

Lebanon Impossible Challenge

The Card of Hope

Banks are being set on fire. The Lebanese Pound is in free fall. People are demanding change. As Lebanon slips further into its worst economic crisis, the Lebanese citizens are building their anger from their homes in this situation of uncertainty. Just like a paper torn to pieces, the citizens' trust in banks cannot go back to its original shape... unless complimented by a new intact plastic card.

In 2016, remittances represented 14.10% of Lebanon's GDPⁱ, constituting an important part of the Lebanese economy. These remittances, often conducted in foreign currencies, played three major roles in the Lebanese economy. First of all, they helped expats transfer essential living expenses to their families and affiliates back home. Secondly, they contributed towards development projects and investments in real estate (either directly through the expat or indirectly through bank loans). Finally, they served as an essential source of foreign capital thus helping maintain the Lebanese Lira pegged to the dollar.

Fast forward to this day, these remittances have decreased to negligible amounts. Expats are shying away from sending money given the capital controls imposed by banks and the escalating talks of possible haircuts. In other words, expats have lost their trust in Lebanese banks and fear that their money might not make it out of the Lebanese banking system. This in turn has contributed to families losing an essential source of income, to development projects halting and to the depreciation of the Lebanese Lira.

Nevertheless, a solution to this critical problem does exist. What if expats could still transfer foreign capital to Lebanon without going through the banking system? What if the country's recovery from this economic crisis can start with a stalwart plastic card? A new payment card, through which the expats can send money to their relatives living in Lebanon?

The section below highlights the following dimensions of our startup: the mission and vision, the operating model, the target customers, the partnerships needed, the sources of funding, the potential risks as well as the immediate next steps required.

Vision and mission: Create a seamless, trustworthy and rapid process for expats to transfer money to Lebanon in order to reignite the economy and appreciate the Lebanese Lira.

Operating model: Send payment cards holding the expat's relatives' names, which are linked to the expat's foreign bank account, so that the relatives could use them in Lebanon.

Target customers: In 2016, the top 3 countries from which Lebanon received remittances were the United Arab Emirates, Qatar, and Saudi Arabiaⁱⁱ. In addition, these countries are located close to each other. Accordingly, it makes sense to initially focus on expats in these countries.

Partnerships needed: It is necessary to come to an agreement with the banks present in these countries about linking the new payment cards to the expats' bank accounts. For the transfer, partnerships with financial services corporations such as Visa and MasterCard are mandatory as they offer services such as card payment authorization and cryptogram authentication. Concerning

the payment, it should be possible through the payment card machines that almost all stores and places own nowadays, using the foreign country's currency. Furthermore, ATMs should be programmed so that the citizens can withdraw foreign money from their relatives' bank accounts.

Sources of funding: Given that our startup will be for-profit (through charging transfer fees), we will aim to receive venture capital funding from funds located in Lebanon. These funds have recently started to understand the importance of fintech¹ and thus would potentially fund our endeavor.

Potential risks: Our plan faces three major types of risks: default risk, exchange-rate risk and operational risks.

- Default risk: Like other cardholders, expats might default on payments. We should be well equipped to handle these defaults and ensure that payees receive their full payments consistently.
- Exchange rate-risk: given the rapid depreciating Lebanese Lira, our company should hedge this risk and ensure that our users are extracting the maximum value of their foreign currency at any moment in time.
- Operational risk: our company will be involved in distributing cards to their relevant owners. Misplacement or theft should be dealt with diligently to ensure safety of funds.

Immediate next steps: To begin with, we should assess expats willingness to purchase our product. In order to do so, we can conduct a survey as well as direct interviews with individuals abroad. Secondly, we should ensure the buy-in of foreign banks. It is important to conduct interviews with experts to understand the legal and financial aspects of our proposed product. Thirdly, we should study the existing financial infrastructure in Lebanon to determine the most appropriate way of materializing our product.

Our product can play a key role in reigniting the Lebanese economy. Despite sounding simple on the outside, the above paragraphs highlight the complexity of implementing such a product. Eventually, as more foreign currencies enter the country, and more companies start trading them for the Lebanese Pound to pay local suppliers, the Lebanese currency would appreciate in value. As our memory of Lebanon's prosperity fades away, the Lebanese economy is in need of such an incentive that can help our phoenix rise again from the ashes.

¹ Technology support for banking and financial services

References:

ⁱ<https://www.creditlibanais.com.lb/Content/Uploads/LastEconomicAndCapitalResearch/170518110033930.pdf>

ⁱⁱ<https://www.economy.gov.lb/media/11893/20181022-1228full-report-en.pdf>