

Finetuning fintech regulations

With fintech dominating trend headlines for 2019, and updated guidelines anticipated soon from the Intergovernmental Fintech Working Group (IFWG), now's the time to focus on what regulation should entail. Ideally, it needs to entrench financial stability whilst enabling innovation. But more than anything, it needs to be clear.



Nkosana Mashiya, executive director, Capitec Bank

"Unless the rules are written clearly, a lot of regulatory arbitrage takes place merely because of inconsistent interpretation of the regulated entities," says Nkosana Mashiya, executive director of Capitec Bank.

A recent *VentureBurn* [article](#) echoes this point, with fintechs in less chartered territory like cryptocurrency citing unclear policy as one of the biggest barriers to getting a start-up off the ground. Described as "square peg in round hole" ventures, these fintechs don't naturally fit in the current legal framework. This is often because the regulation is drafted reactively.

But, encouragingly, the same article says South Africa is ahead of the curve from a regulation standpoint. From an innovation perspective, Mashiya says the South African Reserve Bank (Sarb) has demonstrated a cautious but embracing attitude towards innovation in the sector. "Policy must embrace the power of innovation brought about by fintechs. I think there are massive medium- to long-term benefits for depositors and policyholders that can be derived by tapping into the innovative power of fintechs. Competition in the sector is also likely to improve."

Experts have suggested a sandbox environment is a likely trend for the fintech space this year, with a testing environment that encourages closer oversight and more feedback with regulators. Additionally, greater involvement by the consumer and competition commissions will ensure there's heightened attention to things like data security.



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For Mashiya, this marks an opportunity for some to stand out, "The financial companies that will set themselves apart from the rest are those that can consistently demonstrate the security of clients' personal information trusted with them. I believe it takes one major data leak for a fatal loss of public trust in a company entrusted with client's personal information. For me, Protection of Personal Information (PoPI) merely provides a set of principles and guidelines to ensure the security of personal information for what is essentially a fundamental business imperative."

3 pieces of advice from a policy perspective for fintech start ups

1. Seek legal counsel and make sure you're thoroughly versed in the policy side of things. Also, seek out and learn from similar start ups that are further along in the process.
2. Build relationships with regulators and take advantage of the sandbox environment, should this occur. It'll create a controlled framework for experimentation and innovation, with regulator supervision. This means lots of regulatory support and the chance to provide immediate feedback.
3. Keep capital aside for the financial services licences you need.

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