



Guidance Note on the Payment Service Providers regulated by the Bank of Namibia

05 November 2024

1. PURPOSE

1.1. The purpose of this Guidance Note is to provide clarity and awareness on:

- 1.1.1. the categories of Payment Service Provider (PSP) licenses in terms of the *Determination on the Licensing and Authorisation of Payment Service Providers in Namibia* (PSD-1);
- 1.1.2. payment services offered by non-bank financial institutions *vis-a-vis* banking institutions;
- 1.1.3. entities that hold funds without providing payment services;
- 1.1.4. open loop and closed loop card payment instrument operations in Namibia; and
- 1.1.5. the treatment of international online marketplaces, third-party payment service providers and payment facilitators.

2. CATEGORIES OF PAYMENT SERVICE PROVIDER LICENSES IN TERMS OF PSD-1

- 2.1. The *Payment System Management Act, 2023 (Act No. 14 of 2023)* (PSM Act) provides for the licensing, regulation, supervision and oversight of payment service providers (PSPs), and payment services. The Schedule of the PSM Act outlines the various payment services that may be offered in the National Payment System (NPS). The PSM Act also prohibits any person from providing payment services without authorisation from the Bank.¹
- 2.2. A PSP is a person, including a banking institution, licensed under the PSM Act to provide payment services as specified under the Schedule of the PSM Act. PSD-1 outlines the licensing and authorisation requirements for PSPs in Namibia. It also specifies both general and specific requirements related to the payment services that an applicant or PSP intends to offer. All persons intending to offer any of the payment services listed in the Schedule of the PSM Act, must apply to the Bank for licensing, specifying the type of payment service(s) that the person intends to offer, which application should be made in accordance with the requirement stipulated in PSD-1.
- 2.3. In Namibia, payment services may be offered by either a banking institution or a non-bank financial institution. A banking institution means a banking institution as defined in section 1

¹ Section 9 of the *Payment System Management Act, 2023 (Act No. 14 of 2023)*.

of the *Banking Institutions Act, 2023 (Act No. 13 of 2023)*. A non-bank financial institution means institution(s), other than banking institutions authorised to conduct payment services. Non-bank financial institutions can be licensed as payment instrument issuers or payment facilitators or third-party payment service providers or virtual asset service providers. These licenses allow payment service providers to offer the payment services listed in the Schedule of the PSM Act, which scope of payment services is limited to the specific category of license held. Should a payment service provider intend to offer payment services under an additional category, authorisation is required from the Bank.

Figure 1 below provides an overview of the various PSP license categories, with definitions provided in Figure 2.

Figure 1: PSP License Categories

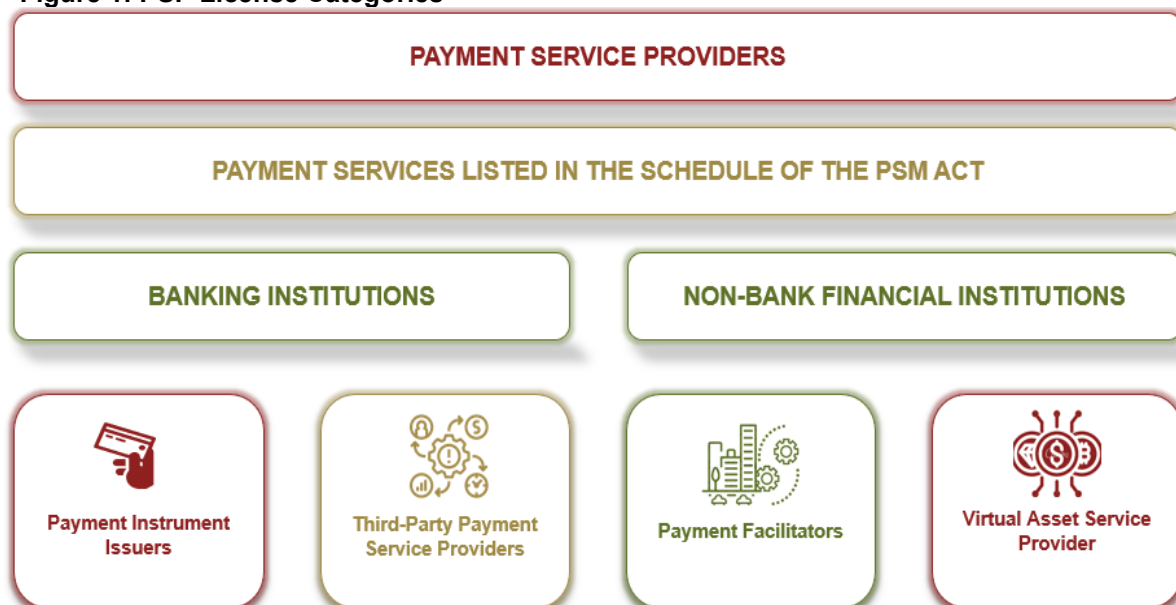






Figure 2: Definitions of PSP License Categories

 <p>Payment Instrument Issuer</p>	<p>A person that issues any device, procedure or process licensed or authorised by the Bank by which a payment instruction is issued for the purpose of obtaining money, making payments or transferring funds. This includes e-money issuers.</p>
 <p>Third-party payment service provider</p>	<p>A person that offers payment services, inclusive of technological services to facilitate switching, routing, acquiring of payment instructions, payment transaction processing and the provision of gateway services at merchant point of sale, electronic commerce platforms including mobile applications and websites, without holding funds.</p>
 <p>Payment facilitator</p>	<p>A person who holds onto funds when offering payment services which includes switching, transmitting or processing payment instructions between system participants and merchants or customers and/or who communicates transaction information between merchants, issuing banks, and the acquiring bank, as well as providing infrastructure and platform, which allows other payment service providers to offer payment services.</p>
 <p>Virtual asset service provider</p>	<p>A person who issues virtual assets for purposes of facilitating payments or transfers in accordance with the Virtual Assets Act, 2023 (Act No. 10 of 2023).</p>

- 2.4. PSPs play a crucial role in the NPS by facilitating electronic payment transactions between various parties, including customers, businesses, and banking institutions. They further enable businesses to accept a wide range of payment methods, such as credit cards, debit cards, digital wallets, and bank transfers, through multiple channels such as point of sales, automated teller machines, Unstructured Supplementary Service Data, mobile applications, and web interfaces. PSPs provide the necessary infrastructure and security measures, while ensuring compliance with regulations, allowing businesses to process payments securely and efficiently.

3. PAYMENT SERVICES OFFERED BY NON-BANK FINANCIAL INSTITUTION VIS-A-VIS BANKING INSTITUTIONS

- 3.1. Payment services listed in the Schedule of the PSM Act can be offered by both banking institutions and non-bank financial institutions. The distinct differences in offering payment services relate to the authorisation or license granted by the Bank. For example, both banking institutions and non-bank financial institutions may offer payment facilitation and third-party payment services.
- 3.2. A non-bank financial institution must be licensed or authorised by the Bank to offer payment facilitation or third-party payment services, in accordance with PSD-1. In offering payment facilitation services, a non-bank financial institution, leverages on its relationship with its sponsoring bank to aggregate funds from multiple merchants into a single, pooled merchant account owned and controlled by the payment facilitator. This arrangement enables multiple merchants to operate under the non-bank financial institution's license, allowing it to manage all aspects of the transactions processed under its own merchant account. In addition, non-bank financial institutions offer third-party payment services, by offering payment processing solutions as a service that include online payment gateways, mobile payments, virtual terminals, point of sale (POS) systems, etc.
- 3.3. A banking institution intending to offer payment facilitation or third-party payment services will be required to request for authorisation from the Bank to offer these payment services. When offering payment facilitation and third-party payment services, banking institutions offer these payment services as part of the banking services offered to customers which include transferring funds between accounts; and facilitating payments which involve the authorisation, clearing, and settlement of transactions. A banking institution when offer payment facilitation and/or third-party payment services may integrate with the platform/systems of the merchant to enable it to manage all aspects of the transactions processed under the merchant's account.

4. ENTITIES THAT HOLD FUNDS WITHOUT OFFERING PAYMENT SERVICES

- 4.1. Payment services include services that relate to the facilitation of payment instructions, the issuance and acquiring of payment instruments or electronic-money and any other services incidental to executing payments or transferring of funds, as specified under the Schedule of the PSM Act.
- 4.2. A payment instruction involves an order to make a payment or transfer funds which is facilitated by a PSP. This process involves the switching, transmitting or processing of payment instructions between system participants and merchants or customers and/or

communicating transaction information between merchants, issuing banks, and acquiring banks, which may be done with or without holding onto funds.

- 4.3. Payment intermediation outside of the PSM Act typically refers to the activities and roles performed by entities that facilitate payments without necessarily being formal PSPs. These entities might operate in various capacities such as providing infrastructure and software solutions that enable payments; offering online platforms that connect buyers and sellers and facilitating payments indirectly by integrating with licensed PSPs or banking institutions. This also includes entities that consolidate payments from multiple sources and route them through licensed PSPs or banks. These entities play a crucial role in the payment ecosystem by providing specialised services, improving efficiency, and expanding access to payment systems, often by working in conjunction with licensed PSPs.
- 4.4. In the context of payments, the PSM Act provides that payment intermediation includes the act of providing payment services or facilitating payment instructions whilst holding funds on behalf of a user or merchant. In this regard, entities that provide intermediation services but do not facilitate payment instructions fall outside the definition of payment intermediation as provided for in the PSM Act. As such, entities that intermediate/hold funds but not for the purpose of offering payment services are not required to be licensed by the Bank as a PSP. To mention a few, these entities can include:
 - 4.4.1. Debt collection and management companies; and
 - 4.4.2. Entities that facilitate payment transactions made exclusively in cash directly from the payer to the recipient.

5. OPEN LOOP VS CLOSED LOOP CARD PAYMENT INSTRUMENT OPERATIONS IN NAMIBIA

- 5.1. The *Determination on the Conduct of Card Transactions within the National Payment System* (PSD-4) defines a payment instrument issuer or card issuer as, a licensed banking institution, non-bank financial institution, or e-money issuer authorised by the Bank to issue payment cards. A payment card is any card authorised by the Bank as a payment instrument in terms of the PSM Act and PSD-1. The PSM Act, defines a payment instrument as any device, procedure or a process authorised by the Bank by which a payment instruction is issued for the purpose of obtaining money, making payments or transferring funds.
- 5.2. Open loop and closed loop are categories that define whether a payment card can be used on platforms other than those provided by the issuer. Namibian banking institutions operate an open loop card system, which includes VISA and MasterCard branded cards. All open loop cards issued by domestic banking institutions, and domestic card transactions involving more than one banking institution, are processed and cleared through NamClear and settled in the Namibia Interbank Settlement System (NISS).
- 5.3. On the contrary, closed loop payment cards are intended for use solely at the issuer's locations. In Namibia, these closed loop payment cards are primarily issued by non-bank e-money issuers and retailers. Some closed loop cards can also be used at other locations, provided there is an arrangement or agreement in place that facilitates card acceptance

within a specific community. The common examples of a closed loop payment cards are store-specific credit cards, gift cards and prepaid cards:

- 5.3.1. Store-specific credit cards are issued by retailers and can only be used within the retailer's specific store or chain of stores. Some of these cards come with reward programs, while others do not. All store-specific credit cards charge interest on the credit provided through the card. Domestic examples include store specific credit cards issued by Edgars, Foschini, and Jet. In countries such as the USA, some store credit cards are co-branded by card associations such as VISA and MasterCard, making them interoperable and allowing them to function as standard credit cards.
 - 5.3.2. A gift card is a store of value card that is preloaded by the person who gifts it to another person. If issued by a retailer, the receiver of the card can only spend the value at the issuing retailer or the retailer's chain of stores. Gift cards can be either open-loop (widely accepted by card networks) or closed-loop (accepted only at the retailer's chain of stores). Additionally, some gift cards have expiration dates while others do not. Gift cards are similar to e-money in that the stored value represents a claim on the issuer. E-money, however, can be used to make payments to entities other than the issuer, whereas gift cards can only be used to pay the issuer.
 - 5.3.3. Prepaid cards are reloadable spending cards that can be used at participating retailers. They can also be used to access e-money and make online purchases if co-branded by card networks such as VISA or MasterCard. Prepaid cards issued by banking institutions and card associations enable purchases, cash withdrawals at banking institutions or retail stores, and online transactions.
- 5.4. Given the operational characteristics of store cards such as gift cards and store-specific credit cards and their limited risk to the broader NPS, the Bank does not consider such store cards as payment instruments requiring regulation. As long as these store cards do not interact with the NPS, for instance, are not interoperable with retail payment systems, are not branded by payment card associations, and do not hold or transmit customer bank information they will remain outside the Bank's regulatory scope until further notice. As such in accordance with section 11.2 of PSD-4, specific-purpose cards such as store cards, gift cards, membership cards, public transport cards, meal voucher cards and other private cards are only used at the location of the issuer in a closed loop system, and not authorised by the Bank as a payment instrument and fall outside the scope of PSD-1 and PSD-4.
 - 5.5. If a retailer wishes to enhance the functionality of its gift card and/or store-specific credit card to offer payment services, enabling these cards to interact with the NPS, meaning these cards become interoperable with the retail payment system or branded by payment card associations or store/ transmit customer bank information, such retailer will need to be licensed as a payment instrument issuer by the Bank.
 - 5.6. In addition, prepaid cards that are issued by banking institutions and non-bank financial institutions will be subjected to the card processing requirements as stipulated in PSD-4, regardless of whether the prepaid cards operate in a closed-loop or open-looped system, if they have the following characteristics:

- 5.6.1. prepaid and reloadable with money at the issuer, agents, or contracted merchants; or
- 5.6.2. allows for cash withdrawals at the issuer, its agents, or contracted merchants; or
- 5.6.3. can be acquired by a financial institution other than the issuer; or
- 5.6.4. allows for purchases at retail merchants POS devices or digital channels; or
- 5.6.5. linked to e-money wallets.

6. THE TREATMENT OF INTERNATIONAL ONLINE MARKETPLACES AND THIRD-PARTY PAYMENT SERVICE PROVIDERS

- 6.1. The e-commerce landscape is rapidly evolving, with accelerated innovation profoundly impacting inter-business trading and the distribution and delivery of financial services to customers. E-commerce encompasses the buying and selling of goods or/and services online.
- 6.2. The Bank does not have any regulatory restrictions for Namibian businesses to access, sell and receive payments on international online e-commerce platforms. The onus lies on the merchants to reach out to international online e-commerce platforms and trade with them. International e-commerce platforms deepen trade between Namibia and the rest of the world thereby improving the country's balance of payments. As such, Namibian merchants may sell on an international online e-commerce platform and receive payments through international third-party payment service providers into their domestic bank accounts without requiring licensing or authorisation from the Bank, but such payments must be subjected to the provisions of the *Determination on the Conduct of Card Transactions within the National Payment System* (PSD-4), and any other relevant law.
- 6.3. The Bank allows international third-party payment service providers or facilitators to provide payment services within Namibia through licensing or partnership agreements with domestic PSPs to ensure compliance with section 10 of PSD-4. Notable examples of international online third-party payment service providers and facilitators are PayPal, Stripe and Alipay, while in Namibia, Virtual Card Services (Direct Pay Online) can be considered as a domestic example. PSD-4 defines international third-party payment service providers or facilitators as foreign or international merchant acquirers, which are financial institutions legally registered and incorporated outside Namibia and that contracts domestic merchants to accept card payments for goods or/and services. PSD-4 prohibits the cross-border acquiring of domestic e-commerce merchant transactions by international third-party payment service providers or facilitators, without the approval from the Bank. For example, an international third-party payment service provider cannot acquire domestic transactions from a domestic e-commerce platform. As such, a local online store, "ShopLocal," cannot use an international third-party payment service provider, "PayGlobal," that has a foreign acquiring bank to process transactions from domestic customers. This can only be done with the Bank of Namibia's approval in terms of section 10.4 of PSD-4 and subject to the conditions provided under section 10.6 of PSD-4.
- 6.4. The Bank further advise domestic merchants to approach domestic PSPs to unlock their e-commerce potential and reach international markets. A list of the domestic PSPs can be

obtained from the Bank's website. In addition, domestic merchants may also contact their commercial banks for more information about creating an online store. The Bank strives to ensure a safe and secure NPS that is accessible to anyone.

6.5. International Online Marketplaces and Storefronts

- 6.5.1. International Online Marketplaces are dynamic e-commerce platforms that facilitate trade and manage payments for numerous merchants offering goods and services. Renowned global examples include eBay, Amazon, Alibaba, and Airbnb. In Namibia, BUYNAMIB is an example of a local online marketplace, providing a platform for Namibian merchants to showcase their products or/and services.
- 6.5.2. International Online Storefronts are versatile e-commerce solutions that empower merchants to establish and personalise their own digital platforms for advertising, selling products and receiving online payments. Globally recognised platforms such as Shopify, Magento, and WooCommerce exemplify the diversity and scalability of online storefront solutions. In Namibia, examples of developers such as InTouch, Green Enterprise, and SmartMove, etc are providing online storefront development services tailored to the local market's needs.

6.6. Treatment of International Online E-commerce Platforms in Namibia

- 6.6.1. An international online e-commerce platform can sell and receive payments on behalf of domestic merchants without being domestically licenced by the Bank as a PSP.
- 6.6.2. An international online e-commerce platform operating an online storefront including its contracted payment service provider may accept online card payments from Namibians without being domestically licensed.
- 6.6.3. A domestic online e-commerce platform with an integrated payment system that enables the acceptance of card payments is required to be licensed as a payment service provider by the Bank.
- 6.6.4. A domestic merchant selling on the international online e-commerce platform is not required to be licensed, as a payment service provider by the Bank.
- 6.6.5. Domestic products being sold on an international online e-commerce platform are considered as being sold internationally even if they are bought by a Namibian buyer from the platform. Domestic merchants have no payment services related role to play on such a platform and are not acquired by foreign or international acquirers as prohibited by PSD-4.

6.7. Treatment of International Online Third-Party Payment Service Providers or Facilitators

- 6.7.1. An international online third-party payment service provider or payment facilitator that allows domestic merchants or individuals to receive payments from an

international online e-commerce platform is not required to be licensed with the Bank as a payment service provider.

- 6.7.2. An international online third-party payment service provider or payment facilitator that allows domestic merchants to receive payments from a domestic e-commerce or mobile commerce platform is required to either be licensed with the Bank as a payment service provider in accordance with PSD-1 or alternatively, enter into an agreement with a domestic payment service provider, that is licensed to offer such services as provided for in PSD-1.
- 6.7.3. An international online third-party payment service provider or payment facilitator that intends to provide Namibians with person-to-person payment services must be licensed as a PSP by the Bank or either opt to partner with a domestic licensed PSP taking into consideration the requirements of the PSM Act and relevant regulations of the Bank.

7. CONCLUSION

- 7.1. This Guidance Note clarifies and raises awareness regarding several key aspects of the payment service provider landscape in Namibia. It outlines the categories of PSP licenses as specified in the PSD-1, delineates the payment services offered by non-bank financial institutions versus banking institutions, and identifies entities that may hold funds without providing payment services. Additionally, it differentiates between open loop and closed loop card payment instrument operations in Namibia and addresses the treatment of international online marketplaces, third-party payment service providers, and payment facilitators. This guidance further aims to ensure a clear understanding of the regulatory requirements and operational dynamics within the Namibian payment system, fostering a secure and efficient payment environment.
- 7.2. The Bank further cautions the public that section 9 of the PSM Act prohibits the provision of payment services by any person not authorised by the Bank. A person who contravenes this section commits an offence and is liable on conviction to a fine not exceeding N\$1 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment.
- 7.3. All enquiries related to this Guidance Note must be forwarded to:

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