

## **Daniel Mminele: The current state of payment system integration**

Remarks by Mr Daniel Mminele, Deputy Governor of the South African Reserve Bank, at the Southern African Development Community (SADC) Payment System Integration Workshop, Centurion, 22 March 2011.

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Good morning ladies and gentlemen.

It is a pleasure to be with you once again, and an honour to have been asked to make a few remarks at the opening of the SADC Payment System Integration workshop.

It is only little more than a year since we launched the project to integrate the region's payment systems. If we cast our minds back, at that time we were all reasonably constructive about where the world was going. Most parts of the world had just emerged from a severe recession, the global economy had been successfully pulled away from the brink, and economic indicators were generally pointing the right way, albeit with some risks that we could identify. We had subsequently seen very encouraging growth rates during the first quarter of 2010.

All this, however, started to change during the second quarter, when the European sovereign debt crisis presented new challenges, which are still with us today, and in the process exposed how fragile the banking and financial systems still were after the crisis, and delivering the very sobering message that the road to a strong and sustainable global recovery was going to be a rather slow one, and would be uneven across countries and regions.

More recently, we have witnessed a series of natural disasters, and geopolitical risks increasing, the full impact of which on the global economy remains uncertain at this stage. And of late in some parts of the world inflation concerns are coming to the fore again, requiring delicate balancing acts on the part of policy makers to ensure that inflation expectations remain anchored while avoiding any undue damage to recovery prospects. As we will be starting our monetary policy committee meeting later today, I will certainly not comment on the South African situation, but refer you to the statement that we will issue on Thursday afternoon.

We have many lessons to learn from the crisis, while the crisis has also left many questions unanswered.

These challenging and uncertain times that we are experiencing will in some way or another also have a bearing on the SADC payment system integration project. Two areas specifically spring to mind: The one being the evolving agenda and package of measures to address the root causes of the global banking crisis, the other being the events in Europe, where certain euro zone member countries had to be rescued by others together with multilateral organisations, resulting in the European integration project being put to a rather severe test.

The two circumstances can present very different sets of challenges and could impact the SADC integration project in different ways, in that each could impact a different set of role-players. The emergence of measures to address issues that led to the global banking crisis has a direct impact on commercial banks, and on regulators who are required to refine existing or introduce new regulatory and supervisory measures. The events in Europe, which revealed that, while there are no doubts about the benefits of monetary unions, under certain circumstances they can put serious constraints on countries, on the other hand may harbour even broader implications. Countries in the SADC region will probably carefully monitor the situation in Europe to reassess the admittance criteria and control measures for a future SADC monetary union.

Commercial banks will be required to conform to more stringent regulatory requirements because of the new measures introduced following the banking crises.

Regulators are required to review their oversight and supervisory procedures of commercial banks. A higher level of co-operation between regulatory bodies is becoming essential to ensure that different facets of a commercial bank's structure and operation are adequately examined. Joint oversight and mutual co-operation initiatives between regulators are being formalised by memoranda of understanding and we are observing the formalisation of roles of the different regulators in integrated environments.

The significant commitment required of commercial banks to meet the new requirements could result in a shift in focus away from regional initiatives. Regional initiatives could take lesser priority for the banks.

The role of the SADC Banking Association becomes even more crucial in the effort to integrate the payment system environment. Commercial banks, despite their commitments to effect changes to meet new regulatory requirements, should continue to play their part in making the regional integration initiative a success, not least because they stand to benefit from the opportunities that regional integration will bring with it. The SADC Banking Association is ideally positioned to work with the banking community, and a close working relationship with the project team is similarly of paramount importance.

Events of the recent past in Europe have prompted SADC to examine more carefully the criteria for admittance to the monetary union. This together with the time being taken for the establishment of control measures and procedures, will more than likely delay the eventual establishment of the SADC Central Bank and the introduction of the SADC single currency.

The dates initially contained in the Regional Indicative Strategic Development Plan (RISDP), which called for the establishment of the SADC Free Trade Area (FTA) by 2008; a SADC Customs Union by 2010; a SADC Common Market by 2015; a SADC Monetary Union by 2016; and a Single Currency by 2018, are now being reviewed.

With the target dates being reviewed, sufficient care should be taken to ensure that the momentum of the individual projects is not lost, and that the project teams should continue to focus on their goals.

As members of these project teams, you are required to manage the uncertainties and the changing operating environment, and deliver a system in time for the introduction of the SADC currency. The changing environment and possible change in schedule requires flexibility in the approach to managing the project.

The SADC Payment System Project team has therefore made some adjustments in its approach and strategy. I believe that the consequences of this changed approach will be the focus for discussions at this workshop.

Established regional structures could possibly make a significant impact in the integration process. By simply broadening the base they could make ideal starting points for the SADC integration. It is being increasingly suggested that structures like CMA and SACU can be leveraged and expanded to include the other SADC countries. Legal constraints could be addressed and legal frameworks enhanced to create an environment, which allows SADC countries to be included as and when they meet the convergence criteria.

The Payment System Project team has adopted this approach for the payment system integration project and is introducing the concept of a model for integration based on the CMA. I am sure the technical and legal issues will be discussed in detail at this workshop and that there will be ample opportunity to exchange views around the proposed strategy.

The significant aspect of the CMA solution for payment systems is that parity already exists between the four currencies involved. This allows the project team to build a single-currency system and have it tested, implemented and have the legal, emotional and psychological

barriers removed. We all know how emotive an issue it will be to eventually let go of national infrastructures, even if it is for the greater good.

The SADC integration project is wide ranging. It will require the co-operation and commitment of varied role-players to make it a success.

It is therefore significant that the different sub-committees of the CCBG are represented here today. The speed at which different sub-committees are moving needs coordination so as to avoid a situation where the payment system project is running ahead of other projects. Your presence will enhance the discussions and will ensure that relevant issues are tabled and that they are adequately addressed.

Your agenda for the next three days is quite rich. This could be a very significant three days for the SADC integration project. You may look back at this workshop, when the project is successfully completed, and appreciate some of the preparatory work that you would have completed over the next 3 days, and I am sure be proud to have been part of it.

I wish you well in your discussions and that you have a successful workshop.

Thank you.