Report

Digital Banking in The Middle East

By BPC and Fincog

2022

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Preface

A variety of digital-only banks have emerged over the last decade. These new entities also referred to as neo banks or challenger banks offer modern banking propositions tailored to the smartphone and digital world. They were founded in the aftermath of the 2008 global financial crisis with the vision of making banking services more accessible and equitable. These digital banks are setting the benchmark for the future banking market.

There are already more than 500 digital banks worldwide and they are growing rapidly in both number and size. Nevertheless, there are still many opportunities in specific service areas and geographic markets.

Following suit on our series of geographic industry reports on digital banking around the world, this edition investigates the digital banking market of the Middle East with a particular focus on the countries of the Gulf Cooperation Council (GCC) and includes observations of the economical landscape and cultural dynamics of the region taking into consideration the existing banking infrastructure and arising trends and technological advancements. Subsequently, the report further deep dives into the existing digital banking market and characteristics of successful newcomers that stand out in between the current competitive landscape and provides an overview of players across the region.

In the end, the document outlines a selection of carefully assessed opportunities together with actionable advice on success factors for new players to enter the Middle Eastern digital banking market.

With this report, you will have a complete overview of the Middle Eastern digital banking market as well as an excellent understanding of the current competitive landscape. Together with our actionable advice on a potential market entry, we are confident that you will be perfectly positioned for building a successful business venture in the Middle East.

The report is informed by various interviews with experts on the Middle Eastern banking market and draws both on existing research and analysis performed by BPC and Fincog to provide the highest quality of information to our clients.

Chapter 01

The Middle Eastern Market

01

While the Middle East is arguably one of the smaller regions on earth of population with a population of approximately 400 million, it does not stand behind when it comes to its cultural roots or significance to the global economy. The region's history spans from parts of Asia over to Africa and owns its geographical grouping to the strong cultural ties and shared language across countries. Since there are still several different definitions of The Middle East and its belonging countries, we point out that in the context of this report, we focus on the six nations of the Gulf Cooperation Council (GCC) while considering the wider Western Asian geography as well as Egypt in North Africa as a reference in some parts of in the following chapters.

1.1 Demographics

Ranging geographically from Asia to Africa, The Middle East boasts a vibrant ethnic ecosystem and as part of its economic transformation, attracts constantly people and expatriates from around the world. According to the United Nations Population Division, there were 35 million international migrants alone in the GCC countries, and Jordan and Lebanon. Furthermore, based on data from the International Labour Organization (ILO), foreign nationals make up the majority of the population in GCC countries such as Bahrain, Kuwait, and Qatar reaching as high as more than 80% in Qatar and UAE. Additionally, the ILO estimates that the six GCC states account for over 10% of all migrants globally with Saudi Arabia and the UAE hosting respectively the third and fifth largest migrant populations in the world.

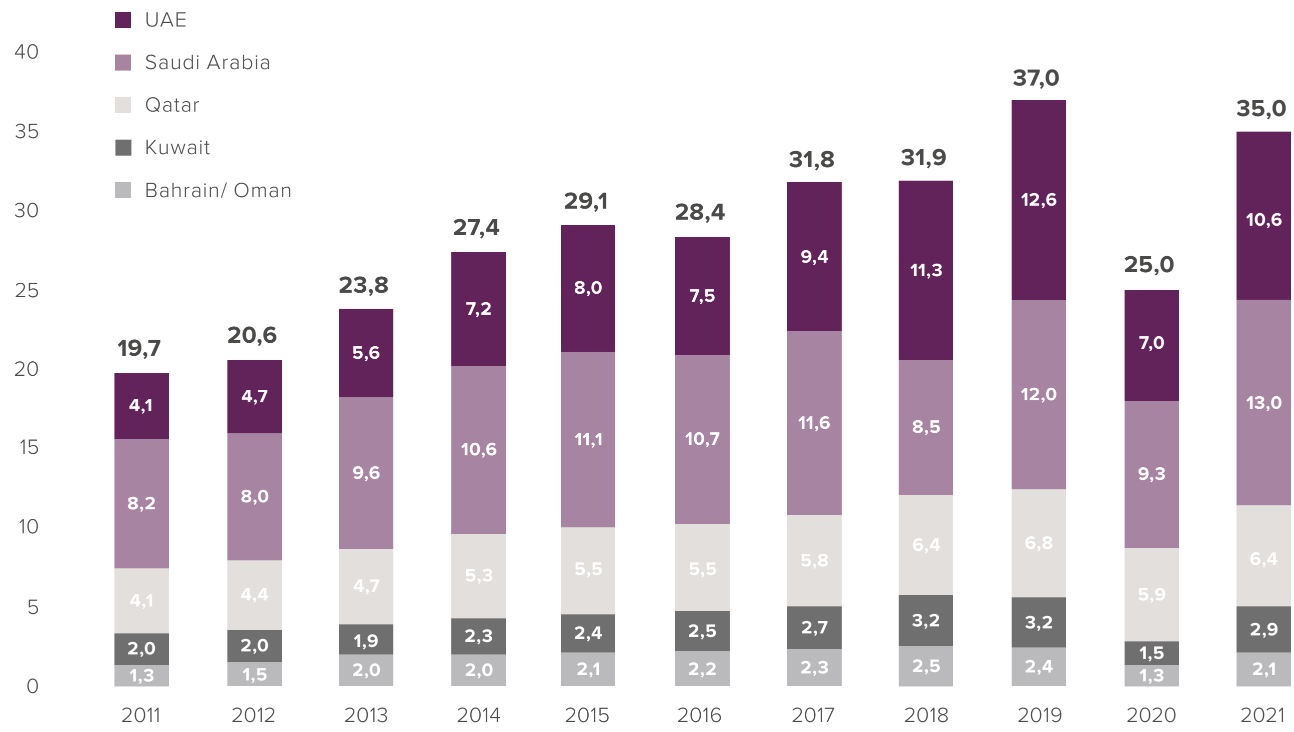
Next to diverse nationalities, the region is centralized around a youthful and digital-savvy population of approximately 400 million people. Looking at the most recent statistics by the United Nations on world population and median ages, the region ranks among some of the youngest in the world with a median age of just 31 years. Especially in the wider Western Asian nations but also Egypt the median age can reach as low as 21 years as in Iraq where approximately only 62% of the total population is aged over 15 years and from this 34% is aged between 15 and 34 years. Another relatively young country is Egypt where the median age is settled at around 25 years while the country makes up an important 25% of the entire Middle Eastern population. Among GCC countries, on the other hand, the median age ankers around 32 years. Only Kuwait seems to be a slight outlier with a median age of 37 years and approximately 51% of its population aged between 35 and 64 years.

1.2 Economy

In recent decades, The Middle East has undergone some of the world's most impressive transformational changes. Substantial oil and gas revenues as well as a governmental investment have allowed for vast advancements and entirely remodeled countries such as Saudi Arabia and the UAE and turned them into wealthy and industry-leading economies. However, despite the foundational transformation enabled during times of stable prices for oil and gas, more volatile periods such as during the recent pandemic but also the look into the future are concerning for many governments. There is no secret that in the long term, the sustainability of hydrocarbon revenues is questionable. In the medium term, research even suggests that revenues from oil are already to decline by 2040 if not sooner. This is based on higher demand for renewable energy and improvements in energy efficiency and storage.

To alleviate the effects of declining hydrocarbon reserves and revenues governments, particularly in the GCC region were encouraged to look beyond their traditional economic drivers. The result of this is the creation and implementation of various economic development and diversification strategies. From Bahrain's Economic Vision 2030 to the Saudi Vision 2030, UAE's 2050 strategy, or the Kuwait Vision 2035, each of the GCC countries has its variant of a broader strategy that shares a variety of common goals. Next to the target of diversifying their economies by replacing oil and gas production and revenues with the production of goods and services independent from the respective industries, most of the national visions and economic development plans focus on promoting innovation and entrepreneurship, the

Net Profits across GCC countries in $ Billion 2011 – 2021



Source: Reuters, Company Financials, Kamco Invest Research

Exhibit 1 | Net profit for the GCC banking increased by 40% to $35 billion in 2021

creation of jobs and economic growth but also on digital transformation.

With digital transformation and industry diversification playing a key role throughout the national strategies, financial services and fintech is one of the many focus topics. As part of the Saudi Vision 2030 for example, the Council of Economic and Development Affairs (CEDA) launched the Financial Sector Development Program (FSDP) in 2017. According to the official Vision website, the program "aims to develop a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finances and investments." One of the outcomes of

Distribution of Adult Population in 2020

Percentages of adults with and without access to bank accounts

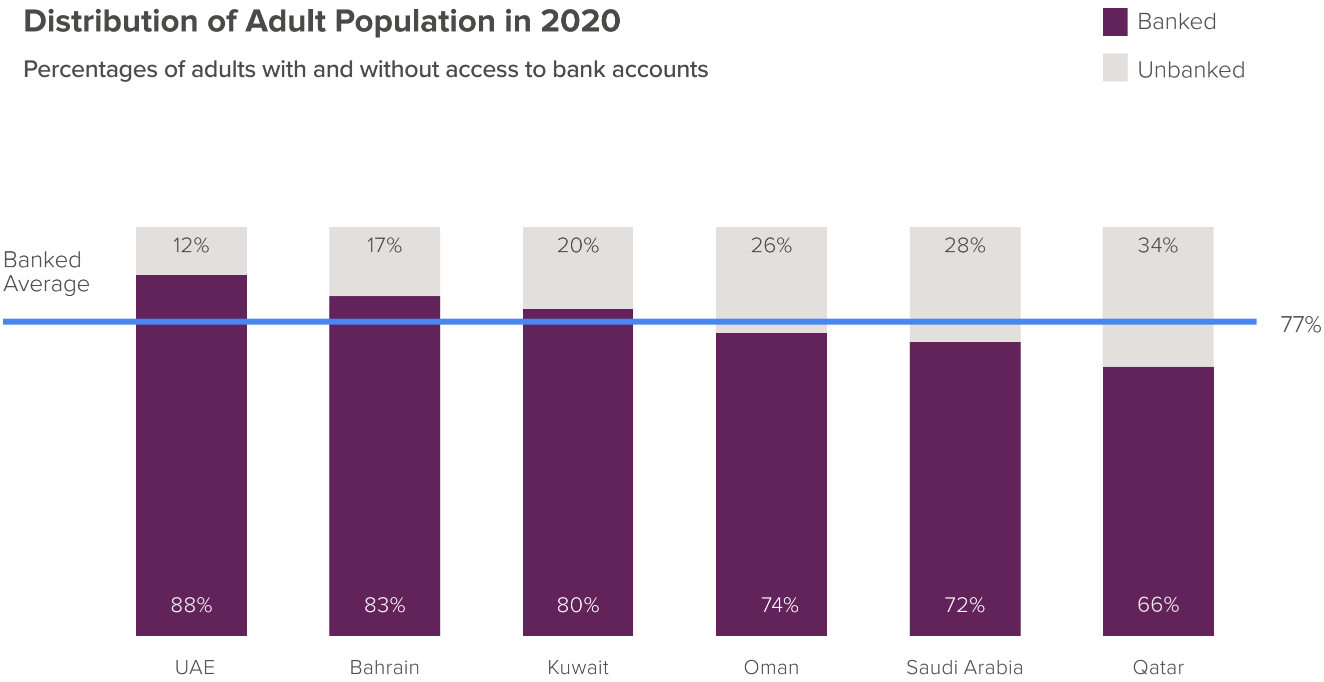


Exhibit 2 | More than 77% of people in the GCC have access to a bank account

this program has been Fintech Saudi, an initiative launched in 2018 by the Saudi Central Bank. By building capabilities and training talent required for fintech companies and supporting entrepreneurs, the initiative seeks to act as a catalyst for the financial services technology industry.

Other examples are the prevalent emergence of regulatory sandboxes that allow entrepreneurs and fintechs to live-test their solutions in a safe environment and under the supervision of the regulator. However, it is key that regulators within the GCC share an equal vision and collaborate to deliver their visions in line with the market feedback.

1.3 Banking markets

Historically, the banking sector in the GCC is one of the fastest developing banking markets in the world and despite the macroeconomic challenges of the pandemic, the banking sector experienced a period of sustainable growth and while profits were suffering under the impacts of the pandemic in 2020, the region is quickly recovering. According to research by Kamco Invest, profitability for the GCC banking sectors in 2021 increased by 40% to reach $35 billion as compared to $25 billion in 2020. However, profits failed to reach pre-pandemic levels of $37 billion in 2019.

The increase in profits was largely led by an increase in total bank revenues as well as a decline in loan loss provisions during the year with Kuwaiti banks almost doubling their profits during the year. On the other hand, the UAE and KSA banks reported likewise above average profit growth of 52,6% and 40,2% respectively, while banks in Qatar reported the smallest growth of only 7,7%.

Alongside a rather heterogeneous banking infrastructure, we see increased consolidation across banks in the Middle East. Spurred by tighter regulatory requirements such as higher capital adequacy or more stringent capital definitions, high-profile mergers have become a growing trend across the region. This includes examples such as the $220 billion merger between Saudi Arabia's biggest retail lender National Commercial Bank (NCB) and smaller competitor Samba Financial Group in 2021 that combined estimated assets worth $240 billion or Abu Dhabi Commercial Bank's (ADCB) merger in 2019 with Union National Bank and AL Hilal Bank as its Islamic arm combining estimated assets of $114 billion. Especially smaller banks are joining forces to make increasing costs more manageable and position themselves to compete with the incumbent market leaders.

In line with the traditionally strong banking market, we see relatively low levels of unbanked population across the GCC countries. From as low as 12% unbanked in the UAE until 28% in Saudi Arabia and 34% unbanked in Qatar, the average of 77% banked customers stands out among other regions in the world.

Lastly, due to the acceleration of digital change, many banks are motivated to seize the momentum and leverage financial technology to introduce customer-centric digital services as we see with many new uprising digital banks across the region.

Chapter 02

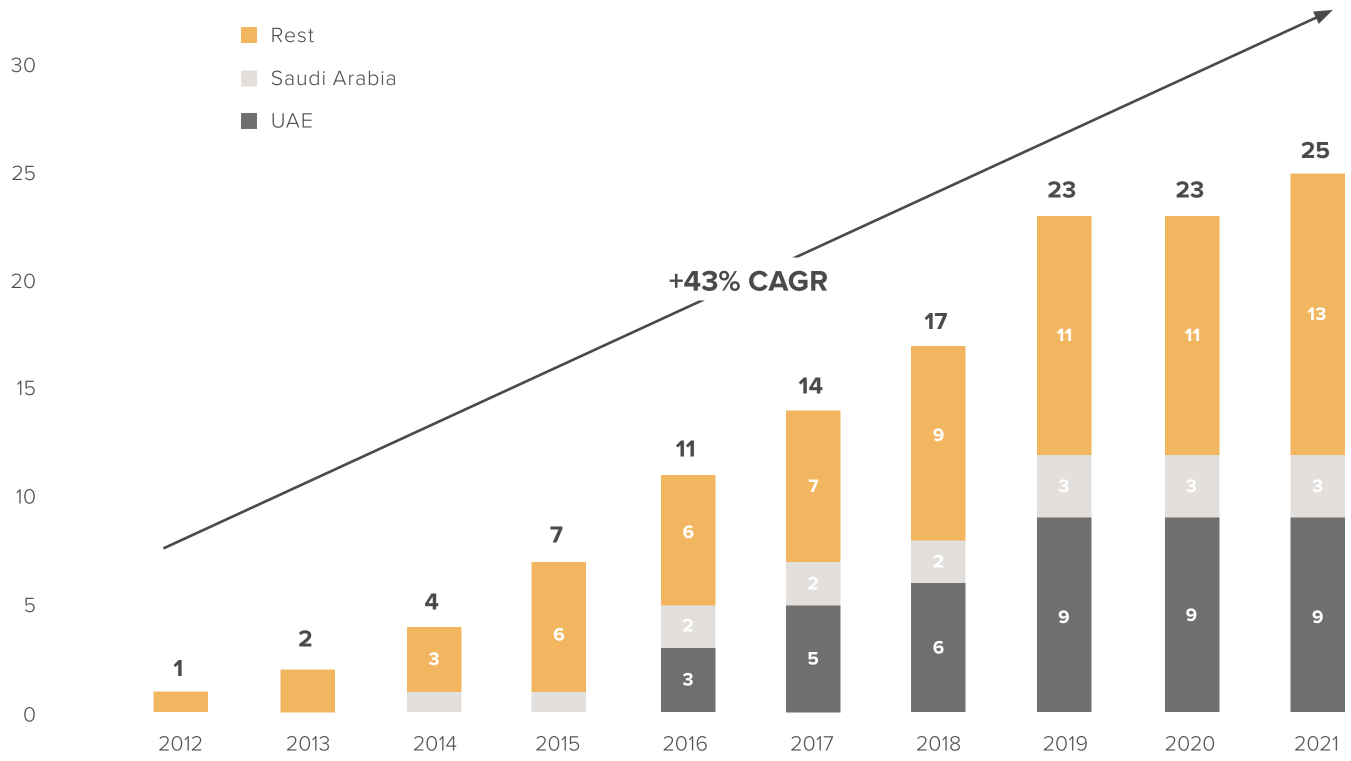
The Digital Banking Landscape

02

Over the past few years, the demand for digital banking solutions has been growing significantly across the Middle East, driven by the specific characteristics of the market and the evolving customer behavior and expectations toward digital services. On top of this existing trend, the ongoing COVID-19 pandemic has accelerated further the shift to digital transactions. Consequently, new players have entered the market, while incumbents in the banking sector have been exploring modern and digital solutions to meet the emerging demands of their customers.

There are several characteristics of the market that make it fertile ground for a flourishing digital banking ecosystem, especially among some specific segments. The primary drivers of the demand for fintech solutions across MENA are most notably the low financial inclusion rate and the high internet penetration across the region.

Number of Digital Banks in The Middle East from 2012- 2021



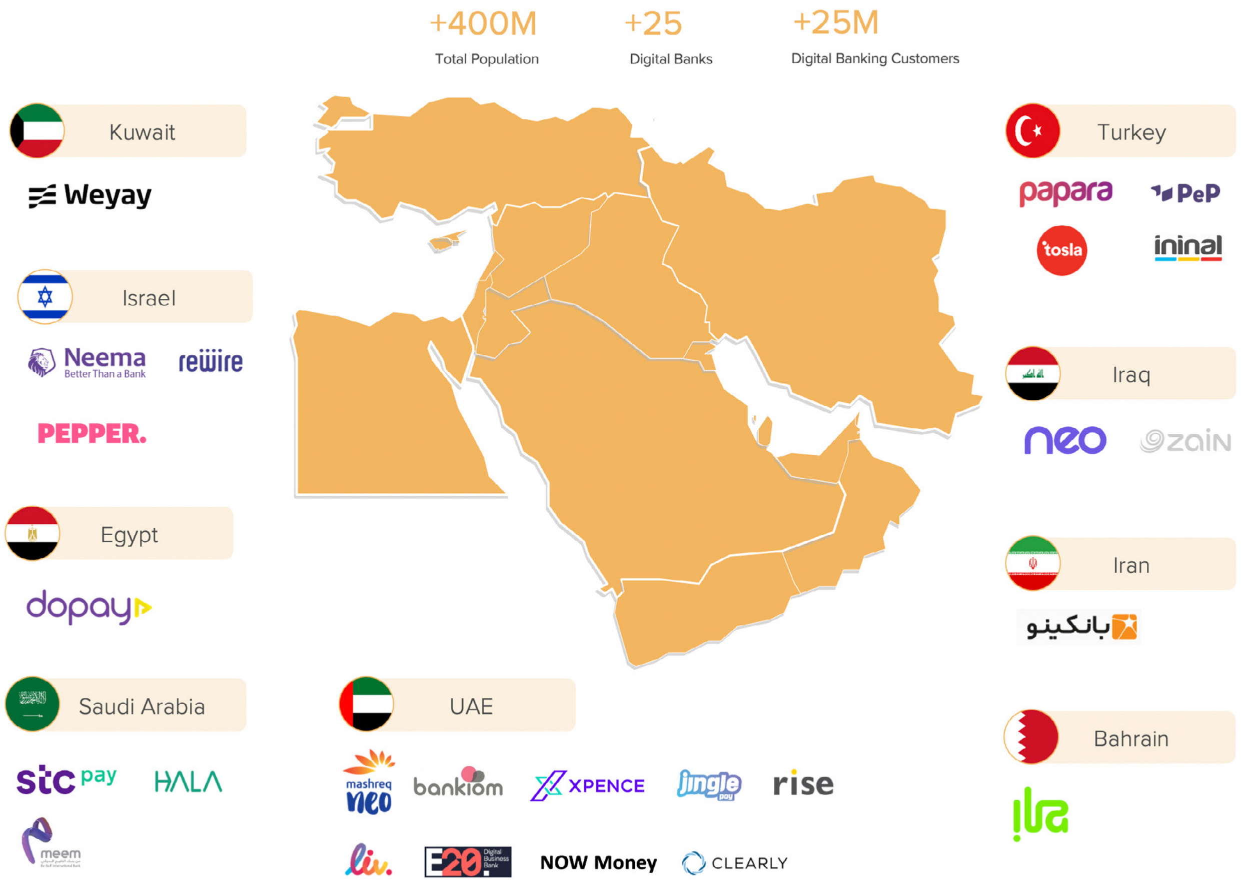
Note: Rest includes Bahrain, Kuwait, Isreal, Turkey, Iran, Egypt and Iraq

Source: Fincog Challenger Bank Database, Company websites, public sources

Exhibit 3 I Since 2012, the Middle East digital banking market has experienced sustained growth, becoming home to more than 20 Digital Banks

Several segments of the market lack access to the banking system or tend to be largely excluded from it for different reasons: most women don’t have access to financial services due to cultural considerations; and a significant part of micro, small, and medium-sized enterprises are less served because banks find it more profitable to deal with larger companies.

The Middle East is one of the top-scoring regions for its level of internet penetration, with strong and sustained growth over the past decades. This has been a key enabling factor to place customers in a position to easily adopt mobile payment options as well as other innovative financial services propositions delivered online.



Source: Fincog Challenger Bank Database, press search, company websites

Exhibit 4 | The Middle East is home to 25 digital banks serving over 25 million people

Adding to this, most countries in the region have promoted regulatory initiatives such as innovation labs and regulatory sandboxes aimed at showing their open support for digital banking initiatives and providing a more flexible regulatory environment to catalyze fintech advancement and growth.

While incumbents have been slowly advancing their propositions, fintechs are still better suited to address the unmet needs and problems that confront unbanked and underserved individuals as well as smaller-sized businesses. Fintech can also leverage innovatively automated and AI-based processes to deliver faster and better-suited services that more closely or efficiently fit customers' needs.

The key advantage is the technology powering these innovative fintech propositions, which generates significant operational cost reductions and allows to reach a wider audience – possibly untapped by incumbents – through social media and other online access points. In fact, by leveraging the extensive internet penetration which characterizes the region, fintechs can easily offer their services through digital channels rather than setting up an expensive physical presence.

To conclude, MENA countries have been building strong foundations for the future development of the (digital) banking industry by creating a supportive and competitive environment and thus are well-positioned to benefit from the growth potential that lies in this sizable, multi-faceted and largely unbanked or underserved market. There are three main categories of actors, which are: incumbent banks, neobanks and non-financial institutions.

2.1 Incumbent banks

The thriving start-up environment and innovation culture in the Middle East could potentially become a serious threat to incumbent banks, who have slowly started to formulate and execute their digital strategy. Although restrained by the burden of their legacy infrastructure and bureaucratic processes, incumbents are launching digital greenfield banks to stay relevant in this evolving market context.

01

Building a digital lifestyle bank accommodating the likes of millennials in the UAE

Proposition

Liv. by Emirates NBD bank is a digital-only lifestyle bank built for millennials and one of the fastest growing challenger banks in the UAE. The digital bank has as off today acquired approximately 400.000 customer and offers a set of banking features including, current accounts, personal loans, p2p transfers, remittances, bill payments and many convenient lifestyle features. Additionally, Liv was able to reach profitability within 14 months after launch.

Key Success Factors

- Smartly branded lifestyle banking with a sleak user interface target towards the younger and digital savvy generation while offering customers targeted lifestyle daily feeds with lifestyle deals and offers to their likes
- Flexible choice of different accounts depending on needs
- AI enabled virtual assistant called Olivia that services customer inquiries as well as a wallet that gives users insights into their financial behaviours

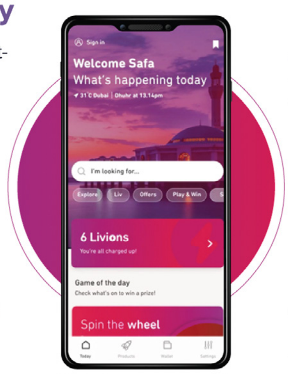
Profile

Founded	2017
Headquarters	UAE
Geographical Coverage	UAE
Customers	400.000
Ownership	Emirates NBD
Regulatory License	Banking License by ADGM

Funding History

Liv. Primary
Standard interest-bearing deposit account

Liv. Goals
Add-on deposit account with savings features



Liv. USD
Savings account supporting USD currency

Liv. Young
Account for minors with parent controls

Source: Fincog analysis, company websites, public sources

Products

- CURRENT ACCOUNT
- CREDIT CARDS
- PERSONAL LOANS
- REMITTANCES
- SAVINGS

02 ila

Client-centric and socially driven digital bank offering innovative savings features inspired by regional traditions

Proposition

Ila bank is a mobile-only and cloud-first digital bank launched by Bank ABC, an international bank headquartered in Bahrain. The challenger bank offers a broad set of services including a current account with flexible funding options, credit cards, savings and many additional features to offer a personalised and convenient banking solution.

Profile

Founded	2019
Headquarters	Bahrain
Geographical Coverage	Bahrain
Customers	Undisclosed
Ownership	Bank ABC
Regulatory License	Retail Banking License

Key Success Factors

- Client centric and socially driven banking concept with rapid account opening and socially innovative features such as digital savings pots and a collaborative digital savings tool called “Jamiyah” inspired by regional traditions
- International perspective by enabling remittances and offering the possibility to link foreign currency accounts
- Large variety of offers to reinforce spending with the ila Card at local retailers and online stores

Funding History

Products

CURRENT ACCOUNT

SAVINGS

CREDIT CARDS

REMITTANCES

Source: Fincog analysis, company websites, public sources

2.2 Neobanks

Facilitated by their agile and flexible nature, neobanks are well-positioned to fit the needs and capture the unbanked and underserved part of the population, which has a considerable size and demands specific solutions for their everyday needs.

2.3 Non-financial institutions

Besides players engaged in core banking activities specifically – either incumbents or innovators – other companies are also part of the financial services ecosystem. These can be by means of an example: payment companies, investment companies and those offering other alternative financial services.

03 stc pay

Licenced digital bank facilitating and simplifying cash transactions for its 7.8 million users

Proposition

STC Pay is the wholly-owned fintech subsidiary of STC Group and MENA's largest digital wallet. In 2021, the wallet has been licensed as the first digital bank in Saudi Arabia and as such helps the kingdom to move towards a cashless society by enabling financial transactions for it's more than 7.8 million users allowing them to transfer money, pay bills and participate in entertainment activities.

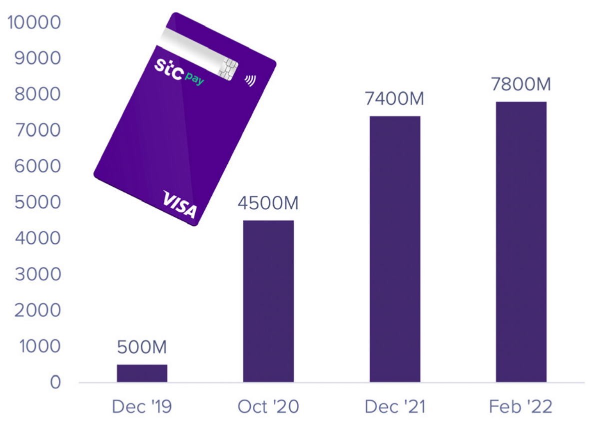
Profile

Founded	2018
Headquarters	Saudi Arabia
Geographical Coverage	Saudi Arabia
Customers	7.8 million
Total Funding	$200 million
Regulatory License	Digital Banking License by SAMA

Key Success Factors

- STC Pay is in full alignment with the Saudi Vision 2030 to enhance digital transformation and leverages on many partnerships other technology institutions active in Saudi Arabia
- Clear focus on facilitating cash transactions both online via P2P, remittances, bill payments and e-commerce transactions but also at physical by supplying merchants with payment solutions for customers
- Continuous enhancement of services by adding new customer experience-oriented features such as splitting bills or cashless atm withdrawals

Funding History



Source: Fincog analysis, company websites, public sources

Products

CURRENT ACCOUNT

SAVINGS

Chapter 03

Key Trends Across the Region

03

The demand for innovative fintech solutions and digital banking propositions across MENA is primarily driven by the low financial inclusion rates across the region, which pushed unbanked and underserved consumers to look for alternatives to traditional banks that do not (fully) meet their needs. Among the main reasons for this difficulty to access traditional financial services are: insufficient funds, lack of the necessary documentation, high cost of services and remoteness from financial locations.

These drivers fit into a broader transition towards digital financial services, led by payments, which has been ongoing at global scale. A McKinsey consumer survey in the region found that 58% of Middle Eastern consumers prefer digital payment methods, with just 10% preferring cash. When looking at the number of consumer digital payments transactions in the UAE – even before the pandemic – they grew at an annual rate of more than 9% between 2014 and 2019, which is almost twice as fast as Europe's average annual growth of 4-5% in the same period. Intuitively, these already impressive growth rates have recently accelerated further due to the pandemic.

This evidence highlights the underlying growth potential of digital banking in the Middle East as consumers are growing more prepared to consider compelling digital-only offers for financial products and services. In another McKinsey survey conducted in Saudi Arabia and UAE, about half of respondents said they would open an account with a purely digital bank and an additional 30-50% said they might consider it.

Besides consumer attitude, a key element that will be determinant for the successful uptake of these innovative fintechs and digital banking propositions is a delighting customer experience. Customers have in fact high expectations based on other experiences with mainstream digital-first players like Uber, Apple or Airbnb. Therefore, Banks need to rethink their processes in order to better adapt them for the digital evolution. In this exercise, they should go beyond the direct scope of financial products and aim to deliver outstanding customer experiences.

It should then be evident that all levels of the organization must be involved and committed to achieving the successful launch of innovative digital financial services. This spans all the way from timely and consistent work from the delivery teams to the C-level that should provide a clear vision as well as adequate sponsorship and funding.

While new entrants have to gather their own data starting from scratch, incumbents have the opportunity to capitalize on their data richness and use advanced analytics to drive revenue sizing opportunities among which cross-selling, superior risk assessment and others.

Among the major trends in the Middle East fintech ecosystem that would enable it to reach a higher potential are: regulatory harmonization; the integration of digital financial innovation into traditional banking strategies; and the emergence of new entrants in the market, which could not only challenge incumbent banks, but also build relationships and partner with them.

3.1 Regulatory reforms

The visions that countries in the region have outlined have made clear that among government priorities to foster future growth are: digital transformation and sector diversification, which includes financial services and technology specifically. It is therefore evident that fintech will continue to play a strong role in them.

Even before the pandemic, digital transformation was in the visions and strategies of most Middle Eastern countries, but with the outbreak of the pandemic, its importance become even more evident and has resulted in a stronger effort towards implementation.

Digital banking is therefore well seen by governments across the Middle East and states are looking forward to harvesting the benefits from its increasing adoption. For this reason, governments and regulators are generally proactive and supportive of digital banking initiatives in the region with a number of initiatives such as innovation labs and regulatory sandboxes to catalyze fintech advancements.

According to an IBS Intelligence paper, there are three main aspects to consider regarding the regulatory environment and ongoing developments:

Government support and enabling vision

Countries in the region offer strong regulatory support for digital innovation and banking to facilitate the emergence of new fintech propositions. In particular, this is formalized in their vision statements: Saudi Arabia Vision 2030 creates a favorable regulatory environment; Kuwait: Vision 2035 openly supports bank-fintech partnerships; Qatar Vision 2030 launched the “National FinTech Strategy” aiming to elevate the country as a regional leader; UAE Vision 2030 focuses on building an enabling business environment.

Facilitating fintech and neobanking license application

Consistently with their formal visions and strategies, regulators in Middle Eastern countries have acted to facilitate the application processes for both banking and non-banking financial institution licenses in order to foster participation in the market from new entrants. Some examples are: Saudi Arabia, which granted a banking license to STC Pay,

the first non-bank to be granted such license in the country, as well as the Saudi Central Bank licensing almost 20 fintechs to offer services in other spaces such as payment, consumer micro-finance, and digital insurance brokerage; UAE that has seen the entrance of more and more players in the market thanks to its favorable regulatory reforms.

Next to fintech licenses, several governments across the GCC have started to accept applications for so-called digital banking licenses including the UAE, Saudi Arabia and Bahrain. In the UAE 5 applicants have already been granted a license with the caveat that applicants must associate with banks through a partnership model, where the bank owns 51% of the venture which is one explanation for the high ratio of incumbent bank-owned digital banks within the UAE. Saudi Arabia and Bahrain have in comparison only issued two and one digital bank respectively with generally slightly lighter requirements. But also other GCC countries that yet are lacking adequate representation by digital banks are looking to introduce new licensing frameworks such as Qatar's Central Bank which announced in March 2022 that it intends to introduce a digital banking license.

Other early-stage initiatives come for example for the Central Bank of Kuwait which has just recently issued comprehensive guidelines outlining the requirements that allow the establishment of a digital bank under three models: (1) As a unit within a traditional bank (2) Via partnership with a shareholding company or (3) As a standalone digital bank. The Central Bank also opened the door to receiving applications and a variety of players are already bidding in the hope to receive an initial approval expected to be granted by end of 2022 as planned by the regulators.

Adoption of open banking

To form an enabling digital banking environment, several initiatives have been initiated by banks in the region to be ready to embrace open banking. Some examples are: Saudi Central Bank, which released an open banking policy in January 2021 with the country's open banking framework set to go live in 2022; and the large majority of banks in UAE that are expected to adopt open banking by the beginning of 2022.

3.2 Financial innovation

The regional focus on open banking will be a key determinant of financial innovation as players in the Middle Eastern market act on digitizing payment systems and operations to keep up with shifting consumer demands and expectations. The COVID-19 pandemic has in fact accelerated existing evolutionary trends and determined a number of changes in consumer behaviors – which are likely in some cases to be permanent – affecting the way people conduct their daily lives.

Various reports across multiple sources (such as Mastercard Economics Institute, Visa and McKinsey) have shown that the pandemic has pushed consumers and businesses alike to go digital and embrace eCommerce and digital banking solutions, which both lagged behind in the region with respect to much of the rest of the world.

Going beyond the mere acceptance of fiat currencies, and consistently with growing awareness of the crypto space on a global scale, it is also likely that an increasing number of players will begin experimenting and accepting digital currencies like Bitcoin as the idea of a cashless society becomes more mainstream. Another argument in favour of an uptake in crypto adoption is the fear of cash handling that COVID-19 brought about coupled with a widespread increase in credit card fraud, making cryptocurrencies appear more attractive as a higher security alternative for both customers and businesses.

Another factor that will have an impact on financial innovation will be the acquisition and development of digital talents. As competition for talents in this space is already intense globally, in the region this is aggravated by a limited resource pool. It is unlikely that a “garage-like” environment similar to that of the early Silicon Valley will develop in the foreseeable future in the region, therefore it is essential for all market participants to create an enabling and nurturing environment as well as put in place effective talent acquisition and retention strategies, also embedding digital across different initiatives in their organization, such as culture, design, brand and marketing.

3.3 New entrants

New entrants in the digital banking sector have been attracted by the rising demand for digital banking solutions across the Middle East, driven predominately by customer expectations for digital services and easier reach to the underserved segments of the market through online channels. On their end, incumbent traditional banks in the region have started to launch independent entities to experiment in this space and pave the way to align their long-term strategy toward digital banking.

Thanks to some characteristic digital capabilities, new entrants have been able to secure a competitive advantage over incumbent traditional banks and meet customer expectations while keeping costs low and achieving high operational efficiencies.

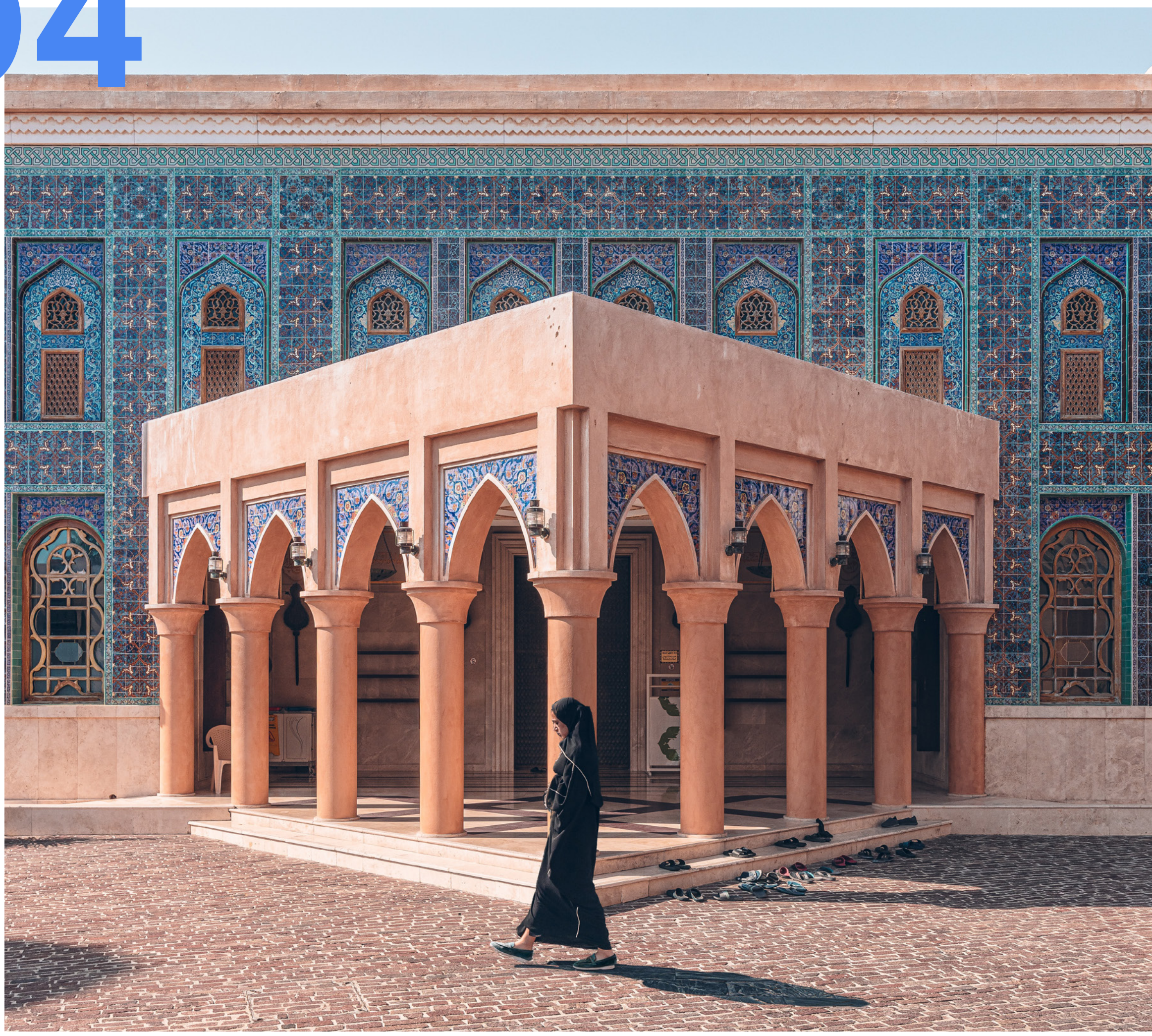
The nature of neobanks, which operate fully online without a physical location, makes it paramount for this kind of new entrants in the market to compensate for the distant relationship with their (prospect) customers by focusing on two elements: simplicity and security, which according to McKinsey are keys to digital success. In a survey among banking customers who have not purchased any digital banking products, almost one in two respondents blamed product complexity, as they would need a person to explain it to them. Other reasons were lack of availability or awareness of digital solutions and security concerns, each cited by about a third of the respondents.

Distinguishing features of neobank propositions leverage digital capabilities. These enable a seamless experience in customer onboarding, the ability to be easily customized and tailored to evolving customer needs, a consistent experience across digital and online channels and ultimately the possibility to expand and augment the ecosystem thanks to APIs and flexible architecture designs, thus enabling partnership opportunities, upgrades and the integration of advanced automation and analytical modules to advance the propositions.

Chapter 04

Opportunities & Success Factors

04



Backed by the tailwind of global phenomena such as technological advancements in finance or the shift in consumer demand as well as regional initiatives much like the various economic development and diversification strategies across the GCC, the Middle East is rife with opportunities to grasp for newcomers and established financial and non-financial institutions alike. However, a banking market that is largely dominated by traditional powerhouses covering large market shares requires an in-depth understanding of some of the most prevalent opportunities combined with key success factors to enter and compete in the market.

4.1 Niche opportunities

Islamic finance

Islamic finance presents a vast new opportunity all across the world and with an estimated 1.9 billion Muslims all over the globe the new banking trend eyes on a significantly sized target market.

Based on the Global Islamic Fintech Report by Dinar Standards, Elipses and Salaam Gateway, the estimated Islamic Fintech market size for the OIC (Organization of Islamic Cooperation) with 57 member countries was approximately $49 billion and is projected to grow at a 21% CAGR to $128 billion by 2025. Included among the top 5 contributors by transaction volume for Islamic Finance are Saudi Arabia and the United Arab Emirates which account for $17.9 billion and $3.7 billion respectively.

In addition to a swiftly growing market, the Islamic Finance industry in the Middle East and beyond is experiencing heightened support from various regulatory initiatives and ecosystem accelerators. Representatives and incubators for fintech such as Fintech Saudi, Hub71 in the UAE, or the Qatar Fintech Hub (QFTH) are all well-positioned to assist the positioning and expansion of local and international fintechs.

In Qatar for example, the QFTH helps to provide Islamic fintechs to gain market and investor access while initiatives such as the Qatar Financial Centre (QFC) attract fintechs by allowing companies to operate in Qatar under its own legal, regulatory, tax and business environment aligned to international standards. Eligible QFC business license applicants for example are equipped with dedicated internal teams and favorable licensing application requirements (e.g. waiving of license application and renewal fees in the first year).

All in all, the rising demand by consumers and the focused attention of regulators towards Islamic Finance makes for a formidable opportunity that is yet to seize in the Middle East.

Cross-border payments & remittances

With two of the three world's largest outward remittances corridors located in the UAE and Saudi Arabia, the GCC has become a home to a large number of expats and migrant workers, who are keen to send money home after a year in which rates have recovered. This but also many other dynamics make cross-border payments undoubtedly a pre-dominant part of the financial services industry in the Middle East.

According to the World Bank report in 2021, remittances to low-and middle-income countries were expected to grow by 7.3% to reach $589 billion in 2021. While remittances registered strong growth in most regions, the Middle East places itself as one of the winners with an estimated 9.7% increase in remittance flows in 2021 to $62 billion.

This development is supported by a number of factors, but the most critical one is certainly the deployment of new technological infrastructure across the GGC region. Two of the major initiatives include for instance, the GCC Payment Systems Company (GPC) has launched a GGC RTGS system called the AFAQ system in 2020, which is designed to connect all GCC local RTGS systems together to process and settle cross-border payments in the GCC region on a real-time basis. The company is funded and owned by the six central banks of the GCC countries. With the new system, the security and efficiency of cross-border payments are expected to be significantly enhanced while transaction processing time and cost are drastically reduced.

Another similar initiative launched by the Arab Monetary Fund that aims to enable cross-border transactions and support multicurrency payments among the 22 members of the Arab Monetary Fund (i. e. the Arab-speaking world) is the BUNA payment platform. While the AFAQ system leverages on the existing RTGS networks and established interconnectivity at a Central Bank level between the GCC countries, BUNA utilizes the SWIFT network and focuses on the consolidation of correspondent banks to make payments happen between multiple Arab speaking countries.

The simplification and speed up of transactions are pushing an explosion of fintech companies and will ultimately benefit the regional market and promote possibilities of integration of international financial markets in the GCC countries.

E-commerce & SMEs

Since the pandemic has hit the world, almost every region has seen a significant increase in appetite for e-commerce. According to McKinsey, consumers across the GCC have more and more shifted their attention and focus towards online channels when it comes to groceries, care products, and household supplies. Saudi Arabia and the UAE, in particular, showcased the highest rates of new or increased users in online deliveries (e.g. restaurant products and groceries) and communications (e.g. video conferencing and remote learning).

However, this rise in e-commerce across the GCC can not merely be based on the severe economic contraction that the Middle East experienced due to its reliance on hydrocarbon exports. Countries like Saudi Arabia and the United Arab Emirates have instigated a region-wide pivot towards e-commerce and the online retail industry. According to Forbes, Saudi Arabia, the UAE and Egypt account now for more than 80% of the region's overall e-commerce activities.

Considering the continuously low expectations when it comes to future global demand for hydrocarbon energy export across the Middle East, member states of the GCC and beyond will likely continue to boost the e-commerce sector. With regulatory support and encouragement of entrepreneurs by the government, digital banks can position themselves to service an increasingly in-demand and future-oriented industry.

One way to serve the industry is to enable SMEs and merchants that face several challenges ranging from complex administrative procedures such as account openings that can take months, to lack of affordable infrastructure such as office space or convenient online and instore payment solutions but also lack of financing which is one of the most prominent challenges. Solutions to accommodate SMEs with those problems include new and innovative banking products and capabilities such as quickly accessible business accounts, flexible payment gateways that support local GCC currencies, smart credit decisions from multiple sources and personalized financial offers looking beyond company size and revenue but rather on the company's stage (i. e. start-up, growth phase, etc.), it's spending patterns or inventory cycles.

4.2 Key factors to succeed in The Middle East

Based on the general trends in the market landscape for The Middle East, we have identified three major key success factors for new entrants to successfully enter the market and scale their operations.

Determine your target segment

To be able to compete in a traditionally strong banking market such as in the Middle East and acquire sufficient market share, new entrants are urged to differentiate and address the needs of a certain demographic segment of the population. Identifying who may have the need for financial products and services you are considering and tailoring them to one segment will help gain a competitive advantage compared to large incumbents with their often broad one-size-fits-all approaches. Due to a strong focus and constant customer monitoring, a clear target segment also allows fintechs to act nimble and adapt quickly to changing behaviors of the specific customer niche.

To determine your ideal target segment, preparation and research are key. Ideally, new digital banks will get an in-depth understanding of both quantitative as well as qualitative customer insights to identify potential target customers.

From a quantitative perspective, this means to look firstly at the geographical location and estimating the potential market size but also considering demographical factors such as age groups, gender, income levels, and occupations among others. Building onto this concept, new competitors are advised to then acquire qualitative insights by observing customers and learning about their daily challenges. Key questions hereby can be formed around the lifestyle, behaviors, interests, or hobbies of individuals your target group would include.

While determining the attractiveness of a market also includes many other considerations such as the competitive landscape or the macro environment – including regulatory environment or the fintech ecosystem support – researching potential target segments both quantitatively and qualitatively already puts a new venture into pole position to create a differentiated value proposition and unique set of products and features to succeed.

Digitalize customer journeys

With modern technology and sophisticated UX design becoming deeply ingrained in almost all digital products across various industries, a compelling and digital customer experience has moved from being a mere luxury to being imperative to satisfy customers used to the offerings of tech giants like Apple or Google.

However, banks need to think beyond digitizing existing processes. Instead, banks should completely re-iterate the concept of a given task from zero. Ask yourself the question how the best possible and most frictionless experience for opening a new bank account or initiating a bank-to-bank transfer from a customer perspective could look like. Starting with the customer journey and the experience design will ultimately help to figure out how to define technologies needed to satisfy the identified processes.

Most banks and aspiring entrepreneurs do understand the significance of a compelling customer experience but have the habit to think great customer experience is directly linked to tactical implementation of the newest state-of-the-art technology architecture and make this a priority. However, firstly orchestrating processes with a focus on customer needs and removing points of friction is the key to being set up for the right implementation strategy. Once the customer journey is clear, the bank is able to make the right choices when it comes to automation vs standardization of processes and to deploy the right technology that is needed. Applications, tech infrastructure, and even data usage depend on those decisions and should be optimized for your specific vision and propositions.

Source the right talent

As we discussed before, especially the wealthier GCC countries present a region that is a major source of attracting talent. This not only creates opportunities for the remittances industry but also for new entrants to involve some of the world's brightest heads and utilize their knowledge to solve customer problems.

In a study by McKinsey, 600,000 researchers, entertainers, politicians, and athletes found that high performers are 400% more productive than average ones. The relationship between quality of talent and business performance gets even more dramatic when moving from low complexity tasks to very high complexity tasks such as in software development.

Therefore, by involving the right skilled talent, retaining it and continuously developing its capabilities, digital banks are able to capture the value of technology and market opportunities in an efficient way.

To attract the right talent, banks first need to understand the true economics of value creation in a specific role. Particularly in smaller start-ups, being aware of what type of people are needed and what roles at this stage are most critical to the organization allows you to tailor your search. Additionally, a compelling employer branding or employee value proposition is imperative to attracting talents that have a wide set of choices in front of them. This means you have to determine what is the key benefit employees get when working for your company. Ideally, you focus on one dimension while not ignoring others. This can range from classical benefits such as compensation up to providing the possibility to work in a Silicon Valley-like environment or having the ability to participate

in the great vision of the new Elon Musk.
There are countless ways to differentiate and stand out in front of the talent. The key is to understand what type of talent you want to attract and how to attract it.

Ultimately, attracting the right talent is just one part of the equation. To stay successful and be consistent, banks should enable employees, help them to continuously develop and fully integrate them in the journey of the business.

For those searching for more detailed information and general advice on building their digital bank, we refer to our previous whitepaper on “How to build a digital bank successfully”.
The whitepaper offers a practical guide to help you from start to finish with hands-on information and takes you through each step of the process in successfully launching and scaling a digital bank.

About the report

The BPC Middle Eastern Digital Banking Report has been developed in collaboration by BPC Banking Technologies and Fincog. We remain at your disposal for any further information and to guide you in the wonderful world of digital banking.

About BPC

Founded in 1996, BPC has transformed over the years to deliver innovative and best in class proven solutions which fit with today's consumer lifestyle when banking, shopping or moving in both urban and rural areas, bridging real life and the digital world. With 350 customers across 100 countries globally, BPC collaborates with all ecosystem players ranging from tier one banks to neobanks, Payment Service Providers (PSPs) to large processors, ecommerce giants to startup merchants, and government bodies to local hail riding companies. BPC's SmartVista suite comprises cutting-edge banking, commerce and mobility solutions including digital banking, ATM & switching, payments processing, card and fraud management, financial inclusion, merchant portals, transport and smart cities solutions.

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About Fincog

The Fintech Consultancy Group (Fincog) was established in 2017 to help clients stay ahead of the curve and create better, more cost efficient and inclusive financial services. Fincog supports clients to define their strategy, optimize operations and guide implementation so that clients can capitalize on financial innovation. Our team offers a global network of senior industry experts covering all key challenges for leaders in the financial services industry.

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