

Creating an environment for fintech innovation

By [Kagiso Mothibi](#)

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The ability to create value out of new products and services lies at the heart of the burgeoning fintech sector. In South Africa, we face significant challenges and barriers to introduce these solutions. The first step is identifying challenges, followed by interventions where it is most needed.



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The Intergovernmental Fintech Working Group (IFWG) was established for this reason. To investigate ways to improve engagement and access in the sector by exploring and incorporating new technologies but at the same time ensuring customers are protected. The IFWG is made up of various financial sector regulators, including the Financial Sector Conduct Authority (FSCA).



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As part of IFWG's annual engagement, the first [Fintech Landscaping Report](#) was released focusing on matters that have the potential to reshape South Africa's financial services industry by removing market inefficiencies and coordinated regulatory responses needed to manage both the risks and opportunities that fintech brings with it.

One of the key themes that emerged was innovation for economic growth in the digital future – and how financial services companies and regulators can overcome the challenges hampering fintech innovation in the country.

The biggest gaps and barriers that the report identified include:

- Financing for innovation is limited. The amount of financing available for start-ups is limited and is largely geographically confined to companies in the Western Cape and Gauteng. Due to funding limitations, investors tend to be risk adverse and predominately focus on fewer, quality opportunities with a higher probability of success. This often diverges from the more enabling seed stage funding provided in more developed markets, where even companies that do not have a clear probability of success can receive funding. As a result of limited resources at the seed stage, many start-ups either fail entirely or are unable to achieve the scale necessary to access more traditional forms of capital.

Policymakers and regulators have relatively limited levers to pull regarding the operation of funding. However, one avenue that has a large impact is regulatory transparency and clarity.

- South Africa's education ecosystem is failing to adequately equip individuals with the knowledge and skills necessary to take advantage of emergent opportunities. Micro-credentialing institutions - an alternative approach to career and professional development, for example, offer opportunities for accelerated, demand-driven learning and present an opportunity to close the skills gap. However, micro-credentialing institutions are not recognised under the national qualification framework or Sector Education and Training Authority (Seta) accreditation framework. This limits the opportunity for South Africans to quickly build their digital skills in a way that is not prohibitively expensive.

South Africa's current migration policy can be improved to develop the enabling environment; while a critical skills list has been developed, this list is outdated and needs to be revised.

- Regulation that does not fully support innovation. Startups find licensing requirements complex, time consuming and expensive. The broad nature of some financial sector legislation means that startups are subject to the same regulatory requirements as traditional service providers, and the legislation has not been updated for specific requirements for new digital models of financial services. Financial sector regulators have already established the IFWG to collectively address fintech regulatory issues and the IFWG recently launched the Innovation Hub to address this gap.

The role of government in facilitating innovation

There can be no doubt that there are both constraints and opportunities for fintech innovation in South Africa – but rather than taking a 'wait and see' approach, which is reactive in nature and delays regulatory change until emerging trends are fully understood, there is a resounding need for Government to be proactive in creating an enabling environment for fintech innovation.

The launch of the Fintech Innovation Hub in South Africa is a good start and a promising example of proactive Government action to ensure that regulation keeps pace with emerging innovations.

However, regulators cannot facilitate innovation independently. To create an enabling environment in South Africa and take advantage of opportunities, the private and public sectors need to collaborate and pool human and financial resources to facilitate and drive innovation at a deeper level.

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