# Jumping on the fintech bandwagon

Evolving into a landscape where fintech seamlessly fits into the legacy financial infrastructure requires technology as well as support from the regulators to monitor, facilitate and drive it.

Globally, 2022 was a challenging year for fintech investment, however the decline in deal value doesn't tell the whole story, as the deal volume was incredibly robust this year: the second-highest total next to 2021. Early stage deals saw record investment, which bodes well for the long-term fintech pipeline. At a sector level, reg tech investment soared to a new high.

The diversity of jurisdictions attracting significant fintech deals was also very strong. In the second half of 2022 alone, 24 different countries attracted US\$100 million+ fintech deal — ranging from traditional hubs like the US, UK, and Singapore to less mature fintech hubs like South Korea, Luxemburg, Italy, Malaysia and the UAE. This diversity reflects the myriad value propositions offered by fintech around the world, from enabling innovation in financial institutions to supporting small business growth and improving financial inclusion and access to financial products. In 2022 as a whole, there's no doubt that the fintech market globally saw both highs and lows.



**Developments in Jordan** 

Through utilizing technology like Application Programming Interface (API's), banks can offer customers an easy way to access their financial data. Open banking and open finance carry the potential to revolutionize how people in Jordan interact with banks and other financial services providers. Additionally, it allows new entrants into the market, creating new opportunities for startups, fintech, and tech companies in Jordan who seek ways in which they can disrupt traditional finance models. In line with these developments and as responding to the need for regulatory support and monitoring of fintech services, the Central Bank of Jordan (CBJ) came across with several official announcements, including its univocal support for fintech in general.

To support this agenda, CBJ announced the Sandbox, allowing pioneers and entrepreneurs in the financial technology realm to approach CBJ and apply for regulatory mentorship and support and the availability to test FinTech solutions before going live to increase the chances of success in the market. CBJ emphasizes on its continuous support for solutions that leverage innovations like blockchain, considering in particular solutions that enhance financial access to digital financial services in a customer friendly, secure and efficient manner, having in place the highest cybersecurity measures in the financial sector.<sup>1</sup>

In November 2022, CBJ published a detailed instruction called Organizing open financial services which set the requirements need to be met from the companies that apply fintech services, within one year from the date of these instructions. These instructions have defined and covered important aspects such as governance, application programs, information security, customer data privacy, and cybersecurity.

Additionally, the third-party provider (TPP) is required to appoint an independent specialized third party to conduct vulnerabilities assessment at least once every six months, and penetration testing at least once a year or after any radical change to it.

As detailed in their circular issued on 27 August 2023, CBJ continues to integrate fintech through allowing currency exchange companies to provide a co-branded product for the services of opening



As part of the fintech developments in Jordan, there has been considerable innovation in mobile applications offering greater levels of convenience, personalization, and access to data-driven services.

electronic money accounts (like e-wallets) and issuing debit payment cards, as agents of payments and electronic funds transfer companies.

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- *QWQ:* An agent-based payment network, providing an alternative solution to a regular ATM.
- **DareebaTech:** A platform offering smart tax preparation and consultancy.
- **Tanda Smart:** A financial solutions platform that offers alternative banking products currently offering a digitized ROSCA.
- *Tamweel Trading Company:* Offering various financing solution products, which include financing for cellular devices, home appliances, sports and electronic appliances, and furnishings.

While the above initiatives were developed by new market entrants, also banks – as the legacy financial institutions – have moved ahead with fintech.

The JOIN Fincubator, which

stands for Jordan Innovation Fintech Incubator, is a unit led and operated by the Jordan Payments and Clearing Company (JoPACC) and its strategic partner CBJ. It was established with a commitment to modernizing Jordan's economy and leading digital transformation across its sectors. With the objective to digitize payments and financial services in Jordan and introduce innovative financial solutions to the financial ecosystem. The JOIN Fincubator's programs have been operational since the beginning of 2023 and are tailor-made for innovative technology-driven start-ups and entrepreneurs who need development tools, a testing environment, quidance on

regulatory requirements, and support in the standardization and development of access tools and instruments to better plan, expand and test their fintech solutions.<sup>2</sup>

AHLI FINTECH is an independent fintech venture, investor and incubator, financial technologies software, hardware, and professional services provider. AHLI FINTECH has become a well-known fintech hub in Jordan, contributing to events, conferences, workshops, and training sessions.

#### LINC by Cairo Amman Bank is a

digital bank with a customizable digital interface, including on-the-go banking features. Additionally, LINC aims to combine an integral financial education incentive for its clients, as they offer courses that are backed by Bridge International whose main objective is the spread of educational equality regarding personal economies. It's a neo bank aimed at the techsavvy and those that strive to further their academic knowledge.

## Disruptive or progressive, the innovative solutions developed by existing

fintech in Jordan will drive change everywhere.

#### AB iHub and AB Accelerator are

initiatives by Arab Bank focused on fintech collaboration. The AB iHub builds rapid prototypes and uses fintech ecosystem collaborations and bootcamps to work directly with fintechs and individuals in the ecosystem. The AB Accelerator program focuses on the adoption of emerging fintech technologies into Arab Bank's infrastructure and network. The program conducts proofs-ofconcept with startups to validate their product-market fit within Arab Bank's environment and invests in fintech startups strategically aligned to the bank.



#### Fintech trends for 2023 and beyond

The next wave of fintech innovation will likely focus on solving or supporting major global transitions such as the coming demographic impact on productivity, the low carbon economy, emerging markets integration, automation, and machine learning, unbundling of business models, to name a few. The innovative solutions developed by fintech in this space will drive change across horizontal markets, industries, nations, regions, and globally.

An example is ESG or green finance, with fintech innovation holding the potential to contribute deep and lasting impact to global efforts on climate change. ESG will be the fastest growing fintech segment with a forecast of global ESG fintech deals driving a 68 percent compound annual growth rate (CAGR) to 2025, from US\$52 billion in 2023 to US\$166.7 billion in 2025.<sup>3</sup>

Another important area where fintech firms are expanding is in enhancing the resilience of finance and financial systems, whether that's safeguarding the financial system from evolving risks, enhancing protection against cyber risks, and embracing digital regulation.

In addition to increasing investment in fintech solutions aligned with ESG principles, the banking and finance industry will witness a number of fintechdriven innovations and market impact over the coming year.

In summary, we expect the following trends to further crystalize:

#### • **B2B solutions will continue** to attract solid investment as the business embraces the benefits of streamlining processes and digitization.

Banks are developing solutions that offer modern payments that offer faster payment processing times, lower costs, and greater transparency than traditional methods.

#### Non-crypto blockchain-based solutions

Applying blockchain technology in banking will bolster bank security by developing robust know-your-customer (KYC) solutions and cryptography protection that verifies the identities of users on the blockchain. Information can be easily shared across the network while reducing the need for intermediaries to handle data distribution, further eliminating vulnerability. The decentralized nature of blockchain eliminates single points of failure, which also reduces the risk of data breaches. Blockchain technology will also benefit the industry in the areas of instant payments and money transfers, digital currency, and money exchange.

#### • Al-driven fintech solutions and Al-based tools

with their advanced With their advanced computational and analytical capabilities, these can help to optimize data aggregation and usage, mitigate regulatory and market risks, improve customer experience, and combat fraud.

## • The focus on fintech deals and investment activity

In total venture, capital (VC), private equity (PE), and mergers and acquisitions (M&A) in the sector are expected to continue to grow at an estimated 30% CAGR over the next decade.

### • Open banking and open API

These are multifaceted and create both challenges and opportunities for the banking industry in Jordan. This means that financialization will cover areas other than economic activities, such as technology, market, regulation, and social. As demonstrated by the taxonomy, it will affect the distribution of banking services and the structure of the market. This will cause challenges like risk of disintermediation by third parties, that can affect the banks' ability to retain customers, and security related challenges of open API, such as potentially fraudulent third parties, digital intrusion, personification, illicit use of data and customer privacy concerns, can deter banks from efficiently moving forward with a secure open finance model. So far, these have been addressed through new CBJ instructions with more announcements expected to follow.

#### • Open API architecture

Open banking is dependent on the seamless access to data and the delivery of functionality served by an open API architecture. Regulators will need to ensure that third-part providers (TTPs) seeking competitive advantage keep to the spirit of the open API architecture model, by ensuring that interoperability remains unrestricted and free from protectionist business practices.

#### • Regulators will place more scrutiny on the crypto space

while encouraging the development of money systems that better align to a stable and sustainable digital banking system.



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