



South African Reserve Bank

National Payment System Department

Position Paper on Interoperability

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1. Executive summary

Position papers are published by the South African Reserve Bank in order to state the Reserve Bank's position in respect of specific payment system issues. These documents normally contain approaches, procedures and policy matters, which are applicable at a particular time.

This document outlines the position of the South African Reserve Bank (the Bank) on interoperability in the national payment system (NPS). In its endeavour to reduce risk in the NPS and enhance operational effectiveness, the Bank views interoperability as an important and strategic objective. The Bank will, however, continue to evaluate its position paper as and when required by future developments.

2. Background

The NPS encompasses the entire payment process from payer to beneficiary and includes the 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 facilitates the circulation of money, that is, it enables transacting parties to exchange value.

Central banks worldwide are constantly reviewing their positions on implementing and maintaining standards to enhance security and enable interoperability within the payment system.

The principle of interoperability was entrenched in the Vision and Strategy¹ document agreed to between the Bank and the commercial banks in 1995 (the Blue Book). Furthermore, in the Vision 2010² document, one of the main strategic objectives is to “enhance and maintain the interoperability and operational effectiveness of the payment system”.

¹ South African National Payment System Framework and Strategy, November 1995.

² The National Payment System Framework and Strategy, Vision 2010, 2006.

3. Definition of Interoperability

In the Vision 2010 document, interoperability is defined as the ease of interlinking different systems on a business and a technology level.

A more detailed description of interoperability on a technology level is the ability of different types of computers, networks, operating systems, applications and other infrastructure of different banks and relevant stakeholders to interlink and work in partnership effectively, without interruption, explicit communication or translation prior to each event, in order to enhance the efficiency of the payment system.

Interoperable systems lead to the development of large network externalities, which, in the longer term, reduce the operational cost and complexity for all customers.

In this context, the Vision 2010 clearly states the vision, strategies, fundamental principles and critical success factors regarding standards.

4. The role of the Bank

As overseer, the role of the Bank is to promote the safety and efficiency of the payment system. The Bank takes cognisance of new developments and their impact on the integrity of the NPS and, as far as possible, strives towards minimising payment system-related risks for all participants.

In terms of overseeing the payment system, the Bank always acts in the interest of the system as a whole and not that of any individual stakeholder.

Although payment technologies are developing at a significant pace, the Bank is cautious not to stifle development and has always maintained a position that regulation will follow innovation.

5. The position of the Bank

The Bank will strive to ensure that the principle of interoperability is sought and maintained wherever feasible within the spheres of the payment system.

The Bank will not support separate and independent “closed systems” to develop over the long term, as this will lead to payment system inefficiencies.

In considering the merits of any payment system, the Bank will favour systems that embrace the following:

- That preference is given to generally accepted international standards as opposed to proprietary standards;
- The system conforms to uniform and open standards as these standards lay the foundation for interoperability between payment products and systems; and
- Co-operation exists between payment system stakeholders in the above regard.

However, the Bank recognises the importance of innovation in the payment system arena and that an over-emphasis of the principle of interoperability could lead to less payment system innovation over the longer term. Therefore, where feasible, a balance should be maintained between interoperability and innovation.

Should more than one settlement system participant introduce a similar new product or methodology, or should the product or methodology reach an expansionary stage, consideration should be given to the establishment of a Payment Clearing House (PCH) by the Payment System Management Body (PASA) to ensure interoperability and appropriate rules for clearing and settlement of the transactions between these banks.

6. Conclusion

The Bank may, from time to time, issue explanatory notes regarding this paper to clarify its position on specific payment-related matters. These explanatory notes should be read in conjunction with this paper.

Any enquiries or clarification concerning this position paper may be addressed to the following e-mail address: npsdirectives@resbank.co.za.