

# Fintech driving disruption and innovation

Saudi Arabia's fintech sector is powering ahead with more than 150 market participants already, driving digitization, delivering efficiencies through automating processes, and developing new services and applications that are transforming the banking industry.

Local start-ups have delivered innovative electronic payments and currency exchange, lending and finance, private fundraising, insurance, and business tools and information. There has been considerable innovation in mobile applications offering greater levels of convenience, personalization, and access to data-driven services.

Keen for the sector to contribute to a technology-led boost to economic growth and self-reliance, the government has set out a clear strategy set out in a

Fintech Strategy Implementation Plan by the Financial Sector Development Program (FSDP). The initiative underpins a uniquely fintech-friendly environment in the Kingdom, resulting in a first wave of building out the digital economy with a focus on customer-centricity and providing enhanced convenience for end users. Here fintechs are involved in shaping tomorrow's payments systems, enabling innovation through delivering modern financial infrastructure, and supporting the data economy through applying standards and protocols.

The next wave of fintech innovation will focus on solving or supporting major global transitions such as the coming demographic impact on productivity, the low carbon economy, emerging markets integration, automation, and machine learning, unbundling of business models, to name a few. Disruptive or progressive, the innovative solutions developed by fintechs in this space will drive change across horizontal markets, industries, nations, regions, and globally.

An example is ESG or green finance, with fintech innovation holding the potential to contribute deep and lasting impact to global efforts on climate change. ESG will be the fastest growing fintech segment with a forecast of global ESG fintech deals driving a 68 percent CAGR to 2025, from US\$52 billion in 2023 to US\$166.7 billion in 2025.<sup>7</sup>

Another important area where fintechs are expanding is in enhancing the resilience of finance and financial systems, whether that's safeguarding the financial system from evolving risks, enhancing protection against cyber risks, and embracing digital regulation.

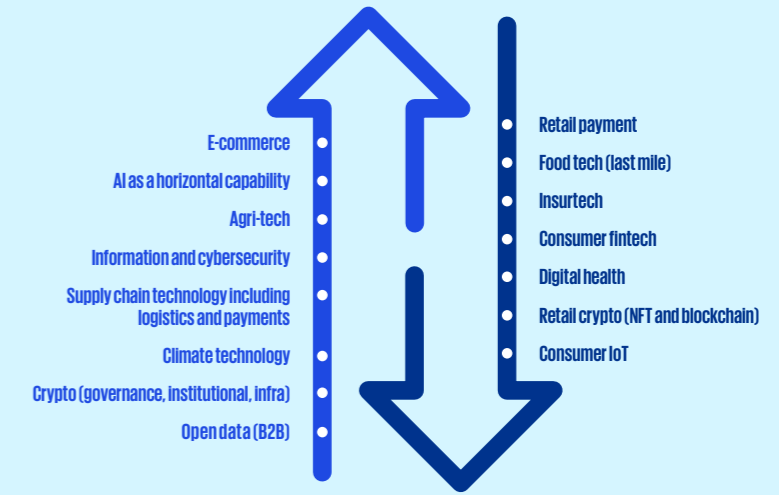


## Fintech trends for 2023 and beyond

In addition to increasing investment in fintech solutions aligned to ESG principles, the banking and finance industry will witness a number of fintech-driven innovations and market impacts over the coming year.

- B2B solutions will continue to attract solid investments** as business embraces the benefits of streamlining processes and digitization. Banks are developing solutions that offer modern payments that offer faster payment processing times, lower costs, and greater transparency than traditional methods.
- Non-crypto blockchain-based solutions** – Applying blockchain technology in banking will bolster bank security by developing robust know-your-customer (KYC) solutions and cryptographic protection that verifies identities of users on the blockchain. Information can be easily shared across the network, while reducing the need of intermediaries to handle data distribution, further eliminating vulnerability. The decentralized nature of blockchain eliminates single points of failure, which also reduces the risk of data breaches. Blockchain technology will also benefit the industry in the areas of instant payments and money transfers, digital currency, and money exchange.
- AI-driven fintech solutions and AI-based tools**, with their advanced computational and analytical capabilities, will help optimize data aggregation and usage, mitigate regulatory and market risks, improve customer experience, and combat fraud.
- Focusing on fintech deals, investment activity** (VC, PE, and M&A) is expected to continue to grow at an estima-

## Global investor sentiment for fintech deals is becoming more discerning.



Source: CB Insights, Pitchbook, Crunchbase, KPMG analysis

ted 30% CAGR over the next decade.<sup>8</sup>

- Finally, regulators will place more scrutiny on the crypto space** while encouraging the development of money systems that better align to a stable and sustainable digital banking system.

### Regulators ahead of the curve

Robust policy direction and regulatory facilitation are paramount for a sector that is fast-moving and pervades many industries, verticals as well as the lives of residents. The regulators have been quick off the mark; SAMA and the Capital Market Authority (CMA) have established a supervisory and oversight framework that enables fintech startups to commercialize and expand. Also Fintech Saudi is playing a key role to develop the sector and provide a cohesive environment for new companies to flourish.

In 2019, CMA's removal of the 49 percent ownership limit for foreign

investors levelled the playing field for foreign and local companies, which opened the way for foreign investors in listed companies on the Saudi stock exchange. In January 2020, SAMA launched regulations governing instant payment services and electronic money issuance, and the Council of Ministers licensed three local digital banks: Saudi Digital Bank, STC Bank and D360, with several others announced.<sup>9</sup>

The entrance of these digital banks is a strong indication of the dramatic and widespread changes ahead for the banking industry and the maturity of the fintech sector.



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