

Trends that will impact regulation in banking and payments

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We live in a rapidly changing world, with the pace of change accelerated by the COVID-19 pandemic. Worldwide, people have had to adjust to working, learning and transacting online, virtually overnight. Banking and payments is one of the areas where this shift was most apparent, causing banks and the bodies that regulate them to adapt equally rapidly.

This makes it critical to look at the trends that have emerged since the start of the pandemic and predict how they will continue to impact and drive change in the sector and how it's regulated. Perhaps the most significant trend that has affected banking and payments, in particular, was the acceleration of the move to digital financial services.

“Even though the shift to digital banking and financial services preceded COVID-19, the pandemic forced banks to close some of their branches – temporarily or permanently – and encourage customers to use their digital platforms. There was also a preference to transacting without cash due to hygiene concerns – for example, merchants and customers preferring to use cards rather than cash for sanitation reasons,” says Sindiswa Makhubalo, Head: Banks and Payment Providers at the Financial Sector Conduct Authority (FSCA).

This shone the spotlight on the need for regulation to focus on financial inclusion and consumer protection, and the challenges that customers faced in terms of accessibility, affordability, trust and digital literacy. “Consumers had to adapt to using digital platforms quickly and sometimes without proper knowledge, which has made them vulnerable to fraud,” Makhubalo says.

There has been a marked increase in scams targeting consumers who have become financially vulnerable as a result of the constrained economic environment.

South African banks largely played their part in protecting consumers during the pandemic by putting in place policies such as flexibility on loan repayments, providing access to emergency funds through the loan guarantee scheme, ensuring access to banking services by waiving fees on certain accounts or transactions, educating customers on insurance policy exclusions and warning against scams. However cunning scammers also intensified their efforts to part people from their hard-earned money – and the number of scams increased exponentially.

Harnessing regulatory agility in the face of digital acceleration

The accelerated move to digital as a result of the pandemic means that banks will continue to embrace their online journey. “Banks continue to invest in technology, reskilling of staff to support evolving business models and making data-driven decisions directed at improving client experiences and broadening offerings to customers,” says Makhubalo.

Regulators will need to be agile and responsive to keep pace with these developments, and financial regulation will need to ensure that consumer outcomes are being protected, particularly in a digital environment.

“Digital literacy levels and access to digital infrastructure – such as access to smartphones, data and Wi-Fi – are important considerations,” says Kershia Singh, Head: Market, Customer and Inclusion Research at the FSCA. “A perverse outcome could be that levels of financial inclusion decrease as digital adoption leaves some segments of the population excluded or underserved.”

A key focus for regulators has been on identifying technology solutions and offerings that improve financial inclusion – through the Intergovernmental Fintech Working Group (IFWG) Innovation Hub, which enables and promotes responsible innovation driven by changes in financial technology (fintech). One of the core goals of the Innovation Hub is to ensure that new innovations in the sector prioritise financial inclusion and consumer protection.

This will become ever more important as fintech solutions and transacting on digital platforms become more prevalent. “The FSCA will also monitor trends in the sector on both uptake and usage of digital services,” says Singh.

This will be supported by greater collaboration with financial services providers and among regulatory bodies to prioritise digital literacy, and much-needed fraud awareness programmes. “The FSCA will drive consumer education initiatives with banks to ensure that the message carried out by banks to customers are tailor-made for specific target markets, as well as to promote a culture of customer centricity within banks,” says Makhubalo.

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