

BANK OF BOTSWANA



**NATIONAL PAYMENT SYSTEMS OVERSIGHT
POLICY**

Table of Contents

1. Introduction	3
2. Legal Basis	3
3. Objectives of Oversight of Payment Systems	3
4. Guiding Principles for Oversight	4
5. Scope of Oversight	5
7. Focus of NPS Oversight	6
8. Oversight Approach	7
11. Oversight Monitoring Tools	11
12. Cooperative Oversight with Stakeholder Authorities.....	11
13. Engagement of Stakeholders	12
14. Maintenance and Updates to Policy	12

Acronyms

<i>BACH</i>	<i>Botswana Automated Clearing House</i>
<i>BISS</i>	<i>Botswana Interbank Settlement System</i>
<i>CCP</i>	<i>Central Counterparty</i>
<i>CPMI</i>	<i>Committee on Payments and Market Infrastructures</i>
<i>CSD</i>	<i>Central Securities Depository</i>
<i>EPS</i>	<i>Electronic Payment Service</i>
<i>FATF</i>	<i>Financial Action Task Force</i>
<i>FMI</i>	<i>Financial Market Infrastructures</i>
<i>IOSCO</i>	<i>International Organisation of Securities Commissions</i>
<i>MVTS</i>	<i>Money or Value Transfer Services</i>
<i>NPS</i>	<i>National Payment System</i>
<i>PFMI</i>	<i>Principles for Financial Market Infrastructures</i>
<i>RTGS</i>	<i>Real Time Gross Settlement</i>
<i>SIPS</i>	<i>Systemically Important Payment Systems</i>
<i>SSS</i>	<i>Securities Settlement Systems</i>
<i>TR</i>	<i>Trade Repository</i>

1. Introduction

- 1.1 *The National Payments System Oversight Policy sets out the objectives, scope, general principles and procedures that will guide the Bank of Botswana (the Bank) in the performance of its functions relating to oversight of the National Payments System (NPS).*
- 1.2 *The principal objectives of the Bank, as set out in the Bank of Botswana Act (Cap. 55:01) are first and foremost to promote and maintain monetary stability, an efficient payments mechanism and the liquidity, solvency and proper functioning of a sound monetary, credit and financial system in Botswana. To this extent, oversight, as a function of the Bank, contributes significantly to the achievement of these objectives.*

2. Legal Basis

- 2.1 *Oversight has become more formal and systematic, namely, a function whereby the objectives of safety and efficiency of the payment systems are supported by law and regulations. In this regard, the Bank oversight responsibility for payment systems is derived from the National Clearance and Settlement Systems (NCSS) Act [CAP. 46:06], specifically section 3(3) (c). The Act empowers the Bank to recognise, operate, regulate and supervise payment systems. Further, the Electronic Payment Service (EPS) Regulations, 2019, empower the Bank, and provide a framework for the oversight of the electronic payment service providers.*

3. Objectives of Oversight of Payment Systems

- 3.1 *Oversight of payment systems is a Central Bank function, principally intended to promote the smooth functioning of payment systems and to protect the financial system from systemic risk¹. Payment systems oversight aims at a given system (for example, a funds transfer system) rather than individual participants. The Bank, in fulfilling its oversight responsibilities, will pursue the following objectives:*
 - (a) *maintain stability in the payment systems by continuous assessment of risks and maintenance of mitigation measures that reduce their exposure to risks, particularly systemic risks;*
 - (b) *foster safety and efficiency of payment systems through adequate system design;*
 - (c) *foster security and efficiency of payment instruments used by the public, and associated clearing facilities;*
 - (d) *encourage fair access to payment systems for market participants;*
 - (e) *promote public interest in payment system products and services;*

¹ Systemic risk occurs when a crucial settlement system fails or if a payment system participant cannot meet its obligations, setting off a chain reaction that puts other system participants in difficulty.

- (f) *foster the public’s confidence in the NPS;*
- (g) *ensure that payment system providers and participants conduct their operations in a fair and transparent manner with full disclosure and avail processes for consumer recourse; and,*
- (h) *ensure that payment systems are operated in line with relevant legislation, international best practice and standards.*
- (i) *ensure that payment system providers, including money or value transfer services, identify and mitigate risks of money laundering and terrorist financing through compliance with the essential requirements set out in the Financial Action Task Force (FATF) recommendations “International Standards on Anti-Money Laundering, Combating the Financing of Terrorism and the financing of proliferation of weapons of mass destruction”.*

4. Guiding Principles for Oversight

4.1 The Bank’s oversight activities will be guided by the following principles:

- (a) **Transparency:** *the Bank shall publicise its oversight policies and standards for payment systems. Transparency enables payment systems operators to better understand and observe the applicable policy requirements and standards.*
- (b) **International Standards:** *relevant internationally recognised standards shall be adopted for payment and settlement systems oversight activities.*
- (c) **Exercise of Statutory Authority:** *the Bank shall use its authority under the relevant laws to induce change and, where necessary, mandate payment systems providers to conduct themselves in the broader interest of the system, its participants and stakeholders. The Bank will, as much as possible, engage in dialogue with payment systems providers and will use moral suasion as ways to create a conducive policy environment for participants to conduct their affairs in a manner that will promote the safety and efficiency of the systems. The Bank, however, will evoke its statutory powers in all circumstances where it recognises the need for prompt response from participants, where there are issues of non-compliance with rules, or where dialogue and moral suasion fail to produce concrete results and yet compelling action from stakeholders is required for public interest purposes.*
- (d) **Consistency:** *oversight standards will be applied consistently across comparable payment and settlement systems.*
- (e) **Cooperation in oversight:** *the Bank will cooperate with other stakeholder regulatory authorities, both domestically and internationally, to foster efficient and effective communication and consultation in order to support each other in fulfilling their respective mandates with respect to payment systems.*

5. Scope of Oversight

5.1 Oversight activities cover the following:

- (a) all payment systems which are recognised as Systemically Important Payment Systems (SIPS); for example, Botswana Interbank Settlement System (BISS), Botswana Automated Clearing House (BACH) and Central Securities Depository Company of Botswana (CSDB).*
- (b) other non-SIPS, as may be deemed necessary by the Bank, taking into account their collective effect on the payment and settlement systems in Botswana, and the extent to which their operations will affect public confidence in payment systems;*
- (c) money transfer entities and other payment intermediaries; and*
- (d) payment instruments such as cheques, payment cards, mobile money transfers and direct credit and debits, among others.*

5.2 The dynamic nature of the NPS, technological innovation and the expansion of the regulatory scope shall result in the expansion of the oversight scope to include new payment system participants and new payment instrument schemes. Therefore, the scope and depth of oversight may change over time as payment and settlement systems themselves change.

5.3 The Oversight activities shall not apply to:

- (a) limited services based on specific payment instruments that meet the following conditions:
 - (i) instruments allowing the holder to acquire goods or services only in the premises of the issuer;*
 - (ii) instruments within a limited network of service providers under direct commercial agreement with the issuer;*
 - (iii) instruments which can be used to acquire a very limited range of goods or services;**
- (b) payment transactions made exclusively in cash directly from the payer to the payee, without any intermediary intervention;*
- (c) payment transactions carried out between payment service providers, their agents or branches for their own account;*

6. Risks in Payment Systems

6.1 Risk is the probability of loss or any other negative occurrence caused by external or internal vulnerabilities that may cause a disruption, gridlock and/or loss of value which could be avoided or contained through preemptive action.

- 6.2 *Oversight of payment systems includes the identification, management, containment and reduction of payment risk in the NPS. Risks in payment systems include legal, operational, credit, liquidity, settlement, reputational, systemic, money laundering and financing of terrorism, among others. The Bank will focus on the mitigation of these risks (defined in Appendix IV) in order to prevent systemic disturbances and failure of the NPS.*
- 6.3 *A sound risk management framework would assist with the mitigation, containment and avoidance, where possible, of risks, which may affect the safe and efficient operation of the payment systems.*
- 6.4 *The risk management framework comprises the following processes, for each payment system, service provider, instrument or activity:*
- (a) adequate financial, material and human resources for carrying out the activities;*
 - (b) clear identification of risks and sound objectives to manage identified risks;*
 - (c) sound governance arrangements for the payment systems;*
 - (d) clear and appropriate rules and procedures which will specify the duties/responsibilities and rights of all participants in the risk management process;*
 - (e) generation and regular submission of payment services providers (PSPs) operations reports to the central bank; and,*
 - (f) maintenance of documented business continuity policy by PSPs that addresses events that may pose significant risk of disruptions to operations.*

7. Focus of NPS Oversight

- 7.1 *The oversight approach shall focus primarily on the following:*
- (a) the completeness and suitability of the operating rules and procedures of payment, clearing and settlement systems, and their compliance with the NCSS Act and EPS Regulations and other applicable regulatory requirements, standards and best practice, particularly in terms of the criteria for participation in the systems and the conditions for suspension or exclusion from such systems;*
 - (b) the adequacy of risk management measures for designated payment systems;*
 - (c) the adequacy of the technical infrastructure and the procedures safeguarding the authenticity of transactions, the prevention of fraud and the systems capability to settle transactions at the end of the business day, in the event of technical or operational difficulties;*

- (d) *the terms and conditions that shall include, but not limited to, execution times and value dates, and cost for the use of payment products and services, the observance of provisions in the transparency of transactions, the adoption of internationally recognised standards and the interoperability of the systems, products and services that support the use of payment products and services;*
- (e) *examination of cross-border payment, clearing and settlement arrangements;*
- (f) *demonstration of existence and maintenance of Service Level Agreements with third parties; and*
- (g) *investigation of unauthorised entities operating in Botswana.*

8. Oversight Approach

- 8.1 *The Bank will pursue a risk-based approach, in the oversight of payment and settlement systems.*
- 8.2 *Risk-based approach is a proactive framework that allocates resources based on risk profile of a payment system. The Bank will assess and classify payment systems based on systemic importance with the objective of focusing oversight activities and resources on the systems that pose highest and significant risk to the stability of the NPS. A risk-based approach will allow for the identification and coordination of strategies to address payment systems related risks, captured in a risk register (See Appendix VI). Consequently, all systems will be accorded appropriate level of oversight attention.*
- 8.3 *The Bank will classify systems that it considers to be critical for oversight either because they are SIPS or because they have a significant impact on people's confidence in the payment system. The criteria below will be used to determine the importance of the respective payment systems:*
 - (a) *the value and volume of the payments that are processed in the system, either in aggregate or individually;*
 - (b) *the nature of the payments the system handles (for example, a system that is used to settle payments from other payment systems; or a system handling payments made in settlement of financial market infrastructures);*
 - (c) *it is the only payment system in the country;*
 - (d) *it handles mainly payments of high individual value;*
 - (e) *the system's potential of causing significant credit and liquidity disruptions in the economy should it fail to perform as expected.*
 - (f) *the size and concentration of financial risks within the payment system,*

- (g) *interoperability of a system;*
- (h) *the markets in which the payment system is active; and*
- (i) *interdependence with other payment systems or markets.*

9. Standards

9.1 *In addition to system rules, guidelines, the Bank will use internationally recommended payment systems standards, such as Principles for Financial Market Infrastructures (PFMIs) and best practice to conduct the oversight activities. Payment systems that are classified as SIPS will automatically be considered as Financial Market Infrastructures (FMIs) in terms of the PFMIs (Appendix I). Such systems will be required to comply with relevant PFMIs. The Bank's oversight function is further guided by the BIS CPMI five responsibilities for market regulators and central banks (Appendix II); and any other oversight requirements set by the Bank. The Bank may also issue relevant guidelines in line with market requirements.*

10. Oversight Process

10.1 *Oversight activities shall include licensing and recognition, monitoring, analysis, inducing change and reporting on market developments, trends and opportunities.*

(a) Licensing, Recognition and Registration

10.2 *The Bank will recognise clearing and settlement systems operators, license electronic payment service providers, including MVTs and register payment instruments per the NCSS Act and Electronic Payment Service Regulations. For any system or service proposed, an initial oversight assessment will be carried out as part of the oversight process leading to approval of the system/service. The objective of the process is to bring payment systems operators and service providers within the regulatory purview of the Bank, and to be able to collect information that becomes the basis for monitoring and assessment of the performance of the payment system.*

(b) Monitoring

10.3 *In order to perform out effective oversight, the Bank must have a good understanding of how payment systems function and how they relate to each other as part of the overall financial system. In this regard, the Bank must be granted access to information on the design and operation of systems, in line with Section 8 of the NCSS Regulations. Monitoring is an ongoing activity that results in the presentation of a number of different reports that help improve understanding of the functioning of payment systems, as well as their interdependencies and impact on the overall financial stability. The information covers:*

- (i) *System design and architecture;*
- (ii) *Monitoring of systems and their rules and procedures;*

- (iii) *Statistical data reporting;*
- (iv) *Questionnaires to gain relevant non-financial information;*
- (v) *On-site visits and inspections;*
- (vi) *Activity and incident related data, such as concentration ratios, system availability rates, settlement data, etc.;*
- (vii) *Information related to important system changes and new business developments;*
- (viii) *Information concerning the systems' risk exposures, if any;*
- (ix) *Financial data;*
- (x) *Periodic assessments of operating systems against international standards, i.e. PFMI's;*
- (xi) *Cooperation with other financial regulators;*
- (xii) *Understanding market practices;*
- (xiii) *Information concerning governance and internal rules and procedures;*
- (xiv) *Bilateral and multilateral discussions;*
- (xv) *Other variables that may convey useful information.*

(c) **Off-site Monitoring**

10.4 *Offsite monitoring is conducted on an ongoing basis using the following;*

- (i) *Returns from NPS participants; and*
- (ii) *Market intelligence (information from open sources or whistleblowing).*

10.5 *The data and information collected is used to draw up reports and identify risks and trends in the NPS.*

(d) **On-site Inspections**

10.6 *On-site inspections are based on the risk profile of the payment system derived from offsite assessment and market intelligence. Periodic on-site inspections are therefore based on the magnitude and nature of the risks identified from the off-site activities. On-site inspections should be performed at least every 2 years. Findings from the on-site inspections will be monitored through the off-site framework.*

10.7 *The inspections shall be carried out in line with the plan of activities of the Payments and Settlement Department.*

(e) **Analysis of Information**

10.8 *The information obtained is analysed by the Bank with particular attention to the following;*

- (i) *Identification of risks and shortcomings in the design and operation of the payment system, i.e. system security etc.;*
- (ii) *Review of systemically important payment systems against PFMI's;*

- (iii) *Assessment of changes to system's design;*
- (iv) *Assessment of systems in the course of design.*

10.9 The results of payment systems assessment and risk analysis, and the ongoing evaluation of payment systems development issues and trends, may point to the need for undertaking NPS changes in operations, procedures, or governance structures; which the Bank, in its catalyst role, shall propel.

(f) *Risk and Crisis Management*

10.10 The Bank analyses payment system incidents. In the event of an incident, the Bank determines the overall scale and impact of the incident and this, in turn, triggers specific types of investigation and reporting activities. Incidents are classified as "major" or "minor", and this is based on the evaluation of factors indicating the impact and consequences of the event. If the incident is judged "relevant", the Bank examines the action plan proposed by the operator of the affected system to restore normal operations, if this has been compromised, and prevent the re-occurrence of similar incidents in the future, the Bank will recommend further action if necessary, and prepare reports on the incidents and follow-up action. The Bank will meet the system operators on a periodic basis and whenever circumstances may so require, to exchange information and to discuss operational issues with particular attention to possible sources of incidents and related responses.

(e) Inducing Change

10.11 The Bank will use the policy dialogue with stakeholders and, through moral suasion supported by voluntary agreements with NPS stakeholders, make recommendations to induce change. The Bank will issue directives to enforce change where it recognises the need for prompt response from participants, where there are issues of non-compliance with statutory requirements and market rules, or where dialogue and moral suasion fail to produce concrete results and yet compelling action from stakeholders is required for public interest purposes.

11. Oversight Monitoring Tools

11.1 The Bank will use the following tools for oversight monitoring:

- (i) continuous policy dialogue with the participants and relevant stakeholders in the National Payments System;*
- (ii) continuous monitoring of the operations of any payment systems and risk management practices which shall include business continuity management for recognised payment systems;*
- (iii) analysis of data and information through profiling, assessments, and other sources;*
- (iv) participation in payment systems fora to further understand and contribute to the resolution of disputes between participants;*
- (v) analysis of reports from relevant Departments within the central bank which impact on payment systems;*
- (vi) ongoing appreciation of key documents such as payment systems agreements and legislation;*
- (vii) monitoring of trends and developments in payment systems regionally and globally;*
- (viii) conducting market surveys on the use of payment instruments and evaluating major changes in a payment system; and,*
- (ix) issuing of rules and regulations.*

12. Cooperative Oversight with Stakeholder Authorities

12.1 The Bank shall endeavor to cooperate with other regulators in order to ensure that payment systems are effectively complying to risk management standards.

12.2 Payment systems in Botswana are increasingly inter-dependent through a multiplicity of links, both domestically and internationally, involving entities that operate under the

jurisdiction of different regulators, supervisors and overseers. Therefore, cooperation between the Bank and other authorities will be essential to ensure that their responsibilities can be fulfilled efficiently and effectively, even during periods of market stress, crisis situations, and the potential recovery, wind-down, or resolution of a payment system provider. These authorities may include the Non-Bank Financial Institution Regulatory Authority (NBFIRA), Financial Intelligence Agency (FIA), Botswana Communications Regulatory Authority (BOCRA), and Competition Authority (CA), among others as necessary.

12.3 This cooperation will endeavor to reduce the probability of gaps in regulation, supervision, and oversight, and minimise the potential duplication of effort and the oversight/regulatory burden on the payment systems or the regulators, and will take place without prejudice to the responsibilities of each cooperating authority. The Memoranda of Understanding will facilitate cooperation.

13. *Engagement of Stakeholders*

13.1 Successful implementation of this oversight policy will require cooperation of all NPS stakeholders including participants, infrastructure providers, service providers and stakeholder regulators.

14. *Maintenance and Updates to Policy*

14.1 This oversight framework is a living document and shall be updated as required to ensure the robustness and efficient operations of the Botswana National Payments System.

14.2 The effective implementation date shall be _____.

Appendix I

The table below depicts the applicability of the principles to each type of FMI as defined in the Bank for International Settlement (BIS) website.

	<i>PS</i>	<i>CSD</i>	<i>SSS</i>	<i>CCP</i>	<i>TR</i>
<i>1. Legal Basis</i>	●	●	●	●	●
<i>2. Governance</i>	●	●	●	●	●
<i>3. Framework for the comprehensive management of risks</i>	●	●	●	●	●
<i>4. Credit risk</i>	●		●	●	
<i>5. Collateral</i>	●		●	●	
<i>6. Margin</i>				●	
<i>7. Liquidity risk</i>	●		●	●	
<i>8. Settlement finality</i>	●		●	●	
<i>9. Money settlements</i>	●		●	●	
<i>10. Physical deliveries</i>		●	●	●	
<i>11. Central securities depositories</i>		●			
<i>12. Exchange-of-value settlement systems</i>	●		●	●	
<i>13. Participant-default rules and procedures</i>	●	●	●	●	
<i>14. Segregation and portability</i>				●	
<i>15. General business risk</i>	●	●	●	●	●
<i>16. Custody and investment risks</i>	●	●	●	●	
<i>17. Operational risk</i>	●	●	●	●	●
<i>18. Access and participation requirements</i>	●	●	●	●	●
<i>19. Tiered participation arrangements</i>	●	●	●	●	●
<i>20. FMI links</i>		●	●	●	●
<i>21. Efficiency and effectiveness</i>	●	●	●	●	●
<i>22. Communication procedures and standards</i>	●	●	●	●	●
<i>23. Disclosure of rules, key procedures, and market data</i>	●	●	●	●	●
<i>24. Disclosure of market data by trade repositories</i>					●

PS-Payment Systems; *CSD* - Central Securities Depository; *SSS* - Securities Settlement Systems; *CCP* - Central Counterparties; *TR* – Trade Repository

Responsibilities of Central Banks, Market Regulators, and Other Relevant Authorities for Financial Market Infrastructures²

Responsibility A: Regulation, supervision, and oversight of FMIs

FMIs should be subject to appropriate and effective regulation, supervision, and oversight by a central bank, market regulator, or other relevant authority.

Responsibility B: Regulatory, supervisory, and oversight powers and resources

Central banks, market regulators, and other relevant authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing FMIs.

Responsibility C: Disclosure of policies with respect to FMIs

Central banks, market regulators, and other relevant authorities should clearly define and disclose their regulatory, supervisory, and oversight policies with respect to FMIs.

Responsibility D: Application of the principles for FMIs

Central banks, market regulators, and other relevant authorities should adopt the Committee on Payments and Market Infrastructures (CPMI) - the International Organisation of Securities Commissions (IOSCO) Principles for Financial Market Infrastructures and apply them consistently.

Responsibility E: Cooperation with other authorities

Central banks, market regulators, and other relevant authorities should cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs.

² Extracted from the Publication “Principles for Financial Market Infrastructures”, BIS 2012

Definition of Terms³

Central Counterparty - An entity that intercede itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.

Financial Market Infrastructure - a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives, or other financial transactions.⁴

National Payments System - a National Payments System encompasses all payment-related activities, processes, mechanisms, infrastructure, institutions and users in a country.

Oversight - the oversight of payment systems is a typical central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against the applicable standards and principles whenever possible and, where necessary, fostering change. Oversight activities increasingly relate also to securities clearing and settlement systems.

Payment Instruments - a tool or a set of procedures enabling the transfer of funds from a payer to a payee.

Payment Intermediary - An entity that acts as the middle-man between two parties in a financial transaction.

Payment system - is a set of money transfer systems enabling circulation of funds. A payment system comprises a number of institutions, system operating rules and procedures, and rules and standards for processing transfers initiated by different instruments of payment. The process of transfer consists of information exchange – transfer and settlement instructions and settlement - final execution of transfer.

Securities Settlement Systems - are any entity providing services enabling cash deposits and withdrawals, execution of payment transactions, issuing and or acquisition of payment instruments, money remittances and any other service functional to the transfer of money.

Systemically Important Payment Systems - a payment system is systemically important where, if the system were insufficiently protected against risk, disruption within it could trigger or transmit further disruptions amongst participants or systemic disruptions in the financial area or more widely.

Trade Repository - an entity that maintains a centralised electronic record (database) of transactional data.

³ Adopted from BIS Glossary of Terms used in Payments and Settlement Systems Publication

⁴ BIS Principles for Financial Market Infrastructures

Risks in Payment and Settlement Systems and Mitigation Measures

	Type of risk	Mitigation
1.	<i>Legal risk</i>	<i>The risk of loss because of the unexpected application of a law or regulation, because a contract cannot be enforced, or because laws or regulations do not support the rules of the securities settlement system, the performance of related settlement arrangements, or the property rights and other interests held through the settlement system. Legal risk also arises if the application of laws and regulations is unclear, opaque or deficient.</i>
2.	<i>Operational risk</i>	<i>The risk that deficiencies in information systems or internal controls could result in unexpected losses. These deficiencies could be caused by human error or a breakdown of some component of the hardware, software or communications systems that are crucial to settlement.</i>
3.	<i>Systemic risk</i>	<i>The risk that the failure of one participant in a transfer system, or in financial markets generally, to meet its required obligations will cause other participants or financial institutions to be unable to meet their obligations (including settlement obligations in a transfer system) when due. Such a failure may cause significant liquidity or credit problems and, as a result, might threaten the stability of financial markets.</i>
4.	<i>Systemic disruption</i>	<i>Events whose impact has the potential to threaten the stability of the financial system, by transmission from one financial institution to another, including through the payment system.</i>
5.	<i>Credit risk</i>	<i>The risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. In exchange for value systems, the risk is generally defined to include replacement cost risk and principal risk.</i>

6.	<i>Liquidity risk</i>	<i>The risk that a counterparty (or participant in a settlement system) will not settle an obligation for full value when due. Liquidity risk does not imply that a counterparty or participant is insolvent since it may be able to settle the required debit obligations at some unspecified time thereafter.</i>
7.	<i>Reputational risk</i>	<i>The risk of loss of confidence in the payment system due to lack of management control, capacity, security, business continuity plans and/or contingency measures.</i>
8.	<i>Settlement risk</i>	<i>General term used to designate the risk that settlement in a transfer system will not take place as expected. If a party defaults on one or more settlement obligations to its counterparties or to a settlement agent, this can generate both credit and liquidity risk.</i>
9.	<i>Confidentiality risk</i>	<i>The exposure against unauthorised disclosure of system information</i>
10.	<i>Money Laundering risk</i>	<i>The risk of processing of criminal proceeds to disguise their illegal origin” in order to legitimise the ill-gotten gains of crime.</i>
11	<i>Financing of terrorism risk</i>	<i>The risk of processing financial transactions destined to finance activities for carrying out terrorist attacks.</i>

Payments Systems Categories

<i>CATEGORY</i>	<i>COMPONENTS</i>	<i>CRITERIA</i>
<i>Large value payment system</i>	<i>Botswana Inter Bank Settlement System (BISS)</i>	<i>Handles large value interbank payments</i>
<i>Retail payment system</i>	<i>Botswana Automated Clearing House (BACH)</i>	<i>Handles large volumes of payments of relatively low value, (for clearing Electronic Funds Transfers and Cheques).</i>
<i>Securities settlement system</i>	<i>Central Securities Depository Botswana (CSDB)</i>	<i>Handles clearance and settlement of securities traded on the local exchange.</i>

