

The GCC Fintech Revolution: Insights from Saudi Arabia's Experience

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Abstract:

Fintech has emerged as a critical driver of transformation in the financial sector. This study provides a structured analysis of Saudi Arabia's fintech development strategy within the Gulf Cooperation Council (GCC) region, offering a model that other emerging markets can potentially adopt. Using the descriptive approach, the paper examines Saudi Arabia's regulatory framework, government-driven fintech initiatives, and investment policies, drawing on official policy documents, industry reports, and expert interviews.

The findings emphasize the essential role of regulatory support, targeted digital infrastructure investments, and the integration of fintech within Saudi Vision 2030, all of which contribute to the country's fintech ecosystem expansion. The analysis provides practical insights for policymakers and industry stakeholders seeking to develop fintech ecosystems in emerging markets such as Algeria.

Keywords: Fintech, Saudi Arabia, GCC, Strategy

Jel Classification Codes: G28, O33, E44.

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1. INTRODUCTION:

In today's interconnected world, traditional financial systems often fall short of meeting the needs of a diverse and global population. Barriers such as geographical limitations, socioeconomic disparities, and lack of infrastructure have historically hindered access to essential financial services for millions of people.

Fintech, short for financial technology, is a dynamic and transformative industry that has emerged to address and solve global challenges, particularly in the realm of access. It also offers new innovative financial products and help reaching to a wider range of disadvantaged people. It has revolutionized traditional financial services.

Fintech has the potential to reduce poverty and stimulate economic growth by enhancing financial efficiency, expanding inclusion, increasing competition, and driving innovation (Erik Feyen, Harish Natarajan, Matthew Saal, 2023). It tackles global challenges by improving access to financial services in emerging markets, accelerating transactions slowed by outdated infrastructure, and lowering costs to enhance convenience in payments and borrowing (The Global Fintech Index 2020, 2019). Advancements in digital payment systems, artificial intelligence, and blockchain technology further fuel fintech's expansion, providing innovative solutions across banking, investment, and insurance.

Governments around the world are increasingly exploiting the transformative power of modern technologies to revolutionize and advance their financial sectors, driving efficiency, innovation, and inclusion on an unprecedented scale. Saudi Arabia has successfully positioned itself as one of the fintech leaders in the Gulf Cooperation Council (GCC) and MENA regions. Through Saudi Vision 2030, the government has prioritized digital transformation, introducing regulatory sandboxes, investment-friendly policies, and educational programs to foster fintech development. The Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA) have played pivotal roles in shaping a fintech ecosystem that supports startups, attracts foreign investment, and promotes financial inclusion.

This paper examines the key elements of Saudi Arabia's fintech strategy and its impact on economic diversification and financial inclusion. The following sections attempt to shed light on the Saudi experience in developing the its fintech industry.

This research adopts a descriptive-analytical methodology, leveraging content analysis techniques to systematically dissect official reports and documents that illuminate the progression of the fintech sector within GCC countries. The focus is placed on identifying policies and strategies that have propelled the sector's growth and cemented its success. Complementing this approach is an in-depth case study of Saudi Arabia, serving as a benchmark for fintech innovation in the region. By delving into the Kingdom's pioneering experience, the study seeks to uncover the critical drivers of its success and evaluate the applicability of these insights across other Gulf Cooperation Council states. The Saudi Arabian Monetary Authority's (SAMA) Fintech Report forms the foundational dataset for this research, providing valuable empirical evidence to support the analysis.

1.1. Problematic:

The study's problematic revolves around investigating the key factors that led to the success of GCC countries' experiences in fintech, through analyzing Saudi Arabia's fintech strategy and its role in stimulating investment growth and expanding the scope of digital financial products. The study seeks to answer the following question:

What key factors have driven the success of GCC countries in fintech development, with a special emphasis on Saudi Arabia's strategy and its pivotal role in advancing the sector?

1.2. Hypotheses:

- Saudi Arabia's adoption of a comprehensive fintech strategy contributes to increased demand for digital financial products and services and the investments in the sector, thereby enhancing national economic diversification.

- The availability of a supportive regulatory environment and government investments in digital infrastructure represents fundamental factors in the success of fintech in GCC countries.

2. Fintech: A Conceptual Overview:

2.1 The Essence of Financial Technology (Fintech):

Fintech is a portmanteau of "Technology" and "Finance." In its broad sense, it refers to the application of technology in the financial industry. It encompasses a wide range of financial services, including lending, investment, payments, risk management, data analysis, insurance, and wealth management.

There is no global consensus on defining Fintech, but the Financial Stability Board (FSB) describes it as technology-driven innovations in financial services that create new models, processes, and products. FSB classifies Fintech into five areas: payments, lending, insurance, investment management, and market support. (AMF, 2021)

The Financial Stability Board defines Fintech as: "Financial innovations enabled by technology that could result in new business models, applications, processes or products with a material effect on financial markets and institutions and the provision of financial services." (Abdelkrim Kandouz and Sofiane Kaâloul., 2020).

2.2 Characteristics of Fintech:

Technology reduces costs while enhancing speed, transparency, security, and accessibility, as fintech leverages low marginal costs, scalability, and data trails to improve transparency, refine products, manage risks, and ensure regulatory compliance (Findexable, 2019). It is also characterized by other features, including (Saleha Fellak and Samia Sharfi, 2020):

- **Accessibility for all users:** Fintech targets all social classes and categories, continuously enhancing capabilities through partnerships or redesigning products for low-income clients, in contrast to traditional financial services limited to a specific segment of clients.
- **Flexibility and affordability:** Fintech has enabled many flexible programs and applications with low costs and fast performance on a daily, weekly, or even monthly basis.
- **Speed:** The powerful analytics of Fintech companies allow for rapid operations, with transactions completed in a few minutes using big data, algorithms, and machine learning.

- **Mobile usage:** These methodologies can improve the products and services offered, designing suitable, user-friendly services that are readily accessible to clients, enabling them to make better decisions and seize opportunities.

2.3 Areas and Uses of Fintech:

The areas and uses of Fintech in the financial sector are diverse, encompassing many fields, including:

2.3.1 Lending and Financing:

This area includes the following:

-**Loan Processing:** Fintech solutions work to process loans, accelerate and reduce the cost of loan processing and monitoring, through the use of technology to automate the loan process, create better data structures for managing the information required for loan applications, or use transaction data alongside machine learning to predict the probability of the beneficiary not repaying the amounts due. (Saudi, 2020)

-**Crowdfunding:** This is financing a project by collecting small amounts of money from a large number of people, usually via the internet. It has several types, such as investment-based crowdfunding (equity crowdfunding), lending-based crowdfunding, donation-based crowdfunding, and reward-based crowdfunding. (Lian, 2019).

2.3.2 Payment and Currency Exchange Operations:

A payment operation is defined as the transfer of funds from one entity (individual or company) to another, in exchange for obtaining goods or services. Currency exchange is defined as the conversion of funds from one currency to another. Fintech solutions offered in this area work to create new payment business models or improve existing payment and currency conversion systems. (Saudi, 2020)

2.3.3 InsurTech (Insurance Technology):

This is a set of emerging technologies that work to change the current model of the insurance sector, with the aim of improving efficiency and enhancing customer satisfaction. This is achieved by relying on digital organizations and small, focused startups with excellent technical capabilities and an agile culture perfectly suited for innovation and driving

change. (Said, 2022)

2.3.4 RegTech (Regulatory Technology):

This refers to the set of laws and legislative controls that regulate the use of technology in the financial system in a way that allows the latter to develop and reduces its risks. (Ouissi, A., & Mounni, I. , 2021).

2.3.5 Assets and Wealth Management:

This is part of personal finance and focuses on providing investment advisory services that combine various financial services to meet the needs of often wealthy clients. The advisor gathers information about the client's wishes and designs a customized strategy using appropriate financial products and services. Several platforms concerned with this area have emerged, including Broad ridge and the Autorek platform. (Abdelkrim Kandouz and Sofiane Kaâloul., 2020).

3. Fintech Ecosystem in the GCC and Saudi's Strategic Approach:

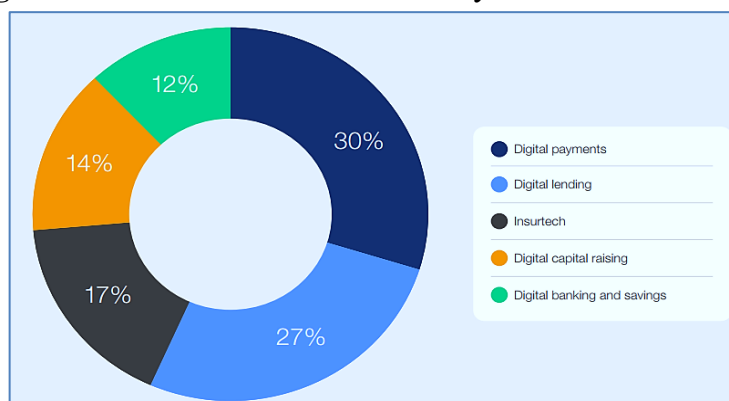
3.1 Fintech Industry Segmentation:

The global fintech industry has demonstrated remarkable strength and resilience, achieving rapid growth despite varying adoption rates across different regions. Post-COVID-19 performance remains robust, with consumer demand emerging as the key driver. Survey data reveals customer growth rates surpassing 50% across various industry sectors and global markets. (Finance, Jan 2024).

Figure 1 provides a comprehensive breakdown of the fintech industry, highlighting digital payments and lending as the dominant segments, with other sectors steadily progressing. Digital payments lead the market, accounting for 30%, underscoring their essential role in financial transactions. Closely following, digital lending holds a 27% share, reflecting the rising demand for alternative financing beyond traditional banks.

Insurtech and digital capital raising comprise 17% and 14%, respectively, signaling the steady growth of tech-driven insurance solutions and the increasing reliance on digital platforms for investment and fundraising. Meanwhile, digital banking and savings represent 12%, maintaining a stable yet significant presence in the fintech ecosystem.

Figure .1 Distribution of fintechs – by business model



Source: (Finance, Jan 2024)

The widespread adoption of digital payments reflects the ongoing transition to cashless transactions and online financial services. Likewise, the strong growth of digital lending underscores its ability to offer accessible credit solutions, especially for individuals and small businesses. In comparison, the smaller share of digital banking and savings indicates that traditional banks still lead in deposit-related services. Meanwhile, insurtech and digital capital raising continue to emerge as key players, holding significant yet smaller portions relative to payments and lending.

3.2 GCC's Strategic Advantage in Fintech:

The Gulf Cooperation Council (GCC) countries have made notable advancements in developing their fintech ecosystem, emerging as leaders in the Islamic fintech sector. By leveraging strategic investments, progressive policies, and a dedication to technological innovation, they have carved out a competitive advantage in the fast-evolving global fintech landscape.

Their ability to integrate these factors has fueled substantial growth across the fintech industry, with a pronounced emphasis on Islamic fintech. Several key components have contributed to this rapid expansion, including:

- **Investment in Digital Infrastructure:** The Gulf countries place significant emphasis on digital transformation and invest generously in developing digital infrastructure, ranging from high-speed internet networks to advanced electronic payment systems. This investment

creates an ideal environment for the flourishing of financial technology in general, and Islamic fintech in particular. Strong digital infrastructure enables companies to provide their services efficiently and easily, encouraging the adoption of these services by customers.

- **Government Support for Innovation and Entrepreneurship:** Furthermore, the Gulf governments also offer strong support for innovation and entrepreneurship in the field of fintech. This support is manifested in various forms, including the establishment of dedicated fintech regulatory sandboxes, such as in the UAE and Saudi Arabia.

These environments provide institutions and startups with the opportunity to test their products and services in a controlled regulatory framework before commercial launch. This allows for innovation while minimizing compliance-related risks.

- **Innovative Regulations and Policies:** Flexible laws and regulations have been established to enable startups to operate smoothly in the fintech sector. Moreover, tax exemptions and financial incentives have been introduced to encourage innovation and attract foreign investments.
- **Human Capital Development:** Also, the Gulf countries focus on building human capacity and competencies in the field of financial technology by offering specialized educational and training programs in universities and institutes, as well as attracting global talents and experts in technology and finance using several initiatives. This focus on developing human resources ensures the presence of entrepreneurs and a qualified workforce capable of driving the growth of this sector.
- **International Cooperation:** The Gulf countries recognize the importance of international cooperation in this field and thus establish partnerships with leading global countries and organizations to exchange expertise and benefit from best practices in financial technology.

Central banks in Gulf countries have worked to strengthen

cooperation among themselves to support the fintech sector. This includes signing agreements to develop electronic payment systems, contributing to enhanced regional financial integration.

Additionally, Gulf countries have sought to establish strategic partnerships with other nations and global companies to boost technological capabilities and facilitate knowledge transfer. For example, the UAE has signed agreements with global companies such as Microsoft and Apple, while the Saudi Central Bank has partnered with the central banks of Singapore and Hong Kong.

- **Historical Foundation in Islamic Finance:** Finally, the Gulf countries have a long history in Islamic finance. The first modern Islamic financial institutions were established there, laying a solid foundation for this sector. This extensive history has provided these countries with accumulated expertise and a robust infrastructure, including well-established Islamic banks and insurance companies, along with legal and regulatory frameworks specifically designed to support this type of finance. Additionally, the increasing demand for Islamic financial products and services by the population serves as a strong driver for the growth of this sector

The Gulf countries have demonstrated robust capabilities that position them as leaders in Islamic financial technology. However, sustaining this leadership demands ongoing investment in technological innovation, talent development, and staying ahead of global advancements in the sector.

3.3. Exploring Saudi Arabia's Experience in Fintech Development

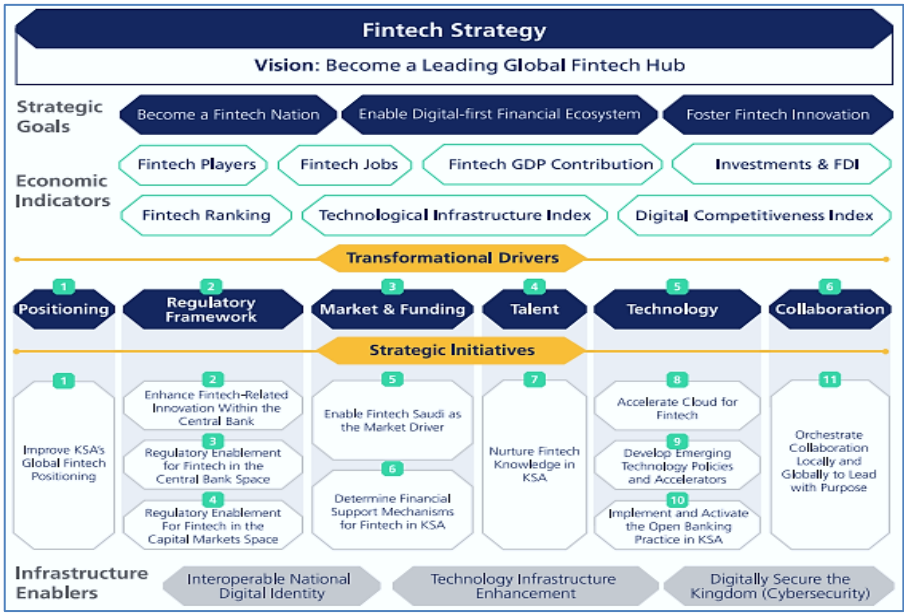
3.3.1 Saudi Arabia's Fintech Strategy: The Central Role of SAMA:

Saudi Arabia's fintech strategy is driven by a bold vision to transform its financial sector into a more advanced and globally competitive industry, positioning Riyadh as a key financial hub on both regional and international levels. This approach underscores the Kingdom's commitment to comprehensive economic reform, extending beyond financial sector development to creating an innovative investment landscape that attracts capital and fosters fintech growth.

Aligned with Saudi Vision 2030, this strategy emphasizes economic

diversification, reducing reliance on oil revenues while strengthening emerging industries such as fintech. By embracing cutting-edge technologies—including artificial intelligence, blockchain, and digital payment solutions—Saudi Arabia seeks to streamline financial operations, improve banking efficiency, and expand financial inclusion.

Figure .2 KSA Fintech Strategy



Source: Annual Fintech Report (2023). Fintech Saudi. P12.

Figure 2 illustrates Saudi Arabia’s fintech strategy, highlighting its core objectives of driving fintech innovation, building a digital-first financial ecosystem, and establishing the country as a global leader in financial technology. Key economic indicators—including fintech ranking, GDP contribution, and digital competitiveness—reflect the expected impact of this strategy.

The framework is structured around six transformational pillars: positioning, regulatory framework, market and funding, talent, technology, and collaboration—each playing a vital role in ensuring a comprehensive approach to fintech development. Strategic initiatives under these pillars focus on enhancing regulatory flexibility, attracting investments, and accelerating technological advancements to create a thriving fintech landscape.

Additionally, infrastructure enablers—such as digital identity, cybersecurity, and advanced technology solutions—serve as foundational components in supporting fintech expansion. The strategy adopts a proactive approach, promoting fintech startups, fostering global partnerships, and integrating disruptive technologies to position Saudi Arabia at the forefront of the global fintech industry.

As part of Saudi Arabia's Vision 2030 to foster entrepreneurship and advance FinTech services, the Saudi Arabian Monetary Authority (SAMA) introduced the Fintech Saudi initiative in 2019. This initiative seeks to strengthen the FinTech ecosystem, positioning the Kingdom as a leading FinTech hub.)AMF(2020 ,

SAMA acknowledged the growing importance of fintech and promptly implemented strategic initiatives to advance the industry. Working alongside the Capital Market Authority, SAMA played a key role in establishing a strong fintech ecosystem, accelerating innovation, and driving the expansion of financial technology in Saudi Arabia: (SAMA, 2022)

- **In 2018**, the Saudi Fintech Initiative was introduced to foster innovation and enhance collaboration among all participants within the fintech ecosystem. To facilitate the secure testing and deployment of financial products and services, the Regulatory Sandbox Framework was implemented, enabling fintech firms and financial institutions to operate within a controlled environment. Currently, seven companies have been granted authorization to participate under this framework.
- **In 2019**: 14 companies authorized under the regulatory sandbox framework, bringing the total number licensed by the Saudi Central Bank to 14.
- **In 2020**: 11 companies authorized under the regulatory sandbox framework on addition to implementing regulatory reforms such as: regulations for payment service providers, microfinance companies, and, guidelines for digital banks.
- **In 2021**: Licensed Fintech Companies: Reached 17. New Regulatory

Frameworks. Rules for debt-based crowdfunding activities.
Guidelines for buy-now-pay-later (BNPL) activities.

- **In 2022:** Licensed Fintech Companies: Reached 30, the Open Banking Framework was launched, and the Regulatory Sandbox shifted to an Always Open model.

3.2.3 The Impact on the Domestic Fintech Ecosystem:

At present, many fintech companies have established their initial presence in the Kingdom, utilizing this foundation to achieve remarkable growth and propel their expansion throughout the GCC and MENA regions (Mathkur, 2024). This growth is driven by supportive regulations, increasing investment, and a rising demand for digital financial solutions.

Figure 3 highlights key statistics on Saudi Arabia's fintech sector realized by the end of 2023, highlighting the rapid growth and significant impact of the strategy on the fintech sector. The data shows a strong fintech ecosystem with 216 companies operating in the industry, including 69 new entrants, reflecting a dynamic and expanding market.

Financially, fintech firms have raised SAR 2.7 billion in funding, showcasing investor confidence in the sector's potential. Additionally, the industry has created 6,726 direct jobs in the sector, emphasizing its role in employment generation and economic diversification.

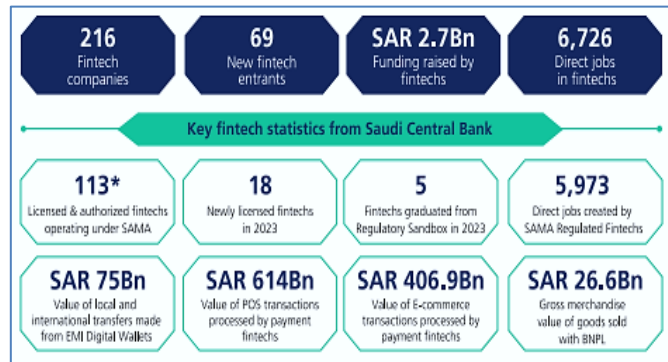
These statistics further highlight the sector's influence, with 113 licensed fintech firms regulated by SAMA, 18 new licenses issued in 2023, and 5 companies successfully graduating from the regulatory sandbox, demonstrating significant progress in driving innovation and regulatory evolution.

On the transaction side, the figures reveal high levels of digital financial activity. The total value of local and international transfers via digital wallets reached SAR 75 billion, while SAR 614 billion worth of point-of-sale transactions were processed by payment fintechs.

E-commerce transactions accounted for SAR 406.9 billion, and buy-now-pay-later (BNPL) services contributed SAR 26.6 billion in merchandise value, indicating strong consumer adoption of fintech services.

Overall, the data highlights Saudi Arabia's fintech sector as a fast-evolving and well-supported industry, playing a crucial role in advancing digital finance and contributing to the broader economy.

Figure .3 Key Fintech Milestones by 2023

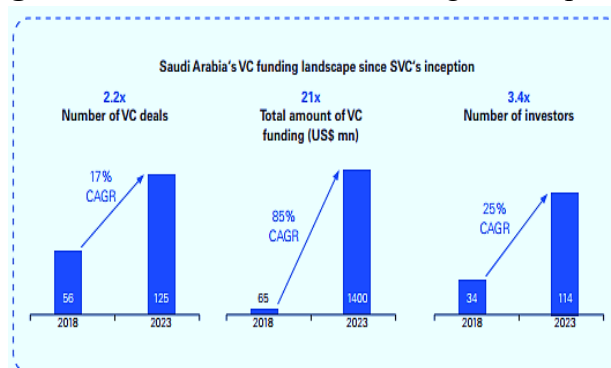


Source: Annual Fintech Report (2023). Fintech Saudi. P12.

Saudi Arabia's venture capital (VC) funding landscape has experienced remarkable growth since the inception of SVC, reflecting the Kingdom's commitment to fostering an innovation-driven economy. The number of VC deals has more than doubled, growing at a compound annual growth rate (CAGR) of 17%, signaling increased entrepreneurial activity and investor confidence in the market.

The most striking development is the exponential rise in the total amount of VC funding, which surged 21 times from 2018 to 2023, with an impressive CAGR of 85%. This indicates a strong influx of capital into the startup ecosystem, suggesting a maturing market where investors are willing to back high-potential businesses.

Figure .4 Saudi Arabia's VC funding landscape



Source: Unlocking the Future, An Overview of the Fintech Opportunity in Saudi Arabia (Sep 2024). KPMG Professional Services. P 31.

Moreover, the number of investors has also expanded significantly, growing 3.4 times with a 25% CAGR. This growth highlights increasing interest from both local and international investors, further strengthening Saudi Arabia's position as a regional hub for venture capital and innovation. These trends align with Vision 2030's goal of fostering a diversified and technology-driven economy.

4. CONCLUSION:

Saudi Arabia's fintech development success stems from a comprehensive strategy that combines regulatory support, financial investments, and technological innovation. Key initiatives—including the creation of a regulatory sandbox, government-backed investment incentives, and collaborations with global fintech firms—have solidified the Kingdom's position as a fintech leader in the GCC region.

With Algeria's expanding financial sector and ongoing digital transformation efforts, adopting elements of Saudi Arabia's fintech approach could drive substantial growth. By emphasizing regulatory flexibility, advancing digital payments, and enhancing financial education, Algeria could accelerate its fintech sector's development, fostering greater economic inclusion.

4.1. Hypotheses Evaluation:

- **Hypothesis 1:** The study confirms this hypothesis, as Saudi Arabia's fintech sector has witnessed substantial investment inflows, regulatory advancements, and an expanding market for digital financial services. The integration of digital payments, lending platforms, and investment tools has diversified the economy beyond traditional banking and oil-related industries.
- **Hypothesis 2:** This hypothesis is also validated by the findings. Saudi Arabia's fintech boom is largely attributed to proactive regulatory frameworks, government-led digital transformation initiatives, and robust infrastructure that enables seamless fintech operations. These measures have created a conducive environment for fintech startups, foreign investment, and financial inclusion.

4.2. Recommendations: Algeria can leverage the experiences of Saudi Arabia's fintech advancements to build a robust sector that drives

sustainable economic development and enhances access to financial services through:

- Algeria should establish a fintech-friendly regulatory environment, including a regulatory sandbox similar to Saudi Arabia's model. This would encourage innovation while ensuring compliance with financial regulations.
- Expanding high-speed internet access, digital payment systems, and mobile banking platforms is crucial for fostering fintech adoption in Algeria.
- The Algerian government should partner with financial institutions and international fintech firms to accelerate market growth and knowledge exchange.
- Implementing educational programs on digital finance and financial technology can enhance public trust and encourage adoption of fintech services.
- Providing financial incentives such as tax benefits, grants, and investment funds for fintech startups would encourage local entrepreneurship in Algeria's fintech ecosystem.

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