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2025 BUDGET REVIEW

FINANCIAL SECTOR UPDATE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

FINANCIAL SECTOR UPDATE

This annexure reports on steps to strengthen South Africa's framework to combat money laundering, the financing of terrorism and other financial crimes; reforms to support greater financial inclusion; measures to enhance climate-resilient investment; and other initiatives.

BUILDING CAPABILITY TO FIGHT FINANCIAL CRIMES AND EXIT THE GREY LIST

In February 2023, the Financial Action Task Force (FATF) put South Africa on its "grey list" due to deficiencies in technical compliance and effectiveness of the country's system to combat money laundering and the financing of terrorism. This grey listing followed the publication of the 2021 mutual evaluation report, in which South Africa was identified as non-compliant with 20 of the 40 FATF recommendations and deficient in all 11 measures of the effectiveness of the system. In response, government developed a strategy to build a financial system that is less vulnerable to abuse and where abuses are effectively prosecuted. This involves both legislative and regulatory changes, as well as improvements in the implementation and application of these laws and regulations.

Progress on technical compliance

At its October 2024 plenary, the FATF approved the upgrade of South Africa's compliance. South Africa now complies or largely complies with 37 of the 40 FATF recommendations, while one recommendation was deemed to be inapplicable.

The country is deemed to partially comply with the two outstanding recommendations, which relate to non-profit organisations and cash couriers. Meeting the outstanding recommendations does not affect the process for the country to exit the FATF grey list, as grey listing is a consequence of the assessment of the extent to which a country's anti-money laundering laws and frameworks are applied effectively. Complying with 37 of 39 applicable recommendations positions South Africa well for the 2026/27 mutual evaluation assessment. Additional legislation will be introduced in 2025 to improve the extent of compliance with the FATF recommendations.

Progress on effectiveness

Government continues to address the 22 action items in the action plan agreed with the FATF. Once all items have been implemented and the improvements deemed sustainable, the FATF will reconsider the country's grey listing. South Africa provides a progress report every four months. The latest draft progress report was submitted in March 2025 and will be finalised at the June 2025 FATF plenary.

The February 2025 plenary confirmed that two action items remain. These relate to demonstrating a sustained increase in the investigation and prosecution of complex money laundering and terror financing. South Africa is working to address both outstanding action items by June 2025 to exit grey listing by October 2025.

Cross-border remittances

In line with the FATF recommendations, the existing policy on cross-border remittances will be expanded to include informal money value transfer services. This will help to stem illicit financial flows as part of the fight against financial crimes.

FINANCIAL INNOVATION TO IMPROVE COMPETITION AND INCLUSION

Crypto asset policy

The Intergovernmental Fintech Working Group published a position paper on regulating crypto assets in June 2021. The group continues its analytical work to understand the applicable use cases of stablecoins and to recommend an appropriate policy and regulatory response. The group recently finalised a diagnostic of the domestic stablecoin landscape, which will be published in 2025. In addition, the group aims to finalise a set of regulatory recommendations in line with relevant international standards, including a framework for cross-border crypto asset transactions, which will be published for public consultation during 2025.

Artificial intelligence (AI) in the financial sector

In 2025, the Financial Sector Conduct Authority (FSCA) in collaboration with the Prudential Authority will publish a market study on the adoption and use of AI in South Africa's financial sector. Integrating AI into the financial sector presents both opportunities and challenges, particularly in the areas of consumer protection, market conduct and financial soundness. Despite AI's potential to enhance efficiency and innovation, there is a significant gap in understanding its current adoption and impact, and the associated regulatory challenges. The market study aims to explore the landscape of AI within the financial industry, focusing on how AI technologies affect consumer protection, influence market conduct and affect financial stability. The research will help to ensure that AI is used ethically, responsibly and effectively while safeguarding the integrity and soundness of the financial sector.

NATIONAL PAYMENT SYSTEM REFORMS

The Reserve Bank and the National Treasury are working on reforms aimed at strengthening the legal and regulatory framework of the national payment system. These efforts aim to promote stability, transparency, integrity and safety, while also supporting financial inclusion, competition and the prevention of financial crime. Additionally, these efforts will contribute to achieving the objectives of the Digital Payments Roadmap, national payment system financial inclusion initiatives and the *National Payment System Framework and Strategy: Vision 2025*.

National Payment System Bill

The National Treasury is carving out the amendments to the National Payment System Act (1998) from the schedule of the Conduct of Financial Institutions Bill into a standalone bill for the national payment system due to the length of the proposed amendments. Alignment will be maintained with the draft Conduct of Financial Institutions Bill and the Financial Sector Regulation Act (2017).

Given their interdependencies, it is envisaged that the two bills will be processed concurrently, to the extent feasible. The bills are anticipated to be tabled in Parliament during 2025.

Enabling broader access to the national payment system

The Reserve Bank is collaborating with the Prudential Authority to expedite non-bank access to the national payment system through a notice exempting certain payment activities from the business of a bank in the Banks Act (1990), such as mobile money and electronic fund transfers. The exemption notice will be accompanied by a regulatory framework to ensure that entities providing these exempted payment activities are effectively regulated, thereby mitigating risks within the national payment system and the broader financial system. Both the exemption notice and the regulatory framework will be published for public consultation in the first quarter of 2025.

Review of the payment ecosystem

In 2018, the Reserve Bank published *Vision 2025* to enhance the safety, efficiency and accessibility of the national payment system. This framework aimed to facilitate competition and reduce risks by leveraging technological developments to expand the availability of digital payment services to all sectors of society while meeting domestic, regional and international requirements.

Although progress has been made in achieving the goals of *Vision 2025,* competing priorities and the rapidly changing payments landscape have meant that some key initiatives have not achieved the desired results within expected timeframes. For this reason, the Reserve Bank initiated the Payments Ecosystem Modernisation Programme as a centrally coordinated effort to ensure rapid transformation of the payment ecosystem. The Reserve Bank will lead the transformation while working closely with both public- and private-sector stakeholders.

Ensuring universal access to and adoption of digital payments will require a holistic approach, combining continued innovation, policy reforms and enhanced coordination among stakeholders. The programme aims to transform the payment ecosystem through the introduction of several common capabilities, premised on the establishment of a centralised national payments utility to deliver various components required for modernisation. The key components to be delivered in the next five years include:

- A fit-for-purpose legal and regulatory framework, including risk management and policy coordination.
- A national payments utility housing the common services to be used by the payments industry, supported by a suitable governance model to enable its efficient functioning.

- Foundational capabilities to support the safe and efficient functioning of the payment ecosystem, including a digital financial identity, an electronic know-your-customer registry and e-signing capabilities.
- A fast and efficient low-cost payment system.
- Interoperability standards and rules for all participants in the payment ecosystem.
- Centralised fraud management and intelligence capabilities to improve monitoring and support improved decision-making.
- Availability of low-cost, accessible stores of value (assets that can be saved, retrieved and exchanged in the future without significantly losing their worth) to facilitate digital transactions.
- A modernised, safe and efficient real-time gross settlement system.
- An awareness and education campaign of the offerings in the future payment ecosystem that targets all participants and consumers.

The Reserve Bank has initiated a process to formulate a new payments vision and strategy to follow on from *Vision 2025*. Various stakeholders are being engaged for input. The Reserve Bank intends to finalise the new vision in the latter part of 2025, with implementation starting in 2026.

RESPONDING TO CLIMATE RISKS AND WORKING TOWARDS NET ZERO

In the first quarter of 2025, the FSCA will run a pilot with key financial institutions to encourage greater adoption of the South African Green Finance Taxonomy. The FSCA will release the results of the pilot later in 2025.

The FSCA is also expected to release further information on climate disclosure requirements, building on the guidance note for banks and insurance companies issued by the Prudential Authority in 2024, and expanding it to a broader range of financial institutions.

RETIREMENT REFORM

The two-pot system

During the public comment process of the two-pot retirement reform, several reform areas were identified to be addressed later. This included the matter of withdrawals from the retirement portion if one is retrenched and has no alternative source of income.

The two-pot retirement system splits contributions into a “savings component” and a “retirement component”, with the latter fully preserved until retirement. Although an individual who is retrenched can transfer their retirement benefits to another fund, they cannot withdraw any portion of the retirement component until they reach retirement age.

During the public comment process, government received requests to allow access to the retirement component when an individual is retrenched. The restructuring required for this proposed reform is complex and therefore forms part of the second phase of the two-pot reforms. Government is beginning work and discussions on measures that may allow access to the retirement component if an individual has been retrenched and is in financial distress. Strict conditions will apply to this access. They may include proof that the individual has no alternative source of income after a period of time, such as payments from the Unemployment Insurance Fund, and limiting access to a percentage of income rather than a cash lump sum. The National Treasury will engage stakeholders, including labour and industry, once the research is concluded.

Unclaimed assets

In September 2022, the FSCA published a paper on unclaimed assets across the financial sector, titled *A Framework for Unclaimed Financial Assets in South Africa*. Following responses to and consultation on the recommendations put forward in the paper, the FSCA published a response document on the paper in March 2024. The National Treasury and the FSCA will work with industry to develop the recommendations from these papers, including a framework to manage unclaimed assets and the establishment of a central unclaimed assets fund.

FINANCIAL INCLUSION AND THE OMBUD SYSTEM

The National Treasury will develop a national strategy on financial inclusion in 2025 based on the policy paper *An Inclusive Financial Sector for All*, which Cabinet approved in 2023.

The National Treasury is reforming the financial sector ombud system to make it simpler, accessible, comprehensive, efficient and effective. As part of reforms, a National Financial Ombud Scheme was established and began operating on 1 March 2024 after being granted recognition by the Ombud Council. The National Financial Ombud is an umbrella financial services ombud scheme formed by the amalgamation of four ombud schemes: the offices of the Banking Ombud; the Credit Ombud; the office of the Long-Term Insurance Ombud; and the Short-Term Insurance Ombudsman.

CONDUCT OF FINANCIAL INSTITUTIONS BILL

The National Treasury is finalising the Conduct of Financial Institutions Bill together with comprehensive amendments to the Financial Sector Regulation Act and the Pension Funds Act (1956) and repealing various financial sector laws (conduct focused). The bill will streamline and harmonise the legal landscape that financial institutions operate within and provide a single, holistic legal framework for market conduct regulation in South Africa that is consistently applied to all financial institutions.

The bill has been published twice for public consultation, discussed at several workshops and revised to address the comments received. The final draft of the bill is awaiting certification from the Office of the Chief State Law Adviser, whereafter it will be submitted to Cabinet for approval to be tabled in Parliament.

The FSCA is preparing for the bill's implementation, as will be explained in more detail in its 2025 3-Year Regulation Plan. The FSCA has already started informal engagements on some of the regulatory frameworks it intends to make once the bill is passed, and these will continue over the next budget period.

MEASURES TO BOOST LONG-TERM INVESTMENT

Capital flows management framework

The 2024 *Budget Review* indicated that research will be undertaken to investigate the impact of recent reforms to modernise the foreign-exchange system and in turn promote trade and investment. As part of this research, the International Monetary Fund conducted a technical review of the increase and harmonisation of foreign exposure limits for institutional investors to 45 per cent in 2022. The draft review stated that the increase could have been implemented in a more transparent and phased manner, but the depth of South African financial markets meant that capital outflows could be absorbed without significant impact on the exchange rate and bond prices. The review recommended that the institutional limit not be reduced from 45 per cent as the reputational, implementation and administrative costs would outweigh any potential benefits.

Promoting trade

To support increased trade, Authorised Dealers may allow resident agricultural commodity producers with firm commitments to hedge their foreign exposures on foreign commodity exchanges, provided they produce suitable documentary evidence and report to the Financial Surveillance Department of the Reserve Bank.

Travel allowance

At present, unused foreign currency must be sold to either an Authorised Dealer or an Authorised Dealer in foreign exchange with limited authority within 30 days of the traveller's return to South Africa. Alternatively, going forward, the traveller may deposit unused foreign currency into a foreign currency account at an Authorised Dealer within 30 days of their return.

SUPPORTING INTEGRITY, EFFICIENCY AND COMPETITION IN CAPITAL MARKETS

Capital markets play a critical role in supporting productivity by providing access to much-needed funding by bringing together capital providers (investors and lenders) and seekers (issuers and borrowers). The ease of access to capital markets creates incentives for providers to earn competitive returns and for seekers to fund new projects and company operations, ultimately sustaining and creating jobs.

Reviewing legislation to align with global best practice

Aligning South Africa's legal framework with international standards makes it easier for global participants to engage with the domestic market. It facilitates smoother integration with global capital markets, enabling better access to foreign capital and efficient cross-border investments and transactions. It also reduces the perception of legal and regulatory risk, thereby enhancing investor confidence in South Africa as a stable and reliable destination for financial activities and investments.

The Financial Markets Act (2012) is the regulatory foundation of South Africa's capital markets. Various reviews have taken place, culminating in the publication in 2020 of the National Treasury policy proposal paper *Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets.* Government proposes amendments to the act that will give effect to several of the proposals in the paper and final report; for example, enabling new forms of trading platforms, like multilateral trading facilities, with sufficient safeguards. The amendments also propose declaring foreign currency as a financial asset to enable conduct oversight on currency trading. The amendments are expected to be published for comment in 2025.

Standard to support the conduct of market infrastructures

South Africa has multiple exchanges and a few other market infrastructures, such as central securities depositories. This has necessitated the review of interoperability arrangements in the market. In 2020, the FSCA consulted on the draft Conduct Standard for Exchanges, and in the 2024 consultation phase, this was expanded to all market infrastructures. Further engagements and work focused on finalising this conduct standard will take place this year.

The transition from JIBAR to ZARONIA

Major global financial markets have been reviewing their benchmark rates following their manipulation in recent years. For example, in the United Kingdom, the London InterBank Offered Rate has been replaced by the Sterling Overnight Index Average. South Africa has embarked on a similar journey, with work now completed to replace the Johannesburg Interbank Average Rate (JIBAR) with the South African Rand Overnight Index Average (ZARONIA). ZARONIA offers a major advantage in that it uses previous actual transactions to set the average rate. The National Treasury is considering measures to enable the smooth transition to ZARONIA, including primary legislation to enable safe harbour provisions that provide sufficient protection for old and existing derivative contracts.

G20 FINANCE TRACK

The overall vision of South Africa's G20 Presidency is to enhance solidarity through unified effort and cooperation among nations, and promote equality through the fair treatment and advancement of all people.

The National Treasury and the Reserve Bank, with support from the FSCA, will lead the Finance Track during South Africa's Presidency. The technical groups aim to address the following key financial sector issues during the year:

- The International Financial Architecture Working Group will focus on reinforcing multilateral development banks, enhancing debt sustainability, strengthening the global financial safety net and strengthening financial resilience through robust capital flows.
- The Framework Working Group will prioritise building global economic resilience and monitoring the risks to growth from macroeconomic imbalances, fragmentation, inflation and debt; improving macroeconomic conditions and structural reform for the green transition; and boosting productivity growth in the context of AI, demographic change and migration.

- The Infrastructure Working Group will focus on developing an investable infrastructure pipeline, scaling up sustainable infrastructure through blended finance approaches and delivering cross-border infrastructure for regional development.
- The Sustainable Finance Working Group will focus on strengthening the global sustainable finance architecture, scaling up financing for adaptation and a just transition, and unlocking the financing potential of carbon markets.
- The Global Partnership for Financial Inclusion will focus on moving from access to usage of financial products and services, particularly among women, youth and small, medium and micro enterprises.

Other financial and taxation priorities

Finance ministers and central bank governors will also discuss financial sector issues, with a focus on financial regulations relating to cross-border payments, AI and crypto assets. The FSCA aims to convene a roundtable about AI in the financial sector with stakeholders from Africa and the rest of the world alongside the G20 programme of events. The aim is to promote international dialogue on conduct and consumer protection issues associated with AI.

The G20 has made notable progress in addressing global tax evasion and tax avoidance, including the implementation of the global 15 per cent effective minimum tax by over 50 countries. In 2025, the international taxation agenda will focus on assessing progress and moving forward with the two-pillar tax reform, supporting effective revenue collection, addressing inequalities in taxing high net worth individuals and improving tax certainty.