



صندوق النقد العربي  
ARAB MONETARY FUND

## **COVID-19 boosts adoption and accelerates Digital Financial Transformation in the Arab Region**

**Statement by  
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It is my pleasure to attend this important virtual meeting and, in this occasion, I would like to thank G24 Secretariat for the kind invitation and for the suitable arrangements that have been set up for a successful meeting.

As we all know, the COVID-19 pandemic has negatively impacted an already-weak global economy, which is expected to contract by over 5 percent in 2020 and slide into its deepest recession since the second world war, despite unprecedented policy support. In addition, COVID-19 has, just in a short period of time, shaken almost every aspect of our lives, including the need and obligation to stay at home, forcing us to quickly adopt new social norms and further embrace technology for remote work and home-schooling, among others. These unprecedented circumstances that we are all going through are compulsory reshaping us and the way we used to live and has particularly encouraged economic transformation and adoption of digital business models, including increased use of digital financial services (DFS). This need to move to a more digital banking model has been talked about for almost a decade, but COVID-19 has intensified the demand for end-to-end digitalized financial services, and made the need for accelerated digital transformation and improved financial services more important than ever, including in the Arab region, which shows a lot of promise to stimulate innovation and generate efficiencies.

Digital finance in the Arab world is driven by the increasingly large human potential and youth population with an impressive technological know-how and a positive influence on several aspects of attitude toward technology. Moreover, the record-level remittance flows in the region on formal channel and a vast market potential for financial inclusion, especially women, youth and businesses in the region are also additional drivers for digital financial transformation in the Arab region. Indeed, despite that roughly 85 percent of adults in the Arab region have access to a mobile phone, and 48 percent have access to both a mobile phone and internet connection, mobile money account ownership in the region stands at only 7 per cent and only 33 percent of adults made or received digital payments in the last year, compared to 44 percent of adults in other regions. Even in markets where e-commerce is gaining traction, cash remains the preferred payment method as 51 per cent of adults pay “cash-on-delivery” for e-commerce purchases.

The figures above show how the enormous untapped opportunities are now in front of both the financial services’ providers and consumers, coupled with the emergence of an advanced technology-driven innovation in finance that offers a new way and solutions to tackle further this small-scale but growing market. In a similar but separate vein, the opportunity is also there for banks and other financial services’ providers as the projected important advances in financial infrastructure, especially digital identity that can be linked to bank accounts, will provide

commercial banks and financial institutions with an opportunity to reduce the cost of customer on-boarding and ongoing compliance. This enables financial institutions to reach hundreds of millions of new customers and can leverage their capital, customer base, and brands to expand rapidly in partnership with Fintechs that can help fill gaps in banks' channels, product sets, and processing capabilities. These advances in regulation and infrastructure are paving the way for increased provision of financial services from both traditional and non-traditional providers.

Reforms and investments for an inclusive, safe digital financial system are expected to yield both socio-economic and commercial gains, by tapping into underserved market segments, such as women, youth, and micro, small, and medium-sized businesses (MSMEs), as underlined by the 2020's GPFi theme, especially in remote areas or in low-income brackets, where they continue to make up a disproportionately large share of the unbanked or financial underserved since 2011. MSMEs continue to present a significant market potential in financial inclusion space and are yet to unlock their full potential for productive investments and job creation.

Fintech drives digital financial transformation, while it poses challenges and risks for clients, providers, regulators, and the financial system. The fundamental changes taking place in the financial system however call for ecosystems that enable financial technology in a safe manner. The range of business model, channel, and product innovations raises many questions for regulators, given their mandate for financial stability, protection, integrity, and inclusion, as well as by providers, given legacy frameworks.

Drawing from global practice and experiences in a range of emerging markets and developing economies, the AMF, in the framework of Financial Inclusion for the Arab Region Initiative (FIARI), has issued a guiding framework for digital financial transformation in the Arab region to guide countries in devising policies and action plans building on enabling ecosystems for inclusive, safe Fintech innovation. This framework spans across 4 core objectives, (a) empowering access, (b) enabling use, (c) scaling use, and (d) expanding range and quality, all of which encompass building the proper ecosystem. While the framework activities will vary across countries, certain key elements are common to a number of strategic frameworks which have been developed globally to support the shift to digital finance including: (a) regulatory approaches to Fintech innovation; (b) consumer protection and literacy; (c) financial and technology infrastructure (d) competition; (e) data and cybersecurity; (f) monitoring and cooperation; (g) and gender.

This is a major journey for any economy, but one that has tremendous potential to digitally transform financial systems and support digital economic development for sustainable growth and poverty alleviation. Within this regional framework, Arab countries are encouraged to develop and integrate country action plans that contribute to these overarching goals.

Driven by these pressing trends and in line with its vision and continuous efforts to increase the efficiency, harmonization and integration of trade and economic activities both regionally and internationally, the Arab Monetary Fund (AMF) gives great importance to the applications and issues pertaining to Fintech and disruptive technologies. In this regard, the AMF makes considerable effort to leverage advanced technologies and solutions to establish, under the leadership and support of the Arab Central Banks and Monetary Authorities' Governors, a payment platform, previously known as Arab Regional Payment System (ARPS), that aims to increase the speed, reduce the costs, and enhance the efficiency of the settlement of the financial and investment transactions within the Arab region, and with the region's main trading partners.

Moreover, the Arab Monetary Fund, through the Council of Arab Central Banks and Monetary Authorities' Governors and their subsequent committees and task forces including Financial Inclusion Task Force, Arab Committee on Payment and Settlement Systems, Financial Inclusion in the Arab Region Initiative (FIARI), and Fintech Working group, stands ready to drive digital financial transformation in the Arab region and calls on its regional and international partners to join forces in advancing progress in this agenda .

**Thank you!**

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