



Flanders
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AIU 1,822 (-35)	HJI 20,369 (+580)	WWE 890 (-20)	PLD 6,350 (-200)	EER 10,985 (+580)	QRT 665 (-15)
MBC 3,605 (+210)	LJH 9,542 (-128)	MJB 2,609 (+35)	PON 7,654 (+169)	NFR 6,522 (+122)	UGH 1,632 (-54)
YBV 3,204 (-33)	QMN 5,211 (+156)	MMJ 7,100 (-60)	IIT 7,150 (-150)	KLM 782 (+74)	CCX 1,901 (+101)
MBB 3,320 (-120)	WFF 712 (+12)	HJM 134 (+5)	QLC 2,022 (-18)	LSD 631 (+40)	SDH 6,287 (-57)

THE FINANCIAL SECTOR AND FINTECH SECTOR

IN SOUTH AFRICA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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THE FINANCIAL SECTOR AND FINTECH
(FINANCIAL TECHNOLOGY) SECTOR IN
SOUTH AFRICA

Publicatiedatum 20.01.2021

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EXECUTIVE SUMMARY

The Fintech sector in South Africa is a broad sector that can be explored in several ways. In this study, the main points are explained that are important to get a good overview of how this sector works in South Africa. The main goal is to define the sector in the most realistic and truthful manner. The aim of this study is to form a clear picture of the Fintech sector in South Africa. Before looking specifically at the Fintech sector, it is important to paint a picture of the current situation of the financial sector, which is closely linked to the Fintech sector, in South Africa.

The COVID-19 virus plays an important role on the financial sector, on which some future consequences will depend. South-Africa will in the long term undergo some changes that are also due to the covid-19 virus.

To get a good understanding of how the financial market works, the most important players in this sector are listed per type of bank. Besides of this, the Fintech sector is a young and growing sector with a lot of start-ups that are worth keeping an eye on as well as on the new technology they are developing.

Fintech is a broadly defined subject. In this study, 8 subsectors belonging to this sector are discussed. Per subsector some promising start-ups have been put in the spotlight, which have already put their footprint in the Fintech world. In addition, the financing of the Fintech sector is also discussed in detail. Where do start-ups get the financing to bring a well-functioning fintech to the market and how does this financing work? There are several steps and ways to get your start-up financed, which were worth to have a look at. Furthermore, the interviews have shown that the SARB (South African Reserve Bank) plays an important role in the regulation of both the financial and Fintech sector.

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THE FINANCIAL SECTOR

1 DEFINING THE FINANCIAL SECTOR

Although the financial services sector in South Africa is one of the most developed sectors in the country, there are still many stumbling blocks to overcome. For example, the country is experiencing low economic growth, which makes it very difficult to address the high unemployment rate. Especially in the time of the Covid-19 virus, the unemployment rate is only getting worse. The expected economic growth will weaken further in 2020 due to the further spread of Covid-19 which has a major impact on economic activity. As a result, a significant part of the country's population of more than 59 million will continue to be excluded from formal banking, investment and insurance services. The financial sector can be divided into four subsectors; **banking, insurance, asset management and stock exchange**. The functioning of these sectors in South Africa is explained in more detail below.

Banking

The short-term outlook for South Africa's banking sector has improved slightly in early 2020. A more dovish monetary policy stance from the central bank, including a policy rate cut in 2019 and the potential for further cuts in 2020, is expected to stimulate demand for credit, albeit at a modest growth rate, with government borrowing still the key source of lending activity. Subdued economic growth will continue to weigh on the banking sector as low average income rates and underdeveloped financial inclusivity continue to exclude a significant portion of the potential customer base.

Income per capita



Source: Investing.com

Last year evolution

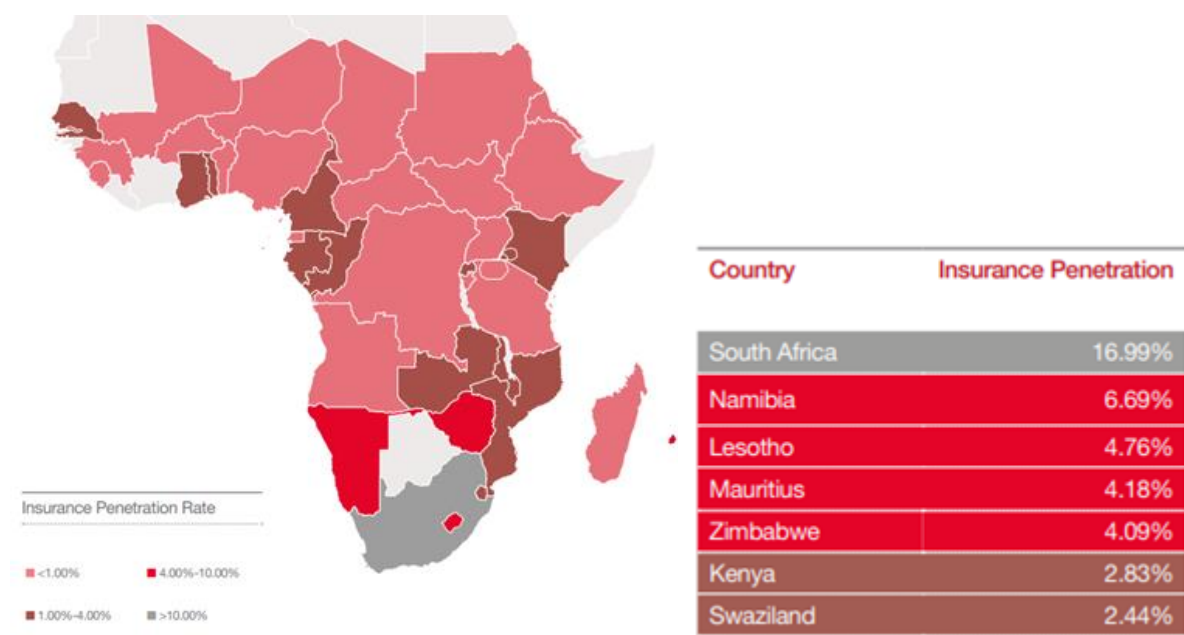
- 16/5/2019: 50.360,28
- 5/5/2020: 45.948,30
- Lowest rating on 19/3/2020: 34.239,30
- Quite stable graphic from +/- 5/2019 until +/- February 2020. Strong recovery of stock market since lowest rating (19/3/20).

Insurance

Insurance penetration

Definition: Penetration rate indicates the level of development of insurance sector in a country. Penetration rate is measured as the ratio of premium underwritten (all insurance premiums) in a particular year to the GDP.

- Insurance penetration across the majority of Africa is very low;
- Higher penetration, and market maturity, of eastern and southern parts of the continent.



Source: PWC South Africa 2018

South Africa has the highest insurance penetration levels in Africa and is a relatively more mature market, which might point to fewer opportunities for growth in the future. However premium growth

raised exponential since 2000. It is therefore important that insurers continue to develop and innovate a wide range of products. This includes microinsurance products that are available via direct digital channels.

Asset management

Asset management is the management of all or part of a client's portfolio by a financial services institution, usually an investment bank, or an individual. Institutions offer investment services along with a wide range of traditional and alternative product offerings that might not be available to the average investor.

This sector can be seen as large in South Africa with a huge number of suppliers. Both domestic and foreign suppliers offer numerous products in this sector. Since South Africa has a large population, the growth prospects are certainly substantial. That aside, we must of course also consider the low-income percentage and the low economic growth prospects.

Stock exchange

SE Limited (previously the JSE Securities Exchange and the Johannesburg Stock Exchange) is the largest stock exchange in Africa founded in 1887. It is located in Sandton, Johannesburg, South Africa, after it moved from downtown Johannesburg in 2000. This stock exchange is seen as a reliable destination for quotations and appeals to issuers because of its larger liquidity pool compared to its regional colleagues. The Johannesburg Stock Exchange offers a varied range of shares and securities. This will increase diversity when alternative markets are launched.

South Africa had a weak year characterized by less favorable market conditions. A few new companies were created that went public and a low number of foreign investments took place in 2019. Since early 2020, the stock market has been struggling due to Covid-19 what is reflected in the trading activity.

2 IMPACT OF COVID-19 ON THE FINANCIAL SECTOR

COVID-19 has affected many countries, including South Africa. The virus leaves a great deal of unrest and uncertainty. The impact of COVID-19 has various consequences for the financial sector. Bank branches have been forced to close, which means that most business deals or servicing is done online.

South African banks are witnessing more and more online transactions on their platforms. Since the financial crisis of 2008, we have seen a significant decline in physical bank offices. The banking world is shifting more and more to an online world where everything happens digitally. Due to the virus and



the different measures of lockdown from March until June, this is accelerating and it is becoming clear that it is possible to switch to an increasingly digital world.

Furthermore, from a start-up perspective we see that all start-ups are reviewing their assets and refocusing their operations at this time. They need to revise their business models to become more sustainable. By doing so, the start-ups will be more prepared to future crises. Besides this, Africa is developing to a cashless society as most payments are done by phone at this moment.

3 PLAYERS IN THE FINANCIAL SECTOR

Retail banks

Retail banks are banks who are specialized in financial services for private clients (consumers) and small and medium-sized enterprises. The services of a Retail Bank are mainly provided via the bank branch, the internet or the telephone. With the advent of internet banking, the number of bank branches in South Africa has been drastically reduced. Despite this trend, according to various studies, bank branches continue to be an important part of the services of a traditional Retail Bank.

Investment banks

An investment bank is a bank that advises and assists companies or governments in raising money by issuing and selling bonds or shares. In addition, investment banks advise on transactions such as mergers and acquisitions and trade in derivatives, bonds, foreign currencies, commodities and shares.

Merchant banks

A merchant bank is a company that conducts underwriting, loan services, financial advising, and fundraising services for large corporations and high net worth individuals. Unlike retail or commercial banks, merchant banks do not provide services to the general public. They do not provide regular banking services like checking accounts and do not take deposits.

Insurance banks

An insurance bank is a bank whose main business is to provide and sell insurances. The insurance bank takes deposits and pays interest for their use, and then turns around and lends out the money to borrowers who typically pay for it at a higher interest rate.

Mortgage banks

A mortgage bank is a bank that specializes in originating and/or servicing mortgage loans. The bank lends its own capital to customers and collects payments (with interest) or sells its loans on the secondary market. Other income arises from start-up costs and similar fees associated with the granting of loans.



4 REGULATORS OF THE FINANCIAL SECTOR

SA Reserve Bank

The South African Reserve Bank is the central bank of South Africa. It's headquartered in Pretoria and employs approximately 2,000 staffers. The primary objective of the SARB is to maintain price stability of the RAND. It's important for a balanced and sustainable economic growth. In addition, the SARB is responsible for various tasks:

- formulating and implementing monetary policy
- the issuance of banknotes and coins
- ensuring the efficiency of the financial system
- informing South African citizens about the monetary and economic situation
- ensuring the effective functioning of the national payment system
- supervision of financial markets

In addition to managing the monetary policy, keeping inflation under control is one of the main objectives of the SARB. The bank aims to maintain the South African consumer price index to an inflation rate between 3% and 6% annually. Furthermore, the SARB is responsible for a number of tasks that reflect on the management of the banking sector.

- **Provision of Liquidity to Banks**

Banks with liquidity problems are assisted by the SARB. First, an analysis is made of the problems of the concerned bank within the underlying cause of the liquidity problems. The assistance can then be provided under strict conditions to avoid the bank from going bankrupt.

- **Banker of other Banks**

The SARB holds the cash reserves that banks are legally obliged to hold. In addition, the SARB also keeps the cash reserves that banks prefer to keep voluntarily with the Reserve Bank. The Bank has the power to amend the minimum cash reserves that banks are obliged to hold and may use such amendments to influence the bank's liquidity and the amount of money in circulation.

- **Bank Supervision**

The Reserve Bank is responsible for the regulation and supervision of banks in South Africa. A healthy and efficient banking system is paramount. This is in the interest of the depositors of the banks and the economy as a whole.



- **Settlement of interbank claims**

The Reserve Bank provides for the final real-time electronic settlement of interbank liabilities arising from non-cash payments in the economy. This, the SARB does via the South African Multiple Option Settlement (SAMOS) system. Besides of this, the SARB ensures the safety and soundness of the payment system by introducing risk mitigation measures for settlement.

Source: <https://www.resbank.co.za/Pages/default.aspx>



THE FINTECH SECTOR IN SA

1 DEFINING THE FINTECH SECTOR

The financial services sector in South Africa is recognized as one of the largest in the world. The sector always places the client's needs first. In recent years, this sector has been complemented by the fast-growing Fintech landscape (half of the start-up companies in SA are in the Fintech sector). It is important to continue to invest in Fintech and to support them to develop further. Even though the South African Fintech are sometimes world class, the incumbent financial institutions dominate the financial sector. It is a challenge for the Fintech to scale up.

Throughout this report, the Fintech landscape will be mapped out with its various segments and key players in order to gain a better understanding of how this sector operates.

In this report, the Fintech sector will be subdivided into subsectors based on the basic technologies that are used.

Sub sector Description:

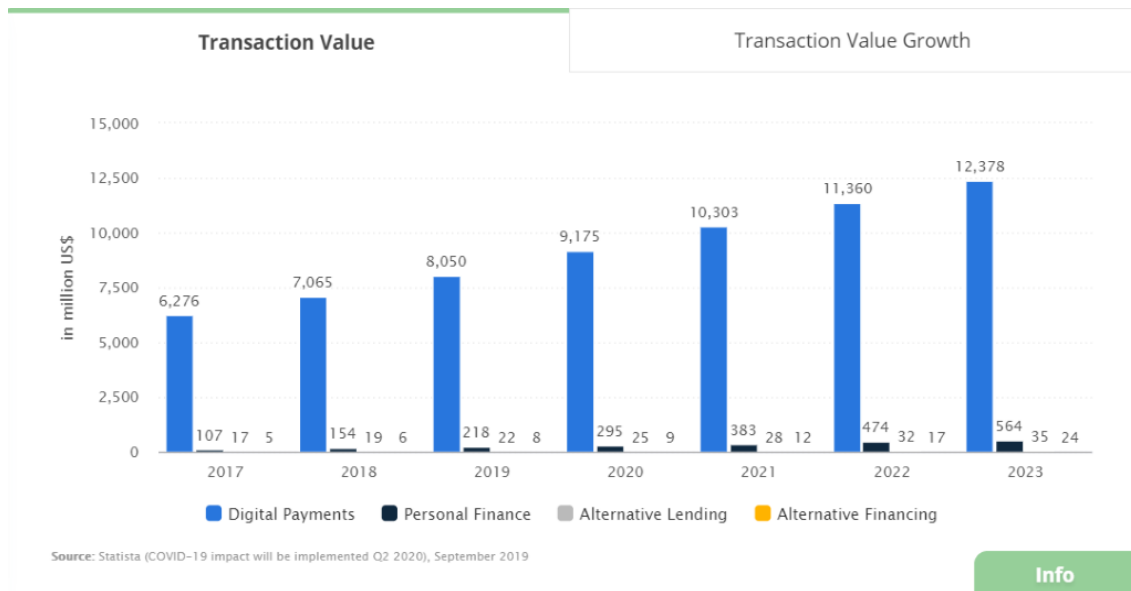
Sub Sector	Description
Payments & Remittances	Entities that perform part or all of the functions required to send and/or receive value from one party to another via any digital channel. This includes parties in the value chain that facilitate or enable clearing and settlement processes.
Lending	Entities that facilitate the borrowing of money or financing assets for individual consumers and/or small businesses with traditional and non-traditional financiers through internet, cloud or app-based platforms.
Insurance & Risk	Entities that provide part or all of the insurance value chain functions (e.g. communication, risk analysis, distribution) through the use of specific technologies (e.g. artificial intelligence, robotics) instead of traditional methods.
Savings & Investments	Entities that are deposit-taking and provide digital banking services as well as savings products and layby arrangements using mobile technology. Entities that provide digital platforms for investment and/or trading activity (including cryptocurrency) or enable



	individuals to trade on traditional exchanges/platforms from their own device(s).
Regulation & Technology	Regtech is the management of regulatory processes within the financial industry through technology. The main functions of Regtech include regulatory monitoring, reporting, and compliance.
B2B & Digital Solutions	B2B digital transformation involves using digital solutions to streamline processes and improve the customer experience.
Big Data & AI & Machine Learning	<p>Data analysis is a process in which the data is inspected, cleaned, transformed and modelled in order to extract the most valuable information from the data.</p> <p>Artificial intelligence (AI), are devices that react to data or impulses from their environment, and on the basis of that, make independent decisions</p> <p>Machine Learning is part of AI and states that the machine has the ability to adapt to new situations, it can discover and use algorithms and patterns.</p>
Block Chain	A blockchain is a system that can be used to capture data. This can be, for example, transfers such as are possible with a regular bank, but can also contain property deeds, agreements, personal messages or other data.
Platform Solutions & Comparison Solutions	Platform solutions (like SharePoint or Nintex) provide the stage on which a slew of complex operations is completed, including the development and management of brand new applications and solutions.
Security	Security, in information technology (IT), is the defense of digital information and IT assets against internal and external, malicious and accidental threats. This defense includes detection, prevention and response to threats through the use of security policies, software tools and IT services

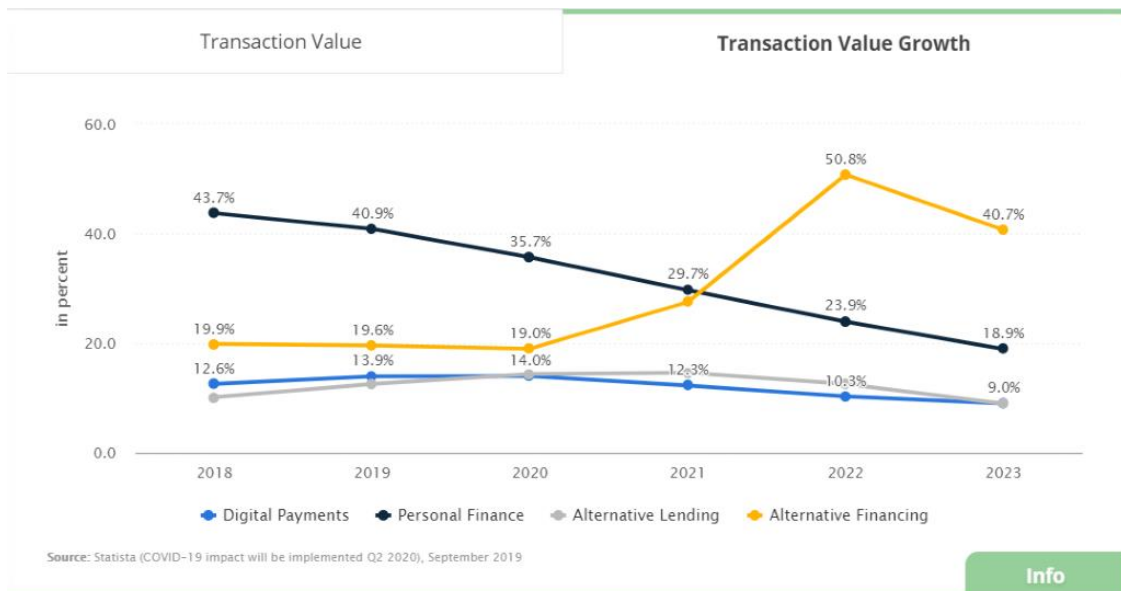
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2 FINTECH SUB SECTOR STATISTICS



Source: Statista Q2 2020

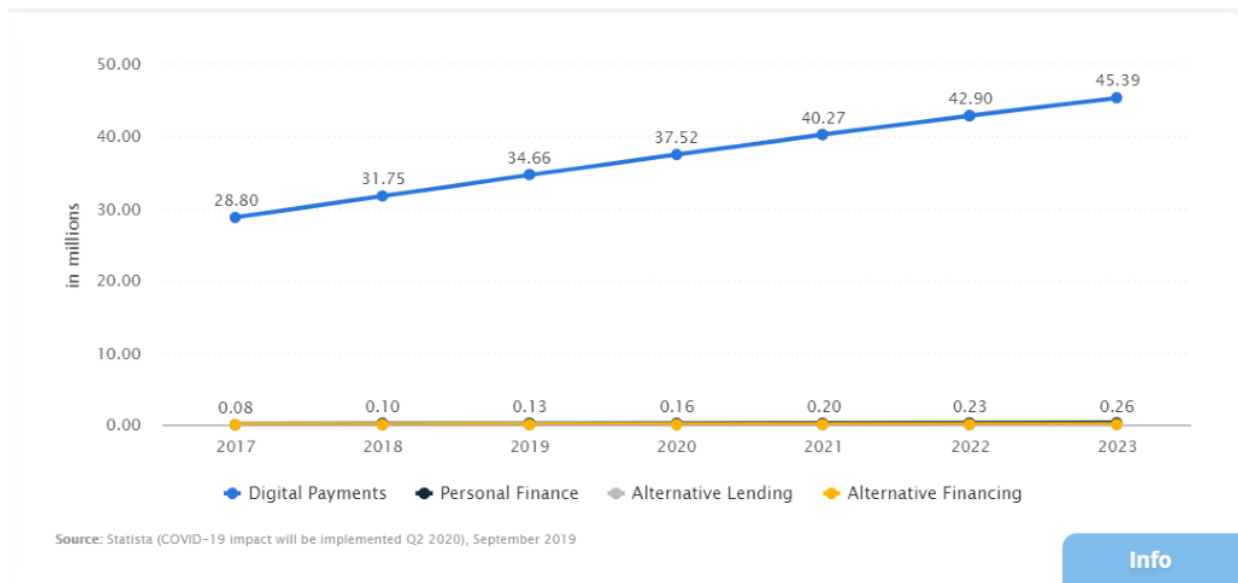
Percentage growth



Source: Statista Q2 2020



Users growth



Source: Statista Q2 2020

3 FINTECH ECOSYSTEM PLAYERS



Regulators	Regulators are becoming more active in the fintech space in order to understand the risks and concerns associated with this sector.
Investors	Funding is provided by private equity firms, VC funds, traditional banks, crowdfunding and angel investors.
Accelerators	Accelerators assist and mentor the Fintech startups in addition to funding to promote growth.
Incubators	Incubators help Fintech startups to grow by conceptualizing and developing ideas together.
Academic incubators	The involvement of the academic incubators is becoming more and more important. They play a big role in creating the new generation Fintech.
Entrepreneurs	These are talented individuals who aim to disrupt financial services through custom solutions.

4 USEFULNESS IN SOUTH AFRICA

Payments & Remittances

Payment and remittances are the fastest growing sector in the fintech sector of South Africa. This is mainly due to the growth of e-commerce and the rapid expansion of the internet. Fintech creates more opportunities to use digital payments easier and to process them accordingly. As such, the large majority of payment Fintech are third-party payment providers or payment services providers (PSPs). These Fintech offer retailers the ability to accept electronic payments via a number of payment modes (e.g. credit card, direct debit, bank transfer, and real-time bank transfer). The third party subsegment is relatively mature. Since 2017-2018 there were relatively few newcomers entering this market.

Spotlight

<p>Yoco (https://www.yoco.co.za/za/)</p> 	<p>Yoco, founded in 2015, offers their customers a card reader and app which allow users to turn smartphones into payment terminals.</p> <p>Further, the company, based in Cape Town, is targeting small businesses that do not currently accept cards.</p>
<p>Zoona (https://www.ilovezoona.com/)</p> 	<p>Zoona, founded in 2009 by Brad and Brett Magrath, is a mobile technology company developing products such as money transfers, electronic voucher payments, and agent payments. They totally re-invented their business and pivoted from a consumer business model to a B2B model.</p>



Lending

The average age of the Fintech in the lending segment is three years, the oldest being ten years and the youngest less than a year. The segment is dominated by domestic South African Fintech. There is a balance between aid to small and medium-sized enterprises (SMEs) and private individuals. Online lender Pollen Finance is one of the largest online lending platforms. The lender was established in 2015 to meet a growing need for SME financing to support business growth. This fintech managed to provide companies with up to R20 million in short-term loans in 2017. The offer of clients is similar to that of these Fintech, i.e. they offer clients short-term loans that are applied for via the internet.

Credit markets connect borrowers and investors without lending out their own capital and earn income from fees. *Alternative (online) lenders* borrow capital from their own balance sheets and earn income from interest and service costs. Like large established lenders, Fintech offering loan products are also required to register as a lender with the National Credit Regulator (NCR). However, they are still relatively small compared to large established lenders.

Innovation in lending does currently not include alternative credit score datasets, which has been successful in other African markets. For example, some mobile network operators calculate whether they are eligible for telco usage, such as rent, airtime or data renewal for micro and "nano loans". These models have made it possible to extend credit to markets that were hitherto understaffed.

Spotlight



<p>Lulalend (https://www.lulalend.co.za/)</p> 	<p>Lulalend, based in Cape Town, is known for its online application process and internal credit metrics to provide short-term loans to small and medium sized businesses that are often unable to obtain working capital.</p>
<p>Fundrr (https://www.fundrr.co.za/)</p> 	<p>Fundrr provides loans of between ZAR20,000 (US\$1,400) to ZAR500,000 (US\$35,000) in size for three to 12 months in term to South African SMEs, with its seamless onboard. The application process takes only eight minutes to submit and requests are accepted or denied within 24 hours.</p>

Insurance & Risk

By Insurtech we mean the constant technological changes that disrupt the world of insurance. Today's insurance industry is doing its best to grow with them. They do this by constantly innovating their products, as consumer expectations are constantly rising. Currently, the largest IT spend is on maintaining legacy systems, but more and more we see budgets jumping from core applications to analytics and AI (Artificial Intelligence) to create a better customer experience.

In today's insurance models, insurers work with broad actuarial tables. These tables classify consumers who want insurance in certain risk categories. These categories are used to determine how much will be paid for a specific insurance policy. Insurtech helps insurers to make these categories even more accurate by being able to collect more data by, for example, GPS trackers in the insured's cars or, among other things, collecting data from the watches around the wrists.

Spotlight

<p>Naked (https://www.naked.insure/)</p> 	<p>Naked Insurance, founded in 2016 in Johannesburg, is working on the future: effortless, transparent and sincere. Naked Insurance offers short-term retail insurance products. Currently, they are in the process of developing a transparent and fair insurance platform. This will allow South Africans to have total control over how, when and what they insure. They will get total confidence that the cover they pay for, is the cover they will get.</p>
<p>Pineapple (https://www.pineapple.co.za/)</p> 	<p>Pineapple, based in Johannesburg since 2017, is a peer-to-peer insurance company which aims to maximize value, affinity and simplicity in the insurance market by returning all unused premium back to the hands of the consumer.</p>



Savings & Investments



The arrival of the new digital banks changes the market, and this will evolve into strong competition for the traditional banks. The new digital banks disrupt the market, but they will need to establish a new consumer base. The current established and traditional banks focus now more on product innovation and as a result lower fees in order to compete with the emerging Fintech.

Under Savings in the fintech sector we find companies such as Prospa (<https://www.prospa.com/>), Jumo (<https://www.jumo.world/>) and Zoono (<https://www.ilovezoono.com/>).

Under Investment, we find certain sub-segments that are known for rapid growth as they become increasingly attractive to the mass market:

- Investors have found a new asset class in the *cryptocurrency market*. This subsegment includes international companies such as Bitcoin.com of the US, whose business model is similar to today's established Fintech. The majority of traders on domestic cryptocurrency trading platforms are domestic (approximately 86% in 2017), but the number of international investors trading on domestic platforms has increased. Furthermore, cryptocurrency trading is now possible by buying and selling currencies on mobile phones, thanks to domestic trading platforms such as Project Ubu and Luno.
- Higher income consumers want to increase their assets significantly by investing in riskier ventures. That is why investment products have become considerably more attractive to this group of people in recent years. As mentioned earlier, investment services are regarded as secondary (new) financial services domain. Therefore people are investing more and more. The entry of Fintech in this segment is changing this market. As a result, retail consumers will have e.g. easier access to the equity market and the investment sector by offering investment services on a smartphone with a lower cost structure.

Spotlight

<p>Prospa (https://www.prospa.com/)</p> 	<p>Prospa offers a mobile savings portfolio for low-income South Africans that makes it easy to save small amounts using prepaid vouchers. Prospa then bundles all the savings on its platform, taking advantage of the banks' higher interest rates for larger savings.</p>
<p>22Seven (https://www.22seven.com/)</p> 	<p>22seven, founded in 2012 by Kenny Inggs and Christo Davel in Cape Town, is a smartphone application that enables individuals to track and control their spending habits. The app makes it possible to link money accounts, synchronize data, get automatic budgets, etc.</p>

Regulation & Technology



Thanks to Regtech, more efficient solutions are being sought to promote compliance with regulations. Financial and regulatory institutions partner with Regtech to use cloud computing and big data for information sharing.

Cloud computing is the provision of all kinds of IT services over the Internet, such as software, databases, servers and networks, where the processing and the availability of the data is online (on a cloud server). End users can thus access their software and applications anytime, anywhere.

Banks are often risk-averse and suffer from inertia, which is why banks often find it difficult to take advantage of regulatory changes.

Mama Money (www.mamamoney.co.za) was the first cashless money transfer operator in South Africa and was quick to take action and announced that customers could FICA (to be compliant with the Financial Intelligence Center Amendment Act) with a selfie. If we compare this with traditional banks, they would have a much harder time achieving this. Regulation plays an important role in the area of growth. It is important to keep innovating regulations, this way Fintech players can maximize their business growth.

Spotlight

<p>Intergreatme (https://www.intergreatme.com/)</p>  <p>intergreatme</p>	<p>Intergreatme is a mobile app, founded in 2016, that provides users with a secure and effective platform to share verified personal documents & information. Intergreatme allows users the freedom to RICA and FICA their documents from home, and never fill out a form again.</p>
<p>DocFox (https://www.docfoxapp.com/?locale=en_ZA)</p> 	<p>DocFox, founded in 2015, is an online software platform for easily obtaining & verifying FICA / KYC documentation and storing. The app makes it possible for customers to upload copies of their proof of identity and address documents, by using the camera of their smartphone.</p>



Big Data & AI & Machine Learning

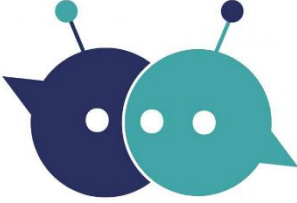

South Africa is experiencing tremendous forward growth in many industries when it comes to integrating Big Data, AI and machine learning. Companies are experimenting with this new technology in order to make business models work more efficient.

A big data analysis can help to look at and analyze certain opportunities and respond more effectively to them. In this way, new opportunities are created for a company to optimize business processes.

Machine Learning searches for patterns and reveals hidden insights for specific datasets.

AI (Artificial Intelligence) in turn ensures that a machine can always learn from past experience. This technology processes a large amount of data in order to recognize patterns afterwards. That is why AI is very much focused on deep learning and natural language processing. Using AI in the banking sector in South Africa may result however in big job losses. The question is not if, but when the new AI based technology will be implemented in full in the banking sector.

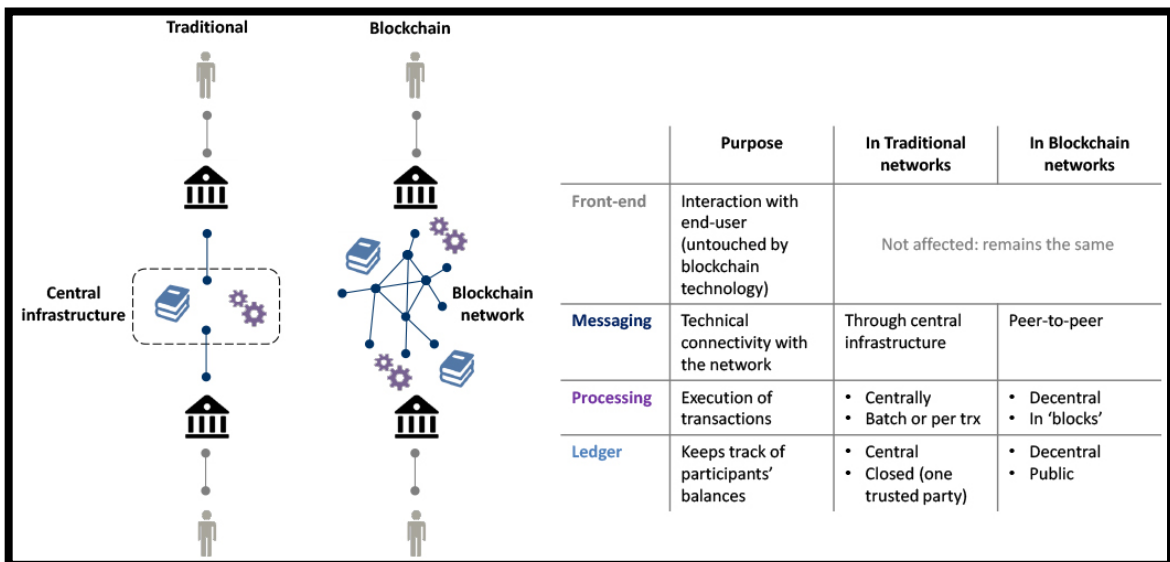
Spotlight

<p>FinChatBot (https://finchatbot.com/)</p>  <p>FinChatBot</p>	<p>FinChatBot, founded in 2016 in Cape Town, offers an AI-enabled customer servicing chatbot - "Holly" which enables financial institutions to serve their customers through a chat-based interface. The chatbot can be deployed across web and mobile app channels and uses machine learning algorithms to classify, identify and understand customer needs.</p>
<p>Zappi (https://www.zappi.io/web/)</p> 	<p>Zappi is a cloud-based consumer insights platform for retailers, founded in 2013 in Cape Town. It collects multi-channel customer's data and provides actionable insights using machine learning algorithms. It enables retailers to make advertising decisions based on customers' insights. Clients include Verizon, Amazon, Pepsico, McDonald's and more.</p>

Block Chain


At a very high level, a blockchain is a decentralized ledger, or list, of all transactions across a peer-to-peer network. *Blockchain* is distinct from bitcoin, which is merely one application of the technology. Bitcoin has been a proving ground for the underlying blockchain technology. In a “trust less” environment since 2009, bitcoin has proven blockchain to be secure and resilient.


Blockchain can be seen as a complex technology capable of strongly disrupting the economy, a business and even society. Blockchain technologies are not regulated in South Africa which was confirmed by all finance industry regulators (SARB, FSCA, FIC). These institutions do not oversee the virtual currency landscape. This doesn't mean the SARB is hostile to blockchains, they really promote the fintech landscape. But all activities relating to the acquisition, trading or use of virtual currencies are carried out at the end-user's own risk.



Source: First Annapolis Consulting Research

Spotlight

<p>The Sun Exchange (https://thesunexchange.com/)</p> 	<p>The Sun Exchange is a decentralized crowdsourcing based solar project investment platform. Individual and business investors can purchase or take solar photovoltaic cells on lease through crowd-lending solutions. Post the installation of the cell, users can lease these projects to businesses, hospitals, schools, among others. Users can avail lease rentals in the form of fiat and cryptocurrencies based on solar electricity consumption and usage.</p>
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	Founded in 2014, Cape Town
Valr (https://www.valr.com/) 	Valr provides a trading platform for the purchase and the sale of cryptocurrencies. It uses AI and machine learning technology to validate the identity of the trader. It also offers a 15% discount on trading fees for referral services. Founded in 2018, in Johannesburg.

Platform Solutions & Comparison Solutions

Banks are more and more involved in the concept of platform-based banking. In this concept, banks and Fintech work together to offer consumers personalized banking in order to optimize the service. Open banking makes it possible for an authorized third party to work with the (proprietary and confidential) data of banks. The fintech minded banks will combine their expertise in security, authentication and compliance with the customer-focused solutions offered by Fintech. In this way, Fintech developers will create products on behalf of bank customers while the bank can deliver a uniform banking experience. For banks, this can be translated into new revenue streams.

South Africa is also more inclined to adopt a mandatory approach. Fintech are already implementing Open Banking concepts in collaboration with companies that enable controlled access to their customers' data via APIs (Application Programming Interface – Software intermediary that allows to talk to each other). The banks and start-ups will continue to do so even in the absence of clear policy guidelines and regulations. The challenge will be to ensure that Open Banking is implemented in such a way as to improve financial inclusion and that banks do not act in breach of their legal obligations in terms of consumer protection, fair treatment of customers and privacy and data protection.

Spotlight

Jumo (https://www.jumo.world/) 	Jumo, founded in 2015 and based in Cape Town, offers a full tech stack for partners to build savings, insurance and lending products for customers in emerging markets. With its new investment, it's ready to expand to other markets.
Sasa Solutions (http://sasa.solutions/) 	Sasa Solutions, founded in 2016, is a provider of a financial platform intended to provide secured and unsecured loans. This platform provides technology, customer acquisition, data and credit analytics, finance, treasury, relationship management and sales, enabling Africans to get access to proper loans, insurance or savings facilities.



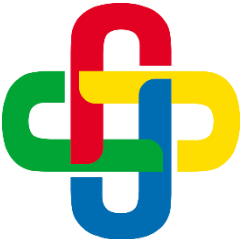

Crowdfunding

Equity crowdfunding is a process whereby people known as the 'crowd' in this context, invest in the early stage of an unlisted company (not listed on the stock market) in exchange for shares in this company.

One of the ways South African fintech start-ups are funded is crowdfunding. Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture.

Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives and venture capitalists.

Spotlight

<p>Jump Starter (https://jumpstarter.co.za/)</p> 	<p>Jump Starter is a Cape Town based, registered Non-Profit Organization funding platform through creative projects for individuals, charities and businesses.</p>
<p>Thundafund (https://thundafund.com/)</p> 	<p>Thundafund is an online crowdfunding cafe and marketplace based in Cape Town. Through Thundafund, entrepreneurs with their respective projects and ideas can raise capital and build a supportive crowd of backers.</p>

Angel Investors

Angel Investors are in general wealthy or affluent individuals who provide start-up capital for new companies. The amount of money is in the beginning small. The capital is provided in exchange for a convertible debt or ownership equity.

Traditional banks

Traditional banks can also be involved in the early stages of a start-up company by providing a loan or a credit line (of an account) for a start-up company. The traditional banks limit these kinds of funding, because of the high risk involved. Besides of this, banks are more involved in fintech startups as a partnership. Instead of funding, they have a cooperation which is more like a working opportunity.

6 THE DIFFERENT STAGES OF FUNDING

Pre-seed

The start-up's idea is still conceptual and the founders need funds that allow them to focus on the research and development of their concept full-time. This stage is typically funded by angel investors, accelerators and the three Fs (family, friends and fools).

Seed funding

The start-up gains momentum and moves from concept to tangible product. The main source of funding at this stage would once again be angels, but this time adding crowdfunding platforms and early-stage VC firms to the mix. This is normally the most critical stage in the start-up lifecycle as the product/service offering is brought to life, starts to generate revenue or develops a customer base.

Series A funding

The business is in its growth phase, has figured out the finer details of its product, the size of the market and needs capital to establish a business model. This stage's financing is dominated by more traditional VC firms.

Series B funding

At this point, the business is still in its growth phase, but now it's time to scale. By this stage, businesses have an established client base and business model that is working – it is researching, expanding to a broader market. Once again, the VC firms dominate as the source of funds.

Series C and onwards

Businesses seeking out Series C funding have normally hit full maturity and are looking to diversify their product offering and possibly move into international markets. They would normally attract funding from private equity firms and investment banks. Once Series C has been achieved, start-ups can

investigate funding for Series D or mezzanine financing, with most doing so as they move towards an initial public offering.

7 THE ROLE OF THE SA GOVERNMENT (WWW.SARB.CO.ZA)

The SARB (South African Reserve Bank) as a regulator in SA

The South African Reserve Bank (SARB), central bank and regulator, has set up a Financial Technology Program:

- <https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/8259/SARB%20FinTech%20release%2013%20February.pdf>

In this way, the emergence of FinTech can be strategically assessed in a structured way and its regulatory implications considered. Under the programme, the SARB will review crypto-currency policies, decide on the applicability of innovation promoters and launch the 'Khokha project' to experiment with Distributed Ledger Technology (DLTs).

The SARB has also started the Payment Association of South Africa (PASA). SARB supervises and regulates the participation of its members in the National Payments System – similar to the European SEPA system (Single Euro Payment Area)

Department of Trade and Industry (www.dti.co.za)

The Department of Trade and Industry is the Department of the South African Government responsible for Trade and Industrial Policy. The agency plays a real important role in the industrial policy and trade and investment promotion of South Africa. The agency monitors the sector and has different programs:

- Support in different ways for incubators
- Trade show support
- Education support
- Sometimes provides equity or supply legal support

Fiscal incentives by SARS (South African Revenue Service)

The SARS is monitoring by making sure taxes are paid. The income department of the South African government, has also laid down the policy on the tax treatment of cryptocurrency, as intangible assets subject to the effects of the Income Tax Act. The Financial Intelligence Center and the SARB do not allow the KYC methods to be tackled in any other way to combat money laundering.

TRADE SHOWS & CONFERENCES FOR FINANCE & FINTECH

Tradeshows

Name Tradeshow	Date	Place	Website
Short Course in Investigation and Management of Cyber and Electronic Crime	20 Jul 2020	Pretoria	https://www.enterprises.up.ac.za/investigation-and-management-of-cyber-and-electronic-crime-6
ECOM Exhibition	5-6 Aug 2020	Cape Town	https://www.ecommerce-africa.com/
Internet of Things Forum Africa Exhibition	25-26 Aug 2020	Johannesburg	http://iotforumafrica.com/
Accounting & Finance Show	1-2 Sept 2020	Johannesburg	https://www.terrapinn.com/exhibition/accounting-finance-show-sa/index.stm
AI Expo Africa	3-4 Sept 2020	Cape Town	http://aiexpoafrica.com/
Legal Innovation & Tech Fest	7-8 Sept 2020	Johannesburg	https://www.legalfestival.com/
AfricaTech	10-12 Nov 2020	Cape Town	https://tmt.knect365.com/africatech/
Digital Payments and e-Commerce Africa Summit and Expo	24-25 Nov 2020	Johannesburg	https://digitalpaymentsafrica.com/

Conferences

Name Conference	Date	Place	Website
Exponential Finance South Africa	Postponed (COVID-19)	Cape Town	https://exponentialfinance.singularityusouthafrica.org/
Business & the Cloud Conference	Postponed (COVID-19)	Johannesburg	https://cloudconference.co.za/
Finnovex Southern Africa	July 2020	Johannesburg	https://finnovex.com/FinnovexSouthernAfrica/
International Conference on Artificial Intelligence, Big Data, Computing and Data Communication Systems	6-7 Aug 2020	Durban	http://icabcd.org/2020/
Seamless Fintech Seamless Banktech Seamless Insuretech Seamless Payments	13-14 Aug 2020	Johannesburg	https://www.terrapinn.com/exhibition/seamless-africa/index.stm
Artificial Intelligence Conference	20 Aug 2020	Johannesburg	https://aiconference.co.za/

CONCLUSION

The study shows that the Fintech sector is a complicated sector that can expand very far, but with a large growth perspective. South Africa has one of the biggest financial sectors in the world, as well as a rapidly growing Fintech sector. The growth prospects for the coming years look positive and promising.

Partly due to the COVID-19 virus and the rapidly innovative technology, there is a good chance that South Africa will evolve into a cashless payment environment. A digital world will be the future. The Fintech sector will be able to develop better and better in this environment.

The Fintech business climate is increasing, with many new start-ups entering the market since the last few years. We see a major development within the following subsectors;

- Payments and Remittance technology
- Technology for lending
- Insurance and Risk
- Management of Savings and Investment
- Regulation Technology (RegTech)
- B2B and Digital Solutions
- Big Data, AI and Machine Learning
- Platform solutions and Comparisons

Furthermore, the study shows that one of the main financing methods for start-ups in the Fintech sector is VC Firms. In addition to traditional banks, crowdfunding and angel investors who also play an important role in the way of financing start-ups. All these financing methods can be found in the different stages of funding in the Fintech sector.

Finally, the interviews have shown that lots of start-ups are working offshore and that there is not a lot of regulation within the fintech sector. But on the other hand, it can be concluded that the SARB does play an important role in the regulation of the financial sector



- <https://www.actsa.org.za/useful-links/associations/>
- <https://www.slideshare.net/analogvarun/south-africa-fintech-landscape>
- <https://jumpstarter.co.za/>
- <https://tracxn.com/explore/Artificial-Intelligence-Startups-in-Cape-Town>

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