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PRIMER ON SAUDI FINTECH

INTRODUCTION

This “Primer on Saudi Fintech” comprises a series of seven notes and comments devoted to exploring Saudi Arabia’s fintech ecosystem as portrayed through the lens of its Vision 2030.¹

Over the course of this series, we will consider the broad framework of interlocking rules, regulations, and principles that comprise Saudi fintech’s ecosystem.

In our exploration of KSA’s fintech strategy, as articulated in the Financial Sector Development Program (FSDP) and assessed via annual progress reports, we will consider the core elements of the fintech strategy’s implementation, some of the tactics employed, the fintech ecosystem’s specific KPIs and measures of success, and the progress achieved so far. We will also have a glimpse of what lies ahead.

As we will see, Saudi’s regulatory and governance infrastructure for fintech is well-considered and highly adaptive.

Indeed, in terms of its relative importance under Vision 2030, fintech is firmly rooted as a fundamental pillar, whereas before 2022, it was merely an FSDP initiative.

That’s a very big promotion.

OVERVIEW

Initially, the FSDP consisted of three pillars—namely, (i) Enabling Financial Institutions to Support Private Sector Growth, (ii) Ensuring the Formation of an Advanced Capital Market, and (iii) Promoting and Enabling Financial Planning. Fintech was originally just an initiative to be executed under the Enabling of Financial Institutions to Support Private Sector Growth pillar.

However, in 2022, fintech as a sector for development was elevated to pillar status in its own right. This elevation means that fintech as a core component of the FSDP receives considerable attention from the financial sector’s two most prominent institutions—the Saudi Central Bank (SAMA) and the Saudi Capital Market Authority (CMA).

Under the FSDP, a core aspiration for Saudi’s fintech sector is to “*harness a more globally connected Saudi economy, with a wider range of international financial products and services being offered by companies and enjoyed by citizens.*”²

As we will see, this core aspiration is hard-wired into the strategic and tactical thinking that has gone into melding and transforming the fintech strategy into a legal, regulatory, and commercial construct that is truly fit for its Vision 2030 purposes.

¹ This introductory note is Part 1 of a 7-part series.

² Financial Sector Development Program Charter (2022) – Fintech Pillar, 2030 Aspiration.



SO, WHAT IS FINTECH?

Like many tech-related buzzwords, fintech is one of those terms that has entered the popular lexicon and rapidly become rather ubiquitous.

But when pressed on the issue, many have difficulty defining it, beyond something like “*the apps on my mobile that connect me to my money and my bank.*”

In the big picture, that’s probably not such a bad definition.

But such a narrow construction of the term is woefully lacking in several respects.

Specifically, this comparatively thin definition fails to capture the breadth and scope of what fintech has already become.

More importantly, it misses the mark on what fintech has the potential to become in the very near term.

It is by no means hyperbole to suggest that, in our opinion, fintech will ultimately overlay every single element of the broader financial system, whether in terms of banking or capital markets, whether B2B, B2C, C2C, enterprise, or otherwise.

So, if we are to appreciate the rapidly evolving Saudi fintech ecosystem, it is imperative that we understand certain aspects of the FSDP, and not just those elements specifically targeted at fintech.

FINANCIAL TECHNOLOGY (FINTECH)

Not surprisingly, a Google search for the meaning of fintech yields a trove of different definitions, some rather involved and others more concise.

It’s undisputed that the term *fintech* is shorthand for “financial technology”; however, from there, things can go in all kinds of directions.

For example, note the variation in these three definitions for fintech found on the internet:

i. “It refers to the integration of technology into offerings by financial services companies to improve the use and delivery to consumers. Fintech works by unbundling offerings by such firms and creating new markets for them”;³

ii. “Fintech refers to software, algorithms, and applications for both desktop and mobile. It can include everything from straightforward mobile payment apps to complete blockchain networks housing encrypted transactions”;⁴ and

³ Kagan, J. (2020, August 27). What Is Financial Technology – Fintech? *Investopedia*.
<https://www.investopedia.com/terms/f/fintech.asp>

⁴ What is Financial Technology (fintech)? A Beginners Guide bootcamp.cvn.columbia.edu/blog/what-is-fintech/



iii. *"It refers to any app, software, or technology that allows people or businesses to digitally access, manage or gain insights into their finances or make financial transactions."*⁵

We added emphasis to highlight the degree to which certain definitions seem to focus on the financial services aspects of fintech, while others focus more on the tech side of the equation.

To our mind, these differences demonstrate, amongst other things, that the "global fintech ecosystem" is not monolithic (at least not yet), and there are subtle nuances in the definition that may impact a host of legal, regulatory, and commercial factors.

These factors are the ingredients that can cause fintech ecosystems, even those in close proximity, to differ drastically in terms of which fintech companies/solutions ultimately find success.

From a legal, regulatory, entrepreneurial, and investment perspective, such variations in definition and ingredients (no matter how nuanced) tend to have a material impact on which fintech solutions are conceived, developed, and ultimately brought to a given market.

Indeed, not every fintech is right for every market.

Fortunately, for purposes of the KSA fintech ecosystem, we need only consider the definition given to us under the fintech strategy set out in the FSDP, which defines *fintech* as:

"[t]echnology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services." **[emphasis added.]**

In our view, the FSDP's definition recognizes the equal importance of tech (i.e., the emphasis on innovation), on the one hand, and financial services, on the other, with a focus on new business models.

This dichotomy wherein innovation and financial services are co-equal is reflected throughout the ecosystem's framework and infrastructure.

MILESTONES & KPIS

In terms of high-level expectations, the FSDP has already accomplished some amazing feats, such as launching its forward-thinking fintech strategy, granting licenses to three cutting-edge digital banks, and establishing a financial academy to train and develop future financial leaders.

In terms of its ultimate success, the fintech strategy is measured against two very important metrics; namely

- the number of fintech companies in the ecosystem, and
- the share of non-cash transactions shares of the economy.

⁵ GK Quiz on Fintech, Questions and Answers - [GK Quiz on Fintech, Questions and Answers \(adda247.com\)](https://adda247.com)



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Each of the two primary metrics listed above is also assessed against interim milestones/commitments, which include the following:

- increasing the number of fintech companies operating in the Kingdom to 525 by 2030 (230 companies by 2025)
- which will create approximately 18 thousand jobs in the Fintech sector (approximately 6,277 jobs by 2025),
- increasing the sector's GDP contribution to SAR 13 billion (SAR 4.5 billion by 2025), and
- increasing the volume of venture capital investing into the sector to SAR 12 billion (SAR 2.6 billion by 2025).

Note that the 2025 commitments include a hard target of reducing the share of non-cash transactions (digital transactions) amongst individuals, with the target of reducing the use of cash to 70% by 2025.

ENGINEERING THE FINTECH FRAMEWORK...

This rounds out our introductory note in this series.

In the next installment of this Primer on Saudi Fintech, we will examine the engineering and construction of the key rules, regulations, policies, procedures, etc., that comprise the Saudi Fintech legal and regulatory framework.

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