



**Reserve Bank of Malawi**

**MALAWI NATIONAL PAYMENT SYSTEM  
VISION AND STRATEGY FRAMEWORK  
FOR THE PERIOD 2009 TO 2013**

*PRODUCED BY*  
**THE RESERVE BANK OF MALAWI**

*IN COLLABORATION WITH*  
**THE NATIONAL PAYMENTS COUNCIL**

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**NATIONAL PAYMENT SYSTEM VISION AND STRATEGY  
FRAMEWORK ACCEPTANCE STATEMENT**

This document constitutes the agreed general principles, strategies and the overall vision and strategic framework for the envisaged National Payment System in Malawi for the period 2009 to 2013.

The implementation of this blue-print will involve the participation of all key stakeholders in order to take into account the changing business and technological circumstances so that all payment systems operations are aligned to the desired goals and objectives outlined herein.

This document is hereby accepted and endorsed by the Reserve Bank of Malawi, the National Payments Council and the Bankers Association of Malawi (BAM) as the basis for future payment systems development in the country in the next five years.

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## **FOREWORD**

The endorsement of the National Payment System (NPS) Vision and Strategy Framework in 2001 marked a major turning point in Malawi's national payment systems reforms. The 2001 NPS Vision and Strategy Framework outlined a number of projects which have since been implemented. To date, Malawi operates modern payment, clearing and settlement systems that are internationally recognised.

The transformation of the national payment system was attained through collaborative efforts of all key stakeholders within and outside the country. Domestically, the Reserve Bank of Malawi (RBM) obtained the support and cooperation of the commercial banks, the Malawi Government (Government) and Bankers Association of Malawi (BAM) among others. Internationally, Malawi benefited from the assistance provided through the technical cooperation between the RBM and the International Monetary Fund (IMF) and the collaborative efforts of the Southern Africa Development Community (SADC) Committee of Central Bank Governors (CCBG) through the SADC Payment Systems Project.

The 2009 – 2013 NPS Vision and Strategy Framework sets the strategies to be employed over the next five years. The broad objective is *to attain a safe, efficient and harmonised national payment system that effectively contributes to the country's financial stability*. The RBM has continued to receive support and assistance from all the key stakeholders as well as Norges Bank in drawing up the 2009-2013 Vision and Strategy.

The RBM will continue to cooperate with all key stakeholders, and commit the necessary resources when and as possible, in the development of Malawi's national payment system.

**Dr. Perks M. Ligoya**  
**Governor, Reserve Bank of Malawi**

## **SECTION 1: BACKGROUND**

The RBM is mandated to promote and oversee the national payment system in the country. The mandate is entrenched in the RBM Act, (1989) which empowers the RBM *to promote a sound financial infrastructure in Malawi, including payment systems, clearing systems and adequate financial services*. Based on this mandate, the RBM plays a leading role in transforming the country's NPS.

In 2001, the RBM, NPC and BAM endorsed the first “**Malawi National Payment Systems Vision and Strategy Framework**” document. This is the blueprint upon which all NPS modernisation projects have been implemented. Malawi has since made significant progress in modernising its national payment system. The new systems include the Malawi Inter-Bank Transfer and Settlement System (MITASS); Credit Ceiling Authority (CCA); Central Payment System (CPS) for Government; Electronic bidding system (e-bidding); Electronic Cheque Clearing House (ECCH); and the Malawi Switch Centre<sup>1</sup> (MALSWITCH) which provides infrastructure for payment systems that include amongst others, a proprietary Electronic Funds Transfer (EFT)/Smart card Scheme, a National Network Infrastructure comprising a nation-wide high speed topology and Virtual Private Network (VPN) services and a suite of customised workflow solutions.

Having implemented the above systems, the current Vision and Strategy Framework provides strategic direction for payment systems development for Malawi for the period 2009 to 2013.

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<sup>1</sup> MALSWITCH is a national network infrastructure and a transaction switch which was fully financed by the Reserve Bank of Malawi. This is the platform upon which other electronic based payment, clearing and settlement systems operate.

## **SECTION 2: OVERVIEW OF MALAWI'S NPS <sup>2</sup>**

The population of Malawi is predominantly rural-based and cash is the primary means of payment among individuals. From 2001, the NPC has implemented measures designed to reduce reliance on cash as a means of settlement. The non-cash payment facilities that have been introduced on the market include smart cards, online debit cards, ECCH, the cheque guarantee card, and the MITASS system.

Commercial banks in Malawi are the major players in the provision of payment services. By November 2008, there were ten commercial banks and two discount houses participating in the MITASS system and nine in the ECCH while four banks were using the MALSWITCH Smart card scheme. Three commercial banks issue Visa debit cards to their clients. Membership to MITASS is open to any financial institution that meets the access criteria while only clearing banks are allowed to participate in the ECCH. Membership to the Smart card scheme is open to all commercial banks.

The RBM and BAM own the MITASS and ECCH respectively, but technical administration and support of both systems is outsourced to MALSWITCH. The Smart card scheme is owned and operated by MALSWITCH. International transfers are channelled through SWIFT while local settlement instructions are processed in MITASS using the MALSWITCH network. Messages in MITASS are however in SWIFT format.

Although Malawi has implemented MITASS and the ECCH, the securities settlement system is yet to be automated.

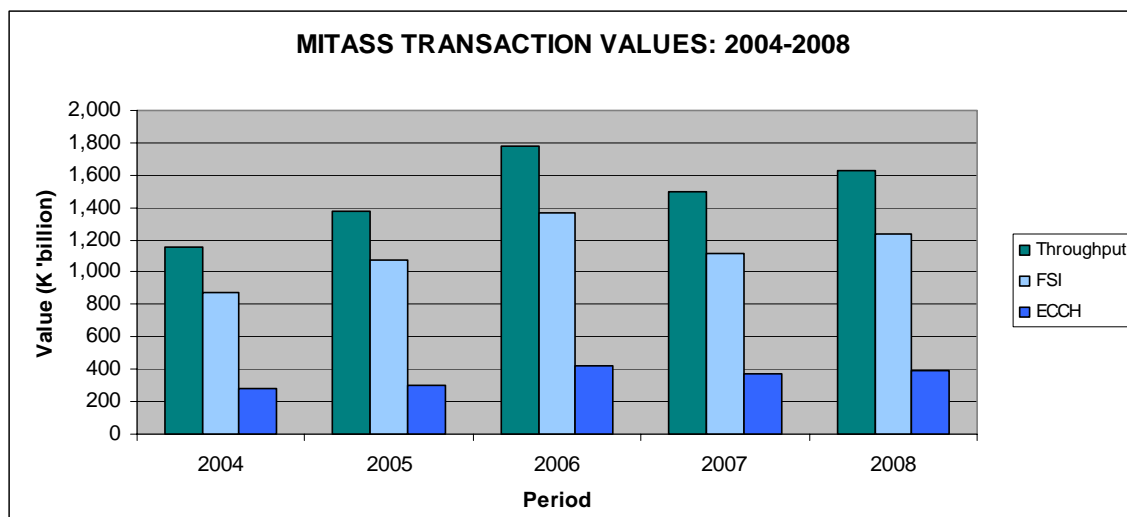
The value of transactions processed in the MITASS reflects an upward trend with the exception of 2007. The decline in 2007 is attributable to low market transactions in Treasury Bills, reflecting reduced Government borrowing. Single Funds Settlement Instructions (FSIs) constitute the largest share of the MITASS throughput followed by the ECCH transactions. While the smart card transactions are also processed by the MITASS, the contribution to the throughput is not substantial.

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<sup>2</sup> For a more comprehensive description of the payment systems in Malawi, see the Reserve Bank of Malawi's Annual Payment Systems Report 2007

Figure 1 below shows the value of transactions processed in the MITASS from 2004 to 2008

*Figure 1: MITASS Transactions: 2004 – 2008*



*Note: 2008 Figures are up to the month of November only*

Although Malawi has implemented electronic based payment products and services, there is no specific legislation that governs the operation of such facilities. A draft Payment Systems Bill, prepared in 2002, is yet to be enacted. In order to address legal risks due to the absence of the said Bill, participants in various payment streams resorted to signing legal agreements.

In addition to playing a major role in payment systems modernisation initiatives, the RBM's primary focus is oversight of the entire national payment system in order that the system is safe and efficient. To accomplish this objective, the Board of Directors of the RBM endorsed the Payment Systems Oversight Policy in December 2007. The policy became effective from 1<sup>st</sup> January 2008.<sup>3</sup>

*Table 1: Summary Information on Key Payment Systems in 2008*

	Participants	MITASS turnover MWK K'bn	Owner	Operator
<b>MITASS</b>	12	1,232.23 (FSI)	RBM	MALSWITCH
<b>ECCH</b>	9	392.9	BAM	MALSWITCH
<b>Smart card</b>	5	1.09	MALSWITCH	MALSWITCH

<sup>3</sup> See RBM website: <http://www.rbm.mw>

## **SECTION 3: THE NPS VISION, MISSION AND PRINCIPLES**

### **3.1 NPS VISION**

The 2013 NPS Vision is *to attain a safe, efficient and harmonised national payment system that effectively contributes to the country's financial stability.*

### **3.2 NPS MISSION**

The mission of the NPS is *to maintain a safe and efficient national payment system in which interoperability of payment systems is attained and non-cash payment instruments gain increasing acceptability.*

In order to attain the above mission, oversight activities and risk control measures will be intensified and appropriate legal framework to support the modern payment system will be adopted with a view to promote the following:

- Cost effectiveness.
- Timely availability of funds to participants.
- Enhanced security, reliability and efficiency of the system.
- Sound legal framework with a high degree of certainty.
- Informed and educated system users and service providers.
- Interoperable systems (based on common standards).
- Fair and equitable competition among providers of payment services.

In addition, the RBM will ensure that the systems operate according to internationally accepted best practices. In this regard, it will be mandatory for all designated systemically important payment systems to comply with the Bank for International Settlement (BIS) Core Principles for Systemically Important Payment Systems (CPSIPS) whilst non-systemically important payment systems shall be expected to observe the relevant risk reduction principles. Furthermore, a revised division of responsibilities amongst key stakeholders in the cash supply functions will be considered with a view to contribute to more cost effective currency management and subsequently, an efficient payment system.

In line with the above mission, the following are the identified present and future payment systems requirements:

#### **3.2.1 The banked population**

The banked population require readily available delivery channels for a wide variety of payment instruments that will give them freedom and flexibility in making payments. The former include Automated Teller Machines (ATMs), Point of Sale Terminals (POS) and other electronic banking infrastructure. The latter includes debit cards, credit cards and other payment instruments.

### **3.2.2 The Un-Banked Population**

There is need to provide banking services to the un-banked population in the country. The provision of banking services will help to support business activities and provide the unbanked with effective means of saving money. This will also help to mobilise idle cash which can be channelled to productive sectors of the economy.

### **3.2.3 The Retail and Business Sectors**

The retail and business sector require convenient means of making and receiving payments which will help them conduct business with minimum difficulties. The provision of interoperable electronic retail facilities will go a long way to meet the requirements of these sectors.

### **3.2.4 The Financial Market Sector**

Having implemented the MITASS, the financial sector requires a system that will facilitate processing of the securities leg of a financial market transaction. Thus, a system is required to interface with the MITASS to attain delivery versus payment (DvP). The sector also requires the introduction of appropriate client identification systems to curb financial impropriety.

### **3.2.5 The Government Sector**

The Government requires a payment system that would enable it to effect payments for various services in an efficient manner, including reducing the reliance of cash payments of salaries, wages and pensions to its employees. The system to monitor Government accounts at the RBM should also be strengthened.

### **3.2.6 System Inter-Linkages**

In order to increase efficiencies in the NPS, Malawi shall endeavour to maintain systems that are interoperable. This will be cost effective and enable users of different systems to have multiple access points to services offered by the banks.

### **3.2.7 Oversight of Payment Systems**

Malawi will ensure that the payment systems are managed according to internationally accepted best practices. In this regard, the RBM will intensify its payment systems oversight activities on all systems that are designated as systemically important payment systems (SIPS) and payment systems of system wide importance (SWIPS)<sup>4</sup>. It shall therefore be mandatory for all designated SIPS to comply with the BIS CPSIPS and SWIPS to observe internationally accepted risk containment principles.

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<sup>4</sup> See Oversight Policy for Payment, Clearing and Settlement Systems for systems that fall under SIPS and SWIPS

**3.2.8 Cash Handling**

Efforts shall be made to introduce cost effective means of handling cash, particularly in rural areas.

**3.3 PRINCIPLES**

All activities meant to address the above payment systems requirements shall be guided by the following principles:

**3.3.1 Consultation**

Before major decisions are made, the RBM shall ensure that appropriate and thorough consultations among the relevant key stakeholders have been made. In this regard, all permanent and ad hoc subcommittees of the NPC shall ensure that their recommendations encompass the views or input of the relevant stakeholders.

**3.3.2 Project Continuity and Succession Planning**

Whenever a project is identified and approved by the NPC, participating institutions should provide adequate resources for the project.

**3.3.3 Broadening Payment Services**

Access to payment services shall extend to the general public in both the rural and urban areas.

**3.3.4 Provision of Payment Services by Other Parties**

The role of non-bank financial institutions or third parties in the provision of payment services shall be recognized. Specific rules and regulations to be followed by such institutions shall be formulated and implemented.

**3.3.5 Responsibility for Risks**

All providers of payment services shall be responsible for any risks they introduce into the system. In addition, a balance shall be maintained between risk reduction and cost. The cost of risk-reduction strategies shall in all cases be justified in terms of the potential risks that they aim to address. All institutions must be aware of the risks they incur through their participation in a particular system.

**3.3.6 Pre-Funding of Settlement**

All inter-bank MITASS transactions require pre-funding. Any arrangement to obtain funds from the RBM to pre-fund the settlement account shall be subject to general conditions that apply equally to all banking institutions.

**3.3.7 Safety and Soundness of the NPS**

The RBM shall primarily aim at achieving and maintaining overall soundness and effectiveness of the NPS in line with internationally accepted oversight and risk reduction principles. Both off-site and on-site oversight activities shall be intensified.

**3.3.8 Common Standards**

As Malawi strives to achieve interoperability and straight-through processing (STP), all payment products and services in the country shall conform to agreed standards as set by NPC in collaboration with RBM.

**3.3.9 Payment and Settlement Finality**

Settlement of inter-bank transactions arising from various Payment Clearing Houses (PCHs) shall be via the MITASS.

**3.3.10 Development and Promotion of Payment Instruments**

Every effort shall be made to assess any new payment instrument in order to determine its suitability before such an instrument is introduced in the country.

**3.3.11 Regulation of the NPS infrastructure.**

The payment services infrastructure is crucial to the smooth functioning of the economy. Accordingly, its design, implementation and management shall be the responsibility of all stakeholders. However, all payment systems infrastructure developments shall be monitored by the RBM to ensure that acceptable standards are maintained.

**3.3.12 Access to Payment System**

The RBM shall ensure that all players have fair and equitable access to various payment systems.

## **SECTION 4: NPS STRATEGIES AND PRIORITIES**

This section draws up the main strategies to be adopted over the next five years. While the time line for the strategies is presented in *Table 2*, the actual implementation of the strategies shall require formulation of comprehensive plans, involve different stakeholder groups, and shall be discussed and endorsed by the NPC. The follow-up of the strategy implementation shall, *inter alia*, be presented in the RBM's Annual Payment Systems Report.

### **4.1 Legal Framework**

In order to strengthen the legal framework so that the operation of the national payment system and oversight activities is based on a sound legal basis, it is imperative that the Payment Systems Bill be enacted. In addition, existing legal agreements shall be reviewed and where necessary new ones shall be prepared and signed accordingly.

Legally enforceable rules and regulations as well as a code of conduct shall be formulated and enforced for all stakeholders providing payment services to ensure the existence of a sound payment system.

### **4.2 Interoperability**

All payment facilities to be introduced in the country shall conform to specified NPC standards so that interoperability is attained. In this regard, interoperability of existing ATM and POS devices shall be achieved through establishment of a national switch.

### **4.3 Role of the National Switch**

The primary objective of the national switch is to achieve common utilisation of payment systems infrastructure so that economies of scale are attained. In this regard, banks shall be encouraged to cooperate on setting up and maintaining the national switch that shall achieve the following:

#### **4.3.1 Local Settlement of VISA and MasterCard Credit and Debit Cards**

A national clearing service shall be set up to clear domestic financial transactions of VISA and MasterCard credit and debit cards via MITASS in local currency. All institutions issuing VISA and MasterCard credit and debit cards shall be required to participate in the local clearing and settlement arrangement.

#### **4.3.2 Automated Credit Transfers**

Efforts shall be made to introduce automated credit transfer system for salary, wages and pensions processing for Government, corporates and private entities, with clearing through the national switch.

#### **4.3.3 Automated Debit Orders**

Processing of debit orders for the insurance services industry shall be automated. Wherever necessary, clearing shall take place through the national switch, with settlement in the MITASS.

**4.3.4 Internet Banking**

Banks are offering Internet banking for processing intra-bank transactions only. Efficiencies could be gained if a national switch was used to process the inter-bank obligations, hence efforts shall be made to use the national switch for Internet banking.

**4.4 Availability of Payment Products and Services**

Financial institutions shall be encouraged to increase access to payment services (e.g. by increasing branch network), and to introduce more non-cash payment facilities for local and international users.

**4.5 Branchless Banking**

Setting up a bank branch in rural areas is perceived not to be economically viable and as a result bank branches tend to be concentrated in urban areas. Measures shall therefore be implemented to make inroads into the rural areas through branchless banking services such as provision of mobile ATMs or other mobile payment platforms.

**4.6 Straight Through Processing**

Back-end systems of commercial banks shall be interfaced with the MITASS to attain straight-through processing. Other systems, where applicable, shall also be interfaced so that manual interventions in a transaction cycle are eliminated or significantly minimised.

**4.7 Delivery versus Payment (DvP)**

A fully fledged automated securities system shall be introduced and interfaced with the MITASS to attain DvP.

**4.8 SWIFT Platform**

Efforts shall be made to operate the MITASS system on SWIFT platform.

**4.9 New Technology**

Banks and other service providers shall be encouraged to adopt new technologies in order to improve their systems and operating environment. The new technologies shall however be compliant with the agreed NPC standards.

**4.10 MALSWITCH**

MALSWITCH shall develop comprehensive Business Plan detailing appropriate strategies that ensure its viability by end 2011.

**4.12 Oversight of Payment Systems**

The RBM shall concentrate its attention on oversight of payment systems while leaving operations of non-systemically important payment systems to commercial banks or third parties. In its oversight activities, the RBM shall ensure that all designated systemically important payment systems conform to BIS Core Principles and non-systemically important payment systems adhere to internationally accepted risk containment principles. The RBM's Payment Systems Oversight Policy shall be reviewed whenever necessary and shall be publicly disclosed.

**4.13 Risk Management**

Appropriate policies to control risks in the payment system shall be established. All participants shall be responsible for risks they could introduce into the system. A value cap shall be introduced on cheque transactions.

**4.14 Contingency Committee on Financial Infrastructure**

Under the NPC, a Contingency Committee on Financial Infrastructure has been formed which shall among others, be responsible for coordinating disaster recovery and crisis management issues. The committee is chaired by the RBM.

**4.15 Public Awareness**

Awareness campaigns to sensitise the general public on the available new payment services and facilities shall be intensified.

The information disseminated shall emphasise the advantages of using non-cash payment instruments. This shall be supported by adequate availability and reliability of the supporting delivery channels such as POS devices and ATMs.

**4.16 Regional Integration**

All domestic payment systems developments shall take cognizance of regional integration in SADC and COMESA. To this end, Malawi shall continue participating in regional payment systems modernisation initiatives.

**4.17 Structures of Consultation**

The NPC shall be a forum through which payment systems issues shall be discussed, approved or accordingly referred in line with NPC terms of reference.

**4.18 Capacity Building Issues**

Personnel responsible for planning, managing and operating payment systems in various financial institutions shall be given appropriate training to enable them acquire the necessary skills.

The implementation schedule of the above strategies and the roles and responsibilities of the key stakeholders are presented in Table 2.

Table 2: Strategies and Stakeholder Responsibilities and Time Frame

<b>Item</b>	<b>Strategy</b>	<b>Responsibilities</b> <i>(Prime responsibility lies with institution in bold letters)</i>	<b>Time Frame</b>
4.1	Strengthen legal framework (Payment Systems Act, Bills of Exchange Act, Securities Act)	<b>RBM</b> , NPC and BAM	2010
4.2	Attain interoperability of ATMs and POS devices	<b>NPC</b> , RBM and BAM	2009
4.3	Establish a National Switch	<b>NPC</b> , RBM and BAM	2009
	4.3.1 Implement domestic clearing of VISA and MasterCard credit and debit transactions	<b>NPC</b> , BAM, RBM	2009
	4.3.2 Introduce automated credit transfers (for small value transactions)	<b>NPC</b> and BAM	2010
	4.3.3 Implement EFT for salaries and pensions processing for corporations (at national level)	<b>NPC</b> , RBM and BAM	2010
	4.3.4 Implement EFT for salaries and pensions processing for Government (at national level)	<b>Govt</b> , RBM and NPC	2011
	4.3.5 Automate debit order processing for the insurance services industry	<b>NPC</b> , RBM and BAM	2010
	4.3.6 Centralise clearing for Internet Banking	<b>NPC</b> , RBM and BAM	2010
4.4	Broaden availability of payment products and services	<b>NPC</b> , RBM and BAM	On going
4.5	Introduce efficient branchless banking (including mobile banking)	<b>NPC</b> and BAM	2013
4.6	Attain straight through processing	<b>RBM</b> and BAM	2009
4.7	Implement delivery versus payment (DvP)	<b>RBM</b> and BAM	2012
4.8	Operate MITASS on SWIFT	<b>RBM</b> and NPC	2010

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4.9	Adopt new technologies	<b>NPC, RBM and BAM</b>	On going
4.10	Privatise MALSWITCH	<b>RBM, Govt</b>	2011
4.11	Reduce Government reliance on cash	<b>Govt, RBM and NPC</b>	2011
4.12	Strengthen Oversight	<b>RBM</b>	On going
4.13	Improve risk management including implementing a value cap on cheque transactions	<b>BAM, NPC, RBM</b>	2009
4.14	Operationalise the Contingency Committee on Financial Infrastructure	<b>RBM and NPC</b>	2009
4.15	Ensure public awareness	<b>RBM, NPC and BAM</b>	On going
4.16	Participate in Regional integration initiatives	<b>RBM, NPC and BAM</b>	Ongoing
4.17	Enhance structures of consultation	<b>RBM</b>	On going
4.18	Capacity building	<b>NPC, RBM and BAM</b>	On going

## **SECTION 5: CONCLUSION**

Malawi has made progress in modernising its domestic payment system. Most of the major projects that were contained in the first NPS Vision and Strategy Framework have been implemented. The 2009-2013 NPS Vision and Strategy Framework is therefore a continuation of the previous initiative in which a strategic direction on payment systems for the next five years has been drawn. Its primary objective is to ensure that the country's national payment system is safe and efficient.

In order to attain the set goals and objectives of the NPS Vision and Strategy Framework, the RBM shall continue to cooperate with all relevant key stakeholders on critical payment systems development initiatives. This is against the realisation that the task of forging the country's payment system vision and strategy is a shared responsibility. The consultations shall be done through the NPC.

The status with regard to the strategies outlined in this framework will be provided in the Annual Payment Systems Reports.