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Wednesday 30 September 2009

Panel V

Retail Financial Services – a rapid evolution or a quiet revolution?

The panel was moderated by **Richard Banks** (RB), Director, Middle East, Euromoney Conferences, with panelists: **Amro Abouesh** (AA), Executive Chairman, Tanmeyah Microenterprise Services; **Hala Bassiouni** (HB), Managing Director, Egyptian Housing Finance Company; **Basel El Hini** (BH), Managing Director, Banque Du Caire ; **Mohamed Farid** (MF), Senior Financial Economist and Head of Capital Markets Unit, Ministry of Investment; **Henri Guillemain** (HG), Managing Director, Crédit Agricole Egypt; **Mohamed Ozalp** (MO), Vice Chairman, Banque Misr .Below are excerpts from the session.

RB: How much demand is there for retail finance? Can the institutions presented here today, and those present in Egypt in general, meet these demands? We will also examine the development of retail finances and their social impact.

MO: One cannot deny the importance of SME's and the impact they could have in Egypt. SME's have become a buzz word and everywhere you go everyone is talking about it and the programs available for entrepreneurs. The real question is, will it really solve the problem, or create the profitability it says it will? For the time being we have too many types of small enterprises. The entrepreneurial spirit is still not there. People take money and don't feel obligated to repay it. So many different institutions have done this. The way small investors perceive these funds, is that they are free, so, if they can repay they'll do it, otherwise, they just assume that the lender will let the money go. The morality of the small entrepreneur is really not established, here. There needs to be a level of educational that isn't available in this market at the moment. Banks should have these funds available, but, should make sure that they give these funds to those with good quality products. Often banks don't have a system in place that ensures this. We cannot have the same system for small borrowers as we do for multinational borrowers. Yes the banks have a role to play in widening access to this funding, however, the demand and quality of small enterprises asking for the money, has got to change. Retail banking in Egypt has great potential

AA: It all depends on how you package and deliver the service. The idea is that in developing countries people have been unbanked for a very long time, so they don't have credit history. Our banks do not have a system in place to assess the risks and needs of these kinds of low income groups. Microfinance projects developed in Egypt were very successful. We currently have 5 million potential clients in the market, and an outreach potential of 85%, which is the percentage of the market that is not being served. What we try to do, and this is what sets us apart from most banks, is that we provide a comprehensive set of financial solutions, for low income groups. We are there to answer their questions regarding all monetary lending services and we also offer our know-how and expertise to support them. We have the ability to mobilize our resources much faster than most banks, and this why we have an edge over other banks.

HB: We are specialized in mortgage financing. We tend to receive clients with different liabilities, so, we try to tailor our products to the needs of our various clients. The challenge is, to sell in a way that is acceptable to them.

HG: The networks of bank branches have increased a lot over the past few years, so banks have invested and are continuing to invest, heavily, in the retail banking sector. This being said, some of the needs of our customers would be better fulfilled if we were able to leverage bank assurance and mortgage finance products more. The more products you have, the more profitable you will be, because you have a wider range of options to offer to your clients. In terms of mortgage finance there is still room for improvement.

BH: Banks that are in the markets are moving towards investing more in the retail sector. When you invest, you want to ensure a good return on your money, since you are putting solid capital into the market. This is not a corporate social responsibility program, at the end of the day banks want to be profitable. The Minister of Investment is in the process of issuing a law regarding this area of the banking industry. We need a breakthrough in retail banking otherwise banks will not prosper, although, they might still be profitable. More conventional consumer financing is also needed.

MF: The ministry is currently drafting a new microfinance law that will cover new capital requirements, creating flexibility for banks to provide customers with capital. We are almost done with the microfinance law and are also working on developing a micro insurance law, which will add volume and help microfinance institutions in focusing on this area of their business. In terms of retail we are working to develop the capital market in Egypt.

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Recently, the Minister of Investment almost doubled funds, which will help to attract more investors, and thus even more funding. We sit with many different associations on a regular basis, to talk and listen to them. At the end of the day it's the market that sets the regulations and what needs to be changed.

Q&A:

Floor: Regarding the law for microfinance, will it tackle the issue of competitive interest rates in the banking sector? Will microfinance have funds? Will NGO's have to pay taxes?

MF: The law will not address the social fund for development or NGO's, but it will address establishments.

AA: Policy makers are not yet sure on how this will be addressed and the details are still not clear. We need to avoid market distortion associated with NGO's under this law. Firstly, regarding taxes, if NGO's start paying taxes, it will increase their costs, which will in turn affect the market. Secondly, these interest rates will be subsidized.

Floor: Regarding the size of loans that the Tanmeya Microenterprise is providing. Why is their administration cost so high?

AA: We differ from other companies, in the way that we package the products; we don't just provide a retail product. We also provide additional services such as payment solution, access insurance packages, housing microfinance and microfinance services and solutions. Our administrative costs are high because we have a very labor intensive business, and this is important because it allows our company to be at a size, where we can really make money.