



2021

INTEGRATED REPORT

25 YEARS

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ABBREVIATIONS TO KNOW

AEDO	Authenticated Early Debit Order
API	Application Programming Interface
Council	PASA Governing Body
EDO	Early Debit Order
EFT	Electronic Funds Transfer
FSCA	Financial Sector Conduct Authority
Member	A bank or designated clearing participant who is also a member of PASA
NAEDO	Non-Authenticated Early Debit Order
NPS	National Payment System
NPSD	National Payment System Department, a department within the SARB
PASA	Payments Association of South Africa
PIB	Payments Industry Body
PCH	Payment Clearing House
PCH PG	Payment Clearing House Participant Group
PSMB	Payment System Management Body
PSO	Payment Clearing House System Operator
QR Code	Quick Response Code
RMS	Registered Mandate Solution
RTC	Real-Time Clearing
SARB	South African Reserve Bank
SO	System Operator
TPPP	Third Party Payment Provider

UNDERSTANDING PASA'S REPORTING PROCESS

The Payments Association of South Africa (PASA or the organisation) continues to improve its reporting to Members and other stakeholders and is pleased to present its 2021 integrated report.

Scope and boundary

This integrated report (this report) covers PASA's operations from 1 January 2021 to 31 December 2021. It communicates PASA's value creation process and describes the progress made in managing and optimising payments within the South African economy. This progress is achieved in collaboration with PASA's Members¹, the South African Reserve Bank National Payment System Department (SARB NPSD) and other stakeholders.

This report was prepared in accordance with the reporting principles and guidelines provided by the International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities, the King Report on Corporate Governance™ for South Africa, 2016 (King IV)², and the supplement for non-profit organisations included in King IV. This report considers the six capitals defined by the Integrated Reporting <IR> Framework, 2021, to ensure it fully represents the value PASA creates, preserves and erodes.

PASA's integrated reporting journey

To improve its integrated reporting approach and ensure this report addresses what is material, PASA followed a formal process to identify material matters and enhanced its material matters' disclosure (page 9). These material matters guided what information is included in this report. PASA also focused on improving its strategy disclosure (page 18) and bolstered its risk reporting (page 53).

Time frames

For this report, PASA defines short, medium and long term as:

Short term: Less than one year

Medium term: One to three years

Long term: Three to 10 years

Report approval

The Executive Committee (Exco) prepared and verified the information in this report and ensured an accurate, balanced and comprehensive overview of PASA. All financial information in this report was extracted from the annual financial statements and audited by PASA's independent auditors, PKF Octagon. The Audit Committee reviewed the annual financial statements and recommended them to PASA Council for approval.

PASA's Councillors acknowledge their responsibility to ensure the integrity and completeness of the integrated report and the annual financial statements. The Councillors believe this report provides an accurate and material account of PASA's performance, strategic direction and addresses all material matters. PASA Council approved this report and the annual financial statements on 12 May 2022.

Sydney Gericke
Chairman

Ghita Erling
Chief Executive Officer

Request for feedback

PASA welcomes your feedback on the contents and presentation of this report to improve the quality and relevance of future reports. Send feedback on reporting content to Helenp@pasa.org.za.

Forward-looking statements

This report contains forward-looking statements concerning the future performance and prospects of PASA and the broader payments industry. While these statements represent PASA's judgements and future expectations when preparing this report, several uncertainties and other factors could cause actual outcomes to differ materially from expectations.

¹ Members refers to banks and designated clearing participants.

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

ABOUT PASA

PASA is a non-profit organisation funded by its Members. Together with its stakeholders, PASA is committed to ensuring that the National Payment System functions optimally.

The SARB mandates PASA to manage the participation of PASA Members in the National Payment System. PASA is recognised as a Payment System Management Body (PSMB) by the SARB in terms of the National Payment System Act, 78 of 1998 (NPS Act) and assists the SARB in discharging its responsibilities regarding the regulation and supervision of payment, clearing and settlement systems.

PASA STRUCTURES ITS OPERATIONS AROUND FOUR CORE OBJECTIVES:



Inform and implement the future of payment systems in line with key policy guidelines like the SARB Vision 2025 as well as through Member initiated programmes.



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



Facilitate the delivery of industry initiatives and ensure such initiatives are aligned to the SARB Vision 2025 and support Member requirements and priorities.



Support the payments industry through education, awareness, communication, and industry capacity building.

Why PASA exists

As articulated in its purpose, PASA exists to organise, manage, and regulate its Members' participation in payment systems in the interest of South Africa's economic development.

PURPOSE

PASA exists to organise, manage, and regulate its Members' participation in payment systems in the interest of the economic development of South Africa.

VISION

PASA aspires to be acknowledged as a world-class leader in its assistance in the evolution and oversight of the payments industry.

MISSION

PASA exists to organise, manage and regulate the National Payment System and facilitate integration with international payments.

VALUES

PASA's values guide the organisation's actions:

- Achieve results through collaboration and teamwork
- Demonstrate integrity and authenticity in all our actions
- Display leadership and stewardship in what PASA does daily
- Push the boundaries to grow and change
- Show respect for others
- Strive for excellence through professionalism, dedication and service

PASA entrenches an ethical culture at every level of the organisation: PASA uses employee policies and frameworks to guide employee behaviour. These help mitigate ethical risks such as corruption, discrimination and inequality.

GOALS

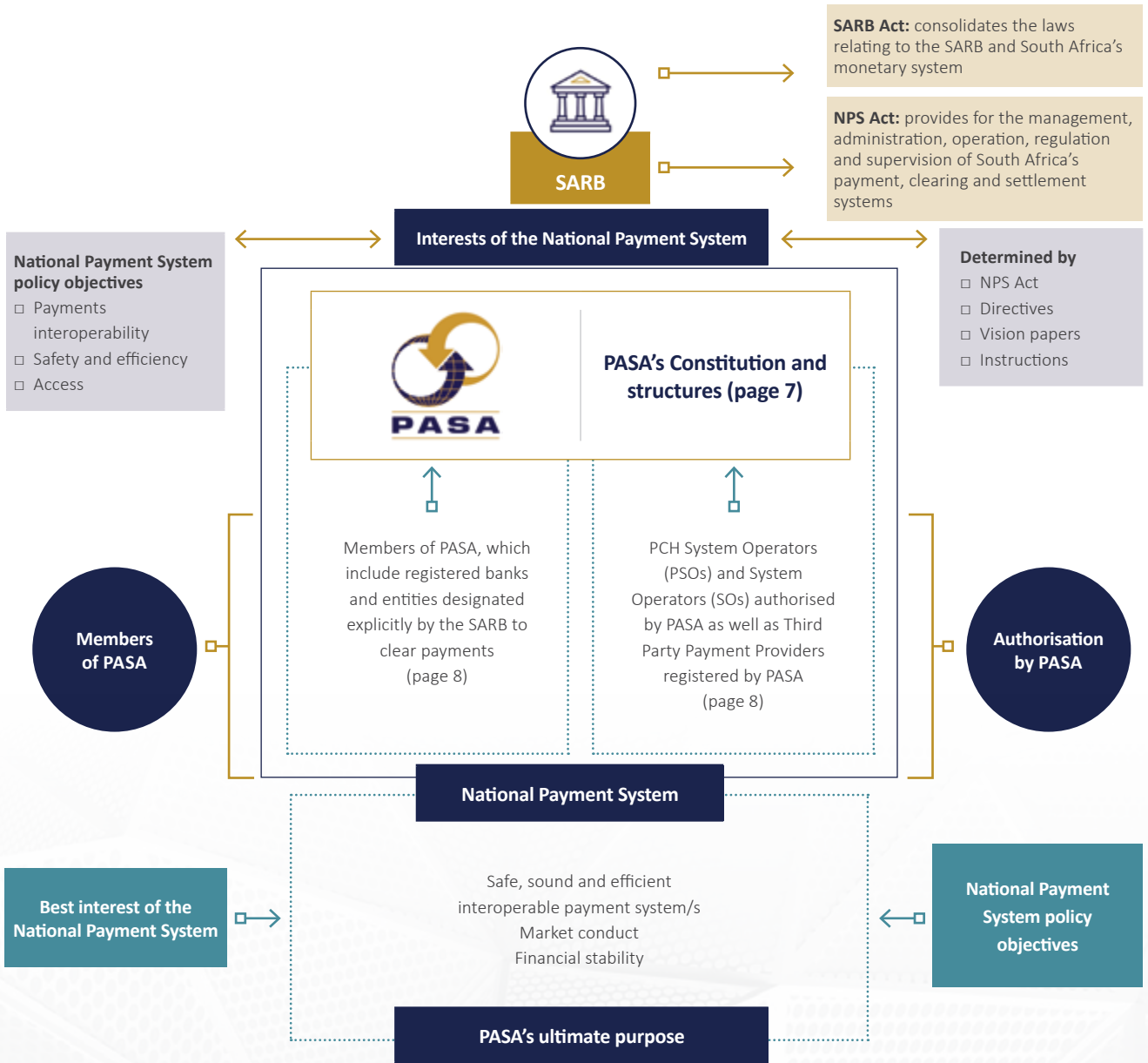
PASA's goals for the organisation and its Members are aligned to policy objectives and to Vision 2025. The goals as articulated in the PASA Constitution are to ensure improved:

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

By successfully executing its mandate, PASA creates an efficient, trusted and interoperable payment system that supports the South African economy.

PASA's ecosystem

PASA acts in the interest of the National Payment System, including consumers, non-bank payment service providers and other parties relying on the safety, stability and efficiency of the National Payments System, while fairly representing its Members' interests.



The SARB Vision 2025

Published in 2018, the SARB Vision 2025 provides the roadmap to building a world-class National Payment System that serves the economy and people of South Africa. PASA is mandated to respond to Vision 2025 and propose strategic initiatives on behalf of its Members to achieve the goals and objectives articulated in Vision 2025.

Vision 2025 identified nine industry goals:



Promoting competition and innovation



Financial inclusion



Regional integration



Transparency and public accountability



Cost-effectiveness



Interoperability



A clear and transparent regulatory and governance framework



Financial stability and security



Flexibility and adaptability

“Enhance the safety, efficiency and accessibility of the National Payment System in a manner that promotes competition and minimises risk to the payments ecosystem by leveraging technological developments to extend the availability of digital payment services to all sectors of society while meeting domestic, regional and international requirements for the benefit of all members of South African society.”

Overarching Vision, the SARB Vision 2025

PASA evaluates its strategic initiatives against the objectives articulated in Vision 2025 to ensure these initiatives support the SARB's broad goals for the National Payment System. Read more about this on page 21.

PASA's structure and Constitution

The PASA Constitution¹ provides for the establishment of PASA and its governing body (PASA Council), together with the mandate, powers and responsibilities of PASA and PASA Council. It provides for PASA membership, criteria for membership, and Members' rights, roles and obligations.

The PASA Constitution recognises the SARB as the regulator, overseer and supervisor of the National Payment System and its mandate to oversee PASA's role as a PSMB to assist the SARB in discharging its responsibilities for the regulation and supervision of payment, clearing and settlement systems, and to effectively manage and regulate the participation of its Members.

As the governing body of PASA, PASA Council is responsible for the effective governance of PASA and its structures. It delegates powers to Council Committees (page 39) to assist it with executing its responsibilities.

PASA Council also delegates powers to PASA Structures and the Chief Executive Officer (CEO). PASA Structures cover areas such as operations, strategy, risk, legal and regulatory, and competition law matters. A separate structure is in place to independently assess the outcome of compliance investigations PASA conducts and enforce rules. These committees are accountable to PASA Council and regularly report to PASA Council.

In 2021 PASA had:

- Eight Payment Clearing House (PCH) Participant Groups (PGs), with an operational focus on managing a specific payment system
- Three Strategy Committees, covering card payments, electronic payments and high-value payments
- Three Subject Matters Expert Committees (legal, risk and competition)

In addition to other management functions and powers delegated to the CEO, the PASA Constitution mandates the CEO to establish project steering committees to assist with the management and implementation of PASA projects. The CEO can also create stakeholder forums as part of a formal and structured engagement with broader stakeholder groups than its Members.

There are reforms underway that relate to the industry management. These reforms include a request issued by the SARB in June 2021 that PASA facilitates the design of a new Payments Industry Body (PIB). This reform aims to entrench cooperation and collaboration among an inclusive group of stakeholders to maintain a safe, secure and interoperable payment infrastructure aligned with public policy objectives. Read more about the PIB and PASA's response on page 36.

¹ The latest PASA Constitution can be found at www.pasa.org.za/resources/research-legislation-regulation.

PASA's Members, PCH System Operators, System Operators and Third Party Payment Providers

In terms of the NPS Act, direct participation in clearing and settlement within the South African National Payment System is contingent on membership of PASA. The Act further stipulates that membership of PASA is only open to registered banks and entities designated explicitly by the SARB to clear payments. PASA's Members have the right to participate in relevant PASA Structures as set out on page 7.

PASA's Members are bound by PASA's Constitution, policies and the PASA Regulatory Framework, including the clearing rules that govern individual PCHs. PCHs and PCH PGs are comprised of representatives appointed by the Members who are responsible for considering the interests of PASA, the National Payment System and their Members in ensuring the optimal functioning of the respective payment system operations.

PASA is responsible for registering TPPPs in terms of the SARB Directive 1 of 2007, authorising PSOs in accordance with the PSO Criteria approved by the SARB in terms of Section 4(2)(c)(ii) of the NPS Act and authorising SOs in terms of SARB Directive 2 of 2007. TPPPs, SOs and PSOs are not considered Members of PASA. TPPPs are non-bank entities that make or collect payments on behalf of payers or beneficiaries. SOs are non-bank entities that process payment instructions on behalf of banks or bank clients. PSOs are entities who are responsible for processing payment instructions between PASA Members.

PASA's membership can be summarised as follows (as of 31 December 2021):

Members



PSOs, SOs and TPPPs



PASA members as at 31 December 2021

- Absa Bank Ltd
- Access Bank South Africa Ltd
- African Bank Ltd
- Albaraka Bank Ltd
- Bank of China, Johannesburg branch
- Bank Zero
- Bidvest Bank Ltd
- BNP Paribas Corporate and Investment Banking
- Capitec Bank Ltd
- China Construction Bank
- Citibank NA South Africa
- Diners Club South Africa
- Discovery Bank Ltd
- Finbond Mutual Bank
- FirstRand Bank Ltd
- Grindrod Bank Ltd
- Habib Overseas Bank Ltd
- HBZ Bank Ltd
- HSBC
- ICICI Bank
- Investec Bank Ltd
- JPMorgan Chase Bank NA, Johannesburg branch
- Nedbank Ltd
- Postbank SOC
- South African Reserve Bank
- Sasfin Bank Ltd
- The Standard Bank of SA Ltd
- Standard Chartered Bank, Johannesburg Branch
- State Bank of India, South African Branch
- Tyme Bank Ltd
- Ubank Ltd
- VBS Mutual Bank*

* Under curatorship.

MATERIAL MATTERS IMPACTING VALUE CREATION

In an inaugural material matters determination process, PASA assessed matters that materially impact its ability to create and preserve value and limit value erosion in the short, medium, and long term.

PASA determined these material matters by considering its business drivers, key risks and opportunities, management focus areas and payment system trends. The Exco finalised and approved the material matters in January 2022. PASA Council approved the material matters in February 2022.

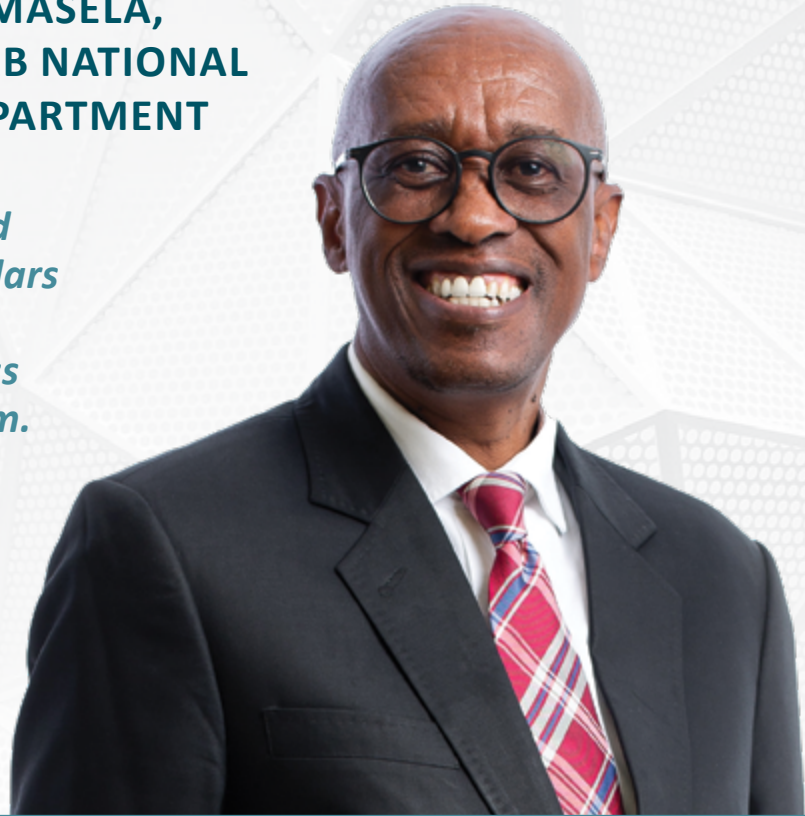
The table below sets out the material matters and their descriptions and the anticipated time frame of each impact. The impact of each matter and PASA's response is unpacked throughout this report.

Material matter	Description	Time frame	Further reading
Changes to the regulatory environment	National policy objectives, technological advancements, new payment methods and new entrants in the National Payment System can result in regulatory reforms requiring PASA to change its strategy, systems and/or processes. Regulatory changes will also impact PASA's future operating model. Significant changes to the National Payment System are imminent through consequential amendments to the Act, which arise from the new Conduct of Financial Institutions (CoFI) Bill.	Short, medium and long term	Page 52
Payment system modernisation	A modernised National Payment System is required to ensure a safe, secure and fit-for-purpose payment system, partly driven by changes in technology. It supports regulatory objectives and promotes flexibility, innovation and competition while increasing consumer protection and financial inclusion. Collaboration between different role-players in the payments ecosystem and technical skills and expertise are required.	Short, medium and long term	Page 29
The emergence of new payment models and types of currency	New payment models and disruptors from the fintech, platform payments and other ecosystems offer accelerated digital payments and innovations in eCommerce, contactless payments and alternatives to money itself. This can lead to regulatory changes and Central Banks developing their own Digital Currencies. In addition, PASA has to apply its operating model to different stakeholders and ensure payments are still made in an orderly and safe manner, offering legal certainty and maintaining interoperability.	Short and medium term	Page 28
Global harmonisation and regional integration	Increasing levels of global standardisation and the common need for anti-crime and anti-terrorism data, and the drive for regional integration of payment systems require resource investment and can require changes to systems and/or processes.	Medium term	Page 28
Cybercrime and fraud prevention	The prevention of cybercrime and fraud is paramount to ensuring the financial stability of South Africa and the safety and soundness of financial institutions and the payment system. In our technology-based ecosystem, cybercrime and fraud can reduce trust in the payment system, impacting financial stability.	Short and medium term	Page 55
Skills shortage and industry capacity	PASA requires specialist skills to successfully execute its strategy and projects, including IT skills relating to payment systems and legal and regulatory skills, all of which are in short supply. This industry-level shortage of skills is exacerbated by increased emigration.	Short, medium and long term	Page 34
Stability of the National Payment System	Many years of focus and effort across the industry have ensured that the stability of the National Payment System is well maintained. National Payment System stability continues to be a material matter given its importance to the economy. To that end, PASA requires a robust control environment (people, processes and systems) and a robust risk management process.	Short and medium term	Page 53

AN OVERVIEW OF 2021

MESSAGE FROM TIM MASELA, THE HEAD OF THE SARB NATIONAL PAYMENT SYSTEM DEPARTMENT

Industry cooperation and collaboration are key pillars that will facilitate the evolution of a world-class National Payment System.



Trends and forces shaping the future of the National Payment System

As the SARB, we strive to ensure that we adopt a regulatory framework that serves the current and anticipated future needs of the financial system. The payment industry therefore continues to pursue reform initiatives in the National Payment System, with many of these reforms aligning and supporting the achievement of public policy objectives that include financial inclusion, consumer protection and enabling a competitive, safe and efficient payment system.

A significant reform initiative embarked upon during the reporting period was the initiation of a collaborative and inclusive community engagement by the payment system stakeholders relating to the establishment of a Payment Industry Body (PIB) in which the SARB requested PASA to facilitate the engagements and design. We expect the outcome of this initiative to foster cooperation and collaboration that would foster appropriate responses to the rapidly evolving financial and payments landscape. The key purpose of the PIB will be to provide a structure that will afford our system achievement and maintenance of an interoperable middle-mile infrastructure through collaboration and cooperation among current participants and new entrants in the payments landscape. The structure will further provide

an inclusive body that will facilitate the collective efforts for the realisation of Vision 2025 and other public policy goals.

As it is recognised broadly, payment systems should address six main objectives of convenience, low cost, high speed (including the conclusion of payments in real-time), accessibility to consumers and the providers of the services, transparency on relevant aspects pertaining to payments and maintaining stakeholder trust in the system by ensuring security and reliability. We thus believe that if we focus on these aspects, we will achieve our key objectives that are aligned to the goals set in our Vision 2025.

In this regard, it is exciting to see newer entrants, such as digital start-ups, social media players and fintechs, building new payment solutions and introducing new business models that enhance value propositions. We also saw COVID-19 driving the increase in the adoption of digital payment offerings. In this changing landscape, cryptocurrencies, Central Bank Digital Currency (CBDC), mobile wallets, and social media solutions are being considered and, where appropriate, adopted across the globe. As the SARB, we welcome these developments. However, we ensure that we focus on enabling the leveraging of the benefits that they may bring while ensuring that risks that may also be introduced by such offerings are appropriately mitigated.

PASA has been a trusted payment system management body over 25 years. Looking forward, the role of PASA in the payment system modernisation initiative is fundamental to ensure that we keep up with the rapid pace of change in the world of payments.

Reflecting in the past years since the establishment of PASA, key milestones that have been achieved demonstrate PASA's commitment to creating a stable, safe and efficient payment system. These milestones include, among others, the implementation of real-time clearing (RTC) in 2006 – one of the earliest implementations of a real-time retail payment system in the world. Ensuring a sound legal basis for payment systems is paramount, and this we achieved in South Africa due largely to the industry collaboration spearheaded by PASA through the establishment of the various agreements and rules that govern the clearing environment. The value of the training interventions rolled out by PASA through its capacity building programme cannot be understated, particularly in developing specialist skills needed by the industry that are in short supply.

These contributions demonstrate why PASA has been a trusted payment system management body over 25 years, through organising, managing, and regulating the participation of its Members in the National Payment System in the interest of supporting a stable financial system.

Looking forward, the role of PASA in the payment system modernisation initiative is fundamental to ensure that we keep up with the rapid pace of change in the world of payments. Highlights for the year include the DebiCheck system that has been fully operationalised and achieving agreed milestones in respect of the collection of payment instructions for authenticated collections. PASA continues to make a crucial contribution to the Rapid Payments Programme, which will deliver a modern, effective, and efficient payments platform that caters for lower value transactions at an affordable cost for the benefit of all South Africans.

These achievements come when economic recovery is critical. Payments are the necessary enabler of this recovery, and PASA's significant contribution will remain invaluable going forward. While there are certainly things we can improve, we can be proud of what we have achieved as an industry. As the key enabler for the economy, the industry must remain committed to supporting the payment system evolution and collaborating to carve out the road ahead.



Tim Masela

Head of the SARB National Payment System Department

MESSAGE FROM THE COUNCIL CHAIR

PASA Council provided value-added oversight and governance during the year.



Reflecting on 2021

The National Payment System is undergoing significant change, driven by the need to modernise payment systems and manage the National Payment System in a more inclusive manner. There is growing consensus that the management of the National Payment System must be reviewed to ensure it is representative of all payment participants, including non-banks, who often contribute to modernisation with digital payments solutions. 2021 was a milestone year in this regard. Momentum was gained following the SARB's guidance and mandate to PASA to work with the payments industry and facilitate the design of a new payments industry management model, generally referred to as the PIB.

PASA Council is delighted with the progress made and commends PASA for the outstanding work it has done thus far in bringing the industry together and achieving early consensus on the structures, principles, and processes to be mobilised for the design of the PIB.

Notwithstanding the disruption caused by COVID-19, PASA remained agile and continued to leverage digital platforms to maintain high levels of industry collaboration, cooperation, and engagement. As a result, the organisation did not lose momentum, and good progress was made on key deliverables.

It was excellent to see the return of PASA's International Payments Conference, which was hosted virtually for the first time after being postponed in 2020 due to COVID-19-related restrictions.

Governing through a changing environment

As in previous years, PASA Council engaged with the executive team on PASA's Strategy and Organisational Scorecard. These engagements are valuable and provide structure for PASA Council's oversight and governance role, which is commented on below.

PASA's changing mandate and future sustainability

PASA is in a transition phase, and this creates uncertainty. In this regard PASA Council initiated and approved a number of interventions to ensure the wellbeing of PASA employees and that PASA remains a vibrant, healthy and productive organisation during this time of change.

Ensuring that PASA has the means to exercise its current mandate and deliver against Member expectations and that of the National Payment System

The work done by PASA Council, and its Committees ensured that PASA has both the people and financial means to run the business in an effective and professional manner. In addition, PASA Council's governance and oversight included the review, authorisation and approval of various policies, rules, mandates, committee constitutions, internal control and risk management practices.

Notwithstanding the impact of COVID-19, PASA responded to meet the needs of the Regulator and Members more broadly while not losing sight of its internal priorities. This demonstrates that there is a great team at the helm of the organisation. It also provides confidence that more will be done in the year ahead to future-proof the National Payment System, which is truly a national asset.

Progressing the modernisation of payment systems towards the achievement of the PASA Payments Plan and Vision 2025

PASA Council continued to monitor industry cooperation and collaboration as this is essential for projects to deliver the modernisation initiatives. PASA Council is delighted to report that with PASA's good project guidance, participation and facilitation, several initiatives were successfully progressed. These initiatives include the industry implementation of ground-breaking functionality for DebiCheck; the design and development of the Rapid Payments Programme, with BankservAfrica leading the initiative; and strengthening of the Debit Order Abuse Programme, thereby rebuilding the trust and integrity in the debit order system.

Committee changes and new appointments

PASA Council continued its focus on enhancing corporate governance during 2021. This included undertaking an internal evaluation of PASA Council, the Council Committees and Councillors. As an outcome of this evaluation, the Audit Committee was strengthened through the nomination of additional Councillors with the required skills and experience.

PASA Council appointed Herman Singh as an independent Councillor. PASA Council now comprises three independent Councillors.

Dirk Ehlers retired from PASA Council during the year. Dirk will be sorely missed and we wish to acknowledge the outstanding contribution he has made as a member of PASA Council since 2002. In his place, we welcome Matthew Coaker. Kenneth Matlhole and Boitumelo Legabe resigned from PASA Council during the year and we thank them for their contribution.

Looking ahead

Notwithstanding the impact of COVID-19, PASA responded to meet the needs of the Regulator and Members more broadly while not losing sight of its internal priorities. This demonstrates that there is a great team at the helm of the organisation. It also provides confidence that more will be done in the year ahead to future-proof the National Payment System, which is truly a national asset.

PASA Council will continue its governance and oversight of PASA to enable and support all initiatives that serve the interests of the payment industry and the South African economy.

Appreciation and thanks

On behalf of PASA Council, I extend my thanks and deep appreciation for the contributions of the executive management team and every PASA employee during this unprecedented period in the organisation's history.

I also wish to acknowledge PASA's Members and the SARB NPSD for their continued support, engagement, and guidance. Throughout this integrated report, we reflect on the work PASA, its Members and the Regulators are performing to benefit the interoperable National Payment System. Thank you also to all of PASA's stakeholders for your willingness to engage and collaborate for the benefit of the industry.

Finally, I thank my fellow Councillors for their wisdom, guidance, and ongoing commitment to PASA.



Sydney Gericke
Independent Chair

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

In the face of a tough year, I am proud of the work done by PASA to ensure the ongoing safety and security of the National Payment System while also advancing payment system modernisation.



COVID-19 continued to test our resilience, both as individuals and as an organisation. Many of us experienced personal loss, and we saw the pandemic's devastating social and economic impacts. Despite these challenges, I was inspired by how PASA responded. Similarly, other industry players demonstrated resolve and willingness to engage around topics of national importance for the benefit of South Africa's payments system.

Some of the meaningful milestones achieved in 2021 include:

- The SARB's announcement of the need for a new PIB and their trust in PASA to facilitate this process (page 36)
- Successfully meeting the DebiCheck deadlines, despite facing challenges across the broader payment community (page 32)
- Continued work to curtail debit order abuse, which is estimated to have prevented almost R10 billion in rogue debit orders as at the end of 2021 (page 31)
- Fostering great industry collaboration to ready the Rapid Payments Programme for launch in 2022 (page 33)
- The ongoing, strong and enduring relationships that PASA enjoys and nurtures with Members, regulators and other stakeholders (page 23)
- Moving two training courses online and hosting the first virtual PASA International Payments Conference (page 34)

PASA remains focused on evolving as an organisation to deliver a modern, safe, efficient, inclusive and interoperable payment system that meets the needs of all South Africans. Our short-term focus areas again guided our activities during the year: fulfilling PASA's mandate and safeguarding its sustainability; driving payment system modernisation; and running an effective organisation that delivers good performance and manages risk.

Fulfilling PASA's mandate and safeguarding its sustainability

PASA is part of a community that plays a critical role in the South African economy. As an organisation, we need to ensure that our stakeholders understand and continue to experience the value PASA adds to the National Payment System.

We undertook specific initiatives to strengthen our market positioning and our approach to stakeholder management and engagement during the year. These initiatives are discussed in more detail on page 23 and included reviewing our communication mandate to articulate our value proposition better.

As an outcome of the actions taken, PASA is enjoying strong relationships with stakeholders and a significant level of trust in working together on critical objectives. This was demonstrated by the tremendous progress achieved on the PIB, which relied on input and consensus from a broad and inclusive body of stakeholders.

In the year ahead, PASA will embark on a project to further enhance its legal and rules framework, which we see as critical to upholding PASA's mandate. The project will include reviewing and updating the PCH Rules to align with current legislation and with legal and fairness principles while ensuring consistency across all rules sets. This is discussed in more detail on page 26.

Driving payment system modernisation

Great progress was made to maintain the momentum behind South Africa's payment modernisation programme.

Despite experiencing some expected teething problems, DebiCheck was fully operationalised during the year and demonstrated excellent technical stability. As of 31 October 2021, 22 million mandates had been migrated to the DebiCheck mandate database. We also saw strong December volumes, with 14,7 million collections processed through the DebiCheck system.

PASA continues to work hard to address debit order abuse, now focusing on better managing abuse by payers and introducing a fair and equitable balance between collectors and payers.

Underpinned by the design phase and obtaining industry buy-in and approval, the Rapid Payments Programme entered the build phase in 2021. It should be launched in 2022 and will play a significant role in modernising South Africa's payments ecosystem and making it future-ready. This project is the culmination of many years of work and demonstrates what we can achieve through collaboration and cooperation.

The modernisation of high-value payments was challenging this year, requiring robust engagement between PASA, our Members and the SARB. However, we are on track to meet the 2022 implementation date. This is an essential body of work that will support alignment to international standards and practices.

Excitingly, we published a South African QR code standard during the year. We also embarked on a project to implement a modernised fleet solution in the National Payment System. This was an important step to mitigate fraud and ensure that fleet businesses and fuel retailers benefit from improved security and enhanced interoperability for acceptance at merchants.

These major initiatives lay the groundwork for a modernised National Payment System built on an agile architecture, ensuring safety and robustness and encouraging innovation and access.

As an organisation and industry, we are challenged by skills shortages that are exacerbated by increased emigration. However, modernisation provides us with an excellent opportunity to develop new skills and evolve our training and development approach. This will be an important focus for PASA going forward.

Running an effective organisation that delivers good performance and manages risk

PASA is funded by its Members and must demonstrate that their contributions are spent responsibly. We similarly need to ensure that our people are capacitated to build the future PIB and National Payment System.

We put considerable effort into ensuring a culture of control and discipline throughout PASA. This included looking for opportunities to enhance our management of internal functions and ensuring adequate management of risk. We are also developing an IT roadmap to support process optimisation and automation. This will be a multi-year journey that will require careful management of our resources and capacity. However, we believe it is

critical to ensure PASA remains agile enough to respond to changing market conditions and for the PIB to be able to serve a larger body of members.

PASA also finalised its compliance universe and invested significant resources to ensure we meet the requirements of the Protection of Personal Information Act (POPIA). These are important pieces of work and will remain a focus for 2022.

PASA is developing an employee engagement plan to build capacity, morale, and support excellence. This plan is based on adequate recognition, training, fair and supportive leadership, providing sufficient opportunities for employees to connect with one another, and providing transparent feedback and communication.

Looking forward

As South Africa exits the pandemic and embarks on its economic recovery journey over the next few years, it will require a modernised National Payment System that is resilient against threats and supportive of future innovations.

Stakeholder engagement remains critical, and PASA will continue to prioritise open and transparent engagement as a key mechanism to take the industry and the payments system forward.

We have seen incredible sharing of insights and expertise through the PIB design process and look forward to moving ahead with an approved PIB structure underpinned by strong governance. We expect that this will be supported by greater regulatory certainty around the payments industry and changes to the National Payment System Act.

We are excited about the launch of the Rapid Payments Programme and working with the industry to ensure this important initiative gains traction among South Africans. Other modernisation initiatives, such as maturing the DebiCheck system and overseeing the modernisation of high-value payments, will receive ongoing focus.

As we move into the year ahead, we will build on PASA's 25-year history as a public good organisation committed to providing South Africans with a safe, secure, and operationally sound payments system that promotes the economic good of the country.

Appreciation and thanks

The SARB is an integral part of our ability to deliver on our mandate. We are thankful for their guidance and support and their trust in us to facilitate the PIB design.

As a forum where various parties work collaboratively together, we acknowledge the outstanding support of our Members and the capacity that they dedicate to the National Payment System. We also acknowledge the broader payments community and thank them for their willingness and open engagement.

We are most grateful to PASA Council for providing strong governance and exceptional support to the PASA management team.

Finally, we recognise the efforts of our people, who continue to deliver resilience and excellence in the face of ongoing uncertainty.



Ghita Erling
Chief Executive Officer

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

PASA aims to support and act in the best interests of the National Payment System and its Members. PASA must therefore allocate its financial capital responsibly, effectively and for the good of the payments system and the Members of PASA.



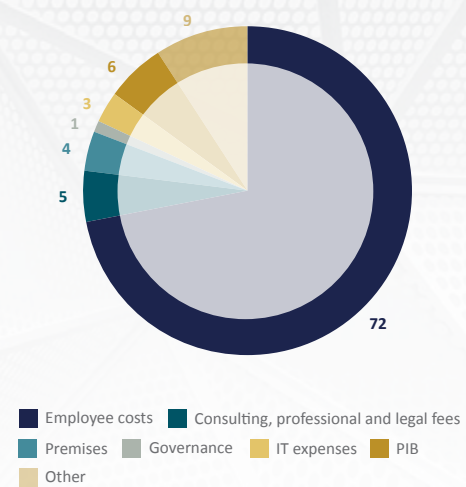
Financial overview

PASA had a prudent 2021 Budget while actively continuing with critical programs. This assisted our Members in mitigating the added financial strain that the COVID-19 pandemic placed on their operations. To achieve this, PASA utilised accumulated reserves to reduce the funding due from Members, resulting in a budgeted deficit for 2021.

During the year, PASA commenced the facilitation of the design of a new Payment Industry Body (PIB). A consulting house has been engaged as an external consultant to manage the process. PIB costs have been ring-fenced and offset some underspend. Due to the importance, size, and scale of the PIB project, certain other projects were reprioritised or delayed ensuring sufficient capacity to support the roll-out of this critical industry project. PASA has also had substantial underspending on IT expenses as expenditure was delayed pending the outcome of an enterprise architecture redesign that will be initiated in 2022. Additional underspend was achieved due to the impact of the COVID-19 pandemic on business travel, entertainment as well as fewer in-person seminars and training being conducted.

The pie chart illustrates the percentage that each main category of expenses makes up of the total actual expenditure of R104,9 million for the year.

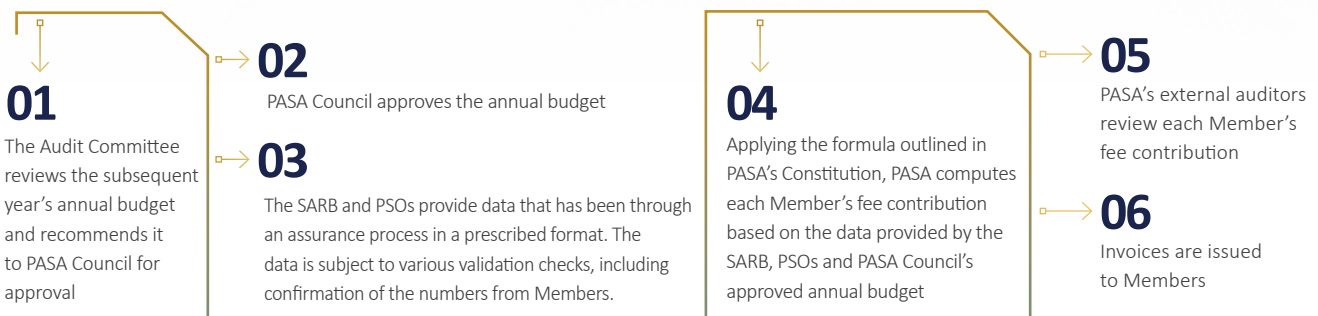
PASA's 2021 expenses (%)



Calculating Member contributions

PASA is a non-profit organisation that is fully funded by its Members. To determine Member contributions which are charged as annual membership subscriptions, PASA determines its budgeted operating expenses for the year ahead.

A formula is applied to the annual budgeted operating expenses to calculate each Member's fee contribution taking into account a portion shared equally among Members and a variable portion based on each Member's volumes and values throughput in the payments system. The formula is outlined in PASA's Constitution. To ensure good governance, PASA follows the below governance process:



Annual membership contributions and growth

The graph below reflects the growth in membership funding and annual expenses since 2020, including PASA’s budgeted membership funding for 2022. In addition to PASA’s need to scale up its capabilities via an increased budget, the growth in membership funding in 2022 is due to PASA utilising surpluses from prior years to minimise Members’ funding requirements. In 2021, the budget was more accurately executed such that there are minimal prior year surpluses available use to reduce membership funding in 2022. PASA therefore requires that the 2022 annual budget be almost fully funded by Members.

PASA’s 2022 budget continues to accommodate the following important requirements from Members:

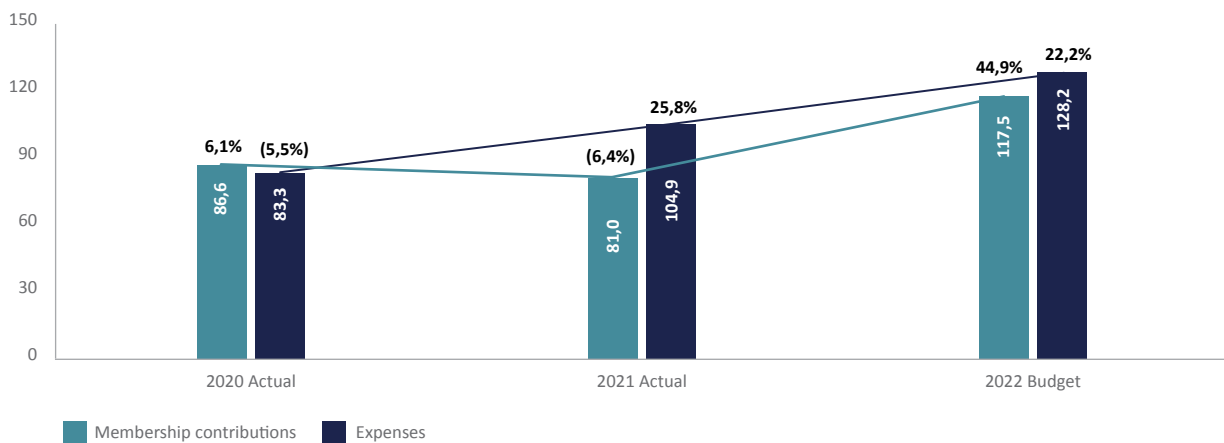
- New and maturing capabilities to support complex functions within the industry, such as the Debit Order Abuse Project, the

implementation of Authenticated Collections, and many other important programmes.

- The necessary professionalisation of the organisation as it has grown in size and complexity, including developing finance, risk, legal and project management skills.
- The need to invest in IT capabilities to reduce risk and support automation and efficiencies.
- Consultancy fees to accelerate and support critically important strategic initiatives.

PASA is mindful of the difficult economic circumstances, and the constant need to ensure that PASA delivers value to its Members. PASA is also cognisant of the impending changes across the payments environment and the need to ensure stability for the National Payment System, its participants, and users.

Annual membership contributions and expenses (R’m)



Looking forward

PASA prioritises employing the right people and implementing the right processes and systems to support the National Payment System and create value for the industry.

Looking forward to the 2022 financial year, budgeted operating expenses will grow from R104,9 million spent in 2021 to a budgeted R128,2 million in 2022. This is an increase of 22%. PASA undertook extensive engagement with its Members during the year to ensure their continued support in 2022.

This increase is due to an industry-wide recognition that PASA must continue to evolve to be acknowledged as world-class in facilitating the evolution and oversight of the payments industry. This includes investing in projects to modernise the National Payment System. Accordingly, our 2022 budget for strategic initiatives more than doubled to approximately R16,5 million.

PASA has further invested in strengthening its Human Resources, IT and governance processes. This includes, among others, investing in cyber security and fraud prevention, supporting our employees in response to new ways of work and continuing to strengthen our internal controls.

Employee costs will continue to form the bulk of our expenses as our people are a critical resource with a pivotal role to play in taking PASA and the payments industry forward.

This capital investment is necessary to keep improving our core capabilities. The investment is also needed to ensure that PASA remains stable, value adding and agile as the organisation continues to organise, manage and regulate its Members participation in payment systems in the interest of South Africa’s economic development.

Appreciation and thanks

Much appreciation to PASA Council, the Council Committees, and to PASA’s Chair, Sydney Gericke, for their support, guidance, and knowledge sharing. Thank you to PASA’s CEO, Ghita Erling who has done and continues to do a phenomenal job steering the ship through ever-changing waters by promoting teamwork and efficient processes. Lastly, PASA’s solid performance is a function of all employees and the strong partnership with each of our Members. Thank you to each employee and Member for your passion, hard work and resilience this year.

Cosmore Pariola
Chief Financial Officer

HOW PASA CREATES VALUE

HOW PASA'S STRATEGY SUPPORTS VALUE CREATION

To ensure PASA remains a valuable and a key role player in the National Payment System, the organisation pursues an internal strategy and an industry-led strategy. The graphic below illustrates how PASA's strategic approach creates value for its Members and broader stakeholders while contributing to Vision 2025.

To inform its internal strategy, PASA undertook a process in early 2021 to ensure that the organisation has a clear vision of what it wants to achieve and the role it wants to play in the National Payments System.

As an outcome of this process, PASA identified six aspirational future-focused statements that demonstrate its idealised or target state. These statements reiterate PASA's commitment to a modern, safe, efficient, inclusive, and interoperable payment system that meets the needs of all South Africans.

PASA's idealised or target state	The go-to trusted thought leader for payments domestically and internationally.
	An inclusive, Member-driven payments organisation – the need for PASA's existence is unquestioned and funding the organisation is an easy decision.
	Stakeholders experience PASA as a force for good. The organisation sets clear direction, creates capacity and drives policy objectives for the payments industry.
	PASA's people are desired worldwide, and the best want to work for PASA – the organisation grows careers in a happy culture.
	Innovation is driven through creative collaboration and partnerships – PASA builds consensus and mobilises a broad range of stakeholders.
	Support and promote modern, safe, and efficient payment systems, which enable economic growth and meaningful financial inclusion in South Africa.

While the realisation of these aspirational statements will be a multi-year journey, they enabled PASA to develop a clear and detailed roadmap to realise its vision.

PASA split its 2021 scorecard into three focus areas to deliver on its aspirational statements. Each category is supported by a set of initiatives to guide strategy execution and ensure the organisation stays relevant while pursuing innovation that supports its Members goals and objectives.

Strategy execution is measured through a balanced scorecard, and performance is assessed against weighted key performance indicators (KPIs). These KPIs are continually reviewed to improve how the organisation measures its success and ensure that this approach supports its vision.

Fulfilling PASA’s mandate and safeguarding its sustainability	Driving payments system modernisation	Ensure and run an effective organisation
<p>This category focuses on;</p> <ul style="list-style-type: none"> □ Stakeholder management (page 23) □ Strengthening PASA’s profile and positioning the organisation as a thought leader (page 23) □ Agreeing an ideal future payments management model for the National Payment System (page 36) □ Facilitating the design of a new PIB between banks and non-banks (page 37) 	<p>This category focuses on:</p> <ul style="list-style-type: none"> □ Delivering an integrated modernisation roadmap, with specific initiatives linked to electronic low-value transactions (such as DebiCheck and the Rapid Payments Programme) (page 32), high-value transactions (such as SAMOS enhancements) (page 34), government-to-person payments, and card (such as QR standardisation) (page 29). 	<p>This category focuses on:</p> <ul style="list-style-type: none"> □ PASA’s internal priorities such as, financial management (page 16), organisational health (below), risk management and internal compliance capability (below), strategy deployment, payments system operational health and capacity building (below).

PASA Council’s 2021 focus areas

Each year, PASA Council selects focus areas that receive specific attention. PASA Council regularly and critically considers PASA performance against the objectives and KPIs identified. PASA Council’s 2021 focus areas are unpacked below:

<ul style="list-style-type: none"> □ Stakeholder management PASA has put considerable effort into formalising and strengthening stakeholder engagement during 2021. The progress made on the PIB (page 36) demonstrates the working relationships across a very broad range of stakeholders. □ Strengthening PASA’s profile and positioning the organisation as a thought leader Increased focus on PASA’s public image was demonstrated by three thought leadership articles, five live media interviews and 10 conference appearances during 2021. □ Agreeing an ideal future payments management model for the National Payment System The need for a PBI was agreed with the SARB and the broader community in June 2021. Page 36 provides more detail of the progress on this initiative. 	<ul style="list-style-type: none"> □ Integrated modernisation roadmap With the recent implementation of DebiCheck, PASA’s first ISO 20022 system, the core elements of a modernised debits system have become clearer. □ DebiCheck The integrated target state of DebiCheck, Registered Mandate Solution and the incumbent Electronic Funds Transfer debit systems as a modern debit eco-system has been clarified in more detail and are discussed on page 32. □ The Rapid Payments Programme While the Rapid Payments Programme fulfils a large part of the target state in credits, further work needs to be done to describe the future modernisation landscape in credits fully. This would include a future perspective on batch payment services and the various areas where payment services converge. This is discussed in more detail on page 33. 	<ul style="list-style-type: none"> □ Financial management PASA’s strategic direction and approach was approved and presented to PASA Council before the budget process commenced. Strategy initiatives have been included in the 2022 budget. PASA made investments in key resources including the appointment of the CFO, HR Manager and a Standard SME: Operations Officer. PASA’s Member invoicing process has been redesigned and is now in implementation. □ Organisational health PASA developed and implemented risk mitigation measures for succession and key man risks. A comprehensive talent review was completed. Market-related benchmarking and remuneration changes were approved and implemented. A climate survey was conducted, and wellness and resilience interventions were approved and are being implemented. A middle management committee (Manco) was established to devolve accountability to the next tier. Culture change is being driven at CEO-level. Regular change communications are being rolled out and are intended to drive cultural change. □ Effective risk management and internal compliance capability Risk appetite and tolerance limits were implemented for PASA as a PSMB, risk policies and frameworks were reviewed, and ongoing training and guidance was provided. PASA documented its legal entity regulatory universe and compliance plan. □ Payments system operational health PASA has restructured its Council reporting to give a holistic view across the health of payment systems, as opposed to a functional view of PASA’s activities. The payment stream approach has also been carried through into this integrated report.
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Governance in action in 2021

PASA undertakes an annual strategy session with PASA Council to ensure proper governance and oversight. At this session, PASA Council assesses the proposed scorecard and determines if any changes are required based on the needs of PASA's Members, the regulator, and/or to better meet the broad goals identified in Vision 2025. PASA Council also considers the capacity of the organisation and the industry to execute strategic initiatives, understanding that certain trade-offs may be required.










In 2021, several factors impacted strategy execution and required the organisation to reroute capacity and resources. For example, the SARB's request that PASA facilitate the design of the PIB required agility and an internal reprioritisation of project focus and supporting roles. The ongoing impact of COVID-19 also continued to strain Members as well as their financial and human capital. As a result, resources needed to be deployed to support existing projects, limiting Members' appetite for new strategic initiatives.

As part of the annual strategy session, these factors were discussed with PASA Council, resulting in several strategic initiatives being delayed or deprioritised for 2021. This decision was taken to ensure that the organisation focuses its capacity and resources on critical projects that support the modernisation of the National Payment System and the requirements of the regulator. These priority projects included DebiCheck (page 31), the Rapid Payments Programme (page 33), the Modernisation Of High Value Payments and the SAMOS Version 8 upgrade (page 34) and the facilitation of the design for a new PIB (page 36).



PASA is further mandated to respond to Vision 2025 and support the relevance and modernisation of the National Payment System. This includes responding to the changing payments landscape. PASA has therefore initiated several strategic projects on behalf of its Members to build a world-class National Payment System.

The following shows how some of PASA's key strategic initiatives support Vision 2025 and the modernisation of the National Payment System in response to emerging technology trends (page 28):

		Vision 2025 goals								
		Promoting competition and innovation	Promoting financial inclusion	Regional integration	Transparency and public accountability	Cost-effectiveness	Interoperability	A clear and transparent regulatory framework	Financial stability and security	Flexibility and adaptability
										
Initiatives in progress	Facilitate the design of the PIB with banks and non-banks through a collaborative, consultative process (page 36)	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Establish a shared understanding on required payments modernisation through an integrated modernisation framework (page 29)	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	Stabilise, operationalise and where required, further enhance the Authenticated collections system (DebiCheck) (page 32)	<input type="checkbox"/>	<input type="checkbox"/>				<input type="checkbox"/>		<input type="checkbox"/>	
	Implement the Rapid Payments Programme to facilitate easy everyday payments for all South Africans (page 33)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	Drive the Modernisation Of High Value Payments and support the SARB's SAMOS Version 8 upgrade (page 34)	<input type="checkbox"/>		<input type="checkbox"/>			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
	Contribute to modernised payments initiation methods through QR code standardisation and interoperability (page 29)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
	Contribute to a safer card ecosystem through the implementation of a modernised fleet card solution (page 30)	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Project completed in 2021	Safely and responsibly retire Cheques as a legacy payment system (page 27)					<input type="checkbox"/>			<input type="checkbox"/>	
	Reduce Debit Order Abuse substantially through a number of measures designed to exit rogue and irresponsible usage of Debit Order systems (page 31)					<input type="checkbox"/>			<input type="checkbox"/>	

PASA'S VALUE CREATION MODEL

PASA collaborates with a broad group of stakeholders and considers the value PASA adds beyond ensuring that its financial resources are utilised to good effect. The below provides a holistic view of PASA's value creation process, across the six capitals, through PASA's activities and its business model.



HOW PASA ADDS VALUE TO KEY STAKEHOLDER GROUPS

PASA's commitment to collaboration and stakeholder engagement is inherent in the organisation and its key role as a PSMB. PASA works hard to foster and retain high-quality relationships with its stakeholders.

How PASA engages with its stakeholders

PASA engages with its stakeholders through a variety of different mechanisms. These mechanisms include, among others, operational, strategy and project committee meetings; direct, indirect, and ad hoc engagements; formal and informal; as well as participation in and collaboration with stakeholders through industry-wide projects. The Changing Payments Landscape chapter provides more information about the specific committees PASA engaged with during the year (page 28).

Changes to PASA's stakeholder management approach in 2021

Understanding PASA's stakeholders' views and interests is an essential contributor to how successfully the organisation can execute its function within the National Payment System.

PASA increased its communication activities with more media activity and improved internal communications during the year. The goal was to increase visibility, enhance PASA's credibility and position PASA as an industry thought leader by effectively communicating its role and purpose to a broader audience.

PASA also took steps to strengthen its internal mandate for external communication. The broadened mandate increases the opportunities for PASA management to be positioned as industry experts, but within strong controls.

PASA's investment in strengthening its stakeholder engagement further improved its already-strong relationships with key stakeholders, driving a significant level of trust in working together on common objectives.

PASA's stakeholders

Members

Material concerns and expectations

- Ongoing management of the National Payment Systems, compliance with rules and management of risk
- Ensure the National Payment System remains fit for purpose by prioritising the appropriate modernisation projects
- Provide adequate administrative and governance processes for Member structures
- Ensure regulatory support and alignment
- Debit order abuse prevention and balancing the rights of payers and collectors
- Support and enable product enhancements and broader innovation
- Creating a platform for financial service providers to compete on an equal basis
- Value for money from their funding contributions

PASA's response and value-adding role

- Effectively create platforms for Members to manage payment systems. Ensure these Member activities are effectively administrated, accurately minuted and conducted in line with sound legal and regulatory frameworks
- Regulate relations and ensure collaboration between Members on payments matters
- Ensure interoperability of payment systems between Members
- Drive new projects on behalf of Members
- Be a catalyst for payments modernisation in the industry
- Manage risk effectively to ensure a safe and sound National Payment System
- Support Members with consumer awareness on payments
- Support capacity building in payments through PASA's training programmes
- Support Members with denying criminals access to the debit order collection systems

Payment participants who are not Members

Material concerns and expectations

- Payment system modernisation and promoting inclusion among payment system participants by strengthening collaboration within the payment system
- Impact of PASA rules on their commercial activities. Visibility and input into PASA changes which could impact their businesses
- Ongoing training and development opportunities to improve capacity
- Be a key enabler for broader payment system access, competition and innovation

PASA's response and value-adding role

- Be proactive in stakeholder management, awareness and communication
- Provide a consultative platform to ensure all perspectives and views are understood and considered in National Payment System-related matters
- Engage a broader stakeholder community in new payments developments
- Support non-bank payments participants with consumer education and awareness on payments
- Support non-bank payment participants' capacity building in payments through PASA's training programmes

Payment Clearing House System Operators

Material concerns and expectations

- Certainty about their ability to operate and manage their systems and products
- Engage and maintain close working relationships among industry players
- Oversight of risk management and assistance with incident management
- Maintain stability and ensure the efficiency, effectiveness and interoperability of the National Payment System

PASA's response and value-adding role

- Collaboratively define target states and transition paths for payment systems
- Align on payment system risk and ensure that appropriate risk mitigation measures are identified and implemented
- Coordinate incident and crisis alleviation activities
- Guide required service level agreements and PCH objectives to operate a payment system effectively

Regulators

Material concerns and expectations

- Maintain stability and ensure the efficiency, effectiveness and interoperability of the National Payment System
- Facilitate the achievement of the goals and objectives articulated in Vision 2025
- Ensure risk mitigation and a competitive environment
- Support public policy objectives and the rollout of payments modernisation

PASA's response and value-adding role

The SARB

- Support the SARB with the execution of the Payments Policy
- Alignment of payments initiatives to the SARB Vision 2025 goals
- Provide input to the SARB in support of policy formulation
- Drive initiatives that will support interoperability and ensure a safe and sound National Payment System
- Support consumer awareness on payments and contribute to the national knowledge base in payments through PASA's training programmes
- Align industry strategy with Vision 2025
- Ensure adherence of PASA Members to PASA rules

Other regulators with payments-related-jurisdiction

- Provide regulators with a valuable platform to promote their policy goals and objectives
- Act as a single point of contact to a vital industry base to solicit policy input and to drive policy objectives and initiatives
- Provide payments training where required
- Manage regulatory-driven projects with payments impact where required

Bank and non-bank industry bodies

Material concerns and expectations

- Commercial concerns around microlending, insurance, debt collection, contract collection and the commercial viability of debit order rules
- Promoting inclusion among payment system participants by strengthening collaboration within the payment system

PASA's response and value-adding role

- Provide a platform to ensure all perspectives and views are understood and considered in National Payment System-related matters
- Engage a broader stakeholder community in new payments developments
- Support providers of payment services with consumer education and awareness on payments
- Support non-bank payment participants' capacity building in payments through PASA's training

Consumers

Material concerns and expectations

- Enhancing consumer protection
- Ensuring fraud mitigation
- Access to a stable, cost-effective and transparent payment system
- Financial inclusion and access

PASA's response and value-adding role

- Ensure safe and sound payment systems
- Awareness on specific payment matters
- Ensure that the rights of consumers are balanced with those of other users of payment systems

International industry bodies

Material concerns and expectations

- Alignment with global industry standards to ensure regional and global integration of payment systems
- Engagement and collaboration with regional and global industry players
- Sharing of knowledge and best practice

PASA's response and value-adding role

- Contribute to knowledge sharing among the international payments community
- Gaining insights from other jurisdictions to share with local stakeholders

Government and their agencies

Material concerns and expectations

- Support economic development through a stable, secure and efficient National Payment System
- Support public policy objectives and the rollout of payments modernisation
- Support engagement between government and the financial services industry

PASA's response and value-adding role

- Support government-to-person payment needs
- Mobilise industry support for government needs

Employees

Material concerns and expectations

- Being an employer of choice
- Access to training and tools necessary to excel at their jobs
- Transparency and communication across all levels of the organisation
- Managing the impact of COVID-19 on the working environment, including planning a viable return-to-work/hybrid working model
- Recognition and appreciation
- Managing any uncertainty about job security due to the PIB project
- Recognising the importance of employee wellness

PASA's response and value-adding role

- Part of a unique collection of payments experts in relevant payment areas
- Tapped into and part of a strong and vibrant national and global network of payments professionals
- Opportunity to participate, share and gain insight in global seminars
- Development of payments technical and specialist skills in alignment with organisational requirements
- Increasing focus on new ways of work and employee wellness
- High levels of transparency and communication of PIB and other developments

THE WORLD PASA OPERATES IN

Over the past two and a half decades, PASA has been actively involved in managing the national payments landscape. The industry currently finds itself in a critical transition phase. Some payment systems, such as cheques, are retired and some innovative payment systems are on the horizon, such as the Rapid Payments Programme.

The current payments landscape

Well-established payment systems like card, electronic low-value and high-value systems remain stable and secure. They play a key role in helping consumers, businesses and corporates participate in secure and safe payments, thereby supporting trade and commerce in the economy.

However, while most South Africans have access to a bank account, many rely on cash as the primary tool to transact. We saw this trend continue in 2021, with automated teller machines (ATMs) and cash back at point of sale remaining important cash distribution channels for many consumers, specifically grant recipients, who still depend on cash to buy goods and services. As a result, cash as a payment mechanism continued to grow in the past year.

Cash continues to dominate the informal economy. However, it has been well documented that the continuous use of cash causes material costs to society, ranging from lost tax revenues and direct cash handling costs to being a major obstacle to fostering financial inclusion.¹ There is therefore a need for digital alternatives to cash and to encourage the use of digital payment to achieve more inclusive and sustainable economic growth.

Payments generally, and consumer behaviour specifically, were greatly influenced by the COVID-19 pandemic. This is visible in the growth of contactless payments through Quick Response (QR) codes and Tap and Go (contactless) functionality.

The number of smartphones in South Africa is roughly equal to the number of citizens. However, only two-thirds of South Africans own a smartphone.² As a result, more people are interacting through smart devices. The growing use of smart devices and app technology has opened new opportunities in finance and payments. It has also allowed more non-bank providers to enter the financial technology space.

POPIA required PASA to re-evaluate industry practices, as well as the security of Member data held in PASA systems. For example, consumers may receive a payment from an unknown source. To resolve this, financial institutions would share personal information to help clients determine the source of the payment. As POPIA requires consent for sharing personal information, it can delay identifying payments and negatively impact the delivery of goods and services. PASA and its Members acknowledge that there are scenarios where it is in the interest of consumers and clients to share information without consent. PASA is currently describing those scenarios and articulating guidelines around information sharing. Further, PASA collates data to assist its Members to prevent rogue debit order collectors' access to collection systems. This data must be adequately protected.

PASA has also embarked on a project to develop and implement a sound legal framework within the organisation. The project will involve a review of all clearing and settlement rules to ensure alignment with current legislation, such as POPIA, as well as with legal principles to address matters such as a duty of care and a fair and equitable balance between users and payers in collections PCHs.

The review will include alignment and consistency between rule sets with regards to structure and content. This is aimed at promoting legal certainty in the application of rules. The review of rules is currently a key responsibility of the respective PCH PGs and the Legal Committee. A project was accordingly registered to manage and drive these outcomes. One of the benefits of the project would be to make certain rules publicly available to further promote transparency and efficiency within PASA.

The 2021 landscape characteristics of individual payment systems

Card

Mitigating card fraud remains an ongoing priority for the card industry, with card-not-present fraud related to e-commerce transactions receiving greater focus in 2021. An industry milestone in 2021 was deploying 3D Secure 2.0. This authentication mechanism is the latest version of the traditional 3D Secure system, which provides consumers with a One Time PIN (OTP) to authenticate a transaction. The benefit of 3D Secure 2.0 is for paying or issuing banks to make better-informed risk decisions about whether to approve or decline a transaction, therefore reducing the need to request an OTP for every transaction. This is possible by offering the banks more data points to decide about the transaction's risk profile.

Electronic (Low Value)

Electronic (Low Value) payments were minimally impacted by COVID-19 and the reduced economic activity, with most payment systems growing slightly in 2020 and continuing this growth trajectory in 2021.

Electronic Funds Transfer (EFT) Credit remained a reliable and cost-effective payments method, and transaction volumes increased by 19%. Despite the growing unemployment levels, salary payment volumes increased marginally partly due to higher volumes of part-time and casual salary payments. In addition, growing digital payment demand

¹ The future of payments in South Africa, Enabling financial inclusion in a converging world, Deloitte, September 2019.

² FinScope South Africa, 2019.

and the special COVID-19 Social Relief of Distress Grant led to an increase in EFT Credit volumes.

Real Time Clearing (RTC) volumes increased by 66% due to the increased demand for lower-value smaller transactions cleared in real-time. To this point, the proportion of below R3 000 transactions on RTC has increased from around 60% in 2018 to over 80% in 2021. This indicates the true potential for real time retail payment systems like RTC to facilitate everyday payments. The RTC system predates the introduction of ISO 20022 and the industry now focuses on the Rapid Payments Programme, which is an ISO 20022-based real time retail payment system. ISO 2022 provides richer data, which means fewer errors, better payment experience, and less manual intervention. The new system and richer data provide an additional layer of functionalities, increased certainty, and better fraud prevention measures (page 55).

Early Debit Order¹ (EDO) window transactions, previously via Non-Authenticated Early Debit Orders (NAEDO) and Authenticated Early Debit Order (AEDO) were migrated fully to DebiCheck and, in some instances, EFT by 31 October 2021. This is due to PASA meeting the requirements of the SARB Directive to adopt DebiCheck (page 32) as a replacement for NAEDO and AEDO.

EFT Debit (debit order) transaction volumes increased by 5%. PASA's statistics suggest that the migration to DebiCheck resulted in some debit orders previously collected in the EDO window moving into the normal EFT Debit collection system.

Cash remains a popular payment mechanism. The number of ATM transactions showed an increase of 3%. Total transactional values increased by 2% in 2021.²

As of 31 December 2020, cheques are no longer a supported payment system.

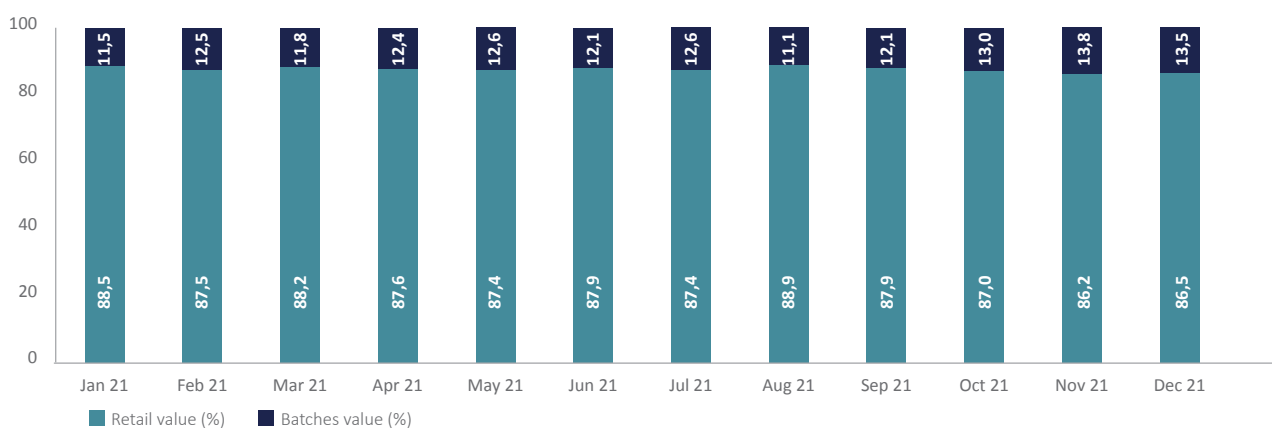
	RTC		EFT Credit		EFT Debit		NAEDO		AEDO	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Three-year growth/ (decline)	62%	33%	13%	5%	(4%)	3%	(22%)	(17%)	(16%)	(18%)
Year-on-year (2020/2021) growth/ (decline)	66%	40%	19%	13%	5%	14%	(44%)	(43%)	(41%)	(46%)

Electronic (High Value)

All transactions of a value greater than R5 million must be processed through the real-time gross settlement system, SAMOS, which is run by the SARB. This high-value payment system facilitates large transactions as well as specialised transactions such as bond, money market, and equities trading. It also facilitates the settlement of low-value batch payment systems. Given the high-risk nature and size of these transactions, high-value transactions follow the 90:10 principle³ for payment settlement.

As digital financial inclusion deepens, the demand for and use of electronic retail payment systems has increased. As a result, the share of batch settlement to real-time settlement has increased over time. In late 2020 and over 2021, the ratio of batch to real-time settlement breached the 90:10 principle. Accordingly, SAMOS is leading an investigation into the breach in the 90:10 principle. PASA will continue to support SAMOS on this initiative.

The graph below depicts the value of high-value payments relative to retail payments in South Africa in 2021:



¹ Early Debit Orders are debit orders collected in the Early Debit Window, which is the processing window immediately after credits (typically salaries) has been processed.

² ATM transactions represent only BankservAfrica's data.

³ The 90:10 principle requires 90% by value of all transactions processed through the payment system space to be settled immediately.

THE CHANGING PAYMENTS LANDSCAPE

EMERGING TECHNOLOGY TRENDS

The world of payments is rapidly evolving, and COVID-19 accelerated that leap. Several emerging technology trends are driving significant changes in payments.

Emerging technology trends

Digital Identity refers to a set of electronically captured and stored attributes and credentials that can uniquely identify a person. It also features identity attributes for unlocking access to banking, government benefits, health, education, and other critical services. Digital Identity creates opportunities to drive financial inclusion and give the unbanked access to financial products and services.

CBDC is an electronic form of central bank money that individuals can use to make digital payments and store value. CBDCs are receiving more attention globally. In 2020, fewer than 40 central banks were exploring retail or wholesale CBDC. This number has increased to 87 countries.¹

The proliferation of smartphones and applications has driven the popularity of **Open Banking** and **Application Programme Interfaces (APIs)**. The new technologies make the exchange of financial information easier, which in turn promotes competition. However, Open Banking can also give rise to privacy concerns and the potential risk of data misuse.

As the world operates on an increasingly global level, inconsistent payment standards prohibit cross-border and other interoperability. This gave rise to a universally accepted approach to creating financial message standards known as **ISO 20022**. Upgrading to this standard makes it easier to integrate into digital global payments ecosystems.

Faster or real-time payments require the fundamental rebuilding of traditional payments systems to maintain relevance. Coupled with this is the growing trend to make payment easier using an alias (or proxy) like a national ID or mobile number in the place of the receiving bank account details.

How the industry is responding

BankservAfrica initiated a multi-industry-endorsed initiative to define South Africa's Digital Identity Journey. The collective inputs of the payments industry, together with other industries, were collated into a report that outlines what is needed to deliver the benefits of Digital Identity to South Africa. Importantly, the report emphasises the need for broad collaboration across industries and between the public and private sectors. The work being done on South Africa's Digital Identity Journey is ongoing, with the full support of PASA.

The SARB launched two CBDC projects in 2021 that investigated the issuing, clearing and settlement of debentures and a South African general purpose retail CBDC. The findings are expected to be published in 2022. PASA welcomes this research as it will ensure that South Africa's National Payment System remains domestically relevant and globally competitive. PASA will support the SARB as required going forward.

Following consultation papers published by the SARB and the Financial Sector Conduct Authority (FSCA) on screen scraping and open banking activities in South Africa, the FSCA initiated an industry initiative in 2021 to obtain inputs around open finance standards, data protection, and more. This led to the publication of open finance policy considerations by the Intergovernmental Fintech Working Group (IFWG). The IFWG paper identifies the importance of establishing commonality around open finance and the need to align on finer details. PASA supports this initiative and has initiated a project to voluntarily align the different formats of bank-to-corporate APIs currently available in the market.

All of PASA's modernisation efforts in the high- and low-value payment systems are based on ISO 20022 adoption. These include the Modernisation of High Value Payments and the SAMOS Version 8 upgrade (page 34) as well as the Rapid Payments Programme (page 33), all of which are targeted to go live in 2022. DebiCheck, the industry's first ISO 20022 deployment, has been fully operational since October 2021 (page 32).

Led by BankservAfrica, PASA is working closely with the industry to deliver the Rapid Payments Programme, which aims to create instant payment, pay by proxy and request to pay services (page 33).

¹ Central Bank Digital Currency Tracker, Atlantic Council (www.atlanticcouncil.org/cbdctracker).

PASA'S RESPONSE TO THE CHANGING PAYMENTS LANDSCAPE

PASA has initiated several strategic projects to ensure it responds to the changing payments landscape and supports the relevance and modernisation of the National Payment System.



Ensuring that card remains an efficient and safe “go-to” retail payment system (page 29)



Making debit order collections safer and more effective (page 31)



Envisioning the future state of Electronic (Low Value) collections (page 32)



Making real-time credit push an easier and safer payment method that can compete with cash (page 33)



Upgrading South Africa's domestic settlement system to ISO 20022 (page 34)



Creating new momentum in industry capacity creation (page 34)



Professionalising the PASA Executive Office (page 35)



Establishing a PIB for South Africa (page 36)



Ensuring that card remains an efficient and safe “go-to” retail payment system

Standardising QR code payments

In a strategic response to promote QR code payments, PASA continued its efforts to define a single, trusted QR code standard that is aligned with internationally-accepted standards and identifiable at point of sale.

During 2021 the focus was on:

- Approving and publishing the QR Code Standards Specification, which is now available for use by all stakeholders.

- Considering whether the QR Code Standards Specification can be associated with an identification mark.
- Investigating an end-to-end Interoperability Requirements Framework, which includes identifying whether there is a viable model before defining an architecture. The process to decide whether there is a viable solution and, if so, to approve the architecture will be finalised in 2022.
- Hosting awareness sessions with all stakeholder groups to position the benefits and use of QR code standards.
- Holding engagements with Mastercard and Visa to understand global trends on QR code payments.

The standardisation of QR codes is the first step to a less fragmented market and reducing entry barriers for new players. QR code standardisation and interoperability will remain a focus for PASA in 2022.

Overcoming challenges to the fleet card payment system

In recent years, challenges in the South African fleet industry have made it necessary to introduce changes to the fleet card payment system. These challenges include a high incidence of fraud, largely driven by the use of magnetic stripe cards rather than cards with Chip and PIN capabilities.

To mitigate this, the card industry embarked on a project in 2021 to implement a modernised fleet solution in the National Payment System. This project serves as the foundation for migrating South Africa's fleet cards to new-generation technology, utilising an international Chip and PIN standard. PASA's goal is to provide the foundation for the fleet industry's journey towards digitalisation.

The expected benefits for consumers and retailers in the fleet industry include improved security, better control over fleet management and enhanced interoperability for acceptance at merchants outside of South Africa.

PASA is delighted to be at the forefront of driving this change in the fleet industry. In 2022, PASA plans to work on the functional requirements, testing, implementation, and migration of the current fleet cards to the new Chip and PIN cards. The changes will be managed through collaboration, communication and support with the fleet card issuers, acquirers, and key stakeholders.

Operational management of cards is facilitated by the following:

PCH PG STRUCTURES IN PLACE

Card PCH PG: Responsible for the card payment system in South Africa and manages the domestic BankservAfrica and international scheme rules that apply to South Africa from Visa and Mastercard, American Express and Diners Club. It also oversees the processes, procedures and domestic rules applicable to ATMs and fleet cards in South Africa.

OTHER OPERATIONAL COMMITTEES

- Issuing and Acquiring Subcommittee
- Card Technical Subcommittee
- Card Incident Subcommittee
- Card Clearing Rules Subcommittee

SPECIFIC OPERATIONAL FOCUSES AND SUCCESSES IN 2021

The SARB mandated 3D Secure 2.0 for October 2021. Each Member bank had to ensure they complied with 3D Secure 2.0 by the due date.

The revision and updating of the card clearing rules were completed.



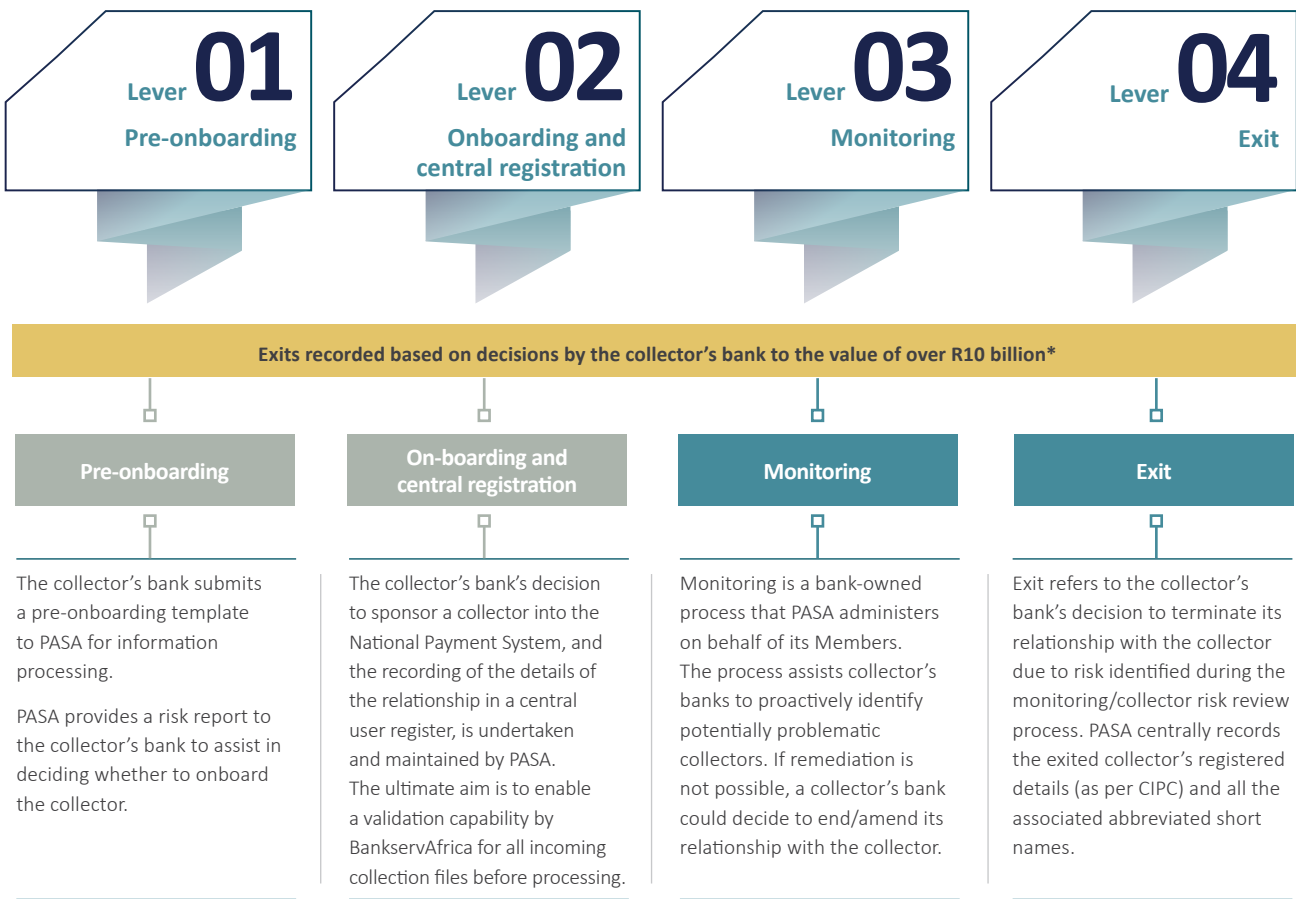
Making debit order collections safer and more effective

Eradicating debit order abuse

Abuse of the collections system has been a long-term challenge for payers and collectors of debit orders. The DebiCheck system was designed as a system-driven method to prevent rogue collections and spurious collection disputes.

The first DebiCheck go-live was on 3 July 2017. In 2018, the industry initiated a process to identify non-system-based means of eradicating debit order abuse. After extensive data analysis to understand the root causes of debit order abuse, it was identified that there are two main contributors to the problem: collectors that process unauthorised debit orders and payers disputing valid debit orders. PASA and its Members decided that the collector problem (processing unauthorised debit orders) should be the priority. This led to the implementation of the Debit Order Abuse (DOA) '4-lever model' during 2019:

DOA '4-lever model': a bank-owned process centrally administered by PASA to address rogue collectors



This model operated on a best effort but manual approach through 2019 to 2021. Each of the processes aligned to the four levers was formalised into clearing rule sets. The model now governs PASA Members and determines industry direction for mitigating debit order abuse in the National Payment System.

The organisation undertook a process during the year to identify a platform business or ecosystem that can automate the currently manual processes of the DOA 4-lever model. Automation will be completed and fully operational by the end of 2022.

DebiCheck and RMS

DebiCheck is an ISO 20022-based, electronic mandate debit order collection capability that facilitates a more convenient and secure debit order environment. The system was designed to obtain authentication of all collection mandates by payers and subsequently enhanced to accommodate electronic mandates that have not been authenticated (the Registered Mandate Solution (RMS)). Collection attempts are then validated against the electronic mandate and, in the case of an authenticated mandate, the opportunities for disputing a successful collection are reduced. The system is therefore more secure for payers, who can confirm the payment details by authenticating the mandate, and collectors, who are less subject to spurious disputes.

* Calculated since inception on 1 April 2021 and based on collector values current at the time of their exit.

A significant achievement during the year was successfully reaching the requirements of the SARB Directive, namely that no new NAEDO or AEDO mandates be allowed from 1 May 2021 and that the NAEDO and AEDO systems be closed for collections from 31 October 2021.

DebiCheck Performance: 2019 to 2021

	Total annual volume for 2019	Total annual volume for 2020	Total annual volume for 2021
DebiCheck	721 055	2 233 806	14 074 706
AEDO, NAEDO	680 407	9 201 031	12 502 171
New RMS mandates	0	7 418	4 082 139
Total number of mandates	1 401 462	11 442 255	30 659 016
Collection volumes	8 652 761	15 519 183	86 639 326

In January 2021, the SARB released the findings of an independent review conducted in 2020 regarding the implementation challenges of DebiCheck. This review was conducted in preparation for the 2021 directive deadlines. The industry and the SARB engaged on these findings and acted on the recommendations of the independent reviewers. Furthermore, full implementation of RMS was completed by all participants in 2021. The implementation of RMS was a necessary precursor to the directive deadlines and supports the registration of mandates where authorisation cannot be obtained. For the moment, collection of such mandates receives second priority to DebiCheck collections, albeit in the same Early Collections Window.

After an extensive and managed implementation, the DebiCheck solution became fully operationalised on 1 November 2021. As is always the case when operationalising a new payment system to the scale shown in the table above, there were some initial problems experienced. These problems were particularly pronounced in the period between May and October. Nonetheless, massive effort from all parties resulted in a successful migration of volumes onto the DebiCheck system in accordance with the deadlines.

The DebiCheck system is the first step in a long-term programme to fully modernise all collections. The immediate focus is on enhancing and remediating DebiCheck to be more market friendly and on strengthening the RMS proposition as a standalone system, as RMS was originally designed as a temporary mandate initiation support mechanism where consumers failed to respond to DebiCheck authorisation requests. It is envisaged that over the long term, RMS could be used to modernise the EFT Debit system and, together with DebiCheck, move all collection mandates into an electronic format. This is further detailed below, under *“The emergence of a future debit-order system”*.

The DebiCheck focus for 2022 is to fully stabilise the system and to increase mandate authentication rates, particularly in non-face-to-face environments. The AEDO and NAEDO systems are planned to be shut down in mid-2022.

The emergence of a future debit-order system
In the future, DebiCheck and RMS can form the basis of a modernised collection system where the rights of collectors and payers are managed within a tiered, risk-based structure.

Once fully operational, DebiCheck and RMS surfaced inconsistencies across the rules and processes of the three current collection systems

(DebiCheck, RMS and EFT Debits). Two primary areas of concern were identified:

- Balancing the rights of collectors and payers: preventing rogue collections while minimising spurious collection disputes; and
- Aligning the stop payment / suspensions (to prevent all future collections) and dispute (return an invalid collection) rules across collection systems.

Both of these areas are starting to receive focus in 2022.

The current rules governing disputes and reversals of transactions led to litigation against PASA by one of the collectors. PASA is opposing the litigation on the basis that these rules should ensure a fair and equitable outcome for collectors and payers by following proper and due consideration and assessment of the impact for both. PASA will be keeping all impacted stakeholders (including regulators) informed as the litigation process unfolds.



Envisioning the future state of Electronic (Low Value) collections

Historically, Electronic (Low Value) debits functioned in siloes, resulting in inefficiency. PASA introduced a ‘product house’ approach in 2021 to solve this challenge. This approach implies coordinating and aligning initiatives across all the collections systems. Ultimately, this approach facilitates effective and efficient allocation of resources, assists in avoiding duplications and sets the foundation for attaining synergy through common goals and collaboration.

In collaboration with its Members, PASA identified and agreed on seven strategic objectives that define its Low Value collections strategic modernisation journey. These strategic objectives will be used to crystallise the roadmap required to give effect to the modernisation journey.

1. Ensure a smooth transition to a stable DebiCheck system and sunset NAEDO and AEDO with minimum risk and disruption to users and banks.
2. Continue to simplify, remediate and enhance DebiCheck and DebiCheck/ RMS mandate management services to support a more commercially viable proposition to the market.

3. Build RMS functionality to become a viable standalone ISO 20022 collections payment system that will fulfil a clear purpose in the late collection window.
4. Migrate EFT to RMS and sunset EFT collections.
5. Harmonise collection dispute rules and reversal processes to establish and ensure a better balance between user and payer.
6. Establish an improved process for unauthorised debit orders and the handling of fraud by creating a standardised fraud process.
7. Establish automated pre-onboarding, onboarding, monitoring and exit management capability for the Debit Order Abuse 4-lever model.



Making real-time credit push an easier and safer payment method that can compete with cash (Rapid Payments Programme)

Through Project Future, a target state for low-value electronic credit payments was established in 2018. Project Future also established the requirements and case for change for a new, ISO 20022 based real time retail payment system. The Rapid Payments Programme continued the design and implementation of the proposed system.

The Rapid Payments Programme aims to provide a mobile-friendly instant payments service to assist with financial inclusion and stimulate economic recovery and future growth. The programme is grounded in the SARB Vision 2025, which aspires towards an interoperable platform that meets regulators' expectations while creating new markets. It also meets the requirements of PASA's vision for the future National Payment System.

In 2021, the Rapid Payments Programme entered the build phase, with the intention of being launched mid-2022. Given the national importance of this initiative, a special purpose committee was established to oversee the build and launch phase of the initiative.

PASA's key focus is to deliver the appropriate governance structures and rules for the new instant payment system. Progress made during the year includes finalising and approving the functional requirement specifications for the Rapid Payments Programme and initiating the drafting of the Rapid Payment Constitution PCH agreement and schedule.

The new system and the overlay services will introduce additional complexities into the payment ecosystem. As a result, PASA will monitor and evaluate the new and incumbent systems.

Operational management of Electronic (Low Value) is facilitated by the following:

PCH PG STRUCTURES IN PLACE

EDO, EFT, RTC PCH PGs are responsible and accountable for operational clearing and settlement management and the practical implementation of the principles, project objectives, policies, strategies, rules and procedures contemplated in the PCH Agreements for their respective payment systems.

OTHER OPERATIONAL COMMITTEES

Low Value Clearing Rules Subcommittee

Low Value Technical Subcommittee

Low Value Risk Subcommittee

Low Value Business User Group Subcommittee

Authenticated Collections SWAT

SPECIFIC OPERATIONAL FOCUSES AND SUCCESSES IN 2021

Due to the industry's focus on DebiCheck and the Rapid Payments Programme, no additional operational objectives were identified for 2021.



Upgrading South Africa's domestic settlement system to ISO 20022

Since SWIFT announced the adoption of the emerging future global standard for financial messaging (ISO 20022) in 2004, countries have increasingly adopted the standard. ISO 20022 provides richer data than its predecessors, supporting benefits like faster processing and better reconciliation.

Although the Southern African Development Community's real-time gross settlement system is based on ISO 20022 standards, the domestic high-value payment systems are still based on legacy standards. As a result, South Africa initiated two projects (Modernisation of High Value Payments and the SAMOS Version 8 upgrade) to modernise the domestic high-value payment systems and align these with ISO 20022.

In 2021, the Modernisation of High Value Payments and the SAMOS Version 8 upgrade formally moved into execution. The industry will aim to complete development in February 2022 and start with testing no later than March 2022. The required PCH documentation will be finalised and approved no later than August 2022, working towards the agreed industry implementation date of September 2022.



Creating new momentum in industry capacity creation

Exacerbated by the rapidly changing landscape, continued innovation and an ageing workforce, it has become increasingly critical to focus efforts on building sustained capacity in the payments industry.

Building on efforts to modernise PASA's training offerings during 2020, two training programmes were launched in e-learning format in 2021. These programmes are the Electronic Payments Programme and PASA's flagship training offering, the Certificate in Foundational Payments. Offering more affordable training programmes that students can do anywhere and anytime enables PASA to serve the industry more efficiently and further develop the capacity building function within the payments industry. During 2021, 23 delegates successfully completed the Electronic Payments Programme, and 81 delegates successfully completed the Certificate in Foundational Payments Course.

PASA hosted its fourth International Payments Conference in 2021. The conference was hosted virtually for the first time and explored the rapidly altering and transforming payments ecosystem, locally and globally. The conference featured 37 speakers and was attended by 534 delegates, with 46% of these delegates from banks and 54% from non-banks. The conference successfully introduced a virtual platform for attendees to interact with the three headline sponsors and six sponsors at virtual exhibition booths during breakout sessions.

The Advanced Certificate in High Value Payments will be evaluated for its suitability to a hybrid approach in 2022, with the possibility of supporting the high-touch training model with virtual classroom activities to ensure an optimal learning experience.

PASA will also continue working with the Banking Association South Africa (BASA) and BankservAfrica to develop and establish a Payments Masterclass that can be incorporated into the formal education sector.

Operational management of electronic (High Value) is facilitated by the following:

PCH PG STRUCTURES IN PLACE

Cash PCH PG: Supports the clearing and settlement rules, processes, procedures and standards used for the day-to-day operations of cash clearing. This includes rules seeking to achieve timely and orderly clearing and delivery of cash and settlement transactions related to clearing and delivering physical cash.

Derivative Margins PCH PG: Oversees the clearing rules, processes, procedures and standards used in the day-to-day operations of clearing in the derivatives margin environment.

Electronic Securities Settlement PCH PG: Oversees the clearing rules, processes, procedures and standards used in clearing and settlement in the STRATE environment.

Immediate Settlement PCH PG: Oversees the processes, procedures and standards used to clear credit payment instructions for immediate settlement in the Immediate Settlements (IMMS) Payment Stream.

Settlement System Participant Group: Constituted and mandated by PASA Council as a body of common interest to determine and recommend settlement rules and procedures to PASA Council. The group also determines arrangements for managing the participant limits set by the PCH PGs to the extent that such arrangements affect the settlement agreement in place.

OTHER OPERATIONAL COMMITTEES

Electronic Securities Settlement Clearing Rules Subcommittee

Derivative Margins Clearing Rules Subcommittee

Cash Settlement Clearing Rules Subcommittee

Immediate Settlement Clearing Rules Subcommittee

PASA Cross-Border Payments and Reporting Community

SPECIFIC OPERATIONAL FOCUSES AND SUCCESSSES IN 2021

Due to the industry's focus on upgrading the high value and settlement systems to ISO 20022, no additional objectives were identified for 2021.



Professionalising the PASA Executive Office

Since its inception in 1996, the PASA Office has grown from a complement of seven people to 49 permanent employees. A more considered, holistic and effective integration of structures and capabilities in PASA's operating

model became necessary due to a combination of legacy structures and newer capabilities added over time.

PASA initiated its Operating Model Optimisation project in 2018. In undertaking this project, PASA considered the upcoming changes in the regulatory landscape, which are anticipated to affect PASA's future operating model, most specifically through the PIB work (page 36). As such, PASA needed to identify ways to transition into a more optimal interim state while awaiting the anticipated changes. Several "no-regret" actions were consequently identified in 2018.

PASA is implementing its "no-regret" actions to its operating model to optimise and improve its effectiveness and efficiency.



During 2021, clauses were incorporated in all PASA Structure Constitutions to address accountability; levels of work and work plans; obligation and accountability to report to PASA CEO or PASA Council; communication between structures; and alignment with other Structure Constitutions to ensure consistent application and interpretation in terms of certain items that include, among others, terminology, voting periods and notice periods. As a result, actions 1 and 2 are now complete.

The Content Management Project to replace the existing PASA Member portal was put on hold during the year. The decision was made to first obtain the services of an enterprise architect to implement a PASA digitisation initiative. This was initiated late in 2021. The scope of this initiative is broader than the initial Content Management Project scope and will replace the project.

PASA made good progress in harmonising and rationalising structures in all its payment systems in 2021. The result is a rationalisation of 55 structures to 39 structures, which will bring benefits and efficiencies for PASA and its Members when fully operationalised in 2022. The new structures' Constitution and terms of reference were formalised during the year to make this new operating approach the de facto way PASA operates.

PASA's Operating Model Optimisation project will be completed early in 2022.



Establishing a PIB for South Africa

As the industry takes steps to modernise the National Payment System and maintain interoperability, there has been increasing and wide recognition that changes are needed in the current regulatory architecture. These changes are particularly important for making the payments system more inclusive and addressing delegated functions, such as licensing.

In June 2021, the SARB requested PASA to facilitate the design of a new PIB by an inclusive community of payment system stakeholders. As per the guidance from the SARB, the new PIB must be designed in the interest of the National Payment System; achieve and maintain interoperability; assist the SARB and other related regulators in ensuring a safe and efficient payment system; and support the execution of Vision 2025 and other policy goals.

In response to the SARB's request, PASA initiated the PIB design process and created the necessary structures to enable the work: the Industry Forum, the Design Team and the sign-off process.

The Industry Forum

The Industry Forum consists of all stakeholders who make up the broader payments community. The Industry Forum is consulted on all PIB design elements. Their feedback is solicited and then integrated into final proposals for formal sign-off through the agreed sign-off process.

This process is designed so that natural groupings (inner, middle or outer core participants) sign-off independently based on sufficient consensus between all participants in any of the groupings. Should issues arise between cores or groupings, the Design Team will facilitate a resolution.

The first Industry Forum workshop was held on 7 September 2021, with a further five days of workshops held in 2021. The workshops covered the following design elements:



Design principles to guide the design of the PIB



Functions and scope of the PIB



Membership and governance



Funding models for the PIB



Mandate (covering regulatory recognition and the mandate from members)

The Industry Forum engaged on all of the above topics in 2021, excluding the Mandate which was discussed early in 2022. Once sign-off has been received for the PIB design, a report articulating the design proposals will be submitted to the SARB for their approval.

269

269 entities attended the first Industry Forum meeting on 7 September 2021

97%

97% of participants formally accepted the structures and processes proposed for the PIB design effort

Plenary workshops with the larger payments community

After the first Industry Forum meeting in September, PASA hosted a further five days of plenary workshops with the larger payments community

Well-attended educational sessions

Eight well-attended educational sessions provided further context to those requiring insights into PASA's role within the National Payment System

14

14 Design Team sessions were held in 2021

4

PASA held four check-in meetings with the SARB in 2021

439

PASA circulated 439 pages of post workshop content to participants

The Design Team

SARB's request that PASA facilitate the design of the PIB was challenging as it required the organisation to be a balanced facilitator despite its role as a PSMB. To ensure a fair, transparent and credible PIB design process, PASA therefore introduced two risk mitigants. PASA onboarded a consulting house to assist with facilitating the project and to provide a level of independence. PASA also created the Design Team, which consists of a mix of highly respected, experienced and credible payment practitioners drawn from all sectors of the payments community.

The role of the Design Team is not to design the PIB. Rather, the team ensures that the process to design the PIB is credible, that the content is balanced and fair and that any issues between payments industry stakeholder cores in the sign-off process are resolved. Members of the Design Team do not represent specific sectors but are selected to serve the process as a whole.

The mandate of the Design Team is clearly articulated across three dimensions:

- **Process:** overseeing that the process run by PASA and the project team is fair, transparent and credible.
- **Content:** ensuring that the content presented to the industry forum for consultation is credible, balanced and unbiased.
- **Problem resolution:** assisting if agreement cannot be reached in the sign-off process across the cores of the different payments industry stakeholders.

During 2021, the Design Team played a critical and valuable role in assisting and guiding the project team. This included providing guidance on content development as well as on how to navigate the additional complexities of aligning a large group of diverse stakeholders.

The PIB's proposed functions are aligned to support the Vision 2025 policy goals.

The PIB Process

The massively inclusive effort to design the PIB, incorporating multiple industries, associations and entities, is uncharted territory and has had to follow an emergent process.

While the Industry Forum and Design Team structures immediately resonated with the community, the ways of working within the structures changed (and continue to change) substantially as the programme achieved momentum. The tight timelines coupled with highly complex material resulted in the need to rapidly develop a shared language and common understanding of the role of payment industry bodies.

Consultation

The process has evolved to incorporate at least five separate consultation opportunities in each area of the design. Community members have joined the project team to assist with generating content. Each design area is socialised and unpacked in an industry workshop at least twice, with the opportunity for written feedback in between workshops. Finally, PASA's experience has generally been that at least two sign-off rounds are required before content is approved.

Sign-off

Sign-off of content is achieved through consensus (as opposed to a simple majority) across three different categories of community members:

1. **Inner core:** participants in clearing and settlement
2. **Middle core:** providers of payments services (generally SOs and TPPPs)
3. **Outer core:** users of payment services, largely represented by industry associations (trade bodies)

All three cores have to approve the content to achieve sign-off. Although not required, PASA's process has been to engage with all material feedback received, even when technical sign-off is achieved. The project team is of the view that the quality of the design is significantly improved through these engagements.

Learnings

An emergent process of this nature across such a broad a group of stakeholders has created learning opportunities for all. Firstly, technical understanding of how others participate in the payment systems; secondly, the importance of having a common basis for a complex conversation; and thirdly, and perhaps most importantly, the importance of developing an industry-wide culture that allows for the necessary collaboration on the public good utility (an interoperable and safe National Payment System) while still retaining fierce competition in the commercial arena.

Next Steps

Most of the design content generation was concluded in 2021, with the consultation and amendments stretching into 2022. Once all parties have signed-off that a feasible and satisfactory design has been created, a design report will be submitted to the SARB for their consideration. Implementation of the new entity is expected to stretch well into 2023.

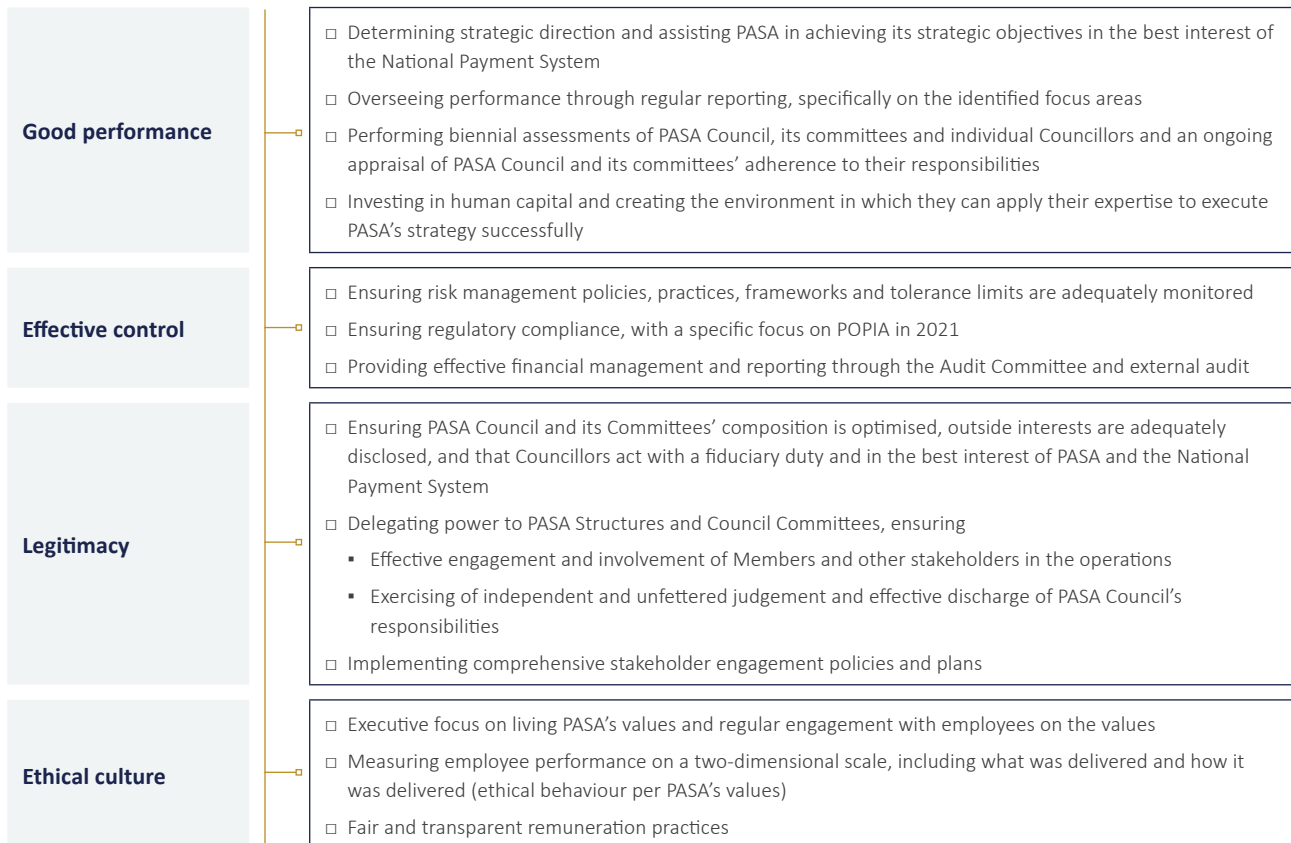
HOW PASA IS GOVERNED

PASA Council is committed to ensuring that PASA remains a valuable role player in bringing the industry together, underpinned by good governance practices that safeguard the integrity and resilience of the National Payment System.

PASA'S GOVERNANCE APPROACH

The fiduciary duty of PASA Council, the governing body of PASA, and its Councillors, is to act in the interest of the National Payment System and PASA while fairly representing its Members interests as required by the National Payment System Act.

PASA subscribes to King IV's voluntary principles and leading practices in support of this unique mandate. Good corporate governance is achieved through PASA Council's commitment to ethical and effective leadership, strategic direction setting and appropriate oversight towards achieving the four governance outcomes of ethical culture, good performance, effective control and legitimacy.



PASA'S GOVERNANCE FRAMEWORK

Council Committees

PASA Council is responsible for setting PASA's strategy and delivering long-term value to Members, the SARB NPSD and other stakeholders. In addition, it challenges management concerning the execution of strategy and ensures PASA maintains effective risk management and internal control systems.

PASA Council utilises four permanent Council Committees comprising Councillors who share experience or expertise in these fields to assist with the fulfilment of its duties. It also has an ad hoc committee (PASA Review Committee, page 47) responsible for responses to draft and new regulations and bills.

The Council Committees have formal Constitutions and are adequately and effectively mandated to assist PASA Council in executing its responsibilities.

Audit Committee

Page 44

Oversees the integrity and appropriateness of the financial reporting and financial risk management.

Considers and recommends the external auditors and evaluates their independence and effectiveness.

Considers and recommends the annual budget to Council.

Council Risk Committee

Page 46

Reviews and oversees the management of the organisation's principal and emerging risks, risk appetite and the effectiveness of the risk management systems and frameworks.

The committee has oversight of the principal and emerging risks within the National Payment System, as articulated and managed by PASA management and Members.

Nomination and Induction Committee

Page 44

Oversees the nomination and induction of PASA Councillors and is responsible for the succession of independent Councillors.

Oversees the appointment and succession planning of the CEO.

Responsible for the composition of Council Committees and the assessment of the effectiveness of PASA Council, the Council Committees and Councillors.

Responsible for the education and training requirements of all Councillors.

Remuneration Committee

Page 45

Oversees the remuneration policies and practices to ensure these are fair, responsible and transparent and supports the strategic objectives and positive outcomes of PASA in the short, medium and long term.

Oversees the succession and appointment of appropriately skilled, experienced and diverse executives and senior personnel.

Oversees all HR related aspects, including labour practices, people management policies, restraint of trade, fringe benefits and employment equity.

Councillors

Councillors accept responsibility as the custodians of governance within PASA. Councillors bring diversity to PASA Council deliberations and create sustained value by constructively challenging executive management's strategy and risk management execution.

Councillors as at 31 December 2021



Sydney Gericke (63)
Independent Chair

Joined Council:
August 2018

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



John Anderson (54)
Standard Bank appointed Councillor

Joined Council:
October 2018

Qualifications:
BCom, Master of Business Administration (MBA) (Henley Business School)



Rufaida Hamilton (47)
Investec Bank appointed Councillor

Joined Council:
September 2009

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



Ian Carter (54)
Nedbank appointed Councillor

Joined Council:
February 2014

Qualifications:
BCom Financial Management (University of KwaZulu-Natal); Asset and Liability Management (INSEAD); International Executive Development Programme (Wits Business School)



Megan Brown (47)
FirstRand Bank appointed Councillor

Joined Council:
February 2017

Qualifications:
CA(SA); CFA; Postgraduate Diploma in Accounting (UCT); BA Business Science (Finance) (Hons) (UCT)



Matthew Coaker¹ (58)
Capitec Bank appointed Councillor

Joined Council:
August 2021

Qualifications:
BCom (University of the Witwatersrand)

¹ Dirk Ehlers retired with effect from 31 July 2021.



ALTERNATE
John Elliot (43)

Joined Council:
October 2018

Qualifications:
BBusSc (Hons)



ALTERNATE
Marijke Guest (51)

Joined Council:
October 2018

Qualifications:
MBA



ALTERNATE
Boitumelo Legabe (39)

Joined Council:
January 2021

Qualifications:
B Com (Hons)

Resigned:
December 2021



ALTERNATE
Marthinus Janse van Rensburg (53)

Joined Council:
April 2009

Qualifications:
BCom LLB



Ghita Erling (49)
Chief Executive Officer

Joined Council:
November 2020

Qualifications:
MSC (Eng); BSc (Cum Laude); Executive Development Programme (University of the Witwatersrand)



Ingrid Goodspeed (68)
Independent Deputy Chair

Joined Council:
February 2017

Qualifications:
CD(SA); LLB; MBL (Cum Laude); BCom (Hons) (Economics); BCom (Accounting and Economics)



Tim Masela (61)
SARB Ex Officio Councillor

Joined Council:
August 2012

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



Jill Murtagh (61)
Bidvest Bank appointed Councillor

Joined Council:
March 2015

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



Charl Smedley (56)
Absa Bank appointed Councillor

Joined Council:
August 2020

Qualifications:
Strategic Project Management (UNISA); Graduate Diploma in Marketing Management; Certificate in Marketing Management



Herman Singh (61)
Independent Councillor

Joined Council:
May 2021

Qualifications:
BSc (Engineering) Wits, GDE (Industrial Engineering) Wits, MBA Wits Business School



ALTERNATE
Shaun Rayfield (52)

Joined Council:
October 2018

Qualifications:
BCom Money and Banking



ALTERNATE
Frikkie Hanekom (49)

Joined Council:
March 2019

Qualifications:
Banking (Unisa), Diploma in advanced Banking (University of Johannesburg)



ALTERNATE
Gabriella Teixeira (55)

Joined Council:
May 2018

Qualifications:
BCom (Distinction), Green Belt Lean Six Sigma, Financial Market Instruments, Executive Leadership Diploma (Gibs)

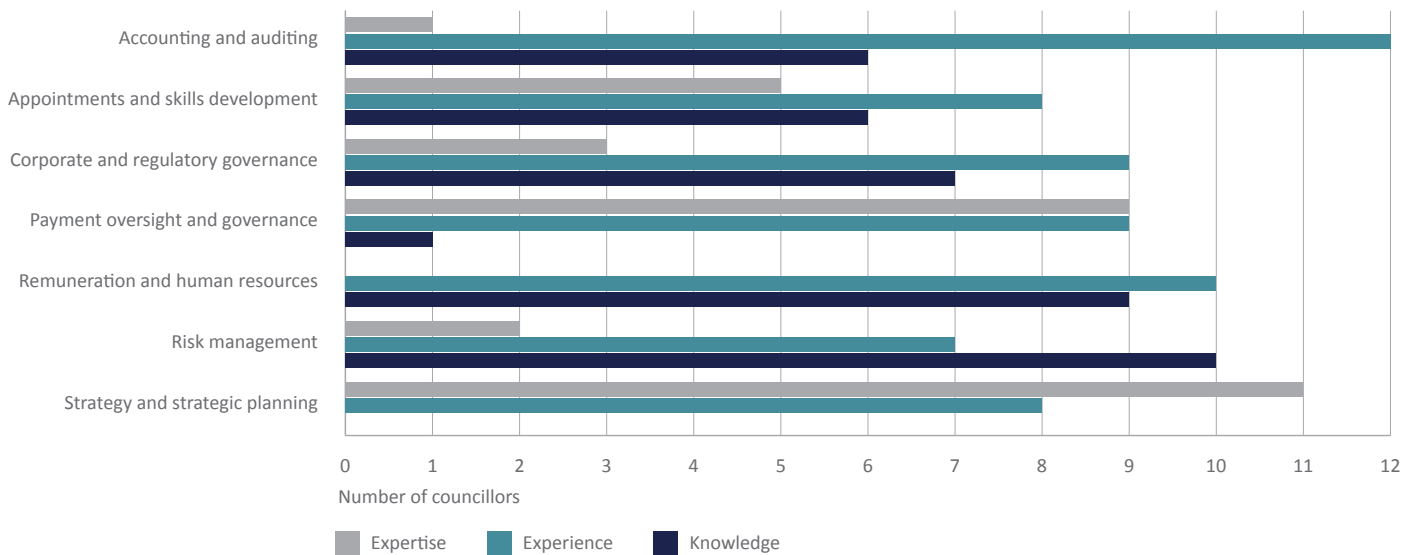
PASA Council skills matrix

PASA believes that sustained value creation and preservation is built on skilled, experienced, knowledgeable, effective and ethical leadership. The calibre of PASA's leadership is embodied in its Councillors Members' experience, diversity, and commitment.

The executive team's composition was expanded following Cosmore Pariola's appointment as the CFO. This appointment enhanced the finance function's competency and financial reporting to the Audit Committee and PASA Council. It assisted the Audit Committee with its ongoing focus to improve financial processes and controls.

The Nomination and Induction Committee continues to provide Members with guidance on PASA Council composition, including

Skills matrix



requesting that Members consider individuals with skills that include risk and finance as well as individuals who could bring greater diversity to PASA Council. PASA Council increased the number of independent Councillors within the provisions and limitations, and enhanced the diversity with the appointment of Herman Singh in 2021.

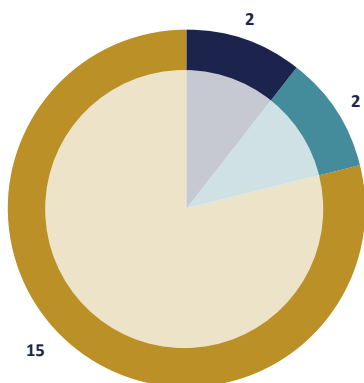
PASA Council is satisfied that it comprises the appropriate balance of knowledge, skills, experience, diversity and independence to effectively execute PASA's mandate and objectively discharge its governance role and responsibilities.

PASA's Councillors' primary areas of expertise are highlighted in the graph below.¹ Council reviews the skills mix of its Councillors at least annually.

PASA Council diversity

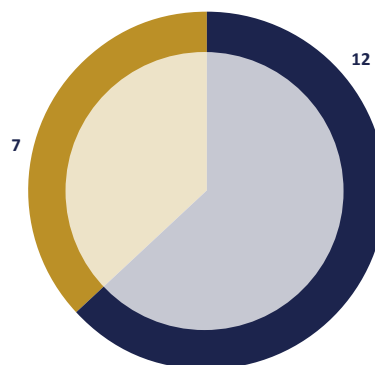
Diversity expands PASA Council's knowledge, experience and insight and supports better oversight of strategy and risk management.

Council Diversity (Race)



Black Indian White

Council Diversity (Gender)



Male Female

¹ The graphic is intended as a high-level summary only and should not be understood as an exhaustive list of each Councillor's skills or contributions to the PASA Council.

Succession planning

Succession planning identifies, mentors and develops future Councillors to introduce Councillors with new expertise and perspectives while retaining valuable industry knowledge, skills and experience and maintaining continuity.

In terms of the PASA Constitution, Members qualifying to appoint Councillors are responsible for ensuring that replacements are appointed as and when required. PASA Council remains cognisant of the state of uncertainty in which PASA operates and PASA's transition to the PIB. The composition of the governing body of the PIB is in discussion with the industry.

Council Committees feedback

Members and meeting attendance

PASA Council and all Council Committees, except the PASA Review Committee, have work plans that list their tasks according to their Constitution. This allows the committees to assess their progress and ensure that they fulfil their mandates. The Council Committee Constitutions were reviewed during the year, and no material amendments were made.

Amendments to the PASA Constitution are tabled at the annual general meeting for approval by Members. Attendance by alternate Councillors at meetings of PASA Council is voluntary. The SARB, as an ex officio non-voting Councillor, does not attend PASA Council's strategy sessions.

Council Member		Alternate	
S Gericke (Chair)	10/10		
J Anderson	10/10		
M Brown	7/7	B Legabe****	8/9
I Carter	10/10	M Guest	6/10
M Coaker*	4/4	M Janse van Rensburg	2/10
D Ehlers**	5/5		
G Erling	10/10		
I Goodspeed	10/10		
R Hamilton	9/10	J Elliot	9/10
T Masela	2/10	S Rayfield	5/10
J Murtagh	6/10	F Hanekom	1/10
H Singh***	6/6		
C Smedley	9/10	G Teixeira	3/10

* Appointed August 2021.

** Retired with effect July 2021.

*** Appointed June 2021

**** Resigned December 2021.

Audit Committee

“The Audit Committee’s focus for the year was on enhancing PASA’s financial controls by finalising all outstanding policies and procedures. This was further strengthened by the appointment of the CFO. The committee is now well-positioned to provide improved oversight of PASA’s resource management, financial planning, financial risk assessment, and operational efficiency.”

M Brown, Audit Committee Chair

The Audit Committee comprises at least three Councillors. The CEO and CFO attend committee meetings as standard invitees.

M Brown (Chair)	6/6
I Goodspeed	8/8
J Murtagh (Interim Chair May to October)	7/8
H Singh**	4/4
C Smedley**	5/5

* Appointed with effect from 5 August 2021.

** Appointed with effect from 22 April 2021.

2021 FOCUS AREAS

- Finalised the outstanding financial policies and procedures
- Resolution of the outstanding debtors’ book
- Appointed a full-time CFO
- Enhanced membership invoicing and collections processes

2022 FOCUS AREAS

- Implementation of approved policies and procedures
- Further enhance the financial reporting, budgeting and forecasting practices
- Oversee the enhanced audit plan process and outcomes
- Consider possible financial risks relating to the impact on PASA of the payments regulatory reform

Nomination and Induction Committee

“Good progress was made to ensure that PASA Council remains appropriately constituted to provide effective governance and oversight of PASA. Key items included appointing a third Independent Councillor and reviewing and strengthening the composition of the Council Committees, where required. This was supported by an ongoing focus on enhancing Councillor induction, training and development, and succession planning.”

S Gericke, Nomination and Induction Committee Chair

The Nomination and Induction Committee comprises at least three Councillors. The SARB attends as an ex officio non-voting member. The CEO attends committee meetings as a permanent invitee

S Gericke (Chair)	3/3
D Ehlers*	2/2
I Goodspeed	3/3
R Hamilton	2/3
T Masela (S Rayfield)	3/3
G Teixeira**	1/2

* Retired with effect 31 July 2021.

** Appointed with effect 22 April 2021.

2021 FOCUS AREAS

- Reviewed the composition of Council Committees to ensure the appropriate execution of their mandates
- Implemented an enhanced induction programme for new Councillors
- Reviewed the Independent Councillor pipeline and succession
- Oversaw the contingency succession planning for the CEO
- Appointed an additional Independent Councillor

2022 FOCUS AREAS

- Responsible for the nomination, induction and training of PASA Councillors
- Oversee the medium to long-term succession planning for the CEO
- Oversee the biennial review of PASA Council, the Council Committees and Councillors
- Oversee the appointment of Councillors representing the ‘smaller banks’
- Review the Independent Councillor pipeline and succession

Remuneration Committee

“PASA’s Remuneration Policy and practices are critical for the development and reward of a diverse, high-performance team that delivers on the organisation’s strategic objectives. The committee focused on strengthening and refining the Remuneration Policy to ensure more robust remuneration governance. Attention was also given to the important matters of employee health and wellbeing, succession planning and employee retention during uncertain times.”

J Murtagh, Remuneration Committee Chair

The Remuneration Committee comprises at least three Councillors. The CEO, the executive responsible for HR and the HR Manager attend as standard invitees.

J Murtagh (Chair)	6/6
I Carter	6/6
S Gericke	6/6
I Goodspeed	6/6

2021 FOCUS AREAS

- Oversaw executive management and key man succession planning
- Provided ongoing oversight of employee wellness and development initiatives
- Further refined the governance processes and updated the Remuneration Policy to ensure provisions are in line with good practice
- Continued refinement of the KPIs used to evaluate the performance of the organisation and senior executives

2022 FOCUS AREAS

- Oversee the change management of PASA employees in relation to the new PIB
- Executive management and key man succession planning and continued oversight of employee wellness and development initiatives
- Oversee the development and implementation of an organisational employment equity plan to improve organisational diversity
- Oversee and monitor the progressive implementation of transformation targets
- Oversee ongoing enhancements to the maturity of the HR function, including a review of the reward and recognition practices and key HR policies
- Mature the scorecard process used to evaluate organisational and senior executives’ performance

Council Risk Committee

“Risk management is fundamental to ensuring that PASA remains a viable and resilient organisation. The committee therefore focused on embedding PASA’s various risk management frameworks and policies within its governance and office functions to support an effective risk management capability and foster a strong risk culture across the organisation.”

R Hamilton, Council Risk Committee Chair

The Council Risk Committee comprises at least three Councillors. The CEO and Chief Risk Officer attend as standard invitees.

R Hamilton (Chair)	5/5
M Brown	3/3
F Hanekom	3/5
S Gericke**	4/4
I Goodspeed*	4/4
H Singh***	2/2

* Appointed temporarily with effect from 22 April 2021.

** Appointed temporarily with effect from 22 April 2021 and permanently with effect from 21 October 2021.

*** Appointed with effect from 5 August 2021.

2022 FOCUS AREAS

- Oversee the implementing risk appetite and tolerance limits, key risk indicators and integrated risk management reporting
- Oversee ongoing efforts to improve PASA Office IT risk management (including cyber security) control environment
- Oversee the embedding of the risk, compliance and information security culture within the organisation
- Enhanced oversight of fraud risk management and monitoring within the National Payment System and PASA
- Oversee PASA Office Risk Transfer measures (enhancement of the current insurance portfolio)
- Oversee that notwithstanding the additional work related to the PIB, the operational functions of PASA in ensuring the stability of the National Payment System remain unaffected
- Oversee the potential risks to the National Payment System arising from capacity constraints within PASA and Members as a result of the concurrent implementation of major programmes, particularly the Rapid Payments Programme implementation, modernisation of high value credit payment systems and the SAMOS system upgrade
- Oversee the management of the potential risks associated with the establishment of the PIB, the transition of the operational functions of PASA and its future dissolution utilising dynamic and emergent practices

2021 FOCUS AREAS

- Finalisation and implementation of key risk indicators
- Oversee the integration of risk management reporting
- Review and recommend PASA National Payment System and PASA Office risk frameworks to PASA Council for approval
- Review and approve PASA National Payment System and PASA Office risk policies
- Review and recommend PASA Office Risk Appetite and Tolerance limits to PASA Council for approval
- Evaluate the PASA National Payment System and PASA Office risk maturity
- Oversee the review of PASA Office IT Risk Management (including cyber security)
- Oversee enhanced risk assessments for cross-cutting risks and risks associated with non-Member participation within the National Payment System
- Promoting industry-wide risk discussions between National Payment System participants
- Overseeing incident management and the resolution thereof within the payments clearing environment

PASA Review Committee (temporary committee)

“South Africa’s National Payment System is undergoing significant change that will impact PASA’s mandate and operations. The PASA Review Committee continued to monitor this change and engage with Members, Regulators and other interested stakeholders in formulating PASA’s response. Much focus was placed on the PIB design principles and the important role PASA plays, as well as responding to the evolving regulatory environment.”

S Gericke, PASA Review Committee Chair

The PASA Review Committee assists PASA Council in considering, consulting on and responding to any draft policy, consultation papers, regulatory papers, bills or the like on the PASA and National Payment Systems Act Review. These are issued by the SARB NPSD, National Treasury, FSCA or any other regulator, which potentially impacts PASA’s mandate or operations. In addition, the committee is responsible for developing, agreeing and submitting to the relevant regulator a PASA view developed from submissions received from committee members, Councillors, Members and the PASA Office.

The PASA Review Committee comprises at least four Councillors. In addition, the CEO, the chair of the Council Risk Committee and all executives attend as standard invitees.

S Gericke (Chair)	3/3
J Anderson	3/3
M Brown*	2/2
I Goodspeed	3/3
B Legabe*	2/2
H Singh**	–

* During Mrs Brown’s secondment, Ms Legabe represented her at meetings of the PASA Review Committee as the FRB alternate Councillor.

** Mr Singh was appointed to the committee after the third meeting of the committee.

2021 FOCUS AREAS

These focus areas are within the context of the review of PASA and the NPS Act. This resulted in the NPS Act Review Policy Paper issued in December 2018, followed by industry comment on the paper and the drafting of the National Payment System Bill by National Treasury and the SARB.

- Continued to explore and develop principles around a new PIB
- Oversaw and guided PASA’s role in the participation of the design of the PBI
- In collaboration with the SARB, proposed principles that will ensure alignment between the Financial Sector Regulation Act, the CoFI Bill and the National Payment System Bill

2022 FOCUS AREAS

These focus areas are within the context of the CoFI Bill review, the consequential impact on the NPS Act and the work being done in relation to the new PIB.

- Review and provide guidance and input on the proposed amendments to the CoFI Bill and its impact on the National Payment System Bill
- Continue to provide guidance and input to management to assist in their engagements with the various regulators

Delegation of authority

PASA Council delegates authority to the executive management team through a formal Schedule of Delegated Authority, which is reviewed at least annually. This schedule guides the execution of PASA's strategy and day-to-day management.

This schedule encompasses decision-making, including which matters are reserved for PASA Council, those delegated to Council Committees or individual members of executive management or the Executive Committee.

PASA Council acknowledges that delegating responsibility does not absolve it of its responsibilities or ultimate accountability. The PASA Constitution and PASA Council approved policies to create a common understanding of the expected behaviour and procedures towards ethical and effective leadership.

All Councillors and Members are required to comply with the provisions of the PASA Constitution, the PASA Regulatory Framework, PASA Rules and Policies which are binding and against which Councillors and Members are held accountable.

The PASA Constitution is available at www.pasa.org.za/resources/research-legislation-regulation.

Executive Committee

Executive Committee members as of 31 December 2021

Pierre Coetzee (61)
Chief Legal Officer

Joined PASA: May 1999 – July 2007; April 2008 – present

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

Cosmore Pariola (41)
Chief Financial Officer

Joined PASA: September 2021

Qualifications: Chartered Accountant (SA); Master of Business Leadership (MBL)

Maurits Pretorius (62)
Chief Strategy and Change Officer

Joined PASA: January 2016

Qualifications: BLC (Law) (UP); Advanced Diploma in Labour Law (Unisa); MPsych (Cum Laude) (NWU), Diploma in Clinical Organisational Psychology (Cum Laude) (INSEAD); Strategic Banking Programme (INSEAD); Executive Master's Degree (CCC) (INSEAD)

Naniki Ramabi (43)
Chief Risk Officer

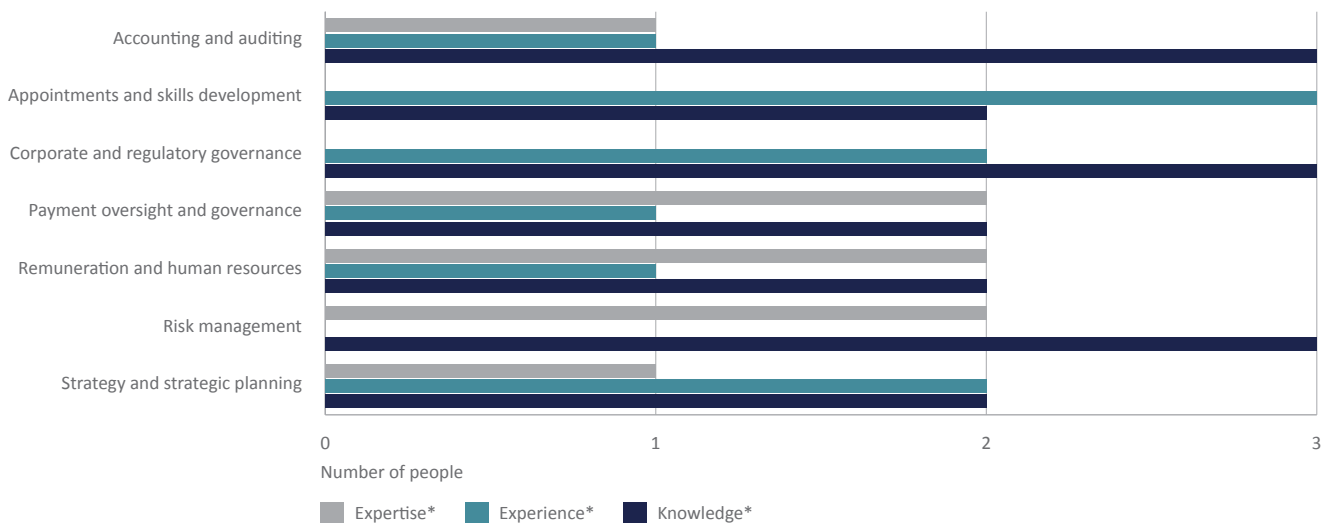
Joined PASA: August 2019

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

Exco primary areas of expertise and diversity

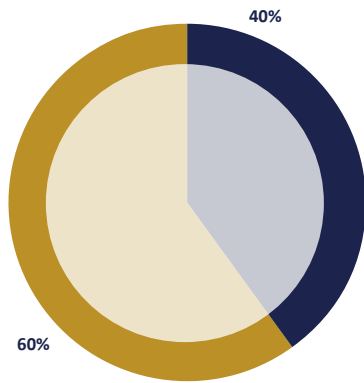
The Exco's depth and breadth of expertise, experience and knowledge support informed decision-making and foster innovation. This is critical to ensure PASA remains agile and responsive to the rapidly evolving payments landscape.

Executive committee skills matrix



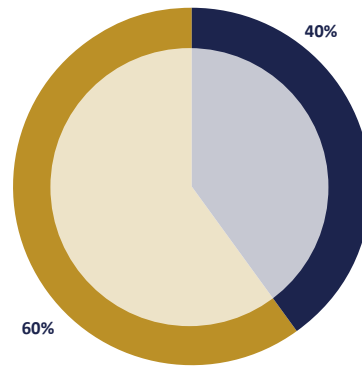
* Including the CEO who is also an ex-officio Councillor.

Exco Diversity (Race)



Black White

Exco Diversity (Gender)



Male Female

Embedding an ethical culture

PASA Council recognises that ethical and effective leadership complement and reinforce one another. By setting an example of doing business responsibly, Councillors demonstrate their continued commitment to PASA’s values by assuming ultimate responsibility for PASA’s ethical performance. PASA Council holds executive management equally accountable for implementing the PASA ethical framework and ensuring effective governance, risk and compliance management practices. This approach provides reassurance that PASA is effectively and ethically executing its mandate.

Focus areas for 2021

- All PCH PG Constitutions were revised and updated in 2021. These Constitutions are now aligned in terms of the terminology used and promote consistent application and interpretation. Governance around communication, accountability, reporting and other procedural matters were incorporated and/or improved.
- The PASA Constitution was amended to improve its Conflict of Interest and Councillor Conduct clauses.

How PASA supports and embeds an ethical culture

1. Councillors are required to attend the IoDSA’s governance courses, to ensure that they fully understand their role, responsibilities, and fiduciary duties.
2. Councillors attend PASA induction training.
3. The PASA Constitution holds Councillors to account by outlining best practice in terms of good conduct, fiduciary responsibilities, and conflict of interests. The PASA Constitution also deals extensively with Members’ obligations and responsibilities, ultimately requiring alignment with policy objectives.
4. PASA’s employees are subject to multiple policies, including an ethics policy. This supports a culture of transparency and fairness.

MANAGING PASA'S REGULATORY UNIVERSE

The regulatory landscape applies to two distinct areas within PASA.

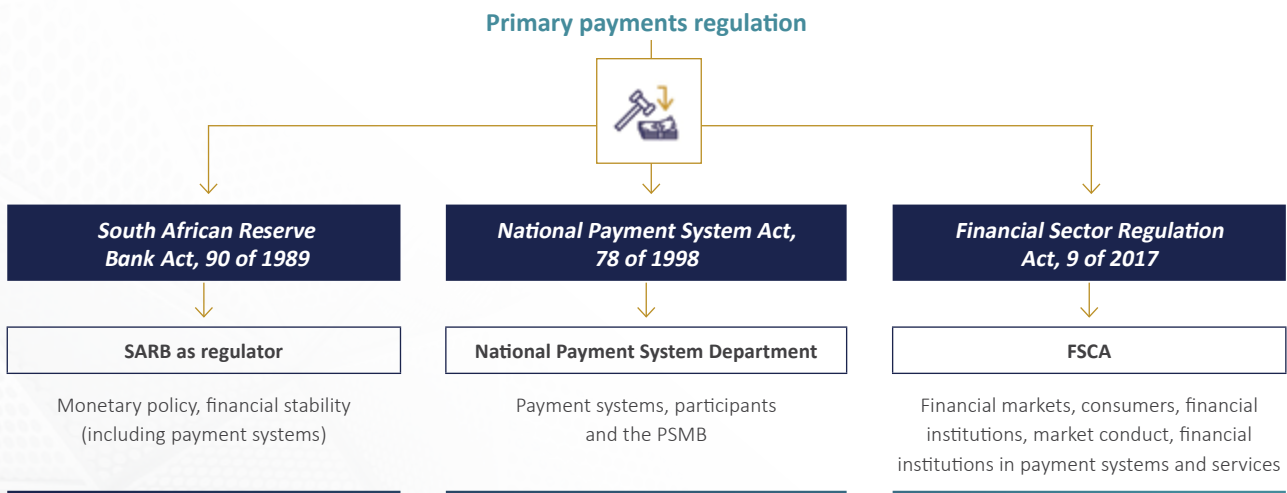
- PASA as a PSMB: Organising, managing and regulating the participation of its Members in the National Payment System per the National Payment System Act
- PASA as a separate legal entity: Subject to general laws of South Africa

PASA as a PSMB

The South African Reserve Bank Act, 90 of 1989 mandates the SARB to regulate, supervise and oversee payments and payment systems in South Africa. The National Payment System Act reaffirms and broadens such mandate by empowering the SARB to recognise a PSMB, designate non-bank participants, issue directives and effectively regulate, supervise and oversee the National Payment System. The National Payment System Act also prescribes the objects of the PSMB and the requirements for recognition of a PSMB. PASA, as a PSMB, is directly impacted by the National Payment System Act.

PASA's Members are directly impacted by all the instruments listed in the following diagrams.

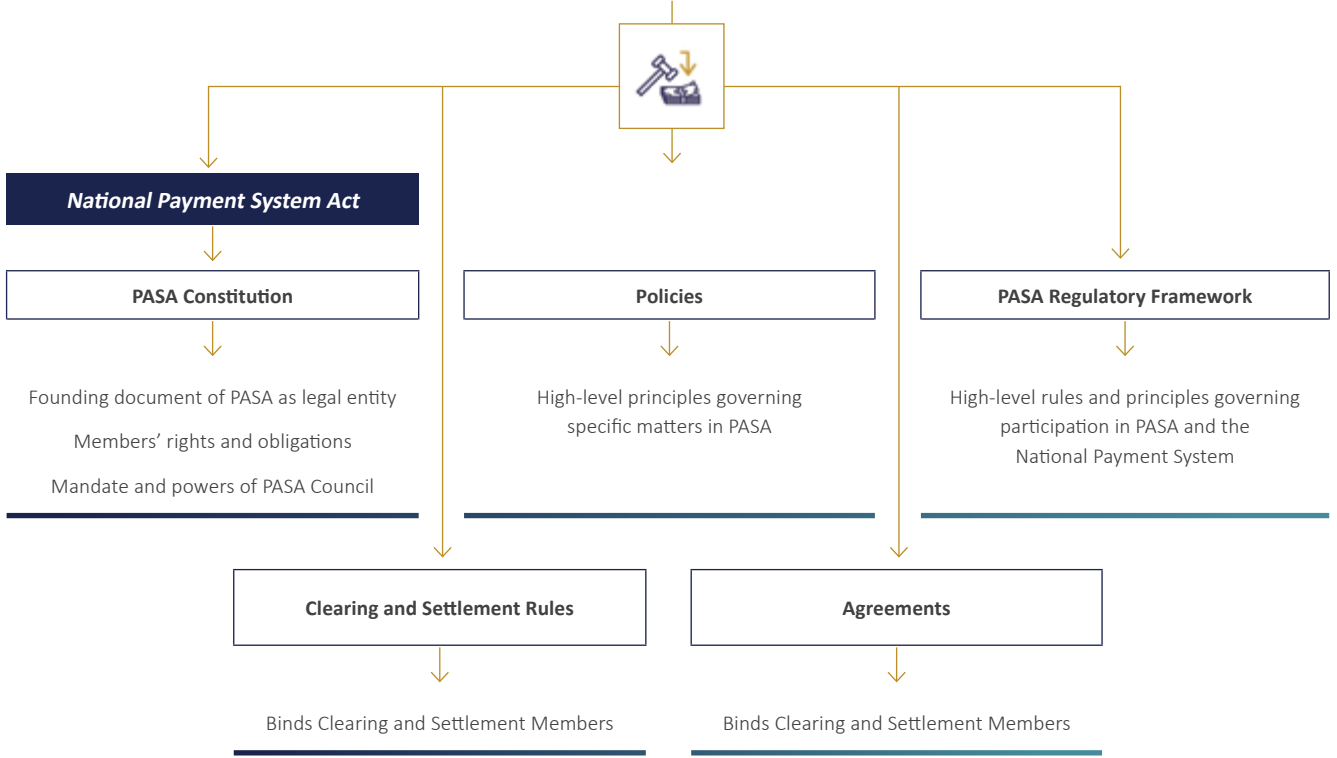
Legislation that is principally applicable to payments in South Africa



Copies of this report downloaded prior to Monday, 29 August 2022 incorrectly referenced the 'South African Regulatory Body Act, 90 of 1989' this has been amended to the 'South African Reserve Bank Act, 90 of 1989'.

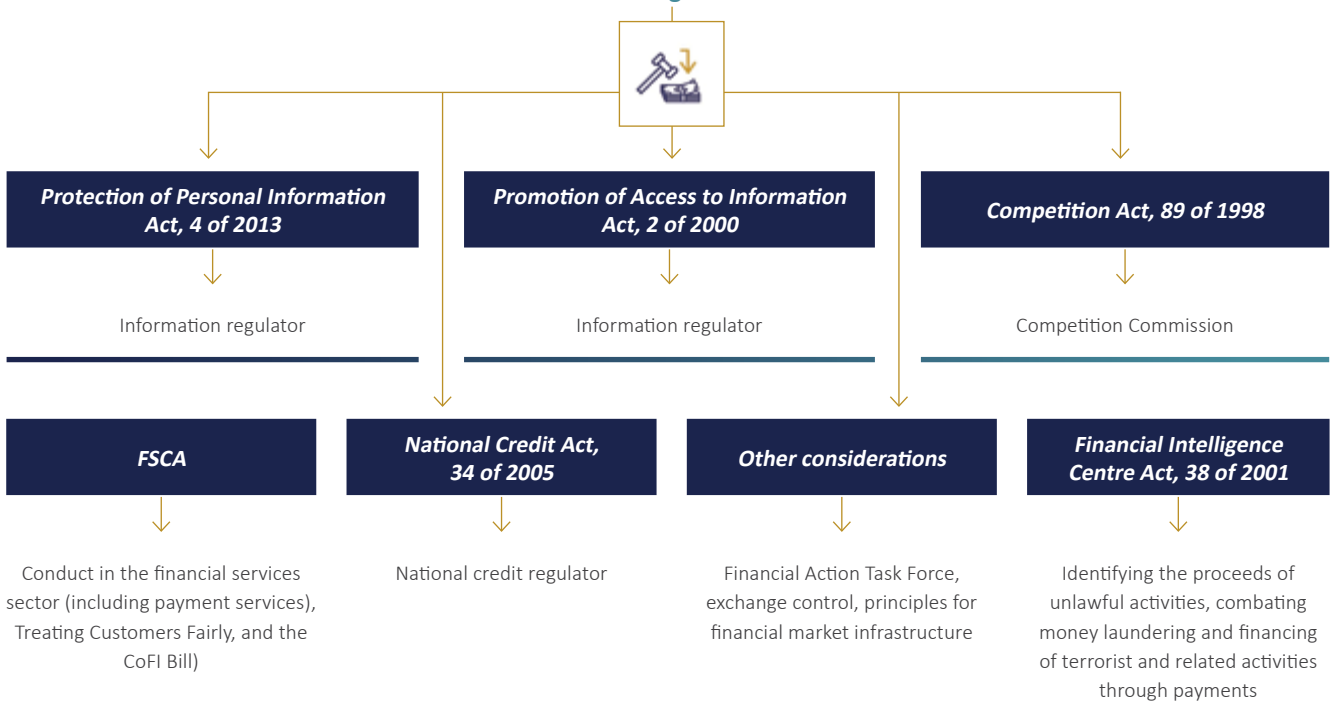
PASA, as PSMB, is governed by its Constitution, policies and rules. Members are bound by these documents, developed and finalised through formal input from Members and approved by structures with delegated power from PASA Council. As a contract between Members, the PASA Constitution is annually reviewed and approved at a general meeting of Members, followed by the SARB’s approval.

PASA Regulatory Framework



All the instruments in PASA’s Regulatory Framework apply to Members. Those dealing with data, information and competition apply to PASA in its capacity as a legal entity and as a PSMB that is responsible for issuing rules and policies. PASA performs a public function. It is mandated in terms of the National Payment System Act to issue rules and policies which may impact Members and stakeholders, as contemplated in the Promotion of Administrative Justice Act, 3 of 2000 (not included below).

Other regulation



Pending regulation and its impact on PASA

Review of the National Payment System Act

The review of the National Payment System Act gained momentum with the proposed COFI Bill, which should be tabled before Parliament in March 2022. Thereafter it will be up for public consultation before it becomes law.

The CoFI Bill was circulated to the industry in November 2021. The CoFI Bill, in Schedule 2, now includes consequential amendments to the NPS Act. This decision was taken as certain provisions of the NPS Act are important for and relevant to the CoFI and therefore need to be put in place to enable the SARB to effectively undertake its regulatory and supervisory mandate in relation to the National Payment System. This will enable licensing to be implemented appropriately in the National Payment System, as will be provided for in terms of licensing provisions that will be included in the NPS Act. These licensing provisions will apply in conjunction with the revised Financial Sector Regulation Act, 2017, which is contained in consequential amendments in this version of the CoFI Bill. Necessary regulatory, supervisory, and enforcement powers are also conferred on the SARB. These developments are aimed at ensuring full implementation of the Twin Peaks model in South Africa, and alignment between the various sets of financial regulation.

The PSMB concept, which gives PASA its regulatory mandate, will effectively disappear once the CoFI Bill is promulgated and the PIB will replace PASA after a transition period. The purpose of the regulatory amendments is to modernise the payment system regulation and be more inclusive. To develop the new PIB entity, PASA focuses on developing structures that are compliant with regulations, the SARB's objectives and South African legislation.

Compliance management and enforcement

In terms of the PASA Constitution, PASA is responsible for promoting good practice by all its Members. It does this by ensuring observance of the terms of the PASA Constitution, PASA policies and the Regulatory Framework of the National Payment System. PASA has created a compliance enforcement regime based on the core principles of alignment to risk and independence in enforcement to discharge this responsibility.

In terms of this regime, the PASA Compliance Manager is tasked with investigating matters of alleged non-compliance and referring such matters to the independent Compliance Enforcement Panel, where appropriate. The PASA Compliance Enforcement Panel comprises only independent, external legal experts and assesses matters of alleged non-compliance referred to it. The Compliance Enforcement

Panel makes a finding on whether or not a particular Member has transgressed the rule in question. It also can impose a suitable sanction in respect of any non-compliance. The PASA Compliance Enforcement Policy details the appeal process for any Member aggrieved with the findings of the Compliance Enforcement Panel.

The PASA Constitution makes provision for an appeal process in the event that a Member is not satisfied with the outcome of the findings of the Compliance Enforcement Panel to PASA Council.

Compliance enforcement in PASA in 2021

Number of matters of alleged non-compliance investigated	7
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Number of matters referred to the Compliance Enforcement Panel*	5
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Number of findings of non-compliance	2
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Number of non-financial sanctions	0
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Number of combined sanctions	1
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Number of financial sanctions	1
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The cumulative amount of financial penalties	R1,4 million
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* Of the five matters referred to the Compliance Enforcement Panel, three are ongoing and final findings have not yet been made.

PASA as a separate legal entity

Compliance by PASA

Regulatory compliance was a main focus area for the PASA Office during 2021. Key activities included conducting an end-to-end internal data privacy and protection impact assessment in preparation for compliance with the Protection of Personal Information Act, 4 of 2013 and creating an Occupational Health and Safety Committee as contemplated in the Occupational Health and Safety Act, 85 of 1993. The PASA Occupational Health and Safety Committee played a key role in PASA's COVID-19 response and management efforts. PASA will continue to refine and assess compliance with its regulatory universe in 2022.

THE RISKS PASA MANAGES

PASA'S RISK MANAGEMENT PROCESS

A well-functioning, safe, reliable, efficient, and resilient National Payment System is crucial in enabling South Africa to achieve broader societal objectives. These objectives include access to financial services, contributing to a stable financial system, promoting competition, and minimising risk to the payments ecosystem.

Every activity performed within this ecosystem carries some level of risk. As the recognised PSMB, PASA plays an essential role in embedding risk management within its own internal office and ensuring it forms part of the core activities and processes of the National Payment System. In this regard, PASA has two distinct risk environments: PASA as a separate legal entity and the National Payment System.

PASA's National Payment System Risk Management Framework was developed to provide a foundation for integrating risk management principles into all parts of the payments ecosystem. This is complemented by the PASA Office Risk Management Framework, which was developed to provide principles for embedding consistent and robust risk management into the activities performed within the PASA Office.

After approval of the frameworks, risk management structures were established to implement the frameworks. This included the formal establishment and delegation of risk management to Risk Subcommittees for card, low-value electronic and high-value payment systems by the PCH PG's, the appointing of Risk Champions and the provision of training and guidance on the framework components.

This was followed by mobilising Risk Subcommittees for structured risk identification and assessment and implementing the detailed risk and controls self-assessment register. This facilitated the maturity of the risk management process, providing a holistic payment system risk profile, covering risks from various payment systems, projects and activities performed within the PASA Office.

Risk assessment reviews and reporting followed a structured approach. PASA as a PSMB process entailed holding risk assessment workshops to identify and assess key risks, review and approval at respective PCH PGs, development of a PASA risk profile, and, ultimately, PASA Council reporting. PASA as a legal entity risks were discussed and assessed in consultation with relevant business functions, approved at the Executive Committee and ultimately reported to PASA Council.

This enables PASA Council and the Council Risk Committee to be informed of key issues and risks that might have significant or negative consequences (financial and/or non-financial) to PASA and its Members.

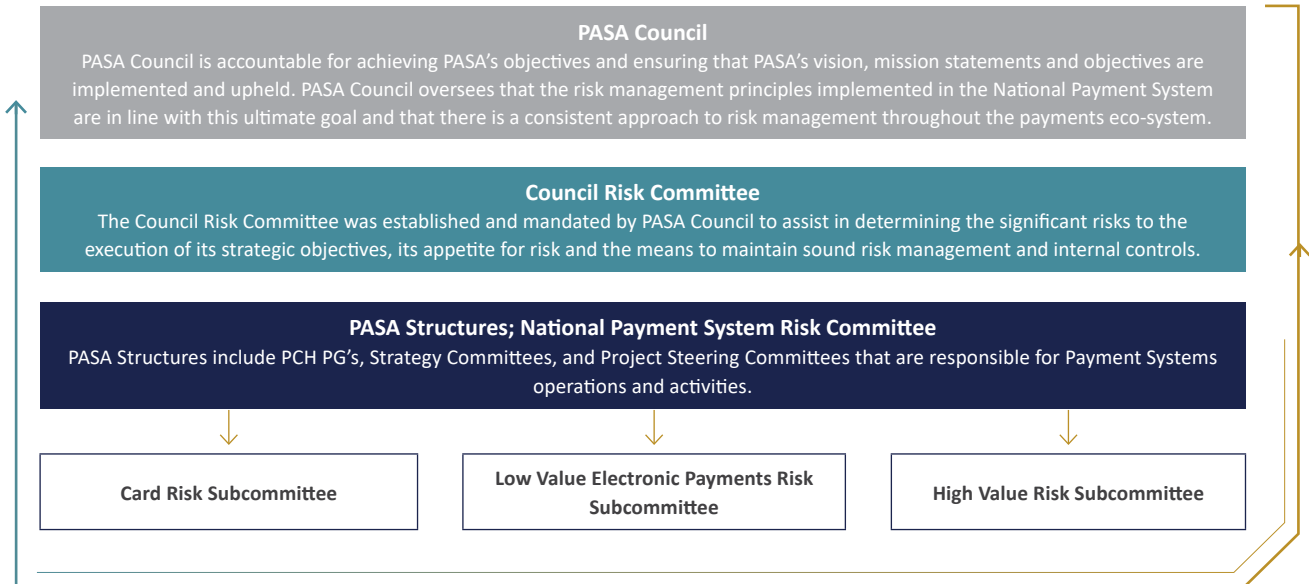
The above process enables PASA Council and the Council Risk Committee to be informed of key issues and risks that might have significant or negative consequences (financial and/or non-financial) to PASA, its Members and/or stakeholders.

PASA's key focus areas to enhance risk management in 2021

PASA's focus for the year was on creating integrated risk management reporting, including reviewing the organisation's risk appetite and tolerance levels. This provided thresholds that PASA and participants should consider when evaluating strategic alternatives, setting related objectives and developing mechanisms to manage risks and opportunities. The feasibility of developing and implementing industry key risk indicators was prioritised, considering data availability and integrity challenges.

Risk management governance structures

PASA as a PSMB's risk governance structures and Council Committees support identification, assessment and reporting in a manner that fosters risk-based decision-making.



PASA as a PSMB has four lines of defence model for managing risks.



PASA as a legal entity's risk governance structure includes the below committees, which support risk identification, assessment and reporting in a manner that fosters risk-based decision-making.



Top PASA as a PSMB risks in 2021

These are the key risks related to activities performed within PASA from a National Payment System perspective.

People risk

Risk description	Mitigating activities
PASA as a PSMB faces a risk of decline in the required level of skill and maturity available to execute industry tasks, due to the loss of skilled participant representatives without adequate contingency or succession planning.	The focus has been on understanding the extent of the problem within the settlement and high-value payment systems and to agree an action plan to address the challenges over a two year period. PASA also engages with the global industry community to obtain an understanding of complex payment structures.
Overall rating Moderate	Risk appetite Moderate
	Risk tolerance Moderate

Fraud risk

Risk description	Mitigating activities
Fraud risk concerns include EFT Credit push payment fraud due to cybercrimes, social engineering, and Business Email Compromise scams. Fleet and card-not-present transactions fraud losses remain a concern due to a lack of security initiatives.	Security education awareness is provided by banks, while banking details (account) verification services are offered by some of the banks. The industry is currently exploring possible solutions for an account verification solution that can be utilised by all banks. The card industry has evolved technology to minimise fraud losses, with card Chip technology implemented effectively, and fraud prevention and monitoring processes implemented by most banks. A project has been logged to migrate all fleet cards from magstripe to Chip and PIN technology.
Overall rating Moderate	Risk appetite Zero
	Risk tolerance Low

Project risk

Risk description	Mitigating activities
The convergence of multiple and complex modernisation projects landing in narrow timeframes, resulting in significant changes to key payment systems within short timelines, may have unintended industry consequences.	Structured delivery schedule, technical skills and expertise, project milestone monitoring and updates, ongoing engagements, and industry stakeholder collaboration, are key to successful implementation of the major modernisation initiatives. PASA has a Project Management Office and project managers have been appointed to monitor key projects. Ongoing monitoring and communication are performed to ensure project delivery issues are continuously identified and addressed.
Overall rating Moderate	Risk appetite Zero for regulatory projects and low for others
	Risk tolerance Low for regulatory projects and moderate for others

Cyber risk

Risk description	Mitigating activities
Inadequate controls in the usage of instant EFT by merchants exposes consumers to a potential breach of banking details and subsequent financial losses.	A consumer alert was issued in November 2020, advising consumers to be aware of the risks associated with providing their online banking credentials for instant EFT payment services. The SARB has also issued an industry consultation paper into Open Banking Activities in the National Payments System. PASA and its Members provided comments on the paper.
Overall rating Moderate	Risk appetite Zero
	Risk tolerance Low

PASA saw a year-on-year change in the key risks related to activities performed within the ambit of PASA as a PSMB. Technology and operational risk are no longer identified as key risks. This was due to technology optimisation changes and reduced system downtime as well as ongoing monitoring of the operational changes in the legislation that could impact the National Payment System. In 2021, PASA identified project risk as a key risk from a PSMB perspective, due to the convergence of large and complex projects landing in short timeframes, requiring close monitoring, engagement, and collaboration.

Top PASA as a legal entity risks in 2021

The following are the key risks related to PASA's organisational activities.

People risk

Risk description	Mitigating activities
PASA has high dependency on key individuals, which is exacerbated by resource overstretch. The potential loss of key employees might result in skills deficit and in PASA failing to achieve its strategic objectives.	Current measures in place include succession planning and retention strategies for key employees, talent management and equitable remuneration approach. There is also ongoing employee engagement and communication regarding the PIB and NPS Act changes.
Overall rating Moderate	Risk appetite Low
	Risk tolerance Moderate

Cyber risk

Risk description	Mitigating activities
PASA faces the risk of unauthorised access, use, disclosure, disruption, modification, or destruction of PASA's information and communication technologies, due to cyber incidents and/or attacks.	Email encryption and secure file sharing capability have been implemented. Data replication, disaster recovery measures, patching, and antivirus solutions are in place. PASA's Information and Cyber Security Policy is in place, and cybersecurity measures continue to be implemented. PASA is also in the process of procuring cyber risk insurance cover.
Overall rating High	Risk appetite Zero
	Risk tolerance Low

Litigation risk

Risk description	Mitigating activities
PASA faces an ongoing risk of being exposed to litigation due to activities performed within its ambit as a PSMB. Negative judgements against PASA could impact the debit pull payments environment.	PASA has embarked on an initiative to explore and reach agreement on industry measures achieve an acceptable balance between the rights of collectors and payers in the debit order payment systems, with the objective of using these to address the current litigation matter out of court. Ongoing engagement are being held to discuss the matter with the SARB and FSCA.
Overall rating Moderate	Risk appetite Zero
	Risk tolerance Low

PASA saw a year-on-year change in the key risks related to PASA as a legal entity. Strategic and operational risk are no longer identified as key risks. This is due to strategic risk being identified as a key risk prior to the PIB project being announced. Operational risk has been addressed through PASA's Operating Model Optimisation project. In 2021, PASA identified cyber risk as a key risk in response to the organisation's concerns around its control environment and the rise of cyber fraud globally. Litigation risk was also identified as a key risk as a result of the organisation being exposed to litigation due to the activities performed within its ambit as a PSMB.

PASA continues to monitor global developments, and key concerns being tracked are the implications of the payment systems being used as sanction mechanisms (Russia as the recent case) and the increased risk of payment systems cyberattacks.

Risk management: looking ahead

PASA will continue to elevate risk management across the PASA Office functions and payment systems.

Priorities include enhancing PASA's risk culture. This will be underpinned by awareness and training initiatives to ensure an organisation-wide understanding of each functions' roles and responsibilities in terms of complying with PASA's risk policies and frameworks. The organisation is also focused on elevating IT risk management, focusing on mitigating cyber risk. In addition, a key focus in 2022 will be managing the risks associated with the PASA's transition into the new PIB as well as the implementation of key industry projects and initiatives.

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