NATIONAL PAYMENT SYSTEM REGULATORY AND OVERSIGHT REPORT

1 April 2023 – 31 March 2024

South African Reserve Bank

This report is the 10th edition of the National Payment System Regulatory and Oversight Report. The report provides an update on the execution of the South African Reserve Bank's mandate relating to the national payment system as well as an overview of the regulatory and oversight activities and initiatives during the period 1 April 2023 – 31 March 2024.

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Produced by the South African Reserve Bank

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1. Introduction

The 10th edition of the South African Reserve Bank's (SARB) annual *National Payment System Regulatory and Oversight Report* provides an update on the relevant information relating to the operations, regulation and oversight of the national payment system (NPS) for the period 1 April 2023 to 31 March 2024.

The NPS encompasses the entire payment process – from payer to beneficiary – and includes settlements between banks. The NPS serves as the cornerstone of South Africa's financial system and allows for individuals and businesses to transact efficiently and enables economic growth and financial stability in South Africa.

During the period under review, the SARB continued to execute its mandate as outlined in terms of section 10(1)(c) of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), to perform such functions, implement such rules and procedures and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems. In performing these functions, the SARB ensures that the NPS remains operationally resilient and effective without prolonged interruptions, while remaining cognisant of key developments (domestically and globally) that warrant the SARB to take on a more impactful and involved role in shaping the future of the NPS for the benefit of the economy and future generations.

The journey to transform the NPS dates back to the publishing of the NPS multi-year strategy *(the National Payment System Framework and Strategy: Vision 2025)* in 2018, aimed to ensure that the NPS meets key policy objectives of inclusion, efficiency, safety and integrity. Vision 2025 outlines nine strategic goals which includes the development of a clear and transparent regulatory and governance framework for banks and non-banks; achieving transparency and public accountability; ensuring financial stability and security; promoting competition and innovation; realising cost-effectiveness; interoperability; flexibility and adaptability; regional integration; and financial inclusion.

In the past few years, significant efforts have been spent on reviewing the regulatory framework for the NPS, implementing reforms to enable the broadening of access to payment services (for consumers) and improving the oversight of the NPS to ensure its integrity. Processes to finalise the regulatory framework are ongoing, with the SARB prospecting (in the short to medium period) other means of enabling access to the NPS for the benefit of consumers and the economy.

With the building blocks in place to achieve key regulatory reforms, the SARB has resolved as of October 2023 to initiate and embark on a large-scale programme to modernise the payments infrastructure to address the challenge of the low adoption of digital payments and, more specifically, to support the Vision 2025 goals relating to financial stability and security; competition and innovation; interoperability; flexibility and adaptability; and financial inclusion. A detailed view of the transformational modernisation initiative, called the Payments Ecosystem Modernisation (PEM) programme, is provided in section 4 of this report. The PEM requires the collaboration between the public and private sectors to address the key objective of deepening financial inclusion, an objective that is highly influenced by factors such as cost, speed, accessibility, transparency and convenience.

As the SARB looks ahead (with just six months remaining to 2025), there is recognition that the achievement of key milestones outlined in Vision 2025 would not have been possible without the effective collaboration between the public and private sectors. This approach has favoured the NPS thus far and it is the SARB's intention to ensure that the parties remain aligned on the common goal of putting the interest of the country at the forefront.

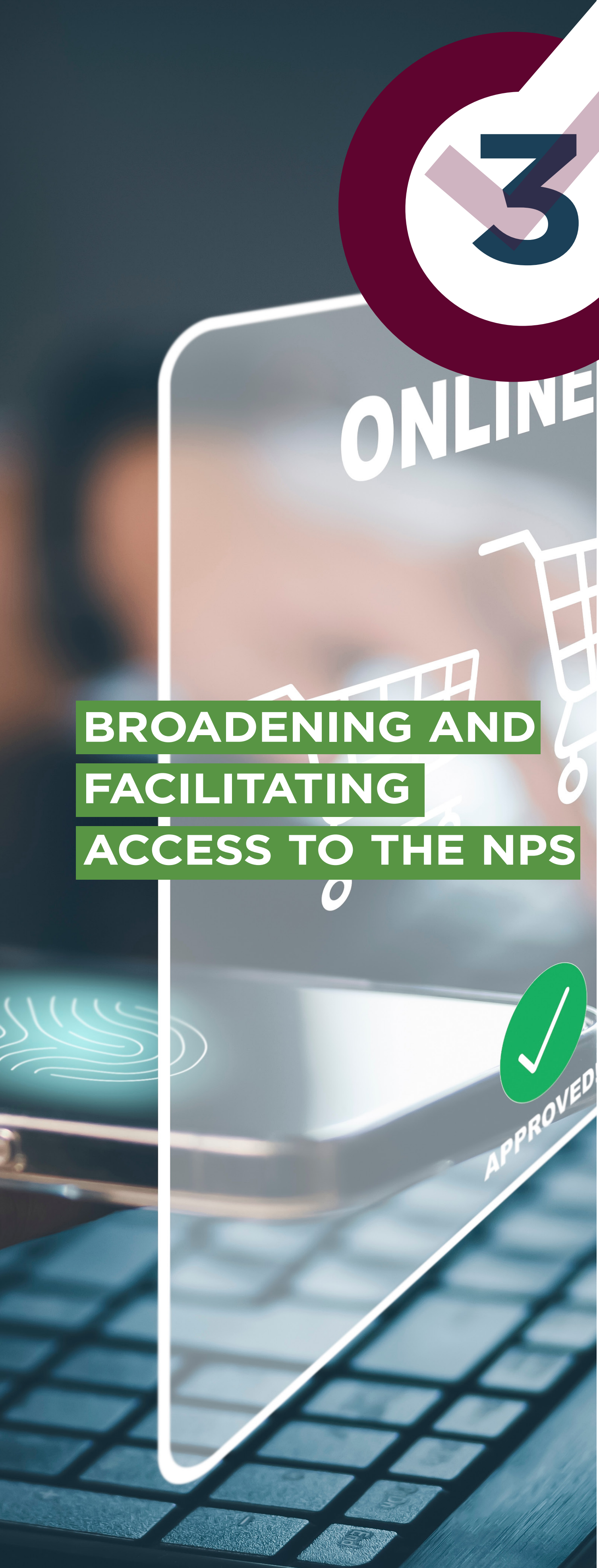
The journey ahead is aimed at building a fit-for-purpose, world-class NPS that contributes positively to the economy of South Africa and the people at large. Alongside this process, the development of the future vision of the NPS for the next horizon (aimed at transforming the payment system to support and enhance financial inclusion) will be a key objective of the SARB for the next 12 to 18 months.

2

IMPLEMENTING VISION 2025

The implementation of the nine strategic goals has been facilitated through an action plan consisting of 106 identified initiatives. Through regular monitoring of the action plan and engagements with responsible stakeholders, the SARB established that some of the initiatives are likely to continue well past 2025. While some initiatives have been implemented, 54 are in progress. Several initiatives are dependent on amendments to the National Payment System Act 78 of 1998, as amended (NPS Act), while others rely on what can be achieved through the newly constituted PEM programme.

As the Vision 2025 cycle nears conclusion, the SARB commends the active and pivotal role the industry and other stakeholders have played to enable the achievement of key deliverables that have established a solid foundation for the future vision.



3 BROADENING AND FACILITATING ACCESS TO THE NPS

3.1 Review of the NPS Act

The recommendations in the policy paper titled 'Review of the National Payment System Act 78 of 1998' [1] are incorporated as the consequential amendments in one of the schedules of the Conduct of Financial Institutions (COFI) Bill. Further amendments were made to the COFI Bill, which was then submitted to the State Law Advisers for review.

During the latter part of 2023, the SARB was approached by National Treasury to incorporate pressing NPS Act amendments through the urgent Financial Services Laws General Amendment Bill (Omnibus Bill) that will be processed prior to the COFI Bill. The SARB mainly incorporated amendments relating to the removal of the Payment System Management Body (PSMB) model by empowering the SARB to license entities currently authorised and registered by the PSMB as well as empowering operators and schemes to admit their participants/members and develop and enforce rules. Essentially, the NPS Act amendments will enable non-banks to fully participate in the NPS (i.e. provide payment services which involve the pooling of funds and clearing and settling transactions without the need to partner with banks). This will be effected through activity-based regulation which will assist in achieving the Vision 2025 goals such as financial inclusion and promoting competition and innovation, among other goals.

Further, the SARB will approve the entry and participation criteria for operators and schemes as well as the rules and any amendments thereto, while also exercising explicit supervisory and oversight powers.

The draft urgent Omnibus Bill is being drafted by National Treasury and the COFI Bill is under review by the State Law Advisers. It must be noted that possible delays in processing both bills may arise due to the 2024 national elections. The remaining policy paper recommendations will be incorporated into the 'ordinary' Omnibus Bill.

1 See 'Review of the National Payment System Act 78 of 1998' – Policy paper, September 2018

3.2 Conduct within the NPS in respect of domestic card transactions (domestic card issuing and acquiring)

Following the publication of Directive 1 of 2020,[2] which prohibits domestic card issuing and acquiring by foreign issuers and acquirers that have not been authorised in terms of South African laws, several entities have approached the SARB seeking guidance on the scope and applicability of the Directive.

In this regard, the SARB has engaged the affected stakeholders and subsequently published a draft guidance note (GN) for public consultation to provide the required clarity. Prior to finalising the GN for publication, the SARB plans to engage the Banking Association South Africa (BASA) and Payments Association of South Africa (PASA). It is envisaged that the GN will be finalised and published during 2024.

3.3 The processing of payments in South Africa (domestic processing)

Protecting the continuity of the provision of domestic retail payment services, which is core and critical to the smooth functioning of the NPS and the broader economy, has necessitated the SARB to confirm its position on domestic processing. The position of the SARB was effected, after several consultations with the relevant stakeholders, through the amendment of the PASA Payment Clearing House (PCH) System Operator Criteria which was approved by the SARB in July 2023 and became effective on 1 August 2023.

The overall policy position states: "In respect of domestic transactions, render a clearing service as well as services pertaining to transaction authorisation through infrastructure that is established and maintained in South Africa. Store data and/or retain records relating to the services in South Africa."

3.4 The PSMB Transitional Committee

The future discontinuation of the PSMB model in the NPS Act necessitated the establishment of a committee to facilitate the smooth transition of some of the PSMB functions (i.e. some PASA functions) to the SARB, schemes, PCH system operators, a payment industry body and/or other relevant structures, with minimal disruption to the NPS. The SARB has accordingly established the PSMB Transitional Committee and working groups (WGs). This is to facilitate a smooth transition from the current regulatory framework to a future one that is aligned to the amended NPS legal framework. The WGs established under the PSMB Transitional Committee include WG1 (access and entry), WG2 (institutional arrangements) and WG4 (legal, regulation, compliance and enforcement). WG3 (operations, infrastructure, systems and industry or public projects) was dissolved due to the lack of any direct impact on infrastructures, operations and systems. The PSMB Transitional Committee and WGs have advanced with the execution of their respective deliverables.

2 See Gazetted Directive 1 of 2020: '[Directive for conduct within the national payment system in respect of domestic card transactions – 21 February 2020]'

3.5 Payroll deductions

In 2016, the SARB issued a Notice titled 'Notice to stakeholders in the NPS, financial institutions and other non-bank institutions on payroll deductions in South Africa',[3] which highlighted the negative impact of payroll deductions on the NPS. It advised stakeholders and participants in the NPS to refrain from entering into or executing non-statutory commercial arrangements for payroll deduction services as these could potentially contravene the NPS regulatory framework. Stakeholders were also informed of the collaboration between the SARB and National Treasury in the development of appropriate policy positions that will be implemented to address non-statutory deductions.

To develop the envisaged policy/regulatory position, a payroll deduction steering committee (Steerco) and WG were established, comprising representatives of the SARB, National Treasury, Financial Sector Conduct Authority (FSCA), National Credit Regulator (NCR) and departments of employment and labour; trade, industry and competition; and public service and administration. Several Steerco and WG engagements and developments took place with the Steerco reaching consensus to support one regulatory option.

As a result, the SARB drafted a payroll deductions directive (draft directive) from an NPS perspective and requested the Steerco to comment. It will then be circulated to PASA for comment before being issued for public consultation. The draft directive is targeted to be issued for public consultation by the end of the second quarter of 2024.

3.6 Directive for conduct within the NPS for third-party payment providers

The Directive for conduct within the NPS in respect of payments to third persons (Directive 1 of 2007)[4] makes provision for non-banks to conduct a business activity that entails the acceptance of money or payment instructions from any other person for purposes of making payment on behalf of that other person to a third person to whom payment is due. The non-banks are referred to as third-party payment providers (TPPPs) and conduct their business activity in the capacity of a beneficiary or payer service provider.

The purpose for the revision of Directive 1 of 2007 is to enhance the regulation of TPPPs in the NPS by introducing and prescribing authorisation requirements and ongoing obligations. One of the regulatory limitations under Directive 1 of 2007 is the mandatory requirement for non-banks to be sponsored and registered with PASA by the banks. The proposed amendments to Directive 1 of 2007 seek to remove the mandatory sponsorship and mentorship requirements by banks. TPPPs will in future be responsible and accountable for the risks they introduce in the NPS.

The drafting of the revised TPPP draft directive is in the final stage and will be published for industry consultation during the first half of 2024.

3 See Notice to stakeholders in the NPS, financial institutions and other non-bank institutions on payroll deductions in South Africa

4 See Directive 1 of 2007: Directive for conduct within the national payment system in respect of payments to third parties

3.7 The NPS,money laundering, terrorist financing and proliferation financing sector risk assessment

The SARB is finalising the money laundering, terrorist financing and proliferation financing (ML/TF/PF) risk assessment report for publication in 2024 after consulting with the Financial Intelligence Centre (FIC), Prudential Authority (PA) and Financial Surveillance Department (FNS) of the SARB. The ML/TF/PF risk assessment report aims to improve the SARB and payment institutions' understanding of ML/TF/PF risks in the NPS. In addition, the risk assessment report will assist in developing and implementing the appropriate anti-money laundering, countering the financing of terrorism and combating proliferation financing (AML/CFT/CPF) risk-based approach (i.e. laws, regulations, supervision, enforcement and other measures) in the NPS to identify, manage and mitigate the ML/TF/PF risks in the NPS.

3.8 Cloud computing and offshoring of data

The SARB is finalising the draft consultation paper on cloud computing and the off-shoring of data. The consultation paper proposes a policy and regulatory framework for cloud computing and the off-shoring of data for payment institutions in the NPS and will solicit inputs from the industry and stakeholders. The SARB has commenced the consultation process with other regulators, where-after the consultation paper will be published for industry comments in 2024.

3.9 Climate change policy and regulatory framework in the NPS

The SARB is finalising a climate change policy and regulatory framework for consultation in the NPS. The purpose of the consultation paper is to propose a policy framework for climate change risks for payment institutions in the NPS and to solicit inputs from industry and other relevant stakeholders. The paper seeks to ensure that the NPS contributes to the transition to a low-carbon economy and is climate-change resilient. The paper promotes a greener NPS that is environmentally friendly and contributes to addressing climate-related risks. The National Payment System Department (NPSD) will publish the paper in 2024 for consultation with stakeholders.

3.10 The cyber-resilience regulatory framework

The SARB published a draft directive on cyber-resilience and cybersecurity within the NPS for comments from the payment industry and interested stakeholders during October 2023. The directive imposes cybersecurity and cyber-resilience requirements on payment institutions and payment system financial market infrastructures (FMIs) to mitigate cyber-risks and enhance the cyber-resilience in the NPS. The directive seeks to enhance the resilience of payment institutions and payment system FMIs to cyber-threats and attacks by developing and implementing cyber-resilience frameworks and processes that promote cyber-governance, detection and response as well as cybersecurity measures.

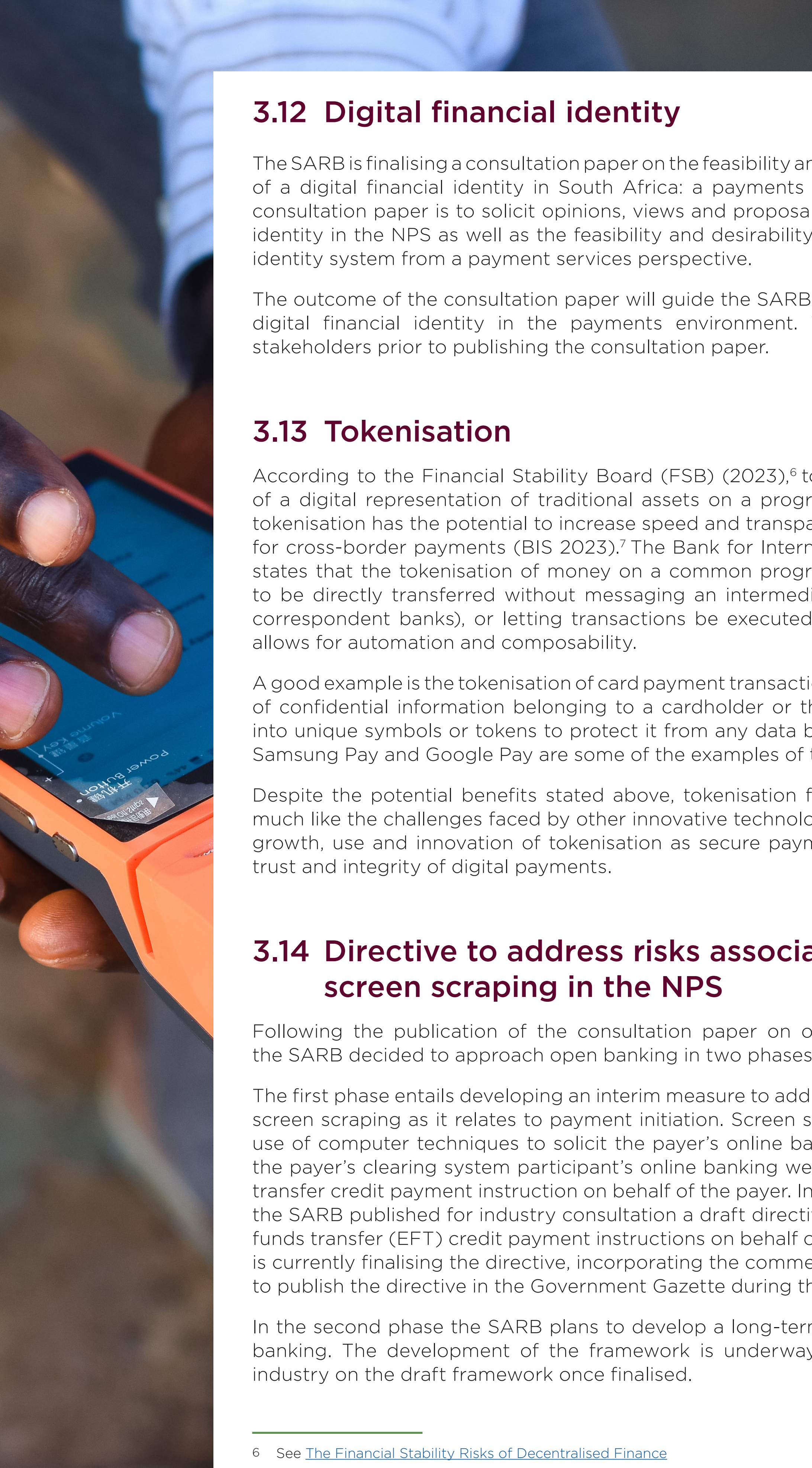
The SARB is currently finalising the directive for publication in the Government Gazette.

3.11 Interoperability

The existence of closed-loop payment systems remains prevalent in the South African payments ecosystem despite the SARB issuing the Position Paper on Interoperability: NPS 01/2011, outlining the SARB's position of not supporting the development of separate and independent closed-loop systems over the long term as this leads to payment system inefficiencies.

The SARB is currently developing a consultation paper to entrench its policy position on interoperability in the NPS.[5] The policy position seeks to promote the achievement of the interoperability goal as outlined in Vision 2025, thereby effectively reducing fragmentation in the payments ecosystem. The draft consultation paper will be published for public consultation during the second half of 2024.

5 See Position Paper: NPS 01/2011: Position Paper on Interoperability



3.12 Digital financial identity

The SARB is finalising a consultation paper on the feasibility and desirability of the establishment of a digital financial identity in South Africa: a payments perspective. The purpose of the consultation paper is to solicit opinions, views and proposals on the role of a digital financial identity in the NPS as well as the feasibility and desirability of establishing a digital financial identity system from a payment services perspective.

The outcome of the consultation paper will guide the SARB on the best approach to address digital financial identity in the payments environment. The SARB will engage specific stakeholders prior to publishing the consultation paper.

3.13 Tokenisation

According to the Financial Stability Board (FSB) (2023),[6] tokenisation refers to the creation of a digital representation of traditional assets on a programmable platform. In payments, tokenisation has the potential to increase speed and transparency and lower costs, especially for cross-border payments (BIS 2023).[7] The Bank for International Settlements (BIS) further states that the tokenisation of money on a common programmable platform allows money to be directly transferred without messaging an intermediary first (e.g. clearing houses or correspondent banks), or letting transactions be executed through smart contracts, which allows for automation and composability.

A good example is the tokenisation of card payment transactions, which involves the conversion of confidential information belonging to a cardholder or the user of a payment instrument into unique symbols or tokens to protect it from any data breaches and invasion. Apple Pay, Samsung Pay and Google Pay are some of the examples of tokenised card payments.

Despite the potential benefits stated above, tokenisation faces significant legal challenges, much like the challenges faced by other innovative technologies. The SARB is monitoring the growth, use and innovation of tokenisation as secure payments are crucial to entrench the trust and integrity of digital payments.

3.14 Directive to address risks associated with screen scraping in the NPS

Following the publication of the consultation paper on open banking activities in 2020,[8] the SARB decided to approach open banking in two phases.

The first phase entails developing an interim measure to address the immediate risks posed by screen scraping as it relates to payment initiation. Screen scraping in payments involves the use of computer techniques to solicit the payer's online banking login credentials to access the payer's clearing system participant's online banking website to issue an electronic funds transfer credit payment instruction on behalf of the payer. In May 2023, during the first phase, the SARB published for industry consultation a draft directive in respect of issuing electronic funds transfer (EFT) credit payment instructions on behalf of the payer in the NPS. The SARB is currently finalising the directive, incorporating the comments from industry and is planning to publish the directive in the Government Gazette during the first half of 2024.

In the second phase the SARB plans to develop a long-term regulatory framework for open banking. The development of the framework is underway and the SARB will consult the industry on the draft framework once finalised.

6 See The Financial Stability Risks of Decentralised Finance

7 See BIS Bulletin No.72: The tokenisation continuum

8 See Consultation paper on open-banking activities in the national payment system

3.15 Financial inclusion

In November 2023, National Treasury published the Financial Inclusion Policy Framework (FIPF) for South Africa, titled 'An inclusive financial sector for all'[9] following the endorsement and approval of the policy framework by Cabinet in August 2023. National Treasury will work in close collaboration with relevant stakeholders such as the financial sector regulators, civil society, government departments, the private sector and other agencies in the development of an implementation strategy and action plan and a financial inclusion monitoring and evaluation framework. The FIPF outlines the following two strategic core policy pillars and a third supporting pillar:

- ***Policy Pillar 1 – Deepen financial inclusion for individuals***

Improve the beneficial use of financial products and services for the newly included and underserved segments and foster inclusion of those who are completely excluded.

- ***Policy Pillar 2 – Extend access to financial services for SMMEs***

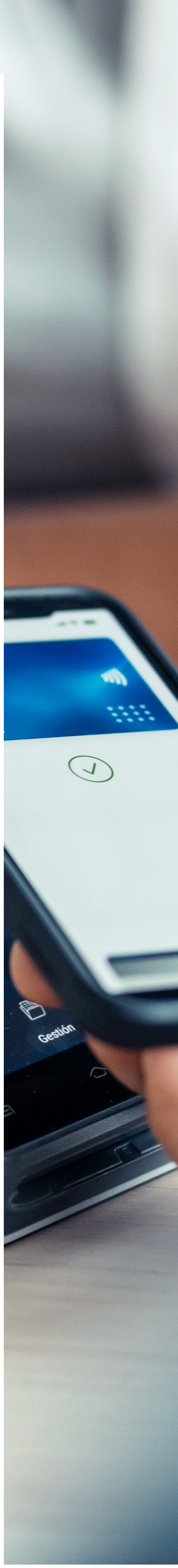
Improve access to and the use of quality financial products and services for small, micro and medium-sized enterprises (SMMEs).

- ***Policy Pillar 3 – Improve the enabling foundations***

Support competition and the diversification of the supply base to strengthen the enabling foundation (i.e. leveraging a more diversified provider and distribution base) to support tangible progress in Pillars 1 and 2.

The SARB, as the regulator for domestic payments, makes provision for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in South Africa through the NPS Act.

The SARB is in the process of developing a financial inclusion position paper and implementation plan from a payments perspective in support of National Treasury's policy pillars, based on the various initiatives outlined in the overarching goals and strategies of Vision 2025 as well as those proposed by National Treasury under each of the three policy pillars.



9 See National Treasury Policy paper: An inclusive financial sector for all, November 2013

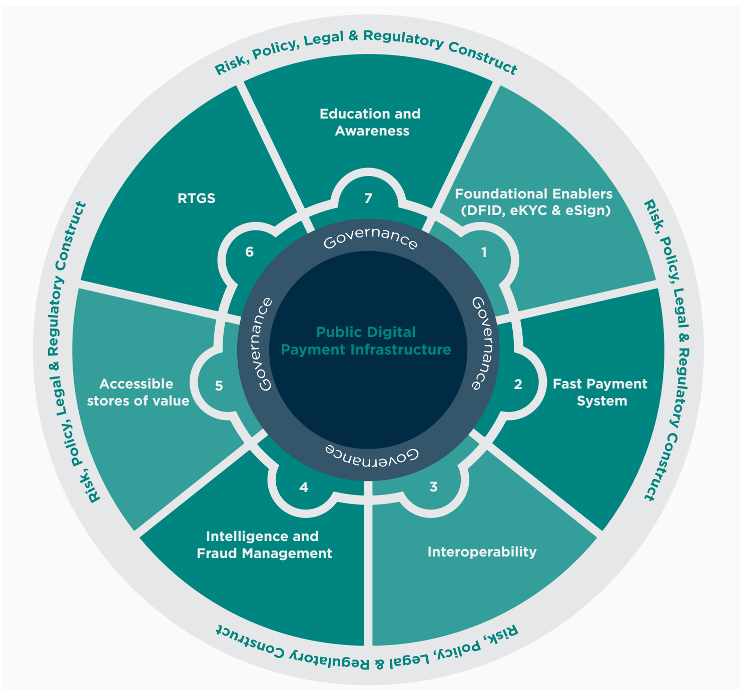
4 MODERNISING THE PAYMENTS ECOSYSTEM

4.1 Payments ecosystem modernisation and what it holds for the NPS

The SARB established the PEM programme in October 2023 following an extensive review of the current payments landscape. The PEM was established with the objective to implement several interventions aimed at modernising and transforming the South African payments ecosystem infrastructure to enable widespread access to safe and efficient digital payment capabilities.

The PEM includes the implementation of several key components, including the establishment of a centralised public payments utility and several common services such as a renewed real-time gross settlement (RTGS) system, expanded fast payment system (FPS) capabilities, foundational enablers such as digital financial identity, electronic Know-Your-Customer (KYC) registry, centralised intelligence and fraud management capabilities as well as interoperability standards geared to meet the demands of the entire payments ecosystem and all members of South African society. The key components included in the scope of the PEM are outlined in Figure 1:

Figure 1: Key components of the Payments Ecosystem Modernisation programme



The PEM is deemed to be the most significant strategic transformation in the payments ecosystem since the implementation of the South African Multiple Option Settlement (SAMOS) RTGS system nearly 30 years ago, with the following significant milestones achieved to date:

- Defined an overarching programme and governance structure.
- Onboarded additional resources to support the delivery of the PEM programme as well as additional resources required for the immediate term.
- Disbanded and reconfigured the RTGS renewal programme into the new PEM programme and agreed on the key priorities for the immediate term.
- Initiated engagements with the shareholders of BankservAfrica (Bankserv) with the intention of acquiring the full issued share capital of Bankserv and to repurpose it into a public payments utility.
- Held the Payments Industry Dialogue conference in March 2024 to kick off the PEM programme with the broader payments industry.
- In the process of:
  - concluding a technical discovery process of Bankserv's technological capabilities as input to determining the feasibility of the acquisition;
  - conducting several engagements with industry stakeholders (including BASA, PASA and Bankserv) to socialise the SARB payments ecosystem modernisation vision; and
  - drafting of a strategic business case to support the overarching modernisation vision and outline the case for the acquisition of Bankserv.

Alignment between the PEM programme and other in-flight processes are underway and will be reported on in the next cycle.

4.2 PayShap

The launch of the first phase of PayShap in March 2023 was an important step towards South Africa's faster payments modernisation journey and fulfilling the SARB's Vision 2025 goal of promoting innovation. PayShap, a digital retail payment system that allows consumers to make and receive payments in real time (within 60 seconds) across participating banks in South Africa, is an industry-led initiative managed by Bankserv and PASA. It offers South Africans a convenient, safe and reliable way of making and receiving payments in real time. The first phase of PayShap included the instant clearing feature which allows consumers the ability to either pay by account (using account details) or pay by proxy, also known as a ShapID (using a unique identifier such as a cellphone number). This removes the traditional requirement for consumers to have the account number of the person to whom they want to pay money electronically.

Since its launch, PayShap has grown significantly from a volume and value perspective. Statistics provided by Bankserv indicate that more than 2.5 million South Africans have registered and made transactions using PayShap in the first year. The average transaction value is currently R652.30 with 3 million registered ShapIDs. As of March 2024, a total of 14 million transactions have been processed on PayShap to the value of over R9 billion.

Figure 2 and 3 provide a high-level overview of PayShap's transaction growth from a volume (number of transactions) and value (rand value of transactions) perspective.

Figure 2: PayShap transactions volume per month

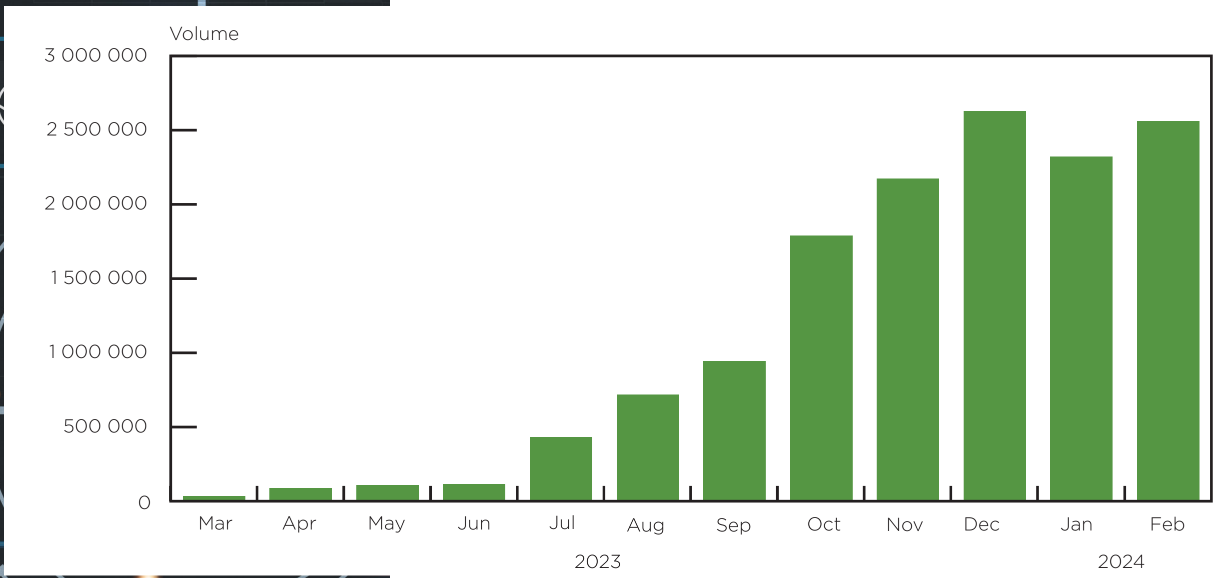
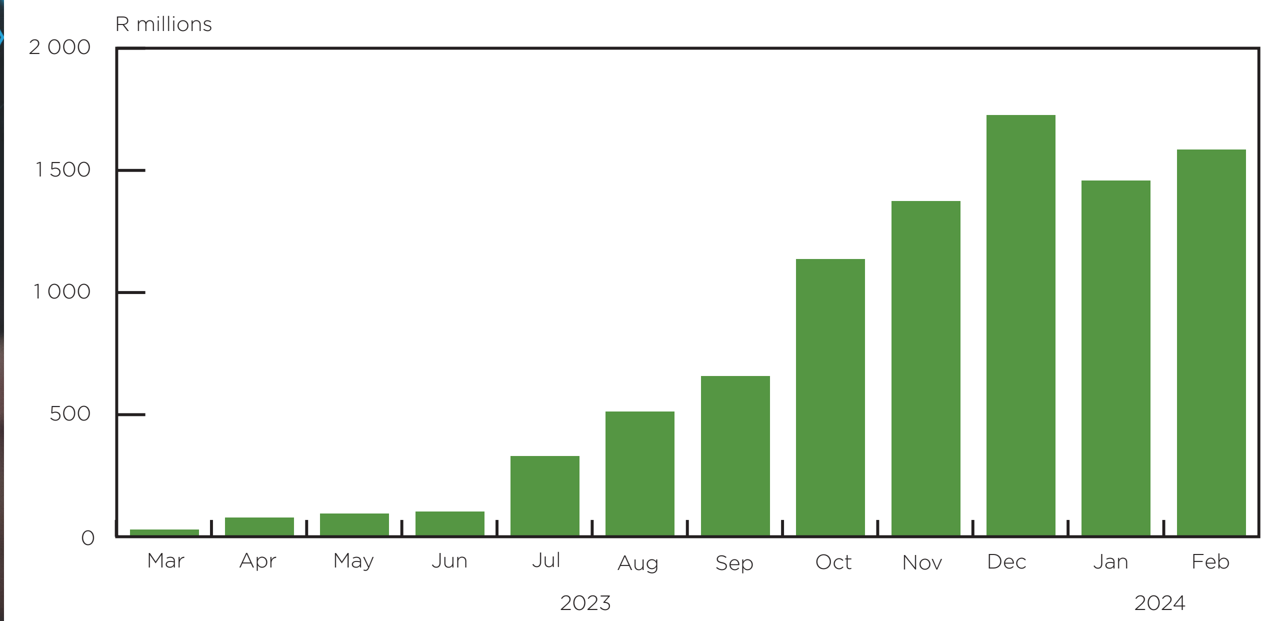


Figure 3: PayShap rand value transacted per month from March 2023 to February 2024



To further enhance the adoption of PayShap, the request-to-pay feature is currently being developed with the aim to launch to market in the second half of 2024. This feature will allow consumers to request a payment from someone else and to receive the funds related to that payment request immediately and securely in their store of value account. Looking ahead, it is envisaged that PayShap will continue to grow as new enhancements are introduced to increase PayShap's capacity to promote economic inclusivity, lessen the reliance on cash and accomplish the strategic objectives of the SARB's Vision 2025 and beyond. Further information on PayShap can be accessed on www.payshap.co.za.

PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

The SARB is responsible for the regulation, supervision and oversight of systemically important payment system (PS) FMIs. During the reporting period the SARB conducted assessments of the adherence of the PS FMIs to Principle 3: Risk management framework and Principle 17: Operational risk (with a specific focus on cyber-resilience), as outlined in the Principles for Financial Market Infrastructures (PFMI). The PS FMIs that were assessed include the South African Bankers Services Company (Pty) Limited, Strate (Pty) Limited, the SAMOS system, and the Southern African Development Community real-time gross settlement system (SADC-RTGS).

The assessment process included four phases, namely the submission of the self-assessments by the PS FMIs, SARB's review of the self-assessments received, face-to-face engagement sessions (interview and discussions) with the PS FMIs and the drafting of assessment reports for each PS FMI. In November 2023, the SARB provided assessment reports including findings identified and recommendations applicable to the respective PS FMIs to improve their level of observance of the PFMI. In the new financial year, the SARB will proactively monitor and track the progress made by the PS FMIs in implementing the recommendations made to ensure that the identified gaps are addressed.

As part of the SARB's continued efforts to enhance its oversight function in accordance with its mandate, the oversight scope for non-systemic PS participants within the NPS is to be enhanced.

6

SUPERVISION OF NON-BANKS

In May 2023, the SARB established a Supervision Unit within its Oversight and Supervision Division in a move to clearly delineate its supervisory objectives, responsibilities, resources, tools and processes from its oversight objectives.

The main objective of the Supervision Unit is to ensure that supervised persons and/or entities in the NPS continue to deliver payment services in a responsible, efficient, safe and resilient manner. The Supervision Unit is envisaged to strengthen the SARB's supervisory reach over non-bank PS participants at an entity level and assist the NPS in navigating the evolving payments landscape – from both a regulatory and technology perspective in an orderly and safe manner.

The scope of the Supervision Unit, as per the NPS Act, covers all entities that provide payment services and/or infrastructure within the borders of South Africa. The Supervision Unit uses a forward-looking and risk-based supervisory approach to ensure that all supervised entities within the NPS are resilient on a stand-alone basis.

Supervisory framework

The Supervision Unit has largely finalised its supervisory framework (framework) which outlines the SARB's legal framework, supervisory objectives and approach to the supervision of persons and/or entities within its scope. It is anticipated that the framework will be made publicly available during the course of 2024.

Pilot supervisory programme

The Supervision Unit kicked off its inaugural supervisory programme during August 2023. The supervisory programme comprised initial offsite supervisory analyses of six entities, culminating in on-site visits to all six entities.

The supervisory assessment was conducted in terms of the Supervision Unit's adapted ORSOM supervisory rating system (i.e. a supervisory rating system used to assess FMIs across five critical risk categories – organisation; risk management; settlement; operational risk and information technology (IT); and market support, access and transparency). The outcome of the assessments informed the risk rating of the six entities in terms of the supervisory framework. Risk ratings assigned to the supervised entities inform the intensity and frequency of follow-up supervisory interactions. The Supervision Unit also conducts off-site monitoring of the implementation of remedial actions arising from the supervisory assessments conducted.

Activities planned for 2024

The Supervision Unit will seek to further refine and expand its supervisory tools and processes over the course of the 2024 supervision period based on learnings gleaned from the pilot supervisory programme. Efforts will be made to enhance the off-site supervisory capabilities and processes.

SAMOS SYSTEM STATISTICS

The total value of payment transactions settled in the domestic RTGS system (i.e. the SAMOS system) increased by 13.9% from R131.4 trillion in 2022 to R150.1 trillion in 2023. In the same period, settlement volumes increased from 12.1 million to 13.9 million. In these figures, it should be noted that in terms of value, wholesale payments settled in real time in the RTGS system accounted for 88% of the settlement values in the SAMOS system, while retail payment settlement obligations submitted for settlement by PCHs accounted for the remaining 12%. The total value of retail payment transactions settled in the SAMOS system increased from R16 trillion in 2022 to R17 trillion in 2023.

Figure 4: SAMOS settled payment values and volumes

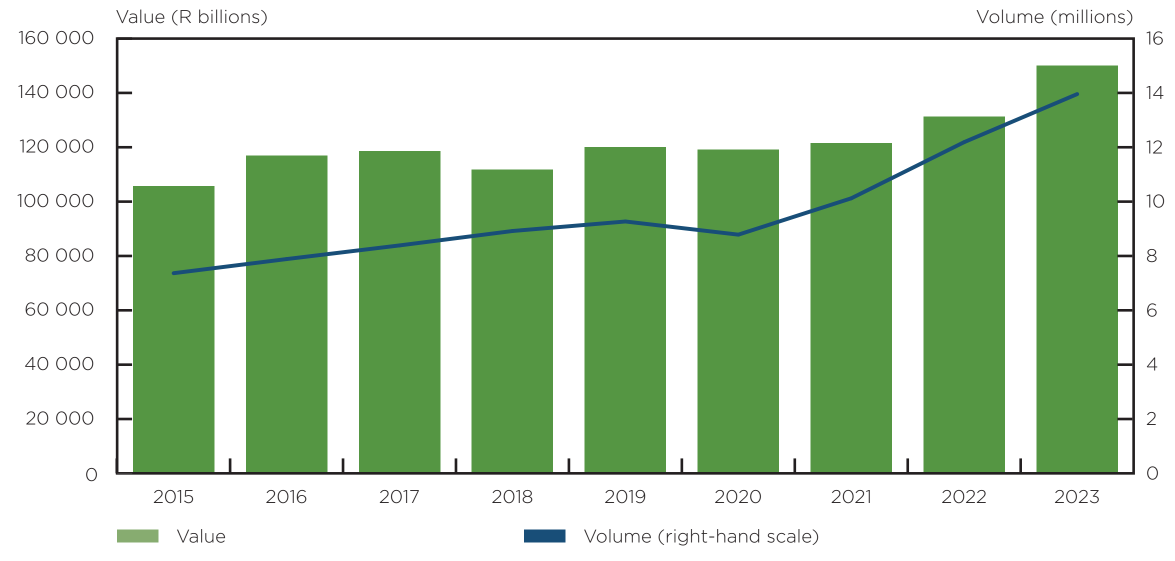
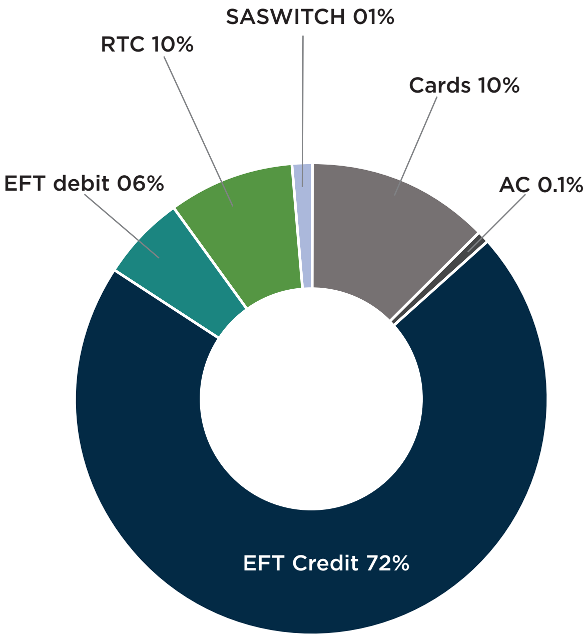


Figure 5: SAMOS retail payment settlement values (2023)



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SADC-RTGS SYSTEM SETTLEMENT STATISTICS

As of March 2024, the SADC-RTGS system participation spans 15 SADC member states, with 89 system participants comprising 81 commercial and 8 central banks.

Table 1: A view of the number of participating banks and central banks per member state

Member state	Bank	Central bank	Total
Angola	6		6
Botswana	4		4
Democratic Republic of Congo	3		3
Eswatini	4	1	5
Lesotho	4	1	5
Madagascar		1	1
Malawi	8	1	9
Mauritius	3		3
Mozambique	6		6
Namibia	4	1	5
Seychelles		1	2
South Africa	8	1	9
Tanzania	7		7
Zambia	9	1	10
Zimbabwe	15		15
Total	**81**	**8**	**89**

Figure 6 outlines the trend of transactions on the SADC-RTGS system since inception until 31 December 2023. The period 2013 to 2015 saw exponential growth in value before plateauing until 2018 and then receding in 2020 and 2021, reflecting the impact of the COVID-19 pandemic. An uptick, however, followed with 2023 clocking the highest settlement on record, indicating a strong recovery from COVID-19.

Figure 6: SADC-RTGS system settlement values from 2023 -2023

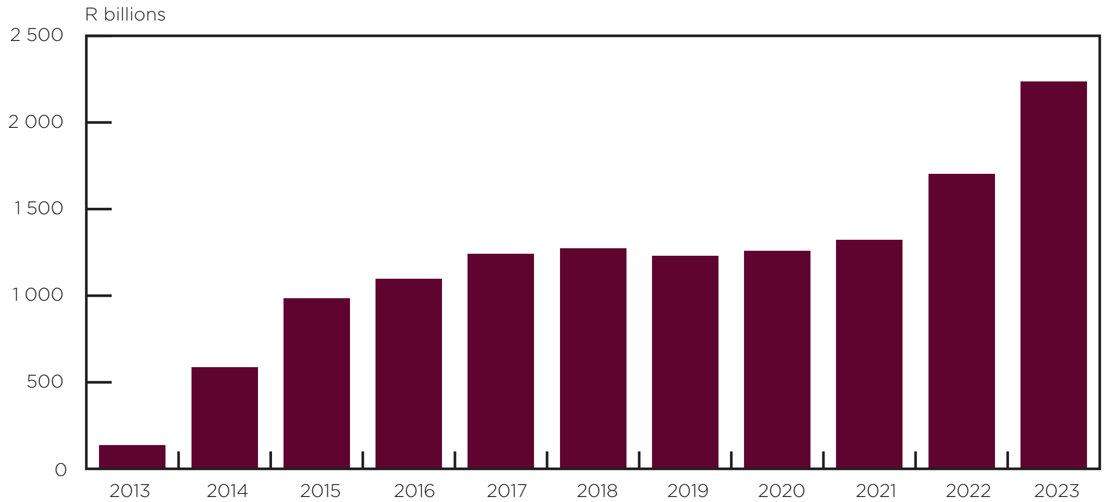


Figure 7 outlines the trend of transactions on the SADC-RTGS system since its inception, with exponential growth in volumes observed from 2013 to 2015. From 2015 to 2018, volumes increased steadily before receding between 2020 and 2021, reflecting the impact of the COVID-19 pandemic. Volume growth accelerated from 2022, indicating a strong recovery from COVID-19, with 2023 registering the highest volumes recorded since 2013.

Figure 7: SADC-RTGS system settlement volumes from 2023- 2023

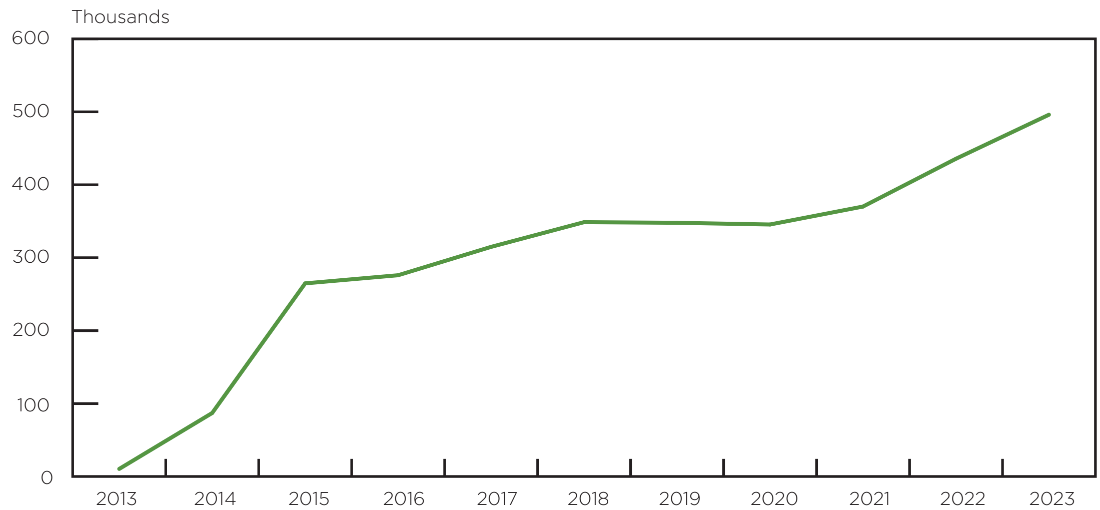
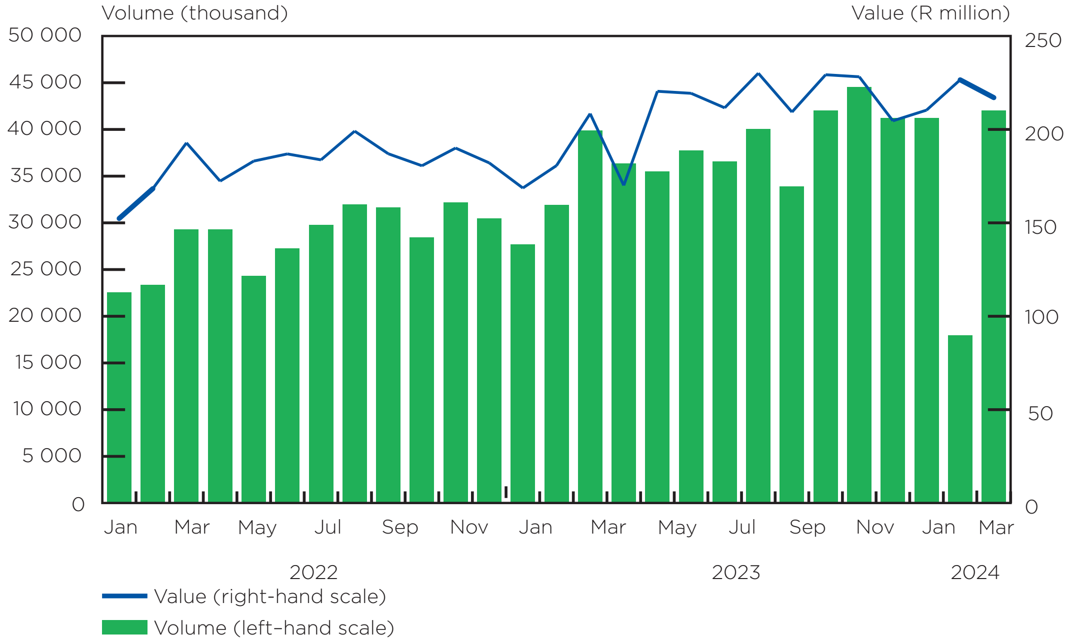


Figure 8 depicts the monthly volume and values on the SADC-RTGS system for the period January 2022 to March 2024, the best-performing period with volumes peaking in four months, namely in March and August 2022, and March and August 2023; and values peaking seven times: in March, April and July 2022; and August, September, October and November 2023.

Figure 8: Monthly volumes and values on the SADC-RTGS system for the period January 2022 to March 2024



9

COORDINATION OF REGIONAL AND CONTINENTAL EFFORTS

9.1 Integration of SADC's retail payment system – SADC instant payments

The BIS Committee on Payment and Market Infrastructures (CPMI) and FSB identified four main cross-border payments challenges, namely cost, access, transparency and speed. The same challenges are common in the SADC payments environment. The SADC transactions cleared on an immediate basis (TCIB) is designed to address these four cross-border payment challenges as it is designed to be affordable, accessible to all eligible participants and users, have immediacy of clearing and settling, and instant application of funds in the customers' account.

TCIB is the SADC's instant retail payment scheme that was developed and launched in a controlled live environment in November 2021 with two countries, namely Namibia and Zimbabwe. The South African rand (ZAR)-denominated transactions between a non-bank in Namibia and a bank in Zimbabwe were successfully processed and settlement was affected. This is a proof of concept for the open-loop retail payment system within the SADC region where interoperability between a bank and a non-bank was successfully tested.

TCIB is a well-regulated and interoperable payment scheme built on the International Organization for Standardization (ISO 20022) messaging platform. This is meant to enable transparency in cross-border regulatory reporting, whereby customers will be informed of the time and pricing of the service before vitalising the service.

Participation is open to both banks and non-banks across the SADC region (which are authorised to provide the TCIB service by their respective central banks). TCIB is a multi-lateral payment scheme since transactions are facilitated from bank account to bank account, bank account to wallet, or wallet to wallet. Further, a participant has access to all corridors and all participants, and the extent of the provision of the service would only be limited to the business appetite of a participant.

The market adoption of the TCIB payment scheme has not manifested as expected due to, among other things, regulatory requirements and difficulties with obtaining banks to sponsor the non-banks in settling their TCIB obligations. The SADC Payment System Oversight Committee (PSOC) is working closely with the other regulatory authorities to address regulatory challenges impeding the adoption of the TCIB payment scheme. The initiatives include streamlining the onboarding process, harmonising regulatory and reporting requirements and developing a settlement model to provide non-banks with direct access to settlement services. Furthermore, a TCIB settlement model is being explored to assist the non-banks to settle their transactions in the SADC-RTGS system.

In February 2024, a TCIB payment corridor between South Africa and Zambia was officially launched, which means that the platform was opened for live transactions. The TCIB participants in the corridor are South Africa's Send Home (Pty) Limited, an authorised dealer with limited authority, and Zambia's SamPay Limited, a regulated online payment and e-commerce business.

To date a number of entities have received provisional TCIB membership and more corridors can be expected to open in 2024. Once the TCIB service is successfully implemented in the SADC region, it will be expanded through the appropriate structures to other regions in the African continent.

9.2 Coordination of regional payment system integration efforts

The regional integration of payment systems is a key enabler for regional economic growth and interoperability. The SADC Payment System Subcommittee (PSS) was established in 1995 by the SADC Committee of Central Bank Governors (CCBG) in recognition of the importance of payment systems in supporting economic activity and development. In line with its mandate under the SADC Finance and Investment Protocol (FIP), the SARB chairs the SADC PSS which comprises heads and directors of national payment system departments from 15 central bank members. The members of the PSS are responsible for collaborating to spearhead the payment systems integration initiatives at domestic and regional level.

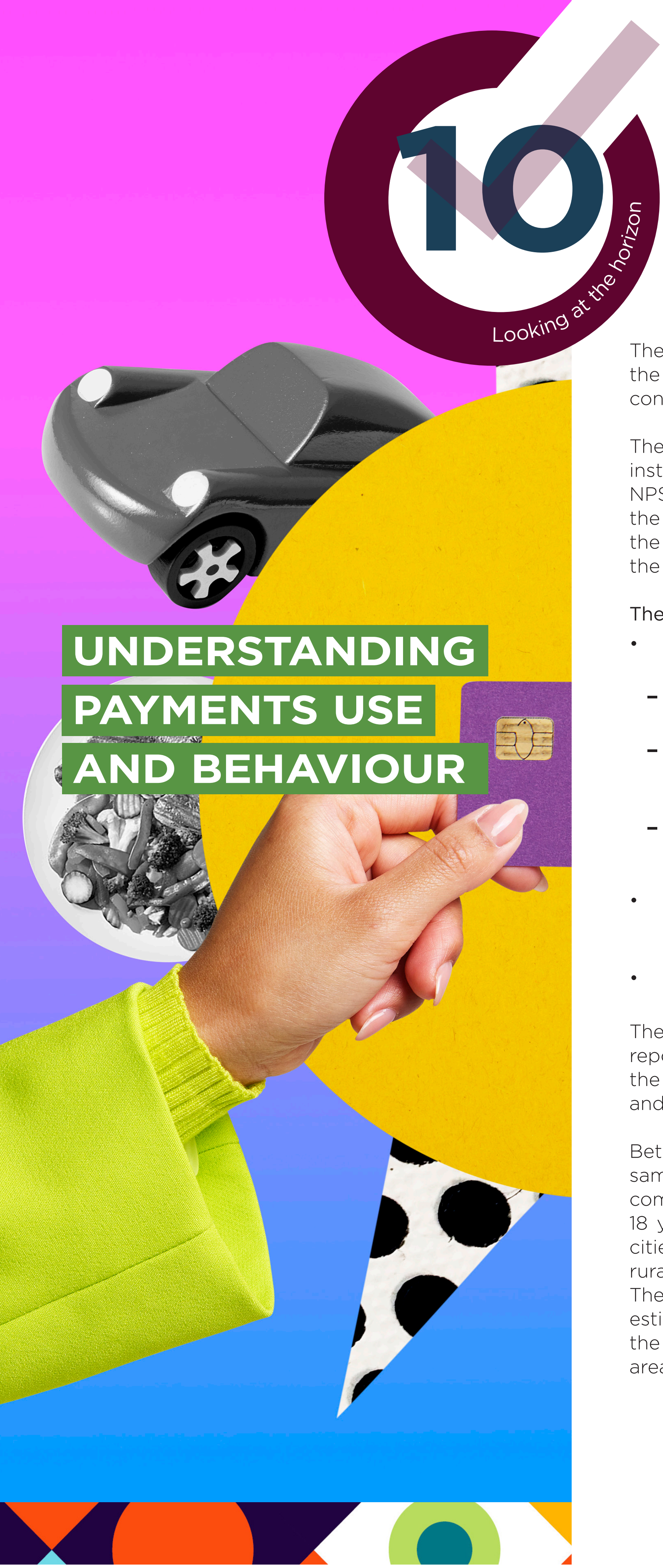
The SARB continues to provide a secretariat and project management capability function to the SADC PSS. Key to this responsibility is the provision of crucial support to implement the newly approved three-year cycle strategy of the SADC PSS (from 2023 to 2026) aimed to foster financial integrity, enhance financial inclusion and promote the development of innovative financial services and products.

9.3 The provision of regional settlement services

The SADC-RTGS is a cross-border settlement system operated by the SARB, as appointed by the SADC member central banks participating in the SADC-RTGS. The system was implemented on 22 July 2013 to facilitate payments among the banks within the SADC region. The system was implemented to support the aim of Annexure 6 of the SADC FIP to realise the regional cross-border payment system strategy and support trade and investment. To support this aim, the SADC PSS developed a vision to interlink and integrate the payment system in the region. The interlinking and integration payment system was implemented in the Common Monetary Area (CMA) in July 2013. A coordinated and collaborative roll-out to other SADC countries was implemented thereafter. The SADC-RTGS celebrated its 10th anniversary in July 2023. Celebratory events were held to commemorate this milestone. At the end of July 2023, the SADC-RTGS achievements included 90 participants from 15 participating countries and over three million transactions processed to the value of R12.05 trillion.

Notable challenges experienced during the reporting period include changing the system name from SIRESS to SADC-RTGS due to trademark considerations. The settlement in additional currencies is also a main challenge being addressed by the initiatives to on-board additional SADC currencies and the US dollar. Approval has been granted to on-board the Angolan kwanza and the US dollar as additional settlement currencies in the SADC-RTGS. The SADC-RTGS operator, industry and other stakeholders are engaged in a process to operationalise the on-boarding of these currencies.

The underlying SADC-RTGS technology is based on the domestic RTGS technical and business concepts, which are over 20 years old. While the technology platform was changed and adapted to accommodate the SADC-RTGS business model, the underlying technology requires change. The RTGS renewal programme was initiated to address these issues, among other things. Under this programme, the ISO migration was initiated to migrate financial systems to a new messaging standard. At the end of March 2024, the SADC-RTGS participants had completed unscripted market testing and were busy with scripted market testing. It is anticipated that the migration will be completed in June 2024. Business architectures, target operating model and technical architectures were completed in June 2023. Among other initiatives implemented under the target operating model deliverables are the establishment of a Rules Management and Compliance Unit tasked to assist the SADC-RTGS with scheme rules management as well as sanction screening and anti-money laundering services.



UNDERSTANDING PAYMENTS USE AND BEHAVIOUR

The SARB commissioned a nationwide study called the SARB Payments Study, the first of its kind to be conducted in South Africa.

The study aims to assess the use of payment instruments and consumer behaviour in South Africa's NPS, drawing on data collected and maintained by the SARB and from two distinct consumer surveys – the Diary of Consumer Payment Choice (DCPC) and the Survey of Consumer Payment Choice (SCPC).

The study aims to measure several aspects:

- The aggregate usage of payment instruments in terms of:
  - payment instruments used by locational and demographic aggregates;
  - consumers' views of obstacles to using certain payment methods (e.g. ease of access and usage, level of trust, fees, etc.); and
  - preferences of payment methods and behaviour by demographic (i.e. age, income, urban vs rural, etc.).
- The impact of global events, technological advancements, or changes in regulation on consumer behaviour
- The factors influencing consumers' choices.

The study will enable the SARB to expand its repository of data regarding consumer preferences in the payment system and identify drivers for the usage and evolution of payment services.

Between April and May 2023, a national representative sample methodology was applied and executed to complete the SCPC survey. South Africans aged 18 years and older that live in metropolitan regions, cities, large and small towns as well as rural and deep rural areas of the country were randomly chosen. The survey used up-to-date, mid-year population estimates from Statistics South Africa (Stats SA) and the latest census demarcation rules of enumerator areas.

Between June and December 2023, the second component of the study, the DCPC survey analysis was completed. The DCPC survey is designed as a diary study to record actual transactions over a specified time. Participants in the DCPC were recruited nationally to form part of the three-month diary study to record each transaction over a three-day period. The three-day time slots were distributed over three months and repeated 11 times to ensure mid-month, month-end and beginning-of-the-month cycles. In addition, the diary also illustrates day-of-the-week expenditure patterns.

The information and insights from the study will be made available to payment industry stakeholders and other regulatory authorities and will inform the development and maintenance of public policies.

The overall findings of the study will be made public in the third quarter of 2024.

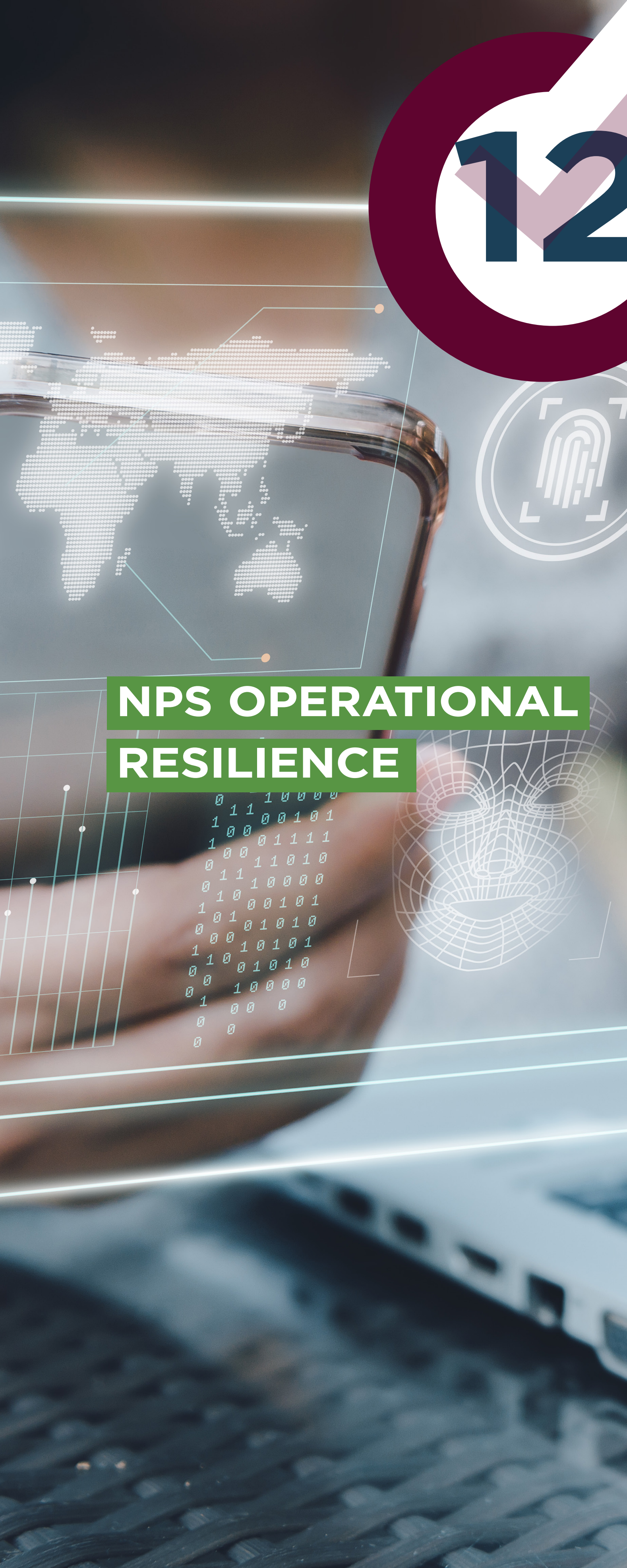
11

ENTRENCHING DIGITALISATION

The SARB has developed a Digital Payments Roadmap (roadmap), called Project Stimela. The purpose of the roadmap is to identify obstacles, barriers and challenges to the adoption and increased and effective usage of digital payments. It further develops a multi-disciplinary and stakeholder action plan to unlock the inclusivity, effectiveness and sustainability of digital payments for the benefit of South Africans. The roadmap supports Vision 2025 which highlights the importance of digital payments in the NPS. The SARB has conducted engagements with stakeholders identified in the roadmap to contribute towards achieving inclusive, accessible, effective and sustainable digital payments.

The roadmap focuses on the South African (domestic) payments ecosystem and does not extend to cross-border payments.

The SARB published the roadmap in April 2024.



12

NPS OPERATIONAL RESILIENCE

The SARB proactively continues to monitor risks that may disrupt the operations of the NPS. During the reporting period, efforts were focused on mitigating the risk of a power grid failure in South Africa on the NPS. A power grid failure is categorised as a situation where the country experiences a 14-day consecutive power outage or 12-hour load-shedding per day for 30 days.

The SARB recognises the importance of enabling the availability of payment services to the public to access food, medication and other critical services.

In collaboration with PASA, the SARB developed the NPS response plan for a possible grid failure. The response plan outlines two critical scenarios in the likely event that the country experiences a grid failure. The first scenario aligns with the Financial Sector Contingency Forum's (FSCF) orderly closure and reopening of the financial markets (OCARM) framework and requirement to close payment systems (based on clearing window timeframes) on the day of the grid failure. The second scenario outlines an alternative connectivity mechanism where financial institutions, FMIs and schemes will be permitted to connect to a central peering hub (with crisis-resilient connectivity) in the country. The establishment of the alternative connectivity mechanism is to address the impact that the loss of the current telecommunication channels will have on the financial system in the event of a grid failure. In summary, the mechanism aims to enable financial institutions and RTGS operations to remain operational in the event of a disruption to telecommunication services due to an extended power failure, severe climate conditions or a cyber-attack event.

The SARB has further observed geopolitical developments impacting South Africa. It conducted a scenario planning exercise and identified mitigating measures that could be undertaken or considered in the event of an adverse action being taken against South Africa, thus impacting the stability and resilience of the NPS.

13

THE FUTURE VISION OF THE NPS

As the current Vision of the NPS draws to a close in 2025 and the current focus remains on concluding initiatives which are planned or in progress, the SARB will be initiating a process to formulate a new multi-year Vision, with a provision to review that Vision for appropriateness and continued relevance after five years.

The contribution and support of the payment industry will be imperative to the formulation process, and its active participation when called upon is highly encouraged.

The planned Vision for a future horizon is targeted for publication in the second half of 2025.

Abbreviations

AML	anti-money laundering
Bankserv	BankservAfrica
BASA	Banking Association South Africa
BIS	Bank for International Settlements
CCBG	Committee of Central Bank Governors
CFT	countering the financing of terrorism
CMA	Common Monetary Area
COFI Bill	Conduct of Financial Institutions (COFI) Bill
CPF	combating proliferation financing
CPMI	Committee on Payment and Market Infrastructures
DCPC	Diary of Consumer Payment Choice
EFT	electronic funds transfer
FIC	Financial Intelligence Centre
FIP	Finance and Investment Protocol
FIPF	Financial Inclusion Policy Framework
FMI	financial market infrastructure
FNS	Financial Surveillance Department
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSCF	Financial Sector Contingency Forum
FSP	fast payment system
GN	guidance note
ISO	International Organization for Standardization
IT	information technology
KYC	Know Your Customer
ML/TF/PF	money laundering, terrorist financing and proliferation financing
NCR	National Credit Regulator
NPS	national payment system
NPS Act	National Payment System Act 78 of 1998, as amended

NPSD	National Payment System Department
PA	Prudential Authority
PASA	Payments Association of South Africa
PCH	Payment Clearing House
PEM	Payments Ecosystem Modernisation (programme)
PFMI	Principles for Financial Market Infrastructures
PS	payment system
PSMB	Payment System Management Body
PSOC	Payment System Oversight Committee
PSS	Payment System Subcommittee
RTGS	real-time gross settlement (system)
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement (system)
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989, as amended
SCPC	Survey of Consumer Payment Choice
SMME	small, micro and medium-sized enterprise
Stats SA	Statistics South Africa
TCIB	transactions cleared on an immediate basis
TPPP	third-party payment providers
WG	working group

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