

BANK OF NAMIBIA

No....

2008

DETERMINATION UNDER THE BANKING INSTITUTIONS ACT, 1998, (ACT NO. 2 OF 1998)

In my capacity as Governor of the Bank of Namibia (The Bank), and under the powers vested in the Bank by virtue of section 71 (3) of the Banking Institutions Act, 1998 (Act No. 2 of 1998), I hereby issue the Determination on localization of core banking systems (BID 19), which Determination shall become effective on 11 August 2008.

TOM K ALWEENDO
GOVERNOR

WINDHOEK, 05 August 2008

Determination No.: BID19

LOCALIZATION OF CORE BANKING SYSTEMS

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1. Short Title

Localization of Core Banking Systems

2. Authorization

Authority for the Bank to issue this Determination is provided in Section 71 (3) of the Banking Institutions Act, 1998 (Act No. 2 of 1998).

3. Application of the Determination

This Determination applies to all banking institutions authorized by the Bank to conduct banking business in Namibia.

4. Definitions

4.1 'Core banking systems' means all core systems that contain records and documents covering core functional areas of banking institutions and include all IT systems and subsystems keeping and maintaining records and documents relating to the business, affairs, transactions, conditions, property, assets or liabilities of a banking institution.

4.2 'National Payment System' means the payment system as a whole, and includes any payment system, settlement system, clearing system and payment system arrangement used in the process of effecting payment between payers and beneficiaries.

4.3 'Other banking records' means any book, record, report, statement or other document related to the business, affairs, transactions, conditions, property, assets or liabilities of a banking institution.

4.4 'Financial records' shall include banking and accounting records.

PART II: STATEMENT OF POLICY

5. Purpose

5.1 The purpose of this Determination is to clearly state the requirements for the localization of banking institutions' core banking systems in Namibia. Localization of all fault tolerant core banking systems will facilitate access by the Bank to accounting and other banking records. In addition, it will contribute to ensuring the efficiency and safety of the National Payment System, support effective payment system oversight and banking supervision.

6. Scope

6.1 This Determination covers the fault tolerant core banking systems of all banking institutions authorized to operate in Namibia.

7. Responsibility

7.1 The board of directors of each banking institution shall be responsible for establishing policies and procedures to ensure that implementation requirements relating to the localization of core banking systems in Namibia are met and adhered to.

PART III: OVERVIEW AND IMPLEMENTATION REQUIREMENTS

8. Overview

Proper accounting and other banking records (financial records) is considered necessary by the Bank of Namibia because it allows the Bank to fulfill its supervisory function in line with the Banking Institutions Act, 1998 (Act No. 2 of 1998). The ability of the Bank to access and assess the adequacy of the systems maintaining financial records, in accordance with section 46 of the Banking Institutions Act, requires that financial records be retained in Namibia in a manner determined by the Bank.

With the implementation of National Payment System (NPS) reform project, it was realized that shared IT infrastructure and banking systems with parent companies in South Africa introduced constraints contributing to **operational and systemic risks** for banking institutions operating in the Namibian NPS. In this regard, the Bank noted the inability of banking institutions to process Namibian domestic payments on South African public holidays and constraints experienced in adhering to Namibian payment system clearing and settlement cut-off times. In addition, IT governance, decision making process and prioritization of IT projects with the parent companies remain an obstacle to the progression of the payment system reform objectives of the Bank.

In terms of section 2 of the Payment System Management Act, 2003 (Act No. 18 of 2003), the Bank has the powers to ensure the safe, secure, efficient and cost-effective operation of the National Payment System. Consequently it must be able to exercise unhindered oversight over all core banking systems of the payment system participants (banking institutions) in line with the Act and Payment System Oversight Policy.

The abovementioned impediments and constraints can be ameliorated upon the core banking systems of banking institutions being located in Namibia. Consequently the Bank's position is that core banking systems must be localized in order not only enable **timely** access by the Bank to accounting and other banking records but also to support safety and efficiency in the NPS and financial sector as a whole.

9. Implementation Requirements

All banking institutions shall adhere to the following minimum requirements of this Determination:

9.1 Locate and maintain their core banking systems, where accounting and other banking records are kept, in Namibia to support effective banking supervision.

9.2 All core banking systems shall meet the following conditions:

9.2.1 Payment system oversight requirements with the public policy objective of ensuring safety and efficiency in the National Payment System;

9.2.2 A high degree of security and operational reliability together with acceptable contingency arrangements for the timely completion of daily processing;

9.2.3 Namibian payment system clearing and settlement cut-off times;

9.2.4 Supervisory requirements and national payment system reform objectives set by the Bank from time to time;

9.2.5 Namibian business days and be able to function normally and process payments without interruption;

PART IV: REMEDIAL MEASURES

10. Remedial Measures

10.1 If a banking institution fails to comply with this Determination, then the Bank may pursue any remedial measure/s as provided under the Banking Institutions Act, 1998 (Act No. 2 of 1998) or any relevant legislation in the interest of ensuring stability in the financial system.

PART V: EFFECTIVE DATE

11. Effective Date

11.1 This determination shall come into effect on 11 August 2008.

12. Transitional Provisions

12.1 The Bank take note of the current initiatives undertaken by the individual banking institutions and the dispensations granted to comply with the requirements of this determination. However, earlier compliance with this determination is encouraged.

12.2 Non-complying banking institutions are expected to comply by 31 December 2009.

12.3 Every non-complying banking institution shall be required to provide implementation time table to the Bank.

PART VI: GENERAL AND ENQUIRIES

13. General

- 13.1 This determination is not exhaustive and may be supplemented and/or amended from time to time.
- 13.2 Banking institutions that are uncertain of the contents of this determination should initiate discussion with the Banking Supervision Department of the Bank of Namibia to clarify the matter.

14. Enquiries

All enquiries related to this determination shall be forwarded to:

The Director:
Banking Supervision Department
Bank of Namibia
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