By Johan Fourie

FINTECH

Banking on an inclusive digital revolution

SA fintech firms are working towards innovation and banking the unbanked but government support is needed.

If Covid-19 has done one thing, it is to lead a digital revolution. South African fintech firms have prospered. In early February, Mama Money, an app that facilitates international money transfers, announced growth in the volume of transactions of more than 500% in 2020.

"The pandemic has pushed brick and mortar institutions," says founder Mathieu Coquillon, "to explore new channels and markets that were not a priority before, especially when it comes to providing financial services for underserved communities." Where this could not happen, fintech start-ups like Mama Money have filled the gap. "The biggest impact that we are excited about is how fintech will change the lives of marginalised and underserved communities to allow for upward mobility. Cost and access remain a massive barrier and we are actively working to change that and enhance financial inclusion." Mama Money is not the only good news story for those unable to access traditional financial services.

TymeBank is a digital bank with over 2.8m customers since its launch two years ago. In late February, it announced a successful funding round of more than R1.6bn. It already adds around 110 000 customers every month, making it one of the fastest growing neobanks in the world, according to CEO Tauriq Keraan, and the funding will help the company grow faster in new markets. What made you start another bank, I ask Keraan. "SA has a mature banking sector but banking fees are still amongst the highest in the world and net promoter scores are low. This means that the satisfaction levels and perceived value amongst customers often do not meet their expectations and this creates opportunities for challenger banks."

But banking the unbanked has been on the development agenda for several decades now, with limited success.

I asked CEO Clayton Hayward of Ukheshe Technologies, a global digital-first financial services enabler that facilitates millions of payments across Africa, why this time is different. "The issue is about delivering services that address fundamental gaps faced by unbanked people, such as broadening card acceptance networks, improving access to cross-border remittance, helping SMEs to adopt e-commerce, and improve access to lending options for SMEs. It's not just about banking the unbanked but about servicing the market with relevant financial propositions."

Innovation is not just coming from banking and transfers, but also payments. Chris Zietsman, CEO of Snapscan, a mobile payments solution with a network of more than 60 000 merchants across SA, lists three things that drive fintech innovation: the availability of existing infrastructure (or lack thereof), the regulatory environment, and scale ratios. "Some developing markets have very cheap access to data, high penetration rates of smartphones and regulation that favours mobility of money. Consider WeChat and Alipay in China and other Asian markets. Many African countries have low smartphone penetration, but they have telcos with a vast network that can facilitate USSD volumes. Here, in markets that used to operate solely on cash and where the majority of the population were unbanked, mobile money wallets that work on feature phones have been very successful."

Mathieu Coquillon
Founder of Mama Money

Tauriq Keraan
CEO of TymeBank

Clayton Hayward
CEO of Ukheshe Technologies

Does this mean developing countries have an advantage when it comes to fintech innovation? Co-Pierre Georg is associate professor of economics at the University of Cape Town and coordinator of the only master's programme in fintech on the continent. "It is true that we used to have an edge over the US and Europe. Two years ago, Cape Town and Joburg had a thriving fintech ecosystem with around a dozen incubators and hundreds of start-ups, in particular in the remittance space. But support by the government and established financial institutions has decreased in my opinion. I think this is a reflection that the industry is maturing. We are exceptionally strong in remittances and have a handful of strong AI companies, but the success stories are insular. The Intergovernmental Fintech Working Group has done a lot of good in this space, but what we need is an integrated plan that includes skills development, mentoring, funding and government support."

How can government help? Says Georg: "Reliable government partnerships are generally missing. Digital identity is a key component of building critical financial infrastructure. But the department of home affairs is struggling to stay in the 20th century with its infrastructure, let alone join us in the 21st. It is encouraging, by contrast, to see a willingness from the SA Reserve Bank to innovate."

I asked Keraan whether TymeBank encountered any regulatory hurdles that stalled their innovation. "The primary role of regulators is to protect customers and to ensure that no systemic risk is introduced into the banking sector. That being said, I have found the regulators very supportive. For example, whilst it took us a long time to obtain permission to host the bank in the cloud prior to launching, we eventually did (unlike many other developing countries) and this has paved the way for other banks to now do the same."

Coquillon agrees: "Regulation is necessary for financial services to protect consumers from predatory rent-seeking behaviour and to combat uncompetitive collusion. But a big challenge for policymakers is keeping up with how quickly new technologies develop. What could really help nurture fintech start-ups is a sandbox environment where new products can be tested." Covid-19 and the lockdowns that followed forced innovation at a scale that was not possible before. But to sustain that level of innovation post-Covid and ensure the type of inclusive growth that SA so desperately needs will require a nurturing regulatory environment. Policy makers should take note. ■

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