



Economic Brief

Saudi Fintech Sector Review 2022

Overview

Saudi Arabia has one of the MENA region's most developed and well-capitalized financial service sectors. In 2018, the Kingdom launched a national Financial Sector Development Program (FSDP) to align the sector's development with Vision 2030 goals. The original FSDP strategy had three pillars: 1) enable private sector growth, 2) develop an advanced capital market, and 3) promote financial planning, covered in our August 2020 [FSDP Report](#). Fintech is an emerging sector in Saudi Arabia that encompasses new technologies, which improve or automate financial services such as payments, lending, insurance, data management, and capital market services. This year, the Ministry of Finance launched an updated version of the FSDP strategy with a new fourth pillar solely dedicated to fintech.

The emphasis on fintech as a standalone and high-growth potential sector for Saudi Arabia follows an accelerated transition towards digital payments, a more favorable regulatory environment, and a record-setting level of venture capital activity in fintech. In the first half of 2022, fintech accounted for the highest number of total investment deals signed with 17. Fintech companies attracted investments from leading domestic and international firms such as Sequoia, 500 Global, and Mastercard. Well-developed technology infrastructure such as widely accessible 5G and cloud services, a high domestic demand for financial services, and continued government support have all supported ongoing growth.

Saudi Arabia is aiming to reach a SAR13.3 billion (\$3.6 billion) direct GDP contribution by 2030, up from SAR1.2 billion (\$317 million) in 2021. The Kingdom also aims to create 16,500 new jobs and reach 525 active fintech companies by 2030. Fintech is a key pillar of not only the financial services industry's future, but as a cross-cutting enabler of numerous Vision 2030 initiatives such as raising private sector GDP, boosting small and medium enterprises (SMEs), attracting foreign investment, developing the digital economy, and enhancing the ease of doing business. Over the near term, the Saudi fintech sector is poised for continued growth due to its strong fundamentals and high ceiling for growth relative to other emerging economies.

Sector Strategy

Demand for Financial Services

In Q3 2022, Saudi Arabia's 'Finance, Insurance & Business Services' sector accounted for SAR132.9 billion (\$35.4 billion) in economic activity, representing approximately 5 percent of total GDP. The sector grew 5.6 percent YoY in Q3 and expanded consistently through the 2020 COVID pandemic, unlike many



other sectors, according to the General Authority for Statistics (GASat). The direct impact of fintech on Saudi GDP was estimated at SAR1.2 billion (\$317 million) in 2021, according to Fintech Saudi. The fintech sector currently supports approximately 1,640 jobs.

Demand for a variety of financial services among Saudi residents is particularly high, including banking, insurance, investment, asset management, and shariah-compliant financing. Vision 2030 and the FSDP are aimed toward meeting the demand for financial services and further improving the investment environment to attract international business and talent. Ultimately, these strategies aim to help transition Saudi Arabia’s economy closer to an innovation-based and consumer-driven economy. Moreover, the high level of smartphone penetration and banked youth population enabled a relatively rapid transition to a burgeoning digital economy. Approximately 38 percent of payment transactions in the Kingdom were made in cash in 2021 compared to 56 percent in 2019, according to a survey by SAMA. Use of card and electronic payments in Saudi Arabia have surged in recent years, rising steadily since 2016 with a further acceleration due to the COVID-19 pandemic. For the first time in 2021, cash ranked second in Saudi Arabia (43 percent) as the method for household payments behind near-field communication (NFC)/ contactless technology.

Saudi consumer habits have also adapted quickly to the digital economic transition. A 2022 Mastercard report found that 89 percent of people in Saudi Arabia have used at least one emerging payment method in the last year. These include 42 percent who have used a tappable smartphone wallet, 31 percent who have used a digital money transfer app, and 21 percent who have used a buy now-pay later (BNPL) installment plan. Additionally, 76 percent of people in Saudi Arabia are familiar with open banking, and are willing to use it to pay bills, do banking, or secure loans. Consequently, the Saudi fintech market has seen high levels of investments and in recent years begun to rival neighboring economies Egypt and the U.A.E. in startup investments.

Launch of Official Fintech Strategy

In June 2022, the Ministry of Finance announced the Kingdom’s first official fintech strategy, which set new goals to increase the number of fintech companies operating in Saudi Arabia to 230 and increase the share of the non-cash transactions to 70 percent by 2025. The strategy was added as a new pillar to the FSDP and contributes to the following strategic initiatives:

Vision 2030 Initiatives Supported by Fintech Sector

Financial Sector Development Program (FSDP)

Enable financial institutions to support private sector growth

Ensure the formation of an advanced capital market

Promote and enable financial planning



Other Vision 2030 Goals		
Enhance ease of doing business	Grow private sector's contribution to the economy	Attract foreign direct investment
Develop the digital economy	Nurture and support the innovation & entrepreneurship culture	Source relevant foreign talent effectively
Ensure alignment of educational outputs with labor market needs	Grow SME contribution to the economy	Develop e-Government

Source: FSDP Delivery Plan 2022

The Fintech Strategy seeks to drive job creation and economic impact through a series of long-term transformation drivers (see Appendix). These include building and maintaining trust in the sector by meeting technology and infrastructure prerequisites. Infrastructure prerequisites include a cloud-native fintech service layer, high broadband connectivity, and an advanced mobile 5G network. The Kingdom is also implementing new policies such as regulatory sandboxes and Open Banking protocol to further open the sector for participation and competition.

Business Environment

Key Entities

Saudi Arabia has a large and well-developed finance sector that plays a significant role in the country's economy. The finance sector in Saudi Arabia is primarily regulated by the Saudi Central Bank (SAMA) and the Ministry of Finance (MoF). Other government and non-government entities play important roles in regulation, business development, and financing.

SAMA plays a significant role in regulating and promoting the development of the fintech sector. SAMA issues licenses to fintech firms and established a regulatory framework for the sector's development. SAMA also introduced a platform known as a "sandbox." The regulatory sandbox allows fintech firms to operate under a limited license and enables them to test their products and services in a real-world setting while still being subject to reasonable regulatory oversight.

The Ministry of Communications & Information Technology (MCIT) is responsible for regulating and overseeing the information and communication technology (ICT) infrastructure in Saudi Arabia and has established several programs to support fintech startups and entrepreneurs, including the Saudi Technology Development and Investment Company (TAQNIA), a government-owned investment company focused on supporting technology-based businesses. The Capital Market Authority (CMA) is another important entity that serves as the chief regulator for the Kingdom's capital markets and supports the fintech sector through legislative and regulatory reforms specifically impacting capital market products.

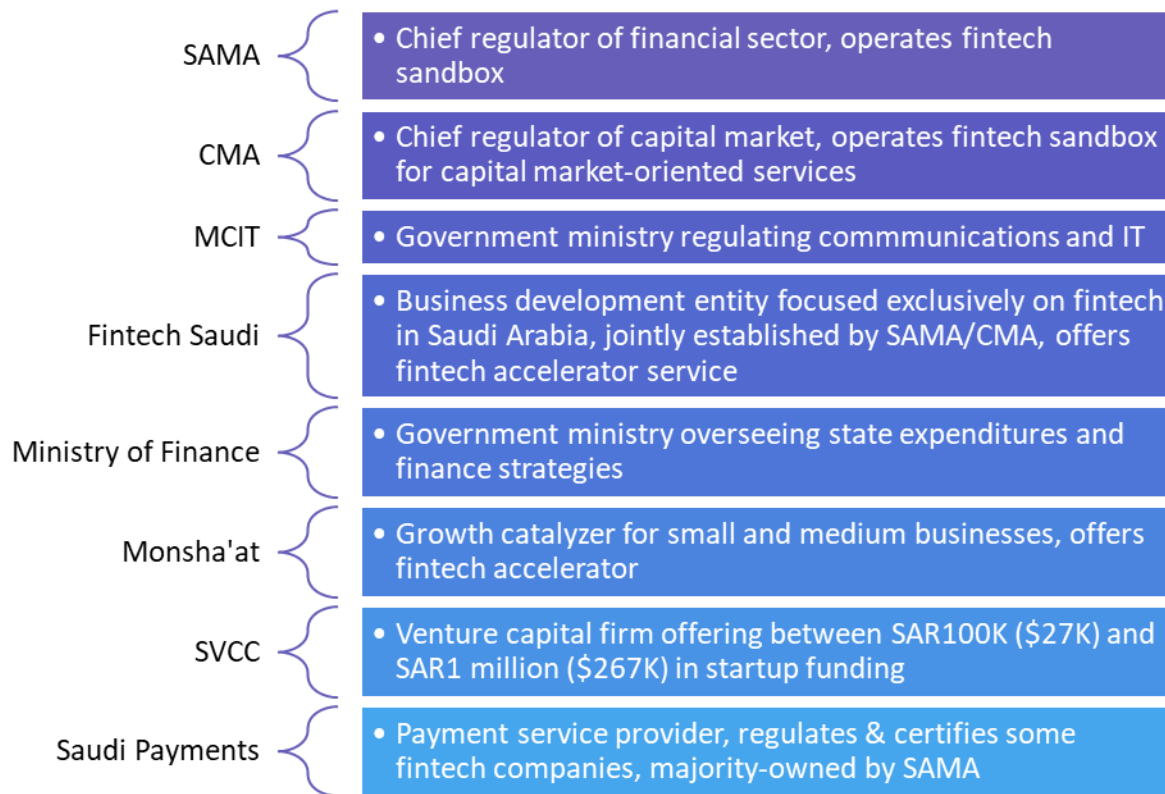


The CMA also operates a regulatory sandbox for experimental fintech licensing.

Fintech Saudi is a recently established government-supported entity that promotes the development of the Saudi fintech sector. Fintech Saudi was jointly established by SAMA and the CMA in collaboration with other agencies that help facilitate business partnerships, provide funding to support fintech startups, offer fintech accelerator services, and promote investment highlights within the sector. The MoF has also played a key role in establishing the regulatory framework for the fintech sector in Saudi Arabia. The MoF has worked with SAMA and other regulatory bodies to develop a set of rules and guidelines that govern the fintech firms operating in Saudi Arabia.

Other key government entities include Monsha'at, the Kingdom's SME authority, and Saudi Venture Capital Company (SVCC), a government venture capital firm aimed at financing promising startups in Saudi Arabia. Additionally, Saudi Payments, which is a joint venture between SAMA and Saudi British Bank (SABIC), handles a high volume of electronic payment processing for government and private sector entities, as well as some licensing for card issuance and acceptance by fintech companies operating in the Kingdom.

Key Government Entities Impacting Fintech Sector





Regulatory

The recent boom in fintech activity has led to new programs and regulations aimed at fostering a competitive business ecosystem and protecting consumer safety. While new licenses were introduced for fintech companies after 2018, fintech transactions are still governed by conventional financial transaction laws.

Initial fintech licenses issued by SAMA or the CMA are temporary and allow the accepted entity to engage in fintech-related activities for a trial period until full authorization from the relevant authority. Due to high demand in the fintech sector, SAMA introduced three types of licenses for Saudi fintech applicants:

- 1) Debt-based crowdfunding license
- 2) Payment service provider license
- 3) Experimental license offered by SAMA and CMA sandboxes

Each of the three licenses are subject to the Kingdom's Finance Companies Control Law. SAMA also unveiled regulations affecting the provision of payment services in January 2020, allowing service providers or licensed banks to offer e-services. In 2021, SAMA launched an instant payment system called Sarie to allow low-fee transactions and alternative identification protocols for bank-to-bank transactions. Under the Sarie payment system, any transaction less than SAR20,000 (\$5,333) is credited instantly to the recipient account. Most recently in November 2022, SAMA introduced an official Open Banking Policy, which enables consumers to securely share their data with third party companies to allow the delivery of tailored services based on consumer data.

Sandboxes

In 2017, Saudi Arabia introduced regulatory “sandboxes” to support the development of fintech companies and provide a controlled environment in which businesses can test and develop products and services without being subject to full financial regulations. Currently, two fintech regulatory sandboxes are operated by SAMA and CMA. SAMA lists 22 active licensed companies in its sandbox and CMA lists 26 active fintech companies in its sandbox. The companies range from a variety of financial services such as debt crowdfunding platforms like Raqamyah or Maalem Financing, and smart payment solutions like SURE Global and Alinma Pay.

According to Fintech Saudi, 37 percent of fintech companies operating in the Kingdom are regulated by SAMA either through the experimental sandbox license or the regular activity license. Approximately 21 percent of companies are regulated by CMA while a separate 21 percent do not require licensing from either SAMA or CMA to operate. Saudi Payments is also responsible for providing certification to 16 percent of Saudi fintech companies, typically through payment gateways or card services.

Accelerators

Numerous accelerators and business incubators have emerged in recent years to seed emerging companies, typically in the tech field. These programs have proliferated as government agencies, educational institutions, and private investments have all sought to provide attractive financing and business services for leading entrepreneurs and startups. Monsha'at operates an important fintech



accelerator in partnership with the Saudi National Bank (SNB). While programs are generally aimed at domestic entrepreneurship, some have eligibility for foreign or partially foreign-owned companies. The Monsha'at fintech accelerator, for example, will support non-Saudi companies if one of the founding partners is Saudi. Other notable business accelerators or incubator initiatives impacting the fintech sector include:

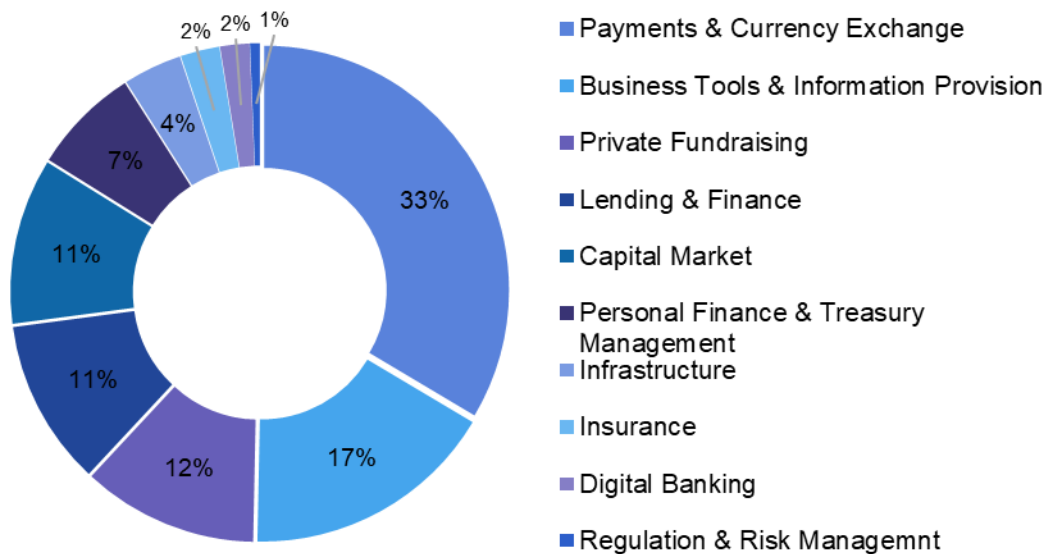
- ◆ King Abdullah University of Science & Technology (KAUST) Innovation Fund
- ◆ Taqadam Accelerator
- ◆ AstroLabs
- ◆ Flat6Labs

Private Sector

There are currently 147 local and international fintech companies in the Kingdom, according to Fintech Saudi. 'Payments & Currency Exchange' is the leading segment, accounting for a third of all fintech companies, followed by 'Business Tools & Information Provision' and 'Private Fundraising' with 17 percent and 12 percent, respectively. Over the past year, the 'Infrastructure' segment grew the fastest at more than 600 percent followed by 'Personal Finance & Treasury Management' and 'Capital Market' with 175 percent and 129 percent growth, respectively.

Through August 2022, the Kingdom witnessed a 79 percent YoY increase in the number of operating fintech firms. Of the 147 active fintech companies operating in Saudi Arabia, only 10 were operating in 2018. This rapid expansion marks a 14.7x increase in the number of fintech companies over the past four years, due to liberalized business regulations, an active investment environment, and well-developed technology infrastructure. Currently, 87 percent of Saudi fintech companies are headquartered in Saudi Arabia though a minority are headquartered overseas, including 2 companies in the United States.

Active Fintech Companies in Saudi Arabia by Subsector



Source: FintechSaudi



Key Developments

Venture Capital

While the fintech private sector continues to grow, 2022 is set to mark another record level of investment for Saudi fintech companies. Between September 2021 and August 2022, the fintech sector in the Kingdom saw SAR1.5 billion (\$402.2 million) in total investments. Approximately 60 percent of companies received funding from early stage, 10 percent were Series A, and another 10 percent were Series B and above. Venture capital funding in Saudi Arabia surged more than threefold to SAR2.2 billion (\$584 million) in H1 2022, surpassing the full-year total for 2021 as the Kingdom continues to invest in technology and digital transformation.

After reaching new heights globally in 2021, many countries saw VC funding slow significantly in 2022. By contrast, Saudi Arabia has posted year-over-year growth in each quarter so far this year. Saudi Arabia in recent years has begun to rival the U.A.E. in the level of venture investment, surpassing its neighbor for the first time in Q2 2022 with Foodics' SAR638 million (\$170 million) funding round. Regional players have recognized the Kingdom's efforts as fintech companies are opening offices and expanding into the domestic market. U.A.E. fintech companies YAP, Qashio, Pyypl and baraka and Egypt's ValU have all announced plans to expand into the Saudi market in 2022. Saudi Arabia was ranked ninth globally for venture capital availability in IMD's Global Competitiveness 2022 report, rising from 12th in the previous year.

2022 Fintech Funding Rounds in Saudi Arabia

Company	Date	USD (Million)
Foodics	Apr-22	170
tamara	Aug-22	100
HyperPay	May-22	40
Lean	Jan-22	33
Mozn AI	Feb-22	10
Dawul	Jan-22	5
penny	Jan-22	5
syaraat	Mar-22	2
Malaa	Mar-22	2
sanad cash	Jan-22	2
EdfaPay	Feb-22	2
Circlys	Feb-22	1
Tamawal	Feb-22	1
Ebana	Jun-22	1
Lendo	Jan-22	Und
Sifi	Feb-22	Und

Source: Magnitt, SVCC

In Focus:

Key Insights from Basem A. Alsallom, CEO and Managing Director of SURE Global

SURE Global's investments in Saudi fintech firms span business payments, food delivery, and organizational management. What is a specific segment of fintech that you are currently excited about as an investor?

We think investment opportunities in the broader fintech sector are significant. Let's take wealth management, for instance: It's part of fintech, however, it's more about "invest"-tech, or what is known in the insurance industry as "insur"-tech. We currently focus more on payments and payments processing, which we believe can add value through our investment in SurePay, a Saudi-licensed payment services company. SurePay also supports the government's direction towards a cashless society, growth in e-commerce, growth in retail point-of-sale (POS) services, and the e-VAT program, which allows electronic billing.



How have Vision 2030 reforms and other regulatory changes affected the level of domestic versus foreign venture capital investment into the Kingdom's fintech sector?

Taking it from both sides, Saudi Arabia was ready in terms of both demand and technical infrastructure. The business reforms, regulatory changes, and other enhancements were key to changing our investment direction. The introduction of fintech sandboxes from both the Capital Market Authority and the Saudi Central Bank, the Open Banking Policy, and other initiatives have allowed us to make a serious investment commitment in Saudi Arabia where we understand market demand and clearly see the potential.

As an established technology firm providing fintech solutions in the Kingdom for more than a decade, how do you view the recent launch of an official fintech strategy for the Kingdom and a renewed focus under the Financial Sector Development Program (FSDP)?

FSDP is an ambitious plan with a whole segment focused on fintech enablement (the fourth pillar). We expect that the government will work to achieve the Fintech Strategy across ICT infrastructure and connectivity, data centers, cybersecurity, 5G, etc. These specific areas of focus will work to support the fintech industry, in addition to the education necessary to make sure there is a pool of talent. This will guarantee Saudi Arabia's position as a regional fintech hub and perhaps eventually for the whole world.

How has SURE Global's technology solutions supported digital transformation in Saudi small and medium enterprises (SMEs)?

When SURE Global started, we began as a SME company. More recently, we listed our company on the Nomu Market and in our business we work with SMEs to help enable digital or POS payment through our subsidiary company SurePay. We also support SMEs via our investment in production such as Fandaqah, a software-as-a-service (SaaS) solution to support the hospitality sector, or Majles.tech, a SaaS solution to manage the governance and board of a company.



How have international partnerships between U.S. tech companies and local Saudi firms impacted the development of the Kingdom's fintech industry?

Some U.S. fintech products, which were created originally in the US, have partnered with local partners to enable Saudi fintech companies. One example is in technologies like know-your-customer (KYC), machine learning (ML), artificial intelligence (AI), and anti-money laundering (AML) where these companies have expertise, and we connected with them via an application programming interface (API).

How does fintech's outlook compare to the broader technology business landscape in Saudi Arabia?

In our view, it is one of the most high-potential industries in Saudi Arabia. The supported services around fintech will find continued growth, including regulatory compliance, cybersecurity, cloud services, business process outsourcing (BPO), among others. It is an interesting and exciting time for investors to be invested in the Saudi market. We sincerely hope we can capture and create value for the economy through our technology investments.

Venture capital investment in Saudi Arabia has also provided new opportunities for international business collaboration. U.S.-based 500 Global and Public Investment Fund (PIF) owned Sanabil Investments established the Sanabil 500 MENA Seed Accelerator Program, which provides pre-seed and seed-stage funding to startups in the MENA region. This year, four Saudi startups were offered SAR375K (\$100k) for 10 percent equity and a 12-week business accelerator program. The Kingdom also saw several rounds exceeding SAR38 million (\$10 million) such as tamara and HyperPay, both payment services companies. U.S. finance giant Mastercard was the lead investor in Saudi fintech HyperPay's SAR150 million (\$40 million) funding round.

Banking & E-Commerce

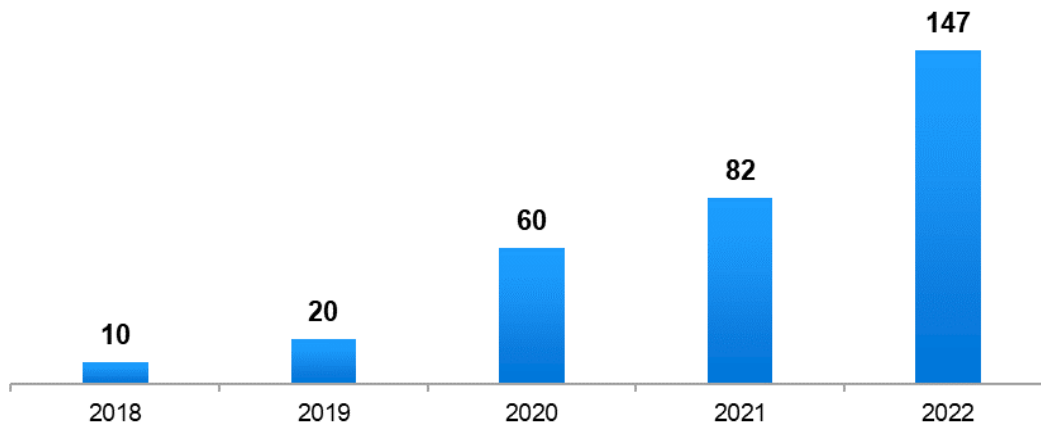
In addition to record rises in licensed fintech companies, the Saudi Cabinet approved the licensing of three local digital banks. The first involves the conversion of STC Pay into a digital bank with SAR2.5 billion (\$667 million) in capital. The second involves Abdul Rahman bin Saad Al-Rashed and Sons Company, which established Saudi Digital Bank with SAR1.5 billion (\$400 million) in capitalization. Most recently, D360 bank was licensed and became the third digital bank operating in Saudi Arabia. The PIF joined key investors in backing D360 Bank. These developments will introduce advantages that will provide payments services, consumer microfinance, and insurance brokerage services without requiring a physical business. The recent slate of digital bank licensing in Saudi Arabia brings the total number of licensed banks to 35 which includes 11 Saudi traditional banks, three Saudi digital banks, and 21 foreign banks. SAMA's new Open Banking Policy is also expected to further boost competitiveness in the Saudi fintech sector as new financial products and business models may be developed as a result of open accessibility to consumer financial data.

The rapid rise in digital payments has surpassed the FSDP's original 55 percent target for 2021, rising to 57 percent last year. Digital payments in the retail sector counted for 57 percent of total transactions. The Kingdom aims to reach an overall 70 percent rate of electronic payments by 2025. Saudi Arabia also exceeded one million point-of-sale (POS) transactions in 2021 and boasts the highest adoption of NFC in



the MENA region. SAMA fully adopted NFC payments in 2016 and has taken steps to facilitate high security standards in accordance with international best practices, which has aided in seven years of consecutive growth.

Number of Active Fintech Companies in Saudi Arabia



Source: FintechSaudi

Sector Challenges

By 2025, Saudi Arabia aims to meet several benchmarks that include raising the number of active fintech players to at least 230 companies, reaching 70 percent non-cash transactions, and boosting fintech's GDP contribution to SAR4.5 billion (\$1.2 billion). Consequently, the government projects it will require SAR2.6 billion (\$693 million) in VC investment by 2025. However, the Kingdom still faces potential challenges in developing a highly competitive technology sector as a newer player on the global stage.

Increasing VC Investment into Saudi Arabia

While Saudi Arabia has seen remarkable growth of VC investment in recent years, current growth is from a low baseline as the sector is in an infancy stage. As the Kingdom's fintech sector matures, it will continue to compete with regional hubs like Egypt and U.A.E. but also global hubs like the U.S. and Singapore. As with any new player in a capital-intensive industry, a limited track record and a nascent VC ecosystem will require a steady appreciation in market confidence over the coming years.

Access to Talent

The fintech industry is a knowledge industry and requires a high pool of human capital to harness long-term growth potential. The government has sought to address the talent gap in Saudi Arabia in both fintech and other tech-adjacent industries. This has occurred through educational and training programs, issuing work visas for international talent, and state investments in domestic research & development, which includes supporting startup accelerator and incubator programs.



Regulatory Compliance

The financial services sector is naturally subject to a wide range of regulations that encompass consumer protection, anti-money laundering, mandatory financial reporting, and others. Data privacy, cybersecurity, and intellectual property (IP) in particular have been a topic of focus for the industry globally. In the case of IP, Saudi Arabia has implemented new laws and established special enforcement courts to meet international standards in primarily technology-oriented industries. The U.S. subsequently removed Saudi Arabia from its “Problematic IP Protection” list and the Kingdom’s international rankings in cybersecurity and IP protection have improved in recent years. More recently, the Kingdom launched a SAR1 billion (\$267 million) National Intellectual Property Strategy aimed at both generating domestic IP and securing IP of local and international companies operating in the Saudi market. The strategy includes 12 initiatives overseen by the Saudi Authority for Intellectual Property and will be executed by 37 government agencies and private entities.

Conclusion

Under Vision 2030, the Kingdom is opening opportunities for multinational corporations, foreign investment, and global talents to participate in the growth and diversification of the Saudi economy. Fintech development will help foster a more globally connected and diversified Saudi economy. By 2030, the government projects the fintech sector will account for 18,200 direct jobs and SAR13.3 billion (\$3.6 billion) in direct GDP contribution. The Kingdom is supporting the achievement of these targets through a more favorable regulatory environment (liberalized business regulations, experimental sandboxes, new license types) and continued investments in the sector (new agencies to support fintech adoption, accelerator and incubator programs, and direct investments). However, the private sector will remain key to the success of the sector and recent trends have illustrated robust and dynamic activity across a range of fintech segments like payments, fundraising, personal finance, and capital markets.

As a regional leader in the adoption of 5G and mobile technologies, digital commerce and payment solutions have rapidly taken off and the COVID-19 pandemic only further accelerated this change in consumer behavior. Much of the regulatory enablement enacted in recent years is aimed at attracting international investment to further build on recent digitization successes. The participation of international technology and investment firms is a core ambition of the Kingdom’s Vision 2030. Consequently, U.S. firms have participated in the sector’s growth through VC investments and local partnerships. The U.S.’s advanced financial services sector and the longstanding presence of U.S. finance firms in Saudi Arabia indicate that bilateral partnerships between U.S. and Saudi firms in fintech will have abundant market opportunities over the next decade.

Appendix:

Fintech Strategy Transformation Drivers



Source: FSDP Delivery Plan 2022



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