Payment service providers create banking transformation opportunities

The increased rate of technological advancements around the world is closely related to the growth of the global Payment Service Provider (PSP) market. The rise of new payment services and technology providers has been nothing short of disruptive, driven by an era of consumer centricity, and accelerated by the Covid-19 pandemic. Consumer health concerns upended daily life and trickled into spending trends and habits, pushing the payment industry to transform and digitize at a rapid pace.

FinTech vision in Saudi Arabia

In accordance with Vision 2030, the FSDP has issued new initiatives and responsibilities to be achieved by 2025, to bring the Kingdom closer to its goals for 2030. A major strategic pillar is to enable financial institutions to support private sector growth.Within it is the initiative to open financial services to new players and increase the number of of licensed PSPs, currently standing at 17, to a minimum of 30 by 2025.[26] Another initiative is the drive towards a cashless society, with the aim to increase cashless transactions to 70% of all transactions by 2025.[27]

With these goals in mind, FinTech investments in Saudi Arabia poured into payments in 2021, with 93% of all venture capital invested being directed towards that area. Investments were made in point-of-sale (POS) services, mobile payments, and buy-now pay-later services.[28]

According to a FinTech Saudi study, 74% of individuals surveyed have used at least one FinTech solution. Saudi Arabia also achieved the highest adoption of NFC contactless payments in the MENA region, at 94% of all in-store payments.[29] With such a high rate of adoption, companies have a significant trajectory for growth, which contributes to the attraction of venture capital investors to the sector.

Government oversight

SAMA has a mandate to license, control, and oversee the payments sector in the Kingdom following the issuance of the PSP regulations in January 2020.[30] The aim of this mandate is to provide a competent regulatory framework, which is capable of supporting innovation in the payments sector and financial technology. The effort was in large part to attract existing foreign PSPs to operate in the Kingdom, and it borrows many concepts from European PSP regulations, making it easier for companies to launch their services in the Kingdom if they have already been approved to operate in Europe.

SAMA's Regulatory Sandbox Framework was launched in 2018 in direct connection to Vision 2030's goals for the financial sector's development. It allows local and international financial technology firms to test new digital solutions they intend to launch in the Kingdom before going onto the market. Services and products that are currently being tested or that have been successfully tested include e-wallets, peer-to-peer (P2P) transfers, lending, and direct international transfers. The Capital Market Authority (CMA) also launched its FinTech Lab in 2018, as a legislative experimental environment that allows FinTech products and services to test their innovative business models under the supervision of the Authority.[31]

Threats and opportunities for banks

As new players or disruptors emerge through the FinTech sector, banks are having to contend with a new way of conducting business that is heavily consumer-centric. FinTechs tend to focus on customer retention and loyalty and offer their services via non-traditional channels such as social media. Digital wallets, like stc pay can offer such services as local and international transfers, sending gifts, paying bills, making business payments, sharing and tracking expenses with multiple people, and salary transfer for domestic workers. Remittances are a huge business in Saudi Arabia with SAR153.87 billion (US$41.03 billion) reached in 2021.[32] stc pay has been able to capitalize on that through the availability of international transfers at competitive prices to Western Union agents, as well as to international bank accounts and other mobile wallets.

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Saudi Arabia has also granted digital banking licenses to stc Bank and Saudi Digital Bank in June 2021, and to D360 Bank in 2022, which will allow them to offer more products and services to their customers.

Inflexible legacy systems and extensive regulations can hinder innovation, but banks cannot afford to remain static within this increasingly digitized environment. Already, banks like Alinma and Al Rajhi have launched digital wallets - a sign that banks are moving to adapt and remain competitive.[33] In order to better achieve that, they must consider advances in the FinTech sector as an opportunity and not just a threat, and apply a consumer-driven agenda to new services. To respond to the challenge from FinTech, banks can potentially acquire FinTech firms to enhance their services and efficiency, or they can enter into a strategic partnership with a tech firm to benefit from their expertise. Another option could be to invest in FinTech startups through VC investments.

Faisal Sana
Senior Director, Financial Services
E: fsana1@kpmg.com