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Digital Financial Inclusion : *An Economic Game Changer*

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Information Technology Authority
Sultanate of Oman

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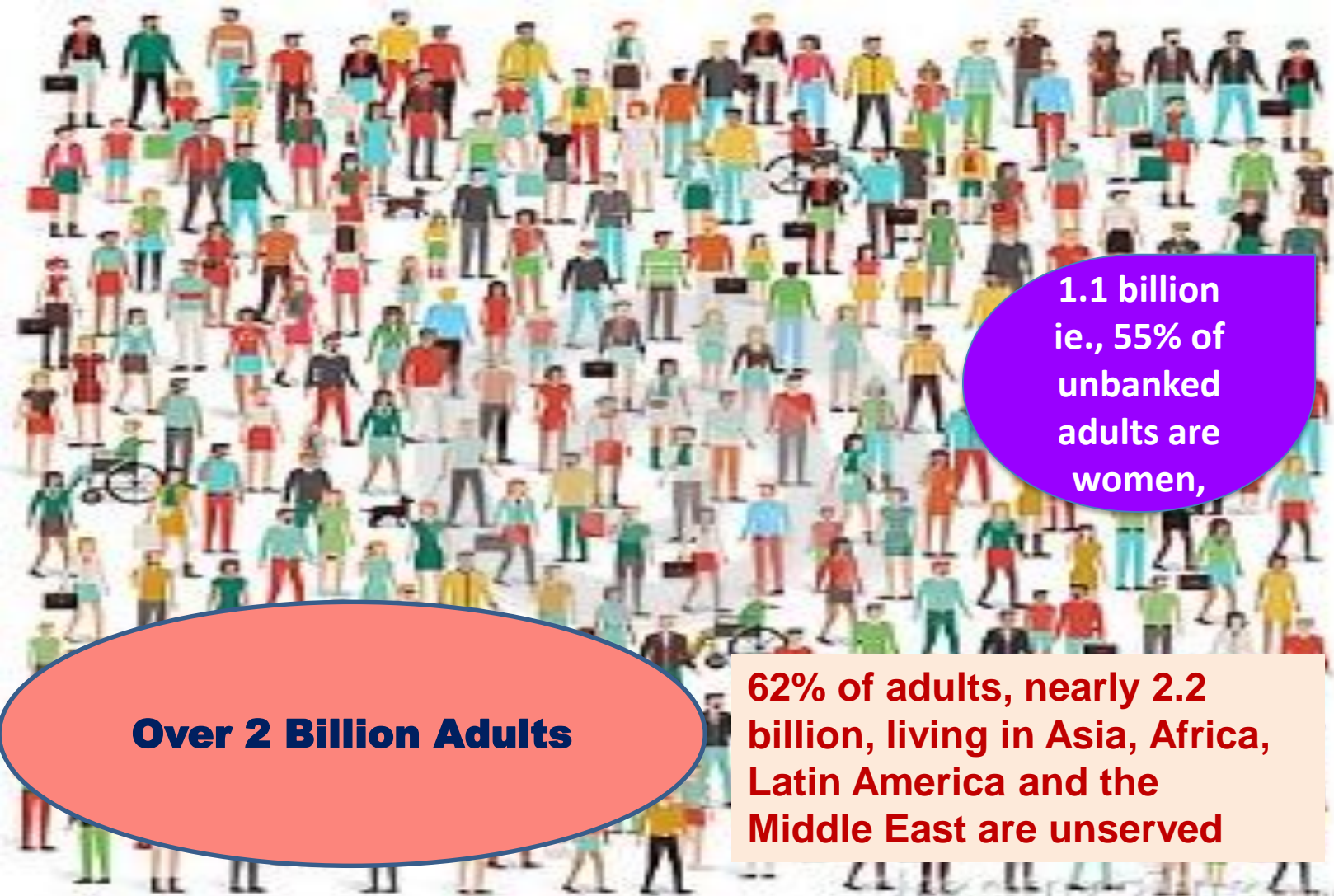


Overview

1. What is Digital Financial Inclusion and how the access to financial services through ICTs can benefit societies ?
2. Digital Financial Inclusion and success factors around the world with a perspective from Arab region
3. Key challenges and hurdles while adopting Digital Financial Inclusion.
4. Initiatives in Oman and role of e.Oman

What is Digital Financial Inclusion and how the access to financial services through ICTs can benefit societies ?

Almost half of the world is unbanked!

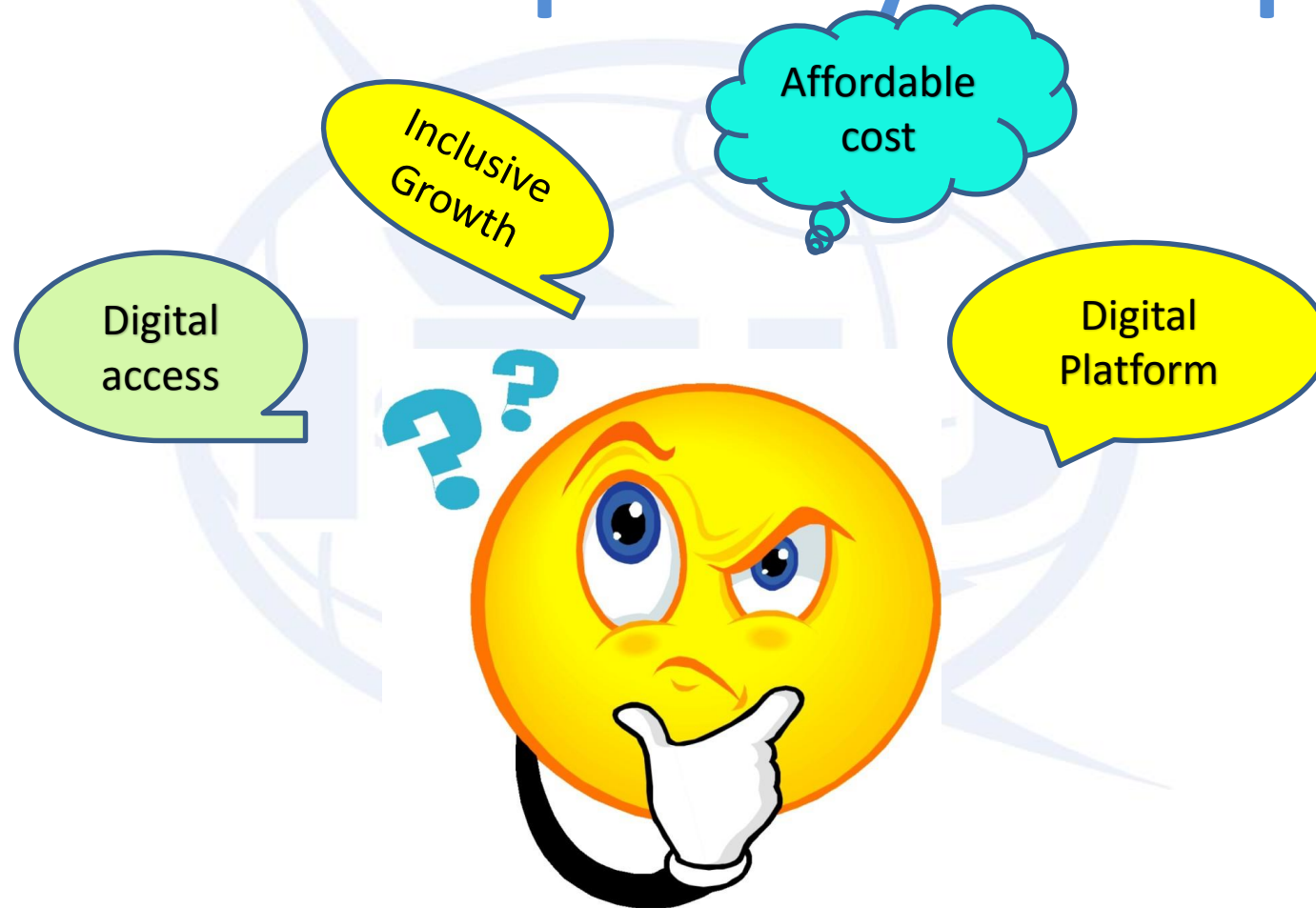


1.1 billion
ie., 55% of
unbanked
adults are
women,

Over 2 Billion Adults

62% of adults, nearly 2.2 billion, living in Asia, Africa, Latin America and the Middle East are unserved

What is this concept? Why is it Important?



Concept

Digital access **to** and **use** of formal financial services by excluded and underserved populations.

It comes at an **affordable cost** for **customers** and sustainable for **providers**.

Three key components : a **digital transactional platform**, **retail agents**, and **device** (commonly a mobile phone)



BCG Estimate that
1% increase in
financial inclusion
increase the real
GDP Per capita by
3.6%

THE POWER OF DIGITAL FINANCE

TRANSFORMING HOW PEOPLE TRANSACT

RECEIVING PAYMENTS

- Salary
- Remittance
- Government subsidy

Bank 1 Payment provider Telecom

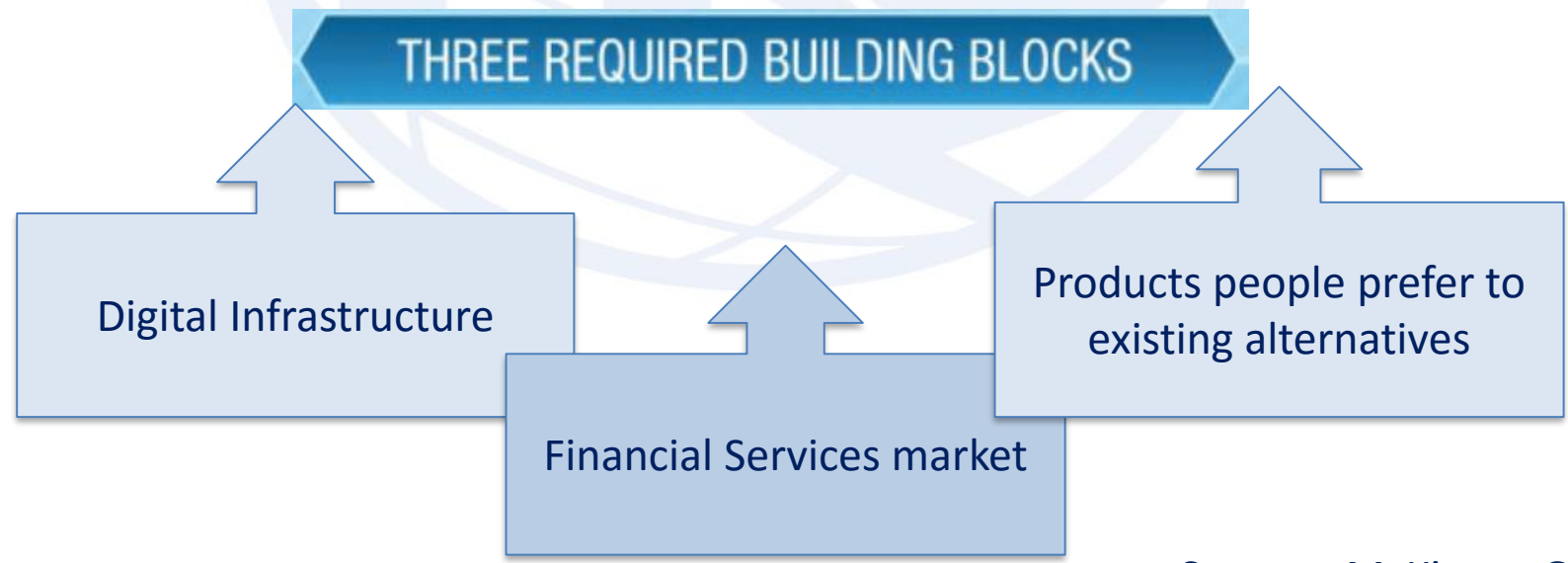
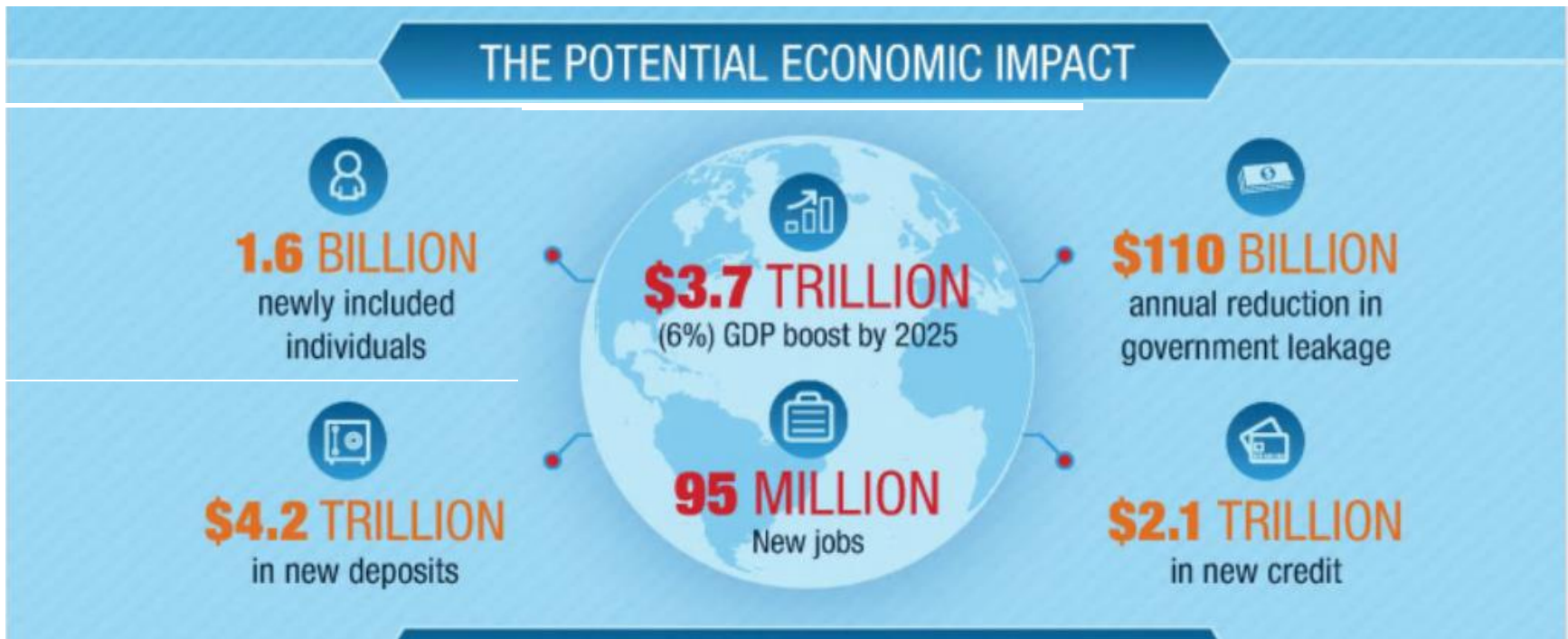
MAKING PAYMENTS


- Utility bill
- School fee
- Convenience store

Fintech Retailer Bank 2

Digital payments network





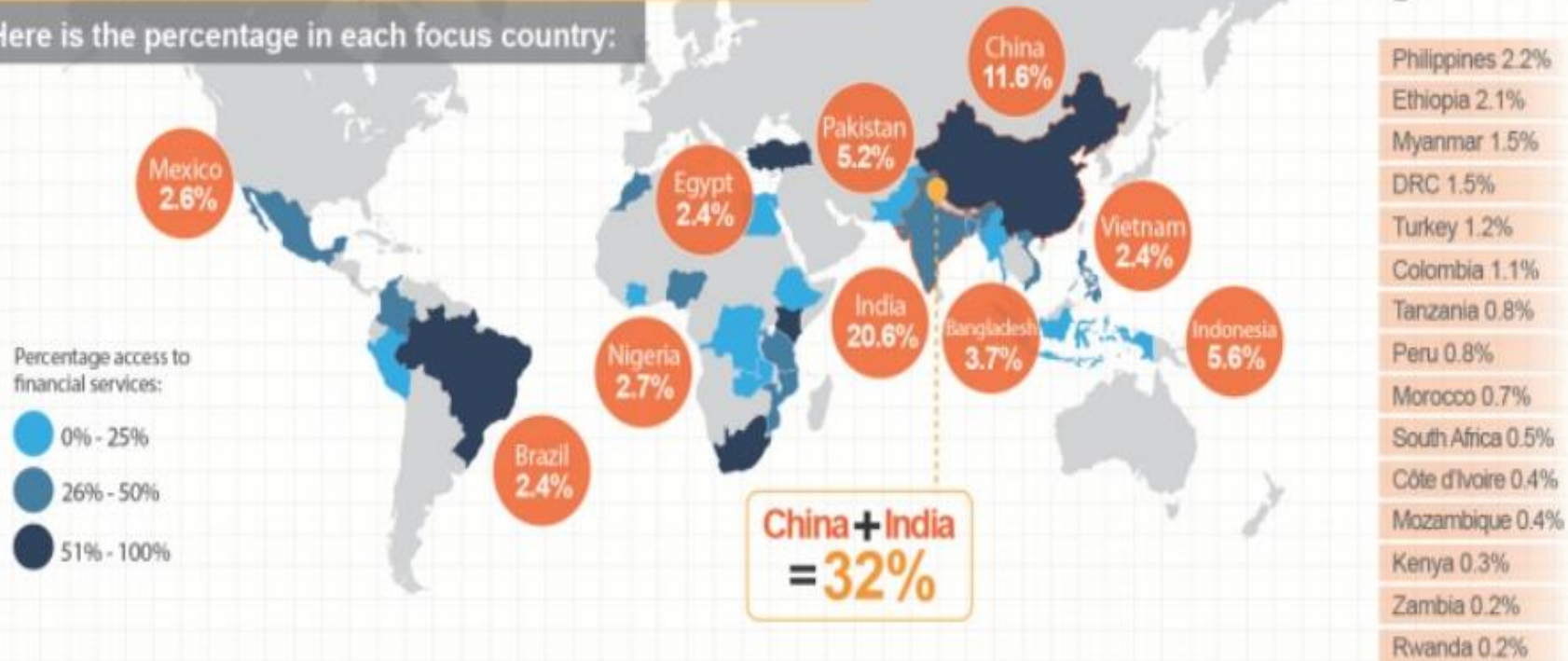


**Digital Financial Inclusion Around the World
with a perspective from Arab region**

Achieving Universal Financial Access by 2020

2 billion people lack access to a transaction account.

Here is the percentage in each focus country:



25 Focus Countries = **73%** of the world's financially excluded

Sources: Global Findex 2014, IMF Financial Access Survey

@WBG_Finance | #FinAccess2020

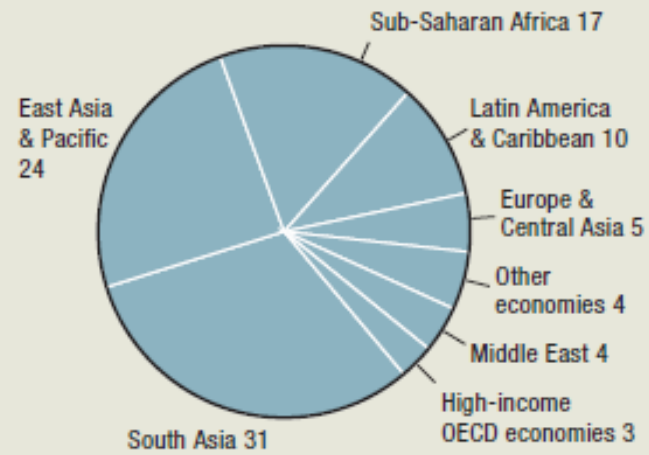
Some 2 billion working-age adults globally do not use formal financial services. Extending access to finance to them is the first building block to build a better life.

Financial and digital inclusion

FIGURE 4.1

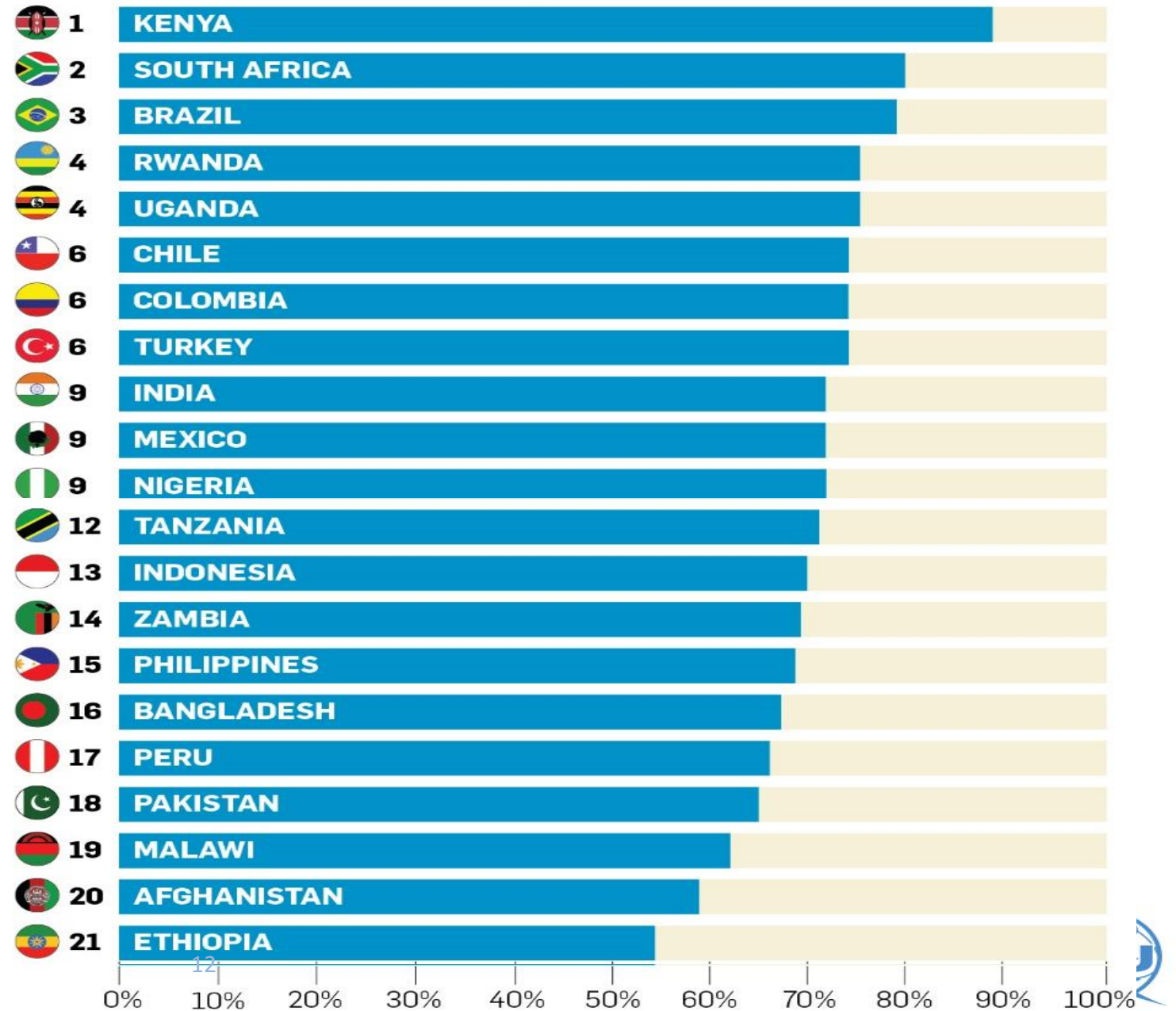
The world's unbanked adults by region

Adults without an account (%), 2014

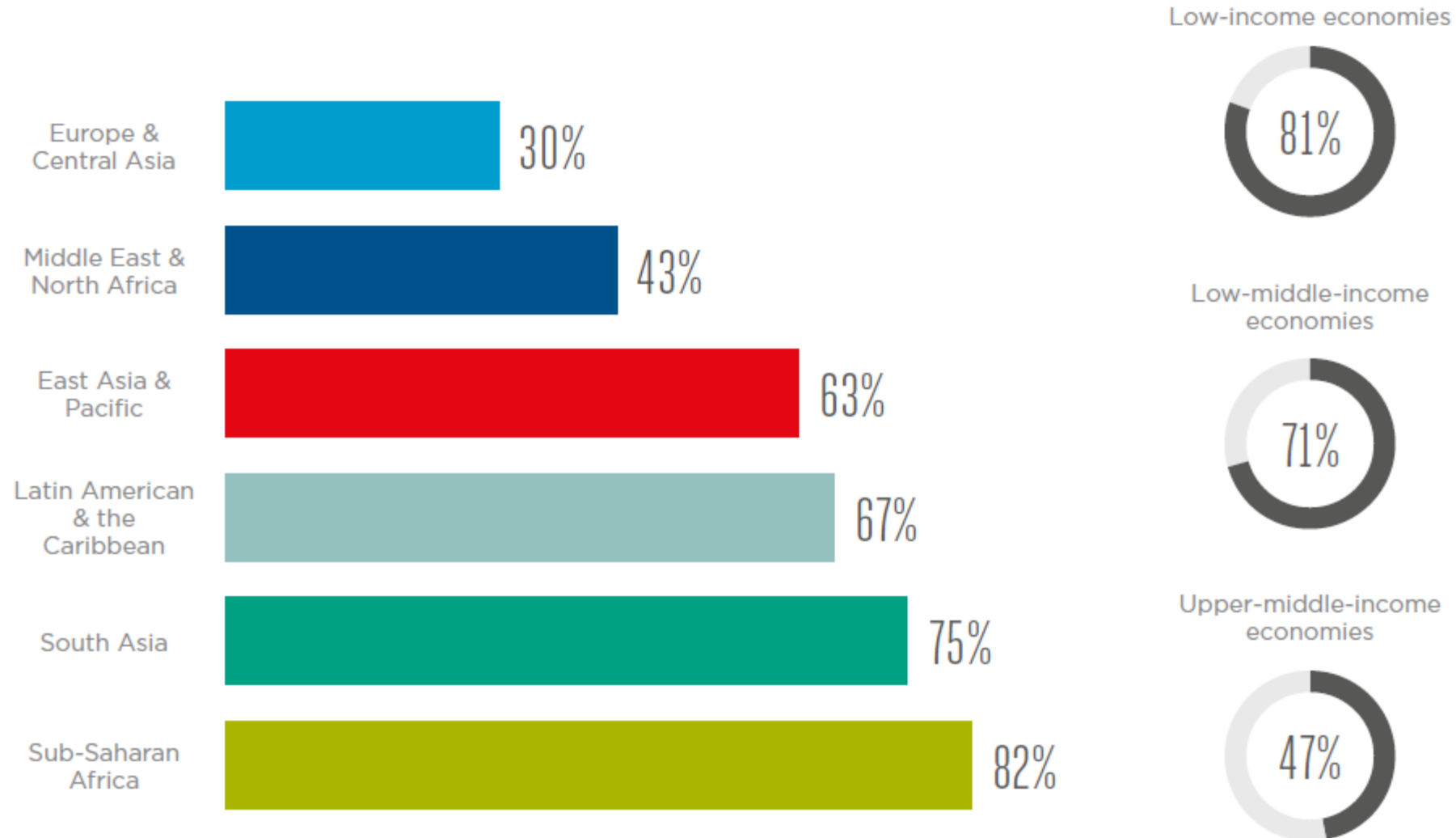


Note: "Other economies" include high-income non-OECD economies, Algeria, and Tunisia.

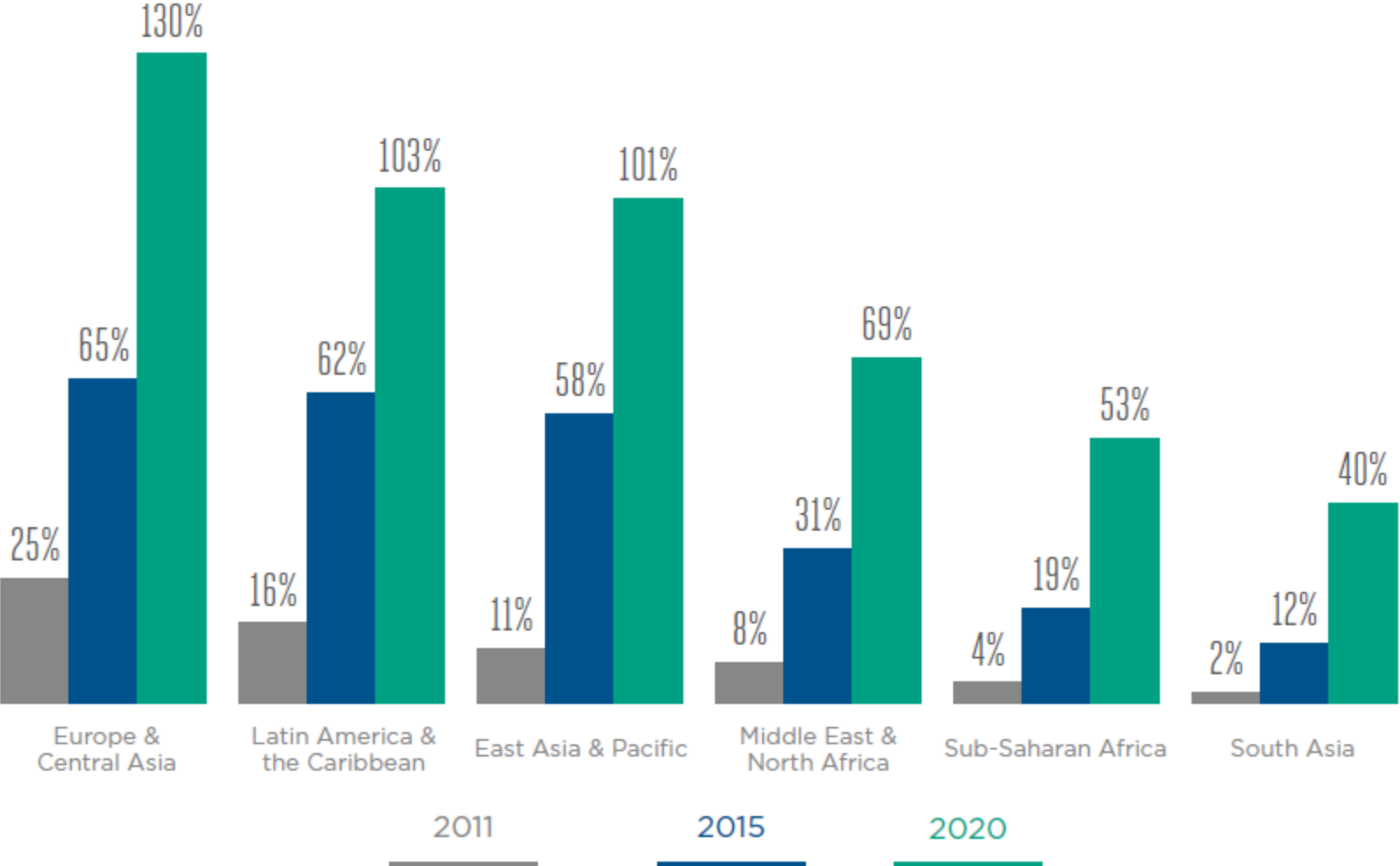
Source: Global Findex database.



Percentage of developing markets with mobile money, by region and income level (December 2015)



Mobile broadband access in emerging markets¹⁸



What's Happening?

New digital transactional platforms

bKash in Bangladesh, touched nearly a quarter of the country's adult population of **over 160 million** in its first two years .

Higher Rate of customer adopting products

One-month **M-Shwari** consumer loans -Commercial Bank of Africa (CBA) ,
One million loans were issued **within 41 days of the product's launch**, moderate bank turned to one of the largest retail players in Kenyan banking.

M-Pesa customers in Kenya or the life insurance products marketed
Tigo (Ghana) mobile phone pre-paid customers.

Tigo's Family Care life insurance product **doubled the insurance market in its first year** of operation.

Women Empowerment

In Kenya, "mobile money," which allows users to transfer funds by text message, has helped an estimated **194,000 households escape extreme poverty**. The breakthrough there was driven by changes in savings behavior and greater occupational choice, **especially for women**.



FROM MOBILE MONEY TRANSFER TO DIGITAL INCLUSION

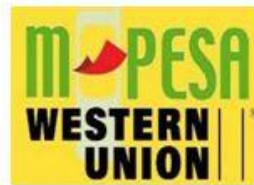


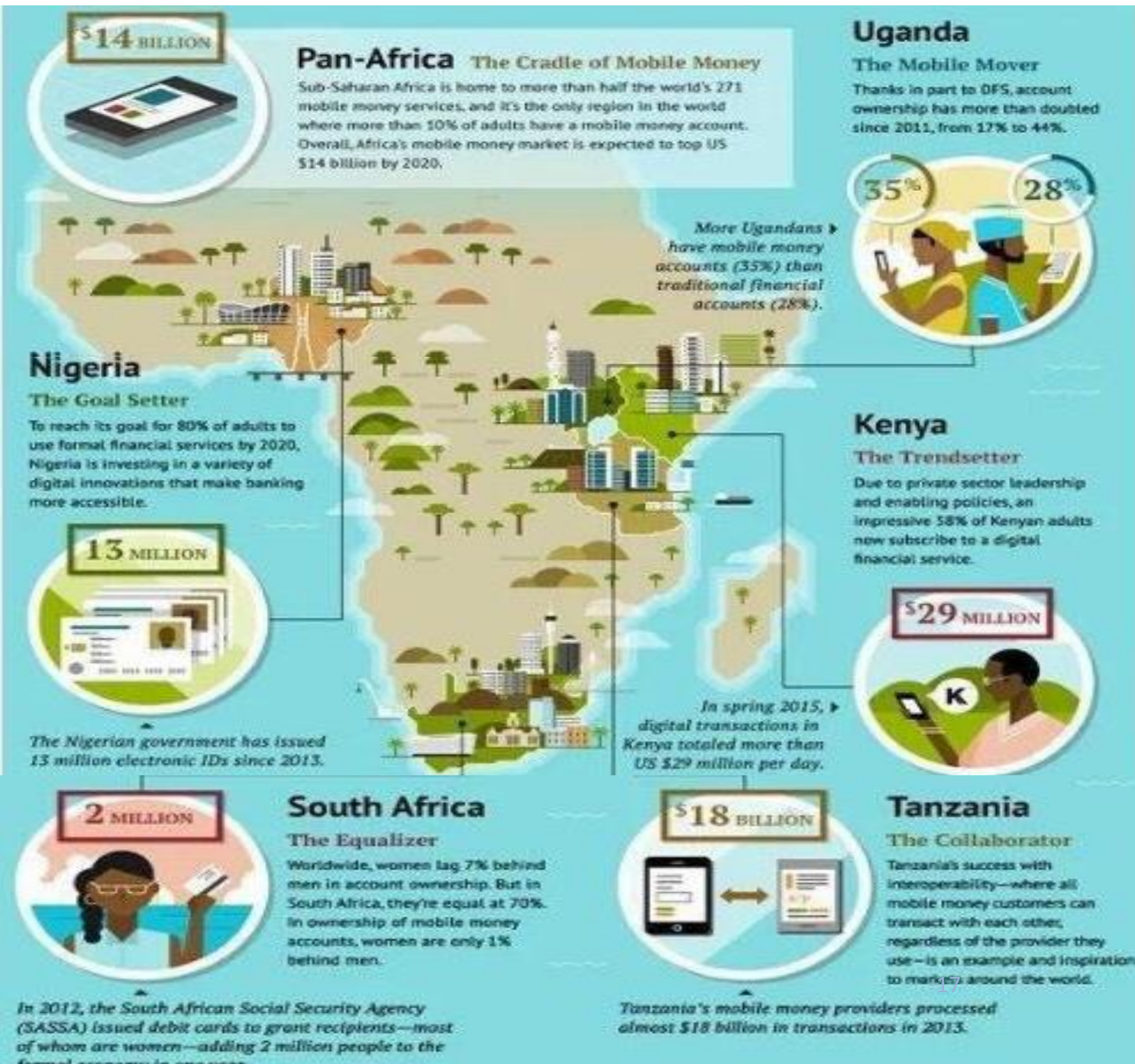
PAY TODAY VIA



Now, Book Railway Tickets
With Vodafone M-Pesa

Rapid transformation from
P2P to P2B, P2C, B2B and vice
versa





FROM CASH  **TO DIGITAL**

Africa is leading a revolution in digital financial services (DFS)

African Nations are showing that digital financial services can bank the unbanked.

When cash becomes digital and excluded become customers, governments and businesses unlock a world of growth and opportunity

100 + providers are finding innovative ways of bringing the power of banking to millions of customers

Image source Chris Skinner



Digital Payments 2020: The Making of a \$500 Billion Ecosystem in India

81% Digital Payment users prefer it to other non-cash payment methods

Why do consumers use it?

Convenience
66% users are primarily driven by convenience



Offers
48% find offers the largest appeal



Growth of business
75% Merchants believe that accepting digital payments will grow their sales



Why don't consumers use it?



Complicated
50% users find it difficult to understand



Unavailable
50% users stopped because it is not accepted everywhere



Speed & Reach
Merchants unhappy with the speed of transactions and reach across value chain



POTENTIAL GAME CHANGERS

The Digital Payments Industry is at the cusp of innovation

UPI, Bharat Bill, Payments Bank



Technology and innovations



Increase in Physical Point-of-Sale Acceptance



Increasing smartphone penetration



Rise of Digital Payments by 2020

How will consumers use it?

60%



Digital Payments value will be driven by Physical points-of-sale like kirana and unorganized retail

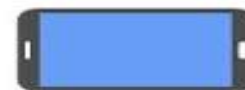
50%



of person-to-merchant transactions will be for less than Rs. 100

What will be the potential impact?

50%



internet users will use Digital Payments

15%

of India's GDP will flow through Digital Payments

70%

of Digital Payments Value will be driven by top 100M internet users

Primary research of 3500 respondents (users, merchants and remittance users), across nine geographies - Delhi, Mumbai, Bangalore, Ludhiana, Lucknow, Indore, Surat, Vishakapatnam and Coimbatore

69%
adults in
Arab
world is
unbanked

Financial Inclusion is critical for the competitiveness of the Middle East and North Africa (MENA) region, for employment creation, and for raising incomes and reducing poverty.

Recent study projected broadening access to digital finance tools could increase developing countries' GDP by 2025 to an estimated \$3.7 trillion.

The outreach of formal financial services in the Arab world stands at only **21 percent**, when **excluding GCC countries**, the lowest worldwide .

At 74 percent account ownership, GCC countries are above the global average of 61 percent account ownership, however still below the 94 percent OECD average

Account ownership in the entire Arab world remains low at 29 percent.

92 Million borrow through informal channels

Low financial inclusion as financial services are unattended even though financial activity is high

Limited penetration of insurance services especially in the low income group

Savings takes place outside formal channel

Arab world lags behind in terms of access to credit from formal financial institutions, 44% adults borrow, only 6% borrow from formal institutions, where as globally 42% adults borrow and 11% borrow from formal institutions.

In 2001, the UAE launched its first eService - the eDirham card – as a mode of payment for government and non-government services.

Mercury cards in Dubai for the construction workers

Interesting facts on Middle East

Innovation across the Middle East is **accelerating**

Top digital users are the youth segment, and with 60% of the population aged under 30

Over half regularly use the internet and mobile penetration is extremely high


Young population use modern technologies , YET the financial and banking side is lagging.

14% of adults in the Middle East have an account at a financial institution

More than 85 million adults in the region remain unbanked.

Women's access to banking services is extremely low compared to access in developed countries.

9% of women have an account in the Middle East compared to an average 47% globally.



Success Factors around the World with a perspective from Arab World

Success Stories

Balance between Innovation and Risk

China has been successful to strike a balance between innovation and risk.

When online payment services, like Alibaba's Alipay, first emerged, the regulators took a soft stand to observe and study this entirely new financial provider, before imposing the required regulations. This approach in return made Alipay the world's largest online payment platform.

Regulatory innovations

The lack of personal identification for new account holders is a common problem, and has prevented hundreds of millions of people from signing up for financial services.

Tanzania and Mexico implemented systems that require **nothing more than a phone number** to sign up for the most basic accounts. Programmes in both countries have been successful; in Mexico, more than nine million new accounts were opened in the first two years.

Success Stories

Regulatory innovations

India, is launching digital identification Programme that collects fingerprints and other biometric data. **More than one billion digital profiles have been created** since six years; more than one-third of those profiles are linked to bank accounts.

Dubai International Financial Centre's Fintech Hive, the region's **first Fintech accelerator**, **Abu Dhabi Global Market** has set-up a **regulatory sandbox**".

Consumer demand driving the change

Emirates NBD investing around Dh500 million into multichannel processes and financial literacy programs over the next three years. They intend to launch the first Digital Only Bank aimed at millennials in the region.

Local governments push forward in technology, whilst the financial sector is struggling to keep up.

“Dubai and Abu Dhabi are morphing into smart governments.

- ✓ For example, Dubai is aiming to have free Wi-Fi for the entire city by the end of this year, with Abu Dhabi likely to have the same..
- ✓ More services are being provided digitally, and the banks have the incentive to integrate into smart government services delivery and complete the cycle for payments.”

Initiatives in Oman and role of e.Oman

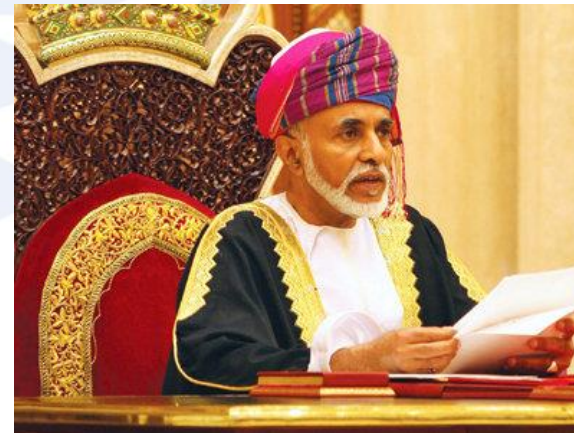
Information Technology Authority (ITA); *Leading the e.oman Strategy*

Vision:

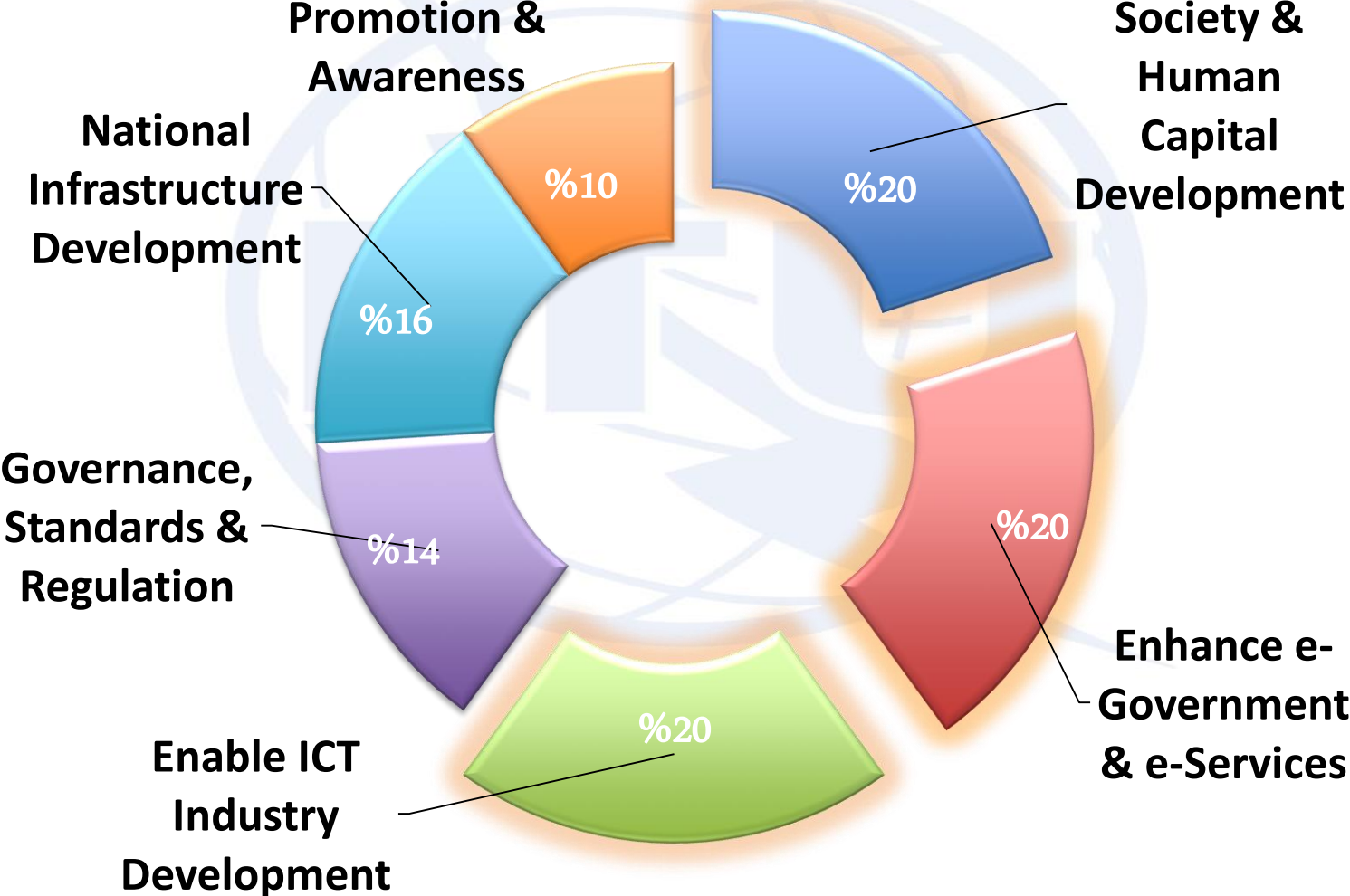
Transform the Sultanate of Oman into a sustainable Knowledge Society by leveraging Information and Communication Technologies to enhance government services, enrich businesses and empower individuals.

'We call upon all government institutions to speedily enhance their performance, and to facilitate their services, by applying digital technology in order to usher the Sultanate into the constantly evolving spheres for applying knowledge'.

His Majesty's address to the Council of Oman, November 2008



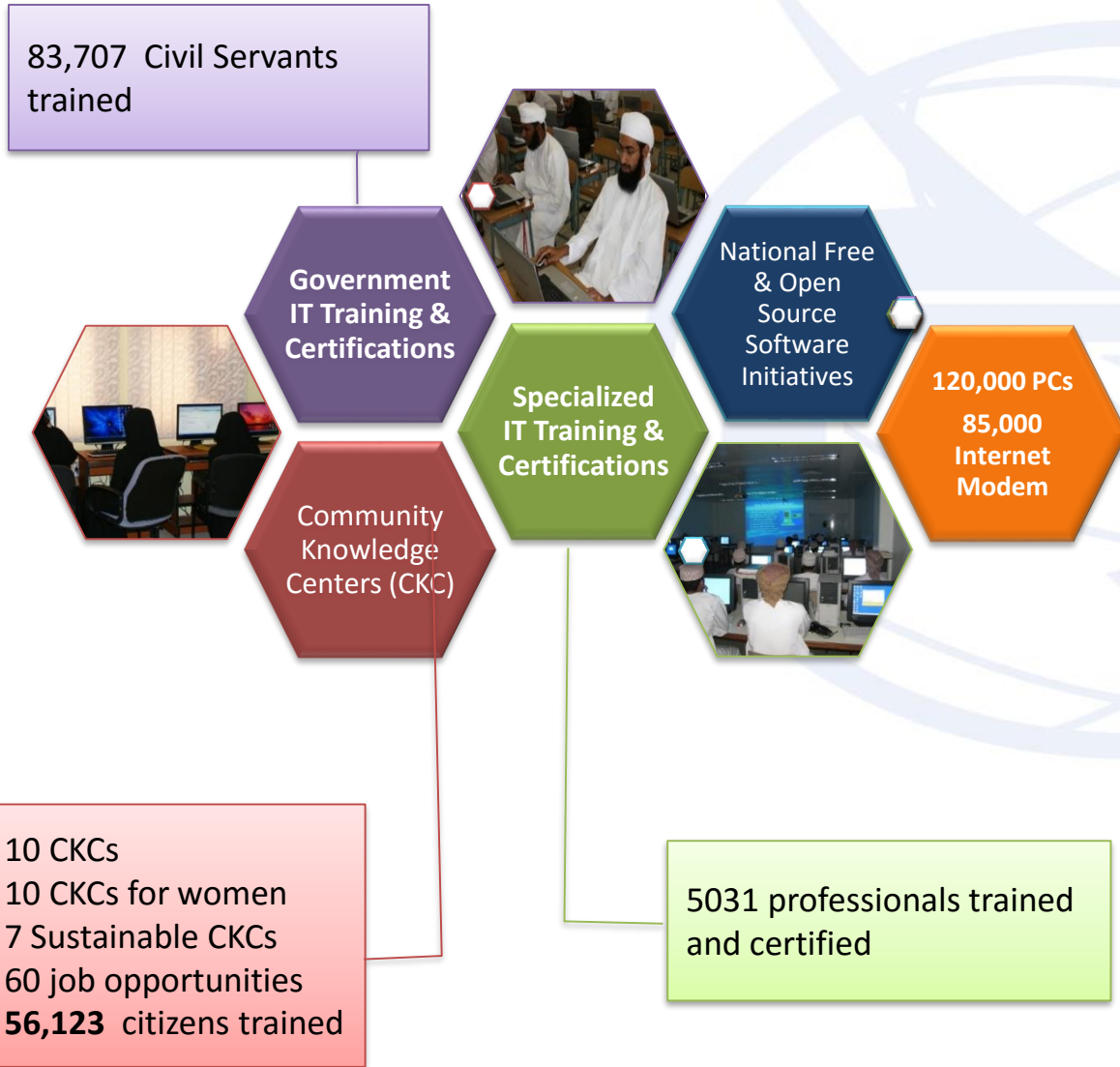
e.oman Strategic Pillars



Society & Human Capital Development



ICT for Special Needs Individuals



eAccessibility Policy

ITA's own Initiative

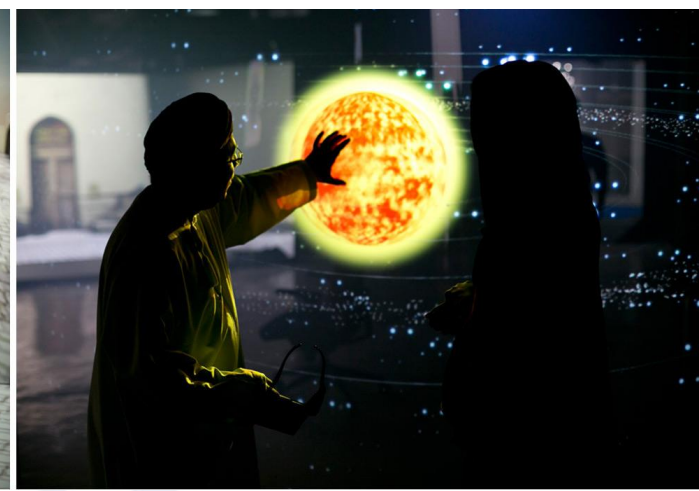
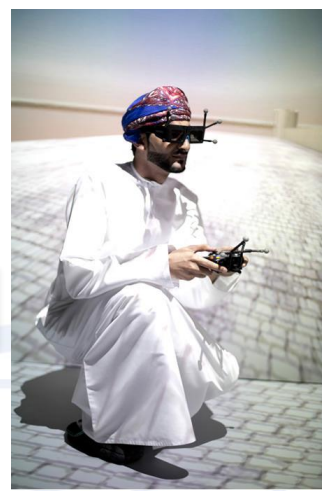
Association for the Welfare of Disabled Children

State-of-the-art Computer Facility

ITA Text-To-Speech Initiative

Donations Portal for Charitable Organizations

Enable ICT Industry Development



National Infrastructure Development
eGovernment Architecture

Enhance eGovernment & eServices
eTransformation Plan



Security

- Fully managed SOC
- Oman CERT active



✓ 250+ eTransformation online services

✓ 58 e.Govt Transformation Plans

National G-Cloud

Private Cloud shared IT infrastructure for Government entities.



Public Key Infrastructure (PKI) Known as TAM



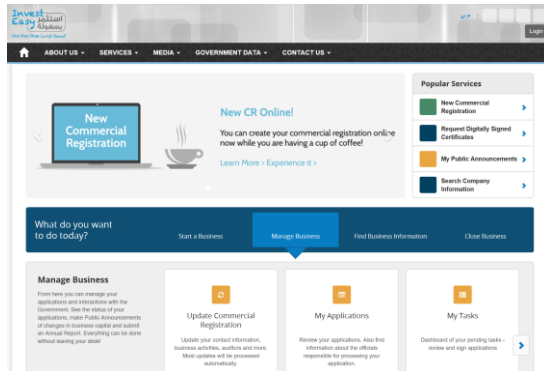
National Initiative
Public Key Infrastructure



Single Sign On
For Government Services



Enhance eGovernment & e.Services Invest Easy



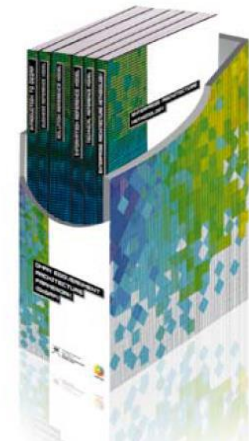
- 45 e-Services ; 18 Mobile Services
- 4000 Digitally Signed certificates downloaded.
- 11 Entities integrated.
- 36% of New Companies in Oman started using Online Portal.

Governance, Standards and Regulation



e.Transactions Law

- 2011 - Cyber Crimes Law promulgated under Royal Decree No. 12/2011 to curb IT crimes.
- 2008 - Promulgation of the eTransactions Law by Royal Decree 69/2008.



Oman eGovernance Framework



National Infrastructure Development

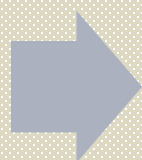
National Contact Center



81,094
queries

ePayment

67
Merchants
Live

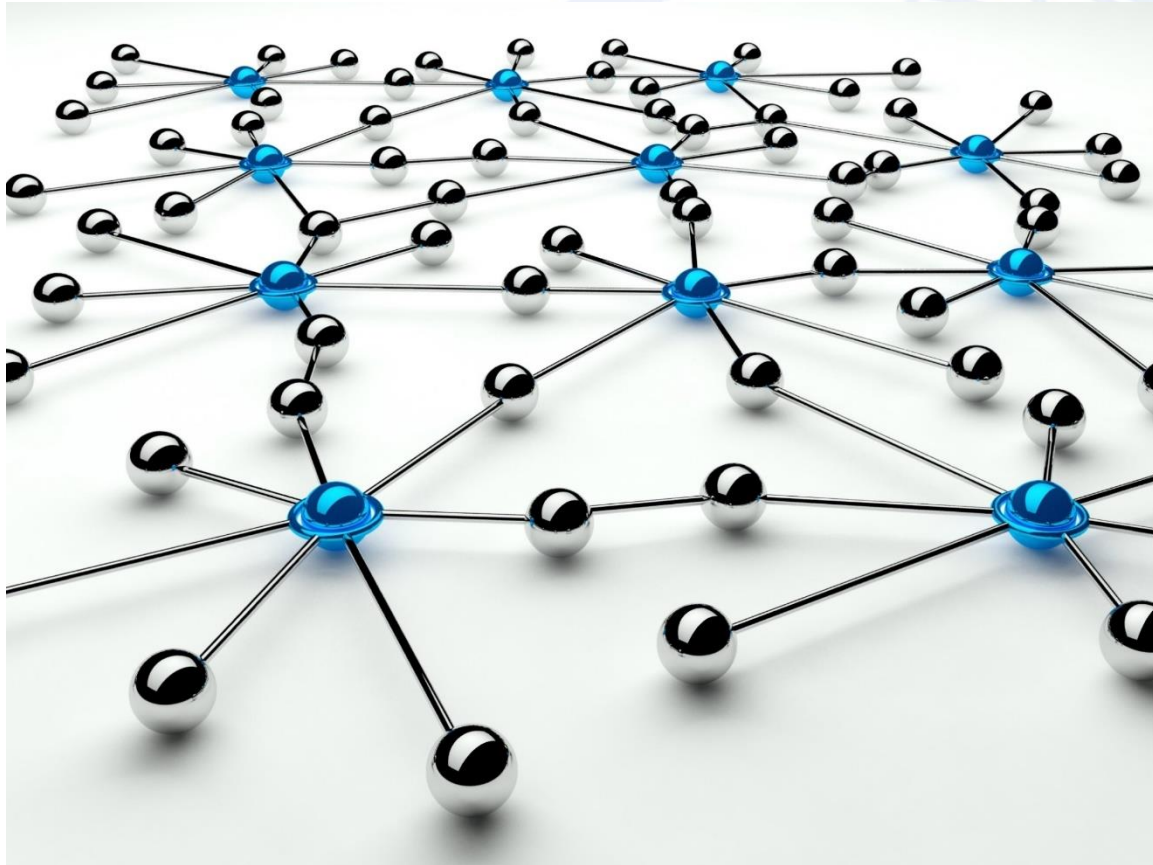


38
Million
OMR
Transactions

1,756,883 transactions
processed through both
gateways with a total value of
OMR 332,341,974.420

National Infrastructure Development

➤ Oman Government Network



**1040
Locations
all across
Oman**

**High speed
Government Network
signed with Oman
Broadband Company**

Bold step by CBO

The Central Bank of Oman (CBO) launched, the mobile payment clearing and switching system on 23rd July 2017,

MpClear system : end-to-end payment services- " flagship instant card-less cash transaction

- a safe and secure fund transfer mechanism through mobile , just using a mobile number to complete the payment transfer instantly.
- ease of use, convenience
- interoperability with an unified switching and clearing services between various mobile banking systems operated by banks
- Wide range of payments such as, P2P, ,P2B,P2G, P2M, B2P, G2P, B2B etc. a safe, sound and secure payment infrastructure



Key Challenges

- ✓ New technology brings new responsibility for the regulators
- ✓ 69% of financial inclusion services launched in 2015 are operationally run by Mobile Network Operators, and 58% of all live services are MNO-led.
Hence regulators should to continue to create an open and level playing field for mobile money services, which will allow both banks and non-bank providers to offer these services.
- ✓ “Interoperability” – the ability of customers to transact with one another even if they are using different platforms – is the norm in only a few markets today.
This will increase customer convenience and lower operating costs for providers.
- ✓ Users with little or no experience navigating online payment systems

- ✓ Globally, 59% of adults without an account cite a lack of enough money as a key reason, which implies that financial services aren't yet affordable or designed to fit low income users.
- ✓ Other barriers include distance from a financial service provider, lack of necessary documentation papers, lack of trust in financial service providers, and religion.
- ✓ Governments experience waste in spending, lose revenue, and are less effective because of cash-based payments



Conclusion

What is changing with digital financial inclusion and what is on the horizon for policy makers?

New market participants allocates roles and risks (both new and well-known) in different ways.

- Risk related to **new parties** , the digital transactional platform, holding customer funds ,management and storage of account data
- Risk related to the **technology** used by the device and digital transactional platform;
- Risk related to the **use of agents** as the principal customer interface.
- operational risks, consumer-related risks, and financial crime risks, among others.
- women can be primary beneficiaries leading to increasing account ownerships.

Understanding and mitigating these risks is the game-changing potential rewards of digital financial inclusion.

An economy that includes everyone benefits all.

To keep the innovation going, global challenges need localised solutions.



Oman fares well in terms of **bank account prevalence** of adults. However, indicators of actual account usage remain low, meaning underutilization of accounts.

Government has taken proactive measures to promote greater financial inclusion, that develops a robust **Oman model** for implementing Digital Financial Inclusion.

Closing thoughts

Considering consumer demand, the nature of the population, government drivers, and technological infrastructure within Oman and neighboring Middle East countries, financial inclusion through digital innovation in the Middle East already started to **sprout.**

A wave of digital disruption in financial industry is starting to **reshape the sector.**

JOB CREATION AND POWERING ALL INCLUSIVE GROWTH AS A GAME CHANGER

Data Sources

Reports from the following sources were used in this presentation

McKinsey's ResearchGGM:

- Bank for International Settlements International Banking Statistics
- Barro-Lee Educational Attainment database
- IMF International Financial Statistics
- International Energy Agency Energy Balances
- International Labour Organisation ILOSTAT
- McKinsey Global Institute Financial Assets database
- OECD databases
- UN World Population Prospects
- UN System of National Accounts database
- UN World Income Inequality database
- UNIDO Industrial Statistics database
- World Bank Global Financial Development database
- World Bank World Development Indicators (2016 and multiple vintages)

■ **McKinsey Global Payments Map.**

A key source for our analysis of the channels of GDP

impact was the McKinsey Global Payments Map, a database covering a variety of topics in the payments [?]

Other data sources.

To develop the inputs to GGM, we used a variety of sources across publicly available datasets, data from national governments,

- Mark Suzman times
- BCG Reports
- <http://www.worldbank.org/en/news/press-release/2015/04/15/massive-drop-in-number-of-unbanked-says-new-report>
- <https://www.linkedin.com/pulse/financial-inclusion-arab-world-iv%C3%A1n-aguado-trujillo>





عمان الرقمية
e.oman

Thank You

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