



SOUTH AFRICAN RESERVE BANK

National Payment System Department

Draft for consultation

Guidance Note:

Directive for conduct within the national
payment system in respect of domestic
card transactions

Directive No. 1 of 2020

Guidance Note: NPS 01/2023

Date: ...

1. Background and introduction

- 1.1 In terms of section 10(1)(c) of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), the South African Reserve Bank (SARB) is required to perform such functions, implement such rules and procedures, and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems. Furthermore, the National Payment System Act 78 of 1998 (NPS Act) provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa, and for connected matters.
- 1.2 The national payment system (NPS) encompasses the entire payment process, from payer to beneficiary, and includes settlement between banks. The process includes all the tools, systems, instruments, mechanisms, institutions, agreements, procedures, rules or laws applied or utilised to effect payment. The NPS is a primary component of the country's monetary and financial system as it enables the circulation of money, assisting transacting parties to make payments and exchange value.
- 1.3 In February 2020, the SARB gazetted the 'Directive for conduct within the national payment system in respect of domestic card transactions – Directive No. 1 of 2020' (Directive), which was to become effective six months after the date of gazetting/publication. In September 2020, the effective date of the Directive was extended with a further six months to provide relief for entities trying to comply with the Directive due to the impact of the coronavirus disease 2019 (COVID-19) outbreak. As a result, the effective date of the Directive was made 21 February 2021. The Directive addressed card issuing and the acquiring of domestic card transactions.
- 1.4 Following the publication of the Directive, various entities have approached the SARB seeking guidance on the scope and applicability of the Directive to ensure compliance with the Directive – hence the issuance of this guidance note.

- 1.5 This guidance note has been developed on a principle-based approach, taking into account both current and future non-exhaustive use cases to which the Directive is applicable.
- 1.6 This guidance note should be read in conjunction with the Directive.

2. Definitions

- 2.1 In this guidance note, unless the context indicates otherwise, the words and expressions used shall have the same meaning as is assigned to them in the NPS Act and Directive, and similar expressions shall have corresponding meanings.
- 2.2 'Domestic airline' or 'domestic cruise liner/ship' means an airline or a cruise liner/ship which is located and registered in South Africa and which provides domestic and/or international flights or cruise services to a South African cardholder.
- 2.3 'International airline' or 'international cruise liner/ship' means an airline or a cruise liner/ship which is located and registered offshore and which provides domestic and/or international flights or cruise services to a South African cardholder.
- 2.4 'Local merchant' means a merchant that is located and registered in South Africa and that provides goods and/or services to a South African cardholder.
- 2.5 'Offshore issuing entity' means an entity which is located and registered offshore and which provides cards to a South African cardholder in order to purchase goods and/or services.
- 2.6 'Offshore merchant' means a merchant that is located and registered offshore and that provides goods and/or services to a South African cardholder.

3. Guidance on the definition, scope and application

- 3.1 **Guidance 1 (definition of ‘cardholder’):** Reference to a card in the Directive means a South Africa(n) (SA)-issued card. The definition of ‘cardholder’ should therefore be read and interpreted as a person or entity that enters into an agreement with a card issuer in order to obtain and use a SA-issued card to effect a payment, withdraw cash or transfer funds.
- 3.2 **Guidance 2 (SA-issued card):** The Directive applies to cards issued to cardholders in SA, regardless of whether the card is used when the cardholder is within SA borders or outside of SA borders. This guidance should be read with the exemptions in paragraph 4 of this guidance note.
- 3.3 **Guidance 3 (offshore merchants – acquiring):**
- 3.3.1 In cases where an offshore merchant provides/offers goods (products) or services (including cash withdrawals) in SA to a holder of a card issued in SA (i.e. the cardholder), the cardholder uses a SA-issued card to pay for such goods or services, and the goods or services are provided/delivered *physically* by the offshore merchant within SA, directly or through a partnership/an outsourcing agreement/an agent arrangement, the transaction is deemed to be a domestic card transaction.
- 3.3.2 In cases where an international airline or cruise liner/ship offers a domestic service within SA, such as when a flight or cruise departs from Durban and arrives in Cape Town, and the SA cardholder effects a card payment for a domestic service provided by an international airline or cruise liner/ship, the transaction is deemed to be a domestic card transaction.
- 3.3.3 The offshore merchant, international airline or international cruise liner/ship must therefore enter into an agreement with a SA card acquirer to accept card payments, when properly presented, for the purchase of goods and services (including cash withdrawals), which will result in a transfer of funds in favour of

the offshore merchant, international airline or international cruise liner/ship. Essentially, the card transactions must be *acquired* by a SA card acquirer.

3.3.4 Use-case examples

Type of goods/services in SA	Merchant type	Who issued the card?	Who is issued a card?	Who must acquire the transactions?	How are goods/services delivered in SA?	How is the transaction classified?
E-hailing	Offshore merchant	SA card issuer	SA cardholder	SA card acquirer	Physical	Domestic
Accommodation	Offshore merchant	SA card issuer	SA cardholder	SA card acquirer	Physical	Domestic
Flights	International airline	SA card issuer	SA cardholder	SA card acquirer	Physical	Domestic

3.4 Guidance 4 (domestic card issuing by offshore issuing entities):

3.4.1 In cases where an offshore issuing entity issues cards (including closed-loop cards) to cardholders in SA to pay for goods or services (including cash withdrawals), the cards are deemed to be SA-issued cards.

3.4.2 The offshore issuing entity must enter into an agreement with a SA card issuer for the issuance of the cards in SA or must be authorised to become a SA card issuer. Essentially, the cards must be *issued* by a SA card issuer.

3.4.3 Use-case examples

Type of goods/services in SA	Who is issued a card?	Who must issue the card?	How is the card classified?
The provision of travel cards to book accommodation and flights	SA cardholder	SA card issuer	SA card

3.5 Guidance 5 (local merchant – acquiring):

3.5.1 In cases where a local merchant provides goods (products) or services to a cardholder, the cardholder uses a SA-issued card to pay for these goods and

services, and the goods/services are delivered *physically or digitally* in SA, the payment for such goods and services using the SA-issued card is deemed to be a domestic card transaction.

3.5.2 In cases where a domestic airline or domestic cruise liner/ship offers a domestic service within SA, such as when a flight or cruise departs from Durban and arrives in Cape Town, and the SA cardholder effects a card payment for a domestic service provided by a domestic airline or domestic cruise liner/ship, the transaction is deemed to be a domestic card transaction.

3.5.3 The local merchant, domestic airline or domestic cruise liner/ship must therefore enter into an agreement with a SA card acquirer to accept card payments for the purchase of goods and services (including cash withdrawals), which will result in a transfer of funds in favour of the local merchant, domestic airline or domestic cruise liner/ship. Essentially, the card transactions must be *acquired* by a SA card acquirer.

3.5.4 This addresses local merchants who may attempt to bypass SA laws by establishing online platforms for SA cardholders to purchase goods or services, resulting in the processing of such transactions as international transactions through an offshore acquirer.

3.6 **Guidance 6 (business continuity planning and disaster recovery):** In the event of business continuity planning (BCP) or disaster recovery (DR), the issuance of cards by offshore issuing entities must occur through a SA card issuer and an offshore merchant acquiring card transactions must occur through a SA card acquirer. The offshore issuing of domestic cards and offshore acquiring of domestic transactions are not permitted for the purposes of BCP or DR.

3.7 **Guidance 8 (participant consumer awareness):** In cases where a cardholder uses a SA-issued card to pay for the goods or services offered/procured offshore, the goods/services are priced in the SA rand and delivered physically from outside of SA (offshore) or digitally, card issuers must educate consumers

that although the pricing of such goods and services provided by offshore merchants may be in the rand, the transaction is deemed to be an international transaction. Further, if the card issuer charges the consumer an additional fee when purchasing goods/services from an offshore merchant, the fee should be disclosed.

4. Exemptions

4.1 Guidance 9 (international transaction exemptions): In cases where offshore merchants provide goods or service to a cardholder, the cardholder uses a SA-issued card to pay for the goods and services offered/procured offshore, and the goods are delivered physically outside of SA (offshore) or digitally, the transaction is deemed to be an international transaction, notwithstanding that some of the goods may be produced in SA. This relates to instances where offshore merchants provide both international and SA-produced goods or services which are procured offshore and delivered offshore or digitally in SA. For example, streaming services entail the provision of internationally and SA-produced movies or the selling of international and SA products. Such international transactions are excluded from the scope and application of this Directive.

4.2 Use-case examples

Type of goods/services in SA	Merchant type	Who issued the card?	Who is issued a card?	Who acquires the transactions?	How are goods/services delivered in SA?	How is the transaction classified?
A movies or music streaming service	Offshore merchant	SA card issuer	SA cardholder	Offshore acquirer	Digital	International
Large online merchant	Offshore merchant	SA card issuer	SA cardholder	Offshore acquirer	Physical outside of SA, digital or shipped to SA	International
Online clothing merchant	Offshore merchant	SA card issuer	SA cardholder	Offshore acquirer	Shipped to SA	International

4.3 Guidance 10 (international transactions – airlines and cruise liners/ships exemptions): In instances where an airline or cruise liner/ship offers an international service, such as when the flight or cruise departs from SA (including connecting flights/cruises) for arrival outside of the borders of SA, and the SA cardholder uses a SA-issued card to effect a card payment for this service, the transaction is deemed to be an international card transaction. The transaction may be acquired locally (e.g. a domestic airline offering international flights from SA) or internationally (e.g. an international airline offering international flights from SA). These international transactions are excluded from the scope and application of this Directive.

4.4 International airlines and cruise liners/ships use-case examples

Type of goods/services in SA	Merchant type	Who issued the card?	Who is issued a card?	Who acquires the transactions?	How are goods/services delivered in SA?	How is the transaction classified?
Flights to destinations outside of SA	Offshore airline	SA card issuer	SA cardholder	Offshore acquirer	Physical	International
Cruises to destinations outside of SA	Offshore cruise liner/ship	SA card issuer	SA cardholder	Offshore acquirer	Physical	International

5. Conclusion

- 5.1 This guidance note commences on the date of publication and remains effective until it is revised, amended or repealed.
- 5.2 The SARB may, from time to time, review this guidance note to further clarify matters related to the Directive. Any enquiries or clarification sought concerning this guidance note may be addressed to npsdirectives@resbank.co.za.

6. Comments and contact details

- 6.1 Stakeholders and other interested parties are invited to submit their comments on the guidance note by 17 February 2023. Comments should be addressed to npsdirectives@resbank.co.za.