

BANK OF NAMIBIA

No. 184

29 June 2007

DETERMINATION UNDER THE PAYMENT SYSTEM MANAGEMENT ACT, 2003 (ACT NO. 18 OF 2003)

In my capacity as Governor of the Bank of Namibia (The Bank), and under the powers vested in the Bank by virtue of section 14 of the Payment System Management Act, 2003 (Act No. 18 of 2003), I hereby issue the determination on issuing of a payment instrument in Namibia (PSD-1), which Determination shall become effective on 28 September 2007.

T K ALWEENDO
GOVERNOR

WINDHOEK, 29 June 2007

DETERMINATION ON ISSUING OF A PAYMENT INSTRUMENT

Overview

The proclamation of the Payment System Management Act, 2003 (Act No. 18 of 2003) conferred on the Bank of Namibia, powers to authorize eligible persons to issue payment instruments to their customers for purchases of goods and services. Payment instruments are required to be authorized in order to ensure that they comply not only with national standards but also with international standards in order to anticipate, identify, minimize and manage payment system risks, together with its suitability in the national interest.

The involvement of central banks concerning issues related to payment instruments has received prominence in recent years. Payment instruments are used to undertake payment transactions that are cleared in payment clearing systems and settled in central bank money. Central banks are therefore involved and interested in issues related to payment instruments by putting in place policies and procedures aimed at reducing payment system risks thereby ensuring that the general public access their funds expeditiously in order to undertake economic activities.

1. Purpose

This determination states the minimum requirements that potential issuers of payment instruments shall meet before issuing a payment instrument in Namibia.

2. Application of the Determination

This determination shall apply to all persons who intend to issue a payment instrument in Namibia in terms of section 5 of the Payment System Management Act, 2003 (Act No. 18 of 2003). Payment system participants as defined in the Payment System Management Act shall only seek authorization for issuing e-money or similar new payment instrument. Current payment instrument issuers shall be subjected to an assessment process, based on this determination, in order to ensure compliance with minimum requirements for issuing payment instruments in Namibia.

3. Definitions

- 3.1 '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 instruments covered by this determination include but are not limited to: debit card, credit card, e-money, and cheque.
- 3.2 'National Payment System' means the payment system as a whole as defined in the Payment System Management Act, 2003 (Act No. 18 of 2003).
- 3.3 'the Bank' means Bank of Namibia
- 3.4 'E-money' means; stored value or prepaid products in which a record of the funds or value available to the consumer is stored on a device in the consumer's possession. A stored value card contains an application that stores a record of funds or value available to the consumer. The amount of stored value is increased or decreased, as appropriate, whenever the consumer uses the device to undertake a purchase or other transactions.
- 3.5 'E-money scheme' means; e-money payment technology that enables payment for low value goods and services with the use of e-money. An example of e-money is the smart card.
- 3.6 'Float' occurs when there is a delay in the clearing of payments. It is most visible in the time delay between when a customer uses a payment instrument at the point-of-sale and when the funds to cover that payment are actually credited to the beneficiary's account.
- 3.7 'Active e-money instrument' means; an instrument that is actively being used by customer for purchases of goods and services.
- 3.8 '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 card performs other services, such as automated teller machine (ATM) withdrawals.

- 3.9 '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.
- 3.10 '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.
- 3.11 'Credit transfer' means payment initiated by the payer made for the purpose of placing funds at the disposal of the beneficiary.
- 3.12 'Debit transfer' means payment initiated by the payee, usually through a preauthorized agreement with the payer.
- 3.13 'Pre-paid product (card)' means product or card loaded with a given value, paid for in advance.

4. Designation of Payment Instrument

- 4.1 Where the Bank of Namibia is of the opinion that:
 - 4.1.1 a payment instrument is or may be in use as a means of undertaking payments that may affect the payment systems of Namibia; and
 - 4.1.2 it is necessary to protect the interest of the public or it is necessary to maintain the integrity, efficiency and reliability of a payment instrument within the payment system, the Bank of Namibia may prescribe such payment instrument as a designated payment instrument.
- 4.2 Where a payment instrument is prescribed as a designated payment instrument, the issuer of such a designated payment instrument shall comply with the requirements within such period as the Bank of Namibia may specify.

5 Minimum requirements for issuing payment instrument in Namibia

The following documents and information shall be submitted to the Bank by any person applying to issue a designated payment instrument:

- 5.1 a certified true copy of its memorandum and articles of association or other constituent documents under which it is established;
- 5.2 a certified true copy of its certificate of incorporation or business registration in Namibia;
- 5.3 a certified true copy of its latest audited financial statements;

- 5.4 the following information and supporting documents on the issuer:
 - 5.4.1 the name, place and date of its establishment;
 - 5.4.2 the principal business and field of operations;
 - 5.4.3 the names, addresses and identity card or passport numbers of all directors and chief executive officer;
 - 5.4.4 if it is a company, the names and addresses of its substantial shareholders and its related corporations; and
 - 5.4.5 if it is not a company, the names and addresses of its shareholders, partners or other persons having ownership by whatever name called;
- 5.5 any approval, authorization, license or permit from other regulatory authorities;
- 5.6 the following information and supporting documents relating to the designated payment instrument:
 - 5.6.1 the name, functionality and a detailed description of the designated payment instrument, including payment flows and settlement arrangements;
 - 5.6.2 a description of the intended users and the intended location of use;
 - 5.6.3 rules and procedures setting out the rights and liabilities of the issuer and the user and the risks the user may incur, including the terms and conditions of use. For example the user shall be informed about the validity, value limit and transaction costs related to the payment instrument.
 - 5.6.4 measures for the management of funds collected from the user, including measures that ensure that such funds are available for repayment to the user;
 - 5.6.5 measures that ensure the safety, security and operational reliability of the designated payment instrument including contingency arrangements;
 - 5.6.6 fees and charges imposed by the issuer;
 - 5.6.7 outsourcing arrangements, if any;
 - 5.6.8 The scheme shall provide for arbitration and dispute resolution mechanisms between issuer and user;
 - 5.6.9 Description of the organization of the scheme shall be clearly stated to include: ownership, governance, roles, responsibilities, rights and obligations and

- interrelationship among participants, including payment clearing houses, switching operators, merchants, participating vendors, etc.
- 5.6.10 There shall be a provision of payment settlement not more than 24 (twenty four) hours during business days after a payment instruction has been cleared;
 - 5.6.11 An indication whether the payment instrument shall facilitate domestic or cross-border payments or both shall be provided.
 - 5.6.12 Details on the impact of technical and operational procedures of the scheme on existing clearing and settlement systems, particularly regarding compatibility and connectivity shall be given;
 - 5.6.13 An indication whether the scheme shall accommodate both on and off-line services to its participants shall be provided;
 - 5.6.14 There shall be a complete audit trail or transaction processing cycle – initiation, clearing, settlement and payment finality;
 - 5.6.15 A description of data and information management to ensure confidentiality of transactions and customer data shall be provided, and
 - 5.6.16 The issuer of a payment instrument shall not contravene the Banking Institution Act or any relevant legislation¹.

6 Specific requirements for issuing e-money in Namibia

- 6.1 The scheme shall put in place measures to cater for the prevention of fraudulent acts including money laundering and other criminal activities in line with the Financial Intelligence Act.
- 6.2 The scheme shall provide a clear description of the origination of electronic value (source and means of loading), validity or time limits.
- 6.3 The e-money issuer shall set a daily limit of e-money available to the holder on the electronic money instrument.
- 6.4 The management of the underlying float shall be clearly documented.
- 6.5 Issuers of electronic money shall be legally obliged to redeem electronic money against central bank money at par at the request of the holder of the electronic money.

¹ For example there shall be no float holding and interest earning on float.

- 6.6 Risk management measures embedded into the scheme, particularly but not exclusive to control credit, liquidity, operational, settlement, reputational, foreign exchange and legal risks shall be provided.
- 6.7 The scheme shall provide its change management strategy for the systems.
- 6.8 Detailed account of the fees, charges and commissions to participants, as well as charges payable to service providers, such as clearing houses, switch operators and participating vendors shall be provided.
- 6.9 New and future developments associated with such a scheme that would include but not be limited to, electronic commerce, secure electronic transfers on the internet, etc. shall be provided. This is intended to inform the regulator of future developments envisaged.
- 6.10 There shall be a clear business plan that outlines, among other things, the overall implementation plan, automation strategies and capacity building plan.
- 6.11 The implementation plan shall have a controlled mandatory pilot phase.
- 6.12 The scheme shall encourage technological interoperability at national and international level and shall be in line with international standards developed by international standardization bodies and payment industry groupings.
- 6.13 The scheme shall ensure that the funds available on an e-money card do not earn interest thereby not violating the Banking Institutions Act.
- 6.14 There shall be liquid asset guarantee in the form of cash, deposits, etc. to compensate holders of e-money issued in cases where the issuer is unable to satisfy claims against it in relation to e-money.

7 Fees payable

The following fees shall be payable by issuers of a payment instrument. All the fees shown here-below are mandatory and non-refundable.

Table: Fees payable

Fee Name	Amount in N\$
Application	5,000
Authorization	10,000

8 Submission of information by payment instrument issuer

Issuers of a payment instrument shall be required to submit statistics on payment instrument activity and other statistics, on monthly basis, in accordance with the appended PSD-1 form. The statistics for the reporting month shall reach the Bank within

26 business days of the following month. For example, statistics for October shall reach the Bank before or on the 26 of November. The information submitted will enable the Bank to carry out its oversight responsibility on payment instruments in line with the oversight framework.

9 Suspension of the authorization

The Bank shall suspend an authorization to issue a payment instrument under any of the following circumstances:

- 9.1 The owner is carrying on business in a manner which is detrimental to the stability of the National Payment System or is incapable of providing services as per agreed service level standards;
- 9.2 There is violation of any of the provisions of this determination and other laws and regulations issued by the Bank; and/or
- 9.3 Any other circumstances that the Bank considers material to warrant suspension.

The Bank of Namibia will ensure that all due diligence processes are followed before suspension of a payment instrument issuer is instituted.

10 Cancellation of the authorization

The Bank may cancel an authorization to issue a payment instrument under the following circumstances:

- 10.1 The owner fails to comply with this determination and remedial measures required by the Bank following an inspection of the affairs of the electronic money issuer;
- 10.2 It is determined that an authorization was obtained on the strength of misrepresented, inaccurate or misleading information furnished to the Bank at the time of application;
- 10.3 There is violation of any of the provisions of this determination and Payment System Management Act, 2003 (Act No. 18 of 2003);
- 10.4 The scheme is considered not to be conducive to the national interest of Namibia;
- 10.5 The owner ceases to operate or becomes insolvent; and/or
- 10.6 Any other circumstances that the Bank considers material to warrant cancellation.

11 Enquiries

All enquiries related to this determination shall be forwarded to:

The Director: Banking Supervision Department
 Bank of Namibia
 P.O Box 2882
 71 Robert Mugabe Avenue
 Tel: +264-61-2835111
 Fax: +264-61-2835228

PSD-1 Form: Monthly reporting of payment instrument statistics²
 (Confidential and not available for inspection by the public)

Name of payment instrument issuer:	
Name of responding official:	
Designation of responding official:	
Signature of responding official:	
Year:	
Month being reported:	
Telephone No:	
E-mail address:	
Date:	
	Transactions/Facilities
	↓
<u>Number of Debit Card transactions</u>	
At POS	
At ATM	
Other	
Total	
<u>Number of Debit Cards – by function</u>	
Single Wallet	
Multiple Wallets (Hybrid)	
Total	
<u>Value of transactions on Debit Cards</u>	
At POS (N\$'000)	
At ATM (N\$'000)	
Other (N\$'000)	
Total (N\$'000)	
<u>Number of e-money transactions</u>	
At POS	
At ATM	
Other	

² Where statistics, for example on cheque transactions, can be obtained from a payment system service provider like Namclear, a payment system service provider not a payment system participant shall provide such statistics to the Bank of Namibia.

Total	
<u>Value of transactions on e-money cards</u>	
At POS (N\$'000)	
At ATM (N\$'000)	
Other (N\$'000)	
Total (N\$'000)	
<u>Total e-money loaded on e-money cards (N\$'000)³</u>	
<u>Number of active e-money cards – by function</u>	
Single Wallet	
Multiple Wallets (Hybrid)	
Total	
<u>Number of Credit Card transactions</u>	
At POS	
At ATM	
Other	
Total	
<u>Value of transactions on Credit Cards</u>	
At POS (N\$'000)	
At ATM (N\$'000)	
Other (N\$'000)	
Total (N\$'000)	
<u>Number of Credit Cards – by function⁴</u>	
Single Wallet	
Multiple Wallets (Hybrid)	
Total	
<u>Number of Cheque transactions</u>	
On-us	
Off-us	
Total	
<u>Value of transactions on Cheques</u>	
On-us (N\$'000)	
Off-us (N\$'000)	
Total (N\$'000)	
<u>Number of Direct Funds Transfers</u>	
Credit transfers	
Debit transfers	
Total	
<u>Value of Credit Transfers</u>	
On-us (N\$'000)	
Off-us (N\$'000)	
Total (N\$'000)	
<u>Number of Credit Transfers</u>	
On-us	
Off-us	
Total	
<u>Value of Debit Transfers</u>	

³ This is monthly amount.

⁴ Includes general-purpose credit cards and speciality cards.

On-us (N\$'000)	
Off-us (N\$'000)	
Total (N\$'000)	
Number of Debit Transfers	
On-us	
Off-us	
Total	
Number of Point-of-Sale devices (POS) – by institution:	
Issuer	
Acquirer	
Number of Point-of-Sale devices (POS) – by type:	
E-money	
Other payment instruments	
Hybrid	
Number of Automated Teller Machines (ATM)⁵	

Important notes regarding this return:

1. The issuer of a payment instrument is required to submit statistical information to the Bank of Namibia on a monthly basis
2. The statistics for the reporting month shall reach the Bank within 26 business days of the following month.
3. For example, statistics for October shall reach the Bank before or on the 26 of November.

⁵ Includes all types of ATMs