

BANK OF NAMIBIA

No. 5

5 July 2010

DIRECTIVE UNDER THE PAYMENT SYSTEM MANAGEMENT ACT, 2003 (ACT NO. 18 OF 2003)

In my capacity as Governor of the Bank of Namibia (The Bank), and under the powers vested in the Bank by virtue of section 13 of the Payment System Management Act, 2003 (Act No. 18 of 2003), I hereby issue the Directive to Prohibit the Practice of Sorting-At-Source of EFT Payment Instructions within the Namibian National Payment System (PSDIR-5), which Directive shall become effective on 1 November 2010.

IPUMBU W. SHIIMI
GOVERNOR

Windhoek, 5 July 2010

DIRECTIVE TO PROHIBIT THE PRACTICE OF SORTING-AT-SOURCE OF EFT PAYMENT INSTRUCTIONS WITHIN THE NAMIBIAN NATIONAL PAYMENT SYSTEM

1. Definitions

In this Directive, unless the context indicates otherwise, the words and expressions used herein shall have same meaning assigned to them in the Payment System Management Act, 2003 (Act No. 18 of 2003) and cognate expressions shall have corresponding meanings.

- 1.1. 'banking institution' means a banking institution as defined in the Banking Institutions Act, 1998 (Act No. 2 of 1998).
- 1.2. 'clear' or 'clearing' means the exchange of payment instructions between system participants with a view to reconciling and confirming payment instructions;
- 1.3. 'collecting banking institution' means a banking institution that processes EFT payment instructions on behalf of another person;
- 1.4. 'EFT' means Electronic Funds Transfer System operated by Namclear;
- 1.5. 'Namclear' means Namibian Clearing Services Company; company number 2005/0645 and incorporated on 20 November 2003 and recognized by the Bank as a payment system service provider.
- 1.6. 'Off-us transactions' means transactions where the bank receiving the payment instruction is not the paying bank;
- 1.7. 'On-us transactions' means transactions where the bank receiving the payment instruction is also the paying;

- 1.8. 'Payments Association of Namibia (PAN)' is a Payment System Management Body whose operation is authorised by the Bank in terms of the Payment System Management Act, 2003 (Act No. 18 of 2003);
- 1.9. 'sorting-at-source' means the process whereby the beneficiary of payment instructions sorts each paying banks' payment instructions together and then submits those payment instructions directly to each paying bank, where the proceeds of such payment instructions are credited to an account in the name of the beneficiary;

2. Background

- 2.1. Sorting-at-source is an undesirable payment practice used by certain retailers and paying banks as described in the definition above.
- 2.2. Sorting-at-source is practiced mainly to avoid differentiated EFT charges applied to on-us and off-us EFTs.
- 2.3. The Bank regards sorting-at-source as undesirable, as this practice causes the avoidance of the clearing of payment instructions by the Namclear and the settlement of the final interbank positions through the Namibia Interbank Settlement System (NISS) at the Bank of Namibia.
- 2.4. For purposes of this Directive, a split of more than a 90 percent of all payment transactions into the on-us category is deemed to be sorting-at-source.
- 2.5. As a result, this Directive has become necessary to eliminate sorting-at-source practices.

3. Directive

- 3.1. No banking institution shall:
 - 3.1.1. accept EFT payment instructions from any person who engages in sorting-at-source practices;
 - 3.1.2. shall support any requests to allow any person to deliver "on us" only transactions; and
 - 3.1.3. use differential pricing of EFT "on-us" and "off-us" transactions in an effort to prevent the perpetuation of sorting-at-source practices;
- 3.2. All banking institutions shall:
 - 3.2.1. identify and report the practices of sorting-at-source to PAN on a monthly basis;

- 3.2.2. allow and enable the PAN to monitor the phasing out of sorting-at-source practices;
 - 3.2.3. monitor each user's total EFT transaction volumes on monthly basis and report these transactions to the PAN; and
 - 3.2.4. implement necessary system, infrastructure and process changes to prevent accepting and processing of EFT transactions from any person practicing sorting-at-source.
- 3.3. No person shall:
- 3.3.1. practice sorting-at-source and must submit all EFT payment instructions directly to a single collecting bank; and
 - 3.3.2. have multiple bank accounts, if such multiple bank accounts are used to bypass the clearing system of Namclear through sorting-at-source practices.
- 3.4. All persons shall:
- 3.4.1. use a single collecting banking institution for EFT payment instructions and shall phase out all sorting-at-source practices by the effective date; and
 - 3.4.2. implement necessary system, infrastructure and internal process changes to submit all payment instructions to a single collecting banking institution.

4. Implementation of Directive

This directive shall be effective from 1 November 2010.

5. General

- 5.1. This directive is not exhaustive and may be supplemented and/or amended from time to time.
- 5.2. In order to maintain the cost-effective and efficiency of the National Payment System, all persons participating in the National Payment System that are, or becoming involved in EFT transactions are obliged to act in accordance with this Directive.
- 5.3. Contravention of this Directive is an offence in terms of section 13 of the Payment System Management Act, 2003 (Act No. 18 of 2003) and is subject to penalties under section 17 of the Payment System Management Act, 2003 (Act No. 18 of 2003).

6. Enquiries

Any enquiries or clarification concerning the directive may be address to:

Director: Banking Supervision Department
Bank of Namibia
PO Box 2882
71 Robert Mugabe Avenue
Windhoek
Telephone: +264-61-2835111
Fax: +264-61-2835228