



Impact of Covid-19 on Kuwait payments

In association with



A deep dive into Kuwait
payment trends

—
October 2020



Glossary

ATM	Automated Teller Machine	KD	Kuwait Dinars
CAGR	Compound Annual Growth Rate	KNET	The Shared Electronic Banking Services Company (K.S.C.C.)
CBB	Central Bank of Bahrain	KSA	Kingdom of Saudi Arabia
CBK	Central Bank of Kuwait	OTC	Over the Counter
Covid-19	Coronavirus disease	PG	Payment Gateway
e-Payments	Payments made through a Payment Gateway (PG) channel	POS	Point of Sale
F&B	Food and Beverages Sector	PSP	Payment Service Provider
GCC	Gulf Cooperation Council	SAMA	Saudi Arabian Monetary Authority

Preface

Kuwait's payment landscape has traditionally been dominated by Point of Sales (POS) and cash transactions. However, the penetration for digital (electronic) payments had been growing sharply over the past five years.

The outbreak of Covid-19 brought about changes in transaction behavior among the consumers in Kuwait.

E-commerce channels and digital payments were swiftly adopted by the consumers which gave an impetus to the digital payments in Kuwait.

However, cash and POS transactions have started to gradually recover their share of payment volumes post the re-opening of the economy in June 2020.

It is essential for businesses to understand the change in consumer behavior to make decisions on their channel strategies.

We have attempted to analyze the payment trends before the imposition of lockdowns, during the lockdowns and the gradual re-opening of the economy to draw out the evolving trends in payments. We have also analyzed the sectorial impact for digital payments in Kuwait during the three stages mentioned above. We hope you find this report insightful. You may reach out to our team if you need further details.

We have prepared this report in association with The Shared Electronic Banking Services Company ("KNET") and would like to thank them for their cooperation and support.

Ankul Aggarwal

Partner – Deal Advisory
KPMG in Kuwait



Preface

The Shared Electronic Services Company (“KNET”) is the national switch of Kuwait, owned by the local banks and regulated by the Central Bank of Kuwait. Hence, our efforts have always been towards helping introduce latest payment mechanisms to Kuwait and enhancing the digitalization footprint.

We are also enabling Kuwait economy in embracing e-commerce and electronic payments during the Covid-19 crisis.

We have been observing a sharp growth in usage of digital payments over the past three to five years. The current crisis further accelerated and encouraged the trend towards wide scale adoption of electronic payments across the country. Consumers and businesses have quickly adopted e-commerce and digital payment channels to meet their daily transaction needs. This was evident from the sharp surge in transactions on our online payment platform.

To support adoption of digital payments during the Covid-19 crisis, KNET facilitated installation of 3000 additional Point of Sale devices across various Cooperative Societies, hospitals and pharmacies. KNET also increased the PIN free contactless payment limit (K-TAP) from 10KD to 25KD for a single transaction thereby assisting merchants to comply with Ministry of Health guidelines. K-NET also waived the fee of Point of Sale devices, Payment Gateway transactions and interbank ATM transactions from March to September 2020 to encourage non-cash transactions.

We at KNET will continue with our efforts to enhance digitalization and bring innovative payment services to Kuwait.

Abdulla Al Ajmi

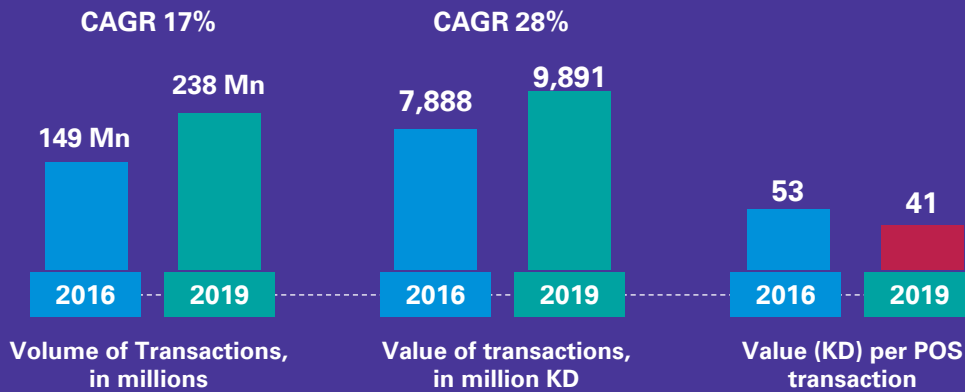
CEO
KNET



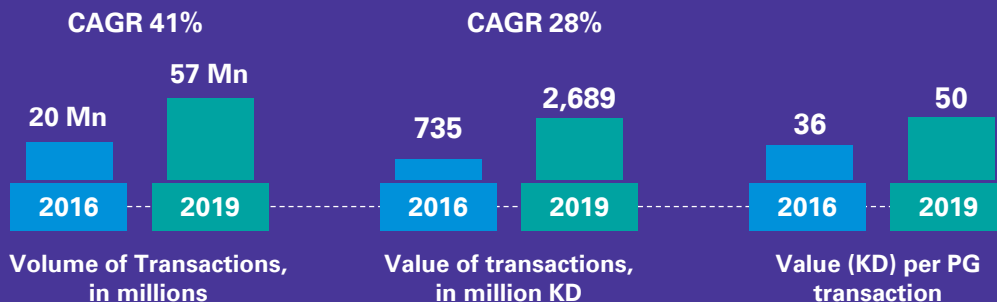
Historical Payment Trends in Kuwait

POS is a dominant card payment mode in Kuwait even as e-payments (PG) are rapidly growing in prominence; Cash remains an important payment mode, indicated by doubling cash withdrawals between 2016-19

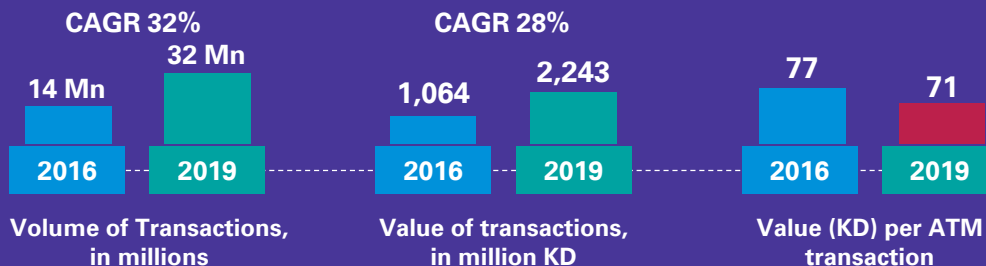
Point of Sale (POS)



Payment Gateway (PG)



ATM

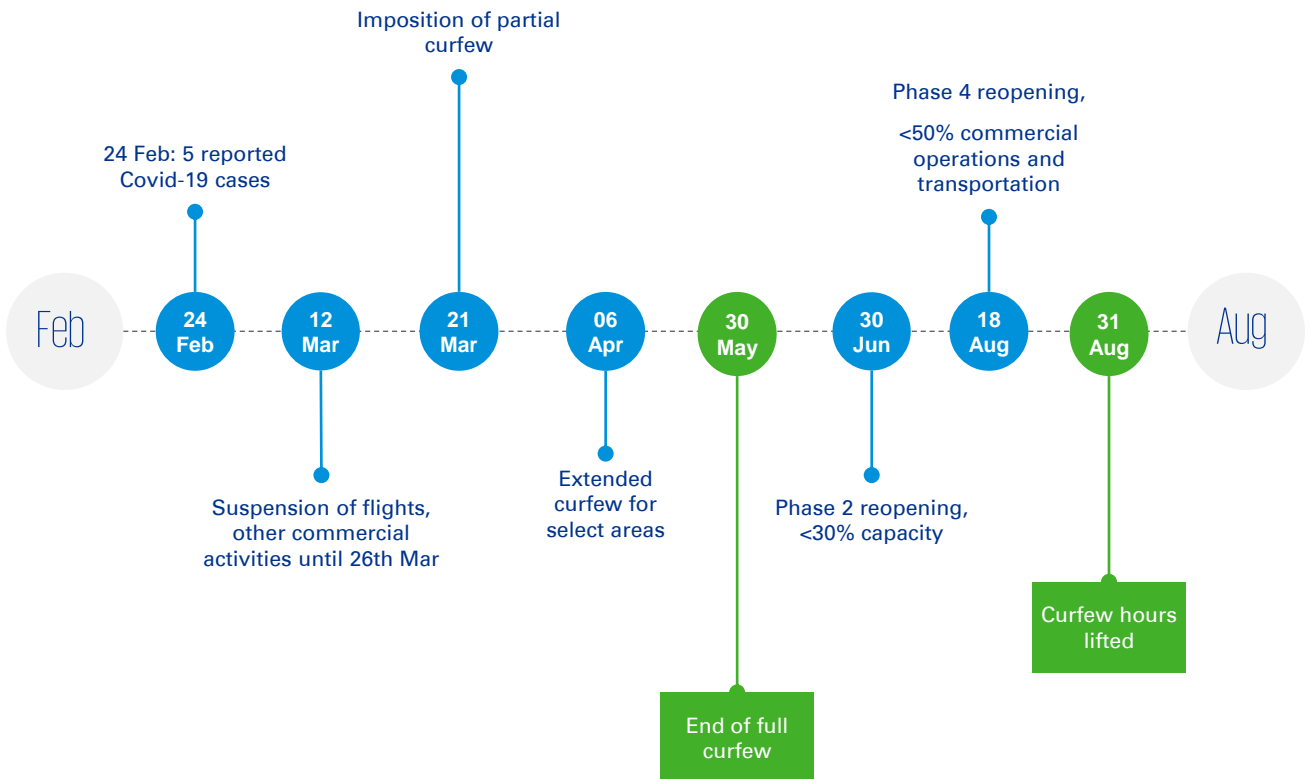


Covid-19 timeline

Measures taken by the government to contain the spread of Covid-19 had an impact on the economic activity and thereby on the payments industry

The government of Kuwait implemented lockdowns and curfews of various intensity in order to contain the spread of Covid-19.

Following the end of full curfew on 30 May 2020, Kuwait came up with a Five Phased Plan to subsequently re-open business activities in the country. Due to the increase in the active number of Covid-19 cases, the fifth and final stage of the Plan has been delayed until further notice.



Covid-19 timeline

Impact on transaction volumes

Low economic activity due to

- Suspension of key commercial and leisure activities
- Limited hours of business operations

Change in merchant behavior towards payment modes

- Offline businesses adopting e-channels for business and payments
- Digitalization of government services such as residency renewals

Change in consumer behavior towards payment modes

- Adopting online channels to purchase essentials
- Value conscious purchases and drop in non discretionary purchases
- Bulk purchases
- Health and safety conscious methods of transactions

CBK and KNET initiatives to promote payments during lockdown period:

[Fee on POS, e-payments and ATM withdrawals for debit cards suspended for a period of 6 months starting March](#)

[Increase of K-TAP contactless payment limit from KD 10 to KD 25](#)

[Promotion of contactless cards and terminals](#)

[Launch of 3edeti, in partnership with CBK, to enable residents of Kuwait to send Eidia digitally](#)

Section One

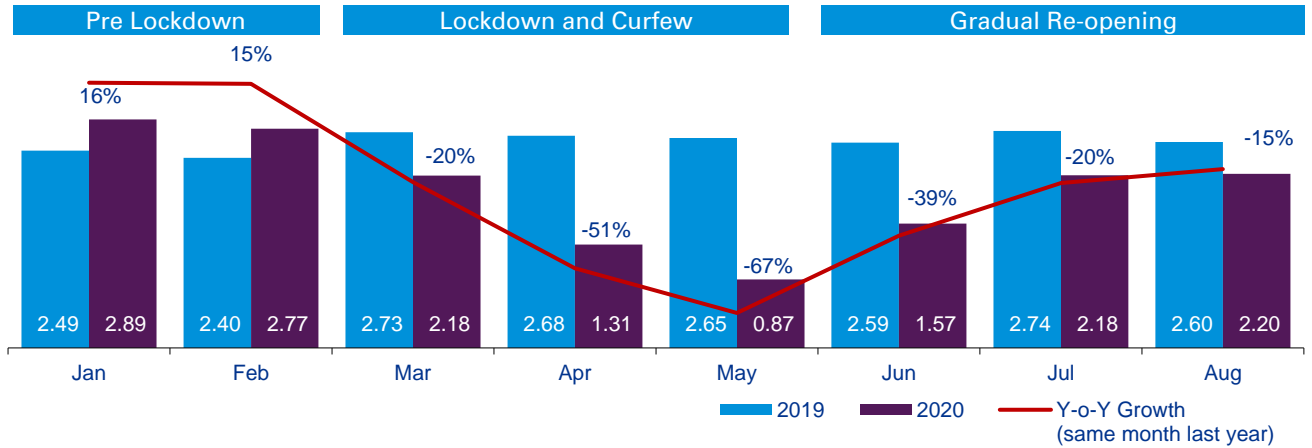
Impact of Covid-19 on ATM transactions



Impact of Covid-19 on ATM transactions

The volume of cash withdrawals through ATM's significantly declined during the lockdown period and is yet to reach 2019 levels post re-opening of the economy

ATM* withdrawals in Kuwait, volume in millions, Jan- Aug 2019 and 2020



The frequency of withdrawals (transactions) at ATMs dropped as people stayed indoors during the lockdown period.

However, the value per withdrawal increased as people withdrew higher amounts of cash to manage through lockdown period with

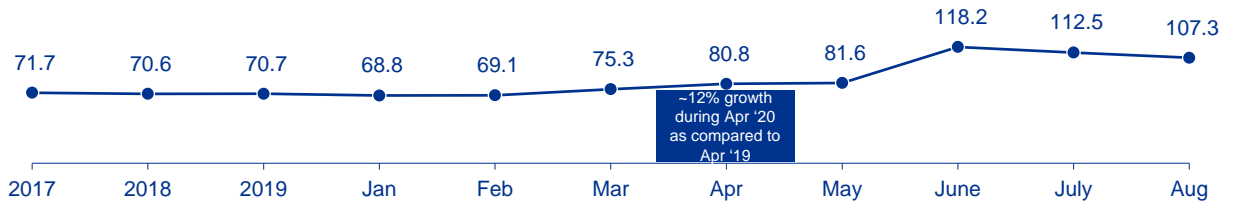
limited access to ATMs

ATM transactions were primarily impacted by:

- Lack of economic activity leading to relatively lower demand for cash;

- People withdrawing cash for stocking up on essentials and saving cash at home during lockdowns and curfews; and
- Potential safety and hygiene concerns over use of ATMs.

Average withdrawal per ATM transaction, KD



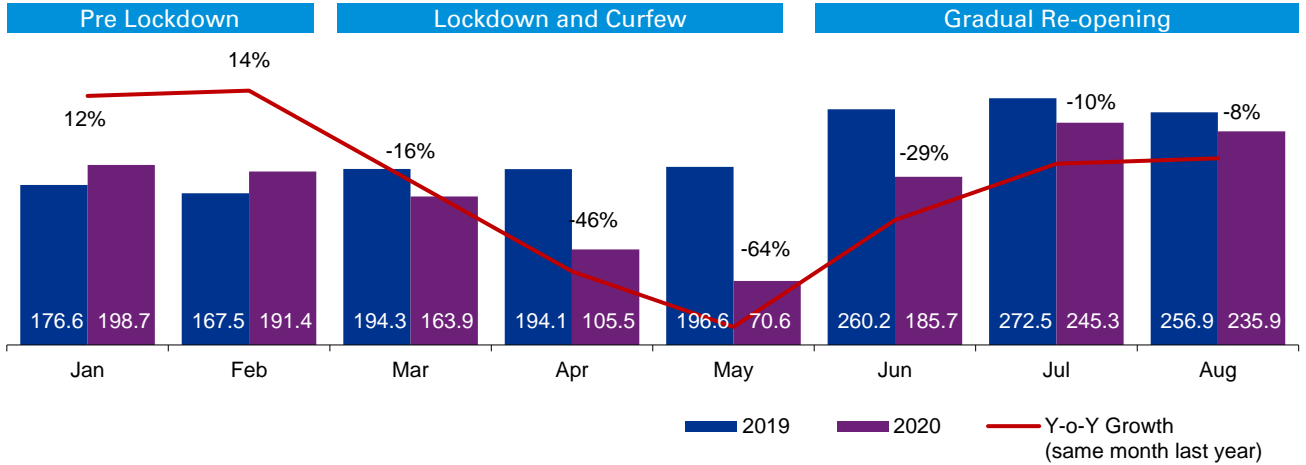
Source(s): KNET data and KPMG analysis

*Note: ATM managed by KNET only, does not include ATMs managed by banks

Impact of Covid-19 on ATM transactions

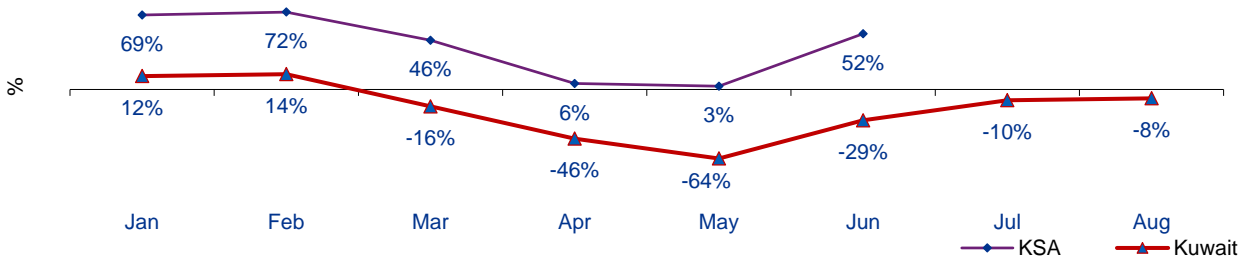
As the government gradually eased lockdowns and facilitated reopening of the economy, cash withdrawals improved from June 2020

ATM* withdrawals in Kuwait, value in KD millions, Jan- Aug 2019 and 2020



- Kuwait reported a decline in withdrawals of ~16% in Mar 2020 compared to Mar 2019 on account of more stringent nationwide lockdowns as opposed to more lenient measures in Saudi Arabia with lockdowns limited to select cities in the Kingdom.
- Post the reopening of nationwide curfew in June, the consumer spending witnessed an increase, resulting in recovery of cash withdrawals.

Y-o-Y growth in value of ATM withdrawals vis-à-vis KSA (2019-2020)

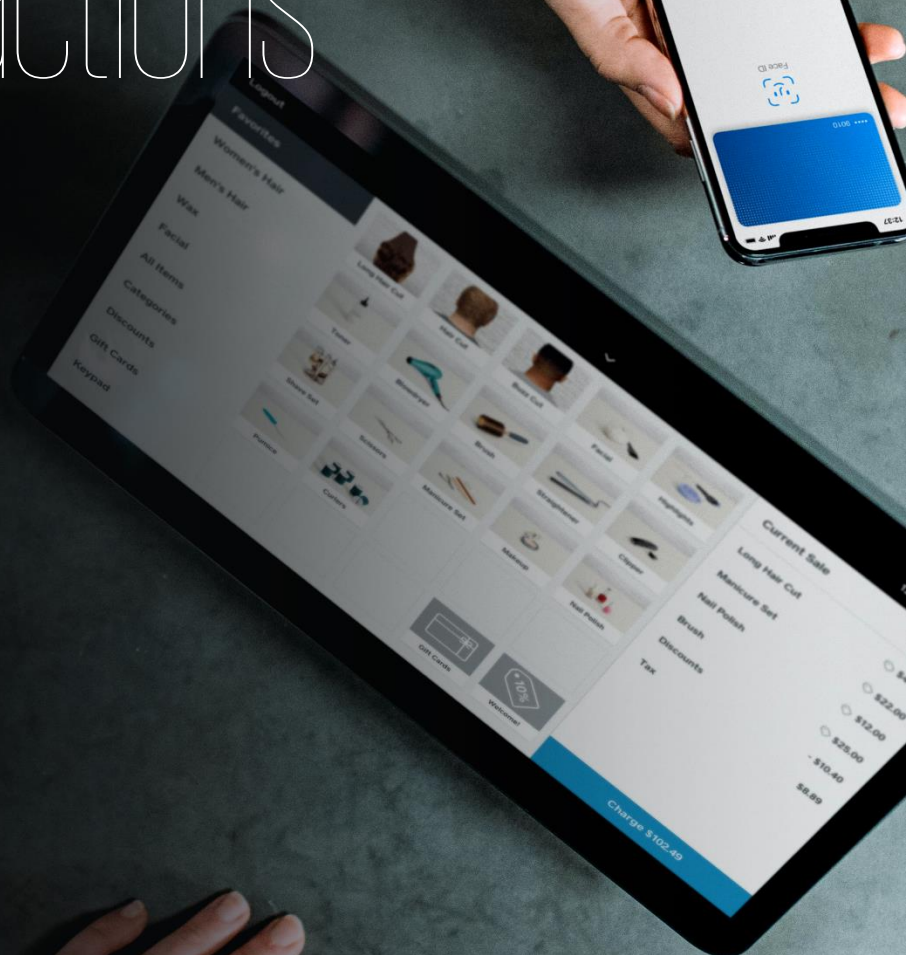


Source(s): KNET data, SAMA and KPMG analysis

*Note: ATM managed by KNET only, does not include ATMs managed by banks

Section Two

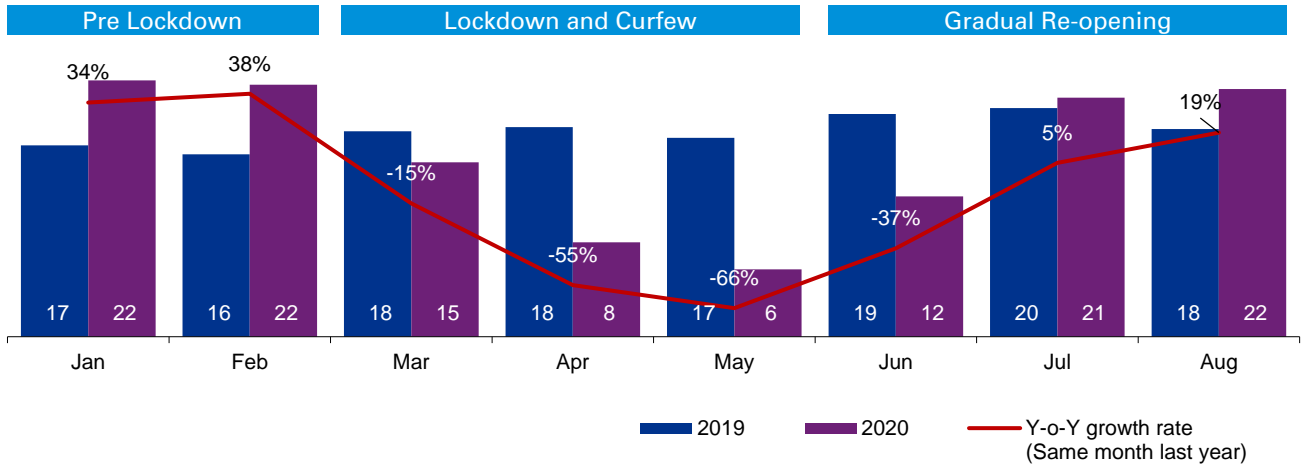
Impact of Covid-19 on POS transactions



Impact of Covid-19 on POS transactions

Lockdowns imposed since March 2020 resulted in a decline of POS volumes by over 55% vis-à-vis the previous year

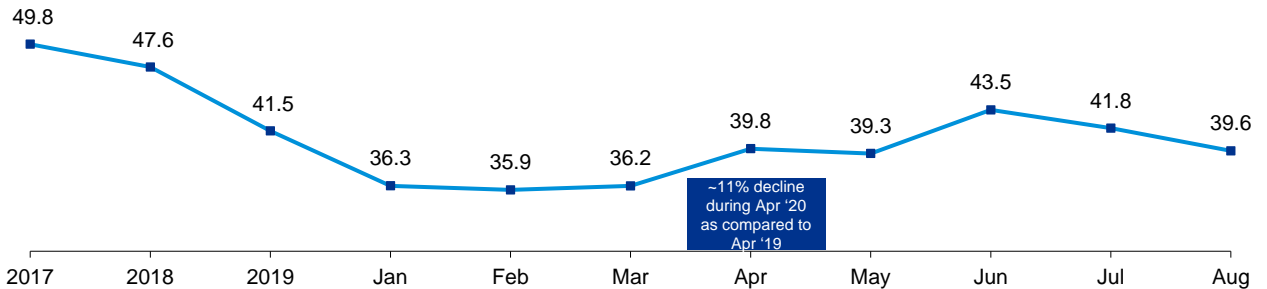
POS transactions in Kuwait, volume in millions, Jan – Aug 2019 and 2020



POS transaction trends were primarily impacted by:

- Increased adoption of POS based payments during the lockdown especially POS installations by retail businesses
- Growth in demand for contactless payment devices to mitigate health and safety concerns over payments;
- Lack of economic activity leading to lower demand for POS transactions; and
- Temporary suspension of banking activity, leading to longer timelines for obtaining POS devices.

Average value per POS transaction, KD



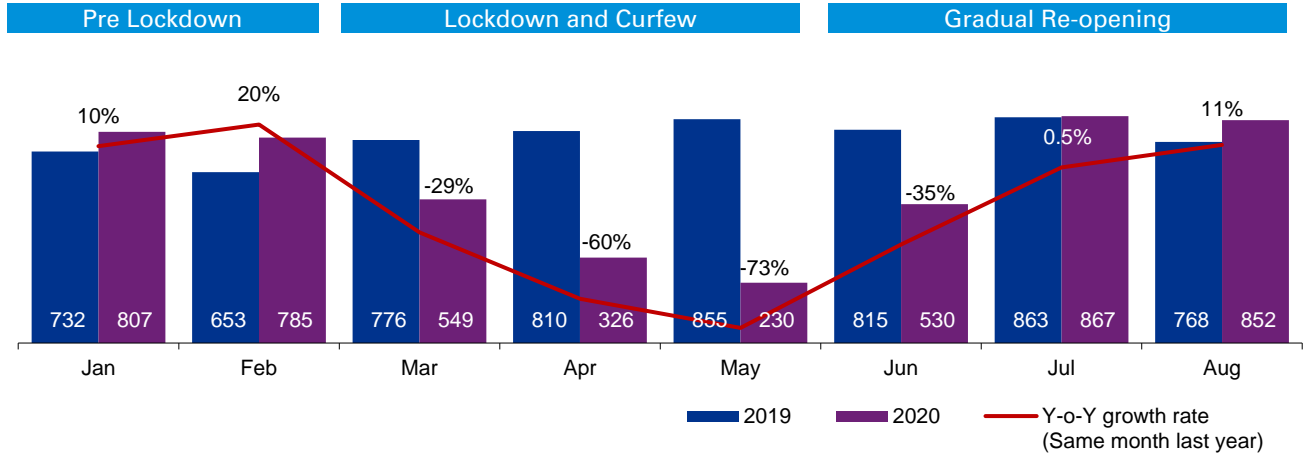
- Value per POS transaction has been historically on a decline as small ticket transactions moved to POS payments. However, with increased adoption of POS terminals during lockdown, average transaction value increased due to categories, such as groceries, etc.

Source(s): KNET data and KPMG analysis

Impact of Covid-19 on POS transactions

POS transaction values grew by 5.5% between January and May 2020

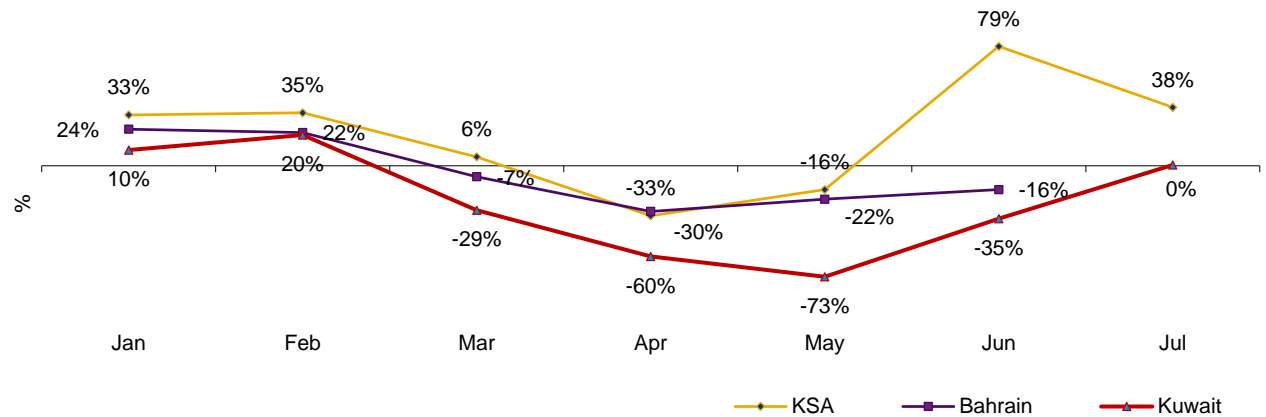
POS transactions in Kuwait, value in KD millions, Jan – Aug 2019 and 2020



Kuwait's POS payments seems to be more affected than some of its regional peers owing to stringency of its lockdown measures

Kuwait has witnessed sharper drop in value of POS transactions vis-à-vis the KSA and Bahrain markets, due to more stringent regulations during the lockdown and curfew periods. Further, the reopening of commercial activities in Kuwait was delayed to August, compared to June and April for KSA and Bahrain, respectively.

Y-o-Y growth in value of POS transactions for select GCC countries (2019-2020)



Source(s): KNET data, SAMA, CBB and KPMG analysis

Section Three

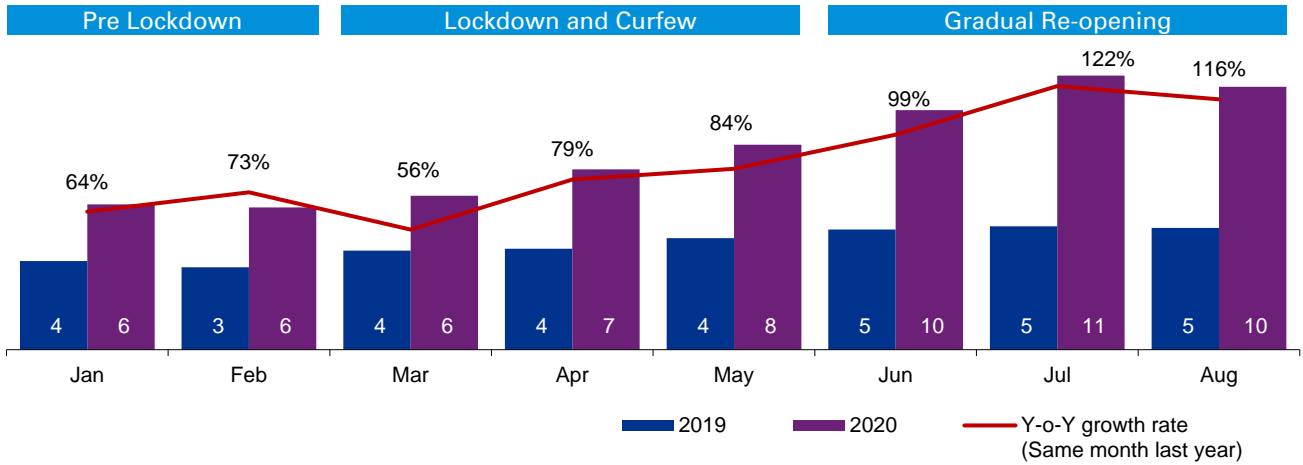
Impact of Covid-19 on PG transactions



Impact of Covid-19 on PG (e-Payment) transactions

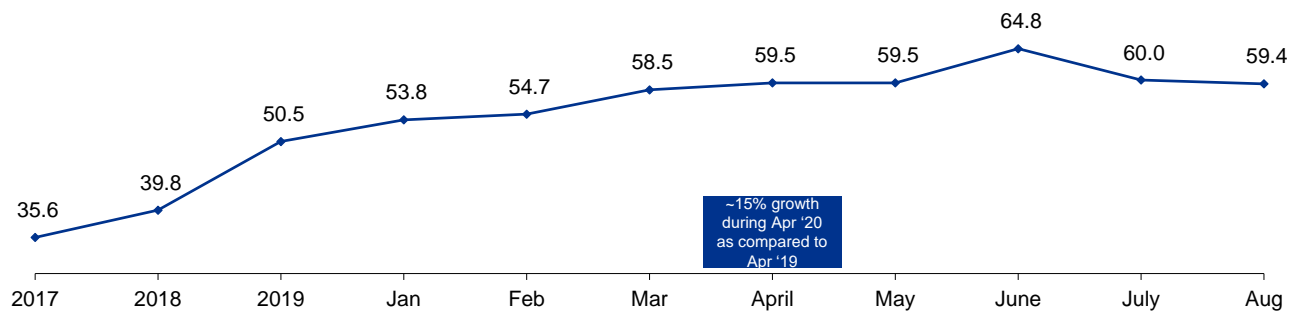
Online payments (PG) received a significant boost due to Covid-19

PG transactions in Kuwait, volume in millions, Jan – Aug 2019 and 2020



- Despite the low economic activity during Government imposed lockdowns and curfews since March 2020, PG transactions surged on account of increased adoption of e-channels by businesses. E-commerce was effectively the most prominent way for the residents to access and pay for many services during lockdown.
- This resulted in a volume growth of **1.73x** and a value growth of **1.95x** in PG transactions during the period (Mar to May 2019-20).

Average value per PG transaction, KD

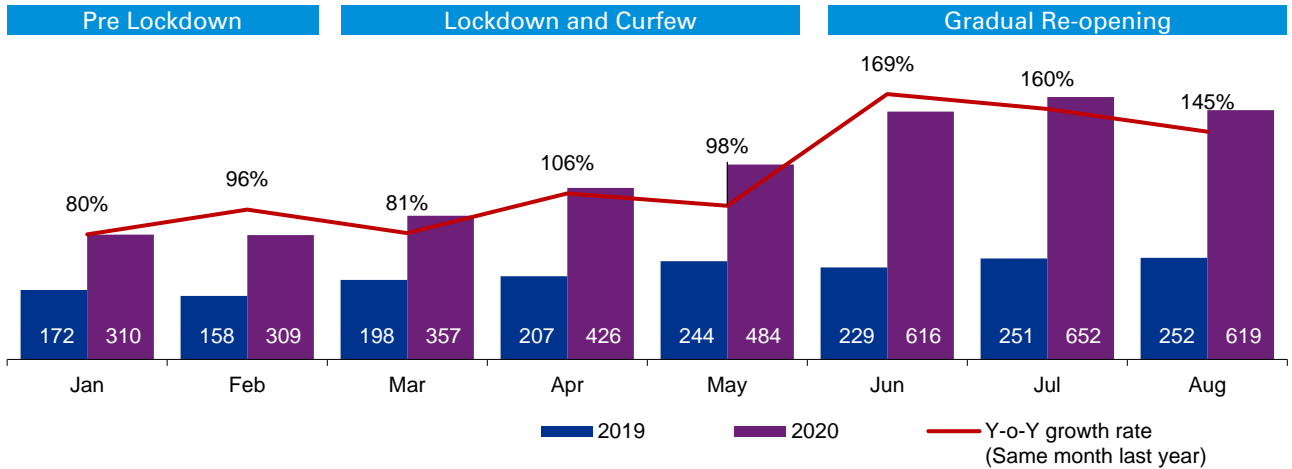


Source(s): KNET data and KPMG analysis

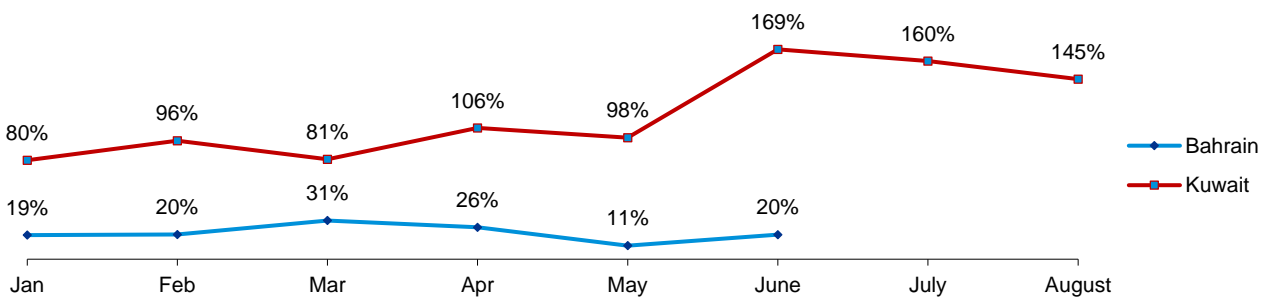
Impact of Covid-19 on PG (e-Payment) transactions

Increased adoption of e-channels by Kuwaiti businesses and consumers during the stringent lockdowns helped boost online payments since March 2020

PG transactions in Kuwait, value in KD millions, Jan – Aug 2019 and 2020



Y-o-Y growth in value of PG transactions for select GCC countries (2019-2020)



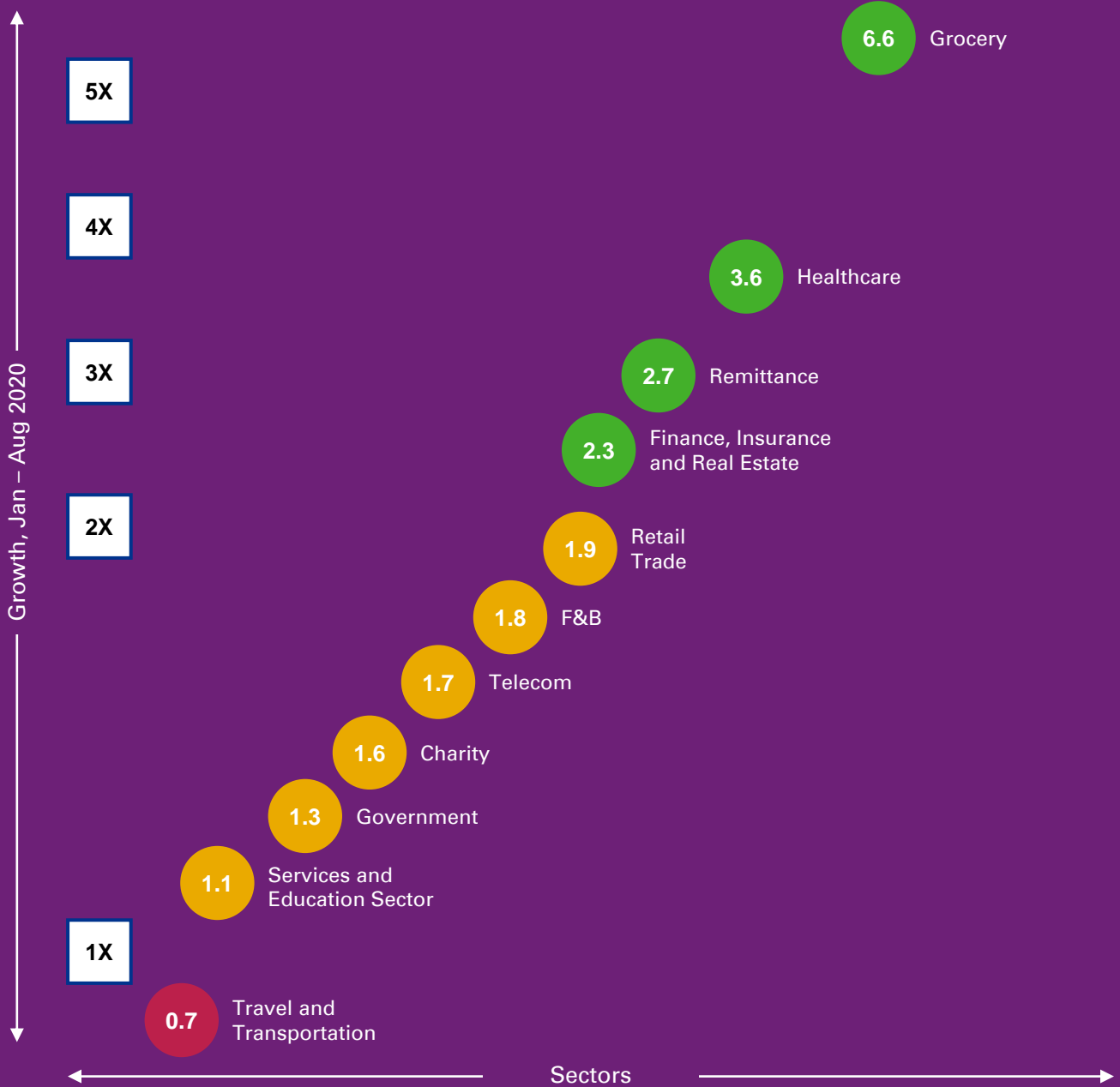
- On account of lower penetration of ecommerce and more stringent lockdowns vis-à-vis Bahrain, Kuwait PG transactions witnessed a higher growth as compared to Bahrain.

Source(s): KNET data, CBB (Fawri +, Fawri and Fawateer 4) and KPMG analysis

Growth in e-Payments by sector

Grocery, healthcare, remittance and financial services are the biggest beneficiaries in terms of growth in online payments

Increase in value of transaction, Jan vs August (2020)



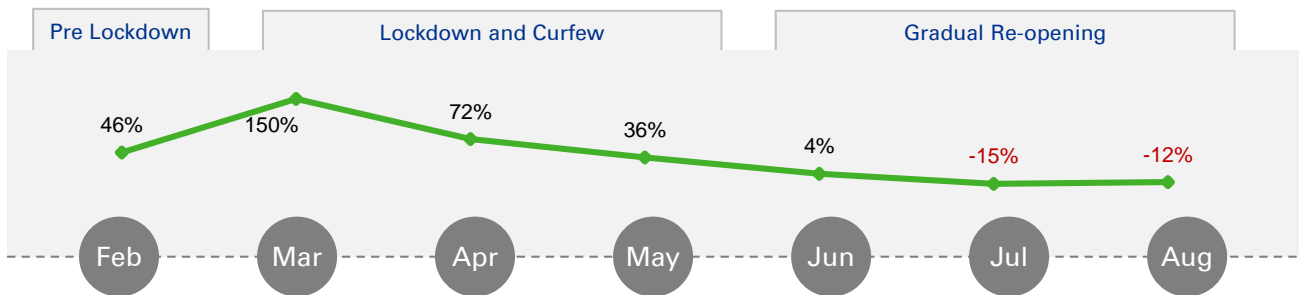
Source(s): KNET data and KPMG analysis

Trends in e-Payments by sector

As the Kuwait economy gradually started opening up in June, growth in e-payments expectedly tapered down, as consumers gradually transitioned back to transacting offline. While the total e-payment volumes did grow significantly between Jan-Aug 2020, the sustainability of volumes in the future is yet to be tested.

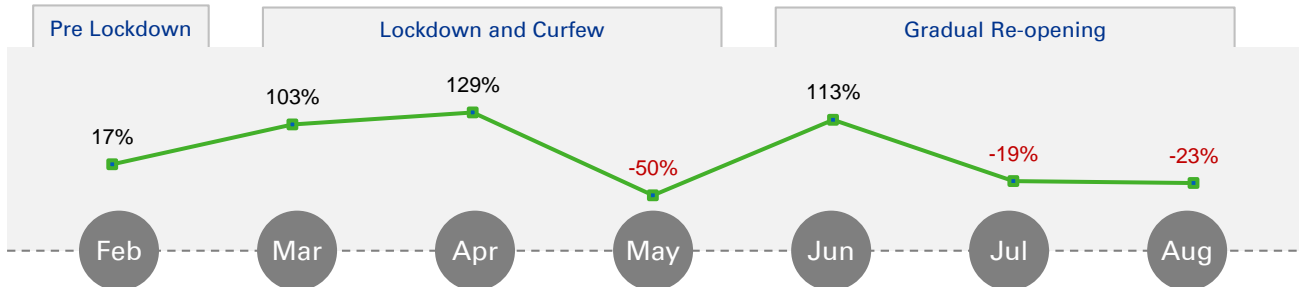
Month on Month growth trends for e-Payments, Feb – Aug 2020

Groceries



- Surge in e-Payments as residents turned to e-commerce for grocery shopping from March.
- Cooperatives, supermarkets and hypermarkets set up e-commerce portals to support the growing demand for online orders. F&B
- aggregators also introduced grocery lines to meet the demand.
- While the order volume grew from March, order sizes (value) dropped indicating a shift towards making **small but frequent grocery purchases online.**
- As the economy opened up, consumers reverted to offline purchases leading to a drop in the growth of online orders.

Healthcare



- Growth of online orders for the pharmacy segment increased during the lockdown driven by a need for masks and hand sanitizers
- as well as other OTC products.
- Akin to the grocery segment, since July consumers have started to
- move back to offline purchases leading to a drop in the growth of online orders.

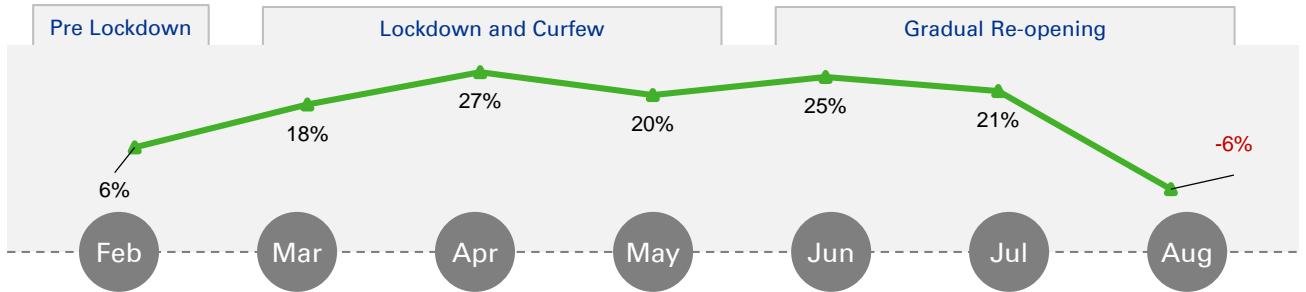
Source(s): KNET data and KPMG analysis

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Trends in e-Payments by sector

Month on Month growth trends for e-Payments, Feb – Aug 2020

Remittance

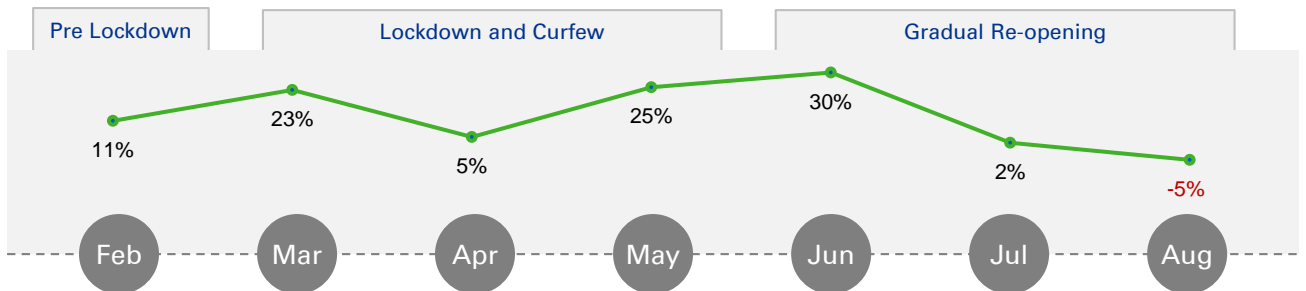


- ~70% of the population and ~85% of working class population in Kuwait are non-Kuwaiti residents, hence the demand for money transfer services persists in Kuwait.

Residents and exchange companies adopted e-channels for remittance as the need to ensure financial support to families back home, loss of jobs leading to expatriates

leaving Kuwait, etc., ensured demand for remittance.

Finance, Insurance and Real Estate



- e-Payment for business services such as online rent collection, logistics, media, marketing, etc. witnessed a significant increase on

account of digitalization of solutions.

- PSPs, banks and other financial

institutes introduced/marked their online payment tools to aid in peer to peer transaction via solutions such as SMS link.

Source(s): KNET data and KPMG analysis

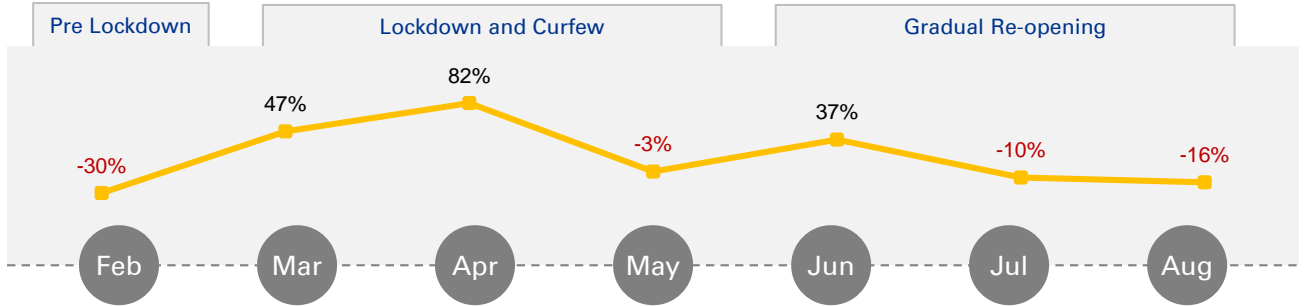
Legend

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Trends in e-Payments by sector

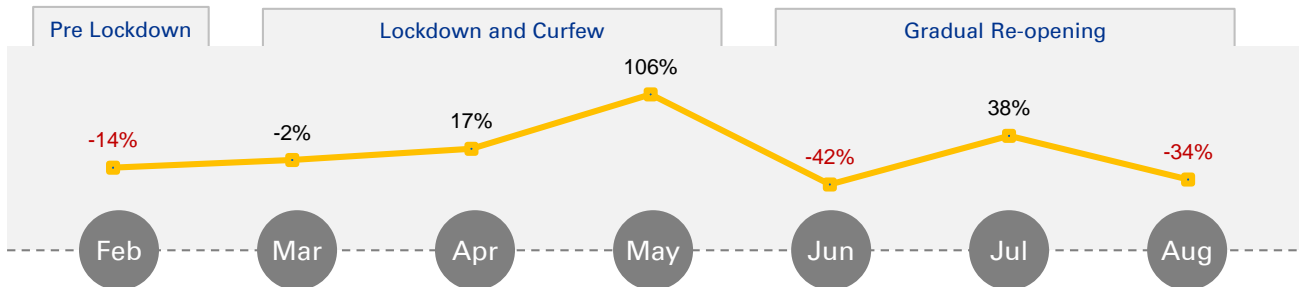
Month on Month growth trends for e-Payments, Feb – Aug 2020

Retail



The high disposable income among the Kuwaiti and resident population has supported the e-payment growth in retail segments, such as cosmetics, electronic stores, home furnishing and clothing, etc. Traditional retailers have actively adopted online channels to serve the demand. However, since the opening up of the economy in July, offline volumes started to regain their prominence.

Services



Services consists of general contracting residential and commercial, legal services, sanitation & polishing, etc. Payment for business services and at-home services were primarily met through online merchants during Covid-19.

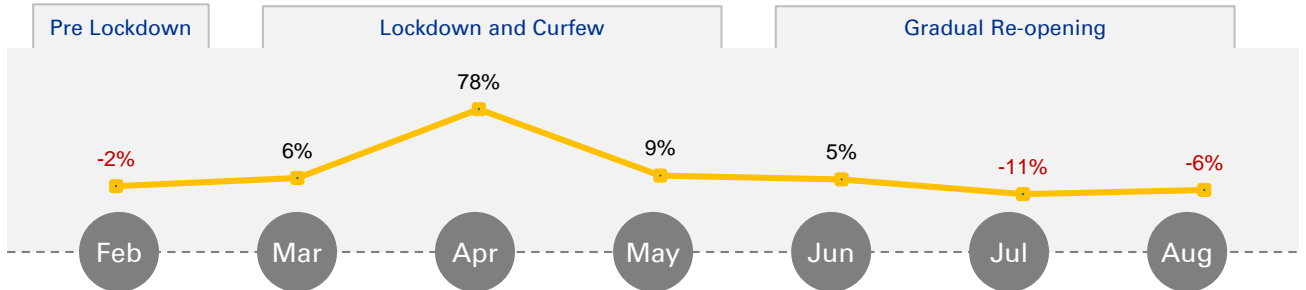
Source(s): KNET data and KPMG analysis

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Trends in e-Payments by sector

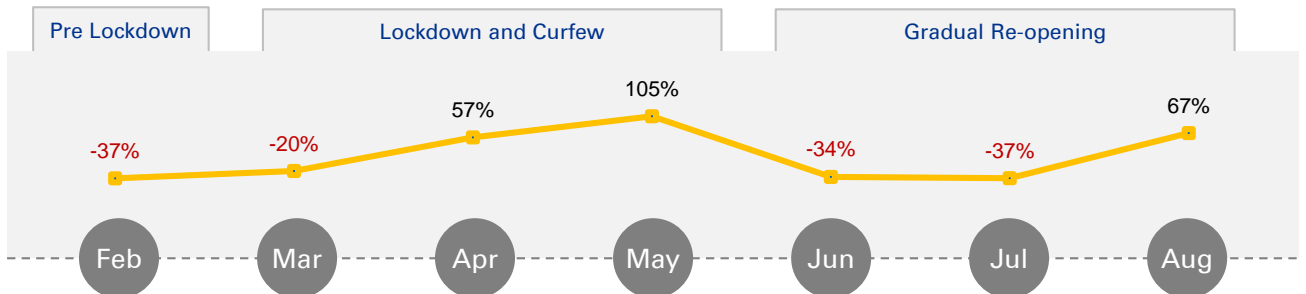
Month on Month growth trends for e-Payments, Feb – Aug 2020

Telecom



Telecom sector has traditionally witnessed reasonable penetration for online bill payments. Hence, the growth rates seem lower vis-à-vis other sectors.

Education



Since fee collection is periodic, fluctuations are expected in this segment, however, the volumes of transactions was impacted in February and March due to the reassessment of school fees charged. Schools and universities establishments adopted online fee collection during lockdown months.

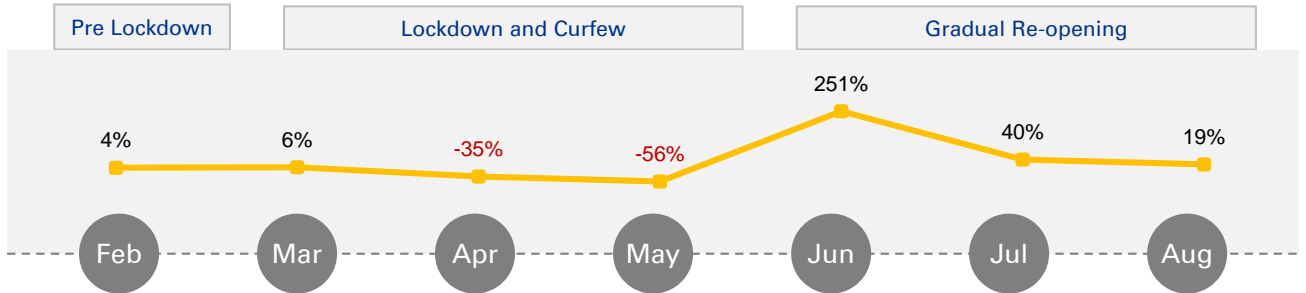
Source(s): KNET data and KPMG analysis

Legend ● High ● Medium ● Negative

Trends in e-Payments by sector

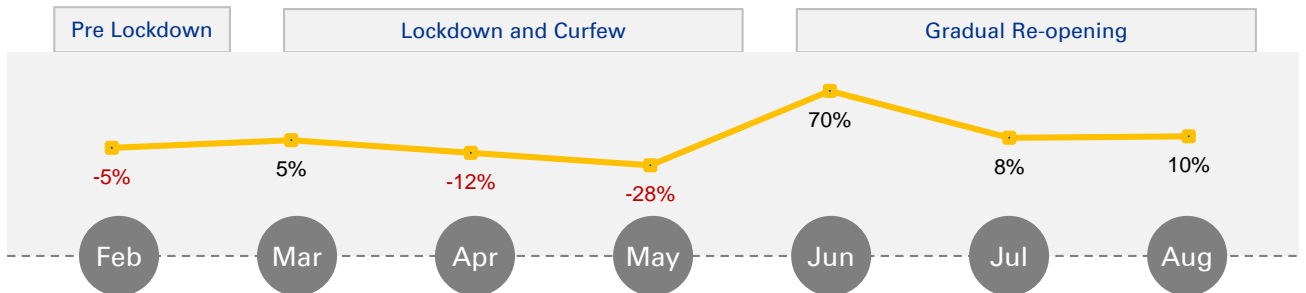
Month on Month growth trends for e-Payments, Feb – Aug 2020

Food and Beverage



Pre-Covid-19, the F&B segment was the key driver for online sales, however the suspension of commercial activities and health and safety concerns over the operation and delivery of the food and drink resulted in a moderate growth of the segment in Kuwait. Post reopening of the market, there was sharp growth in the transactions.

Government



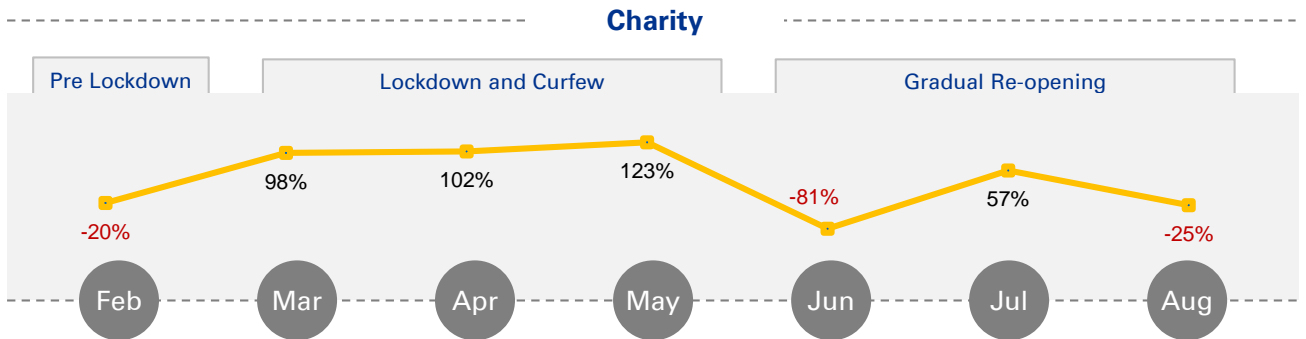
Extensions were provided by the Government for renewal of various authorized documents during the lockdown period that seems to have resulted in a decline in the value of government transactions.

Source(s): KNET data and KPMG analysis

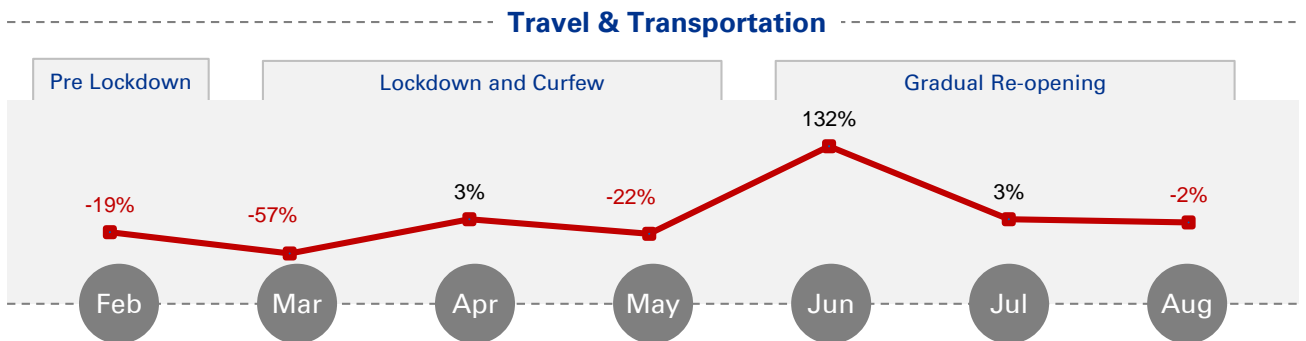
Legend ● High ● Medium ● Negative

Trends in e-Payments by sector

Month on Month growth trends for e-Payments, Feb – Aug 2020



During the early stages of Covid-19, there was a decline in the value of the segment as compared to 2019 (same period). However, the months of April, May and July witnessed growth due to observance of Eid and Ramadan periods.



In line with the global trends, travel and transport segment was most negatively impacted by the Covid-19 crisis. The opening of international travel and increased repatriation efforts has led to growth of 132% in travel observed in the month of June compared to the previous month.

Source(s): KNET data and KPMG analysis

Legend ● High ● Medium ● Negative

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