



ANNUAL REPORT 2016





CONTENTS

1	INTRODUCTION	2
2	AT A GLANCE	6
3	GOVERNANCE	9
4	MEMBERSHIP	19
5	PASA STRUCTURES	20
6	PASA EXECUTIVE OFFICE (EXO)	21
7	STRATEGY	22
8	PASA PROJECT OFFICE	24
9	TOP INITIATIVES FOR 2016	25
10	INDUSTRY ENGAGEMENT	26



1 INTRODUCTION

1.1 Foreword by the Head of the National Payment System Department of the SA Reserve Bank

Looking at the evolution of the Payment System, it is evident that Payment System developments in the last decade have been rapid, overshadowing the growth of several past decades. While innovation and efficiency are the hallmarks of a market-driven economy, it has to go hand-in-hand with safety and security along with acceptance among the market participants. Therefore, the Central Bank plays a critical role not only for encouraging innovation with a futuristic vision but also to see products run within the defined regulatory trajectory, ensuring adoption of the core principles of Payment and Settlement Systems. As technology presents new opportunities, the regulatory regime needs to achieve a delicate balance between allowing market forces to introduce new innovations and promoting continued collaboration between competitors to create a robust secure and interoperable payment network.

Given the crucial importance of these payment networks to society, regulators have to ensure that Stakeholders are delivering firm-level innovations and, crucially, cooperate on initiatives that lead to payment platform-level innovations that benefit larger society. This provides customers with the benefit of paying or being paid irrespective of who they bank with. Without this essential collaboration through platforms such as PASA, the National Payment System (NPS) will not achieve expected progress in advancing the development of the national infrastructure.

It is our firm view that the Payment Modernisation Project should gain traction. With the opportunities that current technology presents, there are higher expectations from the transacting community on accessibility and availability of payment channels, the turnaround time for finalising a transaction and the lowering of costs of providing payment services. These expectations are not misplaced as it is possible for payment service providers to review their processes and leverage these technological advances. Through a structure such as PASA, we can collaborate and leverage these advances to modernise the middle mile infrastructure. Regulators also expect the regulated sector to embrace modern standards that adhere to future payments and reporting requirements.

It is also necessary that priority is given to the realisation of an effective real-time retail payment solution that would serve our jurisdiction effectively. Aspects of roll out of this service and associated pricing of the service will be given concerted focus to ensure its effectiveness.

With an expanding digital footprint comes a growing threat landscape, providing greater opportunities and increasing entry points or vectors for cyber-attacks. Since the unleashing of the first computer worm in 1988 by a 23-year-old Cornell University student, malware has grown exponentially in both volume and sophistication over the last three decades. The threat landscape from cyber-attacks is increasing and old defences are quickly rendered redundant. Participants in the financial sector need to collaborate and share experiences and strategies to address these challenges.

The South African Payment System community is accustomed to the Central Bank issuing Vision documents outlining the development of the payment system, starting with the era

of the Blue Book back in 1995; The Vision 2015 document being the last of its kind to be issued by the Bank. As payment stakeholders are aware, we are currently finalising the next document entitled Vision 2025. The time horizon identified for this document is of significance as payment infrastructure does typically have longer investment and implementation cycles, to also foster longer term thinking. Much progress has been made with regards to this Vision document and we are close to its publication. Vision 2025 addresses ten themes that range from competition in the NPS and innovations in payment infrastructure through to capacity building and education. As identified during the consultation process, the document provides strategic initiatives to be pursued under each theme. We hope that in the next ten years from now, many of these initiatives that will be implemented would position our NPS to remain fit for purpose and relevant.

Although we have experienced a number of challenges in the execution of some of our industrywide projects over the last year, we have made significant progress in Authenticated Collections (AC), PASA Review, Biometric standard development and payment modernisation to name but a few.

I wish to thank the payment industry stakeholders and specifically the PASA Executive Office for their unwavering support and contributions in this ever-changing, growing and complex environment. I encourage you to continue to explore and share your ideas on how we should shape our payment system of the future, including the requisite structures, and look forward to your continued support with these initiatives.

TIM MASELA

Head: National Payment System Department (NPSD)

1.2 Report by PASA Council Chairperson and PASA CEO

SA Reserve Bank Progress with the PASA Review

During the course of 2016, the South African Reserve Bank completed its formal review of PASA's future role, which was published in a report released in June of last year. The report made 19 recommendations, which addressed a variety of themes including the continued recognition of support for PASA to perform the function of a Self-Regulatory Organisation (SRO) supported by various enhancements to ensure the expansion of mandate and membership to also include other organisations in the value chain.

The SA Reserve Bank then announced that it would take direct accountability for the implementation of these findings and established the necessary project and governance structures including a steering committee and four working groups to focus on regulatory and legislative changes, mandate and membership, governance, funding and internal structures.

Governance

In its continued efforts to improve and strengthen governance, the PASA Constitution was amended to make provision for the appointment of up to three Independent Councillors and the appointment of a Deputy Chairperson from amongst the Independent Councillors.

Strategy

The year started with the appointment of a new Executive for the Strategy and Communication Team in January 2016. The initial focus was to provide direct support to key strategic projects like the PASA Review, Authenticated Collections and Modernisation of the Electronic Payment System. There was also a specific focus on reviewing the organisational design of the PASA Executive Office, reviewing the performance management processes, incentives schemes, and to recruit key resources for the Strategy team. Guidance and support to the Strategy Forums and Stakeholder Forums also remained a priority.

Payments Conference

The second PASA International Payments Conference (PIPC 2016), hosted at the Sandton Convention Centre in July 2016, was a tremendous success with over 600 delegates from the broader payments community in attendance over the 2-day event.

Other Education and Industry Capacity Building Efforts

In 2016, The PASA Certificate in Foundational Payments course still forms the cornerstone of our education efforts and has proved to be popular with both members and non-members alike, reaching the 1,000 graduate milestone in the same year. Additional courses to be introduced include a High Value Payments Elective, an Executive Elective and a Regulatory Elective.

Broader Stakeholder Engagement

The formal structures that have been created to ensure broader consultation and interaction with a variety of stakeholders in the National Payment System continued to function well. These include the Card Stakeholder Forum (which meets alternatively in Cape Town and Johannesburg), the Electronic, Paper and Cash (EPC) Stakeholder Forum, as well as the structures introduced to support representation by non-members/ non-banks on the Authenticated Collections Steering Committee.

In addition, extensive informal interaction has continued via meetings with various Trade Associations, meetings with representatives from organisations, speaking opportunities at conferences, and Public Relations.

Compliance Enforcement

A major milestone in the area of more effective and independent compliance enforcement was reached with the approval of the amended Compliance Enforcement Policy (CEP) in November 2016.

Under the new CEP, compliance will be enforced by a panel of independent legal experts, effectively eliminating any potential conflict of interest that could arise from compliance enforcement in the self-regulatory context within which PASA operates. As an additional benefit, the new CEP ensures best practice in that clear Chinese walls now exist between rule-making and rule enforcement.

Risk Management

Since its inception in August 2014, the PASA Risk Management Function has embarked on a journey of development and operationalisation. The function is currently in the operationalisation phase which involves the implementation and rollout of the adopted ISO 31000 risk management process. One of the highlights achieved during the last quarter of 2016 was the enhancement of the automation of incident management reporting within PASA. This exercise has resulted in a risk-based capturing and reporting approach to incidents, which has improved the quality of data received.

This initiative will produce the benefit of quality risk analysis of incidents in the payment environment, which in turn will contribute to an efficient way of managing industry incidents.

New Interoperable Biometric Cardholder Verification Method

Primarily to meet the demand from SASSA, we developed an interoperable Biometric Cardholder Verification Method (CVM) standard.

The specification was developed as a joint effort by MasterCard, Visa, PASA EXO and PASA Members. This specification was finalised in 2016 and presented at EMVCo for adoption as a global EMV (Europay, Mastercard and Visa) standard, which will be published in the first half of 2017. We have received numerous accolades from around the globe applauding our efforts in this space.



Project Office

During 2016, we've made significant progress on a number of high priority projects, most notably the Authenticated Collections (AC) project.

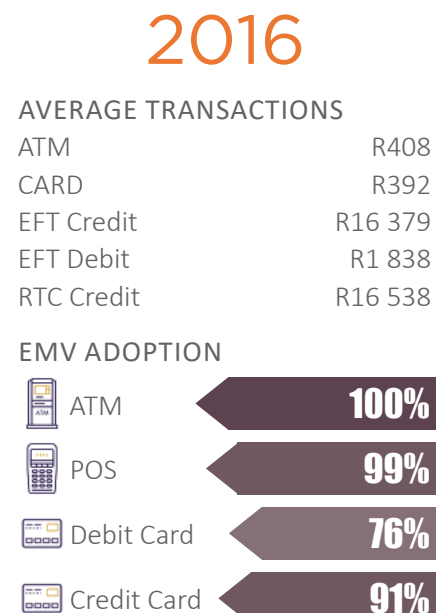
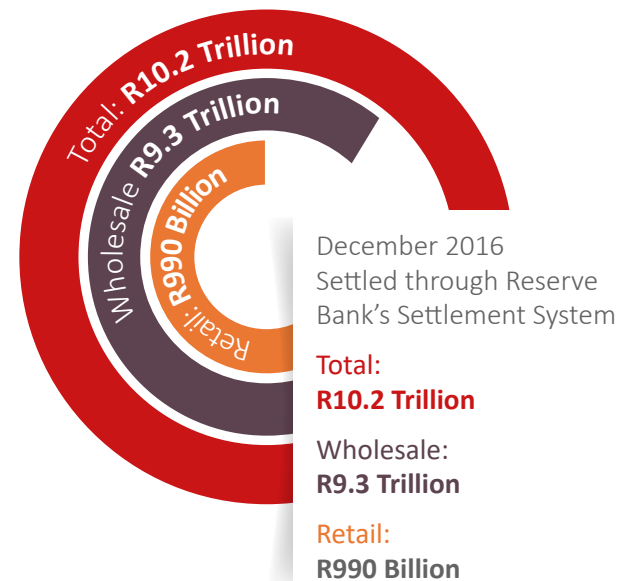
The objective of the AC project is to enable an early debit order capability that will only process electronic payments which have been authenticated by the consumer. Industry readiness assessment findings and issues raised during the 1st quarter of 2016 highlighted the fact that the planned "big bang" implementation date of 1 October 2016 was not feasible. The revised phased implementation approach which includes a pilot, ramp-up and migration phase will run until 30 October 2019.

This project will remain a top priority for PASA over the next few years until it is fully operational.

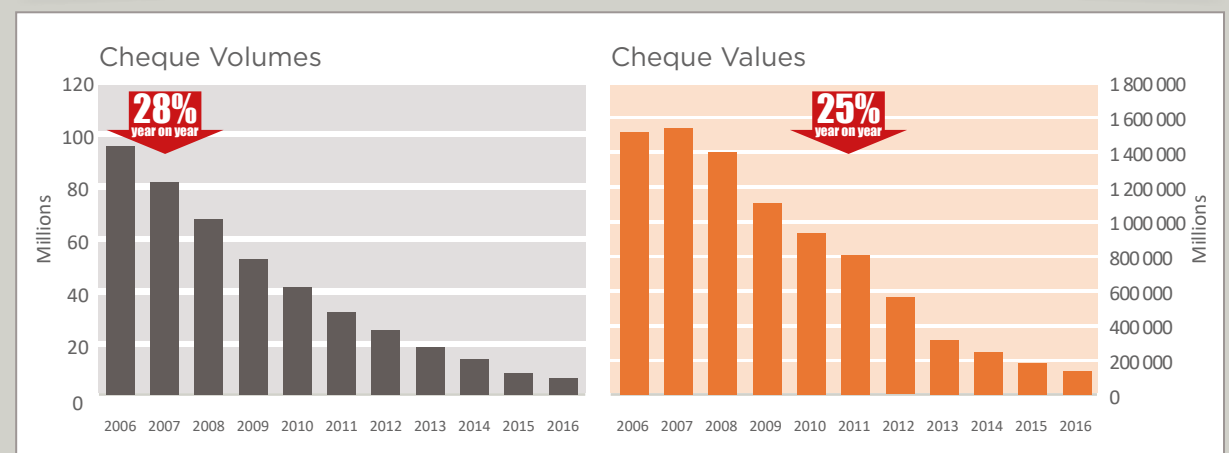
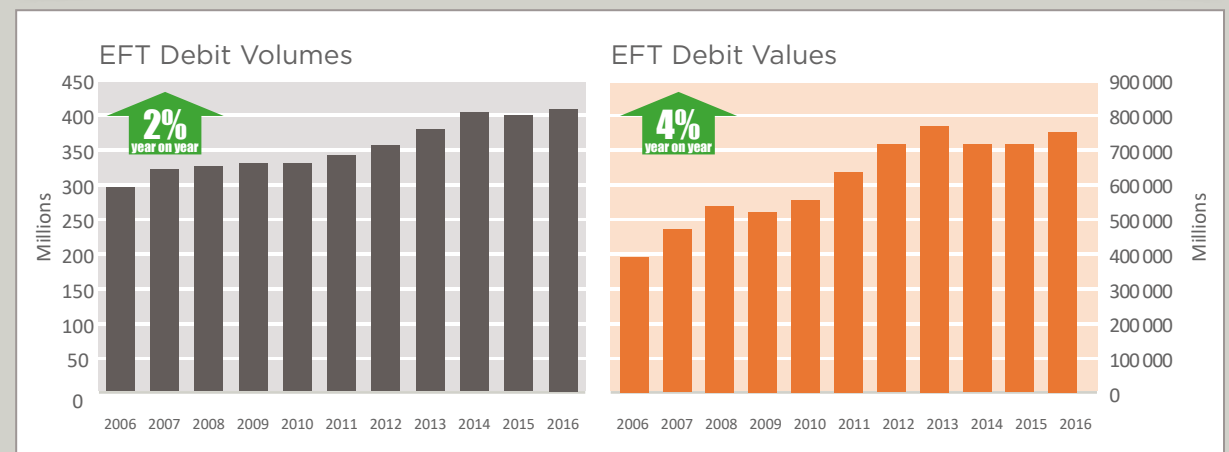
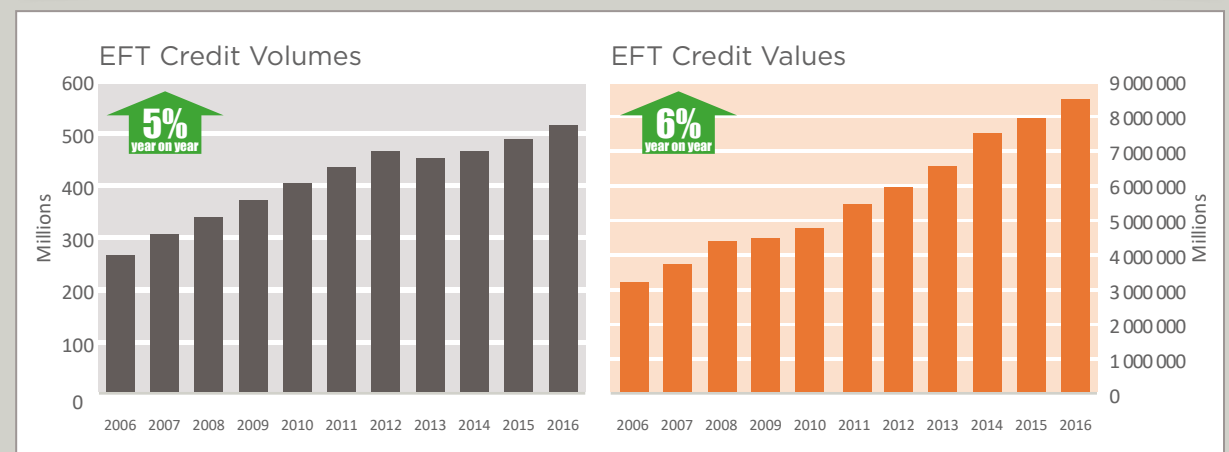
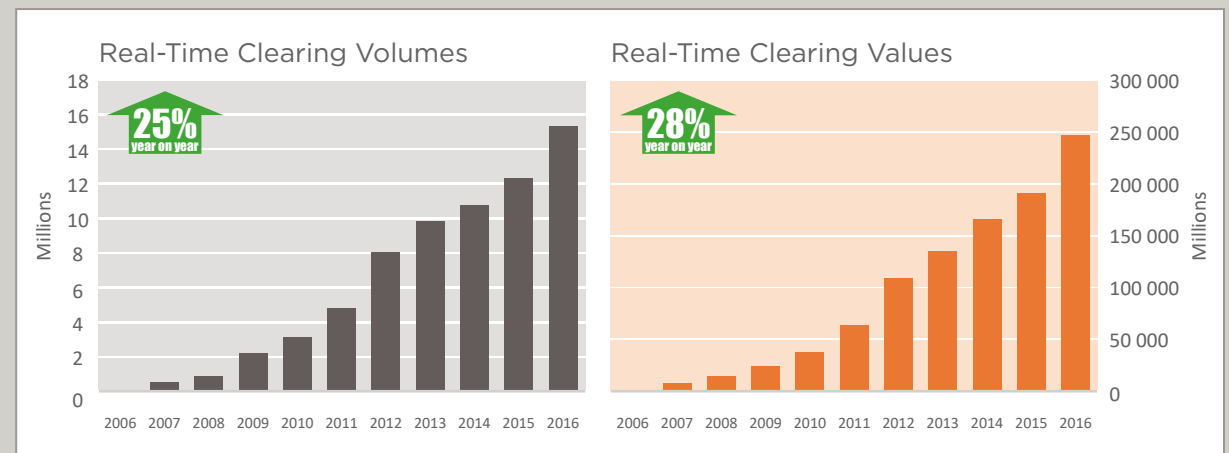
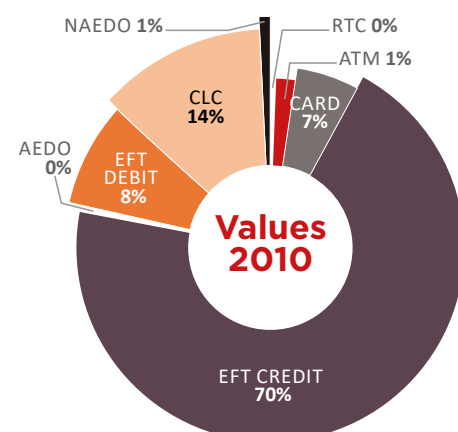
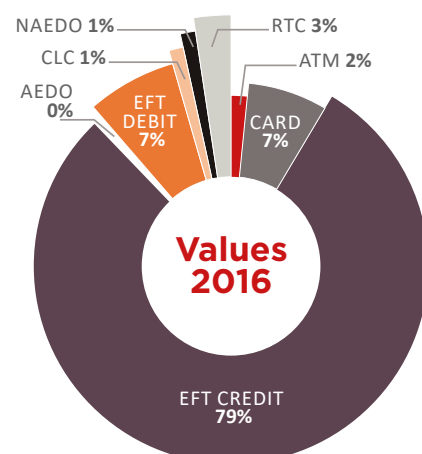
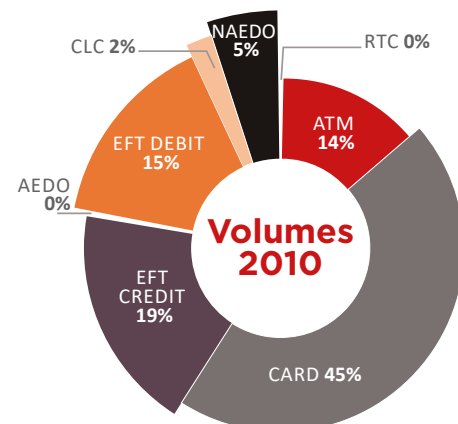
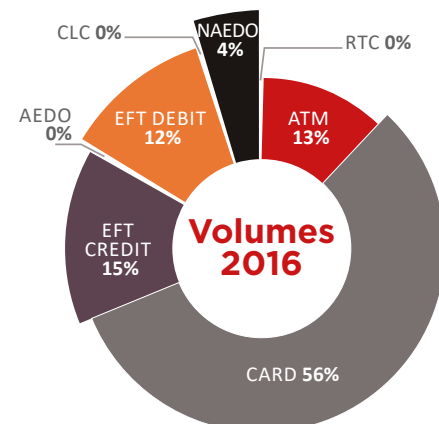
DR ALEWYN BURGER
Chairperson

WALTER VOLKER
Chief Executive
Officer

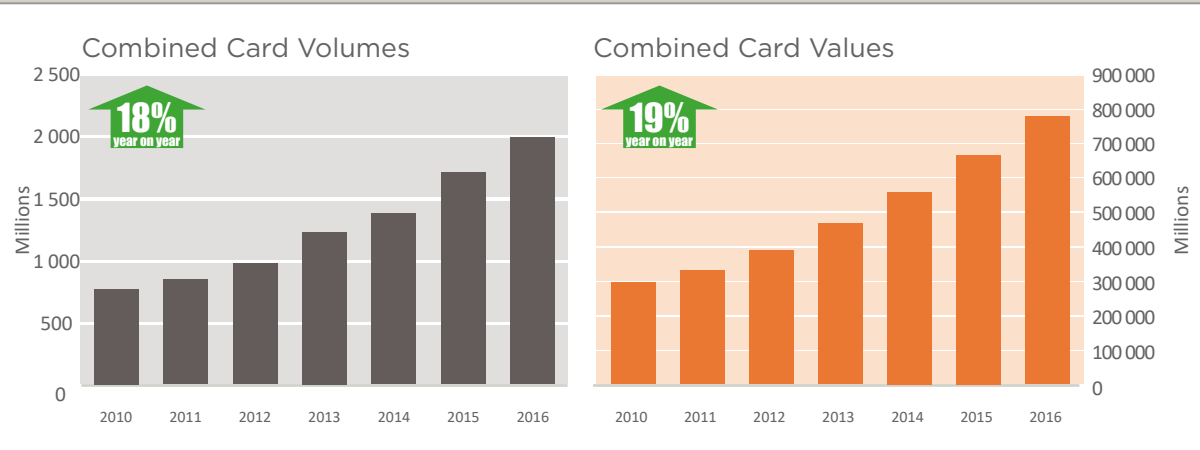
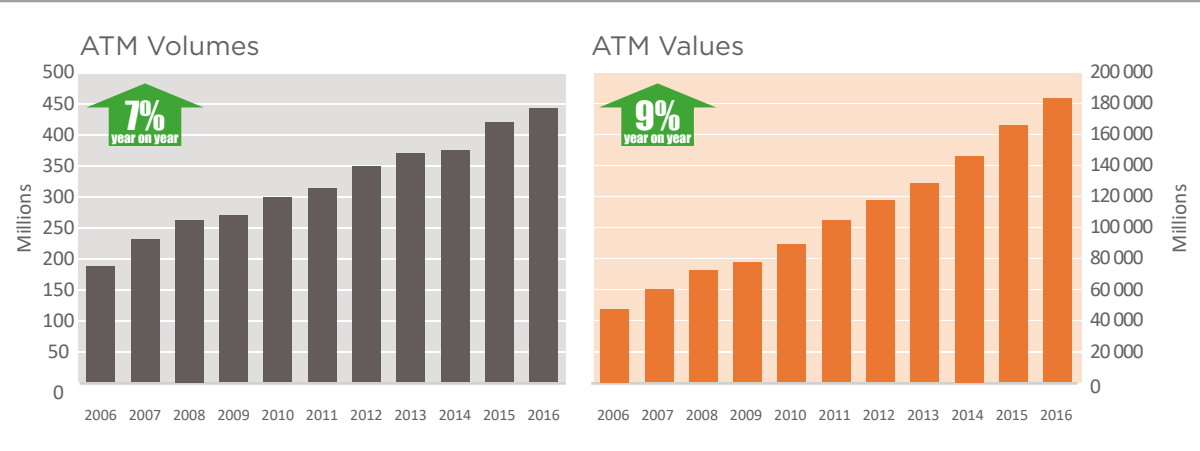
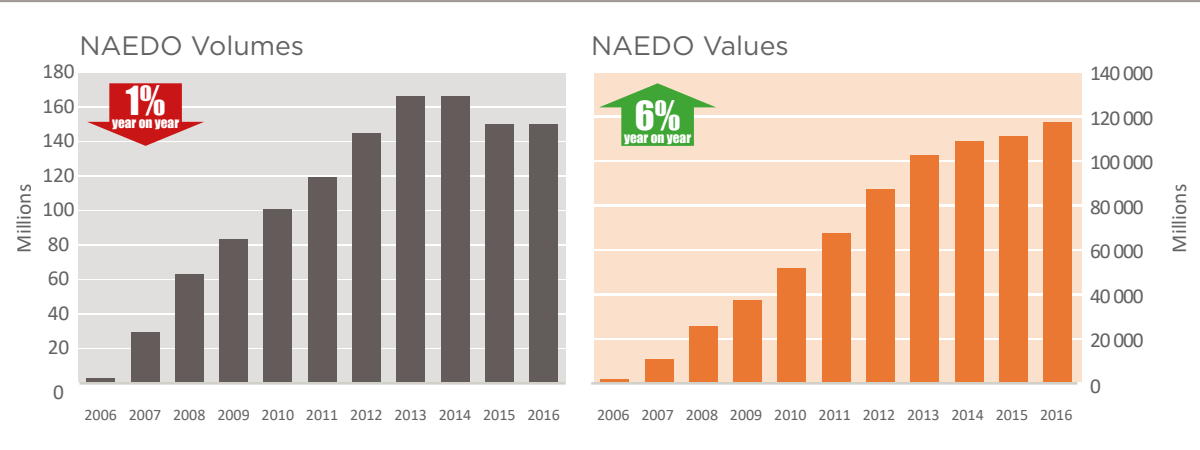
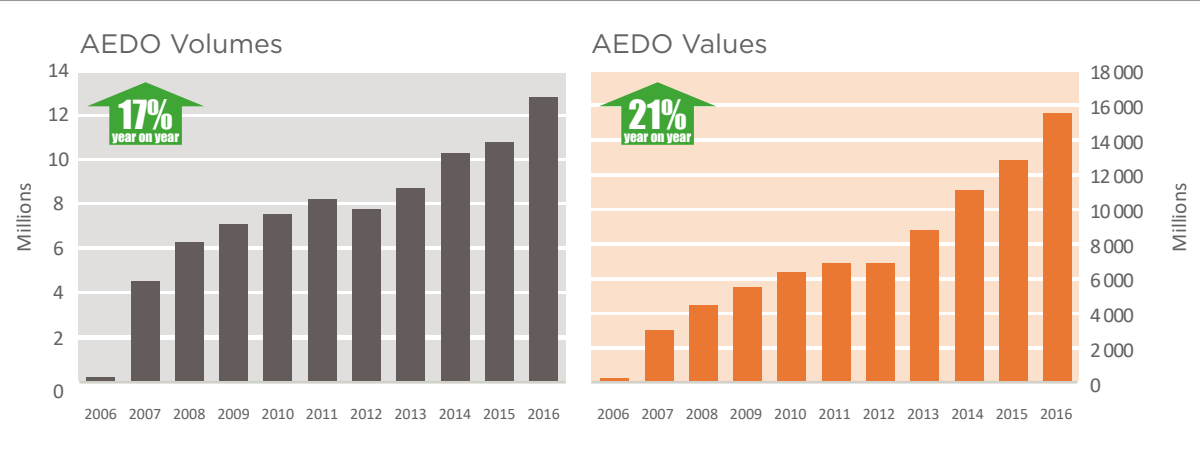
2 AT A GLANCE



Retail payments were apportioned as indicated below



AT A GLANCE



3 GOVERNANCE

3.1 Purpose, Vision, Mission and Goals

Purpose

PASA exists to facilitate payments in the interest of economic development of South Africa, thus serving South Africa as a whole, while aligning with the policies of the SA Reserve Bank and the interests of the NPS.

Vision

PASA aspires to be acknowledged as world class, in assisting in the evolution and oversight of the payments industry.

Mission

The mission of PASA is to manage and develop the NPS and facilitate integration with international payments.

Goals

PASA has set the following goals to achieve its mission:

- Financial stability;
- Risk management;
- Fairness and transparency;
- Innovation;
- Access;
- Inclusion;
- Efficiency;
- Competition;
- Sustainability;
- Interoperability; and
- Legal certainty.

The objectives of PASA are aligned with the above and the attainment of our objectives constitutes the benchmark for the value and positive contribution that we strive to add to the country as a whole.

In 2016 it became apparent that the future alignment with National Policy objectives, Principles for Financial Market Infrastructures,

and developing international standards and principles, will be necessary to remain world class and in achieving its own Vision and Mission statements. This came about as a result of the proposed restructuring of the Regulatory Framework of the financial industry through the Financial Sector Regulation Bill and the proposed recommendations in the Report on the PASA Review.



3.2 PASA Council

3.2.1 PASA Council Composition

The composition of PASA Council is determined by the PASA Constitution. With the exception of the representative of the SA Reserve Bank and the Chief Executive Officer of PASA, who are Ex-officio Councillors, up to three Independent Councillors may be appointed by PASA Council, and currently seven Councillors may be appointed by members.

PASA Council is therefore comprised of an Independent Chairperson and Independent Councillor, as well as Councillors appointed by:

- Any PASA Members with an output representing more than 10 % of the total, as a product of value and volume cleared through the interbank systems during the previous year. In practice, this currently adds up to four members;

- Three PASA members elected by the rest of the members (commonly referred to as the “lower volume and value banks”);
- The Chief Executive Officer of PASA (Ex-officio and voting); and
- The SA Reserve Bank (Ex-officio and non-voting).

The appointment of Independent Councillors, and the election of a Deputy Chairperson from such Councillors, will start during 2017.

Councillors have a fiduciary duty to act independently and objectively in the interests of PASA and the National Payment System.

INDEPENDENT CHAIRPERSON	PRINCIPAL COUNCILLOR	ALTERNATE COUNCILLOR
Dr. Alewyn Burger	Hendrik Pelser	Jaap Cornelius
	Jill Murtagh	Neil Capazorio
	Dirk Ehlers	Marthinus Janse van Rensburg
	Dean Marais	Kumaran Selvarajalu (<i>Resigned during November 2016</i>)
	Rufaida Ismail	Wouter Kielblock
	Ilze Wagener (<i>Resigned during July 2016</i>)	Ian Carter
	Michael Daniels	Idrees Kolabhai
	Tim Masela (<i>SA Reserve Bank</i>) (<i>Ex-Officio</i>)	Edward Leach (<i>SA Reserve Bank</i>) (<i>Ex Officio</i>)
	Walter Volker (<i>CEO</i>) (<i>Ex-Officio</i>)	



From left to right: Pierre Coetzee (Company secretariat); Tim Masela; Hendrik Pelser; Edward Leach; Rufaida Ismail; Walter Volker; Idrees Kolabhai; Jill Murtagh; Ian Carter; Dr. Alewyn Burger; Dirk Ehlers; Michael Daniels; Jaap Cornelius; Nicolette Nortje (Administrator); Dean Marais
Absent: Kumaran Selvarajalu; Neil Capazorio; Marthinus Janse van Rensburg; Wouter Kielblock; Ilze Wagener

3.2.2 Induction and On-Going Development of PASA Councillors

In terms of the Nomination and Induction Committee (NIC) Constitution, the role of the NIC is, inter alia, to assist PASA Council to ensure that induction and on-going training and development of PASA Councillors takes place. The NIC oversees the development and implementation of a formal induction programme for new PASA Councillors, as well as the development and implementation of continuing professional development programmes for PASA Councillors or to identify such programmes which should be attended by PASA Councillors, where necessary.

3.2.2.1 Induction Training

The following PASA Councillors attended the PASA Induction Training provided by the PASA Secretariat during 2016:

- Michael Daniels
- Idrees Kolabhai
- Dean Marais

3.2.3 Performance Assessment/ Appraisal Process

The performance of PASA Councillors is annually appraised by the PASA Council Chairperson and discussed with each PASA Councillor.

3.2.4 PASA Council Meetings

Six meetings were held during the year on the following dates:

- Monday, 29 February 2016
- Thursday, 21 April 2016
- Monday, 1 August 2016
- Monday, 10 October 2016
- Friday, 25 November 2016

3.2.5 PASA Council Strategy Sessions

Apart from the regular PASA Council meetings held throughout the year, PASA Council also meets offsite two or three times a year to allow for more robust discussion on key focus areas and strategic matters.

Matters discussed at these strategy sessions during 2016 were, inter alia:

- PASA Review
- Potential Membership Model
- Potential PASA Council Composition

3.3 Nomination and Induction Committee



From left to right: Pierre Coetzee (Company secretariat); Ian Carter; Tim Masela; Nicolette Nortje (Administrator); Dr. Alewyn Burger

3.3.1 Role and Functions

The Committee has an independent role, operating as an overseer and maker of recommendations to PASA Council for its consideration and final approval.

The role of the Committee is to assist PASA Council to ensure that:

- PASA Council has the appropriate composition to execute its duties effectively;
- Councillors are nominated and appointed through the formal process as outlined in the PASA Constitution; and
- Induction, on-going training and development of Councillors take place.

An annual assessment of PASA Council and Councillors is a formal process. For this purpose the Committee may appoint independent third parties to perform the actual assessment or any such person with the necessary experience and skills.

3.3.2 Composition

The Nomination and Induction Committee was comprised of:

- The independent Chairperson of PASA Council – Dr. Alewyn Burger
- The Councillor appointed by the SA Reserve Bank – Tim Masela

- Two Councillors appointed by PASA Council:
 - Ilze Wagener (resigned during 1 July 2016)
 - Kumaran Selvarajalu (resigned during November 2016)
 - Ian Carter (appointed during 2016)

3.3.3 Appointment Procedures

The appointment of PASA Councillors follows a formal process and requires any eligible member/s to consult with the Committee before a PASA Councillor is appointed. The Committee advises eligible members with regards to the appropriate mix of seniority, skills, experience and diversity required on PASA Council.

The Committee has, on an on-going basis, assessed the skills of PASA Councillors in order to determine the 'needs' of PASA Council and has advised eligible members accordingly.

3.3.4 Number of meetings held

Two meetings were held during the year on the following dates:

- Friday, 12 February 2016
- Thursday, 19 May 2016

The Committee resolved a number of the time-critical matters on a round-robin basis.

3.4 Audit Committee



From left to right: Hendrik Pelser; Nicolette Nortje (Administrator); Pierre Coetzee (Company secretariat); Idrees Kolabhai

3.4.1 Role and Functions

The primary role of the Committee is to assist PASA Council in fulfilling its oversight responsibilities as they relate to PASA's accounting and financial reporting practices.

The Committee's responsibilities relate to specific areas such as the external financial auditors, financial statements, the Annual Report, the position, performance, prospects of PASA and appropriateness of the accounting policies. The Committee also agrees on an annual Committee work plan prior to the following financial year to ensure that all matters are adequately dealt with and considered by the Committee during the financial year, as well as deal with any other matters formally delegated by PASA Council to the Committee from time to time.

3.4.2 Composition

The Audit Committee comprised of:

- Two Councillors appointed by PASA Council:
 - Hendrik Pelser
 - Idrees Kolabhai

Although the PASA EXO Executive responsible for financial matters should also attend Committee meetings, Charles Botes from the Banking Association, responsible for financial matters, as well as Pierre Coetzee, from a governance continuity perspective, attended meetings in 2016.

The CEO remained responsible for overall financial management in PASA.

3.4.3 Financial Report

The Audit Committee confirmed the independence of the audit firm (SizweNtsalubaGobodo Inc.), which confirmed that PASA is a going concern. The 2015 Annual Financial Statements were accepted by the Audit Committee, PASA Council and approved by Members at the Annual General Meeting.

PASA is funded by its members annually. The 2016 PASA budget was monitored against expenditure during the year by the PASA CEO and the Audit Committee. The budget for 2017 was compiled by the CEO, reviewed by the Audit Committee and approved by PASA Council at the November 2016 PASA Council meeting.

3.4.4 Number of Meetings Held

Four meetings were held during the year on the following dates:

- Tuesday, 9 February 2016
- Monday, 11 April 2016
- Monday, 5 September 2016
- Thursday, 27 October 2016

In addition to these meetings, the Audit Committee was involved in the finalisation of the Annual Financial Statements and on-going communication and committee discussions in the preparation of feedback to PASA Council.

3.5 Appointments and Remuneration Committee



From left to right: Jill Murtagh; Dirk Ehlers; Walter Volker; Dr. Alewyn Burger

3.5.1 Role and Functions

The primary role of the Committee is to:

- Continually review and propose guidelines in respect of the PASA EXO remuneration system for its executives and senior management, including contractors with a view to ensuring industry alignment, relevance to market related practice so as to attract and retain the right staff; and
- Approve and make recommendations to PASA Council on the appointment of executives.

3.5.2 Composition

The Appointments and Remuneration Committee was comprised of:

- The Chairperson of PASA Council – Dr. Alewyn Burger
- Councillor – Dirk Ehlers
- Councillor – Jill Murtagh (Chairperson of Committee)

The Committee conducted a performance assessment of the CEO and EXO and found that performance was generally of a high standard. A salary benchmarking exercise was also performed and subjective recommendations were made with respect to salaries, retention packages, performance and resource requirements.

3.5.3 Number of Meetings Held

Four meetings were held during the year on the following dates:

- Thursday, 21 April 2016
- Monday, 3 October 2016
- Friday, 4 November 2016
- Friday, 25 November 2016

3.6 General Meetings

The Annual General Meeting was held on 21 April 2016. Both the 2015 Annual Report and the Annual Financial Statements were adopted at the meeting and PASA Councillors appointments were confirmed.

3.7 PASA Constitution

The PASA Constitution was amended for the appointment of Independent Councillors and the election of an independent Deputy Chairperson. The amendments were approved by Members and supported by the SA Reserve Bank.

3.8 PASA Policies

3.8.1 Compliance Enforcement Policy

In order to align with the SA Reserve Bank's final report on the PASA Review, specifically with regards to the rulemaking and compliance enforcement functions within PASA, a review of the PASA Compliance Enforcement Policy was undertaken. This resulted in a rewrite of the Policy, with a clear focus on introducing independence into the Compliance Enforcement process, as well as a clear separation of the rulemaking and the rule enforcement responsibilities.

The new Policy was approved by PASA Council during November 2016, and makes provision for the appointment of Independent Consultants, who will serve on the Compliance Enforcement Panel, as well as on the PASA Council Compliance Enforcement Sub-committee. The Council Compliance Enforcement Sub-committee will also comprise the Independent Chairperson and the Independent Deputy Chairperson of PASA Council.

In order to give effect to the SA Reserve Bank's approach on independence and segregation of compliance and legal drafting roles, PASA Council approved the appointment of a legal resource that will be responsible for, and dedicated to the drafting of rules in PASA.

3.9 Legal and Regulatory updates

3.9.1 PASA Review

The SA Reserve Bank performed a review of PASA's institutional, regulatory and governance frameworks to ensure the effective fulfilment of its mandate as provided for in the NPS Act. The review process started in 2015 with a stakeholder survey that culminated in the development and publication of a "Payment System Management Body (PSMB)/PASA model review consultation paper" by the SA Reserve Bank during October 2015. The initial scope of the review process included a comprehensive review of the broader PSMB model, also known as a Self-Regulatory Organisation (SRO) model, along with the PASA Review. The Final Report on the PASA Review was issued by the SA Reserve Bank during July 2016 and contains 19 recommendations, together with action points against each recommendation.

The SA Reserve Bank will facilitate a coordinated approach to support the implementation of these recommendations and actions against specific and measurable milestones and timelines. This will include consultation with the responsible entities to ensure a streamlined process, provide clarity and avoid duplication of efforts between the SA Reserve Bank, National Payment System Department and, specifically, PASA. The SA Reserve Bank is of the view that the recommendations, once implemented, would greatly enhance the effectiveness of PASA for the benefit of the broader NPS.

3.10 Risk Management

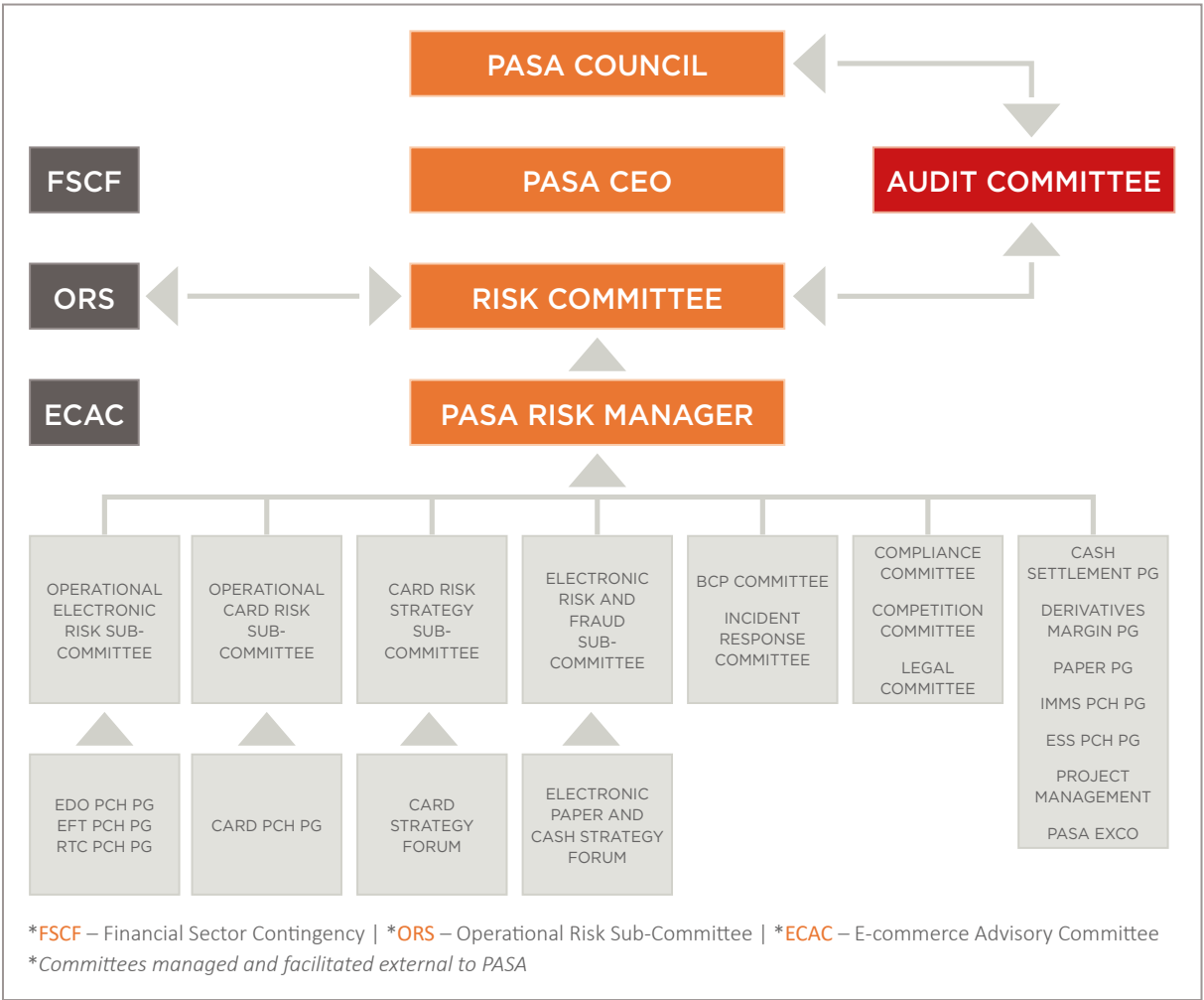
3.10.1 Overview

An improved Risk Management regime supports PASA’s mission to manage and develop the NPS and facilitate integration with international payments.

Since the inception of the PASA Risk Management function in August 2014, the risk function has embarked on a journey of development and operationalisation. With the development phase complete, the function has progressed to the operationalisation phase in 2016 which involved the implementation of the PASA Risk Management Framework.

3.10.2 Risk Governance Structure

The Risk Policy outlines the roles and responsibilities of key Stakeholders within the PASA Executive Office and the payments industry. The below diagram shows how the risk governance structure is set out in the PASA Risk Policy and how the PASA Structures’ risk management accountability feeds into PASA Council via the PASA Executive Office.



3.10.3 Summary of Key Risk Exposures

Identifying and monitoring of key risks is an essential part of the PASA’s risk management process. These risks are continuously identified, analysed through impact risk ratings which are debated by the appropriate PASA Structures and reported to the PASA Risk Committee and PASA Council for oversight.

Current key risks identified during the period under review are outlined below.

KEY RISK	MITIGATION STRATEGY
CYBER SECURITY 	<ul style="list-style-type: none">▪ PASA participation in the FSCF Cyber Security Workgroup at the SA Reserve Bank to address cyber security risk.▪ The Incident Response Committee is a PASA structure mandated to address data compromise within the industry.
OPERATIONAL RISK 	<ul style="list-style-type: none">▪ The enhancement of the automation of incident management reporting as part of the PASA incident management process has proven valuable.
DEBIT ORDER ABUSE 	<ul style="list-style-type: none">▪ The Establishment of the Debit Order Abuse Task Team.▪ The implementation of User Debit Order Abuse Rules.

3.10.4 Managing the Risk Profile

Effective Risk Management is key to the successful execution of the objectives of the organisation and is based on:

- A risk-focused culture and effective risk governance structure applied consistently throughout the PASA structures.
- The optimisation of the level of risk, governance and control oversight of the PASA risk landscape through the implementation of the PASA risk management framework principles.
- A combined assurance approach to integrate, coordinate and align risk management and assurance processes within the organisation.

3.10.5 Achievements

Incident Management – one of the highlights achieved was the enhancement of the automation of incident management reporting within PASA. This exercise has resulted in a risk based capturing and reporting approach to incidents, which has improved the quality of information received. This initiative will produce the benefit of quality risk analysis of incidents in the payment environment which will in turn contribute to an efficient way of managing industry incidents.

Training and education – the enhancement of Risk Management knowledge among the various PASA structures through the facilitation of risk and control self-assessments held throughout 2016 was successful. This resulted in the formulation of a quality risk profile for the industry.

4 MEMBERSHIP

3.11 Compliance Management

3.11.1 Key Focus Areas

During 2016, the following matters enjoyed priority in terms of Compliance Management and Enforcement:

- **Amendment to the PASA Compliance Enforcement Approach.** During November, PASA Council approved a new Compliance Enforcement Policy for implementation. This Policy will come into effect on 1 February 2017. Under the new Policy, compliance will be enforced by a newly created Compliance Enforcement Panel composed entirely of independent legal experts. The main aim of the new Policy is to promote transparency and reduce possible conflict of interest by creating clear Chinese walls between rule making and rule enforcement.
- **Debit Order Abuse.** 2016 saw the finalisation and implementation of the much awaited User Debit Order Abuse (UDOA) Rules. The UDOA Rules creates formalised processes in respect of the investigation of alleged Debit Order Abuse and the management of debit order abuse identified.

In addition to the UDOA Rules, PASA has also embarked on the process of identifying additional measures that can be implemented to address debit order abuse. A specially created PASA Structure, the Debit Order Abuse Task Team (DOATT) has been mandated by PASA Council to drive this process.

- **3D Secure and PCI DSS.** In June 2016 PASA Council imposed financial sanctions against the Acquiring Banks of Level 1 Merchants who had not yet implemented PCI DSS. The Card PCH PG further reviewed the current status of PCI DSS implementation across all Card accepting Merchants, and have implemented a compliance management regime aligned to the Card Schemes, Visa and MasterCard, in respect of PCI DSS. With respect to 3D Secure, the Card PCH PG also agreed on a Merchant Fraud Prevention programme which centres on risk-based monitoring of merchants with regards to Card-Not-Present (CNP) fraud, and concomitant risk-based compliance enforcement.

3.11.2 Compliance Scorecard

FORUM	TOTAL PENALTY IMPOSED	NATURE OF NON-COMPLIANCE
PASA Council	R6 174 656.00	<ul style="list-style-type: none"> ▪ Non-compliance to Abbreviated Short Name requirements ▪ Debit order abuse ▪ Non-Compliance to PASA Regulatory Framework ▪ PCI DSS Non-Compliance
Card PCH PG	R100 000	<ul style="list-style-type: none"> ▪ 3D Secure non-compliance

4.1 PASA Membership

There are currently 30 direct clearing members, of which two are non-banks designated by the SA Reserve Bank as Designated Clearing System Participants.

Three new applicants have been granted provisional Membership of PASA. China Construction Bank became a full PASA Member in July 2016.

PASA Members are:

African Bank Ltd	FirstRand Bank Ltd	Sasfin Bank Ltd
Albaraka Bank Ltd	Grindrod Bank Ltd	Societe Generale, JHB Branch
Absa Bank Ltd	Finbond Mutual Bank	South African Post Office
Bank of China, JHB Branch	Habib Overseas Bank Ltd	South African Reserve Bank
Bidvest Bank Ltd	HBZ Bank Ltd	State Bank of India
BNP Paribas, SA Branch	HSBC	The SA Bank of Athens Ltd
Citibank NA South Africa	Investec Bank Ltd	The Standard Bank of SA Ltd
China Construction Bank	ICICI Bank	UBank Ltd
Capitec Bank Ltd	Nedbank Ltd	VBS Mutual Bank
Diners Club SA Ltd	JPMorgan Chase Bank N.A, JHB Branch	Standard Chartered Bank, JHB Branch

4.2 PCH Membership

A Payment Clearing House (PCH) is the defined business structure that the participants of a Clearing System join and which manages the day-to-day operation of a Payment System through a PCH Participant Group.

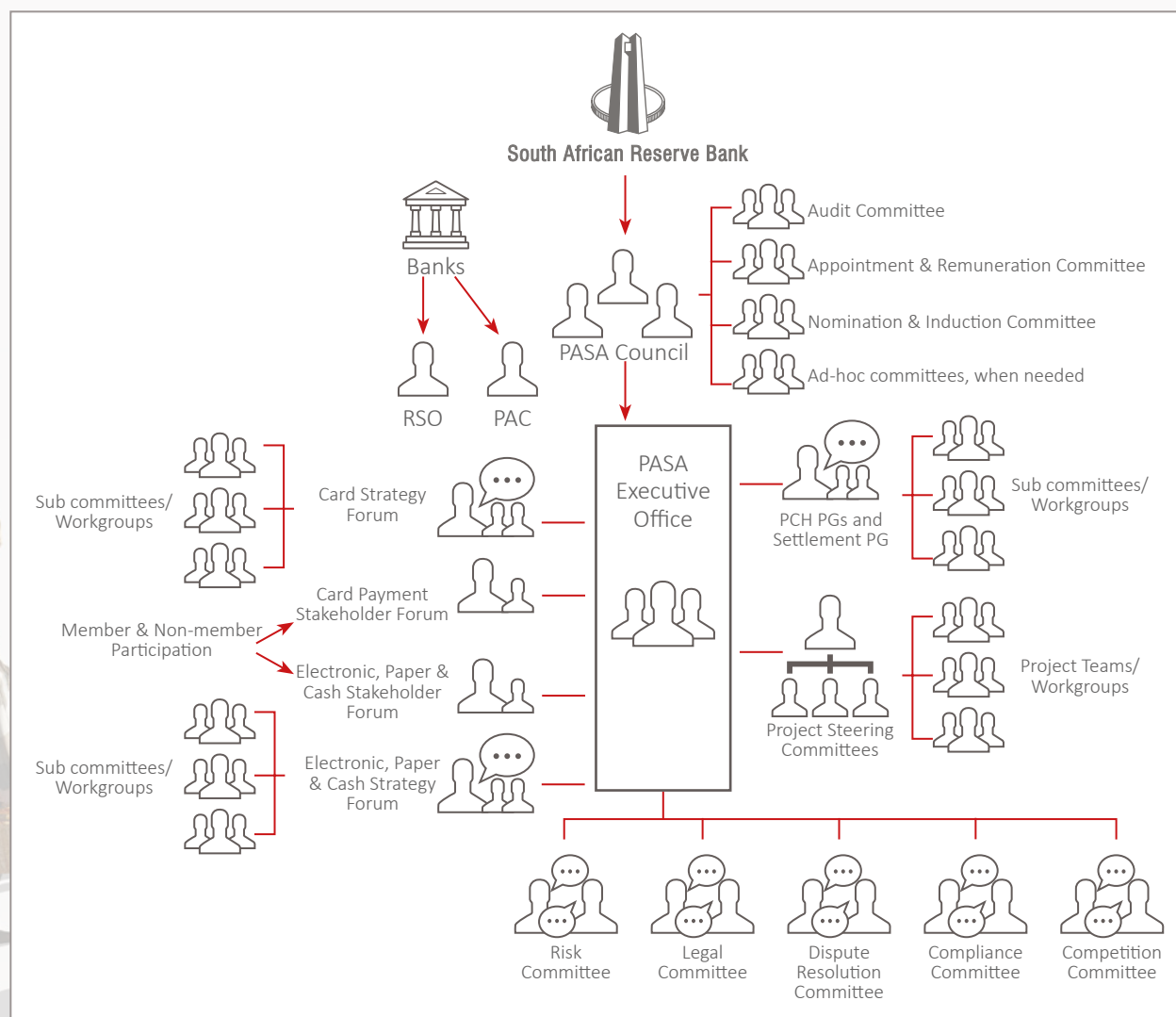
The following diagram sets out the PCH Structure for 2016.

Card Payments PCHs	Electronic Payments PCHs	Markets PCHs
MEMBERS 19 ATM & SSD PCH MEMBERS 19 DEBIT CARD PCH MEMBERS 11 CREDIT CARD PCH MEMBERS 5 FLEET CARD PCH MEMBERS 5 AMEX PCH MEMBERS 7 DINERS PCH	MEMBERS 26 EFT DEBIT PCH MEMBERS 27 EFT CREDIT PCH MEMBERS 12 RTC PCH MEMBERS 9 CASH PCH MEMBERS 8 AEDO PCH MEMBERS 11 NAEDO PCH MEMBERS 12 PAPER PCH	MEMBERS 8 BONDS PCH MEMBERS 8 EQUITIES PCH MEMBERS 8 MONEY MARKET PCH MEMBERS 6 DERIVATIVES PCH

5 PASA STRUCTURES

The PASA Committees (PASA structures) form an integral part of the governance model of PASA and underpins the self-regulatory nature and core functioning of PASA. Payment Clearing House Participant Groups (PCH PGs) and the Card Strategy Forum have decision making powers and receive support and input from their respective sub-committees accordingly.

Subject matter expert committees, such as the legal, competition, compliance and risk committees essentially provide advisory services to PASA Council, the Executive Office and other PASA Structures.



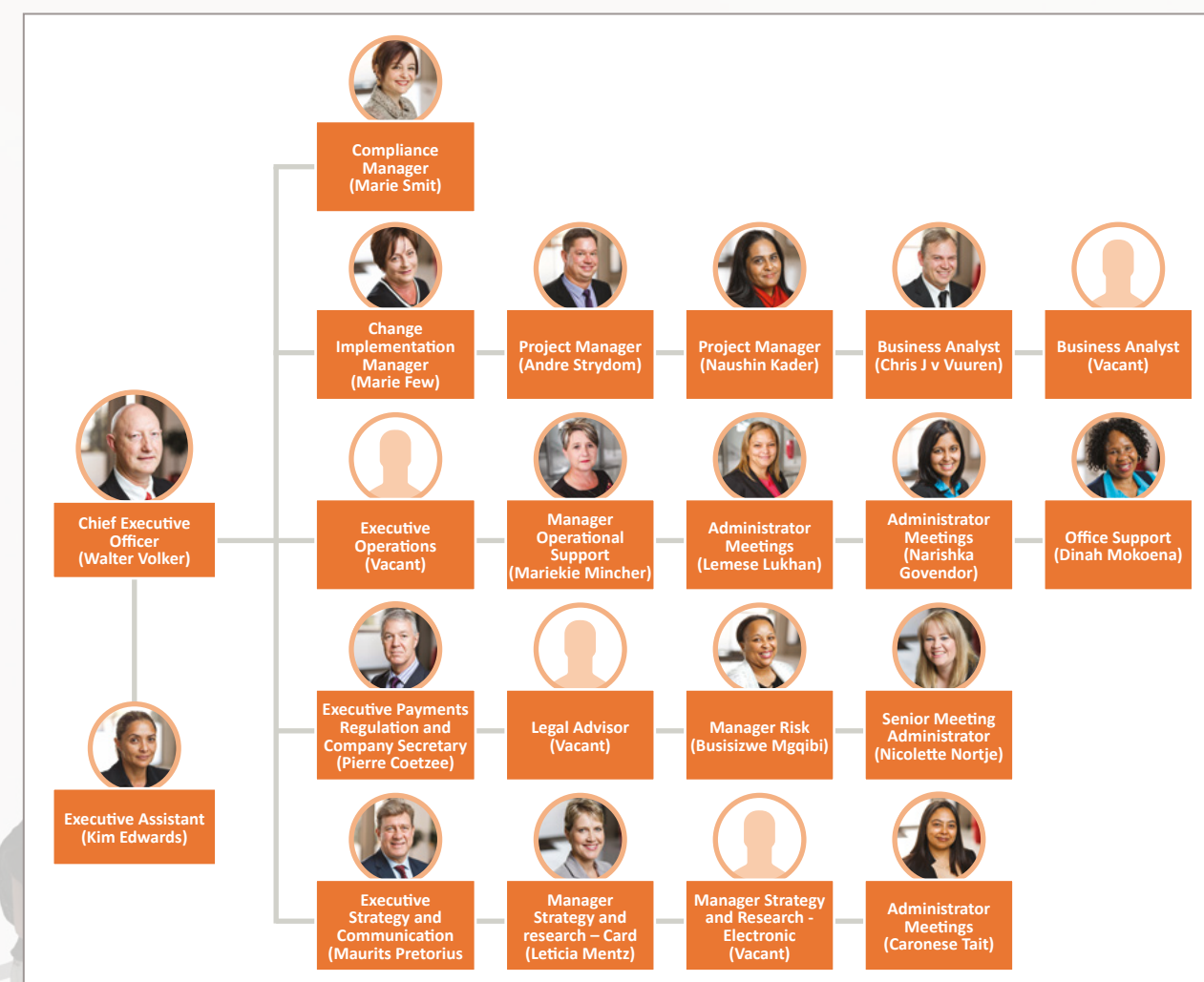
RSO – Responsible Senior Office (appointed by PASA Member CEO)
PAC – PASA Authorised Contact (appointed by PASA Member RSO)
 Representatives in various committees are appointed by PAC.

6 PASA EXECUTIVE OFFICE (EXO)

The main role of PASA EXO is to execute the instructions of PASA Council and to perform value adding administrative, professional and executive functions on behalf of PASA under the guidance and control of the CEO who derives his mandate and authority from PASA Council. In the course of 2016 the PASA EXO Structure and capability was critically examined by the Appointments and Remuneration Committee. It was recommended that the complement be increased from 21 to 30 full time equivalents. This will be implemented in 2017. A number of initiatives were undertaken to

contribute to an improved working environment and to further professionalise the PASA Executive Office.

Changes to PASA's office layout, capacity, employee policies, incentive schemes and performance processes were made and will collectively ensure that PASA attracts the right future, talent and that a climate aligned with our future mandate and role can be established well in advance of further possible changes flowing from the PASA Review.



7

STRATEGY

During 2016, a new Executive for the Strategy and Communications team was appointed. This area continues to take responsibility for research, the facilitation of strategic dialogue and collaborative strategy development and planning, which includes the prioritisation of strategic initiatives by the industry. This is mainly effected in two strategic forums specifically created for this purpose, namely the Card Strategy Forum and the Electronic, Paper and Cash Strategy Forum. The guidance on strategic priorities flowing from these Forums has informed PCH priorities and actions and many of the programmes that PASA undertook in the course of 2016 and over the past number of years. It has also allowed PASA to engage other payments stakeholders in the respective forums created for that purpose with a clear and consistent plan of action related to particular aspects of the payments system.

In 2016 the specific contribution of this area included:

- A critical examination of options and choices that supported a re-planning of the Authenticated Collections programme that eventually lead to the acceptance of staged implementation approach by the industry and the SARB.
- Establishment of specific sub-structures and Workgroups that contributed to traction in the Authenticated Collections programme, most notably the constitution of a Technical Design Authority for AC.
- Support of a PASA Council strategic dialogue process mainly focused on reaching shared understanding and crystallising ideas and options that can be taken forward in the implementation of the PASA Review.
- Proposal of certain ideas and structures to the SARB that could support and expedite the implementation of the 19 recommendations in the PASA Review.
- An organisational analysis and review of current PASA EXO capabilities with certain recommendations for interim changes until the implementation of the PASA Review has been fully completed.

Of particular importance is the development and expansion of PASA's role in the collaborative, industry wide change management space. This is where the Authenticated Collections programme set a different tone and expectation for synchronised communication, singular industry narratives and naming conventions, consumer education, stakeholder management and centralised implementation support which includes the development of toolkits and artefacts that the banks can use in the implementation and operationalization of the Authenticated Collections programme. This initial foray into coordinating industry wide change management efforts is likely to permanently step-up PASA's capacity to add value in this space.

Towards the end of 2016, the Modernisation Steering Committee also supported that PASA validate its modernisation efforts further and priorities against fact based research and a comprehensive strategic review of the electronic payments environment. This work will include the evaluation of global best practices against an understanding of local socio-political and economic challenges, evolving consumer and user needs and an unfolding regulatory landscape that will impact the future electronic payments landscape. Together with BankservAfrica, a funding and execution partner for this piece of work, a RFP was compiled and issued to interested Vendors late in 2016. The final selection of a Vendor and the detailed scoping of the work will continue in 2017. Going forward, this work will most likely be driven in close consultation with the Electronic, Paper and Cash Strategy Forum.

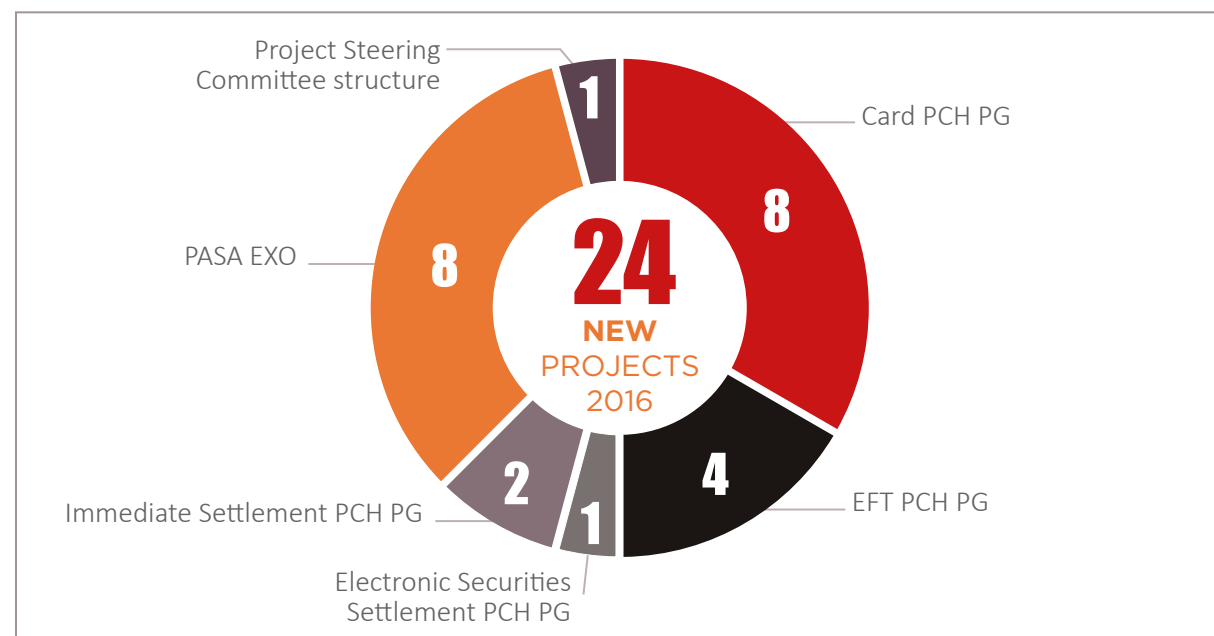
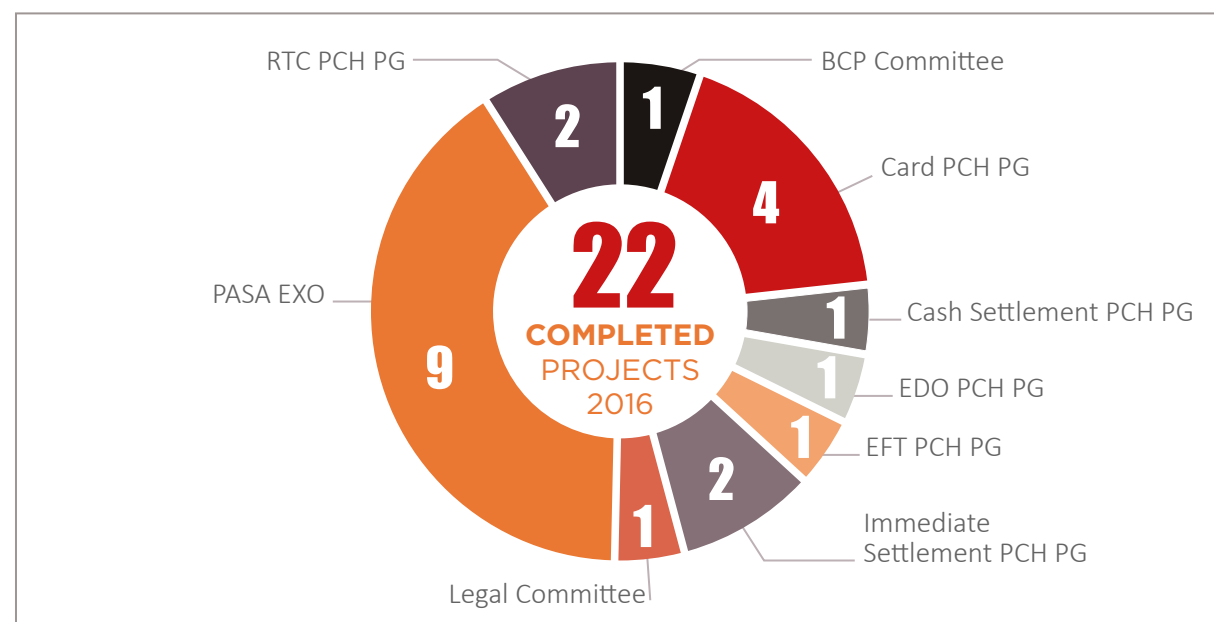
8 PASA PROJECT OFFICE

The PASA project management methodology was introduced in 2014 and over the past 3 years all PASA projects have been initiated and completed following the methodology. At this point the methodology is well established and the benefits of a project management methodology and Project Office are being realised, such as project visibility, stakeholder alignment, defined and documented project objectives and requirements.

During 2016 vast progress was made on a number of high priority Card projects which will result in finalisation during 2017. A number of smaller

projects were completed, i.e. the redesign and implementation of the PASA website and PCH PG Membership application implementations. In the Electronic Payment System environment the effort and focus remained on two programmes: Authentication Collections and Modernisation of Payments.

The following diagrams provide an overview of the portfolio performance.



9 TOP INITIATIVES FOR 2016

9.1 Authenticated Collections

The Authenticated Collections (AC) project was initiated in response to the SA Reserve Bank policy decision during 2013 to no longer allow Authenticated Early Debit Orders and Non-Authenticated Early Debit Orders to be processed at the same time.

The outcome of this project will be that only debit orders that are authenticated by consumers will be allowed for processing in the early processing window.

While the industry originally worked towards 1 October 2016, as the date from which all new Early Debit Orders had to be authenticated electronically, there were concerns around the potential systemic impact that a project of this size and nature could have on the payment system. After a thorough review by the industry, the SA Reserve Bank approved a phased implementation plan where this solution will first be piloted, then slowly ramped up and phased in. The new phased implementation approach allows companies to continue to collect existing or current mandates that are processed in the early processing window until these are migrated to authenticated Debit Orders. It will also allow the origination of unauthenticated mandates for a limited period, until the new approach is fully phased in.

9.2 Modernisation of Payments

The Modernisation of Payments Programme, previously referred to as the ISO 20022 project, was reshaped and now enfoldes four main project focus areas namely strategic research and prioritisation, High Value Credits, Low Value Credits and Debit Payment Systems. The progress on this programme was limited during 2016, due to the focus on the Authenticated Collections project. A new Steering Committee was established during December 2016 and the revised programme roadmap defining the milestones will be submitted to the Steering Committee at the beginning of 2017.

9.3 Revised Card Interchange Rates

The SA Reserve Bank issued a letter during September 2016 confirming Interchange Rates relating to ATM, cash-back and card transactions. With no changes to the structure of the interchange for card-present transactions, the only rate change was applicable to card-not-present transactions. The revised interchange rates were implemented during November 2016, as directed by the SA Reserve Bank.

9.4 Biometrics CVM Project

During 2016, the formal Biometric Card Holder Verification Method (CVM) project continued to receive attention in the PASA environment, with the objective to design and develop a fully interoperable Biometric CVM Acceptance Specification. The business requirements were defined by a dedicated industry Workgroup and the CSIR (The Council for Scientific and Industrial Research). The CSIR was the body that represented SASSA on the Biometric CVM Project. In turn, the Specification was developed as a joint effort by MasterCard, Visa, PASA and PASA Members and was submitted to EMVCo for adoption as an international standard.

9.5 ATM and Card Acceptance Data Integrity Projects

Many concerns around data quality in the Card acceptance environments, ATM and POS were identified during the 2015 Card Interchange project. Two projects were initiated to create a monitoring and reporting capability in order to improve transaction data quality.

The ATM Data Integrity Project implementation date is planned for June 2017, while the POS Data Integrity capability is more complex and will be implemented in a phased approach.

10 INDUSTRY ENGAGEMENT

10.1 Stakeholder Forums

Engagement between PASA, its Members and Stakeholders form an integral part of assessing and understanding the broader payments landscape. These engagements provide valuable insight and input into shaping the payments landscape on all levels, including operational, regulatory and strategic matters.

PASA manages and facilitates two main Stakeholder Forums, namely the Card Payment Stakeholder Forum and the Electronic, Paper and Cash Stakeholder Forum.

The **Card Payment Stakeholder Forum** focusses on Card related matters and continue to be well attended by Stakeholder bodies such as SARPIF (South African Retailers Association) and SAVRALA (Southern African Vehicle Rental and Leasing Association), a number of big retailer groups, System Operators, Card Schemes and banks. Key themes for 2016 included regular updates on key industry projects, deeper insight and knowledge sharing relating to new Card payment trends and regular reviews of Card fraud trends.

The **Electronic, Paper and Cash Stakeholder Forum** focusses on electronic, paper and cash payment stream related matters. During 2016, this Forum was mainly used to discuss key electronic projects such as Authenticated Collections and Modernisation of Payments. Additionally, it also provided a platform for PASA to provide feedback and receive input regarding other topical issues such as Debit Order Abuse and the PASA Review.

10.2 PASA Certificate in Foundational Payments

The PASA Certificate in Foundational Payments Course has a unique curriculum and execution structure that was developed by the industry, for the industry. The course not only offers an exceptional insight into the macro payment system and how it fits into and impacts the South African economy, but also covers important payment constructs and explains how various

payment streams operate. Launched mid-2012, the PASA Certificate in Foundational Payments course reached 1,000 graduates during 2016.

282 students graduated during 2016, with 30% of graduates achieving 80% or above and 83% of all students coming from the PASA Member community. A new partnership with KPMG also afforded the opportunity to further expand the course beyond the borders of South Africa and 12 students from Ghana graduated during December 2016.

10.3 Payments Course Electives

Building on the existing foundational training, a number of specialist training courses have been earmarked for development. The first elective to receive attention was the Advanced Certificate in High Value Payments. This elective focusses on High/Large Value Payments. Assuming basic knowledge of Payment Systems, it further explores the systems and rules that facilitate High Value payments in South Africa. It further provides detailed insight into the South African interbank Settlement System and how it is ultimately used to consolidate and manage the wide array of payment streams each day. The course content and design was finalised during 2016 and will be rolled out during 2017.

Other electives that are also being developed are an Executive overview elective and a Regulatory elective.

10.4 Annual Award Ceremony

The Annual PASA Award Ceremony was hosted in Sandton on 17 November 2016. Although already in its fourth year, the event marked a number of firsts for PASA, including having a female Master of Ceremonies, introducing an informal award category and introducing a new approach for individual awards. The new, more customised individual awards, based on overall performance within the interbank environment, instead of

awards based on contributions within each functional area, was received with enthusiasm. In total, 34 individuals were recognised for their exceptional performance in the interbank environment during 2016.

10.5 PASA International Conference 2016

The PASA International Payments Conference (PIPC 2016) hosted at the Sandton Convention Centre on 25 and 26 July 2016 was a success on many levels, breaking records in delegate numbers, sponsorship contributions, networking opportunities and international attendance. With PIPC 2016 being only the second conference of its kind in South Africa, it was evident that the opportunities it afforded, learning from the best local and international payment professionals and engaging with likeminded colleagues, was highly valued and appreciated. Delegate numbers increased from 480 in 2013 to 615 delegates from 15 different countries in 2016. Featuring 15 international and 23 local speakers, the 2 day programme was highly topical and relevant for industry experts and novices alike. A number of new features were introduced for PIPC 2016, including a conference website, conference application and networking lounges. The PIPC 2016 media crew, another first for the conference, provided conference attendees with high quality video and photo material as well as constant live social media streaming. Responding to an overwhelming request by delegates to have this conference more often, the decision was made to host PIPC every two years going forward.

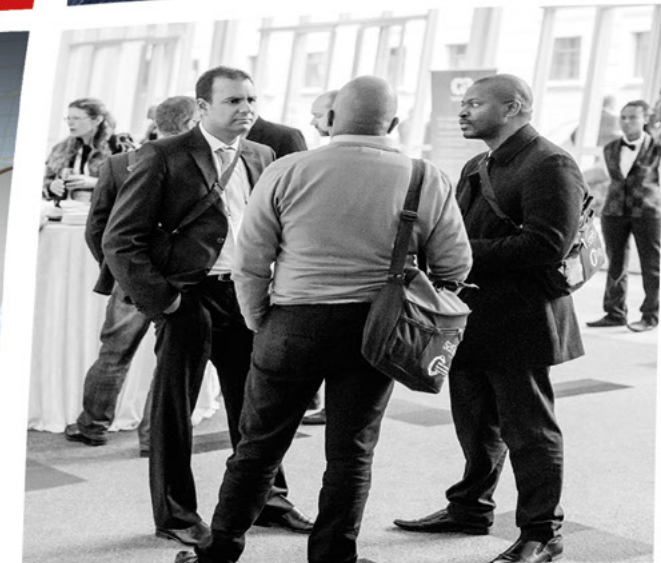
10.6 International Engagement

10.6.1 ICPACE

The CEO of PASA is a member of the International Council of Payment Association Chief Executives (ICPACE), which consists of CEO's from six Payment Associations across the globe. The 2016 ICPACE meetings were hosted in Canada and featured agenda items such as Real Time Payments, distributed ledger technology, Cybersecurity and the role of Payment System Regulators in setting payment system strategy.

10.6.2 EMVCo

In 2016 PASA remained a member of the Advisory Board of EMVCo (Europay, MasterCard and Visa Committee). Andre Strydom from the PASA Executive Office attended the EMVCo meetings and presented South Africa's progress and position with regards to the Biometric Cardholder Verification Method Specification that was developed and submitted.





CONTACT DETAILS

Tel: +27 11 645 6760

Fax: +27 11 645 6860

pasa@pasa.org.za

www.pasa.org.za

PHYSICAL ADDRESS

2nd Floor, D Building

Sunnyside Office Park

32 Princess of Wales Terrace

Parktown, Johannesburg 2193

South Africa

POSTAL ADDRESS

PO Box 61380

Marshalltown

Johannesburg 2107

South Africa