Digital banking

Fintech advancement picks up momentum

Activity in the Saudi fintech industry has ramped up in recent years and, by some measures, increased further as a result of the Covid-19 pandemic. An increased appetite for non-physical financial transactions – both with banks and with merchants – as a result of social distancing and lockdown measures paired with advancing fintech regulations created an environment for the fintech market to mature.

Environment and regulations

There is an active community of banks, universities, corporates, government agencies and investors developing the fintech sector in Saudi Arabia. From e-wallets to lending and insurance aggregation to investing, the services of fintechs have redefined the way in which businesses and consumers carry out routine transactions. The increasing adoption of these trends bodes well for Saudi Arabia, especially in the post-Covid world where physical contact is likely to be minimized for financial transactions. Going forward, there is a keen interest from fintechs to use more technology innovation in their solutions. Fintechs in Saudi Arabia are interested in utilizing Application Program Interface (API), machine learning, artificial intelligence and blockchain technologies.

SAMA is driving the fintech industry's regulatory development through a number of initiatives, which are expanded upon in this report's Regulatory Update. One of the key efforts in this area is SAMA's Regulatory Sandbox Framework. The Sandbox allows local and international financial technology firms to test new digital solutions they intend to launch in the Kingdom. In concert with the Sandbox is SAMA's Payment Services Provider Regulations (PSPR), which regulates Payment Services Providers (PSPs) in the Kingdom and allows existing foreign PSPs to operate in the Kingdom. SAMA also issued new licensing guidelines and criteria for digital-only banks in the Kingdom last year.

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Role of the banking sector

The Banking, Financial Services and Insurance (BFSI) community is witnessing significant impact with the advent of the fintech sector. However, the incumbents are now viewing fintech as an enabler rather than a disrupter. Large banks are tapping into the start-up ecosystem to incubate and create alliances on a variety of platforms such as wallets, payments, investment intermediation, and online client acquisition. They are not only developing platforms for such start-ups to thrive, but are also beginning to invest in such platforms. To address the multi-faceted impact of a strengthening fintech industry, BFSI incumbents are adopting a three-pronged strategy.

Investment driven: The BFSI sector is gearing for both acquisitions and funding-based routes to increase its presence in the emerging fintech space. For example, in 2019 Riyad Bank launched a SAR 100 million program for fintech start-ups that provides funds for capital injections and research and development.

Partnership driven: Partnerships by fintech product firms (in point-of-sale hardware, e-wallets, credit deals and social lending) with banks with a synchronized go-to-market strategy are addressing the immediate demand of digital-age consumers. For example:

- Banque Saudi Fransi partnered with fintech Hala to offer their customers the convenience of a digital wallet on their phones.
- Al Rajhi Bank has signed treasury and capital markets tech specialist Murex for its flagship MX.3 framebox platform. This platform will handle all the activities of its treasury business that will enhance its capabilities, increase efficiency and improve customer service.

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Market driven: To counter a steady challenge by venture backed fintech firms, many incumbents are augmenting their value chain with competing offerings and leveraging their own distribution and client base. For example:

- Alinma Bank launched (AlinmaPay), which is a digital wallet that enables local and international money transfer, withdraw cash, pay bills and many other services.
- Saudi British Bank (SABB) has launched a real-time cross-border transfer service based on the Ripple blockchain network. The technology will allow customers to gain access to faster, safer and more transparent cross-border payments.

Before Covid-19, the 2020s were already being framed as the decade for digital bank transformation. Financial institutions are competing to deliver innovation including seamless, hyper-personalized user experiences. The challenges and disruption caused by Covid-19 and changes in consumer behavior to consider new tools and technologies has accelerated this focus and digital transformation

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has become the top priority for banks to sustain their business and reduce overheads. This is expected to drive further collaboration between banks and fintechs as banks looks to fintech service providers to support them with their digital transformation activities.

Saudi Payments

Saudi Payments operates mada, a national payment system that adds flexibility, speed, security, and acceptance by connecting ATMs and point-of-sale (POS) terminals to a central payment system. When Apple Pay, a mobile wallet, was introduced in Saudi Arabia in 2019, mada was made available for use on the system, along with major credit card operators and bank cards. In 2020, digital payments transactions increased by 75 percent while cash withdrawals from ATMs and other methods of payment transactions decreased by 30 percent.[5]

Future investment trends

Though mandated lockdowns will soon be relegated to the history books, the 'new normal' is here to stay. As a result, organizations have been accelerating investments in digital channels and related enablers in order to meet customer needs. This acceleration will drive fintech investment from corporates in customer-orientated digital technologies and in the back office space as a means to improve operations and better manage costs.

Fintech investors have been focused on big bets and safer deals recently, making it difficult for smaller fintechs, even those with good business models, to raise funding. Some of them won't have the liquidity they need to make it through the current crisis. Emerging from the pandemic there is likely to be more consolidation and more opportunistic investments.

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[5]https://www.arabnews.com/node/1788886/business-economy