Customer expectations driving disruption

The speed of technological advancement over the past few years has led to the emergence of disruptors that are transforming the way the banking industry operates. Governments and established banks are grappling with new customer expectations and how to regulate emerging technology and new entrants.

SAMA has been a proponent of change and development in the financial sector, in line with the objectives of the Financial Sector Development Program (FSDP) that is part of Vision 2030. SAMA's forward-looking stance has led to a push for digitalization through Open Banking, the support of the FinTech sector, and licensing digital banks.

Open Banking

In January 2021, SAMA announced that it is developing its Open Banking initiative and services. The process of Open Banking will allow customers to share their financial data with third party providers (TPPs), such as FinTech companies or other banks. The sharing of customers' financial data enables TPPs to develop novel products and services, which is expected to have a positive impact on the Kingdom's financial sector.[3]

Banks are having to adapt to a transformed financial services space that relies on innovative information and automation technology, which has led to obsolete legacy technologies and overextended branch networks. With the rise of the FinTech and the influence of Big Tech, customers have come to expect new services, enhanced user-friendliness, and transparency, as well as accessibility. In fact, the rise of novel digital platforms has extended banking services to previously unbanked segments of the population.[4] Open banking will result in greater efficiency and help banks bridge the gap with FinTechs. Customers will be able to securely and consensually share data with third party developers that can provide innovative solutions in areas such financial information management, frictionless transactions, real-time credit, and money management.[5]

In March 2022, SAMA announced that three FinTech companies were permitted into the Sandbox to work on open banking solutions, indicating the central bank's push to work with industry players to expedite the launch of the Open Banking framework in the first half of 2022.

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Digital banking in Saudi Arabia

In addition to the forthcoming Open Banking framework, Saudi Arabia has granted digital banking licenses for stc Bank and Saudi Digital Bank in June 2021, and by November 2021, the Central Bank governor announced that the Kingdom will issue operating licenses to more digital banks. The trend continued in February 2022 when the Saudi Cabinet granted D360 Bank a digital banking license. The latter is to be established with a capital of SAR1.65 billion and with the Public Investment Fund as one of the main investors.[6]

SAMA's FinTech Sandbox

While embracing technology and seeking to regulate it, SAMA has designed a Regulatory Sandbox to welcome local and international FinTech businesses wishing to test their digital solutions in a "live" environment.[7] SAMA will be able to understand and assess the impact of the new technologies in the Kingdom's financial sector, and companies will get a view of the environment before deploying in Saudi.

The FinTech sector has grown significantly and continues to do so in Saudi Arabia. In 2021, the FinTech sector received US$91 million in funding and ranked first in deals, as startups accounted for 19% of all transactions registered in Saudi Arabia that year.[8] It was also the leading industry by deals across the MENA region.

Future expectations

With the advent of 5G and the expectation that it will be widespread in the next few years, banking services will benefit from the continued efficiency and improved fraud protection that it will bring. Mobile financial services, fueled by FinTech will become increasingly popular. Artificial Intelligence (AI) and the further roll-out of 5G will also enable physical branches to become more lightweight and intelligent while playing an important role in this new era, but their functions will have different objectives than they do now. For certain services, such as opening accounts, wealth management and consultancy, and private banking, customers often prefer face-to-face communication. Smart branches can improve customer experience and decrease labor costs, while also allowing customers access to any branch since data can be synchronized nationwide.[9]

Cryptocurrency and blockchain technology are yet other disruptive and quickly rising forces that needs to be grappled with. on cryptocurrency-related losses.

The lack of scholarly consensus on the status of the currencies creates uncertainty for investors that are looking for shariah-compliant products in the Middle East and elsewhere, but in January of 2021, Bahrain launched a state-approved Shariah-compliant cryptocurrency exchange platform available to residents of Saudi Arabia, the United Arab Emirates, Kuwait, and Oman.[10] For Saudi Arabia to capitalize on the global boom in cryptocurrencies, the development of a regulatory, financial, and religious frameworks will be needed.

Despite these hurdles, blockchain technology has proven to be a viable avenue for Saudi Arabia and other countries in the region, as was demonstrated by Project Aber in 2020. But whether a Central Bank Digital Currency (CBDC) will be developed in the near future remains to be seen.

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