

Intergovernmental Fintech Working Group (IFWG) Innovation Hub FAQs

Q: What is the IFWG?

A: The IFWG is a collaborative effort and resultant body of several South African financial sector regulators, including National Treasury, the Financial Intelligence Centre (FIC), the Financial Sector Conduct Authority (FSCA), the National Credit Regulator (NCR), the South African Reserve Bank (SARB) South African Revenue Service (SARS) and the Competition Commission.

The IFWG was established in 2016 to understand the growing role of financial technology (fintech) and innovation in the South African financial sector and explore how regulators can more proactively assess emerging risks and opportunities in the market.

Key projects to date include:

- A consultation paper on policy proposals for crypto assets (https://www.ifwg.co.za/wp-content/uploads/IFWG_CAR_WG-Position_Paper_on_Crypto_Assets.pdf)
- Project Khokha, a project exploring the use of distributed ledger technology for interbank payments (https://www.ifwg.co.za/wp-content/uploads/2020/03/SARB_ProjectKhokha_20180605.pdf)
- A research report on fintech scoping in South Africa (https://www.ifwg.co.za/wp-content/uploads/2020/02/Fintech_Scoping_in_SA_Report.pdf)

All the above reports can be found on the Innovation Hub website alongside further information on the IFWG's previous workshops.

Q: What is the Innovation Hub?

A: The Innovation Hub is a cross-regulator capability aiming to demystify the regulatory landscape, provide a space for safe testing of innovative ideas, and actively advance innovation in financial services. Whilst many central banks and other financial sector regulators globally have launched innovation functions, South Africa's cross-regulator approach integrating the efforts and expertise of six regulators represents a global first.

The Innovation Hub consists of three primary offerings:

The Regulatory Guidance Unit exists to help market innovators resolve specific questions regarding the policy landscape and regulatory requirements by providing a central point of entry for market innovators to submit enquiries related to fintech and innovation-oriented policies and regulations. Responses from the Regulatory Guidance Unit will integrate perspectives from relevant financial sector regulators, eliminating the need to contact multiple regulators. Guidance provided is non-binding and innovators are encouraged to seek formal legal advice on complex enquiries.

The Regulatory Sandbox provides market innovators with an opportunity to test the ideas of new products and services that push the boundaries of existing regulation, all under the responsible supervision of relevant regulators. Market innovators must apply to the Regulatory Sandbox. Accepted participants test their product or service within parameters established by the IFWG and are expected to report on testing progress at regular intervals. Learnings from testing will help regulators determine if and how policies and regulations must change to promote responsible innovation in the market.

The Innovation Accelerator exists to provide a collaborative, exploratory environment for financial sector regulators to learn from and work with each other – and the broader financial sector ecosystem – on emerging innovations in the industry. Over the next year, the Innovation Accelerator may drive initiatives in the following key areas: crypto assets, stable coins, fintech data, peer-to-peer platforms, regulatory technology (regtech) and supervisory technology (suptech).

Q: Why was the Innovation Hub developed?

A: Innovation has always driven the financial services sector forward, but the South African and global services landscape is currently evolving at an unprecedented scale and pace, driven by a number of trends in the market. Fintechs and other new participants are becoming increasingly prominent actors that are providing core financial products and services like payments, loans and insurance. They are no longer fringe players and won't wait for regulation to catch up. Oftentimes new participants don't fully understand the regulatory framework or what is needed to comply.

Regulators need to reckon with these new types of market participants and new products and services and move side-by-side with them to understand the impact of innovation. To tackle

the new challenges posed by this changing landscape and to capitalise on the emerging opportunities it presents, regulators recognised the need to respond in a manner that is proactive, coordinated and collaborative and subsequently designed and implemented the Innovation Hub and its offerings.

Q: What kind of financial service providers can make use of the Innovation Hub?

A: The Innovation Hub is open to all financial sector innovators, whether from a start-up, an established fintech firm, an incumbent financial service provider or an adjacent industry entering the financial services market (e.g., retail, telecommunications). Certain offerings, such as the Regulatory Sandbox, do require acceptance into the programme, and certain events or initiatives may be offered on an invite-only basis.

Q: How will the Innovation Hub benefit fintech firms and other financial sector innovators?

A: In the short-term, firms may benefit from the regulatory guidance provided through the Regulatory Guidance Unit, the opportunity to test the regulatory fit of their innovative products and services in the Regulatory Sandbox and the information and insights provided through the reports and other outputs of the Innovation Accelerator. In the medium- to long-term, all financial service providers may benefit from the Innovation Hub as learnings from increased market engagement begin to influence financial sector policy and regulation that is more responsive to new technologies and innovative solutions in the market.

Q: How does the Hub benefit South African consumers?

A: The Innovation Hub is intended to support the financial sector in introducing innovations that complement the core mandates of regulators, including financial stability and soundness, consumer protection, financial inclusion, and fair lending practices. In turn, South African consumers may benefit from these innovations through a more competitive market that potentially drives down the prices of financial products and services, greater accessibility of financial products and services leading to increased inclusivity in the banking and financial services sector and improved product and service quality.

Q: Where will the Innovation Hub be situated?



A: Contributors to the Innovation Hub are spread across the seven members of the IFWG. In- person meetings and events may be hosted at the offices of any IFWG member or other venues. Many of the activities of the Innovation Hub will be conducted virtually, such as the submission of a regulatory enquiry to the Regulatory Guidance Unit through the IFWG Innovation Hub website.

Q: Will participation in the Innovation Hub be free?

A: Currently, there are no fees associated with accessing the offerings of the Innovation Hub.

Q: Will the Innovation Hub offer funding to fintech startups?

A: The Innovation Hub is not a fintech incubator and does not offer funding to any financial service provider.

Q: Who can I contact if I have additional questions?

A: Please contact innovation@ifwg.co.za with additional questions.