

Strategic approach to payment system reform: the South African experience

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Experience has taught us that introducing change in a country's payment system is not an easy matter. The reason is simple. A national payment system has a multitude of stakeholders, key players and institutions, some of whom are fierce competitors, but who have to cooperate and collaborate in order to effect change. Furthermore, any change that may be considered will have an impact on, or be affected by, existing agreements, arrangements, procedures, systems and legislation. It is therefore not difficult to see why payment system reform is a complex endeavour, which needs the support of a diverse group of individuals and organisations.

Peculiarities of the South African payment system

South Africa has a highly efficient payment system, which offers a variety of payment instruments to the public. Although various electronic payment mechanisms are available, cheques are still the most commonly used non-cash payment instrument.

Currently 51 banks and five mutual banks are licensed to operate in South Africa, of which eight are branches of foreign banks. The local banking industry, and specifically the clearing and settlement domain, is dominated by four major banks, which together account for 75% of the industry's total assets.

Various initiatives are under way in the banking industry and financial markets in order to modernise systems in accordance with international best practice and the BIS and G-30 guidelines. These initiatives include the introduction of real-time gross settlement in the payment system (March 1998), scrip immobilisation and a move towards T+3 rolling settlement in the Bond Exchange (November 1997), as well as the planned immobilisation and implementation of T+3 in the Stock Exchange.

Through these initiatives, the South African payment system and securities markets would provide the infrastructure necessary to support South Africa's role as a regional financial centre and an emerging participant in global markets.

Complexities of payment system reform

The payment system involves not only the integrated and harmonious interplay of a whole range of banking institutions and operators in order to process payment instructions, but also numerous stakeholders that have an interest in, and are affected by, the payment process. The diverse nature of payment transactions brings into play numerous professions and disciplines, including bankers, dealers, economists, the legal fraternity, financial experts, auditors and technologists.

The payment system process is a complex area of business, and few people are aware of and understand the whole process and all the issues. Many regard the process as being too technical or too operational. Nonetheless, it affects the way in which banks do business and is a key component of the financial system. Although payment systems exist in order to reduce the risk in making payments and transferring value, the process can also introduce risks. Because so many institutions have to interact in order to execute a payment, there are multiple handovers – and each handover presents an opportunity for error or fraud.

Changing the national payment system thus requires a sound process, which has to be managed meticulously. Quick-fix approaches might solve immediate problems or issues, but might also drive the payment system in a direction that is not in the long-term interests of the system as a whole.

What is a strategic approach?

The strategic approach requires all involved to look into the future and to sketch the desired situation, popularly known as the vision. Once all involved have agreed on the desired future, the debate on ways of achieving the defined end-state can commence. It is a case of making the future work for you – *making the future happen*. The power of a clear vision, shared by all, should not be underestimated. It is an enabling

force, which focuses the attention and efforts of people on realising the vision.

Another characteristic of the strategic approach is that it takes a holistic view of the situation. All relevant issues are included in the strategic thinking process, and the solution that is produced encompasses the required changes to every relevant aspect of the system as a whole. The approach thus means that problems must be addressed with an open mind.

Once the vision is clear, the next important facet of the approach is to enlist the support of all stakeholders. It serves no purpose to have a vision, but to restrict it to a few individuals. Real and lasting change requires all stakeholders, that is, all who could be instrumental in implementing the change, to give their full support to the envisaged end-state. Buy-in by all stakeholders will ensure that the implementation of the change will be a success. In the absence of buy-in by the stakeholders, the opposition to efforts to bring about the change may become so strong that the status quo will be maintained.

The strategic payment system reform framework covers a number of aspects, including:

- vision, that is, a description of the desired end-state;
- fundamental principles, that is, those basic non-negotiable building blocks on which the solutions will be constructed;
- critical success factors, that is, the key factors against which the success of the new payment system will be measured;
- strategies, that is, the actions that need to be taken in order to change the current situation to the situation described in the vision;
- roles and responsibilities of the key stakeholders;
- a high-level implementation plan, showing the main targets to be achieved.

The strategic framework serves as a blueprint for the development, enhancement and maintenance of the payment system.

Why is the strategic approach advisable for payment system reform?

A country's payment system is a national infrastructural asset on which the economy depends. Infrastructure is, by its very nature, long-term,

since it is expensive and requires considerable effort to put in place. Although there are certainly advantages to increasing the efficiency of, and resolving problems in, current payment processes, it is the long-term soundness, robustness and effectiveness of the payment system that is the first prize.

Within national payment systems, it is essential for competitors to work together in order to complete the payment cycle. It is thus advantageous to focus the competing institutions on a higher-order goal, so that competitive issues can be played down and the focus can instead be placed on what is important to the system as a whole. This would be very difficult to achieve by means of an incremental operational approach.

Also, national payment systems are collaborative by their very nature. No single institution, or small subset of institutions, could or should dictate the process or the solution. Thus, there also is a need to cooperate with all stakeholders in defining solutions. Collaborative solutions can be achieved only by broadening the stakeholders' understanding and by building payment system expertise.

A collaborative approach to a strategic payment system reform project

The South African experience has shown that it is extremely beneficial to adopt a collaborative approach to a strategic payment system reform project. In this context, collaboration is defined as *“a process of shared creation where two or more individuals, with complementary skills, interact and, in the process, develop a shared understanding of a situation that none had previously possessed, or could have attached on their own”*.

Collaboration has been found to be essential, because very few individuals possess all the relevant knowledge required to address payment system reform. The collaborative process helps to overcome the limited capabilities, knowledge and experience of individuals, and fosters learning, through the sharing of knowledge and experience.

The individuals that are selected to participate in the collaborative strategic planning process are a key prerequisite for success. In order for the process to be effective, it is necessary to ensure that the participating individuals are a diverse group, drawn from different stakeholders and with sufficient representation from the relevant disciplines. Skills in

facilitating workgroup exercises and, specifically, in building consensus are also essential.

In South Africa, the process of formulating a strategic plan for the reform of the national payment system took 18 months, from start to end. Over a period of 14 months, a team consisting of 22 representatives from the South African Reserve Bank and the banking sector participated in numerous collaborative work sessions in order jointly to define the national strategy. Thereafter, an extensive information campaign was launched so as to inform the key stakeholders of the strategy and test the proposals. This resulted in a blueprint for the payment system reform initiative in South Africa which is widely understood and supported by the banking industry.

Lessons learnt from the South African experience are described briefly below.

Project roles and responsibilities

Various institutions can play a role in the development of a strategic plan for payment system reform, including the central bank, the commercial banks and consultants.

The central bank

The central bank, as a non-competitive and neutral agent, is well placed to take the lead in the development of a payment system reform strategy. As the monetary authority and the banker of the banks, the central bank also has the authority to act in the interest of the payment system as a whole.

Commercial banks

As deposit-taking institutions and financial intermediaries, banks play a key role in the national payment system. Their understanding of the business and of the impact of any change on their processes and customers is critical for the success of a payment system reform project. In cases where foreign banks are operating in a country, it is also valuable to obtain their views on the subject.

Consultants

Consultants can add value in various ways. Firstly, they can support the central bank in facilitating the process, although they should never take ownership of the process. Secondly, they can provide expertise in payment systems and add fresh perspectives, of which participants in the domestic systems might not be aware.

Others

Various other parties could contribute to the quality of the end-product, by providing input at various stages of the process. These include the government, telecommunication providers, donor agencies and the business community.

Prerequisites for a successful strategic reform project

The successful execution of a national payment system project requires some specific fundamentals to be in place. The following have been found to be important prerequisites for a successful project of this nature.

A driving force

As with any major endeavour, a driving force is required. The project needs a champion, that is, a person who has the sense of responsibility to see the project through to completion. This person should preferably be a respected individual in the banking industry and have the determination required in order to drive the project to completion. Furthermore, it is beneficial for the champion to have an appropriate power base, for example, the central bank. This will ensure that the project champion has the power to exert pressure whenever difficulty arises in the process.

Process management skills

The nature of the project is such that good communication and process facilitation skills are essential. The project leader must be able to communicate well with different levels of stakeholders and has to feel comfortable with addressing both high-level concepts at an executive level and technical details with experts, when necessary. Group process

facilitation skills will enable the project leader to extract information from experts and to build consensus on concepts and strategies.

Application of project management disciplines

Payment system reform initiatives are major projects, requiring proper project management disciplines. Projects must be well defined and structured, with sufficient milestones in order to measure progress and to identify problem areas.

Patience with the process

Use of the collaborative approach requires not only a concerted effort by all concerned, but also patience with the process. All participants and stakeholders must feel that they have been afforded ample opportunity to contribute and must be able to see their views reflected in the end-product. The process must be allowed to run its course and cannot be rushed. Pushing the process too fast could result in half-baked solutions, which would most likely satisfy only those stakeholders that could benefit from the particular approach or solution proposed.

Continuous progress

The project leader must ensure that there is continuous progress, so that all stakeholders retain their interest in the project. Therefore, the project leader must ensure that all involved are kept informed and are aware of the progress being made. Every small achievement must be highlighted, so that there is a continuous perception of real progress.

Continuity in participation

Real progress requires that participants remain part of the process. If, for example, the representatives of banks change frequently, it may well become impossible to maintain the expertise and team spirit that have been built up, and arguments may well have to be revisited whenever a new team member joins. In the South African case, a team of eight to ten representatives formed the core of the project team for the full duration of the project.

Wide involvement

The project must involve as many members of the financial industry as possible, in order to spread awareness and to obtain as many ideas and as much positive critique as possible. If at all possible, teams representing various disciplines, for example monetary policy, financial markets, legal experts and bank supervisors, should be involved as separate study groups, examining the proposals of the strategy formulation team as they become available.

Communication with all stakeholders

The reform initiative and the progress being made must be communicated to all stakeholders, both domestically and internationally. Various methods of communication could be used, for example articles in the news media, newsletters and briefings to different interest groups.

Problems experienced

A number of problems have arisen from time to time during the process, including the following.

Finding payment system experts

Although the banks in South Africa have very skilled and capable staff, one of the first problems encountered was that neither the central bank nor the commercial banks had any payment system “experts”. People were knowledgeable about one or two of their banks’ payment products, but very few people had an understanding of the system as a whole. The project thus had to be structured in such a way that a common terminology and understanding could be developed before any attempt was made to develop strategy.

Intra-organisational politics

We found that individuals representing the stakeholders had at times experienced problems in their relationships with other parties within their own organisations. For example, when a representative of a bank came from the retail side of the bank, the treasurers would downplay his

or her opinions as not representing the views of the bank. Such a situation places the project leader in an extremely difficult position, in that he or she has to decide whose views should prevail.

Ineffective communication within participating organisations

Speaking to or involving one person from an organisation does not mean that the organisation concerned is informed of what is happening in the project. We soon realised that another means of communication was required in order to keep all stakeholders informed, and a newsletter was introduced to overcome this problem.

Changes in representation

Changes in the team formulating the strategy can prove to be very disruptive. The team members, over time, gain knowledge and understanding of issues, and a new member sets the process back, since arguments have to be debated from scratch. Fortunately, we had only two changes in key players during the strategy formulation period.

Natural affinity for operational issues

Pressure to resolve critical short-term problems occurs from time to time. People tend to become despondent and to pull the process back to operational issues from time to time. The project leader had to push very hard in order to keep the discussions at a strategic level.

Questioning the role of the central bank

Especially in the initial stages, the banks were very suspicious of the central bank’s motive with the project. They were extremely eager to get the central bank out of the way so that they could “*get on with it*”. It required much perseverance to keep the process going in the face of continual criticism and questioning of the central bank’s role.

Non-negotiables

At various points in the process, the banks dug in their heels and deemed certain issues to be non-negotiable. It took much patience and debate to overcome some of these obstacles. In the end, it was the shared vision of

what would be ideal for the South African situation that won the day, even in the most delicate situations. The end-product contains numerous fundamental changes which were at one stage or another deemed to be non-negotiable.

Benefits derived from using the strategic approach

A number of benefits are becoming evident as the payment system reform project moves closer to implementation.

Smooth implementation

The process of implementing the identified changes to the payment system has been made significantly less traumatic because we can fall back on an approved strategic framework. Whether one is developing a new system or instituting a new self-regulating management structure, the fact that a blueprint has been agreed by all stakeholders obviates the need to debate issues from scratch.

System design and development

The blueprint has made it much easier to design the key technological components of the system, as the principles and long-term strategy have been spelt out clearly.

Transparency

The blueprint has introduced an era of transparency in terms of the relations not only between the central bank and the banking industry, but also between the banking industry and non-bank participants in the payment system. Business models and interface standards have been developed in line with the strategic blueprint, and there is enthusiastic participation from various quarters in defining procedures and new payment practices.

Significant payment system knowledge base

The collaborative approach has resulted in South Africa having a significant number of people in the banking industry who understand the

issues involved in payment systems. This has benefited not only the national project, but also the institutions, which have to adapt their systems and practices in line with the changing scenario.

Positioning of banks and non-banks

The blueprint gives both banks and non-banks the opportunity to position themselves in order to capitalise on the possibilities and business applications made possible by the new payment system. The interest from all sectors of the banking and business community is increasing exponentially as the progress towards implementation of the blueprint becomes evident.

Conclusion

The South African experience has shown that the strategic approach to payment system reform can indeed work. It has given the South African payment industry a long-term vision of the direction in which the payment system should evolve. It has created a blueprint for the future, which serves to focus and direct the limited resources available towards achieving a long-term goal, to the benefit of the country's financial system and the economy as a whole.

Approaching the project in a collaborative, instead of an individualistic, manner also has many benefits. The collaborative approach not only involves more people in the thinking process, but creates a *meeting of minds* on what it is that needs to be achieved. The approach arms more people with the arguments and the rationale for the required change. The greater the number of people who understand the need for change and the steps that need to be taken to address the long-term issues, the more likely it is that the necessary support will be forthcoming.