

# Embracing innovation

Innovation in financial technology (fintech) continues to impact the financial system in South Africa. AI, including generative AI and machine learning (ML), distributed ledger technology (DLT), application programming interfaces (APIs) and cloud computing continue to accelerate the digitalisation of financial services and products, transforming how consumers make payments and access financial products or services.

For the period under review, the Fintech Unit continued to develop insights into fintech trends, experiment with new technologies and contribute to the advancement of knowledge in the fintech space.

## Gaining deeper practical insights

The Fintech Unit continues to support the IFWG and the IFWG's Innovation Hub. The Innovation Hub has three units, namely the Regulatory Guidance Unit (RGU), the Regulatory Sandbox (RSB) and the Innovation Accelerator.

The Fintech Unit has been creating space for experimentation in a controlled environment, where innovative solutions can be tested against regulatory parameters. The RSB has two firms active in the sandbox that are testing (i) whether the regulatory framework should be amended to enable bulk, low-value payments to international merchants without undermining South Africa's exchange control framework; and (ii) whether financial services providers will be able to advance credit to individuals based on alternative data.

## Areas of focus

### Crypto assets

The SARB continues to support steps taken by the FSCA and the Financial Intelligence Centre (FIC) to regulate crypto assets. The increasing popularity of so-called 'stablecoins' as a particular type of crypto asset merits heightened regulatory scrutiny. Even though these so-called stablecoins are a type of crypto asset, the Fintech Unit through the IFWG's Crypto Assets Regulatory Working Group (CAR WG) continues its analytical work to inform the appropriate policy and regulatory response to stablecoins.

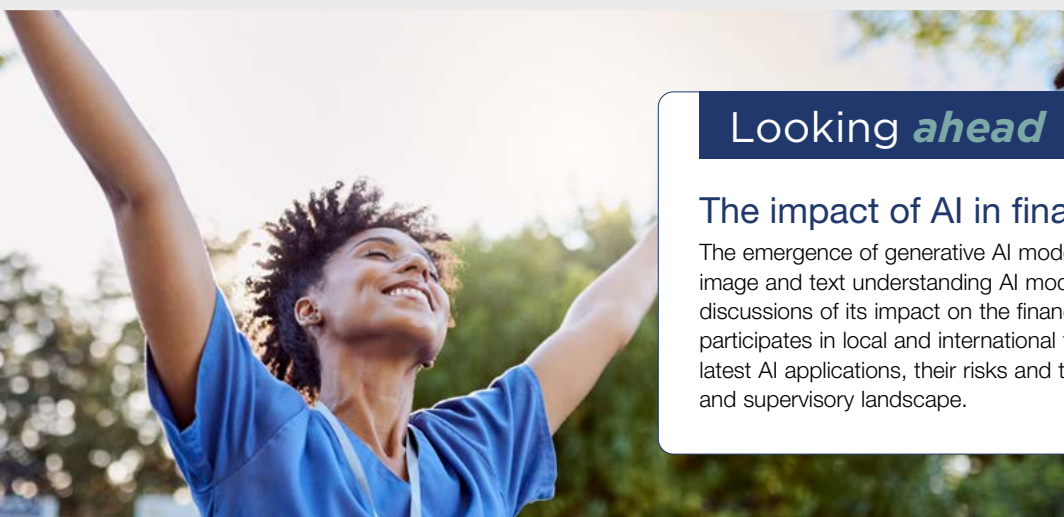
### Financial markets innovation

Project Khokha 2 (PK2) explored tokenisation in financial markets – or the representation of assets such as securities and payments instruments on DLT – and its impact on the securities trading, clearing and settlement life cycle in South Africa. PK2 saw the issuing of SARB debenture tokens, enabling project participants to buy the tokenised debentures in the primary market using a wholesale central bank digital currency (wCBDC, i.e. tokenised central bank money) and a wholesale settlement token (tokenised commercial bank money) in the secondary market. The main project was completed with the launch of the project report during April 2022.

Further technical work was done through a sub-project called Project Khokha 2.x, where the participants were able to build their own applications on the PK2 infrastructure through four technical proofs of concept (PoCs). The PoCs explored a cross-border stablecoin, a domestic banking industry stablecoin, a trade finance platform and an asset tokenisation platform.

### Open finance

The IFWG's Open Finance Integration Working Group (OPI WG) has continued its research and analysis to support a regulatory framework for open finance. This includes developing API standards and regulatory frameworks.



## Looking ahead

### The impact of AI in financial services

The emergence of generative AI models such as the multimodal image and text understanding AI model ChatGPT-4 has heightened discussions of its impact on the financial sector. The SARB participates in local and international forums to gain insights into the latest AI applications, their risks and their impact on the regulatory and supervisory landscape.