

Fintech Startups and Their Role in Achieving Financial Inclusion: The Case of Saudi Arabia

Les startups fintech et leur rôle dans la réalisation de l'inclusion financière : le cas de l'Arabie Saoudite

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Abstract:

This study aims to shed light on FinTech startups and their role in achieving financial inclusion. We chose to delve into the experience of Saudi Arabia, which has witnessed significant investment in this field.

The study concludes that the Kingdom's ecosystem, government support, and the educational level of customers play a significant role in the success and development of this system.

Keywords: *Startups; Financial Inclusion; Financial Technology.*

Jel Classification Codes: M13; M19; G2.

Résumé:

Cette étude vise à mettre en lumière les startups de FinTech et leur rôle dans la réalisation de l'inclusion financière. Nous avons choisi d'approfondir l'expérience de l'Arabie Saoudite, qui a connu un investissement important dans ce domaine.

L'étude conclut que l'écosystème du Royaume, le soutien gouvernemental et le niveau d'éducation des clients jouent un rôle important dans le succès et le développement de ce système.

Mots clés: *Startups ; Inclusion financière ; Technologie financière.*

Jel Classification Codes: M13; M19; G2.

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1. INTRODUCTION

In recent years, the world has witnessed an unprecedented technological revolution, with modern technologies bringing about profound transformations across various sectors, including the financial services sector. In this context, Financial Technology, "FinTech," has emerged as one of the most pioneering sectors revolutionizing the way financial services are delivered. Startups operating in this field have contributed to a radical shift by employing advanced technologies such as artificial intelligence, blockchain, and cloud computing to innovate more efficient, accessible, and inclusive financial solutions.

Financial Technology, "FinTech," holds particular significance in the context of achieving financial inclusion, which is one of the primary goals of sustainable development. Limited access to basic financial services remains a significant challenge for millions of people worldwide, especially in rural areas and among low-income and marginalized groups. Here, FinTech startups play a crucial role in overcoming these obstacles by providing innovative, flexible, and accessible financial solutions through the utilization of modern technologies. These startups help facilitate access to financial services for underserved populations at lower costs and with less effort, enabling greater integration into economic activities and enhancing opportunities for development and prosperity. Additionally, they play a pivotal role in improving the quality of financial services and increasing transparency and competition within the financial sector.

The Kingdom of Saudi Arabia is one of the emerging markets experiencing notable growth in the field of Financial Technology and is a leading nation in adopting FinTech and encouraging entrepreneurship in this vital sector, the country aims to enhance digital transformation and create a conducive environment for investment in this sector by supporting startups in this field. This initiative aligns with one of the primary objectives of Saudi Arabia's Vision 2030, which seeks to promote innovation, entrepreneurship, and financial inclusion within the society.

1.1 The problem of the study:

The Kingdom of Saudi Arabia has made significant strides in supporting the growth of the FinTech ecosystem and creating a conducive

environment for the prosperity of FinTech startups to support and achieve financial inclusion. Given these advancements, we can pose the following problem statement:

What is the role of FinTech startups in achieving financial inclusion in the Kingdom of Saudi Arabia?

1.2 study Significance:

The significance of this study stems from the critical role that FinTech start-ups play in achieving financial inclusion in the Kingdom of Saudi Arabia. It highlights the vital role these institutions play in providing innovative and flexible financial solutions and enhancing the ability of individuals and organizations to access financial services efficiently and appropriately. By developing technological solutions that improve operational efficiency and offer advanced financial services, these start-ups are key drivers of digital transformation and innovation in the financial sector, bolstering trust in the financial system and promoting economic stability. Therefore, the proposed study offers an opportunity to gain a deeper understanding of the impact of these institutions on the Saudi economy and their role in promoting sustainable development and general welfare.

Moreover, the focus on FinTech start-ups in Saudi Arabia provides valuable insights into the country's progress in digital transformation. As the Kingdom aims to position itself as a regional and global tech hub, understanding the growth and impact of its FinTech sector becomes crucial. This study can offer policymakers, investors, and industry leaders a clearer picture of the sector's strengths, challenges, and potential for future development.

The research also has implications for economic stability and sustainable development. By promoting financial inclusion, FinTech start-ups can help reduce income inequality, stimulate economic growth, and improve overall social welfare. Their innovative approaches to financial services can foster entrepreneurship, facilitate easier access to credit for small and medium enterprises, and promote more efficient allocation of capital within the economy.

1.3 study Objectives:

This study aims to achieve the following objectives:

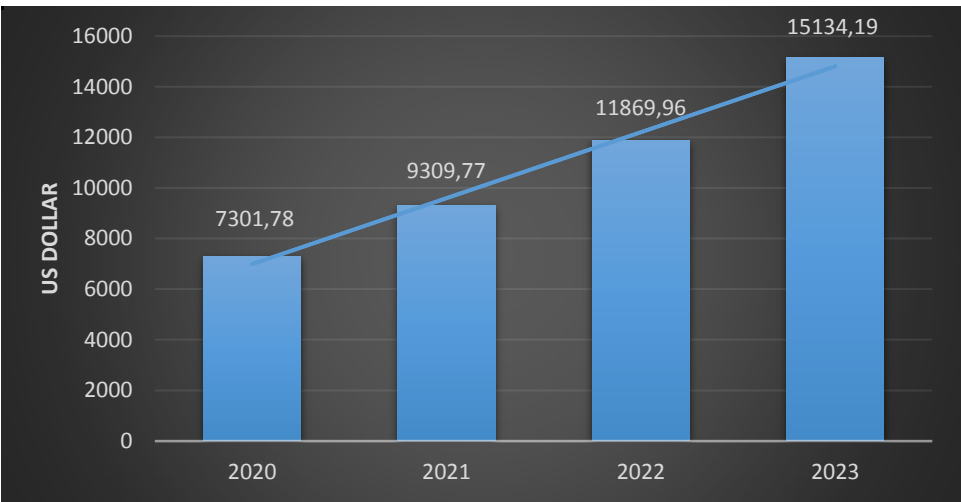
- To identify FinTech startups;
- To analyze the current state of FinTech startups in Saudi Arabia;
- To explore the ecosystem of FinTech startups;
- To understand the role that FinTech startups play in achieving financial inclusion in the Kingdom of Saudi Arabia.

2. The investment of startups in Financial Technology (FinTech):

2.1 Financial Technology:

Financial technology, commonly referred to as FinTech, is defined by the World Bank as the use of innovative technology to deliver a wide range of financial products and services (The world bank group, 2018). FinTech aims to integrate technology into the offerings of financial services companies to improve their services and deliver them to consumers in the easiest and most efficient ways, making them faster, more efficient, and accessible to a wide range of people (forbes, defining-fintech-five-key-elements, 2022)The goals of financial technology include reducing costs, providing greater privacy, and enhancing speed and efficiency of use (Abdel Reda, Kareem, & Harjan, 2020)

Figure (1): Global Financial Technology Market Size



Source: (MonshaatSA, 2021)

We observe from Figure (1) that the value of the global financial technology market reached \$7301.78 billion in 2020, and it is expected to grow at a compound annual growth rate of 27.5% from 2021 to 2026. According to a report from the Saudi Organizations for SMEs, global investments in financial technology continued their significant recovery in the first half of 2021, rising from \$87 billion in the second half of 2020 to \$98 billion in the first half of 2021. The volume of financial technology deals worldwide reached a new record of 2456 deals during the first half of 2021 (MonshaatSA, 2021).

2.2 Financial technology startups:

Startups are newly established organizations that rely on technology to innovate a new product or service, aiming for rapid growth and profitability (Bougoffa & Kahi, 2024, p. 181). Financial technology startups are defined as technology-based institutions that provide financial services through innovative technological applications (KAGAN, 2022). According to CB Insights, they are defined as institutions that leverage technology to create new and improved financial services and products (Cb Insights, 2020). They utilize technology to develop financial services by creating innovative solutions that are faster, less costly, and more convenient than traditional banking services (forbes, defining-fintech-five-key-elements, 2022). These startups emerged in response to changing consumer behavior and technological advancements, aiming to provide innovative solutions to traditional financial services.

Table (1): Largest Fintech Startups in the World

Enterprise	Year Founded	Country	Funding
Chipper Cash	2018	USA	\$337.2 million
Razorpay	2014	India	\$816.3 million
Rapyd	2016	United kingdom	\$ 770 million
Treasuryspring	2016	United kingdom	\$14.5 million
Figure	2018	USA	\$1.6 million

Source: (Howarth, 2023)

We observe from Table (1) that the United States of America is home to the largest financial technology startups, with most of them located in California. This is attributed to the suitable and encouraging ecosystem for investment, as well as government support in this sector, coupled with customers' responsiveness to digital services.

Financial technology startups face several specific risks in their early stages, where they require funding and a comprehensive understanding of the market from various aspects. The challenges faced by financial technology startups vary from one institution to another, depending on the size of the project and the target market. Among the most prominent challenges are: (Zarrouk, El Ghak, & Bakhouché, 2021)

- **Legal and Regulatory Compliance:** Financial technology startups must comply with a variety of regulatory laws, such as anti-money laundering regulations. These regulations are often complex and difficult to navigate, especially for early-stage startups.
- **Cybersecurity:** FinTech companies deal with sensitive financial information, making them prime targets for cyberattacks. Ensuring customer data security is crucial for building trust and maintaining reputation.
- **Funding:** Financial technology startups require significant capital to develop and launch their products. Traditional investors may hesitate to invest in a new and untested market, making it difficult to obtain the necessary funds.
- **Competition:** Many startups compete for market share, so it is crucial for them to establish their brand in the consumer's mind and seek to build a competitive advantage to ensure customer loyalty and attraction.
- **Technical Infrastructure:** Building and maintaining the technical infrastructure to support financial technology products is complex and costly. Startups must have the resources and expertise to develop and maintain their technological platform.

Despite the various challenges facing financial technology startups, they are working hard to expand, gain the trust of their customers, and

continue to provide innovative solutions to various financial difficulties.

3. Financial Inclusion:

3.1 Concept of Financial Inclusion:

The concept of financial inclusion first appeared in 1993 in a study by "Lishon & Thurfat" on financial services in Southeast England. It addressed the impact of closing a bank branch on the actual access of residents to banking services. In 1999, the term financial inclusion was used more broadly to describe the determinants of individuals' access to available financial services (Khemili, 2023, p. 15).

According to the Organization for Economic Co-operation and Development (OECD) and its International Network on Financial Education (INFE), financial inclusion is defined as "the process by which access to a wide range of formal financial services and products is promoted at reasonable time, price, and form, and the expansion of the use of these services and products by various segments of society through the application of innovative approaches, including financial education, with the aim of enhancing financial well-being and economic social integration" (Husseini, 2020, p. 100) .

Financial inclusion is defined as: "The right of every individual and component of society to access a quality of acceptable financial products and services in a timely manner, through convenient and transparent means, at the lowest possible cost, enabling and building their financial capabilities and culture regardless of their economic status, social situation, employment, residence, or nationality, with a focus on the less fortunate, those with limited incomes, youth, and women" (Bouterfa & Seghir, 2020, p. 27).

From the above definitions, we can define financial inclusion as: "A concept that refers to providing and expanding access to diverse and suitable financial services and products for all segments of society in a way that enables them to benefit from these services easily, efficiently, and at an appropriate cost. Financial inclusion is one of the key factors in achieving economic and social development, as it contributes to enhancing the financial well-being of individuals and society as a whole and achieving economic and social integration."

3.2 Justifications for Financial Inclusion:

There are several justifications for financial inclusion, including: (Naoyuki & Peter, 2016, p. 5)

- Severe cash constraints often imposed on poor households in their transactions. Innovations that increase cash management efficiency and allow for consumption facilitation can have significant welfare effects in many cash transactions, whether in terms of costs, risks, or both. For example, the majority of transactions may involve carrying large amounts of cash over long distances, which also raises security issues. Many studies, both general and specific to Asia, have found that the marginal return on capital in startups can be significant if financial inclusion increases, especially since these companies contribute significantly to total employment and output.
- Increased financial inclusion can also contribute to reducing income inequality by increasing contributions to financial stability and diversity, thereby reducing banking risks. Financial access can also support government transitions to cash transfer programs instead of providing wasteful aid, in addition to promoting transparency and reducing corruption, which can be achieved by electronically transferring funds.
- Despite skepticism about the results of some studies, arguing that they rely on aggregate data that are subject to various issues such as homogeneity and missing variables, there is also a large body of research that has provided further evidence that access to financial services can promote economic growth. An increase in the number of bank branches has led to poverty reduction, increased income levels, and employment.
- Financial inclusion also helps individuals manage financial risks and make consumption smoother. When times are tough, mobile money services can facilitate receiving money from family and friends who live far away. Financial services also help individuals accumulate savings and increase spending on essentials.

3.3 Dimensions of Financial Inclusion:

The concept of financial inclusion has evolved significantly in recent

years to encompass four main dimensions, including (Kheroubi, 2023, p. 242):

- a. Access to financial services:** This refers to individuals' ability to benefit from financial services provided by formal institutions. To determine levels of access, it is necessary to analyze potential barriers such as cost and geographic distance that prevent the opening and use of a bank account.
- b. Use of financial services:** This dimension refers to the extent to which customers actually benefit from the financial services offered by banking institutions. To measure this, data must be collected on the rate and frequency of use of these services over a specific period of time.
- c. Quality of financial services:** Developing indicators to measure the quality of financial services is a challenge in itself. Over the past 15 years, financial inclusion has become a priority for developing countries to improve access to financial services. However, this dimension is not clear-cut, as many factors influence the quality of these services, such as cost, consumer awareness, the effectiveness of compensation mechanisms and consumer protection, financial guarantees, and the transparency of competition in the market.

4. Presentation of Saudi Arabia's Experience:

The financial technology industry in Saudi Arabia began to flourish around 2016 when the Saudi Arabian Monetary Authority (SAMA) established a regulatory sandbox to encourage innovation in the financial services sector. This sandbox provides a regulated environment for fintech startups to test their products and services without being subject to the full set of regulatory requirements.

SAMA, the central bank of Saudi Arabia, previously known as the Saudi Arabian Monetary Agency, has taken steps to support the growth of the fintech sector by introducing new regulations for payment systems, electronic money issuers, and other fintech companies. It has also established a dedicated fintech office to oversee the sector's development and enhance cooperation between fintech startups and traditional financial institutions.

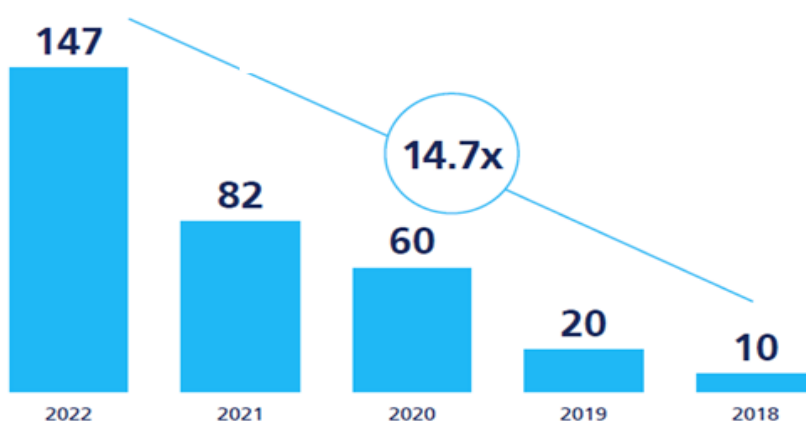
Another key driver of fintech growth in Saudi Arabia is the Vision 2030 plan, which aims to diversify the economy away from oil, promote entrepreneurship, and encourage innovation. The plan includes several initiatives to support the fintech sector, such as establishing a fintech hub in Riyadh and launching a \$1.3 billion investment fund to support startups.

4.1 The reality of fintech startups in Saudi Arabia:

The fintech industry in Saudi Arabia is in its early stages of development. It is harnessing significant potential for growth and innovation in the coming years, supported by government and regulatory support in the sector. The ecosystem for startups, investors, and other stakeholders is beginning to evolve, contributing to driving the industry forward. Banks in Saudi Arabia are now intensifying their efforts in this field by partnering with fintech startups to digitize various services.

The Kingdom witnessed an increase in partnerships between fintech startups and traditional financial institutions. In 2020, the digital bank Mamou entered into a partnership with the Saudi investment company Majdouie to launch a new Sharia-compliant investment platform (fintechsaudi, 2022). This trend towards collaboration is expected to continue in the coming years, as both sides seek to leverage each other's strengths to drive growth and innovation.

Figure (2): Evolution of the Number of Startups in the Financial Technologies Sector



Source: (fintechsaudi, 2022)

We observe from the above figure:

-The continued growth of fintech startups in Saudi Arabia, with their number increasing by 79% in 2022 compared to the previous year, representing a 14.7-fold increase over the past four years.

-The increase in the number of fintech startups in Saudi Arabia is the result of various efforts made by the Kingdom in this sector.

Some of the fintech startups in Saudi Arabia include companies like PayTabs, a payment processing company, and Raqamyah, a digital lending platform. Recently, there has been an emergence of new fintech startups across various areas such as digital banking, investment management, and insurance.

Table (2): Top Startups in the Kingdom of Saudi Arabia

Enterprise	Year Founded	Tasks	Funding
Tamara	<i>2020</i>	Empowering customers to shop and pay through reliable and transparent financial solutions, including offering them the option of buying now and paying later without fees, with the ability to defer payments for up to 30 days or through 3 easy installments.	<i>\$110million</i>
Raqamyah	<i>2020</i>	It is a digital lending platform that provides financing to small and medium-sized enterprises.	Facilitated more than 200 loans
Hala	<i>2018</i>	It is a digital wallet that allows users to make payments, transfer money, and manage their finances.	<i>\$ 6.5million</i>
Sarwa	<i>2017</i>	It is an online investment platform that allows users to invest in a diversified portfolio of stocks and bonds.	<i>\$ 22.5million</i>

Source: (Magnitt, 2023)

In the first half of 2021, Saudi Arabia witnessed its largest investment round of \$6 million for the startup Tamara, which operates on a "buy now, pay later" model. In April of the same year, Checkout.com led a funding round of \$110 million for the same institution, marking one of the largest seed investments in the Middle East and North Africa (MonshaatSA, 2021).

4.2 Supportive Ecosystem for Fintech Startups in Saudi Arabia:

The financial sector in Saudi Arabia is regulated by two main regulatory bodies, the Saudi Central Bank and the Capital Market Authority. Each of these entities oversees a range of financial services subject to their regulations. Among the other regulatory bodies are:

- Ministry of Communications and Information Technology: Responsible for the telecommunications and information technology sector in the Kingdom, aiming to achieve maximum efficiency and performance in both the public and private sectors through enabling digital transformation.
- Ministry of Investment: Supports and licenses international investment within the Kingdom.
- Monshaat (Small and Medium Enterprises General Authority): Regulates the regulatory environment for projects to develop and serve them.
- Communications and Information Technology Commission (CITC): Responsible for regulating the telecommunications, information technology, and computing sectors in the Kingdom.
- Ministry of Commerce: The commercial sector in the Kingdom is regulated by the Ministry of Commerce through policy-making, issuing commercial regulations, overseeing the market, and issuing licenses. The ministry also regulates e-commerce activities in the Kingdom.
- National Cybersecurity Authority (NCA): A government entity responsible for cybersecurity in the Kingdom, dealing with regulatory and operational cybersecurity tasks.

4.3 The Ecosystem of Startups in the Financial Technology Sector:

Riyadh serves as the headquarters for most active startups in the financial technology sector in Saudi Arabia, accounting for 79% of the total

number of main headquarters. Organized financial technology companies regulated by the Saudi Central Bank and the Capital Market Authority, and accredited by Saudi Payments, constitute 76% of the total number of active companies in Saudi Arabia. The COVID-19 pandemic accelerated the adoption of digital payments in 2020, presenting a significant opportunity for the financial technology industry to thrive and for startups to emerge in this sector. The ecosystem now encourages investment and is characterized by several features, including:

- **Supportive Government:** Working to encourage startups in the financial technology sector through initiatives such as establishing the Saudi Arabian Monetary Authority (SAMA) Fintech Saudi and the Fintech Saudi Innovation Center.
- **Increased Investment:** In recent years, there has been a significant increase in investment in Saudi fintech startups by both local and international investors.
- **Strong Competition:** The financial technology industry in Saudi Arabia has become increasingly competitive in innovation and improvements in digital financial products and services.
- **Collaboration with Traditional Financial Institutions:** Fintech startups in Saudi Arabia are increasingly collaborating with traditional financial institutions such as banks and insurance companies, enabling access to new customers and resources, while also providing established financial institutions access to innovative technologies and business models.
- **Importance of Cybersecurity:** Like any digital platform, startups need to ensure that their systems and operations are secure to maintain customer trust and comply with cybersecurity laws in the country.
- **Strong Talent Pool:** Saudi Arabia has a strong talent pool, with an increasing number of skilled professionals in fields such as software development, data analytics, and artificial intelligence. This provides a solid foundation for the development of startups in the financial technology sector.

Saudi Arabia is one of the largest and fastest-growing economies in

the Middle East in the field of financial technology. However, this does not negate several challenges it faces, including:

- **Regulatory Barriers:** The Saudi Arabian Monetary Authority (SAMA) regulates the financial sector and has strict requirements for licensing fintech startups.
- **Cultural Challenges:** Saudi Arabia is a conservative society with traditional attitudes towards finance. Fintech startups may face cultural challenges in gaining the trust of customers accustomed to traditional banking methods.
- **Competition from Experienced Institutions:** Saudi Arabia has an established banking sector with a loyal customer base.

5. CONCLUSION

Startups in the financial technology sector play a vital role in enhancing financial inclusion in the Kingdom of Saudi Arabia. These institutions are considered a key factor in providing innovative and efficient financial solutions that contribute to achieving the Kingdom's vision to enhance access to financial services for all segments of society. They also enhance confidence in the financial system and promote economic stability by enhancing sustainable development and innovation in financial services. The importance of directing support and investment towards these institutions to drive the digital transformation and achieve economic and social development in the Kingdom is highlighted. Strengthening their capabilities and encouraging innovation will have a significant impact on enhancing the financial well-being of individuals and companies and achieving sustainable development in the long term.

In conclusion of this research paper, we have reached a number of results, the most important of which can be highlighted as follows:

- ✓ Saudi Arabia has advanced digital infrastructure, providing support for startups in the financial technology sector to achieve growth and success.
- ✓ Startups play an effective role in expanding access to financial services for various segments and across different remote areas in the Kingdom, in order to achieve financial inclusion.

- ✓ Startups have contributed to improving the efficiency of financial services by providing innovative and flexible technological solutions.
- ✓ FinTech startups contribute to increasing competitiveness in the financial services sector and enhancing innovation in this sector.
- ✓ Startups in the financial technology (FinTech) sector contribute to promoting digitization and digital transformation in the financial sector, improving operational efficiency and providing advanced financial services.

Recommendations:

Based on the above, we suggest a number of recommendations, which are as follows:

- Enhancing government support for startups in the financial technology sector through providing financing programs and legal and administrative facilitations;
- Stimulating innovation and scientific research in the field of financial technology by supporting research and innovative projects and facilitating their access to the market;
- Enhancing cooperation between the public and private sectors to support startups and provide a conducive environment for their growth;
- Developing an integrated regulatory framework for financial technology that balances between encouraging innovation and ensuring security and protection for consumers, by benefiting from the best global practices in this field;
- Launching awareness programs and campaigns aimed at consumers to increase financial and digital awareness, and enhance their trust in using digital financial services safely;
- Leveraging the experiences of Saudi Arabia in the field of startups in the financial technology sector for the benefit of Algeria, in line with the requirements of the nascent market for startups, which is still in its early stages of growth;
- Developing digital infrastructure in Algeria, including high-speed

internet networks and cloud computing infrastructure, to support the growth of startups in the financial technology sector and provide efficient services.

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