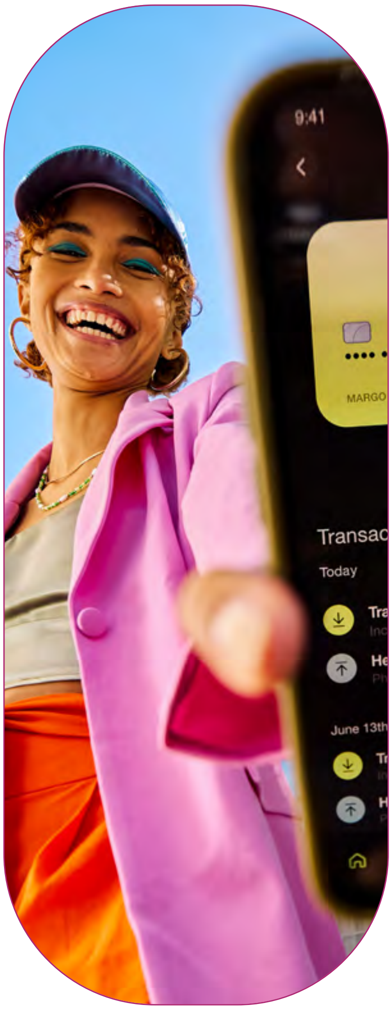
South African Reserve Bank
Prudential Authority

PRUDENTIAL AUTHORITY
ANNUAL REPORT 2024/25




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

I am pleased to reflect on the crucial work undertaken by the Prudential Authority (PA) over the past year. Overall, the financial sector continues to demonstrate resilience. Nonetheless, the challenging macroeconomic and geopolitical environment requires supervisors to remain vigilant.

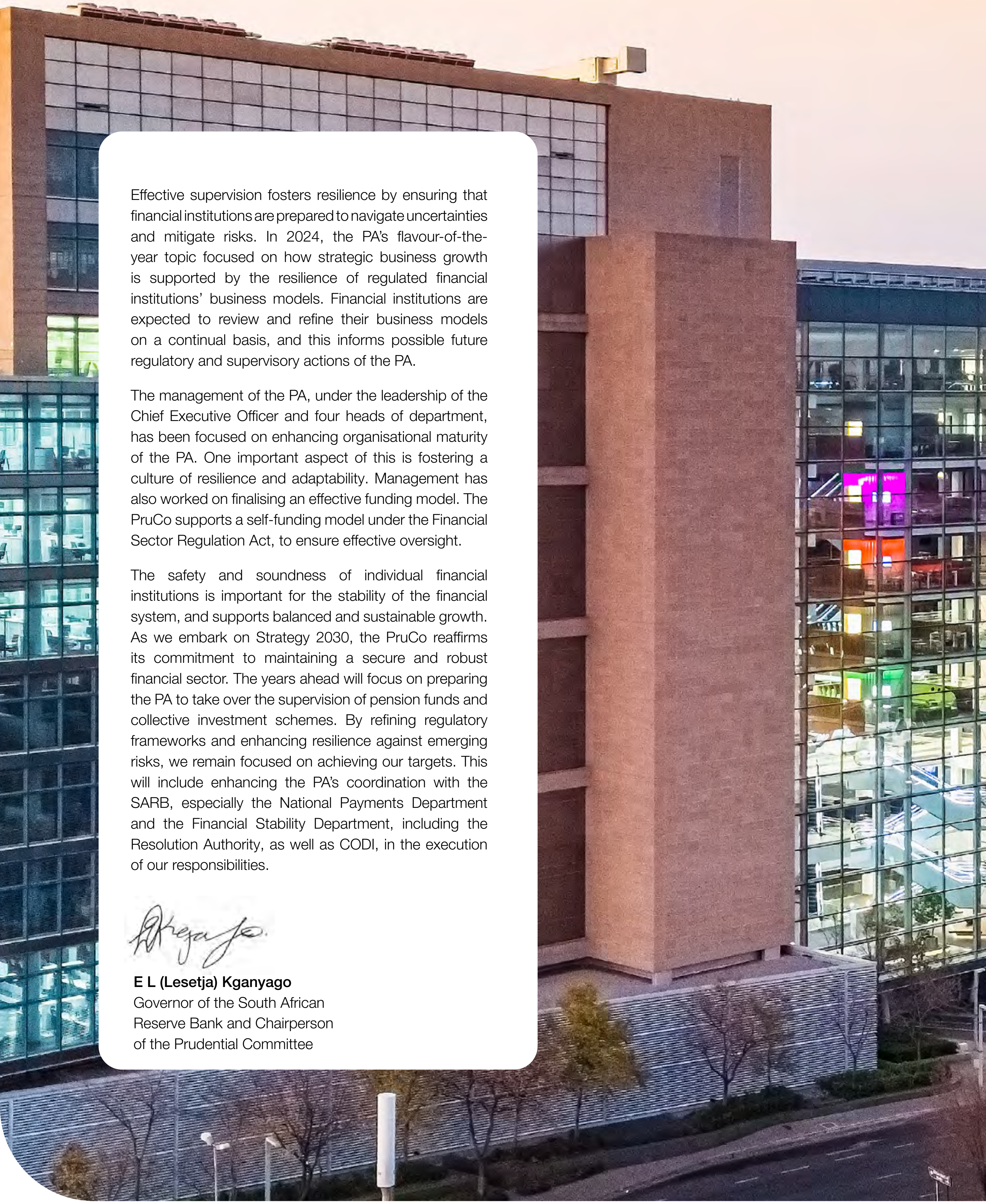
The global regulatory environment continues to evolve, with a growing risk of deregulation. The PA nonetheless remains committed to international collaboration, actively participating in forums such as the Basel Committee on Bank Supervision and the International Association of Insurance Supervisors and I participate in the Governors and Head of Supervision meetings.

During the period under review, the Prudential Committee (PruCo) focused on several measures to strengthen South Africa's financial system. We have continued to focus on protecting financial customers, guarding against risks such as ever-more sophisticated cyberattacks and intensifying climate change, while encouraging healthy lending to support economic activity.

The PA's Regulatory Strategy, extended to 31 March 2025, remains closely aligned to the South African Reserve Bank's (SARB) overarching strategy, reflecting a shared commitment to protecting financial stability. The PruCo actively assessed the PA's performance against the Strategy, ensuring that its implementation remained focused and impactful. This approach has enabled the PA to enhance supervisory activities, sanction non-compliance effectively, and contribute to the Financial Action Task Force's (FATF) greylist upgrade action in February 2025.

To enhance the regulatory framework, the PruCo has also approved several important prudential standards and regulatory instruments. These include Directive 4 of 2024 on Proposed amendments to the Regulations relating to Banks; a Joint Standard on Cybersecurity and Cyber Resilience; and for insurers, a Joint Standard on Outsourcing and a draft Prudential Standard on Liquidity Risk Management. In September 2024, we endorsed publication of updated Regulations relating to Banks, and after reviewing comments, in April 2025 we approved the final amendments for submission to the Minister of Finance and National Treasury.

The PruCo also approved the Resolution Authority Prudential Standard on Flac instruments and a Corporation for Deposit Insurance (CODI) Prudential Standard on fund liquidity.



Effective supervision fosters resilience by ensuring that financial institutions are prepared to navigate uncertainties and mitigate risks. In 2024, the PA's flavour-of-the-year topic focused on how strategic business growth is supported by the resilience of regulated financial institutions' business models. Financial institutions are expected to review and refine their business models on a continual basis, and this informs possible future regulatory and supervisory actions of the PA.

The management of the PA, under the leadership of the Chief Executive Officer and four heads of department, has been focused on enhancing organisational maturity of the PA. One important aspect of this is fostering a culture of resilience and adaptability. Management has also worked on finalising an effective funding model. The PruCo supports a self-funding model under the Financial Sector Regulation Act, to ensure effective oversight.

The safety and soundness of individual financial institutions is important for the stability of the financial system, and supports balanced and sustainable growth. As we embark on Strategy 2030, the PruCo reaffirms its commitment to maintaining a secure and robust financial sector. The years ahead will focus on preparing the PA to take over the supervision of pension funds and collective investment schemes. By refining regulatory frameworks and enhancing resilience against emerging risks, we remain focused on achieving our targets. This will include enhancing the PA's coordination with the SARB, especially the National Payments Department and the Financial Stability Department, including the Resolution Authority, as well as CODI, in the execution of our responsibilities.

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 PA

The PA remains dedicated to protecting depositors' and policyholder funds and maintaining the resilience and stability of South Africa's financial system. Through sound prudential regulation and effective supervision, the PA supported individual financial institutions in navigating economic uncertainties and managed evolving risks within the domestic and global economy.

The financial sector showed resilience and contributed strongly to gross domestic product (GDP) growth throughout the reporting period. Domestic systemically important banks (D-SIBs) and large insurance groups remained well capitalised and profitable, maintaining capital ratios well above the minimum requirements. Ordinarily smaller banks and insurers require additional supervision and support during periods of low economic growth and increased consumer stress. In this regard, heightened supervision was instituted for those institutions that did not meet minimum regulatory requirements. We are pleased to report that the number of financial institutions under resolution was unchanged when compared to the previous year.

With improving macroeconomic conditions and easing inflationary pressures, a positive shift in the credit risk profile of South African banks is expected in the short to medium term. However, geopolitical tensions and increased conflicts continue to pose uncertainties and risks to the sector. Globally, there appears to be a growing trend towards deregulation, with an emphasis on reducing capital and other regulatory requirements for banks. As we look ahead, it will be crucial for South African banks to remain vigilant, ensuring strong governance and risk management practices to safeguard the banking system.

The PA continues to refine its frameworks to remain robust and adaptive, considering global developments such as the Basel III post-crisis reforms. To this end, the third draft of the revised Regulations relating to Banks (Regulations) was published in September 2024 for final comments. These comments are being processed through the PA's governance channels, with a target implementation date of 1 July 2025.

Over the years, mutual banks have evolved in their nature, size, complexity and risk profiles. To ensure that our regulatory and supervisory framework remains fit for purpose, the PA has developed seven prudential standards for mutual banks. These standards cover governance and risk management, operational risk management, credit risk, liquidity risk, interest rate risk in the banking book (IRRBB), capital and economic returns, and are expected to be published for informal consultation in the coming months.

We are also in the process of developing a regulatory framework for cooperative financial institutions (CFIs) and cooperative banks. This framework proposes a proportional approach to regulation based on the nature, size, complexity and risk profile of the CFI or cooperative bank. The PA published draft prudential standards for consultation and has updated these to cover registration and operational requirements, governance, risk management and financial soundness, based on feedback received from the informal consultation conducted in 2023/24. The PA and the Financial Sector Conduct Authority (FSCA) are collaborating to convert the prudential standards on governance and risk management into joint standards. The standards are expected to be published for formal consultation in due course.

The PA continues to apply a risk-based, forward-looking supervisory plan that includes regular bilateral engagements with foreign regulators, in-country visits and supervisory colleges for banking groups and internationally active insurance groups. These engagements have provided valuable insights and enabled timely and appropriate regulatory action when necessary.

Effective, proportionate and dissuasive sanctions were applied for non-compliance with the Financial Intelligence Centre Act

38 of 2001 (FIC Act) and the remedial actions undertaken by supervised institutions were monitored. These efforts contributed to an upgrade of the FATF greylisting action item in February 2025, supporting South Africa's efforts to be removed from the grey list.

The PA extended its Regulatory Strategy to 31 March 2025, aligning with the SARB strategy. **The following were key focus areas over the reporting period:**

- Proposed amendments to the Regulations were developed and consulted upon through the year, along with various secondary and tertiary regulatory instruments applicable to banks, mutual banks, insurers, market infrastructures (MIs), cooperative banks and CFIs.
- The work around transitioning the prudential regulation and supervision of collective investment schemes and managers as well as retirement funds is underway.
- The PA's flavour-of-the-year focus was on strategic business growth and the resilience of regulated financial institutions. Key themes included regular strategic planning, ongoing training and investment in technology.
- The PA directed supervisory attention to, among other areas, the monitoring of credit risk within banks – particularly given the challenging, albeit improving, macroeconomic and inflationary conditions.
- The PA published the *Climate Risk Practices Observations Report* and four guidance notices, providing essential guidelines on climate-related disclosures, governance and risk practices for banks and insurers.

The PA continued to assess and monitor the execution of succession plans for both the boards and executive management of financial institutions. With the imminent retirement of some non-executive directors and senior executives in the short to medium term, the PA's oversight emphasised the depth and robustness of succession planning. Ensuring smooth transitions for key positions at the board and senior management levels remains a top priority.

Cyber risk and operational resilience remain areas of focus, especially in relation to third-party risks. While new technologies continue to reduce barriers of entry to the financial sector, they also bring about unique risks.

The flavour-of-the-year topic for 2024 focused on strategic business growth and the resilience of regulated financial institutions' business models in the current economic environment. Engagements with senior management and boards of directors (boards) confirmed that financial institutions and MIs regularly review their strategic plans to ensure their business models are aligned with market trends, competitive landscapes, regulatory developments and growth objectives. Key risks, such as macroeconomic conditions and digital capabilities, highlight the need for strategic plans to adapt to market changes. Additionally, the integration of ESG frameworks has become increasingly crucial for promoting sustainable growth and managing risks.

Several thematic reviews were advanced in 2024, including the use of credit life boundaries, negative rand reserves and an evaluation of lapse and surrender rates.

The transformation of our collection, use and analysis of data, processes and technology systems continues to progress. Several regulatory returns became operational in July 2024. Progress continues on the implementation of banking returns in preparation for the Basel III post-crisis reforms slated for July 2025.

The PA is poised to continue its journey towards 2030, focusing on agility and adaptability in response to rapid technological advancements, market dynamics and evolving economic conditions. Our commitment to maintaining a resilient financial system through effective regulation, supervision and stakeholder engagement is unwavering.

In conclusion, I would like to extend my heartfelt gratitude to the leadership and team at the PA for their steadfast dedication, resilience and exceptional work throughout the year. Your relentless pursuit of excellence and commitment to our shared goals have been instrumental in navigating the complexities of the financial landscape. To our partners, stakeholders and regulated financial institutions, thank you for your continued collaboration and support. Together, we have strengthened the foundation of our financial system, ensuring its integrity, soundness and resilience for the future.

As we look ahead, let us continue to embrace innovation, adaptability and teamwork to overcome challenges and seize opportunities in our ever-evolving environment.

Fundi Tshazibana

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

Governance and operational structures

Resilient governance structures adapt, evolve and emerge stronger in the face of adversity. The FSR Act prescribes the PA's governance structure, resources, financial management and reporting obligations.

What we do

The PA's role is to promote and enhance the safety and soundness of the financial system by regulating and supervising financial institutions operating in South Africa. It is responsible for setting the prudential standards and regulations governing the financial sector to ensure the stability and resilience of financial institutions.

Mandate

- Promote and enhance the safety and soundness of financial institutions (such as banks and insurers) and MIs (such as central counterparties, central securities depositories, clearing houses, trade repositories and exchanges).
- Protect financial customers against the risk of institutions failing to meet their obligations.
- Support the SARB in maintaining financial stability.

Objectives

Safety and soundness	Safety and soundness	Protect	Assist the SARB
Promote and enhance the safety and soundness of financial institutions that provide financial products and securities services.	Promote and enhance the safety and soundness of MIs.	Protect financial customers against the risk of financial institutions failing to meet their obligations.	Assist in maintaining financial stability.
Financial institutions	Market infrastructures	Financial customers	Financial stability

Operational structure

The PA has four departments:

Financial Conglomerate Supervision

This department is responsible for the consolidated prudential supervision of larger, more diverse and complex financial groups, including institutions designated as financial conglomerates. The department is also responsible for the anti-money laundering and combating the financing of terrorism (AML/CFT) supervision of banks, cooperative banks, mutual banks and life insurers.

Risk Support

This department offers regulatory and supervisory support for credit, operational, market, insurance and asset and liability management risks. It also assists in quantitative and actuarial analysis and financial institution statistics from an industry perspective.

Banking and Insurance Supervision

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

Policy, Statistics and Industry Support

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

Governance structures

Prudential Committee

PruCo is established in terms of the FSR Act to oversee the efficient and effective management and administration of the PA. The committee has the prerogative to establish and determine the functions of other subcommittees it may deem necessary.

The purpose of the committee is to serve as the advisory and decision-making body on policy, regulatory and supervisory matters. It has a clearly defined delegation of authority and terms of reference. The committee, in its effort to effectively discharge its duties and evaluate its performance, may conduct a self-evaluation exercise annually.

Membership

Chairperson

1

E L (Lesetja) Kganyago
Governor

Members

2

N (Nomfundo) Tshazibana
Deputy Governor and Chief Executive Officer of the PA

3

R (Rashad) Cassim
Deputy Governor

4

M (Mampho) Modise
Deputy Governor

Chairperson

1 E L (Lesetja) Kganyago

Governor of the SARB

Appointed by the President

Appointed | 9 November 2014 and reappointed for second and third five-year terms on 9 November 2019 and 9 November 2024 respectively

Responsibilities | Executive Management Department, Communications Division, Strategy Management Office, Internal Audit Department, Economic Research Department and the Human Capital and Operations Cluster

Experience | Served as Director-General of National Treasury and then as a deputy governor of the SARB from 16 May 2011 to 8 November 2014. Served as the Chairperson of the International Monetary and Financial Committee, the primary advisory board to the International Monetary Fund (IMF) Board of Governors, from 18 January 2018 to 17 January 2021. During his time at National Treasury, he represented South Africa at the World Bank, the Group of Twenty (G20) and the African Development Bank, including as Chair of the Development Committee Deputies and Co-chair of the G20 Working Group on the reform of the IMF.

Other current roles

- Chairperson of the Committee of Central Bank Governors of the Southern African Development Community
- Co-chairperson of the Financial Stability Board's (FSB) Regional Consultative Group for sub-Saharan Africa and the FSB's Cross-border Payments Coordination Group

2 N (Nomfundo) Tshazibana

Deputy Governor and Chief Executive Officer (CEO) of the PA

Appointed by the President

CEO of the PA from 1 April 2022

Appointed | 1 August 2019 and reappointed for a second five-year term on 1 August 2024

Responsibilities | SARB Financial Surveillance Department and the PA

Served as Adviser to the Governors | February 2018 to 31 July 2019

Experience | Prior to joining the SARB, she served as an Alternate Executive Director on the Board of the IMF from 2015 to 2018. Served as Deputy Director-General responsible for Economic Policy and Forecasting at National Treasury from June 2011 to February 2015 and, prior to that, served in various roles at National Treasury since 2003. Before 2003, she was responsible for policy analysis at the National Energy Regulator of South Africa and worked in the private sector.

Other current roles

- Member of the Supervisory and Regulatory Committee of the FSB
- Member of the Board and Chairperson of the CODI Investment Committee
- Vice Chairperson of the Network for Greening the Financial System (NGFS)

3 R (Rashad) Cassim

Deputy Governor

Appointed by the President

Appointed | 1 August 2019 and reappointed for a second five-year term on 1 August 2024

Responsibilities | Financial Markets, Legal Services, International Economic Relations and Policy and National Payment System departments

Experience | Served as the Head of the SARB's Economic Research and Statistics Department and Chief Economist from March 2011 until July 2019. Before joining the SARB, he was the Deputy Director-General of Statistics South Africa responsible for economic statistics. From 2003 until 2006 he was a professor and Head of the School of Economics and Business Sciences at the University of the Witwatersrand. Before this, he was the Head of Trade and Industrial Policy Strategies and held various research positions at the University of Cape Town. He served as the Chairperson of the Irving Fisher Committee on Central Bank Statistics under the auspices of the Bank for International Settlements (BIS) between 2019 and 2022.

Other current roles

- Member of the BIS Markets Committee and the Committee on the Global Financial System
- Serves as South Africa's Central Bank Deputy at the G20 and BRICS meetings
- Chair of the Financial Markets Liaison Group
- Chair of the Market Practitioners Group
- Chair of the Corporation for Public Deposits

4 **M (Mampho) Modise**
Deputy Governor

Appointed by the President

Appointed | 1 April 2024

Responsibilities | Financial Stability Cluster, which includes the Financial Stability Department, CODI, the Economic Statistics Department, the Risk Management and Compliance Department and the Fintech Unit

Experience | Served as the Deputy Director-General of Public Finance at National Treasury, responsible for fiscal and financing monitoring and evaluating policy proposals across national departments. She was also responsible for overseeing and assessing the performance of public and state-owned entities. Formerly a Chief Director for Strategy and Risk Management in National Treasury's Asset and Liability Management Division, she was responsible for implementing a strategy and risk management framework and managed the government's relationships with global rating agencies. Her previous roles include Director of Fiscal Policy and Senior Economist in the Economic Policy Division of National Treasury. She chairs the CODI Board and oversees CODI's public engagements.

Other current roles

- Member of the FSB Standing Committee on Standards Implementation
- Advisory Board member of Southern Africa Towards Inclusive Economic Development (SA-TIED)
- Advisory Board member of the Faculty of Economic and Management Science at the University of Pretoria

Standing invitees

The standing invitees include the four heads of department in the PA and the Head of the SARB's Financial Stability Department.

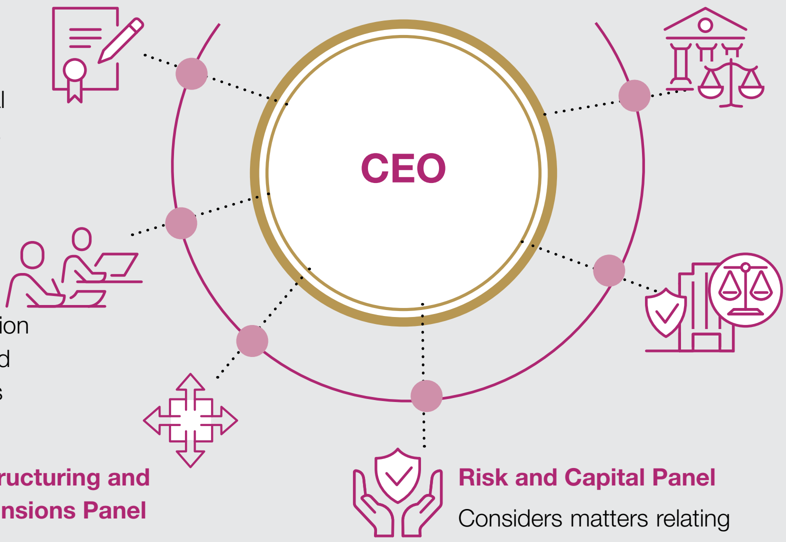
Support committee

The PruCo is supported by the following committee:

PA Management Committee

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

Other panels are reflected in the figure below:



Licensing Panel
Considers the licensing of financial institutions, shareholding in financial institutions and matters concerning significant owners

Designation Panel
Considers the designation of insurance groups and financial conglomerates

Restructuring and Expansions Panel
Considers restructuring, new business, mergers and acquisitions

Risk and Capital Panel
Considers matters relating to credit, market, liquidity and operational risks as well as regulatory capital requirements

PA Regulatory Action Committee
Considers sanctions and matters of non-compliance, including AML/CFT matters

Policy Panel
Considers policy positions, regulatory instruments, guidance notes/notices, directives and circulars

Attendance

The attendance is reflected in the table below:

Members	Capacity	Prudential Committee	PA Management Committee
E L Kganyago	Governor and Chairperson	7 + 1 (strategy session)	Not a member
N Tshazibana	Deputy Governor and CEO of the PA	7 + 1 (strategy session)	13 + 1 (strategy session)
R Cassim	Deputy Governor	7 + 1 (strategy session)	Not a member
M Modise	Deputy Governor	7 + 1 (strategy session)	Not a member
D E Bostander	Head: Financial Conglomerate Supervision Department	Standing Invitee	13 + 1 (strategy session)
F Jeena	Head: Risk Support Department	Standing Invitee	13 + 1 (strategy session)
O Matshane	Head: Policy, Statistics and Industry Support Department	Standing Invitee	13 + 1 (strategy session)
K Martin	Head: Banking, Insurance and MIs Supervision Department	Standing Invitee	13 + 1 (strategy session)
N Brink	Head: Financial Stability Department	Standing invitee	Not a member

Key activities

During the period under review, the PruCo approved:

- the PA budget for 2025/26 and the projected expenditure estimate for the following two financial years, including proposed amendments to schedule 1 of the Financial Sector and Deposit Insurance Levies Act 11 of 2022 (Levies Act);
- the removal of all BA returns from the Regulations and reissued under Directive 1 of 2025 to allow greater flexibility to update reporting requirements;
- proposed amendments to the Regulations on the remaining Basel III post-crisis reforms. The committee also approved, for consultation, the Statement of need, expected impact and intended operation of these amendments, and the respective comment matrices and the proposed Directive;
- the prudential standards on the revised market risk and credit valuation adjustment frameworks for tabling in Parliament;
- Resolution Authority Prudential Standard RA03: Financial Loss Absorbing Capacity Instrument Requirements for Designated Institutions;
- Joint Standard 1 of 2024: Outsourcing by Insurers;
- Prudential Standard Financial Soundness for Insurers (FSI) 6: Liquidity Risk Management Requirement for Insurers for public consultation;
- Joint Standard 2 of 2024: Cybersecurity and Cyber Resilience for Financial Institutions; and
- Prudential Standard CODI 1: Fund Liquidity, which relates to the funds that banks must hold in the Deposit Insurance Fund for CODI's liquidity.

Assurance processes

The PruCo regards quality control and assurance processes as essential for maintaining high standards, ensuring accountability and driving organisational success. This is achieved by maintaining high standards in risk management and compliance as well as firm internal controls.

Risk Management framework

The PA's core functions, whether strategic, operational or policy-driven, come with inherent risks. To manage these risks, the PA continually monitors and responds to potential and actual economic and regulatory risks stemming from both the global and domestic environments. Additionally, risks associated with strategic initiatives and projects are managed through the SARB's Risk Management Framework, ensuring they remain within accepted levels of risk tolerance.

The Risk Management Framework incorporates the recommended risk management principles of the *King IV™ Report on Corporate Governance for South Africa, 2016* (*King IV™*). The SARB has adopted the International Organization for Standardization (ISO) 31000: Risk Management standard as its enterprise risk management framework.

Business Continuity

The SARB adheres to the Good Practice Guidelines of the Business Continuity Institute, which are based on the ISO 22301: Business Continuity Management (BCM) System standard. The SARB has received formal ISO 22301: BCM certification, continuing to maintain this international gold standard.

Combined assurance

The SARB has adopted a combined assurance approach, in line with King IV™, to increase the effectiveness of assurance activities across the five lines of defence. The model has evolved and undergone continual improvements, ensuring regular interaction, alignment of assessment methodologies and integrated dashboard-based reporting throughout the lines of defence. The combined assurance providers aligns with the Combined Assurance Model and is reflected below:

First line of defence	**PA management**	The management of the PA is responsible for the ongoing identification, assessment and management of departmental risks. This includes the design, implementation and maintenance of an adequate and effective system of controls.
Second line of defence	**Integrated risk management**	The Risk Management and Compliance Department of the SARB performs a central and integrated role in risk management coordination, ensuring that risks are managed according to internationally accepted standards and guidelines.
Third line of defence	**Internal audit**	The Internal Audit Department of the SARB operates as an independent, objective assurance and advisory service. Its role is to evaluate whether risk management, control and overall governance processes are adequately designed and function effectively. The Internal Audit Department's work spans across the SARB, covering all operational functions and IT systems and processes. This work aligns with the Institute of Internal Auditors International Professional Practices Framework.

Implementing the PA strategy

In a rapidly evolving world, responsive adaptation of legislation empowers resilience, ensuring that legal frameworks support innovation and stability. The regulatory strategy of maintaining a safe and sound financial system sets out the PA's key priorities. The PA adopts a collaborative and consultative approach to prudential regulation and supervision.

Strategic priorities

In terms of section 47 of the FSR Act, the PA is required to publish a regulatory strategy. The strategy sets out the regulatory and supervisory priorities for the next three years, the intended key outcomes as well as the principles that guide the performance of the PA's regulatory and supervisory functions.

The PA published its 2021–2024 Regulatory Strategy, which was subsequently extended to 2025 to align to the SARB's strategy cycle.[1] During the period under review the PA delivered on its core regulatory strategic objectives of promoting the safety and soundness of regulated institutions and MIs.

The PA also made progress towards achieving additional priorities, including financial inclusion, assisting financial institutions to manage climate-related risks and enhancing work related to the supervision of financial technology (fintech) use.

1 The PA extended its 2021–2024 Regulatory Strategy until March 2025 to align with the SARB's strategy. Available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2024/Prudential%20Communication%2014%20of%202024%20-%20Extension%20of%20the%20PA%27s%202021-2024%20Regulatory%20Strategy.pdf

Key strategic priorities achieved:

- implementing the remaining Basel III post-crisis reforms to address the gaps emanating from the global financial crisis as an important part of South Africa's commitment as a member of the G20 and Basel Committee on Banking Supervision (BCBS);
- refining policies and regulations related to the member-based sectors, namely for mutual banks, cooperative banks and CFIs, to strengthen the regulatory framework, and proposing a proportional approach based on institutional size, complexity and risk profile;
- making significant progress on the Joint Roadmap for the Development of a Regulatory Framework for Central Clearing in South Africa[2] to enable the central clearing of over-the-counter (OTC) derivative transactions through a central counterparty (CCP) and reporting through a trade repository;
- strengthening AML/CFT supervision and compliance to ensure an effective, proportionate and dissuasive approach in line with FIC Act provisions and FATF standards, including refining market entry requirements to mitigate risks related to money laundering, terrorist financing and proliferation financing; and
- developing public disclosure standards by insurers to ensure that relevant, timely and comprehensive information is made available to external stakeholders to ensure comparability between entities.

During the reporting period, the PA improved regulatory coverage, implemented integrated regulatory and supervisory frameworks, and enhanced risk-based, outcomes-based and forward-looking supervision. The PA also assisted the SARB's Resolution Authority and CODI in issuing standards related to recovery, resolution and deposit insurance.

Stakeholder value proposition

SFA 2	SFA 3
Protect and enhance financial stability	**Promote and enhance the safety, soundness and integrity of regulated financial institutions and MIs**
Enhance the SARB's ability to respond to shocks and systemic events	**Enhance** risk-based, outcomes-focused and forward-looking supervision
Assess risks and vulnerabilities in the financial system	**Implement** integrated and proportional regulatory and supervisory frameworks
Develop and propose possible mitigating options	**Improve** regulatory coverage
Broaden access to payment services while promoting the safety, efficiency and integrity of the national payment system	**Improve** monitoring and reporting of cross-border transactions

2 Available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2022/Joint%20Roadmap%20for%20the%20development%20of%20a%20regulatory%20framework%20for%20Central%20Clearing%20in%20SA.pdf

Performance highlights

During the year under review, the PA developed and published proposed amendments to the Regulations to banks, together with secondary and tertiary regulatory instruments that apply to banks, mutual banks, insurers, MIs, cooperative banks and CFIs. In line with G20 commitments, the exemption criteria for external trade repositories and CCPs were implemented and monitored.

Enhancing credit, market and operational risk-related measures aimed at strengthening the regulation, supervision and risk management of banks remain a key focus. Systemically important banks and large insurers remained well-capitalised, profitable and had sufficient liquidity for the year under review. The number of non-systemic entities under resolution was unchanged from last year, and increased supervision was applied to institutions that did not fully meet regulatory standards.[3]

The implementation of the prudential standards for financial conglomerates that came into effect in 2022 are being closely monitored. Conglomerate supervision is the principal tool for ensuring the PA has full line of sight of the multiple risks supervised institutions face. This is a necessary tool, particularly when supervising a large financial group that has other entities within group that may be cross-border and/or do not fall under the supervision of the PA, but could have a material impact that can potentially create financial distress. Increasingly, the risks faced by financial institutions can be non-financial in nature.

The PA is strengthening its framework for assessing beneficial ownership as an essential and complementary measure to significant ownership.

In line with international standards, the PA continues to improve AML/CFT supervision which contributed to an upgrade of the FATF greylisting action item in February 2025. In line with the FIC Act, the PA applied effective, proportionate and dissuasive sanctions for non-compliance, and monitored remedial actions by supervised institutions.

The 2022 Financial Sector Assessment Program (FSAP) recommendations related to banking regulations and supervision, insurance supervision, fintech, climate risks, cybersecurity and cyber risks are being implemented.

Working closely with the FSCA, the PA enhanced its IT risk and cybersecurity governance frameworks for financial institutions, by setting out the principles to develop robust processes, tools and technologies to manage and respond to cyber risks, as well as possible cyberattacks.

Notable achievements in, relation to the PA's additional priorities, in financial inclusion, fintech and climate-related risks were made.

3 Refer to the 'Enforcement' section of the Annual Report.

Performance scorecard

Strategic measures	Target (annual)	2024/25 (annual)	2023/24 (annual)
Percentage of financial institutions that meet or exceed the quantitative prudential standards for systemically important financial institutions (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	98%	96.87%
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	99%	96.35%

Target met

Unique strategic objectives

The status of other unique strategic objectives are reflected below:

Strategic objective	Key performance indicator[4]
Enhance risk-based, outcomes-focused and forward-looking supervision	
Implement integrated and proportionate regulatory and supervisory frameworks	
Improve regulatory coverage	

4 Green means that the target was met. Orange means the target was partially met.

Policy and regulatory initiatives

Resilience in regulation means anticipating change – not just reacting to it.

Policy and regulatory initiatives focused on the provision of legislative requirements to ensure the soundness of South Africa's financial system and that international standards are implemented, as well as responding to existing and emerging risks.

Strengthening and enhancing prudential regulatory and supervisory frameworks

Banks

Preparing to implement the Basel III post-crisis reforms

The final proposed regulatory amendments relating to the Basel III post-crisis reforms on credit, market and operational risks faced by banks, have been finalised and will be submitted to the Minister of Finance for approval.

Standardised and internal ratings-based approaches

During the period under review, progress has been made in preparing for the implementation of the Basel III post-crisis reforms and related revised standardised and internal ratings-based (IRB) approaches. Following consultation with the sector, various tier 3 instruments[5] to support the implementation of the revisions are expected to be finalised in August 2025. The PA shared a discussion paper on the proposed credit risk roadmap, which provides an overview of what is expected from institutions regarding the proposed 1 July 2025 implementation of the Basel III post-crisis reforms, particularly where model changes are required. The PA will also issue guidance on implementing requirements related to the regulatory recognition of credit risk mitigation in calculating risk-weighted exposure (RWE) and regulatory capital and reserve funds for credit risk exposures under the revised IRB approach.

As part of the amendments, the PA incorporated the BCBS 'Supervisory framework for measuring and controlling large exposures' into draft three of the fifth set of proposed amendments to the Regulations.[6] These updates captured the requirements relating to the revised market risk framework.

With these changes, as well as those included in the Core Principles for Effective Banking Supervision the PA is updating Directive 5 of 2008: Composition of Board-appointed Committee to Approve Large Exposures[7] and Directive 3 of 2022: Matters Related to the Requirements for Measuring and Controlling Large Exposures[8].

Based on the industry comments on the amendments related to banks, the PA continues its work on providing clarity,

5 Tier 3 instruments include circulars, directives and guidance notes issued in terms of section 6 of the Banks Act.

6 Available at https://www.bis.org/basel_framework/standard/LEX.htm

7 Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-directives/2008/3291

8 Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-directives/2022/D3-2022-Directive-Large-exposure-requirements

guidance and further direction to banks to align with the Basel III post-crisis reforms.

With the publication of the revised statutory BA 200 and BA 210 returns for the implementation of the Basel III post crisis reforms,, the PA published the proposed directives on matters relating to securitisation for completing the statutory BA 501 return and the submission of consolidated data by D-SIBs to ensure reporting requirements are aligned between statutory returns.

Loss absorbency requirements for additional tier 1 and tier 2 capital instruments

Various industry consultations took place on the Basel III post-crisis reforms in relation to the loss absorbency requirements for additional tier 1 and tier 2 capital instruments as well as a positive cycle-neutral countercyclical capital buffer (PCN CCyB) requirement. These consultations led to the publication of directives that provided further clarity on these matters.

Operational risk capital calculation

Ahead of the 1 July 2025 deadline to implement the new STA approach for calculating operational risk capital, 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 challenges that may arise.

Fundamental review of the trading book and credit valuation adjustment frameworks

The draft market risk and credit valuation adjustment (CVA) prudential standards and related documentation were approved on 27 November 2024 and submitted to the Minister of Finance on 27 December 2024 for tabling in Parliament. Following consultation on the proposed revised rules in South Africa and the progress toward other implementation aspects, the PA intends to implement the revised fundamental review of the trading book (FRTB) and CVA frameworks by 1 July 2025, as detailed in Guidance Note 3 of 2023.[9] Banks have made significant progress ahead of the July 2025 implementation date. The PA continues to monitor and evaluate global developments in relation to the revised FRTB and CVA frameworks. Regarding the BCBS prudential framework for banks' exposures to crypto assets,[10] the PA plans to consult and finalise the proposed rules in 2025 ahead of the implementation date stipulated in Guidance Note 3 of 2023.

Prudential standard on banks' exposures to crypto assets

Regarding the BCBS prudential framework for banks' exposures to crypto assets, the PA plans to consult and finalise the proposed rules in 2025 ahead of the implementation date stipulated in Guidance Note 3 of 2023.

For the past two years, the PA has consulted key stakeholders in respect of the implementation of the remaining components of the Basel III post-crisis reforms in South Africa. The consultation process included quantitative impact assessments. The PA measured, among others, the combined impact of the implementation of the remaining components of the Basel III post-crisis reforms, making use of data submitted by banks across all the areas of the reforms. The banks that participated in the assessments represent 96% of the total RWE as of June 2023.

The combined impact of the Basel III post-crisis reforms was measured across the implementation of the following revised frameworks:

- STA approach for credit risk
- IRB approaches for credit risk
- operational risk
- leverage ratio
- output floor
- market risk
- CVA

The results of the assessments show that, **on aggregate, RWE** – and consequently the minimum required amount of capital and reserve funds to be maintained by banks in South Africa – is expected to **increase** by approximately **2.71%** following the implementation of the Basel III post-crisis reforms with effect from 1 July 2025. This translates to **an increase** in the **required amount of capital and reserve funds** of approximately **R6 billion**.

The biggest driver of the observed impact is the **revised operational risk framework**, with banks expected to report **an increase** in RWE of approximately **20%**. **RWE for market risk** is expected to **increase** by approximately **1.24%**, while **RWE for CVA and credit risk** is expected to **increase** by approximately **7.92%** and **0.59%** respectively.

The **combined impact on banks' capital adequacy ratios (CAR)** ranges from **an increase** of approximately **7.30%** to **a decrease** of **44.94%**. Two banks that are expected to experience a significant increase in their CAR are well capitalised, with CAR in excess of 30%. As such, the additional required amount of capital and reserve funds will be absorbed within their current capitalisation levels.

9 Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-guidance-notes/2023/G3-2023-Proposed-implementation-dates-in-respect-of-specified-regulatory-reforms

10 Available at https://www.bis.org/bcbs/publ/d579.htm

Capital buffers

Directive 6 of 2024 was issued in December 2024 and requires banks to maintain a PCN CCyB of 1%. There is a 12-month implementation lead time, starting on 1 January 2025 and ending on 31 December 2025, which will ensure the additional 1% buffer is effective from 1 January 2026.

Update to Directive 7 of 2015[11]

The PA uses distressed restructured credit exposures as an indicator to monitor the quality of credit exposures on which banks grant various concessions to counterparties experiencing financial difficulties.

Interest rate risk in the banking book framework

The PA implemented the fourth set of regulatory amendments, incorporating the revised IRRBB framework from the BCBS. It also issued Directive 1 of 2024 on 5 March 2024, detailing Pillar 3 disclosure requirements for IRRBB, and Guidance Note 4 of 2024 on 8 July 2024, outlining criteria for identifying outlier banks.

Credit spread risk in the banking book

The PA has consulted on credit spread risk in the banking book (CSRBB), a related risk that banks must monitor within their interest rate risk frameworks.[12] Prudential Communication 15 of 2024 provides for a CSRBB reporting template field test from January to March 2025. Following this, the PA will issue further guidance on developing and implementing the CSRBB framework.

Johannesburg Interbank Average Rate transition

The SARB continued to make progress on reforming reference rates to ensure they are transaction based and to enhance market integrity. In this regard, the Johannesburg Interbank Average Rate (Jibar) is being phased out and will be replaced by a new reference rate – the South African Rand Overnight Index Average (ZARONIA).

During the reporting period, the PA increased its focus on the Jibar transition. In September 2024, the PA and FSCA released Joint Communication 6 of 2024, offering guidance for financial institutions transitioning from Jibar to ZARONIA.[13] This significant change is essential for effective balance sheet and asset and liability management, as ZARONIA provides a more transparent and reliable rate, helping banks match assets and liabilities in an evolving market while reducing risks to financial stability.

Despite Jibar's continued dominance in derivatives (with the three-month rate accounting for 92% of usage in 2024), the rollout of ZARONIA is progressing well, evidenced by successful test trades in interest rate swaps and emerging market quotes. The SARB has also proposed fallback rates that combine ZARONIA with a credit spread adjustment to reflect historical pricing differences, ensuring a smooth transition.[14]

Looking ahead, efforts will focus on aligning clearing houses with ZARONIA-based derivatives and boosting market liquidity. The SARB's support for market conventions and the publication of historical compounded indices underscores its commitment. Additionally, the SARB, FSCA and National Treasury are developing 'safe harbour' rules to establish the legal framework for this multi-year transformation, ensuring robust oversight to safeguard South Africa's financial system.

The PA will continue to issue supervisory communications and advance supervisory examinations at appropriate points during the Jibar transition. The maturity of ZARONIA's development and rate of adoption will determine these examinations.

BA returns

With effect from 1 February 2025, all BA returns and related instructions for completion were removed from the Regulations and reissued under Directive 1 of 2025. The change allows the PA greater flexibility to update reporting requirements and facilitate regulatory reporting via the Umoja portal.

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11 The directive specifies the minimum requirements relating to the definition and reporting of distressed restructured credit exposures, and provides clarity on the interpretation of regulation 67 of the Regulations.

12 CSRBB refers to the risk of a value loss that is caused by changes in credit spreads while the counterparty's rating remains the same.

13 Available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2024/Joint%20Communication%206%20of%202024%20-%20Preparations%20towards%20the%20transition%20from%20JIBAR%20to%20ZARONIA.pdf

14 Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/Financial-Markets/Committees/MPG/MPG-Related-pages/2025/jibar-fallback-methodology-final-mpg-recommendation

Mutual banks

Prudential standards

The PA is developing prudential standards covering the governance, risk management, operational risk management, credit risk, liquidity risk, IRRBB, capital and economic returns of mutual banks. These are in response to the evolving nature, size, complexity and risk profiles of mutual banks. These standards will be published for consultation in the 2026 calendar year.

Cooperative banking institutions[15]

Prudential standards

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

The PA and FSCA are working together to convert the prudential standards on governance and risk management to joint standards. The prudential standards on the registration, operational and financial soundness requirements of CFIs and cooperative banks will be published for consultation towards the end of 2025 together with the joint standards on governance and risk management requirements.

Cooperative banks were granted exemption from provisions in the Co-operative Banks Act 40 of 2007 (Co-operative Banks Act) relating to loans to CODI.

MIs

Joint standard for exempting an external central counterparty or external trade repository

The draft joint standard relating to the criteria for exempting an external CCP or external trade repository was tabled in Parliament in January 2025. The draft joint standard is a key milestone in South Africa's commitment to mandating central clearing of OTC derivative transactions in line with G20 expectations.

Joint standard on recovery plans

The draft joint standard on minimum requirements for the recovery plans of MIs was published for public consultation in July 2024. The draft joint standard proposes minimum compliance requirements by MIs in formulating and implementing their recovery plans. These plans are expected to provide a reasonable prospect of recovery following a threat to the solvency of MIs.

Insurers

Disclosure standard

The draft public disclosure for insurers (PDI) standard under section 45 of the Insurance Act 18 of 2017 (Insurance Act) requires insurers to disclose specific quantitative and qualitative information. During the reporting period, the PA consulted widely to refine the PDI standard. The draft standard is currently being reviewed within the PA's governance structures.

Liquidity risk standard

The draft liquidity risk management standard for insurers was circulated for public consultation in 2024, and additional consultations were held with specific insurers for further refinements. The standard addresses concern that non-traditional insurance activities are not sufficiently covered by the existing liquidity risk framework outlined in FSI 6. Other initiatives include updated operational guidelines that set out the essential principles and framework for effective liquidity risk management, including robust governance, risk assessment, management, reporting, strategic planning and the re-designation of liquidity risk returns that offer improved insights into insurers' liquidity positions and management practices.

15 Refers to cooperative banks and cooperative financial institutions registered in terms of the Co-operative Banks Act.

Outsourcing standard

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

Cleared market initiatives

The PA and FSCA advanced initiatives under the Joint Roadmap for Developing a Regulatory Framework for Central Clearing in South Africa. By 2025, the equivalence and exemption frameworks from phase 2 are expected to become operational, while phase 3 will see work commencing on establishing eligibility criteria for certain OTC derivatives to be subjected to mandatory central clearing. The PA and FSCA plan to issue their first consultation in 2025 on an initial set of products subject to mandatory central clearing.

Funeral insurance

The PA and FSCA published Joint Communication 7 of 2024 in November 2024, which sought to:

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

Other

Margin requirements for non-centrally cleared derivatives

Following the operationalisation of regulatory variation margin requirements for non-centrally cleared OTC derivative transactions in February 2023, attention shifted to advancing the regulatory framework for initial margin preparedness and regulatory reporting. The PA and the FSCA jointly conducted supervisory and industry engagements to discuss forthcoming requirements, implementation challenges and regulatory expectations.

In 2025, the PA and FSCA will evaluate the applications of authorised OTC derivative providers, expand eligible collateral, ensure readiness for initial margin exchange requirements, and implement regulatory reporting requirements as outlined in Joint Notice 2 of 2024.[16]

16 Available at https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2024/Joint%20Notice%202%20of%202024_Determination%20of%20regulatory%20reporting%20in%20terms%20of%20Joint%20Standard%202%20of%202020.pdf

Financial conglomerates

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

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

The draft Prudential Standard FC01: Capital Requirements for Financial Conglomerates has undergone field testing since 2022. The PA has reviewed the regulatory reporting by financial conglomerates based on the draft capital standard. Based on the findings, further changes to the draft standard may not be required. The PA will finalise the standard, with formal consultation commencing in the latter part of 2025.

The supervisory framework for financial conglomerates is already in effect and will undergo refinements to incorporate details of the capital requirements standard.

Significant owners

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

Enhancing AML/CFT supervision and implementing the FATF recommendations

Following South Africa's greylisting, FATF issued an action plan requiring various stakeholders to address specific deficiencies. One of the outstanding action items related to the effective implementation and follow-up of remedial actions issued to supervised entities following AML/CFT inspections conducted in terms of the FIC Act. In response to this action item, the PA enhanced efficiencies in issuing remedial action directives and strengthened ongoing oversight through the monitoring of entities' progress in addressing remedial actions. Feedback from the FATF African Joint Group, which is responsible for reviewing and analysing progress on this action item, has been largely positive.

During the period under review, the PA processed several enforcement matters relating to FIC Act non-compliance. The PA continued to monitor the progress of remedial action undertaken by banks, life insurers and life microinsurers to ensure that remedial actions issued by the PA were effectively executed.

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

From 1 April 2026, the PA will commence with its powers to prudentially regulate and supervise retirement funds, collective investment schemes and collective investment scheme managers. The PA and FSCA will publish a joint communication about the transition in 2025. Research related to the friendly societies sector is being conducted to inform refinements to the sector's future regulatory and supervisory regime.

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

IT governance and risk management

Joint Standard 1 of 2023: IT Governance and Risk Management was published after being approved in Parliament and became effective on 15 November 2024. The joint standard sets out the IT governance and risk management principles that financial institutions must adhere to, which align with sound practices and processes for managing IT risks.

Cybersecurity and cyber resilience

Joint Standard 2 of 2024: Cybersecurity and Cyber Resilience was approved by Parliament and comes into effect on 1 June 2025. The joint standard sets out the principles for financial institutions to establish and implement sound and robust processes, tools and technologies for managing cyber risks and effectively responding to and recovering from cyberattacks.

Cloud computing and data offshoring

A joint communication on cloud computing and data offshoring was developed and will be issued to regulated entities during the first half of 2025. The communication is an interim measure as the PA and FSCA, through their supervisory activities, acknowledge that regulated financial institutions use cloud computing and/or offshore their data through outsourcing arrangements, either with cloud service providers or through insourcing arrangements with parent organisations.

Improving regulatory coverage

Supporting financial innovation and new technologies

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

The BCBS consulted on amendments to its framework for the prudential treatment of banks' crypto asset exposures. The revised framework was published in 2024. The PA is drafting a prudential standard on banks' crypto asset exposures, which is expected to be published for consultation in the latter half of 2026.

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

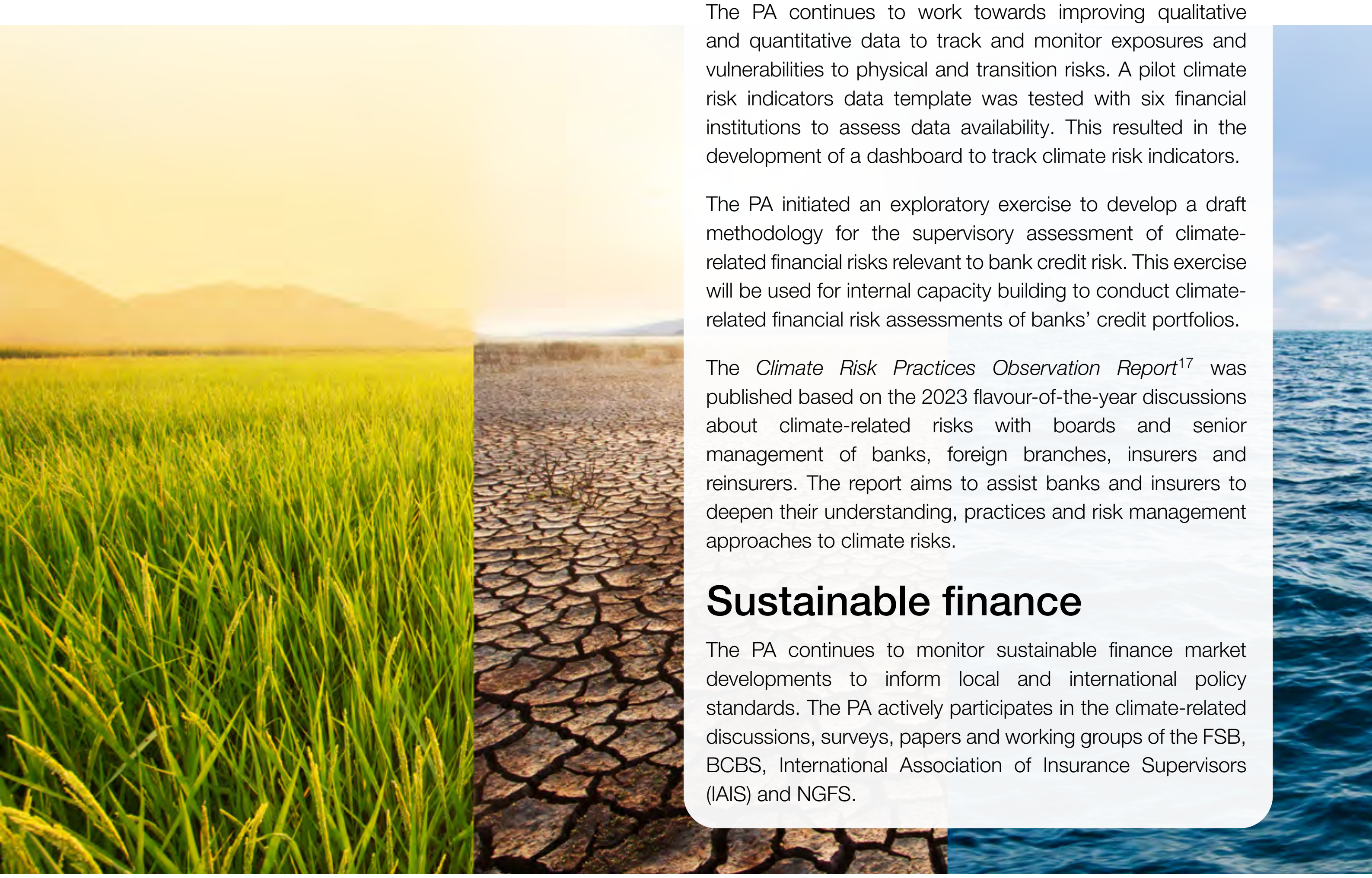
The PA's approach to transformation, financial inclusion and competition

Financial inclusion

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

Transformation

The PA engages the financial sector on their commitments and progress made under the Financial Sector Charter Code and monitors adherence to internal transformation plans.



Developing regulatory and supervisory approaches to climate risks

Guidance notices

The PA published four guidance notices covering climate-related disclosures as well as governance and risk practices for banks and insurers. The guidance notices seek to provide consistency on evolving practices, promote transparency and ensure international alignment on current climate-related risk practices and voluntary disclosures. The PA will monitor implementation through ongoing supervision while continuing to contribute, where appropriate, to global and domestic developments for climate-related disclosures, including assurance considerations and transition plans.

Supervision of climate risk

The PA continues to work towards improving qualitative and quantitative data to track and monitor exposures and vulnerabilities to physical and transition risks. A pilot climate risk indicators data template was tested with six financial institutions to assess data availability. This resulted in the development of a dashboard to track climate risk indicators.

The PA initiated an exploratory exercise to develop a draft methodology for the supervisory assessment of climate-related financial risks relevant to bank credit risk. This exercise will be used for internal capacity building to conduct climate-related financial risk assessments of banks' credit portfolios.

The *Climate Risk Practices Observation Report*[17] was published based on the 2023 flavour-of-the-year discussions about climate-related risks with boards and senior management of banks, foreign branches, insurers and reinsurers. The report aims to assist banks and insurers to deepen their understanding, practices and risk management approaches to climate risks.

Sustainable finance

The PA continues to monitor sustainable finance market developments to inform local and international policy standards. The PA actively participates in the climate-related discussions, surveys, papers and working groups of the FSB, BCBS, International Association of Insurance Supervisors (IAIS) and NGFS.

17 Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/Climate-related-risk/2024/PA-Climate-Risk-Practices-Observation-Report

Licensing

Through its rigorous analysis of licence and licence-related applications, the PA ensures that all new entrants are resilient to economic shocks, regulatory changes and unforeseen challenges in the relevant industry. The PA operates within a framework designed to maintain the stability and integrity of the financial system.

Growing interest

An increase in applications for licences by mutual banks, cooperative banks, CFIs and microinsurers indicates growing interest in the sector. The PA applies the principle of proportionality to licensing to the risks underlying the business activities of different entities. Additionally, discussions with potential licensees and with regard to pipeline licence applications, especially in the microinsurance sector, underscore the importance of financial inclusion.

The PA has a limited risk appetite to licence financial institutions that could introduce undue risk and instability to the financial system. The viability of new licences remains a concern as business models tend to target the same customers, with business plans and financial targets considered to be somewhat ambitious, making non-compliance with licence conditions an ongoing worry.

During the reporting period, variation of licence applications by insurers were considered. These applications were mainly driven by opportunities created by market trends, competitive landscapes, regulatory changes and growth objectives.

In November 2024, Strate (Pty) Limited was granted a trade repository licence, marking an important step in South Africa's commitment to fulfill a key objective of the G20 for the mandatory reporting of certain OTC derivatives to a trade repository.

Annexures I to VI contains the statistics of all licence-related applications for the period under review, including statistics of all significant owner applications.

Fit-and-proper assessments

As part of its assessments during licensing, the PA considers a key functionary to demonstrate integrity in personal behaviour and business conduct, soundness of judgement as well as a sufficient degree of knowledge, experience and professional qualifications. The onus is on each relevant person to establish that he or she is a fit-and-proper person. This is an ongoing obligation, and relevant persons must demonstrate that they remain fit and proper for the duration of their appointment, operations or whenever there is a material change in circumstances of relevant persons previously deemed fit and proper that may negatively impact their fitness and propriety.

Significant owners

Prudent business management of financial institutions is dependent on the fitness and propriety of persons who materially influence the business or strategy of these financial institutions. In the case of significant owners, fitness and propriety is linked to financial standing, competence and integrity. Assessments of significant owners take place as part of the licensing procedure before a financial institution is granted access to the industry. The main responsibility for the ongoing assessment lies with the financial institution itself.

Annexure VII contains the statistics of all significant owner applications.

Designation of insurance groups

Insurance groups often manage a wide range of risks across different subsidiaries. Supervision helps ensure that risk is identified, assessed and mitigated effectively at the group level, rather than just at the individual company level. By designating insurance groups, the PA can monitor the overall financial health and solvency of the entire group. This includes managing intercompany transactions and ensuring that one company's financial issues do not jeopardise the entire group.

Annexure VIII contains statistics of all designations of insurance groups for the period under review.

Unregistered or unlicensed banking and insurance business

The FSR Act, read with the Banks Act 94 of 1990 (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. The PA investigates unregistered banking business through temporary inspectors statutorily appointed under the South African Reserve Bank Act 90 of 1989. The FSCA investigates unlicensed insurance business, acting under a delegation of powers by the PA for this function.

Annexures IX and X contain statistics on inspections of unlicensed banking and insurance business for the period under review

Banks Act exemptions

Securitisation schemes that conduct business in terms of Government Notice No. 2[18] are exempt from the Banks Act, provided that such schemes comply with the provisions of the notice. In terms of paragraph 14(1)(b)(ii) of the notice, special purpose institutions are required to apply to the PA for authorisation to issue commercial paper pursuant to a traditional or synthetic securitisation scheme.

Annexure XI contains statistics on securitisation schemes.[19]

18 Published in *Government Gazette* No. 30628 on 1 January 2008. Available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-exemption-notices/2002/2734

19 A special purpose institution is a company or trust that is incorporated, created or used solely for the purpose of implementing and operating a traditional or synthetic securitisation scheme.

Supervision

The strength of our financial institutions is built on the foundation of strong prudential oversight. Through supervision, the PA identifies and responds to significant risks to financial institutions and the financial system in a forward-looking manner. Reviews and assessments are targeted at the most critical risks, with a preference for preventative action.

Implications of macroeconomic uncertainty on the financial system

The supervision of financial institutions takes place in the context of prevailing economic and financial conditions. The PA pays attention to the external environment and how financial institutions respond to it – particularly insofar as whether there is sufficient planning and governance measures to keep depositor and policyholder funds safe amid economic conditions, and sufficient intermediation to ensure the safety of the financial system.

Global inflation moderated appreciably over the past two years, easing to 5.8% in 2024 from 6.7% and 8.7% in the preceding two years. Favourable price developments in food and energy, coupled with restrictive monetary policy, have underpinned this moderation. South Africa's headline inflation followed global trends and decelerated over the past year, reaching 2.8% in October 2024, before further decreasing to 2.7% in March 2025.

Global growth slowed to 3.2% over the past year, although country performance varied greatly. The United States was again the exception when compared with advanced economy peers, with strong consumer spending driving growth. In contrast, economic activity in South Africa remained subdued. Growth slowed to 0.6% in 2024 (0.7% in 2023), despite electricity supply and stabilisation in logistics.

Global policy uncertainty rose during 2024 in the wake of geopolitical tensions, elections in multiple countries and ongoing inflationary pressures. Although fixed income markets in advanced economies faced challenges, global financial markets demonstrated resilience on the back of strong performance in equity markets, supported by technology stocks.

This led to moderate returns in the global investment-grade bond market due to rising yields and the tightening of credit spreads following a risk-on rally in the wake of the United States elections. Emerging markets saw notable returns driven by a late-year surge in Chinese stocks and economic growth in Taiwan and India. Geopolitical risks have intensified since late 2024, fueling polarisation and trade tensions, with possible trade wars leading to significant uncertainty and volatility in financial markets.

Domestic financial market performance was initially subdued in 2024. However, investor sentiment improved following the formation of the Government of National Unity after the May 2024 elections, leading to gains in the rand, bonds and equities. Standard & Poor's (S&P) upgraded South Africa's credit rating outlook to 'positive' in light of economic reforms. The country's financial sector has been resilient, averaging 9.2% growth compared to 2023. On average, individual institutions are liquid, well capitalised, profitable and continue to enhance risk management.

Reflecting on individual institutions, the PA noted that risks relating to global policy uncertainty and inconsistent policy implementation have increased. This has the potential to negatively affect the ability of financial institutions to attract capital on favourable terms.

Notwithstanding lower interest rates and an improvement in the credit metrics of the banking sector, bank profitability remains vulnerable to elevated credit losses. Banks with less diversified portfolios and retail concentration may be subject to greater earnings volatility.

The risk of market volatility remains elevated, with financial institutions being exposed to sudden market shocks that may lead to liquidity stress and constrained capital flows. Institutions that are highly reliant on investment income to maintain their profitability may be particularly vulnerable.

Despite the moderate growth in household disposable income, improvements in corporate profits, a moderation in headline consumer price inflation and lower interest rates all contributed to lower credit risk. This is confirmed by the minimal 0.67% increase in impaired advances in the banking sector between March and December 2024. While the level of unsecured lending remains low, mortgage lending and vehicle finance showed signs of improvement in the last quarter of 2024.

Given modest GDP growth and moderate overall credit growth, financial institutions continue to invest in government bonds, which offer a higher return. While this does show some concentration risk, the PA works closely with the Financial Stability Department to ensure that this does not limit intermediation and that institutions are not exposed to undue market risk that may be detrimental to respective institutions or the entire financial system.

While lapse rates have remained stable, the perception of insurance as a discretionary purchase remains evident. However, on the whole, both life and non-life insurance experienced healthy growth rates.

Proportional supervisory approach

The purpose of prudential regulation and supervision is to ensure that financial institutions and MIs operating within the financial system are inherently safe and sound.

Because of the numerous entities licensed as smaller non-systemic financial institutions, the PA applies a proportional supervisory approach to ensure that its expectations and requirements correspond to the size, systemic importance and risk profiles of the financial institutions under supervision, and that supervisory resources are efficiently allocated. This effectively translates into adapting the nature and intensity of the supervision, taking into consideration a financial institution's risk profile, business model or size, without compromising its prudential position.

Financial conglomerates are generally formed to provide a wide range of innovative financial products and services in response to a fast-evolving operating environment, while achieving, among other things, synergies and economies of scale. This, however, could introduce more complicated and systemic risks that require closer supervisory attention. Three financial groups are designated as financial conglomerates, and their supervision is particularly focused on ensuring stability and integrity within the financial system.

Trends

Insurers

Non-life

Underwriting results show that institutions are resilient, but that inflation and higher claims costs drove insurance pricing higher. Although reinsurance adoption has improved, inflation strongly influenced pricing discussions, while higher claims also influenced underwriting results.

South African reinsurers are expected to be cautious as they enter the 2025 underwriting cycle, with significant price increases anticipated for natural catastrophe-related risks. Natural catastrophes resulted in restrictions and/or exclusions being applied to specific locations, such as KwaZulu-Natal, leading to insurance protection gaps. The increasing frequency and severity of natural disasters have forced insurers to re-evaluate their exposure to climate-related risks.

Challenges persist in securing adequate insurance capacity from local and global insurers, especially for less preferred risk types. Although electricity supply is expected to improve, exclusions for Eskom load-shedding risks are now standard in underwriting terms.

Reinsurers highlighted possible benefits of parametric insurance solutions as an opportunity to fill critical coverage gaps in traditionally uninsured or underinsured areas.

Life

Financial results of life insurers improved and the impact of the COVID-19 pandemic is diminishing. The first half of 2024 saw a measured uptick in merger activities, including insurance business transfers. The focus on growth and returns has been a trigger for merger activity, spurred on by several key deal drivers relating to access, diversification, consolidation and innovation.

Life and non-life

Both life and non-life insurers will benefit from improved investment returns on account of higher interest rates.

Insurance technology is disrupting the industry by enhancing consumer interactions and innovating more efficient claims processing and fraud detection systems. Traditional insurers have had to invest in technology to remain competitive.

The PA has observed a lack of qualified successors for key roles, particularly in larger insurance groups. The absence of robust succession plans creates vulnerabilities, particularly in ensuring operational continuity in critical roles. The PA also observed that, in some instances, there was a lack of independence, with directors remaining on boards after reaching their nine-year tenures.[20]

Additionally, there is a concern regarding the appointment of non-independent board chairpersons. For some entities, there were requests for some board members to remain on boards beyond the age of 70. Multiple cross directorships within groups complicate succession planning and governance in general. The PA also monitored potential risks associated with directors transitioning from executive to non-executive director roles. Gaps in critical skills, particularly in actuarial science and climate change, could hinder effective governance.

All banks including D-SIBs

All banks including D-SIBs continued to record accelerated growth in sovereign exposures, with some industry players highlighting liquid asset demand to meet regulatory requirements such as the liquidity coverage ratio (LCR). This was in addition to collateral requirements in an environment with restrictions on eligible collateral. Notwithstanding the regulatory requirements, domestic banks realised high yields on South African sovereign bonds. The growth was driven by the declining market values of government bonds and Treasury bills, which led to banks investing in higher volumes.

While South African banks are primarily invested in local sovereign assets, they also explore bonds from developed and developing economies. Within the Africa region, a few countries posed a more significant sovereign risk when compared to other jurisdictions in which South African banking groups had sovereign exposures. The PA actively monitors trends in sovereign exposure and has raised concerns with banks regarding concentration levels. In response, banks are enhancing their governance processes to remain within set risk appetite and investment mandates.

International Accounting Standard 29 deals with financial reporting in hyperinflationary economies, but does not define hyperinflation.[21,22] Large South African financial institutions that have established or acquired subsidiaries in other jurisdictions risk inconsistency in financial reporting, as parent entities may classify the economy in which its subsidiary operates as hyperinflationary. In contrast, the regulatory authorities within the host jurisdiction may not classify their economy as hyperinflationary, resulting in different accounting principles being applied.

With significant management retirements approaching, succession planning is critical. Challenges include skills gaps, inadequate succession candidates and insufficient representation of women in candidate pools.

Banks have continued to modernise their IT platforms and systems to enhance efficiency, support long-term business strategies, improve their digital propositions and deliver improved client experiences. Aligning architecture across business units to avoid incompatible and disparate systems remains a key technological risk. The increased reliance on IT and the growing intensity of evolving technologies continue to elevate cybersecurity risks.

Cloud adoption remains a key focus area. However, institutions with a regional presence continue to face challenges regarding cloud implementation and centralised IT services due to increased regulatory scrutiny over data privacy and a higher demand for localisation.

The adoption of AI and generative AI presents significant opportunities to enhance customer experiences and drive the development of innovative products and services. However, these technologies also represent an emerging risk that is expected to grow as they are deployed more and more.

Emerging trends relate to institutions' challenges regarding compliance capacity, capability, skills and their ability to attract and retain talent, which have increased pressure on existing resources.

20 *The King IV™ Report on Corporate Governance for South Africa, 2016* recommends a nine-year tenure limit for non-executive directors, particularly those claiming independence.

21 According to the International Accounting Standards Board (IASB), a hyperinflationary economy is one in which the rate of cumulative inflation is more than 100% over three or more years, among other characteristics.

22 IASB prescribes standards that should be applied by entities reporting in currencies of a hyperinflationary economy to ensure that the reported financial information is meaningful and not distorted.

Further observations across various institution types:

Small and medium-sized local banks

Smaller local banks are facing intense competition from larger banks, with some incurring losses due to challenges in achieving efficiencies that come with economies of scale.

Market consolidation is currently underway, with several significant acquisitions completed and others in progress. This trend allows the remaining small banks to diversify their product offerings and expand their customer bases. Conversely, banks acquiring competitors must navigate significant integration risks and challenges. As a result, the PA requires these banks to implement strong practices for integrating people, systems and processes, among other measures, and to keep the PA informed about key developments.

Smaller banks often partner with entities with established customer bases to enhance scalability. These partnerships allow them to leverage existing infrastructures to broaden their product offerings. However, they also introduce new risks, and banks are consistently reminded of their responsibility to manage these.

Smaller banks also struggle to attract and retain talent, particularly as larger banks can offer more attractive rewards and benefit packages.

Branches of foreign banks

Branches of foreign banks have demonstrated resilience, mainly due to strong support from their head offices. Some branches have been exposed to concentration risk as a result of their limited customer bases and reliance on head office funding. Costs have been well controlled, with only a few branches facing challenges. Despite this, branches of foreign banks have maintained adequate capital and liquidity and generally comply with regulatory requirements. Reliance on head offices can complicate the implementation of directives issued by the PA.

Mutual banks

The PA observed that mutual banks have solid corporate governance and effective risk management practices that align with each institution's size, risk profile and complexity. All mutual banks have established governance structures, which include proper succession planning for directors and adequate oversight from boards.

The sector demonstrates sufficient liquidity, with some mutual banks having robust credit risk management processes, as indicated by low levels of overdue loans. Additionally, there have been improvements in the profitability and cost-to-income ratios of mutual banks compared to the previous financial year. However, there is still concern regarding these banks' reliance on secondary share capital.

Cooperative banking institutions

The sector faced challenges in stabilising governance structures due to capacity constraints related to financial and human resources. In some cases, members serving on the governance structures of cooperative banking institutions lacked the necessary skills and experience to provide adequate oversight. The lack of relevant expertise led to a dependency on key individuals within these institutions. Succession planning constitutes a significant challenge, primarily as a result of a scarcity of requisite skills, no compensation for serving members and the requirement to select candidates within the defined common bonds.

Weak economic conditions have led to only marginal growth in the sector's overall financial performance. Non-compliance with registration conditions and regulatory requirements continues to be a concern. While enhanced regulatory measures are designed to ensure the safety and soundness of the regulated entities, members have expressed concerns about the increasing regulatory requirements imposed by multiple regulators. The implementation of these new regulations has resulted in heightened compliance requirements, increased costs and limitations on the operational capacity of the sector.

Member-based and deposit-taking institutions

A policy process is underway to address legislative gaps concerning mutual banks. This includes establishing a clear definition of 'mutuality' and clarifying the shareholding structure for these banks.

MIs

The sustainability of various MIs was a significant focus throughout the 2024 supervisory year. Emphasis was placed on diversifying revenue streams, expanding product offerings and broadening geographical reach.

The PA conducted in-depth assessments of regulatory and economic capital calculations as part of its capital assessment processes for MIs. However, some MIs faced challenges in meeting regulatory capital adequacy requirements.

Cybersecurity and organisational resilience were identified as major priorities and some MIs increased their ESG efforts.

South Africa's status on the FATF grey list impacted JSE Clear through the termination of its European Union third-country CCP status by the European Securities and Markets Authority in 2023. In the United Kingdom, the Bank of England extended JSE Clear's run-off recognition period until March 2026.

Anti-money laundering and combating the financing of terrorism

FATF mutual evaluation and remedial action

Following South Africa's greylisting by FATF in February 2023, the PA has diligently addressed the action item applicable to it. This has been achieved through a greater focus on the implementation and follow-up of remedial actions within requisite time frames, and ensuring that effective, proportionate and dissuasive sanctions are taken against supervised entities found to be non-compliant with the provisions of the FIC Act.

Significant progress has been made in addressing the applicable action item, a key priority of the FATF Africa Joint Group responsible for reviewing South Africa's progress. The PA regularly updated the Africa Joint Group on its progress and participated in its meeting held in January 2025. The report emanating from the Africa Joint Group was discussed at the FATF plenary in February 2025. The plenary found that the PA had successfully addressed the action item. Since certain action items remain outstanding, further updates will be required until all have been addressed. The date of the Africa Joint Group on-site visit to South Africa is still to be determined. Following the on-site review, a decision will be taken on South Africa's greylisting status.

AML/CFT activities

The PA conducted 22 on-site risk-based inspections as part of its supervisory role. The on-site visits covered domestically registered banks (including branches of foreign banks), cross-border subsidiaries of South African banks and life insurers.

Annexure XII contains statistics of the inspections conducted across the different supervised entities.

For all domestic supervised entities identified with deficiencies during the inspections, the PA required remedial action to be undertaken under the provisions of Directive 43A of the FIC Act. Affected entities are required to submit quarterly progress reports. In cases where cross-border inspections were conducted jointly by the PA and the host central bank, the respective host central bank was responsible for the oversight and monitoring of the remediation progress at the subsidiaries of South African banks.

Strongly linked to risk-based supervision, the PA received data from life insurers and banks that submitted their AML/CFT regulatory risk returns. This information assists in assessing the risks associated with each supervised entity. A new addition to the AML/CFT regime was the recognition of cooperative banks as accountable institutions under the FIC Act. In 2024, the PA focused its efforts on enhancing its money laundering and terrorism and proliferation financing risk returns, including the addition of a risk return for cooperative banks. The implementation is expected in 2025. The PA also engaged with cooperative banks to discuss their risk management and compliance programmes and provide training on risk returns.

The PA began its third round of business risk assessments for selected banks and life insurers in 2024. This was followed by the issuance of a business risk assessment guidance note specifically targeting the banking sector.

The PA conducted outreach and awareness sessions with banks and life insurers throughout the year. These sessions covered topics such as inspection findings, which helped promote compliance and deter other supervised entities from similar non-compliance issues. To enhance collaboration and cooperation, the PA's AML/CFT Division worked closely with key stakeholders such as the FSCA, BASA, Financial Intelligence Centre (FIC) and the Association for Savings and Investment South Africa. Multiple engagements were held during 2024 to strengthen these partnerships.

The 2024 IMF 'South Africa: Central Bank Transparency Code Review' recommended that the SARB proactively disclose its AML/CFT supervisory policies and resources as well as the remedial actions taken by supervised institutions. The review further recommended that the PA publicly avail information of the SARB's internal AML/CFT control function, outlining its activities and outcomes as well as relevant audit procedures.

Supervisory activities undertaken for specific risk types

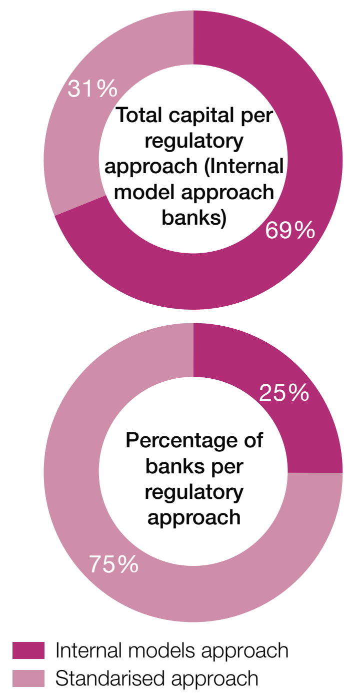
There were a significant number of supervisory inspections of exposed banks, insurers and MIs. Through these supervisory engagements, it was established that relevant supervised financial institutions remained resilient, demonstrating their ability to maintain adequate capital buffers to absorb the impact of market shocks. The following section sets out specific risk supervisory activities undertaken by the PA achieving, among other things, synergies and economies of scale. This, however, could introduce more complicated and systemic risks that require closer supervisory attention.

Market risk

Banking supervision

The PA focuses on supervising banks' trading activities, risk management and governance. It collaborates with the banking industry on implementing regulations, such as the FRTB and revised CVA frameworks.

Market risk methodologies applied by banks as of 31 December 2024



Insurance supervision

In 2024, the PA conducted targeted supervisory activities with insurers to enhance understanding of market and counterparty credit risks and appropriate risk drivers, well as to evaluate relevant risk management frameworks. The PA also initiated an asset benchmarking exercise with selected industry participants to strengthen sector-specific analysis and regulatory oversight.

MIs supervision

In 2024, the PA continued its supervisory oversight of MIs through targeted engagements and off-site assessments amid ongoing regulatory reforms. In 2025, the PA will assess the impact of Joint Standard 2 of 2020: Margin Requirements for Non-centrally Cleared OTC Derivative Transactions and its implications for exchange-traded clearing.

Capital management

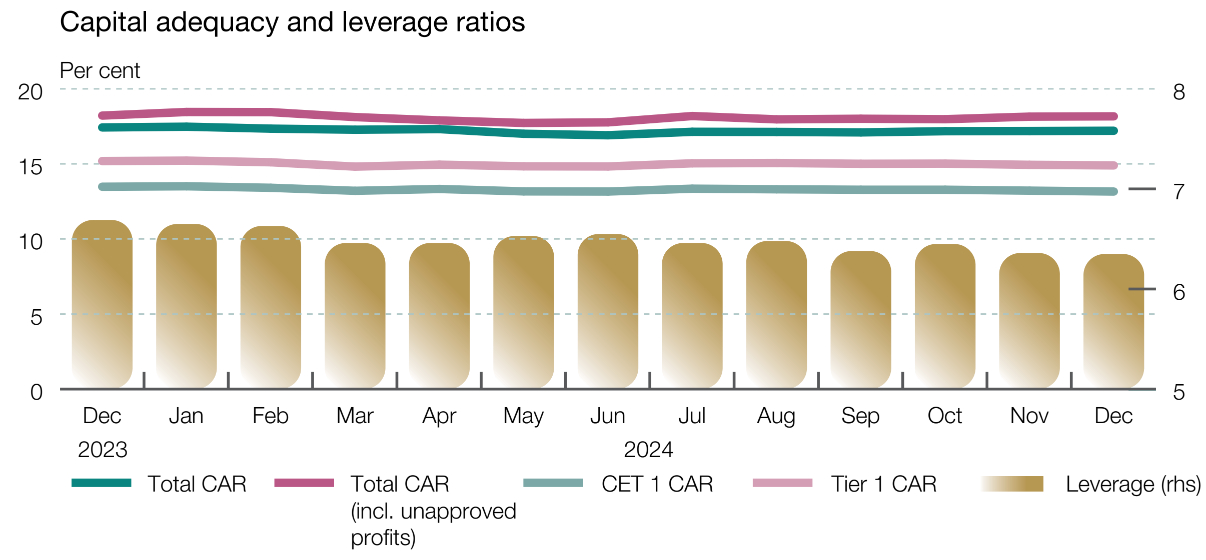
Banking supervision

Most banks were adequately capitalised throughout 2024, and their capital ratios were marginally lower than the December 2023 ratios. The PA conducted internal capital adequacy assessment on-site reviews in respect of three D-SIBs and two non-D-SIBs. The results of the reviews are presented to a risk panel that is integral in assessing the appropriateness of the individual capital requirements of the respective banks.

Capital buffers

The higher loss-absorbency requirement for D-SIBs remained unchanged during the 12-month period ending 31 December 2024, as reflected below:

Capital adequacy



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

	CET 1	Tier 1	Total capital
2024	**7.50%**	**9.25**	**11.50%**

Total value of approved potential capital issuances

	2023 (R billions)	2024 (R billions)
Additional tier 1	9.3	25.0
Tier 2	28.0	41.5

Total value of capital redemptions

	2023 (R billions)	2024 (R billions)
Additional tier 1	4.3	8.4
Tier 2	16.5	14.0*

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

Insurance supervision

The PA processed capital-related applications for various topics as outlined in the Insurance Act and prudential standards. An application that frequently arose pertained to the treatment of insurers' assets and their availability to cover insurers' losses whenever they occur. Applications related to section 38 of the Insurance Act, which addresses capital management activities such as issuing securities other than shares and reducing capital, were also frequent, particularly by larger insurers.

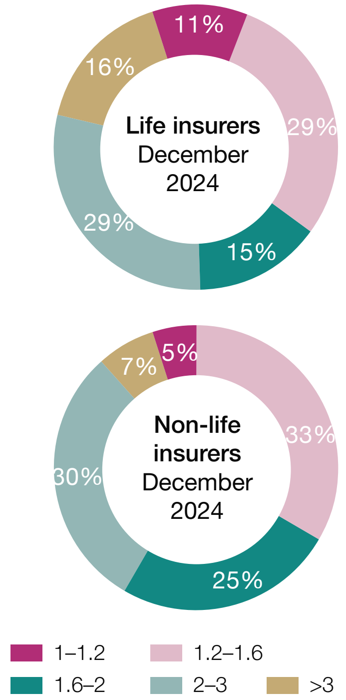
At its December 2024 annual general meeting in Cape Town, the IAIS adopted the Insurance Capital Standard, which aims to set a global insurance solvency framework for large international active insurance groups. The IAIS will continue the work by developing an implementation assessment methodology. The PA is committed to the IAIS principles outlined in the Insurance Core Principles and will consider amending legislation to adhere to these principles.

The PA conducted own risk and solvency assessment (ORSA) reviews, including on-site visits, for one large insurance group. Overall, the ORSA process is more mature for larger entities than smaller ones. In addition, the ORSA embedment has improved across the insurance industry over the past five years.

Capital adequacy

The insurance industry is adequately capitalised, with solvency ratios greater than 1.2 for most insurers, as shown in the following graphs.

Solvency capital requirement coverage ratio



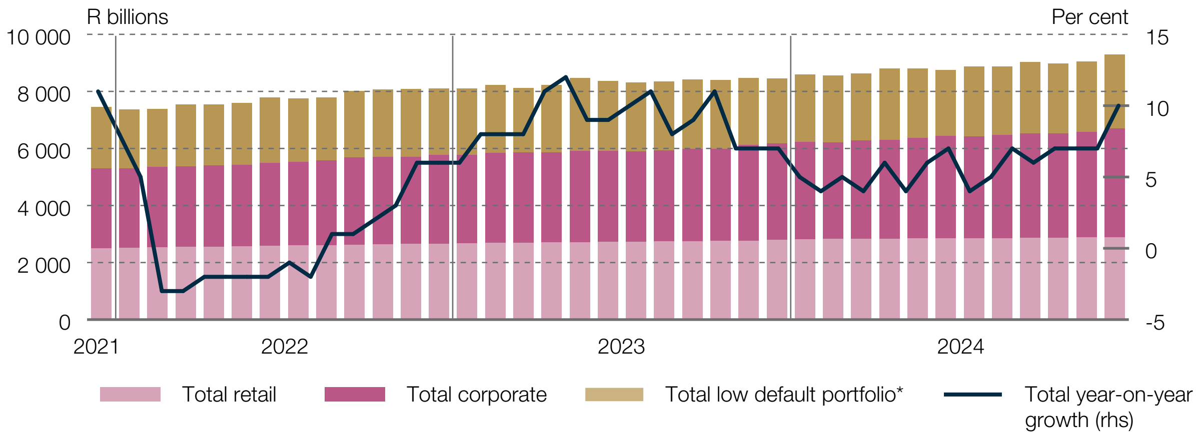
Credit risk

Banking supervision

Despite significant consumer strain, which results in higher credit risk, South Africa's banking sector demonstrated remarkable resilience, measured by banks' ability to maintain strong asset quality metrics and additional provisions raised in anticipation of increased credit risk. Credit conditions began to ease in the second half of 2024 amid moderating inflation and interest rates.

The banking sector loan book grew 10% year on year to reach R9.3 trillion in December 2024, compared to the 4.3% year-on-year growth as at December 2023. Growth was positive for most asset classes but was mainly driven by exposure to the corporate sector, including specialised lending (which grew 13.9% year on year as at December 2024) and the sovereign asset class (which grew 17% year on year). Retail credit remained subdued, growing 2.9% year on year as at December 2024 – reflecting elevated household strain and banks' tightening of credit criteria amid sticky inflation and higher interest rates.

Total gross credit exposure (R9.3 trillion)

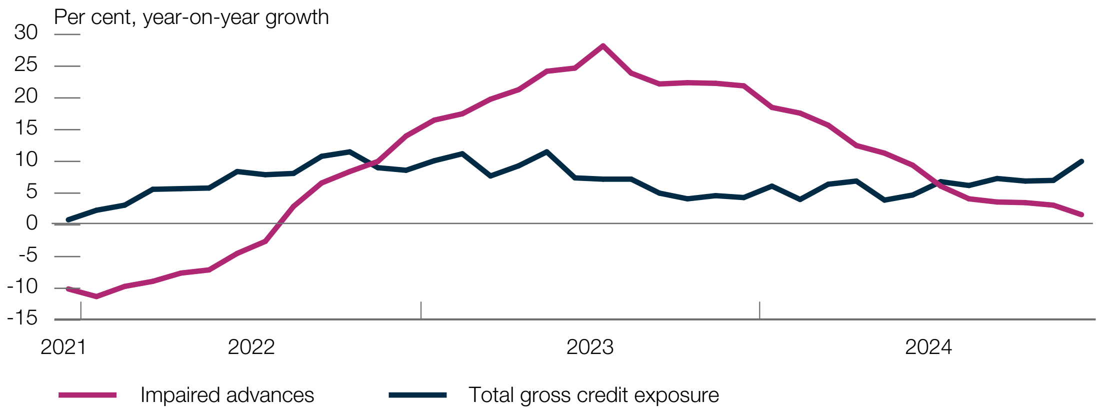


* Low default portfolios can be defined as portfolios that historically have experienced low numbers of default and are generally considered to be low risk (i.e. banks, securities firms and sovereign exposures (including central government and the central bank)

Impaired advances, impairments and coverage

The banking sector's impaired advances grew by 1.6% year on year to reach R300.4 billion as at December 2024 (December 2023: R295.6 billion), mainly driven by the retail sector. Although impaired advances remained elevated, the year-on-year growth as at December 2024 was significantly lower than the 21.9% year-on-year growth reported as at December 2023. From August 2024, credit growth started to outpace impaired advances.

Gross credit vs impaired advances



During the period under review, credit risk prudential meetings were held with six banks. The meetings were held to understand the impact of the macroeconomic environment on banks' credit risk profiles and changes in lending strategies. The PA also engaged banks on their respective portfolio growth and credit portfolio performance and, where stress was evident, unpacked risk mitigation strategies and collateral management frameworks.

Methodologies to calculate the minimum required regulatory capital relating to credit risk for banks[23]

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

- the STA approach, including the simplified STA approach;
- the foundation IRB approach; or
- the advanced IRB approach.

The figure below, as at 31 December 2024 depicts the number of banks registered in South Africa and their use of each methodology.

South African registered branches		Foreign branches
15		12
STA	Advanced IRB	STA
10	5	12

Reassessment of external credit assessment institution

In accordance with section 85A of the Banks Act, the PA made substantial progress in reassessing the eligible external credit assessment institutions (ECAIs), namely Moody's Ratings, Global Credit Rating Co. (Pty) Ltd and S&P Global Ratings. The reassessment is aimed at determining whether the ECAIs are still compliant with the criteria specified in regulation 51 of the Regulations. The PA applied a risk-based assessment of the ECAIs' eligibility. The reassessment entailed on-site meetings with the management teams of the ECAIs to assess their risk management processes.

Insurance supervision

The PA's monitoring of insurers' credit risk management practices intensified through the analysis of regulatory returns, board packs and watchlist reports as well as supervisory engagements. **The following were the key highlights emanating from the PA's supervisory activities:**

- Credit risk prudential meetings were held with four insurers to understand their overall risk management practices concerning credit exposures in their retail and corporate lending books (including inter-company loans).
- The ongoing monitoring of the watchlists of selected insurers provided a holistic view of common credit distressed exposures. The insurers added counterparties to their watchlists due to diminished performance, waiver requests on covenants, default events or liquidity issues, among other reasons. During the period under review, an increase in the number of public sector entities on the watchlist of the top five life and non-life insurers was observed. Common public sector entities on the watchlist contributed 61% of the total credit exposures.

Insurance risk

Insurance supervision

The PA conducted technical provision reviews based on information requested from insurers and their regulatory returns to assess compliance with the provisions of the Insurance Act and prudential standards. These reviews were completed for eight life and eight non-life insurers during 2024. All assessed insurers were largely compliant with the prudential requirements and no material concerns were raised.

The PA conducted a contract boundary information request, through which a questionnaire was distributed to 24 life insurers licensed to conduct life insurance business for the credit life class. The main objective was to establish whether or not the contract boundaries used by life insurers were aligned to the requirements of section 8 of Prudential Standard FSI 2.2 and chapter 2 of the Guidance Notice on FSI 2.2, and to establish a benchmark to assess the reasonability of the contract boundaries used to determine the technical provisions for credit life policies. The outcome was a recommendation that improvements be made on the existing guidance relating to the contract boundaries for life insurers writing the credit life class of insurance business.

The PA considered various applications in terms of the Insurance Act, which include transfer of business applications and variation of licence applications. The variation in licence conditions arose from the muted premium growth in the non-life insurance sector, which had led to insurers seeking

23 The methodologies include the STA approach and the foundation and advanced IRB approaches. The STA approach methodology requires the use of regulatory prescribed risk weights in the calculation. The foundation IRB approach enquires banks to obtain PA approval to model their own probability of default (PD). The advanced IRB approach requires banks to obtain PA approval to model their own PD, loss given default, exposure at default and maturity.

new business opportunities and risk diversification through expanded product offerings.

The PA continued work to provide industry guidance on the prudential standards issued in terms of the Insurance Act, with various engagements with industry bodies, such as the Actuarial Society of South Africa. The PA presented key features of the insurance industry's experience in 2023 based on information contained in regulatory returns submitted under the Insurance Act.

Asset and liability management risk

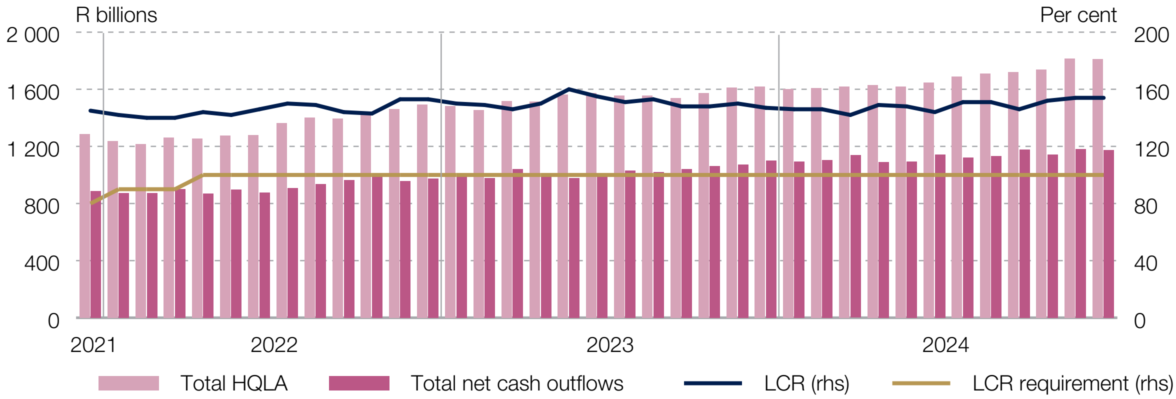
Banking supervision

Liquidity risk

The PA is enhancing the current liquidity returns to better reflect the evolving nature and complexity of liquidity risk. This requires adapting to new financial developments, market dynamics and regulatory expectations. The key change is a shift towards a more forward-looking approach. Although prudential ratios will remain unchanged, banks may in future be required to submit their projected LCR and net stable funding ratio (NSFR) to the PA.

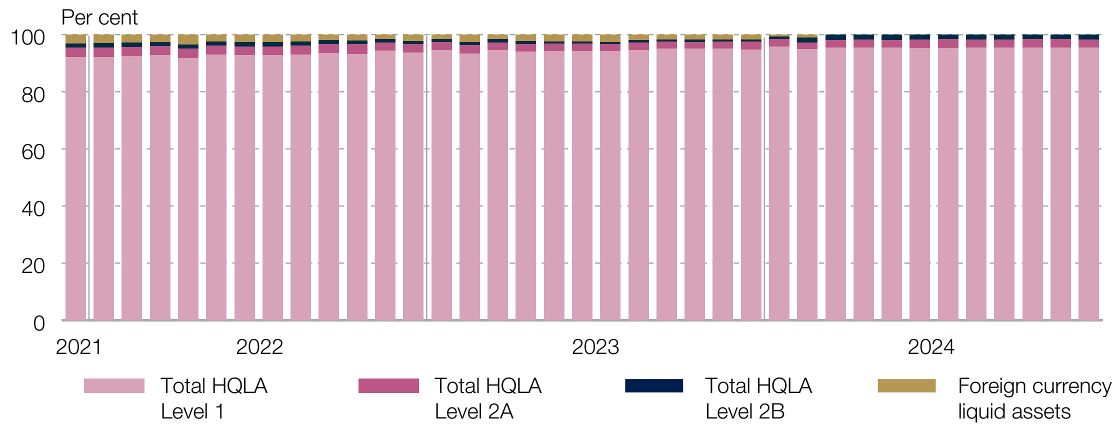
Regulation 26(12) of the Regulations stipulates a minimum LCR of 100%. As outlined in the graph below, South Africa's banking sector has upheld a strong buffer above this benchmark, with an average LCR of 154% as at December 2024 – showing considerable resilience against potential liquidity pressures.

LCR of the total banking industry



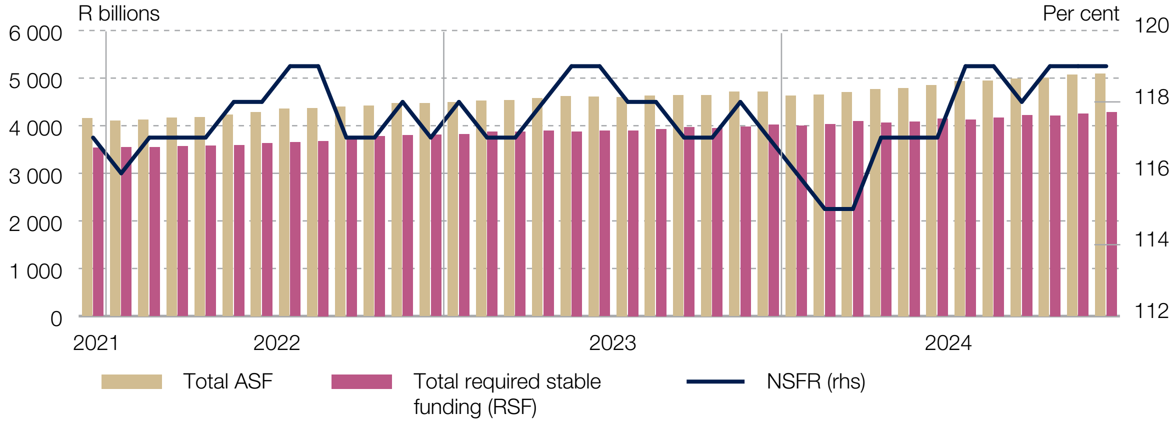
Directive 11 of 2022, issued on 14 December 2022, allowed banks to use the alternative liquidity approach until 31 December 2023 due to a reduced shortage of high-quality liquid assets (HQLA). This approach, consistent with the Basel framework for LCR, permitted banks to count foreign currency-denominated Level 1 HQLA to fulfil their LCR requirements in local currency. The directive also confirms that the 5% foreign exchange component relative to the rand-based LCR has been phased out as at 31 December 2024, as shown in the graph below.

Composition of HQLA



In 2017, the PA determined that a deviation from the international NSFR framework was necessary, allocating a 35% available stable funding (ASF) factor to secured and unsecured South African rand funding from financial corporate customers (excluding banks) with residual maturities under six months. The phase-out of this allocation spans from June 2023 to January 2028. Banks will adhere to a 10% ASF factor from January 2025 until December 2027, and from January 2028 they will move to a 0% factor. Despite these adjustments, the industry-wide NSFR remains robust at 119%, well above the 100% regulatory threshold. The graph below reflects the NSFR of the total banking industry as at 31 December 2024.

NSFR of the total banking industry



From a banking supervision perspective, the PA conducted asset and liability management prudential reviews for two tier 2 banks and carried out a liquidity simulation for a non-D-SIB institution.

Interest rate risk in the banking book

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

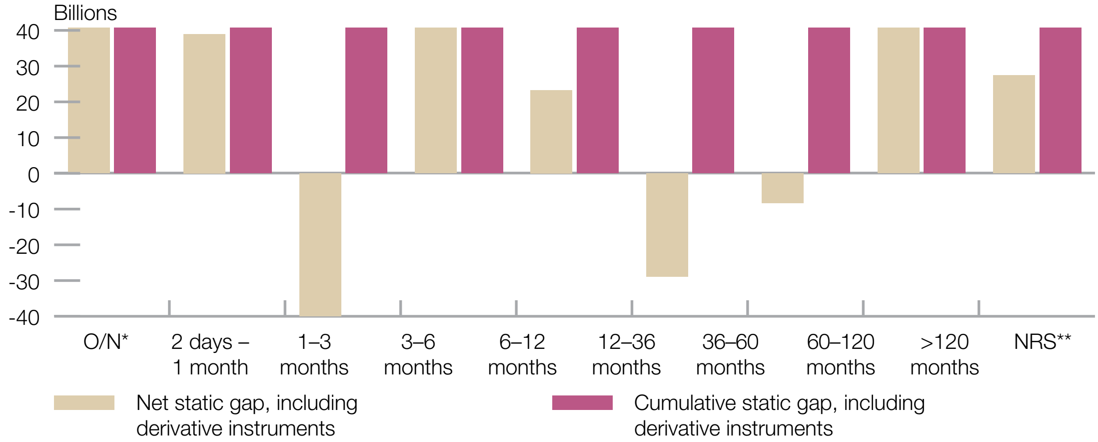
The supervision of IRRBB has been instrumental in promoting the adoption of sound practices in interest rate risk management. Banks are required to maintain risk limits in alignment with their risk appetite, governance structures and the nature of their operations.

The PA noticed a concerted effort by banks to align their IRRBB management with the revised IRRBB regulations, which came into effect on 1 January 2023. This involved upgrading technology systems, refining risk modelling techniques and enhancing the skills of risk management personnel.

Net interest income

Across the industry, the cumulative behavioural repricing gap is asset sensitive, meaning that assets reprice faster than liabilities. Consequently, when interest rates rise, banks are well positioned to increase their NII, and the reverse holds true when rates fall. The change in NII due to interest rate movements is known as NII sensitivity. The graph below, for December 2024, displays the total bank behavioural repricing gap considering both customer behaviour and interest rate expectations.

Total bank repricing gap



* Overnight
** Non-interest rate sensitive

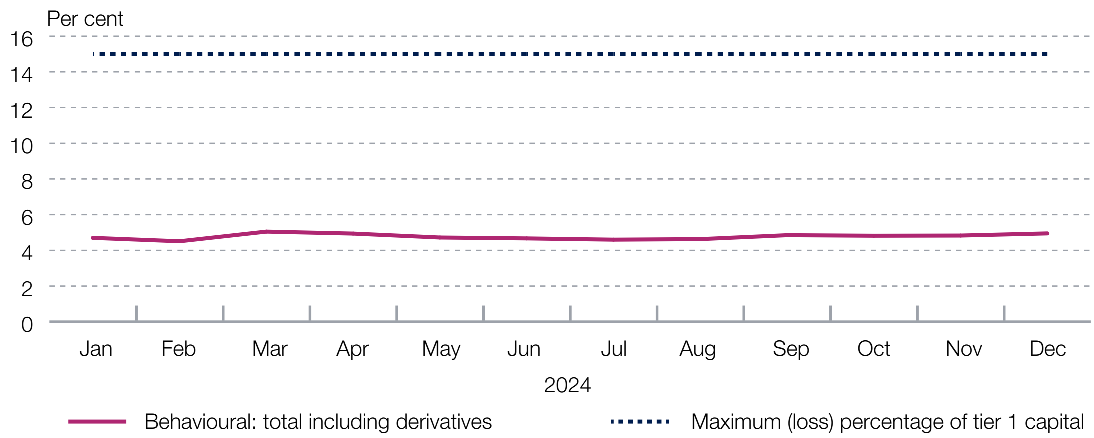
Economic value of equity

The EVE is defined as the difference between the discounted value of a bank's future cash inflows (from assets such as loans) and outflows (from liabilities such as deposits), calculated under various interest rate scenarios. It indicates how sensitive a bank's equity is to rate changes (a decrease in EVE suggests that asset values decline more than liabilities, thereby reducing the capital buffer).

EVE evaluates equity value by discounting cash flows from the banking book's assets and liabilities, typically excluding goodwill and fixed assets that do not generate interest-linked cash flows. The change in EVE due to interest rate shifts is referred to as EVE sensitivity.

The PA employs EVE sensitivity to identify banks with excessive IRRBB, where capital may be insufficient to cover potential losses. The PA calculates the worst-case EVE sensitivity across six regulatory scenarios, divides it by tier 1 capital, and imposes a 15% limit. Data from January to December 2024 demonstrates that the banking sector (including derivatives) remained well below this threshold, as illustrated below.

Total banks: supervisory outlier test



Insurance and MIs supervision

Liquidity risk

The PA has dedicated significant resources to assessing liquidity risk management and reporting within the insurance and MIs sectors. The PA recognises that these two sectors have distinct liquidity risk profiles that vary depending on their size, nature and complexity. The PA's primary aim is to ensure that insurers and MIs maintain robust liquidity risk management practices to bolster financial stability.

Non-financial risk

Banking supervision

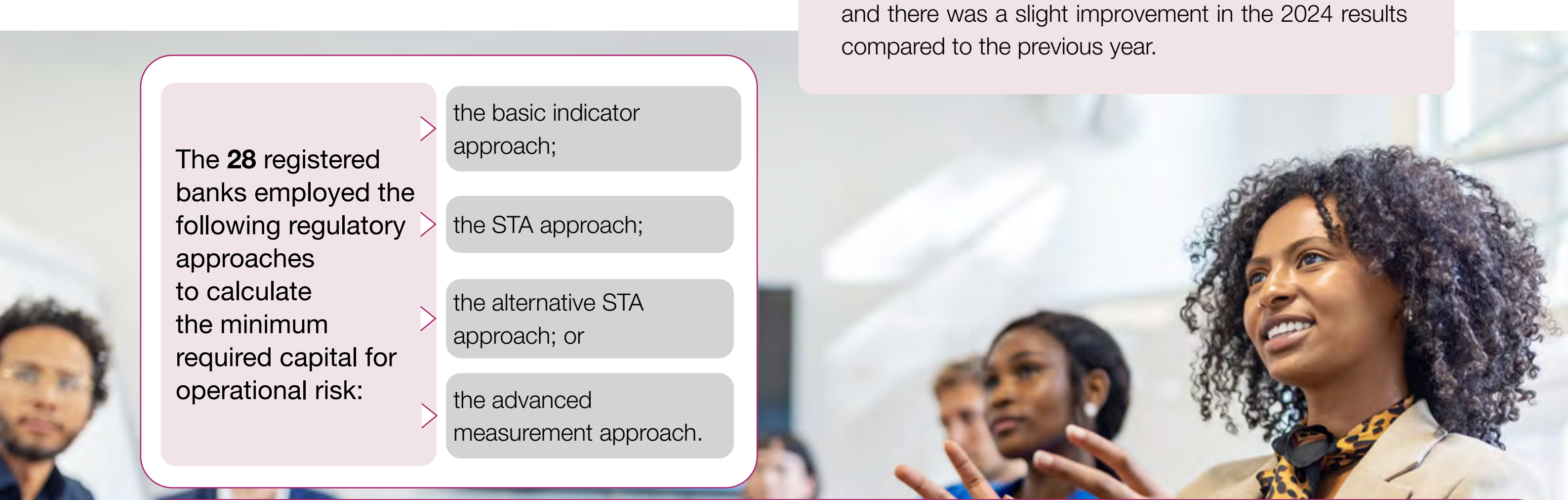
Operational risk

Banks continued to focus on the implementation of the new STA approach for calculating operational risk capital, thus strengthening operational resilience and enhancing third-party risk management. The largest contributors to operational risk losses were fraud, execution, delivery and process management events.

Operational risk prudential meetings were held with larger banks and focused on operational risk strategic objectives and governance, third-party and outsourcing arrangements, and the new STA approach for calculating operational risk capital.

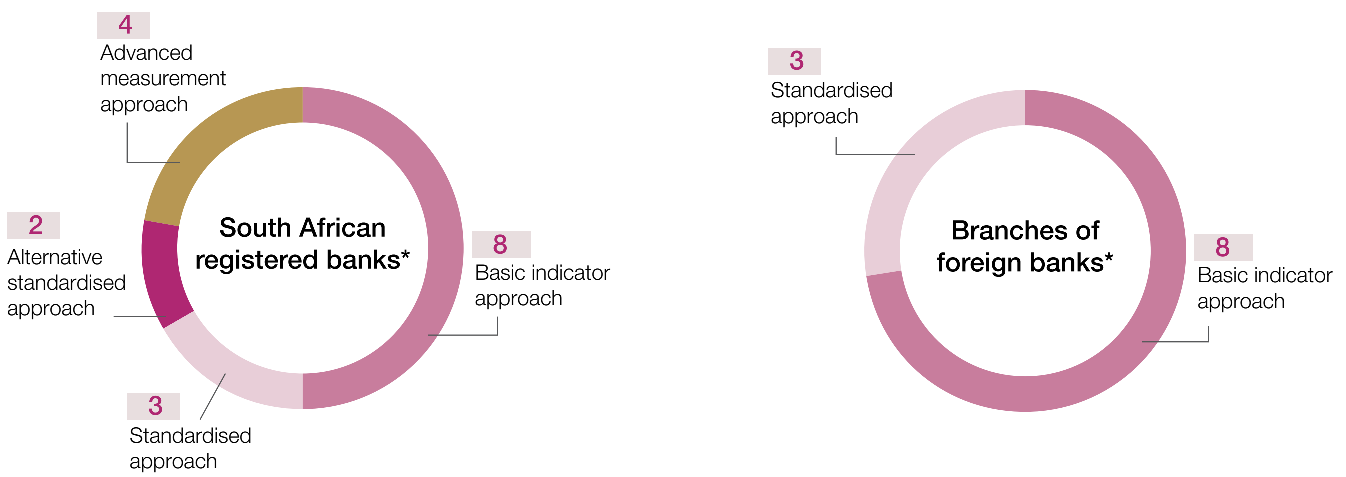
The following observations were made:

- Banks continued to focus on strengthening operational risk management practices and exploring various technologies to achieve strategic objectives.
- Significant improvements were made to the systems, processes, procedures and frameworks governing the management of outsourcing and third-party agreements to improve third-party risk management controls. Even though notable progress had been made, third-party risk management remained a top priority.
- Implementing the new STA approach remained paramount and there was significantly more attention on tasks related to its pending adoption.
- The Operational Risk Maturity Assessment Questionnaire (ORMAQ) was completed by all banks in 2024 and showed a slight improvement compared to the previous year's results. Banks were rated as the most mature, and there was a slight improvement in the 2024 results compared to the previous year.



The **28** registered banks employed the following regulatory approaches to calculate the minimum required capital for operational risk:

- the basic indicator approach;
- the STA approach;
- the alternative STA approach; or
- the advanced measurement approach.



* As at 31 December 2024

Information technology risk

In response to technological advancements, many banks are integrating digital innovations such as AI, robotics and smart embedded devices to enhance customer interactions and improve operational efficiencies, productivity and resource management. The PA noted that technology companies were entering the financial ecosystem through the enablement of digital platforms. This resulted in an increased focus on improving the regulatory and supervisory framework of these fintech companies.

The following observations were noted through reviews:

- Larger banks had decentralised technology roadmaps to cater for disparate business models and to advance agile and bespoke IT delivery capabilities. The PA advised banks to adopt a coherent approach to their architectural roadmaps to avoid incompatible and disparate systems across digital platforms.
- Most banks had adopted agile work methods to execute strategic initiatives. This approach helps break up mega-programmes into manageable quantities and deliver value incrementally. The PA will continually monitor the IT portfolio management domain due to the lack of maturity observed across the financial sector.
- Most banks prioritised end-of-life/end-of-support systems in their technology stacks. These were either upgraded or risk-accepted when the outcome of the risk–reward analysis had not been favourable. It was emphasised that these systems should be continually reassessed to ensure that business was not adversely impacted.
- The IT risk questionnaire is completed annually and assists the PA and banks in tracking their maturity, posture and profile.

Cyber risk

The rate of technological change continued to impact the threat landscape. The PA noted that most banks were cyber resilient; however, the biggest challenge to the financial sector remained the frequency and sophistication of targeted cyberattacks. The PA aligned its supervisory practices to address this increasing risk.

Prudential meetings with larger banks made the following observations:

- Cyberattacks have become cheaper, faster and more personalised. With tools like large language models and AI-as-a-service, attackers have unprecedented capabilities. Large banks were adopting AI solutions to strengthen cybersecurity defences, automate responses to threats and conduct predictive analytics. Other banks were evaluating the capabilities and value of AI technologies.
- Most banks were shifting to zero-trust architecture to address the complexities of remote work and cloud adoption.
- Application programming interfaces were vital for the digital transformation of banking services. Banks were advised to ensure strong security controls to protect sensitive data and prevent breaches.
- Most banks had matured internal threat intelligence capabilities to anticipate and mitigate cyberattacks more effectively and employ more proactive stances in their cybersecurity efforts.
- Banks had matured their incident response capabilities; however, there was room for improvement when it came to including third-party service providers when conducting tests.

Based on the cyber questionnaire results, the banking industry cybersecurity and cyber resilience maturity ratings improved in all domains, with most controls rated as largely compliant. The governance domain was rated as the most mature.

Mutual banks supervision

Prudential meetings were held with some mutual banks, focusing on operational IT risk strategic objectives and governance, third-party and outsourcing arrangements, project management, incident and problem management, and user access management.

The following observations were made:

- Most mutual banks lacked comprehensive frameworks, policies, processes and procedures, and should consider adopting or developing fit-for-purpose frameworks that drive consistency across their institutions.
- Processes for monitoring and evaluating the benefits realised from strategic initiatives needed improvement. Mutual banks should implement project management frameworks demonstrating that IT projects align with business value drivers.
- The sizes of the institutions, internal employee movements, capacity constraints and knowledge management resulted in user profiles that were incompatible with their functions. Continual review and updated user administration and access management should be in line with institutions' business architectures.
- All mutual banks completed the ORMAQ and were rated as largely mature. Although the 2024 results improved compared with prior results, there was potential for further improvement.

Insurance supervision

Operational risk

At the time of reporting, no insurer was approved to calculate operational risk capital using an internal model, so the standard formula was utilised. The quality of operational risk data in the quantitative reporting template improved during 2024. The PA will continue to monitor and address issues through engagements with industry bodies and bilateral communication with insurers.

The operational risk prudential meetings conducted during the period under review focused on operational risk, strategic objectives and governance, operational risk tools, enterprise change management, third-party and outsourcing arrangements and the ORMAQ results.

The following observations were noted:

- Governance structures and dedicated resources for change management were found to be in place, formally for large and medium institutions and informally for smaller institutions. Institutions were encouraged to prioritise high-impact projects and ensure adequate focus on implementation and risk management.
- The industry relied on third-party and outsourced arrangements to execute its strategic objectives, which were critical to business models. While frameworks and processes were largely in place to manage third-party relationships, improvements can be made to ensure adequate oversight and risk identification.
- The ORMAQ indicated that insurers were rated as the second-most mature in the financial sector and results improved in 2024. However, the questionnaire also indicated that insurers had rated themselves highly compared to the PA's observations. As a result, the maturity ratings were noted as optimistic.

Information technology risk

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 and emerging technologies.

The following key observations were noted:

- Digitilisation influenced strategic directions, outlining key initiatives to leverage emerging technologies. Institutions were encouraged to implement a risk-based approach when adopting these emerging technologies as well as processes to track and measure intended benefits.
- Operational resilience was a key focus area and most institutions were able to adapt their processes to unplanned disruptions and continued to leverage opportunities to strengthen their resilience capabilities.
- The results of the 2023 IT risk questionnaire highlighted that small to medium-sized regulated insurers had limited frameworks and policies in place. Risk governance processes were still maturing and there were capacity constraints to delivering planned initiatives. These findings were used to develop a more focused supervisory plan.
- The results of the 2024 questionnaire are still being finalised.

Cyber risk

The PA held cyber risk prudential meetings targeted at specific cyber domains, including cyber and information security governance, cybersecurity trends and new technologies, threat intelligence and information sharing as well as incident trends and reporting.

The following key observations were noted:

- Insurers had well-established governance structures to ensure adequate cybersecurity reporting, monitoring and oversight. Key performance and indicators pertaining to cyber risk were provided to management and board committees for strategic alignment and effective oversight.

- Most insurers had incident response plans that were tested to continuously improve response and recovery processes. It was observed that most institutions were maturing their security operations centres with new technologies, such as AI, to monitor, detect and respond to cyber incidents. However, there was room for improvement for smaller insurers.
- User access management, and particularly privilege access management, was noted as a recurring issue across the financial sector. Improvements to address deficiencies in the user access-related risks were noted and will be monitored closely.
- Threat intelligence and situational awareness were crucial for cyber resilience. The PA highlighted that effective collaboration and information sharing were key factors in improving cybersecurity maturity. Moreover, the PA reiterated the importance of participating in the industry's cyber incident response team to strengthen the industry's cybersecurity resilience and learn from others.
- The results of the cyber questionnaire indicated that most controls in the insurance industry were rated fully and largely compliant. The most mature domain was detection, with most controls rated between fully and largely complaint with the cybersecurity and cyber resilience standard. There was also a notable improvement in situational awareness.

MIs supervision

Cybersecurity prudential meetings were held with some MIs and the following was observed:

- User access management remained a key concern across some of the entities. The PA recommended that the entities exercise due care and diligence in relation to access-related controls.
- Limited assurance coverage for cybersecurity was noted and, in certain cases, the internal audit function was not able to provide its overall opinion on the control environment. The PA emphasised that the internal audit function was imperative for providing a view of the control environments as well as the posture and profile of institutions.
- Inadequate segregation of duties was evident in some entities. The PA recommended that entities guard against co-mingling lines and ensure that there was an adequate segregation of duties in the various lines of defence.
- Larger MIs implemented emerging technologies, such as AI, to improve cybersecurity and business efficiency. The PA advised institutions to be mindful of the cyber risks that may be introduced through these technologies.
- According to the cyber questionnaire results for MIs, some controls were rated as partially compliant, highlighting gaps or deficiencies in areas such as testing as well as learning and evolving. This means there were process gaps in ensuring lessons learnt from cybersecurity events and incidents were adequately incorporated, and that cyber risk management practices were extended beyond reactive controls to include proactive protection against future cyber incidents.
- The ORMAQ was completed by all MIs. The MIs were rated as having the lowest operational risk maturity. A comparison between the 2024 results and prior results indicated that some of the smaller MIs had not yet implemented some of the operational risk management requirements.

Risk data aggregation and risk reporting (RDARR)

The banking sector has demonstrated notable progress in the implementation and adoption of the BCBS 239 principles for effective risk data aggregation and risk reporting (RDARR). RDARR initiatives have played a pivotal role in establishing data management as a critical discipline within banks, laying the foundation for robust and sound data management practices. The PA maintained ongoing oversight of banks' adherence to the BCBS 239 principles, including operationalisation within the context of business-as-usual activities. The supervisory work ensured that banks' programmes remained aligned with the evolving risk landscape, banking activities and technological advancements.

RDARR reviews

The RDARR prudential meetings focused on data risk, top-of-mind matters from audit and senior management, management of data quality and automation versus manual activities.

Highlights of engagements include the following:

- While some banks still faced challenges in translating RDARR principles into practical applications, meaningful progress had been made.
- Geopolitical events highlighted the need for robust and adaptable IT systems, coupled with comprehensive risk reporting practices, to ensure banks meet the reporting requirements under stressed periods.
- The over-reliance on manual processes impeded banks' ability to attain the optimal balance between automation and manual intervention, potentially compromising data quality and the accuracy of reporting.
- The growing dependence on third-party data sources necessitates stringent due diligence and robust data

quality assurance frameworks. However, many banks have yet to fully implement these critical controls.

- Large banks continued to struggle to harmonise the efforts of diverse business units and functions to maintain ongoing compliance with the BCBS 239 principles within their standard operating procedures.
- Balancing RDARR compliance with competitive internal demands requires careful resource allocation.
- The complex hybrid IT infrastructures of banks, combining cloud and on-premises technologies, pose significant challenges in managing risk data. Moreover, the reliance on legacy data warehouse technologies limits the scalability and flexibility needed to meet the rigorous demands of BCBS 239 compliance under business-as-usual operations.
- Banks encountered difficulties in developing effective data governance frameworks, which include defining clear data ownership, accountability and quality standards.

Foreign representative offices

The PA continued to assess the operating models of foreign representative offices in a proportionate manner, ensuring their activities aligned with their authorised functions and that they operated within the bounds of the applicable legislation. Representative offices remained committed to adhering to all applicable regulatory requirements.

The PA held on-site supervisory meetings focused on the foreign representative office's strategies, operating models, compliance frameworks and risk management oversight, including audit outcome reviews by independent parties.

Flavour-of-the-year topic and thematic reviews

The PA must always be able to predict emerging trends and risks, and then have the flexibility to evolve its understanding of the impact thereof on regulated financial institutions. That is resilience in progress.

2024 flavour-of-the-year topic findings

The 2024 flavour-of-the-year focus was on the ‘strategic business growth and resilience of regulated financial institutions’ business models in the current economic environment’. The objective was for financial institutions to reflect on their strategic business models and processes.

All banks including D-SIBs

Most banks adopted similar practices to assess the viability and relevance of their business models, ensuring growth and resilience in the economic environment.

The following themes were observed across most banks:

- Strategic planning was regularly reviewed to align business models with market trends, competitive landscapes, regulatory changes and growth objectives.
- Formal governance structures and frameworks were in place, outlining defined roles and responsibilities in line with strategic objectives and regulatory requirements.
- Governance structures were regularly reviewed and updated to adapt to changing conditions and remain relevant and effective.
- There were continual training and professional development opportunities for boards and management on industry trends, regulatory changes and emerging risks to foster a strong risk culture.
- Regular stress tests and credible scenario analyses were conducted to evaluate the resilience of business models under various conditions. These tests identify vulnerabilities that could lead to significant losses or impairments, which potentially affect compliance with prudential requirements.
- Investment in technology had been prioritised to enhance resilience, agility and customer-centricity.

Further observations across the various banking sector segments have been noted below.

Small and medium-sized local banks

Business resilience was affected by a narrow strategic focus on niche markets, such as Islamic banking, low-income customers, entrepreneurs and small business clients. To address these challenges, continual customer engagement, expanding service offerings and building brand awareness remained a key aspect of small and medium-sized local banks' marketing and sales strategies.

Some of the local banks reported higher-than-expected credit losses, which may be attributed to macroeconomic conditions not being adequately considered in their business model assumptions. Some small and medium-sized banks' business plans and targets have also been considered ambitious. This perception stems from seemingly optimistic assumptions that do not align with economic conditions, which could lead to entities failing to achieve their strategic objectives.

Diversifying into new markets was part of many banks' strategic approaches. However, access to funding to support this goal continued to be a challenge for some institutions.

High staff turnover was a common issue affecting continuity and resulted in institutional knowledge losses. Smaller banks often struggled to retain key personnel due to competition from other institutions and capacity constraints.

Branches of foreign banks

Strategies and market focus varied across branches, with some lacking product diversification and thus facing high concentration risk to certain product types. Due to macroeconomic conditions and strategic approaches, branches encountered market share challenges that negatively impacted their profitability.

Additionally, some branches struggled to keep up with the ever-changing regulatory requirements in South Africa due to their reliance on the technology and resources provided by their head offices.

Several branches acknowledged that better technology integration and digital transformation was necessary. Some were actively working on enhancing their digital platforms to stay competitive.

Mutual banks

Mutual banks emphasised the importance of regular assessments and strategic planning to ensure the viability and relevance of their business models. This involved performance monitoring and strategic reviews as well as board oversight on these matters.

Mutual banks considered macroeconomic factors such as growth, inflation and policy changes in their strategic planning, and adapted their strategies to respond to the evolving economic environment. Additionally, mutual banks recognised the impact of emerging trends and risks, including climate change, fintech and regulatory developments, on their business models.

They invested in digital channels and technologies to remain competitive and resilient, recognising the importance of digital transformation in improving customer experience and operational efficiency.

Mutual banks maintained robust risk management frameworks that covered credit, market, liquidity and operational risks, and conducted regular stress testing and scenario analysis to ensure alignment with their risk appetites.

Mutual banks commonly evaluated board skills and experience, and prioritised professional development and succession planning to support their strategies and business models.

Cooperative banking institutions

The surveyed institutions shared the common strategic goal of providing affordable financial services to their members, strongly emphasising member engagement and digital transformation.

They identified market opportunities and established clear financial targets to grow their loan portfolios and balance sheets. Their cooperative models and low appetites for credit risk served as a key competitive advantage, which was bolstered by robust risk management strategies.

There were notable differences in their approaches to digital transformation, support and funding, operational challenges, market research and ESG principles. Some institutions had more detailed plans for leveraging technology and digital platforms, seeking external support and navigating specific operational challenges. They also conducted market research and explicitly addressed ESG principles, focusing on community development and addressing climate change risks.

MIs

Revenue concentration and the need for diversification have driven MIs to pursue strategic objectives focused on expanding their service offerings and geographical reach. While much emphasis remained on organic growth strategies, some MIs also explored inorganic growth opportunities. Competition was a common concern among MIs for a variety of reasons, including the threat of new entrants both locally and internationally; low economic growth, resulting in subdued market activity in an environment with a larger number of market participants; and the shifting market dynamics brought about by emerging technologies, resulting in new market structures and market players. Several macroeconomic factors, such as higher interest rates and inflation, digitisation, geopolitics and consensus within the Government of National Unity, were also on their radar.

Most MIs emphasised the significance of strategic partnerships in enhancing business growth, improving regulatory collaboration and advancing capital market development.

Technology and its associated risks were central to the business services of MIs, encompassing advancements in IT infrastructure, resilience and cybersecurity. MIs displayed varying levels of maturity in terms of organisational resilience.

A skills shortage created some concern, prompting a greater strategic focus on talent retention. Moreover, MIs highlighted the increasing costs associated with meeting regulatory responsibilities and their impact on profitability. Despite these challenges, most MIs remained well capitalised. While certain MIs struggled to meet regulatory capital requirements, shareholders were committed to funding needs overall.

Insurers (irrespective of size)

Many insurers documented their business models, outlining their strategies, including technology, risk assessments and operations. Insurers from various sectors had clear growth strategies that focused on expanding into new markets, offering a wider range of products and using technology to improve customer engagement and streamline operations.

Insurers identified key risks, such as macroeconomic conditions and digital capability, noting the necessity for strategic planning to adapt to market changes. Additionally, integrating ESG frameworks was increasingly crucial, with insurers conducting continual reviews to ensure compliance and enhancement.

To stay competitive, insurers emphasised product innovation, affordability and digitalisation. Many reinsurers were entering emerging markets in Africa and targeting mid-sized businesses in South Africa. Traditional insurers also focused on underserved markets and promoting financial inclusion. In contrast, reinsurers focused on profitability and expanding into other geographic areas. Cell captives worked on making operations more efficient and following value-driven models.

The industry employed strong risk management practices through established frameworks and risk appetites. While some insurers still needed to formalise their policies, they focused on emerging risks and minimising manual controls to ensure activities stayed within defined risk appetites. Commonly used tools included key-risk indicators as well as own-risk and solvency assessments for stress testing and scenario analysis. Although insurers identified gaps in their risk management, particularly in integrating emerging risks and stress testing, many had plans to address this. The integration of risk appetites with strategic planning was standard practice, with regular reviews being conducted.

Reinsurance programmes were crucial in managing risk, supporting strategic initiatives, reducing financial volatility and maintaining solvency. Insurers conducted regular reviews that involved boards and actuaries and assessed whether these programmes met targets such as solvency coverage ratios. Most reinsurance programmes aligned with insurers' risk appetites and typically used stress and scenario testing. Life insurers identified gaps in catastrophe and pandemic coverage, while many non-life insurers reported diversified programmes with limited gaps. Some microinsurers faced challenges in using reinsurance due to cost implications, while cell captives were increasingly adopting automated systems for reinsurance management along with traditional methods.

Insurers focused on strong and clear governance structures, including boards and subcommittees, which regularly reviewed strategies, ensured ongoing training, promoted diversity and planned for board succession.

2025 flavour-of-the-year topic

The 2025 flavour-of-the-year topic requires supervised entities to reflect on their third-party risk management practices and develop and implement strategies to effectively manage third-party risk, including strategic and/or alliance partnerships. This will provide the PA with information to further inform the necessary regulatory and supervisory activities.

Financial institutions are increasingly using third-party service providers to improve product offerings, enable scalability and access expertise not readily available internally to achieve their strategic objectives. If not adequately managed, the reliance on third parties may introduce various risks, including concentration risk, cybersecurity threats and concerns relating to operational resilience.

2024 Thematic reviews

Lapses and surrenders

The PA conducted an experience analysis of the South African life insurance industry's lapses and surrenders. As part of the FSAP findings, lapses and surrenders experienced by the industry appeared higher than in other countries. Based on this, a review was conducted in 2024 using industry information gathered between 2019 and 2023. The results indicated that lapse and surrender rates were reasonably consistent across the industry within narrow bands for the investigation period.[24]

Negative rand reserves

The PA conducted a review with the top five life insurers to determine whether any in the identified group was an outlier with respect to the treatment of their negative best estimate liability (BEL), and, if so, whether further investigations were required to strengthen the supervisory approach relating to negative BEL. According to the responses from the five life insurers, the reported negative BEL arising from life insurance products written by them was consistent with product features where the value of expected future premiums exceeded the value of expected future benefits and expenses.

Model risk and model governance reviews

Financial institutions have shown a growing interest in the use of machine learning and AI tools to enhance their operations. These tools were used to develop predictive models to support decision-making processes in areas such as fraud analytics, credit origination and collections, among others. Unlike traditional models, these have inherent risks associated with data bias, overfitting and heightened model uncertainty that could lead to more pronounced model risk.

The PA notes that models used in calculating risk-weighted assets have become more complex. Along with these complex models, some concerns have been raised in relation to the IRB credit risk models approval processes and other risk types. The concerns mainly relate to gaps in overall model governance frameworks and practices. To this end, the PA has initiated a review of model governance within the banking industry. This focus is aimed at engaging banks on their model governance frameworks and processes for regulatory and non-regulatory models, and gaining better insights into their appropriateness, effectiveness and maturity. These reviews may result in a tier 3 regulatory instrument being issued to provide comprehensive guidance on model governance.

24 The average lapse rates per year for the aggregated lines of business ranged between 14% and 18% over the five-year period for all life insurers, and between 7% and 8% for the top five life insurers, driven by the individual business risk. The average surrender rates for the aggregated lines of business ranged between 2% and 3% over the five-year period for all life insurers, and was 2% for the top five life insurers, driven by investments (individual investment business).

Enforcement

The PA's ability to respond swiftly and effectively to contraventions of financial sector laws, regardless of the complexity of the challenges it faces, ensures that the financial sector is resilient.

The PA takes necessary regulatory actions that may result in it imposing administrative sanctions on regulated institutions for non-compliance with the FSR Act, other financial sector laws and the FIC Act. In 2024/25, the PA considered 141 non-compliance referrals.

Annexures XIII and XIV contain the details of the final penalty orders imposed in terms of section 167 of the FSR Act and other financial sector laws.

Distressed financial institutions to be placed under the administration of the PA

The PA uses curatorship, judicial management and statutory management to protect depositors' and policyholders' funds. These tools allow the PA to immediately take control of, manage and investigate a financial institution's business, management and operations. The aim is to conserve business and maximise the likelihood of institutions continuing to exist on a solvent basis or to ensure an orderly wind-down when this is no longer feasible.

Section 69 of the Banks Act, which provides for bank curatorship, has been repealed under the resolution framework which came into effect on 1 June 2023. Following the promulgation of the Financial Sector Laws Amendment Act 23 of 2021, the SARB was designated as the Resolution Authority for the orderly exit of designated institutions. Any curatorship process that commenced before 1 June 2023 will be dealt with under the pre-existing framework.

Institutions placed under curatorship

3Sixty Life Limited was placed under curatorship on 21 December 2021 for failing to maintain adequate capital and liquidity levels. The curator has been engaging with the shareholders and the PA to resolve the outstanding issues. The curator is also considering various corporate actions that could impact 3Sixty Life Limited's financial status and organisational structure. The process is ongoing.

Ubank Limited was placed under curatorship in May 2022. Although the assets and liabilities of Ubank were acquired by African Bank, the curatorship is still underway and the PA expects that this process will be concluded in the ensuing 12 months, in the absence of any unforeseen challenges.

Institutions placed under statutory management

On 25 February 2025, New Era Life Insurance Company Limited (New Era) failed to satisfactorily rectify suspension conditions. On 13 March 2025, the PA invoked section 28(3)(b) of the Insurance Act to withdraw New Era's licence. New Era was directed to transfer its insurance business to another insurer under section 50 of the Insurance Act as soon as possible but no later than 30 September 2025.

Institutions placed judicial management

On 2 December 2022, Motswedi Financial Services Co-operative Limited was placed under judicial management. The PA is awaiting a detailed recapitalisation plan following extensive engagements with the general membership in 2024. The process is ongoing.

People Empowerment CFI Primary Co-operative Limited was placed under judicial management on 8 November 2023 following its non-compliance with solvency and capital requirements. The judicial manager found that the institution had a weak financial position, weak internal controls and lacked governance oversight. On 31 March 2025, a provisional order for the liquidation of the institution was granted by the courts and a liquidator was duly appointed. The process is ongoing.

Winding up/liquidation

The liquidation proceedings in relation to Habib Overseas Bank Limited are still underway and the PA continues to receive frequent updates from the liquidator. Significant progress has been made, with the first liquidation and distribution account advertised for inspection from 14 to 31 March 2025. The advertised account reflected the assets recovered as at 31 October 2024 as well as the costs to preserve and realise those assets. A second account will deal with recoveries after 31 October 2024 and claims received after 26 November 2024, and provide for a further dividend. The matter is ongoing.

The PA is finalising the withdrawal of the licences of Bophelo Life Insurance Limited and Nzalo Insurance Services Limited, because the two insurers ceased to enter into insurance policies to an extent that does not justify the continued licensing of the insurers.

For Nestlife Assurance Corporation (RF) Limited, a third liquidation and distribution account has lain for inspection, and the liquidator is not aware of any objections to the account. A certificate to this effect has been requested from the Magistrate in Randburg (where the account lay for inspection) and will be furnished to the Master of the High Court to confirm the account. The liquidator indicated that he received substantial claims to be submitted as proof at meetings of creditors. A meeting has been convened before the Master of the High Court, Johannesburg to interrogate creditors on the veracity of the claims admitted.

Constantia Insurance Company Limited was placed under final liquidation on 14 September 2022 on the recommendation of its curators. The liquidation process is ongoing.

VBS Mutual Bank was placed into final liquidation on 13 November 2018. Since the inception of the liquidation process, net recoveries have amounted to R730 million. Collection efforts on the loan book are ongoing, with significant progress achieved to date. The current focus is on securing further recoveries for the benefit of the proven creditors. With regard to criminal investigations, 29 cases have been initiated as a result of criminal activities at VBS. At present, nine of these matters are before courts across the country. A total of 35 individuals have been arrested. To date, five convictions have been secured.

Appointment of a repayment administrator

Ithala SOC Limited (Ithala) continued to take deposits illegally after its exemption notice expired on 15 December 2023 and the subsequent appointment of a repayment administrator.

During 2024, the PA and the repayment administrator dedicated their efforts to finding a solution to transfer the deposits held by Ithala to a registered bank. However, the progress was hindered by a lack of interest from registered institutions and cooperation by Ithala.

The repayment administrator's solvency report assessed Ithala as technically and legally insolvent and so, on 16 January 2025, the PA filed an application for the provisional liquidation of the entity. Ithala, the KwaZulu-Natal Member of the Executive Council (MEC) for Economic Development and the Ithala Development Finance Corporation are opposing the matter.

The liquidation application is still pending, with the court hearing date yet to be set. The MEC has also filed a counter-application. After the PA filed for Ithala's provisional liquidation, the entity's deposit accounts were frozen to preserve the funds and prevent it from utilising depositors' funds for other operational purposes. This action, taken to protect deposits from a potential run on the entity, has attracted significant media attention.

The PA and the repayment administrator have since held regular engagements with relevant stakeholders to find a solution for transferring the deposits as quickly as possible in parallel to the liquidation application. The matter is ongoing.

Matters referred to the Financial Services Tribunal and the FIC Appeal Board

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

Annexure XV contains the details of the matters referred to the Financial Services Tribunal. Annexure XVI contains the details of the matters referred to the FIC Appeal Board.

Technology and data management system improvements

A robust target operating model is the bedrock of resilience, as it aligns resources and processes to navigate challenges and opportunities.

During the year under review, several internal functions, processes and innovations have been prioritised to drive greater efficiencies, including internal data management and analytics practices. Phase 2 of the Umoja solution will be rolled out incrementally until all regulatory returns are collected via the solution.

Funding of the PA

The PA is empowered to collect levies from the financial sector to fund its operations, and charges the industry fees for performing specific functions under various legislative instruments applicable to regulated entities.[25]

For the year under review, the PA collected R596 million in levies and fees from the sector. Of the total levies collected, R41 million accounted for the special levy. This was the final year that a special levy could be collected, as the Levies Act allows collections for only the first two financial years from its commencement date.

The final fee proposals in the PA Fees Determination came into effect on 1 February 2025. The PA has also automated fee charges.[26]

Industry communication and engagement

Engagement with industry

Effective stakeholder engagement is not just a priority, it is a necessity for transparency and accountability in an increasingly complex environment.

Regular and effective engagement fosters transparency, trust and collaboration between regulatory bodies and the entities they oversee. It enables open lines of communication, allowing entities to discuss regulatory changes, share insights and address emerging risks in a transparent manner. This collaborative approach not only enhances regulatory compliance but also contributes to the overall stability and resilience of the financial system.

The PA utilises multiple channels to engage with the industry, including written communication, participation in industry association engagements, holding entity-specific prudential meetings according to its supervisory calendar, and convening industry-wide forums. Through these interactions, the PA continues to gain a comprehensive understanding of industry challenges and opportunities, enabling the development of more informed and balanced policies.

In February 2025, the PA hosted its annual industry engagement, which focused on several key topics, including the PA's 2024 flavour-of-the-year topic, an update on South Africa's FATF greylisting, AI and digitisation in the context of a changing regulatory environment as well as third-party risk. These yearly engagements foster transparency, trust and collaboration between regulatory bodies and regulated entities. It allows for open lines of communication where entities can discuss regulatory changes, share insights and address emerging risks openly and transparently. This collaborative approach not only enhances regulatory compliance but also contributes to the overall stability and resilience of the financial system. To this end, the PA complements its supervisory processes with these annual industry engagements. Through these interactions, the PA gains a comprehensive understanding of the challenges and opportunities facing the industry, which in turn informs the development of more balanced and effective policies.

25 This is through the Levies Act 11 and the Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Act 12 of 2022, read together with the FSR Act

26 The PA Fees Determination is a consolidated fee instrument that incorporates all the fees to be charged by the PA within a single instrument.

Selected indicators for the South African financial sector

Entities supervised

Entities supervised by the PA as at 31 December 2024, 28 February 2025 and 31 March 2025[27]

Entities per sector	No. of entities	Balance sheet size R millions		
		Dec 2024	Feb 2025	Mar 2025
Banking sector	**27**			**8 231 232**
Registered banks	16			7 744 724
Local branches of foreign banks	11			486 507
Mutual banking sector	**3**			**4 165**
Cooperative sector	**25**		**740**	
Cooperative banks	5		583	
Cooperative financial institutions*	20		157	
Total insurance sector**	**155**	**4 960 503**		
Life insurance sector	**76**	**4 569 918**		
Primary insurers	60	4 540 882		
Cell captive entities	4	28 851		
Microinsurers	12	185		
Non-life insurance sector	**67**	**330 661**		
Primary insurers	56	234 233		
Cell captive entities	5	57 659		
Captive insurers	6	38 769		
Non-life microinsurers	0	–		
Composite microinsurers	**3**	**2 320**		
Reinsurers	**9**	**57 604**		
Life reinsurers	0	–		
Non-life reinsurers	1	5 434		
Composite reinsurers	5	52 170		
Branches of foreign reinsurers	3	–		
Market infrastructures * **	**7**	**6 480**		

* As at the end of February 2025 Young Woman in Business Network was still reporting as a CFI.
** In addition to the licensed 155 insurance entities, the PA also supervises Lloyds and the Road Accident Fund.
*** The total assets in respect of market infrastructures exclude margin deposits.

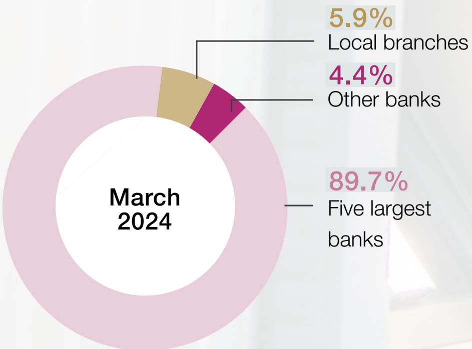
27 CFIs and cooperative banks have a 28 February financial year-end. Insurers, banks and mutual banks have varying financial year-ends, therefore a 31 December date and a 31 March date is used for insurers, banks/mutual banks respectively for reporting, as this is typically the most recent available data on record.

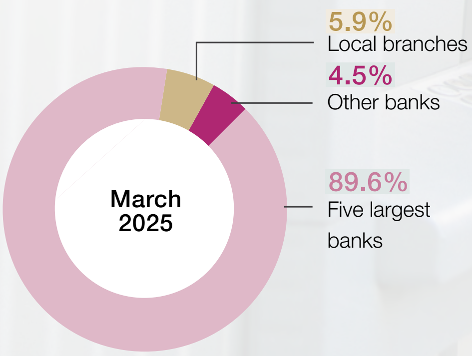
Deposit-taking financial institutions

Banking sector

The South African banking sector is dominated by the **five largest banks**, which collectively held **89.63%** of the total banking sector assets as at March 2025 (March 2024: 89.69%). **Local branches of international banks** accounted for **5.91%** of banking sector assets as at 31 March 2025 (March 2024: 5.95%) while **other banks**, which constitute other locally registered banks, represented **4.46%** as at 31 March 2025 (March 2024: 4.36%).

Total banking sector assets





Selected indicators for the banking sector

	Mar 2024	Mar 2025	Percentage change (%)
Balance sheet			
Total assets (R billions)	7 759	8 231	6.08
Gross loans and advances (R billions)	5 576	5 873	5.33
Total equity (R billions)	612	663	8.33
Profitability			
Cost-to-income ratio (smoothed) (%)	56.96	56.86	-0.18
Return on equity (smoothed) (%)	14.80	15.83	6.96
Return on assets (smoothed) (%)	1.10	1.18	7.27
Capital adequacy			
Common equity tier 1 capital adequacy ratio (%)	13.21	13.18	-0.23
Tier 1 capital adequacy ratio (%)	14.82	14.89	0.47
Total capital adequacy ratio (%)	17.28	17.14	-0.81
Leverage ratio (%)	6.47	6.39	-1.24
Liquidity			
Liquidity coverage ratio (%)	143.95	148.70	3.30
Net stable funding ratio (%)	114.34	116.12	1.56
Credit risk			
Impaired advances (R billions)	298	308	3.36
Impaired advances as % of gross loans and advances	5.34	5.25	-1.69
Specific credit impairments as % of impaired advances	46.30	47.82	3.28
Portfolio credit impairments as % of gross loans and advances	1.13	1.01	-10.62

Total banking sector assets grew by 6.08% to R8 231 billion at the end of March 2025 (March 2024: R7 759 billion), mainly driven by an increase in gross loans and advances and increases in investment and trading securities. **Gross loans and advances** increased by **5.33% to R5 873 billion** in March 2025 from R5 576 billion reported in March 2024.

Equity grew by **8.33% to R663 billion** at the end of March 2025 (March 2024: R612 billion), mainly driven by increased retained earnings. Equity is comprised primarily of retained earnings and share capital.

The **12-month moving average return-on-equity (ROE)** ratio amounted to **15.83%** at the end of March 2025 (March 2024: 14.80%), and the **return-on-assets (ROA) ratio** was **1.18%** in March 2025 (March 2024: 1.10%). The **12-month moving average cost-to-income ratio** amounted to **56.86%** at the end of March 2025 (March 2024: 56.96%).

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, tier 1 and total CARs** amounted to **13.18%, 14.89% and 17.14%** respectively at the end of March 2025 (March 2024: 13.21%, 14.82% and 17.28%).

The **LCR** remained above the minimum statutory requirement and amounted to **148.70%** at the end of March 2025 (March 2024: 143.95%). The **NSFR** was **116.12%** at the end of March 2025 (March 2024: 114.34%).

Impaired advances grew by **3.36% to R308 billion** at the end of March 2025 (March 2024: R298 billion), underpinned mainly by increased impaired advances relating to retail and corporate exposures. The **ratio of impaired advances to gross loans and advances** improved to **5.25%** at the end of March 2025 (March 2024: 5.34%). The **ratio of specific credit impairments to impaired advances (coverage ratio)** increased to **47.82%** at the end of March 2025 (March 2024: 46.30%).

Mutual banking sector

Selected indicators for the mutual banking sector

	Mar 2024	Mar 2025	Percentage change (%)
Balance sheet			
Total assets (R millions)	3 746	4 165	11.19
Gross loans and advances (R millions)	3 136	3 299	5.20
Profitability			
Return on equity (smoothed) (%)	2.04	3.85	88.73
Return on assets (smoothed) (%)	0.49	0.89	81.63
Cost-to-income ratio (smoothed) (%)	75.12	74.50	-0.83
Liquidity			
The average daily amount of liquid assets held to liquid assets requirement (%)	448.12	423.27	-5.55
Credit risk			
Gross amount overdue (R millions)	401	400	-0.25
Gross overdue to gross loans and advances (%)	12.77	12.11	-5.17
Specific provisions to gross amount overdue (%)	79.71	83.66	4.96
General provisions to gross loans and advances (%)	1.72	1.72	0.00
Capital adequacy			
Capital adequacy ratio (%)	29.16	27.99	-4.01

Total mutual banking sector assets grew by **11.19% to R4 165 million** at the end of March 2025 from R3 746 million in March 2024, mainly driven by increased trading and investment assets and loans and advances. **Gross loans and advances** increased by **5.20% year on year to R3 299 million** at the end of March 2025 (March 2024: R3 136 million), mainly driven by increases in overdraft advances.

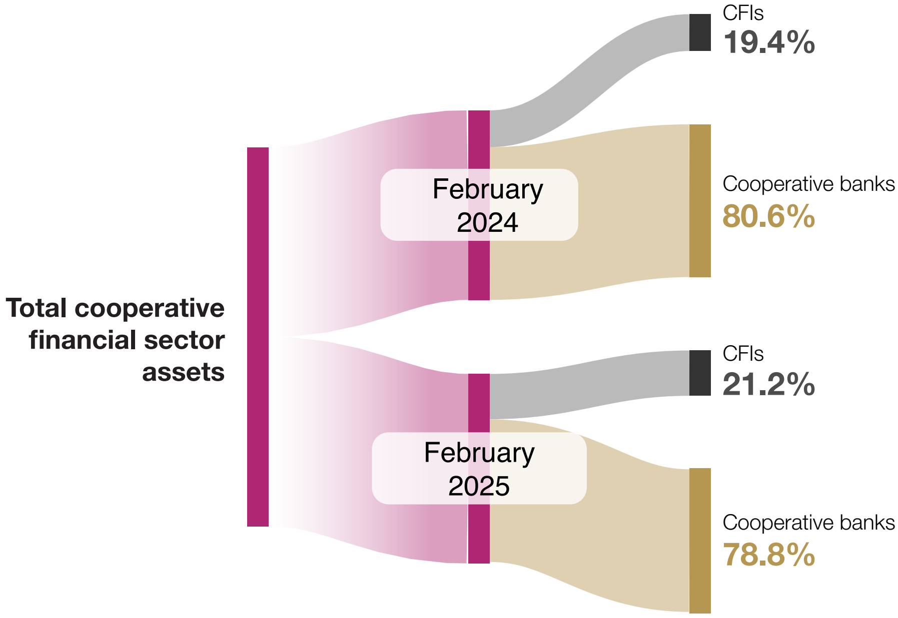
The South African mutual banking sector reported profits since February 2023 after a prolonged period of losses. The **12-month moving average ROE ratio** increased from 2.04% in March 2024 to **3.85%** at the end of March 2025, and the ROA ratio increased to 0.89% at the end of March 2025 (March 2024: 0.49%).

The **12-month moving average cost-to-income ratio** amounted to 74.50% at the end of March 2025 (March 2024: 75.12%). The improvement in the profitability ratios compared to a year ago was mainly driven by the increase in profit.

The **sector's total CAR** decreased compared to the previous period and amounted to **27.99%** in March 2025 (March 2024: 29.16%), mainly driven by increased risk-weighted exposures. **Overdue loans** decreased by 0.25% year on year to **R400 million** at the end of March 2025 (March 2024: R401 million). **Specific provisions as a percentage of the gross amount overdue** amounted to **83.66%** at the end of March 2025 (March 2024: 79.71%).

Cooperative financial sector

The **cooperative financial sector** comprised **five cooperative banks** and **20 CFIs** at the end of February 2025. Based on total assets as of February 2025, **cooperative banks** constituted **78.78%** (February 2024: 80.64%) and **CFIs 21.22%** (February 2024: 19.36%) of the total financial cooperative deposit-taking sector.



Selected indicators for cooperative banks and CFIs

	Number		Members		Deposits (R millions)		Assets (R millions)	
February*	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
Cooperative banks	6	5	5 710	5 939	478	524	529	583
CFIs	24	20	12 179	12 756	116	138	127	157
Total	**30**	**25**	**17 889**	**18 695**	**594**	**662**	**656**	**740**

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

Selected indicators for South African cooperative banks

	Feb 2024	Feb 2025	Percentage change (%)
Balance sheet			
Total assets (R thousands)	528 784	582 811	10.22
Total net loans (R thousands)	374 716	416 463	11.14
Total liabilities (R thousands)	477 873	524 565	9.77
Total equity (R thousands)	50 912	58 246	14.41
Profitability			
Total income (R thousands)	59 105	66 232	12.06
Total expenses (R thousands)	48 188	56 224	16.68
Operating profit/income before taxation (R thousands)	11 059	10 008	-9.50
Cost-to-income ratio (%)	48.32	49.99	3.46
Capital adequacy			
Total capital adequacy ratio (%)	8.50	8.91	4.82
Asset quality and provisions			
Total delinquent loans (R thousands)	10 666	19 325	81.18
Portfolio delinquent (%)	2.76	4.48	62.32
Total provisions (R thousands)	12 128	14 493	19.50
Provision as % of total loans	3.14	3.36	7.01

The **balance sheet size of South African cooperative banks** increased by **10.22%** from R529 million in February 2024 to **R583 million** in February 2025. **Net loans** increased by **11.14%**, from R375 million to **R416 million**.

The sector remained adequately capitalised, with a **CAR** of **8.91%** as at February 2025, well above the 6% minimum requirement. This marked an increase of **4.82%** from the 8.50% recorded in February 2024, driven by **overall growth in total equity** by **14.41%**. The cooperative banking sector remained profitable, with **income before taxation** standing on **R10 million** as at the end of February 2025. The **cost-to-income ratio** deteriorated to **49.99%** during the period under review (February 2024: 48.32%) due to higher growth in **operating expenses** (**16.68%**) relative to **operating income** (**12.06%**).

Delinquent loans accounted for **4.48%** of the cooperative banking sector's gross loans at the end of February 2025, an increase of 62.32% compared to February 2024. The sector continued to provide sufficient funding for potential losses in accordance with regulatory requirements.

Selected indicators for CFIs

	Feb 2024	Feb 2025	Percentage change (%)
Balance sheet			
Total assets (R thousands)	127 029	157 299	23.83
Total net loans (R thousands)	46 688	65 036	39.30
Total liabilities (R thousands)	118 495	139 117	17.40
Total equity (R thousands)	8 534	20 866	144.50
Profitability			
Total income (R thousands)	24 052	24 367	1.31
Total expenses (R thousands)	29 308	32 727	11.67
Operating profit/income before taxation (R thousands)	-5 222	-8 360	-60.09
Cost-to-income ratio (%)	123.83	162.50	31.23
Capital adequacy			
Total capital adequacy ratio (%)	-5.70	-13.22	-131.93
Total capital adequacy ratio including voluntary shares (%)	6.50	12.91	98.62
Asset quality and provisions			
Total delinquent loans (R thousands)	14 733	21 550	46.27
Portfolio delinquent (%)	28.15	30.21	7.32
Total provisions (R thousands)	5 650	6 307	11.63
Provision as % of total loans	10.80	9.70	-10.19

Total assets in respect of CFIs increased by **23.83%** during the past year, driven by growth in net loans. **Net loans** amounted to **R65 million** for the period under review and increased by **39.30%** from the **R47 million** reported in February 2024. **Profitability** deteriorated over the period, resulting in income before tax of negative **R8.36 million** at the end of February 2025, mainly due to operating expenses exceeding income. It should be noted that CFIs' primary focus is not on profitability but rather **financial inclusion**, 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 123.83% in February 2024 to **162.50%** in February 2025.

Losses resulting in negative retained earnings, as well as lower capital reported by CFIs, had a negative impact on capital. The **CAR** deteriorated by 131.93% from negative **5.70%** at the end of February 2024, to negative **13.22%** in February 2025 (minimum CAR requirement is 6%). The **CAR, including voluntary shares**, stood at **12.91%** in February 2025, up from 6.50% in February 2024.

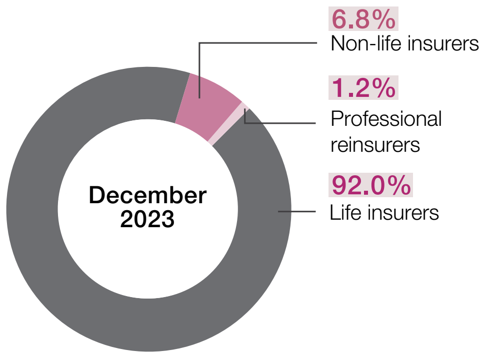
Delinquent loans accounted for **30.21%** of the CFI sector's gross loans as at the end of February 2025.

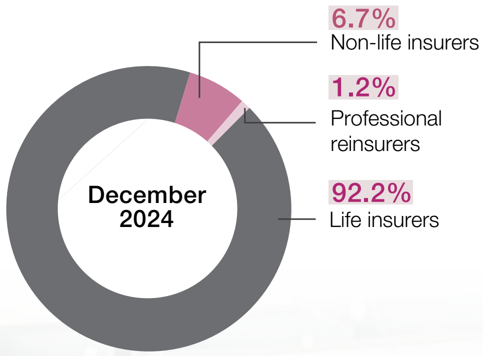
Insurers and reinsurers

Selected indicators for insurers and reinsurers

The insurance sector's income and expenditure figures are based on aggregated data for the four quarters ending December 2024, while the solvency and balance sheet items are as recorded at 31 December 2024.

Total insurance sector assets





Based on **total assets, life insurers** constitute approximately

92.2%

and **non-life insurers** constitute approximately

6.7% of the total insurance industry.

All nine professional reinsurers are **foreign-owned** and contribute

1.2% of the total sector assets.

South Africa's life insurance sector is dominated by **five large insurers**, which collectively held

71% of the total assets,

while the **10 largest non-life insurers** contributed

65% of gross premiums as at 31 December 2024.

Selected indicators for life insurers

R millions	Primary	Cell captives	Total Dec 2024	Total Dec 2023
Income				
Net premiums	673 135	16 966	690 101	644 761
Investment income	552 204	2 527	554 731	451 474
Other income	19 696	12	19 708	32 951
Total	**1 245 035**	**19 505**	**1 264 540**	**1 129 186**
Expenditure				
Benefits	617 932	7 771	625 703	574 536
Commission paid/received	25 590	2 261	27 851	25 346
General expenses	70 373	3 390	73 763	68 344
Other acquisition costs	8 713	–	8 713	5 929
Other expenses	15 700	–	15 700	8 015
Excess of income over expenditure	**506 727**	**6 083**	**512 810**	**447 016**

The **net premium income**, after deducting premiums for reinsurance, for primary life insurers and cell captives was reported as **R690 101 million** for the year ended 31 December 2024 compared to R644 761 million for the 12 months ended 31 December 2023. **Benefit payments** for the review period stood at **R625 703 million** compared to R574 536 million during 2023.

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.

	Total assets		Liabilities		MCR*		SCR**	
R millions	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Primary	4 085 902	4 540 882	3 722 862	4 162 133	4.9	4.9	1.9	1.8
Cell captives	29 419	28 851	11 460	8 329	4.1	4.2	1.1	1.1
Total	**4 115 321**	**4 569 733**	**3 734 322**	**4 170 462**	**4.5**	**4.6**	**1.5**	**1.4**

* 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 569 733 million in December 2024 compared to R4 115 321 million in December 2023.

Total assets were mainly invested in investment funds and equities.

Selected indicators for non-life insurers

R millions	Primary	Cell captives	Captives	Total Dec 2024	Total Dec 2023
Income					
Gross premiums	180 979	36 547	7 337	**224 863**	**210 048**
Net earned premiums*	118 675	21 235	3 048	**142 958**	**131 649**
Investment income	18 880	4 703	2 783	**26 366**	**22 380**
Other income	2 353	110	35	**2 498**	**2 096**
Total	**139 908**	**26 048**	**5 866**	**171 822**	**156 125**
Expenditure					
Claims incurred	67 756	8 790	1 651	**78 197**	**71 654**
Commission paid/received	9 303	408	-268	**9 443**	**7 039**
General expenses	35 317	4 078	228	**39 623**	**34 238**
Other expenses	3 953	101	-13	**4 041**	**1 855**
Excess of income over expenditure	**23 579**	**12 671**	**4 268**	**40 518**	**41 339**
Underwriting profit	11 095	933	982	**13 010**	**13 363**
Operating profit	29 974	5 636	3 765	**39 375**	**35 744**

* Negative net earned premiums reported by one insurer.

Gross premiums of primary insurers, cell captives, captives and reinsurers in the non-life insurance industry were reported as **R224 863 million** for the 12 months ended 31 December 2024.

Operating profit, which includes investment income, was reported as **R39 375 million** during the review period compared to R35 744 million as at 31 December 2023.

R millions	Total assets 2023	Total assets 2024	Liabilities 2023	Liabilities 2024	MCR* 2023	MCR* 2024	SCR** 2023	SCR** 2024
Primary	220 613	234 233	121 502	118 019	4.3	4.2	1.7	1.8
Cell captives	50 357	57 659	36 056	41 548	2.9	2.8	1.2	1.2
Captives	32 054	38 769	14 654	17 186	6.9	8.0	1.8	2.0
Total* **	**303 024**	**330 661**	**172 212**	**176 753**	**4.3**	**4.2**	**1.7**	**1.8**

* MCR: minimum capital requirement (median)
** SCR: solvency capital requirement (median)
*** Totals in respect of 2023 exclude reinsurance

Selected indicators for insurers and reinsurers

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

R millions	December 2024		December 2023	
	Life	Non-life	Life	Non-life
Income				
Gross premiums	17 414	22 867	17 293	21 562
Net premiums/net earned premiums	12 233	2 931	12 089	3 449
Investment income	1 415	918	1 518	727
Other income	280	17	209	16*
Total	**13 928**	**3 866**	**13 816**	**4 192**
Expenditure				
Claims incurred	10 547	2 201	10 986	2 508
Commission paid/received	-297	1 317	54	863
General expenses	913	584	706	221
Other expenses	94	200	138	221
Excess of income over expenditure	**2 671**	**-436**	**1 932**	**2 871**
Underwriting profit		329		910
Operating profit		1 247		1 637

* Other income relating to non-life composite reinsurers in respect of 2023 was restated

Gross premiums relating to life composites for the 12 months ending 31 December 2024 were reported as **R17 414 million** compared to R17 293 million in 2023.

Non-life composite gross premiums were reported as **R22 867 million** compared to R21 562 million in 2023.

R millions	2023	2024	Percentage change (%)
Total assets	49 862	52 170	4.63
Total liabilities	37 457	37 762	0.81
SCR*	1.7	1.9	
MCR**	3.7	4.4	

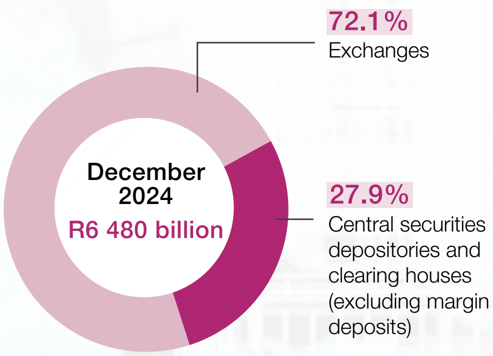
* SCR: solvency capital requirement (median)
** MCR: minimum capital requirement (median)

Market infrastructures

Total assets of MIs

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 R55 558 billion and R6 480 billion respectively at the end of December 2024 (December 2023: R59 910 billion and R7 397 billion respectively).

Total assets of MIs*



* Excluding margin deposits

PA 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** for more detail.

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 2025

	Note	**Prudential Authority**	
		2025 R mil	2024 R mil
Assets			
Other assets		**49**	47
Liabilities			
Income received in advance		**26**	17
Other liabilities		**21**	28
Unclaimed balances		**2**	2
Current liabilities		**49**	47
Total liabilities		**49**	47

Statement of profit or loss and other comprehensive income

for the year ended 31 March 2025

	Note	2025 R mil	2024 R mil
Operating income			
Levies	2.1	**596**	550
Fees	2.2	**13**	7
Penalties	2.3	**–**	–
Operating income		**–**	6
Total operating income		**609**	563
Expenditure			
Personnel costs	2.4	**(422)**	(393)
Operational costs	2.4	**(220)**	(212)
Total expenditure		**(642)**	(605)
Amount funded by SARB	2.5	**33**	42
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 charged to regulated financial institutions in terms of legislation, in order to cover the direct operating costs of the PA.

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 (if any). The SARB also has a responsibility in terms of the Financial Intelligence Centre Act 38 of 2001 Act (FIC Act) to ensure that banks and life insurance companies comply with the FIC Act. The SARB has authority in terms of the Section 45C of the FIC Act to impose administrative sanctions on these entities if and when they fail to comply with a provision, order, determination or directive made in terms of this act. The SARB issues notices with the said penalties to the relevant entities but does not account for the penalties in its financial statements as the penalties imposed are paid directly to the NRF. Total penalties issued on behalf of the SA government in this regard amounted to R20 million (2024: 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.

	Prudential Authority	
	2025 R mil	2024 R mil
Operating costs include:		
Professional fees	**169**	170
Membership fees	**3**	4
Official functions	**17**	6
Training (foreign and local)	**4**	4
Travel expenses (foreign and local)	**23**	23
Other operating costs	**4**	5
	220	212

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

ANNEXURES

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

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

II. Financial institutions registered during 2024/25

1. Table 1: Banks/mutual banks/cooperative banks and controlling companies of banks registered during 2024/25

OM Bank Limited	**17 April 2024**
OM Bank Holding Company Limited[28]	**17 April 2024**

2. Table 2: Insurers and insurance controlling companies registered during 2024/25

Structured Risk Solutions (Pty) Limited	**22 October 2024**
King Price Financial Services (Pty) Limited[29]	**14 August 2024**
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft[30]	**6 December 2024**
EG Life (Pty) Limited	**25 March 2025**

Market infrastructures

Name of MI	Licence type	Effective date
Strate (Pty) Limited	Trade repository	21 November 2024

28 Registered as a controlling company in respect of a bank in terms of section 43 of the Banks Act
29 Licensed as a controlling company of an insurance group in terms of section 23 of the Insurance Act
30 Licensed as a branch of a foreign reinsurer as contemplated in chapter 4 of the Insurance Act

III. Deregistration or withdrawal of licences

Deregistered institutions	Financial institution type	Effective date
Webbers Employees Savings and Credit Co-operative Bank	Cooperative bank	**11 April 2024**
Grindrod Bank Limited	Bank	**1 August 2024**
Grindrod Financial Holdings Limited	Bank controlling company	**1 August 2024**
Women Building Our Africa Financial Services Primary Co-operative Limited	CFI	**22 August 2024**
Kings Grange Stokvel Financial Services Co-operative Limited	CFI	**2 December 2024**
The People's Stokvel Financial Co-operative	CFI	**2 December 2024**
Tshwane Community Financial Services Co-operative Limited	CFI	**2 December 2024**

IV. Variation of licensing conditions

Entity	Date
Abacus Insurance Company Limited	**23 May 2024**
Bidvest Insurance Limited	**31 July 2024**
Santam Limited	**25 April 2024**
NMS Insurance Services (SA) Limited	**25 November 2024**
The Hollard Insurance Company Limited	**11 October 2024**
AGRe Insurance Company Limited	**25 April 2024**
FirstRand Short-Term Insurance Limited	**22 November 2024**
Santam Limited	**7 February 2025**
Old Mutual Alternative Risk Transfer Insure Limited	**20 December 2024**
Hollard Specialist Insurance Limited	**26 February 2025**
Clientele Life Assurance Company Limited	**13 December 2024**

V. Name changes

Old name	New name	Effective date
Main Street 1843 Limited	**OM Bank Holding Company Limited**	**22 August 2024**
Main Street 1844 Limited	**OM Bank Limited**	**22 August 2024**
Momentum Metropolitan Holdings Limited	**Momentum Group Limited**	**2 July 2024**

VI. Transfer of business

Transferor insurer	Transferee insurer	Effective date
PSG Life Limited	**Just Retirement Life (South Africa) Limited**	**20 December 2024**
Munich Reinsurance Company of Africa Limited	**Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft**	**20 December 2024**
Centriq Life Insurance Company Limited	**Old Mutual Alternative Risk Transfer Limited**	**14 November 2024**
The Hollard Insurance Company Limited	**Hollard Specialist Insurance Limited**	**24 January 2025**
Alexander Forbes Life Limited	**Sanlam Life Limited**	**27 February 2025**

VII. Significant owner applications

Received	Approved	In progress	Declined	Total
Banks, Insurers and MIs	31	15	3	49

VIII. Designation of insurance groups

No insurance groups were designated during the 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
2024/25	39	4	35	0	39

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	248	60	187	127	119

XI. Banks Act exemptions

The PA observed an increase in the number of securitisation applications received. The PA received 12 securitisation applications, mainly related to issuing additional notes, establishing new programmes and increasing the amount of commercial paper issued under an authorised securitisation scheme.

XII. Anti-money laundering and combating the financing of terrorism inspections

Institution type	No.
Locally registered banks	9
Cross-border inspections (subsidiaries of South African banks)	5
Life insurers	8
Total	**22**

XIII. Administrative sanctions imposed for non-compliance with the Financial Intelligence Centre Act 38 of 2001

Name	Non-compliance	Administrative sanction
Capitec Bank Limited (Capitec Bank) (retail and business)	• Capitec Bank failed to adequately conduct customer due diligence, enhanced due diligence and ongoing due diligence to comply with sections 21(1) and/or 21A to 21H of the FIC Act regarding the sampled client files. • Capitec Bank failed to comply with section 28 of the FIC Act by failing to ensure timely cash threshold reporting (CTR) and to submit cash transaction aggregation reports (CTRAs) to the FIC. • Capitec Bank failed to comply with section 29 of the FIC Act by not reporting suspicious transaction reports (STRs) and/or suspicious activity reports (SARs) to the FIC in a timely manner. • Capitec Bank failed to comply with FIC Act Directive 5 of 2019 by failing to attend to automated transaction monitoring system alerts within the required 48-hour period. • Capitec Bank failed to comply with section 42 of the FIC Act linked to its Risk Management and Compliance Programme (RMCP).	Seven cautions, one reprimand, and a financial penalty of R56.25 million, of which R10.5 million is conditionally suspended for a period of 36 months from 30 July 2024

Banks (continued)

Name	Non-compliance	Administrative sanction
HSBC Bank Plc – Johannesburg Branch (HSBC)	• HSBC failed to comply with sections 21(1) and/or 21A to 21H of the FIC Act by failing to adequately conduct customer due diligence on sampled active customer relationships. • HSBC failed to comply with FIC Act Directive 5 of 2019 by failing to attend to automated transaction monitoring system alerts within the required 48-hour period. • HSBC failed to comply with section 42 of the FIC Act by failing to adequately develop, document and/or implement its RMCP.	• Three cautions and a total financial penalty of R9.5 million, of which R4 million is conditionally suspended for 36 months from 10 June 2024 • One caution and a financial penalty of R5 million, of which R2.5 million is conditionally suspended for a period of 12 months from 23 August 2024
Standard Bank of South Africa Limited (SBSA)	• SBSA failed to comply with section 21C of the FIC Act as it did not conduct ongoing due diligence on two of its clients, and no due diligence reviews were carried out in 2018 or 2019. • SBSA failed to comply with section 23(c) of the FIC Act as it did not maintain a record of the dates when 43 STRs or SARs were submitted to the FIC. • SBSA failed to comply with section 28 of the FIC Act by not reporting 1 466 CTRs and/or CTRAs to the FIC timeously. • SBSA failed to comply with section 29 of the FIC Act as it did not report 17 259 STRs and/or SARs to the FIC in a timely manner. • SBSA did not comply with section 29 of the FIC Act as it failed to report one STR to the FIC. • SBSA failed to comply with FIC Act Directive 5 of 2019.	Six cautions and a financial penalty of R13 million

Insurers

Name	Non-compliance	Administrative sanction
Assupol Life Limited (Assupol)	• Assupol failed to comply with sections 21 and/or 21A to 21H of the FIC Act by failing to conduct customer due diligence on sampled active customer relationships, including its high-risk-rated customers. • Assupol failed to comply with sections 22 to 24 of the FIC Act by failing to keep records of the sampled client files. • Assupol failed to comply with section 42 of the FIC Act in developing and implementing its RMCP adequately.	Three cautions, a reprimand and a total financial penalty of R4 million
Old Mutual Life Assurance Company (SA) Limited (OMLACSA)	• OMLACSA failed to comply with sections 21 and/or 21A to 21H of the FIC Act by failing to conduct customer due diligence on sampled active customer relationships. • OMLACSA failed to comply with its CTR obligations under section 28 of the FIC Act, read with regulations 22B, 22C and 24(4), in that it failed to timeously report cash transactions above the prescribed limit. • OMLACSA failed to timeously report suspicious and unusual transactions to the FIC in compliance with its STR obligations under section 29 of the FIC Act, read with FIC Act regulation 24(3). • OMLACSA failed to comply with section 42 of the FIC Act by failing to adequately develop and implement its RMCP.	Four cautions and a financial penalty of R15.9 million, of which R5.9 million is conditionally suspended for a period of 36 months from 23 July 2024
Safrican Insurance Company Limited (Safrican)	• Safrican failed to comply with sections 21(1) and/or 21A to 21H of the FIC Act by failing to adequately conduct customer due diligence and enhance due diligence on sampled active customer relationships, including prominent, influential domestic persons. • Safrican failed to comply with its record-keeping obligations under sections 22 and/or 23 of the FIC Act by failing to keep records of the sampled client files. • Safrican failed to comply with section 42 of the FIC Act by failing to develop and implement its RMCP adequately.	Three cautions and a financial penalty of R13 million, of which R6 million is conditionally suspended for 36 months from 10 June 2024
Monarch Insurance Company Limited (Monarch)	• Monarch failed to comply with section 43B of the FIC Act by failing to register with the FIC as an accountable institution. • Monarch failed to comply with section 43 of the FIC Act by failing to provide ongoing AML/CFT training to its employees. • Monarch failed to comply with section 42 of the FIC Act to develop and implement its RMCP adequately.	A reprimand, two cautions and a financial penalty of R1 million, of which R200 000 was conditionally suspended for 36 months from 10 June 2024

XIV. Administrative penalties imposed in terms of financial sector laws

Name	Non-compliance	Administrative penalty
King Price Insurance Company Limited (King Price)	• King Price contravened sections 5(4) of the Insurance Act by failing to obtain the PA's approval before conducting business other than insurance business in South Africa. • King Price contravened section 38(1)(e) of the Insurance Act by failing to obtain the PA's approval before concluding transactions contemplated in section 45 of the Companies Act 71 of 2008, which amounted to financial assistance being provided to King Price's related parties.	R924 311
Workers Life Assurance Company Limited (WLA)	• WLA failed to provide the information required for regulatory purposes within the timelines prescribed and contravened section 44(1) of the Insurance Act. • WLA failed to notify the PA of three key persons' termination within the prescribed timelines as required in section 16(1) of the Insurance Act. • WLA failed to obtain the PA's approval under section 14(1) of the Insurance Act before appointing a key person as an independent non-executive director of the Board.	R992 500
Workers Life Insurance Limited (WLI)	• WLI failed to provide the information required for regulatory purposes within the timelines prescribed by the PA and contravened section 44(1) of the Insurance Act. • WLI failed to notify the PA of three key persons' termination within the prescribed timelines as required in section 16(1) of the Insurance Act. • WLI failed to obtain the PA's approval under section 14(1) of the Insurance Act before appointing a key person as an independent non-executive director of the Board.	R917 500
Swiss Re Africa Limited	• Swiss Re Africa Limited contravened section 5(4) of the Insurance Act by failing to obtain the PA's approval before conducting business other than insurance in South Africa.	R1 387 719 (suspended for a period of two years)
Hollard Life Assurance Company Limited (Hollard Life)	• Hollard Life contravened the definition of 'group' in schedule 2 of the Insurance Act.	R2 110 004 110
Hollard Holdings (Pty) Limited	• Hollard Holdings (Pty) Limited contravened sections 14(1), 32(1) and 16(1) of the Insurance Act.	R578 000

XIV. Administrative penalties imposed in terms of financial sector laws (continued)

Name	Non-compliance	Administrative penalty
Infiniti Insurance Limited (Infiniti)	• Infiniti conducted insurance business in various jurisdictions outside of South Africa without prior approval by the PA as required in terms of section 5(5) of the Insurance Act.	R2 141 780
Escap SOC Limited	• Escap SOC Limited contravened section 5(4) of the Insurance Act, Prudential Standard Governance and Operational Standards for Insurers 2: Governance of Insurers and Prudential Standard GOI 5: Outsourcing by Insurers.	R7 645 000
NEHAWU Savings and Credit Co-operative Limited	• The entity failed to comply with section 9.1 of the Prudential Standard TCFI-01: Transitional Arrangements for Cooperative Financial Institutions by not complying with prudential requirements as set out in attachment 6. • The entity failed to adhere to its registration condition 11, with the Board and Audit Committee failing to avail itself to the PA's prudential meetings.	R20 000

XV. Matters referred to the Tribunal

Name	Brief description of the matter	Outcome
Constantia Life Limited	• TMM Holdings (Pty) Limited (TMM) applied to become a significant owner of Constantia Life Limited. The PA had concerns about the significant owner's fitness and propriety and declined the application. TMM was allowed to make representations on prima facie reasons advanced by the PA. TMM made representations but also applied to the Tribunal to reconsider the PA's decision.	The Tribunal had difficulty understanding the choices exercised in the matter, given that the PA demonstrated willingness to consider TMM's representations. The Tribunal ruled that the matter should be remitted for the PA to consider representations by TMM.
Nazarene 040 (Pty) Limited (Nazarene)	• The PA declined the application to licence Nazarene as a microinsurer. The decision was based on the failure to meet licensing requirements in section 22 of the Insurance Act, which include demonstrating that the applicant has a sound business plan.	The Tribunal ruled in favour of the PA.

XV. Matters referred to the Tribunal (continued)

Name	Brief description of the matter	Outcome
Centriq Insurance Company Limited (Centriq)	• Centriq contravened section 25(6)(b)(i) of the Insurance Act by insuring first-party risks and third-party risks in the same cell structure. Centriq referred the matter to the Tribunal.	The Tribunal dismissed the application and agreed with the PA's interpretation that the risks associated with the inward reinsurance business constituted third-party risks related to insuring another insurer's insurance obligations.
Finbond Mutual Bank (Finbond)	• The PA imposed administrative sanctions on Finbond. Finbond had an intercompany loan with Finbond Group Limited and, on 30 September 2019, Finbond indicated that the loan was paid up. The external auditors confirmed that the accounting treatment was not in accordance with the interpretation of the sale/cession agreement. The accounting records did not accurately reflect the outstanding loan. The PA alleged that the former CEO and Chief Compliance Officer of Finbond "played a key role in" the material misrepresentation in their respective capacity. This is an offence under section 92(1)(c) of the Mutual Banks Act 124 of 1993 and falls within the legislation's materiality thresholds, set out in section 153.	The Tribunal ruled in favour of the PA. The R5 million fine was paid by Finbond

XVI. Matters referred to the FIC Appeal Board

State Bank of India

State Bank of India (SBI) contravened the FIC Act, and a financial penalty of R10 250 000 was imposed, with R500 000 suspended for two years. In addition, cautions were issued for various contraventions. SBI lodged an appeal, which was dismissed by the FIC Appeal Board on 25 April 2024.

Abbreviations

AI	artificial intelligence
AML/CFT	anti-money laundering and combating the financing of terrorism
ASF	available stable funding
Assupol	Assupol Life Limited
Banks Act	Banks Act 94 of 1990
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
BEL	best estimate liability
Bidvest Bank	Bidvest Bank Limited
BIS	Bank for International Settlements
Board	Board of Directors
Capitec Bank	Capitec Bank Limited
CAR	capital adequacy ratio
CCP	central counterparty
Centriq	Centriq Insurance Company Limited
CEO	Chief Executive Officer
CFI	cooperative financial institution
CODI	Corporation for Deposit Insurance
Co-operative Banks Act	Co-operative Banks Act 40 of 2007
CSD	central securities depository
CSRBB	credit spread risk in the banking book
CTR	cash threshold report
CTRA	cash transaction aggregation reports
CVA	credit valuation adjustment
D-SIB	domestic systemically important bank
ECAI	external credit assessment institution
EFA	enablement focus area
ESG	environmental, social and governance (principles)
EVE	economic value of equity
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
Finbond	Finbond Mutual Bank
fintech	financial technology
FRTB	fundamental review of the trading book
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority

FSI	Financial Soundness for Insurers
FSR Act	Financial Sector Regulation Act 9 of 2017
G20	Group of Twenty
GDP	gross domestic product
Habib	Habib Overseas Bank Limited
Hollard Life	Hollard Life Assurance Company Limited
HQLA	high-quality liquid assets
HSBC	HSBC Bank Plc – Johannesburg Branch
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IMF	International Monetary Fund
Infiniti	Infiniti Insurance Limited
Insurance Act	Insurance Act 18 of 2017
IRB	internal ratings-based (approach)
IRRBB	interest rate risk in the banking book
IT	information technology
Ithala	Ithala SOC Limited
Jibar	Johannesburg Interbank Average Rate
King Price	King Price Insurance Company Limited
LCR	liquidity coverage ratio
Levies Act	Financial Sector and Deposit Insurance Levies Act 11 of 2022
MCR	minimum capital requirement
MEC	Member of the Executive Council
MI	market infrastructure
Monarch	Monarch Insurance Company Limited
Nazarene	Nazarene 040 (Pty) Limited
New Era	New Era Life Insurance Company Limited
NGFS	Network for Greening the Financial System
NII	net interest income
NSFR	net stable funding ratio
OMLACSA	Old Mutual Life Assurance Company (SA) Limited
ORMAQ	Operational Risk Maturity Assessment Questionnaire
ORSA	own risk and solvency assessment
OTC	over the counter
PA	Prudential Authority
PCN CCyB	positive cycle-neutral countercyclical capital buffer
PDI	public disclosure for insurers
PruCo	Prudential Committee
RDARR	risk data aggregation and risk reporting
Regulations	Regulations relating to Banks

ROA	return on assets
ROE	return on equity
RMCP	Risk Management and Compliance Programme
RWE	risk-weighted exposures
S&P	Standard & Poor’s
Safrican	Safrican Insurance Company Limited
SAR	suspicious activity report
SARB	South African Reserve Bank
SBSA	Standard Bank of South Africa Limited
SBI	State Bank of India
SCR	solvency capital requirement
SFA	strategic focus area
SIFI	systemically important financial institution
STA	standardised (approach)
STR	suspicious transaction reports
TMM	TMM Holdings (Pty) Limited
Unisa	University of South Africa
WLA	Workers Life Assurance Company Limited
WLI	Workers Life Insurance Limited
ZARONIA	South African Rand Overnight Index Average