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1. Executive summary

1.1 This document outlines the position of the South African Reserve Bank (the Bank) with regard to electronic money. The Bank, in its endeavour to reduce risk in the National Payment System (NPS) will only allow participants of the South African Multiple Option Settlement (SAMOS) system to issue electronic money. However, the Bank will revise this position paper as and when required by future developments.

2. Introduction

2.1 Central banks worldwide are constantly reviewing their position with regard to electronic commerce, Internet banking and electronic money. More specifically, central banks are continuously investigating the impact that these products will have on their functions as well as the regulatory and operational requirements that are necessitated thereby. In South Africa, several banks offer Internet banking services to their customers and banking groups are investigating or developing multipurpose smart cards, using microchip technology, which will enable electronic “purse” facilities in the future.

2.2 The Bank takes note of these initiatives in South Africa and does not want to discourage innovative or new technological developments at this stage. Instead, the Bank wishes to familiarise itself with such schemes together with the effect of electronic money on monetary aggregates and the potential risks that electronic money might pose for the NPS. In order to do so, the Bank requires information about electronic money schemes and requires that relevant information be submitted.

2.3 The Bank will also assess the benefits that new technologies could provide to the country as a whole, including the utilisation of such technologies for:

a) making financial services more accessible to those in the low-income, unbanked and rural communities in South Africa; and

b) supplementing cash and solving problems inherent in cash, such as the cost of cash handling, robberies, etc.
3. Position on electronic money

3.1 Definition of electronic money

3.1.1 For purposes of this position paper, electronic money is defined as monetary value represented by a claim on the issuer which is stored on an electronic device\(^1\) and which is widely accepted as a means of payment by persons\(^2\) other than the issuer.

3.2 The role of the Bank

3.2.1 Electronic payment technologies are still at various stages of development and the Bank, similar to other central banks around the world, has a direct interest in anticipating the likely policy implications of these developments. Emerging electronic money products may require regulatory adjustment or intervention which may arise from the need to:

a) limit the systemic and other risks which may threaten the stability of, and confidence in the NPS;

b) assist the relevant authorities in providing consumers with adequate protection from unfair practices, fraud and financial loss;

c) ensure the effectiveness of the central bank’s monetary policy; and

d) assist law enforcement authorities in the prevention of criminal activity.

3.3 Criteria for consideration of proposals

3.3.1 Electronic money products will be subject to rules and regulations imposed by the Bank in terms of its role as overseer of the NPS. The introduction of such products is thus subject to approval by the Bank. The criteria for consideration of proposals for the introduction of such products into the NPS will include, *inter alia* the following:

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\(^{1}\) A contrivance or an invention serving a particular purpose, especially a machine used to perform one or more relatively simple tasks. A thing made or adapted for a particular purpose.

\(^{2}\) Both natural and legal.
3.3.1.1 Legal framework

3.3.1.1.1 The rights and obligations of the respective participants in an electronic money scheme must be clearly defined and disclosed. Participants include issuers, operators, merchants, and customers.

3.3.1.1.2 The proposed electronic money scheme must not be in contravention of any legislation, with specific reference to:

a) the South African Reserve Bank Act, No 90 of 1989;

b) the Banks Act, No 94 of 1990; and

c) the National Payment System Act, No 78 of 1998.

3.3.1.2 Systemic risk implications

3.3.1.2.1 In order to protect the integrity of the NPS, the Bank, in its role as overseer of the NPS, will require insight into risk-related information. Of particular interest would be how vulnerable the product is to compromise and how the scheme will prevent, or detect and recover from, such a situation.

3.3.1.2.2 The Bank reserves the right to prescribe risk management and security measures prior to implementation of a scheme.

3.3.1.3 Implications for the management of money supply

3.3.1.3.1 The introduction of electronic money could potentially affect the Bank’s ability to manage the money supply effectively. The Bank will therefore require that mechanisms be available to measure and manage the supply of rand-denominated electronic money.

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3 The compromise of a scheme could result in the loss of credibility of the NPS. Such a compromise could also seriously threaten the position of a participant in the payment system, resulting in the failure of that participant to meet its contractual obligations. This, in turn, could deprive other participants of funds owed to them, resulting in a chain reaction whereby a large number, or all of the participants in a settlement system, are unable to meet their respective obligations.
3.3.1.4 Issuers of electronic value

3.3.1.4.1 Only banks\(^4\) will be permitted to issue electronic money. Electronic money will therefore be subject to regulation and supervision by the Bank.

3.3.1.5 Redemption of electronic value

3.3.1.5.1 Issuers will be obliged to redeem electronic money value in central bank money, at par, upon request. The management of the underlying float and redemption of electronic money value by the issuer to the holder must be clearly defined.

3.4 Restrictions

3.4.1 The Bank reserves all rights to the use of the word “rand” in any electronic money system.

3.5 Submission of proposals for electronic money products

3.5.1 A formal proposal, by anyone wishing to introduce electronic money, should be submitted to the National Payment System Department (NPSD) of the Bank for consideration. The Bank may require that it be a participant or observer in pilot projects or in the planning and testing phases prior to an initial launch.

4. The Bank’s intent with regard to electronic money

4.1 The Bank considers electronic money to be a supplement to physical notes and coin in the long term. In order to facilitate the development of electronic money products and the opportunities that they represent on a national and regional basis, the Bank will:

a) support the development of a banking industry vision for electronic substitutes for physical banknotes and coin;

b) support the development of national standards to enable inter-operability of electronic money products and devices; and

c) participate in initiatives aimed at providing secure payment instruments for the

\(^4\)South African registered banks that are participants of the South African Multiple Option Settlement (SAMOS) system
general public, including the unbanked and rural communities of South Africa and Southern African the region.

5. Conclusion

5.1 Electronic money products are based on technology which is constantly evolving and the Bank has set out relatively broad principles and criteria in this regard. This position paper will be revised, as required by future developments in this technology, as well as by payment practices.

5.2 Queries or comments can be directed to the following e-mail address: npsdirectives@resbank.co.za.

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