FSCA

Financial Sector
Conduct Authority

FSCA Press Release **08 December 2020**

Fintech innovation in South Africa in the era of data security and protection

An Intergovernmental Fintech Working Group (IFWG) study of the market uncovered that there are 220 active and operational Fintechs in South Africa and this number is expected to grow as technology adoption increases.
The pace of change and innovation in the fintech space in South Africa is rapid and on the rise. It has become even more so in the last year as the effects of the global coronavirus pandemic drove widespread digital adoption and catapulted upstart fintech firms into the mainstream. This has meant that Fintechs have had to innovate to differentiate themselves and find new and better ways to serve their customers.

Increasingly, that means using data – and non-traditional or alternative data sourced from external sources used to supplement core internal organisational data, specifically – to capture value, particularly in the payments, lending and insurance technology (insurtech) segments.
"In payments, Fintechs are using non-traditional data with their transaction data to enhance the mobile payments user experience. Payments is the largest and most mature segment making up 30% of the overall fintech activity in SA – which is in line with global trends. This is mostly due to the large need for migrant workers in the country to send money to their countries of origin in southern and other parts of sub-Saharan Africa. The second largest segment is B2B Tech such as Blockchain, Robotic Process Automation (RPA) making up 48% of the fintech sector," says Kagiso Mothibi, Department Head: Fintech at the Financial Sector Conduct Authority (FSCA).
"In lending, Fintechs are building more accurate scorecards, improving customer profiles, making better credit decisions, and managing overall credit risk. Insurtechs are using alternative data to offer policyholders better premiums and to better manage risk," Mothibi adds.

These were the findings gathered from the IFWG together with the FSCA's 2020 Non-Traditional Data Research Report, which Mothibi co-authored and formed part of at the virtual panel discussion hosted by the FSCA on key fintech learnings from 2020. The panel featured Kagiso Mothibi, Gerhard Van Deventer, Senior Fintech Analyst at the South African Reserve Bank, Garth Rossiter, Chief Risk Officer at Lulalend, and Riyaadh Hanslo, Head of Risk and Regulation at Yoco.

The report and discussion indicated that the use of non-traditional data is on the rise in South Africa, and comes with both benefits and risks. Key benefits include financial inclusion, personalisation, affordability, and enhanced customer experience. The main risks are data privacy, data protection, decision bias, fairness and transparency.
However, Fintechs that are able to overcome these challenges by focusing on greater levels of transparency and informed consent, data security, data privacy and the prevention of misuse or biases are proving to unlock these benefits for their customers and ensure that they are sufficiently protected.

Yoco, for example, which is an African payment service provider and technology company that builds tools and services to help small businesses get paid and run their business better, has shown that it can innovate to support customers and enhance their experience.

The company uses data to offer value-added services to customers on their mobile card reader solution. These services include a breakdown of sales, data on forms of payment and tracking of revenue using Yoco's business intelligence (BI) tool. Yoco also uses data around a business's sales history and monthly turnover to offer merchants a cash advance.

"With the introduction of Covid-19, many small businesses were thrown an unexpected curveball. But, for our business model, it extended the trajectory we were on in terms of the move towards cashless. During the period, Yoco also launched new offerings to facilitate the move online by many of our SME's," says Hanslo. "South Africa is mainly a cash economy, but businesses started moving online and with that, it increased the amount of data being processed that now becomes available through the online stores. This introduced greater risks into the system – making mitigation an imperative. From a consumer perspective, greater attention on data-protection and governance has been a focus."
Although just one example, it shows the value data can add to Fintechs and how it acts as a driver of innovation.

"Critically, many of these firms won't necessarily wait for regulations to catch up, meaning that regulators are at risk of being left behind as innovation outpaces the rate of change of regulations – and regulations are essential to mitigate the risks that non-traditional data poses to the provision of financial services," says van Deventer.
Rossiter from Lulalend, a micro lender that empowers small businesses across South Africa with the funds they need to grow says, "SMEs have been most vulnerable to the shocks emanating from COVID-19. About 50% of businesses did not believe they would recover. This pandemic has however, highlighted the importance of SMES in the country and their need for cash and funding. The majority of businesses in South Africa are SMEs, they create 60% of private sector jobs in the country and contribute 40% of the GDP. Therefore, when they fail or reduce spending, the knock-on effect is serious. Data privacy and security is imperative in terms of SME data, which is encrypted at every level."

Financial regulators need to put proper safeguards in place to ensure that the financial system is geared towards the realisation of better consumer outcomes. This means strengthening consumer education, regulatory frameworks, licensing, supervision and enforcement to combat new risks resulting from the use of non-traditional data.
"Taking action in these areas is critical to balancing financial stability, consumer protection, innovation and economic growth, and we believe that it is possible to address the challenges of using non-traditional data in the provision of financial services to encourage innovation in a responsible manner," says Mothibi.

About the Financial Sector Conduct Authority (FSCA)

- The FSCA is the market conduct regulator of financial institutions, that provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators, and market infrastructures. The FSCA is responsible for market conduct regulation and supervision. They aim to enhance and support the efficiency and integrity of financial markets and to protect financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. The FSCA will further assist in maintaining financial stability.

ENDS

Enquiries: Financial Sector Conduct Authority
Email address: fscacommunications@fsca.co.za
Telephone: 0800 203 722