2017 Euromed Event – Digital Transformation – Implications on Inclusion and Stability

Financial Inclusion and MENA Fintech Overview

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1. Financial Inclusion: Economic Rationale and theory of change

2. Digital Financial Inclusion

3. FinTech – General Considerations and Trends in the Middle East and North Africa

4. Future Considerations
Financial Inclusion creates Opportunities

**Micro**

**Individual-level**
- Smooth consumption
- Manage income shocks/mitigate risks
- Investments in: education, health, services
- More convenient, higher personal savings
- Lower transaction costs
- Safe & secure payments

**Firm-level**
- Manage income shocks and/or mitigate risks
- Investments in business and assets
- Lower transaction costs
- Safe & secure payments

**Macro**

**Economy-level**
- Better allocation of resources
- Broader economic participation
- Job creation / more entrepreneurship and innovation
- Higher national savings
- Higher competitiveness

**Greater physical, social, and economic well-being**

**Profitability**
- Competitiveness
- Firm Growth

**Higher growth**
- Poverty reduction
- Reduced inequalities (income, gender)

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Broader Inclusion
Customer-centered product innovation
Financial capability
Strong consumer protection
Better financial infrastructure
More and interoperable access points
Digital technologies – Opportunities

Offer a powerful solution for expanding access and usage to financial services, and improve their quality, appropriateness and impact.

New Players leverage electronic data in innovative ways to create better, more customized, and more accessible digital financial inclusion.

The spread of mobile technologies, mobile network coverage, and mobile based financial services in developing countries represent a game-changer in global financial inclusion efforts.

Governments play a critical role in creating the enabling conditions for financial service providers while ensuring that risks are mitigated and consumers are properly protected.

Technological developments and increased interest from new players is leading to a fundamental re-imagining of the processes and business model of the financial services industry.
Digital Innovation across different areas of the financial sector

**Payment services and market infrastructures**
- E-money and mobile money products
- Application program interfaces allowing overlay of services on existing products
- Use of distributed ledger technologies for new ways of structuring market infrastructures

**Leveraging transaction data and other sources of data for credit appraisals**
- Transaction data from e-commerce and payment platforms like Alibaba and Paypal
- Mobile phone usage data
- Social Network related data

**Deposits, Lending and Capital Raising**
- Crowd-sourcing ideas and funding them through crowd-funding
- Peer 2 peer lending
- Internet-only banks

**Investment Management**
- Automated processing and dissemination of investment advice

Potential to significantly enhance efficiencies, reduce costs and expand access to financial services
**Fintech - Context/Overview**

Four developments to consider:

1. **Acceptance and growth**

2. **Relevance to innovative solutions in emerging markets**
   - Telnor India microinsurance product – 20 million new subscribers

3. **Complex technology allowing deep change**
   - Blockchain will allow money transfer to be settled in 20 seconds
   - 10% of GDP to be stored in blockchain before 2030
4. **Collaboration** between banks and startups and unbundling

- **ripple**: International payment settled in 20 seconds not 6 working days, 2012
- **easy policy**: Mobile platform enabling wide access to micro insurance, 2011
- **QUANTIFEEED**: B2B platform to customize investment portfolios, 2013
- **PAYFORT**: Wide range of secure payment solutions online, 2013
- **Moolah Sense**: Connecting SMEs with investors, 2013
- **TransferWise**: Money transfer 10 times cheaper, 5 times faster, 2011


*Image: WORLD BANK GROUP*
Fintech in the MENA region

- Number of startups offering financial services in the region doubled from 46 to 105 in the last three years (2013-15);
- 250 fintech startups projected by 2020
- Distributed equally across GCC, Levant, and North Africa
- Have created since 2012

- Almost 3 out of 4 startups are based in four countries (UAE, Egypt, Jordan, and Lebanon)
- The UAE is the most dynamic hub with a 4-year CAGR of almost 60%;
Fintech in the MENA Region

• Led by payment and lending services (84%), followed by “second wave” sectors (money transfer, wealth management, insurance, and blockchain)
• Massive Potential: While almost one in two customers were interested in new fintech services, less than five percent have so far started using one
• 98% of fintech surveys plan to expand; Over 20 international fintech operational in MENA
Fintech in the MENA region - Drivers

Financial Exclusion

- 70 percent of adults (168 million) report no account ownership
- Informal credit by at least 92 million borrowers
- SME lending stands at 50% of the global average

Technological Penetration

- Internet penetration increasing and smartphone adoption almost tripling in the non-GCC market
- E-commerce
  - forecast to quadruple from 2015 to a $20 billions market by 2020.

Regulation

- Selected countries have made legal changes authorizing mobile wallets deployment
  - (e.g., Morocco’s 2015 banking law n°12.103 and Tunisia’s 2016 banking law n°48; Interoperability in Jordan; Morocco national payments solution

Customer Demand / Shifting Customers Loyalty

- Recent surveys suggest that 47% of bank customers were interested in using services provided by new companies offering payment, lending and investment solutions.
FinTech also presents a number of challenges...

- Data privacy, Consumer protection
- Are investors in peer-to-peer lending fully aware of the risks?
- Digital Currencies have been used to pay for criminal activities
- Limited supervisory capacity to understand and monitor new applications
- New actors, products, and delivery mechanisms, inc. through non-financial institutions
- What are the implications of these on profitability of banks?

There is limited data available and a lack of international best practices and frameworks.
Fintech Challenges in MENA

• One in four startups in MENA region shuts down
• Issues surrounding – data privacy, consumer trust and awareness, preference for cash on delivery, operations management
Opportunities Outweigh Barriers

• Market presence in MENA set to expand
  • 98% of firms surveyed set to expand
  • 1/3 fintech surveys plan to expand outside of the region
  • 250 firms projected by 2020

Market trends of MENA Fintech Startups
Beyond Fintech - A brave new world

Agenda for the Future

- Comprehensive regulatory review
- Leveraging emerging Fintech fields to promote financial inclusion

- **Use of Alternative Information:** Digitally collected data, including e-commerce and mobile transaction histories, can complement or substitute traditional methods of client identification and credit risk assessment.

- **Customization:** Better data collection and analytics inform more accurate customer segmentation and human-centered product design
Thank you!

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