

IMPROVING THE DIGITAL FINANCE EXPERIENCE FOR CUSTOMERS IN THE MIDDLE EAST AND NORTH AFRICA

Increase brand loyalty and customer retention by implementing fast, compliant KYC & AML in a regulation-heavy environment

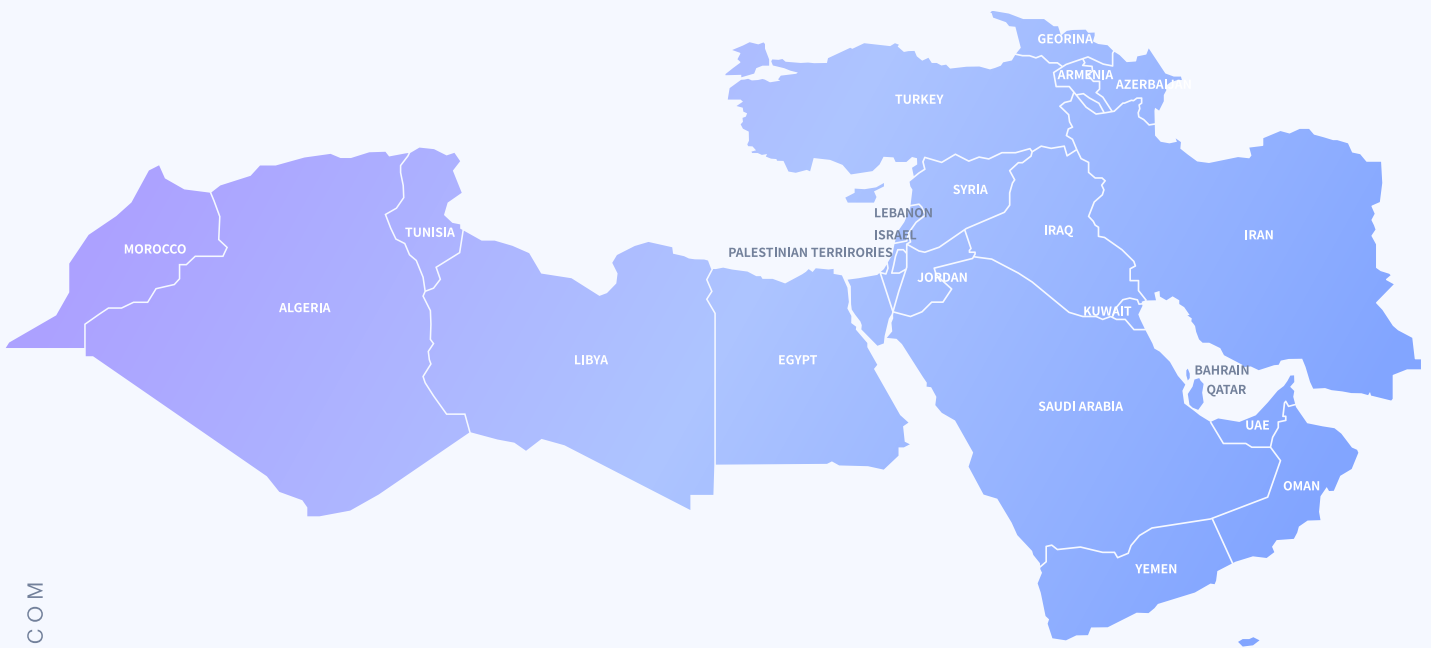


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The Middle East and North Africa (MENA) have experienced a digital renaissance as the region has seen mass adoption of smartphones and internet propagation. The speed of digital transformation was further bolstered by recent social distancing requirements that forced customers and businesses to use technology to engage with each other remotely.

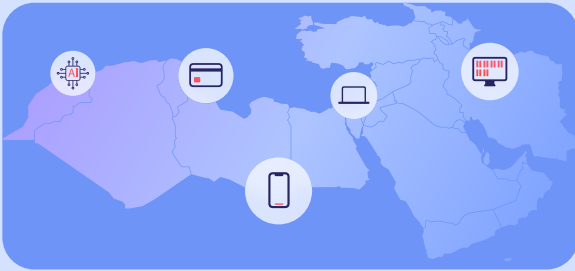
As MENA has become more dependent on technology, it has also been increasingly targeted by digitally savvy financial criminals. The region's immense wealth and vulnerability as it rushes to institute proper KYC and AML protocols make it particularly enticing to players with illegal/fraudulent intentions.

Globally, the United Nations estimates that money laundering accounts for between **\$800 billion and \$2 trillion**, and this metric is increasing. It's incumbent upon businesses to maintain compliance with global and regional financial security standards so that consumers are protected, to sustain healthy growth, and to avoid burdensome penalties.

Navigating KYC & AML requirements in MENA, one of the world's most strictly regulated markets, can be challenging. However, companies that manage to find a balance between compliance and providing an optimised customer experience stand to be immensely rewarded. In this paper, we give a brief overview of the regulatory environment in MENA countries, the major challenges involved with implementing KYC & AML protocols, and a best-in-class solution that can ensure organisations can do so easily.

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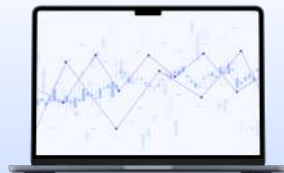
MENA is represented by a set of countries that share a similar goal to embrace digital transformation and situate the region as a major economic powerhouse. This collective includes North African countries such as Egypt, Algeria, and Sudan, and Middle Eastern kingdoms like Morocco, Qatar, and Saudi Arabia.

Fintech investment doubled in 2020 and continues to grow

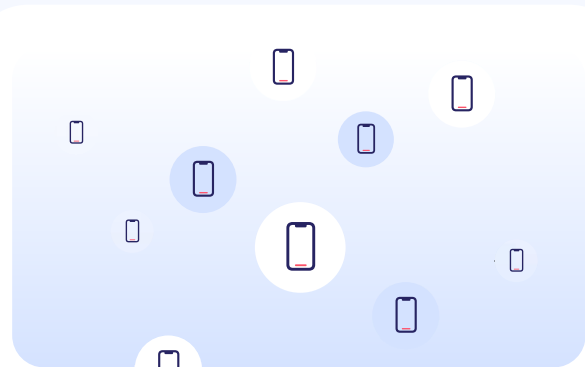


The COVID-19 pandemic had the global effect of forcing economies worldwide to adapt to new ways of conducting business, and MENA was no exception to this phenomenon. To accommodate remote transactions there was a sudden increase in digital technology, artificial intelligence, and robotic automation implementation. In particular, investment in fintech services **more than doubled** in 2020 alone.

90% Online Purchases



Over the past decade, MENA has experienced impressive growth driven by forward-thinking, tech-focused, private-sector businesses and **government-backed initiatives** designed to modernise civil services. Like other parts of the world, eCommerce has been a major force behind digital transformation in this region. According to a recent report, **over 90%** of MENA foreign residents bought products online in the past year. As consumers become accustomed to the conveniences of a smooth, customer-focused experience in online shopping, they inevitably expect the same from other sectors like banking, hospitality, food services, and health and medicine.

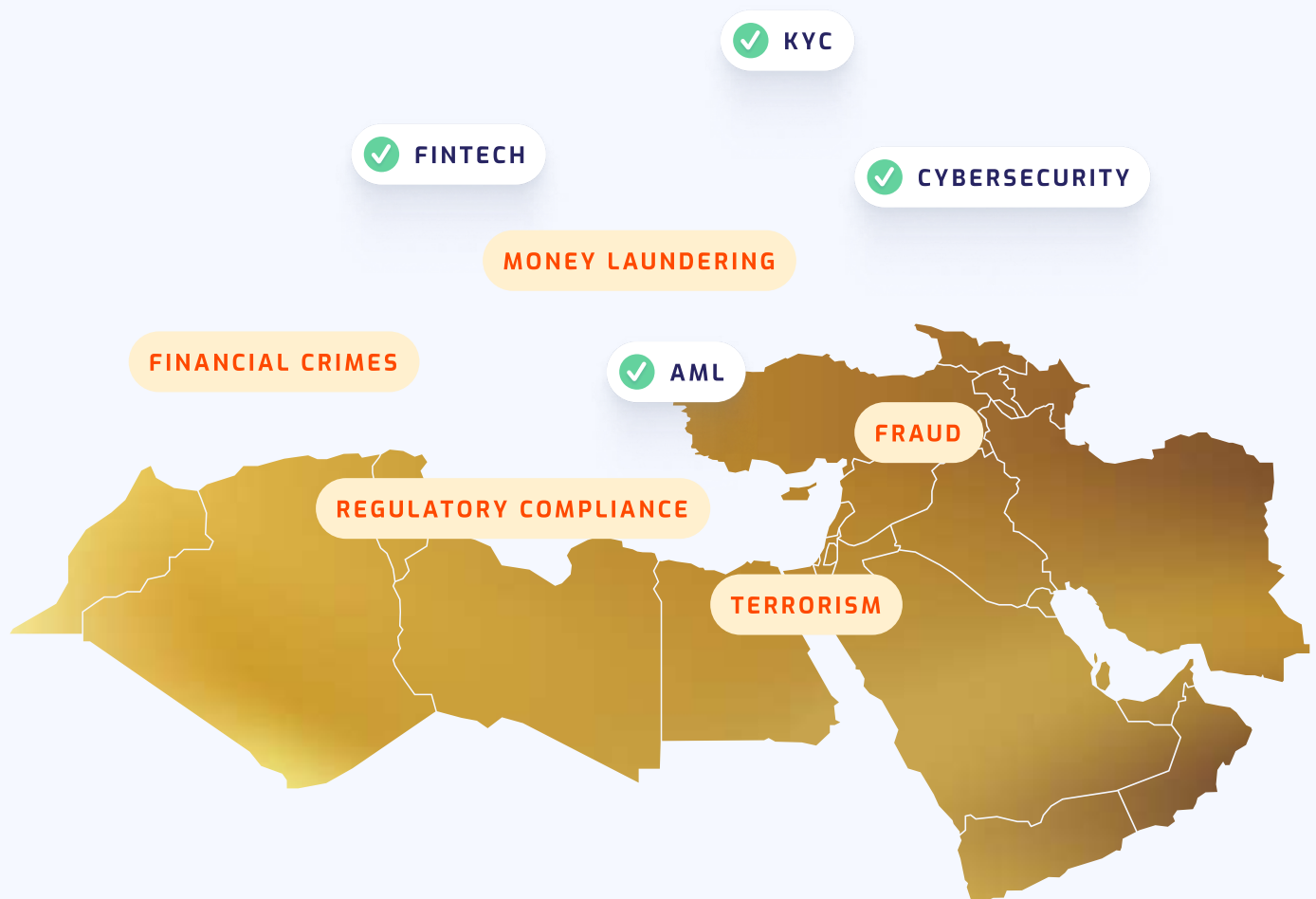


Even before the pandemic, MENA had one of the highest digital adoption rates in the world. As a region with a more recent history of rapid internet penetration and smart-phone proliferation, it boasts specific advantages over some of the established Western economies with which it aims to compete. Some of these include a newer, more modern digital infrastructure, faster internet speeds, and increasing utilisation of **digital currencies** allowing for quicker and cheaper financial transactions.

Despite the progress achieved by MENA countries, the current state of the digital economy largely represents untapped potential primarily due to the slow adoption of digital optimisation in the financial sector. To protect its developing stature as a major trade hub, MENA regulators implement highly restrictive laws, and for good reason.

The region, particularly the gold, oil, and cash-rich Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), is an attractive target for money laundering and other financial crimes. In a PWC survey, **nearly 50%** of GCC organisations reported having fallen victim to some form of financial fraud. In Africa, nine out of ten businesses lack cybersecurity protocols. Of those countries within the region of North Africa, Morocco reported detecting between **50–100 million cybersecurity** threats within one year, while Egypt and Algeria reported slightly less at **10–50 million**.

Financial crimes in MENA countries present the same risks that nations tackle in other parts of the world. However, due to its geographic location, MENA is especially burdened with taking measures to disassociate itself from terrorist activities; failing to do so could spell disaster for its economic future. Such fears are not overblown; the United Arab Emirates **Financial Intelligence Unit**, responsible for evaluating suspicious activity complaints, recently reported that over **\$625 million** was confiscated from money laundering intended to support terrorism.



The Push to Comply With FATF Recommendations

FATF (the Financial Action Task Force) is an independent inter-governmental body that develops policies to protect the global financial system against money laundering and terrorist financing. The organisation has crafted **40 specific recommendations** to guide over 200 countries and jurisdictions committed to fighting global financial crime.

While following FATF recommendations is voluntary, failing to do so has serious implications. The organisation maintains a grey and black list. A country or region is placed on a grey list to warn the international financial community that it is not taking the necessary steps to confront criminal activity. This can have a negative impact on the ability to conduct international trade.

Countries or regions placed on FATF’s black list have been deemed non-cooperative in combating financial crime and are prone to having sanctions, fines and other restrictive measures levied against them. A black list assignment is essentially economic pariah status.

Strict KYC & AML regulations impact digital transformation

To expand its global reach, FATF and its members have developed a system of FATF-style regional bodies (FSRBs). This system helps participating members comply with recommendations without fundamentally altering the governance or composition of the greater FATF organisation. They also work cooperatively to approve anti-terrorism treaties and U.N. Security Council resolutions.

Examples of member organisations within MENA include:

| | | | |
|--|---|---|--|
|  <p>Saudi Arabia Monetary Agency (SAMA) and the Capital Market Authority (CMA)</p> |  <p>The Central Bank of UAE (CBUAE)</p> |  <p>The Central Bank of Sudan</p> |  <p>Libya Ministry of Finance</p> |
|  <p>The Qatar Financial Centre Regulatory Authority and The Qatar Central Bank</p> | <p>Bahrain Anti Money Laundering & Terrorist Financing Unit (AMLTFU) and the Central Bank of Bahrain (CBB)</p> |  <p>The Dubai Financial Services Authority (DFSA)</p> |  <p>BANK OF ALGERIA Bank of Algeria</p> |
| |  <p>Libya Ministry of Finance</p> |  <p>Banque du Liban - The Central Bank of Lebanon</p> |  <p>The Central Bank of Oman and the Financial Intelligence Unit (FIU)</p> |

In their efforts to combat financial crime, these organisations share data about money laundering and terrorism funding issues that are relevant to their location. They also pursue anti-terrorism financing measures that are compatible with their nations' cultural values, constitutional frameworks, and legal systems.

These bodies are also responsible for instituting stringent **Know Your Customer (KYC)** and **Anti-Money Laundering (AML)** processes. Some of these protocols are restrictive to the point of impeding the digital optimization of financial systems, which has a dampening effect on growth. According to research conducted by the World Bank, addressing impediments to digitization in MENA could result in a **40% increase** in GDP per capita.



Resolving obstacles to digitization represents a tremendous growth opportunity for organisations that manage to get it right, by finding a balance between improving the customer experience and complying with existing regulation. Below are additional challenges negatively impacting KYC & AML processes in MENA countries:

KYC & AML processes are still conducted in-person

In various MENA countries, ID verification must still be conducted face-to-face. This requires a person to go to their bank or wait for a bank staff member to come to their home or office to authenticate documentation. This adds a burdensome amount of time and effort to a process that is easily accomplished in mere seconds when a customer deals with a fully digitized fintech organisation.

Reliance on multiple APIs

As traditional finance and other sectors embrace digitization, it's not unusual for them to use APIs (application program interfaces) to add third-party providers to their platforms. In particular, with fintech, multiple APIs may be used to facilitate ID verification and other aspects of KYC and Customer Due Diligence (CDD). Unfortunately, the larger the number of APIs an institution employs, the greater the vector of potential attack by bad actors. In a recent report by API security firm Akamai, API attacks targeting vulnerable points where two platforms integrate increased by **167%** through the COVID-19 pandemic.

Increasing fines and other complications due to non-compliance

As previously stated, the threat of financial crime in MENA countries is driving heightened regulation and, with it, steep consequences if businesses fail to comply. For example, the UAE Central Bank recently fined six exchange houses over **\$4 million USD** for failing to comply with AML. Beyond fines, other penalties can include imprisonment, loss of licenses, and even deportation.

Evolving financial crime

Just as digital technology has helped transform the fintech space, criminals have likewise been aided by the speed, power and access offered by innovation. Hacking, phishing, spoofing, malware, and ransomware attacks are all issues that fintech companies need to combat by implementing robust countermeasures to thwart financial cyber crime. Additionally, the adoption of cryptocurrency into financial ecosystems is attracting a new class of criminals, for example, the UAE has become the **second most targeted** country for cybercrime in the world.

Language and cultural complexities

The ID authentication process can be difficult due to language complexities and commonly used names. Other issues come into play, such as common names having various forms of spelling depending on country or region. Birth dates can also prove problematic. Since there are a lot of home births in MENA countries, it's common to simply put January 1st as a date of birth, no matter what point in the year an individual is born. Additionally, Arabic is a language that's not easily extracted or translated by existing software platforms. All of this necessitates the use of a sophisticated biometric-based approach to KYC verification and AML screening.

Cost of meeting compliance requirements

Due to the lack of experience, as regulatory frameworks are being established or evolving in MENA, organisations may spend large sums of money to ensure they avoid penalisation for non-compliance. These costs can include the development of an in-house compliance department, hiring specialists for implementing KYC & AML systems, investment in bespoke software creation, record keeping, and data protection. If anything in this stack is implemented poorly and a business suffers a breach or is found to be non-compliant in any way, the sunk cost can represent a total waste of money.

Improving KYC & AML Processes Will Increase Customer Loyalty

The list of problems affecting the fintech customer experience may seem insurmountable at first glance, but any company that is savvy enough to solve them stands to be greatly rewarded. As testament, a recent consumer survey conducted by Broadridge Financial Solutions, a noted research firm, showed that **77% of customers** are willing to spend more money with companies that provide a positive customer experience. Other data indicates that focusing on creating a positive onboarding flow can dramatically reduce customer churn and increase profits by **25% to 95%**.

Implementing the right KYC & AML measures will put an organisation in a good light with regulators and improve its ability to conduct business locally and internationally. Furthermore, collecting electronic customer records will provide an array of benefits, for both users and organisations, such as real-time access to customer data and the ability for businesses and agencies to personalize services. The key to accomplishing this goal relies on striking a balance between effectiveness and compliance while keeping initiatives customer-focused.

As buying and selling online has advanced in MENA, so have customers' expectations for their experience with all other services. While the world grappled with a global pandemic, one takeaway that became abundantly clear was that companies that embraced digital technology and optimized customer experiences (CX) were able to survive and thrive better than their competitors. Where digital transformation and customer-centric design were once viewed as extracurricular investments, they've now become critical strategies pivotal to capturing a competitive advantage.



The good news is that due to the overall absence of optimization in this space, there is a lot of low-hanging fruit for companies to pick from. For instance, simply switching from in-person verification to video verification would vastly improve KYC. Other areas of improvement worthy of focus are implementation of software capable of scanning Arabic and extracting OCR data, customized risk scoring that matches individual businesses' requirements, and on-premises and private cloud data storage for faster access to real-time customer information.

Missing optimizations in KYC & AML processes represent an opportunity for businesses that have the means to tackle the problems consumers face in MENA. While some of the issues outlined above are obvious targets for improvement, they still require a degree of sophistication to fix since regulatory compliance poses a serious challenge. Taking on the task as an in-house project or even outsourcing the work to an unqualified partner comes with additional risks since getting things wrong potentially exposes organisations to major consequences.

Instead of being discouraged by this challenging reality, companies operating in MENA should seek to work with a reputable partner that has expertise in developing regulation technology. This partner also needs to be knowledgeable in the laws governing compliance within a company's home region and everywhere in the world where it conducts business.





Shufti Pro, Developed for Quick & Easy KYC & AML

Shufti Pro provides best-in-class online KYC verification and AML screening services to private and public organisations worldwide. Additionally, we are regionally positioned to service MENA organizations since we have offices in the prestigious **DIFC**. We emphasize deploying a cost-effective, compliant, anti-fraud system that integrates smoothly with clients' existing technology stack. While KYC & AML is a necessity, it shouldn't be disruptive to customers. With that in mind, our solution is designed using the best practices in customer-centric, human-centred UI design.

Shufti Pro is an Artificial Intelligence-based solution that effectively meets any organisation's compliance and regulatory obligations by providing the following features:

Speed – Real-time KYC verification in 10 seconds or less with **98.67%** accuracy

Quality Data – Access to **1700+** global watch lists

Flexibility – Can be deployed as an on-prem or cloud-based solution

Global Coverage – Available in **150+** languages and AI models trained with **10,000** government approved ID documents

Compliance – Adheres to even the strictest KYC/AML regulations in over **230** countries and territories

Agile – Can be customized to fit your brand, location, and customer experience requirements

Lean – Operates smoothly with older client and server devices and in low-bandwidth scenarios

As MENA shifts toward following FATF recommendations, financial and non-financial businesses in this geographic location will likewise have to make adjustments. This means they will have to align their customer due diligence practices with the recommendations of FATF and national laws to remain compliant, keep their customers safe, and aim for enhanced brand positioning.

Over the past 5 years, Shufti Pro has become a trusted industry leader and a partner to over 700 global enterprises and SMEs. With our experience in RegTech, we're helping corporations easily achieve regulatory compliance, no matter where they operate in the world. To see why our solution is a **#1 choice** for RegTech in MENA, request a demo today.



Ready to put our KYC verification and AML screening solutions to work for your company?

Get in touch with our KYC & AML experts to learn how our solutions can be seamlessly integrated into your existing processes.



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