

PC Socdev 28/2/18

26th February 2018

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Dear Ms Bengu

RE: SAPO STATE OF READINESS TO COMMENCE ON-BOARDING OF NEW SASSA BENEFICIARIES

Your letter of 22 February 2018 in the above regard has reference.

SAPO's state of readiness to commence delivering the services as per the Service Agreement ended into on 8 December 2018 is as follows:

Electronic banking services, including Corporate Control Account (Holding Account and Special Disbursement Accounts)

Postbank has completed the creation of the two products on its Core Banking Platform (Flexcube Universal Banking Solution)(FCUBS). The Corporate Control (Holding) Account in SASSA's name will be opened immediately upon receipt of the necessary documentation as requested by email on 11 January 2018.

As you are aware Postbank does not yet have a full banking licence and therefore cannot participate in the processing of large volume EFT transfers, this is currently done through our Sponsoring Settlement bank, Standard Bank of SA (SBSA). The interim arrangement until Postbank has received its banking licence is to open a Corporate Account at SBSA to receive the large value EFT's from SASSA. The value thus received will be transferred via a journal into the SASSA Corporate Holding Account at Postbank which will then be used to fund the Special Disbursement Accounts. The arrangement is described in more detail in Annexure A and will have no negative impact on SAPO/Postbank's ability to deliver the service. A meeting has been arranged with the South African Reserve Bank (SARB) and National Treasury (NT) on

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13 March 2018 to discuss this arrangement and to clear all uncertainties that either SARB or NT may have pertaining to this matter. Your office will be informed of the meeting arrangements and in the interest of openness and transparency, your office will be invited to send representation to the meeting.

As regards the opening of the SASSA Corporate Holding Account (HA) and the Special Disbursement Accounts (SDA), for the on-boarding of new beneficiaries at SASSA offices, SAPO can confirm that:

- The relevant two products have been created on our core banking platform and SAPO/Postbank is ready to proceed with the opening of individual accounts.
- The HA in SASSA's name will be opened as soon as the relevant documents required to comply with Postbank's own policies and relevant legislation, eg FICA as requested on 11 January 2018 has been received. For easy reference the documents required are as follows:
 - A letter on SASSA's letterhead signed by the CEO to request/confirm opening of the account, in line with the Service Agreement, and indicating the full names and ID numbers of 3 authorised signatories on the account;
 - A completed Application form signed by the 3 signatories – a electronic copy of the application form is attached; and
 - Certified copies of the signatories' ID and residential addresses.
- Postbank is also ready to open the envisaged Cash/Operational Account, upon receipt of the same information and documents as for the HA to enable access by the cash payment service provider to make withdrawals and re-deposit all unclaimed /unpaid grants. However, it is assumed that this is not a critical requirement for 1 April 2018 but SAPO / Postbank ready to discuss the operations of this account.
- The system is ready to commence opening of individual SDA for new beneficiaries effectively on 3 April 2018, on account of the fact that the 1st is a Sunday and the 2nd a public holiday. More detail on the contingency measures to enable this is described further in this letter.
- Testing of the bulk account opening process with a sample of 1,000 existing beneficiaries' data will take place in the week of the 26th February 2018. Any system or data issues uncovered during the test will be resolved during the week. It is envisaged that SAPO, in collaboration with SASSA's IT team, will commence the bulk account opening of all existing beneficiaries early in March 2018.

SAPO's BAC identified a preferred bidder for the stand-alone Integrated Grant Payment Solution (IGPS) on 20 February 2018 and contract negotiations has commenced. However, due to delays in the procurement process and the amount of integration and testing that will be

required to implement the solution, this system will not be operational by 1 April 2018. Annexure B contains detail of the timeless and various contingency measures proposed by SAPO in order to meet the 1 April 2018 target date and SAPO would welcome further discussions around it. SAPO will however utilise its current branch point-of-sale system (WRE) and its core to banking platform (FCUBS), to deliver the entire electronic banking service by 19 March 2018 for the Proof of Concept (POC). All data and transaction history of SDA accounts opened in FCUBS will be transferred seamlessly to the new IGPS when it is operational at no cost to either SASSA or the beneficiaries.

Card Body Production

SAPO is still on track for the first batch of 2 million EMV compliant cards to be delivered to SAPO Bloemfontein office by 16 March 2018. However, the time required by PASA and the banking industry to perform acquiring testing has unfortunately not been taken into account in our timelines. SAPO proposes to proceed with the POC on 19 March 2018 but to use cards that have not been tested by PASA and the industry to do this. These cards will only be used after 1 April 2018 by which time we will know the results of the PASA and banking industry testing and if necessary arrangements can be made for the cards to be reissued.

In the event that the first batch of 'untested' cards are not suitable, SAPO proposes to issue Mzansi cards for new beneficiaries wef 3 April 2018 and to replace them, with the existing 5.7 million Grindrod cards, during card swop. Refer to Annexure B for more detail on the timelines and contingencies to be used.

SAPO will utilise its current distribution process and systems to distribute the cards to all SASSA branches by 28 March 2018. A limited number of cards will be distributed earlier to the designated POC branches.

On-boarding of new beneficiaries

Due to delays in the finalisation of the envisaged 'suitcases' to be used for on-boarding, this device is scheduled to be operational at all SASSA branches by 23 April 2018 only. SAPO will however be ready to commence the on-boarding of new beneficiaries with effect from 3 April 2018 by using existing equipment (fingerprint readers and webcams) already in stock while an accelerated procurement process will be followed to source the pc's required for on-boarding at SASSA offices.

Card Swap of existing beneficiaries

In view of the fact that the compact 'suitcase' will be ready and operational at all SASSA branches by 23 April 2018 only SAPO proposes that the card swop programme at other designated SASSA service points be deferred to 23 April 2018 when the 'suitcases' are ready for use in the field. SAPO will however be ready to commence the card swap programme at

SAPO branches only, with effect from 1 April 2018. This will be done with SAPO's existing infrastructure and devices already in use.

Biometric Engine

SAPO was on track to meet the deadline with this solution in time for the envisaged proof of concept on 19 March 2018. Regrettably though, during the adjudication of the Bid by BAC on 20 February 2018, inconsistencies in the bidding process were uncovered which left the BAC with no option but to cancel the bid and advertise it again on a shortened procurement process. SAPO wishes to ensure SASSA that it takes this matter very seriously and that the incident will be thoroughly investigate and it be found that there was negligence on the part of any SAPO employee, disciplinary action will be taken.

SAPO is however confident that it will still be able to complete the implementation and commissioning of the Biometric Engine in time to meet the 1 April 2018 target to commence the on-boarding of new beneficiaries and the card swap of existing beneficiaries at SAPO branches.

As regards the 19 March POC we are currently investigating two interim solutions for the biometric authentication and encryption of the biometric data on the cards. The first option being investigated is to use the SASSA IAM solution while we are also working in parallel with CSIR for an interim solution. SAPO will unfortunately only be in a position to confirm the availability of either interim solutions on 9 March 2018 only.

Detail of all sub-contractors being used and the relevant contracts will be made available shortly.

Kind regards



Mark Barnes

Group Chief Executive Officer

Date: 2018 / 02 /

CC: SAPO Board of Directors

Robert Nkuna DG: DTPS

Mpumi Mpofu, DG: DPME