Digital Financial Services Roadmap to Enhance Financial Inclusion

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This study was prepared by the Palestine Economic Policy Research Institute (MAS) at the request of the National Committee for Financial Inclusion in Palestine led by the Palestine Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA) under the "Financial Inclusion Field Survey and Related Studies" project, which was implemented by MAS based on the data of the field surveys carried by the Palestinian Central Bureau of Statistics (PCBS). Note that the National Committee for Financial Inclusion is the sole owner of the intellectual property and publishing rights of the studies.

Preface

The Palestine Monetary Authority (PMA) and the Palestinian Capital Market Authority (PCMA) have been working with determination to enhance financial inclusion in Palestine, as part of clear strategies and goals and with the broad participation of relevant actors. In recent years, these efforts have been translated into an ambitious national project based on a comprehensive survey (the 2016 Financial Inclusion Survey), giving rise to the development of the National Strategy for Financial Inclusion 2018-2025. Accordingly, in 2022, a comprehensive re-assessment of financial inclusion was carried out in order to measure developments since 2016 and the progress made in the implementation of the National Strategy of Financial Inclusion, as well as to determine the reasons, obstacles, and gaps preventing the attainment of higher levels of financial inclusion. It is hoped that the re-assessment will contribute to supporting the PMA and PCMA's endeavors to develop and update the strategic action plan.

This study provides a comprehensive diagnosis of the case and development of financial inclusion in Palestine on the demand and supply side as well as on the ecosystem side, including a comprehensive and an in-depth analysis of marginalized groups that suffer from low proportions of financial inclusion. It examines the extent to which the formal financial sector is capable and willing to provide services to financially excluded groups, and it makes urgent recommendations and suggests necessary interventions to promote financial inclusion and achieve the goals of the National Strategy of Financial Inclusion within a specific timeframe. It covers the formal Palestinian financial sector, both banking and non-banking, and presents some indicators of the proliferation of the informal financial sector.

In addition to the main diagnostic study, two separate technical studies were prepared. The first addressed the analysis of digital financial inclusion in Palestine, which was aimed at understanding the extent to which Palestinian individual citizens were willing to adopt digital financial services as a means of promoting financial inclusion. It also assesses the extent to which financial institutions were willing in terms of supply to provide digital financial services that could facilitate access to the financially underserved segments of individuals. The second study tackles the reality of financial inclusion from the perspective of gender in Palestine. It offers a comprehensive and detailed analysis of gendered financial inclusion, focusing on how it is shaped by the many systemic, cultural and social barriers and proposing a set of policy interventions in order to accelerate the transformation in the gendered financial sector.

We, at PMA and PCMA, are pleased to take this opportunity to express our gratitude to the Palestine Economic Policy Research Institute (MAS), the Palestinian Central Bureau of Statistics (PCBS) and the Financial Inclusion Assessment Project Management Unit for their efforts to prepare this informative and comprehensive study, as well as to all relevant actors from the private sector, the government, the civil society organizations (CSOs), and partner international institutions that supported the National Strategy of Financial Inclusion Building Project, particularly Alliance for Financial Inclusion (AFI).

Chairmanship of the National Financial Inclusion Committee

Dr. Nabeel Kassis	. Feras Milhem
Chairman of the Board of Directors of PCMA	Governor of the Palestine Monetary Authority

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ABBREVIATIONS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
API	Application Programming Interface
ATM	Automated Teller Machine
DFI	Digital Financial Inclusion
DFS	Digital Financial Services
DFSP	Digital Financial Service Products
eKYC	Electronic KYC
ePOS	Electronic POS
e-Wallet	Electronic Wallet
Fintech	Financial Technologies
IFEC	(Investor and Financial Education Council (Hong Kong
FMEF	(Foundation Marocaine pour l’Education Financiere (Morocco
IMF	International Monetary Fund
Incumbents	Traditional Financial Services Providers
IOT	Internet of Things
IT	Information Technology
KYC	Know Your Customer
MFI	Microfinance Institution
MOOC	Massive Open Online Course
MSMEs	Micro, Small and Medium Enterprises
NIS	New Israeli Shekel
PA	Palestinian Authority
PACI	Palestinian Agricultural Credit Institution
PCMA	Palestine Capital Markets Authority
PMA	Palestine Monetary Authority
POS	Point of Sale
ROSCA	Rotating Savings and Credit Associations
SaaS	Software as a Service
SMEs	Small and Medium Enterprises
USD	U.S. Dollar

1. INTRODUCTION

This report focuses on the readiness of the Palestinian population for digital financial services (DFS). It must be read in conjunction with the following reports, also produced as part of the survey on financial inclusion in Palestine:

1. Summary Report: Financial Inclusion Diagnostic Study
2. A Step Forward: Financial Inclusion from a Gender Perspective in Palestine – Gender Policy Report

This report is concerned with understanding the readiness of the individual Palestinian citizen to embrace DFS as a way for enhancing financial inclusion, and to assess the readiness of financial institutions, on the supply side, to be able to deliver DFS that can help them reach previously underserved segments of the population.

Divided into two parts, the first part of this report provides an in-depth analysis of the supply and demand survey undertaken by the PMA and PCMA, in conjunction with MAS. The second part focuses on developing a roadmap for strengthening DFS for the promotion of financial inclusion in Palestine.

The surveys, conducted in 2022, are updated versions of a similar survey undertaken in 2016. The 2016 survey led to the development of a National Financial Inclusion Strategy, with the mission to increase financial inclusion from around 36% to (more than) 50% by 2025. The 2022 survey highlights progress made, and more importantly, it factors in new measures of financial inclusion, such as e-wallets (instead of bank accounts), and other digital financial services and products (DFSP) that drive digital financial inclusion (DFI). Unearthed gaps are translated into an actionable roadmap, proposed to address the problem of financial exclusion in Palestine.

PART 1

ANALYSIS OF SURVEY RESULTS

2. SUPPLY/DEMAND SURVEY

The survey included three key work phases:

1. Demand-side Survey

Covering 7,324 individuals, this survey assesses changing demand for financial services. Questions are divided into ten parts, to capture the following information:

a. Identification information
b. Demographics and population segmentation
c. Ownership of assets
d. Accessibility to - and ownership of - financial services (including DFS)
e. Means used for payments and transfers (including digital payments/transfers)
f. Savings' information (including digital financial assets)
g. Usage (including frequency) of financial services (including DFS)
h. Household financial management
i. Information on trust in financial institutions (including new payment providers and Fintech newcomers)
j. Financial literacy and knowledge (including their understanding of DFSP).

For this report, the focus is on specific questions designed to understand the readiness of the Palestinian population to adopt DFS, and therefore drive greater levels of DFI.

2. Supply-side Survey

Obtaining the feedback of 48 senior employees, by asking them to fill out a questionnaire on their perspectives concerning:

a. The specific responsibilities of financial institutions in promoting financial inclusion in Palestine.
b. Current, digital transformation initiatives at their organization, as well as initiatives to develop DFSP.
c. The legal and regulatory framework, and the extent to which it helps (or hinders) the development of DFSP to drive DFI.
d. Adequacy of customers' financial protection.
e. Understanding of how financial institutions address gender-related issues.

3. Supply-side Focus Group

A focus group was also conducted with financial institutions, to gain greater insights into specific data collected during the supply-side survey.

3. DEMOGRAPHICS OF THE SURVEY POPULATION AND THEIR READINESS TO ADOPT DIGITAL FINANCIAL SERVICES

3.1 Demographics of the Demand-side Survey Population

DFS can help reach a larger proportion of the population, because it removes some of the barriers faced by firms offering traditional financial services, in terms of reaching the underserved. However, DFI is only possible if the target population are open to engaging with financial service providers through such digital channels. Understanding the demographics of Palestine's population can help to determine whether it is sufficiently placed to adopt digital channels. For example, it is well known that younger people readily adopt digital channels, as do people who have attained higher educational levels. In some cultures, men adopt digital channels more readily than women, who may not have access to digital devices such as a computer or smartphone, or where the man controls the finances of the entire household.

3.1.1 Profile of Respondents

The surveyed population was evenly split between males (50.6%) and females (49.4%). The largest proportion of respondents -18-24-year-olds– accounted for 23.4% of the population, or 1,713 respondents. A younger population is more likely to adopt DFS using financial technology, which is an encouraging sign for DFI (see Figure 1). Conversely, only 3.82% of the surveyed population are 60–64-year-olds (who are sometimes more resistant to adopting digital channels). The largest proportion of respondents (66.93%) are married, while 26.13% reported that they have never married. Financial inclusion of married households may benefit the entire family, as access to finance helps parents pay for their child's education or buy a house, thereby securing the future of the entire family.

A large proportion of the surveyed population are residents of Hebron (15.06%), while 12.92% are from Gaza City. Palestine's primary hub, the Ramallah/Al-Bireh governorate, accounted for only 6.80% of the surveyed population (see Figure 2). Challenges in accessing financial services may be more evident among populations that live outside the main city for any country, and therefore, the locality of the surveyed population will help to explain the challenges such communities face in accessing financial services.

Figure 1: Distribution of Demand-side Survey Population by Age Cohort (%)

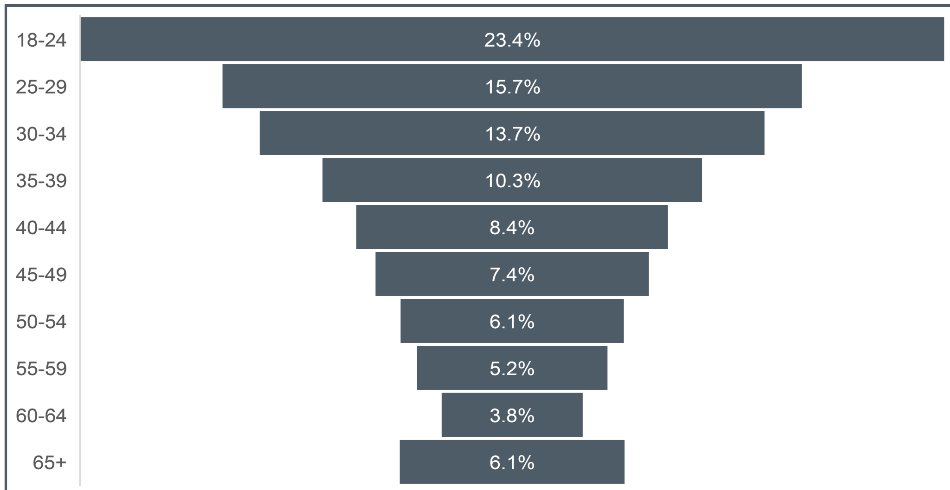
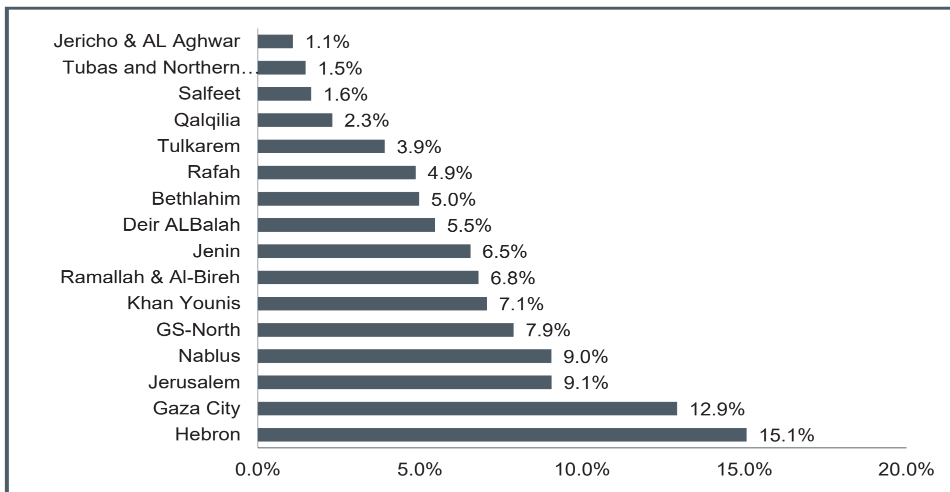


Figure 2: Distribution of Demand-side Survey Population by Governorate (%)

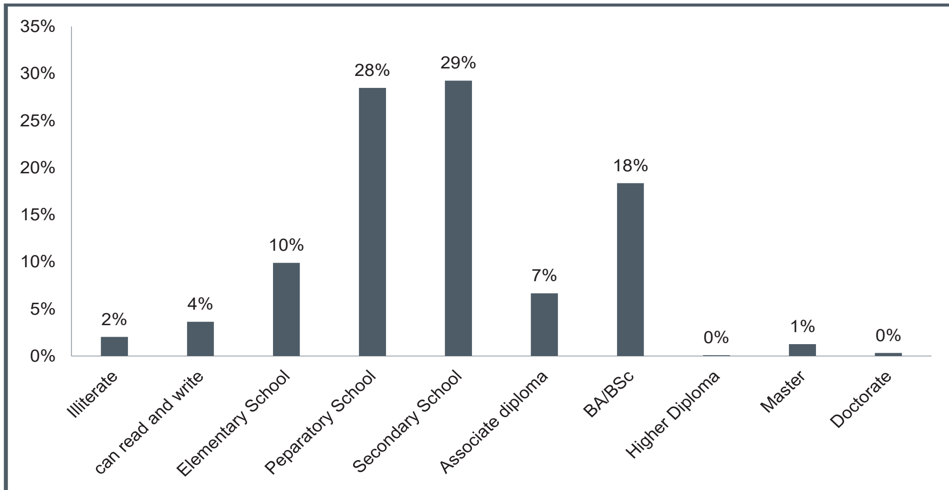


3.1.2 Educational Levels

Education levels of the population can dictate the success of DFI strategies launched by the public and private sectors. Survey data highlights that Palestine has a large, literate population, with 29.3% completing secondary school, and a further 18.4% holding a bachelor's degree. Only a minority report to be illiterate (2.03%), while 3.6% claim to be literate, despite not completing

elementary, preparatory or secondary school. The data presents an encouraging scenario for Palestine, as a literate population has a higher chance of adopting DFS (see Figure 3).

Figure 3: Distribution of Demand-side Survey Population by Level of Educational Attainment (%)



3.1.3 Income Distribution and Employment Status

The highest proportion of surveyed individuals (32.8%) identify themselves as housewives who do not work. A sizeable proportion (10.6%) are students, while 10.2% are unemployed and looking for work. Only a minority claim to be retired (2.1%), while 4.7% are unable to work because of old age or illness. These figures may - or may not - be representative of the Palestinian population. If they are, then these numbers could partially explain financial exclusion in Palestine. Most of the salaried employees (13.4%) are employed by the private sector. The South West Bank has the highest proportion (16.4%) of employees in the private sector, while the South Gaza Strip has the lowest proportion (6.4%).

Levels of income correlate with levels of financial inclusion. Individuals with regular incomes - or with some disposable income - are more likely to have an account and benefit from other financial services, such as savings' accounts, insurance and access to loans. If the salaries of the employed population are directly deposited into a bank account, such individuals may be more open to using DFS. The highest proportion of surveyed households (37.6%) earn less than NIS 2,000 (about USD 580) per month, while 2.9% reported that their household has no income.

The analysis of individuals living within respondents' households highlights that nearly half of the surveyed respondents (49.6%) reported having no income, while around 20% of individual household members earned less than NIS 2,000 per month (see Figure 5). The

lack of income could be explained by student respondents who are not working, parents looking after their children (not considered work), or those looking for work. The lack of household and individual incomes is likely to be the biggest cause of financial exclusion. In such cases, introducing DFS is unlikely to have a significant impact on expanding financial inclusion, unless individuals who earn a meagre income - and have some form of account - are given support to better manage their finances (for example, through mobile applications), such that they can find opportunities to save some money every month.

Figure 4: Distribution of Demand-side Survey Population by Household Income (%)

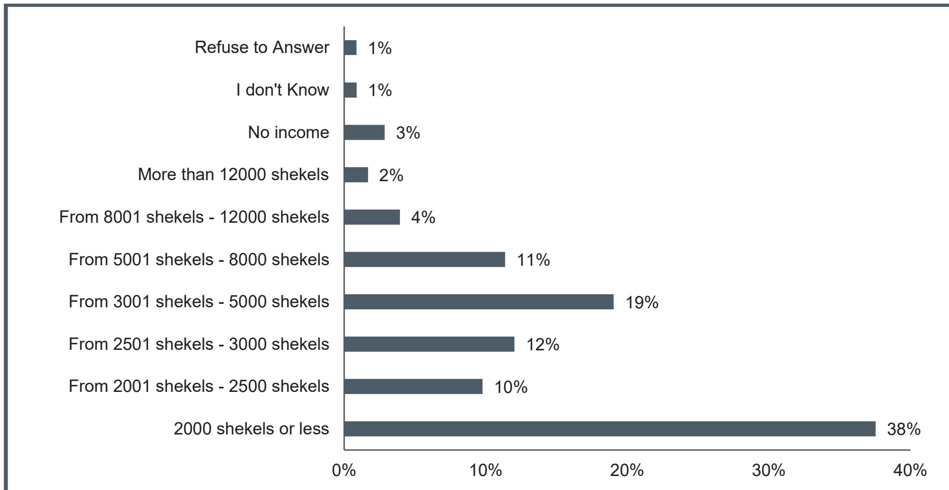
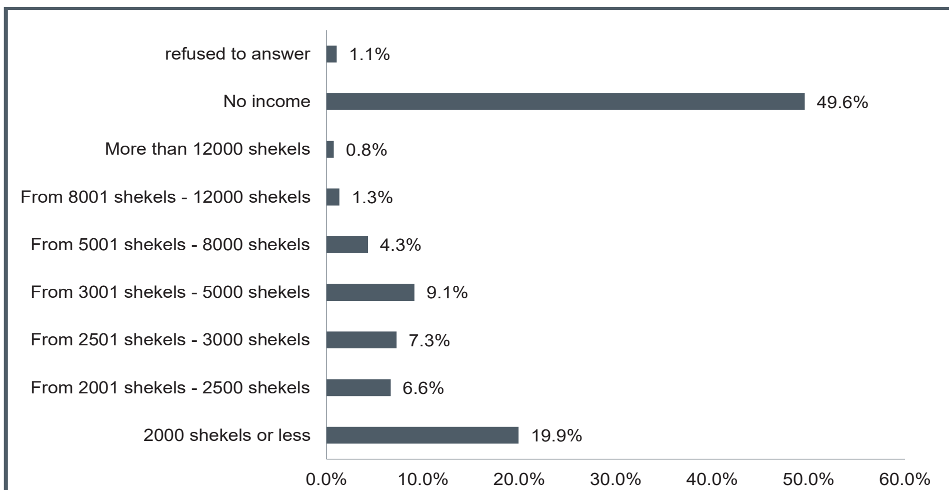


Figure 5: Distribution of Demand-side Survey Population by Individual Income of Household Members (%)



The largest proportion of surveyed households with income less than NIS 2,000 per month are in the Central Gaza Strip (87.3%) and South Gaza Strip (75.9%), as highlighted in Figure 6. Figure 7 shows that the highest proportion of surveyed respondents with no income are in the South Gaza Strip (6.61%).

Figure 6: Geographic Distribution of Respondents with Monthly Household Income less than NIS 2,000 per month (%)

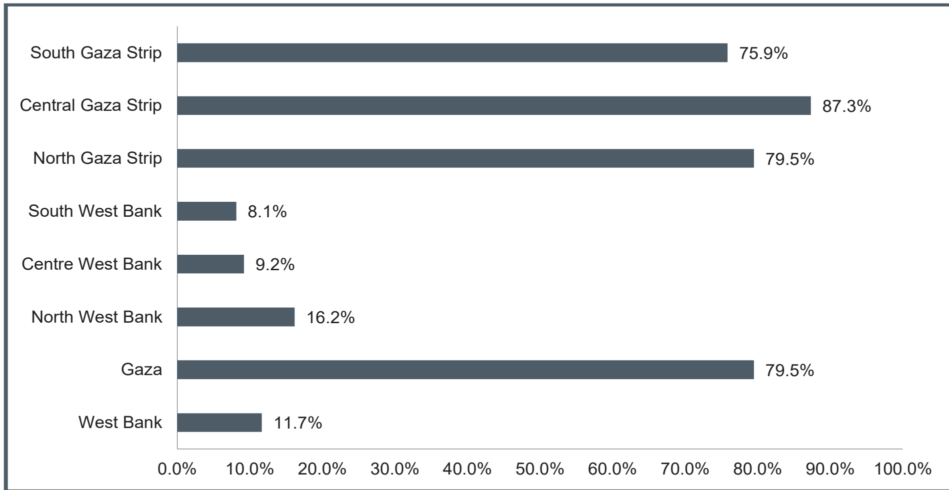
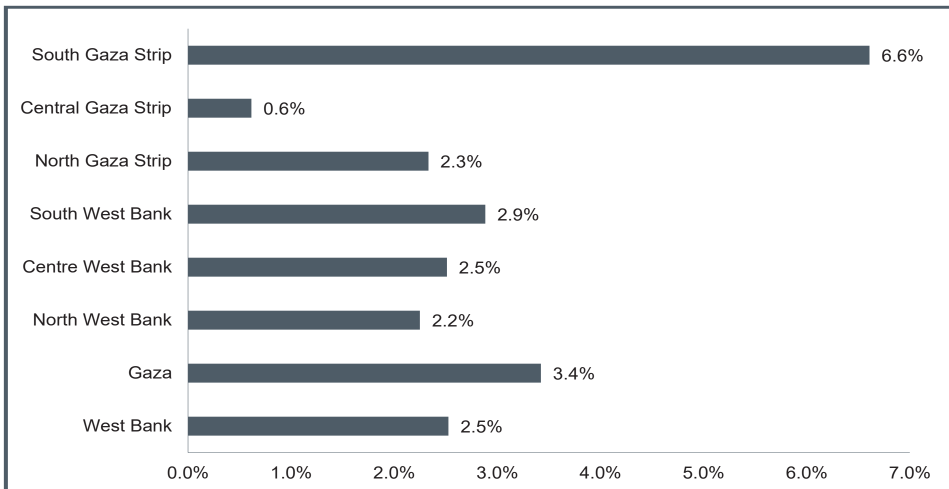


Figure 7: Geographic Distribution of Respondents with No Household Income (%)



The Gaza Strip has more low-income and no-income households that the West Bank, therefore, it is likely to have lower levels of financial inclusion.

3.1.4 Access to Technology and Social Media

Access to the internet and smartphone ownership can encourage DFS, A high proportion of the sampled population in Palestine have internet services at home (80.2%), while 90.5% own a mobile phone, with 89.9% claiming to have a smart phone. This data bodes well for the promotion of DFS, if individuals receive support to make full use of such devices in conducting financial transactions. A high proportion (79.7%) of respondents browse social media, and of those, 92.04% claim to access their social media accounts daily. The data is encouraging, as social media such as Facebook and WhatsApp are proven and effective channels for delivering financial services. These channels are so embedded in the lives of their users that adding financial services to them is likely to lead to higher adoption rates, provided of course that users have sufficient money to justify owning an account.

Of concern is the fact that 72.6% of respondents said that they did not use mobile applications on their phones, highlighting possible resistance to DFS applications targeting the underserved segment of the population. Of those who do use mobile applications (27.4%), 72.6% use these applications on a daily basis. Furthermore, only 36.3% of the surveyed population claim to browse the internet, however 73.2% of those do so daily.

Gamers are likely to use their computers or mobile phones daily, and therefore, could be targeted by DFS. However, only 16.2% of the surveyed population said they play electronic games, however, 78.3% of them also do so daily.

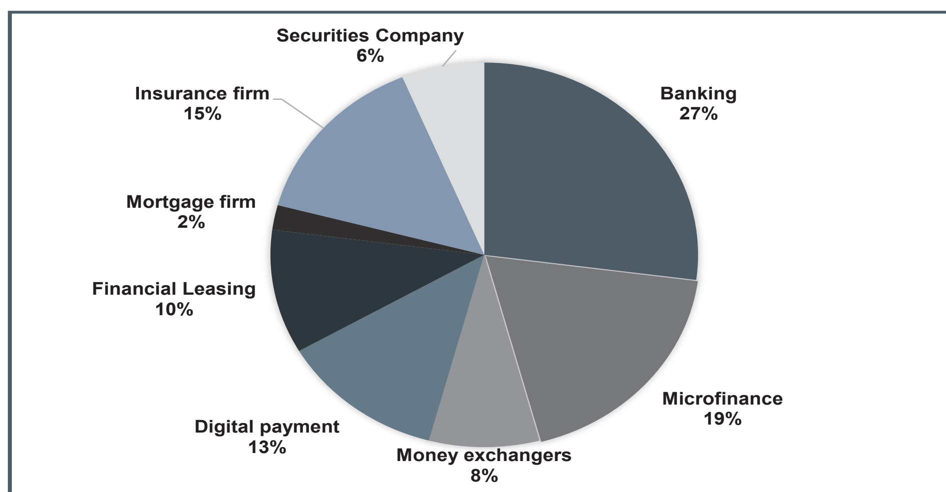
3.2 Demographics of Respondents to the Supply-side Survey

If demand for DFS is established, incumbents and entrepreneurs will respond to meeting this demand. New DFSP will make their way to the market, and through this process drive greater levels of financial inclusion.

3.2.1 Profile of Supply-side Survey Respondents

Bankers made up the largest segment (27.1%, or 13 out of 48 respondents) of the supply-side survey respondent population. Microfinance institutions (MFIs) were the second-largest group (18.8% or nine respondents). Digital payment providers made up 12.5% (six respondents) of the surveyed population, highlighting the changing demographics of the financial sector, with new financial technology players emerging side by side with incumbents. Insurers made up 14.6% of the survey population with seven respondents. Overall, each sector was well represented, however, it is noteworthy that lenders dominated the surveyed population.

Figure 8: Distribution of Supply-side Survey Respondents by Financial Specialization (%)



3.2.2 Focus Group

In order to gain deeper insights, the survey organized a focus group with the following organisations:

- Palestine Monetary Authority (PMA)
- Palestine Capital Markets Authority (PCMA)
- Palestinian Ministry of Communications
- Ministry of National Economy
- Centre for Palestinian Communication Group for Creativity (Idea)
- Palestinian Achievement Foundation
- Bank of Palestine
- Arab Egyptian Land Bank
- Palestinian Agricultural Credit Institution (PACI)
- Arab Leasing Company
- Vitas Corporation
- Jawwal Pay
- Anadalus Software Company

3.3 Limitation of Scope

The scope of the demand-side survey focused exclusively on individuals and collective households. The survey excluded micro, small and medium sized enterprises (MSMEs), who equally struggle to access finance.

A further survey of MSMEs is highly recommended, in order to assess financial inclusion at the enterprise level. As highlighted in this report, financial exclusion is largely a consequence of economic circumstances. Citizens do not have enough money to justify owning an account. The conundrum is that if the MSME sector is addressed first, and provided with greater access to financial services, it can create more jobs and spend more, helping to boost overall economy activity. A stronger economy will in turn drive greater levels of financial inclusion at the level of citizens. Future studies on financial inclusion must factor in inclusion of MSMEs.

Finally, to genuinely drive DFI (as highlighted in the methodology section below), different types of stakeholders are required to come together in an ecosystem, working together to promote financial inclusion. For example, government needs to develop the right laws and policies to create an enabling environment that encourages the financial inclusion of citizens and enterprises. As with current practice, regulators work actively to open the market to new Fintech players who bring innovative solutions that removes traditional barriers to financial inclusion. Investors and accelerators play a pivotal role in supporting new Fintech ventures to launch and grow, such that these newcomers can make an impact by providing much-needed competition in the financial system. Technology providers must develop Fintech solutions that can be easily embedded in existing systems and processes at incumbents or Fintech newcomers, allowing them to create innovative financial services and products that reach more people.

It is important to highlight that the financial services' regulators in Palestine were the drivers of these surveys, which demonstrates their commitment to bringing about digital-led change in the financial services' sector, to drive greater levels of DFI through DFS.

This study gained insights directly from both supply-side and demand-side stakeholders. Its scope did not include infrastructure sector players who create an enabling environment, except for the fact that the limited views of these stakeholders were obtained during the focus group. Since PMA and PCMA lead this initiative, they were consulted extensively. In future, a more in-depth study (or gap assessment) of stakeholders in the infrastructure component of the ecosystem is advisable, allowing for a fuller picture of how financial inclusion and DFI can be addressed.

4. METHODOLOGY AND APPROACH

Kabakova (2018) highlighted the importance of an ecosystem for financial inclusion, with appropriate factors playing their part in unison. The approach used to assess the impact of DFS in Palestine leverages this concept, however, it carves the ecosystem into different stakeholder groups, rather than looking at financial inclusion from the perspective of different factors. Such an approach has an advantage, in that it immediately identifies the stakeholder groups that can take action, to drive the factors that enhance financial inclusion.

The ecosystem required for DFS to drive financial inclusion comprise three key components, as highlighted below:

1. Supply-side Component

Progressive, supply-side financial service providers, willing and able to adopt new digital technologies to reach the underserved, or utilise new digital channels to reach target markets that may have been previously unreachable using traditional means. There are three primary routes to driving DFI through the supply-side component.

a. Established financial services' firms realise the commercial benefits and corporate social responsibility of serving financially-excluded consumers (and MSMEs) that were unable to access certain financial services and products. They develop strategies to use digital transformation to lower costs and make financial services more affordable to the underserved, or they use technology to reach new, untapped markets through lower-cost digital channels. In addition to providing access to financial services, they also take responsibility for enhancing levels of financial literacy among their existing and untapped customer bases.
b. Working on the assumption that established players may not want to (or are unable) to reach underserved segments (because of low commercial appeal, high costs or lack of skills in serving and assessing risks in such communities), an enabling environment is created for Fintech newcomers. This environment allows them to enter the financial system and find ways to reach the underserved, by overcoming barriers through the use of new technologies and innovative business models not used by established players. Rather than competing, each stakeholder group serves different markets (with a little overlap), thus avoiding destructive competition, at least in the short term, until Fintech newcomers scale-up rapidly to rival established players.
c. As evidenced in countries like Kenya, large technology firms, such as telecoms, enter the financial services' space and use their telephone and mobile phone infrastructures as new channels for reaching the underserved in both urban and remote areas.

2. Demand-side Component

Demand for DFS can be stimulated within communities of underserved individuals and MSMEs through various initiatives and policy interventions. With financial literacy support, communities build trust in new digital channels, and in some cases, may be able to completely bypass traditional financial channels, such as having to open a bank account. While external interventions can help to drive demand, individuals must help themselves and take proactive steps towards DFI (once they are sufficiently financially-literate). A different intervention is required to financially include diverse groups such

as men and women, or the youth or the elderly, or literate versus illiterate, or urban versus rural. Care must also be taken to ensure that digital channels do not inadvertently exacerbate financial exclusion in certain groups (such as the elderly or women).

3. Infrastructure Component

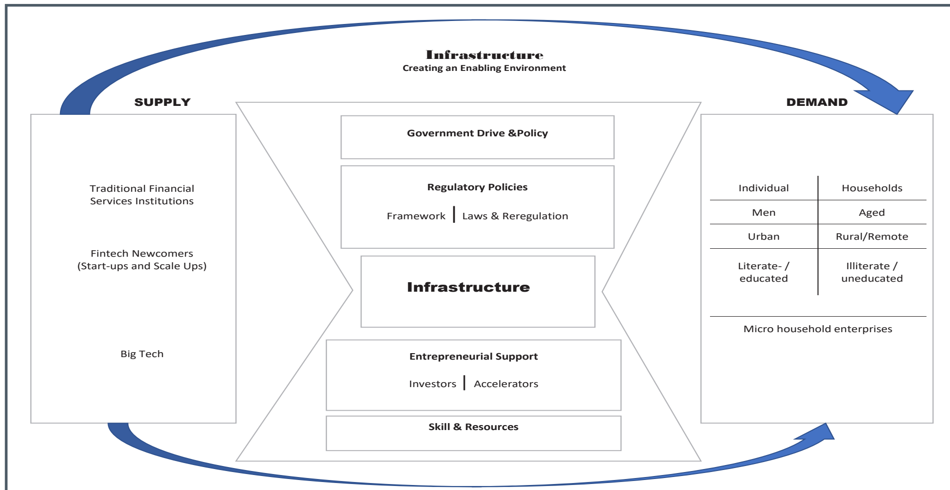
Demand and supply can only be met when an enabling environment exists to remove external barriers and obstacles (as opposed to idiosyncratic barriers limiting supply or demand), or provide the necessary infrastructure to enable DFI. The primary drivers are the right policies and initiatives led by government and financial services regulators. Through the right policies, governments indicate their desire to bring about DFI in their country. They couple policies with support programmes and legislation to encourage supply-side institutions (incumbents or Fintech newcomers) to serve the underserved communities, or drive financial literacy to encourage wider adoption of DFS among individuals and micro-enterprises. Regulators create enabling frameworks and corresponding legislation to open the financial system to innovation, and facilitate easier entry of Fintech newcomers who can reach underserved communities. Regulators allow for the testing of new ideas in a safe environment, changing legislation to accommodate new business models.

Various stakeholders come together to develop an enabling infrastructure, such as fast internet or mobile services, national payment gateways, or a national digital identity solution (that enables digital on boarding and customer verification), or a national electronic credit rating system (that enables lending to dispersed communities). Availability of Fintech technologies for incumbents and start-ups is crucial to ensure they can develop solutions to address financial inclusion.

Fintech newcomers to the financial system can only thrive - and make an impact on financial inclusion - if they receive the necessary technical and financial support from accelerators and investors. Therefore, for the ecosystem to succeed, support programmes must be available to develop and encourage accelerators and investors to spot promising Fintech ventures and accelerate their growth.

Finally, even with all parts of the ecosystem working in harmony, successful DFI cannot be achieved without talented resources bringing new digital ideas to solve the financial inclusion challenge, or help incumbents and Fintech newcomers develop and grow their offerings. Therefore, government, regulators, educational institutions and financial institutions themselves must implement programmes to build resources and skills.

Figure 9: Ecosystem Required to Drive Digital Financial Inclusion



5. ANALYSIS OF SURVEY RESULTS: UNDERSTANDING READINESS FOR DIGITAL FINANCIAL SERVICES

5.1 Analysis of the Demand-side Survey Results

DEMAND

Individual Households

Men	Women
Youth	Aged
Urban	Rural / Remote
Literate / Educated	Illiterate / Uneducated

Micro Household Enterprises

Demand is the primary driver of financial inclusion. There is little that can be done if someone willingly does not want to be financially included, whether through traditional channels or through DFS. Voluntary financial exclusion occurs in cases where people do have access to financial services, whether in physical or digital form, but choose not to use it.

Their motivation to be excluded may be driven by various factors, such as social norms and culture (for example, religious reasons or cultural reasons, such as men taking responsibility for managing their wife's finances). Educational attainment may be another reason, where illiterate people find it difficult to engage with the formal financial sector, and therefore rely on informal channels to meet their financial needs. Poverty is often a key driver to financial exclusion, as poor people live day-to-day, using what they earn. They have no surplus funds to save or invest, and their economic status make banking fees prohibitively expensive (although in Palestine, the regulators have implemented a framework that require banks to provide a basic, 'no cost no frills' account to anyone who meet the KYC requirements). Youth enrolled in education (above 18 years) may depend financially on their parents, using cash to meet their basic financial needs. Therefore, they have no need for a bank account, at least while studying.

The demographics of the demand-side survey population highlight youth and high levels of education, however a large proportion of respondents had little to no income, or circumstances dictate that they do not work, for example, students pursuing full-time studies, and housewives who rely on others to meet their financial needs.

While financial exclusion is a persistent problem in developing countries, it may be surprising to learn that financial exclusion is prevalent in developed markets as well. A 2019 study by the Board of Governors of the Federal Reserve System (May 2019) highlighted that 6% of adults did not have a checking, saving or money market account in 2018. Two-fifths of unbanked adults used alternative forms of financial service channels, such as check cashing services, pawnshop loans, payday loans, pay cheque advances or tax refund advances. 16% of adults, while banked, still make use of alternative and informal financial service channels.

In Europe, research (Coffinet, J and Jadeau, C, May 2017, Page 3) concluded that in 2008, 10% of the European population had no bank account (7% in 15 EU member countries, 2% in France, 3% in Germany, 8% in Spain and 16% in Italy). Low levels of income, unemployment, single parenthood, un-employability, age, low levels of education, immigration and living in a disadvantaged area were all identified as determinants of financial exclusion.

Without sufficient demand, financial service providers and Fintech newcomers will find it challenging to commercialise DFS solutions, even if they have the will and the ability for implementation. Communities opting to be excluded are more challenging to address, except for educational initiatives helping them realise the benefits of financial inclusion.

Conversely, communities that are excluded because of structural issues in the financial system, or high barriers and obstacles faced by financial institution in serving these communities, must be addressed through the development of a DFI ecosystem. Such

communities realise the benefits of financial inclusion and want to gain access, but they are prevented from doing so by various factors highlighted in the literature review.

5.1.1 Examining the Reasons for not Wanting or Needing an Account in Palestine

It is crucial to assess the rationale of individuals who do not have (any form of) financial service accounts. If this a voluntary decision, then little can be done to address financial exclusion. However, if the reasons are due to certain barriers, then they can be addressed, once the reason for financial exclusion becomes evident within the Palestinian context.

Data from the demand-side survey indicates that the most prominent reasons why Palestinian respondents do not have an sort of account is that they **do not have any extra money to save or deposit with a financial institution.** 36.2% 'totally agreed' with this statement, while a further 39.4% 'agreed' (see Figure 10). The lack of surplus funds was the main reason why respondents have no need for a bank account, preferring to keep their money in their possession and use cash as far as possible. The results make intuitive sense, because 49.6% of all respondents reported having no income, and the largest proportion (23.4%) were aged between 18 and 24 years. They may be students or still looking for their first job. This also explains why 50.1% allow other family members manage their finances. It is not uncommon for the head of the household to manage the entire family's finances in parts of the Middle East.

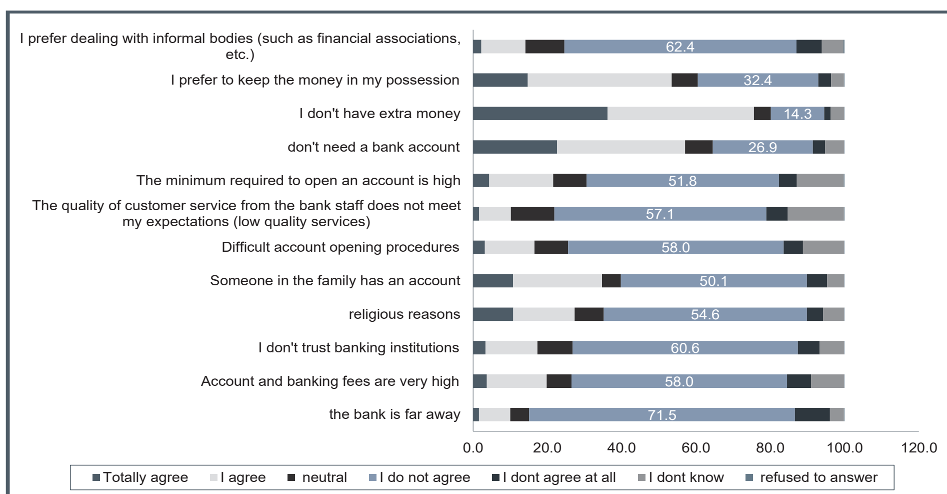
Traditional factors for financial exclusion (as highlighted above), identified in prior research, are interestingly not as relevant within the Palestinian context. This raises challenges in how to best address financial exclusion in Palestine, as lessons from other emerging markets may not be as relevant, given the unique circumstances in Palestine. The survey data highlights this point clearly:

- 71.5% of the surveyed population did not believe that banks were too far away to physically access. Distance to a branch or agent is therefore not a barrier, given the availability of access points and the geographically small size of Palestinian territories. Thus, using DFS in order to remove the proximity barrier is not a lever that can lead to greater financial inclusion.
- 58% did not believe that banking fees were too high. Therefore, the cost of an account is not a barrier to financial inclusion. Technology can play a significant role in reducing the cost of accounts, however, in the Palestinian context, even if costs were low (or free), this is unlikely to result in more financial inclusion. In fact, regulators have made provisions for banks to offer a so called "Financial Inclusion Account", which is a basic, 'no-frills' account without customer fees. It is provided to individuals who meet certain minimum criteria in order to pass the KYC check. Therefore, the cost of an account is definitely no barrier to financial inclusion in Palestine.
- 60.6% of respondents do not mistrust financial institutions, therefore this cannot be a reason for why they prefer not to have an account with a financial institution. Fintech

newcomers have proved, globally, that they are more capable at gaining the trust of consumers, however in Palestine, such newcomers may not be as effective (at least based on current data) in driving improved levels of financial inclusion.

- Surprisingly, given a predominantly Islamic population which sets its own rules on the use of financial services, 54.6% did not agree that religious reasons prevented them from having an account. This may be because Islamic finance is well-embedded within Palestine's formal financial system.
- 58% of respondents did not agree that difficulties in account opening procedures accounted for financial exclusion. Usually, Fintech newcomers are known to streamline the account opening process using end-to-end digital processing. However, in Palestine, such digital on-boarding and transaction facilities seem unlikely to tempt the excluded to open a financial services' account.
- 57.1% of respondents did not have any problems with the quality of customer services provided by bank staff. Fintech newcomers provide a better customer experience using digital technologies. However, even if the quality of service improved, a large proportion still not be motivated to open an account.
- Often, minimum qualification requirements for opening an account deter low-income individuals from doing so. However, in the case of Palestine, the research highlighted that 51.8% did not feel that the minimum requirements for opening an account presented any obstacles.

Figure 10: Rationale for Not having an Account



The rationale for not having a bank account is largely based on a lack of money. At the micro level, the results are consistent, no matter whether the data is analysed by gender, age, education or employment status. The results highlight the challenges in addressing financial inclusion in Palestine. While DFS can remove traditional barriers

to financial inclusion (such as proximity, cost and infrastructural issues), in Palestine, economic uplifting seems to be the only key strategy that can yield results in driving financial inclusion.

The best way to encourage individuals to become financially included is to make them realise the benefits to their - and their family's - lives. Financial literacy is a core component of a financial inclusion strategy. Embedded finance is another channel to accelerate financial inclusion. For example, farmers in Africa are given free crop insurance for one year with seeds that they buy, using mobile money. The mobile operator funds the first year's insurance premium as part of their corporate social responsibility programme. A successful claim will help the farmer appreciate the value of insurance, who will be more likely to want to be included in the formal financial system.

If the lack of money holds individuals back, then a mobile budgeting application may be a catalyst to helping them save, and eventually qualify for other financial products such as a loan. Government can also force people towards financial inclusion, by obliging them to accept benefits or tax reimbursements via bank transfers only (instead of cash). Digital payment to government institutions (such as taxes, fines and municipal fees) can be incentivised through the application of a small discount. Alternatively, usage of cash could incur a small penalty fee, to discourage such forms of transacting.

5.1.2 Analysis of the Types of Digital Transaction Services Used by the Financially-included

For the financially included, it is interesting to learn which types of products and services they access. Much of the data analysis can be found in the accompanying "Summary Report: Financial Inclusion Diagnostic Study" developed by the research team. There is no need to repeat these results in this report, except where there are implications for DFS and its potential for boosting DFI.

To summarise, public health insurance is the most prevalent financial services' product (used by 71.4% of the population), as the PA runs this scheme and most gain access through their employer. More women (73.9%) benefit from this insurance than men (69%), and more people in Gaza (84%) have public health insurance compared to the West Bank (65.5%). Current accounts (29.3%) and debit cards (26.6%) are the second- and third-most used financial service products.

Compared with 2016 and the previous financial inclusion survey, it is encouraging to see an increase in the usage of DFS, as highlighted in the table below:

Table 1: Increase in the Use of DFS since the Financial Inclusion Survey of 2016

	Product	Percentage of Ownership/ Usage	
		2016	2022
1	Online banking	N/A	12.6%
2	E-wallet (e.g., PalPay, Malchat)	N/A	3.3%
3	Paying bills Online	N/A	6.7%
4	Investing in cryptocurrencies	N/A	0.3%
5	Sending money remittances using cryptocurrencies	N/A	0.3%

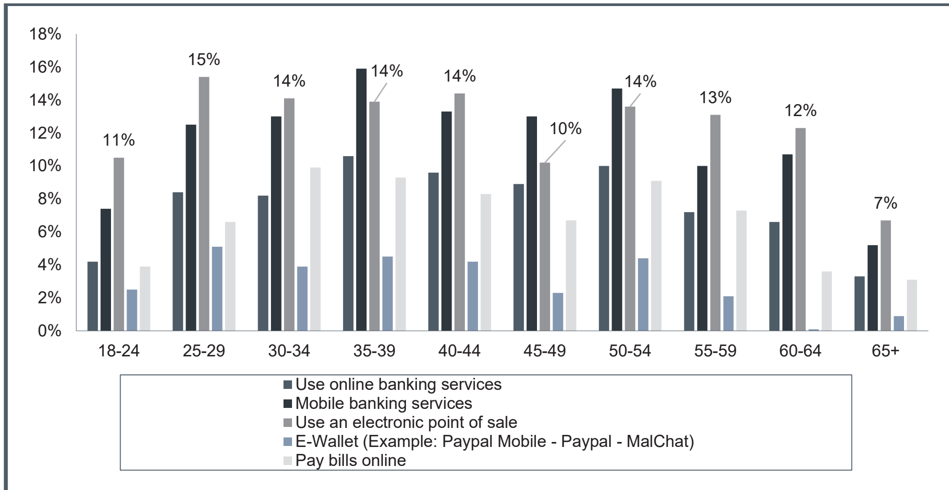
The largest proportion of respondents (13%) use some form of electronic point of sale (ePOS), such as merchant terminals or ATMs for transactions. Mobile banking services are on the rise, with 11% of respondents using it, while 20% believe that they will access such services in the future. However, 41% did not feel the need to use mobile banking - now or in the future.

The use of e-Wallets is low, at only 3.3% of the surveyed population, while 8% claim not to know what e-Wallets are. Encouragingly, 18% of respondents felt that this was something they would use in the future, although 45% said they have no need for such a wallet facility now or in future.

A growing proportion (7%) see value in online bills' payment, with 20% believing they may use it in the future. However, 43% have no need now - or in the future - to pay bills online. The gender divide is evident with 16.8% of males using ePOS transaction points, compared to only 8.3% of females. Mobile banking channels are utilised by 16.7% of the sampled male population, against only 5.8% for females. A large proportion of females (46.8%) do not have a need for mobile banking, either now or the in future (c.f. 35% for males).

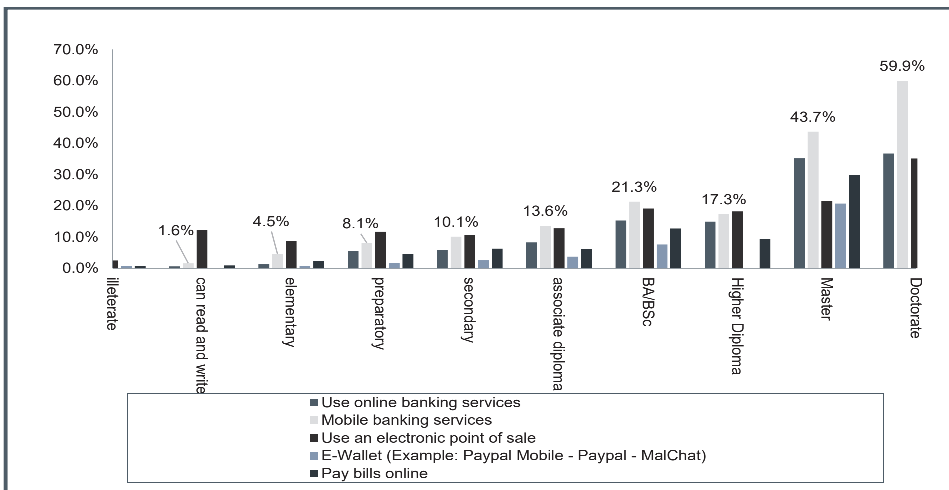
Within the 35-39 years' age group, 15.9% prefer mobile banking. 25–29 year-olds registered the highest rate of e-Wallet usage at 5.1%. Those over the age of 60 years are most reluctant to use e-Wallets, although those aged 65 years and over (0.9%) use e-Wallets more than those aged 60-65 years (0.1%). This negates the myth that the older generation are less technologically literate. Perhaps they have more time to learn how to use new electronic channels, while obtaining the required support from their financial service providers, or their relatives and friends. The 30–34 years' old cohort are the biggest (9.3%) users of online bills' payment (see Figure 11).

Figure 11: Usage of Digital Transaction Services by Age Cohort



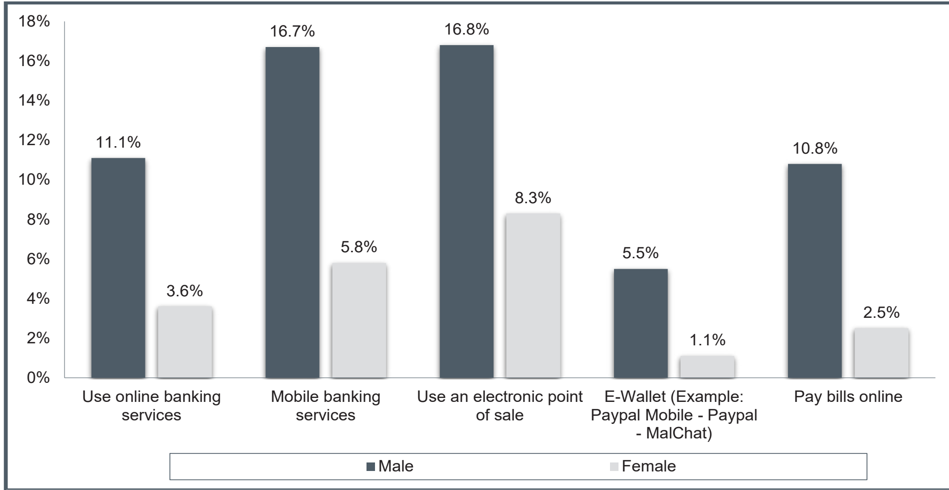
Respondents with higher levels of educational attainment were more likely to use DFS for transactions, as illustrated in Figure 12. Respondents with doctoral qualifications were the biggest users of e-wallets (23.7%), followed by those with a master's qualification (20.7%). These groups are also the foremost users of mobile banking (59.9% and 43.7% respectively). The same applies for online bills' payment (39.5% and 29.9% respectively).

Figure 12: Usage of Digital Transactions Services by Educational Attainment



As highlighted in Figure 13, a higher percentage of male respondents used digital channels for financial services transactions relative to females. This may be explained by the fact that fewer females have an account, a picture that is mirrored by digital access channels. Overall, for both genders, use of electronic channels is still relatively low. Usage rates of ePOS and mobile banking are highest for those who are open to using DFS.

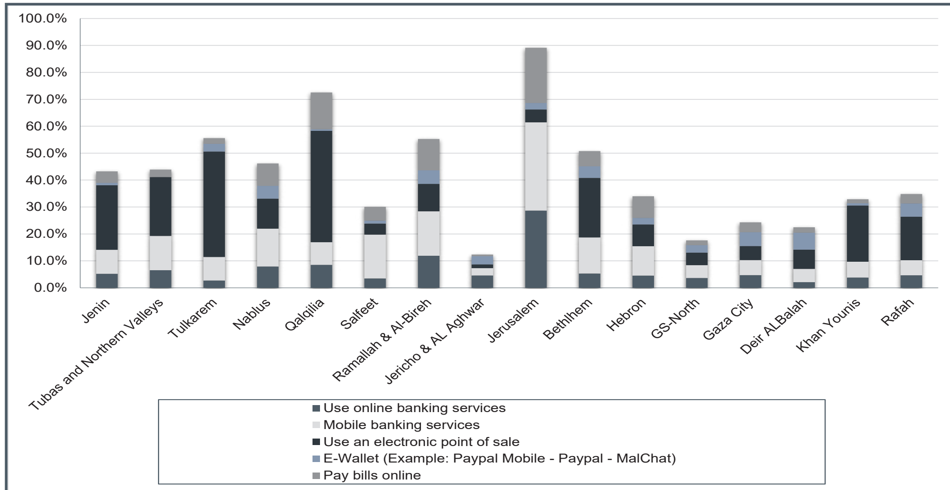
Figure 13: Usage of Digital Transaction Services by Gender



The data presents an encouraging sign given the rise in digital transaction services. A largely literate and younger population is more likely to use DFS, and may prefer these channels to traditional channels such as visiting a branch or using the services of agents. The COVID 19 pandemic has encouraged consumers from across the globe to adopt these digital channels. Whilst this experience did not transpire in Palestine, the hope is that the population will now be more open to DFS, given their insights into the benefits that consumers gained during the pandemic.

Qalqilya has the highest proportion (41%) of POS usage, while Jerusalem ranked highest for use of online banking and mobile banking channels for conducting financial transactions. Proportionately, the use of online banking, mobile banking, ePOS and online payment of bills is much lower in Gaza city compared to other urban centres such as Ramallah, Jerusalem, Bethlehem and Hebron. However, Gaza city is on a par with Ramallah (and ahead of the other major cities) when it comes to e-Wallet usage.

Figure 14: Usage of Digital Transaction Services by Region



5.1.3 Analysis of Remittance Channels and the Role of Digital Channels

Currency-exchange companies were the most-used remittance channel (15% use it now and 18% believe they will use it in the future). Surprisingly, bank transfers seemed less popular, with only 4% using such a facility and 47% believing they have no need for this either now or in future. A further 6% claimed not to know what a bank transfer is. These figures can be explained by the lack of a bank account to make such transfers. Currency-exchange facilities allow cash transfers, without the need for any form of financial account. E-Wallets could provide the same facility, without the need for the sender to visit an agent or currency-exchange place.

Around 8% of the surveyed population use acquaintances or friends to remit money to others, and a further 14% believe that they will continue using this informal channel to send money to another person.

Concerning cryptocurrencies, money can be remitted easily and cost-effectively using distributed ledger technology. For example, the sender could purchase bitcoin with fiat currency and use the network and bitcoin wallet to transfer funds to another person's wallet. While only 0.3% of the surveyed population use this innovative channel, it is encouraging to see developments in this space. Cryptocurrencies are not regulated in Palestine, and large daily fluctuations in the price of cryptocurrencies make this form of remittance risky. Furthermore, the distributed ledger technology is immutable (which means, transactions cannot be reversed), and therefore transfers made in error may be impossible (or difficult) to recover. Most surveyed respondents (51%) did not have a need to use this channel to remit money either now or in future, while 22% did not even know about such channels.

Clearly, there is a role for public and private intervention to encourage more use of digital channels to remit funds. With measures adopted by the PMA (as discussed in more detail below) to facilitate instant payments, financial institutions could motivate their customers to adopt these efficient channels to remit money within Palestine or beyond.

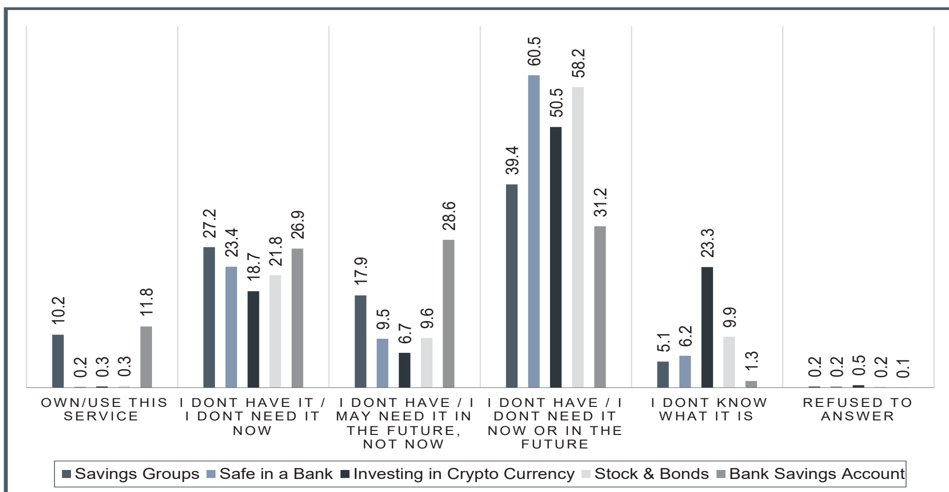
5.1.4 Analysis of the Usage of Savings and Investment Products and the Role of DFS

The pathway to financial inclusion is best commenced by teaching people how to manage their finances, then helping them to save (even if only a small amount), and then providing them with access to finance (such as loans). These steps can be considered as responsible financing, ensuring that the underserved are not saddled with the burden of debt even before they start their journey towards financial inclusion.

As highlighted in Figure 15, 11.8% of the surveyed population had a savings account facility at a bank, while 10.2% use informal savings' clubs, such as Rotating Savings and Credit Associations (ROSCA). Typically, these products group people together, encouraging them to contribute a monthly savings' amount, where one member obtains a large pay out (or loan) every month from accumulated savings. It is not clear how the accumulated money is managed. Does the firm facilitating the ROSCA secure the money at a bank, or do they store it as cash in a safe, or do they now use e-wallets?

It is clear from Figure 15 below that the majority of survey respondents do not have any form of savings and investment account, nor do they believe that they will need it in the future.

Figure 15: Usage of Savings and Investment Products and Services



16.9% of male survey respondents have a savings' account facility at a bank, compared with only 6.6% of females. More males have bank current accounts, while the survey also highlights that a large proportion of females classify themselves as housewives. This may explain the lower rates of females with savings' accounts. Around the same proportion (10.5% of males and 10% of females) participate in ROSCA informal savings' schemes. The age ranges with the highest proportion of savings' account (at 14%) are those aged 45-49 years and 55-59 years. Respondents with master's degrees were the group with the highest proportion of savings and investment products (32.7%), highlighting that higher education levels correlate with higher usage of savings' accounts, as opposed to informal savings' channels. The largest proportion (20.9%) of respondents that saved using a savings' account at a bank is in Nablus.

The highest proportion of survey respondents who save through ROSCA are aged between 50 and 54 years (15.3% of surveyed respondents). Respondents with higher diplomas are the largest group (23.8%) using ROSCAs. Residents of Jenin are the group with the highest proportion (19.1%) of survey respondents that use ROSCA informal savings' channels.

Without a willingness and the financial means to save, policymakers and financial services' firms will find it challenging to direct people towards financial inclusion. With savings, individuals are more likely to qualify for loans or access other types of financial services, such as insurance.

DFS can play a vital role in helping low-income individuals find the surplus money to save and invest. Micro-savings' platforms have proved popular Fintech solutions that encourage savings among the youth and low-income individuals. The business model works by providing an account: either an e-Wallet, or eMoney account, or an account linked to the individual's bank account. A mobile application monitors expenses and advises the user on opportunities for extra savings. The application can also force the individual to save. For example a debit card linked to an account can round-up expenses and save the difference into a savings' account. When a customer buys a coffee for $2.50 using the card, the card will charge the account $3.00, earmarking $0.50 for the savings' account.

Given the appeal of savings' clubs, a financial institution could provide software as a service to a group to help them keep track of the size of their collective savings, automatically collect monthly premiums, make pay outs based on specific instructions, and help manage any loans given to club members. Such a service will help club members realise the benefits of the formal financial system, encouraging them towards financial inclusion in the formal system.

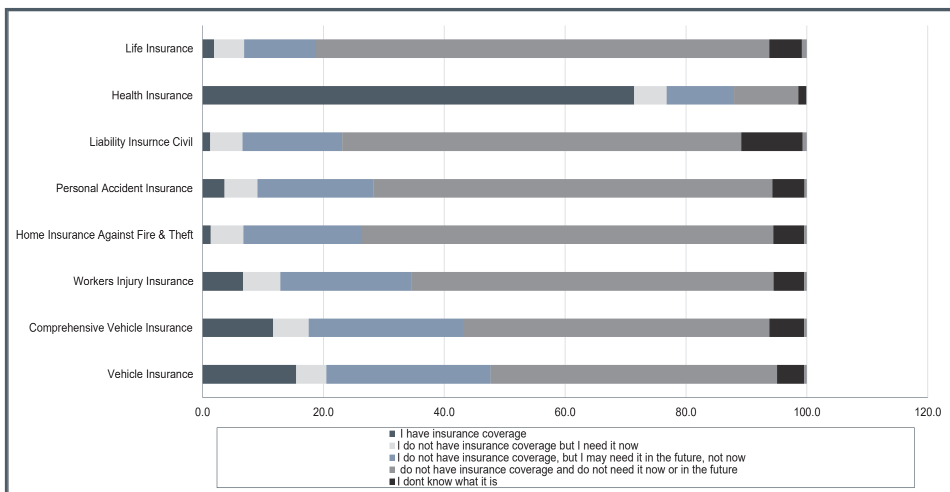
5.1.5 Analysis of Insurance Usage and how DFS can Enhance Insurance Inclusion

Insurance can help to protect the financial position of a household, especially in emergency situations. When financial inclusion rates are low, insurance is often seen as a luxury rather than a necessity.

Figure 16 highlights that health insurance is the most prevalent form of insurance, with 71.4% of the surveyed population holding health insurance. As previously indicated, this is largely due to the PA's health insurance scheme, which most individuals can access through their employer, who meets the cost of the insurance premium. More women (73.9%) use this product compared to men (69%). While health insurance is provided by the government, from the perspective of the consumer, such protection can be regarded as a financial product, and therefore it can be factored into an analysis of financial inclusion.

Vehicle insurance is mandatory and therefore 15.5% of respondents have such insurance cover. A further 5% expressed that they do not have it but need it now. A further 27.2% said that they do not have vehicle insurance right now, but they envision that it will be a necessity in the future, perhaps when they purchase their first vehicle. 26% of male respondents have vehicle insurance, compared to only 8.1% of females. Respondents in the age group 55-59 years have the highest rate of vehicle insurance (22.2%). Respondents with a doctoral degree had the highest proportion (55.6%) of vehicle insurance users, followed in second place by respondents with higher diplomas (38.8%). Paid employees with international organisations had the highest proportion (74.1%) of vehicle insurance usage. There is a significant split in vehicle insurance between the West Bank (where 24% of the population have this insurance) and Gaza (where only 1.8% have vehicle insurance). The highest proportion of vehicle insurance users are from Jerusalem, where 48.7% benefit from such protection.

Figure 16: Usage of Insurance Products



It is surprising to discover that only 1.4% of respondents have home insurance, in the event of fire or theft. If the respondent rents their accommodation, then there is little financial impact, except the cost of staying in temporary accommodation and moving. The landlord would, in such circumstances, benefit from home insurance. However, for a homeowner, a fire or theft

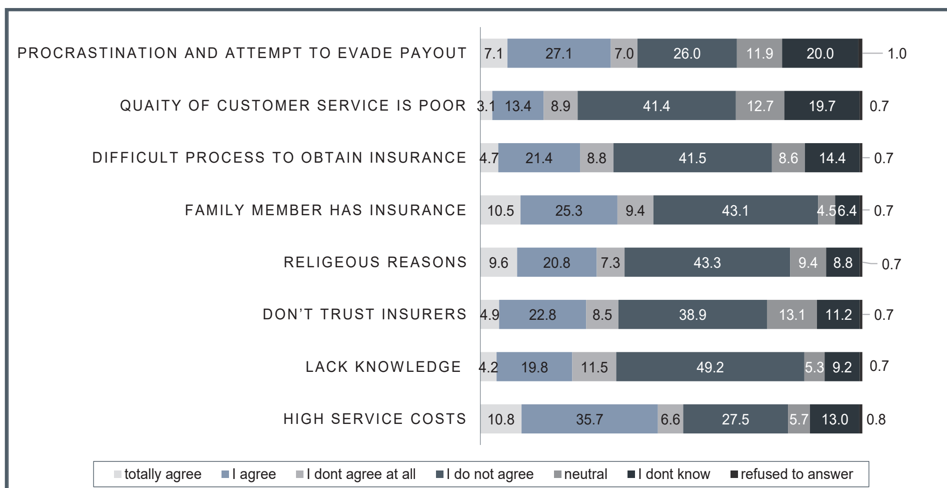
can put significant pressure on the family's finances, and in extreme cases, result in bankruptcy. 68.1% of respondents do not believe that they will need such insurance in the future. A higher proportion of men (2%) have home insurance protection (c.f. only 0.7% for women). This may be explained by the fact that home ownership is usually in the hands of men. The age group 45-49 years are the most likely to be economically-active homeowners: they had the highest rate of home insurance ownership (2.8%). The highest proportion of respondents who have home insurance are well-educated, with doctoral qualifications. Respondents employed by a foreign government had the highest proportion of home insurance usage (7.7%). The highest proportion of home insurance subscribers are from Jerusalem (6%).

The data reveals a similar trend for life insurance, where only 1.9% of respondents have a life insurance policy and 75% believe they have no need for such a policy either now or in the future. The death of a sole breadwinner can place catastrophic financial hardship on a family, in the absence of financial cover for such an eventuality. A higher proportion of male respondents (2.3%) have life insurance products (c.f. 1.5% of female respondents). The highest proportion of life insurance users (3.3%) falls in the 50-54 years age range. 16.1% of respondents with higher diplomas, and the same percentage of respondents with a doctoral qualification, have a life insurance policy. The highest proportion of people benefiting from this insurance live in Jerusalem (16.7%).

5.1.6 Reasons for Low Insurance Penetration Rates

High service costs, or the actual cost of insurance itself, dissuades respondents from purchasing insurance protection, as indicated in Figure 17 (10.8% "strongly agreed" with this statement while 35.7% "agreed", totalling 46.5%). Around 35.8% of respondents do not have insurance because a family member has already purchased insurance either for themselves, or on behalf of the entire family. The delayed pay-out of claims - or tactics to evade payment of insurance claims - is concerning, according to 34.2% of survey respondents. Around 30% also cited religious reasons for not wanting insurance protection.

Figure 17: Reasons for Low Insurance Penetration Rate



Around 26% of respondents "strongly agreed" or "agreed" with the statement that the process of purchasing insurance was difficult, and therefore dissuaded them from subscribing to such products.

A higher proportion of males than females are of the opinion that insurance service costs are too high: 12.9% of male respondents "strongly agree" and a further 39.5% "agree", while 8.6% of females "strongly agree" and 31.8% "agree". Similarly, 30.3% of males and 25.1% of females do not trust insurers, and hence see no need to buy insurance protection.

Marginally more men (24.8%) claim to have no knowledge of insurance products compared to females (23.3%). More men (40.5%) express frustration at insurer's tactics to delay or evade pay out, as opposed to 27.7% of women.

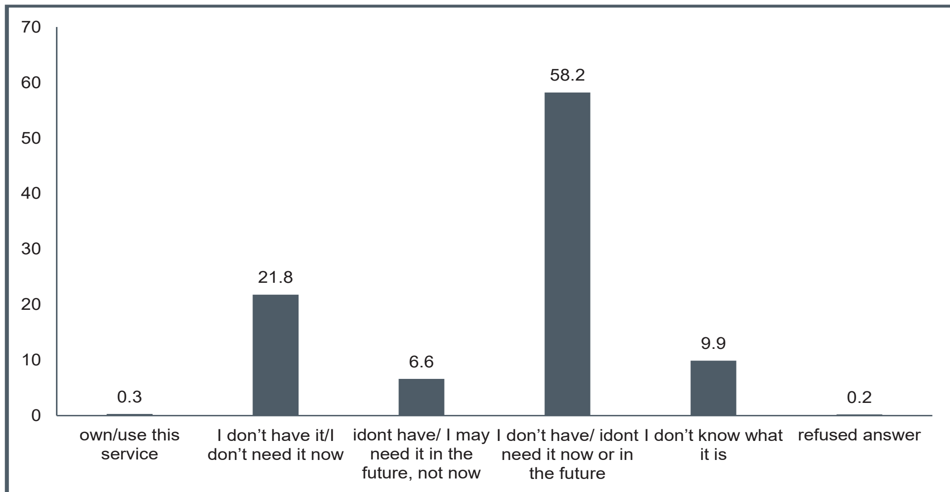
Lowering the cost of insurance services, improving claims' processing times, making it easier for consumers to purchase insurance, and providing knowledge on insurance products are all problems that DFS and/or Fintech solutions can resolve, potentially driving greater levels of insurance inclusion, provided that there is cultural acceptance of insurance products.

Costs can be lowered through automation, or by providing insurance services exclusively through digital channels and doing away with branches. There is ample innovation in streamlining claims' management - insurers could explore embedding such solutions in their processes, helping to speed up claims' processing and delivering a better customer experience. A smoother claims' process will also see consumers express more confidence in their insurers. Furthermore, claims' processing software could also help to identify fraudulent claims, giving insurers more of an incentive to take on greater risks, by reaching underserved communities that may be perceived as higher-risk insurance customers. Moreover, insurers should educate potential consumers about the benefits of insurance protection: this may help to improve the penetration rates of such products among marginalised communities. Embedded insurance may be the easiest way to introduce insurance to lower-income individuals or SMEs, such as those engaged in farming.

5.1.7 Analysis of the Usage of Securities' Products and Services

Palestine has a stock exchange, however given levels of financial inclusion, such products are less sought after, especially among individuals. As highlighted in Figure 18, only 0.3% of the population own stocks or bonds listed on the stock exchange. A typical financial inclusion journey will initially involve the acquisition of some form of account. As the underserved consumers become more financially literate, they will look for opportunities to save. As their wealth grows, they may qualify for loans. It is only at the end of their financial inclusion journey that underserved individuals will feel sufficiently confident to invest in more sophisticated instruments such as stocks and bonds.

Figure 18: Usage of Stocks and Bonds listed on the Stock Exchange (%)



Nevertheless, there are countless Fintech platforms emerging around the globe (such as eTorro and Acorn) that allow low-income and less-sophisticated individuals to invest in the stock market. DFS can provide new platforms (business models) that can help to pool investors, allowing them to buy fractional shares. Investors are encouraged to learn from each other on which investments to pursue, or they can use social trading to copy the trading strategy of other traders on the platform. The investment platform can also construct standard, thematic portfolios that investors can access (for a relatively small cost), without needing advanced levels of knowledge on how to invest in stocks and bonds (thus becoming passive investors).

Survey data and global experience highlight that financial inclusion in the securities' sector may be some way off into the distant future, when levels of financial inclusion are higher and individuals have disposal income to invest, while possessing the required level of financial literacy. DFS can speed up this process by offering platforms that educate consumers, giving them the means to invest small amounts.

Crowdfunding platforms may be another option for individuals to invest in unlisted securities, typically investing in enterprises started and nurtured by friends and family.

5.1.8 Considerations Pertaining to the Purchase of Financial Service Products and the Influence of DFS on Decision-Making in Favour of Financial Inclusion

When purchasing financial service products, consumers may face difficulties that may

cause them to abandon the process and voluntarily exclude themselves. Understanding such points of friction can help to determine whether there is a role for DFS in removing them, smoothening the journey to buying financial service products.

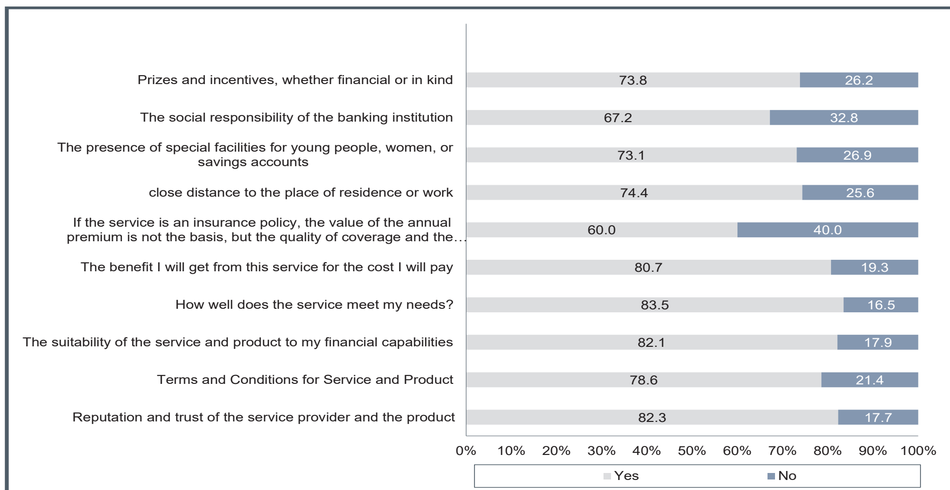
Figure 19 highlights that the most important considerations when purchasing a financial service product is how well the product meets the needs of the customer, the benefits it will bring to them, and an understanding of the costs of the product. Consumers are also interested in knowing whether the product or service is suitable to their needs, based on their level of financial sophistication.

Knowing that products may not meet their needs, the purchasing decision is simple and rejecting the product is the right decision. However, when such a decision (that the product is not right for them) is reached because of a lack of information - or a lack of understanding of accurate information about the product or service - then it leads to unfair and unnecessary financial exclusion.

Financial service products are complex, with extensive terms and conditions. Fee structures and conditions are opaque. For example, insurance contracts may contain material clauses about the conditions of a pay out in the event of a claim. The customer may be unaware of such clauses embedded in a contract, buying the insurance policy without full knowledge of this product. When a claim arises, these customers will be treated unfairly, as their expectations of the insurance product may differ materially, from the facts governing how the product is structured and its conditions.

Regulation could mandate specific disclosure requirements, obliging financial institutions to ensure that the key features of a product or service are clearly explained, while the contract and its terms and conditions are fair. Marketing material should also not mislead customers, where regulation can prescribe minimum promotional requirements.

Figure 19: Considerations when Purchasing Financial Service Products



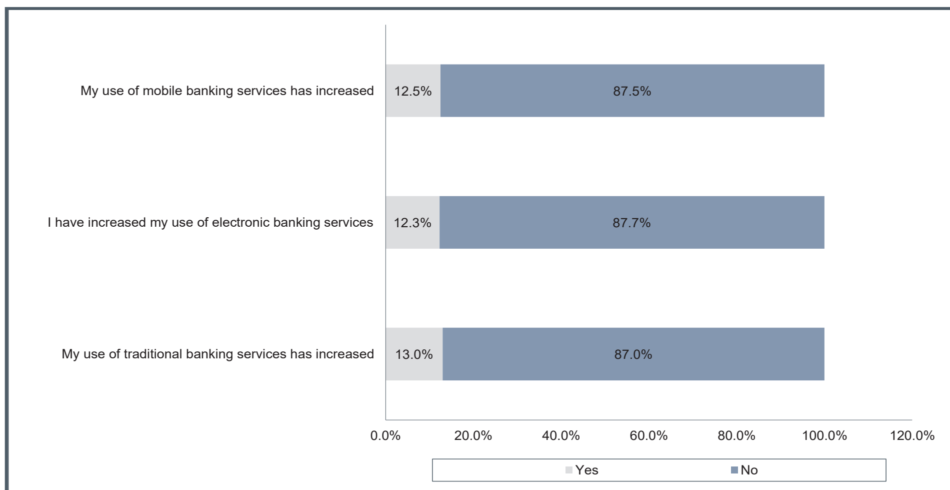
These aspects are even more important when selling financial services online. Consumers often tend to gloss over terms and conditions, and most are unlikely to read any contractual provisions and head straight to the “accept” or “agree” button. Consumers should have the option to speak to a live agent when purchasing a financial service or service product, if they are uncertain about its features, benefits, and risks. Financial service firms can also use the purchasing process as an opportunity to educate their potential customers about the product, through videos, as part of the buying journey.

The reputation and trust of the financial institution is an important consideration for consumers when deciding to buy financial services. In this regard, it is important for financial institutions to make it clear that they are regulated by either PMA and PCMA, who have carried out due diligence before granting these firms a license, who are subject to supervision and enforcement by these regulatory bodies. A clear complaints’ procedure can also help to build trust, providing this information as part of the product-buying process, thereby encouraging greater trust and therefore increasing financial inclusion.

5.1.9 Analysis of the Usage of DFS Now and in the Future

Globally, the COVID-19 pandemic accelerated DFS through necessity, as individuals were unable to visit branches of financial institutions given social distancing measures. In the case of Palestine, the increase in the use of mobile and electronic banking is marginal, while the rate of increase in the use of traditional (physical) banking channels (such as branches) was slightly higher (0.7%) when compared with electronic banking (0.5%), as highlighted in Figure 20.

Figure 20: Impact of COVID-19 on the Usage of Digital and Physical Banking Channels



A regional analysis of data shows that Jerusalemites had the highest proportion (45.3%) of respondents who increased their usage of traditional financial services during the pandemic. The same is true for electronic banking: the highest proportion of respondents increasing their use of electronic banking were from Jerusalem (51.2%), as with mobile banking (58%). The age group 35-39 years had the highest proportional increase (16%) in use of mobile banking and electronic banking (15.2% of 35-39 year-olds increased their use of mobile banking after COVID-19). The highest proportion (17.7%) of respondents who increased their use of traditional (physical) banking channels are in the 55-59 years age group. More men increased their usage of all three channels during the pandemic, compared with women.

What would encourage people to increase their usage of online and mobile banking?

The highest proportion of survey respondents (63.5%) would increase their use of DFS if costs were lower, as highlighted in Figure 21.

The ease of usage was the second-most prominent factor encouraging greater use of digital channels (identified by 60.6% of respondents). Some respondents (60.2%) need incentives - such as prizes or a new promotional campaign – to encourage them to use these channels. More than half of all respondents (58.7%) would be encouraged to use DFS channels if they had - or were provided with - more education or knowledge on how to use these channels to transact with their financial service providers.

The most important incentive for males (69% - the highest among male respondents) is lower costs of online channels, and the same is true for women (57.9% of women respondents).

Figure 21: Factors that Encourage more Use of Online and Mobile DFS Channels

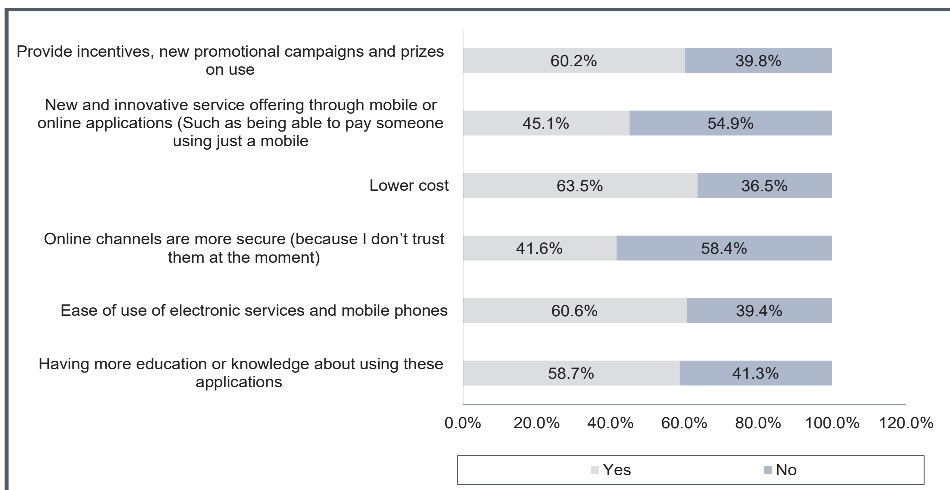


Table 2: Most Important Factors Encouraging the use of DFS

Age Range (years)	Most Important Factor	Percentage of Age Range
18-24	Lower cost	72.4%
25-29	Ease of use	63.9%
30-34	Lower cost	66.5%
35-39	Lower cost	66.5%
40-44	Lower cost	64.7%
45-49	Lower cost	61.4%
50-54	Lower cost	60.7%
55-59	Lower cost	54.3%
60-64	Lower cost	50.8%
65+	Lower cost	40.6%

The lower cost of online financial services was the most important factor for all age ranges, except for 25–29 year-olds, as highlighted in Table 2. The same is true across all regions, where lower cost was seen as the most important factor in encouraging the use of DFS. Of course, banks already provide a basic, free bank account, so the cost constraint is only relevant to non-banking financial service products.

Digital channels can be a much cheaper option for delivering financial services, as they do not require significant investment in infrastructure such as branches, systems and personnel. Either raising fees for in-branch transactions - or lowering fees for online transactions - may be a way to incentivise DFS. With new payment infrastructures being rolled out by the PMA (as outlined below), the cost of financial transactions could be significantly reduced.

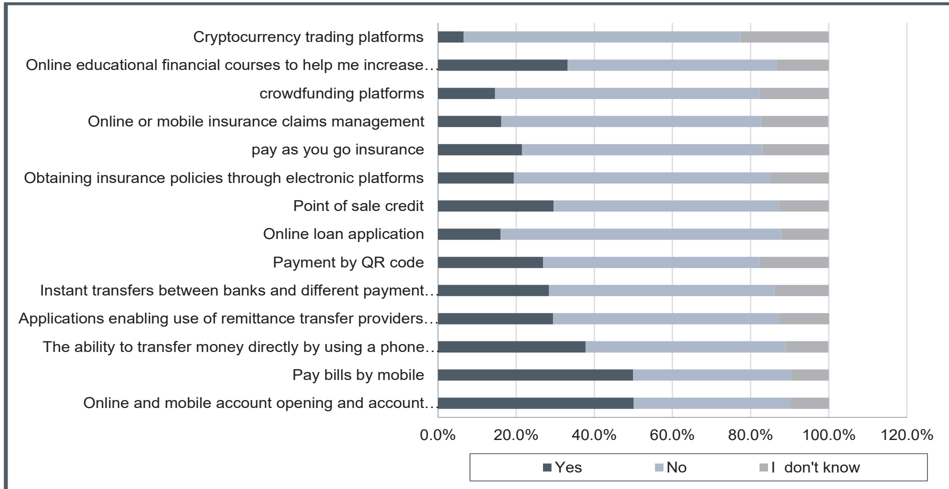
DFS Products Likely to be in-Demand in the Future

Figure 22 highlights that online and mobile account opening and transaction services are likely to be most in-demand (the highest proportion of “yes” answers at 50.1%). The ability to pay bills online was the second-most demanded DFS service in the near future. The good news is that the PMA is working to launch such a platform (as discussed below). People-to-people payment, using just an email address or a phone number, is the third-highest DFS service that respondents would like to see emerge in Palestine.

Online financial literacy courses ranked fourth-highest, highlighting the need for education to drive greater levels of DFI. Contrary to popular belief, cryptocurrency trading platforms were the lowest-ranked DFS product that respondents would like to see; this could be explained by their lack of awareness of such platforms, or the realisation that such investments carry high risks. There is moderate demand for POS credit or “buy now, pay

later” solutions, as well as “pay as you go” insurance. Under 20% of respondents indicated a preference for the ability to obtain loans through an exclusively online platform, or to purchase insurance through an online portal. Only around 15% of respondents highlighted the need for a crowdfunding platform allowing investments in MSMEs.

Figure 22: Future Demand for Various DFS Services



Looking at the future demand for DFS products at a granular level, Appendix A: Future Demand for DFS Products broken down by Demographic Characteristics highlights that the two, most-desired DFS products are:

1. Opening a bank account and conducting transactions via internet and mobile phones.
2. Paying bills by mobile phone.

In every category (except for a few outliers), the highest number of respondents in that category elected to choose the above products.

5.2 Analysis of Supply-side Survey Responses

Financial inclusion - and specifically DFI - can be addressed through the right supply-side strategies. Incumbents, Fintech start-ups/growth companies and “big tech” firms can create digital products and solutions to overcome traditional barriers to reaching the underserved. Fintech start-ups spot opportunities not fulfilled by incumbents. They enter underserved markets, where there is no competition, providing access to finance to those who may have been unable to access finance from traditional banks, insurers and wealth managers. This disruption leads to an expansion of the market (as previously untapped markets are opened-up). Incumbents realise the potential to enhance their market size and thus revenue growth,

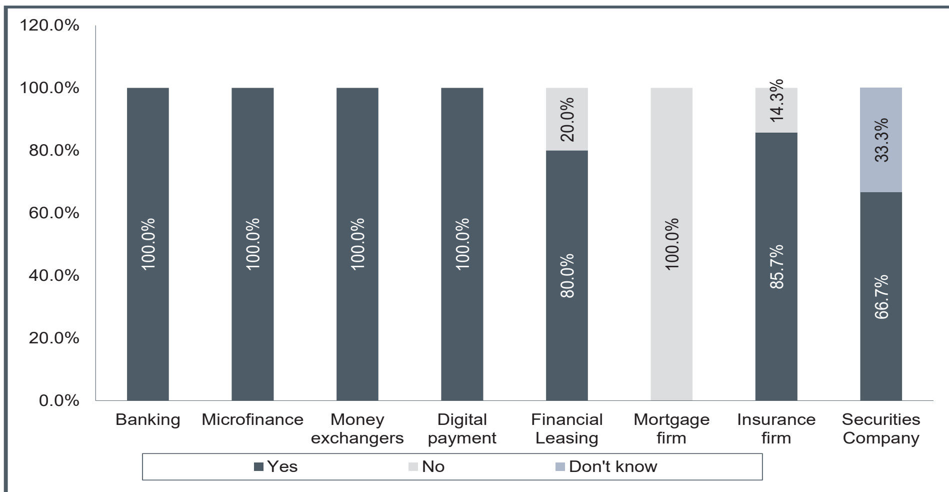
and enter the same market, sometimes going head-to-head in competition with Fintech start-ups or “big tech” firms providing financial services to the underserved. The overall impact is that aggressive competition leads to more inclusion in the financial system, while those already included receive better deals and improved customer experience.

5.2.1 Financial Institutions' Responsibility to Drive Financial Inclusion

DFI is only possible if financial institutions acknowledge that they have a significant role to play in providing greater access to financial services to underserved communities. Fortunately, as highlighted in Figure 23, all respondents using different types of financial institutions agreed that these have a role to play in driving financial inclusion. Mortgage firms were the exception, where all respondents believe that they do not have any responsibility towards driving financial inclusion.

For those that believe that they have a role to play in driving financial inclusion (72.9% of supply-side respondents) are designing new financial products and services to target such segments of the underserved population. Less than half (47.9%) embark on advertising campaigns to reach as large a population as possible, including the underserved, thus raising awareness and leading to greater usage of financial services. Intuitively, it makes sense that more respondents (64.6%) are not opening new branches to reach underserved communities. Digital channels are a much more efficient and cost-effective method to reach these new markets, irrespective of their geographic proximity.

Figure 23: Incumbents' Perceptions on their Responsibility in Increasing Financial Inclusion



While demand-side respondents believed that cash, in-kind prizes and incentives may entice them to become financially included, fewer financial institutions (only 35.4%) agree that this is the case.

Other ways that financial institutions are promoting financial inclusion include the following initiatives (responses were obtained via free-form text):

- Providing access to finance (e.g., loans) to workers whose salaries are not paid into a Palestinian bank account. Perhaps they are paid in cash, or if they work in Israel, they may receive their salaries in an Israeli bank account.
- One firm claims to spread awareness about investment products, by providing information on financial planning and savings.
- One firm is resuming work in Gaza after a break due to the war. Now, they have intensified marketing in the region through electronic communications or through field visits. They are also expanding efforts, through partnerships, to provide financial literacy education on demand.
- One firm claims that their digital channels make it easier for customers to engage with them.
- Two firms are exploring how technology can be used to provide insurance products and collect premiums.

At a granular level, all financial institutions are developing new products and services targeting the underserved, except for insurance firms who prefer to open new branches/ offices to serve marginalised and underserved communities (85.7% of insurers).

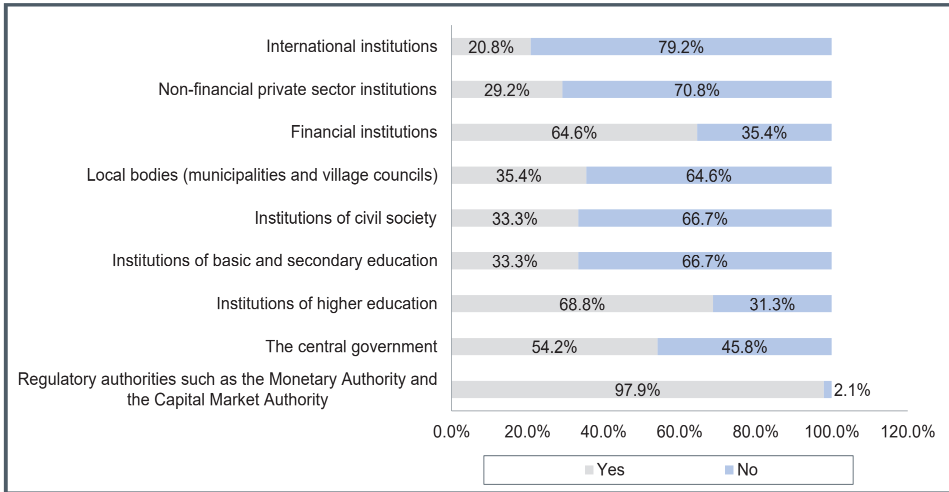
While incumbents accept that they have some responsibility in promoting financial inclusion, they believe other stakeholders have equal (or greater) responsibility for such initiatives. Unanimously, 97.9% of supply-side respondents believe that regulatory authorities such as the PMA and the PCMA have a key role to play. This response is understandable, as both regulators play an instrumental role in enhancing financial inclusion in Palestine.

A National Financial Inclusion Strategy 2018-2025 was developed and a National Committee for Financial Inclusion was formed, pursuant to Resolution No. (09/181/17/M W/R H) of 2017. The Committee is under the joined chairmanship of the PMA and the PCMA. The membership of the Committee includes the President's Office, the Ministry of Finance and Planning, the Ministry of Education and Higher Education, the Federation of Chambers of Commerce and Industry, the Ministry of National Economy, the Palestine Exchange, the Palestinian Federation of Insurance Companies, the Ministry of Social Development, the Association of Banks and the Palestine Network for Lending.

This is an excellent forum with a robust governance framework and implementation mechanisms that can be utilised to drive DFI specifically.

The survey highlights that there is an acknowledgement that higher-education institutions (68.8% of surveyed respondents) have a role to play in enhancing financial literacy and that financial institutions themselves (64.6%) play a significant role at the micro-level, ensuring that they develop products and services that are appropriate to the underserved, finding ways (such as digital channels) to reach these target groups and provide cost effective solutions.

Figure 24: Supply-side Respondents' Views on who should take Responsibility for Driving Financial Inclusion in Palestine



There was a split in views as to whether central government plays a role in driving financial inclusion, with slightly more than half (54.2%) of respondents believing they must play a role. Government is represented on the National Committee for Financial Inclusion, and they play a crucial role in ensuring that an enabling environment is created for stakeholders to develop strategies that include more citizens in the financial system.

5.2.2 Key Barriers Facing Financial Institutions in Reaching the Underserved

Financial inclusion rates are low: a 2016 study revealed that only around 36% of the adult population is included. The goal of the National Financial Inclusion Strategy is to increase this to 50% by 2025. With such a low inclusion rate, incumbent institutions should recognise the potential of a huge, untapped market. Yet, financial institutions have struggled to bring more underserved communities into the financial system.

Understanding key barriers is a valuable exercise, as it can direct appropriate solutions by financial institutions to overcome such barriers. DFS are often the best and most-effective solution, knowing that barriers can lead to specific digital solutions developed to reach underserved communities.

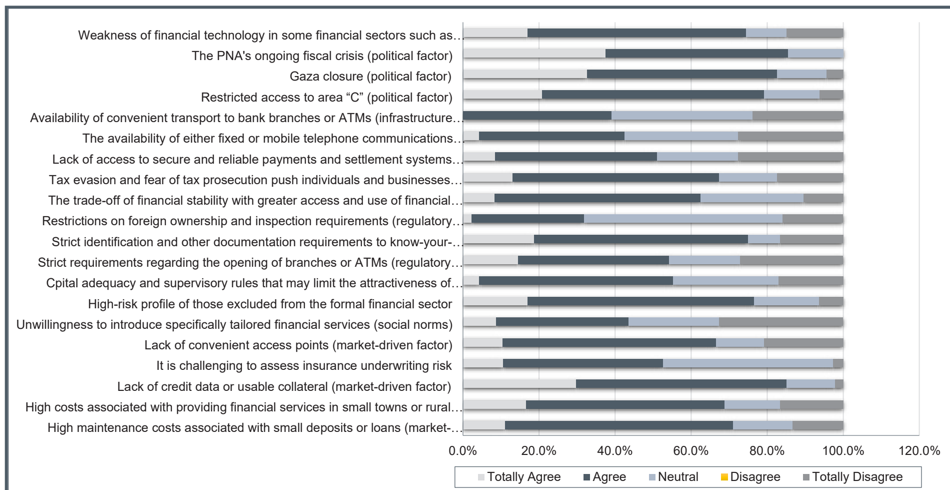
Political Factors

Figure 25 highlights that the PA's ongoing fiscal crisis (political factors) is the biggest barrier that financial institutions face to financial inclusion (a combined total of 85.4% of supply-side respondents either "totally agree" or "agree" with this statement). The closure of Gaza was

another political factor that 82.6% of respondents cited as a significant barrier to their ability to address financial exclusion specifically in this region. Another significant political barrier is Area C restrictions, which makes it challenging for financial institutions to provide financial services to marginalised communities, according to 79.2% of surveyed respondents.

Clearly, in the Palestinian Territories the political environment is complex, imposing barriers and challenges to addressing financial exclusion. These are complex problems, and there are no obvious DFS solutions that can remove such barriers. However, more effort by the public sector to drive e-government - encouraging or forcing citizens to pay and be paid through electronic channels - may prove an effective strategy to boost DFI. When accustomed to paying government through digital channels, consumers gain trust and are more likely to use similar channels offered by their financial institutions. Digital channels may be the only way to serve communities in the Gaza Strip and in Area C, and financial institutions are encouraged to explore these possibilities.

Figure 25: Supply-side Respondents' Views on Barriers to Extending Financial Services to the Financially Excluded



Constraints to the Provision of Credit and Insurance

When exploring factors that can be influenced by DFS, the second-most pressing barrier identified by a large proportion of survey respondents cited the lack of credit data or usable collateral (market driven factors). A combined total of 85.1% of respondents either "totally agree" or "agree" with this statement. This barrier remains, despite the PMA launching a Credit Scoring System in 2010. Given that marginalised communities are excluded from the financial system, they would find it almost impossible to build any credit history, despite the best efforts of the PMA. The problem is compounded by the fact that lenders want

to secure their loans through collateral, and poorer individuals may not have sufficient collateral to qualify for a loan. A further compounding factor is the high-risk profile persons in marginalised communities (according to 76.6% of respondents).

As highlighted by international experience, DFS can play a significant role in addressing these barriers. Experience also highlights that financial, technology-based start-up firms are better at finding innovative ways to build a credit score among underserved communities, or finding innovative (technology-driven) solutions to provide loans, without the need for collateral.

Research by the Bank of International Settlements (Working Paper No. 1041 entitled The impact of Fintech lending on credit access for U.S. small businesses, September 2022) highlighted how Fintech companies use (or find) alternative data sources, utilizing machine-learning to assess the credit quality of small firms. Their research highlighted that Fintech lending platforms lent more to small businesses in areas with higher unemployment and higher business bankruptcy rates. Their internal credit scores were sufficiently robust to be able to predict future delinquencies more accurately when compared with traditional credit scores. Access to finance generally tended to uplift the area surrounding the small business.

In terms of helping marginalised communities to build a credit score, examples include microcredit solutions such as mobile phone monthly subscription payments, made directly to the mobile operator, with the customer repaying the microloan when they receive their salary. Such short-term and low-value bridging finance can help to build a credit score.

The problem of assessing the risks of marginalised individuals with poor financial histories is not confined to the lending sector, but equally extends to the provision of insurance. More than half the respondents (52.6%) agreed that it is challenging to assess insurance underwriting risks, where there is a lack of historical financial data. A significant proportion of respondents (74.5%) confirmed that weaknesses in technology at some financial sectors (such as insurance) posed a barrier.

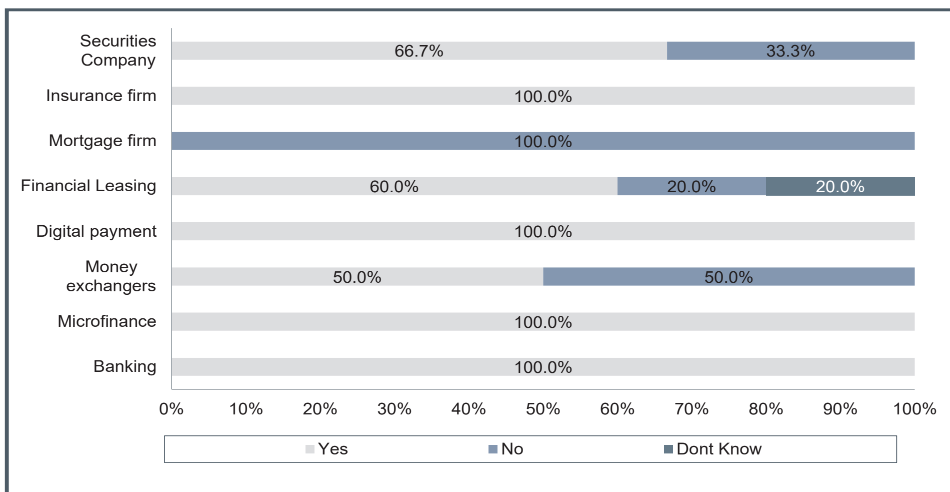
This is yet another area where Fintech newcomers find alternative sources of data to underwrite insurance risks. Examples include satellite imaging to assess crop performance at farms and providing insurance linked to this data. Alternatively, sensors (internet of things, or IOT, devices) can inform insurers on how the farmer is managing soil conditions, or monitoring floods and droughts, and either using this data to underwrite the insurance policy or pay out to cover losses, without the farmer needing to make a formal claim. Telematics insurance embedded in vehicles is another example where drivers are charged a premium based on how they drive, rather than on generic data such as their age (assuming a younger driver is a riskier driver).

Thus, DFS can play a significant role in lessening barriers to marginalised communities obtaining access to credit finance or insurance protection.

High Costs of Serving Marginalised and Underserved Communities and Digital Transformation Initiatives

High maintenance costs associated with small deposits or loans (market driven factors) were highlighted as a barrier by 71.1% of supply-side respondents. Furthermore, 68.8% of respondents cited high costs associated with providing financial services in small towns or rural areas as a meaningful barrier. Digital transformation efforts can help financial institutions reduce the costs of serving such communities. Exclusive digital channels can be significantly cheaper, when compared with the need to build branch infrastructure. Automation of tasks using technologies such as machine learning can also prove cost-effective.

Figure 26: Digital Transformation Initiatives at Financial Institutions



Financial institutions are implementing some form of digital transformation initiatives as highlighted in Figure 26. All supply-side respondents (100%) from insurance firms, digital payment providers, microfinance institutions and banks claim to be implementing digital transformation. All respondents from mortgage firms confirmed that they were not pursuing any initiatives to digitally transform. A little over 60% of respondents at financial leasing and securities' companies confirmed that they are pursuing digital transformation initiatives. Examples (answers to open ended question) of digital transformation initiatives provided by respondents include the following:

- Launching mobile and online applications that allow customers to conduct financial transactions remotely.
- Launching a service to request a cheque-book or open a bank account remotely.
- Facilitating electronic payments for instalment dues or collection of insurance premiums, or for bills' payment.

- Online loan requests and using databases to complete a loan application with prefilled data fields.
- Chat bots to provide automated customer services and the creation of a 24/7 digital call centre.
- Automation of internal processes and dispensing with the use of paper, except official papers that require signature.
- Electronic branches.
- Developing systems that facilitate insurance services through a mobile application.
- Certain financial institutions are partnering with new payment service providers, to develop new collaborative payment solutions.
- Electronic trading systems using a mobile application.

The biggest driver for implementing some form of digital transformation is to gain a greater market share (as highlighted by 91.7% of supply-side respondents). This is illustrated in Figure 27. An improved customer experience is more likely to sway customers away from financial institutions that provide a poor experience. Improving operational efficiencies and reducing costs were equally weighted by 89.6% of respondents highlighting this objective. The same proportion (89.6%) also felt that digital transformation can open new opportunities, and therefore it is worth pursuing. It is encouraging to learn that more than 85% of the respondent population believe that digital transformation can bring about financial inclusion in Palestine, reaching marginalised groups such as women and youth.

Survey data highlights that financial institutions are moving in the right direction, in terms of addressing the market and organisational barriers that create challenges in reaching underserved communities. With further progress on these initiatives, it is likely that investments in digital transformation will pay off, not only for financial institutions, but also their customers and those communities who are not currently being served.

However, there are also significant organisational challenges highlighted by respondents in implementing digital transformation, as illustrated in Figure 28. The most significant challenge is perceived to be regulation (according to 70.8% who answered “totally agree” or “agree”). A respondent elaborated on this aspect, providing a bit more clarity, suggesting that the courts do not adequately recognise electronic transaction laws (or electronic signatures), making it difficult to develop end-to-end digital solutions.

Furthermore, 56.3% of the surveyed population believe that consumers lack an understanding of DFS, therefore it is harder for financial institutions to rollout such products and services. Associated with that statement, 39.6% of respondents believe that Palestinians are not ready to adopt DFS. Just under half (43.8%) cited the lack of budgets and the heightened risk of cybersecurity threats as key challenges to digital transformation.

It is very encouraging to learn that 66.7% of respondents did not agree with the statement that a lack of digital skills - or the lack of digital knowledge - in their organisation poses any challenges. Palestine does have a highly literate population that has proved its value and IT knowledge in international markets, to where they outsource their services. As such, skills are available, however, they may not always be available to local financial institutions or they may become prohibitively expensive, given that foreign firms are able to pay higher salaries. The other encouraging fact is that 64.6% of respondents disagreed with the statement that they lack buy-in from their executive managers for digital transformation.

Figure 27: Reasons why Organisations Pursue Digital Transformation

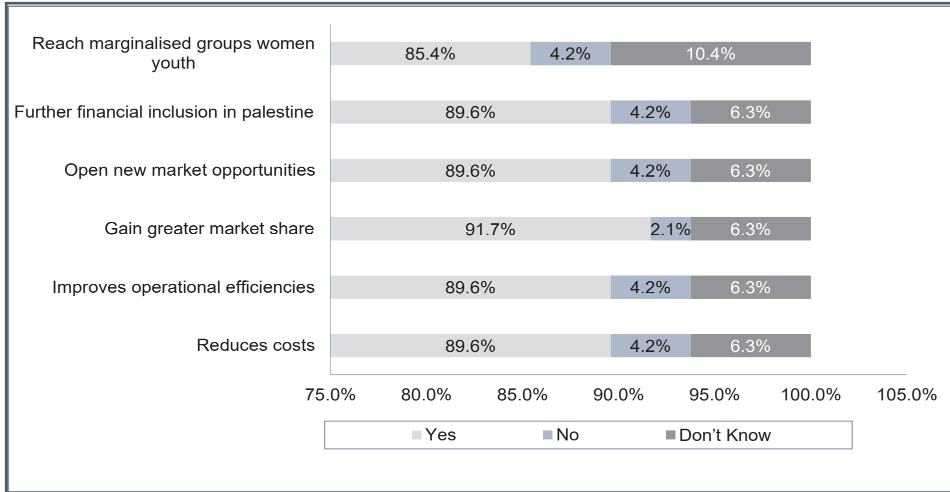
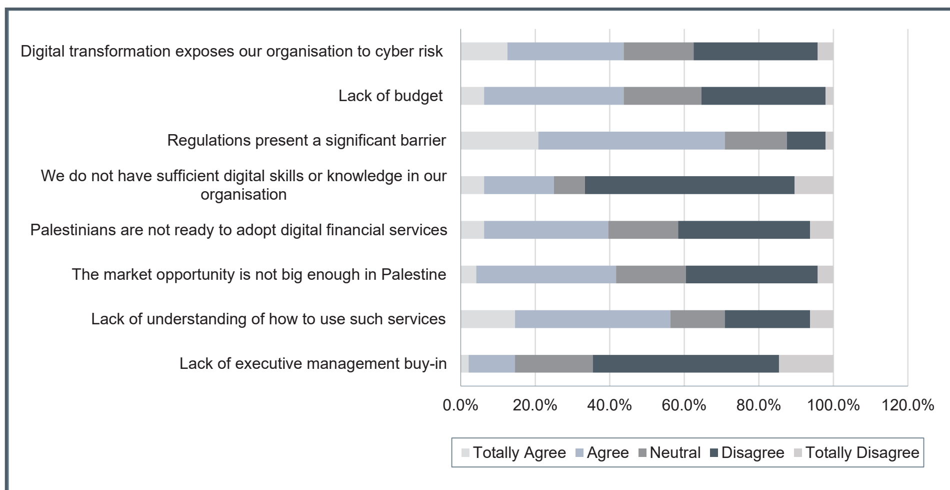


Figure 28: Most Important Organisational Challenges to Implementing Digital Transformation



Regulatory Barriers

Regulatory challenges appear to hinder the development of DFS and therefore inhibit DFI. Such a stance is common, as financial institutions may see regulation as a drain on profitability, given that regulatory initiatives do not directly generate revenues, but rather erode bottom-line profits. Around 75% of respondents highlighted that strict identification and other documentation requirements (Know Your Client, or KYC, requirements), and laws requiring the monitoring of money laundering and terrorist financing, pose a challenge. When on-boarding customers remotely, financial institutions are required to conduct enhanced due diligence, and different firms will have different standards in meeting these requirements. A stricter interpretation will lead to financial institution requiring customers to physically visit a branch to verify their identity. As highlighted above, even if a law on remote on-boarding is in place, courts may interpret the legislation more conservatively and may not recognise valid contracts entered into remotely.

In 2022, the PMA updated AML/CFT laws (Law No.39 of 2022) to not require enhanced due diligence, if the institution identifies low KYC risks based on a comprehensive risk assessment, and provides evidence to the regulator. Thus, financial institutions have discretion to waive enhanced due diligence based on objective evidence. Furthermore, post COVID-19, international AML/CFT laws now take into consideration financial inclusion as part of KYC due diligence processes. It is a risk-based approach, rather than a “one size fits all” regulatory framework, for KYC and enhanced due diligence requirements.

High capital requirements and strict, regulatory compliance requirements may limit the attractiveness of acquiring small depositors, or providing small loans, or underwriting low-value insurance contracts (according to 55.3% of respondents). Fintech newcomers (or start-ups) may also find high capital requirements a barrier to launching alternative financial ventures that have the potential to further DFI.

While certain regulations or laws pose a challenge to digital transformation, 56.3% of survey respondents (who answered “totally agree” or “agree”) believe that the current regulatory framework governing financial services supports innovation, digital transformation and the creation of Fintech products and services (see Figure 29).

Similarly, 52.1% believe that the current regulatory framework for financial services supports and promotes financial inclusion, with only 16.7% of respondents indicating that they “disagree” or “strongly disagree”, while 29.2% expressed neutrality. According to 47.9% of respondents, the current regulatory framework supports gender inclusion and the targeting of the most-vulnerable population groups. Only 12.5% disagreed with this statement.

Thus, it can be concluded that financial service institutions do not have significant concerns about the regulatory framework, believing that it supports the development of DFS products

and services. As explored in more detail below, these results make sense, given that both the PMA and the PCMA have expended considerable efforts to develop systems and legislative changes, while upskilling personnel to encourage and support Fintech players to enter the market. This drives DFS, encouraging incumbents to develop similar products and services that promote financial inclusion through digital channels.

However, financial institutions do have issues with specific legislation or regulatory requirements, as set out in Figure 30. The lack of electronic signature laws was seen as a problem by the highest proportion of respondents (60.4%). Correspondingly, as highlighted above, AML and KYC laws were cited as a hindrance by 45.8% of respondents. Perhaps their response was made without the knowledge of recent changes to these laws. Apart from electronic signature laws, in all other cases, more than 50% of the surveyed population disagreed that specific regulations pose a barrier or obstacle. This is an encouraging result, as regulatory hindrances (if cited as inadequate) are sometimes harder to address.

Figure 29: Extent to which the Current Regulatory Framework Promotes Innovation and Digital Transformation

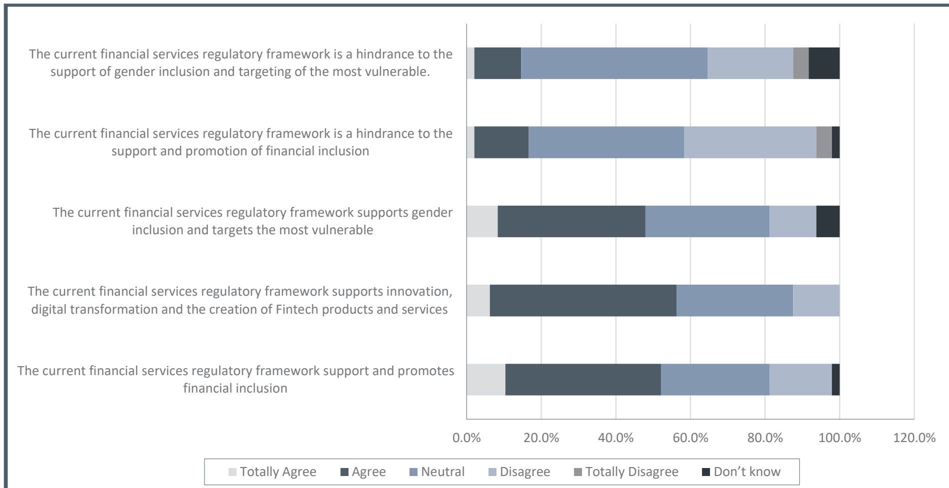
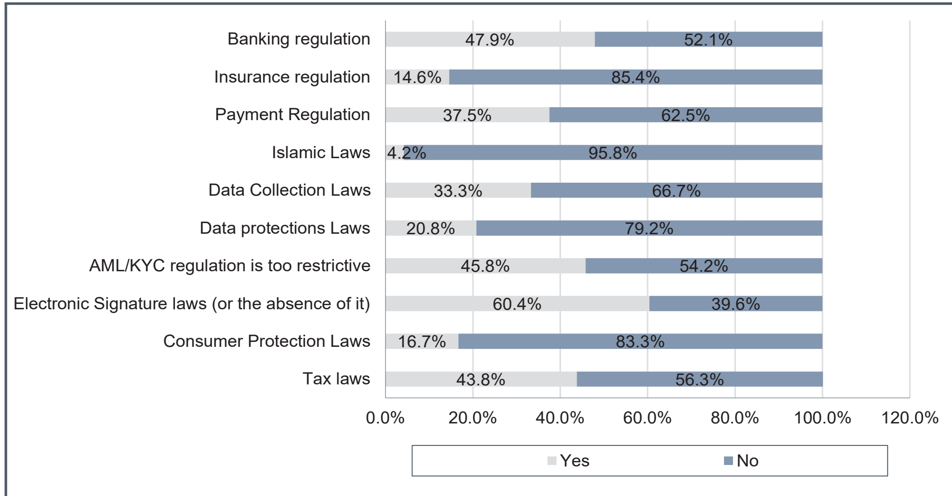


Figure 30: Most-Prominent Legal and Regulatory Barriers faced by Financial Firms



5.2.3 Fintech Newcomers can Work in Unisom with Incumbents

Incumbents do face challenges in addressing underserved and marginalised communities, as already highlighted in this report. Legacy systems, branch infrastructure and organisational stances towards innovation can all hinder the pursuit of DFI through DFS. Conversely, Fintech newcomers (start-ups) can come into the market unconstrained. They are fuelled by personal experiences and understand market gaps in detail. They 'home in' on a micro-niche, focusing their efforts on early days of growth. Propelled by technology, they find solutions to barriers which incumbents find difficult to resolve (such as alternative data for credit and insurance underwriting).

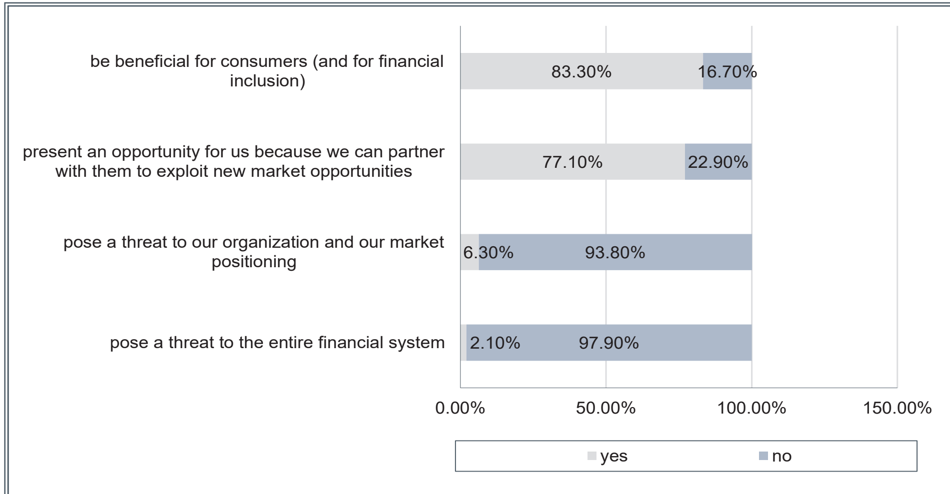
However, start-ups face an uphill challenge in launching their idea, surviving through the start-up phase and eventually upscaling, when they can truly drive DFS. Start-ups need capital to invest in infrastructure, and the licensing process is complex. Even if they overcome these challenges, start-ups often find it challenging to gain traction, because it takes much effort to build consumer trust.

Instead of incumbents and Fintech start-ups trying to bring about change on their own, global experience has highlighted that collaboration is often a far better outcome, especially when pursuing the goal of DFS. Incumbents have the capital resources and a huge customer base, but lack entrepreneurial spirit and are slower to innovate and launch new ventures or products. On the other hand, start-ups have great spirit, but struggle in obtaining a license and gaining traction by building customer trust.

When respondents were asked how they felt about regulators allowing new Fintech players

into the financial system, their responses were positive. Firstly, 83.3% acknowledged that such a policy is beneficial for consumers and for financial inclusion, as highlighted in Figure 31. Collaboration takes the best of both worlds and directs effort towards DFS, instead of destructive competition.

Figure 31: Do Fintech Newcomers Pose an Opportunity or Threat to Incumbents?



Partnership opportunities are welcome, as 77.1% believe that Fintech newcomers will present opportunities to find and exploit new and untapped markets. Incumbents can either partner with Fintech newcomers to launch joined products and services, or the parties could create a separate, third venture, under a different brand. There are such examples in Palestine, where an incumbent bank has launched a payments' service provider. The same is true for a telecommunications firm that has also launched a payments' firm.

Indications are positive, as collaboration between incumbents and Fintech disruptors can help to drive DFI in Palestine.

5.3 Assessment of the Enabling Environment or Infrastructure

While stakeholders in the enabling environment were not directly surveyed, their views were captured from the perspective of supply-side respondents, as well as in focus groups where some stakeholders were interviewed (as highlighted in the infrastructure component of the ecosystem). Furthermore, current developments and plans highlighted in this section arise from desk-based research.

Supply-side survey respondents were asked about approaches that policymakers can take to

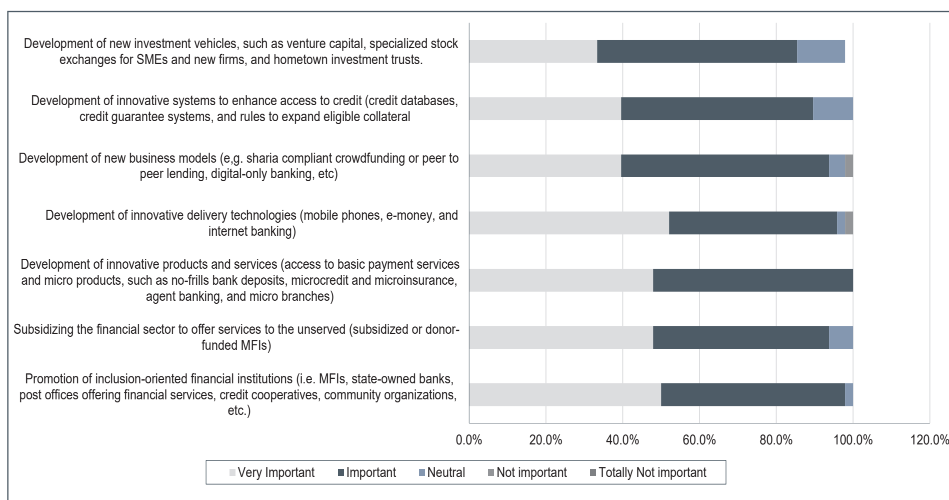
promote higher levels of financial inclusion and DFI. As highlighted in Figure 32, all respondents (100%) agreed that developing innovative products and services was the best way to reach more people, as new products are likely to be tailored to the specific needs of underserved or marginalised communities, such as women and youth. Examples of innovative products and services include access to basic payment services, micro-financial service products, 'no frills' bank deposits, microcredit and micro-insurance, agent banking and branches.

Around 98% of respondents believe that newer types of organisations (such as specialised microfinance institutions, post offices offering financial services, credit cooperatives and community organisations) is an effective way to distribute financial services to the excluded. Fintech newcomers can be included in this group, as regulators are already making significant headway in terms of creating a more conducive environment for Fintech newcomers to enter the financial system, and test their product or service before their full launch. The third-highest rated factor (by 95.8%) was the development of innovative delivery technologies such as mobile phones, e-money and internet banking. For these channels to be effective, appropriate and robust, the appropriate infrastructure is required, such as a high-speed internet and mobile banking services, as well as a proportional licensing process that allows new players to emerge, such as e-money institutions.

Around 90% of respondents highlighted specific infrastructural components to boost credit to communities that are perceived as higher risk, or lack credit history. Credit databases, credit guarantee schemes and relaxation of rules to expand eligible collateral are all infrastructural components that can be developed further to enhance financial inclusion. The same principles can be applied to inclusive insurance. Aggregated insurance data can help underwriting efforts. For example, centralised data on the number of accidents in specific areas, or the number of ambulance call-outs due to accidents or ill-health in some areas, can help insurers better understand the risk of losses. Satellite tracking of crop performance is a service that insurers can tap into, in order to assess how effective a farmer is at managing their crops. The effectiveness of crop management can help insurers to price their premiums more fairly, on a risk-based, objective approach.

Developing new business models (such as Fintech ventures, sharia compliant financial service products, peer to peer lending or digital-only banks) and the subsidisation of financial services were highlighted as effective solutions by 93.8% of supply-side respondents.

Figure 32: Supply-side Respondents'Perceptions of the Importance of Factors that Drive Greater Financial Inclusion



Overall, 85.4% of respondents believe that new investment vehicles - such as venture funds or specialised stock exchanges - can help to fund alternative financial service providers, with promising solutions in terms of targeting the financially-excluded.

The following sections elaborate on specific, existing initiatives to develop a more enabling environment for financial inclusion, and specifically DFS, in Palestine.

5.3.1 Development of the Fintech and Financial Inclusion Ecosystem

Much is being done to promote financial inclusion in Palestine. A National Financial Inclusion Strategy is in place, and an elaborate mechanism has already been developed to implement this strategy. The National Committee for Financial Inclusion was established by law, charged with the implementation of this strategy. This body is co-chaired by financial service regulators, with senior-level representation from all, key stakeholder groups. They have established a Technical Committee, co-chaired by the regulators and including senior-level representatives, responsible for supervising the implementation of action plans associated with the national strategy, issuing the necessary executive directives to participating stakeholders (based on the directives of the National Committee), while providing full coordination across all partners at the executive level, to ensure smooth implementation.

Three working groups have been established to support the Technical Committee, namely:

1. The Entrepreneurial and Small and Medium Enterprise group.
2. The Consumer Empowerment group.
3. The Innovative Financial Products group.

The Consumer Empowerment group specialises in providing support to the Technical Committee, helping them find ways to promote and disseminate financial literacy initiatives for targeted group of citizens who are marginalised or underserved. Various media campaigns help to promote such financial literacy initiatives.

The Innovative Financial Products group helps the Technical Committee understand how financial technology can drive financial inclusion and the path to a cashless society. They also advise on gaps and obstacles to accessing and using financial services, especially by marginalised communities. The Technical Committee relies on this group to guide them on the development of new digital products and services that can help further DFI.

This governance body is robust and effective, uniting diverse stakeholders in driving financial inclusion. It can be leveraged to develop and implement a National Digital Financial Inclusion Strategy that can specifically focus on driving DFI.

5.3.2 Development of Regulatory Infrastructure and Policies that help Drive Digital Financial Inclusion

The supply-side survey highlights that regulation (rather than the regulatory framework) is one of the biggest barriers to the equitable redistribution of capital, from the supply-side to the demand-side. However, in Palestine, both regulators - the PMA and the PCMA - are taking proactive steps to drive financial inclusion generally, and digital financial inclusion more specifically. It is important to highlight developments in infrastructure and policies, such that financial service institutions are aware of them, and take advantage of these to explore launching innovative DFS solutions that facilitate DFI and wider financial inclusion. Key initiatives worth highlighting and worth disseminating include the following:

1. Opening the Regulatory Landscape to Newcomers

The PCMA launched Ebtaker, a platform that aims to enhance and facilitate effective communications between the PCMA and innovators in the non-banking, financial sector. The platform provides advisory support on regulatory aspects to innovators who wish to bring new business models or technologies to the Palestinian market, for the benefit of financial inclusion. The platform is valuable for Fintech start-ups, as it helps them communicate with PCMA more freely, helping them to avoid incurring hefty legal fees in understanding the regulatory position of their idea.

The PCMA are also in the process of launching a regulatory sandbox facility that will allow

innovators to test solutions that do not fit the current regulatory framework. Testing is facilitated by regulatory instruments such as a "No Objection Letter" that legally allows Fintech innovators (in a highly-controlled environment) to launch and test their product in a live environment, without the need for a license. The testing period is for a finite amount of time, and the firm would then need to apply for a full license, or renegotiate an extension of the testing period.

In 2022, PCMA launched two new initiatives to provide regulatory certainty on Fintech businesses, specifically pursuing electronic platform business models to distribute non-banking, financial service products.

a. Decision No.1 outlining technological controls and rules for securing and protecting information related to providing non-banking, financial services via electronic platforms.
b. Instruction No.2 (2022) on licensing electronic platforms for selling/providing aggregated services to non-banking, financial services.

Further details on these initiatives can be found on the PCMA's website.[1]
The PMA has developed a sandbox which aims to encourage innovation by allowing the testing of innovative Fintech business models in a live environment, when such ideas do not fit the currently regulatory framework. The PMA elects to test these models in their sandbox, before licensing.

Both initiatives are not confined solely to Fintech start-ups. They are open to any innovator, whether from current, licensed, traditional, financial service firms or utility providers, telecommunication providers, the post office, or any corporation that wants to launch innovative financial services, including products.

It is worth noting that the PMA has already revised payment regulations and allowed several payment service providers to enter the market, creating competition with incumbent payment firms, such as banks and microfinance firms. The PMA's website lists the following new payment service providers in 2022: Middle East Payment Service (MEPS), The National Electronic Payment Company, Madfooatcom, Maalchat and Palpay. In some cases, they compete and in other cases collaborate with incumbent firms to develop new and innovative solutions that promote DFI.

Each regulator has established a Fintech Committee that decides on whether to provide support to innovators, and what type of regulatory support is required.
2. Fintech Capacity Building at PMA and PCMA

Supported by GIZ, the regulators launched a Fintech Academy to upskill supervisors on Fintech business models and technology, such that they can proactively engage with - and support - Fintech newcomers. The initial phase of the Academy was for participants to gain

1 https://www.pcma.ps/en/digital-financial/

theoretical knowledge on Fintech concepts, and to acquire a diploma qualification from a German university. The latter part of the programme involved more on-the-job training, where external experts provided bespoke case study training, as well as supporting the Fintech Department in addressing enquiries from Fintech innovators, helping them develop an internal operational procedures' manual to support innovators, as well as allowing for sandbox testing.

Through the Academy, regulators are now well-versed in a wide variety of Fintech topics. Furthermore, they have practical experience and a procedures' manual to help provide the right level of support to innovators, helping them to smoothly progress from initial advice, to sandbox testing, to full licensing and supervision.

Newcomers bring new ideas that help address financial inclusion through digital, financial technologies. They also generate much-needed competition that boosts levels of service, customer experience and drives down costs. With enhanced DFS capacity, regulators will be more effective in "opening the doors" to new market players that launch, upscale and make an impact.

3. Development of an Enabling Payments' Infrastructure

Facilitating digital payments is often the first entry point for customers on the DFI journey. PMA has made headway in developing infrastructure that facilitates cost-effective payments. In February 2022, the PMA launched a new payment system that allows for the central clearing of all POS transactions in Palestine. The new system will help small businesses accept electronic payments cost-effectively, as fees have been reduced from the standard 3% to 0.5%. Financial institutions have the freedom to develop front-end payment gateways that utilise PMA's clearing system.

In November 2022, the PMA signed an agreement to procure an Instant Payment System that will contribute to reducing cash usage, by expanding access to electronic payment channels that are more widespread and less expensive. The system allows for secure, online and mobile payments, with 24/7 availability. The payment system ensures inter-operability among participants. The PMA's aim is to further financial inclusion and reduce cash usage through this instant payment system. A project has been initiated to issue QR code standards for electronic payment operations.

PMA has also piloted an e-payment solution (including payment from e-Wallets) for persons making payments to government, and for the payment of bills. The newly-formulated National Payment Law No.41 of 2022 has allowed for reform in the payments' sector: more players have entered the market, creating competition and in the process benefiting consumers and small businesses.

After teaming up with payment service providers and social media influencers, the PMA

embarked on a campaign to raise awareness among the Palestinian population on the advantages of DFS.

There is significant development across the payment infrastructure that incumbents and Fintech newcomers can tap into, in order to provide the served, the underserved, and the marginalised with the ability to make digital payments. Not only does it bring convenience, but a digital footprint can also help consumers and small businesses to better track their expenses, and thus create effective plans to build their financial future.

4. eKYC Initiative

The PMA is exploring the development of an electronic, identity verification platform that can help incumbent financial institutions and Fintech newcomers to easily on-board customers and verify transactions. If this system comes to fruition, the PMA will hold a centralised database of verified IDs (collected through various sources, including financial institutions). Financial institutions could then rely on this data to on-board customers, allowing them to transact remotely without the need to verify them individually.

5. Arranging Hackathons to Promote the Development of the Fintech Sector

Insurance is less well-developed, and the PCMA has launched a bespoke insurtech hackathon called the Insurtech Wizard Hackathon, to encourage new insurance solutions that include more Palestinians in the insurance sector. The hackathon aims to encourage the development of new ideas in the following areas: 1) creating access to inclusive insurance and insurance literacy, and 2) improving the customer experience. A second track, the Insurtech Wizard Challenge, serves existing and ready insurtech solutions who receive regulatory (and other) support through partner institutions.

Focusing on providing regulatory support and working in partnership with other stakeholders, the PCMA is encouraging more insurtech players to enter the market through these initiatives. The aim is to create more competition in the insurance sector, and to bring innovative approaches to addressing insurance inclusion.

6. Providing a Basic Bank Account

The PMA issued instructions to Palestinian banks to offer a basic bank account to the financially-excluded. Provided customers meet KYC requirements, they are entitled to obtain a bank account without fees or interest, with no minimum limits and a free debit card, such that they can make cashless payments. Given the political situation in Palestine, all citizens must have an identity document, so with this ‘financial inclusion’ account, there are no restrictions to any adult being able to own a bank account.

5.3.3 Development of the Entrepreneurial Ecosystem to Enable Fintech Newcomers to Launch and Grow for the Benefit of Financial Inclusion

As already highlighted, Fintech newcomers find ways to access the underserved and marginalised communities, providing them with financial services that they may have been unable to access in the past. Fintech newcomers use technology and business model innovation to break down barriers.

However, the environment for any start-up or new venture is challenging and lacking support. Given Palestine's unique political situation, such problems may be exacerbated for start-ups emanating from this region. Some ventures may never come to market, and if they do, they have a high chance of failure (as is the case with all types of start-ups). They need support from government, accelerators and investors to build and fund their ideas.

With donor support, there are several Palestinian accelerators, however, only two (for now) have a Fintech focus. These are Intersect Innovation Hub and Flow Accelerator. Intersect implemented Palestine's first Fintech Ideation Hackathon in 2021, and subsequently announced the launch of a Fintech Incubation Programme in March 2022. Flow Accelerator launched an incubation programme for Fintech ventures, called Fintech Camp, helping to raise awareness of Fintech among the community of younger innovators and entrepreneurs.

However, Fintech is a new development in Palestine, and accelerators themselves will need capacity building to ensure that they provide the necessary levels of support to Fintech newcomers, in order to help them flourish and make a true impact on DFI.

The investor landscape is developing; however, it needs more in the Fintech area. Ibtikar Fund is the most prominent investor in Palestine. However, it is not surprising that they are not funding any Fintech ventures at the moment. Fintech is at an early stage of development, and investors look for high-growth potential in ideas before investing. As the ecosystem develops further, Ibtikar will find more opportunities to invest in.

PART 2

ROADMAP FOR DIGITAL FINANCIAL INCLUSION IN PALESTINE

6. FACTORS AFFECTING FINANCIAL INCLUSION & THE ROLE OF DFS

Prior studies confirm that Fintech and DFS have the potential to promote financial inclusion. Usage of DFS accelerated during the COVID-19 pandemic given strict, social distancing requirements.

Sahay et al. (2020) research showed that digital finance increases financial inclusion, in turn associated with higher GDP growth. Across 52 countries covered in their analysis, the research found that DFI had improved, even where traditional financial services were stalling or declining. This is because DFS can reach markets that traditional financial channels cannot, because of high barriers such as cost of reaching and serving people in rural areas, or the lack of credit history.

Research highlights several enabling factors for financial inclusion, including, customer identification, digital infrastructure, financial literacy and a supportive regulatory/legal environment.

Palestinians must possess an identity document; however, it is not currently in digital form. The PMA is exploring the deployment of a centralised database for customer due diligence. While a digital identity document (linked to biometric data, for example) is a valuable infrastructural component of DFS, it is not 'a must have' for progress. However, the introduction of the Aadhaar card (a national system of biometric identification) in India has proved to be a true game-changer for financial inclusion according to Sahay et al's research, a development which could be considered by the PA.

The survey highlights that a high proportion of respondents have access to internet services (80.2%), while 90.5% have mobile phones, of which 89.8% are smart phones, capable of operating sophisticated financial applications. Digital infrastructure is not a barrier in Palestine.

Financial literacy is currently actively addressed through the National Financial Inclusion Strategy, and progress is being made. As already highlighted, both the PMA and the PCMA are actively working to enable more Fintech newcomers to enter the financial system and create competition that improves overall levels of financial services, while finding new ways to include more citizens. The regulators are open to removing regulatory barriers, if they present an obstacle to financial inclusion, and more specifically DFI.

Unlike other countries that face obstacles which hinder financial inclusion (lack of identity documents, long distances to bank branches or ATMs, high costs of opening a basic account, a lack of trust in financial services), Palestine does not face such obstacles. All the building blocks are in place, and much effort has already been expended to drive financial inclusion and DFI.

Palestine's problem is a more complex, economic one. Financial exclusion is largely caused by low levels of economic development, arising from various factors including Israel's occupation. Therefore, in developing a road map for DFI through DFS, Palestine's unique situation must be addressed, and it must be also acknowledged that international best practice does not always work in this context.

The ecosystem and factors that explain high levels of financial inclusion or exclusion were developed by Kabakova and Plaksenkov (2018). These may help guide the development of a roadmap for DFI in Palestine.

The research analysed financial systems from the perspective of ecosystem components that enable financial inclusion, and those that lead to exclusion. Relying on prior research, they hypothesise that the following four major factors could influence financial inclusion:

1. Socio-demographic factors or the way people behave and make decisions on financial matters. The less-developed socio-demographic characteristics, the more likelihood that the population prefers to avoid formal financial services, preferring cash or even barter exchange. Under such circumstances, bank account penetration is expected to be low, as demand for financial services is low.
2. Technological (digital) factors. The ecosystem of financial inclusion is changing with more digital players and solutions emerging. Technology can increase financial inclusion by overcoming barriers faced by traditional channels, such as distance to a branch or lack of a credit history.

3. Economic factors, such as poverty and (income) inequality negatively influences access to formal financial services.

4. Political factors and the political environment, as well as government and regulatory policies can impact on the development of financial inclusion.

Combining these factors, Kabakova and Plaksenkov identified three configurations (of these factors) that explain high rates of financial inclusion.

- Configuration 1 combines high social and political development without the need for economic development. In other words, even in countries with low economic development, with the right mind-set (socio demographic development) and political

policies, financial inclusion is attainable. (Examples of such a configuration include Bolivia, the Dominican Republic, Ecuador and Indonesia).

- Configuration 2 combines high social, technological, and economic development as a core condition, with peripheral political development. In other words, the right consumer mind-set and visible economic development will automatically raise levels of financial inclusion. (Examples include Argentina, Costa Rica, Panama, the Russian Federation, South Africa and Venezuela).

- Configuration 3 combines high economic and political development, with the absence of technological and social development. In other words, a progressive political and regulatory environment - coupled with a vibrant economy - can lead to higher levels of financial inclusion. (For example, Rwanda).

Conversely, the research highlights that financial exclusion is exacerbated with two configurations of ecosystem factors.

Financial Exclusion Configuration 1 - with relatively high technological and political development, but with low social and economic development. The Philippines is a good example, with high mobile and internet usage and higher than average e-Government development, and a well-developed regulatory framework for financial markets. Economic factors are less well-developed, and the Philippines has low levels of financial literacy. Financial exclusion is therefore perpetuated, despite advances in technology and the political landscape.

Financial Exclusion Configuration 2 - low social, political and technological development causes financial exclusion. Bangladesh, Cameroon, Guatemala, Madagascar, Nepal, Nigeria, Senegal and Tajikistan are cited as having such a configuration that exacerbates financial exclusion.

Social development, including socio-demographic welfare and financial literacy, is the primary driver of financial inclusion. When coupled with advanced political development, the chances of enhancing financial inclusion are high, without the need for enhanced economic measures. Socio-demographic development - coupled with technological and economic development – leads to high rates of financial inclusion, despite weak political developments.

The insights gained from this research is that financial inclusion policy considerations must factor-in the ecosystem, as no single, isolated factor can alone promote financial inclusion. Furthermore, social and technological development are paramount to enhancing DFI. A progressive consumer (or small enterprise), willing to use technology to access financial services, will drive high levels of financial inclusion. Therefore, financial literacy, the enablement of DFS and the development of the Fintech sector are paramount. A well-developed policy framework and supportive regulation helps. Financial inclusion, once set

in motion, influences GDP growth, and lowers income inequality, as shown by Karpowski (2014). A developing economy in turn fuels greater levels of financial inclusion, thus creating an upward spiral of cause and effect.

Palestine's circumstances can be explained by Financial Exclusion Configuration 2:

- Palestine has relatively high levels of technological development, with high penetration rates for internet and smartphones. As highlighted from the survey, the infrastructure, such as the payments' system, is highly developed.

- While the political situation with Israel remains complex, within the country, the PA supports driving financial inclusion. Regulators are making considerable efforts to drive inclusion. These initiatives are controlled through the Financial Inclusion Committee that oversees and implements the national Fintech strategy. Therefore, ignoring the political instability with Israel, Palestine has well-developed political factors for financial inclusion.

- Low social and economic developments are key barriers. Despite the ease of opening any type of financial account, with very limited barriers in place, the population chooses not to engage with the financial sector. They ascribe this to economic woes. The lack of money is the biggest reason why people willingly exclude themselves from the financial system.

Efforts are being made by government and regulators to enhance levels of financial literacy, from schoolchildren to adults. However, more is required in promoting DFS. Economic factors are harder to address, however studies show that DFS can help improve the economy through indirect channels. Addressing economic challenges in Palestine seems to be the key solution to driving financial inclusion.

7. THE ROADMAP TO DIGITAL FINANCIAL INCLUSION IN PALESTINE

The roadmap factors data and insights from both the demand- and supply-side survey, taking into consideration Palestine's unique circumstances which exacerbate financial exclusion, despite considerable efforts by policymakers and financial institutions. It recognises the importance of an ecosystem working together, as well as multi-dimensional factors that contribute to enhancing levels of financial inclusion or exacerbating financial exclusion.

Focus areas are the building blocks of the roadmap, with each sketching out actions to be undertaken by various stakeholder groups that form part of the wider DFI and Fintech ecosystem. Assigning ownership to action items is merely a proposal, and stakeholders will need to come together to agree on this and decide on timelines for the implementation of each action item.

7.1 FOCUS AREA 1: Economic Development by Strengthening the MSME Sector and MSMEs' Digital Financial Inclusion

Palestine's financial exclusion is largely driven by economic factors, exacerbated by the complex political situation with Israel. While the latter is harder to resolve, research highlights economic growth can be achieved through the empowerment of MSMEs. They are empowered if they can access financial services. Digital channels, combined with innovation in business models, help MSMEs gain access to vital financial services, allowing them to invest in growth by spending more on buying goods, or acquiring assets or hiring more staff. All these actions have an uplifting impact on overall economic development. If smallholding farmers could access agricultural insurance, they may be protected from floods or drought, helping them remain in business. Access to finance can help farmers expand their business by creating more jobs, providing more fresh produce and even exporting their products.

However, this survey excluded MSMEs. It would be beneficial to understand the key barriers to DFI for MSMEs through a similar survey. The findings can help develop a specific roadmap for their inclusion, and if performed effectively, greater access to MSME finance might just be the catalyst to accelerating economic development in Palestine. Economic development in itself will help to drive greater levels of financial inclusion, as people feel they have money to save, invest, or use as collateral for loans.

ACTION 1: Financial Inclusion Survey of MSMEs

The PMA and the PCMA (with technical support from research organisations and donor financing) must conduct a Financial Inclusion Survey of MSMEs, including an assessment of DFI for this group of enterprises. The survey must specifically target enterprises of all sizes, to better understand how financial inclusion can benefit MSMEs, and how larger organisations can better engage with MSMEs through digital channels. For example, a payment portal can help larger organisations to quickly settle the invoices of MSMEs; Fintech newcomers could implement such solutions. The study can include an assessment of the likely economic uplift resulting from the empowerment of MSMEs.

ACTION 2: Survey Report and Roadmap for MSMEs' DFI

The PMA and the PCMA should develop a comprehensive report (based on an analysis of survey results), highlighting the key challenges, obstacles and barriers to financial inclusion for MSMEs, combined with an assessment of how DFS can help bring about greater DFI within the MSME sector. The report should also highlight the potential benefits of DFI for MSMEs' overall economic development in Palestine. It should conclude with a clear roadmap highlighting how greater financial inclusion and DFI can be attained by MSMEs. This initiative can be supported technically and financially by donor agencies, or by government funding.

ACTION 3: Implementation of Recommendations for MSMEs' DFI

The National Committee for Financial Inclusion should include the DFI of MSMEs in their scope of responsibilities. The Entrepreneurship and SMEs working groups - and the Innovative Financial Products working group - must expand their scopes to incorporate the implementation of recommendations set out in the report derived from surveying MSMEs.

This may require approval from the National Committee and the Technical Committee (part of the financial inclusion governance structure). It may also require additional funding and external technical support that can be provided by donor agencies or government. Alternatively, the regulators could finance such initiatives themselves.

Given that Gaza has a higher proportion of low-income and non-income households (using survey demographics as a proxy), then MSME developments should be prioritised in Gaza, as a means to uplifting the economy.

7.2 FOCUS AREA 2: Development of a National Fintech Strategy and a Fintech (or DFI) Ecosystem

For DFI to be effective, a myriad of different stakeholders must work in a coordinated manner to bring about greater levels of financial inclusion, using new technologies and business models. The ecosystem is complex, and as a minimum, it needs the following types of stakeholders as core components:

1. Government (the PA) develop policies to encourage and enable DFI.
2. Regulators create an enabling environment to allow new players (or new ideas) to enter the market, specifically to address financial inclusion through innovative business models and technologies.
3. Incumbents (or existing financial institutions) play a key role, as they can expand their product/service offerings to reach underserved markets using financial technologies, or by partnering with innovative Fintech start-ups. Incumbents can include big-tech firms such as telecommunications' companies, who decide to use their infrastructure and digital skillsets to deliver financial services.
4. Entrepreneurs bring new ideas on how to leverage technology and business models to reach underserved and marginalised communities, overcoming barriers experienced by more traditional players.
5. Technology providers play an active role in providing technology solutions (or centralised infrastructure) that allow traditional, financial service firms and entrepreneurs to develop new products and services that include underserved and marginalised communities.
6. Educational Institutions play a pivotal role not only in educating consumers on the benefits of financial inclusion and DFI, but also in developing digital financial skills

required by traditional financial institutions and Fintech newcomers, such that they develop tech-based financial service products that furthers financial inclusion.

7. Financially-literate consumers are an essential part of the ecosystem, and they must "help themselves so that others can help them". Consumers must take a proactive stance in learning about managing their finances in a responsible manner. They must actively seek out financial solutions that can help them, their families and their businesses, while using new digital challenges developed for their convenience. An informed consumer, who wants to be included in the financial system, creates much-needed demand which in turn spurs incumbents and Fintech innovators to develop digital financial solutions.

The above is the absolute minimum required, in terms of the number and types of stakeholders required to form an ecosystem that drives DFI.

The ecosystem presented is complex, involving a variety of diverse stakeholders that are required to work in unison to achieve the common goal of DFI. Each stakeholder group is doing the best they can to drive financial inclusion and DFI. However, each stakeholder group typically works at its own pace and not in coordination with other groups. The result is a duplication of tasks, overlaps, blockages (because interdependencies are not factored into implementation activities), and in rare cases, destructive competition.

Unintended consequences arise when ecosystem stakeholders are not working in unison. For example, regulators can develop mechanisms (such as an innovation hub and sandbox facilities), however, they will struggle to obtain applications for regulatory support from high-quality start-ups if accelerators are not able to build Fintech ventures, or if investors do not understand (or fear) investing in Fintech start-ups.

Ensuring that stakeholder groups work in unison requires a clearly articulated strategy, and an implementation mechanism ensuring that activities are well coordinated, with all working towards the same objective.

ACTION 4: Develop a National Fintech Strategy or National DFS Strategy

The Innovation and Financial Services working group can be instructed by the Technical Committee to conduct a study to understand the ecosystem required for DFI in Palestine, identifying key obstacles, barriers and challenges faced by different stakeholder groups. The results of this survey can contribute to this study. The PMA and the PCMA should be entrusted with this initiative's leadership.

Based on this research (which in itself would be largely based on interviews and focus groups), the working group can develop specific recommendations for each stakeholder group, consolidating this into a National Fintech (or DFS) Strategy for the approval of the National Committee.

A similar initiative was initiated by the PMA in 2019/20, and it is recommended that work already performed is leveraged towards speeding up the launch of this strategy.

ACTION 5: Governance and Implementation Mechanism for the National Fintech Strategy

Since a governance structure already exists for developing financial inclusion, this mechanism can be used to implement the recommendations of the National Fintech Strategy.

- The terms of reference for the National Committee and the Technical Committee can be updated for them to take ownership of implementing the Fintech Strategy.
- The National Committee need to reassess whether a change/expansion in membership is needed within both committees, in order to implement the National FinTech Strategy. For example, there may be a need for the representation of accelerator and investor communities on these committees, to ensure the development of an enabling environment for Fintech entrepreneurs.

7.3 FOCUS AREA 3: Enhance Digital Financial Literacy and Encouraging the Use of DFS

Kabakova and Plaksenkov (2018) highlight that socio-demographic factors are important for financial inclusion, helping to explain high levels of financial exclusion. They refer to the way people behave and make decisions on financial services. The survey highlights that socio-demographic factors are under-developed in Palestine. When combined with low levels of economic development, financial exclusion is exacerbated.

There are currently many initiatives underway to enhance financial literacy, and even digital financial literacy. However, the survey results highlight that more can be done, and the Kabakova-Plaksenkov research highlights that further developing this factor can help accelerate financial inclusion.

While 80.2% of the population have access to the internet, and 89.8% have a smartphone, 72.6% claim not to use mobile applications on their phone. Thus, having access to digital channels is not sufficient, and individuals must be encouraged to use these applications. To do that, they need education.

Recognising that the use of DFS is increasing (for example, 13% of the surveyed population use online banking and 3.3% use e-Wallets, yet only 6.7% pay their bills online, despite the availability of many new facilities). The data also highlights that younger - and much older - individuals also use digital transaction services less frequently when compared with respondents in the mid-age range. Similarly, people with lower education levels are less likely

to use digital channels to conduct their financial transactions. There is wide diversity in the use of DFS. Jerusalem seems to have the highest proportion of individuals using digital channels, while Jericho, the Jordan Valley and the northern Gaza Strip have the fewest proportion of individuals using DFS.

Considering the survey results, it is prudent to reflect on all current initiatives to increase the level of financial literacy and digital financial literacy. Gaps identified help policymakers re-develop initiatives, such that they yield better results.

ACTION 6: Review (or Gap Assessment) of Current Initiatives to Enhance Financial (and Digital Financial) Literacy among Citizens.

The Consumer Empowerment working group can be tasked by the Technical Committee to undertake a review of all efforts (across all stakeholder groups) to assess the appropriateness and adequacy of efforts to enhance financial literacy. Based on their findings, they can provide recommendations to remedy certain initiatives, or develop new ones. The study can cover gaps in providing digital financial literacy, especially to marginalised groups.

The working group may need to work closely with the Innovative Financial Product working group to understand international best practice in delivering financial literacy and DFI initiatives, as well as developing specific recommendations.

ACTION 7: Develop a Dedicated Financial and Digital Financial Literacy Portal with Citizen Access

Palestine has the website www.finanicalinclusion.ps in place, however, it outlines initiatives to drive financial inclusion and financial literacy, rather than providing specific learning interventions to help individuals understand how to better manage their money, or engage with DFS. Examples of websites that help individuals learn more about managing money include: Ireland (moneymatters.ccpc.ie), Spain (Geepeese), Sweden (Koll pa cashen) and Poland (Finansoaktywni). Such websites provide information to individuals, while empowering teachers of financial/digital financial literacy.

A plausible suggestion is for the Consumer Empowerment working group to develop a dedicated website (such as the examples provided above). It can be part of the www.finanicalinclusion.ps site, or a dedicated URL which directs individuals to that its site. A name such as “manageyourfinances.ps”, or “moneymatters.ps” are more descriptive, and easier to find. Such an initiative can be centrally-funded by the Technical Committee or through donors. Alternatively, a fee can be levied on licensed financial service providers to fund the development and upkeep of such a web portal.

The portal can provide webinars and e-learning to certain segments of the population

to increase levels of financial inclusion. A good example of such an initiative is BaFin in Germany who, through NGOs, use a webinar platform to deliver digital financial literacy training to elderly consumers who struggle with the digital age. The programme supports the elderly population, teaching them how to use the internet for their financial transactions. The Mexican Development Bank, Banco del Bienestar, designed a Massive Open Online Course (MOOC) called Introduction to Financial Education. The online training course, covering 4 weeks, reached 30,000 individuals in 2019. This training was part of the country's national financial inclusion plan.

Furthermore, the portal can incorporate a chat-bot powered by artificial intelligence to engage with consumers and help answer specific questions about regulations, how their money is protected, or how to submit a complaint to their financial institution.

Mexico's Central Bank launched Ban-xic to interact with individuals via chat-bot messages, to answer questions related to financial regulations and other information. In Hong Kong, the IFEC uses a Facebook Messenger chat-bot to launch a quiz campaign that raises awareness on the importance of financial education. In Luxembourg, the financial markets commission developed FinGo: The Financial Game of Life, which is a chat-bot enabled educational game that delivers financial education in a gamified way. The application was developed by students at the Luxembourg Tech School.

ACTION 8: Dedicated Mobile Applications that Enhance both Financial and Digital Financial Literacy

In Poland, the Polish Supervisory Authority - in partnership with the National Bank, the Ministry of Finance and the police - launched a campaign through their mobile app (and their website) to raise awareness on the risks associated with investing in crypto-assets, pyramid schemes and unsupervised Forex markets.

The Portuguese Insurance and Pension Funds Supervisory Authority offers a mobile application (Os Meus Seguros) to provide insurance policy-holders with a better understanding of their insurance coverage, as well as education about insurance in general.

In Hong Kong the Financial Education Council developed "Listen to Money Matters in Retirement", a Podcast aimed at the elderly, retired population, helping them to better manage their retirement savings. The podcast medium is helpful for the elderly, who are visually impaired and more accustomed to listening to the radio instead of reading. The podcast can be accessed from anywhere using a mobile application.

The PMA - together with the Ministry of Education and the Associations of Banks - launched a campaign to encourage students to develop an application targeting students that helps them understand financial services. The winning student developed Masrifi, an electronic

application that can be downloaded on a smartphone. The application simulates a virtual bank branch that provides comprehensive basic information on banking services in an interactive and exciting manner. This aims to promote a banking culture, while raising the awareness of the younger generation on financial services and DFS.

The PMA and the PCMA could explore the further development of more specific applications that help people to better manage their finances. Examples of specific applications include:

- A budgeting application available on Android or iOS, helping users to develop a household budget and then track income and expenses. In Austria, the central bank designed a budgeting tool targeting young people, accessible on their website or through an application, helping them manage their income, savings, expenses and loans. The tool can be used to record financial transactions using credit or debit cards, or cash. It also calculates a balance forecast to alert the user on how much money remains for the rest of the month. It also offers explanatory videos, statistics, diagrams and tutorials. Such an application can be connected to a bank account or e-Wallet, where information can be populated automatically. If individuals have no bank account, information can be entered manually. The application can be free of charge. If adoption rates are high, it will help households to manage their finances, and more importantly, gain insights into how they can start saving money, even if only a small amount. This will propel them onto the financial inclusion ladder, securing their family's future.
- An Agri-Insurance mobile application that helps subsistence farmers build loss scenarios, to determine financial losses in the event of risks materialising (such as floods or droughts). The application can help smallholding farmers to decide whether it makes commercial sense to purchase crop insurance.
- A money management game developed by PMA/PCMA can help children - and young adults - understand money management, financial services and DFS (available on Android or iOS). This form of media is more likely to be used by a younger audience attracted to games.

ACTION 9: Launching a Television Campaign to Deliver Financial (and Digital Financial) Literacy

It is often harder to teach people about finance through a course, compared with knowledge embedded in their daily lives. The older (and possibly retired) generation may still enjoy watching television, and specific serials or soap operas. Financial literacy can be embedded in such programmes in the form of scenarios. For example, the TV star (liked by most people) could talk about how digital banking changed their daily life. Such scenarios bring to the attention of people the possibility and benefits of DFS.

The Consumer Empowerment working group can explore whether it is possible to influence the production of certain TV shows, and if so, choreograph awareness-raising scenarios on financial

literacy into the TV series. Ideally, popular series watched by many are the best shows to target.

Such television campaigns are likely to prove much more successful compared to advertisements, which people are accustomed to tuning out of.

ACTION 10: Delivering Financial Literacy through Webinars and E-learning

The survey highlights that 80% of the surveyed population browse social media, where many do so daily. Social media channels are therefore an ideal vehicle to deliver awareness-raising campaigns on financial/digital financial literacy.

It must be acknowledged that PMA/PCMA are already making use of social media channels to raise awareness on financial literacy. The PMA recently launched a social media campaign to promote DFS, digital payment and e-wallets using social media influencers to convey the message. Given the high usage rates of social media, PMA/PCMA should explore how they can deliver more financial literacy campaigns through this platform.

Some global examples are worth highlighting. In Morocco, the Foundation Marocaine pour l'Education Financiere (FMEF) led several social media campaigns (mostly using Facebook), discussing financial education subjects of interest to young people. The Central Bank of Portugal also launched a digital financial education campaign aimed at young people (#optip) on an Instagram platform, to raise awareness on necessary precautions when using DFS (crypto-assets, decentralised finance, social media-based financial services and mobile banking).

Focusing on consumer education improves the socio-demographic factor, which in turn promotes financial inclusion. When combined with efforts to develop the economy, this can lead to higher levels of financial inclusion. The campaigns must be regularly reviewed to learn whether they are effective, and international experience must be leveraged to revise programmes or create new ones.

7.4 FOCUS AREA 4: Capturing Informal Financial Services

Around 10% of survey respondents indicated that they save through an ROSCA. These are informal savings' clubs. The highest proportion of users are in the 50-54 years' age range, as well as those with a diploma qualification. The highest proportion of respondents (14%) claim to rely on friends and family for a short- or long-term loan. Informal channels could prove risky in the absence of regulatory controls.

Should the formal sector facilitate such informal, financial channels, it could encourage more people to want to be included in the financial system. In the above cases, banking or non-banking lenders could provide an online facility (at no cost) which helps the informal money

club coordinators to manage the allocation of savings to the right individual; provide and track loans granted to club members; or pay out prizes on a rotational basis. The application could also facilitate the collection of monthly savings from all club members, paying out as per the rules of the club via formal payment channels. Such an intervention can introduce informal savers to the concept of DFS and bring them closer to a bank, with the likelihood that once they engage with the bank and build trust, they may be tempted to open an account.

Similarly, instead of a family member having to manage a loan and repayments (or defaults) on behalf of a relative or friend, a peer-to-peer lending platform could be the ideal vehicle to create distance between borrower and lender, such that disputes are easily managed without straining the relationship. It can serve as an effective means to managing the loan and making the necessary repayments, as specified in the loan contract.

The PMA and the PCMA are in the process of exploring how crowdfunding and peer-to-peer lending can be regulated in Palestine.

ACTION 11: Banks and Informal Lenders Consider Providing Systems to Informal Savings' Clubs

The Technical Committee and the PMA/PCMA could partner with the Association of Banks to encourage them to offer a free SaaS facility to informal clubs, helping them manage savings and facilitate payments in and out of the savings' club. Certain banks could be encouraged to develop such portals and make them available to potential customers. Marketing efforts by the PMA and the PCMA, as well as banks, could direct savers to the SaaS platform for savings' clubs.

ACTION 12: Examining the Potential for Crowdfunding and Peer-to-Peer Lending Demand

While PMA/PCMA are exploring regulatory mechanisms to allow crowdfunding and peer-to-peer lending. The entrepreneurial ecosystem or incumbents can explore the launch of such platforms in Palestine.

The Technical Committee could instruct the Innovative Financial Products working group to launch Hackathons that encourage such developments.

ACTION 13: Launching an Awareness-Raising Campaign on the Dangers of Informal Financial Services' Channels

Informal financial channels are risky, and can lead to customers being exploited or harmed. Informal lending networks charge exorbitant interest rates and may not always treat struggling customers fairly.

The PMA and the PCMA could explore launching awareness campaigns to warn the excluded on the dangers of the informal financial sector. The same campaigns can encourage customers to report illegal financial service providers (those who provide financial services but do not have an adequate license), or unscrupulous players that exploit vulnerable and marginalised communities.

7.5 FOCUS AREA 5: Explore and Remove Barriers to the Purchase and Usage of Financial Services

Friction at the point of purchasing a financial services' product, and friction at the point of transacting, can discourage individuals from using financial services, especially if they are marginalised economically and feel they do not have sufficient money to benefit from the formal financial system.

The survey highlights that the most important consideration in purchasing a financial services' product is how well the product or service meets the consumer's needs, and the benefits it can provide. They also want to know whether the product is suitable for them and their financial circumstances, as well as understanding the costs and commissions payable to agents.

Financial service products are not always structured in a clear and transparent way. Fee and cost structures are complex, and the terms and conditions span many pages of 'legal speak', rather than clearly communicating key contract terms between the individual and the financial institution.

With such complexity, consumers may end up purchasing a product or service that is not suitable, or if their understanding of the product is materially different to the facts. If they sign the terms and conditions, they are bound by them, and may only find out that they were unsuitable when something goes wrong. For example, insurance contracts have elaborate limitation of liability clauses that are not clearly explained. A customer could buy the product thinking that certain eventualities are covered, but in fact exclusions apply. They purchase the product based on an incorrect interpretation of the contract, and when making a claim, their claim is rejected owing to a specific clause embedded in a contract spanning many pages.

Financial institutions should be mandated by policy, standards or regulation to provide fair, clear and non-misleading product descriptions. All fees and charges should be explicitly stated, as well as exclusions or special conditions. Financial institutions must also be obliged to ensure contract terms are fair to the customer, especially in hardship conditions (for example, a customer should be given extra time to repay a debt if they can prove that they are in financial distress).

Certain financial marketing and promotion practices entice customers into buying certain

products or services through misleading content, creating urgency in temping customers to quickly sign-up for the product or service.

Survey participants also highlighted the importance of the reputation of - and trust in - the financial institution in their decision to buy products or services.

ACTION 14: Review Existing Legislation to Assess Whether There is a Need for Financial Institutions to Disclose Information about Products and Services to Avoid Unfair Contract Terms and Treat Customers Fairly

The PMA and PCMA are advised to embark on a review and assessment of key friction points at the point of purchasing financial service products. The review will help identify friction points that can be addressed through appropriate legislative changes, or by providing regulatory guidance, or imposing certain minimum standards to remove friction. A review of existing legislation will highlight whether there is a need to strengthen product and service disclosure requirements.

ACTION 15: Develop Specific Regulations to Protect Consumers When Purchasing Products

In the UK, the Financial Conduct Authority has developed a specific regulation (Conduct of Business Soucrebook: Contents of a Key Features Document) that requires financial institutions to provide a separate document with financial service contracts that explains the key features of the product or service in easy-to-understand language. The key features' document must include information about the nature and complexity of the product, how it works, any limitations or minimum standards that apply, and the material benefits and risks of buying the product or service. Customers are able to make an informed decision about whether to proceed with purchase.

The document must also explain the arrangements for handling complaints about the product or service and whether compensation will be available for losses incurred due to the negligence of the financial services' provider. Most importantly, the document will clearly explain the right to cancel/withdraw the product if it proves to be unsuitable, or if the decision to purchase was made when not fully informed. Usually there is a 14-day "cooling off" period after signing a contract to purchase FSPS. Customers therefore have 14 days to review the key facts outlined in the document, read through the contract and obtain advice if needed (if they can afford this). Despite signing the contract, consumers have the right to withdraw or cancel the product unconditionally within 14 days.

PMA/PCMA should study this example and the UK regulation cited above to assess whether there is a need for such consumer protection legislation in Palestine. If existing laws are already in place, then a review should be conducted to assess the adequacy and appropriateness of these rules.

ACTION 16: Mandating "Trust Markers" that Encourage Financial Inclusion

When trying to purchase a financial services' product for the first time, or when making complex financial commitments (for example, when applying for a mortgage to buy a house), consumers want to be able to trust their financial service provider. When it comes to money, trust is an important ingredient.

PMA/PCMA should consider whether to impose regulations that compel licensed financial institutions to include "trust markers" on their website and other marketing materials. These could include (examples only):

- The website must clearly indicate (in the footer or consistently on all pages) that the financial institution is regulated by the PMA or the PCMA. They should provide a license number, and include a link to the register where the company is listed.
- They should state whether the firm belongs to any association, and whether the financial institution can be referred to their association for information on bad practices.
- They should set out the complaints' procedure and notify the consumer of any "cooling off" period.

7.6 FOCUS AREA 6: Assessing and Removing Barriers Faced by Financial Service Providers to Develop Digital Products and Services that Drive Financial Inclusion

The supply-side survey asked financial institutions about the key barriers they face in reaching underserved markets and marginalised communities. Respondents cited the following key barriers and challenges:

1. Lack of credit data or usable collateral, despite PMA's credit registry service, which has already been in operation for several years.
2. Challenges to assessing credit worthiness, or insurance underwriting for poorer individuals with low income and a lack of historical data.
3. High costs of reaching underserved communities.
4. Legal and regulatory barriers to digital transformation or launching new products (e.g. KYC requirements and electronic signature laws), and high capital adequacy requirements.
5. Lack of understanding of DFS by current and potential customers.

If these challenges are addressed in the roadmap, the supply side may be better placed to develop DFS that have the potential to include more people within the Palestinian financial system.

ACTION 17: Review the Adequacy of the Credit Registry System and Improve it by Including Alternative Data Sources

The PMA, working collaboratively with the banking system, implemented a Credit Registry System that aims to help banks better assess the credit worthiness of borrowers. Palestine was one of the first countries in the region to implement such a system. The credit registry provides a full credit history on individuals, and on whether customers already have active loans with other institutions, as well as the balance of the loan and the value of monthly payments.

Despite these remarkable initiatives being in place from around 2010, the survey highlights that banks still find it challenging to assess credit worthiness, especially in marginalised communities. The key issue is a lack of data compromising the composition of credit scores.

PMA is advised to undertake a review of the credit registry system to understand its limitations and barriers to creating financial access for the underserved. The review can assess how the credit register needs to be updated to include alternative credit data sources (shown to be used by Fintech and alternative finance providers across the globe). PMA can work with international financial corporations like the World Bank and IMF - or donor agencies - to understand how other countries and their financial institutions source and use alternative credit histories that enable the underserved to access credit. The PMA could also launch a Hackathon to find legitimate alternative data sources that can power financial inclusion.

Financial institutions are obliged to use the Credit Registry System to assess creditworthiness. The registry may be a potential constraint on accessing financial services, not only for low-income individuals but also MSMEs.

Once clarity is gained on the types of acceptable, alternative data sources, the PMA must consider whether material changes are needed to the Credit Registry System.

ACTION 18: Guidance on Acceptable, Alternative, Credit Data Sources

Banks, MFIs, alternative lenders and Fintech newcomers are constrained by current regulations and the credit registry, even if they conduct research and development to find alternative data sources that could possibly extend more credit to the underserved.

Therefore, to encourage financial institutions to continue with such research, and to remove barriers, the PMA must assess whether regulatory guidance (or indeed legal changes) is required to provide regulatory certainty on the use of alternative credit data sources.

Regulatory clarity may spark the emergence of more creative credit solutions in Palestine. It may also encourage Fintech entrepreneurs to bring global ideas to the Palestinian market, providing credit solutions to marginalised communities, poorer individuals and MSMEs.

ACTION 19: Assessing the Feasibility of Creating a Centralised Collateral Registry

The lack of collateral is a further barrier to extending credit to poorer communities. The only solution to this challenge is for financial institutions to find ways to provide loans without requiring collateral. This means that the initial credit assessment must be robust.

Unsecured loan products may be challenging for lenders, as such loans are high-risk and may attract risk-based capital adequacy requirements that are correspondingly high.

However, even if borrowers could pledge some (or full) collateral to secure a loan, banking and non-banking lenders may fear that the same security is pledged as collateral against other loans at other financial institutions. In the case of default, the collateral is worthless as there may already be a preferential claim against this collateral.

To address the latter case, the PMA is advised to conduct a feasibility study into the development of a centralised, collateral registry that lenders can tap into electronically to check whether the collateral to a loan has already been secured by another lender.

Action 20: Assess the Feasibility of a Centralised Loss Database That Can be Used by Insurers to Underwrite Loans Specifically for Underserved Segments of the Population

Underwriting insurance risk is of concern, given the lack of data on certain underserved segments of the community. Insurers therefore shy away from serving such customers. Insurtech firms may have solutions to extend insurance to such segments, however, they lack the historical data held by incumbent insurers. The Innovative Financial Products working group (with the approval of the Technical Committee) can work together with the PCMA, the Association of Insurers and government bodies to assess the feasibility of launching a centralised risk database that captures losses, risk incidents, insurance claims and other data sources that are valuable for Insurtech newcomers or progressive incumbent insurers. The data can include diverse sources such as:

- Insurance claims highlighting the nature of the loss and the value of the insurance pay out. This can be done on an anonymous basis, where the entire insurance industry can gain access to such data to help them with underwriting.
- Police records on house break-ins or car thefts categorised by region, by type of victim, etc.
- Ambulance data, highlighting which areas have the highest call outs and associated medical issues.
- Data showing the number of accidents in a given time period for each governorate, and at a more detailed level, the nature of accidents.
- Hospital records showing the most common diseases as well as those that lead to the highest rates of mortality.
- The crop failure rates of farmers by area, and the demographics of each farmer.

If it is feasible to create such a centralised loss database, the working group should determine how best to structure an organisation that can capture this database and maintain it. A method needs to be developed to allow insurers and Insurtech firms to directly connect to this database (for underwriting purposes) via APIs.

ACTION 21: Regulatory Certainty on the Acceptance of Electronic Signatures, Digital On-boarding and KYC Requirements

As highlighted in this report, the PMA are looking to develop a KYC database that allows financial institutions to facilitate digital on-boarding, without requiring the customer to visit a branch to have their documents checked. Financial institutions will be able to rely on a single database, managed by the PMA, to verify their customer.

Furthermore, AML laws have also been updated to allow digital on-boarding. However, in practice, different financial institutions will interpret the laws differently. For example, it is common for regulators to require enhanced due diligence when on-boarding a customer remotely (especially for the first time). Some financial institutions may interpret this more stringently, believing that the only way to comply with these regulatory requirements is to ask the person to visit a branch to verify themselves.

In addition, even if the law is clear and interpreted correctly, some respondents of the supply-side survey highlighted that courts sometimes do not recognise electronic signatures, and therefore invalidate a contract between a financial institution and its customer.

Both the PMA and the PCMA are advised to provide regulatory guidance on the correct interpretation of KYC and electronic signature regulations, providing examples of good and bad practices when on-boarding a customer remotely, or verifying their identity for transaction purposes remotely.

The regulator is also advised to consult the judicial system to understand how KYC and electronic signature laws are interpreted, and to discover unintended consequences resulting from a more stringent (or incorrect) interpretation of the laws by judges and magistrates. If needed, regulators can provide guidelines for the courts to help them correctly interpret regulations.

7.7 FOCUS AREA 7: Enabling the Development of the Fintech and Alternative Finance Ecosystem

Global experience highlights that Fintech start-ups are sometimes better able to reach underserved and marginalised communities such as women and youth. They find ways around barriers that traditional financial institutions find harder to circumvent. Unconstrained and agile, Fintech start-ups are better at innovation directed to resolving financial exclusion. Larger and more traditional financial services' institutions face challenges, such as legacy

systems, a complex approval structure, and the fear of putting a well-run, financial business at risk, if they pursue unknown markets. They may be better off partnering with Fintech entrepreneurs to come up with a solution that benefits all parties.

Furthermore, for Fintech entrepreneurs to genuinely make an impact on addressing financial exclusion, they must upscale to a substantially large organisation, such that they can reach as many individuals as possible in underserved communities. However, if the ecosystem is less well-developed, Fintech entrepreneurs will find it challenging to launch their ventures, let alone upscale. This is certainly the case in Palestine, where apart from a few non-banking, payment services' providers, there are no visibly strong Fintech ventures grown organically from the ground up. This is because of the lack of a robust financial and technical support infrastructure that can help Fintech entrepreneurs launch and upscale their ventures.

ACTION 22: PA Must Assess How they Can Develop an Enabling Environment for Fintech Entrepreneurs to Launch and Upscale their Ventures

To stimulate the organic development of the Fintech ecosystem, the Ministry of National Economy, or the President's Office, or the Higher Council for Financial Inclusion are advised to explore ways in which they can stimulate the development of Fintech entrepreneurship in Palestine. They can do so in various ways. Examples include:

- Provide specific grant funding to Fintech entrepreneurs that meet certain criteria, such as developing products that drive greater levels of financial inclusion.
- Provide tax incentives to new, Fintech start-ups to encourage their launch. Waiving tax liabilities for the first few years - for either the new company and/or its employees - may be sufficiently attractive to entrepreneurs.
- Incentivise individual investors to invest in Fintech ventures that address financial exclusion. Such incentives could be in the form of tax breaks.
- Develop a Fintech Park, only open to Fintech start-ups (preferably those that address financial exclusion). Park residents can benefit from subsidised office space, access to technology (such as the Cloud and payment gateways), access to technical support and mentorship, and tax incentives as highlighted above. Bringing Fintech entrepreneurs together under one roof may stimulate new ideas, creating competition that may be beneficial for innovation and the launch of new ideas that can truly address financial exclusion using digital means.
- Develop an incentives' packages to attract foreign, Fintech entrepreneurs to launch a new venture, or to expand a venture that has already succeeded in another country.

The proposed study could be a formal one, exploring international and regional best practices in stimulating the development of Fintech entrepreneurial ventures. The study could include visits to other countries for discussions with Fintech start-ups. The study

report highlights best practices and makes recommendations to the PA on which specific measures to implement in order to stimulate local, Fintech entrepreneurship.

ACTION 23: Facilitate Partnerships between Fintech Entrepreneurs and Incumbents

Incumbents struggle to innovate and launch products and services that can address financial exclusion. Fintech entrepreneurs struggle to obtain a license; find it difficult to attract customers; and lack financial resources.

Collaboration makes sense, and is probably the best (and quickest) way for the emergence of new DFS that can resolve the financial exclusion problem. However, Fintech entrepreneurs find it challenging to engage with incumbents and vice versa - incumbents find it challenging to explore scalable ventures that have a solid foundation and can be trusted to deliver, without the risk of going out of business.

A Fintech Taskforce has been established by various stakeholders, including the entrepreneurial community, incumbents and regulators. This is a forum for engaging in dialogue on how the Fintech ecosystem can be developed in Palestine to benefit financial inclusion and DFI. The supply-side survey highlights that incumbents view the emergence of Fintech newcomers as an opportunity, because they can partner with such institutions to expand their market.

The Taskforce could launch a match-making service to introduce incumbents to suitable Fintech ventures, and vice versa. Once a match is made, the Taskforce could provide additional facilities, such as a platform (e.g. Fintech Galaxy) that allows both incumbents and start-ups to test new solutions using APIs.

ACTION 24: Develop a Fintech Association to Strengthen the Voice and Influence of the Fintech Entrepreneurial Community

Current circumstances dictate that regulators engage with individual firms to understand their specific needs, opportunities and challenges. The circumstances of one Fintech venture are not representative of all others. Regulators are forced to engage with numerous Fintech ventures, before identifying common themes to really understand challenges and barriers that such firms face.

The same is true for incumbents, who must engage with individual Fintech start-ups on an individual basis to better understand the opportunities that they offer.

Developing a Fintech Association with wide representation gives the sector power and influence in open dialogue with regulators, the PA and incumbents. The sector will also be more effective in driving advocacy initiatives that help change the environment, making it more conducive to launch and upscale new Fintech ventures.

Accelerators are well-placed to help launch such an association. Donor funding could provide initial technical and financial support, to 'get things moving'.

ACTION 25: Capacity Building for Accelerators, Incubators and the Investor Community

In order to provide the right level of support to Fintech entrepreneurs, accelerators and incubators must have adequate capacity, knowledge and skills. The same applies for investor communities, who need to understand Fintech, its potential and risks, such that they can make an informed investment decision.

Providing these stakeholders with Fintech knowledge may help accelerators and incubators to better support Fintech start-ups and scale-ups. If a Fintech Association is formed, then this is the ideal body to facilitate such training. In its absence, donor agencies could launch a specific programme to provide such training and upskilling.

8. CONCLUSION

Using the Kabakova/Plaksenkov model as a reference point to drawing conclusions from the survey data and research, the Palestinian situation can be explained by Financial Exclusion Component 1, featuring technological and political development, but low socio-economic development. When combined, these factors explain persistent levels of financial exclusion. Almost half of the sampled population reported to be unemployed (in various forms). A large proportion is young (18-24 years), and both factors lead to lack of money. Poverty was cited as the biggest reason for not having - or not wanting - a financial services' account. The economic situation is harder to address purely through DFS, as Palestine has a complex political environment that contributes to poor economic conditions. This is a harder problem to solve. However, socio-demographic factors can be addressed by DFS to a limited extent. The fact that Palestine has a well-developed technological and political (the government's regulatory policy rather than the political situation itself) environment can be leveraged for financial inclusion and DFI.

Globally, the COVID-19 pandemic has accelerated the use of DFS. However, in Palestine it has not had the same impact. A significant proportion (exceeding 87% in each category) did not increase their use of either traditional banking channels or mobile/online channels. However, the survey highlights a positive trend, that there is bound to be demand for DFS in the future, as more than 50% of respondents think that they will use online and mobile banking in the near future. 49% predict an increased demand for bills' payment via mobile phones. 33% would access online, financial literacy courses, while 38% feel that demand for direct payment to third parties will also increase in the future. 27% are of the opinion that QR code-based payments would be helpful, and 30% would use POS credit facilities (or 'buy now pay later').

The socio-demographic factor can be addressed through financial literacy, including digital

financial literacy. Financial literacy levels are lower for those outside the formal financial system when compared with those who are part of it. People rely on friends and family as their primary source of information, or advice, on financial services (31.4% of respondents), rather than relying on financial institutions, or other formal sources such as government. The demand-side survey highlights that overall, financial literacy levels are not too low. Literacy levels are relatively high, with only 2.03% claiming to be illiterate, while 18.4% of those sampled hold some form of undergraduate degree. The largest proportion (29.3%) of respondents have completed secondary school.

There is a case for making people aware of the benefits of having a financial services' account and tapping into the benefits of financial products. For example, even an unemployed person can benefit from a bank account. A basic (and free) bank account is available to citizens. Even in the absence of deposits or savings, a subscriber benefits in many ways from such a basic account. For example, the bank could deliver financial education through an online platform, or via mobile channels, to account holders. The bank can also make a budgeting tool available. Perhaps grants and benefits (for unemployment or retirement) can be managed in a way that generates surplus profits to cover emergency expenses, or save for the future. Financial literacy could help to convince the unbanked or underbanked to engage with the financial sector and reap the many benefits it offers.

Informal savings' clubs are the main savings' channel - survey respondents relied on friends and family primarily to access short- and long-term loans. Apart from health insurance (that is mainly subsidised by the state) and mandatory vehicle insurance, insurance products are not well-used. Only 1.4% of respondents have household insurance and 1.9% hold some form of life insurance, leaving them vulnerable should they face financial distress. The high cost of insurance is the main driver for lower insurance penetration rates. Delays in claims' settlement, or insurers trying to evade pay out, were cited as key reasons for survey respondents not seeing a benefit to insurance.

Knowing that the product or service meets their needs was a key consideration for respondents when making a purchasing decision. The reputation of the financial services' provider is also an important consideration.

Palestine has a well-developed technological sector, with a high penetration of internet and mobile services. Financial institutions are rolling-out digital financial channels, while the use of e-wallets, mobile banking and internet banking are on the rise. All supply-side firms, barring mortgage firms, claim to be implementing some form of digital transformation within their organisation. These efforts intend to realise efficiencies that help drive down costs and make financial services cheaper. Other initiatives aim to improve the customer experience. Surprisingly, 60% of supply-side respondents did not feel constrained by the lack of digital skills in the country.

Incumbents see benefits in being able to collaborate with Fintech newcomers. They see the opportunity to target certain 'hard to address' markets (where Fintech firms succeed), and in the process tap into new revenue streams. Incumbents are themselves launching Fintech ventures to directly address these previously untapped markets.

Five Fintech-based payment firms have entered the Palestinian market since new payment regulations were introduced by the PMA. They allow consumers to make online payments, and their adoption is increasing.

The financial, regulatory environment is well-developed and gearing up to allowing Fintech newcomers into the sector. The PCMA has developed Ebtaker (an innovation hub), and PMA is rolling-out a regulatory sandbox to allow the testing of new ideas that fall outside the current regulatory landscape. Regulators have expended considerable efforts to build Fintech capacity, such that they can engage with Fintech newcomers constructively. While the regulatory framework is robust, specific regulation such as eKYC and electronic signature laws were highlighted as posing a challenge for DFS and DFI. Start-ups are constrained by high capital adequacy, and compliance requirements that may prevent them coming to market or burden them financially and operationally, especially in the early stages of their lifecycle (when failure rates are high). Regulators could ease regulatory requirements for low-risk, low-volume businesses, ramping up these requirements once the start-up matures.

Palestine has a unique situation that causes financial exclusion. Therefore, unique methods are required to drive greater levels of financial inclusion and more specifically, DFI. While case studies from other countries could be helpful, it is evident that authorities and the private sector must work together to identify idiosyncratic strategies that will address the unique circumstances driving exclusion.

The demand- and supply-side surveys present a unique opportunity to gain insights into the drivers of financial exclusion. The responses identify policies and strategies that can be developed by the public and private sectors to drive DFI in Palestine.

This research provides insights into how financial inclusion can be accelerated in Palestine in the future. This report provides a roadmap to achieving this purpose, with suggested focus areas and action plans. Economic development is the fastest way to enhancing levels of financial inclusion. Strengthening the SME sector may be a catalyst. A similar survey can help highlight gaps for MSMEs in accessing financial services – this should be undertaken by the PMA and the PCMA. Once identified, strategies can be implemented to enhance financial inclusion and the DFI of MSMEs, contributing to job creation and economic growth.

To achieve DFI through DFS requires a complex ecosystem to come together and

implement action items in sequential steps. A National Fintech Strategy may help to coordinate efforts and hold stakeholders accountable, thus bringing about the desired results of financial inclusion.

Encouraging digital financial literacy - and the use of DFS - will help improve the socio-demographic factor. Many initiatives are already underway to improve financial literacy, and this report provides further suggestions that not only strengthen financial literacy, but digital financial literacy as well.

While those financially excluded are outside the formal financial system, they still need some type pf system to conduct daily financial services. They predominantly use informal channels; if these could be formalised, there is a likely chance of accelerating financial inclusion.

In terms of supply, there are environment barriers that, if addressed, can make it easier for them to develop DFS products and services for underserved and marginalised communities. Policymakers must assess these barriers, and work with the financial sector and Fintech newcomers to dilute or remove these barriers. Additional infrastructure development (such as enhancing the credit registry system and implementing a collateral register) will help this process.

Incumbents are sometimes constrained in reaching underserved communities. Fintech newcomers find ways to address these segments using financial technologies and innovative business models. For them to succeed and really make an impact, they need an environment that is conducive to the launch and upscaling of a Fintech venture. Government and regulators play a key role; however, incumbents also have a role to play by making it easier for Fintech start-ups to partner them for a mutually-beneficial join venture.

Overall, if the ecosystem works in a coordinated manner to implement the action plans suggested in this report, there is a high likelihood that financial inclusion could accelerate well beyond the targeted 50% mark.

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10. APPENDIX A: FUTURE DEMAND FOR DFS PRODUCTS BROKEN DOWN BY DEMOGRAPHIC CHARACTERISTICS

Table 3: Future Demand for DFS Products broken down by Demographic Profile

	Profile of Survey Respondents	Most Important Factor	Highest Proportion
Gender	Male	Pay bills by mobile	56.70%
	Female	Opening a bank account and conducting transactions vis Internet and Mobile	44.60%
Age Intervals (years)	18-24	Opening a bank account and conducting transactions vis Internet and Mobile	58.60%
	25-29	Pay bills by mobile	54.50%
	30-34	Opening a bank account and conducting transactions vis Internet and Mobile	57.50%
	35-39	Opening a bank account and conducting transactions vis Internet and Mobile	52.80%
	40-44	Pay bills by mobile	52.30%
	45-49	Opening a bank account and conducting transactions vis Internet and Mobile	43%
	50-54	Pay bills by mobile	45.90%
	55-59	Pay bills by mobile	39.60%
	60-64	Opening a bank account and conducting transactions vis Internet and Mobile	36.80%
	65+	Opening a bank account and conducting transactions vis Internet and Mobile	21%

	Profile of Survey Respondents	Most Important Factor	Highest Proportion
Highest Academic Qualification	Illiterate	Opening a bank account and conducting transactions vis Internet and Mobile	17.60%
	Can read and write	Opening a bank account and conducting transactions vis Internet and Mobile	21.30%
	Elementary	Opening a bank account and conducting transactions vis Internet and Mobile	35.20%
	Preparatory	Opening a bank account and conducting transactions vis Internet and Mobile	46.40%
	Secondary	Opening a bank account and conducting transactions vis Internet and Mobile	57.10%
	Associate diploma	Opening a bank account and conducting transactions vis Internet and Mobile	59.40%
	BA/BSc	Pay bills by mobile	61.90%
	Higher Diploma	Opening a bank account and conducting transactions vis Internet and Mobile	54.30%
	Masters	Pay bills by mobile	65.30%
	Doctorate	Pay bills by mobile	76.50%

	Profile of Survey Respondents	Most Important Factor	Highest Proportion
Employment Status	Paid employee in the private sector	Pay bills by mobile	60.10%
	Paid employee in the government (public) sector	Pay bills by mobile	64.90%
	Paid NGO employee	Opening a bank account and conducting transactions vis Internet and Mobile	51.10%
	Paid employee in Israel/settlements	Pay bills by mobile	63.40%
	Paid employee with international organization	Payment by QR code	54.50%
	Paid employee of a foreign government	Obtaining insurance policies through electronic platforms	61.30%
	Salaried employee at UNRWA	Online educational financial courses to help me increase financial knowledge	56.20%
	Self-employed	Opening a bank account and conducting transactions vis Internet and Mobile	60.60%
	Employer	Pay bills by mobile	65.60%
	Unpaid family member	Opening a bank account and conducting transactions vis Internet and Mobile	50.90%
	Not working but looking for work	Opening a bank account and conducting transactions vis Internet and Mobile	47.70%
	Not working – retired	Pay bills by mobile	42.20%
	Not working – student	Opening a bank account and conducting transactions vis Internet and Mobile	63.20%
	I do not work – housewife	Opening a bank account and conducting transactions vis Internet and Mobile	41.10%
	Self-employed in Israel/settlements	Pay bills by mobile	83.40%
	Employer in Israel/settlements	Pay bills by mobile	78%
	I work voluntarily without pay	Applications that allow the possibility of transferring money from outside the country (other than (banks) such as (Western Union	54%
	I do not work because of old age/illness	Pay bills by mobile	19.40%

	Profile of Survey Respondents	Most Important Factor	Highest Proportion
Household Income (NIS)	NIS 2,000 or less	Opening a bank account and conducting transactions vis Internet and Mobile	40.40%
	From NIS 2,001 - NIS 2,500	Opening a bank account and conducting transactions vis Internet and Mobile	46.40%
	From NIS 2,501 - NIS 3,000	Opening a bank account and conducting transactions vis Internet and Mobile	53.90%
	From NIS 3,001 – NIS 5,000	Pay bills by mobile	59.60%
	From NIS 5,001 – NIS 8,000	Pay bills by mobile	68.10%
	From NIS 8,001 - NIS 12,000	Pay bills by mobile	71.20%
	More than NIS 12,000	Pay bills by mobile	79.40%
	No income	Opening a bank account and conducting transactions vis Internet and Mobile	32%
Individual Income (NIS)	NIS 2,000 or less	Opening a bank account and conducting transactions vis Internet and Mobile	46.40%
	From NIS 2,001 - NIS 2,500	Pay bills by mobile	56.40%
	From NIS 2,501 - NIS 3,000	Pay bills by mobile	60.80%
	From NIS 3,001 – NIS 5,000	Pay bills by mobile	63.70%
	From NIS 5,001 – NIS 8,000	Pay bills by mobile	75.10%
	From NIS 8,001 - NIS 12,000	Opening a bank account and conducting transactions vis Internet and Mobile	78.10%
	More than NIS 12,000	The ability to transfer money directly by using a phone number	95.30%
	No income	Opening a bank account and conducting transactions vis Internet and Mobile	46%