



The National Payments System Vision And Strategy 2020 - 2024



BANK OF BOTSWANA

STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
- a safe, sound and stable financial system;
- an efficient payments mechanism;
- public confidence in the national currency;
- sound international financial relations; and to provide:
 - efficient banking services to its various clients; and
 - sound economic and financial advice to Government.

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FOREWORD BY THE GOVERNOR

A National Payments System (NPS) encompasses all payment-related activities, processes, mechanisms, infrastructure, institutions and users in a country. One of the principal statutory objectives of the Bank of Botswana is to ensure that Botswana has an efficient and secure payment system that supports a safe and sound financial system. In this regard, the Bank operates the Botswana Interbank Settlement System and oversees other payment, clearing and settlement systems to fulfill the overarching objectives of safety, integrity, efficiency and soundness of the NPS. The first major step in the modernisation of Botswana NPS was the launching of the 2002 - 2005 NPS Framework and Strategy, which established the foundation for the current payments system infrastructure including legislation, policies and processes. The Bank recognises the importance of a strategic approach to the development and further enhancement of the NPS and therefore has prepared the National Payments System Vision and Strategy 2020 - 2024 to guide this development.

The National Payments System Vision and Strategy 2020 - 2024 outlines the essential characteristics of Botswana's future NPS, reflecting the way forward and identifying key strategic actions in the continued development of the country's payment system. The Strategy reflects the collective opinions of the NPS stakeholders in Botswana, gained through cooperative participation and consultations through various fora in the NPS. The successful implementation of the Strategy therefore will depend on continued commitment, dedication and cooperation of the various NPS stakeholders.

The Strategy guides the NPS modernisation projects, resource mobilisation, infrastructure development, linkages and role descriptions required to achieve the NPS vision of a safe, efficient, innovative and inclusive NPS over the next five years. The Strategy is anchored on ten pillars: the payment and securities settlement infrastructures; sound legal framework; government payments; retail payments; oversight of the NPS; cooperation; access criteria and participation; risk management; public education and outreach programmes; and financial technologies developments.

The Bank looks forward to engaging and working with the entire stakeholder community to achieve the NPS Vision and Strategy 2024. The National Payments Task Force will be the main forum to coordinate and monitor the execution of the Strategy, guided, where appropriate and necessary by the National Payments Council.



Moses D Pelaelo
GOVERNOR

GLOSSARY

AML	Anti-Money Laundering
API	Application Programming Interface
ATM	Automated Teller Machine
BACH	Botswana Automated Clearing House
BCP	Business Continuity Plan
BoB	Bank of Botswana
BISS	Botswana Interbank Settlement System
BOCRA	Botswana Communications Regulatory Authority
BSE	Botswana Stock Exchange
CCA	Competition and Consumer Authority
CBDC	Central Bank Digital Currency
CFT	Combating the Financing of Terrorism
CITS	Cheque Imaging and Truncation System
CPO	Consumer Protection Office
CSDB	Central Securities Depository Company of Botswana
DLT	Distributed Ledger Technology
EMV	Europay, MasterCard and Visa
EPS	Electronic Payment Service
EPSR	Electronic Payment Services Regulations
FIA	Financial Intelligence Agency
FSDS	Financial Sector Development Strategy
JRWG	Joint Regulatory Working Group
KYC	Know Your Customer
MFED	Ministry of Finance and Economic Development
MoU	Memorandum of Understanding
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NCSS	National Clearance and Settlement Systems
NPC	National Payments Council
NPS	National Payments System
NPTF	National Payments Task Force
NRPS	National Retail Payments Switch
PCI DSS	Payment Card Industry Data Security Standard
PFMI	Principles for Financial Market Infrastructure
PSD	Payments and Settlement Department
PSMB	Payments System Management Body
PSP	Payment Services Providers
RPS	Retail Payments System
SIPS	Systemically Important Payment System
STP	Straight Through Processing
SWIPS	System Wide Important Payment System

1. INTRODUCTION

- 1.1 One of the principal objectives of the Bank of Botswana (the Bank), as set out in Section 4 (1) of the Bank of Botswana Act (CAP 55:01), is first and foremost, to promote and maintain monetary stability, an efficient payments mechanism and the liquidity, solvency and proper functioning of a soundly based monetary, credit and financial system in Botswana. To this end, the National Clearance and Settlement Systems (NCSS) Act (CAP 46:06) gives the Bank the power to regulate, monitor and enforce rules in domestic clearing and settlement systems.
- 1.2 In 2002, the Bank formulated the first National Payments System (NPS) Framework and Strategy 2002 - 2005, which established the foundation for the current payments system infrastructure including laws, policies and processes. With the achievement of the major milestones and objectives envisaged in the Strategy, in 2016, it was decided to re-evaluate the NPS vision and to embark on new strategies and objectives, and consistent with the Botswana 2012 - 2016 Financial Sector Development Strategy (FSDS), to align the country's payments system with modern trends and international best practice. The major milestones already achieved include the following aspects of a modern payment system:
- (a) the promulgation of the NCSS Act and related regulations;
 - (b) the establishment of the Botswana Interbank Settlement System (BISS);
 - (c) the establishment of the Electronic Clearing House Botswana (ECHB) - which became the Botswana Automated Clearing House (BACH) after the introduction of the Cheque Imaging and Truncation System (CITS);
 - (d) the establishment of the Central Securities Depository Company of Botswana (CSDB);
 - (e) the establishment of the NPS Oversight Function; and
 - (f) the establishment of the National Payments Task Force (NPTF).
- 1.3 Some of the fundamental principles, strategies and critical success factors contained in the previous Strategy remain applicable and relevant to any new vision developed for the NPS. This framework defines the vision and strategy for NPS modernisation for the period 2020 - 2024. It incorporates ideas and thoughts of all NPS stakeholders in respect of payments systems development in Botswana, and identifies strategic actions to be undertaken to achieve this goal. To this end, the Strategy is anchored on ten pillars, which are generally intended to achieve the broader objectives of access, safety and efficiency in the NPS, namely,
- (a) payment and securities settlement infrastructures (Section 2);
 - (b) legal framework (Section 3);
 - (c) government payments (Section 4);
 - (d) retail payments (Section 5);
 - (e) oversight of the NPS (Section 6);
 - (f) cooperation (Section 7);
 - (g) access criteria and participation (Section 8);
 - (h) risk management (Section 9);
 - (i) public education and outreach programmes (Section 10) and
 - (j) financial technologies developments (Section 11)

For each of these pillars, challenges and developmental needs are identified, and strategic actions recommended.

2. PAYMENT AND SECURITIES SETTLEMENT INFRASTRUCTURES

- 2.1 The large-value and low-value payment systems currently operating in Botswana, the Botswana Interbank Settlement System (BISS) and Botswana Automated Clearing House (BACH), respectively, are considered generally safe and efficient. However, a significant proportion of large-value payments are not currently initiated in the BISS.
- 2.2 At present, access to BISS and BACH is restricted to banks with settlement accounts at Bank of Botswana (the Bank). Requirements for participation will be reconsidered with particular attention to risk management issues. Eligibility will be extended to other banks and systems licensed by the Bank, as appropriate. To encourage use of BISS, the Bank will improve the time distribution of payments during the BISS operating day. The trend is that participants tend to delay submission of payment instructions and concentrate them in the early afternoon. The Bank should redesign the tariff structure to encourage the smooth flow of payments throughout the day as the re-cycling of funds can substantially reduce intraday liquidity needs and mitigate liquidity risk.
- 2.3 The Bank is committed to increasing the safety and efficiency of securities settlement in Botswana. This strategic objective is part of the policy effort to raise the attractiveness of the domestic capital market, including for government debt, and ensure the effectiveness of monetary policy. Establishing a single, integrated Central Securities Depository (CSD), for centralised trading, clearing and settlement will support the development of the government bond market through a standard-compliant platform capable of providing timely and transparent information to investors. The relevant authorities, the Bank, Botswana Stock Exchange (BSE), Non-Bank Financial Institutions Regulatory Authority (NBFIRA) and Ministry of Finance and Economic Development (MFED) share a strong commitment to moving to a single integrated CSD facility and there are already ongoing efforts to achieve this objective.

2.4 Fundamental Principles

- (a) Common standards, rules and protocols are implemented and geared towards enhancing safety, security and interoperability within payment systems;
- (b) International best practice and standards are adhered to;
- (c) Appropriate and effective Business Continuity Plan (BCP) and Disaster Recovery (DR) processes are maintained across all critical components of the payment system.

2.5 Strategic Actions

- (a) Ensure that all participants adopt Straight Through Processes (STP);
- (b) Introduce a threshold for “large value” payments;
- (c) Review and amend the fee structure in the BISS and BACH systems;
- (d) Set ‘throughput rules’ to smoothen the flow of payments in the BISS throughout the day;
- (e) Expand participation in the BISS and BACH systems, taking risk considerations into account;
- (f) Set up a collateral-based guarantee scheme in the BACH system to ensure efficient and timely settlement;
- (g) Initiate implementation of the single integrated CSD infrastructure and link the CSD to BISS to facilitate settlement of securities in Central Bank money.

3. LEGAL FRAMEWORK

3.1 A sound legal basis is critical for the management of risk. The Bank of Botswana Act (Cap. 55:01), National Clearance and Settlement Systems Act (Cap. 46:06), Bills of Exchange Act (Cap. 46:02), Electronic Communications and Transactions Act, 2014, Electronic Records (Evidence) Act (Cap. 08:02) and other relevant laws, as well as the Electronic Payment Services (EPS) Regulations, 2019, rules, agreements and procedures constitute the foundation and legal basis for participation in the payments system in Botswana.

Laws for the NPS

3.2 The legal framework needs to be adapted to support the evolving retail payments sector. A comprehensive review of all relevant laws relating to the NPS will be undertaken to address gaps and inconsistencies which could potentially compromise the integrity of the infrastructure, create uncertainty regarding its use and hinder future progress.

3.3 The NCSS Act addresses clearing and settlement systems that are systemically important. It neither covers retail payment systems nor does it address the institutions that provide payment (or payment related) services which do not participate in the clearing systems or maintain settlement accounts with the central bank. In addition, the scope of the law does not extend to payment instruments and channels utilised to deliver payment services. The implementation of the Electronic Payment Services Regulations is a fundamental step towards the introduction of functional regulation within the NPS space, with benefits in terms of greater efficiency, safety and fairness. A much broader realignment of the legal basis with the new national payments landscape is required, in particular to ensure that the Bank is provided with adequate powers and latitude to oversee the NPS effectively.

3.4 The need for a comprehensive national payments law in Botswana has been established, and consultations with stakeholders has commenced. The proposed law will, inter alia, grant the Bank the powers to: designate payment systems, service providers, and instruments, as necessary; licence, regulate and oversee retail payments entities; oversee all systems that encompass payments (including securities settlement systems, central counterparties, and exchange platforms that link with interbank payments); if necessary, in coordination with other regulatory authorities, address cross-border payments and broaden access to foreign institutions and systems; access all required information from system operators and service providers, including through onsite inspections; induce change in the NPS when desirable or necessary; and cooperate with all relevant regulators and stakeholders, domestically and internationally. The envisaged law should also provide for a national cooperative forum (such as a National Payments Council or a Payments Association) for policy dialogue on NPS policy issues.

3.5 New legislation in the area of electronic information will support the provision of electronic payment services. The Electronic Records (Evidence) Act (Cap. 08:02), which provides for the admissibility of electronic records as evidence in legal proceedings and authentication of electronic records; and the Electronic Communications and Transactions Act, 2014, which provides for the facilitation and regulation of electronic

communications and transactions, will further enable the payments environment. Legal certainty regarding e-signatures and the validity of electronically produced and/or transmitted files will benefit economic activity in general and the payments environment more specifically. This will also support the financial inclusion agenda as it removes the physical and geographic constraints between transacting parties.

3.6 Fundamental Principles

- (a) Participants providing similar services are subject to the same regulation, which is appropriate for the risk being introduced into the system by such a participant;
- (b) All stakeholders have a clear understanding of the regulations and governance frameworks that apply to them.

3.7 Strategic Actions

- (a) Undertake a comprehensive review of laws that are relevant to the NPS;
- (b) Draft the proposed NPS law.

4. GOVERNMENT PAYMENTS

4.1 Government payments and receipts are a key component of the NPS. Funds are also transferred between the various government agencies. These payment flows cut across all economic sectors and activities, and their overall value and volume are significant, in relation to output and, also, the broader financial sector. Given their scale and impact, government payments play a critical role in the development of the NPS and in influencing acceptance of new payment instruments. Innovations in government payments, especially in connection with financial inclusion programmes, may also act as a driving factor for the modernisation of payment systems and instruments, which, in turn, may require new regulations.

4.2 The Government of Botswana is committed to modernising its own payments activity, recognising its importance both for the NPS and for the advancement of the financial inclusion agenda for which it is responsible, through the Ministry of Finance and Economic Development. Government has taken important initiatives to improve its payment and collection activities, for example, the Government Accounting and Budgeting System for the automatic handling of payments and receipts; a pre-paid card scheme for the unbanked and a 'payment gateway' project to accept electronic payments from buyers of government products and services, and the distribution of social grants benefits through the Electronic Coupon System.

4.3 The economic and social benefits from cooperation and synergies between Government as payer/collector and the payments industry can be significant. On the one hand, Government can use the market as a way to enhance the efficiency and safety, and convenience of its payments activity by leveraging on electronic payment services. On the other hand, market institutions can leverage the scale of Government payments to expand their own business activities.

4.4 Fundamental Principles

- (a) Integrate Government payment programmes in the strategy to modernise the NPS.
- (b) Ensure consistency between the Vision and Strategy for Botswana NPS Modernisation 2020 - 2024 and the Botswana Financial Inclusion Roadmap 2017 - 2021.

4.5 Strategic Actions

- (a) Establish a Government-Bank Working Group to leverage Government payment programmes for NPS modernisation or use existing cooperation arrangements, such as the Liquidity Committee, Bond Auction Committee or BoB/MFED Working Group to improve the reliability, efficiency and resilience of government payments uptake and instruments.
- (b) Assist Government on implementation of AML - CFT regulatory requirements, including cooperating with the Financial Intelligence Agency on sanctions list through SWIFT platform and, also, generally a list of domestic entities for purposes of meeting the National Counter Terrorism Strategy, Anti-Money Laundering and the Combating of Financing of Terrorism.

5. RETAIL PAYMENTS

5.1 The Bank will continue to play its catalyst, operator and oversight role to foster and promote the establishment of a safe, efficient and convenient retail payment services that meet the needs of customers. The strategic objective is to build a retail payments system (RPS) that gives customers the widest possible choice of payment instruments for conducting day-to-day payment transactions across the country and beyond national borders, especially in the SADC region. This will be achieved through four broad actions, namely; strengthening stakeholder commitment, ensuring an enabling environment, improving the retail payments infrastructure, and promoting customer convenience.

(a) Strengthening Stakeholder Commitment

5.2 Building knowledge and promoting public education on NPS issues: The Bank, in cooperation with the retail payments system industry, will educate users, especially the low-income cohort, on the use of non-traditional payment services through targeted public education and public awareness programmes. Payment System Providers (PSPs) will be required to develop and disseminate basic educational materials on new payment instruments, channels and services.

(b) Ensuring an Enabling Environment

5.3 Promoting market competition: Ensure that payment systems rules and access criteria guarantee fair and open access and do not exacerbate potential financial and operational risks. The definition of Payments Service Providers (PSP) will be broad enough to embrace not just payment services, but all associated services that impinge on payments. All entities performing payment (or payment-related) activities will be subject to the Electronic Payment Services Regulations (EPSR), issued under the Bank of Botswana Act, and to Bank oversight, irrespective of the legal structure of the business. Consistent and proportional risk-based rules will apply to all.

5.4 Rules and regulations will prohibit unfair practices that undermine competition in the provision of retail payment services. RPS participants, operators and PSPs will be prohibited from affecting market competition through discriminatory practices aimed at denying, hindering or limiting access rights to (potential) entrants.

5.5 Protecting user rights and promoting the public good: The rights and obligations of all parties in the RPS will be allocated in an equitable and proportionate manner. Rules will be set to clearly define information disclosure by PSPs to users with respect to charges, exchange rates, execution timeframes, revocation of payment orders, liabilities in case of unauthorised use of payment instruments, refunds and redress procedures.

5.6 The stakeholder regulatory authorities would have a common responsibility of ensuring protection of customers, as users of payment services. The Bank will ensure that effective dispute resolution mechanisms are established in order to give users easily accessible and affordable remedies to resolve conflicts with PSPs. The Bank will require PSPs to establish internal complaint handling procedures, to advise their customers on the procedures for lodging complaints, and to ensure that disputed matters can find appropriate resolution.

- 5.7 Preventing criminal abuse of the RPS: Particular attention will be placed on ensuring that RPS infrastructures are adequately designed to support Botswana's Anti-Money Laundering and the Combating of the Financing of Terrorism (AML/CFT) measures. All systems supporting retail payments activities and providers will include automated functionalities and capabilities to scrutinise payment transactions for compliance with the AML/CFT regulatory requirements. It is important, however, that such requirements be proportionate to the risk profile of providers and users and consistent with the objectives of NPS modernisation, financial inclusion and inclusive growth. Cooperation with, and active engagement of the Financial Intelligence Agency (FIA) will be vital.
- 5.8 Fraud detection and data security risk-management procedures will be strengthened. Electronic payment mechanisms are subject to various types of fraud and data security risks (for example cyber-crime, malware, hacking, phishing, card skimming). The risk-management framework for addressing these risks includes a combination of measures, such as robust due-diligence procedures in the sign-up of merchants and new customers; prudent authentication measures; protection of sensitive payment data like card number, PIN, Internet passwords, for the entire lifecycle of the transactions and general adherence to legal and regulatory requirements. Effective fraud-prevention and detection measures should be put in place for all RPS infrastructures, with a view to minimising and promptly addressing fraud occurrences.
- 5.9 The Bank will specify and enforce fraud risk management standards and will require PSPs to adopt policies and procedures to detect, mitigate, and report fraud and fraud attempts. These minimum standards should include: (i) requiring explicit customer consent for enrolment for specific services such as internet banking, mobile banking and debit cards; (ii) setting robust activation procedures for each of these services potentially requiring an interaction with the customer through one of the registered phone numbers. All cards issued in the country (especially chip cards) will be compliant with Europay, MasterCard and Visa (EMV) and Payment Card Industry Data Security Standard (PCI DSS) security and efficiency standards. International security and operational standards, including straight through processing, will be enforced.

(c) Improving the Retail Payments Infrastructure

- 5.10 The payments market players should consider the introduction of the National Retail Payments Switch (NRPS) for all domestic card and electronic payments, including through Automated Teller Machines (ATMs) and point-of-sale, internet banking, proprietary cards, fuel cards, travel cards, mobile payments, and any new instruments that would become available in future. The objectives are: to attain full interoperability through a neutral and seamless working platform; to achieve greater economies of scale and thus service cost reduction to users; to overcome dependence on foreign entities; and use the infrastructure for all existing and future payment instruments. The Bank will ensure that the new infrastructure design will be consistent with international standards.
- 5.11 Technology solutions will be used to support security and trust in the NRPS. The introduction of biometric authentication of customers and the creation of a central national database including biometric information would aid risk management

from a common platform perspective. System interoperability would be required, and international standards for the oversight of interoperability arrangements would be introduced. Similarly, technology can help PSPs improve their information on customers, including for Know Your Customer (KYC) purposes.

(d) Promoting Customer Convenience

- 5.12 Customer convenience would be supported through innovative solutions. Card and mobile networks facilitate 24/7 transaction and funds transfer services. The implementation of ‘Faster Payments/Immediate Payments’ will be considered along with the option to extend customer payment services on a 24/7 real-time model basis.
- 5.13 Participation in the SADC low-value payments initiatives would be beneficial in terms of ensuring more efficient, effective and safer regional cross-border payments (including international remittances). PSPs with an interest in regional cross-border activities should be encouraged to join the initiative. Greater use of direct debits would be encouraged. The Bank will consider modifying the legal framework to grant the “dishonour/return” of irrevocable direct debits due to insufficient funds the same level of protection as for “dishonour/return” of cheques due to insufficient funds. In some jurisdictions, there is a “same-day retry” facility, whereby banks try to process the payment again later that same day giving customers extra time to top up their accounts to complete payment and avoid unpaid item fees.
- 5.14 Statistics: Collecting, collating and analysing information on retail payment services are essential tasks. Setting up a rich information base on retail payment services is necessary to build up to date knowledge on the evolution of the NRPS, evaluate the progress on strategy implementation, and assess its impact. The Bank, in cooperation with all relevant stakeholders, will identify an appropriate set of data to be collected and statistics and indicators to be calculated, analysed and disseminated.
- 5.15 Facilitating international remittances: In line with international best practice, the Bank would consider allowing a wider range of PSPs to offer remittance services. Opening up the market would extend the number of pay-out points in the country; enhance market competition, and would reduce usage of unregulated or illegal channels, thus improving the safety of the transactions, as well as the possibility for the authorities to monitor these flows, specifically regarding compliance to Anti-Money Laundering/ Combating Terrorist Financing (AML/CFT) regulatory requirements and for official statistics.
- 5.16 Financial Inclusion: The NRPS is a critical platform to extend financial services to low-income unserved and underserved cohorts. An accessible NRPS provides to these target groups the much-needed payment and cross-border international remittance services as well as the potential to access additional financial services such as savings and insurance. The proposed initiatives are facilitative of the wider financial inclusion goals as contained in Botswana - Financial Inclusion Roadmap 2015 - 2021.

5.17 Fundamental Principles

- (a) PSPs will have equitable access to infrastructure services subject to fulfilling the

minimum regulatory requirements set by the Bank, in accordance with existing legal framework and international best practice;

- (b) Rules and procedures governing the NRPS will be consistent, proportional and transparent;
- (c) The NRPS will be supported by risk management systems;
- (d) NRPS industry arrangements, such as for the provision and sharing of infrastructural service, will be supported by sound governance rules that reflect the needs and interests of all participating institutions and maintain a balance between private interests and public goals;
- (e) The Bank, as overseer of the NPS, will have the capacity to deal with a rapidly changing environment; and
- (f) The Bank and other regulatory authorities that have an interest in issues relating to retail payments will stand ready to cooperate effectively and on an ongoing basis.

5.18 Strategic Actions

- (a) Ensure an enabling environment for NRPS development;
- (b) Implementation of the NRPS initiative;
- (c) Improve the retail payments infrastructure and deliver higher convenience to customers;
- (d) Encourage and support PSP participation in the SADC low-value payments initiatives;
- (e) Incentivise the distribution and use of electronic payment instruments;
- (f) Promote fair price transparency to promote competition;
- (g) Collect and analyse information on retail payment services for future enhancement of the NPS;
- (h) Review and take stock of Botswana's market for international remittance services, and identify actions requiring to be strengthened; and
- (i) Allow a wider range of PSPs to offer international remittance services.

6. OVERSIGHT OF THE NPS

6.1 By their very nature, payment systems involve significant exposures and risks for participants. Oversight is the central bank function that aims to ensure the safe, secure and efficient operation of payment and settlement systems. More specifically, oversight aims to ensure that payment infrastructures:

- (a) operate smoothly and efficiently for all participants and users;
 - (b) are robust against the risk of transmitting shocks through the economy from the failures by individual participants to meet their payment obligations;
 - (c) continue to operate (or resume operation promptly) even in the event of major failures in systems, participants or providers;
 - (d) maintain, over time, the level of technological and institutional development necessary to satisfy the payment needs of a growing, open, and internationally integrated economy;
 - (e) have risk reduction and cyber-crime measures in place; and
 - (f) provide and maintain statistical information.
- (i) Scope and Objectives of Oversight

6.2 Oversight remains a core function of the Bank. Through oversight, the Bank ensures that all NPS operators, participants and service providers manage risks appropriately. It is important that all NPS stakeholders have sufficient regard to risks and costs in the design and operation of the NPS, as well as in the provision of payment (or payment-related) services. Thus, while the Bank looks over the integrity of the system as a whole, NPS operators, participants and service providers are individually responsible for the risks they manage and the risks they introduce into the NPS. This approach maximises the incentives for NPS stakeholders to manage and price risks appropriately. The Bank will oversee all systemically and system-wide important payment infrastructures in Botswana as well as the critical service providers and channels for the provision of retail payment services. Giving attention to retail payments is also consistent with the Bank's responsibility to support financial inclusion agenda and inclusive growth.

(ii) Oversight Instruments and Activities

6.3 A key part of oversight focuses on risk management. This includes activities and instruments to identify, assess, contain, and resolve risks on a continuous basis. In order to make sure that the NPS and all its components have robust procedures in place to handle these risks effectively, the Bank will adopt best practices in line with the principles and standards developed by the international financial community.

6.4 For the oversight of the NPS, the Bank will adopt the Principles for Financial Market Infrastructures (PFMIs). For the oversight of retail payment systems, the Bank will, as appropriate, adopt relevant subset of the PFMI, applicable to retail payments.

The Bank will follow the international standards applicable to remittances. For the oversight of PSPs, the Bank will consider using an additional set of international specialised standards.

(iii) Oversight of Government Payments

- 6.5 On the institutional side, a proper framework should be set up for the effective oversight of Government payments. This would require clarifying the respective roles and responsibilities of the Office of Accountant General at the Ministry of Finance and Economic Development, the Bank as overseer of the NPS, and all Government agencies involved in the execution of Government payments and collection activities. A proper framework would also require making sure that all these entities are properly empowered to undertake such roles.

6.6 Fundamental Principles

The criteria used to designate a payment system as Systemically Important Payment Systems (SIPS) or payment systems of system wide importance (SWIPS) shall include the risk-based approach. The intensity of oversight is proportionate to the systemic or system-wide risks posed by a payment system;

- (a) Oversight of payments system is a public policy activity focused on the efficiency and safety of payments system as a whole, rather than on individual participants;
- (b) Domestic oversight practices are aligned with international oversight developments;
- (c) Regulation will adapt to innovation, where appropriate;
- (d) Surveillance to ensure safety and soundness of the NPS oversight framework.

6.7 Strategic Actions

- (a) Adopt and publish the revised Oversight Policy Framework;
- (b) Draft operational guidelines for the implementation of the Oversight Policy Framework;
- (c) Publicly adopt the PFMI as standards for designated payment infrastructures;
- (d) Identify relevant standards for the oversight of RPS;
- (e) Build up strong information capacity for oversight.

7. COOPERATION

7.1 Modernising the NPS and securing its effective operation requires cooperation among stakeholders at various levels. Cooperation should take place between the Bank and other regulators and supervisors; between the Bank and NPS stakeholders; and among the stakeholders.

(i) Cooperation between the Bank and Other Regulators and Supervisors

7.2 The Bank, represented by the Payments and Settlement Department (PSD), will maintain regular contacts with Non-bank Financial Institutions Regulatory Authority (NBFIRA), Botswana Communications Regulatory Authority (BOCRA), Competition and Consumer Authority (CCA) and Financial Intelligence Agency (FIA). Effective lines of communication and exchange of information will be put in place between these different agencies. Protocols will be agreed in order to define the terms of cooperation, determine the flows of information, and identify the operational modalities of the cooperative relationship, with the primary objective to facilitate and speed up the adoption of suitable action by those who are best placed to intervene in critical situations, whenever necessary.

7.3 The Bank and other relevant authorities will sign a Memorandum of Understanding (MoU), whereby all signatories agree to cooperate in carrying out their tasks with respect to their mutual responsibilities. The MoU describes the purpose of the agreement, the scope, procedures and terms and conditions for information sharing and for policy consultation and coordination. It also provides a list of contact points to which information or requests for information and assistance under the MoU should be directed. A multilateral MoU will, therefore, be signed between the Bank, BOCRA, FIA, CCA and NBFIRA to create the Joint Regulatory Working Group (JRWG) that will also be provided for in the legal framework.

7.4 Cooperation at the international level is becoming increasingly important. Where domestic payment systems are linked with non-domestic infrastructures, or where there are plans for international integration, cooperative arrangements should be established between the Bank, as a regulatory authority for Botswana's NPS, and foreign Central Banks and other relevant foreign institutions. This will be especially important in the context of SADC, in consideration of common initiatives in the area of regional payment system integration.

(ii) Cooperation between the Bank and NPS stakeholders

7.5 Cooperation is critical to improve both the quality and implementation of payments system policies, as well as to elaborate and implement a long-term vision of NPS development. The NPC/NPTF should serve as the national forum for strategy and policy dialogue and consultation on payments system issues and initiatives of common interest to all NPS stakeholders and allow for dialogue in a structured and formalised way. The NPC/NPTF structure should be supported by a secretariat, and working groups constituted with experts from stakeholder institutions.

7.6 The payments industry should consider creating an NPS association in the form of a payments system management body (PSMB). The PSMB would be an industry initiative. The PSMB would coordinate its members on NPS initiatives and ensure their implementation; set system rules and assess compliance to rules by members. The PSMB might have self-regulatory powers and would be overseen by the Bank. The PSMB could be complemented by payment scheme bodies involving PSPs operating within the same market segment (e.g., cards operators, mobile money providers, Fintechs, etc.). The establishment of the PSMB and its oversight by the Bank should be provided for under a new NPS Act.

7.7 Fundamental Principles

- (a) Cooperation is critical to improve both the quality and implementation of payments system policies;
- (b) The Bank to maintain regular contacts with: NBFIRA, BOCRA, CCA and FIA;
- (c) Relevant authorities to sign a Memorandum of Understanding (MoU), whereby all signatories agree to cooperate in carrying out their tasks with respect to their responsibilities;
- (d) Cooperative arrangements should be established between the Bank and other Central Banks and other relevant international institutions.

7.8 Strategic Actions

- (a) Establishing the JRWG;
- (b) Re-energise the NPC (to be provided for under a new NPS Act), expand scope of NPTF, and increase the frequency of its meetings;
- (c) Design appropriate governance arrangements for the NPC and NPTF;
- (d) Consider establishing a PSMB (to be provided for under the new NPS Act).

8. IMPROVE ACCESS, INTEROPERABILITY AND PARTICIPATION

8.1 Promoting wider access to payment services is a critical element in the NPS to allow for wider coverage and usage of the payments system by consumers. This is often achieved through innovative payment services, such as mobile payments and interoperability of payment systems, which is an important policy objective for Botswana NPS. Achieving interoperability requires collaboration between payments system participants as well as contribution from all levels of the value chain: regulators, system operators, banks, non-bank payment providers and users.

8.2 Fundamental Principles

- (a) Clear entry criteria and regulatory requirements for new participants;
- (b) Increased access and participation in the NPS should not compromise the safety and efficiency of the payments system;
- (c) Increased number of payment instruments used across institutions;
- (d) Regulatory frameworks should enable interoperability;
- (e) Increased standardisation and harmonisation between payment systems and instruments to increase efficiency and lower costs;
- (f) Improved choice for end users has the potential to boost financial inclusion.

8.3 Strategic Actions

- (a) Increase the accessibility of the payments system to new types of participants;
- (b) Enhance conducive regulatory framework for the introduction of innovative products;
- (c) Disclose entry criteria and other regulatory requirements for participants;
- (d) Establish appropriate forum for representation by non-bank stakeholders in the NPS for consultation on a strategic and operational level of the NPS;
- (e) Investigate and monitor interoperability and provide position on interoperability in the NPS;
- (f) Adopt global standards to enable future interoperability in a cross-border environment;
- (g) Foster domestic, regional and global interoperability.

9. RISK MANAGEMENT

9.1 The safety of payments system is of paramount importance to the economy. The advancement in technology has presented an opportunity for payment system providers to develop innovative products and services. However, these advances present changes in the risk landscape with increased exposure to cyber-risks, money laundering and terrorism financing. All payment systems must have sound risk management frameworks in place, and all risk management practices should reflect the interconnected nature of the payments ecosystem and payments value chain. These frameworks should be regularly reviewed to ensure that they remain fit for purpose in light of any changes in the economy and new technological developments. The continued evolution of technology and the related cyber-threats require payments system participants to understand and mitigate potential systemic risks to ensure the continued stability and security of the NPS.

9.2 Fundamental Principles

- (a) Apply risk-based fit-for-purpose regulation to all participants engaging in similar payment activities and services;
- (b) All payment systems have sound and appropriate risk management frameworks for comprehensively managing legal, credit, liquidity, operational and other risks, at entry point and on an ongoing basis;
- (c) All payment systems identify the plausible sources of operational risks (internal and external) and mitigate their impact through the use of appropriate systems, policies, procedures and controls;
- (d) Risk reduction initiatives are embedded within best practice risk management frameworks.

9.3 Strategic Actions

- (a) Drive industry collaboration to design and implement cybersecurity incident response teams for payment systems, where appropriate;
- (b) Align to global regulatory and governance principles where applicable, such as the Principles for Financial Market Infrastructures;
- (c) Enhance cyber resilience of critical payments infrastructures.
- (d) Formulate an NPS cyber-security policy framework to mitigate cyber risk and to improve the NPS capacity to respond to cyber-attacks.

10. PUBLIC EDUCATION AND PUBLIC OUTREACH PROGRAMMES

10.1 The objective of the Public Education Programme is to sensitise the public to the safe use, benefits and risks associated with the NPS. The Bank, in cooperation with the payments system stakeholders, will educate users on general and specific National Payments System developments and related issues, including the use of payment products and services through targeted public education and public awareness programmes. This action will be promoted to support national financial literacy.

10.2 Fundamental Principles

The public education material should explain the procedures for acquiring services; the improvements the new services bring to user convenience, cost, and transaction safety; user rights and ways to protect them; and user responsibilities and liabilities for service misuse.

10.3 Strategic Actions

- (a) Build knowledge and promote public education on NPS issues;
- (b) Participate in public education forums;
- (c) Regular update and maintenance of payments system issues in the Bank website;
- (d) Regular publication of Tsa Tuelano newsletter;
- (e) PSPs will be required to develop and disseminate basic educational materials on new payment instruments, channels and services;
- (f) Payment Services Providers could supplement the basic material with additional information (through booklets and/or website pages) on their services.

11. FINANCIAL TECHNOLOGIES (FINTECH) DEVELOPMENTS

11.1 The NPS will leverage Fintech to improve access to financial services and facilitate broader digital transformation. Fintech companies will be embraced to foster the development of innovative payment services to meet the changing customer preferences and expectations without compromising the safety and soundness of the NPS. The latest wave of transformation is bringing Fintech to the forefront of the financial services exchange. Fintech companies offer possible partnerships and collaborative relationships with other payment services providers that can help enhance the customer experience and promote mutually beneficial relationships. This will also involve opportunities for harnessing emerging technologies such as Distributed Ledger Technologies (DLTs) and blockchains with the view to promote their use where there are benefits associated with same and avenues for their application in the NPS. A key element in this regard is understanding the business impact and potential risks involved in these technological developments.

11.2 Fundamental Principles

- (a) Consumers benefit from increased innovation, new payment products, and fairly priced services.
- (b) Payment systems provide sufficient information to enable participants to have an accurate understanding of the risks, fees and other material costs.
- (c) Understand the business impact and potential risks involved in new technological developments.

11.3 Strategic Actions

- (a) Review and assess the potential impact of new technologies such as Application Programming Interface (API), DLT, the Internet of Things (IoT), Central Bank Digital Currencies (CBDC) and other Fintech offerings on the NPS and central bank monetary policy transmission;
- (b) Assess the appropriateness of financial innovation hubs and sandboxes for Botswana, and their possible implementation;
- (c) Establish a function within the Bank to monitor Fintech developments and other related issues;
- (d) To explore use of blockchain distributed ledger technology to enhance efficiency and resilience of the payment infrastructure;
- (e) Assess impact of stable coins and central bank issued digital currency.

APPENDIX

Action Plan for Implementation of Vision & Strategy for Botswana NPS Modernisation 2020 – 2024



Short Term < 1 year



Medium Term 1 – 2 years



Long Term 2 – 5 Years

Reference	Strategic Objective	Responsible Institution	Timing
2. The Payment and Securities Settlement Infrastructures			
(i)	Assess BISS and BACH systems against the PFMI and other relevant standards	BoB, BAB	Short Term < 1 year
(ii)	Set up a collateral-based guarantee scheme in the BACH system to ensure timely settlement	BoB, BAB	Short Term < 1 year
(iii)	Link CSD to BISS	BoB, CSD	Short Term < 1 year
(iv)	Implementation of single CSD infrastructure	BoB, BSE	Short Term < 1 year
(v)	Introduce a threshold for “large value” payments	BoB	Short Term < 1 year
(vi)	Review and amend the fee structure in the BISS and BACH	BoB	Short Term < 1 year
(vii)	Expand participation in BISS and BACH, taking risk consideration into account	BoB, BAB	Medium Term 1 – 2 years
3. The Legal Framework			
(i)	Introduce new NPS Act	BoB/MFED	Medium Term 1 – 2 years
(ii)	Undertake review of laws that are relevant to the NPS	BoB	Medium Term 1 – 2 years
4. Government Payments			
(i)	Integrate Government payments into NPS modernisation strategy	BoB/MFED	Medium Term 1 – 2 years
(ii)	Consider establishing a Government-Bank task force to leverage Government payment programs for NPS modernisation	BoB/MFED	Medium Term 1 – 2 years
(iii)	Create users register for PSPs linked to national database on citizen information (for KYC purposes)	NPS Stakeholders	Long Term 2 – 5 Years
5. Retail Payments			
(i)	Encourage PSP participation in the SADC low-value payments initiatives	BoB	Short Term < 1 year

Reference	Strategic Objective	Responsible Institution	Timing
(ii)	Encourage and support participation in SADC cross-border initiatives	BoB	
(iii)	Collect and elaborate information on retail payment services	BoB	
(iv)	Provide guidance and standards for NRPS	BoB	
(v)	Strengthen fraud detection and data security	All Stakeholders	
(vi)	Impose maximum value limits on EFTs and cheques	BoB	
(vii)	Provide guidance on international best practice on interoperability	BoB	
(viii)	Allow a wider range of PSPs to offer international remittance services	BoB	
(ix)	Strengthen the commitment of RPS stakeholders by prompting cooperation and building capacity	NPS Stakeholders	
(x)	Ensure an enabling environment for RPS development	BoB	
(xi)	Proceed with the national retail payments switch project	NPS Stakeholders	
(xii)	Consider initiatives to improve the retail payments infrastructure and deliver higher convenience to customers	BoB	
(xiii)	Incentivise the diffusion and use of electronic payment instruments	NPS Stakeholders	
(xiv)	Ensure price transparency in the payment service market	BoB	
(xv)	Sensitise the public on NPS issues strengthen customer education	NPS Stakeholders	
(xvi)	Review and take stock of Botswana's market for international remittance services, and identify actions to strengthen it	BoB	
(xvii)	Reduce use of cheques	BAB/BoB	
(xviii)	Reduce use of cash	BoB	
(xix)	Improve consumer education and protection	NPS Stakeholders	
(xx)	Ensure NPS entities adopt adequate DRPs and BCPs	NPS Stakeholders	
6. Oversight of The NPS			
(i)	Adopt and publish new Oversight Policy Framework	BoB	
(ii)	Develop operational guidelines for implementation of new Oversight Policy Framework	BoB	
(iii)	Publicly adopt the PFMI as standards for designated payment infrastructures	BoB	

Reference	Strategic Objective	Responsible Institution	Timing
(vi)	Identify relevant standards for oversight of the RPS	BoB	
(v)	Build capacity for oversight, especially in the areas of legal, market and risk analysis	BoB	
(vi)	Oversight of cross-border payments (e.g., SADC-RTGS)	BoB	
(vii)	Set up a framework for the effective oversight of Government payments	BoB, OAG	
7. Cooperation			
(i)	Establish the JRWG	BoB	
(ii)	Expand scope of the NPTF and increase the frequency of meetings	BoB	
(iii)	Revitalise the NPC (possibly grounded in the new payment system law)	BoB	
(iv)	Design appropriate NPC/NPTF governance and organisation	BoB	
(v)	Consider establishing PSMB and payment schemes	BoB	
8. Improve Access, Interoperability and participation			
(i)	Disclose entry criteria and other regulatory requirements for participants	BoB	
(ii)	Establish appropriate forum for representation by non-bank stakeholders in the NPS for consultation on a strategic and operational level of the NPS.	BoB	
(iii)	Investigate and monitor interoperability and provide position on interoperability in the NPS	BoB	
9. Risk Management			
(i)	Drive industry collaboration to design and implement cyber-security incident response teams for payment systems, where appropriate	BoB	
(ii)	Align to global regulatory and governance principles where applicable, such as the Principles for Financial Market Infrastructures.	BoB	
(iii)	Enhance cyber resilience of critical payments infrastructures	BoB	
(iv)	Set up an NPS cyber-security policy framework to mitigate cyber risk and to improve the NPS capacity to respond to cyber-attacks.	BoB	

Reference	Strategic Objective	Responsible Institution	Timing
10. Public Education and Public Outreach Programmes			
(i)	Participate in public education forums	BoB	
(ii)	Regularly update and maintenance of payment systems issues on the Bank website	BoB	
(iii)	Regular publication of Tsa Tuelano newsletter	BoB	
(iv)	Payment Services Providers to publish information (through booklets and/or website pages) on their services.	BoB, PSPs	
11. Financial Technologies Developments			
(i)	Review and assess the potential impact of new technologies such as APIs, DLT, the Internet of Things (IoT), Central Bank Digital Currencies (CBDC) and other Fintech offerings.	BoB	
(ii)	Assess the appropriateness of financial innovation hubs and sandboxes for Botswana, and their possible implementation.	BoB	
(iii)	Establish a function within the Bank to monitor Fintech developments and other related issues.	BoB	



