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GENERAL NOTICE

NOTICE 231 OF 2006



South African Reserve Bank

National Payment System Department

**DIRECTIVE FOR
CONDUCT WITHIN THE NATIONAL PAYMENT SYSTEM**

**IN RESPECT OF BANKS INVOLVED IN THE COLLECTION OF PAYMENT
INSTRUCTIONS IN THE EARLY DEBIT ORDER (EDO) PAYMENT CLEARING
HOUSES (PCHs)**

DIRECTIVE NO. 1 OF 2006

1. BACKGROUND, PURPOSE, AND POSITION OF THE RESERVE BANK

1.1 Background

1.1.1 In terms of the National Payment System (NPS) Act, 1998 (Act No. 78 of 1998 as amended – “the NPS Act”), the South African Reserve Bank (“the Reserve Bank”) is required to provide for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa; and to provide for connected matters.

1.1.2 The NPS encompasses the entire payment process from payer to beneficiary and includes settlement between banks. The process includes all the tools, systems, mechanisms, institutions, agreements, procedures, rules or laws applied or utilised to effect payment. The NPS enables the circulation of money, that is, it enables transacting parties to exchange value.

1.1.3 In terms of the NPS Act, the Reserve Bank may from time to time, after consultation with the payment system management body, issue directives to any person regarding a payment system or the application of the provisions of the NPS Act (section 12 (1)).

1.2 Purpose

1.2.1 The Reserve Bank is issuing this directive to provide for conduct of banks within the NPS involved in the collection of payment instructions in the EDO PCHs.

1.3 Position of the Reserve Bank

1.3.1 Although the Reserve Bank prefers credit transfers, it acknowledges that debit payment systems that process payment instructions to bank accounts directly after the processing of bulk salary credits, are required by users of the NPS¹, provided that risk in the NPS is controlled.

1.3.2 Payments can be made from different sources for example, money, funds such as deposits, prepaid amounts, credits accumulated from discounts

¹ In the normal course of a banking day, several payment facilities are required and available, e.g. processing of salaries (credits which are processed first and normally early in the morning), early debit collections (EDO - typically for loan collections and normally processed directly after the bulk salary credits), real-time (Automated Teller Machine (ATM) or Point of Sale (POS) type transactions) which are processed immediately upon receipt, Electronic Funds Transfer (EFT's) (which normally occur later in the day) and cheques which are processed as they are presented.

received and credit available to the payer.

- 1.3.3 In the recent past banks have allowed, for collection purposes, practices whereby certain persons' payment instructions have been granted preferential treatment over others. These preferential practices have taken place using various mechanisms including sorting-at-source and the abuse of the ATM system.
- 1.3.4 The Reserve Bank considers the above preferential practices as contrary to the efficiency, effectiveness and neutrality of the NPS. Therefore, the Reserve Bank, in conjunction with the banking industry and relevant stakeholders, has agreed on the principles for the collection of debit payment instructions in EDO PCHs².

2. DEFINITIONS

In this Directive, unless the context indicates otherwise, the words and expressions used herein shall have the same meaning assigned to them in the NPS Act and cognate expressions shall have corresponding meanings.

- 2.1 '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.

3. DIRECTIVE

3.1 Banks involved in the collection of payment instructions in the EDO PCHs are directed to:

- 3.1.1 Implement payment systems and infrastructure to facilitate the collection of payment instructions through the EDO PCHs and establish operational stability of the EDO PCH systems between 16 February 2006 and 30 June 2006; The EDO PCHs are :
- 3.1.1.1 The Authenticated Early Debit Order PCH (AEDO); and
- 3.1.1.2 The Non Authenticated Early Debit Order PCH (NAEDO).

² The original document was agreed to by the Banking Association Operation Board on 3 May 2005 indicating the agreement reached by banks and stakeholders in consultation with the Reserve Bank.

- 3.1.2 Process payment instructions of the EDO PCHs together on a random basis;
- 3.1.3 Not process transactions relating to new business concluded (e.g. loans granted, renewed or revolved) after 30 June 2006 using preferential practices;
- 3.1.4 Phase out all existing preferential practices by no later than 31 December 2007; and
- 3.1.5 Allow and enable the Payments Association of South Africa (PASA) to monitor the phasing out of existing preferential practices.

4. CONCLUSION

- 4.1 This directive is not exhaustive and may be supplemented and/or amended from time to time.
- 4.2 In order to maintain the effectiveness, efficiency and neutrality of the NPS, all banks in the NPS that are, or become involved in the PCH's indicated in 3.1.1 are obliged to act in accordance with the NPS Act and in particular, this directive issued in terms of the NPS Act (section 12 (1)).
- 4.3 This directive becomes effective immediately after the date of publication hereof.
- 4.4 Contravention of this directive is an offence in terms of section 12 of the NPS Act.
- 4.5 Persons who are uncertain as to whether their current or future business practices are aligned with this directive should initiate discussions with the National Payment System Department of the Reserve Bank to clarify the matter.

Any enquiries or clarification concerning this directive may be addressed to:

The Head: National Payment System Department
South African Reserve Bank
PO Box 427
Pretoria
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OR to the following e-mail address: npsdirectives@resbank.co.za