

SWAZILAND NATIONAL PAYMENTS SYSTEMS UP-DATE REPORT

1. INTRODUCTION AND BRIEF OVERVIEW

This report covers the country's National Payment Systems restructuring activities from the 1st of April 2007, to the end of March 2008, as prescribed by the SADC Payment Systems Project Committee for the annual Committee of the Central Bank of Governors meeting.

During the past ten months, Swaziland was and is still involved in a number of various payment system reforms as outlined in the country's Vision and Strategy Framework Document that was launched in November 2000. The main and major milestone was the full implementation and switching on of the Real-Time Gross Settlement System known as the Swaziland Interbank Payment and Settlements System on the 15th of June 2007. The next important project to be fully implemented during the calendar year is the Oversight of Payment System to fully discharge our statutory mandate of promoting, regulating and supervising the efficient and secure operation of the payment system as per Central Bank of Swaziland Act of 1974 as amended in 2004.

2.0 OPERATIONAL ISSUES

2.1 PLASTIC CARDS

The use of payment cards is still very low and they are issued mainly by the South African banks to their subsidiary banks customers in Swaziland. There is a need to establish a common local switch infrastructure for all the ATMs, debit and credit cards and the point of sale transactions to reduce the use of both paper based payment instructions and heavy reliance on the cash payments. This strategy will concurrently increase

the volumes and values of electronic payments in the SWIPSS and mitigate the financial and settlement risks the payment system.

2.2 SOUND LEGAL FRAMEWORK

The Central Bank will always ensure that there are binding operating rules and regulations in place to provide for the smooth operation of the payment system. Both rules for the SWIPSS/RTGS and SAECH Systems have been signed by all the participants. The SAECH rules have just been reviewed to embrace the item value limits and the further reduction of the clearing circle. A Service Level Agreement between the participants and the Systems Operator as the Settlement Provider is in the process of being signed by all parties to ensure observation of Core Principles.

The National Clearing and Settlements System Bill of 2005 is still awaiting Promulgation. This Bill will provide for the recognition, operation, regulation and supervision of systems for the clearing of transfer instructions between financial institutions.

2.3 REGIONAL CO-OPERATION / CMA DEVELOPMENTS

Swaziland is a member of various regional committees including the intra-regional Common Monetary Area (CMA) Cross-border Payment Oversight Committee with Namibia, Lesotho and South Africa the (CMA CPOC). The objective of this CMA CPOC Committee is to oversee the arrangements regarding the flow of payments instruments between the CMA countries and to ensure compliance with the international standards for cross-border payments. Swaziland is now at an advanced stage of finalizing the CMA Correspondent Banking Agreement and establishing the Payment Association of Swaziland (PASWA) which is required for membership to the CMA CPOC Committee. The correspondent banking agreement will promote the efficient management of processing and settling cross-border payment instruments whilst PASWA will be a management body or

committee, whose objective will be to organize, manage the participation and interests of its members in the payment system.

2.4 CASH-BASED PAYMENT

Cash is still the most widely used form of payment for both internal and cross border payments in the Common Monetary Area because of being instantly acceptable and for its real-time settlement benefits. Luckily our Emalangeni Notes have had a low rate of counterfeiting attacks. However, there is an urgent need to promote the use of non-cash payments especially the cards and electronic payment to enhance the integrity of our payment system and also bank the unbanked population in the rural areas. The Central Bank of Swaziland is considering strategies of shifting the public from the heavy reliance of cash payments to the use of plastic money.

2.5 PUBLIC DISCLOSURE

The Central Bank has lodged both the SWIPSS and the ECH rules in both the intranet and website. The Vision and Strategy Document has also been lodged to meet the best practices requirements and a few articles are also available to educate the staff and the stakeholders on National Payment Systems and Developments. The Core Principles are also included in both intranet and website for the continuous sensitization of the financial industry and all other stakeholders.

2.6 HIGH BANK CHARGES

The country's bank customers are suffering from the escalating bank charges which have become a regional and or global pandemic. There is a continuous public outcry of the high charges on services offered by banks including depositing or withdrawing cash. The central bank does not charge the banks for either depositing or withdrawing the local

currency. The exorbitant charges are motivating the public to bank their cash under their mattresses.

The Central Bank of Swaziland as the SWIPSS Owner, Operator and Settlement Provider currently charges from R/E5.00 the first SWIPSS window to R/E15.00 during the last window to process inter-bank real-time payment instructions. Since going live on the SWIPSS System, all the banks have increased the Swift charges for all outgoing SWIPSS/Swift payment instructions and the central Bank is closely monitoring all the charges.

2.7 NATIONAL PAYMENT SYSTEM SUPPORT STRUCTURES

The Bank is considering reviving the National Payment System's Council and its Sub-Committees. The NPS Council Committee will give direction and oversee the NPS Modernising Programme. Currently there is the Bankers Committee as a supreme body whose membership is from the Bank's Chief Executive Officers. Below this committee is a Bankers Technical Committee that seeks to address issues of a technical nature which include policies, formulation and review of rules and regulations of the payments systems. This committee is accountable to the Bankers Committee.

3.0 SETTLEMENT SYSTEM DEVELOPMENT AND PROJECTS

The Central Bank of Swaziland is proud of being the 11th SADC country to have successfully implemented the Real-time Gross Settlements System within eleven months to June 2007 in spite of the delay that was attributed to hardware delivery of the Cisco Routers, and the leased line during the user acceptance Testing period to cut down on exorbitant swift charges. The system has a local brand name of "Masheshisa", which means the fastest. The launching was graced by the presence of the Minister of Finance on the 5th of October 2007, at a high note function that included

about three hundred and fifty corporate customers and esteemed members of the financial industry.

Since inception in June 2007, to the 31st of January 2008, the SWIPSS/RTGS has processed and settled a total volume of 9,778 transactions with total values of E23.4 billion with a daily average of 61 transactions valued at E147.2 million. The System currently processes about 1.3% interbank payment instructions.

3.1 COLLATERAL SECURITY

The Central Bank has implemented a mandatory monthly collateral security of short-term treasury bills to be lodged and pledged to the Central Bank based over a three months revolving average of the participants highest net debit settlement, plus 10% to guarantee a timely final settlement of the clearing batches.

During the day, the Bank extends an Intra-day Loan Facility (ILF) that is covered by the drawn down of the daily Statutory Minimum Reserve Requirements that must be restored before the final cut-off. The intra-day may be converted into an inter-day facility at a repo rate. Failure to reverse the repo facility by 9.00 a.m. the Central Bank is empowered to liquidate the collateral security to settle the outstanding debt.

3.2 STRAIGHT THROUGH PROCESSING

This is an interface that will link the SWIPSS/RTGS system with the bank's core banking system to enable a real-time settlement of the funds into the customers' accounts without any human intervention.

The Central Bank and the banks have been developing the interface for the past three months and currently, the central bank's interface occurs every hour to the Globus Core Banking System instead of the end of the day. All the banks are required to fully implement the Straight Through

Processing by the 1st of April 2008, to ensure that customers at large also enjoy the benefits of the electronic, real-time, safe and fast transmission of funds.

3.3 BUSINESS CONTINUITY MANAGEMENT ISSUES

The Central Bank is at an advanced stage of implementing the banks' Business Continuity Plans and the Disaster Recovery Site in Manzini which is about 36 kilometers from the Primary Site in Mbabane which includes the SWIPSS System.

The RTGS/SWIPSS Steering Committee is also at an advanced stage of implementing the SWIPSS/RTGS Business Continuity Plans and Disaster Recovery Site of all the participants and the Settlement Systems Operator as required of internal best practices. The plan is very comprehensive and covers all the relevant aspects of the Business Continuity Management required to ensure continued execution of business processes of the SWIPSS operations in the event of disaster. The Disaster Recovery tests of the SWIPSS System technical infrastructure will be conducted by the end of March 2008.

3.4 FUTURE DEVELOPMENTS IN SWIPSS/RTGS

The Central Bank has started consultations with the Ministry of Finance's Treasury and Income Tax departments to assess their needs in preparation for linking them to the SWIPSS/RTGS.

The Revenue Authority Act has just been enacted and the Commissioner of Taxes would like the central bank to add the Tax Payment Stream to the SWIPSS/RTGS so that the Taxpayers can pay taxes electronically to eliminate or reduce the use of cheques.

3.5 PUBLIC SENSITIZATION

The Bankers Technical Committee which includes the Central Bank was involved in various public awareness campaigns to educate the public and the stakeholders on the National Payment System's reforms. Two months before going live on the RTGS/SWIPSS there were Newspaper articles and Newsletters. During the launching week there were additional various forms of public sensitization programmes ranging from the Newspaper articles, Print Media and on the launching day Corporate Gifts of Pens, Golf Shirts and Newsletters to big banners, SWIPSS poems and songs by various art groups. The presence of the Minister of Finance to launch the system was the greatest blessing to the financial industry especially to the Central Bank's Top Management and the National Payment System office. The public sensitization will be further strengthened after the full implementation of the Straight Through Processing as that is the only time when the Central Bank can guarantee to the public the real-time payment and settlement of their payment instructions within an hour of receiving the payment instructions.

4.0 RETAIL SYSTEM DEVELOPMENT AND PROJECTS

4.1 SWAZILAND AUTOMATED ELECTRONIC CLEARING HOUSE (SAECH)

The electronic clearing house was automated in November 2001. It is still one of the Systemically Important Payment System as it still facilitates the electronic debit clearing of about 98% of the inter-bank clearing instruments. The volumes and values of paper based inter-bank payment instruments cleared in the Electronic Clearing House have marginally decreased by 6.5 and 2.6 percentages respectively for the same periods of nine months from April to December 2006 and 2007. This reduction is attributed to the implementation of the item value limit of E1 million for all the paper based instruments and the introduction of the Real-Time Gross Payment System in June 2007.

4.2 INTRODUCTION OF ITEM VALUE LIMITS

The Central Bank of Swaziland with the banks introduced a debit item value limit of 1 million Emalangeni (which is equivalent to US dollars 130,599.45 at today's rate of 7.657) to remove the high value exposure from the clearing system. All cheques above the limit cap are specially presented and settlement done on same day and electronically on the RTGS/SWIPSS System to speed up settlement and reduce the settlement risk in the payment system. However, the implementation of the debit caps still has great challenges as there is slow adaptation by the banking industry and the Government Treasury which has requested for an extension period to upgrade its systems to embrace the changes. The clearing cycle has also been further reduced from T+4 to T+3 country-wide effectively from the 1st of July 2007.

4.3 SAECH DISASTER RECOVERY SITE

The electronic clearing house back-up site was upgraded in August 2007, through the installation of an Uninterrupted Power Unit (UPS). This unit is important for backing up the load in case of power failures due to the load shedding. In November, 2007 a Virtual Private Network firewall was also implemented and its not yet completed. On full implementation it will facilitate a quick delivery of data files for processing to SAECH and a quick uploading from SAECH via the internet. It will further provide a secure gateway between SAECH to prevent illegitimate access into the SAECH and SWIPSS system and also provide for file security.

4.4 ELECTRONIC CLEARING HOUSE'S INTERFACING

The System's interface to the SWIPSS/RTGS which was also fully implemented by the live date of the 15th of June 2007. This interface is

very vital for the file security as it enables the forwarded files from SAECH to the RTGS to carry the digital signature that makes it impossible for the file to be tempered with before it is processed by the settlement system. A leased line between Posix and the SAECH was also installed to automatically download anti-virus updates as and when available from the relevant internet sites.

5.0 E-MONEY AND MOBILE BANKING INITIATES

There has been no developments in this area. MTN had a ten year monopoly basic licence which expires in 2009. MTN is currently negotiating for an all purpose licence which will allow provision of multi-mobile services including Electronic and Mobile Banking which will be stimulated by the competition of the Mobile Network Providers in the country.

6.0 OVERSIGHT ISSUES

The Bank is also at an advanced stage of implementing the oversight function to promote the safety and efficiency of the payment system to mitigate the risks by managing them effectively.

The Oversight Framework Policy Document and Guidelines have been drafted and already awaiting adoption by the executive committee. The Bank will also be sending two officers to one of the SADC central banks for a week's attachment in Oversight. It is envisaged that the Oversight function will be launched by the 30th of June 2008 to include both the on-site inspections and off-site analysis of data. Developments on both local and international payment system environments will be monitored and changes implemented where necessary to reduce risk in the national payment system.