



**PASA**

# INTEGRATED REPORT

**PASA, AS THE TRUSTED PAYMENT SYSTEM MANAGEMENT BODY IN SOUTH AFRICA, HAS BEEN INSTRUMENTAL IN DRIVING THE PAYMENTS AGENDA FORWARD FOR OVER 20 YEARS. OVER THE PAST YEAR, WE HAVE SEEN AN UNPRECEDENTED PERIOD OF INDUSTRY-WIDE COOPERATION AND COLLABORATION, AND WE ARE PROUD TO HAVE CONTRIBUTED TO THIS EFFORT. AS WE TRANSITION INTO A NEW AND MORE INCLUSIVE BODY, WE ARE COMMITTED TO CONTINUING OUR CRITICAL ROLE IN SHAPING SOUTH AFRICA'S PAYMENTS LANDSCAPE WITH OUR VALUE-ADDED CONTRIBUTIONS.**

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# INTRODUCING PASA'S 2022 INTEGRATED REPORT

## RESPONDING TO COMPLEXITY AND CHANGE IN THE PAYMENTS LANDSCAPE

PASA's operating environment is undergoing rapid transformation across multiple aspects including ongoing modernisation efforts, new entrants and technology innovation. These aspects have given rise to a growing number of industry-wide projects to modernise the National Payment System. This change is compounded by a complex and shifting social, economic and political environment.

In parallel with the industry's modernisation efforts, there is recognition of the changes required to the existing regulatory architecture. This includes the design of a new Payments Industry Body (PIB), which aims to ensure interoperability by entrenching cooperation and collaboration among an inclusive group of stakeholders. In addition to triggering internal changes within PASA, there are a multitude of industry-wide projects, including the design of the PIB, which are placing shifting expectations on all players. This challenge is exacerbated by capacity constraints that are being felt industry-wide.

In this ever-changing world, managing risk and leveraging opportunities are critical to ensure effective management and oversight of the payments industry. In this report, PASA reflects on how the organisation is responding to this change, guided by its vision and purpose.

Ultimately, by successfully executing its mandate, PASA aims to continue to ensure an efficient, trusted and interoperable payment system that supports the South African economy.



### Purpose

PASA exists to manage payment systems in the interest of economic and social development of South Africa.



### Vision

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



### Mission

The mission of PASA is to manage and develop the National Payment System and facilitate integration with international payment standards.



### Values

PASA's values that guide the organisation's attitudes and behaviours are:

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



### Goals

To achieve its mission, PASA's goals are to ensure improved or greater:

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

## PASA ENTRENCHES AN ETHICAL CULTURE AT EVERY LEVEL OF THE ORGANISATION

PASA uses its values and employee policies to guide employee behaviour. These help to mitigate the risks of corruption, discrimination and inequality.

## UNDERSTANDING PASA'S REPORTING APPROACH

PASA is pleased to present its 2022 integrated report.

### Scope and boundary

This integrated report covers PASA's operations from 1 January 2022 to 31 December 2022. It communicates PASA's value creation process and describes the progress made to manage and optimise payments within South Africa's National Payment System. PASA achieves this progress in collaboration with its Members<sup>1</sup>, the South African Reserve Bank National Payment System Department (SARB NPSD) and other stakeholders.

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

### Materiality

PASA applies materiality to determine this report's scope and content. Materiality emphasises integrated reporting based on the issues, risks and opportunities that can materially impact PASA's sustainable performance over the short, medium and longer term. Materiality ensures that this report enables stakeholders to make informed assessments of PASA's performance and longer-term prospects. For more insight into PASA's materiality determination process and material matters, refer to page 28.

### Time frames

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

**Short term:** Less than one year      **Medium term:** One to less than three years      **Long term:** Three to 10 years

#### REPORT APPROVAL

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

PASA's Councillors acknowledge their responsibility to ensure the integrity and completeness of the integrated report and the annual financial statements. The Councillors believe this report provides an accurate and material account of PASA's performance and strategic direction and that it addresses all material matters. PASA Council approved this report on 11 May 2023.

**Sydney Gericke**  
Chairperson

**Ghita Erling**  
Chief Executive Officer

### Request for feedback

PASA welcomes your feedback on the contents and presentation of this report. This will enable the organisation to improve the quality and relevance of future reports. Send feedback on reporting content to [pasa@pasa.org.za](mailto:pasa@pasa.org.za).

### Forward-looking statements

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

<sup>1</sup> For a full list of PASA's Members, refer to page 10.

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

## TERMS AND ABBREVIATIONS TO KNOW

The following terms and abbreviations are frequently used in this report. PASA has provided definitions to help readers understand what each item means.

### Important industry role players and structures

|                     |  |
|---------------------|--|
| <b>PASA Council</b> | PASA <b>Council</b> serves as PASA's governing body and is responsible for the effective governance of PASA and its Structures. It delegates powers to the Council Committees to assist it with executing its responsibilities.  |
| <b>FSCA</b>         | The <b>Financial Sector Conduct Authority</b> is the market conduct regulator in South Africa's Twin Peaks regulatory model implemented via the Financial Sector Regulation Act. The FSCA's mandate includes all financial institutions that provide a financial product and/or a financial service as defined in the Financial Sector Regulation Act.                                     |
| <b>Member</b>       | A <b>Member</b> is a bank, mutual bank, branch of a foreign institution or Designated Clearing System Participant who is also a Member of PASA.  |
| <b>NPS</b>          | The <b>National Payment System</b> is South Africa's set of instruments, procedures and rules that enable funds to be transferred from one financial institution to another. It connects financial institutions, businesses and consumers, ensuring the economy can operate seamlessly and effectively.  |
| <b>NPSD</b>         | The <b>National Payment System Department</b> is a department within the South African Reserve Bank (SARB) and is the regulator, supervisor and overseer of the National Payment System. The NPSD is also the operator of the settlement systems SAMOS (South Africa's real-time gross settlement system) and SIRESS (the SADC's regional cross-border real-time gross settlement system). |
| <b>PIB</b>          | The <b>Payments Industry Body</b> refers to a new entity intended to replace PASA. The key purpose of the PIB will be to provide a structure that will ensure the maintenance of an interoperable middle-mile infrastructure through collaboration and cooperation among all participants in the payments landscape.   |
| <b>PCH</b>          | A <b>Payment Clearing House</b> refers to a legal arrangement between two or more system participants that governs the clearing and settlement of payment instructions between the participants.   |
| <b>PCH PG</b>       | A <b>Payment Clearing House Participant Group</b> manages operational matters for PCHs via PCH agreements, clearing rules and service level agreements.  |
| <b>PSMB</b>         | A <b>Payment System Management Body</b> organises, manages and regulates the participation of its members in the payment system. The National Payment System Act gives the SARB the authority to recognise a Payment System Management Body, and PASA is currently recognised as the PSMB by the SARB.   |
| <b>PSO</b>          | A <b>Payment Clearing House System Operator</b> conducts clearing operations on behalf of banks and designated clearing system participants that may be non-banks. There are four authorised PSOs in South Africa: BankservAfrica, Strate, Visa and Mastercard.  |
| <b>SARB</b>         | The <b>South African Reserve Bank</b> is South Africa's central bank. The SARB's primary mandate is to protect the value of the country's currency in the interest of balanced and sustainable economic growth. In addition, the SARB has a statutory mandate to enhance and protect South Africa's financial stability.   |
| <b>SO</b>           | A <b>System Operator</b> is an entity that is authorised to provide a service to any two or more entities (banks and non-banks) in respect of payment instructions.  |
| <b>TPPP</b>         | A <b>Third-Party Payment Provider</b> is a non-bank entity that makes or collects payments on behalf of payers or beneficiaries.   |

## Payments industry products, solutions and processes

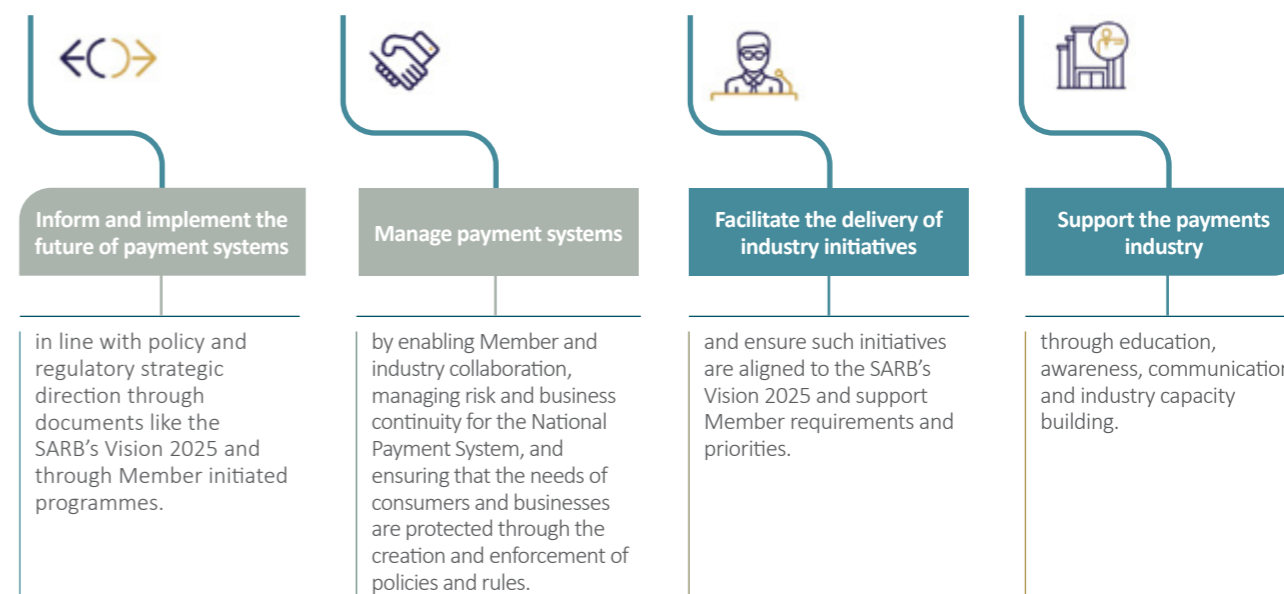
|           |   |
|-----------|---|
| AEDO      | The <b>Authenticated Early Debit Order</b> system enabled an account holder to mandate contracted, future-dated early debit orders using their debit card and PIN. In accordance with the SARB's second Amended Directive 1 of 2017, AEDO was sunsetted on 31 October 2021 and AEDO payment instructions were no longer permitted with effect from 1 November 2021.   |
| API       | An <b>Application Programming Interface</b> is a set of defined methods and functions that allow one computer programme to 'talk' to another programme to consume data, perform actions or both. Working behind the scenes, APIs help to reduce the complexity of accessing technology systems and automate interactions between systems and apps.  |
| DebiCheck | <b>DebiCheck</b> is an electronic mandate debit order collection capability that facilitates a more convenient and secure debit order environment. The system was designed to obtain authentication of all collection mandates by payers and subsequently enhanced to accommodate electronic mandates that have not been authenticated.   |
| EDO       | Debit orders are used by companies to collect money from a consumer's bank account on a repeating basis for payments such as insurance and investment policies, and other payments. An <b>Early Debit Order</b> is processed immediately after a credit payment.  |
| EFT       | An <b>Electronic Funds Transfer</b> enables money to be sent and received digitally across an online network. The stores of value do not have to be at the same financial institution to send or receive funds.   |
| NAEDO     | The <b>Non-Authenticated Early Debit Order</b> system allowed qualifying service providers and consumers transacting with such service providers the equivalent benefit of AEDO, but without the PIN authentication requirement. In accordance with the SARB's second Amended Directive 1 of 2017, NAEDO was sunsetted on 31 October 2021 and NAEDO payment instructions were no longer permitted with effect from 1 November 2021. |
| PayShap   | <b>PayShap</b> is a new instant interbank digital payment offering for low-value credit payments. It is a payments solution delivered through the Rapid Payments Programme and is anticipated to go live in 2023.   |
| QR Code   | A <b>Quick Response Code</b> is a high-density, two-dimensional barcode that stores information and can be read by a digital device such as a cell phone. In this context, the QR code is used to initiate a payment.   |
| RMS       | The <b>Registered Mandate Solution</b> was introduced to enhance DebiCheck and accommodate electronic mandates that have not been authenticated (i.e., where consumers failed to respond to DebiCheck authorisation requests).  |
| RTC       | <b>Real-Time Clearing</b> allows for interbank payment clearing instantly. RTC is known by terms like Pay & Clear and Instant EFT to end consumers.   |

# ABOUT PASA

## INTRODUCING PASA

PASA is recognised by the SARB as South Africa's PSMB. PASA plays a critical role in the South African payments industry, adding value by managing its Members' activities in the National Payment System from a strategic, operational and delivery perspective. PASA further assists the SARB in discharging its responsibilities regarding the regulation and supervision of payment, clearing and settlement systems.

### PASA structures its operations around four core objectives:



### A snapshot of PASA's employees at 31 December 2022

# 48

Permanent employees

2021: 49

# 42,7 years

Average employee age

2021: 41,9 years

# 5,5 years

Average employee tenure

2021: 5,2 years

# 14,4%

Employee turnover

2021: 16,3%

# 32 (66,7%)

Black employees

2021: 30 (61,2%)

# 29 (60,4%)

Female employees

2021: 31 (63,3%)

## PASA'S ECOSYSTEM

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



The SARB is responsible for ensuring the safety and soundness of the National Payment System, which is the backbone of South Africa's modern financial system.

The SARB Act consolidates the laws relating to the SARB and South Africa's monetary system.

The NPS Act provides for the management, administration, operation, regulation and supervision of South Africa's payment, clearing and settlement systems.

### THE NATIONAL PAYMENT SYSTEM

The interests of the National Payment System are determined by the NPS Act, directives from the SARB and Vision 2025 (page 25).

The main policy objectives to be achieved are payments interoperability, financial stability, safety and efficiency, and access.



#### PASA Members

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

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#### PASA's Constitution and Structures

PASA's Members are bound by PASA's Constitution, policies and the PASA Regulatory Framework, including the clearing rules that govern individual PCHs. PCH PGs are comprised of Member representatives who are responsible for considering the interests of PASA, the National Payment System and their Members in ensuring the optimal functioning of the respective payment system operations. PASA Structures include, among others, PCH PGs, Strategy, Legal and Risk Committees, Stakeholder Forums and Project Steering Committees.

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#### Authorisation and registering of PSOs, SOs and TPPPs

PASA is responsible for registering TPPPs in terms of SARB Directive 1 of 2007, authorising PSOs in accordance with the PSO Criteria approved by the SARB in terms of Section 4(2)(c)(ii) of the NPS Act, and authorising SOs in terms of SARB Directive 2 of 2007.

## PASA'S CONSTITUTION AND STRUCTURES

The PASA Constitution<sup>1</sup> provides for the establishment of PASA and its governing body (PASA Council), together with the mandate, powers and responsibilities of PASA and PASA Council. It provides the criteria for Members and details Members' rights, roles and obligations.

The PASA Constitution recognises the SARB as the regulator, overseer and supervisor of the National Payment System. It further recognises the SARB's mandate to oversee PASA's role as a PSMB assisting the SARB in discharging its responsibility to regulate and supervise payment, clearing and settlement systems, and effectively manage and regulate the participation of its Members.

As the governing body of PASA, PASA Council is responsible for the effective governance of PASA and its Structures. It delegates powers to Council Committees (page 54) to assist it with executing its responsibilities.

PASA Council also delegates powers to PASA Structures and the Chief Executive Officer (CEO). PASA Structures include Committees (including, for example, Legal, Competition and Risk Committees). A separate Structure is in place to independently assess the outcome of compliance investigations PASA conducts and to enforce rules. These committees are accountable to and regularly report to PASA Council.

In 2022 PASA had:

- › Seven PCH PGs, with an operational focus on managing a specific payment system/s (SSPG (Settlement PG) was split out).
- › Three Strategy Committees, covering card payments, electronic payments and high-value payments.
- › Three Committees (Legal, Risk and Competition).
- › Three Stakeholder Forums, ensuring regular engagements with impacted parties who are not PASA Members.

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.

## PASA's Members, PSOs, SOs and TPPPs at 31 December 2022

### Members

35

Members

(2021: 32)



17

PCHs

(2021:18)



7

PCH PGs

(2021: 8)



1

Settlement PG

225

PCH Memberships

(2021: 241)



### PSOs, SOs and TPPPs

4

Authorised PSOs

(2021: 4)



96

Authorised SOs

(2021:89)



326

Registered TPPPs

(2021: 243)



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

# AN OVERVIEW OF 2022

## PASA MEMBERS







|  |  |
|--|--|
| Absa Bank Ltd                                    | Habib Overseas Bank Ltd                      |
| Access Bank South Africa Ltd                     | HBZ Bank Ltd                                 |
| African Bank Ltd                                 | HSBC   |
| Albaraka Bank Ltd                                | Investec Bank Ltd                            |
| Bank of China, Johannesburg branch               | JP Morgan Chase Bank NA, Johannesburg branch |
| Bank Zero Mutual Bank                            | Nedbank Ltd                                  |
| Barko Mutual Bank (Provisional Member)           | Paycorp (Pty) Ltd (Provisional Member)       |
| Bidvest Bank Ltd                                 | Postbank SOC                                 |
| BNP Paribas Corporate and Investment Banking     | Retail Assist (Pty) Ltd                      |
| Capitec Bank Ltd                                 | South African Reserve Bank                   |
| China Construction Bank                          | Sasfin Bank Ltd                              |
| Citibank NA South Africa                         | The Standard Bank of SA Ltd                  |
| Diners Club South Africa                         | Standard Chartered Bank, Johannesburg Branch |
| Discovery Bank Ltd                               | State Bank of India, South African Branch    |
| Efficacy Payments (Pty) Ltd (Provisional Member) | Tyme Bank Ltd                                |
| Finbond Mutual Bank                              | Ubank Ltd*                                   |
| FirstRand Bank Ltd                               | VBS Mutual Bank*                             |
| Grindrod Bank Ltd                                |  |

## Changes to PASA's membership

2022 marked the go-live of Designated Clearing System Participant (DCSP)<sup>1</sup>, Retail Assist (Pty) Ltd, as the first non-bank acquirer in the South African National Payment System. Two more DCSPs have since joined PASA as provisional Members, expecting to go live during the course of 2023.

In addition, PASA's membership base was expanded to include a further mutual bank that should obtain full membership in 2023. ICICI Bank exited PASA's membership in June 2022.

## Key highlights in 2022

-  Finalised the PIB Design Report and handed it to the SARB
-  Completed the clearing rules, PCH PG Constitution and entry and participation criteria for the Rapid Payments Programme's payment solution, PayShap
-  Concluded a stakeholder engagement survey as well as an employee engagement survey
-  Initiated a needs analysis to gain insight into how industry knowledge and capacity creation can be enhanced
-  Proposed a framework through which the debit order rules can be further enhanced and improved
-  Grew Member fees for 2023 below inflation at 4,9%
-  Enhanced PASA as a legal entity's risk management reporting, through the introduction of key risk indicators, risk events reporting, and PASA Council Committees' customised risk reports.
-  Performed a comprehensive internal evaluation of PASA's governance performance
-  Upgraded the high-value payments system to ISO 20022 ahead of the international timelines
-  Shut down the AEDO and NAEDO systems and closed the PCH PGs with minimal industry impact
-  Agreed a plan with the SARB to incorporate RMS as a permanent feature of the debit order ecosystem by the end of 2024
-  Strengthened PASA's core capabilities, including HR, IT, legal and risk
-  Strengthened PASA's financial controls and financial management approach
-  Continued to embed PASA's risk management approach, in its capacity as a PSMB, through training and by integrating approved National Payment System risk appetite and tolerance levels as well as key risk indicators
-  Reviewed and strengthened the composition of the Council Committees

<sup>1</sup> Clearing participants may be banks or Designated Clearing System Participants (non-banks) which are members of PASA and at least one PCH.

\* Under curatorship:

Ubank Ltd – 16 May 2022

VBS Mutual Bank – 18 July 2018



# Q&A WITH THE HEAD OF THE SARB NATIONAL PAYMENT SYSTEM DEPARTMENT



The past year again demonstrated what can be achieved if we maintain industry cooperation and collaboration. Importantly, thanks to the collective effort of a wide network of stakeholders, the National Payment System continues to evolve for the benefit of every South African.

**Q** The payments landscape is characterised by constant evolution. What gives the SARB confidence that South Africa can navigate through this change?

**A** Competing requirements, technological change, innovation, pressured resources, cyber crime and fraud are just a few of the challenges that continue to test the ability of industry participants to align around common objectives. What is pleasing is that despite these difficulties, we have seen the industry pull together and prioritise the successful execution of projects that are critical to take the National Payment System forward. This gives the SARB confidence that with the payments industry's support, the dream of a safe, efficient and accessible National Payment System, as outlined in SARB Vision 2025, can be realised.

For example, the community of stakeholders involved in establishing the PIB navigated unpredictable and complex terrain but worked together to develop an inclusive response to the rapidly evolving financial and payments landscape. As the SARB, we were particularly pleased to receive the final PIB Design Report. Another milestone achieved this year was successfully upgrading

SAMOS to align with ISO 20022 in accordance with the Modernisation of High Value Payments project that the SARB initiated in 2019. This represents a huge step towards modernising and future-proofing the country's payments ecosystem.

As the key enabler for the economy, the industry must remain committed to supporting the evolution of the payments system and collaborating to carve out the road ahead. To this end, PASA has played a critical role in organising, managing and regulating its Members' participation in modernisation projects while ensuring an inclusive approach that supports interoperability and serves a growing network of stakeholders.

PASA is now transitioning to the PIB. This is a notable period in the organisation's history, defined by significant change. What will remain is the fundamental role that PASA plays to ensure we keep up with the rapid pace of change. PASA has served the industry well, and the SARB is confident that its transition to the PIB presents an opportunity to take our payments system to the next horizon.

**Q** Unpack what is being done to ensure South Africa can achieve the goals set in Vision 2025.

**A** As broadly recognised, payment systems should address six main aspects: convenience, low cost, high speed (including payments in real time), consumer and service provider accessibility, transparency, and security and reliability to maintain stakeholder trust. Consisting of over 100 initiatives spread across nine goals, Vision 2025 is a collective vision to ensure we focus on these aspects and develop a world-class National Payment System.

The SARB Payments Council, established in 2019, continues to play a key role in tracking the execution of Vision 2025. It consists of key stakeholder groups that reflect the wide interests of South Africa's payments landscape, and it is with the support of these stakeholders that we discuss and execute key initiatives. This engagement and understanding encourage collaboration and make it easier to move the industry forward.

The volume of work required to deliver Vision 2025 necessitates that we prioritise certain initiatives, especially considering industry capacity and resource constraints. However, we believe we are on the right track to achieve close to 80% of what we set out to do. PASA is responsible for driving roughly a quarter of the 100 initiatives and will continue to play a fundamental role in attaining the goals envisaged in Vision 2025. In the year ahead, we will also need to consider what lies beyond Vision 2025 and begin mapping our vision for South Africa's payments landscape to 2030 and beyond.

**Q** Reflect on the year ahead – what would you like to see achieved in 2023?

**A** The complex and ever-changing payments environment is here to stay and there is no doubt that it will present challenges. However, I believe we are now familiar with the pressure points in the system and can leverage learnings to propel the industry to greater heights.

The SARB looks forward to engaging with PASA and the PIB community on the PIB Design Report and developing a transition plan in the year ahead. Once approved, PASA's transition from a PSMB to a PIB will be implemented and executed. The timing of this depends on regulatory changes underway in the National Payment System, and the SARB has set up a transitional committee that includes the PIB coordination team and other stakeholders to navigate this challenge.

Ultimately, the formation of the PIB will afford our system the achievement and maintenance of an interoperable middle-mile infrastructure through collaboration and cooperation among current participants and new entrants in the payments landscape. This is essential to facilitate collective effort for the realisation of Vision 2025 and other public policy goals, and is one of our priorities.

PASA will remain instrumental in the ongoing modernisation of South Africa's real-time gross settlement system, SAMOS. This modernisation journey includes opening access to newer entrants such as digital start-ups and fintechs, embedding new payment solutions and digital payment offerings, and enabling settlement using additional settlement assets such as Central Bank Digital Currency (CBDC), should additional settlement assets be launched and embraced. This will ensure that we deliver a new-generation real-time gross settlement system that is adaptable, resilient and future-proof.

It has been incredibly encouraging to see the level of collaboration achieved over the past year, and the SARB thanks PASA for the instrumental role the organisation has played in facilitating this collaboration. PASA's significant contribution remains invaluable going forward.

**Tim Masela**

Head of the SARB National Payment System Department

# MESSAGE FROM THE COUNCIL CHAIR



With the formulation and finalisation of the PIB design principles, 2022 will undoubtedly be remembered as the year of great industry-wide collaboration and cooperation.

## Reflecting on 2022

PASA will remain in a transitional phase, possibly for the duration of 2023, while awaiting feedback from the SARB regarding the implementation of the PIB Design Report recommendations. However, this period creates an opportunity for mapping out transition frameworks, further strengthening and professionalising the PASA Office, and ensuring that all employees are change-ready and fit for the journey ahead. The establishment of the envisaged PIB (which includes banks, PSOs, SOs, TPPP, fintechs, retailers and other stakeholders) further provides a tremendous opportunity to modernise and strengthen the National Payment System, which is a national asset serving the interests of all South Africans.

2022 also saw the effective adoption of the ISO 20022 standard for the SAMOS system, well ahead of the SWIFT 2025 deadline. The adoption of the new ISO standard is aimed at improving compliance and transparency, increasing efficiency and interoperability, enhancing customer experience, and speeding up payment system harmonisation. The collective efforts of PASA, our Members and the SARB are to be commended for this significant achievement, which puts South Africa at the forefront of interbank system modernisation. It also paves the way for faster payments through the introduction of the Rapid Payments Programme, an industry-led initiative under the leadership of BankservAfrica and PASA that will launch in 2023.

## Committee governance in 2022

In line with sound governance principles, PASA Council, assisted by its Nomination and Induction Committee, performed a comprehensive internal evaluation of the performance of PASA Council, its Committees, Chairperson, CEO and Company Secretary. The results were favourable; however, PASA Council will continue to identify opportunities to improve its governance standards and oversight responsibilities.

In line with King IV, Member-appointed Councillors are required to be re-elected. We thank our Members for their assistance during this process and for helping PASA Council ensure that the necessary continuity was maintained. We further thank Members for using re-election as an opportunity to enhance the skills, experience and diversity of PASA Council.

PASA Council sadly said farewell to Matthew Coaker shortly after his appointment as Councillor in February 2022, and to Frikkie Hanekom, who stepped down as the Alternate Councillor in June 2022. PASA Council welcomed Busi Radebe as the Principal Councillor for Capitec in May 2022, Rufaida Hamilton as the Alternate Councillor for Standard Bank in June 2022 (previously the Principal Councillor for Investec Bank), Gerald Byleveld as the Alternate Councillor for Investec Bank, and Nolwazi Dlamini as the Alternate Councillor for Bidvest Bank.

PASA Council regularly reviews the composition of its Council Committees and made several changes during the year following the appointment of new Councillors. As Chairperson, I am delighted to report that the Audit, Risk and Remuneration Committees have all been strengthened through these new appointments and are well-equipped to assist PASA management with the transition planning and oversight required in the year ahead.

## Looking towards 2023

2023 will be another year of positive change for PASA and the industry. PASA has a fantastic management team to lead it through its transition into the new and inclusive PIB. PASA Council is ready, willing and well-equipped to assist management throughout the transitional phase thanks to the enhancements to its governance practices, and the quality of PASA Councillors who are well-experienced and well-equipped for the task ahead.

## Appreciation and thanks

As Chairperson of PASA Council, I thank the management and all PASA employees for their hard work and dedication to the organisation throughout 2022. It is because of the efforts of each and every one of you that many milestones were achieved in 2022, and that Member interests and those of the SARB were well served.

On behalf of PASA Council I thank and acknowledge Members, the SARB NPSD and PASA's stakeholders for their ongoing trust, support and collaboration with PASA toward the betterment of the National Payment System.

Finally, I thank my fellow Councillors for their time, expertise, guidance and unfailing commitment to the high standards of oversight and governance displayed during 2022.

**Sydney Gericke**  
Independent Chair

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



This is a significant time for PASA. We are building on more than 20 years of being South Africa's trusted PSMB and transitioning into a new and inclusive body that will continue to play a critical role in driving South Africa's payments agenda forward.

As PASA, we are standing on the cusp of major change. While this is exciting, it is also a challenging time for the organisation and our people. The PIB project has required considerable effort. At the same time, PASA has remained deeply involved in modernisation initiatives across multiple payment systems. The expectation to deliver on these critical projects and navigate the resulting change and complexity has placed significant pressure on PASA's employees.

Against this backdrop, I commend PASA for delivering a strong and credible performance. Our focus areas again guided our activities: fulfilling PASA's mandate and safeguarding its sustainability; driving payment system modernisation; and running an effective organisation that delivers good performance and manages risk.

## Fulfilling PASA's mandate and safeguarding its sustainability

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

The standout highlight of the year is the approval of the PIB design which was submitted to the SARB for review. Not only did we demonstrate that the broader payments community can align in the interests of South Africa and the economy, but we also achieved greater certainty regarding the PASA functions that will transition to the PIB. This is important for the organisation and reassuring for our employees as we navigate this substantial change.

Strengthening our market positioning remains an area of focus for PASA. The PIB project presented an opportunity to expand our stakeholder base, educate industry players on PASA's role, articulate our value proposition and position PASA as an industry thought leader. We also conducted our stakeholder survey to understand how our stakeholders experience PASA. The results were encouraging, and it was comforting to see that PASA's internal view of our risks and opportunities is aligned with our stakeholders' assessment of the organisation. This is important as we look to maintain strong relationships and build on the significant level of trust we have enjoyed when collaborating on critical objectives.

Last year we decided that PASA would embark on a project to further enhance its legal and rules framework, which we see as critical to upholding PASA's mandate. The project includes reviewing and updating the Payment Clearing House (PCH) Rules to align with current legislation and with legal and fairness principles while ensuring consistency across all rule sets. Unfortunately, progress on this project was slower than we hoped, but we have retained it as a strategic priority in the year ahead.

## Driving payment system modernisation

**Great progress was made in maintaining the momentum behind South Africa's payment modernisation programme.**

The conclusion of the Modernisation of High Value Payments and SAMOS Version 8 upgrade project is a milestone to be celebrated. This was a project of significant scale that required 36 stakeholder organisations to upgrade their systems and align to a global standard within agreed time frames. I am immensely proud of every PASA employee involved in making this happen and thank the payments community for your support and commitment. A critical but often overlooked component of payment system modernisation is the ability to close legacy systems. Therefore, we should not forget the strategic importance of shutting down the AEDO and NAEDO systems and closing the PCH PGs, both of which we achieved this year with minimal impact on the industry.

We continue to work hard to resolve the authentication challenges that have hindered the full adoption of DebiCheck, South Africa's 'gold standard' for debit order collections. Furthermore, the roadmap and time frames to incorporate RMS as a permanent feature in the debit order ecosystem were approved by the SARB. The payments industry is now well on its way to ensuring South Africa has a fit-for-purpose, modernised, ISO 20022-based collection system.

I am pleased to report that we further strengthened the existing debit order ecosystem by establishing a Debit Order Rule Framework. This framework provides a consistent and balanced approach to managing the risks associated with disputes and suspension across EFT Debits, RMS and DebiCheck. The framework was developed in consultation with multiple industry stakeholders, and PASA anticipates implementation once it is finalised in the year ahead.

While there were some delays delivering the Rapid Payments Programme payment solution, PayShap, to the market, the industry maintained momentum behind this critical modernisation initiative. Importantly, PASA finalised and approved the Rapid Payments PCH PG Constitution, rules and the entry and participation criteria. This is critical to ensure we can bring PayShap to the market in line with the anticipated go-live in March 2023. This project is the culmination of many years of hard work and provides another leading example of what we can achieve through collaboration and cooperation in the broader payments industry.

While these major initiatives lay the groundwork for a modernised National Payment System that encourages innovation and access, the industry continues to be challenged by skills shortages exacerbated by increased emigration. As part of our efforts to understand and mitigate this risk, we are engaging with multiple industry players, and initiated a needs analysis study to gain insight into the industry's different resource requirements and what is needed to build capacity in the payments system. The outcomes of the study will be used to develop a comprehensive, industry-wide capacity-building strategy. Together with the industry's strong focus on modernisation, I believe this strategy will provide us with an excellent opportunity to develop new skills and evolve our training and development approach.

## Running an effective organisation that delivers good performance and manages risk

**As we navigate an environment of constant change, we need to ensure that our people are capacitated to build the future PIB and National Payment System.**

The world of payments is increasingly complex and hyperconnected, and the demands and expectations being placed on PASA's employees have changed dramatically. I believe that the only way for our organisation to remain relevant in this changing world is by instilling a culture that empowers our people with the tools to be adaptive and resilient. We are placing significant focus on embedding a performance-driven culture across our organisation, with a strong focus on change management and diversity and inclusion training. We also recognise the importance of maturing our HR function and performance management processes – both of these areas continue to receive attention.

We recognise that change may give rise to some discomfort. However, we are committed to bringing our people along with us on this journey. Our focus on culture is supported by a robust employee engagement plan based on adequate recognition, training, fair and supportive leadership, providing sufficient opportunities for employees to connect with one another, and providing transparent feedback and communication.

To ensure we are on the right track, we conducted an employee engagement survey during the year. While this survey confirmed we are making good progress, it also indicated areas where improvement is required. These areas included a greater focus on employee recognition and career growth, and recognising the important role that leadership plays to foster trust within PASA. These matters will receive our attention in the year ahead and will be used to inform initiatives in response to employees' concerns.

We continue to put in considerable effort to build a learning culture of control and discipline throughout PASA. This includes ongoing training on compliance and risk and continuing to embed the risk event reporting process. We further identified key risk indicators that were included in all employee performance scorecards.

Defined last year, our IT roadmap continues to support process optimisation and automation. This is a multi-year journey that will require careful management of our resources and capacity. However, we believe it is critical to ensure PASA remains agile enough to respond to changing market conditions and for the PIB to be able to serve a larger body of Members.

## Maintaining our focus in 2023

**We anticipate that 2023 will be another challenging but exciting year.**

We made considerable progress in obtaining community support for the PIB design and look forward to moving ahead towards implementation of the PIB. We expect that this will be done in conjunction with changes to the National Payment System Act. It is important to reflect that the PIB design process was emergent and gave rise to many important learnings for PASA and the industry. Going forward, I believe this places us all in a better position to execute projects of significant scale more efficiently and effectively.

We will continue to work with the industry on payments modernisation, including the launch of PayShap to the market. While we expect PayShap will bring with it a host of benefits, such as financial inclusion and reduced reliance on cash to transact, it could also introduce additional complexities and threats into the payments ecosystem. As a result, PASA will continue with our risk management approach towards new and incumbent systems. We will also assess the outcomes of the Rapid Payments Programme to determine whether they meet the criteria of Project Future, which laid out the requirements and case for change for an architecture that can be used to modernise all Low Value Credits. Other focus areas include maturing the DebiCheck system and supporting the continued modernisation of high-value payments.

Importantly, PASA will retain a strong focus on working with the industry to achieve greater alignment on how best to implement and execute key payments industry priorities. This will be critical to ensure we make optimal use of the industry's scarce resources as we strive to provide South Africans with world-class payment systems. To this end, capacity building remains critical, and PASA will onboard five young graduates in key workstreams across our organisation to grow additional capacity for PASA and the industry.

As always, PASA will look to build on our reputation as a public good organisation committed to providing the country with a safe, secure, and operationally sound payments system. To support this, we will increase our focus on PASA's IT systems and security from a technology and training perspective. Our focus on embedding a risk and compliance culture will continue.

Our actions will again be guided by our strategy, which we refined ahead of the 2023 financial year in response to the rapidly changing payments landscape. We unpack our revised strategic focus areas and initiatives for 2023 on page 24. We believe this revised strategy will ensure that PASA remains relevant and agile in the year ahead.

The domestic operating environment will likely remain difficult in the year ahead. PASA is participating in and driving industry initiatives to navigate business continuity risks that include, for example, persistent load shedding.

## Extending my gratitude

The SARB is an integral part of our ability to deliver on our mandate. On behalf of PASA, I thank them for their ongoing confidence in our ability to serve South Africa and facilitate the PIB design.

We acknowledge the outstanding support of our Members and the willingness and open engagement among the broader payments community. We look forward to strengthening these partnerships as we welcome a new era of payments in South Africa and beyond, together.

We are most grateful to PASA Council for providing strong governance and exceptional support to the PASA management team. Finally, to every PASA employee, thank you for your energy, focus, expertise and excellence.



**Ghita Erling**  
Chief Executive Officer

# MESSAGE FROM THE CHIEF FINANCIAL OFFICER



PASA aims to support and act in the best interests of the National Payment System and its Members. Key to this is ensuring that we allocate and manage our financial resources responsibly. To stay ahead of the rapid pace of change transforming the payments landscape, PASA is investing in industry initiatives, in the organisation and in our people to ensure we can continue to create value for the industry.

## Reflecting on 2022 and PASA's key investment areas

During the year, considerable work was done to strengthen PASA's financial management. This included, for example:

- › automating financial reports,
- › strengthening PASA's financial governance,
- › a significant improvement in debtors control which saw a reduction in the debtors balance,
- › a review of the organisation's financial controls,
- › automation of the Member fee calculation process, with review by external audit,
- › enhancement of the budget process to align it to strategic goals, and
- › careful monitoring and monthly reporting on spending.

PASA's need to add value to its Members and to fulfil its obligations towards the National Payment System has given rise to three key investment focus areas.

Our first key investment focus area is building and preserving our human resources and investing in change management. Our financial resource allocation has prioritised payment system modernisation and the impact of regulatory reform on PASA, and the necessary changes to give effect to the design features of the Payments Industry Body (PIB). We have focused on skills retention and continuity in service provision through the transition into the PIB. We have also supported new ways of working by providing facilities and the necessary tools to our staff. Employee-related costs continued to make up the bulk of our expenses.

We successfully completed an employee survey to better understand our employees' needs and concerns (page 33). This also supports work on PASA's culture and values. Capacity building through training and conferencing also remains important to helping to address skills shortages in this highly competitive industry.

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Finally, we are undergoing a PASA digitalisation journey. The immediate focus is on replacing legacy IT infrastructure that is no longer fit for purpose. Phase one of the digitalisation journey commenced in 2022. This included a review of our IT enterprise architecture, our current IT capability, building a new Member Portal and initiating a revamp of our website to enhance its security standards and enhance the user experience. It is anticipated that the full digitalisation journey will take place over several years.

Addressing cyber security risk remains critical and our digital roadmap is being developed with this risk in mind. This includes ensuring a clear focus on IT governance, risk management, enhanced access controls, rolling out information as well as cyber security training and awareness among employees.

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Our second key investment focus area is the PIB. Over R15,1 million of PASA funds have been invested in the facilitation of the design over the last two years. This remains an incredibly resource-intensive project for PASA. We anticipate a further investment of approximately R12 million in the year ahead toward the PIB transition, to ensure the provision of critical functions and continuity of service provision into the PIB.

### UNPACKING OUR FINANCIAL PERFORMANCE

PASA requires specialist skills to successfully execute its strategy and projects, including specialised technical, business, legal and regulatory skills relating to the payments industry. While PASA has strengthened its HR, IT, Legal and Risk capabilities, some of the skills are in short supply and we have experienced delays in filling certain vacancies.

While we made progress on our digitalisation journey, a portion has been rolled over into 2023.

The chart illustrates the percentage that each main category of expenses makes up of the total actual expenditure of R121.8 million for the year.



- 64% ▶ Employee costs
- 10% ▶ Consultants
- 7% ▶ PIB
- 5% ▶ Information technology
- 7% ▶ Other expenses (recruitment, depreciation)
- 7% ▶ Remaining expenses

**ANNUAL MEMBERSHIP CONTRIBUTIONS**

We are cost conscious as we understand that we are operating in a difficult economy. After utilising reserves accumulated over previous years, there is a net increase of 4,9% in our membership fees for 2023, which is just below inflation.

**Looking ahead**

**In the year ahead, PASA will remain focused on strengthening its HR capability, employing and retaining the right people and implementing robust processes for the betterment of the National Payment System.**

Looking forward to the 2023 financial year, budgeted operating expenses will grow from R121,8 million spent in 2022 to a budgeted R141,7 million in 2023. This is an increase of 16%. PASA undertook extensive engagement with its Members during the year to ensure their continued support in the year ahead. The increase is due to our key investments detailed above being our human capital, the PIB and our digitalisation journey.

Our approach to financial management and investments will continue to be steered by our commitment to serving the interests of the payments industry and the South African economy. We will continue to invest in the future of the organisation to ensure that PASA remains stable, value-adding and agile.

PASA's transition to the PIB is firmly in sight and remains one of our biggest projects for the year ahead. Along with capacitating our organisation's human resources for this transition, we will also continue to focus on retaining key personnel within the organisation.

**Appreciating our stakeholders**

Thank you to our Members for their ongoing support and partnership. We look forward to great collaboration and engagement in the year ahead. To PASA Council, the Council Committees and PASA management team, thank you for the guidance, support and valuable input which enable us to work together to better serve the needs of the broader payments system. Lastly, we recognise the efforts of our people, who continue to deliver resilience and excellence in the face of ongoing uncertainty.



**Cosmore Pariola**  
Chief Financial Officer

# HOW PASA CREATES VALUE

## HOW PASA'S STRATEGY SUPPORTS VALUE CREATION

The internal strategy process of the organisation's strategy function helps to create strategic positions that align with the industry's needs. This ensures that PASA remains a significant and valuable role player in the National Payment System.

**PASA HAS A CLEAR VISION OF WHAT IT WANTS TO ACHIEVE AND THE ROLE IT WANTS TO PLAY IN THE NATIONAL PAYMENT SYSTEM**

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


**PASA's idealised or target state**

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

**WHILE THE REALISATION OF THESE ASPIRATIONAL STATEMENTS IS A MULTI-YEAR JOURNEY, THEY ENABLE PASA TO DEVELOP A CLEAR AND DETAILED ROADMAP TO REALISE ITS VISION.**

PASA's 2022 scorecard was split into three focus areas to deliver on its aspirational statements. Each category was supported by a set of initiatives to guide strategy execution and ensure the organisation remains relevant while supporting its Members' goals and objectives.


Strategy execution continues to be measured through a scorecard, and performance is assessed against weighted key performance indicators (KPIs). These KPIs are continually reviewed to improve how PASA measures its success. PASA Council critically considers PASA's performance against the objectives and KPIs. PASA's 2022 focus areas are indicated below.



### Fulfilling PASA's mandate and safeguarding its sustainability

This category focuses on:


- Stakeholder management (page 30).
- Enhancing PASA's legal and rules framework (page 50).
- Facilitating the design and approval of the new PIB with the entire payments community (page 43).
- Implementing and transitioning to the new PIB (page 45).



### Driving payments system modernisation

This category focuses on:

- Specific initiatives linked to the modernisation of Electronic Low Value Payment Systems such as DebiCheck, including the retirement of legacy systems like AEDO and NAEDO, PayShap, the enhancement of SAMOS and Modernisation of High Value Credits, QR code standardisation and interoperability, and a modernised Fleet Card solution based on EMV standards.
- These initiatives are unpacked in more detail from page 38.



### Ensure and run an effective organisation

This category focuses on:


- PASA's internal priorities, such as financial management (page 20), people and organisational health (below), risk management and internal compliance capability (below), progressing PASA's digitalisation journey (page 21), and addressing cyber security risks (page 50).

**IN THIS REPORT, PASA UNPACKS THE PROGRESS MADE AGAINST THESE STRATEGIC INITIATIVES OVER THE PAST FINANCIAL YEAR.**

## Looking forward: PASA's strategy for 2023

To ensure that PASA's strategic approach remains relevant, the organisation reviewed its strategy ahead of the 2023 financial year.


As an outcome of this review, and in response to the rapidly changing payments landscape, PASA refined its strategic focus areas and the set of strategic initiatives it will use to guide strategic execution in the year ahead. PASA's revised strategy for 2023 is outlined below.



### Industry structure and stakeholder equity

This category focuses on:


- Stakeholder management, enhancing PASA's legal and rules framework and promoting public transparency, creating industry capacity and enhancing and applying effective risk management models to manage National Payment System risks.



### Payment system modernisation initiatives

This category focuses on:


- Delivering an integrated modernisation framework, with specific initiatives linked to Electronic Low Value transactions, Electronic High Value transactions and Card.



### PASA's transition to the PIB

This category focuses on:

- PASA's regulatory transition to the PIB and the organisation's logistical transition to the PIB.



### Ensure and run an effective organisation

This category focuses on:

- Financial management, organisational health, maintaining an effective risk management and compliance capability, enhancing the IT control environment and mitigating cyber security risks including digitalisation.

Strategy execution and performance will continue to be measured through a scorecard and assessed against weighted KPIs, with performance against specific focus areas overseen by PASA Council.

PASA ensures that its strategy is aligned to Vision 2025<sup>1</sup> and supports the relevance and modernisation of the National Payment System. This includes responding to the changing payments landscape. Therefore, PASA evaluates its strategic initiatives against the objectives articulated in Vision 2025, and has initiated several strategic projects on behalf of its Members to build a world-class National Payment System.

|   | VISION 2025 GOALS                    |                     |                      |  |                    |                  |   |                                  |                              |   |
|---|--------------------------------------|---------------------|----------------------|--|--------------------|------------------|---|----------------------------------|------------------------------|---|
|   | Promoting competition and innovation | Financial inclusion | Regional integration | Transparency and public accountability | Cost-effectiveness | Interoperability | A clear and transparent regulatory and governance framework | Financial stability and security | Flexibility and adaptability |   |
| Facilitate the design of the new PIB with the entire payments community through a collaborative, consultative process (page 43)** | ✓                                    | ✓                   |                      | ✓                                      |                    | ✓                | ✓   |                                  |                              |   |
| Implement and stabilise DebiCheck, enhance where necessary, and exit AEDO and NAEDO (page 35)*                                    |                                      | ✓                   |                      |  |                    | ✓                | ✓   |                                  | ✓                            |   |
| Automate the Debit Order Abuse 4-prong model (phase 1) (page 40)*   |                                      |                     |                      |  | ✓                  |                  | ✓   | ✓                                |                              |   |
| Create a framework of debit order rules that will more effectively balance consumer and user rights*                              |                                      |                     |                      | ✓                                      |                    |                  | ✓   | ✓                                |                              |   |
| Implement the Rapid Payments Programme to facilitate easy everyday payments for all South Africans (page 42)*                     | ✓                                    | ✓                   |                      |  |                    | ✓                | ✓   |                                  | ✓                            | ✓ |
| Drive the Modernisation of High Value Payments and support the SARB's SAMOS Version 8 upgrade (page 42)**                         | ✓                                    |                     | ✓                    |  |                    | ✓                |   |                                  | ✓                            | ✓ |
| Contribute to modernised payments initiation methods through QR code standardisation and interoperability*                        | ✓                                    | ✓                   |                      |  |                    | ✓                | ✓   |                                  | ✓                            | ✓ |
| Contribute to a safer card ecosystem through the implementation of a modernised fleet card solution (page 39)*                    | ✓                                    |                     | ✓                    | ✓                                      | ✓                  | ✓                | ✓   |                                  |                              | ✓ |
| Further enhance PASA's legal and rules framework (page 50)*   | ✓                                    |                     |                      | ✓                                      |                    | ✓                | ✓   |                                  |                              |   |

**“ENHANCE THE SAFETY, EFFICIENCY AND ACCESSIBILITY OF THE NATIONAL PAYMENT SYSTEM IN A MANNER THAT PROMOTES COMPETITION AND MINIMISES RISK TO THE PAYMENTS ECOSYSTEM BY LEVERAGING TECHNOLOGICAL DEVELOPMENTS TO EXTEND THE AVAILABILITY OF DIGITAL PAYMENT SERVICES TO ALL SECTORS OF SOCIETY WHILE MEETING DOMESTIC, REGIONAL AND INTERNATIONAL REQUIREMENTS FOR THE BENEFIT OF ALL MEMBERS OF SOUTH AFRICAN SOCIETY.”**

**OVERARCHING VISION, THE SARB VISION 2025**

<sup>1</sup> Published in 2018, the SARB Vision 2025 provides the roadmap to building a world-class National Payment System that serves the economy and people of South Africa.  
\* In progress  
\*\* Completed

## PASA'S VALUE CREATION MODEL

Beyond making sure that the financial resources are used effectively, PASA interacts with a wide range of stakeholders and considers the value PASA adds. In the following, we will take a look at how PASA's activities and business strategy work together to create value in all six capitals.

### Inputs

PASA uses six capitals to create sustainable stakeholder value. The organisation continually strives to ensure it utilises these capital inputs effectively and efficiently to optimise its capital outputs and outcomes.

PASA's **human capital** comprises its people, their competencies, experience and capabilities, industry human capital, and payment skills development.

PASA's **intellectual capital** is represented by its intricate end-to-end knowledge of payment systems, procedures and protocols, as well as its understanding of how to build industry consensus and how to coordinate multiple stakeholders.

PASA's **social and relationship capital** centres around its relationship with regulators, banks, businesses and consumers and the value PASA provides to them.

PASA's **manufactured capital** centres around the regulatory, legal, and contractual basis under which it operates to enable PASA to manage and modernise payment systems effectively.

PASA's **natural capital** involves a low environmental impact and the broader societal impact it has through driving digital payments.

PASA's **financial capital** is based on the funding received from Members used to take the payments industry forward.

### Activities

- › Employee training and individual development plans.
- › Industry capacity building through formal training programmes.
- › Employee retention initiatives.
- › Employee health and wellness focus.
- › Culture and change management.

- › Driving payment system modernisation and roadmaps.
- › Active involvement and support in all industry-wide initiatives.
- › Managing payment systems.
- › Expert input and advice on various pending regulatory changes.

- › Supporting industry-wide collaboration.
- › Supporting regulators and their objectives.
- › Supporting Members with content for consumer awareness activities.
- › Ensuring optimal outcomes for the financial system and the health of the economy.

- › Establishment of industry rules, standards, processes and practices.
- › Coordinate industry collaboration to run, manage and grow different payment systems.
- › Modernisation initiatives.

- › Leveraging technology for modernising the National Payment System.
- › Moving the National Payment System from paper payments to more electronic payment means.

- › Ensuring financial discipline.
- › Establishing sound processes and governance structures for procurement and remuneration.
- › Robust financial management practices.
- › Prioritising initiatives with maximum impact for the industry.

### Outcomes

By carefully managing its capital inputs and utilising its unique capabilities, PASA aims to be an indispensable organisation within the National Payment System, a force for good in the industry, and the go-to trusted thought leader for payments domestically and internationally.

- › Cross-skilled, competent and efficient employees.
- › Motivated employees aligned with PASA's strategy and purpose.
- › Strong retention of employees and effective recruitment.
- › Employee wellness focus.
- › Continued development of industry payment skills.

- › Thought leadership in modernising payment systems.
- › Increasingly mature risk management practices.

- › Continued strong relationships and collaboration with regulators.
- › Strong industry collaboration.
- › Growing non-bank involvement in key initiatives.

- › Successful execution of critical initiatives.
- › Closer alignment of payment systems to international best practices and standards.
- › Clear vision and journey plans for payment systems in South Africa.

- › Low environmental impact.
- › Leveraging modern technologies in the National Payment System.
- › Migration away from paper and cash.

- › Responsible and purpose-led use of funding, underpinned by extensive engagement with Members, which ensures ongoing funding support.
- › Improved financial controls.

**PASA CONTINUALLY STRIVES TO ADD VALUE FOR MEMBERS, THE SARB AND OTHER STAKEHOLDERS. PASA UTILISES ITS UNIQUE CAPABILITIES, WHICH CENTRE AROUND ITS ABILITY TO:**

Act as a catalyst for modernising South Africa's National Payment System.

Manage 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.

Drive collaboration among competitors in the industry.

PASA is guided by its engagement with key stakeholders (page 30), its response to public policy objectives (page 32) and its strategy (page 23).

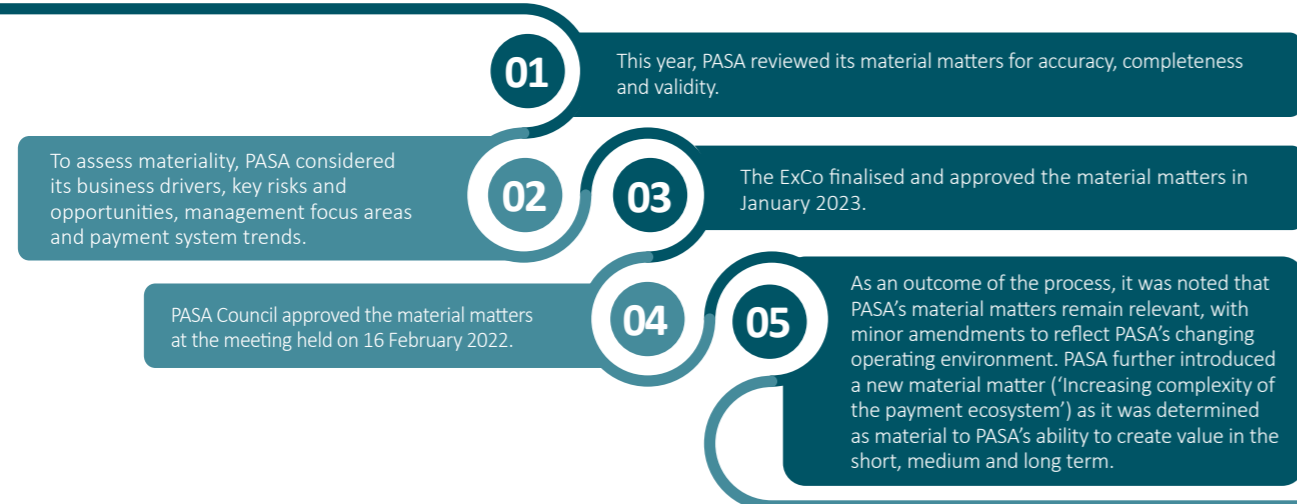
PASA actions are underpinned by its commitment to good corporate governance (page 53).



## MATERIAL MATTERS IMPACTING VALUE CREATION

Matters that have or could materially impact PASA's ability to create or preserve value and limit value erosion in the short, medium and long term.

### PASA's materiality process



### PASA's material matters

The table below sets out the material matters, how they link to PASA's strategy, and the anticipated time frame of each impact. The impact of each matter and PASA's response is unpacked throughout this report.

| Changes to the regulatory environment  |  |                    |
|--|--|--------------------|
| National policy objectives, technological advancements, new payment methods and new entrants in the National Payment System can result in regulatory reforms that require PASA through consequential amendments to change its strategy, systems and/or processes. Regulatory changes will impact PASA's future operating model and/or membership of and access to the National Payment System. Significant changes to the National Payment System are imminent through amendments to the National Payment System Act arising from the Conduct of Financial Institutions (CoFI) Bill. |  | Read more: page 68 |
| Time frame: short, medium and long term  |  |                    |
| Payment system modernisation   |  |                    |
| A modernised National Payment System is required to ensure a safe, secure and fit-for-purpose payment system, partly driven by changes in technology. This will support regulatory objectives and promote flexibility, innovation and competition while increasing consumer protection and financial inclusion. Collaboration between different role players in the payments ecosystem and technical skills and expertise are required.  |  | Read more: page 39 |
| Time frame: short, medium and long term  |  |                    |
| The emergence of new payment models and types of currency  |  |                    |
| New payment models and disruptors from the fintech, platform payments and other ecosystems offer accelerated digital payments, innovations in ecommerce, contactless payments and alternatives to money itself. This can lead to regulatory changes and central banks developing their own digital currencies, which can impact on the structure of the financial sector and the function of its role players.   |  | Read more: page 38 |
| Time frame: medium and long term   |  |                    |

### Global harmonisation and regional integration

Increasing levels of global standardisation, the common need for anti-crime and anti-terrorism data, and the drive for regional integration of payment systems require resource investment and can require changes to systems and/or processes.

Time frame: short, medium and long term

Link to strategy:

Read more: page 38

### Cybercrime and fraud prevention

The prevention of cyber crime and fraud is paramount to ensuring the financial stability of South Africa and the safety and soundness of financial institutions and the payment system. In our technology-based ecosystem, cyber crime and fraud can reduce trust in the payment system, impacting financial stability.

Time frame: short, medium and long term

Link to strategy:

Read more: page 48

### Skills shortage and industry capacity

The industry, including PASA, requires specialist skills to successfully execute National Payment System initiatives. This includes specialised technical, business, legal and regulatory skills relating to the payments industry, all of which are in short supply. This industry-level shortage of skills, and the increased competition for these specialised skills, are exacerbated by increased emigration.

Time frame: short, medium and long term

Link to strategy:

Read more: page 43

### Stability of the National Payment System

Many years of focus and effort across the industry have ensured that the stability of the National Payment System is well maintained. National Payment System stability continues to be a material matter given its importance to the economy. To that end, PASA requires a robust control environment (people, processes and systems) and a robust risk management process.

Time frame: short and medium term

Link to strategy:

Read more: page 46

PASA identified the below as a new material matter. This matter arose due to growing concerns about PASA's responsibility to foster compliance among Members and a growing and complex spectrum of stakeholders to move initiatives forward. The complexity of this challenge and the risks and opportunities it presents were determined as material to PASA's ability to create value in the short, medium and long term.

### Increasing complexity of the payment ecosystem

Core to PASA's existence is its ability to add value for its Members and build consensus between an increasingly complex and diverse set of stakeholders. If the increasing complexity of stakeholder relationships is not managed effectively, it can impact PASA's ability to deliver on its mandate and maintain interoperability. In addition, the dependency on an increasing number of diverse third parties can impact strategic project execution, or the speed thereof.

Time frame: short and medium term

Link to strategy:

Read more: page 39

**Key:**

- Fulfilling PASA's mandate and safeguarding its sustainability
- Driving payments system modernisation
- Ensure and run an effective organisation

## HOW PASA ADDS VALUE TO KEY STAKEHOLDER GROUPS

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

### How PASA engages with its stakeholders

PASA engages with its stakeholders through a variety of different mechanisms. These mechanisms include operational, strategy and project committee meetings; direct, indirect, and ad hoc engagements; formal and informal engagement; as well as participation in and collaboration with stakeholders through industry-wide projects.

#### ASSESSING THE QUALITY OF PASA'S RELATIONSHIPS WITH KEY STAKEHOLDERS

As part of its strategic scorecard, PASA regularly solicits feedback to assess the quality of its relationships with key stakeholders. This includes feedback on PASA's relevance and performance from key stakeholders that include the SARB, BankservAfrica, the Banking Association of South Africa and the FSCA, as well as community feedback on the PIB process. This feedback is obtained via surveys and direct engagements.

This year, PASA also undertook its first engagement survey among stakeholders to assess their views on the organisation's effectiveness. The feedback was positive, which gives PASA confidence that its Members remain willing to fund the organisation's budget and that its stakeholders continue to experience value from PASA.



### Members

PASA aims to support and act in the best interests of the National Payment System and its Members, whose contributions fund PASA's activities.

#### Material concerns and expectations

Members expect ongoing management of the National Payment System, compliance with rules and risk management, and ensuring that the National Payment System remains fit for purpose by prioritising appropriate modernisation projects. This includes supporting and enabling product enhancements and broader innovation.

PASA is expected to provide adequate administrative and governance processes for Member structures, as well as to ensure regulatory support and alignment.

PASA should ensure it creates a platform for payments participants to compete equally while providing value for money from Member funding contributions.

PASA is expected to transition to the PIB while maintaining legal certainty and ensuring no adverse effects to PASA, its members or activities in the National Payment System.

#### PASA's response and value-adding role

- › Create platforms for Members to manage payment systems and ensure Member activities are effectively administrated and conducted in line with sound legal and regulatory frameworks.
- › Maintain industry-wide relationships and support collaboration between Members on payments matters.
- › Ensure interoperability of payment systems between Members and manage new projects on behalf of Members.
- › Be a catalyst for payments modernisation.
- › Manage risk effectively to ensure a safe and sound National Payment System.
- › Support Members with consumer awareness content for their use.
- › Support capacity building in payments through PASA's training programmes.
- › Support regulatory initiatives aimed at equal regulation for all payment service providers.
- › Ensure a robust, inclusive and transparent process of designing and transitioning to the PIB.

### Payment service providers who are not Members

To ensure the National Payment System remains effective, PASA must ensure it understands and considers the perspectives of all payment service providers, including non-banks, who also contribute to modernisation.

#### Material concerns and expectations

For payment service providers who are not Members, PASA must promote payment system modernisation and inclusion by strengthening collaboration within the payment system. This includes being a key enabler for broader payment system access, competition and innovation.

Payment service providers expect clarity on the impact of PASA's rules on their commercial activities, as well as visibility and input into changes to PASA that could impact their businesses.

Payment service providers continue to find value in ongoing training and development opportunities to improve capacity.

The payments community expects PASA to design and implement the PIB in a fair, credible, inclusive and transparent manner.

#### PASA's response and value-adding role

- › Be proactive in stakeholder management, awareness and communication.
- › Provide a consultive platform to ensure all perspectives and views are understood and considered on National Payment System-related matters.
- › Engage and consult a broader stakeholder community on new payments developments.
- › Support non-bank payment service providers with education and awareness of payments.
- › Support non-bank payment service providers' capacity building in payments through PASA's training programmes.
- › Involve all stakeholders in the PIB process and ensure regular updates and communication.

## PSOs

PSOs play a critical role in the National Payment System by processing and clearing payment instructions. PASA must therefore provide PSOs with certainty regarding their ability to operate and manage their systems and products.

### Material concerns and expectations

PSOs expect PASA to maintain close working relationships among industry players and ensure the efficiency, effectiveness and interoperability of the National Payment System. Oversight of risk management and assistance with incident management are material concerns and expectations.

PSOs have similar expectations of the PASA transition to the PIB as other stakeholders.

### PASA's response and value-adding role

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

## Regulators

South Africa's financial services industry is highly regulated. Ongoing collaboration and engagement with relevant regulatory authorities is critical to maintain stability and drive South Africa's economic and social agenda.

### Material concerns and expectations

For regulators, PASA plays a critical role in supporting public policy objectives and the rollout of payments modernisation. This includes facilitating the achievement of the goals and objectives articulated in Vision 2025. To do this, regulators require PASA to ensure risk mitigation and a competitively equal environment while maintaining the stability, efficiency, effectiveness and interoperability of the National Payment System.

Regulators expect that the PIB transition will result in a new entity that can continue to coordinate member activities and ensure the interoperability of the National Payment System.

### PASA's response and value-adding role

#### The SARB

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

#### Other regulators with payments-related jurisdiction

- › Provide regulators with a valuable platform to promote their policy goals and objectives.
- › Act as a single point of contact to a vital industry base to solicit policy input and 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

Facilitating strong working relationships between bank and non-bank industry bodies is critical to ensure South Africa's financial services industry can respond to the rapid evolution of the payments landscape.

### Material concerns and expectations

PASA continues to respond to commercial concerns around microlending, insurance, debt collection, contract collection and the commercial viability of debit order rules. Bank and non-bank industry bodies further expect PASA to promote inclusion among payment system participants by strengthening collaboration within the payment system.

Industry bodies expect to be consulted and included in PASA's transition to the PIB.

### PASA's response and value-adding role

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

## Customers

Millions of payments are made by South African citizens and businesses daily. It is essential that the National Payment System provides consumer protection and enables a competitive, safe and efficient payment system.

### Material concerns and expectations

As the country's PSMB, PASA is expected to drive fraud mitigation to ensure that customers have access to a stable, cost-effective and transparent payment system that promotes financial inclusion.

### PASA's response and value-adding role

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

## International industry bodies

To strengthen collaboration and capacity within the regional and global payment systems, PASA engages and maintains close working relationships with international industry bodies.

### Material concerns and expectations

PASA is expected to drive alignment with global industry standards to ensure regional and global integration of payment systems. This should be supported by engagement and collaboration with regional and global industry players and the sharing of knowledge and best practice.

### PASA's response and value-adding role

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

## Government

Strong working relationships between government and the financial services industry help improve the resilience of the National Payment System.

### Material concerns and expectations

Government expects a safe and sound National Payment System to support its activities and objectives, including the payment of social grants and government employee salaries.

### PASA's response and value-adding role

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

## Employees

PASA's 48 cross-skilled, competent and efficient employees are essential to fulfilling its role.

### Material concerns and expectations

PASA is focused on being an employer of choice, underpinned by access to training, ensuring a high performance culture and recognising the importance of employee wellness.

Employees continue to value transparency and communication across all levels of the organisation. This is particularly important to manage any uncertainty about job security due to the PIB transition. As ways of working continue to evolve, it is important that PASA balances employee needs by managing a viable return-to-work/hybrid working model.

### PASA's response and value-adding role

- › A unique collection of payments experts in relevant payment areas, who can demonstrate their expertise on national and international platforms.
- › Tapped into and part of a strong and vibrant national and global network of payments professionals.
- › Opportunity to participate in and share and gain insight from local and global seminars.
- › Development of payments technical and specialist skills in alignment with organisational requirements.
- › Increasing focus on new ways of work and employee wellness and resilience.
- › Increasing focus on culture change management.
- › Increasing HR capacity, including a focus on performance management and career projection.
- › High levels of transparency and communication regarding the PIB and other developments.

# THE CURRENT PAYMENTS LANDSCAPE

## A SNAPSHOT OF SOUTH AFRICA'S PAYMENTS LANDSCAPE

|  |   |   |   |
|--|---|---|---|
| <p>South Africa has one of the highest levels of income inequality globally.</p> <p>The top 10% of earners in the country account for more than 65% of the national income, while the bottom 50% earn only 5,3%.<sup>1</sup></p> | <p>While most South Africans have access to a bank account, meaningful use of financial services remains limited.</p> <p>81% of the population above the age of 16 had a bank account in 2021.<sup>2</sup> However, 40% of dormant accounts are held by individuals from low-income households, and 30% of account holders withdraw funds immediately on deposit.<sup>3</sup></p> | <p>Cash usage remains persistent and many still rely on cash as the primary tool to transact.</p> <p>It is estimated that 95% of informal small business (micro, small and medium enterprise) customers and 63% of formal business customers pay in cash.<sup>4</sup></p> | <p>Growing use of smart devices and app technology has opened new opportunities in finance and payments.</p> <p>South Africa is expected to be the second-largest market in Sub-Saharan Africa in terms of smartphone connections by 2025, with a per capita mobile phone penetration rate of 159% and a smartphone penetration rate of 102% in 2020.<sup>5</sup></p> |
|--|---|---|---|

South Africa faces the social, economic and structural challenge of financial inclusion. The current payments system, while highly sophisticated, primarily serves the fully banked community. For a large part of the population, cash serves as the primary tool to transact and continues to dominate the informal economy.

This continuing use of cash comes at a material cost to society, ranging from lost tax revenues and direct cash handling costs to being a major obstacle to fostering financial inclusion. It has been shown that broadening access to financial services drives formal saving, which stimulates increased investment and economic growth.<sup>5</sup>

Accordingly, overcoming the digital divide and finding alternative payment methods to cash are prevalent themes in South Africa's payments landscape, supported by payment system innovation and modernisation (page 39).

<sup>1</sup> "World Inequality Report 2022", World Inequality Lab.  
<sup>2</sup> FinMark Trust "South Africa Data Portal" and "FinScope South Africa Consumer 2021 Results – Webinar".  
<sup>3</sup> Financial Sector Conduct Authority, Financial Sector Outlook Study 2022 and "FinScope South Africa Consumer 2021 Results – Webinar".  
<sup>4</sup> International Finance Corporation (2020) "The MSME Voice".  
<sup>5</sup> Authors' calculations from "An overview of developments in South Africa's payments industry", Journal of Payments Strategy & Systems (Volume 16:3), June 2022.

## THE 2022 LANDSCAPE CHARACTERISTICS OF INDIVIDUAL PAYMENT SYSTEMS

Established payment systems including Card, EFT Credits and EFT Debits remain stable and secure. They enable consumers, businesses and corporates to process secure and safe payments, thereby supporting trade and commerce in the economy.

|   | RTC    |       | EFT Credit |       | EFT Debit |       | AC*    |       |
|---|--------|-------|------------|-------|-----------|-------|--------|-------|
|   | Volume | Value | Volume     | Value | Volume    | Value | Volume | Value |
| Three-year growth/(decline)               | 172%   | 91%   | 31%        | 23%   | 16%       | 32%   | 988%   | 985%  |
| Year-on-year (2021/2022) growth/(decline) | 64%    | 36%   | 11%        | 8%    | 11%       | 16%   | 104%   | 90%   |

\* The AC system went live in 2021. Prior to that, the system was in industry testing, which gave rise to the notable anomaly in the year-on-year statistics.

### RTC

Launched in 2006, RTC was one of the first real-time interbank clearing systems in world. The system was initially used primarily by businesses and corporates. In recent years, changing consumer needs, growing bank participation and new pricing have resulted in increased usage of the RTC system for lower-value transactions, particularly below R3 000.

To this point, the proportion of below R3 000 transactions on RTC has increased from around 60% in 2018 to around 80% in 2022, with a year-on-year volume increase of 64%. This indicates the true potential for real-time retail payment systems in the lower-value bands to facilitate everyday payments. As the RTC system predates the introduction of ISO 20022, the industry has been driving the Rapid Payments Programme, which delivers PayShap, an ISO 20022-based real-time retail payment system (page 42).

Significantly, EFT Debits has the potential to be replaced by RMS (page 40). This would give rise to a modernised ISO 20022-based collection system. DebiCheck provides richer data, additional layers of functionality, increased certainty, and better fraud prevention measures (page 40). During the year, Member agreement was reached that the dispute period for EFT Debits should be reduced to 12 months, and a 'no objection' to this proposal was received from regulators. This is a significant outcome, which will increase certainty in the system for banks and collectors once implemented. Implementation will receive attention in 2023, and the change will come into effect if approved by PASA Council.

### DebiCheck (AC)

DebiCheck is a new ISO 20022-based debit order collection capability with advanced mandate initiation and management capabilities, including the digital authentication of any new mandate by the consumer. This system makes collections a safer and more secure experience from both the consumer and the collector's perspectives. The past year was the first year where DebiCheck fully replaced AEDO and NAEDO, the two legacy systems that were both retired in 2021, in the early collection window (directly after credits have been processed). The system has proven to provide lower dispute rates and higher collection success rates than its predecessors. Collection volumes for 2022 were 167 962 003 and mandates created and authorised in DebiCheck were 23 181 783. For more information on DebiCheck please refer to page 41 of this report.

PASA's statistics suggest that the migration to DebiCheck resulted in some debit orders previously collected in the EDO<sup>1</sup> window moving into the normal EFT Debits collection system.

### EFT Credits and Debits

#### EFT Credits

EFT Credits is a batch credit push system that processes the bulk of South Africa's electronic push payments volumes. It remains reliable and cost-effective, with transaction volumes increasing 11% year-on-year. While EFT Credits has served South Africa's payments environment well for decades, it is a legacy payment system. This is creating increasing utility and functionality challenges. As a result, PASA is conducting a review of the EFT Credits system (page 35).

#### EFT Debits

EFT Debits is South Africa's electronic bulk collection system that enables third parties to collect recurring payments from customers. EFT debit order collections are processed in the evening processing window.

<sup>1</sup> EDO window transactions, previously via NAEDO and AEDO were migrated to DebiCheck and, in some instances, EFT by 31 October 2021. This was due to PASA meeting the requirements of the SARB Directive to adopt DebiCheck as a replacement for NAEDO and AEDO.

**OPERATIONAL MANAGEMENT OF ELECTRONIC (LOW VALUE) IS FACILITATED BY:**

**Low Value Credits and Low Value Debits PCH PGs** are responsible and accountable for operational clearing and settlement management and the practical implementation of the principles, project objectives, policies, strategies, rules and procedures contemplated in the PCH Agreements for their respective payment systems, namely EFT Credits, EFT Debits and AC.

**OTHER OPERATIONAL COMMITTEES**

- › Low Value Electronic Clearing Rules Subcommittee (for debits and credits)
- › Low Value Electronic Technical Subcommittee
- › Low Value Electronic Payments Risk Subcommittee
- › Low Value Electronic Business User Group Subcommittee
- › Authenticated Collections 'SWAT' (debits only)
- › Authenticated Collections Technical Design Authority (debits only)

**Card**

South Africa has a mature card environment, and this payment system continues to play an integral role in facilitating electronic payments safely, reliably and efficiently. The card system is underpinned by ongoing adherence to international standards, such as those developed by the International Organisation for Standardisation, EMVCo, and Payment Card Industry Data Security Standards.

Together with the SARB, PASA is updating the clearing licensing criteria to ensure that all domestic low-value payment transactions (including card) are processed in South Africa. This is to end the country's reliance on offshore card processing infrastructure when processing domestic transactions. These changes will likely result in Visa and Mastercard creating card processing infrastructure in South Africa.

Push-to-card payments received greater attention this year, partly due to momentum on the Rapid Payments Programme and the anticipated launch of PayShap (page 42). Push-to-card payments enable participants to send funds directly to consumers and small businesses via their card accounts.

**OPERATIONAL MANAGEMENT OF CARDS IS FACILITATED BY:**

**Card PCH PG:** Responsible for South Africa's card payment system and manages the processing of card transactions and the impact of international scheme rules that apply to South Africa from Visa, Mastercard, American Express and Diners Club. It also oversees the processes, procedures and domestic rules that apply to South African card-initiated cash withdrawals and fleet cards.

**OTHER OPERATIONAL COMMITTEES**

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

**High Value Payments**

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

A significant highlight this year was successfully upgrading SAMOS to align with ISO 20022 messaging standards in accordance with the Modernisation of High Value Payments Programme initiated by the SARB (page 42).

**OPERATIONAL MANAGEMENT OF ELECTRONIC (HIGH VALUE) IS FACILITATED BY:**

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

**Electronic Securities Settlement PCH PG:** Oversees the clearing rules, processes, procedures and standards used in clearing and settlement in the Strate environment, which encompasses payments for bonds, equities, money market and derivative instruments.

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

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

**OTHER OPERATIONAL COMMITTEES**

- › High Value Clearing Rules Subcommittee
- › High Value Electronic Risk Subcommittee

**SPECIFIC OPERATIONAL FOCUSES AND SUCCESSES IN 2022**

The Cash Settlement PCH PG initiated and successfully completed work to enhance the existing physical cash host-bank settlement model. The work undertaken aligned the Cash Settlement Clearing Rules to the criteria for Tier 1 Settlement of fair and equitable practices within the Authorised Agent Cash Centres and the SARB cash management strategy of quality, quantity and automation. The updated rules have been published for adoption by the industry.

# THE CHANGING PAYMENTS LANDSCAPE

## TRENDS DRIVING CHANGES IN THE PAYMENTS ECOSYSTEM

The world of payments is rapidly evolving, and several trends are driving significant change. Key trends and the industry's response are unpacked below.

**DIGITAL IDENTITY<sup>1</sup>** IS CREATING OPPORTUNITIES TO DRIVE FINANCIAL INCLUSION AND GIVE THE UNBANKED ACCESS TO FINANCIAL PRODUCTS AND SERVICES.

BankservAfrica is leading a multi-industry-endorsed initiative to define South Africa's Digital Identity Journey. Read more here<sup>2</sup>.

114 COUNTRIES, REPRESENTING OVER 95% OF GLOBAL GDP, ARE EXPLORING A **CBDC<sup>3</sup>** AND 11 COUNTRIES HAVE FULLY LAUNCHED A CBDC.

The SARB is investigating CBDCs, including a retail CBDC, a CBDC for debenture trading, and a cross-border CBDC. Read more here<sup>4</sup>.

**ISO 20022** PROVIDES A UNIVERSALLY ACCEPTED FINANCIAL MESSAGING STANDARD THAT MAKES IT EASIER TO INTEGRATE INTO GLOBAL DIGITAL PAYMENT ECOSYSTEMS.

PASA's modernisation efforts in the high- and low-value electronic payment systems are based on ISO 20022 adoption. Read more on the following pages.

CARD PAYMENTS FOLLOW EMVCO AND OTHER APPROVED STANDARDS TO **SECURE THE SAFETY OF CARD PAYMENTS** GLOBALLY.

PASA is working with the fuel industry to introduce EMV chip and PIN functionality for fleet cards (page 39).

THE POPULARITY OF **OPEN BANKING AND APPLICATION PROGRAMME INTERFACES (APIS)** IS BEING DRIVEN BY THE OPPORTUNITY TO INCREASE ACCESS TO BANKING SERVICES.

The Financial Sector regulators initiated an industry initiative to obtain inputs around open banking.

**DIGITAL START-UPS AND FINTECHS** ARE BUILDING NEW PAYMENTS ECOSYSTEMS AND BUSINESS MODELS TO ENHANCE THEIR VALUE PROPOSITION.

The regulatory landscape is evolving to allow more entrants into the National Payment System. These changes are incorporated into the design of the new PIB (page 43).

CONSUMERS ARE LOOKING FOR **FASTER AND MORE CONVENIENT WAYS OF PAYING** – INCLUDING REAL-TIME PAYMENTS AND VIRTUAL CARD-BASED TAP-AND-GO SOLUTIONS.

Led by BankservAfrica, PASA is working closely with the industry to deliver PayShap, a new payment system that includes instant payment, pay by proxy and request to pay services (page 41).

## PASA'S RESPONSE TO THE CHANGING PAYMENTS LANDSCAPE

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

- Ensuring that card remains an efficient and safe "go-to" retail payment system (page 39)
- Envisioning the future state of Electronic (Low Value) collections (page 41)
- Upgrading South Africa's domestic settlement system to ISO 20022 (page 42)
- Making debit order collections safer and more effective (page 40)
- Making real-time credit push an easier payment method (page 42)
- Creating new momentum in industry capacity creation (page 43)
- Establishing a PIB for South Africa (page 43)



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

**Standardising QR code payments**  
Given the speed, convenience and low costs of generating QR codes, the technology is key to driving a cashless economy.

As part of its strategic response to promote QR code-initiated payments, QR code standardisation and interoperability remained a focus for PASA in 2022. Benefits of standardisation and interoperability include reducing barriers to entry and removing the need for merchants to display multiple QR codes.

In 2021, PASA published the QR Code Standards Specification, which is aligned with internationally accepted standards. The standard promotes uniformity in the market and is critical to ensuring quality and reliability of payment instructions initiated from QR codes. Since publication, PASA has seen pleasing engagement with and uptake of the standard.

In 2022, as a follow-on from the published QR Standard, the focus was on investigating an Interoperability Requirements Framework. The framework aims to determine if it is possible for multiple providers and networks to initiate and facilitate transactions using a single QR code across different payment systems. These systems include card and real-time payments through PayShap. This is important, as QR codes are expected to be a key enabler for creating merchant and customer acceptance of PayShap.

Developing the Interoperability Requirements Framework remains a priority for 2023.

**Overcoming challenges to the fleet card payment system**

In 2021, the card industry embarked on a project to implement a modernised fleet solution in the National Payment System and to migrate South Africa's fleet cards to new-generation technology.

Despite the maturity of the South African card environment, the fleet card market is served by magnetic stripe cards rather than cards with Chip and PIN capabilities. This has led to a significant rise in fleet card fraud.

PASA's goal is to provide the foundation for the fleet industry's journey towards interoperability and increased acceptance in South Africa and cross-border. The expected benefits for consumers and retailers in the fleet industry include improved security and better control over fleet management.

In 2022, PASA collaborated with key stakeholders, including fleet card issuers and acquirers, to determine the functional requirements for migrating the current fleet cards to the new Chip and PIN cards. In the year ahead, the project will move into execution phase with the aim of sunsetting the existing system in 2024.

<sup>1</sup> Digital Identity refers to a set of electronically captured and stored attributes and credentials that can uniquely identify a person. It features identity attributes for unlocking access to banking, government benefits, health, education, and other critical services.

<sup>2</sup> <https://www.bankservafrika.com/api/public/v2/filehandler/view/612f2d5e989a0e000128a550>

<sup>3</sup> CBDC is an electronic form of central bank money that individuals can use to make digital payments and store value.

<sup>4</sup> <https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2022/project-khokha-2/Project%20Khokha%202022Summary%20Report%206%20April%202022.pdf>



## Making debit order collections safer and more effective

### Eradicating debit order abuse

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

The first DebiCheck go-live was on 3 July 2017. In 2018, the industry initiated a process to identify non-system-based means of eradicating debit order abuse. After extensive data analysis to understand the root causes of debit order abuse, two main contributors to the problem were identified: collectors that process unauthorised debit orders and payers disputing valid debit orders. PASA and its Members decided that the collector problem (processing unauthorised debit orders) should be the priority. This led to the implementation of a risk-based due diligence and monitoring process, which is applied to all collectors in the debit order system. The Debit Order Abuse process is estimated to have prevented fraudulent collections of more than R14,7 billion since inception in February 2019.

In 2021, PASA undertook a process to identify a party who could automate the Debit Order Abuse manual processes. BankservAfrica automated and took over the operational responsibility for this process during 2022. The Debit Order Abuse process ensures that the industry is safeguarded from rogue participants and that consumers are protected from rogue collections.

### DebiCheck and RMS

DebiCheck is an ISO 20022-based, electronic mandate-based debit order collection capability that facilitates a more convenient

and secure debit order environment. It is the first step in a long-term programme to fully modernise all collections.

The DebiCheck system was designed to obtain authentication of all collection mandates by payers, and subsequently enhanced with RMS to accommodate electronic mandates that have not been authenticated. Collection attempts are then validated against the electronic mandate and, in the case of an authenticated mandate, the opportunities for disputing a successful collection are reduced. The system is more secure for payers, who can confirm the payment details by authenticating the mandate, and collectors, who are less subject to spurious disputes.

DebiCheck became the only EDO collection system on 1 November 2021. The previous legacy EDO systems, AEDO and NAEDO, were shut down in 2022 and the PCHs were successfully closed. Although DebiCheck is still being enhanced, the success of the system is visible in improved collection success rates and lower dispute levels.

While RMS was originally designed as a temporary support mechanism for DebiCheck, it was agreed with the SARB that it should transition to an independent, standalone modern collection system that can ultimately replace EFT Debits. The focus for the year was on developing the plan to transition RMS to a standalone system, which includes alternative authentication mechanisms to address non-face-to-face and remote use cases where it is difficult to obtain payer authorisation.

Consumer education and awareness was a further focus area for 2022, and PASA initiated a comprehensive study to better understand consumer attitudes, concerns and barriers related to the authorisation of new mandates.

### The performance of DebiCheck and RMS from 2019 to 2022

|                                      | Total annual volume for 2018 | Total annual volume for 2019 | Total annual volume for 2020 | Total annual volume for 2021 | Total annual volume for 2022 |
|--------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| DebiCheck Mandates                   | 188 235                      | 721 055                      | 2 233 806                    | 14 074 706                   | 23 181 783                   |
| AEDO Mandates                        | Not available                | 12 851 107                   | 10 245 272                   | 3 625 158                    | 0                            |
| Total Authorised Mandates            | –                            | 13 572 162                   | 12 479 078                   | 17 699 864                   | 23 181 783                   |
| RMS Mandates                         | 0                            | 0                            | 7 418                        | 4 082 139                    | 9 315 280                    |
| DebiCheck and RMS Collection Volumes | 1 104 435                    | 8 652 761                    | 15 519 183                   | 86 639 326                   | 167 962 003                  |
| AEDO and NAEDO Collection Volumes    | 173 101 276                  | 203 469 449                  | 186 756 087                  | 77 091 408                   | 0                            |
| Total Collection Volumes             | 174 205 711                  | 212 122 210                  | 202 275 270                  | 163 730 734                  | 167 962 003                  |

As illustrated in the table above, mandate and collection volumes have successfully migrated from the previous legacy EDO systems (AEDO and NAEDO) to the DebiCheck system, supported by RMS. There has also been a gradual reduction in collection volumes in the early collection window. This reduction may be due to several factors, including the migration of certain volumes back to EFT Debits, ongoing efforts to prevent rogue collectors, and South Africa's declining economy.

Since its introduction in 2020, RMS mandate collections have constituted approximately 30% – 40% of DebiCheck mandates. This indicates the need for alternative authentication methods to replace the dependency on RMS.

### The emergence of a future debit-order system

Together, DebiCheck and RMS can deliver a modernised ISO 20022 collection system that greatly enhances the balance of managing risks within the debit order system.

The full operationalisation of DebiCheck and RMS has surfaced inconsistencies across the rules and processes of the three current collection systems (DebiCheck, RMS and EFT Debits).

Two primary areas of concern were identified:

- › Balancing risks in the debit order system: preventing rogue collections while minimising spurious collection disputes; and
- › Aligning the stop payment/suspension (to prevent all future collections) and dispute (return an invalid collection) rules across collection systems.

Both of these areas received attention in 2022, and significant progress was made in establishing a Debit Order Rule Framework that provides a consistent and balanced approach to managing risks within the debit order system. The framework was developed in consultation with multiple industry stakeholders, and PASA anticipates implementation of the framework once it is finalised in the year ahead.

The current rules governing disputes and reversals of transactions led to litigation against PASA by one of the collectors. PASA is opposing the litigation on the basis that these rules should ensure a fair and equitable outcome for collectors and payers by following proper and due consideration and assessment of the impact for both.



## Envisioning the future state of Electronic (Low Value) collections

In 2021, in collaboration with its Members, PASA identified and agreed on seven objectives that define its Low Value collections strategic modernisation journey. These strategic objectives will be used to crystallise the roadmap required to give effect to the modernisation journey.

|  |  |
|--|--|
| Ensure a smooth transition to a stable DebiCheck system and sunset NAEDO and AEDO with minimum risk and disruption to users and banks.                           | <b>Achieved</b> – (page 35)  |
| Continue to simplify, remediate and enhance DebiCheck and RMS to support a more commercially viable proposition to the market.                                   | <b>Ongoing</b> – actions to simplify, remediate and enhance DebiCheck and RMS were identified (page 40).                             |
| Build RMS functionality to become a viable standalone ISO 20022-based collections payment system that will fulfil a clear purpose in the late collection window. | <b>Ongoing</b> – the transition plan to implement RMS as a permanent feature in the debit order ecosystem was submitted to the SARB. |
| Migrate EFT to RMS and sunset EFT collections.   | <b>Future focus area</b> – this will be prioritised after RMS is implemented as a standalone system.                                 |
| Harmonise dispute rules and reversal processes to ensure a balanced collections approach.  | <b>Ongoing</b> – the Debit Order Rule Framework will be finalised in 2023 and implemented thereafter (page 41).                      |
| Establish an improved process for unauthorised debit orders and the handling of fraud by creating a standardised fraud process.                                  | <b>Future focus area</b> – the implementation approach will be determined in 2023.   |
| Establish automated pre-onboarding, onboarding, monitoring and exit management capability for the Debit Order Abuse 4-prong model.                               | <b>Achieved in collaboration with BankservAfrica</b> – (page 40).  |

## Making real-time credit push an easier payment method

Through Project Future, a target state for low-value electronic credit payments was established in 2018. Project Future also established the requirements for a new, ISO 20022-based real-time retail payment system, now branded PayShap. PayShap is being delivered via the Rapid Payments Programme.

The Rapid Payments Programme aimed to provide a mobile-friendly instant payments service to assist with financial inclusion and stimulate economic recovery and future growth. Significantly, this payments service (branded PayShap) provides a strong alternative to cash and should play an important role in reducing dependency on cash by the underbanked and SMMEs.

The programme is grounded in the SARB's Vision 2025, which aspires towards an interoperable platform that meets regulators' expectations while creating new markets. It also meets the requirements of PASA's vision for the future of the National Payment System.

PASA's key focus was to deliver the appropriate governance structures and rules for the new real time payment system, and this key milestone was achieved in January 2023. Together with various industry participants, PASA finalised and approved the PayShap PCH PG Constitution, the entry and participation criteria, the Rapid Payments Participation Agreement and the Rapid Payments Clearing Rules. This is critical ahead of the anticipated market go-live in March 2023.

In addition to introducing PayShap (as the product brand) to the market, other focus areas for the year ahead include increasing Member participation in the payments system and enhancing PayShap through the introduction of person-to-merchant payments through the Request-to-Pay feature. This feature will enable merchants to request payment from their customers digitally, with immediate transfer and availability of funds.

The introduction of PayShap will add additional complexities into the payment ecosystem. This includes creating a third low-value electronic credit payment system (in addition to EFT Credit and RTC). The future convergence of these systems will need to be planned and managed. This includes new fraud vectors arising from the new functionality in PayShap.

## Upgrading South Africa's domestic settlement system to ISO 20022

**"ISO 20022 is an open global standard for financial information. It provides consistent, rich and structured data that can be used for every kind of financial business transaction."**<sup>1</sup>

ISO 20022 is a global and open messaging standard that provides richer data than its predecessors, supporting benefits like faster processing, better reconciliation, improved compliance and an enhanced customer experience.

In 2022, South Africa completed two projects (Modernisation of High Value Payments and the SAMOS Version 8 upgrade) to modernise the domestic high-value (settlement) payment systems and align these with ISO 20022.

The completion of these projects met the agreed industry implementation date of September 2022, which is ahead of the planned global go-live date of March 2023. This is a significant achievement for South Africa and an important milestone in the modernisation of the country's National Payment System.

## Creating new momentum in industry capacity creation

Exacerbated by the rapidly changing payments landscape, regulatory reform, ongoing payments modernisation and innovation, changing ways of working and an ageing workforce, it has become increasingly critical to focus efforts on attracting new talent and building sustained capacity in the payments industry.

This year, PASA engaged with multiple industry players and initiated a needs analysis study to gain insight into stakeholders' different resource requirements and what is needed to build capacity in the payments system. The outcomes of the study will be published in 2023 and will be used to develop a comprehensive, industry-wide capacity building strategy. This strategy will be supported by proposed governance structures and processes to ensure inclusive, industry-wide participation.

Initial insights gained from the needs analysis were used to enhance PASA's existing training programmes. This includes, for example, incorporating more opportunities for course delegates to virtually collaborate and engage with others in the payments industry. During 2022, 24 delegates completed the Electronic Payments Programme, and 232 delegates completed the Certificate in Foundational Payments Course.

The Advanced Certificate in High Value Payments was not offered during the year. This programme will be refined in 2023 to ensure it aligns with the outcomes of the Modernisation of High Value Payments and the SAMOS Version 8 upgrade projects.

Several internal training programmes were developed to support employees' awareness of and compliance with PASA's various policies. These include policies on procurement, ethics, health and safety, and IT usage.

In 2023, PASA will host its biennial International Payments Conference. The conference creates a unique opportunity for the payments industry to come together and discuss the rapidly altering and transforming payments ecosystem while engaging with local and international industry leaders.

## Establishing a PIB for South Africa

**To remain relevant and sustainable, the management structures of the National Payment System need to be inclusive of all payment participants and service providers.**

In June 2021, the SARB requested that PASA facilitate the design of a new Payments Industry Body (PIB) in collaboration with an inclusive community of payment system stakeholders.

As per the guidance from the SARB, the new PIB had to be designed in the interest of the National Payment System; achieve and maintain interoperability; assist the SARB and other related regulators in ensuring a safe and efficient payment system; and support the execution of Vision 2025 and other policy goals.

In response to the SARB's request, PASA initiated the PIB design process and created the necessary processes and structures to enable the work:

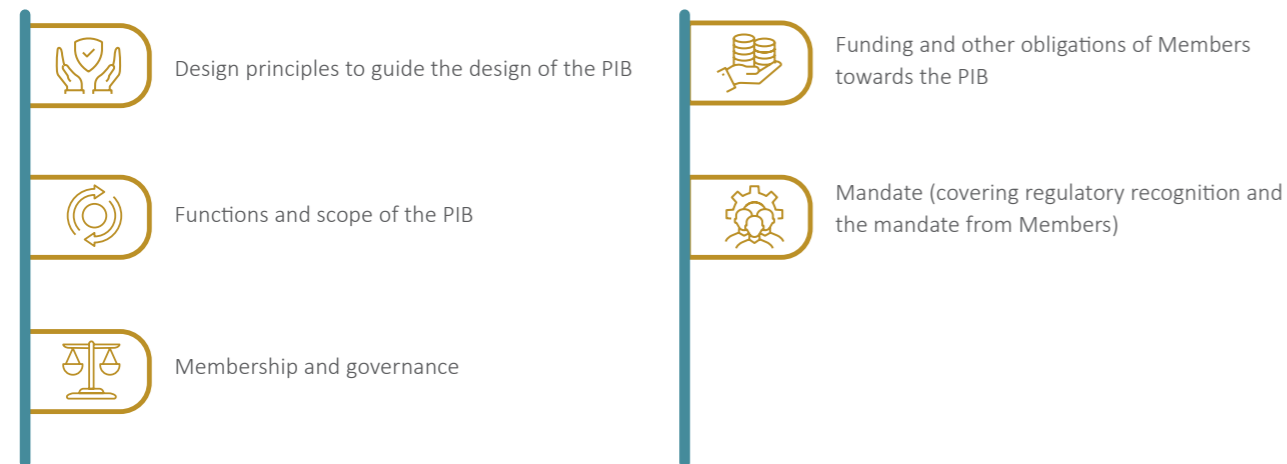
|  <b>The Industry Forum</b>  |  <b>The Design Team</b>   |  <b>Sign-off</b>  |
|--|--|--|
| <p>consisted of all stakeholders who make up the broader payments community. The Industry Forum was consulted on all PIB design elements. Their feedback was solicited and then integrated into proposals for formal sign-off through the agreed sign-off process.</p> | <p>was analogous to an advisory board supporting the project team. It ensured that the design process was credible, that the content was balanced and fair and that any issues in the sign-off process were resolved. Members of the Design Team did not represent specific sectors but were selected to serve the process as a whole.</p> | <p>of content was achieved through consensus across three different groups of community members that included (1) participants in clearing and settlement, (2) providers of payments services, and (3) users of payment services (largely represented by industry associations).</p> |

**IN SEPTEMBER 2021, PASA HOSTED THE FIRST INDUSTRY FORUM MEETING. A FURTHER 10 WORKSHOPS WERE HELD WITH THE COMMUNITY, BRINGING TOGETHER 259 PARTICIPATING ORGANISATIONS TO CONTRIBUTE TO THE PIB DESIGN. THE DESIGN WAS SIGNED OFF IN AUGUST 2022.**

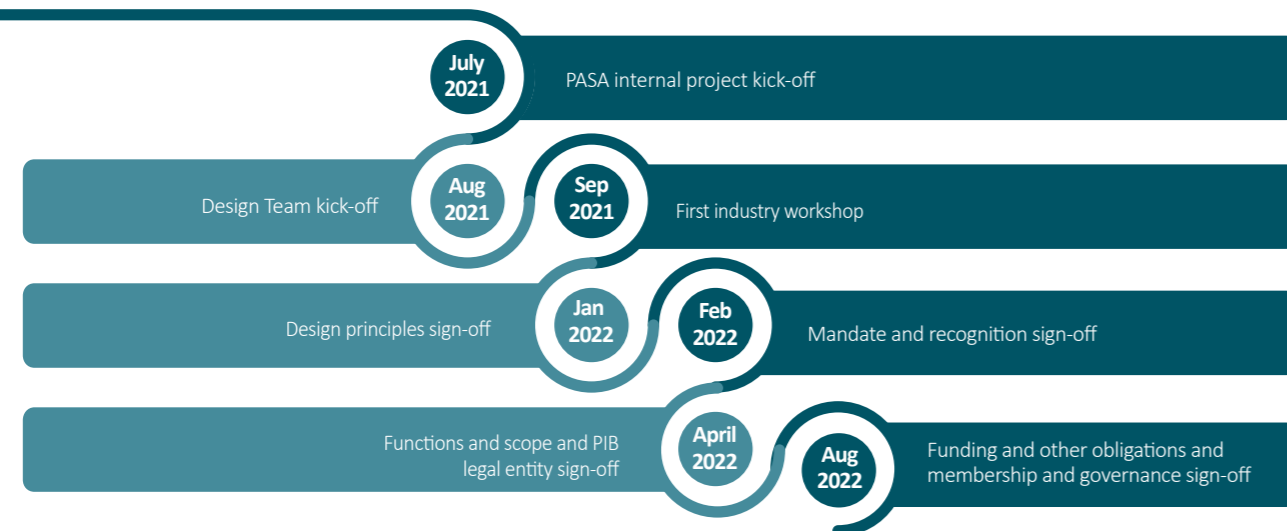
<sup>1</sup> <https://www.swift.com/standards/iso-20022>.



### Design topics covered by the workshops



### A timeline of critical milestones achieved



The design of the PIB was a massively inclusive effort, incorporating multiple industries, associations and entities. The successful completion of the PIB design process demonstrates that industry participants can collaborate and cooperate to achieve outcomes that are in both their own interests and that of the national good.

**55**  
Industry workshop hours

**259**  
Participating organisations

**147**  
Average attendees per workshop

**237**  
Working days from kick-off to sign-off

### Learnings and benefits beyond the PIB

**Engagement and collaboration across such a broad group of stakeholders created opportunities for learnings that will benefit South Africa's payments landscape well beyond the implementation of the PIB.**

Firstly, many stakeholders gained a more comprehensive and technical understanding of how others participate in the payments system and the importance of interoperability. Secondly, participants recognised the importance of having a common basis for a complex conversation. This includes being familiar with the conceptual and regulatory framework underpinning the National Payment System. Thirdly, participants gained an understanding of the importance of developing an industry-wide culture that supports collaboration for the public good while still retaining fierce commercial competition. Lastly, beyond articulating the need for newer industries to mobilise into more organised and influential bodies, the PIB process demonstrated the importance of trade associations in coordinating their members.

It is anticipated that these learnings will be fundamental to building effective operating structures and meaningfully including and consulting a diverse group of stakeholders as the industry works together towards payments modernisation and innovation.

### Next steps

**In November 2022, the PIB Design Report was handed over to the SARB for consideration. This was a historic event, demonstrating ground-breaking industry collaboration and signalling the start of a new era of payments in South Africa.**

If the SARB has no objections to the proposed design of the PIB, PASA envisages a further two phases to the project. Firstly, a transition plan will need to be defined. Once this plan is approved, the transition from PASA to the PIB will need to be implemented and executed, supported by the agreement and establishment of appropriate transitional governance structures. The PIB design aligns to proposed regulatory changes (page 43). As the timing of these changes remains unclear, it is anticipated that the implementation of the new entity will stretch well into 2023 and possibly beyond.

Read the full PIB Design Report here<sup>1</sup>.

<sup>1</sup> <https://pasa.org.za/payments-industry-body/>

# THE RISKS PASA MANAGES

## PASA'S RISK MANAGEMENT PROCESS

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

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

### PASA HAS TWO DISTINCT RISK ENVIRONMENTS:

#### The National Payment System (PASA as a PSMB)

PASA's National Payment System Risk Management Framework provides a foundation for integrating risk management principles into all the parts of the payments ecosystem within PASA's ambit.

#### PASA as a legal entity

The PASA Legal Entity Risk Management Framework provides principles for embedding consistent and robust risk management into the activities performed by PASA.

### Risk management structures and frameworks:

PASA structures are responsible for managing risks within their respective payment systems.

Risk management is delegated to Risk Subcommittees for card, low-value and high-value payment systems by the PCH PGs.

Risk Subcommittees provide structured identification and assessment of payment systems risks, which are populated on the risk registers and utilised to create payment system risk profiles.

Risk Champions are in place and receive training and guidance on the framework components.

PASA ExCo is responsible for managing risks within PASA functional areas.

Similarly, Project Steering Committees are responsible for managing risks relevant to their specific projects.

### These risk management structures are supported by risk assessment reviews and reporting, which follow a structured approach:

The PASA as a PSMB process entails holding risk assessment workshops to identify and assess key risks, reviewing of risks by the Risk Subcommittees, review and approval at respective PCH PGs, development of a PASA risk profile, review by the National Payment System Risk Committee and, ultimately, PASA Council reporting.

PASA as a legal entity risks are discussed and assessed in consultation with relevant business functions, approved by the ExCo and ultimately reported to PASA Council.

Project risks are identified by the project teams, approved by the Project Steering Committee, and ultimately reported to PASA Council.

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

## PASA'S KEY FOCUS AREAS TO ENHANCE RISK MANAGEMENT IN 2022

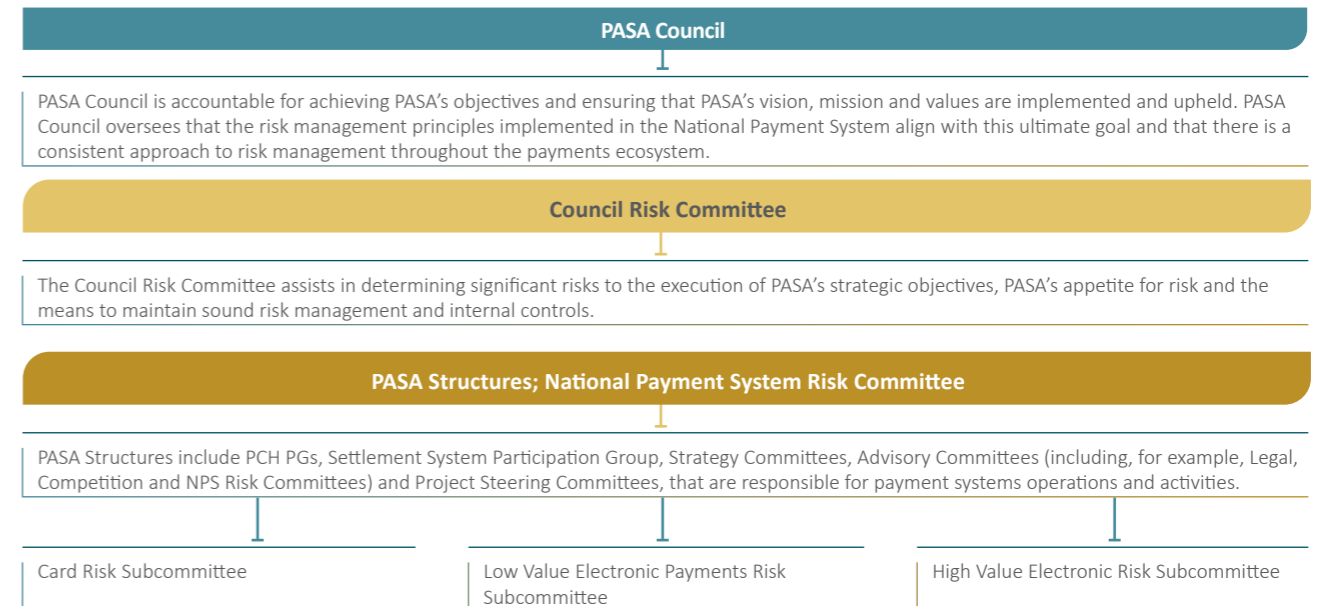
PASA's risk management focus, in its capacity as a PSMB, was on continuous training and guidance to embed its risk framework in the payment systems activities. This included the integration of approved National Payment System risk appetite and tolerance levels, and developing, tracking and reporting on industry key risk indicators.

PASA as a legal entity focused on embedding the risk framework and policies, including compliance with PASA's internal policies and risk culture enhancement. This was supported by integrating approved PASA as a legal entity risk appetite and tolerance levels and developing, tracking and reporting on Finance, HR and IT key risk indicators. PASA as a legal entity strengthened its integrated risk management reporting by introducing customised risk management reporting for PASA's various Council Committees. A risk event reporting process was implemented to support structured identification, root cause, impact analysis, and reporting of PASA as a legal entity incidents.

## PASA AS A PSMB

### Risk management governance structures

Risk governance structures and Council Committees support identification, assessment and reporting to foster risk-based decision-making.



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



## Top risks in 2022

These are the key risks related to activities performed within PASA from a National Payment System perspective (i.e., in its capacity as a PSMB).

### People risk

#### Risk description

PASA faces a risk of decline in the required level of skill and maturity available to execute or contribute towards the implementation of industry tasks. This is due to the loss of skilled participant representatives and the limited number of individuals with all-encompassing payment industry expertise, without adequate contingency or succession planning.

#### Mitigating activities

The focus has been on understanding the extent of the problem within the settlement and high-value payment systems and to agree on an action plan to address the challenges. PASA also engages with the global industry community to obtain an understanding of complex payment structures.

Overall rating: Moderate

Risk appetite: Low

Risk tolerance: Moderate

### Fraud risk

#### Risk description

Fraud risk concerns include EFT Credit push payment fraud due to cyber crimes, social engineering, and Business Email Compromise scams.

#### Mitigating activities

Security education awareness is provided by banks, while banking details (account) verification services are offered by some of the banks. Initiatives are underway to develop feasible industry fraud prevention measures.

Overall rating: Moderate

Risk appetite: Zero

Risk tolerance: Low

### Cyber risk

#### Risk description

Inadequate controls in the usage of instant EFT payment services offered by merchants through screen scraping practices could expose consumers to a potential breach of banking details and subsequent financial losses.

#### Mitigating activities

A consumer alert was issued in November 2020, advising consumers to be aware of the risks associated with providing their online banking credentials to third parties. The SARB is expected to issue an industry consultation paper on managing the risks associated with instant EFTs during 2023.

Overall rating: Moderate

Risk appetite: Zero

Risk tolerance: Low

### Legal risk

#### Risk description

Due to misalignment and gaps, there is a risk that PCH rules, agreements, and technical requirements could be inconsistently interpreted. A further concern is litigation against PASA rules.

#### Mitigating activities

PASA's legal team provides guidance on how to interpret the PCH rules, agreements and technical requirements. There is a dispute resolution process to manage any disputes. PASA has embarked on a rules project to enable a structured review of all rules and address areas of concern. PASA is also working on a dispute and suspension framework which it hopes will better satisfy market requirements.

Overall rating: Moderate

Risk appetite: Zero

Risk tolerance: Low

PASA saw a year-on-year change in the key risks related to activities performed within the ambit of PASA as a PSMB. Project risk is no longer identified as a key risk, as the organisation successfully managed and landed the convergence of multiple large and complex projects (including the PIB design and the SAMOS upgrade). In 2022, PASA identified legal risk as a key risk from a PSMB perspective.

### Emerging risks within the National Payment System

As the PSMB, PASA identifies emerging risks with potential systemic implications for the National Payment System. These risks include cyber risk and the effects of extended power outages.

Cyber risk is an ongoing concern. This is due to continued dependency on information and communications technology (ICT), the evolving tools used by cyber criminals, and the potential effects of cyber crime on critical ICT infrastructure that could result in failure or outages, data breaches and fraud.



To mitigate this risk, PASA Members have various internal controls and resilience measures in place. There are also multiple industry-wide initiatives that aim to coordinate and strengthen the financial sector's response to cyber security incidents.

The country is experiencing continued load shedding, including stage 6, as a measure implemented by Eskom to manage pressure on the national power system. This is exacerbated by increases in diesel prices and potential challenges in the supply of petroleum products.



PASA Members have power failure and connectivity contingency measures in place, such as generators, backup diesel supply, dual connectivity, and recovery sites. Industry-wide engagement with relevant supply chain role players is underway to strengthen and support the industry's resilience should an extended power outage be experienced. The industry is reviewing measures to enable a coordinated response in case of extended load shedding or an electricity blackout.

## PASA AS A LEGAL ENTITY

### Risk management governance structures

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



### Top PASA as a legal entity risks in 2022

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

#### People risk

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

#### Cyber and information risk

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

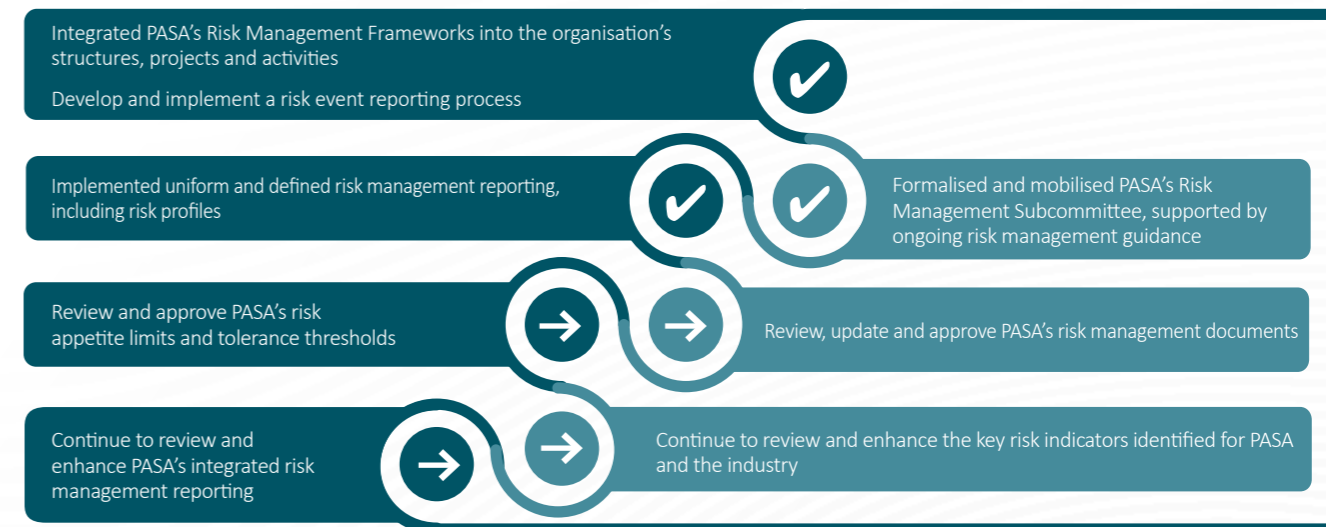
#### Litigation risk

| Risk description  | Mitigating activities   |
|---|---|
| PASA faces an ongoing risk of being exposed to litigation due to activities performed within its ambit as a PSMB. Negative judgements against PASA could impact the collections payments environment. | PASA engages with the SARB and FSCA on this matter. PASA is also working on a dispute and suspension framework which it hopes will satisfy market requirements. |
| <b>Overall rating: Moderate</b>   | <b>Risk appetite: Zero</b>  |
| <b>Risk tolerance: Low</b>  |   |

There was no year-on-year change in the key risks related to PASA as a legal entity.

## LOOKING AHEAD

PASA will continue to elevate risk management across the PASA functions and payment systems. The roadmap below provides a summary of the key items achieved and PASA's priorities for the year ahead.



✓ completed → Ongoing

In addition to its focus on risk management maturity and elevation, PASA will prioritise industry collaboration to drive fraud mitigation. This will be particularly important following the launch of PayShap (page 42) to ensure effective implementation of fraud risk management. For PASA as a legal entity, training and policy awareness remains critical to ensure an organisation-wide understanding of each function's roles and responsibilities in terms of complying with PASA's risk policies and frameworks.

# HOW PASA IS GOVERNED

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

## KEY GOVERNANCE ACTIONS IN 2022

Assisted by its Nomination and Induction Committee, PASA Council performed a comprehensive internal evaluation of the performance of PASA Council, its committees, Chairperson, CEO and Company Secretary (page 61).

Following the appointment of new Councillors, the composition of the Council Committees was reviewed. As an outcome of this process, the Audit, Council Risk and Remuneration Committees were strengthened (page 58).

Several new Councillors were appointed this year, strengthening the skills, experience and diversity of PASA Council and enhancing its ability to effectively discharge its governance role and responsibilities (page 56).

The Council Risk Committee oversaw enhanced risk management reporting, monitored actions to strengthen PASA's control environment, and oversaw actions taken to foster a strong risk culture across the organisation (page 63).

The Remuneration Committee oversaw multiple initiatives to enhance the maturity of PASA's HR function, strengthen employee retention and support transformation, diversity and inclusion (page 62).

The Audit Committee oversaw the implementation of enhanced financial management and reporting and the appointment of new auditors as per PASA's strengthened audit plan process (page 60).

## PASA'S GOVERNANCE APPROACH

The fiduciary duty of PASA Council and its Councillors is to act in the interest of the National Payment System and PASA while fairly representing its Members' interests as required by the National Payment System Act. PASA subscribes to King IV's voluntary principles and leading practices in support of this unique mandate.

Good corporate governance is achieved through PASA Council's commitment to ethical and effective leadership, strategic direction setting and appropriate oversight towards achieving the four governance outcomes of ethical culture, good performance, effective control, and legitimacy.

|                          |   |
|--------------------------|---|
| <b>Good performance</b>  | <ul style="list-style-type: none"> <li>› Determining strategic direction and assisting PASA in achieving its strategic objectives in the best interest of the National Payment System.</li> <li>› Overseeing performance through regular reporting, specifically on the identified focus areas.</li> <li>› Performing biennial assessments of PASA Council, its committees and individual Councillors and an ongoing appraisal of PASA Council and its committees' adherence to their responsibilities.</li> <li>› Investing in human capital and creating the environment in which they can apply their expertise to execute PASA's strategy successfully.</li> </ul>  |
| <b>Effective control</b> | <ul style="list-style-type: none"> <li>› Ensuring risk management policies, practices, frameworks and tolerance limits are adequately monitored.</li> <li>› Ensuring regulatory compliance.</li> <li>› Providing effective financial management and reporting through the Audit Committee and external audit.</li> </ul>  |
| <b>Legitimacy</b>        | <ul style="list-style-type: none"> <li>› Ensuring PASA Council and its Committees' composition is optimised, outside interests are adequately disclosed, and that Councillors act with a fiduciary duty and in the best interest of PASA and the National Payment System.</li> <li>› Delegating power to PASA Structures and Council Committees, ensuring:               <ul style="list-style-type: none"> <li>o Effective engagement and involvement of Members and other stakeholders in the operations.</li> <li>o Exercising of independent and unfettered judgement and effective discharge of PASA Council's responsibilities.</li> </ul> </li> <li>› Implementing comprehensive stakeholder engagement policies and plans.</li> </ul> |
| <b>Ethical culture</b>   | <ul style="list-style-type: none"> <li>› Ensuring executive focus on living PASA's values and regular engagement with employees on the values.</li> <li>› Measuring employee performance on a two-dimensional scale, including what was delivered and how it was delivered (ethical behaviour aligned with PASA's values).</li> <li>› Fair and transparent remuneration practices.</li> </ul>   |

**IN LINE WITH SOUND GOVERNANCE PRINCIPLES, PASA COUNCIL, ASSISTED BY ITS NOMINATION AND INDUCTION COMMITTEE, PERFORMED A COMPREHENSIVE INTERNAL EVALUATION OF THE PERFORMANCE OF PASA COUNCIL, ITS COMMITTEES, CHAIRPERSON, CEO AND COMPANY SECRETARY THIS YEAR. THE RESULTS WERE FAVOURABLE; HOWEVER, PASA COUNCIL WILL CONTINUE TO IDENTIFY OPPORTUNITIES TO IMPROVE ITS GOVERNANCE STANDARDS AND OVERSIGHT RESPONSIBILITIES.**

## PASA'S GOVERNANCE FRAMEWORK

### Council Committees

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

PASA Council utilises four permanent Council Committees comprising Councillors with experience or expertise in these fields to assist the governing body in effectively fulfilling its responsibilities. It also has an ad hoc committee (PASA Review Committee) that is responsible for considering responses to draft and new regulations and bills.

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

|   |   |
|---|---|
| <b>Audit Committee</b>                    | <ul style="list-style-type: none"> <li>› Oversees the integrity and appropriateness of financial reporting and financial risk management.</li> <li>› Considers and recommends the external auditors and evaluates their independence and effectiveness.</li> <li>› Considers and recommends the annual budget to PASA Council.</li> </ul>   |
| <b>Council Risk Committee</b>             | <ul style="list-style-type: none"> <li>› Reviews and oversees the management of the organisation's principal and emerging risks, risk appetite and tolerance limits, and the effectiveness of the risk management systems and frameworks.</li> <li>› Oversees the principal and emerging risks within the National Payment System as articulated and managed by PASA management and Members, with input from payments regulators.</li> </ul>  |
| <b>Nomination and Induction Committee</b> | <ul style="list-style-type: none"> <li>› Oversees the nomination, induction and training requirements of all PASA Councillors and is responsible for the succession of the Independent Councillors.</li> <li>› Oversees the CEO's appointment and succession planning.</li> <li>› Oversees and recommends the composition of Council Committees to PASA Council, and the ongoing management of Councillors' conflicts of interest.</li> <li>› Oversees the biennial assessment of the effectiveness of PASA Council and the Council Committees and the performance of the Councillors.</li> </ul>   |
| <b>Remuneration Committee</b>             | <ul style="list-style-type: none"> <li>› Oversees remuneration policies and practices to ensure that these collectively support PASA's strategic objectives and positive outcomes in the short, medium and long term.</li> <li>› Oversees the overall headcount and that the approval of remuneration and incentives at all levels is fair, transparent and promotes the achievement of sustainable value creation.</li> <li>› Oversees the succession, appointment and retention of appropriately skilled, experienced and diverse executives and senior personnel.</li> <li>› Oversees all HR related aspects, including labour practices, people and performance management policies, employee composition and equity, and fringe benefits.</li> <li>› Oversees the remuneration of the Independent Councillors to ensure that the remuneration is fair, responsible and transparently disclosed.</li> </ul> |
| <b>PASA Review Committee</b>              | <ul style="list-style-type: none"> <li>› 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 that potentially impacts PASA's mandate or operations.</li> <li>› Develops, agrees and submits a PASA view (developed from submissions received from committee members, Councillors, Members and the PASA Office) to the relevant regulator.</li> </ul>  |

**PASA COUNCIL REGULARLY REVIEWS THE COMPOSITION OF ITS COUNCIL COMMITTEES AND MADE SEVERAL CHANGES THIS YEAR FOLLOWING THE APPOINTMENT OF NEW COUNCILLORS. THE AUDIT, COUNCIL RISK AND REMUNERATION COMMITTEES WERE STRENGTHENED THROUGH THESE NEW APPOINTMENTS AND ARE WELL-EQUIPPED TO ASSIST PASA COUNCIL AND PASA'S EXECUTIVE MANAGEMENT WITH THE PLANNING AND OVERSIGHT REQUIRED TO TRANSITION TO THE PIB.**

## Councillors

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

**SYDNEY  
GERICKE  
(64)**



*Independent Chair*

**Joined Council:** August 2018

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

**HERMAN  
SINGH  
(62)**



*Independent Councillor*

**Joined Council:** May 2021

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

**INGRID  
GOODSPEED  
(69)**



*Independent Deputy Chair*

**Joined Council:** February 2017

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

**GHITA  
ERLING  
(50)**



*Chief Executive Officer*

**Joined Council:** November 2020

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

**JOHN  
ANDERSON  
(55)**



*Standard Bank appointed Councillor*

**Joined Council:** October 2018

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

**ALTERNATE  
RUFIDA  
HAMILTON  
(48)**



**Joined Council:** September 2009\*

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

\* Resigned as the Investec Bank Principal Councillor in June 2022 and appointed as the Standard Bank Alternate Councillor in September 2022.

**MEGAN  
BROWN (48)**



*FirstRand Bank appointed Councillor*

**Joined Council:** February 2017

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

**IAN  
CARTER  
(55)**



*Nedbank appointed Councillor*

**Joined Council:** February 2014

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

**ALTERNATE  
MARIJKE  
GUEST  
(52)**



**Joined Council:** October 2018

**Qualifications:** MBA

**BUSI  
RADEBE  
(48)\***



*Capitec Bank appointed Councillor*

**Joined Council:** May 2022

**Qualifications:** Postgraduate certificate in AI and Machine Learning; MBA; BSc Electro-Mechanical Engineering; National Diploma Metalliferous Mining

\* Matthew Coaker retired with effect from February 2022.

**ALTERNATE  
MARTHINUS JANSE  
VAN RENSBURG  
(54)**



**Joined Council:** April 2009

**Qualifications:** BCom LLB

**JOHN  
ELLIOTT  
(44)\***



*Investec Bank appointed Councillor*

**Joined Council:** October 2018

**Qualifications:** BBusSc (Hons)  
\* Rufaida Hamilton retired as Investec Bank's appointed Councillor with effect from June 2022 and was appointed as Alternate Councillor for Standard Bank. John Elliott was appointed as Investec Bank's Principal Councillor in September 2022 (previously Investec Bank Alternate Councillor).

**ALTERNATE  
GERALD  
BYLEVELD (45)\***



**Joined Council:** September 2022

**Qualifications:** Fellow – Association of Chartered Certified Accountants (UK); Certified Anti-Money Laundering Specialist (ACAMS), MBA (Cum Laude), Certified Internal Auditor (Institute of Internal Auditors)

\* Appointed as Alternate Councillor in September 2022.

**JILL  
MURTAGH  
(62)**



*Bidvest Bank appointed Councillor*

**Joined Council:** March 2015

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

**ALTERNATE  
NOLWAZI  
DLAMINI  
(41)\***



**Joined Council:** June 2022

**Qualifications:** PDBA; Risk Management (UNISA); B Tech (Internal Audit)

\* Frikkie Hanekom resigned with effect from June 2022.

**CHARL  
SMEDLEY  
(57)**



*Absa Bank appointed Councillor*

**Joined Council:** August 2020

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

**ALTERNATE  
GABRIELLA  
TEIXEIRA  
(56)**



**Joined Council:** May 2018

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

**TIM  
MASELA  
(62)**



*SARB Ex Officio Councillor*

**Joined Council:** August 2012

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

**ALTERNATE  
SHAUN  
RAYFIELD  
(53)**



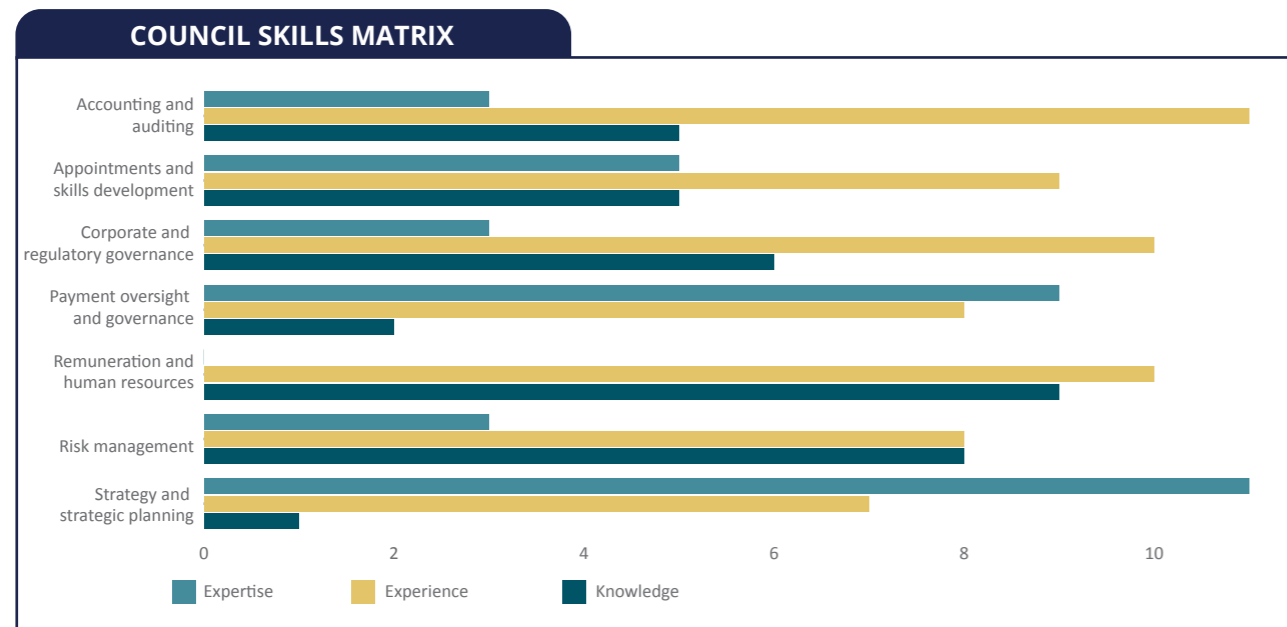
**Joined Council:** October 2018

**Qualifications:** BCom Money and Banking

### PASA Council skills matrix

PASA believes that sustained value creation and preservation is built on skilled, experienced, knowledgeable, effective and ethical leadership. The calibre of PASA's leadership is embodied in its Councillors' and Members' experience, diversity and commitment. The Nomination and Induction Committee continues to provide Members with guidance on PASA Council composition, bringing greater diversity to PASA Council.

PASA Council is satisfied that it comprises the appropriate balance of knowledge, skills, experience, diversity and independence to effectively execute PASA's mandate and objectively discharge its governance role and responsibilities. PASA's Councillors' primary areas of expertise are highlighted in the graph below<sup>1</sup>. PASA Council reviews the skills mix of its Councillors at least annually.



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

### Succession planning

Succession planning identifies, mentors and develops future Councillors. PASA Council's focus is on introducing individuals with new expertise and perspectives while retaining valuable industry knowledge, skills and experience and maintaining continuity.

Members who qualify to appoint Councillors are responsible for ensuring that replacements are appointed as and when required. PASA Council remains cognisant of the state of uncertainty in which PASA operates and its transition to the PIB. The composition of the PIB governing body has been agreed with the industry.

### Council Committees feedback

#### Members and meeting attendance

PASA Council and all Council Committees, except the PASA Review Committee, have work plans that list their tasks according to their Constitution. This allows the committees to assess their progress and ensure that they fulfil their mandates.

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

| Council Member          | Attendance | Alternate                    | Attendance |
|-------------------------|------------|------------------------------|------------|
| S Gericke (Chair)       | 7/7        | –                            |            |
| J Anderson              | 7/7        | R Hamilton <sup>6</sup>      | 2/2        |
| M Brown                 | 7/7        | –                            |            |
| I Carter                | 7/7        | M Guest                      | 4/7        |
| M Coaker <sup>1</sup>   | –          | M Janse van Rensburg         | 1/7        |
| B Radebe <sup>2</sup>   | 5/5        | Gerald Byleveld <sup>8</sup> | 2/2        |
| J Elliott <sup>7</sup>  | 2/2        | –                            |            |
| G Erling                | 7/7        | –                            |            |
| I Goodspeed             | 7/7        | –                            |            |
| R Hamilton <sup>3</sup> | 3/3        | J Elliott <sup>7</sup>       | 3/5        |
| T Masela                | 2/7        | S Rayfield                   | 4/7        |
| J Murtagh               | 5/7        | F Hanekom <sup>4</sup>       | 0/3        |
| H Singh                 | 5/7        | N Dlamini <sup>5</sup>       | 1/4        |
| C Smedley               | 3/4        | –                            |            |
|                         |            | G Teixeira                   | 2/7        |

<sup>1</sup> Resigned 28 February 2022.  
<sup>2</sup> Appointed 10 May 2022.  
<sup>3</sup> Resigned as Investec Bank Principal Councillor on 30 June 2022.  
<sup>4</sup> Resigned as Bidvest Bank Alternate Councillor on 1 June 2022.  
<sup>5</sup> Appointed as Bidvest Bank Alternate Councillor on 8 June 2022.  
<sup>6</sup> Appointed as Standard Bank Alternate Councillor on 8 June 2022 (previously Investec Bank Principal Councillor).  
<sup>7</sup> Appointed as Investec Bank Principal Councillor on 1 September 2022 (previously Alternate Councillor).  
<sup>8</sup> Appointed as Investec Bank Alternate Councillor on 1 September 2022.



### Audit Committee

**“THE AUDIT COMMITTEE RETAINED A STRONG FOCUS ON ENHANCING PASA’S FINANCIAL CONTROLS BY OVERSEEING ITS FINANCIAL MANAGEMENT AND REPORTING, ENSURING ROBUST FINANCIAL GOVERNANCE AND CAREFULLY MONITORING KEY FINANCIAL RISKS. THE ORGANISATION CONTINUES TO BENEFIT FROM A STRENGTHENED AND MORE RIGOROUS FINANCE FUNCTION, WHICH CONTRIBUTES TO EFFECTIVE STRATEGY EXECUTION AND OPERATIONAL EFFICIENCY.”**

**M BROWN, AUDIT COMMITTEE CHAIR**

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

#### 2022 FOCUS AREAS

| 2022 priority actions   | Achieved (Yes/No) | Key actions and outcomes  |
|---|-------------------|---|
| Oversaw the organisation’s budget process   | Yes               | The 2023 annual budget was successfully delivered on time with an increase in membership fees closely aligned with the forecasted 2023 inflationary increase.   |
| Enhanced PASA’s financial management and reporting.   | Yes               | PASA’s financial management and reporting was enhanced, including overseeing the automation of the financial reporting and the membership fee calculation process.  |
| Enhanced the external audit process and outcomes as well as the rollout of relevant policies to enhance employee awareness. | Yes               | Oversaw the enhanced external audit plan process and outcomes which included the appointment of new external auditors. Also guided the rollout of employee awareness training on relevant finance policies. |
| Financial risks oversight.  | Yes               | Assessed some financial risks arising from the pending payments regulatory reform and PIB transition and considered potential mitigation strategies.  |
| Reviewed PASA’s financial governance and controls.  | Yes               | Strengthened PASA’s financial governance, including reviewing the adequacy of PASA’s financial controls.  |

#### 2023 FOCUS AREAS

- › Further enhance PASA’s financial reporting, budgeting and forecasting practices.
- › Continue to oversee the implementation of approved policies, procedures and the enhancement of the external audit process and outcomes.
- › Oversee and guide continuous improvement of governance and financial controls, as well as oversight of financial risks relating to the impact on PASA of the pending payments regulatory reform.
- › Oversee the financial and tax matters arising as a result of the transition to the PIB.

#### Members and meeting attendance

|                 |     |
|-----------------|-----|
| M Brown (Chair) | 9/9 |
| G Byleveld      | 2/2 |
| I Goodspeed     | 9/9 |
| J Murtagh       | 4/9 |
| H Singh         | 9/9 |
| C Smedley       | 6/6 |

### Nomination and Induction Committee

**“THE RESULTS OF THE BIENNIAL EVALUATION DEMONSTRATE THAT PASA COUNCIL AND ITS COMMITTEES REMAIN APPROPRIATELY CONSTITUTED TO PROVIDE EFFECTIVE GOVERNANCE AND OVERSIGHT OF PASA. THE NOMINATION AND INDUCTION COMMITTEE REVIEWED AND STRENGTHENED THE COMPOSITION OF THE COUNCIL COMMITTEES WITH ADDITIONAL COUNCILLORS TO CREATE GREATER DEPTH. PASA COUNCIL REMAINS WELL-EQUIPPED TO PROVIDE ETHICAL AND EFFECTIVE LEADERSHIP, GUIDED BY SOUND GOVERNANCE PRINCIPLES.”**

**S GERICKE, NOMINATION AND INDUCTION COMMITTEE CHAIR**

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

#### 2022 FOCUS AREAS

| 2022 priority actions  | Achieved (Yes/No) | Key actions and outcomes  |
|--|-------------------|---|
| Oversaw the biennial review of PASA Council, the Council Committees, the Chairperson, the CEO and the Company Secretary to ensure the appropriate execution of their mandates. | Yes               | The biennial review was completed internally under the oversight of the Nomination and Induction Committee. The outcome reflects a well-performing governing body adequately supported by its committees. Positive progress had been made since the previous review, and the Nomination and Induction Committee will oversee opportunities for further enhancements during 2023.  |
| Oversaw the contingent, medium and long-term succession planning for the CEO.  | Partially         | The contingency succession planning for the CEO was completed, and the Nomination and Induction Committee is satisfied that there are adequate plans in place. The committee will seek to strengthen the succession planning for the CEO, with a three- to five-year succession view being developed during 2023.   |
| Reviewed the Independent Councillor pipeline and succession.   | Partially         | The Independent Councillor pipeline and succession remain a focus of the Nomination and Induction Committee. The process for appointing a further Independent Councillor to strengthen the governing body’s overall independence and diversity commenced in 2022 and was expected to be completed within the first half of 2023.  |
| Oversaw the nomination, induction and training of all PASA Councillors.  | Yes               | The enhancements made to the induction programme for new Councillors were reflected positively in the biennial assessment. During 2022 the Nomination and Induction Committee oversaw the re-election of five Member-appointed Councillors. Ongoing training remains a priority to ensure that Councillors are adequately equipped to fulfil their fiduciary duties; refresher training on ethics was provided in 2022. |
| Oversaw the appointment of Councillors representing the ‘smaller banks’.   | Yes               | The Nomination and Induction Committee oversaw the re-election of the Members representing the “smaller banks”, which included the re-election of five Councillors and the appointment of two new Councillors.  |

#### 2023 FOCUS AREAS

- › Identify and recommend to Members the appointment of an additional Independent Councillor to PASA Council.
- › Oversee the nomination, induction and training of all PASA Councillors.
- › Oversee the corporate governance provisions for Councillors.
- › Oversee the composition of the Council Committees and any changes thereto pending the organisation’s transition to the PIB.

#### Members and meeting attendance

|                       |     |
|-----------------------|-----|
| S Gericke (Chair)     | 3/3 |
| I Goodspeed           | 3/3 |
| R Hamilton            | 1/1 |
| T Masela (S Rayfield) | 3/3 |
| B Radebe              | 2/2 |
| G Teixeira            | 3/3 |

### Remuneration Committee

**“CONSIDERING THE INDUSTRY’S SKILLS SHORTAGES AND RESOURCE CAPACITY CHALLENGES, INNOVATIVE AND PEOPLE-CENTRIC REMUNERATION PRACTICES ARE CRITICAL. THE COMMITTEE CONTINUES TO PLAY A CRUCIAL ROLE IN GUIDING AND OVERSEEING THE PROPER IDENTIFICATION AND EXECUTION OF EMPLOYEE INTERVENTIONS SUCH AS RETENTION, HEALTH AND WELLBEING, CULTURE CHANGE, CHANGE RESILIENCE, SUCCESSION PLANNING, DIVERSITY AND INCLUSION, AND APPROPRIATE REWARD AND RECOGNITION”.**

**J MURTAGH, REMUNERATION COMMITTEE CHAIR**

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

### Council Risk Committee

**“THIS YEAR, THE COMMITTEE FOCUSED ON IMPLEMENTING RISK APPETITE AND TOLERANCE LEVELS, OVERSEEING ENHANCED RISK MANAGEMENT REPORTING, MONITORING ACTIONS TO STRENGTHEN PASA’S CONTROL ENVIRONMENT (INCLUDING CYBER SECURITY), AND OVERSEEING ACTIONS TAKEN TO FOSTER A STRONG RISK CULTURE ACROSS THE ORGANISATION. THESE FOCUS AREAS REMAIN CRITICAL TO ENSURE THAT PASA MAINTAINS AN EFFECTIVE RISK MANAGEMENT CAPABILITY AND REMAINS A VIABLE AND RESILIENT ORGANISATION FOR THE BENEFIT OF THE NATIONAL PAYMENT SYSTEM AND ITS MEMBERS.”**

**H SINGH, COUNCIL RISK COMMITTEE CHAIR**

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

#### 2022 FOCUS AREAS

| 2022 priority actions  | Achieved (Yes/No) | Key actions and outcomes  |
|--|-------------------|---|
| Ensure robust change management to ensure a smooth transition of PASA employees to the new PIB.  | Partially         | There continues to be regular and ongoing communication to employees on PIB development and the likely impact on employees, from the Chief Executive Officer.<br>Increased resilience of employees is targeted through the ongoing people change plan.              |
| Guide and review initiatives to enhance employee retention, including employee wellness, talent development, career pathing, as well as recognition and reward.  | Yes               | Completed and implemented PIB-related retention strategies. Oversaw the development of employee wellness initiatives and targeted employee development initiatives. Oversaw the implementation of the online learning platform and approved the PASA training plan. |
| Guide and review the development of a retention strategy for key man employees, underpinned by the development of a robust and effective onboarding process.   | Partially         | Reviewed the succession, appointment and retention strategy of appropriately skilled, experienced, and diverse executive and senior personnel.  |
| Guide and review the development and implementation of an organisational employment equity plan with supporting transformation targets to improve organisational diversity.  | Yes               | Approved an organisational employment equity plan, including employment equity goals and targets for the next 12 months.  |
| Guide and review ongoing enhancements to the maturity of the HR function, underpinned by robust HR capacity planning.  | Yes               | Matured the Human Capital planning and reporting structure and function.  |
| Guide and review actions to strengthen PASA’s performance management process, including maturing the scorecard process used to evaluate organisational and senior executives’ performance and formalising processes to better align remuneration to performance. | Yes               | Matured the performance management process, and the scorecard process used to evaluate organisational and senior executives’ performance. Amended the remuneration policy to better align discretionary remuneration to performance.                                |

#### 2023 FOCUS AREAS

- › Address the critical skill shortages by guiding and reviewing PASA’s contribution to industry capacity creation and the implementation of PASA’s internal capacity building programme.
- › Continue to ensure robust change management and ongoing employee communication to assist PASA employees through the transition to the PIB.
- › Monitor initiatives that position PASA as an employer of choice, strengthen employee engagement and retention, including identifying and executing appropriate culture, wellbeing, resilience and value interventions.
- › Monitor PASA’s learning and development approach.
- › Ensure that key man succession planning is reviewed and maintained.
- › Guide the ongoing implementation of PASA’s employment equity plan and rollout of diversity and inclusion training.

#### Members and meeting attendance

|                   |     |
|-------------------|-----|
| J Murtagh (Chair) | 5/5 |
| I Carter          | 5/5 |
| S Gericke         | 5/5 |
| I Goodspeed       | 5/5 |
| B Radebe          | 3/4 |

#### 2022 FOCUS AREAS

| 2022 priority actions  | Achieved (Yes/No) | Key actions and outcomes  |
|--|-------------------|---|
| Oversaw the implementation of PASA’s risk appetite and tolerance limits and key risk indicators  | Yes               | Ongoing monitoring of risks with residual ratings outside of tolerance limits.  |
| Monitored that PASA National Payment System risks are continuously reviewed and mitigated in line with the approved appetite and tolerance limits.   | Yes               | Payment systems principal risks and key project risks reviewed, and mitigation measures monitored in line with approved tolerance limits.   |
| Ensured that risks and issues that may negatively impact PASA (the legal entity) and the National Payment System are identified and mitigated (path to green defined).   | Yes               | Ongoing monitoring and effective mitigation of principal risks and defined path to green.   |
| Monitored the implementation of strengthened integrated risk management reporting, for both PASA (the legal entity) and the broader National Payment System within PASA’s mandate.   | Yes               | Principal risks clearly defined for reporting to and oversight by Council and Council Committees. Integrated appetite and tolerance levels.   |
| Oversaw improvements to PASA (the legal entity) IT risk management (including cyber security).   | Yes               | IT and cyber risk response measures aligned with tolerance limits.  |
| Oversaw the embedding of the risk, compliance and cyber security culture within the organisation, supported by continuous training and guidance to embed PASA’s risk framework and policies.   | Yes               | Risk, compliance, information and cyber security responsibilities included in employees’ performance contracts. Key policies training rollout.  |
| Notwithstanding the additional work related to the PIB, ensured that PASA’s operational functions remain unaffected and contribute to the stability of the National Payment System.  | Yes               | Ongoing monitoring of PASA’s risk profile, and right balance between current operational and PIB design requirements.   |
| Monitored the potential risks to the National Payment System arising from capacity constraints within the industry, compounded by the concurrent implementation of major programmes (Rapid Payments Programme, the PIB and the modernisation of high-value credit payment systems and the SAMOS system upgrade). | Yes               | Principal risks and key project risks oversight, and consideration of capacity constraints, while supporting successful and timeous delivery of key industry projects with none or minimal unintended consequences. |

## 2023 FOCUS AREAS

- › Oversee the enhancement and application of effective risk management models to manage risks to the NPS.
- › Oversee training and guidance to embed and operationalise PASA's risk framework and policies.
- › Continue to monitor PASA's risk appetite and tolerance limits, including alignment of risk appetite to risk response measures.
- › Monitor the alignment of PASA (the legal entity) risk appetite to risk transfer (insurance) measures.
- › Oversee the enhancement of the key risk indicators identified for PASA and the industry.
- › Continue to review and enhance PASA's integrated risk management reporting.
- › Monitor the implementation of the industry fraud risk management initiatives within PASA's mandate.
- › Oversee that PASA principal risks and key project risks have adequate mitigation measures, and that paths to green are relevant to address risk exposures in view of approved tolerance limits.
- › Oversee the management of the risks associated with the transition of PASA's operational functions to the PIB.
- › Oversee actions to entrench the PASA legal entity's risk, compliance and information security culture through ongoing awareness training and simulation testing.
- › Oversee the implementation and maintenance of an effective risk and control assessment framework that will be used to manage PASA's risk environment.
- › Oversee ongoing efforts to improve PASA (the legal entity) IT risk management (including cyber security risks, IT governance and PASA's control environment).

## Members and meeting attendance

|                                   |     |
|-----------------------------------|-----|
| H Singh (Chair from July 2022)    | 5/5 |
| R Hamilton (Chair until May 2022) | 3/3 |
| M Brown                           | 5/5 |
| G Byleveld                        | 1/1 |
| N Dlamini                         | 1/1 |
| S Gericke                         | 5/5 |
| F Hanekom                         | 0/2 |
| M Janse van Rensburg              | 2/3 |

## Delegation of authority

## PASA Council delegates authority to the executive management team through a formal Schedule of Delegated Authority.

The SODA from PASA Council articulates those matters which are reserved for PASA Council, those that are delegated to the Council Committees, and those that are delegated to the CEO.

PASA Council acknowledges that delegating responsibility does not absolve it of its responsibilities or ultimate accountability. The PASA Constitution and PASA 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, the PASA Regulatory Framework and PASA policies, which are binding and against which Councillors and Members are held accountable.

The PASA Constitution is available here<sup>1</sup>.

## PASA's ExCo

## ExCo members at 31 December 2022

GHITA  
ERLING  
(50)

**Chief Executive Officer**  
Joined Council: November 2020  
**Qualifications:** MSC (Eng); BSc (Cum Laude); Executive Development Programme (University of the Witwatersrand); Dip (ABRSM)

PIERRE  
COETZEE  
(62)

**Chief Legal Officer**  
Joined PASA: May 1999 – July 2007; April 2008 – present  
**Qualifications:** B. Iuris Law (PU for CHE); LLB (Unisa); Advanced Diploma in Banking; Certificate in Compliance Management

COSMORE  
PARIOLA  
(42)

**Chief Financial Officer**  
Joined PASA: September 2021  
**Qualifications:** Chartered Accountant – South African Institute of Chartered Accountants (SAICA) and Chartered Accountants Australia and New Zealand (CAANZ); Master of Business Leadership (Curtin University); Bachelor of Accounting Science (Hons) (Unisa)

MAURITS  
PRETORIUS  
(63)

**Chief Strategy Officer**  
Joined PASA: January 2016  
**Qualifications:** BLC (Law) (UP); Advanced Diploma in Labour Law (Unisa); MPsych (Cum Laude) (NWU); Diploma in Clinical Organisational Psychology (Cum Laude) (INSEAD); Strategic Banking Programme (INSEAD); Executive Master's Degree (CCC) (INSEAD)

NANIKI  
RAMABI  
(44)

**Chief Risk Officer**  
Joined PASA: August 2019  
**Qualifications:** BCom; MBL (Unisa SBL); CISA; CISM; CRISC (ISACA); CRM Practitioner (IRMSA); Senior Management Programme (UP)

LESEGO CHAUKE-  
MOTSHWANE  
(41)

**Chief Payments Officer**  
Joined PASA: October 2020 – June 2021 and September 2022 – Present  
**Qualifications:** B.Eng (Cum Laude); B.Eng (Hons) (Cum Laude); M.Eng (Cum Laude); Master of Business Administration, Executive Development Programme (GIBS)

MARIE SMIT  
(35)\*

**Membership, Authorisation and Registration Officer**  
Joined PASA: January 2014  
**Qualifications:** BCom (Law); Post Graduate Diploma (Law) (with Distinction), Master of Commerce in Applied Risk Management (with Distinction)

HELEN  
PEACE  
(45)\*

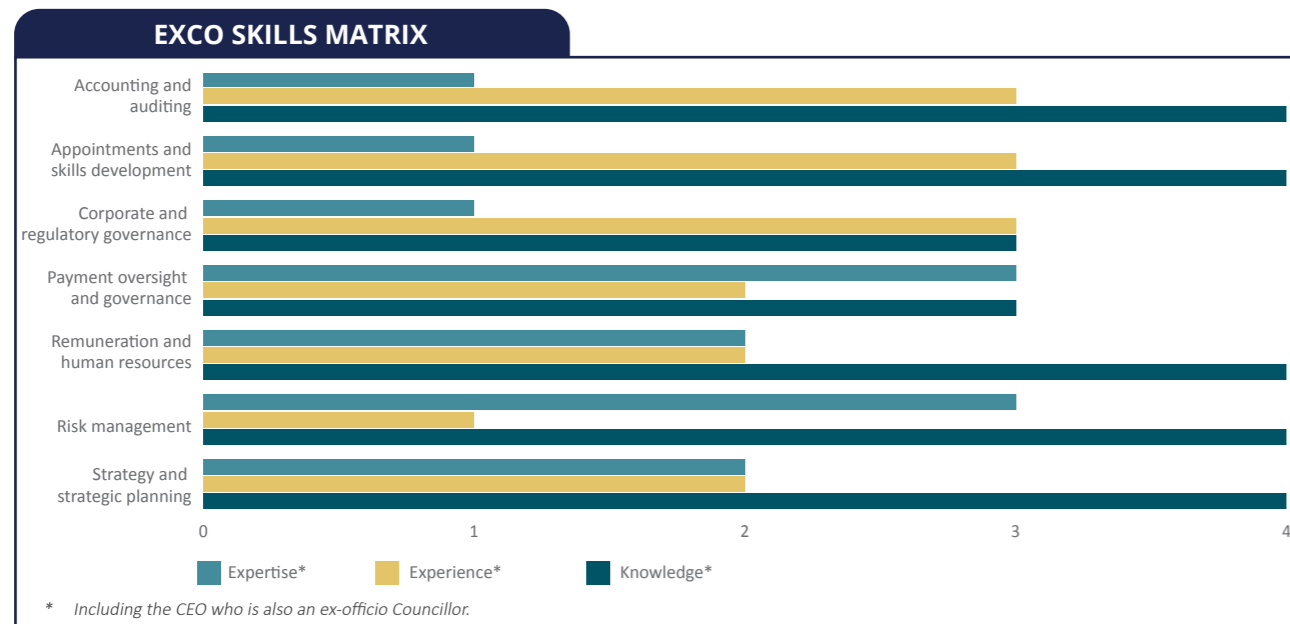
**Company Secretary**  
Joined PASA: December 2018  
**Qualifications:** FCGI, FCIBM, H.Dip Ed (with distinction)

<sup>1</sup> <https://www.pasa.org.za/resources/research-legislation-regulation>

\* Appointed to ExCo during 2022.

### ExCo primary areas of expertise and diversity

For PASA to remain agile, responsive and innovative, it requires an ExCo team with the requisite depth and breadth of expertise, experience and knowledge.



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

### Embedding an ethical culture

Ethical and effective leadership complement and reinforce one another. By setting an example of doing business responsibly, Councillors demonstrate their continued commitment to PASA's values.

The PASA Constitution holds Councillors to account by outlining best practice in terms of good conduct, fiduciary responsibilities, and conflict of interests. The PASA Constitution also deals extensively with Members' obligations and responsibilities, ultimately requiring alignment with policy objectives.

PASA Council assumes ultimate responsibility for PASA's ethical performance. However, they hold executive management equally accountable for implementing the PASA ethical framework and ensuring effective governance, risk and compliance management practices. This approach provides reassurance that PASA is effectively and ethically executing its mandate.

Training for Councillors is considered annually by the Nomination and Induction Committee.

PASA's employees are subject to multiple policies, including an ethics policy. This supports a culture of transparency and fairness.

## MANAGING PASA'S REGULATORY UNIVERSE

The regulatory landscape applies to two distinct areas within PASA.

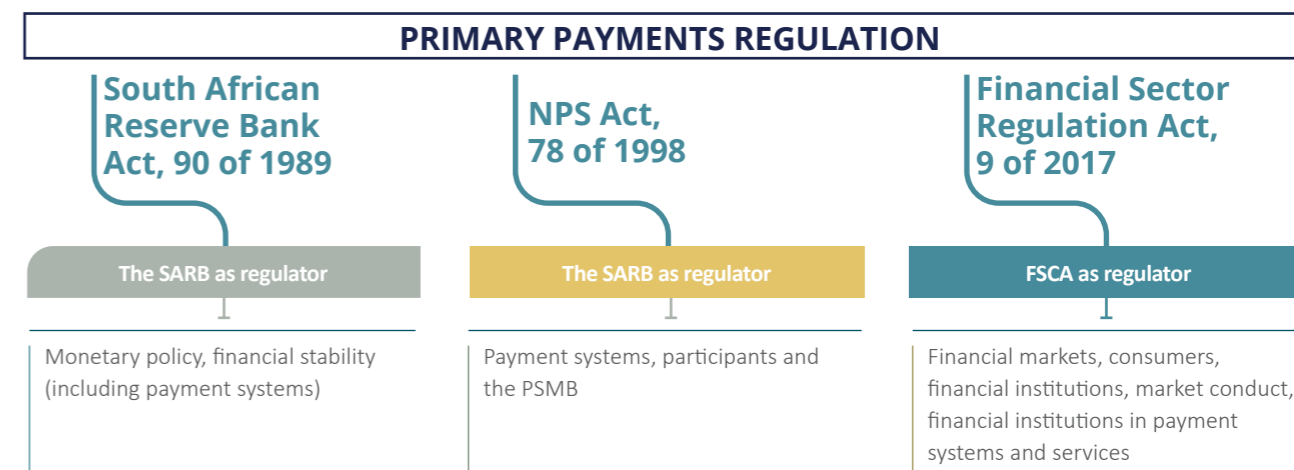
- ▶ **PASA as a PSMB:** Organising, managing and regulating the participation of its Members in the National Payment System per the NPS Act.
- ▶ **PASA as a separate legal entity:** Subject to general laws of South Africa.

### PASA as a PSMB

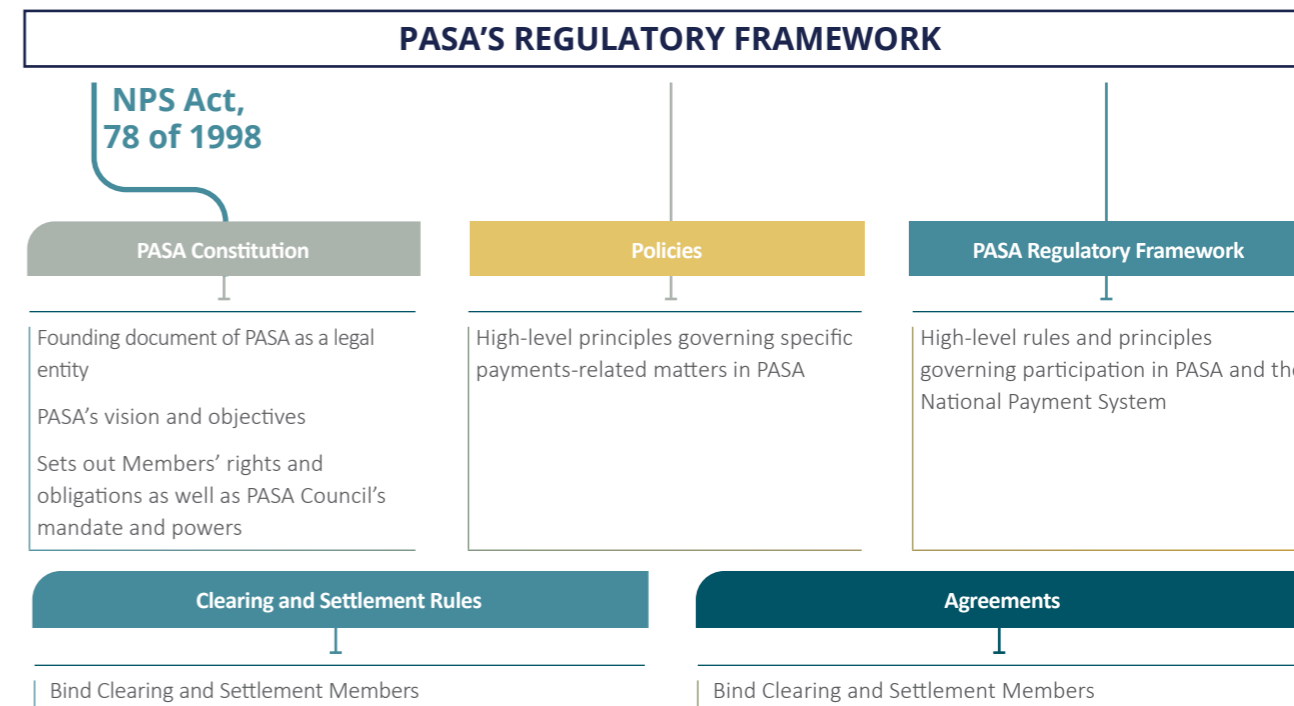
The South African Reserve Bank Act, 90 of 1989 mandates the SARB to regulate, supervise and oversee payments and payment systems in South Africa. The National Payment System Act reaffirms and broadens such mandate by empowering the SARB to recognise a PSMB, designate non-bank participants, issue directives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

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

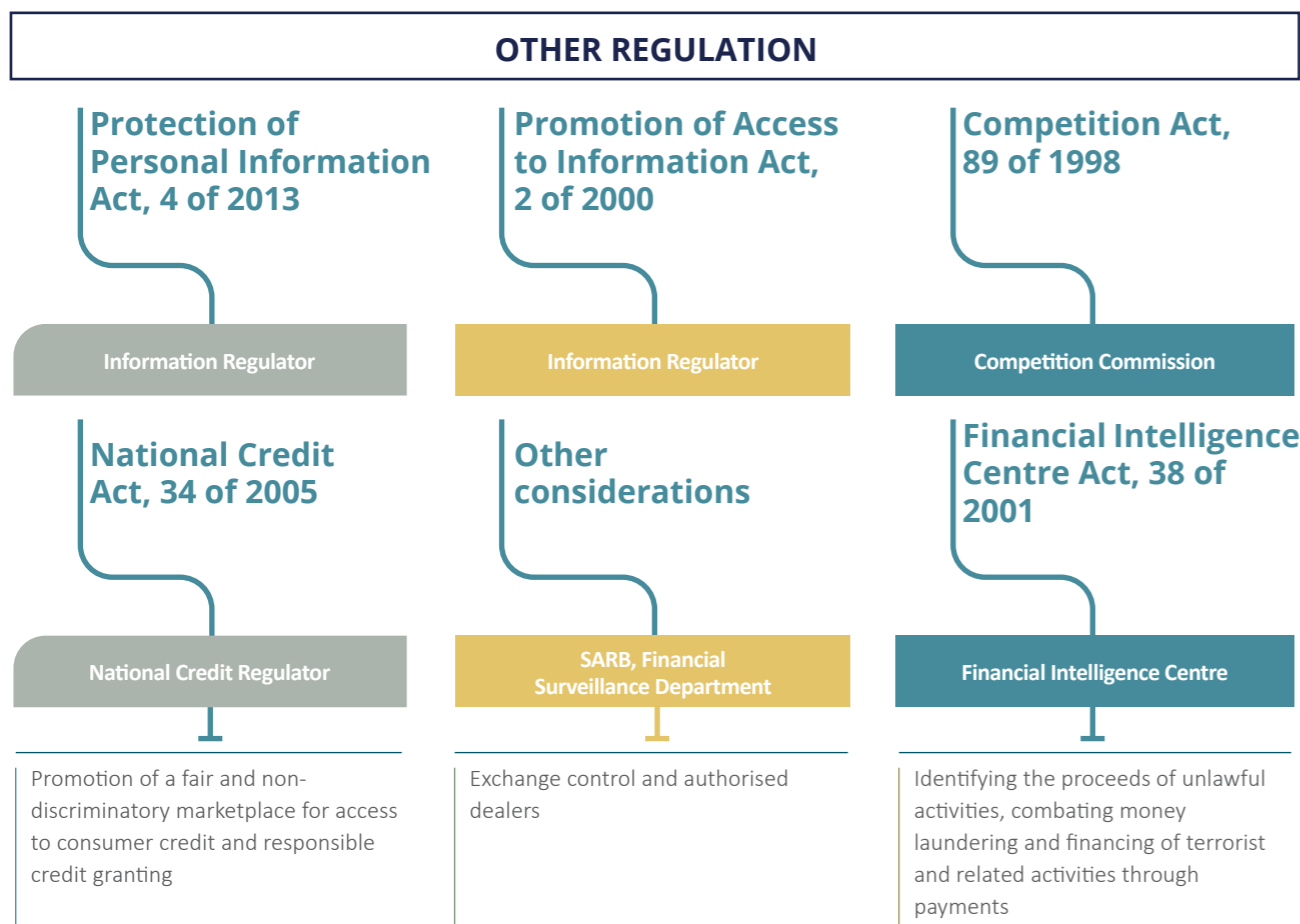
### Legislation that is principally applicable to payments in South Africa



PASA as a PSMB is governed by its Constitution, policies and rules. Members are bound by these documents, which are developed and finalised with formal input from Members and Structures with delegated authority and mandates from PASA Council.



All the instruments in PASA's Regulatory Framework apply to Members. Policies dealing with data, information and competition apply to PASA in its capacity as a legal entity and as a PSMB that is responsible for issuing rules and policies. PASA performs a public function. It is mandated in terms of the National Payment System Act to issue rules and policies which may impact Members and stakeholders.



### Pending regulation and its impact on PASA

#### Review of the National Payment System Act

The review of the National Payment System Act gained momentum with the proposed CoFI Bill, which should be tabled before Parliament in 2023.

The CoFI Bill, in Schedule 2, includes consequential amendments to the National Payment System Act. These amendments will enable licensing of payments service providers to be implemented appropriately through licensing provisions that will be included in the National Payment System Act. These licensing provisions will apply in conjunction with the revisions to the Financial Sector Regulation Act, 2017, which also result from the CoFI Bill.

The PSMB concept, which gives PASA its regulatory mandate, will effectively disappear once the CoFI Bill is promulgated, and the PIB will replace PASA after a transition period.

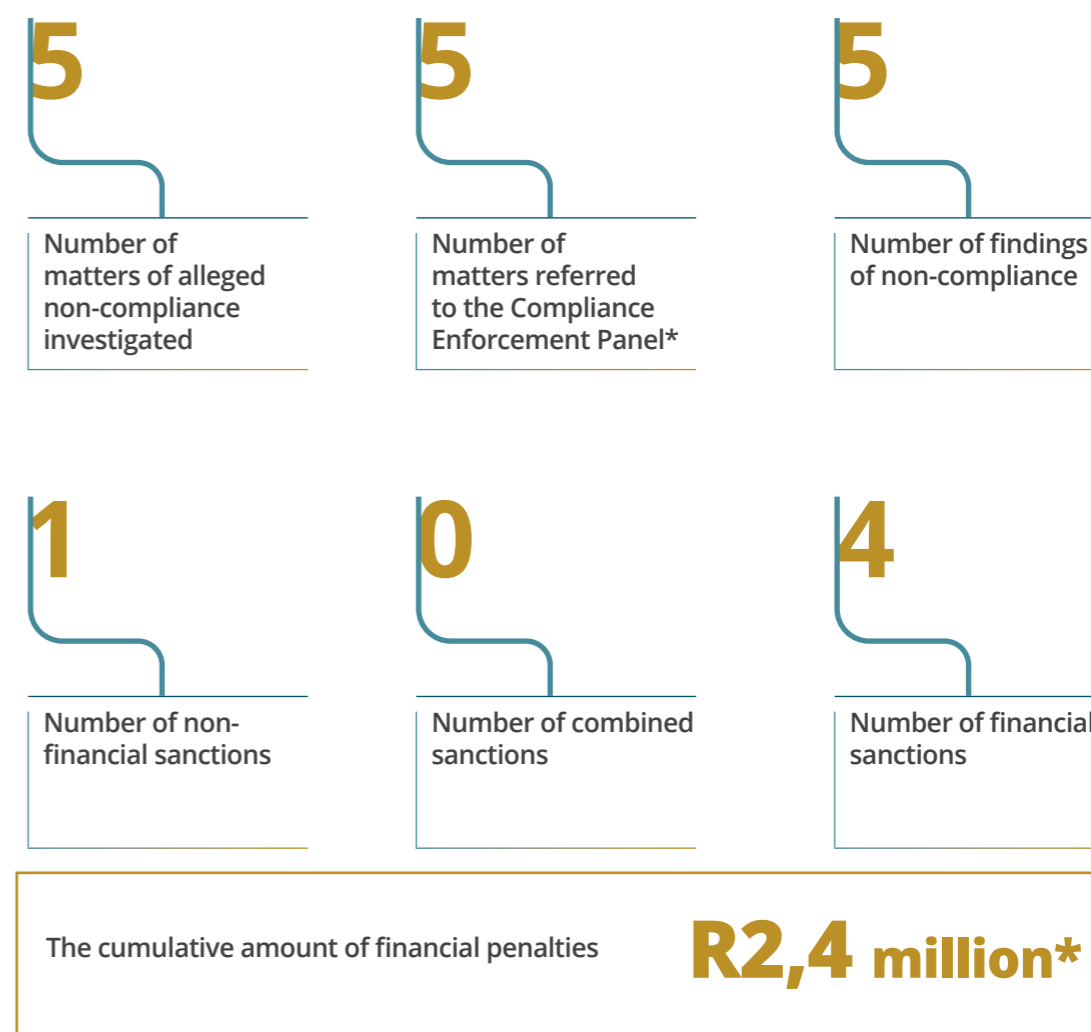
### Compliance management and enforcement

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 Member policies and the Regulatory Framework of the National Payment System. PASA's compliance enforcement is based on the core principles of risk alignment and independence.

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. This panel comprises only independent, external legal experts and assesses matters of alleged non-compliance referred to it.

The Compliance Enforcement Panel makes a finding on whether a particular Member has transgressed the PASA rules. It can also impose a suitable sanction in respect of any non-compliance. The PASA Compliance Enforcement Policy details the appeal process for any Member aggrieved with the findings of the panel.

### Compliance enforcement in PASA in 2022



\* Of the penalties imposed, R600 000 relates to a 2021 matter that was finalised in 2022.

### PASA as a legal entity

#### Compliance by PASA

Regulatory compliance remained a focus area for PASA as a legal entity during 2022. Key activities included rolling out internal policy compliance training to all employees. This included a specific focus on PASA's Protection of Personal Information Act Compliance Framework and refining PASA's regulatory universe and corresponding risk ratings.

In 2023, PASA will continue to focus on policy compliance training and introducing independent compliance assurance.

## General Information

### Country of incorporation and domicile

South Africa

### Nature of business and principal activities

The Payments Association of South Africa (PASA) was established with the objective to organise, manage and regulate all matters affecting interbank payments and payments clearing and settlement of interbank obligations within the payments system, and operates in South Africa.

### Registered office

1st Floor, Building D  
Sunnyside Office Park  
32 Princess of Wales Terrace  
Parktown  
2193

### Business address

1st Floor, Building D  
Sunnyside Office Park  
32 Princess of Wales Terrace  
Parktown  
2193

### Postal address

P.O. Box 61380  
Marshalltown  
2107

### Bankers

First National Bank Ltd

### Auditors

Moore Infinity Incorporated  
Chartered Accountants (SA)  
Registered Auditors  
Partner: B Wilters CA(SA) RA

### Company Secretary

Helen Peace

### Level of assurance

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

### Preparer

The annual financial statements were independently compiled by: DTP Consulting and Accounting (Pty) Ltd

### Date issued

11 May 2023

### Tax Reference

9036/767/19/3



[www.pasa.org.za](http://www.pasa.org.za)

