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## **Introduction: The Bank of Namibia's Oversight Role of the National Payment System**

An efficient and well run payment system is vital for the efficient functioning of any economy. To translate this statement in real terms, it means payment systems underpin virtually every financial transaction we make – be it paying for your children's bread to take to school at the supermarket to making high value transactions between corporates and everything in between. The smooth functioning of the infrastructure for an enabling payment and settlement system is essential for financial stability, as also for efficiency, and the smooth functioning of financial markets. Payment systems are not mere infrastructures like roads and bridges, they come in various forms, such as computer applications, point-of-sale devices, cheques etc. The central bank plays a crucial role by providing the ultimate settlement asset in the form of central bank money and overseeing all systems that are directly connected to it.

In an effort to educate the public on the Bank of Namibia's role in the national economy, this article aims to explain the Bank of Namibia's role as overseer of the National Payment System (NPS) by focusing on the scope of the oversight function and policy objectives.

### **Where does the Bank of Namibia get its mandate to oversee payment systems?**

The Bank of Namibia's mandate to oversee the NPS is provided for in section 2(2)(a) of the *Payment System Management Act, 2003, as amended, (Act No. 18 of 2003) (PSM Act)*, which states that *one of the functions of the Bank of Namibia is to oversee, inspect and monitor the NPS, the operation of the Body, system participants and service providers.*

In this regard the Bank of Namibia oversee, inspect and monitor the following:

1. Payments Association of Namibia (PAN), a body that regulates the participation of its members and to set technical standards for the NPS;
2. System participants, who include all licensed commercial banks and designated non-bank financial institutions, authorised by the Bank of Namibia to participate in the NPS; and
3. Other authorised payment instrument issuers, such as Mobipay, Nammic, Nampost, etc.

### **Why does the Bank of Namibia oversee the National Payment System?**

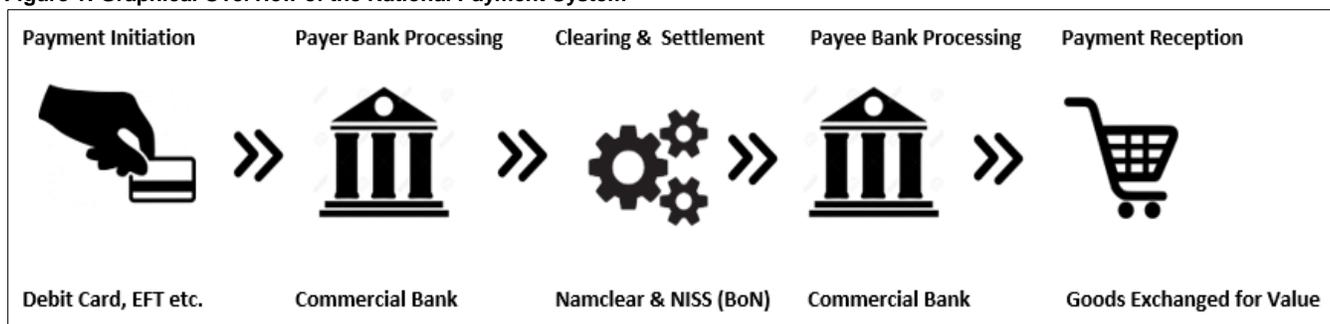
The oversight of payment and settlement systems is a central bank function, whereby the objectives of safety, security and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, promoting change. The Bank of Namibia oversees payment systems for the purpose of promoting the maintenance of a sound, safe, secure and efficient and cost effective NPS. This broad objective is operationalised through specific activities guided by laws, policies and procedures. The payments environment is a dynamic one. As new technologies, new participants, and new market structures arise, the Bank of Namibia updates its regulations, policies and procedures accordingly to ensure that emerging risks are appropriately mitigated.

The Bank also operates the Namibia Interbank Settlement System (NISS), the system that enables the final settlement of Electronic Funds Transfer (EFT), Cheques, Debit and Credit card transactions between licensed commercial banks and authorised non-bank financial institutions. At the end of each business day, banks pay what they owe each other in the NISS. The Bank also oversees the clearing house, Namclear.

Namclear facilitates the switching of payments that have payers and payees from different banks. For example, when you send a payment from Bank A to be received by someone at Bank B, such a payment is switched by Namclear and sent to NISS for settlement. Payments settled on NISS are final and cannot be reversed. For this reason, the Bank monitors that participating banks have sufficient funds in their accounts on NISS to honour their obligations.

**Figure 1** below provides a graphical overview of how payment transactions are processed in the national payment system from when a trade is agreed upon between a customer (payer) and supplier (payee), to the time the value reaches the supplier for goods and services provided.

**Figure 1: Graphical Overview of the National Payment System**



### **The objectives of oversight and the role of the Bank of Namibia in Payment Systems oversight**

One of the objectives of oversight of the NPS in Namibia is to contain systemic risk to an extent that it may arise from payment and settlement systems. Systemic risk in the NPS is the failure of one bank to meet its payment obligations, which may result in other banks' inability to meet its payment obligations, thus leading to a chain reaction of banks unable to pay each other. Practically this means if Bank A fails to make payments that are due to Bank B and Bank C, it could result in Banks B and C not having sufficient funds on their settlement accounts at the Bank of Namibia and depending on the obligations to be honoured, might result in a chain reaction of settlement failures and therefore a systemic risk.

Another objective of oversight of payment systems is to maintain the smooth operations of events from when you initiate a payment until the settlement of a payment – that is when the payment reaches the supplier of goods and services provided. When payment and settlement systems run smoothly, the public retains its confidence in money as a means of exchange and in the financial system.

If money is to fulfil its functions (as a means of payment, a measure of value, unit of account and a store of value), the public must have confidence that it will retain its value over time. Since it is the Bank's responsibility to be the sole supplier of money in Namibia, it is important that it ensures that safe and efficient payment and settlement systems are operationally available, to allow for the reliable transfer of value between banks and other participants in the financial system, so that transactions are efficiently settled.

### **What is the scope of the Bank of Namibia's Oversight and Policy Activities?**

Oversight of the payment and settlement systems in Namibia include, but is not limited to:

1. Designated financial market infrastructures (FMI). FMIs are multilateral systems that provide the infrastructure for transferring, clearing, and settling payments, securities, and other financial transactions among participating financial institutions. The NISS is an example of a FMI which enables the final settlement of payments between licensed commercial banks in Namibia;

2. Payment instruments and payment schemes are mechanisms which users of payment systems use to transfer funds between accounts at banks or other financial institutions. These include Credit cards, Debit cards, Electronic Funds Transfers (EFT) and Electronic Money (E-Money) schemes, which is a designated payment instrument. Electronic Wallets offered by various banks and MobiPay are examples of E-Money schemes;
3. Service providers of critical services such as infrastructural services. The oversight of critical services is achieved through regulatory collaboration with the Payments Association of Namibia (PAN). An Automatic Teller Machine (ATM) is an example of an infrastructure necessary for the withdrawal of cash without entering a branch;
4. Retail payment systems, as may be deemed necessary by the Bank taking into account their collective effect on the payment and settlement systems in Namibia and the extent to which they affect the public confidence in money and payment systems; and
5. Promotion of payment system reform, which not only relates to the development of enabling infrastructure, oversight of the national payment system, but also involves keeping abreast of international developments in the payment system arena and developing legislation and supporting regulation and policies.

The articles to follow will further explain and clarify the Bank of Namibia's oversight and policy activities; the guiding principles which the Bank follows in carrying out the oversight function over the NPS; and the payment and settlement systems' regulations in more detail.