

SOUTH AFRICA FINTECH VISION

IFWVG

INTERGOVERNMENTAL FINTECH WORKING GROUP



South African Reserve Bank

Importance of a Fintech Vision

Financial technology (fintech) is transforming the financial services sector across the globe. It holds the potential to improve efficiency and reduce operating costs for providers and businesses, allow seamless, real-time transactions and create bespoke products by improving an understanding of the needs and behaviour of customers. This presents significant benefits in not only improving the efficiency of the financial sector, but also enhancing the financial inclusion of all South Africans – by meeting their day-to-day needs, as well as helping them plan for long-term goals and unexpected emergencies. Moreover, it is vitally important for the SMME sector from opening new avenues to access finance and enterprise products that help in areas as diverse as cash-flow management to enhancing business and digital literacy. Supporting the development of fintechs provides an opportunity not only to solve for payment, credit and remittance problems, but also provide accessible and appropriate financial products such as investments, savings and insurance at scale.

Though still emerging, fintech development in South Africa has already been catalysed by consumers and businesses alike seeking novel financial services to make payments, save, borrow, and insure against daily risks. To date, the government has embraced a pro-innovation stance, working across agencies to develop harmonised approaches to fintech, and clarifying the regulatory stance on emerging technologies and products, with the goal of benefiting the market and providing clarity with effectively managing the risks.

At a national level, the focus in South Africa is on economic transformation, inclusive growth, and competitiveness. The 4th Industrial Revolution South Africa partnership (4IRSA) - an alliance between partners from the public and private sectors, academia and civil society launched by President Ramaphosa in 2019, reaffirms a national push towards promoting the digital economy for growth. Another important initiative is the development of the Intergovernmental Fintech Working Group (IFWG), formed in 2016, comprising representatives from the National Treasury (NT), South African Reserve Bank (SARB), Financial Sector Conduct Authority (FSCA), National Credit Regulator (NCR), Financial Intelligence Centre (FIC), and South African Revenue Service (SARS).¹

This high-level Fintech Vision has been developed based on the results of the Fintech Landscaping Assessment conducted in 2019² and the recommendations that that report put forward. It is aligned with considerations of the 4IRSA, South Africa's economic strategy focusing on economic transformation, inclusive growth, and competitiveness³, and the policy framework for promoting financial inclusion⁴.

Strategic choices to fulfil the vision are based across a six-pillar framework reflecting local challenges, drivers, consideration of risks to policy objectives (specifically, financial stability and inclusion), and international benchmark learnings. Fully achieving this vision will require coordinated action by interdisciplinary stakeholders, to include the members of the IFWG, the Southern African Development Community (SADC) and other government agencies, the private sector, and civil society.

¹ Note, to be updated as status clarifies: South Africa Revenue Service (SARS) has been formally invited to join the IFWG and are already participants on the cryptocurrency working group.

² <https://www.fsc.co.za/Documents/Fintech%20Scoping%20in%20South%20Africa.pdf>

³ From National Treasury's "Economic transformation, inclusive growth & competitiveness: Towards an Economic Strategy for South Africa," http://www.treasury.gov.za/comm_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf

⁴ From National Treasury's forthcoming "An Inclusive Financial Sector for All"

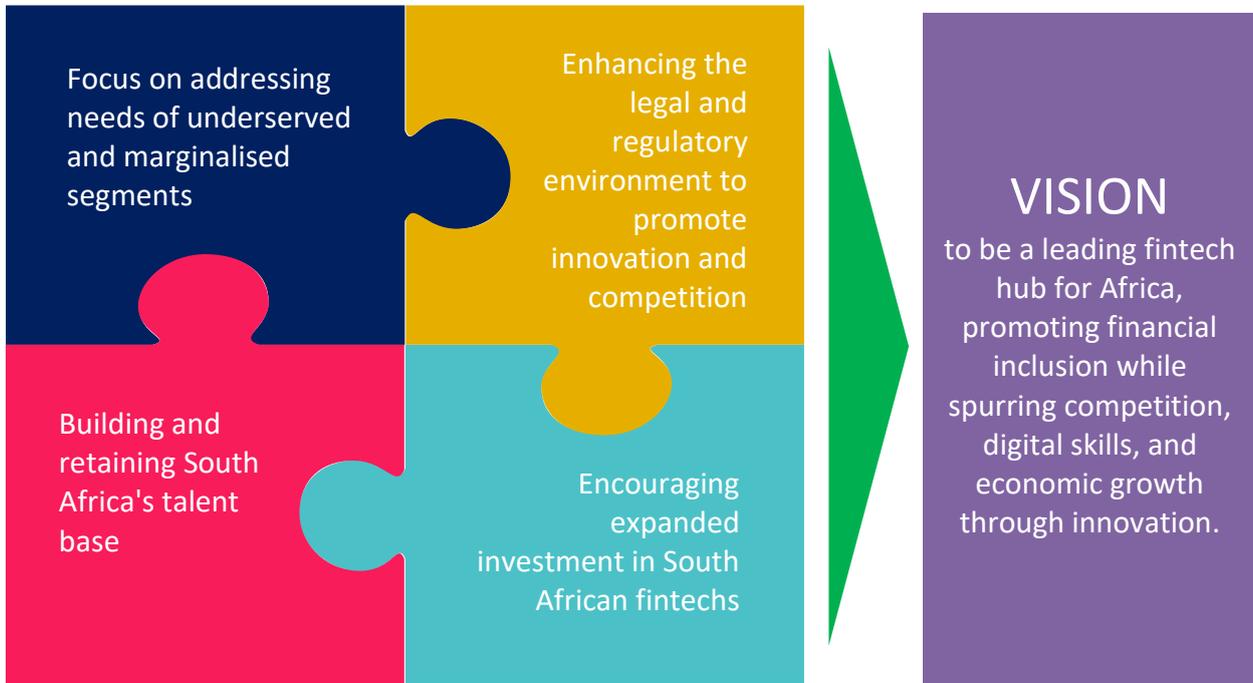


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1. The Vision

The Vision is "for South Africa to be a leading Fintech hub for Africa, promoting financial inclusion while spurring competition, digital skills, and economic growth through innovation."



Focus on addressing needs of underserved and marginalised segments: To encourage the development of fintech and advanced digital options to benefit underserved individuals and communities promoting financial inclusion. This includes promoting the responsible uptake of affordable new products, for both individuals' new avenues of access to finance for SMMEs and the digital financial capability and protection of all consumers in line with the national policy framework for financial inclusion, as well as improving efficiencies in financial services client on-boarding.



Encouraging expanded investment in South African fintechs: Incentivising investment in, and support for, South African fintechs at all stages of development, from seed to potential initial public offerings (IPO) and encouraging the role of incumbents in the fintech sector.

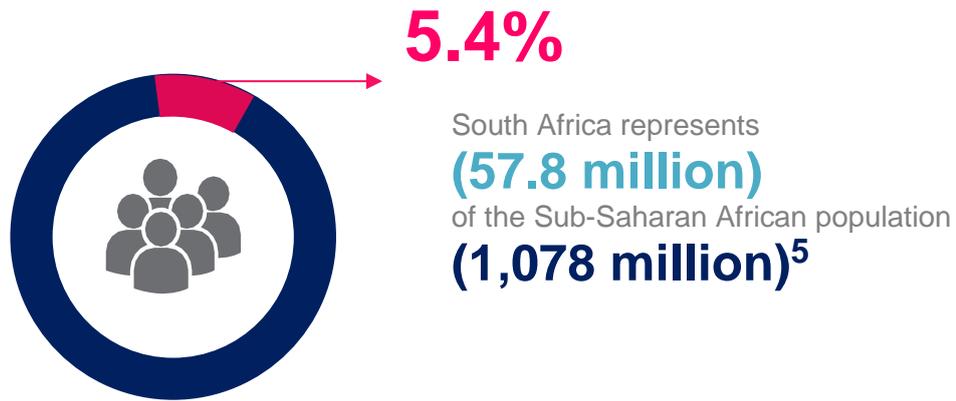


Enhancing the legal and regulatory environment to promote innovation and competition, critical to enabling the 4IRSA: Creating an enabling fintech policy, legal, and regulatory environment through the Sandbox and Innovation Hub to reduce regulatory uncertainty. This includes the review and enacting of laws, licensing regimes, public-private dialogue, and [programs specifically aimed at encouraging the development and expansion of fintech players](#) while not compromising financial stability or integrity.



Building and retaining South Africa's talent base: Investing in human capital and developing critical technical skills for fintech, by leveraging and growing South African talent, as well as attracting international expertise. Focal skillsets to be boosted through academic and vocational education span Science, Technology, Engineering, and Mathematics (STEM) and entrepreneurship -- essential to ready South Africa's workforce for new jobs in the 4IRSA and boost employment rates.

2. Drivers of South African Fintech Ecosystem



52%

Consumer transactions in cash⁶



33%

Cash out deposits immediately⁷



31%

Population remains unbanked⁸



21%

Use mobile or internet to access accounts⁹



54%

Internet usage¹⁰



81%

Smartphone penetration¹¹



86%

4G/LTE Population Coverage¹²



R1.5B

VC Investments in South Africa – but only 6.4% of that to fintechs¹³



54%

Financial literacy index score¹⁴



1.2M

Students enrolled in higher education institutions¹⁵



59

Innovation hubs, co-working offices and accelerators¹⁶



34%

GDP contribution of SMMES¹⁷

⁵ World Bank Data, 2018

⁶ Bank DE4A Report for South Africa

⁷ Finscope, 2018

⁸ World Bank Global Findex, 2017

⁹ World Bank Global Findex, 2017

¹⁰ World Bank Data, 2018

¹¹ ICASA Electronic Communications Questionnaire, 2019

¹² ICASA Electronic Communications Questionnaire, 2019

¹³ SAVCA VC Industry Survey, 2019

¹⁴ SASAS survey, 2017

¹⁵ Statistics on Post-School Education and Training in South Africa, 2018; Number of enrolled students enrolled at Higher Education Institutions

¹⁶ Intellidex, Creating a South African Regional Financial Services Centre, 2019

¹⁷ IFC, the Unseen sector report, 2018

3. Six Pillar Approach

The following are the six foundational elements of the fintech ecosystem in South Africa



Infrastructure: South Africa has strong foundations and potential to continue to grow and expand its digital economy. Digital infrastructure covers the physical and software infrastructure necessary for connectivity, ranging from faster payment networks, switches, communication networks and cloud infrastructure to end user devices.

South Africa has a well-developed National Payment System (NPS) with banks, non-banks, clearing houses, system operators and third-party payment providers all contributing to the sector.

In the 2016 World Economic Forum Networked Readiness Index, South Africa was the second best performing African country and mobile download speeds were the fastest on the continent. South Africa leads the region in indicators such as internet usage (54%), mobile phone penetration (86%), and broadband coverage (99%).¹⁸

There is a strong identity ecosystem in South Africa comprising digitized and fully integrated national ID and civil registration systems, which are built on a comprehensive national population register and the 2017 WBG Findex Indicates that 92% of the population aged 15 and above has a national ID card

Regulation: South Africa has already taken steps towards identifying stakeholders, both incumbents and fintechs, and tracking developments. The most significant hurdles include the lack of clarity on application of regulation and time-consuming licensing processes for new fintechs, as the [2019 Fintech Landscaping Assessment](#) found. Regulation is an important focus for the Fintech Vision. 4IRSA and the creation of IFWG and associated [Innovation Hub](#) -- including the Regulatory Guidance Unit, Sandbox and Innovation Accelerator -- are important developments towards creating an enabling regulatory environment for fintech.

The [IFWG](#) hosts annual [conferences](#) on pertinent topics to collect data on regulatory bottlenecks and discuss solutions. The IFWG also releases guidelines on key regulatory issues, such as crypto assets. This is also relevant to South Africa's position as a regional leader, including its membership as part of the SADC community.

Funding: The South African government has various financing and incentive programs for early stage entrepreneurs including venture capital, private equity, angel investors and bank financing, but they are not always suitable for digital entrepreneurs. Many of these channels are not accessible to fintechs during the early stages of operation and expansion because they have yet to develop a proven business model, show adequate accounting records, have not yet secured regulatory compliance, or have yet to scale, all of which makes them relatively high-

risk investments. South Africa has a growing angel investor network, supporting this and improving potential linkages to foreign risk capital will be important developments in improving funding required by early stage fintechs.

Business Support Ecosystem: The fintech ecosystem has been developing ground up with several active support organizations for entrepreneurs. These notably include service providers such as innovation districts, incubators, accelerator programs, innovation hubs, and co-working spaces, as well as event organizers and foundations. There are over 59 enablers including innovation hubs, co-working offices and accelerators, working across sectors and representing a large percentage of the 442 such hubs in Africa. These ecosystem actors act as important bridges to support systems that fintechs need throughout growth stages.

Demand for fintech in South Africa is driven by the needs of individual consumers, businesses and financial institutions. It is also driven by international movements and demand. Fintechs have an opportunity to reach consumer and business segments that are not or inadequately served by traditional financial service providers, in addition to providing tailored solutions to those who are. A 2018 survey suggested that approximately 75% of SMME credit applications are rejected, while only 2% of new SMMEs can access bank loans. This is related directly to traditional credit profiles and immovable collateral.¹⁹ Additional noted challenges to SMME finance include the lack of a dedicated national credit register for SMMEs and SMMEs not having separate legal identities from their founders (and no distinction for this in the NCA). Fintech business models can be instrumental in supporting the development of alternative credit scores and in introducing more competition into the marketplace.

Skills: South Africa has 360,000 STEM students²⁰ enrolled at public and private Higher Education Institutions, and several enablers are already in place to support fintech entrepreneurs. A more defined curricula combining tech and business to equip South African youth with 'future-ready' skills is being considered. These skills are especially critical to providing South Africa's unemployed and marginalized communities with renewed opportunities, and to prevent entrenched inequality through a growing digital divide. Studies have shown that doubling the rate at which the workforce acquires skills needed for the 4IRSA could reduce the proportion of at-risk-jobs from 33 percent to 14 percent by 2025.²¹

¹⁸ DE4A Report for South Africa, World Bank

¹⁹ IFC, The Unseen Sector Report on SMME Financing, 2018

²⁰ 1.2 million students enrolled at public and private Higher Education Institutions in 2018 (Statistics on Post-School Education and Training in South Africa, 2018),

30% of which are in STEM (Statistics South Africa, 2016)

²¹https://www.accenture.com/t20180201T173907Z_w_/za-en/_acnmedia/PDF-70/Accenture-Creating-South-Africa-Future-Workforce.pdf en

4. Objectives



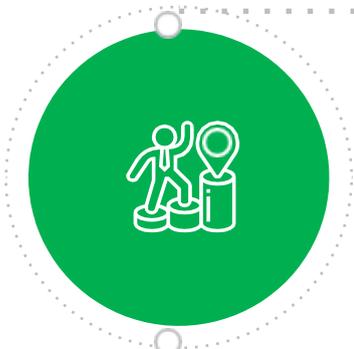
Regional Objectives

Become a fintech regional hub -- for all of Africa -- which supports the Fourth Industrial Revolution through transformation of the Financial Services sector, promoting financial inclusion goals, cross-border development, enhancing skills and supporting investment while encouraging appropriate access and progress towards a digital economy.



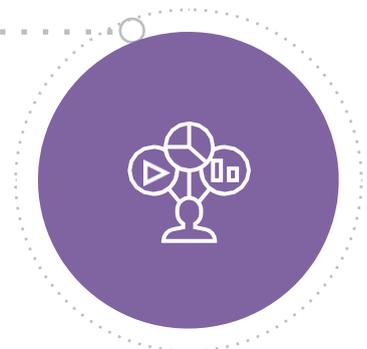
IFWG Objectives

A coordinated, public-private collaboration approach toward Fintech Policy to foster fintech innovation while ensuring a continued efficient functioning of financial markets, financial stability and protecting the rights and interests of customers and investors (<https://www.ifwg.co.za/>).



Market Objectives

Introduce more competition into the financial services ecosystem while transforming institutions to be more digital; promote collaboration with fintechs to build solutions that impact local communities; manage risks appropriately to ensure robust financial stability and integrity.



Consumer Objectives

Access to relevant and innovative solutions that meet the needs of consumers and ensure that risks - including those from players normally outside the financial regulatory perimeter are fully transparent.

5. Strategic Implementation Roadmap

Fintech Vision for South Africa

is “for South Africa to be a leading Fintech hub for Africa, promoting financial inclusion while spurring competition, digital skills, and economic growth through innovation.”

VISION STATEMENTS

1 *Addressing needs of underserved and marginalised SMME segments*

- Support the development of advanced digital payment options*
- Improve access to credit and a range of financial services for individuals and SMMEs **
- Pass the Conduct of Financial Institutions Bill (CoFi) for consumer protection
- Incentivize partnerships between incumbents and fintech players
- Support streamlined and efficient customer on-boarding
- Utilize the predictive power of credit scoring models to expand access to finance
- Promote the use of innovative savings and investment products.

2 *Encouraging expanded investment in South African fintechs*

- Promote the South African fintech ecosystem at local and international events
- Provide platform for fintechs at the Annual South African Fintech Conference
- Grow South Africa’s angel investor network and improve linkages to foreign risk capital
- Review public sector financing channels tailored for fintechs
- Encourage large financial institutions to invest more in digital platforms and outreach
- Explore the use of alternative finance such as crowd funding platforms.

3 *Enhancing the legal and regulatory environment to promote innovation, competition, and stability*

- Institute dedicated fintech units at the regulators to both enable fintech, monitor trends and mitigate risks – including data privacy and cybersecurity
- Set up an Innovation Hub to facilitate collaboration and promote ecosystem growth
- Launch a Regulatory Sandbox to test new innovations
- Coordinate with the SADC region on fintech policy and learnings
- Specialized support to access the SME credit guarantee instrument released under COVID-19
- Support the move towards open data and APIs to create a level playing field.

4 *Building South Africa's talent base*

- Create a revised critical skills shortage list
- Promote Digital Financial Capability for Consumers
- Promote learning in Science, Technology, Engineering and Mathematics (STEM)
- Collaborate with relevant stakeholders to develop fiscal and non-fiscal incentives to attract and retain talent to the local fintech ecosystem.
- Reduce the ‘Not in Education, Employment, or Training’ (NEET) rate significantly through the fintech sector

* Reflects recommendations from the forthcoming National Treasury Financial Inclusion Policy measures;

** 75% of SMMEs struggle to get access to finance

6. Governance

IFWG, set up in 2016 to explore how regulators can more proactively assess emerging risks and opportunities in the market and develop a harmonised approach to fintech-driven innovations for the benefit of all South Africans.

Innovation Hub¹: dedicated to fuelling ecosystem growth, providing a space for safe experimentation and actively advancing innovation. It encourages fintech start-ups, invests in youth talent and funds the necessary infrastructure to spur new fintech trends.

Innovation Accelerator: exists to provide a collaborative, exploratory environment for financial sector regulators to learn from and work with each other – and the broader financial sector ecosystem – on emerging innovations in the industry.

Summits and Workshops: Platforms that creates space for regional and global dialogue, understanding and coordinated action.

The Presidential 4IR Commission was convened and is led by the Department of Communication and Digital Technology.

The inaugural 4IRSA Digital Economy Summit was the start of discussion on a national 4IR strategic response for South Africa.

Regulatory Guidance Unit: exists to help market innovators resolve specific questions regarding the policy landscape and regulatory requirements.

Regulatory Sandbox: A space for experimentation to enable testing for new and existing firms in a live but controlled environment.



Looking Forward

Looking to the future and taking into consideration the strategic choices across the six-pillar framework, the IFWG is committed to supporting and empowering the environment for fintech to achieve the vision.

We recognise that fintech can generate greater access and usage of financial services to reach underserved individuals and businesses helping to drive the positive impacts of financial inclusion. Fintech also creates an opportunity for South Africa to apply the comparative advantages of its strong financial services sector – including capable financial services regulators, strong business infrastructure, skills and liquid capital markets, among others – to consolidate and advance its stature as the financial centre for Africa.

South Africa has adopted a pro-innovation stance and will continue to develop its harmonized approach to fintech and clarifying the regulatory stance on emerging technologies and products, with the goal of benefiting all South Africans.

Glossary

4IRSA: an alliance between partners from the public and private sectors, academia and civil society launched by the President in 2019, that creates a space for stimulating dialogue, understanding and action to shape a coherent 4IR plan for South Africa.

Financial Institution: establishment that conducts financial transactions such as deposits, loans and investments; includes banks, microfinance, and insurance companies.

Fintech: advances in technology that have the potential to transform the provision of financial services spurring the development of new business models, applications, processes, products, or services. (*IMF-WBG Bali Fintech Agenda*)

Fintech start-up: companies, usually of a small size and enjoying fast growth, that are leveraging technology to produce, deliver or enable financial services.

Fintech incubator and fintech accelerator: Two types of ecosystem support programs to encourage start-up growth. Incubators are designed to "incubate" disruptive ideas,

aiming to help generate a business model and company from these. Accelerators are aimed at "accelerating" growth of a company that is already operational.

Fintech Hub: platform with physical and virtual presence to act as a flagbearer and one-stop-shop for all fintech related matters; facilitating ecosystem collaboration and talent development.

IFWG: The Intergovernmental Fintech Working Group (IFWG) was established in 2016 with the objective of creating a forum for regulators to gain deeper insights into fintech innovation. This is in order to regulate and foster responsible innovation to help ensure the continued, efficient functioning of financial markets and financial stability, and safeguarding of customers' interests. The founder members are the Financial Intelligence Centre, the Financial Sector Conduct Authority, the National Treasury and the South African Reserve Bank. IFWG membership has grown since its establishment and it now includes the National Credit Regulator and South African Revenue Service.