

SOUTH AFRICAN RESERVE BANK

NO. R. 1606

17 December 2021



SOUTH AFRICAN RESERVE BANK

VARIATION NOTICE

Variation by the Governor of the South African Reserve Bank in terms of section 6(3)(b) of the National Payment System Act 78 of 1998

Variation of the conditions of the designation of South African Postbank SOC Limited as a designated clearing system participant

1. Introduction

1.1 In terms of the National Payment System Act 78 of 1998, as amended (NPS Act), the South African Reserve Bank (SARB) is empowered to vary and revoke any designation of a clearing system participant. The SARB may, in terms of section 6(3)(b) of the NPS Act, vary or revoke any designation by

- 1.1.1 amending or revoking any condition to which the designation is subject; or
- 1.1.2 making the designation subject to a new condition or new conditions.

1.2 Section 6(3)(c) provides that, in determining whether or not to vary or revoke a designation, the SARB may have regard to any or all of the following:

- 1.2.1 Any failure to comply with any condition to which the designation is subject.
- 1.2.2 Whether or not the designated clearing system participant has knowingly furnished information or documents which are false or misleading in any material respect to the SARB in connection with the designation.
- 1.2.3 Whether or not it is in the public interest to revoke the designation.
- 1.2.4 Any other matters that the SARB considers appropriate.

2. Background to the variation of the conditions of the designation

- 2.1 In November 2020, the South African Reserve Bank (SARB) pronounced the South African Postbank SOC Limited (Postbank) as a designated clearing system participant (DCSP) in terms of section 6(3)(a) of the NPS Act. The designation notice was published in the Regulation Gazette No. 11200 of Government Gazette No. 43914, dated 20 November 2020 (Designation Notice), and became effective from the date of publication in the Government Gazette.
- 2.2 Prior to the Postbank designation as a DCSP, Postbank had been operating as a division of South African Post Office (SAPO) since inception. The SAPO designation as a DCSP became effective from 1 June 2011 (General Notice No. 315 of Government Gazette No. 34323 dated 7 May 2011). The determination of the transfer date of the Postbank enterprise was published in the General Notice No. 151 of Government Gazette 42323, dated 22 March 2019. As per the determination and as of 1 April 2019, Postbank was incorporated as a separate legal entity in terms of section 6 of the South African Postbank Act 9 of 2010 (Postbank Act). Accordingly, Postbank ceased to be a division of SAPO and became a separate legal entity. Furthermore, section 7 of the Postbank Act provides that from 1 April 2019, anything done by or on behalf of the former Postbank (as a division of SAPO) must be regarded as having been done by Postbank.
- 2.3 The SARB has been engaging Postbank, since its designation as a DCSP, with the objective of ensuring that Postbank complies with the conditions in the Designation Notice. This includes compliance with the Payments Association of South Africa (PASA) entry requirements and participation criteria – such as the requirements to implement card security processes and standards. In addition, Postbank is required to comply with the pre-designation conditions imposed by the SARB relating to the processing of South African Social Security Agency (SASSA) social grants. The processing of SASSA social grants commenced when Postbank was still a division of SAPO and was effected through the issuance of Postbank-branded SASSA cards.

- 2.4 In February 2019, approximately 11 months after SAPO – through its then Postbank Division – commenced with the processing of social grants, serious irregularities were detected on SAPO’s Postbank-branded SASSA cards.
- 2.5 To mitigate the risk, the SARB mandated SAPO and subsequently Postbank to implement specified remedial actions, recommendations and instructions, including the reissuance of Postbank-branded SASSA card base within 18 months, with the final implementation date being 31 March 2021. However, SAPO as well as Postbank, have not met the timelines for the implementation of remedial actions, recommendations and instructions aimed at addressing these risks.
- 2.6 Owing to the failure to implement risk mitigation measures as directed by the SARB as well as non-compliance with the Designation Notice conditions, the SARB issues this variation notice (Variation Notice) to Postbank. In addition to the conditions specified in the Designation Notice, the SARB imposes on Postbank additional conditions as outlined in paragraph 3 below.

3. Variation

- 3.1 The SARB considered the provisions of section 6(3)(b) of the NPS Act, Postbank’s failure to mitigate the risks outlined in paragraph 2 above and Postbank’s failure to comply with some of the conditions listed in the Designation Notice. In the interest of the safety, integrity, effectiveness and efficiency of the NPS as well as the public interest, the SARB deemed it necessary to vary the conditions of Postbank’s designation as a DCSP as contained in the Designation Notice.
- 3.2 Therefore, I, Mr E L Kganyago, Governor of the SARB, hereby, with effect from the date of publication in the Government Gazette:
- 3.2.1 vary the conditions in the Designation Notice of Postbank as a DCSP in terms of section 6(3)(b) of the NPS Act, by adding the conditions listed under 4.1 below.

4. Variation conditions

- 4.1 The following additional conditions must be implemented within 12 months of gazetting this Variation Notice where the Postbank must:
- 4.1.1 employ a sufficient number of payment experts, including independent experts, to Postbank's payments business;
 - 4.1.2 secure the entire key management environment in the manner previously prescribed by the SARB and/or PASA;
 - 4.1.3 produce and reissue cards for Postbank's entire SASSA client base utilising new secure keys;
 - 4.1.4 establish, implement and maintain an operational disaster recovery site, in accordance with applicable PASA Regulatory Framework and/or rules;
 - 4.1.5 establish, implement and maintain an operational business continuity facility to ensure business continuity in accordance with PASA's policies and/or Regulatory Framework;
 - 4.1.6 implement and comply with applicable card security standards, including Europay, Mastercard, Visa (EMV) and Payment Card Industry Data Security Standards (PCI DSS), in accordance with the requirements applicable to the PASA Card Payment Clearing House Participant Group members;
 - 4.1.7 enter into a mentorship arrangement with Standard Bank or any other clearing system participant that meets the mentorship requirements set by PASA and Standard Bank as Postbank's settlement bank;
 - 4.1.8 not offer new products to its existing client base related to its designation as a DCSP without prior approval of the SARB and Standard Bank;
 - 4.1.9 not acquire and/or offer new products to new clients related to its designation as a DCSP without prior approval from the SARB and Standard Bank;
 - 4.1.10 submit a plan to the SARB outlining how Postbank will implement the conditions outlined in the Designation Notice and this Variation Notice. This plan must be signed by Postbank's executive management and the chairperson of the board, shared with its shareholders, and be submitted within one (1) month of the gazetting of this Variation Notice; and
 - 4.1.11 submit monthly progress and status reports (reports) on the implementation of the Designation Notice and Variation Notice to the SARB within the first week of each month. In addition, schedule monthly meetings – to be held every second week of each month with the SARB – to discuss the reports.

- 4.2 Failure by Postbank to implement the above conditions by the end of the 12-month period from the gazetting of this Variation Notice may result in the revocation of Postbank's designation as a DCSP in terms of section 6(3)(b) of the NPS Act.
- 4.3 The conditions listed under paragraph 4 of the Designation Notice and this Variation Notice apply exclusively to the designation of Postbank and may be varied or revoked and new conditions may be imposed by the SARB by way of a notice in the Government Gazette.

Lesetja Kganyago

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E L Kganyago

Governor

Date: 2021-12-07