

PREAMBLE / PREFACE TO THE NEWSLETTER

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The Bank of Botswana (BoB) has statutory responsibility for promoting and overseeing efficiency of payments, clearing and settlement systems in Botswana. A sound payments, clearing and settlement system is an integral part of the financial infrastructure necessary for the stability of the financial sector and a mitigation against systemic disturbances and risks. Pursuant thereto, the Bank undertakes the settlement arrangements for clearing banks (domestic commercial banks that hold accounts at the BoB) through a Real Time Gross Settlement (RTGS) system, officially known as Botswana Interbank Settlement System (BISS), as well as regulation and oversight of the

national payments system, to ensure it functions efficiently and reliably in the interests of all participants. A robust legal framework is in place to support the National Payments System (NPS) underpinned by the National Clearance and Settlement Systems (NCSS) Act, 2003.

The objective of this newsletter "Tsa-Tuelano" is to provide information on the developments and initiatives taking place in the payments and settlement environment, thereby ensuring the public is sufficiently informed on objectives, activities, services offered and milestones achieved in the reform and modernisation of the nation's payments and settlement systems.

The Need for an Effective Oversight Process in Payments and Settlement Systems

A payment system is a critical component of the financial infrastructure in any economy; it facilitates payment transactions and, by operating efficiently and reliably, reduces the costs and risks associated with monetary settlement of claims between market participants relating to transactions in goods, services and financial instruments. For this reason, and consistent with financial stability objectives, central banks have a special interest in the security and operational efficiency of payments systems.

Central banks safeguard this interest through the oversight of payments systems. Thus, oversight of payments systems is an integral part of a central bank mandate, principally intended to promote the smooth functioning of payments systems and to protect the financial system from possible 'domino effects', which may occur when one or more members in a payment system experience financial distress or difficulties. Payments systems oversight is focused on a given system (e.g. funds transfer system) rather than individual participants. An

increased role of the central banks has been determined by the significant increase in the volumes and values of transactions, the increased concentration of electronic payment systems, and their technological complexity, which in the event of inadequate risk management practices, could threaten financial stability.

Payments systems are, nevertheless, exposed to a variety of risks, and because many rely on telecommunications networks, some of these risks may be transmitted throughout the financial system. For example, the financial or operational failure of one payment system participant can adversely affect other participants within the system, such that exposures may have arisen during the course of making payments. Alternatively, the financial or operational failure of a component of a payment system can cause payments between participants not to be effected at the intended time (or indeed at all), again with potentially adverse impact on other members. If these risks

materialise, they can result in losses to the real economy—both directly, because payments have been delayed, have had to be redirected through other (more expensive or less efficient) payment systems, or have not been effected at all; and indirectly, because the failure of one participant has caused losses among one or more other participants.

By overseeing payment systems, central banks ensure the maintenance of systemic stability, by reducing such systemic risk and, in doing so, maintain public confidence in payment systems and payment instruments. In carrying out this function, central banks recognise the need to define security and efficiency standards, best practice for payment systems, both for those operated by the private sector, and those operated by the central bank. In recent years, payment systems have seen the strengthening of initiatives to promote and apply international standards, best practice and recommendations for the design and operation of payments systems.

These include the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems (CPSIPS) and International Organisation of Securities Commissions (IOSCO) Recommendations.

The BIS Core Principles deal with payment systems of systemic importance. The aim is to emphasise the need for security, reliability and efficiency that should be upheld in systemically important payment systems. The core principles cover the legal basis for the operation of a payment system, the management of financial and operational risks in a payment system, payment system efficiency, the terms for participating in a payment system, and the governance of a payment system. As payment systems are an increasingly essential mechanism for the implementation of monetary policy, oversight also aims to protect the transmission channel for monetary policy.

In order to ensure consistency and a standard approach to oversight, there is need to developing a methodology for the oversight of payment systems. The Bank has developed oversight activities that are based on the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems. Within the definition of “scope of payment systems oversight”, the differences and relationship with banking supervision should be highlighted. As regards the differences, the functions differ from the point of view of the focus on the activities of interest as well as the manner in which the oversight of those activities are carried out. Banking supervisors primarily focus on the safety and soundness (prudential) of individual financial institutions, whereas the oversight of payment systems focuses on the safety and efficiency of the arrangements for the settlement of transactions between the financial institutions.

However, there are synergies between both functions, since the banking supervisors strive to ensure the solvency and prudent management of individual institutions while payment system overseers strive to ensure that payment systems are not the medium through which deficiencies of individual institutions are transferred to other institutions or that payment systems are not the source of the deficiencies of individual financial institutions. Therefore, both regulators must co-operate and synchronise their activities. In particular, this includes the exchange of information between supervisors and payment system overseers, which is normally based on a “memorandum of understanding” that defines the role of each function and the collaboration between the two parties with the common goal of ensuring overall financial stability and confidence in the payments system.

In essence, payment system oversight comprises the activities for monitoring specific systems, assessing their compliance with the central bank's objectives, the relevant standards, and ensuring the implementation of necessary changes. Central banks undertake the role of overseers primarily for the following reasons:

- (i) Long-term experience with payment and settlement systems;
- (ii) the importance of oversight in relation to the basic functions of a central bank, in particular with regard to security, efficiency and financial stability;
- (iii) the depth of experience that central banks have in offering settlement accounts and as operators of payment systems; and
- (iv) the effectiveness that derives from their impartiality.

A central banks' core objective with regard to the settlement of payments transfers is effective risk management. Furthermore, central banks use the settlement systems to carry out smooth credit and debit operations as part of monetary policy practices. Any major problem in the operation of settlement systems could therefore also be

reflected in an inability to provide sufficient liquidity in the financial system. In essence, any major disruption to settlement systems could have an impact on:

- (i) the smooth functioning of monetary policy; and
- (ii) stability of a financial system.

A central bank's concern for the smooth functioning of settlement systems is justifiable from the degree to which these systems are critical to the effective functioning of financial markets. With globalisation and the expansion of cross-border transactions, a secure, efficient functioning of settlement systems is gaining in importance, as any weakness could be a source of different types of risk not only to participants of this system but, more broadly, the wider economy.

Any major financial or operational difficulty experienced by settlement systems or their members could give rise to liquidity pressures in payment systems, and consequently lead to systemic risk, which would be reflected in payment system inefficiency and eventually in adverse general economic performance. It is essential that settlement systems are designed such that participants can manage settlement risk, and that the difficulties experienced

by one participant do not spread to others. In line with this objective, central banks conduct oversight of the design and operation of settlement systems, which is a public activity aimed at improving the security and efficiency of settlement systems and reducing systemic risk, thus overseeing the creation and updating of the legal framework, risk management at the systemic level, and operational reliability. The legal basis for oversight of payment system in Botswana is set out in the NCSS Act, 2003.

The Act provides a detailed description of the Bank's role regarding payments systems, setting out its powers and responsibilities in the licensing, recognition, operation and management of these systems. In carrying out the oversight activities, the Bank of Botswana will focus on effective adherence to the law, standards as agreed by the participants and monitor compliance, on a continuous basis, with the various regulations, other regulators and the requirements for payment systems and participants in the country like, Electronic Clearing House (ECH) Rules, Botswana Interbank Settlement System (BISS) Rules, Cheque Standards, etc.

 **END**

Implications of the Implementation of the National Clearance and Settlement Systems (NCSS) Act, 2003 and the Supporting Regulations

Introduction

The National Clearance and Settlement Systems (NCSS) Act was promulgated into law in 2003; it became operational on March 1, 2005, following finalisation of its supporting regulations. The Act provides a legal framework for the national payments and settlement systems in Botswana and brings them in line with international best practice.

There are several legal consequences and / or changes derived from the implementation of the Act which should be borne in mind by both financial institutions, settlement agents and the public in general.

Licensing and Oversight Function

The Bank of Botswana, being the regulatory body under the NCSS Act, 2003, is vested with the authority to recognise and license clearance and settlement systems operations. Entities intending to provide such services are required to apply for recognition and licensing under set procedures.

It is also the BoB's responsibility to investigate the operations of

any unrecognised clearance and settlement systems. Systems operators are prohibited from undertaking these types of businesses without receiving recognition. Under the Act, any person, financial institution or entity operating or participating in an unrecognised system shall be guilty of an offence and liable to a fine not exceeding P50 000.

Cheques Drawn Against Insufficient Funds is a Criminal Offence

The Act makes it a criminal offence to draw a cheque or any other payment instrument without sufficient covering funds. Section 23 of the NCSS Act provides that:

(i) Any person who knowingly draws or issues a cheque, or other payment instrument against which there are no sufficient funds in his account at a financial institution on which the cheque or other payment instrument is drawn, shall be guilty of an offence and liable to a fine not exceeding P1500 or 3 months imprisonment or to both"

(ii) The Act further states

that the fact that the cheque or other payment instrument was returned unpaid with the words "insufficient funds or other words to that effect" shall be prima facie evidence that the drawer had no funds in the account against which the cheque or other payment instrument was drawn and the burden of proof shall lie with the offender.

This is considered a welcome development as the cheque was becoming an untrusted payment instrument in Botswana. A practice had emerged whereby clients simply wrote cheques to their suppliers, fully knowing they had insufficient covering funds in their accounts. The criminalisation of bouncing of cheques will serve to mitigate both liquidity and credit risks, which may lead to settlement and ultimately systemic risks.

Clearly taking somebody's goods or services pretending that you are paying for them by cheque when you know too well that you have no funds in your account is an intention to defraud or deprive another person of his/her property with the full knowledge you have no money to pay.

Clearing and Settlement Functions

The Act segregates the clearing and settlement functions. Clearing is the domain of clearing banks and the Central Bank is the sole provider of settlement services to clearing banks operating accounts with the Bank of Botswana. All clearing banks are members of the Electronic Clearing House (ECH). The ECH calculates the net settlement figures between banks and passes entries to their respective Bank of Botswana accounts electronically for final settlement.

Furthermore, the Act gives the BoB oversight responsibility over all Systemically Important Payment Systems (SIPS)¹. To-date, a certificate of recognition has been issued to the Electronic Clearing House (Botswana) on August 31, 2005, a registered company owned and managed by the Banker's Association of Botswana (BAB).

Finality of Settlements Within Recognised Systems in the Central Bank system

Payment instructions in the Botswana Inter-bank Settlement System (BISS), otherwise known as the Real Time Gross Settlement (RTGS) system are deemed to be final and irrevocable once the account of the sending participant is debited and the receiving participant is credited with the amount specified in the payment instruction.

If, however, a participant's account is debited and the receiving participant credited and the amount was in fact not due, the amount will be returned to the sender.

 **END**

¹ **Systemically Important Payment Systems** are those that in terms of the size or nature of the payments processed through them, represent a channel along which shocks or difficulties could be transmitted inside the financial system, or in which shocks that could threaten the stability of the entire financial system could even originate.

The Botswana Interbank Settlement System (BISS) or Real Time Gross Settlement System (RTGS)

Introduction

The Bank of Botswana, in association with commercial banks, have made significant strides in the modernisation of the National Payments System (NPS) in Botswana, by introducing the “Real Time Gross Settlement System”, also known as the “Botswana Interbank Settlement System (BISS)”

BISS is an electronic interbank funds transfer system operated and owned by the Bank, designed to provide continuous settlement of funds transfers on an individual basis in real time.

The BISS operates according to “credit push” conventions which means that the initiator of a payment must maintain adequate funds in their account prior to issuing a payment instruction, thereby mitigating the risks associated with funds transfers and systemic shocks to the financial system.

The BISS system commenced live operations on November 17, 2006. The system facilitates the electronic transfer of high value and time critical funds between participating institutions in a real time environment. Settlement is undertaken on a continuous basis only if sufficient funds are available in the senders settlement account held at the Bank. The provision of adequate liquidity within the system is of paramount importance to ensure the smooth operations of the RTGS system.

The BISS system is in accordance with internationally accepted standards providing a secure and efficient means of effecting high value and time critical payment instructions that meet the Bank for International Settlements’ Core Principles for Systemically Important Payment Systems (CPSIPS).

RTGS Project Implementation for Botswana

Following a comprehensive business scoping and evaluation undertaken by the Bank in conjunction with the system provider, Montran Corporation the United States of America, a project plan was agreed leading to the framework for the successful implementation of BISS.

The BISS utilises the SWIFT standards and secure network for the exchange of BISS payment messages. All messages designated as BISS payment instructions are compliant to the SWIFT format, within a secure closed user group network and sent to BISS for settlement. Settled payment instructions are forwarded to the receiving participant for timely crediting

of the customers' account. Participant banks' connectivity to the BISS, utilises a Virtual Private Network (VPN) which allows the participants to view their positions in real time leading to greater efficiencies in treasury and liquidity management operations.

The live operations of BISS achieved a major milestone in the ongoing provision of an efficient and robust national payment system for Botswana. The Bank, together with clearing banks, remains committed to establishing an efficient and secure payment infrastructure. The implementation of the BISS system illustrates commitment and vision to remain in the forefront of regional payments system development and services that comply with international standards and best practice.

To-date, the BISS has proved to be stable and efficient in its operations together with the participants complimentary operations and systems. The system has since implementation processed monthly transactions in excess of P100 billion in value terms. It is expected that the utilisation of BISS will increase over time, as citizens and broader business/investor community fully utilise and are aware of the benefits in terms of timeliness and security of payment transactions that this world class payment system provides.

 **END**

WHAT IS IMAGE BASED CHEQUE CLEARING AND CHEQUE TRUNCATION AND HOW WOULD IT BENEFIT BOTSWANA?

Introduction

Payment systems and payment services play a key role in the efficient functioning of the financial system within a country. The payment system needs to ensure that financial transactions are settled in a timely manner, are reliable and secure. These requirements are vital to the maintenance of market confidence as well as the safe and sound functioning of financial markets.

To this end, there is a need to review, on a continuous basis, the efficiency and speed at which payments are made including the cheque collection processes and other payment instruments without compromising the safety of the modes of payment. Following the introduction of Magnetic Ink Character Recognition (MICR) technology for cheque processing in year 2002, known as code-line clearing, the adoption of imaging capabilities will help to further improve the efficiency in handling large

volumes of payment instruments and reconciliation of clearing differences. Beyond a certain point, MICR technology does not further accelerate the cheque collection process due to the need for the physical movement of the cheque from a branch of drawer bank to the head office of a drawee bank. In several countries, the problem surrounding the physical transportation of cheques has been solved by introducing a process called Cheque Imaging and Truncation. This procedure reduces the physical movement of the payment instruments at a predetermined point in the clearing process. Beyond this point, the process is completed by the electronic transmission of data and images of the cheques.

As explained above, following the successful implementation of the Code Line Clearing System, and Electronic Funds Transfers (EFTs) in 2002, Botswana implemented a Real Time Gross Settlement (RTGS) system, on November 17, 2006.

The next major planned project is the Cheque Imaging and Truncation System (CITS).

Cheque Imaging and Truncation System - Definition

A Cheque Imaging and Truncation System (CITS) is an image-based cheque clearing system, which replaces the physical cheque transportation with an electronic information flow throughout the clearing cycle. As a result, this process eliminates the need for physical cheque movement in the clearing process, and combines to reduce settlement delays. This, in turn, increases the efficiency, reduces the operational cost, manual handling of cheques and expedites the clearing process.

CITS provides significant benefits in shortening the clearing cycle providing a more secure and robust service together with the opportunity of a centralised image archival system for inquiry purposes. Banks may also save on the cost of handling, transportation and storage of physical cheques. Moreover, CITS also increases operational efficiency by providing operational staff timely access to real-time information on cheque clearing status.

Considerations

In deciding to adopt the cheque imaging and truncation system, several considerations will have to be made as illustrated below:

(a) The point of truncation chosen must yield maximum benefits to the participant(s). The general preference is that full benefits of truncation will be available only when truncation takes place at the point of first economic deposit; otherwise, the clearing process will be compromised and the clearing cycle will, to that extent, be inefficient.

(b) The mode of cheque imaging and truncation is based on the electronic image of the cheque.

(c) The retention period of the physical cheque is established in the National Clearance and Settlement Systems Act, 2003 as 8 years. However, with the advent of cheque truncation, the certificate from the drawee bank on the print out of the image of the physical cheque provides proof of payment. Therefore, relevant legislation will need to be reviewed to incorporate the shortening of the retention period. An alternative principle governing the retention period is the reconciliation period between the customers and the banks.

(d) Storage location and retention period of cheque images: The issue here is the consideration of whether the cheque images archived at a Central Image Warehousing

Agency or by the presenting banks/drawee banks themselves. The general practice tends to favour a centralised agency for image warehousing on behalf of the clearing banks.

(e) The choice of a Centralised Warehouse: A determination needs to be made on the type of entity to be considered that should act as a Centralised Image Warehousing Facility. Such a determination can be made on the basis of agreed criteria. The selection criteria for consideration would include:

(i) The entity should have the technical competence to carry out the function efficiently;

(ii) It should be appropriately resourced and have a good reputation;

(iii) It should, preferably, be owned by the participating banks;

(iv) It should be subject to regulatory and supervisory surveillance by the Bank of Botswana or any other agency that may be authorised for this purpose by the Government or the Bank.

(f) The security requirements for the flow of cheque data and images over the network: It is essential that the flow of such information from the presenting bank to the clearing house and onwards to the drawee bank be both timely and secure. In addition, the handling of data and images at the various processing

levels in the clearing cycle need to be similarly protected, in the interests of all parties.

Benefits

As indicated earlier, the country will derive benefits from CITS, that would include:

(i) Minimising risks and introduction of an enhanced secure cheque clearing system. The cheque clearing process will be more efficient and timely through the electronic transmission of cheque images. As a result, the time to complete the clearing cycle of cheque presentation, and returning as well as cheque value realisation will be reduced;

(ii) The cheque imaging system is expected to reduce the cycle of cheque clearing days to two including the date of cheque depositing;

(iii) The process is expected to result in cost savings from physical transportation of cheques due to the adoption of electronic processing and secure communications facilities;

(iv) From a customer's perspective, the envisaged new system will reduce the time lag between cheque presentation and value realisation time; however, it is expected that clearing banks introduce new image-based services for their customers to provide adequate information to clients concerning cheques they have written.

Branch Truncation Benefits

Truncation of the physical flow of cheques, at the branch level is considered to provide the following benefits and/or possibilities:

(i) A reduction of the costs of transportation of physical cheques for processing and exchange;

(ii) Enhancement of security since a complete electronic record of the transaction will be available, and elimination of such issues as “lost cheques”;

(iii) The ability to detect cheque fraud and errors earlier in the clearing process. The system will capture deposits at the point of entry and expedite the detection of potential frauds and customer error.

(iv) The ability to simultaneously feed both image and data of transactions into an electronic archive, for use in subsequent queries and exception processing will enable the elimination of any separate microfilming or other archiving processes;

(v) Truncation of cheque flows at the branch level will reduce or eliminate the need for central or regional processing equipment, with associated reductions in infrastructure requirements, maintenance and staff costs;

(vi) The ability to evaluate the size of float or deposits in transit will be available earlier for investment;

(vii) It will increase general productivity at branch level through reduced staff and processing costs associated with regional or central cheque processing;

(viii) The transmission of other bank transactional information earlier within the processing cycle, will permit earlier identification of non-payment or exception items; and

(ix) The potential use of Intelligent Character Recognition software will enable the reduction of the keystrokes required for amount entry and data completion. This will accelerate the processing of the transaction, either at the level of the Teller or at the back office.

Expanded Customer Offering

The implementation of image processing within an organisation creates opportunities for the provision of additional competitive customer services. For banks with a significant corporate customer base, the customers can be equipped with cheque scanning and imaging equipment, allowing them to process their own corporate deposits. Transaction data is then transmitted to the bank, reducing either branch or central processing requirements whilst providing an increased level of service to corporate customers. At the same time, the corporate customer will have a secure and complete electronic record of the transactions.

Risks in Cheque Truncation

Although several benefits have been illustrated, the cheque truncation process will change the roles and the responsibilities of the various participants in the truncation process and may give rise to the following risks that will need to be mitigated:

(i) At the presenting bank level, the responsibility to verify the authenticity of the cheque based on the apparent tenure or the visible features of the cheque presented for collection, may lead to banks refusing to accept a genuine cheque or accepting a forged cheque based on a visual examination. Images and MICR data to be sent to the clearing house have to be matched before they are released to the Clearing House;

(ii) The Clearing House will need to assume that the data submitted by the banks is the data for that day's clearing and will arrive at the settlement based on this assumption. If, however, the MICR data submitted by a clearing bank does not match that of the day's image submission which the clearing bank has sent for collection, it may lead to erroneous settlement and the risk of rejected items;

(iii) The truncation of cheques entails limited operational risk. Therefore participants will be required to undertake adequate precautions to ensure that all

necessary safeguards are provided for, in compliance with legal requirements and banking practice while making payments.

(iv) The drawee bank has to verify the signature on the image of a cheque. However, if signatures on the images of cheques above

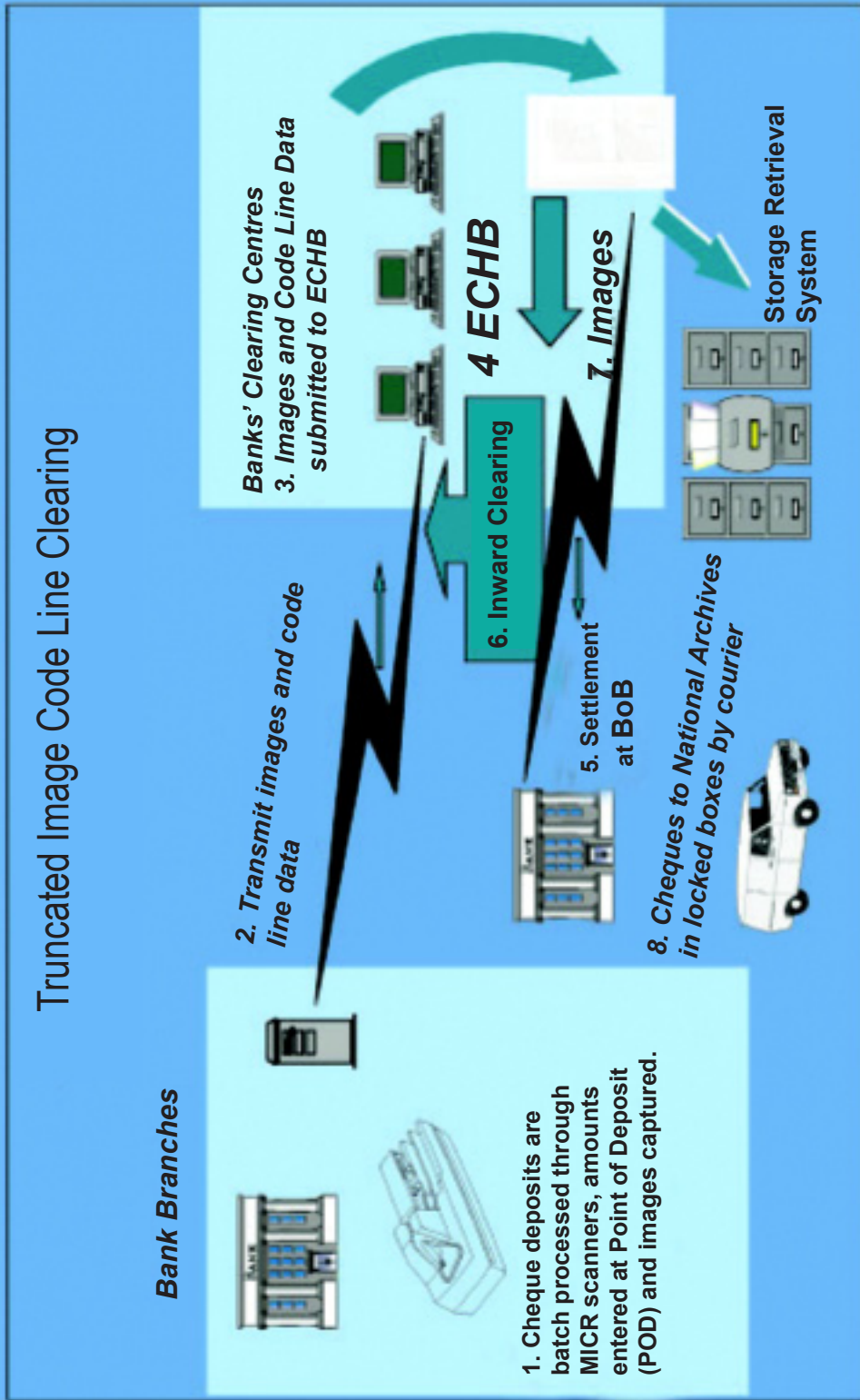
an accepted “cut-off” amount only are verified, there may be a risk that forged instruments may not be identified.

(v) The warehousing agency for images and physical storage of cheques might not be able to produce the image or the physical cheque demanded by a

participant. This may lead to legal complications and assignment of liabilities. To cover this risk, there will be a need for suitably drafted service level agreements between the banks and the warehousing agency.

■ END

CITS DIAGRAM



The Structure and Functions of the Payments and Settlement Department (PSD)

The primary objective of the Bank of Botswana is “first and foremost, to promote and maintain monetary stability, an efficient payments mechanism and a sound and properly functioning domestic financial system”. With regard to the payment and settlement system, the Bank carries out settlement for clearing banks. It also maintains a regulatory and oversight role over the payment systems.

In order to discharge this responsibility in an efficient manner, the Payments and Settlement Department (PSD) was established in 2005. In undertaking these responsibilities, the PSD adheres to the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems (CPSIPS) and the BIS/International Organisation of Securities Commissions (IOSCO) Recommendation for Securities Settlement Systems. In this regard, the domestic financial sector has Cheque Clearing and Electronic Funds Transfers (EFTs) systems both of which are owned by the Bankers



The Director, Payments & Settlement Department and Manager, Payments System Unit, listening to proceedings of one of the SADC Payments Project Annual Regional Conferences.

Association of Botswana (BAB) and managed by the Electronic Clearing House Botswana (ECHB).

The ECHB is legally established and licensed under the National Clearance and Settlement Systems (NCSS) Act 2003.

Section 33 and 35 of the Bank of Botswana (BoB) Act further provides for the Bank's management of foreign exchange reserves in two buckets of the primary

international reserve (Liquidity Portfolio) and the long term investment Fund (Pula Fund). The day to day foreign exchange operations entail buying and selling of international reserve assets. The PSD is responsible for settlement of such transactions as well as foreign transfers to meet Government and the Bank's foreign currency obligations.

Organisationally, the PSD has two operational Units, the Payments System Unit and the Settlement Unit under the direct

supervision of the Director. The Department benefits from the services of a Regional Advisor on National Payments System (NPS), under the auspices of the IMF technical cooperation programme.

(a) Payments System Unit (PSU). The responsibilities of the PSU include:

(i) initiating proposals for the reform and modernisation of the Botswana National

Payments Systems (NPS), and implementing the agreed measures;

(ii) undertaking research on the relevance, feasibility and regulation of various payment intermediation schemes and technologies;

(iii) licensing, oversight and monitoring of clearing and settlement systems;

(iv) providing secretariat

services to the National Payments Council (NPC) chaired by the Governor, National Payments Task Force (NPTF) chaired by the Deputy Governor, other sub-groups and system development specific committees;

(v) compiling statistical data and conducting market research and business process reviews on payment streams; and,



Group photo of the SADC Payments Project Team and other delegates from SADC countries, attending an annual regional conference at Livingston, Zambia on April 2 - 4 - 2007

(vi) In general, implementation of the National Clearance and Settlement Systems (NCSS) Act, 2003 and its supporting regulations.

The PSU performs several other functions aimed at ensuring that management strategies for the NPS are adequate to ensure suitable risk mitigation practices. This is undertaken through identification of risk factors, monitoring of monetary payment flows in the NPS and identifying any potential areas that could lead to systemic risk by providing risk information through reports generated from the ECH. The ECH, which is also referred to as the Code-Line Clearing System, is one of the two payment systems in the country identified as being systemically important. It processes both cheque and electronic funds transfer payments. The system was implemented as a first step towards achieving the SADC initiative of modernising and reforming SADC member countries' respective payments systems.

The PSU is also responsible for the operation of the Real Time Gross Settlement (RTGS) system. The RTGS system provides immediate settlement and finality of payments undertaken through this payment stream. A payment is deemed final and irrevocable, once it had been settled in the RTGS

system. This together with future projects are implemented in line with the Bank's NPS strategic framework document which is available on the Bank's website.

The Unit also manages a number of payments system modernisation projects. The task of project management and implementation is achieved over several phases. Project conceptualisation and initiation:- During this phase, the task of the Unit in consultation with all stakeholders is to establish a need for, or the desirability of, a particular system. This is followed by the design and development stage of a project and, finally, user acceptance testing and commissioning of the project.

Another function of the PSU is the enforcement of the NCSS Act and supporting regulations together with the oversight of the performance and security of the system.

The oversight and regulatory functions ensure that there is no adverse impact of a systemic nature, that could affect the smooth operations of the NPS due to possible failure of any NPS member, service provider or group of member institutions.

The PSU therefore, enforces the necessary safeguards at the level of service providers and

member institutions in order to manage risks that might affect the safety and stability of the NPS. In this regard, the primary focus of the oversight function is to ensure fairness, efficiency, effectiveness, robustness and safety in the operation of any payments sub-system.

The related dimension to regulation is the recognition and licensing of clearance, payments and settlement systems service providers under the National Clearance and Settlement Systems (NCSS) Act, 2003.

(b) Settlement Unit (SU): The SU is responsible for the processing of settlement instructions for government securities, deposits and foreign exchange transactions on behalf of banks, Government or the Bank. It also processes payments relating to Bank of Botswana Certificates (BoBCs), Repos, Reverse Repos and Secured Lending Facility.

The processing of settlement instructions is undertaken after thorough checks of the instructions for a particular transaction or deal ticket to ensure their proper and authentic authorisation. Separation of duties and dual control is upheld at all stages.

Speed and accuracy are the most important considerations in the work of the SU, in order to discharge this obligation of the Bank in a timely manner. On a daily basis, the SU carries out the following duties:

(i) Administration and operation of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system;

(ii) Processing confirmations and carrying out settlement instructions in respect of foreign exchange, deposits, securities, BoBCs and Repos/Reverse Repos.

The SWIFT system provides a secure and reliable mode of communication for financial messages. Designated staff members open the system by

0745 hours every business day to allow the flow of both incoming and outgoing messages.


The SU ensures that confirmations are received directly from the counter-parties for all deals undertaken by the Financial Markets Department and that out-going confirmations and settlement instructions are received before the settlement date.

Fixed deposit deal tickets are also issued by the Financial Markets Department. The tickets are used for instructions for new placement, roll-over or maturity of the foreign currency deposits. The confirmations, plus the settlement instructions, for the trades are processed within the SU before the settlement date.

Securities transactions cover

deal tickets for international bonds from the Financial Markets Department. The processing of securities transactions are directed to the Global Custodian while others are sent to correspondent banks.

The confirmations plus the settlement instructions are processed on the trade date to allow the Custodian and the correspondent banks sufficient time to place the settlement instructions in the market so as to achieve Delivery Versus Payment (DVP).

It is within the plans to evolve the functions of PSD to a point that not only would the clearing period for domestic cheques be reduced, but also achieve an effective and efficient cross border payments processing system.  **END**

Contributions of articles are welcome. Inquiries should be directed to:
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