Prudential regulation

Seven years into its establishment, the PA continues to maintain the resilience and stability of South Africa's financial system through sound regulation and effective supervision. The supervision of financial institutions takes place in the context of prevailing economic and financial conditions.

The PA pays attention to the external environment and how individual financial institutions respond to it. Of particular importance is that individual institutions have robust and dynamic strategic plans, risk mitigation and other governance measures that ensure that depositors' and policy holder funds remain safe in changing economic conditions.

During the reporting period, there has been elevated policy uncertainty, which has contributed to market volatility, and a growing trend towards deregulation, both of which pose risks for the financial sector. Despite these global uncertainties, individual institutions showed resilience throughout the reporting period. The PA focused on enhancing credit, market and operational risk-related measures aimed at strengthening the regulation, supervision and risk management of banks. Systemically important banks and large insurers remained well-capitalised, profitable and had sufficient liquidity for the year under review. The number of non-systemic entities under resolution was unchanged from last year, and increased supervision was applied to institutions that did not fully meet regulatory standards.

Resilience

Effective supervision fosters resilience by ensuring that financial institutions are prepared to navigate uncertainties and mitigate risks. In 2024, the flavour-of-the-year topic focused on strategic business growth and the resilience of regulated financial institutions' business models in the current economic environment. The objective was for financial institutions to review and refine their strategic business models and processes and provide information to the PA to help inform further regulatory and supervisory work that may be required. The assessment identified potential risks, vulnerabilities and inefficiencies within the financial institutions' operations, which will allow the PA to take proactive measures to mitigate these risks.

The engagements with senior management and their respective boards confirmed that financial institutions and market infrastructures (MIs) regularly review their strategic plans to align business models with market trends, competitive landscapes, regulatory changes and growth objectives. Key risks, such as macroeconomic conditions and digital capabilities, underline the necessity for strategic plans to adapt to market changes. Additionally, integrating ESG frameworks has become increasingly crucial to ensure sustainable growth and manage risks.

In the effort to tackle money laundering and combat terrorism financing, resilience involves anticipating threats and adapting strategies to safeguard financial ecosystems. Effective, proportionate and dissuasive sanctions were imposed for non-compliance with the Financial Intelligence Centre Act 38 of 2001 (FIC Act), and the remedial actions undertaken by supervised institutions were monitored. These measures contributed to an upgrade of the FATF greylisting action items in February 2025, supporting South Africa's attempts to be removed from the FATF greylist.

Regulatory strategy progress

The PA refined its strategy to ensure it aligns with the SARB strategy. As part of this effort, the PA extended its 2021–24 Regulatory Strategy until 31 March 2025. The regulatory strategy, aimed at maintaining a safe and sound financial system, outlines the PA's key priorities.

Strengthening and enhancing prudential regulatory and supervisory frameworks

Deposit-taking financial institutions

Banks

The final proposed amendments to the regulations relating to the Basel III post-crisis reforms were approved internally and will be submitted to the Minister of Finance for final approval. These standards relate to credit, market and operational risks faced by banks.

The adjustment to the draft Prudential Standards on Market Risk and Credit Valuation and corresponding documentation were approved on 27 November 2024 and submitted to the Minister of Finance on 27 December 2024 for tabling before Parliament. The PA intends to implement the revised Fundamental Review of the Trading Book and Credit Valuation Adjustment (CVA) frameworks by 1 July 2025.

With effect from 1 February 2025, all Banker's Acceptance (BA) returns and related instructions for completion were removed from the Regulations relating to Banks and reissued under Directive 1 of 2025. The change allows the PA greater flexibility to update reporting requirements and streamline regulatory reporting via the Umoja technology platform, used to gather data from regulated entities.

Mutual banks

The PA is developing prudential standards covering governance, risk management, operational risk management, credit risk, liquidity risk, interest rate risk in the banking book, capital and economic returns. This is in response to the evolving nature, size, complexity and risk profile of mutual banks. These standards will be published for consultation in 2026.

Co-operative banks and financial institutions

A regulatory framework for CFIs and co-operative banks is being developed. The framework proposes a proportional approach to regulating the co-operative banking sector based on its size, complexity and risk profile. The PA has reviewed and updated prudential standards for CFIs and co-operative banks covering registration and operational requirements, governance, risk management and financial soundness.

The PA and the Financial Sector Conduct Authority (FSCA) are working together to convert the prudential standards on governance and risk management into joint standards. The prudential standards on registration and operational requirements, financial soundness requirements and the joint standards on governance and risk management requirements will be published for consultation towards the end of 2025.

Co-operative banks were granted exemptions from certain provisions in the CBA that relate to the regulatory treatment of loans pertaining to CODI.

Market infrastructures

The draft Joint Standard relating to the criteria for exempting an external central counterparty or external trade repository was tabled in Parliament in January 2025. This draft Joint Standard aligns with the G20's expectations and represents a key milestone in South Africa's commitment to mandating central clearing of OTC derivative transactions.

In July 2024, the draft Joint Standard on Minimum Requirements for MIs recovery plans was published for public consultation. This standard proposes minimum compliance requirements for MIs in creating and implementing their recovery plans, ensuring a reasonable chance of recovery following any threat to their operations.

Insurers

The draft Standard on Public Disclosure under section 45 of the Insurance Act 18 of 2017 mandates insurers to disclose specific quantitative and qualitative information. The PA sought extensive consultation to refine this standard, which is currently under internal review.

The draft Standard on Liquidity Risk Management for Insurers was circulated for public consultation in 2024, with further consultations held with specific insurers for additional refinements. The standard addresses concerns that non-traditional insurance activities are not adequately covered by the existing liquidity risk framework as outlined in the Prudential Standard on the Financial Soundness Standards for Insurers (FSI) 6.

Joint Standard 1 of 2024: Outsourcing by Insurers was issued to the industry and came into effect on 1 December 2024. The standard was developed specifically for insurers. The PA and FSCA are in the process of developing a cross-cutting third-party risk management standard for all supervised financial institutions. During the course of 2025, the PA and the FSCA will publish a notification form that allows insurers to submit the necessary information to both authorities under the joint standard.

In November 2024, the PA and FSCA published Joint Communication 7 of 2024, which sought to:

- clarify the current regulatory position regarding the funeral insurance market;
- highlight specific concerns of the authorities regarding both the funeral parlour industry and the distribution of funeral insurance in relation to the current regulatory position and market practices;
- provide details about an inter-regulatory project initiated by the authorities to review the framework for distributing funeral insurance in South Africa; and
- invite participation in the project to ensure an inclusive regulatory framework that protects policyholders while encouraging sustainable market development for the funeral insurance sector.

Implementing and enhancing prudential regulatory and supervisory frameworks

Financial conglomerates

The PA continues to monitor the implementation of the prudential standards for financial conglomerates which came into effect on 1 January 2022. These include:

- Prudential Standard FC02: Intragroup Transactions and Exposures for Financial Conglomerates;
- Prudential Standard FC03: Auditor Requirements of Financial Conglomerates;
- Prudential Standard FC04: Governance and Risk Management for Financial Conglomerates; and
- Prudential Standard FC05: Risk Concentration for Financial Conglomerates.

The draft Prudential Standard FC01: Capital Requirements for Financial Conglomerates has undergone field testing since 2022. The PA has reviewed the regulatory reporting from financial conglomerates based on the draft capital standard. Based on the findings, further changes to the draft standard may not be required. The PA will finalise the standard, with formal consultation commencing in the latter part of 2025. The supervisory framework for financial conglomerates is already in effect and will undergo refinements to incorporate details of the capital requirements standard.

Significant owners

The PA conducts annual assessments of the fitness and propriety of significant owners of specific financial institutions and continues to monitor the significant ownership framework.

Enhancing AML/CFT supervision and implementing the FATF Mutual Evaluation recommendations

Following South Africa's greylisting, the FATF issued an action plan that required various stakeholders to address specific deficiencies. One of the outstanding action items was the effective implementation and follow-up of remedial actions issued after AML/CFT inspections were conducted at supervised entities in terms of the FIC Act. The feedback from the African FATF Joint Group responsible for reviewing and analysing progress on this action item has been largely positive.

The PA processed several enforcement matters relating to FIC Act non-compliance and monitored the progress of remedial actions undertaken by banks, life insurers and life microinsurers to ensure the effective execution of the remedial actions issued by the PA.

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

From 1 April 2026, the PA will begin its responsibilities of prudentially regulating and supervising retirement funds, CISs and CIS managers. The PA and FSCA will publish joint communication about the transition in 2025. Additionally, research on the friendly societies sector is being conducted to guide the future regulatory and supervisory regime.

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

The Joint Standard on IT Governance and Risk Management took effect on 15 November 2024.

The joint standard sets out the IT governance and risk management principles that financial institutions must adhere to, which align with sound practices and processes for managing IT risks.

The Joint Standard on Cybersecurity and Cyber Resilience comes into effect on 1 June 2025.

Other priorities

Supporting financial innovation and new technologies

The PA promotes responsible innovation through its continued participation in the Intergovernmental Fintech Working Group (IFWG). The BCBS consulted on amendments to its framework for the prudential treatment of banks' crypto asset exposures. The revised framework was published in 2024.

The PA is drafting a prudential standard on banks' crypto asset exposures, which is expected to be published for consultation in 2026.

Discussion within the PA about an explicit policy and regulatory framework focused on using and applying AI in the financial sector is at a preliminary stage and is being considered within the SARB's AI Community of Practice (CoP).

During 2024, the PA and the FSCA conducted a survey about the materiality of the adoption of AI in financial institutions. This study aims to investigate the AI landscape within South Africa's financial sector, focusing on safety and soundness, consumer protection and financial stability. The results of the survey are being analysed and is expected to be released in 2025.

The PA's approach to financial inclusion and transformation

Financial inclusion

The PA continues to support financial inclusion through various initiatives aligned with its core statutory mandate. These initiatives include regulation, supervision, data collection and stakeholder collaboration. With South Africa hosting the G20 in 2025, the PA serves on the Global Partnership for Financial Inclusion.

Transformation

The PA engages banks on their commitments and progress under the Financial Sector Charter Code and monitors insurers' adherence to their internal transformation plans.

Developing regulatory and supervisory approaches to climate risks

Guidance notes

The PA has issued four guidance notes focused on climate-related disclosures, governance and risk practices for banks and insurers. The guidance notices seek to provide consistency on evolving practices, promote transparency and ensure international alignment on current climate-related risk practices and voluntary disclosures. The PA will monitor the implementation through continuous supervision and will keep contributing to global and domestic developments in climate-related disclosures where relevant. This includes considerations for assurance and transition plans.

Sustainable finance

The PA is actively observing sustainable finance market developments to inform local and international policy standards. It participates in climate-related discussions, surveys, papers and working groups of the FSB, BCBS, IAIS, and the NGFS.

How the PA is governed

Operational structure

The PA consists of four departments:

Financial Conglomerate Supervision Department

This department is responsible for consolidated prudential supervision of larger, diverse and complex financial groups, including institutions designated as financial conglomerates. It is also responsible for the AML/CFT supervision of banks, co-operative banks, mutual banks and life insurers.

Banking and Insurance Supervision Department

This department is responsible for the prudential supervision of medium- to smaller-sized banks, insurance companies, CFIs, and securities and derivatives MIs on a solo or consolidated basis.

Risk Support Department

This department provides regulatory and supervisory support for credit, operational, market, insurance, and asset and liability management risks. Additionally, it assists with quantitative and actuarial analysis as well as financial institution statistics from an industry perspective.

Policy, Statistics and Industry Support Department

This department oversees policy formulation and the implementation of regulatory and supervisory frameworks. It also provides operational support, industry analysis and technical support for capital and accounting requirements, in addition to support for legal administration and enforcement responsibilities.

Governance structure

Prudential Committee

Chairperson
Governor of the SARB

Members
DGs, with one of the DGs also being the CEO of the PA

Standing invitees[16]

PruCo, established under the FSR Act, ensures the effective management and administration of the PA. It has the authority to create and define the functions of any other subcommittees it deems necessary.

The committee serves as the advisory and decision-making body on policy, regulatory and supervisory matters, following clearly defined terms of reference, policies and delegation of authority. To evaluate and improve its performance, the committee may conduct an annual self-evaluation exercise.

During the review period, the committee held eight meetings, including a strategy session for the 2024/25 financial year.

During the period, PruCo:

- Approved the proposed PA budget for 2025/26 and the expenditure estimate for the following two financial years, including proposed amendments to Schedule 1 of the Financial Sector and Deposit Insurance Levies Act 11 of 2022.
- Approved the removal of all BA returns from the Regulations relating to Banks, to be reissued under Directive 1 of 2025 for greater flexibility in updating reporting requirements.
- Approved proposed amendments to the Regulations relating to Banks on the remaining Basel III post-crisis reforms. The committee also approved, for consultation, the Statement of Need, expected impact and intended operation of these amendments, the respective comment matrices and the proposed Directive.
- Approved the prudential standards on the revised market risk and CVA frameworks for tabling in Parliament.
- Approved the Resolution Authority Prudential Standard RA03: Flac Instrument Requirements for designated institutions.
- Approved Joint Standard 1 of 2024: Outsourcing by insurers.
- Approved the Prudential Standard FSI 6: Liquidity Risk Management for Insurers for public consultation.
- Approved Joint Standard 2 of 2024: Cybersecurity and Cyber Resilience for financial institutions.
- Approved the Prudential Standard CODI 1: Fund Liquidity, relating to the funds that banks holding covered deposits must maintain in the account for purposes of the fund liquidity of CODI's funding model.

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