

Successful Implementation of Domestic Card Scheme in Namibia in View of Global Trends

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Abstract

The paper establishes key considerations for successful implementation of a domestic card scheme in Namibia in view of global trends. A qualitative case study approach was employed because interbank domestic card schemes are not fully understood or common in Namibia. Related literature was reviewed and key themes such as strategic partnerships, low cost, ability to build services for the local market, standards, and success factors were further discussed. It can be concluded that there are considerations that should be taken into account before a domestic card scheme is implemented. The recommendation is that these considerations, *ceteris paribus*, need to be considered before any domestic card scheme is implemented in the Namibian card payment industry.

Keywords: Interbank, Domestic Card Scheme, National Payment System, Banks

1. Introduction

The Namibian National Payment System (NPS) has key stakeholders such as issuers, acquirers, regulators, associations, retailers, customers, service providers, system operators, and the general public. Card payment instruments include debit and credit cards used across banks and channels. The performance of the card payment industry has been good over the years in terms of the volume and value of transactions processed. Namibia does not have an interbank domestic card scheme like in other countries. The literature review shows key drivers of domestic card schemes compared to international card schemes.

Consequently, there is a knowledge gap that this case study aims to bridge. The author is not aware of a study that established key considerations for successful implementation of a domestic card scheme in Namibia in view of global trends. Various stakeholders are expected to benefit from the study. The Namibian banking and financial industries will be able to know the nature of and drivers for domestic card schemes before any roll-out is completed. Stakeholders in the education fraternity will understand these schemes and they will be able to transfer knowledge to their students accordingly.

The paper is arranged as follows. Apart from the introduction, section 2 dwells on the Namibian card payment industry while sections 3, 4 and 5 focus on literature review, methodology, and discussions respectively. The last section concludes and recommends.

2. Namibian Card Payment Industry

The Namibian card payment industry has seen key developments over the years especially from 2003. Establishment of the payment clearing house, NamClear, happened in 2003 and the NamSwitch system for card transactions was implemented in 2008 (Matongela, 2010). Matongela points out that the NamSwitch system is used to clear debit, credit and automated teller machines (ATM) transactions. The implication above is that domestic card transactions used to be processed and cleared via BankServ Africa in South Africa before 2008. Outside the traditional banking/payment system, the prepaid closed-loop smart card scheme came into operation in 2006 (Matongela, 2012).

Card payment instruments are used in Namibia at ATMs, point-of-sale (POS) devices or online. These cards, at an interbank level, include debit and credit cards. With debit card, funds are deducted from a payee's current account in favor of the payer such as a merchant while with a credit card, the implication is that a cardholder has a line of credit and uses this to pay for goods and services. Credit and debit cards are predominantly issued by registered banking institutions. There are cards that are issued by non-banks in a closed-loop environment. Namibia does not have an interbank domestic card payment scheme arrangement.

Trends in the usage of bank issued and internationally branded credit and debit cards appear in table 1 below. Card value increased overtime from NAD3 billion with a growth rate of 40 percent to NAD8 billion with a growth rate of 38 percent. Figures in volume terms are 6,887,000 (24 percent) and 15,324,000 (39 percent) in 2011 and 2015 respectively.

Table 1: Selected trends related to the usage of card payment instruments

Year	Card Value [NAD m]	Card Volume ['000']	Card Value Growth [%]	Card Volume Growth [%]
2011	3,020	6,887	39.62	23.53
2012	4,529	9,781	49.97	42.02
2013	4,813	9,703	6.27	(0.80)
2014	5,818	11,017	20.88	13.54
2015	8,038	15,324	38.16	39.09

Source: Bank of Namibia (2015)

The card payment industry is regulated by the Bank of Namibia (BON), central bank of the Republic of Namibia. BON uses the Payment System Management Act, 2003 (Act No. 18 of 2003), as amended, to oversee the National Payment System (NPS). Other legal instruments it uses include directives, determinations and notices. There is a self-regulatory regime in Namibia. While BON issues the legal and regulatory framework, the Payment Association of Namibia (PAN) assists BON in monitoring the implementation of the legal and regulatory framework. PAN has members, it is overseen by BON and registers service providers and systems operators including but not limited to NamClear and Smart Switch Namibia. NamClear owns and operates NamSwitch system used for clearing card transactions while settlement happens in the Namibia Inter-bank Settlement System (NISS) at BON. Smart Switch Namibia switches smart card transactions in a closed-loop environment.

3. Literature Review

The payments literature is awash of definitions of payment systems. Matongela (2010) shows some definitions. Other definitions including definitions of electronic payment systems are provided by Briggs and Brooks (2011). Capgemini (2011) has a good exhibit in terms of steps in a typical card payment instruction. Capgemini points out that the high costs of transaction settlement on international networks, uneven market pricing, and lack of competition are some of the key drivers being put forward by those promoting domestic processing of payment transactions. Domestic schemes or cards are suitable for cardholders who only require a card for use in the country of issuing, making international functionality unnecessary (RBR, 2016). RBR states that without the presence of domestic schemes, card issuers have fewer choices, which may push up the fees payable to card schemes, and that domestic providers have an enhanced understanding of local behavior and requirements. Chaplin, Veitch and Bott (2016) say that the strength of domestic schemes over international schemes include the ability to build services for the local market, especially where interfacing into other non-card payment systems is required, and the provision of services at a significantly lower cost.

Some domestic card schemes failed to operate due to several reasons. Own rules and standards, competition from international players, and state ownership are some of the reasons (RBR, 2016). Some domestic card schemes failed because of being relatively small scale (Chaplin, Veitch and Bott, 2016).

Meiklejohn (2012) show that key success factors in implementing national card payment scheme include business case, planning, design, implementation, and oversight. The author says that implementation approach covers building an entire scheme (branding, processing, rules, etc.) or domestic switch with goals such as lower costs to the merchant and more regulatory control. Cobranding is also important and Discover Financial Services has been selected as an international acceptance partner by many domestic schemes (Chaplin, Veitch and Bott, 2016).

Some domestic card schemes have been implemented successfully. Mercury was launched as a United Arab Emirates (UAE) focused closed loop prepaid program or platform to facilitate direct issuance of a wide range of domestic prepaid cards for acceptance at Network International POS terminals and ATMs of participating member banks across the UAE (Network International, 2013). According to Network International the platform enables members to issue a private label prepaid card and have this accepted in a closed-loop environment. Discover Financial Services (DFS) and Network International entered into a strategic alliance to allow acceptance of Mercury network cards on Discover, Diners Club International, Pulse and other partner network for international purchases and cash access in more than 185 countries and territories (Discover Financial Services, 2013). DFS says that the agreement will allow its issuing members with the option for ATM and POS access around the globe and will allow Network International to support credit and debit cards on a global basis. DFS adds to this by saying that the introduction of a prepaid card in the UAE will allow companies to remunerate employees who do not have access to traditional banking services.

RuPay was launched as a domestic card payment network in March 2012 by Indian Bank's Association with transactions switching via National Financial Switch (NFS), an initiative by the National Payments Corporation of India (National Payments Corporation of India, 2013). The Institute for Business in the Global Context (2014) indicates that RuPay EMV chip enabled cards can be used on all channels with various transactions types supported and distinguishing features include: low cost and affordability, interoperability,

competitive pricing, protection of customer transactions and data, customized product and service, and less vulnerability to currency fluctuations. The Institute for Business in the Global Context indicates that the National Payments Corporation of India has entered into an alliance with Discover Financial Services (DFS) allowing card users to access ATMs in India on NFS platform.

Launched in 2009 by Verve International, Verve is the biggest payment card brand in Nigeria and is rapidly expanding issuance and acceptance across the African continent (AllAfrica, 2015). Verve is issued by 40 banks in Africa, with more than 30 million payment tokens in circulation (Techpoint, 2015). Verve International announced a strategic partnership with Kenya Commercial Bank (KCB) to make it possible for card acceptance to be expanded to six key East African markets such as Kenya, Tanzania, Burundi, South Sudan, Rwanda and Uganda (Adepoju, 2015). Adepoju notes that in 2013 Verve International signed a partnership agreement with Discover Financial Services (DFS), the owners of Diner's Club, which will give Verve cardholders access to the Discover global network of over 185 countries and territories across the world.

The reviewed literature has shown the description of a domestic card scheme as well as success factors that are key in implementing a domestic card scheme. Three popular card schemes are shown as well as reasons why national card schemes are necessary. About five key themes or categories were generated from the literature review that will form part of the discussion ahead.

4. Methodology

The current study is a case study, which is one of the genres or approaches of qualitative research (Sun, 2009; Saldana, 2011). A case study may be especially suitable for learning more about a little known or poorly understood situation (Leedy and Ormrod, 2013). Domestic card scheme is not a common concept in Namibia and there are efforts to see if such a scheme can be implemented as only international brands exist at an interbank level locally. Categories were identified to cluster information gleaned from the literature into meaningful groups (Leedy and Ormrod, 2013). Consequently, the following five categories have been identified from the related literature review: strategic partnerships, low cost, ability to build services for the local market, standards, and success factors and implementation approach. These themes or categories are discussed in section 5 below.

5. Discussion

In this section, emerging themes or categories identified in the literature review are discussed. The rationale for doing this is to provide a good understanding of some of the issues that need to be considered before a domestic card scheme can be implemented in any market with special reference to Namibia. Discussion on the five identified themes follows next:

5.1 Strategic Partnerships

Forming strategic partnerships is a key consideration after a domestic card scheme is implemented. All domestic card schemes reviewed formed alliance with Discover Financial Services in order to ensure that domestic cardholders can access international networks globally at various delivery channels. Once this cobranding is done it is possible that an international card scheme is able to access domestic card scheme as well to perform various payments transactions.

5.2 Low Cost

The literature review show that domestic card schemes are cheaper compared to international cards schemes. For example Chaplin, Veitch and Bott (2016) indicate that domestic card schemes operate at an average of 45 percent of the cost of utilizing international schemes for domestic transactions, with a range of 25 to 75 percent. It can be concluded from this that lower cost can be realized if there are several schemes in the market to choose from. This is in line with the theory of competition in microeconomics, which assumes that reduced price is associated with many providers of goods and services.

5.3 Ability to Build Services for the Local Market

There is a feeling gleaned from the literature that domestic card schemes have the ability to build services for the local market. This can be interpreted as customization and not standardization. With customization, a product is delivered to the market with adjustments to suit needs of a target market while with standardization what works in one market is assumed to also work in another market. Standardization also implies that two markets have similar tastes and preferences, an assumption that is always not true.

5.4 Standards

These include EuroPay, MasterCard and VISA (EMV) and interoperability. The domestic card scheme in India implemented these (The Institute for Business in the Global Context, 2014). With EMV card transactions are

done in a secure environment as they are PIN based and with interoperability a cardholder is able to transact at off-us delivery channels as well. It implies that implementing a domestic card without plans for EMV and interoperability is less appealing and not in line with best practices.

5.5 Success Factors

There are success factors that should be considered to implement a domestic card scheme. Key ones from Meiklejohn (2012) include business case and implementation approach just to refer to few. The implication is that it is a challenge to start something without a business case as it is like starting a journey without knowing the destination. The implementation approach includes determining what needs to be implemented. It is an entire scheme or a switch? Chaplin, Veitch and Bott (2016) say that there are several consulting organizations that can help with scheme set-up including rule books, interbank agreements and pricing structures.

6. Conclusion and Recommendations

The study was meant to establish key considerations for successful implementation of a domestic card scheme in Namibia in view of global trends. Literature was reviewed and five key themes generated for a detailed discussion that followed. It can be concluded that there are considerations that should be taken into account before a domestic card scheme is implemented. The recommendation is that these considerations, *ceteris paribus*, need to be considered before any domestic card scheme is implemented in the Namibian card payment industry.

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