



## **CHANGEMAKERS IN THE NATIONAL PAYMENT SYSTEM THE NEXT CHAPTER**

**Payments Association of South Africa  
Debit Order Abuse Project**

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# Abstract

*We live in a country fixated by and fanatical about leadership. The consequence of this is that we surmise that virtually all our troubles and tribulations – be it social, environmental, economic or political - could be repaired and restored by the marvel that is “leadership”.*

An alternative truth is, as the activist Grace Lee Boggs once said: “... you cannot change a society unless you [...] see yourself as [...] being responsible for changing it”. Over the next decade, the “society” formed within the banking and financial services sector will go through a host of iterations to stay in step with the emerging boundaryless marketplace. Although there is a growing wave of non-traditional players in the banking and financial services sector, we who form part of this “society” should be the changemakers that help drive safety, efficiency and effectiveness for all accessing the NPS. The “next chapter”, in terms of mitigating debit order abuse in the NPS, now requires the on-going buy-in and support from our “society” (PASA Members and regulators alike) to formalise the successes already

evident from conceptualising, developing and implementing the DOA strategy. PASA’s first expert analysis, titled “Changemakers in the NPS: mavericks, mobilisers and mentors”, positioned the work being done by various stakeholders to curb the scourge of debit order abuse in the NPS. The paper presented here expands on the work that commenced in 2019. It confirms the approach to mitigating debit order abuse, positions the strategic priorities of the DOA team at PASA for 2020, and appraises PASA’s stakeholders of the scope of intended outcomes and impact.

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## Keywords

*National Payment System, debit order abuse, levers of change, responsible leadership.*

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### List of Abbreviations / Acronyms

<b>AEDO</b>	Authenticated Early Debit Order
<b>DOA</b>	Debit Order Abuse
<b>FSCA</b>	Financial Sector Conduct Authority
<b>FSR</b>	Financial Sector Regulation
<b>NAEDO</b>	Non-Authenticated Early Debit Order
<b>NPS</b>	National Payment System
<b>PA</b>	Prudential Authority
<b>PASA</b>	Payments Association of South Africa
<b>PCH</b>	Payment Clearing House
<b>POC</b>	Proof of Concept
<b>SARB</b>	South African Reserve Bank
<b>SARS</b>	South African Revenue Service
<b>TPPP</b>	Third Party Payment Provider

## Introduction

The FSR Act, signed into law on 21 August 2017, changed the South African financial sector regulatory landscape significantly. In addition to tasking the SARB with an explicit mandate to lead the process of achieving and maintaining financial stability in South Africa, it also established the PA (tasked with promoting the safety and soundness of financial institutions) and the FSCA (tasked with ensuring that customers are treated fairly and that financial products and services offered in the industry are safe). It is clear that the strengthening of the NPS and the regulatory environment of South Africa's financial sector, as well as the protection of financial customers and the long-term sustainability and stability of the sector, are placed squarely at the feet of these entities. PASA, as the payments system management body, received a specific directive from the SARB (Directive no. 1 of 2017), which requires of the organisation (and its Members by implication), to improve the safety and efficiency of debit orders, and to introduce measures aimed at addressing the risk/s emanating from debit order abuse in the NPS. Pursuant to this directive,

and following a POC project in 2018, a centralised functionality was created at PASA in 2019 aimed at exploring and implementing measures to curb the scourge of debit order abuse.

When one considers that the NPS encompasses everyone and everything (from Payer to ultimate creditor, as well as all the systems, mechanisms, institutions, agreements, procedures, rules and laws governing the payments universe), it becomes clear that transformations in the payments universe, disruptive technologies and the move towards frictionless payments is required to out-smart and out-innovate fraudsters who have access to technologies that enable easy access to the NPS.

The sections below provide a brief overview of last year's achievements, as well as an overview of the next chapter in changemaking that addresses the behaviour of both Users and Payers in the NPS.

## Looking back and Levers of change

### Section One - Outcomes and impact: looking back

The implementation of the DOA 4-prong model, by PASA and its Members, could be considered a small step, but it is most definitely a giant leap for the NPS. The outcomes and impact created through the 4-prong model, align directly with the objectives set out for PASA in the SARB's directive and in the general policy objectives of the FSR Act. Specifically, the development, implementation, effectiveness and impact of various "best effort" approaches, enacted through the use of the DOA 4-prong model (refer to more detail about the model in section two below), established a new way of working in the industry. Although not formalised yet, these "best effort" approaches are in the process of being included in various rule sets that, upon formal acceptance and sign-off by the DOA Steering Committee, legal team/s, and PASA Council, will govern PASA's Members and determine industry direction to DOA.

The enhanced gatekeeping, analytics, monitoring and investigation functionality,

enacted through these "best effort" approaches, as well as the successful testing (across the entire payments value chain) of the 4 levers of change contained in the 4-prong model, facilitate transparency, effectiveness, consistency and control in the Debit Order System. The use of the 4-prong model has already resulted in a consistent downward trend in 2019 of monthly debit order disputes. The downward trend is partially ascribed to Sponsoring Banks exiting 276 entities from the NPS between 1 January 2019 and 31 December 2019. The total projected rand value impact that the exit of these entities from the NPS has (when considering the average rand value of debits collected by these entities during the three months prior to their exit), amounts to R2.08 billion. The total average rand value of disputed debit orders for these same entities, projected using the same parameters over the same period, amounts to R308 million.

These "best effort" approaches, as well as the use of the 4 levers of change contained in the 4-prong model, add value to: PASA Member banks in terms of enhanced compliance; regulators in

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terms of enhanced visibility about conduct issues; and customers in terms of mitigating unauthorised debits from their bank account/s. Unsurprisingly, PASA's understanding of the debit order abuse "problem", as well as the proven results obtained through the use of the 4-prong model, are being leveraged by various parties. Specifically, momentum is being generated in the prosecutory environment, and the DOA team has been contributing towards investigations into the prosecution of entities who abuse the debit order payment system. In addition, the Payments Association of Namibia (PAN) approached PASA with a request to share their know-how of the 4-prong model, while providing insight into how the "best-effort" approaches will fit the Namibian context.



**Specifically, momentum is being generated in the prosecutory environment, and the DOA team has been contributing towards investigations into the prosecution of entities who abuse the debit order payment system.**

### **Section Two – Levers of change used in mitigating debit order abuse**

The DOA team at PASA uses a 4-prong model, which serves as the levers of change in mitigating debit order abuse in the NPS. The model consists of pre-onboarding, on-boarding, monitoring and exit functionalities, more accurately described as follows:







The **pre-onboarding** functionality serves as the first lever of change. It is being used to check all new, existing, and migrating entities (TPPPs, Users and sub-Users), from the old NAEDO and AEDO PCHs (currently being phased out) to the new DebiCheck PCH (currently being phased in), against specific information (current and historic) that PASA maintains on behalf of its Members (refer to the “monitoring and exit” levers below). The capability assists Sponsoring Banks in their assessment of new and existing entities (including TPPPs, Users and sub-Users). PASA provides a summary of its findings to the Sponsoring Bank, in which it highlights any adverse information pertaining to the entity and/or its directors/members. If adverse information exists at the pre-onboarding stage, the Sponsoring Bank will engage in additional checking and due diligence of the particular entity or director/member of the entity. The Sponsoring Bank, on their own volition, then decides whether to sponsor / continue to

sponsor the entity into the NPS. The DOA team at PASA never dictates what this decision should be.

The **on-boarding** functionality, as the second lever of change, establishes visibility of all new entities that entered the debit order payments systems. Monthly analysis and comparison of on-boarded entities are made against the pre-onboarding submissions received from Sponsoring Banks. The comparison highlights those entities that entered the NPS without first being assessed at the pre-onboarding phase. Sponsoring Banks are expected to explain these discrepancies.

The pre-onboarding and on-boarding functionality will be seamlessly integrated into the re-registration / central registration of around 20 000 existing entities. The current indication is that this action should commence in 2020, but it remains dependent on industry response as well



as resource availability and capacity. Amongst other strategic priorities for 2020, the central registration of existing entities is expanded on further in section three below.

The third and fourth change levers of the 4-prong model consist of a **monitoring** function and the central recording at PASA of decisions taken by Sponsoring Banks to **exit** an entity (including TPPPs, Users or sub-Users). Behaviour monitoring of these entities in the NPS is a bank-owned process. The DOA team assists Sponsoring Banks to pro-actively identify potentially problematic entities. Each Sponsoring Bank examines quantitative and qualitative information about entities aimed at pro-actively remediating behaviour. Should remediation not be possible, a Sponsoring Bank could decide to terminate their relationship with the entity. This decision is referred to as the 'exit' of an entity.

The proposed rule set for the current monitoring process, colloquially referred to as the Interbank High-Risk User Investigation Process, is to be signed-off by the DOA Steering Committee and legal task team/s. Although the indicated date for sign-off is April 2020, this timeline remains flexible as the action is industry dependent with buy-in required from various stakeholders. The aim, however, is to continue progressing the process until it is fully operational and out of project mode.

The **exit** of an entity involves the final decision of a Sponsoring Bank, based on the outcome of its own due diligence, to refuse to continue sponsoring an entity in the NPS. A Sponsoring Bank informs the DOA team at PASA of the reason/s for the decision not to sponsor the entity. The details of the entity, as well as the reasons for the Sponsoring Bank's refusal to sponsor the entity, are then recorded centrally by PASA's DOA team for future reference and use in the pre-on-boarding process.

The exit of an entity is one of the possible outcomes of the Interbank High-Risk User Investigation Process. Its related timeline will therefore be documented and actioned as part of the Interbank High-Risk User Investigation Process, explained above.

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## Addressing User Behaviour

### Section Three – Strategic priorities for 2020

We know that the NPS, at its most basic function, aims to deepen the financial inclusion of all South Africans, while also deepening consumer trust in financial products. We also know that South African law, specifically the Financial Intelligence Centre Act, 2001 (the "FIC Act"), dictates certain control measures that require of intermediaries in the financial system to know with whom they are doing business. In 2020, the SARB's 2025 vision of improved transparency, safety and efficiency in the NPS, will be given effect through the current and future actions of a group of unique changemakers, including PASA, its Members, the DOA Steering Committee, as well as key regulatory stakeholders such as the SARB, FSCA, and PA. These changemakers will forge ahead with the strategic priority of moving the 4-prong model from a "best effort" basis to a set of rules that will help to ensure that appropriate measures are implemented by PASA and the industry to prevent the introduction of undue risk into the NPS. Once these rules have been formalised and accepted, every PASA Member and User will be expected to adhere to it. Responsible leadership thinking will be required from each of these changemakers, to actively help to:

Prevent rogue entities from entering and abusing the NPS;

Enhance analytics and reporting tools that facilitate better identification of debit order abuse trends; and

Enhance the investigation and prosecution processes of rogue entities.

In addition, the actions and contributions of these changemakers towards ensuring that the banking and financial services "society" catalyse efficiency, effectiveness and safety in the NPS, will form the solid foundation required to give effect to a "User visibility project" that involves approximately 20 000 entities (consisting of TPPPs, Users and sub-Users) from Q2 onwards. The "User visibility project" aims to record key data centrally at PASA to enhance the end-to-end management and accountability in terms of these entities in the NPS.

## Addressing Payer Behaviour

### Section Four – Strategic priority for 2020

The POC conducted in 2018 suggested that a blend of User and Payer abuse existed. Specifically, certain Payers would dispute a legitimate debit order after a product/service was provided. The current debit order rules do not contain safeguards against this practice from Payers. In addition, all dispute reasons linked to the dispute mechanisms only cater for scenarios where the Payer was debited incorrectly. The ripple effect of this practice by Payers, as well as the inadequate dispute rule/s create financial risk for good businesses. Notwithstanding the fact that a product/service was provided, the funds collected from the Payer are reversed and Users must then expend resources, time and effort to prove that a legitimate debit order mandate exists.

The priority now is to re-design the dispute regime. A consultation paper was shared for input and comment with the DOA Steering Committee and legal task team in November 2019. The nature of their input and comment dictates that further discussions will be necessary before the wider industry can be engaged. The DOA Steering Committee remains hard at work to solve some of the complexities of debit order disputes. Further discussions are scheduled from February 2020.



## Closing

When we again consider that you cannot change a society unless you see yourself as being responsible for changing it, it becomes clear that the finalisation of this next chapter of changemaking in the NPS will not be possible without the absolute and unequivocal co-operation and collaboration of our "society" members. The mandates and directives issued to various stakeholders mentioned in this paper coupled with the fundamental transformation of the NPS, position the importance of each strategic priority, as well as the outcomes and impact sought to be achieved. Each of us will have to accept the responsibility of ensuring that our efforts are focussed on implementing and enhancing capabilities that consistently revolutionise and transform some of the structurally inadequate models of mitigating User and Payer abuse of the NPS.

The PASA DOA team looks forward to sharing their further insights and learnings on the society's contribution towards innovation, effective governance, and achieving policy objectives as a collective.