FINMARK TRUST

Making financial markets work for the poor for 20 years

Digital Transformation of Financial Services

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About FinMark Trust

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- Purpose of ‘Making financial markets work for the poor, by promoting financial inclusion and regional financial integration
- Ensure economic inclusivity and linking financial inclusion to the real economy
- In partnership with Southern African Development Community (SADC), SADC Banking Association (SADC BA) and the Committee of Central Bank Governors in SADC (CCBG). At country level engagement with key partners at include Central Banks, Financial Service Providers (FSPs) Ministries of Finance, Ministries of Trade and Investment, Ministry of Agriculture, Treasury Departments and National Statistics Officers.

Overview of digital transformation of financial services

What do we mean by digitalisation in financial services?

It is not just:

- Digital financial services
- Digital access to financial services
- Outsourcing and the use of technology by FSPs

It is:

- The effect of the digitalisation of processes underlying financial services
- The impact of the mainstreaming of digitalization in the economies of the world
- The effect of consumer acceptance and demand of digitalisation

What are the drivers of digitisation?

- New realities unfolding
  - increasing communication capabilities, computing power –
  - Increased availability of data
  - digitisation requires data – the more data available the easier to digitize
- Ease of process integration
  - standardisation and ‘open’ systems/technology and the data availability enables this
- Vertical integration – value chain integration for efficiency (and control)
  - enabler of digitisation of processes – digitalization across value chain
- Increased availability and scope of technology and data-based services
  - artificial intelligence and machine learning, cloud computing, APIs, etc.
- Acceptance and demand by consumers – individuals and enterprises
  - the last two generations are technology generations – COVID restrictions forced digital use – enterprises have to adapt to demand and to ever-changing business and operational realities

- Mobile phone penetration 515 million (47% are smart phones) in 2021 (GSMA 2021)

Mobile penetration in Africa (GSMA 2021)

Geo scope	Internet access at home	Individuals using internet	Women
Africa	14.3%	28.6%	20.2%
World	57.4%	51.4%	48.3%

Evolution of commerce and trade

- Examples
  - Digital platforms
  - e-hailing – Uber
  - Rental – AirBnB
  - e-commerce – Jumia, Takealot, Uber eats
- Characteristics of digital platforms
  - More than 80% of digital platforms operating in Africa are homegrown
  - Platforms have emerged across several distinct economic activities
  - Platforms are generally accessible via web interface and mobile apps

Role of Financial Services

Implication for FSPs

- Types of FSPs
  - Bank and non-bank (FinTechs, mobile money operators)
- Need for digital Customer Due Diligence
  - API integration with foundational national ID database
- Reduce cost of onboarding through virtual customer onboarding
- Better understanding of customers through data sharing protocols and partnerships
- Need to digitise delivery channels for payments, remittances, savings, credit and insurance
- Market entry of digital banks (Discovery Bank, Tyme Bank)

Business models: FinTech

FinTech

- FinTech refers to digital technologies that have the potential to transform the provision of financial services spurring the development of new – or modify existing – business models, applications, processes, and products
- FinTech firms take different forms – from a technology incubation (app) to technology maturity and deployment – JUMO to complete market engagement capacity - Yoco
- Spans the range of FSP capabilities - web, mobile, payment services, product services, machine learning, digital ID, peer-to-peer lending services and application programming interfaces (APIs)
- Lacks scale on their own – often needs to partner with established market participant – banks and others
- Innovation and competition inherent in FinTech
- South Africa, Kenya and Nigeria are the FinTech hubs in Africa

Business models: Big Tech

Big Tech

- A Big Tech firm is a large company whose primary activity is digital services - Apple, Alphabet (Google), Meta (Facebook), Tencent, Alibaba (maybe Microsoft)
- More will and are emerging
- Big Tech firms entering financial services can scale up rapidly with user data from their existing business lines
- Entry of Big Techs into financial services gives rise to new challenges surrounding the concentration of market power and data governance - traditional policy concerns such as financial risks, consumer protection and operational resilience are still relevant
- Current framework for regulating financial services follows an activities-based approach - FSPs hold licenses for specific business lines - Big Tech firms do not fit this mould - scope to address the new policy challenges by developing specific entity-based rules – EU, China and the US considering
- Probably face more regulatory scrutiny than other firms – reputational burden – Facebook/Meta and the Libra saga

Business models: Banking-as-a-Service (Baas)

- BaaS is a B2B service allowing banks to lease their infrastructure.
- BaaS clients are retailers, fintech startups, and any other organizations wishing to carry out finance operations but do not want to organize their own bank
- The BaaS model is similar to renting cloud resources from third-party providers
- The “lessee” – Baas user - chooses what tools to use from the banking infrastructure:
  - payment processing
  - card issuance
  - credit facilities
  - credit management
  - real-time cash flow
- Useful for ‘neobanks’

Business models: Platform banking

- Platform banking is a digital marketplace, owned and operated by a bank or another entity, that provides banking and often nonbanking services - digitally
- Platform banking take two forms
  - Banking and financial services as a platform, with supporting services
  - Digital platforms supporting specific industries, with supporting financial services - agriculture
- In Africa the agriculture and similar platforms are well-established
- Big Tech by definition use the platform model – FinTech firms sometimes also employ this model
- Advantages of efficiency and convenience
- Concerns about ‘excessive’ market power and opaque service terms

Regulatory implications

The impact of digitalisation on the regulatory environment

- The impact on regulators is and will be significant
- The current regulatory framework is based on a view of the financial services landscape that is increasingly outdated
- The regulations cannot be just functionally based (current), they may have to be model-based – even provider-based, but that is unchartered waters
- The landscape is becoming more complex – requiring additional skills, additional data
- Greater coordination within country across all involved regulatory authorities is required: financial, consumer protection, competition, data privacy, communication(and technology) and others
- Balance competition and stability
- Active interaction on a global basis – global platforms, FinTech firms, Big Tech
- The assumed distinction between access to financial services and the world of trade and commerce is blurring – inter-governmental alignment
- Balance financial integrity and financial innovation through capacity for regulatory sandboxes

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20 years of making financial markets work for the poor

Thank You

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