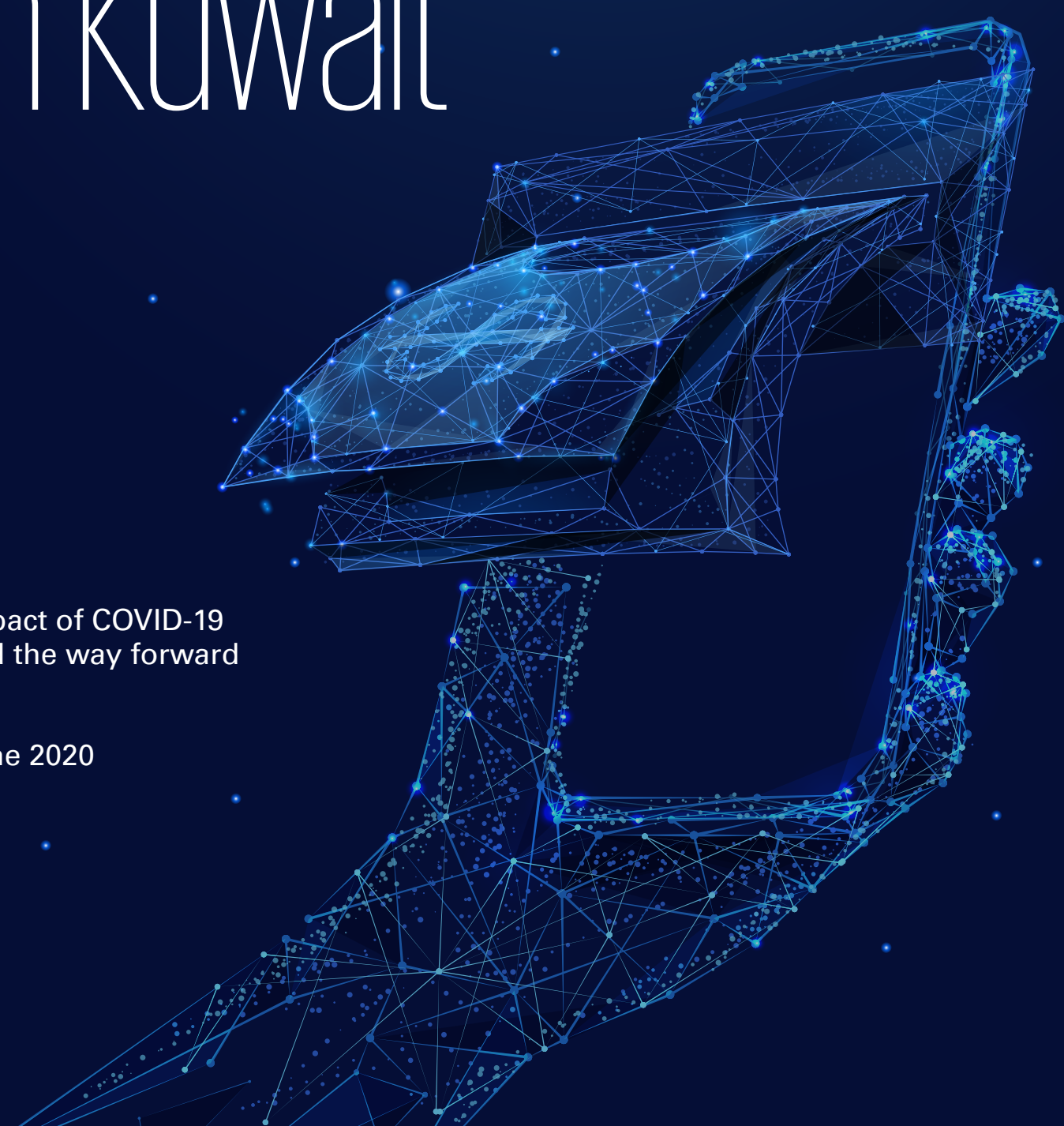




# Payments in Kuwait

Impact of COVID-19  
and the way forward

June 2020



# Executive Summary



**Ankul Aggarwal**  
Partner - Deal Advisory  
KPMG Kuwait

The card payment market in Kuwait has been growing over the past five years, driven by the steady increase in the number of cards per capita and point-of-sale (POS) footprint, and significant growth in the penetration of digital payments.

In addition to the banks, startups in the payment service provider (PSP) segment have played a key role in driving the adoption of digital payments in the market, with easy-to-adopt solutions for merchants.

The COVID-19 outbreak has given a further boost to card payments, by accelerating the adoption of e-commerce and digital payments.

Consumers are compelled to carry out online transactions across sectors for their day-to-day needs during the lockdowns imposed

by the government to control the spread of COVID-19.

Legacy offline businesses and SMEs are digitalizing their sales on a war footing to reach their consumers.

**As a result, the digital payment landscape is expected to witness**

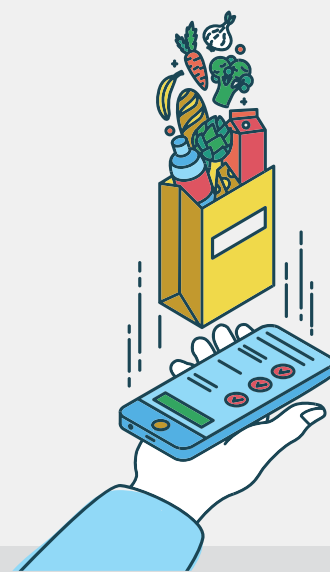
- **increased adoption of contact payments,**
- **greater digitalization of banking services,**
- **higher focus on fraud prevention systems and infrastructure,**
- **evolution of fintech and payments-related regulations,**
- **rise of digital currencies and an impetus for banks – fintech partnerships.**

These shifts will have implications for both banks and PSPs.

During the last few weeks, KPMG has analyzed the implications of these market shifts on banks and PSPs in Kuwait.

We have held structured discussions with several market incumbents to understand their perspectives and experiences. In this insight, we outline the synthesis of this report/insight, along with a range of key considerations for both PSPs and banks to address this market opportunity.

We hope you find this report/insight. You can reach out to our team if you need any further details.

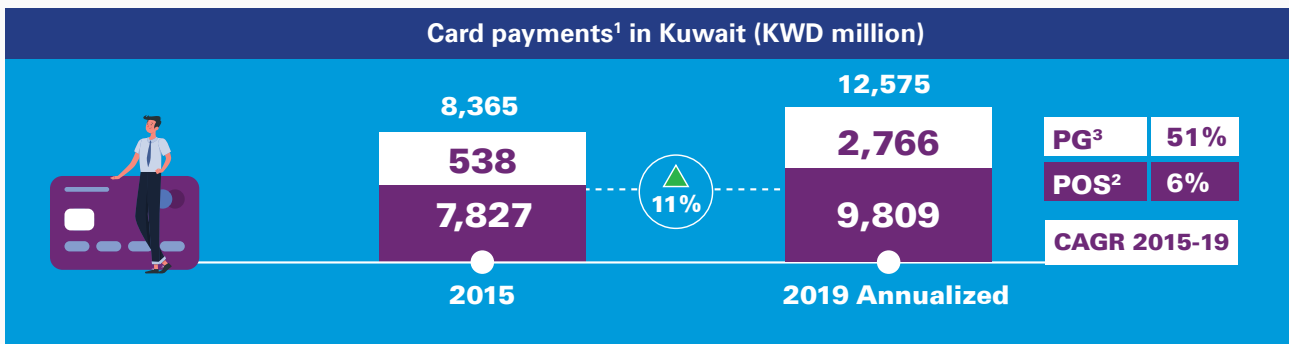




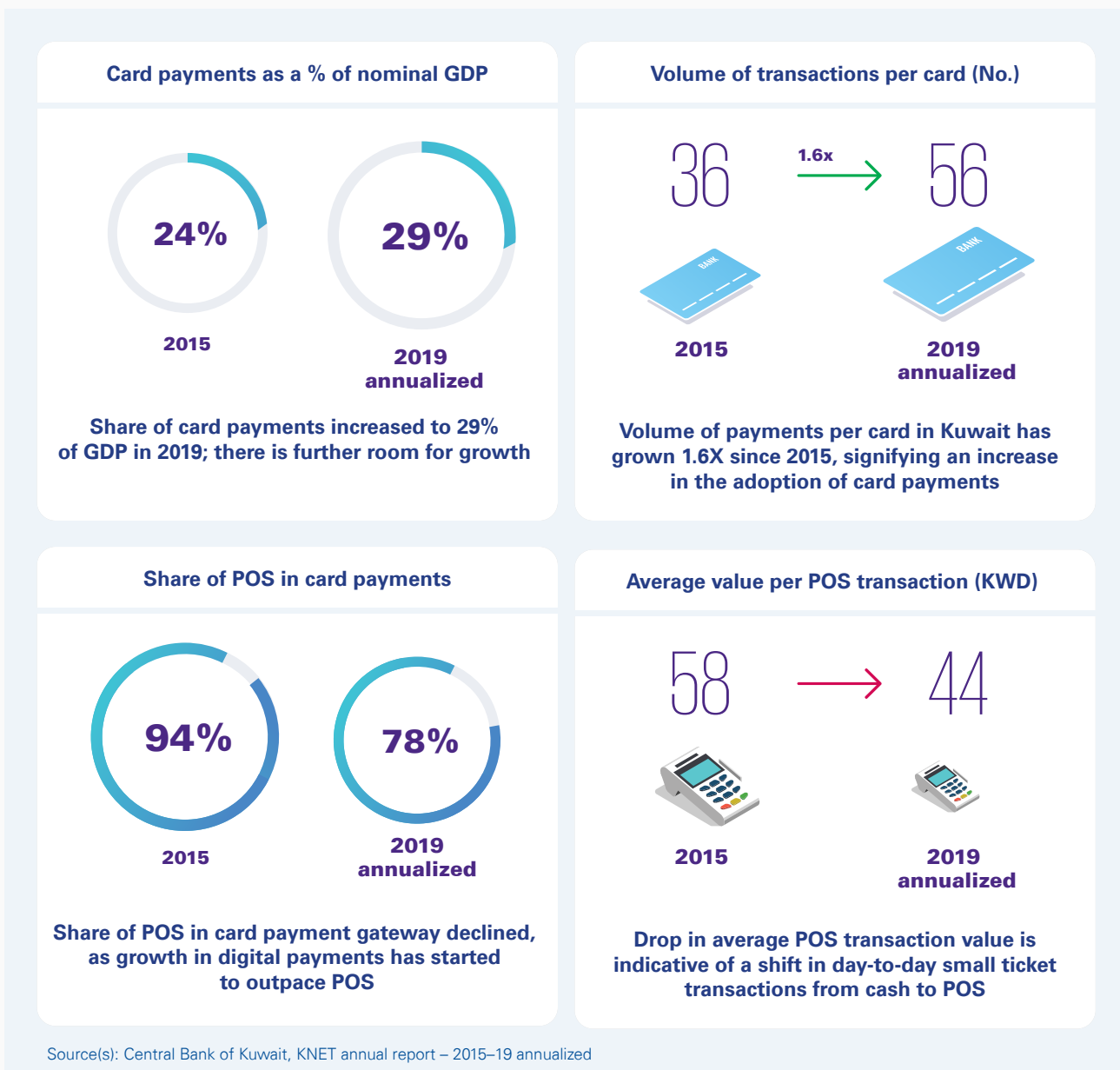
# How Kuwait Pays?

POS accounts for 78% of card payments in Kuwait

**over the last five years, digital payments (payment gateways) grew ~9X faster in value than POS, albeit from a lower base**



## KEY TRENDS IN KUWAIT'S CARD PAYMENT MARKET



### Notes:

1. Card payments include payments made through POS and KNET electronic payment gateway (PG) (or digital payments). These do not include the credit card payments, due to the unavailability of published data.
2. The POS data for 2019 has been annualized, based on statistics published by the Central Bank of Kuwait for 9 months 2019 (Jan to Sep).
3. The PG data has been estimated based on the KNET annual reports for the years 2014–19. The PG data for 2019 has been annualized, based on the statistics published by KNET for 10 months 2019 (Jan to Oct).

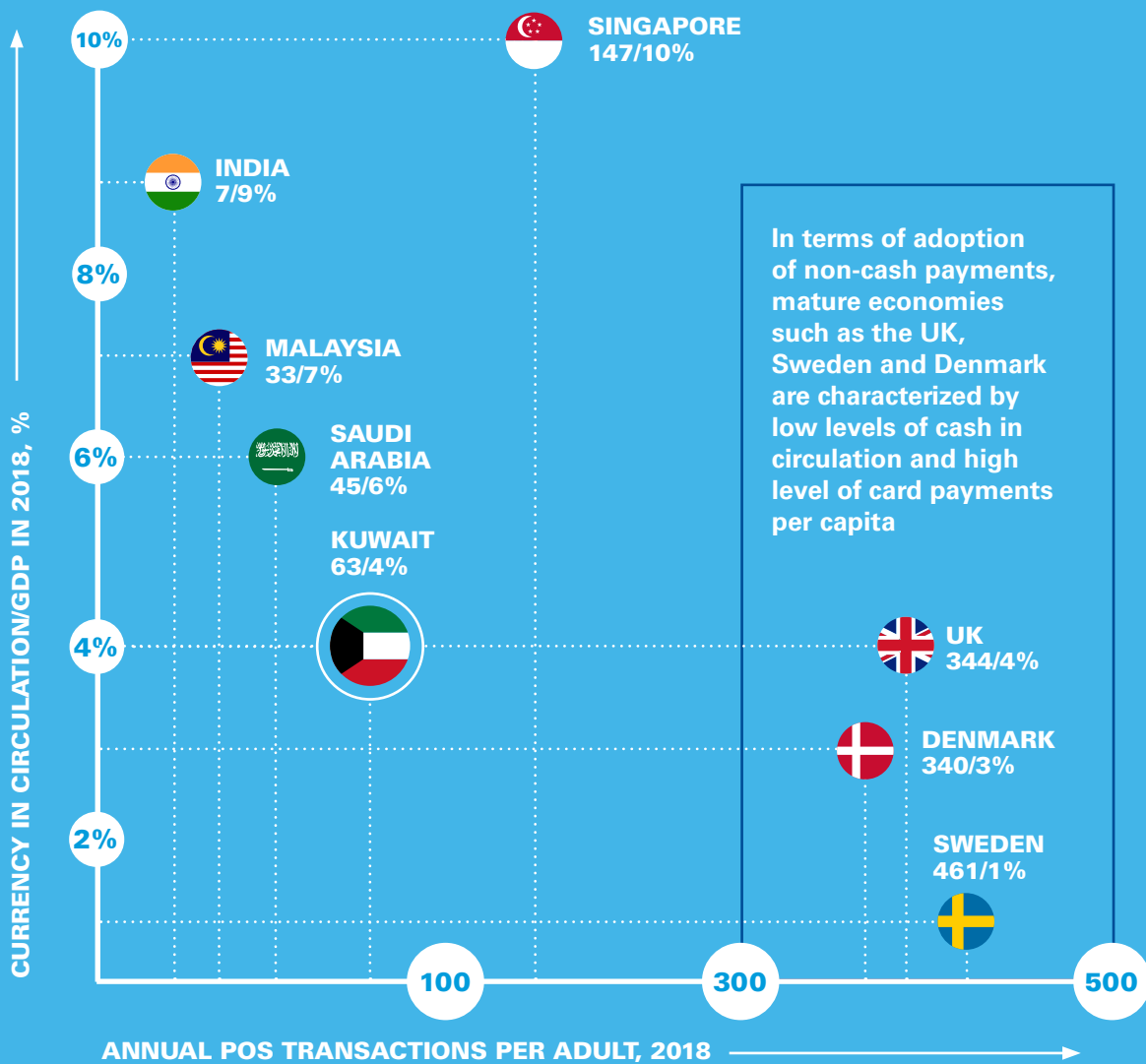
# Kuwait's Payments Landscape

vis-à-vis other  
economies

**There is further room for  
growth in Kuwait's card  
payment market**



## Benchmarking of Kuwait's card payment market against select global markets



Note: POS transaction data has been used as a benchmark, due to the unavailability of PG payment transaction volume across benchmark countries. Source(s): Respective countries' central bank statistics

### Characteristics of highly cashless economies

- High awareness and confidence among consumers on digital payment methods
- High penetration of smartphones and internet
- Impetus from regulator/government to adoption of digital payments (e.g. low cost of transaction, digital payments for government services)
- Regulatory support to **facilitate technological innovation and collaboration** between stakeholders
- Ease of onboarding businesses (esp. SMEs and unorganized business) and individuals onto formal payment channels
- **Wide reach and affordable costs for payment infrastructure** that fosters adoption of digital payments

# The driving Factors

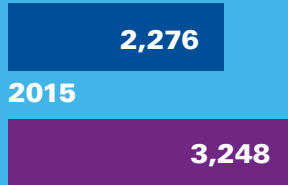
Behind the growth of card payments in Kuwait



## Young Population

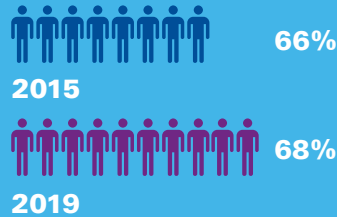
Share of Kuwait's population between 15 and 49 years of age (in the '000s)

Total population in '000s



2019

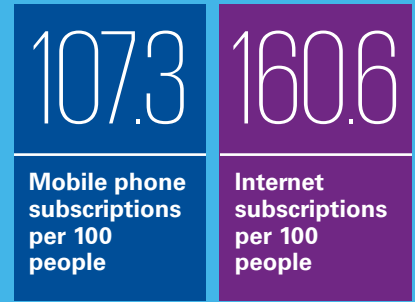
Percentage of Kuwait's population between 15 and 49 against total population



Source(s): PACI statistics

## High mobile and internet penetration

Mobile and internet penetration in Kuwait (2018)



Source(s): Central Statistics Bureau

## Growing penetration of payment terminals



Number of POS terminals

Source(s): Central Bank of Kuwait

## Penetration of banking cards

Growth in the penetration of debit and credit cards among residents of Kuwait

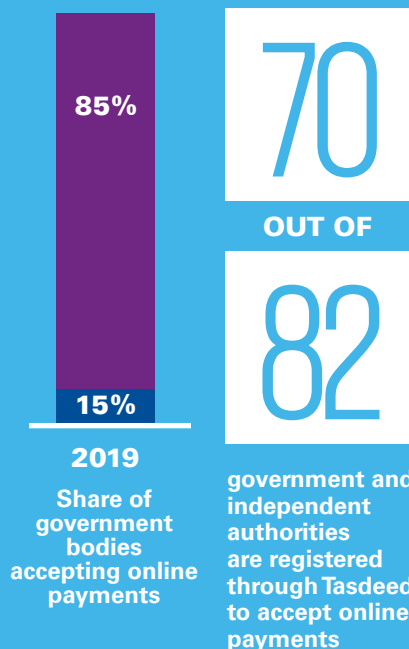
# 1.3

Valid banking cards per adult in Kuwait (2019 Q3)

Source(s): Central Bank of Kuwait and PACI statistics



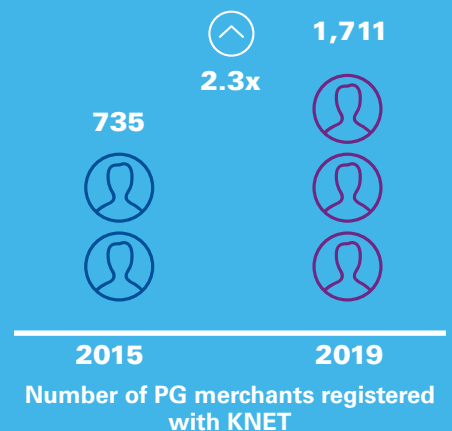
## Government services moving online



● % of government entities on Taseed

Source(s): KNET and e.gov website

## Expansion of e-commerce (online merchant base)



Number of PG merchants registered with KNET

Source(s): KNET and e.gov website



## Initiatives by the Central Bank of Kuwait

- Zero interchange fee on POS for debit cards
- Introduction of contactless cards and terminals
- Establishment of Regulatory Sandbox by CBK to encourage fintech innovation
- Introduction of **regulations** for electronic payments

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## Factors driving the supply side

- Emergence of PSPs in the Kuwait market created a customer base for payments through PGs
- Emergence of niche e-commerce and PG service providers for different segments (e.g., rent payment apps)
- Introduction of peer-to-peer payment and digital banking solutions by banks



## Understanding payments supply side scenario in Kuwait

### The card payment market in Kuwait primarily comprises the following two types of players:

- Banks, which primarily provide both POS and PG terminals to merchants and offer issuing solutions (cards) to customers
- PSPs, which primarily provide merchants with PG and PG-based acceptance solutions, such as link solutions and QR codes. Some also provide POS and consumer wallet solutions

### PSPs drive the adoption of PG:

- PSPs in Kuwait have managed to create awareness of and demand for PG among merchants in Kuwait through the introduction of easy-to-use solutions, such as link solution, and ensuring a faster onboarding of merchants than banks

# Covid-19 impact

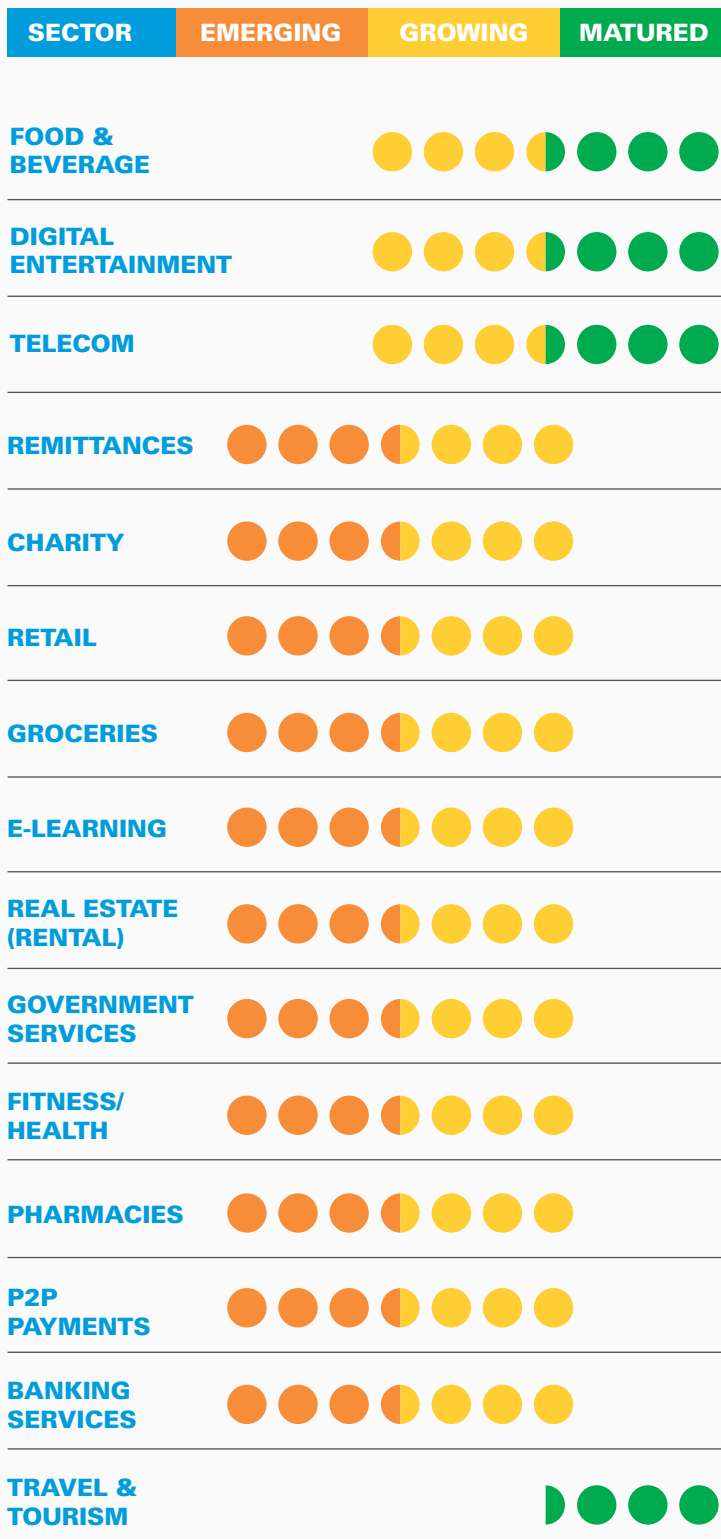
COVID-19 has had a considerable impact on consumer behavior, leading to a sharp growth in the adoption of e-commerce and digital payment methods

- The shift witnessed in consumer behavior towards online transactions varies across sectors, based on:
  - The need for products/services
  - Availability of reliable service providers
  - Ease of adoption
- The extent of the positive impact on digital payments is expected to be marginally lower than the growth in e-commerce, due to the prevalence of cash on delivery (CoD).

- \*While shifts have been observed in consumer behavior in the aftermath of COVID-19-related restrictions, the overall sustainability of the change in consumer behavior towards online transactions and payments will need to be assessed post COVID-19.



## Shift in consumer attitude towards e-commerce by sector since COVID-19\*



Source(s): KPMG analysis

\*Note: The illustration is indicative and neither to be scaled nor to be considered as exhaustive



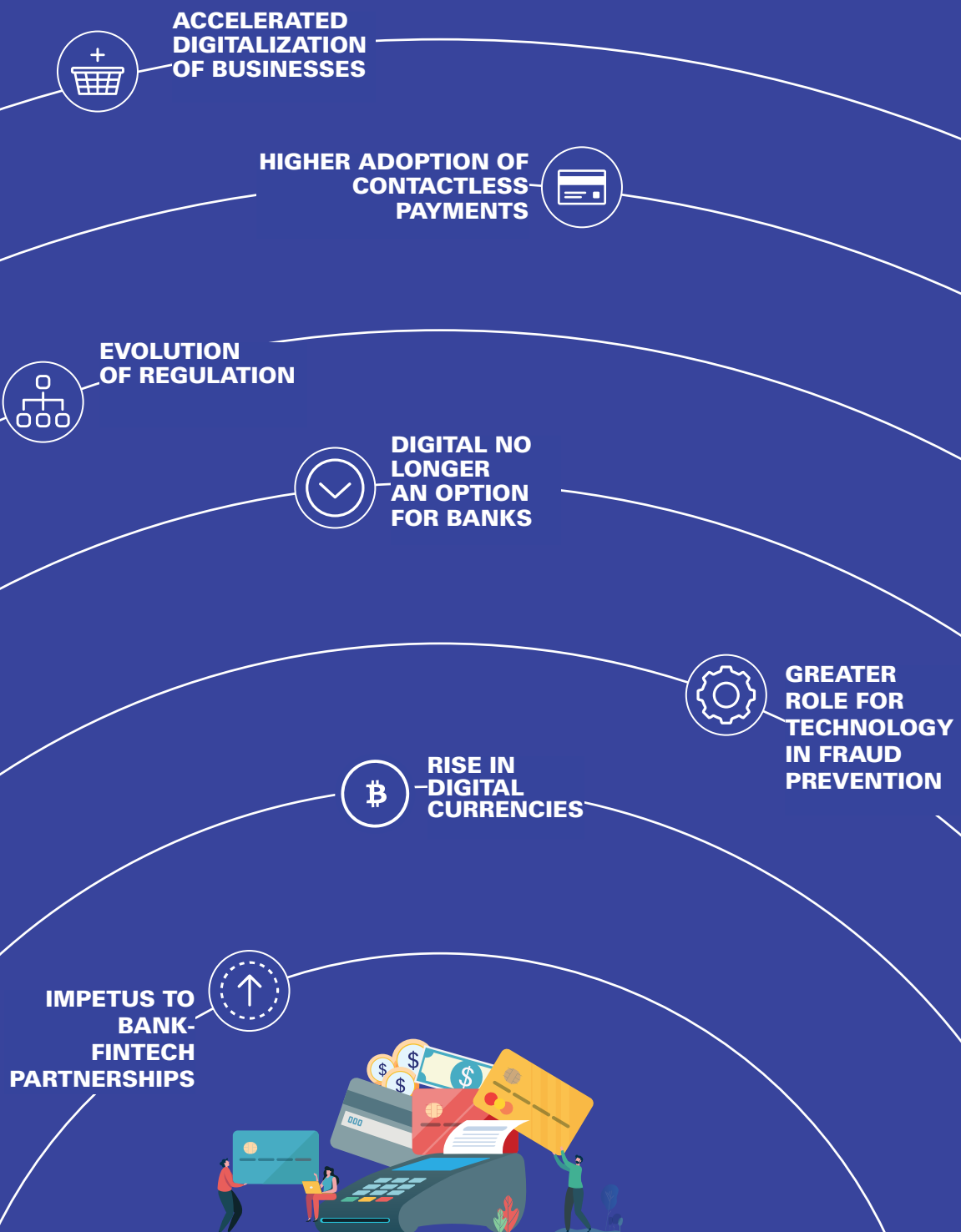
COVID19 is an exceptional event that accelerated digitalization of transactions and payments across sectors.

This was also the case for the real estate sector that witnessed significant growth in online rent payments to maintain their rent collection in lockdown.

As a results, we have many successful landlords with 100% collection during full lockdown period.

**Shaheen Al Khudhari,**  
CEO, Ajar Online

# Emerging trends in Payment industry





## Higher adoption of contactless payments

- Amid concerns of the possibility of **COVID-19 transmission through banknotes**, adoption of contactless payments is expected to grow.
- To encourage contactless payments, the Central Bank of Kuwait (CBK) **increased the limit for contactless payments** by 150% from KWD 10 to KWD 25 and suspended POS and PG charges for merchants for a period of 3 months from March 2020.
- The CBK also launched **3edeti**, in partnership with KNET, to enable residents of Kuwait to send Eidia\* digitally to any registered mobile number in the country during Eid al-Fitr

.....  
\*is a gift that is usually given to children by elder relatives and family friends as part of the celebration of Eid

Source(s): KPMG analysis



## Accelerated digitalization of businesses

- Lockdown measures to control the spread of COVID-19 have caused enormous strain to the legacy offline businesses, especially the small and medium enterprises (SMEs).
- Since COVID-19, legacy businesses have accelerated digitalization to reach their customers. Hosted e-commerce solution providers such as **Shopify** and **Magento**, are aiding the digitalization of businesses through limited-period free subscriptions.
- A long tail of offline businesses, which weren't focused on digital channels in the past, is now available for PSPs and banks to expand their merchant base.

Source(s): KPMG analysis



The COVID-19 situation is pushing the e-commerce/digital payments adoption forward, and many retailers have also embraced e-commerce technology immediately.

We have witnessed more than 200% growth in the digital payments' services request from partners during April and May 2020 compared to the same period last year. E-commerce transactions also recorded growth as the market was either partially or fully closed recently.

**Hisham Al-Nusif, Deputy General Manager of Consumer Banking Group, National Bank of Kuwait**



"The pandemic has accelerated business digitization by a few years.

Fintechs will have to continue adding value through technology and innovation to help the shift towards digital economy". -

**Ali Alhabshi - Founder & Chief Operating Officer, UPayments**

Source(s): KPMG analysis



## Digital is no longer an option for banks

- **Digitalization on a war footing** has become a priority for banks to sustain business and reduce overheads.
- **Studies** by select financial institutions indicate **that digital banking can positively impact** attributes such as the **lifetime value of a customer through** higher revenue generation, increased product holdings, lower customer attrition and higher transaction activity.



## Rise of digital currencies

- In April 2020, **China's central bank** introduced the 'digital yuan' in a **pilot program** across four cities, becoming the world's first major economy to issue a national digital currency.
- In the GCC, **Bahrain's Central Bank** plans to **pilot** a new toolkit developed by the World Economic Forum to evaluate the impact of digital currencies on the economy.



"The path to customer centricity in financial services is inextricably linked to an organization's digital capabilities, and its very survival will depend on its ability to pivot in lockstep with constantly shifting consumer behaviors in today's digital world."

**Ali Al Sharikh, Senior Manager – Innovation & Partnerships, Strategy & Digital Group, Warba Bank**



## Greater role for technology in fraud prevention

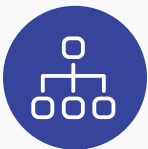
- As many first-time users start to adopt digital payments, the threat of fraud also increases, with a lot of out-of-pattern activity.
- There is also a threat of false positives and false negatives, which can dampen the experience for both consumers and merchants.
- Financial institutions (banks and PSPs) will need to strengthen their **fraud-prevention and-detection infrastructure** in line with the changing market patterns. Artificial Intelligence can play a significant role.

- The CBK is currently preparing an **e-KYC** framework that can make it easier and faster for individuals to open bank accounts online. Initiatives such as mobile ID by the Public Authority for Civil Information (PACI) and CBK's proactive **3edeti** should be seen as an encouraging signs for future regulations.



## Impetus to bank-fintech partnerships

- **To improve their speed to market** in the face of disruption due to COVID-19, banks may increasingly look to partner with PSPs and fintech players with innovative digital solutions.
- PSPs could also benefit from such partnerships through the **capital, distribution reach and infrastructure of the banks.**



## Evolution of regulation

- Regulations concerning fintechs, banking and digital payments can witness acceleration post COVID-19 to foster product/service innovation. Framework may also be needed to regulate potential bank-fintech partnerships.



"Banks and fintech should interact closely to proactively identify solutions for the future.

There should be a new way to envision the future of financial services. Regulator should play the role of an incubator with the banks playing the role of startups while the fintechs acting as the accelerators".

**Mohammed Sh. Al-Rashidi,**  
**Founder & Executive**  
**Chairman, One Global**

# New Initiatives

The initiatives being undertaken  
by PSPs globally during COVID-19





## EXPANDING OFFERINGS

- **UPayments**, a Kuwait-based PSP has started actively promoting URent, a solution to facilitate online rent collection for landlords, and UPay, a personalized payment receiving solution.
- **Ordo (UK)** released a new peer-to-peer (P2P) payment platform.
- **Paytm (India)** Payments Bank has partnered with MasterCard to issue virtual and physical debit cards.



## WORKING WITH GOVERNMENTS

- Kuwait-based PSP, **My Fatoorah**, signed up as the PG provider for the COVID-19-related fund raising campaign of the Government of Kuwait Fazaat Al Kuwait.
- Kuwait based PSP, **Tap Payments**, assisted the Council of Ministers, Government of Kuwait, with the infrastructure required to process, track, and audit all incoming funding transactions for the **Fund for Facing The Emerging Corona Virus campaign**
- **PayPal (US)** is working with the US government to provide the government stimulus payment directly via customers' PayPal account.



## AIDING (NEW) CUSTOMERS

- Most of the **Kuwait-based PSPs offer 'e-commerce store'** solutions directly or in partnership with e-commerce hosting solution providers, and have been actively promoting the store solution since the onset of COVID-19 pandemic.
- **Tap Payments\*** waived transaction charges on K-NET transactions for its SME merchants between April and May 2020.
- **UPayments**, a Kuwait-based PSP, **waived transaction charges** on KNET transactions for its merchants during the first stage of the COVID-19-related lockdown in Kuwait (12–26 March 2020).
- **My Fatoorah (Kuwait)** has embarked on an initiative of **zero interest soft loans to support Kuwait's SMEs**, in partnership with PartnerPlus, Holistic, Keepers and the Kuwait National Fund.
- **Network International** announced a waive of **minimum monthly service fees** for all merchants in the UAE and **fees for online acquisitions** of the new SME customers between March and May 2020.



Note: This is an illustrative compilation of initiatives undertaken by PSPs globally. The list is not to be considered as exhaustive

Source(s): Trade press,\*Primary interviews and KPMG analysis

## EXPLORING PARTNERSHIPS



- **Ordo (UK)** has partnered with Yapily (UK), an enterprise connectivity platform, to launch a new payment service that allows users to issue invoices in a simple, quick and secure manner.
- **Razorpay (India)** has partnered with Rentlite, an office furniture rental firm, with corporate offers to enable people to rent office furniture for working from home.

## ENTERING NEW SEGMENTS



- Digital payments player, **PhonePe** (India), announced the launch of 'Corona Care', a coronavirus hospitalization insurance policy, in partnership with Bajaj Allianz General Insurance, a reputed insurance player

# Considerations to navigate changes in the market landscape



## BOOST DIGITAL PAYMENTS

PSPs	BANKS
<ul style="list-style-type: none"> <li>• <b>Focus on low hanging fruits:</b> Address the sectors/ merchant segments in need of digitalization during COVID-19 (e.g. SMEs, schools, retailers, government, landlords, etc.)</li> <li>• <b>Reach out to potential new users</b> (merchants and consumers) to create awareness of digital payments.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Create trust in digital payments:</b> Essential for banks to invest in creating awareness and trust in their consumers on digital banking and digital payments</li> <li>• <b>Consider expanding or repurposing existing issuing schemes</b> such as co-branded cards and loyalty programs (e.g. expanding redemption options for airline miles during a period of no travel, new co-branding concepts). Explore new merchant tie-ups for co-branding cards to incentivize card pay</li> </ul>

## EXTEND VALUE-ADDED SERVICES TO MERCHANTS

PSPs	BANKS
<ul style="list-style-type: none"> <li>• Evaluate the potential for adjacencies to core offering <b>to increase lifetime value of customers</b></li> <li>• The legacy offline and SME businesses in Kuwait were compelled to digitalize during COVID-19. <b>Developing a one-stop offering to address their needs can enhance value capture:</b> <ul style="list-style-type: none"> <li>• Activating solutions such as e-KYC to enable easier onboarding</li> <li>• Integrating solutions such as low-cost DIY e-commerce store with a PG</li> <li>• <b>Enabling</b> merchants to make data-driven decisions through analytics-based insights</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Handhold merchants in their digital transformation journey</b> with integrated digital payment and affiliated offerings, such as integrated e-commerce store solutions, multi-currency payment acceptance solutions, reporting and data-driven insights through payment analytics.</li> <li>• Consider <b>assisting merchants with their liquidity needs</b> through the Central Bank of Kuwait's soft loan package</li> <li>• <b>Evaluate the introduction of digitally-enabled BNPL solutions</b> to merchants to help boost sales during the downturn</li> </ul>

Source: KPMG analysis



PSPs played a key role in driving digital payment adoption in Kuwait by launching convenient to use solutions like payment link to merchants of all sizes esp. SMEs.

Since the onset of COVID-19 crisis, PSPs have expedited onboarding of new merchants onto digital payment platforms, despite working from home, thanks to agile and technology driven operations. PSPs will continue to play a key role in innovating new solutions for payments in Kuwait and may even add value to merchants beyond payments

**Abdullah Al Dabbous,**  
**Founder and CEO,**  
**MyFatoorah**



The banks always considered digital payments as a key focus area but now COVID19 has given a sharp impetus to its growth.

To leverage this momentum and to capture the opportunity banks need to maneuver three key areas - security, regulation and data. Security to overcome the increased risk of fraud, regulation to navigate this segment esp. a level playing field vis-à-vis less regulated fintech players and data analysis for faster and efficient decision making.

**Fadi Chalouhi, Group General Manager Retail Banking, Kuwait Finance House**

## ENHANCE OFFERINGS

PSPs	BANKS
<ul style="list-style-type: none"> <li>• <b>Evaluate new segments for growth</b>, e.g., multi-currency acceptance, adjacent geographies for expansion, Buy Now, Pay Later (BNPL) solutions for merchants, online insurance for merchants and consumers</li> <li>• In addition, PSPs globally are offering <b>lending solutions</b> to merchants/ customers subject to regulations and their own financial position</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Accelerate digitalization:</b> Evaluate the existing digital banking offerings vis-à-vis the market needs; <b>prioritize the digitalization programs</b> using an importance vs. ease of launch analysis; <b>fast-track the high-priority programs</b></li> <li>• <b>Evaluate the challenger bank model, to accelerate digitalization of banking outside the core banking model</b>, targeted at the tech-savvy young population (e.g., LIV Bank of Emirates NBD, Meem of Gulf International Bank, Neo bank of Mashreq, etc.)</li> </ul>

## EXPLORE PARTNERSHIPS

PSPs	BANKS
<ul style="list-style-type: none"> <li>• Explore partnerships with banks and telcos to augment their digital payment portfolio. Partnerships with banks can also focus on extending new solutions to the combined customer base, e.g., <b>solutions such as installment-based purchases, and/or BNPL.</b></li> <li>• With a focus on SMEs, PSPs can consider assisting them in <b>digitalizing non-payment aspects of their business</b> (e.g., low-cost cloud-based accounting, SaaS solutions) in partnership with relevant vendors.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Explore partnership opportunities</b> with PSPs, fintech players, e-commerce and other industry participants (e.g., telcos) to enhance offerings with a shortened time to market</li> <li>• Globally banks have also leveraged fintech partnerships to onboard digital technology solutions for customer-facing operations, digital authentications, Artificial Intelligence-based solutions, blockchain and analytics.</li> </ul>

Source: KPMG analysis

# KPMG in Kuwait

With over 200 employees and 9 partners based in Kuwait, we form part of a global network of more than 219,000 outstanding professionals working together to deliver value in 147 countries, drawing on global industry insights to complement our strong local knowledge.

KPMG in Kuwait operates through its member firms KPMG Safi Al-Mutawa & Partners and KPMG Advisory W.L.L.

We provide a full range of audit, tax and advisory services to a portfolio of clients that includes major corporations, family businesses and entrepreneurs, government institutions, public sector agencies and not-for-profit organizations.

## We can support banks, fintechs and investors with

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Fintech / Digital payment strategies/initiatives

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Market assessments

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Feasibility studies

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Growth strategy and Business plan preparation

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Business valuation

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Buy-side advisory (target search and screening, due-diligence, M&A)

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Sell-side advisory (fund-raise, stake sell, strategic partner search and exits)

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# Contacts



**Ankul Aggarwal**  
Partner – Deal Advisory  
T: +965 2228 7845  
M: +965 5044 4964  
E: [ankulaggarwal@kpmg.com](mailto:ankulaggarwal@kpmg.com)



**Harsha Prakash**  
Associate Director - Deal  
Advisory  
T: +965 2228 7574  
M: +965 5044 0933  
E: [hprakash@kpmg.com](mailto:hprakash@kpmg.com)

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