

Your Money Matters Ep11 – Bruce Whitfield with Arif Ismail and Jerome Frey

Bruce Whitfield [00:00:00] Managing money and knowing what is good for your financial wellbeing at every stage of life is a skill. It's a skill every person needs. Managing money well means having an adequate level of protection, more savings than debt, and knowing how the choices we make can either make us or break us. Of course, we're all human. So, in Your Money Matters, a podcast brought to you by Discovery, I unpack practical aspects on banking, life insurance, investments and more in discussion with experts. Join me for these interesting conversations and hear how small things we do can take us to greater levels of financial security and more of life's rewards.

Bruce Whitfield [00:00:43] It's all about digital trends, innovation and very importantly, banking security. To help us through this, Arif Ismail, who is the Head of Fintech at the South African Reserve Bank, and Jerome Frey, who's the Chief Information Officer at Discovery Bank. The world of banking is moving at lightning speed. Technology, making it possible to do things in banking that we never dreamed possible. And it all comes down to something called fintech. Arif, explain, if you would, the definition of fintech.

Arif Ismail [00:01:18] Excellent. So, Bruce, fintech in very simple terms is innovation in financial services, but as a result of technology. Now, you might just sit back and say, well, but we've always had innovation in financial services and probably on account of technology. What's different? So I would classify fintech in my own simple way as innovation unusual. And the question you'll probably ask is, well, give me some examples.

Bruce Whitfield [00:01:46] Before we get to some examples, as you make the point, when the Telegraph was invented the Pony Express could take bits of paper and promissory notes from one end of America to the other, or when Chinese traders were negotiating over many, many miles, people were very innovative. that was fintech in its own kind of way, wasn't it?

Arif Ismail [00:02:06] I wouldn't say so. I think that fundamentally what's shifting right now, Bruce, is that the kind of technologies that we see enabling financial services, is very different from the past. The top five that kind of come to mind are things like artificial intelligence, machine learning, block chain, cloud computing, and so on, and my sense is it's producing services very different to what we've seen before. But the fundamental key point is it's not being produced by just the incumbents any longer. It's being produced by firms that have a technological understanding and an ability to truly, truly personalise services, which we call fintech firms. Right. So the innovation's unusual. True, but it's also being produced by firms that we've never seen before.

Jerome Frey [00:02:55] Yeah, I think that's very important. I think it's disrupting the incumbents basically by lowering the delivery costs and offering, all of a sudden, a whole range of new products. That the existing incumbents never thought about.

Bruce Whitfield [00:03:07] Or in some cases, you have people who work within the incumbents who go, there's a better way of doing this. And they go knock on the boss's door and they say, hey, boss, I've got an idea. We could use technology to deliver a solution to our customers. And the boss goes Oh don't you know anything? We're megabank one, two or three. We don't need to waste time with that. People love queuing in our branches. They're going to keep doing it in perpetuity. Go and focus on your day job. And the disrupter gets two or three mates who feel the

same way and off they go and start a disrupting, innovative business. Some succeed, some fail, and some fundamentally, Jerome, change history.

Jerome Frey [00:03:51] Yeah, that's absolutely right. And I think that's where Discovery Bank came along. Obviously, we were very fortunate to have a shareholder with deep pockets because fintechs even though they appear to be low cost, are not always that low cost. And at the end of the day, if you're trying to set up a bank, a bank is highly regulated. So you've got to adopt the fintech principles. But on the other hand, you've got to comply with all of the regulations out there. And that's really why the big large banks have come a little unstuck, because the cost of compliance is huge. So the advantage of a fintech and the advantage of a Discovery Bank is you were able to not reengineer, but engineer ourselves straight through, right up front. That's one of the ways we can disrupt is because we can build in everything into our systems and make it fully slick and streamlined. We onboard customers within five minutes or less, and in doing so we actually comply with all of the rules and regulations. Now, you were talking, Bruce, early on about, you know, customers standing in queues and branches. Well, it's you know, my mother in law, certainly she would never think of using, never in her life to go and actually open a bank account, but my kids would never do anything else than open a bank account via an iPhone. So it just shows you how life is evolved.

Bruce Whitfield [00:05:10] Having gone through the process of registering for a new bank account for the first time in probably 10 years recently and doing it in five minutes, I was completely stunned by the fact that you take a photograph of your I.D. The technology that is embedded in the system fundamentally changes it. And for many people who have never had to open a bank account the old way listening to us now they're saying hold on a second. But how could it ever have been any different? Because what we're doing now makes complete sense. It's completely intuitive. It's super fast. And it doesn't require 40 sheets of paper and destruction of the environment in order to go through what should be a relatively simple process, Jerome.

Jerome Frey [00:05:56] You're absolutely right. But you've got to apply your mind. You've got to think a little bit out of a box. You spoke about taking a picture but then what do you do with that picture and that picture in our case is matched to what home affairs has on the National Population Register. Obviously, you can at times come unstuck because the quality of a picture isn't as good as it should be. So you need to put procedures around to actually deal with these exceptions. And if not, then what do you do? And in our case, we go one level down and we actually fall back to the driving license, which also has all the information embedded in the barcode at the back of a driving license. So it sounds simple, but you really have to work through all of the permutations. In doing all of this, you've got to be so careful that you're not opening gaps which then allow the fraudsters to actually hack your systems. But I think one of the points I actually want to make here is we were talking about regulations earlier on and how tough regulations are. In our case, obviously, we're doing KYC fully electronically. Our first fear was that the FIC in Pretoria, just wouldn't allow us to go about it this way, and we approached them three, four years ago and we presented our idea which was a fully electronic one, and we were amazed it took them literally half an hour to work out that this was outstanding. And in fact, they said for us to have everything digitized with a fully auditable trail is a lot better than having pieces of paper floating around, which people have probably Photoshopped in any case. So we were actually amazed how agile the regulator was in his thinking. And that if a regulator had not approved that, then our whole dream probably would have come to an end very quickly. But because the regulator was there and was behind us, we were actually able to move forward. So that was very refreshing.

Bruce Whitfield [00:07:40] How much of a mind bending approach have you had to take, Arif, at the Reserve Bank? We see the Reserve Bank as a bunch of well-meaning but fuddy-duddy individuals who once every two months set an interest rate far too high for our liking and for the rest of the time make it really difficult to move money around the world. That is an impression of the Reserve Bank. What I'm sensing from what Jerome is telling me is that there has been a very rapid revolution within the Reserve Bank in terms of appreciating that the world is running at you know a 150kms an hour and we better keep up.

Arif Ismail [00:08:21] Absolutely. Now, this might surprise yourselves and listeners, I don't think in my experience now, probably about five years at the bank, that it's the way that people think about them, very, very rigid, not agile, not flexible. In fact, what's amazing is that we've managed as a group of now seven regulators, Jerome mentioned one, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the National Treasury, the National Credit Regulator, of course, the central bank itself, and now the Competition Commission. We've managed to come together under a body called the Intergovernmental FinTech Working Group, or in short, IFWG and what we've managed to put in place over the last year is something called an innovation hub. And the point of the innovation hub is that innovators in the market, as Jerome described, can approach the regulators not individually but collectively. Put down their innovation, discuss the type of thinking that they have. And our assurance to them is that you will get a response within five to 15 days. Tell me that's not agile, tell me that's not serving the market, right, so it's really fantastic.

Bruce Whitfield [00:09:33] Who is leading the process? Is the Reserve Bank being pushed or is the Reserve Bank sufficiently equipped that when players in the market want to innovate, the Reserve Bank is in a position to say, yep, we are aware of what you're trying to do, so therefore, tick, tick, tick, that's absolutely fine. Off you go or is this just a rapidly learning process?

Arif Ismail [00:09:53] No, I think I think in terms of these seven regulators that have come together, you know, it's a collective effort. It's certainly being driven, by the SARB, by the Fisca in particular. We've got to fintech units, dedicated fintech units in order to make this happen. But I think in terms of the mindset that we have, we certainly want to make sure that regulations are not opaque, that they're understood, there's a reason, you know, for why these regulations are in place. And I think what we're saying to innovators is we open for business. In other words, we're open to be influenced in terms of adopting technology, adopting new ways of doing things. And the beauty of it is it's not just related to money and moving money. It could be related to lending. It could be related to insurance. It could be related to investments. It could be related to even as Jerome put it, other peripheral processes like digital ID or even you would see what we now call aggregators, people who pool data together, to give consumers price comparisons, product comparisons. We're really open to these particular innovations. And I think the process that we've put in place now enables that. In other words, we've got a dedicated website, you'll see it certainly doesn't look like a bunch of regulators that have put this website together. Go check it out. It's www.IFWG.co.za and you'll see it's incredibly accessible not just to the incumbents but to the entire innovation community, Bruce.

Bruce Whitfield [00:11:21] I just want to focus on a boring bit for a moment, because this is absolutely pivotal when it comes to banking innovation and the role of the Reserve Bank at the centre of the economy is to ensure financial stability. It's got to ensure that the financial system doesn't fall over. Regulators in the past have really held on to the reins very, very tightly in terms

of having four dominant banks in South Africa and gradually allowing, new players in but being incredibly cautious about it. How does this explosion of FinTech and the sudden entry of new players into the market contribute to financial stability? It's always something that has worried regulators within the Reserve Bank.

Arif Ismail [00:12:01] Yeah, I think so, you know, the way the question's phrased the concern is the number of new parties that would be coming into the system. I don't think that that's our mindset, our mindset as regulators is go back to the underlying activity. And whatever that underlying activity is or whatever that underlying economic function is, and let me make it practical. So if we're talking about deposit taking or payments or lending or insurance, what we try to do is regulate the underlying activity. So we have a mantra amongst us ourselves as a global set of regulators. And if it's the same activity it attracts the same risk and therefore the same rules must apply. So it's a level playing field for all. We don't mind the number of players that come in and compete for services. But I think what we really, really focused on is ensuring that there's a level playing field. So the same rules of the game would apply. Whether you are 100 fintechs or whether you are four banks. We go back to the underlying economic function. In my view, I think that there's a fair trade off between ensuring that there's stability in the system and as we see in other jurisdictions and the number of players. But keeping a close eye, on the underlying activity in my mind, that's the mantra we've got to stick to as regulators.

Jerome Frey [00:13:16] Ja. And I think it makes sense. I think a lot of people say, oh, my gosh, fintechs and regulators just don't gel together. But I think the success of the fintechs will be if customers know that it's actually well regulated. And that money in the case of a bank is well protected. I think it's really what the Reserve Bank does. They look after the depositors not of a shareholder, but depositor. And that's good. So you can come up with all your whiz in terms of technology. But at the end of the day, the customer must know that his money is safe. And that's, I think where the regulation is really important. And I think we as technology players actually embrace that because it sort of provides an insurance premium at the back in order to ensure that, you know, customers feel comfortable. I mean, if you look at Discovery bank we've attracted billion rands worth of deposits and we've been most surprised by that, in less than a year. And I think one of the reasons is because people know that at the end of the day, you know, it's all within the regulated environment and then we can talk about cryptocurrency. Well, that's a little different.

Bruce Whitfield [00:14:18] We'll do that in a second. I mean, because it's part of fintech in the evolution of fintech. But how important is brand when it comes to this here, Jerome? Because if you're starting up and you don't have a recognised financial services brand, it's an incredibly difficult thing to convince me to deposit my monthly salary or my savings into a bank account that is linked to your brand. I want to know that somewhere deep in the background there is an institution with sufficient capital to cover my deposit in the event of a crisis. What you do have at your advantage is a big established brand that has been around now for nearly 30 years in the form of Discovery.

Jerome Frey [00:14:58] Yeah, no, I think listen, the brand is obviously in our case, it's a huge asset because we've got an ecosystem which is very, very well developed and we're riding at the back of that. So that's fantastic. But on the other hand, if you see what's happened overseas and if you look at the Revolut's of this world and the Monzo's, you know, those brands weren't even around 10 years ago and they've made some huge inroads. So I think the brand is important. And, in our case, a huge advantage. But many players have managed to create a new brand. But obviously, if

you don't have to create a new brand, it's really nice to be able to ride on the back of an established brand. So it's obviously in our case was a huge bonus.

Bruce Whitfield [00:15:35] How scared are you of the next generation of disruptors? Because you are in the process of disrupting right now and you know as well as anybody else that somewhere in a basement is some kid with pimples wearing boxer shorts and probably not very much else who hasn't showered for three weeks, who is working to disrupt you. And that's, I suppose, is so exciting from a consumer perspective. From a business perspective, though, you've really got to be completely aware of your environment.

Jerome Frey [00:16:03] No you've got to be on your toes, you got to be on your toes all the time. I mean, you need to look over your shoulder all the time. And I think the key to that is not to have 50 year olds designing these solutions. You need 20 year olds looking at it. I mean, I often share what it is we're doing with my kids, 20 year olds, 25 year olds, and they give you huge insights. For example, my son the other day was trying to buy one of his Garmin watches and he just couldn't get through to what discount he was going to get because Vitality money was going to give him a little bit Vitality Health was going to give it something else. Well, within four weeks or six weeks, Discovery Bank and Discovery Vitality created this new behavioural Vitality Money 2 that we've just launched and that answers all of his questions, all of a sudden we've got full clarity on the app. You need to listen to these youngsters because they are extremely sharp and they know where things are going and they give you great insights as to what they're actually looking for, not what you think they're looking for, what they actually are looking for. And I think that's really important.

Bruce Whitfield [00:17:02] I think, from a consumer perspective, it's amazing that we are appreciating less and less what is happening behind the scenes. All of us were stunned by the first iPhone when it came out. And if you've picked up any one of the first five iPhones that were produced, you realise how clunky they are in today's terms. And banking is a bit like that as well. We don't appreciate necessarily as we get our whizzy new bank or we get our whizzy new iPhone, just how much work that goes into it, just how much knowledge goes into it, just how much real effort goes into creating something that appears least on the surface, and Jerome referred to this earlier, the deep complexity in creating simplicity.

Jerome Frey [00:17:44] Yeah, I think that's absolutely right. I mean, you know, it was actually quite interesting. And I'll just dwell on this for a few minutes because it was a journey, an amazing journey. First of January 2017, which is only a few years back. We didn't have a single contract in terms of, you know, software in our organisation. We didn't have a banking license. We had absolutely nothing. Within nine months, we had the SAP backend systems fully implemented, interconnected to Visa, interconnecting to the payment systems in South Africa. And we were settling on a daily basis and producing our BA returns. That was done within nine months. It was absolutely incredible and unbelievable. However, when we did come unstuck a little bit was on the front end app. You were alluding to this five minute process to open a bank account. Well, it's actually very, very, very complex. And we created one app initially and it was clunky and didn't work perfectly. And, you know, we really had to redo it a couple of times before it came right. And I think eventually we had a process engineer and with something like five or six thousand different journeys and different permutations underneath that, depending on who you are, if you've got other banking details, other banking accounts in town, what type of credit you're looking for, what's your credit worthiness? We are so many different permutations, the mind boggles, basically. So you're absolutely right. It looks simple and it must look simple. I mean, Adrian Gore; he wants five clicks and it's got to be done. Now, obviously, you can't quite do it in five clicks. But

we understand what he's trying to aim at. This has got to be simple, simple, simple. The simplicity is really important. That's what we youngsters are looking for. However, you need to embed huge amount of complexity at the back and you need to do it as smartly as possible so that it appears simple.

Bruce Whitfield [00:19:22] Arif I mean, when we look at this and we are now the first phase of this, of course, is we call it banking and then suddenly it changes into something fundamentally different. We start seeing different methods of exchange, different currencies, if you will. And you guys touched on the issue of the bitcoins of the world, the Discovery Miles of the world, the ebucks of the world, all of these things which are not currencies yet they are accepted online as a mechanism to exchange goods and services in return for a payment. As a central bank and as a regulator whose job it is to protect the integrity of a currency and the buying power of a currency, you feel like you relinquishing quite a lot of control.

Arif Ismail [00:20:07] Yes to some extent and no probably to another you know, if you look at the adoption rate, for example, of these private monies, I was on a call yesterday and someone said to me, how many are there now? And I thought, oh, there must be about 3000 odd of these private monies. And when we looked at the data, it was now close to 7500 different private sets of monies. Whether that's Bitcoin, Litecoin, Tether or any other. I think for us, what I begin to see as a pattern playing out across the globe is no longer just thinking about these as separate to the regulatory system. If you look at just what's happened in Wyoming, they've issued a special depository license to the folks who are doing crypto. Similarly, a good example here would be Facebook and Libra are now very close to being licensed in Switzerland through [FINMAR]. And my sense is we're going to see, you know, these crypto assets, you know, form part of the regulatory framework. Would we consider them to be legal tender and currency in the fiat sense? I think the answer is no at this stage. Would we consider them to be means of payment, a different store value, the answer's yes. Do I think central banks are going to sit on the side and do nothing about it? I think the answer to that, again, is no. What we're beginning to see emerge is a different form of asset, different from commercial bank money, different from the Bitcoins that you talk about, something called central bank digital currencies. Almost like digital cash, if you wish. China is experimenting with it in two provinces at the moment. They call it DCEP Digital Currency Electronic Purse. What exactly is that? It's an electronic form of fiat currency issued by central bank.

Bruce Whitfield [00:21:49] That assumes, though, that central banks then remain the custodians of currency. But I see a future Jérôme where there are so many people so desperately keen to get outside of traditional government systems that we start seeing people very happily transacting in trusted digital currencies that are outside of the formal networks, which then makes it incredibly difficult for states. And we go off topic here. But I think it's an important thing to just to touch on where we see states losing control and states the one thing states hate is losing control. I mean, are we headed that way? Is that one of the things we should be concerned about when we see this rapid evolution of fintech?

Jerome Frey [00:22:27] I actually think it's quite interesting. In fact, we are just the cast my mind back to the example that Arif brought back, he said, but Libra, I think, had settled in Zürich in Switzerland. And the Swiss authorities are now accepting tax payments in the cryptocurrency, because Zürich is a place where a lot of cryptocurrency people who just set up shop there. So in order to actually show how comfortable they are with this is that the Swiss authorities are now accepting tax payments in a crypto. So it just tells you that even the authorities can get their minds around it eventually.

Bruce Whitfield [00:22:55] You either get on the bus or the bus leaves without you. And I suppose that's the point.

Jerome Frey [00:23:00] Yeah, absolutely. That's right. Listen, I don't think it's going to happen overnight, but I think it's going to be a very gradual slow, because I know there are people like me who will still want their Swiss francs, and their dollars and their Euros and their Rands and the crypto can be part of that portfolio. But five percent maybe, you know, not 95 percent because at the end of day was still a little bit of fear that it could all fall in a heap. So you would need a lot more stability in the system and proof that actually it is solid. I mean, you were referring to in your notes, Bruce to Discovery Miles. You know, as you can see, well, obviously it's not a currency.

Bruce Whitfield [00:23:33] It has it has value. It is an asset and I can exchange that asset, call it what you like, for a wrap or a juice or whatever the case may be?

Jerome Frey [00:23:43] Yeah, no, absolutely. So it's just shows you and people feel quite comfortable with it because it works. But obviously there needs to be integrity because in the first time that our systems don't credit you as a customer with the right amount of miles, you'll lose total comfort in it and you'll want to cash it in all the time.

Bruce Whitfield [00:23:25] I suppose the real test comes Jerome, when Adrian comes in and says, Jerome, you know, these rand things that we pay you in every month, we get to give you Discovery Miles instead. And it's whether or not you accept.

Jerome Frey [00:24:11] Yeah, that's right. I mean, I'll be saying and what interest rates are you going to get, Adrian.

Arif Ismail [00:24:15] True, true.

Bruce Whitfield [00:24:18] What scares you, Arif, about fintech because surely there must be aspects of fintech which are so big and so hairy and so difficult to comprehend, and particularly from a regulatory point of view, potentially difficult to control, that there must be aspects that do make you at least wary of the future.

Arif Ismail [00:24:37] Yeah, I think I think there are probably two things that we keep pondering on. So the first one you've already hit on the head. What happens when you have parallel systems, be that, you know, a crypto asset system, etc., and what would propel people to move towards a system like that? And what would the impact of that be on the current infrastructure? If I think of Alipay and Tencent, it makes up almost 90 percent or more of the transactions that are that are being done in payments. I mean, the number astounded me. To GDP, it was 16 percent. I mean, that's an astounding number when I think of the number of online lenders. Right. Non-traditional players. There are more than 5000 platforms in China alone. And when I think of that, I think, well are we as a set of regulators, understanding or equipped to understand that massive shift towards alternative platforms? And my sense of it is that the kind of innovation that we've seen in the last 10 years is nothing like the kind that we're going to see in the next ten. And how do we think about this particular things? So that's the first maybe macro thing that, that comes to mind. The second one is probably more the very micro level. It's related to consumer protection. So in the past, the way I describe it is for me to get banking products I go into my bank. The branch manager would know me, we'd build a relationship, etc. Now I'm going to pick on my mobile device from a

multitude of different service providers, fintech firms, incumbents, others that we don't even know as yet. And from a consumer protection perspective, how do we equip them to understand, back to Jerome's point, who is regulated, who is legitimate, who do I give my data to? What kind of services am I getting? Is it clear? Is it transparent? Do I have recourse? Those consumer protection elements I think equally top of mind, apart from the stability kind of issues that I raised in the first point.

Bruce Whitfield [00:26:30] In a world where it feels like there is a fintech free-for-all, and I'm sure it isn't like that, but there are many multiples of options open to people today that weren't available to them five years ago, for example. There is no way that we can interact and transact with the level of security that perhaps we could five years ago. Is my understanding of that completely out of date, Arif?

Arif Ismail [00:26:53] It really depends on what platforms you're connecting to, what medium you're connecting through, etc.. My sense of it is that consumers have to be extremely careful about, who they're transacting through and what data they're making available. I'm just going to use a practical example. If you log on to the Internet and you're wanting to pay for a set of goods online, the traditional way of doing that is using a card. And the general mechanisms around a card are relatively secure. You've got two factor authentication. You get a one time password or pin on your phone, etc. Today, you log on and you get a series of different players. And when you look at it, it says, oh, I can do a direct account transfer. Let me just click on this icon. It doesn't look like it's a regular brand. When you click on it, you get to put in your password, your pin etc.. The technique, as Jerome would tell us, is called screen scraping. For consumers, how do we educate them about that kind of awareness as to it looks and feels like I'm on the Discovery website, but it's not. I'm putting in my data on it, those are the elements that I think we're concerned about. Not the answer to it in my mind, very briefly, would be how do we adopt technologies like open application programming interfaces, etc., where the channel to which the data is shared is secure. I don't know if you agree with me, Jerome?

Jerome Frey [00:28:13] No, I agree 100 percent. You've got to be I mean, it is most confusing for customers because they just bounce around between one system and the other. And they're not too sure if they're you know, if you're buying an airline ticket. I mean, look at it through Vitality, basically, you start the Vitality because that's when you're going to enter the Kulula, the British Airways world. And all of a sudden you find yourself on a British Airways site and a few minutes later, you're back into a Discovery Bank one and maybe on the Visa one. And you just keep on hopping around, it's not always as seamless as you'd like it to be. And it is going to become a lot more seamless.

Bruce Whitfield [00:28:45] I mean so many questions from people who have seen something on Facebook and send me an email saying, is this a scam? Can I trust this? And in a world which is evolving increasingly quickly, there's no time to double check or check out any of these things. And I just worry that a lot of people are going to get scammed. There are perfectly legitimate fintech opportunities, but in as many fintech opportunities there are that are consumer positive, there are many, many people looking to rob you and it's so much easier than putting on a balaclava and walking into a bank branch.

Jerome Frey [00:29:14] It is, these days. And that's exactly what's happening. And as you know, cybercrime is an organised business and that's why it's so successful, because these are proper organisations. They may not be tax registered or anything like this, but they're operating around

the world. They've got proper structures. They employ the brightest people. And when these guys do a successful hack, they get paid a fancy incentive. You know, so you've got a whole system there, and as quickly as we're trying to release new products to the market, they're trying to find holes into our systems. So, in our case we just can't take shortcuts. We've got to subject all of our systems to penetration tests and deep technical tests before they are launched, because we know that there are some clever youngsters out there who're going to try and break through those. So it's an absolute nightmare. I mean, when you think of directors and board of directors, what is their number one nightmare and an issue that they worry about now is are the systems secure because youngsters in proper organised syndicates will try and break in.

Bruce Whitfield [00:30:18] So give me a sense of it. Is that what keeps you awake, Arif? I mean, the fact that you've got all this magnificent technology and opportunity, and it's not only opportunity from a positive business perspective, it's an opportunity for the crooks too.

Arif Ismail [00:30:30] Yeah, absolutely. Cyber fraud is probably top three of the risks, that would be a concern from a regulatory perspective. But I think, the thing that worries, is just how that has shifted. The modus operandi. If I think in the past, the way to get data or to steal, you know, your funds would be well, you know, I give to people working in restaurants, the waiters a little device where they can swipe your card, there's got to be that physical interaction. But now that form, that modus operandi is changing. I'm just going to use a practical example, right? The crew at the bank, were trying to show me how easy it is to engineer myself towards giving out information. Information that I thought was, really not that sensitive to give out. So they were watching me talk to a colleague at an event. You know, from another jurisdiction and lo and behold, a few days later, I received a LinkedIn message from this person saying, hey, I want to connect with you. Can we connect? And I thought, oh, yeah, you know, I remember we were talking and you reached out. And so I accepted the invite and we began chatting. And at some point it was I know that you have an interest in this particular topic, Arif, here's a document, tell me what you think about it. And as soon as I clicked it on my screen, out it came saying, got you! And you know, it's those kind of manipulations, if I could call it that, that worry me.

Jerome Frey [00:31:51] No. It's absolutely frightening. Now, obviously, they are a huge amount of fintech equivalents where cyber techs, let's call them that, who are designing systems to try and protect us all, it's an amazing it's a whole industry in its own right, worth billions of dollars trying to protect organisations from, the wrong people accessing your networks. And you're not only protecting the access points, but you also protecting what's actually moving, in your organisation between between various systems. So it's a very sophisticated industry. And again, it's a complexity, that we don't see. But it's all there and it costs millions of dollars to implement. But you just have to do it. You just can't compromise on that stuff anymore, you just can't.

Bruce Whitfield [00:32:30] We can't be paralysed by fear. I mean, the evolution from a consumer perspective and the progress that fintechs are making and they are then feeding into the formal system is just remarkable from a user perspective. And as much risk as it brings, I suppose the important thing here, Jerome is to ensure that consumers are as best as you possibly can, really brought along for the ride because we want it all. But we also want absolute guarantees that you are going to protect us. And I'm not too sure that that's always reasonable.

Jerome Frey [00:33:03] Well, Ja it's obviously a dichotomy because protection usually comes with slight inconvenience, because you need a key or something to actually unlock the door. Well, it's not always comfortable to walk around with a key so you get smarter and smarter and you start

using your fingerprints and you start using eye recognition and a whole bunch of software biometrics to actually do this. But it's really important to try and simplify it and make it as secure as possible. But obviously, you always worry that, is the eye absolutely secure? You know, is there not somebody out there who could have an eye similar to mine, and you just can't help thinking, well, yes, this looks secure. We are doing the right thing. We've been well advised. But, you know, there's always that fear at the back of your mind. So then what happens is you put two or three locks on your door, you know, just to make sure that if one fails, at least the other two will actually pick it up. But obviously, putting two or three locks may lead to some inconvenience and customers get uptight. But, you know, you got to explain to customers you're doing it for their help, for their benefit, basically.

Bruce Whitfield [00:34:01] Yeah, but I thought you were meant to make my life easier. Now I've got to like, you know, do six clicks. And Adrian said I should do five and you guys are useless. How do we idiot proof ourselves from the risks of this this incredibly tantalising and exciting and evolving world? A couple of pointers from each of you before I let you go. Arif, you first.

Arif Ismail [00:34:22] Yeah, I think one has to separate between personal data and what I would call confidential data. And for both, one has to be very sensitive about who one's giving out this particular information to. For confidential data, it should only be, you know, with your trusted entities. One has to be incredibly careful about one's data. Confidential data must be protected, absolutely. And personal data, you know, don't underestimate, whether it's just your name, your street address, your ID number, those are the types of information criminals will try to get a hold on to simulate that it's you. Right. So one has to be very careful about these things. So to idiot proof it, I think we need to do a lot more, on educating and making aware, of the basic techniques and what one can do to counter them.

Jerome Frey [00:35:09] Yeah, yeah, that's absolutely right. And in fact, in the Discovery group, we have big campaigns basically just to help people understand what cyber crime is all about and be a lot more security aware. But the other thought I would have, Bruce is to make sure that the whole security is embedded in your thinking right up front. It can't be an afterthought when you've actually developed a system. It's got to be built in, up front, when you actually design the solutions and if you do that, may take you slightly longer, but at least when you know that it's got integrity and it's its end to end, and the user experience should be as seamless as possible then.

Bruce Whitfield [00:35:42] And that's the great opportunity. It's the great challenge. It is the great risk. But also then becomes the ultimate barrier to entry, because if you get it right, it becomes incredibly hard to replicate, Jerome and I guess that is the power.

Jerome Frey [00:35:54] Absolutely right. This is why FinTechs can actually break through, because we've got the ability to actually deliver very quickly. They're fairly agile and they've got their minds around all this fancy technology required to protect you on cybersecurity. For the large incumbents, it's a little more difficult because they haven't got only one entry point into the organisation. I mean, look at any of the large banks in this country. They've made up of 20, 30, 40 organisations which have been cobbled together over years. So they may have six, eight, 10 different entry platforms. We, in our case have one. One app and a bit on the web. But those are the two entry points we've got to secure. We haven't got 10, 20, 30 different platforms that we have to secure. So in many ways it becomes a little easier for us because we can focus on doing those 2 extremely well. I've got a lot of sympathy for our colleagues in the industry. You've got so many other platforms and they have to keep trying to keep everything in sync.

Bruce Whitfield [00:36:49] Yeah, you mean you could say that you've got sympathy for them, but you are tap dancing all the way to the fintech bank. Jerome Frey, thank you. The Chief Information Officer at Discovery Bank, and Arif Ismail, the Head of FinTech at the South African Reserve Bank.

Bruce Whitfield [00:37:05] Thank you for listening to this episode of Your Money Matters, brought to you by Discovery. Share the podcast and join the conversation on social media with the #YourMoneyMatters, and Tag @Discovery_SA. You can subscribe to the Discovery podcast channel, Discovery South Africa on your favourite podcast app or visit discovery.co.za to listen to all our shows.