Common Monetary Area (CMA)

Cross-border Payments Oversight Committee (CPOC)

Position paper on the processing of cross-border low-value electronic fund transfers within the Common Monetary Area

July 2024

1. Definitions

‘Common Monetary Area (CMA)’ means the monetary union which consists of Eswatini, Lesotho, Namibia and South Africa.

‘CPOC’ means the Cross-border Payments Oversight Committee – a structure established by the central bank governors of the CMA countries to oversee and coordinate various cross-border payment initiatives and risks with a key objective of enabling a sound and effective cross-border payment exchange system.

‘Large-value payment system’ means a funds transfer system that typically handles large-value and high-priority payments.

‘Largevalue electronic funds transfer (EFT)’ means an EFT exceeding R5 million.

‘Lowvalue EFT’ means an EFT not exceeding R5 million.

‘Regularisation’ means the use of an appropriate payment system that allows payments to be executed in a manner that ensures the achievement of effectiveness and efficiency of the payment system as well as compliance with the Financial Action Task Force (FATF) Recommendations for EFTs (Recommendation 16).

‘Retail payment system’ means a funds transfer system that handles a large volume of low-value EFT payment transactions.

2. Introduction and background

2.1. The CMA CPOC is responsible for overseeing the payment systems and initiatives in the CMA region to ensure their safety, efficiency and compliance with international standards such as the FATF Recommendations.

2.2. Over the past few years, all four CMA countries processed crossborder payments within the CMA via South Africa’s domestic retail payment system, thereby offering a low-cost, effective and efficient payment service to their clients. However, these payments were treated as domestic transactions in South Africa and needed to be regularised to comply with FATF Recommendation 16 in respect of crossborder payments. FATF Recommendation 16 aims to prevent criminals from having unfettered access to EFTs for moving their funds and tries to detect such misuse when it occurs. Specifically, it aims to ensure that basic information on the originator and beneficiary of EFTs is immediately available.

2.3. The potential challenge in regularising these payments was that South Africa’s domestic retail payment system has limitations regarding carrying all the required information about the originator and beneficiary as per the FATF Recommendation 16 requirement. This implied that these crossborder payments did not comply with FATF Recommendation 16 unless changes were made to South Africa’s domestic retail payment system.

2.4. In this regard, in 2019, the four biggest South African banks and a branch of a foreign bank, in agreement with their subsidiaries in the CMA and one bank in Namibia, developed an interim solution as a control measure to comply with FATF Recommendation 16 in relation to cross-border EFTs while a long-term solution through the modernisation of payments was being developed. The interim solution involved the development of a supplementary file containing the required and accurate originator and beneficiary information.

2.5. In developing the interim solution, the Payments Association of South Africa (PASA) gave its member banks the freedom to participate in the interim solution or to opt out of processing CMA EFTs. A total of 25 out of 30 banks participating in the EFT payment clearing house at that time opted out of the interim solution, with many indicating that their participation was not commercially viable given the low transaction volumes being processed within the CMA. The interim solution was soft-launched on 23 September 2019 and fully implemented on 1 October 2019. The number of banks currently participating in the interim solution is four South African banks (including their subsidiaries in the CMA) and one bank in Namibia.

2.6. The interim solution was developed in such a way that crossborder EFTs within the CMA would be executed with the supplementary file that travels with the payment instruction to meet the requirements of FATF Recommendation 16.

2.7. After the implementation of the interim solution, South African banks raised concerns about their inability to verify/match beneficiary information for incoming EFTs from the rest of the CMA countries. This included, among other things, some banks within the CMA countries populating payment messages and/or the supplementary file in the beneficiary field with the word ‘Unknown’, using alphanumeric characters or leaving the field empty.

2.8. CPOC noted the concerns raised by banks regarding the challenges they faced in trying to comply with FATF Recommendation 16 when executing payments within the CMA using the interim solution. Following discussions between CMA regulators and banks, CPOC advised that the current interim solution should be terminated. Consequently, the South African Reserve Bank (SARB) directed banks to make the necessary arrangements with PASA for the orderly wind-down of the interim solution.

3. Problem statement

3.1. *The problem is the use of inappropriate payment systems to execute crossborder payments within the CMA region.* Following the decision to wind down the interim solution, some banks have expressed interest in executing their crossborder low-value EFTs within the CMA through a largevalue payment system. This does, however, have the potential to negatively impact on the speed and cost of cross-border payments within the CMA region. One bank has indicated that it could split the processing of its payments between the largevalue payment system and the regional realtime retail payment system for onus transactions.

4. Purpose and scope

4.1. The purpose of this position paper is to state CPOC's position on the regularisation of crossborder lowvalue EFTs within the CMA region.

4.2. The scope of this position paper only applies to the execution of CMA crossborder lowvalue EFTs denominated in the South African rand.

5. Policy objectives

5.1. *Maintain the integrity, transparency, efficiency and cost-effectiveness of crossborder payments with the CMA region.* CMA transactions executed via South Africa's domestic retail payment system offer a low-cost, effective and efficient payment service to their clients. However, it is also important that these transactions comply with FATF Recommendation 16 to mitigate the potential risks of financial crimes such as money laundering and terrorism financing. Furthermore, in regularising the execution of crossborder payments within the CMA, it is important that consumers and businesses are not negatively affected, particularly when it comes to the efficiency and cost-effectiveness that they have enjoyed over the years.

6. Position of CPOC

6.1. Banks that are utilising the current interim retail payment system should:

6.1.1. stop executing, by 31 March 2027, all crossborder lowvalue EFTs within the CMA region through the interim arrangement of routing all low-value transactions through the Southern African Development Community (SADC) real-time gross settlement (RTGS) system; and

6.1.2. execute, from 1 April 2027, all cross-border low-value EFTs within the CMA region through a retail payment system designated for crossborder EFTs, such as the Transactions Cleared on an Immediate Basis (TCIB) system which can be repurposed by banks as they may require.

7. Conclusion

7.1. Banks which are uncertain if their current or future business practices are aligned with this position, read with the Regulations issued that impact on the processing and execution of crossborder EFTs within the CMA, should initiate discussions with their respective regulators to clarify the matter.

Issued by: CMA CPOC
Date: 31 July 2024