



DIGITAL FINANCIAL SERVICES
(DFS) WORKING GROUP

BRINGING
SMART
POLICIES
TO LIFE

FINANCIAL INCLUSION THROUGH DIGITAL FINANCIAL SERVICES AND FINTECH: THE CASE OF EGYPT



CASE STUDY

CONTENTS

CONTEXT	3
OBJECTIVE	3
INTRODUCTION	4
EGYPT AT A GLANCE	4
KEY REGULATORY AND MARKET INFRASTRUCTURE CHALLENGES	6
INITIATIVES TO OVERCOME INFRASTRUCTURAL, OPERATIONAL, LEGAL AND REGULATORY CHALLENGES	7
EFFORTS GOING FORWARD	9
CONCLUSION	11

ACKNOWLEDGMENT

This case study is an official contribution made by the Central Bank of Egypt (CBE). The report was prepared by Mr. Ehab Nasr, Head of Payment Systems, CBE, and Mr. Mohamed Helmy, Senior Business Officer, Payment Systems Department, CBE, with contributions from members of the payment systems department. Mr. Ali Ghiyazuddin Mohammed, Policy Manager, Digital Financial Services at AFI, also contributed to the report through inputs and comments.

CONTEXT

The Central Bank of Egypt (CBE) takes its responsibility for promoting and coordinating financial inclusion in Egypt seriously, and considers it a strategic objective that can be pursued alongside its primary objective of ensuring a stable and sound financial system. With the Government of Egypt's launch of the Sustainable Development Strategy (SDS): Egypt's Vision 2030,¹ financial inclusion has become a national priority. A core focus area of the country's overall sustainable development strategy, financial inclusion has the potential to create more opportunities for inclusive growth, maintain financial and social stability and achieve other national goals.

Given the complexity of coordinating various national stakeholders, each of which has a distinct and important role to play in advancing financial inclusion in Egypt, CBE has adopted a multi-pronged approach.

At the global level, CBE became a principal member of the Alliance for Financial Inclusion (AFI) in July 2013. Membership in AFI has exposed CBE to international good practices in financial inclusion and opened opportunities for systematic peer learning. It has also helped to position financial inclusion at the top of CBE's policy agenda and reinforced its commitment to it.² CBE not only plays a central role in promoting financial inclusion in Egypt, but it also provides advice and recommendations at the global level as part of AFI's Board of Directors and as a member and Vice-Chair of the Gender and Women's Financial Inclusion Committee (GWFIIC).

CBE has been increasingly engaged in AFI activities and services, from participating in every Global Policy Forum (GPF) since 2014, to hosting the 2017 GPF in Sharm El Sheikh. Representatives from CBE have been active participants in AFI's capacity building programs and regional initiatives,³ and after an initial focus on the financial inclusion data work stream, CBE now has representatives in all six AFI working groups.⁴

CBE's dynamic efforts to promote greater financial inclusion in Egypt is also evident in its Maya Declaration commitments, nine in total, which cover women's financial inclusion, e-money, the national payments system, digital financial services (DFS), consumer protection and SME finance.

OBJECTIVE

THE OBJECTIVE OF THIS CASE STUDY IS TO DOCUMENT EGYPT'S EXPERIENCE IN LEVERAGING NEW TECHNOLOGIES/FINTECH TO ACHIEVE FINANCIAL INCLUSION.



Some critical DFS commitments include:

- i) stimulating DFS through issuing tiered Know Your Customer (KYC) requirements for mobile money users (Achieved);
- ii) implementing interoperability among mobile money providers (Achieved) and between mobile money accounts and regular bank accounts (Partially Achieved);
- iii) proposing a draft law to stimulate digital financial transactions (Developed); and
- iv) enforcing electronic payments for suppliers from government entities that exceed a certain threshold (Achieved).

At the regional level, CBE is a member of the Council of Arab Central Banks Governors of the Arab Monetary Fund (AMF) and an active member of the Financial Inclusion Taskforce (FITF) since its inception. CBE has not only accelerated these efforts, but introduced several new initiatives to strengthen the financial inclusion agenda in line with local needs and global trends. CBE has also been energizing key stakeholders to advance financial inclusion in the country through a highly collaborative and systematic approach.⁵

1 SDS Egypt 2030: www.sdsegypt2030.com/?lang=en

2 Report on Egypt's Journey to Financial Inclusion

3 2017: GIZ-AFI Training on NFIS, the Joint Learning Programme on Proportionality, BNM-AFI Training on AML/CFT and 2017 AMPI Leaders Roundtable in Maputo

4 Consumer Protection and Market Conduct (CEMC), Digital Financial Services (DFS), Financial Inclusion Data (FID), Financial Inclusion Strategy (FIS), Global Standards Proportionality (GSP) and SME Finance (SMEF) Working Groups

5 Report on Egypt's Journey to Financial Inclusion.

INTRODUCTION

According to data from a limited demand-side survey,⁶ 32.4 percent of adults (21+ years) reported having a formal account with a bank or Egyptian National Postal Organization (ENPO), while 48 percent use some type of financial service, such as an insurance policy or ATM.

Women in Egypt are more excluded from the financial system than men, with 10 percent fewer women on average having transactional accounts. Meanwhile, the vast majority of MSMEs do not have access to or use formal financial services and products, forcing most to rely on a range of informal mechanisms. The survey data also suggests that financial inclusion is driven by direct salary transfers, indicating that financial inclusion is characterized more by passive use of financial services (e.g. salary and cash transfers) than active use.

FIGURE 1: FINANCIAL INCLUSION USAGE IN NUMBERS

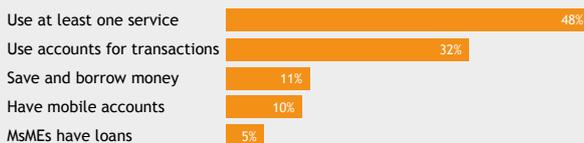


FIGURE 2: GEOGRAPHY OF EGYPT



EGYPT AT A GLANCE

One of the most populated countries in Africa and the Middle East, Egypt's population was estimated at 96.3 million⁷ in Q1 2018, with about 95 percent living in the Nile Delta region and along the banks of the Nile. As shown in the demographic statistics below, the poverty rate is close to 30 percent and 42.5 percent of the Egyptian population lives in urban areas. In 2016, Egypt's GDP was USD 332.791 billion.

EGYPT'S FINANCIAL SYSTEM

According to 2018 figures, there are 39 banks and more than 2,800 branches across Egypt. Sixteen of these banks offer full service e-banking and mobile financial services with 133,651 mobile payment agents (including branches as of May 2018). Further, by the end of 2017, there were 3,900 ENPO branches, 873 licensed microfinance institutions (MFIs) and nongovernmental organizations (NGOs) with 848 branches (total of 1,721). Further, by the end of 2017, Egypt had 140 brokerage companies, 37 insurance companies, 226 leasing companies and 13 mortgage companies.

EGYPT'S DIGITAL ECOSYSTEM

Digital players are well represented in Egypt's formal financial system. As of March 2018, there were 11,582 ATMs and 70,509 POS, and more than 15.9 million debit cards, 10.6 million pre-paid cards and 4.8 million credit cards were in circulation.

FINANCIAL SERVICES USAGE BY PRODUCT TYPE

MOBILE PAYMENTS (AS OF MAY 2018)

Mobile payments in Egypt operate on a bank-led model and mobile network operators (MNOs) have the greatest market share. Table 1 breaks down the overall use of mobile payments in May 2018.

⁶ Data was collected by CBE through phone interviews using a structured questionnaire on the use of formal financial services and products between June 2015 and June 2016. The sample size was 2,000 adults defined as 21 years old and above. The survey was limited to the use of formal financial services.

⁷ <https://enterprise.press/stories/2017/10/01/capmas-releases-2017-national-census-results/>

TABLE 1: USE OF MOBILE PAYMENTS IN EGYPT, MAY 2018

Mobile accounts	10.5 million
Annual growth rate (year on year)	30%
Unique users	9.4 million
Age:	
>50 years old	16%
35-50 years old	29%
25-35 years old	31%
25-50 years old	60%
20-25 years old	16%
< 20 years old	8%
Gender: Male	71%
Female	29%
Monthly transaction volume	1.78 million
Monthly transaction value (EGP)	727 million
Money circulated in the system (EGP, (2017))	4.95 billion
Agent banking (including branches and POS)	>133,600

Mobile money services in Egypt, as per the new regulations, include cash-in/cash-out, person-to-person (P2P), person-to-merchant (P2M), merchant-to-merchant (M2M), ATM cash-in/cash-out, international money transfers (IMT), virtual card number (VCN) and account value load (AVL) from bank to wallet accounts.

INTERNET BANKING

Thirty-two of Egypt’s 39 banks offer internet banking services. This represents 1.4 million registered accounts and EGP 128 million EGP (approximately USD 7 million) in transaction volumes.

GOVERNMENT EMPLOYEE RECEIVABLES THROUGH BANKING PAYMENT CARDS

4.5 million cards were issued by 2,800 governmental institutions for payroll and seven million cards for pensions.

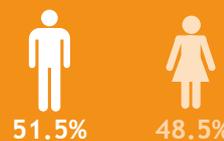
EMERGING OPPORTUNITIES

In terms of digital financial services, there are a variety of opportunities to increase usage in the Egyptian market:

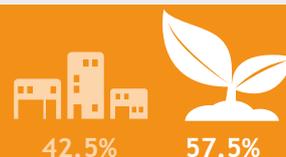
- > 109% mobile SIM penetration rate;
- > More than 48% smartphone penetration rate;
- > More than 31 million mobile internet users with a 3.35% annual growth rate;
- > More than 37.9 million internet users with a 44.3% penetration rate;
- > Potential spread from the explosion of online and social media; and
- > More digital financial services to serve Egyptians.

AT A GLANCE

96.3 MILLION
POPULATION* OF EGYPT WITH 51.5% ARE MALE



57.5%
OF THE POPULATION LIVE IN RURAL AREAS



56.3%
ADULTS USE MOBILE PAYMENTS IN EGYPT * (20+)



27.8%
OF THE POPULATION LIVE IN POVERTY (2015)



11.8%
OF THE POPULATION ARE UNEMPLOYED**

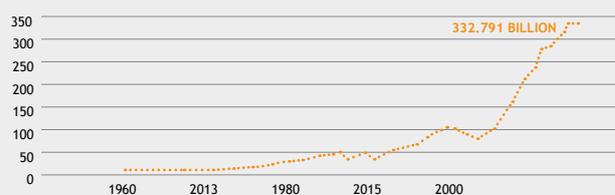


27
GOVERNORATES ACROSS EGYPT



* Source: CAPMAS, 2018
** Source: CAPMAS, 2017

FIGURE 3: EGYPT’S GDP 2016 (CURRENT US\$ BILLION)



KEY REGULATORY AND MARKET INFRASTRUCTURE CHALLENGES

CBE recognizes that the rapid development and extension of digital platforms can reach financially excluded and underserved populations quickly, securely, transparently and cost-efficiently, with a range of financial services suited to their needs.

Digitization of payment systems and other financial services face several ongoing challenges, including Egypt's strong cash culture, expansive geography and limited accessibility and acceptance of DFS. These challenges have been the main catalyst to paving the way to a cashless society through digital financial services. The main legal and regulatory barriers to DFS in Egypt are presented below.

KYC REGIME

KYC/CDD requirements were a major obstacle to bringing more customers into the financial ecosystem, as full KYC rules were applied and opening an account was complex because of the documents required to verify a customer's identity and agents not being allowed to conduct the KYC process. Limited use cases: Some types of money transfers/payments were not regulated/permitted, such as IMT, P2M, M2M, one-to-many transactions/disbursements (payroll, pensions, etc.), AVL, bank account to e-wallet and vice versa.

LACK OF INTEROPERABILITY

There was not account or agent level interoperability within the ecosystem.

SMALL DAILY AND MONTHLY LIMITS

Previous transfer limits were EGP 3,000 daily and EGP 25,000 monthly.

CONSUMER PROTECTION AND CYBERSECURITY

Under the new regulations, banks should establish consumer protection measures and systems that provide customers with confidence and protect them against risks, fraud, loss of privacy, threats and criminal activities.

Other market and infrastructure challenges in Egypt include:

LACK OF STABLE MOBILE AND INTERNET CONNECTIVITY

Stable mobile and internet connectivity is essential to enable digital transactions. Mobile penetration in the country stands at 109.45 percent, indicating that users have more than one SIM subscription. Interestingly, only 29.42 percent of these subscriptions have internet access.

Overall, internet penetration is relatively low at 37.8 percent and is a potential barrier to adoption and usage of mobile financial services.⁸

LACK OF CONSUMER TRUST IN FORMAL FINANCIAL SERVICES

According to the World Bank, 44 million Egyptians are eligible to enter the formal banking and financial services sector. However, issues such as high charges/commissions and fears that banks may not be shariah-compliant have weakened consumer trust in formal financial institutions.⁹

LIMITED TIME AND RESOURCES FOR DFS BY MARKET PLAYERS

There is insufficient funding available to implement the reforms arising from Egypt's new laws, regulations and financial and ICT infrastructure. Service providers also need additional assistance to improve product design, increase financial literacy and awareness, diversify access points and manage high-volume (low-value) retail payments.¹⁰

To overcome these challenges, it is critical to develop sustainable digital financial services.

109.45%
MOBILE PENETRATION
INDICATING THAT USERS
HAVE MORE THAN ONE
SIM SUBSCRIPTION



44 MILLION
EGYPTIANS ARE ELIGIBLE TO
ENTER THE FORMAL BANKING
AND FINANCIAL SERVICES SECTOR



8 www.speedtest.net/reports/egypt/

9 www.euromoney.com/article/b1511t0mrsk6pr/egypt-seeks-financial-inclusion-with-a-digital-revolution

10 www.worldbank.org/en/news/press-release/2017/07/27/world-bank-group-itu-and-cpmi-launch-financial-inclusion-global-initiative

INITIATIVES TO OVERCOME INFRASTRUCTURAL, OPERATIONAL, LEGAL AND REGULATORY CHALLENGES

With a 109.45 percent mobile penetration rate, more than 30 million internet users in (38% penetration), the evolution of online and social media activism, and the need for more digital financial services to serve the Egyptian population living in dispersed locations, it is critical to develop sustainable digital financial services that will facilitate the shift toward a less-cash economy and more electronic payments.

Efforts by the Central Bank of Egypt to overcome these challenges have focused on two main pillars: 1) a sound and strong financial infrastructure supported by a proper operational and regulatory framework, and 2) enabling new technologies to provide electronic delivery channels and expand the Bank's footprint.

CBE realized that building a strong and stable financial infrastructure was essential to having strong digital financial services. This led CBE to implement the Real Time Gross Settlement System in 2009, which is used mainly to settle large-value payments between banks in Egypt. In 2016, the RTGS settled around EGP 34 trillion EGP (approximately USD 1.9 trillion), 11 times the country's GDP.

Debit card scheme and shared cash network 123 was introduced to be accepted throughout the national ATM network. The network serves as a national switch connecting all ATM machines in Egypt (10,316) and settled around USD 95 billion in 2016.

An automated clearing house (ACH) was developed in 2010 as a reliable and efficient nationwide electronic funds transfer system. Governed by the Egyptian Banks Company (EBC) under the supervision of CBE, the ACH settled around USD 550 billion in 2016.

Despite the importance of digital financial services and its significant impact on financial inclusion, the digital payment ecosystem in Egypt has lacked the necessary operational and regulatory support framework in some areas, such as the use of banking agents and applying a risk-based approach in anti-money laundering and countering financing of terrorism (AML/CFT). In November 2016, CBE issued a new Mobile Payments Regulation and AML/CFT Customer Due Diligence Procedures for Mobile Payments.¹¹ The regulation covers the identification and

FIGURE 4: GROWTH OF EGYPT'S MOBILE PAYMENT ACCOUNTS

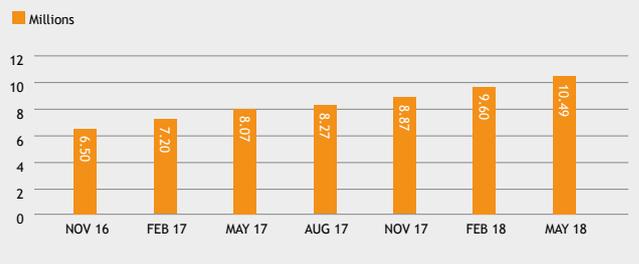
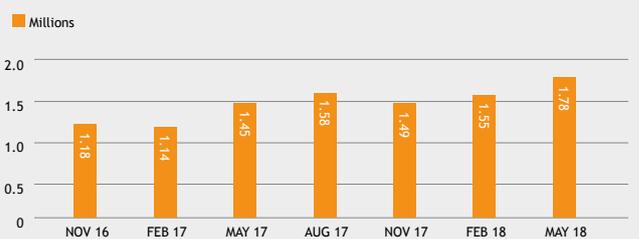
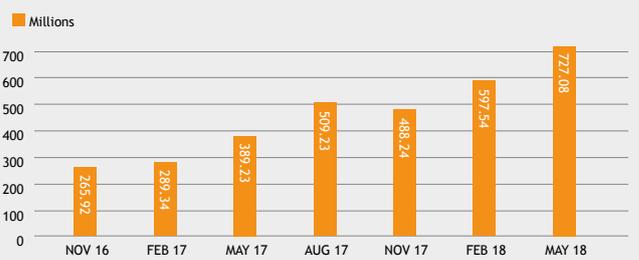


FIGURE 5: EGYPT'S MOBILE PAYMENT TRANSACTIONS TRANSACTION VOLUMES



TRANSACTION VALUES



management of risks associated with mobile payment services, roles and responsibilities and AML/CFT rules. It also covers controls on mobile payment services in the following areas: issuance of electronic money and systems, service providers, mobile payment accounts, means of identification (certification), passwords, money transfers, interoperability, confidentiality and integrity of information, securing applications, security infrastructure and follow-up, security system assessment, responding to and managing events, performance considerations and business continuity. Another section covers customer security and controls for other risks and procedures for obtaining a service license.

To include more unbanked and underserved customers through an alternative to informal channels, CBE collaborated with the Egyptian Money Laundering Combating Unit (EMLCU) to develop New Customer Due Diligence (CDD) procedures for mobile payment service customers.

¹¹ The New Regulations document (in Arabic) is available on the Central Bank of Egypt Website through the following link: www.cbe.org.eg/en/Pages/HighlightsPages/CBE-releases-the-new-version-of-the-Mobile-Payment-Regulations.aspx

The new simplified CDD procedures are in line with the FATF's risk-based approach and:

- > require fewer documents required to verify a customer's identity (only an ID is needed to open an account);
- > require less data to conduct domestic mobile transfers;
- > offer the possibility to update customer data and documents electronically; and
- > permit certain categories of service providers to conduct CDD procedures according to a set of prerequisites, i.e. agent banking.

The new regulations aim to advance financial inclusion in Egypt in several other areas as well. One is providing a way to attract unbanked customers, as acceptance by banked merchants will lead unbanked consumers to use DFS and reap the benefits. Achieving interoperability among different mobile payment service providers/schemes is also crucial. Consumer protection measures, such as a service registration contract between banks and consumers, should include:

- > transparent terms and conditions;
- > clearly defined obligations and rights for both parties;
- > service availability/SLA and banks should inform consumers in advance of a planned service outage;
- > consumer data secrecy and confidentiality;
- > dispute resolution controls;
- > confirmation that Egyptian law, regulations and instructions govern mobile payment services; and
- > service awareness.

Other efforts have included adding more channels to fund (cash-in) mobile wallets (a bank account can be used to fund a mobile wallet provided that both accounts are at the same bank). The new regulations also doubled mobile wallet limits for light KYC, allowing a balance of EGP 10,000 (EGP 6,000 daily transfer and EGP 50,000 monthly).

Finally, it is necessary to enhance information security controls that take the user experience into consideration by mandating two levels of authentication for the application being used (OTP, software token or hardware token) when performing high-risk operations (one-to-many payments, such as payroll and pensions) while also prohibiting the use SMS or e-mail for such transactions.

It is important to note that the number of mobile payment subscribers in Egypt has reached 10.5 million mobile accounts with a 30 percent annual growth rate. As of May 2018, transaction volumes had reached EGP 1.78 million (about USD 99,000) and there was EGP 727 million (about USD 40.5 million) in monthly settlements.

>75%

OF EGYPTIAN BANKS PROVIDE INTERNET BANKING SERVICES TO 1.4 MILLION REGISTERED ACCOUNTS WITH TRANSACTION VOLUMES OF 128 MILLION



MOBILE PAYMENT USE CASES THAT SUPPORT FINANCIAL INCLUSION

- > **Social Funds Initiative** - Aims to provide a different type of government social solidarity/pensions for about 11.5 million beneficiaries (monthly) through mobile wallets. The service will aim to include 250,000 divorced women (alimony) and 9.5 million pensions in addition to other government programs.
- > **MFIs (microfinance institutions)** - Introduced to provide credit disbursements and monthly payments to/from borrowers through mobile wallets, the service aims to include more than 800 MFIs and two million borrowers with a total credit portfolio of EGP 6.7 billion (approximately USD 375 million).
- > **Cardless ATM** - Launched to provide cash-in/cash-out for mobile wallets through ATMs in an interoperable environment, serving nine million opened m-wallets.
- > **IMT (international money transfers)** - The new mobile payments regulations enable m-wallet customers to receive IMT into their m-wallet accounts in EGP.
- > **One-to-many payments (payroll, pensions, loan disbursements, etc.)** - All these types of payments can be made through m-wallets under the new mobile payments regulations, which, as mentioned in the introduction, is considered a crucial way to promote DFS and financial inclusion.
- > **Bill payments** - Bill payments can be made through m-wallets.

The mobile interoperability scheme, Ta7weel, was introduced in June 2017, giving users of different mobile payment schemes the ability to transact with each other directly. The service is available from licensed Egyptian banks that offer mobile payments accepted by all mobile payment schemes. Ta7weel is controlled by the Egyptian Banks Company (EBC), which is owned by CBE (51 percent), the Ministry of Finance and a group of national and commercial banks. Given that it is a bank-led model, participants are MNOs and banks.

The Ta7weel scheme has its own rulebook with which all members (mobile service providers) comply. Members should be certified by Ta7weel prior to launching their mobile payment service. Drafting of a Ta7weel rulebook or any updates should be coordinated/approved by CBE first. The following major features are provided through Ta7weel: interoperability, dispute resolution, P2P, P2M, M2M, R2P, merchant QR code specification, transaction processing fees, interchange fees, clearing, netting, settlement, termination, audit and sanctions. An internet banking regulation was issued in 2014 in response to growing and widespread internet use in Egypt. This is considered one of the major enabling factors for financial inclusion, especially given the challenge of providing financial services across such a large geographical area.

More than 75 percent of Egyptian banks – 32 out of 39 – provide internet banking services to 1.4 million registered accounts with transaction volumes of 128 million.

With a goal to convert Egypt to a less-cash economy, CBE has worked to promote the use of digital financial services via the National Payment Council. The National Payment Council was established by Presidential Decree no. 89 in February 2017 and is led by H.E. the Egyptian President. The main objective of the Council is to reduce the use of banknotes outside the banking sector and support and stimulate the use of digital financial services as a primary payment method.

The National Payment Council also aims to:

- > Develop the national payment system and an oversight framework to reduce operational risks and create a secure, efficient and effective system;
- > Achieve greater financial inclusion by integrating more citizens in the banking system, including those in the informal sector, and reducing the cost of fund transfers and increasing tax receipts;
- > Protect the rights of payment system and service users; and
- > Build a competitive payment services market and oversee existing market entities.

Based on NPC discussions and the outcomes of its first meeting, the following decisions and mandates were agreed upon:

- > Proposal of a draft law for the development of non-cash financial transactions in Egypt.
- > Oblige all units of the administrative apparatus of the state, local administration units, public service bodies, economic bodies and other government agencies not to pay any dues to suppliers contracted with those entities exceeding the value of EGP 20,000 in cash or through bank checks for a maximum period of July 2018.
- > Mandate acceptance of electronic payments in all government agencies that provide public services to the public or manage public facilities in stages within two years.
- > Develop a full vision of government services provided to Egyptian citizens with a target of providing them electronically and presenting them to the NPC within six months (E-GOV).
- > Exempt citizens from expenses associated with opening a mobile payment account for one year and reduce the costs of mobile payment services by 50 percent for six months from this date.

The second NPC meeting concluded with the following decisions and mandates to be taken:

- > Extend the decision to reduce the expenses of mobile payment services by 50 percent for another six months, ending in June 2018.
- > Strengthen the initiative of the Central Bank of Egypt to establish a national branded payment card scheme and enable its holders to use it to obtain various financial services in order to be financially included.

EFFORTS GOING FORWARD

There is still much to do to ensure digital financial services are sustainable, affordable, effective and aligned with consumer protection.

These efforts include, but are not limited to, the following:

- > CBE is studying the possibility of developing the necessary regulations to allow electronic identity checks (e-KYC), which institutions would follow to meet their KYC and AML obligations when new accounts are opened without the customer present, to ensure a wide segment of the population are included.
- > Due to its wide scope, efficiency, safety, broad implications and diverse use cases, CBE is studying using blockchain technology for a variety of use cases, such as e-KYC. KYC processes are the backbone of financial institutions' anti-money laundering efforts and help to detect and prevent criminal behavior around the world. Yet, at many financial institutions, KYC is still inefficient with tedious processes, duplicated efforts and risk of error, all of which is costly and could have a negative impact on the customer experience. CBE is therefore working to change these processes through emerging blockchain technology.
- > CBE is planning to establish a one billion pound (EGP) innovation fund to finance "innovative ideas and projects". The CBE Fund will focus on investing in financial technology companies, from venture backing to funding companies that are growing and in mature stages of development. The CBE Fund will target companies that are either profitable or have a clear path to profitability, but need additional expertise to turn around or restructure their operations to create more value.
- > CBE has announced it will study the establishment of Egypt's first fully digital bank. The main feature of this bank would be making banking easy and convenient by allowing customers to conduct all the transactions they would normally perform at a bank from the comfort of their internet-connected device. A digital bank only requires a customer to have a smartphone with a photo or fingerprint, eliminating the need to travel to a branch to open a new account. This would be a great step forward for both DFS and financial inclusion in Egypt.
- > With growing reliance on digital financial services to achieve financial coverage, the banking sector is subject to criminal activities and threats of cyberattacks, such as piracy, data hacking and customer fraud, as well as those who may take advantage of software loopholes to threaten banking sector stability. In response, the Board of Directors of the Central Bank of Egypt, headed by Mr. Tarek Amer, Governor of the Central Bank, approved at a session held 22 July 2017 the establishment of the Computing Security Incident Response Team (CSIRT) for the banking sector.

The Team (Center) will support banking institutions to reduce and prevent major cyberattacks through centralized coordination of IT security issues at financial institutions (focal point), and respond to IT incidents through experts who will support and assist users to recover from events quickly.

The Center also promotes awareness of information security in the banking sector and promotes security and protection through the dissemination of important information, such as early warnings and alerts, security consultations and support for best security practices. It also deals with legal issues, preserves evidence in cases of litigation, stimulates cooperation within the Information Technology Security Service (IT) and tracks the evolution of information technology security.

- > CBE is working with commercial banks in Egypt to enhance their AML systems to meet new requirements for digital financial services, while also developing a unified negative list for Egypt that will assist banks in screening transactions.
- > In accordance with its strategy to promote and stimulate a culture of creativity and innovation, CBE is playing a vital role in developing and implementing Egypt's strategy to expand digital financial services and reduce the use of banknotes outside the banking sector through electronic payments, an alternative to cash.

CBE will soon be announcing the establishment of? Regulatory Sandbox, which aims to assist any relevant entities (banks, financial institutions, FinTech companies, etc.) to present, test and activate innovative products that most current banking regulations, rules and procedures do not permit. The Sandbox therefore provides a safe environment from the routine procedural hurdles that may impede the introduction of new and potentially groundbreaking ideas for banking and financial services, not only in Egypt but throughout the world.

The Sandbox allows participating entities to launch their ideas under less restrictive rules and regulations with relatively limited resources and to activate channels of communication with FinTech innovators (which helps them to understand their needs and provide appropriate support and procedural and organizational advice), providing a suitable environment for the development of modern and innovative products and services and improving the efficiency of the banking sector while also protecting consumers.

MOBILE PAYMENT USE CASES THAT SUPPORT FINANCIAL INCLUSION

The Village Savings and Loans Association (VSLA) scheme was first implemented in 2014 in three governorates and has benefited over 18,000 participants (92 percent women and 8 percent men), enabling them to organize themselves into informal savings and credit groups and accumulate savings of more than EGP 4.5 million. VSLA members use their own group savings to access loans; 6,138 loans have been taken out, 4,357 of which were used for income-generating projects with a total outstanding loan value of EGP 2.2 million.

92%

OF VSLA PARTICIPANTS ARE FEMALE, 8% MALE, THE SCHEME BENEFITING OVER 18,000 PEOPLE



QR CODE

CONSUMERS SCAN THE MERCHANT'S QR CODE ON THEIR SMARTPHONE TO MAKE A DIRECT PAYMENT FROM THEIR M-WALLET TO THE MERCHANT'S ACCOUNT



Each member gets back all their accumulated savings plus a proportionate share of the group's surplus at the end of the annual cycle, giving them access to a lump sum that is often used to buy assets, make investments or meet critical household expenses.

Digitizing VSLA on a mobile wallet platform is part of CBE's plan to fill the gap in financial service delivery. This will promote cashless, safe, secure and easier processes for all members; automate reminders for payments and collections; and reduce errors when counting money.

Fast-Moving Consumer Goods (FMCG) is one of the most important projects for CBE as it will ease the spread of the digital payments as both customers and merchants begin to make and collect payments through their m-wallets. For merchants, one of the most important features of this type of service is a safe, efficient and fast way to purchase fast-moving consumer goods, while for suppliers it facilitates complex collection processes.

When a merchant buys goods and makes a payment from their m-wallet to a supplier's m-wallet, the funds are transferred to their bank account easily and safely, eliminating the risks traditionally associated with collecting and transferring money and liquidity, and addresses the challenge of conducting complex calculations in a paper-based system.

The more merchants rely on supplier payments through m-wallets, the more they will be willing to accept consumer payments through the same channel, thus promoting financial inclusion and the shift to a digital economy. The proliferation of retailers across the country recording large numbers of daily payments, especially small kiosks with high turnover (up to four or five times per month), which may hit a billion transactions through the banking sector, is evidence of the positive impact of digital financial services on the economy and national financial inclusion indicators. The continued growth of mobile payments will promote a digital transformation of the official economy as an alternative to the informal economy.

Mobile merchant payments (QR code): Transferring funds between customers to withdraw it and convert it back to a cash is just a transitional stage that prepares users to store funds in their wallet accounts to use it for payments and other allied services. To enable this transition, one of the most important and innovative payment technologies on the Egyptian market is the QR code. Merchants have a unique QR code linked to their account to complete all consumer transactions, regardless of which scheme they belong to, while consumers scan the merchant's QR code on their smartphone to make a direct payment from their m-wallet to the merchant's account. Both parties receive immediate notification of the transaction details.

Nanofinance: Nanofinance is a financing method that allows mobile money customers to request instant, low-value emergency loans. The loan amount is set using a credit-scoring algorithm based on historical data from MNOs on the customer's airtime. Borrowers are assessed against the Egyptian Credit Bureau and the credit scoring company, I-score. Once customers request the loan, it is deposited into their m-wallet immediately with regular repayment options to and managing events, performance considerations and business continuity. Another section covers customer security and controls for other risks and procedures for obtaining a service license.

To include more unbanked and underserved customers through an alternative to informal channels, CBE collaborated with the Egyptian Money Laundering Combating Unit (EMLCU) to develop New Customer Due Diligence (CDD) procedures for mobile payment service customers.

CONCLUSION

This case study documented Egypt's experience in leveraging new technologies/FinTech to achieve financial inclusion, presenting the main opportunities and challenges facing the country and the initiatives CBE is leading to address challenges related to market infrastructure and operational, legal and regulatory frameworks.

Mobile payment use cases that support DFS for financial inclusion are examples of these efforts. Going forward, CBE has several areas of focus, including the possibility of developing regulations to allow electronic identity checks (e-KYC), establishing the Computing Security Incident Response Team (CSIRT) for the banking sector, working with commercial banks in Egypt to enhance their AML (developing a unified national negative list for Egypt) and announcing the establishment of Egypt's Regulatory Sandbox.

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