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Policies for inclusive growth
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Support to an Enabling Business Environment for MSMEs Development & Financial Inclusion

Guidelines for adopting digital and FinTech solutions in the South Med region

September 2022

GOPA
WORLDWIDE CONSULTANTS

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Executive summary

The interconnection of finance and technology is by no means a new phenomenon. Indeed, since the inception of the Third Industrial Revolution during the mid-20th century, financial services providers' adoption and integration of technology have long been leveraged to drive financial innovation into new products, services, and organizational forms.

Financial Technology is transforming how financial services are produced, distributed, and consumed. It has tremendous potential to improve people's lives. FinTech promotes financial inclusion, enhances customer experience, and enables delivery of financial services at lower costs and faster speeds, allowing providers to reach out to the unbanked and uninsured segments of the community

Technology-enabled innovation in financial services (FinTech) has proliferated in the past decade. If properly regulated, FinTech can extend the benefits of financial inclusion to millions of unbanked and underbanked people worldwide. New technology-enabled financial services include mobile payments, peer-to-peer (P2P) lending, alternative credit scoring, and new forms of savings and insurance.

Additionally, the pandemic was a game-changer, with FinTech acting as a core enabler of digital payments as consumers rapidly migrated to contactless and online shopping. New opportunities will arise as the global economy shifts from 'respond' to 'recover'. Before the coronavirus (COVID-19) pandemic, FinTech adoption was doubling every two years; COVID-19 boosted the adoption of digital financial services: About 40 percent of adults in developing economies, excluding China who made a digital merchant payment using a card, phone, or the internet, and more than one-third of adults in developing economies who paid a utility bill directly from an account, did so for the first time after the start of the pandemic[1].

Lack of money, distance to the nearest financial institution, and insufficient documentation were consistently cited by the 1.4 billion unbanked adults as some of the primary reasons they did not have an account. There are clear opportunities for the stakeholders to address some of these barriers. The main recommendation is that governments, private employers, and financial service providers—including Fintech—could help expand financial access and usage among the unbanked by lowering barriers and improving infrastructure.

Regulators should learn from best practices as a guide to assist in thinking about, engaging with, and assessing the Fintech ecosystem to develop pragmatic and innovative cross-sector engagement for the betterment of the Fintech industry**.** Review the legal and regulatory framework before considering formalizing the new FinTech enabling structure, and consider that regulations have to guide the development of specific Fintech solutions such as mobile wallets, deposit mobilization, and crowdfunding. Moreover, regulators must support the development of preventive measures to Decrease data protection and privacy risks

Governments must develop and endorse a comprehensive FinTech Financial inclusion strategy that focuses on analyzing demand and supply side preferences and capabilities, and finally formulate a comprehensive strategy to meet users' needs aligned with monitoring and evaluation proper tools.

[1] The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19

Financial institutions and Technological companies have to focus on enhancing the customer experience; enhancing the customer experience is the most crucial objective of financial institutions that have or are developing fintech strategies, and focus on enhancing digital and financial literacy in rural areas

Introduction

Over the last decade, the FinTech industry has experienced significant growth. The global market was valued at around $7.3 trillion in 2020 and is projected to grow at a compound annual growth rate (CAGR) of 26.87 percent up to 2026, according to Research and Markets, on the back of increased investments in technology-based solutions, supportive government regulations and the rising adoption of internet of things (IOT) devices, among other factors.

According to the Global Findex Report 2021, This new data also reveals the incredible power of innovative technologies to expand access to financial services—and, most importantly, ensure that people use these services to improve their lives. FinTech presents exceptional opportunities to empower the unbanked to protect themselves against hardships and invest in their futures; worldwide account ownership has reached 76 percent of the global population—and 71 percent of people in developing countries, The gender gap in account ownership across developing economies has fallen to 6 percentage points from 9 percentage points, where it hovered for many years.

Receiving digital payments, such as a wage payment, a government transfer, or a domestic remittance, catalyzes the use of other financial services, such as storing, saving, and borrowing money.

In developing economies, about 40 percent of adults who paid utility bills (18 percent of adults) did so directly from an account. In China, about 80 percent of adults made a digital merchant payment, whereas, in other developing economies, 20 percent of adults did so.

How, then, can FinTech's leverage their unique assets and skills to capitalize in the post-COVID-19 era, particularly considering the increased exposure to regulatory requirements, sanctions, and legal action likely to shadow the industry?

However, the FinTech industry faces many challenges and yet to be overcome. Regulations and various government policies are challenging for fintech companies. However, we should always balance new technologies and compliance with the traditional system to disrupt the financial industry.

Although, it's not easy for traditional banking and financial institutions to adopt new trends and technologies. With time, mobile technologies will become even more common in the financial sector, as they're impactful and convenient for people while helping banks work more efficiently.

Financial institutions and fintech organizations should have precise customer insights to overcome this challenge. Moreover, fintech companies must understand the behavior of users and gain insight into the user's health, social interactions, and events. Well, the industry can achieve this goal by developing trust with customers. You have to keep the user's data secure and safe

The guidelines' main objective is to propose interventions that take into account Fintech as a key component of financial inclusion and suggest a road map for various stakeholders, including policymakers, to adopt digital and Fintech solutions which improve this dimension in economic development in the Mena region. The guidelines are based on previous literature studies, and data gathered on Fintech in the MENA area, complemented by the "MED MSMEs Programme - Support to an enabling business environment for MSME development and financial inclusion" survey undertaken during the last quarter of 2021.

Section one

Context: Background about Fintech

The Financial Stability Board (FSB) defines **Fintech** as "technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial services. Fintech evolution is taking place in the context of various global trends, including but not limited to the growth of computing power enabling analysis of ever-larger data sets, broader accessibility of goods and services, and disintermediation and re-intermediation. These trends are happening against the backdrop of demographic and generational changes".[2]

Fintech involves banks and financial service providers (FSPs) adopting business models in which the production and delivery of financial products and services are based on technology-enabled innovation. Some of the more notable developments include the emergence of online alternative financing platforms such as Peer-to-Peer (P2P) lending, or equity crowdfunding (ECF), aimed at bringing together firms and individuals looking for capital, and others that have money to lend, invest or donate. Online investment and trading platforms have evolved significantly in more mature markets thanks to new distributed ledger technologies.

Fintech has thus disrupted financial services operations and delivery throughout the globe, with more potential yet to be tapped. Through digital outreach, customized solutions, innovative credit reporting, and scoring, excluded groups are now accessing and reaping the benefits of financial inclusion.

The 2030 Agenda for Sustainable Development is a commitment to eradicate poverty and achieve sustainable development worldwide by 2030, ensuring that no one is left behind. The adoption of the 2030 Agenda was a landmark achievement celebrated at the United Nations General Assembly in 2015, providing for a shared global vision toward sustainable development for all. By digitizing payments responsibly, people can swiftly reach financial equality and advance sustainable development goals. Hence as providers rush to reap the benefits of digital payments, the responsibility of design, safeguards, and implementation must not be overlooked. The recent **UN Principles for Responsible Digital Payments**[3] define who needs to be responsible, what it means, and how to be responsible. They are not intended to provide a technical analysis but a set of general guiding principles:

FinTech Facts & Figures1 – April 2020

- ***USD 50 bn – Annual investments in FinTech's.***
- ***2/3 of financial transactions are made online.***
- ***500+ of new FinTech's are created every year.***
- ***30% increase in operating profits could be gained by Banks.***
- ***2bn worldwide unbanked individuals could be served through mobile.***

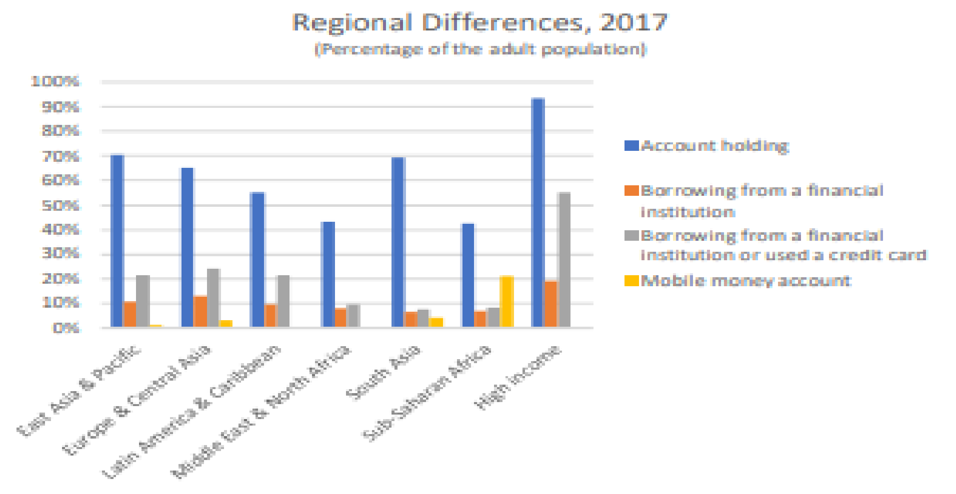
[2] IOSCO Research Report on Financial Technologies (Fintech) (February 2017), http://www.iosco.org/library/pubdocs/pdf/IOSCOPD554.pdf

[3] From https://responsiblepayments.org/

- Treat users fairly.
- Ensure funds are protected and accessible.
- Prioritize women's access.
- Safeguard client data.
- Design for individuals.
- Be transparent, particularly on pricing.
- Provide user choice through interoperability.
- Make recourse clear, quick, and responsive.

Empirical results suggest an expected positive relationship with GDP per capita growth, mainly for low-income countries where mobile money has proliferated and taken hold. In this respect, international case studies suggest that Fintech solutions have the potential to improve financial access.

In the Arab World, a region with one of the lowest financial inclusion rates, financial Technology (Fintech) solutions are fast emerging. This has come as a product of the regulators' increased engagement with emerging solutions and the region's overall high mobile and smartphone connections. Studies have shown that more than 6-in-10 adults in the Arab World do not have access to an account and cannot perform basic transactions (CGAP, based on Findex 2017 figures) compared to 3-in-10 globally.[4]



Source: World Bank, Global Findex Database.

But within this context, financial inclusion is more than just statistics or providing unbanked individuals with the appearance of being empowered; It is about giving people complete access to financial services that will positively impact their lives, businesses, and communities in the long term; a dimension which Fintech can primarily facilitate, providing a range of needed services.

[4] In EY-CGAP regional Fintech report, 2020

Section two

Key Challenges

It is essential to start with understanding the challenges the so far the industry faces globally, Fintech often faces several challenges while adopting and implementing it in any local context; among those are :

1) **Inefficient infrastructure**, policies, regulatory frameworks, and support from the government, civil society, and private stakeholders. On the other hand and once the Regulations are in place, the challenge becomes the compliance

2) **Access to capital and fund** in all development stages, FinTech depends on access to the right kind of capital; early stages capital to prove the business model's viability, growth capital to achieve scale and sustainability; or debt finance to fund a new credit portfolio. The availability of the proper fund is still the main challenge in growing.

3) Provide a more significant impact on the poor and improve the lives of low-income, excluded customers. **Even for Fintech with the best intentions, it takes time to impact large** numbers of low-income customers.

4) **Data security[5] and privacy**: Data security has become one of the major concerns in the Internet world, mobile banking, payment apps, or Fintech. Traditional banking systems are confident with security guards, CCTVs, vaults, and heavy bulletproof doors to keep their data safe and secure. But when we talk about virtual security, things are not as easy as we think. Vulnerabilities are much more discreet and potentially impact users, as their money is at stake and their data.

5) **Gaining trust**, with the growth of Fintech, there is a rising concern about cybersecurity; the massive growth of fintech companies and marketplaces has led to increased exposure of vulnerabilities in the fintech industry and has made it a target of cyberattacks.

6) **Lack of Mobil and technology expertise**, a lack of expertise in fintech mobile app development services results in non-user-friendly applications that don't use mobile devices to their fullest potential.

7) **User experience** is also one of the major concerns; all FinTech solutions components should manage a balance between user experience and security, for example, mobile application services that are neither easy to break nor hard to access.

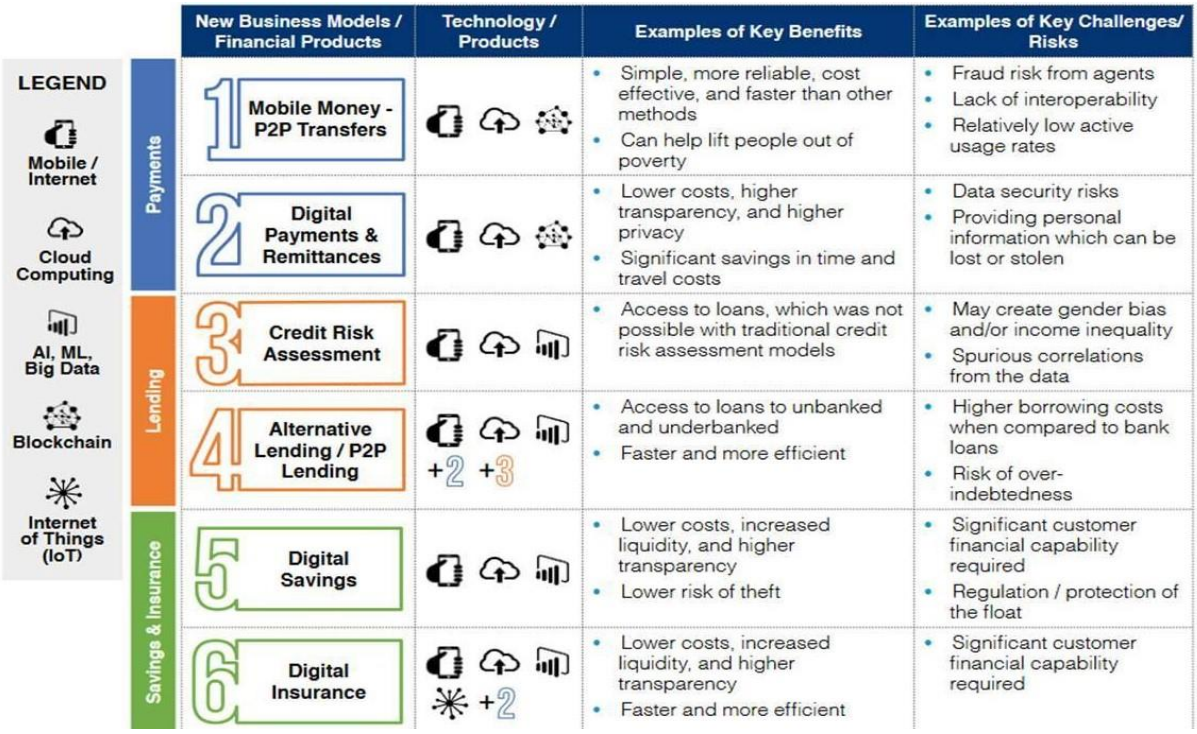
8) **Financial institutions, banks, and MFIs find enhancing their business processes and strategies challenging** to address the changing niche, target audience, and markets. Also, institutions in this competitive world must develop creative marketing strategies that will help gain clients and improve brand awareness. Traditional financial institutions provide a physical branch and employees, creating personal contact and making the customers

[5] https://www.techtic.com/blog/fintech-industry-challenges/

feel safer. Although FinTech institutions try to provide personalized services to all their customers, they fail to provide a personal touch.

9) **Cost of regulatory compliance**, including documentary requirements; this barrier generally takes the form of Know-Your-Customer (KYC) requirements to comply with Anti Money Laundering /Counter-Financing Terrorism guidelines, which is also a measure to reduce corruption and improve governance.

Like all technologies, FinTech is not without risk. Financial regulators are essential in ensuring the balance between promoting innovation and controlling risk, especially in emerging and developing economies. The following graph depicts an overview of the leading Fintech solutions, their key benefits, and associated challenges and risks: [6]



	New Business Models / Financial Products	Technology / Products	Examples of Key Benefits	Examples of Key Challenges/ Risks
Payments	1 Mobile Money - P2P Transfers	Mobile / Internet, Cloud Computing, Blockchain	• Simple, more reliable, cost effective, and faster than other methods • Can help lift people out of poverty	• Fraud risk from agents • Lack of interoperability • Relatively low active usage rates
Payments	2 Digital Payments & Remittances	Mobile / Internet, Cloud Computing, Blockchain	• Lower costs, higher transparency, and higher privacy • Significant savings in time and travel costs	• Data security risks • Providing personal information which can be lost or stolen
Lending	3 Credit Risk Assessment	Mobile / Internet, Cloud Computing, AI, ML, Big Data	• Access to loans, which was not possible with traditional credit risk assessment models	• May create gender bias and/or income inequality • Spurious correlations from the data
Lending	4 Alternative Lending / P2P Lending	Mobile / Internet, Cloud Computing, AI, ML, Big Data +2 +3	• Access to loans to unbanked and underbanked • Faster and more efficient	• Higher borrowing costs when compared to bank loans • Risk of over-indebtedness
Savings & Insurance	5 Digital Savings	Mobile / Internet, Cloud Computing, AI, ML, Big Data	• Lower costs, increased liquidity, and higher transparency • Lower risk of theft	• Significant customer financial capability required • Regulation / protection of the float
Savings & Insurance	6 Digital Insurance	Mobile / Internet, Cloud Computing, AI, ML, Big Data, Internet of Things (IoT) +2	• Lower costs, increased liquidity, and higher transparency • Faster and more efficient	• Significant customer financial capability required

However, fintech organizations face various challenges in implementing these technologies. They require expertise and constant maintenance. It will not be easy for the banks and financial industry to integrate the latest technologies into their existing system. Implementing this will require not only technical adjustments but will reshape your business model and require adaptation.

Section Three

FinTech Ecosystem guideline

[6] *Source: UNSGSA FinTech Working Group and CCAF (2019)*

At first, it is essential to articulate different system actors within the Fintech ecosystem: consumers, incumbent financial institutions, solution providers, investors, support institutions, regulators, and education institutions. The healthy development of such an ecosystem will result in mutually beneficial cooperation among stakeholders and, eventually, help deliver financial services at lower cost, higher speed, and better quality to more consumers. The development is particularly distinct in emerging markets, like the MENA, where financial services present unique opportunities and challenges. Additionally, in the inclusive fintech sector development context, more actors, such as Telco regulators and mobile network operators, are concerned about credit and savings providers. The main inclusion channels are credit scoring providers, payment platform providers, Savings groups, and customers.

In particular, the development context for MSME finance is made up of the macro policy environment apparatus (involving public sector policymakers, regulators and supervisors, membership organizations, standard-setting bodies), the institutions that provide financial services at the meso -level, and the clients as final users - beneficiaries.

The FinTech guidelines and strategy are an output of a collective effort and consultive process involving private and public sector stakeholders in developing the financial sector and potential users from the demand side.

According to Alliance for financial inclusion (AFI)[7], The full potential of FinTech for financial inclusion may be realized with a strategic framework of underlying infrastructure and an enabling policy and regulatory environment to support digital financial transformation.

To develop and adapt efficient FinTech solutions and guidelines, data collection and diagnostics are considered the corner step, Data from the supply-side and demand-side to understand the needs and the environment better. Therefore, understanding the demand and supply characteristics and MSMEs' needs will facilitate the adoption of FinTech solutions and improve its spread.

Supply-side

On the Supply-side, numerous financial institutions are turning to Fintech to decrease the high operational costs arising from the challenges above and better outreach to larger clients' segments, embarking on a vast digital transformation program that would ultimately offer faster, more efficient and more convenient client experiences.

Most emerging **fintech products** have been solutions for payments and remittances, possibly explained by public sector focus and involvement in recent years. However, cash is still dominant in the region's countries. Governments are attempting to challenge that by introducing **electronic bill** presentment and payment by nurturing **mobile wallets** through proactive regulations to give citizens a worthy, cost- and time-efficient substitute for traditional financial institutions. Back- and middle-office solutions such as enterprise resource planning come second.

In most countries, **digital banks** still require at least one visit to a branch to complete **KYC** and onboarding, as regulators are cautious about moving to e-KYC due to AML/CFT risks. Financial institutions have often turned to Artificial Intelligence in **chatbots, Computer Vision, and**

[7] FINTECH FOR FINANCIAL INCLUSION :A FRAMEWORK FOR DIGITAL FINANCIAL TRANSFORMATION, Sep 2018.

Blockchain for identity verification to enhance operational efficiencies. On the other hand, businesses may leverage forums and working groups to communicate needs to regulators, influence strategic interventions, and ultimately support shaping the Fintech ecosystem. The government should engage civil society organizations and fintech companies within its initiatives to build and maintain trust among consumers and MSMEs regarding digital payments and other fintech services[8].

Regulations and Policies

The lack of FinTech adaption regulations in the MENA is considered restrictive by stakeholders rather than inviting. It has been observed that Arab regulators prefer **a highly hands-on approach to regulation and policy**, whereby new regulations have guided the development of specific Fintech solutions (such as mobile wallets) but not others, such as deposit mobilization and crowdfunding. Moreover, regulatory licensing is often lengthy with limited transparency, often acting as a bottleneck to FinTech's attempting proof-of-concept in their early launch.

Notably, reviewing **the existing legal and regulatory framework**[9] (prudential and non-prudential) is essential while considering the latest FinTech developments and context. This will enable regulators to make appropriate changes to laws and regulations .This review should first evaluate how the various FinTech models and developments would be treated in the country's legal and regulatory framework. Secondly, the review should evaluate how the financial sector authorities could incorporate flexibility and adaptability in their regulatory frameworks to foster innovations . Third, any existing regulatory ambiguity concerning FinTech services needs to be clarified .Finally, cross-cutting issues like taxation, cloud computing, Artificial Intelligence, big data, and crypto-assets would also need to be studied .

The **legal and regulatory framework needs to be FinTech enabling** while at the same time addressing risks. Several other critical reforms are necessary to encourage the growth of FinTech. These include:

- Upgrading the FinTech-relevant infrastructure and encouraging interoperability, including establishing faster payments infrastructure, allows for e-KYC and e-invoicing.
- Regularly engaging with industry stakeholders, establishing Innovation Offices or contact points, and monitoring FinTech developments.
- Putting in place enabling regulations to encourage the development of seed, venture, and growth capital as well as accelerators and incubators.
- Addressing emerging risks, for instance, through strengthening cybersecurity, financial integrity, and financial consumer protection frameworks.
- Education reforms to align skills with the digital economy.
- These reforms should be underpinned by sustained structural reforms to improve the business climate by fostering a competitive

[8] https://economictimes.indiatimes.com/industry/banking/finance/contactless-payments-digital-loans-make-kiranas-opendoors-to-fintech/articleshow/75462301.cms?from=mdr

[9] Fintech in Europe and Central Asia: Maximizing Benefits and Managing Risks , https://documents1.worldbank.org/curated/en/640021585934004225/pdf/Fintech-in-Europe-and-Central-Asia-Maximizing-Benefits-and-Managing-Risks.pdf

environment that enables non-banks to contribute to financial inclusion alongside incumbents.

Regulators should learn from best practices as a guide to assist in thinking about, engaging with, and assessing the Fintech ecosystem to develop pragmatic and innovative cross-sector engagement for the betterment of the Fintech industry. Similarly, industry and other stakeholders can refer to these best practices to understand how they can collaborate with regulators to orient products and services towards broader objectives that benefit consumers, markets, and the economy. For example, Asia Securities Industry & Financial Markets Association (ASIFMA) has formulated a set of best practices to guide regulators in the Asia region as they seek to support the development of Fintech to serve consumers, businesses, and investors better .

1. Support the development and adoption **of responsible, safe, and secure Fintech products and services** by facilitating dialogue between Fintech participants, financial institutions, and policymakers.
2. Work with the industry to explore Regtech solutions to create more **efficient and effective regulatory supervision and reporting mechanisms.**
3. Develop regulatory policies that strike an **appropriate balance between innovation, safety, and consumer protection.**
4. Ensure **consistent regulatory standards** are applied to all market participants.
5. Ensure **inter-agency cooperation** to promote consistency nationally across different sectors impacted by Fintech, such as banking, securities, insurance, and telecommunications.
6. Enhance **cross-border cooperation** with other regulators to promote best practices and recognition agreements and harmonize laws and regulatory requirements.
7. Support **industry-driven interoperability.**
8. Provide a clear framework and guidelines **for cross-border data transmission** for processing and storage.
9. Ensure **laws support technological developments.**
10. **Promote cybersecurity** and data security in a globally interconnected financial system.
11. **Set national targets**. A major reason appears to be the powerful incentives they generate to achieve the stated outcomes. An external agency or interests do not impose national targets, therefore, achieving them is a matter of pride for the country and the major stakeholders involved. A sense of ownership is vitally important.

Regulators should not target financial inclusion directly; the policy could focus its attention on involuntary exclusion driven primarily by market frictions and aim to enact policies that reduce these frictions. On the other hand, regulators should ensure robust finances, governance, risk management, and compliance skills that reduce risks to the government safety net and possible harm to customers are among the regulatory criteria.

As a result of policy and technological advancement in the fintech sector has been NeoBanks – a kind of digital bank that does not have any physical branches but is entirely online-based; they do not have bank licenses but count on bank partners to provide banking-related services. Traditional banks are finding it harder to fill the gap in consumer expectations – this is where Neobanks step in. One of the most revolutionizing ideas that Neobanks have adopted is using RPA (Robotic Process Automation) systems. It forms the backbone of every operation conducted within the Neobanks.

India is a recent example of this innovation and fast policy advancement; India has trusted online payment methods more than ever before. With one of the world's fastest-growing economies, India has undoubtedly emerged as one of the fastest-growing fintech hubs globally. Not to mention, the pandemic and the lockdown have allowed technology to flourish and hugely sustained it.

Financial Institutions readiness; Banks and MFIs

The financial industry has also been affected by technological advancement and the spread of technology in life. The term "fintech" lacks a universally accepted definition but generally uses technology-based innovation in financial services.

As users and clients of financial institutions' services, the impact of Fintech in our everyday lives is unavoidable. To understand the impact depth, one needs to look at how things worked in the past versus now. A few years ago, you'd have to go to the bank to look at your bank account and get a statement. A minimum of three days were required to send money across, which made payment processes slow. Now, you can get all the information regarding your bank account at the tip of your fingers.

Online financial services have changed how things work in the financial industry sector. Not only that, but instant money transfers are the way to go. Payments are made within minutes, if not seconds. If you were to focus on India, you'd notice more and more shops in cities and suburbs now accepting online payments. Smartphones have become a massive contributor to the advancement of Fintech.

Many FinTech's have also focused on providing financial education, which helps target markets manage their money and finances better – helping them reduce their debts and teaching them the importance of saving and investing.

While from a Financial institution's point of view, Fintech improves the quality of traditional financial institutions by increasing efficiency and productivity. Furthermore, firms' client retention rates will rise by delivering better and more contemporary services and increasing revenues.

Businesses and clients have benefited from this shift in different means:

- Reduced costs
- Speed
- Faster lending process
- Credit risk assessment using credit scoring algorithms
- Increase efficiency
- Ease access to financial services leads to servicing financially excluded and unbanked clients, increasing financial inclusion.

Over the past 5 to 10 years, there has been a rapid shift in how consumers view financial services companies. Therefore, many consumers want financial institutions to respond quickly to their needs with tailor-made products. In KPMG 2017 Top of Mind Survey2, 29 percent of respondents expected increasing demand for personalization to be the most disruptive consumer behavior trend over the next two years. We are seeing this across all industries.

Financial institutions have long felt the pressure to modernize their infrastructure and respond to changing customer demands and expectations. The obstacle for many is that they already face a complex array of urgent issues that constantly vie for management attention and investment. The need for banks and MFIS to improve their digital capabilities is becoming even more urgent with the emergence of new market entrants and services (such as Apple Pay) from the "fintech" and technology sectors, which are attacking banks' and insurers' core businesses and reshaping those industries. Across industries, digital innovators push customer service standards higher every day, offering ever-expanding arrays of cutting-edge, digitally enabled services and features. These new offerings and enhancements are driving customers' expectations higher for all businesses, including banks and MFIs—and these institutions are being forced to respond.

To meet these challenges, banks and MFIs are embarking on a comprehensive digitization journey, one that is different from the path they were on just three years ago when their efforts were mainly confined to isolated initiatives such as division-focused big data projects, the launch of individual apps, and improvements to their online and mobile channels. Today, banks and MFIs are changing how they interact with customers.

"Already, many Financial Institutions are partnering with FinTech firms to enhance their service offerings. FIs are realizing that consumers' brand loyalty is decreasing, while demand for speed, accuracy, transparency and more technology is rising."

Achieving business success typically starts by developing a focused and clear business strategy. Financial institutions have learned that getting the most value from Fintech requires the same focus and attention. It's challenging to make the most of fintech opportunities organization-wide without clearly assessing where a financial institution is today and where it wants to be in the future.

To successfully transform themselves into truly digital enterprises, banks and financial institutions must adopt or develop their capabilities and infrastructure to enhance their Technology adoption readiness.

Financial institutions have to focus on enhancing the customer experience; according to a survey conducted by KPMG[10], enhancing the customer experience is the most crucial objective of financial institutions that have or are developing fintech strategies. Over 70 percent of survey respondents identified enhancing the customer experience as one of their two most important objectives for their fintech strategy. The new Fintech strategies need to address the eww market and target market expectations:

- Conduct **market needs assessment** to understand the news MSMEs trends and needs.
- A **simplified Business model** infrastructure and reengineering its operations
- **Review procedures and manuals** to reflect new risk management measures and internal controls.
- **Staff Training and building capacity** program to enhance staff

[10] https://assets.kpmg/content/dam/kpmg/ke/pdf/thought-leaderships/Forging-with%20bleeds.pdf

knowledge and capabilities in digital talent.
- **Data security and cybersecurity**-related matters
- **Improve and enhance its Technological infrastructure** and be ready for investment in technology.
- **Funds availability** to match the potential demands and serve new markets and segments that were excluded and unserved previously.

Demand-side

On the Demand side, the availability of Fintech products and services drives the actual demand of consumers and merchants underserved by traditional financial services. **Fintech demand** is considered one of the essential key ecosystem attributes that uplift the success of any Fintech Strategy. According to EY FinTech Adoption Index, consumer adoption of Fintech services has moved steadily worldwide, from 16% in 2015 to 33% in 2017, to 64% in 2019. Market research should assess people's needs and the country's resources, and ultimate objectives.

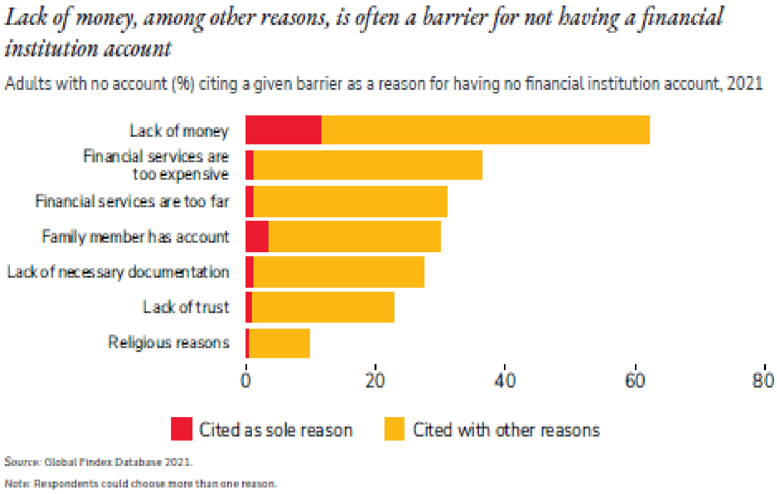
- Consumer demand: Fintech Adoption by individual consumers, Business-to-Consumer (B2C)
- Corporate & MSMEs demand: Fintech Adoption by corporates and MSMEs, Business-to-Business (B2B)
- Financial Institutions demand: Fintech Adoption by Financial Institutions & Banks

Awareness of Fintech, even among non-adopters, is substantially growing. As an illustration, 96% of consumers know of at least one alternative Fintech service available to help them transfer money and make payments. Fintech adopters prefer online and app-based financial products despite concerns about personal data security.

Fintech companies should take feedback from consumers in rural areas to make their applications more user-friendly, with voice commands and fingerprint scanning, and increase the interoperability mechanisms. Obtaining feedback from the ground is relevant for policymakers and regulators as well.

Financial service providers play a role in ensuring Financial education and financial literacy ecosystem, and governments must define and enforce consumer protection regulations. In developing economies, Unbanked adults express insecurity about managing an account on their own; 64 percent of unbanked adults said they could not use an account at a financial institution without help, and in some economies, the proportion was even larger. In Egypt and South Sudan, 65 percent and 79 percent of unbanked, for example, more than four out of five unbanked adults said they could not use an account at a financial institution without help, "they said would need help using an account at a financial institution".

On the other hand, according to FINDEX 35% of financially excluded replied as access to financial institutions is expensive and 25% are too far to reach. These answers suggest that people would open an account if banking costs were lower or if the banks were located more conveniently. Accordingly, Fintech can remove the above barriers and make financial services accessible and lower cost than other traditional channels.



Security and Trust

There remains a degree of skepticism among financial consumers. A Bank for International Settlements (BIS) survey published in May 2021 found that most people feel more comfortable with Financial Institutions than with Fintech, believing they are more equipped to protect their data[11]

Increasing fintech adoption will depend on how well brands can bridge this trust gap. Uncertainty regarding unfamiliar technologies and recent headlines emphasizing data breaches has led to some hesitation. Fortunately, a strong customer experience strategy can help address more common concerns.

When using FinTech applications and Technology, MSMEs clients want reassurance that their personal information is secure, especially regarding their finances. Also, they want to make sure that all their financial transactions and settlements are recorded, especially when no receipts are available; on the other hand, Deposits management is more complicated, and clients want the reassurance of safety and ease of accessibility of their money.

With the right processes and controls, a robust fraud detection and prevention program is key for fintech companies looking to build trust. Advanced Know Your Customer and identity verification features can complement end-to-end encryption to keep consumer data safe, including two-factor authentication, voice match recognition, and face verification.

Communicating these efforts and data-use transparency can go a long way in earning and retaining customer trust. Throughout the customer journey, there is an opportunity to be proactive — show empathy for typical customer concerns, outline key security features, and describe how customer data will improve their experience. Bringing your security initiatives to the forefront leaves little room for doubt.

A general unfamiliarity with the industry's latest technology makes it even more essential for Fintech to offer appropriate training and education to increase transparency. One way to combat

[11] BIS Papers No 114 Ready, steady, go? – Results of the third BIS survey on central bank digital currency, January 2021 https://www.bis.org/publ/bppdf/bispap114.pdf

this is through on-demand educational content like FAQs, and tutorials that consumers can read through to understand better.

The Way Forward

Global efforts to increase inclusive access to trusted identification systems and mobile phones could be leveraged to increase account ownership for hard-to-reach populations. Findings from the Global Findex 2021 survey likewise reveal new opportunities to leverage digital payments for wages, government transfers, or the sale of agricultural goods to drive financial inclusion and expand financial services among those who already have accounts. Digitalizing some of these payments is a proven way to increase account ownership. In developing economies, 39 percent of adults—or 57 percent of those with a financial institution (excluding mobile money) account—opened their first account specifically to receive a wage payment or receive money from the government.

In the above sense, a collaboration between financial institutions, digital technology companies, and the government has to be established, including developing services like online banking, digital payments, credit scoring, online insurance, investment, and social security services. Additionally, government and Technological companies must pave the way for digital payments infrastructure.

Fintech gained momentum at the time of demonetization and, most recently, through the pandemic, which has led many people to use digital payments to avoid physical contact. It is predicted that the fintech industry will grow into a US$2.4bn market by the end of 2020, with participation from more than 400 fintech start-ups in India[12]

While some predictions may need to be revisited, considering the COVID-19 pandemic, the industry will undoubtedly experience impressive growth. As fintech reforms the finance landscape with technological disruption and enables financial inclusion, challenges remain concerning digital finance adoption and usage, privacy and data protection regulations, and consumer grievance redress. It is crucial to address such challenges now more than ever.

Mainly the governments and service providers; Financial and Technology institutions have to work heavily on developing initiatives to boost the fintech sector and increase financial inclusion within their countries. These initiatives are pertinent as we realize that Fintech holds great potential to achieve sustainable development and sustained economic growth by fostering innovation and building resilient infrastructure.

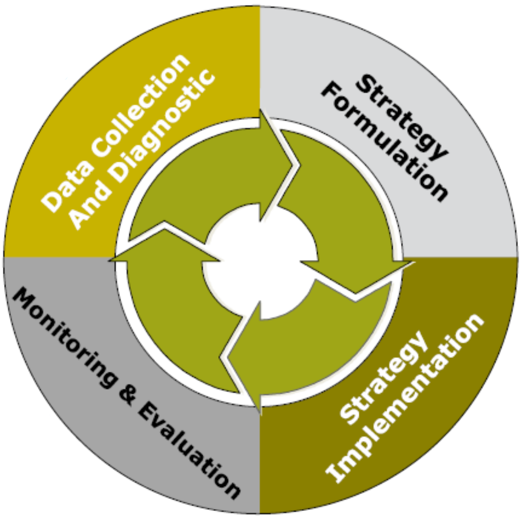
- **Increase digital and financial literacy** in rural areas. For this, the government should engage civil society organizations and fintech companies within its initiatives to build and maintain trust within consumers and MSMEs regarding digital payments and other fintech services
- **Fintech companies should take feedback from consumers** in rural areas to make their applications more user-friendly, with voice commands and fingerprint

[12] *https://community.nasscom.in/communities/digital-transformation/emerging-tech/indian-fintech-ecosytem-key-challenges-and-how-to-deal-with-it-.html*

scanning, and increase the interoperability mechanisms.

- **Obtaining feedback from the ground** end users is also relevant for policymakers and regulators to understand every single barrier and try to amend and adjust accordingly.
- **To decrease data protection and privacy risks** within fintech applications, transparency must be ensured. This could be done by making notice and consent frameworks more consumer-friendly by adopting the privacy labels and the availability of regional language options for privacy policies. Additionally, there is a need to ensure regulatory fairness within the current and upcoming regulations related to data protection, e-commerce, and financial services. A cost-benefit analysis should be undertaken before imposing regulations on financial data flows, and different stakeholders must be consulted, like start-ups, MSMEs, merchants, and consumers in rural and semi-urban areas.

Government must develop and endorse a FinTech Financial inclusion strategy, with participants of all stakeholders and consumers, ensuring a complete strategy process with proper key success factors and continuous feedback from all parties; **Data collection** must be considered for more details of the supply and demand side followed by proper analysis. **Strategy formulation** with a general understanding of definitions with the stakeholders **Strategy implementation** with the proper policy reforms and incentives for the private sector and financial institutions



Finally, implement **regular monitoring** and evaluation activities to track progress against core targets and indicators.

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