South African Reserve Bank
Prudential Authority

PRUDENTIAL AUTHORITY

ANNUAL REPORT 2021/22

PROMOTING AND ENHANCING **THE SAFETY, SOUNDNESS AND INTEGRITY** OF REGULATED FINANCIAL INSTITUTIONS

CONTENTS

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EXECUTIVE SUMMARY

FOREWORD BY THE **CHAIRPERSON OF THE PRUDENTIAL COMMITTEE**

It has been another turbulent and intriguing financial year as regulators across the globe continued to respond with circumspection to the economic impact of the COVID-19 pandemic. A combination of the international roll-out of vaccines, the relaxation of lockdown protocols, the continued accommodative fiscal and monetary policies as well as the regulatory relief provided to banks contributed to the recovery of financial markets.

Inflation, due to rising energy prices, emerged as a major concern across the globe in the second half of 2021 and resulted in a new cycle of fiscal and monetary tightening by governments and central banks. The South African economy grew by 1.2% in the fourth quarter of 2021 and recorded an annual gross domestic product (GDP) growth rate of 4.9% following a decline of 6.4% in 2020. Structural constraints – such as interruptions in the power supply, underperforming and debt-ridden state-owned enterprises (SOEs) as well as COVID-19-induced job losses – are expected to slow long-term growth.

During 2021, South Africa experienced a politically charged series of riots where stores were looted and major damage was caused to rail, ports and commercial property, including financial services infrastructure, estimated at R50 billion. The riots had far-reaching socio-economic consequences affecting both the communities in close proximity to the riots and the broader financial sector players such as insurers who were required to step in and honour business insurance claims. The hardest-hit during the riots were the small businesses that did not have insurance cover. During all these emerging activities, the Prudential Committee (Pruco) worked with the Prudential Authority (PA) as it manoeuvred through the crises in executing its prudential mandate.

Both Pruco and the PA achieved yet another historical milestone by making four of the five prudential standards relating to the regulation of financial conglomerates. To ensure appropriateness and relevance, the Pruco also approved that the fifth standard (on the capital requirement) be taken through field testing prior to Pruco's approval. Pruco also made prudential standards relating to audit requirements for insurers, insurance groups, microinsurers, Lloyd's and branches of foreign reinsurers.

Pruco focused on the development of a three-year strategic plan for the PA. The PA's key priorities were articulated in the *2021–2024 Prudential Authority Regulatory Strategy*, which was approved by Pruco prior to publishing in October 2021. The PA's work on policy was sustained throughout the year and included amendments to financial sector laws via the Omnibus Bill as well as the Large Exposures (LEX) framework and the Total Loss-Absorbing Capacity (TLAC) holding standards.

As we were about to close the financial year, another calamity struck in February 2022 when the world saw Russia's invasion of Ukraine. This attack spurred global sanctions on Russia and resulted in significant market volatility. During 2022, the PA will continue to observe how the invasion impacts on global and local trade, supply chains and financial markets.

Since its inception in 2018, the PA's policy and supervisory deliverables have been focused on establishing its policy, supervisory and operational tools in line with the provisions of the Financial Sector Regulation Act 9 of 2017 (FSR Act). At the helm of this was South African Reserve Bank (SARB) Deputy Governor and Chief Executive Officer (CEO) of the PA, Kuben Naidoo, who played a pivotal role in bringing the Twin Peaks model to life. On 9 March 2022, I announced the rotation of the Deputy Governors, with Mr Naidoo moving on to play yet another significant role as the Deputy Governor overseeing the financial stability cluster within the SARB. I would also like to welcome on board SARB Deputy Governor Fundi Tshazibana as the new CEO of the PA from 1 April 2022. As she takes the PA forward, we anticipate a shift towards more outcomes-focused regulatory and supervisory frameworks to further strengthen the safety and soundness of the financial sector.

E L (Lesetja) Kganyago
Governor of the South African Reserve Bank and Chairperson of the Prudential Committee

OVERVIEW BY THE **CHIEF EXECUTIVE OFFICER OF THE PRUDENTIAL AUTHORITY**

The impact that COVID-19 has had on the local and global economy has tapered off, with some of the recovery evidenced by the improved performance of the PA-regulated sector.

During 2021, the banking sector started showing signs of recovery from the 2020 shock of the lockdowns where there had been a significant rise in credit risk impairments and non-performing loans. While more lives were lost during the second wave, the credit impact was less severe than in the first wave and there was a gradual recovery in non-performing and distressed loans. As a result, we saw an improvement in the performance of banks to pre-COVID-19 levels, as demonstrated by improved return-on-equity (ROE) ratios.

Life insurance companies were the hardest-hit by the unprecedented death claims at levels not anticipated by the sector. The majority of licensed insurers provide funeral products, and these businesses were significantly impacted by a combination of death claims. Although the second and third COVID-19 waves were most damaging to the sector, the systemically important insurers remained resilient during this period. These insurers did, however, experience significant rundowns on their reserves and capital ratios.

Business interruption cover was a major development during the pandemic, and the PA, together with the Financial Sector Conduct Authority (FSCA), played a pivotal role in providing a level of regulatory certainty to ensure that support would be extended to the affected businesses. As the economy was starting to recover from the impact of the COVID-19 pandemic, the country was plunged into the chaos of the July 2021 riots, further impacting on the non-life insurance sector. The PA and the FSCA continued to assist by negotiating early payouts to small businesses and by working with non-life insurers and the South African Special Risks Insurance Association (Sasria SOC Limited) to manage the payment claims of both COVID-19 and the July 2021 riots. Throughout 2022, the PA will continue to closely monitor claims in respect of business interruption cover and the

potential risks that these claims may pose to the non-life insurance sector.

The COVID-19 pandemic, and the resultant new ways of work, saw an accelerated use of cloud computing across PA-regulated financial institutions, and although this will arguably lower cyber-risk, it has increased concentration risk.

As the economy has been showing signs of improvement, the PA has been phasing out the COVID-19-related relief measures that it provided in 2020, with clear indications to the industry about the timelines for the unwinding.

We have made notable progress on the operational front as well as on the development of the PA regulatory and supervisory frameworks. We have also made progress on the regulatory priorities committed to in the *2018–2021 Prudential Authority Regulatory Strategy*. In October 2021, we published the *2021–2024 Prudential Authority Regulatory Strategy*.

The PA finalised and approved a number of regulatory instruments, and processed and issued initial licences for one mutual bank and several microinsurers.

The International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP) was completed, and the report was published on 11 February 2022. The PA also successfully participated in FSAP's Cyber Pilot. We began developing the remedial actions based on the outcomes of the 2019/20 Financial Action Task Force (FATF Mutual Evaluation (ME), with particular focus on Immediate Outcomes (IOs) 3 and 4, which pertain to supervisory and preventive measures against money laundering and terrorism financing (ML/TF).

There has been significant progress on the Information Technology (IT) Transformation Project, with completion of Phase 1 expected during 2022. The Industry Data Taxonomy stream is also on track, and various engagements and training sessions were held in 2021 to ensure the readiness of the sector. The PA also launched its quarterly industry newsletter aimed at enhancing its communication with the industry.

The PA's relationship with the FSCA has strengthened as we continued to collaborate and align on key policy matters.

As I rotate out of the PA to join another cluster within the SARB, I reflect with pride on my tenure as CEO of the PA. I wish my colleague, SARB Deputy Governor Fundi Tshazibana, all the best in this role. What I am most proud of is handing over a high-performing authority with the most dedicated colleagues who will continue to deliver on the mandate of the PA and the SARB.

K (Kuben) Naidoo
Deputy Governor of the
South African Reserve Bank and
CEO of the Prudential Authority

GOVERNANCE AND OPERATIONAL STRUCTURES

PRUDENTIAL COMMITTEE

The FSR Act prescribes the PA's governance structure, including its Pruco, resources, financial management and reporting obligations.

Pruco held 11 meetings in the year under review, and also held a strategy session for the 2022/23 financial year.

Chairperson

E L (Lesetja) Kganyago
Governor and Chairperson

Members

K (Kuben) Naidoo
Deputy Governor and CEO of the Prudential Authority

R (Rashad) Cassim
Deputy Governor

N (Nomfundo) Tshazibana
Deputy Governor

Functions

During this financial period, Pruco provided oversight on management and administration to ensure that the PA was effective and efficient.

In addition, Pruco, among other things:

- approved the *2021–2024 Prudential Authority Regulatory Strategy*;
- authorised the PA to enter into a memorandum of understanding (MoU) with the Bank of Zambia;
- made two sets of prudential standards, namely:
  - prudential standards relating to financial conglomerates; and
  - prudential standards relating to audit requirements for insurers, insurance groups, microinsurers, Lloyd's and branches of foreign reinsurers;
- determined the effective date for the 'Joint standard on margin requirements for non-centrally cleared over the counter (OTC) derivative transactions' as being 16 August 2021;
- approved amendments to the following Acts for inclusion in the Omnibus Bill:
  - the Insurance Act 18 of 2017 (Insurance Act);
  - the Banks Act 94 of 1990 (Banks Act);
  - the Mutual Banks Act 124 of 1993 (Mutual Banks Act);
  - the Co-operative Banks Act 40 of 2007 (Co-operative Banks Act); and
  - the FSR Act;
- approved the following regulatory frameworks for submission to the Minister of Finance (Minister) and for publication by National Treasury (NT):
  - the LEX framework; and
  - the TLAC holding standards; and
- approved the PA Annual Report for the period ending 31 March 2021 for tabling at the National Assembly.

Standing invitees

The four heads of department (HoDs) of the PA and the Head of the SARB's Financial Stability Department

PRUDENTIAL AUTHORITY **OPERATIONAL STRUCTURE**

K (Kuben) Naidoo
Deputy Governor and CEO of the Prudential Authority

The PA Management Committee (Manco) is chaired by the CEO of the PA and comprises the heads of the four PA departments.

S (Suzette) Vogelsang
Head of Department

The **Banking, Insurance, Co-operative Financial Institutions and Financial Market Infrastructure Supervision Department** is responsible for the prudential supervision of the medium- to smaller-sized banks, insurance companies and co-operative financial institutions (CFIs) as well as securities and derivative financial market infrastructures (FMIs), on a solo or consolidated basis, as applicable.

D (Denzel) Bostander
Head of Department

The **Financial Conglomerate Supervision Department** is responsible for the consolidated prudential supervision of larger, more diverse and complex financial groups. These include institutions designated as financial conglomerates. It is also responsible for the supervision relating to anti-money laundering and combating the financing of terrorism (AML/CFT).

F (Faizel) Jeena
Head of Department

The **Risk Support Department** is responsible for providing regulatory and supervisory support on credit, operational, market, asset and liability management (ALM) and insurance risk, as well as for the quantitative and actuarial analysis and financial institution statistics.

O (Olaotse) Matshane
Head of Department

The **Policy, Statistics and Industry Support Department** oversees policy formulation as well as the development and implementation of regulatory and supervisory frameworks. It also provides operational support, industry analysis and technical support on capital and accounting requirements, as well as support on legal administration and enforcement responsibilities.

The following governance structures continue to perform technical and advisory functions to support the PA decision-making process:

- the Policy Panel;
- the Licensing Panel;
- the Restructures and Expansions Panel;
- the Prudential Authority Regulatory Action Committee (PARAC);
- the Risk and Capital Review Panel; and
- the Designation Panel.

PROGRESS AGAINST THE *2018–2021 PRUDENTIAL AUTHORITY REGULATORY STRATEGY* AND RELATED FRAMEWORKS

The PA published its first *Regulatory Strategy* on 1 October 2018 as per the provisions of section 47 of the FSR Act. The *Regulatory Strategy* was subsequently revised and published on 1 October 2021, setting out the PA's approach to regulation and supervision, and outlining its key priorities for the period 2021–2024.

The following is a list of priorities and an update on progress made during the 2021/22 financial year.

STRATEGIC PRIORITIES

Strengthen the regulation and supervision of banking institutions with updated Basel III requirements and updated regulatory requirements related to mutual banks, while also assessing the co-operative banks framework and developing prudential standards for CFIs.

Highlights for 2021/22

Banks

- In March 2022, NT published amendments in terms of section 90 of the Banks Act to the Regulations relating to Banks (Regulations), effective from 1 April 2022:
  - o the LEX framework; and
  - o the TLAC holding standards.
- Proposed amendments to the Regulations in respect of banks' exposure to interest rate risk in the banking book (IRRBB) are in the final stages of consultation.
- Guidance Note 4 of 2021 (GN4/2021) was issued in July 2021, setting out the revised proposed implementation dates for the Basel III post-crisis reforms.
- Proposed amendments to the Regulations to incorporate the revised internationally agreed frameworks were finalised for public consultation:
  - o the standardised approach for credit risk;
  - o the internal ratings-based (IRB) approach for credit risk;
  - o the operational risk (OR) framework;
  - o the leverage ratio (the revised exposure definition); and
  - o the revised requirements related to the output floor.
- Proposed amendments to the Regulations in respect of the securitisation framework were finalised, as well as a directive on the capital treatment for simple, transparent and comparable securitisations.
- The PA's intention to phase back the COVID-19 relief measures, which were extended during 2020 to assist banks in fulfilling their role in the broader economy and to ensure the effective functioning of financial markets, was communicated. These measures included reduced capital and liquidity requirements, the treatment of COVID-19-related distressed loans, guidance on dividend distribution and expected credit loss accounting.

Mutual banks

The PA is in the process of drafting regulatory instruments related to:

- governance;
- risk management;
- capital; and
- economic returns.

Co-operative banks and CFIs

In June 2021, the PA published a set of draft prudential standards for co-operative banks and CFIs relating to:

- registration and operational requirements;
- governance;
- risk management and internal controls; and
- financial soundness.

The comments received are expected to be published, together with a full set of standards, for further public consultation in the second half of 2022.

Implement the prudential regulation and supervision of financial conglomerates to obtain a holistic view of group-wide activities, intragroup transactions and large exposures.

Highlights for 2021/22

In December 2021, the PA finalised and published four prudential standards for financial conglomerates relating to:

- intragroup transactions and exposures;
- auditor requirements;
- governance; and
- risk management and risk concentration.

These prudential standards became effective from 1 January 2022.

In January 2022, the PA released the draft ‘Prudential standard on capital’ for financial conglomerates for field testing, which commenced in February 2022 with designated financial conglomerates and financial groups that volunteered to participate. The purpose of the field testing is, inter alia, to:

- provide an opportunity for financial conglomerates to understand the requirements of the draft ‘Prudential standard on capital’, and develop systems and processes to calculate capital;
- provide the holding company of a designated financial conglomerate with details of the technical specifications of the draft ‘Prudential standard on capital’ for calculating the capital requirements;
- provide financial conglomerates with the reporting template for sending through their calculations;
- collate the data and learnings on the application of the draft ‘Prudential standard on capital’ to identify any potential shortcomings, which will assist in refining the draft ‘Prudential standard on capital’ prior to issuing it as a formal prudential standard; and
- provide an opportunity for the PA to develop systems and processes to assess the capital calculations and risk profiles.

Ensure the prudential regulation of market infrastructures (MIs), including strengthening the resilience of MIs and ensuring adherence to international principles related to MIs.

Highlights for 2021/22

- The first Market Infrastructure Capital Assessment Process (MICAP) assessments were concluded for certain MIs in December 2021. The main purpose of the MICAP is for the PA to continually assess the suitability of an MI’s methodologies and risk management practices utilised in quantifying the capital set aside by an entity in response to various risk types.
- The review and amendment of regulation 8 of the Financial Markets Act 19 of 2012 (FMA) Regulations and the Regulatory Returns continues. The amendment to the liquidity risk section of the Regulatory Returns is being finalised, and training with industry has been planned.
- During 2021, JSE Clear (Pty) Limited (JSE Clear) applied for an independent clearing house and central counterparty (CCP) licence to comply with the transitional provisions as set out in section 110 of the FMA. The PA, the FSCA and the SARB are collaborating to assess this licence application, and continue to engage with JSE Clear to ensure that it is licensed timeously.
- In February 2022, the PA, the FSCA and the SARB published a joint roadmap for the development of a regulatory framework for central clearing in South Africa. The roadmap sets out:
    - o the timelines for the development of regulatory frameworks relating to an equivalence framework;
    - o the licensing of external FMIs;
    - o an exemption framework; and
    - o eligibility criteria for OTC derivative transactions subject to mandatory clearing.
- The PA, the FSCA and the SARB continue to assess relevant MIs’ observance of the Principles for Financial Market Infrastructures (PFMI) issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).
- The draft ‘Joint standard on recovery’ that sets out the minimum requirements for recovery plans of MIs is being finalised.

Ensure the prudential regulation and supervision of insurers by embedding the insurance-related Solvency Assessment and Management (SAM) principles and issuing further regulatory instruments per the Insurance Act.

Highlights for 2021/22

The PA published the following regulatory instruments in the refinement of the insurance regulatory framework:

- **Prudential Communication 5 of 2021** provided clarity on the application of the Financial Soundness Standard for Insurers (FSI) and Final Position Paper 111 to resolve selected items about the Solvency Assessment and Management Phase 2 (SAM 2). It also provided guidance on the treatment of cash, cash instruments and short-term deposits, the illiquidity premium, and the requirement of maintaining the related assets set out in FSI 2.2 section 13.4(a), as well as on the treatment of short-term investment instruments as it relates to FSI 4.1.
- **Prudential Communication 8 of 2021** clarified the PA's approach to representations in respect of the licence conversion process concluded in June 2020. It sets out definitive timelines for insurers to make final representations in relation to licensing conversion matters.
- **Prudential Communication 9 of 2021** introduced prudential standards on the audit requirements for insurers, insurance groups, microinsurers, Lloyd's and branches of foreign reinsurers.
- **Joint Communication 5 of 2021** introduced the draft 'Joint standard on outsourcing by insurers' for public consultation. The draft joint standard sets out the minimum requirements that an insurer should comply with when outsourcing material business functions and/or activities to third-party service providers.
- **Joint Communication 7 of 2021** confirmed the PA's and the FSCA's supervisory preference for the naming convention when referencing a licensed insurer or controlling company. The uniformity in the naming convention will ensure consistency across all licensed insurers and controlling companies.
- **Guidance Notice 2 of 2021** provides details for calculating the capital requirements for underwriting risk related to non-life insurance obligations for insurers using the standardised formula to calculate the solvency capital requirement. This Guidance Notice was aimed at illustrating approaches that may be adopted for the treatment of insurers' eligible risk mitigation instruments in addition to the impairment of those instruments for counterparty default risk.
- **Guidance Notice 3 of 2021** was published to assist insurers with their compliance with the capital requirements of FSI 4 relating to incurred but not reported provisions.
- **Joint Guidance Notice 1 of 2021** confirmed the view of the PA and the FSCA that, unless a person is licensed as a captive insurer under the Insurance Act, that person may not conclude insurance business relating to 'first-party risks' in South Africa. Joint Guidance Notice 1 of 2021 is built on the regulatory principles espoused in Joint Guidance Notice 1 of 2019 and provides additional clarity on foreign-domiciled captive insurers conducting insurance business related to 'first-party risks'.
- **Supervisory Observation: Financial Soundness Standards for Insurers – Encumbered Assets** sets out the PA's view on what an encumbered asset is and what the PA considers when deciding if and how an insurer may recognise an encumbered asset.
- **Supervisory Observation: Financial Soundness Standards for Insurers – Regulatory Balance Sheet** sets out the PA's view on certain aspects of the reporting of the regulatory balance sheet.

Establish a framework for significant owners, including the development of regulatory standards on significant ownership.

Highlights for 2021/22

- In 2021, the PA processed applications and notifications relating to significant owners of financial institutions that it regulates (i.e. banks and insurers), and gave concurrence on applications relating to MIs that are supervised by the FSCA.

Conclude MoUs with financial sector regulators such as the FSCA, the National Credit Regulator (NCR), the Financial Intelligence Centre (FIC) and the SARB.

Highlights for 2021/22

- The PA collaborated with other financial sector regulators to review the respective MoUs. The PA also entered into an MoU with the Bank of Zambia.

ADDITIONAL PRIORITIES

1 TRANSFORMATION OF THE BROADER FINANCIAL SECTOR

The FSR Act defines 'transformation of the financial sector' as envisaged by the Financial Sector Code for Broad-Based Black Economic Empowerment (B-BBEE) issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEE Act).

Transformation is a national objective and is reinforced through the FSR Act. The PA supports transformation within the financial sector and in 2020 finalised its approach in terms of the objectives of the FSR Act and specific mandate in terms of the Insurance Act.

The PA considered the transformation plans of the financial institutions that submitted licensing applications during 2021 and engaged with the boards of directors (boards) of financial institutions on progress made in relation to the commitments made to the Financial Sector Code for B-BBEE.

2 FINANCIAL INCLUSION AND DEVELOPMENTS IN FINANCIAL TECHNOLOGY

Section 34(1)(e) of the FSR Act requires the PA to support financial inclusion. During the financial period under review, the PA was developing an approach to supporting financial inclusion based on its mandate. The PA will be liaising with the FSCA and the SARB, and will consider the draft policy paper by NT titled *'An inclusive financial sector for all'*, the principles for innovative financial inclusion published by the Global Partnership for Financial Inclusion, and the findings and recommendations from the FSAP.

The focus areas will be further explored through working groups set up within the PA, which will include the FSCA and other regulators where relevant. The PA participates in the financial inclusion committees/ forums established by NT as well as the Alliance for Financial Inclusion and the Global Partnership for Financial Inclusion.

ADDITIONAL PRIORITIES (continued)

3 INTEGRITY IN TERMS OF COMPLIANCE WITH THE AML/CFT PROVISIONS OF THE FINANCIAL INTELLIGENCE CENTRE ACT 38 OF 2001

The PA is responsible for AML/CFT supervision in respect of banks, mutual banks and life insurers, as empowered by the Financial Intelligence Centre Act 38 of 2001 (FIC Act). The PA follows a risk-based approach to supervision, ensuring that adequate risk mitigation measures and controls are in place to protect financial institutions from being exploited by criminals.

In 2019, the FATF conducted an ME of the PA's AML/CFT Division as well as of other regulators, supervised entities and law enforcement agencies. The FATF's ME report had an adverse rating under technical compliance and effectiveness. The recommendations provided by the assessors required a concerted effort and work across various stakeholders within the AML/CFT spectrum in South Africa. These recommendations include the requirement for adequate preventative measures and strengthening the use of intelligence to inform investigations which ultimately lead to prosecutions, convictions and the confiscation of assets.

The PA is particularly focused on IOs 3 and 4 of the report, which pertain to supervision and preventative measures, and has identified the following areas requiring improvement:

- understanding the terrorism financing (TF) risk;
- the market entry requirements pertaining to licensing and beneficial owners;
- the application of a risk-based approach to supervision, whereby the frequency, intensity and degree of supervision is informed by risk for a specific supervised entity;
- the ability to improve compliance through administrative sanctions; and
- introducing specific licensing requirements in respect of money value transfer services (MVTSs) domestically. Currently, all banks are regarded as domestic MVTSs, and entities wishing to offer similar services must partner with a bank.

4 TRANSITIONAL ARRANGEMENTS FOR MEDICAL SCHEMES, PENSION FUNDS, COLLECTIVE INVESTMENT SCHEMES AND FRIENDLY SOCIETIES IN RELATION TO SECTION 291 AND SECTION 292 OF THE FINANCIAL SECTOR REGULATION ACT 9 OF 2017

Section 291 of the FSR Act requires the prudential regulation and supervision of medical schemes, and the associated powers and duties be exercised by the Council for Medical Schemes (CMS) with the concurrence of the PA until 31 March 2024.

Section 292 of the FSR Act requires the prudential regulation and supervision of pension funds, collective investment schemes and friendly societies, and the associated powers and duties be exercised by the FSCA until 31 March 2024. After this date, pension funds, collective investment schemes and friendly societies are to be prudentially regulated and supervised by the PA.

During this financial period, discussions between the PA, the FSCA and the CMS continued to look at how the transition would be carried out ahead of the deadline set by the Minister. This process entails developing regulatory and supervisory frameworks that would enable the relevant authorities to achieve their respective mandates while complying with the objectives of the Twin Peaks regulatory model.

5 SUSTAINABLE FINANCE, INCLUDING CLIMATE CHANGE

The PA established the Prudential Authority Climate Think Tank (PACTT) in 2020 to promote, develop and coordinate regulatory and supervisory responses to climate risks that impact regulated and supervised entities. Progress made during 2021 included:

- identifying climate risk-related strategic interventions for capacity building;
- strengthening internal and external coordination; and
- the publication of a climate survey report and industry consultation sessions pursuant to the publication of the report.

SUSTAINABLE FINANCE, INCLUDING CLIMATE CHANGE (continued)

These interventions are aligned to the recommendations made in NT's technical paper titled *Financing a sustainable economy* published in May 2020 and subsequently reviewed in October 2021 to support assessments of sustainable finance and climate risk. PACTT work streams were constituted to focus on climate risk indicators, supervisory guidance, climate-related financial disclosures and Pillar II guidance.

In October 2021, the PA published a climate survey report after it had gauged the approach to climate risks by registered banks, mutual banks, insurers and MIs. The PA engaged with the banking and insurance sectors on the climate survey report and on the broader climate risk-related issues under consideration by the PA.

The PA's high-level findings on the survey were as follows:

95% of the institutions surveyed believed that their actions/efforts might contribute to reducing the effects of climate change.

51% of the institutions surveyed included climate-related aspects in their business strategy.

71% of the institutions surveyed believed that climate-related risks could materially impact on their business.

90% of those that believed that climate-related risks could materially impact on their business were taking steps to better understand these impacts.

67% of the institutions surveyed believed that efforts to reduce climate change might hurt the economy.

45% of the institutions surveyed reported internally.

38% of the institutions surveyed planned to become carbon-neutral.

28% of the institutions surveyed disclosed publicly.

59% of the institutions surveyed considered climate-related risks within their risk management frameworks.

41% of the institutions surveyed discussed climate-related risks at board level.

34% of the institutions surveyed planned to take steps or had already taken steps to implement the Task Force on Climate-Related Financial Disclosures (TCFD) framework.

The PA held workshops on climate risk indicators and NT's Green Finance Taxonomy in collaboration with external stakeholders.

The PA is represented on numerous international climate risk committees such as the Basel Committee on Banking Supervision (BCBS), the Climate Risk Steering Group (CRSG), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the Network for Greening the Financial System (NGFS), the Sustainable Insurance Forum (SIF) and the Task Force on Climate-Related Financial Risks (TCFR).

THE INTERNATIONAL MONETARY FUND AND WORLD BANK FINANCIAL SECTOR ASSESSMENT PROGRAMME

During 2020 and 2021, the IMF and the World Bank jointly conducted an FSAP on South Africa. The FSAP was established in 1999, and provides a comprehensive and in-depth assessment of a country's financial sector. The purpose of the FSAP is to assist countries reduce the likelihood and severity of a financial sector crisis.

The FSAP highlighted the following positives in the report:

- The financial system has thus far weathered the shock of COVID-19,
- Banks and insurers appear well-capitalized and liquid in the baseline, and
- Financial sector oversight is strong, reflecting a commitment to independent supervision and the implementation of international standards.

The FSAP put forward key recommendations that the PA, in collaboration with other regulators, including the SARB and NT, should address:

FSAP key recommendations

Vulnerabilities analysis	Further strengthen analytical tools, including for solvency and liquidity stress testing and for climate risk analysis, and incorporate results in risk-based supervision.
Financial sector oversight	Pursue more structured, intrusive and comprehensive (risk-based) supervision, with greater focus on governance and credit, liquidity, and other significant risk management.
	Develop a rigorous framework for early intervention in banks.
	Scrutinise insurers' capital calculations, review products with high lapse and surrender rates, conduct industry-wide stress tests, and analyse the impact of adopting International Financial Reporting Standard (IFRS) 17: Insurance Contracts.
	Implement a consistent, multi-sectoral regulatory framework that articulates supervisory and oversight expectations for cyber-resiliency.
	Improve climate risk oversight.
	Improve the implementation of the risk-based approach to AML/CFT, and bring all sectors covered by the FATF standards under the AML/CFT framework.
Systemic liquidity	Improve the repurchase (repo) market by establishing collateral interoperability, harmonising the regulatory treatments of different types of collateral and repos, and promoting the widespread use of repos under the Global Master Repo Agreement.

The full Financial Sector Assessment Report that was published on 11 February 2022 can be found here: https://www.imf.org/en/Publications/CR/Issues/2022/02/11/South-Africa-Financial-Sector-Assessment-Program-Financial-System-Stability-Assessment-513014

THE PRUDENTIAL AUTHORITY'S **FUNDING MODEL**

In **February 2021**, NT released for public consultation the proposed Financial Sector Levies Bill which would allow the PA to impose levies on regulated financial institutions to fund its operations. The Bill was revised after considering the public comments and incorporating the proposed imposition of a deposit insurance levy.

In **November 2021**, Cabinet approved the submission of the Financial Sector and Deposit Insurance Levies Bill, which was accompanied by the Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill, to Parliament.

On **15 December 2021**, NT invited public comments on both Bills, which were subsequently introduced in Parliament in **January 2022**.

In **February 2022**, NT, the PA and the FSCA briefed Parliament's Standing Committee on Finance (SCoF) on the Bills.

As at **31 March 2022**, the PA, working with NT and the FSCA, was still in the process of analysing the public comments when NT had invited comments in **December 2021**.

The SCoF invited public comments on the Bills, and public hearings were scheduled for **May 2022**.

The commencement date of Chapter 16 of the FSR Act and consequently the Bills was initially set for **1 April 2022**. This was changed, through *Government Notice No. 257* of **25 March 2022**, to a date that will be determined in the future once the Bills currently before Parliament are finalised.

Once the Bills are passed and promulgated, the PA will communicate a detailed implementation process to industry. Until then, the SARB will continue to fund the PA.

THE PRUDENTIAL AUTHORITY'S **STRATEGIC FOCUS AREAS**

VALUE PROPOSITION

Promote and enhance the safety, soundness and integrity of regulated financial institutions.

2021/22 PERFORMANCE

The PA has adjusted well in terms of remote working. It has continued to strengthen its relationships with fellow regulators, creating a collaborative environment to address issues affecting the financial sector. With no failures of systemically important financial institutions (SIFIs) across the financial sector, the PA is continuing to make inroads in its supervisory processes. There are several smaller institutions under adequate corrective regulatory action, which is testament to the PA's continued intensive supervision of regulated financial institutions.

PERFORMANCE SCORECARD

Overall status	Strategic measures	Target (annual)	2021/22 (annual)	2020/21 (annual)	2019/20 (annual)
	Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate corrective regulatory action	100%	100%	100%
	Weighted percentage (based on assets) of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs*	90% or under adequate corrective regulatory action (The weighted average will be calculated based on assets.)	90%	98%	95%
	Compliance with sound governance and risk management practices as set out by different industry legislation for SIFIs	100% of institutions fully compliant or under adequate regulatory action	100%	100%	100%
	Weighted number of non-SIFIs that comply with sound governance and risk management practices as set out by different industry legislation for SIFIs	90% of institutions fully compliant or under adequate regulatory action (The weighted average will be calculated based on assets.)	90%	90%	75%

* Non-SIFIs are smaller banks or small- to medium-sized insurers.

UNIQUE STRATEGIC OBJECTIVES FOR THE PA WITHIN STRATEGIC FOCUS AREA 3

- Enhance risk-based, outcomes-focused and forward-looking supervision.
- Implement integrated and proportional regulatory and supervisory frameworks.
- Improve regulatory coverage.

Target met

Target partially met

PROGRESS MADE DURING THE YEAR

- Regular engagements took place with local and foreign regulators, industry bodies and regulated institutions.
- Intensive supervision of regulated institutions continued without significant challenges.
- The PA's long-term IT solutions partner, Vizor, was appointed.
- Significant progress was made with the implementation of Basel III.
- The PA completed and issued its *2021–2024 Prudential Authority Regulatory Strategy*.
- Various joint standards were proposed or issued in collaboration with the FSCA, including the 'Joint standards on margin requirements for non-centrally cleared OTC derivative transactions, outsourcing by insurers, cybersecurity and cyber-resilience, and requirements for central counterparty licensing'.

THE PA'S TARGET OPERATING MODEL

The PA continued to implement the priority initiatives of its Target Operating Model (TOM), and made considerable progress with the recruitment of the team needed to focus on change management as well as demand and workflow management. The Data Governance Model was reviewed and updated for the year under review.

The PA continued to deliver on the following data and technology projects:

- The Industry Data Taxonomy, which allows for a shared understanding of the data terms used in the returns collected by the PA, is underway.
- The required IT solutions, to enhance the regulatory and supervisory processes, saw several delivery milestones, including the sign-off of contractual matters. Phase 1 will kick off during 2022.
- An investigation into the best way to share data between the PA and the FSCA is underway.

THE *2021–2024 PRUDENTIAL AUTHORITY REGULATORY STRATEGY*

In terms of section 47 of the FSR Act, the PA is required to publish a regulatory strategy. The strategy sets out the regulatory and supervisory priorities for the PA over the next three years, and includes:

- strengthening and enhancing the regulation and supervision of deposit-taking institutions, MIs, insurers and significant owners;
- implementing the financial conglomerate regulatory and supervisory framework, and effectively supervising financial conglomerates;
- developing an approach for the prudential regulation of medical schemes, pension funds, collective investment schemes and friendly societies;
- developing cross-sectoral regulatory instruments for harmonising requirements across industries;
- enhancing AML/CFT supervision and implementing the recommendations of the FATF ME;
- implementing the PA's approach to transformation, financial inclusion and competition;
- supporting financial innovation and new technologies; and
- developing regulatory and supervisory approaches to sustainable finance and climate change.

Further details can be found in the *2021–2024 Prudential Authority Regulatory Strategy*, available at: https://www.resbank.co.za/content/dam/sarb/what-we-do/prudential-regulation/PA%20Regulatory%20and%20Supervisory%20Strategy%202021.pdf.

HIGHLIGHTS IN 2021/22

INDUSTRY ENGAGEMENTS

During October 2021, the PA hosted four virtual industry engagement sessions with the financial sector. This formed part of the annual PA stakeholder engagements that had commenced in 2018. The discussions focused on a wide range of topics, including climate change and new technologies. The relevant sectors were also provided with feedback from surveys completed during the financial year. The PA encouraged robust discussions during these engagements, providing an opportunity for the financial sector to engage with the PA and to discuss the ever-changing regulatory and supervisory landscape. These engagements were well received by the regulated entities. The PA has now included this as part of its annual work programme.

LICENSING

THE FSR ACT, READ WITH THE BANKS ACT AND THE INSURANCE ACT, EMPOWERS THE PA TO CONTROL THE ACTIVITIES OF UNREGISTERED OR UNLICENSED PERSONS WHO CONDUCT THE BUSINESS OF A BANK OR INSURANCE BUSINESS.

UNREGISTERED PERSONS CONDUCTING THE BUSINESS OF A BANK

The PA investigates unregistered banking business through temporary inspectors who are statutorily appointed in terms of the South African Reserve Bank Act 90 of 1989 (SARB Act).

During this financial period, the PA investigated nine unregistered banking entities comprising six schemes which were carried over from previous years and three new schemes. As at 31 March 2022, the investigation of one scheme had been finalised, with the remaining eight schemes still being investigated.

PERSONS CONDUCTING AN UNLICENSED INSURANCE BUSINESS

The FSCA investigates unlicensed insurance business by unregistered insurance companies, acting in terms of a delegation of powers by the PA for this function.

The FSCA investigated 70 unlicensed insurance businesses in the period under review. As at 31 March 2022, 40 investigations had been finalised, with 30 unlicensed insurance businesses still being investigated.

DESIGNATION OF INSURANCE GROUPS

The PA is required to designate and license insurance groups in respect of section 10 of the Insurance Act. During the reporting period, the PA designated six insurance groups and licensed 12 controlling companies.

DESIGNATION OF FINANCIAL CONGLOMERATES

The PA is tasked with the supervision of financial conglomerates and empowered to designate financial groups as such in terms of section 160(1) of the FSR Act. During the reporting period, the PA designated the following three groups as financial conglomerates: Absa Group Limited, Old Mutual Limited and the Standard Bank Group. These groups are already licensed under the respective sector laws.

FIT AND PROPER ASSESSMENTS

The financial sector laws, for which the PA is the responsible authority, require that the appointment of directors, executive officers and key persons, as applicable, be approved or noted by the PA.

During the reporting period, the PA conducted fit and proper assessments relating to new licences and also as part of its ongoing supervision of banks, insurers, co-operative banks and CFIs. The PA provided input to the FSCA for applications and notifications made in respect of MIs.

SIGNIFICANT OWNERS

The PA assessed the fitness and propriety of significant owners of PA-regulated financial institutions in terms of section 157 of the FSR Act, the ‘Joint standard relating to fitness, propriety and other matters relating to significant owners’ and relevant financial sector laws, where applicable.

The PA received 23 significant owner applications in the period under review, which included applications to increase ownership, and approved 15. As at 31 March 2022, five applications were still in progress, one had been declined and two had been withdrawn.

SUPERVISORY MATTERS

2021 FLAVOUR OF THE YEAR

2021 flavour-of-the-year topics

- Impact of new technologies
- Outsourcing in market infrastructures
- IFRS 17: Insurance Contracts
- Governance in co-operative banks and CFIs

IMPACT OF NEW TECHNOLOGIES

Discussions on the impact of new technologies on regulated financial institutions were concluded in 2021 as part of the flavour-of-the-year topic for banks, while a survey was issued to insurers and MIs. The objective was to determine whether financial institutions had the capacity and capabilities to manage existing and emerging risks due to the increased business dependency on the digitised environment.

The following outcomes were observed:

BANKS

- Technology had been integrated into banking product and service offerings.
- Banks had the necessary networks and skills to negate competitive pressures from financial technology (fintech) companies.
- In certain instances, service level management was considered inadequate when looking at the relationship between banks and third-party service providers.

INSURERS

- Insurers followed a risk-based approach when adopting new technologies.
- Some insurers were still in their infancy stages and were unable to adopt newer technologies.
- Some insurers lacked the necessary skills in relation to newer technologies adopted and placed reliance on third parties or fintech partnerships.

MARKET INFRASTRUCTURES

- Some MIs had partnered with fintech companies to support and implement their technology strategies.
- The adoption of new technologies was implemented through structured change management processes.
- Most MIs had inadequate IT board oversight, which was attributed to their nature, size and complexity.

OUTSOURCING IN MARKET INFRASTRUCTURES

Outsourcing was a flavour-of-the-year topic to provide insights into the posture of outsourcing within MIs. The PA held discussions with boards to obtain a view of their oversight as well as of MIs' reliance on and concentration of service providers, and observed the following:

- inappropriate subcontracting, governance and oversight of third-party risk management; and
- a lack of contingency planning and off-boarding.

IFRS 17: INSURANCE CONTRACTS

IFRS 17: Insurance Contracts will become effective for financial periods beginning on or after 1 January 2023. As the adoption of IFRS 17 is a major change in accounting for insurance contracts, with possible implications for insurers' financial position and performance, the PA identified IFRS 17 as a flavour-of-the-year topic for 2021.

The engagements with industry consisted of an IFRS 17 survey for the small- to medium-sized insurers, while for the larger insurers and insurance groups, IFRS 17 implementation formed part of the discussions at the PA's annual meeting with the insurers' boards.

The survey revealed that most of the respondents were still in the planning stage of their IFRS 17 implementation projects and a few of the respondents had not yet started with the implementation of IFRS 17. Only very few small- and medium-sized insurers were at advanced stages of their respective projects at that time. Insurers stated that the most significant challenges in implementing IFRS 17 included a lack of data and uncertainty in the interpretation of IFRS 17 requirements, the availability of qualified resources, the impact of COVID-19 and limited project budgets.

The meetings with the boards of the larger insurers revealed similar observations, with the exception that the larger insurers were at more advanced stages of their implementation projects.

GOVERNANCE IN CO-OPERATIVE BANKS AND CFIs

The care, diligence, skill and prudence exhibited by the boards and management of co-operative banks and CFIs have a critical influence on their viability, safety and soundness. The PA sought to review the individual governance components of co-operative banks and CFIs by examining the role of boards' and audit committees' skills and experience.

Governance in co-operative banks and CFIs remains a supervisory concern. The key areas that need addressing are financial management acumen on the part of board members, key-person dependency on managers, more understanding of prudential requirements, policies that inadequately address risks and a need to better prepare for prudential meetings. Other concerns include ineffective boards and board subcommittees as well as limited and/or ineffective participation of the audit or other relevant committees in some co-operative banks and CFIs. As a result, the PA has, in some instances, undertaken to conduct supervisory meetings with the audit committees.

EMERGING TRENDS AND CONCERNS

I. INSURERS AND INSURANCE GROUPS

The PA paid particular attention to the number of distressed insurers because of the COVID-19 impact, which was reflected by their profitability and solvency figures. Capital constraints were becoming more evident as the need to recapitalise insurers increased.

The PA continued to monitor business interruption cover, focusing on the progress of claims paid and reinsurance recoveries. For the small- to medium-sized insurers, operational resilience remained a concern, with volumes of new business, claims and profitability under pressure. The potential impact on non-life insurers, dependent on future COVID-19 waves, remained a concern. The PA also looked at mortality claims, particularly on those insurers offering funeral cover, and monitored and assessed the impact of lapses, surrenders and claims for life insurers. The PA saw an increase in the number of mergers and acquisitions among the small- to medium-sized insurance companies in striving to reduce costs, with notable changes in insurers' business models.

Reinsurance pricing was impacted by negative investment sentiment and financial stability concerns following the July 2021 riots.

II. MUTUAL BANKS

Loss-making positions and reliance on secondary share capital remained a concern for mutual banks, which was closely monitored by the PA. There was also an increase in the number of applications to establish mutual banks.

III. MEMBER-BASED DEPOSIT-TAKING INSTITUTIONS

The impact of the COVID-19 pandemic resulted in significant pressures on the CFI sector's profitability, which led to the PA's focus on sustainability within the sector. Nevertheless, co-operative banks have shown resilience since 2020, and this has contributed to the sector's growth. The need for co-operative banks and CFIs to keep up with technological advancement is at the forefront with boards, and efforts remain in place to identify new technology and products. However, the related costs were identified as a challenge. The lack of core banking systems in the sector also resulted in continuous incorrect reporting within CFIs' regulatory returns, as well as the inability to bring digital, card-based and innovative products to members. This, in turn, affected deposits and lending growth.

The PA continued to receive new applications for registration as CFIs, but is concerned by some of the applicants who comply with the minimum licensing requirements but then fail to assume operations within the stipulated timeframes.

IT and cyber-related risks are a concern for the PA. This is mainly due to the poor management of processes, events, systems and policies by some of the co-operative banks and CFIs. The PA aims to increase its supervision on the effectiveness of the policies, strategies and controls in managing IT and having a business continuity plan in place to help the financial institution recover from an IT incident.

IV. REPRESENTATIVE OFFICES

The PA is continuously striving to strengthen the regulation, supervision and monitoring of representative offices, including the refinement of the scope of activities that can be performed in line with appropriate legislation.

The PA repealed Circular 3 of 2004 and issued the replacement Directive 2 of 2022 (D2/2022) relating to consistent application requirements across representative offices. D2/2022 will ensure that representative offices report on the adequacy and effectiveness of their internal controls on an annual basis.

V. FOREIGN BRANCHES OF BANKS

The foreign branches operating in South Africa have remained resilient during the period under review, with no significant changes to their activities.

The focus areas during 2021 were the fitness and propriety of the second and third lines of defence functions, with a focus on executive officers and external auditors having deep, relevant experience in the South African legislative and regulatory environment based on the nature, size, complexity and risk profile of the foreign branch.

Given the global interconnectedness and the impact thereon of geopolitical tensions and COVID-19, the PA considered the reliance of foreign branches on their global shared service centres and the impact of global disruptions on foreign branches.

Smaller foreign branches which struggled to comply with the full ambit of current and imminent regulatory requirements chose to wind down their operations in South Africa.

VI. SMALLER LOCALLY REGISTERED BANKS

Profitability remained a concern with several non-systemic locally registered banks. This concern was exacerbated by the lack of capital in the market. Loss-making banks with low levels of profitability were closely monitored through intensive supervision.

These banks also struggled to attract deposits due to a flight to safety and intense competition in this sector, thus limiting their growth.

There was a significant increase in alliance banking partnerships with various retail providers and fintech companies.

An increase of whistle-blowing events from bank staff was noted, which has led to governance and compliance concerns.

VII. BANKS WITH TOTAL ASSETS OF MORE THAN R50 BILLION

With the relaxation of the COVID-19 lockdown measures, the PA noted a considerable decrease in credit impairments and post-model adjustments, although some banks continued to cater for some level of conservatism. The decrease in interest rates impacted profitability and, inversely, the improved credit quality saw a decrease in credit impairments. Capital and liquidity remained strong during the period.

VIII. MARKET INFRASTRUCTURES

The PA continued to supervise MIs, with particular focus on the impact that COVID-19 had on business strategy and financial positions, exacerbated by the notable increase in de-listings of the exchanges. Furthermore, certain MIs experienced challenges in accessing funding to recapitalise their respective business needs given the market conditions as well as the impact of COVID-19.

ENFORCEMENT

The PA considers appropriate regulatory actions and administrative sanctions to impose on regulated entities, accountable institutions and persons for non-compliance with the FSR Act, the FIC Act and other financial sector laws. Enforcement-related matters are tabled at the PARAC[1], which assists the CEO of the PA in determining the appropriate regulatory actions to impose in line with Chapter 10 of the FSR Act.

During the review period, the PA considered over 140 non-compliance referrals, compared to over 90 non-compliance referrals in the previous period.

The PARAC held nine meetings to discuss and consider recommendations made to the CEO of the PA in relation to matters of non-compliance.

The FSR Act and other relevant financial sector laws provide a range of tools to deal effectively with non-compliant institutions for which the PA is the responsible authority. The PA applies a risk-based approach in the supervision of its regulated entities. As such, in most cases, the PA cautions and/or reprimands the respective financial institutions, grants condonations and/or extensions, to address matters of non-compliance. However, there were instances in the year under review where administrative penalties were imposed.

Details of the penalty orders imposed in terms of section 167 of the FSR Act are as follows:

The administrative penalty orders have been published; further details on these matters are available at https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/functions-of-the-prudential-authority.

Name	Non-compliance	Administrative penalty
Motswedi Financial Services Co-operative (Motswedi) **(Please refer to page 35)**	The penalty arose from contraventions with the 'Prudential standard on transitional arrangements for CFIs' (TCFI-01): • failure to comply with section 6.2 of Prudential Standard TCFI-01 by not submitting regulatory returns for the periods ending 31 August 2020 and 30 November 2020 by their respective due dates; • failure to timeously address queries raised by the PA and to comply with section 9.2 read with Attachment 7 of Prudential Standard TCFI-01 by not submitting audited annual financial statements for the period ended 29 February 2020; and • failure to timeously address queries raised and to provide responses to the PA regarding non-compliance notices and other communication sent to Motswedi.	R30 000

1 The PARAC membership includes the CEO of the PA, the SARB Deputy Governors responsible for the market operations and financial stability clusters, the HoDs in the prudential cluster (i.e. in the PA and the Financial Surveillance Department), the Head of the National Payment System Department, as well as senior representatives from the Legal Services Department and the PA's Legal Support Division.

OTHER PRUDENTIAL AUTHORITY DECISIONS

Curator appointment

With effect from 21 December 2021, 3Sixty Life Limited's business was placed under provisional curatorship by order of the High Court of South Africa, as contemplated in the Insurance Act. The curatorship application was made in accordance with the powers of the PA in terms of section 54(1)(a) of the Insurance Act read with section 5(1) of the Financial Institutions (Protection of Funds) Act 28 of 2001 (FI Act).

Details are available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/3Sixty-Life-Limited-Court-Order

Winding up

In the 2020/21 Annual Report, the PA reported that Nestlife Assurance Corporation (RF) Limited (Nestlife) had been placed under provisional curatorship in terms of a provisional order (dated 20 October 2020 and made final on 30 November 2020) granted by the High Court of South Africa, Gauteng Local Division, Johannesburg. The curatorship application had been made in accordance with the provisions of section 54(1)(a) of the Insurance Act read with section 5(1) of the FI Act.

After an extensive but unsuccessful search for investors, and considering the deteriorating solvency position of Nestlife, the PA and the curator concluded that:

- It was not viable for Nestlife to continue trading under its current circumstances, as it was factually and commercially insolvent, and did not meet the solvency requirements of the Insurance Act.
- There was no reasonable probability that the continuation of the curatorship would enable Nestlife to pay its debts, meet its obligations, become a viable concern or otherwise meet the financial soundness standards required by the Insurance Act.
- It was just and equitable, and in the interests of policyholders, that Nestlife should be wound up.

On 30 July 2021, the PA and the curator (as co-applicants) launched an application for the winding up of Nestlife in the same High Court of South Africa in Johannesburg. The application was heard on 17 August 2021, and the High Court granted an order placing Nestlife in final liquidation on the same day.

More information is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/Order-for-the-final-winding-up-of-Nestlife-Assurance-Corporation-RF-Limited

Matters referred to the Financial Services Tribunal

Any person aggrieved by a decision taken by the PA may apply to the Financial Services Tribunal (Tribunal) for reconsideration.

- The policyholders of an insurer had instituted proceedings with the Tribunal for the judicial review of the PA's decision during the conversion process of the insurer in the financial year ended 31 March 2021. The Tribunal dismissed the matter on 27 October 2021.
- Viva Life Insurance Limited (Viva Life) filed an application in terms of section 230 of the FSR Act for the reconsideration to set aside the regulatory action imposed by the PA in the form of an administrative penalty of R3 million (R2 million of the R3 million penalty amount was suspended for a period of three years) and the directive issued by the PA in terms of section 143 of the FSR Act directing Viva Life not to pay dividends for a period of 12 calendar months. The case in front of the Tribunal was concluded on 13 October 2021 where the application was dismissed.

ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM

FINANCIAL ACTION TASK FORCE MUTUAL EVALUATION AND REMEDIAL ACTION

The IMF-led FATF ME of South Africa commenced in 2019 and the final report was published on 7 October 2021. The FATF ME report reflects the outcomes of the assessment of the South African AML/CFT regime from an effectiveness and technical compliance perspective. In terms of effectiveness, South Africa was assessed against 11 IOs. The most pertinent outcomes for the PA were IO 3 and IO 4, which relate to supervision and the preventive measures in place by supervised institutions such as banks and life insurers respectively. The PA has since embarked on several initiatives to enhance its risk-based approach to supervision.

The PA will be required to submit a report on progress on its remedial action efforts relating to IO 3 and IO 4 to South Africa's Interdepartmental Working Group (IDWG) during 2022. The information contained therein will form part of the post-observation period report submission by South Africa to FATF after October 2022. A final decision on whether South Africa will be subjected to increased monitoring by the FATF will be taken in February 2023.

NATIONAL COOPERATION AND COORDINATION

The PA is a member of the IDWG, which is chaired by NT and which seeks to address all matters relating to the implementation of the FATF ME recommendations. The IDWG provided a briefing to Cabinet on 1 September 2021 wherein the FATF findings and deficiencies in South Africa's AML/CFT regime were discussed. The PA submitted its remedial action plan to the IDWG during the first quarter of 2021. All pertinent government departments and agencies are required to submit progress reports by June 2022 to the IDWG.

ON-SITE SUPERVISION (INSPECTIONS)

While focusing on enhancing its risk-based approach and acting upon the recommended actions stemming from the outcomes of the FATF ME, the PA continued with its business-as-usual activities, which included AML/CFT inspections in terms of section 45B of the FIC Act. The PA conducted 10 inspections at accountable institutions during the financial year.

OFF-SITE SUPERVISION

The PA also focused on enhancing its supervisory processes to fully embed the risk-based approach to supervision as required by the amended FIC Act and the FATF standards. The new supervisory processes, which include the introduction of risk return submissions and the automation of a risk tool, will improve the PA's effectiveness in the execution of its supervisory duties of assessing compliance by financial institutions with their AML/CFT obligations.

The PA's AML/CFT Division was also involved in a multitude of initiatives, which included:

- developing ML/TF risk returns for the banking and life insurance industries;
- conducting ML/TF sector risk assessments (SRAs) of the banking and life insurance sectors;
- conducting a review to enhance the PA's understanding of the TF risks facing South Africa and in particular the financial institutions it supervises;
- drafting sector-specific guidance or regulatory instruments; and
- hosting webinars on TF, proliferation financing and the beneficial ownership for financial institutions.

ADMINISTRATIVE SANCTIONS

In exercising its supervisory duties, the PA can impose administrative sanctions on those institutions where non-compliance with the obligations of the FIC Act has been identified. These sanctions are imposed in terms of section 45C of the FIC Act.

The PA imposed administrative sanctions on one bank and three life insurers in the financial year under review. Further details regarding said administrative sanctions can be located on the website of the SARB.

SELECTED INDICATORS FOR THE SOUTH AFRICAN FINANCIAL SECTOR

Entities supervised by the PA as at* 31 December 2021, 28 February 2022 and 31 March 2022

Entities per sector	No. of entities	Balance sheet size R million		
		Dec 2021	Feb 2022	Mar 2022
Banking sector	**31**			**6 818 893**
Registered banks	18			6 411 500
Local branches of foreign banks	13			407 392
Mutual banking sector**	**4**			**3 257**
Co-operative sector	**29**		**548**	
Co-operative banks	5		413	
Co-operative financial institutions	24		135	
Life insurance sector	**69**	**3 717 100**		
Primary insurers	60	3 695 178		
Cell captive entities	5	21 922		
Microinsurers	4	0		
Non-life insurance sector	**70**	**250 643**		
Primary insurers	55	190 542		
Cell captive entities	7	33 324		
Captive insurers	5	26 777		
Non-life microinsurers	3	0		
Composite microinsurers	1	0		
Reinsurers	**8**	**68 400**		
Life reinsurers	1	7 157		
Non-life reinsurers	2	9 847		
Composite reinsurers	5	51 396		
Financial market infrastructures***	**9**	**5 814**		

* There is a timing difference in the availability of data for banks, insurers and CFIs due to the varying respective submission intervals.

** The number of mutual banks includes VBS Mutual Bank which is not deregistered yet.

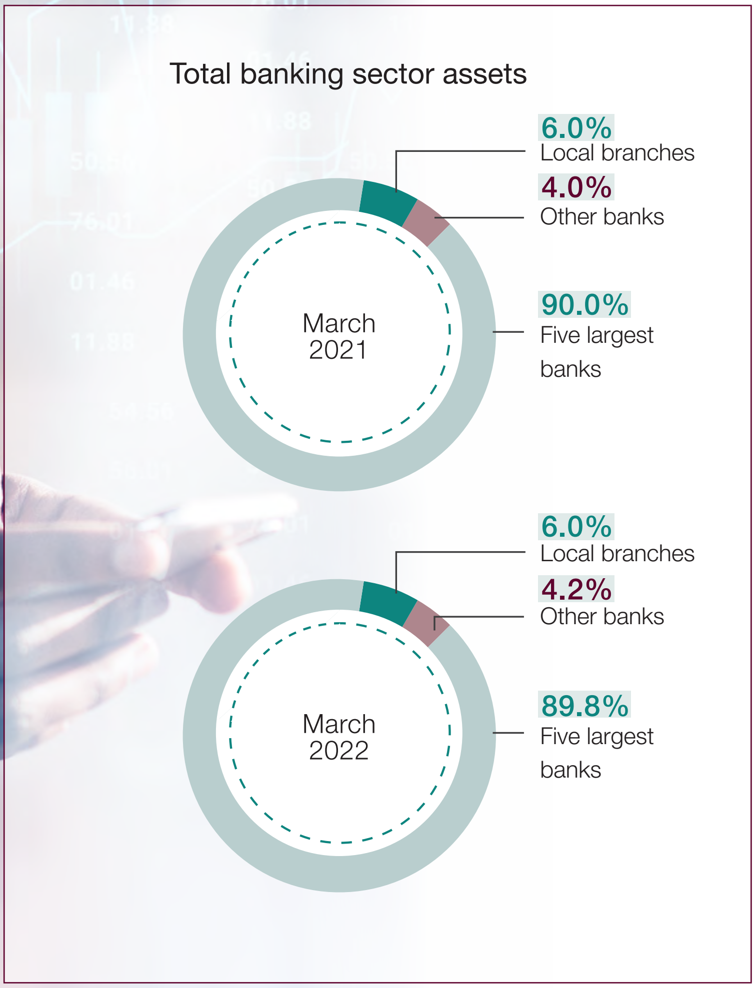
*** The number of FMIs includes ZAR X (Pty) Limited whose licence was suspended by the FSCA with effect from 20 August 2021. Total assets exclude margin deposits.

DEPOSIT-TAKING FINANCIAL INSTITUTIONS

THE BANKING SECTOR

South Africa's banking sector is dominated by the **five largest banks** which collectively held **89.79%** of the total banking sector assets as at **31 March 2022** (31 March 2021: 90.05%). The **local branches of international banks** accounted for **5.97%** of banking sector assets as at **31 March 2022** (31 March 2021: 5.91%) while **other banks**, which constitute other locally registered banks, represented **4.24%** of banking sector assets as at 31 March 2022 (31 March 2021: 4.03%).

Banking sector data includes one institution conducting banking business in terms of an exemption from the provisions of the Banks Act, namely Ithala SOC Limited.



Selected indicators for the South African banking sector

	Mar 2022	Mar 2021	Percentage change (%)
Balance sheet			
Total assets (R billions)	6 819	6 457	5.61
Gross loans and advances (R billions)	4 846	4 601	5.32
Total equity (R billions)	566	542	4.43
Profitability			
Cost-to-income ratio (smoothed) (%)	58.97	58.89	0.14
Return on equity (smoothed) (%)	13.73	7.47	83.80
Return on assets (smoothed) (%)	1.09	0.55	98.18
Capital adequacy			
Common equity tier 1 capital adequacy ratio (%)	13.71	12.83	6.86
Tier 1 capital adequacy ratio (%)	14.95	13.84	8.02
Total capital adequacy ratio (%)	17.70	16.90	4.73
Leverage ratio (%)	6.71	6.59	1.82
Liquidity			
Liquidity coverage ratio (%)	139.90	137.95	1.41
Net stable funding ratio (%)	116.65	116.30	0.30
Credit risk			
Impaired advances (R billions)	215	236	-8.90
Impaired advances as % of gross loans and advances	4.43	5.12	-13.48
Specific credit impairments as % of impaired advances	49.41	43.26	14.22
Portfolio credit impairments as % of gross loans and advances	1.30	1.42	-8.45

Total banking sector assets grew by **5.61%** year on year to **R6 819 billion** at the end of March 2022 (March 2021: R6 457 billion), mainly driven by the increase in gross loans and advances, investment and trading securities (mainly government and government-guaranteed securities), and short-term negotiable securities. **Gross loans and advances** grew by **5.32%** year on year to R4 846 billion at the end of March 2022 (March 2021: R4 601 billion) underpinned by increases in home loans, lease and instalment debtors, term loans, bank intragroup loans and repo agreements.

Equity amounted to **R566 billion** at the end of March 2022 (March 2021: R542 billion). **Retained earnings and share capital** constituted **94.12%** of total equity at the end of March 2022 (March 2021: 92.71%).

Profitability in the banking sector increased from 2021 supported by some improvements in the operating environment. **Operating profit** grew by **123%** year on year to **R97 billion** at the end of March 2022 (March 2021: R43 billion) driven by a decline in credit losses coupled with increases in net interest and non-interest income. The **12-month** moving average **ROE ratio** increased from 7.47% in March 2021 to **13.73%** in March 2022, and the **ROA ratio** increased to **1.09%** at the end of March 2022 (March 2021: 0.55%). The **12-month** moving average **cost-to-income ratio** amounted to **58.97%** at the end of March 2022 (March 2021: 58.89%).

Banks (on a bank-solo basis) remained adequately capitalised, with the **capital adequacy ratios (CARs)** remaining well above the minimum statutory requirements. **Common equity tier 1 (CET 1), tier 1 and total CARs** amounted to **13.71%, 14.95% and 17.70%** respectively at the end of March 2022 (March 2021: 12.83%, 13.84% and 16.90% respectively).

The minimum **liquidity coverage ratio (LCR)** requirement was revised to **90%** in January 2022 after it had been reduced to 80% in April 2020 to enable banks to provide liquidity to the economy amid the COVID-19 pandemic. The **LCR** amounted to **139.90%** at the end of March 2022 (March 2021: 137.95%). The **net stable funding ratio (NSFR)** was **116.65%** at the end of March 2022 (March 2021: 116.30%).

Impaired advances declined by **8.90%** year on year to **R215 billion** at the end of March 2022 (March 2021: R236 billion). The **ratio of impaired advances to gross loans and advances** decreased to **4.43%** at the end of March 2022 (March 2021: 5.12%). The **ratio of specific credit impairment to impaired advances** (coverage ratio) increased to **49.41%** at the end of March 2022 (March 2021: 43.26%).

MUTUAL BANKING SECTOR

Selected indicators for the South African mutual banking sector

	Mar 2022	Mar 2021	Percentage change (%)
Balance sheet			
Total assets (R millions)	3 257	3 364	-3.18
Gross loans and advances (R millions)	2 473	2 628	-5.90
Profitability			
Return on equity (smoothed) (%)	-3.74	-12.04	68.94
Return on assets (smoothed) (%)	-0.82	-2.36	65.25
Cost-to-income ratio (smoothed) (%)	89.56	104.55	-14.34
Liquidity			
Average daily amount of liquid assets held to liquid assets requirement (%)	485.91	567.50	-14.38
Credit risk			
Gross amount overdue (R millions)	212	199	6.81
Gross overdue to gross loans and advances (%)	8.57	7.55	13.51
Specific provisions to gross amount overdue (%)	35.83	35.64	0.53
General provisions to gross loans and advances (%)	1.62	1.71	-5.26
Capital adequacy			
Capital adequacy ratio (%)	25.45	24.84	2.46

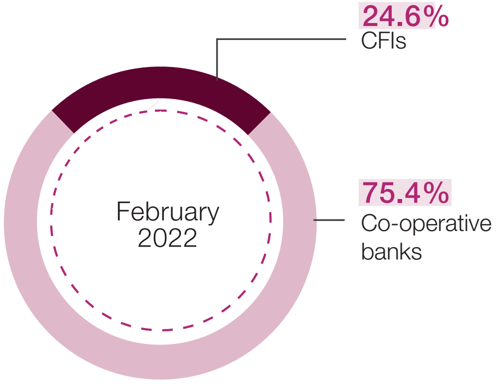
Total mutual banking sector assets decreased by **3.18%** year on year to **R3 257 million** as at the end of March 2022 from R3 364 million as at the end of March 2021, driven by a decrease in gross loans and advances. **Gross loans and advances** contracted by **5.90%** year on year to **R2 473 million** at the end of March 2022 (March 2021: R2 628 million).

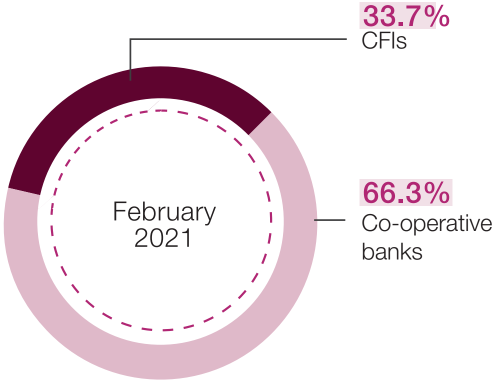
Although the sector was still making losses as at the end of March 2022, the profitability ratios did improve when compared to March 2021. The **total CAR** for the sector increased slightly when compared to the previous period, to **25.45%** (March 2021: 24.84%), mainly due to the increase in net qualifying capital and reserve funds. **Overdue loans** increased by **6.81%** year on year to **R212 million** at the end of March 2022 (March 2021: R199 million). **Specific provisions** as a percentage of the gross amount overdue amounted to **35.83%** (March 2021: 35.64%).

THE CO-OPERATIVE FINANCIAL SECTOR

The co-operative financial sector consisted of **five co-operative banks** and **24 CFIs** as at the end of February 2022. Based on total assets as at the end of February 2022, **co-operative banks** constitute **75.4%** of the total financial co-operative deposit-taking sector and **CFIs** the remaining **24.6%**.

Total co-operative financial sector assets





Selected indicators for co-operative banks and CFIs

	Number		Members		Deposits (R millions)		Assets (R millions)	
February*	2021	2022	2021	2022	2021	2022	2021	2022
Co-operative banks	5	5	5 032	5 356	290	368	333	413
CFIs	24	24	26 488	23 844	129	100	169	135
Total	**29**	**29**	**31 520**	**29 200**	**419**	**468**	**502**	**548**

* The financial year-end of all co-operative banks and CFIs is the last day of February.

Co-operative banks

Selected indicators for South African co-operative banks	Feb 2022	Feb 2021	Percentage change (%)
Balance sheet			
Total assets (R thousands)	413 055	332 632	24.18
Total net loans (R thousands)	246 007	202 495	21.49
Total liabilities (R thousands)	368 230	290 916	26.58
Total equity (R thousands)	44 825	41 716	7.45
Profitability			
Total income (R thousands)	34 897	29 165	19.65
Total expenses (R thousands)	31 498	26 168	20.37
Operating profit/income before taxation (R thousands)	3 925	3 296	19.08
Cost-to-income ratio (%)	68.51	70.16	-2.35
Capital adequacy			
Total capital adequacy ratio (%)	9.99	11.71	-14.69
Asset quality and provisions			
Total delinquent loans (R thousands)	7 008	4 912	42.67
Portfolio delinquent (%)	2.76	2.35	17.45
Total provisions (R thousands)	7 834	6 332	23.72
Provision as % of total loans	3.18	3.03	4.95

The **balance sheet** size of co-operative banks increased by **24.18%** year on year from R333 million in February 2021 to **R413 million** in February 2022. **Net loans** amounted to **R246 million** for the period under review and increased by **21.49%** from the R202 million reported in February 2021.

The sector remained adequately capitalised, with a **CAR of 9.99%** as at February 2022, well in excess of the 6% minimum requirement to be held, but lower than in February 2021 due to overall balance sheet growth. The co-operative banking sector remained profitable, with **income before taxation** at **R3.9 million** as at the end of February 2022. The **cost-to-income ratio** improved to **68.51%** during the period under review due to lower operating expenses (February 2021: 70.16%).

Delinquent loans accounted for **2.76%** of the co-operative banking sector's gross loans as at the end of February 2022 – an increase of **17.45%** when compared to February 2021. The sector continued to provide sufficiently for potential losses in accordance with regulatory requirements during the review period.

Co-operative financial institutions

Selected indicators for South African co-operative financial institutions	Feb 2022	Feb 2021	Percentage change (%)
Balance sheet			
Total assets (R thousands)	134 735	169 368	-20.45*
Total net loans (R thousands)	70 165	74 994	-6.44
Total liabilities (R thousands)	107 415	135 987	-21.01
Total equity (R thousands)	27 320	33 382	-18.16
Profitability			
Total income (R thousands)	20 760	19 461	6.67
Total expenses (R thousands)	20 947	18 530	13.04
Operating profit/income before taxation (R thousands)	-188	931	-120.19
Cost-to-income ratio (%)	96.34	86.63	11.21
Capital adequacy			
Total capital adequacy ratio (%)	12.80	16.79	-23.76
Asset quality and provisions			
Total delinquent loans (R thousands)	12 292	12 475	-1.47
Portfolio delinquent (%)	16.47	16.13	2.11
Total provisions (R thousands)	4 466	2 333	91.43
Provision as % of total loans	6.37	3.02	110.93

* Data excludes one CFI due to non-submission, where the PA has taken enforcement action (refer to page 25).

Despite the fact that one CFI's data was excluded from the above statistics, total assets in respect of **CFIs declined** in 2022, ending the year-end of February 2022 at an annualised **decrease of 20.45%**. **Net loans** amounted to **R70 million** for the period under review, **decreasing by 6.44%** from the R75 million reported in February 2021. The overall decline in the balance sheet for CFIs mainly related to a decline in deposits (funding) in respect of liabilities, which resulted in lower levels of financial investments and deposits at banks on the asset side. The sector remained adequately capitalised, with a **CAR of 12.80%** at the end of February 2022, down from 16.79% at the end of February 2021 (the minimum CAR requirement is 6%).

Profitability declined during the period under review, and income before taxation was negative at **R188 000** in February 2022, down from R931 000 in February 2021, mainly due to overall expenses that exceeded income. The **cost-to-income ratio** deteriorated to **96.34%** in February 2022 from 86.63% in February 2021.

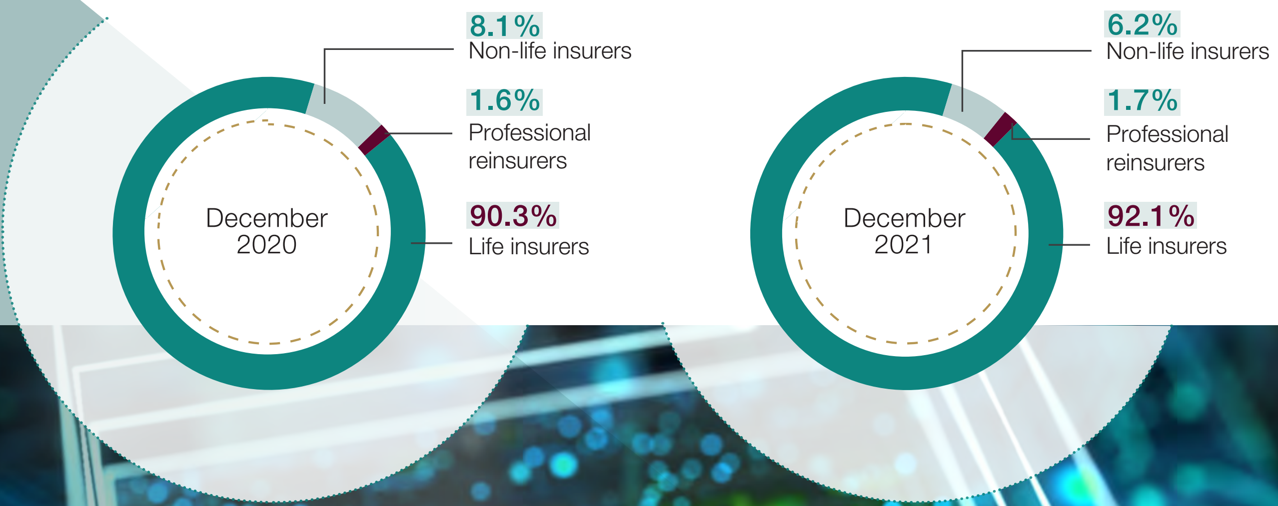
Delinquent loans accounted for **16.47%** of the CFI sector's gross loans as at the end of February 2022, which is a **2.11% increase** from the end of February 2021 when it stood at 16.13% of the sector's gross loans.

INSURERS AND REINSURERS

The income and expenditure figures are based on aggregated data for the four quarters ending December, while the solvency and balance sheet items are as at the end of December.

South Africa's **life insurance sector** is dominated by the **five largest insurers**, which collectively held **72.7%** of the total assets as at December 2021, while the **non-life insurance sector** is dominated by the **eight largest insurers**, which collectively held **57.9%** of gross premiums as at December 2021.

Total insurance sector assets



LIFE INSURERS

Selected indicators for the South African life insurance industry as at the end of December 2021

R millions	Primary	Cell captives	Reinsurers	Total 2021	Total 2020
Income					
Net premiums	579 738	13 946	1 612	595 297	539 051
Investment income	531 855	2 021	103	533 978	183 587
Other income	15 558	23	139	15 720	20 067
Total	**1 127 151**	**15 990**	**1 854**	**1 144 995**	**742 706**
Expenditure					
Benefits	560 327	4 282	1 989	566 598	511 393
Commission paid/received	22 171	1 587	111	23 869	21 505
General expenses	58 035	1 484	252	59 771	53 813
Other acquisition costs	6 506	0	0	6 506	6 371
Other expenses	5 850	1	-4	5 847	8 374
Excess of income over expenditure	**474 261**	**8 635**	**-494**	**482 403**	**141 250**

The **total net premium income** (after deducting premiums for reinsurance) for primary life insurers (those that do not conduct business solely as reinsurers), cell captives and reinsurers was standing at **R595 297 million** for the year ended December 2021 compared to R539 051 million for the year ended December 2020. **Total benefit payments** for the review period were at **R566 598 million** compared to R511 393 million during 2020.

Insurance companies make a significant portion of their income from **investment revenue** (both realised and unrealised). The year under review was no exception, with an **increase of R350 391 million** compared to the previous period.

Selected indicators for assets and liabilities for the life insurance industry

	Total assets		Liabilities		MCR*		SCR**	
R millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Primary	3 695 178	3 226 469	3 343 586	2 895 803	4.2	4.4	1.7	1.9
Cell captives	21 922	19 339	9 945	8 265	4.2	4.4	1.1	1.1
Reinsurers	7 157	9 007	6 032	5 493	1.3	5.3	1.3	1.6
Total	**3 724 257**	**3 254 815**	**3 359 563**	**2 909 562**	**4.2**	**4.4**	**1.3**	**1.6**

* MCR: minimum capital requirement (median)
** SCR: solvency cover ratio (median)

The assets in respect of the **primary life insurers, cell captives and reinsurance industry** stood at **R3 724 billion as at 31 December 2021** compared to R3 255 billion as at 31 December 2020. The majority of these assets was invested in investment funds and equities.

NON-LIFE INSURERS

Selected indicators for the South African non-life insurance industry as at the end of December 2021

R millions	Primary	Cell captives	Captives	Reinsurers	Total 2021	Total 2020
Income						
Gross premiums	136 863	28 506	1 124	3 355	**169 848**	**158 631**
Net earned premiums	87 057	18 022	-123	726	**105 681**	**97 434**
Investment income	11 295	2 230	425	408	**14 358**	**7 966**
Other income	1 049	145	3	21	**1 218**	**1 229**
Total	**99 401**	**20 397**	**305**	**1 154**	**121 257**	**106 629**
Expenditure						
Claims incurred	85 101	9 243	702	229	**95 274**	**58 380**
Commission paid/ received	4 074	70	-175	357	**4 326**	**5 267**
General expenses	26 184	2 765	53	178	**29 180**	**28 404**
Other expenses	2 385	-43	3	-20	**2 325**	**1 779**
Excess of income over expenditure	**-18 342**	**8 361**	**-277**	**410**	**-9 848**	**12 799**
Underwriting profit	-26 494	1 501	-943	413	**-25 522**	**7 038**
Operating profit	-15 198	3 731	-518	821	**-11 164**	**15 004**

The **total gross premiums** of the primary insurers, cell captives, captives and reinsurers in the **non-life insurance industry** were standing on **R169 848 million** for the 12 months ending December 2021.

Underwriting results (where underwriting profit is expressed as a percentage of net earned premiums) stood at **-24.2%** for the primary insurers, cell captives, captives and reinsurers in the non-life insurance industry as at the end of December 2021 compared to 7.2% as at the end of December 2020. A decline in underwriting results was as a result of higher-than-normal claims with regard to business interruption and the July 2021 unrests.

Operating profit, which included investment income, stood at **-R11 164 million** as at the end of December 2021 compared to R15 004 million as at the end of December 2020.

Selected indicators for assets and liabilities for the non-life insurance industry

	Total assets		Liabilities		MCR*		SCR**	
R millions	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Primary	190 542	173 618	132 695	100 425	3.8	4.2	1.8	1.8
Cell captives	33 324	49 960	23 267	30 686	2.9	3.6	1.3	1.6
Captives	26 777	2 904	15 088	508	6.0	11.9	1.7	3.2
Reinsurers	9 847	12 651	7 438	9 803	8.4	5.0	2.1	1.7
Total	**260 490**	**239 132**	**178 488**	**141 422**	**4.9**	**4.6**	**1.7**	**1.8**

* MCR: minimum capital requirement (median)
** SCR: solvency cover ratio (median)

COMPOSITE REINSURERS

Five reinsurers are currently classified as composite reinsurers (writing both life and non-life business).

Summary of the results of South African composite reinsurers as at the end of December 2021

R millions	2021		2020	
	Life	Non-life	Life	Non-life
Income				
Gross premiums	14 514	15 131	11 654	14 654
Net premiums/net earned premiums	10 641	3 401	10 809	1 943
Investment income	798	389	1 350	626
Other income	267	87	-3	-41
Total	**11 706**	**3 877**	**12 155**	**2 610**
Expenditure				
Claims incurred	10 816	2 436	9 526	1 553
Commission paid/received	241	73	603	480
General expenses	734	71	648	90
Other expenses	257	-23	534	74
Excess of income over expenditure	**-343**	**1 320**	**845**	**331**
Underwriting profit		-100		147
Operating profit		289		772

Gross premiums relating to life composites for the 12 months ending December 2021 stood at **R14 514 million** compared to R11 654 million for the 12 months ending December 2020.

Non-life composite gross premiums were standing at **R15 131 million** at the end of 2021 compared to R14 654 million at the end of 2020.

R millions	2021	2020	Percentage change (%)
Total assets	51 396	36 801	39.7
Total liabilities	41 747	25 464	63.9
MCR*	2.7	4.0	
SCR**	1.2	1.7	

* MCR: minimum capital requirement (median)
** SCR: solvency cover ratio (median)

In addition to the 150 insurance entities registered and supervised, the PA also supervises Lloyd's and the Road Accident Fund.

FINANCIAL MARKET INFRASTRUCTURES

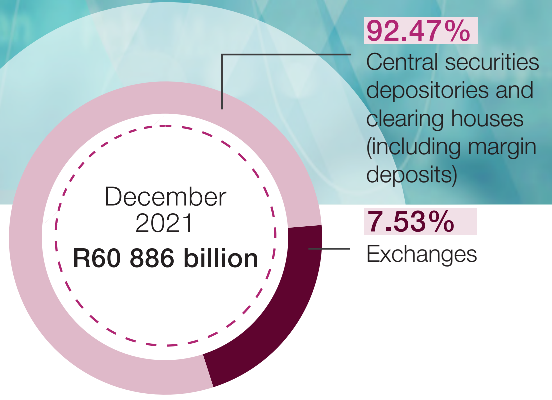
The PA is responsible for the prudential supervision of exchanges, clearing houses, central securities depositories (CSDs), central counterparties (CCPs) and trade repositories. There are currently five registered exchanges, two CSDs and two clearing houses.

LICENSED PRUDENTIAL AUTHORITY-REGULATED MARKET INFRASTRUCTURES

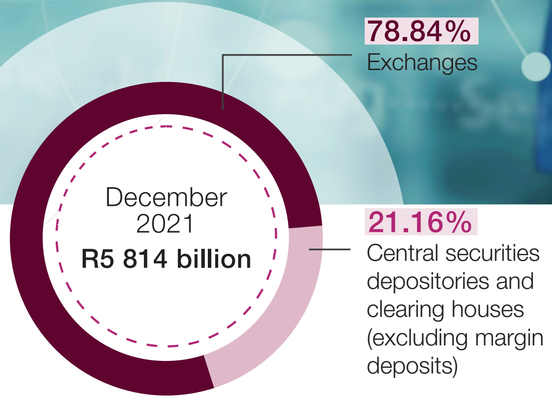
- **Exchanges**
  - JSE Limited
  - A2X (Pty) Limited
  - Cape Town Stock Exchange (Pty) Limited
  - Equity Express Securities Exchange (Pty) Limited
- **Central securities depositories**
  - Strate (Pty) Limited
  - Granite Central Securities Depository (Pty) Limited
- **Clearing houses**
  - Strate (Pty) Limited
  - JSE Clear

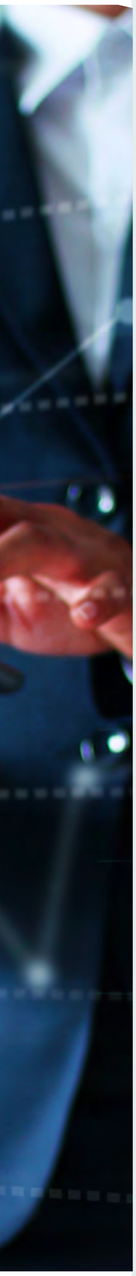
Total assets *including* margin deposits and total assets *excluding* margin deposits were standing at **R60 886 billion** and **R5 814 billion** respectively at the end of December 2021.

Total assets *including* margin deposits



Total assets *excluding* margin deposits





RISK OVERSIGHT

MARKET RISK

AN UPDATE ON PRUDENTIAL REGULATIONS

Margin requirements

'Joint standard 2 of 2020[2] on margin requirements for non-centrally cleared OTC derivative transactions' became effective on 16 August 2021. Supervisory reporting requirements were instituted for selected financial institutions classified as OTC derivative providers (ODPs). These requirements were aimed at progressing supervisory intelligence and the monitoring of OTC derivative exposures in the market.

A joint technical team was formed between the PA and the FSCA to strengthen the regulatory and supervisory efforts on technical, policy and legal matters related to the joint standard.

The PA and the FSCA also published an implementation suite on 16 August 2021, which informed various milestones, including a general implementation submission (limited to ODPs) and a model(s) application submission (limited to ODPs as per the joint standard).

On 1 December 2021, various model applications were received from financial institutions, indicating a strong appetite for the use of model-based approaches when computing various requirements stipulated in the joint standard.

Interbank offered rate transition

The London Interbank Offered Rate (LIBOR) transition remained a significant priority in the international arena for financial sector regulatory and supervisory authorities, standard-setting bodies and market participants during 2021.

The PA undertook measures to conduct detailed studies relating to the impact, initiatives, transition statuses and measures as well as financial sector exposures to LIBOR. The PA released a detailed report[3] which highlighted the results of the studies for industry consumption, and devised a monitoring template as an additional mechanism to elicit institutional-level data from selected market participants. The outcomes from the analysis were presented to the Association for Savings and Investment South Africa (ASISA), the Banking Association South Africa (BASA) and the South African Insurance Association (SAIA). Furthermore, the PA held engagements with selected financial institutions to discuss their transition programmes, LIBOR exposures, the adoption and utilisation of alternative risk-free rates (RFRs) and fallback languages, as well as concerns observed.

The revised framework for the minimum capital requirements for market risk

In January 2019, the BCBS issued a revised framework for the minimum capital requirements for market risk, commonly referred to as the Fundamental Review of the Trading Book (FRTB). This new framework aims to address the structural shortcomings of the market risk framework under the Basel 2 and 2.5 regimes relating to the existing standardised approach and internal models approach (IMA). In July 2021, the PA announced a shift in its implementation of the FRTB to 1 January 2024, as stipulated in GN4/2021. As part of its implementation strategy, the PA released an implementation roadmap[4] and application suite[5] that set out various implementation milestones and application requirements respectively for the PA and banks to address.[6]

The PA released a determination framework to guide banks' assessment of their eligibility related to the use of the simplified standardised approach (SSA).[7] Banks' applications for the SSA were submitted to the PA on 1 March 2022. Applications for the foundational elements of the FRTB and the IMA are due for submission by banks by 1 July 2022. One of the PA's key focus areas for 2022 will be on application assessments.

The revised credit valuation adjustment risk framework

The implementation period for the BCBS's revised credit valuation adjustment (CVA) risk framework was extended to 1 January 2024, as stipulated in GN4/2021. The PA released its interim implementation roadmap (as noted in Prudential Communication 7 of 2021), and continues to engage in various work streams towards implementation.

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2 Joint Standard on Margin Requirements for non-centrally cleared OTC derivative transactions https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-financial/sector-regulation-joint-standards/2020/9975

3 LIBOR Transition Industry Report https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2021/LIBOR-Transition-Industry-Report

4 Prudential Communication 7 of 2021-Revised market and credit valuation risk frameworks - implementation roadmap: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2021/Prudential-Communication-7-of-2021-Revised-market-and-credit-valuation-risk-frameworks-implementation-roadmap

5 Prudential Communication 1 of 2022-Revised Market Risk Framework-Application Suite: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-1-of-2022-Revised-Market-Risk-Framework-Application-Suite

6 As per the schedule reflected in GN4/2021.

7 Draft Determination of the FRTB Simplified Standardised Approach eligibility criteria: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/Banks-Determination/2021/Draft-Determination-of-the-FRTB-Simplified-Standardised-Approach-eligibility-criteria

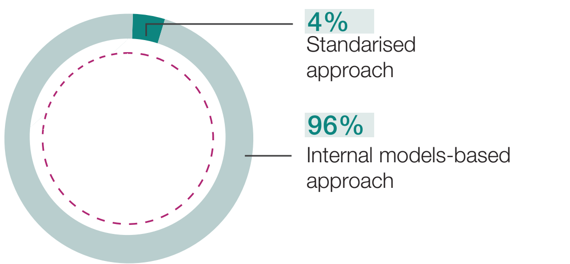
Supervision

Banks

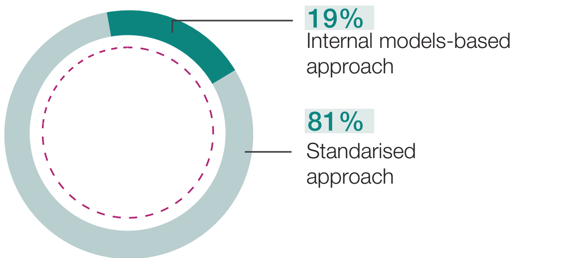
The PA ensured that supervision was tailored so that banks managed their inherent risk profiles prudently and were adequately capitalised while ensuring progress towards the implementation of the joint standards on margin requirements, the FRTB and the CVA in 2024. Banks remained vigilant over economic activity on the back of recurring COVID-19 infections, new variants and vaccine roll-out progress while balancing the needs of their clients. There were concerns over the July 2021 unrest on economic growth as critical infrastructure was damaged. Nevertheless, risk taking improved as markets recovered.

Market risk methodologies applied by banks as at 31 January 2022

Risk-weighted exposure per regulatory approach



Number of banks per regulatory approach



Insurers

The PA continued to strengthen its supervisory programme and to increase the robustness of its regulatory interactions, particularly for insurance companies whose activities generated market risk and counterparty credit risk.

The following initiatives were undertaken:

- conducting an array of institutional engagements, irrespective of institutional complexity and size;
- conducting industry engagements at both the life and the non-life industry segments;
- a complementary analysis with detailed institutional reports;
- the application of analytics to enhance internal reporting tools; and
- the creation of information-sharing forums to forge collaboration, communication and supervisory alignment within the PA.

An important piece of work conducted related to resolving many of the outstanding SAM 2 framework issues. Continuous engagements were held with the industry to clarify matters of the SAM 2 register. Further studies are being undertaken by the industry regarding dynamic hedging and the application of collateral in default risk. The resolution of these matters will result in a consistent application of the insurance prudential standards.

Market infrastructures

The PA continued to deepen its supervisory inspection of MIs through targeted engagements. These interventions sought to create cross-industry knowledge due to the interconnected nature of the financial markets, considering various regulatory initiatives and pending reforms. A key focus during 2022/23 will be the impact on markets due to the 'Joint standard on margin requirements for non-centrally cleared OTC derivative transactions' and its impact on exchange-traded clearing.

Margin requirements – thematic reviews

In the third quarter of 2021, South Africa participated in the FSB's annual OTC derivatives reform assessment. The PA was able to successfully demonstrate the implementation of the collection of counterparty credit risk reforms, being banks' capital requirements for measuring counterparty credit risk and exposures to central clearing parties (implemented on 1 January 2021) and the joint standard which became effective on 16 August 2021. While work on other elements of the OTC derivative market reforms remains underway, such as the implementation of a trade repository and robust central clearing platform(s), from 2022 the PA will commence thematic reviews by testing the effectiveness and realisation of the objectives of the counterparty credit risk reforms (being enhanced risk mitigation for OTC derivative transactions and, more so, the promotion of central clearing for standardised derivative contracts). This initiative would pre-empt and complement such work by the FSB and would serve to satisfy the national reform agenda. These initiatives also take into account the release of Joint Notice 1 of 2022[8], which shifted the immediate dates for the exchange of regulatory margins.

8 Joint Notice 1 of 2022 - Extension of dates in Joint Standard 2 of 2020: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Joint-Notice-1-of-2022---Extension-of-dates-in-Joint-Standard-2-of-2020

CAPITAL MANAGEMENT

Capital buffers

Domestic systemically important banks' assessments in 2021

The PA reviews the systemic importance of banks and banking groups on a continuous basis, and provides written advice to entities identified as domestic systemically important banks (D-SIBs) of their status as well as the higher loss absorbency (HLA) requirement. During the last quarter of 2021, the PA assessed the HLA requirements and communicated the results to the banking sector. The updated HLA results will gain effect on 1 July 2022.

COVID-19 relief measures

The PA implemented some temporary capital relief measures to alleviate the risks imposed by the COVID-19 pandemic and the impact on profitability by issuing D2/2020. D2/2020 has since been replaced by D5/2021, which withdrew the capital relief measures by re-introducing the Pillar 2A requirement.

The distribution of dividends on ordinary shares, and the payment of cash bonuses to executive officers and material risk-takers

In efforts to curb the negative economic impact of the COVID-19 pandemic and to support the resilience of the banking sector, the PA, through GN4/2020, discouraged banks from distributing dividends and bonus payments to material risk-takers. The moratorium on dividend and bonus payments was, however, lifted through GN3/2021. GN3/2021 and thereafter GN2/2022 advised banks to continue being prudent in managing their capital and when making distributions of dividends on ordinary shares and paying cash bonuses to executive officers and material risk-takers.

Capital adequacy

The minimum required CARs, excluding D-SIBs and individual capital requirements which differ between banks, were as follows:

	CET* 1	Tier 1	Total capital
With effect fom April 2020	7.00%	8.50%	10.50%
With effect from January 2021	7.00%	8.50%	10.50%

* Common equity tier

The total value of capital issuances approved during the year ending:

	2021 (R billions)	2020 (R billions)
Additional tier 1	28.5	5.5
Tier 2	23.7	12.2

Reported capital and leverage ratios during the period ending:

	December 2021	December 2020
CET 1	13.77%	12.63%
Tier 1	15.11%	13.56%
Total capital adequacy	18.13%	16.60%
Leverage	6.85%	6.51%

Total value of capital redemptions during the year ending:

	2021 (R billions)	2020 (R billions)
Additional tier 1	6.1	0.0
Tier 2	15.5	15.5

CREDIT RISK

Against the backdrop of the impact of COVID-19 and the July 2021 riots, the total banking credit extension remained muted in 2021, having increased by 1% year on year to R7.42 trillion as at the end of December 2021. As the support measures in respect of restructured credit exposures provided under D3/2020 were being phased out, the active COVID-19 restructured credit exposures trended downwards, reaching R9.6 billion in March 2022.

Various risk-based supervisory engagements were undertaken with the banking industry as the PA increased its monitoring of banks' credit risk management practices, including discussions on the performance of their credit portfolios and credit provision coverage. Emerging trends and other risks such as climate and environmental risks were also discussed and continue to be rigorously monitored by the PA through analysis, regular interactions and meetings with regulated institutions.

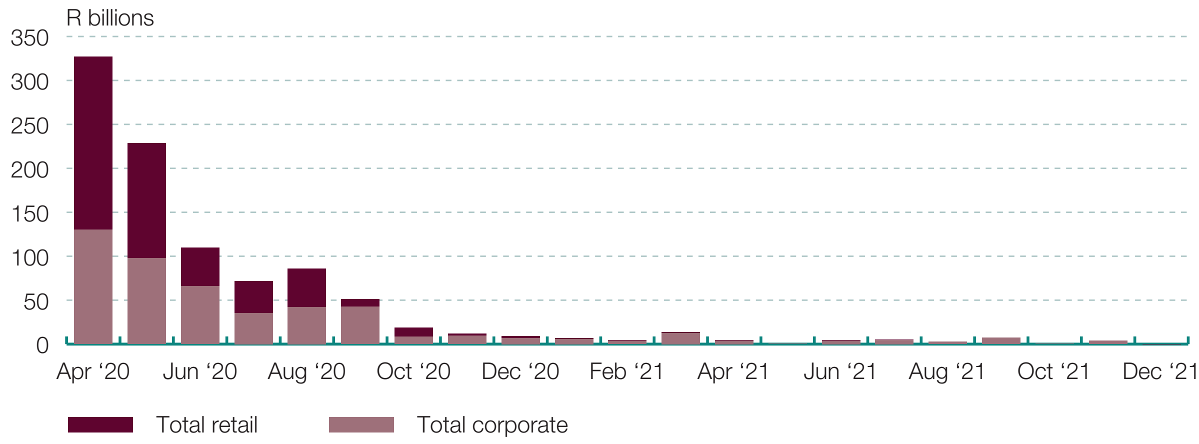
The PA finalised the directive in respect of the LEX framework, which was implemented with the amended regulations incorporating the revised supervisory framework for measuring and controlling large exposures and the TLAC holding standards. Additionally, in preparation for the implementation of the Basel III post-crisis reforms, specifically the revised credit risk frameworks (standardised and internal ratings-based approaches), various discussion documents were published to solicit commentary from industry.

COVID-19 RELIEF MEASURES IN RESPECT OF RESTRUCTURED CREDIT EXPOSURES

- Of the **total COVID-19 restructured credit exposures granted** under D3/2020, the active COVID-19 restructured credit exposures peaked at **R617 billion** during July 2020, which represented **12% of the total corporate and retail credit extension**. The **total value of COVID-19 restructured credit exposures** that were still active under D3/2020 decreased to **R9.6 billion** as at March 2022, which accounted for 0.2% of the total corporate and retail credit exposure.

- The value of COVID-19 restructured credit exposures reported per month **decreased** from **R327 billion** in April 2020 (the majority of retail exposures) to its **lowest** at **R39 million** reported in December 2021 (only retail exposures; zero corporate exposures reported), as can be seen in the figure below.

Value of COVID-19 restructured credit exposures reported per month



D7/2021 was issued on 28 October 2021 to withdraw the temporary treatment of restructured credit exposures due to the COVID-19 pandemic. D7/2021 specified that, for restructured credit exposures granted from 1 January 2022 onwards, the requirements provided under D3/2020 would no longer apply. D3/2020 was withdrawn from 1 April 2022. Therefore, the value of COVID-19 restructures reported for the period January 2022 to March 2022 was zero.

METHODOLOGIES TO CALCULATE THE MINIMUM REQUIRED REGULATORY CAPITAL RELATING TO CREDIT RISK

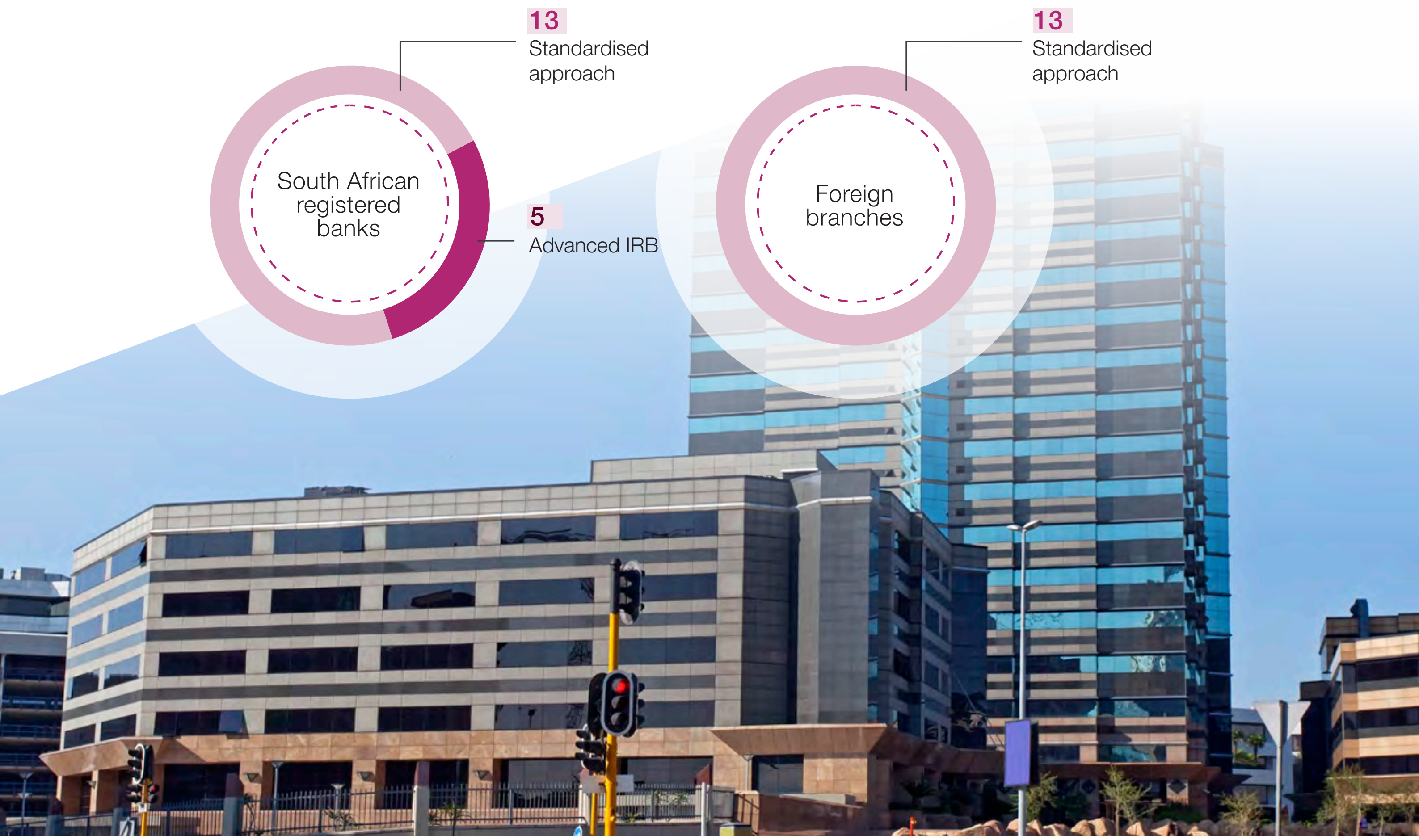
Under the regulatory framework implemented in South Africa, banks may choose from the following three methodologies to calculate their minimum required regulatory capital relating to credit risk:

- the standardised approach, including the simplified standardised approach;
- the foundation internal ratings-based (IRB)* approach; and
- the advanced IRB approach.

* Subject to regulatory approval

The number of banks registered in South Africa using one of these approaches is depicted in the figure below.

Reporting methods applied by banks as at 31 March 2022



MODEL-RELATED REVIEWS

During 2021, the PA received five notifications of non-material changes and 35 submissions of material changes to the ratings systems used by banks applying the advanced IRB approach. The PA continued to follow a robust review and approval process.

D6/2021 was issued in October 2021. It specifies the probability of default (PD) and the loss given default (LGD) floors in calculating the minimum regulatory capital for specialised lending exposures relating to project finance portfolios within banks and banking groups. The affected IRB banks are required to submit a deal-level data template biannually for the PA to assess their compliance with the issued directive.

The PA issued a consultative paper titled *Policy guidance on credit risk models-related matters* to solicit comments on matters related to the IRB minimum requirements, which will form the basis of a guidance note. The paper has two key objectives:

- Communicate the PA's proposed policy positions on various minimum requirements, specifically on its expectations of the evidence that IRB banks should produce when submitting credit risk models for approval prior to implementation.
- Provide an outline of the technical factors relating to the minimum requirements that IRB banks should consider when developing and validating their credit risk models, and the expected documentary evidence that banks should produce to demonstrate compliance.

Every year, banks that have received regulatory approval to use the IRB approach to calculate their regulatory capital for credit risk are required to perform self-assessments to evaluate their compliance with the minimum requirements contained within the Regulations. For all areas of non-compliance identified, banks are required to indicate the materiality of the non-compliance and to include action plans and timelines to remediate the non-compliance. The PA developed an IRB data template and updated the self-assessment template, which will enable the PA to start collecting granular data on credit risk models.

PREPARATIONS FOR THE IMPLEMENTATION OF THE BASEL III POST-CRISIS REFORMS

The revised credit risk frameworks (i.e. the standardised and IRB approaches) will become effective on 1 January 2023. These revisions will disallow the use of the advanced IRB approach for certain asset classes due to concerns over inconsistency in implementation and the comparability of the risk-weighted assets (RWAs) and regulatory capital calculated under this approach.

In preparation for said implementation, the PA undertook various initiatives to assess banks' readiness to implement the revisions as well as the impact thereof on portfolios and regulatory capital. The PA also provided guidance to banks on some of the requirements. These initiatives included the following, for which commentary was also solicited from industry:

- proposals contained in a discussion document on the modelling cut-off threshold, which will demarcate those corporate exposures that will remain on the advanced IRB approach and those that will migrate to the foundation IRB approach;
- proposals for the different treatment of exposures to local government and SOEs (given the low default nature of these portfolios, IRB banks have challenges in developing robust credit risk models. This, in turn, results in undue variabilities and incomparable RWAs among banks. In this regard, the PA intends to introduce some constraints in the modelling of these portfolios);
- the IRB data and updated self-assessment templates, which will enable the PA to continuously monitor the implementation of the revisions and to identify areas of inconsistencies that may warrant additional policy interventions; and
- a discussion paper on non-rand-denominated threshold amounts (the revised credit risk approaches contain various thresholds specified in euros which, among other things, demarcate between retail and wholesale exposures as well as deposits, the firm size adjustment ranges for small- and medium-sized enterprises (SMEs), and the asset value correlation factor. Banks have been invited to provide commentary on this paper, wherein conversion rates have been proposed for these non-rand-denominated thresholds, prior to finalisation).

INSURANCE RISK

In September 2021, the PA published a discussion paper on its Government Bond Curve Review for industry comment. The PA received comments, which are being considered and incorporated, where appropriate, in finalising the discussion paper. During this financial period, the PA continued to publish the monthly Government Bond Curve and Equity Symmetric Adjustments, and it conducted a review of the constituent data set.

The PA received 17 microinsurance licence applications in the year under review. From this total, seven applications were approved and published on the PA website while 10 are still under consideration. The PA considers sufficient eligible capital and realistic assumptions as important when assessing these applications. It continues to encourage market participants in the microinsurance industry to apply to become licensed to write microinsurance business.

The PA considered and approved two applications for the use of the accounting consolidation method to assess insurance group capital adequacy, and one is currently under consideration. Another application is currently being considered for approval to use an iterative approach in determining the solvency capital requirement using the technical provisions, including the risk margin.

In consultation with the insurance industry, the PA finalised and published the following GNs during the period under review:

- FSI GN 4: Calculation of the solvency capital requirement using the standardised formula. This was a new GN with a chapter for stressing incurred but not reported (IBNR) provisions for life insurance obligations; and
- FSI GN 2.2: Valuation of technical provisions. Chapter 10 was added to the GN: Iterative approach for determining the SCR using the technical provisions, including the risk margin.

GNs assist insurers with their compliance with the requirements of the FSI prudential standards.

The PA also continued to work on providing industry guidance on the new insurance prudential standards. To this end, the PA held various engagements with industry bodies such as the Actuarial Society of South Africa (ASSA), SAIA and ASISA. In the ASSA sessional meetings, the PA presented key features of the insurance industry experience for 2020 based on information submitted in the regulatory returns in terms of the Insurance Act.

RISKS RELATED TO ASSET AND LIABILITY MANAGEMENT

Although South Africa's economy began recovering from the pandemic outbreak in 2021, the growth predictions imply that the economy will develop slowly in line with global growth and will continue to be vulnerable to various risks.

BANKING

Liquidity risk

Liquidity is the ability of a bank to fund increases in assets and meet obligations as they become due without incurring unacceptable losses. However, the fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets.

D4/2021 was published in April 2021, mandating D-SIBs to conduct externally facilitated liquidity simulations every four years. The goal is to simulate stress events that will allow banks to test their contingency and recovery plans, as well as for the PA to observe and assess how bank management responds to a crisis and a bank's overall preparedness for a crisis.

Furthermore, D8/2021 was released, which relates to the withdrawal of the temporary relief measure related to the LCR. The spread of COVID-19 has had an ever-increasing impact on global economic activity and put enormous strain on the local economy during 2020. Therefore, as part of the PA's response to the expected negative impact of COVID-19 on liquidity in financial markets, the LCR requirement was reduced from 100% to 80% with effect from 1 April 2020 to mitigate the potential liquidity strain on the banking sector and to assist in sustaining the local economy while maintaining financial stability.

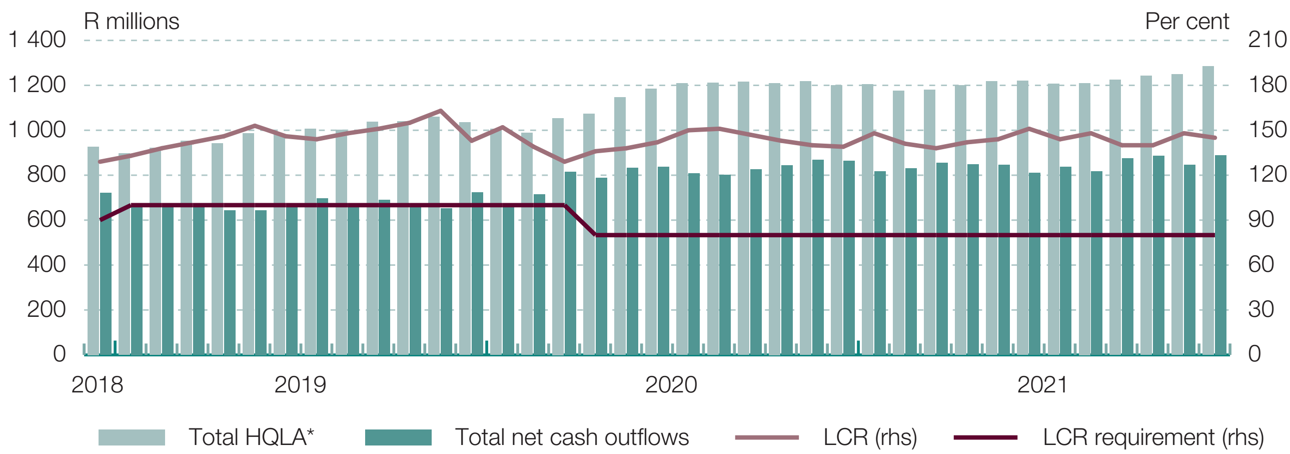
Financial markets have since returned to a state of relative normalcy, and banks now have sufficient liquidity due to an increase in deposits. As a result, it was decided that the LCR minimum requirement would be phased out in the following manner:

Phasing out the LCR minimum requirement

With effect from:	Minimum LCR
1 January 2022	90%
1 April 2022	100%

The figure below demonstrates the strong liquidity resiliency of the total banking industry with a LCR ratio of 145% for December 2021.

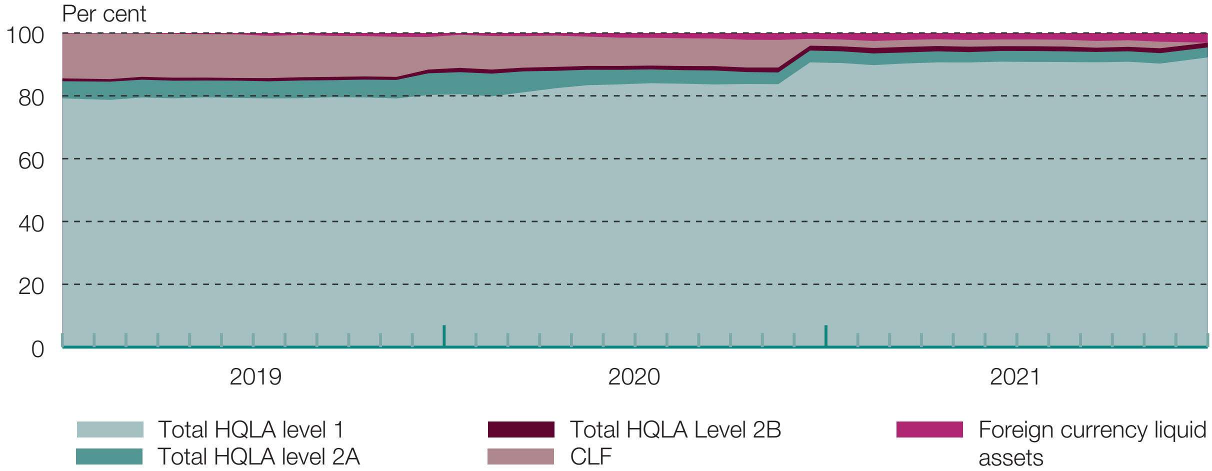
LCR of the total banking industry



* High-quality liquid assets

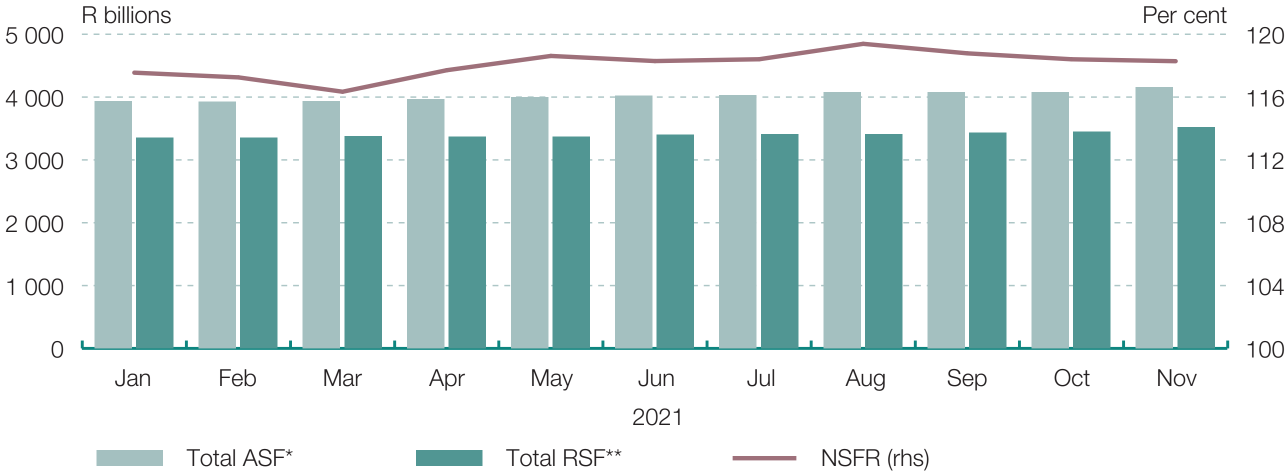
In 2019, banks were informed that the committed liquidity facility (CLF) would be discontinued in December 2021 due to South Africa's inability to demonstrate a shortage of high-quality liquid assets (HQLA) in the domestic market. As a result, banks were allowed access to the restricted-use committed liquidity facility (RCLF). The LCR framework makes provision for the RCLF to be made available by the central bank, and it forms part of the level 2B HQLA. There have been no applications for the RCLF to date. The figure below illustrates the HQLA portfolio's composition.

HQLA portfolio's composition



In 2018, South Africa implemented the NSFR that requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The minimum NSFR requirement is 100%. The figure below is a depiction of the NSFR ratios of the total banking industry during 2021.

NSFR of the total banking industry



* Available stable funding
** Required stable funding

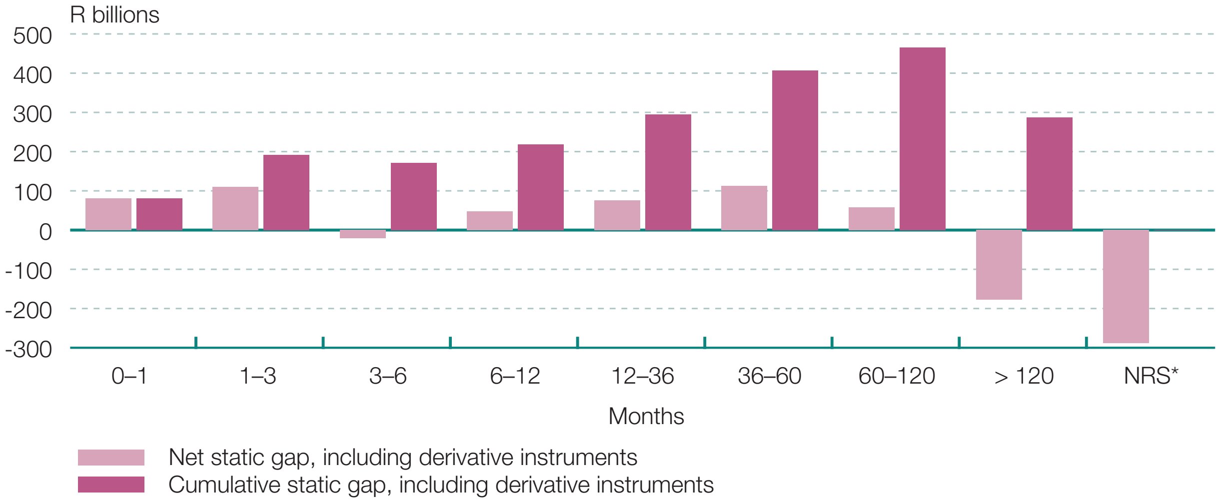
On 14 February 2022, D1/2022 was published. It replaced D11/2014 and provided banks with more guidance on calculating their consolidated LCR for disclosure purposes. D1/2022 was released with the purpose of ensuring comparable numbers among banks of their publicly disclosed LCRs.

Interest rate risk in the banking book

Interest rate risk in the banking book (IRRBB) refers to the exposures a bank has to changes in interest rates and the timing of such changes. Poorly managed or excessive IRRBB can be a threat to the earnings and capital of a bank. For this reason, the IRRBB measuring methodology focuses on two simplified metrics – namely the economic value of equity (EVE) and the net interest income (NII) – that cover two different perspectives of a comprehensive valuation approach of interest rate risk.

From a total bank perspective, many banks are asset-sensitive or have a positive repricing gap, suggesting that NII growth will be favourable during an increasing interest rate cycle. For example, the graph below illustrates the total bank repricing gap for December 2021.

Total bank repricing gap



* Non-interest rate sensitive

The PA continues implementing the standards relating to IRRBB, as published by the BCBS in 2016. The current focus of this work is on how best EVE can be incorporated into the regulatory framework. Subsequent to the first round of public consultation, the PA conducted field tests of the proposed amendments to the BA 330 form.

Alternative reference rate

In 2020, the SARB announced that the Johannesburg Interbank Average Rate (Jibar) would cease to exist as it did not comply with the IOSCO Principles for Financial Benchmarks. The Market Practitioners Group (MPG), a joint public-private body with the mandate to facilitate decisions on the choice of an alternative reference rate for financial contracts, has identified the South African Rand Overnight Index Average Rate (ZARONIA) as the most appropriate, near risk-free rate that should replace Jibar. ZARONIA forms part of a suite of interest rate benchmarks that will be administered by the SARB, which are specified in the draft statement of methodology and the policies governing the SARB-administered interest rate benchmarks published in June 2020. ZARONIA aims to measure the interest rate at which rand-denominated overnight wholesale funds in South Africa are obtained by banks.

At the beginning of 2022, the SARB issued a quantitative survey to market participants (banks, life insurance companies and fund managers) to determine their respective Jibar exposures. Across the board, most exposures tended to be concentrated on financial products linked to the Jibar three-month tenor rate. Any assessment of the repricing gap's potential impact is premature, as it will be determined by the rate of market adoption and the smoothness with which new and old items are transitioned from Jibar to ZARONIA (i.e. both the asset and the liability side of market participants' exposures will need to develop simultaneously to limit the potential for repricing gap risks).

At the end of January 2022, the MPG constituted three additional work streams (i.e. Derivatives, Legal, and Accounting and Tax) to evaluate the potential impact of a Jibar transition and raise any potential issues that they foresee arising from the transition process.

INSURERS

The PA continued analysing the liquidity sources and cash-flow forecast information received from the life insurance industry, and engaged the industry bilaterally on the analysis results. This work culminated in the publishing for consultation of a proposed liquidity risk guidance notice for all insurance companies as well as a proposed revised liquidity risk return for the life insurance industry. The PA engaged with the industry through bilateral meetings and industry bodies (ASISA and SAIA) on the draft guidance notice. The PA also published the initial proposed revised liquidity risk return for life insurers, and is in the process of engaging the industry on the comments received.

In 2021, thematic reviews on asset and liability management (ALM) matters focused on life insurers.

MARKET INFRASTRUCTURES

The PA held ALM thematic reviews with MIs to understand the nature of liquidity risk for the sector. It also gathered and analysed data on the sources of MI funding and cash flows to help enhance the existing liquidity risk return.

The PA approved the revised liquidity risk return for FMIs. The return was shared with the industry for completion. The revised return will ensure that the PA can appropriately supervise MIs from a liquidity risk perspective. In addition, the ALM team was involved in the review of MICAPs for MIs, the review of licence applications, and the development of the recovery planning standard for MIs.

OPERATIONAL RISK

Although the July 2021 riots resulted in significant losses from damage to physical assets, execution delivery and process management remained the largest contributors to OR losses experienced by banks.

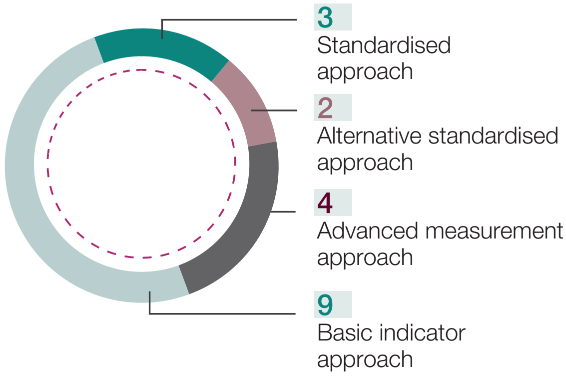
Following the publication of a revised document by the BCBS in March 2021 relating to OR titled *Revisions to the principles for the sound management of operational risk (PSMOR)*, the PA undertook to repeal GN2/2013 and replace it with D9/2021, directing banks to comply with the revised principles.

The banking industry continued to prepare for the new standardised approach (NSA), currently planned for implementation in South Africa at the start of January 2023. The 31 registered banks still followed the regulatory approaches listed below to calculate the minimum required capital for OR:

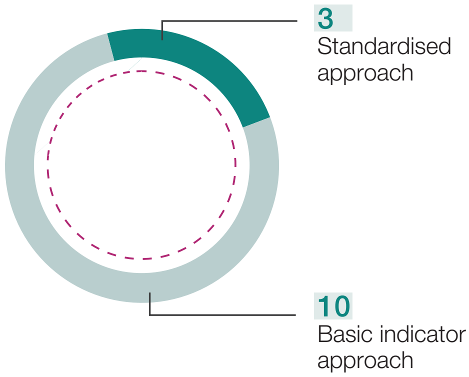
- the basic indicator approach (BIA);
- the standardised approach;
- the alternative standardised approach (ASA); and
- the advanced measurement approach (AMA).

The 31 registered banks, using the afore mentioned approaches, are depicted below.

South African-registered banks



Branches of foreign banks



The PA continues to monitor the operational risk capital reported by the different insurers. The solo quarterly Quantitative Reporting Template (QRT) was updated to include the annual SCR 4, which focuses on the OR capital held by insurers. The objective of having a single reporting template for both annual and quarterly QRTs is to increase the oversight and analysis of OR by the PA. Furthermore, the solo quarterly QRT was updated to include the OR loss reporting template. This will assist the PA in monitoring any developing adverse trends in the insurance sector.

At a minimum, MIs hold regulatory capital that is equal to six months of operating expenses to mitigate against operational and other risks MIs are exposed to.

OPERATIONAL RISK REVIEWS

The OR prudential meetings held during the period under review focused on the following themes: OR strategic objectives and governance, OR tools, third-party and outsourcing arrangements, climate risk, feedback on the Operational Risk Maturity Assessment Questionnaire (ORMAQ) and the NSA.

The PA observed the following from the reviews:

- Vacant roles over extended periods of time, key man dependencies and inadequately resourced OR functions highlighted the importance of succession planning.
- There is a deterioration in the stature and independence of the risk function in some insurance entities, further supporting the extended coverage of the 2022 ORMAQ to include PA-regulated institutions (excluding co-operative banks and CFIs) to gather additional insights on these areas.
- Enhancements in OR excellence and resilience through OR maturity assessments were conducted to identify areas that required intervention within the banking industry.
- There is a move towards the repositioning of the risk management structures into financial and non-financial risks in line with international trends. The PA will continue to engage with the banking industry to ensure that the stature of OR as a Pillar 1 risk type is adequately maintained and coverage preserved. The dilution or removal of OR as a stand-alone risk type under the bigger non-financial risk umbrella is not supported by the PA.
- New IT systems were implemented by banks to support the management of OR. The use of OR systems by MIs and insurers requires maturity and in some cases migration to appropriate technology in order to create adequate integration of the various elements of OR.
- The adoption of fit-for-purpose operational risk management frameworks (ORMFs) and supporting policies requires significant improvement for insurers and MIs, as the PA has noted the absence of some core components of ORMFs during its engagements with these institutions. Where institutions are part of a financial group, the PA cautioned against the blind adoption of group practices as these might be misaligned to the size, nature and risk context of the supervised institutions.
- Heightened cyber-incidents and data leakages resulted in institutions performing cyber-risk assessments with their third-party service providers to verify their continued compliance with the outsourcing and third-party security management requirements.
- There is an integration of climate risk into governance structures and frameworks, with enabling tools to manage its effects and the advancement of sustainability.
- The NSA remained top of mind for the banking industry, with significant progress made in the preparation for the implementation date.

OPERATIONAL RISK MANAGEMENT

Banks submitted information relating to the maturity of their OR management practices. The ORMAQ covered commercial banks, including foreign branches but excluded mutual banks and CFIs. The results revealed that larger local and foreign banks showed a mature OR management process. This was expected, as OR management has been embedded over a longer period of time. Other issues were highlighted for local, new and smaller foreign branches, which the PA continued to track as focus areas in its ongoing supervisory programme.

Following the publication of a revised PSMOR by the BCBS, the PA undertook to update the ORMAQ. The ORMAQ was issued to banks, insurers and MIs at the end of February 2022, and feedback from industry was due by the end of May 2022. The questionnaire was first issued in November 2020.

INFORMATION TECHNOLOGY RISK

Operational resilience received heightened focus on an international and national level. The BCBS issued a paper on the principles of operational resilience for the banking industry, while the IAIS is also working on a similar document for the insurance industry. The PA continued to discuss the capacity and capabilities to manage operational resilience with regulated financial institutions. The financial sector was able to operate and adjust its business continuity requirements in normal and stress periods as the environment constantly changed.

The PA continued its annual assessment of material outsourced and third-party service providers to obtain a view of banks' reliance and concentration on service providers. The results indicated that, in many instances, there were alternative third-party providers for key functions, to reduce single points of failure in the eco-system and to remain resilient. Furthermore, regulated financial institutions were required to test their key systems periodically to ensure reliability of system recoverability.

The PA maintained its membership at the Operational Risk Subcommittee as well as the Cybersecurity Resilience Subcommittee of the Financial Sector Contingency Forum where various aspects of a systemic nature are discussed. Membership with international bodies such as the BCBS's Operational Resilience Group, the IAIS's Operational Resilience Task Force and the Information Technology Supervisors Group assisted the PA in aligning with global IT supervisory practices and experiences. The PA also engages with institutions through ASISA, BASA and SAIA.

The PA participated in the development of an e-booklet on regulatory practices published by the BRICS[9] Rapid Information Security Channel (BRISC) as well as the publication on the impact of new technologies on cybersecurity by the Commonwealth in collaboration with the Assembly of Governors of the Association of African Central Banks.

A cyber pilot exercise was concluded as part of the FSAP by the IMF. Some of the deficiencies identified were addressed through the implementation of various regulatory and supervisory practices.

Incidents reported through D2/2019 ('Material IT and cyber incidents reporting') issued to the banking industry, the Governance and Operational Standards for Insurers (GOI) 3.2 as well as the Notice in terms of section 6(3)(d) of the FMA to all licensed MIs remained relatively stable during the reporting period. The information is continually being analysed to identify trends.

9 Brazil, Russia, India, China, South Africa

The PA developed the following IT-related standards to ensure conformance across all sectors:

- The draft 'Joint standard on information technology governance and risk' (subsequently changed to the 'Joint standard on information technology risk management') was issued to the industry for comment in June 2021. It will assist financial institutions to implement robust governance and risk management systems.
- The draft 'Joint standard on cybersecurity and cyber resilience' was issued for comment in December 2021. It will assist financial institutions to strengthen their ability to anticipate, adapt, withstand, contain and rapidly recover from cyber-incidents.

The Directive on the Principles for Operational Resilience (D10/2021) was issued to the banking industry in December 2021. It is based on the recently issued BCBS document titled *'Principles for operational resilience'*. D10/2021 will assist financial institutions to implement cohesive strategies that link business, operational and digital resilience.

OBSERVATIONS FROM INFORMATION TECHNOLOGY RISK PRUDENTIAL MEETINGS

Some of the key observations from the IT risk prudential meetings were as follows:

While the governance and functional structures for larger institutions were noted to be adequate, smaller institutions had limited resources to manage risk through the second line of defence. These institutions were encouraged to ensure that they provided both execution and oversight of the IT risk management function.

Project management at small institutions remained a concern and was continually monitored as COVID-19 continued to pose delivery challenges.

Most institutions continued to improve their cybersecurity and cyber-resilience practices such as user access management and information security awareness programmes.

The financial institutions showed improvement on their operational resilience as most were resizing their offices due to remote-working implications.

INFORMATION TECHNOLOGY RISK QUESTIONNAIRE

The PA issued a targeted IT risk questionnaire to banks, insurers and MIs during the year under review. This was to provide a view of the IT risk posture of institutions and the sector. The topics covered included IT strategy, IT governance, IT portfolio management and IT operational resilience. An analysis of the questionnaire will be concluded during the first half of 2022.

RISK DATA AGGREGATION AND RISK REPORTING

Banks continued to show signs of deficiencies in the implementation of Principles 1 and 2 related to governance as well as data architecture and IT infrastructure respectively. However, efforts to spearhead implementation were resulting in tangible progress towards full compliance. Banks must continue to utilise a holistic approach in governing how their data is managed throughout the organisation.

The implementation of the Principles for Effective Risk Data Aggregation and Risk Reporting (RDARR), which were issued by the BCBS, referred to as the BCBS 239 Principles, continued to be a priority for the PA, the aim being to ensure the successful implementation of these principles across the banking industry. Even though many banks are still non-compliant, there has been some traction in terms of banks advising that they are now fully compliant.

RISK DATA AGGREGATION AND RISK REPORTING REVIEWS

The RDARR prudential meetings conducted during the period under review focused on the following themes: data management capabilities, an adequate project management approach to enable a smooth and structured implementation of the BCBS 239 Principles, cloud-based solutions, data-driven risk management capabilities and data quality monitoring.

The PA observed the following during engagements with banks:

Changes in business models, new systems and infrastructure upgrades have resulted in technical difficulties and new data reliability issues, which require banks to adopt an agile approach.

There is a lack of proper planning in terms of managing and retaining the talent pipeline with specialist or scarce skills.

Banks are unable to adapt to authoritative and trusted sources for risk data due to legacy systems, fragmented data platforms and inadequate architectural solutions.

There are insufficient data quality monitoring capabilities to ensure data accuracy, completeness and integrity of risk data.

Consulting firms continue to provide overall support to financial institutions in achieving regulatory compliance as well as after compliance.

There is a lack of clarity and forward planning on how regulatory compliance will be retained and ameliorated under a business-as-usual environment.

Effective management of risk data is critical to enable banking entities to continue meeting their overall business objectives while remaining compliant.

Banks are struggling with simplifying data processes that drive responsiveness and adaptability in normal times and times of stress/crisis.

Banks are continuing to struggle with attaining an appropriate balance between manual processes and automation due to an over-reliance on manual processes and end-user computing.

Reporting under stress conditions became critical during the COVID-19 pandemic period. Progress has been made by some banks in the articulation of their expectations in line with their risk appetites during both normal and stress periods. Regrettably, other banks still do not understand nor articulate this appropriately.

There is inadequate planning on how new regulatory requirements and changes would impact on banks' compliance with the BCBS 239 Principles.

THE PRUDENTIAL AUTHORITY'S FINANCIAL ACCOUNTS

For further details, please refer to the SARB Annual Report which can be found at https://www.resbank.co.za/Publications/Reports/Pages/Annual-Reports.aspx.

The PA is the regulator responsible for setting policy and prudential regulatory requirements, and the supervisor responsible for overseeing compliance with the regulatory requirements of the financial institutions providing financial products, securities services and MIs in South Africa. Established on 1 April 2018 in terms of the FSR Act, the PA is a juristic person operating within the administration of the SARB.

BASIS OF PREPARATION

In terms of section 55 of the FSR Act, the SARB is required to prepare financial accounts for the PA for each financial year, in a manner that reflects the direct costs that accrue to the PA. As the PA is made up of four departments falling within the administration of the SARB, it follows the same financial reporting framework and basis of preparation as the SARB.

LEVIES

Levies will be charged once the new Financial Sector and Deposit Insurance Levies Bill is promulgated, giving the PA the necessary powers to collect levies from the supervised entities, as envisaged in the FSR Act. Levies will serve as the basis for recovering the direct operating costs of running the PA, and will not be in return for any direct goods or services supplied.

FEES

Fees are 'transaction-based' and are charged to fund the PA's performance of specific functions under the FSR Act and other relevant financial sector laws.

PENALTIES

Penalties are raised for non-compliance by persons within the regulated sector should they be found guilty of contravening a financial sector law or an enforceable undertaking accepted by the PA. The PA deducts from this total all the costs incurred in making and enforcing the administrative penalty order. The balance, if any, after applying the deduction, is paid into the National Revenue Fund.

The SARB also has the responsibility, in terms of the FIC Act, to ensure that banks and life insurance companies comply with the FIC Act. The SARB has the authority, in terms of section 45c of the FIC Act, to impose administrative sanctions on these entities if and when they fail to comply with a provision, order, determination or directive made in terms of the FIC Act. The SARB issues notices with said penalties to the relevant entities, but does not account for the penalties in its financial statements, as the penalties imposed are paid directly to the National Revenue Fund. Total penalties issued on behalf of NT in this regard amounted to R12.8 million in the year ended 31 March 2022 (the year ended 31 March 2021: R200 000).

PERSONNEL AND OPERATING COSTS

Personnel and operating costs consist of only the direct costs related to the administration of the PA. Although the PA uses the various support departments of the SARB and incurs costs for these services (e.g. legal services, IT, risk management and compliance, internal audit, human resources, international economic relations and policy, security and facilities), these costs are borne by the SARB.

AMOUNT FUNDED BY THE SOUTH AFRICAN RESERVE BANK

This consists of both direct and indirect expenses (net of recoveries) borne by the SARB for the administration of the PA.

ANNEXURES

LICENCE APPLICATIONS

LICENCE APPLICATIONS: 1 APRIL 2021 – 31 MARCH 2022

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks (Table 1)	1	4	0
Branches	0	1	0
Representative offices	0	3	1
CFIs (Table 2)	2	4	1
Insurers (Table 3)	20*	18	1

* Due to a timing issue, this number excludes Safire Insurance Company Limited which was licensed during the 2020/21 financial period.

FINANCIAL INSTITUTIONS REGISTERED DURING 2021/22

Table 1: Banks/mutual banks/co-operative banks registered during 2021/22
Mutual banks
Barko Mutual Bank – application for authorisation to establish a mutual bank in terms of section 10 of the Mutual Banks Act granted on 10 December 2021

Table 2: CFIs registered during 2021/22	
The People's Stokvel Financial Co-operative	**22 July 2021**
NEHAWU* Savings and Credit Co-operative Limited	**18 August 2021**

* National Education, Health and Allied Workers' Union

Table 3: Insurers registered during 2021/22	
The PA licensed 13 insurance-controlling companies following their designation as insurance groups:	
FirstRand Insurance Holdings Limited	**31 May 2021**
Hollard Holdings (Pty) Limited	**31 May 2021**
Vodacom Financial Services (Pty) Ltd	**1 June 2021**
Clientele Limited	**8 July 2021**
Telesure Investment Holdings Limited	**10 August 2021**
Assupol Holdings Limited	**20 August 2021**
Lewis Stores (Pty) Limited	**23 August 2021**
Momentum Metropolitan Holdings Limited	**23 August 2021**
SAHL Investment Holdings (Pty) Limited	**14 September 2021**
Hannover Reinsurance Group Africa (Pty) Ltd	**17 September 2021**
Fedgroup Financial Holdings (Pty) Limited	**6 October 2021**
Lomhold (Pty) Limited	**28 October 2021**
Bryte Africa Group Limited	**2 February 2022**
Seven new insurance licences were issued in terms of section 23 of the Insurance Act:	
Guardrisk Microinsurance Limited	**12 April 2021**
Everest Corporate Life Limited	**18 May 2021**
Nyaradzo Financial Services	**4 August 2021**
Family Expenses Southern Africa (Pty) Limited	**9 November 2021**
Bryte Micro Insurance Company Limited	**14 December 2021**
Royal Financial Services (Pty) Limited	**19 January 2022**
Linar (Pty) Limited	**22 February 2022**

VARIATION OF LICENSING CONDITIONS

The following insurers were approved for variation of licensing conditions in terms of section 26 of the Insurance Act:	
Shield Life Limited	**14 May 2021**
The Standard General Insurance Company Limited	**31 May 2021**
The Smart Life Insurance Company Limited	**19 August 2021**
The Standard General Insurance Company Limited	**20 October 2021**

DEREGISTRATIONS OR THE WITHDRAWAL OF LICENCES

The following bank controlling company was deregistered in terms of section 47 of the Banks Act:	
GroCapital Holdings Limited	**13 July 2021**

The following CFIs were deregistered in terms of section 40D of the Co-operative Banks Act:	
Londoloza Co-operative Financial Institution	**14 April 2021**
Black Capital Financial Services	**4 May 2021**
Mzansi Rural Arts and Craft Financial Services Co-operative	**13 December 2021**

INSURERS

Licence withdrawals:	
Home Loan Guarantee Company NPC	**28 April 2021**
Old Mutual Alternative Solutions Limited	**28 June 2021**
Hannover Reinsurance Africa Limited	**6 August 2021**

The PA published the list of insurers previously licensed under the Long-term Insurance Act 52 of 1998 and the Short-term Insurance Act 53 of 1998 which were not converted into having a licence to conduct insurance business in terms of the Insurance Act.

The list of insurers not converted to conduct insurance business is available here: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-insurers/pa-post-insurance/act-notices/2021/Notice-Insurers-not-converted-to-a-license-to-conduct-insurance-business-in-terms-of-the-Insurance-Act-18-of-2017.

NAME CHANGES

Old name	New name	Effective date
Grobank Limited	Access Bank South Africa Limited	**7 May 2021**

TRANSFER OF BUSINESS FINALISED

Transferor insurer	Transferee insurer	Effective date
Hollard Insurance Company Limited	Dotsure Limited	**25 June 2021**
Relyant Life Assurance Company Limited	The Standard General Insurance Company Limited	**30 June 2021**
Momentum Insurance Company Limited	Momentum Short-Term Company Limited	**1 July 2021**
Shoprite Insurance Company Limited	Centriq Insurance Company Limited and Centriq Life Insurance Company Limited	**6 December 2021**
Guardrisk Insurance Company Limited	Guardrisk Life Limited	**31 January 2022**
Guardrisk Insurance Company Limited	Guardrisk Microinsurance Limited	**31 January 2022**

SIGNIFICANT OWNER APPLICATIONS: FINANCIAL YEAR 2021/22

Received	Approved	In progress	Declined	Withdrawals
23*	15	5	1	2

* This number includes the applications for increases in ownership from existing significant owners.

MARKET INFRASTRUCTURES

The FSCA is the licensing authority for MIs, in concurrence with the PA. The PA concurred on the following licensing activities for MIs:

NAME CHANGES

Old name	New name	Effective date
4 Africa Exchange (Pty) Limited	Cape Town Stock Exchange (Pty) Limited	**18 November 2021**

SUSPENDED LICENCES

Suspension licences	Effective date
ZAR X (Pty) Limited	**20 August 2021**

INSPECTIONS OF ILLEGAL DEPOSIT-TAKING SCHEMES

Inspections relating to illegal deposit-taking schemes					
Year/period	Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under investigation
2021/22	9	6	3	1	8

Inspections relating to unlicensed insurance business					
Year/period	Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under desktop assessment/ investigation
2021/22	70	7	63	40	30

FINANCIAL PENALTIES FOR NON-COMPLIANCE WITH THE FINANCIAL INTELLIGENCE CENTRE ACT 38 OF 2001

BANKS

Name	Non-compliance	Administrative sanction
Deutsche Bank AG – Johannesburg Branch (Deutsche Bank)	The financial penalty imposed on Deutsche Bank stemmed from the following breaches: • failure to comply with the provisions outlined in section 21B of the FIC Act and in its risk management and compliance programme (RMCP) in terms of section 42 of the FIC Act; • failure to comply with customer due diligence and enhanced due diligence requirements in terms of sections 21 to 21H of the FIC Act; • failure to comply with record-keeping requirements in terms of sections 22 to 24 of the FIC Act; and • failure to comply with the governance of AML/ CFT compliance requirements in terms of section 42A(2) of the FIC Act.	The following administrative sanctions were imposed: • a financial penalty of R38 million and a caution not to repeat the conduct which led to the non-compliance. However, R10 million of the R38 million financial penalty has been suspended, in terms of section 45C(4)(c) of the FIC Act, for a period of three years from 26 February 2021, subject to Deutsche Bank adhering to certain conditions imposed by the SARB.

The administrative sanction has been published and is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/SARB-sanctions-Deutsche-Bank-AG-Johannesburg-branch.

INSURERS

Name of institution	Non-compliance	Administrative sanction
Discovery Life Limited (Discovery Life)	The financial penalty imposed on Discovery Life stemmed from the following breaches: • failure to comply with cash threshold reporting (CTR) requirements in terms of section 28 of the FIC Act; • failure to comply with RMCP requirements in terms of section 42 of the FIC Act; • failure to comply with AML/CFT training requirements in terms of section 43 of the FIC Act; and • failure to comply with the governance of AML/CFT compliance requirements in terms of section 42A(2) of the FIC Act.	The following administrative sanctions were imposed: • a financial penalty of R2 million and a caution not to repeat the conduct which led to the non-compliance. However, R500 000 of the R2 million financial penalty has been suspended, in terms of section 45C(4)(c) of the FIC Act, for a period of three years from 26 February 2021.
Fedgroup Life Limited (Fedgroup)	The financial penalty imposed on Fedgroup stemmed from the following breaches: • failure to comply with AML/CFT compliance training requirements in terms of section 43 of the FIC Act; and • failure to comply with the governance of AML/CFT compliance requirements in terms of section 42A(2) of the FIC Act.	The following administrative sanctions were imposed: • a financial penalty of R140 000, a caution not to repeat the conduct which led to the non-compliance, and a directive to take remedial action.
Sanlam Life Insurance Limited (Sanlam Life)	The financial penalty imposed on Sanlam Life stemmed from the following breaches: • failure to comply with enhanced due diligence requirements in respect of domestic prominent influential persons in terms of section 21G of the FIC Act; • failure to comply with CTR requirements in terms of section 28 of the FIC Act; and • failure to comply with suspicious transaction reporting (STR) requirements in terms of regulation 24(3) read with regulation 29(7) of the Money Laundering and Terrorist Financing Control Regulations.	The following administrative sanctions were imposed: • a financial penalty of R1.5 million and a caution not to repeat the conduct which led to the non-compliance. However, R500 000 of the R1.5 million financial penalty has been suspended, in terms of section 45C(4)(c) of the FIC Act, for a period of three years from 28 July 2021, subject to Sanlam Life adhering to certain conditions imposed by the SARB.

Media releases were published, and further details on these matters are available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/SARB-imposes-administrative-sanctions-in-terms-of-the-Financial-Intelligence-Centre-Act-38-of-2001-as-amended and https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/SARB-sanctions-Discovery-Life-Limited.

APPEALS IN TERMS OF THE FINANCIAL INTELLIGENCE CENTRE ACT 38 OF 2001

Fedgroup lodged an appeal in terms of section 45D of the FIC Act at the Appeal Board established in terms of the FIC Act to review the quantum of the financial penalty imposed by the PA. The matters of non-compliance were, however, not disputed. The Appeal Board subsequently ruled that the initial penalties of R500 000 and R250 000 imposed by the PA for non-compliance with sections 43 and 42A of the FIC Act respectively be reduced to R80 000 and R60 000. In addition to these financial penalties, the PA sanctioned Fedgroup with a directive to take remedial action for failure to comply with section 45C(3)(c) of the FIC Act as well as with a caution not to repeat the misconduct.

ABBREVIATIONS

ALM	asset and liability management
AMA	advanced measurement approach
AML/CFT	anti-money laundering/ counter-financing of terrorism
ASA	alternative standardised approach
ASF	available stable funding
ASISA	Association for Savings and Investment South Africa
ASSA	Actuarial Society of South Africa
Banks Act	Banks Act 94 of 1990
BASA	Banking Association South Africa
B-BBEE	broad-based black economic empowerment
B-BBEE Act	Broad-Based Black Economic Empowerment Act 53 of 2003
BCBS	Basel Committee on Banking Supervision
BIA	basic indicator approach
Board	board of directors
BRICS	Brazil, Russia, India, China, South Africa
BRISC	BRICS Rapid Information Security Channel
CAR	capital adequacy ratio
CCP	central counterparty
CEO	Chief Executive Officer
CET	common equity tier
CFI	co-operative financial institution
CLF	committed liquidity facility
CMS	Council for Medical Schemes
Co-operative Banks Act	Co-operatives Banks Act 40 of 2007
COVID-19	coronavirus disease 2019
CPMI	Committee on Payments and Market Infrastructures
CRSG	Climate Risk Steering Group
CSD	central securities depositories
CTR	cash threshold reporting
CVA	credit valuation adjustment
D	Directive
Deutsche Bank	Deutsche Bank AG - Johannesburg Branch

Discovery Life	Discovery Life Limited
D-SIB	domestic systemically important bank
EVE	economic value of equity
FATF	Financial Action Task Force
Fedgroup	Fedgroup Life Limited
FI Act	Financial Institutions (Protection of Funds) Act 28 of 2001
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
Fintech	financial technology
FMA	Financial Markets Act 19 of 2012
FMI	financial market infrastructure
FRTB	Fundamental Review of the Trading Book
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSI	Financial Soundness Standard for Insurers
FSR Act	Financial Sector Regulation Act 9 of 2017
GDP	Gross Domestic Product
GN	Guidance Notices
GOI	Governance and Operational Standards for Insurers
HLA	higher loss absorbency
HoD	head of department
HQLA	high-quality liquid assets
IAIS	International Association of Insurance Supervisors
IBNR	incurred but not reported
IDWG	Interdepartmental Working Group
IFRS	International Financial Reporting Standards
IMA	internal models approach
IMF	International Monetary Fund
Insurance Act	Insurance Act 18 of 2017
IO	Immediate Outcome
IOSCO	International Organization of Securities Commissions
IRB	internal ratings-based
IRRBB	interest rate risk in the banking book
IT	information technology
Jibar	Johannesburg Interbank Average Rate
JSE Clear	JSE Clear (Pty) Limited
LCR	liquidity coverage ratio

LEX	Large Exposures
LGD	loss given default
LIBOR	London Interbank Offered Rate
Manco	Management Committee
MCR	minimum capital requirement
ME	Mutual Evaluation
MI	market infrastructure
MICAP	Market Infrastructure Capital Assessment Process
Minister	Minister of Finance
ML/TF	money laundering/ terrorism financing
Motswedi	Motswedi Financial Services Co-operative
MoU	memorandum of understanding
MPG	Market Practitioners Group
Mutual Banks Act	Mutual Banks Act 124 of 1993
MVTS	money value transfer services
NCR	National Credit Regulator
NEHAWU	National Education, Health and Allied Workers' Union
Nestlife	Nestlife Assurance Corporation (RF) Limited
NGFS	Network for Greening the Financial System
NII	net interest income
NRS	non-interest rate sensitive
NSA	new standardised approach
NSFR	net stable funding ratio
NT	National Treasury
ODP	OTC derivative providers
OR	operational risk
ORMAQ	Operational Risk Maturity Assessment Questionnaire
ORMF	operational risk management frameworks
OTC	over the counter
PA	Prudential Authority
PACTT	Prudential Authority Climate Think Tank
PARAC	Prudential Authority Regulatory Action Committee
PD	probability of default
PFMI	Principles for Financial Market Infrastructures
Pruco	Prudential Committee
PSMOR	Principles for the Sound Management of Operational Risk
QRT	Quantitative Reporting Template
R	Rand
RCLF	restricted-use committed liquidity facility
RDARR	risk data aggregation and risk reporting

Regulations	Regulations relating to Banks
repo	repurchase
RF	ring-fenced
RFR	risk free rate
rhs	right-hand scale
RMCP	risk management and compliance programme
ROA	return on assets
ROE	return on equity
RSF	required stable funding
RWA	risk weighted asset
SA	South Africa
SAIA	South African Insurance Association
SAM	Solvency and Assessment Management
SAM 2	Solvency and Assessment Management 2
Sanlam Life	Sanlam Life Insurance Company Limited
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989
Sasria SOC Limited	South African Special Risks Insurance Association
SCoF	Standing Committee on Finance
SCR	solvency cover ratio
SFA	strategic focus area
SIF	Sustainable Insurance Forum
SIFI	systemically important financial institution
SME	small- and medium-sized enterprise
SOE	state-owned enterprises
SRA	sector risk assessment
SSA	simplified standardised approach
STR	suspicious transaction reporting
TCFD	Task Force on Climate-Related Financial Disclosures
TCFI	Prudential standard on Transitional arrangements for CFIs
TCFR	Task Force on Climate-Related Financial Risks
TF	terrorism financing
TLAC	Total Loss-Absorbing Capacity
TOM	Target Operating Model
Tribunal	Financial Services Tribunal
Viva Life	Viva Life Insurance Limited
ZARONIA	South African Rand Overnight Index Average Rate