This document consists of notes from panel discussions at the 2019 EFG Hermes One on One conference in Dubai, UAE

Panel 1:

Beyond Banks: How are NBFIs opening up new markets, and are they a threat to traditional banks?

The first of the two panel discussions on Sunday, 3 March focused on the future of the the banking sector. Panelists discussed non-bank financial institutions and whether they offer a real alternative to traditional banking, the role of technology in driving financial inclusion, and the value of data to the emerging industry, amongst other topics. The panel was moderated by Simon Kitchen, Head of Strategy at EFG Hermes Research, and featured three industry experts:

- Khalid Elgibali, Division President for Mastercard Middle East and North Africa
- Dirk Brouwer, Chief Executive Officer, ASA International PLC
- Walid Hassouna, Chief Executive Officer, EFG Finance Holding

Highlights of the discussion included:

Walid Hassouna, CEO, EFG Finance Holding:

- **We use technology across the board** — to reach clients, to steer them toward the right products at the right time, to reduce our transaction costs. Our valU consumer finance arm was the first company of its kind in Egypt to go to market with an app.

- Risk assessment is automated — **we are the only company in the Middle East and North Africa able to make a decision on credit in 2-5 minutes**. There is no manual intervention in the underwriting process.

- **Taking valU online:** We are now rolling out a product that will allow our clients to use their valU balance when checking out online with our merchants and hope to take this to the major marketplaces of our region in the near future.

- **Microfinance has been growing at more than 100% each year in Egypt** because in the past 3-4 years, the banks have been challenged in reaching the unbanked.

- **Consumer finance has been key to keeping products affordable in Egypt** across segments including appliances, mobile phones and furniture.

- **We are an engine of financial inclusion.** All of our microfinance company's loans are reported to the national credit bureau. As a result, there are people who have been clients for four or five years who are now taking EGP 100,000 loans from banks because we underwrote their businesses in the first place and brought them into the formal economy.

- **NBFIs drastically reduce underwriting times** which expands access to financing and allowing smaller entities to build up their credit history eventually allowing them to start taking larger loans for traditional banks.

- **EFG Hermes has developed a program to underwrite ride hailing drivers** looking to finance a vehicle upgrade even when they don't own the car. We look at over 25 data point from their cash flow and income to how many hours they work, when they work, and their ratings from their customers. In a twelve-month pilot program, we underwrote 250 drivers with a 0% default rate.

- **Data is the new oil.** Regulators and governments are becoming increasingly interested on the role that data can play in driving financial inclusion.

Khalid Elgibaly, division president, Middle East North Africa, Mastercard:

- **As a technology leader, we are looking at how we can best serve all of our customers** including merchants, banks, non-bank financial institutions and governments as we move toward a cashless future.

- **Financial inclusion is a fundamental engine of economic growth** across the Middle East, North Africa and other emerging economies.

- **Physicalization is challenge and it's why we need to design customer experiences with digital in mind from the beginning.** Consider that even in developed economies, as many as 1/3 of bank accounts are dormant, as many as 2/3 of mobile wallets are 90-day inactive. The technology is there, but if people can't do anything with it, the transaction process gets quickly physicalized again.

- **Cash comes at a high cost — 1-1.5% of GDP — so going cashless drives real growth.** Policymakers in Egypt know this, it's why they established the National Payments Council headed by President Abdel Fattah El Sisi. Other countries are following suit with similar processes and initiatives. It's about driving inclusion to make sure the benefits of a cashless society cascade to the masses.

- When it comes to accessibility, you need to think about the cost of delivery versus the benefit you get out at the end. Technology makes the cost feasible. **Technology makes the whole population bankable.**

- **The rise of fintech isn't a zero-sum game for technology providers or for banks or for NBFIs.** That's why we have established a global platform that brings fintech startups to the doorstep of these banks — to bring to the same markets solutions including AI, chatbots, blockchain that can support mainstream businesses. What we are seeing is different formats of collaboration. Both together have a different and distinct set of strengths. They can drive inclusion and take it to the next level.

- **It's about collaboration and not competition. The competition is cash.** We see Visa and American Express as partners in driving the same vision of creating a world beyond cash. We want to focus not on take market share from one another, but on how we can grow the pie of digital transactions and use it to create the data flows that allow us to drive more effective financial inclusion bringing the benefits of economic growth down to the masses.

Dirk Brouwer, Chief Executive Officer, ASA International PLC:

- **Technology is critical, but ours is still a very labor-intensive business.** We may use technology to disburse funds, but clients are still working daily with cash and repaying in cash. It will be 10-15 years before our clients start trading in marketplaces using their mobile phones, but it will happen. 100% of our clients have a mobile phone, but only about 10% of them in some markets are smartphones.

- **The biggest obstacle towards a cashless payment system is access.** Some large banks are slowly moving away from traditional services but, in general, most are still not successful at bringing banking to a large part of the population. NBFIs can help bridge this gap and quickly increase accessibility.

- **One of the keys to wider adoption of cashless payment systems is to reduce the cost at which clients transact.** Today, comparatively high transaction fees make it prohibitive for our clients to go cashless. In many countries in which we operate we cannot expect people to pay a 10% fee on a $10 transaction, it quickly becomes too burdensome.

- **As the technology comes into play, it is critical that the regulators and central banks become involved**. Pakistan is a great example of this, of how regulators are keen to ensure that fintech works for low-income people, the largest segment of the population.

- **When you formalize a large chunk of the population you suddenly have large streams of income you can tax.** This opens up a lot of possibilities as long as governments use this tax revenue effectively.

- **Data is key to building a great non-bank financial institution.** We take data our loan officers learn from individual clients — each loan officer covers about 350 clients — and she knows how the cash flows of a vegetable seller are different from those of someone working with garments. This is key data for us that when aggregated and scaled up gives us a basis on which to lend to clients across all of our markets.

- **In the West they they invested in data.** They invested in getting the data knowing that it would eventually have value. **You don't see that as much in emerging markets**. Real, effective payment systems at almost zero costs provide a list of benefits and creates a massive base of data that we can all use to create the right services.

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PANEL 2:

The New Consumer: How are companies winning and keeping customers in a tougher economic environment?

The morning's second panel centered on that classical hallmark of emerging markets: The consumer economy and how companies are leveraging technology to build out new infrastructure, create strategies, and develop new ways to meet their ever-evolving needs. The discussion was moderated by Manus Cranny, lead anchor at Bloomberg Daybreak: Middle East and Daybreak: Europe and featured three speakers:

- **Mahmoud El Meligy, Chief Operating Officer, Dubai Refreshment, the PepsiCo bottler and distributor**
- **Sacha Poignonnec**, Co-Chief Executive Officer & Co-Founder, Jumia
- **Nada Amin**, Vice President Consumer and Retail, EFG Hermes

Highlights of the discussion included:

Sacha Poignonnec, Co-Chief Executive Officer & Co-Founder, Jumia:

- **Technology is just a tool … a way to achieve a goal**. Consumers. make a purchase because they like the product, because they can save money or because we offer a convenient way of buying.

- We operate as a marketplace at the nexus between companies and consumers as well as importers and exporters and logistics players. **E-commerce platforms are a great barometer for the economy** because we work with everyone: Buyers, sellers, logistics, importers, and exporters alike. **I can tell you there that businesses in many countries are confident in their outlook**.

- **Egypt and Nigeria are very resilient.** We see a lot of growth in Kenya and then gems like the Ivory Coast and Tunisia. In the latter, you see sellers starting new brands, doing more importing, and starting up new products.

- **Technology is changing advertising. With television, you could spend millions to target no one in particular and you have very few ways to measure your impact.** It's better to funnel spending into YouTube and other social media platforms where you can target a specific group for much less money and greater impact.

- Look at Nigeria: Young people there practically don't know what television is. They watch YouTube, they watch online videos. They're tomorrow's consumers, and they just don't watch television. **If you're a content company, how do you bring your content to the market in a way that is relevant to consumers and to advertisers?**

- **But while social media is a great channel, it will never be what we spend all our money on because it needs much more management.** So there's a lot of upside, but it needs more active management as a brand.

Mahmoud El Meligy, Chief Operating Officer, Dubai Refreshment, the PepsiCo bottler and distributor

- **Technology has allowed us to be more efficient** — to leverage data so we can use a smaller distribution fleet to deliver what our customers want when they most need it. Technology is becoming a vital element for companies that do a lot of fleet management or manufacturing.

- With more complex data analysis of consumer behavior we have a far better idea of what they want so **it's inevitable that technology is going to climb in importance for doing business**.

- Ten or 15 years ago, we spent on television, the press and billboards. **Today, it is increasingly about social media,** where you can be extremely specific on demographic and geolocation data — and it is less expensive.

- **The big exceptions on advertising are sporting events**, where we know the size and composition of a television audience that cuts across the entire MENA region. **The other exception, which is really specific to this region, is Ramadan,** when you have a guaranteed captive audience right after the breaking of the fast.

- **E-commerce is even going to change real estate.** Malls were once 70-80% retail and 20% entertainment. In 10 years' time, that's going to start skewing the other way — online shopping is going to drive them to become more about entertainment — about experiences and food and beverage.

Nada Amin, Vice President Consumer and Retail, EFG Hermes:

- **Investment in distribution has been a focal point for companies** — they're using it to access demand quickly by reading the market better and allowing drivers to connect faster with depots.

- The investment in capex has not reached its full and most robust form. **We're seeing signs of pickup in capex spending in Egypt**, but in the GCC, most companies are reaping the benefits of existing investments.

- **Where technology gets very interesting is in powering innovation for food and snack companies** to match what consumers most want with the production process. It's more about delivering new products that the market needs.

- In terms of advertising, **most companies are turning away from above-the-line marketing and shifting toward online and social media launches**. Smaller products create big waves on social media, especially with the under 30s.

- **Social media is bringing down cost and making it easier to hit your audience in a more targeted way**. Consumers talk a lot, even if they're not sure what they want.

- Egyptian companies took a substantial hit to volumes after the late 2016 devaluation, but **we're now seeing the broad-based target for most companies being the return to historical high volumes.**

- **They've all become leaner on distribution**, and we're now seeing volumes recover even after significant price increases on the back of cost pressure. Either way, consumers have proven very resilient, particularly in Egypt.

- **We see volumes coming back in Egypt and in the Gulf this year.** Affordability has been a big issue for consumers across the region. Disposable income is lower — people are thinking week to week and less month to month. Packaging sizes have changed, even in the GCC, where we don't usually see price changes on dairy and water.