South African Reserve Bank
Prudential Authority

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PRUDENTIAL AUTHORITY ANNUAL REPORT 2021

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1 EXECUTIVE SUMMARY

FOREWORD BY THE CHAIRPERSON OF THE PRUDENTIAL COMMITTEE

SHORTLY BEFORE THE END OF THE 2019/20 FINANCIAL YEAR, THE PRUDENTIAL AUTHORITY (PA) MOUNTED A RESPONSE TO THE GROWING GLOBAL THREAT OF THE CORONAVIRUS 19 (COVID-19) PANDEMIC. MORE THAN A YEAR LATER, THE DEADLY VIRUS CONTINUES TO WREAK HAVOC ON THE GLOBAL ECONOMY; INDEED ITS IMPACT WORLDWIDE HAS BEEN ARGUABLY AS DEVASTATING AS THE SPANISH FLU OF 1918.

South Africa was among the countries that implemented containment measures against the pandemic early on. However, as global markets plummeted, credit rating agencies lowered South Africa's credit ratings, threatening the safety and soundness of the regulated financial sector. Despite this, the PA remained true to its mandate. With the unwavering support of the Prudential Committee (PruCo), the PA's resilience and responsiveness facilitated another year of steady progress.

During 2020, the PA collaborated with the South African Reserve Bank (SARB) to provide both guidance on accounting matters and regulatory relief relating to capital and liquidity requirements. Through targeted reports and continual interactions with the PA, the PruCo carefully monitored the impact of these measures over the course of the financial year.

During this challenging time, the PruCo approved the publication of various regulatory instruments for public consultation. These included proposed amendments in line with the international reforms set by the Basel Committee on Banking Supervision (BCBS). The PruCo was also pleased to make three joint standards in collaboration with the Financial Sector Conduct Authority (FSCA). Joint Standard 1 of 2020 prescribes the criteria for significant owners of financial institutions to be considered fit and proper, and sets out, among related matters, what would constitute evidence of the absence of fitness and propriety. It came into effect in December 2020. Joint Standard 2 of 2020, which comes into effect on 16 August 2021, prescribes the margin requirements for institutions entering into non-centrally cleared over-the-counter (OTC) derivative transactions with counterparties. Joint Standard 1 of 2021 provides the framework for licensing entities as central counterparties within South Africa and came into effect in March 2021.

By the end of the 2020/21 financial year, the PA had achieved the majority of its strategic measures and targets. The initiatives not yet accomplished will filter into the new 2025 strategy cycle. The PruCo is satisfied, not only with the PA's strategic accomplishments by the end of the 2020/21 financial period, but also its planned trajectory through the next five years.

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 GLOBAL COVID-19 PANDEMIC HAS HAD A PROFOUND IMPACT ON EVERY ASPECT OF SOCIETY, AND LOOMED LARGE THROUGH THE 2020/21 FINANCIAL YEAR. WORLDWIDE, NEARLY 200 MILLION PEOPLE HAVE BEEN INFECTED BY THE DISEASE AND 3.3 MILLION HAVE SUCCUMBED TO IT, WHILE HUNDREDS OF THOUSANDS HAVE LOST JOBS. MANY FIRMS HAVE CLOSED OR ARE OPERATING BELOW PRE-COVID-19 CAPACITY, AND MOST OF THE WORLD IS STILL IN SOME FORM OF LOCKDOWN.

These developments have contributed to one of the deepest recessions in over a century. The financial sector – at the heart of economic activity – has been profoundly affected by this major disruption. The PA has therefore had an extremely challenging year as a financial sector regulator. Whereas the financial sector was deeply implicated in the 2008 Global Financial Crisis, in the current crisis it has helped to cushion the impacts of COVID-19. In March/April 2020, this was by no means assured.

The PA is a new regulator: barely three years old. The SARB on the other hand has played a role in regulating the financial sector for over 30 years. The PA's primary mandate is to ensure the safety and soundness of regulated entities in the financial sector. We play this role principally in support of the SARB mandate of achieving and maintaining financial stability. So far – and it may well be too early to tell – no significant financial institution in South Africa has failed. The system may be battered and bruised but it remains safe, sound and stable enough to serve the people of South Africa by meeting their economic needs.

When the pandemic reached South African shores in early March 2020 and national government correctly implemented a stringent lockdown, the economic impact was almost immediate. Firms lost income and workers lost their jobs or a portion of their earnings. Global supply chains ground to a halt as travel stopped abruptly. There was a sudden shift to working from home and daily life in general was severely disrupted. These developments had a marked impact on the financial sector, as they led to lower economic activity (lower sales) and large-scale inability to repay loans, instalments, premiums or contracts. Policymakers responded quickly and boldly. The SARB reduced interest rates to historic lows and took unprecedented steps to enhance liquidity in the financial sector and mitigate the effects of a disorderly bond market. The PA provided regulatory relief to most regulated entities. Complementing this, the President of the Republic announced major fiscal support measures, temporary unemployment benefits and, most critically, emergency social grants.

The PA lowered capital and liquidity requirements; permitted the restructuring of distressed loans arising from the COVID-19 pandemic without attracting higher capital charges; and provided advice and guidance on expected credit loss accounting and payments of bonuses and dividends. The latter were strongly discouraged.

The regulatory relief offered to financial institutions was intended to support the flow of finance and credit into the economy, thereby protecting households and allowing firms to function effectively and sustain their operations. The measures also helped institutions to manage capital and liquidity to meet the needs of the economy during a crisis. While credit extension has slowed, as is normal in a recession, the South African financial sector has played a positive role in mitigating the economic impact of the crisis.

Insurance companies, however, have been negatively affected. Inability to sell insurance policies in person coincided with rising claims of business interruption insurance and much higher death rates than originally anticipated. Banks and insurance companies were able to provide relief through payment holidays. Banks provided further relief through restructured loans and additional credit extensions, in part supported by government's loan guarantee scheme.

At the height of the crisis, banks had about 70% to 80% of their staff working remotely. For insurance firms, this ratio was slightly lower, but not materially so. While there was a short-term impact on services to customers, the financial sector has been extremely resilient from an operational point of view, with transactional volumes recovering rapidly during the course of 2020. Work-from-home practices have generally increased cyber-risks in the sector, although there were no major cyber-incidents at large institutions during the 2020/21 financial year. This is partly due to improved risk management and governance of operational risks, as well as an increased use of cloud-computing solutions.

As a prudential regulator tasked with ensuring the financial sector's safety and soundness, the PA put in place enhanced monitoring of both operational and financial metrics. In some cases, and for a certain period, firms had to report on liquidity, credit losses and COVID-related health impacts on a daily basis.

In addition to managing the impact of COVID-19 on the financial sector, the PA successfully implemented its key objectives for the year. We continued to strengthen the regulation of deposit-taking institutions, and issued various sets of bank regulations and prudential standards for public consultation. Our notable regulatory collaboration has been the joint standards on significant owners, margin requirements and central counterparty applications. These have been finalised and published together with the FSCA. We are making steady headway towards transitioning the prudential regulation and supervision of collective investment schemes, pension funds, medical schemes and friendly societies into the PA. Robust discussions with the National Treasury, the FSCA and the Council for Medical Schemes are in progress ahead of April 2024.

We have managed to complete the licence conversion process for insurers, and have largely completed the designation of financial conglomerates. We have been able to put in place the basic tenets of market infrastructure supervision. Our relationships with other regulators have matured, although more work still needs to be done. The PA has made substantial progress in implementing its target operating model and modernising its information technology (IT) platforms.

Notably, the PA achieved its key objectives and managed the impact of the coronavirus pandemic while working remotely – no easy task.

In conclusion, I wish to pay tribute to all my colleagues in the PA. They have performed near-miracles over the past year and have gone the extra mile to help secure our financial sector. Some of our staff have expressed concern about working long hours, being overworked, poor work-life balance and insufficient attention paid to building our institutional culture. We acknowledge these challenges and look forward to working better and smarter in 2021 so that we can continue to deliver on our important mandate.

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

2 GOVERNANCE AND OPERATIONAL STRUCTURES

PRUDENTIAL COMMITTEE

THE FINANCIAL SECTOR REGULATION ACT 9 OF 2017 (FSR ACT) PRESCRIBES THE GOVERNANCE STRUCTURE (INCLUDING THE PRUDENTIAL COMMITTEE), RESOURCES, FINANCIAL MANAGEMENT AND REPORTING OBLIGATIONS OF THE PA.

(met **nine** times during the reporting year)

E L (Lesetja) Kganyago
Governor and Chairperson

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

R (Rashad) Cassim
Deputy Governor

N (Nomfundo) Tshazibana
Deputy Governor

Chairperson

Governor of the SARB

Members

Deputy governors, one of whom is CEO of the PA

Standing invitees

The four PA heads of department

Responsibilities

The PruCo oversees the management and administration of the PA to ensure it is efficient and effective. Among other key activities conducted during the reporting year, the committee:

- approved the PA's COVID-19 regulatory relief measures;
- oversaw the implementation of key matters assigned to the PA by various financial sector laws;
- approved the publication of various regulatory instruments for public consultation;
- made three Joint Standards, namely:
  1. the Joint Standard on margin requirements;
  2. the Joint Standard on fitness, propriety and other matters relating to significant owners; and
  3. the Joint Standard on requirements relating to central counterparty licence applications;
- authorised the CEO of the PA to sign Memoranda of Understanding (MoUs) with other regulators;
- approved the PA Annual Report for the period ending 31 March 2020, for tabling at the National Assembly; and
- contributed to the SARB's strategic focus areas for the new 2025 strategic cycle.

PRUDENTIAL AUTHORITY MANAGEMENT COMMITTEE

(met **ten** times during the reporting year)

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

- Policy Panel
- Licensing Panel
- Restructures and Expansions Panel
- PA Regulatory Action Committee (PARAC)
- Risk and Capital Review Panel
- Conversions Panel[1]
- Designation Panel

1 This panel was temporarily formed to facilitate the insurance licence conversion process.

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

The PA Management Committee (PA Manco) meets monthly and is responsible for the general operations and management of the PA regarding prudential policy, regulatory and supervisory matters, IT and human resource management. In addition, the PA Manco provides advisory, technical and administrative support to the PruCo.

D (Denzel) Bostander
Head: Financial Conglomerate Supervision Department

Financial Conglomerate Supervision Department

This 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 supervision relating to anti-money laundering and counter financing of terrorism (AML/CFT).

F (Faizel) Jeena
Head: Risk Support Department

Risk Support Department

This department is responsible for providing regulatory and supervisory support on credit, operational, market, insurance risk and asset and liability management risk as well as quantitative and actuarial analysis and financial institution statistics.

S (Suzette) Vogelsang
Head: Banking, Insurance, CFIs and FMI Supervision Department

Banking, Insurance, Co-operative Financial Institutions and Financial Market Infrastructure Supervision Department

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

U (Unathi) Kamlana
Head: Policy, Statistics and Industry Support Department

Policy, Statistics and Industry Support Department

This 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 and enforcement responsibilities.

HOW THE PRUDENTIAL AUTHORITY RESPONDED TO THE COVID-19 PANDEMIC

Financial sector regulation is largely about taking advantage of good times to build buffers that can be used during times of stress. The PA's approach to the COVID-19 crisis has been to facilitate the orderly use of buffers to support the economy during a downturn.

The substantive temporary regulatory relief measures provided by the PA were designed to ensure that financial institutions could support and fund their clients and the real economy through the crisis. At the same time, financial institutions needed to maintain compliance with prudential regulation to ensure their own long-term safety and soundness. The measures ensured that financial institutions had the capital resources needed to absorb losses during the COVID-19 crisis.

RELIEF MEASURES

The PA:

1. Lowered the liquidity coverage ratio (LCR) requirement for banks from 100% to 80%.
2. Temporarily reduced banks' minimum add on capital requirements for systemic risk from 1% to 0% and provided clear criteria to enable banks to dip into their capital conservation buffer.
3. Provided capital relief on restructured loans that were in good standing before the pandemic. This meant that, for the duration of the crisis, restructured loans would not attract a higher capital charge. This covered loans to households, small- and medium-sized businesses and corporates, as well as specialised lending.
4. In collaboration with the FSCA, implemented temporary regulatory and supervisory actions to alleviate the stress experienced by the insurance industry. Priority matters included allowing operations to continue without regulatory action when the solvency coverage ratio (SCR) dropped below 100% (provided these drops were due to COVID-19) and relief measures for outstanding premiums, foreign exchange limits, dividends and bonuses to staff.
5. In collaboration with the Co-operative Banks Development Agency, implemented temporary regulatory and supervisory actions to alleviate the stress experienced by co-operative banks and CFIs. Entities could seek relief from the PA on priority matters such as prudential measures and governance and operational matters, to minimise the impact of COVID-19. The PA requested the mutual bank sector to approach the PA for regulatory and supervisory relief should any experience pressures from a COVID-19 perspective.
6. Provided guidance on:
   i. the accounting treatment of payment holidays in line with the requirements of International Financial Reporting Standard (IFRS) 9; and
   ii. the calibration of expected credit loss models in relation to the COVID-19 economic downturn.
7. Provided guidance on the distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers. In February 2021 a new guidance note was issued, allowing banks to consider such payments if their boards considered it prudent to do so.
8. Relaxed certain regulatory reporting periods to relieve some of the operational pressure on financial institutions, including limited access to reporting systems due to the national lockdown.

Notwithstanding regulatory relief in the form of lower capital and liquidity requirements, banks have generally improved both the capital and liquidity positions relative to pre-COVID-19 levels. The main factors explaining this apparent anomaly is that this crisis has been associated with lower dividend payments to shareholders (partly due to guidance from the PA), higher corporate deposits, a significant level of precautionary savings among corporates and liquidity injections by the central bank.

The PA also took immediate steps to protect its staff by moving all face-to-face meetings, on-site inspections and other physical supervisory interactions to a virtual environment.

PRUDENTIAL AUTHORITY ENGAGEMENTS WITH INDUSTRY

During October 2020, the PA hosted four virtual industry engagement sessions with the financial sector. These formed part of the PA annual stakeholder engagements that commenced in 2018. The discussions focused on the changing regulatory landscape, with specific attention to the impact of the COVID-19 pandemic on regulation and supervision. The discussions also enabled an update on the PA's long-term IT project to automate the collection of data and thereby assist with the supervisory process for all entities. The PA will enhance its industry engagements, with specific requirements already identified as part of its transformation programme.

3 PROGRESS ON THE PRUDENTIAL AUTHORITY REGULATORY STRATEGY AND RELATED FRAMEWORKS

MAINTAINING A SAFE AND SOUND FINANCIAL SYSTEM

The PA's regulatory strategy sets out its key priorities for 2021. A detailed review of the regulatory strategy is underway to direct the PA's action over the next three years. The PA adopts a collaborative and consultative approach to prudential regulation and supervision.

Strategic priorities		Performance highlights in 2020/21
Strengthen the regulation and supervision of banking institutions with updated Basel III requirements.	1	**Banks** • Published, for public comment, proposed amendments to banking regulations on: 1 the supervisory framework for measuring and controlling large exposures; 2 total loss-absorbing capacity holdings standard; 3 revisions to the securitisation framework, capital treatment for simple, transparent and comparable short-term securitisations; and 4 the standards for interest rate risk in the banking book (IRRBB). • Issued Guidance Note 7 of 2020 (June), setting out the revised implementation dates for the Basel III post-crisis reforms. • The National Treasury published amendments to banking regulations made by the Minister of Finance in terms of section 90 of the Banks Act, in December 2020, effective from 1 January 2021 (Notice No. 724 and Notice No. 1427 in the *Government Gazette*). Amendments relate to: 1 requirements for banks' net stable funding ratio; 2 disclosure requirements; 3 matters related to corporate governance; 4 the standardised approach for measuring counterparty credit risk exposures; 5 capital requirements for equity investments in funds; and 6 the capital standard for bank exposures to central counterparties.

Strategic priorities		Performance highlights in 2020/21
(continued from page 9) Update regulatory requirements related to mutual banks. Assess the co-operative banks framework. Develop prudential standards for CFIs.	1	**Mutual banks** • Published, for public comment, the Prudential Standard on Governance and Risk Management for Mutual Banks. **Co-operative banks and CFIs** • Drafted a comprehensive set of prudential standards for co-operative banks and CFIs, which will be informally consulted on with the sector during the latter part of 2021. • Issued Guidance Note 2 of 2020 (June), outlining guidelines relating to the common bond requirement.
Implement prudential regulation and supervision of financial conglomerates, including efforts to obtain a holistic view of group-wide activities, intragroup transactions and large exposures.	2	• Published the financial conglomerate designation criteria (September 2020). • Issued, for public comment, a set of draft prudential standards on the proposed regulatory framework for financial conglomerates (October 2020). The draft capital standard for financial conglomerates was not included as the PA intends to test the standard with industry before finalising it. • Initiated development of the supervisory framework for financial conglomerates.
Prudentially regulate market infrastructures (MIs), including strengthening the resilience of MIs and ensuring that international principles related to MIs are adhered to, where appropriate.	3	• Implemented South Africa's first licensing framework for prospective central counterparties in March 2021, allowing applications for a central counterparty licence. • Together with the FSCA and the SARB's Financial Stability Department, reviewed the self-assessment undertaken by the MIs to determine compliance with the Principles for Financial Market Infrastructures.[2]

2 Issued by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions in 2012.

Strategic priorities		Performance highlights in 2020/21
Prudentially regulate and supervise insurers by embedding the Solvency Assessment and Management (SAM) Principles and issuing further regulatory instruments as per the Insurance Act.	4	• Successfully converted 125 insurance licences originally registered under the Long-term Insurance Act 52 of 1998 (Long-Term Insurance Act) and Short-term Insurance Act 53 of 1998 (Short-term Insurance Act) to licensed insurers under schedule 3 of the Insurance Act 18 of 2017 (Insurance Act). • Published, for public comment, the following communications on the refinement of the insurance regulatory framework: 1. 'PA Communication 8 of 2020 with draft Guidance Notice on Financial Soundness Standard for Insurers (FSI) 4' – providing guidance for the stressing of incurred but not reported reserves by life insurers in order to calculate the capital requirements as set out in FSI 4. 2. 'Discussion paper on joint audit requirements for insurers and insurance groups' – informing regulated insurers and their auditors (including prospective auditors of licensed insurers or controlling companies of insurance groups) about information pertaining to the requirement for the appointment of joint auditors. 3. 'PA Communication 5 of 2020 on the FSI 2.2 Iterative Approach' – determining the SCR using the technical provisions, including the risk margin. 4. 'PA Communication 3 of 2020 on Non-Life Underwriting Risk Capital Requirements published together with draft Guidance Notice FSI GN 4.3' – setting out practices and guidelines aimed at assisting insurers in complying with the requirements of FSI 4.3 (Non-life Underwriting Risk Capital Requirement). 5. 'Joint Communication 5 of 2020' – setting out the PA's and FSCA's current position on certain aspects of business interruption cover. The joint communication further set out the authorities' expectation that non-life insurers and intermediaries should communicate timeously with policyholders and not delay the processing of business interruption claims unnecessarily. Similarly, the terms and conditions of insurance coverage should not be varied without taking a balanced approach. 6. 'Joint Communication 4 of 2020' – confirming the application of the maximum amounts prescribed under the Funeral Class of insurance business to traditional and micro insurers. The joint communication also addressed ancillary issues relating to the Policyholder Protection Rules. • Actively participated in the International Association of Insurance Supervisors' (IAIS) standard-setting initiatives and published a PA roadmap outlining the main IAIS developments in which the PA participated.

	Strategic priorities	Performance highlights in 2020/21
5	Establish a framework for significant owners, including the development of regulatory standards on significant ownership.	• Together with the FSCA, developed the joint standard setting out the fit-and-proper requirements for significant owners of financial institutions, which came into effect on 1 December 2020.
6	Conclude MoUs with other financial sector regulators, namely the FSCA, National Credit Regulator (NCR), Financial Intelligence Centre (FIC) and the SARB.	• Concluded MoUs forming the basis of collaboration and cooperation between the regulators themselves and between the regulators and the SARB. • Signed a multilateral MoU in November 2020 together with the SARB, FSCA, NCR and FIC to establish a single national register of outstanding credit agreements.

The PA also focused on the following priorities:

	Additional priorities	Performance highlights in 2020/21
1	Transformation of the broader financial sector.	• Required insurers to submit their transformation plans for monitoring, as part of ongoing supervision and the insurance licence conversion process. • Finalised a strategy to support the transformation of the financial sector in line with the objectives of the FSR Act. The approach includes formal engagement with the board of directors of regulated institutions on progress with the institutions' transformation plans.
2	Support for financial inclusion by: • providing clarity and guidance on establishing member-based financial institutions (CFIs, co-operative and mutual banks, as well as micro insurers); • addressing regulatory barriers that hinder the innovation needed to facilitate financial inclusion.	• Licensed two new micro insurers, converted one existing insurer to a micro insurer and licensed six new CFIs. An operating CFI was registered as a co-operative bank. • Continued to participate in the Intergovernmental Fintech Working Group and participated in the testing of a regulatory sandbox for an index insurance product. This is an innovative model that pays out on the basis of a predetermined statistical index, making the product more affordable and allowing for a quicker claims settlement process. • Worked with the National Treasury to prioritise financial inclusion using digitisation. The PA also submitted comments on the National Treasury's financial inclusion policy paper.

Additional priorities	Performance highlights in 2020/21
3 Integrity in terms of compliance with the AML/CFT provisions of the Financial Intelligence Centre Act 38 of 2001, as amended (FIC Act).	• Conducted eight AML/CFT inspections at six banks and two life insurers during the year under review. • Continued to conduct AML/CFT inspections using virtual platforms. • Started the process to remediate the shortcomings identified during the 2019 Financial Action Task Force (FATF) mutual evaluation. South Africa's mutual evaluation report will be discussed at the June 2021 FATF plenary meeting. • The PA will conduct risk assessments of the banking and insurance sectors during the 2021/22 financial year. The outcome of the sectoral risk assessments will serve as input into the PA's risk-based approach for AML/CFT supervision.
4 The prudential regulation and supervision of medical schemes, pension funds, collective investment schemes and friendly societies (sections 291 and 292 of the FSR Act).	• The PA and FSCA submitted a joint letter to the Minister of Finance requesting that the implementation date be extended from 1 April 2021 to 31 March 2024 for expanding the PA's regulatory perimeter to include these institutions. The request was granted, and collaborative work continued between the PA, FSCA, the National Treasury and the Council for Medical Schemes to prepare for the transition.
5 Sustainable finance, including climate change.	• Continued to participate in discussions on sustainability and climate change through the PA's membership of the Sustainable Insurance Forum, BCBS and the Network of Central Banks and Supervisors for Greening the Financial System. • Established the PA Climate Think Tank to coordinate activities with the National Treasury on its technical paper 'Financing a sustainable economy', published in May 2020. The paper formulates a list of recommendations for financial sector regulators and supervisors to support their assessments of sustainable finance and climate risk. • Distributed a mandatory survey on climate risk to all registered banks, mutual banks, insurers and MIs in early 2021. The survey results, together with the PA's research on climate risk, will inform its overall risk assessments and supervision of financial institutions.

THE PRUDENTIAL AUTHORITY FUNDING MODEL

In February 2021, the National Treasury released for public consultation, the proposed Financial Sector Levies Bill which allows the PA to impose levies on supervised entities to fund its operations. The PA has started the preparatory work for implementing fee and levy collection when the legislative framework and prescribed processes come into effect. Chapter 16 of the FSR Act, that deals with matters relating to fees, levies and finances of the PA, is envisaged to come into effect on 1 April 2022. Once the National Treasury has finalised its processes, the PA will consult with industry. Until then, the SARB will continue to fund the operations of the PA.

INTERBANK OFFERED RATES

It is expected that publication of the London Interbank Offered Rate (LIBOR) will cease by the end of 2021, and financial market participants will have to transition all LIBOR-based exposures to Alternative Reference Rates (ARRs). The PA is undertaking a number of initiatives to understand the impact of this transition and to monitor and assess financial institutions' plans to manage the change. To date, it has also participated in LIBOR transition surveys by the Financial Stability Board, BCBS and IAIS, and initiated its own more granular survey in 2020. The year 2020 was pivotal for the LIBOR transition, with several critical milestones expected to build liquidity in risk-free rates, increase certainty around newly issued products and drive progress. The PA continues to monitor the status of the LIBOR transition process, providing updates on significant milestones and other relevant information to industry participants and stakeholders. These are intended as a reference and guide for their transition planning.

THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK FINANCIAL SECTOR ASSESSMENT PROGRAMME

The PA continued to participate in the South African 2020 Financial Sector Assessment Programme (FSAP) conducted by the teams from the International Monetary Fund (IMF) and World Bank. Although the FSAP mission was interrupted by the COVID-19 outbreak and the related travel restrictions, the FSAP engagements resumed on virtual platforms. However, the interruption unfortunately prevented the IMF and World Bank from finalising the mission in 2020.

During the 2020/21 financial year, the FSAP team hosted a series of virtual technical meetings covering cyber-resilience, systemic liquidity, macroprudential policy and capital market development to address outstanding issues. The FSAP assessors will publish the various background and technical notes in due course.

STRATEGIC FOCUS AREAS

SFA 3

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

2020/21 PERFORMANCE OVERVIEW

The PA responded promptly and appropriately to assist the financial sector during the COVID-19 pandemic. The PA continued its intensive supervision of regulated financial institutions to ensure their adherence to, for example, governance and risk management practices. There were no failures of systemically important financial institutions (SIFIs), although several smaller institutions required specific regulatory action.

PERFORMANCE SCORECARD

Overall status	Strategic measures	Target (annual)	2020/21 (annual)	2019/20 (annual)	2018/19 (annual)	
Target partially met	Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate regulatory action	100%	100%	100%	✓
	Weighted percentage of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs[1]	90% or under adequate regulatory action	98%	95%	90%	✓
	Compliance with sound governance and risk management practices, as required by different industry legislation for SIFIs	100% of institutions fully compliant or under adequate regulatory action	100%	100%	90%	✓
	Weighted percentage of non-SIFIs that comply with sound governance and risk-management practices required by different industry legislation	90% of institutions fully compliant or under adequate regulatory action	90%	75%	-	✓

1 Non-SIFIs: smaller banks or small- to medium-sized insurers.

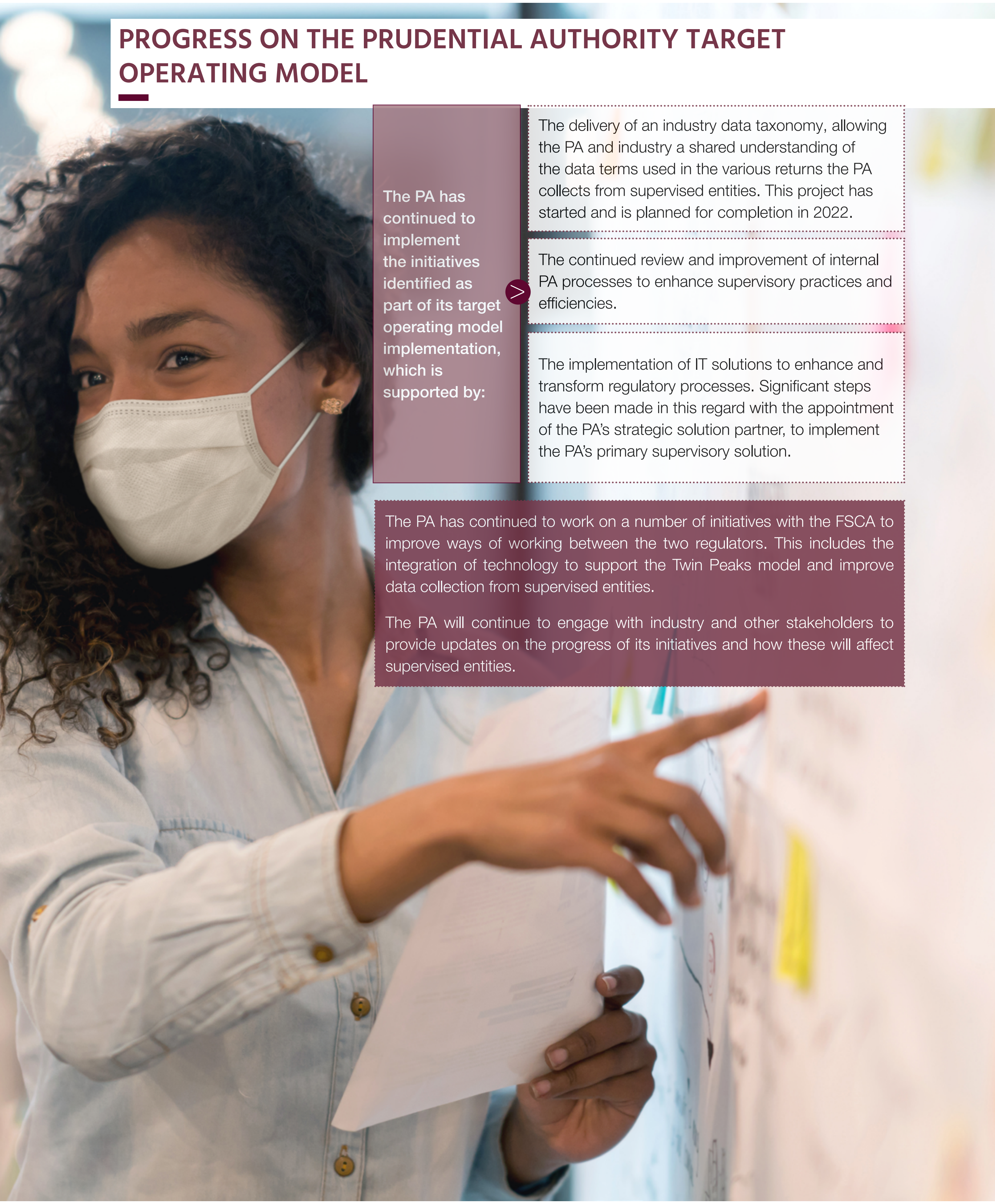
UNIQUE STRATEGIC OBJECTIVE FOR THE PA WITHIN SFA 3

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

Target partially met

✓ Target met

PROGRESS ON THE PRUDENTIAL AUTHORITY TARGET OPERATING MODEL



The PA has continued to implement the initiatives identified as part of its target operating model implementation, which is supported by:

- The delivery of an industry data taxonomy, allowing the PA and industry a shared understanding of the data terms used in the various returns the PA collects from supervised entities. This project has started and is planned for completion in 2022.
- The continued review and improvement of internal PA processes to enhance supervisory practices and efficiencies.
- The implementation of IT solutions to enhance and transform regulatory processes. Significant steps have been made in this regard with the appointment of the PA's strategic solution partner, to implement the PA's primary supervisory solution.

The PA has continued to work on a number of initiatives with the FSCA to improve ways of working between the two regulators. This includes the integration of technology to support the Twin Peaks model and improve data collection from supervised entities.

The PA will continue to engage with industry and other stakeholders to provide updates on the progress of its initiatives and how these will affect supervised entities.

4 KEY HIGHLIGHTS IN 2020/21

MARKET DEVELOPMENTS

THE YEAR BEGAN WITH CAUTIOUS OPTIMISM FOR GLOBAL GROWTH, WITH CORE DOWNSIDE RISK ARISING FROM TRADE TENSIONS BETWEEN THE UNITED STATES (US) AND CHINA. THE FINANCIAL MARKETS EXPECTED LOOSE MONETARY POLICY TO TIGHTEN AS INFLATIONARY PRESSURES GREW AND FOR THE GLOBAL ECONOMIC ACTIVITY TO FIND ITS FOOTING. BREXIT AND THE US PRESIDENTIAL ELECTION DOMINATED THE WORLD POLITICAL STAGE, WHILE ESCALATING TENSIONS BETWEEN THE US AND IRAN AND THE GLOBAL SPREAD OF COVID-19 WERE ALSO IN FOCUS DURING THE EARLY PARTS OF 2020.

As infection rates escalated around the world, the COVID-19 pandemic took centre stage. With many parts of the world moving into some form of lockdown, economic activity slowed and global markets plummeted, with the Dow Jones Industrial Average experiencing its largest points drop in history. Oil futures moved into negative territory on expectations of a large decline in demand, as well as scarce storage. Investors flocked to safe haven assets like gold. Central banks intervened to alleviate market pressures and provide much-needed support to the economies, especially the banking systems.

In the first wave of the pandemic, medical scientists grappled with the nature of the virus, seeking to understand the characteristics responsible for its fatal effect on humans. As research progressed, scientists were able to advise the public on how to reduce their risk of contracting the virus. In the process, the infection rate began to decrease. Although fears remained over a looming second wave, economic activity gradually increased as countries adjusted their lockdown restrictions. Global markets began to recover at a cautious pace.

Although the US presidential election sparked some market volatility, some sectors benefitted as investors exercised their expectations on the outcome. After the elections, discussions over further US fiscal stimulus and optimism over positive results from vaccine trials provided much-needed hope for the world and global markets. The year closed out with optimism as vaccine development gathered momentum. Economic growth began to turn the corner, while a Brexit conclusion and further fiscal stimulus buoyed global markets.

The year ended positively, with the MSCI World Index closing 14.3% higher and the local JSE Top 40 7% higher than at the start of the year. However, Moody's Investors Service and Fitch Ratings lowered South Africa's credit ratings in November 2020. The cuts in ratings compounded pressure on government finances, over and above the economic recession caused by COVID-19.

The lockdown had a significant impact on economic activity, especially in the travel, tourism, hospitality, airlines and trade sectors, putting immense pressure on corporates, small businesses and households alike. The South African government and regulators took various measures in providing economic relief and alleviate the liquidity strain on certain financial sectors in order to sustain the local economy and maintain financial stability. Although the financial services industry experienced significant challenges in the form of reduced profits and continued pressure on new business, it remained, for the most part, financially sound and operationally resilient.

SUPERVISORY MATTERS

2020 FLAVOUR OF THE YEAR

THE DECLARATION OF A NATIONAL STATE OF DISASTER AND THE RESULTANT COVID-19 LOCKDOWN HAD AN UNPRECEDENTED IMPACT ON FINANCIAL INSTITUTIONS AND THE ECONOMY AT LARGE. WITH A SHIFT IN FOCUS TO FINANCIAL SOUNDNESS AND OPERATIONAL RESILIENCE, THE PA TOOK A DECISION TO SUSPEND THE **FLAVOUR OF THE YEAR** TOPICS THAT IT HAD IDENTIFIED FOR THE 2020 PRUDENTIAL MEETINGS SCHEDULED WITH BOARDS OF DIRECTORS.

The topics were deferred to the 2021 supervisory calendar, with additional topics identified, approved by the PA Manco and circulated to the industry as follows:

2021 Flavour of the year topics

- **Co-operative financial institutions** – *Governance*
- **Commercial banks and one mutual bank** – *Impact of new technologies*
- **Market infrastructures** – *Outsourcing*
- **Insurers** – *IFRS 17*

The topic of new technologies covers the impact that artificial intelligence, machine learning, distributed ledger technology, robotics, the internet of things, the use of ‘big data’, among other technologies, have had on banks’ strategies and business models. Due to the relevance of this topic, the PA also decided to circulate a questionnaire to insurers and market infrastructures to assess the impact these technologies have had within those sectors.

EMERGING INDUSTRY TRENDS OBSERVED DURING ONGOING SUPERVISION

A. INSURANCE AND INSURANCE GROUPS

The pandemic saw a significant increase in insurance losses, with a corresponding increase in related technical provisions against such losses. This had a negative effect on profitability across the insurance sector. Higher retrenchment benefits and death claims, in particular, negatively affected some of the smaller players. Consequently, the 2020 supervisory calendar focused largely on the liquidity, profitability and solvency positions within the sector. The PA also increased the intensity of its supervision of entities displaying distress.

To evaluate the impact of contingent business interruption claims (due to the lockdown) on the financial soundness of non-life insurers, the PA analysed surveys completed by affected insurers.

In respect of the life insurers, the PA monitored and assessed the impact of new business volumes, lapsed policies, surrenders and claims on life-risk and funeral policies, as well as the impact on credit life policies due to the payment holidays provided by banks and other credit providing institutions.

The insurance sector in general is well capitalised and insurers are within their own internal risk appetite targets. The PA also noted various cost-containment initiatives, repricing of products (particularly in the funeral space) and performed detailed analysis on the insurance policy contracts (particularly in the contingent business interruption cover).

B. MEMBER-BASED DEPOSIT-TAKING INSTITUTIONS

Governance within the member-based institutions was a concern for the PA, and policy work is underway to enhance governance requirements within the regulatory framework. The impact of the pandemic, evidenced by poor economic growth and the financial sector's low profitability, necessitated that the PA's supervision focus on the sustainability of the sector.

The operational capability of various institutions was also a concern. In addition, the pandemic threw a spotlight on the institutions' key-man dependencies.

The care, diligence, skill and prudence exhibited by the board and management of CFIs and co-operative banks have a critical influence on a financial institution's viability, safety and soundness, as well as its ability to meet its business objectives. Owing to governance shortcomings, in the coming year, boards of CFIs and co-operative banks will be required to present to the PA on the 'flavour of the year' topic of governance. The PA interventions will include increased supervisory oversight over the role and functions of audit/supervisory committees, necessitating more direct and intrusive engagements between the PA and the audit committees of supervised entities.

The PA also finalised the re-licensing process for 95% of the CFIs that had submitted licensing applications.

C. FOREIGN BRANCHES OF BANKS

While supervising the foreign branches of banks, the PA focused on credit risk to state-owned entities due to concentration risk and exposures, as well as the related impairments raised to mitigate potential losses. The PA assessed the foreign branches' business strategies and focused on the institutions' operational resilience and degree of flexibility in their approach to COVID-19-related concerns, cyber-resilience and ability to respond to operational requirements.

The PA engaged with the head offices of foreign branches to renew and re-confirm their Letters of Comfort for the foreign branches of banks. Engagements with executive committees and senior head office representatives involved understanding foreign branches' credit-risk profile and business strategies and the ongoing support provided by head offices.

Head offices of foreign branches remain committed to support their South African branches and regard these branches as key to their strategy within Africa. Foreign branches were largely comfortable riding the wave of the crisis, and did not indicate pressure from their head offices to deliver profitability targets or take on unnecessary risk.

The PA remains focused on ensuring that appropriately qualified senior executives, with South African risk, compliance and regulatory experience, are appointed at foreign branches. Overall, the PA is satisfied with the level of capital and liquidity of foreign branches.

D. SMALLER, LOCALLY REGISTERED BANKS

The supervision of locally registered banks focused on the impact of COVID-19 on profitability, credit risk and capital. Although liquidity was not a major concern, the PA closely monitored potential deterioration due to low profitability and high credit risk.

The PA paid particular attention to the smaller banks’ business strategies and models, and continued to assess the effectiveness of their governance structures. As with the foreign branches of banks, the PA focused on operational and cyber-resilience for the smaller, locally registered banks.

In addition, the PA engaged with external auditors to address specific areas of concern, particularly credit and compliance with IFRS 9. The PA’s increased supervisory interaction with the board, the executive and operational management enabled faster reaction to any problem areas.

Profitability among the smaller banks decreased materially, largely due to increased credit impairments and a reduction in income. The partial default by the state-owned Land Bank affected some smaller banks that held bonds or short-term notes issued by Land Bank. However, the PA found that the smaller banks remained resilient during the crisis, with no material outflows of deposits experienced. This was a positive indication of depositors’ confidence in the sector.

The PA has continued to focus on the appointment of fit and proper directors, executives and senior management to help steer banks through times of stress.

Only two banks utilised their capital conservation buffers. The PA closely supervised these banks, monitoring their capital and solvency positions.

E. LARGER BANKS (WITH TOTAL ASSETS IN EXCESS OF R50 BILLION)

COVID-19 and the implementation of lockdown restrictions had a significant impact on large banks’ income levels and profitability. The decrease was mainly due to lower, non-interest income, lower interest rates, and a

significant increase in credit impairments, resulting in increased credit losses. Credit-risk models did not cater for the uncertainty introduced by the economic effects of the COVID-19 pandemic and this necessitated post-model adjustments.

The PA required ad hoc reporting on a number of areas, including trends in the credit-risk profile of portfolios, operational risk indicators, and implementation of client-support and cyber-security measures. This was to ensure that banks had effective business continuity plans, and cyber and operational resilience frameworks. The acceleration of digital adoption inadvertently saw an increase in cyber and data-leakage risks, partly because bank staff were working from home. Banking operations in the rest of the African region remained profitable and resilient.

F. MARKET INFRASTRUCTURES

The PA requested certain MIs to report on their respective capital assessment processes by 30 November 2020. The assessment of these reports will form part of the PA's 2021 supervisory calendar.

During the financial year, the PA also focused on the governance of MIs. To provide greater clarity on governance requirements applicable to MIs in the regulatory framework, the PA and the FSCA began developing an interim regulatory instrument setting out a governance framework for MIs.

An initiative to review of the Financial Markets Act: Regulations is currently underway, together with the introduction of the Market Infrastructure Capital Assessment Process to enhance and clarify the capital requirements of MIs, especially for smaller MIs.

The PA increased its oversight on operational, cyber-resilience and IT risks, with an emphasis on how related frameworks were implemented and embedded by MIs. This continues to be a focus area in the 2021 supervisory calendar.

On cyber-resilience, the PA reviewed the progress made by the various MIs following finalisation of the 2019 thematic review. Various MIs highlighted cyber-risk within their risk management frameworks, with most MIs having invested in cyber-defence initiatives, improved processes and upgraded security systems.

LICENSING

THE PA DERIVES ITS LICENSING POWERS FROM THE FSR ACT TOGETHER WITH THE RELEVANT FINANCIAL SECTOR LEGISLATION TO ENSURE THAT NO PERSON MAY CARRY ON THE BUSINESS ACTIVITIES AS DEFINED WITHOUT BEING REGISTERED TO CONDUCT THOSE ACTIVITIES IN GENERAL OR ON SPECIFIC CONDITIONS.

FIT AND PROPER ASSESSMENTS

Primary legislation for banking requires that the appointment of directors and any executive officers, and for insurance key persons (board of directors, senior management, head of control functions and audit partners) be approved or noted by the PA. During the period, the PA conducted fit and proper assessments for applications and notifications relating to new licences, insurance conversions, and as part of ongoing supervision.

DESIGNATION OF FINANCIAL CONGLOMERATES

During the period under review, the Designation Panel considered 16 groups for designation. The process of assessing the designation of financial conglomerates began in October 2020 and will continue into the 2021/22 financial year.

DESIGNATION OF INSURANCE GROUPS

Three insurance entities were designated as part of an insurance group in respect of section 10 of the Insurance Act during the review period. Some of these entities made representations to the PA to reconsider the decision. The PA is assessing their representations.

THE FSR ACT, READ WITH THE RELEVANT FINANCIAL SECTOR LAWS (THE BANKS ACT AND INSURANCE ACT) EMPOWERS THE PA TO CONTROL THE ACTIVITIES OF UNREGISTERED/ UNLICENSED PERSONS WHO CONDUCT BANKING OR INSURANCE BUSINESS.

PERSONS CONDUCTING UNLICENSED INSURANCE BUSINESS

The PA has delegated investigations of persons conducting unlicensed insurance business to the FSCA. During the period under review, the FCSA conducted desktop assessments on 60 unlicensed persons, while 56 were under investigation. A final decision was taken on 119 persons and one enforcement action was implemented.

UNREGISTERED PERSONS CONDUCTING THE BUSINESS OF A BANK

During the period under review, the PA investigated eight schemes, comprising five schemes carried over from previous financial periods and three schemes reported during the period under review. Two of these investigations were finalised during the review period, while six were ongoing. (For detailed information, please refer to page 59)

ENFORCEMENT

When a financial institution fails to comply with the FSR Act or relevant financial sector laws, the PA has a range of supervisory tools at its disposal to implement enforcement actions.

The Prudential Authority Regulatory Action Committee held four meetings during the review period to discuss and consider recommendations made to the CEO of the PA in relation to matters of non-compliance. During the financial year, the PA considered over 90 non-compliance referrals, which resulted mainly in extensions for compliance, condonations and cautions.

Enforcement actions taken by the PA included two administrative penalties, a directive, a suspension of a licence and an application to the High Court of South Africa for the appointment of a curator. The PA also exempted two institutions from compliance with provisions of a financial sector law and accepted an enforceable undertaking by a financial institution.

ADMINISTRATIVE PENALTIES

Two administrative penalties totalling R4.4 million (of which R3.4 million is suspended) were imposed on Viva Life Insurance Limited (Viva Life), in terms of section 167 of the FSR Act. Details of these penalty orders are as follows:

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

Name	Non-compliance	Administrative penalty
Viva Life	a. Failure to adopt, implement and document an effective governance framework in terms of section 30(1)(a) of the Insurance Act. b. Failure to meet the Minimum Capital Requirement for the period 1 August 2019 until 13 February 2020, as required in terms of section 36(1) of the Insurance Act. c. Failure to obtain the PA's approval in terms of section 38(1)(e) of the Insurance Act before concluding transactions contemplated in section 45 of the Companies Act 71 of 2008.	An administrative penalty of R3 million (R2 million of the R3 million penalty amount is suspended for a period of three years).
Viva Life	Failure to comply with section 7 of the Long-term Insurance Act, by underwriting bill protection and hospital cash policies for which the insurer was not licensed.	An administrative penalty of R1.4 million (the total penalty amount of R1.4 million is suspended for a period of five years).

OTHER PRUDENTIAL AUTHORITY DECISIONS

ACTION	DESCRIPTION
Directive	The PA imposed a directive on an insurer, in terms of section 143 of the FSR Act, directing it not to pay dividends for a period of 12 calendar months, effective from the date of issuance of the directive.
Suspension of licence	With effect from 19 May 2020, Nestlife Assurance Corporation Limited (Nestlife) was suspended, in terms of section 27(1)(c) of the Insurance Act, from carrying on any new insurance business.
Curatorship	With effect from 21 October 2020, the High Court of South Africa, Gauteng Local Division, Johannesburg (High Court) placed Nestlife's insurance business under provisional curatorship. The curatorship application was made in accordance with the provisions of section 54(1)(a) of the Insurance Act, read with section 5(1) of the Financial Institutions (Protection of Funds) Act 28 of 2001. The provisional curatorship of Nestlife was finalised on 30 November 2020 due to Nestlife's financial soundness position, with its SCR declining below the prescribed minimum regulatory requirements. A media release containing further information regarding the curator appointment is available at: https://www.resbank.co.za/en/home/publications/publication-detail-pages/media/media-releases/2020/10345
Exemptions	Sanlam Developing Markets Limited and Swiss Re Corporate Solutions Limited (Swiss Re) were exempt from complying with certain provisions of the Insurance Act, subject to conditions stipulated by the PA.
Enforceable undertaking	The PA accepted an enforceable undertaking from Swiss Re in terms of section 151 of the FSR Act.

Note: Further information regarding the notices and enforceable undertaking is available on the SARB website at https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/functions-of-the-prudential-authority

MATTERS REFERRED TO THE FINANCIAL SERVICES TRIBUNAL

Any person aggrieved by a decision taken by the PA may apply to the Financial Services Tribunal for reconsideration. One insurer instituted proceedings with the Tribunal for the judicial review of the PA's decision to designate the entity as part of an insurance group. Policyholders of an insurer also instituted proceedings with the Tribunal for the judicial review of the PA's decision during the conversion process of the relevant insurer. Both these matters were still under consideration at the end of March 2021.

ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM

FINANCIAL ACTION TASK FORCE MUTUAL EVALUATION AND REMEDIAL ACTION

The global AML/CFT standard-setting body, the FATF, assessed South Africa in 2019 and issued the first draft report in December 2019. The PA was required to review it and provide comments to the assessors by February 2020. The assessment team issued the second draft report in March 2020 to South Africa as well as members from Malaysia, Switzerland, Zimbabwe and the Eastern and Southern Africa Anti-Money Laundering Group. The report will be discussed at the June 2021 FATF plenary meeting and is expected to be to be published in October 2021 on the FATF website. The PA has embarked on an internal project with various work-streams to implement action plans for remediating identified shortcomings.

The PA will be conducting its second banking and insurance sector risk assessment. This entails sourcing and analysing information from agencies such as the FIC, South African Police Service, National Prosecution Authority, South African Banking Risk Information Centre, South African Revenue Services and the SARB's Financial Surveillance Department.

The PA has also compiled a survey/questionnaire to source relevant information from licensed banks and life insurers in South Africa. The PA will publish the results of the sectoral risk assessment on the SARB website towards the end of 2021.

NATIONAL COOPERATION AND COORDINATION

The PA has been strengthening its working relationships with other competent authorities, in line with the MoU currently in place. It continued to chair meetings with active participation from the FIC and the FSCA to discuss banks and life insurers that the PA deems to be posing a high risk within the financial sector.

INSPECTIONS

The PA continued with AML/CFT inspections under lockdown using virtual platforms. During the period under review, the AML/CFT team conducted eight inspections (six banks and two life insurers).

SELECTED INDICATORS FOR THE SOUTH AFRICAN FINANCIAL SECTOR

Entities supervised by the PA as at* 31 December 2020, 28 February 2021 and 31 March 2021

Entities per sector	No. of entities	Balance-sheet size R million		
		Dec 2020	Feb 2021	Mar 2021
Banking sector	**31**			**6 456 662**
Registered banks	18			6 074 854
Local branches of foreign banks	13			381 808
Mutual bank sector[1]	**4**			**3 364**
Co-operative sector	**29**		**502**	
Co-operative banks	5		333	
Co-operative financial institutions	24		169	
Life insurance sector	**67**	**3 245 808**		
Primary insurers	60	3 226 469		
Cell captive entities	5	19 339		
Micro insurers	2	0		
Non-life insurance sector	**74**	**226 482**		
Primary insurers	59	173 618		
Cell captive entities	7	49 960		
Captive insurers	8	2904		
Reinsurers	**9**	**58 459**		
Life reinsurers	2	9 007		
Non-life reinsurers	2	12 651		
Composite reinsurers	5	36 801		
Other	**2**	**NA**		
Market infrastructures[2]	**9**	**51 522**		

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

1. The number of mutual banks includes VBS Mutual Bank, not yet deregistered but last reported in 2018
2. Total assets in respect of Market Infrastructures include margin deposits

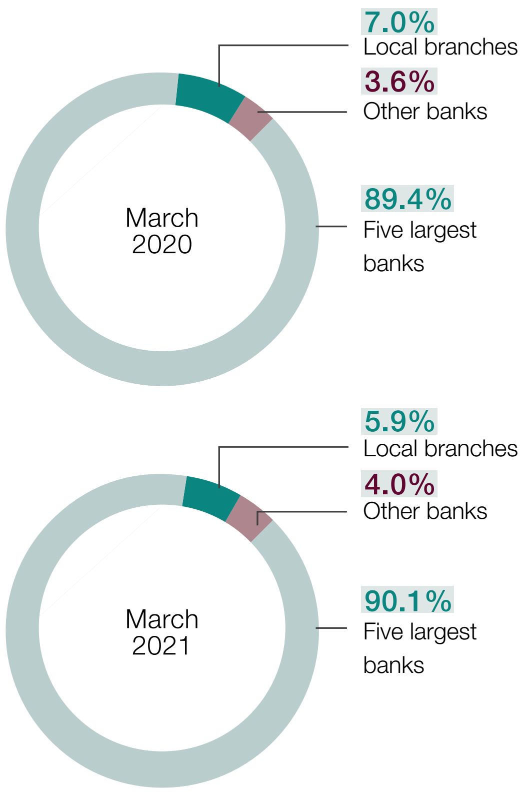
DEPOSIT-TAKING FINANCIAL INSTITUTIONS

BANKING SECTOR

South Africa's banking sector is dominated by the **five largest banks**, which collectively held **90.1%** of the total banking-sector assets as at 31 March 2021 (March 2020: 89.4%). **Local branches of international banks** accounted for **5.9%** of banking-sector assets at the end of March 2021 (March 2020: 7.0%), while **other banks** represented **4.0%** at the end of March 2021 (March 2020: 3.6%).

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

Total banking sector assets



Selected indicators for the South African banking sector

	Mar 2020	Mar 2021	Percentage change (%)
Balance sheet			
Total assets (R billions)	6 579	6 457	-1.85
Gross loans and advances (R billions)	4 607	4 601	-0.13
Total equity (R billions)	499	542	8.62
Profitability			
Cost-to-income ratio (smoothed) (%)	58.10	58.89	1.36
Return on equity (smoothed) (%)	13.50	7.47	-44.67
Return on assets (smoothed) (%)	1.06	0.55	-48.11
Capital adequacy			
Common equity tier 1 capital adequacy ratio (%)	12.08	12.83	6.21
Tier 1 capital adequacy ratio (%)	12.89	13.84	7.37
Total capital adequacy ratio (%)	15.85	16.90	6.62
Leverage ratio (%)	6.12	6.59	7.68
Liquidity			
Liquidity coverage ratio (%)	129.92	137.95	6.18
Net stable funding ratio (%)	108.70	116.30	6.99
Credit risk			
Impaired advances (R billions)	186	236	26.88
Impaired advances as % of gross loans and advances	4.03	5.12	27.05
Specific credit impairments as % of impaired advances	43.37	43.26	-0.25
Portfolio credit impairments as % of gross loans and advances	1.06	1.42	33.96

SUBDUED ECONOMIC ACTIVITY IN 2020 – OWING TO THE COVID-19 PANDEMIC AND LOCKDOWN – HAD A NEGATIVE IMPACT ON THE BALANCE SHEETS AND OVERALL PROFITABILITY OF BANKS.

Total banking sector assets contracted by **1.9%** year on year to **R6 457 billion** at the end of March 2021 (March 2020: R6 581 billion), mainly due to a decline in derivative financial instruments and gross loans and advances.

Gross loans and advances contracted by **0.1%** year on year to **R4 601 billion** in March 2021 (March 2020: R4 607 billion).

Equity amounted to **R542 billion** at the end of March 2021 (March 2020: R501 billion).

Retained earnings and share capital constituted **92.7%** of total equity at the end of March 2021 (March 2020: 93.8%).

Profitability ratios have remained under strain due to a challenging operating environment. The 12-month moving average **return-on-equity (ROE) ratio** deteriorated from 13.5% in March 2020 to

7.5% in March 2021, while the **return-on-asset (ROA) ratio deteriorated to 0.55% March 2021** (March 2020: 1.06%). The 12-month moving average **cost-to-income ratio deteriorated to 58.9% at the end of March 2021** compared to 58.1% in March 2020.

Minimum prudential capital requirements were revised in April 2020, following the temporary relaxation of the Pillar 2A capital requirement as per Banks Act Directive 2 of 2020. 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 **12.8%, 13.8% and 16.9% respectively at the end of March 2021** (March 2020: 12.1%, 12.9% and 15.9% respectively).

The minimum LCR requirement was **revised to 80% in April 2020** to enable banks to provide liquidity to the economy amid the COVID-19 pandemic.

The **LCR** has, however, **remained strong and above the minimum requirement, rising to 138% at the end of March 2021** (March 2020: 129.9%) due to an increase in high-quality liquid assets.

Impaired advances have risen, owing to increased stress in the economy due to COVID-19 and the subsequent lockdown. Impaired advances **grew at an annual rate of 26.9% to R236 billion in March 2021** (March 2020: R186 billion).

The **ratio of impaired advances to gross loans and advances deteriorated to 5.1% at the end of March 2021** (March 2020: 4.0%). **The ratio of specific credit impairment to impaired advances (coverage ratio)** amounted to **43.3% in March 2021** (March 2020: 43.4%).

THE MUTUAL BANKING SECTOR

Selected indicators for the mutual banking sector

	Mar 2020	Mar 2021	Percentage change (%)
Balance sheet			
Total assets (R millions)	3 405	3 364	-1.2
Gross loans and advances (R millions)	2 332	2 628	12.7
Profitability[1]			
Return on equity (smoothed) (%)	2.73	-12.04	-541.0
Return on assets (smoothed) (%)	0.51	-2.36	-562.8
Cost-to-income ratio (smoothed) (%)	78.47	104.55	33.2
Liquidity			
Average daily amount of liquid assets held to liquid assets requirement (%)	196.40	567.50	188.9
Credit risk			
Gross amount overdue (R millions)	265.39	198.51	-25.2
Gross overdue to gross loans and advances (%)	11.38	7.55	-33.7
Specific provisions to gross amount overdue (%)	37.40	35.64	-4.7
General provisions to gross loans and advances (%)	1.59	1.71	7.5
Capital adequacy			
Capital adequacy ratio (%)	23.66	24.84	5.0

1 Note: The PA has changed the reporting of profitability ratios from an unsmooth to a smoothed basis, that is, 12-month moving averages.

Total mutual banking sector assets **decreased slightly, by 1.2% year on year, to R3 364 million as at the end of March 2021** from R3 405 million in March 2020. Although total assets in respect of mutual banks remained almost static over the past year, **gross loans and advances** **grew by 12.7% year on year**, resulting in a decline in excess funds and other short-term assets.

As at the end of March 2021, the sector was loss-making. This was primarily due to high operating expenses and additional bad debt written off through the income statement. However, the impact of COVID-19 and the subsequent lockdown on business volumes was also a contributing factor.

The **total CAR** for the sector **increased** slightly when compared to the previous period, to **24.84%** (March 2020: 23.66%). This was largely due to a lower risk-weighted credit exposure.

Overdue loans declined over the period and stood at **R199 million** as at the end of March 2021. Specific **provisions as a percentage of the gross amount overdue** stood at **35.64%** (Mar 2020: 37.4%).

CO-OPERATIVE FINANCIAL SECTOR

The **co-operative financial sector** consists of **5 co-operative banks** and **24 CFIs** as at the end of February 2021.

Selected indicators for the co-operative banks and CFIs

	Number		Members		Deposits R millions		Assets R millions	
February*	2021	2020	2021	2020	2021	2020	2021	2020
Co-operative banks	5	4	5 032	4 280	290	174	333	210
CFIs	24	23	26 488	25 911	129	175	169	213
Total	**29**	**27**	**31 520**	**30 191**	**419**	**349**	**502**	**423**

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

Selected indicators for co-operative banks

	Feb 2020	Feb 2021	Percentage change (%)
Balance sheet			
Total assets (R thousands)	210 358	332 632	58.13
Total net loans (R thousands)	156 240	202 495	29.61
Total liabilities (R thousands)	174 415	290 916	66.80
Total equity (R thousands)	36 191	41 716	15.27
Profitability			
Total income (R thousands)	25 301	29 165	15.28
Total expenses (R thousands)	18 837	26 168	38.92
Operating profit/income before taxation (R thousands)	6 838	3 296	-51.80
Cost to income ratio (%)	46.21	70.16	51.83
Capital adequacy			
Total capital-adequacy ratio (%)	15.73	11.71	-25.56
Asset quality and provisions			
Total delinquent loans (R thousands)	6 072	4 912	-19.11
Portfolio delinquent (%)	3.75	2.35	-37.33
Total provisions (R thousands)	5 769	6 332	9.76
Provision as % of total loans	3.56[1]	3.03	-14.89

1 Note: This figure has been corrected from what was reported in the 2019/20 PA annual report.

The **overall growth in the co-operative banking sector** is attributable to the registration of a fifth co-operative bank during 2020.

Net loans amounted to **R202 million** for the period under review, and increased by **29.61%** from the R156 million reported in February 2020.

The sector remained adequately capitalised, with a **CAR** of **11.71%** as at February 2021. This was well in excess of the 6% minimum requirement but, due to overall balance sheet growth, was lower than in February 2020. Although profit before taxation declined during the year under review, the co-operative banking sector remained profitable, with income before taxation standing at **R3.3 million** as at the end of February 2021.

The **cost-to-income ratio** deteriorated to **70.16%** during the period under review (February 2020: 46.21%) due to lower income and increased operating expenses.

Delinquent loans accounted for **2.35%** of the **co-operative banking sector's gross loans** as at the end of February 2021 – a decline of **37.24%** when compared to February 2020. The sector continued to provide sufficiently for potential losses, in accordance with regulatory requirements during the review period.

Selected indicators for co-operative financial institutions

	Feb 2020	Feb 2021	Percentage change (%)
Balance sheet			
Total assets (R thousands)	213 376	169 368	-20.62
Total net loans (R thousands)	111 254	74 994	-32.59
Total liabilities (R thousands)	178 294	135 987	-23.73
Total equity (R thousands)	35 082	33 382	-4.85
Profitability			
Total income (R thousands)	27 630	19 461	-29.57
Total expenses (R thousands)	26 856	18 530	-31.00
Operating profit/income before taxation (R thousands)	775	931	20.13
Cost to income ratio (%)	95.05	86.63	-8.86
Capital adequacy			
Total capital-adequacy ratio (%)	9.14	16.79	83.70
Asset quality and provisions			
Total delinquent loans (R thousands)	7 301	12 475	70.87
Portfolio delinquent (%)	6.45	16.13	150.08
Total provisions (R thousands)	1 948	2 333	19.76
Provision as % of total loans	1.75	3.02	72.57

There has been a general decline in the **balance sheet** primarily due to one CFI being registered as a co-operative bank and no longer a CFI. **Total assets** in respect of CFIs declined in 2021, ending the financial year in February 2021 at an annualised decrease of **20.62%**.

Net loans amounted to **R75 million** for the period under review, a decrease of **32.59%** from the R111 million reported in February 2020. **Sector assets** remained concentrated, with the three largest CFIs contributing **84%** in February 2021 of the overall sector net loans.

The sector remained adequately capitalised, with a **CAR** of **16.79%** as at the end of February 2021, up from 9.14% in February 2020 (the minimum CAR requirement is 6%).

The sector remained profitable. **Income before taxation** stood at **R931 000** in February 2021. This was an increase of **20.13%** from R775 000 in February 2020. The **cost-to-income ratio** improved to **86.63%** in February 2021, from 95.05% in February 2020. **Delinquent loans** accounted for **16.13%** of the CFI sector's gross loans as at the end of February 2021.

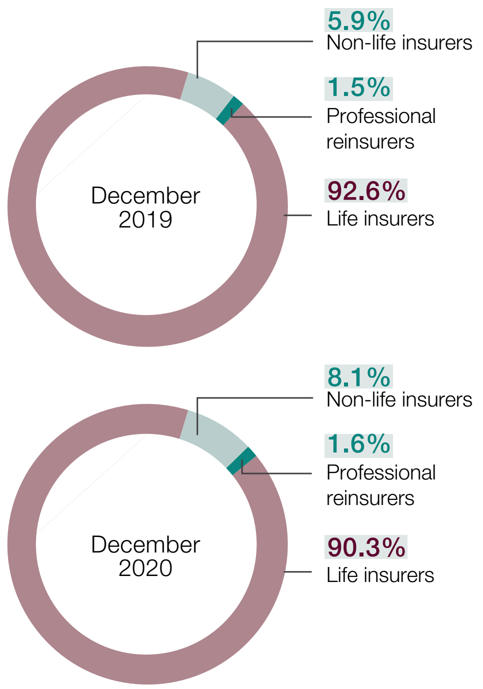
INSURERS AND REINSURERS

The insurance sector information is based on the Insurance Act, which came into effect on 1 July 2018. The income and expenditure figures are based on aggregated data for the four quarters ending December each year, while the solvency and balance-sheet items are as at the end of every December.

South Africa's life insurance sector is dominated by the **five largest insurers**, who collectively held **72.9%** of the total assets as at December 2020. The **non-life insurance** sector is dominated by eight large insurers, which held **55.8%** of gross premiums as at December 2020.

All nine professional reinsurers are foreign-owned, with less than 2% of the total assets.

Total insurance sector assets



LIFE INSURERS

After deducting premiums for reinsurance, the **net premium income for primary life insurers** (those that do not conduct business solely as reinsurers), cell captives and reinsurers stood at **R539 051 million** for the year ending December 2020. This compared to R529 473 million for the 12 months ending December 2019. **Benefit payments** for the review period were at **R511 393 million**, compared to R481 106 million during 2019.

Insurance companies make a significant portion of their income from investment revenues (both realised and unrealised). However, during the 2020 calendar year the insurance industry experienced losses from financial market volatility due to the COVID-19 pandemic.

Selected indicators for the South African life insurance industry as at the end of December 2020

R millions	Primary	Cell captives	Reinsurers	Total 2020	Total 2019
Income					
Net premiums	524 827	11 802	2 421	539 051	529 473
Investment income	181 145	2 003	439	183 587	276 204
Other income	19 933	18	117	20 067	11 219
Total	**725 905**	**13 824**	**2 977**	**742 706**	**816 895**
Expenditure					
Benefits	505 711	3 657	2 024	511 393	481 106
Commission paid/received	19 382	1 434	689	21 505	22 118
General expenses	52 208	1 212	393	53 813	54 388
Other acquisition costs	6 371	0	0	6 371	5 263
Other expenses	8 393	1	-20	8 374	5 330
Excess of income over expenditure	**133 840**	**7 519**	**-110**	**141 250**	**248 689**

The assets in respect of the primary life insurers, cell captives and reinsurance industry stood at **R3 254 billion** as at the end of December 2020. This compared to R3 144 billion in 2019. The majority of these assets were invested in equities and investment funds.

Selected indicators for assets and liabilities for the life insurance industry

	Total assets		Liabilities		MCR[1]		SCR[2]	
R millions	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Primary	3 121 239	3 226 469	2 750 140	2 895 803	4.2	4.4	2.0	1.9
Cell captives	15 107	19 339	6 643	8 265	4.2	4.4	1.1	1.1
Reinsurers	7 526	9 007	3 990	5 493	5.7	5.3	1.6	1.6
Total	**3 143 872**	**3 254 815**	**2 760 772**	**2 909 562**	**4.2**	**4.4**	**1.6**	**1.6**

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

NON-LIFE INSURERS

Gross premiums of primary insurers, cell captives, captives and reinsurers in the non-life insurance industry stood at **R158 631 million** for the 12 months ending December 2020.

Underwriting results (where underwriting profit is expressed as a percentage of net earned premiums) stood at **7.2%** for the primary insurers, cell captives, captives and reinsurers in the non-life insurance industry as at the end of December 2020. This compared to 9.9% in 2019. A decline in underwriting results was due to higher than normal claims with regard to contingent business interruption cover.

Operating profit, which included investment income, stood at **R15 004 million** during the review period. This compared to R20 704 million as at the end of December 2019. Unlike the life sector, the non-life insurance industry benefited from positive investment income, resulting in positive operating income.

Selected indicators for the South African non-life insurance industry as at the end of December 2020

Income R millions	Primary	Cell captives	Captives	Reinsurers	Total 2020	Total 2019
Gross premiums	123 446	25 390	1 435	8 360	**158 631**	**159 549**
Net earned premiums	80 598	13 809	840	2 187	**97 434**	**97 533**
Investment income	5 004	2 357	116	489	**7 966**	**11 023**
Other income	1 218	50	18	-58	**1 229**	**888**
Total	**86 821**	**16 216**	**975**	**2 618**	**106 629**	**109 444**
Expenditure						
Claims incurred	49 468	6513	386	2 013	**58 380**	**57 184**
Commission paid/received	4 622	-62	30	677	**5 267**	**6 063**
General expenses	25 420	2450	145	389	**28 404**	**26 076**
Other expenses	1 743	-16	57	-5	**1 779**	**1 390**
Excess of income over expenditure	**5 567**	**7 331**	**357**	**-457**	**12 799**	**18 730**
Underwriting profit	4 202	3102	303	-570	**7 038**	**9 681**
Operating profit	9 207	5458	419	-81	**15 004**	**20 704**

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

	Total assets		Liabilities		MCR[1]		SCR[2]	
R millions	2019	2020	2019	2020	2019	2020	2019	2020
Primary	154 320	173 618	84 921	100 425	4.0	4.2	1.7	1.8
Cell captives	42 803	49 960	26 477	30 686	2.5	3.6	1.6	1.6
Captives	2 806	2 904	723	508	4.0	11.9	1.7	3.2
Reinsurers	6 902	12 651	5 256	9 803	4.7	5.0	1.8	1.7
Total	**206 831**	**239 132**	**117 377**	**141 422**	**4.0**	**4.6**	**1.7**	**1.8**

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

COMPOSITE REINSURERS

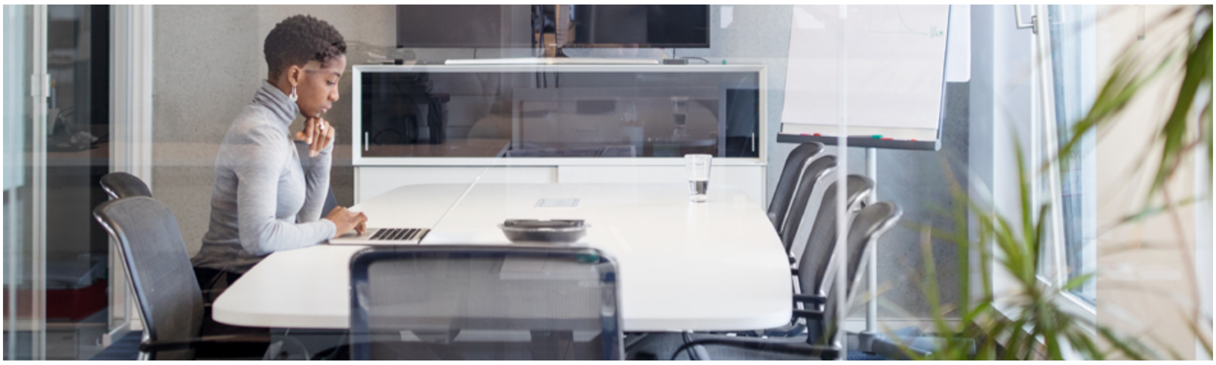
Five reinsurers are currently classified as composite reinsurers (writing both life and non-life business). **Gross premiums** relating to life composites for the 12 months ending December 2020 stood at **R11 654 million**, compared to R11 140 million in 2019. **Non-life composite gross premiums** stood at **R14 654 million**, compared to R13 414 million during 2019.

Summary of the results of the South African composite reinsurers as at the end of December 2020

	Life	Non-life	Life	Non-life
R millions	**2020**		**2019**	
Income				
Gross premiums	11 654	14 654	11 140	13 414
Net premiums/net earned premiums	10 809	1 943	10 542	3 167
Investment income	1 350	626	1 131	318
Other income	-3	-41	16	4
Total	**12 155**	**2 528**	**11 689**	**3 490**
Expenditure				
Claims incurred	9 526	1 553	8 512	1 336
Commission paid/received	603	480	674	399
General expenses	648	90	607	74
Other expenses	534	74	421	111
Excess of income over expenditure	**845**	**331**	**1 476**	**1 570**
Underwriting profit		147		1 607
Operating profit		772		1 925

R millions	**2019**	**2020**	**Percentage change (%)**
Assets	37 750	36 801	-2.51
Liabilities	25 577	25 464	-0.44
SCR[1]	1.5	1.7	
MCR[2]	4.6	4.0	

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



MARKET INFRASTRUCTURES

The PA is responsible for the prudential supervision of exchanges, clearing houses, central securities depositories, central counterparties and trade repositories. There are currently nine registered MIs made up of five securities, two central securities depositories and two clearing houses.

LICENSED PRUDENTIAL AUTHORITY-REGULATED MARKET INFRASTRUCTURES

- **Exchanges**
  - JSE Limited
  - A2X (Pty) Limited
  - ZAR X (Pty) Limited
  - 4 Africa Exchange (4AX) (Pty) Limited
  - Equity Express Securities Exchange
- **Central securities depositories**
  - Strate (Pty) Limited
  - Granite
- **Clearing houses**
  - Strate (Pty) Limited
  - JSE Clear

MARKET RISK

PRUDENTIAL REGULATIONS UPDATE

The revised framework for the minimum capital requirements for market risk

In January 2019, the BCBS issued a revised framework for the minimum capital requirements for market risk, commonly referred to as the Fundamental Review of the Trading Book (FRTB). The new market risk framework addresses the structural shortcomings of those aspects of the Basel 2 and 2.5 framework relating to the existing standardised approach and internal model-based approach (IMA). The PA has been preparing intensively for the scheduled implementation of FRTB in South Africa on 1 January 2023. Now at an advanced stage, the work has included consultation with the industry on pertinent policy-related matters, as well as development of the required technologies and legislative standards. The PA has engaged banks through forums at The Banking Association South Africa (BASA) and on a bilateral basis.

The revised credit valuation adjustment (CVA) risk framework

The BCBS revised the CVA risk framework, due to be implemented on 1 January 2023. This is an adaptation of the FRTB framework but focuses specifically on CVA risk. The framework aims to better align the regulatory treatment of CVA with banks' risk-management practices. Work on the CVA framework is ongoing in various work streams, following a consultative approach similar to that of the FRTB.

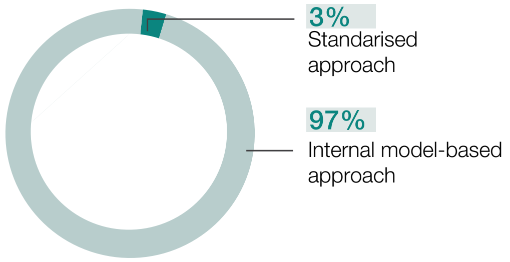
SUPERVISION

Banks

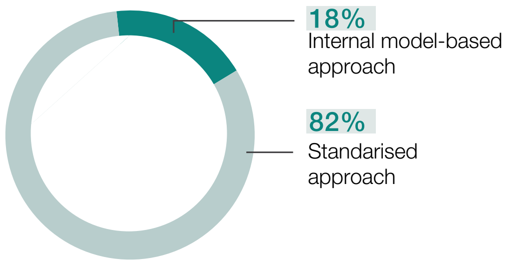
Amid the volatile 2020 financial market environment, the PA tailored its supervision to ensure that banks prudently managed their inherent risk profiles in relation to market risk, and were adequately capitalised. Simultaneously, the PA ensured progress towards the implementation of FRTB and CVA in 2023. Trade activity remained subdued for most of quarter two in 2020, but improved during the remainder of the year, as markets rallied and lockdown restrictions were lifted.

Market risk methodologies applied by banks as at 31 December 2020

Risk-weighted exposure per regulatory approach



Number of banks per regulatory approach



Insurance

In an attempt to embed supervision of the insurance industry, the PA strengthened its supervisory programme, increasing the rigour and robustness of its prudential interactions in the case of insurance firms whose business activities generated market risk and counterparty credit risk.

The PA established a technical working group to address outstanding matters on the SAM framework, and, where necessary, sought to provide clarity to the industry. The resolution of these matters will result in a consistent application of the insurance prudential standards.

Market infrastructures

The PA continued to deepen its supervisory inspection of market infrastructures through targeted engagements. These interventions also sought to create cross-industry knowledge due to the interconnected nature of the financial markets and in light of various regulatory initiatives, such as the implementation of the framework for bank exposures to central counterparties.

CAPITAL MANAGEMENT

BANKS

The PA provided temporary regulatory relief to banks in the form of Directive 2 of 2020, reducing the capital requirement, and reminded banks that capital buffers may be utilised in periods of stress. These measures were, however, not intended to allow banks to distribute earnings in the form of dividends on ordinary shares or bonuses. For this reason, the PA issued Guidance Note 4 of 2020 to ensure capital conservation took priority over any distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers.

The banks provided various relief measures to their clients. This had an impact on expected credit losses, including the perceived risk of pro-cyclicality of IFRS 9 provisions. As a result, the PA issued two guidance notes during 2020, dealing with the application of IFRS 9 in response to the COVID-19 pandemic, as well as guidance on matters affecting banks' loan-loss provisioning practices during the pandemic. The aim was to ensure that the relief provided by banks would not result in unintended consequences, such as higher capital requirements.

Despite significant reductions in profitability owing primarily to increased credit losses, the banking sector remained resilient, and CARs remained well above minimum requirements. Towards the latter part of the year, profitability improved, albeit slowly, and banks' CARs recovered to pre-COVID-19 levels. Consequently the PA issued revised guidelines, relaxing the restrictions imposed on the distribution of dividends and payment of bonuses. The guidelines emphasised that the boards of directors of the banks should determine the appropriateness of these distributions by considering potential risks, as well as banks' current capital levels and future plans. The relief provided in the form of a reduced capital requirement was withdrawn, with banks expected to comply with the increased requirement by January 2022.

INSURERS

The PA and FSCA published Joint Communication 1 of 2020, which provided guidance and expectations to insurers amid the COVID-19 pandemic. One of the important aspects was the retention of the SCR to absorb losses from severe stress events, such as the current global health crisis.

The PA applied judgement in determining supervisory intervention triggers for each insurer when considering the impact of COVID-19 on the insurer's SCR, temporarily permitting lower SCR. In general, insurers proved resilient, remaining financially sound by maintaining adequate capital buffers in times of stress.

COMMUNICATION TO AUDITORS

The COVID-19 pandemic placed significant pressure on regulated institutions and auditors responsible for the audit of annual financial statements and regulatory returns. In April 2020, the PA issued a communiqué to banks, mutual banks and insurers, extending the due date for submission to the PA of annual financial statements and regulatory audit reports by up to 60 days.

CAPITAL BUFFERS

Banks continued to maintain capital conservation buffers, with some banks using the buffers to absorb losses resulting from stress experienced during the pandemic. Large banks continued to maintain the domestic systemically important banks (D-SIB) buffers, which form part of the range for the capital conservation buffer. Following the Governor's designation of SIFIs in 2019, the PA further improved transparency by publishing Banks Act Circular 3 of 2020 on 27 August 2020, requiring D-SIBs to publish D-SIB buffers.

The countercyclical capital buffer requirement remained at zero during the year.

CAPITAL ADEQUACY

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

	CET[1] 1	Tier 1	Total capital
Prior to 6 April 2020	**7.50%**	**9.25%**	**11.50%**
With effect from 6 April 2020	**7.00%**	**8.50%**	**10.50%**

1 Common equity tier

Capital and leverage ratios during the period:

	December 2019	December 2020
CET 1	12.73%	12.63%
Tier 1	13.62%	13.56%
Total capital adequacy	16.58%	16.60%
Leverage	6.56%	6.51%

Total value of capital issuances during the year:

	2019 R billions	2020 R billions
Additional tier 1	5.4	5.5
Tier 2	5.0	12.2

Total value of capital redemptions during the year:

	2019 R billions	2020 R billions
Additional tier 1	0	0
Tier 2	17.2	15.5

CREDIT RISK

The South African economy already experienced challenging macro-economic conditions prior to the onset of the COVID-19 pandemic. The pandemic and subsequent lockdowns invariably impacted the ability of borrowers to meet their credit obligations, resulting in increases in impaired advances and impairments. The total banking sector growth in loans and advances was largely driven by credit extended to the banks and sovereign asset classes, while muted or negative growth was observed in the other asset classes.

COVID-19 RELIEF MEASURES IN RESPECT OF RESTRUCTURED CREDIT EXPOSURES

As part of the measures implemented to address the impact of COVID-19, government and business have called upon the banking sector to continue to extend credit to sectors in need, particularly households and small businesses, in an effort to sustain the local economy and maintain financial stability. Consequently, the PA implemented measures to ensure that these initiatives did not result in unintended consequences, such as inappropriate higher capital requirements.

The PA amended the requirements specified in Directive 7 of 2015 (D7/2015) to provide temporary relief on the minimum capital requirements for banks, controlling companies and branches of foreign institutions relating to credit risk during this time. On 6 April 2020, D3/2020 was published to specify all the requirements relating to COVID-19 restructured credit exposures. The PA did not specify the type of relief measures to be granted (i.e. payment holiday, interest holiday, term extensions, facility increases, and covenant waivers) nor the term for which these relief measures should apply. Banks were allowed to determine the type and term of the relief measures in accordance with their internal credit processes and according to their clients' needs.

On 3 August 2020, the PA further issued PA Communication 4 of 2020 to clarify that D3/2020 will remain in effect for a minimum period of six months, given its view that the impact of COVID-19 had not subsided and that economic conditions had not normalised.

Since the issuance of D3/2020 on 6 April 2020, the banking sector has provided the following relief:

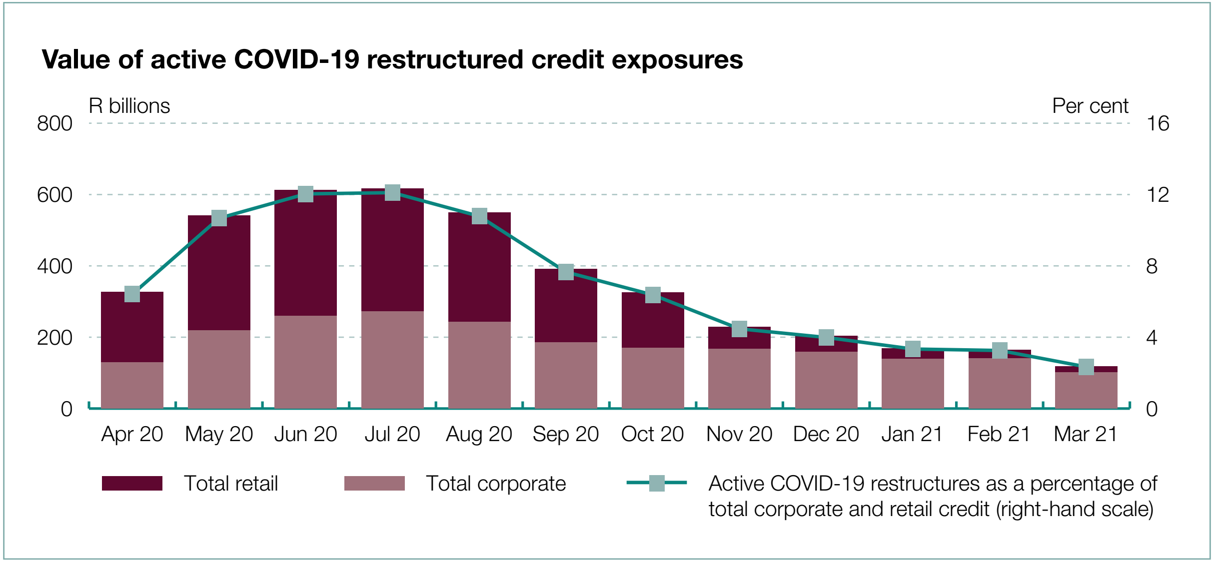
- As at the end of April 2020, the **total value of COVID-19 restructures** (total corporate and retail exposures, including small and medium enterprises (SME) retail exposures) granted by the banking sector totalled **R327 billion**.

Total corporate: **R130 billion** + **Total retail**: **R197 billion**

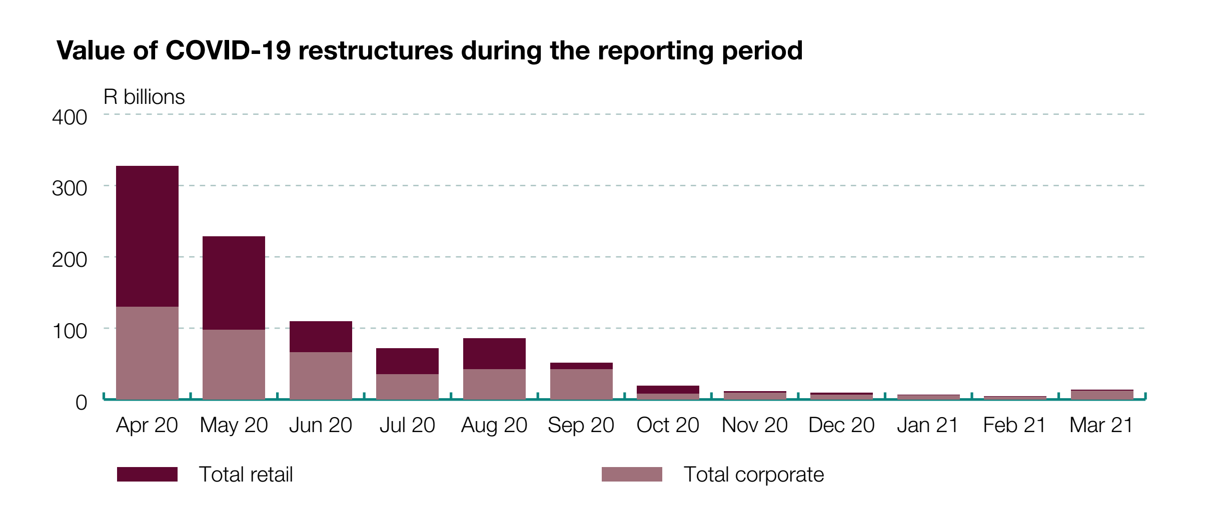
6.4% of total corporate and retail credit exposures[3]

- The **total value of active COVID-19 restructured credit exposures** (see Graph on page 43) under D3/2020 reached a peak of **R617 billion** during July 2020 (**12.1% of total corporate and retail credit**). The PA noted a **decrease** to **R118 billion** (**total corporate: R101 billion; total retail: R17 billion**) as at March 2021, accounting for **2.3%** of the total corporate and retail credit exposures.

3 Excluding exposures to banks, securities firms, sovereigns, local government and municipalities and public sector entities.



The value of COVID-19 restructures reported per month decreased from R327 billion in April 2020 (majority retail exposures) to R13.4 billion in March 2021 (majority corporate exposures), as can be seen in the graph below.



The PA is in the process of assessing the continuance of D3/2020 and the possible reinstatement of D7/2015, including any transitional arrangements that may apply.

COLLATERAL VALUATIONS SURVEY

The PA conducted a survey to assess the impact of the COVID-19 pandemic on the collateral values of property, as well as vehicle and asset finance asset classes. The survey showed that most banks had conducted stress tests on collateral values and subsequently raised additional credit impairments. In other instances, and where appropriate, lending criteria were tightened, with risk appetite adjusted in order to mitigate the impact of COVID-19 on collateral values.

At the time of the survey, there was still a high level of uncertainty over the impact of the pandemic on collateral valuations. Owing to the limited data used in valuations, minor to no changes in collateral valuations were noted among the surveyed banks. The initial hard lockdown restrictions resulted in a prolonged repossessions process. Coupled with the depreciation of assets (particularly in vehicle and asset finance), this negatively affected the overall recovery percentage to accounting balance ratio. Banks offering share-backed lending noted a decrease in market values of securities and covenant breaches at the beginning of the pandemic.

Given the findings of the survey, the PA concluded that it would ascertain the full impact of the COVID-19 pandemic over time, and that a follow-up survey may be necessary.

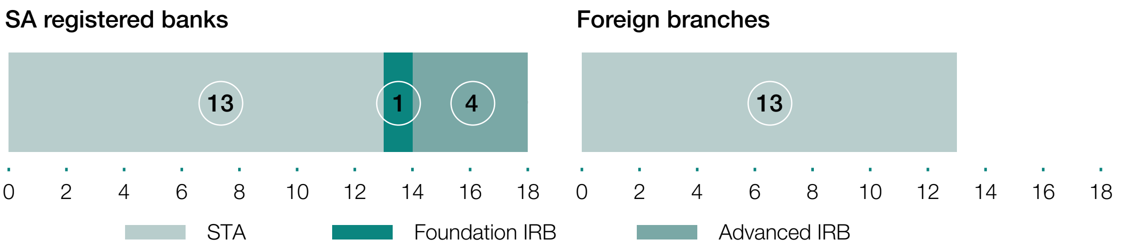
METHODOLOGIES TO CALCULATE THE MINIMUM REQUIRED REGULATORY CAPITAL RELATING TO CREDIT RISK

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

- the standardised approach (STA), including the simplified STA;
- the foundation internal ratings-based approach (IRB)[4]; and
- the advanced IRB approach.

4 Subject to regulatory approval.

Reporting methods applied by banks as at 31 March 2021



MODEL-RELATED REVIEWS

During 2020, the PA received 21 notifications of non-material changes and 15 submissions of material changes to the ratings systems used by banks applying the advanced IRB approach. The PA continued to follow a robust review and approval process as highlighted in previous annual reports.

Every year, banks that have received regulatory approval to use the IRB approach to calculate their regulatory capital for credit risk are required to perform a self-assessment to evaluate their compliance with the minimum requirements. For all areas of non-compliance identified, banks are required to indicate the materiality of the non-compliance and to include action plans and timelines to remediate the non-compliance.

To take account of the growing focus on model-risk management within banks, the PA started a process of reviewing the self-assessment process in 2019. Key changes to be implemented include a move away from a self-assessment approach to a data-driven approach that focuses on consistency of interpretation and implementation of the minimum requirements. In addition, the PA will expand its data collection efforts in order to monitor how banks identify, quantify and manage model risk. To streamline the process, the review will also consolidate the various credit risk models-related data currently in various templates into a single expanded template. Banks will start reporting on this new template from 2022.

POST-MODEL IMPLEMENTATION THEMATIC REVIEWS

In line with international trends, over the years the South African banking sector has seen an exponential growth in the use of quantitative models for various risk management-related functions. The banks use the models for credit assessments, credit granting and pricing decisions, capital management, calculation of regulatory capital requirements and provisions under accounting standards. This has brought significant benefits to the management of risk and generally better oversight by senior management and boards of directors. Despite the benefits, the models pose risks if banks misuse them or do not design the models correctly. This can lead to costly management decisions, with potentially serious consequences for the safety and soundness of the bank. Accordingly, the PA focused on how banks manage model risk.

The PA also conducted post-implementation thematic reviews to assess the adequacy of monitoring mechanisms and controls over the use of quantitative models, with a focus on regulatory credit-risk models. The review assessed the roles and responsibilities allocated to the various stakeholders and, more importantly, the involvement of senior management and boards of directors in the use of models and management of model risk. Findings from this thematic review will inform various policy interventions regarding model-risk management.

The PA will also start an annual data collection exercise to enable a continuous monitoring of model risk. This will, in turn, allow supervisory actions to strengthen model-risk management for credit risk in the banking sector.

IMPLEMENTATION OF A REVISED SUPERVISORY FRAMEWORK FOR MEASURING AND CONTROLLING LARGE EXPOSURES

In April 2014, the BCBS issued a paper titled 'Supervisory framework for monitoring and controlling large exposures' (the revised Large Exposure Framework[5]). The internationally agreed implementation date for the framework was set for 1 January 2019. As per Guidance Note 7 of 2020 issued by the PA, as part of the regulatory response to the outbreak of COVID-19, as well as other matters related to implementation complexity, the PA postponed the proposed implementation date for the revised Large Exposure Framework in South Africa from 1 January 2021 to 1 April 2021. Consequently, the proposed implementation date of 1 April 2021 is no longer feasible, and the new proposed implementation date will be communicated in due course. Draft 2 of the proposed amendments to the Regulations incorporating the revised Large Exposure Framework was issued for comment in July 2020. Based on the comments received on draft 2, the PA will finalise the proposed amendments to the Regulations. Through the issuance of a Banks Act Directive, the PA will, where necessary, direct banks to apply specific conditions or limits when monitoring and controlling large exposures.

IMPLEMENTATION OF THE REVISED SECURITISATION FRAMEWORK

The BCBS issued a paper titled 'Revisions to the securitisation framework'[6] (the revised securitisation framework) in December 2014, and revised it further in July 2016. The revised securitisation framework includes the alternative capital treatment for 'simple, transparent and comparable' (STC) securitisations. The BCBS, together with the International Organization of Securities Commissions (IOSCO), issued the criteria for identifying STC securitisations[7] in July 2015. The internationally agreed implementation date for the revised securitisation framework was set for 1 January 2018. As per Guidance Note 7 of 2020 issued by the PA as part of the regulatory response to the outbreak of COVID-19, the PA postponed the proposed implementation date for the revised securitisation framework in South Africa from 1 January 2021 to 1 April 2021. Owing to matters of implementation complexity, the proposed implementation date of 1 April 2021 is no longer feasible, and the new proposed implementation date will be communicated in due course. Draft 1 of the proposed amendments to the Regulations incorporating the revised securitisation framework was issued for comment in December 2019. Before finalising the proposed amendments, the PA will take into consideration comments received and will further engage all relevant stakeholders.

5 Available online at: https://www.bis.org/publ/bcbs283.htm
6 Available online at: https://www.bis.org/bcbs/publ/d374.pdf
7 Available online at: https://www.bis.org/bcbs/publ/d332.htm

REVISIONS TO THE STANDARDISED APPROACH FOR CREDIT RISK

In December 2014, the BCBS issued an initial set of proposals titled 'Revisions to the Standardised Approach for credit risk.'[8] A second consultative document[9] was published in December 2015 detailing additional revisions. The final standard was incorporated within the 'Basel III: finalising post-crisis reforms'[10] standard in December 2017.

The internationally agreed implementation date for the revised standardised approach for credit risk was initially set for 1 January 2022. However, in March 2020, the BCBS announced that its oversight body, the Group of Central Bank Governors and Heads of Supervision, had endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities due to the impact of COVID-19 on the global banking system.

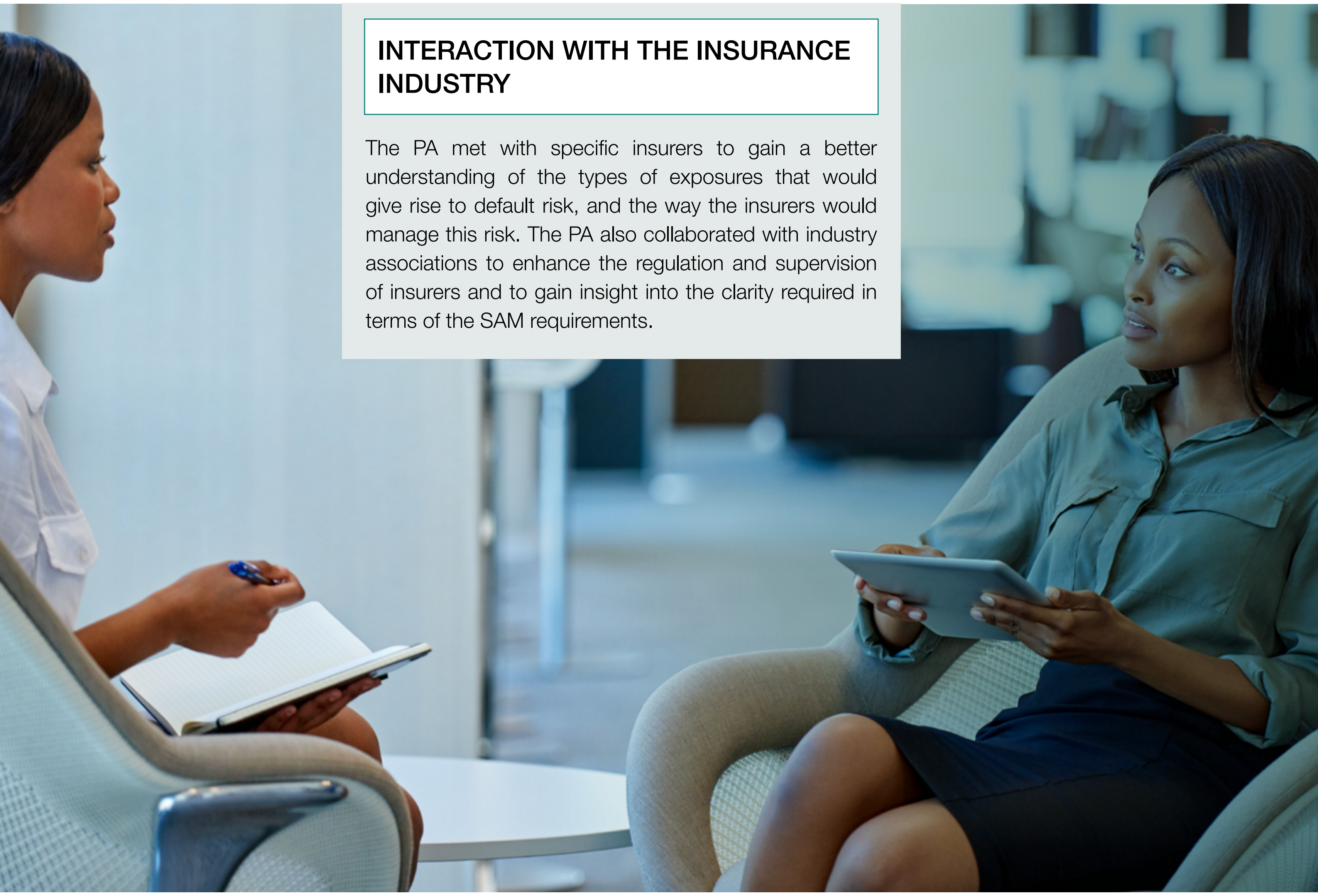
The measures announced included a deferral of the implementation timeline of the outstanding Basel III standards (which included the revised standardised approach for credit risk) by one year. As per Guidance Note 7 of 2020, the PA intends implement the revised standardised approach for credit risk in South Africa on 1 January 2023.

The revisions will help restore credibility in the calculation of risk-weighted assets by enhancing the robustness and risk sensitivity of the standardised approach for credit risk. This will facilitate the comparability of banks' capital ratios.

8 Available online at: https://www.bis.org/bcbs/publ/d307.htm
9 Available online at: https://www.bis.org/bcbs/publ/d347.pdf
10 Available online at: https://www.bis.org/bcbs/publ/d424.pdf

INTERACTION WITH THE INSURANCE INDUSTRY

The PA met with specific insurers to gain a better understanding of the types of exposures that would give rise to default risk, and the way the insurers would manage this risk. The PA also collaborated with industry associations to enhance the regulation and supervision of insurers and to gain insight into the clarity required in terms of the SAM requirements.



INSURANCE RISK

The PA continued to compile and publish monthly yield curves and equity symmetric adjustments for the insurance industry. It also conducted an exercise to update the instruments used to derive the monthly yield curves.

The PA considered and approved two applications for the use of an iterative approach in calculating the SCR and risk margin, and approved one application for the use of an alternative interest rate term structure.

The PA embarked on an exercise to understand the preparedness of the larger non-life insurers for the implementation of IFRS 17. It also continued to work on providing industry with guidance on the new insurance prudential standards, and engaged various industry bodies such as The Actuarial Society of South Africa (ASSA), the Association for Savings and Investment South Africa (ASISA) and the South African Insurance Association (SAIA).

In the ASSA sessional meetings, the PA presented key features of the insurance industry experience for 2019 based on information submitted in the regulatory returns in terms of the Insurance Act.

The PA also had extensive engagements with insurers significantly affected by the COVID-19 pandemic.

ASSET AND LIABILITY MANAGEMENT RISK

The PA monitored the LCR and net stable funding ratio closely during this period, with ongoing engagements held with treasurers of banks to assess whether liquidity pressures were increasing and if banks needed additional relief over and above the measures put in place by the PA.

During May 2020, the Financial Markets Department of the SARB communicated the decision to temporarily suspend Land Bank bills as qualifying collateral within the SARB repo operations. Consequently, Land Bank bills are no longer eligible for level 2 high-quality liquid assets, until further notice.

The SARB will continue to provide a committed liquidity facility until 30 November 2021. After this date, the SARB will phase it out and replace it with the restricted-use committed liquidity facility, which will be available annually to all banks, effective from 1 December 2021.

The PA is in the final stages of releasing a directive requiring D-SIBs to conduct externally facilitated liquidity simulations every four years. The purpose is to simulate stress events and assess management responses and banks' overall preparedness for a crisis.

The PA began collaborating with the Financial Stability Department of the SARB to investigate how the introduction of deposit insurance will affect the LCR and net stable funding ratio.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to a bank's capital and earnings arising from adverse movements in interest rates that affect a bank's banking book position.

The PA conducted a series of engagements with the banking sector on their respective methodologies for measuring IRRBB. The focus was on two simplified metrics – the economic value of equity and net interest income – which cover two different perspectives of a comprehensive valuation approach of interest-rate risk repeated in the banking book.

The PA conducted a quantitative impact study which formed the basis of compiling the statement of need for, expected impact and intended operation of the proposed amendments to the IRRBB regulations. This statement of need was published together with the proposed amendments to the IRRBB regulations for public comments. During this consultation process, the PA also circulated the proposed amended BA 330 for comments. The comments received during the consultation process will be published on the PA website.

The implementation and public disclosure date for IRRBB is 1 June 2022, with industry engagements planned to continue until then.

LIBOR TRANSITION

LIBOR's transition continues to gather pace, with less than 12 months remaining until LIBOR ceases to exist. Simultaneously, inquiries from the PA regarding preparedness, market dynamics and portfolio implications have understandably increased. 2020 was a pivotal year for LIBOR transition, with several critical milestones expected to build liquidity in risk-free rates, increase certainty around newly issued products and timing, and drive progress. The PA focuses on receiving a status update on LIBOR transition, information on upcoming milestones, transition planning and other information to serve as a reference and guide for industry participants and stakeholders during the next critical steps of transition from LIBOR. Alternative Reference Rates (ARRs) are at different stages of development and adoption.

INSURANCE

The PA has been analysing the liquidity sources and cash-flow forecast information received from the life insurance industry, and, through ASISA, has engaged the industry on the results of the analysis. The PA is in the process of drafting a guidance note on liquidity risk management for insurers.

During 2020, the PA conducted thematic reviews on asset and liability management (ALM) matters focusing on life insurers.

MARKET INFRASTRUCTURES

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

The ALM team was involved in the development of the recovery planning standard for MIs as well as reviewing the Principles for Financial Market Infrastructures (PFMI) self-assessment reports of some MIs, in accordance with the International Organization of Securities Commissions (IOSCO) principles.

OPERATIONAL RISK

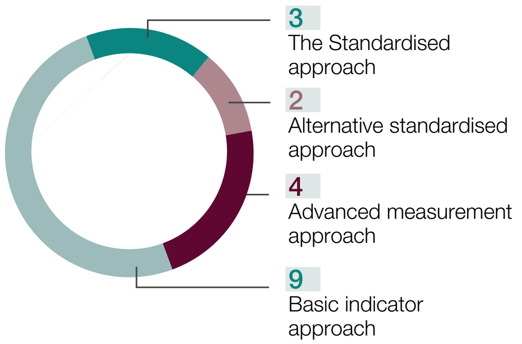
The financial services industry remained resilient through the challenging operating conditions stemming from COVID-19. The effects of the pandemic accelerated the digitisation strategies of many institutions, forcing them to adapt to new ways of working. Institutions enhanced their overall operational risk (OR) management, tools and capabilities to manage risk and mitigate emerging threats from the newly adopted practices. Fraud and execution delivery, as well as process management, continued to be the largest contributors to OR losses.

In terms of the current regulatory framework in South Africa, registered banks can select from the following four methodologies to calculate their minimum required regulatory capital relating to OR:

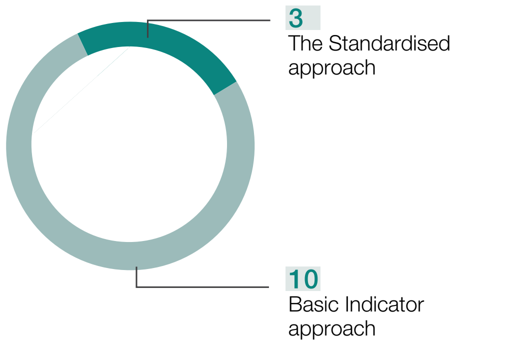
- the basic indicator approach;
- the standardised approach;
- the alternative standardised approach; and
- the advanced measurement approach.

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

South African registered banks



Branches of foreign banks



Discussions regarding the implementation of the new standardised approach in January 2023 continued within the banking industry through the period under review and informed banks' initial preparations.

Insurance entities maintained the use of the standardised formula for calculating their OR regulatory capital charge. All 154 registered insurance entities have adopted this standardised formula.

Each registered MI holds a minimum of six months' operating expenses as OR regulatory capital.

OR reviews

The OR prudential meetings conducted during the period under review focused on the following themes:

- OR strategic objectives and governance;
- OR tools;
- third party and outsourcing arrangements;
- climate risk; and
- industry readiness for the new standardised approach.

An operational risk maturity assessment questionnaire was issued as part of the offsite reviews for banks. **The key themes covered by the questionnaire included:**

- Risk culture
- OR appetite
- Governance
- Policies and procedures
- Identification and assessment
- Reporting
- Monitoring and disclosure
- Control and mitigation
- Change management
- Internal audit approach

The key observations from the reviews were:

1. Industry adjusted the implementation of OR strategies following the reprioritisation of focus areas to address exposure from the COVID-19 pandemic.
2. MIs improved the development of OR policies and frameworks, restructured OR committees to align with the existing operating structures, and ensured that OR issues were monitored at appropriate governance committees.
3. The commingling of roles and responsibilities across the three lines of defence remained a challenge across institutions.
4. Banks largely maintained the overall maturity of their OR tools. Although the PA noted improvements in the risk and control self-assessments (RSCA) processes for the insurance entities, coverage of the annual RCSA plans often excluded the control functions, and the reporting of loss-events data remains inconsistent. The maturity of OR tools for MIs still needs improvement.
5. Insurance and MI entities' OR systems were still not automated to enable the integrated collation, monitoring and reporting of OR data.
6. Outsourcing and third-party risk featured as a material risk across all entities, more so with the rise of sub-contracting arrangements. The PA observed persistent challenges with the management of these service providers.
7. Banks and insurance entities considered climate risk as a key risk, and consequently incorporated the management of climate risk into their enterprise risk management frameworks and committee structures. The PA noted that MIs still needed to mature their climate risk management practices.
8. Overall, the questionnaire indicated that OR management practices in the banking industry were largely mature. However, the PA noted potential for improvement in three of the nine elements assessed, i.e identification and assessment; change management; and policies and procedures.

INFORMATION TECHNOLOGY RISK

The PA produced a COVID-19 report, which included updates on IT and cyber, to assess the operational resilience of the financial sector. Although the pandemic introduced many uncertainties, it also highlighted the ability of the financial sector to operate in a real business continuity scenario and to adjust if the need should arise.

The PA continued its annual assessment of third-party providers and material outsourced to obtain a view of the banks' reliance and concentration on service providers. The results indicated that, in many instances, there were alternative third-party providers for key functions, reducing single points of failure in the ecosystem and so keeping it resilient.

The PA is currently working on various IT-related standards to ensure conformity across all sectors. The PA issued an IT-risk questionnaire to all regulated financial institutions during the year under review. The analysis highlighted that larger financial institutions had the capacity and capabilities to manage risks in their IT environment and seemed more mature, while medium and smaller institutions were more dependent on third parties. There was also an increase in business dependency on the digitised environment.

The PA issued Directive 2 of 2019, requiring banks to report on all material IT and/or cyber-incidents. Although there are no regulatory instruments issued for insurers and MIs, these entities reported material incidents experienced outside the established incident-reporting process. Overall, the trend and rate of incidents in the broader financial sector do not seem alarming, although some entities reported incidents more frequently than others.

Although there has been a general increase in cyber attacks, the PA observed only a few successful breaches. This is attributed to effective cyber-resilient controls that have been deployed by the regulated sectors.

The PA maintained its membership of the OR Subcommittee as well as the Cybersecurity Resilience Subcommittee of the Financial Sector Contingency Forum during the period under review. Membership of international bodies such as the BCBS Operational Resilience Group, the IAIS Operational Resilience Task Force and the Information Technology Supervisors Group has assisted the PA in aligning global views on IT supervisory practices and experiences with the local environment. The PA continued to engage BASA, SAIA and ASISA on IT risks within the financial sector.

South Africa was selected for a cyber pilot exercise as part of the FSAP. Although the in-person programme to complete the report was deferred to 2021 due to COVID-19, most of the discussions continued virtually. The FSAP team has drafted an initial report, and the PA will leverage learnings from this exercise to align its regulatory/supervisory practices.

RISK DATA AGGREGATION AND RISK REPORTING

While the PA observed progress in some banks' compliance with the risk data aggregation and risk reporting (RDARR) principles, it noted that others still struggle. Attention should be given to this matter to ensure traction on respective projects and timelines. For many, attaining compliance with data architecture and IT infrastructure remains the biggest challenge.

In the current business landscape, governance around data, sound data quality capability and cautious adoption of technology creates a foundation for the ongoing delivery of RDARR and enables better risk management.

The PA issued a RDARR questionnaire to all banking institutions during the year under review as part of the offsite reviews for banks. The PA's main observation is that banks have made good efforts on governance related to the refinement of the RDARR frameworks, which serve as a compliance standard and forms a base for compliance response. The COVID-19 pandemic led to capacity constraints and re-prioritisation of business-as-usual resources to crisis management.

Engagements with banks showed:

1. Complexity of application of data quality controls on reconciliation remains problematic.
2. Changes in business models and new technology solutions have resulted in technical difficulties and new data reliability issues.
3. Banks are still struggling to adapt to authoritative and trusted sources for risk data due to the fragmentation of their data platforms and inadequate architectural solutions.
4. An independent validation function to ensure adherence to RDARR frameworks, data management and evaluation of the efficacy of key controls is not always clear.
5. There is an overall lack of strategy, governance and multi-year vision under business-as-usual to ensure maintenance of compliance.
6. There is a growing trend of migration to cloud platforms.
7. Banks are still struggling to define how the proportionality concept should be applied to their regulatory compliance approach and strategy.
8. There is a deficiency in risk-reporting practices and the effectiveness of these, during stress periods in particular.
9. Reporting under stress conditions has become critical during the COVID-19 pandemic period. Some banks have made progress in articulating expectations in line with risk appetite, in both normal and stress periods. Regrettably, however, others still do not understand and articulate this appropriately.

5 ADDITIONAL INFORMATION

PRUDENTIAL AUTHORITY FINANCIAL ACCOUNTS

The PA is the regulator and supervisor responsible for setting policy and prudential regulatory requirements and for ensuring that financial institutions providing financial products, securities services and market infrastructures in South Africa comply with these regulatory requirements. 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 further details, please refer to the SARB Annual Report on the Prudential Authority, 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 SARB is required to prepare financial accounts for the PA for each financial year, in a manner that reflects the direct costs that accrue to the PA. As the PA is made up of four departments falling within the administration of the SARB, it follows the same Financial Reporting Framework and basis of presentation as the SARB.

1 Levies

Once the new Financial Sector Levies Bill (Levies Bill) is promulgated, regulated financial institutions will be obliged to pay levies to the PA. The PA will collect the necessary levies, as envisaged in the FSR Act. Levies will serve as the basis for recovering the direct operating costs of the PA and will not be in return for any direct service or goods supplied.

2 Fees

'Transaction-based' fees are charged to fund the PA's performance of specific functions under the FSR Act and the relevant sector laws it regulates.

3 Penalties

Penalties are raised for non-compliance by persons within the regulated sector if they are 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 balance (if any funds remain after this deduction) is paid into the National Revenue Fund.

In terms of the FIC Act, the SARB also has a responsibility to ensure that banks and life insurance companies comply with the FIC Act. The SARB has authority, in terms of section 45c of the FIC Act, to impose administrative sanctions on these entities if and when they fail to comply with a provision, order, determination or directive made in terms of 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 Revenue Fund. Total penalties issued on behalf of the National Treasury in this regard amounted to R200 000 (2020: R1 million).

4 Personnel and operating costs

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

5 Amount funded by SARB

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

LICENCE APPLICATIONS

LICENCE APPLICATIONS: 1 APRIL 2020 – 31 MARCH 2021

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks (Table 1)	2	2	1
Branches	-	-	-
Representative offices (Table 2)	1	1	-
CFIs[1] (Table 3)	19	2	2
Insurers (Table 4)	19	18	-

1 In terms of Prudential Standard TCFI-01, all CFIs previously registered by the Co-operative Banks Development Agency were required to apply for registration to the Prudential Authority in terms of the Co-operative Banks Act 40 of 2007 on or before 1 August 2019. The CFI figures include these applications.

During the period under review, the PA converted **125 insurance licences.**

Table 1: Banks/mutual banks/co-operative banks registered during 2020/21	
Mutual banks	**Co-operative banks**
Young Women in Business Network Co-operative Financial Institution – Application for authorisation to establish a mutual bank in terms of section 10 of the Mutual Banks Act 124 of 1993 granted on **9 March 2021**[1]	KSK Kooperatiewe Bank Beperk **1 October 2020**

1 An applicant to whom the Prudential Authority has under section 11 granted authorisation for the establishment of a mutual bank may at any time during the period of 12 months commencing on the date of the granting of the said authorisation apply to the Prudential Authority for the registration of the institution as a mutual bank, provided such authorisation has not been revoked.

Table 2: Representative offices of foreign banks registered during 2020/21	
Caixa Geral de Depósitos S.A.	9 October 2020

Table 3: Co-operative financial institutions registered during 2020/21

GIG Financial Services Primary Co-operative Limited	**14 April 2020**
Mutapa Financial Services Co-operative Limited	**8 May 2020**
Boikago Savings and Credit Co-operative Limited	**8 May 2020**
Oranjekas Spaar en Krediet Primer Kooperatief Beperk	**11 May 2020**
Poplar Frontline Foundation CFI 1Primary Co-operative Limited	**11 May 2020**
Nagrik SA Financial Services Co-operative Limited	**11 May 2020**
Young Women in Business Network Co-operative Financial Institution	**19 May 2020**
Kings Grange Stokvel Financial Services Co-operative Limited	**17 June 2020**
Ndzhakeni South Avenues CFI Primary Co-operative Limited	**16 July 2020**
Ndlovukazi YakwaZulu Women Financial Services Primary Co-operative Limited	**16 July 2020**
People Empowerment CFI Primary Co-operative Limited (received as KwaZulu Ladies Empowerment FSC)	**16 July 2020**
Women Building our Africa Financial Services Primary Co-operative Limited	**11 August 2020**
Imvelo Agricultural Co-operative Financial Institution Limited	**24 August 2020**
SA Primary Medical Financial Co-operative Limited	**22 September 2020**
Mzansi Rural Arts and Craft Financial Services Co-operative Limited	**20 October 2020**
Isikhungo Sabantu Financial Services Primary Co-operative Limited	**9 November 2020**
National Stokvel Association of South Africa Financial Primary Co-operative Limited	**16 February 2021**
Worcester Community Savings and Credit Cooperative Limited	**24 March 2021**

Table 4: Insurers registered during 2020/21

The PA licensed insurance-controlling companies, following designation as insurance groups:

1. Johannesburg Insurance Holdings (Pty) Ltd
2. Indequity Group Limited
3. PSG Konsult Limited
4. Legal Expenses Insurance Southern Africa Limited
5. Professional Provident Society
6. Rand Mutual Assurance
7. Liberty Holdings Limited
8. Santam Limited
9. Sanlam Limited
10. Absa Financial Services Limited
11. Old Mutual Limited
12. Nedbank Group Insurance Holdings Limited
13. Discovery Limited
14. OUTsurance Holdings Limited

New insurance licences issued in terms of section 23 of the Insurance Act:

1. Long-Life Insurance (Pty) Limited
2. Two Mountains underwriters
3. Swiss Re Corporate Solutions
4. SCOR SE – Africa Branch

The following insurers were approved for variation of licensing conditions, in terms of section 26 of the Insurance Act:

1. Bidvest Insurance Limited
2. Discovery Insure Limited
3. Dotsure Limited
4. FirstRand Life Assurance Limited
5. Investec Life Limited
6. NMS Insurance Services South Africa Limited

DE-REGISTRATIONS OR WITHDRAWAL OF LICENCES

Banks

- Mercantile Bank Limited – with effect from 1 December 2020, subsequent to the transfer of assets and liabilities to Capitec Bank Limited

Representative offices – foreign banks

- Hellenic Bank Public Company Limited (South African Representative Office) – with effect from 30 November 2020

Cancellation of authorisation granted to conduct the business of a bank by means of a branch in the Republic of South Africa

- Canara Bank, Johannesburg branch – with effect from 9 June 2020
- Bank of India, Johannesburg branch – with effect from 30 June 2020
- Bank of Baroda, South Africa – with effect from 30 June 2020
- Société Générale, Johannesburg branch – with effect from 19 October 2020

Insurers

- Lion of Africa Insurance Company Limited
- Intermediaries Guarantee Facility Limited
- Saxum Insurance Limited
- Nova Risk Partners Limited
- Channel Life Limited
- Momentum Structured Insurance Limited
- Momentum Alternative Insurance Limited
- Metropolitan Life International Limited

NAME CHANGES

Old name	New name	Effective date
Oakhurst Life Limited	**Dotsure Life Limited**	**1 July 2020**
Oakhurst Insurance Company Limited	**Dotsure Limited**	**1 July 2020**
Swiss Re Corporate Solutions Advisors South Africa (Pty) Limited	**Swiss Re Corporate Solutions Africa Limited**	**14 January 2021**
Yardrisk Insurance Limited	**Yard Insurance Limited**	**23 March 2021**

TRANSFER OF BUSINESS

Transferor insurer	Transferee insurer	Effective date
Guardrisk Life Limited	**Absa Life Limited**	**1 July 2016[1]**
Channel Life Limited	**Sanlam Developing Markets Limited**	**1 January 2019[2]**
Old Mutual Alternative Solutions Limited	**Old Mutual Life Assurance (SA)**	**31 December 2019[3]**
Lion of Africa Insurance Company Limited	**Bryte Insurance Company Limited**	**1 June 2020[4]**
Densecure SOC Limited	**Centriq Insurance Company Limited**	**1 July 2020[5]**
Hannover Reinsurance Africa Limited	**Hannover Life Reassurance Africa Limited**	**1 January 2021**

1 Transfer finalised on 28 February 2021
2 Transfer finalised on 25 June 2020
3 Transfer finalised on 17 December 2020
4 Transfer finalised on 18 December 2020
5 Transfer finalised on 18 August 2020

ILLEGAL DEPOSIT-TAKING SCHEMES

Inspections relating to illegal deposit-taking schemes during 1 April 2020 – 31 March 2021

Year/period	Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under investigation
2020/2021	8	5	3	2	6

ADMINISTRATIVE SANCTIONS IMPOSED FOR NON-COMPLIANCE WITH THE FINANCIAL INTELLIGENCE CENTRE ACT

The PA imposed the following administrative sanctions, including financial penalties for non-compliance with the FIC Act, on three insurers.

Name of institution	Non-compliance	Administrative sanction
Clientele Life Assurance Company Limited	Failure to comply with cash threshold reporting requirements as per section 28 of the FIC Act.	A financial penalty of R200 000.
Hollard Life Assurance Company Limited	Failure to comply with employee training requirements as per section 43 of the FIC Act.	A caution not to repeat the conduct leading to the non-compliance.
Outsurance Life Insurance Company Limited	Failure to comply with employee training requirements as per section 43 of the FIC Act.	A caution not to repeat the conduct leading to the non-compliance.

The media releases have been published and further details of these matters are available at:
https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2020/10066

6 ABBREVIATIONS

ALM	asset and liability management
AML	anti-money laundering
ARR	Alternative Reference Rates
ASISA	The Association for Savings and Investment South Africa
ASSA	Actuarial Society of South Africa
Banks Act	Banks Act 94 of 1990
BASA	The Banking Association South Africa
BCBS	Basel Committee on Banking Supervision
BE-CCP	bank exposure to central counterparties
CAR	capital adequacy ratio
CCP	central counterparty
CEO	Chief Executive Officer
CET	common equity tier
CFI	co-operative financial institution
CFT	counter financing of terrorism
Co-operative Banks Act	Co-operative Banks Act 40 of 2007
COVID-19	coronavirus disease 2019
CSD	central securities depository
CVA	credit valuation adjustment
D-SIB	domestic systemically important bank
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001, as amended
FIRB	foundation internal ratings-based [approach]
FRTB	Fundamental Review of the Trading Book
FSAP	Financial Sector Assessment Programme
FSCA	Financial Sector Conduct Authority
FSLAB	Financial Sector Laws Amendment Bill
FSR Act	Financial Sector Regulation Act 9 of 2017
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards

IMA	internal models-based approach
IMF	International Monetary Fund
Insurance Act	Insurance Act 18 of 2017
IOSCO	International Organization of Securities Commissions
IRB	internal ratings-based [approach]
IRRBB	interest rate risk in the banking book
IT	information technology
LCR	liquidity coverage ratio
LIBOR	London Interbank Offered Rate
MCR	minimum capital requirement
MoU	Memoranda of Understanding
NCR	National Credit Regulator
PA	Prudential Authority
PA Manco	Prudential Authority Management Committee
PARAC	Prudential Authority Regulatory Action Committee
PFMIs	Principles for financial market infrastructures
PruCo	Prudential Committee
RDAR	Rrisk data aggregation and risk reporting [principles]
Regulations	Regulations relating to Banks
ROA	return on asset
ROE	return on equity
RSCA	risk and control self assessments
SARB	South African Reserve Bank
SCR	solvency capital requirement
SIFI	systemically important financial institution
STA	standardised approach
STC	simple, transparent and comparable