

# THE CASE FOR AN INNOVATION HUB TO FACILITATE MEASA FINANCIAL INCLUSION



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Almost half of the world's 1.7 billion financially excluded and underserved adults are currently concentrated in the Middle East, Africa and South Asia (MEASA). To date, efforts to address MEASA's financial inclusion position have been heavily fragmented, impeding large-scale advancement. Given the size of the untapped market, and the urgent need for reforms, we call for the establishment of a regional innovation hub dedicated to the development of digital financial services. Given its unique profile, Dubai is ideally positioned to serve as the beating heart of such a hub.

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## NEW GLOBAL MOMENTUM FOR (DIGITAL) FINANCIAL INCLUSION

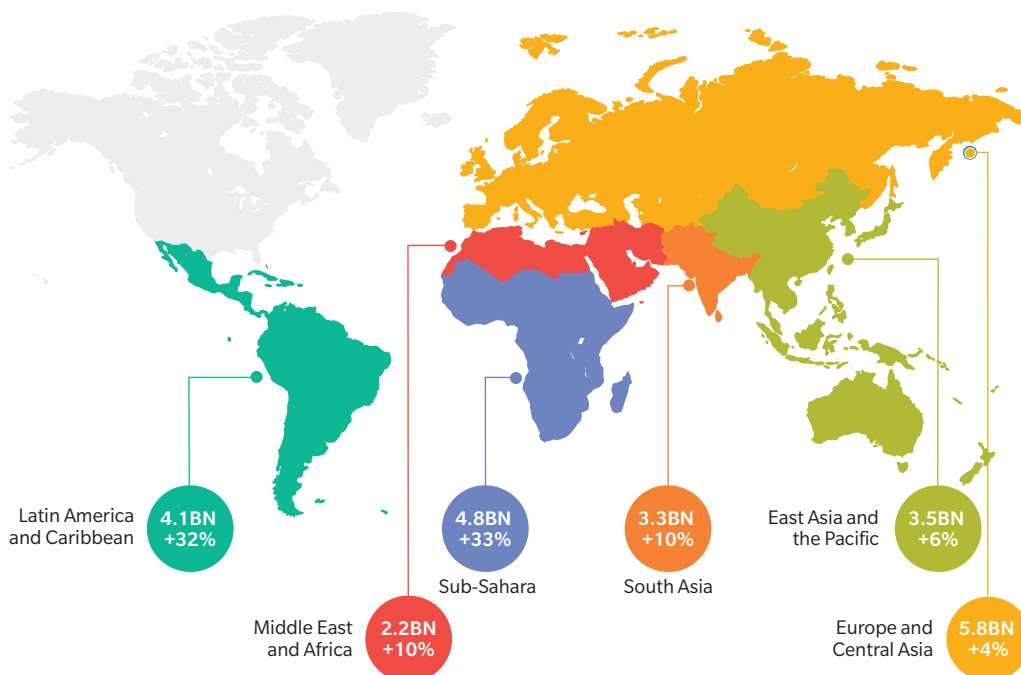
The push for advancement of financial inclusion has seen renewed global momentum. With 1.7 billion of the world's global working population still lacking access to formal financial services, world leaders have committed themselves to ambitious targets for the acceleration of financial inclusion. G20 nations, the World Bank, the International Monetary Fund and other multilateral organisations are actively pushing a bold agenda and co-ordinating efforts via global alliances and working groups. Additionally, the United Nations has declared financial inclusion a core enabler for the achievement of its Sustainable Development Goals.

These efforts have been underpinned by an unprecedented flow of funding directed towards financial inclusion initiatives. The Consultative Group to Assist the Poor (CGAP) estimates that no less than US\$37 billion in funds was received in 2016 from public and private sources.

Thanks to an ever-expanding adoption of smartphones, and the rapid evolution of new technologies, digitally enabled financial services have emerged as critical catalysts in the achievement of broad-scale financial inclusion. It is estimated that more than 80 countries have launched digital financial services to serve the financially excluded and underserved. In recognition of the impact of digital finance and to promote its adoption, in 2016 the G20 issued its Principles for Digital Financial Inclusion.

Exhibit 1: Allocation of financial inclusion funding by region (2016)

IN US\$



Source: CGAP, International Financial Inclusion Funding Data, 2017 Report

## HEAVY CONCENTRATION OF FINANCIAL EXCLUSION ACROSS MEASA

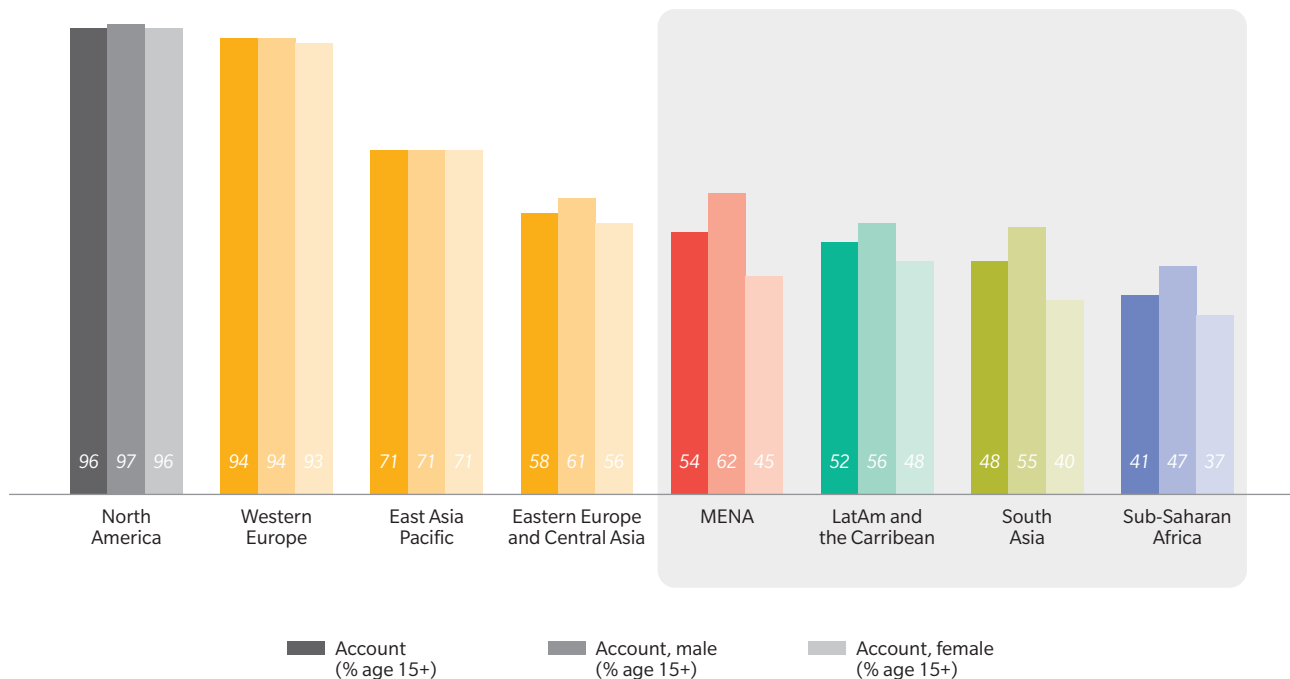
Nearly 50 percent of all financially excluded and underserved individuals are currently found in the MEASA region. An average of 48 percent of the working adult population owns a financial account compared to a global average of 69 percent. 15 out of the 20 countries with lowest account ownership globally are situated in MEASA. Additionally, the gender gap in account ownership continues to be more pronounced across the region.

This is due to a multitude of factors:

- There continues to be significant demand- and supply-side barriers to financial inclusion across MEASA, along with an often unfavourable regulatory environment that impedes the implementation of digital financial solutions (See Table 1)
- We observe limited top-level governmental support for financial inclusion in a significant number of countries. The Middle East in particular has historically been underrepresented in global initiatives and only a few countries across the region have signalled strong commitment
- Efforts across the region in addressing financial inclusion have been largely fragmented, with limited cross-country co-ordination, driving disparities in individual country progress

Exhibit 2: Average share (percent) of account holders (age 15+)

BREAKDOWN BY REGION



Source: (2017) Global Findex database, Oliver Wyman analysis

Table 1: Key barriers to inclusion across MEASA

<b>DEMAND-SIDE CONSTRAINTS</b>	<ul style="list-style-type: none"> <li>• Inability to meet extensive identification requirements due to disproportionate KYC regulations</li> <li>• Limited (digital) financial literacy including understanding of the benefits of different products</li> <li>• Often high opportunity and transportation cost in order to access physical branches of financial service provider</li> <li>• Insufficient confidence in (digital) financial services (e.g. due to fear of electronic fraud, experience of operational failures)</li> <li>• Unaffordable cost for account maintenance, transactions (for example, fees for cash withdrawals) and other financial services relative to income</li> </ul>
<b>SUPPLY-SIDE CONSTRAINTS</b>	<ul style="list-style-type: none"> <li>• Elevated market-entry barriers for non-financial market players and disparate treatment versus traditional FS providers</li> <li>• Insufficient infrastructure in remote areas in order to access clients</li> <li>• Limited availability of alternate distribution channels (for example, agent network) to different supply-side players</li> </ul>
<b>PRODUCT DESIGN AND DELIVERY CONSTRAINTS</b>	<ul style="list-style-type: none"> <li>• Mismatch between product design and target segment needs (e.g. insufficient understanding of behavioural characteristics and pain points in day-to-day life of the low-income segment)</li> <li>• Insufficient flexibility in product terms and conditions not accounting for volatile income flows</li> <li>• Unsuitable incentive systems and trainings for sales agents in engaging with the low-income segment</li> </ul>
<b>REGULATORY OVERSIGHT CONSTRAINTS</b>	<ul style="list-style-type: none"> <li>• Insufficient co-ordination between regulatory bodies across industries (financial services, telecom providers)</li> <li>• Only nascent consumer and data protection frameworks and limited assessment of the implication of digitisation of FS</li> <li>• Lack of dispute-resolution frameworks in case of multi-party transactions (for example, mobile money account to bank account payment)</li> <li>• Absence of fair and effective bankruptcy/insolvency regime, especially targeted at micro, small, and medium enterprises</li> </ul>

## CALL FOR A CO-ORDINATED EFFORT ACROSS MEASA

We strongly advocate a shift towards a co-ordinated model in MEASA as a critical prerequisite to large-scale progress towards complete financial inclusion across the region. Such an effort, however, needs to extend beyond governmental co-ordination and encompass a broad array of stakeholders.

Lessons from the rapid evolution of FinTech highlight the effectiveness of innovation hubs as vehicles for the acceleration of the design and distribution of scalable solutions. We consider such a model a suitable solution for MEASA and therefore advise the creation of a regional innovation hub for digitally enabled financial services, as a means to overcome existing fragmentation.

The hub should have a regionally recognised mandate to drive innovation through the distribution of digitally enabled financial solutions across MEASA. It should be tasked with addressing financial exclusion, and supporting awareness and capability-building. This will require a co-operative assembly of relevant stakeholders from across the financial, technology and government sectors, and the establishment of dedicated partnerships with multilateral organisations and NGOs. By combining a physical location with an online community, stakeholders will be able to flexibly interact with one other. Given its existing strong ecosystem and geography as a gateway to MEASA, Dubai offers unique advantages as the proposed centre of this hub.

The launch of the innovation hub carries significant potential in realising synergies and ultimately accelerating financial inclusion across MEASA. This will be complemented by significant expansion of the financial sector through the influx of trillions of new banking assets, as well as GDP growth.

## FOCUS ON FIVE CORE OBJECTIVES

To ensure a targeted approach, the hub will need to articulate a clear set of objectives that guide its activities. We recommend that these are centred on five key points:

- Mandating and overseeing primary research to assess demand-side characteristics, identifying market specific barriers to financial inclusion and gaps in supply-side offerings
- Accelerating the design of new and customer-centric inclusive digital finance solutions and facilitating access to required funding, targeting the core needs of the MEASA population such as payments and remittances
- Supporting the large-scale dissemination and rapid go-to-market of newly developed products, by leveraging the partner network
- Fostering awareness and capacity-building with respect to inclusive finance, including the promotion of financial literacy
- Driving the articulation and adoption of common regulatory standards across the region to enable scaling of the newly developed solutions across jurisdictions








Developed solutions should target a broad spectrum of audiences, including financial service providers, governments and regulatory authorities, as well as end-consumers.

## SIGNIFICANT BENEFITS FOR STAKEHOLDERS PARTICIPATING IN THE INNOVATION HUB

In order to achieve its objectives, the hub will need to bring together all stakeholders critical to the development and dissemination of digital financial-inclusion solutions. This includes: investment funds; banks and insurance companies, FinTech companies; telecommunication operators; digital and social media platform providers; multilateral organisations and NGOs; government authorities; and research institutions.

Stakeholders will benefit from participation in the hub in multiple ways:

Table 2: Benefits by stakeholder group

STAKEHOLDER GROUP	BENEFITS
 <b>INVESTMENT FIRMS</b>	<ul style="list-style-type: none"> <li>• High visibility on deal flow</li> <li>• Easy access to a diverse spectrum of investment opportunities</li> <li>• Better transparency on company performance and ability to engage directly with companies</li> </ul>
 <b>BANKS AND INSURANCE COMPANIES</b>	<ul style="list-style-type: none"> <li>• Improved visibility on demand-side dynamics and supply-chain gaps, enabling more targeted solution design</li> <li>• Improved partnership opportunities, for example with FinTech companies, providing impetus for financial innovation</li> </ul>
 <b>FINTECH COMPANIES AND TELECOM OPERATORS</b>	<ul style="list-style-type: none"> <li>• Easier access to expert support (including mentorship programmes) and potential partnerships, supporting solution design</li> <li>• Enhanced access to funding (seed and scale capital)</li> <li>• Enhanced distribution of products and access to a broader market through the partnership network</li> </ul>
 <b>DIGITAL AND SOCIAL MEDIA PLATFORMS</b>	<ul style="list-style-type: none"> <li>• Additional partnership opportunities for example with FinTech companies, regional Telecom operators and financial services providers, supporting expansion of service offering</li> <li>• Enhanced access to previously untapped and hard to access, remote markets</li> <li>• Opportunity to further raise visibility and enhance confidence in financial service offering provided</li> </ul>
 <b>MULTILATERAL ORGANISATIONS AND NGOS</b>	<ul style="list-style-type: none"> <li>• Easy access to a diverse spectrum of investment opportunities</li> <li>• Greater ability to influence strategic priorities for innovation design</li> <li>• Improved transparency on progress of initiatives</li> </ul>
 <b>GOVERNMENT AUTHORITIES</b>	<ul style="list-style-type: none"> <li>• Enhanced access to primary data, highlighting demand- and supply-side dynamics and supply gaps</li> <li>• Enhanced understanding of prevailing barriers to financial inclusion, informing policy work</li> <li>• Synergies in the joint development of policies and regulations in support of a harmonised regulatory environment</li> </ul>
 <b>RESEARCH INSTITUTIONS</b>	<ul style="list-style-type: none"> <li>• Access to a broadened data set via the partnership network;</li> <li>• Enhanced opportunities for a diversified set of research studies, including qualitative and quantitative research</li> </ul>

## ESTABLISHMENT OF THE HUB AS A HYBRID MODEL

In order to enable effective and agile engagement of stakeholders, we recommend that the hub operates under a hybrid model. A permanent physical presence should be a centre for meetings and events as well as serving as an innovation lab. This should be complemented by an online platform that functions as a digital community for the purposes of idea exchange, deal-flow management and financial-inclusion data access.

In addition to the physical space and online community serving as main, day-to-day engagement channels, the hub infrastructure can host targeted events to promote its objectives:

- Panel discussions and forums
- Conferences and summits
- Networking fairs
- Investor days
- Hackathons

In many cases, these activities can be carried out on the back of well-established events such as the African countries e-government conference.

To foster international exchange, the hub can furthermore receive and send delegations from or to similar initiatives, as well as host recurring financial-inclusion events on behalf of multilateral organisations and global financial-inclusion partnerships and alliances.

## DUBAI IDEALLY POSITIONED TO LEAD DIGITAL FINANCIAL-INCLUSION INNOVATION EFFORTS

Dubai combines a unique set of features that ideally position it to become the center of such an innovation hub:

- Existing recognition as a global and regional economic and financial hub, and strong financial expertise
- Commitment to financial innovation, embedded in its financial services and national vision with strong government backing
- Strong existing physical presence of relevant stakeholders (including banks, FinTech companies, telco operators, NGOs and supranational bodies)
- Successful track record in implementing similar initiatives, for example, the FinTech Hive
- Exceptional international connectivity, common layover destination for global business travelers, and single best gateway to the region's hard-to-access markets
- World-class infrastructure in terms of business facilities, service provider landscape, telecommunications and transportation

## CONCLUSION

The establishment of a regional innovation hub for the development of digitally enabled solutions targeted at addressing financial exclusion is a suitable and much-needed solution for MEASA. By centralising efforts in innovation design and distribution, participants in the hub will be able to realise significant synergies, and expand the breadth of innovations as well as customer reach. This will accelerate the achievement of financial inclusion in the region many times over, and ultimately spur significant growth of the financial sector and the economy at large.



# DUBAI

## GLOBAL INNOVATION HUB FOR DIGITAL FINANCIAL INCLUSION

### OPPORTUNITY



Providing **digital financial solutions to 1BN+ individuals** across MEASA



Attract **billions** of US\$ of new investments



Generate **trillions** of US\$ in additional retail and wholesale banking assets



Drive **substantial growth** of the FinTech industry and market capitalisation

### CORE OBJECTIVES

Accelerating innovation

Promoting awareness and education

Facilitating funding access

Providing insights through primary research

Establishing common regulatory standards

### TARGET VISION

CONNECTING STAKEHOLDERS  
PHYSICALLY AND VIRTUALLY



Dubai-based stakeholders



Regional and international stakeholders

TO CREATE  
A POWERFUL ECOSYSTEM



Investment funds



Banks and insurers



FinTech, telcos



Research institutions



Digital and social media platform



Multilaterals and NGOs



Government authorities

## HUB INFRASTRUCTURE AND ACTIVITIES

CO-WORKING SPACE  
AND INNOVATION LAB



DIGITAL  
PLATFORM



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## ABOUT DUBAI INTERNATIONAL FINANCIAL CENTRE

The Dubai International Financial Centre (DIFC) is one of the world's top ten financial centres, and the leading financial hub for the Middle East, Africa and South Asia (MEASA). The Centre provides a world-class platform connecting the region's markets with the economies of Europe, Asia and the Americas and facilitates growth in South-South trade and investment.

The Centre offers a world-class ecosystem, including an independent regulator and judicial system with a common-law framework, a global financial exchange, inspiring architecture, powerful, enabling support services and a vibrant business community.

For further information, please visit our website: [difc.ae](http://difc.ae), or follow us on Twitter @DIFC.

[www.difc.ae](http://www.difc.ae)

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