National Payment Systems Act 2020

September 2020

Disclaimer

Agenda

Time	Activity
10:00 – 10:10	Opening Remarks
10:10 – 10:40	Background and overview of the NPSA
10:40 – 11:10	Key provisions of the NPSA
11:10 – 11:25	Q&A
11:25 – 11:30	Closing Remarks

Opening Remarks

Plaxeda Namirimu
Associate Director - Tax

Background and overview of the NPSA

Dorothy Uzamukunda
Manager – Tax and Legal Services

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What to expect

Agenda	
1.	What are payment systems?
2.	The regulatory landscape before NPSA
3.	NPSA's objective
4.	Closing remarks

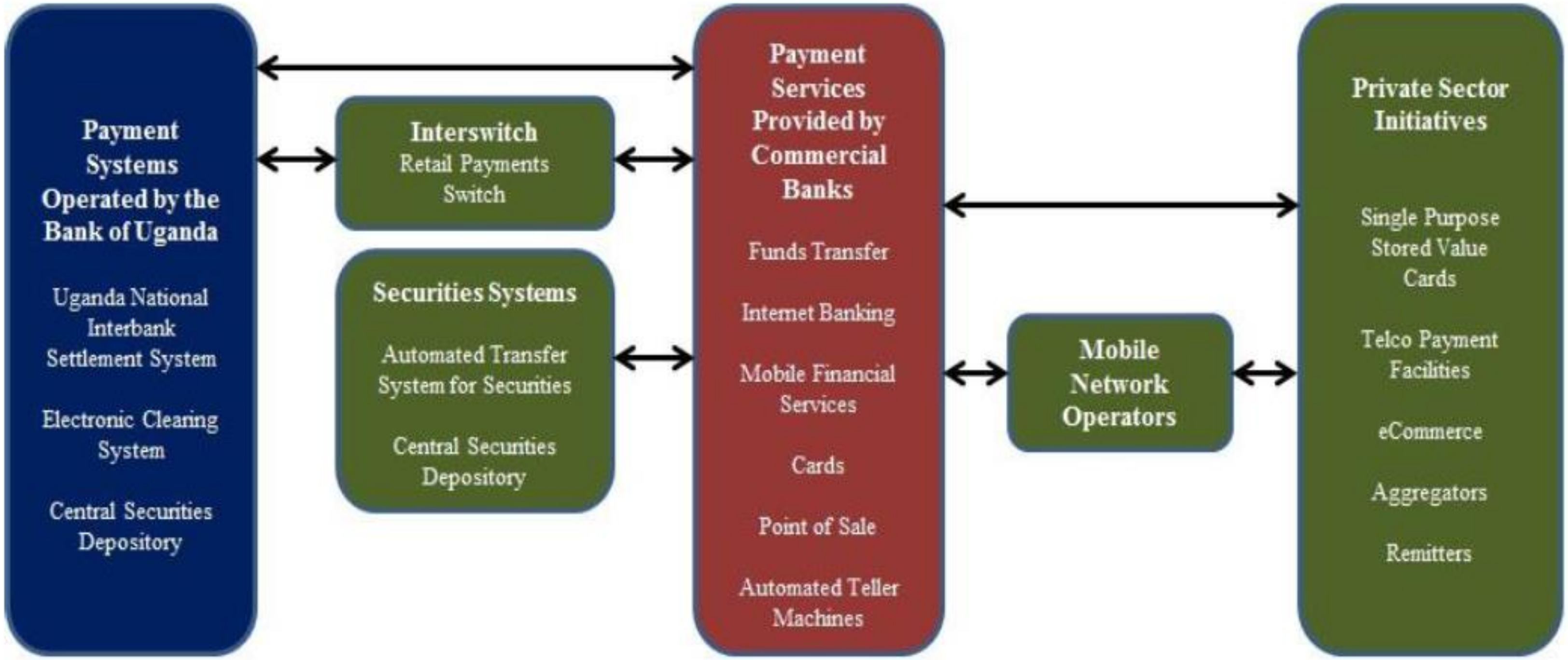
What are payment systems?

A payment system is defined under National Payment Systems Act (NPSA) to mean:

“a system used to effect a transaction through the transfer of monetary value, and includes the institutions, payment instructions, person, rules, procedures, standards, technologies that make the transfer possible”.

A country’s National Payment System (NPS) therefore consists of the institutions (banks, financial institutions and non-financial institutions), the procedures and technology that is used to facilitate the circulation of money within the country and internationally.

Payment systems currently operating in Uganda



Source: Bank of Uganda

Key
Blue: Those operated by BoU
Red: Commercial Banks
Green: Private Sector

Payment services provided by Private Sector

- E-money providers like Mobile money telecommunication companies
- Single purpose stored value cards
- E-commerce
- Aggregators/ integrators e.g. Payway, EzeeMoney
- Remittance companies like Western Union, World Remit, e.t.c

The regulatory landscape before NPSA

There are several pieces of legislation that are relevant to the regulation of payment systems. These include:

- The Bank of Uganda Act;
- The Financial Institutions Act (2016);
- The Electronic Transactions Act (2011) which governs the use, security, facilitation and regulation of electronic communications and transactions;
- Computer Misuse Act (2011) which makes provision for the safety and security of electronic transactions and information systems to prevent unlawful access, abuse or misuse;
- The Contracts Act (2010);
- The Electronic Signatures Act (2011) and
- Anti-Money Laundering Act (2013).

The regulatory landscape before NPSA

- Before NPSA, regulation of payment systems was mainly focused on financial institutions and hardly the non-financial institutions providing payment systems in the financial sector.

- In 2013, the Bank of Uganda issued the Bank of Uganda (Mobile Money) Guidelines to address mobile money issues; by for example providing clarity, delineating the approval procedure for parties seeking to engage in the provision of mobile money services, fostering consumer protection and more.

- In spite of the above, there remain complaints from mobile money users, for instance, expedient recovery of mobile money when sent to a wrong number, what happens to the mobile funds when one dies and no one else knows their PIN code e.t.c

The regulatory landscape before NPSA

All the above laws appear to give some protection but do not address constraints to, or support, the operation or future development of the payment systems.

Despite the infrastructure developments and product innovations, significant deficiencies' exist in the legal and regulatory framework for these payments and the retail payment infrastructure.

Existing gaps in the regulation of payment systems before NPSA

- No comprehensive law that supports the National Payments System which creates risks with the operation of the system.
- Innovation and digitisation of payments by Fintechs which provide alternative channels for payments without necessary regulation.
- For compliance to be enforced, there is need to have operating norms and regulations providing the acceptable operating norms and regulations.
- Consumer protection.
- Efficiency of systems – ensuring that payment systems are appropriate and meet the needs of users.
- Need to broaden access, reduce cost and increase financial inclusion to electronic payment services in Uganda.

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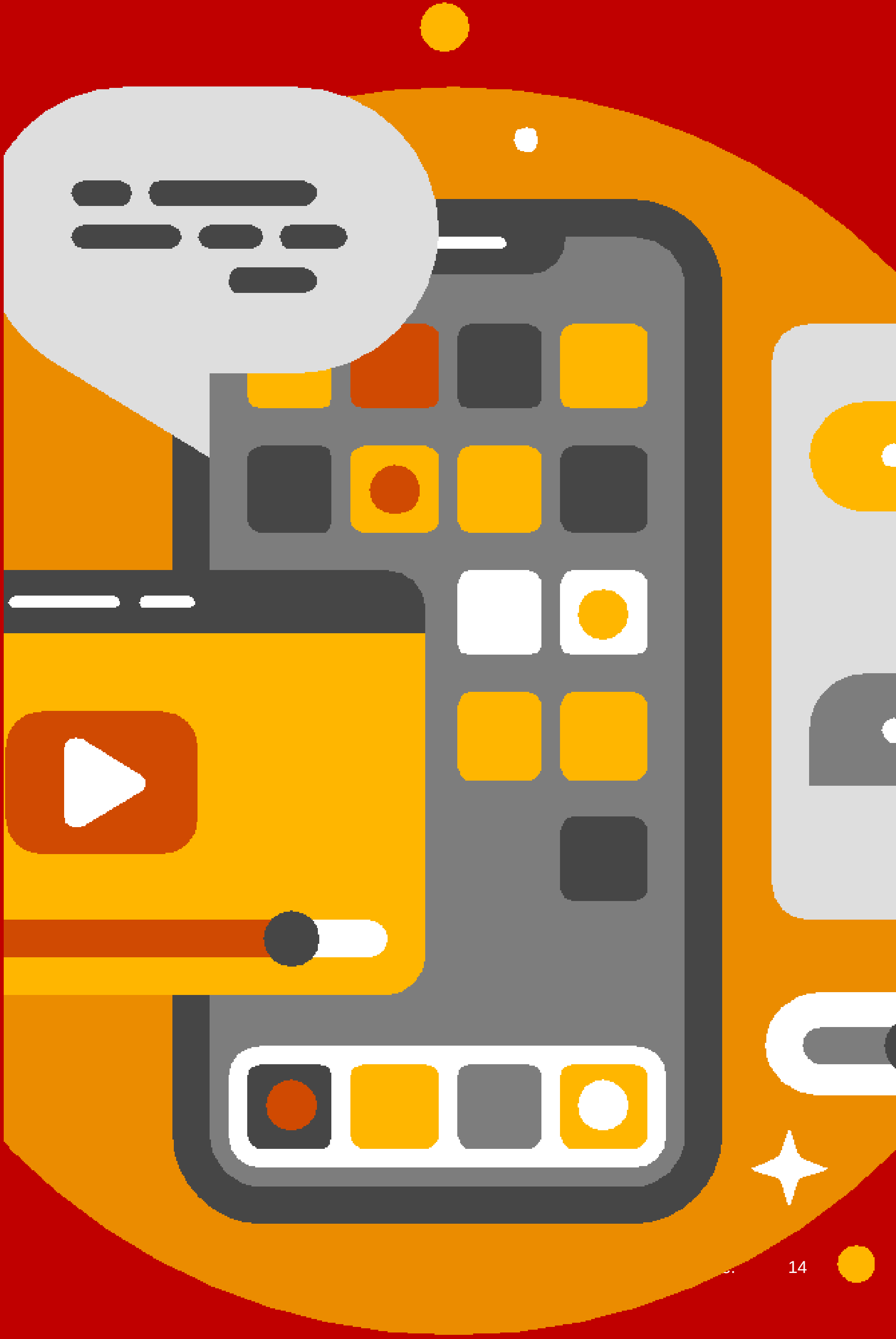
According to BoU reports, although access to consumer payments has increased due to mobile money, 80% of payments in Uganda are still performed using cash.

Bank of Uganda Report



The objective of NPSA is to:-

1. Ensure that all payment systems are brought into the realm of BoU regulation, supervision and oversight.
2. Safety and efficiency of payment systems;
3. Functions of the BoU in relation to payment systems;
4. Prescribe the rules governing the oversight and protection of payment systems;
5. Provide for financial collateral arrangements;
6. Regulate payment service providers;
7. Regulate issuance of electronic money;
8. Provide for the oversight of payment instruments and
9. Encourage innovation and foster development of new products and services.

Closing remarks

- A safe and efficient payment system helps to maintain financial stability by preventing or containing systemic risks.
- BoU as the watchdog of the economy is interested in ensuring overall effectiveness and integrity of the payment systems in the country.
- Financial inclusion will be achieved, as all users of financial products whether through banks or otherwise are protected.
- BoU will be able to confirm the integrity of systems and financial products /services operating in the market.
- Increased customer confidence, including for innovators and developers as there is a clear path to follow.

Key provisions of the NPSA

Hilda Kamugisha,
Manager – Tax and Legal Services

Application of the Act

who does the Act apply to?

- Current operators with approval from BOU, e.g. mobile money companies, such as Africell, Airtel, MTN and UTL.
- Other operators of payment systems, payment service providers, issuers of payment instruments, money issuers and aggregators, e.g. PayPal, Payway and EzeeMoney.
- Users of payment systems, retail stores and point of sale outlets, clearing houses and the banks whose technologies and infrastructure make the payments possible.

Key definitions

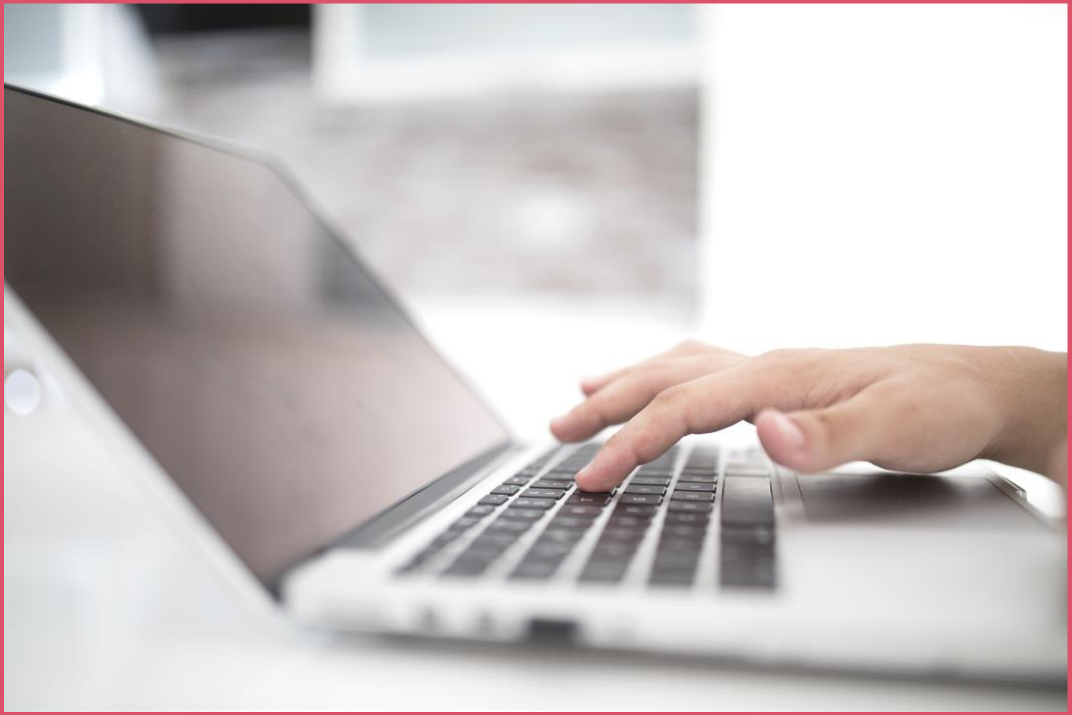
Electronic money: a monetary value represented by a claim on the issuer, which is:

- Stored on an electronic device;
- Issued upon receipt of funds in an amount not less in value than the monetary value received;
- Accepted as a means of payment by undertakings other than the issuer; and
- Prepaid or redeemable in cash.

Key definitions

Payment instrument:

Any device or set of procedures by which a payment instruction is issued for purposes of making payments or transferring money and includes cheques, bills of exchange, promissory notes, electronic money, credit transfers, direct debits, credit cards and debit cards or any other instrument through which a person may make payments, except banknotes and coins.



Key definitions

Payment service:

- Services enabling cash deposits or withdrawals;
- Execution of payment transactions;
- Issuance and acquisition of payment instruments; or
- Any other service incidental to the transfer of funds.

Payment system:

- A system used to effect a transaction through the transfer of monetary value, and includes the institutions, payment instruments, person, rules, procedures, standards, and technologies that make such a transfer possible.

Licensing

General licensing provisions

- Any person who wishes to offer payment services, establish or operate a payment system or issue payment instruments must apply to BoU for a licence.
- Operating a payment system without obtaining the BoU licence is an offence and a person who breaks this provision would be liable to a fine not exceeding UGX 40 million or imprisonment not exceeding four years, for a corporate body a fine not exceeding UGX 140 million, upon conviction.
- The central bank has powers to modify, revoke or suspend the licence where a licensee fails to meet the criteria set out in the law.
- BOU will establish a regulatory sandbox framework for purposes of governing the manner in which a person may obtain limited access to the payment system ecosystem to test financial products or services without obtaining a licence under the Act.
- BOU may appoint an external auditor to examine a service provider, participant or operator of a payment system.

Licensing (Continued)

Who is Eligible to be licensed?

- Payment system with the specified objects (Section 8 of the Act)

- Payment system that is interoperable with other payment systems in the country and internationally.

Foreign participants

- The rights and obligations arising from, or in connection with, the participation of a foreign participant shall be governed exclusively by the laws of Uganda.

Licensing (Continued)

Licensing Requirements

- An electronic money issuer must have an equivalent amount of cash deposited in a trust account or special account.
- Set up a subsidiary legal entity and obtain a licence for the purpose of operating the payment system (i.e. the issuance of electronic money). Exception: entities solely established to issue electronic money, a financial institution as regulated by BoU or microfinance deposit taking institution.
- Electronic money issuers such as telecoms will be required to establish and maintain their primary data centre in relation to payment system services in Uganda.
- BoU will prescribe different classes of licences.

Other Compliance Requirements

The law contains other requirements as follows:

- annual license fees on or before 31st January every year
- develop payment system rules governing the transfer of money
- submit annual reports to BOU
- retain payment system records for at least 10 years and only destroy such records upon approval by BOU
- protection of customer information, comply with consumer protection requirements

Other Compliance Requirements (Continued)

The law contains other requirements as follows:

- maintain the minimum capital once prescribed by BOU
- ensure availability of the payment system during the operational period
- notify the BOU and publish any intention to cease carrying on the business
- funds on dormant electronic money accounts may be claimed within seven years. All unclaimed funds will be transferred to BOU for deposit into the Consolidated Fund.

Conclusion:

Prepare to comply with the NPSA….

Regulators

- Engage with the various government stakeholders to ensure that all potential risks are managed to avoid disruption to the business.
- Regulatory issues from both BOU and UCC's perspective and the need for coordination to ensure smooth transition and split of the electronic money business.

Other stakeholders

- Communicate with the various stakeholders about the business split, such as internal staff, business partners, dealers, suppliers, regulators, customers, etc.
- A workplan showing schedule of events that will happen, when, who is responsible, whom it will affect.

Prepare to comply with the NPSA.... (Continued)

Future operations

- Impact on the future companies' day to day operational issues – income split, cost allocation, resource allocation, the required changes to the IT systems, financial reporting etc.
- Simulation of what the future will look like through segmental reporting by configuring the systems to be ready for the business split.
- Day to day operational issues of the two companies – shared services, separate management and boards, staff transfer to the subsidiary, licence and intellectual property issues, etc.
- Identify the institution where the trust account will be held and who the trustees will be. For financial institutions providing electronic money, set up special account to hold the subscribers' funds.
- Costs of splitting the business, potential disruption to the businesses, mitigation measures against the disruption.
- Review existing information and cyber security systems

Grey Areas

The following areas of the Act need further clarification:

- Application process and fees
- Minimum share capital
- Classes of licences
- Joint operations - who gets the licence?
- Electronic money account types and the transaction limits
- Implementation of the Act for foreign participants
- Regulatory sandbox
- Compliance with requirements by multiple regulators


Q&A
Derrick Lusiba,
Associate – Tax and Legal Services

Closing Remarks

Plaxeda Namirimu
Associate Director - Tax

How we can assist…

PwC is a professional services firm, providing Assurance, Tax and Legal services as well as advisory solutions to businesses.

With regard to the new NPSA law, its implications for existing businesses and new entrants in that space, we would be happy to assist with the following:

- Understanding the provisions of NPSA and its impact on your specific business;
- Ongoing compliance, developing compliance checklists and supporting your internal management teams in implementing these obligations;
- Providing training that is tailored to your business, creating awareness for your staff on the impact of this new law;
- Accounting, tax and legal considerations to be taken into account when restructuring your business to comply with NPSA requirements; and
- Assessment of licensing requirements and steps to be taken once the regulations have been issued.

Get in touch

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