South African Reserve Bank
Prudential Authority

PRUDENTIAL AUTHORITY ANNUAL REPORT 2023/24





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

SOUTH AFRICAN RESERVE BANK
Prudential Authority

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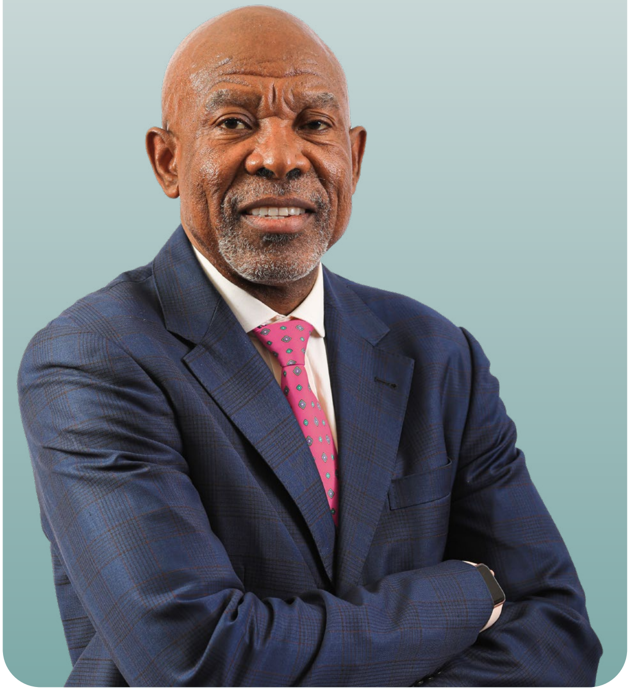
FOREWORD BY THE CHAIRPERSON OF THE PRUDENTIAL COMMITTEE



Sound financial institutions are essential for achieving balanced and sustainable growth. Prudential regulation promotes the safety and soundness of licensed financial institutions. It aims to protect the interests of depositors' and policyholders' funds, while providing services that enable the continued functioning of financial markets. I am pleased to report that there currently appears to be no risks to the financial system posed by individual institutions.

In the context of an uncertain macroeconomic environment, the work of the Prudential Committee (PruCo) during the period under review focused on the making of standards that would enhance sound risk management among financial institutions, alongside broadening guidance on non-financial risks.

Credit risk continues to be a key topic of discussion, both in terms of understanding the size of exposure of financial institutions and the management and governance thereof. Consequently, during the review period, the Prudential Authority (PA) initiated the process of updating its directive on restructuring credit exposures.

The events in the banking sector in the United States (US) and Credit Suisse in Europe in March 2023 reminded us of two fundamental tenets of banking, namely the management of interest rate risk and the active monitoring and management of liquidity risk. The adoption of interest rate risk in the banking book has been instrumental in promoting the enhancement of sound practices in interest rate risk management among South African banks. Banks are required to maintain risk limits in alignment with their risk appetites, governance structures and the nature of their operations. Liquidity levels for banks remain above the required prudential minima.

The PA also continued to monitor the liquidity risk faced by insurers. Its primary aim is to ensure that financial institutions adopt adequate liquidity risk management practices to safeguard depositors' and policyholders' funds, thus supporting financial stability. Non-financial risks continued to increase their relevance within the spectrum of financial institutions' risks. The PruCo remained vigilant of the operational risk developments faced by supervised institutions. As technology and innovation solutions continue to advance, they offer the potential for significant opportunities but also introduce additional risks. The rise in partnerships with other financial institutions and technology firms, as well as the increased use of cloud-based data solutions, requires additional oversight on third-party risk management.

The PruCo, together with the Financial Sector Conduct Authority (FSCA), also made two joint standards, namely the Joint Standard on Information Technology (IT) Governance and Risk Management and the Joint Standard on Margin Requirements for Non-centrally Cleared Over the Counter (OTC) Derivative Transactions. Collectively, these joint standards are aimed at addressing prudential and market conduct requirements relating to what are still topical areas of IT and margin requirement risks within the financial sector.

Climate-related risks remain relevant for financial institutions in the foreseeable future. The PruCo continually monitored sectoral developments and the management of these risks.

In 2023, the PA noted that non-life insurers and reinsurers had started to impose restrictions on catastophes related to business interruptions, power supply failures and climate-related events. This led to the non-availability of insurance cover for these extreme events. The PA will continue to monitor these emerging policy protection gaps and engage industry participants and standard-setting bodies on an ongoing basis.

On 1 June 2023, the Minister of Finance gazetted the remaining provisions of the Financial Sector Laws Amendment Act 23 of 2021 (FSLAA). This brought in the resolution framework for designated institutions, with the South African Reserve Bank (SARB) as the Resolution Authority, and established the Corporation for Deposit Insurance (CODI). Following the establishment of the Resolution Authority, the PruCo also made two prudential standards; one relating to stays and resolution moratoria and the other to the transfer of assets and liabilities of a designated institution in resolution. The PruCo also made and published the first prudential standard issued by CODI in March 2024. Prudential Standard - CODI 1: Fund Liquidity sets out the requirements applicable to the funds to be held by banks that hold covered deposits in the account held by CODI.

It is important to note that, as a member of the Basel Committee on Banking Supervision (BCBS), South Africa remains committed to the full implementation of the remaining components of the Basel III post-crisis reforms with effect from 1 July 2025. To this end, the PruCo approved for public consultation draft 2 of the proposed amendments to the Regulations relating to Banks (Regulations). These regulations address the standardised approach for credit risk, internal ratings-based approaches to credit risk, the revised operational risk framework, the revised leverage ratio framework and the output floor. The PruCo also approved draft prudential standards related to market risk and credit valuation adjustment.

The PA had previously reported that work was underway to prepare for transitioning the prudential regulation and supervision of collective investment schemes (CISs) and CIS managers, pension funds and friendly societies from the FSCA and medical schemes from the Council for Medical Schemes to the PA. In March 2024, the Minister of Finance published a new determination indicating that this expanded regulatory and supervisory scope for the PA would commence on 1 April 2026 for CISs and CIS managers, pension funds and friendly societies, and 1 April 2027 for medical schemes. The PruCo will continue to monitor the PA and FSCA's preparatory work in this regard.

The PruCo will continue to support the PA in remaining resolute in executing its mandate without fear, favour or prejudice in pursuit of safe and sound financial institutions that fulfill their obligations to financial customers.

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

As I conclude the second year as CEO, I am pleased to report that the majority of financial institutions remain resilient and adequately capitalised, despite having to operate in a difficult macroeconomic environment. Locally, growth has been stagnant and inflation levels were elevated for much of 2023, eroding incomes and limiting consumer choices and credit worthiness. Increasingly, financial institutions are competing for a shrinking pie. Global growth is still below its long-term average, even though it has recovered from previously low levels. This, together with intensifying geopolitical strife, extreme weather conditions and rapid technological change, continues to shine the light on the need for active risk management by boards of financial institutions and supervisory authorities.

Elevated levels of inflation over the past two years have eroded the disposable income of households and the profitability of businesses. As central banks responded by increasing interest rates, the rising cost of borrowing within the weak growth environment resulted in increasing credit losses for banks. This was evidenced by a 23% year-on-year increase in total credit losses as at the end of March 2024. Ensuring that adequate levels of loan-loss provisions are maintained for expected losses has become increasingly important for banks. Despite these headwinds, the South African banking system remained sound, adequately capitalised and profitable, while maintaining liquidity level requirements well in excess of the minimum requirements.

In this context, the PA has witnessed financial institutions repositioning themselves to remain competitive, including through offering new financial products, becoming increasingly digital in their offerings and interactions with customers, partnering with financial technology firms, and using artificial intelligence (AI) to better utilise customer information and build risk management models. This places increased demands on those charged with governance since they must not only understand these innovative business products and models but also ensure that they remain within the organisations' risk appetite as well as maintain the safety and soundness of financial institutions.

The PA's experience with weak financial institutions continues to demonstrate that governance weaknesses and poor risk management result in financial losses, trust deficits and, ultimately, institutional failure. Through ongoing supervision, the PA has sought to ensure that management, the boards of directors (boards) and all assurance providers remain focused on strengthening risk management and governance measures. Following the engagements on succession planning during 2022, the 2023 flavour-of-the-year topics focused on organisational resilience as well as risks related to climate change. The 2024 flavour-of-the-year topic – Strategic business growth and resilience of the regulated financial institutions' business models in the current environment – is applicable across all the financial sectors regulated and supervised by the PA and is premised on the PA's observation and concern of certain financial institutions having weak and unresponsive strategies and business models.

In the course of the PA executing its mandate of safeguarding the interests of depositors and policyholders, there are institutions that have to be placed in resolution due to financial and/or governance-related failures. During the period under review, four institutions were placed in resolution and one under judicial management. The details are provided in the main reports under Section E: Enforcement, under the heading 'Other PA decisions'.

Despite a number of weather-related events and a difficult macroeconomic environment, the insurance sector remained well capitalised. Conditions in the non-life insurance sector improved over the past year in comparison with the previous two difficult years, with the sector recording positive growth in respect of gross premiums as well as investment income. Gross premiums recorded year-on-year growth of 15.81%, while investment income increased by 78.64% year on year. Profitability and underwriting profit were, however, suppressed by increasing claims, mainly due to severe weather events during 2023. Net claims increased by 21.32% year on year. The industry remained well capitalised with a solvency capital requirement (SCR) coverage ratio of 1.61, which is well above the regulatory minimum of 1.

Based on total assets, the life insurance sector grew by 11.06% year on year, mainly due to an increase in total investments, and reached R4 115 billion at the end of December 2023. Overall, life insurers reported higher investment income, while claims remained stable throughout 2023, which resulted in increased overall profitability for the sector. However, due to the challenging macroeconomic environment – which resulted in consumers being under pressure – lapses, expired policies and maturities followed an increasing trend throughout 2023. This trend resulted in total withdrawals as a percentage of new policies increasing to 89.83% at the end of December 2023, up from 88.67% at the end of December 2022.

Market infrastructures (MIs) are shaped by a blend of challenges and adaptations, thus resilience and sustainability within this landscape is paramount. Several key themes emerged across MIs and the PA took a keen interest in keeping abreast of and participating in initiatives related to sustainable finance, digital transformation, technological innovation and cybersecurity to fulfil its primary mandate.

In February 2023, South Africa was officially identified as a jurisdiction under increased monitoring by the Financial Action Task Force (FATF) and placed on the 'greylist'. As part of this process, 22 action items were identified by the FATF, requiring South Africa to address the identified strategic deficiencies by January 2025. To date, 5 of the 22 items have been addressed and 17 remain in progress. The PA has a deadline of January 2025 for addressing the action items most applicable to it, and is working constructively towards that goal. In monitoring the impact of the FATF greylisting on the South African financial markets, the PA has found no immediate negative impact to correspondent banking relationships, although additional due diligence is now required by certain banks/jurisdictions. Following the greylisting, the European Commission and the United Kingdom (UK) His Majesty's Treasury (HM Treasury) placed South Africa on their on their respective lists of high-risk third countries. Consequently, the European Securities and Markets Authority and the Bank of England derecognised JSE Clear as a third-country central counterparty (CCP). It remains imperative that the action items be addressed timeously to avert any long-term negative impact on the South African economy.

This has been an incredibly busy year for the PA. The success and achievements attained over the past year would not have been possible without the unwavering commitment and dedication of the PA staff, ably led by a strong executive and management leadership. In addition, our partnerships with National Treasury, our sister regulator – the FSCA, industry bodies as well as our regulated entities have allowed us to give credence to our mandate of promoting and enhancing the safety, soundness and integrity of regulated financial institutions in South Africa.

In the period ahead, the PA expects growth to remain constrained and risks to the inflation outlook to stay elevated. In this regard, it is expected that credit risk will also remain elevated. As a member of the BCBS, the PA will continue with the implementation of the remaining components of the Basel III post-crisis reforms with effect from 1 July 2025. Other key focal areas will include strengthening institutional governance and risk management across a number of areas, monitoring climate-related risks and third-party risks that result from the digitalisation of financial institutions as well as strengthening measures to counter money laundering and combat the financing of terrorism.

Fundi Tshazibana

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

GOVERNANCE AND OPERATIONAL STRUCTURES

The Financial Sector Regulation Act 9 of 2017 (FSR Act) prescribes the PA's governance structure, resources, financial management and reporting obligations.

PRUDENTIAL COMMITTEE

The Pruco met **11** times during the 2023/24 reporting period and held a strategy session to discuss the PA's strategic focus for the 2024/25 financial year.

Chairperson

E L (Lesetja) Kganyago
Governor

Members

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

R (Rashad) Cassim
Deputy Governor

M (Mampho) Modise
Deputy Governor

Standing invitees

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

The PruCo oversees the management and administration of the PA.

The following key activities were conducted by the committee during the reporting year:

- Made the Resolution Authority Prudential Standard: Stays and Resolution Moratoria. The standard became effective on 1 June 2023.
- Made the Resolution Authority Prudential Standard: Transfer of Assets and Liabilities of a Designated Institution in Resolution. The standard became effective on 1 June 2023.
- Together with the FSCA, made the amended Joint Standard 2 of 2020: Margin Requirements for Non-centrally Cleared OTC Derivative Transactions.
- Together with the FSCA, made the Joint Standard 1 of 2023: IT Governance and Risk Management. The standard will come into effect 12 months from the date of publication.
- Approved for public consultation the draft Resolution Authority Prudential Standard: Flac Instrument Requirements for Designated Institutions.
- Approved the proposed amendments to the Co-operative Banks Act 40 of 2007 for inclusion in the Omnibus Bill that was prepared by National Treasury.
- Approved for public consultation draft 2 of the proposed amendments to the Regulations addressing the standardised approach for credit risk, internal ratings-based approaches to credit risk, the revised operational risk framework, the revised leverage ratio framework and the output floor.
- Approved for public consultation the amendments to the Commercial Paper Exemption Notice 1994.
- Approved for public consultation the draft Prudential Standard on Market Risk and the draft Prudential Standard on Credit Valuation Adjustment.
- Approved for public consultation the draft Joint Standard on the Criteria for the Exemption of an External Central Counterparty or External Trade Repository from the Provisions of the Financial Markets Act.
- Approved for public consultation the proposed PA budget and levies for the 2024/25 financial year.

PRUDENTIAL AUTHORITY MANAGEMENT COMMITTEE

The PA Management Committee met **12** times during the reporting year.

Chairperson

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

The PA Management Committee is responsible for the general operations and management regarding prudential policy, regulatory and supervisory matters, IT and human resources management. It also provides advisory, technical and administrative support to the PruCo.

Members

D (Denzel) Bostander
Head of Department

Financial Conglomerate Supervision Department
This department is responsible for the consolidated prudential supervision of larger, more diverse and complex financial groups, including institutions designated as financial conglomerates. It is also responsible for supervision relating to anti-money laundering, countering the financing of terrorism and countering proliferation financing (AML/CFT/CPF).

F (Faizel) Jeena
Head of Department

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

K (Kerwin) Martin
Head of Department

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

O (Olaotse) Matshane
Head of Department

Policy, Statistics and Industry Support Department
This department oversees policy formulation and the implementation of regulatory and supervisory frameworks. It also provides operational support, industry analysis and technical support on capital and accounting requirements, and support on legal administration and enforcement responsibilities.

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

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

COMMUNICATION WITH INDUSTRY

ANNUAL INDUSTRY ENGAGEMENTS

In addition to written communication and entity-specific prudential meetings, the PA has industry-wide engagements. These regular industry engagements offer a way for the PA to interact with a broad section of senior executives from regulated entities; officials from its sister regulator, the FSCA; and representatives from industry bodies and auditing firms. Four engagement sessions were held during February and March 2024, bringing together more than 600 people. Key issues included a progress update on the FATF greylisting action items, risks related to digitalisation, climate-related risks as well as governance trends. The PA also shared its observations on the outcomes of the two flavour-of-the-year topics for 2023 (organisational resilience and climate-related financial risks).

In addition, the PA published four newsletters focusing on its work, new and upcoming activities, stakeholder engagements as well as local and global trends.

The newsletter can be found on the SARB website under Public Awareness.

IMPLEMENTATION OF THE PA REGULATORY STRATEGY 2021–2024

The regulatory strategy of maintaining a safe and sound financial system sets out the PA's key priorities for three years. The PA adopts a collaborative and consultative approach to prudential regulation and supervision.

STRATEGIC PRIORITIES

Performance highlights in 2023/24

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

Banks

On 21 September 2023, the PA made amendments to the Regulations issued in terms of the Banks Act 94 of 1990 (Banks Act) addressing credit risk, operational risk, the exposure definition of the leverage ratio framework and the output floor.

These proposed amendments to the Regulations represent the remaining components of the Basel III post-crisis reforms issued by the BCBS for implementation by member countries. The implementation date is 1 July 2025.

On 3 November 2023, the PA issued the draft Prudential Standard on Market Risk and Credit Valuation Adjustment for formal consultation in terms of section 98 of the FSR Act. The PA is reviewing the comments received and is targeting 1 July 2025 for implementation.

Mutual banks

The PA plans to develop seven prudential standards for mutual banks covering governance and risk management, operational risk management, credit risk, liquidity risk, interest rate risk in the banking book (IRRBB), capital, and economic returns. These will be published for informal consultation to the sector on 30 October 2024.

CFIs and co-operative banks

Four prudential standards for CFIs and co-operative banks covering registration and operational requirements, governance, risk management and financial soundness were published for informal consultation on 16 November 2023. The deadline for the submission of comments was 29 February 2024. The PA is in the process of reviewing the comments received.

Implementing the financial conglomerate regulatory and supervisory framework

The draft Prudential Standard FC01: Capital Requirements for Financial Conglomerates is undergoing field testing which is expected to continue during 2024. The PA's Supervisory Framework for Financial Conglomerates is already in use and will undergo refinements to incorporate details of the capital requirements standard. The PA is monitoring the implementation of the prudential standards for financial conglomerates, namely Prudential Standard FC02: Intragroup Transactions and Exposures, Prudential Standard FC03: Auditor Requirements, Prudential Standard FC04: Governance and Risk Management, and Prudential Standard FC05: Risk Concentration, which all came into effect on 1 January 2022.

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

- The development of a regulatory framework for central clearing, in alignment with the Group of Twenty (G20) requirements to clear OTC derivative transactions, is in progress.
- Frameworks about the licensing of external MIs have been published for comment.
- The draft Joint Standard on Minimum Requirements for the Recovery Plans of Market Infrastructures has been reviewed by the PA and FSCA policy governance channels.
- Comments from the PA, SARB and FSCA on the Financial Markets Act Amendment Bill were incorporated by National Treasury.

Performance highlights in 2023/24

Strengthening and enhancing the regulatory and supervisory frameworks for insurers

- The proposed **Public Disclosure Standard for Insurers**, which was issued in terms of section 45 of the Insurance Act 18 of 2017 (Insurance Act), requires insurers to disclose prescribed quantitative and qualitative information. The PA consulted widely to refine the proposed public disclosure standard.
- The proposed **Liquidity Risk Management Standard for Insurers** will be circulated for public consultation during 2024. It seeks to address concerns that non-traditional insurance business activities are not adequately covered by the current liquidity risk framework outlined in the Financial Soundness Standard for Insurers (FSI 6).
- The **Joint Standard on Outsourcing** was tabled in Parliament in December 2023 and was subsequently made and published in May 2024. The Joint Standard on Outsourcing will repeal the Governance and Operational Standard for Insurers (GOI) 5. It is intended to harmonise outsourcing requirements for the insurance sector and enhance oversight of all material outsourcing by the Authorities (namely the PA and FSCA) from a conduct and prudential perspective. The draft joint standard sets out the minimum requirements to be complied with by the insurers and microinsurers for the outsourcing of material functions to third-party service providers to ensure that outsourcing does not impair the prudent management of an insurer's business.
- The PA shared with the industry a high-level, interim approach to **index-based or parametric insurance**. This is a form of insurance where claim payments are based on values obtained from an index that serves as a proxy for losses. The PA will consider licensing applications for index-based products under section 5(4) of the Insurance Act.

Implementing and enhancing the regulatory and supervisory framework for significant owners

During 2023, several applications for significant ownership were processed. The PA is monitoring the significant ownership framework and annual assessments of the fitness and propriety of significant owners of specific financial institutions.

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

Following the greylisting of South Africa, the FATF issued an action plan requiring various stakeholders to address specific deficiencies. One outstanding action item within the PA's ambit is ensuring that supervised entities that are found to be non-compliant with the Financial Intelligence Centre Act 38 of 2001 (FIC Act) are issued with proportionate, dissuasive and effective sanctions.

The PA processed several enforcement matters relating to FIC Act non-compliance, which were presented to its PARAC for final decision-making. Additionally, the PA continued to monitor the progress of remedial action undertaken by banks and life insurers over the financial year to ensure that entities are demonstrating a change in compliance behaviour. Feedback from the regional FATF's Joint Group[1] responsible for reviewing and analysing progress has been largely positive, indicating that the actions undertaken are sustainable.

Developing an approach to the prudential regulation of pension funds, CISs, medical schemes and friendly societies

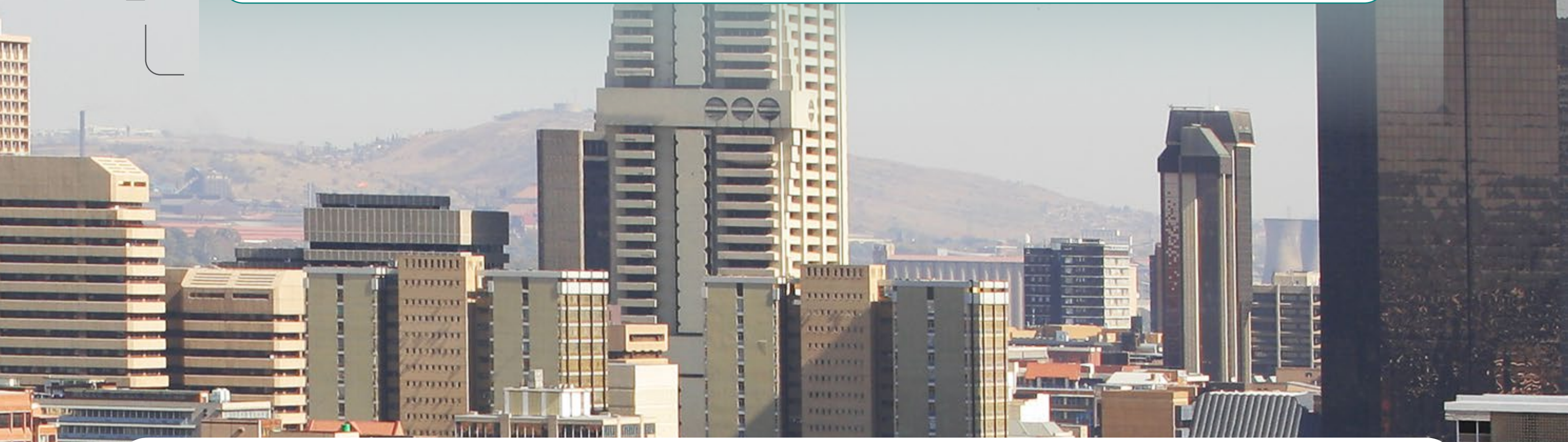
The preparatory work is ongoing to transition the prudential regulation and supervision of medical schemes, pension funds, CIS managers and friendly societies to the PA. At the request of the PA and FSCA, the Minister of Finance extended the transitional period for pension funds, CIS managers and friendly societies to 31 March 2026. Furthermore, the transitional period for medical schemes was extended to 31 March 2027. The extensions allow time for the Authorities to complete the necessary preparatory work ahead of the transition.

1 The Joint Group refers to the Africa and Middle East Joint Group, which is comprised of a group of FATF-qualified reviewers responsible for assessing the progress of countries that are greylisted across Africa and the Middle East.

Performance highlights in 2023/24

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

- The Joint Standard on IT Governance and Risk Management was made by the PruCo and will be effective in November 2024.
- The draft Joint Standard on Cybersecurity and Cyber Resilience was tabled in Parliament and was subsequently made and published in May 2024.
- The development of the draft Joint Standard on Governance Requirements is still in progress and will be published for public consultation in 2024.



The PA also focused on the following priorities:

Performance highlights in 2023/24

Supporting financial innovation and new technologies

The PA promotes responsible innovation through its continued participation in the Intergovernmental Fintech Working Group (IFWG).

The BCBS consulted on the amendments to its framework on the prudential treatment of banks' cryptoasset exposures. The revised framework is expected to be published during 2024.

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

Financial inclusion:

- The PA finalised its regulatory and supervisory approach on supporting financial inclusion following the release of National Treasury's Financial Inclusion Policy Framework titled 'An Inclusive Financial Sector for All'.

Transformation:

- The PA monitors insurers' adherence to internal transformation plans. It has also engaged banks on their commitments and progress made in terms of the Financial Sector Charter Code.

Developing regulatory and supervisory approaches to climate risks

The PA continues to incorporate climate-related risks focusing on ensuring effective risk management practices to strengthen financial institutions' resilience to the risks posed by climate change, including the need to manage transition risks.

The PA also focused on the following priorities (continued):

Developing regulatory and supervisory approaches to climate risks (continued)

Guidance notes

- The PA published four climate guidance notices for public consultation, covering climate-related disclosures, risk management and governance practices for banks and insurers. The guidance notices seek to provide coherence on evolving practices, promote transparency, ensure appropriate international alignment and enhance industry initiatives to deepen current climate-related risk practices and voluntary disclosures. Industry consultations were held and 45 written submissions were received from 28 entities.

Climate risk indicators

- An industry workshop was held in 2023 and pilot institutions were consulted in 2024. The climate risk indicators, together with insights from the 2024 SARB climate risk stress-test exercise, will provide qualitative and quantitative data to track and monitor exposures and vulnerabilities to physical and transition risks. The PA will focus on enhancing data and developing a dashboard to track climate risk indicators going forward.

Green finance

- The PA continued to monitor green finance market development and emerging practices to inform local and international policy and standards setting for central banks.

The PA actively contributes to climate-related discussions, papers and working groups. These include the Financial Stability Board (FSB), BCBS, International Association of Insurance Supervisors (IAIS) and the Network for Greening the Financial Sector (NGFS).

THE PA's FUNDING MODEL

The SARB has been funding the PA from its resources since 2018. For the financial year under review, the PA implemented legislation related to the collection of levies to fund its operations. The funding model of the PA is based on the principle of cost recovery and the PA only collects levies to run its operations effectively.

The PA issued assessment notices to all supervised entities, setting out the levy amount as well as the due date for payment. This is the first time that the PA has collected levies from the industry since its establishment in 2018. The SARB funds approximately 37% of the total operating costs of the PA, while the industry levies are projected to fund 63%.

In preparation for the 2024/25 financial year, the PA published its budget and related documents for industry consultations for the first time in November 2023.

The PA is in the process of finalising its fee proposals for the 2024/25 financial year. Once this has been finalised, all the other fee instruments will be repealed and replaced with a single PA Fees Determination, which is expected to come into effect in the 2024/25 financial year.

STRATEGIC FOCUS AREAS

The PA supports the SARB's strategy and falls within three strategic focus areas (SFAs), namely SFA 2: Protect and enhance financial stability, SFA 3: Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures and SFA 4: Enhance South Africa's resilience to external shocks.

2023/24 PERFORMANCE OVERVIEW

Over the past year, systemically important financial institutions (SIFIs) have remained sound, profitable and well capitalised. In terms of non-SIFIs, the PA's supervisory activities were focused on the business strategies, solvency and effectiveness of governance structures of the smaller banks and insurers as well as the work needed to address the shortcomings identified. During the 2023/24 reporting period, four entities were under various stages of resolution and one under judicial management. This is testament to the PA's continued intensive supervision of regulated financial institutions.

The PA contributes to the work of the Financial Stability Department through the sharing of data collected from financial institutions, which is then aggregated for the purpose of assessing system-wide stability. The authorisation of cross-border financial flows is largely on licenses provided to banks. In this regard, the PA works closely with the Financial Surveillance Department on enforcement actions.

During the year under review, the PA continued to participate in the Market Practitioners Group, under the leadership of the Financial Markets Department, on reference rate reform. Following the formal establishment of the Resolution Authority, the PA assisted in the making of the development of the standards on stays and resolution moratoria, as well as the standard of the transfer of assets and liabilities of a designated institution in resolution. Engagement with individual banks on recovery and resolution plans is underway. The PA also assisted CODI in the development of a prudential standard that sets out the requirements applicable to the funds to be held by banks that hold covered deposits in the account held by CODI.

Performance scorecard

Overall target met

Strategic measures	Target (annual)	2023/24 (annual)	2022/23 (annual)
Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate corrective regulatory action	100%	100%
Weighted percentage (based on assets) of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs	90% or under adequate corrective regulatory action	96.87%	99.53%
Compliance with sound governance and risk management practices as set out by different industry legislation for SIFIs	100% or under adequate corrective regulatory action	100%	100%
Weighted number of non-SIFIs that comply with sound governance and risk management practices as set out by different industry legislation	90% or under adequate corrective regulatory action	96.35%	97.27%

Unique strategic objectives for the PA within SFA 3

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

Target met

Target partially met

Target not met

PROGRESS ON THE PA TARGET OPERATING MODEL

During the year under review, the PA focused on the following initiatives:	
	Phase 1 of the Umoja Solution was implemented and work is continuing on Phase 2, which focuses on the implementation of regulatory returns.
	The Industry Data Taxonomy, which allows for the shared understanding of data terms used in the returns, was further enhanced following the completion of the AML/CFT risk return taxonomies.

KEY HIGHLIGHTS IN 2023/24

A. LICENSING

1. Fit and proper assessments

The PA conducted fit and proper assessments on significant owners and key persons relating to new licences, together with its ongoing supervision of banks, insurers, co-operative banks and CFIs. It also provided input to the FSCA for applications and notifications made in respect of MIs. The PA is empowered to impose fit and proper standards based on the personal character qualities of honesty, integrity and competence of significant owners and key persons.

2. Significant owners

The PA assessed the fitness and propriety of significant owners of PA-regulated financial institutions in terms of section 157 of the FSR Act, the Joint Standard 1 of 2020: Fitness, Propriety and Other Matters Relating to Significant Owners, and relevant financial sector laws. A total of 35 significant owner applications were received during the period under review, of which 24 were approved.

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

No new insurance groups were designated during the period under review.

4. Unregistered persons conducting the business of a bank and unlicensed insurance

The FSR Act, read with the Banks Act and the Insurance Act, empowers the PA to control the activities of unregistered or unlicensed persons who conduct the business of a bank or insurance business. Unregistered persons conducting the business of a bank are investigated by the PA through temporary inspectors who are statutorily appointed in terms of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act). The investigation of unlicensed insurance business is performed by the FSCA, which has been delegated by the PA for this function.

A. LICENSING (CONTINUED)

4.1 Inspections of unregistered banking business

In respect of unregistered banking business, for the period under review, the PA investigated four schemes, of which three were carried over from the previous year and temporary inspectors were appointed on one scheme. On 31 March 2024, four schemes were still under investigation. See the table under Annexure IX titled 'Summary of inspections relating to illegal deposit-taking schemes'.

4.2 Inspections of unlicensed insurance business

In the period under review, the FSCA investigated 115 unlicenced insurance businesses, consisting of 36 unlicenced insurance business investigations carried over from previous years and 79 new unlicenced insurance businesses reported during the review period. A total of 60 unlicenced insurance businesses are still under investigation, while 55 unlicenced insurance business investigations have been finalised. See the table under Annexure X titled 'Summary of inspections relating to unlicensed insurance business'.

B. SUPERVISORY MATTERS

The supervision of individual institutions and market infrastructures aims to safeguard the stability of the financial system. During the year under review, the PA's supervisory activities focused on the resilience of business operations, the management of risks, solvency and the effectiveness of governance structures of all supervised institutions. By design, the PA's supervisory approach is risk based and thus the intensity of supervision varies across institutions according to systemic impact, size and complexity. In addition to ongoing supervisory activities, the PA also selects specific topics and themes that are deemed to require attention to ensure that financial institutions are giving these additional focus.

2023 flavour-of-the-year topics

The 2023 flavour-of-the-year topics focused on organisational resilience and climate-related financial risks.

Organisational resilience, which is an expansion of operational resilience, is the ability of an organisation to absorb and adapt in an ever-changing environment to enable it to deliver on its objectives and to survive. The topic explored institutions' capabilities to ensure business continuity and overall resilience. The overall assessment highlighted that (i) some institutions focused mainly on operational resilience instead of holistic organisational resilience; (ii) that interconnectedness and interdependencies continued to be a focus area; (iii) the reliance placed by industries on third parties for outsourcing service provisioning; and (iv) concern regarding inadequate processes in some institutions to assess concentration risk and/or ensuring that appropriate resilience conditions were in place for third parties. The analysis and outcomes will be incorporated into the PA's supervisory activities.

Climate change will test the resilience of banks' and insurers' business models and strategies, as extreme weather events disrupt businesses and households. The transition to a low carbon economy will also influence financial global markets and supply chains. Climate risks relate to the effects of climate change on credit risks, market risks, operational risks, liquidity risks and legal risks. Banks and insurers would need to take appropriate actions to mitigate against these climate-related risks, in the context of global and domestic policy and regulatory developments. A report reflecting the observations gathered in the PA's interactions with boards of banks and insurers on how climate risks are identified and managed, was published on 10 May 2024.

Topic 1: Organisational resilience

The aim of the engagements was to assess institutions' capabilities in enhancing organisational resilience and to ensure that business continuity and overall resilience was considered as part of their operations.

All areas highlighted as deficient are areas that require improvement. The PA will work with institutions to strengthen these areas, as part of its ongoing supervision.

While most entities regarded organisational resilience as being embedded in their strategy, risk management and day-to-day operations, the following observations were noted during interactions with larger banks and insurers, small and medium-sized banks and insurers, foreign branches of banks, MIs and mutual banks:

Larger banks

- Boards and senior management were accountable for organisational resilience and had dedicated committees or oversight structures focusing on organisational resilience.
- Mapping of interconnectedness and interdependencies remained a challenge, with more investment and effort required to continuously update the ever-changing landscape.
- Risk appetite was tracked, and a variety of stress and crisis scenarios were simulated covering various risk events.
- Change was embedded in the organisational strategy covering people, systems and processes, and consideration was made for external events.

Small and medium-sized banks

- The majority of institutions primarily concentrated on operational resilience, rather than including other aspects of organisational resilience.
- Discussions revealed that risk appetite for organisational resilience was inadequately defined.
- There appeared to be inadequate processes to assess concentration risk and/or inappropriate resilience conditions for third parties.
- Most institutions were mapping critical functions, roles, responsibilities and information resources to strengthen organisational resilience.

Foreign branches of banks

- Foreign branches and subsidiaries placed reliance at the group level for shared services, as evident by the lack of coverage for most elements in their submissions, which primarily focused on operational resilience.

Topic 1: Organisational resilience (continued)

Market infrastructures

- Larger MIs were found to be more mature regarding organisational resilience.
- Most MIs adequately outlined the processes for testing and validating their organisational resilience plan against scenarios.
- Smaller MIs did not adequately cover all the elements required for organisational resilience. This was evident as some MIs needed to improve their ability to respond to normal and stress events.
- Smaller MIs provided limited information regarding their approach to assess and manage concentration risk and to ensure that third parties had adequate resilience capabilities.

Mutual banks

- Most mutual banks did not cover organisational resilience holistically.
- Third parties and supply chain management remained a challenge, largely due to resilience capabilities not being covered as part of their contracting.
- Concentration risk was not adequately covered.

Large insurers

- The boards were involved in organisational resilience activities through participating in simulations, setting policies and providing oversight.
- Large insurance groups adopted processes to manage change. This included the implementation of change management governance forums.
- Risks associated with organisational resilience were typically covered in the risk appetite and risk tolerance statements under various risk types (such as operational, reputational, financial and strategic risk).
- There was an overall understanding and acknowledgement of the importance of mapping interconnections and interdependencies (internal and external); however, these needed to be formalised.
- Additional work was required in terms of assessing concentration risk.

Small and medium-sized insurers

- Some insurers did not cover organisational resilience holistically and only focused on components such as operational or financial resilience, while others discussed the embedment of resilience into strategy.
- There was a lack of maturity in defining risk appetite for organisational resilience.
- A proactive approach was followed to implement new strategies in response to changes in the environment. However, the absence of formal change management, governance and processes were noted.
- The resilience of third parties was largely assessed during the onboarding process through contracting, due diligence and risk assessments. Improvements can be made to ensure ongoing monitoring is conducted post-onboarding.
- Additional work is required to ensure the mapping of interdependencies and interconnections.
- The oversight by the boards and senior management in the overall organisational resilience process required improvement in smaller insurers.

Topic 2: Climate-related risks

The flavour-of-the-year topic on climate risks follows two industry surveys conducted by the PA – one on climate disclosures and risk practices in 2020[2] and the other on climate risk in 2021.[3] In 2022, communication issued on climate-related risks[4] signalled the PA's interest and intent towards the integration of climate risks within its regulatory and supervisory remit.

Discussions were held with selected boards of large banks and insurers to gain an understanding of their institutional practices. The feedback will be considered when developing the PA's approach to embed effective risk management practices and strengthen financial institutions' resilience, including the need to manage transition risks.

The discussions showed a growing awareness and understanding of climate-related risks at board level. There was recognition that an understanding of managing climate-related risk, as a transversal and cross-cutting risk, is urgent, material and strategic. Climate risk has mostly been integrated into existing risk, social and ethics board committees, with additional reporting to audit and remuneration committees, where relevant. One institution has a dedicated climate board subcommittee. At executive and operational level, there are examples of dedicated climate committees, with a focus on climate data and scenario planning.

While both banks and insurers are in the early stages of climate risk management, they are in relatively early stages of quantifying climate risks. Understandably, the focus has been on knowledge building, data gathering and disclosures, and to a lesser extent, climate scenarios. All institutions indicated an intention to embed climate risks within existing risk management frameworks and to leverage existing governance frameworks.

In the banking sector, the implementation of risk classification measures and tools is varied. Most banks presented concentration limits or thresholds for balance sheet exposures to climate-sensitive sectors. All banks are undertaking further work, particularly with calculating financed greenhouse gas emissions. Most, but not all banks, have developed a climate risk appetite considering science-based greenhouse gas emission targets and stewardship. They are also developing capabilities to assess and quantify the impact of physical and transition risks using scenario analysis and stress testing, focusing on credit and market risk. Transition plans and pathways are also in early stages and discussed with some level of hesitation, given policy uncertainty, coupled with the availability of quality data.

The Financial Stability Department of the SARB is preparing to undertake a system-wide climate stress test for the banking sector during the 2024/25 financial year. The outcome of this exercise will assist the PA in assessing the effectiveness of measures that individual institutions have put in place.

Risk classification measures and tools are varied within the insurance sector, with life insurers mostly advancing on transition risks and non-life insurers focused on physical risks. Some insurers have started to develop thresholds and concentration limits for certain sectors, although further refinement and development are required.

All banks and most insurers reported using the Task Force on Climate-related Financial Disclosures (TCFD) framework for public disclosures. The TCFD framework has recently been incorporated into the International Sustainability Standards Board (ISSB) climate-related disclosure standard. Banks and insurers also reported using other frameworks, noting the need to keep abreast of international developments and the plethora of standards and frameworks. Boards in particular were cognisant of greenwashing, reputational risks and climate-litigation risks. One insurer undertook scenarios to quantify potential climate-litigation risks.

The availability, reliability and quality of granular data remains a key challenge. Other challenges include a lack of expertise and skills to perform scenario analysis and climate-risk modelling. The long-term scenarios can be challenging to interpret. This, together with the lack of industry guidance and standardised methodologies, makes it difficult to fully assess the financial impact of climate change.

The information presented during the flavour-of-the-year discussions/presentations will be taken into consideration as the PA finalises guidance notices on climate-related disclosures, governance and risk practices to provide a more coherent approach to practices, promote comparative transparency and ensure appropriate international alignment. The PA was encouraged by the level of detail presented, the rich discussions and the considerable progress made, despite the challenges.

2 Prudential Authority, 'Survey results: Task Force on Climate-related Financial Disclosures (TCFD)', 9 April 2020. https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Financial-Sector-Awareness/9855

3 Prudential Authority, 'Climate Risk Survey Report', October 2021. https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Financial-Sector-Awareness/Prudential-Authority-Climate-Survey-Report-2021

4 Prudential Communication 10 of 2022: Climate-related risks is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-10-of-2022-Climate-related-Risks

2023 thematic reviews

Lapses and surrenders

As part of the Financial Sector Assessment Programme (FSAP) findings, the PA is conducting an experience analysis of the South African life insurance industry's lapses and surrenders. FSAP considers the lapses and surrenders experienced in the South African industry to be high compared to other countries. The review, which is based on industry information gathered for the period from 2018 to 2022, is underway.

2023 emerging industry trends and risks

General trends and risks across the industry

The PA follows a risk-based approach to supervise licensed financial institutions and MIs. The information gathered during on-site supervisory engagements give further context to the data gathered from regulatory reports received and analysed off-site. This ongoing supervisory process has identified various common emerging trends and risks such as macroeconomic pressures, especially high inflation and rising interest rates, which are negatively impacting the growth and business models of supervised institutions. Critical infrastructure failures, including persistent load-shedding and the risk of a total grid failure, remain an area of concern as they negatively affect immediate business continuity and long-term sustainable growth.

Against this backdrop, the following non-financial risks were observed across the industry:

- **Fraud and cybersecurity risks and rising criminal sophistication**

The financial sector globally, and here in South Africa, is experiencing an increase in financial fraud and cybersecurity risks. This is mainly due to the increased use of digital technologies across the banking sector, heightening cybersecurity risks even further.

The rise in external fraud was also noted as being primarily due to losses caused by card fraud and fraudulent documentation. In contrast, internal fraud losses can largely be attributed to multiple incidents of employee-related theft. The PA has noted that financial institutions must continually enhance their control environments to mitigate against adverse risks.

- **Third-party service provider (vendor) risks**

The outsourcing of certain functions of a financial institution leads to dependencies on third-party service providers. Third-party risk management continues to be a focus area by the PA. The limited number of third-party providers in the industry, including cloud service providers, increases the concentration of service provisioning across the industry.

Organisations have found that failures by third parties can rapidly tarnish their reputations and have significant downstream operational and cost implications. This is exacerbated by the insufficient maturity of third-party risk management processes.

Large banks and insurers

The larger, more diverse financial groups include three financial groups designated as financial conglomerates in terms of section 160 of the FSR Act, each with an international footprint. Financial conglomerates are generally formed to achieve, among other things, synergies and economies of scale, thereby enhancing such groups' ability to provide a range of innovative products and services in response to a fast-evolving operating environment. This, however, could introduce new and potentially more complicated and systemic risks that require closer supervisory attention.

Large banks

The following risks and trends impacting the larger banks were observed:

- **The impact of sovereign default risk and related sovereign credit rating downgrades, such as the Ghana sovereign default, on larger institutions**

South Africa's sovereign fiscal position has deteriorated over the past few years, which resulted in multiple credit rating downgrades by the rating agencies, with the country reaching its lowest credit rating levels from the three large rating agencies since 1994. Thus, the interconnectedness between the financial sector and the sovereign has continued as a credible concern.

Similarly, debt sustainability risks across the Africa region pose an ongoing issue for sovereigns. High sovereign debt levels, along with reduced debt and interest servicing capacity, increase the possibility of sovereign restructures or downgrades and defaults.

Contagion risks across regions in Africa are being monitored by regulated financial institutions. The PA continues to apply moral suasion on banks to limit their risk appetite and tighten the lending criteria on high-risk regions until the risk of sovereign debt ameliorates.

- **Consumer and business strain, evidenced by subdued credit portfolio performance metrics and rising defaults in certain credit portfolios**

Persistently high inflation and high interest rate cycles have contributed to a significant rise in consumer strain, with increases in early arrears, debt counselling inflows and unsecured credit demand, all of which have driven deterioration in the asset quality for banks.

Given the pressure on consumers, most retail banking products such as personal loans, revolving credit facilities and residential mortgages exhibited significant strain. The performance of residential mortgages was especially impacted by the interest rate hikes, as total defaults grew significantly by 36% year on year despite total credit extension growing at 3.97% year on year as at February 2024. This is on the back of the increase in the uptake of mortgage loans by first-time home buyers due to the unusually low cost of borrowing during the period from 2020 to 2021 (the COVID-19 era).

Similarly, small and medium-sized enterprises (SMEs) have been equally impacted by the strained economic environment. SMEs are sensitive to market movements and exogenous factors such as rolling power cuts and constraints in logistics. As a result, larger financial institutions have tightened credit extension to this sector, as credit extended to SMEs grew at a subdued 2.2% year on year as at February 2024.

In response to these emerging risks, banks have proactively worked with customers to restructure their loans and ensure that consumers remain resilient by implementing rigorous risk containment efforts (i.e. curtailing unsecured credit limits and enhancing oversight over loan origination and collections management).

Banks continued to implement numerous credit policy adjustments such as payment holidays as well as aligning salary dates with the payment dates and implementing preventative strategies. The strategic adjustments and initiatives implemented by banks are meant to mitigate against emerging credit risks. The PA, through its supervisory engagements, will continue to monitor these initiatives and the management of credit risks by regulated financial institutions.

Large insurers

Although macroeconomic factors were challenging, the industry remained resilient and kept abreast with its international peers in terms of financial technology (fintech) and underwriting techniques, with the move towards a behavioural-linked insurance model being noted. The solvency ratios averaged 1.7 and 1.5 for non-life and life industries respectively.

Non-life insurers

The insurance gap is generally defined as the difference between the insurance need and actual cover. Approximately two-thirds of the vehicles on South African roads are uninsured. Reduced disposable income will increase the number of uninsured vehicles, thereby decreasing the likelihood of recoveries from third parties.[5, 6]

During 2022 and 2023, non-life insurers and reinsurers imposed restrictions and limitations on property damage losses due to on-going power supply disruptions. This included the effects of load-shedding (i.e. business interruption losses, power surge cover and the potential risk of a national grid failure). Grid failure was deemed a systemic risk and was therefore explicitly excluded as a valid loss event by many insurers, reinsurers and Sasria. These exclusions also created an insurance gap in the market.

The increased frequency and severity of risk from climate change are intensifying the focus on the non-life insurance industry's capacity and readiness to react. Damages to property and infrastructure, owing to more frequent floods and wildfires, are having a significant impact on insurance claims, including additional costs for the fiscus. Reinsurance markets are hardening in terms of capacity and pricing, leading to more natural catastrophe cover restrictions and higher retention limits for insurers. The restrictions have the potential to create an insurance gap where certain perils will be uninsured.

Although the sector remained resilient and profitable, the claims ratios/costs continued to experience added pressure as motor vehicle claims resumed to pre-pandemic levels. Inflation and unfavourable exchange rates have also negatively impacted (exacerbated) the cost of motor vehicle parts, thus further straining the loss ratio. The deteriorating road infrastructure further contributed to the increase in claims costs to non-life insurers. The industry continued to note an increase in high-value vehicle theft, with keyless technology being specifically targeted.[5, 6]

Life insurers

Life insurers showed resilience in 2023, with significant improvements in their results. However, high unemployment rates and higher costs of living impacted the disposal income of households, which resulted in higher policy lapses, especially funeral policies.

5 FANews. 'Urgent need for comprehensive motor insurance highlighted amidst South Africa's unsafe driving epidemic', 21 June 2023. https://www.fanews.co.za/article/short-term-insurance/15/motor/1023/urgent-need-for-comprehensive-motor-insurance-highlighted-amidst-south-africa-s-unsafe-driving-epidemic/37290#:~:text=The%20significance%20of%20comprehensive%20motor,rates%20of%20unsafe%20drivers%20worldwide.

6 Automobile Association of South Africa, 'Being insured (even a little) is better than not being insured at all', 7 December 2020. https://aa.co.za/being-insured-even-a-little-is-better-than-not-being-insured-at-all-2/#:~:text=There%20are%20more%20better%20reasons,and%20look%20after%20them%20responsibly.

Succession planning implementation in large banks and insurers

During the period under review, the PA observed advancements at both executive management and board levels, building on an assessment of the previous year's flavour-of-the-year topic on the status of succession planning at financial institutions. The PA monitored the process followed by organisations to manage the executive and board changes, to ensure minimal disruption and business continuity.

The PA's heightened monitoring of these transitions revealed the following:

Boards followed their formal policies detailing procedures for nominations, elections and appointments to the board, to contribute to a diverse and inclusive board.

Where directors are reaching the end of their tenure or retirement age, board continuity is managed through active succession planning that also considers any changes to the skills and expertise needed on the board in terms of the group's strategic focus areas.

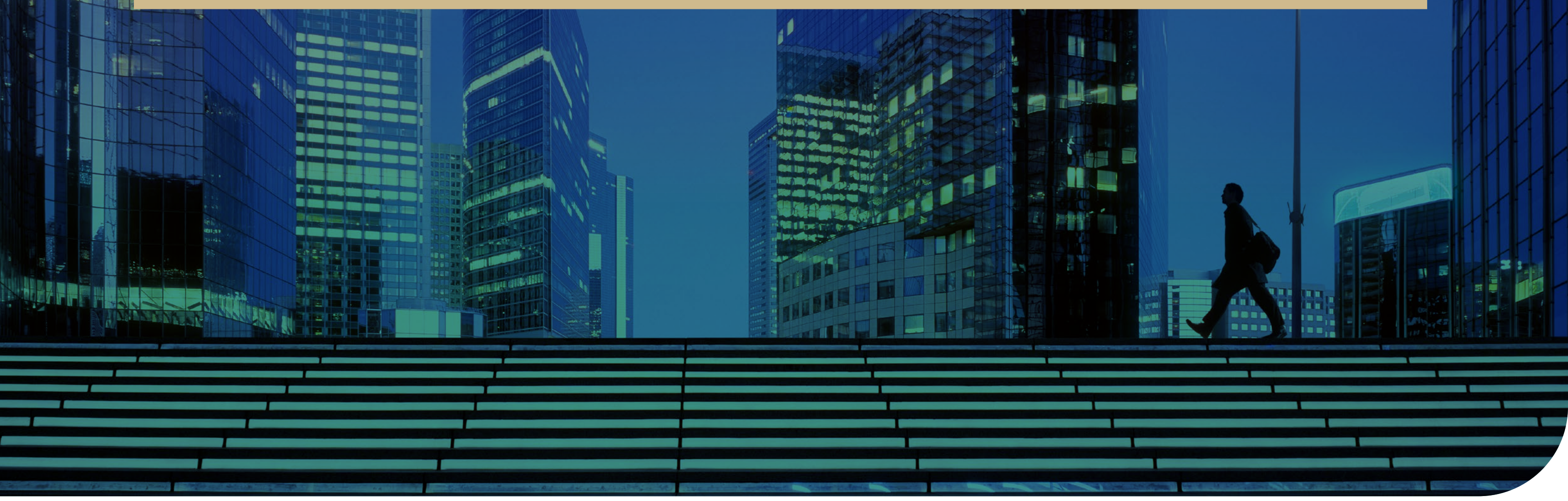
Generally, executive management vacancies are filled internally, indicating the effective implementation of succession planning. However, where external candidates are selected, extensive assessment of the candidate takes place prior to appointment, supported by a comprehensive onboarding plan to ensure successful integration into the organisation.

In some cases, uncertainty remains with regard to the strength of the talent pipeline, given the repetition of identified successors, especially as most of them fulfil other key roles within the organisation.

Succession planning remains top of mind for the PA and is discussed with financial institutions on an ongoing basis.

Small to medium-sized insurers

The PA noted an increase in the number of microinsurance applications in the year under review, indicating a positive interest in the sector. There was also a fair number of acquisitions of small to medium-sized insurers by larger insurers in the non-life insurance sector. The PA's analysis indicates that the proliferation of corporate action is attributable to a lack of organic growth in this sector.



Member-based, deposit-taking institutions

Generally, an increase in licence applications for mutual banks as well as co-operative banks and CFIs indicates positive interest in the sector. A policy process is underway to address the legislative gaps related to mutual banks through regulatory instruments (i.e. the definition of 'mutuality' as well as clarity related to the shareholding structure of mutual banks).

Mutual banks

Across the mutual banks, the PA observed sound corporate governance and effective risk management practices in place commensurate with the size, risk profile and complexity of the respective institution. Governance structures at all the mutual banks are in place, including adequate succession planning for directors and sufficient executive management oversight.

The sector has adequate liquidity and credit risk management processes in place, evidenced by the low levels of loans that are overdue. There were also improvements in the profitability and cost-to-income ratios of mutual banks, compared to the previous financial year. However, reliance on secondary share capital by mutual banks remains a concern.

Co-operative banks and co-operative financial institutions

The sector faced challenges in relation to stabilising governance structures due to capacity constraints from both financial and human resources priorities. In some instances, members serving in the governance structures of the co-operative banking sector did not have the relevant skills and experience to provide adequate oversight for financial institutions. The lack of the availability of adequate skills and experience resulted in key-person dependency within institutions. Succession planning therefore remained a key challenge as some members exceeded the term to serve on the respective boards.

Non-compliance with registration conditions and regulatory requirements remain a concern. Additionally, the weak economic conditions resulted in marginal growth in the overall financial performance of the sector.

Members of the sector raised concern about the escalating regulatory requirements imposed by multiple regulators, which added to the regulatory burden, increased compliance costs and imposed constraints on the operational capacity of the sector.

Foreign branches of banks

The branches of foreign banks have maintained relatively healthy levels of profitability capital and liquidity, with continued support from their respective head offices. However, these branches often face compliance challenges when implementing directives issued by the PA, partly due to their reliance on their head office. Notably, there has been an increased focus on appointing senior executives with South African risk, compliance and regulatory experience at these branches.

Smaller, locally registered banks

Some of the smaller banks are facing corporate governance challenges that have led to ineffective risk management, along with concerns over profitability given the current loss-making trend. The PA has therefore focused on the appointment of appropriately fit and proper directors, executives, senior management and primary risk custodians as well as effective governance structures.

Furthermore, succession planning has been highlighted as a crucial factor in ensuring that a pool of experienced and qualified bankers are readily available to smaller banks that often struggle with recruiting and retaining such talent.

Smaller banks have partnered with non-banks to improve access to customers. This has introduced dependencies and risks between the entities. The PA has emphasised that banks should take ownership of the risks associated with all third-party relationships, including risks originating with third parties.

Market infrastructures

The sustainability of MIs featured on the 2023 supervisory agenda. Owing to the nature, size and variance in complexity among MIs, emphasis was placed on growth, diversification of revenue and business strategies as well as cost containment and raising capital. This overshadowed matters such as sustainable development goals relating to economic, social and governance (ESG) criteria, and independent assurance across the industry. Critical infrastructure blackouts and continued load-shedding remained a focus for MIs' business continuity and growth.

The impact of the greylisting status from the FATF on the industry was monitored throughout 2023; it was minimal across MIs.

With MIs heavily reliant on technology to operate, cybersecurity and resilience remained a key focus area. In December 2023, the FSCA and PA published FSCA Communication 34 of 2023 and the final draft of the Joint Standard on Cybersecurity and Cyber Resilience Requirements, for the implementation of controls and processes to mitigate cyber-risks.

A delisting trend continues to be observed, not only in local capital markets but globally as well. The cost to remain listed, regulatory requirements and spillover effects of the tough economic environment in South Africa have become burdensome to entities wanting to raise funds in the capital markets. The JSE saw 23 delistings from the exchange in 2023. This has resulted in the exchange looking at other sources of revenue, namely the establishment of JSE Investor Services as well as JSE Private Placement. Other market infrastructures are also looking to diversify their revenue streams, for example Strate (Pty) Ltd's acquisition of Trustlink, while other exchanges have extended their product offerings to include bonds and real estate investment trusts (REITs).

C. ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

FATF mutual evaluation and remedial action

Following the greylisting of South Africa by the FATF in February 2023, the PA has been actively working to address the action items applicable to it. This has been achieved through an enhanced focus on the follow up and monitoring of remedial actions within requisite time frames as well as ensuring that proportionate, dissuasive and effective sanctions are issued to supervised entities that are found to be non-compliant with the provisions of the FIC Act. Other supervisory bodies are similarly actively working to address their pertinent action items.

South Africa was recognised as a high-risk third country on 26 July 2023 and 4 December 2023 respectively by the European Union (EU) and the UK, in terms of their internal policies and legislation. This follows South Africa being placed under increased monitoring by the FATF in February 2023. Additionally, the JSE Clear was initially recognised by the European Securities and Market Authority (ESMA) as an EU-equivalent third-country central counterparty (CCP) in 2016. The JSE Clear has now been derecognised as an EU-equivalent third-party CCP.[7, 8] The Market infrastructure Directorate at the Bank of England subsequently granted JSE Clear a 15-month run-off period in terms of its derecognition as a third-country CCP.

Progress in addressing the 2019 mutual evaluation and greylisting items is reported to the FATF's Africa and Middle East Joint Group. Differing interim deadlines have been assigned per action item assigned to South Africa, and the PA has until January 2025 to demonstrate that it has subsantially addressed the action items applicable to it. The PA will continue to update the joint group on its progress.

AML/CFT

The PA continued with risk-based supervision of the banks and life insurers during the period under review. From an on-site perspective, the PA conducted 19 risk-based inspections across domestically registered banks (including branches of foreign banks), cross-border subsidiaries of South African banks and life insurers. The table below sets out the inspections conducted across the different supervised entities.

Inspections

Institution type	Number
Locally registered banks	10
Cross-border inspections (subsidiaries of South African banks)	6
Life insurers	3
Total	**19**

Developments in the PA's AML/CFT Division include the recent recognition of co-operative banks as accountable institutions in terms of the FIC Act. The PA hosted a workshop with the co-operative banking sector on 23 July 2023 to communicate its expectations for the sector and raise awareness of its AML/CFT obligations. From an engagement perspective, outreach and awareness sessions were held with banks and life insurers during the period under review, covering a broad range of topics, including observations from the inspections conducted. Further to this, and in the interests of fostering greater awareness and promoting a change in compliance behaviour by supervised entities, the PA issued its first guidance note on terrorist financing in December 2023 and also commenced its second round of business risk assessments across selected banks and life insurers. Work on the third round of sectoral risk assessments for banks and life insurers has commenced, and it is envisaged that these reports will be published in the second half of 2024.

As part of its risk-based approach to supervision, the PA received data from the life insurers and banks that submitted their AML/CFT regulatory risk returns, which information assists the PA in assessing the risks associated with each supervised entity.

From a collaboration and co-operation perspective, the PA's AML/CFT Division continued to work closely with its key stakeholders, namely the FSCA, Financial Intelligence Centre (FIC), Banking Association South Africa (BASA) and the Association for Savings and Investment South Africa (ASISA). Three quarterly engagements were held with the FSCA and FIC in 2023/24 as well as two biannual engagements with BASA and ASISA.

7 JSE Clear was initially recognised by ESMA as an EU-equivalent third-country CCP in 2016 and was endorsed by the European Commission, which allowed JSE Clear to provide clearing services to financial entities incorporated under European law.

8 European Securities and Markets Authority, 'Inclusion of South Africa on AML blacklist requires ESMA to withdraw the recognition decision of JSE Clear', 29 September 2023. https://www.esma.europa.eu/press-news/esma-news/inclusion-south-africa-aml-blacklist-requires-esma-withdraw-recognition

D. ENFORCEMENT

The PA takes the necessary regulatory actions, which may result in the imposition of administrative sanctions on regulated institutions for non-compliance with the FSR Act, other financial sector laws and the FIC Act. The FSR Act and relevant financial sector laws as well as the FIC Act provide a range of administrative sanctions that may be imposed on institutions for failure to comply with their obligations. Enforcement-related matters are tabled at the PARAC. In 2023/24, the PARAC held 13 meetings to consider recommendations made in relation to matters of non-compliance. The PA considered 134 non-compliance referrals.

Details of the final penalty orders imposed in terms of section 167 of the FSR Act are as follows:

Entity	Non-compliance	Penalty
Old Mutual Insure Limited	The PA found Old Mutual Insure Limited to be in contravention of sections 44(1) and 45(1) of the Insurance Act by not submitting its 2022 annual solo quantitative reporting template (QRT) and the annual financial statements for the financial year ended 31 December 2022 within the period prescribed by the PA.	Administrative penalty of R30 000
African Bank Holdings Limited and African Bank Limited (collectively known as African Bank)	African Bank was non-compliant with section 60(5) of the Banks Act and section 42(1) of the Regulations (BA 020) in that African Bank had permitted one of its key employees to take on the role of executive officer prior to their appointment becoming effective.	Administrative penalty of R1 000 000
Professional Provident Society Insurance Company (PPS Insco)	PPS Insco granted various loans amounting to approximately R165 million to subsidiaries after 1 July 2018, the effective date of the Insurance Act. The loans amounted to one or more transactions contemplated in terms of section 45 of the Companies Act 71 of 2008 being concluded. PPS Insco confirmed to the PA that all the intercompany loans granted after July 2018 were unencumbered. No applications were submitted to the PA for the approval of such intercompany loans. PPS Insco was found to be non-compliant with section 38(1)(e) of the Insurance Act.	Administrative penalty of R1 650 000 suspended for five years from the date the penalty was imposed
Imvelo Agricultural Co-operative Financial Institution Limited (Imvelo CFI)	Imvelo CFI had repeatedly contravened section 6.2 of the Prudential Standard TCFI-01 dated 26 September 2018, which requires CFIs to report to the PA on their financial performance on a quarterly and cumulative basis.	Administrative penalty of R 1 000

Other PA decisions

Tools to place distressed financial institutions under the administration of the PA

The Financial Institutions (Protection of Funds) Act 28 of 2001 provides for, and consolidates the laws relating to, the investment, safe custody and administration of funds and trust property by financial institutions and enables the registrar to protect such funds and trust property.

Curatorship, judicial management and statutory management are tools used by the PA to protect depositors' and policyholders' funds. These tools allow the PA to take immediate control of, manage and investigate the business and operations of a financial institution, and direct that an institution and its management and affairs be placed under temporary supervision while the relevant practitioners develop a plan to restructure its affairs. The aim is to conserve the business and maximise the institution's likelihood of continuing to exist on a solvent basis or to initiate an orderly wind-down when this is not feasible.

Section 69 of the Banks Act, which provides for the curatorship of banks in financial difficulty, has since been repealed under the resolution framework with effect from 1 June 2023. Following the promulgation of the FSLAA, the SARB was designated as the Resolution Authority for the orderly exit of designated institutions. It is worth noting that any curatorship process which commenced before 1 June 2023 will still be dealt with under the pre-existing framework.

Institutions placed under curatorship

Section 54 of the Insurance Act, read with section 5 of the Financial Institutions (Protection of Funds) Act, provides for the appointment of a curator.

3Sixty Life Limited has been under curatorship for a period of two years and is being monitored closely by the PA. The institution was placed under curatorship on 21 December 2021 for failing to maintain adequate capital and liquidity levels as required. The curator remains in contact with the PA to alert it on the latest developments.

Ubank Limited was placed under curatorship in May 2022 and is in the process of being deregistered with the PA, following the completion of the 2023 external audit. Once the external audit has been completed, the curator will submit a final report to the PA and Minister of Finance requesting that the curatorship on Ubank Limited be lifted and the institution be handed back to its shareholders.

Institutions placed under statutory management

A statutory manager is appointed in terms of section 5A of the Financial Institutions (Protection of Funds) Act if it appears that a financial institution (i) has in a material respect failed to comply with a law; (ii) is likely to be in an unsound financial position; or (iii) is maladministered. In addition, the appointment of a statutory manager seeks to protect (i) the interests of the clients of the financial institution; (ii) the safety and soundness of financial institutions in general; or (iii) the stability, fairness, efficiency and orderliness of the financial system.

New Era Life Insurance Company Limited is still under statutory management after the PA determined that it was likely to be in an unsound financial position and had materially failed to comply with the Policyholder Protection Rules under section 62 of the Long-term Insurance Act 52 of 1998. The institution is in the process of proposing a new strategic equity partner to provide capital, resources and a book of business to assist with its growth strategy. The PA is regularly informed by the statutory manager on the progress of discussions related to the strategic partner and other matters thereto.

Institutions placed under judicial management

In terms of the Co-operatives Act 14 of 2005, a court may grant a judicial management order in respect of a co-operative (i) when that co-operative by reason of mismanagement or for any other cause is unable to pay its debts or is probably unable to meet its obligations; (ii) when that co-operative by reason of mismanagement or for any other cause has not become or is prevented from becoming a viable co-operative; (iii) if there is a reasonable probability that, if it is placed under judicial management, it will be able to pay its debts or meet its obligations and become a viable co-operative; and (iv) if it appears just and equitable to do so.

Motswedi Financial Services Co-operative Limited

On 2 December 2022, the PARAC approved the recommendation to place the institution under judicial management due to its failure to submit its 2021/22 quarterly returns. Mr Terrence Mathe of Maine Chartered Accountants was duly appointed as the judicial manager on 29 June 2023 by the High Court of South Africa. The PA continues to hold regular meetings with the judicial manager.

People Empowerment CFI Primary Co-operative Limited

On 8 November 2023, the PARAC approved the recommendation to place the institution under judicial management following its non-compliance with the solvency and capital requirements. In April 2024, People Empowerment CFI Primary Co-operative Limited was placed under judicial management by the Pietermaritzburg High Court and on 12 April 2024, Mr Arwin Naidoo CA(SA) of NKS Chartered Accountants was duly appointed as the judicial manager.

Winding up/liquidation

Where an institution is insolvent and there are no reasonable prospects that that institution will cease to be in that financial position, the PA, in terms of the FSR Act, may make an application to a competent court to have it wound up.

Institutions placed under liquidation

Following the placement of **Habib Overseas Bank (Habib)** under curatorship on 26 March 2023 by the Minister of Finance, an in-depth assessment and analysis was undertaken by the curator. The curator established that Habib's financial position was significantly worse than that reported by the bank's management. The findings by the curator concluded that Habib was insolvent. After numerous consultations with the curator, the PA proceeded to lodge its application for the final winding up of Habib on 21 July 2023. Habib was placed under provisional liquidation on 24 August 2023. The High Court of South Africa placed Habib under final liquidation in February 2024.

Constantia Insurance Company Limited was placed under final liquidation on 14 September 2022 on the recommendation from its erstwhile curators. The liquidation process is ongoing and the PA continues to hold regular meetings with the liquidators in this regard.

Matters referred to the Financial Services Tribunal

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

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

The insurance companies filed an application in terms of section 230 of the FSR Act following the PA's decision to impose a financial penalty for their failure to obtain approval before appointing various directors.[9]

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

Current status: The PA has taken the matter on review to the High Court. The matter has not been finalised.

Escap SOC Limited (Escap)

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

Decision: On 4 April 2023, the Tribunal dismissed the application for reconsideration of the decision. The Tribunal indicated that the circumstances surrounding the dividend declaration were not in dispute and ruled that the Escap board had considered the declaration of the dividend before the annual quantitative report and the final audited statements were available. In so doing, it potentially could have put policyholders at risk.

9 The PA provides approval of the appointment of a director in terms of section 14(1)(a) of the Insurance Act 18 of 2017.

E. MARKET RISK

Prudential regulations update

Oversight on industry risks

The revised frameworks for the minimum capital requirements for market risk and credit valuation adjustment

In January 2019, the BCBS issued a revised framework for the minimum capital requirements for market risk,[10] commonly referred to as the fundamental review of the trading book (FRTB). This is an overhaul of the Basel II and Basel II.5 market risk frameworks. The revision addressed the structural shortcomings identified in the Basel II framework detected at the time of the 2008 global financial crisis. Following consultation by the BCBS on the market risk framework in November 2019, the credit valuation adjustment (CVA) framework was also revised and published in July 2020.[11]

In July 2023, the PA shifted the implementation of the FRTB and the CVA frameworks to 1 July 2025, outlined in Guidance Note 3 of 2023 (G3/2023).[12] The PA issued communication outlining the implementation milestones. A second draft of the proposed standard for the two frameworks was published for consultation under Prudential Communication 15 of 2023,[13] and is expected to be finalised in early 2025, ahead of the July 2025 implementation date.

Margin requirements for non-centrally cleared derivatives

Joint Standard 2 of 2020[14] on margin requirements for non-centrally cleared OTC derivative transactions, or the Joint Standard, came into effect on 16 August 2021. Joint Notice 1 of 2022,[15] namely the regulatory variation margin exchange, became effective on 16 February 2023 and is based on the thresholds stipulated in the Joint Standard and covered entities' aggregate derivative exposures. The FSCA and the PA solicited data from industry participants to assess their readiness to the exchange margin. Both Authorities continued to supervise the impact and practical implementation of the Joint Standard. The key insights from these engagements include the practical implementation of the framework, which resulted in a better understanding of the operational challenges, identifying areas of improvement, and institutional preparedness.

In June 2023, Joint Communication 2 of 2023[16] introduced a revised margin model application suite for the use of modelled approaches in calculating initial margin and collateral haircuts. The application window opened on 1 August 2023. The FSCA and the PA also engaged with the industry to discuss what was required, including formal regulatory reporting. In December 2023, Joint Communication 5 of 2023,[17] which outlined proposed regulatory reporting metrics, was published, with the first phase expected to be effective by the end of 2024. Policy work was also conducted to expand eligible collateral sets to meet margin obligations, and is anticipated to be completed in the second half of 2024.

Benchmark reforms

The PA concluded its monitoring related to the initiatives, transition programmes, impact and financial sector exposures to the London Interbank Offered Rate (LIBOR) transition. The outcomes were presented to market participants. Further engagements were held with selected financial institutions to discuss their transition programmes, LIBOR exposures, the adoption and utilisation of alternative risk-free rates (RFRs) and the incorporation of fall-back languages, among other topics. These engagements were also used to build awareness on the programme of work related to the Johannesburg Interbank Average Rate (Jibar) transition to the South African Rand Overnight Index Average (ZARONIA) rate.

10 The standard published by the Basel Committee on Banking Supervision, titled 'MAR: Calculation of RWA for market risk' is available at https://www.bis.org/basel_framework/standard/MAR.htm?type=all

11 The revised CVA framework, which had been integrated into the consolidated Basel Framework, is available at https://www.bis.org/basel_framework/chapter/MAR/50.htm?inforce=20230101&published=20200708

12 G3/2023: Proposed implementation dates in respect of specified regulatory reforms is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2023/G3-2023%20-%20%20Proposed%20implementation%20dates%20in%20respect%20of%20specified%20regulatory%20reforms.pdf

13 Prudential Communication 15 of 2023: Notice of invitation to comment – draft Prudential Standard on Market Risk and draft Prudential Standard on Credit Valuation Adjustment is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2023/prudential-communication-15-of-2023/Prudential%20Communication%20-%20Notice%20of%20Invitation%20for%20Comment%20-%20FRTB%20and%20CVA%20-%20Final.pdf

14 The Joint Standard on Margin Requirements for Non-centrally Cleared OTC Derivative Transactions is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2023/joint-communication-1-of-2023/Joint%20Standard%202%20of%202020%20Margin%20Requirements_as%20amended%2009%20June%202023.pdf

15 Joint Notice 1 of 2022: Extension of Dates in Joint Standard 2 of 2020 is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Joint-Notice-1-of-2022---Extension-of-dates-in-Joint-Standard-2-of-2020

16 Joint Communication 2 of 2023: Margin requirements for non-centrally cleared over the counter derivative transactions – Model Application Suite is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2023/Joint%20Communication%202%20of%202023-Margin%20Requirements%20Model%20Application%20Suite.pdf

17 Joint Communication 5 of 2023: Regulatory reporting in terms of Joint Standard 2 of 2020: Margin Requirements for Non-centrally Cleared Over the Counter Derivative Transactions is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2023/Joint%20Communication%205%20of%202023%20-%20Regulatory%20reporting%20in%20terms%20of%20Joint%20Standard%202%20of%202020.pdf

Surveys conducted by the PA and the SARB's Financial Markets Department in 2023 showed significant Jibar exposure, particularly in derivatives (93% of total exposure), with the three-month Jibar being the most common reference rate. The surveys also indicated a need for better communication and definitive timelines for the transition to the ZARONIA rate. In 2024, the PA's focus will shift towards the build-up of exposures to alternative reference rates and the Jibar transition.

Johannesburg Interbank Average Rate transition

The Jibar is being replaced by the ZARONIA rate. The transition from Jibar to ZARONIA is crucial for South Africa's financial markets, with over R46 trillion in various financial instruments. ZARONIA is expected to improve market representation and provide a more accurate reflection of market conditions based on actual transactions. Other areas of improvement include the following:

- Global reform alignment: The transition aligns with global efforts to modernise interbank offer rates post the financial crisis.
- System stability and efficiency: The change impacts the stability and efficiency of the financial system, affecting a wide range of financial contracts.
- Effective monetary policy transmission: ZARONIA adjusts well to repurchase (repo) rate changes, aiding in effective monetary policy transmission.
- Robustness and reliability: ZARONIA has undergone rigorous testing over five years to ensure its reliability and stability as the succeeding reference rate.

Supervision

Most regulated financial institutions remained resilient, demonstrating the ability to maintain adequate capital buffers to absorb the impact of market shocks, despite global and local macroeconomic and market factors.

Banking supervision

The PA continued its focus on the supervision of banks' trading activities, risk management practices and governance processes, while also working with the banking industry on regulatory implementations such as FRTB and CVA. Significant work is underway ahead of the July 2025 implementation date.

Insurance supervision

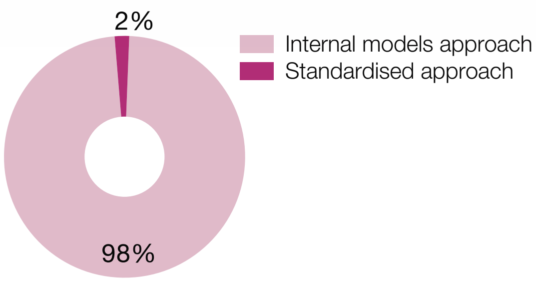
Focused supervisory engagements with selected insurers related to market risk and counterparty credit risk took place. The aim was to extend supervisory intelligence that relates to the associated risk management and control of market risk and counterparty credit risk management. The PA used the occasion to assess insurers' incorporation of macroeconomic conditions and pending regulatory reforms into their strategies, business practices and risk management procedures. These engagements will continue in 2024, and will include an asset benchmarking exercise for selected industry participants. Engagements with insurers on the asset benchmarking exercise will be discussed through forums with ASISA and the South African Insurance Association (SAIA).

Market infrastructures

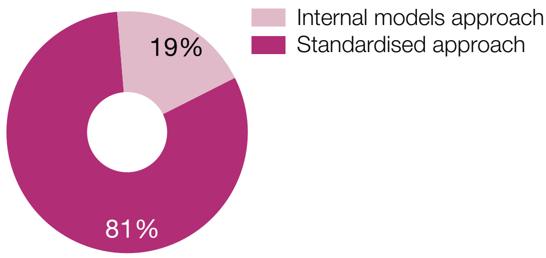
The PA sought to create cross-industry knowledge given the interconnected nature of financial markets and due to the regulatory initiatives and reforms in the pipeline. A key focus in 2024 will be the impact on parallel effects on markets due to the implementation of the Joint Standard on Margin Requirements and its related impacts on exchange-traded clearing. As part of Phase 3 of the Joint Roadmap for the Development of a Regulatory Framework for Central Clearing in South Africa, the FSCA and the PA started the work to determine eligibility criteria for OTC derivative transactions which will be subject to mandatory central clearing, in lieu of regulation 4 of the Financial Markets Act 19 of 2012 (FM Act).

Market risk methodologies applied by banks as at 31 December 2023

Risk-weighted exposure per regulatory approach



Number of banks per regulatory approach



F. CAPITAL MANAGEMENT

Banking

The majority of banks were adequately capitalised throughout 2023 and their capital ratios remained at approximately the same levels as the December 2022 ratios.

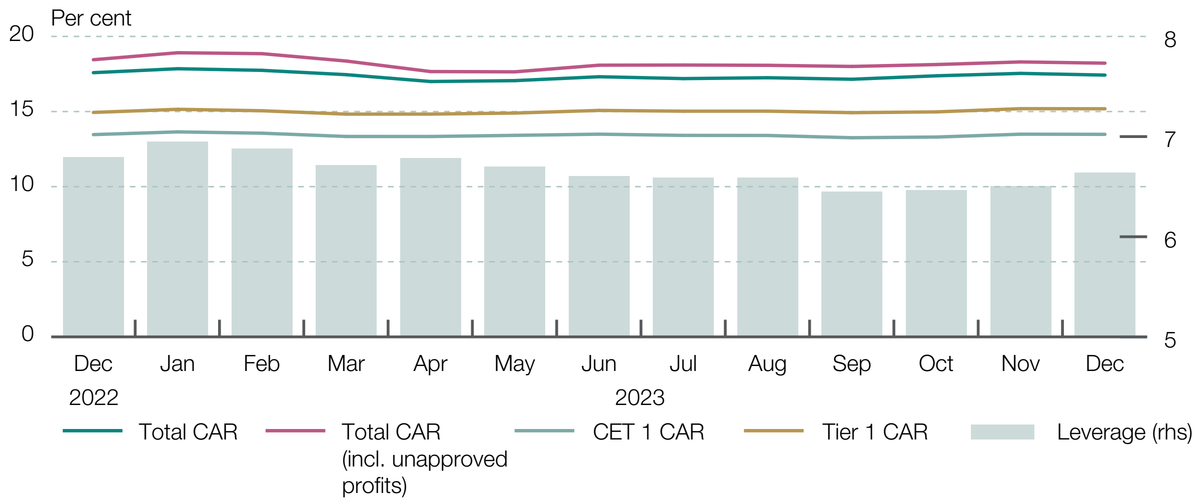
Industry consultations took place on the Basel III post-crisis reforms, including a leverage buffer requirement, and the positive cycle-neutral countercyclical capital buffer requirement. The consultations will lead to the publication of directives in the next financial year that will clarify the leverage buffer requirement and a positive cycle-neutral countercyclical capital buffer requirement.

Capital buffers

The higher loss-absorbency requirement remained unchanged during 2023. Furthermore, the countercyclical capital buffer remained unchanged at 0% throughout 2023.

Capital adequacy

Capital adequacy and leverage ratios



The minimum required CARs, excluding domestic systemically important banks (D-SIBs) and individual capital requirements which differ between banks, were as follows:

	CET 1	Tier 1	Total capital
2023	**7.50%**	**9.25%**	**11.50%**

Total value of capital issuances approved during the year:

	2022 (R billions)	2023 (R billions)
Additional tier 1	8.5	9.3
Tier 2	11.0	28.0

Total value of capital redemptions during the year:

	2022 (R billions)	2023 (R billions)
Additional tier 1	2.1	4.3
Tier 2	5.1	16.5*

* An average exchange rate of R18.5 to US$1 was used.

Insurance

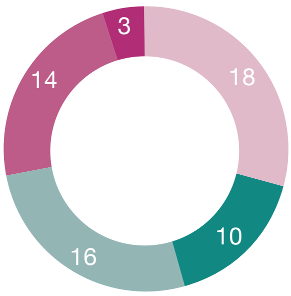
The PA's Capital Team processed capital-related applications for various topics as outlined in the Insurance Act and the prudential standards. An application that arose frequently pertained to the treatment of an insurer's assets and their availability to cover the insurer's losses whenever they arise. Applications related to section 38 of the Insurance Act, which addresses capital management activities such as issuing securities other than shares and reducing share capital, also occurred frequently, particularly by larger insurers. In addition, the Capital Team received numerous applications and queries dealing with the microinsurance industry, especially regarding asset spreading requirements.

The IAIS is expected to adopt the Insurance Capital Standard (ICS), which aims to set a global insurance solvency framework for large internationally active insurance groups. As a member of the IAIS, the PA is committed to the IAIS principles outlined in the Insurance Core Principles and is considering amending the national legislation in anticipation of the assessment of the ICS implementation as required by the Insurance Core Principles.

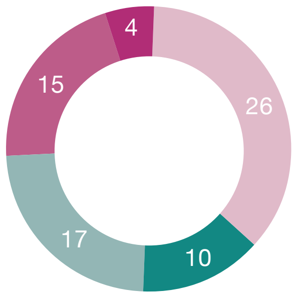
Capital adequacy

The following graphs show that the insurance industry is adequately capitalised, with solvency ratios greater than 1.2 for most insures.

Solvency capital requirement coverage ratio* for life insurers – December 2023



Solvency capital requirement coverage ratio* for non-life insurers – December 2023



<1 1–1.2 1.2–1.6 1.6–2 2–3 >3

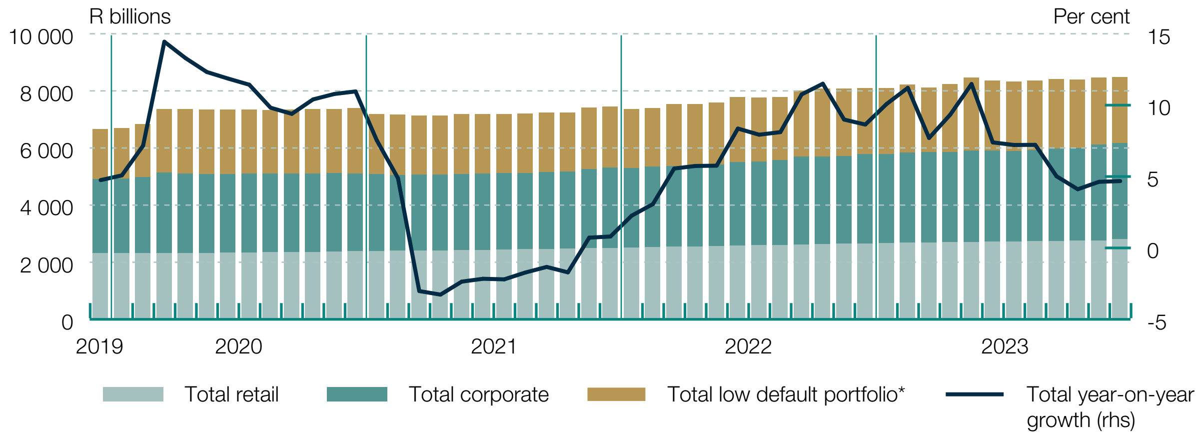
* The solvency capital requirements ensure that a sufficient minimum level of eligible own funds is held against the key risks to which an insurer is exposed. It captures risks covering existing business as well as new business expected to be written over the coming 12 months. It is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period.

G. CREDIT RISK

Introduction

During the reporting period, inflation was above the midpoint of the inflation target range and thus monetary policy was tight. This affected economic activity and credit quality. Against this backdrop, growth in credit extension by the banking sector has moderated since November 2022 as banks tightened their credit risk appetite.

Total gross credit exposure (R8.5 trillion)



* Low default portfolios can be defined as portfolios that historically have experienced low numbers of default and are generally considered to be low risk (i.e. banks, securities firms and sovereign exposures (including central government and the central bank)).

Banking industry

Gross credit extended by the banking sector grew by 4.7% year on year, reaching R8.5 trillion in December 2023 (December 2022: R8.1 trillion). Inflation and interest rates have had an adverse impact on household disposable income and small businesses, and weighed on asset quality indicators in 2023 on the back of subdued loan growth.

The South African banking sector saw impaired advances increase to R295 billion as at December 2023 (December 2022: R242 billion), representing year-on-year growth of 21.6%. Although impaired advances have somewhat flattened over the past five months, they remain elevated and are growing at a higher rate relative to credit extension.

The PA will continue to monitor banks' credit risk management practices and encourage banks to ensure prudent financial and risk management practices to weather the storm amid tough operating conditions. Domestic credit growth is expected to remain subdued in 2024.

Insurance industry

As part of the PA's ongoing credit risk supervision of regulated institutions, the PA increased its monitoring of insurers' credit risk management practices through data analysis, application reviews and participation in risk-based supervisory engagements. These include:

- engagements with selected insurers during the own risk and solvency assessment (ORSA) supervisory review meetings;
- an analysis of selected insurers' quarterly reporting, including movements in spread and default risk, and concentration risk;
- the ongoing monitoring of the watchlists of selected insurers, which analysis provides a holistic view of common credit distressed exposures across all regulated institutions; and
- an analysis of selected insurers' credit board packs, which were used to formulate an overview of the types of exposures that give rise to credit risk and the risk management thereof as well as how emerging risks are addressed for insurers.

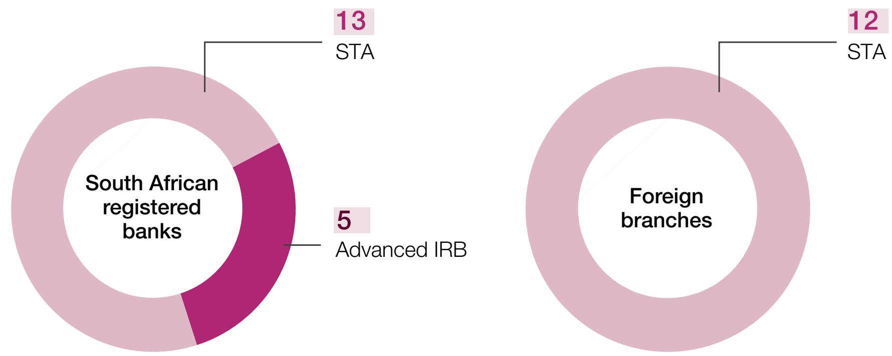
Methodologies to calculate the minimum required regulatory capital relating to credit risk for banks[18]

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

- the standardised approach (STA), including the simplified STA;
- the foundation internal ratings-based (IRB)[19] approach; and
- the advanced IRB approach.

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

Reporting methods applied by banks as at 31 March 2024



IRB data and assessment templates

Banks that use the IRB approach to determine their minimum required regulatory capital relating to credit risk started reporting on the new data and assessment templates from the 2023 reporting period, with an initial focus on the corporate and SME portfolios. These templates are intended to assess banks' compliance with the IRB minimum requirements, specifically on areas such as the use of data to develop IRB credit risk models, the effectiveness of internal governance processes, the role of internal audit functions, and the oversight responsibilities of boards.

Overall, the information submitted for the 2023 reporting period showed that banks are compliant with the minimum requirements, although there were a few areas of concern. Data quality is still a challenge for some portfolios, for which banks largely have plans in place to remediate the gaps. The regular review and update of IRB credit risk models remains a challenge, especially for some of the wholesale models, with some banks having models that have not been updated in many years. Some banks reported that plans are underway to either review these models or redevelop them entirely.

18 The methodologies are the standardised approach (STA), foundation internal ratings-based approach (IRB) and advanced IRB. The STA methodology requires the use of regulatory-prescribed risk weights in the calculation. The foundation IRB requires banks to obtain PA approval in order to model their own probability of default. The advanced IRB requires banks to obtain PA approval in order to model their own probability of default, loss-given default, exposure at default and maturity.

19 Subject to regulatory approval.

Continuation of work in preparation for the implementation of the Basel III post-crisis reforms

In preparation for the implementation of the Basel III post-crisis reforms, the PA issued various consultation papers and tier 3 regulatory instruments to capture some of the new requirements relating to banks using the STA and IRB approaches to calculate their capital requirements for their exposure to credit risk. The consultation papers are intended for banks and other interested parties to comment on the capital treatment of loans classified in default. A directive capturing thresholds used by STA and IRB banks to classify their credit exposures, calculate the requisite capital requirements and outline regulatory reporting was also finalised.

In addition, the PA gained important insights from the information collected in respect of banks' readiness to implement the Basel III post-crisis reforms. Banks referred to several projects underway aimed at updating the necessary systems and credit risk models to align with the new IRB requirements. While certain IRB banks plan to decommission some of their credit risk models due to regulatory restrictions on the use of internal models for specific portfolios, others intend to only decommission credit risk models for regulatory purposes and to retain them for internal risk management functions. Some banks also highlighted the cost and resource implications of these projects.

The Basel III post-crisis reforms also included amendments to the credit risk regulatory returns (i.e. forms BA 200 and BA 210). The amendments were mainly based on the revisions to the STA and IRB approaches for credit risk. Other additional changes were also made, which are not related to the Basel III post-crisis reforms, mostly because the credit returns had not been updated for some time. Industry participants were invited to comment on all the amendments. The regulatory returns were finalised, approved and published on 24 April 2024.

Update to Directive 7 of 2015 (restructured credit exposures)

The PA is in the process of revising Directive 7 of 2015 (D7/2015)[20] which specifies the prudential treatment of distressed restructured credit exposures that are restructured due to the financial distress of clients. Among other things, D7/2015 specifies the indicators banks must use when identifying distressed restructured loans. It also specifies requirements relating to the rehabilitation of these loans.

To address some of the inconsistencies in the interpretation and implementation of some of the requirements in D7/2015, the PA issued a discussion paper for public comment followed by a proposed directive on the amendments it intends to make. In the main, the PA incorporated amendments that clarify the proper interpretation of some of the indicators of financial distress, but also additional indicators issued by the BCBS.

In addition, the amendments align the treatment of distressed restructured credit exposures with the requirements of International Financial Reporting Standard (IFRS) 9 and clarify the treatment of these distressed restructured credit exposures in the context of default classification as defined in regulation 67 of the Regulations. The PA clarified the regulatory reporting requirements to create consistencies among banks in how they report distressed restructured loans in the regulatory returns. The proposed directive was updated and will be issued for further consultation.

20 D7/2015: Restructured credit exposures is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-directives/2015/6716

Submission of consolidated information by domestic systemically important banks

On 28 July 2023, the PA issued Directive 6 of 2023 (D6/2023)[21] which replaced Directive 1 of 2021. D6/2023 informed D-SIBs of further requirements relating to the submission of credit-related statutory returns as well as assurance requirements. D6/2023 requires D-SIBs to submit consolidated information, at a bank and controlling company level, on a biannual basis. The directive was updated to require D-SIBs with year-ends other than June or December to submit an additional return as at the D-SIB's year-end.

Derecognition of Fitch Ratings

Following the Prudential Communication 11 of 2022[22] dated 16 August 2022, wherein the PA informed banks of its intention to derecognise Fitch Ratings[23] as an eligible external credit assessment institution (ECAI), the PA issued Directive 7 of 2023 (D7/2023)[24] to formally notify all banks and affected parties of the updated list of the remaining eligible ECAIs, namely Global Credit Rating Co. (Pty) Ltd, Moody's Investors Service and Standard & Poor's Ratings Services.

Reassessment of eligible ECAIs

Section 85A of the Banks Act compels banks to only use the ratings of eligible ECAIs which are approved by the PA to act as eligible institutions. It is the PA's responsibility to determine on an ongoing basis whether an ECAI meets the eligibility criteria. The PA has initiated the process of reassessing current eligible ECAIs listed in D7/2023 to determine whether they continue to meet the criteria specified in regulation 51 of the Regulations.

21 D6/2023: South African domestic systemically important banks (D-SIBs) to submit consolidated information – Directive to replace D1 of 2021 is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-directives/2023/D6-2023%20-%20Directive%20to%20replace%20D1%20of%202021.pdf

22 Prudential Communication 11 of 2022: Eligible institutions approved by the Prudential Authority, regarding the derecognition of Fitch Ratings as an eligible external credit assessment institution, is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-11-Derecognition-of-Fitch-as-an-eligible-ECAI

23 Fitch Ratings was derecognised as an eligible ECAI as a result of the cancellation of its registration as a credit rating agency by the FSCA, in terms of the Credit Rating Services Act 24 of 2012.

24 D7/2023: Matters relating to eligible external credit assessment institutions is available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-directives/2023/D7-2023%20-%20Directive%20on%20Matters%20relating%20to%20eligible%20%20ECAIs.pdf

H. INSURANCE RISK

The PA conducted technical provisions adequacy reviews based on information requested from insurers and their regulatory returns. The purpose was to assess compliance with the provisions of the Insurance Act and the prudential standards. These reviews were completed for six insurers during 2023/24. In general, all insurers assessed were largely compliant with the prudential requirements and no material concerns were raised.

The PA received and assessed two microinsurance licence applications during the 2023/24 reporting period. When assessing these applications, the PA considers sufficient eligible capital and realistic assumptions. One application was based on the transfer of business from an existing life insurer, while the other focused on growth in the funeral class of business, with the specific purpose to promote employment creation and financial inclusion. The PA continued to encourage market participants in the microinsurance industry to apply to become licensed to write microinsurance business.

The PA considered and approved various applications in terms of the Insurance Act, including one for the approval to use an alternative method in the calculation of solo own funds and/or solo SCRs for insurance participations in non-equivalent jurisdictions, the transfer of business and a variation in license conditions applications. The variation in license conditions arose from the muted premium growth in the non-life insurance sector, leading to insurers seeking new business opportunities and risk diversification through expanding their product offerings.

The PA conducted ORSA reviews, including on-site visits, for two large insurance groups. Overall, the ORSA process is more matured for the larger entities compared to the smaller ones. In addition, the ORSA embedment has improved over the past five years across the insurance industry.

Work on providing industry guidance on the prudential standards in terms of the Insurance Act continued. To this end, various engagements with industry bodies such as the Actuarial Society of South Africa (ASSA) and ASISA took place. The PA presented key features of the insurance industry experience for 2022 based on information submitted in the regulatory returns in terms of the Insurance Act.

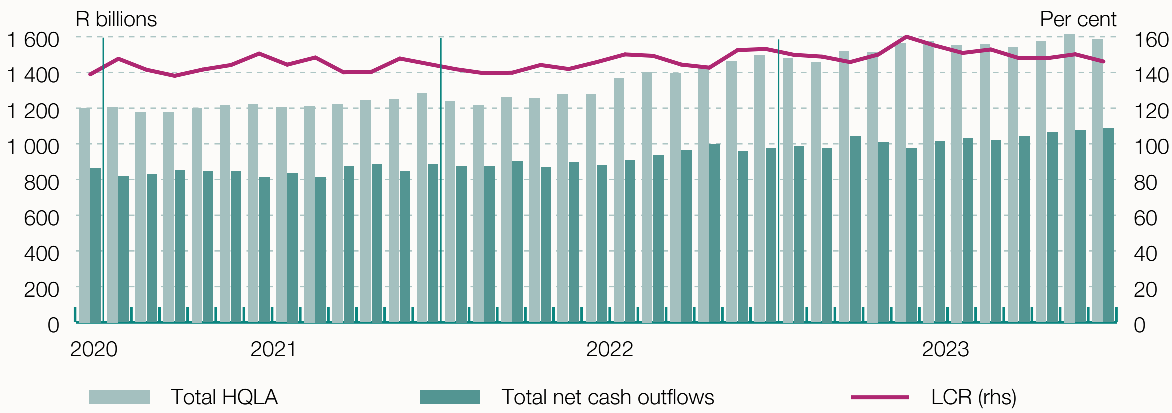
I. ASSET AND LIABILITY MANAGEMENT RISK

Banking

Liquidity risk

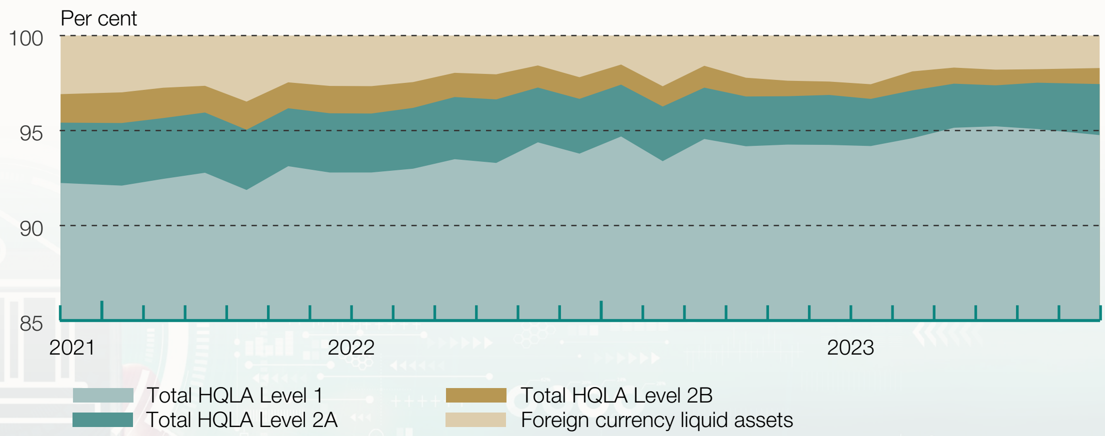
The LCR is a fundamental aspect of the PA's regulatory regime, designed to ensure that banks hold an adequate reserve of high-quality liquid assets (HQLA). These assets, which include cash or market instruments that can be easily converted into cash, are vital for banks to endure a 30-day period of liquidity stress. Regulation 26(12)[25] of the Regulations stipulates a minimum LCR of 100%. South Africa's banking sector has upheld a strong buffer above this benchmark, as outlined in the graph below, with an average LCR of 146% as at December 2023, showing considerable resilience against potential liquidity pressures.

LCR of the total banking industry



In accordance with Directive 11/2022 issued on 14 December 2022, banks were permitted to utilise the alternative liquidity approach (ALA) until 31 December 2023. This was due to South Africa's inability to demonstrate a lack of HQLA in the market. The ALA enabled banks to hold foreign currency-denominated Level 1 HQLA to fulfil their LCR requirements in local currency. Directive 11/2022 brings South Africa in line with the LCR standard, which prevents countries from using an ALA option if they cannot demonstrate a shortage of HQLA in their market. The composition of the HQLA portfolio is illustrated in the graph below:

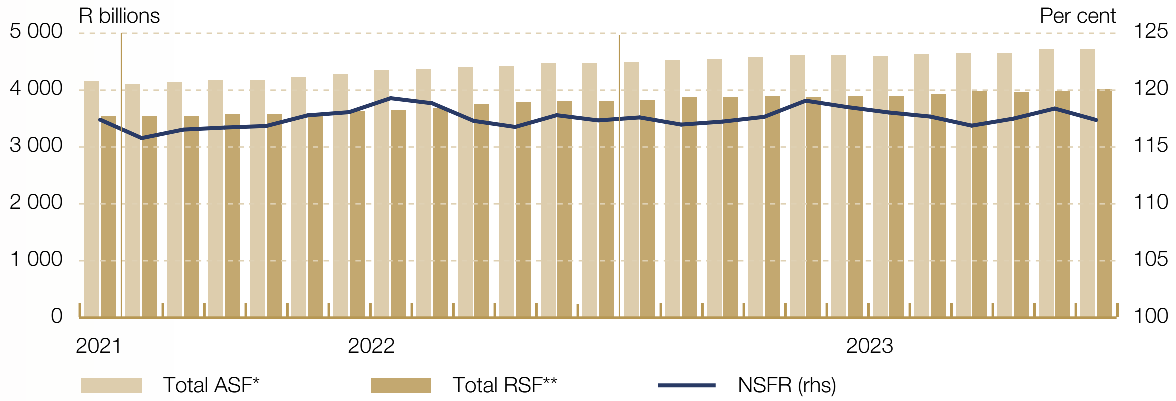
Composition of the HQLA portfolio



25 D6/2015: Matters related to liquidity risk and the liquidity coverage ratio is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-directives/2015/6685

Regarding the NSFR, the PA's objective has been to foster a resilient banking sector over the medium to long term. The NSFR encourages banks to maintain stable funding profiles relative to their asset and off-balance sheet commitments, mitigating the risk of bank failure and ensuring sustainable funding structures. South Africa's alignment with the NSFR standards captured in regulation 26(14) of the Regulations underwent rigorous evaluation by the BCBS's Regulatory Consistency Assessment Programme (RCAP) during 2023. The findings, published on 12 April 2023, rated South Africa as largely compliant.[26] While the compliance criteria were mostly met, the treatment of non-bank financial institutions (NBFIs) with a maturity of less than six months was highlighted. The PA is addressing this deviation, with full compliance anticipated by 1 January 2028. Directive 1/2023, released on 25 January 2023, aligns the available stable funding factor for NBFIs with the BCBS requirement by the stipulated date. The banking industry's NSFR stood at a commendable 116% as at December 2023, signifying the sector's enduring stability. BCBS compliance enhances confidence in the South African banking system.

NSFR of the total banking industry



* Available stable funding
** Required stable funding

Interest rate risk in the banking book

The supervision of interest rate risk in the banking book (IRRBB) has been instrumental in promoting the adoption of sound practices in interest rate risk management. Banks are required to maintain risk limits in alignment with their risk appetite, governance structure and the nature of their operations.

In the year under review, the PA noticed a concerted effort by banks to align their IRRBB management with the revised IRRBB regulations, which became effective from 1 January 2023. This involved upgrading technology systems, refining risk modelling techniques, and enhancing the skills of risk management personnel.

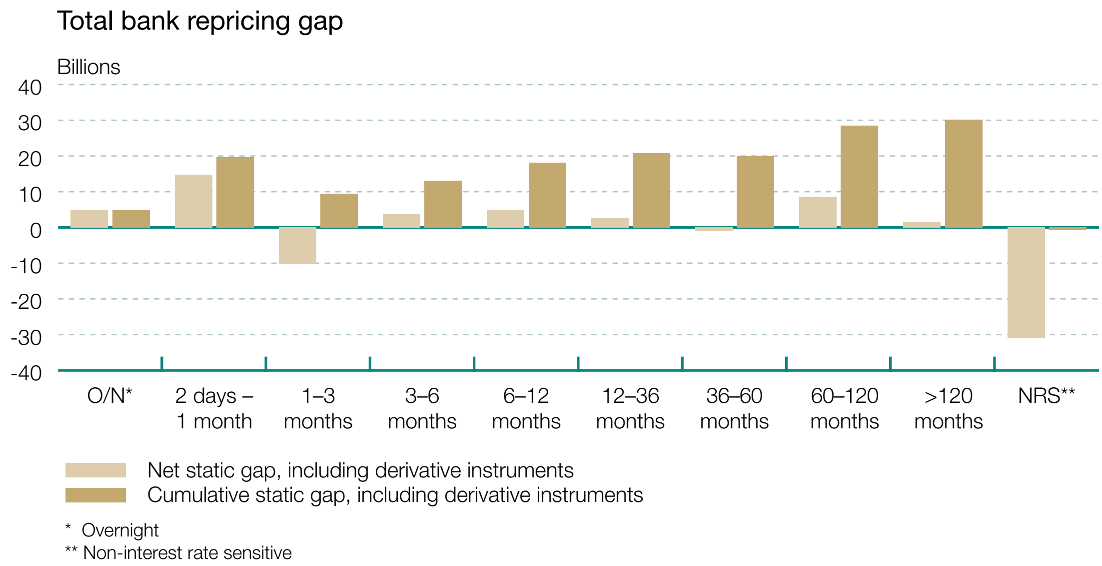
IRRBB practitioners use two simplified metrics, namely net interest income (NII) and economic value of equity (EVE) to measure IRRBB. NII focuses on the impact of interest rate changes on a bank's earnings in the short term (up to 12 months), while EVE focuses on the impact of interest rate changes on a bank's earnings by discounting future cash flows (period greater than 12 months).

Net interest income[27]

Most banks show asset sensitivity by maintaining a positive repricing gap. This positions them well for rising interest rates, leading to expected favourable NII growth. The repricing gap, which considers customer behaviour and interest rate expectations, is reported contractually and behaviourally. The graph for December 2023 shows the total bank behavioural repricing gap.

26 See 'Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel Committee's Net Stable Funding Ratio standard - South Africa', available at https://www.bis.org/bcbs/publ/d548.htm

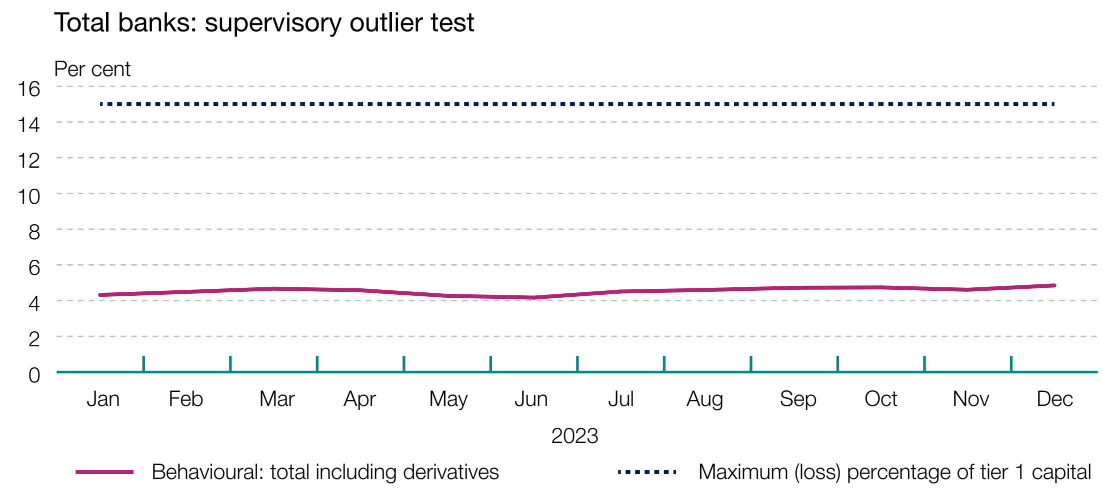
27 Net interest income is a crucial metric for banks. It reflects the profitability of a bank's core lending and borrowing activities.



Economic value of equity[28]

EVE is the present value of assets minus the present value of liabilities and does not include cash flows arising from equity, goodwill or fixed assets. It is a simplified gone-concern equity valuation. The change in EVE due to interest rate movements is known as EVE sensitivity.

The PA employs EVE sensitivity as a regulatory benchmark to identify outlier banks – those banks with undue IRRBB exposure. An outlier bank's capital may not be sufficient to absorb losses arising from this exposure. The PA calculates the worst-case EVE sensitivity across six regulatory scenarios, and divides it by tier 1 capital. This ratio should not exceed 15%. The figure below illustrates that, from a broader perspective within the banking sector (including derivatives), the industry remained well within the 15% maximum loss of tier 1 capital from January to December 2023.



The PA has successfully enacted the fourth set of amendments to the Regulations, incorporating the revised framework issued by the BCBS in relation to IRRBB. The amended IRRBB regulations came into effect on 1 January 2023. Directive 2/2023, published on 23 February 2023, provides detailed instructions for completing the revised form BA 330. The PA has held consultations on credit spread risk in the banking book (CSRBB). CSRBB is a related risk that banks need to monitor and assess in their interest rate risk management framework. CSRBB is the yield difference of a bond compared to a risk-free interest rate. CSRBB represents the risk of a value loss that is caused by changes in credit spreads while the counterparty's rating remains the same. The proposed directive published on 5 December 2023 outlines instructions for monitoring CSRBB, which is associated with IRRBB. The development and implementation of the CSRBB framework is currently in progress between the PA and the industry.

28 Economic value of equity in the banking book is a way to measure how much the bank's own money (or equity) is worth, considering all its lending and borrowing when interest rates change.

Insurance liquidity risk

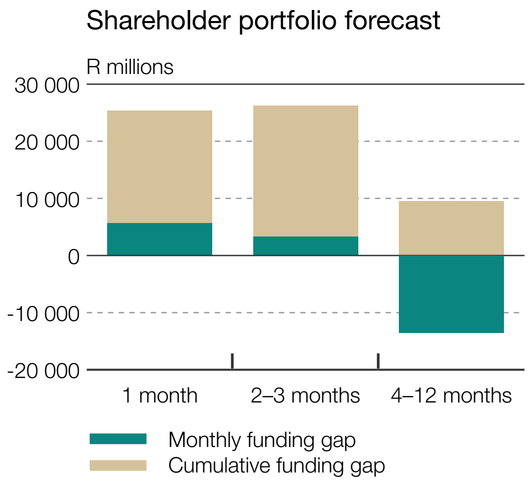
The PA acknowledges that the liquidity risk profile of each insurer is distinct, with practices differing according to the scale, nature and complexity of their respective operations. However, the PA's primary aim is to ensure that insurers uphold stringent liquidity risk management practices, thus protecting policyholders and bolstering financial stability.

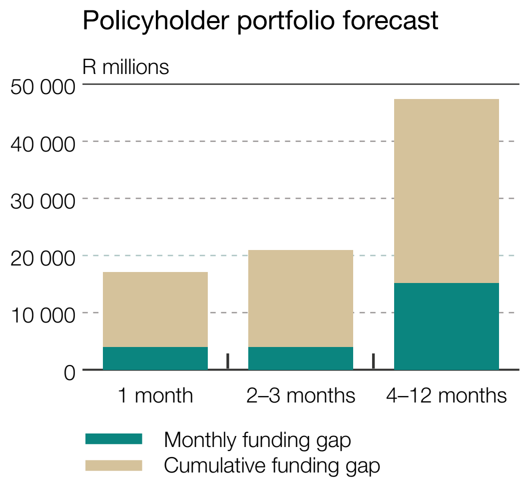
The PA has dedicated considerable resources to assessing the comprehensiveness of liquidity risk management and reporting within the insurance industry. This comprehensive consultation effort includes various components:

- Guidance Notice 1 of 2022: This notice provides clear and specific directions for insurers on managing liquidity risk.
- Liquidity risk returns: A review and redesign of these returns provides the PA with valuable insights into insurers' liquidity positions and management practices.
- Liquidity risk standard (FSI 6): The PA is conducting a thorough review of this existing standard to ensure it remains effective in the current environment.

These measures are central to the PA's strategy and outlook on prudential liquidity oversight and regulation.

The graphs below illustrate cash flow forecasts from both a shareholder and policyholder portfolio perspective for the five largest life insurers. The combination of existing cash reserves and projected new business volumes is ample to meet anticipated cash outflows.





Prudential Standard FSI 6: Liquidity Risk Management has been published for informal consultation. The updated standard outlines the fundamental principles and operational guidelines governing the effective management of liquidity risk for insurers. The standard mandates insurers to establish a robust liquidity risk governance framework encompassing the identification, assessment, management, reporting and strategic planning for mitigating liquidity risk.

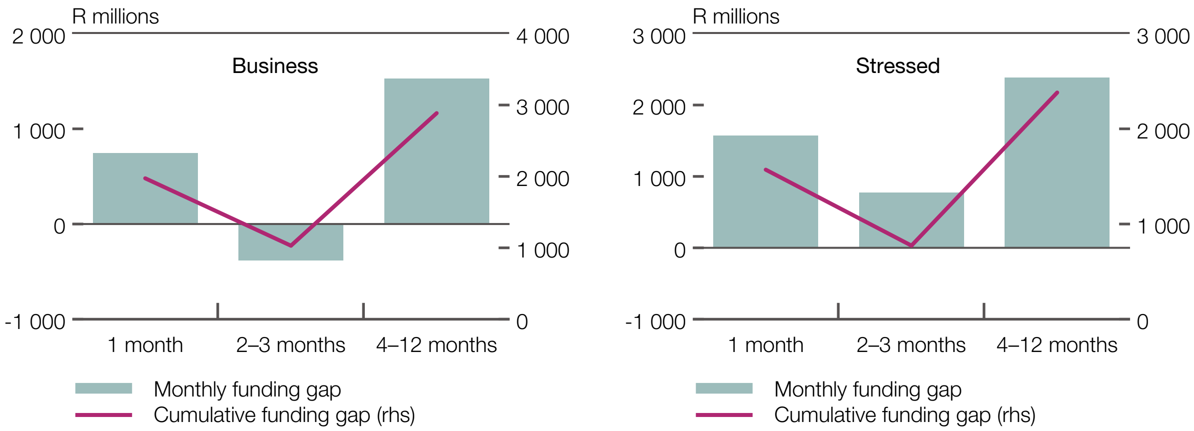
The PA also reviewed insurers' ORSAs to engage insurers on their liquidity risk practices.

Market infrastructures

The revised liquidity risk return for MIs was adopted by the PA. MIs began submitting revised returns to the PA in October 2022.

The graphs below show business-as-usual and stressed cash flows for MIs obtained from the revised liquidity risk returns. In aggregate, MIs have reported sufficient cash flows to meet expected cash flow obligations. The PA continues to engage with MIs to discuss and obtain further insight into their liquidity risk management. In addition, members of the Asset Liability Management Team take part in the examination of market infrastructure critical asset protection measures pertaining to MIs.

Liquidity risk returns: business-as-usual and stressed cash flows



J. NON-FINANCIAL RISK

Operational risk

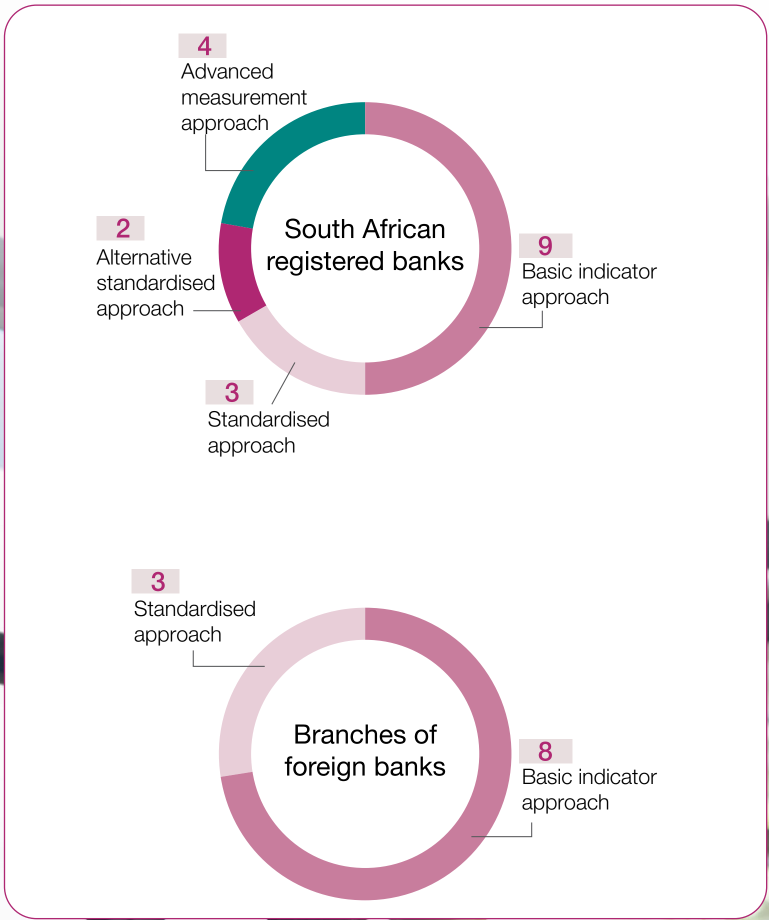
Operational risk is a key concern for the PA. Banks, insurers and MIs are facing significantly more risks as technology and innovative solutions continue to progress. The PA saw a noticeable increase in both internal and external fraudulent activities in 2023, as criminal syndicates have become more sophisticated. There has also been growing emphasis on improving the tools to measure and manage operational risks. Supervised entities have prioritised a culture of accountability and ownership to drive a more mature behaviour in managing risk. Employee well-being remains a top priority, as institutions continue to embrace hybrid ways of working.

As the 1 July 2025 deadline to implement the new standardised approach for calculating operational risk capital in the banking industry approaches, banks are taking measures to ensure compliance. The regulations and associated tier 3 instruments are being finalised and the PA continues to engage with entities to mitigate any potential challenges that may arise.

The 29 registered banks employed the following regulatory approaches to calculate the minimum required capital for operational risk:

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

At the date of reporting, no insurer was approved to calculate operational risk capital using an internal model and consequently the standard formula was being utilised. The quality of operational risk data in the QRT improved during 2023. The PA will continue to monitor and address any issues through engagements with industry bodies and bilateral communication with insurers.



Operational resilience

Operational resilience continued to be a focus area with a huge emphasis on interconnectedness and interdependencies across the financial sector. The due date for compliance with the Operational Resilience Directive (D4/2023) issued to banks is 31 December 2024. The PA is in the process of drafting an industry cross-cutting operational resilience standard that will be applicable to regulated industries.

Third-party service provisioning

The Joint Standard on Outsourcing for Insurers was drafted and is following the governance process for finalisation. The standard was developed specifically for insurers; however, the PA and FSCA are in the process of drafting cross-cutting third-party service provisioning for the financial sector.

Operational risk reviews

The operational risk prudential meetings conducted during the period under review focused on operational risk strategic objectives and governance, operational risk tools, third-party and outsourcing arrangements, climate risk, operational risk maturity assessment questionnaire results, operational resilience, and the new standardised approach for banks.

The following observations were noted:

- A move to enterprise risk management (ERM) governance structures and frameworks enabled financial institutions to adopt a centralised and enterprise-wide approach to risk management. Financial institutions were encouraged to ensure that they have governance structures in place to enable adequate reporting and risk management.
- First-line risk management resources are increasingly being appointed in the risk governance structures. While this is a positive development, financial institutions must ensure that the roles and responsibilities are clearly delineated to enable an effective lines of defence risk model.
- Several banking losses relating to external fraud were reported and an increasing trend in fraud-related events was observed. Furthermore, operational losses as a result of process management and execution delivery were reported from a banking, insurance and MI perspective.
- The Operational Risk Maturity Assessment Questionnaire (ORMAQ) was completed by institutions in the financial sector.
- Results of the ORMAQ indicated that banks were rated as the most mature; however, some of the smaller banks were rated low. The insurers were rated as being the second-most mature, similar to the 2022 rating. MIs were rated the least mature; however, it should be noted that the rating was hugely impacted by the smaller MIs which completed the questionnaire for the first time in 2023. The maturity rating of mutual banks has improved; however, there is still room for further improvement.
- Several financial institutions assessed the impact of the 2023 top operational risks from Risk.net, published on 3 March 2023, in the context of their operating environments.

K. INFORMATION TECHNOLOGY RISK

The PA noted that many supervised entities were embracing digital advances, including analytics, mobility, social media and smart embedded devices to deliver seamless experiences to their customers and to remain competitive. IT modernisation efforts have improved operational efficiencies and productivity, resource management as well as responsiveness to market demands.

There has been an increase in financial technology companies, including large global ones, entering the financial ecosystem. This has increased the PA's efforts to consider regulatory as well as supervisory reforms.

The incidents reported in relation to Directive 2 on material IT and cyber incidents reporting (D2 of 2019), GOI 3.2 and the notice in terms of section 6(3)(d) of the FM Act to licensed MIs remained relatively stable. While the information is continually analysed to identify trends, it is certainly not an indication of the vast increase in the number of cyberattacks. Current instruments are being repealed and replaced with the incident reporting template, which was incorporated in the recently published joint standards.

The Joint Standard: IT Governance and Risk Management was approved by Parliament and published, while the draft Joint Standard: Cybersecurity and Cyber Resilience is with National Treasury for tabling in Parliament. The analysis of the 2022 IT risk questionnaire and cyber questionnaire to stakeholders was concluded in 2023 and a report is being finalised. The results highlighted that collaboration and co-operation among stakeholders was essential, and hotspots were used to guide a more focused agenda for supervisory meetings.

Information technology risk reviews

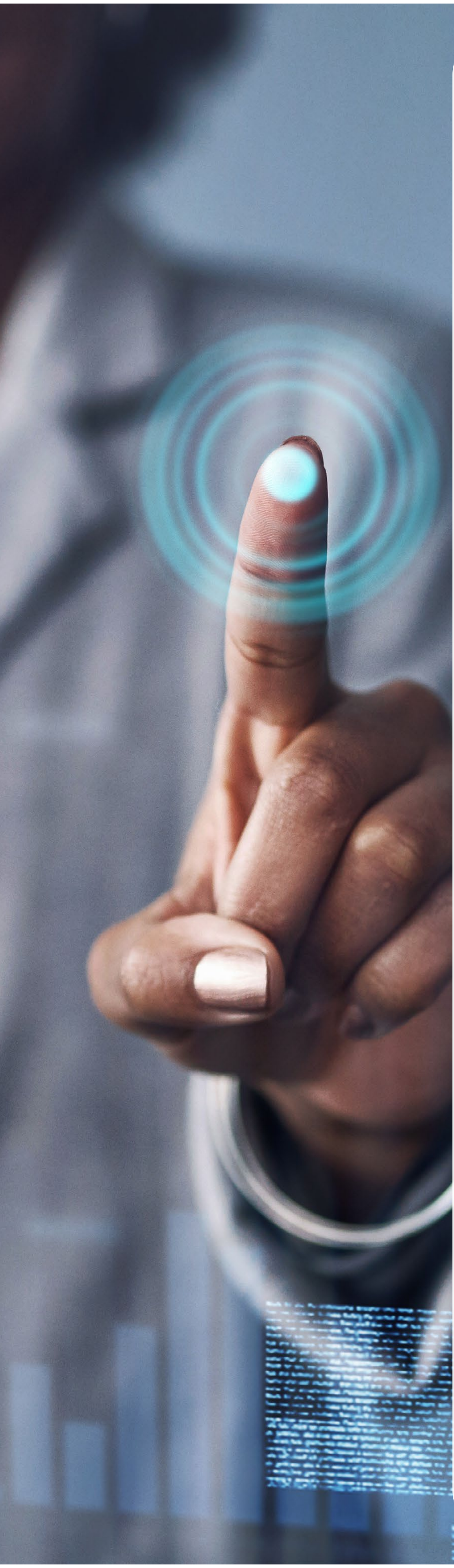
IT risk prudential meetings were conducted and focused on various themes, including IT risk strategic objectives and governance, IT risk management frameworks, process maturity, portfolio management as well as emerging technologies. The following key observations were noted during the reviews:

- The strategic direction of supervised entities was influenced by digitalisation and most IT strategies were refined to drive business objectives. Many medium and smaller institutions lacked documented IT strategies and frameworks.
- Most institutions adapted to disruption and continued to look for opportunities to strengthen their resilience capabilities. It was noted that the financial industry had established fusion centres to strengthen the capability and capacity in operational resilience.
- Larger entities had adopted multi-cloud strategies to reduce data storage costs and improve scalability and flexibility. The financial industry was advised that the adoption of cloud technologies should not inhibit the regulatory and supervisory mandate of the responsible Authorities.

Cyber-risk reviews

The PA held cyber-risk prudential meetings that were evidence-focused and included demonstrations and walkthroughs. The themes included cyber and information security governance, cyber and information security risk management, user awareness and training, user access management, patch and vulnerability management, cybersecurity testing, and incident response capabilities. The following was observed:

- Larger institutions had well-established governance structures to ensure adequate cybersecurity reporting, monitoring and oversight. Regular updates were provided to management and board committees.
- Most entities had incident response plans which were tested to continuously improve response and recovery processes. Phishing and ransomware attacks remained prevalent in the financial sector. It was observed that most institutions were maturing their security operations centre to monitor and detect cyber incidents. However, smaller institutions had room for improvement.
- User access management was noted to be a recurring issue across the financial sector. Improvements to address deficiencies in the user access-related risks were noted and will be monitored closely.



L. RISK DATA AGGREGATION AND RISK REPORTING

The COVID-19 pandemic and recent stress events have placed significant strain on financial institutions' governance, data architecture and IT infrastructure, resulting in delays in implementing the BCBS 239 risk data aggregation and risk reporting (RDARR) principles as well as maintaining compliance. The PA will continue to monitor BCBS 239 programmes, expanding its scope by overseeing more data domains and leveraging targeted actions, including prudential on-site and off-site inspections and questionnaires, to improve risk data gathering and reporting.

RDARR reviews

The RRDARR prudential meetings focused on data quality, independent validation units, the management of new technologies and/or emerging risks and operations under business.

Highlights of engagements with banks include the following:

- Diverse global operations, evolving business models and local regulations make uniform implementation challenging.
- Some banks are struggling to translate the RDARR principles into concrete actions for everyday operations.
- Stress events highlighted the strain placed on IT systems and data management during high-frequency reporting needs.
- Overdependence on manual processes hinders efforts by banks to achieve the optimal balance between manual and automated processes.
- Emerging technologies introduce new complexities and integration challenges.
- Increased reliance on third-party data providers necessitates robust due diligence and data quality assurance processes.
- Balancing RDARR compliance efforts with competitive demands initiatives within banks has been a challenge.
- Banks rely on complex hybrid IT architectures, combining cloud and on-premise systems, which create data integration and data management challenges.
- Banks still depend on older data warehouse technologies, which hinder the scalability and flexibility needed for BCBS 239 compliance, including business-as-usual operations.

Foreign representative offices

The PA is consistently enhancing the regulation, oversight and monitoring of foreign representative offices, while refining the permissible activities aligned to legislative regulations. The PA is committed to creating a supportive environment for foreign banking institutions' representative offices operating in South Africa.

The PA observed a notable improvement in foreign representative offices' adherence to regulatory obligations, including compliance with Directive 2 of 2022.

M. SELECTED INDICATORS FOR THE SOUTH AFRICAN FINANCIAL SECTOR

Entities supervised by the PA as at 31 December 2023, 28 February 2024 and 31 March 2024*

Entities per sector	No. of entities	Balance sheet size R millions		
		Dec 2023	Feb 2024	Mar 2024
Banking sector**	**28**			**7 758 631**
Registered banks	17			7 297 189
Local branches of foreign banks	11			461 442
Mutual banking sector***	**3**			**3 746**
Co-operative sector	**30**		**656**	
Co-operative banks	6		529	
Co-operative financial institutions***	24		127	
Total insurance sector****	**157**	**4 475 739**		
Life insurance sector	**76**	**4 115 521**		
Primary insurers	61	4 085 902		
Cell captive entities	5	29 419		
Microinsurers	10	200		
Non-life insurance sector	**70**	**303 024**		
Primary insurers	57	220 613		
Cell captive entities	8	50 357		
Captive insurers	5	32 054		
Non-life microinsurers	0	–		
Composite microinsurers	**3**	**2 039**		
Reinsurers	**8**	**55 155**		
Life reinsurers	0	–		
Non-life reinsurers	1	5 293		
Composite reinsurers	5	49 862		
Branches of foreign reinsurers	2	–		
Market infrastructures *****	**7**	**7 397**		

* CFIs and co-operative banks all have a 28 February financial year end. Mutual banks have a 31 March financial year end. Because insurers and banks have varying financial year ends, a 31 December date and a 31 March date is used for insurers and banks respectively as the cut-off for reporting, as this is typically the most recent available data on record.

** The number of registered banks includes Ubank and Habib.

*** The total number of co-operative financial institutions includes YWBN Mutual Bank. YWBN was registered as mutual bank in January 2024, which will be reflected as such in the 2024/25 financial year.

**** In addition to the 157 insurance entities registered, the PA also supervised Lloyds as well as the Road Accident Fund.

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

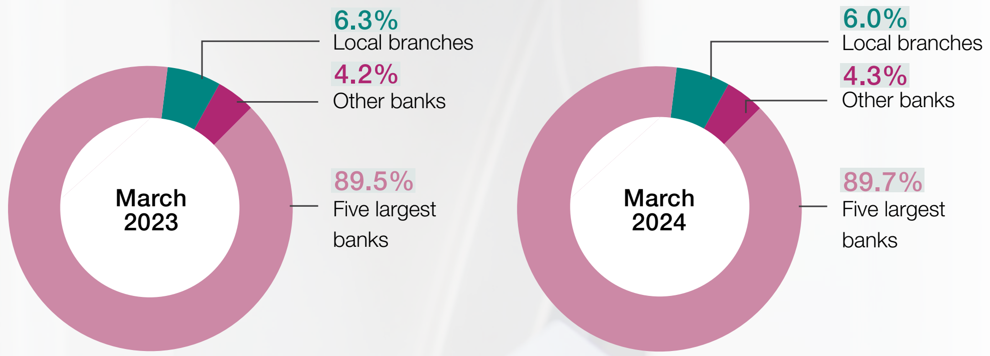
Deposit-taking financial institutions

Banking sector

The South African banking sector is dominated by the **five largest banks** which collectively held **89.69%** of the total banking sector assets as at 31 March 2024 (March 2023: 89.50%). **Local branches of international banks** accounted for **5.95%** of banking sector assets as at 31 March 2024 (March 2023: 6.25%) while **other banks**, which constitute other **locally registered banks,** represented **4.36%** as at 31 March 2024 (March 2023: 4.25%).

Note: Banking sector data includes data provided by one institution that conducted banking business in terms of an exemption from the provisions of the Banks Act until 15 December 2023, namely Ithala SOC Limited.

Total banking sector assets



Selected indicators for the South African banking sector

	Mar 2023	Mar 2024	Percentage change (%)
Balance sheet			
Total assets (R billions)	7 311	7 759	6.13
Gross loans and advances (R billions)	5 258	5 576	6.05
Total equity (R billions)	583	612	4.97
Profitability			
Cost-to-income ratio (smoothed) (%)	56.37	56.96	1.05
Return on equity (smoothed) (%)	14.88	14.80	-0.54
Return on assets (smoothed) (%)	1.12	1.10	-1.79
Capital adequacy			
Common equity tier 1 capital adequacy ratio (%)	13.34	13.21	-0.97
Tier 1 capital adequacy ratio (%)	14.83	14.82	-0.07
Total capital adequacy ratio (%)	17.46	17.28	-1.03
Leverage ratio (%)	6.57	6.47	-1.52
Liquidity			
Liquidity coverage ratio (%)	145.81	143.95	-1.28
Net stable funding ratio (%)	117.23	114.34	-2.47
Credit risk			
Impaired advances (R billions)	258	298	15.50
Impaired advances as % of gross loans and advances	4.90	5.34	8.98
Specific credit impairments as % of impaired advances	46.83	46.30	-1.13
Portfolio credit impairments as % of gross loans and advances	1.19	1.13	-5.04

Total banking sector assets grew by **6.13%** to **R7 759 billion** at the end of March 2024 (March 2023: R7 311 billion), mainly driven by an increase in gross loans and advances, coupled with increases in investment and trading securities as well as short-term negotiable securities. The **annual growth rate** in **gross loans and advances** declined to **6.05%** in March 2024 (March 2023: 8.50%) amid a slowdown in the growth rates of home loans, commercial mortgages, term loans and overdraft advances.

Equity grew by **4.97%** year on year to **R612 billion** at the end of March 2024 (March 2023: R583 billion), mainly driven by an increase in retained earnings. Equity comprised primarily of **retained earnings and share capital.**

The **banking sector** remained profitable despite some challenges in the operating environment. The **total operating profit** in respect of the past 12 months grew by **0.96%** year on year to **R105 billion** at the end of March 2024 (March 2023: R104 billion). The annual growth rate in operating profit remained subdued on account of a slowdown in the growth rates of net interest and non-interest income, coupled with increases in operating expenses and credit losses. The 12-month moving average **return-on-equity (ROE) ratio** amounted to **14.80%** at the end of March 2024 (March 2023: 14.88%) and the **return-on-assets (ROA) ratio** was **1.10%** in March 2024 (March 2023: 1.12%). The 12-month moving average **cost-to-income ratio** amounted to **56.96%** at the end of March 2024 (March 2023: 56.37%).

Banks (on a bank-solo basis) remained adequately capitalised, with capital adequacy ratios (CARs) remaining well above the minimum statutory requirements. **Common equity tier 1 (CET 1), tier 1 and total CARs** amounted to **13.21%, 14.82% and 17.28%** respectively at the end of March 2024 (March 2023: 13.34%, 14.83% and 17.46% respectively).

The **liquidity coverage ratio (LCR)** remained above the minimum statutory requirement and amounted to **143.95%** at the end of March 2024 (March 2023: 145.81%). The **net stable funding ratio (NSFR)** was **114.34%** at the end of March 2024 (March 2023: 117.23%).

Impaired advances grew by **15.50%** year on year to R298 billion at the end of March 2024 (March 2023: R258 billion), underpinned mainly by increases in impaired advances relating to retail and corporate exposures. The **ratio of impaired advances to gross loans and advances** increased to **5.34%** at the end of March 2024 (March 2023: 4.90%). The **ratio of specific credit impairments to impaired advances (coverage ratio)** decreased slightly to **46.30%** at the end of March 2024 (March 2023: 46.83%).

Mutual banking sector

Selected indicators for the South African mutual banking sector

	Mar 2023	Mar 2024	Percentage change (%)
Balance sheet			
Total assets (R millions)	3 444	3 746	8.77
Gross loans and advances (R millions)	2 598	3 136	20.71
Profitability			
Return on equity (smoothed) (%)	-1.24	2.04	264.52
Return on assets (smoothed) (%)	-0.29	0.49	268.97
Cost-to-income ratio (smoothed) (%)	76.44	75.12	-1.73
Liquidity			
Average daily amount of liquid assets held to liquid assets requirement (%)	431.62	448.12	3.82
Credit risk			
Gross amount overdue (R millions)	183	401	119.13
Gross overdue to gross loans and advances (%)	7.05	12.77	81.13
Specific provisions to gross amount overdue (%)	56.11	79.71	42.06
General provisions to gross loans and advances (%)	1.94	1.72	-11.34
Capital adequacy			
Capital adequacy ratio (%)	27.80	29.16	4.89

Total mutual banking sector assets increased by **8.77%** year on year to **R3 746 million** as at the end of March 2024 from R3 444 million in March 2023, driven by the increase in gross loans and advances. **Gross loans and advances** increased by **20.71%** year on year to **R3 136 million** at the end of March 2024 (March 2023: R2 598 million).

The **South African mutual banking sector** is profitable after a prolonged period of losses. The sector's profitability increased mainly due to increases in net interest and non-interest income. The **12-month moving average ROE ratio** increased to **2.04%** at the end of March 2024 (March 2023: -1.24%) and the **ROA ratio** increased to **0.49%** at the end of March 2024 (March 2023: -0.29%). The **12-month moving average cost-to-income ratio** amounted to **75.12%** at the end of March 2024 (March 2023: 76.44%).

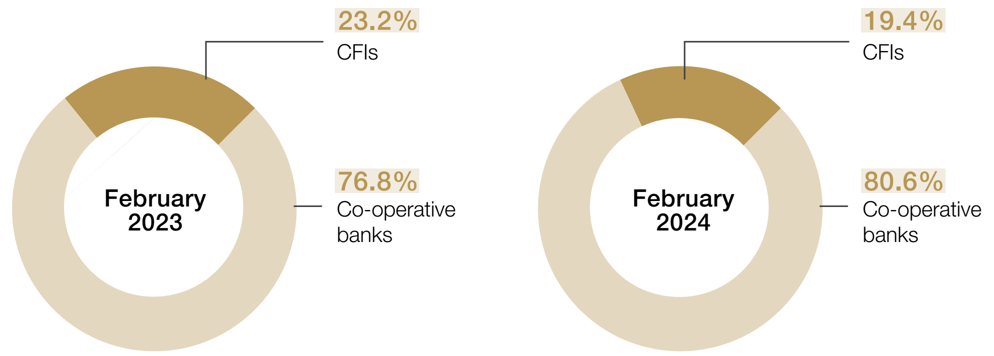
The **total CAR** for the sector increased when compared to the previous period and amounted to **29.16%** in March 2024 (March 2023: 27.80%), mainly due to the increase in net qualifying capital and reserve funds. **Overdue loans** increased by **119.13%** year on year to **R401 million** at the end of March 2024 (March 2023: R183 million). **Specific provisions** as a percentage of the gross amount overdue amounted to **79.71%** at the end of March 2024 (March 2023: 56.11%).

Co-operative financial sector

The **co-operative financial sector** consisted of **six co-operative banks** and **24 CFIs** as at the end of February 2024.

Based on total assets as at the end of February 2024, **co-operative banks** constituted **80.64%** and **CFIs** constituted **19.36%** of the total financial co-operative deposit-taking sector.

Total co-operative financial sector assets



Selected indicators for co-operative banks and CFIs

	Number		Members		Deposits (R millions)		Assets (R millions)	
February*	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Co-operative banks	5	6	5 585	5 710	405	478	453	529
CFIs	23	24	25 339	12 179	110	116	137	127
Total	**28**	**30**	**30 924**	**17 889**	**515**	**594**	**590**	**656**

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

Co-operative financial sector

Selected indicators for South African co-operative banks	Feb 2023	Feb 2024	Percentage change (%)
Balance sheet			
Total assets (R thousands)	452 514	528 784	16.85
Total net loans (R thousands)	314 106	374 716	19.30
Total liabilities (R thousands)	405 677	477 873	17.80
Total equity (R thousands)	46 840	50 912	8.69
Profitability			
Total income (R thousands)	44 572	59 105	32.61
Total expenses (R thousands)	37 599	48 188	28.16
Operating profit/income before taxation (R thousands)	7 165	11 059	54.35
Cost-to-income ratio (%)	49.84	48.32	-3.05
Capital adequacy			
Total capital adequacy ratio (%)	9.24	8.50	-8.01
Asset quality and provisions			
Total delinquent loans (R thousands)	8 898	10 666	19.87
Portfolio delinquent (%)	2.74	2.76	0.73
Total provisions (R thousands)	10 488	12 128	15.64
Provision as % of total loans	3.34	3.14	-5.99

The **balance sheet size** increased by **16.85%** year on year from R453 million in February 2023 to **R529 million** in February 2024. **Net loans** amounted to **R375 million** for the period under review and increased by **19.30%** from the R314 million reported in February 2023.

The **sector** remained adequately capitalised with a **CAR** of **8.50%** as at February 2024, well in excess of the 6% minimum requirement to be held, but lower than in February 2023 due to overall balance sheet growth. The **co-operative banking sector** remained profitable with income before taxation of **R11 million** as at the end of February 2024. The **cost-to-income ratio** improved to **48.32%** during the period under review (February 2023: 49.84%) due to higher operating income relative to operating costs.

Delinquent loans accounted for **2.76%** of the co-operative banking sector's gross loans as at the end of February 2024, an increase of **0.73%** when compared to February 2023. The sector continued to provide sufficiently for potential losses in accordance with regulatory requirements during the review period.

Co-operative financial institutions

Selected indicators for South African CFIs

	Feb 2023	Feb 2024	Percentage change (%)
Balance sheet			
Total assets (R thousands)	136 682	127 029	-7.06
Total net loans (R thousands)	55 074	46 688	-15.23
Total liabilities (R thousands)	114 973	118 495	3.06
Total equity (R thousands)	21 709	8 534	-60.69
Profitability			
Total income (R thousands)	19 156	24 052	25.56
Total expenses (R thousands)	28 441	29 308	3.05
Operating profit/income before taxation (R thousands)	92	-5 222	-5 776.09
Cost-to-income ratio (%)	126.38	123.83	-2.02
Capital adequacy			
Total capital adequacy ratio (%)	7.92	-5.70	-171.97
Total capital adequacy ratio including voluntary shares (%)	15.85	6.50	59.00
Asset quality and provisions			
Total delinquent loans (R thousands)	13 691	14 733	7.61
Portfolio delinquent (%)	21.86	28.15	28.77
Total provisions (R thousands)	7 549	5 650	-25.16
Provision as % of total loans	13.71	10.80	-21.23

Total assets in respect of **CFIs** decreased by **7%** during the past year. **Net loans** amounted to **R47 million** for the period under review and decreased by **15.23%** from the R55 million reported in February 2023. **Profitability** deteriorated over the period, resulting in income before tax of **negative R5.2 million** at the end of February 2024, mainly due to operating expenses exceeding income. It should be noted that CFIs' primary focus is not on profitability, as the majority of these entities rely on grants or donations to cover operating expenses. The shortage of grants and donations received, together with personnel and system costs, led to challenges regarding profitability. The **cost-to-income ratio** deteriorated from 126.38% in February 2023 to **123.83%** in February 2024.

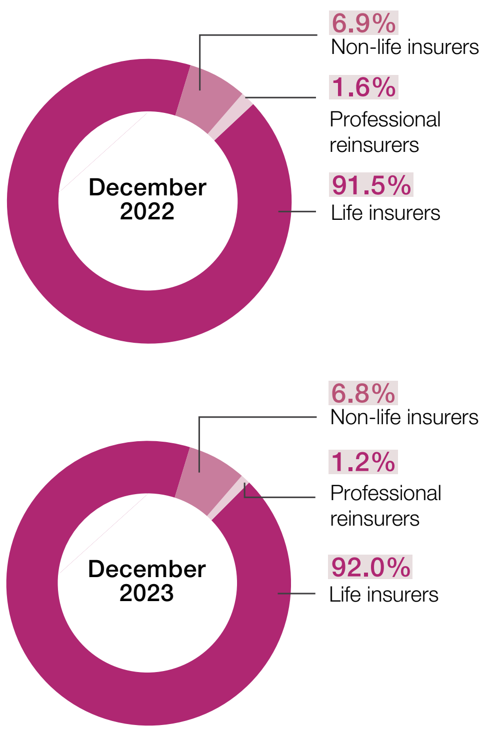
Losses resulting in negative retained earnings, as well as lower capital being reported by CFIs that triggered the deregistration process, had a negative impact on capital. The **CAR** declined by **171.97%**, from 7.92% at the end of February 2023, to negative **5.7%** at the end of February 2024 (the minimum CAR requirement is 6%). The **CAR including voluntary shares** was, however, at **6.50%** in February 2024.

Delinquent loans accounted for **28.15%** of the CFI sector's gross loans as at the end of February 2024.

Insurers and reinsurers

The insurance sector's income and expenditure figures are based on aggregated data for the four quarters ending December 2023, while the solvency and balance sheet items are as at 31 December 2023.

Total insurance sector assets



Based on total assets, **life insurers** constitute approximately **92.0%** and **non-life insurers** constitute approximately **6.8%** of the total insurance industry. All **eight professional reinsurers** are **foreign-owned** and contribute **1.2%** of the **total sector assets**. **South Africa's life insurance sector** is dominated by the **five largest insurers**, which collectively held **72%** of the total assets, while the **10 largest non-life insurers** contributed **64.9%** of **gross premiums** as at 31 December 2023.

Life insurers

Selected indicators for the South African life insurance industry as at 31 December 2023

R millions	Primary	Cell captives	Total 2023	Total 2022
Income				
Net premiums	627 307	17 454	644 761	601 479
Investment income	448 715	2 759	451 474	44 046
Other income	32 939	12	32 951	19 343
Total	**1 108 961**	**20 225**	**1 129 186**	**664 868**
Expenditure				
Benefits	569 946	4 590	574 536	546 829
Commission paid/received	23 658	1 688	25 346	24 235
General expenses	65 657	2 687	68 344	62 409
Other acquisition costs	5 929	–	5 929	6 388
Other expenses	8 016	-1	8 015	10 232
Excess of income over expenditure	**435 755**	**11 261**	**447 016**	**14 775**

The **net premium income**, after deducting premiums for reinsurance, for **primary life insurers and cell captives** was reported at **R644 761 million** for the year ended 31 December 2023 compared to R601 479 million for the 12 months ended 31 December 2022. **Benefit payments** for the review period stood at **R574 536 million** compared to R546 829 million during 2022.

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

Selected indicators for assets and liabilities for the life insurance industry

	Total assets		Liabilities		MCR*		SCR**	
R millions	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Primary	3 672 818	4 085 902	3 335 643	3 722 862	4.7	4.9	1.7	1.9
Cell captives	25 501	29 419	11 817	11 460	4.2	4.1	1.1	1.1
Reinsurers	7 137	–	6 065	–	3.1	–	1.4	–
Total	**3 705 455**	**4 115 321**	**3 353 525**	**3 734 322**	**4.2**	**4.5**	**1.4**	**1.5**

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

The **total assets** in respect of the **primary life insurers and cell captives** were reported as **R4 115 321** million in December 2023 compared to R3 705 455 million in December 2022. **Total assets** were mainly invested in investment **funds and equities**.

Non-life insurers

Selected indicators for the South African non-life insurance industry as at the end of December 2023

R millions	Primary	Cell captives	Captives	Reinsurers	Total 2023	Total 2022
Income						
Gross premiums	168 423	32 495	6 335	2 795	**210 048**	**181 916**
Net earned premiums	108 231	18 474	4 363	581	**131 649**	**112 989**
Investment income	16 114	3 395	2 504	367	**22 380**	**8 364**
Other income	1 958	34	32	72	**2 096**	**1 194**
Total	**126 303**	**21 903**	**6 899**	**1 020**	**156 125**	**122 547**
Expenditure						
Claims incurred	62 128	6 744	2 460	322	**71 654**	**68 339**
Commission paid/ received	7 224	182	-601	234	**7 039**	**6 954**
General expenses	30 457	3 385	269	127	**34 238**	**29 002**
Other expenses	1 674	76	37	68	**1 855**	**581**
Excess of income over expenditure	**24 820**	**11 516**	**4 734**	**269**	**41 339**	**17 670**
Underwriting profit	10 051	1 563	1 640	109	**13 363**	**6 242**
Operating profit	26 166	4 958	4 144	476	**35 744**	**14 606**

Gross premiums of **primary insurers, cell captives, captives and reinsurers** in the **non-life insurance industry** were reported at **R210 048 million** for the 12 months ended 31 December 2023. **Operating profit**, which includes **investment income**, was reported at **R35 744 million** during the review period compared to R14 606 million as at 31 December 2022.

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

R millions	Total assets		Liabilities		MCR*		SCR**	
	2022	2023	2022	2023	2022	2023	2022	2023
Primary	206 319	220 613	121 454	121 502	3.7	4.3	1.5	1.7
Cell captives	47 085	50 357	34 647	36 056	2.8	2.9	1.3	1.2
Captives	26 414	32 054	13 956	14 654	9.3	6.9	2.4	1.8
Reinsurers	10 041	5 293	7 280	3 465	9.7	9.3	2.4	2.4
Total	**289 859**	**308 317**	**177 337**	**175 677**	**6.5**	**5.6**	**2.0**	**1.7**

* MCR: minimum capital requirement (median)

** SCR: solvency capital requirement (median)

Composite reinsurers

Five reinsurers are currently classified as composite reinsurers, writing both life and non-life business.

Summary of results of the composite business as at the end of December 2023

	2023		2022	
R millions	**Life**	**Non-life**	**Life**	**Non-life**
Income				
Gross premiums	17 293	21 562	16 810	19 854
Net premiums/net earned premiums	12 089	3 449	11 736	2 925
Investment income	1 518	727	1 057	457
Other income	209	2 508	-11	2 523
Total	**13 816**	**6 684**	**12 781**	**5 905**
Expenditure				
Claims incurred	10 986	2 508	12,977	2 523
Commission paid/received	54	863	-103	741
General expenses	706	221	418	85
Other expenses	138	221	109	162
Excess of income over expenditure	**1 932**	**2 871**	**-621**	**2 394**
Underwriting profit		910		127
Operating profit		1 637		584

Gross premiums relating to life composites for the 12 months ending 31 December 2023 were reported at **R17 293 million** compared to R16 810 million in 2022.

Non-life composite gross premiums were reported at **R21 562 million** compared to R19 854 million in 2022.

Selected indicators in respect of assets and liabilities for the composite insurance industry

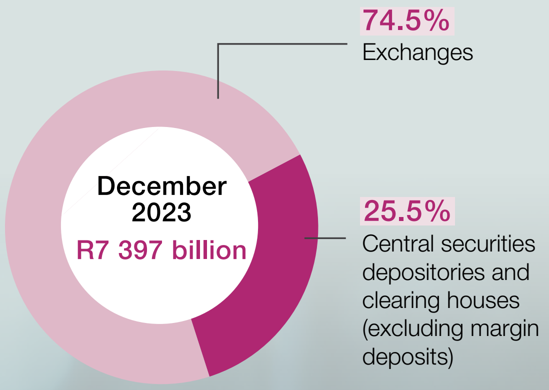
R millions	**2022**	**2023**	**Percentage change (%)**
Total assets	48 139	49 862	3.58
Total liabilities	37 618	37 457	-0.43
SCR*	1.4	1.7	
MCR**	3.0	3.7	

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

Market infrastructures

The PA is responsible for the prudential supervision of exchanges, clearing houses, central securities depositories (CSDs), CCPs and trade repositories. There are currently four registered exchanges, two CSDs and two clearing houses. **Total assets (including margin deposits)** and **total assets (excluding margin deposits)** amounted to **R59 910 billion** and **R7 397 billion** respectively at the end of December 2023 (December 2022: R60 743 billion and R5 459 billion respectively).

Total assets of market infrastructures



N. FINANCIAL ACCOUNTS

The PA is the regulator responsible for setting policy and prudential regulatory requirements and supervisor responsible for overseeing compliance with the regulatory requirements of financial institutions that provide financial products, securities services and market infrastructures in South Africa. Established on 1 April 2018 in terms of the FSR Act, the PA is a juristic person operating within the administration of the SARB. 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 a department within the SARB, it follows the same Financial Reporting Framework and basis of presentation as the SARB. Refer to Note 1 of the SARB financial statements for more detail.

Statement of financial position at 31 March 2024

	2024 R mil	2023 R mil
Assets		
Other assets	**47**	16
Liabilities		
Income received in advance	**17**	15
Other liabilities	**28**	1
Unclaimed balances	**2**	–
Current liabilities	**47**	16
Total liabilities	**47**	16

Statement of profit or loss and other comprehensive income for the year ended 31 March 2024

	Note(s)	**2024 R mil**	2023 R mil
Operating income			
Levies	2.1	**550**	–
Fees	2.2	**7**	9
Operating income		**6**	14
Total operating income		**563**	23
Expenditure			
Personnel costs	2.4	**(393)**	(352)
Operational costs	2.4	**(212)**	(125)
Total expenditure		**(605)**	(477)
Amount funded by the SARB	2.5	**42**	454
Profit for the year		**–**	–

1. Accounting policies

1.1. Other assets

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

1.2. Other liabilities

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

1.3. Unclaimed balances

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

1.4. Operating income

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

1.5. Personnel and operating costs

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

1.6. Amounts borne by the SARB

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

2. Explanatory notes

2.1. Levies are applicable for the current financial year since the Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Act 12 of 2022 as well as certain provisions of the FSR Act became effective from 1 April 2023. This legislation permits the PA to charge levies to regulated financial institutions in order to cover the direct operating costs of the PA and not in return for any direct service or goods that will be supplied.

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

2.3. Penalties are raised for non-compliance by persons within the regulated sector should they be found guilty of contravening a financial sector law or an enforceable undertaking accepted by the PA. The PA deducts from this total all costs incurred in making and enforcing the administrative penalty order. The remaining balance after applying this deduction is paid into the National Revenue Fund (NRF) (if any). The SARB also has a responsibility in terms of the FIC Act to ensure that banks and life insurance companies comply with the FIC Act. The SARB has authority in terms of 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 into the NRF. Total penalties issued on behalf of the South African government in this regard amounted to R1.0 million (2023: R4.1 million).

2.4. 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 from these services (such as legal services, IT, risk management, compliance, internal audit, HR, international economic relations and policy, security and facilities), these costs are borne by the SARB.

	2024 **R mil**	2023 R mil
Operating costs include:		
Professional fees	**170**	100
Membership fees	**4**	2
Official functions	**6**	3
Training (foreign and local)	**4**	1
Travel expenses (foreign and local)	**23**	13
Other operating costs	**5**	5
	212	124

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

ANNEXURES

I. Licence applications: 1 April 2023 – 31 March 2024

	Approved	In progress	Declined
Banks/mutual banks/co-operative banks (Table 1)	1	5	1
Branches	0	0	0
Representative offices (Table 2)	1	1	0
CFIs	2	4	0
Insurers (Table 3)	4	11	3

II. Financial institutions registered during 2023/24

Table 1: Banks/mutual banks/co-operative banks registered during 2023/24	
YWBN Mutual Bank	22 January 2024

Table 2: Representative offices registered during 2023/24	
CBZ Bank Limited	29 October 2023

Table 3: CFIs	
Midrand Savings and Credit Primary Co-operative	27 October 2023
Asikhulesonga Savings and Credit Co-operative	26 June 2023

Table 4: Insurers registered during 2023/24	
Absa Risk Transfer Insurance Company Limited	1 February 2024
Esurity Wealth (Pty) Limited	17 May 2023
Kakgo Microinsurance Pty Ltd	12 May 2023
Incub8 with Assupol (Pty) Ltd	10 May 2023
The PA did not issue any licences for insurance-controlling companies.	

III. Deregistration or withdrawal of licences

Deregistered institutions	Financial institution type	Effective date
Swedbank AB (publ)	Representative office	**30 June 2023**
BNP Paribas	Foreign branch	**8 March 2024**

The following insurers' licences were withdrawn:	
Momentum Ability Limited	**5 December 2023**
RGA Reinsurance Company of South Africa Limited	**25 October 2023**
Bryte Micro Insurance Company Limited	**17 May 2023**

IV. Variation of licensing conditions

Entity	Date
Aurora Insurance Company Limited	**1 August 2023**
New National Assurance Company Limited	**30 November 2023**
Yard Insurance Limited	**4 September 2023**
Compass Insurance Company Limited	**7 February 2024**
Centriq Insurance Company Limited	**11 August 2023**
RMA Life Assurance Company Limited	**18 April 2023**
Monarch Insurance Company Limited	**6 July 2023**
FirstRand Short-Term Insurance Limited	**15 November 2023**
Dotsure Limited	**18 March 2024**
Old Mutual Insure Limited	**4 March 2024**
AECI Captive Insurance Company Limited	**26 September 2023**

V. Name changes

Old name	New name	Effective date
Equity Express Securities Exchange	**The Integrated Exchange (Pty) Ltd**	**20 November 2023**
Constantia Life and Health Assurance Company Limited	**Affinity Life Limited**	**29 August 2023**
Cadiz Life Limited	**LifeCycle Life Limited**	**28 February 2024**
Assupol Micro (Pty) Limited	**Incub8 with Assupol (Pty) Limited**	**27 July 2023**
Mutual and Federal Risk Financing Limited	**Old Mutual Alternative Risk Transfer Insure Limited**	**5 December 2023**
The Smart Life Insurance Company Limited	**EasyPay Insurance Limited**	**12 October 2023**

VI. Transfer of business

Transferor insurer	Transferee insurer	Effective date
Hollard Life Assurance Company Limited	**Family Insurance (Pty) Limited**	**7 March 2024**
Santam Structured Insurance Limited	**Infiniti Insurance Limited**	**22 June 2023**
Guardrisk Life Limited	**Momentum Metropolitan Life Limited**	**24 August 2023**
Guardrisk Insurance Company Limited	**Santam Limited**	**1 December 2023**

VII. Significant owner applications

Received	Approved	In progress	Declined
Banks and insurers	24	11	0

VIII. Market infrastructures

No MIs were licensed or cancelled during the reporting period.

IX. Inspections of unregistered banking business

Summary of inspections relating to illegal deposit-taking schemes					
Year/period	Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes under investigation
2023/24	4	3	1	0	4

X. Inspections of unlicensed insurance business

Summary of inspections relating to unlicensed insurance business					
Year/period	Total number of schemes	Schemes carried over from previous year	New schemes	Schemes finalised in year of review	Schemes still under desktop assessment/ investigation
2023/24	115	36	79	55	60

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

Banks

Name	Non-compliance	Administrative sanction
African Bank Limited	• African Bank Limited (ABL) was found to be in contravention of certain provisions of the FIC Act, including customer due diligence, cash threshold reporting, and suspicious and unusual transactions reporting. • ABL also failed to comply with section 42 of the FIC Act and FIC Directive 5/2019. ABL failed to comply with its training obligations in terms of sections 43 of the FIC Act as well as governance obligations in terms of sections 42A of the FIC Act.	R19 750 000 with R9 250 000 of the administrative penalty suspended for a period of three years from the date the penalty was imposed
Grindrod Bank Limited	• Following a FIC Act inspection conducted in 2020, Grindrod Bank Limited (GBL) was found to be non-compliant with the provisions of the FIC Act. • The non-compliance areas included GBL's risk management and compliance programme obligations, customer due diligence and enhanced due diligence. • GBL was also found to have failed in its record-keeping obligations.	Administrative penalty of R10 730 000
Centriq Life Insurance Company Limited	• Centriq Life Insurance Company Limited (Centriq) submitted its risk return for the second quarter of 2022 one month late and its risk return for the fourth quarter of 2022 seven months late. Centriq failed to comply with Directive 4 of 2022.	Administrative penalty of R200 000 suspended for a period of three years from the date the penalty was imposed

XII. Matters referred to the FIC Appeal Board

State Bank of India

The PA found the State Bank of India (SBI) to be in contravention of the FIC Act and imposed a financial penalty of R10 250 000 with R500 000 suspended for two years and also issued cautions in respect of various contraventions.

SBI lodged an appeal, which was dismissed by the Appeal Board on 25 April 2024.

ABBREVIATIONS

ABL	African Bank Limited
AI	artificial intelligence
ALA	alternative liquidity approach
AML	anti-money laundering
ASF	available stable funding
ASISA	Association for Savings and Investment South Africa
Banks Act	Banks Act 94 of 1990
BASA	Banking Association South Africa
BCBS	Basel Committee on Banking Supervision
board	board of directors
CAR	capital adequacy ratio
CCP	central counterparty
Centriq	Centriq Life Insurance Company Limited
CEO	Chief Executive Officer
CET	common equity tier
CFI	co-operative financial institution
CFT	countering the financing of terrorism
CIS	collective investment scheme
CODI	Corporation for Deposit Insurance
COVID-19	coronavirus disease 2019
CSD	central securities depositories
CSRBB	credit spread risk in the banking book
CVA	credit valuation adjustment
D	Directive
D-SIB	domestic systemically important bank
ECAI	external credit assessment institution
Escap	Escap SOC Limited
ESMA	European Securities and Market Authority
EU	European Union
EVE	economic value of equity
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
FM Act	Financial Markets Act 19 of 2012
FRTB	fundamental review of the trading book
FSAP	Financial Sector Assessment Programme
FSCA	Financial Sector Conduct Authority

FSI	Financial Soundness Standard for Insurers
FSLAA	Financial Sector Laws Amendment Act 23 of 2021
FSR Act	Financial Sector Regulation Act 9 of 2017
GBL	Grindrod Bank Limited
GDP	gross domestic product
GOI	Governance and Operational Standard for Insurers
Habib	Habib Overseas Bank Limited
HQLA	high-quality liquid assets
IAIS	International Association of Insurance Supervisors
ICS	Insurance Capital Standard
Imvelo CFI	Imvelo Agricultural Co-operative Financial Institution Limited
Insurance Act	Insurance Act 18 of 2017
IRB	internal ratings-based
IRRBB	interest rate risk in the banking book
IT	information technology
Jibar	Johannesburg Interbank Average Rate
LCR	liquidity coverage ratio
Levies Act	Financial Sector and Deposit Insurance Levies Act 11 of 2022
LIBOR	London Interbank Offered Rate
MCR	minimum capital requirement
MI	market infrastructure
NBFI	non-bank financial institution
NII	net interest income
NRF	National Revenue Fund
NSFR	net stable funding ratio
ORMAQ	Operational Risk Maturity Assessment Questionnaire
ORSA	own risk and solvency assessment
OTC	over the counter
PA	Prudential Authority
PARAC	Prudential Authority Regulatory Action Committee
PPS Insco	Professional Provident Society Insurance Company
PruCo	Prudential Committee
QRT	quantitative reporting template
R	rand
RCAP	Regulatory Consistency Assessment Programme
RDARR	risk data aggregation and risk reporting
Regulations	Regulations relating to Banks
repo	repurchase

rhs	right-hand scale
ROA	return-on-assets (ratio)
ROE	return-on-equity (ratio)
RSF	required stable funding
SAIA	South African Insurance Association
SARB	South African Reserve Bank
SBI	State Bank of India
SCR	solvency capital requirement
SFA	strategic focus area
SIFI	systemically important financial institution
SME	small and medium-sized enterprise
STA	standardised approach
TCFD	Task Force on Climate-related Financial Disclosures
Tribunal	Financial Services Tribunal
UK	United Kingdom
US	United states
ZARONIA	South African Rand Overnight Index Average (rate)

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