

## **The Evolution of Financial Services: Strategic Risk Considerations for South African Banks**

With the Basel Committee on Banking Supervision proposing the so-called Basel III capital framework, one thing has become particularly evident: the acknowledgment that banks do not operate in isolation from the system that surrounds them. Although this is nothing new, the new capital requirements require that banks need to be more explicit with regards to taking a top-down risk management approach. Clearly then, the environment in which banks operate becomes an increasingly important strategic consideration. Although competition has traditionally emanated from national and international rivals, new competition is emerging from so-called 'disruptors' – that is, organisations (or even mere entities) that tap into the service delivery chain of banks to offer clients a better (that is, cheaper, more convenient or efficient) value proposition. This so-called 'fintech' revolution has essentially disrupted the way banks do their business and forced them to think more strategically about how to conduct their operational activities. To overcome this will most certainly be a daunting task as clients, and especially the technologically savvy, are bombarded with alternative banking options. Yet, Big Data allows banks to be more in touch with 'consumerism' and at the same time more reactive than proactive. With growing calls for a more inclusive national growth strategy, how banks approach, for example, banking the unbanked will become an increasingly challenging task given the role of technology. This, due to the fact that data on the unbanked is still somewhat limited, or at the very least, not as informative as for other market segments. Interaction policy therefore becomes a vitally important strategic issue going forward. How will South African banks deal with these challenges? This question forms the basis for this paper and proposes possible options for South African banks given an investigation into the practices of foreign banks.