



South African Reserve Bank

Prudential Authority

Regulatory Strategy

2021–2024





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South African Reserve Bank
Prudential Authority

Regulatory Strategy 2021–2024

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Executive summary

In terms of section 47 of the Financial Sector Regulation Act 9 of 2017 (FSR Act), the Prudential Authority (PA) is required to publish a regulatory strategy. The regulatory strategy sets out the regulatory and supervisory priorities for the PA for the next three years, the intended key outcomes of the strategy as well as the guiding principles on the performance of the PA's regulatory and supervisory functions.

This document also highlights the progress made by the PA on the regulatory and supervisory priorities outlined in the inaugural *Regulatory Strategy 2018–2021*. Since 2018, the PA has implemented the following regulatory and supervisory initiatives:

- **Banks**
 - Implemented requirements for the net stable funding ratio, corporate governance, bank exposures to central counterparties and banks' equity investment in funds.
 - Reviewed comments on the large exposures framework, total loss-absorbing capacity holdings and interest rate risk in the banking book frameworks.
- **Mutual banks**
 - Developed a draft policy paper on updating the mutual banks framework.
 - Published a 'Draft standard on governance and risk management for mutual banks' in November 2020.
- **Co-operative banks and co-operative financial institutions (CFIs)**
 - Developed a policy paper on the approach to regulating and supervising co-operative banks and CFIs and compiled a draft set of standards.
 - Published the 'Draft registration and operational requirements standard', 'Governance standard' and the 'Risk management, compliance and internal control standard' for consultation in July 2021.
- **Insurers**
 - Finalised the conversion of insurers previously registered in terms of the provisions of the Long-term Insurance Act 52 of 1998 and the Short-term Insurance Act 53 of 1998.
 - Commenced with the designation of insurance groups.
 - Issued a prudential standard relating to fees as well as numerous joint communications and guidance notices on the topic.
 - Published a set of standards for audit requirements for public consultation.
 - Published a draft standard on outsourcing for public consultation.
 - Published a draft standard on public disclosures for insurers, excluding microinsurers, branches of foreign reinsurers and Lloyd's (an insurance and reinsurance market located in London).
 - Licensing of controlling companies of insurance groups.
 - Licensing of microinsurers.
- **Market infrastructures (MIs)**
 - Developed policies, processes and supervisory tools to supervise MIs.
 - Contributed to and influenced the drafting of the amended Financial Markets Act 19 of 2012 (FM Act).
 - Issued the joint standards on margin requirements for non-centrally cleared over-the-counter derivatives transactions and central counterparty licence applications.
- **Financial conglomerates**
 - Published draft financial conglomerates on 'Auditor requirements', 'Risk concentration', 'Intragroup transactions and exposures' as well as 'Governance and risk management'. These standards are envisaged to be effective on 1 January 2022.
 - Published a draft standard on capital requirements for financial conglomerates which will be applied through a field-testing exercise with designated financial conglomerates.
 - Commenced with the designation of financial conglomerates.
 - Developed a supervisory framework for financial conglomerates.

- **Significant owners**
 - Issued the joint standard applicable to significant owners.
 - Embedded the requirements relating to significant owners.
- **Financial inclusion, transformation and competition**
 - Developed and implemented an approach to transformation through supervisory and licensing processes for all prudentially regulated financial institutions.
 - Commenced with developing an approach to support financial inclusion for all prudentially regulated financial institutions.
 - Completed the assessment of transformation plans of insurers during the conversion process.
- **Cooperation and collaboration**
 - Concluded memorandums of understanding with the Financial Sector Conduct Authority (FSCA), National Credit Regulator, Financial Intelligence Centre and the South African Reserve Bank (SARB).

Over the next three years the PA will focus on:

- **Strengthening and enhancing the regulation and supervision of deposit-taking institutions**
 - Incorporate the Basel Committee on Banking Supervision post-crisis reform frameworks into the Regulations relating to Banks.
 - Update the mutual banks regulatory frameworks to incorporate developments within the mutual banks model.
 - Develop a comprehensive and updated framework for CFIs and co-operative banks.
 - Develop a comprehensive framework for extending the prudential regulatory perimeter to include prudential risks from non-bank financial institutions and other entities undertaking bank-like activities.
 - Develop initiatives to identify regulatory and supervisory interventions for climate change and sustainable finance.
- **Implementing the financial conglomerate regulatory and supervisory framework and effectively supervising financial conglomerates**
 - Implement the prudential standards for financial conglomerates.
 - Monitor the field testing of the draft 'Prudential standard – Capital requirements for financial conglomerates'.
 - Effectively supervise financial conglomerates through the PA's supervisory framework.
- **Strengthening and enhancing the prudential regulatory and supervisory framework for MIs**
 - Develop a complete regulatory framework that captures all material risks that are linked to MIs and aligns with international standards.
 - Contribute to the review of the FM Act.
- **Strengthening and enhancing the regulatory and supervisory frameworks for insurers**
 - Incorporate the International Association of Insurance Supervisors post-crisis and other reform frameworks into regulatory instruments relating to insurers.
 - Enhance information sharing, general communication, knowledge building and team effectiveness.
 - Enhance risk-based supervision and business model analysis by examining digitalisation, big data, sustainability and risk transfer instruments.
 - Develop initiatives to identify regulatory and supervisory interventions for climate change and sustainable finance.
- **Strengthening and enhancing the regulatory and supervisory framework for significant owners**
 - Develop a registry for all significant owners and monitor this from a risk perspective, especially in consideration of concentration risk and its effects on financial stability.



- Monitor the embedding of the significant owners' regulatory and supervisory framework and make necessary amendments to strengthen and enhance the framework.
- **Developing an approach for the prudential regulation of pension funds, collective investment schemes, medical schemes and friendly societies**
 - Develop a clear understanding of the prudential risks associated with these financial institutions and articulate the PA's approach to prudential regulation of the financial institutions.
 - Identify the areas that must be covered in new regulatory instruments as well as any proposed amendments to existing legislation and regulatory instruments.
 - Evaluate the need for delegation of powers, where necessary.
- **Developing cross-sectoral regulatory instruments for harmonising requirements across different industries**
 - Create foundation requirements across the financial sector that form the basis for promoting the right culture in addressing specific areas of risk such as governance, information technology and other operational risks.
- **Enhancing anti-money laundering and combating the financing of terrorism (AML/CFT) supervision and implementing Financial Action Task Force (FATF) Mutual Evaluation recommendations**
 - Enhance the risk-based approach for AML/CFT supervision by developing and improving new risk-based tools for assessing the money laundering and terrorist financing risks in banks, subsidiaries and life insurers.
 - Enhance market entry controls for PA-regulated financial institutions.
 - Enhance the PA's oversight of proliferation financing/terrorist financing risk.
 - Address other areas as recommended by the FATF Mutual Evaluation.
- **Implementing the PA's approach to transformation, financial inclusion and competition**
 - Monitor the transformation plans of prudentially regulated financial institutions from the licensing stage to ongoing supervision.
 - Give effect to the PA's approach to supporting financial inclusion by understanding the business model of new entrants and regulated financial institutions in response to the priorities identified by National Treasury in its draft policy paper on financial inclusion.
 - Develop an approach to supporting competition in the financial sector.
- **Supporting financial innovation and new technologies**
 - Monitor and keep abreast of international developments in the financial technology (fintech) space that may inform the PA's policy positions.
 - Actively contribute to the work of the Intergovernmental Fintech Working Group.
- **Developing regulatory and supervisory approaches to sustainable finance and climate change**
 - Drive the work of the Prudential Authority Climate Think Tank which provides strategic direction and thought leadership on the implementation of sustainable finance in the regulated financial sector in South Africa.
 - Concentrate on climate risk and sustainable finance, focusing on both physical and transition risks in banks and insurers.

The PA is developing its target operating model which will provide efficiencies in the manner in which the PA discharges its mandate and objectives.

The PA will continue to serve on local, regional and international bodies to support its work, and will continue to engage with industry and professional bodies in the development of regulatory frameworks and the supervision of financial institutions and MIs.

The cooperation and collaboration between the PA, FSCA and the SARB as well as the other financial sector regulators are critical components of the way the PA discharges its responsibilities and achieves its strategic mandate. The PA will continue to build relationships and create efficiencies within these relationships to promote and enhance the safety and soundness of financial institutions and MIs as well as to assist in maintaining financial stability.

enforcement mutual banks risk banks market infrastructure investigations administrative action mutual
life insurers competition forward-looking financial risk
competition market non-life forward-looking collaboration action
co-operative joint standards off-site reviews co-operation prudential standards co-operation risk enforcement
standards



Foreword by the Chief Executive Officer

The Prudential Authority (PA) is tasked with a crucial mandate of promoting and enhancing the safety and soundness of financial institutions and market infrastructures, to ensure that these financial institutions fulfil their obligations to customers and to ultimately assist the South African Reserve Bank (SARB) in maintaining financial stability. The criticality of the PA's mandate has never been more clear or important than during these unprecedented times, not only because of the global coronavirus disease 2019 (COVID-19) pandemic, but also as a result of the economic and social climate that South Africans experience on a daily basis. The ability to conduct simple purchase transactions, insure property, access funds and make insurance claims must never be withdrawn or interrupted in periods of stress and turmoil. This is the purpose for which we work and plan.

It has been three years since the establishment of the PA and the publication of its first regulatory strategy. Despite the challenges of implementing a significant change to the regulatory and supervisory architecture that was introduced by the Twin Peaks model of financial sector regulation, which was followed by the impact of the global COVID-19 pandemic and the resultant social and economic distress, the PA has largely delivered on its regulatory and supervisory priorities outlined in the inaugural *Regulatory Strategy 2018–2021*.

In 2020, the PA, supported by the SARB, provided regulatory and supervisory relief and guidance to financial institutions to ensure that such institutions would continue to provide support to households and businesses during the different levels of lockdown. These initiatives and the continued work of the PA in developing regulatory and supervisory approaches and conducting the day-to-day supervision of financial institutions were conducted off-site by the staff of the PA, the majority of whom commenced working from home in March 2020. Balancing work, home-schooling and the running of a household during a pandemic was no easy feat for staff of the PA. However, dedication to the core values of the SARB and the role played by both the PA and the SARB in the lives of ordinary South Africans was sufficient motivation for the PA to continue updating the frameworks for the Banks Act 94 of 1990 to align with the Basel Committee on Banking Supervision post-crisis reforms; converting insurers to be licensed under the new Insurance Act 18 of 2017; developing approaches for regulatory frameworks for mutual banks, co-operative banks and co-operative financial institutions; strengthening the prudential regulation and supervision of market infrastructures; developing the regulatory and supervisory framework for significant owners; designating financial conglomerates; and developing the regulatory framework for financial conglomerates.

The PA also finalised its approach to monitoring the transformation of financial institutions in so far as commitments have been made in terms of the Financial Sector Code. The PA is also a key role player in the Intergovernmental Fintech Working Group, which continues to explore and provide opportunities for financial innovation and new technologies to make inroads to accessible and affordable financial services. Developments emanating from international and local bodies on climate change and sustainable finance are also being closely monitored, with the PA dedicating resources to unpack its approach to these key areas of focus.

Looking to the future, it is envisaged that the key regulatory and supervisory priorities of the PA will be strengthened and embedded, especially the regulatory and supervisory frameworks that have been developed over the past three years. It is also envisaged that the continued monitoring of local and international developments from a standard-setting as well as a trends and policy perspective will ensure that the regulatory framework caters for all risk types and that the supervisory framework is adequately proportional, forward-looking, outcomes-focused and integrated. Over the past three years, the PA has developed strong and effective relationships with the Financial Sector Conduct Authority (FSCA), other financial sector regulators such as the National Credit Regulator (NCR) and the Financial Intelligence Centre (FIC)¹, and stakeholders in general. These relationships are the foundation for implementing the Twin Peaks approach,

¹ The NCR and the FIC are financial sector regulators only in respect of parts 2, 3 and 5 of chapter 2, and parts 1, 2 and 3 of Chapter 5 of the FSR Act.

as it is through cooperation and coordination that we can set harmonious, relevant and effective frameworks to regulate and supervise financial institutions.

In 2019, South Africa underwent a Financial Action Task Force (FAFT) Mutual Evaluation, and in 2019 and 2020, a Financial Sector Assessment Program (FSAP) by the International Monetary Fund and the World Bank. In this regard, the PA will also in the next three years work towards implementing the recommendations of these important assessments. Details of the recommendations from the FAFT Mutual Evaluation and the FSAP will be published by the respective bodies in due course. The PA is working with the FSCA and the Council for Medical Schemes to prepare for the prudential regulation of pension funds, collective investment schemes, friendly societies and medical schemes.

Based on the number of years the PA has regulated and supervised deposit-taking institutions and insurers, the PA's approach in these areas is more advanced. However, with exploring the cross-cutting areas of financial inclusion, competition, climate change, sustainable finance, financial innovation and new technologies, its approach is focused on understanding the context within the mandate of the PA. As the PA develops its understanding of these areas it will amend the regulatory strategy to provide greater details on the initiatives within these priorities.

The PA and the FSCA are also working towards the development of foundational requirements in areas such as governance, culture and information technology risk through the development and issuance of single regulatory instruments that are applicable across sectors. Substantial progress will also be made on the development of the target operating model of the PA to provide efficiencies regarding the manner in which the PA will deliver on its objectives.

This regulatory strategy sets the scene for the journey of the PA in achieving its mandate. The road ahead is not predictable. We will rely on the skills, integrity and dedication of the staff of the PA and the SARB, our fellow regulators, National Treasury and other government departments and agencies, the regulated financial institutions and our stakeholders to make this journey successful.



Kuben Naidoo
Deputy Governor and Chief Executive Officer: Prudential Authority

1. Introduction

The Prudential Authority (PA) was established under the auspices of the South African Reserve Bank (SARB) in April 2018 in accordance with section 32 of the Financial Sector Regulation Act 9 of 2017 (FSR Act). The PA is required to publish a regulatory strategy which sets out the regulatory and supervisory priorities for the PA for the next three years as well as the intended key outcomes of the strategy. The regulatory strategy also sets guiding principles on the performance of the PA's regulatory and supervisory functions. The inaugural *Regulatory Strategy 2018–2021* was published in October 2018. This second edition of the regulatory strategy details the progress made by the PA in giving effect to regulatory and supervisory priorities for the years 2018–2021 as well as the focus and approach of the PA for the next three years (i.e. 2021–2024).

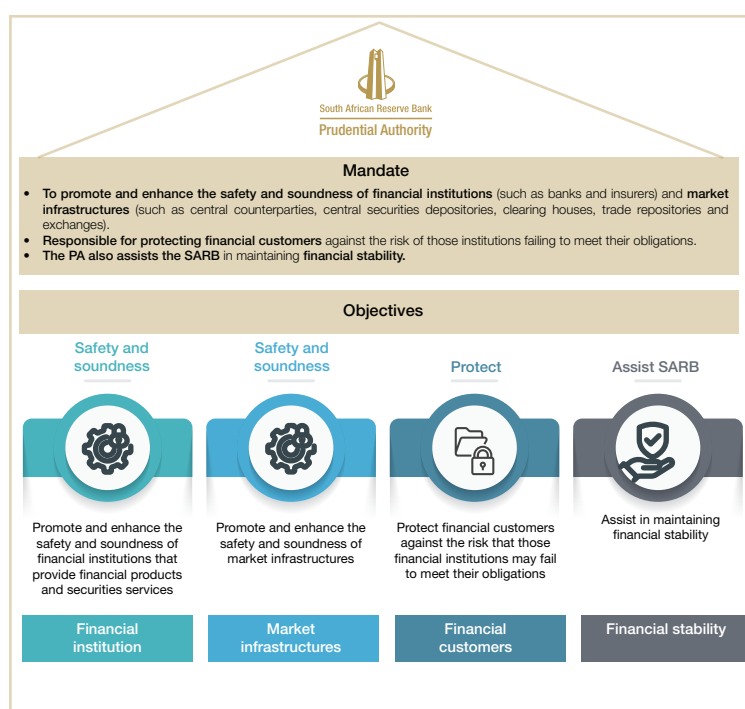
2. What is the Prudential Authority?

The PA is the financial sector regulator that is responsible for regulating and supervising, in terms of financial sector laws, financial institutions that provide financial products and securities services as well as market infrastructures (MIs) in South Africa. It forms the prudential peak of the Twin Peaks model of financial sector regulation. The Financial Sector Conduct Authority (FSCA), also established in April 2018 under the FSR Act, forms the conduct peak. The PA and the FSCA assist the SARB² in maintaining financial stability.

The PA was established to promote and enhance the safety and soundness of licensed financial institutions, such as banks and insurers; financial conglomerates, as designated by the PA; and MIs, such as central counterparties (CCPs), central securities depositories (CSDs), clearing houses, trade repositories (TRs) and exchanges. The PA is also responsible for protecting the customers of financial institutions against the risk of these institutions failing to meet their obligations. Furthermore, the PA assists the SARB in maintaining financial stability.

The PA works closely with the SARB and the FSCA to ensure the achievement of the respective objectives of the FSR Act and the financial sector laws. Collaboration and cooperation between the PA, FSCA and the SARB is critical to the success of the Twin Peaks model.

Figure 1: Objectives of the Prudential Authority



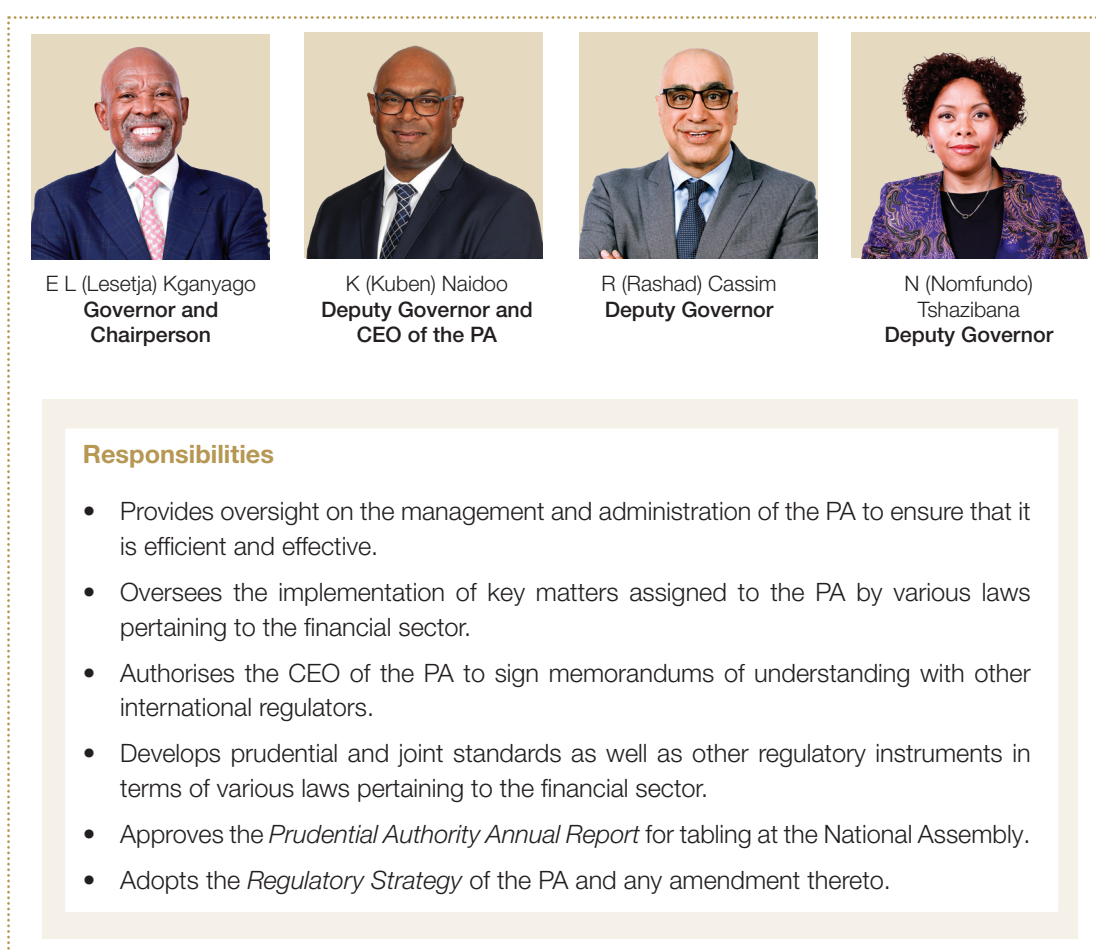
2 In terms of the FSR Act, the SARB is responsible:
 (a) for protecting and enhancing financial stability; and
 (b) if a systemic event has occurred or is imminent, for restoring or maintaining financial stability.

The FSR Act established the PA as a juristic person operating within the administration of the SARB. The PA has a separate legal personality from the SARB. The governance structure, resources, financial management and reporting obligations of the PA are prescribed by the FSR Act.

The overall governance of the PA is the responsibility of the Prudential Committee (PruCo), which consists of the Governor of the SARB (as Chairperson), the Chief Executive Officer (CEO) of the PA (who is also a Deputy Governor of the SARB) and two other deputy governors of the SARB. The Governor may invite or allow a person, such as a senior staff member of the SARB, to attend PruCo meetings. The four Heads of Department (HoDs) of the PA and the Head of the Financial Stability Department are standing invitees to the PruCo.

The day-to-day management and administration of the PA is the responsibility of the CEO. The CEO of the PA must be a Deputy Governor of the SARB and is appointed by the Governor with the concurrence of the Minister of Finance. The CEO is appointed for a term of up to five years and the term is renewable once for a further period of up to five years.

Figure 2: Current structure and responsibilities of the Prudential Committee



3. The operations of the PA

The PA comprises four departments, namely:

- Banking, Insurance and Financial Market Infrastructure (FMI) Supervision;
- Financial Conglomerate Supervision;
- Policy, Statistics and Industry Support; and
- Risk Support.

All four departments report to the CEO of the PA.

Figure 3: Current structure of senior management of the Prudential Authority



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

The PA Management Committee (PA Manco) meets monthly and is responsible for the general operations and management of the PA regarding prudential policy, regulatory and supervisory matters, IT and human resources management. In addition, the PA Manco provides advisory, technical and administrative support to the PruCo. The PA Manco is chaired by the CEO of the PA and its members include the four HoDs of the PA.



D (Denzel) Bostander
**Head: Financial
Conglomerate
Supervision
Department**

Financial Conglomerate Supervision Department

This department is responsible for the consolidated prudential supervision of larger, more diverse and complex financial groups. These include institutions designated as financial conglomerates. It is also responsible for supervision relating to anti-money laundering and combating the financing of terrorism (AML/CFT).



F (Faizel) Jeena
**Head: Risk Support
Department**

Risk Support Department

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



O (Olaotse) Matshane
**Head: Policy, Statistics
and Industry Support
Department**

Policy, Statistics and Industry Support Department

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



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

Banking, Insurance and FMI Supervision Department

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

3.1 The PA team

The PA team consists of employees of the SARB who are seconded to the PA. The PA staff members are committed to the values, policies and procedures of the SARB. The values of respect and trust, open communication, integrity, accountability and excellence are central to the team's work ethic. The staff continually engage on the values to create a culture that drives the appropriate behaviour. The PA also subscribes to the culture statement of the SARB.

Figure 4: The culture statement of the SARB



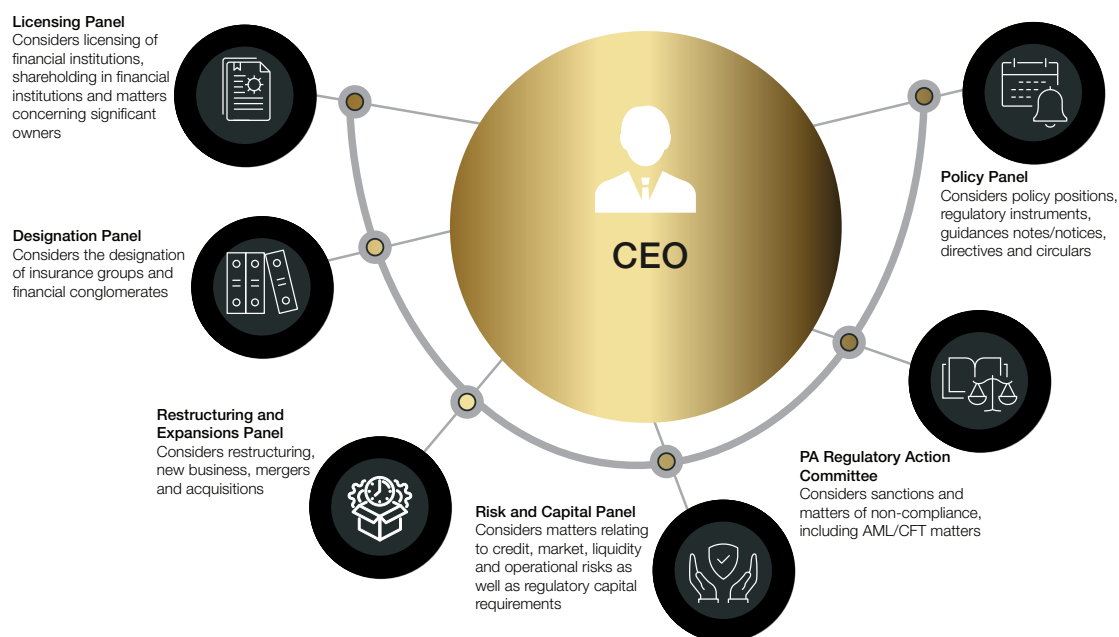
The PA team collectively commands skills and competencies that enable an understanding of the different sectors being regulated and supervised. It is imperative that the frontline supervisors as well as the risk and policy analysts are acutely aware of their responsibilities to thoroughly comprehend the business models, strategies and risks associated with the regulated MIs and financial institutions in the context of local prudential regulatory requirements and the development of international standards and best practice.

Since the establishment of the PA in 2018, operational and governance structures have been established to ensure the effectiveness of and accountability for decisions that have been made.

The FSR Act requires the PA to discharge its responsibilities effectively and without fear, favour or prejudice. The PA endeavours to be consistent in its regulatory and supervisory actions and its decision-making processes. In addition, the PA is always cognisant of the impact of its actions on the safety and soundness of the regulated MIs and financial institutions as well as on the financial stability of the country.

In order to ensure consistency and accountability in decision-making, the PA has established a number of panels and committees that serve as advisory panels or committees to the CEO of the PA.

Figure 5: Panels and committees within the Prudential Authority



3.2 Accountability of the PA

As stated in paragraph 1, the PA was established as a juristic person operating within the administration of the SARB. The governance systems and processes adopted by the PA are aligned to those of the SARB, where similar structures exist. The SARB has seconded personnel to the PA and provides facilities and the use of assets as agreed between the SARB and the PA. The PA is audited by the SARB's Internal Audit Department and falls within the purview of the Risk Management and Compliance Department of the SARB. The PA is also subject to the processes of the Audit Committee and the Risk Management Committee of the SARB.

The PA prepares an Annual Report on its activities that is submitted to the Minister of Finance for tabling in Parliament. The financial accounts for each financial year, which are prepared by the PA, form part of the Annual Report of the SARB.³ The SARB's Annual Report, which incorporates the SARB's financial statements, is also tabled in Parliament in terms of the South African Reserve Bank Act 90 of 1989, as amended.

In fulfilling its mandate, the PA has to ensure that it exercises its powers and performs its duties in a reasonable and justifiable manner. Administrative actions taken by the PA must comply with the requirements of the Promotion of Administrative Justice Act 3 of 2000.

A person⁴ that is aggrieved by a decision⁵ made by the PA may apply to the Financial Services Tribunal for reconsideration of the decision. The Financial Services Tribunal was established in terms of the FSR Act.

³ The *Prudential Authority Annual Report 2020/21* is available at: <https://www.resbank.co.za/en/home/publications/publication-detail-pages/reports/pa-annual-reports/2021/Prudential-Authority-Annual-Report-2020-2021>
The SARB Annual Report 2020/21 is available at: https://www.resbank.co.za/en/home/publications/publication-detail-pages/reports/annual-reports/2021/South_African_Reserve_Bank_Annual_Report_2020-21

⁴ A 'person' is defined in section 1 of the FSR Act and means a natural or a juristic person and includes an organ of state.

⁵ A 'decision' is defined in section 218 of the FSR Act.

4. Progress on the priorities identified in the *Regulatory Strategy 2018–2021*

Areas of immediate focus	Progress made, 2018–2021
<p>Strengthen the regulation and supervision of banking institutions by:</p> <ul style="list-style-type: none"> • updating Basel III post-crisis reforms requirements; • updating regulatory requirements related to mutual banks; and • assessing the co-operative banks framework and developing prudential standards for CFIs. 	<ul style="list-style-type: none"> • Banks: Made amendments to the Regulations relating to Banks: <ul style="list-style-type: none"> – 1st set of regulations – net stable funding ratio; the deletion from the Regulations of all detailed disclosure requirements; and further corporate governance-related requirements – was gazetted on 18 December 2020 and implemented with effect from 1 January 2021. – 2nd set of regulations – standardised approach to measuring counterparty credit risk (SA-CCR); capital requirements for bank exposures to CCPs and capital requirements for banks' equity investments in funds – was gazetted on 31 December 2020 and implemented with effect from 1 January 2021. – 3rd set of regulations – large exposures framework and the total loss-absorbing capacity (TLAC) holdings. The PA is working through comments received from the public consultation. The revised targeted implementation date is 1 January 2022. – 4th set of regulations – exposure to the interest rate risk in the banking book (IRRBB) was issued for external consultation, with comments due on 15 January 2021 and a targeted implementation date of 1 June 2022. • Mutual banks: Draft policy paper developed; identified dependency on the tiering of the banking sector work being explored by National Treasury (NT). A draft standard on governance and risk management for mutual banks was published for public consultation, with comments due in November 2020. The PA is working through the comments and aims to implement the standard in 2022. • Co-operative banks and CFIs: Draft policy paper and draft set of standards have been prepared. Draft standards were published for public consultation in July 2021.
<p>Review the Financial Markets Act 19 of 2012 (FM Act)</p>	<ul style="list-style-type: none"> • The PA has resourced a dedicated supervisory team for MIs. • The MI supervisory team has developed policies, processes and supervisory tools to supervise MIs. • The PA is contributing to and influencing the drafting of the new FM Act. • The 'Joint standard on margin requirements for non-centrally cleared over-the-counter derivatives transactions' was published on 2 June 2020, with an effective date of 16 August 2021. • The 'Joint standard on central counterparty (CCP) license applications' was published and made effective on 31 March 2021. • An equivalence framework for an external CCP is being reviewed for ultimate implementation by the PA, the FSCA and the SARB. • A licensing framework roadmap for external MIs is being developed.
<p>Prudentially regulate and supervise insurers with critical outcomes, including embedding the insurance Solvency Assessment and Management (SAM) project and issuing further regulatory instruments.</p>	<ul style="list-style-type: none"> • The 'Prudential standard for insurance fees' was finalised and implemented in January 2020. • In June 2020, insurance licences previously issued in terms of the Long-term Insurance Act 52 of 1998 and the Short-term Insurance 53 of 1998 were converted into licences in terms of the Insurance Act 18 of 2017. • Insurers that are part of a group of companies were designated as insurance groups. The licensing of controlling companies of insurers that are part of an insurance group is under assessment. • The draft Joint standards on IT risk and Outsourcing were issued for public consultation in June and September 2021 respectively. • Published draft prudential standards on audit requirements for insurers for public consultation, with implementation expected in January 2022. • Licensed four new microinsurers between 2019 and 2020. • Issued joint communications, prudential communications, a supervisory observation statement and guidance notes to strengthen and embed the regulatory and supervisory framework. • Published a draft standard on public disclosures for insurers, excluding microinsurers, branches of foreign reinsurers and Lloyd's, in July 2021. • Issued Joint Guidance Notice 1 of 2021 on foreign captive insurers in September 2021.



Areas of immediate focus	Progress made, 2018–2021
Establish a framework for significant owners, including the development of regulatory standards on significant ownership.	<ul style="list-style-type: none"> The framework for significant owners has been finalised and the 'Joint standard on the fitness and propriety of significant owners and other related matters' was implemented on 1 December 2020.
Implement the prudential regulation and supervision of financial conglomerates, which shall endeavor to obtain a holistic view of group-wide activities, intragroup transactions and large exposures which, among other things, may not be adequately captured under Level 2 supervision (consolidated supervision).	<ul style="list-style-type: none"> Four draft prudential standards, namely the 'Intragroup transactions and exposures', 'Risk concentration', 'Governance and risk management' and 'Auditor requirements' were published for formal consultation in terms of the FSR Act in October 2020. It is envisaged that the standards will become effective on 1 January 2022. The draft capital requirement will be applied in terms of a field-testing exercise to designated financial conglomerates from 1 January 2022. The financial conglomerate designation criteria were finalised and published in September 2020. Financial conglomerates were designated in early 2021. The current designated financial conglomerate holding companies are: Standard Bank Group Limited, Absa Group Limited and Old Mutual Limited. The financial conglomerate supervisory framework was developed in 2020.
Conclude memorandums of understanding (MoU) with the FSCA, NCR, FIC and SARB.	<ul style="list-style-type: none"> MoUs were concluded with: <ul style="list-style-type: none"> the PA and the FSCA; the PA and the SARB; the PA, SARB and the FIC; and the PA, SARB and the NCR. The PA is continually reviewing the effectiveness of the MoUs and has to date made amendments to the PA-FSCA MoU. The PA is considering MoUs with other regulators and agencies.
Additional priorities	2020/2021
Support transformation of the broader financial sector.	<p>The PA has finalised an internal policy paper on the approach to transformation for all regulated financial institutions in South Africa. The approach has been adopted into supervisory guidance for frontline supervisors.</p> <p>The focus of the approach is to review:</p> <ul style="list-style-type: none"> the commitment to the Financial Sector Code; management control; skills development; ownership; procurement; empowerment financing; access to financial services; diversity of the members of the Board of Directors and other key persons; and progress in achieving the transformation plan. <p>The PA, as part of the conversion process, reviewed the transformation plans of insurers, and will continue to monitor, through ongoing supervision, the progress that insurers are making in achieving transformation plans and targets.</p>
Support sustainable competition in the provision of financial products and financial services.	<p>An approach to supporting the competition function of the PA is being developed.</p> <p>This approach is also supported by the financial inclusion function of the PA.</p>
Support financial inclusion as well as developments in financial technology (fintech).	<p>Work is currently underway to further refine and develop the regulatory and supervisory approach for CFIs, co-operative banks and mutual banks as well as to embed the regulatory framework for microinsurers in order to support financial inclusion. The PA and the FSCA are also exploring the regulation and supervision of friendly societies.</p> <p>The SARB, in collaboration with the PA, has been approached by certain fintech initiatives to operate in the regulatory sandbox.</p> <p>National Treasury has submitted its draft policy paper on financial inclusion for public comment. The PA is in the process of finalising its approach to financial inclusion, which is expected to be finalised at the end of 2021.</p>

5. The PA's regulatory and supervisory priorities for the next three years






In its inaugural regulatory strategy, the PA unpacked the core areas of focus for regulatory development in the different sectors under the regulatory and supervisory purview of the PA. In the past three years, significant inroads have been made to achieve the mandate of the PA, and the journey continues.

The PA, working under the auspices of the SARB, contributes to the strategic focus areas (SFAs) of the SARB, in particular SFA 3, being to 'Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures'.

In unpacking its regulatory priorities for the next three years, the PA will focus on the ultimate outcomes encapsulated in SFA 3. The PA assesses its progress in executing its strategic objectives on a six-monthly basis as part of the SARB's strategy process. The strategy process ensures that there is specific alignment between the PA and the strategies of the SARB's Financial Surveillance, Financial Stability and National Payment System departments.

During 2019 and 2020, South Africa was subject to the International Monetary Fund (IMF) and World Bank Financial Sector Assessment Program (FSAP). The PA will also embark on action plans to give effect to recommendations from the FSAP findings which may shape the priorities of this regulatory strategy. As the findings have not been published, the PA will amend this regulatory strategy to provide further details on these developments.

Figure 6: Strategic focus areas of the SARB

 SFA 1	 SFA 2	 SFA 3	 SFA 4	 SFA 5
Maintain headline inflation within the target range	Protect and enhance financial stability	Promote and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures	Enhance South Africa's resilience to external shocks	Ensure the cost-effective availability and integrity of the currency

The PA's core regulatory strategic objectives of promoting the safety and soundness of regulated institutions and market infrastructures are outlined in paragraphs 5.1 to 5.8 below and include:

- strengthening and enhancing the prudential regulation and supervision of deposit-taking financial institutions;
- implementing the prudential regulation and supervision of financial conglomerates;
- strengthening and enhancing the prudential regulation and supervision of MIs;
- strengthening and enhancing the regulatory and supervisory frameworks for insurers;
- strengthening and enhancing the regulatory and supervisory framework for significant owners;
- enhancing AML/CFT supervision;
- developing approaches to the prudential regulation and supervision of pension funds, collective investment schemes; friendly societies and medical schemes; and
- developing cross-sectoral regulatory instruments for harmonising requirements across different industries.

These core strategic objectives will be supported by:

- the PA's approach to transformation, financial inclusion and competition – see section 6 below;
- the PA's approach to fintech – see section 7 below;
- the PA's approach to sustainable finance and climate change – see section 8 below;
- developing, improving, enhancing and integrating the supervision of these financial institutions through systems and data enablers – the PA's target operating model – see section 9 below;
- administrative action and enforcement– see section 10 below;
- cooperation and collaboration – see section 11 below; and
- adequate funding of the PA – see section 14 below.

Regulatory perimeter changes are anticipated in the next three years and the PA foresees the establishment of new types of financial institutions that do not necessarily fall within the current scope of regulation and supervision. Fintech is anticipated to be the most disruptive force in this context. These developments will be closely monitored and appropriate proportionate regulatory and supervisory responses will be implemented.

The processes necessary to give effect to the above core strategic objectives, which may be of interest to industry and interested parties, are discussed below.

5.1 Strengthening and enhancing the regulation and supervision of deposit-taking institutions – Priority 1

The PA is the prudential regulator and supervisor of banks, mutual banks, co-operative banks and CFIs. The PA is also the responsible authority for the Banks Act 94 of 1990 (Banks Act), the Mutual Banks Act 124 of 1993 (Mutual Banks Act) and the Co-operative Banks Act 40 of 2007 (Co-operative Banks Act). In terms of the respective pieces of legislation, the PA is responsible for registering⁶ banks, mutual banks, co-operative banks and CFIs⁷ with the concurrence of the FSCA, which is responsible for the regulation and supervision of the market conduct of these financial institutions.

The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions.⁸ The PA is a member of the BCBS and participates in, and contributes to, among other things, the work done by many of the BCBS's working groups in respect of the different risks to which banks are exposed. Through these forums, the PA appropriately influences the development of global standards on banking and has a detailed understanding of the relevant internationally agreed-upon requirements to be implemented in South Africa.

Effective supervision relies on established rules and standards, and includes a proper understanding not only of the respective risks to which individual institutions are exposed, but also the collective exposure to risks of the relevant financial institutions, in order to ensure timely pre-emptive action to appropriately mitigate potential material exposures to risk.

During the 2021–2024 period, the PA will continue to assess the appropriateness of the various internationally agreed-upon principles and standards (as set by the BCBS and other international standard-setting bodies) prior to the incorporation thereof into the respective legislative frameworks. In addition, existing frameworks will be monitored to ensure the achievement of

6 The primary legislation relating to deposit-taking institutions uses the term 'registration' as opposed to 'licensing'.

7 A 'co-operative bank' means a co-operative or a co-operative financial institution registered as a co-operative bank in terms of the Co-operative Banks Act 40 of 2007 whose members: (i) are employed by a common employer or who are employed within the same business district; or (ii) have common membership in an association or organisation, including a religious, social, co-operative, labour or educational group; or (iii) reside within the same defined community or geographical. A 'co-operative financial institution' means a co-operative that takes deposits and chooses to identify itself by use of the name Financial Co-operative, Financial Services Co-operative, Credit Union or Savings and Credit Co-operative.

8 <https://www.bis.org/bcbs/>

their objectives and such regulations and regulatory instruments will be made and amended if necessary. Work has also commenced on considering the PA's approach to sustainable finance and climate change (see section 8 below).

The regulatory instruments currently being developed and/or considered for implementation include:

- a supervisory framework for measuring and controlling large exposures;
- a TLAC holdings standard;
- revisions to the securitisation framework;
- interest rate risk in the banking book;
- a fundamental review of the trading book;
- a credit valuation adjustment framework;
- revisions to the operational risk framework;
- revisions to the standardised approach and internal ratings-based approach for credit risk;
- enhanced disclosure requirements;
- a revised exposure definition related to the leverage ratio;
- a revised output floor;
- sound fintech practices; and
- regulatory treatment of accounting provisions: interim approach and transitional arrangements.

The prudential framework for deposit-taking institutions will be updated to cater for newer business models and developments that have occurred in the sector as well as policy developments by NT.

The PA has undertaken work on mutual banks to unpack the risks in the sector and established a working group to develop proportional regulatory instruments. The first standard that was issued for public consultation was the 'Standard on governance and risk management'. Over the medium term, prudential standards and an amended Mutual Banks Act will be finalised, after appropriate consultation. The PA's approach to mutual banks will also depend on the work that is being undertaken by NT on the tiering of the banking sector.

In 2018, CFIs were incorporated under the Co-operative Banks Acts and fell within the regulatory and supervisory purview of the PA. To enable regulation and supervision of the CFIs, the PA issued a regulatory instrument in 2018 called 'CFI01: Transitional arrangements for CFIs'. The PA has since worked with the Co-operative Banks Development Agency to draft a set of standards that applies to both CFIs and co-operative banks relating to financial soundness, registration and operational requirements as well as risk management and governance. The draft standards also aim to update the prudential requirements for co-operative banks, which have not been reviewed since 2010.

The PA will work on ensuring that institutions undertaking bank-like activities (such as non-bank financial institutions⁹) are appropriately prudentially regulated to manage risk and support competition.

Key outcomes of Priority 1

The intended key outcomes of these initiatives include:

- alignment with updated BCBS post-crisis reforms for banks;
- a Mutual Banks Act that reflects the developments in the mutual banks sector and the introduction of new regulatory instruments, as applicable;
- a comprehensive and updated regulatory framework for CFIs and co-operative banks;
- a comprehensive framework for extending the prudential regulatory perimeter to include prudential risks from non-bank financial institutions and other entities undertaking bank-like activities; and
- an approach for regulatory instruments relating to climate change and sustainable finance.

⁹ Non-bank financial institutions do not include CFIs which are regulated and supervised in terms of the Co-operative Banks Act.

5.2 Implementing the financial conglomerate regulatory and supervisory framework – Priority 2

The FSR Act creates an enabling framework for the regulation and supervision of financial conglomerates in South Africa.

A financial conglomerate is a group of companies designated in terms of section 160 of the FSR Act. From 1 March 2019, the FSR Act enabled the PA to designate, regulate and supervise members of a group of companies as a financial conglomerate, in addition to the regulation and supervision of solo entities or subgroups within a group on a consolidated basis in terms of, inter alia, the Banks Act and the Insurance Act 18 of 2017 (Insurance Act).

In terms of the FSR Act, a financial conglomerate must include an eligible financial institution¹⁰ and a holding company of the eligible financial institution, but need not include all the members of a group of companies.

The globalisation of financial markets has created a catalyst for the development of financial conglomerates. Financial conglomerates have increased in number, complexity and size. These groups provide a broad range of products and services, including banking, insurance, securities and investment services. These products and services are often provided in multiple jurisdictions and critical functions are dispersed in various legal entities, both nationally and globally.

Failures in the regulation and supervision of financial conglomerates internationally have highlighted the deficiencies in traditional regulatory and supervisory frameworks where oversight was restricted. The 2008–09 global financial crisis highlighted just how integrated these groups are in economic and financial systems.

The adoption of financial conglomerate supervision has emerged internationally as a critical supervisory tool to help ensure that internationally active financial groups are effectively regulated and supervised, and that their operations are conducted in a prudent and financially sound manner.

Since the South African financial system is dominated by a few large financial institutions, this leads to a high level of interconnectedness and a high risk of contagion. This situation requires the adequate regulation and supervision of such institutions to deal with unique risks and outcomes.

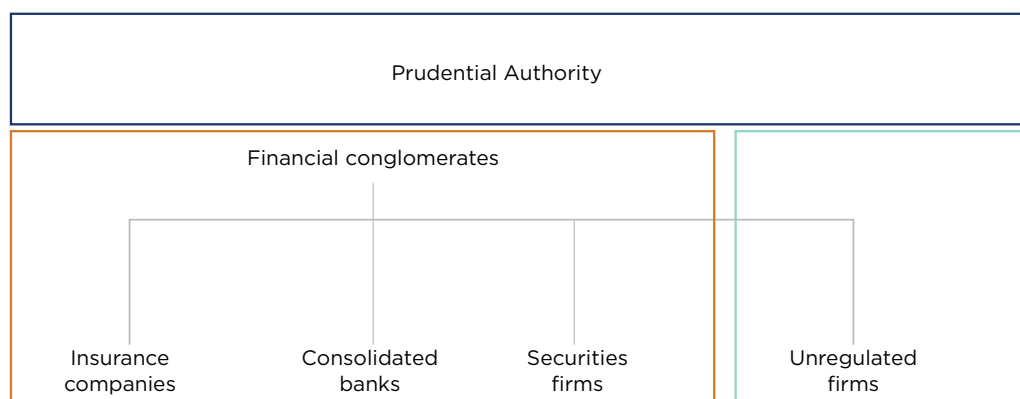
Regulatory and supervisory regimes have to respond to changes in the structure and business operations of regulated financial institutions. The emergence of financial conglomerates is a key feature of the evolution of financial systems and the increased functional integration between the business of banking, insurance and MIs.

The FSR Act promotes a more harmonised, consistent, comprehensive and streamlined approach to the regulation and supervision of financial institutions by introducing, inter alia, financial conglomerate supervision (Level 3) as a supplementary level of supervision to the existing solo supervision (Level 1) and consolidated or group supervision (Level 2). The primary purpose of financial conglomerate regulation and supervision is to strengthen the prudential oversight of eligible financial institutions (e.g. banks and insurers) and to capture risks that may not be adequately addressed under Level 1 and/or Level 2 supervision. The FSR Act creates an empowering framework that allows the PA to make prudential standards for the regulation and supervision of financial conglomerates in South Africa.

¹⁰ In terms of section 1 of the FSR Act, an 'eligible financial institution' means each of the following: (i) a financial institution licensed or required to be licensed as a bank in terms of the Banks Act; (ii) a financial institution registered as a long-term insurer in terms of the Long-term Insurance Act 52 of 1998 or a short-term insurer in terms of the Short-term Insurance Act 53 of 1998, or licensed or required to be licensed in terms of the Insurance Act; (iii) a market infrastructure; or (iv) a financial institution prescribed in regulation for the purposes of this definition.

When designating financial conglomerates, the PA will consider the designation criteria that were published by the PA in September 2020.¹¹ On a high level, the PA will consider the identification of a group that operates largely in the financial sector by providing services in the banking, insurance or securities services¹² sectors. In addition, the PA will consider characteristics of size, interconnectedness within the group, the complexity of the group, the business model and structure, the number and materiality of unregulated entities, systemic importance, and any other factors that the PA considers appropriate to capture the risks best addressed through financial conglomerate regulation and supervision.

Figure 7: Financial conglomerates supervision and designation criteria



Criteria for designating a financial conglomerate include:

- a financial group that materially engages in banking or insurance or provides securities services (see definition in footnote 12);
- size;
- inter-connectedness of a bank, insurer or a securities services provider with other entities within the group;
- complexity of the financial group, its business model and group structure;
- number and materiality of unregulated entities; and
- systemic importance of the financial institution.

In accordance with section 164(1) of the FSR Act, the PA drafted four prudential standards relating to intragroup transactions and exposures, auditor requirements, governance and risk management, and risk concentration. At this stage, the PA will not be issuing a prudential standard on capital requirements, as a draft of the standard will be field-tested with designated financial conglomerates from January 2022 before being finalised.

¹¹ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/PA-financial-sector-regulation/Financial-Conglomerates-/Designation-Criteria/2020/10256>

¹² In terms of section 1 of the Financial Markets Act 19 of 2012, 'securities services' means:

- a. the buying or selling of securities for own account or on behalf of another person as a business, a part of a business or incidental to conducting a business;
- b. the use of the trading system or infrastructure of an exchange to buy or sell listed securities;
- c. the furnishing of advice to any person;
- d. the custody and administration of securities by a participant or nominee;
- e. the management of securities and funds by an authorised user;
- f. clearing services; or
- g. settlement services.

The prudential standards have been through extensive consultation. In July 2018, the first drafts of the standards were published for industry comment. A second draft set was published in March 2020 and the third draft set underwent formal consultation in terms of the provisions of the FSR Act in October 2020. The final revised drafts of the prudential standards for financial conglomerates were tabled in Parliament in June 2021. It is envisaged that the prudential standards will be approved by the PruCo and published in late 2021 for implementation on 1 January 2022.

In the next three years, the PA will focus on implementing the financial conglomerate regulatory and supervisory framework. In addition, the PA will be monitoring the field testing of the draft capital standard with the designated financial conglomerates. The PA will monitor the implementation and make any enhancement deemed necessary to the regulatory or supervisory framework.

Key outcomes of Priority 2

The intended key outcomes of these initiatives include:

- adequately addressing the risks arising from financial conglomerates through the requirements imposed by the PA through the four financial conglomerate standards;
- ensuring the PA has a good understanding of the capital requirements applicable to the designated financial conglomerates; and
- ensuring financial conglomerates are safe and sound, and that conglomerate-specific risks are adequately addressed.

5.3 Strengthening and enhancing the prudential regulatory and supervisory framework for market infrastructures – Priority 3

The introduction of the FSR Act was accompanied by the introduction of new regulations issued in terms of the FM Act. The FM Act's regulations – promulgated on 9 February 2018 – seek to ensure that South Africa complies with international commitments to implement regulatory and legislative reforms to make financial markets safer and to also regulate the over-the-counter (OTC) derivatives market.¹³

The FM Act regulations aim to achieve the following:

- Expand the scope of regulatory oversight to the OTC derivatives market and its participants.
- Prescribe the criteria for the asset and resource requirements applicable to MIs that are licensed to perform the functions and duties specified under the FM Act.
- Provide for the organisational and resource requirements that govern the activities of CCPs.
- Provide for the responsibilities of the controlling body and senior management in the governance and risk management of CCPs.
- Prescribe additional safeguards applicable to CCPs to ensure the safety, soundness and integrity of financial markets.

¹³ In 2009, the leaders of the Group of Twenty (G20) agreed to a comprehensive reform agenda for the OTC derivatives market.

The PA¹⁴ and the FSCA¹⁵ (the authorities) continued to focus on initiatives relating to the implementation of the financial regulatory reforms as agreed to by the Group of Twenty (G20) in 2009. In this regard, the PA and FSCA published the licensing requirements for CCPs.¹⁶

In terms of transitional arrangements, section 110(6) of the FM Act states that a clearing house performing the functions of a CCP must:

- until 31 December 2021, be licensed as either an associated clearing house or an independent clearing house, and be approved by the FSCA, the PA and the SARB; and
- as of 1 January 2022, be licensed as both an independent clearing house and a CCP.

The authorities are currently in the process of developing an equivalence framework, together with the licensing and exemption framework, for external CCPs and TRs.

In addition, work is being undertaken to develop a roadmap regarding the implementation of the above-mentioned frameworks and will include the eligibility criteria for central clearing.

The authorities are also engaging with the relevant stakeholders and are in the process of conducting extensive research on challenges emanating from OTC derivatives markets.

The following are areas of focus for MIs for the next three years:

- In order to avoid and mitigate systemic risk, the authorities are in the process of finalising a joint standard which sets out the minimum requirements for recovery plans of MIs.
- Corporate governance, outsourcing, information technology (IT), operational risk and cyber resilience remain core focus areas for the PA, which may result in the development of appropriate regulatory instruments.
- The PA is in the process of refining regulation 8 of the FM Act regulations relating to assets and resources requirements for MIs to ensure requirements are fit for purpose and the capital maintained is commensurate with the risk profiles of MIs.
- Work has commenced on the review of the FM Act, which takes into consideration the *Financial Markets Review*¹⁷ recommendations.
- The PA will continue its assessments of how the principles developed by international standard-setting bodies for the regulation of MIs are observed. The PA specifically notes international work to prioritise the review of CCP frameworks, including requirements relating to adequate financial resources needed by the CCPs and risk management processes.

Key outcomes of Priority 3

The intended key outcomes of these initiatives include:

- the development of a complete regulatory framework that captures all material risks that are linked to MIs and aligns with international standards; and
- safe and sound MIs.

14 The PA's mandate in terms of the FSR Act includes the prudential supervision of MIs. However, the regulatory framework set out in the FM Act also remains in place and has been amended to recognise the roles of the PA and the FSCA (the authorities) in regulating and supervising MIs under the existing sectoral framework. The powers afforded to the two authorities in terms of the FSR Act will be in addition (an overlay) to those provided for in the FM Act. The powers given to the regulatory authorities in the FSR Act are therefore intended to ensure that the two authorities have the required tools to perform their functions effectively, without being limited by gaps in the existing laws.

15 The FSCA is cited as the 'responsible authority' for the FM Act in terms of schedule 2 of the FSR Act, and the FSCA will therefore still be primarily responsible for the regulation and supervision of MIs in terms of the FM Act. However, in terms of the FM Act, the PA is also empowered to perform certain responsibilities and functions which are aligned to its functions and objectives towards MIs, as set out in the FSR Act.

16 CCPs are of systemic importance and their risk management activities have been on the radar during the pandemic; generally, CCPs remained resilient during this period.

17 <http://www.treasury.gov.za/publications/other/FMR%202020.pdf>

5.4 Strengthening and enhancing the regulatory and supervisory frameworks for insurers – Priority 4

In 2018, the Insurance Act became effective. Since 2018, the PA has focused on embedding and strengthening the insurance regulatory and supervisory frameworks. In drafting the Insurance Act and the 42 prudential standards thereunder, the regulators and supervisors focused on international best practice and the standards set by the International Association of Insurance Supervisors (IAIS). The IAIS¹⁸ is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions, constituting 97% of the world's insurance premiums. It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector.

The PA is a member of the IAIS and also contributes to many of the workstreams formed by the IAIS. In this way, the PA is able to participate in, and shape the development of, insurance standards.

The PA's focus areas for the next three years relate to strengthening the regulatory and supervisory framework for insurers, and pertain to:

- enhancing information sharing, general communication and knowledge building;
- achieving supervisory team effectiveness;
- enhancing risk-based supervision and business model analysis by examining digitisation, big data, sustainability and risk transfer instruments;
- developing initiatives to identify regulatory and supervisory interventions for climate change and sustainable finance (also see section 8);
- monitoring developments from the IAIS and other international standard-setting bodies and incorporating applicable areas into the regulatory framework;
- developing a regulatory approach for parametric or index insurance¹⁹;
- assisting insurers with IFRS 16, *Leases* and IFRS 17, *Insurance Contracts*;
- reviewing the current published prudential and governance standards to ensure the correct interpretation and application of the principles;
- conducting a comparison with the Insurance Core Principles and updating prudential standards, if necessary;
- issuing further regulatory instruments and guidance to the industry;
- developing a matrix of areas that requires further work;
- finalising and issuing the following regulatory instruments:
 - cell captive standard;
 - joint standard on outsourcing;
 - public disclosures standard;
 - audit requirement standards for insurers; and
 - joint communication on naming conventions;
- issuing licensing conditions for linked entities.

Key outcomes of Priority 4

The intended key outcomes of these initiatives include:

- an embedded risk-based regulatory and supervisory framework for insurers;
- a safe and sound insurance sector; and
- an approach for regulatory instruments relating to climate change and sustainable finance.

18 The mission of the IAIS is to promote the effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

19 The IAIS, in its issues paper titled 'Index-based insurances particularly in inclusive markets' (2018), states that "Index based insurance is an innovative and increasingly popular approach to insurance provision. The product involves contracts where a claim is defined with reference to a pre-determined index." "Index based insurance can also be referred to as 'parametric insurance' as the index trigger can sometimes be thought of as a 'parameter'. These terms can be used in the sector somewhat interchangeably." "Often, the index seeks to reflect losses arising from weather and catastrophic events, attracted by the opportunity to avoid the cost and administrative delay from traditional services of insurance claims assessors."

5.5 Strengthening and enhancing the regulatory and supervisory framework for significant owners – Priority 5

Chapter 11 of the FSR Act was brought into effect on 1 January 2019 and makes provision for the regulation of significant owners of financial institutions. The FSR Act recognises that financial sector regulators must be in a position to proactively monitor and manage systemic risks in respect of the financial institutions that they supervise. This will ensure that both financial customers and the financial sector as a whole are protected. The FSR Act therefore provides financial sector regulators with additional powers, over and above the relevant provisions in the respective sectoral laws, in relation to the significant owners of financial institutions. The PA and the FSCA have given effect to the regulation and supervision of significant owners.

On 1 June 2020, the PA and the FSCA published 'Joint Standard 1 of 2020: Fitness, propriety, and other matters relating to significant owners', which became effective on 1 December 2020. The joint standard applies to a person who directly or indirectly, alone or together with a related or interrelated person, has the ability to control or influence materially the business or strategy of a financial institution. This joint standard also places specific reporting obligations on significant owners.

The prudent business management of financial institutions is dependent upon the fitness and propriety of persons who influence materially 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.

The joint standard sets out the criteria that must be met by significant owners in order to be considered fit and proper as well as factors that would constitute, on a prima facie basis, evidence of the absence of fitness and propriety.

The PA and FSCA recognise that the assessment of fitness and propriety requires an application of judgement. Therefore, the joint standard sets out the factors to be considered when exercising such judgement.

In order to assist the PA and FSCA to have oversight of the fitness and propriety of significant owners, the joint standard also places certain reporting obligations on financial institutions, to the extent practical and appropriate.

The joint standard also prescribes what constitutes an increase or a decrease in the extent of the ability of the person, alone or together with a related or interrelated person, to control or influence materially the business or strategy of the financial institution in terms of section 159(1)(b) of the FSR Act.

During the next three years, the PA, in collaboration with the FSCA where necessary, will focus on:

- developing a registry for all significant owners and monitor this from a risk perspective, especially in consideration of concentration risk and its effects on financial stability; and
- monitoring the embedding of the significant owners' regulatory and supervisory framework and make necessary amendments to strengthen and enhance the framework.

Key outcomes of Priority 5

The intended key outcomes of these initiatives include:

- an embedded risk-based regulatory and supervisory framework for significant owners;
- fit-and-proper significant owners of regulated financial institutions that strengthen the outcome of the objectives of the FSR Act; and
- a registry on significant owners.



5.6 Enhancing AML/CFT supervision – Priority 6

In terms of the Financial Intelligence Centre Act 38 of 2001 (FIC Act), the PA is responsible for the AML/CFT supervision of banks, mutual banks and life insurers. The AML/CFT Division within the PA (previously the Bank Supervision Department) was established in April 2012 and is responsible for supervising and enforcing compliance with the FIC Act.

In line with the above-mentioned responsibility, the PA is responsible for assessing the adequacy and effectiveness of money laundering and terrorist financing (ML/TF) risk management and compliance programmes by accountable institutions. The AML/CFT Division conducts risk-based supervision which comprises both off-site and on-site supervision. The PA is also responsible for enforcement where non-compliance with the FIC Act is identified, and as such the PA has issued administrative sanctions via its supervisory activities, where appropriate. The AML/CFT Division partakes in numerous AML/CFT-related committees and working groups, and has close engagement with the Financial Intelligence Centre (FIC). All South African AML/CFT-related legislation, joint guidance notes, directives and public compliance communications are published by the FIC in terms of section 4(c) of the FIC Act and can be accessed via the FIC's website.

The Financial Action Task Force (FATF) is the international intergovernmental AML/CFT standard-setting body and South Africa is the only African member country of the FATF. In 2019, FATF conducted an AML/CFT mutual evaluation of South Africa to assess the effectiveness of its AML/CFT regime. The PA, being a supervisory body in terms of the FIC Act, was assessed for its effectiveness in terms of risk-based supervision of banks and life insurers. The final report was due to be published in September 2021. The PA has taken the recommendations emanating from the mutual evaluation into account and will in the next three years focus on:

- developing and improving new risk-based tools for assessing the ML and TF risks in banks, subsidiaries and life insurers;
- enhancing its off-site supervision practices;
- enhancing its oversight of proliferation financing/terrorist financing risk;
- enhancing its market entry controls; and
- ensuring that administrative sanctions imposed are dissuasive, effective and proportionate.

The PA employs a risk-based approach to supervision and in line with the aforementioned seeks to continually develop and enhance its supervisory tools to ensure that it employs an agile approach to ML/TF compliance supervision, taking into account the respective ML/TF risk. The risk rating per entity will be informed by multiple factors and will determine the degree, intensity and frequency of supervision and assist the PA greatly in its supervision of accountable institutions and propagate international best practice.

Key outcomes of Priority 6

The intended key outcome of these initiatives include:

- an embedded risk-based supervisory approach to AML/CFT for the banking and life insurance sector.

5.7 Developing an approach to the prudential regulation of pension funds, collective investment schemes, medical schemes and friendly societies – Priority 7

The PA and the FSCA have established working groups to unpack the prudential risks, including any systemic risks (in collaboration with the SARB) associated with pension funds, collective investment schemes and friendly societies. Over the next three years, the working groups aim to:

- have a clear understanding of the prudential risks associated with the identified financial institutions;
- identify the areas that must be covered in new regulatory instruments as well as any proposed amendments to existing legislation and regulatory instruments; and
- evaluate the need for delegations, if appropriate.

The PA, FSCA and the Council for Medical Schemes (CMS) have also undertaken similar work on the prudential regulation and supervision of medical schemes.

Key outcomes of Priority 7

The intended key outcome of these initiatives includes:

- an approach on the manner in which prudential risks in pension funds, collective investment schemes, friendly societies and medical schemes will be regulated and supervised.

5.8 Developing cross-sectoral regulatory instruments for harmonising requirements across different industries – Priority 8

The PA and the FSCA are working on developing joint standards on specific areas that can address basic requirements across the different industries within the financial sector. The focus is on creating foundation requirements across the financial sector that forms the basis for promoting the right culture in addressing specific areas of risk. The regulatory instruments will take into consideration the varying nature, scale and complexities of the different financial institutions under the purview of the PA and the FSCA.

In the next three years, the PA will be focusing on developing regulatory instruments on basic requirements in the following areas:

- governance;
- culture;
- remuneration; and
- IT-related matters.

Key outcomes of Priority 8

The intended key outcome of these initiatives includes:

- harmonising basic requirements in the above-mentioned areas across the different industries within the financial sector to create a foundational standard of expectations.

6. Transformation, financial inclusion and competition

The PA recognises the fundamental role played by the financial sector in South Africa. The financial sector, being the lifeblood of the economy, is one sector where transformation, inclusion and competition are absolutely critical for growth and sustainability. Hence, part of the objective of the FSR Act²⁰ is to promote financial inclusion and transformation of the financial sector, and it is one of the functions of the PA to support sustainable competition in the financial sector.

²⁰ The objective of the FSR Act is to achieve a stable financial system that works in the interests of financial customers and that supports balanced and sustainable economic growth in the Republic, by establishing, in conjunction with the specific financial sector laws, a regulatory and supervisory framework that promotes: (i) financial stability; (ii) the safety and soundness of financial institutions; (iii) the fair treatment and protection of financial customers; (iv) the efficiency and integrity of the financial system; (v) the prevention of financial crime; (vi) financial inclusion; (vii) transformation of the financial sector; and (viii) confidence in the financial system.



In 2020, NT released for consultation its draft policy paper on financial inclusion titled 'An inclusive financial sector for all'. The PA, in consideration of its mandate under the FSR Act to support financial inclusion, is developing its approach to financial inclusion insofar as new entrants and current prudentially regulated entities are concerned, in an effort to align with NT's policy stance on financial inclusion. The PA understands the important role played by CFIs, co-operative banks, microinsurers and mutual banks in financial inclusion.

The PA has finalised its approach to transformation and has developed internal supervisory guidance on the manner in which transformation would be monitored in regulated financial institutions. The PA will consider the transformation plans of regulated financial institutions in further discussions with the relevant boards of directors on the transformation of the respective financial institutions.

The PA is in the process of developing its approach to supporting sustainable competition within its statutory mandate of licensing, regulating and supervising financial institutions.

7. Financial innovation and new technologies

The PA is a member of the South African Intergovernmental Fintech Working Group (IFWG) and is the Deputy Chair of this working group. The IFWG is the South African coordinating body of financial sector policymakers and regulators on fintech matters, and IFWG members work together as South African financial sector regulators and other regulators to demystify the regulatory landscape, provide a space for safe experimentation, and actively advance innovation. There are three main initiatives under the IFWG, namely the (i) Regulatory Sandbox; (ii) Regulatory Guidance Unit; and (iii) Innovation Accelerator, all housed within the Innovation Hub.

The IFWG Innovation Accelerator is currently working on various topics, including crypto assets, open banking, regulatory technology (regtech) and supervisory technology (suptech), bigtech and central bank digital currency (CBDC), to name but a few.

In 2019, the IFWG issued a consultation paper on crypto assets. After incorporating the comments received, a 'Position paper on crypto assets' was developed and released for comment in April 2021. The Innovation Hub launched Phase 2 of Project Khokha, which will explore policy and regulatory implications of innovation in financial markets driven by distributed ledger technology using tokenised money. The PA continues to support and engage with the SARB on fintech projects, such as the CBDC project. In May 2021 the SARB initiated a feasibility study for the general-purpose retail CBDC issuance. The feasibility study is expected to be concluded in 2022.

In its continuous quest to achieve its objectives, the PA will monitor and keep abreast of international developments in the fintech space that might inform the PA's policy positions. The PA remains actively involved in the work of the IFWG, particularly the Regulatory Guidance Unit (RGU) and the Regulatory Sandbox. The RGU provides a central point of entry for market innovators to submit enquiries related to fintech and innovation-orientated policies and regulations. Responses from the RGU will integrate perspectives from different financial sector regulators, including the PA, eliminating the need to contact multiple regulators. The PA is also monitoring the learnings from testing within the Regulatory Sandbox from a regulatory or supervisory perspective to determine if and how policies and regulations must change to promote responsible innovation in the market. More details are available at www.ifwg.co.za.

Financial innovation and new technologies play a driving role in transformation, financial inclusion and competition, and are seen by the PA as an essential mechanism to bridge the gaps in the financial sector.

8. Sustainable finance and climate change

In line with global developments, NT released a technical paper titled 'Financing a sustainable economy' on 15 May 2020. The paper encourages a voluntary approach to sustainable finance initiatives and signals the strong commitment of the South African financial sector to the Paris Agreement, a legally binding international treaty on climate change. The PA and the FSCA are engaging with the financial sector and undertaking further analysis on the various archetypes of climate risk (physical, transition and liability) and its manifestation through recognised transmission channels.

The PA has established a Prudential Authority Climate Think Tank (PACTT) with a mandate to promote, develop and coordinate the PA's regulatory and supervisory response to climate risks that will impact entities regulated and supervised by the PA and to drive these interventions in a coordinated and collaborative way within the PA, the SARB and with other relevant stakeholders, taking physical and transition risk into account. In June 2021, the PA became a member of the Sustainable Banking Network²¹ and will work towards developing an approach for sustainable finance and climate change.

In the next three years the PA will focus on:

- building internal capacity to deal with climate risk and sustainable finance more effectively;
- the identification of potential gaps in its regulatory frameworks where climate risk might not be appropriately accounted for;
- developing plans to enhance the regulatory frameworks where appropriate or possible;
- providing potential guidance on how regulated financial institutions need to account for climate risk within their own risk solvency assessments and internal capital adequacy assessment programmes (e.g. using stress testing) as well as how climate risk would feature through risk management requirements; and
- enhancing reporting frameworks to assist the PA staff in conducting climate risk assessments as well as enhancing disclosure requirements. Internationally, there is a significant drive to adopt the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures as a mandated disclosure framework.

9. The target operating model of the PA

Following on from the PA's establishment, the PA's target operating model (TOM) was defined. This was underpinned by the PA's mandate and key objectives. As part of that initiative, the PA undertook to have a target state that would be designed to enable several principles, one of which was to be an information-led organisation. This meant the PA would strive for an operating model that would allow for it to effectively gather and share contextual and quality data regarding the business models of financial institutions. This would enable PA teams to obtain the necessary, decision-useful information that would allow them to make well-informed supervisory decisions.

To enable this, the PA also worked on its data strategy, which was completed in early 2020. The initial focus of the data strategy execution was on the delivery of the data governance and management capabilities in the PA. As part of the data governance work, the focus was on designing and implementing the relevant governance structures within the PA that would operationalise the PA's business glossary and data taxonomy. This would be achieved by enhancing the existing data management functional structure.

Key activities on the end-to-end management of data from traditional and non-traditional sources were prioritised. These activities were identified as the key foundations for

²¹ The Sustainable Banking Network is a unique, voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. The 43 member countries represent US\$43 trillion (86%) of the total banking assets in emerging markets.

implementing more advanced data-based capabilities, such as the optimised collection and sharing of data as well as advanced analytics.

Another key benefit of prioritising this work was that it would help define the data governance structures required to enable a more efficient sharing of collected data between the PA and the FSCA.

The team identified the development of a data taxonomy as the starting point, to ensure a common understanding of the terms and definitions used for reporting by supervised institutions and supervisors (SARB and FSCA). Once defined and implemented, the taxonomy will provide a base for advanced analytics capabilities within the PA. During the course of 2020, the PA finalised its contract with a service provider to assist with the definition of its data taxonomy. This engagement has started and will be completed during 2022.

9.1 The PA’s suptech implementation

The PA commenced with the work on its suptech in 2019, after the completion of its TOM. Following on from the completion of the design architecture of the system, the PA team embarked on a procurement process to identify and select solution providers that could meet its technology requirements. This process was concluded in 2021 with the appointment of solution providers to deliver the key requirements for the PA.

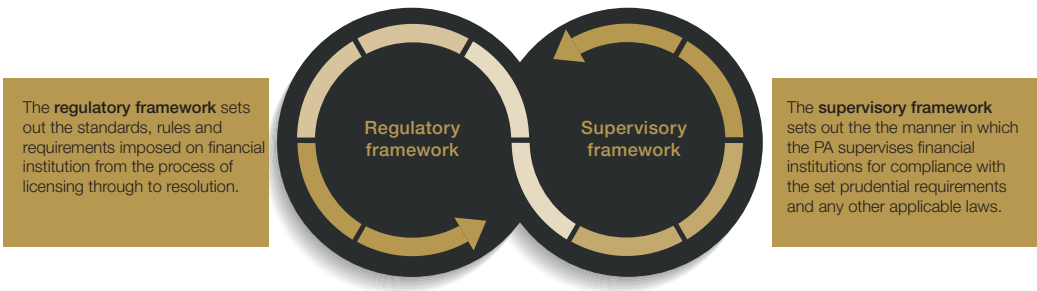
It is anticipated that the solution will meet the majority of the PA’s requirements over a period of two years, with functionality becoming available to the PA and supervised institutions during this time. After the completion of the data taxonomy, the PA will focus on additional efficiencies to the data collection processes. In addition, the PA will start working on enabling advanced analytics to further support its supervisory processes.

9.2 How the PA performs its regulatory and supervisory tasks

The two fundamental aspects of the PA’s approach are:

- the regulatory framework, which sets out the standards, rules and requirements imposed on financial institutions and MIs, from licensing to resolution; and
- the supervisory framework, which sets out the manner in which the PA will supervise compliance with the prudential requirements and any other relevant requirements on financial institutions and MIs.

Figure 8: Approach to regulation and supervision



9.3 The PA’s approach to regulation

The PA is empowered through the FSR Act to issue prudential standards, guidance notices and interpretation notices to give effect to the regulatory frameworks applicable to financial institutions. The PA is also empowered to issue joint standards together with the FSCA.

In terms of the regulation-making process, the PA considers:

- regulatory gaps identified in existing regulatory frameworks;
- the need for guidance and interpretation rulings on existing regulatory frameworks; and
- the development of internationally accepted standards and best practices²² that South Africa, through various forums, has committed to incorporate into the regulatory framework.

The PA considers the South African context and realities in the implementation of standards and implements internationally accepted regulatory and supervisory standards as appropriate for South Africa. The FSR Act requires a collaborative and consultative approach to regulation and engagement with other regulators, industry bodies and stakeholders within and outside the financial sector.

The FSR Act sets out a process for making regulatory instruments in a transparent and accountable manner that is aimed at ensuring there is adequate stakeholder engagement, and that the expected impact of proposed regulatory instruments is balanced against the costs and any other unintended consequences for the sector and financial customers.

While the outcome of sector regulation has the obvious benefits of increasing consumer confidence and enhancing the safety and soundness of the regulated sector and the broader economy, incorporating the regulatory impact in the process of making regulatory instruments allows for the careful balancing of additional compliance burdens and costs that are passed on to financial customers.

As part of the aforementioned processes, the PA values engagement with all the regulated entities and other relevant persons on the respective regulatory instruments to gather the necessary qualitative and quantitative information that the PA requires to determine or assess the potential impact of the proposed instruments.

The PA will be involved in all the regulatory and supervisory developments by other regulators and industry bodies that may affect the manner in which financial institutions and MIs are regulated and supervised.

The FSR Act also requires that the PA consults²³ on standards being issued and a consultation report must be issued when standards are finalised.

9.4 The PA's approach to supervision

The PA's approach to supervision is risk-based and proportional, forward-looking (pre-emptive), outcomes-focused and integrated. The supervisory approach is embedded through supervisory tools.

The supervisory framework is based on four pillars derived from a typical life cycle of a financial institution – from when it is licensed, to whether a regulator would need to resolve the entity in the event that it is unable to sustain itself (cradle to grave). The four pillars are:

- licensing²⁴;
- ongoing supervision;
- enforcement; and
- resolution (in collaboration with the SARB).

22 The PA will play an active role in international standard-setting bodies with a view to influence the formulation of appropriate prudential and other standards that contribute to the achievement of its mandate.

23 The PA will follow the prescribed public consultation process, which includes submitting its draft regulatory instruments to Parliament before implementation. The consultation process for making regulatory instruments involves publishing a draft instrument; statement explaining the need for, and the intended operation of, the instrument; statement on the expected impact of the instrument; and a notice inviting submissions on the draft instrument, together with details pertaining to the form of the submissions. The period for making submissions must be at least six weeks from the date of publication for public consultation. The PA is required to publish a consultation report for each regulatory instrument, which must include a general account of the issues raised in the submissions and a response to the issues.

24 Licensing includes the 'registration' of deposit-taking institutions.

Licensing: The licensing function aims to ensure that no person carries out the business activities (as defined by various pieces of legislation and which constitute a PA-regulated activity) without being registered to conduct those activities in general or on specific conditions.

Ongoing supervision: All licensed financial institutions are subjected to ongoing supervision to ensure compliance with all the relevant pieces of legislation and the related prudential requirements.

Enforcement: The PA may enforce specific interventions and remedial enforcement actions where it identified serious prudential concerns that can pose a threat to the safety and soundness of the institution, the financial interests of consumers and/or the stability of the broader financial system.

Resolution: The PA oversees the industry exits for institutions not considered to be systemically significant. For those institutions designated by the SARB as being of domestic systemic importance, the SARB will manage the exit process in close cooperation with the PA.

Figure 9: Pillars of supervision

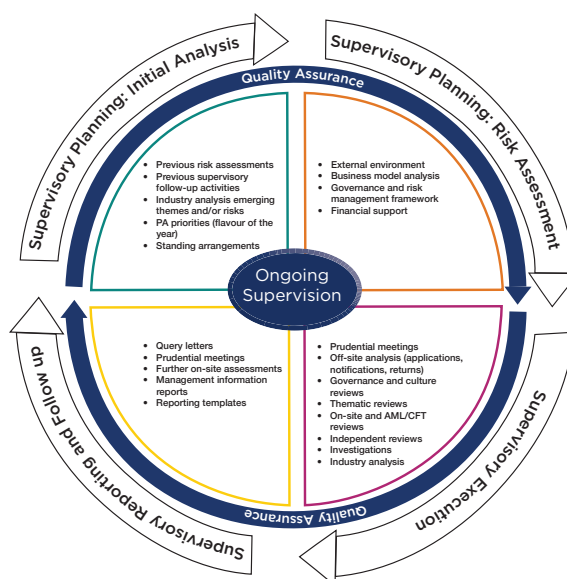


The main focus and outcome of ongoing supervision is for the PA to ensure that each financial institution complies with the applicable financial sector laws and other relevant laws. All ongoing supervisory interventions are based on risk assessments which are done frequently so that the PA identifies the material risks to which each financial institution and each MI may be exposed. This also ensures that the respective risks are adequately managed and appropriately mitigated.

In addition to the legislated principles guiding the PA's approach to supervision, there is an overriding objective of integrating and harmonising the approach to prudential supervision across sectors. While certain aspects of each sector may warrant specific treatment, to the extent that each sector faces largely the same set of risks, there is a compelling case to integrate and harmonise supervisory approaches and practices. This includes minimising the scope for regulatory arbitrage, eliminating or at least minimising the potential risk of duplication, and achieving appropriate economies of scale within the PA.

Multiple, interrelated instruments and tools are used as part of the PA's ongoing supervisory activities, as reflected in Figure 10.

Figure 10: Phases of ongoing supervision



10. Administrative action(s) and enforcement

The PA, as a prudential regulator and supervisor, is not enforcement-led, but it will not hesitate to take appropriate enforcement action(s), in line with its outlined approach to regulation and supervision, where necessary and appropriate. The statutory objective of the PA is best achieved by combining supervisory activities with well-targeted regulatory actions, where necessary, to address non-compliance or suspected non-compliance with the financial sector laws and other relevant laws such as the FIC Act. The regulatory actions should contribute to the PA achieving its objectives (i.e. promoting and enhancing the safety and soundness of financial institutions and market infrastructures) to protect financial customers against the risk that those financial institutions may fail to meet their obligations, as well as to assist in maintaining financial stability.

The Prudential Authority Regulatory Action Committee (PARAC) has been established to assist the CEO of the PA in determining the appropriate regulatory actions to impose on PA-regulated institutions, accountable institutions or persons for non-compliance with applicable financial sector laws and other relevant laws. Furthermore, the PARAC must ensure that the senior management of the PA regularly and rigorously reviews the state of regulated entities registered or licensed in terms of the FSR Act and financial sector laws, to assess their soundness, compliance with licensing conditions, general compliance with the FSR Act and all relevant financial sector laws, and to provide advice to the PA on whether any regulatory actions are required.

The FSR Act and relevant financial sector laws provide an adequate range of tools to deal effectively with non-compliant institutions, for which the PA is the responsible authority. Where the PA identifies serious prudential concerns and transgressions, these are typically addressed through specific interventions and remedial enforcement actions. In most cases, enforcement action results in the institution remedying the identified prudential concerns and transgressions, and returning to business as usual, albeit under focused supervisory oversight.

The FSR Act allows for the following enforcement actions and administrative penalties:

- The PA can issue written directives in specified circumstances to a financial institution that provides a financial product or securities services, or an MI, or to a key person of a financial institution, or to a holding company of a financial conglomerate, requiring that person to take specific action(s).
- The PA can commence proceedings in court to ensure compliance with a relevant financial sector law.

- The PA can exercise judgement when considering enforcement action to secure collaboration with the PA during enforcement proceedings.
- Persons can give written undertakings to the PA regarding future conduct. Once the PA accepts the undertaking, it becomes enforceable by the PA.
- The PA can make a debarment order in respect of a natural person in circumstances prescribed by the FSR Act.
- The PA can impose administrative penalties against a person who has contravened a financial sector law (as well as the FIC Act) or has contravened an enforceable undertaking accepted by the PA.

In more serious cases where, for example, significant weaknesses in controls resulted in material losses or risks having been materialised, the PA can exercise resolution strategies, with the main focus being to mitigate the systemic consequences of a failure to preserve continuity of access to critical economic functions and to ensure consumers' deposits are protected.

Unregulated and unsupervised persons place the public at great risk of losing their money. The Banks Act prescribes that only registered banks can take deposits from the general public, and it is an offence for unregistered persons to conduct the business of a bank. As part of its mandate, the PA is empowered to investigate the activities of unregistered persons suspected of taking deposits from the public and to control the activities of unregistered persons. The PA is not a prosecuting authority and can only report suspicions of other illegal activity to the South African Police Service and National Prosecuting Authority for criminal investigation and prosecution. The regulation and enforcement of unregistered or unlicensed insurance activities or business, with the exception of persons conducting unlicensed reinsurance business, have been delegated to the FSCA. For more information on illegal deposit-taking refer to the SARB website.²⁵

11. Cooperation and collaboration

A crucial tenet of the Twin Peaks model for financial sector regulation is the cooperation and collaboration between the PA, FSCA, SARB and the other financial sector regulators. MoUs concluded between the PA, FSCA, SARB and the other financial sector regulators provide a solid foundation for engagements.

Owing to the pressures experienced by financial institutions as a result of the coronavirus disease 2019 (COVID-19), the financial sector regulators and SARB worked together to provide regulatory and supervisory relief²⁶ to enable financial institutions to continue to support customers and the financial system.

During 2019 and 2020, South Africa was subject to the IMF and World Bank FSAP. The PA, SARB, FSCA, NT and the other financial sector regulators worked closely together to provide input into the assessment conducted by teams from the IMF and the World Bank. As a result of COVID-19 restrictions, the FSAP engagements resumed on virtual platforms in 2020. The interruption has, unfortunately, delayed the IMF and World Bank from finalising the mission in 2020. The publication of the FSAP aide mémoire and various background and technical notes will be finalised by the IMF and World Bank.

²⁵ <https://www.resbank.co.za/en/home/publications/prudential-authority/public-awareness/sarb-mandate-illegal-deposit-taking>

²⁶ Details on the approach taken by the PA can be found in the *Prudential Authority Annual Report 2020/21* at: <https://www.resbank.co.za/en/home/publications/publication-detail-pages/reports/pa-annual-reports/2021/Prudential-Authority-Annual-Report-2020-2021>

11.1 Collaborating with the FSCA and the other financial sector regulators²⁷

The PA works closely with the FSCA on the supervision of jointly regulated entities, policy positions, the making of regulatory instruments, interpretation notices and communications. Monthly operational meetings are held between the PA and the FSCA to facilitate, inter alia, information sharing and updates on areas of common interest, and to highlight emerging risks within the financial sectors. The regulators are also required to provide concurrence in certain areas such as the licensing of financial institutions and exemptions. The PA has also developed processes to share information and consult with the FSCA regarding significant owners, the designation of financial conglomerates, resolution planning, and the execution of resolution strategies for banks and other systemically significant non-bank financial institutions that fall within the remit of the PA.

In addition to the work done on the FSAP and the COVID-19 measures, the PA works with the National Credit Regulator (NCR) on matters relating to the provision of credit by PA-regulated financial institutions as well as on the development of regulatory instruments.

The FIC and the PA have an important functional relationship, as the PA is the supervisory authority for certain financial institutions under the FIC Act. The global AML/CFT standard-setting body, the FATF, assessed South Africa in 2019 and issued the first draft report in December 2019. The final report was discussed at the June 2021 FATF plenary meeting and is expected to be published on the FATF website in September 2021. The PA has embarked on an internal project with various workstreams to implement action plans for remediating identified shortcomings. The evaluation required close cooperation between the PA, the FSCA, NT and the FIC.

The PA will continue in the next three years to work closely with the FSCA and the other financial sector regulators to achieve respective mandates.

11.2 Collaboration with the SARB

The PA has over the past three years and will continue to cooperate and collaborate closely with the SARB to give effect to the mandate and functioning of the PA, including through:

- the development of internal policies;
- culture initiatives;
- budget and financial support;
- operational support, including risk management, audit and compliance;
- the designation of financial conglomerates;
- the designation of systemically important financial institutions;
- other matters concerning financial stability;
- regulatory instruments; and
- the contribution to developments in the SARB's National Payment System Department and the Financial Surveillance Department.

The Financial Stability Department of the SARB supports the PA in considering recovery planning for financial institutions. Pending the finalisation of the resolution framework and the establishment of a resolution authority within the SARB, the PA will be responsible for the resolution of financial institutions for which it is the responsible authority. Following the implementation of the resolution framework, the Financial Stability Department will, in collaboration with the PA, be responsible for the resolution of systemic financial institutions.

²⁷ The FSR Act defines the financial sector regulators as the PA, the FSCA, the NCR and the FIC. The NCR and the FIC are financial sector regulators only in respect of parts 2, 3 and 5 of Chapter 2, and parts 1, 2 and 3 of Chapter 5 of the FSR Act.

The PA has in the past three years also supported the Financial Stability Department on the development of the resolution framework and the establishment of the Corporation for Deposit Insurance (CoDI).

In the coming years, further work will be conducted with the Financial Stability Department to assist in the embedding of the resolution process through the development of policies, regulatory instruments and supervisory processes and procedures, as well as stakeholder engagement with the relevant financial institutions. The PA will collaborate with the Financial Stability Department to address identified structural vulnerabilities. The PA will also support CoDI with its establishment and engagement with the deposit-taking institutions.

11.3 Collaboration with National Treasury

As the policymaker for the financial sector, the PA has a close working relationship with NT. The PA and NT collaborate on matters relating to the financial sector, including but limited to:

- the development of primary legislation effecting the mandate and functions of the PA;
- the development of prudential and joint standards as well as regulations relating to the financial sector laws;
- the tabling of prudential and joint standards in Parliament;
- authorisation, consultation or concurrence required in terms of financial sector laws from the Minister of Finance; and
- the development of policy positions on matters relating to the financial sector.

12. Relationship with other stakeholders

The PA recognises the critical importance of building and maintaining working relationships with all stakeholders, including other regulators (such as the Independent Regulatory Board for Auditors), both locally and internationally. Sustaining robust and meaningful stakeholder engagement is viewed as critical to developing a regulatory and supervisory framework that achieves the objective of a regulator. The exchange of knowledge through cooperation and collaboration with stakeholders will, in turn, yield benefits and contribute towards the maintenance of a sound and stable financial system in South Africa.

As required by the FSR Act, the PA ensures that appropriate stakeholder engagement arrangements and mechanisms are strengthened, implemented and maintained to facilitate consultation and information exchange with financial institutions, MIs, existing financial customers and prospective financial customers on matters of mutual interest.

The PA engages with stakeholders at various forums, including those below.

12.1 Industry bodies, professional bodies and industry consultation

The PA has regular interactions with industry and professional associations such as the South African Insurance Association, the Banking Association South Africa, the Association of Savings and Investment South Africa, the South African Institute of Chartered Accountants and the Actuarial Society of South Africa. These interactions are considered to be a rich source of information which enable the PA to better understand the risks developing within the regulated sectors.

Apart from the engagements that occur through regulatory and supervisory processes, consultative sessions are held with industry, as and when required. The last industry engagements sessions with PA-regulated financial institutions were held in 2020.

12.2 International and regional organisations, bodies and forums

The PA, either directly or under the auspices of the SARB, participates in numerous international and regional organisations and standard-setting bodies such as the Bank for International Settlements (BIS), BCBS, International Organization of Securities Commissions (IOSCO), FATF, the IAIS and the Southern African Development Community (SADC).

The details of the role of the PA in the aforementioned forums are available on the SARB's website.²⁸

12.3 Collaborative forums

There are collaborative forums between organs of state and regulators within which the PA serves as a member, such as the Financial Regulatory Reform Steering Committee, Financial Stability Oversight Council (FSOC), IFWG and the Climate Risk Steering Committee. These forums are a valuable source of information and provide a platform for the development of approaches to manage the risks posed to the objectives of the respective participants.

12.4 Public awareness

Public awareness campaigns are undertaken by the PA through different platforms such as web-based publications and the media.

13. Framework for the delegation to other regulators

In terms of sections 48 and 77 of the FSR Act, the PA may delegate a power or a duty to the FSCA by way of an MoU, in accordance with a framework and system of delegation developed to ensure that any delegation does not constrain the PA or the FSCA in achieving its respective objectives. The FSCA can delegate powers and duties to the PA under the same conditions. The decision to delegate powers to the FSCA must be made by the PruCo.

The FSR Act makes two specific delegations. The first delegation relates to the collective investment schemes, pension funds and friendly societies, where the power of the PA to make prudential standards and otherwise achieve its objectives will be exercised by the FSCA. This transitional arrangement was to have applied for a period of three years from the date of the establishment of the PA, with the option to be extended or reduced by the Minister of Finance.

The second delegation relates to medical schemes where the powers, duties and functions of the PA will be exercised by the CMS. The extent of the delegation and the conditions thereto were determined by the Minister of Finance and published.²⁹

In October 2020, the Minister of Finance, through a notice³⁰, extended the aforementioned periods until 31 March 2024. Therefore, the FSCA will be responsible for the prudential regulation and supervision of collective investment schemes, friendly societies and pension funds, while the CMS will be responsible for the prudential regulation and supervision of medical schemes until 31 March 2024.

The PA, FSCA and the CMS have established working group to develop the approach to the prudential regulation of collective investment schemes, friendly societies, pension funds and medical schemes.

28 <https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/participation-in-international-forums>

29 The determination by the Minister of Finance is available on the SARB website at: <http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=8504> and https://www.gov.za/sites/default/files/gcis_document/202010/43810gon1094.pdf

30 The extension of the period was published in the *Government Gazette* and is available at: https://www.gov.za/sites/default/files/gcis_document/202010/43810gon1094.pdf



14. Funding of the PA

A safer financial sector to serve South Africa better, published by NT in February 2011, highlights that regulators should be appropriately and adequately funded to enable them to effectively execute their mandates. Chapter 16 of the FSR Act and the proposed Financial Sector Levies Bill (Levies Bill) provide for a mechanism aimed to ensure that the PA is adequately funded. The Levies Bill also empowers the PA to impose levies on the supervised entities to fund its operations.

The principle underpinning the imposition of levies is to recover from the supervised entities the direct costs for the effective functioning of the PA. Additional responsibilities for the prudential regulation and supervision of financial institutions by the PA, other than banks, increased both the personnel and operational costs of the PA compared to that of the previous SARB Bank Supervision Department (BSD) when it only regulated and supervised banks. In addition to levies, the PA will charge fees for specific activities.

Prior to the implementation of the Twin Peaks regulatory architecture, insurers and MIs and other regulated entities, with the exception of banks, paid levies to the then FSB. The costs (both direct and indirect) of running the then BSD was entirely funded by the SARB. Under the FSR Act and the proposed Levies Bill, all supervised entities supervised by the PA will now be required to pay levies to the PA. The supervised entities will pay for the direct costs (such as personnel costs) for the effective functioning of the PA, while the SARB will continue to fund the indirect costs incurred by the PA through the use of the various support functions of the SARB such as legal, risk management, compliance, internal audit, human resources, security and facilities.

In February 2021, NT released the proposed Levies Bill for public consultation. In parallel to with the NT process of finalising the Levies Bill, the PA has commenced the preparatory work required to collect levies once the legislative framework comes into effect. While the envisaged commencement date for the collection of the levies has not yet been formally announced, the FSR Act provisions that deal with fees, levies and finances are envisaged to commence on 1 April 2022.

15. Conclusion and next steps

This regulatory strategy sets the programme for the PA to deliver on its ultimate mandate of ensuring the safety and soundness of financial institutions and MIs.

The PA, through regulation and supervision, monitoring of the perimeter of financial sector regulation, and serving on international standard-setting bodies, will seek to update regulatory and supervisory frameworks to ensure that it continues to meet its mandate.

The COVID-19 pandemic has taught the PA that it is able to regulate and supervise effectively using virtual platforms, and has created efficiencies in the use of time and other resources.

In the coming years, the PA will continue to focus on strengthening existing regulatory frameworks, developing new frameworks for new financial institutions that fall within the purview of the PA, and finalising approaches to new challenges such as climate change.

The PA will continue to work closely with the SARB, FSCA, NT and the other financial sector regulators in strengthening the regulatory and supervisory frameworks and creating enabling processes to ensure the development of a healthy and resilient financial sector.

16. How to contact the PA

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Telephone: +27 12 313 3911

Website: <http://www.resbank.co.za/PrudentialAuthority>

Email: PA-Info@resbank.co.za



Abbreviations

AML	anti-money laundering
Banks Act	Banks Act 94 of 1990
BCBS	Basel Committee on Banking Supervision
bigtech	big technology (refers to the largest and most dominant companies in the information technology industry)
BSD	Bank Supervision Department
CCP	central counterparty
CEO	Chief Executive Officer
CFI	co-operative financial institution
CFT	combating the financing of terrorism
CMS	Council for Medical Schemes
CoDI	Corporation for Deposit Insurance
Co-operative Banks Act	Co-operative Banks Act 40 of 2007
COVID-19	coronavirus disease 2019
CSD	central securities depository
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
fintech	financial technology
FM Act	Financial Markets Act 19 of 2012
FMI	financial market infrastructure
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSR Act	Financial Sector Regulation Act 9 of 2017
HoD	Head of Department
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standard
IFWG	Intergovernmental Fintech Working Group
IMF	International Monetary Fund
Insurance Act	Insurance Act 18 of 2017
IT	information technology
Levies Bill	Financial Sector Levies Bill
MI	market infrastructure
ML	money laundering
MoU	memorandum of understanding
Mutual Banks Act	Mutual Banks Act 124 of 1993
NCR	National Credit Regulator
NT	National Treasury
OTC	over the counter
PA	Prudential Authority
PA Manco	PA Management Committee
PARAC	Prudential Authority Regulatory Action Committee
PruCo	Prudential Committee
regtech	regulatory technology: (technology to assist regulated entities to comply with regulations)
RGU	Regulatory Guidance Unit (of the IFWG)
SARB	South African Reserve Bank
SFA	strategic focus area
suptech	supervisory technology: (technology to assist supervisors/regulators to supervise regulated entities)
TF	terrorist financing
TLAC	total loss-absorbing capacity
TOM	target operating model
TR	trade repository

