Keynote Speech by

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Your Excellency, Gamal Negm, Deputy Governor of the Central Bank of Egypt; Dr. Mona El Baradei, Executive Director of the Egyptian Banking Institute (EBI); Dr. Ola Khawaga, Research and Awareness Director of the EBI; Distinguish Guests; My Colleagues from the German International Cooperation and the Alliance for Financial Inclusion; Ladies and Gentlemen: Very Good morning to all of you!

I deeply appreciate the invitation from the Egyptian Banking Institute (EBI) to address you today. This conference deals with an extremely important subject for Egypt. Let me commend the conference host for this initiative and choosing "Promoting Financial Inclusion in the Banking Sector" as its theme.

Financial inclusion has gained increasing traction in the last decade and become a major development pillar at global, regional and national levels. In line with this trend, and identifying the acute need of the country to address the issue of financial exclusion head on, the Central Bank of Egypt (CBE) has begun to play a more proactive role in financial inclusion since recently. Since becoming a principal member of the global organization, the Alliance for Financial Inclusion (AFI) in 2013, CBE has further strengthened its financial inclusion agenda. So much so, CBE has become a role model for the central banks in other MENA region countries.

In September this year, CBE will be hosting the Global Policy Forum of the AFI here in Egypt. The GPF will provide the CBE with a golden opportunity to demonstrate its commitment and detail its approaches to advance financial inclusion in front of its peers from all regions of the globe.

What is important in CBE's approach to advance financial inclusion is it is not underpinned solely by financial stability concerns. At the core of its approach is a recognition of the significance of financial inclusion for the country's efforts towards inclusive growth, job creation and reduction of poverty and inequalities.

I trust Ms Rana Badawi from the CBE will elaborate CBE's specific activities in her presentation at the next session. Hence, I do not wish to steal thunder from her presentation. However, I wish to underscore just one critical area of its activities: that is the work on the development of a comprehensive framework of financial inclusion data. Reliable, consistent and timely data are crucial for smart evidence-based policies. Such data are also critical for progress monitoring and evaluation. I believe this may be why the AFI has concluded that "investment in better data could exponentially expand the impact of financial inclusion initiatives". Therefore, banks have a collective responsibility to extend their fullest cooperation towards this key task of the CBE in particular.

The financial inclusion initiatives led by the CBE in consultation, association and cooperation with key stakeholders would empower the millions of financially excluded people and their families and enable them to more actively participate in and benefit from the development process.

I am sure " Promoting Financial Inclusion in the Banking Sector" was chosen as the theme for this year's Annual Conference because of the belief of both CBE and EBI that the banking sector has a leading role to play in this task.

Your excellency, Ladies and Gentlemen: Yes. Banks have a critical role to play in advancing financial inclusion. And, banks have been significant players in financial inclusion in the recent past, although de-risking approaches of some banks have had a negative impact on financial inclusion in some countries. Allow me to elaborate the significance of banks role with some global data.

According to the Global Findex data, in 2014 globally 3.2 billion adults had some form of a financial transaction account. Of this, 3.1 billion adults, or 97% , had their accounts at financial institutions, mostly at banks.

Between 2011 and 2014, globally 721 million new accounts were opened by adults. Ninety two (92%) percent of these were opened at financial institutions, again mostly at banks. According to a recent study of the Institute of International Finance and the Center for Financial Inclusion,"much of this increase in outreach occurred among the people in the bottom 40% of their country's population". The bottom 40% holding accounts at financial institutions increased from 41.4% in 2011 to 54.0% in 2014. Banks role must have increased further in the last two years.

These numbers tend to suggest that banks have been at the center of financial inclusion picture. Although mobile network operators (MNOs) have been playing a more dynamic role in many countries in recent years, according to the Institute of International Finance and the Center for Financial Inclusion, "the bigger story in financial inclusion is right at the core of the financial system – with the banks".

However, the current state of financial inclusion does not leave any room for banks to be complacent. Banks' role is still minimal compared to the size of the potential market. Globally over 2.0 billion adults, predominantly the poor including a large proportion of women, remain financially excluded.

In Egypt, perhaps more than 30 million adults remain financially excluded -- unserved or underserved. A vast majority of enterprises also remain excluded. According to the 2012 Investment Climate Rapid Assessment Survey, only 13% of firms, 11% of microenterprises, 17.4% of small enterprises had access to bank credit. There is no compelling reason to believe that this situation has improved much during the post-survey period.

The Findex Survey data reveal that in Egypt in 2014:

-- only 13.7% of the 57 million adults had an account at a financial institution;

-- account ownership among women was alarmingly low at 9.3%;

--only 4.1% of adults saved in a financial institution in the past year;

--and only 6.3% of adults borrowed from a financial institution in the past year

It is important to note that these low levels of access and usage of formal finance are not due to lack of demand. This is suggested by the relatively heavy reliance of people on informal sources of finance. The poor people in particular have very active financial lives. For example, 12% of adults saved using a saving club or a person outside the family and 21.5% borrowed from family and friends.

Some policymakers in and outside of CBE reckon that the Findex data under-estimate the true level of financial inclusion in the country. However, that is the only comprehensive data set we have at present. Even if we make an allowance for some under-estimation, it is safe to conclude that the country's current level of financial inclusion could be alarmingly low.

It is this context that compels the banks to be more proactive players in financial inclusion of the country.

There are other very powerful factors that support a more dynamic role of banks in financial inclusion. First, financial inclusion is now a top development policy priority in the country. Second, a banking system that serves only a minority of the population leaving behind a majority is a flawed system.

Third, global experience provides very encouraging and growing evidence that banks are capable of playing a major role in financial inclusion. I trust this would be elaborated with some cross-country empirical evidence in the second session of this conference that focus on the theme "Banks as key drivers of financial inclusion."

Your Excellency, Ladies and Gentlemen. Having briefly argued the case for a substantially greater and more dynamic role for the banks, now allow me to offer a number of broad suggestions for the banks to reinforce their level of engagement, improve the quality of engagement and speed up the process of financial inclusion to generate greater impact.

First : Banks need to better understand the ultimate goal of financial inclusion

> Financial inclusion is only a means to an end. The ultimate goal is to enable previously excluded people to achieve better standard of living. Understanding this is crucial because through financial inclusion banks must establish and strengthen the nexus between financial products and services and the real sector. For this purpose banks have to increase access, reduce the gap between access and usage, ensure quality of their products and services, and provide the services in a responsible manner.

Second: Banks need to recognize that financial inclusion is a multi-stakeholder activity and a collective responsibility.

The global cross-country experience has shown that financial inclusion is a gigantic task with no easy fixes. A single service provider working in isolation is unlikely to have the required capacity to meet all the three key dimensions of financial inclusion that is access, usage and quality on an increasing scale. The unserved and under-served population require a wide range of products and services. Individual institutions cannot be expected to meet this demand effectively and efficiently. Collective responsibility is particularly needed in areas where common solutions are required for the betterment of sectoral operations and scaling up the services in a sustainable manner. This is where bank associations can also play a key role.

Third: Banking institutions need to have a clear strategy to be successful in financial inclusion

The need for a clear institutional strategy stems from at least three major factors.

First is the rapidly changing landscape of the industry resulting mostly from increasingly disruptive new technology. This is why PwC's Global Fin Tech Report 2017 noted that "the financial services industry will be unrecognizable in five years". The Report also notes that more than 20% of financial service business is at risk to Fin Tech by 2020. This tends to suggest that banks have to put financial inclusion in the overall context of their business strategy, if they are to contribute effectively to advance financial inclusion.

Second factor that calls for a well-designed institutional strategy is the gravity of the issue of financial inclusion in the overall business context of individual banks. Banks have to put innovation at the center of their approaches and align a range of key elements well with the objectives of financial inclusion within their overarching business objectives.

Third factor that makes an institutional strategy critical is the heterogeneity and complexity of the target market. A typical bank is not familiar with this market which consists of remarkably diverse groups of clients and enterprises. And, there are vast intra-segment and inter-segment differences in this market.

Fourth factor calling for an institutional strategy is that to achieve scale and get the biggest bang for the buck, banks have to have strategic and other forms of partnerships. Partnerships with MNOs, Fin Tech companies, institutions with vast retail distribution networks, for example.

Let me highlight two other critical factors.

One is recognizing the importance of, and adopting a long-term view of economic viability of financial inclusion.

Banks have to make sure financial inclusion generates acceptable returns. Those in the category of excluded have remained there partly because it has been hard to serve them profitably. Or banks have had better options to deploy their resources. High cost has been a formidable barrier. Although smart subsidies could help they are not a sustainable answer to this problem.

This compels banks truly committed to financial inclusion to address the transaction costs issues of financial inclusion operations and build the institutional capacity to design and deliver products and services that are in demand using innovative mechanisms.

Banks will also have to introduce a range of other measures: investments in, for example, IT infrastructure, collection of data and improving their granularity, special attention to collecting gender disaggregated data and integration of women's financial inclusion into the institutional strategies, recruitment and retention of talented staff with necessary skill-sets and development of talents with deep knowledge of the target market and the new technology that is being applied to provide the services are important to make the operations viable.

Banks need to consider the entry of new type of service providers as an opportunity.

At the root of this is the fact that banks, irrespective of their size and the power, may not have the capability to prevent the emergence of disruptive technology. Such technology continues to emerge mostly from outside the prevailing banking system. FinTech is a classic example. Recent history proves the futility of opposing the entry of new firms with disruptive technology.

Allow me to cite an example.

A few years ago, when M-Pesa began to operate in the Kenyan market, commercial banks in Kenya fought hard to prevent mobile phone companies from engaging in the business of money transfer. They argued that money transfers were a preserve of banks and that M-Pesa would threaten the stability of the financial system. They met with the central bank and the then acting Minister of Finance to change the policy in their favor. As you may know the banks failed in their effort.

It is refreshing to note that the approaches of incumbents towards entry of new firms seem to be changing. This is indicated by the new evidence concerning partnerships of incumbent financial institutions toward FinTech. Upside of FinTech is that it has the potential to, among other things, democratize the financial service industry by offering the financially excluded with better choices at more competitive prices. According to the PwC Global Report that I referred to earlier, "financial institutions are embracing the disruptive nature of FinTech and learning to partner and integrate".

Although large discrepancies across countries remain, bank partnerships with FinTech companies have increased from 42% last year to 54% this year and banks' buying the services of FinTech companies has increased from 25% last year to 40% this year. These trends and evidence, I am sure, would provide some insights to the banking community here in Egypt in developing their approaches towards building a more inclusive financial system.

There are many successful partnerships that banks have established with non-banks. One outstanding example is the Commercial Bank of Africa's M-Shwari partnership with the Safaricom in Kenya. Launched in 2012, the partnership achieved significant scale within a relatively short period of time. By 2015, over 4.5 million adults or 1 in 5 Kenyan adults became active M-Shwari customers. A large majority of these customers were previously unserved or under-served low-income people.

Banks' partnerships with payment service providers are also critical for their financial inclusion initiatives given that payments may be used as a key channel to encourage the unbanked to use financial services on an increasing scale over time with the security for their transactions. The unserved often enters the formal financial sector through using very basic financial services and move up on the ladder of financial products and services gradually as they gain more familiarity and trust in the formal systems.

Conclusion

Let me conclude. Although banks have played an important role in financial inclusion, their achievements remain minimal compared with the size of the target market.

This holds true particularly for Egypt given the gravity of the financial exclusion problem and the potential of the banking sector to advance financial inclusion in a sustainable manner particularly with the emerging new technology and through innovative partnerships. However, this requires fundamental changes in the way banks operate. The process of change will begin only with unwavering and firm commitment of the banking community to the task of financial inclusion.

It goes without saying that for banks to maximize their contribution, policymakers must create a more enabling environment and regulators must ensure a more conducive regulatory framework that encourage application of new technology and innovative partnerships. Banks in turn have to work in close consultation and cooperation with the regulators and other stakeholders.

Thank you.