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6 trends in fintech and its regulation

By David Geral

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The South African financial sector has been waiting with bated breath for South Africa's financial regulators to map the way forward and we expect this guidance to be forthcoming early in 2019, re-invigorating an industry in suspense.



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Regulatory direction on cryptocurrencies expected

We anticipate that the South African Reserve Bank (Sarb) and Financial Sector Conduct Authority (FSCA), through the Intergovernmental Fintech Working Group (IFWG), will release a high-level position paper or draft regulatory framework for cryptocurrencies by the first quarter of 2019. We foresee such a document breathing fresh life into the cryptocurrency development space in South Africa.

‘Sandbox’ environment likely

We expect a more explicit regulatory approach to the incubation of ideas – a ‘sandbox’ environment - soon. This would almost certainly have elements of continuous oversight and a close monitoring and reporting relationship with the regulators. The main regulators are likely to be the Financial Intelligence Centre (FIC), the FSCA and SARB, and potentially the South African Revenue Service (Sars).

Cryptocurrency use cases could gain momentum

When the position paper or draft framework is released, we will probably see some pick-up in the development of cryptocurrency use cases across industry, although this should still be concentrated in the financial services industry. Some areas where increased activity can be anticipated are peer-to-peer lending and micro-insurance, and to some extent smart contract solutions for bulk logistical and distribution enterprises like shipping, trucking and rail freight.

Foreign and local interest in cryptocurrency exchanges

In 2019, we expect the stream of enquiries from existing offshore cryptocurrency exchanges, and also local entrepreneurs,

looking to establish cryptocurrency exchanges in South Africa to continue and strengthen. I think this will see entry into the South African market of a range of competitors to the few dominant players. Together with this, the regulatory spotlight will swing in the direction of cryptocurrency exchanges, probably focusing on security issues, anti-money laundering and financial crimes. Thus, cryptocurrency exchanges can anticipate slightly more regulatory focus, and should prepare for those conversations.

Digital security will be a priority

The early excitement and hype over the brilliant fintech apps that have been coming out is being tempered by a more realistic assessment. In 2019, investors will want to make sure that the apps they are considering investing in will not backfire on them. This will also be true of users, and that brings agencies like the Consumer Commission and Competition Commission into the picture. In practical terms, this will see developers going back to basics, such as by paying more attention to digital security, user-friendly T&Cs, value for money, etc.

Going beyond the base cases

Another anticipated trend in 2019 is that of fintech expanding beyond the base cases. In peer-to-peer lending, I think we will see growth beyond remittances and micro-donations to much larger-scale crowdfunding and insurance-type products, including short-term risk insurance products and co-investment structures (like mobile stokvels) on digital platforms. These types of products hold the promise (and risks) of consumers of financial services developing and administering such platforms themselves rather than the big, established players. Similarly, consumer development of payment systems is receiving a lot of attention in the international market and, increasingly, in South Africa. This is something to watch in 2019.

Financial institutions and service providers are prioritising data and data analytics - the learnings they can get from data if it is properly organised and accessible. Artificial intelligence and machine learning are obviously the end goal, but I think they are currently still stuck with an overflow of useful but unstructured data, so the priority is data cleansing and structuring, and deriving straightforward learnings from it.

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