medium for payment industry collaboration. The Association promotes a co-operative environment to drive payment system policy development and self-regulation. PAN members work together to maintain and deliver efficient world-class payment system that meets domestic, regional and international requirements.

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, and in connection with these objectives:

- ◆ to provide a forum for the consideration of matters of policy and of mutual interest to members;
- ◆ to act as a medium for communication with the Bank of Namibia, other regulatory agencies, any financial or other exchange, public bodies, authorities and officials, the media, the general public and other private association and institutions;
- ◆ to deal with and promote any other matters of interest to members and to fosters co-operation between them; and
- ◆ to fairly represent and promote the technical and related interest of all banking institutions.

THE OBJECTIVES OF PAN ARE TO
MANAGE, CONTROL AND ORGANISE
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WITHIN THE PAYMENT SYSTEM.

MANDATE AND SERVICES

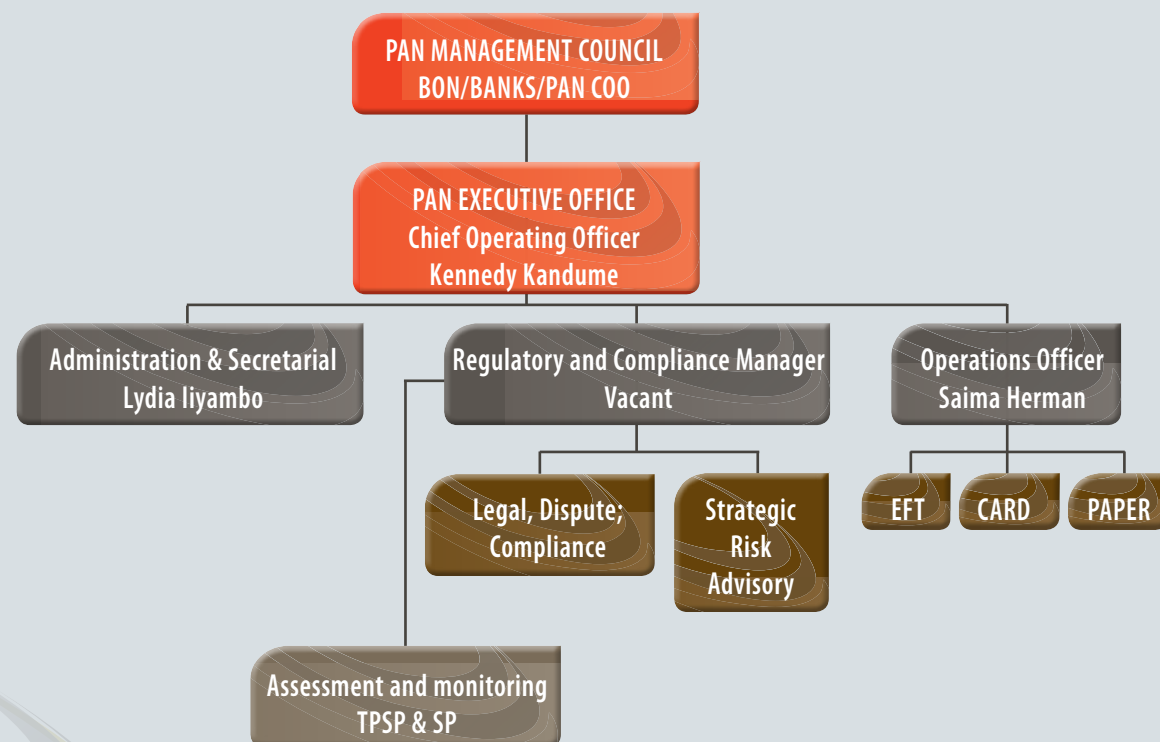
The mandate of the Association under the PSMA is twofold, both to regulate the participation of its members in the National Payment System and to authorise and regulate the participation of third party service providers and service providers in the National Payment System.

OPERATION AND PAN EXO STRUCTURE

The PAN Ex is headed by the Chief Operating Officer (COO) assisted by the Operations Officer and Administration Officer. The COO is responsible for strategic positioning and representation of PAN as a body, as well as the management and supervision of the day-to-day operation of the Association.

The Operations Officer acts as the PAN ExO representative on and interface with the various operational committees in order to provide assistance to them, and especially to the chairpersons of the PCH Participant Groups who are fulltime employees of their respective banking institutions. The Operations Officer is also responsible for implementation of PCH agreements and related rules.

The Administration Officer is responsible for organising office operations and procedures. The task of the Administration Officer also includes the management and administration of the PAN sub-committees and the preparation of the agenda and taking of minutes of the meetings. An additional duty of personnel administration has also been added to the responsibilities of the Administration Officer.



The budget for 2012 makes provision for the recruitment of a Regulatory and Compliance Manager. The establishment of this position is aimed at the development and maintenance of the legal framework of PAN, and audit compliance with the various rules and regulations of PAN and its committees.



Saima Herman



Kennedy Kandume



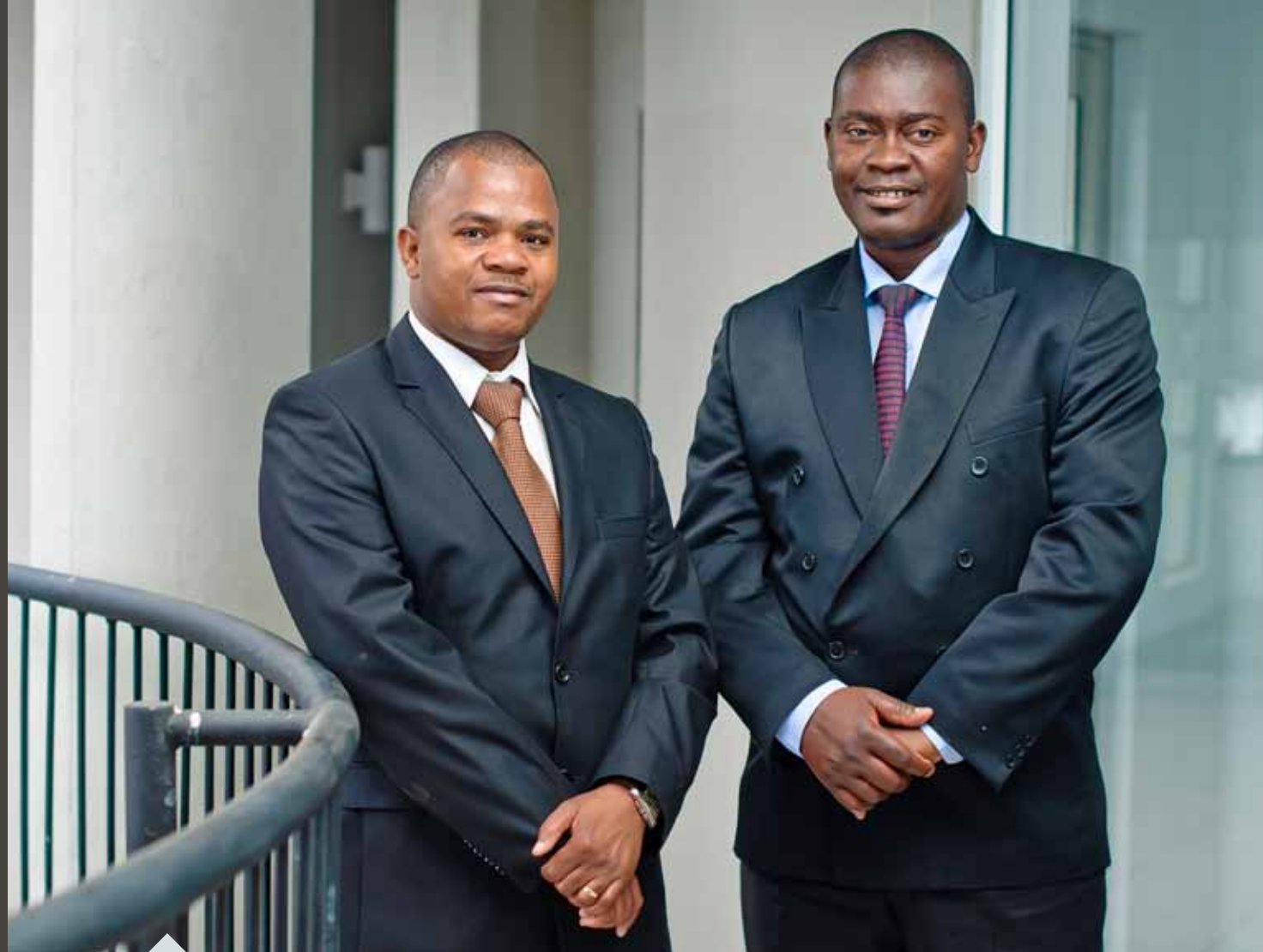
Lydia Iiyambo

MEMBERSHIP AND GOVERNANCE

The membership of the association includes the Bank of Namibia and all four commercial banks. All members are represented at PAN Management Council, which is the highest decision-making body for the Association. The Management Council is chaired by an independent chairperson who is not in any way connected to any of the member banks.

The Payments Association of Namibia is governed by a constitution, which together with the Payment System Management Act makes provision for the establishment of various working groups called Payment Clearing House Participant Groups (PCH PG). These clearing houses are responsible for pursuing the objectives of the Association as they relate to their particular payment streams. At present, there are three PCH PGs namely the PCH PG for Cards, Electronic Fund Transfer (EFT) and Paper. Each PCH PG is responsible for compilation of its own membership criteria relative to the respective PCH's under its control. PCH's also compile their own directives and most importantly, formulate and agree on their operational rules.

THE PAYMENTS ASSOCIATION OF NAMIBIA IS GOVERNED BY A CONSTITUTION, WHICH TOGETHER WITH THE PAYMENT SYSTEM MANAGEMENT ACT MAKES PROVISION FOR THE ESTABLISHMENT OF VARIOUS WORKING GROUPS CALLED PAYMENT CLEARING HOUSE PARTICIPANT GROUPS



Kennedy Kandume, COO and Dr Gift Kavari, Chairman PAN

MESSAGE FROM PAN CHAIR AND THE COO

At its inception six years ago, the Payments Association of Namibia (PAN) laid a foundation for self-regulation, cooperation and operational efficiency in the payment industry. Over a period of six years, PAN facilitated the involvement of payment system participants in the direction, development, administration and regulation of the payment systems. This was done through establishment of independent structures such as PCH Committees and a Risk Advisory Committee. These independent structures ensured that PAN remained neutral and unbiased toward all stakeholders in the National Payment System.

In 2008, PAN rolled out an extensive plan of action, to re-constitute all sub-committees and to review agreements and rules governing the operation of PCH Committees. The plan resulted from a need to implement these agreements and rules, and also to allow for adaptation of documents to suit the local Namibian payment industry. These documents were signed off and adopted by all participants as guiding and operational documents in the national payment industry.

IN THE SAME YEAR (2009), PAN, TOGETHER WITH THE BANK OF NAMIBIA, DEVELOPED A BROAD NATIONAL PAYMENT SYSTEM VISION CALLED “**NATIONAL PAYMENT SYSTEM (NPS) VISION 2015**” WITH A VIEW TO DEVELOP A SET OF COMPREHENSIVE STRATEGIC OBJECTIVES TO TAKE THE NAMIBIAN NPS TO 2015 AND BEYOND.

In 2009, the focus shifted to formation of a PAN Administration Office. In this regard a comprehensive strategic plan was developed to guide the operation of the association for the following three years. The strategic plan also made provision for office-bearers including that of a Chief Operating Officer assisted by a Regulatory and Compliance Manager, an Operations Officer as well as an Administration Officer.

In the same year (2009), PAN, together with the Bank of Namibia, developed a broad national payment system vision called “National Payment System (NPS) Vision 2015” with a view to develop a set of comprehensive strategic objectives to take the Namibian NPS to 2015 and beyond. Of particular importance in this document is a strategic objective of bringing non-banks that are currently excluded and/or exempted from the relevant legislation, into the regulatory environment.

The above developments were not without challenges, as the inclusion of non-banks into the regulatory sphere of PAN may require amendments to the Payment System Management Act. Other challenges relate to the operation of the association. For example PAN is required to have a Stakeholders’ Forum operational by 2012. While there is no doubt that such a proposal is attainable, the practicality of uniting all payment system stakeholders under one umbrella forum may be challenging.

In conclusion, we wish to express our profound appreciation for the hard work shown by the PAN Office, Management Council, PCH Participant Groups and the Bank of Namibia in the process of managing the NPS. Without their efforts and commitments, the significant milestones achieved over the past six years would not have been possible.


Kennedy Kandume


Dr Gift Kavari

FORMER CHAIRPERSON REVIEW

By Ester Kali, Former Chairperson and Head of Retail Banking at First National Bank of Namibia

The authorization of the Payment Association of Namibia (PAN) by the Bank of Namibia (BON) on 12 August 2005 resulted in a tiered-payments regulatory environment in Namibia. This practice is common in other countries including South Africa. It is a situation whereby a central bank concentrates on issuing regulations, while a payment association focuses on ensuring that the regulations are complied with. The advantages of this approach include encouragement of self-regulation, thereby enabling a central bank to confine itself to strategic issues. These include ensuring that a Payment Association carries out its mandate in accordance with the legal framework.

It must be pointed out at this juncture, that the Payment System Management Act, 2003 (Act No. 18 of 2003) and constitution empowered PAN to carry out a number of responsibilities. As per the legal framework these include but are not limited to: managing the National Payment System (NPS); registering payment system service providers; determining and administering payment instrument standards; and acting as a forum for matters of mutual interest within the industry.

In line with the abovementioned, the establishment of PAN was a welcome development and it came at the time when the industry was in the process of modernizing the NPS, especially with respect to clearing. There was a need for more input from the banks in terms of how to take



Ester Kali

the NPS to the next level. This goes well with the spirit of consultation and sharing of ideas, which was adopted and has been strengthened to date.

With the above-mentioned in mind, a number of achievements were realised since the first meeting of the PAN Management Council on 13 October 2005 and during the first few years of the existence of PAN. Ester Kali, the current Head of Retail Banking at FNB Namibia, was the Chairperson of PAN Management Council at the inaugural meeting. The first meeting was attended by banks and NamClear. Milestones were realised because of the cooperation of industry members at that time.

Although stated goals were achieved, I would fail in my duty if I didn't mention challenges that needed to be attended to with the view to ensure the smooth functioning of PAN in ensuing years. We did not view these as challenges per se, but as opportunities to streamline processes for the Association in order to ensure that it achieved parity with other regional Associations in the future. Further, we were convinced that the challenges would turn into achievements in the long term.

Some of the challenges included:

- ◆ **Structure** - The structure needed to be put in place before other components could follow. There was a necessity to have committees at which discussions on issues surrounding payment streams would take place. This resulted in the creation of the Card Payment Clearing House (PCH); Electronic Fund Transfer (EFT) PCH; and Paper PCH. The set-up remains the same today although there are talks to have additional forums in future in line with the changing environment.
- ◆ **PAN logo** - The logo is one of the key components that needed to be in place to distinguish PAN from other institutions. It was designed through the cooperation of industry members. The symbol proved to be crucial especially during the awareness campaign that was aimed at making the institution known within and outside of the banking industry.
- ◆ **Legal framework** - In this context, the legal framework covers constitutions, agreements and rules. It became necessary to draft the constitution of PAN, which defines the powers and duties of PAN, as a Payment System Management Body, and outlines the rights and obligations of its members. Constitutions, agreements and rules for the banking environment were developed at the PCH level. The agreements and rules are important instruments governing payments within each payment stream.
- ◆ **Skills** - It is a known fact that there is a shortage of skills on payment related matters in Namibia. This was a challenge for banks in terms of finding the right individuals to represent each bank at every PCH forum. The end result was that some individuals become overstretched owing to serving on multiple forums.
- ◆ **Appointment of a non-bank service provider** - Two things should be mentioned. The PAN Entry and Participation Criteria were developed to register any service provider within a banking environment. A challenge came when Smart Switch Namibia (SSN) applied to be recognized as a service provider for the smart card solution of Namibia Post Limited.

Although our criteria were applicable to a banking environment, we were duty bound to make sure that SSN is accommodated within the existing regulatory framework.

- ◆ **Cheque limit reduction** - The regulator issued a Determination on Reduction of the Item Limit for Cheque Payments within the Namibian National Payment System on 23 October 2009 with the view to reduce the cheque limit to NAD500,000 from NAD5 million. This was a challenge to us from a compliance perspective as we needed to align our internal processes with the determination. We also had to do a customer education campaign so that no cheque would be written above the prescribed limit.
- ◆ **MOU among BAN, BON and PAN** - Before 2008, PAN Management Council or Committee was chaired by, and meetings used to happen at the premises of, banking institutions. During 2008, an interim arrangement was concluded among the three entities for PAN to be housed at the BON for 3 years after which it should be an autonomous institution. We as banks had to make sure that relevant documents, information and records were transferred to the BON for usage and safekeeping. In general, we had to ensure that the transfer was smooth in order to ensure the efficient functioning of PAN subsequently.
- ◆ **CMA correspondent agreement** - As per the PAN regulatory framework, each bank was required to conclude a correspondent agreement with a non-Namibian CMA correspondent bank. Viewed from Namibia, the purpose of the agreement is to clear and settle cross-border payments in the Namibian NPS on behalf of the non-Namibian CMA correspondent bank.

In conclusion, I can say that the challenges were many. As an industry, we worked together to address them. We managed to turn challenges into achievements, where applicable. It must be said that the industry will face more challenges in future as we continue to modernize the Namibian NPS. Therefore, the interest of industry members, regulators and the general public should be considered as we continue with payment system reform initiatives now and in the coming years.

HIGHLIGHTS

- ◆ **LAUNCHED** The Bank of Namibia in collaboration with the payment industry in Namibia developed and launched the National Payment System (NPS) Vision 2015 document. The Vision 2015 constitutes the agreed strategic objective, implementation timeline and overall vision for NPS from 2010 to 2015.
- ◆ **ADVOCATED** The Payment industry in Namibia has advocated the idea of reducing the cheque items limit further to N\$ 100 000. The industry is currently conducting internal investigations to determine the possible implications of such a decision. It is expected that the industry will reach a consensus by February 2012 (with a possible implementation in June 2012).
- ◆ **RECOGNISED** The payment industry recognised the seriousness of finding a solution to the retention of retention of cards and pins by micro-lenders. Thus, the industry held a workshop to try and find a solution to this problem. EDO/NAEDO is also been explored as possible solution.
- ◆ **PURSUED** The Namibian payment industry is pursuing the possibility of introducing Account Holder Verification (AHV).
- ◆ **DEVELOPED** PAN office has developed terms of reference to formalise the establishment of PAN Stakeholder Forum (PSF), which set out its purposeits purpose, aims, and functions and provide for the administration thereof.
- ◆ **REVIEWED** PAN Entry and Participation Criteria were reviewed and harmonised with legislation such the Payment System Management Act (PSMA), the Bank of Namibia Directive/Determination as well as with the PAN Constitution. The new Entry and Participation Criteria no longer refer to a System Operator. In preference they classify a person other than the principal or service provider directly involved in the processing, storage or transmission of payment instructions or data on behalf of the principal or service provider as a "third party service provider" (TPSP). Any person that facilitates the necessary back office solutions for banking institutions, providing point of sale (POS) devices and associated links for micro-lenders, own and deployed Automated Teller Machines (ATM) machines on behalf of banking institutions, is now classified as a third party service provider.

The term "Service Provider" was also redefined to include any other payment system participant who is not a clearing house or a third party service provider.
- ◆ **APPROVED** The new PAN Constitution was approved and signed off on the 13th September 2011. The new Constitution, inter alia, provided for an amended definition of members as well as governing voting at a meeting of the Association. The Constitution further provides for appointment and removal of the Independent Chairperson. The issue of member subscriptions was also revisited

and amended accordingly. In the same light, the functions and responsibilities of the PAN Management Council (Counsellors) were also revised, and as a result their roles and fiduciary responsibilities are now defined accordingly.

◆ **SIGNED** The industry finally signed off rules and agreements that govern the conduct of members in the national payment system. Rules and agreements pertaining to Card and Paper clearing were signed off during 2011, while those pertaining to Electronic Fund Transfer (EFT) were signed off in January 2012.

◆ **AUTHORISED** PAN has authorised Real Pay (Pty) Limited to provide payment services in terms of Payment System Management Act no. 18 of 2003. The authorisation is valid for twelve (12) months, but renewable.

◆ **ISSUED** During the year, it came to the attention of the Association that there are merchants who charge a surcharge on card transactions at Point of Sale (POS) in addition to the price of goods and services. This practice is prohibited as it is a direct contravention of International Card Association (Visa and MasterCard) rules. Accordingly, PAN issued a public notice aimed at informing the merchants to stop the practice and also informing members of the public to report such merchants to their respective banks for further action.

PAN also learnt that there was misinterpretation of a directive issued by Bank of Namibia prohibiting sorting at source, which became effective on 1 June 2010. Some corporates interpreted the directive to mean that multi-banking is not allowed. As a result, PAN issued a public notice explaining that the directive encourages all Namibian companies to use a single collecting banking institution for EFT instructions, and that multi-banking is allowed as long as it does not contravene the directive.

◆ **TAKEN-OVER** PAN office took over the responsibility of issuing of bank user notices, which were previously issued by Namclear on behalf of the industry. As a result, PAN has developed a Bank User Notice Guideline aimed at promoting a systematic and controlled approach to the change management of service or sub-service of PCH streams.

The Guideline further serves to guide the Bank Notice issuing process and ensures that there are procedures to be followed during the project implementation stage.

◆ **CONDUCTED** The PAN office conducted a public campaign on stop orders and debit orders. The campaign not only highlighted the difference between the two methods of payment, but also enlightened the public on the steps to be taken in the case of disputes between the bank and the accountholder, or between the accountholder and the service provider.

The PAN office in corroboration with the payment industry also conducted a public fraud awareness campaign. This campaign focused on how to avoid becoming the victim of a phishing scam, general tips on phishing scams as well the do's and don'ts of creditof credit/debit cards, ATM etc.



THE NAMIBIAN PAYMENT SYSTEM

The Namibian payment industry experienced growth over the past years. As was the case with many industries in Namibia, the payment system was also interlinked with the South African payment system, and clearing and settlement took place in that country. However, many milestones have since been achieved as Namibia introduced its own Real Time Gross Settlement system, and established the clearing and processing service provider, Namclear. Another milestone was achieved when the country established its switching system (Namswitch) for domestic transactions.

Payment is rightly regarded as critical infrastructure in any economy, as it is the lifeblood of any economy. On a daily basis people, government and institutions use different types of payment methods to either purchase goods or services, withdraw cash from an ATM, and transfer funds from one person to another (through either EFT or direct cheque deposit).

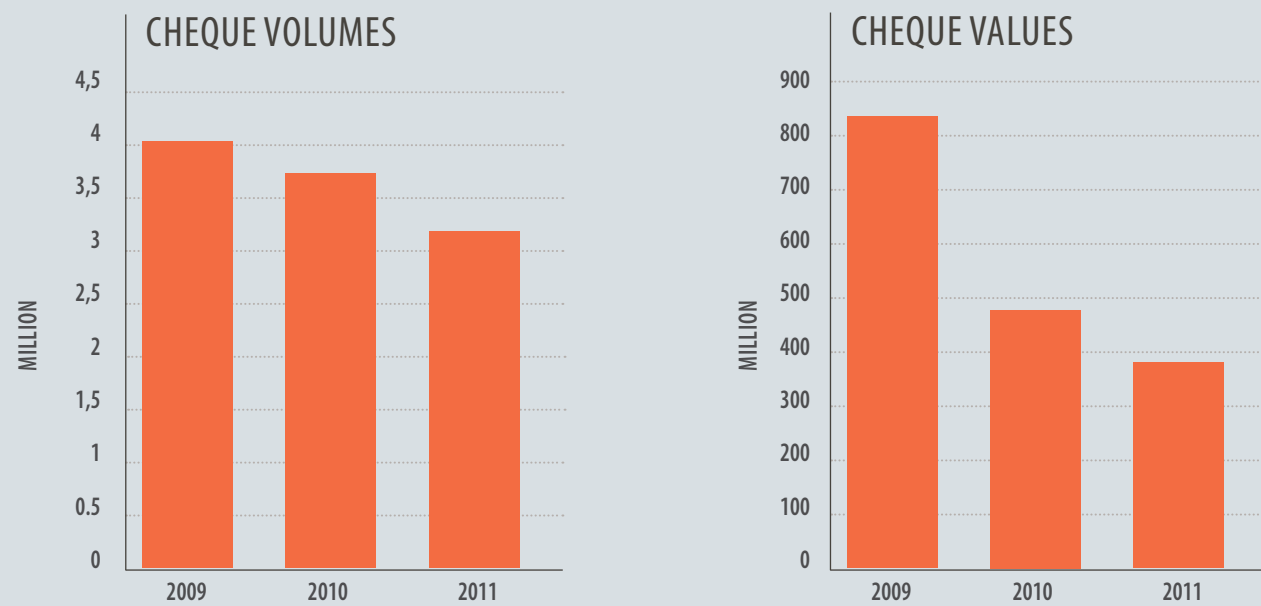
PAYMENT IS RIGHTLY REGARDED AS CRITICAL INFRASTRUCTURE IN ANY ECONOMY, AS IT IS THE LIFELOOD OF ANY ECONOMY.

In Namibia, there are three streams of payments, namely cheque payment, electronic fund transfer and through card transactions (debit and credit cards). As it can be see below, Namibians are moving away from cheque transactions, relying more on electronic fund transfer and card payments.

1. CHEQUES

Today, cheques are mainly used where immediate value is not required, such as business-to-business transactions, or paying someone for a future date. In 2011, the clearing house (Namclear) processed over 3.2 million cheques in 2011 with a total value of N\$410 billion. This is a significant decrease in both value and volumes of cheques. The decrease in value and volume of cheque transactions can be attributed to the reduction of the cheque items limit from N\$5million to N\$500 000.00 adopted by the Namibian payment industry in 2010.

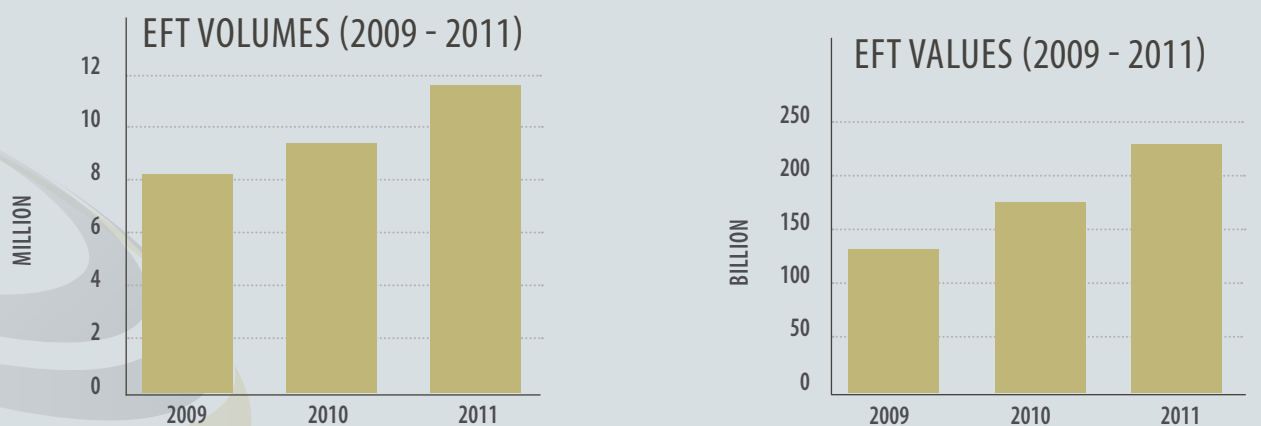
CHEQUE



2. ELECTRONIC FUND TRANSFER (EFT)

During 2011, Namclear processed 11.57million EFT transactions with a value of N\$239.8 billion, which represent an increase of 23.7 percent, when compared to value transacted in 2010. The increase in both volume and value of EFT transactions is due to the reduction of the cheque items limit, which encouraged the use of electronic fund transfer.

ELECTRONIC FUND

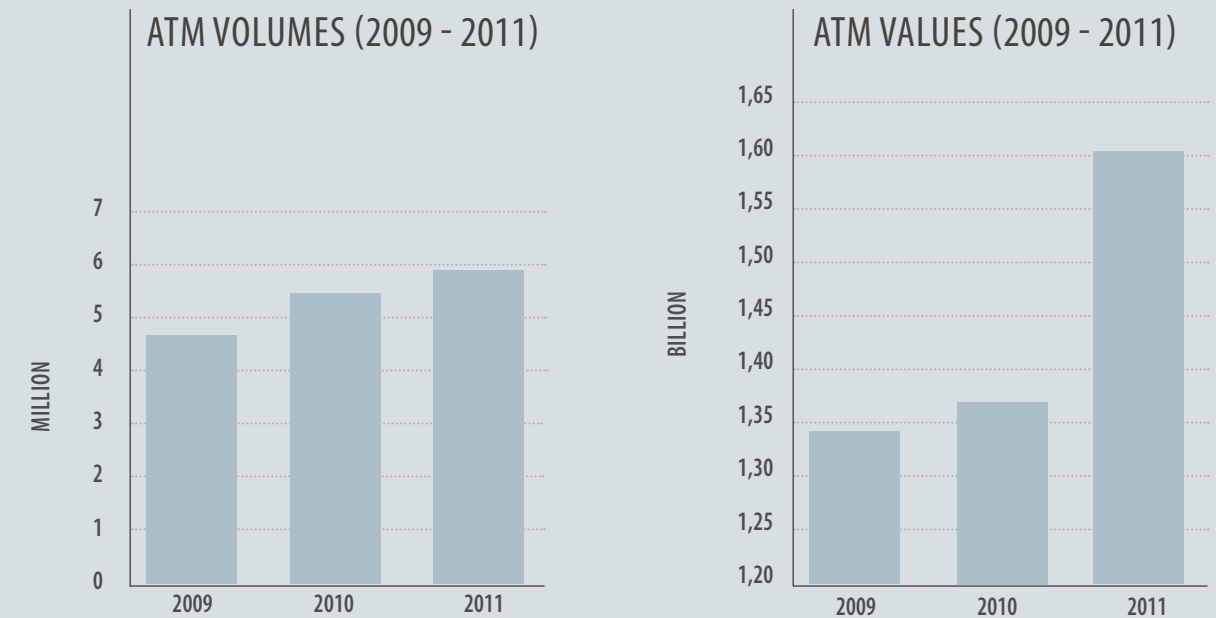


3. CARD

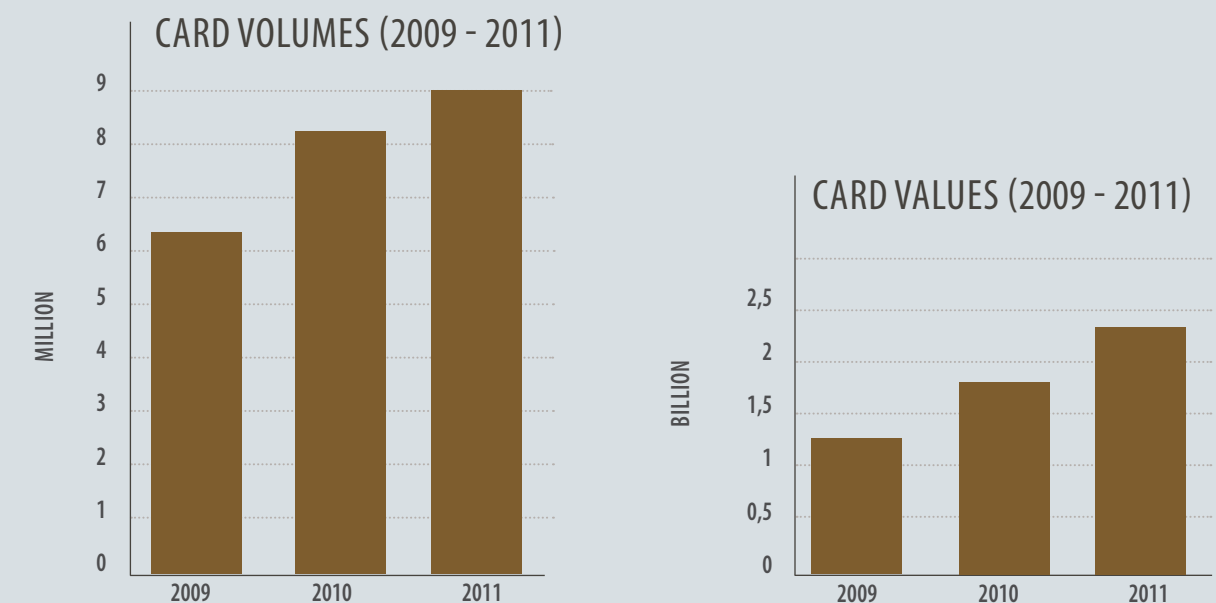
Card payments are by far the common retail payment method, second only to cash payment. Cards payments are generally used for in-store purchases (where the store has an EFTPOS terminal), to withdraw cash from an ATM, or for purchases over the phone or on the internet.

During the period under review, Namclear processed 9.3 million card transactions with a total value of N\$2.4 billion, which represented an increase of 9.2 per cent in value, when compared to value transacted in 2010. The volume of card transactions increased by 7.4 per cent compared to 2010. There were 6 million ATM transactions processed in 2011 with a value of N\$1.6 billion, which represented an increase of 13.4 percent in value, when compared to value transacted in 2010.

ATM



CARD





COMPARISON VOLUME TABLE

VOLUMES	2009	2010	2011
Cheque	4 060 611	3 753 144	3 240 343
EFT	8,223,381	9,551,900	11,575,690
ATM	4968216	5541536	6073074
CARD	6 910 822	8 676 953	9 371 818

The comparative figures of transactions cleared and settled during the period from 2009 to 2011 indicate a decline in cheque transactions. While EFT and card transactions show a substantial increase, this, as mentioned above can be attributed to reduction of cheque item limits coupled with encouragement to use electronic fund transfer.

COMPARISON VALUES TABLE

VALUES	2009	2010	2011
Cheque	844 937 967	494 270 979	410 129 246
EFT	127,223,402,911	167,980,001,002	239,808,787,802
ATM	1 348 909 224	1 394 891 216	1 610 098 732
CARD	1 386 785 453	1 896 323 333	2 419 552 472

CHEQUE REDUCTION

The Bank of Namibia in consultation with the payment industry and in line with the overall cheque strategy decided to reduce item limits for cheque payments within the National Payment System to N\$500,000, effective 10 June 2010. This means that any cheque payment made in excess of N\$500,000 will no longer be accepted by banking institutions nor will it be processed by Namclear.

As a result, all high value payments in excess of N\$500,000 can either be made through Electronic Fund Transfer (EFT) system or through the Namibia Interbank Settlement System (NISS). EFT transactions can be done by the payer through internet banking or by instructing their banks to effect the payment on their behalf. Electronic payments are cheaper, quicker and more secure than cheque payments. Moreover, electronic payments increase safety, speed and efficiency in the National Payment System.

Payers (companies and individuals) who make large payments (above N\$500,000) to Government/Inland Revenue can do so through NISS. In order to make a payment through NISS, the payer must contact its bank to make the payment on their behalf. NISS provides timely, guaranteed and final settlement in real-time, thereby adding to the efficiency and safety of the National Payment System.

PAN is confident that the reduction of the cheque limit will lead to greater efficiency and safety, while allowing for the quicker availability of funds to the payees through the alternative payment methods mentioned.

THIS MEANS THAT ANY CHEQUE PAYMENT MADE **IN EXCESS OF N\$500,000** WILL NO LONGER BE ACCEPTED BY BANKING INSTITUTIONS NOR WILL IT BE PROCESSED BY NAMCLEAR.

SORT AT SOURCE DIRECTIVE

“Sort at Source” is a practice whereby Namibian companies sort each paying bank’s transactions directly to each individual bank, and where the proceeds of such transactions are credited or debited to an account in the name of the beneficiary/payee. The Namibian payment industry took notice of the numerous risks this practice introduces in the National Payment system because it bypasses the rules and procedures that governs the Payment Clearing House (Namclear (Pty) Ltd).

As a result, a Directive prohibiting “sort at source” was issued by the Bank of Namibia. In terms of this directive, all Namibian companies are required to use a single banking institution for Electronic Fund Transfer (EFT) transactions and phase out all sorting at source practices.

The Directive is by no means aimed at prohibiting multi-banking. However, it requires all Namibian companies to implement the necessary systems, infrastructure and internal process changes to enable them to submit all EFT transactions via a single bank.

“SORT AT SOURCE” IS A PRACTICE WHEREBY NAMIBIAN COMPANIES **SORT EACH PAYING BANK’S TRANSACTIONS** DIRECTLY TO EACH INDIVIDUAL BANK, AND WHERE THE PROCEEDS OF SUCH TRANSACTIONS ARE CREDITED OR DEBITED TO AN ACCOUNT IN THE NAME OF THE BENEFICIARY/PAYEE.



Chris Diemer, Herman Kruger and Ryan Geysler

VIEWS OF CHAIRPERSONS OF PCH PGS

The constitution of PAN together with the Payment System Management Act make provision for the establishment of various working groups called “Payment Clearing House Participant Groups” (PCH PG). These clearing houses are responsible for pursuing the objectives of the Association as they relate to its particular payment stream. At present, there are three PCH PGs namely the PCH PG for Card, Electronic Fund Transfer (EFT) and PCH PG for Paper.

Each PCH PG is responsible for compilation of its own membership criteria relative to the respective PCH’s under its control. PCH’s also compile their own directives and most importantly, PCH’s formulate and agree on their operational rules.

THE MESSAGE FROM THE EFT PCH CHAIRMAN

The Electronic Fund Transfer Payment Clearing house (EFT PCH) is the clearing house governing the clearing and settlement of all electronic fund transfers in Namibia. Thus, EFT PCH acts as an implementation and maintenance forum for the rules governing the processing, clearing and settlement of all electronic fund transfers. Initially, the forum comprised the representatives of banking institutions, the Payments Association of Namibia (PAN) and Namclear. However, with the introduction of EFT transactions by the Bank of Namibia, the central bank is also now a participating member.

Since its inception, the EFT PCH has made major progress in attaining its objectives. The stream has successfully implemented the Directive issued by the Bank of Namibia directing that all electronic transactions be cleared through Namclear and settled through NISS. These changes were significant in that they created a unique opportunity for Namibia to modernise and streamline its payment industry and enabled the country to achieve a cost-efficient payments infrastructure.

Another milestone achieved by the EFT PCH is the implementation of the "sort at source" directive. This directive is aimed at prohibiting a practice by corporates/ companies which sort each paying banks' payment instructions and submit those payment instructions directly to each paying bank, where the proceeds of such payment instructions are credited to an account in the



Herman Kruger

name of the beneficiary and as such bypass the clearing house.

The EFT PCH has also, in collaboration with PAN, launched a public awareness campaign to educate the clients of the banking institutions and the public at large on the processes to be followed in the event of a dispute with the debit or stop order as well the difference between the two methods of payments.

On a regional level, the stream participated in the SADC Payment Project by organising a series of workshops in order to select its preferred model for the regional Automated Clearing House (ACH).

Despite the above achievements, the EFT PCH was also faced with challenges. For example, the stream was tasked by the PAN Management Council to investigate the possibility of introducing the Early Debit Order system in Namibia, as well as a possibility of introducing Account Holder Verification. Although a workshop was held in this regard, a solution has yet to be identified.

MESSAGE FROM THE CHAIRPERSON CARD - PCH

The Card Payment Clearing House (PCH) Group came into existence during the implementation of the domestic card switch: Namswitch. This forum is responsible for the implementation and maintenance of rules governing the processing, clearing and settlement of card transactions. The group also manages projects and initiatives in the card space, as well as manage operational issues that arise in the acceptance and authorization of card transactions. The forum is represented by all banking institutions, as well as Bank of Namibia (BoN), Namclear and the Payments Association of Namibia (PAN).

One of the most important initiatives currently being managed by the Card PCH is the acceptance of debit/ credit cards for fuel purchases in Namibia. This project was initiated in the latter part of 2009 and the capability was implemented on Namswitch during November 2011. This capability effectively allows Namibian debit/credit cards to be accepted for fuel payments at a lower fee. This is to support the fact that the fuel profit margins are regulated and this saving can then be passed onto fuel merchants. The following step will be to phase out current proprietary fuel cards (i.e. Petro/Garage cards) and the acquiring infrastructure (forecourt devices), which still



Ryan Geysler

form part of the South African fuel solution.

The SADC Payment Project was launched recently and the Card and ATM streams will be introducing changes to the industry in the next 2 to 6 years. The Card PCH has debated and defined a model for a centralized SADC payment system catering for card/ATM transactions. This model has been submitted to the SADC Payment Project team and the next step will be to workshop the different models from participating countries and arrive at a shared model that will accommodate all parties.

The Namibia National Payment System Vision 2015 launched in 2011 will be shaping some of the objectives for the Card PCH group for the next few years. One of the major initiatives is the implementation of EMV (chip) card acceptance and issuing in Namibia. The first milestone is to have all banks' acquiring infrastructure (POS and ATM) capable of accepting local and international EMV cards by

ONE OF THE MOST IMPORTANT INITIATIVES CURRENTLY BEING MANAGED BY THE CARD PCH IS THE **ACCEPTANCE OF DEBIT/CREDIT CARDS FOR FUEL PURCHASE** IN NAMIBIA.

the end of 2012. The following step will be for banks to issue EMV cards by the end of 2015.

The card payment stream has had some challenges during the first few years of operation since the implementation of Namswitch in 2008, however, the national system operates reliably minimal operational issues are experienced. An

industry request for proposal (RFP) was issued recently for the implementation of all payment stream systems in Namibia. The local implementation should improve efficiencies and allow for extended features and functions relating to the card payment system of Namibia. The implementation of this payment hub is currently being planned and will be initiated soon in 2012.



Chris Diemer

MESSAGE FROM THE CHAIRPERSON - PAPER PCH

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

THE PAPER PCH IS CURRENTLY IN DISCUSSION TO POSSIBLY FURTHER **REDUCE THE CHEQUE LIMIT** TO N\$100 000.00.

The PCH provides a forum where the industry and the Bank of Namibia as regulator engage in discussions on issues and challenges within a certain payment stream in order to introduce new rules and regulations as times change or new risks are identified.

Within a PCH member banks discuss and resolve operational issues and disputes that might arise from time to time.

The following members represented the various stakeholders on the Paper PCH in 2011:

PAN (PAYMENTS ASSOCIATION OF NAMIBIA)

MAIN MEMBER: Saima Herman
ALTERNATE MEMBER: Lydia Iiyambo

BANK OF NAMIBIA

MAIN MEMBER: Sam Shivute
ALTERNATE MEMBER: Anna S. Botma

BANK WINDHOEK

MAIN MEMBER: Bianca L.L. Maasdorp
ALTERNATE MEMBER: Chris Diemer

FIRST NATIONAL BANK

MAIN MEMBER: Rodney Forbes
ALTERNATE MEMBER: Mara Hendricks

NEDBANK

MAIN MEMBER: Charlene Jansen
ALTERNATE MEMBER: Nick Klazen

STANDARD BANK

MAIN MEMBER: Anna Pick
ALTERNATE MEMBER: Susanna R. George

During the past year the main focus of the Paper PCH was upon the participation in SADC payments initiatives with emphasis on the future of cross border cheque payments within the SADC region and beyond. In principle agreement amongst member banks has been reached to phase out cross border cheque payments rather than to build a cheque clearing capability within the region. In the Namibian context this means that cheque payments to and from South Africa will be phased out over time and no new clearing arrangements with any other country will be implemented. With the small volume of cross border cheque payments as well as an Electronic Funds Transfer capability as an alternative, this should however not have a negative impact on the flow of funds or cross border trading amongst member countries.

Although domestic cheque volumes are decreasing it will probably be many years before cheques disappear entirely.

As part of the SADC payments initiative, member countries are requested to reduce the cross border cheque item limit to N\$500,000.00 by June 2012. Namibia already complied with this requirement in 2010, when both the domestic and cross border item limits were reduced to N\$500,000.00. The Paper PCH is currently in discussion to possibly further reduce the cheque item limit to N\$100,000.00.

As per a Bank of Namibia directive the paper stream daily cut-off time for clearing and settlement will be at 17h00 in future, and not 19h30 as currently the case (termed Early Square Off). This negatively impacts the internal operations of member banks, and it is up to each bank to absorb and facilitate these challenges in the best possible way with the least customer impact. Originally the implementation date for this Early Square Off was October 2011, but has been renegotiated by the Paper PCH and is now due to be implemented by the end of June 2012.

In general the Paper environment is very stable with only a few operational incidents and issues being raised for discussion and resolution throughout 2011.



Albert Matongela

IMPLEMENTATION OF THE SADC PAYMENTS PROJECT IN NAMIBIA

1. INTRODUCTION

Integration of payment systems in the Southern African Development Community (SADC) will enable transactions of member countries to be processed, cleared and settled through common platforms. The need to integrate payments is in line with the economic integration road-map of the region. It is understood that economic integration will be meaningless without payments integration.

The approval of the SADC Payments Project by the Committee of Central Bank Governors (CCBG) in 2009 paved a way for a range of activities to be carried out to realize payments integration. For example, the proposed integration model has been shared with commercial banks in the region. Further, commercial banks are now doing their part to help realize the integration vision.

2. PROPOSED MODEL FOR INTEGRATION

It is expected that initially the CMA countries will be integrated, before SADC-wide integration happens. This is because the Rand is circulating in CMA and it will be a good starting point to test the solution in a few countries before rolling it out to other countries. Once CMA countries have been integrated, strategies will be created to ensure the smooth roll-out of the solution to the rest of the SADC region.

One of the decisions that need to be made is how countries will link to the regional systems. At a clearing level for example, banks have to decide how to link to the regional automated clearing systems (ACH). Industry deliberations

have shown that there are two ways of implementing this based on each country's level of infrastructural development. The first is to link the central system via the local ACH, and the second directly to the central ACH. Each option has costs and benefits. The Namibian banking industry is expected to decide on implementation option per stream in this regard.

3. ROLE OF COMMERCIAL BANKS IN THE INTEGRATION PROCESS

3.1 SADC-BA ASSOCIATION

The SADC Bankers Association (SADC BA) is currently driving the involvement of commercial banks within the region in the integration process. All commercial banks in SADC are represented by their National Bankers Associations (NBA) at the SADC level. Each NBA has an In-Country Payments Leader (IPL) who attends IPL meetings organized by the SADC Bankers Association periodically. Banks link to the SADC Committee of Central Bank Governors (CCBG) through the SADC Bankers Association Secretariat.

3.2 WORK STREAMS

SADC BA has identified ten (10) work streams in which discussions by commercial banks will take place to ensure successful implementation of the SADC Payment System Integration Project. They are:

- ◆ ATM/Card
- ◆ Bank Notes
- ◆ Cheque
- ◆ Credit Transfers for Immediate Settlement
- ◆ Delivery-versus-Payment
- ◆ EFT Credit
- ◆ EFT Debit
- ◆ Financial Markets
- ◆ Interbank Settlement
- ◆ Person-to-person

These work streams were allocated to member countries during the recently held IPL meeting, which took place in Johannesburg during 7 – 9 February 2011. Each country is a leader in one work stream and a member in the others. A leader in one work stream will determine the pace at which activities in that work stream will happen. It will champion all operational matters within the work stream.

There will be multiple meetings for work streams during the year in line with the terms of reference of each work stream. There will be discussions at national level and SADC level. In Namibia, all discussions will take place at Payment Association of Namibia (PAN) Payment Clearing House (PCH) Participant Groups (PG). Further, each banking institution will be represented at both national and regional integration discussions.

4. ACHIEVEMENTS

- ◆ **Namibian representatives for SADC BA work streams...** The Namibian banking industry nominated individuals to represent it at various work stream meetings at the regional level. Work streams are outlined in section 3.2 above.
- ◆ **Sensitization...** Efforts were made to sensitize industry stakeholders to the project. Within the industry, discussions on the project take place at banking/payments forums. Interaction with stakeholders outside the industry takes place as a need arises.
- ◆ **Guidelines on Implementation of SADC Payments Project in Namibia...** As a requirement from SADC BA, the industry has put in place a governance framework to ensure effective implementation of the project.
- ◆ **Business models...** SADC BA requested the Namibian banking industry to provide feedback on business/processing models of selected work streams. The industry provided its position on selected business models accordingly.

5. CONCLUDING REMARKS

Integration of payment systems in the region will take many years before full implementation is realised. There will be challenges to address and priorities to consider in the integration process. Cooperation between banks and regulatory authorities will lead to successful implementation of the SADC Payments Project in Namibia.



PAN MANAGEMENT COUNCIL

From left to right: Fabian Tait, Ryan Geysler, Herman Kruger, Chris Diemer, Moody Tembo, Nick Klazen, Saima Herman, Dr Gift Kavari, Bradwyn Beukes, Brian Geikhoibeb, Albert Matongela, Kennedy Kandume

CORPORATE GOVERNANCE

PAN MANAGEMENT COUNCIL

The PAN Management Council, comprises of an independent chairman, the Chief Operating Officer of PAN, principal and alternate members appointed by their respective Banking institutions, a principal and an alternate representative of the Bank of Namibia, as well as the Chief Operating Officer of the Clearing House (Namclear (Pty) Ltd) as an invited non-voting member. The PAN Management Council operates on a consensus basis in the interest of the National Payment System as a whole. However, PAN's constitution allows for voting and the Chairman of the Council has a casting vote in the event of a deadlock.

CHAIRMAN OF THE COUNCIL

The independent Chairman is generally a non-voting member, and only has a casting vote in the event of a deadlock. The chairman is appointed for the period of three years. The first independent chairman for the Association is Dr Gift Kavari, who was appointed after an exhaustive selection process. His three years term commenced on 30 April 2010. Dr Kavari, however, submitted a notice of resignation effective from 3 February 2012.

CHIEF OPERATING OFFICER (COO)

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 on a bi-annual basis by the council, represented by the chairman.

BANK OF NAMIBIA (BON) LIAISON ARRANGEMENT

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

OTHER COMMITTEES

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

THE **PAN MANAGEMENT COUNCIL**, COMPRISES OF AN INDEPENDENT CHAIRMAN, THE CHIEF OPERATING OFFICER OF PAN, PRINCIPAL AND ALTERNATE MEMBERS APPOINTED BY THEIR RESPECTIVE BANKING INSTITUTIONS

GLOSSARY

Act - means the Payment System Management Act No. 18 of 2003, as amended, or any re-enactment or substitution thereof;

Automated Teller Machine (ATM) - means an electronic device that, operates in conjunction with a processor and network, allows customers to debit an account in exchange for cash and that may allow customers to effectuate account transactions.

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

Bank of Namibia (BoN) - 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 arrangement 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.

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 - means payments to a company that is not registered in Namibia but has a collection/debit order agreement with account holders of authorised Namibian banking institutions.

Cross-border Transaction - a transaction where at least one of the parties is located outside the home country.

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 (EFTPOS) 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 Act.

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.

Early Square-Off - means the final settlement within NISS of all PCH batches prior to 17:00 during weekdays and 12:00 on Saturdays. No settlement shall occur on Sundays.

EFT PCH - means 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.

Entry Criteria - Criteria for participating in a certain stream, laid down by PAN, in conjunction with BON.

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

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).

NISS - means Namibia Interbank Settlement System, which facilitates the settlement of all domestic transactions in Namibia dollars through the Bank of 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.

Sort at Source - means the process whereby the beneficiary of a payment instruction sorts each paying bank's payment instruction and then submits those payments directly to each paying bank, and where the proceeds of such payment instructions are credited to an account in the name of the beneficiary.

PAN - means the Payments Association of Namibia. PAN is recognised as a Payment System Management Body (PSMB) in terms of the Act.

Paper PCH - means 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.

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

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.



