It's all about fintech

By Dominique Collett

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Innovations in the fintech space is showing no signs of slowing down. Here's what we can expect in 2019.

Dominique Collett, head of AlphaCode

Digital banks

The introduction of TymeBank, BankZero and Discovery Bank will no doubt shake up the industry and give customers greater choice. It will also force the incumbent banks to respond by refining their customer value propositions and user experiences. As a result, we expect to see greater focus from the traditional banks on their digital channels.

We also anticipate new entrants from other industries – mobile network operators are relooking mobile money products that focus on payments offerings. Other non-bank players such as insurers and retailers will continue to advance into the banking space.

Cryptocurrency

There has been a lot of attention on cryptocurrency given the meteoric rise last year and then the collapse in the Bitcoin price. Some industry watchers are calling this the death of crypto. I disagree. There has undoubtedly been a huge crash but crypto’s current market cap is just under $150bn. This may be small in global asset class terms but it is not insignificant.

Cryptocurrency is here to stay. It's not clear if and when cryptocurrencies like Bitcoin will hit their $20k peak again but investing in cryptos is a long-term investment trend and shouldn't be viewed over the short term. The smart money is still investing in this asset class despite the volatility.

I think that one of the positive outcomes of the crash is the collapse of initial coin offerings (ICO). Almost $10bn was raised through ICOs in the first half of 2018, but a study done by ICO advisory firm, Statis Group showed that more than 80% of these were scams and investors lost significant cash. With the collapse of the crypto price, ICOs look less attractive and I believe this is a positive trend. There is likely to be a significant reduction in the number of ICOs as a form of capital raising.

Hopefully we will also see a reduction in the number of crypto investment and pyramid schemes, mainly driven by greed. Many have lost a lot of money. Crypto is a very volatile, risky asset class that is highly speculative. Don't invest in it unless you really understand the technology and the asset class and even then, don't over invest. There really is no easy way to make money. If you do make the decision to invest, make sure you buy, sell and store through trusted exchanges like Luno.

Regulators are also likely to get more involved in the industry – most have fintech and cryptocurrency working groups and they are ensuring they have a good understanding of the asset class.

Insurtech

We expect to to see continued activity in the insurtech space. Lots of new, interesting entrants – Indie, Naked and Pineapple – which are backed by big institutions. I think it is difficult for these niche insurers to scale quickly but expect these players to grow and new entrants to appear in the market. Players like Root Insurance make it much easier for new insurance entrants to get to market with their open API software backed by Guardrisk.

We can expect incumbent insurers to ensure greater focus on their digital offerings to compete with these new entrants, and this is good news for consumers. We will also see non-insurance players like mobile network operators, retailers and banks entering the digital insurance space.

More savings products

We've seen the launch of robo-advisors like OUTvest which aim to attract younger customers through their digital offering and simplified investing process. Alternative savings platforms like Easy Equities, which make it easier to invest in equities, have grown. We expect to see more entrants in this space like Akiba and Franc growing their market share.

Focus on financial inclusion

In our recent AlphaCode Incubate initiative, we saw a lot of businesses trying to solve the problem of financial exclusion and ways to provide low income customers with relevant financial services products. These businesses will gain traction in 2019 as they mature. Prospa, for example, provides a low-income savings product while iSpani provides marketing and sales access for insurers in townships.

Innovative SME financing solutions

Given the focus on growing the SA economy, it is imperative to build SMEs. Coupled with the pressure for corporates to transform their supply chain as new BEE charters are adopted, we will see an increase in the number of SME financing solutions that enable black SMEs to gain greater market access. I am most excited by models like Nisa Finance and InvoiceWorx that have innovative offerings for SMEs. I also think we can expect a business banking shake-up in the SME market, given that Capitec is moving into the SME space through its acquisition of Mercantile Bank. That's a game changer.

More funding options

We’ve seen a number of international venture capitalists invest in SA fintechs in 2018 – for example Yoco and Jumo. I think this is a positive trend highlighting the maturation of our local fintech industry and I believe we will continue to see interest from international players. We will also see more local funding such as Naspers Foundry which will be exciting for the fintech space. Banks in particular will start noticing SA fintech successes.

ABOUT THE AUTHOR

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