

FAST PACED DEVELOPMENT OF FINTECH IS LIKELY TO SPARK GREATER REGULATORY SCRUTINY IN SOUTH AFRICA

The wind of change in the financial services sector is gaining traction as financial technology or fintech is transforming how, where and when investments and payments are made.

Without doubt the era of fintech is starting to spread through the financial sector, disrupting the traditional way that this industry delivers product and services to the consumer.

These innovations have the potential to broaden access to financial products and services for all in our society and represent both a competitive threat and an opportunity for operators. The financial services industry is adopting fintech strategies by either establishing their own capabilities or collaborating with technology companies to serve their own customers better, improve risk management systems, and grow market share.

The fintech innovation is placing the spotlight on regulators and what role they can play in this new, sometimes unregulated domain of financial services. With the imminent launch of the Financial Sector Conduct Authority (FSCA), fintech will become a key focus area.

Jurgen Boyd, Deputy Executive Officer for Collective Investment Schemes at the Financial Services Board (FSB) and Chairperson of the Regulatory Steering Committee, says one of the future strategies is to focus on fintech developments, and to under-

stand the impact it will have on the conduct and inclusion mandate of the FSCA. Research will need to be conducted in this regard, to inform the FSCA's policy direction with regards to fintech, consideration is currently being given to our approach to innovation hubs, acceleration hubs and sandboxes where financial institutions can approach the conduct authority for direction on how regulation impacts on new innovative developments and to test new innovations in a safe environment, explains Boyd.

technological innovations, but in line with our new mandate as the conduct authority we need to adopt a more proactive approach. Boyd says that it is also important that we co-ordinate our approach to Fintech with other financial regulators and in this regard an inter-governmental committee on fintech has been established to ensure a harmonised approach which will include engaging with the fintech sector.

He adds that a dedicated structure will be established in the FSCA which will be appropriately resourced for fintech. "We have identified where there will be a need for different skills within the

Viljoen says globally, the emergence of new technologies in financial services is a challenge for all regulators immaterial of the regulatory regime under which they operate. Where regulators are actively promoting and supporting disruptive innovation and competition by both fintech and more traditional financial services firms, such as in the UK, Australia and Singapore, there are several common themes and approaches that these regulators have taken.

"They are dynamic in their approach, keeping an open mind and engaging closely with innovators," says Viljoen.

Examples of this include the introduction of an internal Innovation Hub by the Financial Conduct Authority in the UK and regulatory sandboxes for the development of new products and services in all three jurisdictions, as well as dedicated fintech teams.



"Whether new or amended regulatory requirements are needed will be dependent on the outcome of the above mentioned initiatives," he said.

Compared to traditional financial services providers, fintech firms have generally demonstrated nimbleness and the ability to innovate in more creative ways. Regulators, especially in emerging economies like South Africa, are more often reactive to these

FSCA ensuring that the regulator does not lag behind in skills and expertise vis a vis the industry it regulates," he says.

The FSCA will pay attention to all aspects of fintech insofar as it impacts the services being offered to the customer, the channel through which the service is offered, the entity providing the service as well as any after sales barriers a customer may encounter.

EY's Africa Financial Services Risk Management Leader Abigail

They are proactively working with all market participants, including new entrants and incumbent firms, to drive efficiency and collaboration across different parts of the ecosystem.

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