WITH FRIENDS LIKE THESE…
WHO NEEDS COMPETITORS?

For almost twenty years, the South African banking industry has tried to achieve digitisation and innovation, but has largely failed to capitalise on earlier opportunities. Despite extensive investment into their technology ecosystems, local financial services providers are finding themselves on par with international competitors, rather than maintaining the lead gained through innovative solutions like SASWITCH, PAYNET, mobile money and instant EFT.

Mobile money, which has been widely adopted across the country, originated in Kenya rather than South Africa, despite the fact that the country's unbanked faced the same circumstances as those in Kenya struggling to find alternatives to cash payments. The same applies to the other types of virtual money transfer, which allowed Africa's "unbanked" to access the local banking sector. Ironically, this stagnated in the past for the same reason it is today encountering many new opportunities: Technology.

LAGGING BEHIND

The South African financial services industry has been investing in expensive technology solutions for decades, but these have done little to deliver innovation. Rather the calls have been made by the industry to follow the safe choice. While this has slowly started changing, the billions invested into international software solutions that should have helped local financial services organisations become more agile were essentially wasted.

The huge leakage of investment money that went into foreign systems left South African financial services organisations exactly where they were in the 1990s, and even those that managed to get a little further ahead of competitors through the early adoption of technology still found themselves lagging behind international competitors. Today, South African banks are still at least parallel to international competitors instead of miles ahead, largely due to a lack of integration, expensive pricing due to massive inefficiencies and lack of automation.

The choice to invest in big international technology brands has not only hindered the local financial services industry from leveraging technology to develop innovative solutions, but believe it or not, it resulted in large scale fraud and corruption. Many global technology companies offered weeks of free travel globally to resources charged with the creation of a company's technology roadmap or even worse, the promise of international employment lay on the back of a positive decision by the company's technology decision maker. All these lures were openly set in the early days of South Africa's transition which managed to set the hook with many a nervous South African. Then there was the era of siding up to the connected ruling elite players in the political spectrum. Companies were formed and deals were done with both public and private sector organisations. These deals were focused on value rather than service and so the rot began, leading to a perfect storm to destroy a vibrant local technology economy, exactly where the money is being made today.

GROWING FINTECH INVESTMENT

This situation has slowly started changing. Many South African financial services organisations have started appreciating the value of local software solutions, leading to some of the innovative products that have been released over the past few years.

Many of those same international technology companies have started "investing" in local fintech companies, but I would argue that all that money belonged here in the first place. However, we are still lagging behind other African countries, which are seeing far more investment partly as a result of their innovative approach to financial services.

According to CBInsights, venture capital funding raised in Africa during Q1 2022 was largely fintech driven. Nigerian businesses raised $600 million, Kenyan businesses received $482 million in investment, but South Africa only managed to get $228 million in funding.

Several development funding facilities have also emerged in response to fintech growth, with the likes of the African Development Bank's Africa Digital Financial Inclusion Facility working to address systemic barriers to the growth and uptake of digital financial services "by making strategic and catalytic investments in the ecosystem throughout Africa". While investment into African fintech is necessary to the growth of the industry and the continent, South African financial services organisations should be working with their technology partners to create their own innovations in order to remain competitive, rather than allowing nascent fintech companies to continue taking chunks of their business.

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