



# ANNUAL REPORT 2019

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## Feedback

PASA Council welcomes any feedback from Members or stakeholders on our annual report. Please contact the Company Secretary, Helen Peace, on [helenp@pasa.org.za](mailto:helenp@pasa.org.za) with any questions or queries on this report.

# ABOUT OUR REPORT

**This report provides a holistic view of the performance of the Payments Association of South Africa (NPO) (PASA), the risks and opportunities within the payments environment and the general operations for Members<sup>1</sup> and key stakeholders. It covers our strategic priorities and objectives leading up to 2020.**

PASA's reporting suite comprises the annual report and the annual financial statements. It covers the year 1 January to 31 December 2019. This report has been prepared in accordance with the principles and practices contained in the King Report on Corporate Governance™ for South Africa, 2016 (King IV)<sup>2</sup>. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. SizweNtsalubaGoboda (SNG) Grant Thornton Inc. conducted an independent audit of our annual financial statements and their independent report can be found on page 2 of the annual financial statements.

## Forward-looking statements

This report contains forward-looking statements which PASA believes are reasonable and which consider information available up to the date of the annual report. However, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions and changes in the regulatory environment. As a result, these forward-looking statements are not guarantees of future performance and are based on numerous assumptions regarding PASA's present and future business models, strategy and the environment in which it operates.

PASA expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein or to reflect any change in events, conditions or circumstances on which any such forward-looking statement is based. The forward-looking statements have neither been reviewed nor audited by PASA's external auditors, SNG Grant Thornton Inc.

All subsequent oral or written forward-looking statements attributable to PASA or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

<sup>1</sup> Members here refers to banks and designated clearing participants.

<sup>2</sup> Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.

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## Approval statement

The Councillors of PASA (Councillors) acknowledge responsibility for the integrity of the annual report and the annual financial statements. The Councillors have applied their collective mind to the report and believe that it covers all material matters, that the information contained in this report is reliable and that it fairly presents PASA's performance.

The Audit Committee reviewed the annual financial statements and recommended them to PASA Council (Council). Council approved the annual report and the annual financial statements for adoption by the Members at the annual general meeting.



Sydney Gericke  
Chair  
19 March 2020



Walter Volker  
Chief Executive Officer (CEO)

# WHO WE ARE

**PASA plays an important role in ensuring that, together with the South African Reserve Bank (SARB) National Payment System Department, the National Payment System (NPS) functions optimally for South Africa by enhancing the stability of the financial system, promoting the efficient use of financial resources. PASA is a non-profit organisation fully funded by its Members.**

PASA is the Payment System Management Body recognised by the SARB, in terms of the National Payment System Act of 1998, to organise, manage and regulate its Members' participation in the payment system in the interest of economic development in South Africa.

PASA was established on the foundational principles set out in The Blue Book of the SARB<sup>1</sup>. These principles require that NPS participants' risks and exposures are visible, and that participants be liable for the risks they introduce to the NPS. To uphold these principles, PASA manages its Members and their payment activities through legal constructs such as Payment Clearing House Agreements, Payment Clearing House clearing rules and service level agreements.

PASA has, since it was first recognised as the Payment System Management Body, supported the evolution of the payments landscape to provide all South Africans with access to convenient, safe and efficient payment options in a transparent and competitive environment.

## PASA has four core objectives:

Direct the future of payment systems in accordance with key policy guidelines like SARB Vision 2025<sup>2</sup>



Facilitate the delivery of interbank initiatives, and ensure such initiatives are aligned to SARB Vision 2025 and are in support of Member requirements and priorities

Support the payments industry through education, awareness and communication, industry capacity building and payment systems administration

Manage payment systems by enabling Member and industry collaboration, managing risk and business continuity for the NPS and ensuring that the needs of both consumers and businesses are protected through the creation of policies and rules and the enforcement thereof

Technological and global developments are transforming the way payments are made. PASA continues working with its Members, the SARB National Payment System Department and key stakeholders to shape the payments ecosystem while simultaneously enhancing the rules and standards that mitigate risks on behalf of consumers and businesses.

<sup>1</sup> The Blue Book contained the strategies, frameworks and principles for the NPS.

<sup>2</sup> The NPS Framework and Strategy Vision 2025 (Vision 2025) sets out the goals and strategies for the national payments industry.

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## Creating value

PASA adds value to Members and the SARB National Payment System Department by:

- being indispensable to the SARB National Payment System Department in executing their objectives;
- being indispensable to our Members' collective objectives in the NPS;
- being proactive in stakeholder management, communication and awareness;
- developing payments capacity and ensuring a knowledgeable payments community;
- effectively managing payment systems;
- being a catalyst for and implementing innovative future payment systems;
- regulating relations between Members;
- driving initiatives that will improve payment systems' speed, safety, efficacy and interoperability;
- managing and executing a portfolio of key initiatives/priorities for stakeholders;
- managing risk effectively to ensure a safe and sound NPS;
- ensuring effective and streamlined infrastructure and office support functions;
- ensuring the organisation and its initiatives are optimally funded and resourced; and
- ensuring a competent, well-developed, diverse and motivated employee base.

## WHO WE ARE (continued)

### Governance

#### **PASA operates under the PASA Constitution approved by PASA Council and adopted by the SARB National Payment System Department to fairly represent the interests of its Members.**

The SARB oversees, regulates and supervises payments, clearing and settlement systems in South Africa in a manner that best serves the NPS's interests. As the SARB recognises PASA as a Payment System Management Body, it is empowered to assist the SARB in discharging its responsibilities regarding monitoring, regulation and supervision.

The PASA Constitution ensures that PASA has the necessary mandate to fulfil its regulatory and management duties on behalf of the SARB National Payment System Department. This mandate includes the right to grant and terminate membership, authorise System Operators and Payment Clearing House System Operators (PSOs), issue policies, appoint employees, receive and apply funds, impose penalties on Members or former Members and manage and regulate relations between Members.

The PASA Constitution provides for governance structures and processes to fulfil its objectives. PASA is governed by Council, which is mandated to (i) establish appropriate structures, including Council committees and (ii) appoint a CEO to assist in its governance and execution responsibilities. Council has adopted good corporate governance principles in line with King IV.

PASA may collect and process NPS information, constitute, establish and dissolve PASA Structures and take all necessary steps to promote the interests of PASA, the NPS and its Members within the NPS's regulatory framework. Refer to page 4 for more information on governance.

### Member rights and obligations

PASA Members have the right to participate in clearing and settlements activities as contemplated in the National Payment System Act. PASA supplies Members with relevant information and notifies them of meetings. Members have access to PASA's published annual financial statements, as well as any research by or on behalf of PASA.

Members are required to adhere to the provisions in the PASA Constitution and are bound by PASA policies, the Regulatory Framework and all resolutions of Council and rules approved by the Payment Clearing House Participant Groups.

### Membership

PASA's membership base remained unchanged but existing membership expanded use in 2019. In the year Bank Zero became a member of the Electronic Funds Transfer (EFT) Debit, EFT Credit and Debit Card Payment Clearing Houses. African Bank became a Non-Authenticated Early Debit Order (NAEDO) Issuer.

No new memberships are envisaged for 2020, and Mercantile Bank Ltd and Societe Generale, Johannesburg branch, are expected to exit as PASA Members.

As at the end of 2019, PASA had **34** Members, collectively holding **227** active Payment Clearing House Participants.

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<b>African Bank Ltd</b>	<b>HSBC</b>
<b>Albaraka Bank Ltd</b>	<b>ICICI Bank</b>
<b>Bank of China, Johannesburg branch</b>	<b>Investec Bank Ltd</b>
<b>Bank Zero</b>	<b>JP Morgan Chase Bank N.V, Johannesburg branch</b>
<b>Bidvest Bank Ltd</b>	<b>Mercantile Bank Ltd</b>
<b>BNP Paribas Corporate and Investment Banking</b>	<b>Nedbank Ltd</b>
<b>Capitec Bank Ltd</b>	<b>Postbank (SAPO)</b>
<b>China Construction Bank</b>	<b>SARB</b>
<b>Citibank NA South Africa</b>	<b>Sasfin Bank Ltd</b>
<b>Diners Club South Africa</b>	<b>Societe Generale, Johannesburg branch</b>
<b>Discovery Bank (Pty) Ltd</b>	<b>Standard Bank of South Africa Ltd</b>
<b>Finbond Mutual Bank</b>	<b>Standard Chartered Bank, Johannesburg branch</b>
<b>FirstRand Bank Ltd</b>	<b>State Bank of India South African Branch</b>
<b>Grindrod Bank Ltd</b>	<b>Tyme Bank</b>
<b>Grobank Ltd</b>	<b>UBank Ltd</b>
<b>Habib Overseas Bank Ltd</b>	<b>VBS Mutual Bank (in liquidation)</b>

# MESSAGE FROM THE HEAD OF THE SARB NATIONAL PAYMENT SYSTEM DEPARTMENT



**Tim Masela**

**The payments landscape has always been characterised by constant evolution. Unprecedented levels of technological change and innovative business models give rise to new players, processes and product offerings in this domain.**

The South African market is no different. Therefore, the SARB is collaborating with stakeholders to facilitate several mutually reinforcing initiatives and projects that will navigate the NPS through this new era. With the payments industry's support, cooperation and collaboration, the dream of a safe, efficient and accessible NPS as outlined in SARB Vision 2025 should be realised. SARB Vision 2025 has become more tangible with the establishment of the SARB Payments Council in April 2019 and the finalisation of the SARB Vision 2025 Implementation Plan.

## Addressing debit order abuse

Debit order abuse, the so called R99 scams, have attracted media scrutiny and raised questions regarding measures taken to protect consumers. The Debit Order Abuse Steering Committee, under the auspices of PASA, was established to manage several initiatives that will address debit order abuse in early debit order and EFT debit collections payment streams. These include high-risk user investigations, preonboarding and vetting of new and existing users, central user registration, user monitoring and changes to the current dispute regime.

The Debit Order Abuse Steering Committee started its interbank high-risk user investigations process in March 2019. Further details on the Debit Order Abuse Project can be found on pages 46 to 48.

## Achieving DebiCheck milestones

The DebiCheck collections system supports the Debit Order Abuse Project. On 31 October 2019 all banks participating in the early debit order collections industry fully implemented the authenticated DebiCheck system. This milestone was the culmination of extensive effort by the industry to make the debit order collection system safer and more efficient for users and consumers and, most importantly, to curb debit order abuse.

The system's uptake remains muted due to industry challenges. This is being addressed by the industry and the project team led by PASA, and a SARB-established oversight body. The oversight body is focused on the aforementioned industry challenges, managing and monitoring the transition and addressing concerns of prejudice, economic and business impacts on users and consumers.

## Driving modernisation

As mentioned last year, the modernisation of low-value electronic payments Project Future, driven by PASA, is expected to deliver game-changing initiatives, such as pay-by-proxy, to provide great value and flexibility to the retail payment system. A benchmarking exercise gathered insights that will inform our target retail payment architecture.

The Rapid Payments Programme, which gives rise to the Project Future objectives, is under way. It aims to give the community quick wins where the active involvement of industry stakeholders, including PASA, is crucial to the modernisation initiative.

I would like to reiterate that it is important that we maintain industry cooperation and collaboration to evolve our NPS. At this time, where we are faced with a complex and ever-changing payments environment, the role of the payments industry is crucial in ensuring that the SARB, PASA and other stakeholders collectively develop and maintain a world-class NPS.

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# MESSAGE FROM THE COUNCIL CHAIR

**I had the privilege of being elected as the second Independent Chair of Council, following in the footsteps of my predecessor, Alewyn Burger, whose term ended in March 2019. I will lead Council in its commitment to the highest standard of corporate governance with the belief that challenge, scrutiny and robust debate are part of effective oversight and support sound decision-making processes.**

## Strengthening governance

PASA has an Independent Chair and Deputy Chair. It is generally agreed that the introduction of these independent appointments improved corporate governance. A third Independent Councillor vacancy could not be filled, despite extensive effort. PASA aims to fill the position in 2020.

Council also strengthened Council committees by rotating and electing additional Councillors onto committees as necessitated by their workload, complexity and governance requirements. As with Council, each Council committee has a detailed workplan which is tracked. Committee effectiveness is assessed annually.

During the year, instances occurred where matters placed before Council for approval may materially have impacted the rights and obligations of Members as a collective. To strengthen Council's governance mandate, it is deemed desirable that it may refer such material matters to Members for consideration and approval at either the PASA annual general meeting or a special meeting called for this purpose. To this end, the PASA Constitution will require amendments during 2020. The potential changes are in the consultation stage with Members ahead of being adopted by Council.

## Influencing the NPS legal reforms and managing the impact on PASA

PASA continues to operate as a Member organisation with formal recognition as the Payment System Management Body for the NPS. PASA's mandate will remain in place until such time as the amendments to the National Payment System Act are promulgated and implemented.

Regarding the regulatory changes envisaged to the National Payment System Act, the interaction with the SARB National Payment System Department continues. Various engagements and proposals have been put forward to improve mutual understanding of the possible end-state models for the future management of the NPS and the potential impact on PASA as a Member organisation. PASA awaits the draft National Payment System Amendment Bill, which is expected to be released by National Treasury and the SARB National Payment System Department for comment in quarter two of 2020.



**Sydney Gericke**

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## MESSAGE FROM THE COUNCIL CHAIR (continued)

## Optimising resources through a focused approach

Towards the end of 2019, Council approved the PASA Payments Plan and Strategy Map. Among other things, these documents inform the PASA plans for modernising, renewing and managing risk for each payment stream. These documents have been an important reference to develop the PASA 2020 scorecard objectives, key performance indicators and targeted performance measures. Council closely monitors their achievement.

As an interim measure in 2019, ahead of the PASA 2020 scorecard being finalised, Council selected seven key focus areas as priorities for both Management and Council. Council believes that focusing on these matters will optimise PASA's limited resources and capacity and deliver the key focus areas. The seven focus areas are:

- 1 → Project Future (page 9)
- 2 → National Payment System Act review (page 35)
- 3 → Operating Model Optimisation Project (page 45)
- 4 → Risk management (page 38)
- 5 → Employee wellness (page 25)
- 6 → DebiCheck implementation (page 44)
- 7 → Debit Order Abuse Project (page 46)

Good progress was made in respect of most of these focus areas. The pattern and impact of regular reporting and escalation of matters requiring Council's involvement are now evident.

Thank you to my fellow Councillors for your wisdom and commitment. A special word of thanks to Alewyn Burger for his sound guidance and to Idrees Kolabhai who stepped off Council during 2019. Thank you to our CEO Walter Volker, the Executive team and the employees for their ongoing support and commitment to delivering on our shared objectives.

*The committees and Council are satisfied that PASA executed its primary purpose as required by its Members and mandated by the SARB as its primary regulator.*

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# MESSAGE FROM THE CEO

**One of PASA and its Structures' biggest challenges is satisfying demands for more support, more initiatives, more deliverables and better outcomes without overburdening Members with spiralling costs and demands on time and resources in a challenging economic climate.**

While the principle is generally accepted that if more is done collectively at the centre, each participant enjoys the gains, this remains a finite equation.

Council has agreed on key focus areas to receive better focus to address the challenge. Other measures include:

- PASA Structures' placing priority on redesigning and streamlining Structures, through better and more formal planning in formulating the PASA Payments Plan; and
- ultimately rationalising the number of Structures to ensure Member representatives' time is optimised.

The latter process is part of the Operating Model Optimisation Project, which we are implementing in conjunction with the PASA Structures.



**Walter Volker**

## Finance report

Year on year, PASA's budget grew by 34% from R69,6 million to R93,0 million. However, after including additional income and utilisation of reserves, the actual funding requirement from Members for 2019 was restricted to R80,4 million. The additional funding requirements from Members included the full year consequential costs of seven employees appointed during the course of 2018, as well as the approved 11 new hires during the course of 2019. In 2019 PASA moved and renovated its offices, which cost just over R4 million, and it ran a major national consumer awareness campaign for DebiCheck and debit order abuse, which cost R6,93 million. These funds came from accumulated reserves at no further cost to Members.

In general, PASA is well funded, with a healthy operating reserve (generally above the minimum target level of 15% of the budget). There have been no adverse audit findings regarding the management of PASA's financial affairs. During the course of the year a part-time chartered accountant was contracted to assist the Financial Manager in managing PASA's finances.

Looking forward to 2020, the approved 2019 to 2020 budget growth is 18,5% (from R93,9 million to R111,4 million). However, considering certain self-funding initiatives, rebates and other sources of income, the growth in the funding requirement from Members was restricted to 7,9%.

## PASA Payments Plan

PASA facilitated the development of a comprehensive PASA Payments Plan to:

- address the need to ensure clear and agreed objectives for each Payment Clearing House and related PASA Structures;
- ensure appropriate and achievable priorities given limited organisational and industry capacity; and
- ensure explicit alignment with SARB Vision 2025.

The PASA Payments Plan was adopted by the Strategy forums and Payment Clearing House Participant Groups, by Council and subsequently presented to the SARB National Payment System Department and the SARB Payments Council. The plan will be updated to ensure its ongoing relevance.

## Project Future

Project Future is the most important strategic industry initiative. It will determine the future shape of electronic credit payments in South Africa. This initiative is owned and directed by the Electronic, Paper and Cash Strategy Forum. The Forum formulates a target state architecture and operator requirements for the initiative. BankservAfrica is developing a viable response to the requirements and launched the Rapid Payments Programme to crystallise key design elements on a more granular level.

To encourage banks to commit early, and to codesign and implement the Rapid Payments Programme, a commercial case for change was developed. This resulted in all major banks committing to the design phase of the programme by December

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## MESSAGE FROM THE CEO (continued)

2019. In parallel, the Electronic, Paper and Cash Strategy Forum developed the Modernised Real-time Electronic Payments: A Case for Change for South Africa. This is being shared with a variety of critical national stakeholders with the full support of PASA, the Banking Association of South Africa and BankservAfrica. The SARB National Payment System Department has also expressed its support for the initiative.

### DebiCheck and debit order abuse

Despite years of investment and effort, DebiCheck is not yet fully embedded in the NPS and the economy. However, functional, technical and operational stability have improved markedly.

The main challenges in full adoption are (i) overcoming consumer unfamiliarity and (ii) encouraging users to come on board fully in terms of systems capabilities and adapting business process in alignment with the requirements to make DebiCheck work. The Registered Mandate Service was introduced in December 2019 as one of the innovations in response to these two hurdles.

The DebiCheck Programme and the Debit Order Abuse Project are aligned. This will optimise their complementary natures, with more effective risk management and better outcomes for consumers, users and the NPS as a whole.

For additional information on the Debit Order Abuse Project, refer to page 46.

### Consumer education and awareness

Considerable effort was invested in the continued development and enhancement of templates and toolkits to enable banks and non-banks to convey DebiCheck's message consistently and coherently to their respective users and consumers.

A direct consumer communication and education programme was simultaneously launched with the aim to cover a large part of the population. It included face-to-face interactions, radio spots, print media and social media that targeted high-density areas. The message combined consumer education on DebiCheck and reasons not to abuse debit orders (by disputing valid debit orders).

### Common Monetary Area Project

The Rand Common Monetary Area (CMA) Project is proving particularly complex. The project includes four countries (the CMA countries). Each country has at least three regulators with their own regulatory priorities. In addition, the banks have limited capacity.

To the credit of the Common Monetary Project Steering Committee and team, the agreed interim solution was implemented in October 2019, to the satisfaction of both the Financial Intelligence Centre and the SARB (National Payment System Department and Financial Surveillance Department). Unfortunately the resulting regulatory regime caused banks to withdraw, with associated negative impact on financial access. The target end-state is being developed, and once it is complete, the implementation date will be firmed up.

### Risk management

A Chief Risk Officer (CRO) was appointed as a key measure in establishing a fully-fledged Risk Management function and in supporting PASA's and the NPS's risk cultures. The CRO leads PASA's Risk Management function in conjunction with the Structures. The new CRO took over from the acting CRO effective August 2019.

Risk management policies and frameworks were enhanced under the continued guidance of Council's Risk Committee, supported by the NPS Risk Committee. One of Council's priority areas was elevating PASA's risk capability as a strong foundation for embedding a uniform, consistent and robust risk management approach for the payments industry.

### Capacity building

Members and non-members continued supporting the PASA Certificate in Foundational Payments course, which totalled 449 students for the year. The high-value payments course completed its second year with 51 graduates.

During the year, the development of a specialist electronic payments course started in earnest with the appointment of a full-time resource to coordinate the new educational programme. This course will cover the full spectrum of EFT debits, credits, real-time clearing, early debit orders and DebiCheck.

Extensive work was also done on laying the foundations for a proposed Institute of Payment Professionals. The aim is to establish a course accreditation capability and formalise and professionalise payments as a career choice. This initiative remains important and we will continue to consider ways to obtain the required funding.

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# AN OVERVIEW OF PASA'S GOVERNANCE

**Council strives to create and maintain a culture of good governance across the organisation. Council is responsible for ensuring that the organisation adheres to sound corporate governance principles and is accountable to the SARB and its Members, while also considering the interests of other stakeholders and the NPS.**

PASA believes governance extends beyond compliance with legislation, regulations and rules. It continually reviews and improves corporate governance processes to align with internal requirements and ensure adherence to legislation, regulation and best governance principles. Council is of the opinion that effective leadership forms the foundation for good governance. Leaders define the strategy, provide the direction and establish the values and ethics that influence and guide the organisation's practices and behaviours.

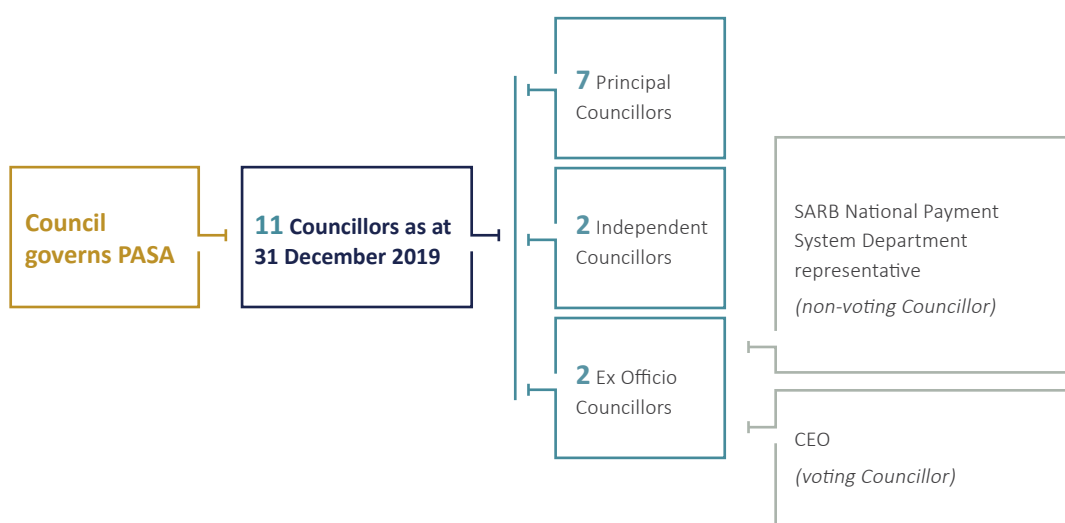
Council seeks to fulfil the primary governing roles and responsibilities recommended in King IV towards achieving the governance outcomes of an ethical culture, good performance, effective control and legitimacy. This includes:

- setting and steering strategic direction;
- approving policy and planning that give effect to the strategy and the set direction;
- overseeing and monitoring the implementation and execution of the strategy by the Executive Office (EXO); and
- ensuring accountability for PASA's performance by, among other things, reporting and disclosure.

Council has delegated PASA's management powers to a competent Executive Management team, which ensures that the strategy process is defined and executed in accordance with Council's resolutions and plans in achieving PASA's objectives.

Council is satisfied with the application of corporate governance in 2019, as espoused in King IV proportionally for the size and nature of PASA. PASA will continually strive to make appropriate enhancements.

**Council is satisfied that it has fulfilled its responsibilities in accordance with its Constitution for the 2019 financial year.**



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## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

### COUNCIL COMPOSITION AND INDEPENDENCE

Members that are eligible to appoint a Councillor are required to appoint a Principal and an Alternate Councillor. The SARB National Payment System Department appoints a Principal and Alternate Councillor as well. The Chair and the CEO have separate and clearly defined roles. This division of responsibilities ensures a balance of authority and power. Council's delegation of authority is such that no individual Councillor has unrestricted decision-making powers.

#### Council changes

Alewyn Burger retired from Council effective 28 February 2019. Sydney Gericke was elected as the second Independent Chair of Council.

Idrees Kolabhai resigned as the Alternate Councillor for Standard Bank. Council will, in terms of its Constitution, seek to appoint an additional Independent Councillor. Efforts in this regard will continue during 2020.

### Council appointments

The Nomination and Induction Committee guides the appointment of Councillors. Member-appointed Councillors are required to follow an engagement process between the relevant Member and the Nomination and Induction Committee.

Council promotes diversity of knowledge, skills, business experience and qualifications in its composition through the use of a Council skills matrix, which the Nomination and Induction Committee continuously monitors. Improving the race and gender diversity of Council remains a key consideration during the shortlisting of candidates for Council vacancies.

Council recognises the need for adequate succession planning for both Council and the CEO and reviews the succession process annually.

Councillors also receive any other relevant training identified by the Nomination and Induction Committee or Council. In 2019 this included payments-specific training for Independent Councillors who did not have payments experience and governance of ethics training for all Councillors.

### Conflicts of interest

In line with the PASA Constitution, a person who is a shareholder representative, or who serves on any board, or similar governing body of any Member, System Operator or PSO may not serve as a Councillor.

Councillors are required to recuse themselves from meetings during the consideration of any matter likely to give rise to an actual or potential conflict of interest for them.

Based on the declarations made by each Councillor at the time of appointment and with every change in their directorships, no Councillor had a material interest in any transactions with the organisation during 2019.

### Indemnity insurance

PASA provides liability insurance to Councillors, Executives and key employees to protect them from being held personally liable for negligence, default or a breach of duty or trust. The insurance does not cover criminal, reckless or fraudulent behaviour.

### Councillor induction and development

Newly appointed Councillors participate in an induction programme and have access to all Council and Council committee constitutions and relevant committee papers.

PASA is conscious of and annually reassesses the need for relevant training for Councillors. All Councillors are registered with the Institute of Directors in South Africa. They are required to complete the first four Being a Director Programme modules within two years of their appointment to ensure that they have an adequate understanding of their fiduciary responsibilities to PASA and the NPS.

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## COUNCILLORS

**Councillors are expected to act independently with unfettered discretion and fiduciary duty, in the best interest of PASA and the NPS.**



**SYDNEY GERICKE (61)**  
Independent Chair

*Appointed:* August 2018

*Qualifications:* BCom (Hons); MCom; Advanced Management Program (INSEAD, France); Executive Management Program (Duke University, USA)

*Committees:* Chair of Nomination and Induction and PASA Review committees. Member of Remuneration and Project Future Case-for-Change committees.

Sydney held many senior roles within Nedbank during his 29-years' service, including roles in risk management and most recently Managing Executive of Card and Payments. He has a proven track record in developing Nedbank's Enterprise Card and Payments Business. He was a member of the Nedbank Group Payments Forum and served as an executive member on steering committees that implemented large and complex payment solutions, including DebiCheck and the Transactional Switch Replacement.

Sydney represented Nedbank on a number of payments industry initiatives and bodies. He served as Nedbank's Responsible Senior Officer for 10 years and as Chair of the PASA Card Strategy Forum for two years. Sydney participated as a card and payments subject matter expert in the Competition Commission Banking Market Inquiry. He was a Steering Committee member of the PASA Interbank Interchange Determination Project and served on the Mastercard Regional Board.



**INGRID GOODSPEED (66)**  
Independent Deputy Chair

*Appointed:* February 2017

*Qualifications:* CD(SA); LLB; MBL (cum laude); BCom (Hons) (Economics); BCom (Accounting and Economics)

*Committees:* Member of Remuneration, Audit, Nomination and Induction, PASA Review and Project Future Case-for-Change committees.

Ingrid has over 27 years' banking and financial market experience in treasury, risk management, compliance, investment analysis, economic research, internal audit, information technology and management information. She is a financial sector analyst focusing on governance, risk and financial technology and serves on boards and trusts beyond PASA. These include the South African Institute of Financial Markets, Investment Analysts Society of South Africa, Association for Savings and Investment South Africa (ASISA) Enterprise and Supplier Development Fund and the ASISA Foundation.

Previously Ingrid was Chief Director of Financial Sector Development at National Treasury. Prior to that she held a number of senior risk positions in banks. She was also an associate director in the Advisory Division of Deloitte's Financial Institutions Services Team. Ingrid was a common business-orientated language programmer and spent eight years in the Information Technology Division of a large bank. Ingrid has published a number of books and articles.



**JOHN ANDERSON (52)**  
Standard Bank appointed  
Councillor

*Appointed:* October 2018

*Qualifications:* BCom; MBA (Henley Business School)

*Committees:* Chair of Project Future Case-for-Change Committee. Member of PASA Review Committee.

John is a banking specialist who has led teams across various banking disciplines in South Africa and across Africa. His combined industry experience spans 25 years and includes card, marketing, personal transaction accounts, retail foreign exchange and payments. In addition, John has extensive industry payments experience, having worked as a Standard Bank representative with local regulators and PASA and the Banking Association of South Africa as well as in support of Standard Bank's operations across Africa.

John, in his role as Head of Industry Payments, is responsible for driving Standard Bank's strategic payments intent, managing industry payments relationships and meeting payments industry obligations.

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)



**MEGAN BROWN (45)**  
**FirstRand Bank appointed**  
**Councillor**

*Appointed:* February 2017

*Qualifications:* CA(SA); CFA; Post-Graduate Diploma in Accounting (UCT); Bachelor Business Science (Finance) (Hons) (UCT)

*Committees:* Member of Audit, PASA Risk and PASA Review committees.

Megan has over 20 years' experience in the banking sector with a breadth of knowledge across treasury, investment banking and retail banking. Megan has extensive knowledge on funding and liquidity; funds transfer pricing and treasury risk management; bank systems, operations and risks; bank products and services and banking regulation. She heads FirstRand Bank's Strategic Payments function, which manages payments regulatory risk and compliance, group payments advisory services, payments regulatory reporting and interbank payments management and governance.



**Alternate**  
**KENNETH**  
**MATLHOLE**



**IAN CARTER (52)**  
**Nedbank appointed**  
**Councillor**

*Appointed:* 13 February 2017

*Qualifications:* BCom Financial Management (University of KZN); Asset and Liability Management (INSEAD); IEDP (Wits Business School)

*Committee:* Member of Remuneration Committee.

Ian has over 25 years' experience in banking and three years in consulting. He is Nedbank's CIB Transactional Services Divisional Executive responsible for electronic banking, payments and onboarding. Ian's focus is the headline earnings and product management of wholesale domestic payments, electronic banking channels and the digitisation of client service and enablement.

Ian represents Nedbank at the Banking Association of South Africa on a number of Interbank Payment committees, and at various SARB workgroups such as SARB Vision 2025 Implementation Plan, domestic payment regulation and compliance and the NPS Policy review. He is an alternate on the BankservAfrica Shareholder Committee. As Product Managers, Ian and his team are responsible for domestic payment regulation and compliance. They represent Nedbank across the EFT Payment Clearing House, early debit order Payment Clearing House, authenticated collections Payment Clearing House, real-time-clearing Payment Clearing House, Electronic, Paper and Cash Strategy Forum, Industry Authenticated Collections Steering Committee, Industry Payments Modernisation Steering Committee and other PASA workgroups.



**Alternate**  
**MARIJKE GUEST**

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**DIRK EHLERS (55)**  
**Capitec Bank appointed**  
**Councillor**

*Appointed:* 2002

*Qualifications:* BCom (Accounting); MBL (Graduate School of Business Leadership)

*Committees:* Member of Nomination and Induction and Project Future Case-for-Change Committees.

Dirk was the Risk Manager for the SARB National Payment System Department where he was closely involved in developing The Blue Book for the NPS. His team designed and implemented the South African Multiple Option Settlement (SAMOS) system and coordinated subsequent enhancements to SAMOS up to 2001.

Dirk is the Head of Interbank for Capitec Bank, where he is responsible for Capitec's payments participation within PASA and the NPS, including payments regulation and compliance. He is also responsible for the operations of Capitec's non-card payment systems, SAMOS and on-us payments. Dirk oversees the foreign exchange services and balance of payments reporting. He has more than 18 years' experience in the PASA domain. He served on various strategic and operational Payment Clearing House Participant Groups, was Chair of Council for four years and has been a Councillor since 2002.



**Alternate**  
**MARTINUS**  
**JANSE VAN**  
**RENSBURG**



**RUFAIDA ISMAIL (45)**  
**Investec Bank appointed**  
**Councillor**

*Appointed:* September 2009

*Qualifications:* BCom (Hons); LLB; BA; Harvard Business School Alumna

*Committees:* Chair of Council Risk Committee. Member of Nomination and Induction Committee.

Rufaida is a specialist bank and asset manager with more than 20 years in retail, corporate and investment banking. She has a wealth of experience in operations, technology and business strategy. Rufaida is currently Head of Payments for Investec Bank Ltd. In this role, she is responsible for the Strategic Payments function, strategy formulation, consolidation and execution across all payment streams and operations. Her portfolio includes regulatory oversight and industry/interbank compliance with responsibility for the management of key vendor, regulator and industry representative engagements.

Rufaida is the Investec Bank Ltd director on DandyShelf (Pty) Ltd. She has taken up various leadership roles at Investec during her 14-year tenure there, including the COO of the Cash Investments Business, and Head of Central Business Services prior to that. Rufaida has acquired extensive experience in payments, across all payment streams responsible for operations and the strategic direction of these payments services. She has served on Council since 2009 and continues to serve on various committees of Council in her ongoing efforts to progress and develop critical payments initiatives including as Chair of the Council Risk Committee. In addition, she recently assumed the role Chair of the Design of Authority for the industry's Rapid Payments Programme which is aimed at modernising and optimising low-value payments in South Africa.



**Alternate**  
**JOHN ELLIOT**

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)



**JILL MURTAGH (60)**  
**Bidvest Bank appointed Councillor**

*Appointed:* March 2015

*Qualifications:* Associate Diploma of Banking; Advanced Diploma in Banking; Project Management Diploma

*Committees:* Chair of Remuneration Committee. Member of Audit Committee.

Jill has a wealth of experience from her representation on a number of boards and industries' bodies. Jill has been an executive member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) National Member Group since 2014 and SWIFT's global Payments Market Practice Group since 2018, a director of DandyShelf 3 (Pty) Ltd since 2015 and a member of the Wells Fargo Global Payment Advisory Board since 2009.

Jill is the Executive Head of Payments and Treasury Operations at Bidvest Bank and has been instrumental in building Bidvest Bank's payments capability since 2004. In this role, she is responsible for all operational and strategic requirements for the Treasury Operations, Corporate Foreign Exchange Operations, Foreign Exchange Control, Liquidity and Payments departments. Jill is the business owner of the NPS, EFT and real-time clearing payment streams and the bank's electronic domestic/ cross-border payment railways.



**Alternate**  
**FRIKKIE**  
**HANEKOM**



**HENDRIK PELSER (60)**  
**Absa Bank appointed Councillor**

*Appointed:* March 1998

*Qualifications:* BCom (Hons); CA(SA)

*Committees:* Chair of Audit Committee. Member of Risk and PASA Review committees.

Hendrik has extensive experience in the payments environment. He served as the COO of PASA between March 2002 and February 2007, during which time he was a founding member of the International Council of Payment System Chief Executives. He also served as the Chair of the National Disaster Preparation Committee for the SARB Financial Contingency Forum. Hendrik has held numerous positions within the banking and financial services environment, with the most recent being as Head of Payments Regulatory and Interbank for Absa Bank. While working for Saambou Bank during the period March 1998 and March 2002, he represented the small shareholding banks as a BankservAfrica Board member. He also represented the lower volume and value Members on PASA during this time and served as Chair for the low-value EFT Payment Stream Association, the Payment Clearing House Participant Group for EFT and as a member of the Standing Committee for the review of the National Payment System Act.



**Alternate**  
**GABRIELLA**  
**TEIXEIRA**

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**WALTER VOLKER (61)**  
**CEO**

*Ex Officio Councillor (Voting)*

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**Appointed:** March 2008

**Qualifications:** BSC; MBL (cum laude); post-graduate qualifications from IMD (Lausanne, Switzerland) and GIBS

**Committees:** Invitee to Nomination and Induction, Remuneration, PASA Review, Audit, Council Risk and Project Future Case-for-Change committees.

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Walter joined PASA as the CEO in March 2008. He brought more than 17 years' experience in banking and payment systems. He headed up Group Payment Systems at Absa Bank for over 10 years, where he was responsible for coordinating and managing all payment systems in the banking group.

Walter has played a key and leading role in a number of payments innovations in South Africa. These include introducing debit cards in the late 1990s, migrating to EMVCo standard, launching a real-time interbank EFT service (called real-time clearing), introducing the Rand into Continuous Linked Settlement, the introduction of early debit orders and a number of others.

Walter has served on a number of boards and committees, including the BankservAfrica Board, AllPay Board, Council, Mastercard Global Debit Board of Advisors, Mastercard Chip Expert Group, EMVCo Board of Advisors, SWIFT National Member Group, SARB Strategy Body, the National Payment System Act Standing Committee and others. He is also a member of the International Council of Payment Association Chief Executives.



**TIM MASELA (59)**  
**SARB**

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**Appointed:** August 2012

**Qualifications:** MCom; BCom; Graduate Diploma in Computer Audit Senior Executive Program (Harvard)

**Committee:** Member of Nomination and Induction Committee.

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Tim was appointed as Head of the SARB National Payment System Department in August 2012. He joined the SARB in July 1994. He chairs the Payment Systems Subcommittee of the Southern African Development Community Committee of Central Bank Governors. He represents the SARB on the Bank for International Settlements Committee on Payment and Market Infrastructure and the Continuous Linked Settlement Oversight Committee, chaired by the Federal Reserve Bank of New York.



**Alternate**  
**SHAUN RAYFIELD**

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

### COUNCIL AND ITS COMMITTEES

Council has the authority to establish Council committees and delegate powers and responsibilities to them. Council retains ultimate accountability for performance and corporate governance. The permanent Council committees have formal constitutions that are reviewed annually and are effectively mandated to assist Council in executing its responsibilities. During 2019, these Council committees were as follows:

- Audit Committee;
- Council Risk Committee\*;
- Nomination and Induction Committee;
- Remuneration Committee; and
- Council Compliance Enforcement Committee (established in accordance with the provisions of the Compliance Enforcement Policy).

In addition, Council has two temporary committees:

- PASA Review Committee
- Project Future Case-for-Change Committee\*

\* Established in 2019.

*Council is satisfied that each committee has the necessary knowledge, skills, experience and capacity to execute its duties effectively.*

### Council meetings

Council meets five times a year or more frequently, if required. Council meetings follow a formal agenda. Supporting documentation in the form of comprehensive proposals and reports are distributed to Councillors at least seven days before Council meetings. This allows for adequate preparation and facilitates relevant discussions at these meetings.

Councillors have access to all organisation information and are entitled to obtain independent professional advice at PASA's expense, after having followed a Council-approved process. All Councillors have direct access to Executive Management and the Company Secretary and may meet with committee members independently.

Each committee Chair reports to Council on the work and output from the committee meetings and provides necessary recommendations or advice on matters relevant to the deliberations of Council.

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	26 Feb 2019	11 Mar 2019 Strategy session	19 Mar 2019 Special meeting	12 Apr 2019 Strategy session	15 May 2019	24 July 2019	25 Sep 2019	27 Sep 2019 Strategy session	22 Nov 2019
A Burger <sup>1</sup> (Chair)	✓	–	–	–	–	–	–	–	–
Chair: S Gericke <sup>2</sup> (Chair)	–	–	–	✓	✓	✓	✓	✓	✓
Deputy Chair: I Goodspeed	✓	✓ Acting Chair	✓ Acting Chair	✓	✓	✓	✓	✓	✓
Principals									
J Anderson	✓	✓	✓	×	✓	✓	×	×	✓
M Brown	✓	✓	✓	✓	×	✓	✓	✓	✓
I Carter	✓	✓	✓	✓	✓	✓	✓	✓	✓
D Ehlers	✓	✓	✓	×	✓	✓	✓	✓	✓
S Gericke <sup>2</sup>	✓	✓	✓	–	–	–	–	–	–
R Ismail	✓	✓	✓	✓	✓	✓	✓	✓	✓
J Murtagh	✓	✓	✓	✓	✓	✓		×	✓
H Pelser	✓	✓	✓	✓	✓	✓	✓	✓	✓
Alternates									
J Elliot	✓	×	×	✓	×	×	×	×	×
M Guest	×	×	✓	×	×	✓	✓	×	✓
F Hanekom	✓	×	×	✓	✓	✓	✓	✓	×
M Janse van Rensburg	×	×	×	×	×	×	×	×	×
I Kolabhai <sup>3</sup>	×	×	×	×	×	–	–	–	–
K Matlhole	✓	✓	×	✓	✓	✓	✓	✓	×
G Teixeira	×	✓	×	✓	×	×	×	×	×
Ex Officio Councillor (voting) PASA									
W Volker	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ex Officio Councillors (non-voting) SARB									
T Masela (Principal)	×	×	×	×	✓	×	✓	×	✓
S Rayfield (Alternate)	×	×	✓	×	×	✓	×	×	×

<sup>1</sup> Alewyn Burger retired on 28 February 2019 at the conclusion of his term.

<sup>2</sup> Sydney Gericke was appointed as Chair on 19 March 2019.

<sup>3</sup> Idrees Kolabhai resigned from his position as alternate Councillor on 2 April 2019.

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

### PASA Council and committee feedback

#### Council focus areas

A key focus area for Council during 2019 was reconstituting the composition of Council committees to ensure that the responsibilities were shared across the Member-representative Councillors and that the committees were robustly constituted. The composition changes are noted in the individual committee reports that follow.

Due to composition changes, the next performance evaluation will be completed in 2020. Council considers findings from all evaluations, and action plans are formulated to address these findings. The previous external evaluation took place in 2018.

Council, assisted by the PASA Review Committee, also focused on formulating possible models for PASA post the finalisation of the National Payment System Act Review which should take place during 2020. These models were shared with the SARB National Payment System Department. Aligned to the ideal end-state model, as recommended by PASA, Council considered enhancements to the operating model of PASA to optimise its objectives and enhance efficiency and value add for its Members through an Operating Model Optimisation Project.

Other recurring matters addressed by Council included:

#### Leadership and ethics

- Biennial Competition Act attestations from Members completed
- Enhancements to the declaration of interests processes for Councillors implemented

#### Strategy, performance and reporting

- Approved the PASA Payments Plan and budget for 2019
- Approved and recommended the annual financial statements and annual report for 2019
  - Strategy sessions held to critically analyse the payment stream activities in line with the overall strategic plan
  - Approved the SA Inc. case for change for a low-value, easy-to-use real-time electronic payment system (Project Future)

#### Governing structures and delegation

- Reviewed the constitutions of the Remuneration Committee, Nomination and Induction Committee, Audit Committee and PASA Review Committee and approved the amendments thereto
- Approved the constitution for Council Risk Committee, and the establishment of a Project Future Case-for-Change Committee to assist PASA in compiling the SA Inc. Case-for-Change for low-value electronic payments
- Reviewed the Schedule of Delegated Authority and approved the policies schedule matrix
- Approved candidates put forward to fulfil vacancies on Council
- Noted and considered feedback from Council committees

#### Stakeholder relationships

- Enhanced both the identification of key stakeholders and the establishment of a matrix for ensuring the proactive management of all stakeholder relationships
- Ongoing engagement between CEO and stakeholders, formal presentation to Responsible Senior Officers and Stakeholder Forum meeting in the card, electronic and legal environments

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## Audit Committee report

**The Audit Committee is constituted as a committee of Council. The committee's primary responsibility is to oversee the organisation's financial reporting, including the relationship with the external auditors, and to assist Council with any judgement and decisions related to finance and financial risk.**

The committee operates under a formal constitution with delegated responsibility for overseeing, managing and reporting on all financial matters. The committee agenda during the year included the regular matters reserved for its review during the annual financial reporting cycle. The committee appropriately discharged its responsibilities during the year.

The committee conducted its work in accordance with its constitution. The constitution deals adequately with its membership, authority and duties. The committee has an independent role with accountability to Council. The committee does not assume the function of management which remains the responsibility of the CEO and the Financial Manager.

Andrew Slawson CA(SA) joined the PASA team as finance consultant in July 2019 to enhance PASA's finance resources and strengthen its financial expertise. The committee is satisfied that the expertise around the Finance function is adequate. The committee confirms that it is satisfied that PASA has appropriate financial reporting procedures and that these are operating effectively.

### Key matters addressed by the committee

#### Financial reporting

- Reviewed and monitored the integrity of the financial reports
- Reviewed all financial aspects of the annual report and financial statements for consistency and consideration as to whether the report as a whole was fair, balanced and understandable
- Reviewed the accounting policies to be applied for the year ending 31 December 2019 and was satisfied that they were appropriate and comply with IFRS for Small and Medium-sized Entities
- Reviewed and confirmed the going-concern basis of accounting and the longer-term viability statements and that PASA was expected to remain solvent for the foreseeable future

#### External audit matters

- Recommended to Council the reappointment of SNG Grant Thornton Inc. as independent auditors to perform the 2019 audit with Nick Kyriacou as the designated audit partner
- Reviewed and confirmed SNG Grant Thornton Inc.'s independence, objectivity and effectiveness as per the standards stipulated by the auditing profession
- Reviewed and approved the engagements letter and external audit plan, considering the scope, materiality and audit risks, and agreed the audit fees
- Reviewed and agreed on the terms and scope of audit as detailed in the engagement and representation letters of SNG Grant Thornton Inc.
- Reviewed and discussed SNG Grant Thornton Inc.'s reports to the committee

#### Governance

- Reviewed and recommended amendments to the committee's constitution to Council and agreed on the work programme for 2020



**Hendrik Pelser**

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

### Annual financial statements

The Audit Committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 December 2019 to Council for approval. Council approved the annual financial statements, available as a separate report on page 4, on 19 March 2020 and recommends the adoption of the annual financial statements to the Members of PASA at the annual general meeting on 7 May 2020.

### Composition and attendance

The Audit Committee was reconstituted in 2019. The committee members from January to March 2019 were Hendrik Pelser (Chair) and Idrees Kolabhai. From March to December 2019 they were Hendrik Pelser (Chair), Megan Brown, Ingrid Goodspeed and Jill Murtagh. The committee's members have the appropriate knowledge and understanding of financial matters<sup>1</sup>.

The Financial Manager attends all meetings as a standing invitee.

	21 Feb 2019	19 Mar 2019	9 Apr 2019	24 Jun 2019 (Special)	15 Aug 2019	9 Sep 2019	8 Oct 2019	8 Oct 2019 (Joint Remuneration Committee)	7 Nov 2019
H Pelser (Chair)	✓	✓	✓	✓	✓	✓	✓	✓	✓
M Brown	–	–	✓	✓	✓	✓	✓	✓	✓
I Goodspeed	–	–	✓	✓	✓	✓	✓	✓	✓
I Kolabhai	✓	✗	–	–	–	–	–	–	–
J Murtagh	–	–	✓	✓	✓	✓	✓	✓	✗

Signed for and on behalf of the Audit Committee



**Hendrik Pelser**

Chair of the Audit Committee

<sup>1</sup> The full biographies are on pages 13 to 17.

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## Nomination and Induction Committee report

**The Nomination and Induction Committee is constituted as a committee of Council. Its primary responsibility is ensuring Council's composition is appropriate and relevant to the organisation, its Members and the SARB National Payment System Department. It also ensures that Council and its committees have the necessary composition to drive PASA's strategy, and it considers diversity and succession matters for Councillors and the CEO.**



**Sydney Gericke**

The committee operates under a formal constitution with responsibilities delegated by Council. The committee's agenda during the year included recruiting an Independent Councillor and considering changes to Council committees. The committee's performance against its constitution is reviewed biennially. The committee is satisfied that it acted in accordance with its constitution in 2019.

### Key matters addressed by the committee

- The committee reviewed Council's and its committees' compositions to ensure an appropriate balance of skills and diversity of experience to support the future growth and strategy of the organisation.
- It considered and agreed on the skills, experience and qualifications required when recruiting Independent Councillors. Diversity and long-term succession planning for Council were key considerations.
- The committee reviewed the ongoing training requirements of all Councillors with specific training on ethics and the governance thereof provided to all Councillors during 2019.
- An induction booklet, "PASA in your pocket", was completed during 2019. It serves as a reference document for Councillors and Member representatives on the organisation and its role and function in the NPS.

### Succession planning

- Considered Council's succession plans for existing Councillors and the requirements of Council in the longer term and concluded that an additional Independent Councillor was required
- Considered and confirmed the short-term succession plan for the position of PASA CEO

### Council evaluation

- The evaluation of Council and its committees was postponed to 2020 due to the reconstitution of the committees during 2019

### Corporate governance and other matters

- Considered and recommended to Council the re-election of Councillors
- Reviewed and recommended amendments to the committee's constitution to Council and agreed on the work programme for 2020
- Considered and approved the CEO's related-party transactions

### Composition and attendance

The Nomination and Induction Committee was reconstituted in 2019. The committee members from January to March 2019 were Alewyn Burger (Chair), Ian Carter, Ingrid Goodspeed and Tim Masela. From March to December 2019 they were Sydney Gericke (Chair), Dirk Ehlers, Ingrid Goodspeed, Rufaida Ismail and Tim Masela<sup>1</sup>.

The CEO and the Executive of Payments and Regulation attend all meetings as standing invitees.

<sup>1</sup> The full biographies are on pages 13 to 17.



## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

	5 Feb 2019	7 May 2019	25 July 2019
A Burger (Chair)	✓	–	–
S Gericke (Chair)	–	✓	✓
I Carter	✓	–	–
D Ehlers	–	✓	✓
I Goodspeed	✓	✓	✓
R Ismail	–	✓	×
T Masela	×	×	✓
S Rayfield <sup>1</sup>	✓	✓	×

<sup>1</sup> Shaun Rayfield attends as an alternate to Tim Masela.

Signed for and on behalf of the Nomination and Induction Committee



**Sydney Gericke**

Chair of the Nomination and Induction Committee

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## Remuneration Committee report

**The Remuneration Committee is constituted as a committee of Council. The committee is responsible for ensuring PASA's Remuneration Policy, processes, procedures and structures align with best market practice, conform with good corporate governance on Executive remuneration and align Executives' behaviour with PASA's strategic objectives.**

The committee operates under a formal constitution with delegated responsibility for overseeing, managing and reporting on all matters related to employee remuneration and reward. The committee's agenda during the year included the regular matters reserved for its review and ensured it has appropriately discharged its responsibilities. The committee's performance is reviewed biennially. It is satisfied that it conducted its work in accordance with its constitution in 2019.

The Remuneration Committee's constitution deals adequately with its membership, authority and duties. The committee has an independent role with accountability to Council.

### Remuneration Policy

PASA's Remuneration Policy provides flexible and competitive remuneration structures, which use appropriate industry-relevant benchmarks; they reflect market practice and are tailored to PASA's needs. The Remuneration Policy aims to attract and retain high-calibre employees and to motivate them to develop and implement PASA's strategy in the best interests of PASA and the NPS.

Remuneration typically comprises fixed remuneration as well as incentives aimed at performance-based (at-risk) remuneration. Non-managerial employees are, depending on performance, eligible for short-term incentives. Executives and high-performing senior managers are, depending on performance, eligible for short and long-term incentives.

Biannual performance review processes assess the degree to which PASA and each qualifying employee satisfies the requirements of their role and achieves their performance objectives.

### Key matters addressed by the committee

#### Remuneration

- Scrutinised all employee benefits to ensure that these are adequate, justified and correctly valued
- Ensured alignment of the remuneration and human resources strategies and policies within the organisation's strategy, needs and desired culture
- Reviewed the policies on Executive and Senior Management remuneration to ensure fair and responsible practices, including bonuses and incentive schemes
- Reviewed individual and organisational performance targets and recommended improvements to the objectivity of the performance assessment process
- Considered and approved the CEO's remuneration and incentives
- Approved the general salary increases and short and long-term incentive pools for employees

#### Employee wellbeing

- Reviewed the retirement and healthcare funding for all employees and proposed further enhancements to the disability cover
- Reviewed the succession plans for Executive and Senior Management with the challenges around key man dependencies, a function of smaller organisations, being identified as an area of concern
- Ensured that the structures, policies and procedures facilitate good management and utilisation of human resources
- Ensured adequate consideration of policies for the organisation in respect of skills development and employment equity



Jill Murtagh

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

- Ensured compliance with all statutory and best practice requirements regarding labour and industrial relations management
- Oversaw the organisational climate survey process during 2019

### Independent Councillors' compensation

- The committee reviewed and approved the fees paid to Independent Councillors, for their role as Councillors and any specific ad hoc tasks assigned by Council outside of their normal duties. Fees, while subject to a Consumer Price Index increase per annum, were not increased for 2020

### Governance and other

- Reviewed and recommended amendments to the committee's constitution to Council and agreed on the work programme for 2020
- Reviewed, among others, PASA's remuneration and talent management policies to ensure that these are aligned with PASA's strategy and linked to individual performance
- Reviewed and commented on the scorecard development for 2020

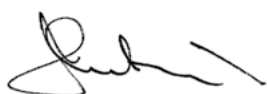
### Composition and attendance

The Remuneration Committee was reconstituted in 2019. The committee members from January to March 2019 were Jill Murtagh (Chair), Alewyn Burger, Dirk Ehlers and Ingrid Goodspeed. From March to December 2019 they were Jill Murtagh (Chair), Ian Carter, Sydney Gericke and Ingrid Goodspeed. To assist the committee with additional expertise, the services of Michael Ferreira as an independent advisor were contracted.<sup>1</sup>

The Executive of Strategy and Communications, the CEO and the Human Resources Manager attend all meetings as standing invitees.

	19 Feb 2019	13 May 2019	25 July 2019	17 Sep 2019 Closed session	8 Oct 2019	8 Oct 2019 Joint Audit Committee	27 Nov 2019
J Murtagh (Chair)	✓	✓	✓	✓	✓	✓	✓
A Burger	✓	–	–	–	–	–	–
I Carter	–	✓	✓	✓	✓	✓	✓
D Ehlers	✗	–	–	–	–	–	–
S Gericke	–	✓	✓	✓	✓	✓	✓
I Goodspeed	✓	✓	✓	✓	✓	✓	✓

Signed for and on behalf of the Remuneration Committee



**Jill Murtagh**

Chair of the Remuneration Committee

<sup>1</sup> The full biographies are on pages 13 to 17.

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## Council Risk Committee report

**The Council Risk Committee is constituted as a committee of Council. The committee is responsible for identifying, understanding, assessing and where possible implementing mitigation strategies for risks to both PASA and the broader NPS.**

The committee was formally established and constituted in 2019 to assist in determining Council's risk appetite and the significant risks to the execution of its strategic objectives. It is also responsible for maintaining sound risk management practices through efficient, well-enforced internal controls. The committee will be responsible for annually assessing the effectiveness of the systems and processes around risk management.

The committee operates under a formal constitution with delegated responsibility for overseeing, managing and reporting on all risks. The committee's agenda during the year included the regular matters reserved for its review and ensured it has appropriately discharged its responsibilities in 2019. The committee is satisfied that it acted in accordance with its constitution in 2019.

The committee will continue promoting a risk-focused culture with open communication of emerging and realised risks across PASA and the PASA Structures.

A permanent CRO, Naniki Ramabi, a risk specialist and risk manager were appointed during 2019 to enhance the Risk Management function capacity and ensure it is adequately skilled.

### Key matters addressed by the committee

#### Risk reporting

- Reviewed risk methodologies, policies and frameworks for both PASA and the NPS during 2019 – the committee will focus on overseeing the implementation and review thereof during 2020
- Undertook a detailed review of PASA's Risk Management Policy and frameworks to assess the risks identified by both PASA and the NPS

#### Corporate governance and other matters

- Considered and recommended the committee's constitution to Council
- Established a work programme for the committee

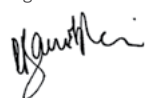
### Composition and attendance

The committee was established in 2019 and its members are Rufaida Ismail (Chair), Megan Brown, Frikkie Hanekom and Hendrik Pelsier. The committee's members have the appropriate knowledge and understanding of risk matters.<sup>1</sup>

The CRO and the CEO attend all meetings as a standing invitees.

	9 April 2019	15 Aug 2019	25 Nov 2019
R Ismail (Chair)	✓	✓	✓
M Brown	✓	✓	×
F Hanekom	✓	×	✓
H Pelsier	✓	✓	✓

Signed for and on behalf of the Council Risk Committee



**Rufaida Ismail**

Chair of Council Risk Committee



**Rufaida Ismail**

<sup>1</sup> The full biographies are on pages 13 to 17.



## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

**John Anderson**

## Project Future Case-for-Change Committee

The Project Future<sup>1</sup> Case-for-Change Committee is constituted as a temporary Council committee. Its primary responsibilities are identifying and positioning the economic and commercial aspects of Project Future. It is further envisaged that the committee will drive the process of securing buy-in from key stakeholders including, but not limited to, the SARB, National Treasury, the Financial Sector Conduct Authority, the South African Revenue Service, Responsible Senior Officers<sup>2</sup>, the Banking Association of South Africa and BankservAfrica.

The committee agenda during the year focused on developing the Case-for-Change for South Africa document and engaging with key stakeholders. The committee engaged extensively with a number of BankservAfrica directors on the Rapid Payments Programme development. It also engaged on BankservAfrica's ability to assist the banks in fulfilling consumers' electronic payments needs and ensuring comprehensive integration between existing and future technology infrastructure.

### Composition and attendance

The committee was established in 2019 and its members are John Anderson (Chair), Sydney Gericke, Dirk Ehlers, Ingrid Goodspeed and Marijke Guest.

The Executive of Payments and Regulation and the CEO attend all meetings as standing invitees.

New committee representatives	6 June 2019	8 July 2019	18 Nov 2019
J Anderson (Chair)	✓	✓	✓
D Ehlers	✓	×	✓
S Gericke	✓	✓	✓
I Goodspeed	✓	✓	✓
M Guest	✓	×	✓

Signed for and on behalf of the Project Future Case-for-Change Committee

**John Anderson**

Chair of the Project Future Case-for-Change Committee

<sup>1</sup> Project Future is the low-value electronic payments modernisation project.

<sup>2</sup> A Responsible Senior Officer is an individual with the authority to make decisions regarding all matters affecting the NPS on behalf of the Member that they represent.

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## PASA Review Committee report

**The PASA Review Committee is constituted as a committee of Council. The committee's primary responsibility is to assist Council in considering, consulting on and responding to any draft policy, consultation paper, regulatory paper, bill or the like issued by the SARB National Payment System Department, National Treasury, the Financial Sector Conduct Authority or any other regulator, potentially having an impact on PASA's mandate.**

The committee operates under a formal constitution. Its performance is reviewed annually for as long as the committee is necessary. The committee is satisfied that it has acted in accordance with its constitution during the year.

### Key matters addressed by the committee

#### Draft policy, consultation, regulatory papers and bills

- Considered the feedback from the Principles for Financial Market Infrastructure Position Paper No.02/2018 which sets out the responsibilities for financial market infrastructure of central banks, market regulators and other authorities such as BankservAfrica and Strate Ltd
- Considered the feedback from the Conduct of Financial Institutions Bill issued by National Treasury, the provisions of which outline what consumers and the industry can expect from financial institutions
- Reviewed the consolidated response to the National Payment System Act Policy Review Paper, which included both Member and PASA-specific recommendations
- Considered and recommended to the SARB National Payment System Department models for PASA in the future with and without a formal regulatory mandate

#### Governance and other

- Reviewed and recommended a new constitution for the committee for Council's approval

### Composition and attendance

The PASA Review Committee was reconstituted in 2019. Its members from January to March 2019 were Sydney Gericke (Chair), Megan Brown, Ingrid Goodspeed and Hendrik Pelser. From March 2019 they were Sydney Gericke (Chair), John Anderson, Megan Brown, Ingrid Goodspeed and Hendrik Pelser. The committee's members have appropriate knowledge and understanding of regulatory matters<sup>1</sup>.

All of the Executive Management team including the CEO attend the meetings as standing invitees.

	29 Jan 2019	14 Feb 2019
S Gericke (Chair)	✓	✓
J Anderson	–	–
M Brown	✓	✓
I Goodspeed	✓	×
H Pelser	✓	✓

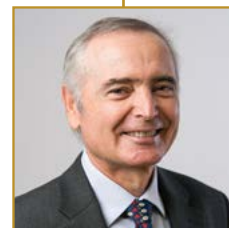
Signed for and on behalf of the PASA Review Committee



**Sydney Gericke**

Chair of the PASA Review Committee

<sup>1</sup> The full biographies are on pages 13 to 17.



**Sydney Gericke**

## AN OVERVIEW OF PASA'S GOVERNANCE (continued)

## EXO

PASA's CEO, his team of Executives and PASA employees are collectively referred to as the EXO. The EXO is responsible for executing PASA's strategy and mandate. It provides administrative and executive functions for Members and the SARB.

## Employment equity statistics

## December 2019

Occupational categories	Male			Female				Foreign nationals	Total
	A	I	W	A	C	I	W	M	
Executive			3	1					4
Management			2	1			3		6
Professionally qualified	1	4	4	4	1	2	3	1	20
Admin and support			0	6	4	1	1		12
<b>Total permanent</b>	<b>1</b>	<b>4</b>	<b>10</b>	<b>12</b>	<b>5</b>	<b>3</b>	<b>7</b>	<b>1</b>	<b>43</b>

## January 2019

Occupational categories	Male			Female				Foreign nationals	Total
	A	I	W	A	C	I	W	M	
Executive	1		3						4
Management			1	1			3		5
Professionally qualified		3	6	1		2	2	1	15
Admin and support			0	7	4	1	1		13
<b>Total permanent</b>	<b>1</b>	<b>3</b>	<b>10</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>6</b>	<b>1</b>	<b>37</b>

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## Executives

The CEO is a member of Council and his biographical details appear on page 17.



**PIERRE  
COETZEE (59)**  
Executive of  
Payments  
Regulation

*Appointed:* April 2008

*Qualifications:* B.Iuris Law (PU for CHE); LLB (Unisa); Advanced Diploma in Banking; Certificate in Compliance Management

*Committees:* Chair of Competition Committee and PASA Legal Stakeholder Forum. Member of Legal and Dispute Resolution committees. Invitee to Nomination and Induction, PASA Review and Project Future Case-for-Change committees.

Pierre practised as an advocate of the Johannesburg Bar from 1994 to 1999. He joined PASA as Compliance Manager in May 1999 where he was part of the Task Team that developed the Payment Clearing House Agreements. Pierre represented PASA at the 2007 Competition Commission Banking Inquiry (Jali Commission) and acted as the COO for PASA for three months. In April 2008, Pierre returned to PASA as Executive of Payments Regulation after seven months working for Standard Bank.

He has been responsible for drafting and finalising the PASA Regulatory Framework, Competition Policy, Compliance Enforcement Policy, Sort-at-Source Policy, Stakeholder Policy, PASA Constitution, Code of Conduct and numerous other constitutions, agreements and key legal and regulatory documents. Pierre advised on various SARB Directives, the PASA and National Payment System Act review, as well as other related bills. His responsibilities included company secretarial and governance and roles, both from a board and an industry perspective.



**MAURITS  
PRETORIUS (60)**  
Executive of  
Strategy, Education  
and Communication

*Appointed:* January 2016

*Qualifications:* BLC (UP); BPsych (Hons) (UP); MPsych Industrial (cum laude) (NWU); Diploma in Clinical Organisational Psychology (cum laude) (INSEAD, France); Executive Master's CCC (INSEAD, France)

*Committees:* Invitee to Council and Remuneration Committee.

Maurits actively participates in implementing DebiCheck, a new authenticated collections capability, and Project Future. He is deeply involved with the NPS and PASA Review and in optimising PASA's current operating model.

Maurits has over 22 years' experience in the banking and financial sector. He is a strategy and change specialist who is experienced in general banking, with specific focus on relationship banking, business and corporate banking, payments and delivery channels (digital and physical).

He has been involved in, or personally led, several large strategic change projects in one of South Africa's largest banks and, lately, also for the industry as a whole.



**NANIKI  
RAMABI (41)**  
Chief Risk Officer

*Appointed:* August 2019

*Qualifications:* BCom, MBL (Unisa SBL); CISA; CISM (ISACA); CRM Practitioner (IRMSA); Senior Management Programme (UP)

*Committees:* Invitee to Council and Council Risk Committee. Chair of NPS Risk Committee.

Naniki has over 20 years' experience spanning the risk management, forensics, internal auditing and compliance fields. Her experience includes working at the SARB, the office of the Auditor General South Africa, one of the top four banks as well as another small bank. In her previous organisations, she has played leading roles in reviewing and benchmarking risk management frameworks; creating collaboration between risk management, auditing and compliance, as key functions for combined assurance; implementing the Advanced Measurement Approach requirements for operational risk management; and business resilience planning and crisis simulation exercises. She has also played a key role in reducing organisational audit findings by implementing improved risk and controls self-assessment capabilities, and enabling mitigation of self-identified issues for audit recognition.

Naniki has the risk management and auditing exposure to comprehend any given organisation's unique internal and external environment and its influences on risk management principles' implementation.



# STRATEGY REPORT

**PASA has the role of providing thought leadership on the unfolding payments strategic landscape. 2019 held milestones in this regard, including the payments study tour, the progression of Project Future and further developments like the Registered Mandate Service that will assist in modernising South Africa's NPS.**

## The South African context

South Africa has a proud history of payments innovations. Its real-time gross settlement system has been copied around the world. Consumers and corporate users are assured that the NPS provides a safe and feature-rich payments capability as evidenced through:

- the early adoption of EMVCo card chip enhancements, contactless card and related card security measures like 3D Secure;
- South Africa being the first country to offer a true real-time payments capability; and
- having an authenticated mandate management and early debit collection capability.

South Africa can therefore rightly pride itself on its NPS. Yet, despite these innovations, South Africa's economy is challenged by the discrepancies between its sophisticated first-world marketplace and its large informal sector. Its per-capita electronic payments usage is below average, even compared to economies with similar gross domestic product and demographic and socioeconomic challenges. Consequently, while 80% of South Africans have a bank account, about 73% of retail payments volumes are still cash based. This is also evident through the growing use of transactional accounts as mailboxes. These amount to approximately 33% of South Africa's population, further growing cash transactions.

However, South African consumers' reliance on cash accompanies hidden costs and security risks. The NPS simultaneously faces increased pressures as the world rapidly and broadly adopts digital business platforms. These developments challenge traditional platforms and payment systems, especially cash.

## Accelerated payments modernisation

In some economies with similar challenges to South Africa's, real-time electronic payments systems, overlaid with mobile payment services, are emerging. These simplify real-time payments and stimulate economies

by replacing bank notes, reducing fraud and crime, and enabling businesses. They provide a service that is in many respects "better and more convenient than cash".

South Africa needs to move towards a similar payments future to democratise the financial system, become financially inclusive, and reduce the social cost of cash and help stimulate the economy. This step is increasingly being recognised as critical. PASA focused on the matter during 2019 and made significant progress on the Project Future journey that was started in 2018.

Developing a payment system that is "as good as cash" for consumers and businesses could capture portions of the cash payments flows while providing wider societal benefits through improved efficiencies. The following core functions were identified as critical if the NPS is to displace cash:

1. A low-cost instant payments capability that notifies the payer and payee and ensures near real-time availability of funds, and that is agnostic of the store of value (e.g. transactional accounts and wallets should be supported), with such payment being final and irrevocable;
2. Removing complexities in payments through simple and easy-to-remember proxies or aliases (e.g. mobile, quick response (QR) codes or identification numbers); and
3. Providing individuals, nano and micromerchants with an alternative acceptance option to card or cash, through a request-to-pay service.

## Learning from others

To learn more about these types of payments innovations, PASA and BankservAfrica industry delegates embarked on a study tour to India, Thailand, China and Singapore during April 2019.

Numerous meetings occurred over the two weeks with regulators, banks, fintechs and industry bodies in each

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country to understand their journey and how they have achieved positive results. These countries have made significant progress in digital payments innovations. Their rapid adoption of new payments innovations improved digital financial inclusion despite facing similar socioeconomic challenges as South Africa.

The 23-person delegation comprised representatives from Absa, Capitec, FirstRand Bank, Nedbank and Standard Bank. These banks are Members of PASA, the SARB, as well as non-bank stakeholder associations (Payment System Stakeholder Forum and Advisory Credit Payments Association of South Africa Advisory). PwC was contracted to facilitate and coordinate the engagements within each country including producing a study tour report.

The tour's core objectives were to (i) develop an industry-shared understanding of the commercial and broader macroeconomic case for change, and (ii) gain perspectives for a better and clearer investment case at each of the potential participating banks. These objectives were met, and the study tour proved that this type of investment will democratise South Africa's financial system. The tour assisted in galvanising the industry to treat Project Future with much more urgency.

## Urgency and momentum

BankservAfrica is the preferred operator for realising the target state vision of Project Future. It is guided by a requirements document that was formulated and issued in April 2019. In the latter part of 2019 BankservAfrica increased momentum in designing a more detailed system, through the Rapid Payments Programme.

This propelled the industry and crystallised detailed design choices to ensure the scalability and adoption of such a system. The final proposed design will be considered in the first half of 2020. Thereafter, participating banks should begin building a low-cost, easy-to-use, real-time payment system.

## Ever-present QR codes

The study tour also observed the proliferation and effectiveness of QR codes. Both dynamic and static QR codes furthered merchant acquiring capability in respect of digital payments.

However, QR code fragmentation was a common challenge. Some merchants display more than 15 QR codes at a store. The respective payments industries launched projects to standardise QR codes based on the EMVCo QR code specification. The standardisation enabled merchants to achieve the same results with a single, recognisable QR code.

Subsequently, through the Card Strategy Forum, QR code standardisation for the domestic market has become a strategic

focus area. Based on the EMVCo specifications, this initiative aims to create a single country-specific QR code to make payments through local bank networks. These payments would be interoperable in the ecosystem using any regulated/legal store of value. Fintechs, banks and card associations all committed to participate in this project for South Africa.

## Addressing debit order abuse

Alongside the progress on the credit-push side of electronic payment systems, the journey to address the debit-pull or collections side continues. DebiCheck was designed to address the risks and abuses in debit-pull systems. It is a world-first step into authenticated collections and digital mandates. It faces several complexities such as real-time challenges and conformance to International Organization for Standardization (ISO) 20022 standards.

The system is in production but still faces challenges to its stability, volume capacity and ability to address most of the use cases that were fulfilled through the old NAEDO and Authenticated Early Debit Order (AEDO) systems.

In the first part of the year, investigations focused on non-face-to-face and remote authentication alternatives, as well as existing functionality. For the first time, PASA deployed an innovation methodology for the work done with participating stakeholders and our Members. However, only one design among the identified options could be introduced without adding risk into the NPS or diluting current DebiCheck security features. Investigations into additional authentication functionality and general system enhancements will continue.

By the second half of the year it became evident that the DebiCheck system is maturing slowly. However, the Directive dates require that NAEDO and AEDO be exited in a certain timeframe. This poses economic risk to users whose business models depend on the early collections capability of these systems. PASA proposed a Registered Mandate Service as a transition mechanism. It carries fewer risks to the NPS than NAEDO and AEDO, can support the transition to DebiCheck and it could be repurposed as the future late window collections alternative for South Africa.

The industry made the case for this change to the SARB. The SARB approved the implementation of such a service in support of DebiCheck maturation. This service will now be developed and will likely be available in the first half of 2020. This step will significantly assist in modernising the electronic debit side of payments.

Improvements in vetting and monitoring process improvements will continue as essential tactical measures to address debit order abuse. Major progress has already been made, and further effects will be visible in 2020.

## STRATEGY REPORT (continued)

## Modernising PASA's ways of work

PASA also made significant strides to review and modernise its ways of work, or its operating model. PASA ran an Operating Model Optimisation Project which identified and reviewed aspects to improve organisational effectiveness.

Following this project, the number of Structures will be rationalised by up to 25%, there will be more effective accountability for progress and payment systems will be more coordinated.

## Going forward

Delivering on the abovementioned initiatives remains a key focus area for the year ahead. It is important to continue curbing debit order abuse through various tactical measures and driving the stability and adoption of the new DebiCheck system.

Furthermore, the industry is on a journey to enhance and optimise existing payment systems to ensure that they remain fit for purpose and able to facilitate a smooth transition to the digital economy. There is also a growing need to shift from inefficient and high-risk payments instruments that could result in unfavourable customer outcomes (such as cheques and unregulated third-party applications and services).

## A clear journey plan

It became important to develop a PASA Payments Plan to support these initiatives. This key artefact is a document that provides a clear perspective of the journey plans Members envisage on all the various payment streams PASA is responsible for.

This plan has been completed, is fully aligned to SARB Vision 2025 and will continue being an important artefact that will align effort and prioritise actions.

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# LEGAL AND REGULATORY REPORT

## The year under review was again characterised by many new and ongoing legal and regulatory developments and challenges.

The most pertinent of these is the ongoing review of PASA and the National Payment System Act. The review culminated in the National Payment System Act Review Policy Paper at the end of 2018. This initiative's purpose was to position the SARB as the payments regulator with a clear mandate in respect of regulation, supervision and oversight of payments, payment systems and NPS participants. The National Payment System Act review would in all likelihood result in the removal of the Payment System Management Model, as proposed in the Policy Paper.

The National Payment System Act review aimed to introduce clear policy objectives for the NPS aligned with the Financial Sector Regulation Act. The Conduct of Financial Institutions Bill was issued for public comment. This is further evidence of government's focus on an improved and optimised regulatory framework for financial institutions and policy objectives.

PASA submitted consolidated Member comments on the National Payment System Act Review Policy Paper to the SARB and National Treasury. It engaged with these regulators, including making some proposals on potential industry payment system models to the SARB Deputy Governor.

PASA has either been involved in or has commented on other bills, such as the National Gambling Amendment Bill, the Financial Sector Laws Amendment Bill, Conduct of Financial Institutions Bill, and proposed Directives issued by the SARB and the Financial Intelligence Centre.

PASA continues focusing on implementing the Protection of Personal Information Act, from a payments perspective.

The SARB has issued a number of Directives and position, consultation or guidance papers, either for comment or for implementation. PASA gave focused attention and action to the following ones during 2019:

Regulation	Current status
<b>CMA Directive (for implementation)</b>	<p>The SARB Directive 1 of 2015 (Directive) sets out the requirements that apply to the processing of cross-border EFTs.</p> <p>An EFT Credit Payment Instruction effected within the CMA is regarded as a cross-border EFT for purposes of the Directive. Accordingly, an interim solution was developed and implemented by EFT Payment Clearing House Participants, which have elected to participate in the said solution, to meet the requirements of the Directive. This interim solution allows for an automated process for transmitting supplementary data records and/or originator information and beneficiary information, to meet the requirements of the Directive (refer to CMA Project on page 45)</p>
<b>Draft Directive in Respect of Domestic Card Transaction (Card Issuing and Acquiring)</b>	<p>A draft Directive was issued, for comment. It aims to create a level playing field for all card issuers, card acquirers and card payment acceptors, providing processing services relating to domestic card transactions. PASA and its Members submitted comment on the draft Directive on 3 December 2018.</p> <p>During 2019, the SARB requested PASA to provide practical examples of foreign card issuing and acquiring and/or examples of domestic transactions being processed internationally.</p> <p>The SARB issued a more refined draft Directive to the industry early in 2020. This is to ensure that processing of all domestic card transactions adheres to all applicable issuing, acquiring, clearing and settlement rules and procedures.</p>

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## LEGAL AND REGULATORY REPORT (continued)

## Regulation

## Current status

**Draft Directive for Conduct Within the NPS in Respect of the processing of Retail Payments in South Africa (for comment)**

A draft consultation paper was issued to the industry on 21 November 2018. The SARB responded by holding a number of workshops during 2019 to discuss the domestic processing consultation paper, as well as the possible options for preserving domestic processing capability. These engagements led to five possible options being proposed by the industry. In August 2019, a decision by the Governors' Executive Committee was communicated to the industry, and PASA was mandated to provide proposed amendments to the PSO Criteria, the clearing rules and a proposed roadmap for implementation. The SARB issued a draft Directive on 5 December 2019 and invited the industry to provide comments by 31 January 2020.

**Draft Directive for Conduct Within the NPS in Respect of the Financial Action Task Force Recommendations for Electronic Funds Transfer (EFT Directive)**

The SARB and the Financial Intelligence Centre jointly issued the Directive in terms of section 43A(2) of the Financial Intelligence Centre Act, 38 of 2001 to provide for the conduct of accountable institutions (including banks) relating to wire transfers or EFTs as required by the Financial Action Task Force. PASA and the Banking Association of South Africa collaborated on providing comments to the SARB and the Financial Intelligence Centre.

**The Directive for Conduct Within the NPS in Respect of the Collection of Payment Instructions for Authenticated Collections (as amended)**

Refer to page 44 on the status of high-priority projects.

PASA continued reviewing and improving its rules (including clearing rules, debit order abuse rules and CMA rules). This ultimately aimed at creating clear, unambiguous and enforceable rules within PASA.

*Both the PASA Legal Committee and the Competition Committee functioned optimally, despite the significant demand to assist and advise in respect of new bills, rule changes, agreements and PASA projects.*

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## Compliance management and enforcement

In terms of the PASA Constitution, PASA is responsible for promoting good practice among all its Members. It does this by ensuring they observe the terms of the PASA Constitution, PASA policies and the NPS's regulatory framework. PASA Structures are also held accountable in terms of their constitutions and Payment Clearing House Agreements to continuously monitor compliance and to report on any instances of non-compliance to the PASA Compliance Manager.

Management and regulation of PASA Members is provided for in the Payment Clearing House Agreement, PASA Regulatory Framework, PASA Constitution and the Compliance Manager's job description. In order to execute this duty, PASA has an independent Compliance Enforcement Panel comprising external legal and payments experts.

During 2019, 75% of cases heard by the Compliance Enforcement Panel centred around introducing undue risk into the NPS. The Panel did not impose sanctions in the majority of these cases. However, its findings communicated that it will strictly censure Members that subsequently expose the NPS to undue risk.

The remainder of cases related to surcharging. In all instances, the Panel found Members to have addressed non-compliance expeditiously, and therefore elected not to impose sanctions.



# RISK REPORT

**A robust, uniform and consistent risk management approach is a key foundation for building a strong risk management culture and embedding risk management payments industry activities.**

## The importance of risk governance

PASA aims to maintain a well-functioning, safe, reliable, efficient and resilient NPS. These qualities are crucial to improve access to financial services and a stable financial system. However, every activity in the payments ecosystem carries risk. Therefore, risk management should form part of core activities and processes within PASA and the NPS.

Having good risk management practices maximises the benefits and minimises the harm of uncertainties on strategic objectives. This gives comfort to PASA and its Members, Structures and Council committees that their business is conducted prudently and safely.

**Key components for PASA's risk management are:**

### Risk management governance structures

### Risk management roles and responsibilities



### Risk management recording and reporting

PASA has evolved formal, uniform and consistent approaches to managing risk which are regarded as good management practice. PASA acknowledges that adopting a formal uniform and consistent approach to risk management would improve decision-making and enhance outcomes and accountability. This would enable a safe, efficient and accessible payments environment.

NPS risk assessments consider the PASA Constitution and NPS objectives as articulated inter alia in the National Payment System Act and SARB Vision 2025. Objectives include the following:

1. Safe and sound financial system;
2. Consumer protection;
3. Financial inclusion;
4. Integrity of the financial system; and
5. Promotion of competition and innovation.

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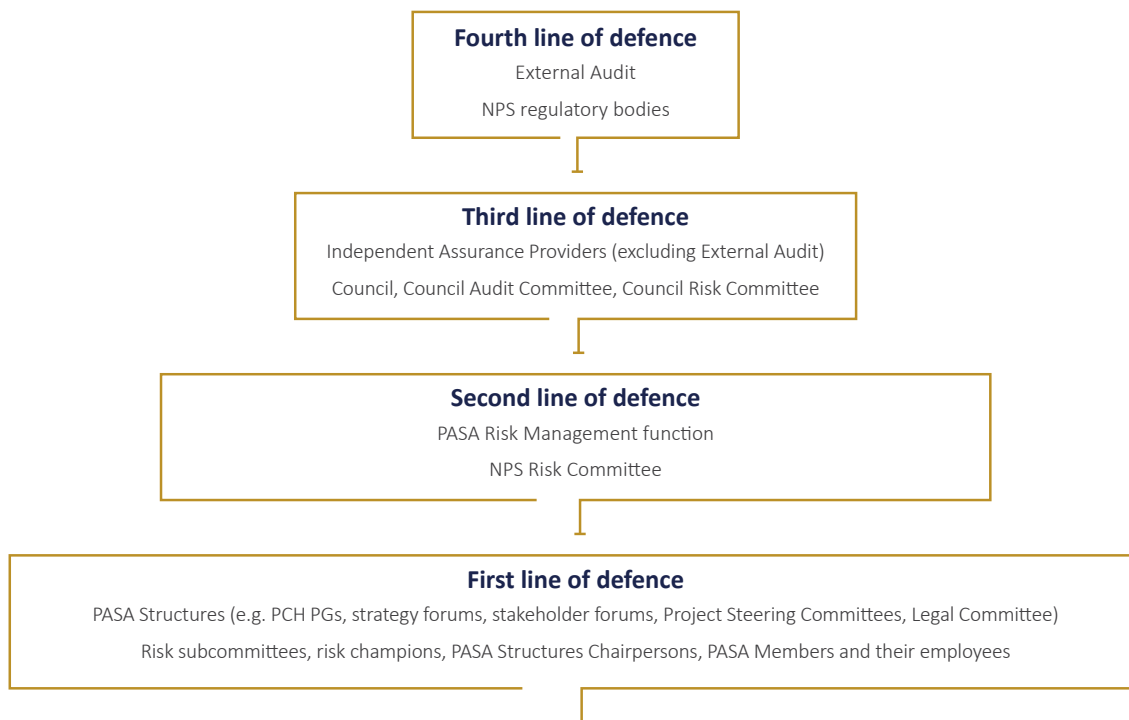
## 2019 risk management overview

PASA and its Members have made significant progress towards establishing a fully fledged risk management culture and capability. The Risk Management function expanded its capacity by creating the permanent CRO, Risk Specialist and Risk Manager roles.

As a priority, the function developed principles for (i) integrating risk management into PASA's and its Members' activities, and (ii) guiding the establishment of a robust and consistent process to identify, assess and report on risk.

The Risk Management Policy and Framework were redesigned during 2019 to ensure alignment with industry best practice and will be tabled for approval in 2020. They were customised for PASA's unique environment. The development of PASA's risk principles considered best practices including ISO 31 000, the Committee of Sponsoring Organizations of the Treadway Commission and King IV.

Risk management is strongest when there are various separate and clearly defined lines of defence. Each group within the lines of defence model should have clearly defined roles and responsibilities that are supported by appropriate policies, procedures, and reporting mechanisms. PASA has adopted the four lines of defence model which highlights the layering of principal responsibilities and accountabilities across the payments ecosystem. The four lines' shared ultimate objective is to help PASA achieve its objectives with effective risk management.



## RISK REPORT (continued)

# 2019 top PASA and NPS risks

## Regulatory risk

*The risk that changes in regulations will materially impact PASA, Members, businesses, Sectors, markets, or a payment system. This could come from increasing operating costs, negatively impacting the payments ecosystems from an operational and/or efficiency point of view or negatively changing the competitive landscape. PASA continuously interacts with regulators and Member banks to address regulatory items highlighted below.*

**The review of the National Payment System Act through the National Payment System Bill** is still awaited from the SARB. This continued presenting a risk to PASA's strategic future due to uncertainties regarding the role of the National Payment System Management Body. The SARB sent a letter to Council in June 2019. It clarified PASA's mandate as stated in the current National Payment System Act and its role in the industry during the NPS regulatory transition.

**The Conduct of Financial Institutions Bill** intends to improve market conduct in the South African financial sector by consolidating and strengthening conduct laws and responding to bad market practices. The bill gives the Financial Sector Conduct Authority the legal authority to set conduct standards for providers of payment services, in consensus with the SARB. It also defines the payments environment that the Financial Sector Conduct Authority will regulate, and payments activities it would directly license.

**The Domestic Processing Directive** is awaited from the SARB, subsequent to the draft Directive sent out during December 2019. The Directive intends to enforce the processing of domestic retail transactions through a PSO infrastructure established and maintained in South Africa. PASA would be directed to amend the PSO authorisation criteria and relevant clearing rules to incorporate the requirements. This has been raised as a concern by PASA Members due to the consequential impact that the implementation of the Directive would have on the respective banks and ultimately, the consumers.

## Information technology risk

*The inability of systems and related infrastructure to deliver value to the organisation as intended and per investment spent for implementing them. Respective PASA Structures are committed to continuously monitor and address identified technology risks.*

**System instability issues and incidents** (such as outages, delayed settlements and system processing errors) may lower confidence in the settlement system. Enhancements in some of the payments industry systems caused technical incidents, impacting both settlements and operations activities. The majority of the incidents impacted early debit order/authenticated collections payment systems, which raised major concerns, especially in the view of the impending authenticated collections migration. Relevant Payment Clearing House Structures continuously monitored root causes and related mitigation measures.

**Usage of legacy systems** in the payment systems backend environment may result in submission of incorrect files for clearing, causing payments errors and responses. Issues were constantly monitored through the Payment Clearing House incident management processes and appropriately resolved where relevant.

**System instability and issues** experienced during implementation of authenticated collections have raised concerns regarding the DebiCheck solution reaching the expected level of maturity, which would consequently impact adoption. System instability issues, as well as interbank technical challenges such as delayed responses, request rejections, timeouts, error codes and incorrect validations contributed to this. These have been escalated through relevant processes and there is an industry-wide commitment to resolve issues and increase the user community's confidence in the solution.

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## Fraud risk

*An act or behaviour by one or more individuals involving deception to make a personal gain dishonestly for oneself and/or create a loss for another.*

Unauthorised (unmandated) or fraudulent transactions submitted for clearing resulted in losses, growing mistrust in the early debit order systems and increased complaints of abuse. This followed inefficiencies in the early debit order systems. These inefficiencies became apparent through the growing number of payers disputing unauthorised debits as well as users complaining about illegitimate payer-initiated reversals. PASA is managing two industry initiatives aimed at mitigating the issue:

- **Debit order abuse initiative** aims to curb the abuse of the early debit order systems by rogue users. The project has traction, however, project milestones moved due to scope creep which, together with changes in requirements, may delay the project's completion. There are concerns regarding the ability to timeously clean up users and user details according to the requirements and commitments.
- **DebiCheck implementation initiative** aims to replace current early debit order systems (AEDO and NAEDO) with DebiCheck. DebiCheck is an authenticated collections system which will enable consumers to use mandates to authorise companies to collect money from their bank accounts. Low volumes, system stability and interbank incidents noted to date have raised concerns regarding the timely completion of the project.

**Card fraud losses** continued during 2019. Stolen and skimmed cards were used at mobile merchant point-of-sale devices and in online purchases, most prevalently in the card-not-present transactions. Measures are constantly implemented to curb losses through consumer education, ensuring merchants are correctly signed up, and 3D Secure monitoring of high-risk merchants.

## Information risk

*The risk that the NPS's or Members' information assets might be compromised, resulting in unauthorised use, loss, damage, disclosure or modification.*

Inadequate information **security of card data** (Payment Card Industry Data Security Standard compliance) due to compromised cardholder data is constantly monitored and mitigated within the card payment systems. Non-compliance cases are constantly monitored and reported to relevant PASA Structures.

Inadequate merchant controls in instant EFTs have resulted in concerns regarding consumer exposure to the risk of **screen scraping**, and subsequent data compromise, financial loss and reputational risk to the NPS. PASA has engaged the SARB National Payment System Department to consider measures to educate and caution users about instant EFT risks, while reviewing feasible measures to mitigate it.

## People risk

*The risk of an organisation failing to achieve its objectives due to inadequate human resources and skills capacity.*

**PASA's key employee dependencies** pose the risk of failure or poor performance on key projects and initiatives due to inordinate dependence on a few employees' knowledge, networks and problem-solving skills. This is monitored and measures are constantly taken to prioritise key projects, maintain succession planning, employee support, empowerment and retention.

**PASA Structures** highlighted concerns that Members may inconsistently consider skills transfer and contingency planning. This could result in a decline of required level of skill and maturity to execute PASA Structures' tasks in the future, especially where skilled participant representatives approach retirement age. Banks are constantly monitoring internal contingency measures, especially skills transfer for alternate representatives.

## Risk management watchlist

**Payments system new markets entrants:** These provide additional channels for customers to access financial services. However, they introduce added complexity, increased value chain dynamics, are not adequately covered by current regulatory landscape and have different risk appetites to traditional players. An industry approach is required to ensure new entrants form part of the formal regulatory landscape and that defined methodologies are flexible to enable identification and management of the associated risks.



## RISK REPORT (continued)

**Cyber risk exposure:** Digitisation opens up new avenues for cyber criminals to attack, manipulate and exploit the financial systems. There is no common knowledge of cyber resilience, end-to-end payments system cyber fraud monitoring and gaps in the industry players platforms (infrastructure and systems). An industry-wide solution is required to detect patterns of cyber crime and prevent fraud losses. The Cybersecurity Resilience Subcommittee has been established by the SARB Financial Sector Contingency Forum to focus on addressing the financial sector cyber security resilience.

**Information security and data privacy:** Data privacy and protection issues may arise from the growing volumes of customer data, access to and storage of this data and the flows of data between industry players and service providers. Regulations governing data privacy and consumers' awareness, as well as demand for information security are increasing. Criminals may use unsecured data to target customers and organisations. Industry role players need to keep abreast of the data points in their value chain, and monitor how they are impacted by current and upcoming regulations.

**Outsourcing risk, cloud computing and key service provider dependency:** Service providers are increasingly used in key ecosystem value chain activities and cloud services. Without sufficient alternate options, the industry places undue reliance on common third-party service providers. An industry-wide solution is required to identify and define mitigations for key service providers, in case they fail to deliver in line with predefined service level agreements.

**Job losses due to digitisation:** The fourth industrial revolution leaves many legacy roles redundant. This might force employees/communities to strike, protest or create social unrest. The payments industry role players might be impacted or intentionally targeted as an avenue for gaining government's attention.

## Looking ahead

The focus for 2020 will be setting up and operationalising risk management structures to implement the revamped Risk Management Policy and Framework. To this end, risk champions and Risk Subcommittee members will receive training and guidance. This will assist in maturing risk management and creating holistic payment system risk profiles, covering risks from projects, activities within the PASA office, as well as those in card, low-value electronic, high-value and settlements systems.

A payments industry cyber assessment will be planned through the services of an information technology risk specialist, to identify information technology, cloud security and cyber risk gaps for detailed investigation and mitigation. PASA aims to benchmark its principles against industry best practice and enhance risk management. To this end, it continues plans to maintain a steady relationship with the SARB National Payment System Department and interact with PSOs and peers within the local and international risk management fraternity, focusing on other payments management bodies.

During December 2019, the world became aware of the coronavirus disease (COVID-19) which was first identified in Wuhan, Hubei, China. Council continues to monitor the progression of this disease, which was recognised as a pandemic by the World Health Organisation on 11 March 2020, and the potential impact on its operations and on the NPS of South Africa.

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# PROJECT OFFICE REPORT

**2019 was once again dedicated to delivering high-priority projects. There were 30 registered projects by the end of the year.**

## OVERVIEW

Throughout 2019, the key focus was on enhancing project management processes and tools, with the following key drivers:

1. Effective project delivery;
2. Project governance;
3. Application of best practices; and
4. Adoption of Agile processes and methods, where possible.

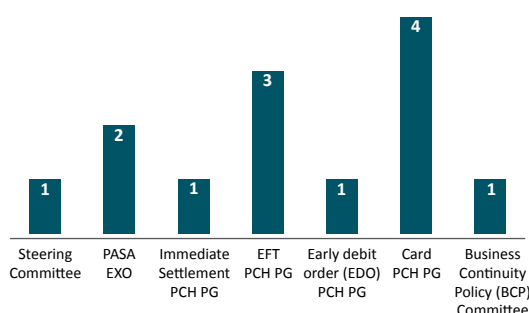
PASA completed 13 projects, including four key priority projects: System Error Correction, CMA Interim Solution, Automated Teller Machine (ATM) Fee Rate and Card Acceptance Data Integrity. Thirteen new projects were initiated during 2019.

In the electronic payment system environment, the Low Value Credit Enhancements Project was initiated during November 2019. It aims to provide immediate value and benefit, improving the NPS's safety and efficiency, while improving on the flexibility of this payment system in its existing construct. In 2019, two new projects were undertaken in the card payment system environment – eCommerce SMS Acceptance and Incremental Authorisations. These are expected to be completed during 2020.

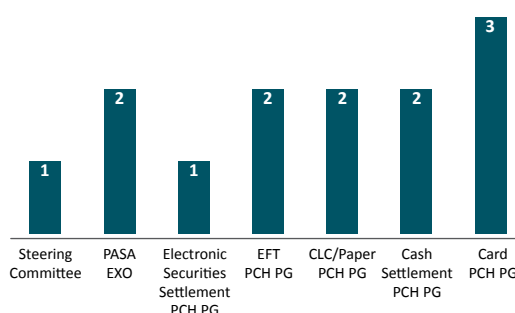
The graphs below depict the number of projects initiated and completed per PASA Structure and strategic theme.

### PASA Structures

Number of completed projects

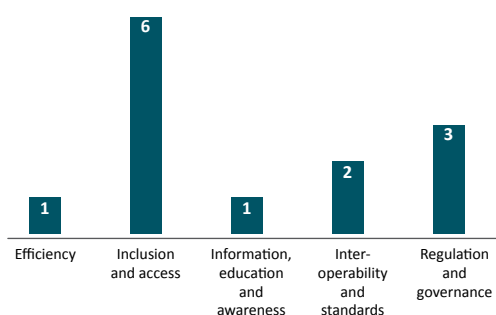


Number of projects initiated



### Strategic theme

Number of completed projects



Number of completed projects initiated



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## PROJECT OFFICE REPORT (continued)

## STATUS OF HIGH-PRIORITY PROJECTS

## DebiCheck

By November 2019 it had become clear that the authenticated collections system could not be a full alternative to NAEDO. It was not mature enough and did not provide enough control over a number of authentication, authorisation and customer adoption variables. Therefore, the authenticated collections system's implementation and adoption journey needed to be rethought. The terms of reference assume that PASA will come to fully control all variables in the authentication leg to replace NAEDO, but this has not realised. DebiCheck is unlikely to achieve this and address all collection use cases in the near future.

The DebiCheck authenticated collections solution is a world first. Despite its complexity and maturity challenges, there have been significant achievements, and the industry has made progress in implementing authenticated collections.

This system went live and into production in August 2018, and seamless migration of the back book was operationalised in May 2019. Users have been onboarded, and transaction volumes have grown and are flowing successfully. In the interbank space 2 425 803 mandate initiation requests, 1 006 369 migration mandate requests and 1 978 797 collection requests were processed through the authenticated collections system since August 2018.

However, technical complexity still presents stability challenges, which, together with maturity challenges, have a knock-on effect on consumers' responses and ultimately user onboarding. Despite technical instability challenges, the focus has shifted from predominantly technical stabilisation to include maturing and adopting the authenticated collections approach.

Given the implementation's status, the Authenticated Collections Steering Committee considered various options to facilitate the transition without impacting on the Directive dates, where possible. The transition needed a more pragmatic approach that minimises risk (business and the payment system) and recognises the ongoing maturing of the authenticated collections solution beyond the Directive dates.

At a high level, the approach proposes that system stability will increase user adoption and provide suitable alternatives to address the lack of consumer responses and allow sufficient time to refine and mature the solution. Users are likely to adopt DebiCheck once stability and consumer response issues are addressed and incentives are implemented.

Once users are onboarded to the new transitional Registered Mandate Service, as a better alternative to NAEDO, NAEDO and AEDO can be sun-set as planned. The approach was proposed to the SARB which accepted it on 11 December 2019.

Therefore, the key focus for 2020 will remain on enhancing and continuing to realise the benefits from the Debit Order Abuse Project and on stabilising and maturing the DebiCheck payment system. The key elements of the approach are as follows:

- Stabilise the DebiCheck system with a specific focus on collections
- Assist users to migrate their back book to improve the confidence in collections
- Implement the Registered Mandate Service as a better alternative to NAEDO, which is aligned with the future vision of a modernised debit payments landscape
- Onboard the highest-volume users and enable them to consistently transact in authenticated collections
- Address appropriate rule changes as the key priorities to facilitate ease of use of authenticated collections and enable full user adoption
- Continue focused efforts to increase consumer awareness and education, which will improve adoption and the consumer experience of the intended migration process
- Continue implementing debit order abuse initiatives, i.e. enable users that meet the entry and participation criteria to participate in collections and exit users that do not meet the debit order abuse criteria

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## PASA operating model optimisation

During 2018 PASA began reviewing its operating model to understand how to address shortfalls. It also aimed to identify ways to transition into an optimal interim state, while awaiting imminent payments regulatory changes.

PASA's Optimised Operating Model required improvements to components which together can be leveraged to define PASA's future (target) operating model. These components, if addressed correctly, will ensure that PASA can operate more effectively in the shorter and medium term and be well positioned to accommodate future demands.

The self-assessment of capabilities was conducted as a desktop exercise and included views from the EXO and Members. The findings from this exercise and the "to-be" recommendations were validated and considered by Council.

This exercise identified improvement areas which helped the project team to crystallise specific design criteria for a to-be state. A project was initiated to implement actions which would be beneficial to PASA and its Members as project objectives and focus areas.

## CMA interim solution – South Africa

The CMA Project aimed to regularise and normalise payments instructions between countries in the CMA, and to enhance visibility and traceability of these payments from a regulatory perspective. This would shift them from being processed as domestic South African payments to cross-border payments in accordance with applicable regulation such as balance of payments reporting.

As an interim solution, cross-border, low-value credit transactions were processed, accompanied by additional data as per the Financial Action Task Force. The interim solution intended to meet the immediate priority for the Financial Action Task Force Mutual Evaluation scheduled for October 2019. The solution was presented to the:

- CMA Cross-border Payments Oversight Committee 21 February 2019;
- CMA Governors by the CMA Cross-border Payments Oversight Committee at the Governors Meeting March 2019 where the interim solution was approved for implementation October 2019; and
- Financial Intelligence Centre in a meeting 5 April 2019.

The interim solution's benefits would include making CMA transactions visible and traceable and enabling the originating and beneficiary bank to report, screen and carry out the necessary sanctions monitoring. Unfortunately the resulting regulatory regime caused 26 banks to withdraw which resulted in a negative impact on financial access.

The interim solution was fully operationalised by 1 October 2019.

## Modernisation of credit payments

The original consolidated Modernisation of Payments Programme comprised three main project areas, namely High Value Credits, Low Value Credits and Low Value Debits. There has since been a number of changes from a programme and project perspective:

- The Modernisation of Payments Programme Steering Committee was terminated in May 2019. This followed the decision to repurpose the programme to create separate Structures for a more streamlined, focused approach and to enable faster decision-making. The new Steering Committee was formed with the specific mandate to only look at the Modernisation of Payments High Value Credits Project. It is now called the Modernisation of Payments High Value Steering Committee.
- Delays in the SAMOS Replacement Project hampered progress in the Modernisation of Payments High Value Credits Project. The SARB National Payment System Department communicated its challenges to the industry, and later decided to do a version upgrade instead, while it reviews the overall SAMOS Replacement Project.

The Modernisation of Payments High Value Credits has reassessed the impact of the above changes on the signed off artefacts and expects to sign off the necessary enhancements in the second quarter of 2020. The industry, together with the project, will focus on an implementation date for the Modernisation of Payments High Value Credits Project and SAMOS Version Upgrade by no later than quarter three 2021. This was subsequently revised to the end of 2022 in March 2020.

## PROJECT OFFICE REPORT (continued)

### System Error Corrections Project

This project aims to rectify all incorrectly processed transactions due to an error introduced in the NPS from any source. These include, but are not limited to banks, inclusive of all payment initiators, including corporates who directly submit transactions to the Automated Clearing House. The project was completed in May 2019. A number of banks have used the service, improving their efficiency and reducing risk to the NPS.

### Card Acceptance Data Integrity Project

This project was initiated in 2016 to implement a monitoring and reporting capability on point-of-sale data quality to address the concerns around data quality in the card acceptance environment. The project focused on card-present and card-not-present transactions across all card schemes, i.e. American Express, Diners Club, Mastercard and Visa.

The data quality problem is mainly from PSOs running different standards of data integrity programmes. Additionally, monitoring capabilities are lacking, and standards are not enforced, while stakeholders are held accountable for non-compliance.

Therefore, stakeholders interpret data across the card acceptance and issuing environments differently. This creates problems such as the incorrect interchange being applied, poor cardholder and merchant experiences, chargebacks and disputes, fraud, logged incidents requiring investigation and resolution, and general ineffectiveness in the card interoperable environments.

The project was delivered in three phases over three years. It concluded in November 2019.

### 2019 ATM Interchange Rate Change Project

The project began in December 2018 in response to the SARB National Payment System Department Directive. Industry testing concluded in February 2019, and the revised ATM Cash Withdrawal Fixed Interchange Rate change of R4,07 (previous rate: R3,48) came into effect on 1 March 2019, as per the Directive.

### Card Credit Payment Instruction

The project aimed to implement interoperable domestic industry standards for delivering and processing card credit payment instructions between originating and beneficiary banks. This new transaction type's clearing rules were published on 2 September 2019, after which South African institutions were able to process it.

### Debit Order Abuse Business

The NPS encompasses the entire payments ecosystem from payer to ultimate creditor, as well as all the systems, mechanisms, institutions, agreements, procedures, rules and laws governing the payments universe. It follows that transformations in the payments universe, disruptive technologies and the move towards frictionless payments, require bold action to stay ahead of fraudsters who have easy access to the NPS.

PASA and its Members implemented the Debit Order Abuse 4-prong model to address the problem. The impact became significant for the NPS in 2019. Although the model operated on a "best effort" approach in 2019, the model's four levels of change add value to PASA Members in terms of enhanced compliance; regulators in terms of enhanced visibility about conduct issues and customers in terms of mitigating unauthorised debits from their bank account/s.

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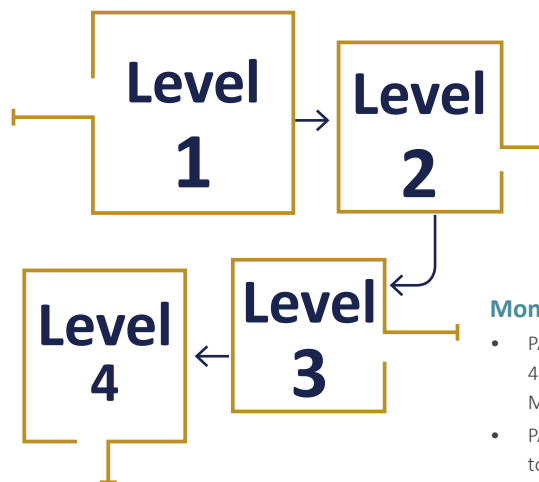


### Preonboarding

- Central capability at PASA
- Check all users (new, existing and those users migrating to authenticated collections) against specific information that PASA maintains on behalf of its Members
- The information includes objective historic facts assimilated over time about specific users so as to assist in determining if the given user might introduce risk into the NPS
- Decision-making remains that of the sponsoring bank, after following its own due diligence and the information provided by PASA

### Exit

- Sponsoring banks may exit a user, based on the outcome of its own due diligence or as a consequence of failure to remediate a user identified during monitoring
- The sponsoring bank must inform PASA of its decision to exit a user (using the exit template and completing all required information)



### Onboarding

- PASA creates a central record of the information of all users, where the sponsoring bank confirms their decision to onboard/sponsor the user into the NPS
- Visibility of all participants in the NPS with all their related detail (to Abbreviated Short Name (ABSN) and Third Party Provider (TPP) level) is a key success factor

### Monitoring

- PASA administers this lever of the 4-prong model on behalf of its Members
- PASA assists sponsoring banks to proactively identify (through quantitative and qualitative information) any potentially problematic users
- Sponsoring banks assess the information, with the aim to remediate behaviour, then notice to exit and exit of a user from NPS could follow

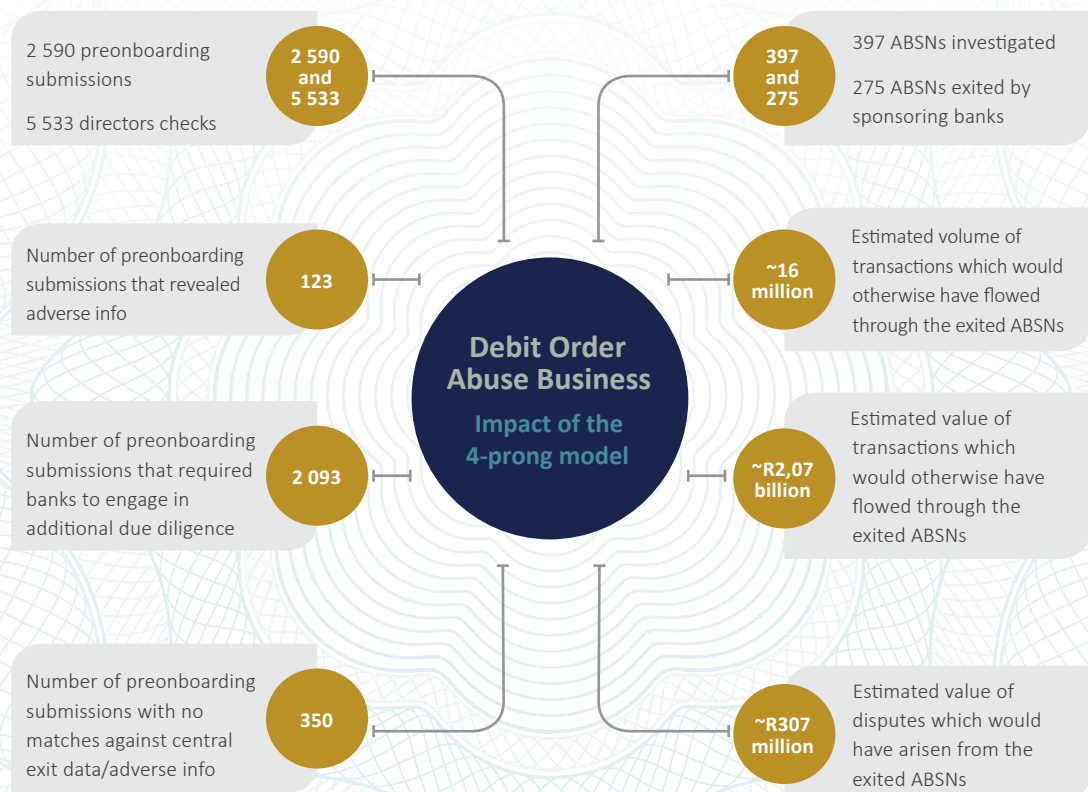
The 4-prong model will be formalised into various rule sets in 2020. Upon formal acceptance and sign off by the Debit Order Abuse Steering Committee, legal team/s and Council, it will govern PASA's Members and determine industry direction for Debit Order Abuse.

## PROJECT OFFICE REPORT (continued)

## Outcomes and impact of the 4-prong model

The SARB Directive (Directive no. 1 of 2017) requires that PASA (and implicitly its Members) (i) make debit orders safer and more efficient, and (ii) introduce measures to address the risk/s emanating from debit order abuse in the NPS.

Pursuant to this Directive, the 4-prong model was tested (across the entire payments value chain) in 2019. The transparency, effectiveness, consistency and control it offered reduced monthly debit order disputes in 2019. The outcomes and impact of the model is depicted in the graphic below:



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## Strategic priorities in 2020 to address user and payer behaviour

The strategic priority in 2020 is to move the 4-prong model from a “best effort” basis to a set of rules by which PASA and the industry will implement appropriate measures to avoid introducing undue risk into the NPS.

Once these rules have been formalised and accepted, they will apply to every PASA Member and user. Responsible leadership thinking will be required to actively help to meet the agreed strategic objectives of the Debit Order Abuse Project:

- Enhance the gatekeeping role
- Enhance analytics and reporting
- Enhance the investigation and prosecution process

The 4-prong model’s rule sets will provide a solid foundation to address user behaviour by effecting a User Visibility Project. The project will involve screening approximately 20 000 entities (consisting of third-party payment providers, users and subusers) from the second quarter. The User Visibility Project aims to record key data centrally at PASA to enhance the end-to-end management and accountability in terms of these entities in the NPS.

Current debit order rules do not contain safeguards against payers disputing a legitimate debit order after a product/service has been provided. This will be changed to address payer behaviour. The priority in 2020 is to redesign the dispute regime. A position paper was shared for input and comment with the Debit Order Abuse Steering Committee and legal task team in November 2019. Their input and comment indicated that further discussions would be necessary before the wider industry could be engaged. The Debit Order Abuse Steering Committee continues working to solve some complexities of debit order disputes. Further discussions are scheduled from February 2020 onwards.

Various parties are leveraging PASA’s understanding of the debit order abuse problem and the results from the 4-prong model. The Debit Order Abuse team has already contributed towards investigations into prosecuting entities who abuse the debit order payment system. They will share their knowledge of the 4-prong model and the rule sets with other international payment associations.



# OPERATIONS REVIEW

## CARD OPERATIONS

PASA implemented the revised ATM rates determined by the SARB Interchange Determination Project successfully across the industry (refer to page 46).

Phase two of the domestic data integrity monitoring system was implemented with monthly reporting to individual banks at Payment Clearing House level. This provides each Member with up to date identifications of data elements to be corrected and maintains international standards.

PASA also implemented the Ecommerce Fraud Monitoring framework. High-fraud merchants, merchants with excessive ecommerce fraud, were reported to the individual Payment Clearing House Participants monthly to keep track of and remediate excessive fraud.

The 2020 priorities are as follows:

1. Complete the revised and updated domestic card ruleset
2. Implement the SARB mandate to utilise 3D Secure protocol on all card-not-present transactions for more secure card-not-present transactions
3. Convert the merchant aggregator framework into rules to include in the updated interbank card and clearing rules to ensure governance and due diligence on an international standard when signing up merchants under an aggregation service provider contracted by Member banks

## ELECTRONIC OPERATIONS

### Electronic payments and settlement

#### Incident management

During 2019, the industry experienced a number of operational and settlement incidents raised across all payment systems, a number of which related to the introduction and stabilisation of the authenticated collections payment system (page 44 (or 33)).

The system error correction for EFT Credits and EFT Debits were introduced late in 2018 and Members made the final implementation during quarter two of 2019. Several incidents necessitated that system error correction be invoked to assist Members with the correction of files submitted. This was successfully done by the industry.

One PSO raised two incidents. The industry responded by invoking exception processing to eliminate or limit impact to Members. The Payment Clearing House Participant Groups analysed individual incidents to ensure that (in the event of risk to the NPS) this is highlighted and managed accordingly.

The EXO played a key centralised role during incident management. It ensured proper communication to all stakeholders to resolve incidents, to request and manage operational window extensions and guide stakeholders on process and governance.

#### Settlement

During the latter part of 2019, the settlement stakeholders were informed that the SAMOS Replacement Project, will be put on hold due to the cancellation of the vendor. SAMOS has agreed to a SAMOS version upgrade to accommodate the requirements being drafted by the Modernisation of Payments High Value Credits Steering Committee.

As a global requirement to move all high-value payments from the current message type standard to the ISO 20022 standard in November 2022, the industry is in the process of documenting and finalising the requirements for both SAMOS Version Upgrade and the Modernisation Of High Value Payments Project for September 2021.

SAMOS operates real-time gross settlement systems to effectively settle transactions. Given their prominent role in domestic and global economies, it is vital to safeguard against operational disruption and manage attendant risks. Operational disruption can stem from, inter alia, natural disasters, employee shortages, criminal incidents or technology failures. Risk mitigation is high on the agenda of financial market infrastructures and regulators, and effective preparedness is key.

Market Infrastructure Resiliency Service is a robust real-time gross settlement back-up solution run by SWIFT, which can be used by financial market infrastructures in the event of severe operational disruption. It serves as an effective, low-cost alternative to building a third platform for resiliency. It gives full operational control to the real-time gross settlement operator. The Market Infrastructure Resiliency Service Project was implemented in the fourth quarter. There were several incidents during implementation which were successfully resolved.

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## High Value

During the latter part of 2018, the securities PSO experienced incidents after introducing the Debt Instrument Solution Project. The Settlement System Participant Group requested the PSO to introduce alternative processing in accordance with the business continuity plan requirements. This function assisted the PSO to have a process in place for bonds and equities. The recommendation was approved at the Settlement Systems Participant Group meeting during April 2019 and implemented.

Physical cash remains a critical payments instrument, with many service providers operating in the national physical cash supply chain. This, combined with the dynamic nature of the national physical cash ecosystem, necessitates a sound legal framework that promotes monitoring and assessing the performance of all ecosystem actors. During 2019 the Cash Settlement Payment Clearing House Participant Group approved a position paper that examined the regulatory regime governing physical cash activity in South Africa. It identified shortcomings, expanding on themes of inclusion and participation, the ambit of control of the SARB Cash Management Division on non-banks and the use of the correct settlement infrastructure by processors and banks.

The cash environment is busy with project ABC Model a Commercial Bank's Set of General Ledger Accounts within an Authorised Agent Cash Centre (AACC). This project will be implemented during 2020. For each AACC, every participant bank will establish an ABC node that will retain the full value of unsorted note clearances entering the AACC until it is in a sorted state. Banks will create a unique account per AACC that will facilitate settlement between itself, the host bank and the network to the ABC.

All note transactions between the ABC network and the AACC will be routed and settled as "on-us" transactions, and all coin transactions will continue to be routed and settled directly with the host bank. The onus will be on the participant banks to manage the AACC's note sorting capacity. Cashlogix will be responsible for performance, mandated by the Industry Cash Management Forum. The AACC will have a generic note sorting service level agreement with each participant, which Cashlogix will monitor. The generic note service level agreement will be reviewed from time to time.

Granite, an authorised central securities depository, met with the EXO in July 2019 to apply to become a PSO in the Bonds and Money Market Payment Clearing Houses. After various interactions and representations in 2019, Granite was recommended for approval in August 2019 by the Electronic Securities Settlement Payment Clearing House Participant Group as a PSO in the Bonds and Money Market Payment Clearing Houses which recommendation would be tabled to Council during 2020. Granite is finalising all functional requirements before going live in 2020.

## Low Value

Currently disputes within the EFT and early debit order environment are open ended, and customers can dispute any transaction for an unlimited period. The aim of reducing the dispute period was to align it with the stipulated prescribed period in authenticated collections, which is 12 months. Council did not approve the request to reduce the dispute period to 12 months during 2019.

Following careful consideration and consultation with key stakeholders, the maximum value of a cheque transaction will be reduced from the current value of R500 000 to R50 000 on 1 May 2020. A reduced cheque limit will reduce the risks associated with fraud losses and system failures. The use of cheques has been declining at approximately 30% year on year, driven by the shift in consumer habits, with South Africans opting for the convenience and safety of digital payments.

There are a variety of interoperable digital alternatives for consumers ranging from debit and credit card-based payments solutions to EFT and real-time clearing payments, with future developments designed to enable new offerings. Card, EFT and real-time clearing payments have significantly grown as consumers and businesses adopt these payment mechanisms over cash and cheque-based payments.

Digital payments are more efficient than cheques, safer and more convenient for consumers. The SARB has endorsed reducing the cheque limit, which was informed by an extensive consultation process. The SARB supported the decision to reduce the item limit on the basis that it supports the SARB Vision 2025 objective of promoting safer, cost-effective and efficient electronic payments in the NPS.

## Standards

The decision to migrate to the ISO standard, taken by the SWIFT community in September 2018, was prompted by the adoption of ISO 20022 as the new norm for high-value payments by some of the world's biggest payments market infrastructures. The demand and readiness to migrate cross-border payments and reporting flows to the same standard was confirmed in a large-scale community consultation.

To set out the foundations for the rollout and implementation of ISO 20022, SWIFT will be leading a community-wide collaboration with the newly created Cross-Border Payments and Reporting Plus (CBPR+) group. The working group, formed of international payments experts, will join forces to formulate global market practice and implementation guidelines and lay the cornerstone for a successful migration of cross-border payments traffic to ISO 20022, set to begin in November 2021. A PASA CBPR has been created to ensure input to the international CBPR+ Forum and alignment with the global requirements for South African implementation.



## OPERATIONS REVIEW (continued)

### MyStandards

The financial community requested SWIFT, as the registration authority for ISO 20022, to create a centralised platform that will enable easy access, management and development of ISO 20022 messaging.

MyStandards was developed to reduce costs, effort and errors and better manage changes to payments messages. In the past, commercially available word processing tools created issues when documenting messages. These include misspelt tag names, missing closing tags, misplaced tags and creating messages which do not comply to the standards.

The benefits of documentation created using the MyStandards Usage Guideline Editor are as follows:

1. Consistency – different documents all generated from the same source;
2. Standardisation – all documentation has the same look and feel;
3. Version control – the latest version is displayed to the user. The publisher has access to previous versions and can allocate meaningful names to the versions and choose which versions are visible to the user; and
4. Controlled access – the publisher can control access and manage or allocate function roles.

In November 2016, PASA entered into a service proposal agreement with SWIFT whereby it agreed to represent the Southern African Payments and Securities Communities. Therefore, PASA owns MyStandards for South Africa and is the custodian of the message standards used between itself and its community.

The Southern African Payments and Securities Communities are listed in the agreement as comprising the following market infrastructures: BankservAfrica; the SARB, through SAMOS, Southern African Development Community; South African National User Group which includes corporate payments messages; Cross-Border Payments and Reporting (CBPR) for South Africa and Strate (Pty) Ltd.

### Outcomes

The target date to go live for all members within the CBPR environment is November 2022. PASA has been facilitating workshops and working with banks and SAMOS in ensuring that all stakeholders are ready to send and receive ISO 20022 messages internationally and domestically by the target date for the Modernisation of High Value Payments Project and SAMOS Version Upgrade (September 2021). The South African community agreed to go live two months prior to the CBPR live date. This will ensure the system's interoperability is sound and ready to receive and send ISO 20022 messages.

Following the SARB's Directive for the safety and efficiency of authenticated collections, messages have been continuously enhanced through the MyStandards Portal and Editor. Members can now access the messages on a centralised platform (MyStandards) under the PASA subgroup (BankservAfrica) for usage and development.

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# COMMUNICATION AND CAPACITY BUILDING

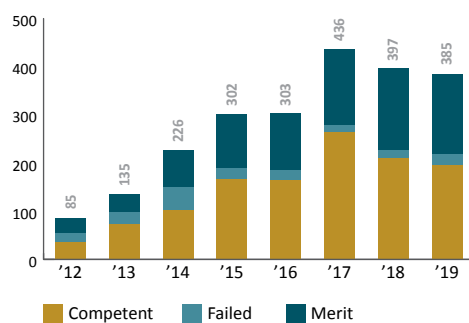
**Supporting SARB Vision 2025's goal of human resource capacity enhancement in the NPS, PASA continued its capacity building, communication and industry change efforts throughout 2019.**

## Training programmes

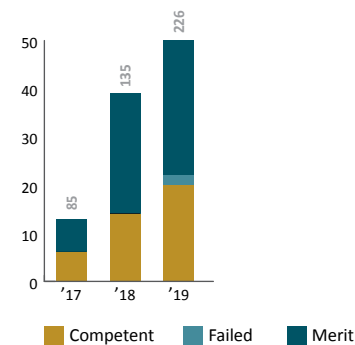
The PASA Certificate in Foundational Payments Programme continued to be well-attended, with 408 students participating in the programme during the year, and 2 410 students since inception in 2012. Offerings in Pretoria, Cape Town, Durban and Namibia were once again well attended. The attendees are diverse: 35% of all students coming from non-bank entities, and 51% of all students are female.

The Advanced Certificate in High Value Payments showed similar potential during 2019, with 51 students attending this programme, compared to 39 in 2018.

**Foundational Payments (R'million)**



**High Value Payments (R'million)**



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## COMMUNICATION AND CAPACITY BUILDING (continued)

During the latter part of 2019 PASA started developing an Advanced Electronic Payments Programme to support industry effort to modernise South Africa's electronic payment system. The development will be completed and launched in 2020.

Apart from executing and further developing training courses, much of the year's focus was on formulating options for establishing a more structured and formal approach to capacity building in the NPS space. An industry survey during the first part of the year confirmed the need and support for establishing a professional body recognised by the South African Qualifications Authority. Next steps include approval of the legal, governance and operations models, securing funding and then prioritising this initiative amongst other industry initiatives.

### External communication

The appointment of PASA's first full-time Communication Specialist at the beginning of the year contributed greatly to more effective communication efforts by the team. While media efforts continued around major industry projects such as DebiCheck and debit order abuse, communication efforts extended to support other memorable achievements for PASA, such as:

- publishing the Project Future Study Tour and resultant Case for Change Reports; and
- growing PASA's social media presence.

### Industry change capability

The need to create and maintain key industry narratives with change and communication tools, supporting both bank and non-bank employees actively involved in industry projects, resulted in continued change efforts throughout the year.

While existing efforts such as the DebiCheck change and communication toolkit continued to be enhanced, the priority was the ground-breaking consumer awareness and activation campaigns to support the DebiCheck Programme and Debit Order Abuse Project. Complementing the more traditional bank awareness and education efforts, these unique campaigns focused on the mass urban market, which mostly included traditional townships (page 10).

Although formulated as two distinct campaigns, efforts between the DebiCheck Programme and the Debit Order Abuse Project were aligned to optimise consumer experience and understanding.

- The debit order abuse Thembeke (being trustworthy) campaign focused on educating consumers about the importance of honoring legitimate debit orders, checking bank statements monthly and how to deal with fraudulent debit orders.
- The DebiCheck campaign educated consumers about the introduction of DebiCheck, what they need to do to approve a DebiCheck debit order and how DebiCheck puts control of debit orders in their hands.

The two campaigns were conducted in five phases covering all provinces within South Africa. The multi-pronged communication efforts included the following:

- Face-to-face conversations were held at malls, taxi ranks, clinics, churches and other places of interest. Over 736 000 consumers were engaged and received either a DebiCheck or Thembeke leaflet;
- Targeted Facebook campaigns engaged over 1 250 000 consumers;
- Community radio live reads and dial-in conversations reached 4,7 million listeners;
- Print media, in the form of standout adverts printed in 11 community newspapers nationally, reached just under five million readers with 995 000 copies distributed; and
- Consumers welcomed the opportunity to engage with trained crew members about debit orders and their challenges. The opportunity to learn about how to better manage their debit orders, together with the narrative that DebiCheck debit orders are a first step to put control back in the consumer's hands, were received with much enthusiasm.

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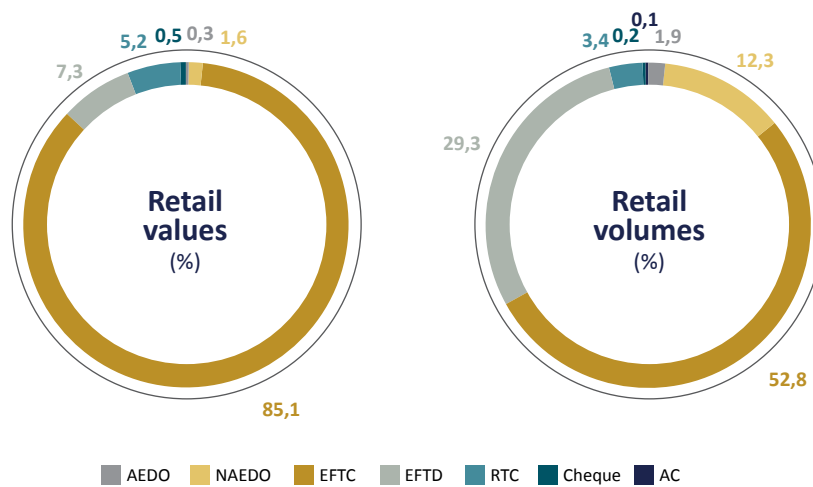
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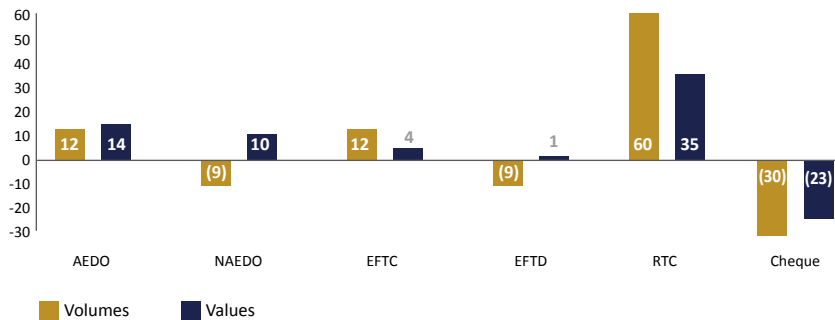
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# PAYMENT SYSTEM STATISTICS

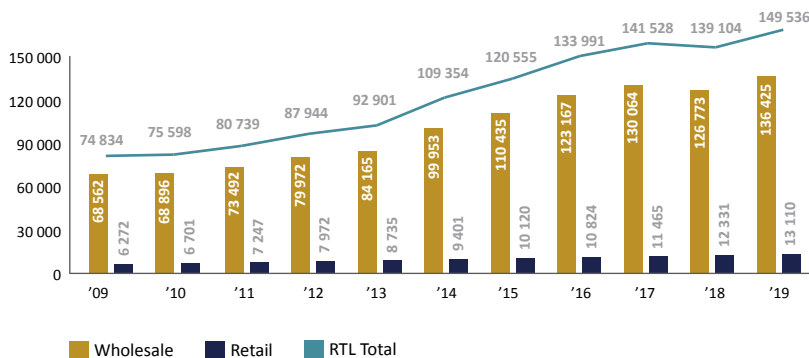
## Electronic and paper off-us transactions\*



## 2019 year-on-year change (%) (volumes and values)\*



## Wholesale vs retail (R'billion)\*\*



\* Data sourced from BankservAfrica.

\*\* Data sourced from SAMOS.

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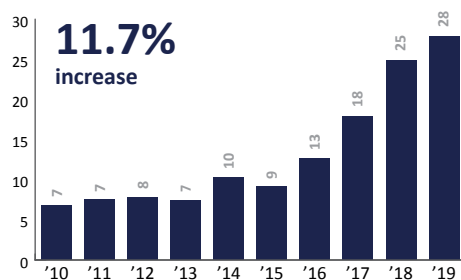
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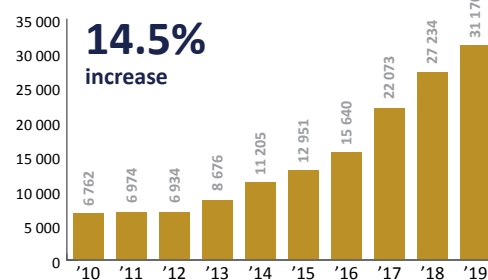
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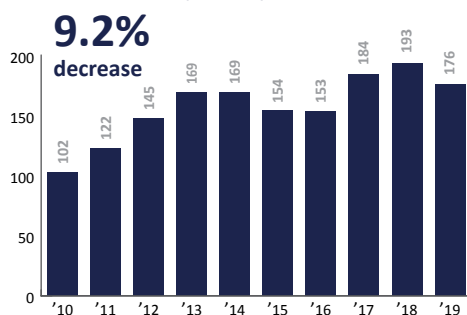
AEDO volumes (million)\*



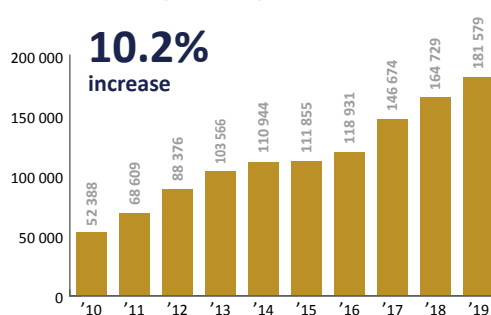
AEDO values (R'million)\*



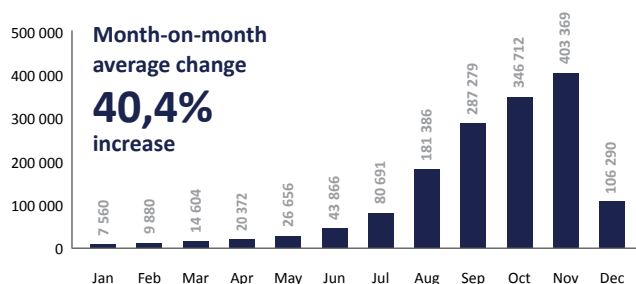
NAEDO volumes (million)



NAEDO values (R'million)



AC volumes



\* Data sourced from BankservAfrica.

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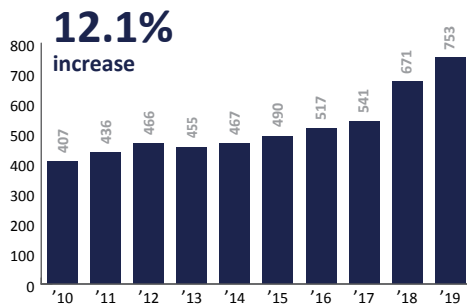
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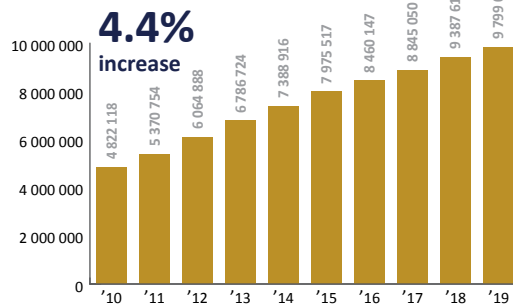
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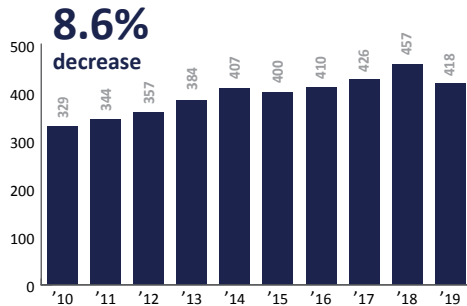
EFT credit volumes (million)\*



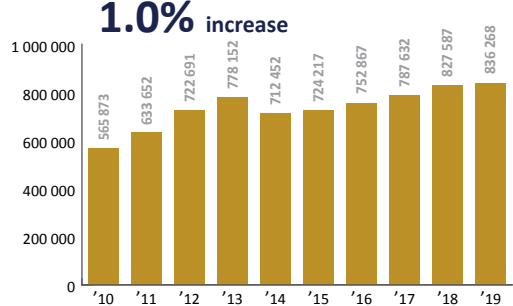
EFT credit values (R'million)\*



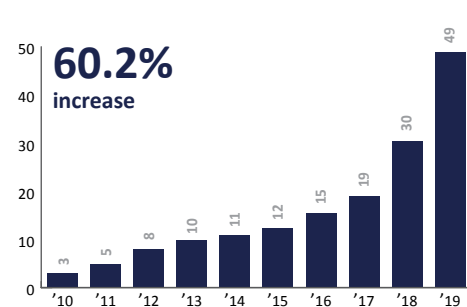
EFTD volumes (million)



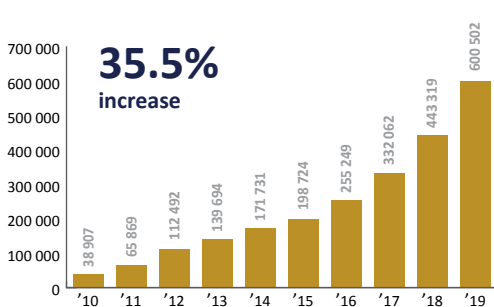
EFTD values (R'million)



RTC volumes (million)



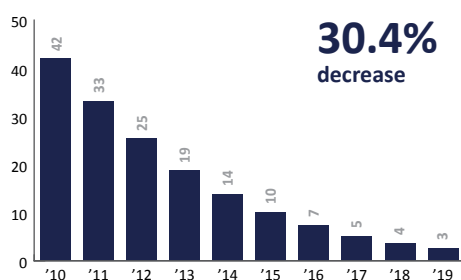
RTC values (R'million)



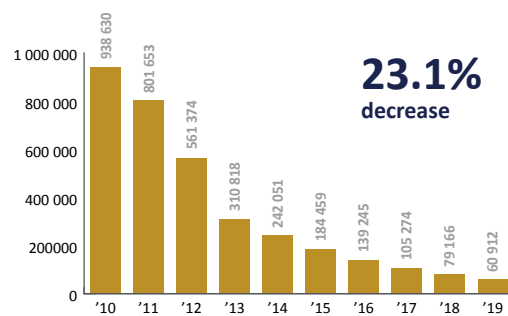
\* Data sourced from BankservAfrica.

## PAYMENT SYSTEM STATISTICS (continued)

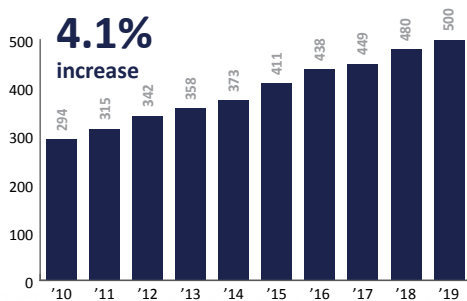
Cheque volumes (million)



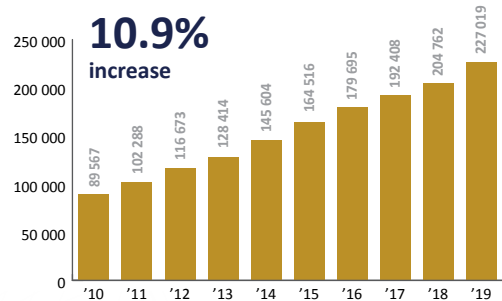
Cheque values (R'million)



ATM volumes (million)



ATM values (R'million)



\* Data sourced from BankservAfrica.

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# LIST OF ABBREVIATIONS

<b>AACC</b>	authorised agent cash centre
<b>ABSN</b>	Abbreviated Short Name
<b>AC</b>	authenticated collections
<b>AEDO</b>	Authenticated Early Debit Order
<b>ASISA</b>	Association for Savings and Investment South Africa
<b>ATM</b>	automated teller machine
<b>CBPR</b>	Cross-Border Payments and Reporting
<b>CBPR+</b>	Cross-Border Payments and Reporting Plus
<b>CEO</b>	Chief Executive Officer
<b>CLC</b>	code line clearing
<b>CMA</b>	Common Monetary Area
<b>COO</b>	Chief Operating Officer
<b>CRO</b>	Chief Risk Officer
<b>EFT</b>	electronic funds transfer
<b>EFTC</b>	electronic fund transfer credit
<b>EFTD</b>	electronic fund transfer debit
<b>EXO</b>	Executive Office
<b>IFRS</b>	International Financial Reporting Standards
<b>ISO</b>	International Organization for Standardization
<b>King IV</b>	King Report on Corporate Governance™ for South Africa, 2016
<b>NAEDO</b>	Non-Authenticated Early Debit Order
<b>NPS</b>	National Payment System
<b>PASA</b>	Payments Association of South Africa
<b>PCH</b>	Payment Clearing House
<b>PCH PG</b>	Payment Clearing House Participant Group
<b>PSO</b>	Payment Clearing House System Operator
<b>QR</b>	quick response
<b>RTC</b>	real-time clearing
<b>SAMOS</b>	South African Multiple Option Settlement
<b>SARB</b>	South African Reserve Bank
<b>SNG Grant Thornton</b>	SizweNtsalubaGoboda Grant Thornton Inc
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TPP</b>	Third Party Provider

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