



ANNUAL REPORT

2018

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Section 1:

GENERAL OVERVIEW

WHO WE ARE

The South African economy depends on the exchange of billions of rand each day. The Payments Association of South Africa (PASA) pursues alignment with the policies of the South African Reserve Bank (SARB) and other regulators and the interests of the National Payment System (NPS) by organising, managing and regulating the participation of its Members in the NPS.

PASA is the Payment System Management Body recognised in terms of the NPS Act and mandated by SARB to facilitate payments in the interest of economic development within South Africa. PASA meets the payment needs of consumers and business, and continually develops the payments landscape through collaborative engagements with its Members and other stakeholders. Together, SARB, PASA, its Members and other stakeholders are shaping the future payments world and ensuring the evolution of the payments industry.

The PASA team of 36 employees in the Executive Office (EXO) is based in Parktown. PASA is a non-profit organisation fully funded by its Members. Fairly representing the interests of its Members and other stakeholders, PASA operates under the Constitution approved by PASA Council and the SARB.

VISION

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

WHO WE ARE (continued)

Connecting the ever changing economy

As is the case globally, users of payment systems are demanding an evolution of payment systems together with better security and technology and an enhanced user experience across all industries, including from their payment providers. PASA supports collaboration within the payments system, between its Members and stakeholders to create the necessary balance of rules, standards and best practices to ensure an inclusive, secure, sustainable and stable infrastructure that exists with interoperable capabilities to allow for a safe, secure and seamless payments experience.

Meeting the needs of South Africans

PASA has been the Payments System Management Body since 1998, first recognised in 1999, and has for the last ten years continued to support 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. New technology is transforming the way payments are made. PASA is working to provide new platforms that allow those in the payments ecosystem to innovate while continuing to enhance the rules and standards for all Members in order to further mitigate any risks on behalf of consumers and businesses.

ABOUT THIS REPORT

The annual report for the year ended 31 December 2018 has been prepared in accordance with the principles and practices contained in the King IV Report on Corporate Governance for South Africa, 2016 (King IV™). The annual financial statements have been prepared in accordance with International Financial Reporting Standards for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Comparability

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

Feedback request

The Council welcomes feedback on PASA's annual report from stakeholders. Please contact the Company Secretary, Helen Peace, on helenp@pasa.org.za with any questions or queries on this report.

Forward-looking statements

Certain statements in this report are forward-looking statements which PASA believes are reasonable and consider information available up to the date of the annual report. Results could, however, differ materially from those set out in the forward-looking statements as a result of, amongst 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.

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 and below.

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, SizweNtsalubaGobodo Grant Thornton Inc.

Council responsibility for the annual report

The Councillors of PASA acknowledge responsibility for the integrity of this annual report. The Councillors have applied their minds to the report and believe that it covers all material issues, that the information contained in this report is reliable, and that it fairly presents the performance of PASA. Council approved the annual report and recommended it to the Members at the AGM held on 12 June 2019 where it was adopted.

MESSAGE FROM THE HEAD OF THE SOUTH AFRICAN RESERVE BANK NATIONAL PAYMENT SYSTEM DEPARTMENT

– Tim Masela



Tim Masela

Payments continue to be the life blood of the financial system. Innovation and technological advances continue to give rise to new processes, entrants and products. These innovations may highlight shortcomings of the current system and evolving consumer needs that talk to safe, efficient, affordable, fast and convenient payments. It has become increasingly important that concerted effort be made to improve existing processes and offerings through leveraging technology and in the collaborative space.

The future of the payment landscape holds significant promise for the transacting public. The launch of Vision 2025 presents opportunities for execution of strategies that will deliver benefits for the people of South Africa. The successful achievement of Vision 2025 goals and strategies requires collaboration among the SARB, other regulators and the payments industry. The role of the industry is critical, as it is expected to lead on some of the initiatives, such as the electronic bill presentment and establishment of an effective real-time retail payment solution that is widely utilised and cost effective. Additionally, the SARB is in support of other industry initiatives that support the objectives of the NPS, such as the Modernisation project, driven by PASA, that is expected to deliver game-changing initiatives, such as pay-by-proxy, to provide great value and flexibility to the future of the retail payment system.

The overhaul of the South African retail payments architecture, as conceived in Project Future, requires thorough analysis and holistic thinking. It is thus imperative that industry stakeholders conclude the plans/roadmap that are required to ensure that execution commences soon.

MESSAGE FROM

THE HEAD OF THE SOUTH AFRICAN RESERVE BANK NATIONAL PAYMENT SYSTEM DEPARTMENT – Tim Masela

(continued)

The issue of Debit Order Abuse remains a pain point for South African consumers. This matter has gained much attention and scrutiny from the public, media and various sectors of government. It is sometimes even perceived that not much is done to address this issue. Consequently, it is imperative that the payment industry successfully delivers the DebiCheck project in line with the timelines indicated in the revised Directive. The SARB, however, recognises that DebiCheck is a complex project and appreciates efforts made by the industry, as well as other Debit Order Abuse initiatives steered by the Debit Order Abuse Steering Committee.

SARB also acknowledges that the payments industry is in the midst of a number of regulatory reforms that seek to address gaps in the current regulatory and legislative framework. The envisioned outcome of these reviews will ensure that South Africa has robust, resilient and forward-thinking regulatory, supervisory and oversight frameworks. Additionally, it is important that we maintain industry cooperation and collaboration for the successful development of the payment system going forward.

As South Africa is faced with a complex and ever-changing payments environment, the role of the payments industry is more crucial in ensuring that SARB, PASA, Members and stakeholders, collectively, maintain a world-class NPS. It is thus imperative that all stakeholders contribute to the development and maintenance of the efficiency, stability and safety goals of the NPS as they strive to contribute to better the lives of South Africans.

MESSAGE FROM PASA COUNCIL CHAIRPERSON – Dr Alewyn Burger



Dr Alewyn Burger

Discussions with the SARB regarding PASA's future role and mandate remained top of mind, as can be expected, and continued to receive substantial focus throughout the year. An ad hoc Council Subcommittee was established, specifically to work with the SARB on this and to explore any alternatives and ensure proper, well considered, feedback on the policy papers. However, by year-end it became clear that the PASA Review implementation process had essentially come to an end, and that the NPS Act Review was starting to take precedence, which would redefine the regulatory hierarchy for payments in South Africa. Our expectation is that more discussions with SARB will give clarity in the next few months.

In its continued efforts to improve and strengthen governance, a formal review of the workings of Council was conducted by an external company specialising in such matters. The results were considered, and adjustments were made, where necessary.

Further changes affecting Council included the appointment of a third Independent Councillor during the year, and the appointment of a dedicated Company Secretary to further professionalise the administration and support to Council.

One of the major areas that Council focused on during the year included the Authenticated Collections/DebiCheck project. Although the project was being very professionally managed and supported by a well-functioning Steering Committee and dedicated project teams in the banks and their sponsored users, substantial challenges remained. Due to inevitable delays, the date of the Directive was eventually amended by the SARB in early December 2018.

MESSAGE FROM

PASA COUNCIL CHAIRPERSON – Dr Alewyn Burger

(continued)

Other matters demanding substantial time and attention from Council included a proposed new operating model for PASA structures, which would be designed to ensure greater effectiveness of structures through clarity of roles, and less unnecessary meetings. Project Future, which is responsible for mapping out a future path for electronic payments, was also one of the focus areas.

One of the priority areas for Council was to ensure the enhancement and professionalisation of the risk function for the payments industry. The outcome of this priority was the appointment of an acting Chief Risk Officer (CRO), who will be guided by the Council Risk Committee.

Substantial focus was placed on the independence and management of the compliance area, which has shown positive results, and most of the decisions by the Compliance Enforcement Panel (CEP) have turned out to be acceptable to the Members involved, with only one or two exceptions during the year. One of these cases have subsequently been appealed to the SARB.

In general, Council is satisfied that PASA executed its primary purpose well and supported the SARB as its primary regulator in the execution of its functions, as well as serving and supporting its Members and the more significant non-member stakeholders.

MESSAGE FROM PASA CHIEF EXECUTIVE OFFICER – Walter Volker



Walter Volker

This past year continued to be a year of good performance and achievement for PASA and the payments industry. It was, however, also a year characterised by a continued undertone of regulatory uncertainty stemming from the slow pace of the implementation of the PASA Review recommendations and the lack of clarity regarding the variety of changes that were being proposed by the SARB, relating to the NPS Act Review. In fact, by mid-year it became clear that the PASA Review implementation process had petered out, and that a shift had been made to prioritising changes to the regulatory landscape through amendments to the NPS Act.

Following the publication of Vision 2025 by the SARB, work started within the PASA structures to formulate a response in the form of the National Payments Plan or NPP. The primary structures responsible for crafting the plans pertaining to their respective areas of expertise and accountability are the Card Strategy Forum (CSF) and the Electronic, Paper and Cash (EPC) Strategy Forum.

The Authenticated Collections/DebiCheck project still holds the dubious honour of being the single biggest payments industry project ever undertaken, given its uniqueness and complexity, and it continues to challenge the most dedicated teams with all its many unexpected problems that have to be overcome and dealt with. By year-end, the SARB had decided that a further extension of the timeframes was required, and the Directive was adjusted accordingly.

Complementary to the above project, a very concerted effort is being made by the industry to get to grips with broader issues related to Debit Order Abuse (DOA) and a variety of measures have been implemented through the DOA Steering Committee to try to combat this scourge. PASA, as well as the major banks, have committed significant resources in recent months to address the most problematic areas. Some of these measures are finally starting to bear fruit. However, much more work lies ahead, before this payment system will be as secure and as efficient as it should be.

Project Future made good progress, with a new electronic payments architecture being agreed upon by the industry. The next step was to craft a requirements document which, once finalised, would be made available to the preferred operator, BankservAfrica, to respond to for consideration by the Review Panel.

One of the other projects that is proving particularly challenging, from a complexity point of view, is the Common Monetary Area (CMA) project, which contains within it a mix of four countries (the CMA countries). These countries have at least three Regulators per country, each with their own regulatory priorities, while being confronted by limited capacities at the banks and challenging business cases inherent to some of the options.

Given all the above, one of the priority areas was to ensure good communication and regular interaction with key stakeholders. These stakeholders range from staff members, the SARB, other emerging regulators, such as the Financial Sector Conduct Authority (FSCA), Members (i.e. the banks), and a variety of non-member stakeholders – ranging from System Operators, PCH System Operators, associations representing various interest groups, and so on. In addition, there was much – probably unprecedented – media interaction with the full spectrum of media platforms, mainly related to Debit Order Abuse.

One of the most fruitful investments of time, effort and money, has been the development of templates for use by the banks, users and other stakeholders, to create broad awareness and communication of DebiCheck with both consumers and users. Complementary to that, a campaign aimed at direct interaction with consumers regarding debit order abuse, was launched late in the year. The outcome was very positive and the combined DebiCheck and DOA campaign will be extended to other regions of the country in the new year.

One of the highlights of the year was undoubtedly the PASA International Payments Conference (ICPACE), which is now being held every second year. Half of the more than forty speakers were international experts. The conference was well supported by sponsors, and of course by delegates – totalling close to 700, which probably makes it the largest conference of its kind on the continent.

The capacity building efforts also continued during the year, still anchored by the Foundational Payments course which continued to enjoy a large take-up by students from both Members and non-members. A great addition was, however, the successful running of the High Value Payments course, which was also well supported, despite its highly specialised nature.

Staff levels increased from 30 to 36 during the 2018 year, again demonstrating the commitment from Council to ensure sufficient budget for PASA to be in a position to fulfil its mandate in support of the SARB and of its members. Key appointments that were made during the year include an acting Chief Risk Officer and Company Secretary.

The background features a complex network of thin, light-colored lines connecting various points, creating a web-like or molecular structure. Overlaid on this are several large, semi-transparent geometric shapes, including a prominent white chevron pointing downwards and other angular forms in shades of brown and grey.

Section 2:

GOVERNANCE

PASA COUNCIL



Tim Masela

SARB

Appointed: August 2012
Qualifications: MCom; BCom; Graduate Diploma in Computer Audit
Senior Executive Programme (Harvard)

Tim was appointed as Head of the 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 both 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.

Committees: Member of the Nomination and Induction Committee

ALTERNATE
Shaun Rayfield



Alewyn Burger

Independent Chairperson

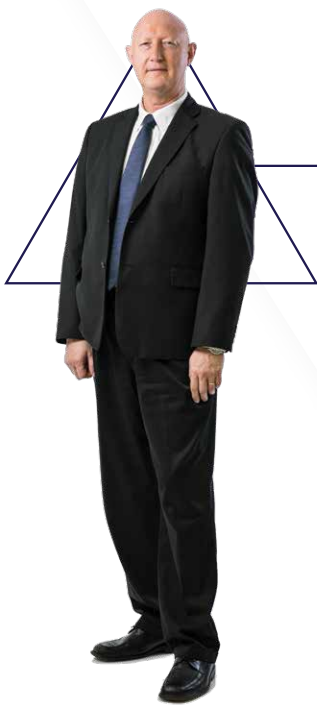
Appointed: March 2015
Qualifications: MSc; PhD; Advanced Executive Program (UNISA SBL);
Advanced Management Program (Harvard Business School)

Alewyn was appointed as the first Independent Chairperson of the PASA Council in March 2015, at the request of the SARB and PASA Council. He brought with him extensive experience from the various executive positions he held, following the Absa Bank merger in 1993 and ending as Group Executive Director on the main Board, accountable for all the Absa commercial bank infrastructure, Group Payments and IT in 1998, when he resigned. Since 1997, he served on the Clearing Bankers Association and played a major role in the setting up of the National Payment System, which regulates the payment industry in South Africa. Alewyn was one of the founding directors of BankservAfrica and continued to serve on its Board for many years. He has had extensive involvement in the card payments business as a global Board member of Maestro International, Mastercard and Visa regional boards.

Alewyn joined Standard Bank in 2001 where he held numerous positions, including Head of Self-Service Channels in Personal and Business Banking, and as the Global Personal and Business Banking Chief Operating Officer with responsibility for operations, information technology, finance, human resources, bank acquisition, integration, group payments and interbank. Later, his focus moved to the African continent and the sponsoring of the core banking replacement programme for 16 countries across Africa.

Alewyn is semi-retired and works as an independent advisor to financial services organisations, including Barclays Africa, Tyme Capital and Old Mutual (Africa). He has contracted with PwC Financial Services Advisory on multiple bank transformation projects, as well as coordinated the PwC bank transformation advisory capability across Africa until June 2014.

Committees: Chairperson of the Nomination and Induction Committee
Member of the Remuneration Committee



Walter Volker

Chief Executive Officer

Appointed: March 2008
Qualifications: BSC; MBL (cum laude); Post-Graduate qualifications from IMD (Lausanne Switzerland) and GIBS

Walter joined PASA as the Chief Executive Officer in March 2008. He brought with him over 17 years' experience in banking and payment systems. He headed up the Group Payment Systems at Absa Bank for over ten years, where he was responsible for the coordination and management of all payment systems in the banking group. During his career, Walter has played a key and leading role in a number of payments innovations in South Africa; these include the introduction of Debit Cards in the late 1990s, the migration to EMV chip technology, the launching of a real-time inter-bank EFT service (called Real-Time Clearing), the introduction of the ZAR (Rand) into CLS, the introduction of Early Debit Orders (EDO), and a number of others.

Walter has served on a number of boards and committees, including the BankservAfrica Board, AllPay Board, PASA Council, MasterCard Global Debit Board of Advisors, MasterCard Chip Expert Group, EMVCo Board of Advisors, SWIFT National Member Group, SARB Strategy Body, the NPS Act Standing Committee, and others. He is also a member of the International Council of Payment Association Chief Executives (ICPACE). Walter is the author of seven published works ranging from genealogy to military history, the latest being *Essential Guide to Payments*, published in November 2013.

Committees: Invitee to the Nomination and Induction Committee
Remuneration Committee
PASA Council Review Subcommittee



John Anderson

Standard Bank Councillor

Appointed: October 2018
Qualifications: BCom; MBA (Henley Business School)

John is an experienced banking specialist who has led teams across various banking disciplines in South Africa. His combined industry experience spans 20 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.

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

ALTERNATE
Idrees Kolabhai





Megan Brown

FirstRand Councillor

Appointed: February 2013
Qualifications: CA(SA); CFA; Post-Graduate Diploma in Accounting (UCT); BBus Sc (Finance) (Hons) (UCT)

Megan has nearly 20 years' banking experience with a breadth of knowledge across treasury, investment banking and retail banking. Over her career, Megan has gained 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.

Megan 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.

Committees: Chairperson of the Council Risk Management Task Team
 Member of the PASA Council Review Subcommittee

ALTERNATE

Kenneth Matlhole



Ian Carter

Nedbank Councillor

Appointed: 13 February 2017
Qualifications: BComm Fin Man (University of KZN); Asset and Liability Management (Insead); IEDP (Wits Business School)

Ian has over 24-years' experience in banking and three years in consulting. In his current role, Ian is the Nedbank CIB Transactional Services Divisional Executive responsible for Electronic Banking, Payments and Onboarding. Ian's focus is the product management of wholesale domestic payments, electronic banking channels and the digitisation of client service and enablement. Ian represents Nedbank at BASA on a number of Interbank Payment Committees, the alternate on the BankservAfrica Shareholder Committee, and various SARB workgroups such as the Vision 2025 implementation plan, domestic payments and the NPA policy review.

As product managers, Ian and his team are responsible for domestic payment regulation and compliance. They represent Nedbank across the EFT PCH, EDO PCH, AC PCH, RTC PCH, EPC, Industry AC Steerco, Industry Payments Modernisation Steerco and other PASA Workgroups.

Committees: Member of the Nomination and Induction Committee

ALTERNATE

Marijke Guest





Dirk Ehlers

Capitec Bank Councillor

ALTERNATE

Marthinus Janse van Rensburg



Appointed: 2002

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

Dirk was previously the Risk Manager for the National Payment System Department, where he was closely involved with the development of the “Blue Book” for the National Payments System. He was a member of the team responsible for the design and implementation of the SAMOS system and was responsible for the coordination of subsequent enhancements to SAMOS up to 2001.

Dirk is currently the head of Interbank for Capitec Bank, where he is responsible for Capitec’s payment participation within PASA and the NPS, including payment regulation and compliance. He is also responsible for the operations of Capitec’s non-card payment systems, SAMOS and on-us payments, such as money transfers. In addition, Dirk oversees the foreign exchange services and balance of payments reporting. Dirk has more than 18 years’ experience in the PASA domain, having served on various strategic and operational PCH PGs, in addition to serving as Chairperson of PASA Council for four years and as a Councillor since 2002.

Committees: Member of the Remuneration Committee



Sydney Gericke

Independent Councillor

Appointed: August 2018

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

Sydney held many senior roles within Nedbank during his 29-years’ service, including roles in risk management and, lastly, as Managing Executive: Card and Payments. He has a proven track record in successfully developing the Enterprise Card and Payments business within Nedbank. He was a member of the Nedbank Group Payments Forum and served as an executive member on steering committees dealing with large and complex implementation of payment solutions, including Authenticated Collections and the Transactional Switch Replacement.

Sydney represented Nedbank on a number of payment industry initiatives and bodies. He served as Nedbank’s RSO for ten years and as Chairperson of the PASA Card Strategy Forum for two years. Sydney participated as a card and payments subject matter expert in the Competition Commission Banking Enquiry. He was a Steering Committee Member of the PASA Interbank Interchange Determination project and served on the Mastercard Regional Board.

Committees: Chairperson of the PASA Council Review Subcommittee

Ingrid Goodspeed

Independent Deputy Chairperson

Appointed: February 2017
Qualifications: CD (SA); LLB; MBL (Cum laude); BCom (Hons) (Economics); BCom (Accounting and Economics)

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

Previously Ingrid was Chief Director: Financial Sector Development at National Treasury and prior to that 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 (FIST). Ingrid was a COBOL and Assembler programmer and spent eight years in the information technology division of a large bank. Ingrid has published a number of books and articles.

Committees: Acting Chairperson of the Remuneration Committee
 Member of the Nomination and Induction Committee
 Member of the PASA Council Review Subcommittee
 Member of the Council Risk Management Task Team

Rufaida Ismail

Investec Bank Councillor

ALTERNATE
John Elliot

Appointed: September 2009
Qualifications: BCom (Hons); LLB; BA; Harvard Business School Alumna

Rufaida has been in financial services for 19 years both 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 Limited. 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 Limited director on DandyShelf (Pty) Ltd.

She has taken up various leadership roles at Investec during her 14 year tenure at Investec, 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 payment services.

She has served on PASA Council since 2009 and continues to service on various Subcommittees of Council in her ongoing efforts to progress and develop critical payments initiatives.



Jill Murtagh

Bidvest Bank Councillor

Appointed: March 2015
 Qualifications: Associate Diploma of Banking; Advanced Diploma in Banking; Project Management Diploma

Jill brings with her a wealth of experience from her representation on a number of boards and industries bodies. Jill has been an executive member of SWIFT NMG since 2014 and SWIFT's global PMPG 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 department. Jill is the business owner of the NPS, EFT and RTC payment streams and the bank's electronic domestic/cross-border payment railways.

Committees: Chairperson of the Remuneration Committee



ALTERNATE
Neil Capazorio



Hendrik Pelser

Absa Bank Councillor

Appointed: March 1998
 Qualifications: BCom (Hons); CA (SA)

Hendrik has extensive experience in the payments environment. He served as the Chief Operations Officer of PASA between March 2002 and February 2007, during which time he was a founding member of the International Body of Payment System Chief Executives (ICPACE). He also served as the Chairperson 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: 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 Chairperson 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 NPS Act.

Committees: Chairperson of Audit Committee
 Member of the PASA Council Review Subcommittee



ALTERNATE
Gabriella Teixeira

GOVERNANCE REPORT

PASA Council strives to create and maintain a culture of good governance across the organisation. Council is responsible for ensuring that the association 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.

Governance for PASA extends beyond compliance with codes, legislation and regulations. Corporate governance processes are continually reviewed and improved to align with internal requirements and to ensure adherence to legislation, regulation and best governance principles. Council is of the opinion that effective leadership forms the foundation for good governance, as leaders define the strategy, provide the direction and establish the values and ethics that will influence and guide the practices and behaviour of the organisation.

PASA Council seeks to fulfil the primary governing roles and responsibilities recommended in the Report on Corporate Governance for South Africa 2016 (King IV™), namely to:

- ▶ set and steer strategic direction;
- ▶ approve policy and planning that give effect to the strategy and the set direction;
- ▶ oversee and monitor the implementation and execution of the strategy by the executive office; and
- ▶ ensure accountability for the performance of the association by means of, amongst others, reporting and disclosure;

towards the achievement of the following governance outcomes:

- ▶ an ethical culture;
- ▶ good performance;
- ▶ effective control; and
- ▶ legitimacy.

PASA Council has delegated management of the PASA organisation to a competent executive management team, who ensures that the strategy process is defined and executed in compliance with appropriate legislation (including regulations), supervisory codes and best practice.

Council and its Subcommittees

Council has the authority to appoint Council Subcommittees and to delegate powers, at the discretion of Council, to such Committees. Council retains ultimate accountability for performance and corporate governance. The permanent Council Subcommittees have formal Constitutions that are reviewed annually and effectively mandated to assist Council in the execution of its responsibilities. During 2018, these Council Subcommittees were:

- ▶ Audit Committee
- ▶ Nomination and Induction Committee
- ▶ Remuneration Committee
- ▶ PASA Council Review Committee
- ▶ Council Compliance Enforcement Subcommittee (established in accordance with the provisions of the Compliance Enforcement Policy)

GOVERNANCE REPORT (continued)

The establishment of a Council Risk Committee, as a permanent Subcommittee, was approved during 2018 and the Council Risk Committee will have its inaugural meeting in 2019.

Council composition and the independence of Councillors

Council comprises 19 Councillors, made up of three Independent Councillors, two *Ex Officio* Councillors, seven Principal Councillors and seven Alternate Councillors (as Member Representative Councillors).

The roles of Chairperson and Chief Executive Officer are separate and clearly defined. This division of responsibilities ensures a balance of authority and power. The Council delegation of authority is such that no individual Councillor has unrestricted decision-making powers.

Council appointments

Member Representative Councillors are appointed to Council following an engagement process between the relevant Member and the Nomination and Induction Committee.

The Nomination and Induction Committee considers candidates and recommends Independent Councillor appointments to PASA Council for approval. Councillors are selected based on their skills, business experience and qualifications.

Director induction and development

Newly appointed Councillors participate in an induction programme. All new Councillors are provided with access to all Council and Council Subcommittee Constitutions, meeting packs and minutes via a secure weblink.

PASA is conscious of, and continually addresses the need for, relevant training for all Councillors. In this regard, all Councillors are registered with the Institute of Directors in Southern Africa and encouraged to complete the Being a Director Programme modules 1 – 4 to ensure that they have an adequate understanding of their fiduciary responsibilities to PASA and the NPS. In addition, relevant training, as identified by the Nomination and Induction Committee or PASA Council, is provided as and when required.

Council and Councillor evaluation

PASA engaged the services of the SIRDAR Group during 2018 to conduct a detailed external evaluation process to assess the effectiveness of PASA Council, Council Subcommittees and Chairpersons, the Chairperson of PASA Council and the individual contributions of Councillors. The findings from the assessment were discussed at a strategy session held in June 2018, where Council considered the evaluations and formulated action plans to address the findings.

Conflicts of interest

In line with the PASA Constitution, individuals who are conflicted whether directly or indirectly may not serve as Councillors. A Councillor who serves on any Board, or similar governing body of any Member, System Operator or PCH System Operator is deemed to be conflicted. Similarly, any shareholder representative of any Member, System Operator or PCH System Operator is deemed to be conflicted.

Where a matter for consideration at a meeting is likely to give rise to a conflict of interest or a potential conflict of interest, Councillors with a conflict of interest are required to recuse themselves from the meeting at the time the matter is discussed.

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 the financial period.

Indemnity insurance

Councillors enjoy the benefit of liability insurance, funded by PASA, to cover instances where they could be held personally liable to the organisation in cases of negligence, default or a breach of duty or trust. The cover excludes liability resulting from criminal, reckless or fraudulent behaviour.

Council meetings

Council meets a minimum of five times a year, or more frequently should circumstances require it. Council meetings are conducted according to a formal agenda. Supporting documentation in the form of comprehensive proposals and reports are distributed to Councillors at least seven days before Council meetings to allow for adequate preparation and to facilitate more 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 the Executive Management and the Company Secretary and may meet with Committee members independently.

GOVERNANCE REPORT (continued)

Council attendance

	27 Feb 2018	12 April 2018	29 May 2018	15 Aug 2018	10 Oct 2018	23 Nov 2018
Members						
Dr A Burger (Chairperson)	✓	✓	✓	✓	x	✓
Mr J Anderson (Principal) * ¹	N/A	N/A	N/A	N/A	N/A	✓
Mrs M Brown (Principal) * ²	✓	✓	✓	✓	✓	✓
Mr N Capazorio (Alternate) * ³	x	x	✓	x	x	x
Mr I Carter (Principal) * ⁴	✓	✓	✓	✓	✓	✓
Mr M Daniels (Principal) * ¹	x	✓	✓	x	x	N/A
Mr D Ehlers (Principal)	✓	✓	✓	✓	✓	✓
Mr J Elliot (Alternate)	✓	✓	x	x	✓	✓
Mr S Gericke (Independent) * ⁴	✓	✓	✓	✓	✓	✓
Mrs I Goodspeed (Deputy Chairperson)	✓	✓	✓	✓	✓ (Chair)	✓
Ms M Guest (Alternate) * ⁴	N/A	N/A	N/A	N/A	N/A	✓
Mrs R Ismail (Principal)	✓	✓	✓	✓	✓	✓
Mr I Kolabhai (Alternate)	✓	x	x	x	✓	x
Mr E Leach (Alternate) * ⁵	✓	x	x	x	N/A	N/A
Mr T Masela (Principal)	x	✓	✓	x	x	✓
Mr K Matlhole (Alternate) * ²	N/A	N/A	N/A	x	✓	x
Mrs J Murtagh (Principal) * ⁷	x	x	x	x	x	✓
Mr H Pelser (Principal)	✓	✓	✓	✓	✓	✓
Mr S Rayfield (Alternate) * ⁵	N/A	N/A	N/A	N/A	✓	x
Ms G Teixeira (Alternate) * ⁶	N/A	N/A	N/A	x	✓	x
Mr W Volker	✓	✓	✓	✓	✓	✓
Invitees						
Mr P Coetzee	✓	✓	✓	✓	✓	✓
Mr E Malisa	✓	x	✓	✓	✓	✓
Mr M Pretorius	✓	✓	✓	✓	✓	✓
Ms M Butler (CoSec Consultant)	✓	✓	✓	N/A	N/A	N/A
Dr B Taute (Acting CRO)	N/A	N/A	N/A	N/A	N/A	✓
Ms N Nortje (Administrator)	✓	✓	✓	✓	✓	✓

*¹ Mr J Anderson was appointed as Principal Councillor by Standard Bank in November 2018, following the resignation of Mr M Daniels on 4 October 2018.

*² Mrs M Brown was appointed as Principal Councillor by FirstRand Bank in April 2018. She was previously an Alternate Councillor, following Mr D Marais' resignation in February 2018. Mr K Matlhole was appointed as Alternate Councillor in June 2018.

*³ Mr N Capazorio resigned as Alternate Councillor in December 2018.

*⁴ Mr S Gericke stepped down as the Principal Councillor and was appointed as an Independent Councillor with effect from August 2018. Mr I Carter was appointed as Principal Councillor, appointed by Nedbank, with effect from August 2018 (previously he was an Alternate Councillor). Ms Marijke Guest's appointment as Alternate Councillor was ratified on 10 October 2018.

*⁵ Mr E Leach stepped down as the SARB Alternate Councillor from September 2018. Mr S Rayfield was appointed as the SARB Alternate Councillor from September 2018.

*⁶ Ms G Teixeira was appointed as an Alternate Councillor by Absa Bank from August 2018.

*⁷ Ms J Murtagh was off on sick leave from April 2018 to October 2018.

PASA COUNCIL SUBCOMMITTEES

Report of the Audit Committee

The Audit Committee is constituted as a Subcommittee of PASA Council. The Committee conducted its work in accordance with the Audit Committee Constitution. The Audit Committee's Constitution deals adequately with its membership, authority and duties. The Committee has an independent role with accountability to the PASA Council. The Committee does not assume the functions of management, which remain the responsibility of the Chief Executive Officer and the Financial Manager.

During the year under review, the Audit Committee members were Hendrik Pelser (Chairperson) and Idrees Kolabhai. The Financial Manager attends all meetings of the Audit Committee as a standing invitee. In alignment with good governance principles, the Chairperson of the Board is not eligible to chair or serve on the Committee. Attendance at the meetings held during 2018 was as follows:

	9 Mar 2018	17 Sep 2018	6 Nov 2018
Members			
Mr H Pelser (Chairperson)	✓	✓	✓
Mr I Kolabhai	✓	✓	✓
Invitees			
Mr R Rambally (Financial Manager)	✓	✓	✓

External audit

The Audit Committee nominated SNG Grant Thornton Inc. for appointment as the independent auditors to perform the 2018 audit, with the designated audit partner being Nick Kyriacou. The Committee has satisfied itself, through enquiry, that the auditors of PASA are independent as per the standards stipulated by the auditing profession.

The Audit Committee, Chief Executive Officer and PASA Council agreed to the engagement letter, terms, nature and scope of the audit function and audit plan for the 2018 financial year. The budgeted fee was considered appropriate for the work that could reasonably have been foreseen at the time.

Annual financial statements and accounting policies

The Audit Committee has reviewed the accounting policies and the annual financial statements and are satisfied that they are appropriate and comply with IFRS for Small- and Medium-sized Entities.

The Audit Committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 December 2018 to Council for approval. Council approved the annual financial statements on pages 72 to 92 on 28 May 2019 and recommends the approval of the annual financial statements to the members of PASA for final approval at the AGM on 12 June 2019.

Signed for and on behalf of the Audit Committee



Hendrik Pelser

Chairperson of the Audit Committee

PASA COUNCIL SUBCOMMITTEES

(continued)

Report of the Nomination and Induction Committee

The Nomination and Induction Committee plays an essential role in ensuring Council continuity, Chief Executive Officer succession planning as well as Councillor education and training. The Nomination and Induction Committee ensures that Councillors are adequately inducted onto PASA Council and that they are equipped to perform their fiduciary and governance responsibilities on behalf of PASA and the NPS. Ongoing training is a philosophy which is strongly supported by both PASA as an organisation and by PASA Council and, in line with this, ongoing training is provided to Council on key governance matters, including competition and ethics training.

The Nomination and Induction Committee is also responsible for the annual assessment of Council and the Chairperson and assists the Chairperson with the individual assessments of all Councillors to ensure that Council will continue to perform optimally. The 2018 evaluation process was conducted externally and the Nomination and Induction Committee, on behalf of Council, will review and evaluate the performance of Council in line with the models and guidelines provided by the SIRDAR Group.

During 2018, the Nomination and Induction Committee was responsible for the creation of an induction booklet, which would serve as a reference for Councillors and would provide stakeholders with insight into PASA and the payments environment within the NPS. In addition, the Nomination and Induction Committee, in collaboration with PASA Executive Office, created a Code of Conduct to be used as an aspirational document to guide all Councillors, employees and participants on PCH PGs, Stakeholder Forums and Strategic Committees. Non-compliance with the Code of Conduct would be dealt with in line with the performance and behaviour policies of PASA.

During the year under review, the Nomination and Induction Committee members were Alewyn Burger (Chairperson), Ian Carter, Ingrid Goodspeed and Tim Masela. The Executive: Payments and Regulation attends all meetings of the Nomination and Induction Committee as a standing invitee. Attendance at the meetings held during 2018 was as follows:

	6 Feb 2018	7 May 2018	10 July 2018	15 Nov 2018
Members				
Dr A Burger (Chairperson)	✓	✓	✓	✓
Mr I Carter	✓	✓	✓	✓
Mrs I Goodspeed	✓	✓	✓	✓
Mr T Masela*	x	x	x	x
Mr E Leach*	✓	✓	x	N/A
Mr S Rayfield*	N/A	N/A	N/A	✓
Invitees				
Mr P Coetzee	✓	✓	✓	✓
Ms M Butler (Company Secretary Consultant)	N/A	✓	N/A	N/A

* Attendance by Mr T Masela or his duly appointed alternative.

PASA COUNCIL SUBCOMMITTEES

(continued)

Report of the Remuneration Committee

Background

The Remuneration Report is intended to provide an overview and understanding of PASA's remuneration philosophy and practices with specific emphasis on executive and independent Councillor remuneration.

The Remuneration Committee assists Council in ensuring that PASA remunerates its independent Councillors fairly and responsibly and that the disclosure of remuneration is accurate, complete and transparent.

The Remuneration Committee serves as a Subcommittee of Council responsible for monitoring and strengthening the objectivity and credibility of the remuneration and incentives systems for the Chief Executive Officer and staff. The duties of the Remuneration Committee further include:

- ▶ scrutinising all employee benefits to ensure that these are adequate, justified, correctly valued and suitably disclosed;
- ▶ ensuring alignment of the remuneration and human resources strategies and policies within the organisation's strategy, needs and the desired culture;
- ▶ determining the general policies on executive and senior management remuneration to ensure fair and responsible remuneration practices, including bonuses and incentive schemes;
- ▶ reviewing and measuring against agreed benchmarks, annual increases and bonuses for the executive management team against individual and organisational performance targets, which targets are reviewed annually to ensure that they remain appropriate;
- ▶ considering and approving all elements of the remuneration of the Chief Executive Officer;
- ▶ approving or recommending general salary increases as well as short-term and long-term incentive pools for employees;
- ▶ ensuring the adequacy of retirement and healthcare funding for all employees;
- ▶ endeavouring to ensure adequate succession plans for the executive and senior management;
- ▶ ensuring that the structures, policies and procedures facilitate good management and utilisation of human resources;
- ▶ ensuring adequate consideration of policies for the organisation in respect of skills development and employment equity; and
- ▶ ensuring compliance with all statutory and best practice requirements regarding labour and industrial relations management.

The Committee has reviewed PASA's remuneration policies to ensure that these are aligned with PASA's strategy and linked to individual performance.

PASA COUNCIL SUBCOMMITTEES

(continued)

Committee composition

The Remuneration Committee comprises two Independent Councillors and two Member-appointed Councillors. The Remuneration Committee meets at least three times annually and the attendance at meetings held during 2018 was as follows:

	13 Jun 2018	7 Aug 2018	4 Dec 2018
Members			
Mrs I Goodspeed (Acting Chairperson)	✓	✓	✓
Dr A Burger	✓	✓	✓
Mr D Ehlers	x	✓	✓
Ms J Murtagh (Chairperson) * ¹	x	x	x
Invitees			
Mr M Ferreira (Associate Director PwC) * ²	✓	✓	✓
Mr M Pretorius (Executive: Strategy and Remuneration)	✓	✓	✓
Mr W Volker (Chief Executive Officer)	✓	✓	✓

*¹ Ms Murtagh was excused from attending meetings of the Remuneration Committee during 2018, due to ill health.

*² Mr M Ferreira was brought in as a consultant to the Remuneration Committee to enhance the overall level of expertise of the Committee.

The Chief Executive Officer and the executive responsible for strategy and remuneration attend meetings by invitation.

Remuneration Policy

PASA's Remuneration Policy provides flexible and competitive remuneration structures, which are referenced to appropriate industry-relevant benchmarks; they reflect market practice; and are tailored to meet the needs of the organisation. 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 elements of fixed remuneration and performance-based (at-risk) remuneration in the form of incentives. Non-managerial staff are, depending on performance, eligible for short-term incentives. Executives and high-performing senior managers are, depending on performance, eligible for both short- and long-term incentives.

Bi-annual performance review processes assess the degree to which each qualifying employee is satisfying the requirements of his/her role and the degree to which established performance objectives have been achieved.

PASA COUNCIL SUBCOMMITTEES

(continued)

Independent Councillor remuneration

PASA Council, on the recommendation of the Nomination and Induction Committee, is responsible for appointing all Councillors. The fees paid to independent Councillors consist of a per hour fee. Fees are inclusive of VAT. Independent Councillors may take on specific ad hoc tasks outside the normal duties assigned by the Council.

Expenses, such as travel and accommodation in relation to Council-approved activities, as well as relevant training, are reimbursed.

Independent Councillors' fees are reviewed annually and are subject to a CPI increase per annum, as approved by the Remuneration Committee, in conjunction with the budgets provided for by the Audit Committee.

PASA COUNCIL SUBCOMMITTEES

(continued)

Report of the PASA Council Review Subcommittee

A significant focus within the PASA domain was that of the PASA Review. A Council Subcommittee was established to review, comment and document the PASA perspectives on all matters emanating from the PASA Review Report, and the 19 Recommendations issued by the SARB in June 2016. The focus for 2018 included several engagements with the SARB, NPSD and the Deputy Governor to seek clarity, where required, and finalise the 19 Recommendations for implementation.

During the latter part of 2018, it became clear that the NPS Act Review and the Vision 2025 would introduce a revised framework for the supervision, regulation and oversight of payment systems in South Africa as well as change the current mandate of PASA as an organisation. The 19 Recommendations of the PASA Review would be superseded and, where appropriate, incorporated in the NPS Act review.

The NPS Act Review Policy Paper was released during December 2018 for comment and consultation with the industry. The PASA Council Review Committee envisage to continue the consultation process with the SARB, NPSD and National Treasury in support of the finalisation of the NPS Amendment Act.

During the year under review, the PASA Council Review Subcommittee members were Sydney Gericke (Chairperson), Megan Brown, Ingrid Goodspeed and Hendrik Pelser. Alewyn Burger and the PASA Executive Team attend meetings of the PASA Review Subcommittee as standing invitees. Attendance at the meetings held during 2018 was as follows:

	17 Jan 2018	31 Jan 2018	14 Mar 2018	22 Mar 2018	23 May 2018	30 May 2018	8 Jun 2018	18 Jul 2018	25 Jul 2018
Members									
Mr S Gericke (Chairperson)	✓	✓	✓	✓	✓	✓	✓	✓	x
Mrs M Brown	✓	✓	✓	✓	✓	✓	✓	x	✓
Mrs I Goodspeed	✓	✓	✓	✓	✓	✓	✓	✓	✓ (Chair)
Mr H Pelser	✓	✓	x	✓	✓	x	x	✓	✓
Invitees									
Dr A Burger	✓	x	x	x	✓	✓	✓	x	x
Mr P Coetzee	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr M Pretorius	✓	x	x	✓	x	x	✓	✓	x
Mr W Volker	✓	x	✓	✓	✓	✓	✓	✓	✓
Ms R Ismail	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	x
Mr J Elliot	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	x

Section 3:

EXECUTIVE OFFICE OVERVIEW

INTRODUCTION

The Payments Association of South Africa (PASA) was founded in September 1996, and was subsequently recognised, in June 1999, as a payment system management body by the SARB under the provisions of the NPS Act. Whilst PASA's mandate is derived from the NPS Act, PASA as a self-regulatory body, is compelled to assist the SARB in the discharge of its responsibilities. PASA Council, the highest governing body in PASA, has adopted good corporate governance principles in line with King IV™, in order to assist it to achieve its strategic objectives and in acting in the best interest of the NPS. As such, PASA is mandated to develop rules, criteria and governance structures as may be required to carry out its function. Through a strong legal foundation, PASA manages its members' specific payment activities through legal constructs such as Payment Clearing House (PCH) agreements, PCH clearing rules and service level agreements. Other important legal constructs are the PASA Constitution (providing foundation for good governance), policies and position papers.

PASA's Chief Executive Officer and his staff, collectively referred to as the Executive Office, are responsible for the successful execution of PASA's strategy and mandate. The PASA Executive Office performs administrative and executive functions on behalf of PASA. These include assisting, guiding and advising PASA Council and other PASA Structures; monitoring, investigating and reporting non-compliance; facilitating disputes between Members; performing administrative and company secretarial functions; acting as a link between PASA Structures and PASA Council; escalating matters involving risk, customer impact or Stakeholder interest to PASA Council; providing direct support to the SARB and NPSD, in addition to communication from a payments industry perspective.

EXECUTIVE STAFF AND ORGANISATION



Walter Volker
Chief Executive Officer



Kim Edwards
Executive Assistant



Maurits Pretorius
Executive Strategy and Communication

Strategy



Johan Buitendag
Manager Strategy and Research



Leticia Mentz
Manager Industry



Caronese Tait
Training Coordinator



Vinu Thomas
Manager Strategy and Research



Sela Selepe
Team Assistant



Pierre Coetzee
Executive Payments Regulation



Charl Ackerman
Senior Legal Counsel



Nicolette Nortje
Senior Meeting Administrator



Helen Peace
Company Secretary

Regulatory and Legal Division



Marié Smit
Compliance Manager



Sisanda Malgas
Quality Assurance Supervisor

Compliance



Rukesh Rambally
Financial Manager

Finance



Barend Taute
Acting Chief Risk Officer

Risk



Enoch Malisa
Chief Operating
Officer

Operations and Projects Division



Mari Few
Change
Implementation
Manager



Coco Buthelezi
Project
Administrator



Narishka Govender
PMO
Administrator



Chris J v Vuuren
Business
Analyst



Naushin Kader
Project
Manager



Kavin Maistry
Project
Manager



Tiri Mushandu
Business
Analyst



Anthony Radford
Project
Manager



Andre Strydom
Project
Manager



Mariekie Mincher
Manager Operations Support



Rahab Moakamedi
Quality Assessor



Agrecia Nhlangwana
Electronics:
Administrator



Kgothatso Nthate
Payment System Analyst



Dineo Sello
Quality Assessor



Rose Molobi
Office Manager



Dinah Mokoena
Office Support



Fred vd Westhuizen
Manager
Operations – Card



Lemese Lukhan
Administrative Assistant



Lloyd Miles
IT and Facilities Manager

EXECUTIVE COMMITTEE

The Chief Executive Officer is a member of the Council and his biographical details appear on page 14.



Pierre Coetzee

Executive of Payments Regulation

Appointed: April 2008
Qualifications: Bluris Law (PU for CHE); LLB (Unisa)

Pierre practiced 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 PCH Agreements. Pierre represented PASA at the 2007 Banking Enquiry (Jali Commission) and acted as the COO for PASA for three months.

In April 2008, Pierre returned to PASA as the Executive responsible for Payments Regulation after joining Standard Bank for seven months. He has been responsible for the drafting and finalisation of the PASA Regulatory Framework, Competition Policy, Compliance Enforcement Policy, Sorting-at-Source Policy, Stakeholder Policy, PASA Constitution, Code of Conduct and numerous other constitutions, agreements and key legal and regulatory documents.



Enoch Malisa

Chief Operating Officer

Appointed: July 2017
Qualifications: MBA (Henley Business School); MDP (Unisa School of Business Leadership)

Enoch joined PASA in July 2017 as the Chief Operating Officer. His portfolio includes, amongst others, the running of the Payment Clearing House Participant Groups (PCH PG) for various payment streams such as Cards, EFT Debits and Credits, Cash, Cheques, Securities, Bonds, Equities and Settlements. He oversees the daily operational functions of PASA, which include the execution of Projects and Information Technology. Prior to joining PASA, Enoch worked for Absa/Barclays in a number of positions. His most recent role was Head of Card Issuing for Barclays Rest of Africa (ten countries) for Credit, Debit and Prepaid Cards.

Enoch has extensive experience in payments gained from an in-depth exposure to a number of organisations, including Visa International, Postbank, Standard Bank, Nedbank and Transnet.



Maurits Pretorius

Executive Strategy, Education and Communication

Appointed: January 2016

Qualifications: LLB (University of Pretoria); BPsych (Hons) (University of Pretoria); MPsyh Industrial (Cum Laude) (NWU); Diploma in Clinical Organisational Psychology (Cum Laude) (INSEAD, France); Executive MBA (INSEAD, France)

Maurits is the Executive for Strategy, Education and Communication at PASA. In this capacity, he actively participates in the implementation of DebiCheck, a new Authenticated Collections capability, and Project Future, a new rapid payment system, that will also in time introduce a new platform-based target state architecture as well as additional payments functionalities to South Africa. He is also deeply involved with the NPS and PASA Review and the optimisation of 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 (both digital and physical).

His forte and passion have always been strategy development as well as change and transformation enablement. He has either been involved in, or personally lead, several large strategic change projects in one of South Africa's largest banks and, lately, also for the industry as a whole.



Barend Taute

Acting Chief Risk Officer

Appointed: November 2018

Qualifications: PhD Electrical Engineering (Ohio State University, USA)

Barend has over 35 years' experience as a researcher, business developer, strategist and technology manager, working on radar, antennas, remote sensing, microwave heating, safety and security, crime combating, border control, cyber security and ICT at the Council for Scientific and Industrial Research (CSIR) in South Africa. His last role was that of Manager: ICT Contract Research and Development at the CSIR Meraka Institute, focusing on local, African and European collaboration in ICT, security and cyber security-related strategy, policy, research, development and innovation.

Barend is also the Chairperson of the E-Commerce Advisory Committee of the Department of Finance (through the Financial Sector Conduct Authority) and was a member of the Expert Panel appointed by the Constitutional Court for assessment of SASSA's plans for the payment of social grants.

LEGAL AND REGULATORY

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

The most pertinent of these is unquestionably the ongoing review of PASA and the NPS Act, eventually culminating in the issuance of the NPS Act Review Policy Paper at the end of 2018. The main purpose and focus of this initiative was the positioning of the SARB as the payments regulator or authority with a clear mandate in respect of regulation, supervision and oversight of payments, payment systems as well as the participants in the NPS. The review of the NPS Act would ultimately result in the removal of the Payment System Management Model, as proposed in the Policy Paper.

The overarching goal of the NPS Act review, was to introduce clear policy objectives for the NPS in alignment with the Financial Sector Regulation Act. The issuance of the Conduct of Financial Institutions Bill for public comment is further evidence of government's focus on an improved and optimised regulatory framework for financial institutions and policy objectives.

PASA has either been involved in or has commented on other bills, such as the National Gambling Amendment Bill, Cybercrimes Bill and the Financial Sector Laws Amendment Bill.

The implementation of the Protection of Personal Information Act, from a payments perspective within PASA, is an ongoing focus.

The SARB has issued a number of Directives and Position, Consultation or Guidance Papers, either for comment or for implementation, the following of which received focused attention and action within PASA during 2018:

- ▶ Authenticated Collections Directive (for implementation);
- ▶ CMA Directive (for implementation);
- ▶ EFT Directive (for implementation);
- ▶ Draft Directive for Foreign Card Issuing and Acquiring (for comment);
- ▶ Consultation Paper on Payroll Deductions (for comment);
- ▶ Consultation Paper in respect of Processing of Payments in South Africa (for comment);
- ▶ Draft Position Paper and Directive on Cloud Computing and Offshoring of Data (for comment); and
- ▶ Position Paper on the Principles for Financial Market Infrastructures (for implementation).

PASA rules (including Clearing Rules, Debit Order Abuse Rules, and some policies such as Sort-at-Source), continued to be the subject of review and improvement, ultimately aiming at creating clear, unambiguous and enforceable rules within PASA.

Both the PASA Legal Committee and the Competition Committee functioned optimally, and in some instances, placing huge demand on their capacity to assist and advise in respect of new Bills, rule changes, agreements and PASA projects.

The Electronic Payment System within the NPS of South Africa has served the country well for over 30 years. It has, however, not necessarily kept up with new technologies and is deemed to be far too inflexible and inefficient to serve PASA and the NPS into the next decade, especially in supporting South African financial services to substantively enter a digital era with new consumer behaviours, new business models and different technology.

The strategic payments landscape in the year 2018 was, therefore, on the one hand dominated by DebiCheck, South Africa's new Authenticated Collections system, which was brought into production in August 2018 and, on the other hand, Project Future, a critically important development that dominated the landscape of payments in 2018.

Project Future was born out of the earlier modernisation initiative and was initiated to establish a target state architecture for electronic payments and to ensure that the future Electronic Payment System is more agile and flexible for future payments needs. Additionally, it also has to streamline the payments landscape to ensure a consistent real-time environment in which payments are processed, irrespective of the value, volumes or end-user channel.

Enhancing the flexibility and adaptability of electronic payments will enable this payment type to be a viable and desired payment type to be used for a number of new use-cases, thereby providing additional options for end users and consumers. In creating additional electronic options to accept or make payments, it is envisaged that end users and consumers, especially previously excluded or underserved consumers, will have a far more compelling reason to not rely on cash anymore, thereby reducing the direct and indirect costs of cash to society. This would promote more optimal payments participation and utilisation, thereby enhancing the efficiency of the economy.

A high-level case for change

The reasons why the NPS is facing these increased pressures and why a project like Project Future becomes so important to South Africa, is in the fact that South Africa, along with the rest of the world, is fast moving into the broad utilisation of digital business platforms, which challenge traditional platforms through which financial services and products were delivered. The biggest drivers of this digitisation trend are the relentless pressure to lower cost, the quest for additional personalised and real-time customer convenience and value-adding features and, lastly, regulatory and competitive pressures that demand broader inclusion and the opening up of banking and payments systems to be used by third parties for the development, integration and delivery of customer-facing services and enhancements, typically through the use of Application Programming Interfaces (APIs).

Banks have realised that the power of digital lies far beyond the digital replication of their physical channels, but actually in the creation of a digital core that is a necessity for doing banking in the future and is required to interface with the new business realities, features and technologies brought about by the fourth industrial revolution, such as APIs, Big Data Analytics, Robotics Process Automation (RPA) and Artificial Intelligence (AI), together with sophisticated cyber security threat protection capabilities. To digitise an entire bank is a challenging and expensive process, being made more difficult by historic developments brought about by past product development, mergers and acquisitions, and the many regulatory requirements that added layers of procedural complexity and left banks with complicated and outdated IT architectures that are difficult to reform. It is, therefore, an observed international trend that banks prioritise these digitisation efforts to focus on areas, such as payments, which are, on the one hand, a high contact point with customers and an opportunity for banks to expand their customer offerings, but on the other hand, also an opportunity

to modernise core payments architectures with commensurate back office benefits. These modernised architectures have to especially cater for the modern reality that new customer offerings are nowadays often established through joint ventures with fintech companies, and by tapping into a broader array of innovative services and solutions offered by these non-banking competitors.

In South Africa, there are two interrelated realities that further establish the case for change and force the payments industry to do a comprehensive modernisation of its payments system, namely the need for broader financial inclusion and the cost of Cash transactions for the economy. The vast majority of South African consumers exist in the low-income market and, while the rate of financial inclusion is fairly high (77% of the adult population is banked, including South African Social Security Agency (SASSA) card holders), the bulk of this group are less than adequately served by financial institutions. Partly, the uptake of financial products is severely constrained by a lack of knowledge and financial literacy, but it also lies in certain technological and commercial barriers to entry. There is still a high dependence on Cash as a payments instrument and current digital payment instruments, therefore, have to compete with Cash. While this is partly driven by the preferences of the low-income consumers, it is also aggravated by high costs and other barriers to entry, which make participation in digital payment alternatives difficult to achieve. As a result, a 2017 Mastercard study indicates that Cash transactions still account for 52% of all consumer transactions in South Africa, which carry a cost of R23 billion for the economy and accounts for 0,52% of the gross domestic product. Unfortunately, the heaviest Users of Cash, namely the low-income earners, carry a disproportionate portion of this cost, totalling as much as 4% of their earnings, compared to an average of 1,1%. A primary focus of any payments system innovation, therefore, would have to focus on the displacement of cash through viable and desirable alternative payment methods and instruments, primarily aimed at the currently excluded, but high cash-cost-bearing low-income groupings.

Consequently, a holistic review of the entire system is required to serve South African consumers and businesses, to “future proof” the electronic payment system and to ensure that it is able to serve and support the rapidly emerging digital economy.

A need for renewal and key contributing factors

The inflexibility and inefficiency of the existing Electronic Payment System is a major contributor to the difficulties South Africa experiences in making any substantial headway with the challenges listed above. This lack of flexibility can be largely attributed to the following factors:

- ▶ The different payment streams are designed to operate in silos with very little re-use across the different streams and duplication of capabilities.
- ▶ The different payment streams are designed and developed in a monolithic manner, without clear distinctions between core payment services and additional value-added or overlay services.
- ▶ The low value streams utilise a bespoke standard that carries very limited data and is not flexible enough to support additional data in an efficient manner.
- ▶ The core payment system is still traditionally managed by banks as a collective, and the system in itself is too constrained to provide select external parties direct access to core payment services, thereby making it difficult to contribute to the improvement of financial and payment service offerings. The use of open APIs has been gaining momentum across the globe and are instrumental to the provision of innovative personal and business financial services. A future payments architecture needs to facilitate broader access and more flexibility in the form of layered architectures such as APIs and micro services.

Prioritised functions and use-cases

While it is not possible to determine all the use-cases that would need to be enabled, specific use-cases were discussed and prioritised in 2018, primarily in respect of their ability to promote electronic payments and ultimately reduce the reliance on Cash. In this regard, a set of core functions or capabilities has been prioritised that would provide immediate benefit to the payments industry and enable the most desirable and obvious use-cases, namely:

1. a low-cost **Instant Payments** capability providing immediate notification to both the payer and payee and ensuring that together with immediate posting of funds that are both final and irrevocable;
2. an **addressing or proxy** capability to enable a more seamless payment experience without the need to register a beneficiary with a bank name, bank account number or branch code, while at the same time providing the payer with confirmation of the beneficiary's details; and
3. a **Request to Pay (RtP)** capability that allows the beneficiary of the payment to send a request with the payment information (invoice, bill, etc.) to the payer for payment of an invoice or bill to further promote a seamless payment experience and to enable an additional payment acceptance option for merchants, other than card or cash-based payments.

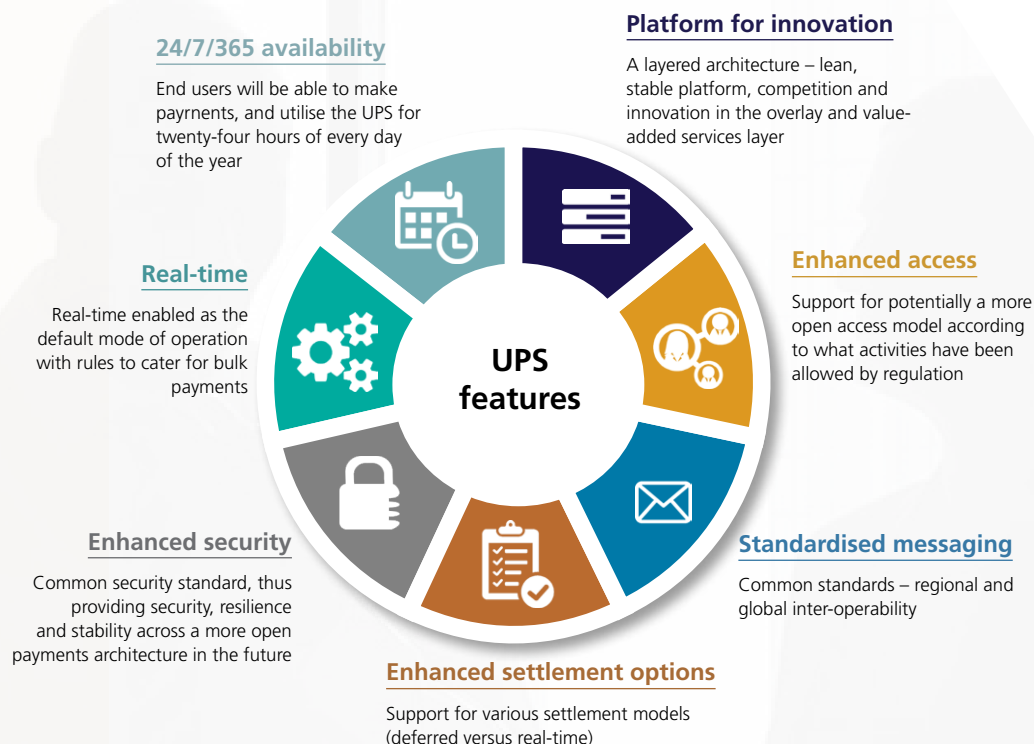
Furthermore, the use of standards, such as the ISO 20022 standard, that are interoperable both regionally and globally, will enable broader application for each of the use-cases.

Given the context of the electronic payments landscape, it is possible to deliver the parts or the whole of each of the prioritised functions by leveraging some of the existing capabilities. This will ensure that incremental value is delivered to the industry. Furthermore, in order to ensure that minimal waste and “technical debt” is incurred, the new capabilities would be delivered in a manner that aligns best with the target state architecture.

Target state architecture

In defining the target state architecture, the Unified Payments Service (UPS) concept was developed. The design choices made for the UPS were led by the desire to satisfy the case for change, broadly set out above, and to achieve the goals set out in the SARB's Vision 2025 policy document. The envisioned architecture for the UPS is one that is layered and evolutionary in nature so as to cater for all current requirements, while being able to easily adapt to new requirements and changes in technology that arise in the years and decades to come. It will be implemented in various phases and will, on a continuous basis, be providing new capabilities to the payment ecosystem, particularly push-related capabilities adjacent to the rails already established through DebiCheck.

At its core, the UPS utilises a platform approach upon which further services are developed and orchestrated by the platform through APIs and micro services. This will enable competitive offerings to be developed by solution providers to the benefit of authorised participants. Given its potential transformative nature, a key requirement for this type of payment innovation is, however, the necessary regulatory support and incentives to ensure that this type of platform is established in recognition of broader public policy goals and objectives.



Transition options

Various transition options exist for participants to arrive at the target state architecture. The proposed transition path is one where new capabilities, built in alignment with the new architecture, can be used by existing payment streams to minimise any potential waste and to deliver incremental value to the industry. Participants that are able to utilise the new functionality should be enabled without having to wait for the industry.

An implementation, based on a new architecture, will be built to scale across a variety of use-cases to manage the increase in volumes in the long run, with greater benefits across a wider variety of end users and transactions, thereby being more cost effective than a simple solution for a current single use-case or additional product approach, based on existing infrastructure.

Prospects for 2019

Further design work and execution planning will continue, as this is only the beginning of a long journey. In 2019, the two core focus areas will be the following:

1. The establishment of high-level requirements for the operator and the evaluation of BankservAfrica, the current incumbent, operator's ability to fulfil the requirements.
2. The establishment of a strong investment case for participants. Owing to the complexities associated with arriving at a quantitative assessment for each participant, an industry-level and macro-economic quantification of the costs and benefits associated with this initiative will be developed.

Following on from these steps, the industry will most likely, in the second half of 2019, commence with the delivery of the required capabilities, based on the agreed priorities, in an evolutionary manner, taking into account the different readiness stages of participants as well as the potential for sweating existing capabilities.

Continuous support from the SARB would also be critical to enable the transition to this new payments platform and to enable each of the prioritised use-cases, as they support the achievement of the goals set out by the SARB in Vision 2025.

MEMBERSHIP

2018 saw interesting developments in the PASA Membership space. Towards the latter part of the year, PASA was informed by the SARB-appointed curator to VBS Mutual Bank that the bank would be going into liquidation and would therefore cease to be a Member of PASA. As initial steps to the exiting of VBS Mutual Bank as a PASA Member, VBS was exited from the Card PCHs during 2018, and will be exited from the RTC PCH in 2019. Until such time as the winding up of the bank has been finalised, VBS will, however, continue as a participant in the Immediate Settlement and EFT Credit PCHs.

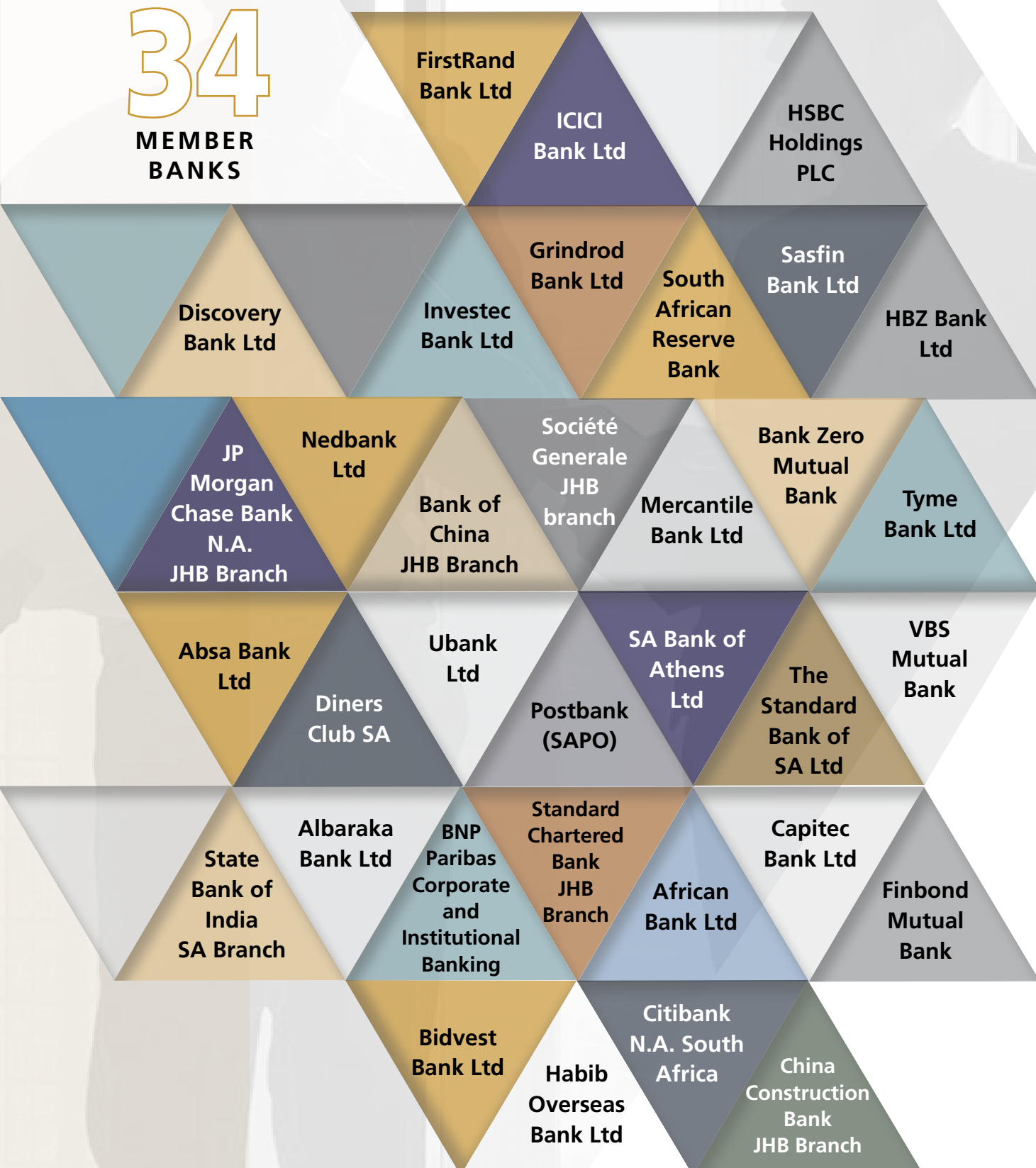
On the opposite end of the spectrum, PASA's Membership ranks have been joined by Bank Zero Mutual Bank, who went live in the Immediate Settlement PCH in September 2018. Bank Zero is further set to join the EFT Credit, EFT Debit and Debit Card PCHs in 2019.

As at the end of 2018, PASA had 34 Members, who collectively held 229 participant positions across the 19 PCHs and had authorised 111 PASA Authorised System Operators and 220 registered Third Party Payment Providers.

PASA member banks and designated clearing system participants

34

MEMBER
BANKS



The importance of Risk Governance

External and internal factors can influence the achievement of strategic objectives, and this is generally phrased as “risks” – i.e. the uncertainty of events that may affect the achievement of objectives. This includes both negative events with adverse effects and positive effects or opportunities that should be realised.

PASA's approach to Risk Management is aligned with the ISO 31000 (2018) Risk Management Guidelines and the principles entrenched in the King IV Report on Corporate Governance for South Africa, 2016 (King IV™). Both documents emphasize the need for organisations to create and protect value, and to highlight the need for Council-level oversight of risk management. This relates to both PASA as an organisation and the NPS, for which PASA has been appointed by the SARB as the Payment System Management Body in terms of the NPS Act.

Managing and evaluating risk is the essence of banking. By extension, this is also true for the NPS and, especially so in the current times of global financial disturbances, terrorist and organised criminal activities, as well as unprecedented growth in modern and innovative financial products. These pose risks to the NPS objectives, which include financial stability and security, safety and efficiency, promotion of competition, embracing innovation, promoting inclusion, supporting regional integration, ensuring interoperability, flexibility and adaptability, and consumer protection.

The categories of risk are both strategic and operational, covering aspects such as settlement, credit, liquidity, legal and reputational risk, while keeping an eye on the integrated nature of the NPS where individual risks can escalate to become systemic risks. Consequently, NPS Risk Management requires comprehensive and systematic monitoring, identification, assessment and mitigation.

This is already embodied in the BIS Principles for Financial Market Infrastructures, the SARB Act and Directives, the NPS Act and the various PASA-managed PCH Agreements, Rules, Criteria and Service Level Agreements, while various PASA structures are responsible for ongoing operational and strategic risk management in the various payment systems. In addition, a number of PASA projects are actively mitigating identified risks.

2018 Risk Management overview

The PASA Council, being conscious of its oversight role and King IV™, approved the recruitment of an acting Chief Risk Officer (CRO) for PASA and appointed a Council Risk Management Task Team with the objective of developing a Constitution for a Council Risk Committee, which would be formally constituted in 2019.

PASA's Risk Manager resigned in 2018. An Acting CRO was appointed in November 2018. A full-scale review of the current PASA, NPS Risk Management Frameworks and related documents was conducted with the assistance of the PASA Risk Committee, consisting of risk experts from PASA Members, in preparation for the establishment of an integrated and holistic NPS risk management framework and approach.

Other highlights:

- ▶ Card Strategy Forum – developed a Card Risk Roadmap based on an assessment of the Card Risk landscape. The six top risk areas were identified, and activities planned.
- ▶ PCI DSS compliance to mitigate Card risk – of the initial eight Level 1 Merchants that were identified, only one currently remains non-compliant.
- ▶ Incident Response Committee (IRC) – a retail industry breach was reported, the IRC convened a meeting with the industry, Visa, Mastercard, the banks and Qualified Security Assessors (QSAs), resulting in the breach being remediated.
- ▶ An e-commerce Fraud Monitoring Framework was finalised and implemented.
- ▶ An industry supported and agreed Negative File for the use of Cards at tollgates was developed and implemented.
- ▶ Business Continuity Policy (BCP) Committee – the Committee will be aligned with the new Financial Sector Contingency Forum (FSCF) at SARB as it directs Financial Sector Cybersecurity Resilience Workgroup (FSCRW), Operational Risk Subcommittee (ORS) and the Business Continuity Planning (BCP) Committees.
- ▶ Electronic PCHs – operational risks and incidents are handled effectively among the Members, but strategic/modernisation risk management was identified as a requirement for future focus.
- ▶ The Project Management Methodology for NPS projects currently implements a systematic and formal Risk and Issue Management process.
- ▶ PIPC 2018 Conference – “Risk and Regulation” was one of the four themes of the conference, and this highlighted a wide range of risk-related insights.
- ▶ Domestic processing of card transactions – PASA coordinated an industry workshop and submitted a coordinated response to the SARB position paper, aimed at mitigating certain risks in card payment systems.

2018 Top PASA and NPS risks

1. **NPS Act Review** – This review process brings both risk and opportunity. In December 2018, the SARB/National Treasury (NT) jointly issued the NPS Act Review Policy Paper that proposes far-reaching changes to improve the robustness of the NPS and to align payments licensing and regulatory responsibilities between the FSR Act, the COFI Act (once enacted) and the to be revised NPS Act. The Policy Paper proposes the removal of the concept of a Payment Systems Management Body and thus brings uncertainty to the future mandate of PASA. The Policy Paper also supports non-bank participation in the NPS, which poses the following uncertainty: If non-banks are not organised by a PSMB-like body, where would collaboration and agreement on issues such as interoperability occur and, and where would cohesive activities between different trade associations and other representative bodies take place. In addition, it is touted that settlement be opened to non-banks as well (currently, only banks). This could introduce settlement and liquidity risks, if not regulated proactively. PASA is actively engaging in the review process to influence the fundamental changes that are proposed.

2. **Debit Order Abuse and Authenticated Collections** – Risk comes from abuse of the payment system by both payers and collectors. Some Users and TPPPs contracted to sponsoring banks are currently contributing to Debit Order Abuse through illegal mandates, rogue business practices, administrative deficiencies and selling of bogus products. After payment, when the paying bank's client disputes the fraudulent Debit Order (DO), the paying bank carries the cost and effort of reversing the transaction which has to be investigated by the sponsoring bank. Payers also abuse the DO dispute rules to reverse valid DOs in order to manage cash flow. This has a significant impact: Fraudulent collections run into R'billions and valid collectors lose R'millions on a monthly basis through payers reversing valid DOs. This brings reputational damage to the NPS, since trust in the DO payment system is being eroded, while both regulators and the media are placing increased attention on DOs as a result thereof. PASA and its structures are looking at this through two projects:
 - a. The **DoA Project** is looking at non-system development and quickly implementable solutions to curb losses. Measures include a centrally run pre-onboarding and onboarding process at PASA, and the pro-active identification and exit of rogue users.
 - b. The **Authenticated Collections (DebiCheck) project** addresses fraud related to non-authenticated early debit orders by enforcing authenticated collection protocols (DebiCheck), requiring significant software and process upgrades at Sponsoring Banks and Users. The complexity of the development of the Authenticated Collections system has resulted in delays and the SARB issuing a new Directive and extending the deadline when only ACs will be allowed in the early debit order window, from 31 October 2019 to 31 October 2020. The remaining key challenges are the completion and implementation of the migration system development, adoption and ramp-up of all the Users and, increasing consumer awareness and education, driving consumer adoption.
3. **Screen Scraping** – The practice of System Operators (SOs) providing on-line, eCommerce merchants with Instant EFT services that allow prospective buyers (and payers) to pay for goods and services through a screen scraping-based solution, means that the SO effectively intercepts a private interaction or session of the Payer with his/her bank. The Payer then, unknowingly, interacts with a third party (the SO) and discloses his/her full online banking authentication details (online banking login username and password, PIN or other potentially sensitive information). There is currently no standard in place (such as PCI DSS for cards) according to which this information is dealt with at the SO. This causes major risks that compromise not only the specific payment, but potentially all transactions through this channel. To address this risk, PASA is currently looking at data security standards and promoting the secure use of APIs and industry capabilities, such as request to pay, to provide alternatives to merchants as alternatives to the screen scraping-based solutions.
4. **Card-not-Present Fraud** – This category of fraud, commonly executed via Internet Shopping, has by volume become the largest driver of gross fraud losses in card payments (over 70% of the ZAR value). This is because client identification processes have reduced face-to-face transaction fraud, and Chip-and-Pin technology virtually eliminated the use of counterfeit cards, while Internet Shopping is faceless and easy to multiply. Initially, authentication via 3D Secure, using two-factor client verification as well as sophisticated transaction monitoring tools, had a positive impact, but this has led to the

increased use of Social Engineering, where clients are duped into revealing sensitive authentication data over the phone, believing they are talking to a legitimate institution. In addition to the client's financial loss, this results in reputational risk to the banking system (suspected of complicity) as well as in the Card payment as a tool. Short-term solutions are urgently sought, while client education is currently the only long-term solution.

5. **Cyberattacks and Fraud** – This is included in the top five global risks identified by the World Economic Forum for 2019. South Africa is one of the top countries for phishing attacks and is constantly facing ransomware and denial of service attacks as well as cyber fraud aimed at financial institutions, corporates, government and consumers. Most attacks are looking for personal banking information and financial rewards that affect or make use of the NPS, to be realised. PASA supports the Financial Sector Cybersecurity Resilience Collaboration led by the SARB which is aimed at setting up collaborative structures for proactive prevention, detection, response and recovery from cyber-attacks to the Financial Sector.
6. **Modernisation of Real-time Payments** – Globally, there is an increased drive to enable real-time payments with opportunities to leverage the large social media platforms and networks primarily for Person 2 Person (P2P) payments. While South Africa was one of the early enablers of Real-time Payments through the Realtime Clearing (RTC) payment system in 2006, it has not made the progress required to enable fast and easy electronic payments, resulting in missed opportunities for addressing key consumer demands, further supporting the perception that there is a lack of innovation on this front. Furthermore, the macro and micro economic benefits of providing electronic alternatives to cash and promoting financial inclusion and deepening will not be realised. Within PASA, Project Future aims to address this gap, by establishing the ideal end state and assessing how existing industry assets could be re-used to enable an efficient transition towards the end state.

Looking ahead

The key focus areas for Risk Management in 2019 include operationalisation of the PASA Council Risk Committee, finalising the PASA and NPS Risk Management Frameworks and related documents, appointing further Risk Management staff and optimising the functioning of the PASA Risk and Fraud Committee and related structures in the future PASA operating model. Overall, the objective is to elevate Risk Management in PASA and in the NPS ecosystem to a new level that will entrench a risk-based approach into all PASA's activities and ensure that the NPS remains world-class, safe, efficient and sound.

COMPLIANCE AND COMPLIANCE ENFORCEMENT

As an entity with delegated regulatory responsibilities, PASA is in the unique position of having to look not only at its own compliance with the PASA Constitution, PASA Regulatory Framework and relevant statutory and regulatory obligations, but also at the compliance of its Members with the Regulatory Framework of the NPS.

During 2018, PASA's internal compliance efforts were marked by an increased focus on improving compliance with the Protection of Personal Information Act (POPIA) and the Labour Relations Act (LRA).

From a Member compliance perspective, the main areas of focus were Payment Card Industry Data Security Standard (PCI DSS) compliance of Level 1 Merchants, Surcharging and Authenticated Collections.

Payment Card Industry Data Security Standards (PCI DSS)

2018 was a landmark year as far as Level 1 Merchant PCI's compliance was concerned, with the last of the eight originally identified Level 1 Merchants achieving PCI DSS compliance. In addition to the eight originally identified Level 1 Merchants, eight more Level 1 Merchants have also been identified. Of the eight new Level 1 Merchants, two have already achieved PCI DSS compliance, and the remaining six are tracking according to their compliance plans. In order to improve compliance enforcement efforts, PASA has also engaged with the most prominent QSA companies in South Africa, and have, with their assistance, developed a progress reporting template that will greatly enhance and simplify PASA's compliance enforcement efforts in respect of PCI DSS.

Surcharging

The imposition of a surcharge in respect of card transactions has long been a concern in the card payments industry. As a result, PASA's compliance enforcement efforts over 2017 and 2018 have included a marked focus on addressing instances of surcharging identified.

Some of the main entities who practice surcharging have historically been municipalities and metropolitan municipalities. Given that these entities are subject to legislation that does not extend to regular merchants, compliance enforcement was initially held in abeyance, pending engagement with the municipalities and the relevant Regulators. During 2018, PASA engaged with National Treasury on the matter, who endorsed PASA compliance enforcement efforts in this regard. PASA subsequently communicated to Acquirers that, from 1 February 2019, compliance enforcement will be extended to municipalities and metropolitan municipalities.

Authenticated Collections

In accordance with the stipulations SARB Directive 1 of 2017 on Authenticated Collections, PASA has implemented a milestone-based compliance enforcement regime in respect of the Authenticated Collections project. The PASA Compliance Enforcement Panel assessed compliance with the relevant criteria for the first two project milestones during 2018. The Panel has elected to follow an engagement approach where it found compliance lacking and has, to date, not employed monetary sanctions.

DOMESTIC AND INTERNATIONAL INDUSTRY ENGAGEMENTS

Domestic

During 2018, PASA increased its engagements with its Members and Stakeholders. PASA recognises the importance of providing all Stakeholders with the opportunity to communicate their needs and desires in order to improve collaboration efforts as we collectively grow and enhance the end-to-end Payment System for our collective consumers.

Project Future was initiated in 2018 to develop a “Pay, Beyond Today” innovation. Both international and domestic thought leaders were engaged to draft a blueprint and to design an architecture for change that would enhance and modernise the future electronic payments infrastructure, to ensure inclusivity and the ability to create future business capabilities that would support the National Payments Plan with evolving customer needs. Some of the thought leaders involved were:

- ▶ Oliver Kirby-Johnson – Learnings from Australia’s New Payments Programme
- ▶ Open Vector – Payments Modernisation and Open Banking
- ▶ Learning Points from UK and Europe, Vocalink – A New Era in Real-Time Account to Account Payments
- ▶ SWIFT – Building the House – Designing Instant Payment Systems
- ▶ Jay van Zyl – Emerging Customer Need Constructs – The Evolving World

The success of the Project Future architecture brought together the best minds in the payment industry, which included Banks, PASA System Operators such as BankservAfrica and Strate, the SARB, Microfinance industry representatives and retailers.

The 2018 PASA International Payments Conference (PIPC) provided the platform for engagement and networking opportunities with the association’s peers, in addition to the positive engagements with FSS Tech. PASA would continue to engage with FSS Tech in 2019 to consider the similarities between India’s Unified Payments Interface (UPI) and the directional planning of Project Future. PASA continues to encourage payment innovation from and within the industry, and has accordingly been approached by numerous System Operators, Fintechs and new start-up business to discuss the potential inclusion of such business models in the payments industry and to understand the NPS Landscape. Engagements with interested participants will continue to be pro-actively managed during 2019.

Various sessions were held with the SARB and other Regulators during 2018 in relation to the Debit Order Abuse project, with PASA being requested to present to Parliament’s Telecommunications and Postal Services Standing Committee on the DebiCheck and DOA Projects.

The 2018 period introduced an invigorating refocus on training, education and awareness to the Information Regulator, the FSCA, National Treasury and the Banking Association of South Africa to better understand the NPS ecosystem and the importance of the role that PASA plays. PASA was selected by National Treasury to participate as a member of the Expert Panel in the review of the COFI Bill, which included attendance at various workshops in preparation for the position paper on payments activities and the regulation thereof.

DOMESTIC AND INTERNATIONAL INDUSTRY ENGAGEMENTS

(continued)

PASA is a member of the Market Conduct Banking Committee that considers matters related to banking conduct and has been involved with items related to SASSA payments through the Debit Order System with SASSA and Black Sash. In addition, PASA was approached to consult to Georgetown University to assist with a Case Study on understanding the South African Payments Landscape.

International

Interactions at the 2018 Central Bank Payments Conference (CBPC) hosted in Singapore focused on Payment regulation, governance and innovation. In contrast to other commercially organised payment conferences, CBPC focuses exclusively on payments and payment system issues from a Central Bank perspective and brings together Central Banks and relevant stakeholders to address the most relevant concerns, challenges and opportunities facing the currency function of treasury and issuance departments.

The PASA Chief Executive Officer continued to be an active participant on the International Council for Payment Association Chief Executives (ICPACE) during 2018. ICPACE currently consists of Chief Executive Officers of Payment Associations from seven countries, namely Australia, Canada, The Netherlands, New Zealand, South Africa, the UK and the USA. The Chief Executive Officer of NACHA in the USA hosted the 2018 meetings, which took place in San Diego, California, during the last few days of April 2018 and the first week of May 2018. The session included the NACHA payments conference (attended by approximately 4 000 delegates), where many of the ICPACE Chief Executive Officers were conference speakers. The PASA Chief Executive Officer, Walter Volker, chaired and facilitated a panel discussion on Open Banking/APIs. Following the payments conference, the country representatives (in PASA's case the Chief Executive Officer and Strategy Executive) gathered for a further series of meetings over a period of two and a half days at the adjacent city of La Jolla. Topics included country overviews, discussions and presentations on Real-Time payments, the Changing Payments Landscape (which included Protectionism vs Globalisation, Modernising Rules/Regulations, Cybersecurity, Biometrics, Cryptocurrencies, Blockchain/DLT, Internet of Things), payment fees regulation and so on. As was the case in previous years, these personal interactions at Chief Executive Officer-level were of inestimable value.

PASA remains an active participant of EMVCo and was represented at the EMVCo Board of Advisors meeting in March 2018 to discuss a number of topical and new developments. Dialogues were held pertaining to Tokenisation, Secure Remote Commerce (SRC), QR Code specification updates, the Payment Service Directive Version 2 (PSD2) and the effects of advances in cryptography on EMV security. The engagements at EMVCo stretched over various topics such as a broader utilisation of Contactless communication protocols apart from Near Field Communication (NFC). This explored possibilities such as the use of Bluetooth on Point-of-Sale (POS) terminals. Furthermore, the deliberations exhaustively examined the use and feasibility of biometric (and other techniques) as shared Consumer Device Card Verification Methods (CDCVM). To conclude, the Board of Advisors revisited the strategic roadmap to determine how certain key projects, such as the deployment of EMV Second Generation, should be positioned and prioritised.

PROJECTS

Project office overview

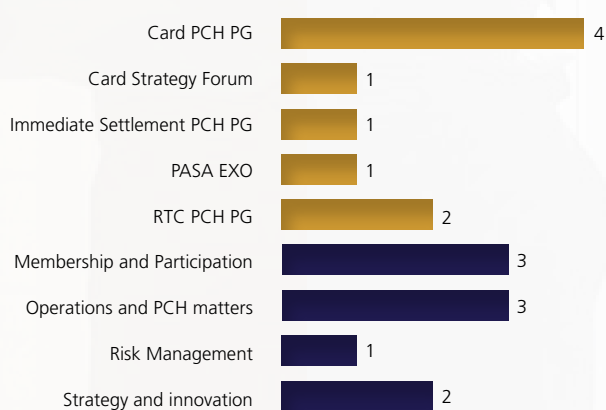
In 2018, PASA embarked on a transition process to review and adjust the PASA Project Management life-cycle processes and tools that were introduced in 2014, based on the learnings over the past few years and in alignment with global project management trends.

New processes such as Prioritisation, Demand management and Consequence Management will be introduced during 2019. The adoption of agile methods and processes, where possible, is also a focus area.

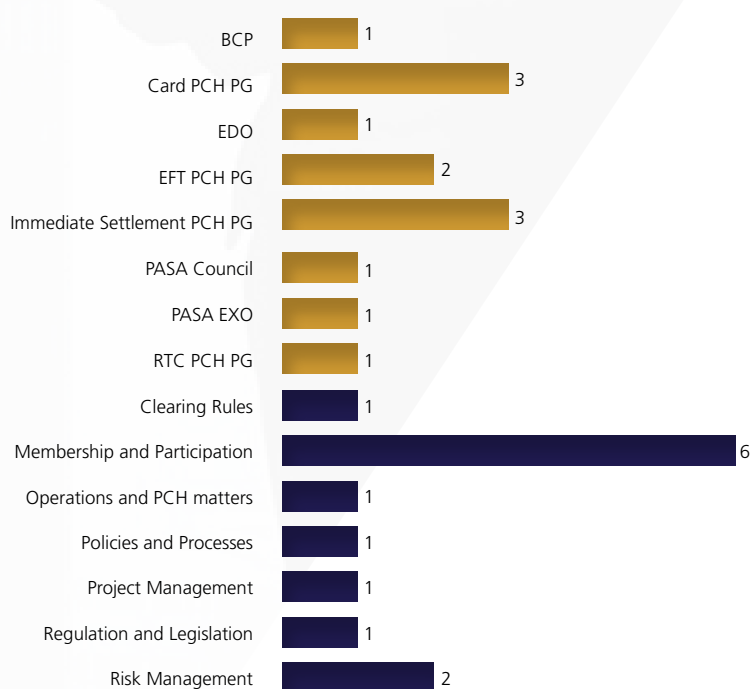
The focus during the reporting period was mainly on the delivery of high priority projects. Similar to the previous year, the major challenges were the duration period required to finalise project deliverables, competing priorities, complexity of projects as well as the availability of resources, being financial and internal and external capacity and skills constraints. The introduction of the Prioritisation and Demand Management governance process should address the majority of these challenges.

The following diagram provides an overview of the portfolio performance, detailing the number of projects completed and the initiation of new projects per portfolio and per the PASA structure.

Projects completed



New projects initiated



■ PASA Structure ■ Portfolio

In the **Electronic Payment System** environment, the effort and focus remained on four programmes, being Authenticated Collections, Modernisation of High Value Credit Payments, Debit Order Abuse and CMA Low Value Cross-Border Payments.

1. Authenticated Collections (AC)

After a rigorous interbank testing cycle that ended on 31 July 2018, the technical AC solution was put into production, effective 1 August 2018, with official sign off on 10 September 2018.

During the test cycle, the testing teams worked over 21 weekends and public holidays, processed over 400 000 test transactions, executed more than 53 000 test cases and resolved over 2 200 test incidents.

Despite very positive progress having been made with the operationalisation of the technical solution, it became clear in August 2018 that the ability of the industry to achieve a risk-free ramp-up and full implementation by 31 October 2019 was virtually impossible, given the development delays experienced in the interbank space and the resultant knock-on effect to the outer core.

The Steering Committee engaged with all stakeholders and the SARB to determine a pragmatic approach to the final stages of the project, being Ramp-Up and Migration, and to see if it were possible to remain within the overall dates, as directed in the SARB AC Directive.

Key stakeholders, including the SARB, collectively explored alternative approaches to achieve a transition that would enable the User community to have sufficient trust in the stability of the solution to enable on-boarding and exiting of NAEDO and AEDO.

A proposed transition approach was then presented to the SARB and resulted in a new AC Directive being issued by the SARB, which was gazetted in mid-December 2018. The key elements of the approach are summarised as follows:

- a. The Sunset Date for the exiting of AEDO and NAEDO has been extended to 31 October 2020. This is the date at which only AC will be allowed to be processed in the early morning window and no more AEDO and NAEDO collections will be processed. The alternative for Users not in AC will be EFT.
- b. 31 October 2019 has been specified as the Implementation Date. This is the date by which the AC payment infrastructure should be implemented to facilitate the collection of randomised debit orders through the AC system in the early processing window.
- c. Effective from 1 November 2019 until 31 October 2020 (Sunset Date), AC (which includes migrated payment instructions) and AEDO debit orders will be given processing priority in the early processing window. NAEDO will be given a second priority processing priority in the early window, after DebiCheck, AEDO and Migrated Debit Orders into the DebiCheck system have been processed.
- d. 1 May 2020 has been referenced specifically in the Directive as the date on which no new, extended or renegotiated AEDO and NAEDO collection agreements can be concluded. Existing AEDO and NAEDO payment instructions are to be phased out from 1 May 2020 to 31 October 2020.
- e. PASA and industry participants must prepare an Implementation Plan, for approval by the SARB, to give effect to the Directive, and monitor compliance and take suitable actions, where necessary, through an appropriate compliance and enforcement framework.

PASA and industry participants have finalised the requirements of an Implementation Plan, for approval by the SARB. The following key barriers to adoption have been identified and are being addressed in the Implementation Plan:

1. Stabilisation of the production environment.
2. On-boarding of Users.
3. Ramping up User and consumer awareness and education.
4. Finalising the technical development to enable migration and prioritisation to meet the requirements of the new Directive.
5. Exploring alternative solutions for the remote and non-face-to-face challenges.

2. Modernisation of Payments Programme

The programme enfold three main project areas, namely High Value Credits, Low Value Credits and Low Value Debits. The Modernisation of Payments Programme Steering Committee's decision was to keep the Low Value Debits and Credits projects on hold, pending the outcome of Project Future. Key milestones were achieved on the High Value Credits project, which is aligned to the SAMOS Replacement project.

3. Debit Order Abuse

The NPSD issued a directive to the payments industry requires PASA to continue with improvements in the safety and efficiency of debit orders, which include the introduction of measures to mitigate all risks emanating from the processing of debit orders.

The Debit Order Abuse project, aimed at developing and implementing such measures, has been created. At inception, in 2017, the project developed a set of strategic objectives, which also led to the expansion of activities. A summary of these objectives is outlined below.

Enhance gatekeeping role	<ul style="list-style-type: none"> Enhance the User entry and participation criteria to prevent rogue Users from entering and abusing the system
Enhance analytics and reporting	<ul style="list-style-type: none"> Enhance the existing analytics and reporting tools to become more pro-active in identifying trends and patterns regarding Debit Order Abuse
Enhance investigation and prosecution process	<ul style="list-style-type: none"> Enhance the investigation and prosecution processes to ensure greater success in prosecuting rogue Users
Understand and manage consumer behaviour	<ul style="list-style-type: none"> Develop processes to understand consumer behaviour with the aim of improving the efficiency of the NPS
Enhance market perception and confidence	<ul style="list-style-type: none"> To educate Consumers and Users and facilitate restored confidence in the NPS

PROJECTS (continued)

Actions emanating from these strategic objectives include, but are not limited to, proof of concept, in order to test a new dispute regime; and pro-actively identifying potential rogue users, with the aim of, amongst others, managing them out of the system.

A high-level summary of what has been achieved during 2018, together with some main observations, which provide clear direction to the Steering Committee for areas of future focus to assist in resolving many of the debit order issues at hand, follows.

What was achieved in 2018?

- ▶ The successful completion of the Proof of Concept process, where a revised dispute regime has been tested.
- ▶ The commencement of a trial of a revised pro-active identification of potential rogue Users process, and the design of the future process to pro-actively identify potential rogue users, investigate them and exit them from the system.
- ▶ The implementation of a central User register at PASA, with a link into CIPC, to enable PASA to categorise Users according to a RAG status, based on the risk that they pose to the NPS.
- ▶ FSCA engagement and involvement.
- ▶ The introduction of a Change Management and Education programme to enhance public perception and encourage positive consumer behaviour concerning debit orders.

Proof of Concept observations, which inform the Steering Committee's view of debit order-related issues at hand, include:

- ▶ Blend of Payer and User abuse.
- ▶ Incorrect dispute outcomes brought about by processing issues.
- ▶ The lack of a mature centralised and single process has contributed to inefficient and, at times, incorrect dispute handling.
- ▶ Participants' drive for expediency and customer experience contributed to abuse.
- ▶ The risks posed by the possibility of a Service Level Agreement (SLA) issue, as many documents were received after the SLA date.
- ▶ Central Query Logging System (CQLS) constraints, such as file size and lack of system prompts for action, are impeding on the ability of role-players to perform within established SLA times.
- ▶ Participant processing behaviour has not assisted in curbing Debit Order Abuse.
- ▶ Compliance enforcement and consequences for process and processing issues are lacking.
- ▶ Consumers/branch staff look for the route of least resistance when processing disputes.

Deliverables agreed for 2019, based on the outcome of the Proof of Concept

- ▶ Deliverables for 2019, in order of priority, are as follows:
 - **Priority 1**
 - Bulk Reversals – Debit Order reversals process for high-risk entities
 - > The completion date for the design of the process, including the rules, is 31 March 2019

- **Priority 2**
 - PASA centralised User database linking into CIPC
 - > The set date for this link to be fully operational is 1 August 2019
- **Priority 3**
 - User visibility process (issuing of codes centrally)
 - > High-level design principles are to be completed by the Steering Committee by 31 March 2019
 - > Detailed process, rules and SLAs are to be completed by the end of June 2019
 - > Actual clean-up is scheduled to start on 1 July 2019 and end by 30 November 2019
- **Priority 4**
 - Enable POS to flag or stop ultimate creditors trying to process, should they not have been issued with codes centrally
 - > To be operationalised as soon as the clean-up of the User base has been completed
- **Priority 5**
 - RAG status criteria
 - > To be completed by the end of May 2019, as these criteria will be required to operationalise the PASA Centralised User Database by 1 June 2019
- **Ongoing actions with no specific priority**
 - Entry and Participation Criteria to be completed by the end of 2019
 - Monitoring:
 - > Pro-active identification of the potential Rogue User process to be fully operationalised at PASA by 1 June 2019. This will be replaced by the bulk reversals process outlined under priority 1, once the bulk reversal process has been operationalised.
 - > PASA MI capability to be created and operationalised by 1 June 2019
 - > FSCA collaboration, SARS collaboration, SARB collaboration and Prudential Authority (PA) collaboration will be ongoing throughout 2019
 - > Centralised fraud process to be operationalised by 1 June 2019
 - General:
 - > Dispute period to be reduced to 12 months to align with DebiCheck, with a delivery date awaited from the PCHs
 - > Compliance process for Stop Payments and Unpaid to be reviewed for relevance, updated and then implemented, with a delivery date awaited from the PCHs

PROJECTS (continued)

- > Designing of the future dispute regime will be done during 2019 and implemented and operationalised during 2019. This is the process that will attempt to get rid of the 40-day rule (immediate reversal of unauthorised debit orders).
- > Best practises in terms of the contract content between sponsoring banks and their TPPPs/Users to be drafted, however, these have been parked at this stage
- > Best practises in terms of potential problematic product types to be drafted, however, these have been parked at this stage
- > Payer Bureau to be established, however, this has been parked at this stage

4. CMA Low value cross border payments – South Africa

The CMA Directive 01 of 2018 is a revision of Directive 01 of 2017, both of which are purposed to regularise the processing of cross-border low value EFT credit transactions. The project is governed through the CMA Cross-border Payments Oversight Committee (CMA CPOC), which has been set up by Central Bank governors with the aim to oversee all cross-border payments in the region.

As per the Directive, the South African project is managed by PASA with a reporting line to the CMA Programme office under the leadership of the NPSD on behalf of the CMA CPOC. The project has multiple regulators in each jurisdiction as well as critical projects within each jurisdiction. Consequentially, this presents numerous challenges to the programme.

The challenges in implementing Directive 01 of 2018 have resulted in a number of engagements between South African banks and South African regulators, and similar engagements were held between all regional regulators and regional payment associations, including regional banks. Notwithstanding that the Directive 01 of 2018 is still in force, the project is undergoing an ongoing review.

Included in the scope of this Directive, is the requirements to comply with the Financial Action Task Force (FATF) Recommendation 16, which is aimed at ensuring that South African regulators and banks processing credit transfers can identify and report on both the sender and beneficiary of the transaction. The recommendations must be implemented ahead of the Mutual Evaluation scheduled for October 2019, which will be testing for effectiveness, supported by the track record on historic transactions. The South African project office has initiated processes, in alignment with CMA countries, to implement an interim solution that focuses on Directive 01 of 2015.

5. System Error Corrections

The Systems Error Corrections project was first launched in the first quarter 2014 as the Bank Error Corrections project and was reinitiated in May 2017 as the System Error Corrections (SEC) project.

The reinvention of the Bank Error Corrections project to the SEC project was to achieve the rectification of all incorrectly processed transactions as a result of an error introduced in the NPS from any source and not limited to banks only, inclusive of all payment initiators, including corporates who directly submit transactions to the Automated Clearing House.

The first requirements workshop was held in June 2017 and the Business and Functional requirements were signed off and published at the end of September 2017, paving the way for both the Technical Specifications and Business Rules write-up. The Technical Specifications were duly completed in March 2018, allowing for the commencement of implementation and testing.

A phased implementation approach was agreed, based on bank readiness. This allowed an opportunity for the banks with large volumes, and in the case of system errors posing a high risk to the industry, to enter earlier, thereby enabling the banks to deploy, based on their priority as originators or receivers, or both, SEC requests.

The first deployment was scheduled for the third quarter of 2018, before the year-end freeze, to be followed by deployments from February 2019 to April 2019 for the remaining banks to participate as both receivers and originators of SEC requests. The scheduled date, solely for Direct Submitters to fully participate and deploy SEC into production, is May 2019. This will culminate in the closure of the project by the end of May 2019.

To date, 13 (thirteen) banks have gone live with 8 (eight) banks ready to send and receive SEC requests, and 5 (five) banks only participating as receivers of SEC requests.

In the Card environment, five projects were completed successfully during 2018, with two projects being highlights below.

6. BIN List Automation

A centralised online solution was implemented, enabling member banks to capture, amend and delete BINs. The solution replaced a manual process that required manual intervention from all PCH members and participants.

7. Card Credit Payment Instruction (CCPI)

The project objective was the implementation of inter-operable domestic industry standards for the delivery and processing of Card Credit Payment Instructions between the originating bank and the recipient bank. Except for interbank testing, all other key deliverables were finalised during 2018. The finalisation of this project is dependent on the readiness of participating originating banks.

CARD OPERATIONS

eCommerce fraud monitoring program

In 2018, PASA Card Operations and the Card PCH created the eCommerce Fraud Monitoring Program to satisfy the need to monitor and mitigate the single biggest contributor to Card fraud in South Africa. eCommerce fraud dilutes consumer trust in internet purchases and results in losses and reputational damage for the merchant, discomfort to the consumer and a reputational risk to the bank. The fraud monitoring program highlights CNP fraud trends and specific merchants, on a monthly basis, to the Acquiring bank. This enables the Acquiring bank to remediate, within very specific parameters and timelines, with the identified merchant. From these monthly reports, PASA has seen an average decline of 50% in excessive ecommerce fraud value and volume, as reported by South African Acquirers.

BankservAfrica Card listing solution

The contracted RED's industry file was discontinued in 2017. This left a gap in the market, as South African banks have a need for a data collection and distribution service that provides a solution to Issuers for the listing of fraudulent cards in offline acquired environments, thereby mitigating the risk of repetitive use of fraudulent cards in these environments. The Card Strategy Forum, together with the Card PCH, worked on a project with BankservAfrica to create and implement the BankservAfrica Card listing solution. This solution enables issuers to monitor and list fraudulent cards used in offline environments, effectively blocking the Card for further use. Based on reported fraud figures, the solution is curbing fraud very successfully.

Card acceptance data integrity dashboard for ATM and POS

In 2015, a need was identified by the Card PCH to develop a similar program for domestic processing as the program for international PSOs processing, whereby card transactional data element monitoring takes place and Banks adhere to the set standards. Enabling the active monitoring, as well as identifying and remediating non-compliant data elements in transaction messages between banks and the domestic PSO, is vital for maintaining an international unified standard. The project kicked off in 2015 with both phases for ATM and POS data integrity monitoring completed in 2018. Automated dashboards are now available to each bank to monitor their compliance against identified data elements. The Card PCH receives remediation feedback on a monthly basis and individual banks are tracked monthly by PASA Card Operations.

Extended use of South African Social Security Agency (SASSA) expired cards

Due to the delay in appointing a new bank to issue replacement SASSA Cards in 2017, PASA was informed of the expiry of all SASSA beneficiary cards at the end of 2017, effectively impacting over five million SASSA beneficiary payments per month after December 2017.

In order to mitigate the risk on the NPS and cardholders, PASA launched a national project to have all expired SASSA cards accepted at POS and ATM for an additional 12 months post their expiry date.

The project was successfully completed, enabling continual payments for over five million beneficiaries. The extended expiry date also allowed the newly appointed SASSA Card Issuer 11 months to convert the Cards to their Issuing base, with no impact on the cardholder or NPS.

ELECTRONIC OPERATIONS

Electronic Funds Transfer (EFT) PCH PG

A year ago, National Treasury introduced the offering of tax-free savings accounts to the public by banks, life insurance companies, collective investment scheme managers, LISPS and authorised users. National Treasury intends to allow investors to be able to transfer existing savings from one product provider to another during the life of a tax-free savings account. This was not permitted during the first year of the incentive, until 1 March 2016, to allow all product providers to prepare. The EFT PCH PG, during 2016, agreed that an indicator be put in place in the payment, which identifies it as a tax-free transfer of funds. Banks are only allowed to receive such funds into similar tax-free accounts, and only after receipt of the necessary 'certificate' validating the transfer. The PCH PG agreed for a new entry class to be introduced, which became effective on 11 June 2018.

A need existed for automating the existing manual recall or reversal of erroneous transactions, stemming from the challenges it introduced. To address the need for error corrections, a project was registered for EFT debit and credit transactions, which project included EFT CR and RTC). Concerns were tabled at the PCH PG for guidance. On 22 October 2018, the following banks went live with the system error correction project:

- ▶ ABSA Bank
- ▶ African Bank
- ▶ Investec
- ▶ Standard Bank
- ▶ Nedbank
- ▶ Finbond
- ▶ Mercantile
- ▶ Discovery Bank

Early Debit Orders (EDO) PCH PG

The EDO PCH PG supervised the effective implementation of the VAT increase on 1 April 2018 to 15%.

INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT

The importance of more formal and robust industry capacity building efforts was first formally recognised by the South African Reserve Bank during 2006, when the Vision 2010 document was released. It was further reinforced through inclusion in the Vision 2015 document and again recently, with one of the goals set out by the Vision 2025 document being that of human resource capacity enhancement in the NPS.

The continued rise in student numbers for PASA's current training programmes, as well as the demand for additional programmes, confirm the need for industry training initiatives.

Apart from formal training programmes, PASA conferences and events form an integral part of the strategy to equip and develop individuals in the payments industry with the most up-to-date and relevant knowledge.

In both areas, 2018 was an exciting and amazing year for PASA.

Training programmes

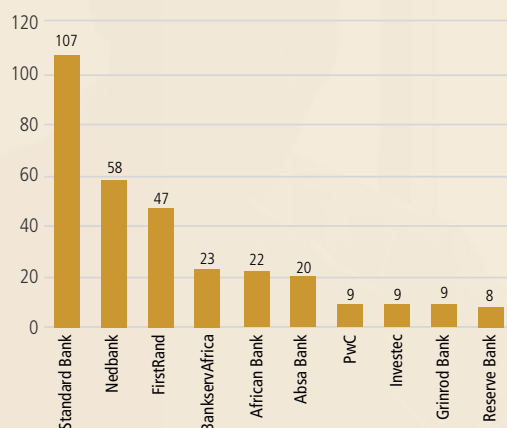
With the Advanced Certificate in High Value Payments pilot programme completed at the end of 2017, and a couple of tweaks to optimise the delegate experience, the programme formally kicked off in the first quarter of 2018. Three programmes were offered throughout the year, with 39 delegates from 10 different organisations graduating from the programmes.

The PASA Certificate in Foundational Payments continued to be well-attended, with 444 students attending the programme during the year, bringing the total number of students from inception of the programme in 2012 to 2,002. Another milestone for the Foundational Programme was the introduction of two new locations – Pretoria and Durban. The Cape Town programme continued to be well-supported and PASA was once again requested to facilitate a programme in Namibia.

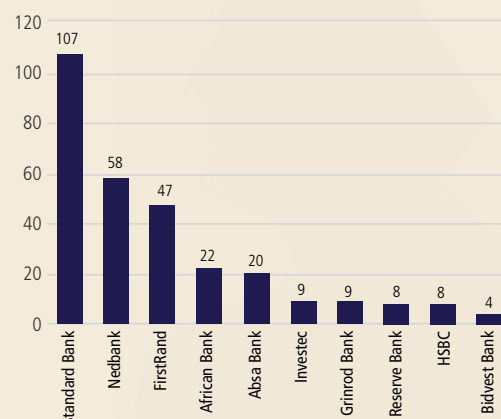
INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)

PASA certificate in Foundational Payments

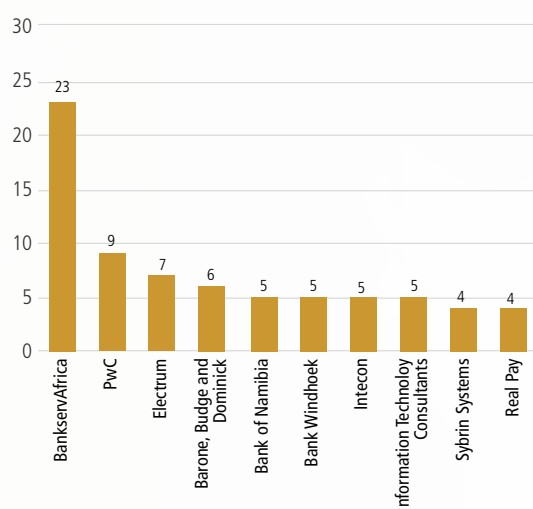
2018 Top 10 companies



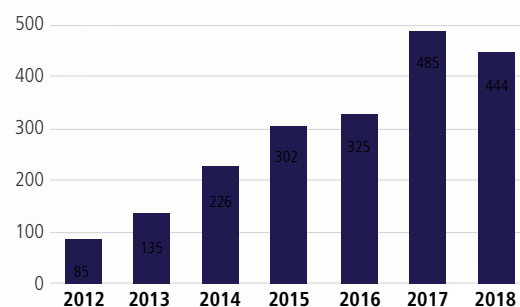
2018 Top 10 members



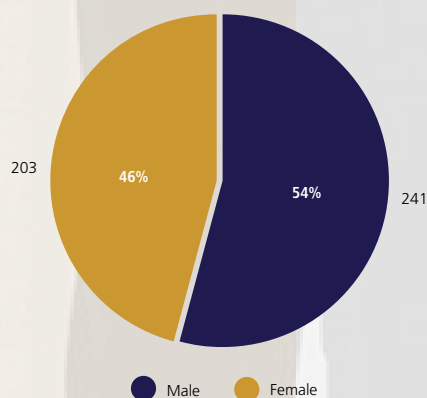
2018 Top 10 non-members



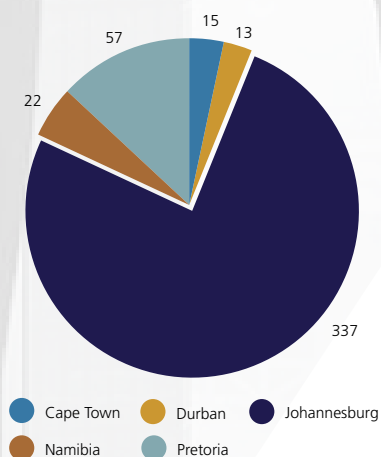
Total number of students per year



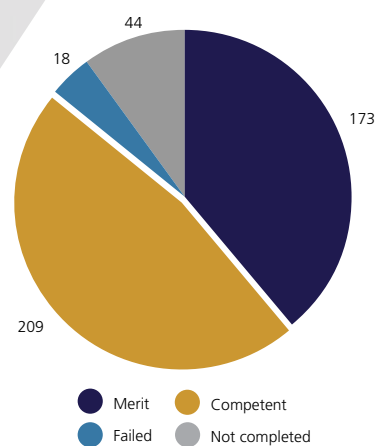
2018 Students per gender



2018 Students per location



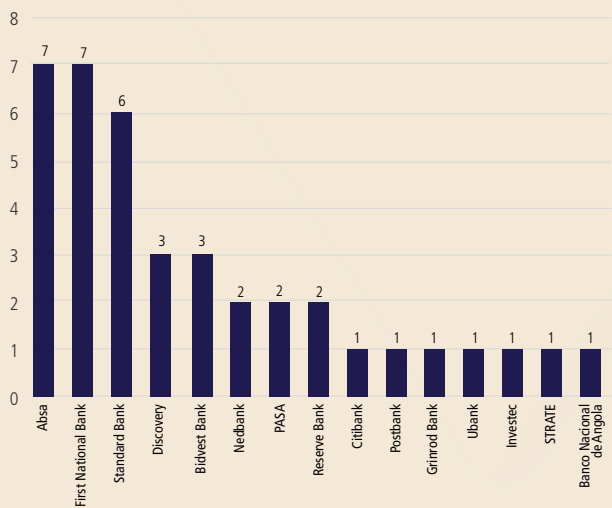
2018 Students per result



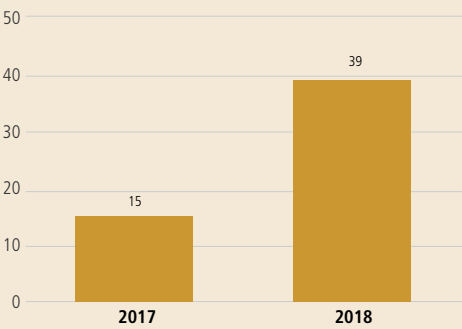
INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)

Advanced certificate in High Value Payments

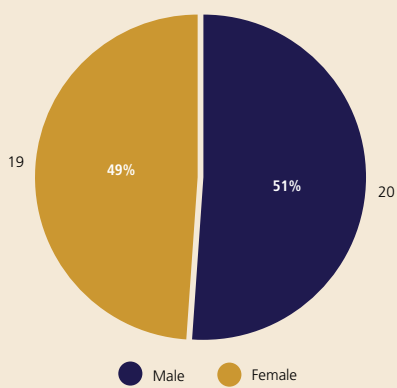
2018 Top 15 companies



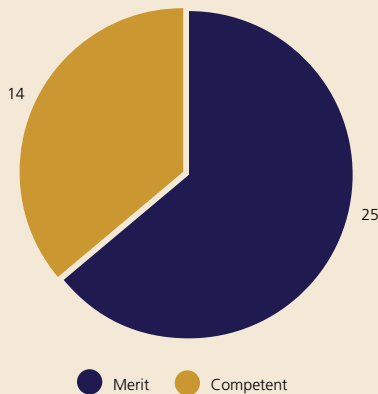
Total number of students per year



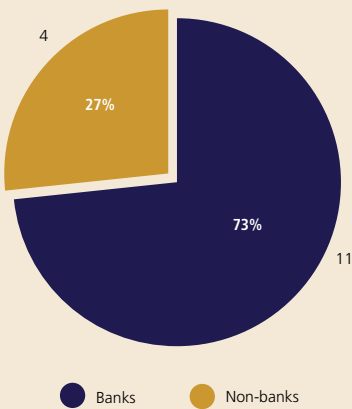
2018 Students per gender



2018 Students per result



2018 Split between organisational type



INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)

Apart from the continued increase in training attendance and an overt demand for additional courses in more advanced payment topics, there are a number of additional factors that indicate that next year would be an opportune time for PASA to consider a more holistic and formal approach to payments upskilling. This would potentially be through a professional qualifications body, that will prescribe standards, co-opt additional training capacity and provide professional recognition for completed training.

These new initiatives, together with a continued focus on training delivery, become critically important due to the following developments in the industry:

- ▶ More and more seasoned payments experts are retiring, leaving the industry with less experienced payments resources.
- ▶ An increasing number of new companies are entering and participating in the payment space.
- ▶ There is a growing demand for payments knowledge within banks.
- ▶ The increased recognition of the payments industry as a career choice is resulting in a need for formal qualifications and/or recognition in support thereof.

PASA will, therefore, spend much of 2019 considering options for establishing a more structured and formal approach to capacity building in the NPS space.

Conferences and events

Industry events, such as the PASA International Payments Conference (PIPC), form an integral part of PASA's industry capacity building efforts, bringing a variety of payment stakeholders together to learn from local and international industry experts and from one another. PIPC also offers a great opportunity to share overarching industry strategies, showcase new innovations and exchange ideas.

The third biennial PIPC was held from 31 July 2018 to 1 August 2018 at the Sandton Convention Centre, with 685 paying attendees, of whom 62% were from non-banks. The chosen theme for PIPC 2018 was "Navigating the future of payments", with four supporting nautical sub-themes, which guided the conference structure and programme. Given the high level of interest in PIPC 2018, PASA was, once again, in the fortunate position to secure influential and respected speakers and industry leaders. The panel of 46 speakers comprised 20 international and 26 local speakers.

The PIPC media crew, consisting of seven production specialists, three photographers and a full-time social media resource, ensured the smooth execution of a complex programme. In addition, a team of nine media specialists facilitated 18 interviews in the PIPC media booth, two radio interviews and generated three press releases over the two days. Together, the teams produced a considerable volume of high-quality multimedia content, including video, still photography and audio, as well as providing live social media output on Twitter, LinkedIn and Facebook. The main activity was on Twitter with 3 892 visits and 141 000 impressions.

The conference offered ample networking opportunities for delegates and sponsors, with extended breaks during the day, a networking function at the end of each day as well as 20 networking lounges that formed part of the interactive conference exhibition area.

INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)



Work on PIPC 2020 will commence early in 2019, with the plan being to continue the high-level themes and conversations that were started during PIPC 2018, whilst at the same time delivering a conference that will, once again, exceed expectations.

INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)

External communication

The need for PASA to engage with external stakeholders, including the media, regarding matters that touch the industry collectively, has become more pressing year by year. Memorable moments in the communication space during 2018 included:

- ▶ a two-day stakeholder consultation workshop hosted early in the year to support industry input into Project Future;
- ▶ PASA's first media breakfast mid-year;
- ▶ the creation of industry communication collateral to support key projects, such as DebiCheck and Debit Order Abuse; and
- ▶ PASA joining the social media community, establishing a presence on LinkedIn, Twitter and Facebook.

Increased stakeholder interaction is planned for 2019 and the addition of a Communication Specialist to the team is sure to enhance these increased communication efforts.

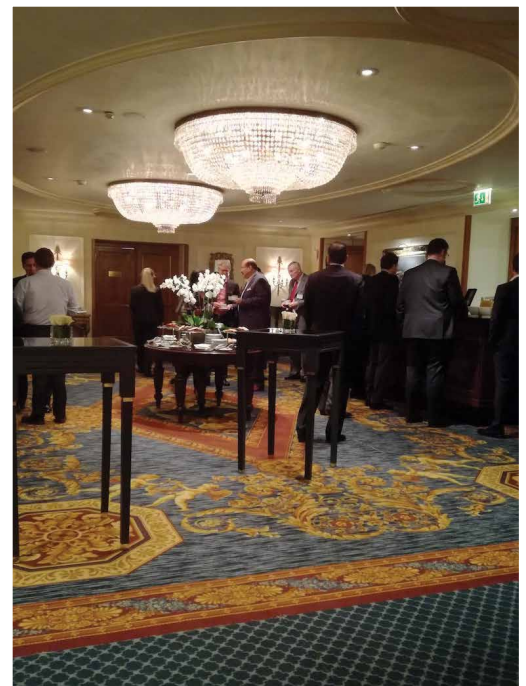
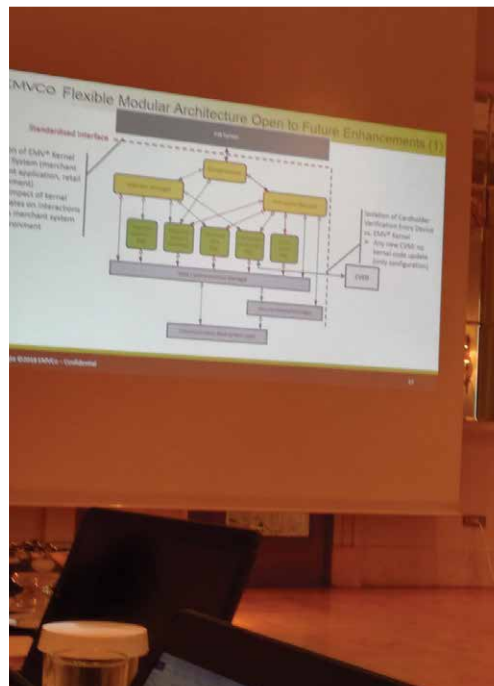
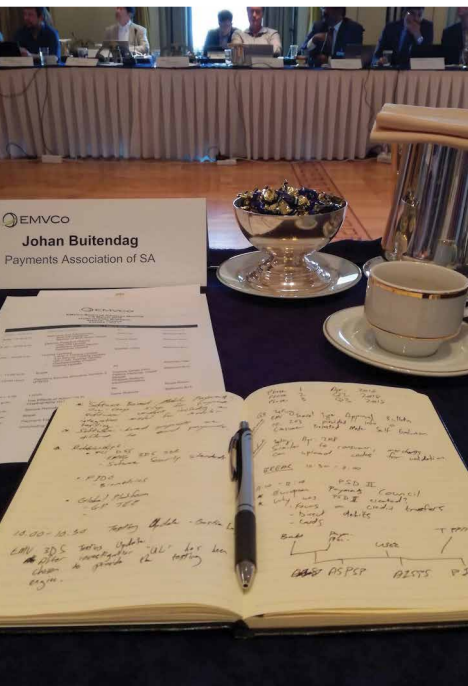
Industry change capability

With the first industry-wide change initiative initiated just over two years ago, the demand for collaborative change efforts, facilitated through PASA structures and capabilities, continues to grow. Now recognised as a key industry capability, the need to influence, guide and support change enablement at an industry level meant further growing the PASA change team during 2018.

The two projects that received priority attention during the year were the DebiCheck and Debit Order Abuse projects. For DebiCheck, the industry change toolkit, created in the previous years, formed a good basis to build on. New marketing collateral, communication guidelines and training tools were developed and made available to banks and non-banks, to support updated project timelines. In addition, the change team facilitated a range of engagement sessions with impacted user groups, resulting in valuable input into adoption challenges and improved stakeholder relationships. For Debit Order Abuse, a brand new change strategy was developed and integrated with the project objectives. Key change deliverables included a robust stakeholder analysis, a resultant industry change plan and a variety of change and training guidelines.

In addition, 2018 will probably be remembered by most change managers for the ground-breaking consumer awareness and activation campaigns that kicked off in pilot phase, for both projects, during December 2018. Complementing the more traditional bank awareness and education efforts, these unique campaigns focus on the mass urban market, which mostly includes traditional black townships. Key learnings from the pilot phase in Soweto will now be used to adapt future phases that will be rolled out to six regions during 2019. These regional campaigns, planned for execution between February 2019 and October 2019, will set the tone for future consumer education endeavours at an industry level. It will further be supported by creating any new collateral required, monitoring bank and user communication and education efforts, and facilitating optimal stakeholder engagement.

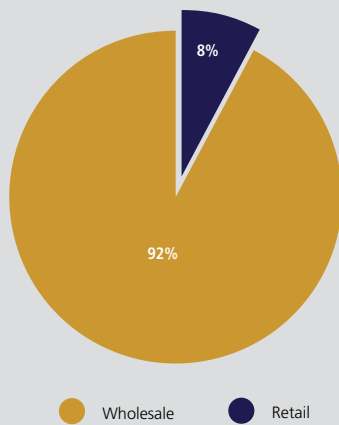
INDUSTRY CAPACITY BUILDING, COLLABORATION AND CHANGE MANAGEMENT (continued)



Section 4:

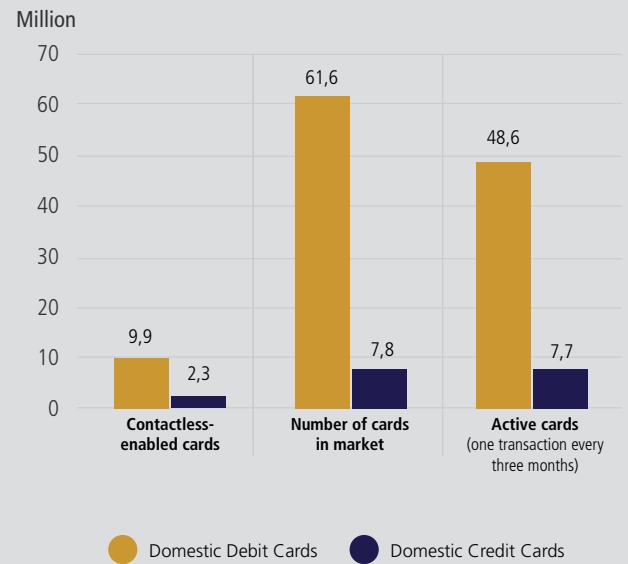
PAYMENT SYSTEM STATISTICS

2018 Split in settlement values*



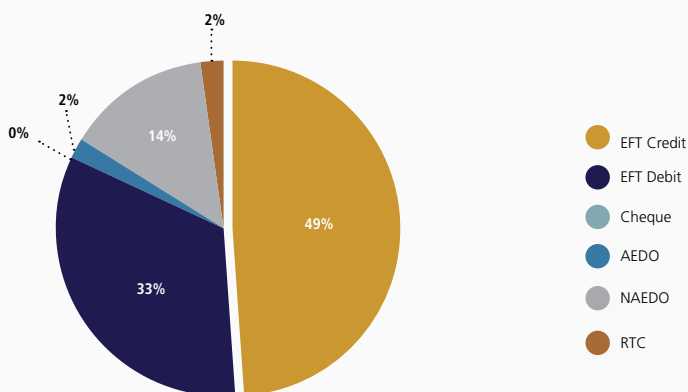
Card statistics*

1 January 2018 to 31 December 2018

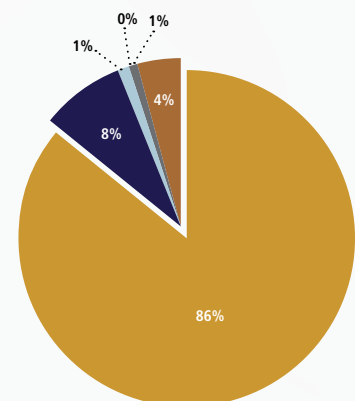


Retail

2018 Volumes*

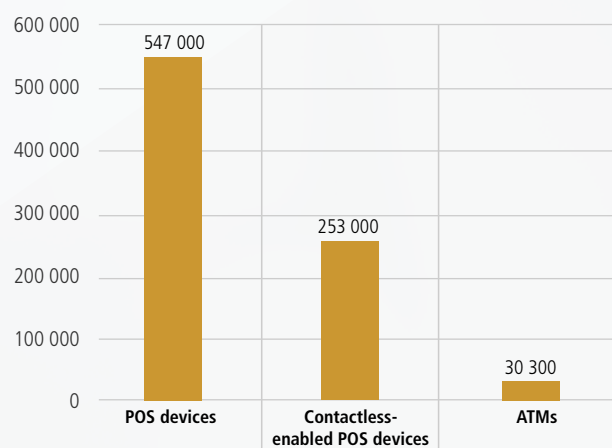


2018 Values*

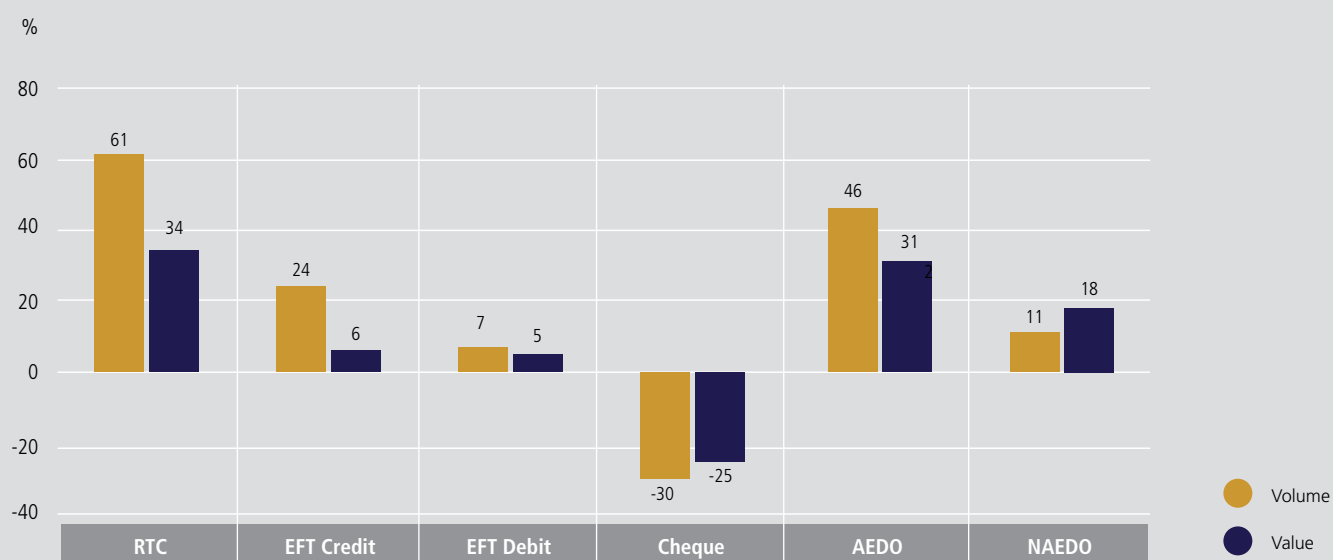


* Data sourced from BankservAfrica, Mastercard and Visa

Acceptance devices in market*

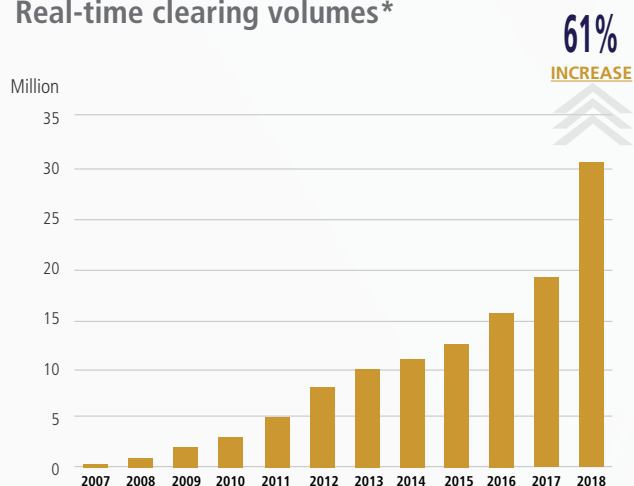


2018 year-on-year change*

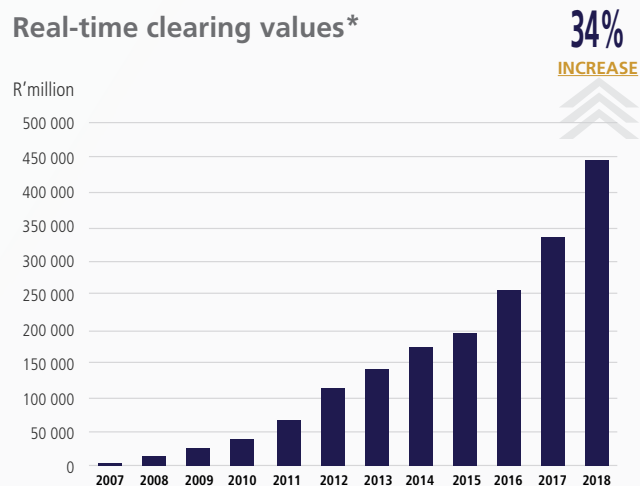


* Data sourced from BankservAfrica, Mastercard and Visa

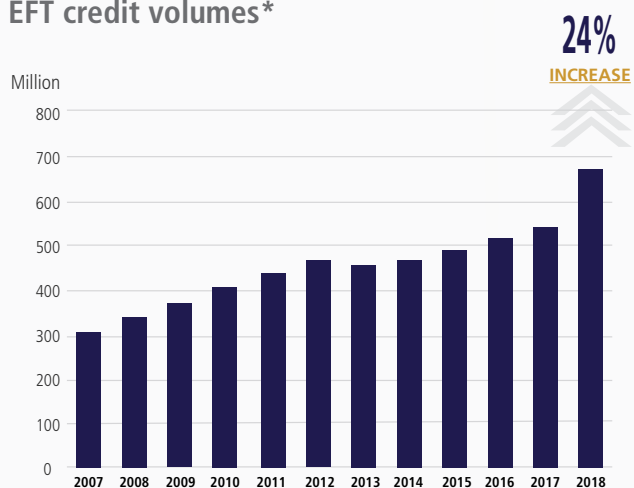
Real-time clearing volumes*



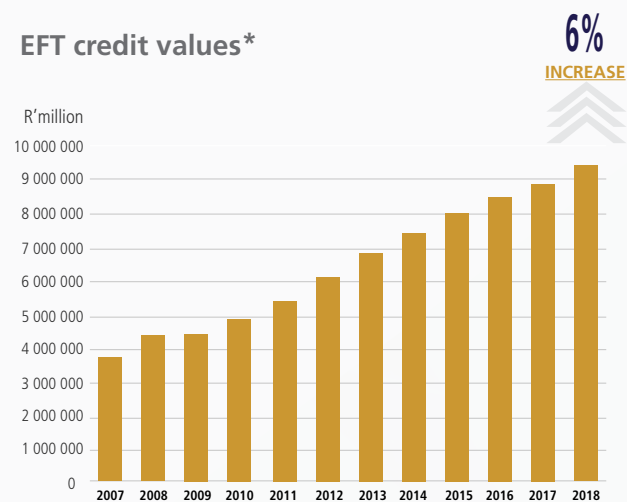
Real-time clearing values*



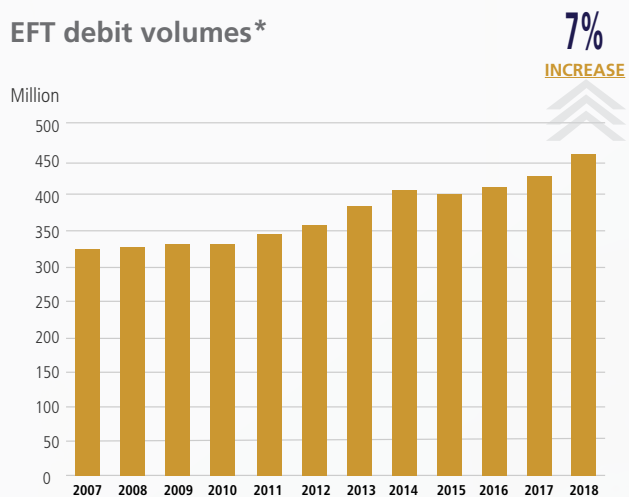
EFT credit volumes*



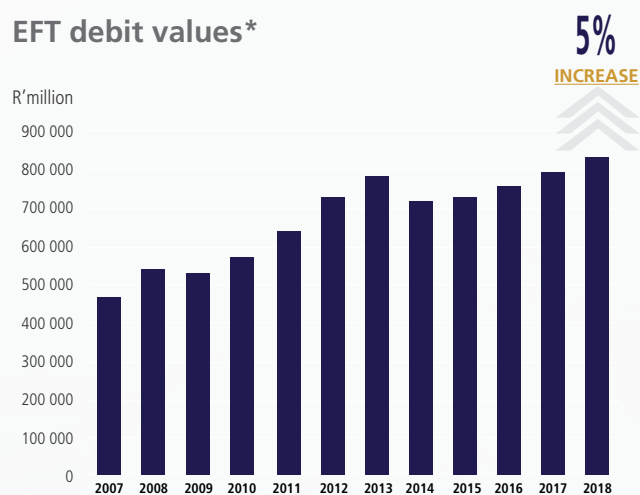
EFT credit values*



EFT debit volumes*

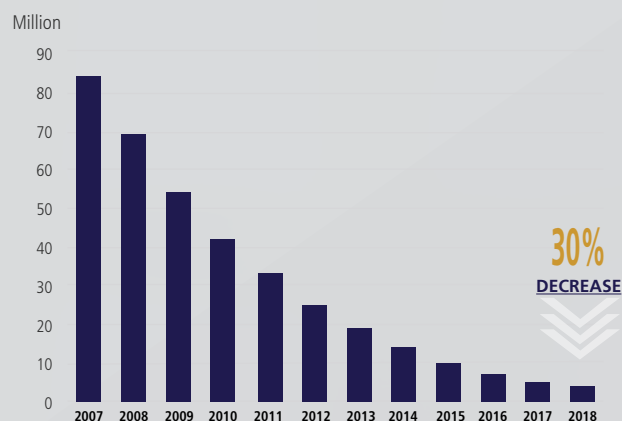


EFT debit values*

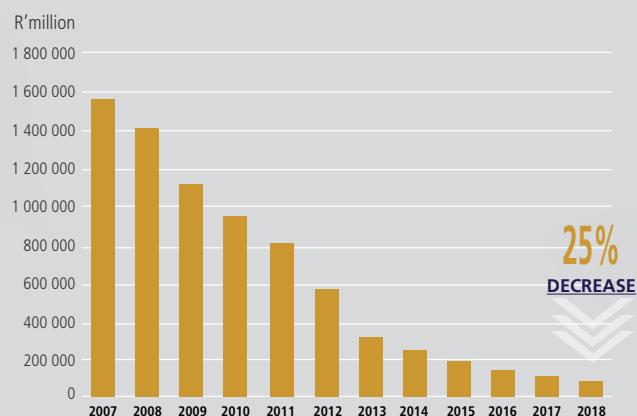


* Data sourced from BankservAfrica

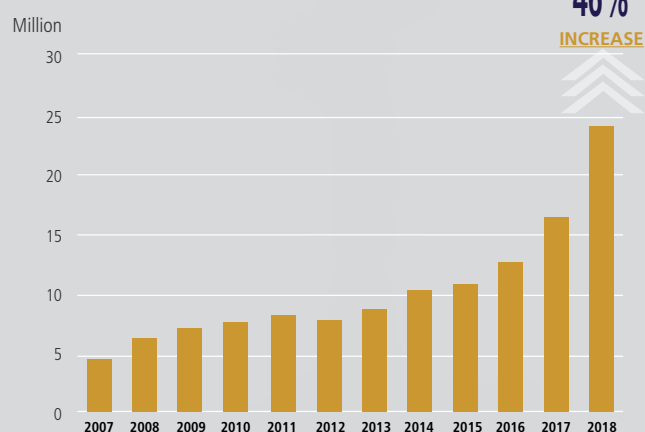
Cheque volumes*



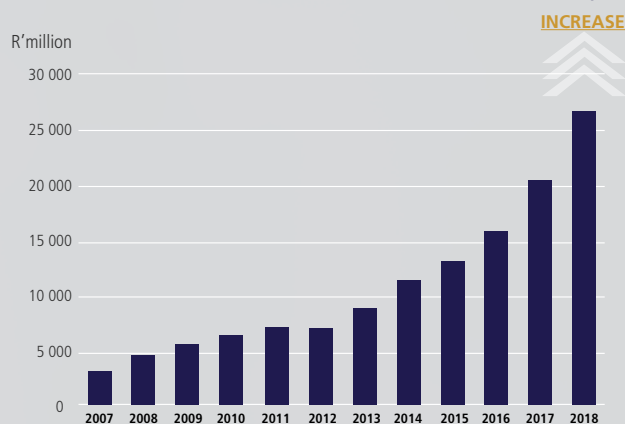
Cheque values*



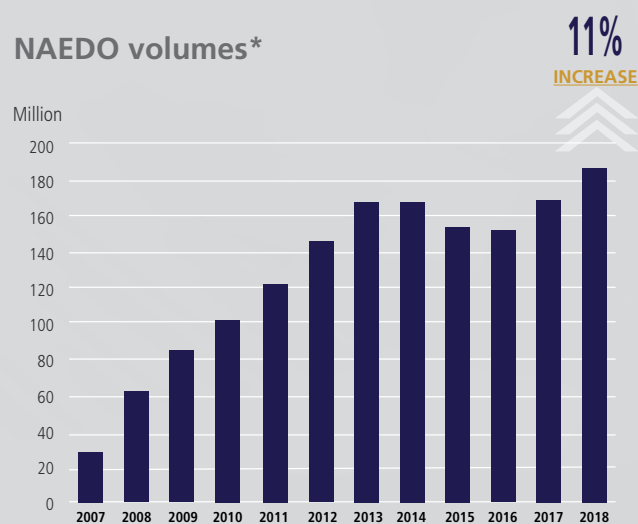
AEDO volumes*



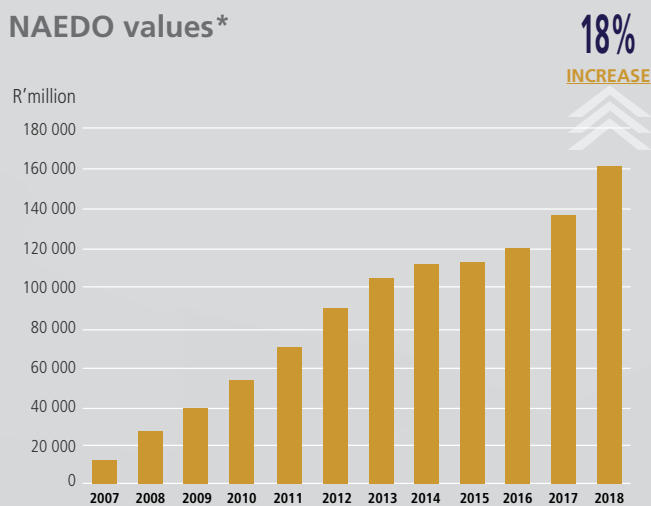
AEDO values*



NAEDO volumes*



NAEDO values*



* Data sourced from BankservAfrica

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Section 5:

ANNUAL FINANCIAL STATEMENTS

THE GOVERNING BODY OF PASA, PASA COUNCIL'S RESPONSIBILITIES AND APPROVAL

PASA Council is required by the PASA Constitution, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of PASA as at 31 December 2018 and that the results of its operations and cash flows for the period then ended, conform with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

PASA Council acknowledges that they are ultimately responsible for the system of internal financial controls established by PASA Council and place considerable importance on maintaining a strong control environment. To enable PASA Council to meet these responsibilities, PASA Council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout PASA and all employees are required to maintain the highest ethical standards in ensuring PASA's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in PASA is on identifying, assessing, managing and monitoring all known forms of risk across the organisation and the national payment system. While operating risk cannot be fully eliminated, PASA endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

PASA Council is of the opinion, based on the information and explanations given by management, that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The PASA Council has reviewed the association's cash flow forecast for the year ended 31 December 2018 and, in the light of this review and the current financial position, they are satisfied that the association has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the association's annual financial statements. The annual financial statements have been examined by the association's external auditors and their report is presented on pages 74 to 76.

The annual financial statements set out on pages 72 to 92, which have been prepared on the going concern basis, were approved by PASA Council on 28 May 2019 and were signed on their behalf by:



Sydney Gericke
Chairperson



Walter Volker
Chief Executive Officer

THE GOVERNING BODY OF PASA, PASA COUNCIL'S REPORT

PASA Council has pleasure in submitting their report on the annual financial statements of the Payments Association of South Africa (NPO) (PASA) for the year ended 31 December 2018.

1. Nature of business

The Payments Association of South Africa (NPO) was established in South Africa to act in the interests of the NPS. PASA's primary objective is to organise, manage and regulate all matters affecting interbank payments and payments clearing and settlement of interbank obligations within the payment system. The association operates in South Africa.

There have been no material changes to the nature of the association's business from the prior year.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the PASA Constitution. The accounting policies have been applied consistently, compared to the prior year.

Full details of the financial position, results of operations and cash flows of the association are set out in these annual financial statements.

3. The PASA Council

The Councillors in office, at the date of this report, are as follows:

Chairperson

Sydney Gericke (Independent Chairperson)

Ingrid Goodspeed (Independent Deputy Chairperson)

Principal Councillor	Alternate Councillor
Hendrik Pelser	Gabriella Teixeira
Jill Murtagh	Frederik Hanekom
Dirk Ehlers	Marthinus Janse van Rensburg
Megan Brown	Kenneth Matlhole
Rufaïda Ismail	John Elliot
Ian Carter	Marijke Guest
Tim Masela – <i>ex officio</i>	Shaun Rayfield – <i>ex officio</i>
John Anderson	
Walter Volker – <i>ex officio</i>	

THE GOVERNING BODY OF PASA, PASA COUNCIL'S REPORT continued

4. Events after the reporting period

PASA Council is not aware of any material event which occurred after the reporting date and up to the date of this report.

5. Going concern

PASA Council believes that PASA has adequate financial resources to continue in operation for the foreseeable future and, accordingly, the annual financial statements have been prepared on a going concern basis. PASA Council has satisfied themselves that PASA is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. PASA Council is not aware of any new material changes that may adversely impact the association. The Councillors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect PASA.

6. Secretary

The PASA secretary is Pierre Coetzee (until 30 November 2018); Helen Peace (from 1 December 2018).

INDEPENDENT AUDITORS' REPORT

To the members of the Payments Association of South Africa (NPO) (PASA)

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of the Payments Association of South Africa (NPO) (PASA) set out on pages 77 to 92, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Payments Association of South Africa (NPO) (PASA) as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the PASA Constitution.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual financial statements section of our report. We are independent of the association in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

PASA Council is responsible for the other information. The other information comprises The Governing Body of PASA, PASA Council's Report, as required by the PASA Constitution, and the supplementary information. Other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT continued

Responsibilities of the Councillors for the annual financial statements

The PASA Council is responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standard for small- and medium-sized entities and the requirements of the PASA Constitution, and for such internal control as the PASA Council determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the PASA Council is responsible for assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the councillors either intend to liquidate the PASA or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the association's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the councillors.
- ▶ Conclude on the appropriateness of the PASA Council's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the association to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT continued

- ▶ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the PASA Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



NC Kyriacou

SizweNtsalubaGobodo Grant Thornton Inc.

Director

Registered Auditor

Building 4, Summit Place

221 Garstfontein Road

Menlyn

0181

28 May 2019

STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Notes	2018 R	2017 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	1 407 185	1 600 208
Other financial assets	3	5 797 166	2 917 653
		7 204 351	4 517 861
Current assets			
Trade and other receivables	4	10 056 263	5 478 355
Other financial assets	3	558 465	1 363 765
Cash and cash equivalents	5	30 688 523	31 850 482
		41 303 251	38 692 602
Total assets		48 507 602	43 210 463
EQUITY AND LIABILITIES			
Equity			
Accumulated funds		20 788 348	19 994 117
Liabilities			
Non-current liabilities			
Other financial liabilities	7	5 797 166	2 917 653
Current liabilities			
Trade and other payables	6	7 052 640	5 952 732
Other financial liabilities	7	558 465	559 765
Deferred income	8	14 310 983	13 778 796
Membership fees received in advance		–	7 400
		21 922 088	20 298 693
Total liabilities		27 719 254	23 216 346
Total equity and liabilities		48 507 602	43 210 463

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Notes	2018 R	2017 R
Revenue	9	61 236 543	60 944 058
Other income	10	9 695 551	5 813 532
Operating expenses		73 527 550	(58 244 510)
Operating (deficit)/surplus	11	2 595 456	8 513 080
Investment revenue	12	3 741 793	2 740 201
Fair value adjustments	13	(271 125)	311 600
Finance costs	14	(80 981)	(87 208)
Surplus for the year		794 231	11 477 673

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Accumulated funds R	Total equity R
Balance at 1 January 2017	8 516 444	8 516 444
Surplus for the year	11 477 673	11 477 673
Balance at 1 January 2018	19 994 117	19 994 117
Surplus for the year	794 231	794 231
Balance at 31 December 2018	20 788 348	20 788 348

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 R	2017 R
Cash flows from operating activities			
Cash (used in)/generated from operations	17	(5 038 438)	11 950 012
Interest income		3 741 793	2 740 201
Finance costs		(80 981)	(87 208)
Net cash from operating activities		(1 377 626)	14 603 005
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(320 787)	(1 494 916)
Sale of property, plant and equipment	2	3 344	71 416
Movement in financial assets		(2 345 103)	179 229
Net cash from investing activities		(2 662 546)	(1 244 271)
Cash flows from financing activities			
Movement in financial liability		2 878 213	1 391 504
Net cash from financing activities		2 878 213	1 391 504
Total cash movement for the year		(1 161 959)	14 750 238
Cash at the beginning of the year		31 850 482	17 100 244
Total cash at end of the year	5	30 688 523	31 850 482

ACCOUNTING POLICIES

for the year ended 31 December 2018

1. Basis of preparation and summary of significant accounting policies

The annual financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standard for Small- and Medium-sized Entities, and the PASA Constitution. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rand.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

Property, plant and equipment are initially measured at cost.

Property, plant and equipment are subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the association.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	5 years
IT equipment	Straight line	4 years
Office equipment	Straight line	5 years
Security equipment	Straight line	5 years

Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount.

When indicators are present that the useful lives and residual values of items of property, plant and equipment have changed since the most recent annual reporting date, they are reassessed. Any changes are accounted for prospectively as a change in accounting estimate.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

ACCOUNTING POLICIES continued

for the year ended 31 December 2018

1.2 Financial instruments

Financial instruments at amortised cost

These include loans, trade receivables and trade payables. Those debt instruments which meet the criteria in section 11.8(b) of the standard, are subsequently measured at amortised cost using the effective interest method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At each reporting date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence, the recoverable amount is estimated and compared with the carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Financial instruments at fair value

All other financial instruments, including equity instruments that are publicly traded or whose fair value can otherwise be measured reliably, without undue cost or effort, are measured at fair value through profit or loss.

1.3 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are operating leases.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless:

- ▶ another systematic basis is representative of the time pattern of the benefit from the leased asset, even if the payments are not on that basis; or
- ▶ the payments are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Any contingent rents are expensed in the period they are incurred.

1.4 Impairment of assets

PASA assesses at each reporting date whether there is any indication that property, plant and equipment or intangible assets or goodwill may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

ACCOUNTING POLICIES continued

for the year ended 31 December 2018

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

1.5 Long-term incentive scheme

Incentive bonuses for key management are recognised as a long-term investment on grant date with 66% vesting after three years and the balance vesting after five years from grant date. A corresponding increase in liabilities is recognised over the vesting period.

The corresponding increase in liabilities is measured, directly, at the fair value of the investment recognised, provided that the fair value can be estimated reliably.

The long-term incentive payments granted do not vest until the counterparty completes a specified period of service.

The long-term investment payments vest immediately when the employees resign and the investment is recognised in full as a long-term investment for the PASA.

1.6 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.7 Provisions and contingencies

Provisions are recognised when PASA has an obligation at the reporting date as a result of a past event; it is probable that PASA will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions are not recognised for future operating losses.

ACCOUNTING POLICIES continued

for the year ended 31 December 2018

1.8 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services provided in the normal course of business, net of value added tax.

Revenue comprises net contributions from members for Payment Clearing House fees and PASA membership fees in terms of the PASA Constitution. All contributions in excess of expenditure to be incurred in the specific financial period are refunded in subsequent financial periods.

Revenue is recognised in the income statement in proportion to the period to which membership fees relate.

Special project fee income is recognised in the income statement in proportion to the expenses incurred in terms of the specific project. The excess income received is recognised as deferred income for as long as the project is still ongoing.

All non-compliance penalty income is ring-fenced and only allowed to be utilised for training and capacity building, research, investigation and work relating to risk management and emerging technologies. The excess income received is recognised as deferred income for all future periods.

Interest is recognised, in profit or loss, using the effective interest rate method.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

2. PROPERTY, PLANT AND EQUIPMENT

	2018			2017		
	Cost or revaluation R	Accu- mulated depre- ciation R	Carrying value R	Cost or revaluation R	Accu- mulated depre- ciation R	Carrying value R
Furniture and fixtures	637 449	(255 381)	382 068	581 599	(153 990)	427 609
IT equipment	1 703 777	(877 134)	826 643	1 496 295	(541 319)	954 976
Office equipment	401 678	(203 854)	197 824	360 990	(144 017)	216 973
Security equipment	32 804	(32 154)	650	32 804	(32 154)	650
Total	2 775 708	(1 368 523)	1 407 185	2 471 688	(871 480)	1 600 208

Reconciliation of property, plant and equipment

	Opening balance	Additions	Disposals	Depreciation	Closing balance
2018					
Furniture and fixtures	427 609	72 617	(3 344)	(114 814)	382 068
IT equipment	954 976	207 482	–	(335 815)	826 643
Office equipment	216 973	40 688	–	(59 837)	197 824
Security equipment	650	–	–	–	650
Total	1 600 208	320 787	(3 344)	(510 466)	1 407 185
2017					
Furniture and fixtures	260 541	268 136	(39 467)	(61 601)	427 609
IT equipment	177 357	1 000 889	–	(223 270)	954 976
Office equipment	35 800	225 891	(14 708)	(30 010)	216 973
Security equipment	650	–	–	–	650
Total	474 348	1 494 916	(54 175)	(314 881)	1 600 208

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
3. OTHER FINANCIAL ASSETS		
At fair value		
Glacier Investment Plan – PASA	–	804 000
Glacier Investment Plan – vested portion	558 465	559 765
Glacier Investment Plan – non-vested portion	5 797 166	2 917 653
	6 355 631	4 281 418
Non-current assets		
Designated at fair value through profit or loss	5 797 166	2 917 653
Current assets		
Designated at fair value through profit or loss	558 465	1 363 765
	6 355 631	4 281 418

Fair value information

Financial assets at fair value through profit or loss are recognised at fair value, which is therefore equal to their carrying amounts.

Glacier Investment Plan – PASA

The investment consists of incentive bonuses forfeited by employees who have resigned before the vesting period ended.

Glacier Investment Plan – vested portion

The investment consists of incentive bonuses vested and which are payable to the employees.

Glacier Investment Plan – non-vested portion

The investment consists of incentive bonuses granted to key management, which have not yet vested in the current period.

Long-term incentive scheme

The long-term incentive scheme provides for incentive bonuses to key management. 66% of the bonus allocation vests three years after the grant date and the balance vests five years after the grant date. Payment is made to employees immediately after the vesting date. Furthermore, the allocation is forfeited if the employee leaves the entity before vesting and when the employee forfeited the allocation, the amount vests as an investment for PASA.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
4. TRADE AND OTHER RECEIVABLES		
Trade receivables	9 912 452	5 478 355
Tenant deposits	103 811	–
Staff loans	40 000	–
	10 056 263	5 478 355
5. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
– Bank balances	1 844 980	6 850 576
– Short-term deposits	28 846 356	25 006 011
– Other cash and cash equivalents	(2 813)	(6 105)
	30 688 523	31 850 482
6. TRADE AND OTHER PAYABLES		
Trade payables	230 904	222 875
VAT	154 488	294 627
Accrued leave pay	1 926 077	1 324 682
Accrued expense	1 003 554	510 449
Deposits received	26 266	11 400
Other payables:		
– Pension fund	–	359 961
– Cheque standards authority	138 651	135 222
– PAYE, salaries and wages	3 572 700	3 093 516
	7 052 640	5 952 732

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
7. OTHER FINANCIAL LIABILITIES		
At fair value		
Long-term incentive scheme		
– Vested portion	558 465	559 765
– Non-vested portion	5 797 166	2 917 653
	6 355 631	3 477 418
Non-current liabilities		
At fair value	5 797 166	2 917 653
Current liabilities		
At fair value	558 465	559 765
	6 355 631	3 477 418

Long-term incentive scheme – vested portion

The liability consists of the vested portions of the long-term incentive scheme, which is payable to the key members of management for an incentive bonus. The liability is recognised as the fair value of the investment it relates to. Refer to other financial assets for more details regarding the investments.

Long-term incentive scheme – non-vested portion

This liability consists of the non-vested portions of the long-term incentive scheme, which is payable to the key members of management for an incentive bonus. The liability is recognised as the present value of the amounts payable to the employees in future.

The fair values of the financial liabilities were determined as follows

Expected volatility: Volatility was estimated using historical returns data. The asset allocation of the portfolio was used to compute portfolio historical returns, which were then used to compute historical volatility.

Expected life: 66% after three years from grant date, and the balance after five years from grant date.

Risk-free rate: The zero-coupon bond curve interest rate was used for each grant date in determining this rate.

Resignation rates: It was assumed that senior personnel qualifying for this scheme have lower resignation rates and, therefore, an annual resignation rate of 0% was assumed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
8. DEFERRED INCOME		
Special project training – Non-compliance	11 966 281	12 237 546
Special project – SWIFT	–	49 460
Special project – Industry training	2 233 589	1 487 076
PASA structures functions	–	4 714
PASA International Payments Conference	111 113	–
	14 310 983	13 778 796

Deferred income – training

In terms of a PASA Council meeting held during the 2014 financial period, all non-compliance penalty income should be utilised specifically for industry training purposes. This resulted in deferred income – training which is ring-fenced for the use by PASA in the course of normal business operations. The total penalty income for the period not utilised in terms of training was transferred to deferred income. The amount deferred is R11 966 282 (2017: R12 237 546).

9. REVENUE		
Member contribution	69 068 034	60 944 058
Refund of member contributions	(7 831 491)	–
	61 236 543	60 944 058

Member contributions

In accordance with the PASA Constitution all income and assets of the PASA, however derived, shall be applied wholly towards the promotion of the objectives of the PASA. No portion of the income and assets is transferrable, directly or indirectly to the members, except by means of a refund of the surplus of members contributions not used during the financial year. During the reporting period, the Council agreed to grant a refund of R3 186 406 (2017: R7 831 491) to its members.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
10. OTHER INCOME		
Other income	202 165	174 481
PCH agreements and membership	32 000	110 000
Special projects	8 918 136	4 977 722
Profit on sale of assets	–	17 241
System operator authorisation	543 250	534 088
	9 695 551	5 813 532
11. OPERATING (DEFICIT)/SURPLUS		
Operating (deficit)/surplus for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
– Contractual amounts	2 633 712	1 879 918
Equipment		
– Contractual amounts	531 739	494 308
	3 165 451	2 374 226
Property, plant and equipment	–	17 241
Depreciation on property, plant and equipment	510 466	376 961
Employee costs	41 728 014	33 761 300
12. INVESTMENT REVENUE		
Interest revenue		
Other financial assets	161 575	128 414
Interest received	3 580 218	2 611 787
	3 741 793	2 740 201

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
13. FAIR VALUE ADJUSTMENTS		
Other financial assets	(271 125)	311 600
14. FINANCE COSTS		
South African Revenue Services	80 981	87 208
15. TAXATION		
PASA is exempt from Income Tax under Section 10(1)(cA) (i) of the Income Tax Act, no 58 of 1952. PASA needs to comply with requirements annually to retain their exempt status.		
16. AUDITORS' REMUNERATION		
Audit fees	64 000	69 677
Other	35 128	–
	99 128	69 677
17. CASH (USED IN)/GENERATED FROM OPERATIONS		
Surplus (deficit) for the year	794 231	11 477 673
Adjustments for:		
Depreciation	510 466	314 881
Profit on sale of assets	–	(17 241)
Interest received	(3 741 793)	(2 740 201)
Finance costs	80 981	87 208
Fair value adjustments	271 125	(311 600)
Changes in working capital:		
Trade and other receivables	(4 577 908)	(2 349 678)
Trade and other payables	1 092 273	(1 656 281)
Deferred income	532 187	7 145 251
	(5 038 438)	11 950 012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2018

	2018 R	2017 R
18. COMMITMENTS		
Operating leases – as lessee (expense)		
Minimum lease payments due		
– within one year	1 093 301	1 783 290
– in second to fifth year inclusive	169 172	772 291
	1 262 473	2 555 581

19. RELATED PARTY BALANCES AND TRANSACTIONS WITH OTHER RELATED PARTIES

	2018 R	2017 R
Related party balances and transactions with other related parties		
Related party transactions		
Purchases from related parties		
– Veritas Books	131 996	135 810

20. MEMBERS OF KEY MANAGEMENT

Members of key management:

Walter Volker (Chief Executive Officer)

Maurits Pretorius (Executive: Strategy and Communications)

Pierre Coetzee (Executive: Payment Regulations)

Enoch Malisa (Chief Operating Officer)

	2018 R	2017 R
Compensation paid to key management		
– Key management remuneration	12 176 185	11 000 935

CORPORATE INFORMATION

The Payments Association of South Africa (NPO) (PASA)

Country of incorporation and domicile

South Africa

Registered office

2nd Floor, Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown
2193

Business address

2nd Floor, Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown
2193

Postal address

PO Box 61380
Marshalltown
2107

Bankers

First National Bank Limited

Auditors

SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Accountants (SA)
Registered Auditors
Member of Grant Thornton International

Secretary

Pierre Coetzee (until 30 November 2018)
Helen Peace (from 1 December 2018)

Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the PASA Constitution.

Preparer

The annual financial statements were independently compiled by:

SizweNtsalubaGobodo Grant Thornton Advisory Services Proprietary Limited

GLOSSARY OF ACRONYMS

ABCI	Association of Bank Card Issuers
AC	Authenticated Collections
AEDO	Authenticated Early Debit Order
AMEX	American Express
ATM	Automated Teller Machine
BC	Business Continuity
BIS	Bank of International Settlements
CCES	Council Compliance Enforcement Subcommittee
CCPI	Card Credit Payment Instruction
CEO	Chief Executive Officer
CEP	Compliance Enforcement Panel
CLS	Continuous Linked Settlement
CM	Compliance Manager
CMA	Common Monetary Area
CoFI	Conduct of Financial Institutions
CRO	Chief Risk Officer
DCP	Deputy Chairperson
DR	Disaster Recovery
EDO	Early Debit Order
EFT	Electronic Funds Transfer
EMV	Europay, Mastercard, Visa
EPC	Electronic, Paper and Cash
ESS	Electronic Securities Settlement
EXO	Executive Office
FATF	Financial Action Task Force
FICA	Financial Intelligence Centre Act
FMI	Financial Market Infrastructure
FSCA	Financial Sector Conduct Authority
FSR	Financial Sector Regulations
HVPC	High Value Payment Course
ICs	Independent Councillors
IoDSA	Institute of Directors in Southern Africa
IMMS	Immediate Settlement
NAEDO	Non-Authenticated Early Debit Order
NIC	Nomination and Induction Committee

GLOSSARY OF ACRONYMS (continued)

NPP	National Payments Plan
NPS	National Payment System
NPSD	National Payments System Department
MMT	Mzansi Money Transfer
PAC	PASA Authorised Contact
PASA	Payments Association of South Africa
PASA EXO	PASA Executive Office includes the employees of PASA
PCFP	PASA Certificate in Foundational Payments
PCH	Payment Clearing House
PCH PG	Payment Clearing House Participant Group
PMO	Project Management Office
PSD2	Payment Services Directive
PSMB	Payment System Management Body
PSO	PCH System Operator
PSP	Payment Services Providers
PRF	PASA Regulatory Framework
RM	Risk Management
RSO	Responsible Senior Officer
RTC	Real-Time Clearing
RTGS	Real-Time Gross Settlement
RTL	Real-Time Line
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement System
SARB	South African Reserve Bank
S@S	Sort-at-Source
SASSA	South Africa Social Security Agency
SF	Strategy Forum
SIRESS	SADC Integrated Regional Electronic Settlement System
SME	Subject Matter Experts
SO	System Operator
SSD	Self Service Device
SSPG	Settlement System Participant Group
TCF	Treat Customers Fairly
TPPP	Third Party Payment Provider

