

A robust FinTech regulatory framework is crucial to Africa's financial prospects

By Emmanuel DeGroot, Regional Head of Compliance, Africa and Middle East for Standard Chartered.

Over the last decade, Africa has witnessed a sweeping transformation in the financial sector. Millions of formerly unbanked Africans today use banking facilities with the touch of their fingers through mobile applications. With the introduction of data analytics and AI in recent years, the decade old digital transformation that brought financial inclusion to the most remote households across the continent is now shaping into a new wave of change. The wave has also seen the growth in the importance of FinTech, which promises financial inclusion also emerges as a critical catalyst for further prosperity and accountability.

FinTech provides a viable solution for the prevalent insufficiency of financial prosperity and inclusion in the region. Even with the ongoing digital transformation, Africa is still largely unbanked with about 60 per cent of the population not having a bank account¹, harbouring an ideal scenario for the large-scale introduction of FinTech.

However, as with any technological advancement, the prospects of FinTech led prosperity bring a host of risks and a sound regulatory framework is the only approach that can promote fair outcomes for people and reduce the risks of predatory practices against vulnerable customers.

Implementing a regulatory framework for FinTech could support the development of a more digitised and robust financial system as well as pave the way for more innovation and frictionless digital banking solutions. With the threat of cyber-attacks, data vulnerability, fraud and more, FinTech can negatively impact stakeholders, FinTech entities, and banking and nonbanking participants, which is why it is imperative to strengthen safeguards and supervision in order to promote consumer safety, financial stability and market confidence.

The introduction of appropriate regulations can promote transparency and strengthen defence mechanisms to mitigate risks of cyber-attacks, breach of consumer data, fraud and money laundering. Therefore, it is important for FinTech providers to work together with governments, regulators, banks and banking customers to take a lead on forging new models for combating financial crime while raising industry standards.

It is also important to note that there is no "one-size-fits-all" approach to developing a regulatory framework, particularly in the digital banking space where innovation and change proceed at a rapid pace. However, benchmarking against international digital banking and FinTech regulatory standards can also help to adopt best practices that currently exist and can be potentially implemented in the market.

Similar to the FinTech task force established by the European Union to reshape its ability to respond to developments in financial technology², establishing a task force or federation consisting of financial institutions and FinTech entities in Africa could be a starting point. Successful frameworks will highlight issues of transparency and information sharing; cyber security and control standards; as well as outsourcing and offshoring of data.

Due to the rapid rate of innovation involved in the current FinTech market, regulatory frameworks must be enabling and inherently flexible, while continuing to promote safety and mitigate risk. Successful regulation will also need to be specific to the product or market, as opposed to a general, overarching law that groups all FinTech products and services into one. Regulatory 'sandboxes'³, testing grounds for new business

¹ [https://www.ey.com/Publication/vwLUAssets/ey-fin-tech-market-opportunities-2019/\\$File/ey-fin-tech-market-opportunities-2019.pdf](https://www.ey.com/Publication/vwLUAssets/ey-fin-tech-market-opportunities-2019/$File/ey-fin-tech-market-opportunities-2019.pdf) (referring to Sub-Saharan Africa)

² <https://www.finextra.com/newsarticle/29786/european-commission-sets-up-FinTech-task-force>

³ [https://www.ey.com/Publication/vwLUAssets/ey-financial-regulation-of-FinTech/\\$FILE/ey-financial-regulation-of-FinTech.pdf](https://www.ey.com/Publication/vwLUAssets/ey-financial-regulation-of-FinTech/$FILE/ey-financial-regulation-of-FinTech.pdf)

models that are not protected by current regulation, or supervised by regulatory institutions can also serve as an important tool in deciphering the safety factor of new digital products and services.

Finding an optimal and comprehensive framework for regulating FinTech in Africa poses several challenges. However, if the regulations are not robust enough, both end-users and FinTech service providers could be exposed to a multitude of risks. Conversely, heavier regulations on FinTech can discourage participants from innovating while hindering the development of these entities. The solution lies somewhere in the sensible middle.

Although efforts towards implementing a suitable FinTech framework in some areas of Africa are advancing, giving the FinTech industry in the region shows a positive outlook, frameworks that are currently enacted in the region are not keeping up with the rapid pace of change. Regulatory convergence will also be important, as African countries and markets are fragmented and regulatory divergence could present difficulties for banking operators.

Africa's banking industry is rapidly evolving into a largely digitised space. Despite their varied starting points, priorities, and capabilities, African markets are ready to take advantage of new industrial revolution technologies. Therefore, it is more important than ever to adopt an appropriate regulatory framework to mitigate the risks of FinTech services, while facilitating development of the FinTech wave.

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