

Crossing the divide

BankservAfrica's CEO Chris Hamilton and Executive Head of Digital Infrastructure **Martin Grunewald** ask what role payments could play in improving financial inclusion



It's easy for the US and Europe to get carried away with thinking they're alone in experiencing a deeply uncertain, transformative time in history when many societal components – especially economic ones – are being re-worked, revisited or rebuffed.

But South Africa is also expecting another challenging year in 2018. The uncertainty here lies with its ongoing shallow economic growth and confidence, high unemployment rates and political unpredictability, which will shape the next 12 months.

And yet South Africa is also witnessing a significant and potentially definitive surge in fintech and the largest automated clearing house in the country, BankservAfrica, is a pivotal organisation behind the current redesign of its national payment system. It's well-positioned to sponsor this next-gen, faster payments upgrade because it also operates as clearance bank for the Southern African Development Community (SADC). This is a 16-state, inter-governmental organisation that seeks to promote political cooperation and security in the region.

Labelled a 'cautiously optimistic' time for South African banks, this year will be one to focus on innovation, investment in technology and real-time deliverables to counterbalance the depressing forecast of risk and uncertainty. And there are plenty of other things to be optimistic about in South Africa.

Looking to its investors, the influx of Chinese money has steadily continued, as has that from plenty of other regions (the EU especially). In August last year, (overall) real-time clearing even recorded the highest growth, with an impressive 32.6 per cent increase on one year ago.

Meanwhile, the long-anticipated Bank Zero, a 45 per cent black-owned mutual bank founded by veteran bankers from First National Bank, Michael Jordaan and Yatin Narsai, is set to launch in the fourth quarter.

Looking beyond South Africa to the wider continent of Africa, its similarly unhurried economic growth has prompted an increase in nonperforming loans and sapped some countries' financial sectors. That's before you throw the unfortunate foreign exchange policies into the mix. So if it's not a time to boost lending, when is?

Against this backdrop, *Fintech Finance* spoke to two people behind the wheel of the next-generation payment system in South Africa, CEO of BankservAfrica, Chris

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Hamilton, and its executive head of digital infrastructure, Martin Grunewald.

BankservAfrica is Africa's largest automated clearing house and builds and operates South Africa's core interbank payments infrastructure. Payments and transactions are at the heart of this organisation and it fully backs the need for modernisation in the payments landscape. It has played an integral role in processing billions of payments in South Africa since 1972. All four of South Africa's high-volume banks – as well as a consortium of the lower volume banks – are shareholders and customers of BankservAfrica.

FINTECH FINANCE: Describe the primary challenge facing banks in South Africa.

CHRIS HAMILTON: The big challenge in South Africa is that it's got two economies, not one. It has a developed economy – a well-banked community, with the world's best payment infrastructure – and it also has an under-developed economy of people who are not financially included, with limited access to the financial services the rest of us take for granted. So, the really big challenge is how to bring these two economies together.

MARTIN GRUNEWALD: We are busy going through a process of redesigning our own national payment system, but we're not unique. Everyone in the world is saying 'what do we do around faster payments, what's the next evolution of payments?' And we're finding our colleagues across the African continent asking themselves the same question.

FF: South Africa is part-way through the design of a new payment system – tell us how the country might benefit?
CH: It turns out the payments system has a role to play in bringing together the two very different economies I've just described. If we can rebuild the developed economy payments infrastructure in a way that brings in and includes the under-developed community we have an opportunity to really start making a difference. The big programme is to work with the banking community, retailers, telcos and regulators to come up with a design for that next-generation payment system and then develop and provide it, so that it creates that platform for inclusion.

So, like a lot of developed economies, South Africa needs to redevelop its core payments infrastructure in the next five years or so and you'll see this happening all around the world. It's often called the real-time payments revolution. The

'real-time' part isn't the important bit. It's going to be fast, sure, but it's also going to be data-rich, it's going to be very flexible, and it's going to enable a whole lot of new financial services.

MG: Almost six months ago, we had a national payments design workshop in Abidjan. Many of the countries and central bankers were there and everyone's grappling with the next generation. It's not just about putting in a piece of tech. It's around the holistic design and how we see the future. We need to design payment systems for the economy of the future and not for today's economy.

Things change so fast and we need to make sure we're designing for that. So, I'd say the summary of the challenges we face is 'let's look at a new way of designing our payments systems and catering for the future'. But we also need to understand what our economies will actually need in the future and not silo our payment systems. I think that's what most people are starting to think about, and you can see that with faster payments projects all over the world.

FF: How has regulation and compliance impacted you in a positive way?

CH: It's native to what we do as a network: to make sure that we're not only in full compliance with the relevant rules and regulations but that the community also is. So, a well-regulated banking community is going to make our lives easier, as an operating network; we're always going to be very supportive of a sensible framework. I think it's really positive that the world's financial regulators are waking up to the need to balance innovation with safety and soundness, if you like. And so you'll see a lot of the regulators talking about building regulatory sandboxes where

they can test out new ideas before letting them loose on the public. I think that regulatory development is a very positive one and should be encouraged.

FF: Would you say there's much technological leapfrogging in South Africa?

MG: Yes and no. There's always the example used of M-Pesa in Kenya and some really good examples in Tanzania, as well as the use of mobile. So, what has happened in those instances? There's been a really good uptake of mobile, but I think we're way ahead of ourselves to say there's some leapfrogging.

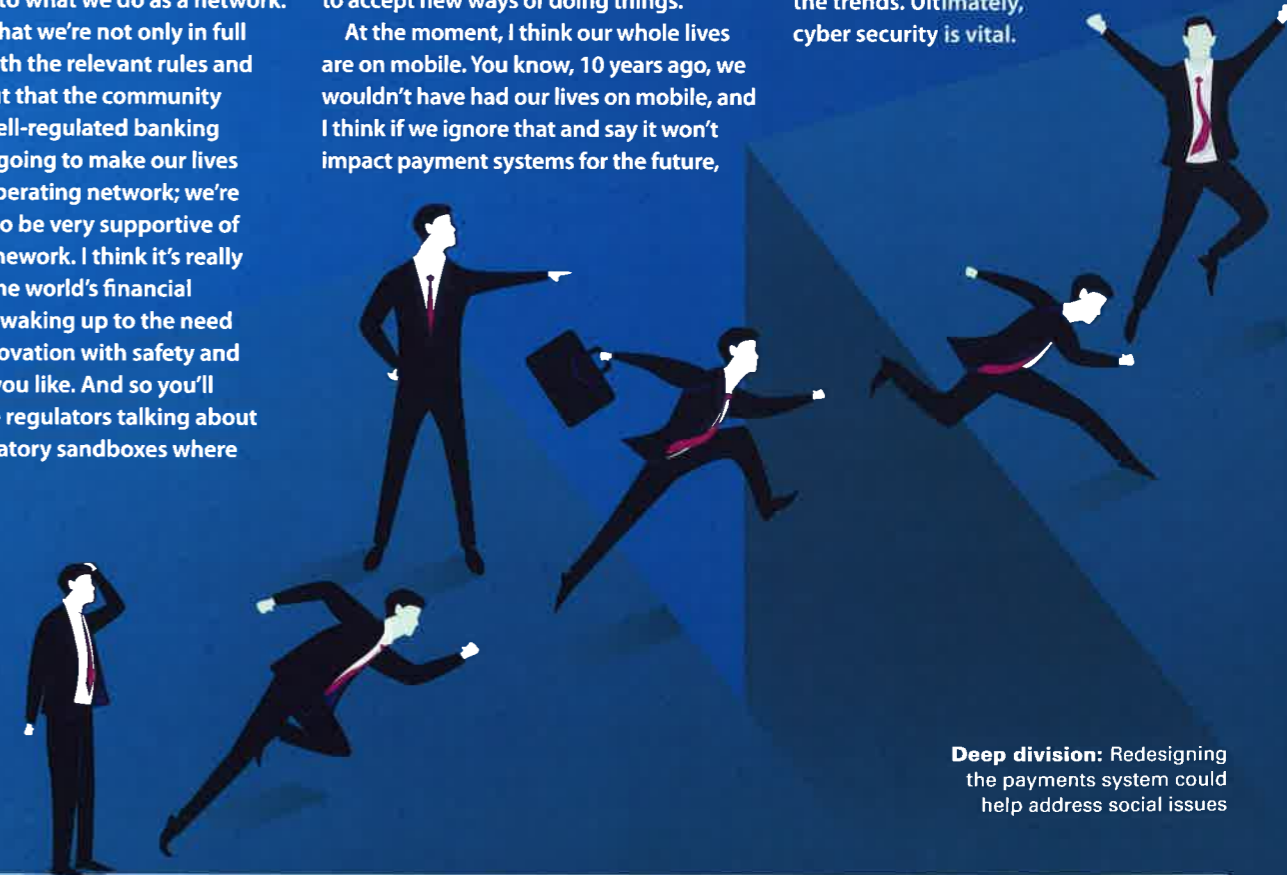
I think that, in some instances, in the traditional payment systems there's some really old technology getting deployed in Africa. So, typically, people will sell card switches and electronic funds transfer (EFT) switches (which is the old way of doing things) because all of these stay isolated. So, putting in an automatic clearing house that deals with cheques and EFT is maybe not the right thing in the future. But the opportunity for leapfrogging exists because there's such a lot of mobile usage and so much of the informal sector is vibrant and willing to accept new ways of doing things.

At the moment, I think our whole lives are on mobile. You know, 10 years ago, we wouldn't have had our lives on mobile, and I think if we ignore that and say it won't impact payment systems for the future,

we're being naïve. I think there's going to be much more impact than we've ever imagined, with more and more uptake of mobile. And for a lot of the continent, smartphones are coming in more and more. So, I think there's great opportunity for us to leapfrog in Africa. Whether we're leapfrogging already or not, I think that's open for debate.

FF: How much of your focus is on cyber security?

CH: It's part of the inherent furniture of what we do. We run networks, so we're native to the need to make sure the network is secure all the time. The fact that, these days, you have so many more openings in your network – each node is running each bank, if you like, which is an opportunity for someone else to get in, not only to their systems but to yours. It means you've just got to stay on that, constantly, and be aware of the evolutions. Luckily, of course, we tend to be a network that can harden its own perimeter and then we just have to worry about making sure the banks have got their perimeters sorted out. So, it's a big challenge but it's essentially a constant battle, to make sure we keep up with the trends. Ultimately, cyber security is vital.



Deep division: Redesigning the payments system could help address social issues