SOUTH AFRICAN RESERVE BANK ANNUAL REPORT AND PRUDENTIAL AUTHORITY ANNUAL REPORT FOR 2021/22

Presentation to the Standing Committee on Finance

17 August 2022

SOUTH AFRICAN RESERVE BANK

Presentation outline

1. About the South African Reserve Bank
2. Macroeconomic overview and outlook
3. Financial stability
4. Highlights from the SARB Annual Report 2021/22
5. Highlights from the Prudential Authority Annual Report 2021/22

The SARB's mandate and functions

The SARB’s mandate

PRIMARY MANDATE
as enshrined in the Constitution:

- To protect the value of the currency in the interest of balanced and sustainable economic growth

STATUTORY MANDATE
as prescribed by the Financial Sector Regulation Act 9 of 2017 (FSR Act):

- To protect and enhance financial stability

The SARB acts independently and without fear, favour or prejudice in the interests of the economic well-being of all South Africans

The SARB’s key functions

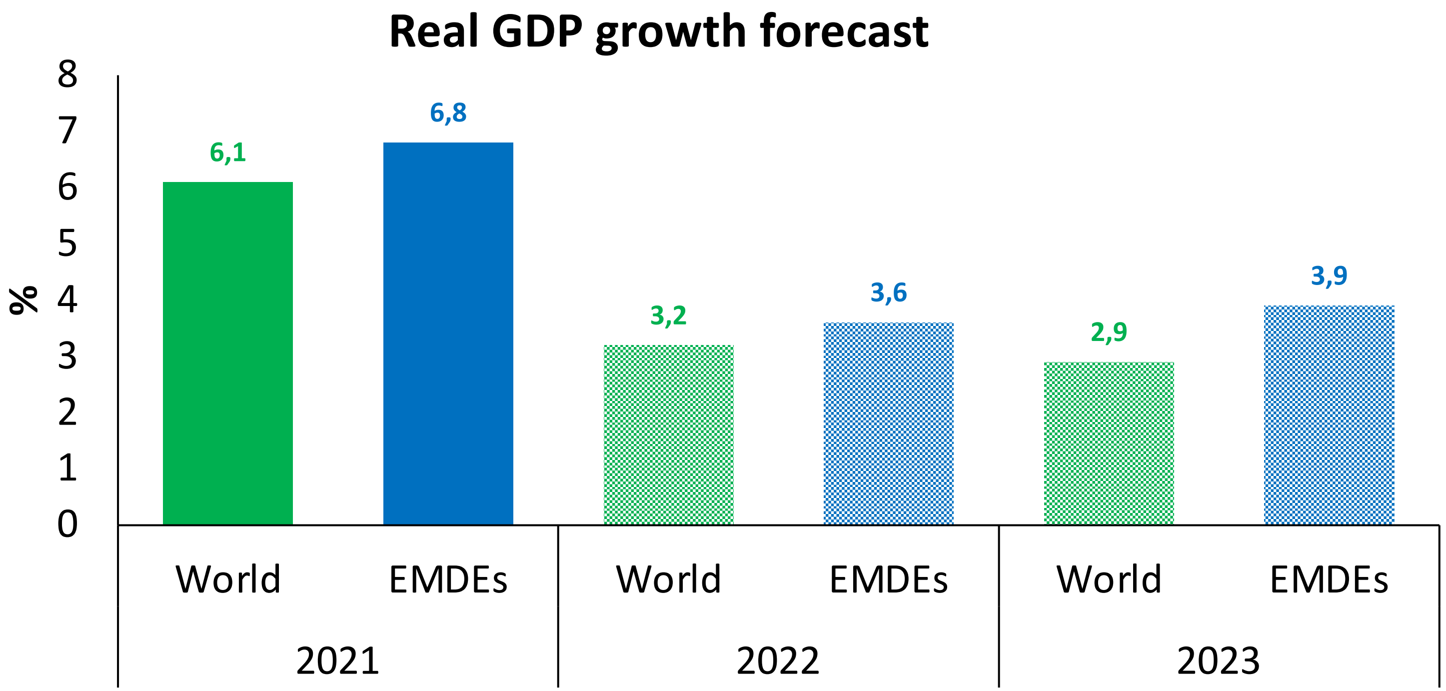
- Formulating and implementing monetary policy.
- Promoting financial stability, which includes acting as the lender of last resort in exceptional circumstances.
- Compiling economic statistics and conducting analysis and research.
- Acting as banker to the government.
- Ensuring the effective functioning of the national payment system (NPS).
- Administering the country’s prudential and capital flow measures.
- Regulating and supervising financial institutions, including banks, insurance entities and financial markets infrastructures.
- Managing the official gold and foreign exchange reserves of the country.
- Issuing and destroying banknotes and coin.

Macroeconomic overview and outlook

Summary

- Sharply higher global inflation, slower growth …
- … and more forceful monetary policy tightening
- Domestic growth to slow sharply in the near term on account of KZN floods, load-shedding and global factors
- Headline inflation markedly higher on account of food, fuel and **core** inflation
- Second-round effects now manifesting, inflation risks tilted to the upside

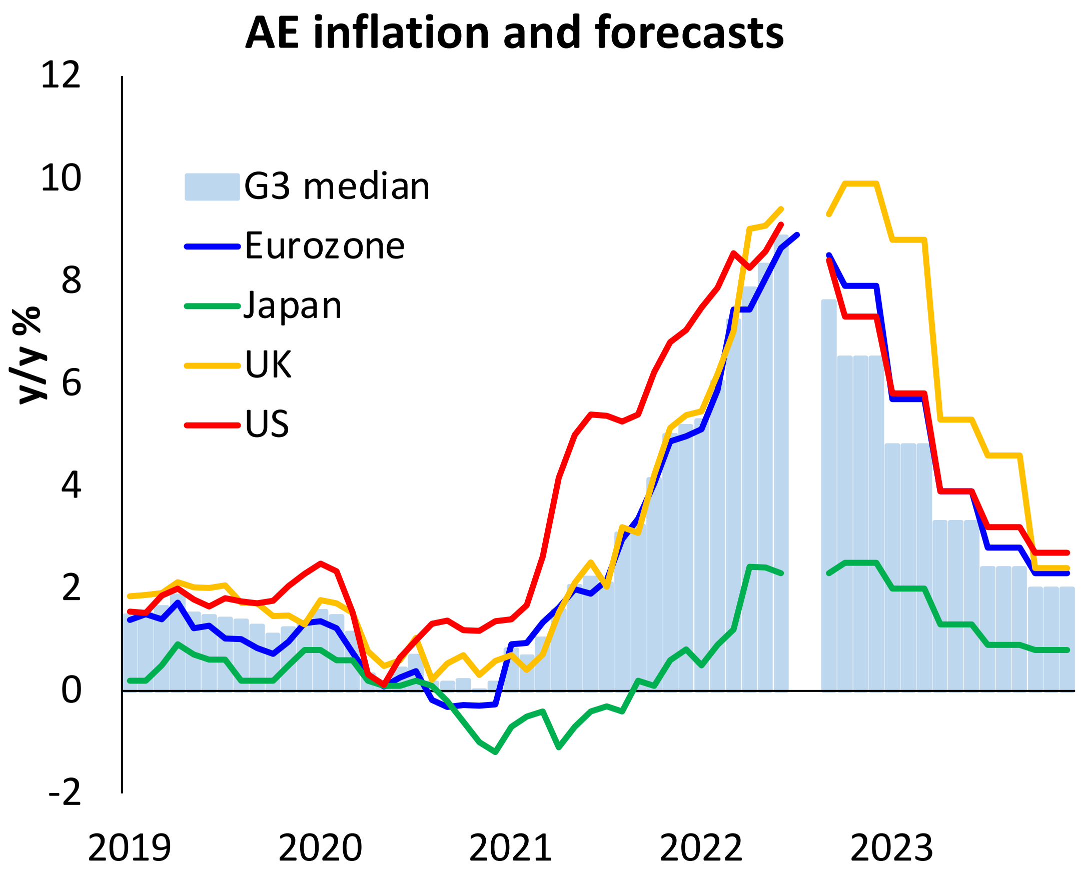
Global growth projected to slow, rising recession risks



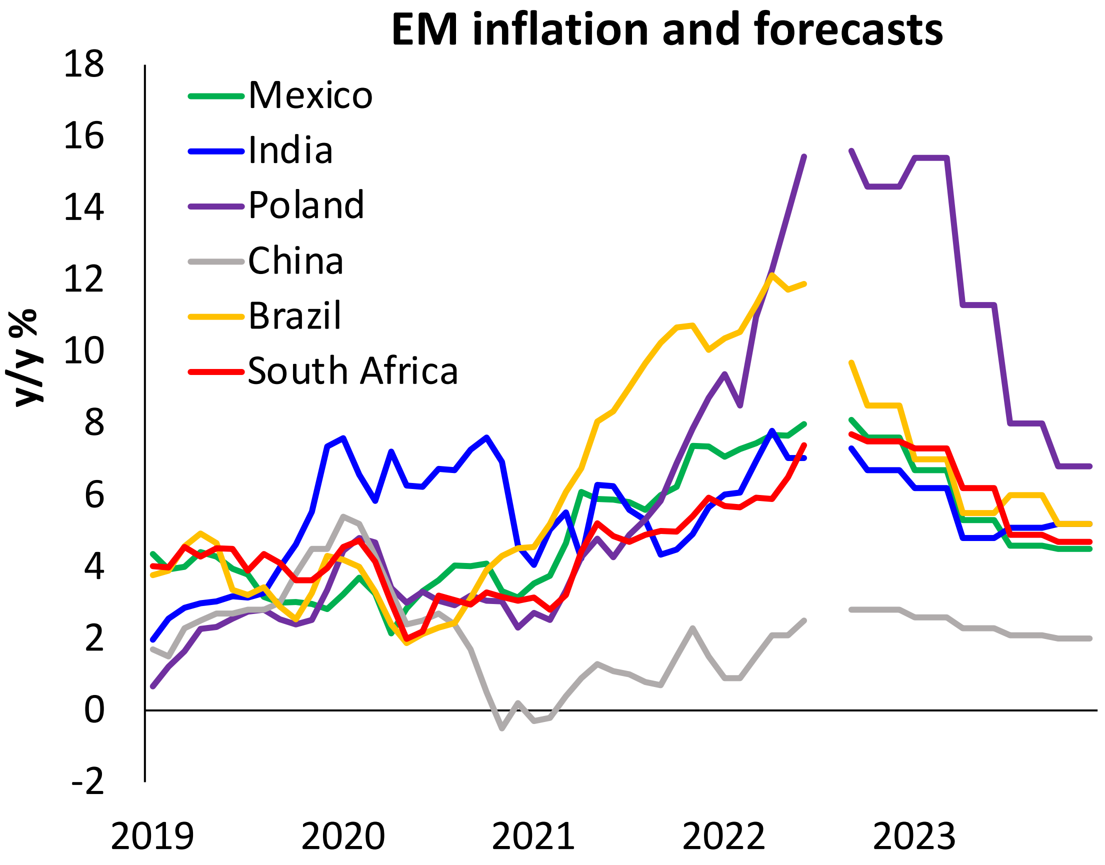
EMDEs: emerging markets and developing economies

Source: IMF

Inflation sharply higher, may be nearing peak, but return to target likely to be sluggish …



Sources: Haver (actual monthly figures) and Bloomberg (quarterly forecasts)



Sources: Haver (actual monthly figures) and Bloomberg (quarterly forecasts)

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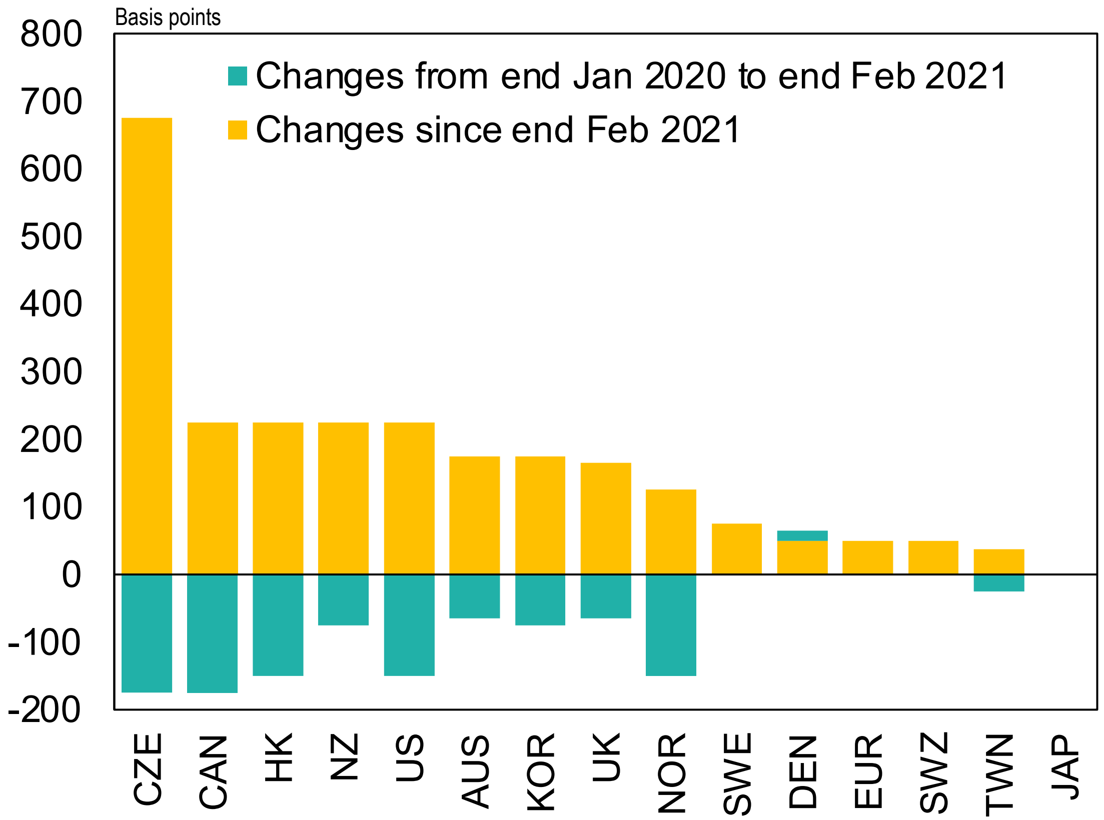
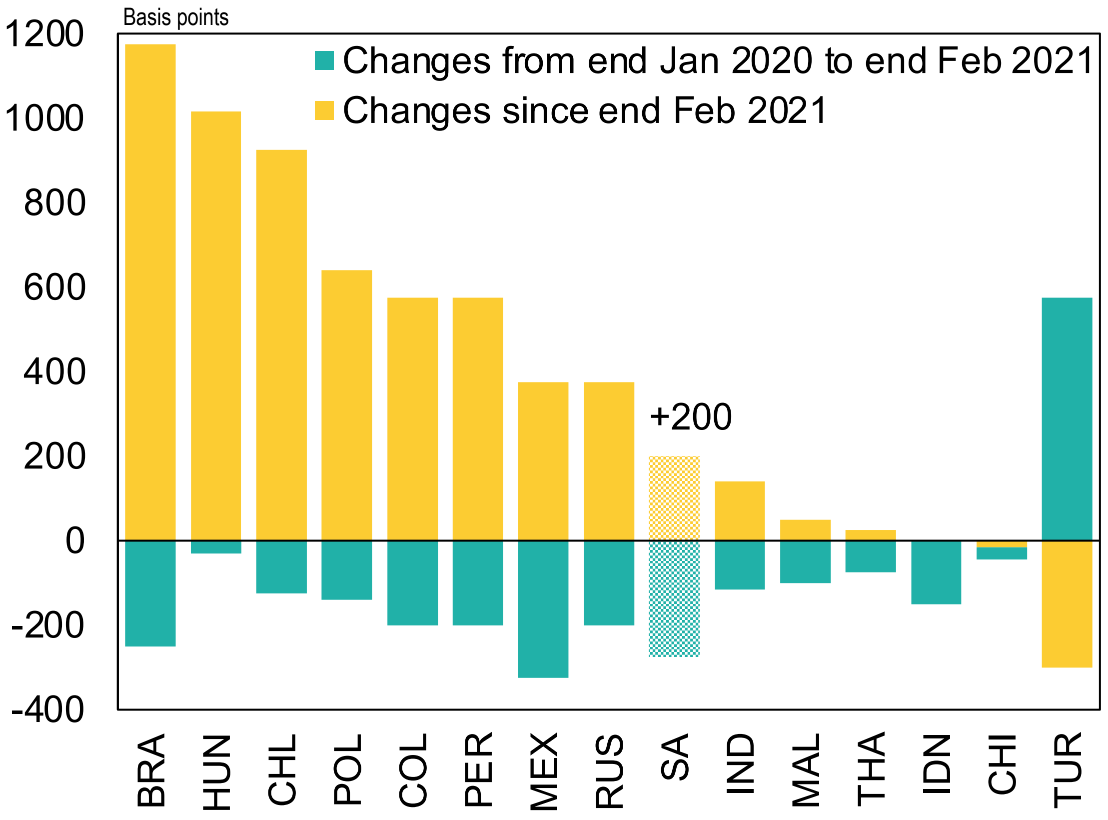
… requiring more forceful monetary policy tightening

AE central bank policy rate changes



EM central bank policy rate changes



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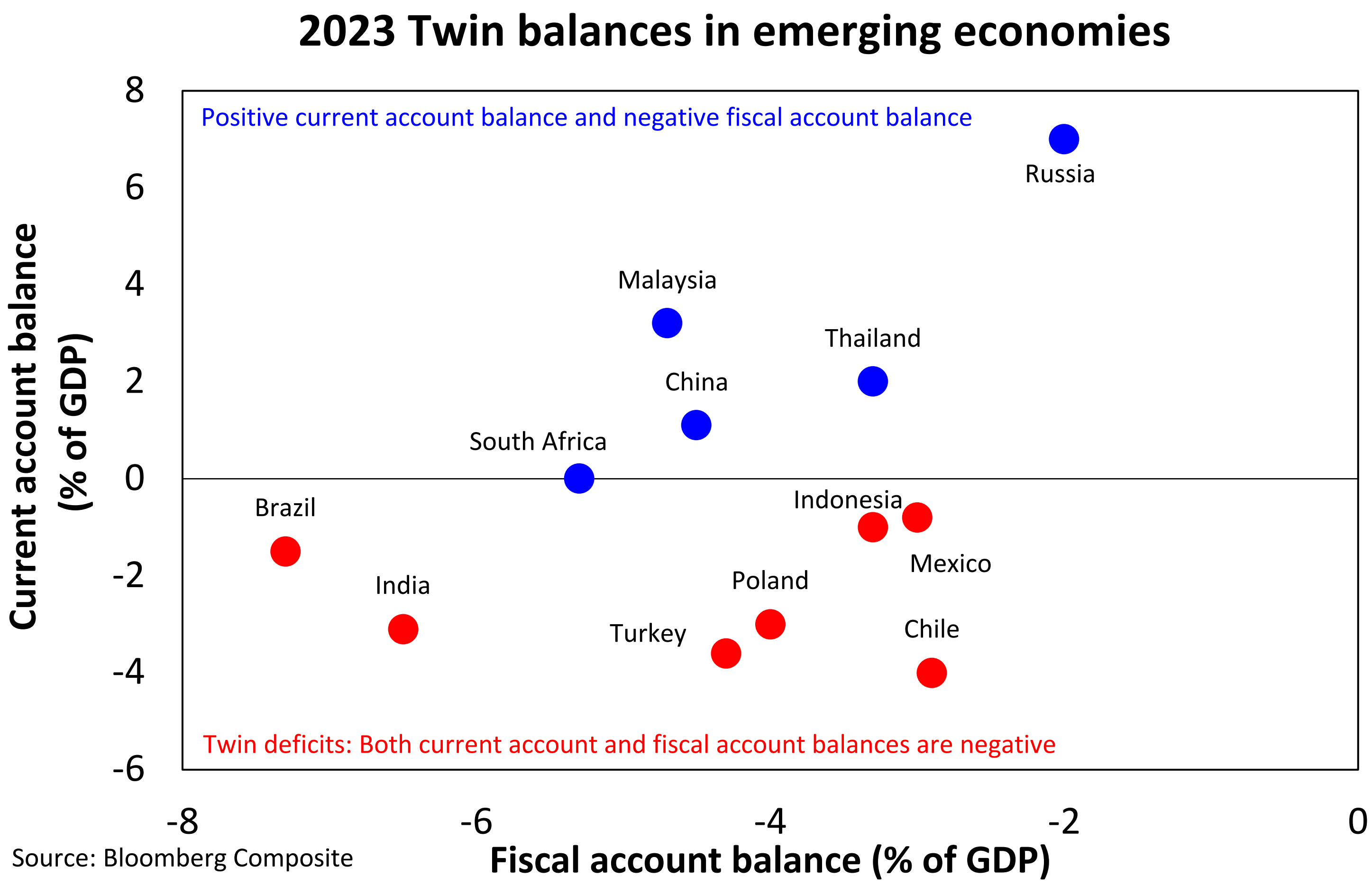
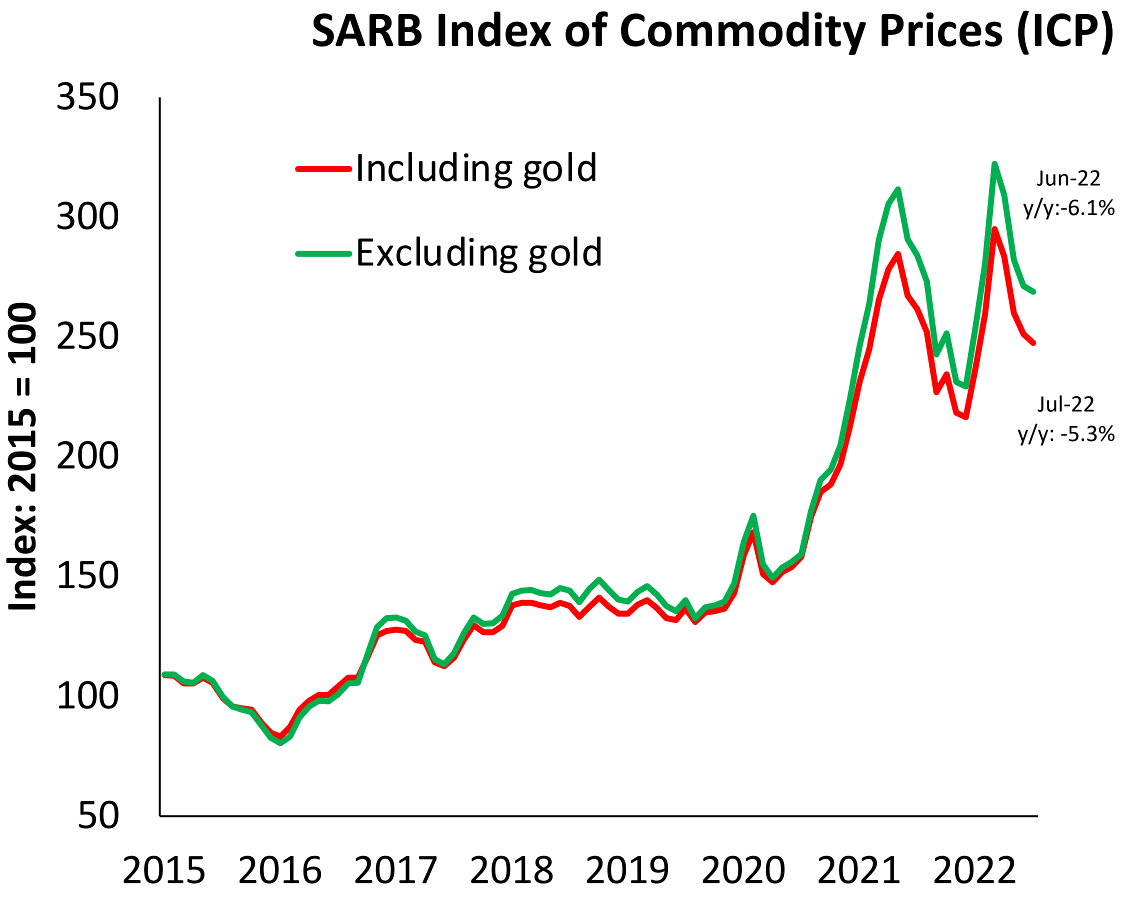
Fiscal policy expected to remain accommodative in EMs

with twin deficits persisting in others

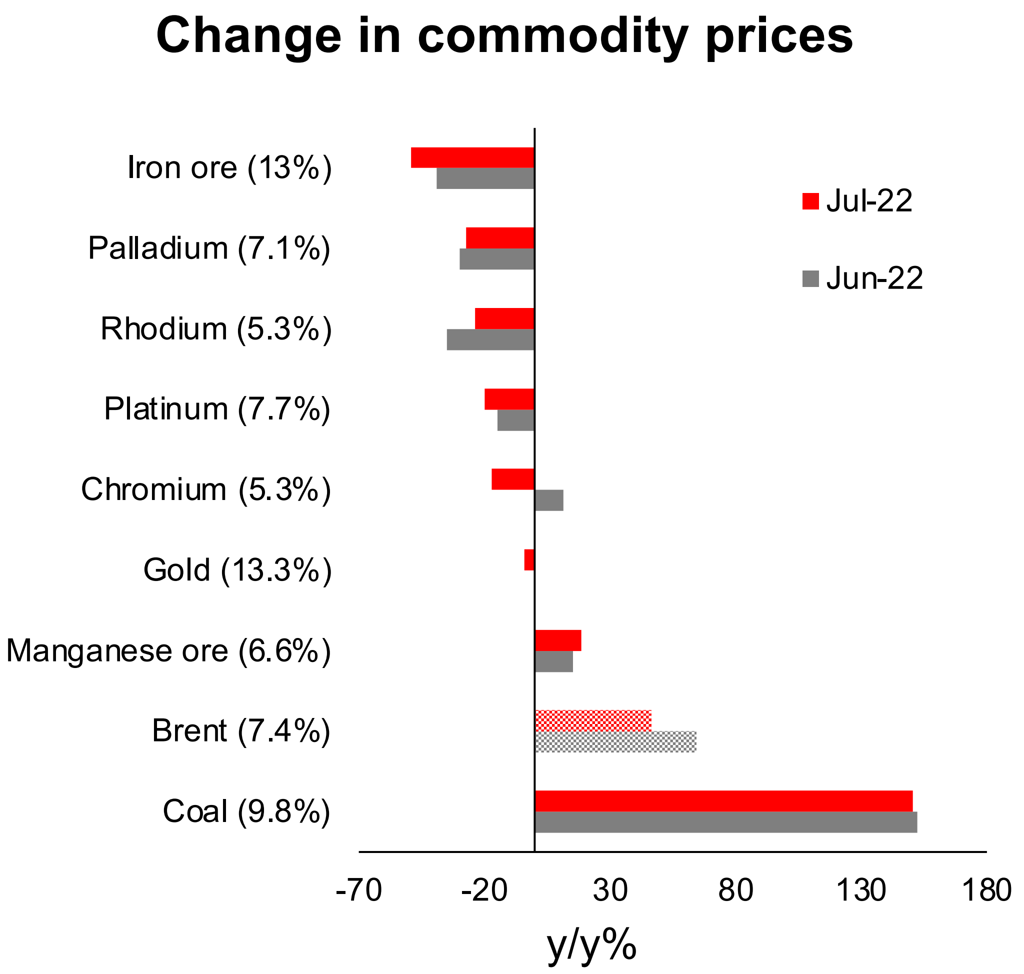


Source: Bloomberg Composite

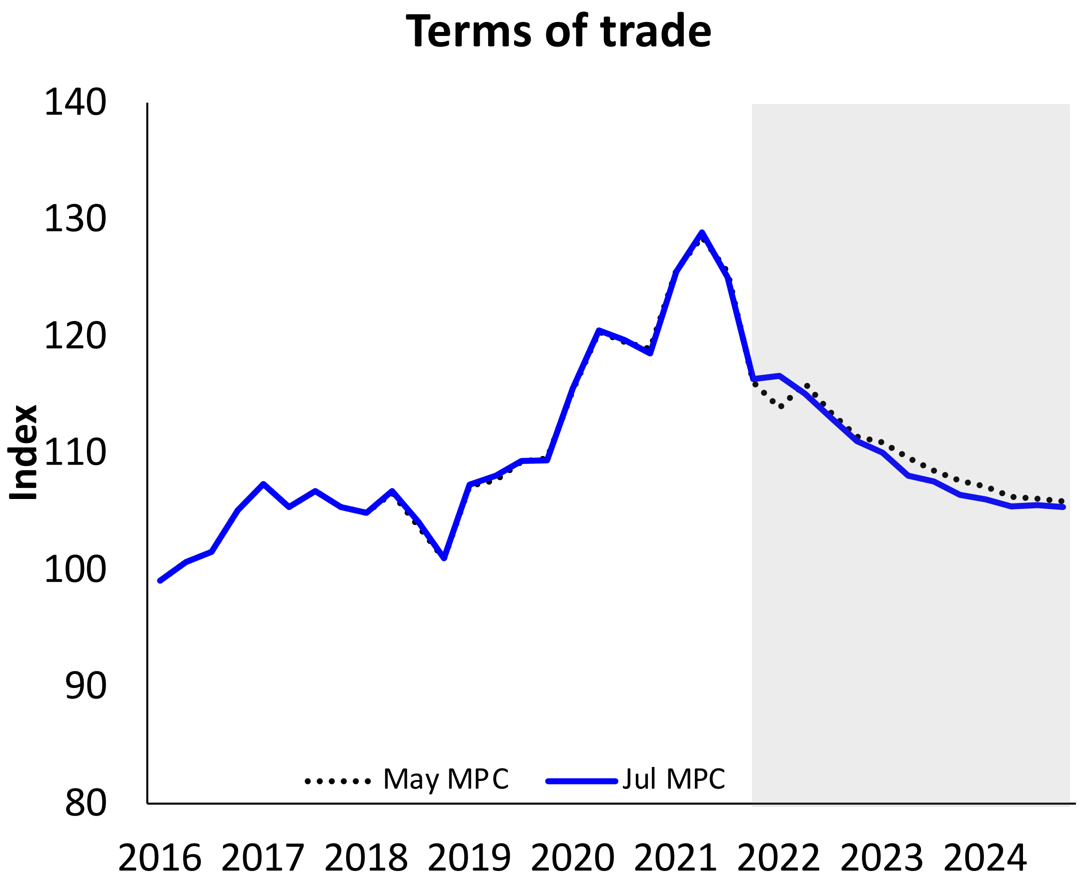
Commodity prices pulling back on global growth concerns …

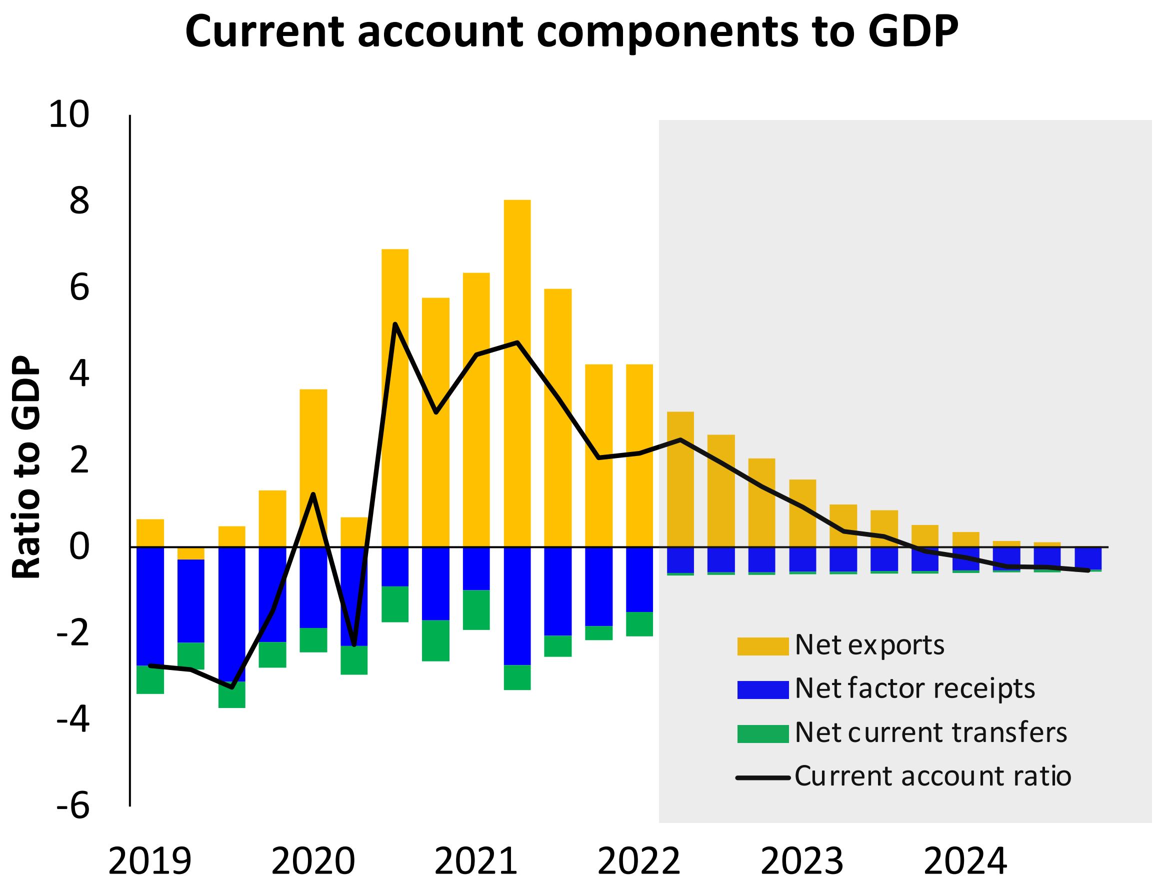


Source: SARB

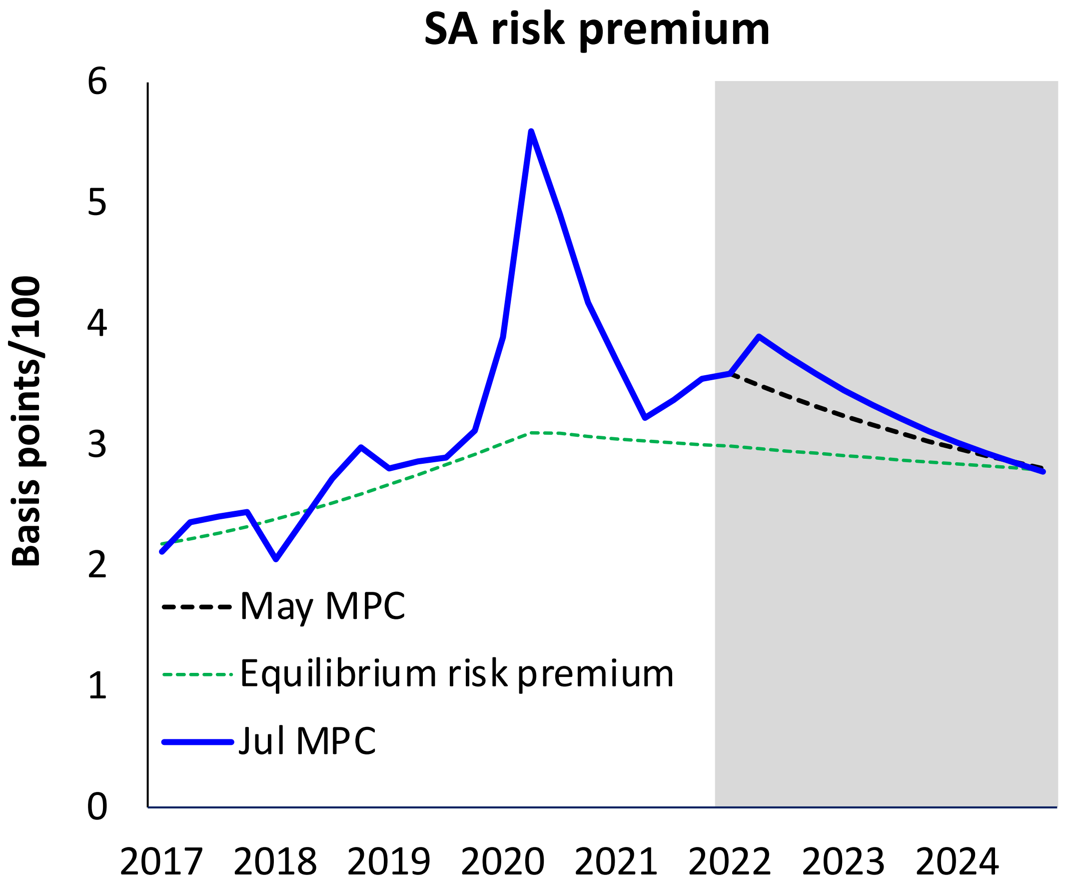


… with the terms of trade and current account expected to moderate further

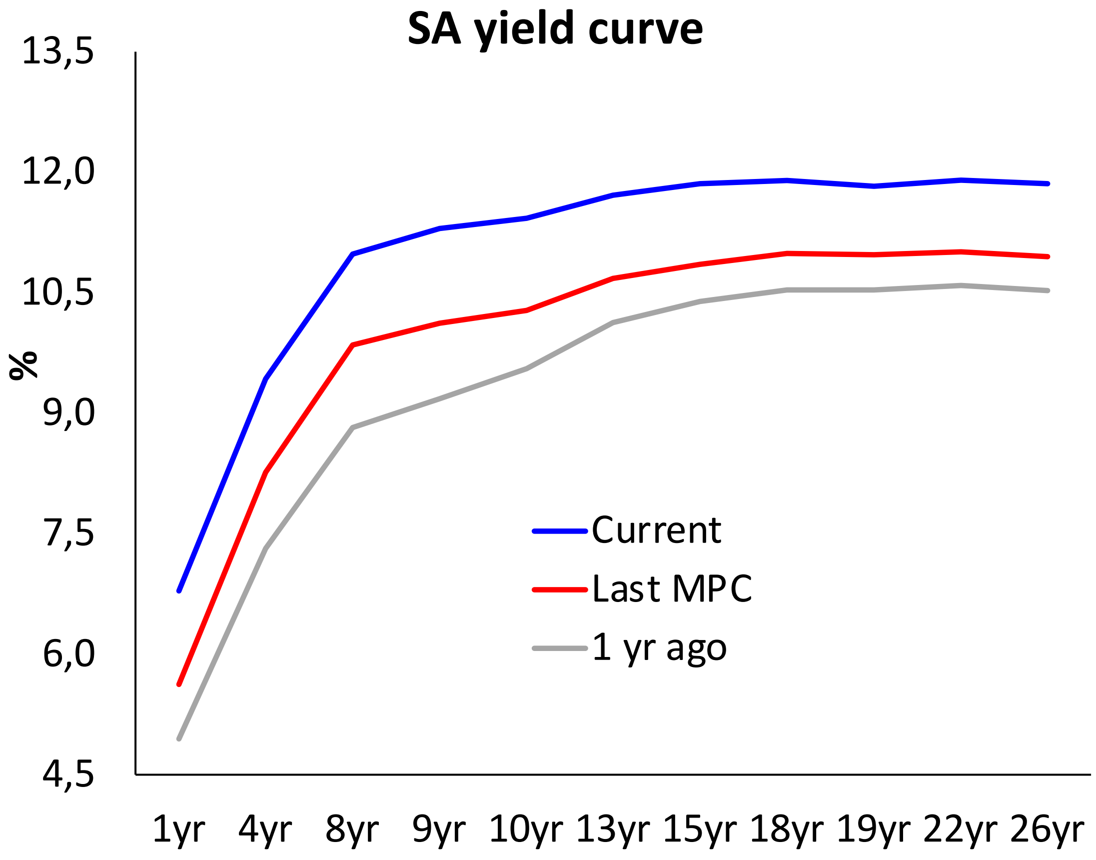




Less favourable global conditions = higher risk premium and funding costs



Source: SARB



Source: Bloomberg

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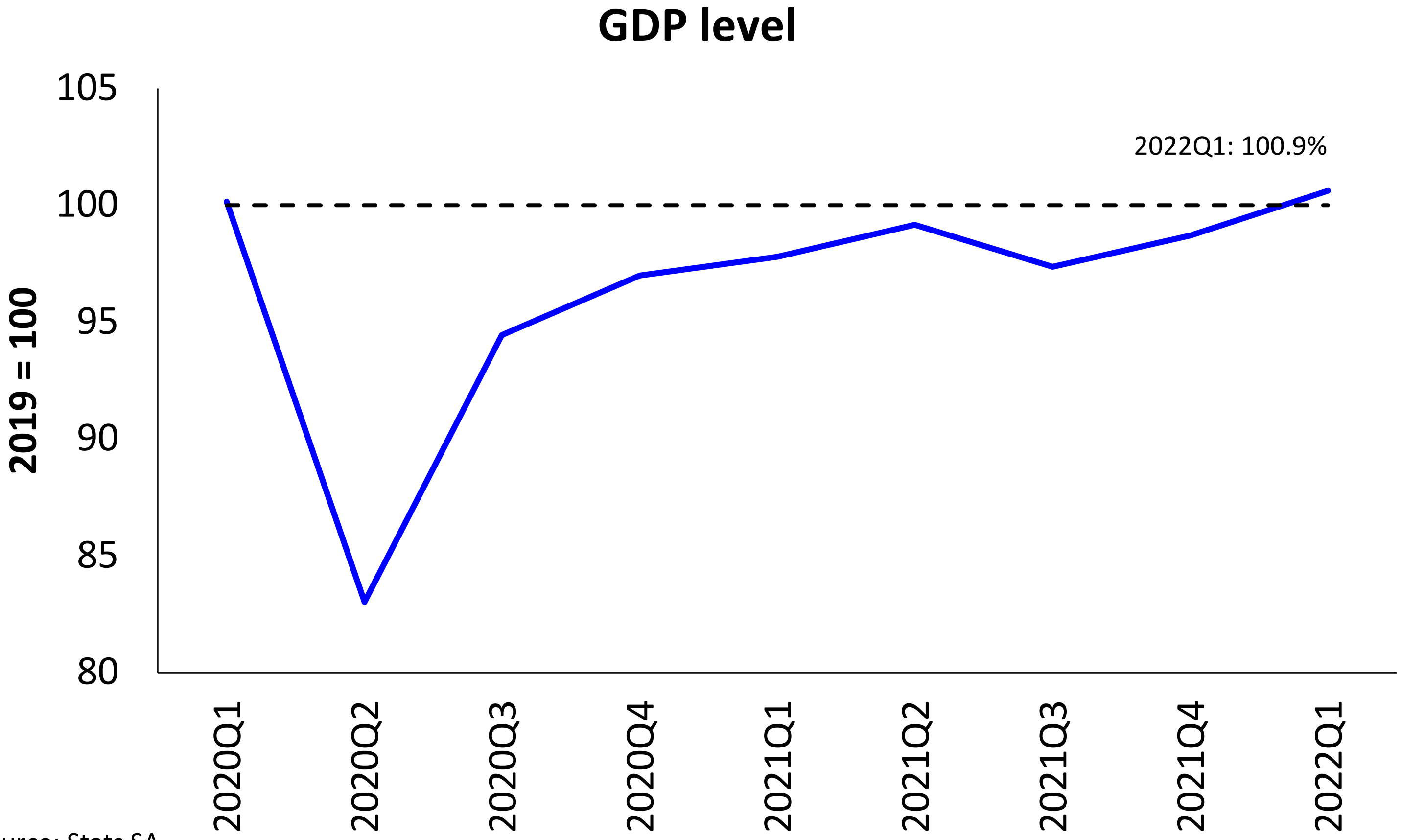
Two years later, GDP is back above the 2019 level …

Recovery delayed by KZN riots



Source: Stats SA

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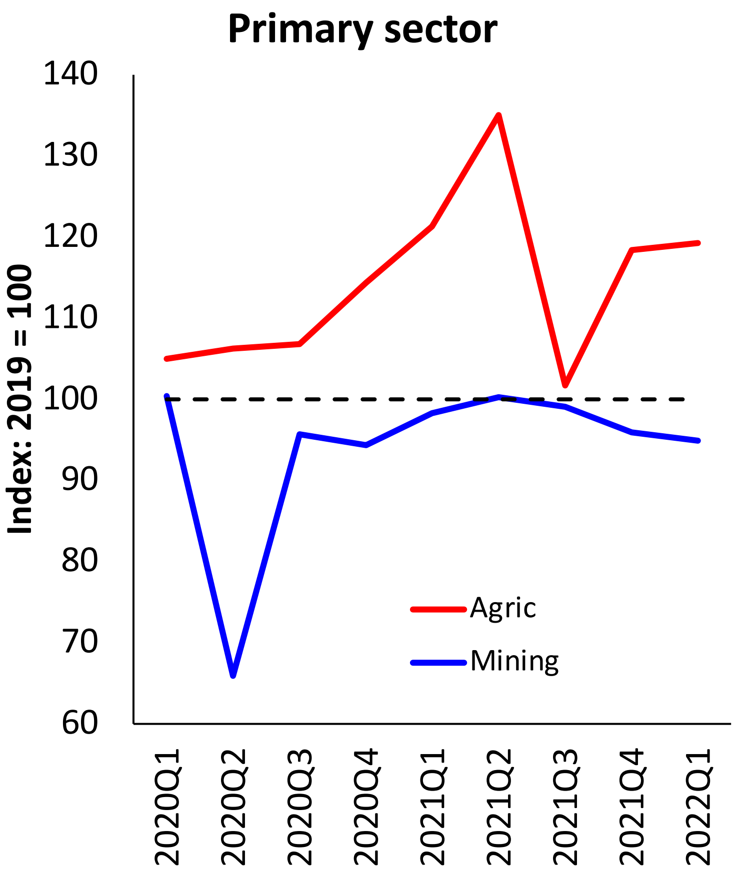
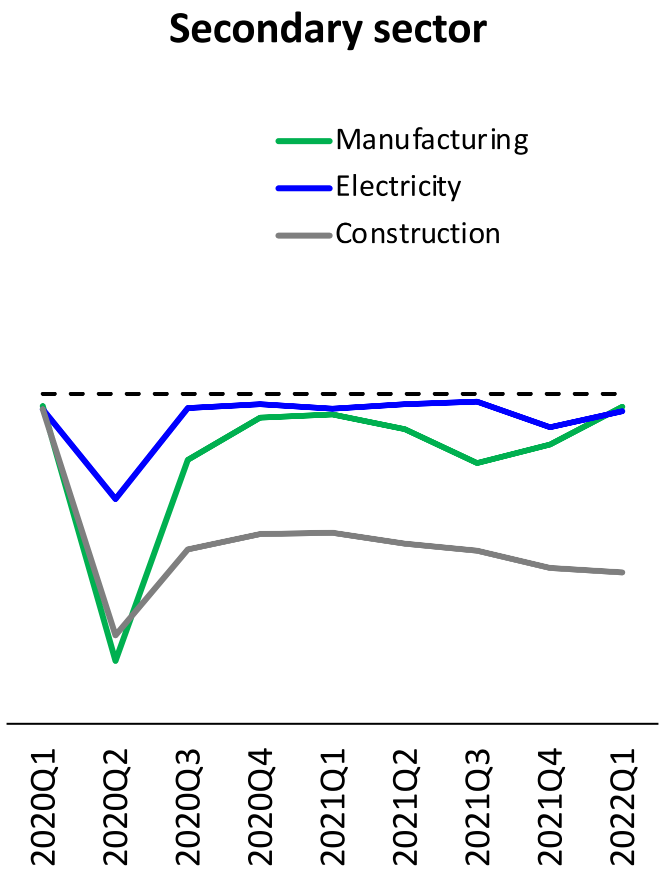
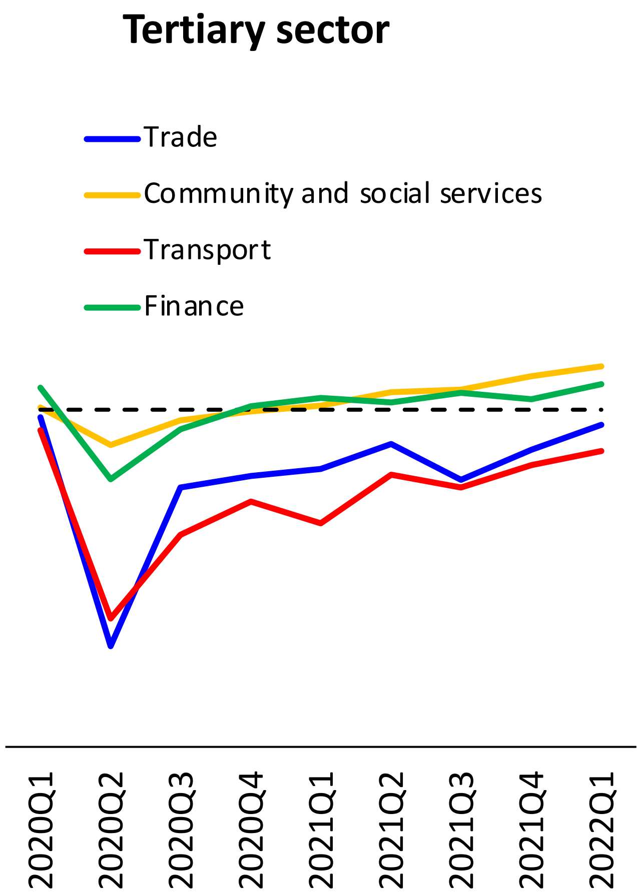
… but recovery is uneven, with possible scarring in labour-intensive sectors



Source: Stats SA



Source: Stats SA



Source: Stats SA

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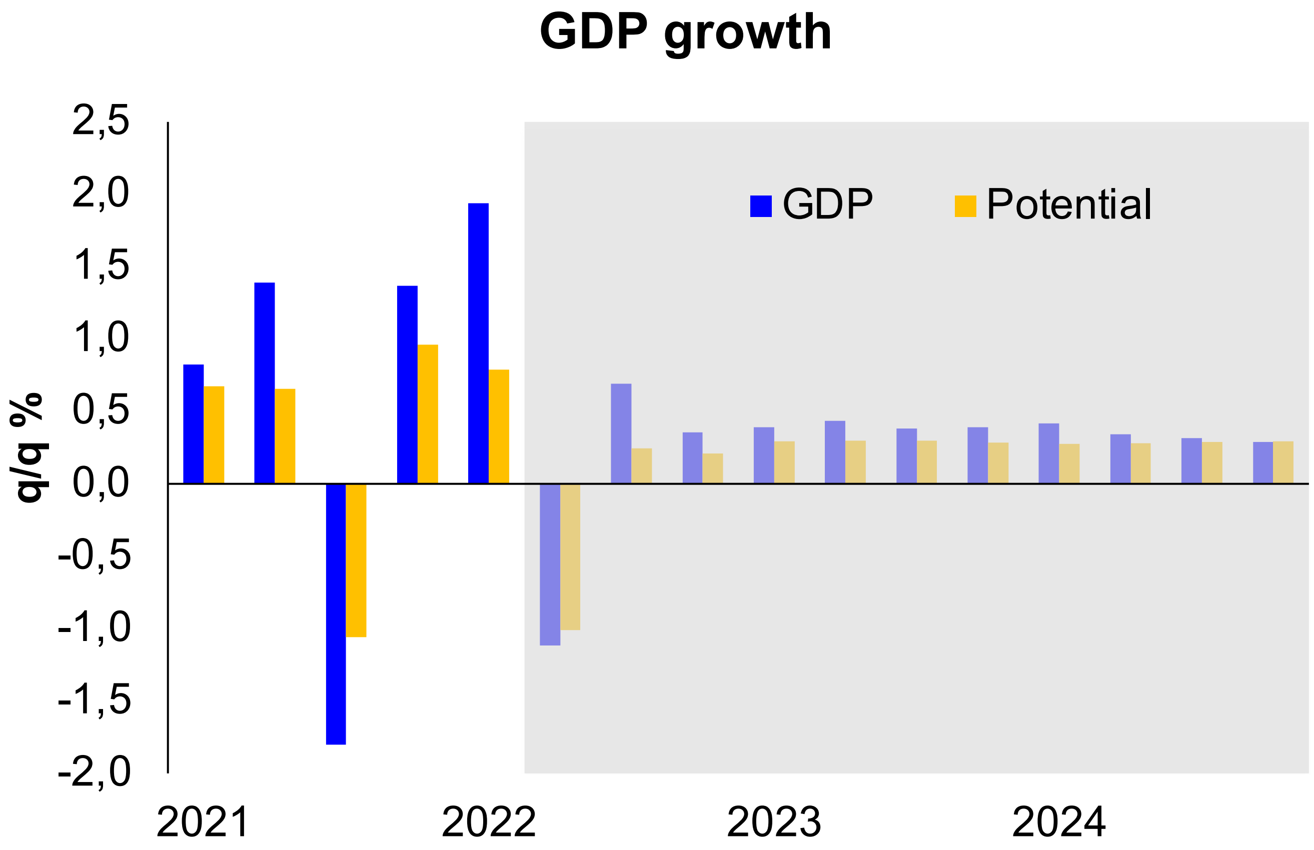
Economy to contract in the near term, with structural factors suppressing medium-term and potential growth



Source: SARB

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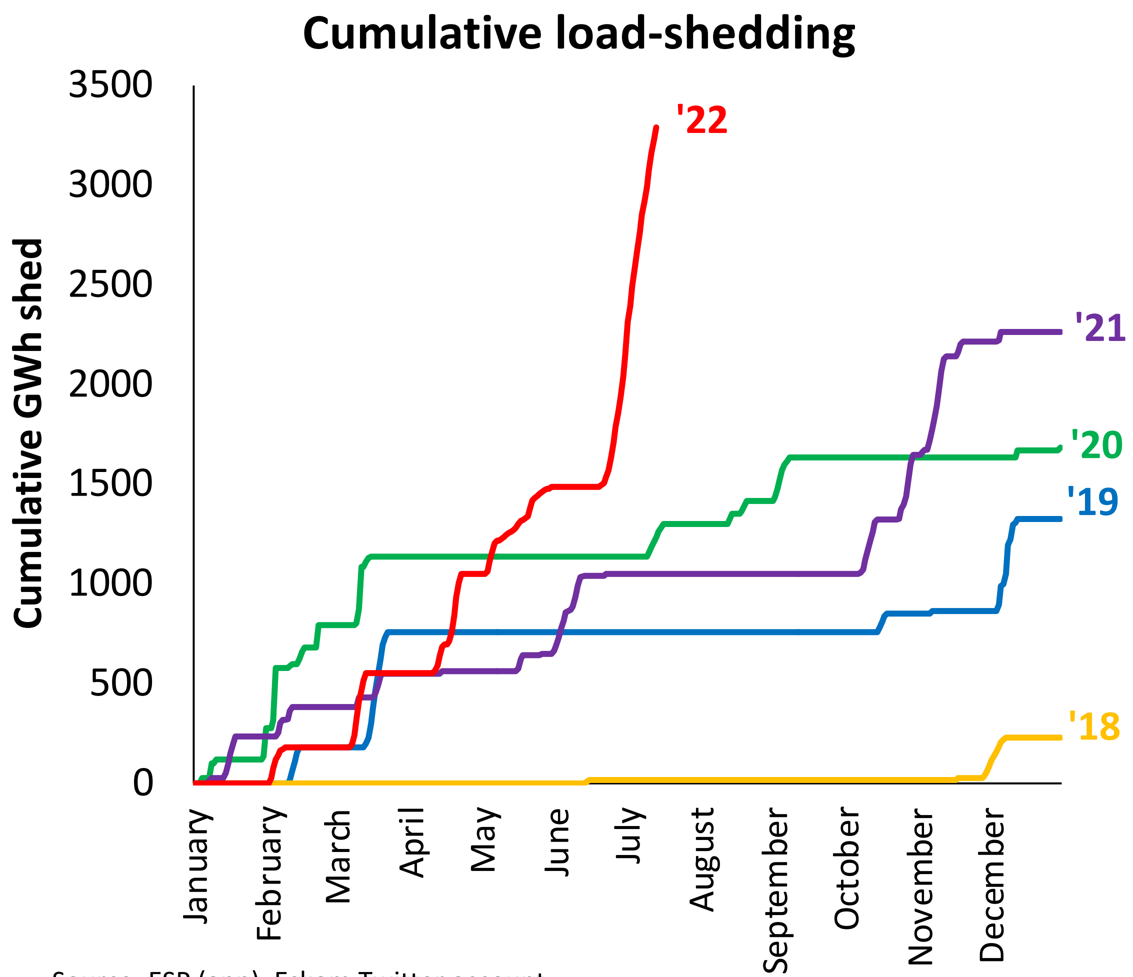
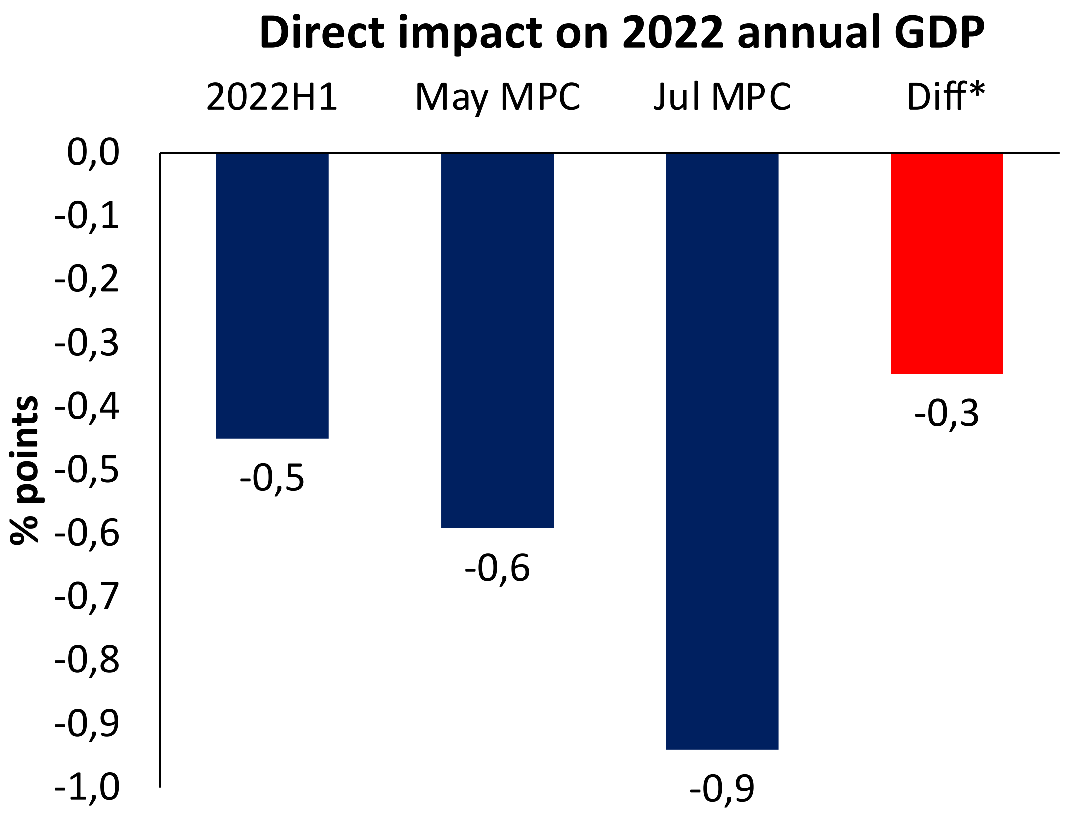
Load-shedding is undermining GDP growth (and potential growth) …



Source: ESP (app), Eskom Twitter account



*Diff is the difference between Jul & May MPC

Source: SARB

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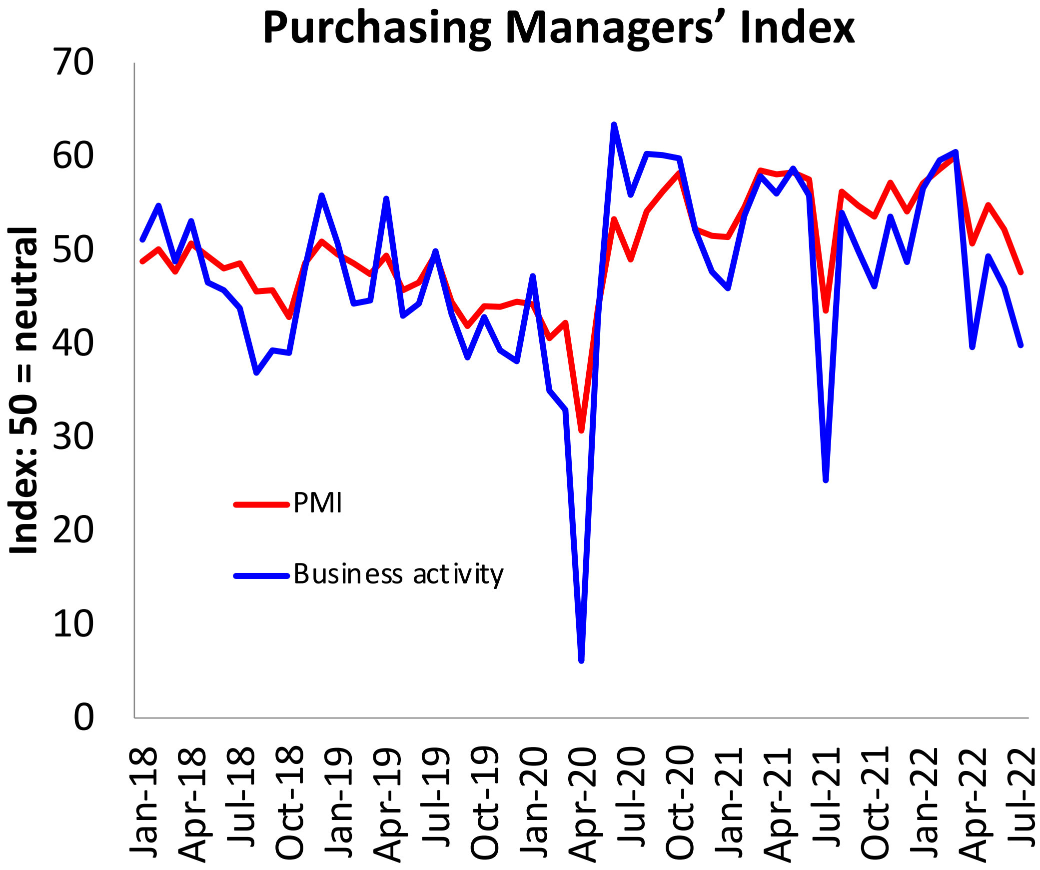
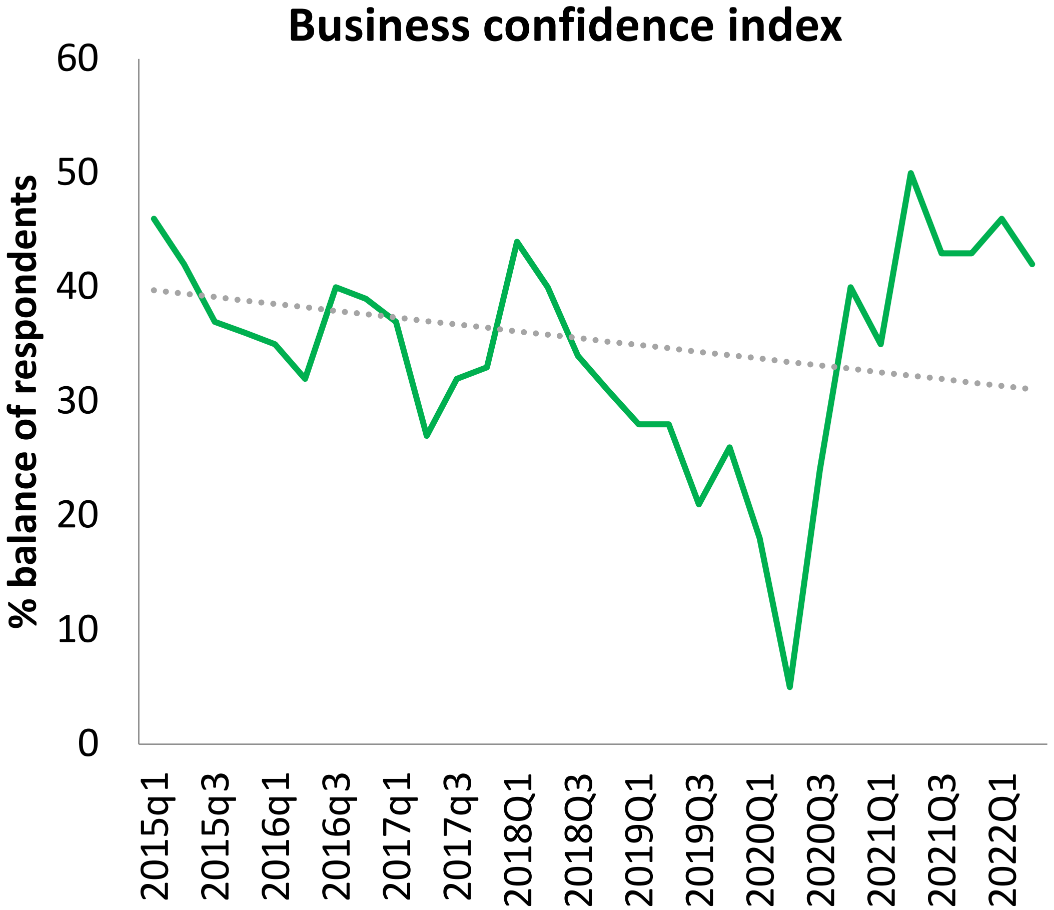
… as it weighs on business activity and confidence



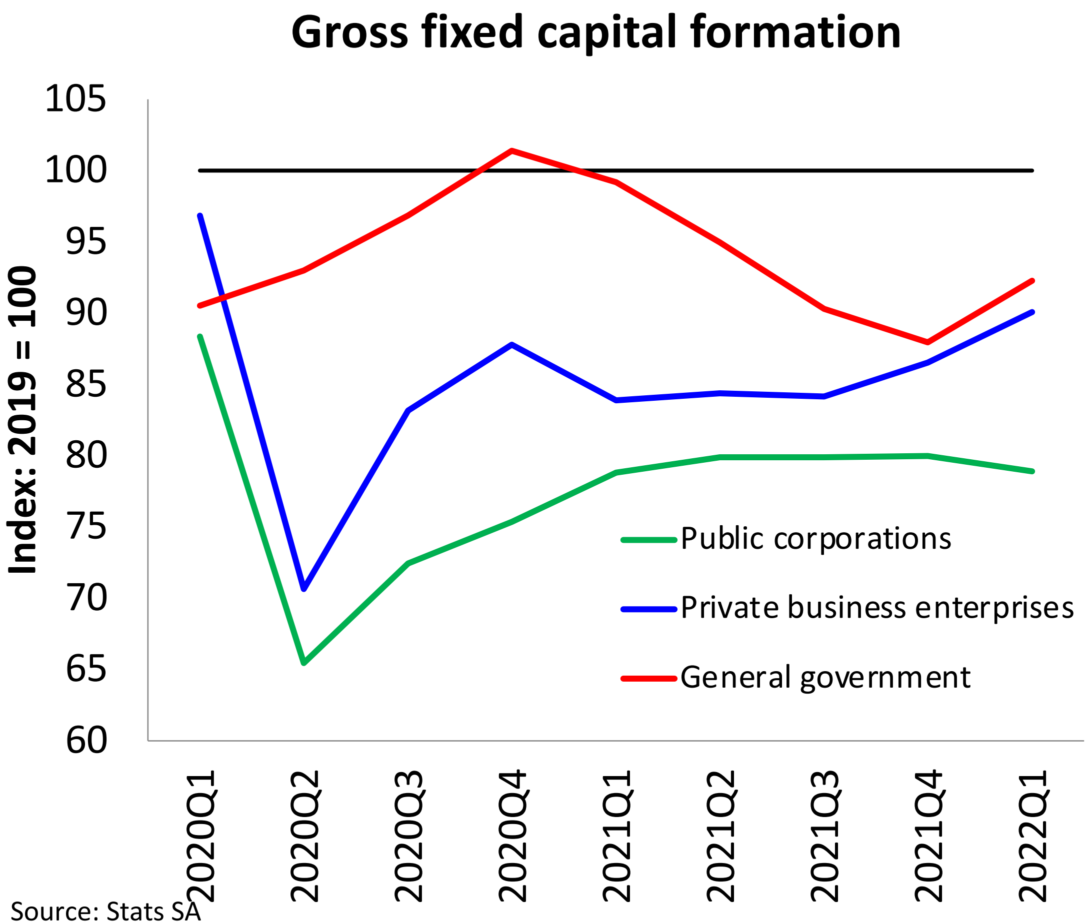
Sources: ABSA and BER



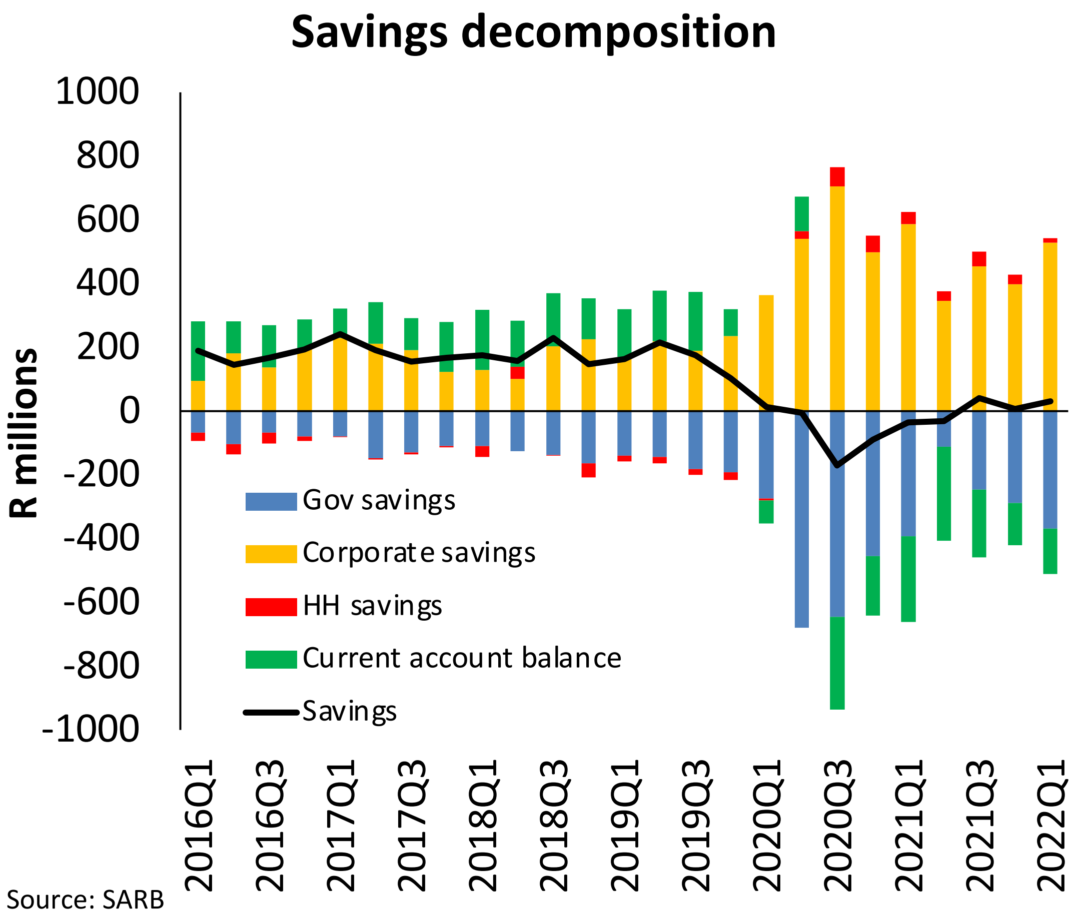
Source: ABSA/BER

Private investment continues to recover, supported by elevated corporate savings

… public sector investment remains weak

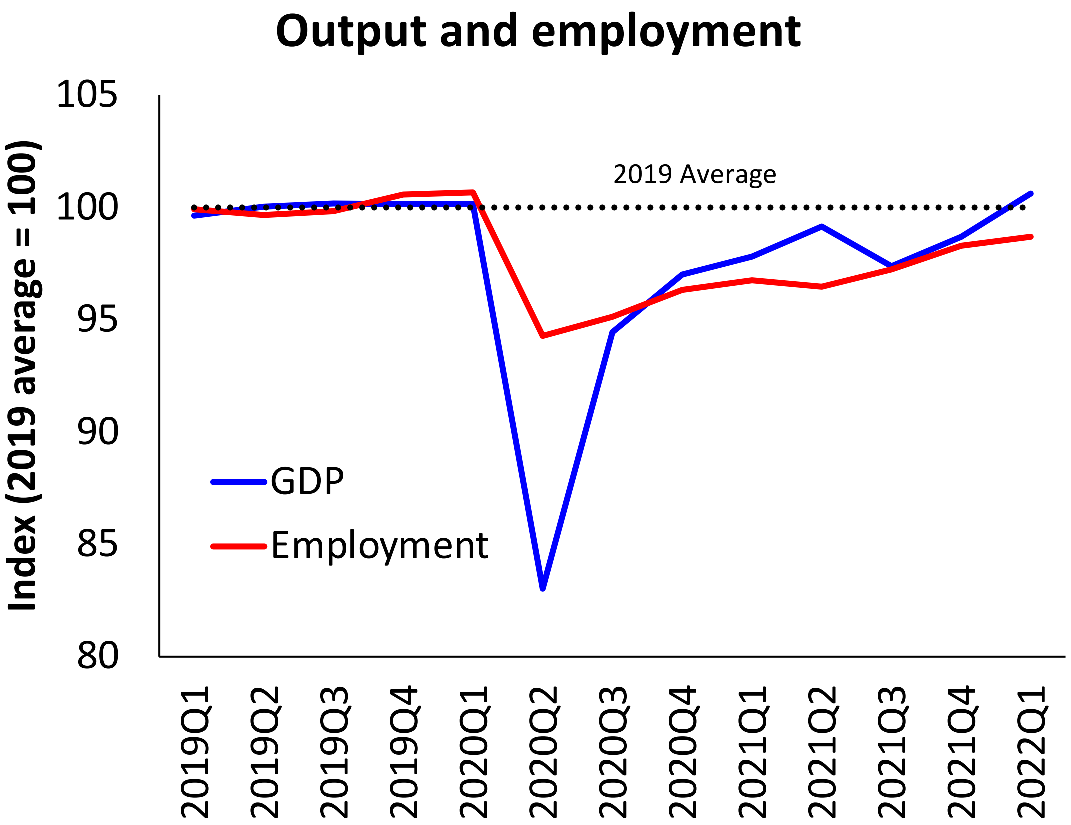


Source: Stats SA

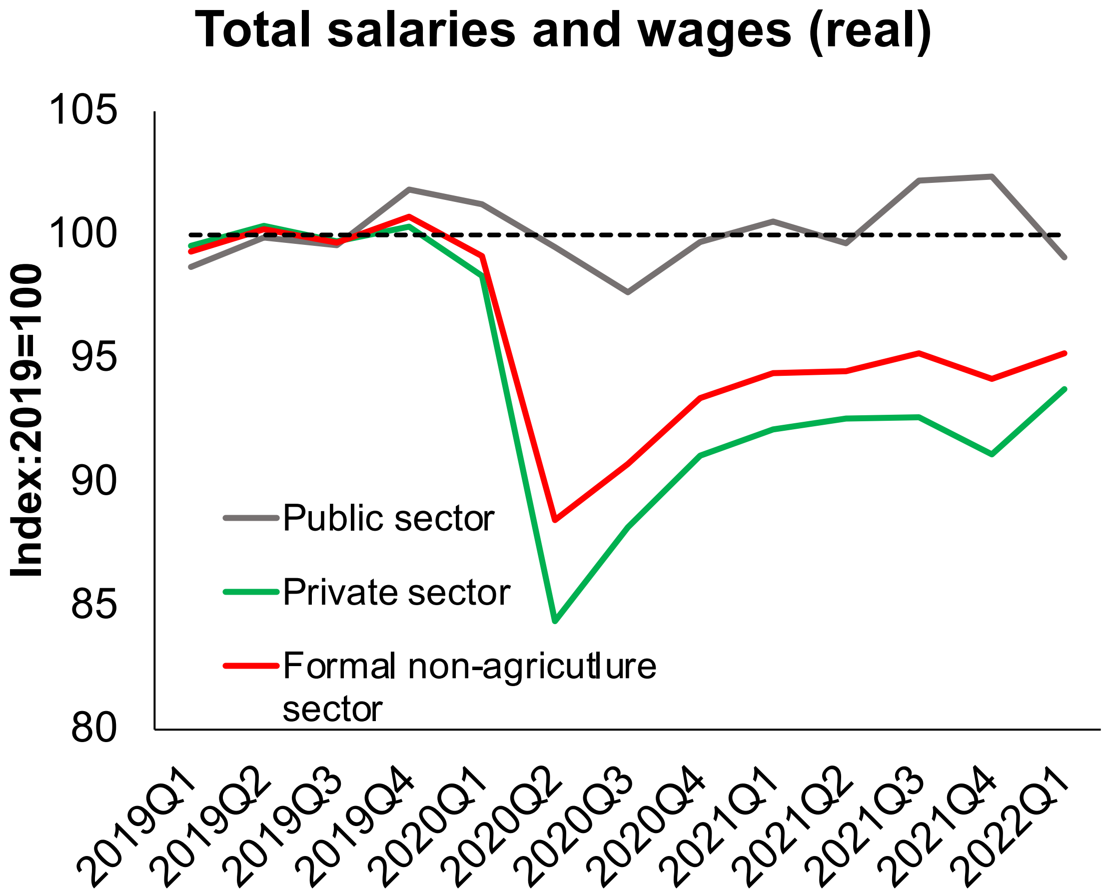


Source: SARB

Employment, earnings continue to recover, but are lagging output …

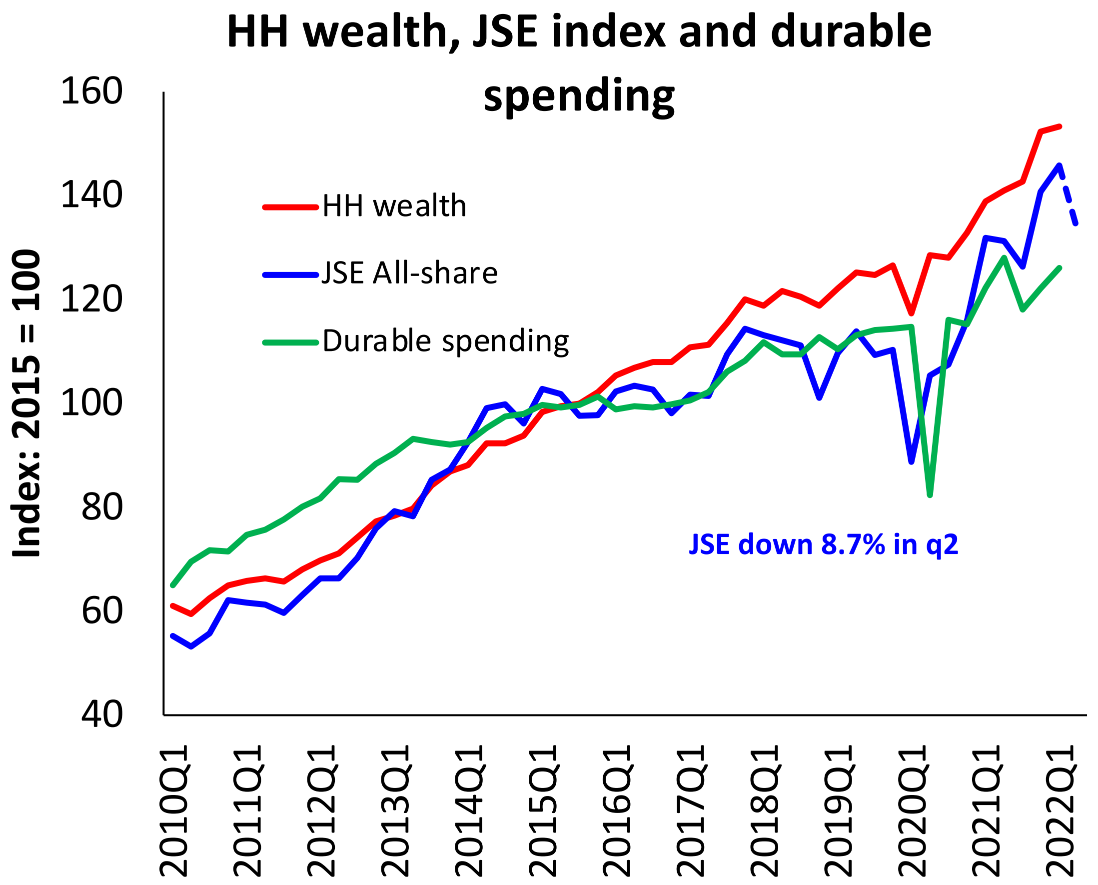


Source: Stats SA, QES

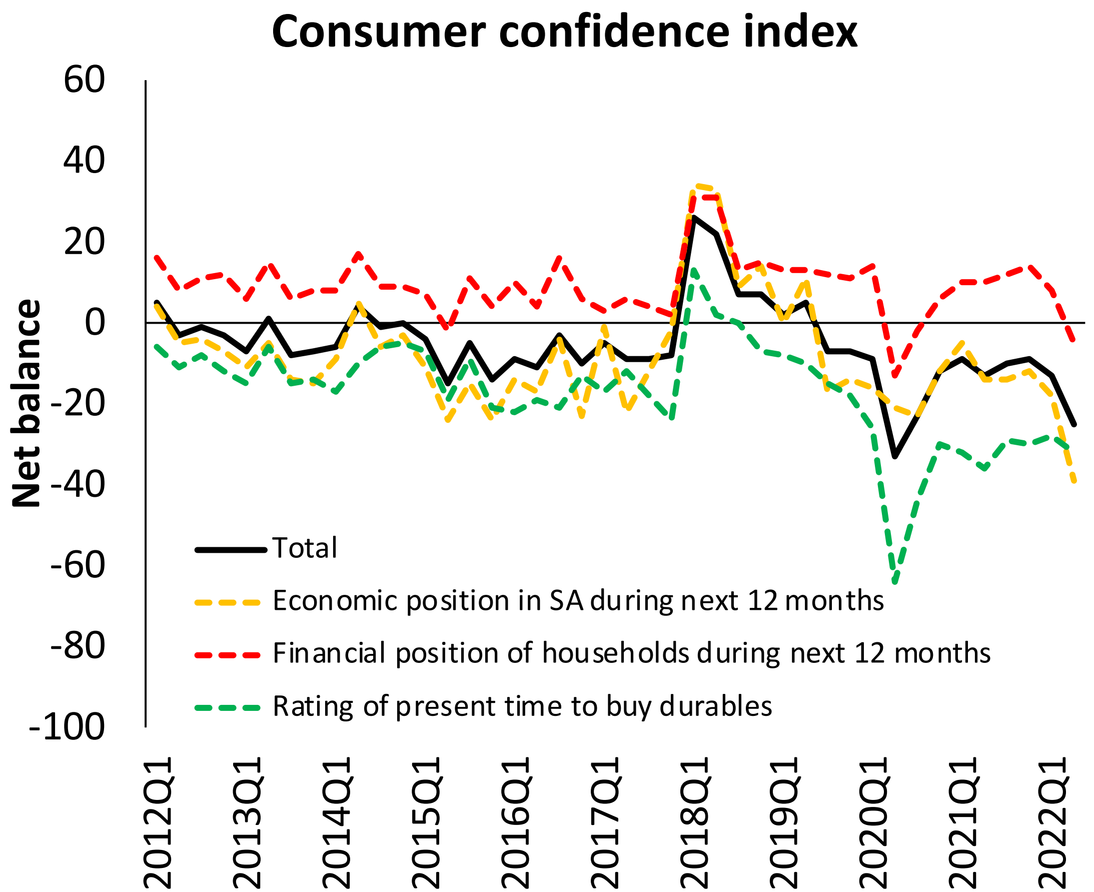


Source: SARB

… but consumers may be showing signs of strain



Sources: Stats SA and SARB

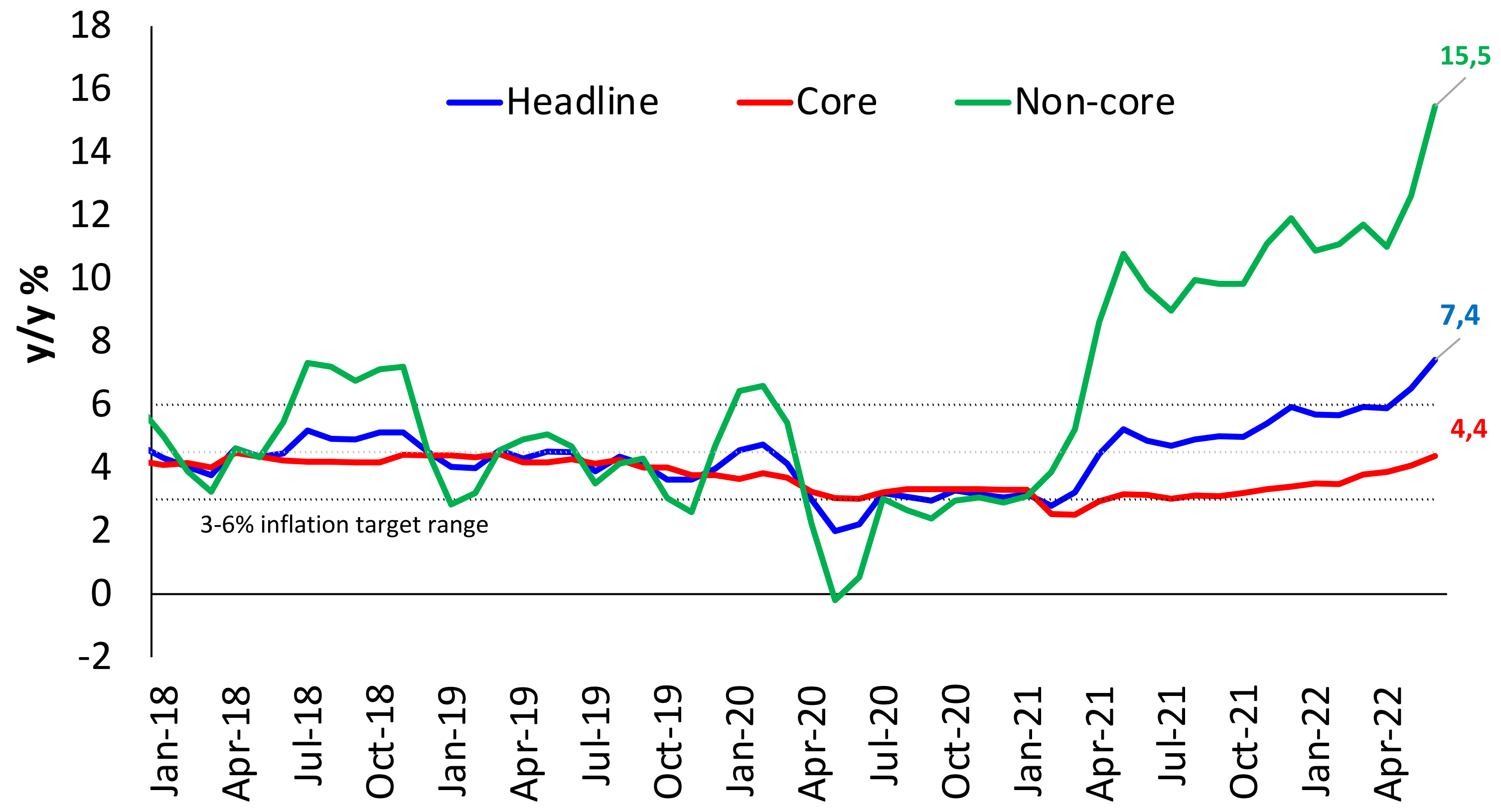


Source: BER

Inflation sharply higher, more broad-based

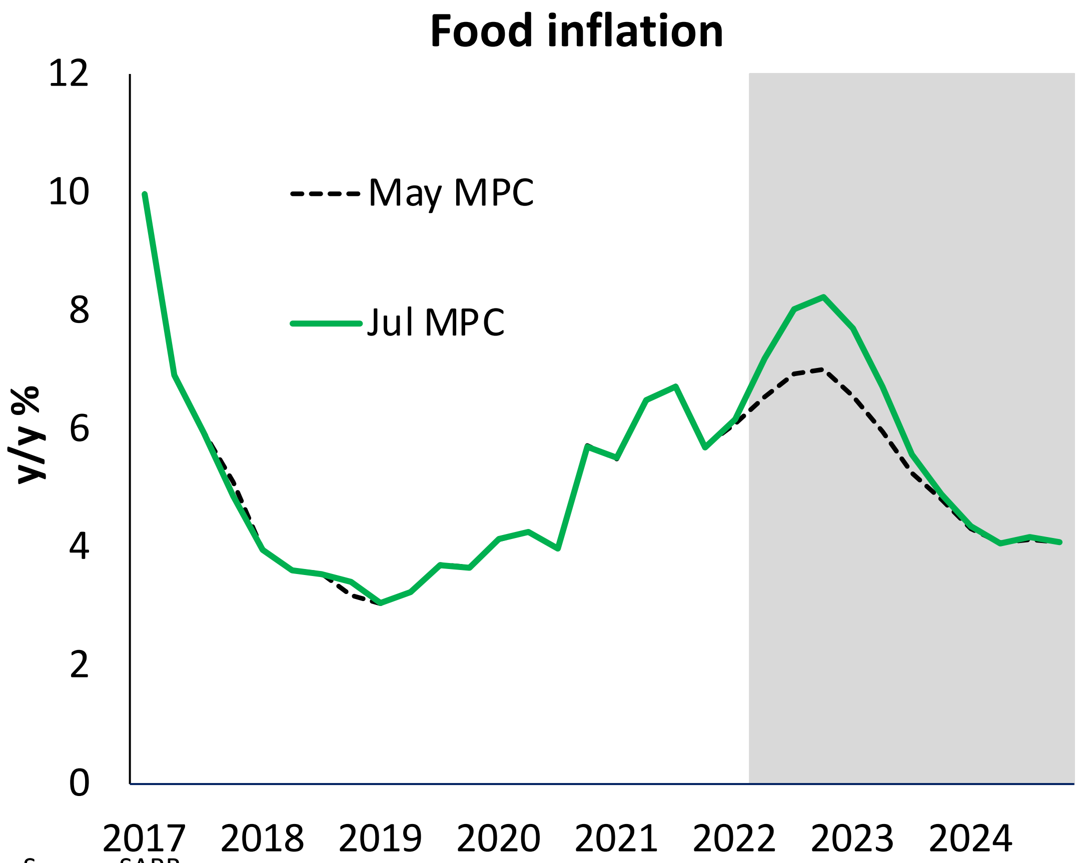
Core now around the midpoint of the target range

Different inflation measures

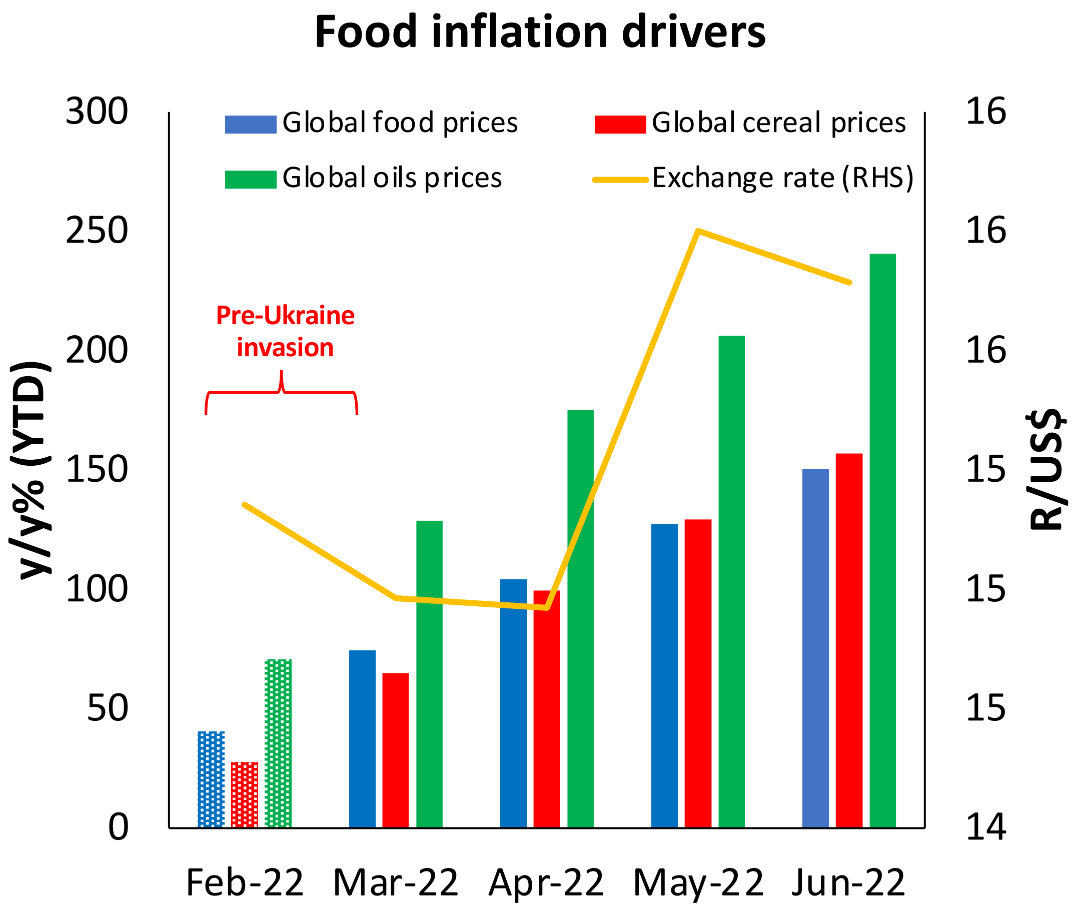


Sources: Stats SA and SARB

High global food prices and a weaker rand are driving food inflation higher …



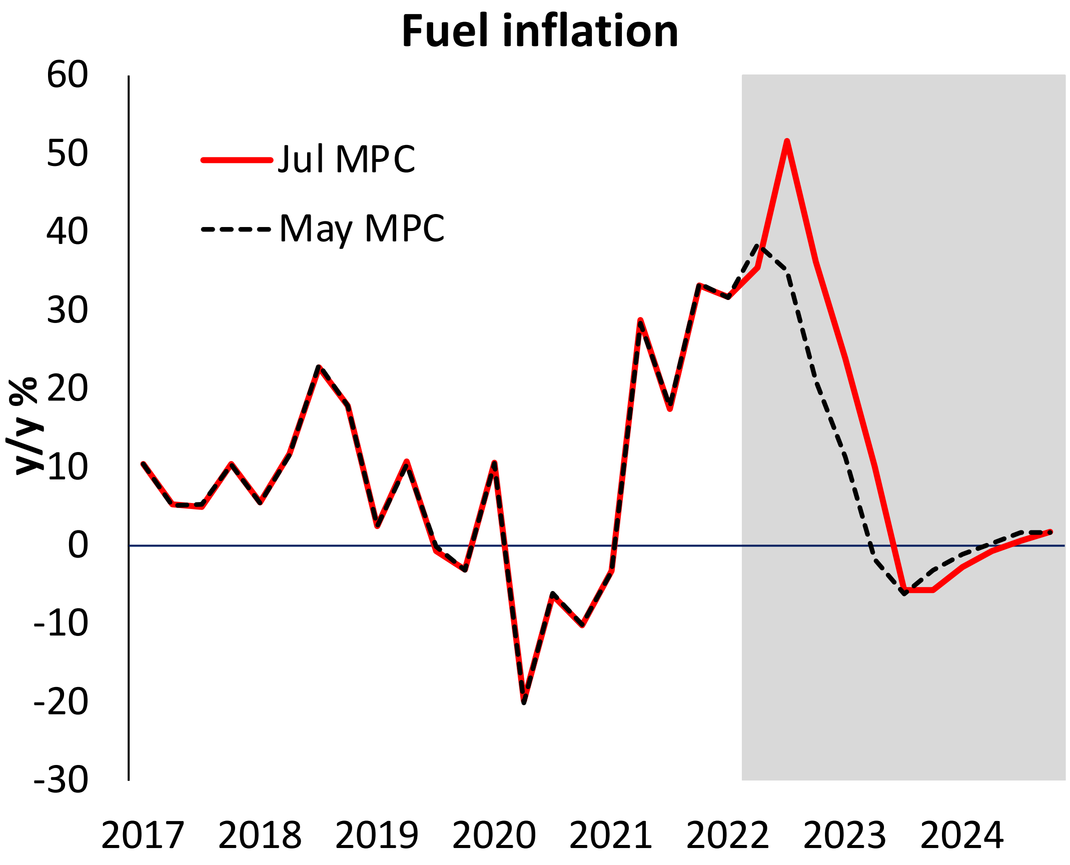
Source: SARB



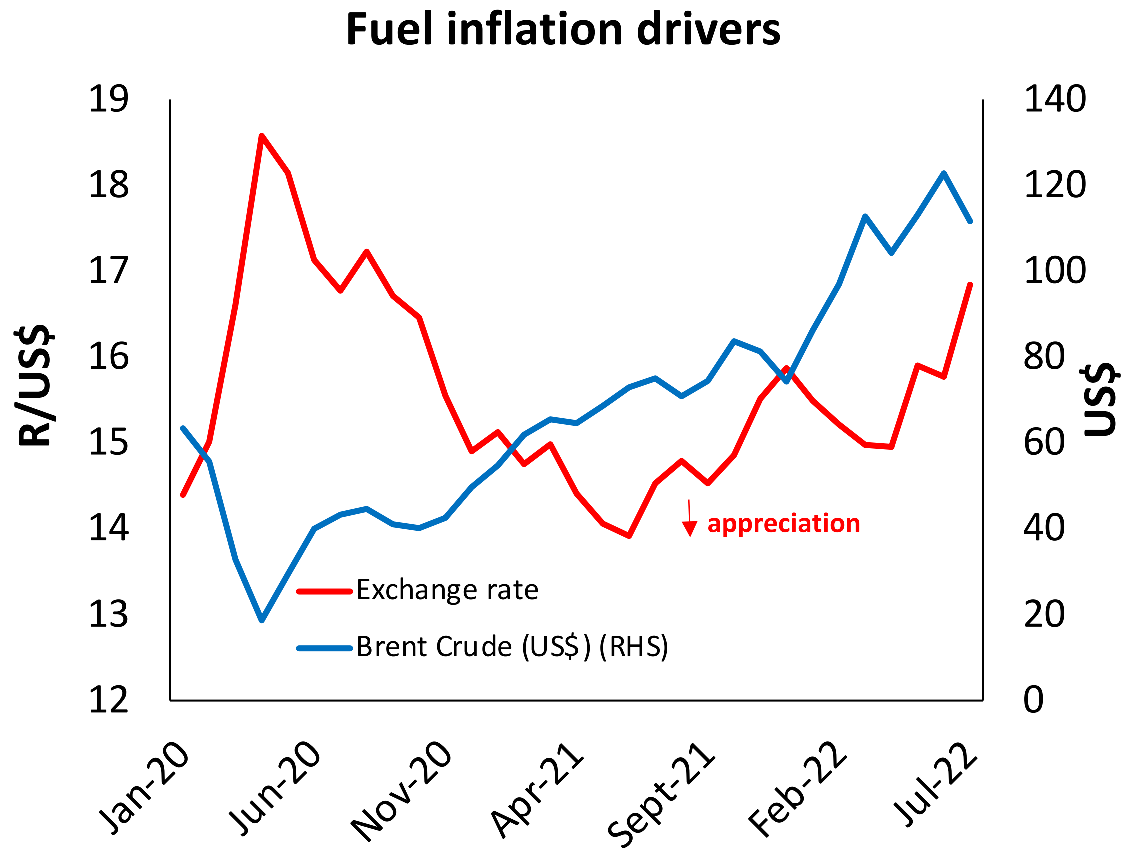
Sources: UN FAO and SARB

… while domestic fuel inflation is pressured by higher oil prices and a weaker rand

Will the recent moderation last?



Source: SARB



Source: SARB

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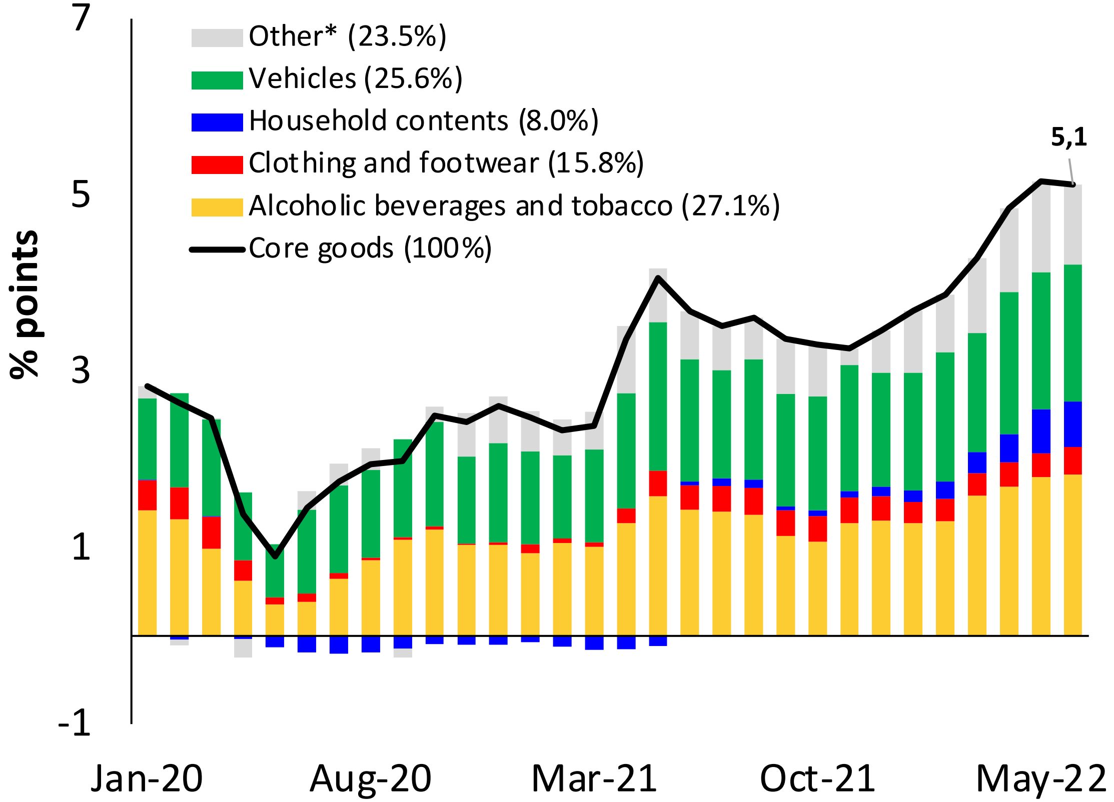
Rising core inflation pulled up by sharply higher core goods inflation, services in tow

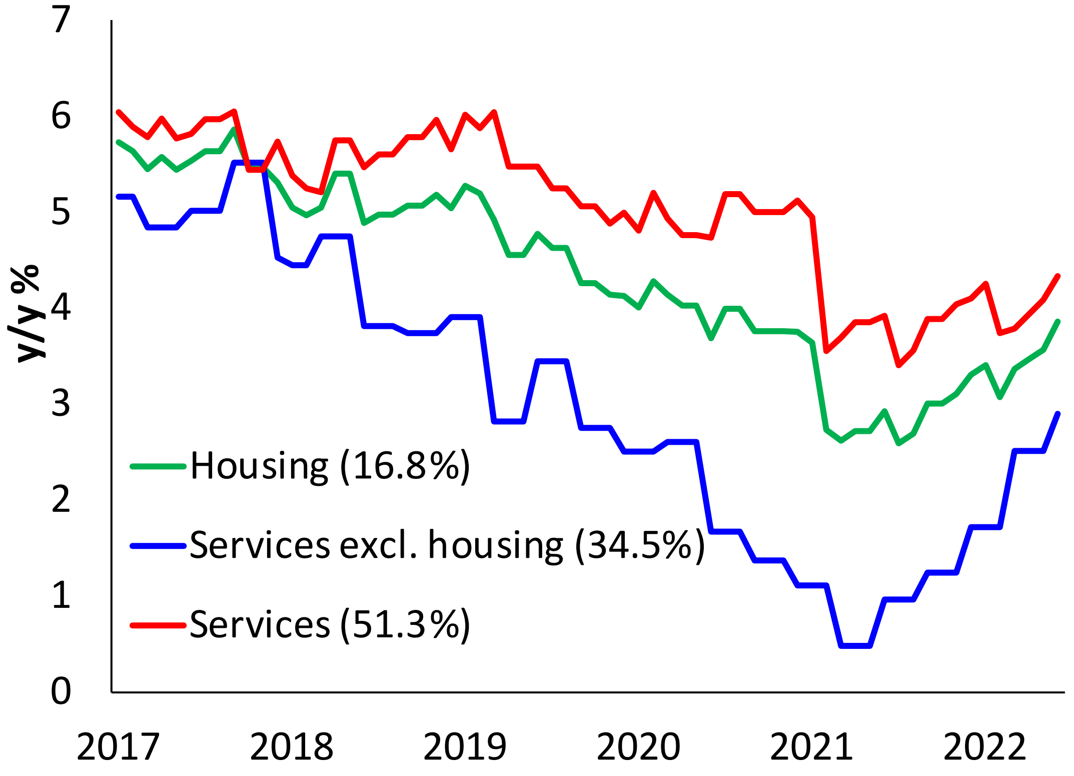
Contribution to core goods inflation



Sources: Stats SA and SARB

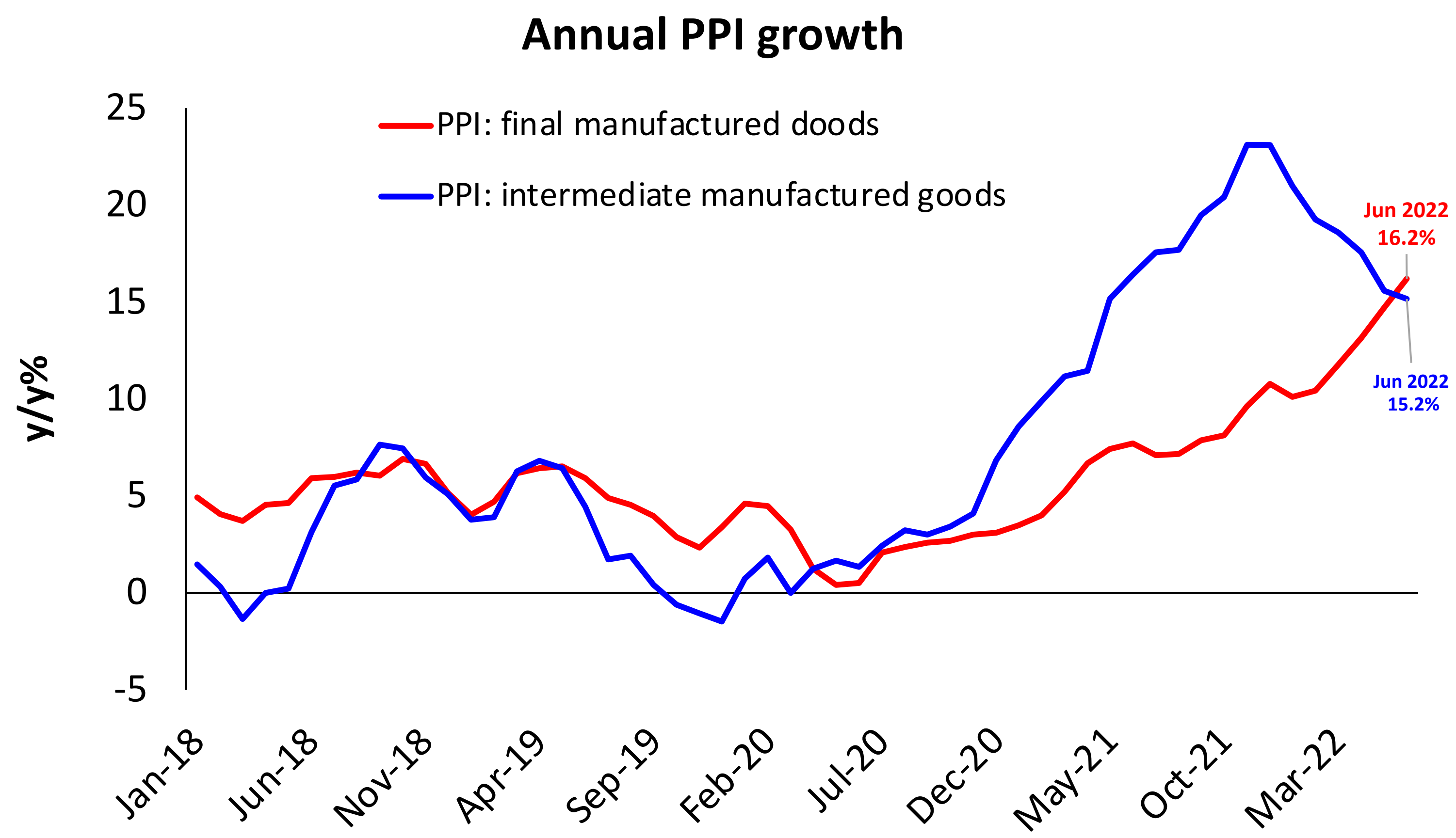
*Other includes medical products, spare parts and accessories and other

Services inflation



Sources: Stats SA and SARB

Final goods PPI inflation continues to accelerate sharply …



Source: Stats SA

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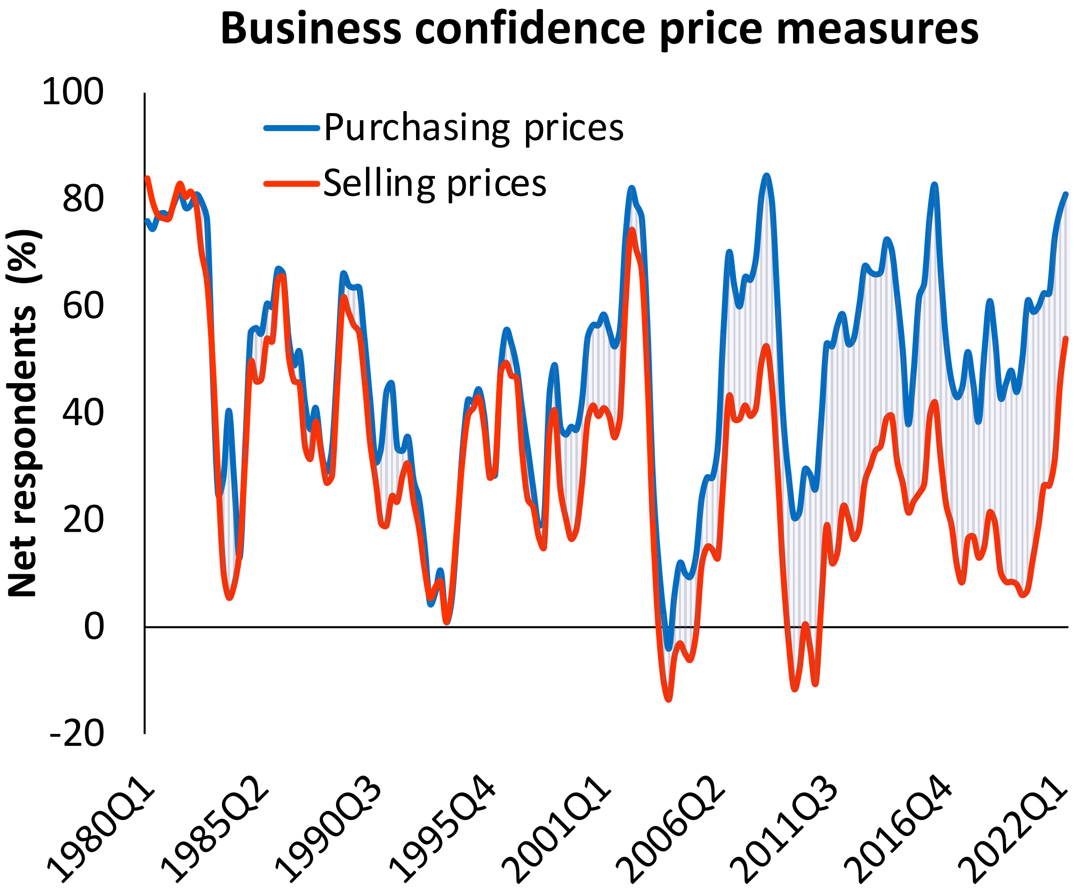
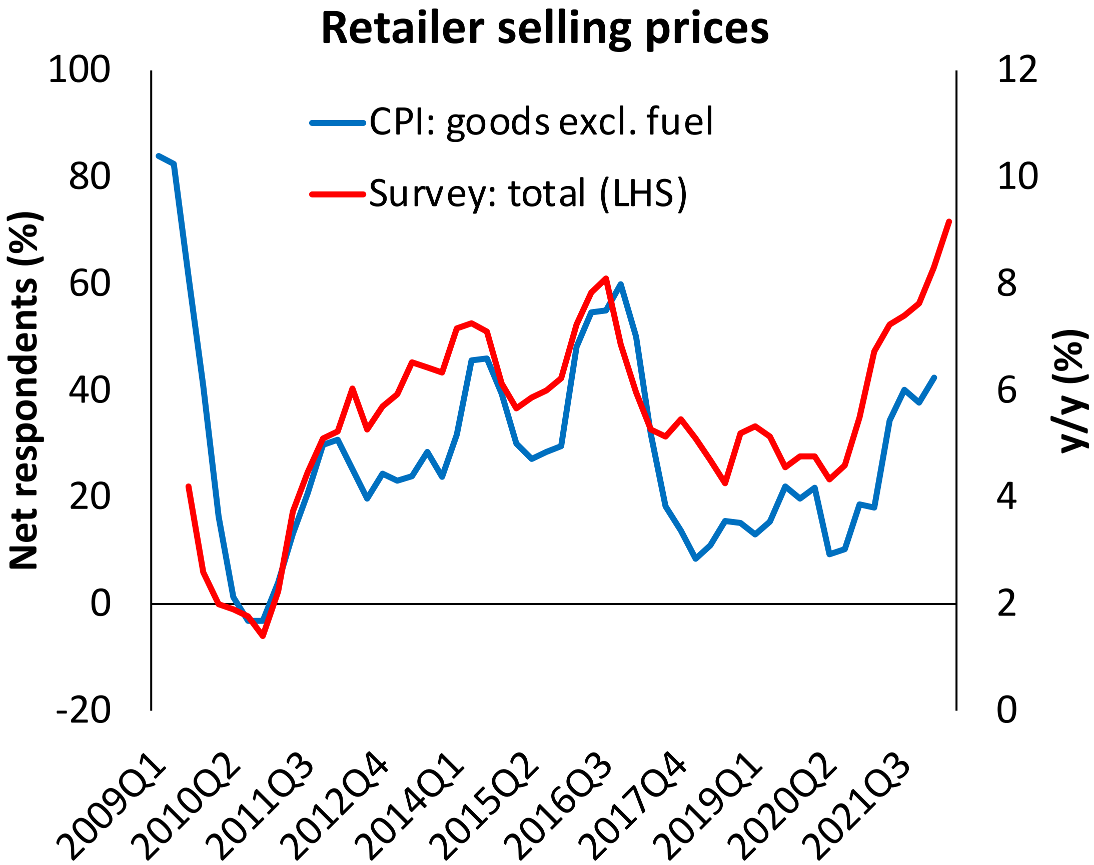
… as sellers show increasing willingness to pass on high input costs to consumers …



Source: BER



Sources: BER and Stats SA

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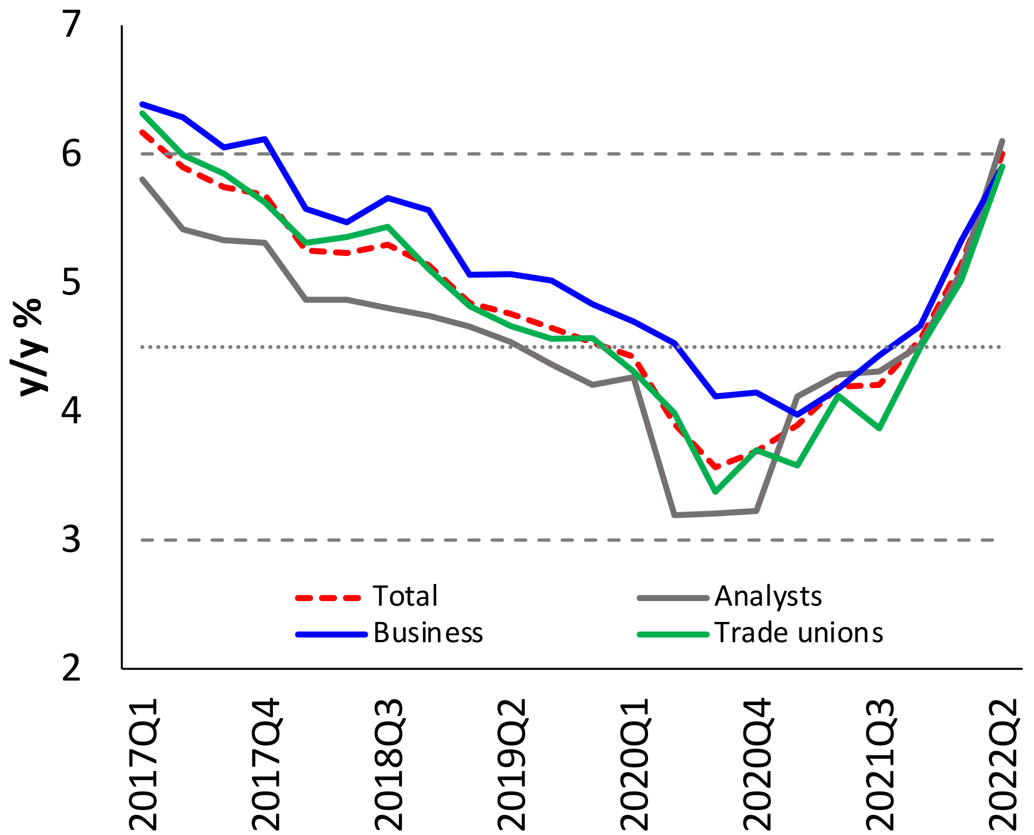
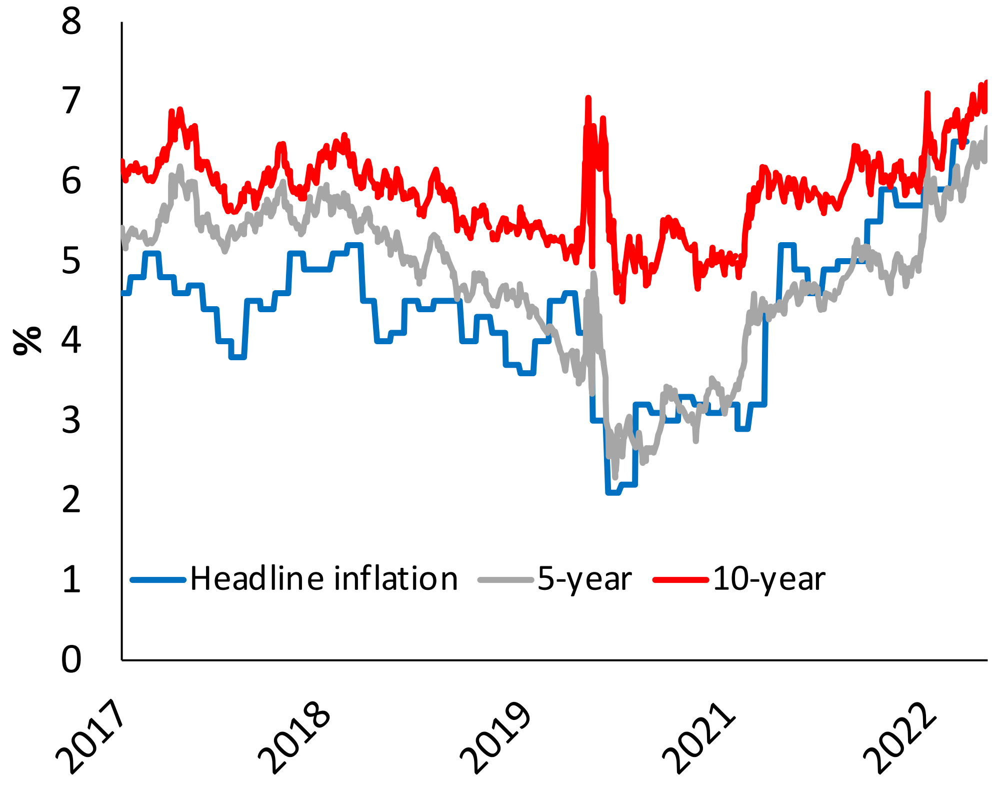
… while sharply higher inflation expectations could stoke inflation further …

Current year inflation expectations



Source: BER

Breakeven rates



Data are daily and as at 13 July 2022
Source: Bloomberg

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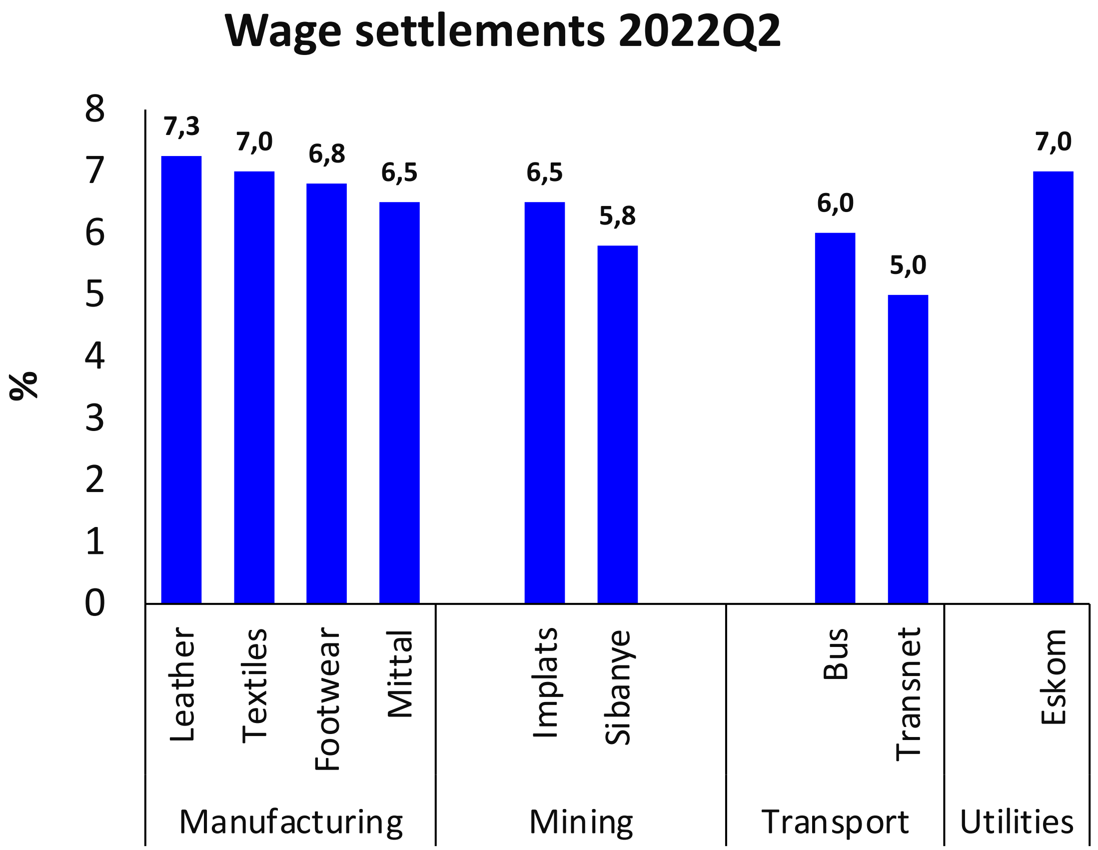
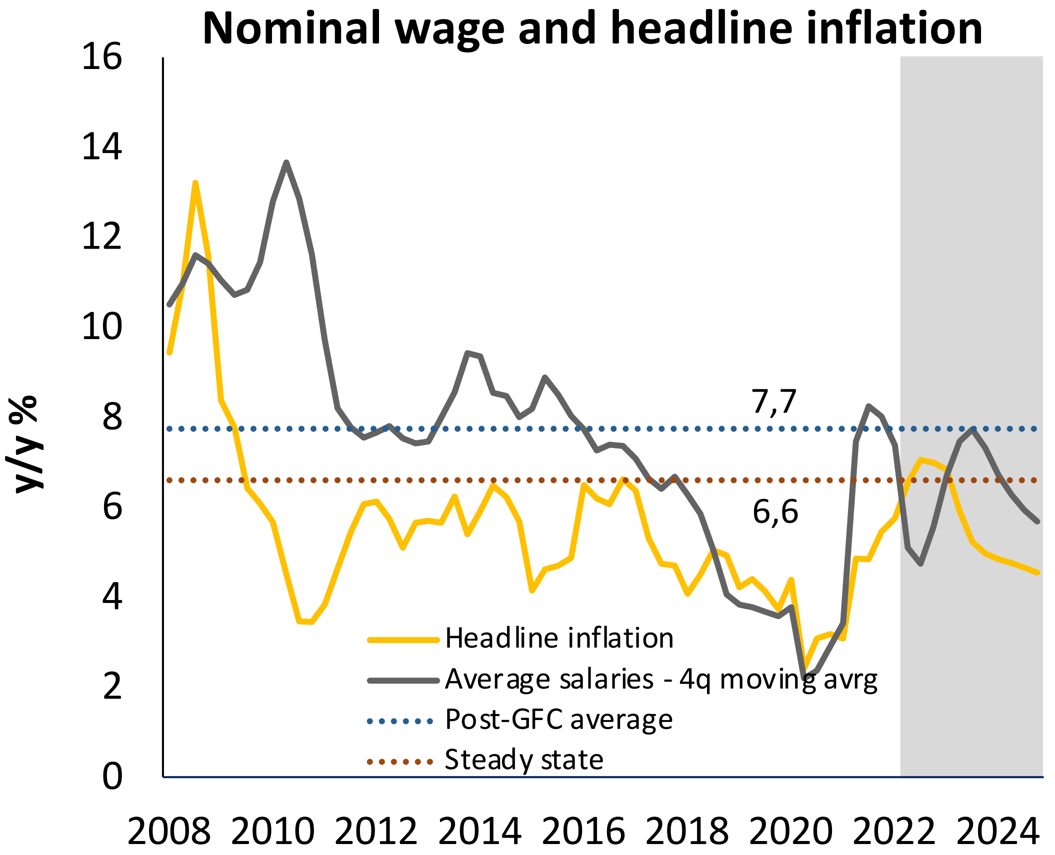
… and wages further, raising the prospect of a wage-price spiral



Sources: News agencies



Source: Stats SA

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Nominal repo rate moved lower as inflation fell, now rising in response to rising inflation

Repo adjusted	Nominal repo rate	Headline inflation	Ex-post real repo
Jan-16	6.75	6.2	0.55
Mar-16	7.00	6.3	0.70
Jul-17	6.75	4.6	2.15
Mar-18	6.50	3.8	2.70
Nov-18	6.75	5.2	1.55
Jul-19	6.50	4.0	2.50
Jan-20	6.25	4.5	1.75
Mar-20	5.25	4.1	1.15
Apr-20	4.25	3.0	1.25
May-20	3.75	2.1	1.65
Jul-20	3.50	3.2	0.30
Nov-21	3.75	5.5	-1.75
Jan-22	4.00	5.7	-1.70
Mar-22	4.25	5.9	-1.65
May-22	4.75	6.5	-1.75
Jul-22	5.50	7.3	

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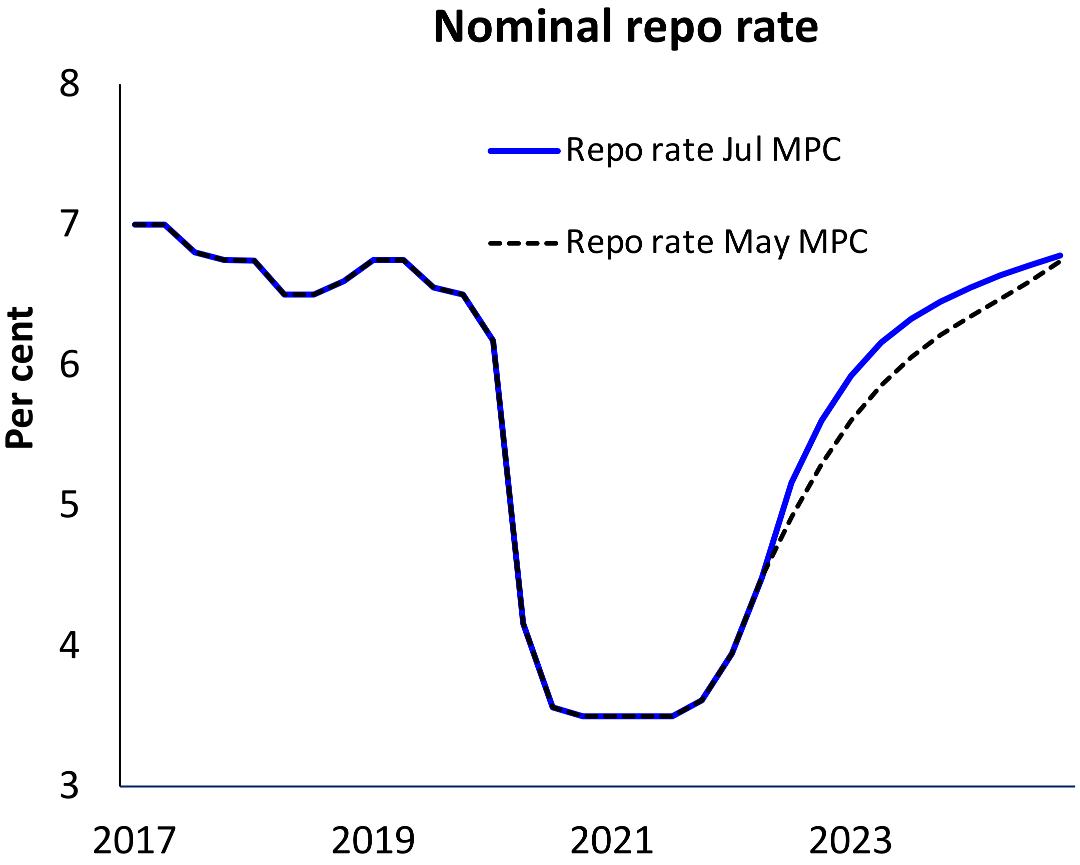
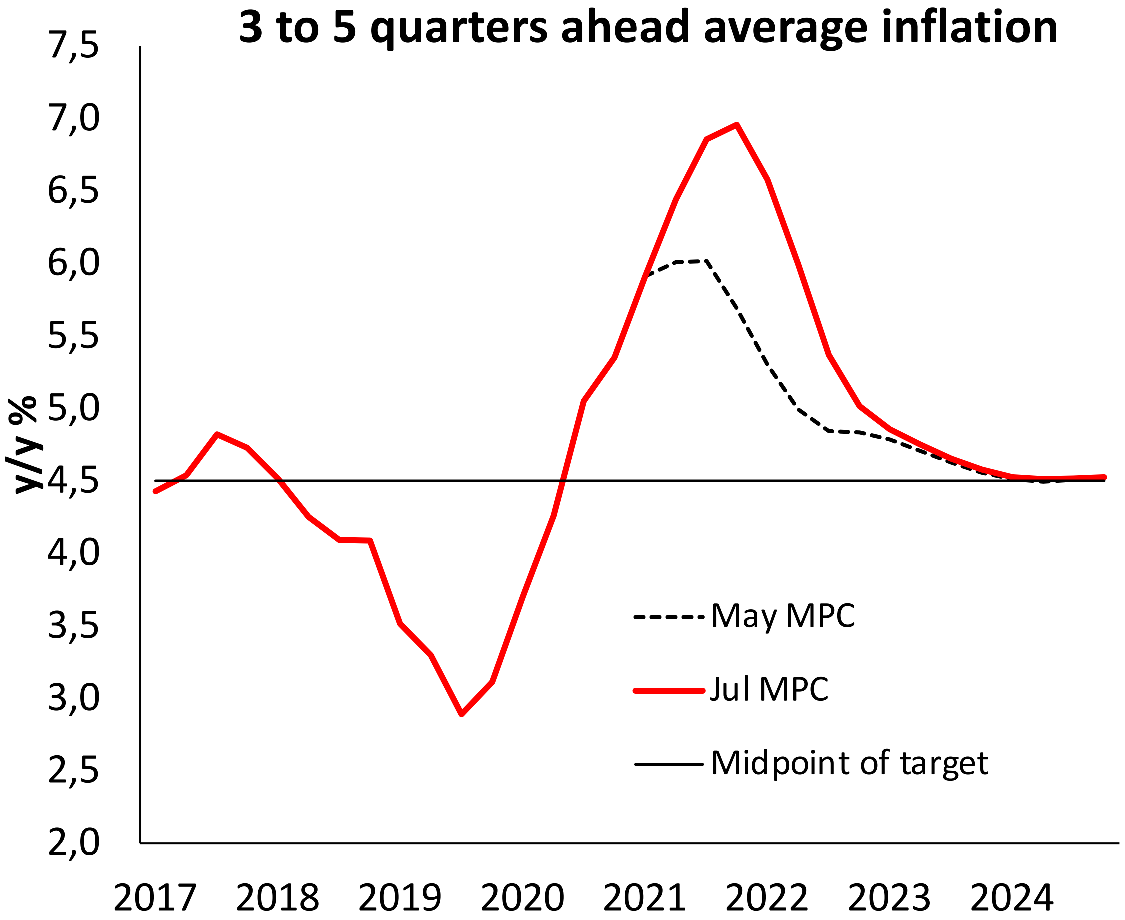
QPM-implied policy path trajectory is a little steeper as inflation is projected sharply higher



Source: SARB



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Concluding remarks

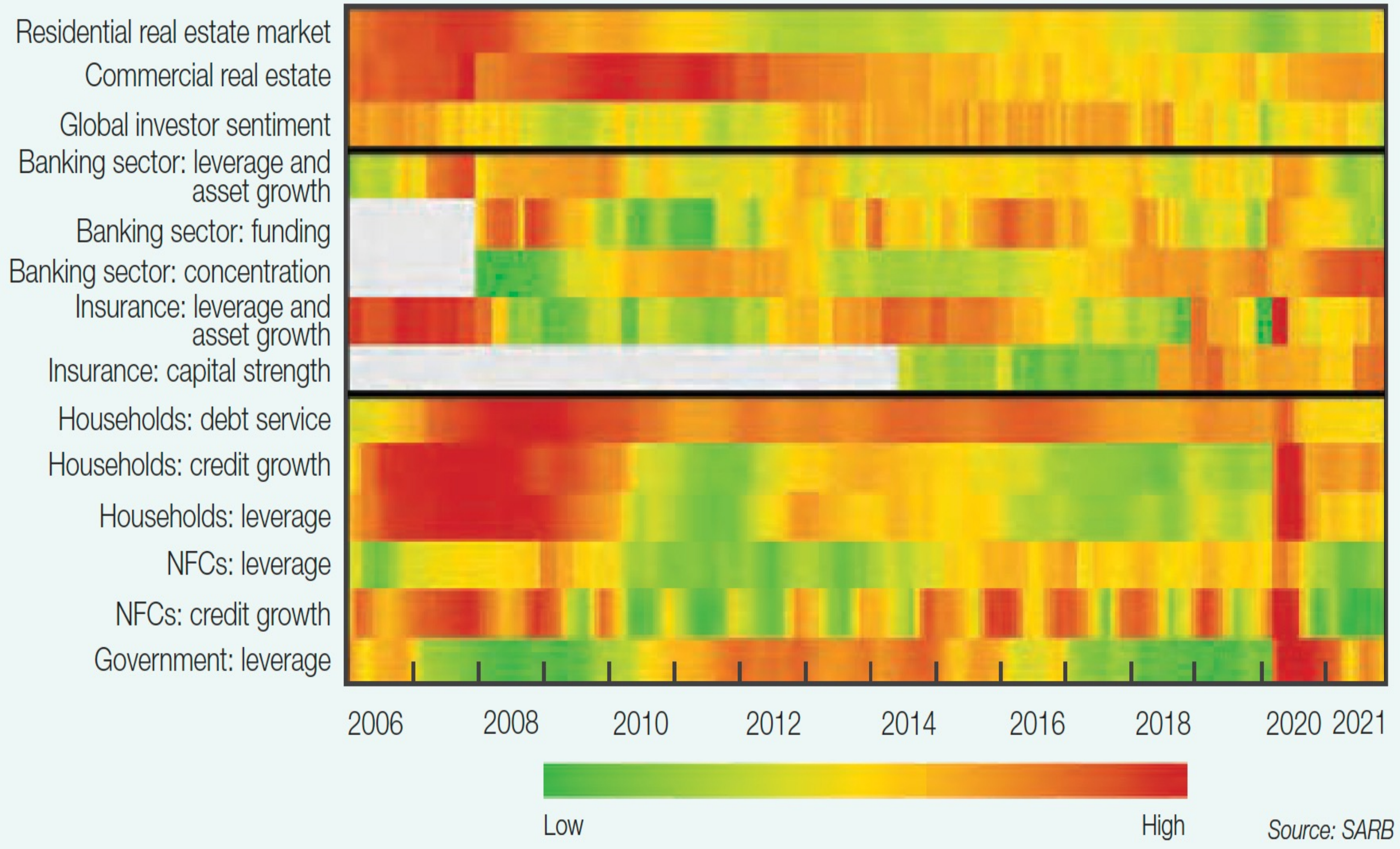
- Global inflation has reached crisis levels; no one is spared
- Faster pace of policy normalisation globally; AE tightening to have ripple effects for EMs
- Domestic inflation risks tilted to the upside … evidence of pass-through, second-round effects
- MP has had to respond a little more forcefully to protect purchasing power
- Domestic growth (potential) hamstrung by intensified load-shedding

Financial stability

South Africa's financial system remained resilient during the period under review, with no systemic events recorded. Some of the main risks to financial stability that emerged during the year included:

- the continued impact of COVID-19 on growth and the unequal impact on income and employment;
- the impact of rising inflation and interest rates globally on the domestic financial system;
- the July 2021 unrest and its cost to the domestic financial system;
- the high level of government debt and the concentrated exposure of the financial sector to the government;
- climate change-related risks;
- and the possible impact of the Russia-Ukraine conflict on financial stability.

Financial stability heatmap



South African Reserve Bank

Highlights from the SARB Annual Report 2021/22

The SARB’s performance

- Key initiatives: national payments, fintech, climate change
- Delivering on the SARB’s 2025 Strategy
- Financial highlights
- Preferential procurement
- Corporate Social Investment (CSI)
- Human resources highlights

Key initiatives

National payments

- The payment and settlement system renewal programme continues and will remain in development until 2025.
- The review of the NPS Act 78 of 1998 is underway and will provide the SARB with the necessary powers to regulate, license, oversee and supervise payment services.

Financial technology (fintech)

- With central banks from Australia, Malaysia, Singapore as well as the Bank for International Settlements, the SARB took part in Project Dunbar which tested the use of central bank digital currencies (CBDCs) for international settlements.
- The project identified the challenges of implementing a multi-CBDC platform shared across central banks and proposes practical design solutions to address them.
- The SARB published the Project Khokha 2 report which further explored distributed ledger technology (DLT), highlighting legal, regulatory and policy implications when applying DLT in financial markets.

Climate change

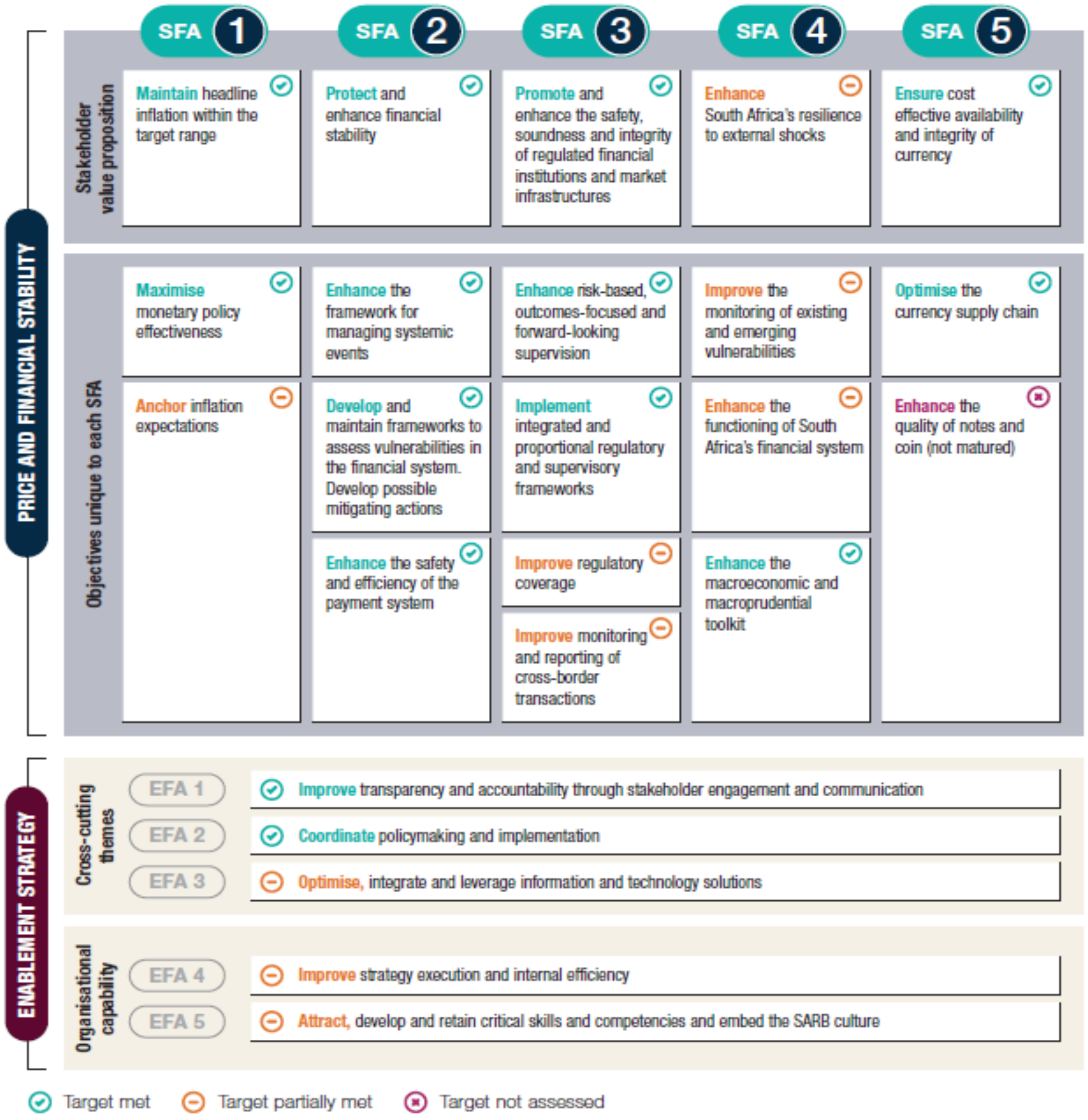
- The SARB has an important role to play in adapting and mitigating against climate change risks.
- Its immediate task is to improve information flows within financial markets so that climate change considerations inform investment decisions and maintain financial and price stability.
- The SARB's work programme is guided by the recommendations of the Network of Central Banks and Financial Regulators for Greening of the Financial System, the Financial Stability Board and G20.
- Locally, the SARB coordinates with National Treasury and other regulators though the Intergovernmental Sustainable Finance Group.

- The SARB's immediate focus is on:

1. Understanding the impact of transitional and physical risks for monetary and financial sector policy.
2. Incorporating disclosure and taxonomy requirements in the regulatory framework and providing guidance to financial firms on how to incorporate financial risks in their risk management.
3. Developing stress testing scenarios.
4. Improving data sources.

South African Reserve Bank

Progress against strategy



- The SARB's strategy is designed to fulfil its price and financial stability mandates, as well as the additional priorities that various laws assign to the organisation, in the interests of the economic well-being of all South Africans.
- This strategy is articulated through five strategic focus areas (SFAs) – prioritised outcomes that the SARB considers essential to achieving its mandate.
- Though the SARB remained constrained by COVID-19 in this period, strategic delivery progressed alongside an ongoing emphasis on the enablement focus areas (EFAs), which contain many of the SARB's transformational programmes.

South African Reserve Bank

Progress against strategic focus areas

SFA1:
Inflation remained within the target range during the period under review.

SFA2:
The SARB continued to monitor South Africa's financial system for signs of stress. Several regulatory interventions were promptly, appropriately and adequately implemented to ensure the continued safety of the financial system. The impact of COVID-19 notwithstanding, the country's financial system remained resilient, with no systemic events being recorded.

SFA 3:
The Prudential Authority (PA) continued its intensive supervision of regulated financial institutions and their adherence to governance and risk management practices. No systemically important financial institutions (SIFIs) failed in this year, although certain smaller institutions were placed under specific regulatory action. A capital flow management framework is under development, although its rollout has been impacted by COVID-19.

SFA4:
The SARB improved its monitoring of external vulnerabilities, given the significant impact of COVID-19. It is developing and implementing various tools to improve the policy toolkit and enhance the functioning of the financial system. Gross foreign exchange reserves rose to US$58.2 billion as of March 2022, from US$53.0 billion in March 2021.

SFA5:
The SARB's subsidiaries producing banknotes and coin have fulfilled the annual orders, although there were disruptions due to COVID-19, and this resulted in an increase in production costs. Banknotes and coin buffer stock levels are sufficient to meet public demand and the reported counterfeit notes are within the threshold.

Financial summary: SARB Group profit breakdown

CPD

- 2022: R455 million profit
- 2021: R1.5 billion profit
- VAR: R1.1 billion decline in profit

1. Large R1.5 billion ECL reversal in 2021 versus R61 million reversal in 2022
2. Fair value loss on Land Bank notes of R252 million in 2021 and R167 million reversal in 2022

SA Mint

- 2022: R360 million after tax
- 2021: R315 million after tax
- VAR: R45 million increase in profit after tax (Group share)

1. Sales (including Prestige Bullion) increased by R300 million (i.e. 6%)
2. Cost of sales increased by R100 million
3. Operating expenses increased by R100 million, mainly due to the R55 million onerous contract provision relating to the Thailand export contract

SABN

- 2022: R205 million after tax
- 2021: R60 million after tax
- VAR: R145 million increase in profit after tax

1. Sales increased by R300 million (i.e. 24%)
2. Cost of sales increased by R179 million
3. Overheads and operating expenses decreased by R77 million due to higher production volumes

SARB

- 2022: R2.0 billion loss after tax
- 2021: R1.7 billion profit after tax
- VAR: R3.7 billion decline in profit after tax

1. Fair value income decreased by R6.2 billion due to increasing yields in the FX reserves portfolio
2. Operating costs increased by R330 million
3. Dividend income increased by R766 million
4. Tax expense decreased by R1.7 billion due to a recognised deferred tax asset.

GROUP

2022: R1.7 billion **loss** after tax

2021: R3.6 billion profit after tax

VAR: R5.3 billion **decline** in profit after tax

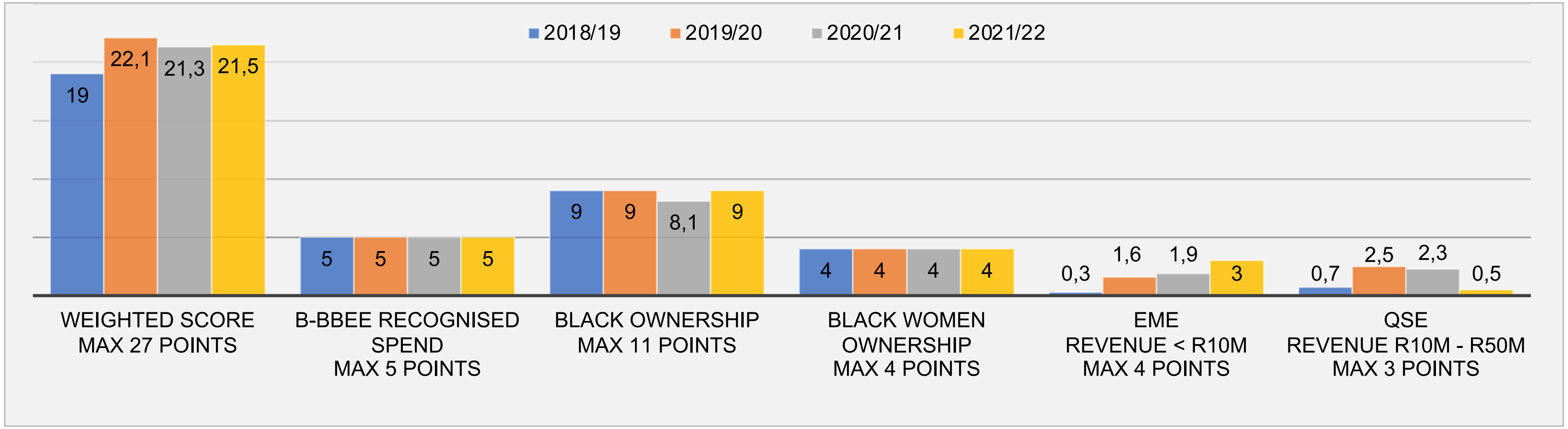
Financial summary: SARB Group profit breakdown

Group profit after tax

	2022 R'000	2021 R'000	Variance R'000	%
CPD	**454 911**	1 541 817	(1 086 906)	(70%)
SA Mint	**360 420**	314 792	45 628	14%
SABN	**205 236**	60 264	144 972	241%
ABHL share of profit net of impairment	**228 447**	118 525	109 922	93%
Impairment loss on investment in associate	**(228 447)**	(118 525)	(109 922)	(93%)
Subsidiaries' and associate profit contribution	**1 020 567**	1 916 873	(896 306)	(47%)
SARB's net loss after taxation	**(2 035 591)**	1 677 754	(3 713 345)	(221%)
Less: intercompany **dividends (SA Mint) and other**	**(676 743)**	-	(676 743)	(100%)
Total Group profit attributable to the parent	**(1 691 767)**	**3 594 627**	**(5 286 394)**	**(147%)**

- **CPD** profit **declined** by **70%**. The prior year profit of R1.5bn was driven mainly by a R1.5bn ECL provision reversal with the current year reversal of only R0.1bn. This is offset by the R0.2bn Land Bank fair value loss provision reversal in line with capital repayments received in the current year. Operating costs of R0.05bn have remained flat year on year.
- **SA Mint** contributed a net profit after tax of **R0.4bn** to the Group, **an improvement of 14%** from last year, largely due to higher profits in Prestige Bullion.
- **SABN** profit **increased** by **241%** to **R205mn** from **R60mn** in the prior year, mainly due to higher sales volumes (24%) and a R109mn improvement in the under-recovery of overheads.
- **SARB** profit **decreased** by **221%** mainly due to:
  - **decreased** fair value gains of **R6.2bn** (2022: (**R0.5bn)**; 2021: **R5.7bn**) due to increased yields as a result of the US Federal Reserve and other central banks around the world increasing interest rates. This has been slightly mitigated by the appreciating rand to USD (2022:14.57, 2021:R14.79); offset by
  - **increased** dividends received of **R0.8bn -** SA Mint: **R0.7bn** and BIS: **R0.1bn** (2021: **Rnil**);
  - **increased** net interest income of **R0.7bn** (2022: **R3.3bn**; 2021: **R2.6bn**) – higher interest income on LGS recognised from the end of the moratorium period (R0.6bn), decreased interest expense on the National Treasury sterilisation deposit by R1.8bn; offset by decreased interest income on accommodation to banks by R0.4bn and increased interest expense on call deposits by R1.3bn;
  - recognition of a **R1.0bn** calculated assess loss deferred tax asset resulting in a **R1.0bn** **tax expense reversal; and**
  - **no further impairment or impairment reversal** was recognised in ABHL in the current year, except for the impairment of the share of the associate's profits by the SARB Group.

Preferential procurement



B-BBEE performance increased from 21.3 points in 2020/21 to 21.5 points in 2021/22.
The 0.2 increase was mainly due to the following:

- a significant improvement in the Black Ownership category, with a 0.9 point increase;
- a significant improvement in the Emerging Micro Enterprise (EME) category, with a 1.1 point increase, as a result of continued channelling of low risk spend to EME’s in both professional services resources and commodity-based sourcing activities.

- It is noted that the Qualifying Small Enterprise (QSE) category reduced further from 2.5 points out of a possible 3 points in 2019/20, to 2.3 points in 2020/21, and lastly to 0.5 points in 2021/22. This is mainly attributable to key projects previously awarded to QSE suppliers such as the back-up power, and hot and cold water reticulation projects being completed in 2021.

- The SARB has consistently maintained maximum points for the Black Women Owned (BWO) category since the 2016/17 financial year, which marks six consecutive years of solid performance.

Corporate Social Investment (CSI)

The SARB's CSI initiatives focus on education. The programme works to:

- expand the understanding of monetary policy at high school level;
- develop human capital in the fields of monetary policy and financial stability;
- enhance economic and financial journalism;
- support students with funding;
- and provide support to special-needs schools.

Corporate social investment objectives	2019/20 spend	2020/21 spend	2021/22 spend
Develop human capital in the fields of monetary policy and financial stability.	R5.7 million 64 beneficiaries	R5.7 million 73 beneficiaries	**R5.2 million** **43 beneficiaries**
Improve the quality of economics and financial journalism in South Africa and on the continent.	R2.6 million 52 beneficiaries	R2.8 million 31 beneficiaries	**R4.4 million** **46 beneficiaries**
Grow the understanding of monetary policy at high school level.	R3.7 million 1 770 beneficiaries	R777 000[1]	**R828 000** **1 407 beneficiaries**
Support tertiary students with funding	*R10.8 million 82 beneficiaries	*R13.4 million 95 beneficiaries	**R16.4 million** **104 beneficiaries**
Provide support to special needs schools	R2.6 million	0	**0**
TOTAL CSI SPEND	**R25.4 million**	**R22.7 million**	**R26.8 million**

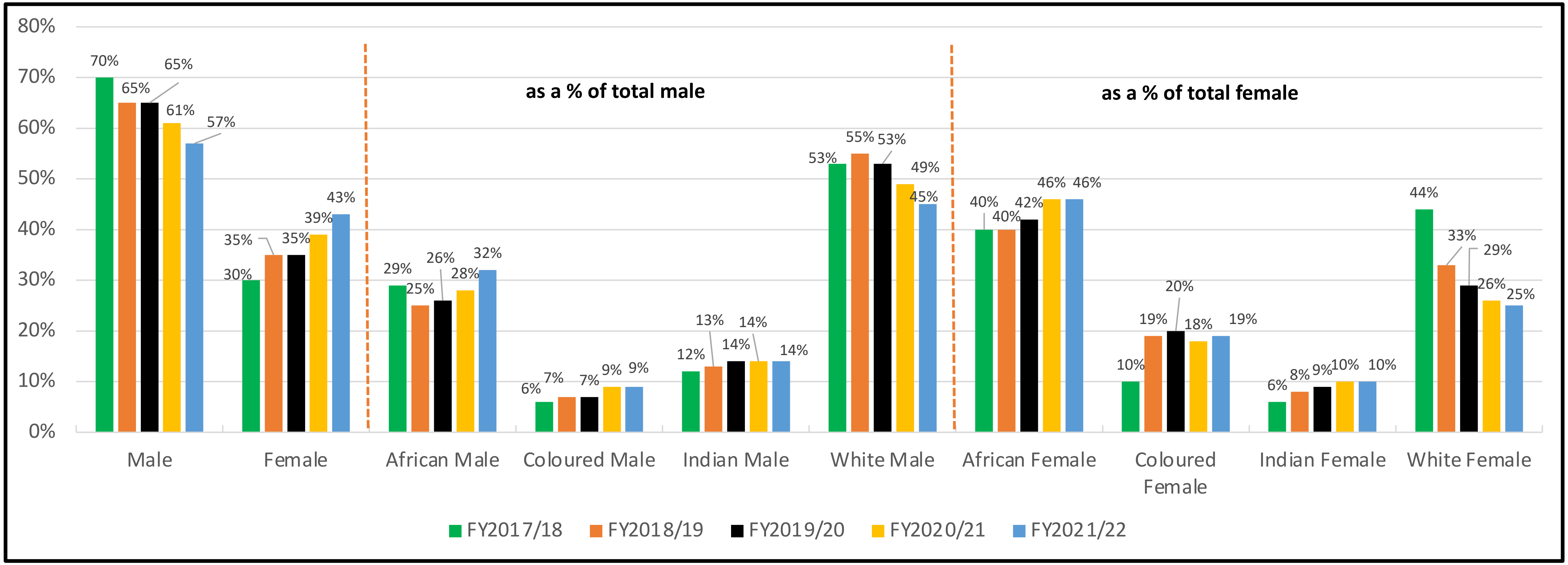
* *Erratum: the budget for 2019/20 and 2020/21 has been corrected to reflect actual spend.*

1 *The MPC Schools Challenge was cancelled due to COVID-19, however, workshops were conducted prior to cancellation.*

Human resources highlights

- The Bank conducted an Employee Engagement Survey in February 2022, with a workforce participation rate of 84.7% (2020/21: 84.0%). Overall, the engagement score remains in the **Platinum Seal category** at a score of 70.6% (2020/21: 72.3%). The Platinum Seal is the highest level in the Deloitte Best Company to Work For Survey.
- The Bank's total staff composition is 81% black (African, Coloured and Indian) and 19% white:
  - Executive management (GEC) is 86% black and 14% white.
  - Top management is 63% black and 37% white.
  - Senior management is 75% black and 25% white.
- The Bank spent R68.2 million on training and development which is 3% of total payroll. This equates to 2 248 employees (98%) attending a training intervention in 2021/22.
  - (2020/21: R27.6 million, i.e. 1.7% of total payroll)
- The coverage ratio of critical roles increased to 90.8% in 2021/22 (target: 85%).
  - (2020/21: 88%)
- Regrettable turnover ratio was 1.6% in 2021/22 (target: < 4%).
  - (2020/21: 1.2%)

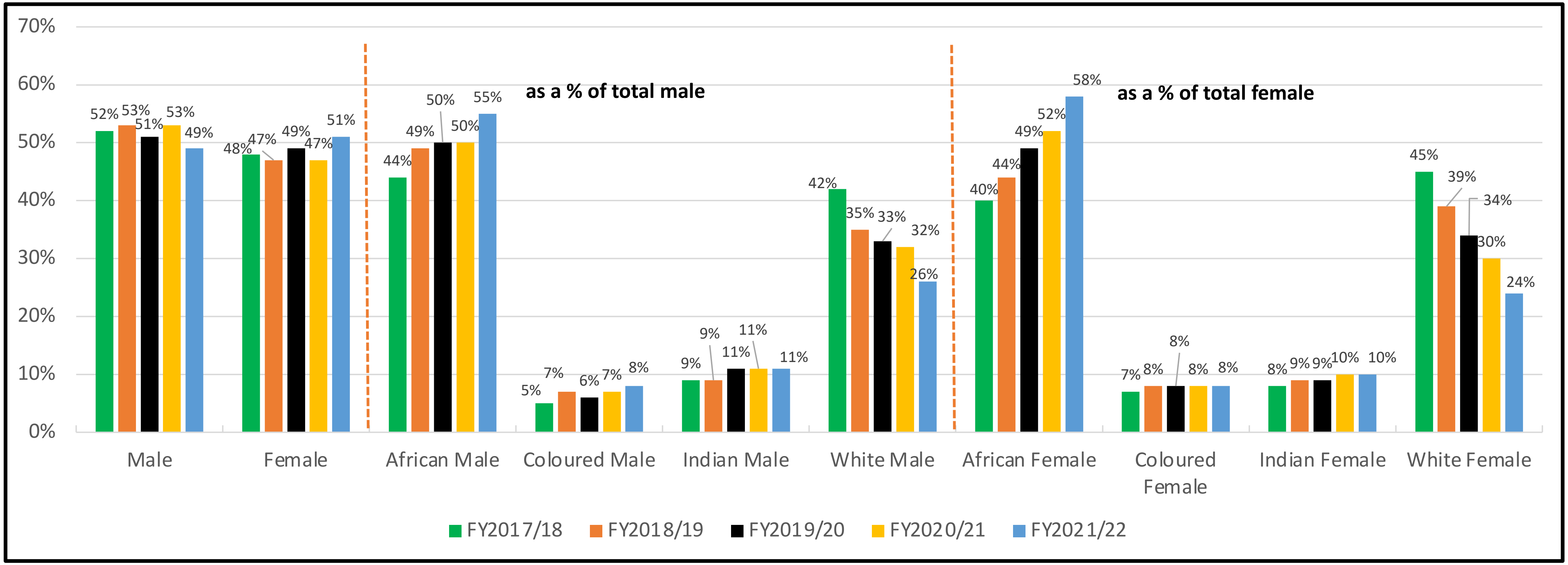
Staff composition: top management



- Female representation increased from 39% in 2020/21 to 43% in 2021/22.
- Male representation decreased from 61% in 2020/21 to 57% in 2021/22.
- Coloured and Indian males' representation remained the same at 9% and 14% respectively.
- African male representation increased by 4%.
- White male representation decreased from 49% in 2020/21 to 45% in 2020/21.

South African Reserve Bank

Staff composition: senior management



- Female representation increased from 47% in 2020/21 to 51% in 2021/22.
- Male representation decreased from 53% in 2020/21 to 49% in 2021/22.
- African female increased from 52% in 2020/21 to 58% in 2021/22.
- Coloured and Indian females' representation remained the same at 8% and 10% respectively.
- White female representation decreased from 30% in 2020/21 to 24% in 2021/22.

South African Reserve Bank

Highlights from the Prudential Authority Annual Report 2021/22

The Prudential Authority: governance and operational structures

The Prudential Committee (PruCo) provides oversight on management and administration to ensure that the PA functions effectively and efficiently. PruCo members:

Lesetja Kganyago
Governor and Chairperson of PruCo

Kuben Naidoo
Deputy Governor and Chief Executive Officer: PA

Fundi Tshazibana
Deputy Governor

Rashad Cassim
Deputy Governor

Standing invitees to PruCo
The four heads of department of the PA and the Head of the SARB's Financial Stability Department

The PA Management Committee (PA Manco) oversees the general operations and management, as well as oversight over regulatory and supervisory matters and comprises the following members:

Kuben Naidoo
Deputy Governor and Chief Executive Officer: PA

Suzette Vogelsang
Head: Banking, Insurance, CFI and FMI Supervision Department

Denzel Bostander
Head: Financial Conglomerate Supervision Department

Faizel Jeena
Head: Risk Support Department

Olaotse Matshane
Head: Policy, Statistics and Industry Support Department

The Prudential Authority: strategy and priorities

- The PA published its first Regulatory Strategy on 1 October 2018, which was revised and published on 1 October 2021.
- It sets out the PA's approach to regulation and supervision, and outlines its key priorities for the next three years. These priorities for banks, market infrastructures and insurers include:
  - strengthening and enhancing the regulation and supervision across institutions;
  - implementing the financial conglomerate regulatory and supervisory framework;
  - 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 anti-money laundering/counter-financing of terrorism supervision and implementing the recommendations from the Financial Action Task Force (FATF) Mutual Evaluation (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.

The Prudential Authority: Financial Sector Assessment Program

Purpose of the Financial Sector Assessment Program (FSAP):

To assist countries reduce the likelihood and severity of a financial sector crisis.

During 2020/21, the International Monetary Fund and the World Bank conducted a FSAP on South Africa. 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-capitalised and liquid.
- Financial sector oversight is strong, reflecting a commitment to independent supervision and the implementation of international standards.

The FSAP made key recommendations in the following areas:

- Vulnerabilities analysis, which includes the further strengthening of analytical tools.
- Financial sector oversight, which includes risk-based supervision, early intervention in banks and improved climate risk oversight, among other recommendations.
- Systemic liquidity referring to improving the repurchase market using different mechanisms and processes.

The Prudential Authority: Financial Action Task Force Mutual Evaluation, recommended actions

- Commenced in 2019, with the final report published on 7 October 2021
- The Mutual Evaluation (ME) report had an adverse rating under technical compliance and effectiveness and made the following recommendations, among others:

- All regulatory authorities should subject beneficial owners to fit and proper tests and verify that directors, senior managers and beneficial owners or their associates are not criminals as part of market entry controls and apply this standard upon renewal of current market participants.
- Providers of domestic money or value transfer services should be subject to licensing or registration.
- All supervisors should improve their understanding of money laundering (ML)/terrorist financing (TF) risk, in particular inherent and residual risks for both sectors and institutions.
- Do better in prioritising and scoping on-site inspections based on ML/TF risk, which should be informed by off-site monitoring and findings from previous inspections. The PA should ensure that higher-risk financial institutions are inspected with more frequency.
- Financial supervisors should supervise financial groups for AML/CFT on a consolidated basis, including international operations, and coordinate their supervision of financial institutions in different sectors which belong to the same group.
- All supervisors should use a full suite of enforcement measures, including monetary penalties to sanction AML/CFT breaches, dissuasive and proportionate to the size of the entity and severity of the breaches.
- More sector-specific guidance should be provided to help the private sector identify and understand ML/TF risk.

The Prudential Authority: Way forward following the Financial Action Task Force Mutual Evaluation

Project Elevate was initiated in the PA during October 2020 whereby dedicated workstreams were created to focus on the pertinent recommended actions.

- Market entry
  - Procurement of World-Check Sanctions, politically exposed and adverse media screening
  - Beneficial owner directives to be issued to banks and mutual banks
- Risk-based approach and enforcement
  - Sector risk assessments for the banking and life insurance sectors were issued during July 2022
  - Automated money laundering and terrorist financing risk returns for banks, subsidiaries and life insurers
  - Subsidiary risk analysis
  - Flow of funds analysis
  - Terrorist financing risk analysis
  - Updated supervisory manual
  - Upgraded and new risk-based tool (automated)
  - Issuance of guidance and directives
  - Monthly outreach and awareness with the banking sector and the Banking Association South Africa
  - Every second month, outreach and awareness with life insurers and The Association for Savings and Investment South Africa
  - Revised administrative sanctions policy
  - New administrative sanctions guidelines
  - Risk-focused inspections

The Prudential Authority: overview of regulated sectors

Registered entities	Number of entities
Banks (registered bank and local branches of foreign banks)	31
Mutual banks*	4
Co-operative banks	5
Co-operative financial institutions	24
Life insurers	69
Non-life insurers	70
Reinsurers	8
Market infrastructures**	9

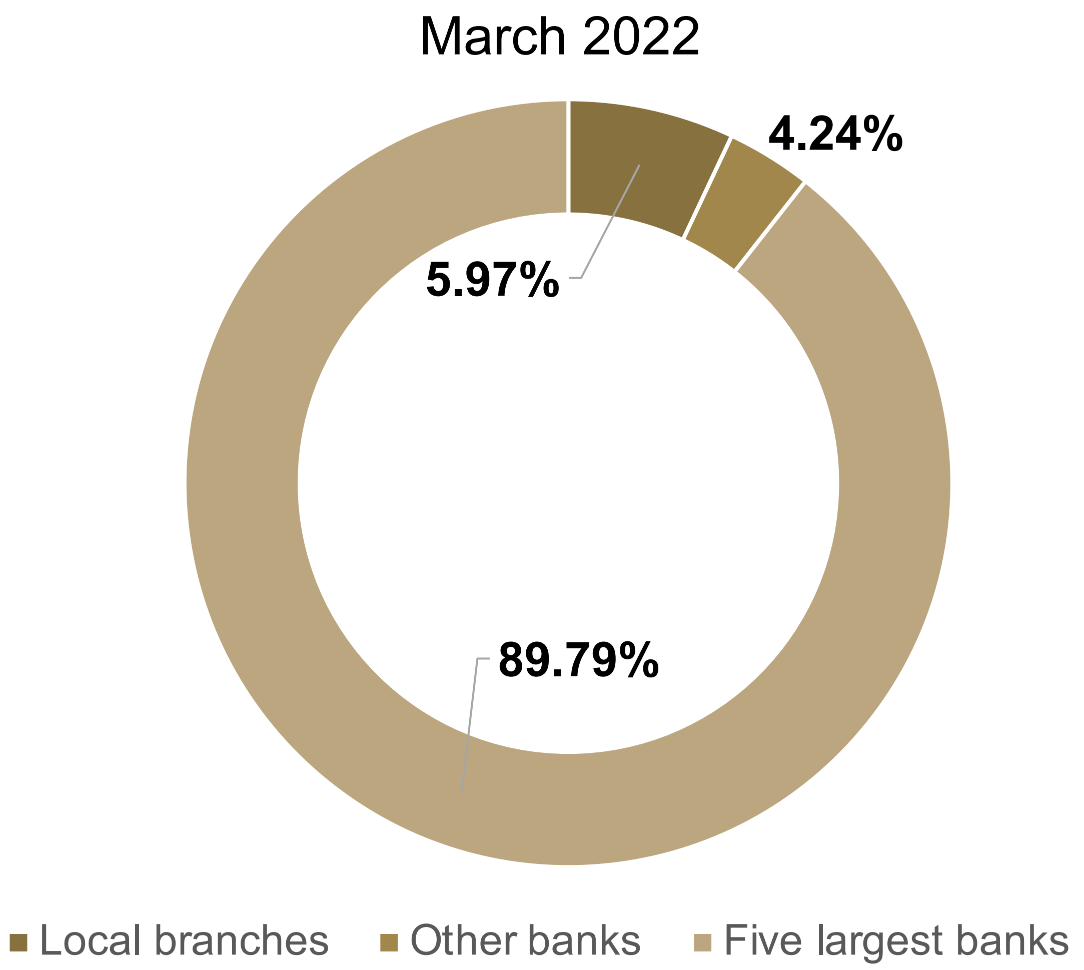
* *The number of mutual banks includes VBS Mutual Bank which is not deregistered yet.*

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

The Prudential Authority: deposit-taking financial institutions

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 (March 2021: 90.05%).

Local branches of international banks accounted for **5.97%** of banking sector assets at the end of March 2022 (March 2021: 5.91%) while other banks represented **4.24%** at the end of March 2022 (March 2021: 4.03%).



The Prudential Authority: co-operative sector

	Number		Members		Deposits (R millions)		Assets (R million)	
*February**	2021	2022	2021	2022	2021	2022	2021	2022
Co-operative banks	5	5	5 032	5 356	290	368	333	413
Co-operative financial institutions	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 for the sector is the last day of February*

Co-operative banks: The **balance sheet** size 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.

Co-operative financial institutions (CFIs): Despite the fact that one CFI's data was excluded from the statistics, total assets in respect of **CFIs declined** in 2022, ending at 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.

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The Prudential Authority: insurance sector

The life insurance sector is dominated by the five largest insurers, which collectively holds 72.7% of the total assets, while the non-life insurance sector is dominated by the eight largest insurers, which collectively holds 57.9% of gross premiums.

Life insurance industry

The total net premium income (after deducting premiums for reinsurance) for primary life insurers, cell captives and reinsurers stands at R595 297 million.
Total benefit payments for the review period were at R566 598 million.

Non-life insurance industry

The total gross premiums of the primary insurers, cell captives, captives and reinsurers in the non-life insurance industry stood at R169 848 million.
Operating profit, which included investment income, is at - R11 164 million.

SA composite reinsurers

Five reinsurers are currently classified as composite reinsurers (writing both life and non-life business).
Gross premiums relating to life composites is at R14 514 million.
Non-life composite gross premiums is at R15 131 million.

The Prudential Authority: administrative sanctions and penalties

During the period under review, the PA imposed administrative sanctions, including financial penalties for non-compliance with the Financial Intelligence Centre Act 38 of 2001, on the following institutions:

Name of institution	Sanction/penalty
Deutsche Bank AG – Johannesburg Branch	A financial penalty of R38 million and a caution not to repeat the conduct which led to the non-compliance; R10 million of the R38 million financial penalty has been suspended
Discovery Life Limited	A financial penalty of R2 million and a caution not to repeat the conduct which led to the non-compliance; R500 000 of the R2 million financial penalty has been suspended.
Fedgroup Life Limited	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	A financial penalty of R1.5 million and a caution not to repeat the conduct which led to the non-compliance; R500 000 of the R1.5 million financial penalty has been suspended.

The Prudential Authority: additional information

Licence applications: 1 April 2021 to 31 March 2022

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks	1	4	0
Branches	0	1	0
Representative offices	0	3	1
Co-operative financial institutions	2	4	1
Insurers	20*	18	1

**Due to a timing issue, the number excludes Safire Insurance Company Limited which was licensed during the 2020/2021 financial period.*

Inspections relating to illegal deposit-taking schemes: 1 April 2021 to 31 March 2022

Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under investigation
9	6	3	1	8

Inspections relating to unlicensed insurance business: 1 April 2021 to 31 March 2022

Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under investigation
70	7	63	40	30

THANK YOU

SOUTH AFRICAN RESERVE BANK