



**Digital Transformation**

**Fintech opportunities and risks**

**Implementing the Bali Fintech Agenda**

**Intervention of Mr. Abdellatif Jouahri**

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**Dear colleagues and friends,**

**Ladies and Gentlemen,**

It gives me real pleasure to be addressing you in this opening session of the Regional Conference for Africa and the Middle East, held by Bank Al-Maghrib and the International Monetary Fund, on the digital transformation and the implementation of the Bali Fintech Agenda. I would like to start by thanking you all for your presence today, and wish a pleasant stay in Morocco to those of you attending from abroad.

I would also like to thank the International Monetary Fund, particularly the entire staff of the Monetary and Capital Market Department, for having accompanied us for months in preparing this conference. My warmest thanks go to the Department Head, Mr. Adrian Tobias, and to his deputy Mr. Ghiath Shabsigh, with whom we have worked closely.

I am also delighted by the strong participation of central banks and regional and international institutions; I am confident that many colleagues here had to adjust their schedules to take part in this conference which shows the importance they attach to the issue we are addressing today.

The idea of this meeting emerged two years earlier, in our quest for expertise and experience with regard to the approaches and policies to cope with digital revolution. For this purpose, we interacted with the IMF, which had already begun reflecting on the issue, and had ended setting up, in collaboration with the World Bank, the Bali Fintech Agenda, presented during the last annual meetings held in October, in Indonesia.

It was then an opportunity to converse with the staff of the department headed by Mr. Tobias, with whom I agreed to organize a regional meeting to follow up implementation of this agenda, which the Fund had initiated in Vienna early this year. Today, this agenda has become a reference used to address the problem in a structured and standardized way.

I will not go through the details of this agenda, first because I think that Mr. Tobias is better placed than me for this, and second because the issue will be discussed thoroughly in the different sessions of this conference. Rather, my aim is to focus on the technological revolution, particularly its impact on the financial sector, then to discuss the challenges it poses for public authorities in general and for central banks in particular.

### **Ladies and Gentlemen,**

In the aftermath of the 2008 crisis, while public authorities and international institutions, including the IMF, were concerned about the repercussions of the crisis, a different evolution was taking place and began to gradually transform the economic, financial and social landscape. This transformation was particularly reflected in the massive use of smartphones and social networks, the emergence of digital finance and Big Data, the development of online platforms as well as in the uberization of services.

With its frantic pace of evolution and its emergence as a new must, this revolution is now influencing the way we produce, share, consume and interact, and its impact is felt on all sectors, including of course the financial one.

Despite the multiple studies and evaluations carried out, the impact of this revolution is not yet well identified. However, its impact will probably be felt negatively in the labor market. In fact, one of the most important studies, conducted in 2013 by two Oxford researchers on the case of the United States, revealed that 47 percent of jobs are at risk of extinction. In emerging and developing countries, this proportion would be higher. According to the same researchers estimates in 2016, it reaches 69 percent in India, 77 percent in China and 85 percent in Ethiopia.

As for growth, the effects of this transformation have not been clearly demonstrated, and economists even talk of a “productivity paradox”, to refer to the relative slowdown of productivity observed in some advanced countries since the mid-2000s, despite the technological innovations.

Even more, GDP measurement is also affected, and statistical institutes find it challenging to take into account certain technology-driven activities such as self-services made through online platforms. Also, inflation levels would be overestimated because of the improved quality of goods and services, not taken into consideration in their calculation.

Another field where major changes are induced by this revolution is data production and use. Big data generated by new technologies are at the heart of the strategies of economic and social actors, both public and private. Their exploitation takes many forms such as customizing services and targeting messages to guide the behavior of the consumers or of the public opinion in general... The case of Facebook-Cambridge Analytica during the last US presidential elections offers an uplifting illustration in this regard.

Conversely, the impact of this revolution turns out to be rather positive on the administrative procedures, such as tax payment. In fact, benefits are multiple: reduced costs, increased transparency, and the fight against tax evasion and corruption reinforced.

To sum up, I will recall one of the main conclusions of the 2016 World Bank's World Development Report on “the digital dividend”. Digital technologies and innovations have undoubtedly helped improve growth and services supply by substantially reducing the costs of economic and financial transactions, but the aggregate impact is still limited and unevenly distributed.

### **Ladies and Gentlemen,**

I think that we all agree that one of the areas where technological innovation is growing rapidly is the financial sector, with a new term being even dedicated to it, the *Fintech*. The latter is revolutionizing the financial landscape, by expanding products and services, improving their quality, and making them more accessible and less expensive. Fintech is transforming the relation with customers, the means of payment, as well as the modes of financing and transfers. On this particular last point, the potential gains are enormous for developing countries receiving large flows of their nationals abroad. In 2018, according to the World Bank, these transfers may have totaled 689 billion dollars, more than three-quarters of which were intended to developing countries.

Traditional business models of banks are now challenged by the new financing methods, thus putting more pressure on their profitability and pushing them, in some cases, to greater risk-taking, which would eventually impact financial stability.

In emerging and developing countries, with internet and mobile telecommunications penetration, Fintech now offers tremendous opportunities to strengthen financial inclusion and economic and social development. According to a statement issued last November by the United Nations Secretary General, within a period of six years, 1.2 billion people have accessed financial services through technology.

In a report issued in 2016, the Mckinsey Institute estimated the potential of Fintech in emerging economies by 2025 to an additional 6 percent of GDP, i.e. 3.7 trillion Dollars, and 95 million new jobs. The same report also revealed that two billion people and 200 million of very small, small and medium enterprises in emerging countries do not have access to credit, while those who have are still facing high costs.

Here again, estimates vary from one study to the other, and all agree on the same finding: a huge potential is still there to exploit.

This being said, risks in the financial sector are the most varied and most important, especially in terms of money laundering, financing terrorism, cyber security, as well as protecting customers and personal data. Such risks have become major concerns both at the national and international level.

For us, central banks in particular, the changes brought by the Fintech challenge us in several aspects, namely in our core functions. Now, even the monopoly of issuing currency is exposed, leading some central banks to consider the option of issuing a digital currency, and therefore reduce the costs related to conventional banknotes' production and use, and minimize the insecurity risks involved.

Among the other fields concerned is financial supervision. This area is now gradually expanding as new actors and financial products have emerged, which can certainly affect monetary policy transmission.

### **Ladies and gentlemen,**

The digital transformation we are facing today is primarily driven by operators and private companies that continue to invest heavily in this area and seize the opportunities and the potential it offers. Considering the important economic, financial and social implications of such a revolution, public authorities are compelled to set an adequate legal framework and provide an environment conducive to technological innovations and Fintech development.

One of the priorities defined in this regard is to invest in education and human resources' training, while taking account of the changes occurring in the job markets due to technological innovations. The challenge is huge, considering the now strong need for a digital skilled labor.

Many countries, more particularly emerging and developing ones, are now faced with the additional issue, besides having to meet their needs, of dealing with the "brain drain" phenomenon, which seems to record an upsurge in recent years. Against this backdrop, strengthening regional and international cooperation, with a view to pooling efforts and exchanging experiences, will essentially avoid worsening the digital divide between these countries and advanced ones.

That being said, the actual benefit of those policies and the efforts required depends on the responsiveness of the population, the economic and financial

operators as well as of the politicians, to the adoption of digital technologies. After all, it is an issue of a real change of culture.

It is true that during last years, initiatives have increased, reflecting a raising awareness about the challenges posed by this revolution. Several countries have developed cross-cutting or sectoral strategies to promote the development of digital technologies and their use.

By way of illustration, I will first give the example of my country which has set up a digital development strategy, and created an agency dedicated to this area. Another example is the European commission which has established, last May, a panel of highly qualified experts to study the impact of digital technology on the job market. Similarly, G20 countries agreed in 2017 to elaborate a roadmap for digitalization named “Policies for a Digital Future”.

Finally, the United Nations launched, last November, a Task force charged with recommending strategies to harness financial technologies in support of the Sustainable Development Goals. It should be reminded here that to meet these goals, low-income developing countries should spend an additional yearly amount of about 520 billion dollars by 2030, according to a study published last January by the IMF.

Several institutions attending today have taken important initiatives in this field and I am confident that the exchanges of views scheduled in the different panels will be highly informative in this respect.

For central banks, the stakes are high, considering their position as core actors in the financial sector, which constitutes one of the main arenas of technological innovation.



First, we need to seize the opportunities offered by the Fintech to narrow, in collaboration with the stakeholders, the deficits and gaps in financial inclusion, mainly for youth, rural population and women. This measure is all the more important as gender inequalities are particularly high in our regions. According to the 2019 World Bank Report on "Women, Business and the Law", women in the Middle East and North Africa are granted only half of the rights of their male counterparts. Here in Morocco, we have just completed our national strategy for financial inclusion, which will be discussed in the appropriate panel.

As for regulation, we are now called to leave room for creativity and Fintech development, but at the same time, preserve and strengthen resilience of our financial systems, and protect consumers and enterprises, particularly smaller ones. To guarantee such a difficult equilibrium, risks shall be identified and classified, and the potential impacts of innovation and of the new financial activities shall be foreseen.

Sometimes, central banks are required to resort to interim solutions in the absence of statutory powers, as is the case for crypto-assets. In fact, to deal with this issue, which arose in Morocco in 2017, we chose to approach it from the consumer protection angle to attract attention to the risks involved. Still, it should be made clear that we have not taken a final position on the issue.

Moreover, as enterprises, we are also called to adapt ourselves to this digital transformation, starting with strengthening the capacity of our human resources in this field and reinforcing our infrastructures, mainly the information systems whose resilience to cyber criminality has become a daily concern.

In this regard, and as part of our 2019-2023 strategic plan, we conducted a thorough reflection in Bank Al-Maghrib and have just drawn up a roadmap for our own digital transformation. Our target is not only to adapt our business lines and redesign our processes, but also to play a role in the development and support of our ecosystem, through a participatory approach.

**Ladies and gentlemen,**

To conclude, I would say that we may have taken some time to grasp the scale of the digital revolution, but the numerous initiatives and interactions, such as this meeting, leave us with the hope that the backlog will be quickly cleared and that this revolution will effectively contribute to sustainable and inclusive development in our countries.

In this respect, we are pleased to note the willingness of international organizations, including the IMF, main interlocutor of central banks, to upgrade their means and human resources with a view to providing support to their member countries.

As such, I suggest, if you deem it suitable, that we request the Fund to institutionalize such a meeting in our region, at the frequency most appropriate to us. Hence, we would be able to continue the debates and exchanges, assess the progress made, ultimately unite our efforts, and capitalize on our mutual experiences in order to better address the current and future challenges of digital transformation.

**Thank you.**