

REPORT

Saudi Arabia's Growing Fintech Landscape: Realizing the Potential for Financial Inclusion



EXECUTIVE SUMMARY

- 1 Vision 2030 aims to make fintech a cornerstone of economic transformation, targeting significant GDP contributions and increased fintech startups by 2025.
- 2 The regulatory environment is supportive, with initiatives like the Regulatory Sandbox and Open Banking Framework fostering innovation and security.
- 3 Saudi Arabia's fintech sector is expected to reach USD 63.90 billion by 2024, driven by substantial state and private investments.
- 4 Fintech solutions are enhancing financial inclusion through widespread smartphone adoption and digital payment systems.
- 5 The Kingdom's fintech evolution underscores its commitment to inclusive growth and economic diversification, positioning it as a regional fintech leader.



INTRODUCTION

With the recent news coverage surrounding reforms in Saudi Arabia, investors may be led to assume that financial technology and the goal of financial inclusion are fresh ideas for the Kingdom's economy, traditionally fueled by its vast oil reserves. However, this perception doesn't accurately reflect Saudi Arabia's long-standing commitment to financial inclusion through technology. According to the 2022 SaudiFintech report, Saudi Arabia has been integrating advanced financial technology since the 1990s when the country's central bank (SAMA) launched MADA and SADAD, national payment clearance networks designed to reduce transaction fees. Since then, numerous initiatives have been implemented to further leverage financial technology and drive financial development.

Today, Saudi Arabia is fast becoming a fintech powerhouse, driven by a confluence of strategic vision, robust regulatory frameworks, and innovative initiatives. This burgeoning sector is pivotal in the Kingdom's economic diversification and its mission to enhance financial inclusion; a cornerstone of Saudi Arabia's Vision 2030.

VISION 2030: STRATEGIC GOALS FOR FINTECH



Vision 2030 is Saudi Arabia's blueprint for reducing its dependence on oil, and fostering economic diversity. As part of this, the government of Saudi Arabia has been actively promoting cashless transactions as part of the broader economic and financial inclusion strategy. Central to this vision is the Financial Sector Development Program (FSDP), which aims to boost the fintech sector's GDP contribution from USD 1 billion to USD 3.46 billion by 2025 and elevate the number of fintech companies to 230 by the same year. In its report, strategy consultancy firm Arthur D. Little identified over 200 fintech's currently active in the Kingdom, up from 82 in 2020. This signals remarkable progress in the sector over the past four years, propelling Saudi Arabia's fintech industry to a leadership position in the region. The program also aims for digital transactions to constitute 70% of all financial transactions by 2025, reflecting a significant shift towards a cashless economy.

SUPPORTIVE REGULATORY FRAMEWORK & MARKET INNOVATIONS

The success of the Saudi fintech landscape is based on a number of developments, including strong government support. The regulatory environment in Saudi Arabia is one of the most fintech-friendly in the region. SAMA and the Capital Market Authority (CMA) have introduced a range of regulations to foster innovation and ensure a safe and secure financial ecosystem. Key regulations include enhancing Payment Services Provider Regulations and Additional Licensing Guidelines for Digital-Only Banks. The Saudi Central Bank has also issued more detailed Buy-Now-Pay-Later (BNPL) guidelines in December 2023 that establish licensing requirements, minimum capital thresholds and consumer protection measures for BNPL companies operating in Saudi Arabia. Furthermore, the Regulatory Sandbox, which was updated in 2022, allows fintech companies to test and refine their products in a controlled environment, encouraging innovation while mitigating risks. CMA's FinTech Lab has also been instrumental in supporting companies by providing an Experimental Permit (ExPermit) license that enables them to test innovative business models under close supervision. One of the most significant regulatory advancements is the Open Banking Framework, launched in 2022. This framework sets out comprehensive legislation and technical standards that enable fintech firms to offer open banking services. These services allow third-party financial service providers to access customers' financial information in a secure way. This means customers can choose to share banking data, like transaction history and account details, with other companies that offer financial services, such as budgeting apps or lenders. This encourages competition and innovation in the banking sector.

It's not just regulation but also community-driven initiatives that play a crucial role in nurturing the fintech ecosystem. A good example of this is FintechSaudi, established in 2018 by SAMA and the CMA. By providing resources, educational programs, and workshops, FintechSaudi supports startups and entrepreneurs, facilitating their integration into the market. This initiative is instrumental in positioning Saudi Arabia as a leading fintech hub in the region.

Another example is Sidra Capital's digital investment platform Tala. The platform provides high-quality Shari'ah compliant investment opportunities for retail investors. It represents a new era of investment that is designed to serve both Saudis and expats living in Saudi Arabia, making it a hub for diverse investors seeking growth and financial prosperity. Tala makes investments that have traditionally been reserved only for high-net-worth individuals accessible to more investors in Saudi Arabia.

Tala has successfully completed the closure of the first privately listed offering for retail investors in Sidra Income Fund; an award-winning multi-asset fund previously only

available to sophisticated investors and registered entities. This milestone marks a significant step towards providing individuals access to regulated local or international, private Shariah-compliant funds across diverse asset classes.



Speaking about the vision behind Tala, Sidra Capital says, "At the macroeconomic level, we see ample interest in the Saudi economy in pursuit of achieving Vision 2030. However, if we are to realize our dream, we must not only create opportunities for institutional players but also ensure citizens and residents are provided with wealth creation opportunities of similar magnitude. Only then will we be able to achieve any long-term success."

NEW INVESTMENT OPPORTUNITIES AND ENHANCED FINANCIAL INCLUSION

Saudi Arabia's fintech sector is booming, thanks to rapid growth and a supportive regulatory environment. Fintech solutions are revolutionizing financial inclusion in the country. Digital payment systems, e-wallets, and micro-lending platforms are making financial services available to previously underserved communities. The shift towards a digital economy is evident, with digital payments making up 70% of retail transactions in 2023. This widespread adoption highlights the move towards a more inclusive financial landscape. According to the FSDP annual report for 2023, the fintech market in Saudi Arabia is expected to reach USD 63.90 billion by 2024, with a compound annual growth rate (CAGR) of over 6%. This impressive growth, bolstered by strategic initiatives and government support is drawing significant global investor interest as it offers lucrative opportunities for high-net-worth investors. As fintech companies continue to reshape and expand the financial services landscape, there is an increasing need for strategic financing and investment to fuel their growth.

The Saudi government is playing its part. Organizations like the Saudi Venture Capital Company have provided substantial start-up funding, supplementing private sector investments. By the end of 2023, fintech startups had attracted over SAR 4 billion from local, regional, and global investors.

CONCLUSION

Saudi Arabia's fintech landscape showcases the Kingdom's strategic vision and dedication to economic diversification and financial inclusion. With a strong regulatory framework, innovative initiatives, and growing investor interest, the fintech sector is set to drive significant socio-economic changes, making financial services more accessible and inclusive.

With smartphone usage set to hit 92% in 2024, digital financial services are becoming more accessible to everyone. This widespread smartphone usage opens up significant opportunities for the Saudi fintech market to leapfrog outdated infrastructure, focusing on innovation and expansion to address economic and societal issues like financial exclusion and low personal savings rates.

For investors, Saudi Arabia's burgeoning fintech market offers a fertile ground for investment, fueled by innovation, strategic vision, and a supportive regulatory environment. As the Kingdom advances towards its Vision 2030 ambitions, the fintech sector is poised to become a cornerstone of its economic transformation.

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