



Namibia National
Payment System
Vision 2015



Namibia National Payment System Vision 2015

The NPS Vision 2015 document seeks to analyze the current NPS landscape in Namibia; identify the shortcomings and risks and to develop a strategic vision for the Namibian NPS, with the view to ensuring that Namibia is well placed to fully participate in all initiatives across the SADC (Southern African Development Community) initiatives.

Table of Contents

1.	Foreword	4
2.	Introduction	5
3.	Oversight of the NPS	6
3.1	Oversight Vision	6
3.2	Bank of Namibia	6
3.3	Payments Association of Namibia	6
3.4	Strategic Objectives	7
4.	Access and participation in NPS	7
4.1	Vision for Access and Participation	7
4.2	Strategic Objectives	8
5.	Interoperability and standards in the NPS	8
5.1	Interoperability Vision	8
5.2	Strategic Objectives	8
6.	NPS infrastructure and technology	9
6.1	NPS Infrastructure and Technology Vision	9
6.2	Strategic objectives	9
7.	Cross-border remittances	10
7.1	Cross-border Remittances Vision	10
7.2	Strategic Objectives	110
8.	Regional participation	10
8.1	Vision for Regional Participation	10
8.2	Strategic Objectives	11
9.	Implementation timeline for NPS vision 2015	12
10.	Glossary of terms	13

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The National Payment System (NPS) Vision 2015 constitutes the agreed strategic objectives, implementation timeline and the overall vision for the NPS in Namibia from 2010 to 2015.

It should be noted that the implementation of this vision will require the participation of all key stakeholders in the NPS. The aim is to continue developing and maintaining a world-class payment system to meet domestic and regional payment system objectives.

This document is hereby accepted and endorsed by the Bank of Namibia, the Payments Association of Namibia and the Bankers Association of Namibia as the basis for future payment system development in the country for the next five years.



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1. Foreword

Development of the NPS vision and strategy started in 2000. Since then a number of payment system reform initiatives have been implemented. These include Namibia Inter-bank Settlement System (NISS) in 2002; Payment System Management Act in 2003; Namclear Pty Limited in 2003; the Electronic Funds Transfer System (EFT) in 2004; the cheque processing system (CPS) in 2005; the Payment Association of Namibia (PAN) was established in 2005; and NAMSWITCH in 2008. Additionally in 2008, the cheque clearing cycle was reduced from 7-21 working days to 5 working days.

The achievement of these milestones and objectives is largely due to effective co-operation within the Namibian banking industry. With the envisaged strategies having been successfully implemented, the time has arrived to develop new visions, strategies and objectives for the future of the payment system.

New challenges are facing the NPS and therefore new strategic direction is required. The purpose of this framework is to provide high-level strategic direction for the payment system up to 2015.

Going forward, the NPS Vision 2015 will guide the modernization of the Namibian NPS towards the achievement of common objectives. To achieve these grand objectives the involvement of key stakeholders will be required in the process.



Mr Ipumbu Shiimi
Governor
Bank of Namibia

2. Introduction

The National Payment System (NPS) is dynamic and new demands and opportunities arise as a result of market requirements and technological developments. Therefore, new challenges are facing the NPS and new strategic direction is required. Hence, the Bank in collaboration with the banking industry has developed a new vision, strategies and objectives for the future of the Namibian NPS. The Vision provides high-level strategic guidance for the payment system up to 2015 to maintain a world-class payment system and also meet domestic and regional payment system requirements.

The NPS Vision 2015 contains six strategic focus areas, which are briefly outlined as follows:

- Oversight of the National Payment System. This strategic focus area entails developing regulations and putting in place arrangements to ensure that oversight is carried out effectively and efficiently.
- Access and participation in the NPS. The objective of this strategic focus area is to enable access to payment system, thereby promoting financial inclusion. It also entails ensuring that fees and charges are fair and competitive in the NPS.
- Interoperability and standards in the NPS. This strategic focus area will be implemented in order to encourage interaction between systems and minimize card fraud in the NPS.
- NPS infrastructure and technology. The purpose of this strategic focus area is to put in place the necessary infrastructure to ensure that payments continue to be initiated, processed, switched, cleared and settled. In addition, the NPS infrastructure should cater for the needs of the unbanked community and provide basic payment services to majority of Namibians.
- Cross-border remittances. Cross-border or international remittance is a cross-border person-to-person (P2P) payment of relatively low value. This strategic goal requires the Bank and the payment industry to improve the remittance market in Namibia
- Regional participation in SADC and CMA. This strategic focus area requires Namibia to participate in SADC/CMA payment, clearing and settlement initiatives with the view to facilitate regional trade and economic development. In this regard, the Bank will directly participate in SADC/CMA payment, clearing, settlement system regulatory oversight initiatives to achieve regional aspirations.

Namibia can be proud of its payment system infrastructure established over past years. However, moving forward the Namibian banking industry has a unique opportunity to create a modern, streamlined and cost-efficient payments infrastructure that will position the banking industry and Namibian economy well for the future. A future where commerce will require real-time payment mechanisms that gives immediate value and finality to the beneficiary. A world where various channels like e-payments, mobile phones and the Internet will be used to make payments and conduct business fast, efficiently and cost effectively.

The crafting of the NPS Vision 2015 comes at a time when there is a heightened need to find ways to enable the broader participation and access in the NPS with the strategic objective of extending payment and financial services to the unbanked community. Similarly, the efficiency and cost-effectiveness of payment systems is receiving much attention.

3. Oversight of the NPS

Effective oversight of the NPS is essential for the achievement of the public policy objectives relating to safety and efficiency of the NPS. The oversight of payment systems is a transparent public policy activity focused on the efficiency, and safety of payment systems rather than individual participants. Furthermore, effective oversight will ensure the financial and technical integrity of the NPS, including its overall robustness against systemic shocks together with its overall efficiency, accessibility, and cost effectiveness through rules, standards, monitoring, analyses, and enforcement.

3.1 Oversight Vision

In recent years, the number of non-banks participation in payment system has increased to the extent that the risk associated with their operations and the risk that they bring to the clearing and settlement environment requires efficient oversight. This may require some adjustment to current structures in the NPS and putting in place arrangements to ensure that oversight is carried out effectively and efficiently. There is also a need to ensure that these newly regulated entities have channels to engage with the Bank and other stakeholders, including PAN in a fair and transparent way.

3.2 Bank of Namibia

The Bank of Namibia will perform its oversight functions in accordance with the Payment System Management Act, 2003, (Act No. 18 of 2003), and will ensure compliance with the Bank of International Settlements (BIS) Core Principles for Systemically Important Payment Systems (CPSIPS) and other international standards and best practices.

3.3 Payments Association of Namibia

In terms of section 3 of the Payment System Management Act, the Payment Association of Namibia (PAN), manages the conduct of its members in relation to all matters affecting payment system.

PAN's mission is to maintain a world-class payment system that meets domestic, regional and international requirements. PAN has the responsibility to manage the Namibian payments inter-bank clearing system in order to:

- support the Bank in its role as overseer of the payment system by ensuring compliance and imposing penalties against and sanctions for its members;
- provide the Namibian community with safe and efficient facilities to exchange payments;
- protect the safety and integrity of the payment system;
- manage the clearing and settlement risks in the payment system;
- authorise and facilitate access of participants and prospective participants to the payment system on a fair and equitable basis;
- facilitate communication between participants;
- enable proper understanding of the system and the rules applicable to it.

3.4 Strategic Objectives

The oversight of payment systems aims at monitoring, assessing and promoting the smooth and efficient functioning of payment systems, and associated instruments, and where necessary inducing change in order to ensure the attainment of the following objectives:

- Ensure the safety and efficiency of payment systems to maintain the soundness of the NPS and hence financial system stability;
- Introduce amendments to Payment System Management Act, 18 of 2003, issuing of determinations and directives to support
- Ensure the stability and reliability of payment systems by identifying, preventing and mitigation of potential risks, particularly, credit, systemic, settlement, legal, operational and liquidity risks.
- Ensure the effectiveness and efficiency of any payment system in order to ensure that the cost of services provided to users appropriately reflects the value of these services.
- Ensure the transparency of the operating rules of payment systems, as well as of the rights and obligations of systems' participants, system operators and users.
- Maintain public confidence in the payment instruments used and the payment services offered, in particular regarding the settlement of payments under pre-specified terms (procedures, execution times, value dates, etc.), by ensuring technical and legal soundness, and effective fraud prevention.
- Ensure that payment systems services and products are provided on an equitable basis, and access to such products, and services are not unreasonably restrictive.
- Promote, and where feasible convert existing debit-pull mechanisms (i.e. cheques & EFT debits), to credit-push electronic payment mechanisms (i.e. EFT payments; RTGS payments).

4. Access and Participation in NPS

One of the key strategic objectives of the NPS vision 2015 is to promote wider access to payment services. This will be achieved by providing access to non-banks to offer alternative innovative payment services such as mobile money. The issue of efficiency and cost-effectiveness of payment systems has also received much attention.

4.1 Vision for Access and Participation

The vision is to increase the accessibility of the payment system by providing for new types of participants, but at the same time maintaining the safety and efficiency of the payment system by adhering to sound internationally accepted payment system risk principles. Increased accessibility by new participants will facilitate wider usage of the payment system by the public and will further enhance financial inclusion.

The payment system fees and charges have often been identified as one of the key supply side barriers to financial services. By setting standards for fees and charges, transparent and cost-based pricing will be achieved. The recent amendments to the Payment System Management Act give the Bank of Namibia power to act if the market fails to ensure that fees and charges are transparent, competitive and commensurate with input costs.

4.2 Strategic Objectives

- Set clear standards for fees and charges in the interest of efficiency and cost-effectiveness in the NPS.
- Increase the accessibility of the payment system by new types of participants, and simultaneously to enhance and maintain the safety of the payment system by adhering to sound payment system risk principles.
- Increase payment system accessibility in order to promote financial inclusion and address the payment needs of the un-banked community.
- Develop entry criteria for third-person payment service providers to facilitate wider access to payment system services and ensure that the payment system is available for the public, specifically enhanced access for the unbanked community.
- Develop regulation framework for the issuing of Electronic Money “E-money” in Namibia.
- Define entry criteria, that are aligned with international best practice, for banks, non-banks and operators (NPS operators; system operators; switches and other vendors providing payment related infrastructures) (payment service providers; beneficiary service providers) according to their level of liquidity, operational, credit, settlement, legal, systemic and reputational risks.
- Establish appropriate forum for representation by non-bank stakeholders in the NPS for consultation on a strategic and operational level of the NPS.

5. Interoperability and Standards in the NPS

Interoperability and standards within the NPS facilitate interconnectivity and a common understanding of the payment system requirements. The primary objective for implementing global standards is to enhance security and enable interoperability within the payment systems. These standards focus on creating an enabling environment for the prevention of fraud, increasing trust, integrity, legal certainty and confidence in the payment system, which in turn leads to a platform for foreign direct investment (FDI).

5.1 Interoperability Vision

The Namibian NPS shall strive for global interoperable standards, which conform to international best practice. The use of proprietary standards and/or infrastructures will be phased out over time. This will create transparency and promote wider access to interoperability standards to interested and/or relevant stakeholders. All current and future payment products and payment systems should conform to uniform standards and rules, which lay the foundation for global interoperable payment systems and services.

5.2 Strategic Objectives

- Adopt international best practices and standards to facilitate global interoperability within the NPS.
- Take account of current and future traditional and non-traditional payment products and systems and develop the appropriate standards to accommodate these.
- Promote common standards that are geared towards reducing risk; enhancing security and interoperability within the payment systems.
- Keep abreast of international and regional developments, for standards and interoperability, by participation in the appropriate initiatives and/or forums.

- All payments must be processed internally using the international open standard ISO 8583 or ISO 20022 formats.
- Introduce measures to encourage the industry to issue EMV compliant cards and roll-out EMV capable devices to mitigate card fraud in Namibia.
- Develop a compliance program and measures to ensure compliance to The Payment Card Industry Data Security Standard (PCI DSS) in the NPS.

6. NPS Infrastructure and Technology

The NPS infrastructure, and the related technology and communication networks, forms the backbone of how payments are initiated; processed; switched; cleared and settled in Namibia. The computer systems, computer networks, computer processing capacity are all part of an integrated financial network, which facilitates the transfer of value and the related information.

Namibia can be proud of its payment system infrastructure established over past years. However, moving forward the Namibian banking industry has a unique opportunity to create a modern, streamlined and cost-efficient payments infrastructure that will position the banking industry and Namibian economy well for the future. A future where commerce will require real-time payment mechanisms that gives immediate value and finality to the beneficiary. A world where various channels like e-payments, mobile phones and the Internet will be used to make payments and conduct business fast, efficiently and cost effectively. This is a world where cheques as we know them today and debit-pull practices will play a small role, if any.

6.1 NPS Infrastructure and Technology Vision

The vision is to establish a payment infrastructure that will provide substantial long-term benefits to the Namibian banking industry and the country as a whole. The envisaged payments infrastructure will support any number of banks, payment instruments, payment access points and payment devices. To optimise access to the payment system, support financial inclusion and to lower the cost per transaction, the new environment will provide for the clearing of all payments processed through all channels, including Automated Teller Machines (ATM), point-of-sale (POS) devices, Internet payment applications, corporate electronic banking products, mobile payment services and electronic purse applications for off line processing. These channels all support credit-push instruments and may need a real-time capability. In addition, the infrastructure will support the current payment services customers have become accustomed to such as bulk electronic funds transfer services (EFT) and cheques.

6.2 Strategic Objectives

- The implementation of NPS infrastructure and technology is done on the basis of “a payment is a payment”.
- Customer needs, business strategies and/or technological development drive the development and deployment of technology in the Namibian NPS.
- The primary measures of what is the appropriate NPS infrastructure and technology is based on the appropriateness; safety; security and cost-effectiveness of the technologies and/or systems deployed.
- Developing Namibian money and capital markets by implementing Central Securities Depository (CSD) in order to achieve delivery-versus-payment (DVP) for securities transactions.
- The NPS infrastructure and technology is classified as a “co-operative” space in which participants work together to define, develop and deploy the appropriate payment systems and mechanisms that serve all users of the payment

system in Namibia. Both banks and non-bank participants, using the NPS infrastructure, compete on cost-effective and efficient service offering.

- Appropriate levels of security apply to different categories of transactions and/or messages for the issuing; acquiring; switching and clearing of electronic and card payment transactions.
- Payment and management information, including clearing and settlement information, must be available in real-time. This requirement is extended to national and regional payments clearing and settlement information.
- Emerging payment system technologies (traditional and non-traditional) are monitored, researched and evaluated on a regular basis. Global technology standards for security, interoperability and integration exist and are adhered to.

7. Cross-border Remittances

The Namibian banking industry will strive for improvements in the remittance market. These improvements are achievable, when International and national authorities work with the private sector to achieve the goals of the Bank for International Settlement and World Bank (BIS-WB) Principles. The focus, with regard to remittances, is on payment system aspects (not developmental, immigration, balance-of-payments or other aspects). At a regional level SADC cross-border payment, clearing and settlement systems are paramount in facilitating regional economic development. Sound SADC payment, clearing and settlement systems enhance regional financial stability by providing, inter alia, appropriate SADC payment system risk-reduction measures.

7.1 Cross-border Remittances Vision

The Namibian banking industry shall participate in the development of an appropriate cross-border remittance settlement model for the region, based on the specific requirements of the region. Namibia shall participate in the development of a sound legal framework, standards for SADC/CMA remittance payment, clearing and settlement arrangements, which are aligned with international best practices.

7.2 Strategic Objectives

- INamibia will use the guiding principles developed by the BIS-WB for the development and deployment of domestic and cross-border remittances.
- The credit-push payment is the preferred payment method for all domestic and cross-border remittances.
- The Namibian banking industry shall participate in SADC/CMA remittance initiatives, with the view to achieve a low-cost; safe cross border remittance services that have a sound regional legal framework and conform to the BIS-WB principles.

8. Regional Participation

As a member of SADC/CMA, Namibia shall participate in the development of a sound SADC payment clearing and settlement system that in turn will enhance regional financial stability. For SADC/CMA, a regional cross-border payment, clearing and settlement system is the key to facilitating regional trade and economic development which may include macro-economic convergence in the SADC/CMA region.

8.1 Vision for Regional Participation

A well defined cross-border clearing and settlement model with a harmonised and sound legal framework should underpin the payment clearing and settlement systems deployed across the region. Global interoperable standards, founded on international best practices, should be adopted for SADC/CMA cross-border clearing and settlement arrangements.

8.2 Strategic Objectives

- Namibia shall participate in SADC/CMA payment, clearing, settlement systems, and legal and/or regulatory oversight initiatives.
- The credit-push payment-vs.-payment principle is the preferred payment method for all cross-border transactions.
- Namibia will position itself to play a greater role in the SADC/CMA payment system integration initiatives.

9. Implementation timeline for NPS Vision 2015

Ref	Strategic Focus Area	Strategic Objectives	End Date	Responsibility and Role
1.	Oversight of the NPS			
	The Bank shall manage risks to ensure safety and efficiency of the NPS and ensure that the Namibian NPS is aligned to SADC regional and international payment oversight frameworks.	<ul style="list-style-type: none"> Establish a forum to manage the participation of non-banks in the NPS. Amendments to Payment System Management Act, Issuing of Determination and Directives. Amend determination on payment instruments to define and set requirements for the issuing of payment products and instruments by banks and non-banks and extend the determination to cover all payment system operators and third-party switches. 	2011 2011-2015 2012	BON BON BON
2.	Access and Participation in the NPS			
	In order to promote financial inclusion, fairness and equity, access to the NPS shall be open to banks, non-banks and the general public.	<ul style="list-style-type: none"> Set clear standards for fees and charges in the interest of financial inclusion, efficiency and cost-effectiveness in the National Payment System. Implement different models of participation in clearing and settlement by non-banks (tiered clearing and/or settlement 	2011-2015 2012	BON BON
3.	Interoperability and Standards in the NPS			
	Namibian banking industry shall adopt international best practices and standards to facilitate global interoperability within the NPS.	<ul style="list-style-type: none"> The Namibian banking industry shall ensure that all ATM and POS Devices are EMV compliant. The Namibian banking industry shall ensure that all Namibian issued debit and credit cards are EMV compliant. The Banking industry shall ensure that all card payments comply with the international PCI DSS requirements. 	2012 2015 2015	PAN PAN PAN
4.	NPS Infrastructure and Technology			
	Payment technologies and infrastructure facilitate the initiation, processing, switching, clearing and settlement of payments in Namibia.	<ul style="list-style-type: none"> Implementation of the NPS infrastructure as specified in the Namibia Conceptual NPS Infrastructure Blue Print. Implementation of Central Securities Depository to achieve DvP in Namibia starting with Bonds while phasing in Equity and Money market instruments. 	2011-2015 2011-2013	PAN BON
5.	Cross-Border Remittances			
	The Bank views the development of a remittance model in SADC as a strategic priority in order to ensure that low value cross border payments are successfully processed, cleared and settled.	<ul style="list-style-type: none"> The Bank shall participate in SADC remittance initiatives, with the view to achieve a low-cost and safe cross border remittance service that has a sound legal framework and conforms to the guiding principles developed by the BIS and the World Bank. 	2011-2015	BON,PAN
6.	Regional Participation in SADC and CMA			
	Regional cross-border payment, clearing and settlement systems are key to facilitating regional trade and economic development in SADC and CMA region.	<ul style="list-style-type: none"> The Bank will directly participate in CMA payment, clearing, settlement systems and regulatory oversight initiatives. The Bank will directly participate in CMA payment, clearing, settlement systems and regulatory oversight initiatives. 	2011-2015 2011-2013	BON,PAN BON,PAN

10. Glossary of Terms

Term/Acronym	Description / Definition
Bank	A public company retested as a bank or a mutual bank in terms of the provision of the Financial Institutions Act.
BIS	Bank of International Settlements.
Bulk clearing Process	A process whereby high-volume payment instructions are aggregated and inter-bank settlement obligations are determined.
BON	Bank of Namibia.
Central Bank Money	Cash (notes and coins) and credit balances held by banks at the central bank.
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 Bank	A bank that participates in the clearing of payment instruction between banks.
Clearing House (Payment Clearing House)	Any formal arrangement between banks whereby participants exchange payment instructions.
Cross-border Transaction	A transaction where at least one of the parties is located outside the home countries.
Delivery-versus-Payment System	A mechanism in exchange-for-value settlement system that ensures that the final transfer of the asset occurs if and only if the final transfer of the payment occurs simultaneously.
Entry Criteria	Criteria for participation in a certain payment stream, laid down by PAN, in conjunction with BON.
Finality of Settlement	When the central bank has given confirmation that a settlement is irreversible and irrevocable.
Inter-bank Settlement	Final irrevocable settlement of interbank obligations over bank's accounts held at the central bank.
Liquidity Risk	The risk that a bank will not have sufficient liquidity to meet its settlement obligations (temporary need for fund).
NPS	National Payment System.
NPS Operators PAN	An organisation licensed to provide NPS infrastructure components. Payments Association of Namibia.

Payment	Transfer of value and the related information.
Payment Association of Namibia	The governing body, as recognised by the Bank of Namibia, for all Payment Clearing House (PCH)'s.
Payment Instruction	An order or message instructing the transfer of funds to the order of the payee.
Payment Instrument	Every instrument that provides a method of exchanging value for money, i.e. notes and coins, paper and electronic instructions.
Payment Stream	Payment instructions that are homogeneous in terms of their nature, risk and processing requirements and that having the same legal basis, i.e. cheques, credit cards and Electronic payments.
Settlement International cross-border remittances	Discharge of payment obligations between system participants an international remittance is a cross-border, person-to-person payment of relatively low value.
Settlement Bank	A bank that has an account for settlement purposes with the central bank.
Settlement Risk	The risk that a settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.
Switching	An electronic system employed to transfer payment instructions, initiated by customers, between participating banks within an NPS.
Systemic Risk	The risk that the failure of one participant to meet its contractual obligations could deprive other participants of funds owed to them, resulting in a chain reaction whereby a large number or all of the participants in a settlement system are unable to meet their respective obligations.

Source: BIS Core Principles for Systemically Important Payment Systems