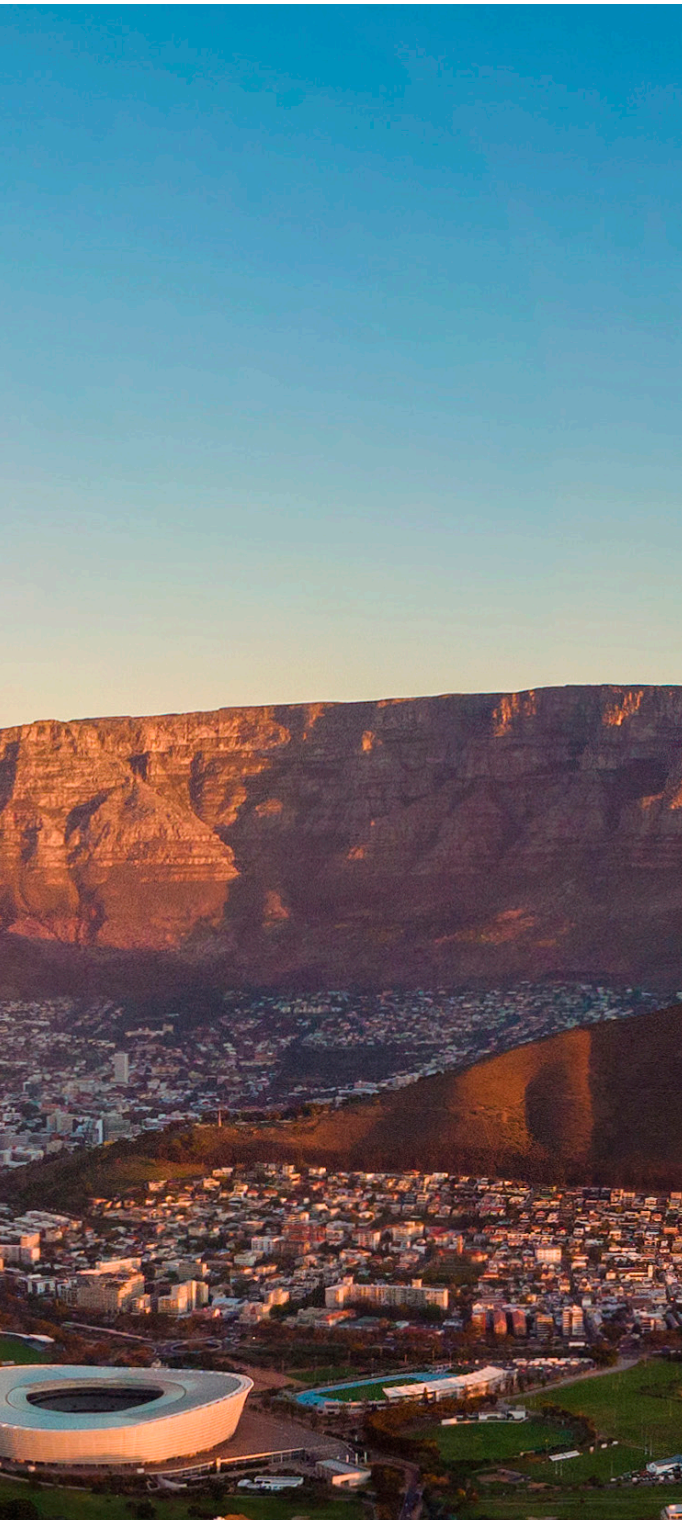


Balancing act between domestic infrastructure and offshore capital

South Africa has spent more than a decade modernising its post-trade infrastructure through settlement reform, automation and tighter risk controls — but as offshore investing demand grows and investors continue to hedge against rand volatility — the country’s asset servicing market faces a new challenge

Zarah Choudhary reports





South Africa has long positioned itself as one of Africa's most sophisticated financial markets.

Unlike many emerging markets across the continent, the country developed a relatively mature custody and post-trade ecosystem early, centred around the Johannesburg Stock Exchange (JSE), central securities depository Strate, custodians, brokers and central securities depository participants (CSDPs).

That infrastructure became increasingly important as South Africa positioned itself not only as a domestic market, but also as a gateway for regional and international investment flows into Africa.

"South Africa is a core servicing hub in Africa's asset servicing ecosystem, combining globally aligned market infrastructure with deep local expertise in the custody and administration of assets," says Michelle Swanepoel, head of financing and securities services, Middle East and Africa, at Standard Chartered.

Timothy Singh, senior client services, SAF, at NeoXam, similarly describes South Africa as "a critical regional hub for asset servicing across Africa", adding that the market is maturing as global providers continue investing in local infrastructure and operational support.

Christophe Vastesaegeer, product manager smart reconciliations at SmartStream, says South Africa remains "the largest asset servicing market on the African continent" and continues to serve as "a gateway to global markets".

Over the past decade, the market has undergone extensive operational reform designed to align South Africa more closely with international standards and reduce settlement risk.

One of the most significant developments came through the JSE's transition from a T+5 to T+3 settlement cycle, a programme introduced in 2013 as part of a broader modernisation effort.

The transition required widespread infrastructure changes across the market, impacting brokers, custodians, buy side firms, CSDPs, and settlement participants.

According to JSE documentation, the programme included the introduction of the Equities Clearing System (ECS), enhanced failed trade management functionality, automated settlement instruction processing, and real-time deal management capabilities.

The reforms reflected a broader industry trend that has increasingly reshaped global post-trade markets: the industrialisation of operations.

The operationalisation of post-trade

The move to shorter settlement cycles forced firms to reassess operational processes that had historically relied heavily on manual intervention.

Automation became central to the JSE's infrastructure overhaul.

The exchange introduced further automation around corporate actions processing, off-market transaction workflows, allocations and confirmations between market participants.

At the same time, the market began placing greater emphasis on operational resilience and settlement discipline.

The JSE acknowledged that compressing the settlement cycle would likely increase failed trades and operational pressure, requiring more advanced approaches to risk monitoring, margining, and settlement management.

This mirrors wider global trends now dominating post-trade conversations internationally, particularly as markets continue preparing for shorter settlement cycles and real-time processing environments.

Even during the T+3 migration, the JSE noted that investigations into a future T+2 environment would likely follow once the shorter cycle had stabilised.

South Africa's market infrastructure therefore evolved not simply around scale, but around operational sophistication.

That sophistication is particularly visible in the country's corporate actions infrastructure.

Swanepoel notes that South Africa has developed "market-leading approaches to entitlement payments" with a strong emphasis on "payment completion and timeliness".

"For example, the market emphasis is on crediting entitlements on the contractual pay date with clean reconciliation, rather than extended 'payment windows' and post-pay-date exception handling," she explains.

Offshore investing reshapes the market

At the same time as South Africa strengthened its domestic infrastructure, its investors became increasingly global. Demand for offshore investing has grown steadily over the past decade as investors seek broader diversification, foreign currency exposure, and protection against rand volatility.

Research from PSG Wealth notes that South African investors increasingly use offshore investing to diversify across economies, regions, sectors and securities unavailable locally.

The scale difference between domestic and global markets has also become difficult to ignore.

According to PSG Wealth, there are approximately 350 equities listed on the JSE's main board, compared with around 60,000 equities listed globally.

Similarly, while South Africa has roughly 1,300 locally registered funds, global markets offer more than 200,000 investment funds.

This has fundamentally reshaped the servicing requirements facing South African custodians, platforms and infrastructure providers.

Increasingly, firms are not simply servicing domestic portfolios, but cross-border investment structures involving feeder funds, offshore custody arrangements, foreign currency settlement, and asset swap mechanisms.

PSG Wealth noted that South Africans are permitted to invest up to 10 million South African rand (US\$606,000) offshore annually, subject to tax clearance, while asset swap structures allow investors to gain offshore exposure without directly expatriating capital.

According to Swanepoel, South Africa's relationship with offshore centres is increasingly evolving into "a pragmatic hybrid model — increasingly complementary to onshore capability rather than a substitute for it".

"In practice, offshore centres remain relevant in parts of the fiduciary and fund services value chain," she says.

Vastesaegeer similarly notes that Mauritius continues to act as "the principal offshore gateway connecting African markets to global capital markets".

Bringing functions back home

Yet even as capital increasingly moves offshore, South Africa's servicing market is simultaneously seeing renewed focus on domestic operational control.

This forms one of the more subtle but significant shifts taking place within the country's financial infrastructure landscape.

Historically, many African investment structures relied heavily on offshore financial centres such as Mauritius, Luxembourg, and Ireland for fund structuring, administration and international distribution.

Those jurisdictions continue to play an important role, particularly for cross-border investment access, and internationally distributed fund structures.

However, firms are increasingly reassessing how much operational infrastructure they want located externally.

Part of this is driven by cost pressure.

Maintaining parallel servicing structures across jurisdictions can increase operational complexity, oversight burdens, and reporting obligations.

But another factor is control.

Globally, market participants are placing increasing importance on operational resilience, data governance, regulatory oversight, and infrastructure visibility.

"It is a multi-factor shift," says Swanepoel. "Cost still matters, but the dominant drivers are resilience and control."

She adds that firms are increasingly focused on maintaining service continuity during disruption and improving governance across operational workflows.

NeoXam's Singh says operational resilience and data control are becoming increasingly influential as asset servicing volumes and operational complexity rise.

"Traditional operating models using siloed data and fragmented systems can't provide the transparency and agility institutional clients now expect," he says.

Rather than completely abandoning offshore centres, Singh says the market is increasingly moving toward "a combination of global, offshore expertise with stronger local operational and data capabilities inside South Africa itself".

Vastesaeger takes a more cautious view of the reshoring narrative.

"Bringing more operational or servicing functions back is not an overall exercise," he says, adding that many large firms still rely heavily on offshore operational connections.

Regulation and ownership oversight

South Africa's market structure has historically placed heavy emphasis on regulatory control and participant oversight.

This is particularly visible within the JSE's Black Economic Empowerment (BEE) securities framework, which introduced specialised verification, custody and settlement procedures for securities listed under Black Economic Empowerment ownership structures.

Under the framework, custodians, CSDPs, members and other market participants are required to confirm investor eligibility, maintain verification records and update client mandates before trading activity can occur.

The framework also introduced post-trade monitoring processes designed to ensure compliance with ownership requirements and trading restrictions.

Operationally, the structure demonstrates how closely intertwined custody infrastructure and regulatory oversight have become within South Africa's market.

It also reflects a broader theme increasingly shaping post-trade globally: the growing importance of data integrity, participant verification and operational transparency.

Global custodians rethink strategy

As the market evolves, global custodians are also reassessing how they operate within South Africa.

Historically, many firms managed African servicing activity largely through offshore centres.

Today, there is greater emphasis on combining global operating scale with stronger regional presence and local execution capability.

“Clients expect more than core custody,” says Swanepoel.

“They want market insight, regulatory understanding, high-quality corporate actions processing, and operating models that can perform reliably through periods of volatility or disruption.”

She notes that many global custodians are strengthening contingency planning, operational resilience frameworks, and integration between onshore execution and offshore processing centres.

Singh says global custodians are increasingly balancing “international scale with stronger regional presence and local expertise”.

This includes building stronger local operational capabilities to improve regulatory responsiveness, client proximity and data oversight.

According to Vastesaeger, global custodians are also placing greater focus on technology capabilities, real-time infrastructure access and readiness for digital assets.

The challenge of remaining competitive

Despite its infrastructure maturity, South Africa still faces several structural challenges.

Currency volatility continues to shape investor behaviour, particularly during periods of global uncertainty.

At the same time, competition for regional capital flows is increasing.

Financial centres such as Mauritius continue positioning themselves as gateways into African investment opportunities, particularly for internationally domiciled fund structures.

South Africa also continues dealing with the after-effects of its Financial Action Task Force (FATF) grey-listing period between 2023 and 2025.

Vastesaeger says the period led to increased compliance requirements, higher costs, and declining foreign investment activity.

Another challenge is the changing composition of the domestic market itself.

“A central challenge is meeting rising global investor expectations — speed, transparency, automation and resilience — while operating in an environment shaped by ongoing reform, technology change and heightened operational risk focus,” says Swanepoel.

She adds that South Africa is already a relatively mature market with a concentrated provider base, meaning future growth will increasingly depend on innovation and value-added servicing capabilities.

Meanwhile, Vastesaeger warns that delistings and the growth of private markets are reducing traditional transaction volumes while increasing operational complexity.

A hybrid future

For now, the country appears to be moving toward a hybrid servicing model rather than a purely domestic or offshore approach.

Domestic infrastructure continues strengthening through automation, operational reform, and tighter settlement controls.

At the same time, offshore investing demand continues growing as investors pursue global diversification and currency hedging opportunities.

This dual-track evolution increasingly defines South Africa’s asset servicing market.

“We expect South Africa’s asset servicing model to remain fundamentally hybrid,” says Swanepoel.

Vastesaeger agrees, arguing that the advantages of offshore expansion remain “too persuasive” for the market to become fully domestic.

“The hybrid model will not go away,” he says, “but will bring the asset servicers much more complexity.” ■