Welcome to the Changing Face of Payments Talk

3 November 2016
KPMG Wanooka, Parktown
Definition

- Financial technology, also known as FinTech, is an industry composed of companies that use technology to make financial services, enable provision of financial services (through utilization of technology) or drive technological innovation in provision of financial services.
When did FinTech start

- Prepaid Mobile telephony is an example of FinTech in action, we just did not call it FinTech.
- A few other projects happened even earlier but none ever had the same impact.
The Problems MNO's had to solve

Huge risk to provide handsets and usage of network on credit to entire population. Cash flow would not have allowed any form of rapid growth. Direct engagement footprint not big enough.
How did they solve it

• They built a value store where usage can be billed from in real time.

• They developed a virtual currency and a platform to upload the currency into the value store.

• They developed a digital distribution network to get the currency distributed widely.

• They paid fantastic commissions to distributors to entice participation in the retail environment.
The result

• This morning at 7:32 we had 7.84 billion active GSM sim cards on the planet.
• New ones gets connected globally at a rate of roughly 25 per second.
• The mobile telephony contributes 4.2% to the global GDP.
The ideology created a huge new method of engagement

• Prepaid Electricity
• Prepaid Water
• Prepaid International Calling and many others
Why it worked

• Identify problem areas through analysis and engagement.
• Build solutions that include the whole population.
• Work with other industry players rather than building everything yourself.
Problems we have in Africa

• Lack of financial inclusion after many decades of banks spending a lot of money to acquire account holders.
• Cash driven economies.
• Building solutions to make money rather than solving problems
Examples of Failures

• mPesa in SA
• MTN mobile money in SA
FMCG sector

• More than 300,000 retailers paying their suppliers in hard cash every day.
• A major FMCG operation getting robbed at least twice a week.
• These subsistence retailers are financially excluded.
We have to work together and accept responsibility.
Fintech insights

Blockchain

Frank Rizzo (@frankrizzo_kpmg) and Nevellan Moodley (@nevellan)
Innovation convergence unlocks new paradigms

Cloud, mobile and D&A enable the next wave of emerging technologies

Internet of Things

AI/Cognitive Computing

Crypto-currencies / Blockchain

Robotics

VR/AR
Banks Trial Blockchain With South African Regulators

Stan Higgins (@mpmcsweeney) | Published on October 31, 2016 at 20:09 GMT

A group of South African banks have pushed ahead with plans to test blockchain applications in a partnership that has drawn support from key regulators in the country.

As reported by local outlets IT Web and MoneyWeb, the project included teams from Standard Chartered, Absa, Rand Merchant Bank, Investec and Nedbank. Supporters of the initiative included the Financial Services Board, a major finance regulator, Strate, the country’s central securities depository; and the South African Reserve Bank.

The institutions involved developed and tested a system for issuing syndicated loans via blockchain. According to MoneyWeb, the trial involved the South African central bank circulating a smart contract to other parties on the test network.
Major banks mark first-ever international trade using blockchain tech

The logo of Australia's Commonwealth Bank adorns an automatic teller machine (ATM) in central Sydney, Australia, October 18, 2016.

REUTERS/David Gray
SA to launch block chain based e-proxy voting in 2017

SA, Russian CSDs form partnership to simplify shareholder voting process.

Prinesha Naidoo  /  26 October 2016 00:06

Strate, South Africa’s central securities depository (CSD), plans to launch an e-proxy voting system based on blockchain technology in 2017.
Technology Buzz In This Sector

See which technology trends are hot in this sector right now.

Trends and their scores
- 13 Mobile Payment
- 11 Digital Payment
- 10 Cloud Computing
- 10 NFC
- 8 Internet Of Things
- 6 Big Data
- 6 Biometric Authentication
- 6 Machine-To-Machine
- 5 Cybersecurity
- 3 Robotics
- 2 Wearables
- 2 Autonomous Vehicles
- 1 Other (11)

http://technologytrendsindex.kpmg.nl/
Agenda

- BLOCKCHAIN 101?
- WHAT DOES BLOCKCHAIN MEAN FOR PAYMENTS?
- WHAT HAVE WE LEARNT THUS FAR
- CROSS BORDER PAYMENTS USE CASE
History 101

Summary

1. Everyone could see what everyone else had
2. There was no double spending
3. There was no person spending what they didn’t have
4. There was value transfer between people in exchange for goods
Protocols for digital transfer

Digital protocols are great for digital transfer
What about digital transfer of value?

Horrible for digital transfer of value
Double spending is an issue
2009 saw the world's first digital transfer of value from 1 individual to another
Disruptive combination of 4 concepts

CRYPTOGRAPHY
- Digital currency
- Use cryptography to control creation and transfer of money
- Proof-of-work concept

PEER-TO-PEER NETWORK
- Decentralised & distributed network architecture
- No central governing body
- Nodes linked by software

OPEN SOURCE PROTOCOL
- Source code open to review by anybody
- Fixed parameters can not be changed without having the majority of CPU power

SHARED LEDGER
- Public record of all transactions
- Essential element to avoid double spending problem

Value transfer via the internet…
…without a trusted third party…
…based on open source protocol…
…completely transparent
Agenda

- Blockchain 101
- What does Blockchain mean for payments?
- What have we learnt thus far
- Cross border payments use case
Domestic payment flow

Client → Client Facing layer → Product System → Transaction Processing → Clearing → Transaction Processing → Product System → Client Facing layer → Merchant
Process flow international payment
Process flow cryptocurrency

Client → Client Facing layer → Mining → Client Facing layer → Merchant
WHAT IS BLOCKCHAIN?

WHAT DOES BLOCKCHAIN MEAN FOR PAYMENTS?

WHAT HAVE WE LEARNT THUS FAR

CROSS BORDER PAYMENTS USE CASE
Blockchain - the good news

**Anonymous**
The identity of participants is (supposed to be) either pseudonymous or anonymous.

**Time-stamped**
Transaction timestamp is recorded in a block.

**Unanimous**
All network participants agree to the validity of each of the records.

**Immutable**
Any validated records are irreversible and cannot be changed.

**Secure**
All records are individually encrypted.

**Programmable**
A blockchain is programmable ("Smart Contracts").

**Distributed**
All network participants have a full copy of the ledger for full transparency.

**Bitcoin blockchain – the good news**
**Bitcoin blockchain – the bad news**

**Performance**
Bitcoin Blockchain is not able to support non-BTC industry use-case throughput or latency requirements

**Technology Innovation**
Proof of Work consensus many not survive innovations in technology (e.g. Quantum)

**Real Costs for Use**
Minting new currency as Proof of Work mining rewards disguises true costs of using BTC Blockchain. Costs are hidden, not removed, and every party has to come to an end one day.

**Security**
Although the basic BTC Blockchain protocol has proven very secure, private key management in wallets and exchanges has led to problems (Mt. Gox, Bitfinex)

**Privacy**
The identity of BTC Blockchain participants can be, and has been, reverse engineered

**Legacy Debt & Compliance**
A huge amount has been invested in current systems and no regulator will sanction BTC Blockchain for industry use-cases

**Governance**
The Bitcoin community cannot even decide how to best resolve the problems on this slide
Consensus models being considered

- PBFT (Practical Byzantine Fault Tolerance)
- Derived PBFT (Hyperledger project)
- RBFT (Redundant Byzantine Fault Tolerance, e.g. Evernym)
- SBFT (Simplified Byzantine Fault Tolerance e.g. Chain)

- Proof of Work
- Proof of Stake
- Delegated Proof of Stake

- Node to Node (N2N)
- Proprietary Distributed Ledger
- Federated Consensus
- Round Robin

- Leader based consensus (incl) PAXOS/RAFT based derivatives
- Distributed Concurrence
  - Corda (R3 CEV)

- Proof of Stake
- Delegated Proof of Stake

- Bitcoin
- Colored Coins
- Proprietary Metacoins
- DAG (Directed Acyclic Graphs)
- Factom
- Coinprism

- CASPER
- Ethereum (moving to PoS)

- Graphene
- Steem
- BitShares

- BigChainDB
- Raft
- Paxos (incl. many variances such as Fast Paxos, Egalitarian Paxos etc.)
- Juno (Raft-Hardened Tangaroa; JP Project)
- Tangaroa
- Mencius
- Viewstamped Replication
- ZAB

Illustrative and not exhaustive

New Consensus mechanisms appearing regularly (e.g. NEM and Proof of Importance)
Agenda

WHAT IS BLOCKCHAIN?

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CROSS BORDER PAYMENTS USE CASE
A typical Model for Cross Border Payments processing.....

Challenges:
- Up to 3 Day Settlement Time
- Lifting Fees and Operational Costs
- FX Costs
- Limited Transparency

Payment instruction initiated and sent to respondent bank to a beneficiary in which the bank has no delivery capabilities

In this example of a cross-border, cross-currency payment, a U.S. bank is sending a payment to a foreign beneficiary

The U.S. bank makes an ACH or RTGS transfer to a local correspondent bank

The U.S. correspondent bank holds a Nostro account with a Japanese correspondent, and provides FX for the transaction

The Japanese correspondent debits the U.S. correspondent bank’s nostro account and credits the receiving bank through an ACH or RTGS transfer

Use Case: Cross Border, Cross Currency Payments, Current state

Foreign Exchange
The cost of spread for the purchase and sale of a currency pair in the wholesale market at institutional rates

Currency Hedging
The cost of hedging a basket of currencies held in Nostro accounts globally

Treasury Operations
The SG&A and overhead costs of managing currencies, maintaining account minimums and counterparties across accounts

Liquidity
Liquidity costs have two components: the cost of capital locked “in-flight” and the time to fund local Nostro account

Payments Operations
The cost associated with manual interventions for managing exceptions and handling errors

Regulations
The opportunity cost of holding lower-yielding, high-quality liquid assets against Credit Exposures as designated by regulations
How KPMG can help

‘KPMG DIGITAL LEDGER SERVICES’ AIMS TO PROVIDE FINANCIAL SERVICES COMPANIES WITH A SUITE OF SERVICES DESIGNED WITH BLOCKCHAIN SOLUTIONS IN MIND. OUR SERVICES RANGE FROM HELPING TO ACHIEVE CROSS CHAIN INTEROPERABILITY TO DESIGNING AN OPERATING MODEL WITH AN OPTIMAL CONTROL ENVIRONMENT FOR EACH USE CASE.

KPMG Digital Ledger Services
Blockchain Solutions (initially for Financial Services)

- Requirements development
- Controls development & testing
- Regulatory integration
- Workflow conformance

- Revenue enhancement models
- Business case development
- Target Operating Model design
- Solution Provider Assessments

- Cross chain operability
- Integration with legacy systems
- Architecture design and evolution
- Operations optimization
- Consensus model validation

- Governance and ongoing management
- Repeatable audit and testing
- Consensus and/or audit node validation

We bring new BLOCKCHAIN solutions to persistent FS problems
70 dedicated Executives and Partners worldwide
More than 80 Blockchain Use Case Developers
Thank you
KPMG is proud to launch the Vol. 2. of our industry report:

Payments Developments in Africa: The Payments Journey

You are the 1st, across Africa, to receive this much anticipated report
How to find the best FinTech partners
Overview

Background on Matchi & KPMG

Why Financial Institutions need to collaborate with fintech – and how they do this

Strategies for success: Innovation Challenges

Conclusion
Innovation – never a fad, but always in and out of fashion.

- Rosabeth Moss Kanter, Professor, Harvard Business School
The Matchi approach makes sourcing fintech from the global pool a reality.

Connecting Financial Institutions to vetted, relevant and implementable Fintech solutions from a global pool.

Database of over 2,500 global fintech firms.
Selected FI clients include:
KPMG & Matchi alliance within the broader innovation context

- Strategic Analysis and Strategy Development
- Market Scanning
- Innovation Challenges
- Supporting Proof of Concept (POC) projects & fintech accelerators
- Implementation of Fintech Solutions
- Implementation & Rollout of Innovations at Scale
- Quality Assurance of Fintech

FINTECH FIRMS in Matchi database: 2,500+
LEADING FIs WORKED WITH MATCHI: 100+
POC projects begun with FIs: 20+

- = Matchi focus
- = KPMG focus

2,500+ FINTECH FIRMS in Matchi database
100+ LEADING FIs WORKED WITH MATCHI
20+ POC projects begun with FIs
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Why Financial Institutions (FIs) need to Innovate

“There is a perfect storm of evolving technology and increased customer expectations that is rapidly changing not only banking, but every industry.”

– Bradley Leimer, Head of Innovation, Santander

• Customers of Financial Institution (FIs – banks and insurance companies) compare their experience with their institution against their experience in other areas of their lives - e.g. online retailers; mobile & internet SPs - and see the gap

• FIs have been aware of this growing trend since 2014, and are moving in various ways to engage with the fintech world
Typical Evolution of the Innovation Approach in Large Organisations

1. Appoint Innovation & Digital team(s)
2. Create Innovation Lab (own or in partnership)
3. Arrange Discovery Tours (Silicon Valley, Israel)
4. Set up Venture Capital fund
5. Work with Accelerators
6. Targeted Sourcing
7. Global Innovation Challenges & Market Scans

Faster results with greater business impact
Why FIs & FinTech firms need to collaborate

- Fintech firms offer **speed** and real **customer focus**:
- “III” –
  - Insight into customers
  - Intelligent technology
  - Innovation

- FIs offer customer **trust** (mostly) and **scale**
- “ABC” –
  - Authorisations
  - Brand
  - Customers

“The financial industry is clearly the largest eco-system that has not been disrupted yet - getting close to the start-up world is one of the smartest moves a FI can make.”

– Matteo Rizzi, SBT Ventures

While some startups are actually well funded, what they need is proof of concepts, proof points, case studies, track record to make their FinTech really relevant and valuable. Financial Institutions working with fintech firms can often do very valuable deals if they get in early.
Fintech solutions need to be curated, categorised and searchable

By Customer Segment

Insurance:
• Life
• Insurance Investment
• Pensions
• Health
• Movable Assets
• Business
• Homeowners

Banking:
• Retail
• Commercial
• SME
• Private & Wealth
• Corporate & Investment

By Fintech Theme

• Marketplace/P2P Lending
• Bank in a Box
• Insurance (D2C platforms)
• Next Generation Payments
• Tech-Wealth
• Trading Technology
• Gamification
• Blockchain
• Security and Biometrics
• Identification & Verification
• Financial Inclusion
• Asset Management
• Mobile VAS / Mobility
• Risk Management

By Functional Area

Banking:
• Sales
• Underwriting
• Credit
• Risk & Compliance
• Back Office Processes
• Treasury
• Client Analytics
• Business Support
• Other
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Innovation Challenges identify relevant fintech faster – linked to real pain points / focus areas

**What is an Innovation Challenge?**

- A global search for **fintech innovations in areas targeted to your strategic priorities**
- Using a proprietary, **structured approach, built on best open innovation** practices

**Why Should You Do It?**

- It yields higher **quality results in a shorter time** frame than most other approaches
- The process **builds internal support for innovation with key stakeholders**
- Branded Challenges have **publicity and innovative positioning** benefits
- Provides shortlisted candidates **rated on functional and technical criteria set by clients**

**Why KPMG & Matchi?**

- Global fintech matchmakers since 2013, working with 100+ financial institutions
- **Experience and expertise** from having run Challenges for multiple FIs across the world
- Deep local market and regulatory knowledge, and global insight into FS sector
Innovation Challenges help to quickly source qualified fintech solutions aligned to FI strategic focus areas

- The problem is not finding fintech solutions - it’s finding the right solutions, aligned to the needs of your organisation. Matchi Challenges cut through the clutter, helping you to find vetted, high quality solutions.
- Important to do so in a way that helps to build support for innovation with key stakeholders, while increasing speed to market, via a proven approach:

Our Business Banking Challenge with Matchi was a great success, receiving responses from over 20 countries around the world and culminating with Proof of Concept projects with three of the six shortlisted finalists.

- Evans Munyuki, Head of Digital Retail & Business, Barclays
## Selected Examples of Innovation Challenges

<table>
<thead>
<tr>
<th>FI</th>
<th>Theme</th>
<th>Focus Areas/ Paint Points</th>
<th>Solution selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>SONY</td>
<td>Super Smart Authentication</td>
<td>Smart and simple ways for clients of financial institutions (banks and insurance companies) to authenticate themselves on mobile devices</td>
<td>Patented new approach to facial biometric recognition on mobile devices that combines user experience with very high levels of security</td>
</tr>
<tr>
<td>LIBERTY</td>
<td>Advisor Support &amp; Payments</td>
<td>Payment management solutions that enable the collection and management of client advice fees, and their redistribution to financial advisors and brokers. Also tools to support a blended approach to client advice.</td>
<td>Platform that enables identity initiated access for financial inclusion that reduces customer on-boarding time from days to minutes.</td>
</tr>
<tr>
<td>MCB</td>
<td>Credit Application and Decisioning</td>
<td>Solutions that aim to simplify the end-to-end customer journey for SMEs, from loan application to credit decisioning to loan disbursement.</td>
<td>User-friendly fintech solution for building and deploying predictive models that in a recent case study was proven increase profitability by 15%.</td>
</tr>
<tr>
<td>BARCLAYS</td>
<td>Small &amp; Medium Business</td>
<td>Solutions to both grow the number of SME clients by simplifying the account opening process on mobile devices; credit decisioning; and providing additional value / services</td>
<td>Three POCs begun: (1) SME account opening / onboarding using mobile devices; (2) sourcing data for credit decisioning; (3) business valuation and growth tool.</td>
</tr>
</tbody>
</table>
# Innovation Challenges:
## Real Results for Selected Clients

<table>
<thead>
<tr>
<th>Process</th>
<th>Matchi Role</th>
</tr>
</thead>
</table>
| Develop Categories/Themes |  ● Collate input from business owners to finalise Challenge Categories  
  ● Facilitate clear, focussed problem statement  |
| Global Entry Marketing & Management |  ● Provide online entry platform  
  ● Market challenge to (1) existing and (2) new innovators (world wide scan) via direct/ social/ other media & PR  
  ● Assist with formulating solution description in appropriate language  
  ● Qualify entries (solution suitable & provider legitimate)  |
| Solution Ranking & Select Finalists |  ● Facilitate definition of rating criteria  
  ● Provide online rating platform for business wide snr manager rating of entries (Rate at own time/location & system collates)  
  ● Provide ranked list  
  ● Facilitate conversation to finalise shortlist  |
| Final Adjudication & Selection for POC |  ● Liaison between shortlist representatives and Challenger to schedule pitches  
  ● Coordinate and facilitate pitches to Executive team  
  ● Facilitate final selection  |

<table>
<thead>
<tr>
<th>Results</th>
<th>Barclays</th>
<th>Liberty</th>
<th>Sony</th>
<th>MCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Categories</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Qualifying Entries</td>
<td>50</td>
<td>33</td>
<td>56</td>
<td>54</td>
</tr>
<tr>
<td>Countries Represented</td>
<td>20</td>
<td>16</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Judges</td>
<td>14</td>
<td>10</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Number of finalists</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Selected solutions</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Overview

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Why Financial Institutions need to collaborate with fintech – and how they do this

Strategies for success: Innovation Challenges

Conclusion
Observations of successful Fi innovators

1. They look for examples / ideas not only in financial services but beyond

2. Think about themes and long run trends in the markets they serve...

3. …While keeping in mind the pain points of today – both convergent & divergent approaches

4. They get a lot of ideas into the funnel – and evaluate many options, especially from external sources

5. Clear ownership stages & tests – running successful Proof of Concept (POC) projects
Further observations

Harness the Ecosystem

- Three key approaches:
  - Partner
  - Acquire
  - Build
- The most successful FIs are creating capability across all three dimensions

Make Collaboration Possible

- Build capability to run real POCs - both from a:
  - Technical point of view (e.g. APIs); and
  - Organisational point of view (i.e. solving real business / customer problems)
- Need to “protect” the fintech partners from bank bureaucracy and processes
- But still build strong internal stakeholder support for them
A real example
Conclusion

“Business has only two real functions – marketing and innovation”
- Peter F Drucker

“Innovation is bringing an idea to the discipline of the marketplace”
- Anon.

“To stay ahead you must have your next idea waiting in the wings”
- Rosabeth Moss Kanter
“A wave of financial technology firms, many of them just a few years old are changing the ways in which people borrow and save, pay for things, buy foreign exchange and send money... they are finding and mining rich seams of profit, ... and inflating a bubble of excitement among investors that technology and the internet are about to change banking for good.”

The Economist, 2013
Contact

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Global Financial Institutions are signing up to an online “matchmaking” service to join forces with financial technology start-ups that threaten to disrupt the banking sector with superior digital services.

Barclays, AIB and Standard Bank are among a number of lenders partnering with “fintech” companies through Matchi, an online portal that connects financial institutions with a selection of digital innovators from around the world.

“Our Matchi membership has played an integral role in advancing our business banking ability to quickly source quality fintech innovations, which address our particular challenges, from outside of the bank.”
FinTech & Payments

Presented by: Joleen Young

November 2016
What we will cover

- Scope of Disruption
- Global view of FinTech ecosystem
- Global FinTech activities
- A few Global trends
- Insights from Financial Institutions
- Regulators focus areas
- Regulators & Governments FinTech key focus areas
- The Golden link
- Emerging technologies
- Situational awareness mapping
The Scope of Tech Transformation

“There is a perfect storm of evolving technology and increased customer expectations that is rapidly changing not only banking, but every industry.”

– Bradley Leimer, Head of Innovation, Santander
The FinTech ecosystem involves a number of different players who all have their own agendas and objectives from the opportunity it represents. Only with a healthy balance of all players can a successful ecosystem be achieved.

Professionals Services firms are looking to support the FinTech community by mentoring and assisting early stage companies.

Regulators are starting to understand the impact of FinTech on their markets and protect consumers through appropriate rules.

Angels, VCs and PE houses are all looking at FinTech as a viable investment.

Banks are currently determining whether FinTech is a threat or an opportunity – how is it best to engage with FinTech companies and leverage their innovation.

Incubators are offering a means for big business to engage and assist young companies meet their potential.

From telco’s to retailers, many corporates are considering how they can leverage FinTech to improve the services they offer to their clients potentially disenfranchising the other financial institutions.

Nimble, innovative and unafraid to fail, startups are disrupting many elements of traditional financial services.
Changes in consumer behavior, new business models and evolving technology.

The signals and pace of change suggest disruption is the new normal in financial services.

By leveraging the FinTech boom, Telkom is uniquely placed to potentially disrupt the issuing (client accounts) and/or acquiring (merchant payments) space in South Africa,
A few Global Trends

The global FinTech industry consists of more than 12,000 start-ups with investments in the industry increasing more than 200 percent y-o-y.

Source(s): Disrupting European Banking: The FinTech Startups That Are Unbundling HSBC, Santander, and BNP, 17 April 2015, CB Insights website; Banks could lose 60% of retail profit to tech startups: study, 30 September 2015, The globe and mail website; FinTech gives rise to the next-generation—tackling reform in the financial industry, 22 April 2015, Dream incubator website; accessed on 03 November 2015
Six Forces Driving Growth in FinTech

- Accelerating pace of change.
- Evolving customer behaviour, attitudes and preferences.
- Rise of digital, mobile and social communication.
- Erosion of ‘institutional trust’ (e.g. Occupy movement, mis-selling).
- Falling barriers to entry for tech-enabled competitors.
- Attractive profit pools

Accelerating Levels of Industry Change

- The adoption of new technology is occurring at a more rapid rate.
- By analogy, firms with competitive advantages in those areas will need to move faster to realise /harvest those opportunities.
- Winning players/models will achieve dominance more quickly (as will losing players/models)

Board Education and Understanding is Key

- Enhancing the understanding of digital innovation and implications at Board level is critical, e.g. ANZ establishing a International Technology Panel to advise the Board.
- Important that all Directors can meaningfully contribute to the discussion on FinTech, not just a few experts.
- The Board must understand that investing in FinTech will take the form of VC or Angel Funding

Rise of Platform-Based Business Models

- New world businesses are being developed as ‘Platform-business models’ based on fostering an eco-system/s, partnering with third parties to deliver greater value to customers and organisational agility.
- This will require a shift from centralized controller to trusted third party facilitator for companies.

Distinguished FinTech “Enablers” & Disruptors”

- You should distinguish your scanning efforts between FinTech ‘enablers’ and ‘disruptors’.
- Enablers have often previously solved similar organisational issues/challenges with other FIs, therefore, important to consider how you will identify and filter potential FinTech solutions (locally and globally).

??Enabler and/or Disruptor??
Insights from Financial Institutions

Corporate holistic; leadership integrated culture

- Clear organisational choices and accountabilities need to be determined to foster an inclusive, enterprise wide culture of innovation
- Leading players are taking a more holistic approach to innovation, e.g. BBVA (Open Innovation Labs, dedicated M&A Corporate VC fund; Internal Ventures)

Build New Brand Competencies

- ‘New world’ leadership management competencies will need to be adopted and embedded across the organisation e.g. Design Thinking; Agile; UX
- Successful leaders will adopt a lean data-driven, experimental approach to strategic assessment of opportunities and decision-making

Strategic optionality and a portfolio mindset

- Over time companies often become comfortable doing the same thing/making incremental changes.
- In a digital-enabled/market you need to be a little uncomfortable to remain relevant/
- Successful companies will build greater optionality in their strategies and a ‘portfolio mind-set’.

Commercialise FinTech as a Channel

- FinTech companies offer a lower cost, new business acquisition model, e.g. serving Payment Service Providers (Braintree; Stripe; Adyan).
- Leading payers in the future will not only seek to source innovation from FinTech providers will also license it to other FIs (commercialise corporate innovations).

Evolving procurement and sourcing strategies

- Many FinTech companies are seeking to enable incumbents to address customer and operational issues.
- More external providers / sourcing from smaller organisations – how do you evolve your procurement functions to deal with these ‘new world’ suppliers
Regulators Focus Areas

- **Ecosystem cooperation**
  - Close advisory engagement with FinTech companies

- **Establish sandboxes & safety nets to try new ideas**
  - Answering regulatory uncertainties through testing in a live environment, with regulatory rigor after successful testing.

- **Sponsor industry wide initiatives**
  - Do not stay on the side lines, FinTech is moving to RegTech
  - Encouraging FS to integrate new technologies into their business models. e.g. Blockchain for KYC & AML

- **FinTech is more than just FinTech companies**
  - Customer Centricity has long been a buzzword, FS are now using apps; social media to maintain relationship with customers
  - How to regulate these new relationships will be a challenge

- **New entrants to Financial Services**
  - There are many customer groups whose financial needs are not being met
  - Many companies who have access to these customer groups see this as an opportunity
  - This can create new entrants who now need to be regulated and put pressure on the regulating bodies
  - Also, the business models they seek to implement may not be aligned with traditional financial services

**In February 2016, the UK FSB announced it will assess the systemic implications of financial technology innovations, and the systemic risks that may arise from operational disruptions.**

The Regulatory Environment in Africa are all at different stages of development and FI’s are approaching Regulators regarding “Oversight Frameworks” for FinTech’s

- **Data is being monetised and money is being digitised**
  - Tax breaks for FinTech investments and FinTech firms (potential discussion point with ZA government)

- **Establish sandboxes Work with your peers**
  - Funding research on evolving Financial Technology, i.e. Crypto Currency.
Regulators & Government’s FinTech Initiatives - Key Themes

<table>
<thead>
<tr>
<th>Regulations</th>
<th>Investment</th>
<th>Macroeconomics</th>
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<tr>
<td>• Adapt regulatory regime to foster innovation in FinTech.</td>
<td>• Setting up of investment schemes for various target audiences.</td>
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<td>• Support to navigate regulator regimes.</td>
<td>• Setting up of incubators and accelerators.</td>
<td>• Special government team to build FinTech ecosystem.</td>
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<td>• Accounting standards: Software development a realizable asset.</td>
<td>• Direct investment in FinTech entities.</td>
<td>• Improve digital infrastructure in the country.</td>
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<td>• Creation of online platform to raise funds.</td>
<td>• Relaxation of restrictions on FS sector to allow activities in FinTech.</td>
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<th>Connections</th>
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<tr>
<td>• Collaboration with industry to establish Innovation Labs.</td>
<td>• Tax breaks for FinTech investments and FinTech firms.</td>
<td>• Funding research on evolving Financial Technology, i.e. Crypto Currency.</td>
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<tr>
<td>• Studies on best practice in FinTech promotion.</td>
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<td>• Appointment of FinTech Ambassador (done in Asia)</td>
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Globally
Regulators & Government’s FinTech Initiatives

Regulators and government around the world have taken various initiatives to promote FinTech development and activities.

- Setting up of investment schemes for various target audiences.
- Setting up of incubators and accelerators.
- Direct investment in FinTech entities.
- Creation of online platform to raise funds.
- Special government team to build FinTech ecosystem.
- Improve digital infrastructure in the country.
- Relaxation of restrictions on FS sector to allow activities in FinTech.
- Relaxation of visa regulation to attract investors and talent for FinTech.

- Funding research on evolving Financial Technology, i.e. Crypto Currency.
What does the African Opportunity look like?

Opportunity

80% of Africans don’t have access to formal financial services (e.g. bank account) but by 2020 Africa will have 500 million smart phones.

Mobile wallet

183 million people in Africa own a mobile wallet:
- 3 times more than the US
- Expanding 3 times faster than the US

Competition

Fintech companies entering the African market face some complexity but virtually no market competition, and more than a billion people can be reached.

Funding raised

30% of the total funding raised by African tech businesses in 2015 was raised by Fintech start-ups.
Global FinTech

2015 FinTech funding more than doubles 2014 total:

Globally, funding to VC-backed companies in 2015 hit an all-time high of $13.8B, up 106% vs. 2014.

FinTech deals taper off in second half of 2015:

Deal activity fell for the final 2 quarters, Q4’15 saw just 154 deals, the lowest quarterly total since Q3’14.

Mega-rounds spread through FinTech

In 2015 alone, the number of $50M+ rounds to venture-backed FinTech deals jumped past 60, when between 2011 to 2013, there were fewer than 15 in aggregate.

Corporates active in 1 of every 4 FinTech deals

Corporates have participated in 25% or more of all FinTech deals for the past 3 consecutive quarters.
“The financial industry is clearly the largest ecosystem that has not been disrupted yet... getting close to the start-up world is one of the smartest moves a FI can make.”

– Matteo Rizzi, SBT Ventures
Emerging technologies for financial services

5 Keys
- Unintended Consequences
- Exponential Change
- Science Fiction becomes Science Fact
- Combinational Evolution
- Centaur Thinking

Innotribe Session Sibos 2016
Key to navigate a continually changing environment

FIST
Fast
Inexpensive
Simple
Tiny

5 Keys
Purpose
Landscape
Strategy
Doctrine
Leadership

Situational Awareness Maps

Innotribe Session Sibos 2016
Thank you

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To succeed in Africa you need to be built for Africa