



The local FinTech opportunity in a Post COVID-19 World

How Payments and Open Banking are evolving across the GCC



In this paper we analyse the key FinTech sectors of 'Payments' and 'Open Banking', which are playing or are likely to play a pivotal role in the post COVID-19 economic recovery and what GCC governments, regulators and businesses could do to capitalise on them.



Over the last decade, FinTechs have been rapidly transforming the global financial sector services from digital payments, lending, insurance, asset & wealth management, capital markets to supervision.

When we think about defining FinTechs, the Financial Stability Board (FSB) recognises them as **“technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services”**¹.

The ongoing pandemic has put a spotlight on the increasing need for digitisation with FinTechs and digital banking enabling safe and distant functioning not only to the global financial services industry but the entire economy.

When we look closer to home, the GCC is investing heavily in the FinTech space, and Saudi Arabia efforts are being driven specifically by the Financial Sector Development Program (FSDP), aligned to the Vision 2030 programme to accelerate the growth of the FinTech industry. Taking learnings from global leading FinTech Hubs such as Singapore and the UK, the Saudi Arabian Monetary Authority (SAMA) is responsible for bringing the Kingdom's FinTech strategy to life.

Some strategic milestones in the evolution of the strategy have included the creation of “FinTech Saudi” in partnership with the Capital Market Authority (CMA), the development of two regulatory sandboxes (SAMA and CMA) and an innovative accelerator program.

Who was responsible for the Digital transformation at your firm?

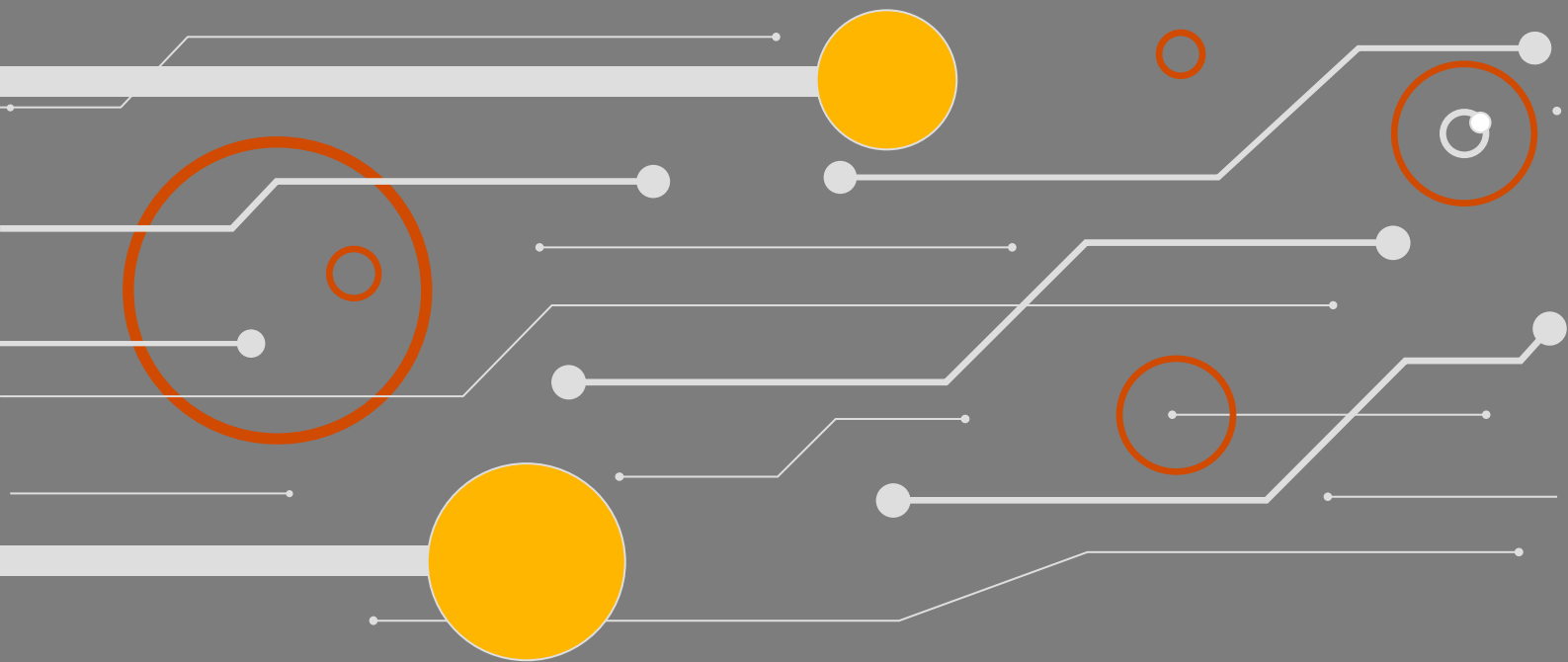
- CEO
- CTO
- Agile Groups
- The Coronavirus**

“Forbes”, “Who Led Your Digital Transformation? Your CIO Or COVID-19?”, 26th May 2020



Payments (E-Commerce and Mobile Wallets)

In this section, we take a closer look at how COVID-19 is transforming the digital payments industry.



COVID-19 Impact

COVID-19 has accelerated the rise in digital payments and we've seen this specifically in the retail sector, with eCommerce seeing a 35.5% increase in global traffic between January and June 2020.

In May 2020, while many regional lockdowns were in play, we conducted our Global Consumer Insights COVID-19 Pulse survey and it was no surprise that 53% of Middle East respondents had increased their online shopping using their smartphones. KSA eCommerce platforms Bin Dawood and Danube benefited from this surge with their average sales increasing by 200%, while in the UAE, Carrefour saw a 59% rise in new online customers, since the beginning of outbreak.³ What local lockdowns have done is forced more urban consumers, previously resistant to change, to shop online. Having experienced the convenience, most Middle East survey respondents were likely to continue to keep up their new shopping behaviours post the pandemic.

As global markets begin to reopen, now is the time for governments, businesses and individuals to embrace the financial services of the future. The question is no longer whether consumers will adopt e-commerce and contactless payments, but how easy and how fast.

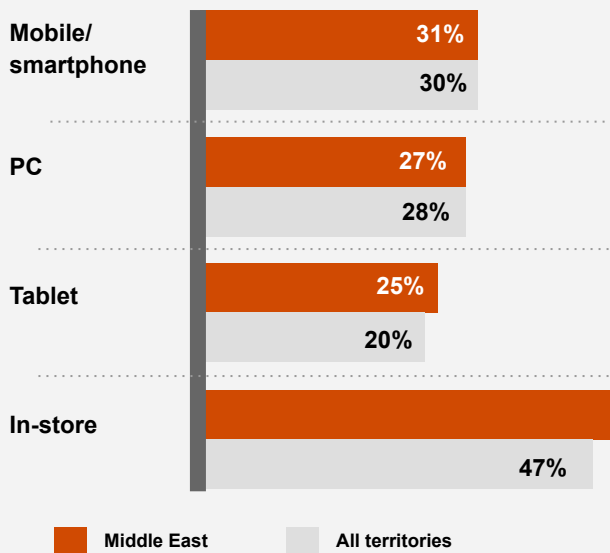
Retail eCommerce platforms have undergone a

35.5% global traffic increase between January and June 2020.²



How often do you buy products (e.g. clothes, books, electronics) using the following shopping channels?

Before COVID-19

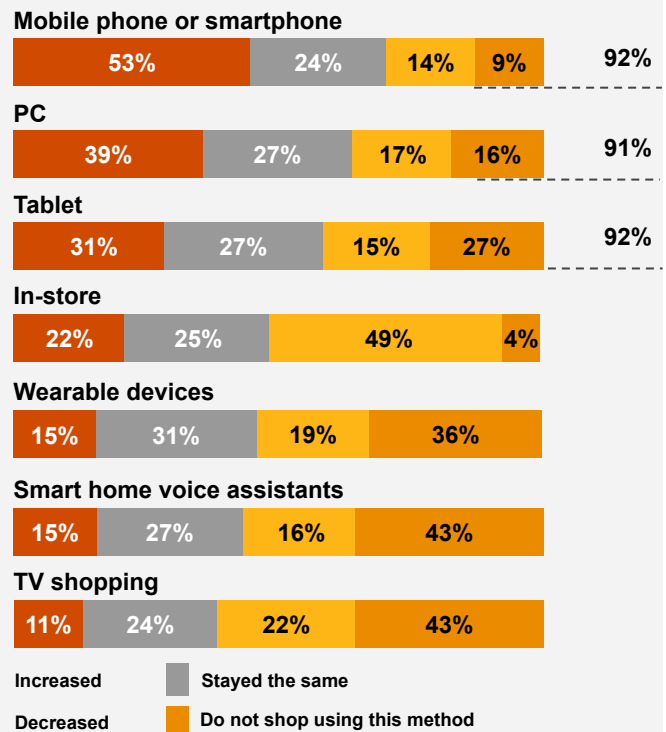


Source: PwC's Global Consumer Insights Survey COVID-19 Pulse survey

How has your use of the following shopping channels changed, if at all?

After COVID-19 outbreak

Likely to maintain current increased use



So what does this mean for digital payments?

In 2019, digital payments transactions reached USD 3,859 billion, with China leading the largest market. In Saudi Arabia, the FSDP is addressing the move towards a cashless society by targeting 70% of cashless transactions by 2030. By 2020, the digital payments segment is projected to reach USD 4,934 billion globally (USD 17 billion in KSA) with digital commerce, becoming the largest segment driving expected values of USD 2,926 billion (USD 11 billion in KSA)².

What Governments and Regulators can do:

Countries with established FinTech sandboxes and accelerators have an opportunity to support the growth of the sector by focusing on payments startups, ensuring they get the appropriate funding and admissions.

In late March 2020, KSA start up Nana Direct, a local grocery delivery app, raised USD 18 million in a series B funding round.³ A series B funding round generally indicates confidence in a start up's growth and is given to meet its greater demand. Start up companies, with the right level of support can positively benefit the entire economy either directly or indirectly - through increased liquidity and consumptions, increased employment, attraction of FDI, improved efficiency, lowered transaction costs and innovation, etc.

GCC governments, like all governments, offer essential services such as postage, ID renewals, permits, etc. They should aim to fully digitise these offering not only to facilitate customers' ease of access but to also drive cost efficiencies. This includes Peer to Peer (P2P) instant payments, Central Bank Digital Currency (CBDC), Consumer 2 Business (C2B) payments, Business 2 Business (B2B) payments, mobile wallets, and even Internet of Things (IoT) based (cameras, sensors).

The introduction of Open API solutions will be a key factor for the exponential increase in digital payments, as seen in India, where the introduction of a Unified Payments Interface (UPI) has touched USD 29 billion in monthly transactions in February 2020.⁴

What businesses can do:

Retail outlets and brick and mortar establishments must develop an online presence if they want to remain competitive in a post COVID-19 world. Middle Eastern consumers have become even more sophisticated and expect to receive a seamless online experience that takes them on a single (end to end) customer journey. This includes ease of navigating websites and making simple transactions to having a strong supply chain in place to ensure the timely delivery of products. Having an effective omnichannel strategy will help drive footfall offline into the physical stores and can be capitalised through the use of in-store contactless terminals.

Start-ups in the payment providers space are beginning to dominate the sector both globally and regionally, introducing innovative strategies and products. In Saudi Arabia, Geidea, STC Pay, BayanPay and others are developing progressive payment solutions, which can potentially leverage the recent offerings from the SAMA/CMA regulatory sandboxes.

Continued investment in technology and R&D is key to further development in the sector, and meeting the new needs of customers such as fully fledged cash management services, mobile-only solutions, FS and non-FS solutions unified, innovative payments devices etc.



Sources: ¹Financial Stability Board, ²Statista, ³Food navigator-asia, ⁴National Payments Corporation of India ⁵Pinsent Masons ⁶Mondaq

The Open Banking evolution starts with payments

In this section, we take a closer look at how COVID-19 is transforming the Open Banking sector.



COVID-19 Impact:

2020 is shaping up to be a crucial year for driving the regulatory and market change in Open Banking. Globally and in emerging markets such as the Middle East, Opening Banking has the potential to significantly reshape the financial services landscape and other countries are also making considerable moves in this space.

In the UK, the implementation of the 'Strong Customer Authentication' (SCA) standards are likely to be delayed⁵ but Turkey has made significant headway with the regulation on Banks' Information Systems and Electronic Banking Services coming into play on March 15, 2020⁶

COVID-19 has disrupted almost everything in our daily lives and it has been no different for global and regional governments who have relied heavily on the monitoring of mobile data to effectively assess the spread of the virus. Gaining insights through contact tracing applications, has allowed governments to clearly identify if the policies and social distancing measures they have put in place are working effectively. Central Banks can learn from this approach which may help to cement their decision to pursue Open Banking more aggressively. Additionally, customers may also see the benefits and become more open and willing to consent to sharing their data if this means they can transact more freely.

What Governments and Regulators can do:

In January 2018, the CMA (Competition and Markets Authority) mandated Open Banking in the UK and governments around the world are being called upon to lead the charge towards transparency and API-based data sharing.

Regulations must define the type of data that financial institutions are required to share, for example public data, customer data or verification data. This includes outlining the underlying customers eligible and also the risks that have to be mitigated such as cybersecurity, consumer protection, data privacy, etc.

Additionally, a regulatory framework must define the type of financial institutions that are subject to regulations, what products and services are allowed and who the eligible customers are. This will help to mitigate any concerns around data sharing such as data and customer protections or cybersecurity, which will provide comfort to customers in their ability to trust the financial system.

All countries in the GCC are embracing the journey to shape the future of financial markets with Open Banking, most with a focus on banking and payments as first priorities. For example:



Bahrain is at the forefront having launched the Bahrain Open Banking Framework (Bahrain OBF) in October 2020. The framework is quite holistic in defining the Open Banking Regulation, guidelines, technical standards for Open API platforms, security standards (including data privacy), and overall governance. The country initially introduced their Open Banking rules in 2018 and this framework builds on them to implement the full Open Banking ecosystem.




Saudi Arabia is fully invested in developing their financial sector and multiple initiatives are sparking interest in adopting Open Banking. For example, the establishment of Saudi Payments, the set-up of Fintech Saudi, the two regulatory sandboxes managed by SAMA and the CMA and the review of the Payments Law that has included new licenses for PSPs.

There are a growing number of Fintechs operating and or interested in entering the market and banks are showing an increased need for cooperation and adoption of Open API solutions. Saudi Arabia is keen to developing its cloud computing offering, representing a shift from the hesitance shown in the cloud regulatory framework. Open Banking would stimulate innovation further, which would in turn position the Kingdom at the forefront of financial service innovation in the region.



In the **UAE**, new Open Banking platforms are rising with Fintech players and banks showing they are adopting or are ready to adopt Open API solutions and while this is happening, national and offshored regulators are defining the roadmap towards Open Financial Markets. Recent announcements of the Central Bank of UAE, together with ADGM and DFSA, have showed support toward the Open Banking idea, as a way to boost innovation. Additionally, the DFSA are looking to improve their licensing regime to include PSPs (Payments Service Providers, "Providing Money Services" in the GEN Rule 2.2.2).



Sources: 1Financial Stability Board, 2Statista, 3Food navigator-asia, 4National Payments Corporation of India 5Pinsent Masons 6Mondaq

Among countries that have already adopted Open Banking, different approaches based on their relative economic and regulatory spheres can be identified, for instance:



China and the US have no explicit rules or guidance that either require or prohibit the sharing of customer- permissioned data by banks with third parties (**market-driven approach**);



Since 2019, both the EU and Australia have adopted a structured legislative framework that covers payments and banking (**prescriptive approach**) and harmonise non-homogeneous jurisdictions (in Australia this is developing further beyond banking);



Singapore and Hong Kong provide guidance and recommended standards along with open API standards and technical specifications (facilitative approach);



Mexico instead has defined an overarching FinTech Law that includes rules on Open Banking, with provisions for Credit Information company and Clearing House, while provision for the banking sector may be delayed until end 2020 / beginning 2021.

What businesses can do:

Engaging with players in the ecosystem (e.g. regulators, authorities, standards organizations, etc) to influence strategic interventions to enable Open Banking, is the best way forward. Businesses may leverage forums and working groups to communicate needs to Regulators and should support shaping the Open Banking agenda for the country.

Banks should undertake data-mapping exercises to determine what client data is housed and see what information may be used to further enhance customer services and experience through aggregation solutions and analytics tools.

At the same time, to ensure competitive advantage, banks and FinTechs should start out testing in controlled environments to have the best solutions ready and available, once the inevitable Open Banking regulations kick in. There is a great opportunity for banks to **capitalise on a first mover advantage**.

We believe the future of financial services is shaped everyday through innovations in products and services, enabling regulations, advancement in technology, rising financial literacy and ultimately through the coherence and convergence of these foundational elements.



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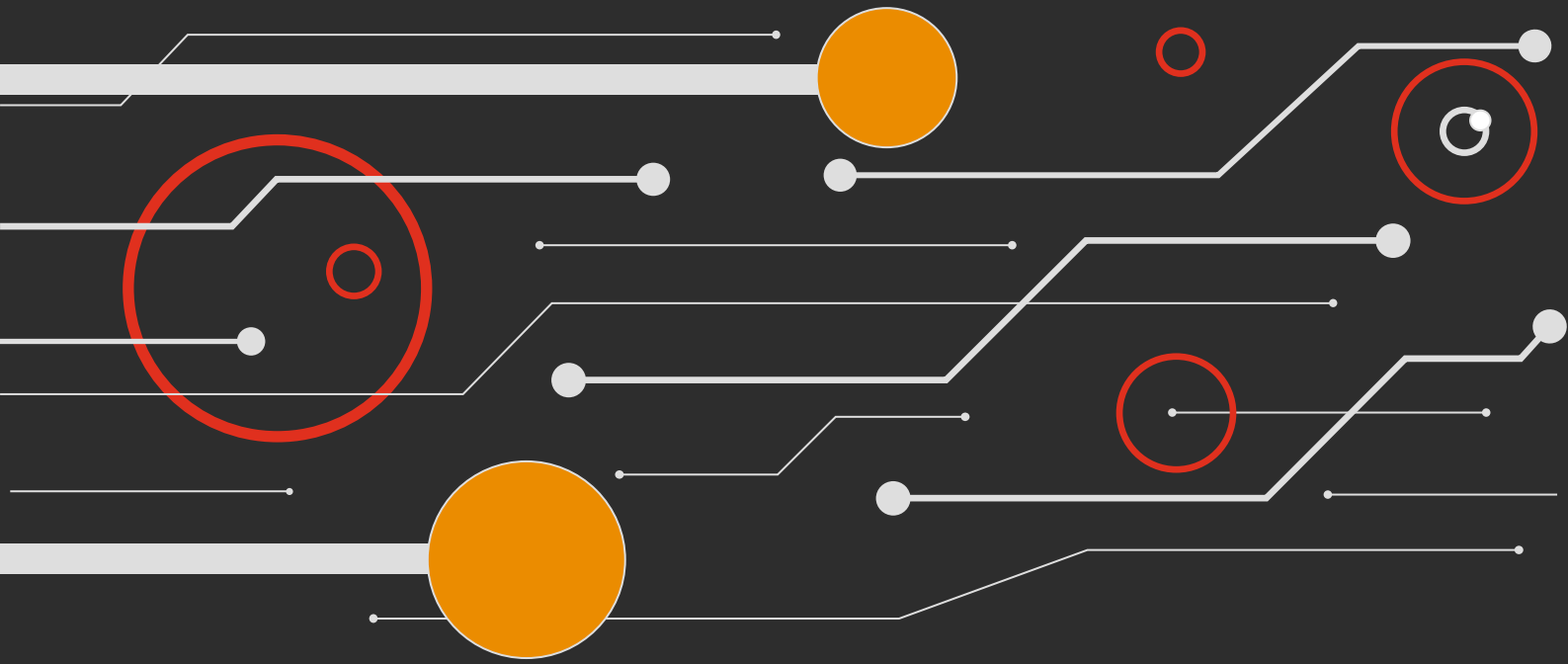
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