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Fintech flourishes in the Gulf

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- **The Fintech sector in the Middle East has witnessed a rapid expansion, especially since the 2016 announcement of Saudi Arabia Vision 2030, with the KSA and the UAE leading the pack.**
- **This success has been driven by government investment in future technologies and other incentives to encourage fintech growth.**

Paving the way for a digital transformation

The UAE and Saudi Arabia are the most active fintech and digital hubs in the Middle East. Both countries will continue to witness these sectors' rapid expansion, boosting to their economies' rates of innovation.

- Non-oil growth in both countries has reached record highs in the past year, indicating the resilience of the non-oil economy.
  - The IHS Markit UAE Purchasing Managers' Index (PMI) assessing private sector business activity peaked at 55.9 in November 2021 from 55.7 in October, which was its highest since June 2019.
    - The latest PMI numbers were still up at 54.8 in February 2022 from a month earlier of 54.1, pointing to the 15th straight month of growth in private sector activity.
  - In neighbouring Saudi Arabia, PMI numbers reached 58.6 in September from 54.1 the previous month, the largest monthly gain in points on record. February's reading rose to 56.2 from 53.2 in January, marking the 18th consecutive month of expansion.
- Market conditions are likely to continue to improve in the wake of ongoing diversification measures, with the technology sector becoming a growing portion of both countries' non-oil economies.
  - The Kingdom's technology sector is estimated at more than USD 40B, with the UAE at over USD 5B.
- From 2018 to 2020, Saudi Arabia recorded a 147% increase in start-ups operating in the kingdom. The UAE also grew impressively, by 34% between 2018 and 2020, from a much higher base: (81 start-ups in 2018 compared to only 10 in Saudi Arabia during the same year).
  - Both countries worked to cultivate a friendly business environment for the financial technology sector, optimal for the sector's growth and the general engagement of the population in digital technologies. Hence, the sector can successfully attract FDI and regional and local grants.
  - Of the two, the market in Saudi Arabia remains comparatively more attractive because of the bigger population size and the absolute number of internet users.

Figure 1 – Growth in the Number of Start-ups in KSA and UAE[1]

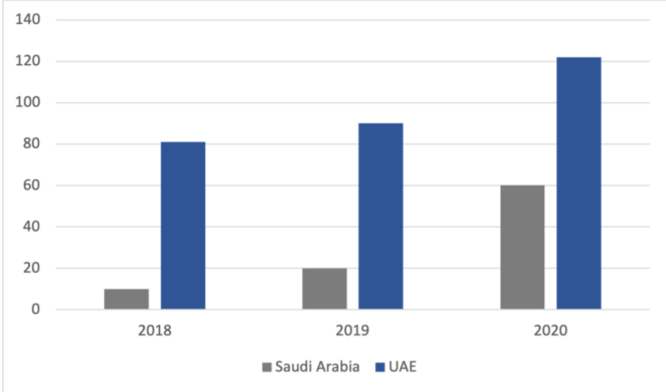
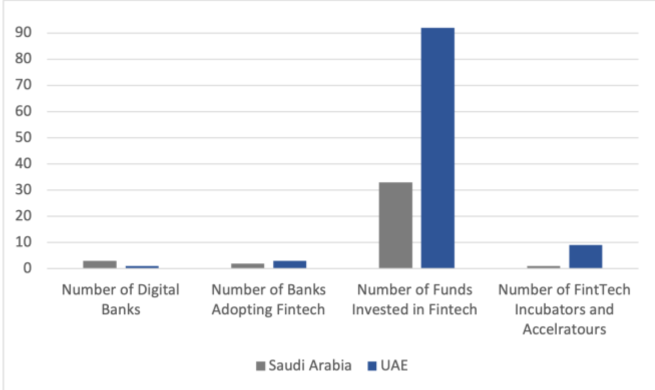


Figure 2- Financial Institutions in KSA and UAE [2]



KSA Diversification goes digital

Recent legislative and regulatory efforts in the Kingdom have encouraged the growth of digital and fintech industries, with the KSA recording a 37% increase in fintech firms entering the market.

- As part of the Kingdom's 2030 Vision and Financial Sector Development Program (FSDP), which aims to stimulate private sector growth and develop the fintech industry, the Saudi Arabian Central Bank (SAMA) announced its plans to launch open banking in H1 2022.
- SAMA recently launched the legal framework for open banking, and investment is already taking shape.
  - Open banking provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions through application programming interfaces (APIs).
- On the back of the latest open banking announcement, Sequoia Capital India made its first investment in the Gulf region, with Saudi fintech start-up Lean Technologies winning USD33 M Series A round funding, on the back of an innovative business model which enables third-party financial service providers to access their user's bank data.

[1] Arabia Monitor; Journal of Risk and Financial Management
[2] Arabia Monitor; Journal of Risk and Financial Management

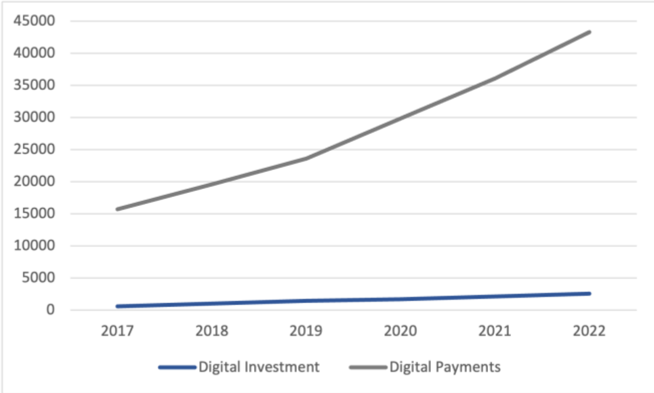
- D360, another fintech in the open banking realm recently received USD 440m of support from a wide array of private and public investors, including the Saudi Public Investment Fund (PIF).
- The acceleration in open banking has been further boosted by the Saudi Central Bank (SAMA, which released its payment services provider (PSP) regulation and Electronic Bill Presentment and Payment (EBPP) service provider, Saudi Payments (SADAD) which has also resulted in an expansion in smartphone transactions.
  - Smartphone transactions have tripled since 2019, amounting to USD 34M by the end of 2021.
- Many government institutions in Saudi Arabia are increasingly offering fintech services or collaborating with fintechs.
  - For example, In December 2021, Saudi fintech company Lamaa secured a USD 5.5M investment from Saudi Aramco.
  - Riyadh Capital partnered with Taqnia (a company owned by the Public Investment Fund) to launch a USD 120M fund known as Riyad Taqnia Fund (RTF) targeted at investing in start-ups.
- With the legal frameworks set and the investment just beginning, we expect to see the growth of the fintech sector in the country accelerate in the coming year.

The UAE ups the ante

The number of fintech businesses registered in Dubai doubled in the past financial year. The most recent regulation issued by the Emirates could help to expand the already growing industry.

- Dubai's Mashreq, one of the UAE's oldest banks, has been recently pivoting towards digital banking and away from non-traditional banking and financial services.
  - The lender just invested in NymCard (an Abu Dhabi based fintech firm), in a move to support FinTechs in the UAE, as cashless transactions continue to increase.
- Dubai is working on setting regulatory standards for the growing fintech industry, including the latest Dubai Virtual Asset Regulation Law, which aims to create an advanced legal framework to protect investors and set international standards for industry governance; and is the region's first crypto law and establishes a regulatory body for virtual assets reassuring investors in the industry.
- Abu Dhabi is similarly a top fintech hub, as it is home to the Abu Dhabi Global Market (ADGM), which shaped the first fintech regulations in the region.
  - These regulations include open banking, which introduced a introduced a framework to supervise third party fintech companies that provide these services.
- In 2020, the Central Bank of the UAE was also one of the first in the region to establish a fintech office to support the growing industry; and has played an active role in driving the sector by including digital transformation as a part of its 2023-2026 strategy.

Figure 3-Transaction Value by Segment (USD M) [3]



Opportunities abound, but challenges remain

The KSA and the UAE have a tremendous opportunity to expand their fintech ecosystems to competitive levels both regionally and globally.

- Despite these opportunities, some challenges remain.
- The regulations set by regulating bodies limit the number of licensed start-ups and their ability to operate in the market officially.
- Most fintech start-ups are limited by the preferences of the regulatory sandboxes in which they operate or by the slow licensing process they must complete.
  - Regulatory sandboxes provide a temporary legal framework for FinTech companies to test innovative financial products
- In September, the KSA issued a draft of its personal data protection law (PDPL) which prevents the transfer of personal data outside the Kingdom.
  - The largest business lobbying group in the U.S., United States Chamber of Commerce, has warned Saudi Arabia that this is likely to raise the cost of doing business in the Kingdom, which could, in turn, discourage foreign investment.
- Some of the newer, smaller start-ups struggle with competition from firms already present in the market.
- Additionally, the region is not exempt from the general consequences associated with digitalisation and automation globally; traditional banking methods could slowly phase out to their more efficient and cost-effective counterpart.
- Strong government support and infrastructure development will continue to play a significant role in encouraging the growth and expansion of both sectors locally and regionally. Digital banking users in the region are on track to triple by 2030, with high customer adoption rates, profit margins in the fintech and banking industry are set to be high.
- Despite the challenges, fintech is here to stay.

[3] Arabia Monitor; Statista

Disclaimer

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