Future of **Digitalization** & Preparing for a **New Reality**

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• In 1993, and after the civil war, the Lebanese economy was practically ruined. BDL’s main purpose was to rebuild confidence in the Lebanese banking and financial sector in order to attract foreign investors and new deposits in the banking sectors.

• Main challenges that the bank had were that:
  • Total assets were less than 11 billion USD
  • Deposits were about 9 billion USD
  • Loans to the private sector were about 3 billion with an NPL ratio of more than 24% distributed to only 32,000 clients
  • Capital base was only about 260 million USD

• BDL undertook 4 steps to strengthen & develop the banking sector:
1- Effective laws and regulations to help support BDLs mission to grow the financial ecosystem. Initiatives include:

- Encouraging merging and acquisitions between banks to crowd out weak banks
- Setting corporate governance rules according to international standards
- Imposing capital requirements and liquidity ratios in compliance with BASEL III
- Supporting enactment of the anti-money laundry and terrorist financing
- Setting laws for consumer protection
- Encouraging electronic banking and financial operations
2- Stable exchange rate has proved to be key in the stability of the financial system by:

• a. Maintaining low rates of inflation
• b. Preserving a sound banking sector
• c. Boosting the central bank’s foreign reserves
• d. Reinforcing Lebanon’s credibility in the international capital markets scene
Building an efficient financial infrastructure, was set as a major objective such as

- Regulating credit cards, e-payments, and e-banking
- Establishing real time growth settlement (RTGS) and electronic clearing system
- Meeting international standards and best practices in payment systems
- Playing an essential role in the establishment of the capital market authority (CMA)
- Establishing an unpaid check registry to identify offenders
- Evolving the public credit registry to track payment history, improve transparency, and assess indebtedness of firms and individuals
- Creating KAFALAT, a guarantee scheme for SMEs
4- Set out incentives like

- Subsidized loans for the productive sector
- Direct loans at attractive prices
- Lower the legal reserve requirements

These were done to encourage lending to productive sectors, housing loans, SMEs, Micro lending, student loans, green loans, and finally, equity for startups to incite innovation and quick start venture capital sectors.
The purpose of Circular 331 is essentially to promote the Startups sector in Lebanon and to create a hub for startups, innovation and technology in the area. One of the most prominent ways to reach such purpose is to invest in Fin-tech opportunities provided that the targeted project is innovative, relies on knowledge economy and creates jobs in Lebanon. Thus, the financial benefits offered by BDL under Circular 331 do play a big role in promoting investments in Fin-tech companies with an ultimate goal of reaching successful exits. Exit strategies are freely set by the professional teams who manage Circular 331 funds within general guidelines that are issued by BDL.
Banking Sector in Lebanon

**Average number of clients served per branch May 2016**

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Banks’ Branches</th>
<th>ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of</td>
<td>69</td>
<td>1,040</td>
<td>1,707</td>
</tr>
<tr>
<td>clients served per</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>branch</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Query Requests from PCR

Years:
déc.-94  
déc.-95  
déc.-96  
déc.-97  
déc.-98  
déc.-99  
déc.-00  
déc.-01  
déc.-02  
déc.-03  
déc.-04  
déc.-05  
déc.-06  
déc.-07  
déc.-08  
déc.-09  
déc.-10  
déc.-11  
déc.-12  
déc.-13  
déc.-14  
déc.-15

Number of Clients:
22 256  
36 376  
57 053  
62 050  
87 538  
104 119  
125 679  
146 284  
179 269  
210 222  
249 012  
286 105  
324 629  
395 230
Retail Portfolio Definition

a- Consumer loans (including car loans, educational loans...)
b- Revolving credits (including credit cards and current accounts).
c- Housing loans

<table>
<thead>
<tr>
<th></th>
<th>Dec-96</th>
<th>Dec-00</th>
<th>Dec-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail (In Millions of USD)</td>
<td>750</td>
<td>1,817</td>
<td>19,396</td>
</tr>
<tr>
<td>Percentage of total loans</td>
<td>10.88%</td>
<td>11.85%</td>
<td>29.52%</td>
</tr>
<tr>
<td>Beneficiary</td>
<td>15,273</td>
<td>75,990</td>
<td>721,134</td>
</tr>
<tr>
<td>Percentage of total Beneficiaries</td>
<td>28.28%</td>
<td>54.20%</td>
<td>78.49%</td>
</tr>
<tr>
<td>Average Loan(in thousands of$)</td>
<td>49</td>
<td>24</td>
<td>26</td>
</tr>
</tbody>
</table>
Retail Loans

Household debt ratio reached **44.63%** in **December 2016**

BDL is adopting a preemptive policy that would not allow debt to go beyond the point where it becomes destabilizing for the economy. *(Intermediate Circular 369 August 2014)*

Car and housing loans can no longer exceed **75%** of the underlying asset value

The cumulative monthly payments for all retail loans must not exceed **35%** of the household’s monthly income, *(defined as the husband and the wife’s monthly revenues)*. For housing loans, the cumulative monthly payments must not exceed **45%** of the household’s income.
<table>
<thead>
<tr>
<th>The Comptoirs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; medium size unstructured lenders, often sole-traders, operating in the financial market</td>
</tr>
<tr>
<td>Not submitted to the oversight of any regulators</td>
</tr>
<tr>
<td>Have increased along the years, operating under little or no control</td>
</tr>
<tr>
<td><strong>BDL issued circulars to establish a Licensing Register of <em>comptoirs</em>. The licensed ones only will be allowed to operate and under the control and supervision of the Central Bank to oversee the compliance of these establishments with the law.</strong></td>
</tr>
</tbody>
</table>
In our fast moving digital world, banks are facing new challenges: growing disruptors in the market and new entrants: Fin-Techs

The Fin-Tech ecosystem is made of small organizations that are spread across different financial functions from payment, to lending and financing, These Fin-Techs impose large threats with banks;

However it is large corporations such as Apple, Google, Amazon and Facebook that are imposing the largest threats to the banking industry.
Fintech Definition

Contraction of the words “financial” & “technology”. Fintech broadly refers to the application of technology within the financial industry & covers a wide range of activities.
Such activities include:

- Crowd Funding
- Peer to Peer Lending
- Bitcoin & Blockchain Technologies
- Digital Wallets
- E-Payments
- Robotic Visors
- Equity Financing
- Remittances

Retail banks are facing disruption from the following areas:

- Tech Companies (Apple, Google)
- Telcos, Retailers, and Insurers
- Startups

New technologies have emerged which are starting to have a dramatic impact on the banking industry:
Why they are Attractive?

• Convinience
• Speed
• Simplicity
• Modernity
• Security
• Privacy
• Intuitiveness
They have been growing at a tremendous rate in the past 5 years

**65 Billion USD**

Compared to 10 Billion USD in 2014 Market Share
105% Annual Growth Rate
11 Billion USD in Annual Revenue for Alternative Lenders

Goldman Sachs
FinTech
1,027 Companies

Contact info@venturescanner.com to see all
What Contribute to the success of Fin-Techs?
Technology, Connectivity, and digitalization

- We now have 50 times faster mobile connection than we had in 2010
- There are 3.5 billion internet users in the world
- 2.3 billion active social media users
- 3.8 billion active mobile users
- 80% mobile penetration in households
- 50% voice calls overtaking international calls (voice calls such as Viber, WhatsApp call, and face time)
GLOBAL DIGITAL SNAPSHOT
A SNAPSHOT OF THE WORLD’S KEY DIGITAL STATISTICAL INDICATORS

- TOTAL POPULATION: 7.395 BILLION
- INTERNET USERS: 3.419 BILLION
- ACTIVE SOCIAL MEDIA USERS: 2.307 BILLION
- UNIQUE MOBILE USERS: 3.790 BILLION
- ACTIVE MOBILE SOCIAL USERS: 1.968 BILLION

URBANISATION: 54%
PENETRATION: 46%
PENETRATION: 31%
PENETRATION: 51%
PENETRATION: 27%

FIGURE REPRESENTS TOTAL GLOBAL POPULATION, INCLUDING CHILDREN
FIGURE INCLUDES ACCESS VIA FIXED AND MOBILE CONNECTIONS
FIGURE BASED ON ACTIVE USER ACCOUNTS, NOT UNIQUE INDIVIDUALS
FIGURE REPRESENTS UNIQUE MOBILE PHONE USERS
FIGURE BASED ON ACTIVE USER ACCOUNTS, NOT UNIQUE INDIVIDUALS
Banking services on Social Networks.

- Merchants are not alone in their use of social networks to engage customers

- A study by the Financial Brand found that nearly 75% of financial institutions use Facebook, 54% use Twitter, and 48% use LinkedIn.

- Though banking on social networks is still in the developmental stage, the financial institutions that are pioneering payment services are able to leverage some aspect of their mobile banking platform to allow customers to send payments to Facebook friends.
As mobile phones become almost abundant, local banks are launching new services for customers to make payments through their phones.

People often confuse when banking services are offered on mobile and mobile wallets, whereby electronic money is available on mobile phones, usually requiring new legislation.

In Lebanon only mobile applications of existing banking services are allowed so those will not target the unbanked, it is thus simply an extra service to offer to make banking easier to existing customers.
Social Media Banking | Whatsapp & Facebook
Challenges

Just as social networks create opportunities for banking, they may also unintentionally introduce risks such as breaches of privacy, fraud and even money laundering.

New regulations become necessary, that may have a dampening effect on the potential for social networks to offer new banking opportunities.
Mobile payment tools represent a new way for banks to grow their business. They are attracting low value transactions, reducing cash handling, and gaining additional sources of revenue.

They do not expect a real return on investment in the first two years.

Banks are aiming to win more client loyalty. If the customer has all services and products in one bank, he won’t leave to another bank.

Some banks are still not involved with the new mobile payment tools, arguing that a better penetration rate for the required NFC (Near-Fields Communication).
Other Stakeholders

Retailers

- Reduced queues and a better shopping experience
- Payment can be done from anywhere with a mobile phone, with no need to enter the store. (need an electronic signature law, unless it is linked to a card (like PinPay))

Merchants

- This will save time for the merchant, as receiving money through credit cards may take at least two or three days.

Telecom Operators

- Taking their market share of mobile payment business through partnerships with banks
- The main role is first on the security level by making sure that the applicant is in the client database
- They provide the SIM card and application to the client on his mobile to conduct the transaction.
Financial Inclusion

Banks to integrate financial inclusion into operations, digital payments are the main gateway to new customers, starting with transactional accounts to make and receive payments.

Start with low-income and informal population and build strategies around deepening inclusion for those customers. Cross-sell products that meet these customers’ needs, such as savings, credit, insurance and pensions.

E-money products, mainly for the unbanked, to facilitate payments, e-commerce purchases and phone recharging in a convenient, cheap and secure way.
Analyzing transactional *data* to support cross-selling. Besides proprietary data, banks are also relying on credit bureaus and alternative data.

Increasing access and transaction volumes via vast networks of low-cost and convenient *customer service points*.

*Agent banking* is increasingly critical in low-income customer acquisition and represents a growing share of transactions.

*Digital banking* (including e-money) is also on the rise, with the aim of many customers becoming self-managing.

Banks may seek partners to help customer targeting and acquisition, risk- and cost-sharing, expansion of product offerings and points-of-sale, and access to innovations.
Financial Inclusion | Challenges

- New Laws & Regulations
- Lack of financial capability and digital literacy
- Lack of Trust
- Tightening of Compliance Regulations
- Affordability of Agent Networks
- Data Privacy, Security, Cost & Analysis
Recommendations

Regardless of the increased importance of the mobile banking and Digitization, the priority should be to increase our efforts to reach the unbanked.

the 3 short term priorities to advance Lebanon's Fin-tech ecosystem
- Create a set of regulations that can guarantee to a certain extent the safety and soundness of Fin-tech products and protect the rights of the users, aligned with aspirations of the “DREAMERS”.
- Increase the internet speed and make it accessible to all entrepreneurs (actually to everyone).
- Educate the young generation about the potential and importance of Fin-tech in the financial sector of the future in order to generate new ideas and place Lebanon on the international scene.
Thank you