South African Reserve Bank
Prudential Authority

PRUDENTIAL AUTHORITY
ANNUAL REPORT
2022/23

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Promoting and enhancing the **safety, soundness and integrity** of regulated financial institutions

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FOREWORD BY THE CHAIRPERSON OF THE PRUDENTIAL COMMITTEE

The past year was marked by persistent inflation and continued low growth in the South African economy. The start of Russia's war in Ukraine at the beginning of 2022 stymied global growth optimism and fuelled economic uncertainty due to concerns of rising energy prices. The South African economy was dealt a further blow by the frequency and severity of power outages.

During April 2022, several parts of KwaZulu-Natal and the Eastern Cape experienced heavy rainfall and flooding, which caused significant damage to properties and infrastructure, resulting in the catastrophe being declared a provincial disaster in terms of the Disaster Management Act 57 of 2002. The total insurance claims submitted is estimated to have amounted to R20.6 billion, with approximately 80% of the claims attributable to commercial property claims and the remainder in respect of personal lines property claims. Notwithstanding the significant gross estimated claims reported, most insurers had reinsurance contracts in place, which resulted in net exposure of South African insurers of approximately R2 billion. This catastrophe highlighted that some reinsurers might have underestimated their exposure to the event, compared to the estimates of the primary insurers. The Prudential Authority (PA) has reflected on these developments and prioritised climate-related risks for the 2023 supervisory calendar.

To ensure the protection of depositors and insurance policyholders during the 2022/23 reporting period, two non-systemic banks were placed under curatorship, while one insurer was placed under final curatorship, one in liquidation and another placed under statutory management. Despite these developments, the South African financial sector remained financially safe and sound.

The PA and the Prudential Committee (Pruco) made significant strides towards finalising the implementation of the Basel III post-crisis reforms following the deferral of implementation timelines to assess and mitigate the impact of COVID-19 on the banking system and financial markets. To this end, the Pruco approved draft proposed amendments to the Regulations relating to Banks (Regulations) for public consultation on matters related to the standardised and internal ratings-based approaches for credit risk, the revised operational risk framework, the revised leverage ratio framework and revised requirements related to the output floor.

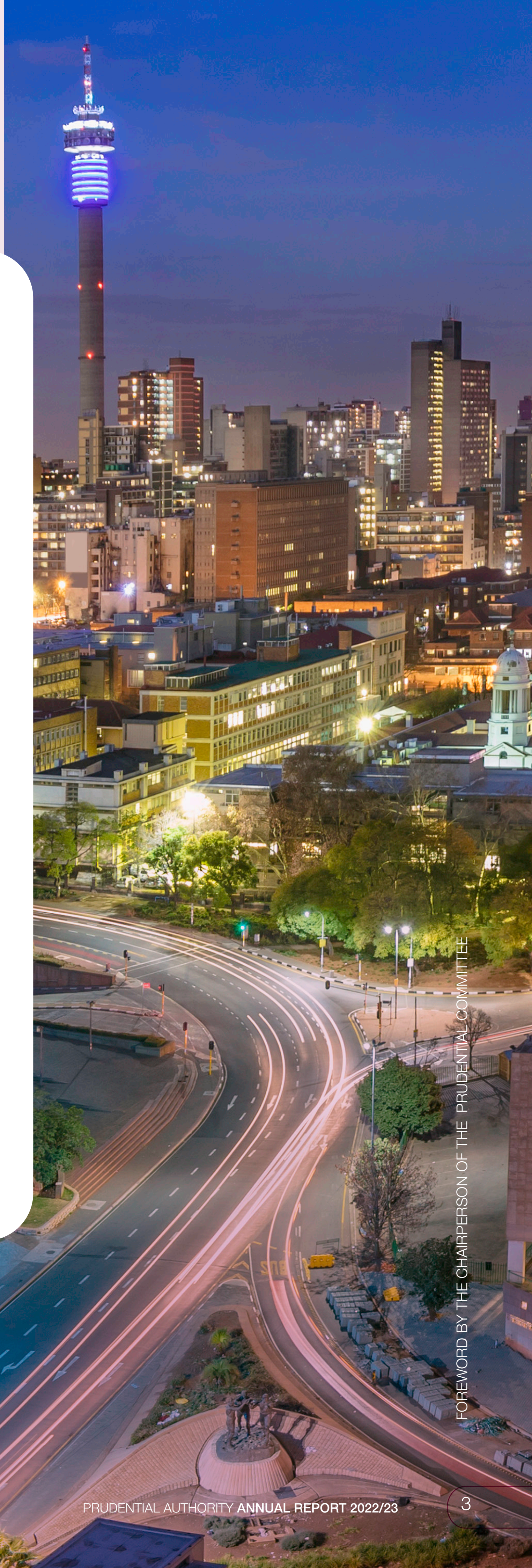
The Pruco also approved the amended Regulations and the related Directive 10 of 2022 on the criteria for identifying simple, transparent, comparable term and short-term securitisation transactions, which came into effect on 1 October 2022.

In February 2023, the Financial Action Task Force (FATF) took the decision to add South Africa to the list of jurisdictions under increased monitoring, citing deficiencies in complying with international standards in respect of the prevention of money laundering, terrorist financing and proliferation financing. This was despite substantial efforts by South African regulators and other stakeholders, led by National Treasury, to address the recommended actions contained in the FATF Mutual Evaluation Report of South Africa. The PA continues to collaborate with the relevant authorities to work with the FATF in addressing the deficiencies in its regime.

The financial period closed with the PA observing the market volatility created by the failure of three banks in the United States (US) and the Credit Suisse bank in Switzerland. The failures of Silvergate Bank and Signature Bank were due to significant adverse exposure to cryptocurrency, whereas the bank run on Silicon Valley Bank was a result of excessive interest rate exposures. The Credit Suisse collapse was exacerbated by changes to its top management, losses of client funds and strategy challenges. While it is important for the PA to monitor these developments, these events had no direct impact on South Africa's financial sector.

The Pruco has reviewed the PA's progress on the key priorities and initiatives articulated in the *Prudential Authority Regulatory Strategy 2021–2024* and is broadly satisfied with the progress made. More work lies ahead for the PA, as outlined in its 2023/24 strategic scorecard that the Pruco deliberated on and approved during the 2022/23 financial year.

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 PA celebrated its fifth year of establishment on 1 April 2023. I am pleased to report that this finds us with a sector that is resilient and adequately capitalised, thus contributing to a stable financial system. The PA has made significant inroads in embedding its prudential regulations and risk-based supervisory frameworks for financial institutions and market infrastructures.

During the 2022/23 reporting period, the South African financial sector showed strong recovery, both by measure of profitability and overall liquidity, alongside other performance measures. The PA's COVID-19 regulatory relief measures were fully phased out by 1 April 2022. The rebound in the financial sector was largely driven by the resumption of bank lending activities, a reduction in provisioning among insurers, and continued focus on growth strategies among market infrastructures.

However, the challenging international and domestic macro-economic environment, including volatility in funding markets, represented significant risks to the financial sector. Some financial institutions observed increasing vulnerabilities, which were evidenced by, among other things, the rise in impaired advances and the adverse impact on investment income due to the volatile markets. The decreased appetite for equity listings, as evidenced by a delisting trend in the market, placed pressure on the financial performance of market infrastructures with respect to earnings and revenue.

Adverse weather conditions in early 2022 impacted the financial position of some non-life insurers. While there was appropriate reinsurance in place to soften the balance sheet impact and protect the capital position, more frequent and severe adverse weather conditions could increase the cost and availability of reinsurance. Given the severity of the impacts of multiple shocks on the non-life insurance sector and the declining levels of capital, the PA monitored the sustainability of insurers closely. Insurers have been enhancing their insurance policy wording to ensure absolute clarity on what is covered and what is excluded under their insurance contracts. In providing this necessary clarity on insurance contract coverage, insurers started to impose specific policy exclusions, which resulted in the widening of policyholders' insurance or risk protection gaps. The PA will collaborate with the Financial Sector Conduct Authority (FSCA) to further engage and support the insurance industry in obtaining appropriate solutions for these protection gaps.

The PA's implementation of the Basel III post-crisis reforms is in progress and engagements with the banking industry have continued. The Basel Committee on Banking Supervision (BCBS) conducted the Regulatory Consistency Assessment Programme (RCAP) which focused on the PA's implementation of the large exposures (LEX) and net stable funding ratio (NSFR) frameworks. The PA achieved an outcome of 'largely compliant' and 'compliant' on the NSFR and LEX frameworks respectively following deliberation by the BCBS in March 2023. The PA has also progressed well in addressing the 2022 Financial Sector Assessment Programme (FSAP) recommendations.

Following a notable increase in the banking industry's overall exposure and concentration to government securities in the period since 2020, the PA has been monitoring the levels of concentration of exposures to the South African sovereign and, accordingly, the banks' sovereign exposures. The PA continued to encourage banks to actively manage, monitor and report such exposures to their appropriate internal governance structures to ensure that exposures remain within approved internal risk appetite metrices. While government securities are frequently utilised in banks' risk mitigation strategies, exposures to these securities also need to be appropriately balanced against credit extension to the real economy.

To protect depositors and policyholders, and due to various governance failures, five financial institutions were under various stages of resolution during the reporting period. In May 2022 the Minister of Finance, on recommendation from the PA, placed Ubank Limited (Ubank) under curatorship due to it having inadequate capital. Following a competitive bidding process, Ubank's assets and liabilities were sold to African Bank Limited (African Bank) and no losses were incurred by depositors. New Era Life Insurance Company Limited (New Era Life) was placed under statutory management in November 2022 when the PA determined the insurer's failure to comply with the Policyholder Protection Rules under section 62 of the Long-term Insurance Act 52 of 1998 (Long-term Insurance Act). Habib Overseas Bank Limited (Habib) was placed under curatorship in March 2023 due to non-compliance with governance and other operational requirements. 3Sixty Life Limited (3Sixty Life) continues to be under curatorship following the replacement of the curator in February 2023. Constantia Insurance Company Limited (CICL) is currently being wound up as the curator found the business to be insolvent.

The PA undertook various remedial actions to address and enhance the application of its risk-based approach to supervision relating to anti-money laundering and countering the financing of terrorism (AML/CFT). The PA issued guidance and directives to supervised entities, introduced a mandatory requirement for the submission of risk returns, developed an automated risk tool to profile accountable institutions, conducted regular outreach with the banking and insurance sectors, and issued the second round of sector risk assessments. At its Plenary meeting in February 2023, the FATF recognised South Africa's extensive efforts undertaken during the 12-month observation period. The FATF, however, added South Africa to its list of jurisdictions under increased monitoring. Work in the areas identified by the FATF for further remediation has been prioritised to meet the deadline of January 2025 for South Africa to be removed from the list.

The PA has enhanced its understanding of risks related to the potential impact of climate change on the financial sector, including the related potential physical and transitional risks. The first communication on climate-related risks was published in August 2022. The PA also developed climate risk indicators that will undergo piloting in financial institutions during 2023 to better understand and quantify climate-related financial risks. A supervisory guidance manual and 'question bank' were developed and will be used by the PA's frontline supervisors during engagements with institutions. A draft climate risk disclosure framework is also undergoing internal review as part of integrating international guidance on climate risk disclosures into the PA's regulatory framework. All this work will be complemented by the PA's 2023 flavour-of-the-year topic on climate-related risks.

The PA has progressed in the rollout of its supervisory technology system (Umoja Solution) and Phase 1 is nearing the go-live date. Various engagements and training sessions, internally as well as with the industry, will continue in 2023.

In the 2023/24 financial year, the financial sector's resilience will be tested by rising inflation and the resultant high interest rates, increasing costs and lacklustre gross domestic product growth. The PA and the South African Reserve Bank (SARB) will continue to monitor the impact of these macro- and microeconomic factors and take appropriate corrective action where necessary.

There has been variable progress on transitional arrangements for the PA to become responsible for the prudential regulation and supervision of medical schemes, pension funds, friendly societies and collective investment schemes in terms of sections 291 and 292 of the Financial Sector Regulation Act 9 of 2017 (FSR Act). Joint work, underway with the relevant regulators, will remain one of the PA's top strategic priorities in 2023. Additional guidance on the implementation dates will be forthcoming from National Treasury.

As I conclude my first year as Chief Executive Officer (CEO) of the PA, I wish to express my deep gratitude to the SARB leadership, members of my executive and management teams, and the staff of the PA for their professionalism and unwavering commitment towards achieving our mandate. I would also like to thank the National Treasury, our sister regulator – the FSCA, the industry bodies as well as the regulated entities for their constructive engagement and partnership. It is only through this collaborative effort that we can achieve our objective of promoting and enhancing the safety, soundness and integrity of regulated financial institutions.

Ntshazibana

N (Nomfundo) Tshazibana
Deputy Governor of the
South African Reserve Bank and
CEO of the Prudential Authority

GOVERNANCE AND OPERATIONAL STRUCTURES

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

PRUDENTIAL COMMITTEE

The Pruco met 10 times during the 2022/23 reporting period and held a strategy session to discuss the PA's strategic focus for the 2023/24 financial year.

The Pruco oversees the management and administration of the PA to ensure it is efficient and effective.

Key activities conducted during the reporting year were as follows:

i. Approved the 2022/23 PA strategic scorecard.

ii. Approved the amended Regulations and the related Directive 10 of 2022 on the criteria for identifying simple, transparent and comparable term and short-term securitisation transactions for submission to the Minister of Finance, which came into effect on 1 October 2022.

iii. Approved the *Prudential Authority Annual Report 2021/22* for the period ending 31 March 2022 for tabling at the National Assembly.

iv. Approved the memorandum of understanding (MoU) between the SARB, PA, FSCA and the European Securities and Markets Authority.

v. Approved for public consultation the draft Prudential Standards on Stays on early termination rights and resolution moratoria on contracts of designated institutions in resolution; the transfer of assets and liabilities of a designated institution in resolution, and related documentation in terms of section 98 of the FSR Act. These standards were updated after public consultation and submitted to the Minister of Finance for tabling in Parliament.

vi. Approved the fourth set of proposed amendments to the Regulations and matters related to interest rate in the banking book for submission to National Treasury and the Minister of Finance, which came into effect on 1 January 2023.

vii. Approved for formal public consultation the first draft of the fifth set of proposed amendments to the Regulations and matters related to the standardised and internal ratings-based (IRB) approaches for credit risk, the revised operational risk framework, the revised leverage ratio framework and the output floor.

Chairperson

E L (Lesetja) Kganyago
Governor

Members

N (Nomfundo) Tshazibana
Deputy Governor and CEO of the PA

K (Kuben) Naidoo
Deputy Governor

R (Rashad) Cassim
Deputy Governor

Standing invitees

The four PA heads of department and the head of the SARB's Financial Stability Department.

PRUDENTIAL AUTHORITY MANAGEMENT COMMITTEE

The Prudential Authority Management Committee (PA Manco) met 11 times during the reporting year.

Chairperson

N (Nomfundo) Tshazibana
Deputy Governor and CEO of the PA

The PA Manco is responsible for the general operations and management regarding prudential policy, regulatory and supervisory matters, information technology and human resources management. In addition, the PA Manco provides advisory, technical and administrative support to the Pruco.

Members

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 AML/CFT supervision of all financial institutions overseen by the PA.

F (Faizel) Jeena
Head of Department

The **Risk Support Department** provides regulatory and supervisory support on credit, operational, market, insurance, and asset and liability management risk, as well as support on quantitative and actuarial analysis and financial institution statistics.

K (Kerwin) Martin
Head of Department

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

O (Olaotse) Matshane
Head of Department

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

The following technical governance structures continued to support the PA decision-making process:

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

PA ENGAGEMENTS WITH INDUSTRY

During February 2023, the PA hosted four industry engagement sessions with the financial sector (banks, insurers, MIs and CFIs). The sessions provided a valuable platform to connect and collectively reflect on key developments as well as discuss issues that are of mutual interest in the sector. The discussions focused on various supervisory and policy matters, including the PA's work on climate change, financial and non-financial risks, and high-level feedback on the announcement by the FATF on South Africa's greylisting. There were also presentations on the progress made in the implementation of the PA's Umoja Solution as well as broader discussions on other issues that affect the regulated industries.

The inaugural PA Quarterly Industry Newsletter was issued on 30 September 2021. It has since been published quarterly. The newsletter covers information and updates about regulatory and supervisory matters impacting the industry. The newsletters can be found on the SARB website under Public Awareness.

Visit us: https://www.resbank.co.za/en/home/publications/prudential-authority/public-awareness/PA-Industry-Newsletter

Feedback on the newsletter can be sent to:
PA-Programmeoffice@resbank.co.za

PROGRESS AGAINST THE *PRUDENTIAL AUTHORITY REGULATORY STRATEGY 2021–2024*

The PA has identified eight key priorities for the period 2021–2024, with three additional priorities outlined in the regulatory strategy over the next three years. The PA is working on regulatory and supervisory interventions for climate change, more especially in relation to sustainable finance.

STRATEGIC PRIORITIES

1 Strengthening and enhancing the regulation and supervision of deposit-taking institutions

Performance highlights in 2022/23

Banks

Amendments to the Regulations were issued for public consultation on 12 September 2022. The proposed amendments aim to incorporate the revised internationally agreed frameworks published by the BCBS for implementation by member jurisdictions on the following:

i. the standardised approach (STA) for credit risk;
ii. the IRB approaches for credit risk;
iii. the operational risk (OR) framework;
iv. the leverage ratio (the revised exposure definition); and
v. the revised requirements related to the output floor.

The PA is working through the comments received from interested persons and plans to prepare an updated set of proposed amendments to the Regulations for public consultation.

The National Treasury also published amendments to the Regulations in terms of section 90 of the Banks Act 94 of 1990 (Banks Act), dealing with:

i. the revised securitisation framework as issued by the BCBS for implementation by member jurisdictions – the amended Regulations were implemented with effect from 1 October 2022; and
ii. the revised framework for banks' exposure to interest rate risk in the banking book (IRRBB), issued by the BCBS for implementation by member jurisdictions – the amended Regulations were implemented with effect from 1 January 2023.

Mutual banks

The PA is in the process of drafting prudential standards relating to:

i. governance and risk management;
ii. credit risk;
iii. operational risk;
iv. capital;
v. liquidity risk;
vi. IRRBB; and
vii. economic returns.

These prudential standards will be published for public consultation during the next financial year.

Co-operative financial institutions and co-operative banks

The PA has drafted prudential standards, relating to:

i. governance;
ii. risk management and internal controls;
iii. financial soundness; and
iv. registration and operational requirements.

The requirements of the prudential standards are based on the nature, size, complexity and risk profile of CFIs and co-operative banks and will cater for proportional, risk-based regulation and supervision. These prudential standards will be published for public consultation during the next financial year.

2 Implementing the financial conglomerate regulatory and supervisory framework

Performance highlights in 2022/23

The PA engaged the designated financial conglomerates on the implementation of the prudential standards relating to intragroup transactions and exposures; auditor requirements; governance and risk management; and risk concentration for financial conglomerates, which came into effect on 1 January 2022.

The PA began working through comments received from financial conglomerates on the draft 'Prudential Standard FC01: Capital Requirements for Financial Conglomerates' and its associated reporting template which were issued for field testing. Prudential Standard FC01 will be in field testing until 1 January 2024.

3 Strengthening and enhancing the prudential regulatory and supervisory framework for market infrastructures

Performance highlights in 2022/23

- The PA, the National Treasury, the FSCA and the SARB's Legal Services and National Payment System departments are drafting amendments to the Financial Markets Act 19 of 2012 (FM Act).
- The PA and the FSCA are developing a 'Joint Standard on Minimum Requirements for the Recovery Plans of Market Infrastructures', and a related Guidance Note and Statement of Need. The joint standard will be published for consultation.

4 Strengthening and enhancing the regulatory and supervisory frameworks for insurers

Performance highlights in 2022/23

Joint Standard on Outsourcing: The PA and the FSCA considered public comments received on the draft 'Joint Standard on Outsourcing for Insurers' and updated the joint standard accordingly. This joint standard sets out minimum requirements for the outsourcing of material functions and activities by an insurer. The requirements are designed to ensure that outsourcing by an insurer does not impair the prudent management and conduct of an insurer's business. It also seeks to replace the current outsourcing regulatory framework beyond the 'Prudential Standard on Governance and Operational Standard for Insurers (GOI 5) on Outsourcing' with a more comprehensive regulatory framework governing outsourcing by insurers, covering both a prudential and conduct perspective.

Prudential Standard on Public Disclosure for Insurers: The PA reviewed the draft prudential standard following its public consultation in 2021. During 2023, the PA will engage the insurance industry to provide feedback on the considerations made after the comment period, which will then be published for further consultation with industry for a period of six weeks.

Prudential Standard on Cell Captives: The PA is developing a prudential standard on cell captive insurers which is informed by the specific characteristics of cell captive insurers and their cell structures. Strong governance and operational arrangements are necessary to provide effective oversight on the way in which their cell structures operate and how risks are managed. This prudential standard will canvass the minimum governance and operational soundness requirements for cell captive insurers in respect of their cell structures and that which will be applicable, in addition to the existing prudential standards.

Other regulatory developments

i. The PA, in conjunction with the FSCA, has tasked the Centre for Financial Regulation and Inclusion to assist in developing a regulatory strategy for the funeral parlour industry. During 2022, multiple workshops were held to determine an optimal regulatory framework to formalise the sector in line with the policy recommendations set out in National Treasury's 2011 policy document titled 'The South African Microinsurance Regulatory Framework'[1].

ii. Guidance Notice 1 of 2022 (Insurance) sets out practices and guidelines aimed at assisting insurers in complying with the requirements of 'Prudential Standard GOI 3: Risk Management and Internal Controls for Insurers' and 'Prudential Standard GOI 3.1: Own Risk Solvency Assessment for Insurers', as these standards apply to liquidity risk management for insurers. The guidance notice was published for comment on 24 November 2022. It seeks to illustrate approaches that should be considered in treating and managing an insurer's liquidity risk.

5 Strengthening and enhancing the regulatory and supervisory framework for significant owners

Performance highlights in 2022/23

The significant owner framework continues to be embedded by regulated financial institutions.

During 2022, the PA processed various applications for persons to become significant owners of banks and insurers.

The PA and the FSCA have commenced plans to develop joint standard(s) applicable to beneficial owners of financial institutions following the inclusion of beneficial ownership as prescribed in Chapter 11A of the FSR Act which came into effect on 31 December 2022. These standard(s) will provide clarity about what is common and distinctive between *significant* and *beneficial* ownership.

1 The National Treasury policy document is available at: https://www.treasury.gov/za/publications/other/Microinsurance-RegulatoryFramework/Policy%20Document%20Micro%Insurance.pdf

STRATEGIC PRIORITIES (CONTINUED)

6 Enhancing anti-money laundering and combating the financing of terrorism supervision, and implementing Financial Action Task Force Mutual Evaluation recommendations

Performance highlights in 2022/23

The PA has made significant strides in enhancing its approach towards AML/CFT by implementing a risk-based approach to supervision as well as addressing the key findings from the October 2021 FATF Mutual Evaluation Report of South Africa. Actions were taken to improve market entry controls. AML/CFT risk returns were introduced alongside the automation of a risk-rating tool. The understanding of risk was also enhanced through the second round of sectoral risk assessments (which were published in July 2022) and initiatives undertaken, such as the drafting of a subsidiary risk analysis document and a terrorist financing risk analysis report. Four sector-specific guidance notes were also issued in terms of the Financial Intelligence Centre Act 38 of 2001 (FIC Act) and seven directives were also issued, all of which focused on AML/CFT aspects requiring attention.

The PA submitted the progress made to address the key recommendations in the FATF Mutual Evaluation Report, as well as evidence thereof, to National Treasury for inclusion in the Post-Observation Progress Report submitted to the FATF in November 2022. The PA subsequently addressed further enquiries from the FATF Joint Group in December 2022 and January 2023.

On 13 January 2023, the PA participated in face-to-face meetings held with the Africa and Middle East Joint Group, where all relevant stakeholders responded to questions posed by the Joint Group pertaining to the progress that had been reported.

The FATF Plenary held in Paris on 24 February 2023 decided to place South Africa as a jurisdiction under increased monitoring. The PA's AML/CFT Division continues to focus on embedding the new initiatives that have been implemented by ensuring compliance with best practice and expectations in accordance with the standards required by the FATF, thus contributing to the overall effectiveness and integrity of the financial system in South Africa.

7 Developing an approach for the prudential regulation of pension funds, collective investment schemes, medical schemes and friendly societies

Performance highlights in 2022/23

The PA and FSCA continued the groundwork to plan for the transition of pension (retirement) funds, collective investment schemes (CISs) and friendly societies into the prudential regulatory and supervisory ambit of the PA as per the FSR Act. The Authorities (namely the PA and the FSCA) held numerous policy deliberations to agree on the necessary legislative construct while considering the contents of the proposals within the draft Conduct of Financial Institutions Bill. The collaborative work continues and will see the Authorities develop and roll out an implementation plan.

8 Developing cross-sectoral regulatory instruments for harmonising requirements across different industries

Performance highlights in 2022/23

Joint Standard on Cybersecurity and Cyber Resilience: The Authorities completed the processing of comments for the 'Joint Standard on Cybersecurity and Cyber Resilience' in October 2022. The Statement of Need for Intended Operation and Expected Impact was also finalised, based on the comments received from the sector. In December 2022, the Authorities published the joint standard for formal consultation in terms of section 98 of the FSR Act, with a deadline for comments on 28 February 2023.

Joint Standard on Information Technology Governance and Management: Based on the number of comments received, the PA subjected the joint standard to an additional round of targeted consultation. The additional comments were received in July 2022 and the Authorities considered these in preparation for finalising the joint standard for tabling in Parliament. The documentation was sent to the Minister of Finance in December 2022. The PA awaits the tabling of the documents in Parliament, in accordance with the requirements of the FSR Act.

Joint Standard on Governance Requirements for Financial Institutions: This cross-sectoral work was initiated shortly after the establishment of the PA and the FSCA. The Authorities agree that the inherent risks associated with the existence of multiple regulatory frameworks containing governance requirements, which span across the sectoral laws within the Authorities' ambit, warrant consideration to align principles and governance requirements.

ADDITIONAL PRIORITIES

The PA also focused on the following priorities:

1 Implementing the PA's approach to transformation, financial inclusion and competition

Performance highlights in 2022/23

Financial inclusion: The PA consulted the FSCA, the SARB's National Payment System Department and National Treasury on enhancements to its current approach to financial inclusion.

Transformation: The PA is finalising its approach to transformation and is collaborating with National Treasury in this regard.

Competition: The PA is finalising its approach to support competition.

2 Supporting financial innovation and new technologies

Performance highlights in 2022/23

The PA remains committed to supporting responsible development and innovation through financial technologies. This is achieved through the PA's collaboration with the SARB, the FSCA, the Financial Intelligence Centre (FIC) and other regulatory bodies through the Intergovernmental Fintech Working Group (IFWG).

The BCBS issued a standard on the prudential treatment of crypto-asset exposures in December 2022, with an internationally agreed implementation date of 1 January 2025.

3 Developing regulatory and supervisory approaches to sustainable finance and climate change

Performance highlights in 2022/23

The PA issued Prudential Communication 10/2022 on Climate Risks, which signals the PA's plan to integrate climate-related risks within its regulatory and supervisory mandate. The prudential communication sets out the high-level considerations that supervised financial institutions should be aware of in relation to climate risk. The prudential communication reflects ongoing industry engagements and the PA's participation in domestic and international climate risk forums.

The PA has compiled a series of climate risk indicators to track and monitor physical, transition and social risks in the short to medium term. These indicators will be piloted in the next financial period and utilised in developing further regulatory and supervisory guidance. Climate risk management is an evolving practice, with challenges in the availability and reliability of data potentially impacting the measurement of climate-related financial risks.

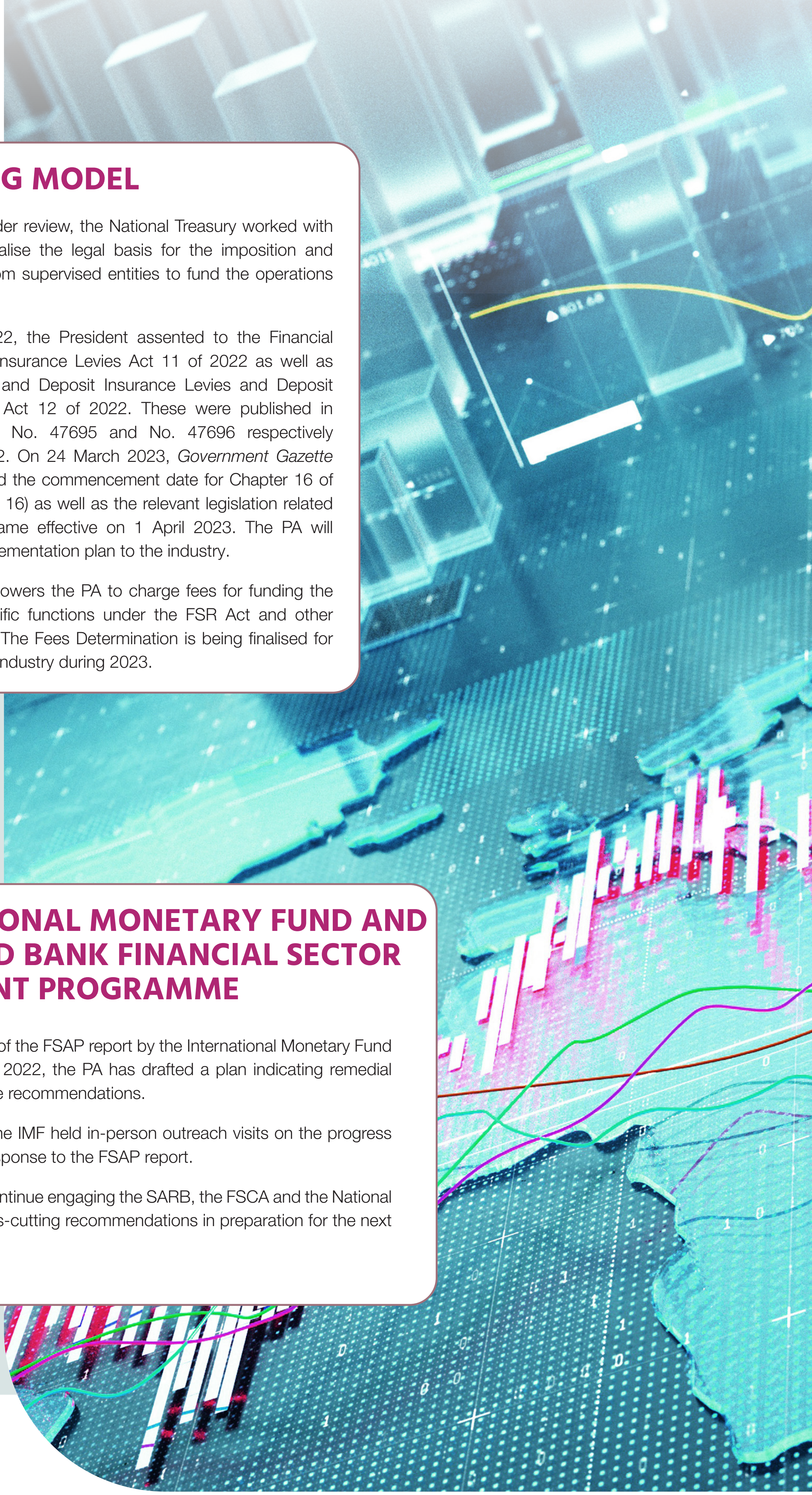
The PA has also finalised a set of benchmark climate risk scenarios as part of the Sustainable Finance Initiative chaired by the National Treasury. The benchmark scenarios are primarily for financial firms to improve their understanding of risks and capabilities, and not necessarily for policy or supervisory objectives.

For the year ahead, the PA will:

i. develop regulatory guidance on disclosures, risk management and governance practices;

ii. undertake further research on green finance and transition planning, and how to potentially integrate these focus areas into microprudential supervision and risk management frameworks; and

iii. engage the boards of directors (boards) of selected financial institutions on their climate risk management practices as part of the PA's 2023 flavour-of-the-year priorities. Financial institutions were selected based their nature, size, complexity and relevance to the topic.



PA FUNDING MODEL

During the period under review, the National Treasury worked with the Authorities to finalise the legal basis for the imposition and collection of levies from supervised entities to fund the operations of the Authorities.

On 6 December 2022, the President assented to the Financial Sector and Deposit Insurance Levies Act 11 of 2022 as well as the Financial Sector and Deposit Insurance Levies and Deposit Insurance Premiums Act 12 of 2022. These were published in *Government Gazette* No. 47695 and No. 47696 respectively on 9 December 2022. On 24 March 2023, *Government Gazette* No. 48291 determined the commencement date for Chapter 16 of the FSR Act (Chapter 16) as well as the relevant legislation related to levies, which became effective on 1 April 2023. The PA will communicate an implementation plan to the industry.

Chapter 16 also empowers the PA to charge fees for funding the performance of specific functions under the FSR Act and other financial sector laws. The Fees Determination is being finalised for consultation with the industry during 2023.

INTERNATIONAL MONETARY FUND AND THE WORLD BANK FINANCIAL SECTOR ASSESSMENT PROGRAMME

Since the publication of the FSAP report by the International Monetary Fund (IMF) on 11 February 2022, the PA has drafted a plan indicating remedial actions to address the recommendations.

In November 2022, the IMF held in-person outreach visits on the progress made by the PA in response to the FSAP report.

In 2023, the PA will continue engaging the SARB, the FSCA and the National Treasury to align cross-cutting recommendations in preparation for the next FSAP meeting.

REGULATORY CONSISTENCY ASSESSMENT PROGRAMME

In 2012, the BCBS launched the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework. This would increase the global banking system's resilience, preserve market confidence in regulatory ratios, and promote a level playing field.

The jurisdictional assessment on South Africa's NSFR and LEX frameworks commenced in September 2022 to examine the extent to which the domestic regulations are compliant with the minimum requirements in the Basel III framework and to assist in identifying material gaps or deviations in such regulations.

The assessment consisted of three phases: (i) a self-assessment by the PA; (ii) an assessment phase; and (iii) a review phase that included a technical review of the Assessment Team's findings by a separate RCAP Review Team. The RCAP follows a four-grade scale of 'compliant', 'largely compliant', 'materially non-compliant' and 'non-compliant'.

NSFR standard

As at 31 January 2023, South Africa was graded as 'compliant' with three of the four components of the Basel NSFR standard and was 'largely compliant' with the fourth standard on available stable funding (ASF). The ASF grading was driven by one material deviation which currently assigns an ASF factor of 35% instead of 0% to funding received from non-bank financial institutions denominated in rand (ZAR) with a maturity of less than six months. This deviation is being rectified by the PA through Directive 1 of 2023 and will be gradually phased out from June 2023, ahead of a grading of 'compliant' with the Basel NSFR standard by 1 January 2028. In the absence of this rectification, the assessment would generate either a 'materially non-compliant' or 'non-compliant' grading.

Overall, the Assessment Team assessed the NSFR regulations as 'largely compliant' with the Basel NSFR standard.

LEX regulations

The domestic LEX regulations were assessed as 'compliant' with the Basel LEX framework as at 31 January 2023. All three framework components on scope and definitions, minimum requirements and transitional arrangements, and value of exposures were also found to be compliant. The Assessment Team identified one non-material deviation in the scope and definitions.

The full assessment reports for both the NSFR standard and the LEX regulations reflect the BCBS's viewpoint and were published on the Bank for International Settlements' website on 12 April 2023.[2]

2 The NSFR assessment report is available at: https://www.bis.org/bcbs/publ/d548.pdf
The LEX assessment report is available at: https://www.bis.org/bcbs/publ/d549.pdf

FINANCIAL BENCHMARKS

Work continued within the PA and the SARB on the transition of the financial benchmark rates following the publishing of the *Principles for Financial Benchmarks* by the International Organization of Securities Commissions.

Johannesburg Interbank Average Rate

Following the SARB's announcement in 2020 that the Johannesburg Interbank Average Rate (Jibar) would cease to exist, the Market Practitioners Group, a joint public-private body with the mandate to facilitate decisions on the choice of an alternative reference rate for financial contracts, identified the South African Overnight Index Average Rate (ZARONIA) as the most appropriate near risk-free rate to replace Jibar.

In February 2023, the PA collaborated with the SARB's Financial Markets Department to conduct a quantitative survey of market participants. Several enhancements were subsequently made to this survey, the most notable change being in the extended derivatives section. Most exposures typically focus on financial products that are tied to the Jibar three-month tenure rate.

London Interbank Offered Rate

The PA undertook measures to conduct analysis relating to the impact, initiatives, transition statuses and financial sector exposures to the London Interbank Offered Rate (LIBOR). The outcomes from the analysis were presented both internally and externally. Additionally, engagements with selected financial institutions were held to discuss their transition programmes, LIBOR exposures, the adoption and utilisation of alternative risk-free rates, fall-back languages and concerns observed.

The emphasis on continued self-initiated efforts from financial institutions, in conjunction with the application of supervisory guidance[3] and global best practice, remained critical measures to support the LIBOR transition efforts towards global and jurisdictional financial stability. Following the cessation of relevant LIBOR currencies and settings in December 2021, the PA's focus will remain on the cessation in June 2023 (US dollar LIBOR).

3 PA Communication 1 of 2021 on LIBOR benchmark rate transition guidance is available at: https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2021/PA%20Communication%201%20of%202021%20-%20LIBOR%20benchmark%20rate%20transition%20guidance.pdf

PA STRATEGIC FOCUS AREAS

The PA contributes to the SARB's strategy, falling within strategic focus area (SFA) 3: Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures.

The PA has fully withdrawn all relief measures that were put in place at the height of the COVID-19 pandemic. Systemically important financial institutions (SIFIs) remained sound, profitable and well capitalised, reflecting the resilience of these institutions. With no failures of SIFIs across the financial sector, the PA continued to strengthen its supervisory processes.

During the 2022/23 reporting period, there were several smaller institutions under corrective regulatory action, which is testament to the PA's continued intensive supervision of regulated financial institutions. None of these entities present a systemic risk to the financial sector.

2022/23 PERFORMANCE OVERVIEW

Performance scorecard

Overall status	Strategic measures	Target (annual)	2022/23 (annual)	2021/22 (annual)
Target met	Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate corrective regulatory action	100%	100%
	Weighted percentage* of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs	90% or under adequate corrective regulatory action	99.53%	90%
	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%
	Weighted number* of non-SIFIs that comply with sound governance and risk management practices as set out by different industry legislation	90% of institutions fully compliant or under adequate regulatory action	97.27%	90%

* The weighted average is calculated based on assets.

Unique strategic objectives for the PA within SFA 3

- Enhance risk-based, outcomes-focused and forward-looking supervision (Target met)
- Implement integrated and proportional regulatory and supervisory frameworks (Target met)
- Improve regulatory coverage (Target partially met)

Target met

Target partially met

PROGRESS ON THE PA TARGET OPERATING MODEL

During the period under review, the PA focused on the following data and technology initiatives:

- The completion of the Industry Data Taxonomy, which allows for a shared understanding of data terms used in returns collected by the PA.
- The AML/CFT risk returns, which were implemented in line with the FATF recommendations.
- The Umoja Solution, for which implementation continued.

The PA progressed on priority initiatives identified as part of the Target Operating Model implementation. This included the adoption of an internal demand management and prioritisation framework, enhancing its change management frameworks and standardising internal processes.

MARKET DEVELOPMENTS

There was a general risk-off sentiment from investors in 2022 as the global economy battled with high inflation, weak economic growth and geopolitical tensions. Russia's war in Ukraine further contributed to inflation due to the shock to energy and food prices as a result of supply constraints. To combat inflation, which reached record levels in certain major economies, central banks began hiking interest rates aggressively. Investors continued searching for safe-haven assets to protect their investments, which impacted emerging market fixed-income markets. Equity markets reflected weakness and the MSCI World Index was down by almost 20% in 2022.

The 2023 calendar year started off on a positive note as investors shifted their focus to risky assets due to sentiment that inflation had peaked in 2022 and anticipation that there would be less aggressive interest rate hikes. The easing of the zero-COVID policy in China also led to hopes of a boost in activity from the world's second-largest economy.

In April, the IMF increased its global growth outlook slightly for 2023 due to 'surprisingly resilient' demand in the US and Europe, the easing of energy costs, and the reopening of China's economy. The IMF still sees the pace of growth falling in 2023, with a forecast of less than 3% growth compared to growth of 3.4% in 2022.

The South African economy grew by 2% in 2022. The SARB now[4] expects the South African economy to grow by 0.2% in 2023, mainly due to the significant increase in power cuts. South Africa's inflation rose slightly to 7% year on year in February 2023, from 6.9% in January 2023, following three consecutive decreases. With inflation remaining elevated and outside the target band and inflation pressures broadening, the repurchase (repo) rate was raised by a higher-than-expected 50 basis points at the March 2023 Monetary Policy Committee meeting. Following the March 2023 decision, the repo rate was raised by a cumulative increase of 425 basis points since monetary policy normalisation began in November 2021. This has brought the nominal repo rate to 7.75%.

4 March 2023

KEY OPERATIONAL HIGHLIGHTS FROM 2022/23

A. LICENSING

1. Fit and proper assessments

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

2. 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. Fifteen significant owner applications were received in the period under review, of which eight were approved and two declined.

3. Designation of insurance groups (section 10 of the Insurance Act 18 of 2017)

The PA designated one insurance group and licensed two controlling companies.

4. Unregistered banking business and unlicensed persons conducting insurance business

The FSR Act, read with the Banks Act and Insurance Act 18 of 2017 (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 banking business is investigated by the PA through temporary inspectors who are statutorily appointed in terms of the South African Reserve Bank 90 of 1989, as amended (SARB Act). The investigation of unlicensed persons conducting insurance business is performed by the FSCA, acting in terms of a delegation of powers by the PA.

In respect of unregistered banking business, eight schemes, carried over from the previous reporting period, were investigated. As at 31 March 2023, the investigation of five schemes was finalised, while the remaining three are still in progress.

In respect of unlicenced persons conducting insurance business, the FSCA investigated 103 cases, which included 24 that were carried over from previous reporting periods, and 79 new unlicensed insurance businesses. As at 31 March 2023, 67 cases had been finalised, while 36 unlicenced insurance businesses were still being investigated.

B. SUPERVISORY MATTERS

B1. 2022 flavour-of-the-year topic

Succession planning

The 2022 flavour-of-the-year topic for banks, mutual banks, insurers, MIs, co-operative banks and CFIs was succession planning. The objective was to assess the status of succession planning and how financial institutions identify, hire and retain skilled and experienced individuals who are capable of strategically steering their organisations. Information submitted by financial institutions following discussions with the boards and executive committees provided insights to the PA on the matter. The information from small insurers was based on the results of a survey.

The PA's observations were as follows:

Banks

LARGER BANKS

Overall, talent management and succession planning in the bigger banks were largely in line with statutory and corporate governance best practice and informed by each institution's strategy. However, it was found that board succession would be significantly impacted as board members retired, and this would need to be actively managed to ensure effective governance within the institutions.

In certain instances, there was insufficient coverage of successors across the boards, executive committees and other key roles, giving rise to key person dependency. In addition, some of the identified successors were already occupying other senior roles or had been identified as successors for other positions.

Key challenges:

- In certain cases, there were no 'ready now' successors.
- A shortage of information technology (IT) skills (including cybersecurity and data architects and software engineers).
- A high turnover of investment banking and risk-related positions.
- Emigration of talent.
- The retention of senior executives in African countries where banks have a presence, owing to a shortage of skills in those countries.
- Transformation targets below what is required.

FOREIGN BRANCHES OF BANKS

Succession planning for foreign branches was considered mostly adequate. In most of the foreign branches, the responsibility for succession planning lies with the head offices for the appointment of foreign branches' executive committees (board equivalent committees), while local branch management is responsible for the appointment of senior management, assurance providers and other business critical roles.

The succession plans for most of the foreign branches addressed all roles and considered successors who would meet the institutions' transformation targets. Areas of improvement include the incorporation of talent management, consideration of short-, medium- and long-term succession planning coverage, including emergency cover for key roles, and the development of metrics to assess the effectiveness of the succession plan annually.

Key challenges:

- The protracted visa processes for expatriate appointments.
- Scarcity of skills for senior roles in the local market.
- Investment required for the development of junior to middle management roles.
- The retention of talent across all roles.

The PA also observed that global mobility opportunities offered by the larger groups contribute to higher staff turnover within foreign branches.

Banks (continued)

SMALLER, LOCALLY REGISTERED BANKS

All smaller banks had succession plans in place; however, these were found to be inadequate because of poor execution, a lack of training and development plans, as well as an internal pool of talent that is still being developed.

Some smaller banks had no successors for critical roles and most had a low coverage ratio in respect of immediate successors for executives and critical roles. Transformation had been considered by most smaller banks' succession planning processes.

The key challenges relating to succession planning for non-executive directors included cooling-off periods as well as commitments to other boards. Smaller banks were also losing talent to larger banks due to their limited ability to pay a premium for scarce skills.

Increased trends on emigration were flagged as a limitation for retaining and attracting skills. Furthermore, competitive salaries were found to no longer be the only differentiator, as more emphasis is being placed on flexible hybrid ways of work.

MUTUAL BANKS

The PA determined, through discussions with boards, that all mutual banks had succession and business continuity plans in place, which were reviewed annually.

Boards had developed and approved succession plans for all senior executives. The strategy is to fill key positions with identified successors, while also addressing retention strategies. Individuals who perform well are identified and continually trained to replace key job incumbents as the needs arise.

The size of mutual banks presents an advantage of cross-skilling and cross-coordination.

The Remuneration/Nomination board committees have the responsibility for ensuring that the succession planning processes remain adequate and relevant to the new developments in the economic and business environment.

Key challenges:

- Affordability and attraction of skills – due to the size and nature of the mutual banks, it is difficult for mutual banks to compete with salaries offered by commercial banks.
- Unwillingness of candidates to relocate to mutual banks that operate outside Gauteng.
- Transformation was found to be inadequate.

Insurers

LARGE INSURERS AND INSURANCE GROUPS

Overall, talent management and succession planning in insurance groups was considered mostly adequate, in line with statutory and corporate governance best practice and informed by the respective institutions' strategies. Development plans and talent management policies and processes were largely in place.

In most cases, succession planning of the board falls within the ambit of the Nominations Committee and there was a clear and robust succession strategy to identify, assess and select board candidates.

In some instances, the PA noted insufficient coverage of successors across the board, executive committees, heads of control functions and other key roles.

Key person dependency was also noted in instances where identified successors either occupied other senior roles or had been identified as successors for several positions.

Although institutions considered transformation in their succession planning strategy, in most instances these were below the race and gender targets. The retirement age varied among different institutions.

The PA is of a view that further focus is required in respect of board tenure and retirement age.

Other key observations:

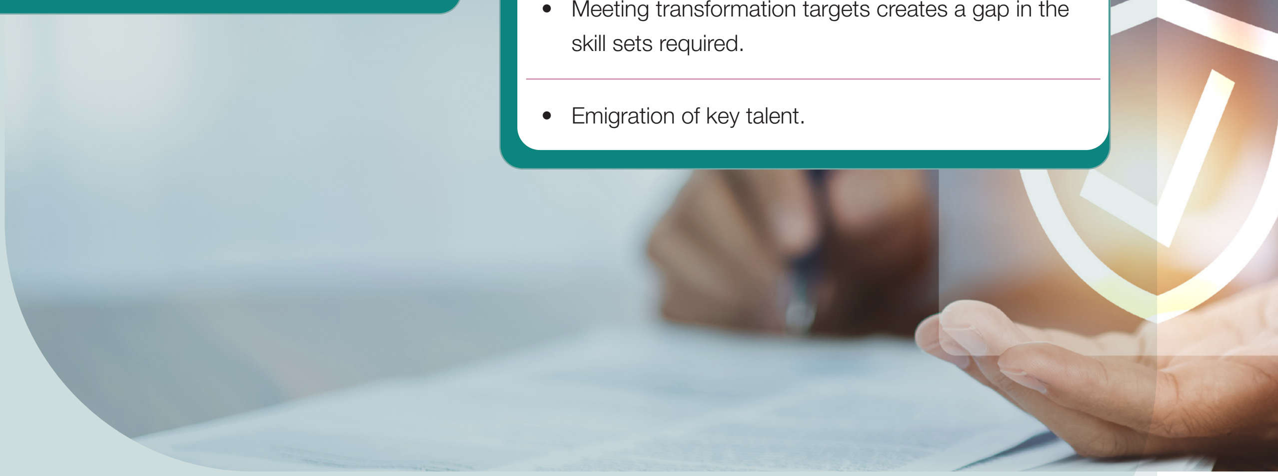
- Challenges in attracting and retaining suitable candidates in compliance and risk management control functions, IT, and actuarial and financial services, including International Financial Reporting Standards (IFRS). There is a shortage of supply for these skill sets, which also tend to hold a high emigration risk.
- Global competition to secure suitable people to fill these roles.

SMALL TO MEDIUM-SIZED INSURERS

The PA issued a survey and conducted interviews with the institutions during their annual prudential meetings with small and medium-sized insurers.

Key challenges:

- Lack of documented processes for succession planning.
- For some institutions, succession planning appears to be discussed at various board subcommittees only when the need for appointments or replacements arises.
- Lack of niche skills for specialised insurers in relation to specific product lines.
- Although institutions within a group leverage off group policies, these policies may not address the needs of the individual insurer where the group is not insurance-focused.
- Inadequate board succession due to a skills shortage, emigration issues and group policies.
- Affordability of acquiring and retaining actuarial skills due to competition for resources with larger insurers.
- The cost and ability to secure skilled directors and other senior persons due to a limited talent pool in South Africa is a challenge within the niche insurance markets.
- The regulatory requirements for succession planning as set out in the Insurance Act do not align with the requirements in the Public Finance Management Act 1 of 1999, as applicable to state-owned insurers.
- Meeting transformation targets creates a gap in the skill sets required.
- Emigration of key talent.



Co-operative financial institutions and co-operative banks

Co-operative banking institutions are owned and controlled by their members who have a common bond. The members of the institutions nominate and elect the Board and Audit Committee members at annual general meetings.

As at 31 March 2023, a total of 17 institutions presented their succession plans to the PA. Eight institutions must still present, and of these, three were deferred to the 2023 supervisory calendar year.

The institutions identified critical roles as being the members of the Board and the Audit Committee as well as the Managing Director (MD) and two to three support staff. The institutions assessed could not provide the PA with successors for these roles and had not identified the skills assessments or skills gaps to inform appropriate training interventions.

Inherent in the co-operative model is the common bond which necessitates sourcing of resources for the Board, Audit Committee and other governance structures from within the membership. Furthermore, members of the Board, Audit Committee and other governance structures serve on a voluntary basis. The staff members are appointed by the Board and remuneration is relatively low, making it difficult to fill critical roles. Attracting high-calibre staff with the right skills and qualifications to serve on various committees and in various roles for the day-to-day running of the institution remains a challenge.

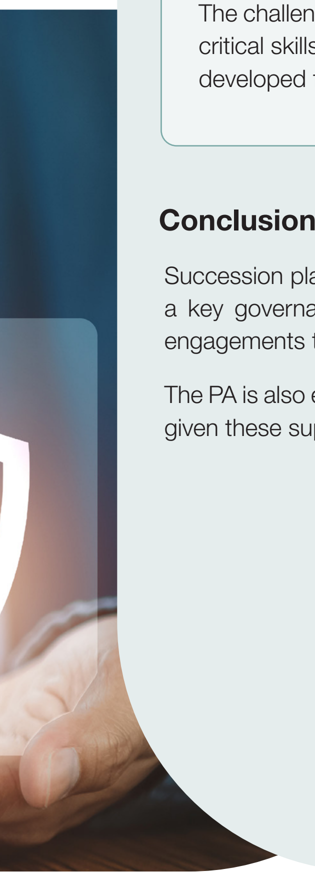
The larger and more established institutions had succession plans, even though these were not formally documented. There was limited evidence provided that the smaller institutions considered the organisational strategy when formulating their succession plans.

Attracting suitable, committed and skilled candidates in key roles was a major challenge. Key person dependency is a concern for the PA.

Market infrastructures

Within the MI landscape, succession planning was noted to be linked to the maturity of MIs' operations. Succession plans were found to cover immediate and emergency successors for senior and business-critical roles.

The challenges include key positions that are in demand internationally and competition with regard to remuneration for critical skills. In some instances, business processes, policies and frameworks, and governance structures need to be developed further to enable progress in the establishment of better succession planning.



Conclusion

Succession planning is a critical part of operational resilience that requires attention across all institutions, and will remain a key governance focus area for the PA. There will be ongoing monitoring through off-site reviews and supervisory engagements to drive efforts.

The PA is also exploring further policy work to strengthen current governance requirements relating to succession planning, given these supervisory concerns.

B2. 2022 thematic reviews

Implementation of IFRS 17

The PA issued a quantitative impact study (QIS) on IFRS 17 in the second half of 2022. The objective of the study was to assess the possible impact of IFRS 17 on insurers' balance sheets and solvency ratios. Although the analysis of this QIS is ongoing, preliminary results indicate that there is minimal impact on insurers' solvency capital requirement (SCR). Based on the results of the QIS as well as industry engagements, the PA is considering amendments to the quantitative reporting templates and the applicable prudential standards.

Cyber-risk underwriting

A thematic review on cyber-risk underwriting was conducted to gain insight into the South African cyber-risk insurance market. Insurers (including microinsurers and reinsurers) that provide non-life insurance cover gave input. A specific focus was on the insurers that underwrite and provide insurance cover for cyber-risks. The thematic review showed that the cyber-risk insurance market is currently small, and that there is limited risk appetite for the provision of cyber-risk insurance cover.

Loss-absorbing capacity of technical provisions

As part of Solvency Assessment and Management (SAM) Phase II, the thematic review investigated the application of the adjustment factor for the potential double-counting of the loss-absorbing capacity of technical provisions (LACTP). The investigation considered potential changes to both the life underwriting risk and the market risk capital requirements for insurance policies with similar LACTP features.

The PA received feedback from 48 insurers – 40 primary insurers, 5 cell captive insurers and 3 reinsurers – for the period between 4 November 2022 and 31 January 2023, based on their current adopted practices as quantified in terms of the latest annual valuation data as per their most recent year-end. The questionnaire covered the market risk capital requirement and the life underwriting risk capital requirement of the basic SCR.

The PA is analysing the information received from the life insurance industry.

Post-employment benefit liabilities

As part of SAM Phase II, the thematic review investigated insurers' exposure to risks emanating from post-employment employee benefit liabilities, that is, benefits which may have a longevity risk type exposure that may not be accounted for if a whole balance sheet approach to capital requirements is taken. These liabilities do not form part of an insurer's technical provisions and, for SAM reporting, are recognised under the other liabilities on the SAM balance sheet.

Detailed feedback was received from 135 insurers, 65 non-life and 5 composite insurers that submitted for the period 1 April 2022 to 31 May 2022, based on the current practices adopted by these insurers. The analysis of the information received revealed that exposure to post-employment benefit liabilities is immaterial. In addition, for those insurers that do have exposure, such exposures are not considered to have a current or future material impact on the SCR. The PA regards the risk management strategies employed to mitigate the risks as adequate. It has been recommended that no changes be made to the PA's 'Prudential Standard on Financial Soundness Standard for Insurers (FSI) 4: Calculation of the SCR Using the Standardised Formula'.

Margin requirements

The PA and FSCA conducted thematic reviews for certain banks and insurers that are materially impacted by the margin requirements rules for non-centrally cleared derivatives as derived from 'Joint Standard 2 of 2020 on Margin Requirements'. The review encompassed the joint standard's complete scope as well as aspects related to the regulatory exchange of the initial and variation margin. The objectives of the thematic review were to discuss the implementation of the joint standard, establish the business landscape impacted by the joint standard, review collateral considerations, and assess the institutions' readiness and incorporation of the joint standard rules within business practices and risk management procedures.

Although the work is ongoing, the PA has gained insights into the practical implementation of the margin requirements frameworks, an understanding of operational challenges, as well as identifying areas of improvement and conceptualising the institutional preparedness.

B3. 2022 emerging industry trends and risks

KwaZulu-Natal floods

Following the floods in KwaZulu-Natal in April 2022, which was declared a provisional disaster, the PA conducted a survey to assess the impact of insurance claims on the affected non-life insurers and reinsurers. The survey was sent to 58 affected direct insurers (including cell captives and microinsurers) and 9 reinsurers (including branches and Lloyd's). The affected insurers comprised the total non-life industry, excluding 20 institutions that were either in run-off, had withdrawn their licence or that write lines of business that are not subject to natural catastrophes. The focus of the survey assessed the financial impact of the event, the role of reinsurance, the severity of the event, claims maturity, and the operational impact of the event on insurers.

Most insurers reported a minor negative impact on the regulatory SCR cover ratio given the significant expected reinsurance recoveries from the risk mitigation instruments covering this event. From an operational perspective, most insurers responded that no disruptions to insurance operations were experienced, given that most insurers' offices were not located in the affected areas.

Bank-sovereign nexus

The interconnectedness of the banking sector and the sovereign received heightened attention during the supervisory period. Sovereign exposure through the holding of bonds and Treasury bills continued to increase at an aggregate level. This growth was partly driven by the prudential requirements of the liquidity coverage ratio (LCR), where net cash outflows reached historic month-end highs during 2022.

The PA held various discussions on a bilateral basis with a select group of banks to understand both their strategy and risk appetite in relation to sovereign exposure, as well as to communicate the PA's perspective on the matter. As part of the assessment of concentration risk, the PA made the decision to evaluate excessive sovereign exposure using the approach outlined in the Pillar 2 Internal Capital Adequacy Assessment Process.

Dealing with excessive sovereign exposure on a case-by-case basis provides the opportunity to consider other factors such as, but not limited to, the geographical and jurisdictional composition of the sovereign portfolio, the business model of the institution, and where the institution is in its life cycle.

B3. 2022 emerging industry trends and risks (continued)

Larger insurers and insurance groups

Although the financial performance of the larger insurance groups improved during the period under review, the PA observed the impact of COVID-19 aftershocks on the price inflation in vehicle parts within the non-life insurance industry. This contributed negatively to the high loss ratios within the motor vehicle book of business.

The performance of the life insurance sector showed considerable improvement due to the relief from the waning number of COVID-19-related claims. Notwithstanding this, the industry continued to monitor the potential impact that long-COVID could have on the book of business due to an increase in morbidity claims.

The significant increase in power cuts continued to plague the larger insurers, with a heightened impact on non-life insurers due to an increase in electrical appliances claims resulting from power surges. Although the industry continues to honour these claims, several non-life insurers have issued policyholders with exclusion letters for these types of claims.

Small to medium-sized insurers

During the supervisory period, insurance claims remained elevated, while growth of new business was low, which placed pressure on the profitability of the small to medium-sized insurers. The impact of high inflation on non-life insurers was noted with the increasing expenses and claims severity, in addition to the revaluations of reserves.

The effect of rising interest rates was found to be positive on the solvency positions of life insurers, but had an inverse effect on liquidity risk because of margin calls on interest rate hedges or mass policy surrenders.

Uncertainty about the macroeconomic environment, negative investor sentiment, and concerns about potential future riots coupled with the potential failure of the electricity grid are expected to impact pricing of future events, especially from a reinsurance perspective. Furthermore, climate-related threats could become unsustainable for the insurance sector, particularly where availability of reinsurance cover becomes a challenge.

Insurers are investing in technological infrastructure to shift value realisation across the entire product and client spectrum.

The current trend of increased mergers and acquisitions is anticipated to continue, especially for those insurers whose business models are not resilient.

Member-based, deposit-taking institutions

Mutual banks

The PA noted an increased number of applications for authorisation to establish mutual banks in terms of section 10 of the Mutual Banks Act 124 of 1993.

The reliance on secondary share capital by mutual banks remained a concern. Although gradually improving, the PA continually monitored the high cost-to-income ratios as this exacerbated the loss-making position of mutual banks during the supervisory period.

Co-operative banking institutions

Several areas of concern were noted in the co-operative banking sector.

On governance, the PA found that the level of financial management skills and experience in boards and audit committees were not at the levels stipulated in the institutions' own constitutions. This concern was accompanied by instances of poor commitment from board members in carrying out their oversight duties.

Some institutions were found to have vacant MD and other executive roles to oversee day-to-day operations for extended periods. Where these executive roles were filled, key person dependency was noted as a concern in some institutions due to limited succession planning. There is a dependency on MDs and staff, resulting in the control being left to these roles. This was found to ultimately hamper the effectiveness of the Board and Audit Committee in providing oversight.

The PA has expanded its supervisory meetings to include engagements with external auditors and independent reviewers of co-operative banking institutions to understand the effectiveness and efficiency of the internal controls and assurance structures within the institutions.

The co-operative sector needs to invest in appropriate banking systems to reduce the risk of human error that could otherwise be prevented by automated processes. Only a few institutions have engaged with service providers to source relevant banking systems.

Foreign representative offices

During the supervisory period, the PA's monitoring and supervision of foreign representative offices focused on strengthening compliance with the regulatory reporting requirements, alongside stronger internal controls.

Directive 2 of 2022 was issued to ensure that foreign representative offices report to the PA, on an annual basis, on the adequacy and effectiveness of their internal controls. Furthermore, external auditors of foreign representative offices, or those of the international division of the relevant bank or controlling company, are required to report to the PA on whether they concur with the internal control report provided by the foreign representative office. The PA remains concerned about the institutions' untimely submission of these reports.

To enhance the foreign representative offices' response to meeting the regulatory requirements, the PA held an industry workshop in August 2022. The PA will continue to monitor regulatory compliance by the foreign representative offices.

B3. 2022 emerging industry trends and risks (continued)

Foreign branches of banks

The foreign branches operating in South Africa continued to receive strong support from their head offices.

During the supervisory period, one foreign branch withdrew its operations in South Africa due to its group's strategy to exit Africa.

In addition, the foreign branches struggled to attract and retain local talent due to the larger banks offering attractive salary packages for the same skills in the market. Most of the year was focused on the foreign branches' work towards complying with BCBS 239 relating to the *Principles for effective risk data aggregation and risk reporting*.

Smaller, locally registered banks

During the supervisory period, the smaller, locally registered banks were found to be at varying levels of sustainability due to divergent business models. Some banks have struggled to get back to pre-COVID-19 levels of profitability. Recurring losses eroded the capital levels, resulting in the continual dependence on shareholders for capital injections.

For the smaller, locally registered banks, concerns relate to the significantly high and unsustainable cost-to-income ratios, with high reliance on non-interest income, which further exacerbated losses reported by some of the banks.

Smaller banks are also struggling to attract and retain staff and non-executive directors.

Larger banks (with total assets in excess of R50 billion)

The PA observed an overall improved performance for the larger banks. The PA closely monitored the performance of the banks' commercial property finance portfolios which remained under stress during the supervisory period. Although there was also an increase in non-performing loans in the vehicle asset finance and mortgage portfolios, the banks remained adequately capitalised.

Market infrastructures

The increase in revenue streams and diversification thereof is considered key in ensuring financial sustainability for the MI sector.

The PA paid particular focus on the sector's governance practices and the need for MIs to align with corporate governance best practice. This includes strengthening the maturity of governance committees, functions, policies and procedures; having a clear segregation of duties; and formalising independent assurance functions. Key person dependencies within the context of size and complexity of certain MIs continued to be a concern.

Operational resilience remained a key priority for MIs due to external factors and the macroeconomic conditions exacerbating the institutions' performance.

B4. Anti-money laundering and countering the financing of terrorism

Inspections

The PA continues to work with banks, mutual banks and life insurers to embed their risk-based approach to AML/CFT regulatory compliance for mitigating and managing risk following the 2017 amendments to the FIC Act.

During the 2022/23 financial year, the PA conducted 15 on-site inspections within domestic local banks, cross-border subsidiaries and life insurers. All supervised institutions provided the PA with periodic progress reports on remedial actions undertaken to address their deficiencies.

The PA imposed administrative sanctions on Nedbank Limited in terms of section 45C of the FIC Act (a financial penalty of R35 million) for various money laundering and terrorist financing (ML/TF) control weaknesses, including policies, record-keeping and cash threshold reporting.

The PA continued to focus on on-onsite inspections during 2023, in line with a risk-based approach to supervision.

C. ENFORCEMENT

Where necessary, the PA considers and takes appropriate regulatory actions and imposes administrative sanctions on regulated institutions, 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,[5] 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 2022/23 reporting period, the PA considered over 147 non-compliance referrals, compared to over 140 reported in the previous year. The PARAC held eight meetings to consider the PA's recommendations made to the CEO in relation to matters of non-compliance.

The FSR Act and 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 institutions. As such, in most cases, the PA cautions and/or reprimands the respective financial institutions and 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 final penalty orders imposed in terms of section 167 of the FSR Act are as follows:

Name	Non-compliance	Administrative penalty
Land Bank Insurance Company SOC Limited (LBIC)	LBIC amended its memorandum of incorporation (MoI). Among the amendments to the MoI was a change in the capital structure, which resulted in the increase of the authorised shares without the approval required in terms of the now repealed section 23(1)(a) of the Short-term Insurance Act 53 of 1998 (STIA), which was in force at that time. The PA also found that LBIC had appointed various directors to the Board without the required approval from the PA in terms of section 14(1) of the Insurance Act. The PA found that LBIC had effected terminations of directors without the required notifications to the PA in terms of section 16(1) of the Insurance Act.	R5 000 000, with R3 000 000 of the administrative penalty suspended for a period of three years from the date the penalty was imposed. (The matter was referred to the Financial Services Tribunal (Tribunal), the decision of which can be found on page 33 of this report.)
Land Bank Life Insurance Company SOC Limited (LBLIC)	LBLIC appointed various directors to the Board without the required approval from the PA in terms of section 14(1) of the Insurance Act. The PA also found that LBLIC had effected terminations of directors without the required notifications to the PA in terms of section 16(1) of the Insurance Act.	R2 064 000, with R1 376 000 of the administrative penalty suspended for a period of three years from the date the penalty was imposed. (The matter was referred to the Tribunal, the decision of which can be found on page 33 of this report.)

5 The PARAC membership includes the CEO of the PA, the SARB deputy governors responsible for the market operations and financial stability clusters, the heads of department 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, the SARB's Resolution Planning Division and the PA's Legal Support Division.

Name	Non-compliance	Administrative penalty
Escap SOC Limited (Escap)	The PA found the following in relation to Escap: a. The Board failed in its oversight responsibility to ensure reliable and transparent financial reporting to the PA. The decision by the Board to declare a dividend of R600 million to the shareholder – Eskom SOC Limited (Eskom) – in July 2021, was based on an overstated solvency position. b. The former Escap CEO occupied potentially conflicting roles as an executive director of Escap while holding the position of General Manager: Group Tax of Eskom. c. The Board did not have a succession plan for Board, senior management and heads of control functions. d. The Board failed to provide oversight over the decisions relating to new business take-on and risk transfer as required by section 9 of 'Prudential Standard GOI 2: Governance of Insurers'.	R5 000 000, with R3 000 000 of the administrative penalty suspended for a period of three years from the date the penalty was imposed. (The matter was referred to the Tribunal, the decision of which can be found on page 33 of this report.)
Lloyd's and Lloyd's Underwriters	The PA found that Lloyd's and Lloyd's Underwriters had contravened section 14(1)(b) of the Insurance Act.	R117 500

Other PA decisions

Curatorship

Curatorship is triggered at a point where the PA is of the opinion that an institution cannot continue to operate as determined by the available financial, governance and compliance information. The aim of this regulatory decision is to ensure an orderly resolution of such an institution in the interest of protecting depositors and policyholders. In respect of banks, the CEO of the PA makes a recommendation to the Minister of Finance to appoint a curator, in terms of section 69 of the Banks Act, and the PA files an application for curatorship through the courts in respect of insurers in terms of section 54 of the Insurance Act, read with section 5A of the Financial Institutions (Protection of Funds) Act 28 of 2001.

The Financial Sector Laws Amendment Act 23 of 2021 (FSLAA) was promulgated on 28 January 2022. The FSLAA, inter alia, provides for the establishment of a resolution framework for designated institutions and designates the SARB as the responsible authority for the resolution thereof. The FSLAA has also introduced South Africa's first deposit insurance scheme. On 24 March 2023, the Minister of Finance published the commencement date for the bank resolution regime as 1 June 2023, which will repeal existing curatorship regulatory provisions for banks. The PA will continue to manage the orderly exit process for all other financial institutions in terms of the provisions in current financial sector laws.

3Sixty Life was placed under provisional curatorship with effect from 21 December 2021 and was placed under final curatorship on 30 September 2022. The High Court of South Africa appointed Ms Fagmeedah Petersen-Cook as the final curator of 3Sixty Life on 21 February 2023.

Ubank was unable to raise additional shareholder funding as capital to restore its regulatory capital adequacy requirements. The Minister of Finance, in consultation with the PA, placed Ubank under curatorship with effect from 16 May 2022. The PA authorised the African Bank acquisition of Ubank's assets and liabilities, and Ubank's depositors and debtors are is currently being integrated into African Bank.

Curatorship (continued)

On 26 March 2023, the Minister of Finance, on recommendation from the PA, placed Habib under curatorship to deal with its governance, compliance and operational failures, following various investigations and reviews which confirmed the bank's non-compliance with several financial sector laws, including breaches of exchange control regulations.

Statutory management

The PA determined that New Era Life was likely to be in an unsound financial position in respect of section 39 of the Insurance Act and had materially failed to comply with the Policyholder Protection Rules made under section 62 of the Long-term Insurance Act. As such, New Era Life was placed under statutory management in terms of section 53 of the Insurance Act, read with section 5A of the Financial Institutions (Protection of Funds) Act 28 of 2001, with effect from 1 November 2022.

Winding up

The PA applied to the High Court of South Africa, on an *ex parte* basis, to place CICL under curatorship. This order was granted with effect from 26 July 2022. On this date, CICL's licence was suspended in terms of section 27 of the Insurance Act, prohibiting CICL from conducting any new business. The curator's report indicated that CICL was factually insolvent in that its liabilities exceeded its assets, and recommended for the urgent liquidation of CICL. On 14 September 2022, the High Court of South Africa issued an order placing CICL under final liquidation.

Matters referred to the Financial Services Tribunal

Any person aggrieved by a decision taken by the PA may apply to the Tribunal for reconsideration of the decision.

Landbank Insurance Company SOC Limited and Land Bank Life Insurance Company SOC Limited

1. The insurance companies filed an application in terms of section 230 of the FSR Act in respect of the PA's decision to impose a financial penalty for their failure to obtain the PA's approval before appointing various directors.

Decision: The Tribunal held that the PA's submission in this regard was undermined by its willingness to grant retrospective approval of the appointments.

2. In respect of section 16(1) of the Insurance Act, for their failure to notify the PA of the termination of directors, the applicants requested a reconsideration of the size of the penalty.

Decision: The Tribunal ruled that the administrative penalty imposed by the PA be set aside and replaced with R250 000, half of which was suspended on the same conditions.

Landbank Insurance Company SOC Limited

LBIC filed an application contending that the imposition of the administrative penalty by the PA in relation to the breach of the repealed section 23 of the STIA was unlawful.

Decision: The Tribunal held that there was a basic problem with the PA's regulatory action as the STIA contained no provision for the imposition of an administrative penalty for a contravention of section 23. To the extent that section 167 of the FSR Act may provide otherwise, the item is a *lex specialis* which overrides the general provisions of section 167. As a result, no administrative penalty could competently have been imposed by the PA on LBIC for a contravention of section 23 of the STIA.

Escap SOC Limited

Escap filed an application with the Tribunal for the reconsideration of the PA's decision to impose regulatory action regarding the dividend declaration of R600 million by Escap to Eskom.

Decision: The Tribunal dismissed the application for reconsideration of the decision.[6]

6 The Tribunal's decision on this matter was taken on 4 April 2023 and will be reported in more detail in the 2023/24 Prudential Authority Annual Report.

D. SELECTED INDICATORS FOR THE SOUTH AFRICAN FINANCIAL SECTOR

Entities supervised by the PA as at* 31 December 2022, 28 February 2023 and 31 March 2023

Entities per sector	No. of entities	Balance sheet size R millions		
		Dec 2022	Feb 2023	Mar 2023
Banking sector**	**30**			**7 310 721**
Registered banks	18			6 853 659
Local branches of foreign banks	12			457 062
Mutual banking sector	**3**			**3 444**
Co-operative sector	**28**		**590**	
Co-operative banks	5		453	
Co-operative financial institutions	23		137	
Total insurance sector***	**158**	**4 043 454**		
Life insurance sector	**75**	**3 698 319**		
Primary insurers	61	3 672 818		
Cell captive entities	5	25 501		
Micro insurers	9	-		
Non-life insurance sector	**70**	**279 818**		
Primary insurers	58	206 319		
Cell captive entities	6	47 085		
Captive insurers	6	26 414		
Non-life microinsurers	-	-		
Composite microinsurers	**4**	**-**		
Reinsurers	**9**	**65 317**		
Life reinsurers	1	7 137		
Non-life reinsurers	2	10 041		
Composite reinsurers	4	48 139		
Branches of foreign reinsurers	2	-		
Market infrastructures ******	**7**	**5 459**		

* 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 registered banks includes Ubank and Habib.

*** The total number of insurers includes CICL, 3Sixty Life as well as other insurers in run-off. In addition to the 158 insurance entities registered, the PA also supervised Lloyd's as well as the Road Accident Fund.

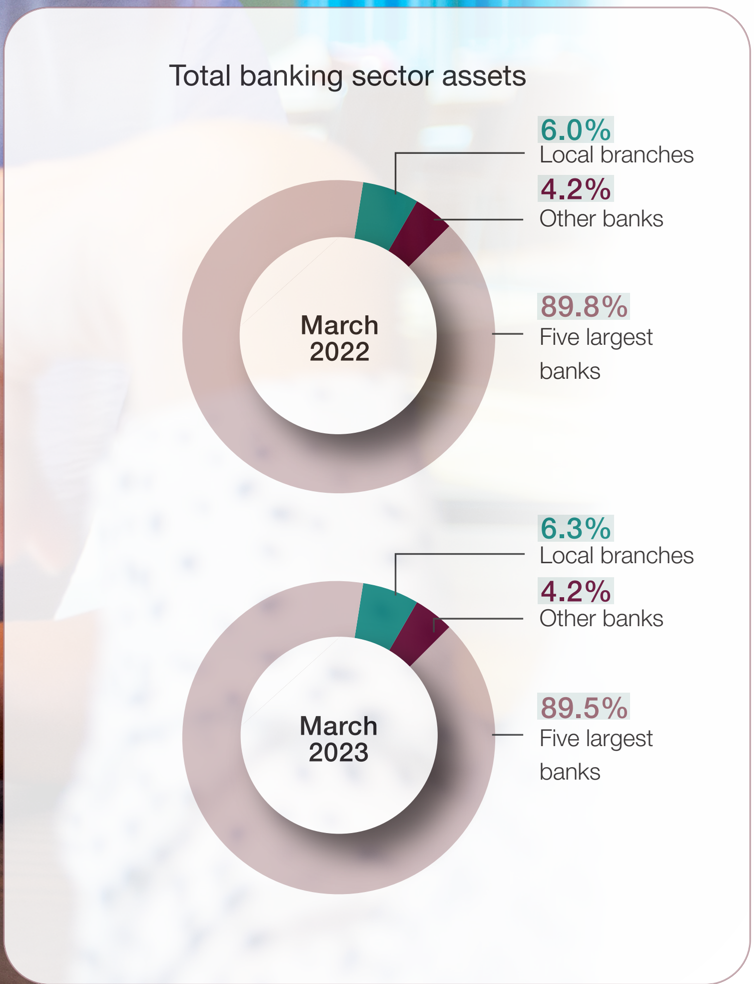
**** The total assets in respect of market infrastructures exclude margin deposits.

Deposit-taking financial institutions

BANKING SECTOR

South Africa's banking sector is dominated by the **five largest banks**, which collectively held **89.50%** of the total banking sector assets as at 31 March 2023 (March 2022: 89.79%). **Local branches of international banks** accounted for **6.25%** of banking sector assets as at 31 March 2023 (March 2022: 5.97%), while **other banks**, which constitute other locally registered banks, represented **4.25%** as at 31 March 2023 (March 2022: 4.24%).

Note: Banking sector data includes data provided by an institution that conducts 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 2023	Percentage change (%)
Balance sheet			
Total assets (R billions)	6 819	7 311	7.21
Gross loans and advances (R billions)	4 846	5 258	8.50
Total equity (R billions)	566	583	3.05
Profitability			
Cost-to-income ratio (smoothed) (%)	58.97	56.37	-4.41
Return on equity (smoothed) (%)	13.73	14.88	8.38
Return on assets (smoothed) (%)	1.09	1.12	2.75
Capital adequacy			
Common equity tier 1 capital adequacy ratio (%)	13.71	13.34	-2.70
Tier 1 capital adequacy ratio (%)	14.95	14.83	-0.80
Total capital adequacy ratio (%)	17.70	17.46	-1.36
Leverage ratio (%)	6.71	6.57	-2.09
Liquidity			
Liquidity coverage ratio (%)	139.90	145.81	4.22
Net stable funding ratio (%)	116.65	117.23	0.50
Credit risk			
Impaired advances (R billions)	215	258	20.00
Impaired advances as % of gross loans and advances	4.43	4.90	10.61
Specific credit impairments as % of impaired advances	49.41	46.83	-5.22
Portfolio credit impairments as % of gross loans and advances	1.30	1.19	-8.46

Total banking sector assets grew by **7.21%** year on year to **R7 311 billion** at the end of March 2023 (March 2022: R6 819 billion), mainly driven by increases in gross loans and advances, investment and trading securities, short-term negotiable securities and other assets. **Gross loans and advances** grew by **8.50%** year on year to **R5 258 billion** at the end of March 2023 (March 2022: R4 846 billion), underpinned mainly by increases in home loans, lease and instalment debtors, term loans and repurchase agreements.

Equity amounted to **R583 billion** at the end of March 2023 (March 2022: R566 billion). **Retained earnings and share capital** constituted **93.75%** of total equity at the end of March 2023 (March 2022: 94.12%).

The **banking sector** remained profitable. **Total operating profit** in respect of the past 12 months grew by **7.96%** year on year to **R104 billion** at the end of March 2023 (March 2022: R97 billion), underpinned by increases in net interest and non-interest income. The 12-month moving average **return-on-equity (ROE)** ratio increased from 13.73% in March 2022 to **14.88%** at the end of March 2023, and the **return-on-assets (ROA)** ratio increased to **1.12%** at the end of March 2023 (March 2022: 1.09%). The 12-month moving average **cost-to-income ratio** amounted to **56.37%** at the end of March 2023 (March 2022: 58.97%).

Banks (on a bank-solo basis) remained adequately capitalised, with capital adequacy ratios (CARs) remaining well above the minimum statutory requirements. **Common equity tier 1 (CET 1), tier 1 and total CARs** amounted to **13.34%**, **14.83%** and **17.46%** respectively at the end of March 2023 (March 2022: 13.71%, 14.95% and 17.70% respectively).

The **liquidity coverage ratio** remained above the minimum statutory requirement and amounted to **145.81%** at the end of March 2023 (March 2022: 139.90%). The **NSFR** was **117.23%** at the end of March 2023 (March 2022: 116.65%).

Impaired advances grew by **20.00%** year on year to **R258 billion** at the end of March 2023 (March 2022: R215 billion). The **ratio of impaired advances to gross loans and advances** increased to **4.90%** at the end of March 2023 (March 2022: 4.43%). The ratio of **specific credit impairments to impaired advances (coverage ratio)** decreased to **46.83%** at the end of March 2023 (March 2022: 49.41%).

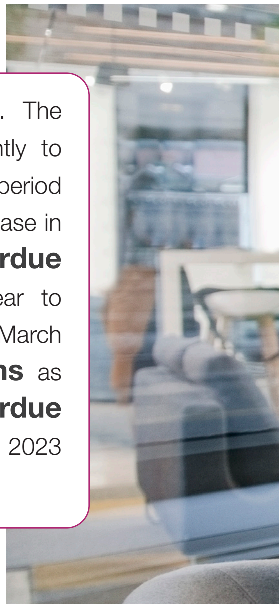
MUTUAL BANKING SECTOR

Selected indicators for the South African mutual banking sector

	Mar 2022	Mar 2023	Percentage change (%)
Balance sheet			
Total assets (R millions)	3 257	3 444	5.74
Gross loans and advances (R millions)	2 473	2 598	5.05
Profitability			
Return on equity (smoothed) (%)	-3.74	-1.24	66.84
Return on assets (smoothed) (%)	-0.82	-0.29	64.63
Cost-to-income ratio (smoothed) (%)	89.56	76.44	-14.65
Liquidity			
Average daily amount of liquid assets held to liquid assets requirement (%)	485.91	431.62	-11.17
Credit risk			
Gross amount overdue (R millions)	212	183	-13.68
Gross overdue to gross loans and advances (%)	8.57	7.05	-17.74
Specific provisions to gross amount overdue (%)	35.83	56.11	56.60
General provisions to gross loans and advances (%)	1.62	1.94	19.75
Capital adequacy			
Capital adequacy ratio (%)	25.45	27.80	9.23

Total **mutual banking sector** assets increased by **5.74%** year on year to **R3 444 million** as at the end of March 2023, from R3 257 million in March 2022, driven by the increase in gross loans and advances. **Gross loans and advances** increased by **5.05%** year on year to **R2 598 million** at the end of March 2023 (March 2022: R2 473 million).

Although the sector was still making losses as at the end of March 2023, the profitability ratios had improved when compared to March 2022. The **total CAR** for the sector increased slightly to **27.80%** when compared to the previous period (March 2022: 25.45%), mainly due to the increase in net qualifying capital and reserve funds. **Overdue loans** declined by **13.68%** year on year to **R183 million** at the end of March 2023 (March 2022: R212 million). **Specific provisions** as a percentage of the **gross amount overdue** amounted to **56.11%** at the end of March 2023 (March 2022: 35.83%).

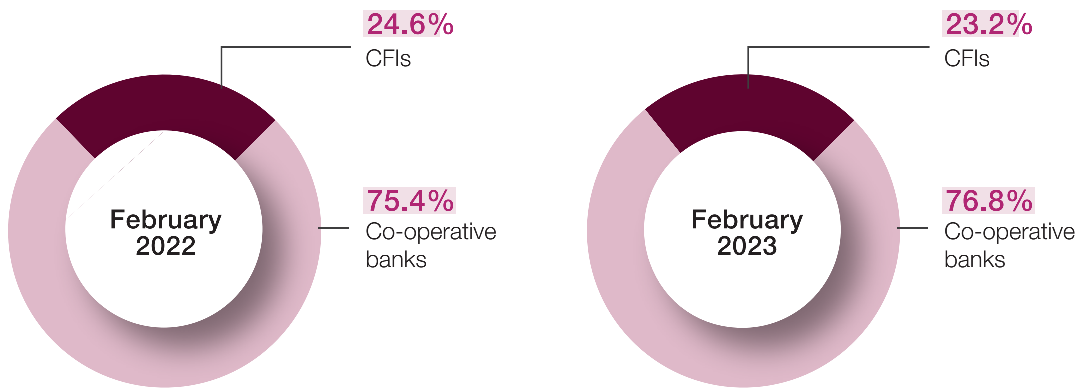


CO-OPERATIVE FINANCIAL SECTOR

As at the end of February 2023, the **co-operative financial sector** consisted of **5 co-operative banks and 23 CFIs**.

Based on total assets as at the end of February 2023, **co-operative banks** constituted **76.80%** of the total co-operative deposit-taking sector and **CFIs 23.20%**.

Total co-operative financial sector assets



Selected indicators for co-operative banks and CFIs

	Number		Members		Deposits (R millions)		Assets (R millions)	
February*	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Co-operative banks	5	5	5 356	5 585	368	405	413	453
CFIs	24	23	23 844	25 339	100	110	135	137
Total	**29**	**28**	**29 200**	**30 924**	**468**	**515**	**548**	**590**

* The financial year-end of all co-operative banks and CFIs is 28 February.

Co-operative banks

Selected indicators for South African co-operative banks	Feb 2022	Feb 2023	Percentage change (%)
Balance sheet			
Total assets (R thousands)	413 055	452 514	9.55
Total net loans (R thousands)	246 007	314 106	27.68
Total liabilities (R thousands)	368 230	405 677	10.17
Total equity (R thousands)	44 825	46 840	4.50
Profitability			
Total income (R thousands)	34 897	44 572	27.72
Total expenses (R thousands)	31 498	37 599	19.37
Operating profit/income before taxation (R thousands)	3 925	7 165	82.55
Cost-to-income ratio (%)	68.51	49.84	-27.25
Capital adequacy			
Total capital adequacy ratio (%)	9.99	9.24	-7.51
Asset quality and provisions			
Total delinquent loans (R thousands)	7 008	8 898	26.97
Portfolio delinquent (%)	2.76	2.74	-0.72
Total provisions (R thousands)	7 834	10 488	33.88
Provision as % of total loans	3.18	3.34	5.03

The **co-operative banks' balance sheet** size increased by **9.55%** year on year from R413 million in February 2022 to **R453 million** in February 2023. **Net loans** amounted to **R314 million** for the period under review, increasing by **27.68%** from the R246 million reported in February 2022.

The **co-operative banking sector** remained adequately capitalised, with a **CAR** of **9.24%** as at March 2023, well in excess of the 6% minimum requirement to be held, but lower than in February 2022 due to overall balance sheet growth. The sector remained profitable with income before taxation at **R7.2 million** as at the end of March 2023. The **cost-to-income ratio** improved to **49.84%** during the period under review (February 2022: 68.51%) due to higher operating income.

Delinquent loans accounted for **2.74%** of the co-operative banking sector's gross loans as at the end of February 2023, a decline of **0.72%** when compared to February 2022. 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 CFIs	Feb 2022	Feb 2023	Percentage change (%)
Balance sheet			
Total assets (R thousands)	134 735	136 682	1.45
Total net loans (R thousands)	70 165	55 074	-21.51
Total liabilities (R thousands)	107 415	114 973	7.04
Total equity (R thousands)	27 320	21 709	-20.54
Profitability			
Total income (R thousands)	20 760	19 156	-7.73
Total expenses (R thousands)	20 947	28 441	35.78
Operating profit/income before taxation (R thousands)	-188	92	148.94
Cost-to-income ratio (%)	96.34	126.38	31.18
Capital adequacy			
Total capital adequacy ratio (%)	12.80	7.92	-38.13
Asset quality and provisions			
Total delinquent loans (R thousands)	12 292	13 691	11.38
Portfolio delinquent (%)	16.47	21.86	32.73
Total provisions (R thousands)	4 466	7 549	69.03
Provision as % of total loans	6.37	13.71	115.23

Total assets in respect of CFIs increased slightly by **1.45%** during the review period. **Net loans** amounted to **R55 million** for the period under review, decreasing by **21.51%** from the R70 million reported in February 2022. Although the sector remained adequately capitalised, the **CAR** declined by **38.13%**, from 12.80% in February 2022 to **7.92%** in February 2023, compared with the minimum CAR requirement of 6%. The decline in the CAR was mainly due to reduced capital because of negative retained earnings.

Profitability improved during the period under review. Owing to previous period adjustments, **income before taxation** improved to **R92 000** in February 2023, making the sector profitable. The net income from operations, however, was negative at R9.28 million, mainly due to both an overall decline in income and an increase in expenses. The **cost-to-income ratio** deteriorated to **126.38%** in February 2023 from 96.34% in February 2022.

Delinquent loans accounted for **21.86%** of the CFI sector's gross loans as at the end of February 2023.

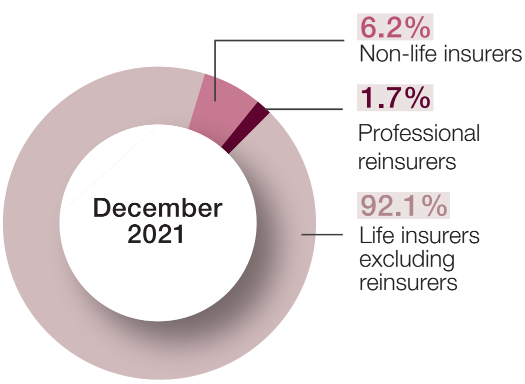
The sector's data was slightly understated due to four smaller CFIs not submitting data in respect of February 2023 due to various reasons.

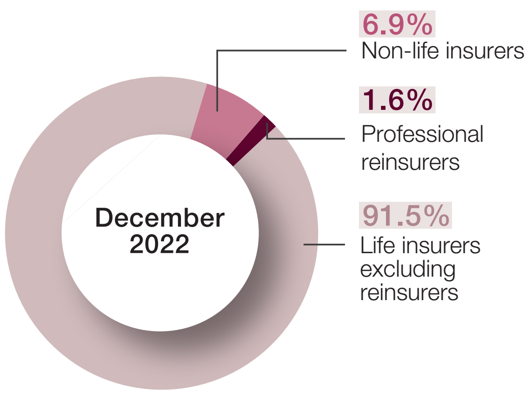
INSURERS AND REINSURERS

The insurance sector's income and expenditure figures are based on aggregated data for the four quarters ending December 2022, while the solvency and balance sheet items are as at 31 December 2022.

South Africa's life insurance sector is dominated by the **five largest insurers**, which collectively held **72%** of the total assets, while the **non-life insurance sector** is dominated by **eight large insurers**, which held **60.4%** of gross premiums as at 31 December 2022. All **nine professional reinsurers** are **foreign-owned** with less than **2%** of the total sector assets.

Total insurance sector assets





LIFE INSURERS

Selected indicators for the South African life insurance industry as at 31 December 2022

R millions	Primary	Cell captives	Reinsurers	Total 2022	Total 2021
Income					
Net premiums	583 284	16 703	1 493	601 479	595 297
Investment income	43 274	682	89	44 046	533 978
Other income	19 243	25	75	19 343	15 720
Total	**645 801**	**17 409**	**1 657**	**664 868**	**1 144 995**
Expenditure					
Benefits	541 349	4 052	1 428	546 829	566 598
Commission paid/received	22 428	1 717	89	24 235	23 869
General expenses	59 911	2 249	249	62 409	59 771
Other acquisition costs	6 388	–	–	6 388	6 506
Other expenses	10 226	1	4	10 232	5 847
Excess of income over expenditure	**5 499**	**9 389**	**-114**	**14 775**	**482 403**

The **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 reported at **R601 479 million** for the year ended 31 December 2022 compared to R595 297 million for the 12 months ended 31 December 2021. **Benefit payments** for the 2022 period was at **R546 829 million** compared to R566 598 million during 2021.

Insurance companies make a significant portion of their income from investment revenue (both realised and unrealised). Industry experienced a decline in investment income during the review period.

Selected indicators for assets and liabilities for the life insurance industry

R millions	Total assets		Liabilities		MCR*		SCR**	
	2022	2021	2022	2021	2022	2021	2022	2021
Primary	3 672 818	3 695 178	3 335 643	3 343 586	4.7	4.2	1.7	1.7
Cell captives	25 501	21 922	11 817	9 945	4.2	4.2	1.1	1.1
Reinsurers	7 137	7 157	6 065	6 032	3.1	1.3	1.4	1.3
Total	**3 705 455**	**3 724 257**	**3 353 525**	**3 359 563**	**4.2**	**4.2**	**1.4**	**1.3**

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

The **total assets** in respect of the primary life insurers, cell captives and reinsurers were reported at **R3 705 455 million** as at 31 December 2022 compared to R3 724 257 million in 2021. Total assets were mainly 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 2022

R millions	Primary	Cell captives	Captives	Reinsurers	Total 2022	Total 2021
Income						
Gross premiums	146 823	29 973	1 493	3 628	**181 916**	**169 848**
Net earned premiums	93 509	17 926	790	764	**112 989**	**105 681**
Investment income	5 416	1 745	921	282	**8 364**	**14 358**
Other income	1 043	25	31	95	**1 194**	**1 218**
Total	**99 968**	**19 696**	**1 742**	**1141**	**122 547**	**121 257**
Expenditure						
Claims incurred	59 980	6 987	791	581	**68 339**	**95 274**
Commission paid/ received	6 413	358	-160	343	**6 954**	**4 326**
General expenses	25 687	2 934	175	206	**29 002**	**29 180**
Other expenses	536	55	38	-47	**581**	**2 325**
Excess of income over expenditure	**7 353**	**9 362**	**897**	**58**	**17 670**	**-9 848**
Underwriting profit	4 098	1 739	387	18	**6 242**	**-25 522**
Operating profit	9 514	3 484	1 307	300	**14 606**	**-11 164**

Gross premiums of primary insurers (those that do not conduct business solely as reinsurers), cell captives, captives and reinsurers in the non-life insurance industry were reported at **R181 916 million** for the 12 months ended 31 December 2022.

Underwriting results (where underwriting profit is expressed as a percentage of net earned premiums) for the primary insurers, cell captives, captives and reinsurers in the non-life insurance industry stood at **5.5%** as at 31 December 2022 compared to -24.2% in December 2021. An increase in underwriting results were mainly due to improvements experienced by insurers that were mostly affected by the social unrest that occurred in July 2021.

Operating profit, which includes investment income, was reported at **R14 606 million** during the review period compared to -R11 164 million as at 31 December 2021.

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

	Total assets		Liabilities		MCR*		SCR**	
R millions	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Primary	206 319	190 542	121 454	132 695	3.7	3.8	1.5	1.8
Cell captives	47 085	33 324	34 647	23 267	2.8	2.9	1.3	1.3
Captives	26 414	26 777	13 956	15 088	9.3	6.0	2.4	1.7
Reinsurers	10 041	9 847	7 280	7 438	9.7	8.4	2.4	2.1
Total	**289 859**	**260 490**	**177 337**	**178 488**	**6.5**	**4.9**	**2.0**	**1.7**

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

COMPOSITE REINSURERS

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

Summary of the results of the composite business as at the end of December 2022

R millions	2022		2021	
	Life	**Non-life**	**Life**	**Non-life**
Income				
Gross premiums	16 810	19 854	14 514	15 131
Net premiums/net earned premiums	11 736	2 925	10 641	3 401
Investment income	1 057	457	798	389
Other income	-11	2 523	267	87
Total	**12 781**	**3 877**	**11 706**	**3 877**
Expenditure				
Claims incurred	12 977	2 523	10 816	2 436
Commission paid/received	-103	741	241	73
General expenses	418	85	734	71
Other expenses	109	162	257	-23
Excess of income over expenditure	**-621**	**2 394**	**-343**	**1 320**
Underwriting profit		127		-100
Operating profit		584		289

Gross premiums relating to life composites for the 12 months ending 31 December 2022 were reported at **R16 810 million** compared to R14 514 million in 2021.

Non-life composite gross premiums were reported at **R19 854 million** compared to R15 131 million in 2021.

Selected indicators for assets and liabilities for the composite insurance industry

R millions	2022	2021	Percentage change (%)
Total assets	48 139	51 396	-6.3
Total liabilities	37 618	41 747	-9.9
SCR*	1.4	1.2	
MCR**	3.0	2.7	

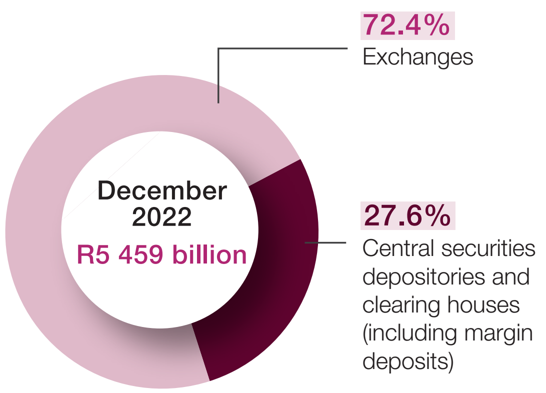
* SCR: solvency capital requirement (median)
** MCR: minimum capital requirement (median)

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.

Total assets including margin deposits and total assets excluding margin deposits were at **R60 743 billion** and **R5 459 billion** respectively at the end of December 2022 (December 2021: R60 886 billion and R5 814 billion respectively).

Total assets of market infrastructures



E. MARKET RISK

AN UPDATE ON PRUDENTIAL REGULATIONS

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), which is an overhaul of the Basel II and Basel II.5 market risk frameworks. The revision addressed the structural shortcomings identified in the Basel II framework observed during the 2008 global financial crisis.

The PA has released several communication notes, which outline implementation, application milestones and other relevant requirements for banks. The first draft of the proposed prudential standard was published for consultation under Prudential Communication 9 of 2022. At least one more round of consultation is expected in 2023 before finalising the prudential standard.

Revised credit valuation adjustment risk framework

In line with the FRTB, the PA has designed various execution streams towards implementation of the revised credit valuation adjustment (CVA). The implementation of the prudential standards on CVA is following a similar process to that of the FRTB.

Margin requirements for non-centrally cleared derivatives

'Joint Standard 2 of 2020 on Margin Requirements for Non-centrally Cleared Over-the-Counter (OTC) Derivative Transactions'[7] became effective on 16 August 2021. Following the issuance of Joint Notice 1 of 2022,[8] margin exchange became fully effective in South Africa on 16 February 2023. The FSCA and the PA will continue with their joint supervisory model and further regulatory elements to advance the implementation of the joint standard.

The PA received several applications from financial institutions that sought approval for the use of model-based approaches when computing various initial margin or collateral haircuts. This followed the release of an implementation and model application suite in 2021. The assessments of the applications by the Authorities were concluded in 2022, with only two institutions receiving approval to use the model-based approach for computing the initial margin.

SUPERVISION

Prudentially regulated financial institutions remained resilient and continued to demonstrate the ability to maintain adequate capital buffers to absorb the impact of shocks. This was despite high inflation rates, global monetary policy tightening, recessionary fears, geopolitical tensions, lower global growth forecasts, and volatile financial markets.

Banking

The PA remained focused on the supervision of banks' trading activities, risk management practices and governance processes, while simultaneously working closely with the banking industry in enhancing supervisory standards. Good progress was made in implementing international supervisory standards locally, specifically those relating to the FRTB and CVA, ahead of the 2024 implementation date.

Insurance

The PA deepened its analysis of key topics related to the supervision of the insurance industry, particularly insurers whose business activities generated market risk and counterparty credit risk. The PA supervisory programme that was conducted included:

- focused engagements with selected insurers;
- quarterly engagements with selected insurers on the pertinent risks observed in the sector; and
- thematic reviews with selected insurers relating to the impact and institutional preparedness for margin requirements for non-centrally cleared OTC derivatives.

Market infrastructures

The PA's supervisory interventions sought to create cross-industry knowledge due to the interconnected nature of the financial markets, given various regulatory initiatives and forthcoming reforms. A key focus for 2023 will be the impact of the 'Joint Standard on Margin Requirements' and its related impacts on exchange-traded clearing within the markets.

7 The 'Joint Standard on Margin Requirements for Non-centrally cleared OTC Derivative Transactions' is available at: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-financial/sector-regulation-joint-standards/2020/9975

8 The 'Joint Notice on the Extension of Dates in Joint Standard 2 of 2022' is available at: https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2022/Joint%20Notice%201%20of%202022%20-%20Extension%20of%20dates%20in%20Joint%20Standard%202%20of%202020.pdf

F. CAPITAL MANAGEMENT

Banking

Banking regulations to ensure that local banks' investments in total loss-absorbing capacity (TLAC) instruments, as issued by global systemically important banks, are appropriately capitalised, became effective from 1 April 2022. This amendment, however, had no impact on the CARs of South African banks since there were no exposures to TLAC at the time.

Banks were adequately capitalised even though their capital ratios had decreased somewhat. Profitability improved and dividend payments increased significantly, with some banks electing to repurchase shares.

Capital buffers

Assessments of domestic systemically important banks (D-SIBs) in 2022

Following the reintroduction of the Pillar 2A capital requirement with effect from 1 January 2022, the PA decided that the updated higher loss-absorbency requirements, as determined during the last quarter of 2021, would only become effective on 1 July 2022.

Capital adequacy

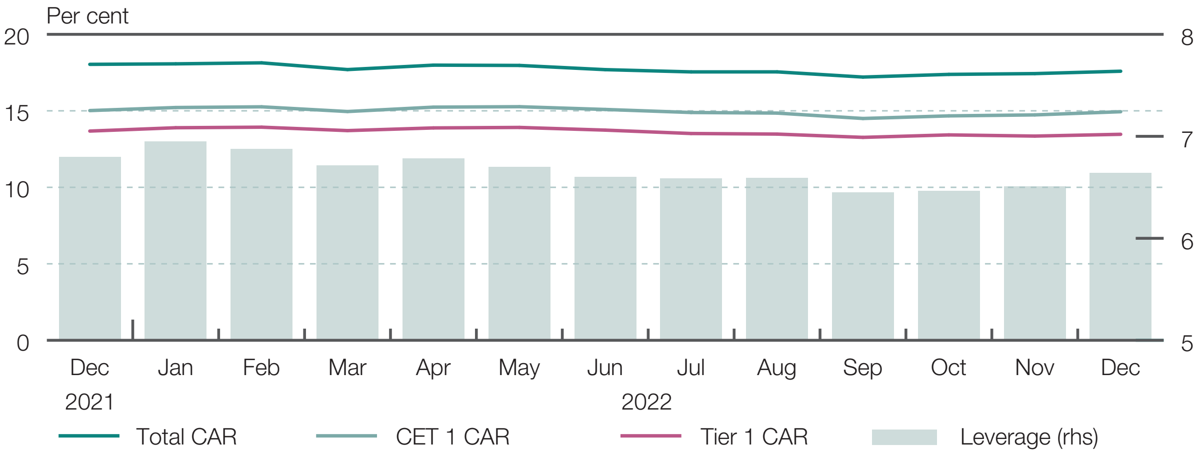
The minimum required CARs, excluding the D-SIBs and individual capital requirements, which differ between banks, were as follows:

	CET 1	Tier 1	Total capital
2022	**7.50%**	**9.25%**	**11.50%**

Total value of capital issuances approved during the year:

	2021 (R billions)	2022 (R billions)
Additional tier 1	28.5	8.5
Tier 2	23.7	11.0

Capital adequacy and leverage ratios



Total value of capital redemptions during the year:

	2021 (R billions)	2022 (R billions)
Additional tier 1	6.1	2.1
Tier 2	15.5	5.1

Insurance

The insurance industry continued to actively apply for different capital-related matters, as required by or as allowed for in the Insurance Act or the prudential standards. The PA's Capital Team considered 41 applications, most of which related to the encumbrance of assets. Further work is in the pipeline to increase the industry's observance of the requirement set out in 'Prudential Standard FSI 2.1: Valuation of Assets and Liabilities Other than Technical Provisions'.

The International Association of Insurance Supervisors (IAIS) has progressed well with its development work on the Insurance Capital Standard (ICS) that aims to set a global insurance solvency framework for large internationally active insurance groups. The PA is considering the work required to add the ICS to the insurance regulatory framework.

G. CREDIT RISK

Persistent inflation, which is above the SARB's target band of 3–6%, and a weak macroeconomic environment contributed to credit risk invariably remaining heightened, and thus being an area of focus. Structural challenges such as unprecedented disruptions in power supply, high unemployment and elevated public sector debt levels prevailed, denting consumer and business confidence. In the fragile economic conditions, pressure on corporates, small businesses and households impacted the ability of borrowers to meet their credit obligations, resulting in increases in impaired advances and impairments.

The impaired advances ratio for the banking sector hovered around 4.7% as at the end of February 2023, reflecting the pressure on borrowers. Against this backdrop, total banking credit extension grew moderately in 2022, and increased by 11.2% year on year to R8.2 trillion as at the end of February 2023 (February 2022: R7.3 trillion). Total banking sector growth in loans and advances was largely driven by credit extended to the corporate and retail asset classes and by increases in other categories of asset classes.

Various supervisory engagements focusing on credit risk were held with the banking industry, including soliciting comments from industry on pertinent issues in relation to the Basel III post-crisis reforms (specifically to credit risk) for consideration before its implementation.

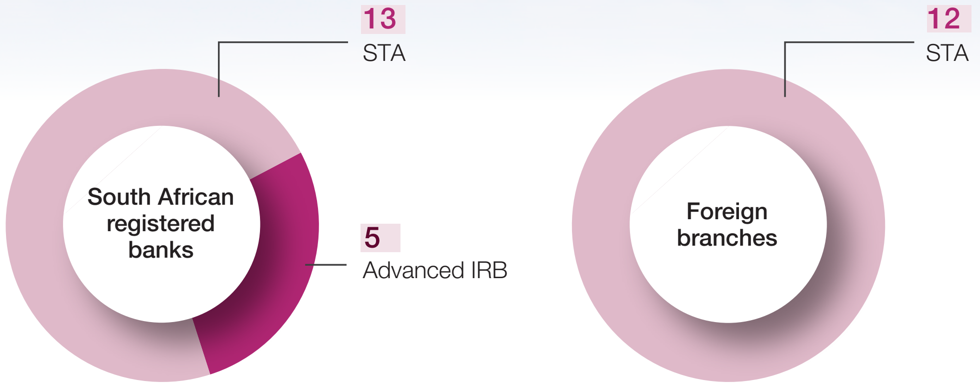
Methodologies to calculate the minimum required regulatory capital relating to credit risk

Banks may use one of the following three methodologies to determine their minimum required regulatory capital relating to credit risk under the regulatory framework in place in South Africa:

- the STA, including the simplified STA;
- the foundation IRB approach (subject to PA regulatory approval); and
- the advanced IRB approach (subject to PA regulatory approval).

The figure below depicts the number of banks registered in South Africa and their use of each of the methodologies.

Reporting methods applied by banks as at 31 March 2023



Preparations for the implementation of the Basel III post-crisis reforms

The PA has been preparing for the implementation of the post-crisis reforms (i.e. Basel III reforms). The reforms include revisions to the STA and IRB approaches for credit risk. The STA is being revised to reduce mechanistic reliance on external credit ratings in favour of robust internal due diligence requirements. Additional asset classes have been introduced to improve risk sensitivity of the risk-weighting scheme. A revised taxonomy and risk-weighting scheme for real estate exposures has also been introduced. Revisions to the IRB approach are intended to reduce the undue variability of risk-weighted assets among banks. The revisions do so by restricting the use of internal models on those credit portfolios for which banks lack the requisite datasets to build robust credit risk models. Affected portfolios include exposures to corporates, banks and securities firms.

A discussion paper was published, outlining conversion rates for various threshold amounts used by banks to classify exposures into prescribed asset classes, and the calculation of the capital requirements under the revised STA and IRB approaches. The PA received comments on draft Regulations incorporating these Basel III reforms. Flowing from these comments, the PA will issue additional tertiary legislative instruments to provide guidance on matters related to the revisions, including the treatment of credit risk mitigation and application of the due diligence requirements.

Update to Directive 7 of 2015

The PA issued Directive 7 of 2015 (D7/2015) to prescribe the prudential treatment of distressed restructured loans that were restructured due to the financial distress of clients. Among other factors, the directive prescribes indicators that banks must use when identifying distressed restructured loans. D7/2015 also prescribes requirements relating to the rehabilitation of these loans, as well as regulatory reporting. To address some of the inconsistencies in the interpretation and implementation of some of the requirements in D7/2015, the PA issued a discussion paper to solicit comments from industry on amendments it intends to make to D7/2015.

The PA intends to address the amendments by:

- clarifying the proper interpretation of some of the indicators of financial distress as well as incorporating additional indicators in line with the guidelines issued by the BCBS;
- aligning the treatment of distressed restructured loans with the requirements of IFRS 9;
- clarifying the treatment of these loans in the context of regulation 67 of the Regulations; and
- clarifying the regulatory reporting requirements to create consistency among banks in how they report distressed restructured loans in the regulatory returns.

Model-related reviews

The PA received 20 notifications of non-material changes to credit risk models (five were received in 2021). A total of 31 applications were received for material changes to the rating systems (35 were received in 2021). These submissions were made by banks applying for the IRB approaches.

Model change submissions have largely related to the due maintenance of models as well as the refinement of models to mitigate the effects of model deficiencies or to improve model performance. Various banks have also proposed changes to improve internal efficiencies or extend the gross exposures that are rated based on the IRB approaches. Various insights, including an understanding of the practicalities of the interpretation and implementation of the Regulations, are obtained by the PA through the model review process. An example of this is the inconsistent interpretation and implementation of D7/2015 noted through the model change review processes performed by the PA.

The model change process is underpinned by the model development and validation processes applied by IRB banks. Furthermore, the robustness of the internal governance frameworks guiding the oversight of the entire model life cycle as well as its consistent application is considered essential. As part of its model review process, the PA relies extensively on IRB banks' comprehensive documentation of these processes. Guidance Note 9 of 2022 (G9/2022) outlines various factors to be taken into consideration by IRB banks when making model change submissions to the PA. The alignment of IRB banks to G9/2022 will improve the efficiency of the model review process.

IRB data and assessment templates

The PA issued revised data and assessment templates in December 2021 to improve its monitoring of credit risk models employed by banks under the IRB approach. These templates are used to collect data on banks' credit risk models landscape, various performance metrics and evidence indicating compliance with the IRB minimum requirements. The first set of submissions covering corporate models was received in June 2022, and the second set covering corporate small and medium-sized enterprise models was received in December 2022. In general, performance metrics indicated satisfactory performance, and override rates for most banks were below internal thresholds. However, some banks reported much higher override rates for their portfolios of specialised lending, particularly project finance exposures which were addressed bilaterally with these banks. Overall, compliance with the IRB minimum criteria was satisfactory, with most of the banks reporting few or no significant compliance gaps. In cases where major gaps were reported, banks were directed to provide frequent progress updates on the steps taken to rectify their non-compliance and timelines for remediation.

H. INSURANCE RISK

In September 2021, the PA published a 'Discussion paper on the Prudential Authority Government Bond Curve Review' for industry comment. Following the conclusion of the industry consultation process, the discussion document was approved for publishing as a position paper in January 2023.

The PA received and assessed a number of microinsurance licence applications during the 2022/23 reporting period. When assessing these applications, the PA considers sufficient eligible capital and realistic assumptions important. The PA continues to encourage market participants in the microinsurance industry to apply to become licensed to write microinsurance business.

The PA considered and approved one application for the use of the accounting consolidation method to calculate group-wide capital adequacy, one application for the approval to use an iterative approach to calculate the risk margin and SCR, and four applications for the approval to use an alternative method in the calculation of solo own funds and/or solo SCRs for insurance participations in non-equivalent jurisdictions.

The PA was involved in the detailed assessments of own risk and solvency assessments (ORSAs), including on-site visits, for two large insurance groups.

In addition, the PA embarked on a review of the prudential standards relating to FSIs and quantitative reporting templates (QRTs) to consider the potential impact that the implementation of IFRS 17 may have on the various FSIs and QRTs.

Work on providing industry guidance on the existing prudential standards on insurance continued. To this end, various engagements with industry bodies such as the Actuarial Society of South Africa (ASSA) and Association for Savings and Investment South Africa (ASISA) took place. In the ASSA sessional meetings, the PA presented key features of the insurance industry experience for 2021 based on information submitted in the regulatory returns in terms of the Insurance Act.

I. RISKS RELATED TO ASSET AND LIABILITY MANAGEMENT

Banking

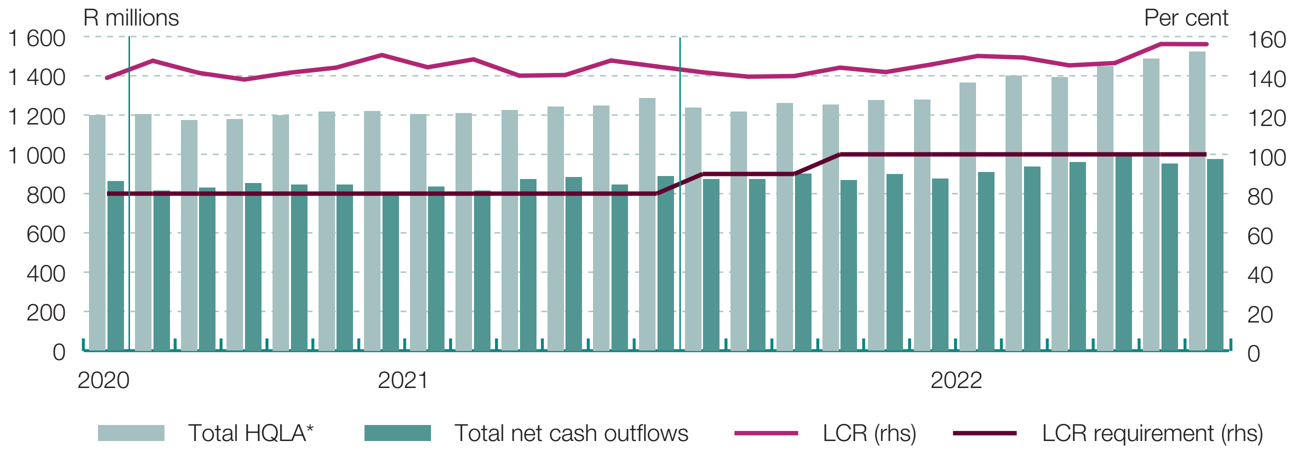
Liquidity risk

On 15 April 2021, Directive 4 of 2021 was published, mandating D-SIBs to conduct externally facilitated liquidity simulations every four years. The objective is to simulate stress events that will allow banks to test their contingency funding plans and liquidity sections of their recovery plans. Four externally facilitated liquidity simulations were successfully conducted during the 2022/23 reporting period, where the PA observed and assessed the banks' overall preparedness for and response to a crisis.

On 1 July 2022, the PA published Directive 5 of 2022 (D5/2022) on matters relating to liquidity. D5/2022 intends to clarify the LCR and NSFR criteria that apply to foreign entities, in addition to the requirements pertaining to the *liquid assets month to date average held* that must be reported on form BA 325.

The graph below illustrates the robust liquidity resilience of the banking sector with an LCR ratio of 156% reported at 31 December 2022:

LCR of the total banking industry



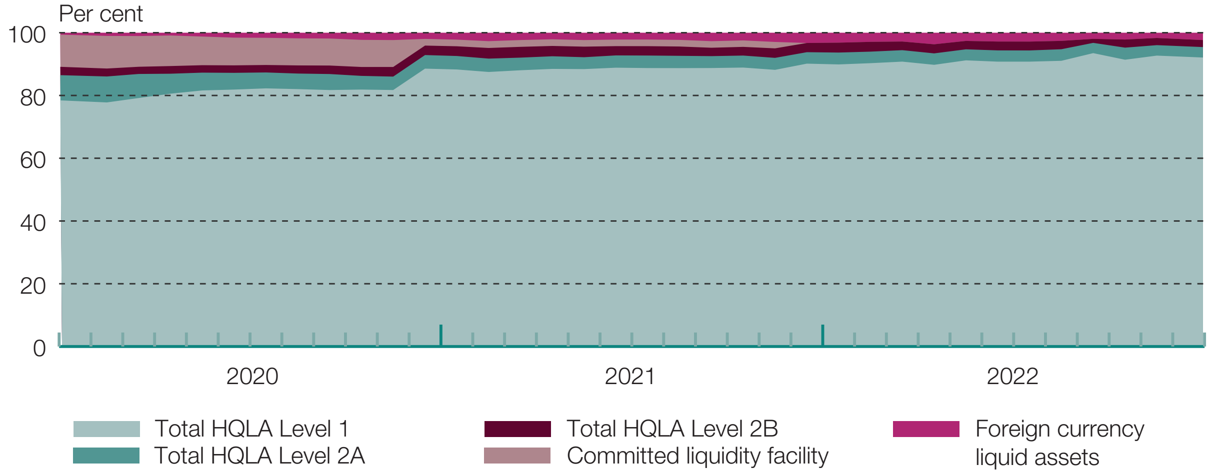
* High-quality liquid assets

On 15 December 2022, Directive 11 of 2022 (D11/2022) was published. The directive pertains to the calculation of the LCR and national discretion items and replaces Directive 7 of 2014 (D7/2014). The PA and the SARB's Financial Markets Department considered the treatment of deposits relating to the new monetary policy implementation framework and concluded that the South African Multiple Option Settlement (SAMOS) balance should be recognised as high-quality liquid assets (HQLA).

D7/2014 enabled banks to cover rand-based net cash outflows with 5% of Level 1 foreign currency HQLA. This provision is consistent with the LCR BCBS standard, which permits jurisdictions to utilise alternative liquidity approaches if they lack adequate HQLA. In addition to this exemption, the PA made the committed liquidity facility accessible, which was phased out on 1 December 2021 because South Africa could no longer demonstrate a lack of HQLA. According to D11/2022, the foreign currency liquid asset specified in D7/2014 will be phased out as at 31 December 2023.

The graph below illustrates the compostion of the HQLA portfolio:

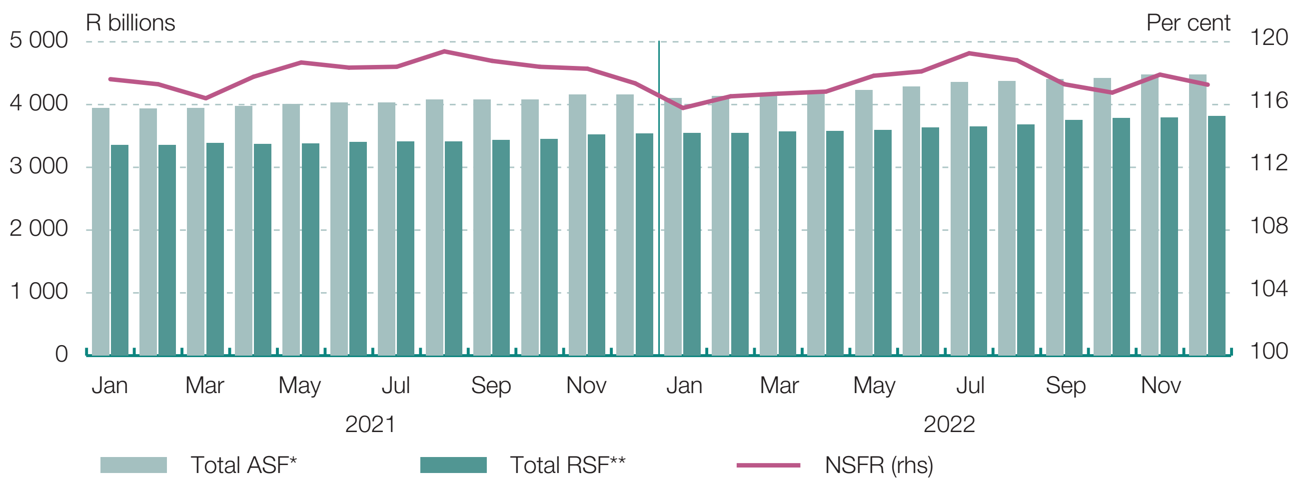
Composition of the HQLA portfolio



On 25 January 2023, the PA published Directive 1 of 2023 on matters relating to the NSFR, which replaced Directive 8 of 2017 (D8/2017). Under D8/2017, non-bank financial institutions' deposits with a maturity of less than six months were subject to an ASF of 35%, which was a departure from the prescribed ASF factor of 0% under the NSFR BCBS standard.

The graph below illustrates the medium- to long-term resilience of the banking industry with an NSFR ratio of 117% for December 2022:

NSFR of the total banking industry



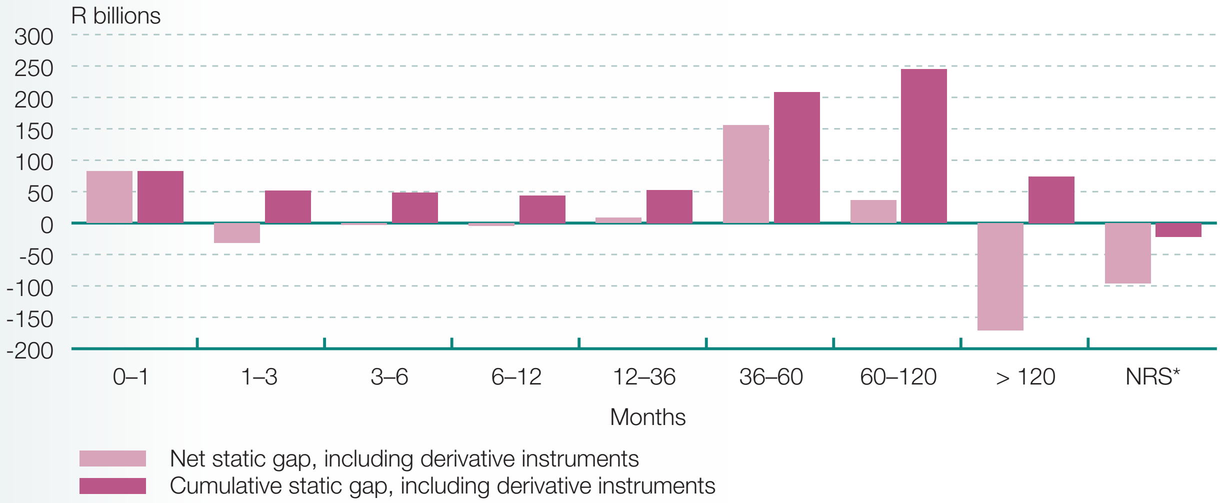
* Available stable funding
** Required stable funding

Interest rate risk in the banking book

IRRBB is the risk to which a bank's banking book is exposed to changes in interest rates and the timing of those changes. Poorly managed or excessive IRRBB can be a threat to the earnings and capital of a bank. For this reason, IRRBB measuring methodology focuses on two simplified metrics: the economic value of equity (EVE) and net interest income (NII), which cover two perspectives of a comprehensive valuation approach of interest rate risk.

Most banks are asset sensitive, meaning that they have a positive repricing gap which indicates that growth in NII will be favourable throughout an increasing interest rate cycle, as demonstrated by the graph below for December 2022:

Total bank repricing gap



* Non-interest rate sensitive

The PA has successfully implemented the fourth set of amendments to the Regulations, which incorporates the revised framework issued by the BCBS related to IRRBB. The related amended form BA 330 was gazetted on 23 December 2022. The amended IRRBB regulations became effective on 1 January 2023. Directive 2/2023, published on 23 February 2023, details the instructions for completing the amended form BA 330.

Insurers

Liquidity risk

The PA conducted further consultation on proposed Guidance Notice 1 of 2022 on liquidity risk, which is applicable to all insurance companies, and on the proposed revised liquidity risk return applicable to life insurers. The PA engaged the insurance industry through bilateral meetings with industry bodies, ASISA and the South African Insurance Association (SAIA).

The PA continued to analyse the liquidity sources and cash-flow forecast information received from the life insurance industry and held bilateral engagements with the industry to present and discuss the analysis results.

The PA reviewed insurers' ORSAs and continued to engage insurers on their liquidity risk practices.

Market infrastructures

The revised liquidity risk return for MIs was adopted by the PA and MIs began submitting the revised returns in October 2022. The PA engaged MIs and conducted assessments of the Market Infrastructures Capital Assessment Process.

J. OPERATIONAL RISK

The PA strengthened its monitoring of the OR landscape against the backdrop of poor domestic economic conditions, deteriorating critical infrastructure and climate-related events. Some of these conditions contributed to increasing fraud trends observed across the financial sector. Maintaining resilience has been key for the financial sector as it battles these rising concerns. Furthermore, as supervised institutions move towards digitisation, opportunities have been created to enhance internal processes.

The banking industry continued with activities towards implementing the new standardised approach (NSA) for OR on 1 January 2024, which will replace the current capital approaches used by the registered banks.

To date, no insurer has been approved to calculate OR capital using an internal model and consequently the standard formula is being utilised. Following the amendments of the solo QRTs relating to OR reporting, the PA received a full year's worth of data for the quarterly OR losses reporting as at 31 December 2022. Significant challenges with the quality of data submitted were experienced; however, these are being addressed through continual communication with the industry, including bilateral engagements with the insurers and industry associations, SAIA and ASISA.

The registered MIs hold a minimum of six months of operating expenses as OR regulatory capital.

The Operational Risk Maturity Assessment Questionnaire (ORMAQ) was issued to banks and, for the first time, to insurers, mutual banks and MIs. The questionnaire enables the industry to continually enhance its OR maturity levels and provides valuable insights for the PA.

International standard-setting bodies heightened the focus on operational resilience. The IAIS's Operational Resilience Task Force issued the draft 'Issues Paper on Insurance Sector Operational Resilience' for public consultation. The issues paper focuses on identifying the issues impacting operational resilience in the insurance sector and provides examples of how supervisors are approaching these developments, taking into consideration the lessons learnt during the COVID-19 pandemic. This, together with the BCBS paper on the 'Principles of operational resilience', will be used as input into an operational resilience standard that will be developed for all supervised entities. During OR and IT prudential meetings, the PA continued to discuss the capacity and capabilities of regulated financial institutions to manage operational resilience.

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

Operational risk reviews

The OR prudential meetings focused on the following themes: OR strategic objectives and governance; OR tools; third-party and outsourcing arrangements; climate risk; ORMAQ; operational resilience, execution, delivery and process management feedback; and the NSA for banks.

The following key observations were noted during the reviews:

- Entities had moved away from manual processes and implemented risk management software as part of their digital transformation strategies. There was increased recognition of the interrelatedness of risks and the implementation of integrated risk management. OR teams were part of the strategy formulation, including new business initiatives.
- Certain entities had inadequate OR capabilities, while others strengthened their risk management practices and enhanced their governance and oversight for key risks. Some of the more mature entities had strengthened their predictive risk management. The introduction of a non-financial risk model was increasingly common in the banking entities.
- Key person dependency continued to be identified as a challenge, especially in smaller institutions.
- Several banking losses relating to execution, delivery and process management within the payments and settlements business line were observed. This resulted in enhanced monitoring being implemented to reduce losses. Banks continued to explore automated solutions to minimise the risk of manual intervention.
- The ORMAQ in the banking sector showed an improvement when compared to the previous results. The questionnaire highlighted that risk identification and assessment as well as change management require enhancements. The maturity of insurers was rated as higher than expected.
- Where insurers are part of a group or conglomerate, some entities adopted group policies and frameworks with customisation at an entity level to fit the risk profile and local regulatory standards.
- The impact of climate risk is prominent in the insurance sector and is often noted as a top risk. Insurers addressed climate risk through the identification of external risks, enterprise risk management frameworks and leveraging from group-wide governance structures and tools.
- The new IFRS 17 accounting standard was top of mind for the insurance industry, with many insurers needing to develop enhanced reporting capabilities, processes and systems to cater for the new requirements.
- The financial sector showed improvement in its operational resilience as most institutions were resizing their offices due to hybrid working implications. Some insurance entities indicated that they did not have a separate off-site disaster recovery (DR) location as its production and DR sites are within the same campus.

K. INFORMATION TECHNOLOGY RISK

The PA observed that many supervised entities were embracing digital advances, including analytics, mobility, social media and smart-embedded devices. There was also an improved use of traditional technologies such as enterprise resource planning to change customer relationships, internal processes and value propositions.

There has been an increase in financial technology companies and technology giants entering the financial ecosystem. This has led to a focus to implement regulatory as well as legislative reforms to level the playing fields, which includes defining supervisory and monitoring approaches to these new entrants.

The incidents reported in terms of Directive 2 of 2019 on material IT and cyber incidents reporting applicable to banks, Prudential Standard GOI 3.2 that is applicable to insurers, as well as the notice in terms of section 6(3)(d) of the FM Act applicable to licensed MIs remained relatively stable during the 2022/23 reporting period. The information is continually analysed to identify trends. Some banks experienced IT outages, while cyberattacks were on the increase, although successful incidents were relatively low.

The PA developed various IT-related standards to ensure conformity across all sectors. The 'Joint Standard on Information Technology Governance and Management' was sent to the National Treasury to be tabled in Parliament. This will be the first IT risk standard published by the PA and the FSCA which is applicable across the supervised financial sectors. A 'Joint Standard on Cybersecurity and Cyber Resilience' was also issued for formal consultation.

The cybersecurity risk and the IT risk questionnaires were circulated to the regulated financial institutions during the second half of the period under review. The results of the cybersecurity risk questionnaire were presented in the first quarter of 2023 and highlighted that larger institutions were seen to be cyber-resilient, whereas small and micro-entities needed improvement.

The PA continued its membership with the Operational Risk Subcommittee as well as the Cybersecurity Resilience Subcommittee of the Financial Sector Contingency Forum (FSCF)[9] chaired by the SARB. Membership of international bodies such as the BCBS's Operational Resilience Group, the IAIS Operational Resilience Task Force and the Information Technology Supervisors Group has assisted the PA to align with global IT supervisory practices and experiences. The PA also engages with institutions through the Banking Association of South Africa (BASA), SAIA and ASISA.

Information technology risk reviews

IT risk prudential meetings were conducted during the period under review and focused on various themes, including IT risk strategic objectives and governance, IT risk management frameworks, process maturity, portfolio management as well as emerging technologies.

The following key observations were noted during the reviews:

The strategic direction of supervised entities was influenced by digitisation. While most of the IT and business strategies were aligned, several smaller institutions lacked documented IT strategies and frameworks.

Although the governance and functional structures for larger institutions were adequate, smaller institutions across industries still had limited resources to manage risk from a second-line-of-defence perspective. These institutions were encouraged to be adequately capacitated to provide both execution and oversight of the IT risk management function.

Some institutions had adopted digitisation and continued to explore the benefits of new or emerging technologies. Furthermore, the PA observed increased reliance being placed on third-party service providers to support these initiatives.

The increased cyber-incidents and data leakages at both supervised entities and third-party service providers have heightened the focus on operational and cyber-resilience. Some institutions included third-party service providers when conducting business continuity simulations.

9 The FSCF is chaired by the SARB Deputy Governor responsible for Financial Stability, and its members include the National Treasury, the FSCA, ASISA, BASA, the FIC as well as relevant market infrastructures (such as the JSE Limited) and other industry bodies and regulated institutions.

Cyber-risk reviews

The cyber-risk prudential meetings that were conducted during the reporting period focused on various themes, including cyber and information security governance, cyber and information security risk management, user access management, cyber-resilience capabilities, cybersecurity testing, and incident management.

The following key observations were noted during the reviews:

Most institutions conducted various cybersecurity assessments to identify gaps and improve their cyber-resilience capabilities.

Some institutions continued to improve their cybersecurity and cyber-resilience practices by implementing user access management and information security awareness programmes. However, most of the smaller institutions indicated that there were limited resources to effectively manage cyber-risk.

Malware and ransomware continued to be a challenge to the financial sector, with phishing being the widely used attack vector to circumvent financial institutions' networks.

Privileged access management was noted to be a recurring issue across the financial sector.

Larger institutions had taken up cyber-insurance as an additional risk mitigation strategy.

L. RISK DATA AGGREGATION AND RISK REPORTING

The PA considers risk data aggregation and risk reporting (RDARR) as an important aspect to supervise and ensure the quality and integrity of risk data within the banking industry. Data will continue to change the banking sector landscape in several ways, including how supervised entities think about risk, how they interact with their customers, and how they understand and identify new growth opportunities.

During the reporting period, the PA observed some progress towards compliance with the BCBS 239 principles by banks; however the maintenance of compliance has been challenging due to fragmented and uncoordinated IT infrastructure, a lack of group-level data aggregation capabilities, and the confined scope and objectives of banks' remediation processes. The PA will continue to monitor banks by assessing whether the identified deficiencies have been addressed appropriately and if RDARR frameworks are in place to support management to address supervisors' expectations.

The maintenance of RDARR compliance is essential and supervised entities must ensure processes are aligned to an ever-changing risk environment, while continuously meeting the relevant stakeholders' (i.e. the Board, senior management, customers and others) expectations. The PA will continue to have targeted engagements with the banking industry and BASA to ensure shortcomings are addressed.

RDARR reviews

For senior management to take appropriate decisions, access to timely and reliable data and reports is required under normal and stressful conditions. In light of this, the PA closely monitored the process implemented for both normal and stress/crisis reporting, data quality capability, automation of manually intensive processes and embedding RDARR compliance under business as usual.

The RDARR prudential meetings that were conducted focused on data management capabilities, an adequate project management approach to enable a smooth and structured transition from project mode to business as usual, the balance between automation and manual processes, data-driven risk management capabilities, and data quality monitoring.

The following key observations were noted during the reviews:

There is a shortage of skilled data professionals, including data scientists, data engineers and other data-related roles. This makes it difficult for banks to leverage data effectively and take data-driven decisions.

While there has been some investment in data and IT infrastructure for banks, there is still a lack of robust and reliable data infrastructure. This creates a challenge for banks to collect, store and analyse data effectively.

There were deficiencies in attaining accurate group-level data for reporting under both normal and stress/crisis situations.

There are differences in data models used between risk management and finance functions, which resulted in reconciliation challenges.

Banks are struggling with attaining the right balance between automation and manual processes due to inadequate automation strategies as well as a lack of investment in modern technology.

Banks are struggling with simplifying data processes that drive responsiveness and adaptability, under normal and stress/crisis scenarios.

Owing to technical challenges and data reliability issues brought about by changes in business models, new systems and infrastructure improvements require banks to adopt an agile strategy to ensure RDARR compliance is maintained.

There is an absence of clearly defined roles and responsibilities, policies and procedures as well as monitoring systems to guarantee risk data is managed efficiently and uniformly across the organisation.

There is a notable increase in third-party service providers managing some risk data sources on behalf of banks without having properly defined service level agreements for outsourced data in place. This could potentially have a detrimental effect on the accuracy, timeliness and reporting of risk data.

THE PA's FINANCIAL ACCOUNTS

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 financial institutions that provide financial products, securities services and market infrastructures 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. For more detail, refer to the section on prudential regulation in the SARB Annual Report, which can be found at https://www.resbank.co.za/en/home/publications/reports/annual-reports.

Basis of preparation

In terms of section 55 of the FSR Act, the CEO of the PA 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 within the SARB, it follows the same financial reporting framework and basis of presentation as the SARB. Refer to Note 1 of the SARB financial statements for more detail.

Statement of financial position at 31 March 2023

	2023 R'000	2022 R'000
Assets		
Other assets	**16 482**	23 963
Liabilities		
Income received in advance	**15 051**	–
Other liabilities	**1 431**	10 221
Unclaimed balances	**–**	13 742
Total liabilities	**16 482**	23 963

Statement of profit or loss and other comprehensive income for the year ended 31 March 2023

	Note(s)	**2023 R'000**	2022 R'000
Operating income			
Levies	2.1	**–**	–
Fees	2.2	**8 721**	13 377
Penalties	2.3	**–**	–
Other operating income		**13 914**	188
Expenditure			
Personnel costs	2.4	**(351 752)**	(306 198)
Operational costs	2.4	**(124 832)**	(90 067)
Total expenditure	2.4	**(476 584)**	(396 265)
Amount funded by SARB	**2.5**	**453 949**	382 700
Profit for the year		**–**	–

1. Accounting policies

1.1. Other assets

Other assets relate to the notional balance at the end of the reporting period, which represents the difference between cash inflows and outflows during the year in respect of prudential regulatory activity, as well as prepaid expenses. Prepaid expenses relate to operating costs paid before they are due. The prepaid expenses are measured at cost and are recognised when the amount is paid. The prepaid expense balances are subsequently measured at cost and are derecognised in the period in which the related expense is recognised.

1.2. Other liabilities

Other liabilities relate to operating income received in advance. The liabilities are measured at the transaction cost, being the amount actually received and recognised when the amount is received. The balance is subsequently measured at cost and is derecognised in the period in which the related income is recognised.

1.3. Unclaimed balances

Unclaimed balances relate to amounts recovered from an illegal deposit-taking scheme. The amounts recognised are owed to unidentified investors of the scheme who are yet to claim the amounts due to them. The unclaimed balances are recognised when the amounts are recovered from the scheme and are measured at the amount payable to the investors, being the amount actually recovered. The unclaimed balances are subsequently measured at cost and are derecognised when the amounts are paid to the relevant investors or upon expiry of the right to claim.

1.4. Operating income

Operating income consists of levies, fees and penalties charged to financial institutions. The levies, fees and income are charged and measured in accordance with the relevant legislation. Operating income is recognised per the amount invoiced to the financial institution, in the period in which the amount relates.

1.5. Personnel and operating costs

Personnel and operating costs relate to direct costs incurred for the administration of the PA. These costs are measured at the transaction amount and are recognised as expenses in the period incurred.

1.6. Amounts borne by the SARB

Net costs incurred for the administration of the PA are borne by the SARB. These costs are measured at the transaction amount and are recognised as expenses in the period incurred, net of recoveries.

2. Explanatory notes

2.1. Levies will be charged once the new Financial Sector and Deposit Insurance Levies Act 11 of 2022 (Levies Act) is operational to collect the necessary levies on the regulated financial institutions, as envisaged in the FSR Act. Levies will serve as the basis to recover the direct operating cost of running the PA and not in return for any direct service or goods that will be supplied.

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

2.3. 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 costs incurred in making and enforcing the administrative penalty order. The remaining balance after applying this deduction is paid into the National Revenue Fund (if any). The SARB also has a responsibility in terms of the FIC Act to ensure that banks and life insurance companies comply with the FIC Act. The SARB has authority in terms of the 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 this Act. The SARB issues notices with the 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 Research Foundation. Total penalties issued on behalf of the SA government in this regard amounted to R4.1 million (2022: R12.8 million).

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

	2023 R'000	2022 R'000
Operating costs include:		
Professional fees	**100 322**	83 602
Donations	**–**	–
Membership fees	**1 859**	1 739
Official functions	**2 627**	695
Training (foreign and local)	**1 484**	1 090
Travel expenses (foreign and local)	**13 124**	332
Other operating costs	**5 416**	2 609
	124 832	90 067

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

ANNEXURES

I. Licence applications: 1 April 2022 – 31 March 2023

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks (Table 1)	2	4	1
Branches	0	1	0
Representative offices (Table 2)	3	1	0
CFIs	0	3	0
Insurers (Table 3)	5	8	2

II. Financial institutions registered during 2022/23

Table 1: Banks/mutual banks/co-operative banks registered during 2022/23
Banks
Old Mutual Limited* was granted authorisation to establish a bank in the Republic in terms of section 13(1) of the Banks Act on 21 September 2022
GIG Co-operative Bank Limited was registered as a co-operative bank in terms of section 8 of the Co-operative Banks Act on 16 February 2023

* Old Mutual Limited has been granted authorisation to establish a bank, with a name to be determined and approved by the PA.

Table 2: Representative offices registered during 2022/23	
The following institutions were granted authorisation to establish a representative office in the Republic:	
Deutsche Bank (Suisse) SA	**8 November 2022**
Capital International Bank Limited	**8 November 2022**
Union Bancaire Privée, UBP SA	**8 February 2023**

Table 3: : Insurers registered during 2022/23	
The PA licensed two insurance-controlling companies following their designation as insurance groups:	
Kwande Group (Pty) Limited	**21 October 2022**
IFS Holdings (Pty) Limited	**23 November 2022**
Three new insurance licences were issued in terms of section 23 of the Insurance Act:	
Atlehang Life (Pty) Limited	**8 September 2022**
Capitec Life Limited	**3 October 2022**
Envi Africa Life Limited	**6 March 2023**

III. Deregistration, suspension or withdrawal of licences

Deregistered institutions	Financial institution type	Effective date
ICICI Bank Limited	Foreign branch	**15 December 2022**
Poplar Frontline Foundation CFI Primary Co-operative Limited	CFI	**24 February 2023**
Millennium BCP	Representative office	**13 March 2023**
Banco Santander Totta, SA	Representative office	**14 March 2023**

The following insurers' licences were withdrawn:	
Momentum Insurance Company Limited*	**29 March 2022**
CFAO Motors Insurance Limited	**27 September 2022**
SCOR Africa Limited	**31 October 2022**

* This is being reported in the current publication due to a timing issue experienced when publishing the *PA Annual Report 2021/22*.

The following insurer's licence was suspended:	
Long Life Insurance Company Limited	**7 December 2022**

IV. Variation of licensing conditions

The following insurers were approved for variation of licensing conditions, in terms of section 26 of the Insurance Act:	
AIG South Africa Limited	**24 August 2022**
Old Mutual Insure	**16 September 2022**
Clientele Life Assurance Company Limited	**10 October 2022**
Nedgroup Insurance Company Limited	**11 November 2022**
Mutual & Federal Risk Financing Limited	**15 December 2022**
Hollard Specialist Insurance Limited	**15 December 2022**
Bryte Insurance Company Limited	**12 February 2023**

V. Name changes

Old name	New name	Effective date
Family Expenses Southern Africa (Pty) Limited	**Family Insurance (Pty) Limited**	**6 July 2022**
Envi Africa Financial Services (Pty) Limited	**Envi Africa Life (Pty) Limited**	**3 February 2023**
GIG Financial Services Primary Co-operative Limited	**GIG Co-operative Bank Limited**	**16 February 2023**

VI. Transfer of business

Transferor insurer	Transferee insurer	Effective date
Guardrisk Life	**Emerald Life**	**16 October 2022**
Momentum Ability Limited	**Guardrisk Life**	**15 December 2022**
RGA Reinsurance of South Africa	**RGA Americas**	**17 February 2023**
Guardrisk Life	**Bidvest Life**	**24 February 2023**

VII. Significant owner applications

Received	Approved	In progress	Declined	Withdrawals
15	8	4	2	0

VIII. 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.

Licensed MI	Effective date
JSE Clear (Pty) Limited*	**1 September 2022**

* Licenced to operate as an independent clearing house and central counterparty

Cancelled licence	Effective date
ZAR X (Pty) Limited	**10 February 2023**

IX. Inspections of illegal deposit-taking schemes

Summary of 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
2022/23	8	8	0	5	3

X. Unlicensed insurance business: 1 April 2022 – 31 March 2023

Summary of 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
2022/23	103	24	79	67	36

XI. Administrative sanctions imposed for non-compliance with the FIC Act

Banks

Name	Non-compliance	Administrative sanction
Nedbank Limited	The PA imposed administrative sanctions in terms of section 45C of the FIC Act for the following ML/ TF control weaknesses: • Failure to comply with its Risk Management and Compliance Programme obligations in terms of sections 42(1), 42(2) and 42(2A) of the FIC Act. • Failure to comply with its record-keeping obligations in terms of sections 22, 23 and 24 of the FIC Act. • Failure to comply with its obligations in terms of section 28 of the FIC Act. • Failure to comply with section 42(2)(o) of the FIC Act and FIC Directive 5/2019 in that it was unable to timeously determine when a transaction was reportable in terms of section 29 of the FIC Act. • Failure to comply with its AML/CFT governance-related obligations in terms of sections 42A(1), 42A(2), 42A(3), 42(2)(b), 42(2)(d) and 42(2)(f) of the FIC Act.	A financial penalty of R35 million was imposed as a caution not to repeat the conduct which led to the non-compliance. Of this penalty, R15 million has been suspended in terms of section 45C(4)(c) of the FIC Act for a period ranging between 12 and 24 months, subject to Nedbank adhering to the conditions imposed.

The administrative sanction has been published and is available at: https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2022/pa-nedbank-sanctions/South%20African%20Reserve%20Bank%20imposes%20administrative%20sanctions%20on%20Nedbank%20Limited.pdf

ABBREVIATIONS

3Sixty Life	3Sixty Life Limited
African Bank	African Bank Limited
AML	anti-money laundering
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
BCBS	Basel Committee on Banking Supervision
board	board of directors
CAR	capital adequacy ratio
CCP	central counterparty
CEO	Chief Executive Officer
CET	common equity tier
CFI	co-operative financial institution
CFT	countering the financing of terrorism
CICL	Constantia Insurance Company Limited
Co-operative Banks Act	Co-operatives Banks Act 40 of 2007
COVID-19	coronavirus disease 2019
CSD	central securities depositories
CVA	credit valuation adjustment
D	Directive
D-SIB	domestic systemically important bank
Escap	Escap SOC Limited
Eskom	Eskom SOC Limited
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
FM Act	Financial Markets Act 19 of 2012
FRTB	fundamental review of the trading book
FSAP	Financial Sector Assessment Programme
FSCA	Financial Sector Conduct Authority
FSCF	Financial Sector Contingency Forum
FSI	Financial Soundness Standard for Insurers
FSLAA	Financial Sector Laws Amendment Act 23 of 2021
FSR Act	Financial Sector Regulation Act 9 of 2017
GOI	Governance and Operational Standard for Insurers

Habib	Habib Overseas Bank Limited
HQLA	high-quality liquid assets
IAIS	International Association of Insurance Supervisors
ICS	Insurance Capital Standard
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Insurance Act	Insurance Act 18 of 2017
IRB	internal ratings-based
IRRBB	interest rate risk in the banking book
IT	information technology
Jibar	Johannesburg Interbank Average Rate
LACTP	loss-absorbing capacity of technical provisions
LBIC	Land Bank Insurance Company SOC Limited
LBLIC	Land Bank Life Insurance Company SOC Limited
LCR	liquidity coverage ratio
LEX	large exposures
LIBOR	London Interbank Offered Rate
Long-term Insurance Act	Long-term Insurance Act 52 of 1998
Manco	Management Committee
MCR	minimum capital requirement
MD	Managing Director
MI	market infrastructure
ML	money laundering
MoI	memorandum of incorporation
MoU	memorandum of understanding
New Era Life	New Era Life Insurance Company Limited
NSA	new standardised approach
NSFR	net stable funding ratio
OR	operational risk
ORMAQ	Operational Risk Maturity Assessment Questionnaire
ORSA	own risk and solvency assessment
OTC	over the counter
PA	Prudential Authority
PACTT	Prudential Authority Climate Think Tank
PARAC	Prudential Authority Regulatory Action Committee
Pruco	Prudential Committee
QIS	quantitative impact study
QRT	quantitative reporting template

R	rand
RCAP	Regulatory Consistency Assessment Programme
repo	repurchase
RDARR	risk data aggregation and risk reporting
Regulations	Regulations relating to Banks
rhs	right-hand scale
RSF	required stable funding
SAIA	South African Insurance Association
SAM	Solvency and Assessment Management
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989
SCR	solvency capital requirement
SFA	strategic focus area
SIFI	systemically important financial institution
STA	standardised approach
STIA	Short-term Insurance Act 53 of 1998
TF	terrorist financing
TLAC	total loss-absorbing capacity
Tribunal	Financial Services Tribunal
Ubank	Ubank Limited
ZARONIA	South African Rand Overnight Index Average Rate

South African Reserve Bank
Prudential Authority

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