

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

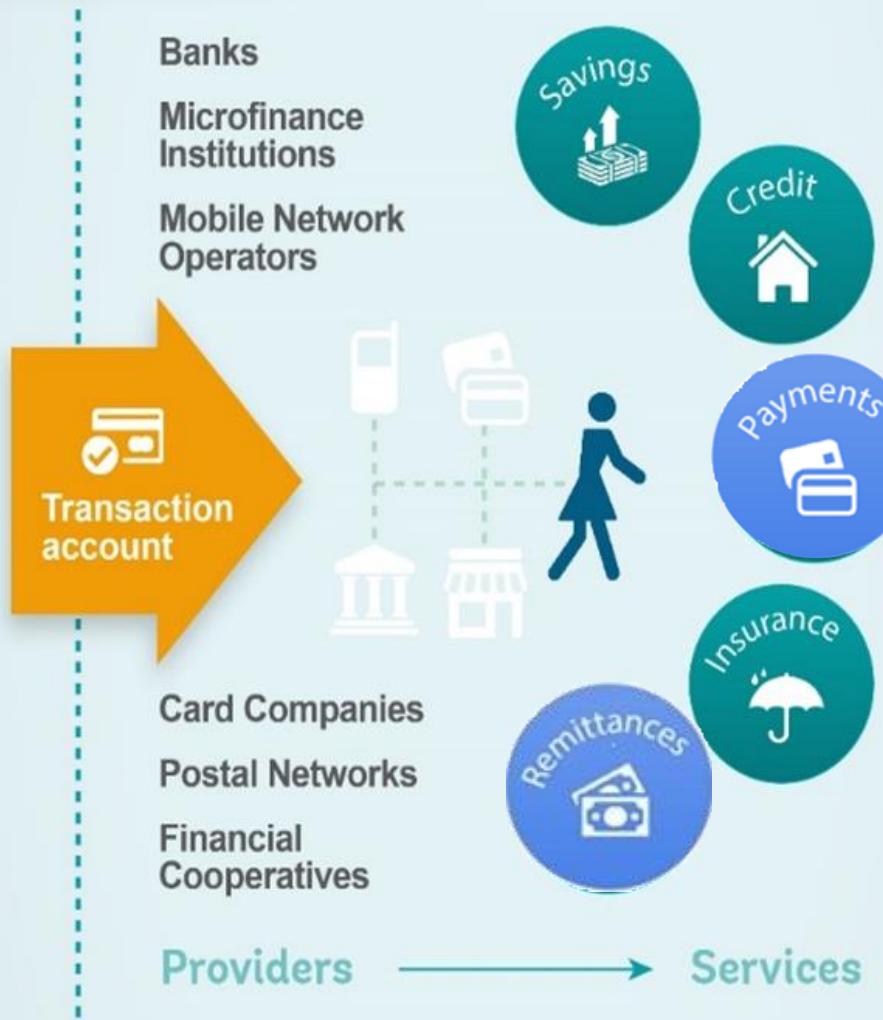
Profitability
Competitiveness
Firm Growth

Higher growth
Poverty reduction
Reduced inequalities
(income, gender)

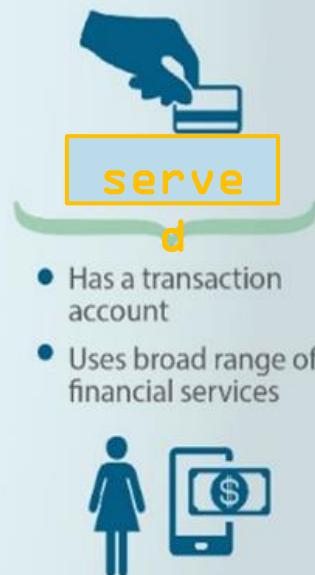


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Gateway to Financial Inclusion



- 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



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Fintech - Context/Overview

Four developments to consider:

1. Acceptance and growth

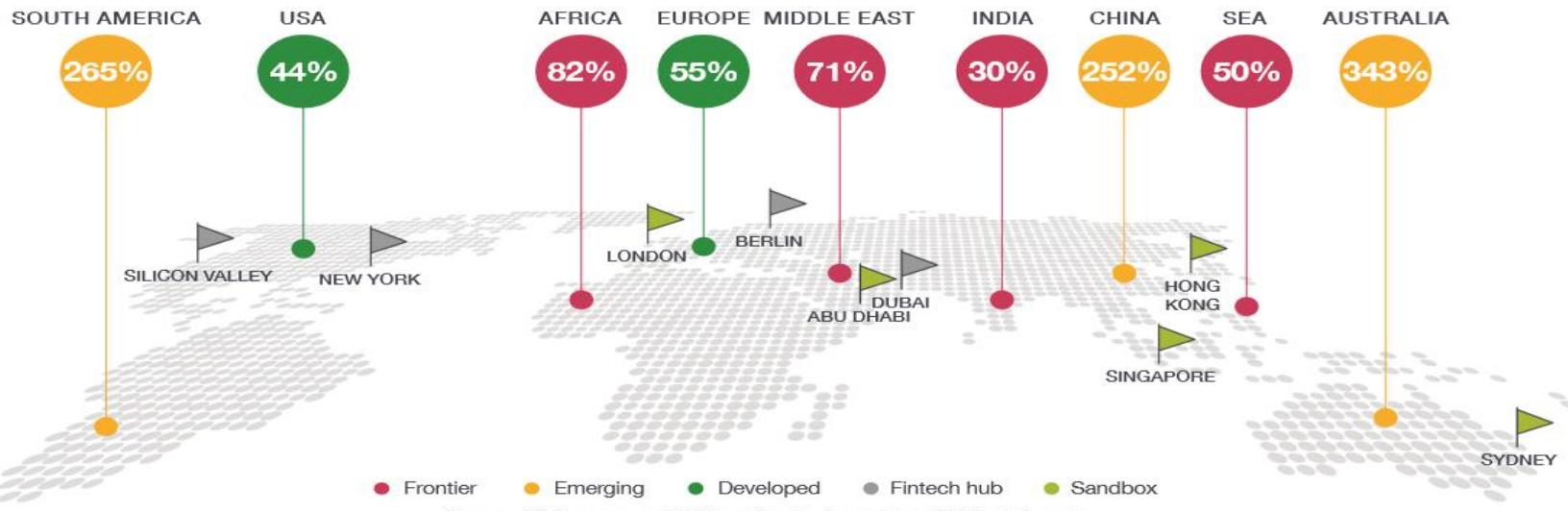
2. Relevance to innovative solutions in emerging markets

- 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

Figure 2 | Regional growth in fintech investments (in percent, July 2015 □ June 2016)



Fintech - Context/Overview

4. Collaboration between banks and startups and unbundling

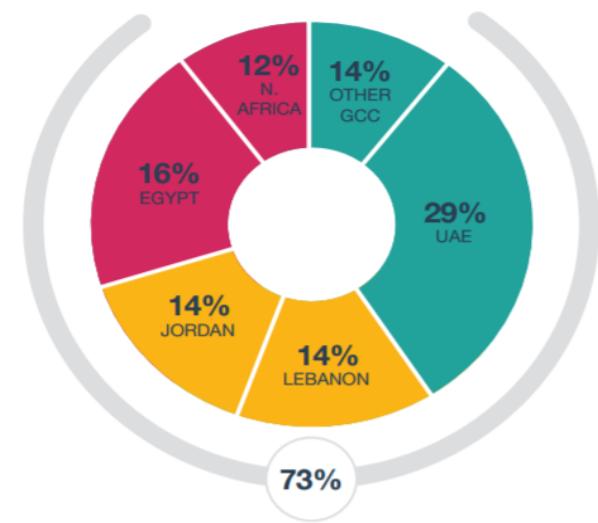
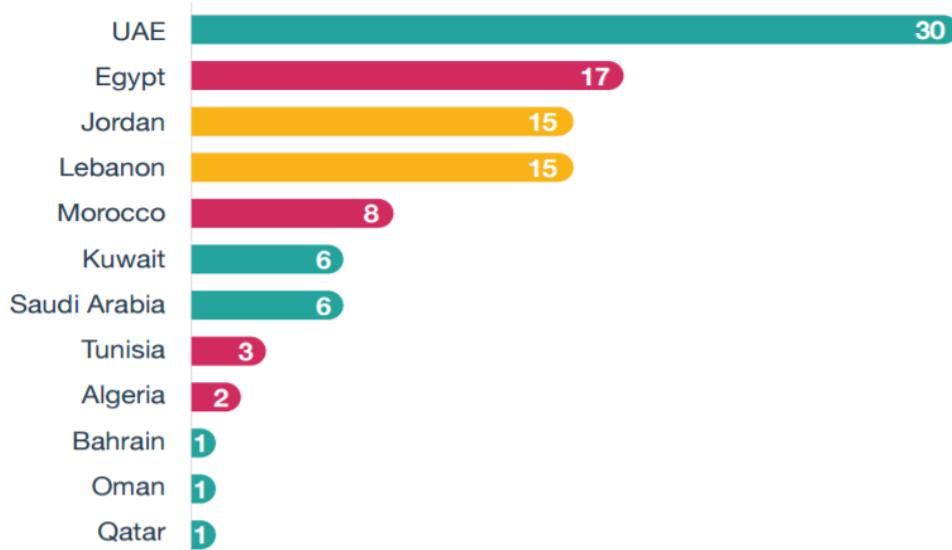


Source: Wamda Research Lab, 2016

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%;



● North Africa ● GCC Countries ● Levant

Source: Wamda Research Lab, 2016

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.

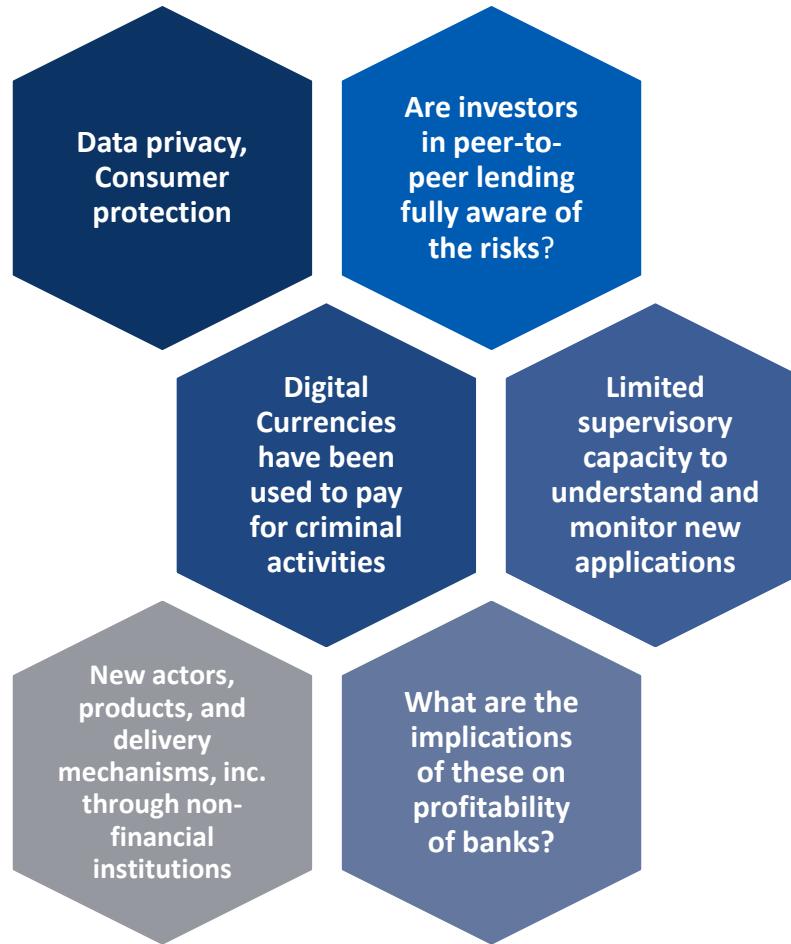
Regulation

- 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.

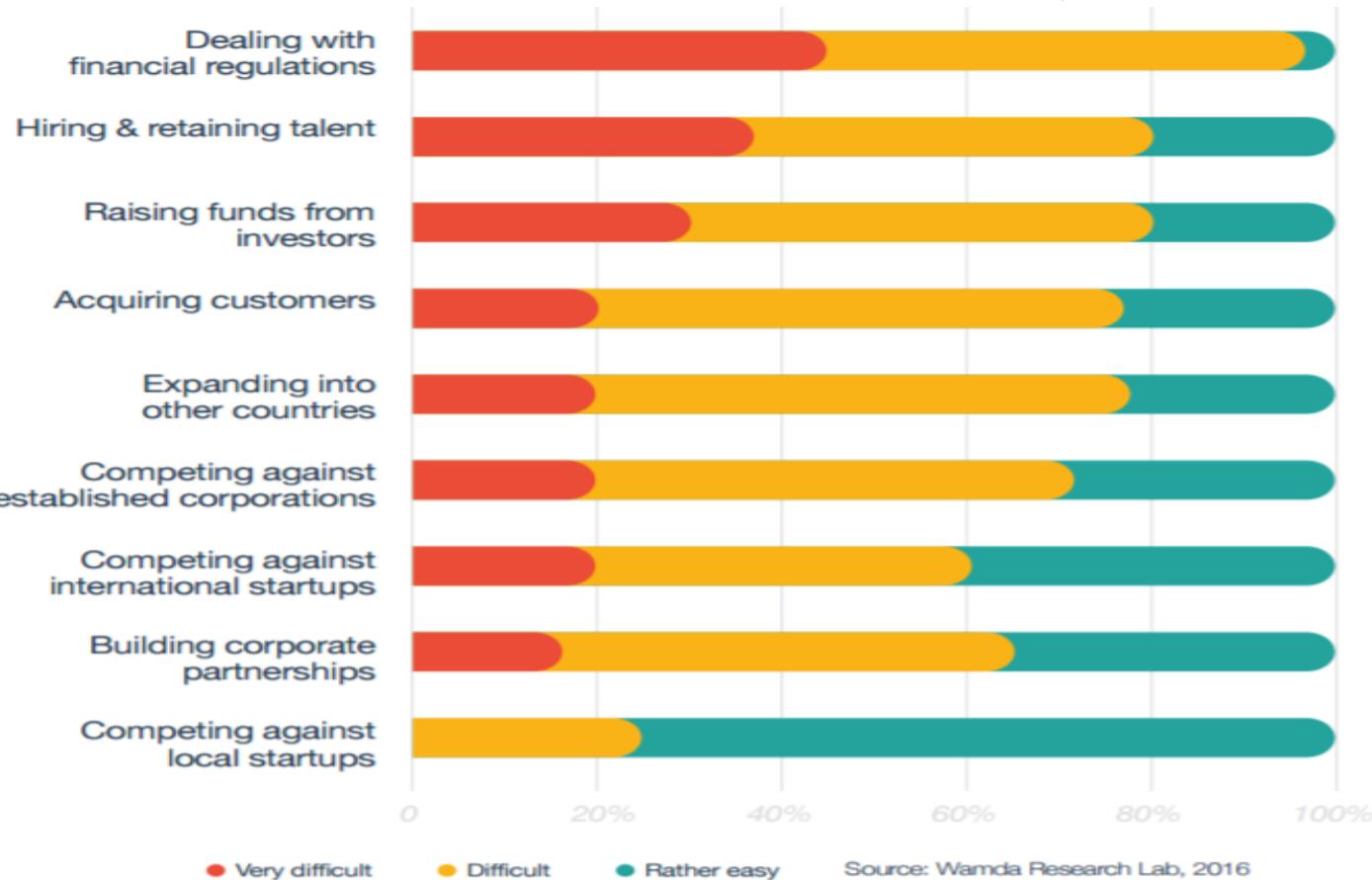
FinTech also presents a number of challenges...



There is limited data available and a lack of international best practices and frameworks.

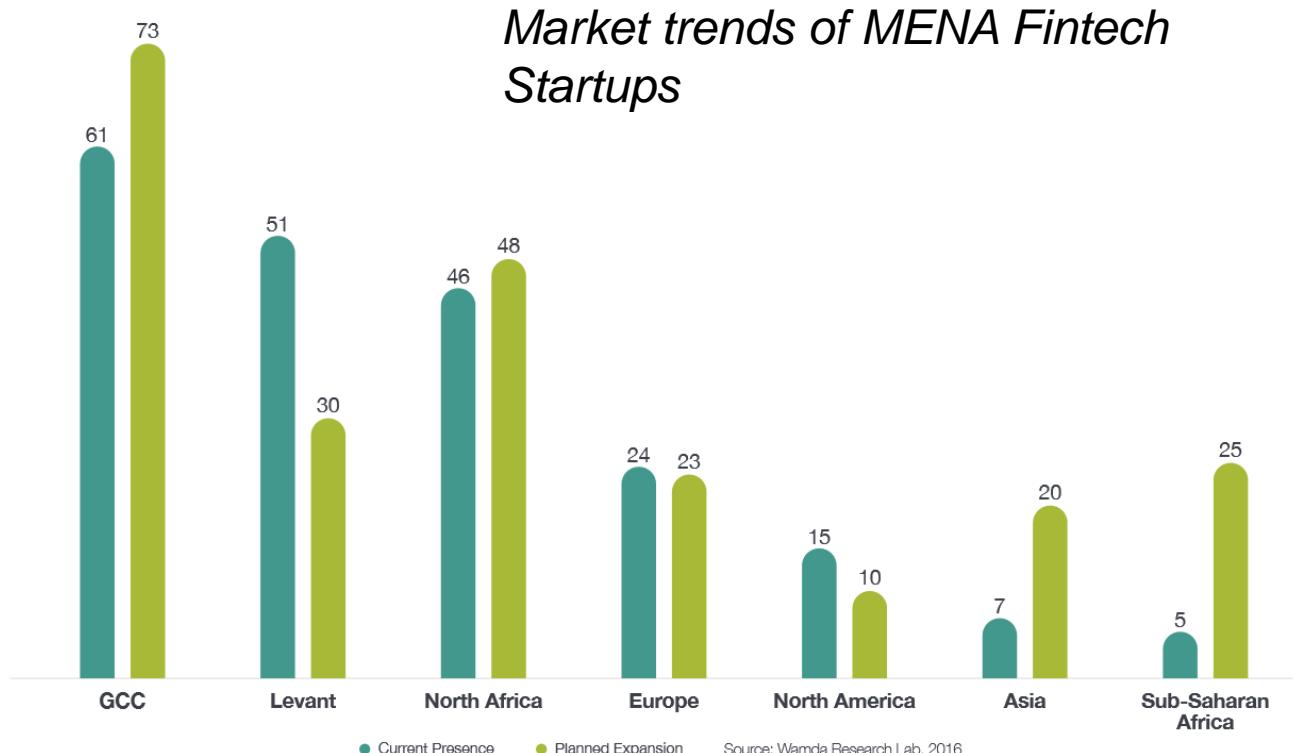
Fintech Challenges in MENA

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

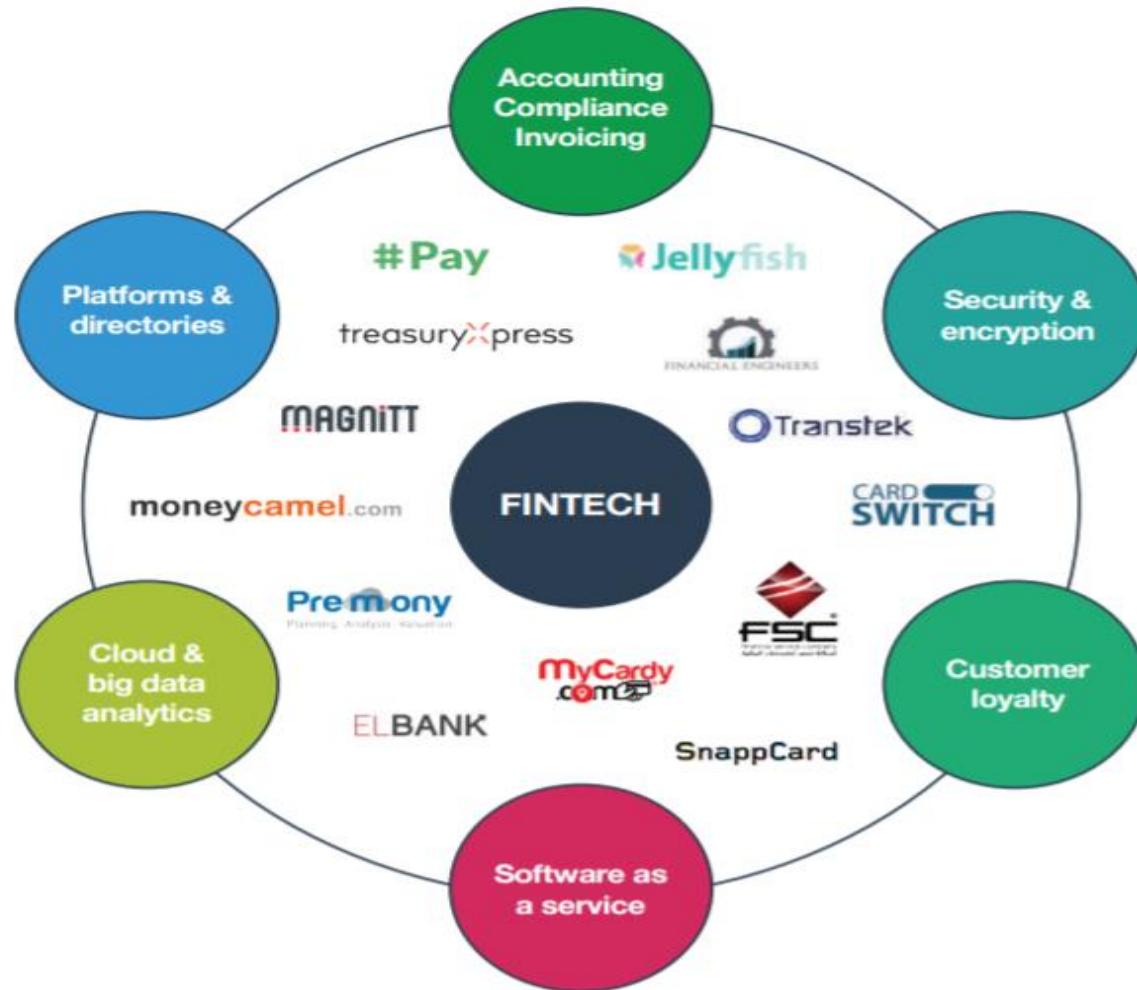


Opportunities Outweigh Barriers

- 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



Beyond Fintech - A brave new world



Source: Wamda Research Lab, 2016

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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