

COVID-19 TRIGGERS QUICK INNOVATION, DISRUPTION, AND RE-INVENTION IN FINANCIAL SERVICES SECTOR

By Kagiso Mothibi - Head: Fintech Unit, FSCA

Innovation has always propelled the financial services sector forward. Previously, incumbents were at the forefront of innovation in the sector and new entrants played a peripheral role. However, the Covid-19 pandemic has driven significant shifts towards digital adoption, catapulting upstart fintech firms into the mainstream.

Incumbents have been forced to re-invent themselves to adapt, remain relevant and gain the ability to rapidly deploy digitised services to their customers. They have also needed to find innovative ways to help their customers adapt to rapid and widespread change that has led to financial constraints for many South Africans.

We've noticed new trends emerging which are likely to continue. For instance, we are likely to see an increase in partnerships between big banks or insurers and other entities to provide innovative solutions especially to those that were financially excluded, in line with the sector's pursuit for inclusivity.

Some examples include one of the major banks partnering with the Small Enterprise Finance Agency (SEFA) to support spaza shops to get stock at lower costs, insurance companies raising funds for SMEs and car insurance companies moving towards pay-as-you-drive insurance options. Some banks have waived fees on their low-cost bank accounts, while all banks waived fees for SASSA grant recipients that use ATMs of other banks to withdraw money during the lockdown period.

There has also been a flurry of new financial service providers clamouring to address the growing shift towards digital consumption. One such new player to the industry provides low-cost digital banking, and a payment service provider has supported its customers – typically small businesses – during the pandemic by making funding available and helping many of them move online and go cashless.

New upstart fintech firms like these won't necessarily wait for regulations to catch up, and regulators are at risk of being left behind as innovation outpaces the rate of regulatory change. This has made it necessary for regulators to evolve their engagement model to ensure they keep pace with the times.

To this end, the Financial Sector Conduct Authority (FSCA) has partnered with other key South African financial services regulators under the Intergovernmental Fintech Working Group (IFWG) umbrella to establish the Innovation Hub to ensure that fintech activity in South Africa is regulated effectively.

Promoting responsible innovation

The IFWG launched the Innovation Hub in February 2020 to enable regulators to continually promote and support responsible innovation and drive financial inclusion in the financial services sector. To date, we have already witnessed how upstart fintech firms, consumers and financial regulators stand to benefit from the Innovation Hub, which is providing a space for safe experimentation, collaboration, and for market innovators to resolve specific questions regarding the policy landscape and regulatory requirements.

Going forward, the FSCA will also host a number of hackathons that will bring together key players in the fintech ecosystem to share ideas, develop financial products that address pressing problems in South Africa, and drive the formulation of policy. As a regulator, the FSCA ultimately wants to see innovations that are beneficial to customers and the market, resulting in lower prices, increased competition, improved access and financial inclusion, lower costs, increased efficiency and improved regulatory compliance.

In recognising the need to also disrupt ourselves – particularly in the post Covid-19 era – we are also leveraging our proximity and access to emerging fintech firms to identify suitable technologies that can fast-track our internal digital transformation efforts and supervisory capabilities.

Ultimately, in the face of Covid-19 developments that are leading to greater degrees of digital adoption and accelerated change, our desire is to ensure that we promote responsible financial sector innovation that generates economic benefits for individuals and businesses in South Africa.

ENDS

Notes to editors:

The Innovation Hub consists of three innovation facilitators:

1. The Regulatory Guidance Unit, which serves as a central point for financial services innovators to submit queries on regulatory matters.
 - Through the Innovation Hub's Regulatory Guidance Unit, the FSCA has provided guidance to over 60 fintech start-ups regarding policy landscape and regulatory requirements.
2. The Regulatory Sandbox, which is a controlled and time-bound environment that provides financial services innovators an opportunity to test innovative products and services against regulations.
 - We have received over 50 applications into South Africa's first fintech Regulatory Sandbox, which has been shortlisted to 18 applicants ranging from insurtech, to lending, investments, crypto assets, and payments. Official testing is set to kick off in September 2020 for a period of 6 months. Fintech solutions will be tested with the view of unpacking the benefits against risks posed. If testing is successful, fintechs will be permitted to deploy their products/service at scale in the market, while regulators update the regulations to enable similar services to exist.
3. The Innovation Accelerator, which is a space for regulators to proactively research cutting edge innovations in order to craft new regulations and conduct research.
 - We have conducted research on digital platforms, non-traditional data, regtech and supotech, and open finance with the view of formulating policy positions. Our initial research is already pointing to South African financial sector players harnessing innovative technologies such as Artificial Intelligence and Robotic Process Automation to support regulatory compliance, risk management and personalisation of financial product offerings.

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.

About the Intergovernmental Fintech Working Group (IFWG)

The Intergovernmental Fintech Working Group (IFWG) was established for this reason – to investigate ways to improve engagement in the sector and to explore and incorporate new technologies to foster and regulate responsible innovation in the financial services sector.

The Innovation Hub is a collaborative effort of the IFWG, which includes participation from National Treasury, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the National Credit Regulator, the South African Reserve Bank and the South African Revenue Service.