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Fintech Saudi Deep Dives:

# Capital Market Solution Opportunities in KSA

Capital Market

In collaboration with

**Deloitte.**

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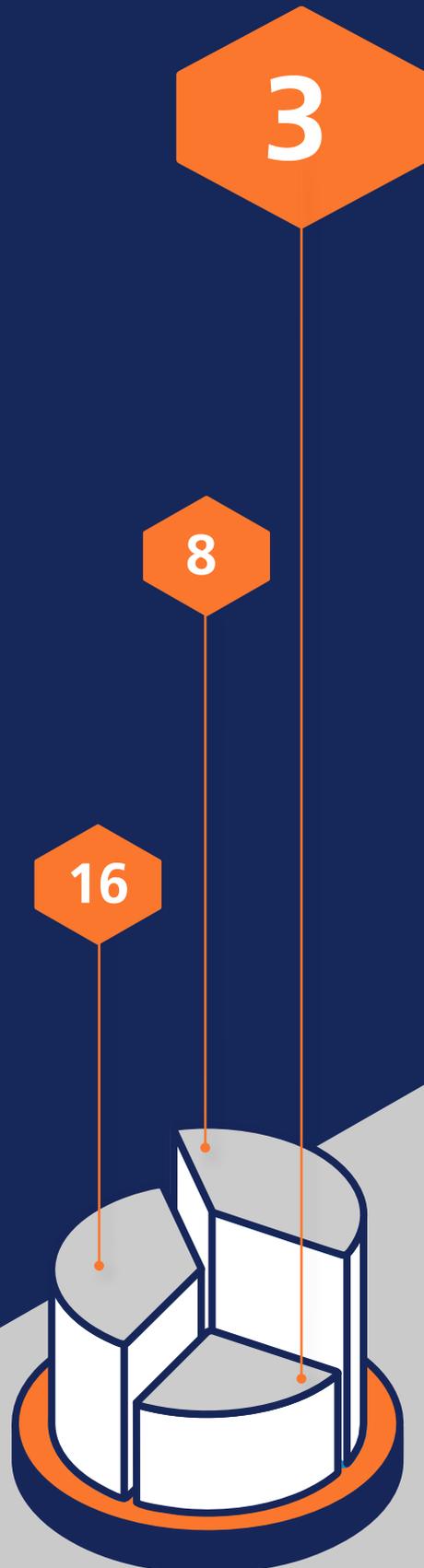
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# Introduction

This report was developed by Fintech Saudi in collaboration with Deloitte as part of a series looking at areas of opportunity in the Saudi fintech industry. We hope this report proves to be valuable to our community and early stage entrepreneurs looking to establish and scale fintech companies in Saudi Arabia.

## What are Capital Market Solutions and why do Companies need them?

Capital markets are related to the activities associated with markets where buyers and sellers engage in trade of financial securities such as bonds, stocks and other instruments. Capital market fintech activities are the use of new and disruptive technology and business models to improve capital markets activities. Historically, capital markets have only been used by large corporations to raise capital and have only been open to professional / institutional investors to invest. However, fintech activity is opening the capital markets to smaller companies to help them to raise capital and retail investors interested in investing directly. Below are additional reasons why capital markets are important:



**Simplify trading of assets for investors and companies, and helps investors diversify their portfolios and manage risk**



**Provide investment liquidity, enabling investors to sell at a given market price very quickly**



**Minimize transaction execution and settlement time**



**Provides an alternative source of funding for companies that can replace or complement commercial bank financing**

## Why is this an Interesting Area for Entrepreneurs?



# US \$2,407 bn

Is the market capitalization for Tadawul All Share Index at the end of 2019. This is a 385% growth from the previous year and larger than all the GCC stock markets combined.<sup>1</sup>

## 5.1m retail investors

5.1m retail investors applied to shares in the Saudi Aramco IPO, many of which invested in the stock market for the first time<sup>2</sup>.

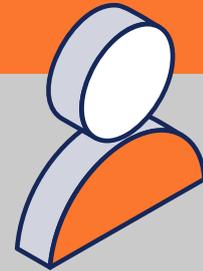


10% of total household income savings target set by Vision 2030<sup>3</sup>.

Saudi Arabia has the largest stock market in the region which is expected to continue to grow. Retail investors continue their interest in investing into the stock market and expansion of capital market solutions for investors, capital market exchanges and companies is expected to bolster growth.

1. Tadawul Annual Statistical Report  
2. Oxford Business Group – The Report, Saudi Arabia, 2020  
3. Vision 2030 - Financial Sector Development Delivery Plan 2020

## What are the Current Challenges and How Can Fintech Address the Challenges?



### Investors



#### Challenges

- Many investment brokers may have a minimum investment requirement that smaller investors are not able to meet
- Investment brokers may be expensive, not user friendly and take a long time to transact
- Trades maybe carried out manually that could result in errors
- Many investors maybe minority shareholders. It is therefore important that minority shareholder rights are protected



#### How Fintech Can Help

- Digitization of investment platforms – ensure a higher focus on putting tools and software in place which will automate and facilitate transactions. This also reduces the cost of transacting enabling smaller investors to invest
- Automation of processes – fintech solutions can automate processes that were previously carried out manually. This reduces the risk of errors being made in transacting.
- Use of Data to Develop a Personalized service – Fintech solutions can use historic trading data and machine learning in order to provide a more personalized service to investors



# What are the Current Challenges and How Can Fintech Address the Challenges?



## Capital Market Companies



### Challenges

- The burden of financial reporting and providing regulatory requirements is increasing
- Limited communication particularly with smaller investors
- Maintaining corporate governance standards



### How Fintech Can Help

- Fintech regtech solutions are able to assist capital market companies with understanding the latest regulatory reporting requirements and automating responses required reducing the time and cost of regulatory reporting. They can also assist companies to maintain best practice corporate governance standards
- Fintechs solutions can support capital market companies to reduce the cost of communication and therefore enable capital market companies to communicate with a wider range of investors including smaller investors



## What are the Current Challenges and How Can Fintech Address the Challenges?



### Capital Market Exchanges



#### Challenges

- Accessibility is restricted to larger companies. To support financial inclusion, the exchanges need to be accessible to smaller / underserved companies
- Limited integration with systems that are used by capital market companies and investors such as bank accounts, financial reporting etc. This results in manual processes which can be slow and result in errors



#### How Fintech Can Help

- Solutions that make the listing process easier and cheaper making it more accessible to smaller companies
- Alternative funding models and platforms such as crowdfunding that reduce the number of intermediaries and are lower cost therefore enabling smaller companies to raise capital
- Use of API and Cloud technology to integrate capital market exchanges with other systems to provide a seamless end to end experience



# Business Model Considerations

## Business Models to Consider for the Saudi Market



### Retail Investor Stock Research Tools

With an increasing number of retail investors looking to invest in the capital markets, it is important to provide them with the tools that help them to analyze investments. Retail investors do not tend to have access to the same research that institutional investors can access. Therefore there is a need to develop stock research and analysis tools focused on retail investors.

### Gamification of Stock Market Investments

Gamification can be used as a way to educate more individuals on how to invest in the stock market responsibly. Stock market gamification platforms simulate returns for investors as though they were investing in the stock market. They can be used as a learning tool for inexperienced investors or as a recruitment process for institutional investors.



## Business Models to Consider for the Saudi Market



### Platforms to Invest Smaller Amounts

Historically investment brokers required a certain level of investment or had high fees which made them unaffordable to investors that wanted to invest smaller amounts. Fintech solutions such as mobile brokerage apps have made investing cheaper and enabled investors to invest smaller amounts. This has led to the development of new business models such as the ability to invest spare change from shopping into the stock market.

### Automated Reporting

Listed companies are required to provide ongoing reporting to their board, regulators, shareholders etc. Fintech solutions can help automate reporting requirements by collecting the information required from bank accounts, accounting records and other databases reducing the time and cost related to reporting.



## Case Studies



We have identified fintechs that are providing capital market solutions globally that entrepreneurs interested in this area can learn from. The table below provides a high-level overview of their backgrounds, value propositions, target customers and pricing models used:

<p>page <b>11</b></p> <p><b>Robinhood</b></p>	<p>page <b>12</b></p> <p><b>CircleUp</b></p>	<p>page <b>13</b></p> <p><b>Avant</b></p>
<p>page <b>14</b></p> <p><b>OnDeck</b></p>	<p>page <b>15</b></p> <p><b>Enfusion</b></p>	

## Case Studies: Robinhood

<p><b>What is their mission?</b> To democratize finance for all so that everyone has access to the financial markets, and make investing friendly, approachable, and understandable for newcomers and experts alike</p>	<p><b>What has their growth looked like?</b></p> <ul style="list-style-type: none"> <li>• 6M users</li> <li>• \$7.6 billion valuation</li> <li>• 33 million monthly website visits</li> <li>• 21 total products active</li> </ul>	<p><b>Who are their customers?</b> Individuals</p>
<p><b>What service do they provide?</b> Enable unlimited commission-free trades in stocks, and funds, and enable buying and selling of cryptocurrencies.</p>	<p><b>What is their value proposition?</b></p> <ul style="list-style-type: none"> <li>• Mobile access to markets</li> <li>• Invest commission-free in individual companies or bundles of investments</li> <li>• Access research reports</li> <li>• Receive more flexibility with a brokerage account to invest, spend, and earn interest with a competitive APY</li> <li>• Customized and personalized notifications to track assets</li> </ul>	<p><b>What is their pricing model?</b> Per-use pricing</p> 
<p><b>How much funding have they received?</b> Raised \$2.2B in total funding to date</p>		

## Case Studies: CircleUp



### How much funding have they received?

Raised \$253M in total funding to date

### What is their value proposition?

- Provide capital in the form of equity and/or credit
- Data-driven propriety consumer market insights through a machine learning platform

### What is their mission?

To help entrepreneurs thrive by giving them the capital and resources they need

### What has their growth looked like?

- Companies that have borrowed from CircleUp grow on average 200% year-to-year
- Data points from 1.3 million companies across North America
- Utilize 39 technology products (inc. Google Analytics, Wordpress, AWS, etc.)
- \$184M valuation

### Who are their customers?

Small businesses – consumer brands (early stage)

### What service do they provide?

Creating a transparent and efficient market to drive innovation for consumer brands

### What is their pricing model?

Contact vendor for more details



## Case Studies: Avant

<p><b>What is their mission?</b> To lower the costs and barriers of borrowing for everyday people</p>	<ul style="list-style-type: none"> <li>• In 2014, received \$1B through Series C, Series D, and debt financing funding</li> <li>• In 2015, received \$825M through Series E, and debt financing funding</li> </ul>	<p><b>What is their value proposition?</b></p> <ul style="list-style-type: none"> <li>• Offers access to personal loans for middle-income borrowers that need help with things like high-interest debt, home improvement, or unexpected expenses</li> <li>• Transparent credit</li> <li>• Utilize customer analytics for all product decisions</li> <li>• Easily and quickly apply</li> <li>• Fast funding</li> </ul>
<p><b>What service do they provide?</b> An online lending platform that lowers the costs and barriers of borrowing for everyday people</p>	<p><b>What has their growth looked like?</b></p> <ul style="list-style-type: none"> <li>• 800K customers helped</li> <li>• Over \$5B borrowed</li> <li>• Utilize 49 technology products (inc. Google Analytics, Wordpress, Microsoft Office 365, etc.)</li> <li>• 7 total IPs</li> <li>• Valuation of \$2B</li> </ul>	<p><b>Who are their customers?</b> Individuals</p>
<p><b>How much funding have they received?</b></p> <ul style="list-style-type: none"> <li>• In 2013, received \$54M through Series A, Series B, and debt financing funding</li> </ul>		<p><b>What is their pricing model?</b> Per-use pricing</p>



## Case Studies: OnDeck



### What service do they provide?

Technology-enabled platform that provides loan financing to SMEs

### How much funding have they received?

Raised \$1.2B in total funding to date

### What is their value proposition?

- Transparent credit
- Utilize customer analytics for all product decisions
- Easily and quickly apply
- Fast funding
- Simple loan terms

### Who are their customers?

SMEs

### What is their mission?

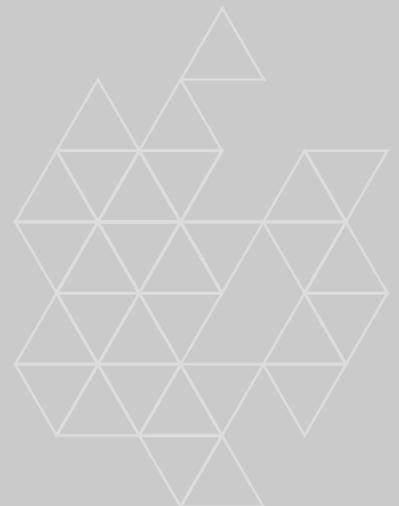
To create innovative lending experiences and financial products that help small businesses succeed

### What has their growth looked like?

- \$12B delivered to businesses globally
- >1.5M customers

### What is their pricing model?

Per-use pricing



## Case Studies: Enfusion

<p><b>What is their mission?</b> Break technology barriers and remove information boundaries, creating enterprise-wide cultures of transparency and shared insight by boosting agility and efficiency, rationalizing costs, and regulating resources</p>	<p><b>How much funding have they received?</b> Raised \$156M in total funding to date</p>	<p>business from trade execution to back-office accounting</p> <ul style="list-style-type: none"> <li>• One vendor for software, fund services and a data warehouse</li> <li>• Fully customizable real-time monitors</li> <li>• Automated security master updates</li> <li>• Asset class support</li> </ul>
<p><b>What service do they provide?</b> Provider of a cloud-based portfolio management and risk system, as well as middle and back office services</p>	<p><b>What has their growth looked like?</b></p> <ul style="list-style-type: none"> <li>• &gt;\$500B assets under management</li> <li>• &gt;300+ clients</li> </ul>	<p><b>Who are their customers?</b> All businesses</p>
	<p><b>What is their value proposition?</b></p> <ul style="list-style-type: none"> <li>• One system to streamline operations improve efficiency</li> <li>• One data set provides a holistic view of entire</li> </ul>	<p><b>What is their pricing model?</b> Contact vendor for more details</p>



# Regulation

## How are Capital Market Solutions Currently Regulated in KSA?

Capital market solutions that involve regulated activities such as dealing, arranging, managing, advising, and holding custody of securities are regulated by the Capital Markets Authority (CMA).

Innovative capital market solutions that are not covered under the existing regulations can apply to the CMA Fintech Lab for a testing permit.

Capital market solutions that are not involved in any regulated activities may not need to be regulated by CMA. However if in doubt, consult CMA prior to commencing the activities.

For more information on regulation clarity, please refer to the Fintech Access Guide [here](#) and Fintech Regulatory Assessment Tool [here](#).



We hope this report was insightful for entrepreneurs and start-ups looking to create, establish and scale their business and accounting solutions in KSA. We look forward to supporting you in making businesses better in Saudi Arabia.

If you found this report to be helpful or would like to learn more, please reach out to us at [info@fintechsaudi.com](mailto:info@fintechsaudi.com)





#### About Fintech Saudi

Fintech Saudi is an initiative launched by the Saudi Central Bank (SAMA) in collaboration with the Capital Markets Authority (CMA) under the Financial Sector Development Program to support the development of the Fintech Industry in Saudi Arabia. Fintech Saudi's ambition is to transform Saudi Arabia into an innovative fintech hub with a thriving and responsible fintech ecosystem.

Fintech Saudi seeks to achieve this by supporting the development of the infrastructure required for the growth of the fintech industry, building capabilities and talent required by fintech companies and supporting fintech entrepreneurs at every stage of their development.

To learn more visit <https://fintechsaudi.com> or @fintechsaudi (Twitter)

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