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FUTURE OF FINTECH IN THE KINGDOM OF SAUDI ARABIA

The blog provides a comprehensive overview of FinTech's rapid growth in Saudi Arabia, highlighting its positive impacts on financial inclusion, efficiency, and investment opportunities, particularly under Vision 2030. It addresses challenges such as regulatory complexities, cybersecurity risks, and the importance of building customer trust. Additionally, it discusses the legal requirements and regulatory frameworks governing FinTech entities in the Kingdom, emphasizing collaborative partnerships and the role of regulatory sandboxes in facilitating innovation.

" The Kingdom of Saudi Arabia has witnessed a rapid growth in financial technology, commonly known as FinTech. FinTech has revolutionized the traditional financial sector by leveraging technology to provide innovative financial services. We will explore the impacts of FinTech on the economy in Saudi Arabia, highlighting the benefits and challenges it brings to the ever-changing dynamics of Saudi Arabia and government driven regulations and investments in technology. Additionally, we will explore the noteworthy changes with the inception of Vision 2030 fostering the growth of the FinTech industry. "



FinTech Impact on Financial Sector



The Saudi Arabian economy has been positively impacted by the inclusion of FinTech. The adoption of FinTech solutions has allowed for increased financial inclusion, improved efficiency, and enhanced access to financial services. One of the most notable effects is the promotion of financial inclusion. FinTech has enabled individuals and businesses, to access financial services without facing the previous financial restrictions, such as time manner, geographical location, operating hours, and hardcopy documentation. Providing a purely virtual experience accessible at all times at any location. Aiding in reducing the financial exclusion gap and empowering more to participate in the expansion of the digital economy. The FinTech solutions which are available now range from mobile banking, digital wallet solutions, and online payment platforms, available to individuals and businesses at the chosen time of convenience, regardless of their location. Providing a broader range of digital payment systems in Saudi Arabia.



The robust growth of this sector is reflected in the size of the Saudi Arabia FinTech Market reaching an estimate of USD 43.78 million in 2024 and growing to reach a striking USD 77.63 million by 2029. The broad impact of the growth in the market allows for the diversified use of online platforms in a more convenient and secure manner, increasing the number of non-cash transactions to a projected 70% by 2025.

Efficient and Transparent Transactions

A prominent feature which FinTech offers is the streamlined processes, allowing transactions to become more efficient and transparent. The introduction of blockchain technology has enabled the emergence of secure and decentralized platforms for digital transactions, reducing the previous high risks of fraud whilst enhancing trust among participants.



Major banking institutions have introduced the use of artificial intelligence to combat financial crime. By swiftly detecting potential threats, artificial intelligence has proven to be a beneficial addition to providing security to users. Prominent leading banks have introduced risk management technology as a means to prevent payment fraud and ensure secure digital transactions. This technology aids to mitigate risk by assessing all transactions for vulnerability. The success of these financial adoptions highlights the leaps taken by banking institutions in Saudi Arabia to ensure the security of their users.



Innovative Investment Opportunities Revolutionized by FinTech

Saudi Arabia's Vision 2030 has also paved a way for new investment opportunities. Thanks to digital advisory services and online trading platforms, individuals can now easily invest in stocks, bonds, and other financial instruments. The Saudi Arabian Monetary Authority (SAMA) launched an initiative to support and develop the FinTech industry in KSA, by licensing and authorizing FinTech firms in KSA. The initiative aligns with the strategy for Saudi Arabia to position itself as a regional financial hub by 2030. By 2030, the FinTech sector aims to have 525 active FinTech firms in the Kingdom, contributing directly around 13 billion SAR to the GDP and creating 18,000 direct jobs. The substantial market growth provides a gateway for foreign and local investments in a secure and regulated manner.

The concept of investing in the Kingdom has broadened, allowing a wider range of individuals to participate in the capital market and potentially benefit from economic growth. Coinciding with the National Investment Strategy (NIS), promoting direct foreign investment in the Kingdom. Direct foreign investment opportunities will diversify revenues, whilst boosting the economy. The initiative is designed to empower investors, provide investment opportunities and financing solutions, enhance competitiveness, and clarify the partnership between the public and private sectors. The initiatives present significant investment opportunities, attracting both local and international investors and contributing to the goals outlined in Vision 2030 of creating a regional financial hub in KSA.

Challenges and Regulatory Framework

While FinTech brings numerous benefits, the adoption and evolution of FinTech has brought about several challenges that need to be addressed to ensure its successful integration into the financial ecosystem. These risks include regulatory complexities, cybersecurity risks, and customer trust.

Regulatory Complexities

Given the complexities and associated risks, FinTech operates in a highly regulated environment, and navigating through complex regulatory frameworks pose challenges. Compliance with regulations, licensing requirements, and data protection laws is the key to ensure consumer protection and financial stability.

The high-speed advancements in the Fintech Industry challenges the ability of regulatory bodies to issue and enforce up-to-date regulatory framework. An example of this is the issue of data privacy related to consumer financial information protection. Regulatory bodies may choose to issue sanctions on companies for not enforcing appropriate risk management tools to ensure effective consumer protection and meeting standards related to consumer data.

Additionally, new FinTech products sometimes do not clearly fall under a specific legally defined sector in the financial legal framework in Saudi Arabia, and thus can be burdensome on the business players to define the path for regulatory compliance.

Cybersecurity Risks

FinTech relies heavily on technology and digital platforms, posing cybersecurity threats. To protect consumers, FinTech firms must invest in robust cybersecurity measures, including encryption, authentication protocols and regular security audits, to safeguard the stakeholders against cyber threats.



Legal Requirements in the Kingdom

In the Kingdom, the legal requirements for FinTech entities are governed by various regulatory bodies and frameworks. The key regulatory authorities overseeing FinTech activities include the Saudi Central Bank, SAMA, and the Capital Market Authority (“CMA”). Fintech Saudi has developed a Fintech Access Guide, providing key information and guidance to potential FinTech entities entering the Saudi market. Fintech Saudi was launched by the SAMA in partnership with the CMA, acting as a catalyst for the development of the FinTech industry in Saudi Arabia

In general, the regulators of the financial sector agree on main principles applicable on all FinTech entities. Those principles include transparency, risk management, adequate governance structure, proper disclosures and explicit mechanism in dealing with costumers’ complaints. Owners of FinTech entities and top management thereof are usually key in the licensing factors.

Moreover, FinTech regulators usually require having several departments in place, such as risk management, Cybersecurity, Financial, internal audit and Compliance departments. Such departments are usually required to be in place, with heads thereof being disclosed for the regulator’s surety of adequate function by those departments.

Licensing and Registration

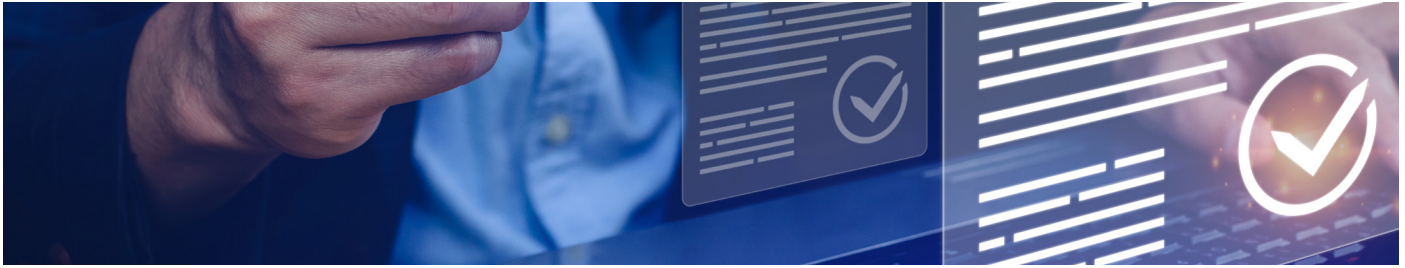
Entities must first identify the appropriate regulatory body based on the nature of the activity intended to be carried out and comply with their licensing or registration requirements. The requirements vary from the areas of business carried out by the FinTech firm, as outlined in the Fintech Access Guide. There are seven areas of business that currently do not require an activity-specific license from regulators in Saudi Arabia: Aggregation of Publicly Available Financial Information; Business Tools; Back-Office Bank Operations; Enhancing Bank’s Customer Experience; Personal Management; Regtech; and Gamification. Needless to add, no entity could conduct any business without first obtaining the commercial registration and registering the entity with the relevant governmental agencies. In the event of not requiring an activity-specific license, the entity could apply and obtain Commercial Registration (CR) from the Ministry of Commerce and begin operations once they obtain the CR. However, in the event the FinTech firm is involved in

Customer Trust

Due to FinTech acting as a new concept to the Kingdom, establishing trust is essential for its success. Individuals may be hesitant to adopt new financial technologies due to concerns about data privacy, security, and reliability. FinTech firms must prioritize transparency, data protection and effective communication to build trust with customers. Additionally, providing exposure by educating the public on the benefits and safety measures of FinTech.



هيئة السوق المالية
 Capital Market Authority



activities that require specific licenses, there are three options to consider: Alter business model to conduct only activities which do not require specific SAMA/CMA approval; Partner with a regulated entity; or operate under a testing environment through Sandbox/FinTech Lab.

International FinTech Firms Licensing and Registration



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Ministry of Investment

International FinTech firms seeking to enter the Saudi market must adhere to the local laws, and broadly speaking, they could explore one of the four options for effective compliance and entrance into the market as set out in the Fintech Access Guide (version 1.1):

- (A) Establishing a subsidiary of an existing FinTech company.
- (B) setting up a new FinTech company through the Ministry of Investment of Saudi Arabia (MISA) entrepreneurship program.
- (C) license their technology to a KSA-based entity.
- (D) appoint a sales agent in Saudi Arabia.

Firstly, an international FinTech company seeking to operate in Saudi Arabia must obtain an investment license from the MISA, prior to obtaining a CR. The international company will be required to submit attested financial statements and a CR from their home country.

Secondly, international entrepreneurs looking to establish new FinTech companies in Saudi Arabia may seek an entrepreneur license launched by MISA to support international investors. Applying to international entrepreneurs seeking to establish a new FinTech company in KSA with no previous history or existing offices; international entrepreneurs backed by a local Saudi University or approved incubator; and only applies to international entrepreneurs and foreign KSA residents.



The main requirement is to obtain a backing letter from an accredited incubator, or a Saudi University, alongside an entrepreneurship license from MISA. Of course, the company will always need to meet the general requirements of having a FinTech license from the SAMA or CMA, depending on the business activity, along with fulfilling the usual registration mandates, such as the commercial registration and the post incorporation requisites (setting up a bank account and registering with the relevant authorities).

Thirdly, licensing proprietary technology to a startup in KSA is a suitable option for international fintech companies that do not need to establish a branch in KSA. This option will result in licensing the technology as a solution (SAAS). Fintech Saudi will maintain a list of existing KSA fintech companies, banks and investors that are interested in partnering with international fintech companies.

Lastly, appointment of a sales agent to sell a FinTech product or service is an option for international FinTech companies that want to avail themselves of the Saudi Market, but are not seeking to establish a branch in KSA. The process may include reaching out to Fintech Saudi to identify potential local partners, sign a business contract and start operation.

This option may also require the local company to obtain a permit from SAMA or CMA, depending on the activity.

Compliance with Regulatory Frameworks

While SAMA regulates financial activities related Banking and payments, such as payments gateways, financing, savings solutions, money exchange and insurance, among others, CMA regulates financial investment activities (securities), such as asset management, arrangement, advisory, custodianship, securities dealing, along with related Fintech activities, such as robo-advisory for securities activities, equity-based crowdfunding; and social trading among others. FinTech firms must adhere to the regulatory frameworks established by SAMA (Sandbox) and CMA (Fintech Lab), depending on the type of business conducted.



In some occasions, it could be the case that a FinTech product falls under the regulation of both SAMA and CMA, such as when providing both investment and saving solutions, or even providing investment related activities, with a potential impact on the general financial stability. For instance, companies with securities clearing solutions in the capital market fall under both the CMA and SAMA’s realm. In such case, the financial institutions that conduct securities clearing activity shall be license by CMA and agreed upon by SAMA, at the same time. According to the Principles for Financial Market Infrastructures published by the IOSCO, there must not be a reporting burden on the financial institution to report to more than one regulator. Saudi financial regulators are knowledgeable of this, and have been reflecting such a principle in their regulations indeed. Yet, a non-objection statement by a regulator other than the licensing regulator might be necessary in some intricate financial products with more than one solution.

Data Security and Protection



The Kingdom has promoted the consideration by FinTech firms applying the cybersecurity principles of confidentiality, integrity, and availability. The National Cybersecurity Authority (NCA) is responsible for all cybersecurity matters in the Kingdom, aligning with the guidelines issued by SAMA and CMA for companies that are regulated by SAMA or the CMA.

The SAMA guidelines on the use of Cloud Computing found in the Cyber Security Framework state that companies regulated by SAMA should in principle only use cloud services that are located in Saudi Arabia, in the event a company intends to use cloud services outside of

Saudi Arabia, they should obtain explicit approval from SAMA. The regulatory frameworks and guidelines provide FinTech companies with the essential guidance and governance of data security and protection, encouraging all FinTech companies to abide and apply these regulatory principles to ensure maximum protection.



Collaborative Partnerships

FinTech firms seeking to collaborate with established licensed financial institutions must comply with partnership regulations. By entering into a partnership with such institutions, the FinTech company will be covered under the regulatory umbrella of their partner and will be less likely to require separate license by CMA or SAMA. However, it is important to note that the regulatory umbrella applies only if the partnership activities conducted are related to the partnering institutions specific license. The partnering institution is likely to carry out the necessary due diligence to ensure prior to agreeing to a partnership, as liability will fall on the partnering institution for the product or service conducted.



The partnership process is as follows:

- (A) FinTech company wants to conduct regulated activities that are mentioned in the existing regulation.
- (B) Seek to partner with one or more regulated entities.
- (c) Partner will conduct the regulated activities on behalf of the FinTech company.
- (D) Due diligence will be carried out by partner.
- (E) Partner will prepare a letter detailing the relationship and submit it to the authorization department of the respective regulator(s) for approval.
- (F) Upon receiving approval or “non-objection”, the FinTech may start conducting activities with the partner.

In the event of partnering with SAMA licensed entities, SAMA has issued guidelines on activities that can be outsourced by banking institutions and third-party organizations such as FinTech’s. In the event of partnership, the banking institution must obtain authorization from SAMA’s authorization department to begin the outsourcing. In the event of partnering with CMA licensed entities, according to Article 59 of the CMA’s Authorized Person Regulation, an entity licensed by the CMA may delegate other functions to an external party, provided that appropriate safeguards are put in place. Both regulatory bodies provide partnership options, thereby extending opportunities for potential FinTech firms to expand into the Saudi market.

Regulatory Sandboxes

Regulatory sandboxes have been introduced to facilitate FinTech innovations, which do not fall clearly under a certain type of license. FinTech firms with such solutions may apply to the sandbox license.

In the Sandbox track, the innovative solution would be allowed for, but with an exit plan on place, in case the license was cancelled or unrenewed. Applying for Sandbox license requires a business plan with several policies and procedures, in addition to governance measure.

Compliance with sandbox guidelines and reporting requirements are necessary during the testing phase. SAMA’s Regulatory Sandbox allows a number of entities to test financial solutions in the Saudi market under their control and supervision. The Regulatory Sandbox is open to an array of entities, but more specifically non-licensed local FinTech firms or startup companies, and non-licensed international FinTech firms.





Conclusion

In conclusion, FinTech is having a transformative impact on the economy in the Kingdom, on enhancing financial inclusion, streamlining transactions, and stimulating investment opportunities. Navigating the challenges to be faced is necessary to ensure sustainable development of FinTech.

By fostering collaboration between FinTech startups and traditional institutions, the Kingdom can continue to leverage the potential of FinTech and drive economic growth in the digital era.

As the FinTech sector continues to evolve, it is expected to play an increasingly significant role in shaping the future of the Saudi Arabian economy, whilst fostering the goals set for Vision 2030. As a foundation for economic growth, FinTech opens up key investment opportunities, pushing the growth of the Kingdom.

Legal aspects of the FinTech entity are key in access to Saudi market, with a focus on risk management, propose governance, monitoring departments, business continuity and solution impact on the Saudi market.

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