Common Monetary Area (CMA)

Cross-border Payments Oversight Committee (CPOC)

Position Paper on the Processing of Cross-Border Low-Value Electronic Fund Transfers within the Common Monetary Area

31 July 2024

1. Definitions

‘Common Monetary Area (CMA)’ means the monetary union which consists of Eswatini, Lesotho, Namibia and South Africa.

‘CPOC’ means the Cross-border Payments Oversight Committee – a structure established by the central bank governors of the CMA countries to oversee and coordinate various cross-border payment initiatives and risks with a key objective of enabling a sound and effective cross-border payment exchange system.

‘Large-value payment system’ means a funds transfer system that typically handles large-value and high-priority payments.

‘Large-value electronic funds transfer (EFT)’ means an EFT exceeding N$5 million.

‘Low-value EFT’ means an EFT not exceeding N$5 million.

‘Regularisation’ means the use of an appropriate payment system that allows payments to be executed in a manner that ensures the achievement of effectiveness and efficiency of the payment system as well as compliance with the Financial Action Task Force (FATF) Recommendations for EFTs (Recommendation 16).

'Retail payment system' means a funds transfer system that handles a large volume of low-value EFT payment transactions.

2. Introduction and background

2.1 The CMA CPOC is responsible for overseeing the payment systems and initiatives in the CMA region to ensure their safety, efficiency, and compliance with international standards such as the FATF Recommendations.

2.2 Over the past few years, all four CMA countries processed cross-border payments within the CMA via South Africa's domestic retail payment system, thereby offering a low-cost, effective and efficient payment service to their clients. However, these payments were treated as domestic transactions in South Africa and needed to be regularised to comply with FATF Recommendation 16 in respect of cross-border payments. FATF Recommendation 16 aims to prevent criminals from having unfettered access to EFTs for moving their funds and tries to detect such misuse when it occurs. Specifically, it aims to ensure that basic information on the originator and beneficiary of EFTs is immediately available.

2.3 The potential challenge in regularising these payments was that South Africa's domestic retail payment system has limitations regarding carrying all the required information about the originator and beneficiary as per the FATF Recommendation 16 requirement. This implied that these cross-border payments did not comply with FATF Recommendation 16 unless changes were made to South Africa's domestic retail payment system.

2.4 In this regard, in 2019, the four biggest South African banks and a branch of a foreign bank, in agreement with their subsidiaries in the CMA and one bank in Namibia, developed an interim solution as a control measure to comply with FATF Recommendation 16 in relation to cross-border EFTs while a long-term solution through the modernisation of payments was being developed. The interim solution involved the development of a supplementary file containing the required and accurate originator and beneficiary information.

2.5 In developing the interim solution, within the South African jurisdiction, the Payments Association of South Africa (PASA) gave its member banks the freedom to participate in the interim solution or to opt out of processing CMA EFTs. A total of 25 out of 30 banks participating in the EFT payment clearing house at that time opted out of the interim solution, with many indicating that their participation was not commercially viable given the low transaction volumes being processed within the CMA. The interim solution was soft launched on 23 September 2019 and fully implemented on 1 October 2019. The number of banks in the CMA currently participating in the interim solution is four South African banks (including their subsidiaries in the CMA) and one bank in Namibia.

2.6 The interim solution was developed in such a way that cross-border EFTs within the CMA would be executed with the supplementary file that travels with the payment instruction to meet the requirements of FATF Recommendation 16.

2.7 After the implementation of the interim solution, some CMA banks raised concerns about their inability to verify/match beneficiary information for incoming EFTs from the rest of the CMA countries. This included, among other things, some banks within the CMA countries populating payment messages and/or the supplementary file in the beneficiary field with the word ‘Unknown’, using alphanumeric characters or leaving the field empty.

2.8 CPOC noted the concerns raised by banks in the respective CMA member countries regarding the challenges they faced in trying to comply with FATF Recommendation 16 when executing payments within the CMA using the interim solution. Following discussions between CMA regulators and banks, CPOC advised that the current interim solution should be terminated. Consequently, the South African Reserve Bank (SARB) directed banks to make the necessary arrangements with PASA for the orderly wind-down of the interim solution by 30 September 2024.

2.9 Additionally, on 14 October 2022, Namibia issued the *Determination on the Conduct of Electronic Fund Transfer Transactions within the National Payment System* (PSD-9) which becomes effective on 30 September 2024. PSD-9 prohibits the treatment of Namibian cross-border EFT transactions as South African transactions within the CMA as well as the cross-border collection of Namibian debit orders by foreign banking institutions from other jurisdictions by 30 September 2024.

3. Problem statement

3.1 *The problem is the use of inappropriate payment systems to execute cross-border payments within the CMA region.* Following the decision to wind down the interim solution by 30 September 2024, some banks have expressed interest in executing their cross-border low-value EFTs within the CMA through a large-value payment system. This, however, have the potential to negatively impact on the speed and cost of cross-border low-value payments within the CMA region.

4. Purpose and scope

4.1 The purpose of this position paper is to state CPOC's position on the regularisation of cross-border low-value EFTs within the CMA region.

4.2 The scope of this position paper only applies to the execution of CMA cross-border low-value EFTs denominated in the South African rand.

5. Policy objectives

5.1 *Maintain the integrity, transparency, efficiency, and cost-effectiveness of cross-border payments with the CMA region.* CMA transactions executed via South Africa's domestic retail payment system offered a low-cost, effective, and efficient payment service to their clients. However, it is also important that these transactions should comply with FATF Recommendation 16 and regulatory reporting to mitigate the potential risks of financial crimes such as money laundering and terrorism financing. It is also important that these transactions comply with various CMA member countries' regulations. Thus, in regularising the execution of cross-border low value payments within the CMA, it is important that consumers and businesses are not negatively affected, particularly when it comes to the efficiency and cost-effectiveness that they have enjoyed over the years.

6. Position of CMA CPOC

6.1 Banks should:

6.1.1 by 31 March 2027 cease to process all cross-border low-value EFTs within the CMA region through the interim arrangement of routing all low-value transactions through the Southern African Development Community (SADC) real-time gross settlement (RTGS) system; and

6.1.2 by 01 April 2027, all cross-border low-value EFTs within the CMA region must be processed through a retail payment system designated for cross-border EFTs, such as the Transactions Cleared on an Immediate Basis (TCIB) system which can be repurposed by banks as they may require.

7. Conclusion

7.1 Banks which are uncertain if their current or future business practices are aligned with this position, read with the Regulations issued that impact on the processing and execution of cross-border EFTs within the CMA, should initiate discussions with their respective regulators to clarify the matter.

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