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Financial Technology Prospects in The Middle East and Africa

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ABSTRACT

Fintech can enhance access to affordable financial services for unbanked populations and underserved SMEs. It can reduce delays and costs in cross-border remittances and foster efficiencies in government operations. The scale and pace of fintech in MENA, however, lags other regions. Fintech is yet to foster an inclusive digital economy, and there is a strong preference for cash payments.

1-Introduction :

Financial technology (fintech) is emerging as an innovative way to achieve financial inclusion and the broader objective of inclusive growth. In addition to improving the speed convenience and efficiency of financial services, fintech has potential to promote financial inclusion. More specifically, it can enhance access to affordable financial services for unbanked populations and underserved small and medium sized enterprises (SMEs); reduce delays and costs in cross-border remittances; foster efficiencies and transparency in government operations, which helps reduce corruption, and facilitate social and humanitarian transfers in a manner that preserves human dignity.
For the Middle East, North Africa, (MENA), fintech has a particularly valuable role to play as these potential benefits are aligned with the regions' policy priorities. Both regions have countries with large unbanked populations, SMEs whose growth is constrained by limited access to finance, high youth unemployment, large remittance markets and informal transfers (Hawala), undiversified economies, vulnerabilities to terrorism, large income disparities, large displaced populations, and endemic corruption. Fintech innovations and underlying technologies can contribute to the solutions for many of these challenges.

The scale and pace of fintech in MENA, however, lags other regions, and fintech is yet to foster an inclusive digital economy. Although there is significant diversity in the pace with which countries in both regions are adopting fintech, overall investment into fintech and the uptake of fintech and mobile financial services have been low compared to other regions. There also continues to be a strong preference for cash payments in the Middle East, despite the growth of e-commerce

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transactions. Consequently, the potential gap remains large in key areas such as financial inclusion, access to SMEs, diversification, reducing informal sector and the broader objective of inclusive growth.
This paper aims to provide an overview of the fintech landscape in the MEA region and identifies policies to unlock fintech's potential. And will try to respond to the following major question :

What is the state of the fintech industry in the MEA(Middle East , Africa) region and what are the main adavantages and constraints to its adoption ?

Inorder to respond to the previous problematic , we have divided this paper into the following parts :

- ✓ Finteh's definition ;
- ✓ The factors of sucessful Fintech Ecosystems ;
- ✓ The state of MEA's Fintech Ecosystems ;
- ✓ The fintech's growth in MEA countries ;
- ✓ Fintech 's advantages in MEA ;
- ✓ The Fintech's constraints in MEA region.

1. 2-Finteh's defintion :

Financial technology (Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. Fintech, the word, is a combination of « financial-technology »(Sokolin ,2019).[i]

Financial technology, or fintech refers to innovations aimed at new ways of delivering financial services. In many developed markets, fintech is regarded as disrupting the traditional financial and banking sectors. In emerging markets such as Africa, Fintech is bridging the gap between the banking industry and millions of unbanked across the continent.

The application of technologies in financial services is not new, but fintech represents a paradigm shift. For centuries, banks have undergone technology enabled revolutions, such as international transfers, electronic banking, the rise of credit cards and the emergence of Automatic Teller Machines (ATMs), which were designed to support bank operations.
By contrast, fintech challenges and sometimes displaces traditional financial institutions and processes, elevates the role of data as a key commodity and drives the emergence of new business models. Fintech is also being driven by changing customer demands particularly from millennials that have grown in a digitally connected world and do not have the same loyalty to banks. While some consumers, particularly corporates, remain loyal to banks changing consumer expectations are exerting pressure on banks to adopt internet enabled technologies to improve their services (Fintech news middle east, 2019) .

3-The factors of a successful Fintech Ecosystems :

The key factors contributing to a successful fintech ecosystem include :

3-1. The human capital :

This can take the form of a presence of a large pool of technology-savvy people with good knowledge of the financial industry or a strong education system that contributes to the creation of such a talent pool. This also requires the presence of firms and individuals tasked with providing advisory services and coaching opportunities for this workforce.

3-2. The regulation :

Regulators that allow fintech companies to operate in a light regulatory environment under almost real-time conditions so that they can test their ideas and ensure their viability. Their role is both defensive, protecting the consumer and overall financial system, and offensive, by helping fintech companies spread their wings in a controlled environment. Clarity of the regulatory requirements during the test phase and at the launch of fintech companies is essential .

3-3.Financial capital :

During their design and launch phases, fintech companies burn cash and require access to a significant amount of financial resources. Access to funding through dedicated funds, foreign direct investments, a pool of business angels, or government funds is necessary to ensure the effective support of fintech companies.

3-4.Physical infrastructure :

This ranges from the access to information and communication technologies to coworking spaces.

3-5. Demand :

Demand can come from either established financial institutions or end users. It can also be created by an innovative fintech launching a new service or way of doing business that was not envisaged in the past. Demand requires a minimum of financial literacy to understand the services a fintech can offer.

4 . The state of MEA's Fintech Ecosystems :

- North Africa (Mauritania, Morocco, Algeria, Tunisia, Libya, and Egypt);
- The Gulf Cooperation Council (GCC) countries (Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates); and,
- Sub-Saharan Africa (remaining African countries with available data).
- GCC countries appear the most ready for fintech adoption in the Middle East and Africa, thanks to the preference of clients for digital banking, the ready availability of financial capital, and a push by regulators.
- North and Sub-Saharan African countries are lagging behind due to the quality of their infrastructure, lack of capital, limited digital adoption--with a few exceptions--and weaker regulators.
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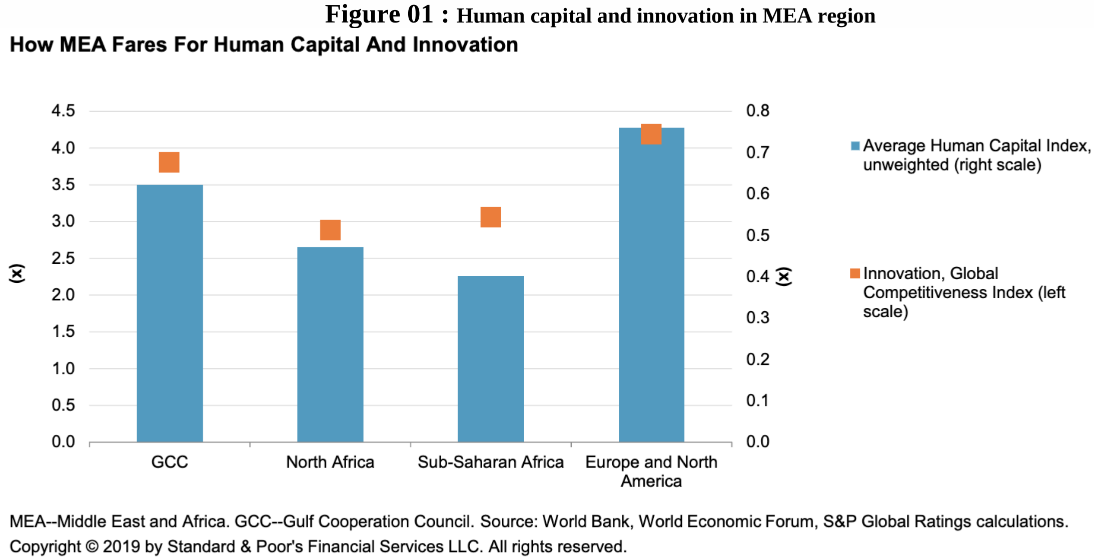
- Remittances, banking penetration, security of transactions, and compliance appear as the most likely areas to benefit from fintech. (Standard and poor's report , 2018) .

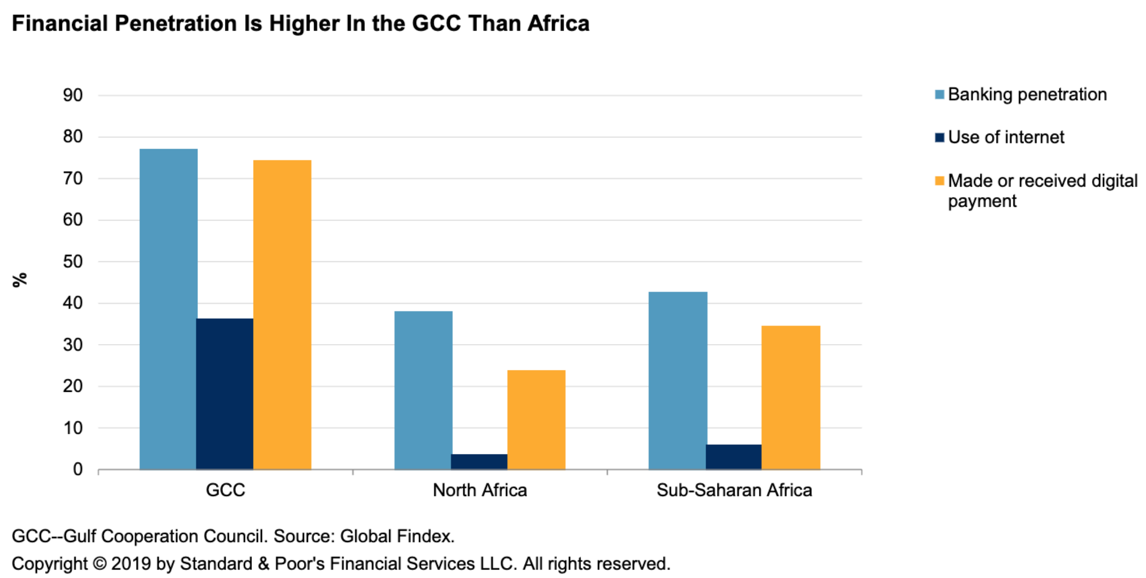
Figure 01 : Human capital and innovation in MEA region



- **Source : World Bank , world Economic Forum S&p Global Ratings calculations ,June 2019 .**
- In the Middle East and Africa (MEA) will continue to slowly expand and therefore constitute a limited threat to the region's well-established financial institutions in the foreseeable future. The creation of a propitious fintech ecosystem is still a work in progress in most regional countries and cities. The most advanced are Dubai (through the Fintech Hive in the Dubai International Financial Center or DIFC) and Bahrain (through Fintech Bay).
- We are of the view that money transfer, payment services, and compliance with regulations are the main sectors that are bound to be disrupted by fintech in the next few years. We also believe fintechoffers other opportunities for the region's banks, such as financial penetration in less developed African countries and the use of blockchain for capital market issuance of conventional and Islamic securities. However, several prerequisites are necessary for that to happen.

- We do not expect fintech alone to have a significant bearing on our ratings on Middle Eastern and African banks in the next two years. Instead, we foresee more cooperation between fintech firms and banks, and strong regulatory protection given the significant role of banks in financing regional economies. (Mohamed Damak, 2018) .

Figure 02 : Financial penetration in MEA



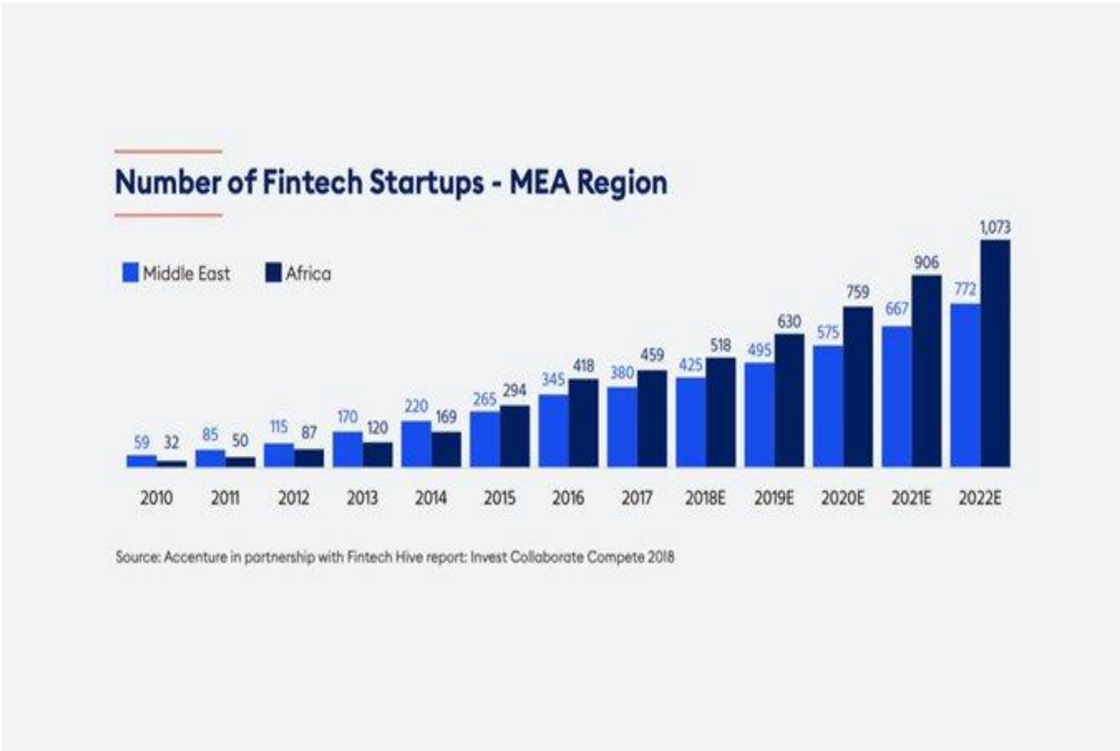
Source : Global Findex , Standard&poors Financial Services llC , 2019 .

The fintech ecosystems in North Africa and Sub-Saharan Africa appear less friendly than those in the GCC but for different reasons. Some Sub-Saharan countries appear more advanced when it comes to the development of mobile banking solutions and payments (for example, Kenya). The demand for such services appears more developed in Sub-Saharan Africa than in North Africa, where the use of the internet for financial services transactions is lower. At the same time, North African countries appear to benefit from better quality infrastructure and a higher abundance of human capital. Both regions are in similar situations when it comes to regulation or the availability of financial resources to push forward the fintech agenda. With few exceptions, we view regulators in these regions more as reactive rather than proactive. Finally, capital is scarce on both sides of the African Sahara. As part of their push for higher financial inclusion, multilaterals could play a role in providing fintech firms or authorities with some financial support.

5. The fintech's growth in MEA countries :

Fintech companies based in other parts of the world are discovering the strategic benefits of expanding their presence into the Arab Middle East and Africa. Overall, this fintech market is in its early stage, but filled with potential for rapid growth. Fintechs earn 3% of the region's overall financial services revenue, which is expected to reach 8% by 2020.
The region offers huge opportunities for fintech startups to collaborate and experiment with innovative financial technology solutions. Financial regulators in this region are creating sandbox environments in which fintech startups can innovate. Moreover, accelerators are playing a major role in driving the growth of fintechs by facilitating access to the market .

Figure 03 :Number of Fintech Startups in MEA region



5-1. The main Fintech markets in the Middle East :

While modest in total fintech-related financial transactions, the region is growing steadily in terms of investment.

According to MENA Research Partners, the fintech market in the Middle East and North Africa (MENA) was estimated at $2 billion in 2018 and is expected to reach ~$2.5 billion by 2022 (Sutton, 2018) .

5-1-1. United Arab Emirates (UAE) :

« Dubai is a gateway market to reach other countries in the Middle East and Africa and also high-growth markets in Asia. There is ambition and drive in the region, particularly in Dubai, to experiment and grow ».

Approximately one-third of fintech startups in the Middle East and North Africa are domiciled in the UAE. The country is fast-emerging as a start-up center and launchpad for the regional financial sector. The fintech market is evolving at a faster pace than other countries on account of faster adoption of digital banking services by customers. The most prominent destinations within the UAE are Dubai and Abu Dhabi, owing to their advanced technological infrastructure. Dubai is showcasing increased focus on blockchain initiatives with the establishment of the Global Blockchain Council, founded in 2016, by the Dubai Future Foundation . (Augustine, 2018)

The Ministry of Finance is providing continued support for innovation and the right environment for the growth of domestic and international fintech firms as a part of its national innovation strategy, and contributing to the UAE Vision 2021. (Fintech middle east news , 2019) .

As part of the Emirates Blockchain Strategy 2021, the UAE government announced plans to utilize blockchain for 50% of federal government transactions by 2020. (MENA Fintech Venture Report, 2019) Additionally, international venture capitalists, angel investors, and family funds are attracted toward investing in UAE-based startups at Dubai International Financial Centre (DIFC) .

5-1-2. Bahrain :

With over 400 domestic, regional, and international financial institutions. Bahrain is taking several steps to develop its fintech ecosystem as part of economic diversification, growth and job creation. Moreover, Bahrain's Economic Development Board (EDB) is focusing on attracting foreign investments in fintech.

The Central Bank of Bahrain (CBB) is taking several initiatives to foster innovation in the financial services sector through policy changes. In June 2017, the CBB introduced the fintech regulatory sandbox to enable foreign and domestic startups and financial institutions to test out technology-based products and services. Additionally, CBB introduced crowdfunding regulations to enable the establishment and growth of equity, debt-based and Shariah-compliant crowdfunding activity. (EDB, 2019)

5-1-3 . Saudi Arabia :

The Kingdom's promising economy and strong purchasing power is attracting international fintech firms to establish their presence in the country. According to a survey by ArabNet, 76% of Saudi Arabia's banking customers use digital platforms and ~60% use online and mobile apps. Saudi Arabia is ranked among the most digitally advanced economies in the region and banks are leading their transformation with real-time digital solutions to meet their customers' banking needs . (Fintech news middle east, 2019)

The Saudi Monetary Authority (SAMA) launched an initiative, Fintech Saudi, to promote and develop the fintech industry in the Kingdom. The initiative aims to transform Saudi Arabia into a fintech innovation hub and develop a fintech ecosystem in line with the country's Vision 2030. The Saudi Arabian Monetary Authority (SAMA) and the United Arab Emirates Central Bank (UAECB) are experimenting with digital currency on Blockchain for cross-border payments .

5-2. The most active Fintech markets in Africa :

Africa holds huge potential based on its size and demographic dynamics. The region has a population of over 1 billion living in 54 countries. Fintech startup funding is one of the most active business investments on the African continent and Nigeria, South Africa, and Kenya represent the lion's share of investment. Based on WeeTracker's 2018 Venture investments in Africa report, fintech startups received the most investment in Africa of US$284.6 million (39.2% of total investments in the region in 2018).

5-2-1. Nigeria :

The fintech industry in Nigeria is witnessing continuous growth in mobile payments, which have become a key source of revenue for payment service providers. The country's fintech sector is transforming various solutions including customer banking experiences, data security, and process automation. The rise of artificial intelligence (AI) and conversational banking will create an enabling environment for customers. Additionally, the market is likely to witness influx of fintech startups entering the mainstream through partnerships .

5-2-2. South Africa :

Market demand for innovative products and services has been pushing fintech innovation in South Africa. Next-generation peer-to-peer buying and selling of crypto-currencies is rapidly expanding in the country. The South African Reserve Bank (SARB) established a fintech unit in January 2018 to monitor the impact of new technology developments on the traditional banking sector. South Africa has a small but growing fintech industry mainly focused on payments, lending, capital raising, and investment management. South African financial services providers are exploring growth opportunities for robo-advisors and artificial intelligence (AI) to provide affordable and more efficient financial planning services.

5-2-3. Kenya :

Kenya's fintech sector is among the fastest growing in Africa. Kenya's fintech industry is dominated by mobile money and online lending platforms. The country is witnessing growing acceptance of digital transformation including digital banking, insurtech, crypto-currency, block chain, alternative finance, remittance, AI, and robo-advisors.

The payment system M-Pesa has seen phenomenal success in Kenya. M-Pesa has largely grown in Kenya as a result of people having limited access to credit and from a very real social need to transfer money from urban to more rural areas.

5-2-4 . Egypt :

Egypt is showcasing a growing number of fintech start-ups in line with the collaborative efforts of the Egyptian Government and the Central Bank of Egypt (CBE) to upgrade payment systems to become a cashless economy. These efforts have helped to enhance the use of digital payment services, mobile money, and smart wallets.

The Egyptian Government and the CBE are working closely to encourage fintech companies to integrate into the financial system. The government and regulatory bodies are planning to introduce a National Council for Payments, an e-commerce law, and several financial regulatory reforms to respond to the growth in digital credit lending and crowdfunding.

Egypt has huge potential to expand in fintech due to its large economy, young population, and human capital. With nearly 100 million people, SMEs account for 75% of Egypt's labor force. There are opportunities for fintechs in consumer finance, SME finance, and digital banking to boost financial inclusion in the region.

6. Fintech's advantages in MEA

The fintech could help the financial industry in MEA in at least three ways:

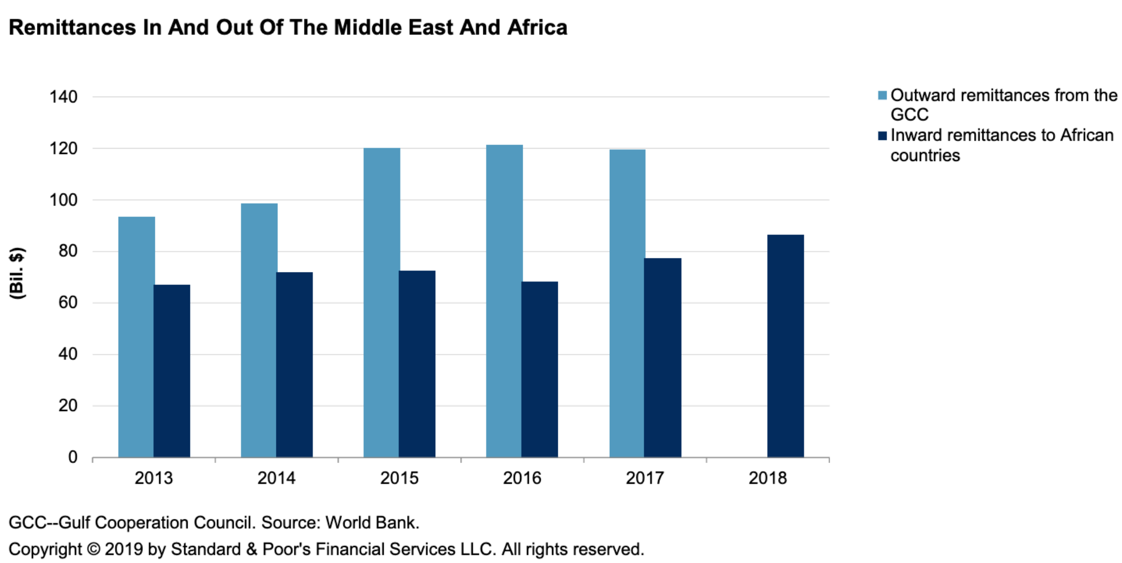
- Ease, transaction speed, and reach of financial services;
- Security and traceability of transactions;
- Improved governance.

6-1. Ease, transaction speed, and reach of financial services :

This is particularly true for payment services, money transfers, and crowdfunding. GCC banks, for example, generate about one-quarter of their revenue from non-interest-dependent sources. Remittances are the low-hanging fruit. At year-end 2017, expatriates in the GCC sent about $120 billion back home. At the same time, African countries received an estimated $86.3 billion of remittances--about 4% of their GDP at year-end 2018. The cost of sending this money is still significant, consisting of both a nominal fee and, more importantly, a significant margin on the exchange rate. It also takes time, especially if the transfer is made to another emerging market.

A fintech that focuses on this niche market with the objective of increasing the speed and reducing the cost of the transaction will certainly attract clients.

Chart 04 : Remittances in and out of MEA



Source : World Bank , Standards and poor's Financial Services LLC , June 2019 .

We note that there are a couple of companies in the region that are already focused on providing these kinds of services in the DIFC Fintech Hive. Verify Payments, for example, is working on instant and low-cost bank transfers across the GCC. Amplified Payment Systems Ltd. aims at connecting banks, telecommunication companies, and businesses to their customers to drive adoption of digital financial services through messaging.

Crowdfunding is another area that can disrupt the core businesses of financial institutions. Although we think that crowdfunding will not be a viable substitute for corporate lending, as most of it in MEA is based on relationships, it can open new avenues for financing small-ticket projects.

The key factor for success would be adequate protection of stakeholders. Mobile banking and payments is another area where fintech can complement the offering of more established financial institutions, especially when they lack physical contact with their customers, as in some rural areas of Africa, where banks are absent, but customers have access to mobile services.

On the African continent, Kenya is one of the leaders in terms of mobile services payments systems, for example. Its success story can be replicated in other MEA countries as long as there is access to mobile communications.

6-2. Security and traceability of transactions :

This is also easily achieved for fintech companies. Problems related to the security of information and financial transactions are gaining significant importance. The use of blockchain technology could help reduce exposure to risks related to transaction security or identity theft. It could also help the structuring of bonds or sukuk--and the resolution of sukuk in case of need through smart contracts--and trade finance transactions. This will take time, though, as blockchain technology isn't ready for large-scale adoption. .

6-3. Improved Governance :

We believe regulatory technology could reduce risk in the financial services industry through more robust tools for achieving compliance with regulations. It could help minimize the reputational risk related to a potential breach of regulation. For Islamic financial institutions, regtech could also help achieving stronger Sharia compliance, assuming globally agreed standards

are in place. It could also help free up Sharia scholars' time so they can focus on innovation. There are few examples in the Fintech Hive: Blinking.id, Verismart, and Amani Technologies Ltd. aim at improving and automating know-your-customer processes, with some using blockchain to that end .

7. The Fintech's constraints in MEA region :

Fintech in the MENA region faces significant obstacles that hamper its growth potential and limited its impact on financial inclusion. Key constraints identified by fintech firms are the gaps in regulations, talent, and private capital coupled with demand factors, including lack of trust. A restrictive business environment, infrastructure gaps, low financial literacy levels, and socio-political factors also present major challenges. These factors are not all present to the same degree across countries but have contributed to the high failure rate of fintech start-ups in MEA region and .They also act as inhibitors to faster growth of mobile financial services and the attainment of the broader objectives of financial inclusion and inclusive growth.

7-1. Regulatory constraints :

- Regulatory gaps constitute a major barrier for entry into the fintech industry given the backdrop of civil law environments. In civil law what is not expressly permitted is usually not allowed—unlike in common law countries where the absence of express laws prohibiting new developments may create space for innovations to develop. Lack of regulatory clarity around the use of the cloud, concerns with data residency, and security are also reportedly hampering uptake of cloud computing . Similarly, the absence of crowdfunding regulations and gaps in laws governing investor protection and insolvency hamper the development of market place lending or forced platform providers to license abroad.

- Legacy laws are ill-suited for technology-driven business models. Licensing requirements, such as large minimum capital for firms providing intermediation services, may be onerous for fintech business models such as platform lenders.
- The current scattered institutional landscape for licensing and regulating fintech also presents challenges for fintech firms. Rapid fintech developments require that all involved domestic agencies cooperate (central bank, financial regulator and supervisors, financial intelligence unit, securities supervisor, relevant ministries, telco supervisor, internal revenue authority), and this layering presents major challenges for firms.
- The lack of harmonization in cross-border laws presents challenges for the growth of fintech. Many countries in the MENAP and CCA have small populations, and this can make it difficult for firms to achieve scale and profitability without expanding abroad.
- Restrictions on the role of agents and nonbanks in financial service delivery and extensive customer ID requirements also slow efforts to extend financial services to unbanked populations.
- **7-2. The talent gap :**
- Is another important headwind for fintech startups in the region.
- Despite relatively heavy spending in education by countries and while some countries (Egypt, Jordan, Lebanon) have developed substantial talent in technology skills, the labor market for many countries has not been adequately aligned with the needs of a digital economy in many countries. In MEA, startups— especially those at the forefront of cloud computing, cybersecurity, machine learning, or artificial intelligence— report challenges in attracting and retaining the talent they need to succeed. In the GCC, individuals with technology and finance skills tend to be drawn toward large corporations, such as banks or the public sector, where salaries are higher. Underfunded startups, also are unable to offer globally competitive salaries and incentives to attract skills from outside (Wamda, 2016)
- Governments across the Gulf and Levant are already taking steps to promote and fund technical education with the hope of alleviating both youth unemployment and the digital talent shortage over the medium- to long-term. Some countries (UAE) have begun to reform entry visas for investors and professionals.
- **7-3.The underdevelopment of capital markets :**
- This factor remains an important constraint for firms, including fintech.Though private equity and venture capital has registered noticeable growth, it is concentrated in a few countries and remains scarce for most countries. Fintech firms cite the lack of seed, venture and growth capital funding necessary to bring start-ups to sufficient scale and profitability.
- Regional conflicts also discourage investment and put a damper on the region's budding venture capital activity and external capital. Capital markets in many countries are also not of sufficient depth to facilitate venture capitalists exiting their investments easily.
- **7-4. Gaps in ICT, payment, and credit information infrastructure :**
- 4G coverage is uniformly low in some countries of MEA region , and this can hamper uptake of cloud computing with adverse consequences for fintech startups to scale up and SMEs as well[2] .Very few countries (Egypt and Jordan) also have interoperable mobile network systems or wallets, and this fragmentation in the market constrains financial inclusion , Banks' legacy infrastructures, on the other hand, hamper adoption of new payment systems and penetration of ATMs and POS terminals is low, which adversely affects mobile users' ability to "cash in" and "cash out".[3] There is also a digital divide in the penetration levels of ICT infrastructure, with conflict countries having low penetration levels as instability has made it difficult for MNOs to function. Coverage of credit registries remain low, which hampers development of market lending innovations.
- **7-5.The overall business environment remains restrictive for innovative new entrants :**

- In the GCC, companies identify restrictive labor regulations, access to finance, skill gaps, work ethics, and inefficient government bureaucracy among the top five challenges.
- Given the limits on foreign shareholding coupled with weaknesses in regimes to protect minority shareholders, investors may be unwilling to invest capital or establish a presence in the absence of a trusted local partner or network .[4] In other MEA countries, firms cite policy instability and corruption in addition to access to finance and government bureaucracy. Unreliable electricity supply, alluded to earlier, also remains a significant problem for firms in some countries. In the CCA, firms rank access to finance as a major constraint but also give prominence to inflation and tax regulation.
- **7-6. A broad range of demand factors :**
- These in the main include lack of trust, low financial literacy, entrenched effective informal mechanisms, low income levels, data security concerns, and cyber security fears. Fintech innovations in MEA face a big "trust gap," which has forced them to seek collaboration with banks . (Wamda, 2016)
- Uptake of mobile payments is, in some countries, also constrained by low financial literacy levels and while the effectiveness of the informal Hawala system in the remittance markets of both the MEA also presents an important hurdle to the adoption of mobile payments. In some countries, the cost of internet and mobile services relative to income limits demand for digital financial services. There is also still a great preference for cash on delivery in e-commerce transactions, due to concerns about security of online payments[5] . The lack of awareness and small market has also been cited as a major constraint in crowdfunding scaling up in some countries of the MEA region .
- **7-7. Data and cyber security :**
- Data security is a concern held strongly in the MEA region and this has implications for start-ups that cater to government organizations and large corporates, because these clients have strict regulations with respect to where their data is stored. Concerns over third-party cloud computing and storage providers, data sovereignty and security, the lack of cloud related regulations and national cloud strategies have thus slowed the adoption of public clouds in many MENA countries, including the GCC. Banking sectors in MENA have also been slow to adopt some of the technologies (cloud computing and big data analytics) due to migration costs of shifting from legacy system architecture as well as concerns about their capacity to implement advanced security solutions and to remain compliant with local regulations, including data sovereignty rules for the finance industry. (World Economic Forum, 2019)
- **7-8. The kind of Fintech innovations in MEA region :**
- Current fintech innovations in the MENA and CCA regions have focused on retail payment instruments, such as electronic wallets (e-wallets) that are sometimes linked to cards and mobile phones and can be used as a form of payment, to withdraw cash, to pay bills, recharge airtime, make deposits, and send or receive money transfers. Innovations that have potential to improve financial inclusion or SME access to finance, such as mobile financial services for unbanked populations, Reg Tech (credit scoring, risk management, and regulatory compliance) trade processing, Market Place Lending (MPL) and crowdsourcing are either in the nascent phase or are yet to emerge. Indeed, McKensie's digitization index shows that the MENA has yet to satisfy full potential, especially in business and government.
- **7-9. Socio-economic and political factors :**
- In some countries, poverty, the high cost of internet relative to income, high cost of using financial services, and financial illiteracy also limit development of fintech and increased the potential gap in the adoption of mobile financial services in some countries.
- Fintech innovations will also need to be made Sharia'h compliant if the products are to be widely adopted across all segments. Thus far, initiatives to develop Sharia'h compliant fintech products are in early developmental phases.
- **Conclusion :**

- The paper finds that while the MEA countries are broadly embracing the opportunities unities of fintech to boost economic growth and inclusion, while balancing risks to stability and integrity.

- ✓ Africa has seen rapid growth in mobile money as a driver for greater financial inclusion; the Middle East, North Africa ; are seeing a gradual pick-up in activity, especially in some countries.
- ✓ MEA's Countries are seeking to provide an enabling environment, including open and affordable access to core digital services and infrastructures. But important infrastructural gaps and regulatory impediments remain. Significant gains are expected from fintech advances in payments, clearing, and settlement.
- ✓ While concerns of increased risks posed by fintech arise, monitoring is still largely confined to activities and entities within the traditional regulatory perimeter. Gaps in the legal framework to address fintech issues are widely acknowledged, while there is a need to modernize data frameworks.

Policies already taken in MEA's countries are encouraging but more is needed to enhance fintech adoption while ensuring financial stability. Legal and regulatory frameworks need to be reviewed to identify gaps and restrictions that may impede the growth of fintech, particularly given that the MEA region's financial systems remain bank centric with limited regulatory space for nonbank payment and financial service providers.

Other critical reforms needed include upgrading the fintech-relevant infrastructure and encouraging interoperability; putting in place enabling regulations to encourage the development of seed, venture and growth capital; strengthening the region's cybersecurity financial integrity frameworks and education reforms to align skills with the digital economy.

These reforms should be underpinned by sustained structural reforms to improve the business environment and a competitive environment that enables nonbanks to contribute to financial inclusion .

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