

f. Literature review emerging from: South Africa and United Kingdom



Submission | 12TH JULY 2021

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South Africa

Author: Shirley Mburu and Walter Volker

Submitted: 12TH JULY 2021





Country summary: South Africa

STATUS

ACCOUNT TO ACCOUNT R/T:	
Name of scheme/s	Real Time Clea
Date of launch	2006
Scheme manager	Payments Association of South Africa (PASA) whose members are banks
Switch operator	Bankserve - private entity fully-owned by banks
% financial accounts included in scheme	14 of 34 banks representing all major banks and >98% of accounts as the others are small

HIGHLIGHTS

Highlights from country:

- **Industry initiated, led and implemented model.**
- Despite being the first national interbank instant payment service to be launched globally, it only accounts for 2% of all payment transaction and the **average ticket size is about ZAR 12,800/ USD 898 (PASA 2019)**, which implies that its current design does not meet the low-value and day-to-day needs of the public
- **Initiated as a premium offering** and hence that has influenced its role out e.g initial slow take up was mainly due to some major banks to originating, high client fees, low awareness and marketing to clients, and lower cost EFT alternatives such as same-day or next day EFTs, as well as immediate high value payments through the RTGS.
- **Slow take up and roll out of enhancing features**

Country group

% adults with a financial account
(Findex, 2017)

UMIC

69%


% adults with a financial account
(Findex, 2019)

81%

INTEROPERABILITY JOURNEY:



- RTC was first conceived in 2002 by representatives of ABSA Bank and Standard Bank. They jointly established an RTC forum under PASA to steer its implementation.
- It was officially launched in 2006 as the first national inter-bank real time clearing payment system for low value/ retail payments in the world.
- between two banks.
- It's was positioned as a premium product to serve the needs of a niche clientele.
- Presently, RTC is offered across 17 banks (14 originators and 17 receiving banks).
- In 2019, RTC volumes were **over 4 mil per month** compared to 6.5 mil in 2020
- South Africa is embarking on a modernization journey that aims to achieve a Low-cost, Easy To Use, Real-time Payments System.

Calibrating the role of public sector in IO

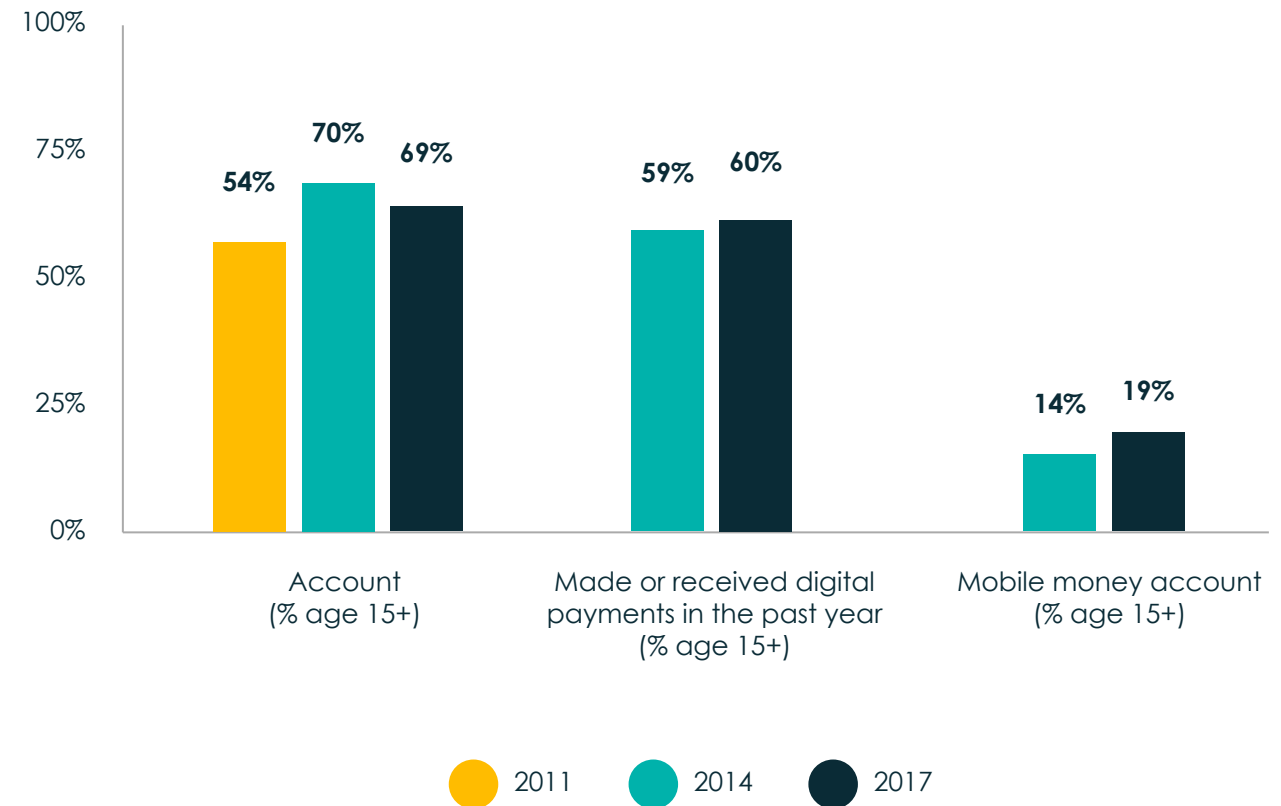
		Funding & implementation role			
In setup and beyond		0: None	1: Participate/ co-fund	2. Incubate only	3: Sole fund
Policy role	0: Endorse				
	1: Catalyze 1--Encouragea	 (RTC))	<ul style="list-style-type: none"> The regulator acts as an enabler: <ul style="list-style-type: none"> Empowered the industry to manage the payment system, its members, operators and rules by recognising the Payments Association of South Africa as a Payments Services Management Body. 		At this level, regulator applies moral suasion but takes no direct action
	2: Catalyze 2 -Actively convene & participate				Regulator also takes direct steps, such as studies, convening or threats
	3: Mandate		<ul style="list-style-type: none"> However, RTC was initiated, led and implemented by the banks. 		Mandate could include 1 or more of: <ul style="list-style-type: none"> Required connection to central switch Required participation in a scheme Method and/or level of interparty fees set
	Oversee				Typical role may be oversight, but this may not apply to non-prominent

Country Interoperability summary frame

Industry initiated, led and implemented model.

A2A or CICO		PUBLIC POLICY ROLE IN INCEPTION					PUBLIC ROLE IN IMPLEMENTATION			
		0. Endorse	1. Catalyze 1	2. Catalyze 2	3. Mandate	None	0. None	1. Co-fund	2. Incubate	3. Fund and own
O U T C O M E	0. Uncertain /too early									
	1. Below expectations		 RTC				 RTC			
	2. In line with expectations									
	3. Above expectations									

Country context



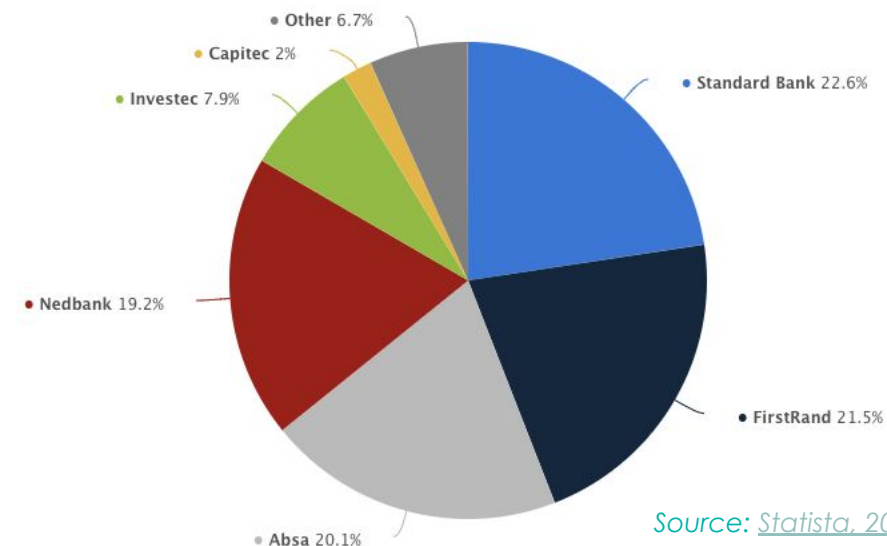
Source: FINDEX 2017

Country context



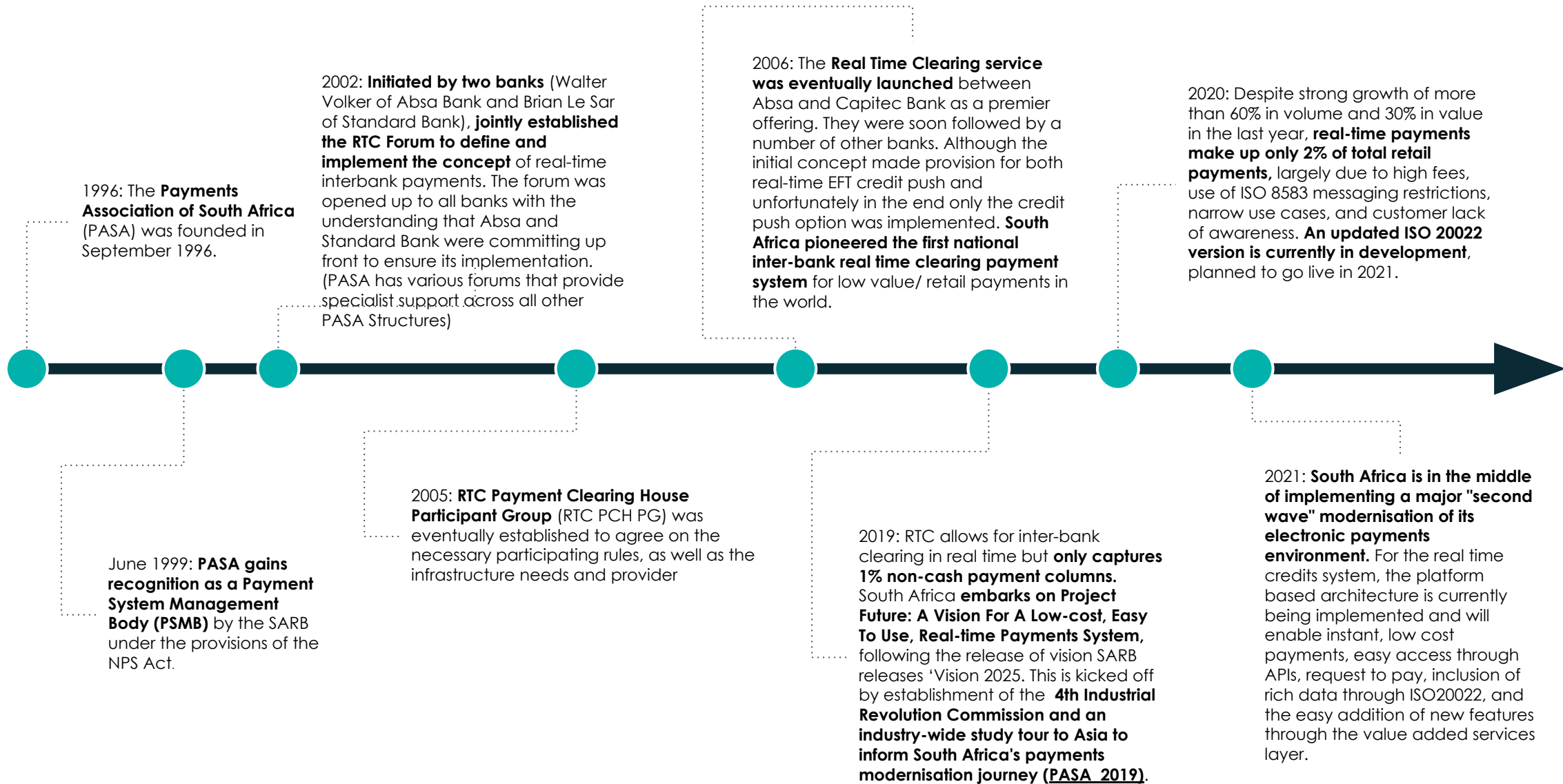
Scores:	71	81	30	96	75
Rank: 13 of 55 Weighted score: 64	Government and Policy	Stability and Integrity	Products and outlets	Consumer Protection	Infrastructure
	1. National Strategies	1. Market entry requirements	1. E-money and simplified accounts	1. Financial services users	1. Payments infrastructure
	2. Financial and digital literacy	2. Operational requirements	2. Credit	2. Insurance users	2. Connectivity
	3. Government digitisation	3. Customer due diligence	3. Emerging services	3. Data protection	3. Digital IDs
		4. Supervisory capacity	4. Inclusive insurance		4. Credit Information
		5. Cybersecurity	5. Financial outlets		

Source: EIU
Microscope 2020



Source: Statista, 2019

A2A country timeline



Real Time Clearing (RTC): Features and Economics

Year launched: 2006

Objective: Primarily driven by banks responding to the need for immediate, once-off payments that were below R5 mil, so as not to overload the RTGS with low-value payments. Customers had been frustrated by the fact that real-time “on us” transactions were possible, but inter-bank real-time transactions were not offered. Positioned as a niche product.

Speed of posting to accounts: Less than 1 minute from the time the payment is initiated by payer. The only exception from a timing perspective in RTC is when a first time beneficiary is paid, some banks impose a security vetting check, which could cause a delay.

Maximum value: Up to ZAR 5M (about USD 350K) until 16.00 / ZAR 250,000 (about USD 175K) during non-business hours per transaction.

Operating hours: 24/7/365

Store of value: Bank accounts

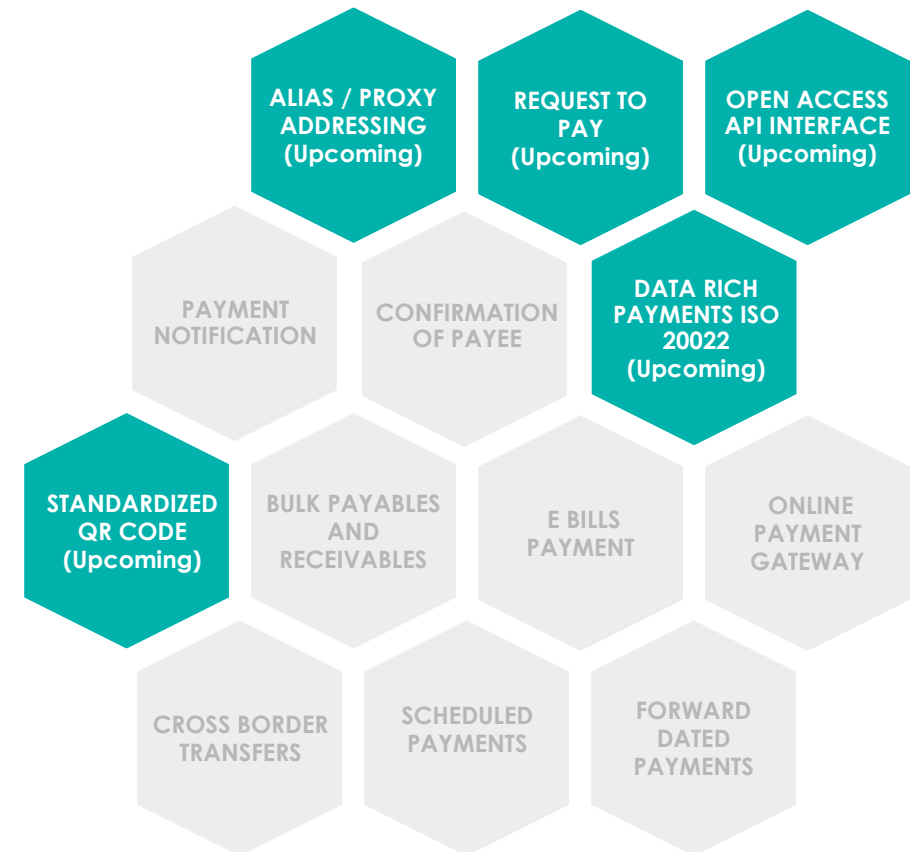
Channels: Branches, call centres, internet banking and cell phone banking.

Use cases: P2P, P2B, B2B & B2P, P2G, - can pay to any account regardless of individual, business or Gov but not linked to a bill payment service for reconciliation

Consumer fees: Pricing has two parts, a per-transaction fee and a charge based on the amount transacted for purchases, with a cap on the maximum total cost of the payment.

P2P: Fixed & tiered depending on bank: ZAR 7.50 (USD 0.47) to ZAR 50 (USD 3.13), Could cost up to R80 if initiated via non-digital channels e.g via Telephone- adviser-assisted / branch ([Business insider](#), [FNB](#), [Standard](#), [Capitec](#), [Absa](#), 2021).

Interparty fees: For RTC, as the SARB has not yet determined the rate, banks agree on a bi-lateral basis. The prevailing level is around R2.75 for the first R1000, and 0.0025% thereafter. BSVA switch fee is about 11 cents.



Scheme: Governance

Scheme manager: Payments Association of South Africa (PASA) a self-regulatory Payments Services Management Body (PSMD). PASA is mandated to develop rules, criteria and governance structures as may be required to carry out its function.

PASAs governance framework and membership:

ASA highest governing body is the **PASA Council**, representing the participants in the national payment system. PASA councillors **are drawn from PASA's Members**.

Participant Groups (PGs) i.e members of a Payment Clearing House (PCH) agree on the specific transaction types and rules of participation, which are codified in a **PCH agreement** that participants are bound to through bilateral agreements with each other (summers, 2011). The PGs can also appoint the PSOs who are then authorised by PASA. Both the members and PSOs are required to adhere to **SLAs governed by PASA**.

Other PASA structures include two Strategy Forums (one for card and one for electronic & cash), Subject Matter Expert (SME) committees, such as the Legal, Risk, Compliance, Dispute Resolution, BCP/DR, Competition committees, and then also two stakeholder (non-member) consultation committees - one for card and one for electronic & cash.

PASA members consist of 33 banks. There are indeed NPS participants who are not PASA members, but they are either authorised by or registered with PASA. These are called System Operators or Third Party Payment Providers.

Scheme: Oversight & Operations



Overseer/ regulator: South Africa Reserve Bank (SARB, specifically the NPS Department of the SARB, which was established in 1999), with support from PASA:

- SARB Act mandates the SARB to oversee the regulation of the NPS.
- In turn the NPS Act, which was promulgated during 1998, mandates the SARB to recognise a Payment System Management Body (PSMB), to organise, manage and regulate its members participating in the NPS.
- PASA is currently recognised as the PSMB by the SARB.



Scheme operator: BankservAfrica (Clearing house)

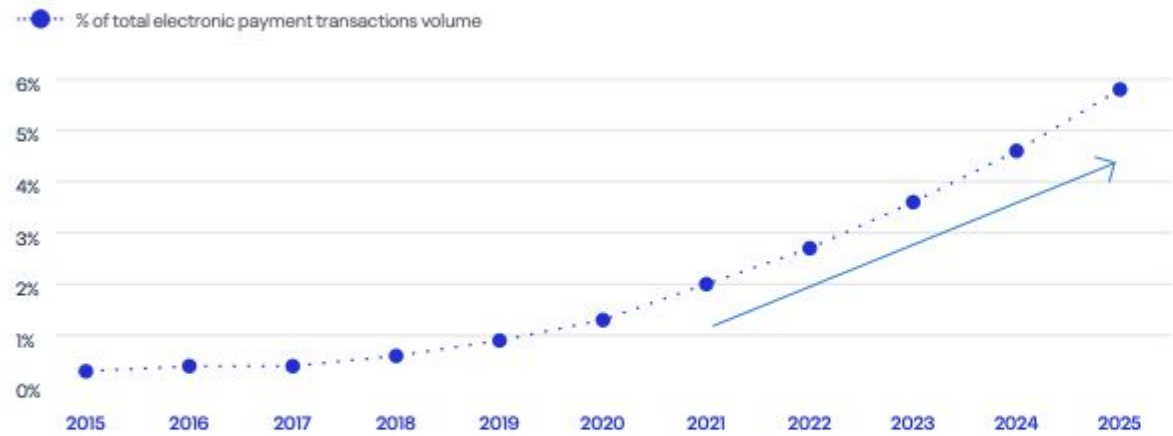
- Provides the switch that clears RTC payment instructions and provides the interface to the South African Reserve Bank RTGS system.
- 92.5% of its shareholding owned roughly equally by the big four commercial banks, while 5.5% is jointly owned by 7 smaller banks.



Settlement: NPS Department of the SARB owns the RTGS system, known by the acronym SAMOS, which clears and settles the interbank obligations arising from RTC. (summers, 2011). Settlement takes place every hour on a deferred net settlement basis. (NBP, 2015)

Scheme: Outcomes

Real-Time Payments Volume and Its Share in Overall Non-Paper Based Transactions, 2015-25f



Transactions



Share of Volumes by Payments Instrument



Source: ACI, 2021

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United Kingdom

Author: Shirley Mburu and David Porteous

Submitted: 12TH JULY 2021





Country summary: United Kingdom

Country group
% adults with a
financial account

HIC
96%

STATUS

ACCOUNT TO ACCOUNT R/T:

Name of scheme/s	Faster Payment Service (FPS))	
Date of launch	2002	
Scheme manager	Pay.Uk	
Switch operator	Pay.uk	
% financial accounts included in scheme	>52 million current account holders in the UK. 35 direct participants & >400 FIs indirectly connect to offer the service	

INTEROPERABILITY JOURNEY:


- **Competition in payment systems** had been a subject of much debate for more than a decade leading to **reviews and studies** such as the Cruickshank review in 2000 and a subsequent Office of Fair Trading (OFT) study in 2003.
- As one of the results emerging from the reviews and studies, the United Kingdom implemented its **Faster Payments Service (FPS) in 2008** through a Payment Systems Task Force - a stakeholder group bringing together industry, retail, consumer and government representatives and chaired by OFT.
- **It was imposed on the banking industry by the Office of Fair Trading following an investigation into the lengthy clearing cycle for personal payments.**
- Another result of the reviews was establishment of the Payment Systems Regulator (PSR) as new economic regulator to oversee payment systems in the UK in 2014.
- Moreover, PSR and The Bank of England established an independently chaired delivery group that set out key characteristics of the **New Payment Systems Operator (NPSO) - Pay.UK** in 2016, consolidating the governance of three payment system operators (PSOs) including FPS Limited.

Highlights from country:

- Have had a lot of evolution in the way payments are overseen and operated in the quest of increased competition and better meeting the needs of users.
- This has fostered a lot of innovation from the industry
- By end of 2019 FPS had achieved an average of about 203 mil transactions per month, compared to 237 mil in 2020.



HIGHLIGHTS

Calibrating the role of public sector in IO

		Funding & implementation role			
In setup and beyond		0: None	1: Participate/ co-fund	2. Incubate only	3: Sole fund
Policy role	0: Endorse				
	1: Catalyze 1--Encouragea	At this level, regulator applies moral suasion but takes no direct action			
	2: Catalyze 2 -Actively convene & participate	 Interac e-Transfer	• The FPS was a creation of a Payment Systems Task Force- a stakeholder group bringing together industry, retail, consumer, created and chaired by the Office of Fair Trading (OFT)		Regulator also takes direct steps, such as studies, convening or threats
	3: Mandate	Mandate could include 1 or more of: <ul style="list-style-type: none">• Required connection to central switch• Required participation in a scheme• Method and/or level of interparty fees set			
	Oversee	Typical role may be oversight, but this may not apply to non-prominent			

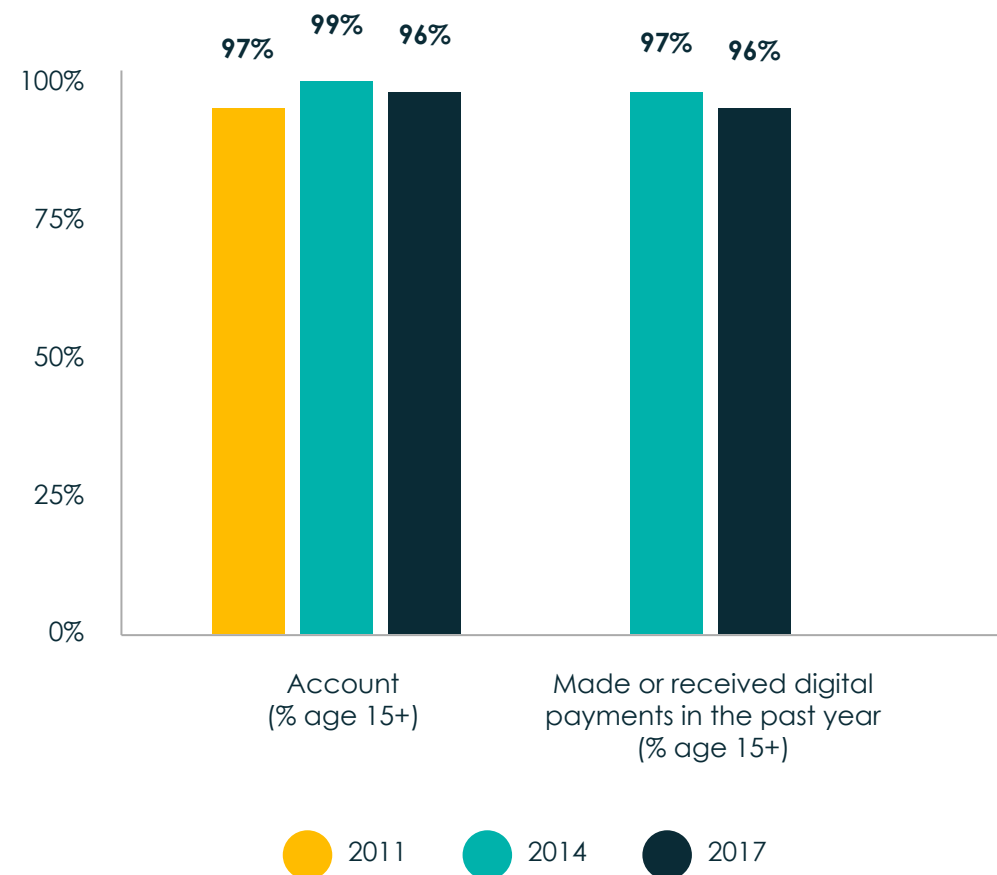
Country Interoperability summary frame

Initiated by the competition authority at the time and implemented by the industry

A2A or CICO		PUBLIC POLICY ROLE IN INCEPTION					PUBLIC ROLE IN IMPLEMENTATION			
		0. Endorse	1. Catalyze 1	2. Catalyze 2	3. Mandate	None	0. None	1. Co-fund	2. Incubate	3. Fund and own
O U T C O M E	0. Uncertain /too early									
	1. Below expectations									
	2. In line with expectations			 Real-Time Rail (RTR)				 Interac e-Transfer		
	3. Above expectations									

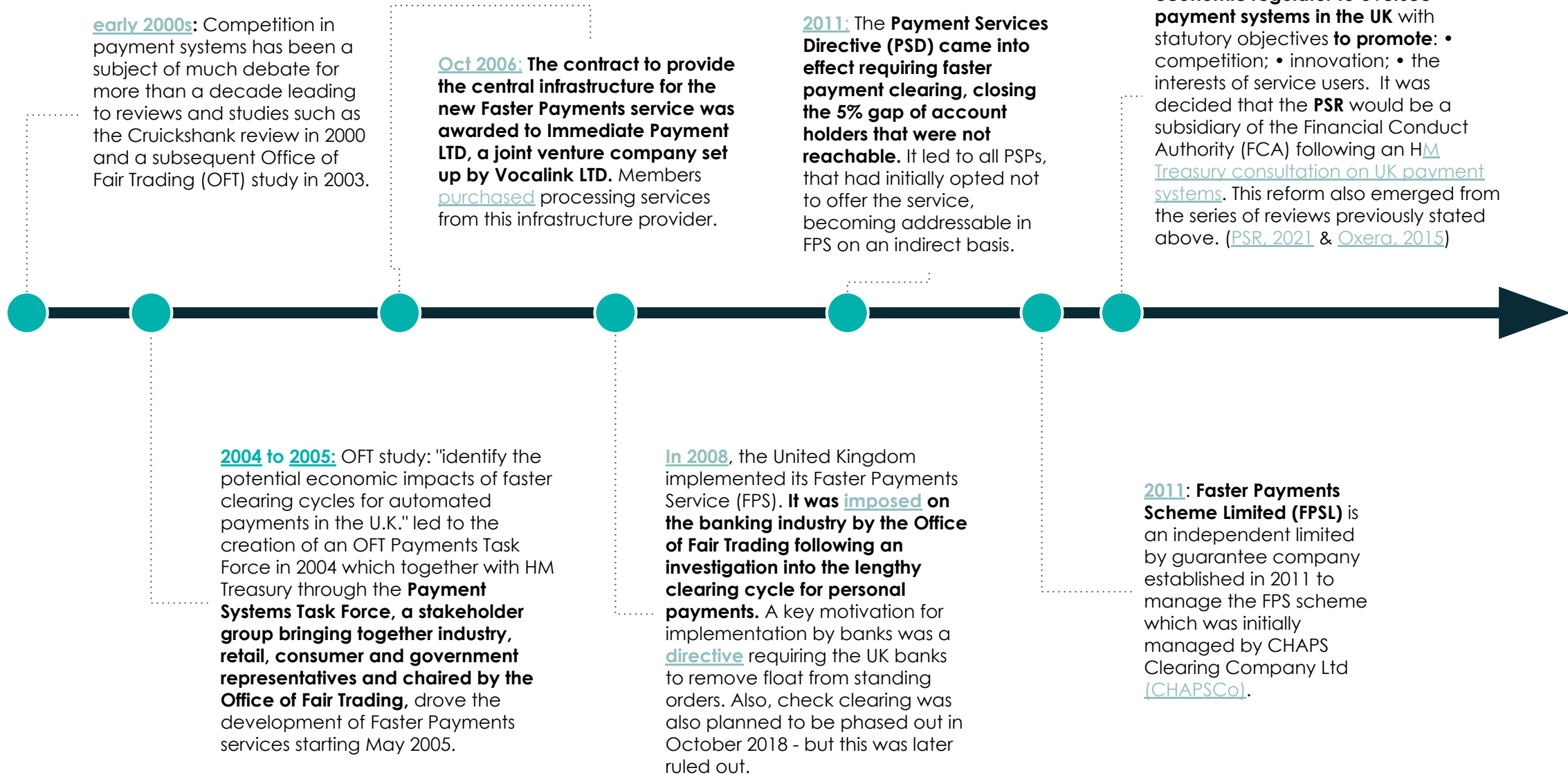
FPS, plus the operation for the life of the initial contract (seven years) is estimated at somewhere between £150 and £200 million (\$230–\$307 million), of which £40–£50 million (\$61–\$77 million) was a fixed cost paid up front by the 12 participating banks for the construction and launch ([Boston Fed, 2014](#)).

Country context

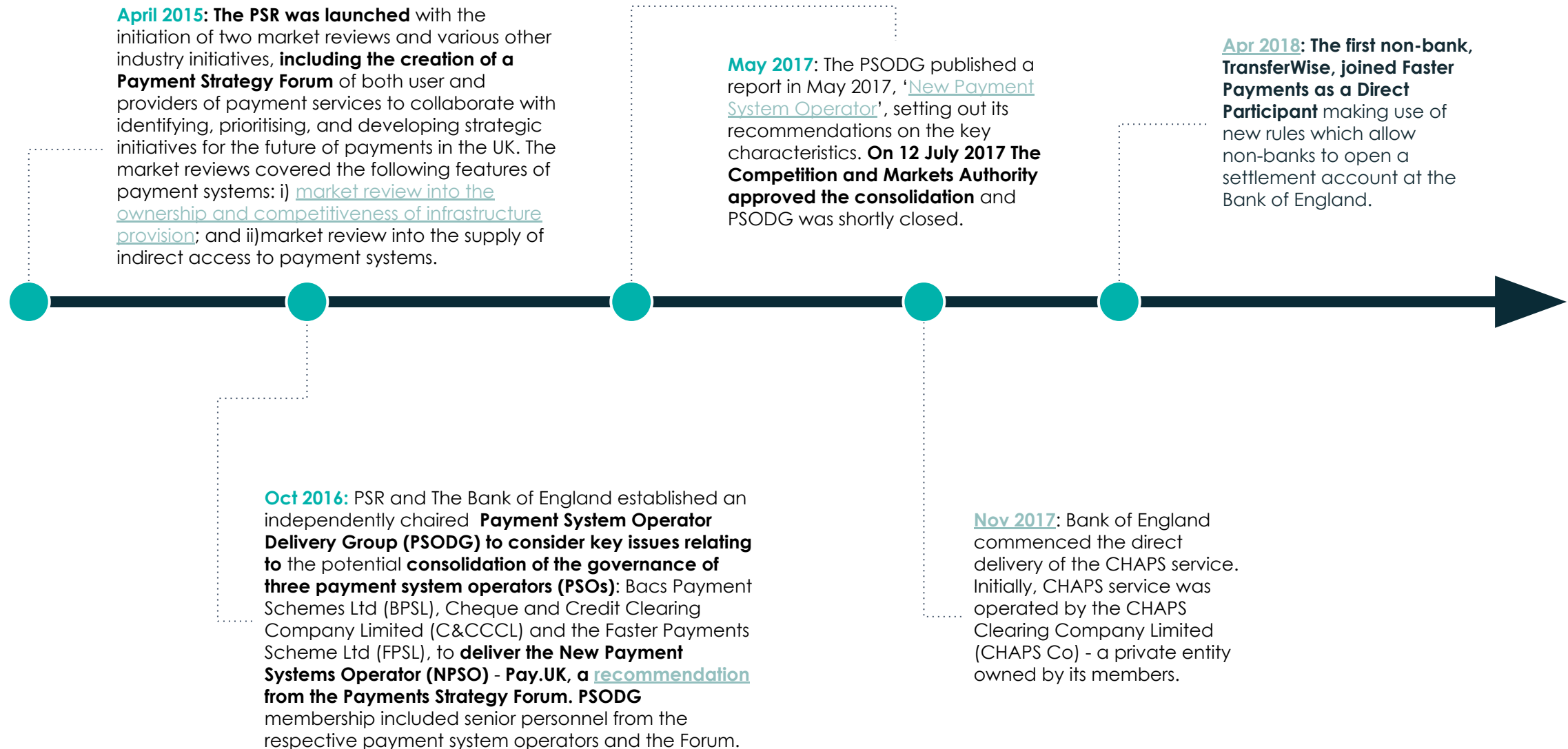


Source: FINDEX 2017

A2A country timeline



A2A country timeline



Faster Payment Service (FPS): Features and Economics

Year launched/ Activated: 2008

Objective: To overcome the lengthy clearing cycle for personal payments and spur competition

Speed of posting to accounts: A maximum of 15 seconds

Maximum value: Up to GBP 250,000 (About USD 345,000) per transaction at the discretion of bank,

Operating hours: 24/7/365

Instruments: Bank accounts and [digital wallets](#)

Channels: online, mobile and telephone banking, as well as at bank branches

Use cases: P2P, P2B, B2B, B2P, G2B and G2P

Consumer fees: Many of the institutions make it free in cases where the consumer's account has a monthly fee payment but some can charge even £10



Scheme: Governance



Scheme manager: Pay.UK Limited ('Pay.UK')

- Run the UK's retail payments operations and infrastructure.
- Pay.UK is the [authority](#) that sets rules and standards in order to facilitate payments flowing freely.
- Was incorporated in July 2018 to consolidate Bacs Payment Schemes Ltd (BPSL), Cheque and Credit Clearing Company Limited (C&CCCL) and the Faster Payments Scheme Ltd (FPSL) - which served as the former scheme manager for the Faster Payments Service



UK governance framework

- Pay.UK's board is made up of **non-executive directors of industry experts** with diverse roles in the banking, fintech, FMCG, technology, policy consulting world
- Pay.UK has [two independent advisory councils](#) that advise and challenge the board of directors; namely the **End User Advisory Council**, and the **Participant Advisory Council**.



Membership and participation

- **Membership:** Pay.UK is a Not-for-profit company limited by guarantee. As a company limited by guarantee Pay.UK has Guarantors rather than shareholders. A Guarantor becomes a member of the company once their name is entered in the register of members. The primary role of a Guarantor is to hold the Pay.UK Board to account ([Pay.UK, 2021c](#)).
- Participation in the scheme is open to any financial institution- bank and non-bank PSPs, authorised payment institution or authorised e-money institution that is able to meet the necessary technical requirements. ([fasterpayments.org.uk](#))
- **Thirty five organisations are Participants of the scheme, and over 400 other financial institutions are able to offer the service**, making Faster Payments available to more than 52 million current account holders in the UK. They range from high street banks, building societies, challenger banks and other fintechs and Payment Service Providers (PSPs) that connect either directly or indirectly to the Faster Payments Central Infrastructure. There are [a number of different ways to connect](#) depending on capability.

The former scheme manager: Faster Payments Scheme Ltd (FPSL)

- Not-for-profit company, wholly-owned and operated by Pay.UK. Before Pay.UK, FPSL was owned and operated by its members.
- **Board consisted of bank representatives** and regulator did not have a seat
- **Membership of the scheme was open to any financial institution** that was able to meet the necessary technical requirements. ([Faster Payments, 2013](#))

Scheme: Oversight & Operations

Overseer/ regulator: PSR alongside Bank of England

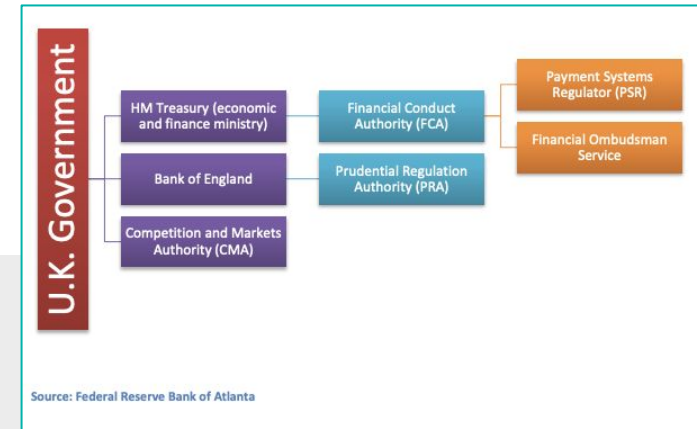
The Bank of England (BOE) is responsible for the oversight of operators/ service providers of the payment systems under the Payment Systems Act B.E. 2560 (2017) (Payment Systems Act).

Scheme operator: Pay.UK

- Direct members cover the operating costs based on volumes

Settlement: Bank of England

- The Bank of England acts as a settlement agent to enable financial institutions to make payments to each other. The Bank operates CHAPS - the UK's high value payment system which uses real-time gross settlement. Each system determines its own access criteria as well as the number and duration of any settlement cycles.



Payment Systems Regulator (PSR) of the Bank of England

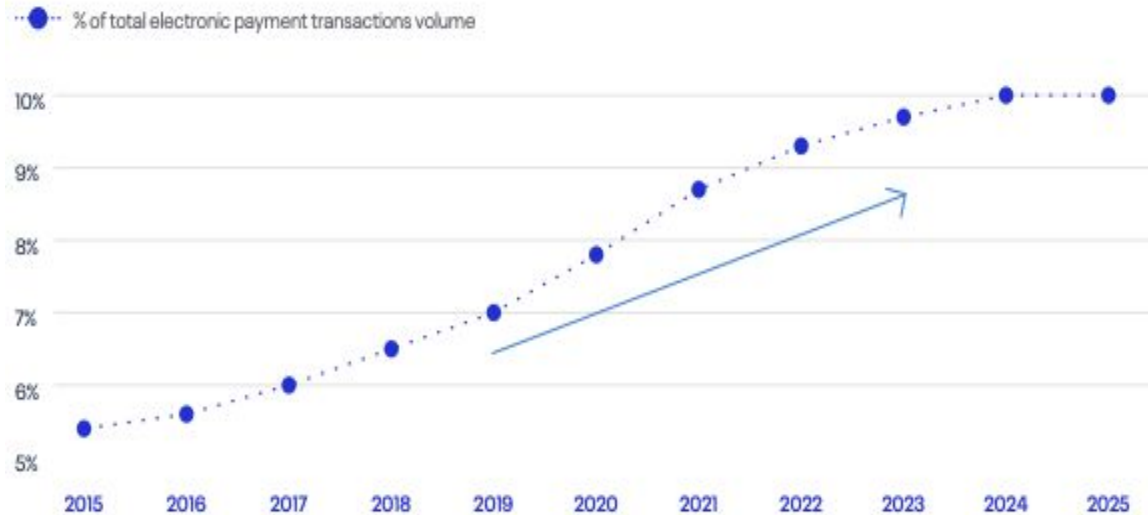
- An independent subsidiary of the Financial Conduct Authority (FCA), with its own managing director and board
- Charged with strong competition and regulatory powers. PSR is 'Competition and Markets Authority (CMA)'s concurrent regulator' when it comes to participation in payment
- Funded by the industry- regulated firms pay annual fees to cover the PSR's set-up and operating costs.
- Accountable to Parliament
- Became fully operational on 1 April 2015 as a payments system regulator
- PSR is registered as a limited company

Source: PSR Purpose & PSR Governance



Scheme: Outcomes

Real-Time Payments Volume and Its Share in Overall Non-Paper Based Transactions, 2015-25f



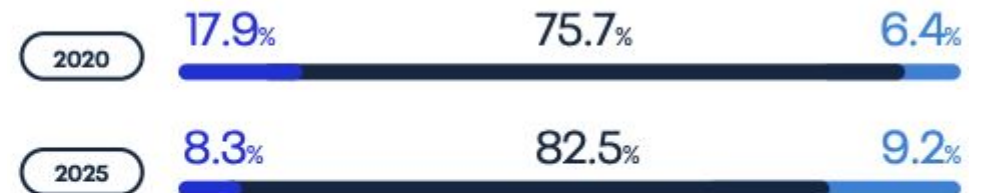
Transactions



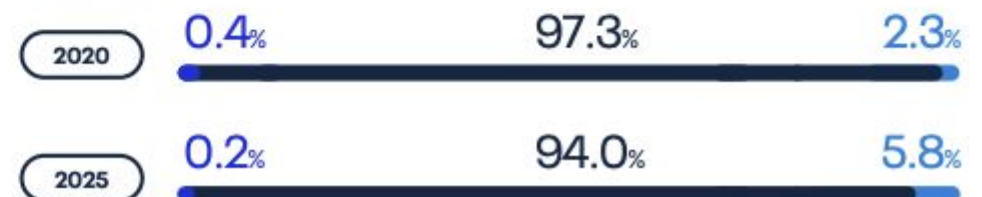
Share of Volumes by Payments Instrument

● Paper-based payments ● Electronic payments ● Real-time payments

Transactions



Spend (USD)



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www.bfaglobal.com

info@bfaglobal.com

smburu@bfaglobal



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