

CONSIDERATIONS FOR MODERNISING SOUTH AFRICA'S LOW VALUE PAYMENTS INFRASTRUCTURE

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AUTHORS & SPONSORS

This report was commissioned by the **Payments Association of South Africa** and **BankservAfrica**.
The project was completed as a partnership between **Lipis Advisors** and **IQbusiness**

Authors:

Leo Lipis, Lipis Advisors
Colin Adams, Lipis Advisors
Natalie Matthews, IQbusiness
Sabrina Small, Lipis Advisors
Monica Trichardt, IQbusiness
Sue von Oppell, IQbusiness



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RESEARCH TO SUPPORT LOW VALUE PAYMENTS INFRASTRUCTURE MODERNISATION

> INTRODUCTION

This document is the final artefact in a major research effort on payment system modernisation sponsored by BankservAfrica and PASA. The research is divided into two parts:

- **Phase 1A** compares the goals, drivers, features, and processes of low value payments infrastructure (LVPI) modernisation across ten countries, including South Africa.
- **Phase 1B** provides a substantiated view of the future consumer and user demands on South Africa's LVPI, including anticipated demographic changes and pressures in South Africa, and the impact of these changes on consumer and user needs.

Phases 1A and 1B relied on extensive primary and secondary research in all ten countries in scope, including over 45 interviews with key stakeholders in South Africa.

This document takes the international lessons from Phase 1A and the view of the needs of South Africans and synthesises them to help identify best practices and possibilities for the future of payments in South Africa. Concrete recommendations for the South African market are not in scope.

The documentation and detailed results from 1A and 1B are available on request from BankservAfrica or PASA.

> METHODOLOGY

International comparison

The international comparison of phase 1A relied on four methodological building blocks:

- Lipis Advisors' proprietary Global Payment Systems Database
- Approximately 20 executive interviews with payment system operators and rule-makers in 10 countries
- Lipis Advisors, proprietary Payment Systems Scorecard
- Incorporation of elements from the South African context research (Phase 1B)

South Africa: Future state, demands and pressures

The research into the demands, pressures, and future needs of South African payment stakeholders relied on two key elements:

- Primary research included in-depth interviews with 45 industry stakeholders from a range of actors in the payments industry, including banks, system operators, users, and associations. We also commissioned economic scenarios to judge the impact of growth on payments.
- Secondary research included a review of existing literature and public sources, including the World Bank, StatsSA, South African Reserve Bank (SARB), United Nations (UN), and the World Economic Forum (WEF).

GLOBAL TRENDS IN PAYMENTS MODERNISATION

Phase 1A focuses on modernisation goals, process, and functionality in ten markets

> INTERNATIONAL COMPARISON OF LVPI MODERNISATION

Phase 1A analyses and compares modernisation projects in 10 geographies, including South Africa. The document is broken into 4 key sections:

Comparative data

This section gauges how South Africa compares to other countries on a macroeconomic level and in relation to payment habits.

Goals of modernisation

This section deals with key objectives, types of goals, and the means of accomplishing those goals:

- Modernisation goals were analysed in detailed case studies across the countries in scope.
- Feature based changes were viewed in accordance with regulatory or technical trends, and specific goals associated with regulatory and feature based changes.

Functional comparison

The section culminates with a functional comparison of systems in scope to shed light on how systems evolve, including an analysis of centralisation and decentralisation of payment system functionality.

Process of modernisation

This section focuses on the modernisation process, which is defined by goal setting, consultation, and process management. Best practices for managing modernisation projects are also discussed.

> KEY INSIGHTS FOR SOUTH AFRICA

Goals

The goals of modernisation must be clear from the outset. These vary according to the needs in the local market:

- Goals with a strong technical connection to the payments system, such as reducing settlement risk or increasing consumer protection, are relatively easy to achieve. Goals with a weaker connection to payments infrastructure, such as increasing financial inclusion, require multiple interventions over longer periods of time. Even, then results are not guaranteed.
- More complicated goals require more complicated interventions, with multiple levers and a coordinated approach among industry, government, and associations. Public policy goals, such promoting competition and innovation, generally fall into this category.

Functional improvements

A range of core design features can serve policy and business goals of the payment system, including settlement, posting, access methods, data standards, mobile payments, and value-added services such as proxy databases, debit order mandate management, and others.

Process

Factors that are present in successful modernisation initiatives around the world include:

- Inclusive representation
- Proper level of seniority in governance bodies
- Empowered decision-makers

While successful governance can take many forms, unsuccessful governance is likely to not include one or more of the features above.

THE 3 PILLARS OF THE MODERNISATION PROCESS

Identifying goals, levers, features and how they interact in payment systems



GOALS

> GOALS

Goals are the overarching purpose or objective that will be reached by implementing changes and processes. Modernisation goals are driven by policy measures.

Goals tend to be broader than levers or features and represent a larger purpose or ambition toward which an endeavour is directed. For example, financial inclusion is a key goal of South Africa's modernisation efforts. The goal of financial inclusion requires addressing complicated economic, social and political issues, ranging from increasing employment to educating people about the financial systems available to them. Similarly, the means to reach this goal are complex and necessitate a variety of levers and features.

Although goals are ideally long-term in nature, some payment communities articulate medium or even short-term goals. Some goals aim to address specific issues in society or in the financial system, such as settlement risk management. Others, like increasing flexibility and adaptability, are intermediate in nature and serve greater goals such as responding to customer demands. In certain contexts, some goals act as levers for other goals.

LEVERS

> LEVERS

Levers are initiatives to augment or amend a payment system. Levers, like the goals they serve, can be policy- or commercially-based as well as broad or narrow.

Depending on the context, the same lever can serve both policy and commercial goals. For example, the introduction of a real-time pull payment serves various commercial goals, including: improving efficiency, reducing cost, fraud reduction, and responding to consumer demands. It also serves the following policy goals: promoting financial inclusion and competition and innovation. Unlike features, which are narrowed down to a specific result, levers tend to be numerous in their deployment and often work together to promote change. It takes many levers to reach a goal and their effectiveness is not always easy to measure.

FEATURES

> FEATURES

For example, if ISO 20022 is the lever, then increased remittance data is one of the features that results from it. Similarly, if the goal and implementation of a real-time payment system is one lever that is being pulled, then immediate P2P is one of the resulting features.

CLEAR GOALS DRIVE MODERNISATION PROJECTS

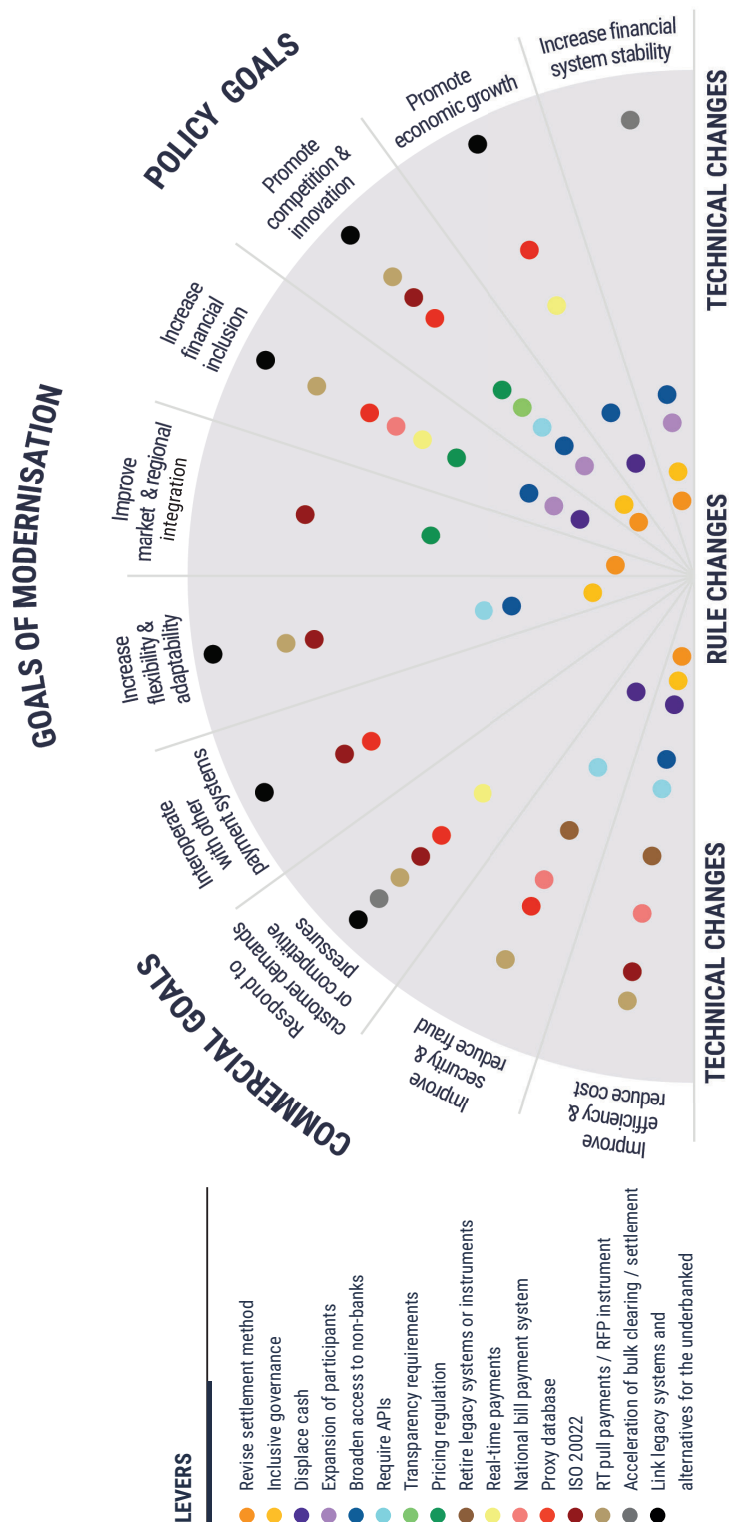
10 modernisation goals were identified, along with 16 levers and a variety of features

> The three pillars of payments modernisation are goals, levers and features. Goals are the overarching purpose or objective that will be reached by implementing changes and processes. Levers are a technical (or rule-based) addition or amendment to a payment system. Features are the attributes of the payment system that result from one or more levers.

Goals are the most crucial of the pillars because they help stakeholders remain focused on the payment system they want rather than the one they have.

The fan graphic categorises the levers of modernisation in the countries in scope across all goals. The goals are arranged based on whether they are chiefly policy driven or commercial in nature. Changes closer to the centre are chiefly rule-based while those closer to the periphery are chiefly technical changes.

- Policy goals, such as financial inclusion, economic growth, and market integration generally require multiple levers to be introduced.
- Technical goals such as responding to consumer demands and competitive pressures, improving efficiency, and reducing cost typically entail a more narrow response.
- The range of goals that define payments modernisation are always a mix of broader policy goals and narrower commercial goals.
- Deciding when a goal is reached is difficult because the potential levers to implement are constantly evolving as new technology and innovation become available.



CLEAR PROCESS MANAGEMENT BREEDS SUCCESS

Successful modernisation processes are defined by goal setting, consultation and clear management

> GOAL SETTING AND THE ROLE OF REGULATION

Clearly articulating the goals of payment system modernisation must take place at the outset of the project to ensure success. Clear goals are vital for guiding the process of change, the technical implementation of new systems or features, and any new laws or regulations needed. Goal setting is multifaceted and requires clear leadership. In the majority of systems studied, goals are set by the central bank. However, some markets feature other government entities or payments associations play a leading role in developing goals.

Steering committees and working groups are key elements in the process of modernisation. To reach the goals of modernisation, inclusive consultative processes ensure that relevant stakeholders are heard and the needs of system participants and users are determined. Industry stakeholders respond to a strategy document—typically a payment system vision document—and work collaboratively to create a more detailed plan for implementation and a roadmap to actually meet the goals.

Regulation is almost always necessary, to some degree, in order to move a modernisation process forward. Only 2 of the 10 countries in scope are pursuing payments modernisation with no regulatory mandate. South Africa is firmly in the mainstream with past modernisation projects pursued as a result of regulation.

The degree to which regulators collaborate with other industry stakeholders varies from country to country and initiatives are never entirely led by regulation. Regulators can set the goals and even timelines of modernisation, but must rely on industry players to determine technical specifications, and effects on business processes to ensure timely and effective modernisation.

> PROCESS MANAGEMENT AND BEST PRACTICES

Assessing whether or not a modernisation program was successful from a governance perspective is difficult. Most of the metrics used to define “success” are self-imposed, and it can be hard to pinpoint the effect that governance itself has had on the success of a modernisation programme separate from other aspects such as access, commercial incentives, etc.

Nevertheless, it is possible to outline factors that are present in well-managed successful modernisation initiatives around the world:

Inclusive representation: The inclusion of smaller financial institutions and new players such as fintechs is often seen as vital in meeting the needs of modern users. Bringing these perspectives into industry consultations and implementation meetings is therefore necessary.

Proper level of seniority in governance bodies: Having the proper level of seniority in industry consultations and roadmap discussions ensures that industry representatives have a holistic view of business processes and allows for quicker decision making.

Empowered decision makers: Reaching full consensus across diverse participants is often impossible, and the body governing the modernisation process must be empowered to make decisions to avoid inertia and maintain clarity of purpose.

While successful governance can take many forms, unsuccessful governance is likely to not include one or more of the features above.

DEVELOPING A DETAILED VIEW OF SA PAYMENTS

Phase 1B focuses on needs, demands, and the future state of South African payments

> REVIEW OF FUTURE STATE, NEEDS AND DEMANDS

Phase 1B focuses on describing the future state, needs, and demands of the LVPI. The document comprises three sections:

The context of the LVPI in SA

This section describes the current macroeconomic context as well as the country's desired future state: "the economy that South Africans want." It describes the role of the National Payment System as one of the many elements that are required to achieve inclusive growth and stability in South Africa.

Proposed goals of modernisation

Nine needs, expressed as goals, that were proposed by South African stakeholders for the LVPI:

- Each goal is described along with its drivers and benefits
- The insights provided by the interviewees are summarised along with possible levers that may be employed to achieve the goal:
 - Levers suggested by the interviewees
 - Levers suggested by the interviewees, which have also been implemented internationally
 - Levers applied internationally
 - Any additional levers suggested by the authors
- The barriers to the implementation of each goal are recorded, the interaction of each goal on the other proposed goals are highlighted (some are enabled by or enable other goals), and commentary is provided.

Approach for modernisation

The final section focuses on the modernisation approach that was suggested by the interviewees.

> KEY INSIGHTS

Context of modernisation

- The NPS is one of many actors which has a role to play in creating the economy that South Africans want.
- Regardless of which of the three economic scenarios is realised, the requirements of the LVPI are the same: it must be inclusive, flexible, and scalable; and it needs to serve all South Africans.

Proposed goals of modernisation

Nine needs, expressed as goals, were articulated by the interviewees:

- Promote competition and innovation
- Respond to consumer demands and competitive pressures
- Interoperate with other payment systems
- Increase financial inclusion
- Increase flexibility and adaptability
- Improved security and fraud reduction
- Improve market and regional integration
- Improve efficiency and reduce cost
- Promote economic growth

Modernisation approach

- The purpose of modernisation must be clear from the outset.
- The process of modernisation needs to be inclusive and collaborative.
- The regulator should play a stronger role in facilitating industry discussions to ensure that progress is not stalled and to ensure that the payment system serves all South Africans adequately.

INDUSTRY MUST EMBRACE NEED FOR CHANGE

➤ CURRENT SITUATION

South Africa remains one of the most unequal societies in the world. Macroeconomic indicators paint a bleak picture: Emerging from a technical recession and downgraded by international rating agencies, increasing unemployment at 27.7%, and poverty; SARB has lowered the growth expectation for 2017 to 0.5%

The South African government has stated its ambitions through the National Development Plan 2030 (NDP), which lays out specific goals for the South African economy to reach by 2030. Key goals include:

- Increase GDP by 270% (avg. annual GDP growth of 5.4%).
- Increase GDP per capita to R110,000 per person (from approx. R50,000 per person in 2010).
- Steady reduction in the unemployment rate to 14% in 2020, with the ultimate goal of 6% by 2030. This requires the addition of 11 million jobs and a rise in total employment from 13 million to 24 million.
- Reducing income inequality to a Gini coefficient of 0.6 (from 0.7).
- Reduce population living below lower-bound poverty line to 0% (39% in 2010) and reduce poverty-induced hunger to 0%.
- Increase share of income to the bottom 40% of income earners from 6% today to 10% in 2030.

Many are skeptical of the feasibility of these goals.

Indeed, the economic development scenarios commissioned for this report confirm this skepticism:

- The highest growth scenario analysed only predicts just over 3% annual GDP growth going forward, with flat growth leading up to the next general election in two years.
- Variance in GDP per capita is minimal in all three scenarios. Even under the high growth case, GDP per capita only makes up two-thirds of NDP goals.
- Reduction in unemployment is only expected in the high growth scenario, and will be insufficient to meet NDP targets.

Despite this difficult outlook, the industry must embrace the NDP's spirit. The gap between South Africa's two economies must converge, with the eventual goal of becoming one. The current situation is not sustainable and the consequences of inaction are beyond consideration.

➤ PROCESS MANAGEMENT AND FUTURE STATE

The banking industry will have to focus on making the pie bigger – on inclusive growth.

Studies show a direct link between personal income, financial inclusion, and financial participation. By strengthening the economy, the industry can help contribute to the stabilisation of society while at the same time enlarging its customer base.

- Once personal income reaches a certain threshold, bank accounts become indispensable for securely storing and accessing personal assets.
- Despite relatively high levels of financial inclusion, many poorer South Africans only use bank accounts as a "mailbox," withdrawing all funds in a single transaction once they are received.

Development of the LVPI needs to occur along two parallel tracks, although these should converge in the long-term. The industry needs to continue serving the financially included while offering services to the unbanked that can help bring them into the formal financial system.

- Electronic payments and savings products can make everyday transactions more efficient, convenient, and safe while reducing friction in financial services and the economy as a whole.
- Access to cash will remain a necessity for poorer South Africans in the near-term. Uptake of electronic payments by the un- and underbanked cannot occur in a "big bang" migration.
- Credit and insurance products can help lift people out of poverty and prevent South Africans from falling into poverty.

The rise of on-demand services has led to an expectation of seamless services and experiences. Going forward, payments will disappear into the process as the focus shifts to user experience.

The LVPI needs to be "future-proofed." Payment systems in South Africa should be built with the next 20 years in mind.

SA SHOWS AN EVEN MIX OF COMMERCIAL AND POLICY GOALS

Nine key goals were articulated by the interviewees

➤ When asked what the goals of modernisation should be, South Africans echoed most of the goals identified in the international comparison. Ten goals have been pursued in the nine countries that were compared, however, one of these was not explicitly mentioned by the SA interviewees. This does not imply that it is not important, but indicates that it is not perceived as specifically needing to be addressed by a modernisation programme. The goals were ordered in relative importance based on the frequency and emphasis with which they were discussed.

The goals identified by interviewees are:

Promote competition and innovation - Encourage the entry of new providers and the development of new services.

Respond to consumer demands and competitive pressures - Encourage the development of services that more completely serve modern customer and user needs, and help organisations to respond to competitive pressures.

Interoperate with other payment systems - Payment services should be able to reach all providers and users with uniform services.

Increase financial inclusion - Consumers should have access to effective formal financial products: electronic payments, savings, credit, and insurance.

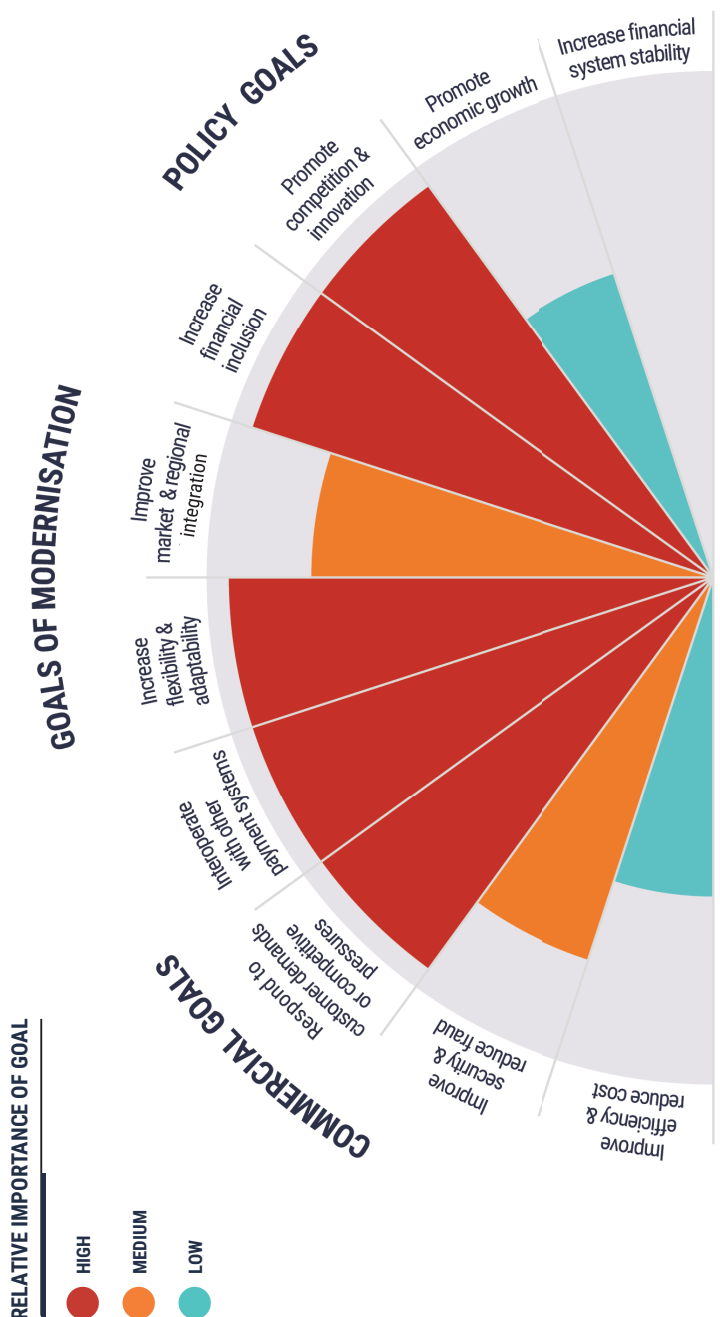
Increase flexibility and adaptability - The payment system should be able to deal with the changing needs of society.

Improved security and fraud reduction - Increase security for users and consumers, and decrease the incidences of fraud.

Improve efficiency and reduce cost - Develop services that allow financial institutions and users to reduce the end-to-end cost of a transaction.

Promote economic growth - Promote broad and inclusive economic growth.

Improve market and regional integration - Integrate the domestic payments market and/or link it with regional trading partners.



LINKED NATURE OF MODERNISATION GOALS

Successful modernisation processes are defined by goal setting, consultation, and clear management

- The proposed modernisation goals are linked; reaching one goal can assist in achieving another. For example, achieving interoperability between money transfer systems can assist with promoting competition and innovation. Their influence can guide a prioritisation of modernisation efforts, and a similar analysis could help once the goals for modernisation are agreed by the industry.

➤ The achievement of the goal listed below impacts the achievement of the goal listed to the right	PROMOTE COMPETITION & INNOVATION	RESPOND TO CONSUMER DEMANDS & COMPETITIVE PRESSURES	INTEROPERATE WITH OTHER PAYMENT SYSTEMS	INCREASE FINANCIAL INCLUSION	INCREASE FLEXIBILITY & ADAPTABILITY
PROMOTE COMPETITION & INNOVATION		✗		✗	
RESPOND TO CONSUMER DEMANDS & COMPETITIVE PRESSURES	✗			✗	
INTEROPERATE WITH OTHER PAYMENT SYSTEMS	✗	✗		✗	✗
INCREASE FINANCIAL INCLUSION					
INCREASE FLEXIBILITY & ADAPTABILITY	✗	✗	✗	✗	

The above table summarises the ways in which the five most important goals identified in the interviews influence one another. Certain goals have a broad influence (e.g. interoperability). Others, such as financial inclusion, are influenced by all of the other goals. This reflects the emphasis in the interviews that some goals are more important than others, either because of their strong impact on others or the complexity required to achieve them.

The achievement of all other goals has a positive impact on financial inclusion. However, its impact is not reciprocal.

The importance of two goals, interoperability with other payment systems and increasing flexibility and adaptability, is underscored by their positive impact on all other goals.

Some goals have a bi-directional influence. For example; promoting competition and innovation and responding to consumer demands and competitive pressures can positively impact each other.

The table also emphasises that goals are not equal in complexity. Although it is not a table of dependencies – financial inclusion does not require market and regional integration, for example, even though market and regional integration can support financial inclusion – the more a goal is impacted by others, the more complex it is likely to be. Financial inclusion and responding to consumer demands and competitive pressures stand out in this regard.

HIGH PRIORITY GOALS BENEFIT INDUSTRY & SOCIETY

The five high priority goals can help to develop an LVPI that serves all South Africans

➤ The five most important goals identified in the interviews address both sides of the economy, improve the efficiency and effectiveness of the payment system, and benefit the payments industry.

Two of the goals are weighted towards serving the two sides of the economy: increasing financial inclusion supports the underserved consumer and responding to consumer demands and competitive pressures supports the requirements of the already included consumer and user. Two of the goals relate to enabling elements of the NPS: interoperability and increasing flexibility and adaptability. These goals support every other goal. The final goal of promoting competition and innovation, is critical to ensure that more providers offer more services which can support both the developed and developing aspects of the economy.

HIGH PRIORITY GOAL	GOAL DESCRIPTION	BENEFITS
PROMOTE COMPETITION & INNOVATION	Encourage the entry of new providers and the development of new services.	<ul style="list-style-type: none"> • Increased variety of services and consumer choice • Improved services / addition of value added services • Improved customer experience • Attraction of new consumers • Increased usage of the payment system and possible inclusion of unbanked • Lower cost / prices
RESPOND TO CONSUMER DEMANDS & COMPETITIVE PRESSURES	Encourage the development of services that more completely serve modern customer and user needs, and help organisations to respond to competitive pressures, typically from fintechs and challenger banks.	<ul style="list-style-type: none"> • Remaining relevant and preventing relationship erosion • Increasing usage of payment services • Maintaining / growing market share • Increasing revenue
INTEROPERATE WITH OTHER PAYMENT SYSTEMS	Interoperability among payment systems helps ensure that payment services can reach all providers and users with uniform service levels.	<ul style="list-style-type: none"> • Widespread access, convenience & ease of use for customers • Increased functionality through a collective network • Positive network effects and economies of scale • Can enable competition, which can lead to increased choice and lower costs • Reduced marginal cost of experiments which encourages innovation
INCREASE FINANCIAL INCLUSION	Financial inclusion involves ensuring that consumers have access to and can effectively use formal financial products: electronic payments, savings, credit and insurance.	<ul style="list-style-type: none"> • Contributes to inclusive growth and economic development. • Reduced costs and risks associated with cash handling and management • Reduced fraud / incidents of crime through use of secure electronic payments. • Can help individuals build a payments data history which can be leveraged to access credit and also assists financial organisations to better assess credit risk • Reduced marginal operating costs
INCREASE FLEXIBILITY & ADAPTABILITY	Increase ability of the payment system to deal with the changing needs of society.	<ul style="list-style-type: none"> • Lower cost • Improved services • Increased innovation and competition • Improved customer experience

MODERNISATION REQUIRES A CHANGE IN THINKING

South African interviewees identified several aspects as being critical to ensure the success of modernisation

Change the thinking

The major theme that emerged was that modernisation needs to involve a new way of thinking:

- A new understanding of the payments eco system needs to be created, one in which the roles of traditional players and other stakeholders are re-evaluated, the way that these role players interact, the way that rules are made, and even what role the payment system plays in South Africa.
- The concept of modernisation needs to evolve from technical, feature-based thinking to goal-directed thinking.

An approach summarising the interviewees' views is depicted in the diagram below.

Roles and responsibilities

Interviewees expressed their views on the roles of regulators, PASA, and BankservAfrica in modernisation:

The regulator

- SARB has a key role to play in facilitating collaboration. Stakeholders often find it difficult to negotiate around the Competition Act. Some stakeholders feel that in taking a facilitative role in driving collaborative efforts, SARB can help to iron

out issues and speed up the process. SARB will also help to ensure that certain stakeholders do not frustrate new programmes.

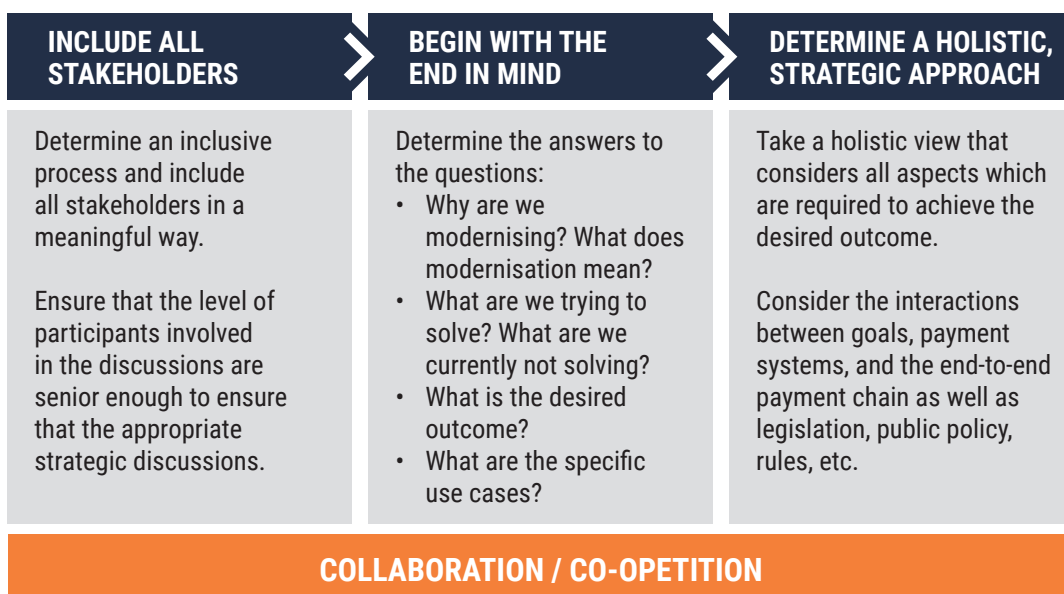
- Consultation is important but ultimately a decision has to be made. It is difficult to reach consensus, but once consultation has been concluded, the regulator should take the decisions.

PASA

- There was wide agreement among interviewees that PASA should set and manage the process of modernisation.
- The governance reforms currently being pursued at PASA are seen as a step in the right direction toward more inclusive governance of South African payment systems.

BankservAfrica

- There was wide agreement that BSVA is the entity that should implement and operate systems included in payments modernisation.
- There were differing opinions on BSVA's ownership structure, with some questioning whether it should operate as an industry utility or a commercial entity.

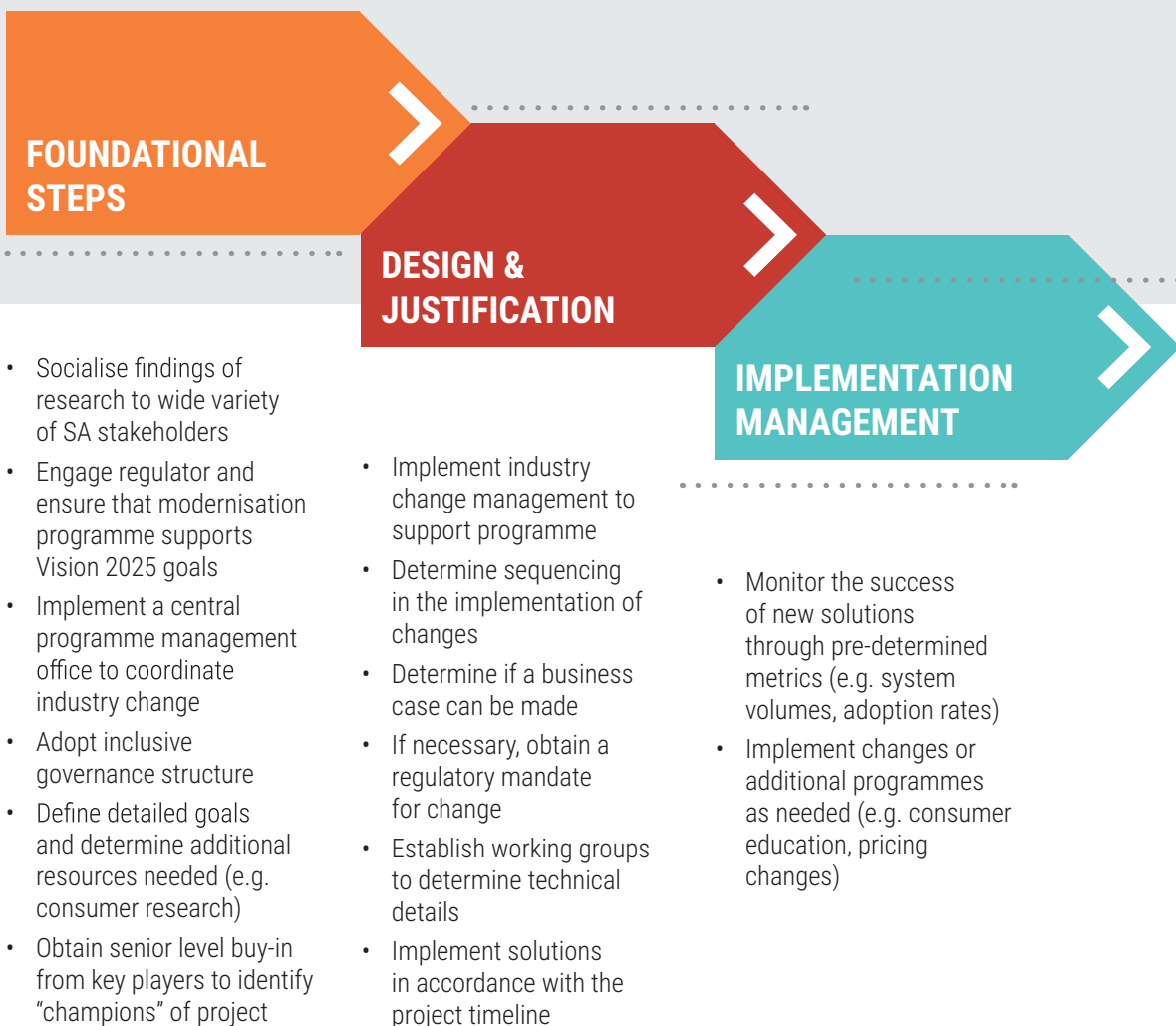


Strike the right balance between collaboration and competition. Modify as needed as new areas of collaboration/co-opetition are identified.

SHAPING THE PROCESS FOR LOW-VALUE PAYMENTS INFRASTRUCTURE MODERNISATION

Three major process steps: foundation, justification, and implementation

- Based on lessons from other markets and over 45 interviews completed with South African stakeholders, we have identified a number of factors that can help ensure the success of LVPI modernisation. These factors are organised into three categories. While the mitigation factors within each category can occur simultaneously, a clear sequence of categories has emerged, beginning with foundation steps and ending with implementation management.



CREATING AN LVPI FOR ALL SOUTH AFRICANS

Several key overarching themes emerged from the interviews as essential design principles for the modernisation of the South African LVPI

> **FLEXIBLE**

The LVPI needs to be future-proofed and cater for new use cases as expectations evolve

- The LVPI needs to be built with the next 20 years in mind. It is nearly impossible to predict the changes and new technologies or solutions that will be developed in that time. Fifteen years ago, no one could have foreseen the impact that smartphones would have on our lives, so it is fair to say that we may all be surprised by what emerges in the next 10 - 20 years.
- The rise of on-demand services has resulted in consumers seeking seamless services and experiences, and collaboration among brands to provide these. Payments will disappear into the process as it becomes a holistic experience that is more intuitive, habitual, and automatic, requiring less and less from the consumer to enable it.
- The use of international standards such as ISO 20022 can increase the flexibility, utility, and appeal of the LVPI by providing a single data standard that can be used to implement a panoply of payment instruments and services.

The LVPI therefore needs to be built with flexibility and scalability and modular extensibility in mind.

> **INCLUSIVE**

Building for the economy that South Africans want requires that the LVPI be inclusive

- The development of the LVPI needs to cater the developed and developing economies in South Africa. The requirements of each sector of the economy is driven by different factors. Serving both economies requires a dual strategy from the payment system. It needs to support modern, advanced payments for the financially included and corporate users. But it also needs to provide paths in and out of the financial system for the excluded. Development must occur along two parallel tracks, although these should converge in the long-term.
- The LVPI needs to be inclusive of more stakeholders as the payments ecosystem extends well beyond the banks. This is likely to involve the participation on non-banks (fintechs, users, and others) in governance bodies.

> **LOW COST**

The LVPI must be low-cost

- The high-volume, low-value nature of LVPI payments requires a cost efficient infrastructure.
- Supporting the underbanked with appropriately priced accounts and payments can increase financial inclusion.
- Corporate users require low-cost payments to reduce friction in the economy.

> **SCALABLE**

The LVPI needs to be scalable to ensure that it caters for the economy that South Africa has and for the one it wants

- The various economic scenarios do not change the underlying needs that exist for the payment system. Volumes, distribution and cost per transaction may change depending on the scenario, but the underlying functionality that is required does not change.
- No matter the real outcome is, the payment system will have to cater for a bigger population and a more tech savvy consumer. Population growth estimates put numbers at 59 million by 2020 and 65.6 million by 2030. Millennials are, at the oldest end, 37 years of age today and the generations born since will all continue to be more comfortable with technology and therefore are likely to accept newer payment methods.

CONSIDERATIONS FOR THE FUTURE OF THE SOUTH AFRICAN ECONOMY

What is the economy South Africa wants?

It must be uplifting for ordinary South Africans and bring underrepresented and excluded citizens into formal economy.

Strong growth

- Steady growth in GDP and GDP per capita
- Increased employment; reduction in unemployment figures

Declining poverty and inequality

- Fewer people living below poverty line
- Increase share of income going to bottom 40% of population
- Reduction in Gini coefficient

What role do payment systems play in an ideal economy?

A well-designed payment system cannot lead directly to economic development and financial inclusion. However, payment systems can support growth in economy and aid financial inclusion.

On the other hand, a poorly designed payment system can create friction that has negative effects on commerce and consumer payments.

In order to meet ambitious goals around economic development and financial inclusion, it is vital that South Africa designs a modern payment system in line with future needs.

South Africa must develop payment systems that serve the economically disadvantaged while also meeting the needs of the wealthier segments.

Payment system design principles to consider

UBIQUITY

AFFORDABILITY

UNIFORMITY OF SERVICE

SPEED

SCALABILITY

INCLUSIVITY

DATA RICHNESS

INTEROPERABILITY

STABILITY

KEY STRATEGIC CONSIDERATIONS FOR LVPI DEVELOPMENT

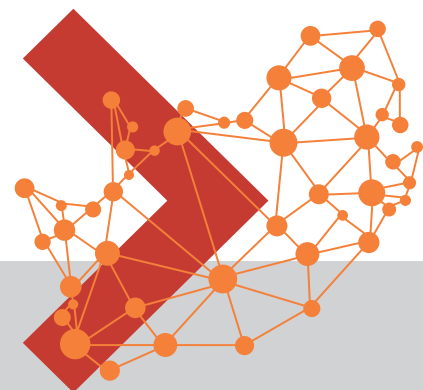
- The industry must quickly conclude what the goals of modernisation should be, which ones should be pursued with priority, and strategies for meeting these goals.
 - Early decisions about LVPI design should establish broad principles to guide design rather than specify features.
 - Identify pain points and inefficiencies in existing payment systems and assess industry strategies for improvement.
 - Given the complex nature of many of the potential goals, achieving them will require partnership between private and public entities.

- The governance structures for designing and implementing industry change should be as open, inclusive, and transparent (as is practical).

- A holistic view of modernisation and a grand plan that spans multiple goals and priorities can help ensure that all stakeholders have something to gain from its success.

- The industry should evaluate opportunities for serving underbanked communities to boost financial inclusion and increase the market for formal financial services.

- The industry will have to promote innovation by striking the optimal balance between collaborative development and the best areas for competition.





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