



PAYMENTS ASSOCIATION OF SOUTH AFRICA

Expert Analysis - Combatting Debit Order Abuse

Changemakers in the National Payment System:
mavericks, mobilisers and mentors

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Abstract

The National Payment System (NPS) impacts the lives of all South Africans. Essentially, it exists to serve the economy by ensuring the safe and efficient circulation of money between senders and recipients, and through it the people (both individuals and corporates) of South Africa.

As with all payment systems in the world, South Africa's NPS and its end-users face numerous threats in the form of various attacks, be it cyber or otherwise. More specifically, South Africa's NPS faces an insidious scourge of fraudulent debit order collections by rogue entities and improper debit order reversals by individuals for cash flow management purposes in times of financial distress. The behaviour and action required from leaders to mitigate the risks of this two sided problem are both perplexing and ever-changing.

This paper positions the work of the mavericks, mobilisers and mentors that set out to thoroughly understand and solve some of the painpoints in the debit order sphere. The journey required full transparency and accountability of various stakeholders as well as a holistic, integrated and cross-sectoral approach. The outcomes and impact of these changemakers lead to the creation and implementation of agile and responsive practices that consistently mitigate criminal activities in the NPS while minimising problematic consumer behaviour.

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Keywords

National Payment System, debit order abuse, consumer education, cross-sectoral & risk mitigation.

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List of Abbreviations / Acronyms

DOA	Debit Order Abuse
FIC	Financial Intelligence Centre
FSCA	Financial Sector Conduct Authority
NPS	National Payment System
PA	Prudential Authority
PASA	Payments Association of South Africa
POC	Proof Of Concept
SABRIC	South African Banking Risk Information Centre
SARB	South African Reserve Bank
SARS	South African Revenue Service

Introduction

Despite South Africa's Constitution and its progressive legal and financial system, socio-economic inequality and power disparity are still deeply entrenched in and between the average South African and the corporate entity. This paper is therefore suggestive rather than conclusive. It unfolds from a Proof of Concept project on debit order abuse, on-the-ground consumer engagements as well as the documented actions conducted by key role players across various sectors supporting and impacting the NPS. The narrative ultimately offers a critical reflection, deeper understanding and extended conceptualisation of the actions, responsibility and accountability

displayed by various groups that help to ensure consistent confidence and trust in the safety and efficiency of the NPS.

The Challenge

If South Africa is to build a fit-for-purpose NPS that serves and protects all stakeholders equally, then consistent confidence and trust in its role players as well as its safety and efficiency are needed. We do however know that a lack of confidence and trust in certain actors in the NPS, who undertake to act in the best interest of all its stakeholders, means that the moral authority of these actors are being questioned. Banks (bound by the Code of Banking Practice, the National Payment System Act and the PASA clearing rules); Third Party Payment Providers (bound by the Directives issued in terms of the National Payment System Act); and other actors, struggle to prevent the collection of unauthorised debit orders. This situation creates an opportunity for a criminal element in the economy to lure unsuspecting and ill informed consumers into actions that expose them to the collection of fraudulent debit orders. On the other hand, misguided and under educated consumers of financial products, who lack confidence and trust in certain actors in the NPS, often dispute or do not pay their debit orders for cash management purposes because they do not fully understand their responsibilities or rights.

The paper is structured as follows: Section one tells the story of the mavericks – those changemakers within the payments industry who accelerated understanding of debit order abuse behaviour and who introduced and still actively uses risk reduction initiatives, systems, policies and processes to identify, analyse and prevent the plausible sources of risk, while mitigating the scourge of debit order abuse. Section two shares the successes of the mobilisers – the changemakers that created and implemented PASA's consumer education campaign, which guides consumers towards understanding, confidence and trust in the payment system, Banks and other participants, as well as the related mechanisms and technologies that support and enhance their financial inclusion. These mobilisers facilitated consumers' understanding of their rights and responsibilities in the NPS by delivering clearly communicated, community-based campaigns in selected peri-urban and under-served areas throughout South Africa. Section three offers a glimpse of the mentors – those leaders who are driving industry collaboration and transparency to balance the objectives of efficiency, safety and soundness of the NPS.

Section One – The Mavericks: Changemakers focussed on Users

It was necessary to first understand how, why and by whom debit order “abuse” proliferated. A 14 week debit order abuse (DOA) proof-of-concept (POC) period, in the third quarter of 2018, confirmed that a blend of payer and user abuse existed. However, it had always been touted by decision makers in the industry that the ratio between rogue collections and individual debit order reversal was at 10:90. Typically, debit orders were either disputed by certain payers for cash management purposes or users and sub-users collected funds via debit orders for which they had no legal mandates. The POC revealed that the ratio between the two abuse types was closer to 40:60 – a significant increase in the size of user perpetuated fraudulent debit orders. When one considers that the entire base of debit order collectors

is in the region of 20 000 users, as opposed to an individual consumer base of roughly 50 million South Africans, a 40% problem is amplified considerably, indicating a clear starting point to address the issue.

During November 2018, the increased focus on debit order collection trends by users and sub-users accessing the NPS, revealed the presence of syndicated behaviour. This happened, inter alia, due to various account holder complaints about illegal / fraudulent debit orders as well as the monitoring, investigation and analyses by PASA of high dispute and unpaid ratios resulting from submitted debit order collections. The unorthodox views and thinking of the mavericks, inspired and actioned industry and cross-sectoral collaboration on aspects relating to the

closing of operational and risk information gaps in a drive to mitigate fraudulent collections by high risk users accessing the NPS. Their vision and actions brought about greater safety and transparency “by design”. They developed and implemented a centralised, four prong model that provides meaningful and easily interpreted risk information to authorised payment system stakeholders on a daily basis. The successful implementation, refinement and consistent use of the four prong model has become a key enabler of greater industry collaboration and transparency. It specifically limits risk information asymmetry amongst Sponsoring Banks about entities and individual directors that apply to/already access the NPS.

Since the commencement of the DOA business capability at PASA in March 2019, the following outcomes in support of Sponsoring Banks' ability to make informed, risk-based decisions, have been reached:

Pre-screen 1565 entities and its related director/s	Prevent 99 entities whose director/s have direct links to DOA fraud cases of entering the NPS	Alert Sponsoring Banks of 1160 instances where additional enquiry / probing into the entity and its director/s was required to prevent / minimise risk to the NPS	Confirm that 293 entities were cleared to enter the NPS after screening for possible instances of risk that the entity and/or its director/s could pose to the NPS
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The four prong model's unique characteristic, of being a centralised gateway that ensures transparency, effectiveness, consistency and control in the Debit Order System, has already resulted in a consistent downward trend in disputes per month since its high point of 2.3 million disputes in December 2017. Factually, the dispute trend in the non-authenticated debit order (NAEDO) stream, since the beginning of 2017, indicate that monthly dispute volumes increased by around 200 000 every month. The implementation of the four-prong risk model has ensured a consistent reduction of disputes per month: the August 2019 dispute volumes were

802 117 disputes less than in December 2018 and 1 044 567 less than in December 2017. In contrast, successful debits had an upward trend since its low point of only 63.5% in December 2018. Successful debits in August 2019 were at a notable 75%.

These trends are, in part, ascribed to the successful exit of 233 users from the NPS since February 2019. The total rand value of debits collected by these users (over the six month period prior to their exit from the NPS) was R1 112 449 735.00 (R1.1 billion). The total debit order disputes for these users over the same period amounted to R185 928 801.00 (R185 million).

The drive and commitment of the mavericks further ensure that consistent engagement and collaboration takes place between key role players at the FSCA, SARS, SARB, FIC and SABRIC. As a result, Sponsoring Banks have been instructed by the SARB and Regulators to take certain actions against high risk users and users linked to fraudulent debit order collections.



Section Two – The Mobilisers: Changemakers focussed on Consumers/Payers

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. But, what if certain consumer groups don't fully understand their rights and responsibilities when using financial products or what if they struggle to trust that Banks are not the ones "stealing" their money?

PASA's mobilisers designed, implemented and still engage in the Thembeke consumer education campaign. Thembeke, which means to be honourable, forms the key message of the campaign. Ultimately, the Thembeke campaign ensures that existing and future consumers of financial products, living in previously underserved communities, gain a better understanding of payment

services as well as the related rights and responsibilities attached to the effective use of formal financial products. The impact and reach of this campaign sets a consumer education benchmark for the financial sector and could very well become the new norm to change consumer behaviour. Over a six month period, between February 2019 and July 2019, the indicated reach of the Thembeke campaign in areas of Pretoria, Limpopo, Kwa-Zulu Natal and the Western Cape stood at 166 unique engagements. The total number of consumers that were actively engaged over this period was 109 656. Radio broadcasts over this period reached another 23.62 million listeners while social media and print media engaged a further 1.98 million people. The campaign is completing its roll out in Mpumalanga and

North West and will reach its final phase during October and November 2019 in the Free State, Eastern and Northern Cape.

The most valuable and impactful engagements were those that took place with consumers in their communities. Overall, the face-to-face element of the Thembeke campaign helps to increase consumers' trust in Banks while creating clarity about the roles of payers, paying Banks, users and Sponsoring Banks. The number of face to face engagements to date has already reached 251 264.



The following valuable insights emerged from the qualitative statements of community members who engaged with the mobilisers:

Consumers want a different, free mechanism (other than costly bank statements) to check if incorrect / unauthorised collections are taken from their bank accounts

Consumers experience a host of financial challenges that move them to engage in "cash management" activities, because their wellbeing are impacted by incorrect debit orders / unauthorised collections from their bank accounts

Consumers do not have sufficient understanding of what an "approved mandate" entails

Consumers do not clearly understand the roles, responsibilities and rights of paying Banks, Sponsoring Banks, payers and users as it pertains to the collection and/or dispute of debit orders

Consumers are unable to recognise the entity/user collecting money from their bank account and request that descriptors (i.e. ABSNs) must be standardised for identification purposes

Consumers who improved their understanding of how and with whom to query / dispute incorrectly activated debit orders were more likely to agree to allow debit order collections from their Banks accounts

These insights made it clear that education programmes are required among a large portion of consumers and the gaps in consumer understanding, of how the NPS works as well as their rights and obligations in terms of transacting in it, needed to be closed. It is also evident that an improved focused on education about the financial sector could positively impact an increase in financial literacy.

Section Three – The Mentors: Changemakers at Banks, FSCA, SARS, FIC and SABRIC

The Mentors are those changemakers that ascribe to efficiency (doing things right) and effectiveness (doing the right thing). They are the ones who have brought about changes in leadership thinking, behaviour and action. They are the ones who have collaborated and engaged in cross-sectoral actions that actively and committedly help to prevent systemic vulnerabilities caused by syndicated behaviour and cash management in the NPS. They are the leaders who have stepped across the threshold and into the responsibility of ensuring that the level of transparency about Third Party Payment providers, users and sub-users are aligned with the risks that some of these stakeholders present to the NPS.

These mentors are the system leaders who truly understand that different outcomes and positive impact in the NPS will not be possible unless

they recognise the interconnectedness between themselves and the system they want to (and need to) change. Their commitment to the wellbeing of the “whole” are moving others to do the same. They are the ones who step forward to remove polarisations, apathy and stagnation while consistently engaging a willingness and commitment to learn from others and with others. Each of these mentors left organisational self-interest behind so as to create safety, efficiency, effectiveness and wellbeing in and for the larger context and system.

When we look across the span of time to 2025 and the vision of a safe and efficient NPS, that supports the elimination of poverty and the reduction of inequality, we will have to realise that our current actions will only become more efficient and effective when we shift the nature of the awareness and thinking behind our

actions. We will no longer just be required to work on the symptoms of the challenges in the NPS. We will need more system leaders (mentors) that work to understand the web of interrelations that create the complex problems contained within it.

Although the mentors are not the only changemakers and heroes of the NPS, they are the ones who step forward and across the threshold to understand the NPS through the marginalised, the “voiceless” and the powerless. They are the ones who pay close attention to the system’s many stakeholders, as well as the interactions between stakeholders and that which influence and impact stakeholders. They are the ones who continue to create collaboration across sectors to catalyse efficiency, effectiveness and safety in the NPS.

Conclusion

It remains essential to revolutionise and transform structurally flawed models of consumer education, risk mitigation and risk information sharing in the NPS. However, nothing great can ever be achieved alone. Therefore, an absolute and unequivocal need exists for collaborative, ethical and socially just behaviour from every actor in the NPS, no matter their role, so as to ensure responsibility, accountability, fairness and transparency. More mavericks, mobilisers and mentors are needed who will enhance their efforts, undertakings and

behaviour in a way that ensures an enabling, inclusive and safe environment for all stakeholders in the NPS.