FINTECH:

A SOURCE OF POSITIVE CHANGE

EFICA FINTECH Roundtable 2017

ADIB مصرف أبوظبي الإسلامي

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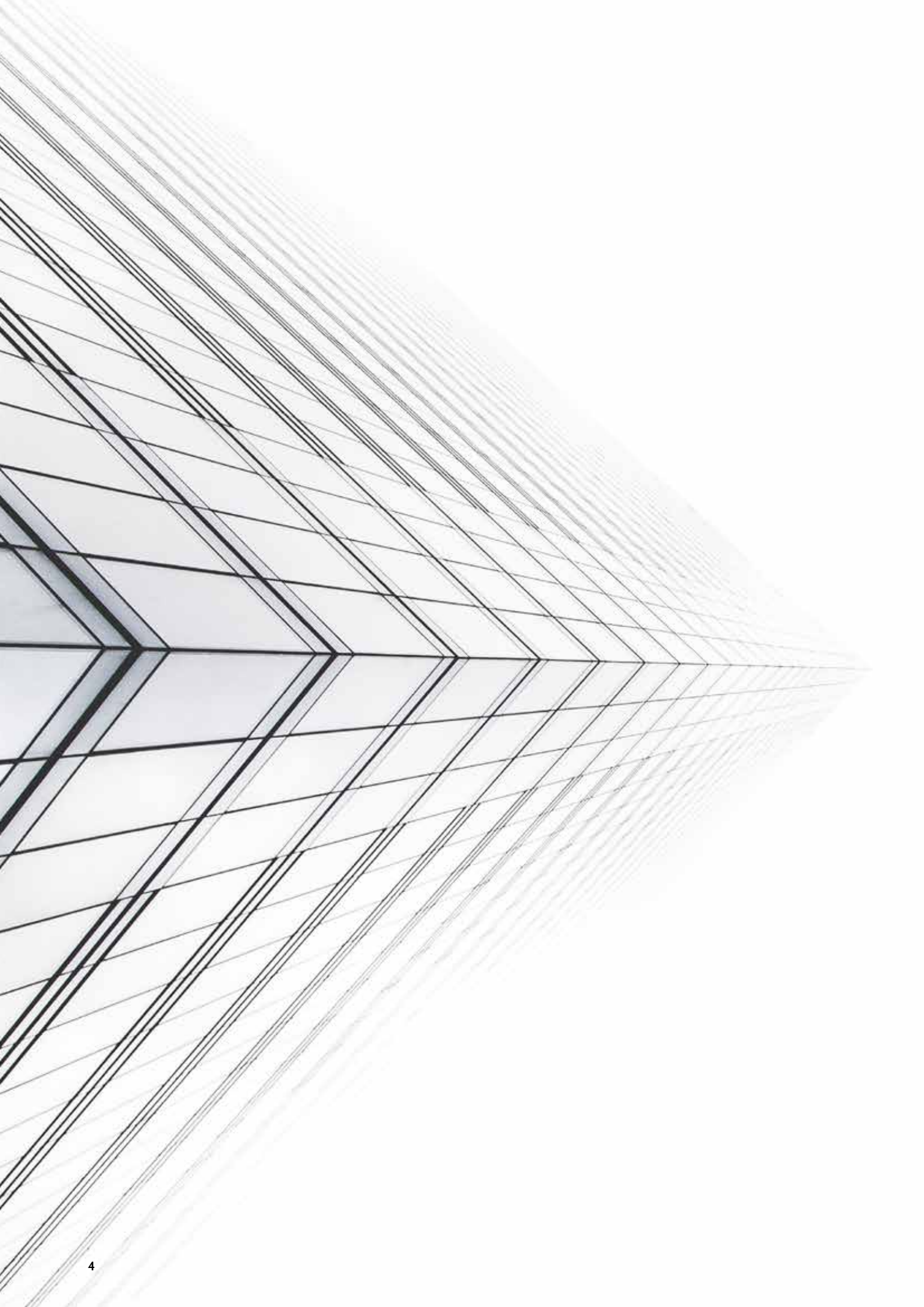


OPENING REMARKS

KHAMIS BUHAROON

ACTING CEO AND VICE CHAIRMAN,
ABU DHABI ISLAMIC BANK

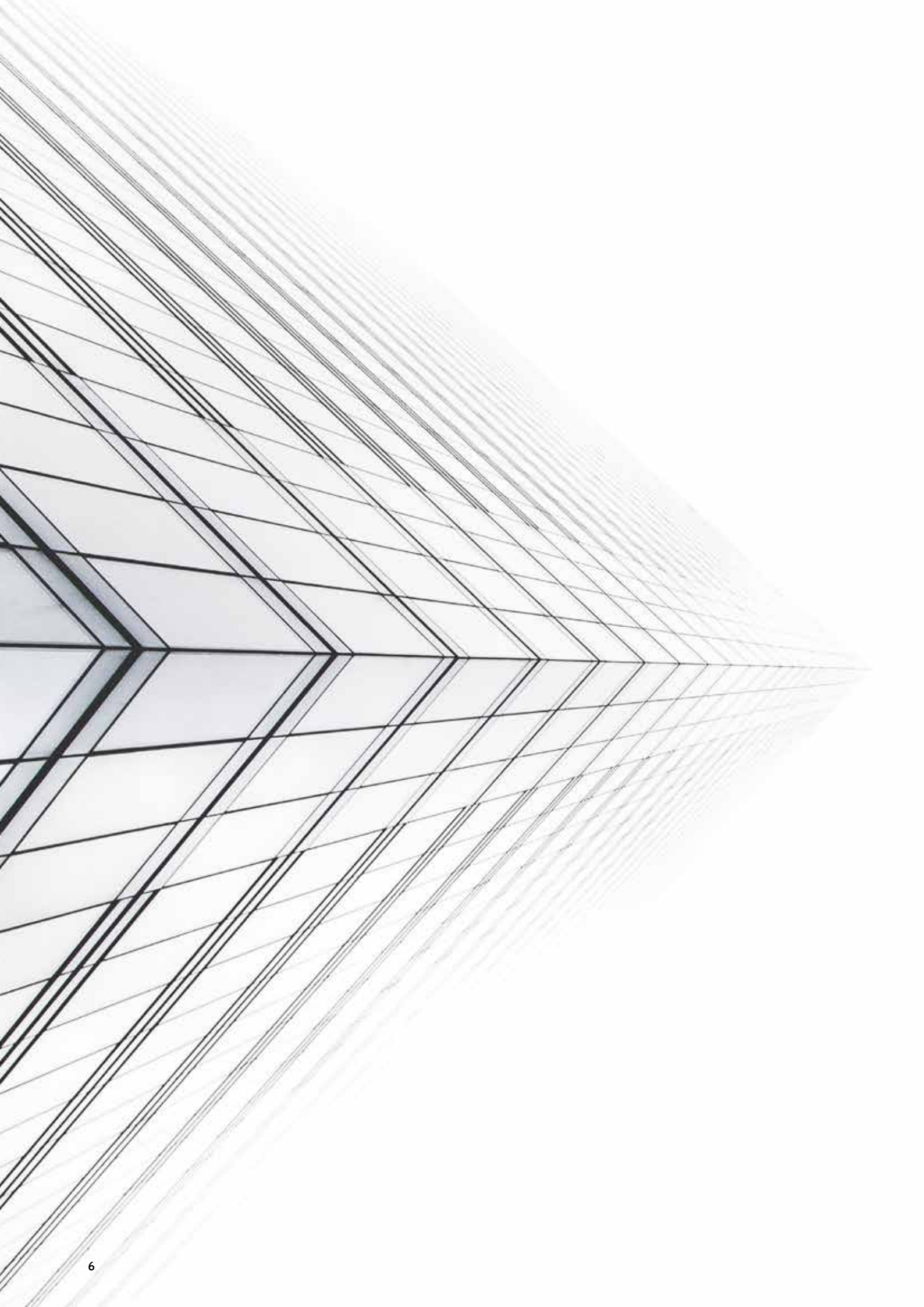
FINTECH CAN HELP BUILD A MORE INCLUSIVE SOCIETY

The idea of financial technology as a force for good in society can be harnessed by bringing together like-minded people from across the financial industry, from regulators and Shariah-compliant institutions, from long-established banks, and from fintech start-ups, said Khamis Buharoon, Acting CEO and Vice Chairman, ADIB.

Delivering the opening remarks at the EFICA Fintech Roundtable 2017, Buharoon said the participation of all the major players and stakeholders in this event demonstrates that "the world of finance is not ruled by competitive self-interest organizations but can be a source of effective collaboration and openness."

It was this sentiment that led to ADIB and Thomson Reuters to launching EFICA – the Ethical Finance Innovation Challenge and Awards, as a way to recognise people and organizations who are using finance for a better community and society.

The success of EFICA is evidenced by the hundreds of projects that applied for the awards. "Winners go on to deliver projects that contribute towards developmental goals of a more inclusive, participatory society around the world," he said.



KEYNOTE ADDRESS

ABDULLA AL AWAR

CEO, DUBAI ISLAMIC ECONOMY DEVELOPMENT CENTER

TECHNOLOGY MUST BE RESPONSIVE TO HUMAN NEEDS

Emerging financial technologies have an important role to play in improving access to financial services for all sections of society by reducing the cost of reaching new participants, said Abdulla Al Awar, CEO, DIEDC, in his keynote speech.

"There is no doubt that fintech has, and will continue to diversify financial services and increase their accessibility to the public," he said. "Fintech will empower financial institutions through growing the number of customers and enabling greater access to new markets, even while reducing services and management costs, so they can launch a whole new set of services and operations."

Underscoring the paramount need to make technology responsive to human needs, Al Awar said technology and its humanization go hand-in-hand. He said that in order to optimize fintech so it drives productivity and eventually progress, it is essential to rationalize it and make it more responsive to human striving. "This will allow it to achieve its mission of enhancing the quality of life, supporting development, and eradicating unemployment and poverty."

There are two aspects to this concept, Al Awar added: one is whether fintech can indeed be a source of good; the other is whether it can succeed where digital banking has lagged, which is in the area of financial inclusion.

Impact assessment is crucial to this exercise, he said. Whether fintech companies are able to serve as catalysts or not will be assessed by the social returns they generate and not just by financial returns.

In the wider Islamic economy, fintech has a role to play in other sectors as well, such as halal food. "The rise of fintech will continue to change how we do business," Al Awar said, noting that consumers are increasingly turning to technology solutions powering e-commerce and money transfers, among other aspects.

Al Awar concluded his address by underlining the efforts of the UAE in creating the right regulatory and infrastructural environment to support innovation in the field of financial technology. This foundation enables financial technology products to serve the benefits of all stakeholders, including entrepreneurs, financial institutions, the industry, and the consumer, he said.

SESSION 1

CAN FINTECH BE A SOURCE OF GOOD?

MODERATOR

DAVID MARTINEZ DE LECEA
HEAD OF BANKING MIDDLE EAST
ROLAND BERGER

PANELISTS

DARREN TAYLOR
CHIEF DESIGN OFFICER
BANKCLEARLY

MAHDI KILANI
HEAD OF BUSINESS BANKING
ABU DHABI ISLAMIC BANK

OMAR HAMID
CHIEF DESIGN OFFICER
LAUNCHGOOD

BRIEF

The traditional financial sector has been slow to react to the growth of fintech in many areas but one of the most striking is in changing the perception of how social impact fits within the banking business model. At its most simple, the innovation embedded in fintech offers a revolution in the cost to reach and service a single customer. This change can have profound consequences in terms of financial inclusion which opens up many more possibilities for fintech to deliver meaningful social impact. The same technology that can make traditional banking more efficient and accessible can also integrate areas of social finance such as waqf, sadaqa, and zakat to ensure the funds reach the intended beneficiaries as well as offering a tool to measure the impact which can encourage more resources to flow through these channels.

SUMMARY

- Financial technology companies and banks each have their own strengths that make them ideal partners for the other.
- The need is to not replicate what the other is doing well – whether it is gathering customer data or implementing process efficiency – but in collaborating with social good as a measurable result.
- Technology, along with a changed mindset, can make processes faster, easier, and more nimble.
- Products designed with the end-user in mind by understanding real problems tend to be simpler than those where technology is implemented for its own sake.
- Regulators, banks, and fintech companies benefit when they work together towards goals of financial inclusion.

RECOMMENDATIONS

- Banks and fintech companies are both more successful when they each play to their strengths.
- A measure for success is not merely in balance sheets but also in social good; the impact of a project can be measured by its effect on people, profit, and planet.
- Banks can work with fintech companies to deliver products and services to customer groups such as small and medium enterprises.
- Understanding what people want is key to creating successful products and delivering services that make a difference.

New business models and services characterize fintech start-ups, which promise transparency and inclusion – qualities that are especially important after the global economic downturn of 2007-2008. The moderator, **David Martinez De Lecea, Head of Banking Middle East, Roland Berger**, brought the focus of the discussion on whether it is possible to fulfill this promise inherent in the attributes of fintech. A collaborative rather than competitive either-or approach between financial institutions and fintech start-ups is the answer, speakers said.

Darren Taylor, Chief Design Officer, BankClearly, said technology companies work with banks to create an ecosystem where transparency and inclusion are key attributes and that the important thing is to work cohesively for the benefit of the consumer. He spoke about his company which aims to make the banking experience "entirely digital and the best possible banking experience". He spoke about services that open access and include more people in the system so that more people could use banking for spending, saving, financing, and investing.

Taylor spoke about the specific social impact of their work, which is to bring new value propositions to banks so that they can reach a wider customer base in regions with large under-banked and unbanked populations. He said the solution lay in making available products that are relevant to the community, citing the example of mobile use leading to financial solutions, such as an app for prepaid cards.

Because fintech products do not consist of the full suite offered by a bank, technology companies can also help by creating light-touch protocols for regulatory requirements such as Know Your Customer (KYC). "It's about introducing the banking products and then taking them up the ladder over a course of five to ten years," Taylor said.

In this case, if the stored value on a prepaid card is limited, the regulatory requirement for KYC is reduced. Also, Taylor pointed out that many regulators, including those in Jordan and Egypt, have a mandate to move towards a cashless society and are working proactively to include more people into the financial ecosystem. Enabling a product that does not need full KYC is the first step.

Mahdi Kilani, Head of Business Banking, ADIB, spoke about how a bank can partner with a fintech company to serve small and medium enterprises (SMEs). He noted that banks historically did not fund start-ups from day one due to their lack of a two- or three-year business track record. Some of the hindrances in assigning funds even at later stages occur due to lack of financial savvy.

"Start-up businesses can become bankable. But if start-ups don't have a bank account, it is not efficient. Banks cannot support them because there is no track record," he said.

Kilani noted that both banks and fintech companies have their strengths. While fintech companies have the advantage of "speed and efficiency", he said, "banks have big data, large data bases, infrastructure, and the funds."

By working together, the gap in bringing start-ups to SME level can be bridged. He identified three stages of potential collaboration. One, banks and fintech companies can work on bringing the start-ups on board. "KYC and anti-money laundering (AML) processes remediation, updates of data and speed" are the areas of focus where fintech companies can play a role in helping banks. Examples include KYC being done on a trusted platform. "On-boarding is the most important stage in the life of a start-up and efficient KYC and AML processes would help the business start on the right track," he said.

At the second level, Kilani said, extending finance is a lengthy process requiring investigation, site visits, and inspections. "A robust fintech solution can help us assess whether the business is really working, with no fraud," he said. A quick and strong assessment tool will enable the bank in taking that forward to extend finance.

The third area of cooperation is funding. Start-ups often use their own funds, or take money from relatives and venture capitalists and rely on crowd funding. Banks would like a fintech to accept their investment money and disburse it. Banks can work with fund-raisers to facilitate disbursal.

"Banks and fintech companies working together in these stages – on-boarding, assessment, and funding – in MENA would facilitate financial inclusion and enable start-ups to find easy and accessible finance to bridge the gap between a start-up becoming an SME".

Omar Hamid, Chief Design Officer, LaunchGood, a previous EFICA award winner, said the award money really helped them grow into the next stage in their lifecycle. He pointed out that tapping into the power of crowds may fulfill a dual purpose of funding and getting the word out there. "It allows banks to tap into what people are interested in and use it for good. Banks can say, for instance, that they have USD 100,000 to support social causes and when someone supports a particular campaign, they will match the contribution."

> "ALL YOU NEED IS THE INTERNET AND A BANK ACCOUNT TO TAP INTO THE GLOBAL HEARTBEAT FOR THE FINANCIAL SERVICE TO BE AVAILABLE TO YOU"

Dwelling on his experience at LaunchGood, Hamid said: "One of the challenging pieces in a start-up is raising funds. Being a first-to-market, Muslim-focused start-up was sometimes a limiting factor in generating investment despite the numbers looking good."

EFICA award was the transition from surviving to being profitable, Hamid said, noting that winning the award contributed to changing their mindset. "Many smaller transitions meant that we were transitioning from being a start-up to becoming an SME."

He spoke about the purpose of LaunchGood, which is not

just to help people raise funds for a campaign but to build an inspired future. "People are raising funds for here and now, but shifting the mindset to thinking proactively," he said.

"All you need is the internet and a bank account to tap into the global heartbeat for the financial service to be available to you," Hamid added.

De Lecea steered the discussion to the characteristics of effective fintech. Taylor said the key point of engagement is to solve real problems, often by starting with on-ground research to identify what is needed in that particular situation. This groundwork can then lead to building a digital product for solving a problem rather than "just putting something out".

Asked whether BankClearly could do this without the support of traditional banks, Taylor brought up constraints that may hold back either partner. "When you have people passionate about solving particular problems, you will get equal or more value than by doing it all on your own."

Led by the moderator, panelists discussed whether there are banks that are missing the point of following a collaborative approach.

Kilani said banks are not shying away from fintech and are in fact working very closely with such companies, which is different from the traditional approach when banks would do everything themselves. "Fintech companies can do things fast and banks should work with fintech to revolutionize their internal set-up. We used to do it on our own because there were no fintech companies. Now, they come up with innovative solutions. We need to support fintech," he said.

Hamid said fintech companies also may face problems with traditional banking systems. "We have one big challenge on a global platform: that is global payments. Banks do not understand our business model when it comes to global transactions and money transfers are a big challenge."

Taylor urged extra vigilance on following regulatory protocols while digitizing processes and to implement a strict validation process to approve documentation.

Hamid highlighted fintech players' ability to be on ground, which allows for decisions being taken based on talking to people whom the service will impact instead of on boardroom meetings.

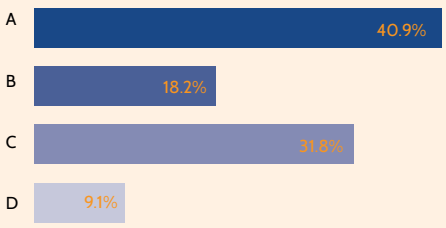
With audience participation, the discussion also covered the benefits of moving from a bottom-line based approach to a value driven approach. It was noted that rather than only following the legal aspects of Shariah, Islamic banks would do better in public perception if the objectives are based on the values of Shariah.

Measuring social impact was also discussed, especially in areas such as financial inclusion, which enables people to manage their lives toward more productivity. Hamid pointed out the triple bottom-line approach, which looks at impact on people, profit, and planet.

In the course of the discussion, the moderator facilitated two polling breaks, during which the panelists, delegates, and audience participated in the voting on two important questions related to the topic being debated by the panel. These were the results:

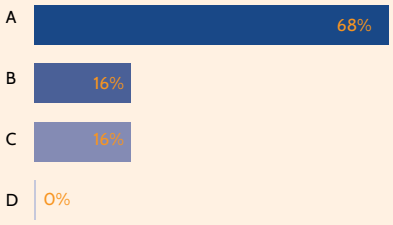
Poll 1
What, according to you, is the most important social impact area for the financial sector to address?

A. Providing access to finance / financial inclusion
B. Supporting SMEs
C. Promoting social causes (poverty, education, environment)
D. Empowering consumers (customer experience, financial management)



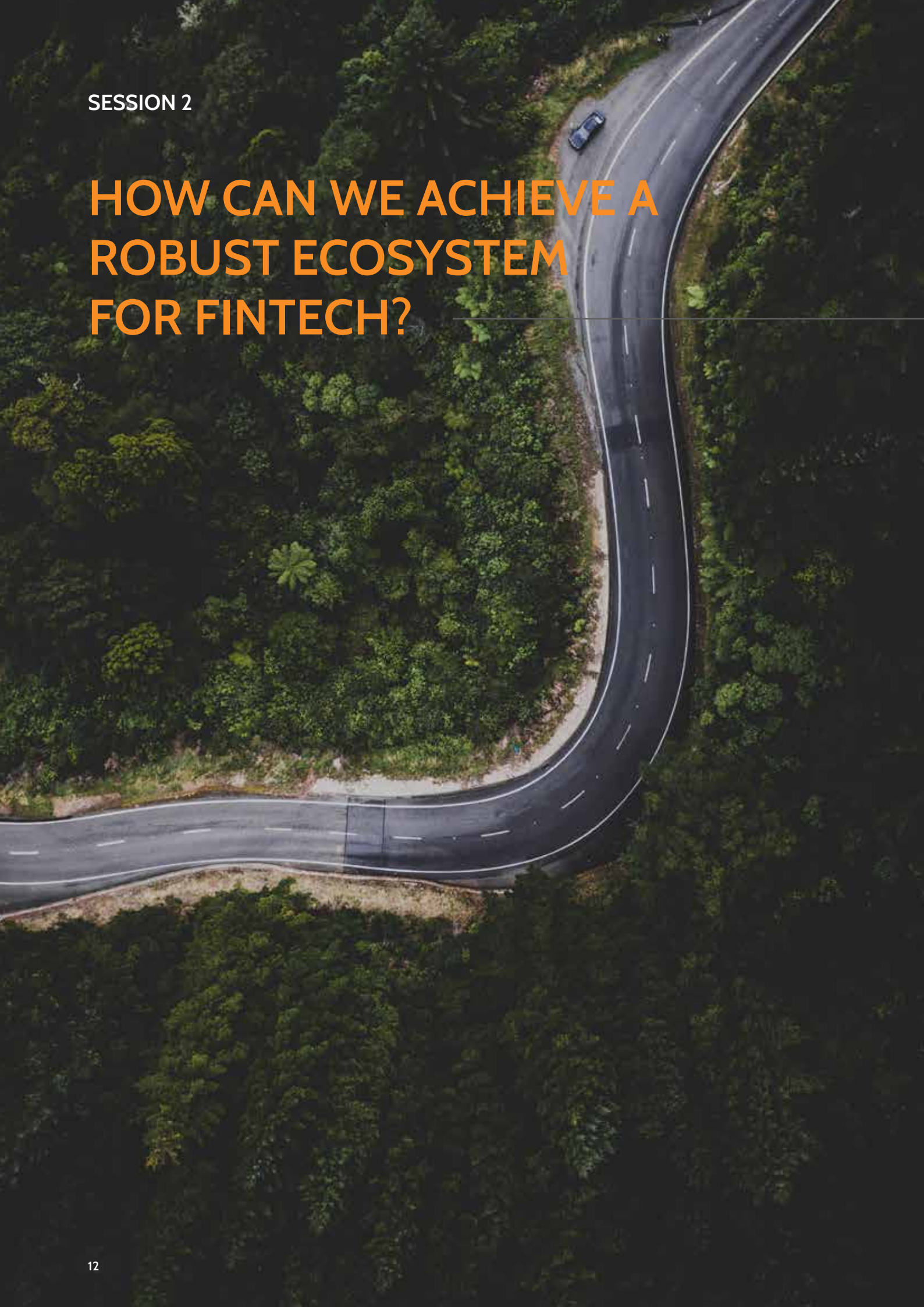
Poll 2
How significant a role will fintech play in supporting social development goals in the next decade?

A. Very significant
B. Fairly significant
C. Marginal
D. I don't know



SESSION 2

HOW CAN WE ACHIEVE A ROBUST ECOSYSTEM FOR FINTECH?



MODERATOR

HAYTHAM ELMAAYERGI
GLOBAL HEAD OF TRANSACTION BANKING
ABU DHABI ISLAMIC BANK

PANELISTS

RAJA AL MAZROUEI
ACTING EXECUTIVE VICE PRESIDENT, FINTECH HIVE
DUBAI INTERNATIONAL FINANCIAL CENTER

TODD OBRIEN
MANAGING DIRECTOR
STARTUPBOOTCAMP SMART CITY DUBAI

WAI LUM KWOK
CAPITAL MARKETS EXECUTIVE DIRECTOR
ABU DHABI GLOBAL MARKET

BRIEF

Although fintech has the power to transform the financial system, it also creates significant business risks for incumbent players with better access to influence the regulatory system in a way that disfavors innovation. Government initiatives are trying to get ahead to promote fintech as a key part of the technology ecosystem with the potential to create the millions of jobs needed to match demographic trends in the GCC and promote economic and financial inclusion. Regulators are left with the difficult task of balancing the two angles in a way that promotes customer protection and financial stability without throttling innovation.

SUMMARY

- The need for an innovation ecosystem is driven by the increasing power of consumers, millennials driving the economy, and the need for faster access to services.
- Talent, platform, regulations, licensing, and funding are all important aspects of a fintech innovation ecosystem.
- Regulatory nimbleness needs to match the agility of fintech for innovation to thrive.
- Process innovation is a key part of the picture and requires regional organizations to support it.
- Regulation and innovation are most effective when they are oriented specifically to regional needs.

RECOMMENDATIONS

- An innovation ecosystem functions best when various stakeholders collaborate to support it.
- An outcome based approach requires collaboration towards specific goals and gets the best results.
- Investing in fintech is no longer a matter of choice but a necessity for Islamic finance.
- Creating the right products addressing a specific need is necessary in order to create relevant innovation.
- Procurement processes need to evolve to become more receptive to innovation.

The fintech ecosystem is dynamic, consisting of environment, talent, platform, regulations, and licensing along with funding. Several factors go into ensuring that fintech companies thrive, while simultaneously protecting the system and the customers.

The moderator, **Haytham Elmaayergi, Global Head of Transaction Banking, ADIB**, said a fintech ecosystem is crucial for the growth of Islamic finance. "Only about 15 per cent of the total Muslims population are banked. This means that about 85 per cent don't have access to banking," he said.

The most effective route is for Islamic banking to invest in fintech. It is essential for financial inclusion and even to survive and compete, he said.

Citing the Fintech Hive as an example of an end-to-end ecosystem, **Raja Al Mazrouei, Acting EVP, Fintech Hive, DIFC**, described the initiative launched in January 2017 with the aim of attracting fintech into the region. In partnership with Accenture, which has similar labs in London, New York and Hong Kong, the Hive aims to support start-ups to push the innovation agenda.

Al Mazrouei said that the aim of the program is to create an ecosystem for fintech. "DIFC has more than 1,750 registered companies. Through partnership with global and regional banks, we are able to build on that ecosystem," she said.

She briefly mentioned the 12-week accelerator program, adding that key drivers for fintech are "changing landscapes, shifting powers of consumers, millennials driving the economy, and the need for faster access to services."

These factors are responsible for changing the face of the financial industry and remodeling legacy systems. Products using the cloud, social media, the Internet of Things, and blockchain are driving faster and easier access.

Al Mazrouei spoke about growing investment in fintech on the back of opportunity in the region and access to sources of capital. The fact that the UAE runs an innovation-led government, with the private sector as an able partner, has led to quick and high adoption of technology, she said.

Collaboration toward outcomes is the approach geared to get the best results, according to Al Mazrouei, who said that enabling relationships with financial institutions and start-ups based on a system where results are measured and outcomes are evaluated is best practice.

> "ONLY ABOUT 15 PER CENT OF THE TOTAL MUSLIMS POPULATION ARE BANKED"

Already, she said, Islamic finance start-ups are a part of this initiative. "We are around to bring them on board and integrate them with our existing partners."

An ecosystem has many elements that together act as enablers, Al Mazrouei said. This includes a legal clinic within the accelerator so that the start-up is offered pro bono legal service. Start-ups also get access to support services to develop their technology and create partnerships with large institutions such as IBM. With the aim of enriching the start-up ecosystem in the UAE, Al Mazrouei said, entrepreneurs' geographic presence in Dubai at the starting stage is part of the system, which also includes mentoring, investments, and talent partners.

The next step, which is one step closer to the goal, is for the start-up to work with mentors from different banks and develop proofs of concept and solutions.

Todd OBrien, Managing Director, SBC Smart City Dubai, presented the concept of a start-up boot camp as an accelerator. "We have accelerated and grown ourselves. We have made investments in companies. They come through 10 at a time," he said.

Industry research shows that in the next three to five years the fine line between traditional banks and fintech will be blurred, or the banks will be left with no business, OBrien said.

Sharing some of the lessons from seven years of working in fintech, he said that, as a first step, start-ups and corporates need to understand each other. People measure start-ups on the money they have raised. On the other hand, most corporate businesses and banks don't know about innovation but they are exploring.

He highlighted that each region is different in terms of regulatory requirements and trends that they are currently witnessing. While some emerging markets have the ability to establish systems, others may get caught in bureaucratic rigmarole.

Citing his company as an example, he said that despite the industry standard being that one in every five start-ups will fail, 76 per cent of the start-ups funded by SBC are still active, with 73 per cent receiving follow-on funding.

Exploring the idea of regulatory sandboxing of innovation, **Wai Lum Kwok, Capital Markets Executive Director, ADGM**, explained the Abu Dhabi Global Market's approach to fintech. With two batches of fintech innovation since its launch in November 2016, Kwok noted that being a regulator in this region is different from being a regulator elsewhere. The idea is to do things differently than to copy. The first thing, he said, "is to learn how to be one from scratch."

He said one of the biggest early lessons is for regulators to be at the cutting edge of technology. Some examples of legacy issues that regulators face include ensuring easy reporting and how to fundamentally approach regulation. This means a fundamental alteration in the business model of regulators, to enable them to do things better.

"We don't just promote innovation; we regulate digitally. We have set up a framework to promote innovation. We have developed the regulatory lab," Kwok said, citing examples of regulatory sandboxes in Singapore, Hong Kong, and Australia.

He said that as a regulator one of his jobs is to work closely with innovators, gain their trust and try to get to know them better. In this region, being able to do things better means the regulator taking an active role in the start-up ecosystem. "We need to get a bottom-up approach but we also need to be a center for established institutions and banks," he said.

Collaboration is key to creating an ecosystem for fintech companies from the entire Middle East region to thrive. Kwok said Saudi Arabia, Bahrain, and Dubai have vibrant environments already, whereas Abu Dhabi aims to bring agility that facilitates investments, with access to private and institutional wealth.

A collaborative approach goes beyond regulators working with other stakeholders and also involves being able to complement each other, he said, citing the example of New York and Silicon Valley. Regional regulators can adopt a common vision, he said, adding that ADGM has organized the first regional roundtable to discuss these issues.

Regulatory support for fintech innovation allows innovators to test with live data. Al Mazrouei said that innovation testing licenses create processes to assess the impact of regulation on various types of activity.

Elmaayergi noted the real-life relevance of sandboxes, asking if companies that have thrived in regulatory sandboxes will go to onshore markets and compete. Kwok said that the regulatory policy is to limit damage from any failure, ensuring that "if they fail, they fail quickly".

Creating an ecosystem means bringing together various collaborative stakeholders such as universities and financial institutions to get them to understand and work with fintech start-ups, Kwok added, saying that a synergistic environment can benefit the fintech revolution.

Innovation needs to be specific and relevant. Institutions backing innovation need to identify what their requirements are. The need for a business-to-business enhancement for private banking is not going to be met by creating a business-to-consumer solution. On the other hand, a data query tool can quickly help deal with regulatory questions since the software can collate data and give quick answers, Kwok said.

Elmaayergi said a key area is to set up the right environment for encouraging local talent and attracting international talent. The interest in the region is high and all panelists reported a high degree of participation from local entrepreneurs focusing on solving regional issues.

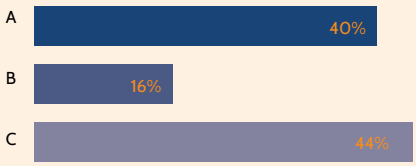
Local talent works best in the long run because they have the most intimate knowledge of the industry and culture. Foreign talent is good in problem-solving and innovation, Kwok said, citing the example of how taxi company Uber is successful in the US but not so much in China.

Bankers among the audience noted that the culture for innovation is still developing. For instance, many large institutions have bidding and tendering processes requiring procurement departments to list three similar offers before accepting the most competitive. Designed for an earlier time to be fair, the process does not address innovation.

In the course of the discussion, the moderator facilitated two polling breaks, during which the panelists, delegates, and audience participated in the voting on two important questions related to the topic being debated by the panel. These were the results:

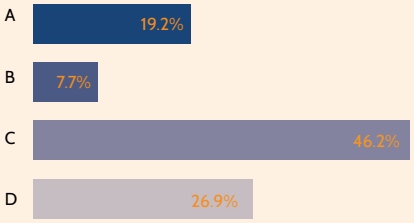
Poll 3
How can policy makers balance between protecting customer and promoting fintech?

A. Consumer protection needs to trump all of the considerations
B. Primary focus for policy makers should be to promote fintech initiatives
C. No trade-off between consumer protection and promotion of fintech



Poll 4
What is the most important ingredient for a thriving fintech ecosystem?

A. Access to talent – academia, entrepreneurs, technology professionals, etc.
B. Access to capital – angel investors, VC investors, IPO markets
C. Supportive policy makers
D. Access to technology adopters – consumers, financial institutions, corporates



SESSION 3

ARE BANKS ABLE TO EMBRACE & CAPITALIZE ON THE FINTECH REVOLUTION?

MODERATOR

MUSTAFA ADIL
HEAD OF ISLAMIC FINANCE, THOMSON REUTERS

PANELISTS

ASHAR NAZIM
MANAGING DIRECTOR
FINOCRACY

HAYTHAM ELMAAYERGI
GLOBAL HEAD OF TRANSACTION BANKING
ABU DHABI ISLAMIC BANK

PETR KLIMES
CO-HEAD OF DIGITAL AND GLOBAL HEAD OF MARKETING
ABU DHABI ISLAMIC BANK

BRIEF

The growth of fintech has begun changing the way financial institutions work across the world, in moving money between individuals, facilitating peer-to-peer lending and even helping companies raise equity and debt capital without using a traditional investment bank. Yet few of the changes have reached the Islamic banking market where banks are talking about going 'digital' in their services while keeping the underlying proposition – and the fees associated with it – the same.
The conservatism within Islamic banks today risks creating an outcome where conventional banks are better able to use innovative technologies to better deliver the social impact that Islamic finance is supposed to deliver.

SUMMARY

- Fintech has grown so quickly because traditional banking systems have some processes that do not address customer needs.
- Islamic banks are traditionally slower to implement technology and wait until it has been tried and tested in other markets.
- Customer expectation of products that resonate with them is tied with the new shared economy and extreme personalization.
- Islamic banking is well-suited to this expectation because of its underlying principles.
- Fintech and Islamic banking are finding growth areas when they work together.

RECOMMENDATIONS

- Digital tools can bring to life core principles of Islamic banking such as transparency and risk sharing.
- From a customer-centric approach to a community-centric approach is the defining characteristic of successful brands, which can be followed by Islamic banks.
- Islamic banks can take the lead in bringing innovative technology to the region by creating equitable partnerships with fintech.
- A key theme of fintech – democratizing capital – is the same as ethical Islamic banking and can be used to create products acceptable to the larger demographic.
- Positioning initiatives that are created within a partnership between fintech companies and banks, at an arm's length – strategically, financially, and physically – protects both brands.

Focusing on the gap between traditional banking and fintech, the moderator, **Mustafa Adil, Head of Islamic Finance, Thomson Reuters**, noted that fintech has grown so fast so quickly because typical banks are not meeting key consumer needs.

A survey last year showed that 70 per cent of consumers who are likely to open a checking account prefer to submit a digital application. That such a basic demand is not being met in an industry that has been around for so long denotes that banks need to embrace the fintech revolution to improve customer experience. Another key statistic is the amount of investment that has gone into fintech from different regions.

Adil noted that Islamic banks are slow to adopt new technology. He said trends indicate that they wait until institutions in other regions have tried and tested it first, in spite of operating in an environment where it is crucial to embrace technology.

Fintech solutions need to focus on the best value they bring to the bank so that banks can give better service and fintech can get mainstream consumer acceptability.

How fintech can help create social impact was the focus of the discussion by **Ashar Nazim, Managing Director, Finocracy**, who spoke about deposit banking. "Deposit banking needs to change for Islamic banks to remain relevant," he said, arguing that it is a dying business for three reasons.

The first is that it fails to create an emotional link with the customer. "How many of us are super excited about the deposit relationship with our bank? In our dead state of play, deposit banking cannot last forever with changes in customer expectation," he said.

The second reason, he said was that consumers are kept in the dark about how their funds are being deployed. "Beyond safe-keeping and providing a rate of return, there is no accountability," Nazim said, pointing out that this situation is ripe for disruption.

Making a case for consumers moving towards a sharing economy where their expectations have been shaped by the more personalized service, he questioned why deposit banking was not being personalized. "Social media feeds will give you ads that you are more interested in. Why do your funds with the bank do not give you a personalized experience," he asked.

Noting that consumers have a very strong preference towards managing their life, he argued for providing more choices. Citing the examples of Uber and Airbnb, he said consumers prefer a primary relationship based on a seamless experience of value-added service that resonates with their lifestyle. They don't want a bank to be making choices for them, Nazim said.

Competition for banks can come from unlikely sources such as regional taxi service Careem and Airbnb, which have wallets despite deposit-taking not being their primary business.

Social good has the potential to strike an emotional chord, he said, making the case for deposits as a system of co-creating a pool of social capital. This can be done by mobilizing funds sitting in accounts for investment in socially driven enterprises while abiding by regulatory and risk control requirements. This would involve understanding depositors' preferences and routing part of those funds to those asset classes.

Most banks and several Islamic banks have a portfolio of such assets including social housing, sustainable investments. However, since bank teams work in silos with separate mandates to sell and manage deposits, this is not possible in a traditional system. He also made a case for banks needing to stop selling products and start resonating with the likes, dislikes, and passions of its customers in a way that disrupts their own operations.

Underlining the core belief that Islamic banking is good not just for Muslims but for non-Muslims too, **Petr Klimes, Co-Head of Digital and Global Head of Marketing, ADIB**, said this belief has been proven by research. He cited the example of Prague, where, he said: "I spoke about Islamic banking, where the Muslim population is even less than one per cent of the country. The core principles of Islamic banking – transparency based on financial assets and the real economy – resonated with everyone. They were interested in banking that protects the interest of the customer, saying 'I wish my bank was like that.'"

Being disruptive is a very important currency when we talk about Islamic banking, Klimes said, adding that these "old" principles can be brought to life with digital tools. Ethics are universally appealing and its underlying principles make Islamic banking relevant for everyone.

Klimes said there are two good reasons that any Islamic bank should welcome fintech: "It's good for the customer; and it's good for the bank."

> "IT'S GOOD FOR THE CUSTOMER; AND IT'S GOOD FOR THE BANK"

In fact, the opportunity for Islamic banks to take advantage of fintech may be greater than conventional banks, according to Klimes, who said one of the key themes of fintech – democratizing capital – is the same as ethical Islamic banking. "These are compatible with the ethical foundation of Islamic banking," he added.

Technology can help Islamic banks make the products competitive without compromising on the authenticity of the offering. Klimes also spoke about another direct application of fintech in creating Shariah-compliant processes in a prescribed sequence so that it is digitized and automated.

Speaking about the big era of change, **Haytham Elmaayergi, Global Head of Transaction Banking, ADIB**, said that with technologies such as blockchain, the way trade has been done for the past 400 years will be disrupted. "People still print a bill of lading, while they send documents by WhatsApp. Why don't we put everyone on blockchain – consumer, importer, and exporter?"

Elmaayergi supported the idea that a true sharing economy would mean that users who contribute to the success of products – such as Facebook – should all be shareholders in an ideal world. A participation economy means assets would be owned by the crowd.

The Middle East and Islamic banking, Elmaayergi said, are both behind the curve when it comes to fintech disruption. While New York, London, and Singapore started earlier, innovation in Islamic finance will make this region a leader worth following.

Smart contracts technology and tools essential to Islamic banking, such as geo-tracking, can be a part of fintech-led growth, he said, and recommended a partnership-based growth model between fintech companies and banks rather than one in which there are merely processes to follow. An equal partnership is beneficial to both and does not drag down innovation in archaic processes.

Adil noted that the relationship between fintech and banking keeps shifting: "When you launch, one partner, say the bank, may be more dominant. As one goes along and the initiative becomes popular and customer-facing, both may become equally dominant."

The concept of partnership should be in the DNA, added Klimes, saying that if it's not, it's an ability that one would benefit from cultivating. "We think we know everything. A little bit of humility is important." He pointed out that engagement is most suitable when it's part of the brand promise.

Nazim said he sees the industry at a point of inflection where the reality has sunk in that we need to be more open. He said banks now understand the line between collaboration and competition. He also recommended positioning initiatives at an arm's length – strategically, financially, and physically – in a live-and-let-live approach.

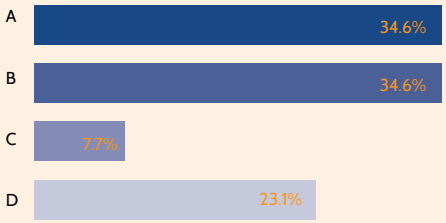
A mindset shift is needed before this approach can be turned to practical uses, however, said Elmaayergi. Banks today have no choice but to adopt fintech, he added, recommending a two-fold approach where one simultaneously encourages innovation and creates processes to make it happen.

The panel discussed the challenge in changing cultures. Klimes said this is the biggest challenge since "culture eats strategy for breakfast". He said this involves changing the risk appetite of traditional institutions and getting them to accept failure as a process. "We have tried to avoid risk at any cost. This has resulted in a situation where we research for five years and then test for two years before we launch a product. We no longer have the luxury to do that. We have to move faster. We have to quickly launch three or four products and accept that maybe only one of them will work. Our appetite for failure has to be there."

In the course of the discussion, the moderator facilitated two polling breaks, during which the panelists, delegates, and audience participated in the voting on two important questions related to the topic being debated by the panel. These were the results:

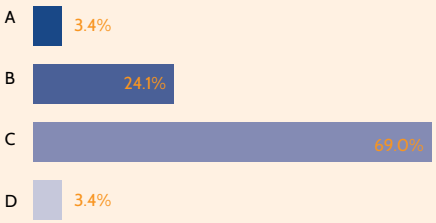
Poll 5
How can Islamic banks best take advantage of developments in fintech?

A. Improve customer experience and engagement
B. Expansion to new customers and markets
C. Enhance product portfolio
D. Increase alignment with Sharia principles (such as transparency and social considerations)



Poll 6
What is the ideal partnership between traditional Islamic banks and fintech operators?

A. Investment – Islamic banking treating fintech operators as an investment opportunity
B. Adoption – Islamic banks looking to adopt and leverage fintech
C. Partnership – Islamic banks should look to work with fintech operators to grow their business
D. Other



CONCLUDING REMARKS

FINTECH IS AN OPPORTUNITY TO REMOVE THE CUSTOMER'S PAIN POINTS

Summarizing the day's discussions the way forward has to be about more than just making money. Removing the pain points for customer is a good thing. Having equality is a good thing. Shariah principles speak of fairness. The new age brings tools which help improve transparency and further the concept of fairness between parties. The Islamic world should look at how to leverage this huge advantage that the digital world brings.

There are more than 12,000 fintech companies globally and most of the top 200 banks are partnering with them. A study shows that in the next 24 months, 80 per cent of top banks will partner with fintech.

Banks can follow one of the many models of fintech partnership depending on the organization's approach to business, its management team's comfort level, and shareholders' risk appetite. One of the approaches is to acquire a fintech company, another is to have partnerships with multiple fintech companies, and another is to have one key partner.

It is crucial to find ways to begin instead of merely thinking and talking about opportunities. To work across silos is an opportunity, while also being one of the biggest problems. The solution lies in creating a new ecosystem where people from different parts of the organization – front office, back office, audit and Shariah compliance, among others – all to be at the same table.

One of the main opportunities that fintech brings to Islamic banks lies in going paperless, via digitizing and blockchain, because the documentation is more complicated than conventional banks.

The region needs to catch up on the use of fintech in banking and the UAE supports these initiatives via institutional pillars and regulators as enablers for entrepreneurship.

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