DIGITAL TRANSFORMATION IN THE EURO-MEDITERRANEAN AREA: FINANCIAL INCLUSION AND STABILITY

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In recent years, digital technologies have created new financial sector challenges and opportunities. In many Euro-Mediterranean countries, technology innovation is allowing for the digital deployment of traditional financial services (remittances, payments, credit, savings), and second-wave services (money transfer, wealth management, insurance, and blockchain). Banks, mobile operators, finance companies, and third party providers are leveraging mobile phones, point-of-sale devices, along with networks of small-scale agents, to offer financial services at greater convenience, scale and lower cost than traditional banking allows. These solutions provide innovative new channels to promote financial inclusion and economic growth.

Digital transformation poses opportunities and challenges that will be addressed differently from one jurisdiction to another in the Mediterranean area depending on the local financial and economic local context.

Digital finance is seen in advanced jurisdictions in the Euro-area as a pathway to offering value-added services and promoting growth. In the Arab World, particularly for the nearly 70 percent of adults (168 million) reporting no account ownership, it is seen as critical to promoting financial inclusion, improving economic productivity and related development objectives (growth, employment, formalization, poverty reduction). While digital innovation provides new opportunities it poses significant risks in the form of cyber security, investment risk and financial stability. This suggests the need for adapted and risk-based approaches to regulation of digital financial technology.

The objective of this, closed-door event, hosted by the Bank-Al-Maghrib in Casablanca, was to facilitate a high-level policy dialogue[1] on the digital transformation of financial services in the Euro-Mediterranean area, notably on how public authorities could enable this transformation to deliver its expected opportunities in particular in terms of financial inclusion, while insuring financial stability, integrity, and consumer protection. Participants comprised France, Italy, Guinea, Lebanon, Morocco, Portugal, Slovenia, Tunisia, the ECB, OECD, CGAP and the World Bank Group.

Participants took note of the current wave of digital innovations impacting financial sector landscapes across the globe. Digitization has allowed for the development of new products and delivery channels, have created enriched customer experiences, have increased the speed and reliability of transactions (mobile or not), and have seen a decentralization away from traditional brick-and-mortar banking structures. New risks, however, have emerged with these developments.

Participants made a distinction between innovations based on customer interfaces that could be dealt with in the current prudential frameworks and much more disruptive innovations such as blockchain and distributed ledger technology requesting new approaches. Global frameworks on digital technology were presented, including the G20 high level principles on digital financial inclusion and the Payment Aspects of Financial Inclusion. Participants also shared country level experiences on the development of mobile payments. In the Arab World this has been driven largely by recent regulatory changes seen in Morocco, Tunisia, Egypt, and Jordan.

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[1] This high level dialogue was initiated in 2013 thanks to a partnership between Banque de France, the World Bank Group and the Center for Mediterranean Integration (Marseilles).

While different perspectives emerged on the risk and opportunities the digital transformation and Fintech pose, discussions reinforced the need for commensurate regulatory approaches and tools to ensure the responsible development of financial technology. ICT and cyber security frameworks will need to be strengthened to mitigate operational risks of new digital services. Related AML/CFT efforts will need to be intensified to contest any negative impact on financial integrity and ensure these developments do not lead to the expansion shadow banking or informal financing. On the demand side, regulators have an important role in developing robust consumer protection policies to ensure clients understand their rights given the plethora of new technological innovation they are faced with. It is also critical that clients possess the skills and tools necessary to make informed decisions related to digital financial products and the management of personal data.

Moving forward, participants expressed the need to strike a balance between regulation and innovation sectoral development. Regulation is a key building block to responsible development of Fintech and innovative solutions. Regulatory changes have been initiated in the European Union[2] to foster innovation and ensure security, and at national levels first on payments systems (e.g. Jordan, Egypt, Morocco, Tunisia). They aim at providing the best framework possible while ensuring financial stability. However, a shared view among the participants is that regulatory approaches to the sector are still in its relative infancy, with much further learning and testing to be completed.

Coordination between public authorities is key, particularly as digital technology involves a widened set of actors including ministries of telecommunications, consumer protection agencies, financial intelligence units, and payment and deposit insurance oversight bodies. Transversal linkages are needed particularly as digital technology encompasses, inter alia, policies links to national and digital identification, and data security and management. Capacity building should be deepened and should encompass diverse regulatory perspectives (banking, telecommunications, digital security, etc.). International standard setting bodies can support these efforts through targeted regulatory reviews, further development of regulatory frameworks, and the eventual issuance of regulatory guidelines spanning the financial technology sector.

Participants reported general principles that could drive the regulatory review, such as:

I. Technology-neutral to ensure that the same activity is subject to the same regulation irrespective of the way the service is delivered, so that innovation is enabled.
II. Proportional, reflecting the business model, size, systemic significance, as well as the complexity and cross-border activity of the regulated entities.
III. Integrity-enhancing, as application of technologies to financial services should promote more market transparency to the benefit of consumers and businesses without creating unwarranted risks (e.g. market abuse, misselling, cyber security issues, systemic risks).

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[2] Including new payment services directive, network and information security directive, and the general data protection regulation.