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South African Reserve Bank
Prudential Authority

Prudential Communication 1 of 2025

Financial Sector Regulation Act 9 of 2017

Banks Act 94 of 1990

The 2025 flavour-of-the-year topic communication to banks

Objective of this Prudential Communication

This communication provides information on the Prudential Authority's 2025 flavour-of-the-year topic, namely 'Third-party risk management, including strategic and/or alliance partnerships'.

1. Application

1.1 This Prudential Communication is applicable to banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks').

2. Purpose

2.1 The purpose of this Prudential Communication is to provide information on the 2025 flavour-of-the-year topic for banks.

3. Introduction

3.1 Annually, the Prudential Authority (PA) considers whether any ongoing developments and/or emerging risks affecting regulated financial institutions at an industry level are of such significance that additional focus is required from a supervisory perspective. The selected theme is communicated to regulated financial institutions and is referred to as flavour-of-the-year topic.

3.2 The PA has determined that the 2025 flavour-of-the-year topic will be 'Third-party risk management, including strategic and/or alliance partnerships' (also referred to as banking-as-a-service and/or banking-as-a-platform).

4. Third-party risk management, including strategic and/or alliance partnerships

4.1 Background

4.1.1 Banks are increasingly using third-party service providers (TPSPs) to improve services and enhance offerings to clients, enable scalability and access expertise not readily available internally to achieve strategic objectives and reduce costs.

4.1.2 The reliance on third parties, if not adequately managed, may result in various risks, including concentration risk, cybersecurity risk and concerns relating to operational resilience.

4.1.3 On 4 December 2023, the Financial Stability Board issued a toolkit for financial institutions and financial authorities with respect to enhancing third-party risk management and oversight. In July 2024, the Basel Committee on Banking Supervision issued a consultative document titled 'Principles for the Sound Management of Third-Party Risk' for public comment. These documents provide guidance to banks and regulatory authorities on effective management of third-party risks.

4.1.4 Focused engagement on this topic will allow banks to assess their third-party risk management practices and subsequently formulate and execute strategies to effectively manage third-party risks, including strategic and/or alliance partnerships. This engagement will also furnish the PA with information to further inform and enhance regulatory and supervisory activities.

4.2 Engagement approach

4.2.1 The Board of Directors (Board) (or equivalent committee) must provide a high-level presentation to the PA on third-party risk management, including strategic or alliance partnerships, during the scheduled prudential meeting with the Board (or equivalent structure). The presentation should be approximately 45 minutes.

4.2.2 The PA requires a copy of the presentation to be provided at least three weeks prior to the date of the prudential meeting.

4.2.3 The PA endeavours to communicate the thematic outcome of these engagements to the industry at an aggregate level.

5. Minimum aspects to be covered in the presentation

5.1 The bank is required to, as a minimum, cover the following aspects related to third-party risk management:

5.1.1 Strategy, governance and risk management

5.1.2 Illustrate the alignment of the third-party risk management strategy with the overall strategy of the bank and how the third-party life cycle is integrated into the governance structures and frameworks of the bank.

5.1.3 Define the risk appetite and tolerance levels for TPSPs and how these are influenced by internal and external factors.

5.2 Risk assessment

5.2.1 Highlight the degree of the bank's reliance on third parties with elevated concentration risk and the dependence on sub-contractors (fourth and nth parties), including intragroup and cross-border relationships for critical services.

5.2.2 Describe the risk management processes and practices for assessing critical and material TPSPs.

5.3 Due diligence

5.3.1 Highlight the factors considered to determine the level of depth and scope of the due diligence when engaging TPSPs.

5.3.2 Outline the governance process used to identify and manage conflicts of interest.

5.3.3 Explain the use of internal resources versus third-party providers when conducting the due diligence process.

5.4 Contracting

5.4.1 Explain the management of third-party arrangements with/without contracts or legally binding agreements as well as dispute resolution mechanisms.

5.4.2 Detail the process for access to information by relevant stakeholders.

5.5 Onboarding and ongoing monitoring

5.5.1 Discuss the criteria for selecting TPSPs and metrics used to evaluate the success of these agreements.

5.5.2 Demonstrate the TPSPs continual understanding of the bank's policies, processes and interconnections.

5.5.3 Describe the ongoing risk management processes and practices, including escalation strategies in response to issues associated with TPSPs.

5.6 Termination of services

5.6.1 Demonstrate the management of planned and/or unplanned terminations of TPSP arrangements within the context of the bank's exit strategy.

5.7 Strategic partnerships and/or alliance banking (if applicable)

5.7.1 Provide an overview of the strategic partnerships and/or alliance banking, including the associated risk management processes and practices.

6. Acknowledgment of receipt

6.1 A written acknowledgment of receipt of this communication, signed by the Chief Executive Officer of the bank, should be submitted to the PA Frontline team responsible for the supervision of the bank within 10 working days. Should you have any queries in this regard, please contact the relevant PA Frontline team.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 11/04/25