

Innovative Approaches to Improving Financial Inclusion

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Third Arab Financial Inclusion Day Forum
April 23, 2019 | Beirut

* Original Text in Arabic Under the Title: "[Manahij mubtakara litāziz al-shumūl al-māli](#)"

I would first like to thank his Excellency the Governor of the Banque du Liban (BDL) for inviting me to give a talk during the third Arab Financial Inclusion Day (AFID) Forum, in my capacity as former First Vice-Governor of BDL and former Chairman of the Financial Inclusion Committee. I am glad to have received this invitation, and have the pleasure to be here with you on this occasion that Arab central banks have agreed to celebrate every year since 2017. I would also like to thank the members of the BDL Financial Inclusion Committee for their efforts in this regard, particularly Mr. Khaled Bohsali and Dr. Lâma Daher for conducting extensive research and studies, keeping up with new approaches and FinTech innovations, developing BDL's financial inclusion strategy and its action plan and for their excellent coordination and rigorous follow-up on the financial inclusion project.

As in previous years, the Forum's themes are relevant and tightly related to Lebanese reality. This year's Forum includes sessions on digital technology advancements in the banking and financial sectors. During the opening session, the Governor of BDL and the Chairman of the Lebanese Banks Association both celebrated the promising opportunities that these developments bring in terms of strengthening the capacities of financial service providers, enhancing access to these services by individuals and businesses and promoting economic growth in the country. They did, however, warn of the cyber risks, fraud and breaches that could result from the

misuse of some of these technologies or from inadequate immunization of the related infrastructure, programs and tools. All stakeholders, whether regulators, supervisors or providers of financial services or citizens, should keep up with the developments and innovation in financial technologies, in addition to preserving the integrity and stability of the banking and financial sectors.

The subsequent sessions and discussions presented additional approaches that could drive financial inclusion forward. In the first interactive session, the speakers presented the proportional approach on financial regulation and supervision, as well as how it could be adopted and the various risks it poses. This session highlighted the central role that regulators and supervisors of the banking and financial sectors play in broadening access to financial services and products, enhancing their quality and encouraging their proper use by all segments of society. Each speaker detailed its own vision for developing the financial infrastructure and the regulations aimed at enhancing the inclusiveness, dynamism and efficiency of the banking and financial sectors. They also stressed the need to comply with the laws in force and with internationally adopted measures to combat terrorist financing, money laundering and tax evasion, as well as other financial crimes punishable by law. During the session, examples from Lebanon and from around the world were given on cases where relevant authorities developed new regulations within the proportional approach framework to regulate microfinance institutions, digital financial services, FinTech companies, digital banks, e-wallet companies and e-payment companies. The speakers also mentioned that some countries have amended their regulations by enabling the tiered e-KYC processes. The session also examined the positive and negative impacts of the digital transformation on financial regulation and oversight.

The second interactive session primarily revolved around the customer-centric approach in the banking and financial sectors, as well as on the various opportunities generated by technological innovation in terms of providing customers with what is best for them and enabling responsible finance. Speakers discussed the impacts of technological innovation on financial service providers and customers, in terms of the evolving customer experience, service customization and the importance of spreading digital and financial awareness and education to all, of promoting transparency in all aspects of the customer-service provider relationship and of ensuring and protecting customer data privacy, in addition to other related topics. These themes were discussed by experts from different backgrounds, each of whom presented their vision on how to achieve an inclusive, responsible and customer-centric financial sector. The experts added multiple dimensions to the discussion, by giving examples of innovative solutions from different countries around the world and their impacts on local residents. The purpose of this session was to encourage providers of financial services and products to adapt and enhance their offerings to be more in line with the needs and aspirations of individuals from all socio-economic backgrounds and across all regions, as well as with the needs and aspirations of micro-, small- and medium-sized enterprises in all regions and all productive sectors. Speakers also focused on the need to abide by the best practices and standards in terms

of financial consumer protection, particularly given the rapid technological changes taking place.

During the past two years, BDL has carried out many unique and diversified activities within the framework of the financial inclusion project, including communication with financial service providers to review their activities in the field of spreading financial awareness and education; conducting a mapping exercise of FinTech companies and communicating with them to explore their services and aspirations; issuing circulars on widening the presence of financial service providers in remote and rural areas and on encouraging financial service providers to use technology to provide more adequate services for people with special needs; and considering the possibility of developing the microfinance sector and issuing related circulars. It is worth noting, in this regard, that microfinance, is a key area of interest for BDL and is the theme of the upcoming roundtable discussion. We have also conducted and published numerous studies on various related topics, the most recent of which was on the digital revolution and the role of the central bank in transforming illusion into inclusion – that is, how unregulated private virtual currencies create the illusion of being the optimal solution against financial exclusion, despite the fact that this allegation contradicts scientific and empirical realities, and how the national digital currency project (Central Bank Digital Currency) has a better chance to create broader financial inclusion, while at the same time maintaining financial stability.

I also had the opportunity to supervise the implementation of a financial inclusion demand-side survey for individuals, from the end of last year until the beginning of this year with the Collaboration of my previous colleagues at the Departments of Statistics and Branches. I would like to seize this opportunity to thank everyone who took part and cooperated in this new project.

The results of the survey indicated that approximately 59% of the population - citizens from the age of 18 and above had current accounts in banks. The highest percentage went to men (67% of total men, compared to 49% of total women), which revealed a gender gap of approximately 18%. In terms of age, the results revealed a discrepancy in percentages between young people between the ages of 18 and 24 (33%), adults between the ages of 25 and 64 (63%) and the elderly (50%). As for the geographical distribution of current account holders, the survey revealed a discrepancy between regions: the lowest percentage was in Baalbeck – Hermel governorate (44.6%), followed by South Lebanon governorate (45.2%), Akkar governorate (46%), the Beqaa governorate (54.6%), Nabatieh governorate (57.9%), North Lebanon governorate (59.2%), Mount Lebanon governorate in second place (66.3%) and Beirut governorate in first place (70.7%).

As for savings accounts, the results of the survey indicated that approximately 26% of the population - citizens from the age of 18 and above had saving accounts in banks. The highest percentage went to men (30% of total men, compared to 21% of total women), which revealed a gender gap here too of approximately 9%. In terms of age, the results showed a discrepancy between young people between the ages of 18 and 24 (12.8%), adults between the ages of 25 and 64 (26.1%) and the elderly (31.6%).

The survey results also showed that 45% of the total population - citizens from the age of 18 and above owned debit cards. Women scored the lowest in this metric as well (43% of total men, compared to 27% of total women), indicating a gender gap of approximately 16%. As for age distribution, the results showed a discrepancy between young people between the ages of 18 and 24 (22%), adults between the ages of 25 and 64 (39%) and the elderly (19%).

The survey also revealed that the percentage of using electronic and digital means was relatively low. Only 9% of the population - citizens from the age of 18 and above carried out their financial transactions through the Internet, while only 7% carried out financial transactions using their mobile phones.

In the upcoming period, the results of the detailed survey will be published and its recommendations will be integrated in the Action Plan of BDL's Financial Inclusion Strategy. There is great potential to improve these results by implementing the Action Plan of BDL's Financial Inclusion Strategy, particularly with regard to three main axes: (1) developing and intensifying financial awareness and education on various topics, especially encouraging people to save money in a way that suits various age groups across Lebanese regions; (2) minimizing the gender gap with regard to access to and the use of financial services, primarily by individuals and owners of small enterprises; and (3) providing suitable foundations and encouraging regulated financial service providers and their customers, from different age groups and in all regions, to use electronic means and programs to enhance financial inclusion.

In a related context, BDL collaborated with the "Nudge Lebanon" association to form a specialized committee (Nudge Unit), which is the first among central banks across the world, to introduce the concepts of behavioral economics. The projects launched by this committee will aid in the implementation of BDL's Financial Inclusion Strategy. Nudge Lebanon is currently developing a concept note addressed to banks operating in Lebanon to highlight success stories from around the world and determine the tools that can be adopted to facilitate access to savings services to the largest possible number of people, particularly marginalized groups. The association is examining the launching of the Fractional Savings Project, whereby participating banks will offer savings schemes based on rounding the sums used for payments. A savings account is then opened in which all fractions of payments are automatically deposited, at a rate chosen by the customer.

Finally, I wish you all good luck and hope that this Forum remains ever more successful and keeps on evolving.

Thank you.