

# UNDERSTANDING NamPay and the Namibia Inter-Bank Settlement System (NISS)



Newsletter - February 2021

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## Foreword by the Director of Payment and Settlement Systems

Technological innovation has made major inroads in financial services, especially in payments. Over the years we have seen the National Payment System (NPS) being modernized to ensure that trade facilitation, whether between individuals and businesses or between businesses, happens seamlessly. In recent times, but more so with the onslaught of COVID-19, we have observed an increase in the usage of electronic payment channels, which is testimony to the shift in the payments behaviour of users of our domestic payment systems. Thus, it is imperative that every user of the NPS understands how this system works. To this effect, this publication aims to inform, educate, and present information to the public on matters related to the NPS. In this edition you will find information about the new payment system called 'NamPay' which will modernize how Electronic Funds Transfers (EFT) are made in Namibia and highlights the benefits of NamPay for consumers. In previous editions the Bank provided a basic overview of the Namibia Inter-bank Settlement System (NISS) which is Namibia's Real Time Gross Settlement (RTGS) system. In



**Director of Payment and  
Settlement Systems**

**Barbara Dreyer**

this edition, the Bank of Namibia provides more detailed analysis on some of the values of the different payment streams settling in NISS and other relevant settlement services the Bank of Namibia provides to NISS participants.

The Bank of Namibia remains committed to executing one of its mandates enshrined in the Payment System Management Act, 2003 (Act No. 18 of 2003), as amended i.e., to ensure the safe, secure, efficient and cost-effective operation of the NPS. With that mandate, the Bank of Namibia continuously seeks to engage in various ways with all stakeholders including consumers within the NPS to ensure the availability of relevant information to the public.

Once again, I believe that the information in this publication will provide a better understanding of the developments in the NPS.

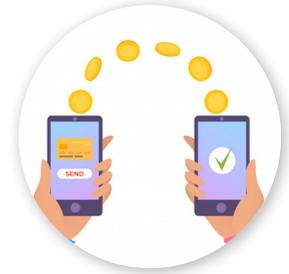
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# A Payment Revolution through NamPay is on the Horizon in Namibia...

This article aims to provide more information about NamPay and explain the features of NamPay for the public's information.



## So, what is NamPay?

NamPay is a new domestic Electronic Funds Transfer (EFT) system introduced by the Namibian payments industry, in collaboration with the Payments Association of Namibia (PAN) and payment service providers to enhance the efficiency of EFT transactions in Namibia. NamPay comprises of 3 EFT streams namely: (1) Enhanced Debit Orders (EnDo), (2) Enhanced Credits (EnCr) and Near Real-Time Credits (NRTC).

The NamPay system brings about major enhancements to how EFT transactions are conducted in Namibia and will impact all stakeholders directly or indirectly. NamPay will replace the existing EFT system with a system which uses an internationally recognized messaging standard i.e., ISO 20022. ISO 20022 is a financial messaging standard that can collect large data sets and messages for financial services. A system based on such a standard can be enhanced with emerging and future technologies on a global scale as a harmonious system therefore making NamPay scalable for future development.

## Why is NamPay introduced?

NamPay was introduced in response to Bank of Namibia's regulation on the Efficiency of the National Payment System (Determination on the Efficiency of the National Payment System). Some of the key principles of the regulation relates to the speed of payment processing, the safety of transactions and risk management of various aspects which affect customers' ability to transact and / or make payments more efficiently. Currently, there is an existing EFT system which will be replaced by NamPay altogether once all customers are migrated onto NamPay to make use of the new system on various channels such as internet banking platforms and mobile phone banking applications. This said migration will be made by financial institutions on behalf of their customers.

# What are the features and benefits of NamPay?



## Enhanced Debit Order (EnDo)

The notable features of EnDo include a registration process whereby all debit order collectors (the gyms, insurance companies etc.) will be registered for better debit order mandates management; customer account tracking for a credit balance within 14 days; and an automated debit order dispute mechanism.

### Benefits of EnDo the 'Debit Order' Payer / Debtor

- Due to the new credit tracking feature, it will now take up to 14 days for debit orders to be considered unsuccessful on customer accounts as EnDo allows for more opportunities for customers to fund their accounts. However, after the 14 days period has lapsed without successfully funding an account for funds to be deducted, the relevant penalties may still apply.
- The identification of the debit order collectors is enhanced in EnDo as all registered debit order collectors will be presented on bank statements through an abbreviated short name for ease of reference.
- Automated and simpler process for disputing invalid debits processed to account holders.

### Benefits to the 'Debit Order Collector' / Creditor

- Due to the non-preferential treatment of payment instructions principle in the Bank of Namibia's regulation, all debit order collectors will now have an equal opportunity to collect funds from customer accounts.
- The credit tracking process will improve the success rate of collecting debit orders over a period when compared to a single attempt on the existing EFT system which is to be phased out. This further improves business processes as businesses will spend less time engaging their customers regarding unpaid debit orders.

### Enhanced Credit Transfers and Near Real-Time Credits

The Enhanced Credits (EnCr) and Near Real-Time Credit (NRTC) streams works seamlessly to enhance the speed at which interbank EFT credit transfers can be reflected on customer accounts. The EnCr stream ensures that interbank EFT Credit transactions made between 08:00 – 16:00 can be processed and reflected on beneficiary accounts within the same day, even after hours. The NRTC enables the real-time clearing of single interbank EFT Credit transactions which ensures that EFT credits can be reflected on customer accounts in near-real-time within the same business day when such transactions are made between 08:00 – 16:00.

### Benefits of Enhanced Credit Transfers to the Payer

- Notification and confirmation of the beneficiary receiving payment on their accounts can be provided to the payer.

### Benefits of Enhanced Credit Transfers to the Beneficiary

- Payments made between 08h00 and 16h00 will reflect on beneficiary accounts on that day, even after hours. Any transactions made after 16h00 will be processed during the next business day.

NamPay is currently being rolled out by the payments industry and customers will be seamlessly migrated to be able to make use of the system on their access channels by their respective banks with a target completion date of 30 June 2021. During this migration period, the existing EFT system will remain operational until all customers are migrated to NamPay. Through its oversight function, the Bank of Namibia is monitoring the migration process. The commercial banks and industry at large have started disseminating information about NamPay during 2020 to customers and stakeholders. Consumers are encouraged to engage their respective financial institutions for specific information about NamPay.

## Assessing the Features of NISS: The Namibia Inter-bank Settlement System

### Overview of NISS

NISS is an important Financial Market Infrastructure (FMI) which is operated by the Bank to provide fast and efficient transfer of funds between its participants. As a real-time gross settlement (RTGS) system, NISS facilitates the settlement of payments where the payer and payee are from two different participating institutions to ensure finality of transactions between its participants. When payments are settled on NISS, they are final and irrevocable. NISS currently has 9 participants which includes the Bank of Namibia and 8 authorised commercial banks, and is connected to 1 automated clearing house (i.e. Namclear) which is responsible for submitting grouped payment instructions for settlement in NISS.

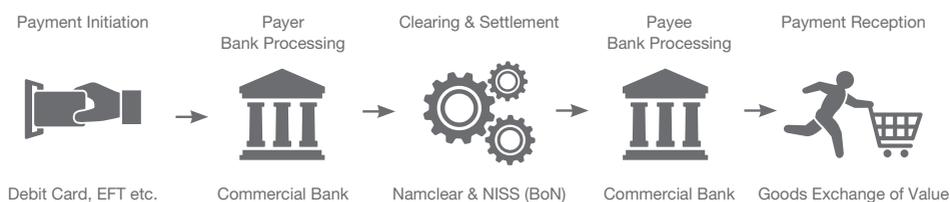


Figure 1: Graphical overview of the payment process

## What are the Settlement Features of NISS?

NISS provides its participants with settlement accounts which allow them: to make single high-value transactions (commonly referred to as gross transactions); and to settle grouped transactions (commonly referred to as batched transactions) from the automated clearing house. Gross payments are processed in real-time from one participant's settlement account to another. On the other hand, batched payments are made up of low-value interbank transactions that emanate from retail payment instruments such as Electronic Funds Transfer (EFT) and Cards payments which are batched and sent to the automated clearing house and further submitted to NISS for settlement.

The EFT stream in NISS comprises of (1) Same Day, (2) One Day and, (3) Dated transactions. Same Day transactions are processed and settled on the same day they are submitted to NISS, while the One Day transactions are submitted one day before the preferred settlement date, and Dated transactions are processed for settlement at a specified future date. The Card stream is composed of (1) ATM card transactions, (2) debit cards used at point of sale (POS) and (3) credit cards used at POS. ATM transactions include all interbank card transactions performed at ATMs with either debit or credit cards. The cheque stream settled in NISS until June 2019 when cheques were phased out as a payment instrument in the NPS.

## Explaining Retail Payments Settlement in NISS

All the retail batched transactions that settle in NISS are interbank payments, meaning they are transactions that involve more than one participant. An ATM card transaction that settles in NISS, for example, is when a customer that banks with bank A uses their card to withdraw cash from bank B's ATM. An EFT transaction that settles in NISS, for example, is when a customer that banks with bank C sends an EFT credit to a customer that banks with bank D. A card transaction at POS that settles in NISS, for example, is when a customer that banks with Bank E uses their debit/credit card at a POS device at a shop that banks with bank F, intrabank bank payments, on the other hand, do not settle in NISS. An example of an intrabank transaction is, if a customer of bank A sends an EFT credit to a customer of the same bank (bank A), such a payment does not settle in NISS, but settlement takes place in the books of the customers' bank.

## What are Credit Facilities in NISS?

Participants in NISS are required to maintain sufficient collateral reserves in NISS for them to qualify for the credit facilities provided by the NISS. The Bank, through NISS, offers intraday and overnight credit facilities to eligible participants to ensure that they can honour their settlement obligations in the event of insufficient funds on their settlement accounts. The intraday credit facility serves as a “same day” secured loan, offered by the Bank of Namibia to NISS participants to settle payment obligations during the day and is repaid the same day at no cost. In contrast, the overnight credit facility allows participants to borrow funds in NISS for one night and the participants must repay the funds plus interest, the next business day.

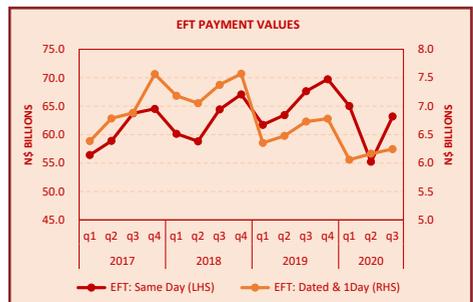
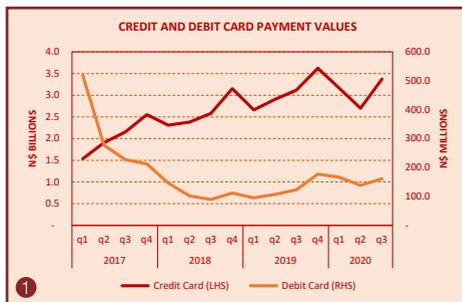
## Assessing the NISS Value Penetration in GDP

A smooth functioning National Payment System is an integral component of any financial system. Critical payment systems such as NISS contribute significantly to the financial stability of an economy by ensuring that payment of goods and services are made with minimal risks, delay, or failure. So, payments that settle in NISS ultimately affect economic activity and therefore the GDP of the country. By taking the total number of gross and batched payments that settled in NISS as a proportion of nominal GDP which measures the total monetary value of the goods and services produced in a given period, the resulting ratio represents the number of times the nominal GDP value is settled in NISS over a given period.

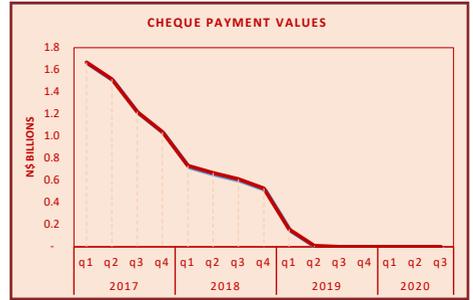
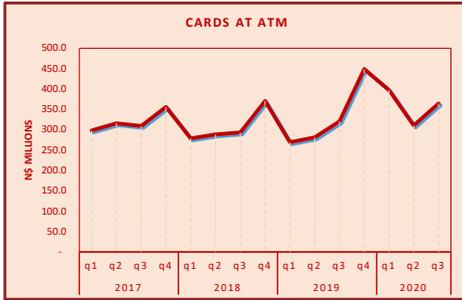
## Graphical Representation of the Features in NISS

The three panels below provide a graphical representation of NISS’ performance between 2017Q1 and 2020Q3. Panel A analyses the various retail payments settled in NISS while Panel B examines the gross payments settled in NISS and an assessment of NISS settlement values as a proportion of nominal GDP. Panel C provides graphs that show the credit usage volumes and values in NISS.

### Panel A: Retail Payment Values Settled in NISS



① (LHS) indicates that the variable’s axis is on the left-hand side while (RHS) indicates that the variable is on the right hand side of the graph.

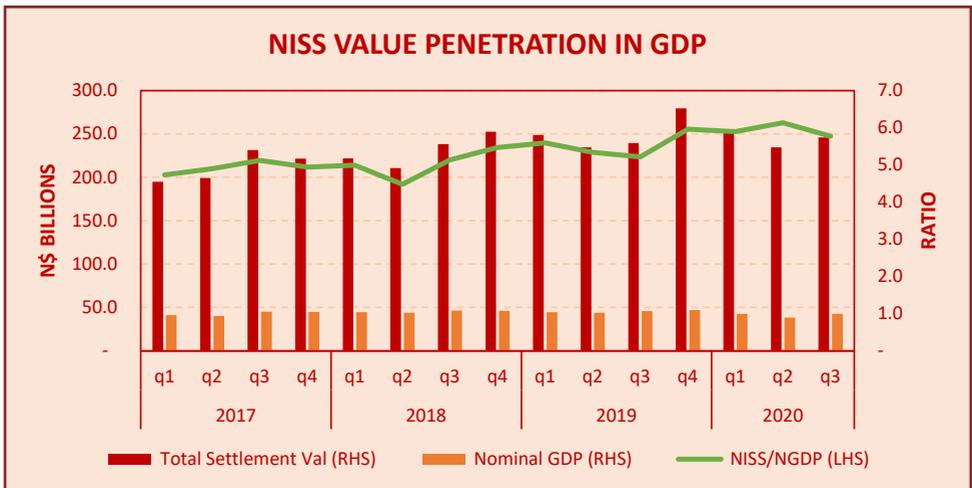
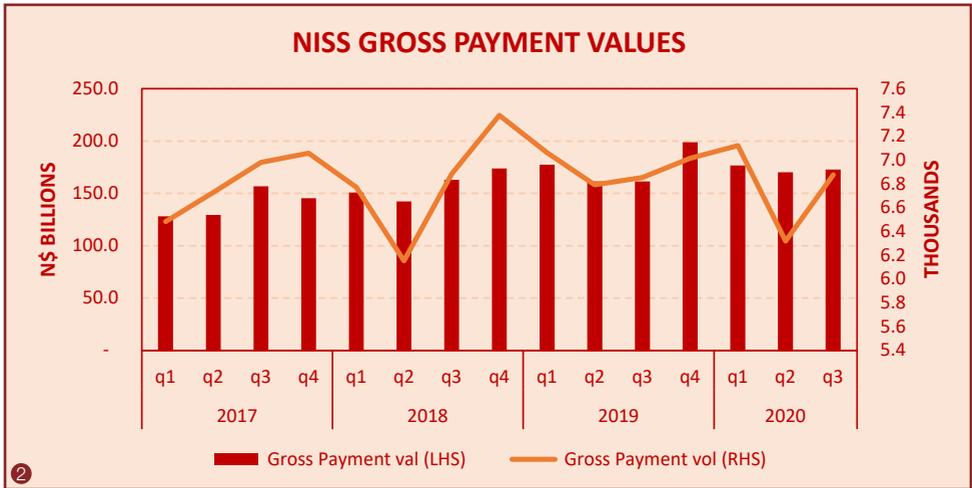


Panel A depicts graphs of retail payment transaction values that settled in NISS from 2017Q1 to 2020Q3. Over this period, N\$1.1 trillion has settled in NISS through various retail payment streams, with 95% of the values settled in the EFT streams while 5% was settled in the card and cheque streams.

Over the entire series, the settlement value of debit cards used at POS devices has declined from N\$518.8 million in 2017Q1 to N\$161.4 million in 2020Q3 while the settlement value of credit cards used at POS devices has increased by N\$1.8 billion during the same period. The decline in debit card payments can be attributed to the declining issuance of debit cards by the banks in an effort to issue more hybrid cards which possess the dual functionalities of both debit cards and credit cards. On the other hand, the settlement value of credit cards (including hybrid cards) has been increasing with notable spikes at the end of each year because of extraordinary spending during the holiday periods. A similar rising trend can be observed with the settlement value of cards used at ATM which also represents an increase in ATM cash withdrawals during the holiday periods.

With regards to EFT, Same Day settlement values accounted for the majority of the settlement values in NISS compared to both Dated and One Day settlement values. EFT Same Day recorded its highest settlement value of N\$70 billion in 2019Q4 before recording its lowest settlement value of N\$55.2 billion in 2020Q2, with a subsequent recovery in 2020Q3 at N\$63.2 billion. The sharp decline experienced from 2019Q4 to 2020Q2 can mainly be attributed to the COVID-19 pandemic which resulted in a countrywide lockdown that adversely impacted both economic and payment activities in Namibia. Cheque payment values settled in NISS have been declining since 2017 and fell to zero in 2019Q2 when cheque as a payment instrument was phased out in the NPS.

## Panel B: NISS Gross Payment and NISS to GDP Ratio



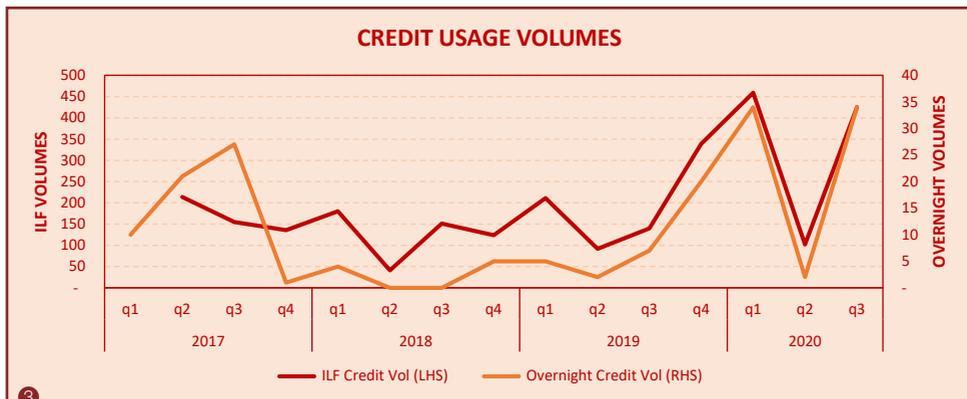
Panel B groups the volumes and values of gross payments settled in NISS and the NISS total settlement value penetration into the Nominal GDP from 2017Q1 to 2020Q3. Gross payments settled in NISS have grown by 34.8 percent from N\$128.1 billion in 2017Q1 to N\$172.7 billion in 2020Q3. This growth in single payments made in NISS

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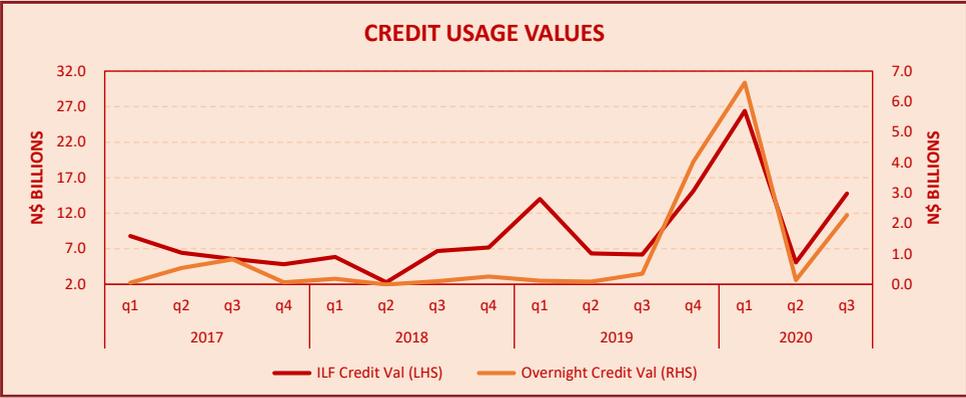
is amid the fluctuating nature of the volumes which on average remain at 6.8 thousand throughout the entire series under review.

The second graph in the panel is a compilation of all settlement values in NISS as a ratio of Namibia's nominal GDP. The graph aims to present the penetration of NISS payment values into nominal GDP from 2017Q1 to 2020Q3. The average Nominal GDP in the entire series was N\$43.9 billion while the average settlement value in NISS was N\$233.7 billion over the same period. Over the entire period, the total NISS settlement values were on average 5 times higher than Nominal GDP which indicates that most values settled in NISS circulated an average of 5 times in the NPS before impacting economic activity. For instance, a salary payment via EFT is paid from the company's bank to the employee's bank and later again from the employee's bank to the banks of other beneficiaries that eventually use the money to buy goods and services. This means salary values can circulate in the interbank system more than once for various reasons while Nominal GDP represents the total monetary value of all final goods and services produced in a given period.

### Panel C: Credit Facilities and Settlement Balances in NISS



③ (LHS) indicates that the variable's axis is on the left-hand side while (RHS) indicates that the variable is on the right hand side of the graph.



Panel C comprises graphs of volumes and values of credit facilities utilized in NISS from 2017Q1 to 2020Q3. The first graph presents the number of times NISS participants utilized credit facilities provided in NISS. The intraday liquidity facility (ILF) was the most utilized credit facility over the entire series, averaging a quarterly usage of 197 times while the overnight credit facility was on average only utilized 11 times. NISS participants normally prefer to use the ILF credit facility instead of the overnight credit facility because the former is free of charge and is available throughout the day. The overnight facility, in contrast, attracts penalties to participants and normally serves as a last resort for participants in need of emergency funds to settle payment obligations.

In terms of credit usage values depicted in the second graph, both ILF and overnight credit values peaked their highest at N\$26.4 billion and N\$6.6 billion in 2020Q2, respectively, mainly due to an increased demand for additional liquidity by NISS participants to fulfil settlement obligations. The identical trends in both credit usage volumes and values are a result of NISS participants first utilizing ILF credit before going into emergency overnight repo to settle the remainder of their settlement obligations.

### Contributors:



Senior Payment Systems  
Analyst: Oversight  
Julius Nakale



Senior Payment Systems  
Analyst: Policy  
Henock Shilongo



Senior NISS Operations  
Officer  
Ndeshinahela Shipila



Graduate Accelerated  
Program Candidate  
Sylvester Tsubeb



## OUR VISION

To be a centre of excellence; a professional and credible institution; working in the public interest and supporting the achievement of the national economic development goals.

## OUR MISSION

To support economic growth and development in Namibia, we act as fiscal advisor and banker to Government; promote price stability; manage reserves and currency; ensure sound financial systems and conduct economic research.

In pursuit of our mission, we are responsible for the following:



Foreign reserves management



Safeguarding and enhancing financial stability



Providing banking services to Government and commercial banks



Ensuring low and stable inflation (Price Stability) through sound enactment of the Monetary Policy



Issuing of the currency (Namibia dollar)



Overseeing the National Payment and Settlement Systems



Administration of Exchange Control

## OUR VALUES

- 💡 We value high performance impact in the context of teamwork.
- 💡 We uphold open communication, diversity and integrity.
- 💡 We care for each other's well-being, and we value excellence.

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Website: [www.bon.com.na](http://www.bon.com.na)

### Contact us:

71 Robert Mugabe  
PO Box 2882  
Windhoek

Tel: +264 61 283 5111

Fax: +264 61 283 5231

[info@bon.com.na](mailto:info@bon.com.na)