



NPS Newsletter

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TANZANIAN NATIONAL PAYMENT SYSTEMS NEWSLETTER

Message from the Director of National Payment Systems

As impressive strides are being taken by the three East African Countries of Kenya, Uganda and Tanzania towards regional integration and the creation of an "Economic Community", the Monetary Affairs Committee of the East African Central Bank Governors, cogniscent of possible trade ties and inter-regional payment transactions resultant from such economic integration, directed that payment systems harmonisation initiatives within the E.A. Region be embarked on. To that effect an "East African Payment Systems Harmonisation Committee" was formed in 1998, and met for the first time in May 1998 at the "White Sands Hotel" in Dar es Salaam and have held several meetings ever since. The committee has come up with a number of areas that require harmonisation in the Regional Payment Systems scenario. However, it may be useful to ponder as to what may be meant by Payment Systems Harmonisation.

One is tempted to define payment system harmonisation as the process of developing common understanding and

joint approach in the payment systems development and modernisation process. It therefore involves inter alia exchange of information and experiences, sharing resources, transfer networks and infrastructure, and working on the basis of common agreed principles, standards, procedures and regulations. The process of striking agreements in these aspects among countries of different background and environment could prove traumatic. The question then comes up as to whether it is necessary to have payment systems harmonised. In other words why do we need to harmonise payment systems, and with who do we have to harmonise.

A simple example may illustrate the need. A payment transaction originating from New York in the USA via BOT accounts to a payee maintaining an account with NBC 1997 Pugu Road Branch, takes a maximum of one minute from New York to BOT accounts via SWIFT, and takes approximately another

five days from BOT to the account of the payee at the NBC 1997 Pugu Road Branch. The two lags of the same transaction cannot by any means be governed by the

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same principles, rules and regulations. They are not harmonised. As such responsibilities and roles of players differ. Obviously the lag that takes longer is prone to greater payment

systems risks, and has less certainty of settlement within a specified time. Would an American trader be willing to expose his/her payment to that risk?

The East African Community Countries are obviously thinking of harmonising payment systems in order to facilitate and promote cross-border trade within the region, to maximize economic advantages in the utilisation of resources, and to enhance the development of financial markets and financial systems in the region. These aspects are considered catalytic to economic growth and development. The EAC Countries are not alone in that thinking. The harmonisation of the TARGET based Payment Systems in the European Community is based on the same reasoning as an integral

part of the European Economic Integration. Other payment systems harmonisation initiatives are being undertaken in Asia, Latin America, and nearer home within the SADC Region.

Talking of "home" how do we go about ensuring that payment systems of one institution in Tanzania say M/S Standard Chartered Bank (T) Ltd can interface with those of M/S National Microfinance Bank Ltd, and that clients of the two banks can comfortably exchange value using their banks without undue fear of exposure to payment systems risks.

On home grounds there is therefore an equally pressing need of harmonising the payment systems in terms of

adopting common approaches and developing common understanding and common procedures, regulations, principles, standards and systems. We all stand to gain in the process.

The reason as to why we need harmonised systems seems obvious on the basis of benefits alluded to in the paragraphs above. It is also obvious that we probably need to harmonise our payment systems with all systems used by all parties we have payment transactions with.

Considering cross-border payment transactions, it appears our systems need to be harmonised with the global systems. This calls for adoption of International Standards.

I.H.Kilato
Director National Payment
Systems

The E.A. Payment Systems Harmonisation Committee Adopts Common Data Transfer Standards

The East African Payment Systems Harmonisation Committee met in Nairobi Kenya from the 27th to the 28th July 2000 to examine inter-alia Data Transfer Arrangements and Security Standards in use within the East African Region. The committee examined the "Kenya Bankers Association (KBA) Standards, the Bank of Tanzania Electronic Clearing House (BOTECH) Standards as well as the Electronic Data Interchange for Administration, Commerce and Transport (EDIFACT) Standards, and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Standards. The Committee noted that the Kenyan and Tanzanian Data Transfer Standards as developed based

on M/S dbs Financial Systems Clearing Solutions were similar with minor customised differences. In anyway they meet their existing business requirements and fit their environments.

The committee noted also that EDIFACT Standards are based on universal practice for administration, commerce and transport, and do not specifically relate to payment transaction aspects. SWIFT Standards on the other hand, cater for a wide variety of payment transactional applications. The committee specifically considered the application of MT 206 and MT 256 message formats for Cheque Clearing and Electronic Funds Transfer (EFT) Systems and found them suitable.

The committee further examined the File Authentication System (FAS) in use by KBA and BOTECH as developed by M/S RACAL for security provision and found the system complying with international requirements.

The committee resolved as follows:-

- i. SWIFT message format for East African Regional Transfers be adopted.
- ii. Existing legacy systems and those under development in Kenya and Tanzania be retained for domestic clearing.
- iii. An interface that will be able to translate existing legacy systems into SWIFT

- Message Standards and vice versa be acquired within 5 years, to provide required links between SWIFT based systems and the legacy systems.
- iv. The use of SWIFT formats for domestic transfers should be encouraged, and a migration plan should be developed.
 - v. Any new systems to be acquired or developed should be SWIFT-based. (This does not include enhancements of existing systems.)

The Committee's Resolutions were mainly based on the understanding that:

- i. Migration of the current transfer systems to SWIFT would be expensive. Kenya has a working system. Tanzania is implementing its Electronic Clearing House (ECH) and has already commissioned a software house.
- ii. There will be no compromise on existing information.
- iii. They meet existing Business Requirements

The strong points for the adoption of SWIFT Standards included the facts that:

- a. SWIFT message format is tried and tested.
- b. SWIFT applications are already in use for both domestic and international credit transfers in East Africa.
- c. The SWIFT network exists and is secure.
- d. The EA Payment Systems Harmonisation Committee has proposed the use of SWIFT for both domestic and international transfers. Adoption of the SWIFT message format is therefore in line with the EA Payment Systems Harmonisation stand.

- e. SWIFT message formats can accommodate the existing requirements of the legacy systems
- f. The SWIFT system is future proof and caters for the demand of a global village.
- g. The E.A. countries are considering SWIFT to support their Real Time Gross Settlement (RTGS) Systems.

EDIFACT Standards were not preferred on the basis of the following:

- i. EDIFACT has no legacy system application in East Africa.
- ii. EDIFACT has about 30-35 suppliers for a variety of uses. It is difficult to determine which one to use.
- iii. EDIFACT has no existing communication network.
- iv. EDIFACT has a wide application base and can be confusing

In consideration of security systems, the committee recommend the use of FAS as provided by RACAL or any other system that meets all requirements provided by FAS for domestic payments, and the use of SWIFT Security Standards for cross border transactions.

Other issues considered by the East African Payment Systems Harmonisation Committee were:-

- a. Sponsorship of Non-Clearing Banks
Clearing banks that sponsor non-clearing banks (i.e. clear instruments of non-clearing banks on behalf of those banks) should ensure that they have adequate information with regard to the risk profile of the non-clearing banks being sponsored. They should have proper

arrangements in place that cover them fully against payment system risks.

b. Maintenance Of Clearing House Agreements

Consistent with the expected move towards autonomous clearing houses in East Africa, the Committee recommended that clearing house agreements be kept and maintained by the respective banking associations (i.e. Kenya Bankers' Association (KBA), Uganda Bankers Association (UBA), and Tanzania Bankers' Association (TBA).

The agreements are to clearly spell out rules, regulations, obligations, responsibilities, penalties and sanctions where applicable.

c. Ownership Of Clearing Houses

All clearing houses should be autonomous by the year 2005. In this context, an autonomous clearing house refers to one that is not run or managed by the Central bank.

The clearing house autonomy, however, does not obviate the Central Banks' role to ensure that rules, procedures and operations of the clearing houses do not compromise or constrain the accomplishment of monetary, fiscal and other national economic objectives. The clearing houses should be run on private sector principles, including professional management, full cost recovery and execution of periodic audits of their activities.

d. Membership Of The Clearing Houses

Clearing House membership will be open to licensed commercial banks. Admission will be subject to fulfilment of transparent criteria set by the Bankers Associations in consultation with the Central Banks in each country.

e. Withdrawal Of Membership

Any member of a Clearing House that intends to withdraw should give notice of not less than 28 days, both to the Clearing House Administrator and the Central Bank of the respective country.

Such notice should clearly state, the reasons for withdrawal and indicate alternative clearing arrangements for items in transit.

f. Transaction And Reason Codes

The Transaction and Reason for Return codes within the East African countries should be harmonised with a view to facilitating the processing of payment instruments in the three East African countries.

As Kenya's Transaction and Reason for Return codes are more comprehensive than either Uganda's or Tanzania's, it was agreed that Kenya's codes be adopted as "The East African Transactions and Reasons For Return Codes".

It was however agreed that the following instruments be included in the list of transaction codes:

- (i) Government Cheques
- (ii) Banker's Cheque
- (iii) Banker's Draft
- (iv) Promissory Notes

The East African Transactions and Reason for Return codes will be reviewed after one year. Thereafter, they will be reviewed on a bi-annual basis.

g. Reasons For Fines, Charges And Penalties

The Committee recommended that the reasons for fines, charges and penalties should be harmonised. In this connection, and subject to periodic reviews, the reasons enshrined in the KBA Standards should be adopted as Regional Standards. Individual countries may however add more reasons as their specific conditions may dictate.

h. Clearing Time and Cycle

The clearing time and cycle for clearing regional items should be harmonised following the linkage of the Automated Clearing Houses (ACHS).

However, at national levels, the three Central Banks should undertake to achieve the following:-

| Item | Target cycle | target date |
|---------------------|--------------|----------------|
| General Clearing | 3 days | January 2002 |
| Remote Clearing | 10 days | January 2002 |
| High value Clearing | Same day | January 2002 |
| Cheque Truncation | | Within 5 years |

It should be noted that, both Kenya and Uganda currently comply with the target cycle for both General and Remote Clearing. Tanzania is expected to meet the 3 days and 10 days general and remote clearing cycles in January 2002.

All the three countries (Kenya, Tanzania and Uganda) are expected to achieve same day high value clearing by January 2002, and cheque truncation by year 2005.

i. Regulation and Procedures

Clearing Houses should develop their own rules, regulations and operational procedures including secure locking of their items and use of electronic file authentication methods. Such rules and procedures should be consistent with the countries macroeconomic objectives and should be predicated on self-regulatory principles.

The Regulations and Procedures should comply with the recommendations outlined above and should be harmonised. To that effect members of Clearing Houses within E.A. should form an association through which they will be exchanging notes and experiences.

The East African Payment Systems Harmonisation Committee is aware of the technical and operational implications of the proposal that the E.A. Data Transfer and Security Standards should be based on a tested and international accepted standards as SWIFT. This is in recognition of the general technological trend to turn the whole world into one global village.

In view of the above the Committee recommended that an Association consisting of representatives of East African National SWIFT User Groups be formed to look into among others:

- Risk management issues related to East African Regional Data Transfer.
- SWIFT message formats and usage
- Rules of Operation of East African Data Transfer.

The committee requested that the Central Banks of the three E.A. Countries make it possible for these proposals for Data Transfer Standards to be made known to the banking

community within their respective countries, and that the said banking communities forward their views to the committee.

DEVELOPMENT OF BULK ELECTRONIC BASED TRANSFER SYSTEM.

Introduction

Inherent delays in the transfer of funds is one of the issues being addressed by the National Payment System Modernization Project. Delays are the main causes of payment floats. Funds are expensive and therefore floats are undesirable. A customer is denied utilization of funds for productive purpose, is exposed to losses originating from exchange rate differentials, is denied interest earnings and misses various business opportunities and advantages when his funds are tied up in the financial systems as float money.

Weaknesses in the internal payment system structures are the main causes of delays in transferring, processing, clearing, and settlement of funds. While it can take hardly two minutes to effect international transactions by the Society for Worldwide Interbank Financial Telecommunication SWIFT, it takes up to 28 days to transfer funds internally depending upon the transfer system used. This, coupled with high fund transfer charges constitutes a major setback to system users and foreign investors.

In an effort to improve fund transfer systems in Tanzania. The NPS Vision for year 2005 proposes development of Bulk Electronic Transfer

Systems (BET). Electronic Based Transfer Systems are systems, which use electronic pulses to disseminate information. Information or instructions are transmitted in an agreed, standardized file formats through magnetic media or telecommunication links. This facilitates an efficient communication between institutions. Likewise it enhances processing efficiency and accuracy since once data is entered into a computer media by the applicant at source, it can be used by the transferring or paying institution without re-entering or reposting the data. The development of BET follows achievements and experiences gained on the development and adoption of Electronic Data Interchange using diskettes exchanges.

BET Architecture

The proposed system is a fully automated one with standardized messages, record content, format, and interface based on internationally standardized protocols such as the United Nations Electronic Data Interchange For Administration, Commerce and Transport (UN/EDIFACT) and SWIFT. To facilitate online linkage, each participating bank needs to be equipped with at least a front-end computer capable of receiving and

transmitting payment instructions from and to BET processing centers. The front-end processor will be linked to the host computer of the Bank of Tanzania, and will generate inter-bank instructions, and also have an on-line monitoring capability of participating bank accounts with the Bank of Tanzania.

Disaster recovery strategies, contingency measures, and procedures, in case of system failures for the BET System need to be developed.

Types of Transactions

The system will process credit push transactions. Credit push systems are transfer system that place funds at the disposal of the beneficiary. The system will therefore facilitate the transfer of funds all through up to the payee's account. The system will also facilitate truncation of paper based items and processing pre-authorized direct debits to allow receivers to collect payments directly from payer's bank.

Considering the current level of automation of most potential system users in Tanzania, the system is expected to accommodate three methods of input data.

- (i) Paper based – which will be truncated to

- facilitate electronic processing
- (ii) Magnetic media – either diskettes, tapes or compact disks, as an off-line option
 - (iii) Telecommunication links – dedicated lines or dial up lines, as an on-line option.

A customer wishing to transfer funds will issue payment instructions to his/her bank in one of the above mentioned media. The bank will forward the request to the system's clearing/switching center at the BOT. On settlement date, the center will process the transaction, and simultaneously make arrangements for inter-bank settlement, and forward payment instructions to the beneficiary's account at his/her bank.

Financing and Ownership.

The Bulk Electronic Transfer System is a Central System. It should therefore be owned by the Central Bank, in joint partnership with the members.

BOT is expected to incur the cost of the host system and initially manage the system until when the consortium of member banks is formed to run the system. The BOT may recover the capital investment cost of the host system through usage charges based on volumes.

Other members are expected to acquire front-end processors and contribute in training programs to be conducted.

Implementation

Implementation of the project is expected to start within financial year, 2001/2002, and completed in the following financial year. Pre-requisites for implementation are:-.

- (i) Formation of a consortium having adequate members (banks) who agree to implement it within the prescribed period.
- (ii) Improvement in automation of banking operations especially the on-line linking of branches to their respective head offices.
- (iii) Availability of funds as and when required for capital investments in procurement of computer systems (hardware and software) and training.
- (iv) Adequate campaigns to create public awareness and sensitize the various players.

Transactions will be Account-to-Account, or Business-to-Business which means all participants, users, and beneficiaries must have accounts at a bank.

The East African Monetary Affairs Committee of Central Bank Governors Issues a 15-Points Directive.

The East African Monetary Affairs Committee (MAC) of Central Bank Governors at their meeting of 1998 held in Arusha, resolved that an East African Payment Systems Committee (EAPSC) be established to inter alia coordinate and harmonise developments in payments, clearing, and settlement operations within the East African Region. The Governors further instructed that the coordination and harmonisation programs of payment systems should aim at facilitating possible East African Monetary Union in the near future. Subsequently an East African

Payment Systems Committee, constituting of Central Bank officials in charge of National Payment System Programmes, Banking Operations and Information Technology programmes in their respective countries, was formed.

Up to June 2000, the EAPSC had met five times, and its taskforce that was formed to follow up the processes of harmonising payment systems issues had met three times

At its most recent meeting in April 2000 the Monetary

Affairs Committee of Central Bank Governors after examining the Report of the East African Payment System Harmonisation Committee resolved that:-

- a. Collateralisation of Central Bank lending to banks be implemented immediately.
- b. Development of data transfer standards and security specifications for the Automated Clearing Houses within the Region be on board by 30th June 2000.
- c. Development of guidelines for licensing and regulating e-

- money schemes and products be embarked on by 30th September 2000.
- d. The work on modalities to facilitate clearing of Cross-border instruments should start by 30th September 2000.
- e. East African SWIFT User Group should be formed by 30th September 2000.
- f. An adequate Legal Framework incorporating all possible amendments to existing pieces of legislation, and an enabling umbrella legislation should be in draft forms by 30th October 2000.
- g. Harmonisation of definitions of Payment Systems concepts and terms should start by 30th October 2000.
- h. Minimum Standards for Clearing and Settlement operations should be defined and set by 31st December 2000.
- i. A comprehensive checklist for Payment System Audits should be developed by 31st December 2000.
- j. Same day High Value Clearing should be introduced by 31st December 2000.
- k. Promotion of the Use of SWIFT for domestic transfers should be embarked on by 31st March 2001
- l. Implementation of Automatic Clearing Houses Should start by 30th June 2001.
- m. Introduction of upper limits for the value of debit instruments should be programmed to take place within the coming 5 years.
- n. The Autonomy of Clearing Houses within the Region should be enforced within the coming five years.
- o. An East African ATM Network and ACH linkage should be established within the coming five years.

Other decisions of the Monetary Affairs Committee of the Central Bank Governors included that banks should be encouraged to develop risk management measures, and that all payment instruments should be standardised.

Calendar of NPS Project Events *By NPS Project Team*

1998, January. The first draft on situational stocktaking report was released.

1998, March. As a result of recommendations in the Situational Stocktaking report, a decision was reached by BOT management that work on the possibilities of introducing smart cards as a non-cash substitute instrument should commence.

1998, March. NPS Unit produced SADC Green Book – Tanzania Chapter. The book was discussed and accepted by a Committee of Governors, It was then sent to Bank for International Settlements to be published.

1998, March. NPS Unit started to develop an EDI system to facilitate interchange of data between banks using diskettes.

1998, April. Terms of References for consultants to work on the second phase of NPS were completed and sent to the World Bank for comments and approval.

1998, April. MICR tender evaluation was done. All suppliers were disqualified for lack of competency.

1998, May. On 20th May, NPS Unit, on behalf of the BOT, organised the first workshop on payment

system for East African Central Banks.

1998, May. NPS Unit demonstrated to members of the bankers clearing houses on how disk exchange system could be used at interbank clearinghouses.

1998, July. Effective 1st July, NPS Unit was upgraded to become a fully-fledged NPS directorate. Mr. Isaack H. Kilato was appointed to be the first NPS Director.

1998, July. On 28th July, Tanzania Institute of Bankers (TIOB) organised a seminar on payment systems, in which all resource persons were from the NPS directorate.

1998, August. On 21st August, the NPS Directorate and some of the stakeholders discussed and issued the first draft of Vision, Strategies and Conceptual Overview of the Tanzania Payment System. The draft was later presented to the NAC meeting on 28th August.

1998, September. On 2nd September, the Bank of Uganda held a workshop on harmonisation of payment systems cheque standards in Entebbe. Some members of NPS directorate represented the Bank.

1998, September. On 24th September, the East African Central Banks cheque standards technical team met in the Central Bank of Kenya and agreed on the East Africa cheque standards.

1998, October. The directorate issued the second draft documents on NPS Vision, Strategies and Conceptual overview. The document and a questionnaire regarding the proposed vision strategies and systems were circulated to NPS stakeholders for comments.

1998, November. Between 2nd and 6th November, the Directorate conducted training on use of EDI to all IT staffs from members of the bankers clearing houses.

1999, January. The directorate issued the first NPS Newsletter. The newsletter aims at providing quick reading, informative briefs on pertinent issues on payment systems to stakeholders and the general public.

1999, January. Mr. Mike Robotham joined the NPS Project Team on Secondment basis from the IMF as the NPS Advisor.

1999, February. On 19th February, the Directorate convened the first grand meeting of all NAC committees. The meeting set resolutions on the way forward and activities to be completed for the coming six months, that is Jan – June 1999.

1999, March. Between 15th – 16th NPS Stakeholder's met in Mwanza to discuss the Tanzania NPS, vision and strategy framework.

1999, May. Editorial Team for NPS Vision and Strategic Framework document was formed. It consisted of Mr. Isaack H. Kilato, Mr. Cashmir J. Nyoni, Mr. Edward D. Makwaia, Mr. Leonard Kisarika, Mr. Bernard Dadi, Mr. Seronga Wangwe all from the Bank of Tanzania, and Mr. Robert Mathu from the Dar es Salaam Stock Exchange (DSE). Mrs Ashura Seif carried administrative arrangements for the Team.

1999, June. Bank for International Settlement (BIS) published and issued first version of the SADC Green Book. The Tanzania Chapter is included.

1999, June. NPS Newsletter, Issue No.2 was published. The main theme was on the Payment and Settlement Systems Risks: The Tanzanian Case.

1999, July. Mr. Abbas Berya joined the NPS Project Team as Deputy Director National Payment Systems

1999, July. The Bank of Tanzania hosted the East African Central Bank Workshop in Arusha on National Payment System Harmonisation. Areas identified for harmonisation

included automation of clearing houses, formulation of legal framework, development of cheque standards ..etc.

1999, July. Electronic Disk Exchange technology for Clearing House Operations was officially launched.

1999, July. A meeting of East African Monetary Affairs Committee (MAC) was held in DSM from 8th to 9th July 1999. The meeting recommended that the East African National Payment System Committee should assume responsibility for all NPS circuit especially ATMs and Credit Cards.

1999, August. The NPS Directorate did three important presentations to the BOT Management as milestones to the project. The presentations covered: NPS Vision and Strategy Document (as a First version), Implementation Guidelines for Auditable Payment Card Schemes in Tanzania (Version 1) and Areas for Harmonisation of NPS activities in East Africa (which also covered agreed Standards for Document Processing using MICR technology). The three documents were forwarded to NPS Stakeholders for adoption.

1999, August. A Payment Systems Management course was held in Pretoria South Africa from 16th to 20th August 1999.

1999; October. COMESA Smart Card Project Oversight Group Meeting was held at the Resident's Lounge Nairobi Hilton Hotel-Kenya from 14th to 15th October 1999.

1999, October. East African Payment Systems Harmonisation Task Force Meeting was held at Lake Victoria Windsor Hotel, Entebbe Uganda from 22nd to 23rd October 1999.

1999, November. Risk Regulation Forum, met at Hilton London Metropole Hotel from 15th to 17th November 1999. Issues discussed include review of the Basel Committee's proposal on a new capital adequacy framework.

1999, December. COMESA Smart Card Project Oversight Group Meeting was held at the Resident's Lounge Nairobi Hilton Hotel-Kenya from 9th to 10th December 1999. Main issues discussed included the COMESA-Mondex Smart Card Project.

1999, December. East African Payment System Harmonisation Task force Meeting held at the Kenya School of Monetary Studies – Nairobi Kenya from 15th to 17th December 1999.

2000, January. TBA adopted the Paper Instrument Standards which include cheque design, layout, MICR Codeline specifications and document processing arrangement.

2000, January. TBA adopted the Year 2005 NPS Vision and Strategic Framework document.

2000, February. Research for establishing Zonal Clearing Centers was carried out to enhance NPS Project outreach, which is aimed at providing the basis for facilitating the implementation of NPS modernisation programme.

2000, February. SADC Country Representative Meeting was held in Windhoek Namibia from 17th to 18th February 2000. Issues discussed included progress

made in developing the individual country's NPS Vision and Strategic framework and the adoption of Core Principles for Systematically Important Payment Systems, at National and Regional Levels.

2000, March. East African NPS Harmonisation meeting was held at the Fisherman's Resort in Zanzibar from 29th to 30th March 2000. During the meeting, the Task Force Report on identified Minimum Common Features for harmonisation was discussed and adopted. Proposals were forwarded to the East African Monetary Affairs Committee meeting held in Arusha in April 2000.

2000, April. The East African Monetary Affairs Committee meeting held was in Arusha Tanzania on 10th April 2000 The Committee deliberated and adopted a phased approach in the East African NPS harmonisation initiatives. An activity plan was drawn to that effect.

2000, May. The Request for Proposal and Tendering in respect of establishment of Electronic Clearing House for Tanzania, and MICR equipment for BOT, were finalized.

2000, May. COMESA Seminar on the Development of Payment Systems in Eastern and Southern Africa was held in Kigali Rwanda from 3rd to 5th May 2000. The Seminar sought to help banks to identify ways of maintaining an integral and active role in payment systems and in particular the

development of strategies African banks should adopt in order to modernise quickly and harmonise their Payment Systems.

2000, May SADC NPS Harmonisation Workshop was held in Pretoria South Africa from 8th to 10th May 2000. The Seminar dwelt on identifying areas of development within the payment system which are common or which should be developed according to common principles or standards within the region.

2000, May. International Seminar on Cash less Payments in Germany and in the Euro System was conducted at Deutsche Bundesbank – Frankfurt Germany from 14th to 19th May 2000. The Seminar which was attended by representatives from 30 Central Banks from developing countries basically dwelt on the Germany and Euro systems and provided the participants with an opportunity to discuss and relate what they have learnt with the situation in their countries.

2000, May . The NPS Core Group met with all NPS Committee Chairmen and Secretaries. Issues discussed during the meeting were based on progress report from the committees, and future committee's performance, improvement measures including review of the composition of its members.

2000, June. Ms dbs Financial Systems Ltd of UK was selected to provide the necessary Electronic Clearing House System for Tanzania's Clearing Centres in Dar es Salaam, Arusha and Mwanza.

GLOSSARY OF ABBREVIATIONS AND TERMS

CSD (Central Securities Depository) System: A securities trading system for holding securities in a book entry form and enables securities transactions to be processed and transferred in a dematerialised and immobilized manner. The system may incorporate safekeeping comparison, clearing and settlement functions.

Clearing: Clearing is the process of transmitting, reconciling and confirming payment orders or security transfer instructions prior to settlement. Clearing may include netting of instructions and the establishment of final positions for settlement.

Clearing House: A central location or central processing mechanism through which financial institutions agree to exchange payment instructions or other financial obligations. The institutions settle for items exchanged at a designated time based on rules and procedures of the clearing house.

Credit based Payments: Payments made by placing funds at the disposal of the beneficiary. The payment instructions and the funds described therein move together from the bank of the payer to the bank of the beneficiary.

Credit risk: The risk that a counterpart will not settle an obligation for full value either when due or at any time thereafter. It includes principal risk, cost risk. The counterpart may be insolvent.

Credit Transfer System (Giro System): A system through which payment instructions and the funds described therein may

be transmitted for the purpose of effecting credit based payments.

Cross Currency Settlement Risk: Also known as Harstat Risk is the risk that a transaction with a correspondent bank may not materialize due to insolvency of transactions caused by time zones differences and currency differences.

DNS (Deferred Net Settlement) Systems Settlement systems in which payment instructions are bunched and off-setting positions calculated between participating banks before settlement is done. Netting reduces a large number of individual obligations to a smaller number of obligations based on multilateral net positions of participants. Netting may take several forms, which have varying degrees of legal implications especially in the event of default.

DVP (Delivery Versus Payment): A mechanism in an exchange-for-value settlement system that ensures that the final transfer of one asset occurs if and only if the final transfer of the other asset occurs. DVP is mainly used in reference to securities trading where the transfer of securities ownership is tied to the transfer of respective funds.

Dynamic Collateralisation: A system in which automatic lending to a net deficit clearing participant is fully covered automatically by collaterals drawn from a reserve of liquid collaterals usually securities.

Float: The aggregate value of all payment instruments submitted for clearing and settlement through a payment system but not cleared. The float magnitude is a factor of volume of transaction per period (usually a day) value per transaction and the payment cycle or payment lag.

LVTS and/or LVCS (Large Value Transfer/Clearing Systems): Interbank funds transfer/clearing systems through which large value and priority funds transfers/payments are made between participants. They are sometimes referred to as wholesale funds transfer/payment systems.

Legal Risk: The risk that a loss in a payment transaction may be incurred because of inadequate non-coverage of a certain element in a payment process or arrangement. It also includes differences in two legal systems covering the same payment arrangement in the case of payment counterparts operating in different countries.

Liquidity Risk: The risk that a counterpart will not settle an obligation for full value when due, but may be able to settle the required obligations at some other time. The risk includes replacement cost risk and adjustment cost risk. The counterpart in this case is still solvent.

Local Clearing: Clearing of instruments originating from and destined to banks or their branches located within the municipality of the same clearing centre.

Loss Sharing Arrangements: Payment System Risks mitigating measures agreed upon by members of a clearing house or a transfer system which involve a bale-out mechanism or allocation of any loss arising when one or

more participants fail to fulfil their obligation. They include “Defaulter Pays Mechanisms” which involve the use of the defaulter’s collateral to settle the deficit position, and the “Survivors” Pay Arrangement which means the surviving members assume the loss based on agreed formula.

Market Risk: The risk that a loss in a payment transaction may occur because of fluctuations in interest rates and foreign exchange rates. Market risks are linked to securities trading and trading in futures.

Operational Risk: The risk that a settlement finality may not be achieved due to malfunctioning of a system, mishandling, manipulations etc. Operational risks include systems risks, security risks, technology risk and intellectual risk.

PVP (Payment Versus Payment): A mechanism which ensures that the final transfer of one value is conditional to the final transfer of the correspondent value. PVP is used in foreign exchange or cross currency transactions.

Payment instrument: A device or system or physical unit used to initiate instructions for transfer of value from a payer to a payee in settlement of an obligation, Cash, cheques and cards are common payment instruments.

Payment System: A payment system consists of a set of instruments banking procedures and interbank funds transfer systems that ensure the circulation of money.

Payment instrument: A device or system or physical unit used to initiate instructions for transfer of value from a payer to

a payee in settlement of an obligation, Cash, cheques and cards are common payment instruments.

RTGS (Real Time Gross Settlement) System: A settlement system in which payment instructions are processed one by one in their gross nature (no netting) continuously, that is in real time as they are initiated and received.

SWIFT (Society for Worldwide Interbank Financial Telecommunication): A cooperative organisation that operates a network for the exchange of payment and other financial messages between financial institutions throughout the world. The organisation is owned by banks.

Settlement: An act that discharges obligations in respect of funds or securities transfers between two or more parties.

Settlement lag: The time-lag between the initiation of a payment instruction and its discharge by the final exchange of a financial asset for payment. It is sometimes referred to as a payment lag.

Settlement finality: *Settlement* that is irrevocable and unconditional. In this regard receiver finality refers to a point at which an unconditional obligation arises on the part of the receiving participant.

Situational Risk: Also known as circumstantial risk is the risk that settlement may not be achieved due to factors outside payment and settlement systems set up such as natural disasters, political uprising war etc.

Situational risk includes country risks.

Systemic Risk: The risk that the failure of one participant in a transfer system or in financial markets to meet its required obligation will cause other participants or financial institutions to be unable to meet their obligations too. The risk refers to a payment and settlement system. It is important to differentiate systemic risk from *systematic risk* a term used by financial analysts to describe a situation where all share prices may fall leading to a major market setback and losses in investment opportunities. Systemic risk is also different from *systems risk* a term used by computer programmers to describe the possibility of a failure or malfunctioning of a group of hardware, software and peripherals working together.

Time Critical Payments: Payments whose settlement at due date trigger other financial transactions. Non-settlement of time critical payments lead to a non fulfilment of the secondary transactions.

Time sensitive payments: Payments whose non-settlement at the due date draws immediate legal and other implications including penalties and other obligations.

Truncation: A procedure in which the physical movement of paper based payment instruments is curtailed or eliminated, and is replaced in whole or in part by their electronic data contents for further processing and transmission.

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