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Six Factors Disrupting Fintech in the Middle East

Technology is changing the face of business in the Middle East where start-ups and venture capital firms are disrupting banking, asset management and corporate cultures at large. This change was evident during a recent fintech conference hosted by Abu Dhabi Global Market (ADGM) where financial inclusion, blockchain, artificial intelligence and robo investment advisory were high on the agenda.

We list the six factors that are at play in changing the face of fintech in the Middle East.

An enabling regulator

Regulation is more often about control rather than leadership, but Abu Dhabi has a different stance. ADGM has created MENA's first regulatory lab (RegLab) to help start-ups to easily integrate and do business in the region. Additionally, it has designed a framework for global and regional venture capital firms to seamlessly invest in these start-ups and help them scale. The RegLab is inspired by the Regulatory Sandbox initiative set up by the U.K.-based Financial Conduct Authority. ADGM is also partnering with several global accelerators to coach and train entrepreneurs. Among them is Plug and Play Tech Center, widely recognized for incubating PayPal and Dropbox.

Wave of financial inclusion

Improving access to finance for low income segments is a global priority for many international organizations, governments and payment services leaders. This segment remains untapped in the Middle East, since traditional financial institutions find it expensive to service these customers. Mobile technology, biometrics combined with artificial intelligence are paving the way for developing banking solutions and KYC procedures that will empower the unbanked and bring in financial inclusion. Now Money stood out at the ADGM conference as the first fintech in the Gulf region to use mobile banking technology to provide a range of low-cost remittance options for migrant workers.

Dawn of a new information age

In the future, banking could be revolutionized by information storage that is decentralized, safer and cheaper. Distributed Ledger Technology (DLT) refers to a decentralized ledger maintained across a peer network to record transactions. The transaction is sealed with cryptographic time-stamp and bundled with other transactions that are stored on the network once verified. Information stored across a distributed network is less prone to fraud/cyber-attack and is more cost effective for financial institutions to maintain. However, latency in distributing the information across the network and complexity in reversing an erroneous transaction are some of the issues that still need to be addressed. DLT has proved to be the most effective in maintaining records in trade finance and asset transactions, involving property, jewelry and art.

The Robo Advisor

Private wealth managers have the ability to be more efficient if they opt to use artificial intelligence and smart analytics to offer better investment solutions. Open collaboration with niche technology-driven financial advisory firms, will remain a double-edged sword for banks. On one hand, is the possibility for superior client experience backed by cutting edge analytics and portfolio solutions. On the other hand, these firms face a cannibalization risk by getting external players closer to clients, since they could be poached from the banks on the pretext of lower costs and more specialized offerings. At a strategic level, the question top tier banks will face will be partnerships versus building internal capabilities. Perhaps the latter will prevail given some of these institutions have significant technology prowess and are willing to invest big bucks over a long-time horizon to stay ahead of the game.

An age of alliances

Traditional financial institutions are gradually improving their core offerings as they ready themselves to partner with global fintech players. However, a healthy dose of caution remains. Banks, both in the region and globally, tend to be heavily regulated and tightly controlled in their budgets, making it difficult for them to champion innovative solutions in-house. But many banks have shown willingness to partner with fintech specialists to enhance their product offerings and improve their back-office operations. While some banks might be agile in integrating with fintech solutions through application programing interface ("API"), others might face challenges. Silent Eight, one of the fintech Innovation challenge finalist, specialized in providing anti-money laundering (AML) and terrorist financing solutions powered through artificial intelligence. Banks will be excited to integrate this solution since AML control remains a top priority.

More fintech deals in the Middle East

As international players seek to gain a foothold into the technology landscape of the region and expand the scope of their offerings, the fintech deal universe in the Middle East will heat up. A case in point is the recent acquisition of Souq.com by Amazon and Gocompare's investment in Souqalmal. With over 40 banks in the U.A.E., fintechs will play an important role in shaping the future of the financial sector in this country. Additionally, Sheikh Mohammed Bin Zayed is actively promoting companies in the region to adopt artificial intelligence and robotics solutions to enhance customer experience and be prepared for the future. This implies we should see an increase in deal flow as firms seek to acquire these capabilities.

Mossadiq Al Ghanghro is Director, Transaction Services, at PwC Middle East

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