



**The acceleration of
new players in the South African
payments ecosystem**

3 November 2022

Disruption in the payments landscape

Payments is a large and fast-growing industry, contributing significantly towards bank's revenues. However, three key trends are currently disrupting the payments landscape and reducing entry barriers for new, non-bank competitors.

1. Regulations:

In the regulatory space, especially the revised National Payment System (NPS) Act will impact how the market operates and create the potential for increased non-bank competition.



Regulatory Intervention

- **Regulations:** Bank Act, NPS Act, Directives, PCH Agreements, etc.
- **Regulators:** SARB, FSCA, PASA (PIB), etc.
- **The weight of compliance**



2. Changing customer preferences:

Customers are willing to experiment with new payment methods, especially for low-value transactions.



Customer Preferences

- **Instant / real-time gratification**
- **Personalised**
- **Mobile**
- **Protected**



3. Technology enabled innovation: Rapid growth of new forms of contactless and immediate payments.



Technology Enabled Innovation

- **Contactless cards**
- **Online payments**
- **Blockchain**
- **Mobile payments**
- **Increased data value**
- **Wearables**






Increased Non-bank Competition

- **Big Tech**
- **Pay Tech**
- **Fin Tech**
- **Merchants**
- **Mobile Network Operators**
- **Insurance Companies**

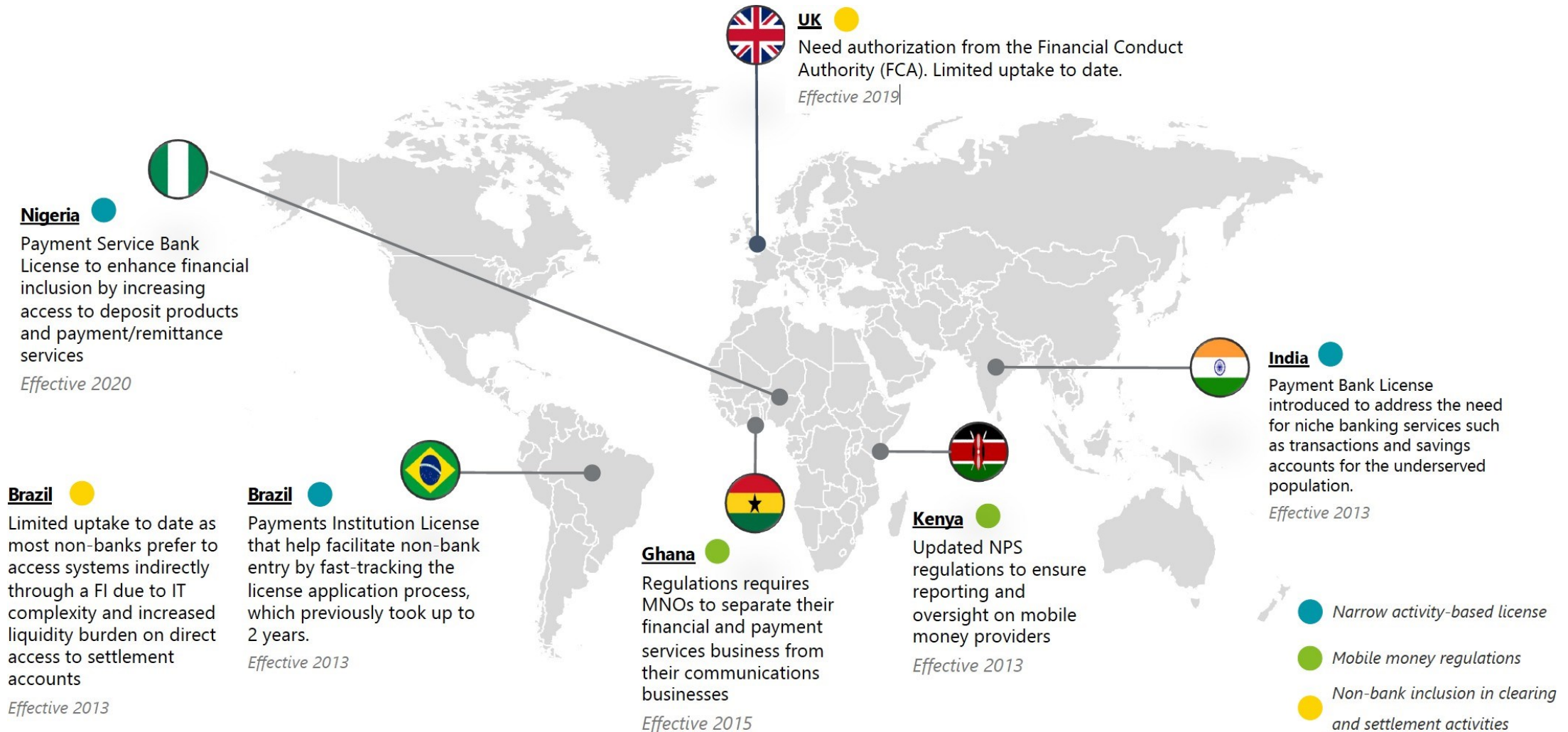
Unpacking recommendation 13

Recommendation 13 focusses on three key areas namely the development of narrow activity-based licenses, changes in mobile money regulation and non-bank inclusion in clearing and settlement activities

	Before recommendation 13	After recommendation 13
 <p>Narrow activity-based licenses</p>	<ul style="list-style-type: none"> • Entity-based rather than activity-based licensing approach • For example, retailers and MTOs providing remittance services require a bank partnership • Require authorisation from the PA 	<ul style="list-style-type: none"> • Activity-based rather than entity based licensing approach • Same rules apply irrespective of whether the participant is a bank or non-bank • For example, retailers and MTOs could provide remittance services without a bank partnership
 <p>Changes in mobile money regulation</p>	<ul style="list-style-type: none"> • The Banks Act prohibits deposit taking by non-banks • Mobile money involve the pooling of funds • A non-bank is required to partner with a bank to issue mobile money in South Africa. 	<ul style="list-style-type: none"> • Update the definition of the business of a bank in the Banks Act regarding the pooling of funds • For example, MNOs could provide mobile money services without a bank partnership
 <p>Non-bank inclusion in clearing and settlement activities</p>	<ul style="list-style-type: none"> • Clearing participants may be banks or designated clearing system participants • Settlement is restricted to registered banks who hold settlement accounts with the SARB 	<ul style="list-style-type: none"> • Any entity would be allowed to provide clearing services, provided they make the necessary arrangements for their settlement obligations • Any entity would be allowed to settle in the SARB settlement system, provided they apply to requirements

Similar global developments

A number of regulators globally have followed a similar approach with various levels of access



What would this mean for key role players?

Possible implications for regulators, banks and non-banks once the legislation becomes effective



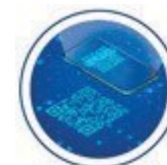
Regulators

- The SARB will need to take an activity-based view, ensuring that the same rules apply to similar payment activities and services, irrespective of whether the participant is a bank or non-bank
- The SARB may need to develop appropriate regulatory frameworks to cater to new participants who require regulation and supervision
- The SARB should clearly define mobile money and develop appropriate mobile money legislative and regulatory frameworks
- The SARB should develop appropriate risk frameworks for non-bank participation in clearing and settlement
- The SARB may need to provide additional capacity and skills to handle influx of non-bank participants



Banks

- Banks may face increased competition due to new market entrants which may impact revenue and customer base
- Banks may need to review their strategy and current partnership models as non-banks will no longer require a bank partner to offer certain payment services
- Banks may need to create mobile money products aimed to compete with MNOs
- Non-banks may introduce settlement risk that impacts banks



Non-banks

- Non-banks may have increased opportunities to provide e-money and remittance services, among others, which may lead to increased revenue and a growing customer base
- Non-banks may require increased operational capacity to address new complexity brought by new regulatory requirements
- Non-banks may need to review their strategy and current partnership models as they will no longer require a bank partner to offer certain payment services
- Non-banks will need to review their strategy and determine whether they will benefit from direct access to clearing and settlement services.
- Non-banks may need additional capital reserves to float mobile money



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