Crucial moment for fintech as policy makers play catch-up

Financial technology (Fintech) has figuratively been the talk of the town for quite some time. In the past few years the industry has pioneered a new world order, where the traditional banking setup has been turned on its head.

Brick-and-mortar banks are scrambling to include fintech in their offerings, and to partner with - or buy - maverick fintech companies. Beyond the capability of transforming the financial services industry, fintech has the unique ability of making a lasting social impact on society.

Dave van Niekerk, Executive Chairman of MyBucks, a Frankfurt-listed fintech with operations in Europe, Africa and Australia, says fintech is able to take businesses anywhere. "Fintech is largely unmatched in its ability to bridge financing gaps and bring underbanked and excluded segments of the world population into the mainstream economy. It is able to do this because the digital revolution has meant that bankers are now able to reach the most remote regions of the world without having to invest in expensive infrastructure."

Beyond this reachability factor, artificial intelligence and a host of smart technology has meant that the traditional method of building up a credit record is not the way of the future.

The profitability and scalability of fintech has caught the attention of investors. According to CB Insights fintech report in the first quarter of 2018, venture capital-backed fintechs raised $5,4-billion in 323 deals globally. That's just in the first quarter of this year.

Businesses and funds are pouring money into fintech because of its unique position of changing the financial services industry. Highly competitive peers push the boundaries of what's possible and bring to consumers innovative lending, banking and insurance products like never before.

Enter the policy makers

As with any industry, once the proof of concept has been well-documented, the regulators and policy makers start to play catch-up. It is inevitable and correct. A set of responsible rules by which everyone must play has formed the backbone of the free market economy since the Second World War.

However, a recent PwC survey of global CEOs has found that one of the top concerns of business leaders around the world is over-regulation. Irresponsible regulation can suffocate business, stifle growth and all but stall investment.

The City of London, while currently undergoing levels of uncertainty and insecurity triggered by Brexit, is a world leader in finance. It is the finance capital of Europe and banks are scrambling to set up offices in other European centres such as Frankfurt and Dublin before the March 2019 deadline that has been set for Britain to leave the European Union.
However, there is another side to the City's banking prowess. The City of London is also a leader in fintech and their regulators have, according to many experts, set the tone for responsible regulation around fintech.

At this year's Innovative Finance Global Summit, the City of London was highlighted for its progressive regulation, with special mentions going to the government, the policy makers and regulators. The question was asked, will other jurisdictions follow suit?

Developing market regulation
Africa is a frontier market that presents massive opportunities for businesses to unlock real economic value as well as leave a lasting positive social impact.

Fintech has changed the game in Africa. Logistics and infrastructure is one of the biggest impediments to investment and growth on the continent, meaning the barrier to entry is huge. For instance, a company that wants to set up a mine often has to think about the surrounding infrastructure.

Often the business needs to build the primary site, then invest in roads and ports in order to create the infrastructure required to do business. It is obvious that without huge capital this is just not possible. Fintech circumvents this challenge, so that with little capital overheads, it is able to do business that just a decade ago would be too expensive.

"It is for this reason that fintech is making such headlines on the continent. However, there generally is a lot of red tape on the continent. Obviously, businesses do their utmost to tick all the boxes but the more onerous the regulation, the more it hampers doing business," said Van Niekerk.

“Regulation is important. There is no question that all industries need regulation of some kind to protect consumers, but there is a fine line and it has to be done in a way that doesn’t impede business, but rather enables conditions for growth.”

Van Niekerk said that regulation in specific territories is very important when MyBucks does due diligence on new markets. “We have to comply before entering a market. Compliance is a business risk and if compliance is made near-impossible then a business will reconsider its options elsewhere. That being said, MyBucks has a very good standing in the markets where it operates, and we have also been recognised for our social impact.

“Countries want investment and growth in order to meet their internal challenges, and many countries in Africa are fast becoming a business-friendly environment.”

South Africa like many others is behind the curve when compared to London, but actively looking at the fintech space. The Intergovernmental Fintech Working Group (IFWG) has recently released a report after its workshop in April to identify what it calls key considerations in developing a harmonised approach to fintech regulation.

The report said: “Improving overall social welfare may be one of fintech’s greatest promises; however, it can also pose risks to consumer protection and overall stability.”

The workshop had the aim of identifying the risks and benefits involved in fintech (which have been known for quite some time by active players in the industry), the regulatory challenges faced by companies in SA and listen to input aimed at trying to encourage regulators to take an approach that would result in appropriate policies.

“While true free-market and business minds will argue that innovation and development is best left to market forces and freedom to conduct business, the reality is that consumers need to be protected. At MyBucks we understand this and support all measures to ensure consumers are not exploited as well as efforts to mitigate macroeconomic finance and fiscal risks, such as money laundering.

“However, we would urge the Financial Intelligence Centre, Financial Sector Conduct Authority and the Reserve Bank to seriously consider the interests and concerns raised by the business community. At the end of the day, the potential for financial inclusion is built into the very nature of fintech and restricting its ability to leverage technology by unnecessarily strong-handed legislation will defeat the point. However, we remain optimistic that policy will move in the right direction” said Van Niekerk.

A future with regulation

Regulation and compliance will always be a contentious issue, with non-compliance being a serious business risk. However, looking at the European Union and the way it is handling Facebook, Google and digital privacy, the future no-doubt includes regulators in different countries working together and learning from each other to try and keep pace with developments in the digital economy.

The opposite end of the spectrum is the heavy-handed approach to blockchain technology and other innovations in the Far East, which according to many in the digital economy is the incorrect approach.

“As fintech companies we have to watch as regulators around the world do their part to ensure that we are part of that conversation.

“Indonesia, a very attractive market by demographics, is currently working through fintech policy. Currently all fintechs, of which there are 235, need to be registered, implement consumer safeguards and commit to transparent reporting. There is talk that there is more in the pipeline and so it will be interesting to see where the balance between innovation and business ease is drawn with consumer protection and potentially stifling regulation,” said Van Niekerk.

However, much like a tsunami approaching the coast, there is a sense of inevitability about fintech. Coastal villages and cities will implement the best possible safeguards and evacuation policies but one thing they cannot do is stop the tsunami from making landfall.

Where the analogy is incorrect, is that instead of destruction, the fintech wave brings with it financial inclusion and digital transformation of dinosaur industries. This is a wave the world needs, and the proof will be in the eating of the policy pudding as it is served up around the world.

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About MyBucks

MyBucks S.A. (WKN: A2AJLT, ISIN: LU1404975507, Ticker Symbol: MBC:GR) is a FinTech company based in Luxembourg that delivers seamless financial services through technology. Through its brands GetBucks, GetSure, New Finance Bank and Fairgo Finance, the company offers impact loans, unsecured credit, banking solutions as well as insurance products to customers. MyBucks has experienced exponential growth since its inception in 2011 and today has operations in eleven African and one European countries as well as in Australia. MyBucks aims to ensure that its product offering is accessible, simple and trustworthy, in comparison to traditional, non-technological methods, ultimately working towards enhancing the benefits to the customer. The MyBucks’ product offering enables customers to manage their financial affairs easily and conveniently.

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