Dear Reader,

We are pleased to present to you the fourth Fintech Saudi Annual Report providing an overview of the progress of the fintech industry in Saudi Arabia over the last year.

This year has been another important milestone in the development of the Saudi fintech industry. On 24th May 2022, the Council of Ministers approved the Kingdom’s Fintech Strategy as a new pillar in the Saudi Vision 2030 Financial Sector Development Program (FSDP). Building on the success we witnessed over the last few years in the Saudi Fintech industry, the Fintech Strategy aims to support the Kingdom of Saudi Arabia to be among the leading countries in the field of fintech, with Riyadh becoming a global tech hub. The strategy seeks to increase the number of Fintech companies operating in the Kingdom to 525 by 2030. We are pleased that we are well on the way to achieving this target with currently 147 fintechs operating in the Kingdom, an increase of 79% from last year. Since the inception of Fintech Saudi, in a short space of 4 years, the Kingdom has seen a 14.7X growth in the number of fintechs.

It has also been another strong year for investment into the fintech industry. Between September 2021 and August 2022, over SAR 1.50bn has been invested into fintech companies in Saudi, which is an increase of 11% from last year. 2022 also marks a milestone in community engagement as over 100,000 people have now been involved in Fintech Saudi’s activities.

This year, the Fintech Saudi Annual report covers a number of areas including the Fintech Strategy, Innovation in the Capital Market, the Key Fintech Highlights, Digital Banking, and the View from Fintechs in Saudi.

2022 / 23 is expected to be another significant year for the fintech industry with the launch of 3 new digital banks, new regulations released by SAMA and CMA and the implementation of the Fintech Strategy. This is a really exciting time to be in the Saudi fintech industry and we would encourage everyone to participate in our events, activities and initiatives so that we can collectively achieve the goals of the FSDP and make Saudi a leading nation in fintech.

We would also like to take this opportunity to thank all our partners for their continued support in developing the fintech industry. We look forward to continuing to work closely with them as we enter a new era of fintech development in the Kingdom.

Nezar Alhaidar - Director of Fintech Saudi
Dear Reader,

We are pleased to present to you the second Fintech Saudi Annual Report providing an overview of the progress of the fintech industry in Saudi Arabia over the last year.

Despite the challenges of COVID-19 in the first half of this year, 2019 / 2020 has been a pivotal period for the fintech industry in Saudi Arabia. Significant progress has been made in payments with the launch of Apple Pay, establishment of Saudi Payments and the release of the payments regulation; SAMA and CMA have continued to issue regulatory testing licenses and develop regulations to support fintech activities; Fintech Saudi has launched a number of initiatives to support the fintech industry including the Fintech Community Database and Careers Portal to support fintech companies, the Fintech Regulatory Assessment Tool to provide greater regulation clarity and the Fintech Data & Research Initiative to support data driven innovation in fintech.

This year, the Fintech Saudi Annual Report has a number of sections including an overview of the fintech industry by KPMG, key highlights from the last year, interviews with SAMA Regulatory Sandbox and CMA Fintech Lab teams, the key points from Financial Services Development Program and an overview of fintechs in the Kingdom by MAGNiTT.

We are seeing the emergence of a thriving fintech ecosystem and going forward we expect 2020 / 21 to be another significant period for the fintech industry with the launch of the Fintech Saudi Hub, new regulations on fintech activities and national level initiatives to support the fintech industry. As the fintech industry in the Kingdom develops, Fintech Saudi’s role will grow in parallel so that we continue to support the industry to progress and focus on initiatives to accelerate fintech industry growth in Saudi Arabia.

We would like to thank all our Partners for their continued support in developing the fintech industry. We look forward to continuing to work with all our stakeholders to transform Saudi Arabia to an innovative fintech hub with a thriving and responsible fintech ecosystem.

Kind Regards,

Nejoud Al Mulaik | Director, Fintech Saudi
1ST SECTION

THE FINTECH STRATEGY
THE FINTECH STRATEGY

Evolution of the Fintech Industry in Saudi Arabia

Financial technology has always been part of the DNA of the Saudi financial services industry. The first wave of fintech activity was driven by government agencies. In 1990, the Ministry of Finance under the supervision of the Saudi Central Bank (SAMA) launched MADA as a national payment network to reduce fees on card payments. In 1999, SAMA launched SADAD as a payment system to streamline bill payments for consumers.

The next wave of fintech activity started developing from the 2010s onwards. In April 2018, Fintech Saudi, an initiative under the Financial Sector Development Program (FSDP), was launched by SAMA in collaboration with the Capital Markets Authority (CMA) to support the development of the fintech industry. This together with the Regulatory Sandbox launched by SAMA and the FinTech Lab launched by the CMA have been a catalyst for the development of the fintech industry. Since the launch of Fintech Saudi, there has been a 14.7 times increase in the number of fintechs, SAR 3.95bn has been invested into fintech companies in Saudi and over 100,000 people have engaged in fintech-related events, training courses and internships.

The Fintech Strategy marks the next stage of fintech development for the Kingdom. The engagement over the last four years has demonstrated the potential and significance of the Saudi fintech industry. Building on the success to date, on 24th May 2022, the Council of Ministers approved the Kingdom’s Fintech Strategy to support the Kingdom of Saudi Arabia to be among the leading countries in the field of fintech, with Riyadh becoming a global tech hub.

The Fintech Strategy: 4th Pillar of the Financial Services Development Program

The Saudi Vision 2030’s Financial Sector Development Program (FSDP) was launched in 2017 with 3 strategic pillars; Enable Financial Institutions to Support Private Sector Growth; Ensure the Formation of an Advanced Capital Market; and Promote and Enable Financial Planning. Fintech has played a role in supporting all three of the strategic pillars. Fintech started as an initiative under the first pillar, however given the importance of fintech in the development of the financial services industry, the Fintech Strategy has been included as the 4th pillar of the FSDP.

This marks the organization of the fintech sector to drive swift and collaborative actions with the support of a number of government agencies including Saudi Central Bank, Capital Market Authority, Ministry of Finance, Ministry of Communications and Information Technology, Ministry of Investment, the Small and Medium Enterprises General Authority (Monsha’at), Financial Sector Development Program and Fintech Saudi. The shared vision of those entities is to achieve global competitiveness and make Saudi Arabia a fintech hub where technology-based innovation in financial services is the foundation for enhancing the economic empowerment of individuals and society.
The Fintech Strategy Comprises of 6 Transformational Drivers and 11 Initiatives, each Designed to Bolster the KSA Fintech Ecosystem

Drivers

- **Positioning**
  Promote the Kingdom's position in the Fintech sector globally and regionally through tailored media plans and programs.

- **Talent**
  Strengthen the country's know-how of Fintech by grooming Fintech talents across regulatory authorities, financial services sector, schools and other relevant sectors.

- **Technology**
  Enhance technology enablers to drive the development of innovative solutions such as cloud services, cybersecurity, Internet of things (IoT), artificial intelligence (AI) and open banking applications.

- **Regulatory Framework**
  Enhance trust and mitigate risks by implementing regulation of international standards, coupled with a forward-looking vision of reaping the benefit of Fintech development.

- **Market and Funding**
  Launch programs that support the establishment, market entry, growth, and development of Fintech companies.

- **Collaboration**
  Launch programs to enhance interdependence and collaboration in the fintech sector locally and internationally.

Initiatives

- **Nurture FinTech Knowledge in the Kingdom**

- **Enhance fintech-related innovation within the Central Bank**

- **Regulatory enablement for fintech in the Central Bank Space**

- **Regulatory enablement for fintech in the Capital Market Authority**

- **KSA Global FinTech Positioning**

- **Accelerate Cloud for Fintech**

- **Develop Emerging Technology Policies and Accelerators**

- **Implement and Activate the Open Banking Practice in the Kingdom**

- **Enable Fintech Saudi as the Market Driver**

- **Determine financial support mechanisms for Fintechs in the Kingdom**
What Does This Means for the Future of the Saudi Fintech Industry?

The Fintech Strategy builds on the successes achieved over the last four years whilst focusing on the drivers required for the Kingdom of Saudi Arabia to be among the leading countries in the field of fintech. There are 5 key areas that the Fintech Strategy will help achieve:

1. Development of Best in Class Infrastructure

The Fintech Strategy focuses on building and investing in the infrastructure required to develop a successful fintech industry. This includes technical (Cloud, IoT, AI, Open Banking) and regulation infrastructure. Together these provide the prerequisites for fintechs to do business and grow and ensure the long-term sustainability of the industry.

2. Investment and Programs to Match Ambitions

For fintech to continue to advance, ambitions need to be matched with investment and programs to support the development of fintech companies across their lifecycle. This includes supporting early-stage research and ideas to gain validation, assisting fintechs to grow and championing fintechs to scale internationally. The Fintech Strategy market and funding driver includes initiatives that support fintechs throughout their lifecycle.

3. Global Positioning

To be a world leader in fintech, the Kingdom will build on its strengths to attract international attention and interest. The Fintech Strategy global positioning driver is designed to assist Saudi fintechs to scale internationally and attract the best global talent, investment and international fintechs into the Kingdom. In the same way that the United Kingdom has positioned itself within Europe and Singapore has positioned itself within Asia, Saudi Arabia will become the gateway for fintech activity in the Middle East.

4. Talent to Drive the Fintech Industry Forward

Talent is the foundation for the growth of the Saudi fintech industry. However, demand for fintech related talent continues to outstrip supply resulting in shortages of key skills that are impeding growth. Fintech Saudi has developed a number of programs to support the growth of talent in the fintech industry including the Fintech Internship Program, Fintech Jobs Fair and the Fintech Jobs Portal. The Fintech Strategy seeks to build on these initiatives and support the development of the know-how and skills needed for the fintech industry through programs for everyone from school leavers and fresh graduates to the existing financial services and regulator workforce.

5. Collaboration to Drive Innovation

The future of fintech will be driven by collaboration. This includes collaboration between the financial services sector and other sectors in the Kingdom and collaboration internationally with different markets. Collaboration helps support the development of new ideas and transfer best practices and knowledge to drive faster and more impactful innovation. The Fintech Strategy supports the development of local and international collaboration to position Saudi Arabia at the heart of future innovation in financial services.
The Desired Economic Impact
That The Fintech Strategy is Working to Achieve by 2030

525
Fintech Players

18K
Fintech Jobs

SAR 13.3 Bn
Direct GDP

SAR 12.2 Bn
Cumulative VC Investments

Concluding Remarks: Paving the Way to Create a Fintech Nation

History has shown that when the Saudi government sets a target to focus on and there is the right buy-in from stakeholders, there is momentum and drive to achieve the target. Saudi Arabia becoming a leading fintech nation is no different. The Fintech Strategy aligns the ambition that the leadership has with a clear, well-organized and focused roadmap executed by government agencies that have the resources and know how to implement the strategy. The Saudi fintech industry is on the cusp of being propelled onto the global stage. It is now not a case of if but when Saudi becomes a globally recognised fintech nation.
INNOVATION IN THE SAUDI ARABIAN CAPITAL MARKET
INNOVATION IN THE
SAUDI ARABIAN CAPITAL MARKET

Evolution of the Saudi Capital Market

The Saudi Arabian capital market has played an important role in the Kingdom and the wider region. In April 2015 the decision was made to open Tadawul to foreign investors. Since then, the capital market has grown from strength to strength with the launch of the Saudi Parallel Market (Nomu) to support the listing of smaller companies in 2017, the launch of the FinTech Lab in 2018, followed by the inclusion of Saudi Arabia into the MSCI emerging markets index in May 2019 and the listing of Saudi Aramco in December 2019.

The capital market remains vital to supporting the Kingdom's Vision 2030 plan. This is acknowledged by the leadership that has set the formation of an advanced capital market as the second of the four pillars of the Financial Services Development Program (FSDP). The pillar includes a number of objectives including deepening the debt capital markets, diversifying alternative sources of available funding and attracting more foreign investors into the Kingdom.

Critical to meeting the objectives of the pillar will be the use of technology to support innovation in the capital market. The development of new business models, use of emerging technology and opportunities for innovation will be required to make sure the capital market continues to advance forward.
5 Key Factors Required For Innovation in the Capital Market

1. Regulatory Environment Supporting Innovation

Capital market activities are highly regulated. Therefore innovation can only take place with the support of the regulator. The Capital Markets Authority (CMA) regulates capital market activities in Saudi Arabia. In 2018, CMA announced the launch of the FinTech Lab to support the development of fintech activity in the capital market. The FinTech Lab provides a simplified regulatory framework to support the testing of innovative business models and emerging technologies. To date, CMA Board has granted 33 ExPermits for companies developing activities in equity crowdfunding, robo-advisory, real estate crowdfunding, debt fractionalization, use of DLT for arranging the offering and custody of securities, social trading and the FinTech Lab continuously looks to permit more diversified business models. There have also been examples of companies such as Afaq and Manafa graduating from the FinTech Lab to become fully regulated to offer equity crowdfunding. In September of this year, The Capital Market Authority announced the approval of the regulatory framework for equity crowdfunding which will encourage more fintechs to operate in this area.

In addition to regulating capital market activities, the CMA is also a leading supporter of enabling fintech innovation. Together with the Saudi Central Bank (SAMA), the CMA launched Fintech Saudi, an initiative to support the growth of the fintech industry in Saudi Arabia. CMA is also a key stakeholder in the Fintech Strategy, the newly created 4th Pillar of the Financial Sector Development Program and is focused on following best practises to support the regulatory enablement of fintech in the capital market.

Equity Crowdfunding

Equity crowdfunding platform allows investors to participate in funding small and medium size enterprises in exchange for shares in such enterprises. The service is provided through an electronic platform owned and monitored by the permitted company.

Robo-Advisory

It is a platform which allows clients to get advice on securities or investment schemes through direct access to an automated online platform (or application). Additionally, the platform is able to offer automated online discretionary investment management, where the clients can automatically make investments through the platform or the application by giving the management of the company the responsibility to invest on the client’s behalf, within parameters and mandates agreed with the client, on an ongoing basis. The service is provided through an electronic online platform (or application) owned and monitored by the management of the company.

Offering and Investment in Debt Instruments

It is a platform for offering and investment in debt instruments which enables SMEs to obtain the required funding by arranging the offering of Sukuk to finance projects, and offering them to the collective investors registered in the platform.
2. Incumbent Engagement

Incumbent engagement is important for the support and adoption of innovation in the capital market. Financial services incumbents in Saudi Arabia have benefitted from seeing the interaction between fintechs and incumbents in other parts of the world, which has accelerated incumbent engagement in Saudi Arabia. There are now several examples of incumbents developing innovative solutions or collaborating with fintech companies. In April 2021, Tadawul launched Wamid, an innovation-focused subsidiary looking at disruptive ideas and bold new product, service and digitization initiatives. Osool & Bakheet Investment Company and FALCOM Financial Services Co are both incumbents authorised by the CMA that applied to the FinTech Lab to test equity crowdfunding solutions. Direct FN, which is a capital market data provider, is also testing robo-advisory solutions in the FinTech Lab. The CMA is also enabling regulated entities to provide innovative offerings under their existing licence.

As innovation continues to drive the development of the capital market, incumbents will need to adapt. Incumbent engagement in adopting or supporting innovation is no longer a choice but a necessity to remain competitive.
3. Fintech Activity

Fintech activity is a significant driver of innovation. Fintech entrepreneurs seek opportunities or pain points in financial services and develop creative and disruptive solutions. Fintech is one of the fastest growing areas of development in the Kingdom. Since 2018, there has been a 14.7 times increase in the number of fintech companies operating in Saudi Arabia. Similar to other markets, the first waves of fintech activity focused on disrupting areas such as payments and finance. However, we are now seeing increasing fintech activity in the capital market.

Capital Market fintechs account for 36% of all regulated fintech companies. The largest areas of activities include real estate crowdfunding (29%), equity crowdfunding (29%) and offering debt instruments (17%).

4. Demand from Consumers

Consumers expect digital, frictionless and fast services in all parts of their life and the same experience is expected in conducting investment activities. In the National Fintech Adoption Survey conducted by Fintech Saudi in 2021, 51% of the survey respondents said that they were looking for solutions that helped them to invest more easily. Consumer demand is therefore a key driver for capital market companies to invest in innovation.

51% of the survey respondents are looking to invest more easily

5. Investor Support

Investor support is critical to driving innovation. Since the first recorded investment in 2012, more than SAR 4bn has been invested into fintech companies in Saudi Arabia. Capital market fintech companies such as Manafa (SAR 4.125m), Wethaq (Undisclosed), Dawul (SAR 19m) and Malaa (SAR 6.375m) have all successfully raised investment rounds. CMA’s regulatory framework for fintech activity has given investors the confidence to allocate more investment to capital market fintech companies. It is also important that the investor support extends throughout the fintech lifecycle from seed stage through to providing opportunities for entrepreneurs to exit. The launch of Nomu as a way to support the listing of smaller, fast growing companies is a significant step forward and provides founders and investors a way of selling some of their holdings. Nomu was recently used by Sure Global Tech Company, the group that founded SurePay, to become the first fintech to be listed on the exchange. CMA has made several amendments that have contributed to the attractiveness of the parallel market. This includes the approval of the process for the transfer of companies from the parallel market to the main market and supporting more flexible disclosure requirements. CMA’s efforts have also reduced direct listing costs to enable a larger group of companies to be listed in the market.
What Are the Key Innovation Trends We Are Seeing in the Saudi Capital Market?

Platform-Based Services

Platform-based services use technology to enable buyers and sellers to interact with each other through the digitalization of an intermediary. They also use technology to automate activities such as customer on-boarding, which reduces the cost of transacting.

Equity crowdfunding platforms such as Manafa, Scopeer and Afaq are examples of platform-based services that support investors to invest into private companies. Capital market knowledge-based platforms that enable participants to directly engage and learn from each other are also developing in the Kingdom. For example, Dawul is developing a social trading platform that enables less experienced investors to follow the trading strategies of more experienced investors.

Platforms increase transparency, increase the speed of transactions and reduce transaction costs. This ultimately leads to greater financial inclusion by providing platform participants with access to opportunities or funding sources that they could not previously access. In some cases, platforms can also lead to the development of new capital market businesses. For example, social trading platforms enable experienced investors to earn a fee from sharing their investment strategies with less experienced investors, which could lead to the development of a new generation of micro asset management companies.

Data-Driven Innovation

The use of data and analytics is playing an increasingly important role in innovation in the Saudi capital market. Data solution fintechs such as Mubasher are already well used by investors to assess capital market investment opportunities. However, increasingly data is being used to automate processes, improve operational decision-making and provide customers with a more personalised experience. Several fintech companies including Malaa, Abyan and Madkhol are launching robo-advisory solutions in the Kingdom. These capture data from customers that is used to generate a personalised risk-adjusted investment portfolio that is automatically rebalanced to achieve the desired objectives. As the process is automated, less labour is required in generating and maintaining the investment portfolio, which results in lower fees for customers and makes investing more accessible to a larger number of people.

The use of data in capital market activities is expected to grow rapidly. Government initiatives such as the Artificial Intelligence Strategy and the future development of open finance will increase the availability of data and accelerate data-driven innovation in the capital market.
Fractionalization of High Value or Illiquid Assets for the Mass Market

Financial inclusion in the capital market has increased through efforts to fractionalize investment opportunities and make them more accessible for a larger group of investors. Historically, some investment products were only affordable to large institutional investors or family offices that were able to invest in high-value or illiquid assets such as real estate and private equity. Innovation such as tokenization supports financial inclusion as it is being used to provide individuals access to asset classes that they could not previously invest into and a wider pool of investors holding the assets ensures greater liquidity, increases the tradeability and supports a more active secondary market.

The Potential for the Future

There are strong ambitions for the Saudi capital market to become a global leader. These ambitions are matched by the support from the government. In just 10 years, the Saudi capital market has transformed from a closed local capital market to a globally recognised capital market that is supporting the advancement of the Kingdom’s social and economic transformation.

The Saudi capital market has the right mix of regulator support, incumbent engagement, fintech activity, customer demand and investor appetite to drive innovation forward. As demonstrated, several innovation trends are already emerging in the Kingdom. With the foundations established combined with the use of new technologies, more waves of innovation in the capital market are expected to develop. Innovation will not only contribute to achieving the objectives of the 2nd Pillar of the FSDP in forming an advanced capital market but it will also increase the importance of the Saudi capital market in the global economy and support Saudi Arabia to become a significant contributor to global economic growth.

Reducing Friction in Capital Market Infrastructure

Over the last decade, due to increased regulations, more complex products and a greater number of market participants, the capital market has been increasing in complexity. However, technology has the opposite effect and the adoption of more technology is expected to help simplify capital market infrastructure. This is because technologies such as distributed ledger technology, artificial intelligence and robotic process automation automate processes and reduce frictions in capital market operations. For example, Wethaq is currently experimenting with using distributed ledger technologies to arrange the offering of securities and custody services.

As the adoption of these technologies increases, further innovation will develop that reduces friction across all aspects of capital market infrastructure including market listings, trade executions and reporting. The simplification of capital market infrastructure will ultimately reduce costs, improve efficiency and create a better experience for capital market participants.
3RD SECTION

KEY FINTECH HIGHLIGHTS
**Fintech Timeline 2022**

**COMMUNITY**
- **OCT 2021**: Misk Accelerator 2021
- **DEC 2021**: Launch of Center of Digital Entrepreneurship by MCIT
- **DEC 2021**: SNB Accelerator 2021
- **JAN 2022**: Foodics Acquires POSRocket
- **FEB 2022**: Launch of The Garage by KACST, MCIT and SAFCSP
- **FEB 2022**: Misk Accelerator 2022
- **MAR 2022**: Wazeen Hackathon by Social Development Bank
- **MAR 2022**: Launch of anb Connect Platform
- **MAR 2022**: Hala Acquires Fresh POS
- **APR 2022**: Launch of the Visa Everywhere Initiative 2022
- **APR 2022**: Launch of Mapping The Riyadh Tech Sector Report by Endeavor Saudi
- **APR 2022**: Taqadam Accelerator
- **APR 2022**: Flat6Labs Riyadh Seed Program
- **JUN 2022**: Inclusive Fintech 50 Competition 2022
- **JUN 2022**: Jahez Acquires Marn POS*
- **OCT 2022**: Sure Global Tech Company (SurePay) Listed on Nomu*

**FINTECH SAUDI**
- **SEP 2021**: University Fintech Challenge 21
- **NOV 2021**: Fintech Tour 21
- **DEC 2021**: Fintech Accelerator Program 21
- **DEC 2021**: An Ultimate Guide to Fintech in Saudi Arabia Collaboration with Entrepreneur Middle East
- **FEB 2022**: Fintech Careers Fair
- **MAR 2022**: Opening of Hub by Fintech Saudi
- **MAR 2022**: Speed Mentoring Sessions Launched
- **MAR 2022**: Fintech Saudi’s Entrepreneurship Bootcamp
- **APR 2022**: Ramadan’s Educational Ecosystem Campaign
- **MAY 2022**: Developing Local Lawyers Network
- **MAY 2022**: Fintech Summer Sessions
- **JUN 2022**: Ready For Take-Off Report in Collaboration with Findexable
- **JUN 2022**: Fintech Internship 22
- **AUG 2022**: 3rd cohort of introduction to Fintech Course

**REGULATORS**
- **OCT 2021**: Approval of the Payments and its Services Law
- **OCT 2021**: Draft of Insurtech Rules to Request Public Opinion Released
- **DEC 2021**: 1st Version of Open Data Platform Launched
- **JAN 2022**: Rules for Practicing Debt Crowdfunding Activities Updated
- **FEB 2022**: Approval to License a 3rd Digital Bank; D360 Bank
- **APR 2022**: Draft Regulatory Framework for Equity Crowdfunding for Public Consultation Released
- **MAY 2022**: The Fintech Strategy Approved by Cabinet
- **SEP 2022**: Regulatory Sandbox Framework Updated
- **SEP 2022**: Approval to the Equity Crowdfunding Regulations
- **OCT 2022**: FinTech Lab Opened for Security Token Applications*

* Given their importance, these events have been added even though they fall outside the timeframe for this Annual Report
SAUDI DIGITAL BANKS ARE COMING
SAUDI DIGITAL BANKS ARE COMING

A Leading Banking Industry

Saudi Arabia's banking industry remains one of the most important pillars of growth not only for the Kingdom but also the wider region. In 2021 the Saudi banking sector continued to outperform its regional counterparts with assets growing to SAR 3.3 trillion ($880 billion). ¹

The Saudi banking industry has continually evolved to support the Kingdom. In the late 2000s, the last wave of local banks launched. More recently, bank consolidation created large, well-capitalised banks to support projects to achieve the goals of the financial sector development program (one of the vision 2030 programs). However, the announcements in 2021 and 2022 of the approval for the licensing of three digital banks in the Kingdom are expected to lead to one of the biggest changes to date to the Saudi banking industry.

In June 2021 the Council of Ministers approved digital banking licences for STC Bank and Saudi Digital Bank, and in February 2022 D360 received the third digital banking licence. This will be the first time since Alinma Bank was licensed in 2006 that new locally based banks will launch in the Kingdom (except GIB conversion from foreign branch to be locally incorporated bank in 2019) and the first time that three newly created banks will enter the market in quick succession.

Overview of the newly licensed digital banks:

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>STC Bank</strong></td>
<td>STC Bank was licensed by Saudi Central Bank to become one of the first digital banks in KSA. Currently, the bank is under a comprehensive transformation to convert all its activity and functions from an E-wallet to a digital bank. As an E-wallet, STC Bank has more than 8 million retail customers and more than 120,000 merchants that will have access to full digital financial services through the STC bank in KSA. With a focus on social and peoples, STC Bank is committed to leverage its current position to build a long-term relationship with its customers and positively impacting the communities it serves.</td>
</tr>
<tr>
<td><strong>Saudi Digital Bank</strong></td>
<td>Saudi Digital bank backed by successful business leaders, Saudi Digital Bank was licensed to introduce a digital banking business into the retail and SME markets in the Kingdom of Saudi Arabia. Through a cloud native bank offering and a latest technology stack, Saudi Digital Bank intends to build an adaptive banking business that can deliver hyper-personalised financial services and products to its customers thus breaking from traditional customer segmentation. This will also allow the Bank to enable other aspiring Fintech businesses to enter the local market on a technology platform par with international best practices.</td>
</tr>
<tr>
<td><strong>D360 Bank</strong></td>
<td>D360 is a shariah-compliant digital-only bank backed by Derayah Financial Company and the Public Investment Fund among a number of renowned investors, with the aim to provide the best financial experience for the underserved segments in Saudi Arabia. D360 designs its experience through in-depth research with the help of those who need better banking products and services in order to bridge the gap between people and banks and to address specific customer pain-points, hence building a strong community with a strong identity, leveraging innovation and technology to make banking convenient, accessible, and fair to all.</td>
</tr>
</tbody>
</table>

¹ The Banker, Top 100 Arab Banks Report
Five Key Value Additions by Digital Banks

Digital banking is not something new to the Kingdom. Customers are well versed in conducting their banking activities electronically, which has accelerated since the COVID Pandemic. In the National Fintech Adoption Survey conducted by Fintech Saudi in 2021, 93% of respondents confirmed that they primarily bank electronically and only 5% prefer to bank through their local branch.

The National Transformation Program, part of Vision 2030 has encouraged the development of digital transformation in all industries across the Kingdom. Banks have developed well-adopted digital banking solutions and Emirates NBD (Liv) and GIB (Meem) have established digital bank sub-brands in the Kingdom. However, there are five key value additions that digital banks can provide as they enter the market.

1. Non-Banking Origins

All three digital banks entering the market have started their origins outside of banking. D360 was led by Derayah Financial, a capital market institution, STC Bank started as STC Pay incubated by STC, the national telecoms provider and the key strategic investor in Saudi Digital Bank is Artar, a company with interests in construction and real estate. All three digital banks will therefore understand consumer behaviour in other industries and will bring this experience to banking. They are also more likely to be open to considering cross-overs, synergies and embedding opportunities between banking and other industries. The digital banks are therefore expected to provide a different experience than the current banking sector landscape operating in the Kingdom.

2. Fundamentally Different Cost Structure

The biggest cost centres within banks are related to the workforce and physical infrastructure such as bank branches. However, digital banks tend to only have a digital presence, limited physical hardware and are less labour intensive to operate. This will result in the development of a low-cost banking model, which will help make the banking industry more competitive. For example, in China, it costs traditional banks between RMB 20 - 100 ($3-$15) per customer per year to administer a bank account. Yet, the digital bank WeBank can conduct the same activity at just RMB 3.6 ($0.50) per customer per year.² This transformational shift in the cost base enables digital banks to offer more solutions to customers at a lower cost.

² The Finanser Case Study: Tencent’s WeBank runs accounts for just 50 cents a year
3. Razor Focused

Whilst the current banking sector landscape aims to serve the entire market, digital banks, on the other hand, could specialise in focusing on particular customer segments and solving particular pain points for the customer segment. By focusing on a particular customer segment, they can understand the customer segment and develop products and experiences that add the highest value to the customer. Focusing on a particular customer segment also helps concentrate the marketing strategy and reduce the cost of customer acquisition.

4. Data Driven

Historically the high cost of storing data meant that organisations collected and stored the bare minimum and systems and processes were not built with the use of data in mind. The growth of cloud services has transformed the ability to store data. Organisations are now able to store more data at a lower cost and can therefore collect large amounts of data that can be used to have a more meaningful impact on their operations.

Digital banks are in an enviable position of being able to develop their systems and processes on first principles, build a cloud-native structure and implement great data architecture to make data the foundation of their activities. Within the right architecture, data can be centralised from different repositories to provide a better understanding about customers, non-traditional sources of data can be incorporated to enrich experiences, real time responses can be developed and customers can benefit from a hyper-personalised contextual banking experience.

5. Technology as Foundation First

Aligned with building a great data architecture, digital banks are also fortunate enough to have greenfield opportunities to use technology. Technology can be used throughout the banking operations including in customer interaction, background checks and service production. For example, artificial intelligence can be used in areas such as processing data and connecting customer information with third party sources such as credit agencies.

Whilst existing banks have access to the same technology, their legacy systems may restrict the use of new technology due to compatibility issues. It is also clear that technology is progressing at an exponential rate and over-reliance on a particular technology today may be limiting in the future. Therefore, digital banks aim to develop their systems and processes in a modular way, which makes it easier to adjust and implement new technology in the future.
The Ripple Effects of the Digital Banks in Saudi Arabia

The impact of the newly licensed digital banks in Saudi Arabia cannot be underestimated. There are several changes that digital banks will drive across the Kingdom.

**More Choice**

Increasing the number of banks in any market would provide customers with a significant amount more choice. The fact that the three new banks are digital banks with a very different offering mean that customers in Saudi Arabia will have a diverse range of banking options to choose from.

**Improve Financial Inclusion**

The digital native and low-cost structure of digital banks means that they can reach more customers across the Kingdom and provide customers with services at a lower cost. Both of these factors will support greater financial inclusion as customers will be able to access products and services that they previously were not able to reach or could not afford.

**Drive Innovation in Financial Services**

The launch of the digital banks will also advance innovation in financial services. Digital banks will use technology where they can to provide customers with faster and more personalised service and as a result, it will help promote innovation in the financial sector and raise the standard of service across the financial sector.

**Accelerate the Development of Fintech**

The launch of digital banks will also promote acceleration in the development of fintech activity in the Kingdom. As banks compete to develop better customer experiences, they will be more open to partnering with innovative fintech solutions that can support their customers. Digital banks will also provide fintech companies with more partnership options and with their agile structure, digital banks can help fintechs get to market faster. A by-product of the development of digital banks will also be the creation of highly skilled talent pools within the banks that will in the future, have the skills and capabilities to launch their own innovation activities in the financial services industry. The digital banks therefore could be the launching pad for a new wave of fintech entrepreneurs in the Kingdom.

**Greater Sustainability**

Finally, the rise of digital banking will also support the financial services industry to contribute to sustainability in the Kingdom. The growth of digital banks will mean fewer physical branches, less paper usage, less plastic debit and credit cards and ultimately have better sustainability.

**Conclusion**

Digital banks are launching during an exciting period for the financial services industry in the Kingdom. Fintech activity continues to develop from strength to strength, open banking regulations are expected to be released shortly and the Fintech Strategy has been approved by the Council of Ministers. The launch of the digital banks will only add to the exciting progress being made. All three banks have the leadership, talent and ambitions to improve banking options and propel the financial services industry forward to positively benefit the Kingdom and contribute to achieving the goals of the financial sector development program.

FINTECH SAUDI WOULD LIKE TO THANK THE DIGITAL BANKS FOR THEIR CONTRIBUTION TO THIS ARTICLE.
5TH SECTION

THE VIEW FROM FINTECHS
ACTIVE FINTECHS IN SAUDI ARABIA

NUMBER OF ACTIVE FINTECHS
2022 has seen a 79% increase in the number of active fintechs from last year and a 14.7x increase in 4 years.

HEADQUARTERS
79% of all fintechs active in Saudi Arabia are headquartered in Riyadh. 13% are headquartered overseas.

THE VIEW FROM FINTECHS
ACTIVE FINTECH COMPANIES

There are 147 local and international Fintech companies in the Kingdom of Saudi Arabia in a number of FinTech fields.

*All fintechs listed here are either licensed/permitted by SAMA or CMA, certified by Saudi Payments, or operational and engaging in a none licensed/permitted/certified actives under the organizations above.
ABLE FINTECH COMPANIES

Business Tools & Information Provision

- Fintechs listed here are either licensed/permitted by SAMA or CMA, certified by Saudi Payments, or operational and engaging in none licensed/permitted/certified actives under the organizations above.

Capital Market

- All fintechs listed here are either licensed/permitted by SAMA or CMA, certified by Saudi Payments, or operational and engaging in none licensed/permitted/certified actives under the organizations above.

Insurance

Regulation & Risk Management

Personal Finance & Treasury Management

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Infrastructure

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Digital Banking

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THE VIEW FROM FINTECHS
ACTIVE FINTECHS IN SAUDI ARABIA

ANNUAL GROWTH BY CATEGORY

There has been growth in the number of active fintechs across most categories. Infrastructure has seen the biggest growth as the Kingdom prepares for Open Banking.

NEW ENTRANCE: DIGITAL BANKS AND REGULATION & RISK MANAGEMENT

HOW ARE ACTIVE FINTECHS REGULATED

76% of fintechs are regulated by SAMA, CMA or certified by Saudi Payments.

- Regulated by SAMA (either sandbox or activity license): 37%
- Regulated by CMA (either FinTech Lab of activity license): 21%
- Certified by Saudi Payments: 16%
- Regulated Through Partner: 3%
- Regulated by Both SAMA and CMA: 2%
- Does Not Need to be Regulated by SAMA or CMA: 21%
FINTECH DATABASE

Fintech Database by Stage

37% of the fintechs registered in Fintech Saudi’s database are at the idea stage, 33% are pre-commercial and 30% are active (fully operational or have a testing license).

- Idea Stage
- Pre-Commercial
- Operational
- Testing License

Fintech Database by Category

30% of fintechs registered in Fintech Saudi’s database are involved in developing payment solutions.

- Payments and Currency Exchange
- Personal Finance/ Treasury Management
- Business Tools and Information provision
- Infrastructure
- Private Fund Raising
- Insurance
- Lending & Finance
- Capital Market
- Regulation and Risk Management
- Digital Banking
2021 / 2022 saw an 11% growth in funding from 2020 / 2021 to set a new record level for investment in fintech companies in the Kingdom.

60% of the funding deals took place at an Early Stage. 67% of the funding took place at Series B and above.

**Funding Growth Levels**

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount of Funding</th>
<th>Number of Deals</th>
</tr>
</thead>
</table>
| SEPT - AUG 2018 \
2019 | SAR 19.1m     | 20%            |
| SEPT - AUG 2019 \
2020 | SAR 66.4m     | 10%            |
| SEPT - AUG 2020 \
2021 | SAR 1,354.6m   | 11%            |
| SEPT - AUG 2021 \
2022 | SAR 1,508.4m   | 7%             |

**2021 / 22 Funding By Stage**

Total number of funding deals completed between SEPT 21 - AUG 22
FUNDING ROUNDS
Sept 2021 – Aug 2022

*All Funding Rounds Data Has Been Collected from Publicly Available Information*
The biggest challenges faced by fintechs in the Kingdom are financial regulation compliance, funding and talent.

**Fintech Challenges**

- Financial Regulation Compliance: 60%
- Funding: 51%
- Talent and Recruitment: 43%
- Access to customers: 31%
- Technology Regulation Compliance: 26%
- Product Development: 23%

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)**

80% of fintechs consider ESG goals in developing their solutions (up from 73% last year)

**Technology Challenges**

Cloud Based Hosting followed by AI / Machine Learning and Decentralised Ledger / Blockchain are the main technologies that fintechs want to use but have challenges in using them.

- Cloud-Based Hosting: 34%
- AI / Machine Learning: 20%
- Decentralized Ledger / Blockchain: 20%
- API’s: 14%
- Augmented and Virtual Reality: 11%
- Robotic Process Automation (RPA): 11%
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.