

## How will South Africa's financial sector adapt to the Fourth Industrial Revolution?

by Lara Lindeque

Over the past year, South Africa has seen some significant changes impacting its commercial financial landscape.

On the regulatory front, there has been an overhaul of the financial sector regulatory framework, including the implementation of the "twin peaks" model of regulation, comprising the Prudential Authority and the Financial Sector Conduct Authority ("FSCA").

On the development front, we have entered an era coined the "Fourth Industrial Revolution" characterised by features such as crypto and other digital currencies, FinTech, artificial intelligence and the increasing need for cybersecurity.

Will South Africa be prepared for these changes? Expert speakers at the recent Innovation and Cybersecurity Conference held by the South African Reserve Bank ("SARB") seem to be positive in this regard, with many foreseeing promise for a dynamic and robust approach to the development of the South African financial sector.

Below are some key points that were raised at the conference:

- The Financial Sector Conduct Authority ("FSCA") made it clear that it intends to serve as a catalyst for development. A core focus of the FSCA will be to facilitate inclusion of the unbanked and the underbanked in the financial sector.
- The anticipated codes of conducts and regulations mandated by the Financial Sector Regulation Act, 2017 are in the process of being drafted, and will be published and gazetted in the coming year.
- The FSCA and the Prudential Authority intend rolling out "innovation hubs" and "sandboxes" for FinTech providers, which will see a process of mutual engagement, testing and learning for both parties before the particular product is approved. The SARB has also established a FinTech unit to encourage responsible development in this area.
- A shift towards collaboration between all role players in the financial sector is going to be a fundamental driver for effective development. ENSafrica's Angela Itzikowitz raised the point that the National Credit Act, 2005 must be revised in order to allow for "peer-to-peer lending".
- Although cryptocurrency is currently unregulated in South Africa, regulators are in the process of deliberating future regulation. Furthermore, it was made clear that as a consequence of section 29 of the Financial Intelligence Centre Act, 2001, all persons, including cryptocurrency exchanges, are under a duty to report suspicious transactions.
- Data management and protection will be a significant focus moving into the Fourth Industrial Revolution, and this goes hand-in-hand with developments in artificial intelligence and cybersecurity.
- In terms of the EU General Data Protection Regulation ("GDPR") adopted by the European Union in May 2018, all businesses that transact with European citizens must comply with its provisions, failing which significant fines may be incurred. To this end, the South African government has committed to embrace the provisions of the GDPR. Additionally, and specific to South African citizens, the Protection of Personal Information Act, 2013, is also set to gain more traction.

With the rapidly changing financial sector, it imperative for all role players to continuously review their business for compliance with the new, and impending, legislation. In an age where financial services are being provided by new third party entrants into the market, role players should remain at the forefront of developments to ensure continued commercial longevity.

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