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Challenging Conventional Wisdom

TECHNOLOGY AND YOUR MONEY

There is a lot of hype about how technology is going to disrupt the financial industry. If we consider the way that Uber and AirBnb have disrupted the taxi and hotel industries, is there a chance that this is happening in financial services too? In the South African context the answer is "yes, no, possibly later". In the interests of full disclosure, my partners and I are involved in this change and it is slowly gaining momentum.

THE LAWS NEED TO BE MORE HELFPUL

We live in an unfortunate situation where it is easier for micro-lenders to get South Africans further into debt than it is for investment companies to open low cost accounts for savers. The reason is simple – if you want to open an investment account, you need to provide documentation that includes a copy of your ID, proof of your bank account and proof of your address. Consider how difficult it must be to open a bank account if you live in an informal settlement and work in the informal sector where you only earn cash? The regulatory requirements to obtain loans are less onerous, which is tragic.

We estimate that it currently costs an efficient financial company about R300 to open a simple investment account. This is only the administrative cost and does not include other costs such as the cost of the investment product, potential advice cost and ongoing regulatory compliance costs. A flood of new financial regulation has nearly overwhelmed the financial industry in the last few years. Much of this new regulation is necessary but I cannot find any regulations that are designed to streamline the account opening process or make it easier for new competitors to enter the market and disrupt the large behemoths who dominate the financial industry in South Africa.

As a starting point, the regulators should consider forcing all banks, investment companies, Home Affairs, SARS and cell phone providers to populate one secure database with a person's ID, cell phone number, tax number, proof of address (where possible) and bank account details. This database should be maintained and confirm if someone is FICA compliant or not. Financial services providers should then be able to access the database (for a small fee) to automatically verify any person who wants to open an account. This would slash the administrative costs of account opening by 50% to 90%.

Secondly, the requirements to FICA a person with a small investment amount should be relaxed. How much does a proof of address for someone wanting to invest R200 per month really prevent money laundering? Rather than providing vague and broad guidelines, regulators should provide clear and simple rules that financial companies can rely on to open accounts safely. At present, compliance officers of large businesses are more afraid of falling foul of regulators than they are concerned about making investments accessible and low cost for small investors. This is bad for small investors and ultimately bad for our economy as a whole.

SOME GOOD NEWS

Since the launch of online banking and online stock broking, the investment industry has not really seen new innovations that have made investing easier and cheaper for smaller investors…until now. Businesses like Easy Equities and Satrix have found a way for smaller investors to invest amounts from as little as R10 per month into shares and ETF's at a very low cost. If we include new innovations such as online financial advice then it should be possible for investors with small amounts to gain good advice and access to sensible, low cost investments without being locked into ridiculous contracts that penalize them for moving their own money should they wish to do so.

DON'T BE SUCKERED BY THE HYPE

As with all new trends, the Fintech revolution will change the investment market in South Africa. It will probably take longer than expected and eventually we will be spoilt for choice. In the interim, financial law makers and regulators in South Africa could do a lot more to streamline the account opening process and provide regulatory certainty on issues such as minimum standards for online advice. This would have a great impact on reducing the cost of accounts and therefore investment costs for investors.