



ANNUAL REPORT

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01

ABOUT OUR REPORT

The Payments Association of South Africa (PASA or the organisation) is the industry body mandated by the South African Reserve Bank (SARB) to assist it in managing the National Payment System in line with national and payment policy objectives. PASA is recognised in terms of the National Payment System Act, 78 of 1998 (National Payment System Act).

Boundary and scope

This annual report covers all PASA's operations from 1 January 2020 to 31 December 2020. This report tells PASA's story and describes the progress that has been made in the management and optimisation of payments within the South African economy, in collaboration with PASA's Members¹, stakeholders and the South African Reserve Bank National Payment System Department (SARB NPSD).

This report has been prepared in accordance with the reporting principles and guidelines provided by the International Financial Reporting Standards (IFRS), 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 International Integrated Reporting Council's Integrated Reporting <IR> Framework, 2013 and PASA's performance within these. To determine material matters to report, emphasis was placed on the risks and opportunities arising from PASA's operating context and stakeholder relationships.

Forward-looking statements

This report contains forward-looking statements with respect to the future performance and prospects of PASA and the broader payments industry. While these statements represent PASA's judgements and future expectations at the time of preparing this report, there are a number of uncertainties and other factors which could cause actual outcomes to differ materially from expectations.

Assurance and approval

Management has prepared and verified the information in the report and ensured an accurate, balanced and comprehensive overview of the organisation. All financial information in this report has been extracted from the audited annual financial statements. The financial information has been audited by SNG Grant Thornton Inc., PASA's independent auditors.

Approval of this report

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

The Audit Committee reviewed the annual financial statements and recommended them to Council. Council approved the annual report and the annual financial statements.



Sydney Gericke
Chairman



Ghita Erling
Chief Executive Officer

¹ Members here refers to banks and designated clearing participants.

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02

WHO WE ARE AND WHY WE EXIST

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

PASA is recognised as a Payment System Management Body (PSMB) by the SARB in terms of the National Payment Systems Act. As a PSMB, PASA is responsible for organising, managing and regulating the participation of its Members in the National Payment System in the interest of economic development in South Africa.

PASA'S OPERATIONS ARE STRUCTURED AROUND ITS FOUR CORE OBJECTIVES:



Direct the future of payment systems in accordance with key policy guidelines like SARB Vision 2025



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



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



PURPOSE

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



VISION

PASA aspires to be acknowledged as world class in its assistance of 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

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

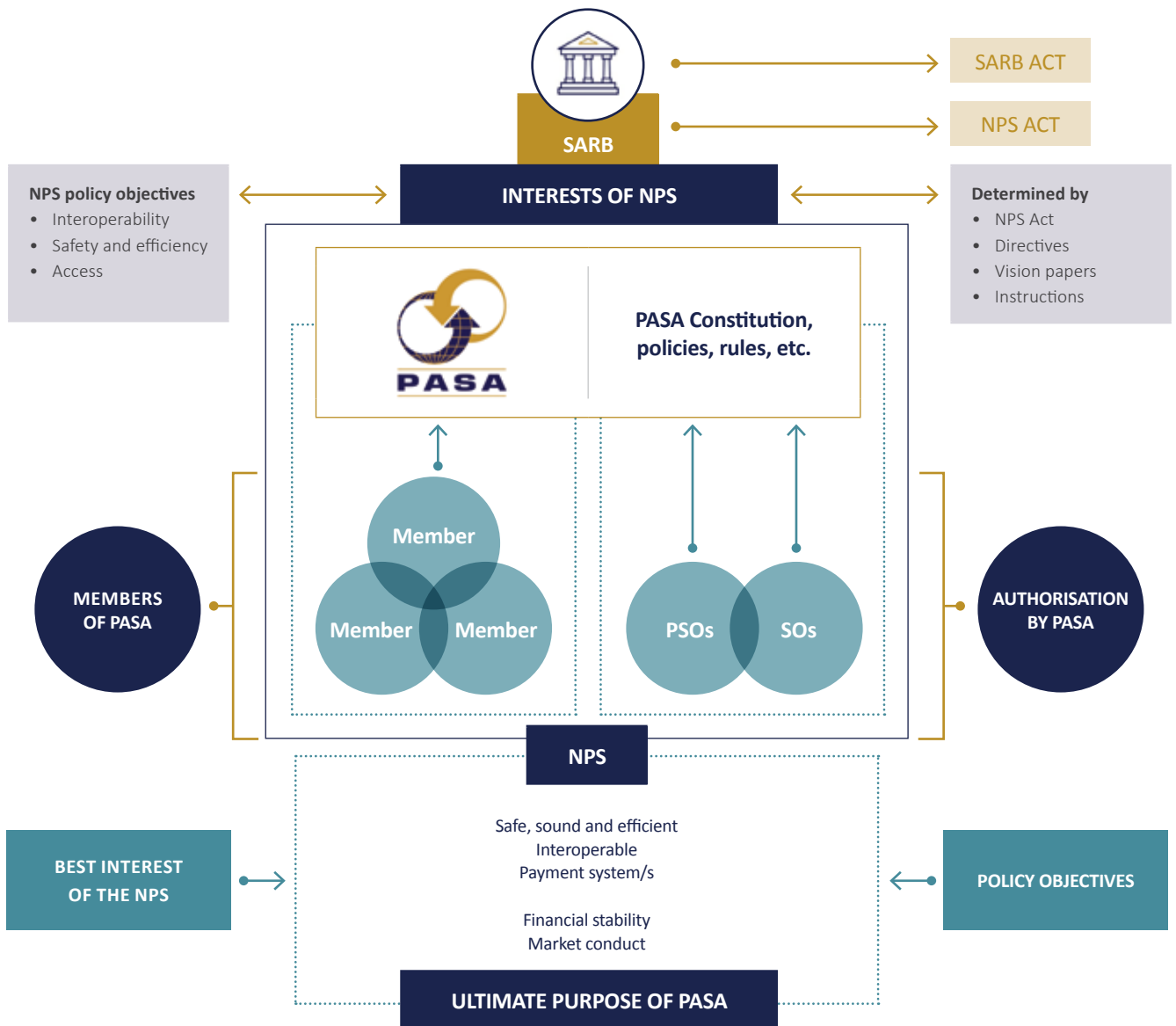


GOALS

In order to achieve our mission, PASA's goals for both the organisation and its Members are to ensure better or improved:

- risk management
- access
- inclusion
- competition
- interoperability
- innovation
- data privacy
- legal certainty
- efficiency
- fairness and transparency
- financial stability
- sustainability

PASA'S ECOSYSTEM



PASA's structure and Constitution and the role of the SARB



- PASA's founding document, the PASA Constitution provides for the establishment of PASA and its governing body, PASA Council, together with the mandate, powers and responsibilities of PASA and PASA Council.
- The PASA Constitution provides for the membership of PASA, criteria for membership and the rights, roles and obligations of Members.
- 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 PSMB, to assist the SARB in the discharge of its responsibilities and to effectively manage and regulate the participation of its Members.



- As governing body of PASA, PASA Council is responsible for effective governance of PASA and its structures.
- PASA Council delegates powers to committees of Council to assist it with the execution of its responsibilities. These committees are:
 - Audit Committee
 - Risk Committee
 - Remuneration Committee
 - PASA Review Committee
 - Nomination and Induction Committee
- PASA Council delegates powers to PASA Structures and the Chief Executive Officer (CEO). PASA Structures are divided into structures with an operational, strategic, risk, legal and competition law focus. A separate structure is in place to independently perform compliance investigations and enforcement of rules. These committees are accountable to PASA Council and report on a regular basis to Council.
- PASA has:
 - Eight Payment Clearing House (PCH) Participant Groups (PG's), with an operational focus on managing a specific payment stream;
 - Three Strategy Committees, covering card payments, electronic payments and high-value payments; and
 - Three Subject Matters Expert Committees, namely the Legal Committee, Risk Committee and Competition Committee.



- 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; and
 - Stakeholder Forums as part of PASA's formal and structured engagement with broader stakeholder groups than its Members.

PASA's Members

In terms of the National Payment System Act, direct participation in 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 specifically designated by the SARB. In addition to the right to participate directly in payment systems of their choice, PASA's Members have the right to participate in relevant PASA Structures as set out on page 25. PASA's Members are bound by the provisions of PASA's Constitution, Policies and the PASA Regulatory Framework, which include the Clearing Rules that govern individual PCHs.

PASA'S MEMBERS IN 2020

- Absa Bank 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
- GroBank Ltd
- Habib Overseas Bank Ltd
- HBZ Bank Ltd
- HSBC
- ICICI Bank
- Investec Bank Ltd
- JPMorgan Chase Bank NA Johannesburg branch
- Nedbank Ltd
- Post Office**
- SARB
- 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***

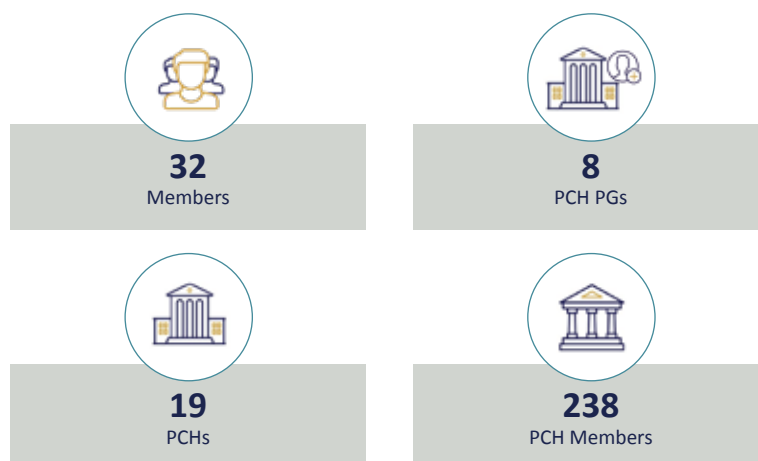
* Designated clearing participant.

** Post Office was the designated clearing participant as at the end of 2020. This designation was subsequently transferred to Postbank SOC Ltd.

*** Under curatorship.

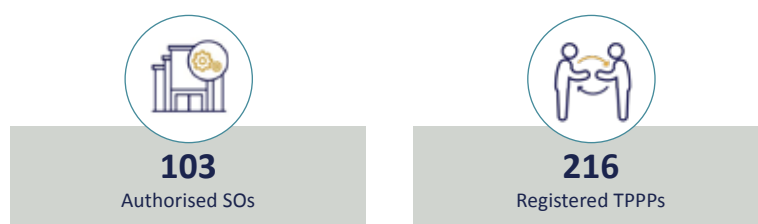
Capitec Bank acquired Mercantile Bank in 2019. Mercantile Bank ceased to be a PASA Member on 1 December 2020.

PASA's membership can be summarised as follows:



System Operators and Third Party Payment Providers in 2020

Although Third Party Payment Providers (TPPPs) are not considered members of PASA, PASA is responsible for registering TPPPs in terms of SARB Directive 1 of 2007 and authorising System Operators (SOs) in terms of SARB Directive 2 of 2007. TPPPs are non-bank entities who make or collect payments on behalf of banks or other businesses. SOs are non-bank entities that process payment instructions on behalf of banks or other businesses.



03

AN OVERVIEW OF 2020



Tim Masela

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Industry cooperation and collaboration is a key pillar that will facilitate the evolution of the National Payment System. Where the role of the payments industry is crucial in ensuring that SARB, PASA and other stakeholders collectively develop and maintain a world-class National Payment System.

Message from the Head of the SARB National Payment System Department

The payments industry continued to see reform initiatives in the National Payment System. The industry also embraced technological advancements and new innovative payment methods and entrants in the National Payment System. In response to these developments, necessary regulatory reforms, processes and procedures were implemented, without compromising the overall effectiveness of the National Payment System.

In this quest, the SARB worked with industry stakeholders to address, among others, the practice of screen scraping, Application Programming Interface (API) and open banking activities in the National Payment System. Given the role these activities play and the impact they might have in the National Payment System, the SARB embarked on a process to develop a consultation paper for these activities. The objective of the paper is for regulators to develop an appropriate policy position.

PASA dealt with circumstances in which card transactions are concluded between South African cardholders and merchants where the issuing of the card and/or the acquiring of these card transactions are provided by entities that are not registered or incorporated in South Africa. These issuances and acquisitions are not subjected to national laws and regulatory requirements. Therefore, although the transactions occur in South Africa between domestic parties, they are processed as if they were international or cross-border transactions because they are processed through foreign issuing and/or acquiring entities. As such, these institutions are not subject to regulation by the SARB as a payment system regulatory authority nor are they subject to regulation by the Financial Sector Conduct Authority (FSCA) and the Financial Intelligence Centre. This creates opportunities for regulatory arbitrage. After due consultation, the SARB published a Directive for Conduct within the National Payment System in Respect of Domestic Card Transactions in February 2020 to prohibit this practice.

The authenticated collections system went live on 31 October 2019, as per the Amendment of the Directive for Conduct within the National Payment System in Respect of the Collection of Payment Instructions for Authenticated Collections: First Amendment of Directive 1 of 2017. All participants in the Early Debit Order (EDO) collections environment were expected to fully implement authenticated collections by 1 November 2019 and fully transition to the system by the sunset date, 31 October 2020. This milestone is a culmination of extensive effort by the industry to improve the safety and efficiency of the debit order collections system for users and consumers and to curb debit order abuse.

Due to the negative impact of COVID-19, the SARB issued the Second Amendment of the Directive for Conduct within the National Payment System in Respect of the Collection of Payment Instructions for Authenticated Collections: Second Amendment of Directive 1 of 2017. The second amendment to this Directive extends the migration phase of the authenticated collections project by 12 months. This extension provides the industry with the opportunity to address industry challenges and technical complexities the project faces.

Several engagements took place between the SARB and industry stakeholders regarding the continued use of cheques in the National Payment System. A proposal was made to discourage the use of cheques going forward. This proposal was informed by the rapid decline in cheque volumes, high cheque processing costs and the risks associated with cheques. In view of the goals outlined in Vision 2025, the use of electronic payments is promoted. A process to phase out cheques was agreed upon and implemented in January 2021. No major issues have been observed as a result of this initiative.

The payment system modernisation initiative is progressing and should be viewed as an integrated programme. This programme should principally deliver integrated solutions that together make up an integrated payment platform. The major components of the programme are:

- The electronic funds transfer debit reforms which include the authenticated collections/DebiCheck system implementation that will be followed by the reform of the non-authenticated electronic funds transfer debit offerings.
- The real-time gross settlement system renewal programme that is undertaken by the central bank in collaboration with industry stakeholders. This programme focuses on refreshing technology infrastructure and:
 - reviews the target operating model of the system;
 - reviews alignment to the broader modernisation initiative;
 - addresses risks related to cyber threats; and
 - enables the settlement infrastructure to be open to integration with offerings emanating from FinTech developments, among others.
- Reforms in the electronic funds transfer credit system which have commenced but are still in their infancy. The Rapid Payments Programme will make a significant contribution to this element of the reform journey.

There are reforms underway that relate to the industry structures that contribute to the well-functioning of the National Payment System. These reforms aim to entrench cooperation and collaboration by stakeholders to build and maintain interoperable payment infrastructures in alignment with public policy objectives.



Sydney Gericke

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Council remains committed to ensuring the safety, efficiency, integrity, renewal and relevance of the National Payment System, that sound governance practices are maintained and that PASA continues being a vibrant organisation delivering value for all its stakeholders.

Message from the Council Chair

The COVID-19 pandemic caused enormous disruption. PASA was agile and successfully adapted its operating model to the virtual way of working, thereby being able to maintain high levels of Member collaboration and cooperation as required by its Constitution. As a result, good progress has been made on its key deliverables.

Ghita Erling was appointed as PASA CEO effective 1 November 2020, and Council has confidence in her leadership of PASA during this time of regulatory and organisational change.

Navigating through a changing environment and strengthening governance

The regulatory changes to the National Payment System Act remains in a finalisation process guided by National Treasury. Proposals to improve the mutual understanding and agreement of the possible end-state models for the future management of the National Payment System are being refined. Our interactions with the SARB NPSD and other stakeholders remain positive.

Council continued its focus on enhancing corporate governance during 2020 and with PASA reviewed, amended and developed policies, procedures and frameworks. In addition, an organisational scorecard was developed against which the performance of PASA is measured biannually and a revised schedule of delegation of authority further embedded the culture of accountability across the organisation.

An internal evaluation of Council, the Council Committees and Councillors was undertaken during 2020. No material issues resulted from this review.

Optimising resources through a focused approach

The PASA scorecard, PASA payments plan and strategy map approved by Council during 2020 inform the plans for the modernisation and maintenance required for the various payment streams and the management of risk. Council identified key focus areas intended to ensure that efforts are optimised by PASA's resources and that capacity is appropriately allocated. The focus areas identified for 2020 are listed below. Council reviewed progress on all of these at each Council meeting:

1. National Payment System reforms and the future of PASA (page 12)
2. Electronic low-value modernisation with specific focus of the following projects:
 - Authenticated collections (DebiCheck) (page 23)
 - Debit Order Abuse 4-prong model (page 24)
 - Project Future and the Rapid Payments Programme (page 25)
3. Electronic high-value modernisation (page 27)
4. QR code standardisation (page 29)
5. Expedited cheque exit strategy (page 27)

Acknowledgements

Walter Volker stepped down as CEO on 30 April 2020, after 12 years of service at PASA. We would like to acknowledge his contribution to the organisation, which included strengthening PASA's role as a member organisation to the benefit of all participants in the National Payment System as well as the establishment of functions such as strategy and project management. He also contributed to the formalisation of PASA's training capability for the development of payment professionals and the capacity building of payment expertise in general.

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

I also wish to acknowledge the outstanding contribution of Hendrik Pelsler, who helped shape and develop PASA over many years in a number of different roles. I also wish to welcome Charl Smedley as Hendrik Pelsler's replacement as a Principal Member-appointed Councillor. His appointment strengthens Council.

I also acknowledge PASA's Members and the SARB NPSD for their continued support and engagement. Throughout this annual report, we reflect on the work PASA, its Members and the Regulator are performing to benefit the National Payment System and achieve the relevant National Policy Objectives.

Finally, I would like to thank my fellow Councillors for their wisdom, guidance and commitment to PASA during the past year.

Outlook

As PASA enters its 25th year of service to the National Payment System, we take comfort in knowing that the systems, processes, rules and procedures that have been implemented for the National Payment System serve the payments industry and the South African economy well.

As payments systems are undergoing rapid transformation through innovative, mainly digitally enabled client solutions, with an increasing number of solution providers, it requires a holistic reassessment of the future model best suited for the management of the interoperable National Payments System architecture. Council remains committed to support and guide PASA in its ongoing dialogue with Members, non-banks and Regulators in shaping the ideal future management model.



Ghita Erling

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In an uncertain time, in which COVID-19 plays a major role in the economic outlook, the future role and structure of a payments industry body is in discussion and the digitisation of payments is being accelerated by the pandemic, PASA's focus is to ensure we fulfil our mandate and continue to create material value for stakeholders.

Message from the Chief Executive Officer

Despite the disruption of the pandemic, 2020 was a successful year, with considerable effort going into ensuring that the National Payment System is not impacted by COVID-19. Although many of our major initiatives, particularly those relating to payment system modernisation, are multi-year, some meaningful milestones were achieved:

- The pre-onboarding process put in place to stem debit order abuse by rogue collectors was operationalised and is estimated to have prevented more than R6,5 billion of fraudulent collections as at end 2020 (page 24).
- The work done on modernising credits culminated in the detailed design of the Rapid Payments Programme, which is currently in implementation phase (page 25).
- The “sunsetting of South African cheques” was publicly announced in November 2020 (page 27).
- The Registered Mandate Solution (RMS) was conceptualised, designed and delivered in the DebiCheck Programme. RMS materially mitigates the issues arising from consumers who are reluctant to authenticate collection mandates and makes the 2021 target dates (page 23) viable.
- Material progress was made to optimise PASA processes (page 30).

Keeping in mind an uncertain 2021, we envisioned six aspirational future-focused statements as set out on page 31. Through these statements we reiterate our commitment to a modern, safe, efficient, inclusive and interoperable payment system that meets the needs of all South Africans. Although the realisation of the statements will be a multi-year journey, we have used them to define PASA's short-term activities for 2021. To deliver on these aspirations, we have split the 2021 focus areas into three categories:

1. Mandate and sustainability
2. Payment system modernisation
3. Running an effective organisation which delivers good performance and manages risk

Mandate and sustainability

This focus area is to ensure that the pivotal role PASA plays in the National Payment System is fulfilled and protected and that our stakeholders continue to experience the value PASA adds to the National Payment System. Specific initiatives relate to strong market positioning of our value combined with individualised stakeholder management, ongoing discussions about the role that a future payments industry body will play in the National Payment System and the eventual cocreation of more inclusive structures.

Payment system modernisation

The progress and outlook of the South African payment modernisation programme is pleasing. A number of key modernisation initiatives are covered in this report:

- Authenticated collections journey (page 23)
- Rapid Payments Programme (page 25)
- Modernisation of High-Value Payments (page 27)
- A South African QR Code standard which can be used with Cards or EFTs (page 29)

These major initiatives lay the groundwork for a modernised National Payment System, built on an agile architecture, which ensures safety and robustness and encourages innovation and access. Key to the success of modernisation will be financial inclusion and at least partial displacement of cash. PASA has the opportunity to combine these projects into a holistic roadmap for achieving complete modernisation of South African payment systems.

Running an effective organisation which delivers good performance and manages risk

To deliver on our future aspirations, it is critical that the organisation continues to perform well while remaining agile enough to respond to changing market conditions. PASA is funded by its Members and must demonstrate that their contributions are spent responsibly, effectively and to the good of the system. We need to ensure that our people are empowered and capacitated to build the future PASA and National Payment System.

This focus area covers the performance of the PASA Structures and the adequate management of risk of PASA and the National Payment System. Most importantly, this focus area ensures that we continue to monitor and ensure that the National Payment System runs smoothly and safely.

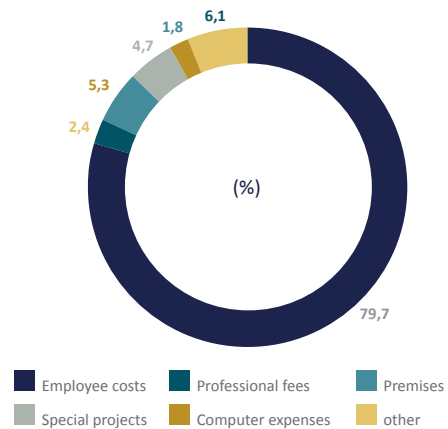
Financial overview

The arrival of the COVID-19 pandemic, together with the associated lockdown, led to PASA underspending its 2020 budget. The end result was a surplus of R8,1 million for the 2020 financial year. The industry decided to minimise change to limit any risk to the National Payment System at a time when it was anticipated that illness could impact on key resources. After consultation with stakeholders, certain projects within PASA were reprioritised, and, in some cases, delayed to ensure that there was capacity to deal with any eventualities arising as a result of the pandemic. Additional savings were achieved due to the COVID-19 impact on conferences, in person training and travel. Some additional costs were incurred due to staff working from home, but these were offset by the savings achieved elsewhere.

The main non-COVID-19 saving was in employee costs where a saving was achieved from resignations resulting in vacancies which were not immediately filled. Further to this, a key executive position was not filled in 2020.

The pie chart above illustrates the percentage that each main category of expenses makes up of the total actual expenditure of R83.3 million for the year.

PASA Expenses

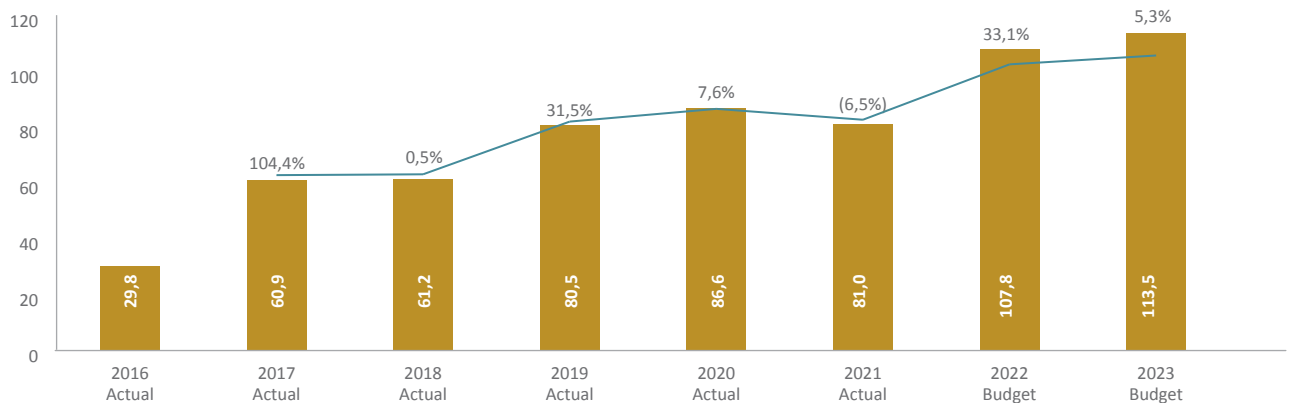


Overall, PASA is in a good position financially with healthy cash reserves resulting from the 2020 savings as described above. There have been no adverse audit findings regarding the management of PASA's financial affairs during the year under review. Special projects are fully self-funding initiatives such as training and running conferences.

Looking forward to the 2021 financial year, the budgeted operating expenses, excluding self-funding industry training expenses, are growing from a 2020 projected R86,8 million to a 2021 budgeted R108,4 million, an increase of 24,9%. However, due to the savings that arose in 2020 as well as the use of previous surplus funds, the Members funding requirement was reduced by 6,5% to R81,0 million.

The graph below reflects the projected growth in membership funding for the years ending 31 December 2021 to 2023. The growth in 2022 is attributable to the fact that the surpluses utilised to minimise the funding requirements, for 2018 to 2021, from Members have been utilised and are thus not available for the 2022 year.

Annual membership contributions and growth R'm



Acknowledgements

As a public good organisation, we are grateful for the strong governance provided by PASA Council and the Council Committees. Our shared objectives and close working relationship mean that the SARB NPSD is an integral part of our ability to deliver on our mandate. 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. Finally, we recognise the efforts of our people, who continue to deliver resilience and excellence in the face of ongoing uncertainty.

04

PASA'S VALUE CREATION PROCESS

As a valuable and important role player in the National Payment System, PASA's value and contribution is critically considered on an annual basis.

How PASA's strategy supports value creation

Success in the execution of PASA's goals is measured through a Balanced Scorecard approach with tangible metrics that are used to ensure that the organisation continues to stay relevant and provide value to its Members. Focus areas are selected on an annual basis for specific attention by Council. These form part of the annual organisational scorecard and are an objective basis from which PASA's value-adding role on major focus areas can be judged.

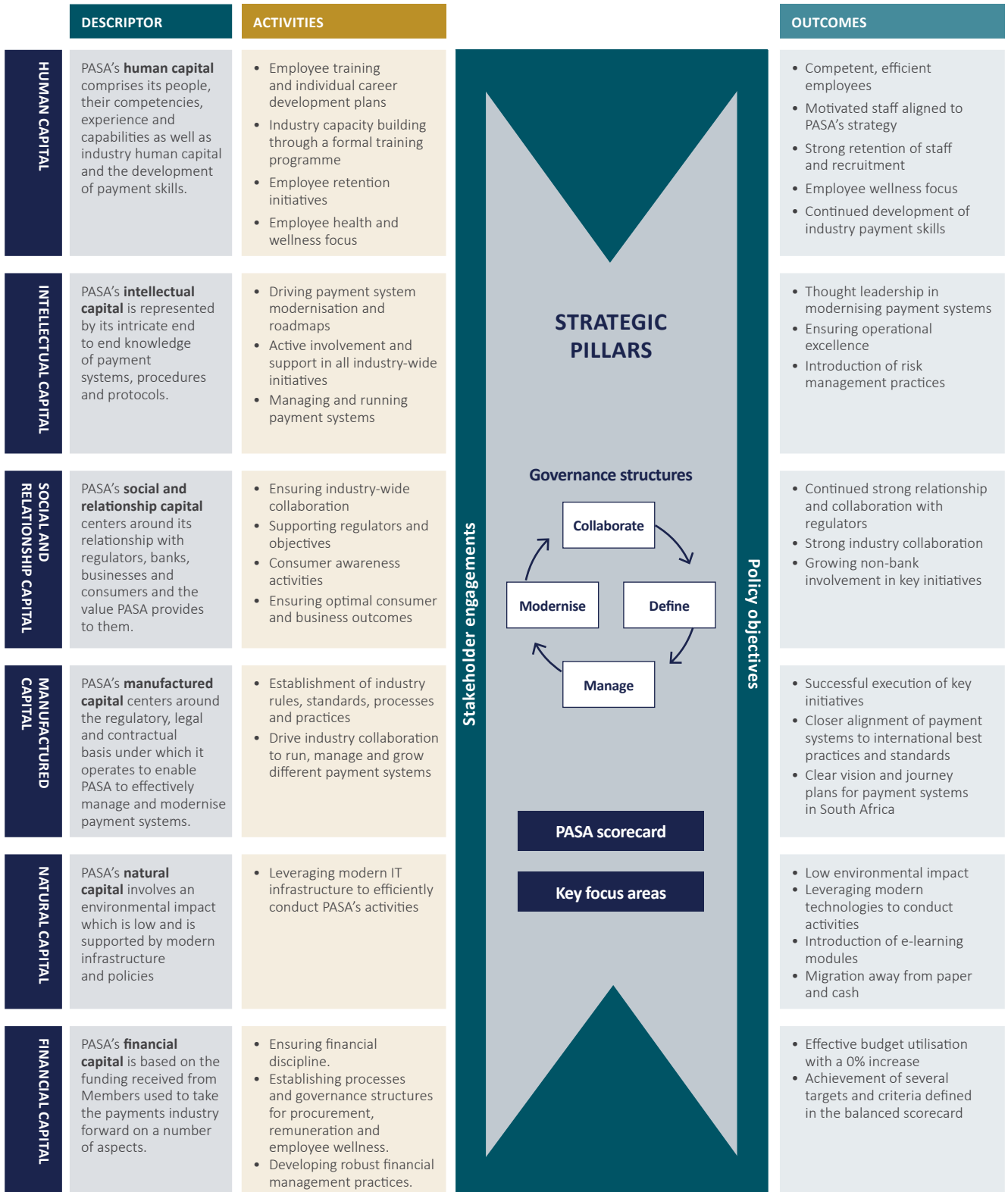
For the first time in 2020, PASA used a strategy map to articulate a performance scorecard for its annual objectives.

Out of the full delivery scorecard, Council identified specific focus areas and PASA's 2020 performance was regularly and critically considered against the objectives and performance indicators identified. Council's 2020 scorecard, which supports the strategy map, and focus areas were as follows:

COUNCIL'S 2020 SCORECARD AND WEIGHTING	COUNCIL'S 2020 FOCUS AREAS
<p>PASA mandate and sustainability (20%)</p>	<ul style="list-style-type: none"> National Payment System reforms and the future of PASA <ul style="list-style-type: none"> National Payment System Act review progress and actions Other legislation that affects PASA Internal changes (e.g. to the operating model)
<p>Key modernisation projects (20%)</p>	<ul style="list-style-type: none"> Payments stream modernisation projects <ul style="list-style-type: none"> Electronic (low-value) <ul style="list-style-type: none"> DebiCheck Debit order abuse Project Future/Rapid Payments Programme Electronic (high-value): SAMOS and high-value enhancements Card: Quick Response (QR) code standardisation Paper: Cheque exit
<p>Risk management process (20%)</p>	<ul style="list-style-type: none"> Manage risks effectively to ensure a safe and sound NPS: <ul style="list-style-type: none"> PASA Office and NPS Risk Management Policies PASA Office and NPS Risk Management Frameworks Training, ongoing guidance and operationalisation Risk register development and consolidated risk profile reporting Key risk issues monitoring and reporting
<p>Financial management process (20%)</p>	<ul style="list-style-type: none"> Ensure better financial management: <ul style="list-style-type: none"> Budgets linked to projects and plans Three-year rolling budget Divisions of duties Improved cost-centre management Updated procurement policy Better record keeping and statements
<p>Organisational health (PASA's people) (20%)</p>	<ul style="list-style-type: none"> Organisational and people health achieved through: <ul style="list-style-type: none"> Climate study and related interventions to address areas of concern Updated talent management policies and processes Review and updating of all Employee policies Mood assessment and weekly sessions to ensure wellness and improve resilience during the peak of the lockdown Internal re-organisation to promote teamwork along payment streams Alignment of individual contracts and performance areas with organisational scorecard

PASA's business model

PASA collaborates with a wide group of stakeholders and considers the value it 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.



PASA continually strives to add value for Members, the SARB and other stakeholders beyond financial capital. PASA utilises its unique capabilities which centre around its ability to:

- Act as a catalyst for modernising South Africa's National Payment System;
- Execute a complex portfolio of initiatives for stakeholders in the National Payment System;
- Contribute to payments capacity and knowledge creation at an industry-wide level;
- Effectively manage payment systems in South Africa on behalf of a collective (PASA Members); and
- Drive collaboration among fierce competitors in the industry.

In doing this, PASA aims to be an indispensable organisation within the National Payment System, a force for good in the across the industry and to be the go-to trusted thought leader for payments domestically and internationally.

How PASA adds value to key stakeholder groups

PASA's commitment to collaboration and stakeholder engagement is inherent in the organisation and its role as a payments industry body. Understanding the views and interests of PASA's stakeholders is therefore an important contributor to the level of success with which the organisation executes its functions within the National Payment System.

Over the years, PASA introduced several mechanisms to engage a range of stakeholders and to manage stakeholder relationships. PASA's value-adding role as a result of these actions and mechanisms are described below.

Members

ENGAGEMENT MECHANISMS

- Standing Operational (PCH PG) and Strategy Committee meetings
- Regular engagement with senior executives (responsible senior officers)
- Continued engagement with PASA Authorised Contacts
- Project committees as and when required

PASA'S VALUE-ADDING ROLE

- Effectively manage payment systems on behalf of Members
- 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

Payment participants who are not members

(These include SOs, TPPPs and users of payment systems as represented through their various industry bodies: the Association for Savings and Investment South Africa, the South African Retailers Payment Industry Forum, Association of Debt Recovery Agents and the Payment System Stakeholder Forum, among others).

ENGAGEMENT MECHANISMS

- Direct engagement with SOs regarding their authorisation
- SO and TPPP representation on stakeholder and project committees via respective industry bodies
- Ad hoc and indirect engagement with large corporates, retailers and TPPPs as required

PASA'S 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

ENGAGEMENT MECHANISMS

- Direct engagement with PCH System Operators (PSOs) regarding their authorisation
- Regular engagements with PSOs
- Standing invitation to all Operational (PCH PG) and Stakeholder Committee meetings
- Direct involvement in industry projects

PASA'S 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
- Provide guidance on required service level agreements and PCH objectives to effectively operate a payment system

Regulators

ENGAGEMENT MECHANISMS

- Regular formal and informal engagements with the SARB NPSD
- Topic-specific engagements with other SARB departments when required
- General and project-specific meetings with other industry regulators

PASA'S VALUE-ADDING ROLE

SARB

- Support the SARB with the execution of Payments Policy
- Alignment of payments initiatives to the SARB's 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
- Drive consumer awareness on payments and contribute to the national knowledge base in payments through PASA's training programmes
- Align industry strategy with Vision 2025

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 an important 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

ENGAGEMENT MECHANISMS

- Standing Stakeholder Committees attended by Members, bank and non-bank industry bodies as well as PSOs
- Direct involvement of bank and non-bank industry bodies in various industry projects

PASA'S 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 users of payment systems with consumer education and awareness on payments
- Support non-bank payment participants' capacity building in payments through PASA's training

Consumers

This is a new focus area with limited exposure to date.

ENGAGEMENT MECHANISMS	PASA'S VALUE-ADDING ROLE
<ul style="list-style-type: none"> • Consumer education campaigns for industry projects and in support of banks and corporates • Escalation processes to support resolution of non-compliance to PASA rules 	<ul style="list-style-type: none"> • Ensure safe and sound payment systems • Education and awareness around specific payment matters • Ensure that the rights of consumers are balanced with those of other users of payment systems

International industry bodies

ENGAGEMENT MECHANISMS	PASA'S VALUE-ADDING ROLE
<ul style="list-style-type: none"> • Annual sessions with international payments industry bodies, discussing international trends, learnings and matters of common interest • Ad hoc engagements on specific topics, when necessary • Participation in and collaboration with international standards bodies such as EMVCo and Payment Card Industry Council 	<ul style="list-style-type: none"> • Contribute to knowledge sharing among international payments community • Gaining insights from other jurisdictions to share with local stakeholders

Government and their agencies

ENGAGEMENT MECHANISMS	PASA'S VALUE-ADDING ROLE
<ul style="list-style-type: none"> • Direct engagement with government agencies when required, advising on payment system-related matters 	<ul style="list-style-type: none"> • Support government-to-person payment needs • Mobilise industry support for government needs

Employees

ENGAGEMENT MECHANISMS	PASA'S VALUE-ADDING ROLE
	<ul style="list-style-type: none"> • 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

05

THE WORLD WE OPERATE IN

The Covid-19 pandemic has devastated economies around the world, but paradoxically, also acted as a catalyst for change in payments. Valuable insights regarding key modernisation imperatives were gained as a result and in some areas, like contactless payments, adoption of new functionality and features were even accelerated.

Operationally, our systems withstood the test and payment services could continue with relatively few interruptions. This again proved the robustness of our National Payments System and that South Africa has the ability to design and implement safe and resilient payment systems in the continuation of its modernisation journey.

We are satisfied with the progress we made in payments modernisation, despite the crisis, and large new payment system deployments like DebiCheck, together with the newly designed real-time, mobile friendly payments capability, will continue to wield considerable influence to introduce new payments infrastructure, promote financial inclusion and a digital economy and contribute to the future safety and soundness of the National Payment System.

The payments landscape PASA manages

Over the past few 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.

Well-established payment systems like card, electronic low-value and high-value systems are 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.

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

Automated teller machines (ATMs) and cash back at POS remained important cash distribution channels in 2020, with many consumers, specifically grant recipients, still dependent on cash to buy goods and services. To maintain a stable supply and demand environment in South Africa during the COVID-19 lockdown, the industry established a workgroup under the auspices of the Banking Association of South Africa (BASA). The workgroup held weekly sessions with all stakeholders, including PASA Office as one of main participants to oversee payment-related matters.

The 2020 landscape characteristics of individual payment systems are expanded below.

Card

Even though card transactions were relatively stable in 2020, there was a significant shift towards other form factors due to the pandemic. According to a study by Visa and similar research by Mastercard, nearly two-thirds of consumers prefer contactless payments since the start of the pandemic. These consumers prefer to pay at merchants who have contactless capability.

This demand, coupled with trading constraints, resulted in nearly two-thirds of small and medium-sized businesses trying new approaches to sustain their businesses. A significant increase was also observed in card-not-present transactions as ecommerce platforms were fast tracked by businesses to serve their clients remotely.

However, though ecommerce and alternative form factors such as contactless and QR codes were successful, there was significant card-not-present fraud during 2020 on both debit and credit cards. In the past year, gross fraud losses of debit cards surpassed credit cards for the first time ever. There are several reasons for the increase in debit card fraud. A key factor is that ecommerce platforms have only relatively recently started to accept debit cards, making it more susceptible to phishing links and scams.

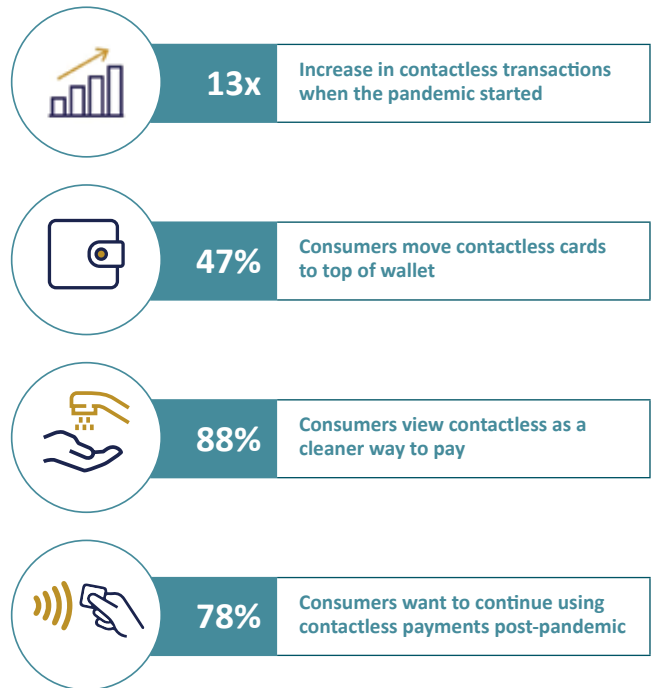
Real-Time Clearing

RTC is becoming increasingly popular among consumers and businesses, which demonstrates the growing demand for faster payments in South Africa. Launched in 2006, RTC was one of the earliest implementations of a real-time retail payment systems in the world.

The RTC value proposition was originally geared towards higher transaction values. This has evolved over the years, with more banks participating in RTC and banks repositioning the product to existing and new clients. This has resulted in lower pricing and higher year-on-year transaction volumes of 61% and values of approximately 23%, despite the economic slowdown caused by COVID-19. The rapid growth of 61% over the past three years indicates that real time payment systems provide an attractive value proposition to consumers and businesses.

	Volume	Value
Three-year growth/(decline)	61%	30%
Year-on-year (2019/2020) growth/(decline)	61%	23%

* only relates to interbank payment statistics
Source: BankservAfrica



Source: Mastercard³

Electronic Funds Transfer Credit

The reduced economic activity as a result of COVID-19 resulted in an overall decline in salary payments in 2020. This reduction in household income, coupled with small, medium and micro enterprises being closed as a result of lockdown restrictions, resulted in lower transactional activity. This is evidenced by an approximate 2% decline in the value of Electronic Funds Transfer (EFT) payments during 2020 when compared to 2019.

	Volume	Value
Three-year growth/(decline)	14%	3%
Average annual growth/(decline)	8%	(2%)

* only relates to interbank payment statistics
Source: BankservAfrica

³ <https://newsroom.mastercard.com/nea/press-releases/mastercard-study-shows-south-african-consumers-make-the-move-to-contactless-payments-for-everyday-purchases-seeking-touch-free-payment-experiences/>

Electronic Funds Transfer Debit

EFT Debit continues to be the most used payment system for debit order collections. However, there has been a decrease in transaction values over the past year of approximately 6%, driven by reduced household income in the population resulting in the suspension or even cancellation of subscription services by consumers.

Due to the rise in consumer debt as a result of job losses and income, there was an expectation that unpaids and disputes would increase across collections. Interestingly, there was little difference in unpaid and disputed EFT debit orders between quarter one and quarter two of 2020, the ratios remained similar at just above 9%. This is likely attributable to a combination of factors, such as relief schemes (payment holidays, loan guarantee schemes etc.) offered by the banking sector to assist consumers and businesses in distress and education campaigns to encourage consumers to explore options with their banks. According to BASA, the banking industry provided over R33 billion in payment breaks in six months of lockdown restrictions.

	Volume	Value
Three-year growth/(decline)	(4%)	0%
Year-on-year (2019/2020) growth/(decline)	(9%)	(6%)

* only relates to interbank payment statistics
Source: BankservAfrica

Non-Authenticated Early Debit Orders

Similar to EFT Debit, Non-Authenticated Early Debit Orders (NAEDO) showed a 7% year-on-year decrease in transaction values over the past year. Among other things, this may be as a result of the success of the industry's efforts to curb debit order abuse, as well as the increasing maturity of the DebiCheck payment system.

The NAEDO unpaid ratio increased by two percentage points to 21,7% between quarter one and quarter two of 2020, which equates to a 10% increase from the previous period.

The ratio of NAEDO dispute decreased by one percentage point to 7,3% over the same period, owing to industry's continuous effort to curb debit order abuse as well as the various options offered by banks to customers in financial distress.

	Volume	Value
Three-year growth/(decline)	(4%)	5%
Year-on-year (2019/2020) growth/(decline)	(8%)	(7%)

* only relates to interbank payment statistics
Source: BankservAfrica

Authenticated Early Debit Order

The Authenticated Early Debit Order (AEDO) system is the smallest of the collection transactions. AEDO transactions are Early Debit Orders that have been authenticated by the customer using a card and pin. The typical use cases for AEDO are for future recurring repayments of predefined amounts below R10 000, such as microloans and funeral policies. AEDO transaction volumes and values both decreased by 10% year-on-year.

Given the authentication nature of AEDO transactions, there are no disputes. However, from Q1 in 2020 to Q2, the average ratio of unpaid AEDO transactions increased by nine percentage points to 26%, equating to a 50% growth quarter on the previous quarter.

	Volume	Value
Three-year growth/(decline)	12%	8%
Year-on-year (2019/2020) growth/(decline)	(10%)	(10%)

** compound annual growth rate (CAGR)
* only relates to interbank payment statistics
Source: BankservAfrica

SASwitch (ATM)

Cash remains a popular payment mechanism. The number of ATM transactions showed a steady increase of nearly 4% over the past year. Total transactional values have increased by 11% in 2020 compared to 2019.

	Volume	Value
Three-year growth/(decline)	5%	10%
Year-on-year (2019/2020) growth/(decline)	4%	11%

* only relates to SASwitch interbank payment statistics
Source: BankservAfrica

Cheque

Cheques are no longer a payment system as of 31 December 2020 which saw the end of a long and historical payment system which served the market. The sunseting of cheques has been widely welcomed by the market as an increasing number of new and innovative electronic and digital alternatives are gaining popularity.

	Volume	Value
Three-year growth/(decline)	(40%)	(44%)
Year-on-year (2019/2020) growth/(decline)	(55%)	(69%)

* only relates to interbank payment statistics
Source: BankservAfrica

The DebiCheck system

The DebiCheck system has been in production since August 2018, with full implementation scheduled for 1 May 2021. From August 2018, both mandate initiation and collection actions were processed in low volumes, with approximately 19 000 DebiCheck mandates being registered per week towards the end of 2018, while participants prepared the systems and processes. Towards the end of Q4 2020, the participants started the ramp-up of volumes where weekly DebiCheck registrations increased to approximately 200 000. There was a delay in processing the DebiCheck collections in the new system, with initially only 400 weekly collections towards the end of 2018. Collections have since increased to almost 400 000 weekly collections at the end of 2020. Mandate initiation issues impacted adoption over the 2019/20 period. Notwithstanding, 84% of the top non-Bank users that contribute 80% to existing EDO volumes were either production-ready or piloting in production by the end of 2020. A further 8% of users were in development and testing. As at 31 December 2020, a total of 3 143 096 DebiCheck mandates had been registered through the PCH; this excludes on-us mandates processed by banks. A further 18 537 105 mandates, which were previously collected as NAEDO mandates, were migrated to the DebiCheck mandate database. The effect of this is that bank clients will have access to the mandate information of 21 680 201 debit orders before they can be collected in the new system, improving transparency and customer experience.

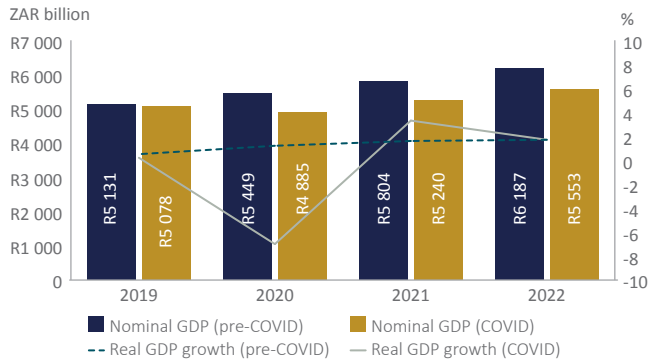
	DebiCheck mandate registrations Volume	Migrated mandates
Total at the end of 2018	188 235	0
Total at the end of 2019	909 290	791 478
Total at the end of 2020	3 143 096	18 537 105

How has the payments landscape changed in 2020

The South African economy and COVID-19

Before the COVID-19 pandemic and the lockdown restrictions, South Africa's real economic growth was expected to be less than half a percentage point. Lockdown restrictions due to COVID-19 exacerbated the poor economic conditions and reduced economic flows between consumers and businesses. As a result, Statistics South Africa's estimates that real economic growth decreased by 7% in 2020. Estimates suggest it will take South Africa at least two years to reach pre-COVID-19 nominal gross domestic product (GDP) levels.

Economic growth between pre-COVID and COVID estimates



The image above reflects the economic levels and growth projections estimations by the National Treasury between pre-COVID-19 and COVID-19 scenarios.

Persistent lower economic activity led to the closure of businesses and the loss of jobs across the country. Statistics South Africa's Quarterly Labour Force Survey for quarter four of 2020 shows that between the last quarters of 2019 and 2020, about 1,5 million people lost their jobs. This excludes the South African households and individuals that experienced income reduction.

The loss of jobs and income likely caused a rise in consumer indebtedness. According to the National Credit Regulator's consumer credit data, the share of unpaid consumer debt (debt-due older than 30 days) to total consumer credit increased by two percentage points to 15%, equivalent to nearly R33 billion. The result is reflected in unpaid debit order collection attempts.

Consumer payment behaviour and the impact of COVID-19

South Africa's retail payment sector's consumers are made up of two broad categories: those that are comfortable interacting with digital banking services and those that use their bank accounts as a cash channel. This duality became more evident with the onset of the COVID-19 pandemic.

Because of reports that COVID-19 survives and spreads on surfaces, a large number of consumers fear contagion through physical contact with surfaces. Global research done by Mastercard on consumers' preference for contactless payment during COVID-19 pandemic showed that 88%⁴ of South Africans view contactless payment as a cleaner and safer way to pay. However, it is evident through SASSA payments data that many people, despite the fear of the spread of the disease, still access cash via ATMs, retailers or the Post Office.

RTC (or instant payments) increased in the year while other electronic payment systems either declined or remained unchanged. This is partly due to more attractive pricing but also suggests a growing appetite for faster payments. This can be attributed to an increase in the use of mobile banking and the adoption of low-value electronic immediate transfers by retail customers. The average value of RTC transactions decreased by 21% to an average value of below R9 000 between quarter four of 2019 and 2020. Volumes increased by 45% in the same period.

06

THE CHANGING
PAYMENTS LANDSCAPE

Emerging technology trends for South Africa

Global payment technologies continued to evolve. In some ways, the pandemic accelerated some of these. Key emerging global trends that are relevant to South Africa are discussed below.

Faster and simpler payments

There is growing adoption of real-time or near real-time payment with immediate accessibility. Coupled with this is the growing trend to make payment easier with the use of an alias (or proxy) like a national ID or mobile number. Led by BankservAfrica, PASA is working closely with the industry to deliver the Rapid Payments Programme that aims to create instant payment, pay by proxy and request to pay services.

Secure or tokenised payments

Fraud and payment security remains top of mind. Payment Service Providers are continually seeking ways to protect and authenticate customers more effectively. The increased usage of smart devices have allowed providers to better customer experience through biometrics or in-app notification and authentication, instead of relying on a one-time pin. PASA continues to engage with Members to explore more secure and efficient payment services like 3D Secure 2.0 and a QR code standard.

Open banking and APIs

The sharing and storage of sensitive customer financial information have become a focal point for regulators (Payment Services Directive 2 and the General Data Protection Regulation in the European Union as well as the compliance of the Protection of Personal Information Act, 4 of 2013 in South Africa by July 2021, among others). In late 2020, the SARB published a consultation paper on screen scraping and open banking activities in South Africa. This was followed by a consultation paper from the FSCA on open finance.

Digital platforms or marketplace

Due to COVID-19, consumers are increasingly shopping for financial services online. BigTechs like Alibaba, Facebook and WeChat have leveraged digital platforms to extend financial services offerings. A similar trend is evident in South Africa, with financial and non-financial institutions creating applications that fulfil several consumer needs on smart devices. PASA continues to follow local and international developments in open banking and APIs in order to support its Members and the marketplace in support of these trends.

ISO 20022

The adoption of SWIFT's ISO 20022 financial message standard is not a new development. However, SWIFT delayed the ISO 20022 migration of all SWIFT messages by 12 months, to the period November 2022 to November 2025. Despite the industry capacity constraint, PASA remains active in this space, working closely with Members and the SARB to ensure that South Africa's modernisation of the high-value payment system is on track. Other ISO20022 PASA projects include the Rapid Payments Programme (page 25) and DebiCheck (page 23).

Regulatory interventions

PASA recognises and supports the National Payment System Vision 2025, set out by the SARB NPSD, and will continue to engage with the SARB NPSD to support directives.

One such directive is Directive 1 of 2020: Directive for Conduct within the National Payment System in Respect of Domestic Card Transactions. This directive primarily looks at the adherence of domestic card processing rules for domestic card transactions. PASA underwent an extensive consultative process with the SARB NPSD to identify the problem statement, potential consequences, and develop sustainable solutions.

PASA frequently consults with regulators on matters not directly related to payments. This includes the special COVID-19 grant relief and the cautionary note on screen scraping.

COVID-19 grant

The COVID-19 grant is a temporary measure to provide relief to households that are detrimentally impacted by the pandemic. PASA was tasked by the SARB NPSD and the office of the presidency to support the process by developing solution proposals that could meet the requirements within short timeframes. Together with the SARB NPSD; SARBFinTech unit; BASA; BankservAfrica; Mastercard and Visa, a proposal for the office of the presidency was developed.

Cautionary note on the use of instant EFT

Together with the FSCA and SARB, PASA issued a joint statement to inform the public of the risks of entering their banking credentials onto third-party websites, such as those of instant EFT service providers.

By the end of 2020, the SARB NPSD and FSCA both issued consultation papers into open banking and open finance in South Africa, highlighting the risks associated with instant EFT, and PASA will continue to support the regulators in these and future initiatives to ensure optimal outcomes for the payments industry.

The future of payments in a post-COVID-19 environment

COVID-19 and lockdown restrictions have exposed the economic and social vulnerabilities. It has also accelerated digital payments and innovations in some areas like eCommerce and contactless payments. 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 adaptive to future use cases, resilient against threats and supportive of future innovations.



Making debit order collections safer and more effective

The implementation of DebiCheck and Registered Mandate Solution

The implementation of DebiCheck continued to form the nexus of the modernisation journey on electronic debits. DebiCheck is an ISO 20022-based, authenticated mandate and collections capability that facilitates a more convenient and secure debit order environment. This is specifically in the early collections window, where the number of disputes (both as a result of unauthorised or fraudulent mandates and consumer cash flow management actions) have reached unacceptable proportions.

In the beginning of 2020, the industry was still on a trajectory to implement according to two Directive dates, namely:

- 1 May 2020, from which date no new AEDO or NAEDO mandates would be allowed; and
- 31 October 2020, from which date the AEDO and NAEDO systems would be closed for use.

Shortly after the impact of the pandemic and the lockdown effects on the economy (and bank capacity) became visible, these dates were extended by the SARB out by the SARB, to 1 May 2021 and 31 October 2021 respectively. This proved to be a prudent postponement, as numerous challenges emerged. These related to the technical stability of the system, finding a practical fallback mechanism for AEDO and NAEDO after 1 May 2020, as well as the possible need for additional non-face-to-face and remote capabilities to support better authorisation success rates of mandates.

During 2020, the RMS was developed, tested and brought into production within the planned timelines. This is an important capability designed to support the adoption of DebiCheck and to cater for use cases where an authorisation was not obtained. RMS became available from October 2020. Towards the end of 2020 and into 2021, participating Member banks worked hard to ensure that user connectivity to RMS was established. These developments ensure that the adoption of DebiCheck is supported with a viable proposition to prospective users of the system.

RMS will be available when an authorisation cannot be obtained from a consumer, a user will then register a mandate which would allow for collections in the early window, albeit in a second priority to DebiCheck. This provides payers with more transparency of future collections. Additionally, RMS has the benefit of having a registered and digital mandate available at the paying bank, which opens up opportunities to explore DebiCheck/RMS synergies and to manage disputes differently.



The pursuance of ISO 20022 standards, real-time, the balancing of consumer and user rights in collection systems, certainty of collections and fairness in the randomisation processes and collection priorities of various electronic debit payment systems will continue to form the foundational pillars of a new debit order ecosystem. It signals the continuation of an exciting modernisation journey for debit orders that started with DebiCheck.

Towards the end of 2020 the long-expected independent review regarding the implementation challenges of DebiCheck occurred. This was a comprehensive interview process conducted by an independent review panel, appointed by the SARB. The findings were received early in 2021 and the SARB engaged extensively with the industry to agree a way forward that still retains the May 2021 deadline for new mandates while requesting participating Members and BankservAfrica to provide a reasonable level of assurance on the safety of the system.

The end of 2020 also brought positive news in the form of much better technical stability over a number of consecutive months. PASA hopes this trend is sustainable into 2021 and signals the end of stability issues experienced within the new system.

The emergence of a future debit order ecosystem

DebiCheck, together with the establishment of RMS, opened the possibility for a completely new debit order ecosystem to emerge. The outline and base principles of such a debit order ecosystem was proposed to the PASA Council and the SARB's Strategic Payments Council in late 2020. Together with DebiCheck, a standalone ISO 20022-based RMS and EFT Debit, can in future form a new ecology of debit order systems, where benefits and value propositions to users and consumers can be established within a tiered, risk-based structure of debit order products and systems.

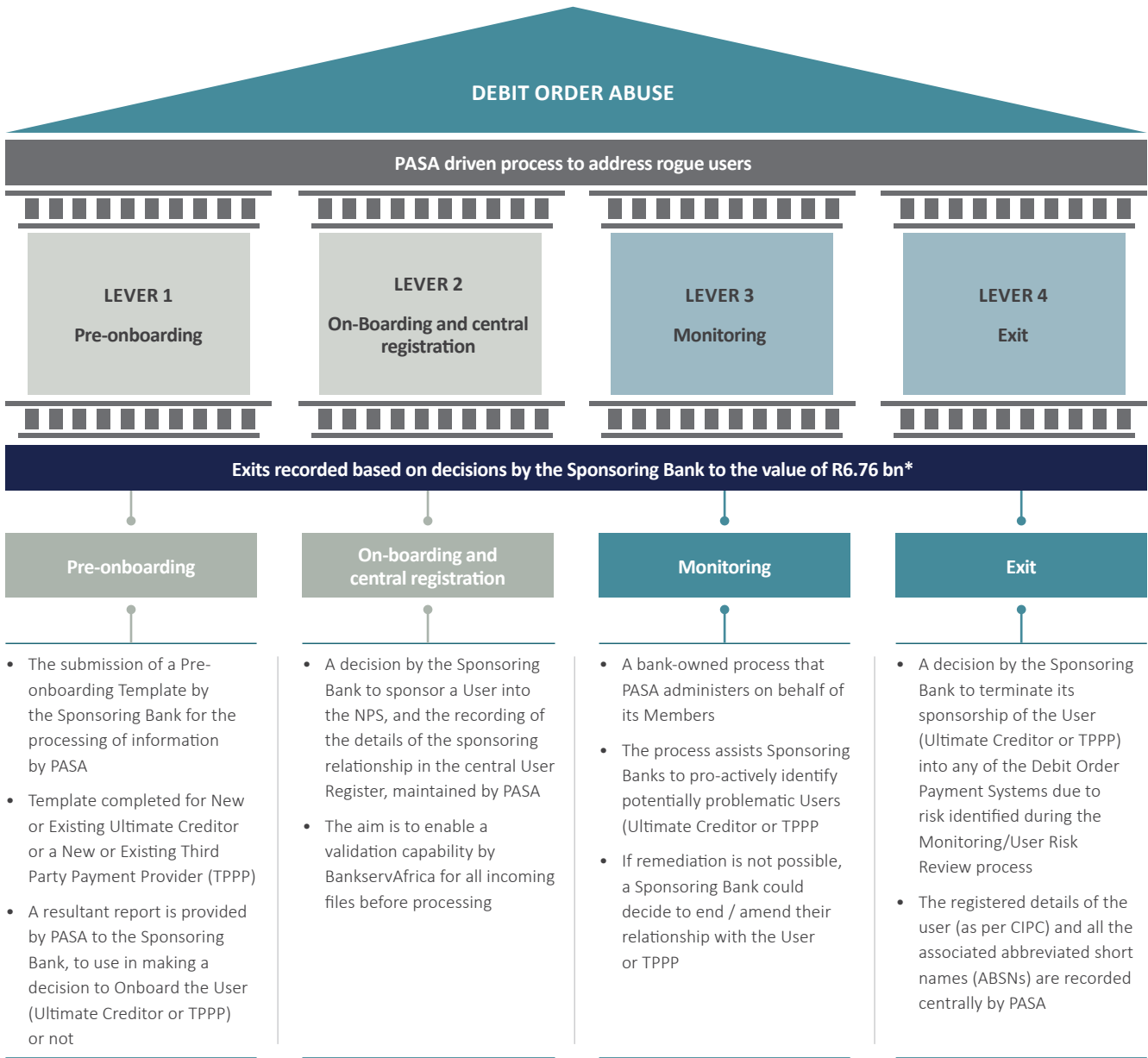
Many banks and user companies experimented at the peak of the lockdown to address the general indebtedness of consumers. This was also to find ways in which consumers can be contacted to resolve payment pressures, before making immediate reversals without understanding the repercussions of suspension of products or services or being black-listed for irresponsible practices related to their debt.

In 2021, a rule-based dispute regime, which will leverage the additional information from digital mandates at paying banks, will be pursued and most probably linked to RMS as a start. A proof of concept that further tests some principles of friction to ascertain if users could directly engage with payers during the debit order dispute process, was launched. PASA hopes to distil and apply lessons from this to the rule-based dispute regime in the first half of 2021.

DebiCheck laid the foundation for a dispute regime which balances consumer rights and user rights PASA expects that a rule-based dispute regime will bring a more balanced approach to cases that are currently dealt with within the so-called 40-day dispute role.

The eradication of debit order abuse

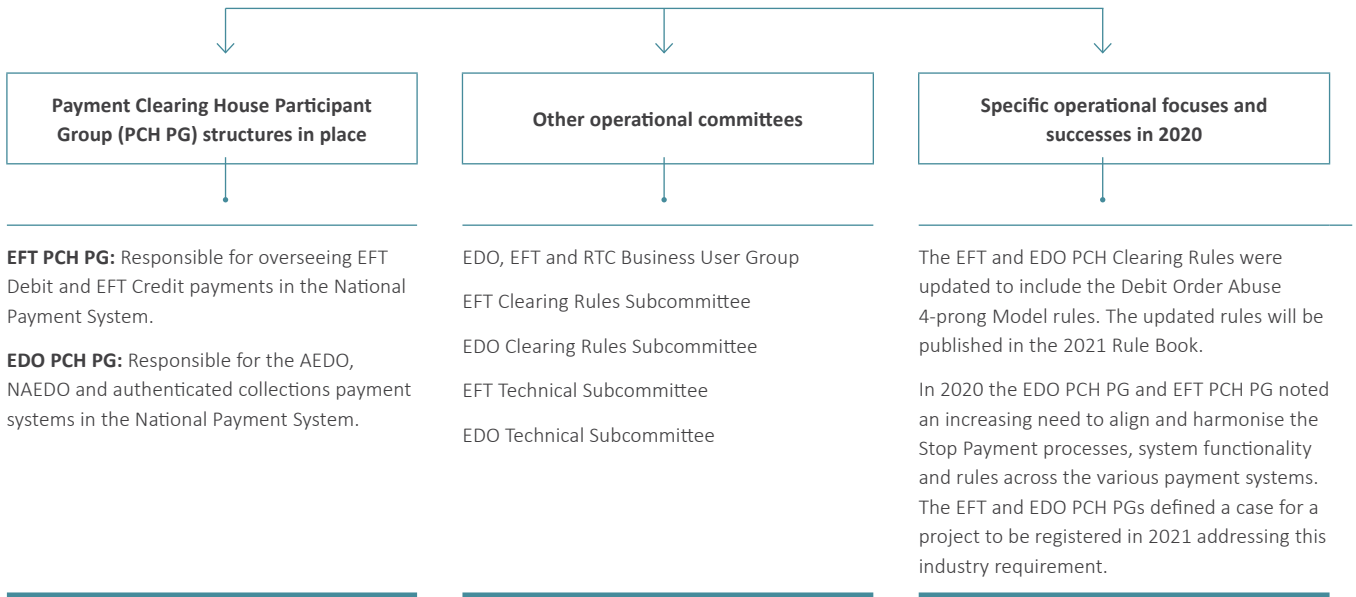
The industry embarked on a purposeful initiative to eradicate bad users from debit order systems in 2017. After extensive data analysis to understand the root causes and possible high leverage areas in the combat of debit order abuse, PASA and its Members implemented the Debit Order Abuse 4-prong model during 2019. The 4-prong model encapsulates four key processes that were considerably refined over time to support the industry in the eradication of debit order abuse.



This model operated on a best-effort but manual approach throughout 2019 and 2020. Each of the processes aligned to the four levers of the model were formalised into rule sets. It now governs PASA Members and determines industry direction for mitigating debit order abuse in the National Payment System.

The successes of the model in mitigating debit order abuse confirms PASA's ability and deep holistic understanding of the extent of debit order abuse (including fraud) and how to materially reduce it. The debit order abuse function at PASA has been widely acknowledged as an important risk mitigating capability and has garnered international interest. The learnings and technical capabilities developed through this process was shared in 2020 with the Payments Association of Namibia in discussions, training, and demonstrations of the 4-prong Model.

OPERATIONAL MANAGEMENT OF COLLECTIONS IS FACILITATED BY THE FOLLOWING:



Making real-time credit push an easier and safer payment method

The completion of the Rapid Payments Programme design

Through Project Future, the target state for low-value electronic credit payments was established in 2018. It was designed to enable the industry to better meet the demands of the policy objectives defined in the SARB NPSD’s Vision 2025 as well as rapidly evolving consumer and business needs. The requirements were further informed by learnings obtained from an industry study tour to India, China and South East Asia in 2019. BankservAfrica was requested to do a detailed design of the system that will fulfil these requirements. Critical in the requirements presented to BankservAfrica was the creation of the Unified Payments Service platform.

Despite the difficulties of the lockdown measures, the design was successfully completed and approved by a BankservAfrica-established Design Committee in the first half of 2020 and submitted to PASA to consider against the original design requirements.

Mobilising the industry to build the new real-time payment system

After a comprehensive process, BankservAfrica as the prospective PSO was approved by PASA as having met the Project Future design requirements. They were given the green light to proceed with the next phase of this transformational initiative.

Given the national importance of this initiative, a special purpose committee consisting of BankservAfrica, PASA, SARB, BASA and participating Members, was established to oversee the build and launch phase of the initiative. PASA will continue to play a role to ensure that this initiative is successfully implemented. Throughout this next phase, PASA’s key focus will be to ensure that the appropriate governance structures and rules are established for the new payment system.

Through the Rapid Payments Programme, the industry is in the process of building new real-time payments capabilities that can be equal to cash. In addition, it will establish the foundational platform capabilities envisaged through the Project Future Target State Architecture.

The Rapid Payments Programme is poised to transform the way South Africans view and use digital payments. The initial focus will be to try and empower consumers and communities that rely heavily on cash to transact digitally through a new, easy to use, instant payment system. This has the potential to contribute towards greater inclusion and greater societal productivity through the reduced direct and indirect costs associated with cash payments.

This system’s structure introduces new capabilities encapsulated in a new “Unified Payments Service” architecture, including API libraries that will allow sponsoring banks to easily expose services to their partners and channels. Microservice architectures at the centre:

- allow the migration of other services into the same microservice architecture;
- allow for changes in the centre to be done with minimal impact; and
- generally reduce the cost of back-end switches.

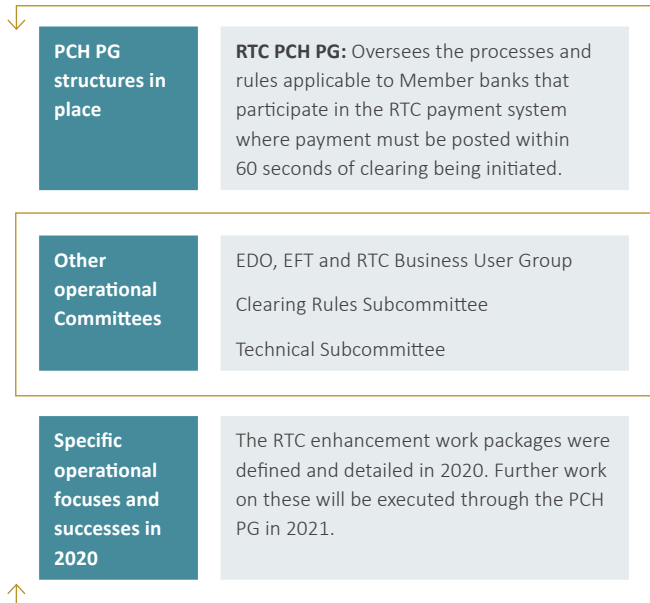
Robust platform orchestration tools ensure consistency across services and allows the seamless management of multiple linked services. This will support payments convergence and ensure greater data visibility across the value chain, thereby increasing security and improving analytics.

The system capabilities for the centre (i.e. the Automated Clearing House) are projected to be built by Q1 2022. Banks then need to determine when they will be ready to incorporate these capabilities into their products. Enough banks have indicated their support for building this system to ensure that the network effects of an interoperable payment system can be anticipated once all committed participants are live on the system.

Continuing to leverage RTC as a fast-growing real-time capability addressing specific use-cases

In the interim, the current real-time payment system is continuing to show rapid growth of as much as 55% over the past three years. This system will coexist with the Rapid Payments Programme for a period. This is partly due to slightly different use cases being supported, but particularly because not all PASA Members will immediately pursue the new system designed under the Rapid Payments Programme.

Operational management of low-value real time credits is facilitated by the following:



Making batch EFT payment systems more efficient

Batch EFT Credit enhancements

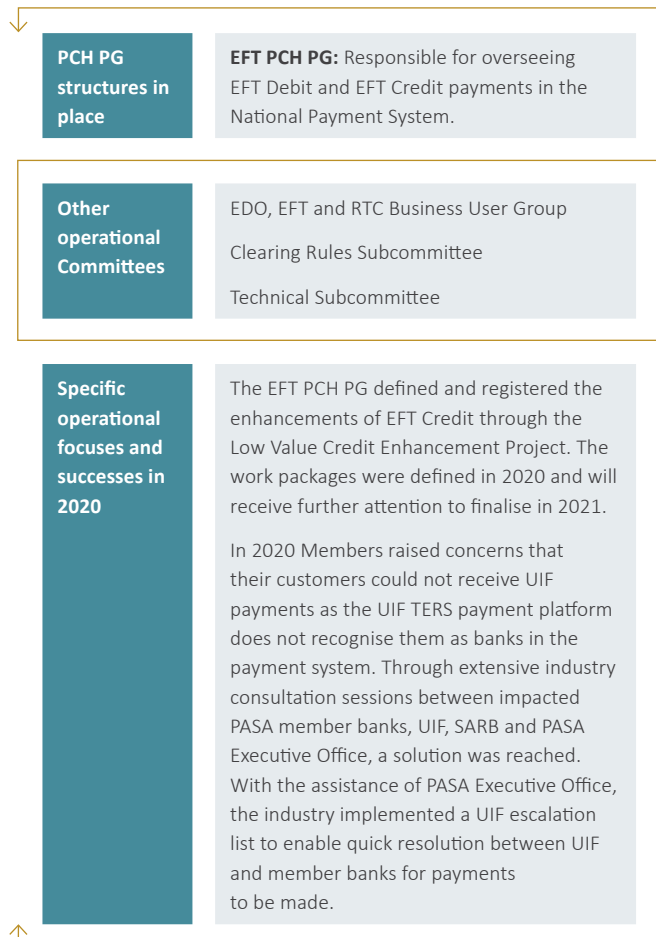
South Africa's batch EFT payment systems are efficient and play an important role in the functioning of the economy. They do so by reliably supporting the transfer of funds from one party to another over defined timeframes and processing windows. While significant effort is made to deploy a new interbank payment system through the Rapid Payments Programme, it is important to ensure that the existing EFT payment system is able to continue to reliably service the needs of the economy.

Significant effort was made to identify areas of optimisation which can provide tangible benefits to consumers and businesses that rely on the batch EFT payment system. These include the following:

- The ability to enable processing of EFT payments seven days a week, allowing payments to be processed on Sundays and public holidays
- The ability to identify the different types of credit transfers through entry class codes
- Extending the processing window cut-off times to allow for more payments to be included in the day's payments
- Potentially increasing the number of clearing windows to enable a faster transfer of value

These initiatives represent early stepping stones towards a modernised batch EFT payment system and, if adopted, will play an important role for the industry in the short to medium term.

Operational management is facilitated by the following:



Retiring paper-based legacy systems (cheques)

2020 marked the end of cheques, one of the oldest recognised payment instruments in South Africa. With the increasing adoption of digital payment instruments such as cards and EFTs, cheque usage rapidly declined at an average rate of 26% year-on-year over the past 10 years.

Over the past 20 years several initiatives were implemented to promote the adoption of safer digital payment instruments and manage the risks associated with cheques. In 2002, an item limit of R5 000 000 was implemented, which was subsequently reduced to R500 000 in 2012 and to R50 000 in 2020.

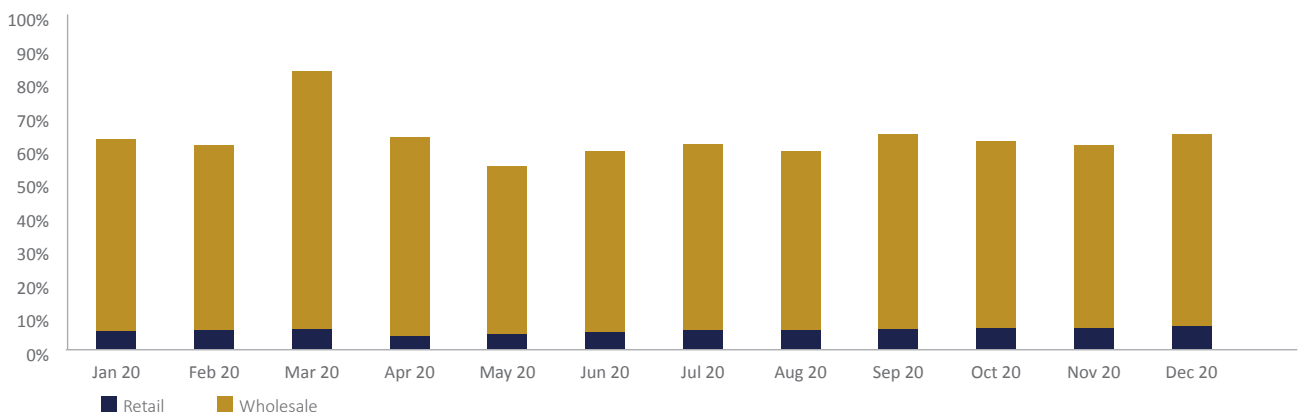
The COVID-19 pandemic accelerated the shift in consumer behaviour away from paper based instrument to contactless, digital payment instruments. The SARB, FSCA, PASA and BASA issued a joint statement announcing the termination of cheque issuing and acquiring by 31 December 2020.

This was an important step in the payments industry’s modernisation efforts, because retiring legacy payment instruments improves the safety and efficiency of the National Payment System. Industry efforts and resources can be better directed at establishing modern, digital capabilities that are better suited to servicing South Africa’s diverse consumers.

Enhancing South Africa’s ability to effectively participate globally with its high-value and settlement system

The high-value payment system facilitates transactions higher than R5 million and serves specialised markets such as the bond, money, and equities market. It also facilitates the settlement of low-value batch payment streams. Given the high-risk nature and size of these transactions, high-value transactions are settled one by one on a real-time gross settlement basis and follow the 90:10 principle⁵ for payment settlement. SAMOS is the real-time gross settlement system used for high-value payments and is operated by the SARB.

The graph below depicts the value of high-value payments relative to retail payments in South Africa in 2020. During the year, concerns were raised regarding the breaching of the 90:10 principle as discussed later in Section 9 settlement.



Source: SAMOS

ISO 2022 in high-value payments

Ever since SWIFT introduced the future global standard for financial messaging (ISO 2022) in 2004, countries have increasingly adopted the standard. ISO 2022 provides richer data than its predecessors, which in turn supports benefits like faster processing and better reconciliation.

Although the Southern African Development Community’s real-time gross settlement system is based on ISO 2022 standards, the domestic high-value payment systems are still based on legacy standards. As a result, South Africa initiated two projects (Modernisation of Payment High Value Credits and the SAMOS Version 8 upgrade) to modernise the domestic high-value payment systems and align it with ISO 2022 standards.

Despite the capacity constraints due to COVID-19 and the ensuing lockdown, the South African high-value payment system community was able to reach significant milestones. This included mapping message standards and the completing the functional requirements of the system. As the high-value payment system participants prepare for the development and testing phase, there is an increased focus on establishing a dedicated initiative that will consider the future of the South African high-value payments industry beyond the modernisation projects. Regionalisation and deeper alignment with global capabilities will be some of the foundational principles pursued in such an initiative.

⁵ The 90:10 principle requires 90% of all transactions processed through the interbank space to be settled immediately.

Operational management is facilitated by the following:



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

Card payments during the pandemic

The card payment system has served the domestic market well, with continuous innovations to provide greater convenience and safety to cardholders and businesses. Though the majority of the market has been EMVCo compliant in the face-to-face environment, and 3D Secure compliant in remote commerce for several years, new innovations such as contactless payments were initially not as successful.

Consumers and businesses were historically reluctant to use innovative technologies due to perceived security risks and inconsistencies in the user experience. However, this drastically changed over the past year as COVID-19 significantly influenced consumer payment attitudes and behaviours. It reaffirmed the card payment system as an efficient and safe option for consumers and merchants. For further information on this trend, refer to page 18.

The South African card industry swiftly initiated a joint initiative to provide card issuers, PSOs, card acquirers and retailers with industry communication regarding the benefits of contactless payments. Industry communication was drafted and disseminated through PASA for free use to promote contactless payments.

Promoting contactless payments

Contactless payments include contactless tap transactions with a mobile or wearable device, a plastic debit or credit card, and the use of QR codes for payments. QR code payments' popularity is evident with an estimated 250 000 payment QR codes in the South African market.

The opportunity of contactless payments remains largely untapped but full of potential, with a significant cash-based informal economy of approximately 700 000 viable informal businesses who could deploy this form factor to accept payments. As a key driver for financial inclusion, the payments industry has prioritised the standardisation of QR codes in South Africa in 2021.

The world of card push payments and other pipeline initiatives for 2021

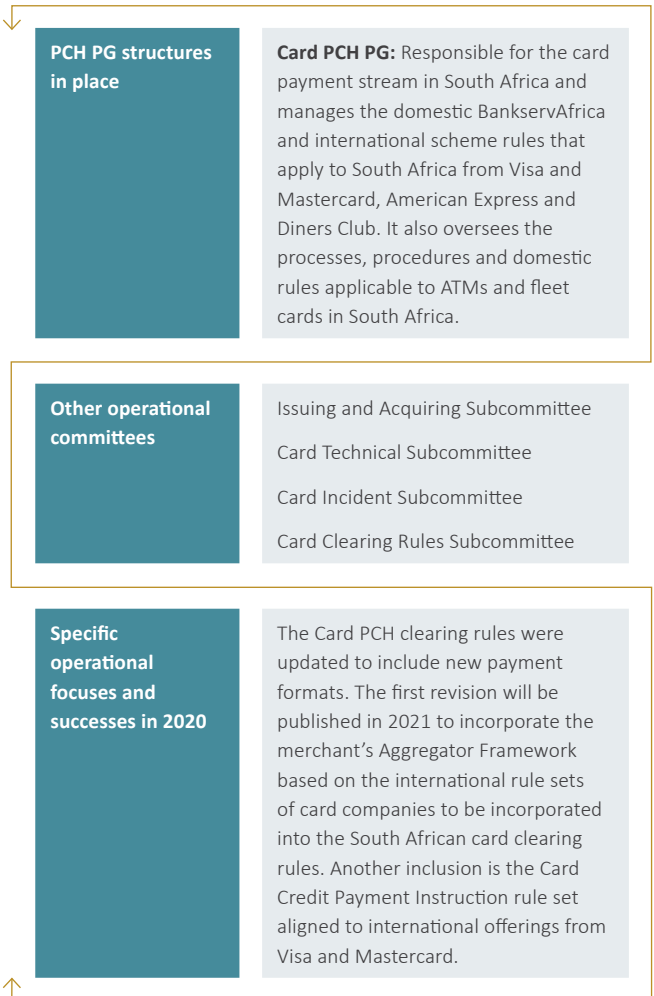
To further promote policy objectives such as financial inclusion and deepening, the industry's deployment of a card push rail in 2020, through the Card Credit Payment Instruction Project, has been a remarkable milestone. Optimisations are planned for 2021 to ensure the successful use and growth of this new mechanism.

This, in addition to other system and security enhancements, makes 2021 a critical year for ensuring the card payment system continues to be an efficient and safe go-to retail payment system for merchants and consumers. This includes the deployment of 3D Secure 2.0 and exploring migrating the fleet environment to an EMVCo chip standard.



The introduction of eLearning for industry training programmes marks an important milestone that will serve PASA, its Members and the broader training industry well in the years to come.

Operational management of cards is facilitated by the following:



Creating new momentum in industry capacity creation

COVID-19 had a severe impact on the PASA capacity building efforts planned for 2020. The biennial PASA International Payments Conference planned for July 2020 was postponed to 2021 and all planned classroom training programmes were cancelled.

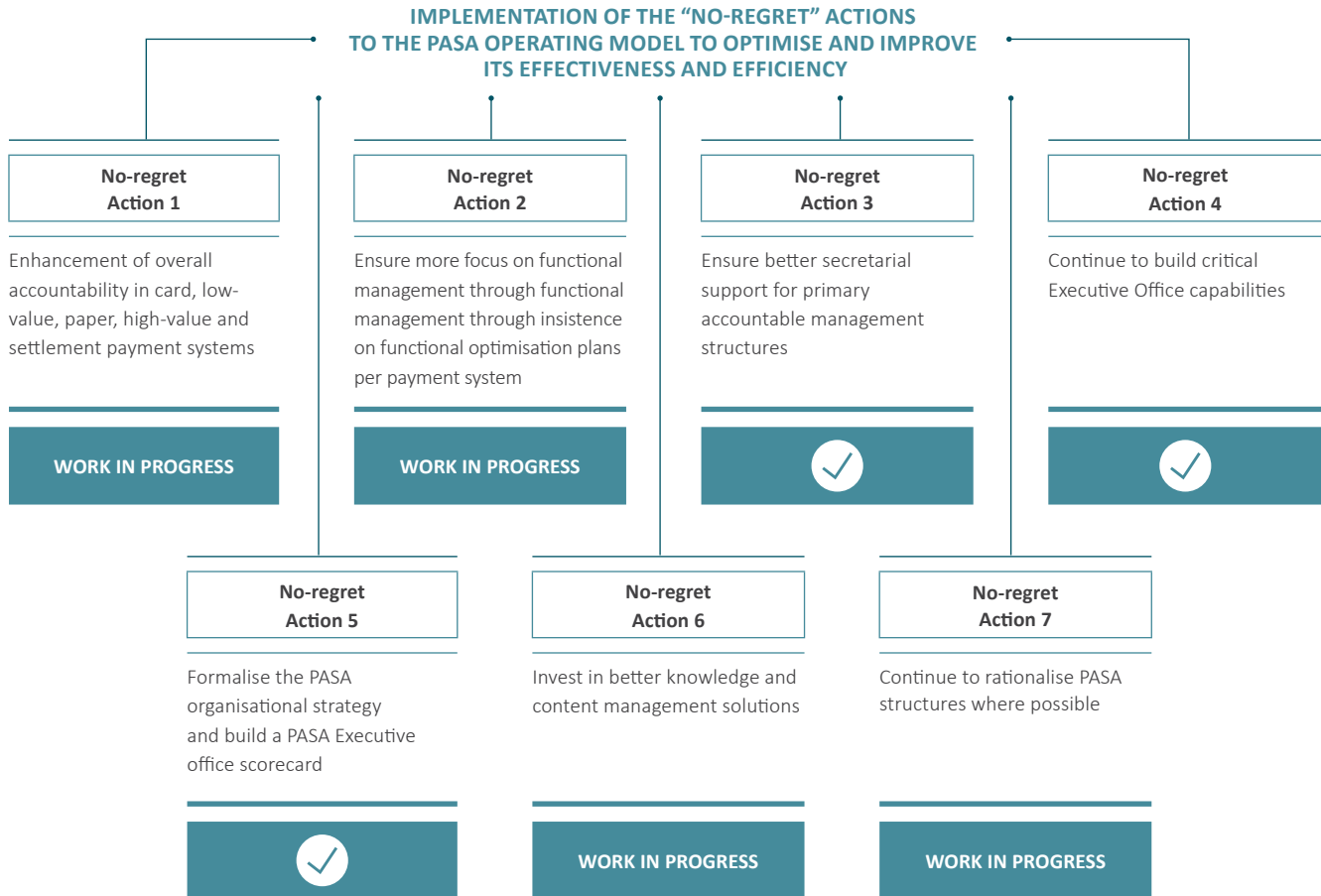
As a result, PASA commenced a reshaping of its approach to industry training in 2020. The need for more formal and structured training on electronic payment systems intensified, as industry projects like the Modernisation of High-Value Payments and the Rapid Payments Programme progressed.

A learner management system was procured in June 2020. PASA refocused its efforts to launch the Electronic Payments Programme to ensure the programme could be launched in an eLearning format. Later in 2020, work commenced to convert the existing PASA Certificate in Foundational Payments to eLearning format. These programmes are due to launch during quarter one and two of 2021 respectively, introducing a new era of eLearning for PASA.

Professionalising the PASA Executive Office

Since its inception in 1996, the PASA Office has grown from a small complement of seven people to 50 employees. A more considered, holistic and effective integration of all structures and capabilities in PASA's operating model has become necessary, due to a combination of legacy structures unchanged from PASA's inception and newer capabilities that were added over time. PASA therefore initiated its Operating Model Optimisation project in 2018.

PASA considers the upcoming changes in the regulatory landscape, which are anticipated to affect PASA's operating model in the future. PASA needs to identify ways to transition into a more optimal interim state, while awaiting the anticipated payments regulatory changes. A number of "no-regret" actions were consequently identified in 2018. These actions were implemented in 2020. Good progress was made on these during the past year despite numerous difficulties due to the pandemic.



PASA completed the process of harmonising and rationalising structures in all its payment streams in 2020. The net result was a rationalisation of 55 structures to 41 structures, which brings benefits and efficiencies for PASA and its Members. In the new year, the constitutions and terms of reference of the new structures will be formalised to make this new operating approach the de facto way PASA operates.

Content management

A content management project is underway to replace the existing PASA Member portal, supporting the goal of improved knowledge and content management solution. The new system will offer:

- a modern look and feel;
- ease of use through customisation that is that user defined;
- a user dashboard providing quick access to relevant documentation and information and a calendar of meetings and events;
- in-email links that will take representatives directly to the relevant documents after logging in; and
- a replacement for current manual, time-consuming processes.

With the Operating Model Optimisation project nearly completed, PASA continues to shape its future. In 2021, an idealised or target state was conceptualised, encapsulated in six aspirational statements. These statements, and the processes that will follow, will enable PASA to compile a clear and detailed roadmap that will allow it to realise its vision.

1. PASA is the go-to trusted thought leader for payments domestically and globally.
2. We are an inclusive, member-driven payments organisation. The need for our existence is unquestioned and funding us is an easy decision.
3. All our stakeholders experience us as a force for good. We set clear direction, create capacity, and drive policy objectives for the payments industry.
4. Our people are desired worldwide. The best wants to work for us – we grow careers in a happy culture.
5. We drive innovation through creative collaboration and partnerships. We build consensus and mobilise a broad range of stakeholders.
6. We support and promote modern, safe, and efficient payment systems that enable economic growth and meaningful financial inclusion in South Africa.



HOW WE GOVERN PASA

PASA's governance structure and highlights for 2020

PASA is a non-profit organisation with a public policy focus. It assists the SARB in the discharge of its responsibilities. It 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 Payment System, while representing the interests of its Members. This has a direct impact on the fiduciary duty of Council, the governing body of PASA and its Councillors, to act in the interest of the National Payment System and PASA, while representing the interests of its Members as required by the National Payment System Act.

Despite PASA's unique mandate, it still subscribes to the voluntary principles and leading practices set by King IV. This ensures that good corporate governance is maintained within PASA by Council's ethical and effective leadership towards achieving the four governance outcomes of ethical culture, good performance, effective control and legitimacy.

Practices adopted by PASA to ensure the above outcomes are set out on this page.

Ethical culture

- Executive focus on living PASA's values and on regularly talking to staff about the values. Measuring the performance of PASA's people on a two-dimensional scale: what was delivered and how it was delivered (ethical behaviour in accordance with the PASA values)
- Fair and transparent remuneration practices through the Remuneration Committee and Remuneration Policy

Good performance

- Determining strategic direction for PASA, delegating the execution and implementation thereof to PASA Executive Office and overseeing performance by way of regular reporting to Council
- Regular performance assessment of Council, its committees and individual Councillors
- Investing in PASA's human capital by selecting, managing, rewarding and developing employees and inspiring them to apply their expertise to serve and fulfil the expectations of PASA Members and other stakeholders, and to assist PASA in achieving its strategic objectives in the best interest of the National Payment System

Effective control

- Proper risk management policies and structures are in place
- Proper compliance with regulatory requirements
- Effective financial management and reporting through the Audit Committee and external audit

Legitimacy

- Ensuring a balanced composition of Council and independence of Councillors to act with a fiduciary duty in the best interest of the National Payment System and PASA
- Delegating power to PASA Structures and Council Committees, thereby ensuring:
 - effective engagement and involvement of Members and stakeholders in the operations of PASA; and
 - the exercising of independent and unfettered judgement and effective discharge of Council's responsibilities.
- Implementation of comprehensive stakeholder engagement policies and plans

Council members and Council composition

Councillors as at 31 December 2020



Sydney Gericke (62)
Independent Chair

Joined Council: August 2018

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



John Anderson (53)
Standard Bank appointed Councillor

Joined Council: October 2018

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



Rufaida Banoobhai (46)
Investec Bank appointed Councillor



ALTERNATE
John Elliot (42)

Joined Council: September 2009

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



Megan Brown (46)
FirstRand Bank appointed Councillor



ALTERNATE
Kenneth Matlhole (34)

Joined Council: February 2017

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



Ian Carter (53)
Nedbank appointed Councillor



ALTERNATE
Marijke Guest (50)

Joined Council: February 2017

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



Dirk Ehlers (56)
Capitec Bank appointed Councillor



ALTERNATE
Marthinus Janse van Rensburg (52)

Joined Council: 2002

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

Council members and Council composition continued



Ghita Erling (48)
Chief Executive Officer*

Joined Council: November 2020

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

* Walter Volker stepped down as CEO on 30 April 2020.



Ingrid Goodspeed (67)
Independent Deputy Chair

Joined Council: February 2017

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



Tim Masela (60)
SARB Ex Officio Councillor



ALTERNATE
Shaun Rayfield

Joined Council: August 2012

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



Jill Murtagh (60)
Bidvest Bank appointed Councillor



ALTERNATE
Frikkie Hanekom (48)

Joined Council: March 2015

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



Charl Smedley (55)
Absa Bank appointed Councillor*



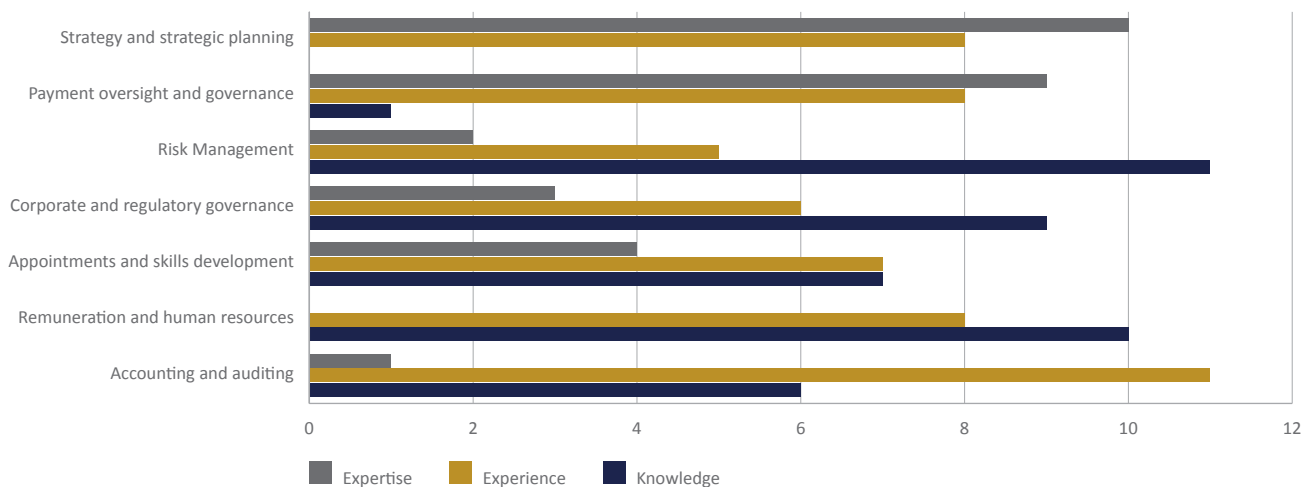
ALTERNATE
Gabriella Teixeira (54)

Joined Council: August 2020

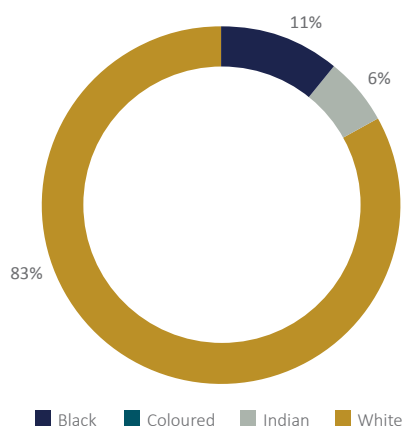
Qualifications: Strategic Project Management (UNISA); Graduate Diploma in Marketing Management; Certificate in Marketing Management

* Hendrik Pelsler retired as the Absa Bank-appointed Councillor on 31 August 2020.

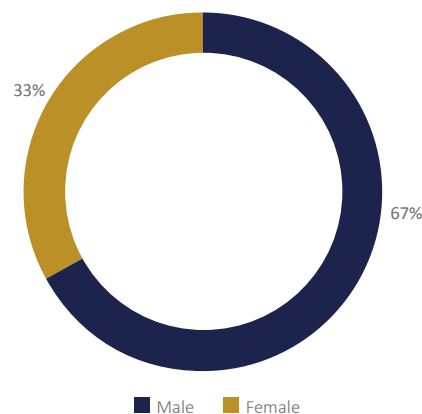
Skills matrix



Council Diversity



Council Diversity

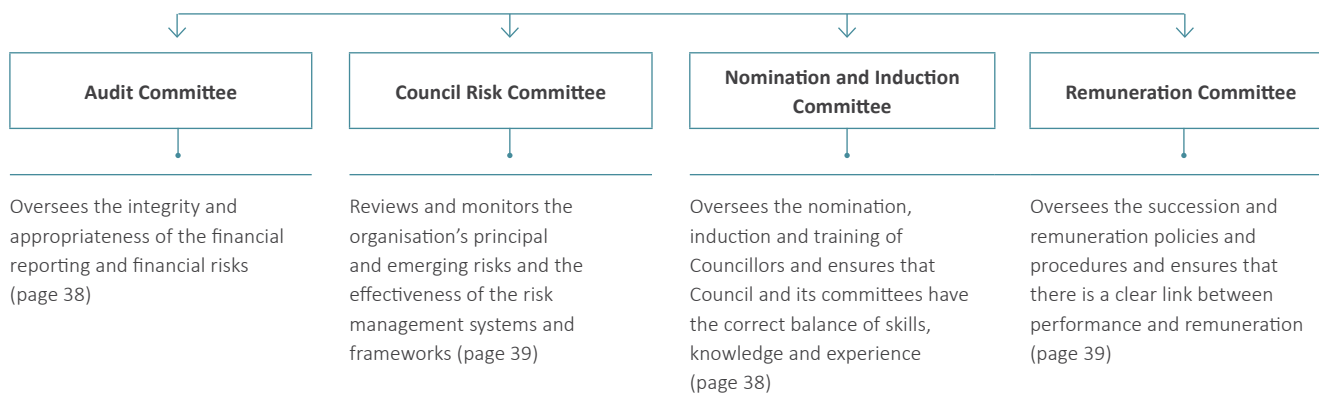


Governance framework

PASA Council

PASA Council is responsible for setting the organisation’s strategy and delivering long-term value to Members, the SARB NPSD and other stakeholders. It provides effective challenge to management concerning the execution of the strategy and ensures the organisation maintains effective risk management and internal control systems.

COUNCIL DELEGATES CERTAIN MATTERS TO ITS FOUR PERMANENT COMMITTEES:



Council utilises Council Committees comprising Councillors who share experience or expertise in these fields to assist with the delegation of its duties. The Council Committees have formal constitutions and are effectively mandated to assist Council in the execution of its responsibilities.

Executive Committee

EXECUTIVE COMMITTEE MEMBERS AS AT 31 DECEMBER 2020



Lesego Chauke-Motshwane (39)
Chief Payments Officer

Joined PASA: November 2021

Qualifications: BEng (Hons) (Cum Laude); MEng (Cum Laude); MBA; Executive Leadership Programme (GIBS)



Pierre Coetzee (60)
Chief Legal and Regulatory Officer

Joined PASA: April 2008

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



Maurits Pretorius (61)
Chief Strategy and Change Officer

Joined PASA: January 2016

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

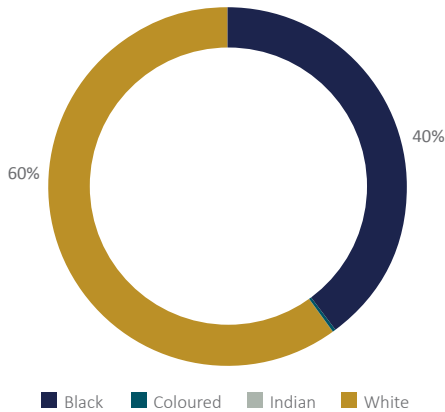


Naniki Ramabi (42)
Chief Risk Officer

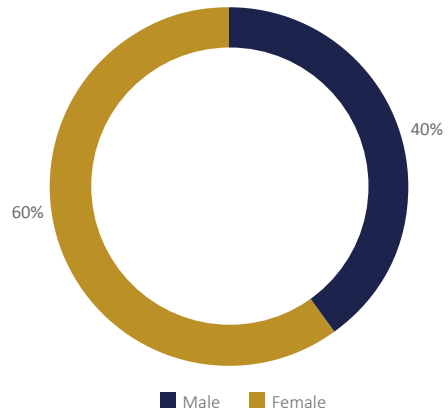
Joined PASA: August 2019

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

Exco Diversity



ExCo Gender Diversity



Council delegates to executive management by way of a formal Schedule of Delegated Authority, which it reviews regularly to guide the execution of the organisation's strategy and day-to-day management. This framework deals with decision-making, including which matters are reserved for Council, delegated to Council Committees or to individual members of executive management or the Executive Committee.

PASA Council acknowledges that delegating responsibility does not absolve it of its accountability. The PASA Constitution and Council approved policies 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 which are binding and against which Councillors are held accountable.

The PASA Constitution is available at www.pasa.org.za.

Members and meeting attendance

Council and all Council Committees, except the PASA Review Committee, have workplans that list their tasks according to their Constitution. This allows the committees to assess their progress and fulfil their mandates. The PASA Review Committee's responsibilities relate to responses to draft and new regulations and Bills and are ad hoc in nature. All Council Constitutions and Council Committees 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 Council's strategy sessions. SARB did not attend the special meeting of Council called to appoint the new CEO, as its approval had, in terms of the PASA Constitution, been obtained separately.

S Gericke	8/8		
I Goodspeed	8/8		
J Anderson	8/8		
R Banoobhai	7/8	J Elliot	8/8
M Brown	8/8	K Matlhole	1/8
I Carter	7/8	M Guest	3/8
D Ehlers	8/8	M Janse van Rensburg	0/8
J Murtagh	7/8	F Hanekom	0/8
C Smedley*	3/3	G Teixeira	2/8
H Pelser*	5/5		
T Masela	4/8	S Rayfield	1/8
P Coetzee**	5/5		
G Erling**	2/2		
W Volker**	1/1		

* Hendrik Pelser retired with effect from 31 August 2020. Charl Smedley replaced him as the Absa Principal Councillor with effect from 1 September 2020.

** Walter Volker took early retirement with effect from 30 April 2020. Per the CEO succession plan, Pierre Coetzee fulfilled the role in an acting capacity until Ghita Erling's appointment on 1 November 2020.

Audit Committee

Members and meeting attendance

M Brown (Incoming Chair)	5/5
H Pelser (Outgoing Chair)	3/3
I Goodspeed	5/5
J Murtagh	5/5

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

2020 focus areas

- Enhanced financial reporting, including reporting by cost centres
- Enhanced the budget process for increased transparency
- Oversaw the development of financial policies
- Approved the audit plan and reviewed all aspects of financial reporting

2021 focus areas

- Finalise the outstanding financial policies and procedures
- Resolution of the outstanding debtors book
- Appoint a full-time Chief Financial Officer
- Enhance membership invoicing processes
- Enhance the collections processes

Nomination and Induction Committee

Members and meeting attendance

S Gericke (Chair)	5/5
D Ehlers	5/5
R Banoobhai	5/5
I Goodspeed	5/5
T Masela (Alternate: S Rayfield)	4/5

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 standard invitee.

2020 focus areas

- Replaced the CEO and oversaw succession planning for this role
- Oversaw the evaluation of Councillors, Council and its committees
- Continued focus on the composition of Council and its committees
- Appointed a new Principal Councillor
- Ongoing efforts to recruit an additional independent Councillor

2021 focus areas

- Ensure that the membership of all Council Committees continues to be appropriate to the execution of their mandates
- Ensure new Councillors integrate successfully through enhancements to the induction programme
- Continued Council succession planning, with a focus on Council Chair succession

Remuneration Committee

Members and meeting attendance

J Murtagh (Chair)	9/9
I Carter	9/9
S Gericke	9/9
I Goodspeed	9/9

The Remuneration Committee comprises at least three Councillors. The CEO, the executive responsible for HR and the HR Manager attend as standard invitees. The Remuneration Committee used the services of an external consultant from PwC, Michael Ferreira, to provide it with further insight and expertise on remuneration and HR matters. The committee would like to thank Michael Ferreira for his insights.

2020 focus areas

- Continued oversight of executive management and key man succession planning
- Oversaw the severance package details for the CEO and the appointment package details of the new CEO in conjunction with the Nomination and Induction Committee
- Oversaw the ongoing employee wellness initiatives and the initiatives implemented to provide support during the COVID-19 pandemic
- Enhanced the governance processes in relation to the short-term and long-term incentive programmes for employees
- Reviewed the key performance indicators used to evaluate the performance of the organisation and senior executives



2021 focus areas

- Oversee executive management and key man succession planning
- Ongoing oversight of employee wellness and development initiatives
- Further refinements to the governance processes and updates to the Remuneration Policy to ensure all provisions are in line with best practice include enhanced malus and clawback provisions in line with best practice
- Continued refinement of the key performance indicators used to evaluate the performance of the organisation and senior executives

Council Risk Committee

Members and meeting attendance

R Banoobhai (Chair)	7/7
M Brown	7/7
F Hanekom	4/7
H Pelsler	5/5

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

2020 focus areas

- Oversaw the enhancement of the PASA National Payment System and PASA Office risk management policies and frameworks
- Oversaw the development of the risk appetite and tolerance levels framework
- Oversaw the development of the risk management engagement model and reporting methodology
- Oversaw the development of the risks, issues and incidents escalation methodology
- Oversaw PASA's response to COVID-19 from an organisation and industry-wide perspective
- Oversaw the identification and management of key risks impacting the organisation, its Members and the National Payment System
- Reinforced relationships with regulators through risk reporting and engagements



2021 focus areas

- Finalisation and implementation of the risk appetite and tolerance limits
- Finalisation and implementation of key risk indicators
- Oversee the integration of risk management reporting
- Evaluate the PASA National Payment System and PASA Office risk maturity
- 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 NPS participants

PASA Review Committee (temporary committee)

Main areas of responsibility

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 has an impact on the mandate or operations of PASA. The committee is responsible for developing, agreeing and submitting to the relevant regulator a PASA view which is developed from submissions received from committee members, Councillors, Members and the PASA Office.

Members and meeting attendance

S Gericke (Chair)	4/4
J Anderson	4/4
I Goodspeed	4/4
M Brown	4/4
H Pelser	1/1

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

Focus Areas

The 2020 and 2021 focus areas for the PASA Review Committee should be read within the context of the review of PASA and of the NPS Act which resulted in the issuance of the National Payment System Act Review Policy Paper (Policy Paper) in December 2018, followed by industry comment on the Policy Paper and the drafting of the NPS Bill by National Treasury (NT) and the South African Reserve Bank (SARB).

2020 focus areas

Within the above context, the PASA Review Committee provided guidance and steer to the executive team in their engagements with the SARB NPSD on the following areas in 2020 -

- Designing and proposing a management model for the NPS that would ensure the smooth transition from the current PASA Payment System Management Body model, to a model where a Payments Industry Body with representative and inclusive membership is contemplated
- Engagements with the Deputy Governor and the SARB NPSD on the revised regulatory model
- Engagements with the SARB NPSD to explore and develop the principles which would underpin the future Payments Industry Body



2021 focus areas

The focus of 2021 will continue with the 2020 activities and focus areas will include:

- Continuing the process to explore and develop principles around a future Payments Industry Body
- In collaboration with the SARB, proposing principles that will ensure alignment between the Financial Sector Regulation Act, the CoFI Bill and the NPS Bill
- Oversee and guide PASA's role in the participation of the design of a Payments Industry Body

08

MANAGING OUR REGULATORY UNIVERSE

THE REGULATORY LANDSCAPE APPLIES TO TWO DISTINCT AREAS WITHIN PASA:



A PSMB

Organising, managing and regulating the participation of its Members in the National Payment System per the National Payment System Act



A separate legal entity

Subject to general laws of South Africa

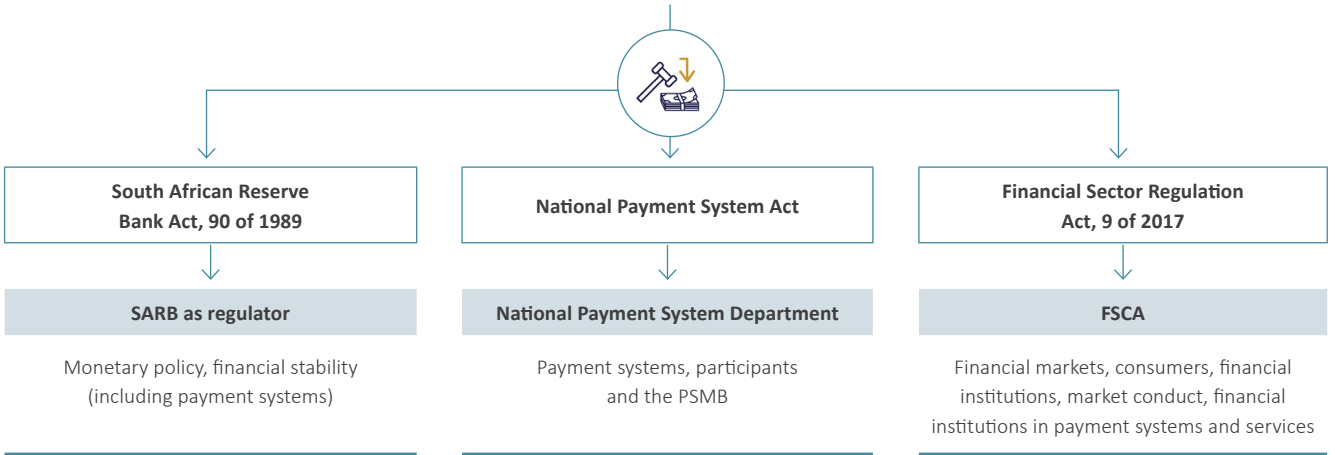
PASA as a PSMB

The South African Regulatory Body 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 to 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.

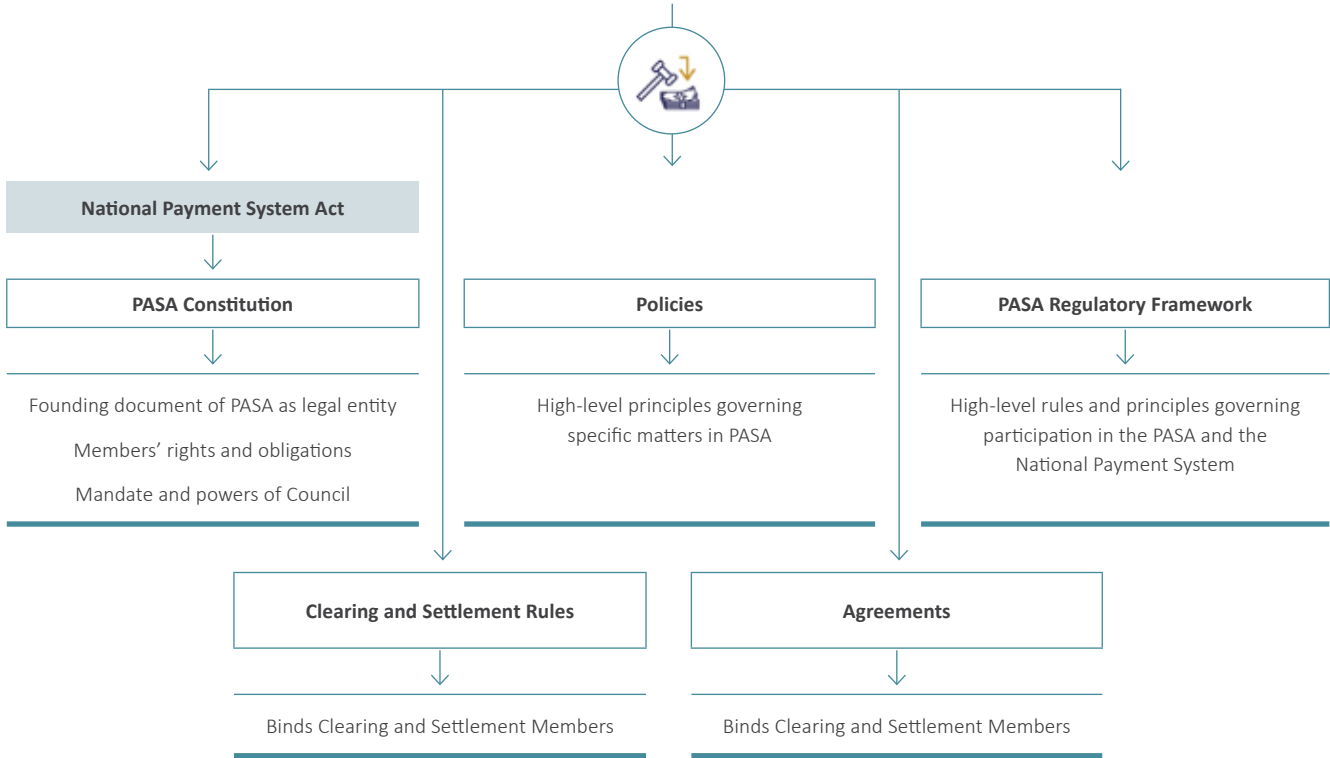
Legislation that is principally applicable to payments in South Africa

PRIMARY PAYMENTS REGULATION



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

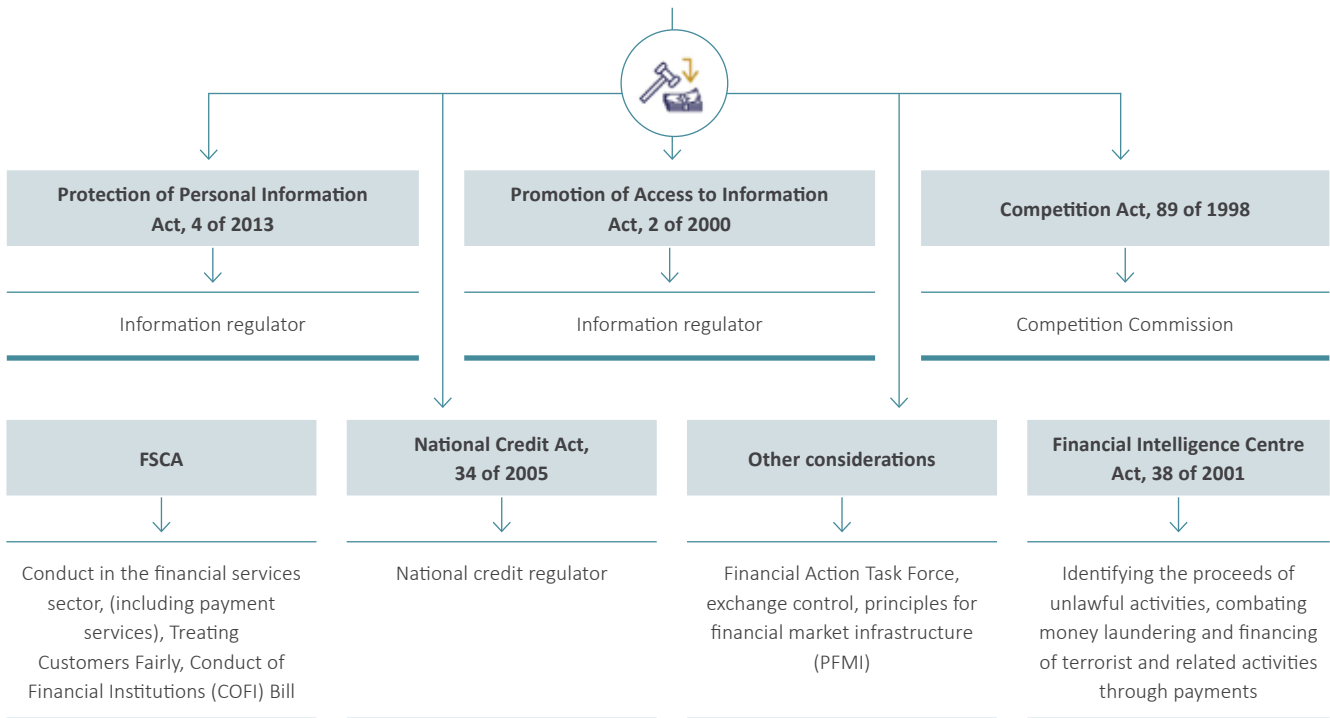
PASA REGULATORY FRAMEWORK



All the instruments in PASA's Regulatory Framework applies 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 to issue 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 AND PENDING REGULATION



PASA as separate legal entity

Regulatory compliance was a main focus area for the PASA Office during 2020. 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 2021.

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. To discharge this responsibility, PASA has created a compliance enforcement regime based on the core principles of alignment to risk and independence in enforcement.

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 is tasked with assessing 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 has the ability to impose a suitable sanction in respect of any non-compliance. The PASA Constitution details the appeal process for any Member aggrieved with the findings of the Compliance Enforcement Panel.

Compliance Enforcement in PASA in 2020

Number of matters of alleged non-compliance investigated	10
Number of matters referred to the Compliance Enforcement Panel	6
Number of findings of non-compliance	5
Number of non-financial sanctions	3
Number of combined sanctions	2
Number of financial sanctions	2
Cumulative amount of financial penalties	R100 000



THE RISKS WE MANAGE

Risk management process

The 2020 focus was on elevation of risk management maturity for PASA Office functions and payment systems

The PASA Office and National Payment System Risk Management Frameworks were reviewed and enhanced to provide a solid foundation for integrating risk management principles into all parts of the payments ecosystem. This enables a safe, efficient and accessible payments engine and embeds consistent and robust risk management on activities performed within PASA.

After approval of the frameworks, risk management structures were established to implement the frameworks. This included the formal establishment of Risk Subcommittees for card, low-value electronic and high-value payment systems, appointing Risk Champions and providing training and guidance on the framework components. This was followed by mobilisation of Risk Subcommittees for structured risk identification and assessment and implementation of 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. This entailed risk assessment workshops, deliberation of outcomes and approvals at PCH PGs, development of a PASA risk profile, and, ultimately, PASA Council reporting as highlighted below.

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



Additional 2020 developments which complement the risk management process included:

- The risk management engagement model, which provided a structured approach to identify and categorise risk management stakeholders. This was followed by a needs analysis, engagement strategy (including method and channels) and monitoring and improvement.
- The risks, incidents, and issues escalation model, complementing current risks and incidents identification processes, to ensure risks and incidents that might have severe negative consequences are adequately escalated and receive necessary attention.
- The setting of risk appetite and tolerance levels, which provide thresholds that PASA Structures and participants should consider when evaluating strategic alternatives, setting related objectives and developing mechanisms to manage risks and opportunities.

Top National Payment System risks in 2020

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

Technology risks

- Payment systems instability and processing errors resulting in incorrect processing and usage of legacy systems in the back-end environment, which may result in payment errors. This risk was prevalent within the low-value electronic payments environment, with material incidents experienced on the authenticated collections and the NAEDO payment platforms.
 - **Risk mitigation:** The PSO has committed to improve the control environment. It has embarked on a project to resolve system stability and reduce material incidents. Industry service level agreements are being aligned to consider materiality in line with participants' expectations and will be monitored on an ongoing basis.
- Challenges experienced during implementation of the authenticated collections platform have raised concerns about when the DebiCheck solution will reach the expected level of maturity. System instability is a key factor influencing the success of the project and the user community's level of confidence to fully adopt the solution. Issues contributing towards this included PSO incidents and interbank technical challenges, such as delayed responses, request rejections, timeouts, and incorrect validations.
 - **Risk mitigation:** The PSO and participant banks have committed to resolve underlying issues resulting in incidents. Actions planned to improve controls are being monitored by the project team with continual feedback to the Steering Committee.

People risk

- A decline in the required skills and maturity to execute industry tasks. This could occur due to loss of participants with all-encompassing payments industry expertise and information, without adequate succession planning. This might negatively affect the quality of industry outputs and ability to provide effective strategic direction.
 - **Risk mitigation:** PASA ensures that relevant information is distributed to all members participating in PASA Structures. There are also engagements with the global community for the industry to obtain end-to-end understanding of complex payment structures. The industry is reviewing possible measures to enhance succession planning. The PASA training and activities from the Operating Model Optimisation Project (page 30) are expected to continue improving the PCH PGs' composition and skills transfer.

Fraud risk

- Fraud losses due to stolen and skimmed cards continued during 2020. These were predominantly card-not-present transactions and fleet card fraud losses due to lack of security initiatives within the fleet environment.
 - **Risk mitigation:** Measures are constantly evolved implemented to curb losses. Proposed solutions to migrate all fleet cards to chip technology are being investigated.
- Unauthorised/unmandated or fraudulent transactions being submitted for clearing, resulting in unauthorised amounts being debited on customer accounts.
 - **Risk mitigation:**
 - ◇ Continued measures to curb the abuse of the Early Debit Order systems by rogue users through operationalisation of the Debit Order Abuse 4-prong model (page 24).
 - ◇ Embarked on initiatives to automate and enhance current processes.
 - ◇ Implementation of the authenticated collections platform continues. This platform enables consumers to use mandates to authorise collection of funds from their bank accounts. Industry participants and the PSO have committed to resolve system stability issues.
- Credit push payment fraud due to cyber crime and social engineering techniques such as phishing scams used to illegally obtain users' credentials and compromise their profiles. Business email compromise is an example of a scam where criminals illegally access an email account. They then communicate as if they are the user, utilising the information on the account to commit fraud such as sending emails to unsuspecting recipients, instructing them to change bank account details.
 - **Risk mitigation:** Banking details verification services are offered by certain banks. User awareness is performed to alert customers of latest scams and common criminal methods. PASA has embarked on an engagement process to rally industry stakeholders to form part of the credit push payments fraud mitigation initiative. One consideration is greater use of the industry account verification solution.

Information risk

- Inadequate controls in the usage of instant EFT by merchants, exposing users to potential breach of banking details and subsequent financial losses.
 - **Risk mitigation:** PASA, in conjunction with the SARB and the FSCA, issued a consumer alert during November 2020. This raised awareness of the risks associated with using instant EFT online payment services offered at ecommerce stores. The SARB also issued an industry consultation paper on Open Banking Activities in the National Payment System.

Legal risk

- Inconsistent interpretation of rules, PCH Agreements, and technical requirements due to misalignment between these. The PCH Agreements supersede other rules and could result in difficulties if incorrect.
 - **Risk mitigation:** PASA's legal team and the Legal Committee assist with clarity and queries related to interpretation of the rules. There is also a dispute escalation and resolution process in place. PASA has commenced a review of rules with high-risk focus.

Operational risk

- Non-conformation to Clearing Rules by Member banks and lack of control within the low-value clearing system due to inadequate standards which are not aligned to the international standard.
 - **Risk mitigation:** A skills mentorship programme is in place to enable major banks to provide guidance to new and/or unskilled banks. Certain projects address the use of inadequate standards risk within the low-value payment streams, including ISO 20022 messaging standards. The compliance process attempts to resolve instances of non-adherence to standards by Members without escalation to the Compliance Enforcement Panel.
- The settlement community embarked on a review of the 90:10 principle following concerns raised around consistent breach of the threshold limits. The principle was developed in 2000 to reduce overnight batch settlement exposures and to promote intraday settlement in SAMOS. This is because large overnight batch settlement could require substantial overnight collateral requirements to secure them against bank failure.
 - **Risk mitigation:** The review of this principle will provide input and recommendations for consideration by the SAMOS policy and regulatory team.

Top organisational risks in 2020

Key risks related to activities performed by PASA, from an organisational perspective.

Strategic risk

- The National Payment System Act is currently under review, which increases risk around PASA's future industry role. This could impact both its mandate and relevance to stakeholders.
 - **Risk mitigation:** PASA manages its strategic future by focusing on maintaining good and proactive stakeholder relationships at the right levels and continuous monitoring of and contributions to National Payment System Act review activities. PASA's relevance is managed through ensuring we add value to all our stakeholders.

People risk

- PASA has a dependency on certain key employees. There is a risk of inability to perform well on key initiatives due to dependence on these individuals' knowledge, networks, and problem-solving skills. There is also potential flight risk and loss of employee commitment and performance due to uncertainty regarding the National Payment System Act review. Furthermore, inadequate identification of skills gaps in functional areas might negatively impact achievement of operational objectives.
 - **Risk mitigation:** People risk is managed through succession planning and a retention strategy for key individuals considered flight risks. PASA also has an equitable remuneration approach and plans to improve knowledge management and skills transfer. There is ongoing personnel communication regarding the operating model optimisation, the National Payment System Act review and potential impact on PASA Office roles. There is a recruitment process in place to fill vacant positions.

Operational risk

- Potential inability to perform critical activities due to unplanned outages, failure of IT infrastructure and systems, extended lack of electricity and water or natural disasters.
 - **Risk mitigation:** PASA has an IT systems backup and recovery strategy, power backup, and failover to an offsite disaster recovery site. PASA's operational resilience was stress tested during the nationwide lockdown with pleasing results: all critical activities continued to be performed without any incidents.

Risk management: Looking ahead

PASA's focus for 2021 will be on creating integrated risk management reporting, including risk appetite and tolerance levels. The feasibility of developing and implementing industry key risk indicators will be prioritised, taking into consideration data and management information limitations.

Continuous monitoring of the fraud landscape and trends will remain a focus. The increase in the usage of digital payments platform has led to the rise of digital fraud. This has necessitated collaborated industry efforts to enhance fraud prevention, detection and response measures.

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ABBREVIATIONS TO KNOW

AEDO	Authenticated Early Debit Order
API	Application Programming Interface
Council	Councillors of PASA
EDO	Early Debit Order
EFT	Electronic Funds Transfer
FSCA	Financial Sector Conduct Authority
Member	a bank or designated clearing participant
NAEDO	Non-Authenticated Early Debit Orders
NPSD	National Payment System Department
PCH PG	Payment Clearing House Participant Group
PASA	Payments Association of South Africa
PCH PG	Payment Clearing House Participant Group
PSMB	Payment System Management Body
PSO	Payment Clearing House System Operator
RMS	Registered Mandate Solution
RTC	Real-Time Clearing
SARB	South African Reserve Bank
SO	System Operator
TPPP	Third Party Payment Provider

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