

Fintech makes its mark



Prior to the Covid-19 pandemic, the 2020s were already being billed as the decade for digital bank transformation. Financial institutions had been investing big to deliver innovation including seamless, hyper-personalized user experiences. Alongside, or pushing, this transformation have been fintech companies, which have been building their own, new markets as well as eating away at some of the traditional banking sector's market share.

The challenges and disruption caused by the pandemic and changes in consumer behavior has accelerated this focus on digital transformation and has been a boon for fintechs. With both banks and fintechs emerging from the pandemic stronger than before, and regulators more poised than ever to promote digital banking, expect to see a flurry of activity both in markets where fintech is established and where it is nascent.

Collaborators or competitors?

Collaboration between banks and fintechs is natural. Banks turn to nimbler, more focused fintech service providers to support them with their digital transformation activities, and fintechs look to banks to help integrate them into the financial system.

In Jordan, Arab Bank provides a good example of collaboration with the fintech ecosystem. The bank has two initiatives, AB iHub and AB Accelerator, focused on fintech collaboration. AB iHub

builds rapid prototypes and uses fintech ecosystem collaborations and bootcamps to work directly with fintechs and individuals in the ecosystem. The AB Accelerator program focuses on the adoption of emerging fintech technologies into Arab Bank's infrastructure and network. The program conducts proofs-of-concept with startups to validate their product-market fit within Arab Bank's environment and it invests in fintech startups strategically aligned to the bank.⁴

A key difference between fintechs and banks is where they are able to compete. Most fintechs refrain from seeking banking licenses to avoid compliance costs, so they cannot compete in many of the spaces where banks can. However, fintechs seek out profitable businesses of banks where a license is not needed, such as in peer-to-peer transactions. In these areas, fintechs are often much more customer-focused and have vigorous growth models, and are competing well with banks.

Investment landscape

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

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



MENA and Jordan

Fintech startups in the MENA region raised over US\$1 billion in 2020, a record for the industry. Looking at transaction figures, the MENA region was the world's fastest growing fintech market last year, growing 40% according to the World Bank. Jordan's fintech market is sizeable in relation to its population—despite representing less than 2% of the MENA population, estimates put Jordan's share of the MENA fintech pie at around 7%.⁵

While, like much of the industry, growth has been largely driven by entrepreneurs and private capital, the Jordanian fintech market also has public support. The ISSF (Innovative Startup & SMEs Fund) launched a US\$100 million fund focused in part on the fintech industry. Such initiatives help build the startup ecosystem and spur investment from the private sector. A case in point was last year's US\$400 thousand joint

fundraising between the ISSF and Jordan Ahli Bank in technology startup Whyise.

Jordan's fintech regulatory sandbox, organized by CBJ, has proved an effective tool in other markets for developing a fintech industry alongside a dynamic regulatory system. The sandbox acts as an incubator for entrepreneurs in the fintech, encouraging competition while without jeopardizing the integrity and stability of the financial system, keeping data of financial consumers protected.

The development of the Jordanian fintech market tracks the development of more advanced markets. Right now, payments and remittances are the most important sub-sectors of the fintech market in Jordan. Those sectors follow growth in the e-commerce sector, as the two are complimentary.



Ovais Shahab
Head of Financial Services
E: oshahab@kpmg.com



With both banks and fintechs emerging from the pandemic stronger than before, and regulators more poised than ever to promote digital banking, expect to see a flurry of activity both in markets where fintech is established and where it is nascent.

⁴ <https://www.abaccelerator.co/the-rise-of-fintech-in-mena/>

⁵ <https://www.abaccelerator.co/the-rise-of-fintech-in-mena/>