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CIB looks to increase Egypt's financial inclusion

James King | 1/08/2016 9:00 am

Commercial International Bank's digital innovations fit into the Egyptian government's strategy of financial inclusiveness. James King looks at how the bank is making them work.



Hisham Ezz Al-Arab is no stranger to adversity. In his 16 years at the helm of Egypt's Commercial International Bank (CIB) he has endured revolution and economic turmoil, but he has transformed CIB from a small corporate lender into a full-service institution that is now Egypt's largest and most successful private sector bank. Between 2002 and 2015, CIB's return on average common equity (ROAE) outperformed the market average, growing from 25.4% to 33.4%.

Meanwhile, the bank's commitment to innovation and customer service has brought innovations to the Egyptian market, including digital banking initiatives such as CIB's smart wallet. These developments, and others, will be important for the country as the government looks to augment financial inclusion and formalise much of the grey economy. Indeed, Egypt's banks have often played a pivotal, if unsung, role in supporting the national economy during times of crisis.

Today, their support is no less important. With the country's economic growth stuttering as a result of lower oil prices, a drop in tourism numbers and more limited economic support from the Gulf states, the

authorities are looking to implement much-needed structural reforms while considering ways to stimulate the growth of the domestic economy.

Pluses and minuses

“Clearly Egypt is facing a number of serious challenges. But the administration is not in denial about the situation – that would be a bigger crisis. Both the government and the private sector are doing all the right things to address these problems,” says Mr Ezz Al Arab.

The International Monetary Fund expects Egypt's gross domestic product growth to hit 3.3% in 2016, well above many of its African peers including Morocco, Nigeria and South Africa. But this relatively strong performance conceals a number of problems, including sagging business confidence, inflationary pressures and an ongoing currency crisis.

This last challenge has emerged as reduced foreign investment, lower tourism numbers and declining receipts from the Suez Canal have all hit foreign currency inflows. Meanwhile, the central bank's defence of the Egyptian pound appears to have compounded these challenges as capital controls, among other measures, add to the country's woes. In early July, central bank governor Tarek Amer labelled the defence of the pound over the preceding five years a "grave mistake".

The Central Bank of Egypt has now announced plans to move towards a liberalised exchange rate regime. “Conditions have deteriorated over the past year but the silver lining is that the government is serious about structural reform,” says Mr Ezz Al-Arab. “The move towards a more liberalised exchange rate regime must go hand in hand with other reforms. These include improvements to foreign investment regulations, infrastructure and the system of land deeds.”

Digital innovation

Difficult though this environment may be, Egypt's banks have continued to perform relatively well. As of December 2015, the sector's ROAE was 18.9% with return on average assets of 1.3%, according to data from ratings agency Moody's. CIB has been no exception to this trend. As of March 31, 2016, the bank's total assets, net loans and customer deposits had all enjoyed year-on-year growth, as did total revenues, which grew by 4%.

But it is in the digital banking space that CIB has carved out singular success. By introducing market-leading innovations, the bank is spearheading plans to accelerate financial inclusion in a country where only about 10% of adults have bank accounts. “The provision of digital banking services will be crucial to meeting the government's financial inclusion agenda and formalising much of the grey economy,” says Mr Ezz Al-Arab.

For consumer clients, CIB launched Egypt's first digital smart wallet in January 2016. Available as an app, it permits users to pay for goods and settle bills using their mobile phones, while also allowing for wallet-to-wallet transfers of funds. Advances are also being made in corporate banking, with 55% of CIB's corporate remittance and trade finance services being executed through online channels.

The growing digitisation of banking will be important if government targets for lending to small and medium-sized enterprises (SMEs) are to be met. Onerous regulations that require Egyptian banks to hold hard copies of all transaction documents are both expensive and cumbersome for lenders to enforce, but with the authorities seemingly committed to meaningful change, Mr Ezz Al-Arab remains upbeat.

“The central bank's aim is to direct 20% of commercial banks' credit portfolios to SMEs by 2020,” he says. “This is a challenging target but it is achievable. If we can migrate more of our business banking segment to digital channels, with the help of regulatory reforms, then it's realistic.”

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