

Understanding E-Commerce and the treatment of FinTechs in the National Payment System

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Foreword from the Director: National Payment System Department at Bank of Namibia

The COVID-19 pandemic continues to accelerate the adoption of technology and digital transformation across the world. The electronic-commerce space is similarly innovating at a fast pace, and such accelerated innovation is enhancing how businesses in the financial sector are trading between themselves, and how financial services are distributed and delivered to customers.

Payment systems, as we know it, have always been at the heart of the financial system, but have attracted heightened interest recently. Innovation is rampant, and new proposed solutions are testimony to the pervasive speed and scope of recent technological advances and their implications for our everyday lives. The traditional bank-based payments ecosystem is being disrupted by tech start-ups and big techs, i.e., companies that have a large digital footprint but whose core business models have so far been confined to non-financial activities.

Given these observations, and in line with the Bank’s Strategy 2022 – 2024 and the National Payment System (NPS) Vision 2025, the Bank responded accordingly by introducing a FinTech Innovations Regulatory Framework to appropriately support this shift and to ensure that innovations within its regulatory boundaries are carefully considered for the benefit (efficiency, safety, effectiveness etc.) of entrepreneurs, consumers, and the broader financial system. In this edition, the Bank of Namibia is educating the public on the regulated products and services within the e-commerce segment in the National Payment System, as well as to raise awareness on how potential financial services innovations will be treated by the Bank.

The Bank of Namibia continuously seeks to engage in various ways with all stakeholders including businesses and consumers within the National Payment System (NPS) to ensure the availability of relevant information to the public. I trust that the information in this edition will provide a better understanding of the developments and activities happening the NPS.

Stay safe and observe all COVID-19 protocols.
Barbara Dreyer



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Overview of the E-Commerce Ecosystem

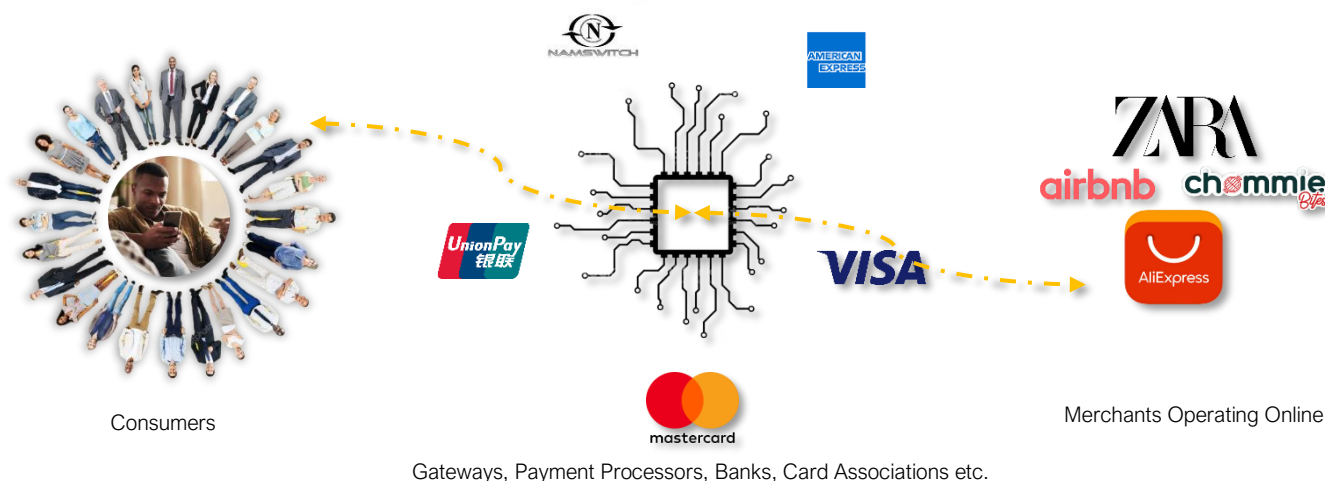


Figure 1. The Interconnected World of E-commerce – Source – Assembled by Bank of Namibia

Electronic-commerce (e-commerce) can be defined as the facilitation of trade (i.e. buying and selling) online. For trade to be completed, there has to be some form of exchange of value between buyers and / or sellers. The value may be in the form of money. In these times of increased access to the internet and e-commerce platforms and businesses operating online (websites, mobile applications etc.), creating a frictionless exchange of value such as money is key to effective trading between businesses and between businesses and their customers, and between consumers themselves. For money to be paid online by parties in a trade, both small and large businesses require the following:

Merchant Account: A type of account that allows businesses to accept payments made online. After transactions have been authorized and settled, the funds deducted from customer accounts are transferred into this account. The money is then transferred to the merchant's business banking account within a defined period. To obtain a merchant account, businesses need to establish a relationship with a commercial bank. The following commercial banks in Namibia currently provide merchant accounts to facilitate e-commerce transactions:

1. Bank Windhoek
2. First National Bank
3. Nedbank
4. Standard Bank

Payment Gateway: A technology platform that connects a business operating online (via websites, mobile applications etc.) with the entity that provides a merchant account (e.g. commercial bank). A payment gateway transfers financial data between the business website or mobile application where payment is being made and the acquiring bank i.e the bank where the merchant account is hosted to complete the payment lifecycle and to prompt businesses to action the delivery of the value (i.e. goods, services etc.) being traded. Currently, there are 6 payment gateway providers which are authorised by the Payment Association of Namibia (PAN) as follows:

1. Innervation Value Added (Pty) Ltd
2. Ecentric Payment Systems Namibia (Pty) Ltd
3. EasyPay Namibia (Pty) Ltd
4. Virtual Card Services Namibia (Pty) Ltd
5. National Payments Solutions (Pty) Ltd
6. Adumo Online Namibia

Payment Processor: A service provider that facilitates and routes transaction data (e.g. payment initiation bank, payment amount, merchant details etc.) between a merchant account and entities that provide transactional accounts to consumers. A payment processor ensures that funds are deducted from the transactional accounts of those making payments or trading online. The following entities may provide e-commerce payment processing services:

1. Namclear
2. VISA
3. MasterCard
4. China Union Pay etc.

The public is encouraged to engage all entities mentioned in this newsletter directly for further information.

Regulated Products and Services and their Related Fees and Charges

Access to quality financial services and products has been identified as a catalyst for economic growth and poverty alleviation, both in developing and advanced countries. The potential of the financial sector to contribute meaningfully to the economic growth and social progression of any economy depends on the full participation of individuals and firms in that sector. High fees and charges may exclude some from participating in the formal financial system.

The Bank of Namibia introduced regulations that are aimed at regulating some fees and charges for specific products and services in the National Payment System (NPS) to ensure that the public has access to affordable financial/payment services. These regulations are as follows:

1. *Determination on the Standards for a Basic Bank Account and Cash Deposit Fees within the National Payment System (PSD-5)*
2. *Determination on Standards for Fees and Charges for Payment System Services within the National Payment System (PSD-10)*

Collectively, the above-stated regulations may encourage the faster uptake and increased inclusion of small businesses and consumers in retail segments wishing to operate and or participate in the e-commerce space, as follows:

Key Benefits for Existing and Potential Small Businesses


1. Business Account with no Cash-Deposit Fees, if on an annual basis, your business has received credits of N\$1,300,000 or less into a bank account. This may reduce the cost of banking in general and support small businesses to scale.
2. Debit Order System with a feature to track for the availability of funds on customer accounts for deductions, for a period up to 14 days, free of charge. This may increase the collection success rate for businesses that require funds to be paid in instalments via debit orders.
3. Account Statements: Maximum of N\$1.00 per page for all bank statements, including vehicle and asset finance accounts.

Key Benefits for Existing and Potential Retail Consumers

1. Individual Basic Bank Account (BBA) with No Cash-Deposit Fees, if you are earning N\$30,300 per annum or less. No payslip is required to prove this. This account comes with a host of zero-rated; capped and reduced fees and charges as stipulated in the regulation (PSD-5). The debit card that is usually issued with the BBA account can be used to make purchases online.
2. Dishonoured payments and honouring fees or unpaid debit orders: 1.5% of the value of the debit order amount, with a minimum fee of 1.5% the costs of a standard debit order fee charged by the respective banking institution and a maximum of N\$200.00 per month for the same transaction.
3. Declined online purchase (i.e. e-commerce) transactions: Minimum (N\$5.00) and Maximum (N\$10.00).
4. Account Statements: Maximum of N\$1.00 per page for all individual account statements.

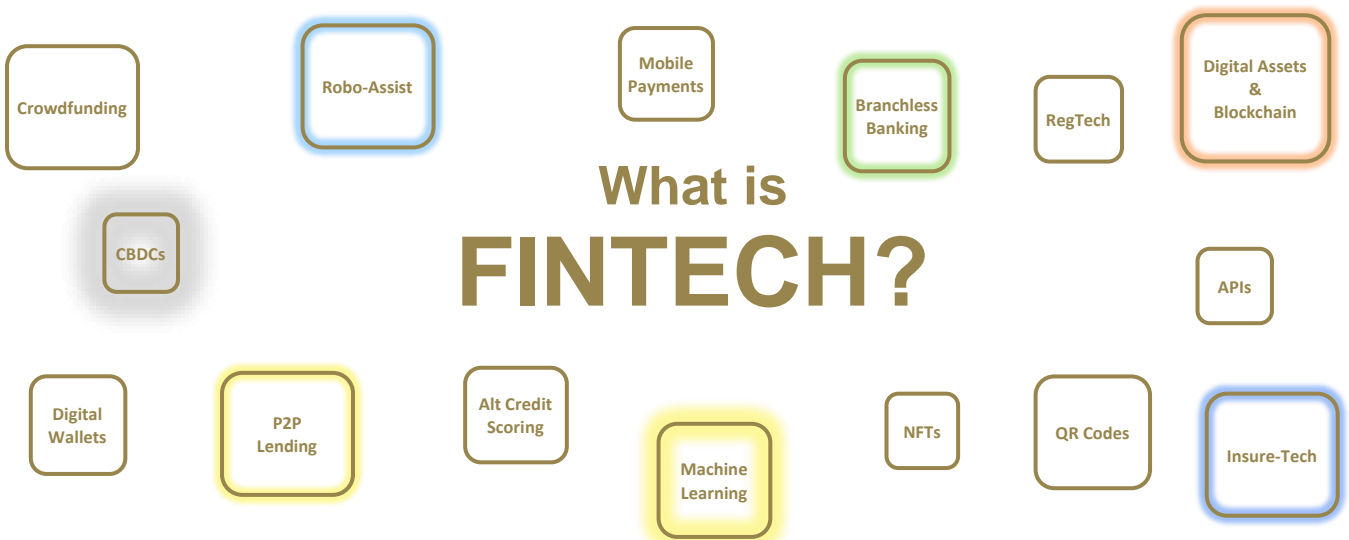
The Bank of Namibia will continue monitoring the e-commerce space within the National Payment System and will respond accordingly within the confines of its mandate. The public is advised to engage their licensed banks directly regarding the services and products mentioned in this article.






In the golden age of FinTechs...the Bank of Namibia introduced a FinTech Innovations Regulatory Framework

The use of technology to provide and enhance the provision of financial services is not new. The financial industry has always been on the cutting edge of technological advancement. The accelerated emergence of FinTechs, however, has compelled central banks to examine the adequacy of their legal and regulatory frameworks, as well as explore more flexible approaches to engage with FinTechs while mindful of the accompanying risks and potential opportunities. On this score, the Bank of Namibia introduced a FinTech Innovations Regulatory Framework which provides direction on how FinTech innovations that are not presently subject to the Bank's existing regulations will be treated. But before we carry on, let's explain what FinTechs are.



The term 'Fintech' is a combination of the words 'finance' and 'technology' and refers to any business that uses technology to enhance and innovate the way financial services and products are delivered and consumed. Examples of financial services include payments, banking, investment, insurance etc. While examples of technologies include Application Programming Interfaces (APIs), robotic process automation, Internet-of-Things, Distributed ledger technology (DLT) & Blockchain, Quick Response Codes (QR Codes), Quantum-safe cryptography, artificial intelligence (AI) etc. The creative combination of financial services and technologies result in creative business models that cater for the financial needs of consumers in unconventional ways.



See on next page
how the Bank of
Namibia will
approach regulating
FinTechs...



Applicable Approaches (Regulatory Programmes) to Regulating FinTechs by the Bank of Namibia



Allow-and-See Approach

The Bank will engage the applicant and allow the innovation to go live without any restrictions or regulatory conditions but will continue to observe and monitor its progress before intervening when necessary.

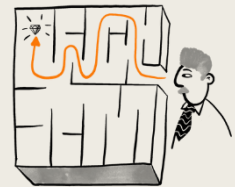
Once fully satisfied with the conditions and / or operations of the FinTech, the Bank of Namibia may develop and / or amend relevant regulations.



Test-and-Learn Approach

The Bank in close cooperation with the FinTech will craft a custom framework to allow the Fintech to be launched to the market with conditions to minimize the impact of potential failure and to set criteria against which success can be measured.

In this approach, the Bank will study and understand the FinTech and its impact on the National Payment System or the Financial System through periodic reviews and feedback from the applicant and / or its clients.



Regulatory Sandbox

The FinTech innovation will be tested, and experiments may be allowed in a live virtual environment designed by the applicant with the Bank's approval.

Experiments will be conducted in a time-bound manner and should have a clear exit strategy that does not negatively impact customers, the National Payment System, and the broader financial sector.

The testing approach, parameters, relevant applicable regulatory exemptions, and key performance indicators will be determined by the Bank in collaboration with the applicant and form part of the sandbox operating conditions.

Steps in Accessing and Participating in the FinTech Regulatory Programs

1.

An applicant completes **Part A: The Analytical Framework Application** and **Part B: The Regulatory Programme Application** for submission to the Bank.



2.

The Bank of Namibia receives the applications in step 1 and conducts a comprehensive risk assessment and creates a risk profile for the applicant, which informs the Regulatory Programme Approach that the Bank will use for the applicant.



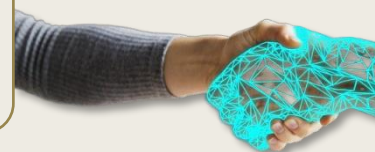
3.

The Bank of Namibia applies the relevant participation conditions and procedures of the selected Regulatory Programme to the applicant.



4.

Lastly, the Bank of Namibia provides the applicant with the way forward after the completion of any Regulatory Programme.



Eligibility and Participation Criteria

- Completion of Step 1 above.
- An applicant cannot decide the type of Regulatory Programme to be admitted. This decision lies solely with the Bank of Namibia and depends on the risk profile of the innovation.
- Various conditions will apply to different applicants depending on business models, the type of financial services offering and the risk profile.
- The FinTech Regulatory Framework is not set forth to circumvent existing legal and regulatory requirements already in place but is aimed at understanding and allowing FinTech innovations to enter the market in a controlled / supervised manner with access to consumers, relaxed regulatory conditions and for a limited period.
- Regulations regarding Anti-Money Laundering (AML) / Countering the Financing of Terrorism (CFT) / Counter-Proliferation Financing (CPF) will not be relaxed during Step 3 mentioned above.
- Participation is free of charge.

The detailed FinTech Innovations Regulatory Framework can be found on the Bank's website on the following link: [https://www.bon.com.na/Bank/Payments-and-Settlements/Legal-Framework/Namibia-Inter-bank-Settlement-System-\(NISS\).aspx](https://www.bon.com.na/Bank/Payments-and-Settlements/Legal-Framework/Namibia-Inter-bank-Settlement-System-(NISS).aspx)

Enquiries

The public is advised to contact the Bank for an assessment of their innovation and any other enquiries associated with the FinTech Regulatory Framework must be directed to: Director: National Payment System Department @ the following e-mail fintechinnovations@bon.com.na

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Our Mission

To support sustainable economic development through effective monetary policy and an inclusive and stable financial system for the benefit of all Namibians

Our Vision

To be a leading central bank committed to a prosperous Namibia

Our Values



**Act with
integrity**



**Open
engagement**



**Embrace
Diversity**



**Lead through
innovation**



We care



**Performance
excellence**

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