

# Crypto Assets Market Study

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# Agenda

**Introduction**


**Problem Statement and Research Purpose**

**Research Findings**

**Conclusion**



## Introduction

- It is estimated that over 5.8 million people, 9.44% of South Africa's total population, currently own crypto assets, with 43% of population expected to be using it by 2030... **but much lower levels of “high” ownership and usage, shows interest has been piqued but not yet fully integrated in daily use, not a substitute (yet) for traditional financial products and services**
  - Within Africa, **South Africa has the second highest number of crypto asset users in the region, with Nigeria leading the pack.**
  - 86% of South African's adult population have heard of crypto assets.
  - 83% of crypto asset owners in South Africa are in the 18-44 age group.
  - 46% of South African crypto asset owners hold a bachelor's degree or higher.
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# Global Approaches to Crypto Assets Regulation



## Ban

China



India



Morocco



Thailand



United Arab Emirates



## Regulate

Australia



United Kingdom



Singapore



Japan



## Wait and learn

Netherlands



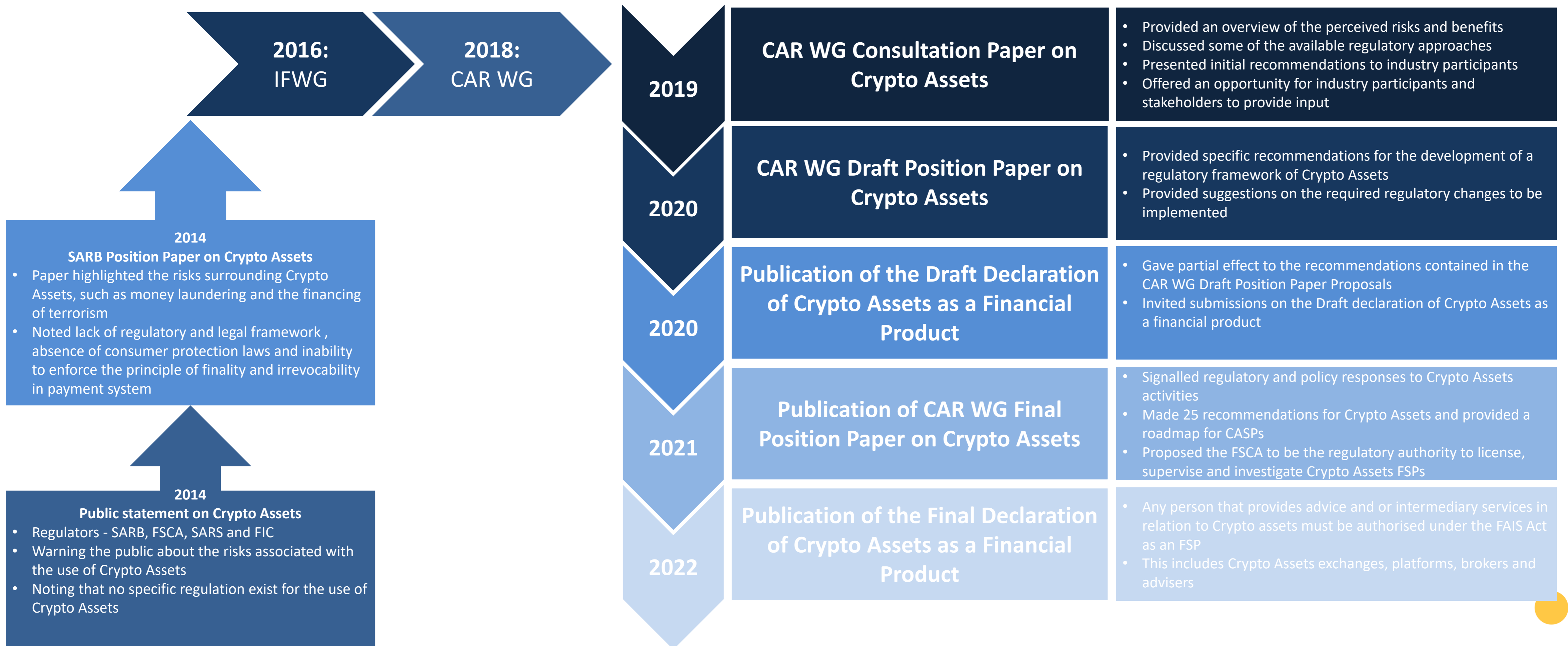
Switzerland



Malta



# South Africa Crypto Assets Regulatory Developments



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# Problem Statement and Research Purpose

## Problem Statement

- The FSCA remains of the view that crypto asset related activities pose **significant risks to financial customers**.
- **Legal framework is in place; not necessarily tailored** around Crypto Assets Service Providers (CASPs), and the specific risks posed.
- **Need to develop bespoke and/or refine further the existing framework** to ensure that it is fit for purpose and addresses Crypto Asset specific risk, without stifling innovation.

## Purpose of the Research

- Assist the FSCA to **better understand crypto asset related activities performed by Crypto Asset FSPs in South Africa**, in order to:
  - I. Support the work of the FSCA, particularly in relation to the **development of licensing, supervision, and regulatory frameworks** for Crypto Asset FSPs, by highlighting consumer exposure to crypto assets; and
  - II. In line with risk-based supervision, **identify risks that may negatively impact consumer well-being**, in support of the FSCA's regulatory and supervisory approaches.

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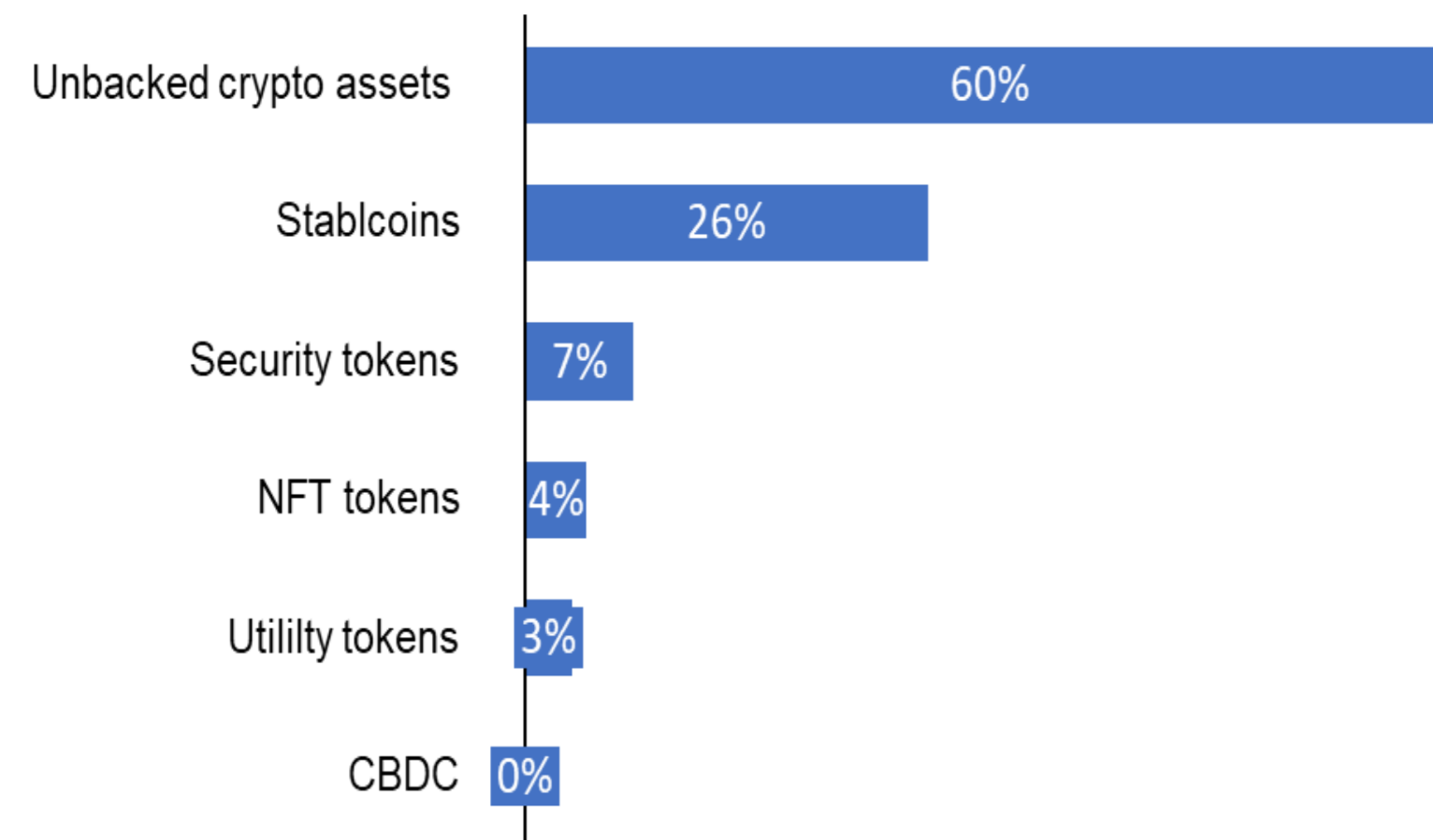
**Research Findings**

**Conclusion**



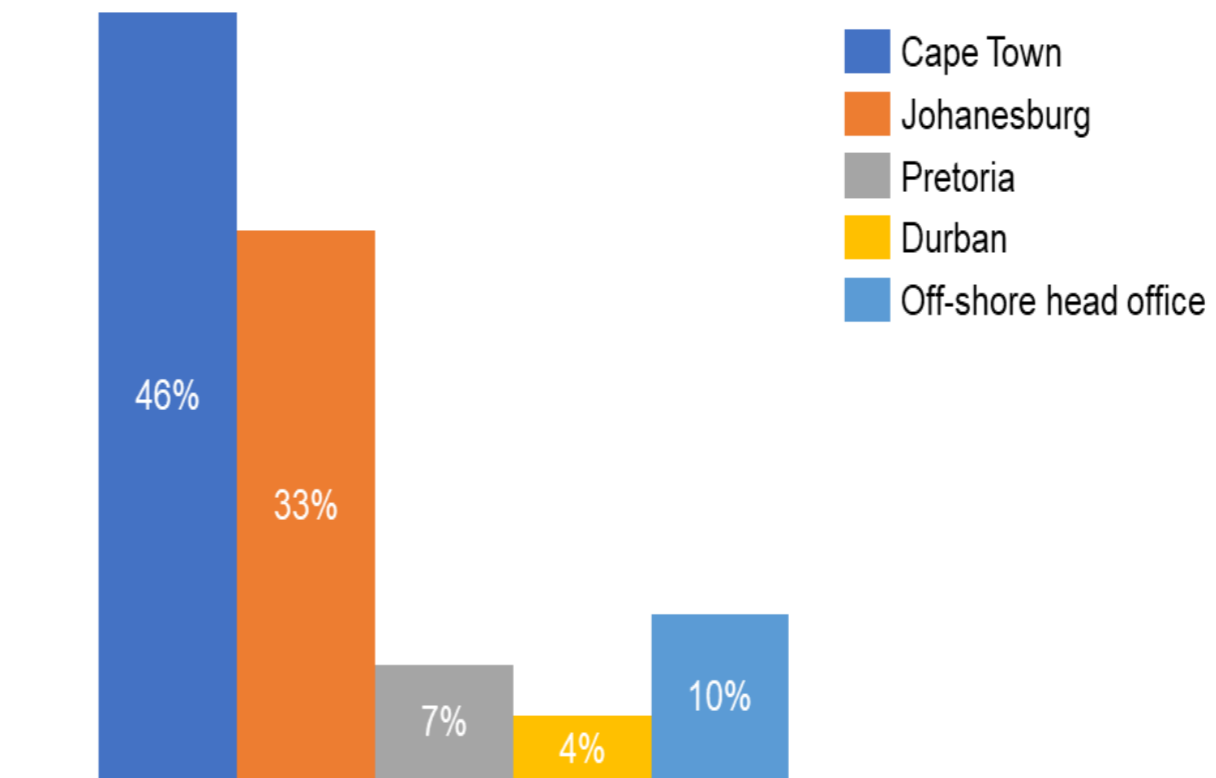
# Crypto Asset FSP - Supply-side Driving Factors

## Types of Crypto Assets



- The majority of Crypto Asset FSPs provide financial services by **making use of unbacked crypto assets (60%)**, followed by stablecoins (26%) such as USD Coin and Binance Coin.
- Unbacked crypto assets are the oldest and most widely recognized digital assets.
- These crypto assets are primarily utilised **to speculate (bet) on their value** rather than serving as a means of exchange ie currently these assets are **not used in the mainstream as a substitute for cash / digital payment channels**.

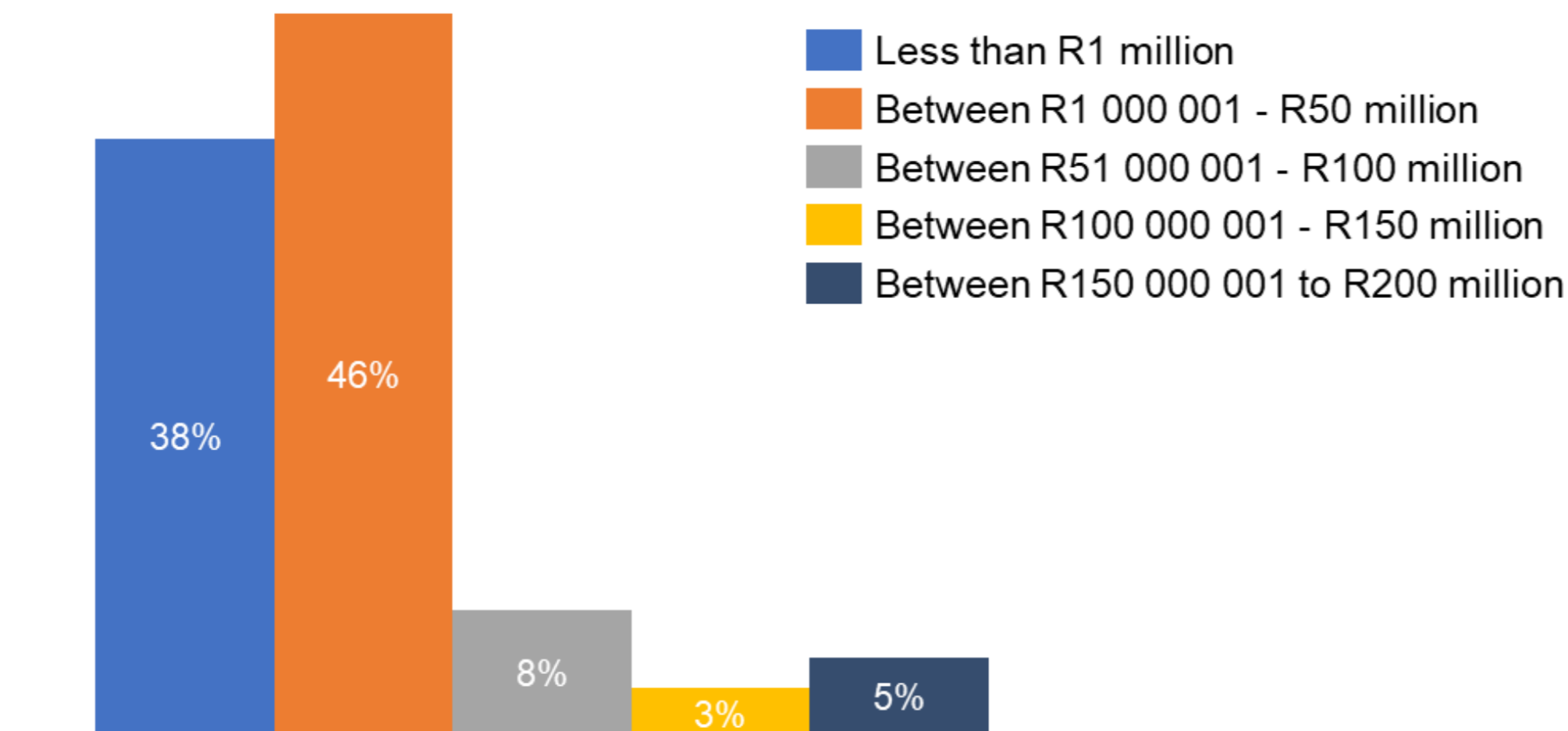
## Head Office Location



- **Cape Town leads the way in head office location** with the largest percentage of Crypto Asset FSPs having established their head offices in the city.
- The results bear testimony to the fact that Cape Town is considered the largest technology hub in Africa and has been dubbed the Silicon Valley of Africa.

# Crypto Asset FSP Supply-side Driving Factors

## Summary of Annual Total Revenue




- The data received showed that 38% of the Crypto Asset FSPs received revenue less than ZAR one million, while 46% received revenue between ZAR 1 and 50 million.
- This means that there are **many smaller sized (emerging) businesses**
- About 10% of Crypto Asset FSPs derive their income from both regulated and unregulated financial services – this means that by far **the majority are fintechs and new to the financial sector, bringing much scope for innovation and competition, but also means that FSCA will have to guide these entities how to operate responsibly and in the interests of financial customers and the integrity of the markets.**



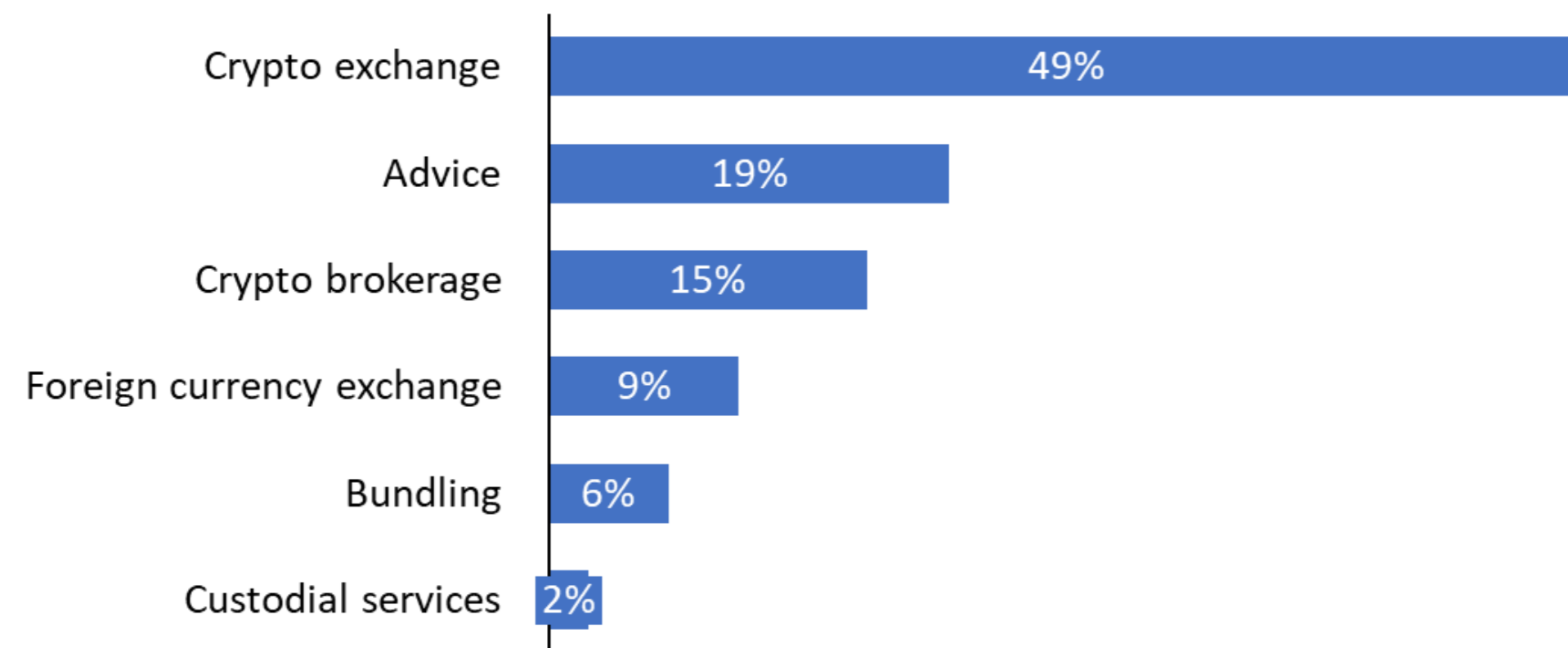
# Crypto Asset FSP Outsourcing Arrangements

## Outsourced Services

- KYC/AML, exchange platform, custody, cyber security, information technology services, and blockchain monitoring services are some of the activities that are outsourced by Crypto Asset FSPs.
  - This means that some of the **critical technical activities inherent to providing Crypto Asset financial services are outsourced.**
  - The **outsourcing of the activities does not relieve Crypto Asset FSPs from their responsibilities** to ensure fair treatment of customers.
  - **Outsourcing of a function that is actually a financial service** can only be done to **entities that are themselves licensed and regulated** under the FAIS framework.
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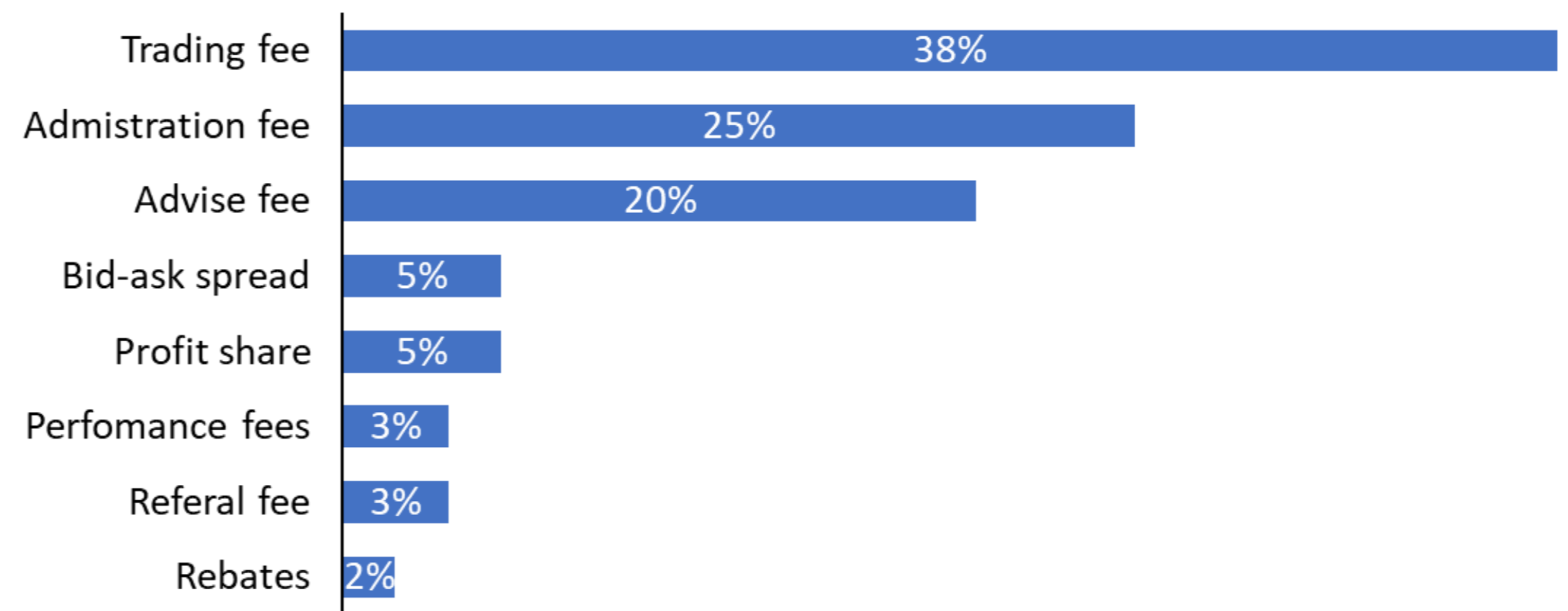
# Crypto Asset FSP Business Models

## Business Model



- Observed **business models are diverse**.
- **Generally mirror traditional financial activities** such as operating an exchange or providing advice - use a different type of technology.
- These activities require consumers to trust centralised entities which is against the disintermediation function that crypto assets were designed for.

## Remuneration Model

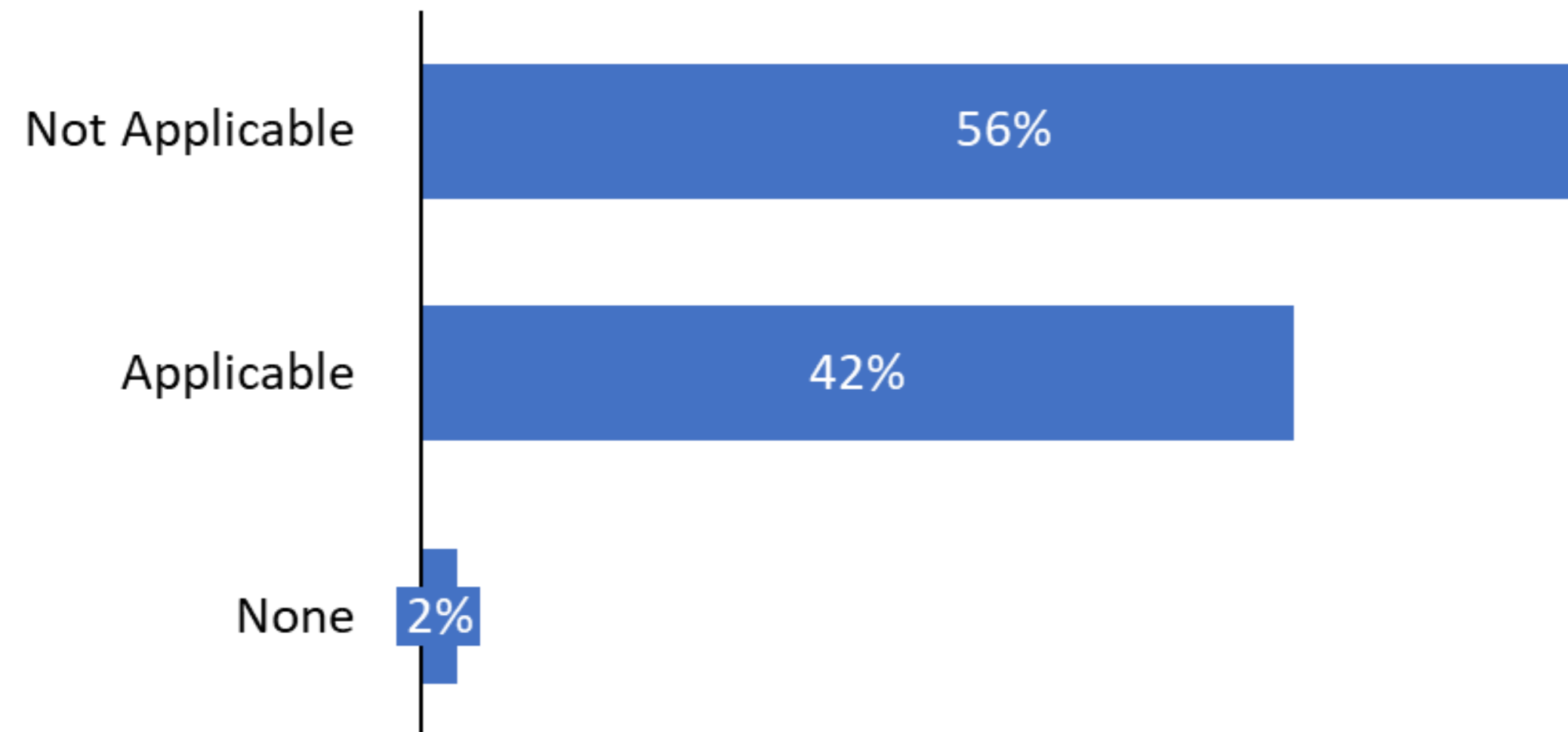


- Majority of Crypto Asset FSPs charge trading fees (38%) followed by 25% who earn their revenue from administration fees while 20% earn revenue from advice fees.



# Crypto Asset FSP Business Models

## Cross Border Business Monitoring



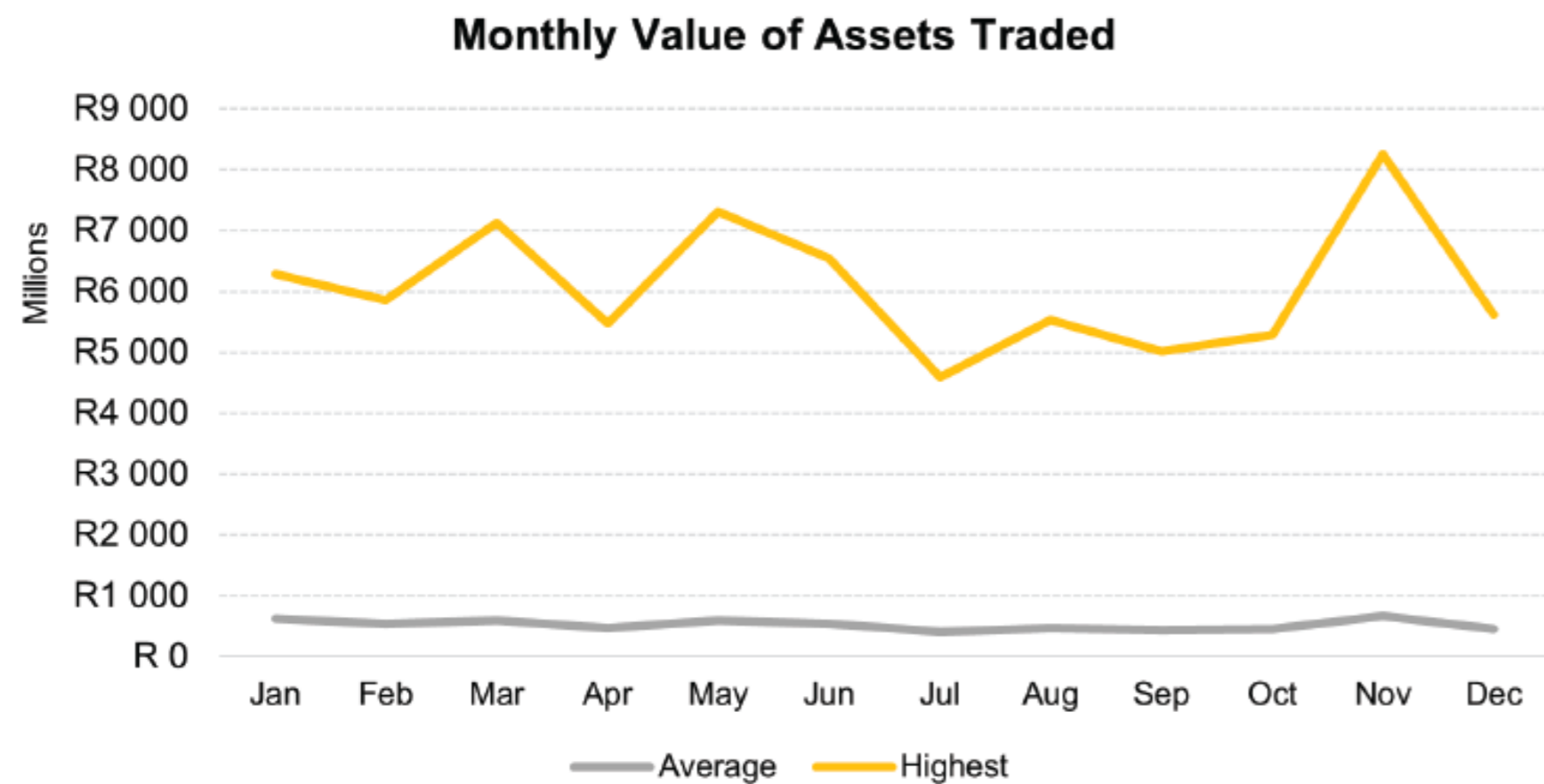
- **56% of respondents indicate that cross border monitoring is not applicable** in their current operations.
- **42% consider cross border monitoring as part of their business** to promote good governance, fair treatment of customers, and regulatory compliance.
- **Implementation of KYC process** to ensure adherence to AML and Combating the Financial of Terrorism (CFT) requirements
- **Implementation of background checks, risk assessment** (related to customers, geographic area, products and services and delivery channels) **and transaction monitoring** Sign up with regulated providers





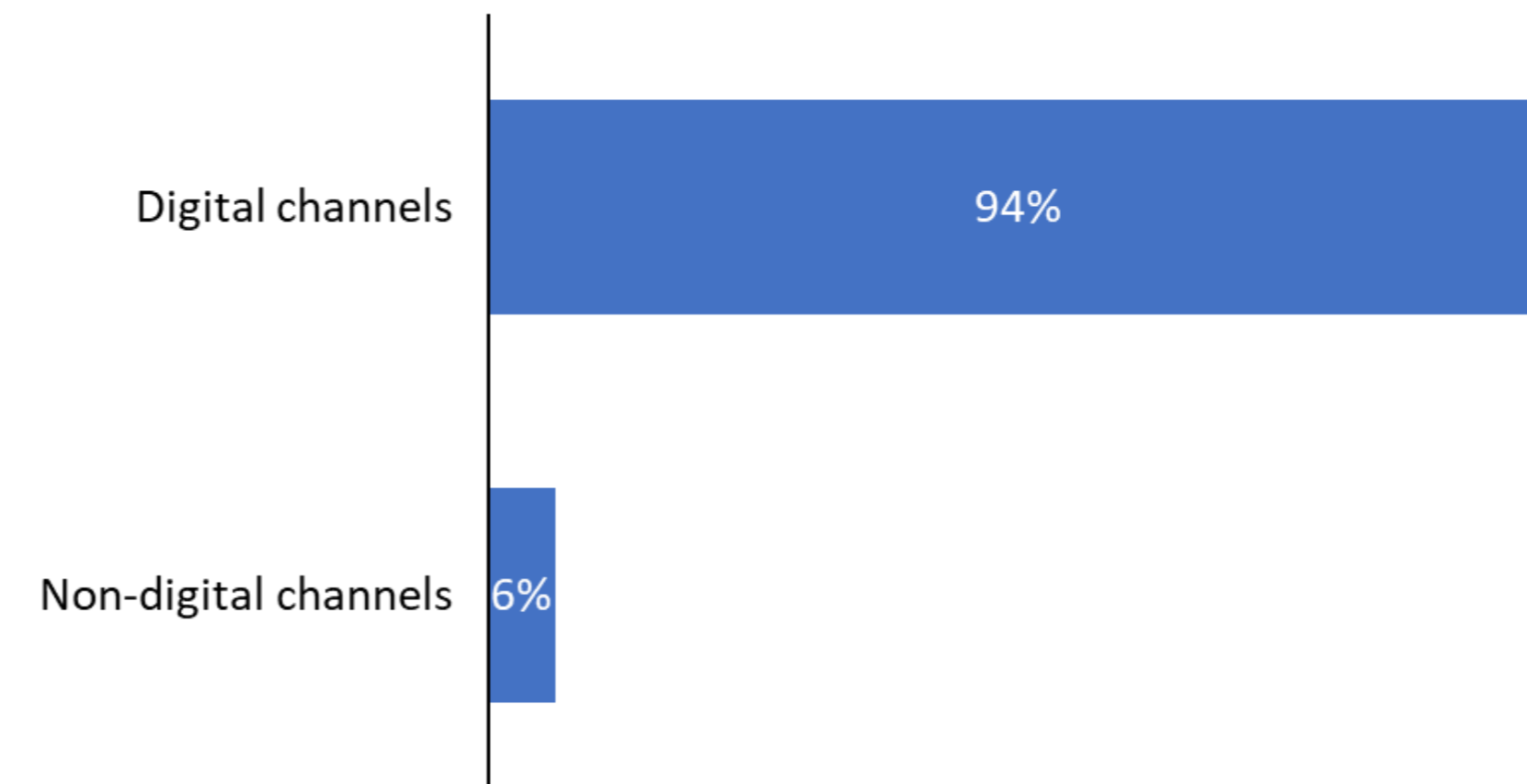
# Crypto Asset Market Dynamics

## Value of Crypto Assets Traded per Month in 2022



- SA Crypto Asset FSPs recorded **highest monthly transaction value in November 2022 = ZAR8 billion**.
- Average crypto assets traded **approximately ZAR520 million per month**.
- **Monitoring changes in trading patterns may be an important conduct risk indicator**; for example, substantial increases in trading volumes may bring additional operational risk, and unusual trading could signal market abuse.

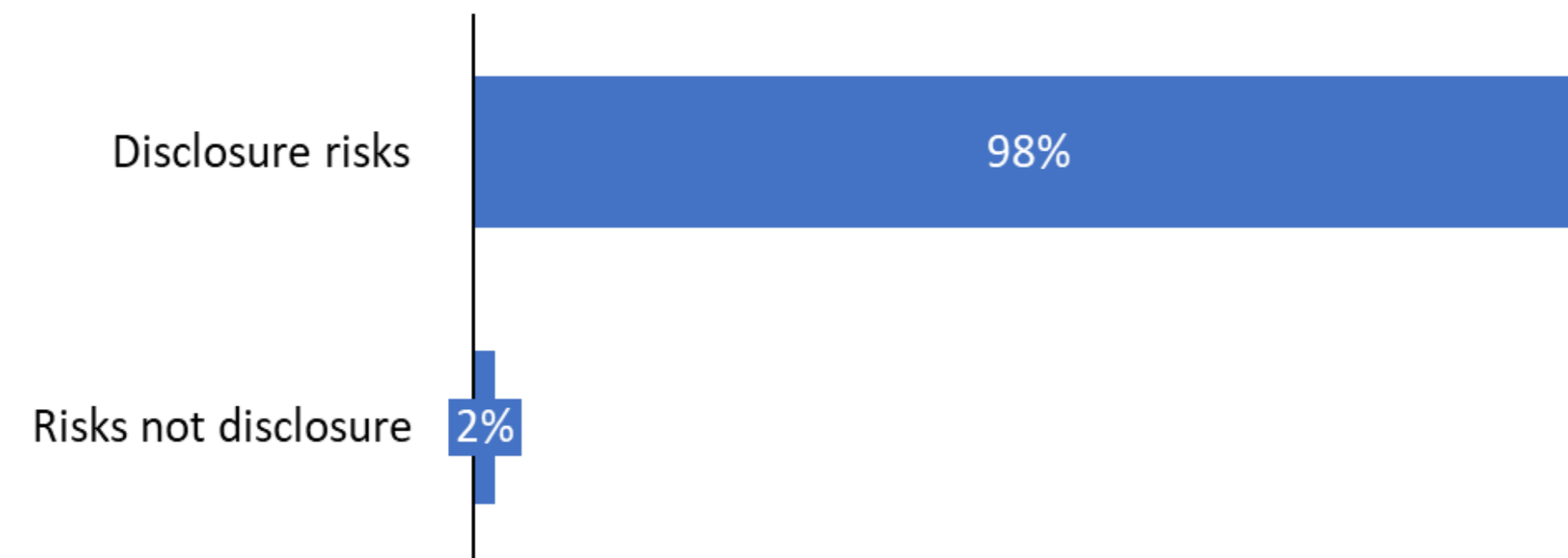
## Distribution Channels



- **Over 94% of the Crypto Asset FSPs use digital channels to distribute and market** their products and services while 6% utilise non-digital channels
- Some of the marketing strategies employed include: building the client base through trading on peer-to-peer exchanges and in-person meetings with clients to discuss product and services offering.

# Crypto Asset Market Dynamics

## Risk Disclosure

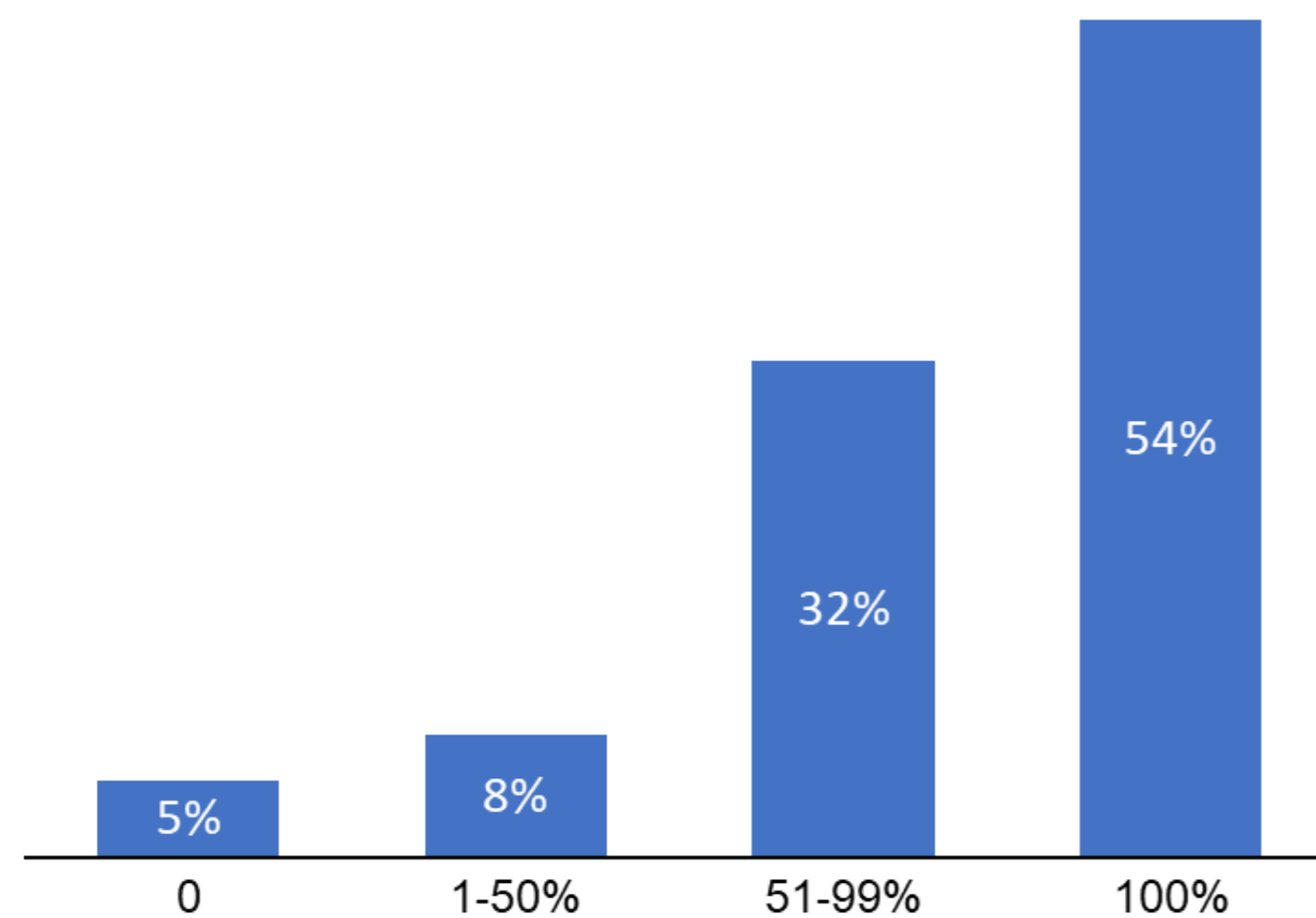


- Almost all Crypto Asset FSPs **claim to disclose the risks relating to crypto asset activities to their customers and the public.**
- The accuracy of this claim and the quality of disclosure will **need to be monitored over time.**
- Risks are disclosed when clients are signing up.
- Risk disclosures are made on the website, exchange platform and in all communication with the clients.

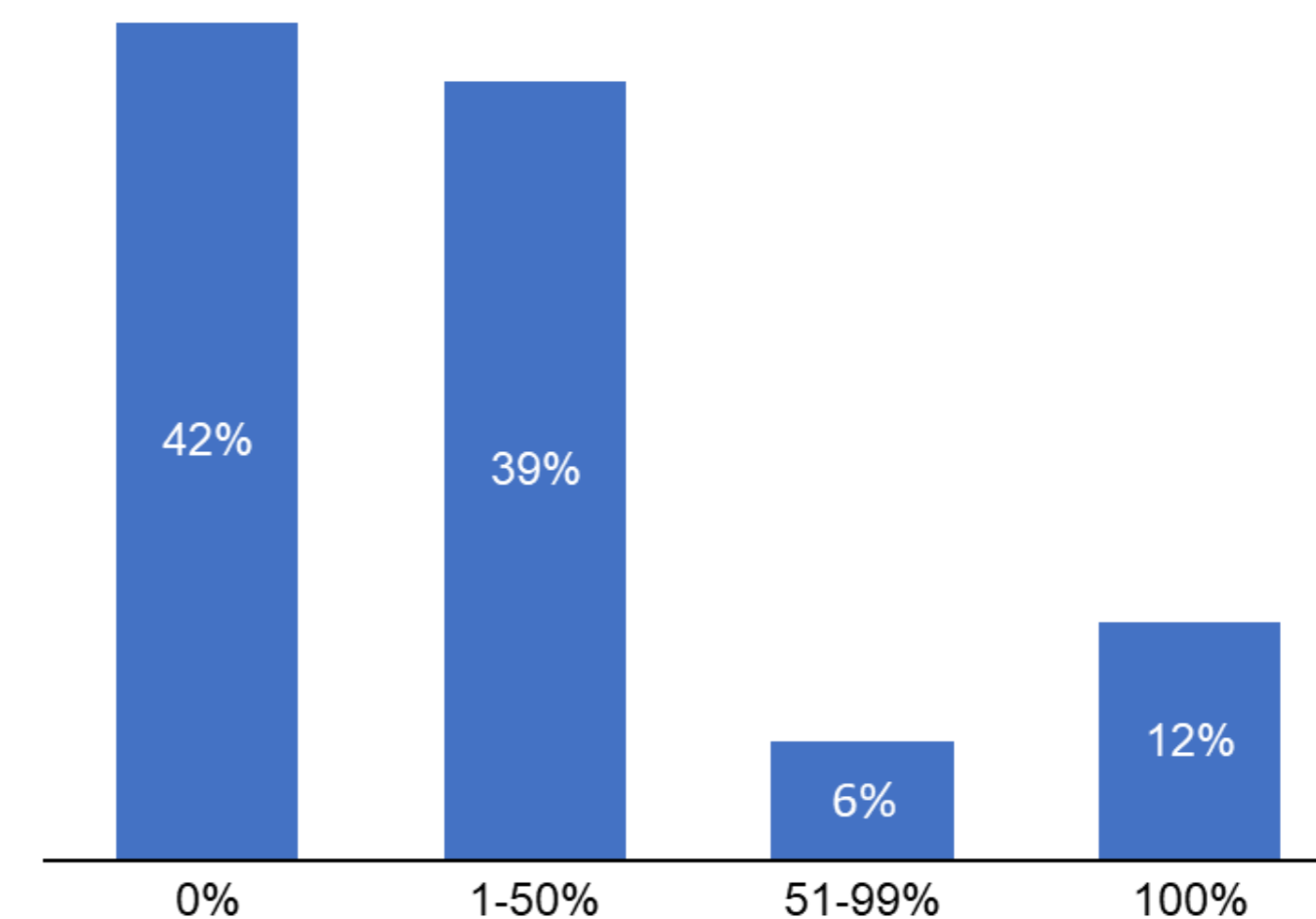


# Crypto Asset FSP Demand-side Driving Factors

## Proportion of Retail Customers



## Proportion of Financial Institutions



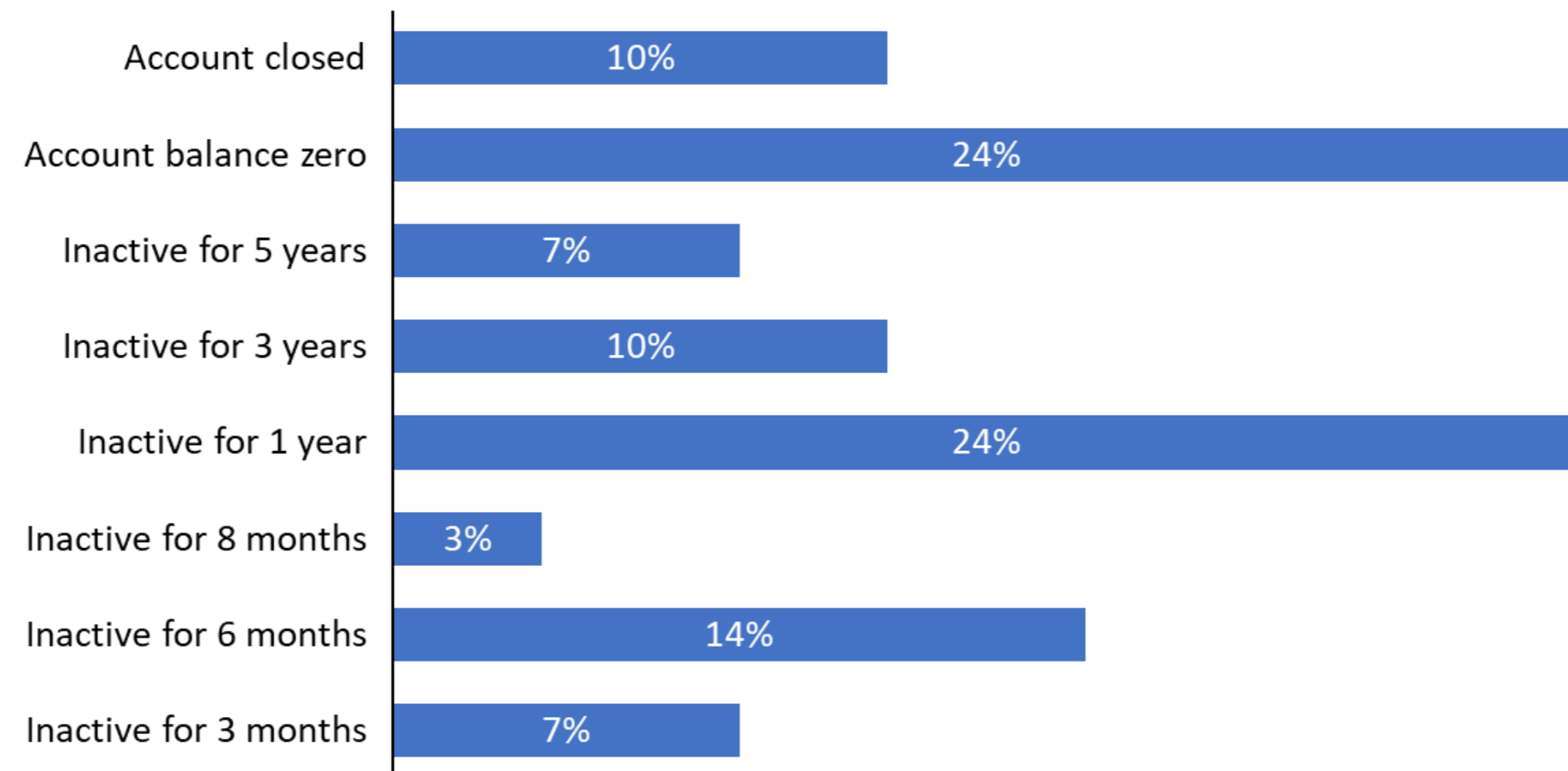
- Information gathered suggests that **more than half of the Crypto Asset FSPs have 100% of their businesses built around retail customers.**
- The activities identified span both financial markets and financial services. This will be instructive for the development of both the COFI Bill and Financial Markets Act (FMA) revisions.

- The information gathered suggests that approximately **12% of Crypto Asset FSPs have 100% of their businesses centered around financial institutions.**
- The statistics also reflect that Crypto Asset FSPs have **no customers which are retirement funds.**



# Crypto Asset FSP Demand-side Driving Factors

## Definition of Dormant Account

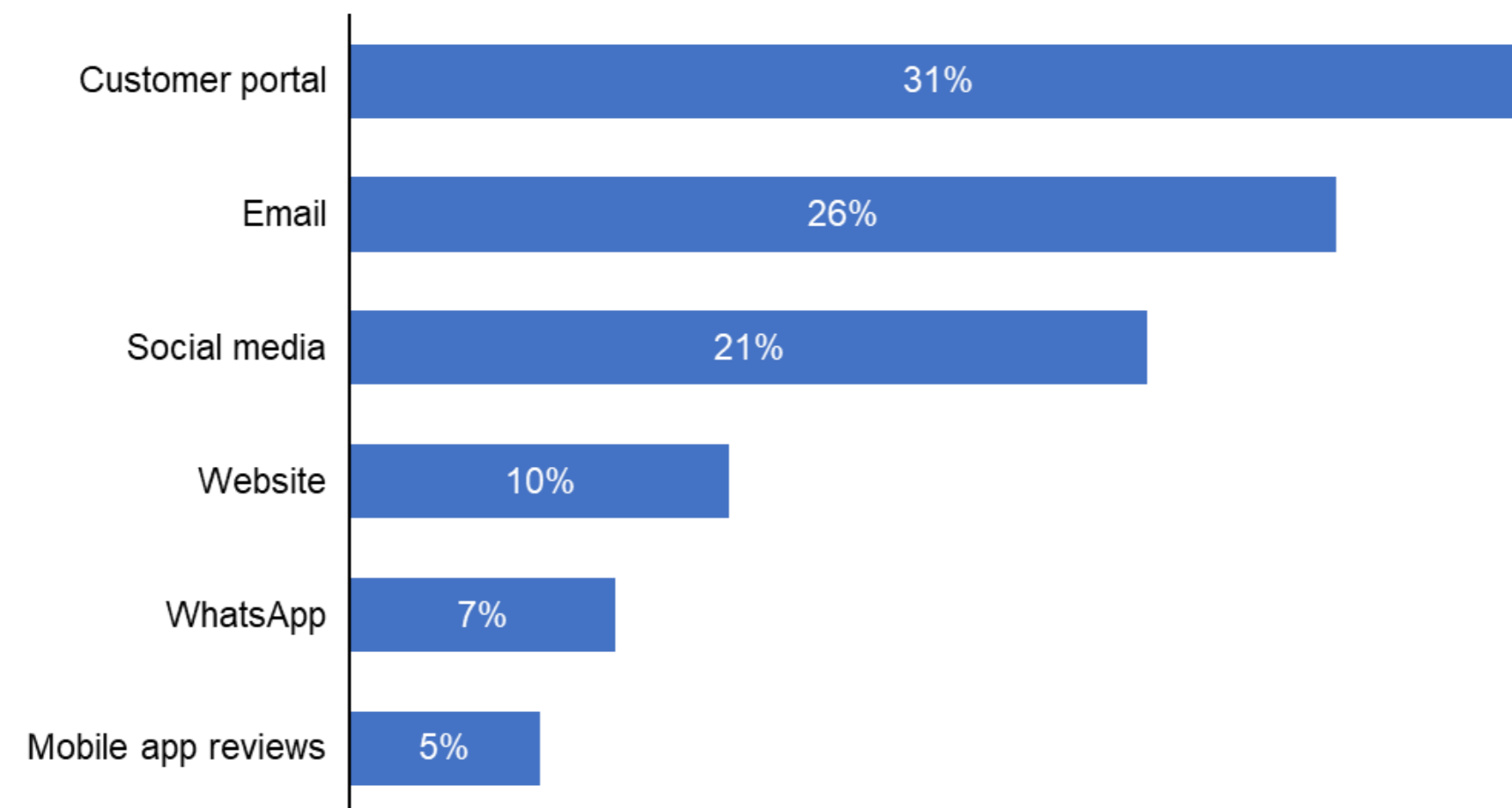


- Some Crypto Asset FSPs reported that they have **interventions in place to respond to dormant accounts**.
- For instance, their consultants reach out to customers to understand why they (the clients) have stopped using their accounts; the account is suspended until the client signs a new annual mandate.



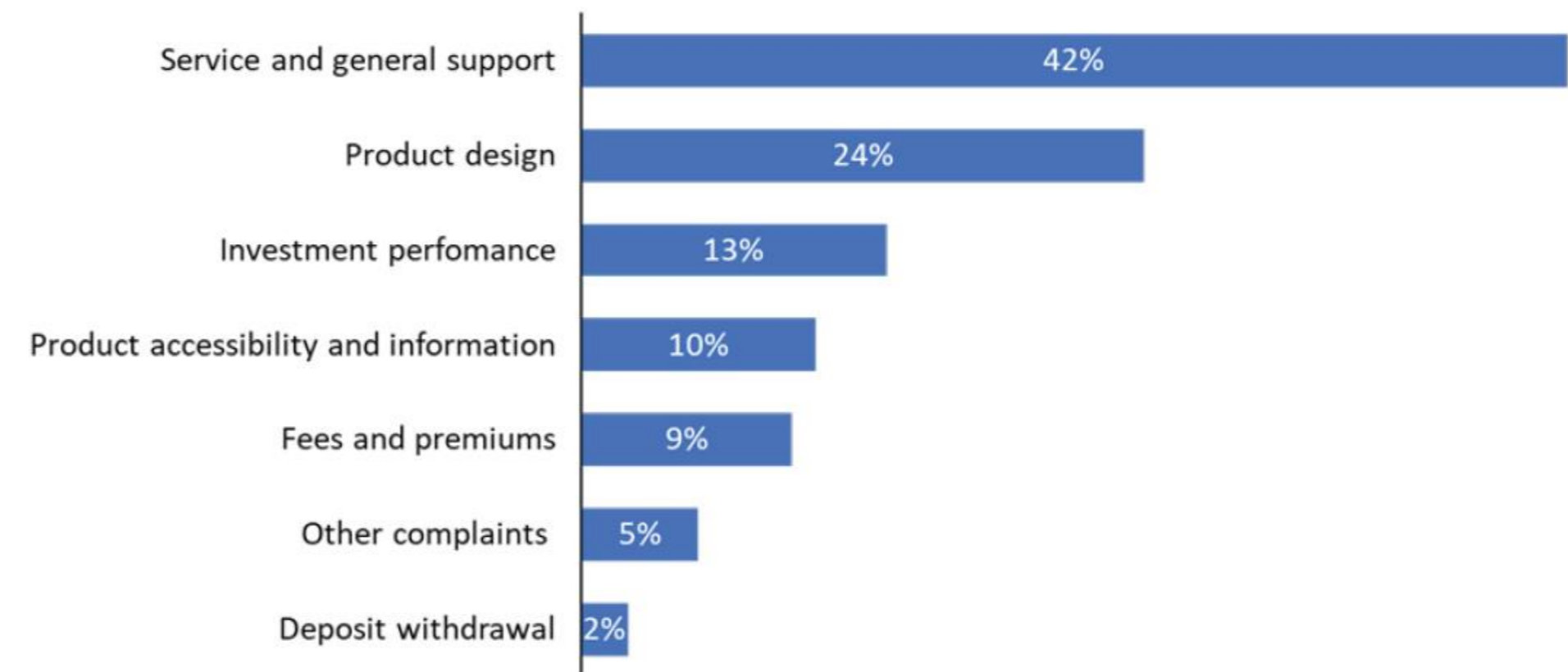
# Complaints

## Sources of Complaints



- Average number of customer complaints received between January 2022 to December 2022 was **over 1 500** and were **communicated via digital platforms**.

## Categorisation of Complaints



- A **large proportion of complaints were categorised as service and general support (42%), product design (24%) and investment performance (13%)**.
- The nature of complaints reflected suggests that the percentage of complaints relating to 'service' could be higher than reported suggesting that achieving good customer outcomes may not yet be embedded within the processes and practices of the Crypto Asset FSPs.

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## Conclusion

- The FSCA aims to **promote the development of an innovative, inclusive, and sustainable financial system** in South Africa.
  - Research undertaken in support of this objective allows the FSCA to better understand fintech and other related innovations currently taking place.
  - The findings of this research contribute to the **growing body of knowledge on financial sector innovations**, both domestically and internationally.
  - This allows us as the regulator, but also other affected stakeholders, the ability to better understand and explore how we can more **proactively assess and respond to emerging risks and opportunities**.
  - The information drawn will support the work of the FSCA, particularly in relation to the development of licensing, supervision, and regulatory frameworks for Crypto Asset FSPs, by highlighting consumer exposure to crypto assets.
  - In line with risk-based supervision, the **identified risks will support the FSCA's regulatory and supervisory approaches going forward**.
  - It is envisaged that this will assist the authority in making more informed decisions regarding the potential future regulation of crypto assets-related activities.
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THANK YOU