STRATEGY

The global and domestic environments in which the SARB operates are dynamic and rapidly changing. This requires that the SARB continually reflects on how well it is executing its constitutional mandate and where it needs to adapt its strategy and processes to effectively respond to internal and external changes.

THE SARB’S 2020 STRATEGY

The successful execution of the SARB’s strategy will contribute to the well-being of all South Africans, and ensure that the SARB continues to be positioned as a high-performing institution and a centre of excellence in central banking.

The strategic plan to 2019/20 explains how the SARB intends to deliver on its vision and mission, and thereby achieve its mandate. The 2016/17 financial year marks the first year of the SARB’s strategy process implementation.

The strategic objectives do not represent the entire work of the SARB, but prioritise key areas of work which will drive significant change in performance and accelerate the achievement of the SARB’s five SFAs. They are divided into three groups, namely objectives that are unique to each SFA, cross-cutting objectives that support multiple SFAs and objectives that relate to organisational capacity and capability.

The SARB tested the strategy during the reporting year by conducting an in-depth environmental analysis of disruptive forces. Following from this analysis, the SARB refined its strategic scorecards and portfolio of strategic initiatives, and confirmed that the five SFAs reported last year remain in place for the medium term to 2020.

The SARB recognises that a longer-term focus beyond 2019/20 is also required to ensure that it is future fit and able to respond to the megatrends that are impacting the work that it does.
THE SARB STRATEGY PLAN

Strategic internal process objectives

- Maintain headline inflation within the target range
- Protect and enhance financial stability to achieve a safer financial system
- Promote and enhance the safety, soundness and integrity of regulated financial institutions
- Enhance South Africa’s resilience to external shocks
- Ensure cost effective availability and integrity of notes and coin

Stakeholder value proposition

1. Maintain headline inflation within the target range
2. Protect and enhance financial stability to achieve a safer financial system
3. Promote and enhance the safety, soundness and integrity of regulated financial institutions
4. Enhance South Africa’s resilience to external shocks
5. Ensure cost effective availability and integrity of notes and coin

Strategic internal process objectives:

1. Maximise monetary policy effectiveness
2. Anchor inflation expectations
3. Enhance the crisis management and resolution framework
4. Enhance financial stability monitoring and policy frameworks
5. Ensure that the regulatory, supervisory and oversight framework of the NPS is sound
6. Develop, improve and integrate the supervision of regulated financial institutions
7. Maintain an optimal level of reserves and enhance their management
8. Establish mechanisms to effectively manage external shocks
9. Optimize the notes and coin supply chain
10. Enhance the quality of notes and coin

Leverage and maximise the SARB’s participation in regional and international forums

- Improve targeted internal and external stakeholder communication and engagement
- Improve the strategy management process, strategic risk management and alignment with performance management
- Improve the enterprise information management and analytics processes

Organisational capacity and capability objectives

- Provide fit-for-purpose technology solutions to enable strategic processes
- Attract, develop and retain critical skills and competencies to drive strategic processes
- Improve organisational effectiveness by reducing bureaucracy and silos, and becoming more flexible and agile
- Embed a culture of performance, innovation and collaboration led by a team driven by the SARB’s values

Human resources report.

Information technology report.
EXECUTING THE SARB’S STRATEGY

The SARB’s portfolio of strategic initiatives is aimed at delivering on its mandate and driving continuous change and operational improvement. Success is measured against strategic scorecards using SMART (specific, measurable, achievable, relevant and time-bound) principles. Progress is tracked through structured review sessions at Governor, SFA and department level. The SARB’s performance against its strategic objectives is reported alongside and on page 14 in a scorecard format.

Strategy management enablers

The SARB’s intent is to become a strategy-focused organisation that is able to adapt to the future. Instilling a culture of performance, innovation and collaboration, led by a team that drives change in line with the SARB’s values are foundational to the success of the strategy. Building on this foundation, the SARB is developing the strong capability required for strategy execution, which includes the following strategy management enablers:

- Ongoing strategy communication to create alignment across the organisation.
- Strategy execution support from the Strategy Management Office (SMO).
- Constant testing of the alignment of the operating model to the strategy.

Strategic initiatives

Fourteen strategic initiatives are in place to achieve the strategic objectives and are transformational in nature, meaning that they are intended to facilitate significant change in performance. Key milestones and outcomes have been identified, enabling the SARB to plan for the medium to long term, allocate resources accordingly and hold people accountable for the execution of the initiatives. While these milestones and outcomes may change over time, they provide a strong focus to align the organisation on a common journey and direction.

Transparency builds trust and enhances reputation

The SARB continually seeks to become more accessible to all South Africans. It is working on improving its communication and engagement initiatives, particularly those that reach the country’s general population.

Communication and engagement with stakeholders are informed by the outcomes of the Reputational Survey undertaken every two years. The survey assesses the SARB’s reputation based on a framework consisting of the following four pillars: familiarity, favourability, trust and advocacy. The more familiar people are with an institution, the more likely they are to hold a favourable view of the organisation. In addition, familiarity builds trust which in turn underpins reputation.

The 2016 Reputational Survey – the most recent survey – gives the SARB’s leadership useful insight into how the institution is viewed by stakeholders. Overall, the survey showed that South Africans remain positive towards the SARB, but a desire was expressed for more information about what the SARB does. This re-affirms the SARB’s decision, taken last year, to improve the segmentation of stakeholders and to target communication and engagement accordingly.
## Measuring the SARB’s Success

### Strategic Scorecard: Strategic Focus Areas

<table>
<thead>
<tr>
<th>SFA</th>
<th>Strategic Objective</th>
<th>Performance Measure</th>
<th>2016/17</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFA 1</td>
<td>Maintain headline inflation within the target range</td>
<td>Headline inflation versus target</td>
<td>X 6.30%</td>
<td>3-6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Average for the financial year 2016/17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFA 2</td>
<td>Protect and enhance financial stability to achieve a safer financial system</td>
<td>Policy action based on a set of macroprudential indicators (mitigation of vulnerabilities)</td>
<td>▶️</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» Published the macroprudential policy paper.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» Held an information session with industry and received comments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Framework for measuring systemic risk</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» The research proposal for a systemic risk measurement (SRM) toolkit was not completed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Measures implemented for the effective supervision, regulation and oversight of financial market infrastructures (FMIs)</td>
<td>▶️</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» FMI policy paper approved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mechanism implemented for the coordination of crisis management</td>
<td>▶️</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» A contract to conduct the simulation exercise is in place.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>» Completed the draft Special Resolution Bill for systemically important financial institutions (SIFIs).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Performance Key**
- [✓] Target achieved.
- [X] Target not met.
- [→] Progress made but target not yet met.
### STRATEGIC SCORECARD: STRATEGIC FOCUS AREAS – continued

<table>
<thead>
<tr>
<th>SFA</th>
<th>STRATEGIC OBJECTIVE</th>
<th>PERFORMANCE MEASURE</th>
<th>2016/17</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFA 3</td>
<td>Promote and enhance the safety, soundness and integrity of regulated financial institutions</td>
<td>Percentage of financial institutions that meet or exceed quantitative prudential standards for SIFIs</td>
<td>100%</td>
<td>100% or specific regulatory action. Note 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Weighted percentage of financial institutions that meet or exceed quantitative prudential standards for non-SIFIs</td>
<td>100%</td>
<td>Satisfied that no specific regulatory action is required.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial institutions with sound governance and risk management practices</td>
<td>100%</td>
<td>100% of institutions fully compliant or under specific regulatory action.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compliance with the Principles for Financial Market Infrastructures (PFMIs)</td>
<td>X</td>
<td>Assessment not undertaken. Assess baseline compliance.</td>
</tr>
<tr>
<td>SFA 4</td>
<td>Enhance South Africa’s resilience to external shocks</td>
<td>Level of official gold and foreign-exchange reserves</td>
<td>» Adequate reserves accumulated.</td>
<td>Level of reserves accumulated. (In accordance with adequacy guidelines.) Note 4</td>
</tr>
<tr>
<td>SFA 5</td>
<td>Ensure cost effective availability and integrity of notes and coin</td>
<td>On-time in-full fulfilment of orders from the cash industry</td>
<td>100%</td>
<td>100% of orders fulfilled within agreed timelines as stipulated in service level agreements. Note 5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incidence of counterfeiting measured in parts per million (ppm)</td>
<td>10 ppm</td>
<td>Less than 15 ppm.</td>
</tr>
</tbody>
</table>

**PERFORMANCE KEY**
- ✓ Target achieved.
- X Target not met.
- ➔ Progress made but target not yet met.
Notes on performance

The average inflation rate for the 2016/17 financial year was at 6.3% and outside the target range, therefore the SARB did not achieve its measure of success for SFA 1. As per the March 2017 MPC forecast, the inflation rate is expected to come back within the target range in the second quarter of 2017.

### Strategic objectives

**SFA 1**

**Maintain headline inflation within the target range**

- Maximise monetary policy effectiveness
  - The SARB is establishing a cross-functional policy-focused research agenda and committee.

- Anchor inflation expectations
  - The SARB continues to enhance its visibility in the public domain through the publication of assumptions that enable better understanding of the SARB’s forecasts as well as economic notes. The SARB is also implementing a stakeholder engagement strategy. These initiatives will assist to improve the anchoring of inflation expectations.

### Strategic objectives

**SFA 2**

**Protect and enhance financial stability to achieve a safer financial system**

- Enhance the crisis management and resolution framework
  - The SARB established a crisis planning working group which is overseeing the preparatory work for the first crisis simulation exercise. It also drafted the Special Resolution Bill which includes proposals to establish a pre-funded deposit insurance scheme.

- Enhance financial stability monitoring and policy frameworks
  - The SRM toolkit was not approved.

- Ensure that the regulatory, supervisory and oversight framework of the NPS is sound
  - The SARB completed the development of the NPS oversight framework and received approval to apply the framework.

Of the four measures of success for SFA 2, the following two were not met:

- » The SRM toolkit: an ongoing initiative which will be completed in 2017/18.
- » The crisis simulation exercise: the SARB has started the planning process to undertake a crisis simulation exercise and this will be completed in 2017/18.
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STRATEGY – continued

NOTES ON PERFORMANCE – continued

**SFA 3**

**Promote and enhance the safety, soundness and integrity of regulated financial institutions**

Of the four measures of success for SFA 3, only the compliance assessment against the PFMIs was not met due to the delay in the finalisation of the FSRB.

**Strategic objective**

Develop, improve and integrate the supervision of regulated financial institutions

Embedding the Prudential Authority is critical to achieving this strategic objective. Despite the delay in the finalisation of the FSRB, the SARB has developed the new Prudential Authority regulatory strategy and supervisory blueprint, and is refining the financial conglomerate supervision paper. In addition, the SARB finalised the amendments to the Financial Intelligence Centre Act (FICA) and addressed the shortcomings highlighted by the assessment programme for banks and insurance providers.

**Note 3**

Of the four measures of success for SFA 3, only the compliance assessment against the PFMIs was not met due to the delay in the finalisation of the FSRB.

**SFA 4**

**Enhance South Africa’s resilience to external shocks**

Adequate levels of official gold and foreign-exchange reserves were accumulated.

**Strategic objectives**

- **Maintain an optimal level of reserves and enhance their management**
  The Strategic Asset Allocation was approved and the compilation of the risk budget and review of the fund management programmes are in progress.

- **Establish mechanisms to effectively manage external shocks**
  A framework to manage shocks is being developed. While progress is behind target, the Crisis Reaction Manual for Financial Markets is in the process of being finalised and will be incorporated into the SARB’s Crisis Management and Resolution Framework.

**Note 4**

Adequate levels of official gold and foreign-exchange reserves were accumulated.

**SFA 5**

**Ensure cost effective availability and integrity of notes and coin**

Both measures of success for this SFA were achieved. The quality of the notes is testament to the quality of the security features embedded in the currency.

**Strategic objectives**

- **Optimise the notes and coin supply chain**
  This strategic objective is measured by calculating buffer stocks against an appropriate level, where the buffer stock level should be below the target. The buffer stock level target for notes was achieved but not the target for coins.

- **Enhance the quality of notes and coin**
  This strategic objective is measured by the percentage yield of fit notes in circulation, where the percentage yield should be above the target. A 92% yield was achieved against a target of 90%. In addition, the cash management strategy has been finalised and will be implemented during 2017/18.

**Note 5**

Both measures of success for this SFA were achieved. The quality of the notes is testament to the quality of the security features embedded in the currency.