



Reserve Bank of Malawi

ACCESS CRITERIA FOR RTGS SYSTEM PARTICIPANTS

1. **INTRODUCTION**

The implementation of the RTGS system in Malawi has spurred further developments and improvements in the country's payment systems. The implementation of the system has therefore prompted the Reserve Bank of Malawi (the Bank) to come up with a well-defined and transparent policy on qualifying criteria for system participants. This is very crucial in order to ensure that applicants have equal opportunities for participation so long as they meet the qualifying conditions.

The access criterion also assists the Bank in identifying other players who meet all participation requirements but have not voluntarily expressed a wish to participate in their own right. It is important for the Bank to ensure that all players who meet participation criteria in terms of value of payments do participate in the RTGS system so as to avoid risks such high value payments may introduce in the financial system. Since the RTGS system reduces systemic risks, it is in the interest of the Bank to ensure that all high value payments are processed through RTGS.

The Bank as system provider has specified the type of institutions that will be allowed to participate in the RTGS system. This helps to maintain the integrity of the system since RTGS is a high value funds settlement system which is only open to a few institutions such as banks, discount houses and payment clearing houses (PCHs). The PCHs such as the Cheque Clearing House and Malswitch Smart Card Clearing House participate in the system on behalf of their participating banks.

2. **AN OVERVIEW OF THE FUNDS SETTLEMENT SYSTEM**

Prior to March 2002, Malawi was using a deferred netting settlement system. The banks transacted during the day and net positions of those transactions were calculated in the afternoon in the clearing house where banks exchanged cheques and vouchers drawn on each other. The net position of each bank in the clearing house was posted to its general ledger account at the Reserve Bank. Under this system, each bank was not aware of its exposures until after exchange of the items in the clearing house and net positions were calculated. It was therefore difficult for banks to know the current position of their accounts at the central bank.

3. **QUALIFICATION CRITERIA FOR PARTICIPATION IN RTGS SYSTEM**

The Bank came up with conditions as qualifying criteria for participation in the RTGS system which all participants must satisfy to be allowed to participate.

The following criterion is applicable for banking institutions:

- Commercial bank licence
- Access to Reserve Bank of Malawi lending
- Subject to Liquidity Reserve Requirement (LRR)
- Maintains Settlement Account with Reserve Bank of Malawi (previously called Current Account)

The applicable conditions for non-banking institutions such as discount houses are as follows:

- Operating Licence from the Reserve Bank of Malawi
- Maintain current account with Reserve Bank of Malawi
- Handle high value payments
- Total payments to exceed 5% of total industry value (mandatory)

3.1 Qualifying Settlement Banks

Based on the above conditions, the institutions that qualify to participate in the RTGS system will include the Reserve Bank of Malawi, commercial banks, merchant banks, discount houses and payment clearing houses.

Currently the following institutions are participants in the RTGS system:

- Reserve Bank of Malawi
- National Bank of Malawi
- Standard Bank of Malawi
- First Merchant Bank
- Loita Investment Bank
- Nedbank
- INDEbank Limited
- Opportunity International Bank of Malawi
- Continental Discount House
- First Discount House
- NBS Bank
- Malawi Savings Bank

3.2 Reserve Bank of Malawi

The Reserve Bank of Malawi is the regulator of financial services and provider of settlement services in the country. Its position is therefore very critical in the provision of payment, clearing and settlement services. The central bank also assumes supervisory role over the country's payment systems. The Bank is also a participant in the payment system and therefore also fulfils the role of a settlement bank in the RTGS system.

3.3 Commercial Banks

Nine banks currently participate in the settlement system. These are National Bank of Malawi, Standard Bank of Malawi, First Merchant Bank, Nedbank, Loita Investment Bank, INDEbank Limited, NBS Bank, Opportunity International Bank of Malawi and Malawi Savings Bank. All these banks hold banking licences and maintain settlement accounts with the Reserve Bank of Malawi. By virtue of their business, they have access to Central Bank lending. They are also subjected to Liquidity Reserve Requirement (LRR).

3.4 Discount Houses

There are two discount houses currently registered in the country namely, Continental Discount House and First Discount House. These discount houses hold banking licences and therefore have access to Central Bank lending and maintain settlement accounts with the Bank. They are also subject to Liquidity Reserve Requirement.

3.5 Payment Clearing Houses

Various Payment Clearing Houses (PCHs) will participate in RTGS system on behalf of participating settlement banks. In this respect, PCHs will be responsible for submitting Funds Settlement Instructions (FSIs) to the settlement system on behalf of their participants.

Currently, there are two clearing houses namely the Malawi cheque clearing house for cheques and smartcard clearing house for smartcard transactions. Additional clearing houses could be created in the system if need arises.

Each Payment Clearing House is operated and managed under a specific Payment Clearing House Agreement - a multilateral agreement between the banks. In these agreements the banks participating in each PCH mandate the operator (e.g. MALSWITCH) to operate clearing operations and submit FSIs on their behalf to the RTGS system through Authorised Settlement Agent (ASA).

4. APPLICATION FOR MEMBERSHIP

All new applicants wishing to participate in the RTGS system are required to apply to:

The Director
Banking & Payment Systems Department
Reserve Bank of Malawi
P.O. Box 30063
Lilongwe 3

Tel: 265- (0) 1 770 600
Cell: 265- (0) 8 207 510
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