SHIFT

CASHLESS ENABLEMENT

A guide to payments in MENA

MARCH 2022

Vol 1 | Landscape

FOREWORD

Payments have been the heart of fintech and they still continue to hold its position as a key accelerator in the global world of Fintech. Middle East and North Africa collectively as a region have demonstrated the tremendous opportunity it holds, but with these opportunities come the regional dynamics which makes this part of the world more unique and demand a curated approach. This vibrant region with rich cultural diversity not just benefits from a young population and high adoption rates of newer customer experiences and technologies, but also with a progressive infrastructure and governments that have shown resilience and their trust in a connected future. This 5-report series on Payments is a product of the Payments Working Group of the MENA FinTech Association called "SHIFT". The report series has profited from the insights of many regional and international experts. This year the focus is on landscaping, cross-border, issuance, stored value and digital KYC. Our aim was to establish a payments guidebook for the industry, by the industry to understand the market not just with macro indicators but with an on-ground understanding of how this unique market full of opportunities should be approached.

We would like to extend our thanks to SHIFT members for their contributions:

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Background

Due to the population's inclination to use cash as well as the banking industry's relatively slow modernization, the adoption of digital payments in the MENA region has lagged behind other parts of the world. However, due to a multitude of factors which will be delved into later in this report, digital payments are becoming more commonplace across MENA and are disrupting the traditional payment value chain. As per checkout.com The MENA ecommerce market is the world's fastest-growing and is expected to reach $49 billion by 2022 (Checkout.com Digital Transformation MENA and Pakistan report).

In the UAE alone, non-cash payments are expected to account for 73% of transaction volume by 2023 (compared to 39% in 2018) and are growing strongly across all payment types (B2B, B2C, B2G etc.).

Hear from one of our authors

ARJUN SINGH

PARTNER AND HEAD OF FINANCIAL PRACTICE MIDDLE EAST

ARTHUR D LITTLE

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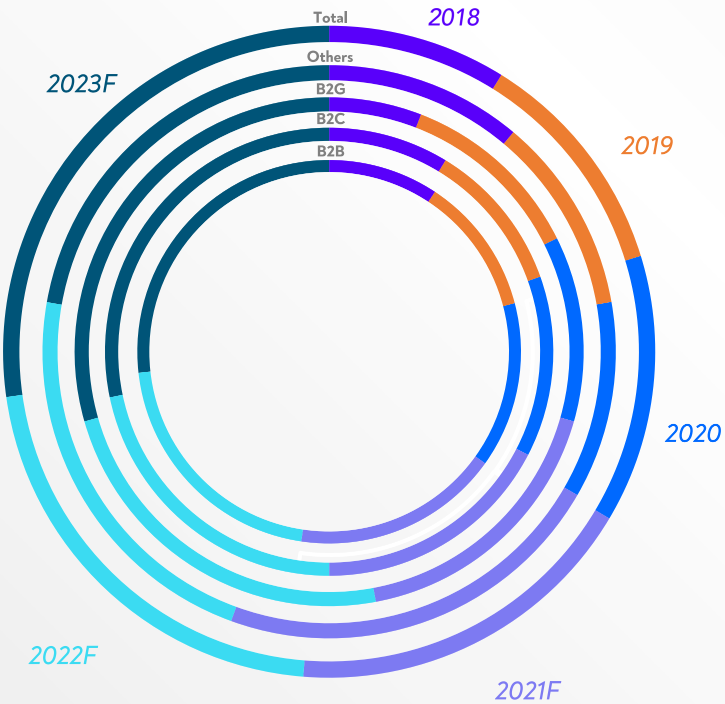
According to the Mastercard New Payments Index, 95% of consumers in MENA are considering emerging payments such as wearables, biometrics, digital wallets and currencies, and QR code (in addition to Contactless) and 65% of consumers have tried new payment methods in the last year. Furthermore, in the next year, 55% plan to use QR codes, 49% plan to use Biometrics, 52% plan to use cryptocurrency, and 66% plan to use digital wallets. In fact, 61% of surveyed consumers said they would avoid businesses that do not accept electronic payments of any kind.

UAE Non-Cash Transactions (Volume) Payments Market, by Segment

2018-2023 (Billion)



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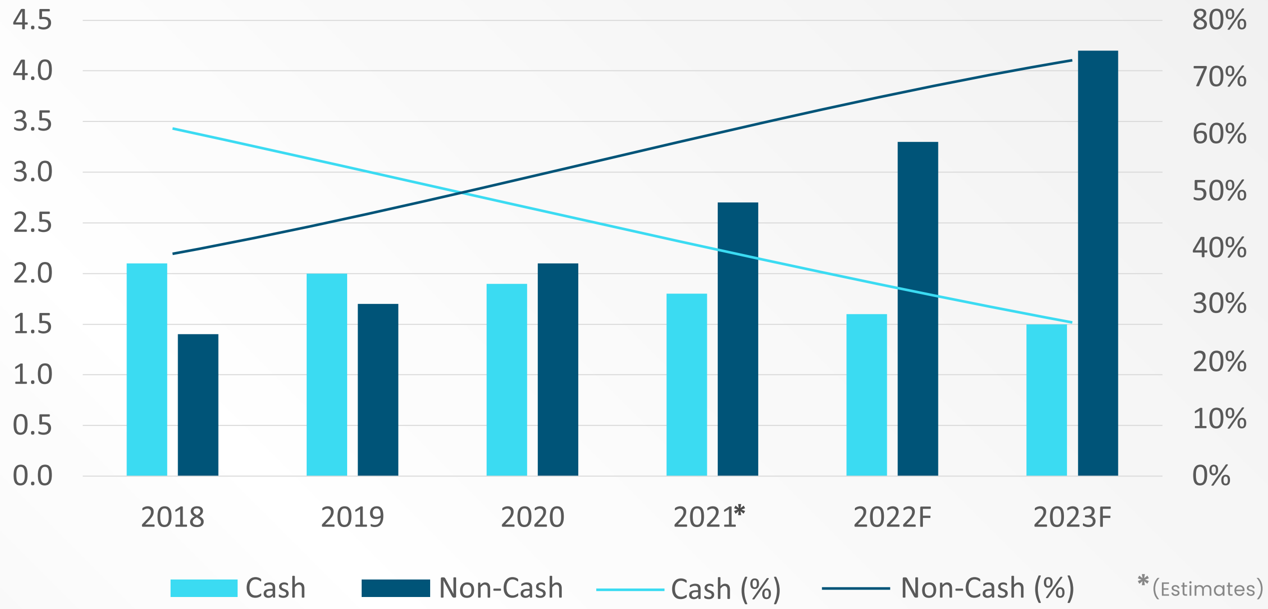
UAE Non-Cash Transactions (Volume)

TOTAL CAGR **25%**

UAE Payments Volume

2018-2023 (Billion)



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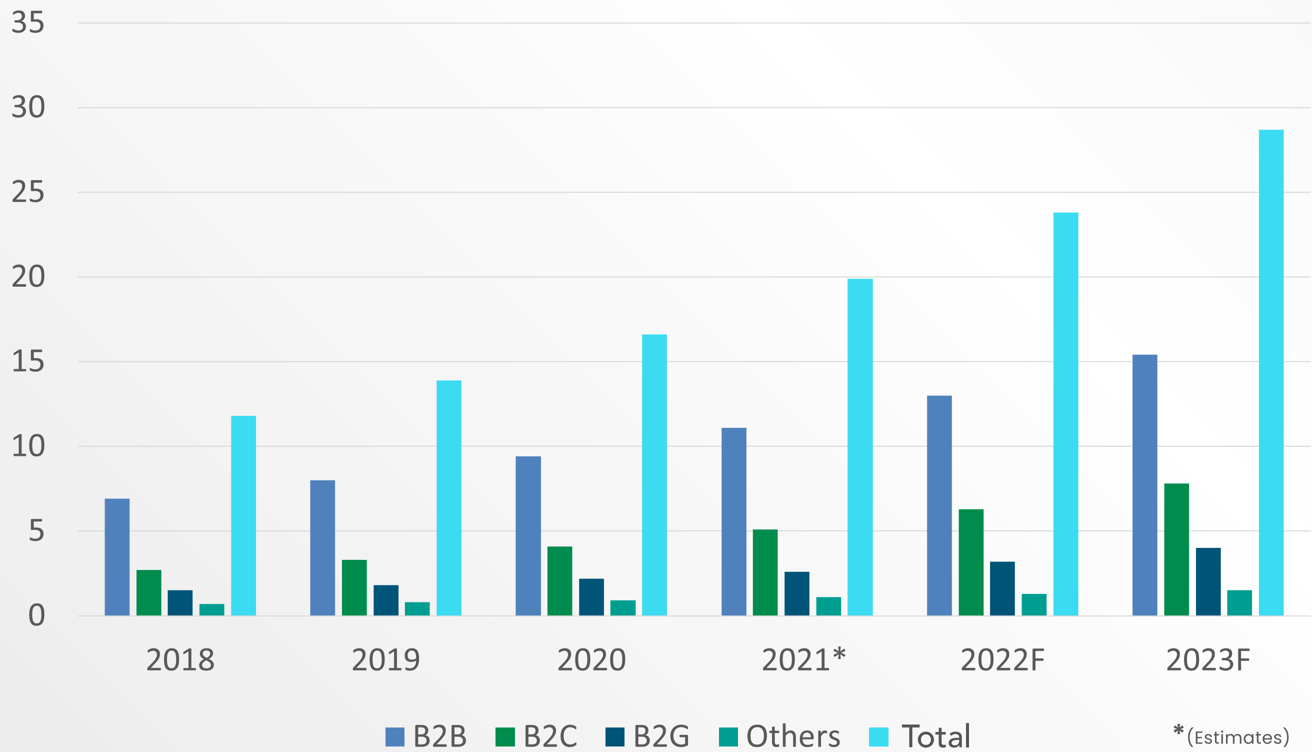
UAE Non-Cash Revenue Payments Market, by Segment

2018-2023 (Billion)



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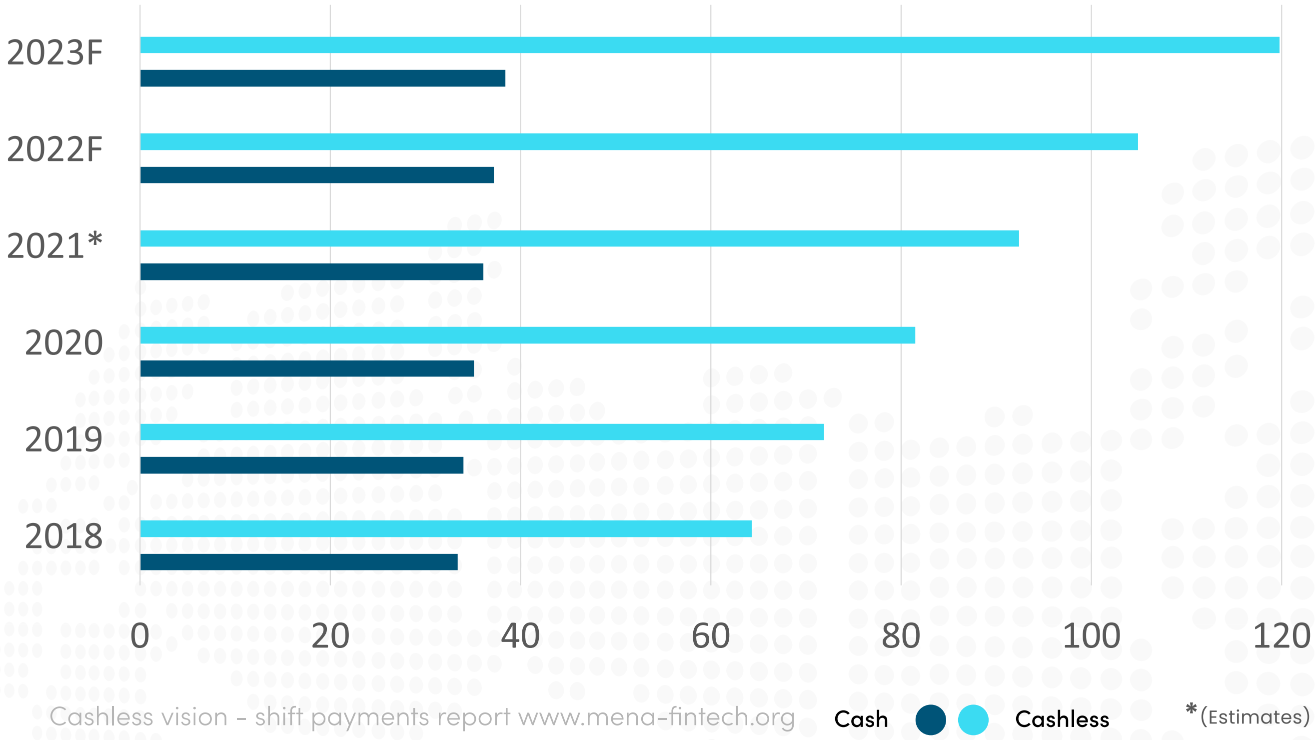
Middle East's (Revenue) Payments Market

2018-2023 (Billion)



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By 2023, Non-cash payments across the Middle East are expected to account for

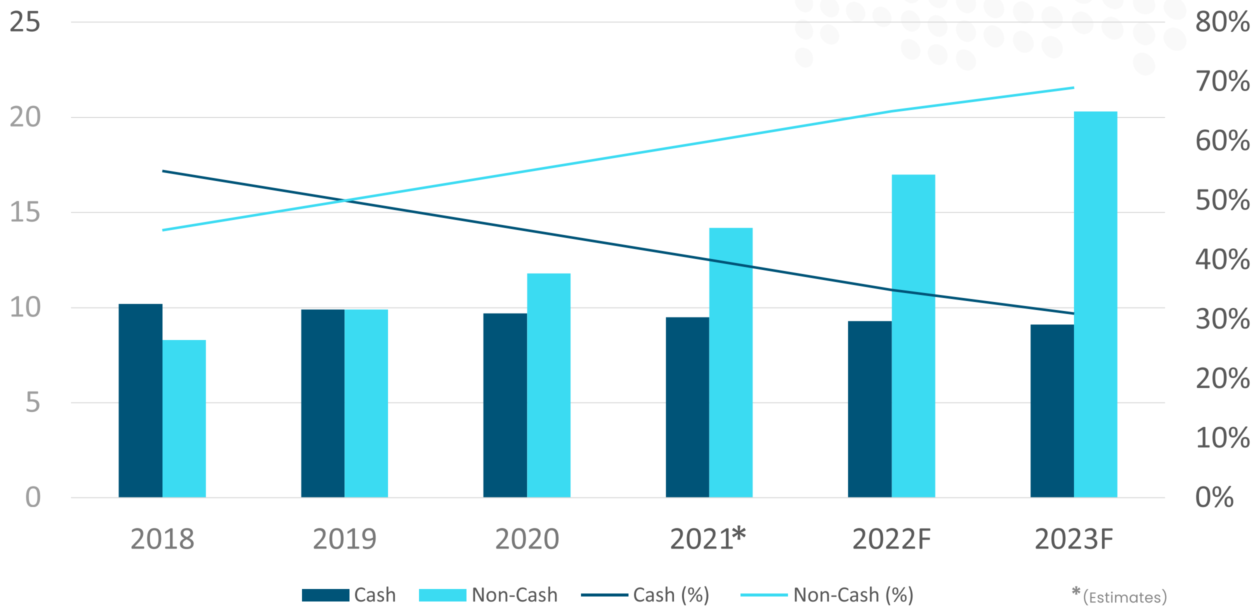
69%

of Transaction volume

(Compared to 45% in 2018)

MENA Transaction (Volume) Payments Market

2018-2023 (Billion)



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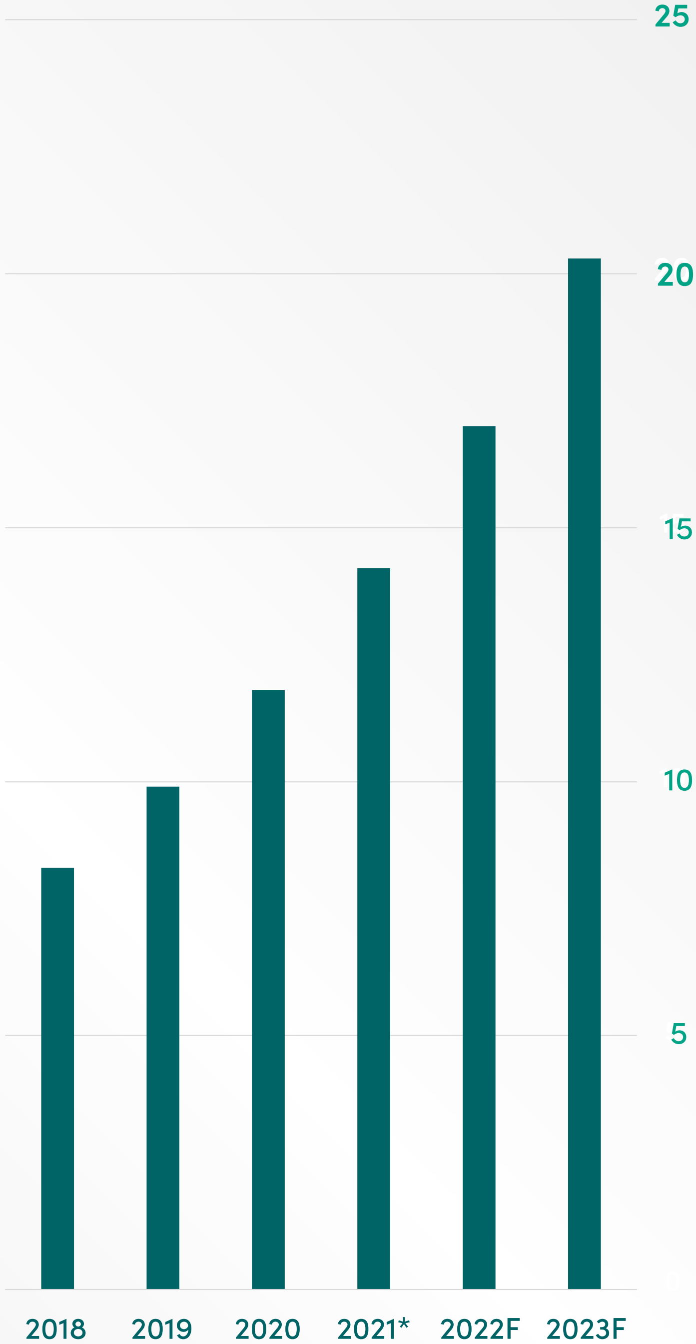
Middle East's Non-cash Transactions (Volume) Payments Market

2018-2023 (Billion)



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Across the Middle East, non-cash payments are growing at

20% CAGR.

2 | TRENDS WHICH ARE CHANGING THE LANDSCAPE

Even before the pandemic, digital payments were growing rapidly. The number of consumer digital payments transactions in the United Arab Emirates (UAE) grew at an annual rate of more than 9% between 2014 and 2019, compared with Europe's average annual growth of 4 to 5%. Even more starkly, Saudi Arabia observed astronomical growth in card payments: over 70% between February 2019 and January 2020. This acceleration has been fueled by several drivers accelerated by the COVID-19.

Societies moving away from cash

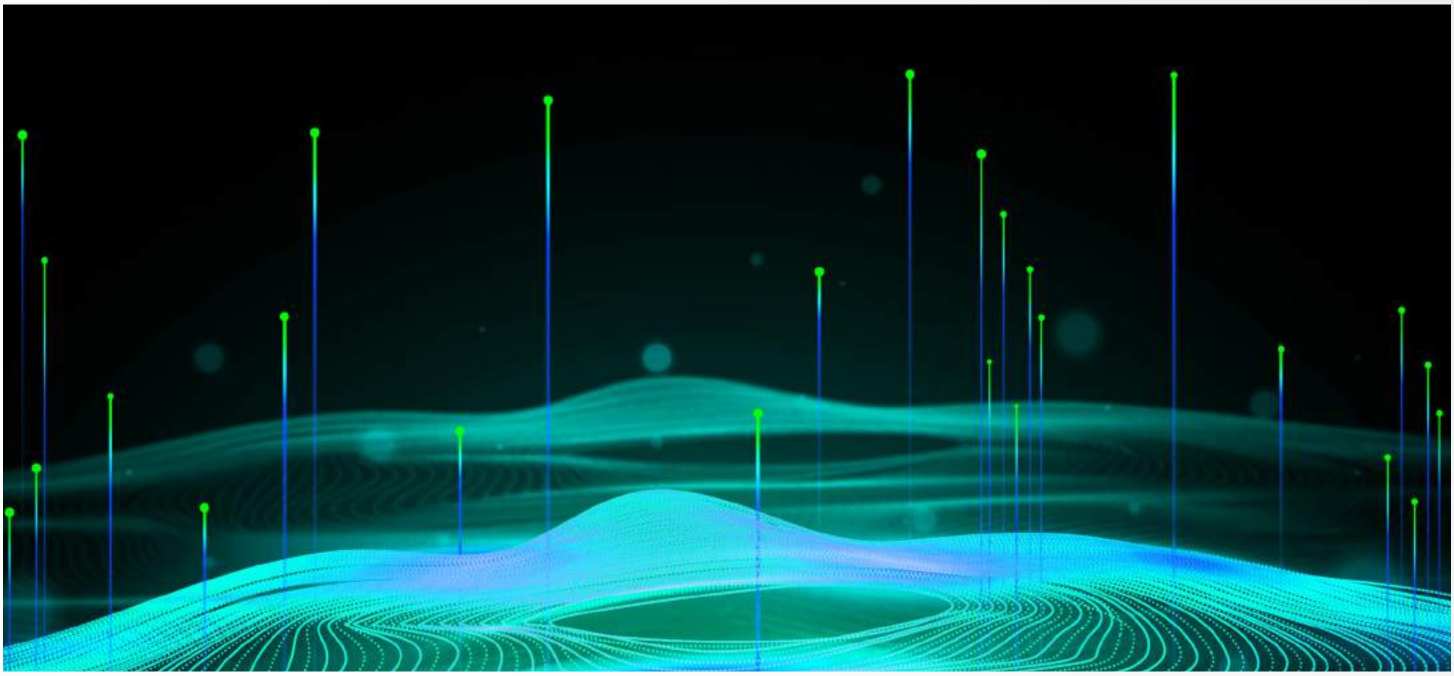
Demographics:

The region boasts a large, young population (60% are under the age of 25) with a high smartphone penetration which is potentially amenable to the adoption of mobile payment services Smartphone adoption continues to grow rapidly in the region, and reached nearly 66% of total connections in 2020, in line with cheaper devices becoming more readily available. According to GSMA, the number of unique mobile subscribers in the Middle East and North Africa (MENA) region reached the 400 million mark during 2020, representing around 65% of the population.

One of the key demographic drivers of the digitalization of payments is the changing consumer preferences, driven in part by shifting demographics, including the demand for cheaper, safer and faster payment options 24/7 and increased trust in digital payments. In the UAE, for example, 71 percent of consumers use digital payments rather than cash when shopping in-store, while 89 percent of Saudis said last year that digital payments were more secure than cash.

Number of unique mobile subscribers in the Middle East and North Africa (MENA) region reached the **400 million** mark during 2020, representing around 65% of the population.

The digitalization of payments in the Middle East is also driven by the emergence of a young population that is tech savvy and prefers to use digital payments over cash. For example, in Kuwait Mohammed Al Bloushi, Head of Payments, Operations Group at National Bank of Kuwait, noted that the young age of the country's population was a driver for the digitisation of payments, "60% of the population in Kuwait is below the age of 30," Al Bloushi said. "They're very tech savvy, they like to use their smartphones, they like to use their laptops. Convenience, reliability and speed are very important to them.



Infrastructure:

As digital payment options continue to grow in popularity, an increasing number of businesses and consumers are expected to adopt these payments in the region. It is therefore crucial for the region to have underlying real-time infrastructure in place to enable these payments to be quick and effective. The launch of a real-time payments service provides the core infrastructure which will support a range of new banking and payment services. At a macro level, the introduction of such technology offers tangible benefits to a national economy by increasing liquidity and efficiency of the payments system, which in turn will support GDP growth and also reduces costs of doing business in the region and provides convenient secure access to payments systems for banked and unbanked consumers, businesses and governments.

The recent launch of real time payments in Saudi Arabia is serving as a catalyst for the adoption of real-time payments amongst other countries in the region. This will benefit financial institutions (FIs), merchants, consumers and society by offering enhanced visibility into payments, by enabling better cash management and by helping businesses better manage day-to-day operations by improving liquidity.

As the region is operating cross-border, it requires smoother, cheaper and quicker payment processes. Hence launching such real-time payment systems in the region is likely to increase, thereby driving the market growth.

One of the key drivers of the trend of societies moving away from cash in the Middle East is the recent implementation of infrastructure supporting digital payments. Indeed, the growth in card purchase volume has been enabled by a significant increase in acceptance infrastructure epitomized by the increase in number of Point-Of-Sale devices (POS).

IN UAE, THE NUMBER OF POS TERMINALS GREW BY 151% FROM 2013 TO 2018

At the end of 2018 approximately 55% of POS devices possessed contactless functionality, which has helped boost payment card purchase volume.

Enabling regulatory environment and government initiatives towards digital economy and cashless society

To encourage economic growth, Gulf Cooperation Council (GCC) countries such as Saudi Arabia, Bahrain and the UAE are heavily promoting the adoption of digital payments. Saudi Arabia's Vision 2030 aims for 70% of transactions to be non-cash by 2030. The UAE's Central Bank established a national payments strategy in 2018 to modernize its payments infrastructure and move to cashless commerce.

Governments across the Middle East region have been establishing initiatives to push towards a cashless society. For example, the central bank of the UAE is working with SAMA (the Saudi Arabian Monetary Authority) to issue a joint digital currency accepted in cross border transactions between two countries, using blockchain and distributed ledger technology.

The project involves using a digital currency that is backed by the fiat currencies of the two states. In time, it is hoped that this initiative could be expanded to include the other four members of the Gulf Cooperation Council (GCC).

The Emirates Digital Wallet is another example of these efforts. It is jointly owned by 16 shareholding banks including ADCB, RAKBANK, ADIB, Mashreq Bank and DIB, while it is regulated by the Central Bank of the UAE. The mobile wallet allows users to transfer funds, pay utility bills, use public transportation and withdraw cash from member bank's ATMs.

Digitalization of everything

E-Commerce:

The recent surge of e-Commerce in the Middle East region is also a key factor driving the boost of digital payments. In the UAE, there has been significant growth in total e-commerce turnover over the last several years, increasing from $5.0 billion in 2015 to $19.8 billion in 2020. E-commerce turnover is set to enjoy further growth over the next few years: the 2022 figure is forecast to reach $27.1 billion by Fitch.

E-commerce turnover forecast for 2022 is to reach

$27.1 Billion

This trend is also nurtured by the emergence of major e-Commerce players in the region such as Stripe, Adyen, Amazon etc.

However, the e-Commerce boom is still capped by customer preference towards cash and the acceptance of "cash on delivery" (which is still the 3rd most popular payment method of e-Commerce in the UAE). This trend is also nurtured by the increase of internet penetration across the Middle East.

Introduction of innovative solutions (e-Wallet, mobile financial services etc, embedded payments etc.):

The digitalization of payments across the region has also been accelerated by the recent introduction of innovative digital payments solutions such as e-wallets, mobile financial services, embedded payments etc. Indeed, Samsung Pay was launched in April 2017, the service uses NFC technology enabling users to pay on any POS terminals accepting. As of today, Samsung Pay is being supported by 14 banks. Similarly, Apple Pay was launched in October 2017 in the UAE with 8 banks supporting the service by 2019. Google Pay has also been launched in late 2018 being supported by 5 banks.

Several banks in the region and in the UAE have also recently launched their own digital wallet. For example, Noor bank partnered with mobile operator Etisalat to launch a digital wallet called "eWallet" in 2019; Mashreq launched MashreqPay in 2017; Emirates NBD launched Emirates NBD Pay in 2016.

Embedded payments:

The global value of the embedded finance market is estimated to exceed $138 billion by 026 up from $43 billion in 2021 according to a recent study by Juniper Research. Embedded finance is essentially when financial services are integrated within non-traditional financial services areas such as lending services within buy-now-pay-later platforms or banking services within ride-hailing apps. The sector's overall growth is being spearheaded by the continued growth and access to application programming interfaces (APIs) from financial services vendors, resulting in lower barriers to entry for financial services.

M2P Solutions is a popular BAAS enabler in MENA and one of the largest API platforms in Asia, they are also VISA's preferred partner for prepaid cards in the region. M2P Solutions offers their platform to create and deploy fintech products by simplifying the partnerships with Banks, PPIs, FIs, and other regulated entities. Financial services such as BNPL, Remittance, as well as Cards both Pre-paid as well as Credit, along with POS Financing are enabled through their APIs. The APIs allow businesses to embedded finance within sectors such as banking, business and fintech. Not only does embedded finance offer industries that were previously unrelated to give a combined offering of services to their customers, but also creates the opportunity for revenue growth and an overall better customer experience.

MENA based BaaS provider of embedded finance NymCard has formed strategic collaboration with Visa Middle East, that will enable Nymcard's fintech partners to get onboard on Visa's global network through the Visa Fintech Fast Track Program, allowing for prospect of more innovative payment solutions. The key technology enabler of note that has disrupted the traditional payments landscape use of API platform that has streamlined the process for payment solutions, allowing banks and Fintechs to provide more customisable and novel solutions for their end-users.

Lending services (e.g., BNPL) blurred line between payments and lending with the generalization of BNPL solutions. Revenue from BNPL services that allow for lending options within the e-commerce checkout process, will account for more than 50% of the embedded finance market by 2026. Within embedded payments the BNPL is emerging as a promising growth area that has been principally by the likes of Sweden's Klarna, Australia's Afterpay and US firm Afterpay who are currently the major BNPL providers. The BNPL model has not gone unnoticed in MENA, with a number of UAE based firms vying for for first-mover advantage, principally Tabby, Tamara, Spotii, Cashew and Postpay as key contenders. A good indicator of the region's potential for BNPL is foreign acquisition activity taking more precedence, with Australia's Zip, a global BNPL platform acquiring the UAE's Spotii for c. $16 million.

"Revenue from BNPL services that allow for lending options within the e-commerce checkout process, will account for more than 50% of the embedded finance market by 2026."

More broadly, there is a blurring of the lines between payments and lending at the macro level, with banks expected to take a more proactive interest in the market, taking advantage of existing customer relationships and looking to offer competitive solutions to counter the emergence of the BNPL market. Tie ups are also beginning to emerge with banks collaborating with BNPL platforms, providing customers with general financial product advice and distributing basic deposit products and credit cards.

Increase in number of Fintechs in the UAE that are replicating successful global models

In the MENA region, Fintechs have been growing at a fast pace. Indeed, the number of Fintech startups went from 44 in 2013 to 358 in 2020 growing at a 35% CAGR and is expected to reach 500 by 2020. The UAE alone represented 46% of the total number of Fintechs in 2018.

Many of these Fintechs which have been successful are replicating global and successful business models and applied them to the MENA region (e.g., PayTabs, Payfort, Checkout.com, Telr, tabby, geidea, hyperpay etc.).

Owing to certain degree of market nascency many of the UAE's Fintechs have seen the regional marker as ripe for disruption across a range of money services business models, which has made t he market more competitive and has also galvanised investor interest in UAE's and more broadly MENA's start-up Fintech community. The opportunity for Fintechs to test business ideas to proof of concepts in a sandbox environment, has also facilitated the increase in Fintech interest and activity.

In Digital Banking, the world is home to over 450 neobanks while the Middle East digital banking market has experienced sustained growth, becoming home to more than 20 Digital Banks over the last few years, as per BPC's Middle East Digital Banking Report.

These new fintechs have something in common, they appeal to new customers looking for simpler and efficient ways to manage their finance, pay and get paid. As per Checkout.com's Digital Transformation MENA and Pakistan report, 81% of consumers feel they directly benefit from the region's growing fintech sector.

COVID-19 impact on acceleration of digitization

The COVID-19 has accelerated the recent surge of digitalization of payments through several factors. Indeed, the COVID-19 has accelerated most of the already existing trends such as the boom of e-Commerce, the increasing use of contactless payments methods. All the trends were already existing and COVID-19 has not created any new trends in digitalization of payments but only accelerated them.

$135M

raised by Fintechs in the MENA region in 2020

MENA's online payment industry has accelerated since the beginning of 2020. One of the major drivers was the COVID-19 pandemic. Consumers in the region were open to adopting digital payments and even trying new emerging ones such as cryptocurrency, biometrics, QR code and others, since these are fast, secure and contactless. Many surveyed consumers opted for using cryptocurrency more than they did last year. In addition, even after the removal of social distancing/ social isolation measures, most shoppers still preferred to use mobile phones/smartphones to purchase.

The acceptance of digital payment methods is expected to improve post COVID-19 and play a stronger role in the long term. With cash being seen as a potential carrier for the virus through the physical transfer of notes and coin denominations, governments and regulatory bodies have been encouraging the use of digital channels for money exchange. Subsequently, these factors are influencing the growth of the market.

eGovernment/ smart Government: Governments want to adopt digital payments

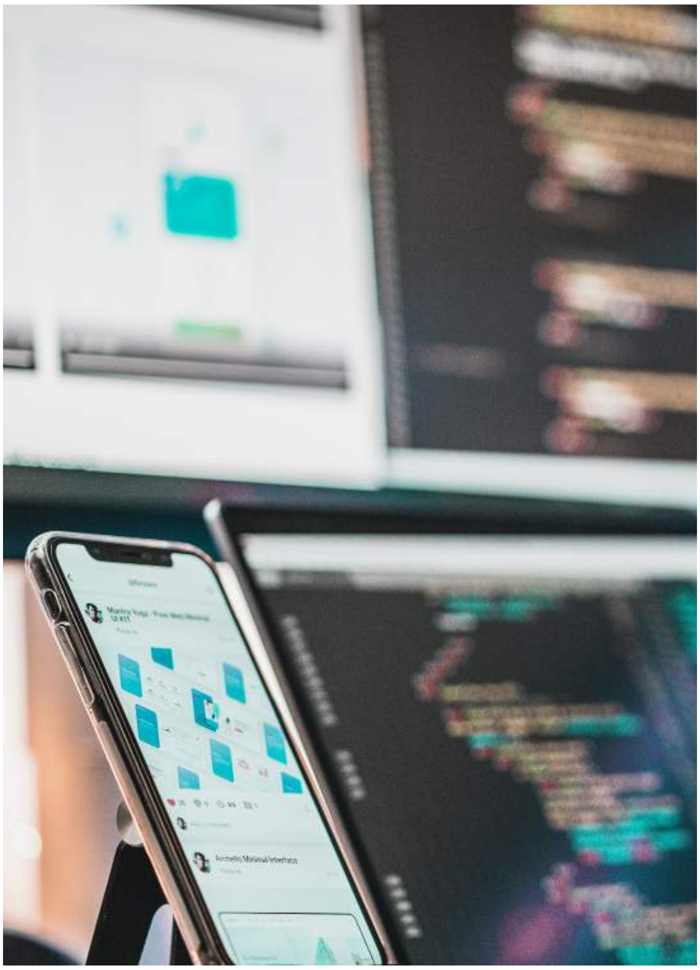
Governments across the Middle East region have been increasingly adopting digital payments for governmental payments. For example, in KSA, the government payments are processed through these Etimad Platform and Sarf System. Etimad is an online platform for the electronic requests regarding payables for the public sector and the private sector. Sarf is the the financial rights system for government workers - in which payments are done through remittance. On the other side, the government has facilitated financial services by confirming a number of electronic methods including:

The Kingdom of Saudi Arabia has facilitated financial services by confirming a number of electronic methods including:

- ***Sada*** **-** providing online services for making payments and taxes for individuals, businesses and the public sector. It also enables individuals to pay their bills for utilities, telecommunications, and government fees.
- ***Saree'*** **-** the Saudi Fast Transfer System enabling the users to make remittances automatically and ensuring access to the beneficiary immediately
- ***Mada*** **-** a system enabling ATM, POS and online payment services to perform the online tasks easily and simply.

Increasing amount of investments from VC and PE firms in the region within the payments sector

VC and PE firms have been increasingly investing in the payments sector over the past few years especially within the Fintech sector. Indeed, compared to 18M in 2015 with a Q1 2021 already at 68M USD in total capital raised by Fintechs in the region accounting for almost 50% of the capital raised in 2020. For example, Tamara raised $110Mn, Tabby raised 50M$ in August 2021, spotii raised 16.25M$ in May 2021, postpay raised 10M$ in June 2021 etc.



Cross border payments

Cross-border payments are important in the Middle East, with two of the world's three largest remittance markets located in the UAE and Saudi Arabia. They handled $78 billion in payments in 2020,6 equating to 7 percent of the GDP of the two nations combined.

Three major initiatives have already been launched: Project Aber, a common digital currency between Saudi Arabia and the UAE; the Buna payment platform supporting multi-currency payments among members of the Arab Monetary Fund; and the AFAQ system connecting the real-time gross settlement (RTGS) systems **of the six countries in the Gulf Cooperation Council (GCC).**

3 | INTERESTING DEVELOPMENTS WE FORESEE

Faster Payments

With digital payments as a whole becoming more commonplace across the MENA region, consumers' and businesses' demands are also poised to grow beyond simply seeking access to digital payments, as many are likely to see advantages in using real-time electronic payment methods. Numerous Middle Eastern countries that have immediate transaction systems in place are already experiencing significant volume growth, and others are working to roll out new systems.

Immediate payment services offer several benefits for both consumers and businesses. Users can often access such payments systems via mobile apps that allow them to send money to recipients identified by their mobile phone numbers rather than their bank account details. Offerings like these can satisfy consumers who want fast, easy ways to shop online as well as those who use their mobile phones to pay friends or brick-and-mortar retailers. Such options can spare consumers from carrying cash or cards, and the appetite for electronic payment method can be especially high in some countries. For instance over 71% of UAE consumers are already using digital methods to make payments in stores. Employees also often want real-time payments access because it allows them to receive their earnings immediately and avoid potentially painful waits for money to settle into their bank accounts.

The advantages of immediate transactions extend beyond just use cases for consumers. Businesses also have the opportunity to streamline B2B transactions by pairing real-time payments with digital invoicing options and request-to-pay features. These options could help companies ensure that their payments are attached to relevant data, leading to swifter reconciliation. Accelerated transaction speeds can also help firms better manage liquidity.

Many central banks in the region are attuned to these benefits and have been working to provide convenient, rapid transactions for consumers and businesses. Several countries in the region are debuting systems, but others have taken advantage of immediate payments systems for several years. Bahrain launched an immediate payments service in 2015, for example, and has recently seen significant growth. The volume of transactions made via its network rose 657 percent year-on-year in 2020, and research conducted last April and May found that the value of these payments had tripled by that point.

71%

of UAE consumers are already using digital methods to make payments in stores

Turkey has been in the real-time payments space even longer than Bahrain. It launched its Retail Payment System (RPS) in 2013, and the network marked 25 percent year-over-year growth in both the average value and volume of payments made via the service in 2020.

Other nations have taken note of real-time services' success in the region and are quickly rolling out offerings of their own. In October 2020 Jordan launched its real-time inter-bank payment system, CliQ. The Jordanian Payments and Clearing Company, which manages the service, intended to make the solution convenient enough that it would persuade Jordanians to begin using it rather than cash. The company also expected the system to make financial transactions faster and more efficient and reduce liquidity pressures. Saudi Arabia launched a new rail — Sarie — in February 2020, and the nation's central bank expects the service to play a key part in the country's efforts to foster financial inclusion, reduce cash-handling costs and otherwise keep its financial system up to date.

Some countries are giving touch-ups to their existing real-time networks. The UAE, for example, adopted a temporary transaction system in 2019 that could immediately settle domestic payments of up to 10,000 UAE dirhams ($2,723) and that leverages the country's existing real-time gross settlement (RTGS) system infrastructure. The UAE is still working to develop and launch a more robust, long-term real-time payments system, however, and is evaluating vendors to assist in the effort.

Middle Eastern countries are still advancing new real-time payments use cases, and some are considering more than just their domestic markets when planning for the future. Many are turning more attention to streamlining how money moves across borders within the region, and a flurry of activity in this regard occurred last year.

Cross-border payments are important in the Middle East, where transactions across Gulf Cooperation Council (GCC) countries can hit $2 trillion annually. Rapid payment flows may be needed to optimally serve consumers and businesses transacting across borders, and this led the Arab Monetary Fund to unveil a real-time regional multicurrency clearing and settlement platform called Buna in 2020 to facilitate intercountry trade and investment. The GCC Payment Systems Company (GPC) convened its first board meeting that year also. GCC central banks own and fund the GPC and have charged it with running payments services that include GCC-RTGS, which links with each country's domestic RTGS system to facilitate swifter, more streamlined cross-border transactions.

These nations' efforts suggest that the rising demand for immediate transactions in the region will only grow. Central banks in the Middle East appear to be heeding the call for systems that can help consumers and businesses make swift, digital transactions — domestically and across borders — as more and more commerce and financial activities are conducted digitally.

Growth in embedded payment leading to digitalization

Embedded payments are another facet of enhancing an individual's payment experience. Instead of making a physical cash wallet payment, a consumer using an app with an embedded payment program simply taps a few buttons and they're all set. Examples of programs that feature embedded payments include ride-hailing apps like Careem or food delivery apps like Zomato. When you take a ride using Careem, you do not have to hand the driver cash at the end or pull out a debit or credit card to pay. Instead, you complete the transaction in the app after the ride is over. An additional benefit of embedded payments for services such ride-hailing apps is the audit trail of trips that are recorded through making an embedded payments, which has significantly increased the number of instances of customers having lost items returned and trip details are recorded based on making an in-app payment as opposed to cash. The trend of embedded payments is becoming increasingly pronounced across a range of product chains such as Starbucks and Pauls to name a few. Growth in embedded payments, such as in the examples given above, are further contributing to cashless payments.

Blurring of lines between payments and lending/ investments (e.g. BNPL, Acorn)

In the past, if someone needed to borrow money, they could apply for a loan from a bank or open a credit card. Now, embedded lending lets someone apply for and get a loan right at the point of purchase. Embedded lending use cases within the region include BNPL companies such as Tabby and Tamara. Both programs let a consumer split an online purchase into several smaller monthly payments. An AED 4,000 payment becomes four installments of AED 1,000, for example. To the consumer, BNPL seems more like a payment product than a lending product.

To the average person, investing often seems complicated and out of reach. Embedded finance programs that simplify the investing process aim to change that. One example is Acorns, a program that invests people's spare change by rounding up purchases (e.g. for a payment of AED 97.50, AED 2.50 is directly invested at the time of payment). Using Acorns, investing becomes seamless and touch-free. A user does not even need to remember to transfer money to their account, as the app takes care of that. Their portfolio is automatically adjusted based on what the market does, so an Acorns user does not have to pay attention to the values of stocks or mutual funds.

The examples above illustrate how embedded finance is increasingly blurring the lines between payments and lending/investments. This trend is likely to continue to accelerate as embedded finance gains prominence across the region.

Cash is not dead

Particularly in emerging economies, cash not only serves as a means of payment but also as a store of value for savings and lending. As a result, in countries such as the UAE, where an estimated 32% of the employed population (~1.7 million individuals) are unbanked, transferring the diverse uses of cash to digital channels presents challenges.

In 2019, UAE-based foreign workers remitted $45 billion worth of savings to their home countries (~11% of the UAE's GDP) through formal channels. According to World Bank estimates, an additional 35-75% of this amount is delivered through informal channels, such as the Hawala system. Given the shortage of economical digital money transfer solutions for both senders and recipients along remittance corridors, it is difficult to see this segment of the population forgoing cash.

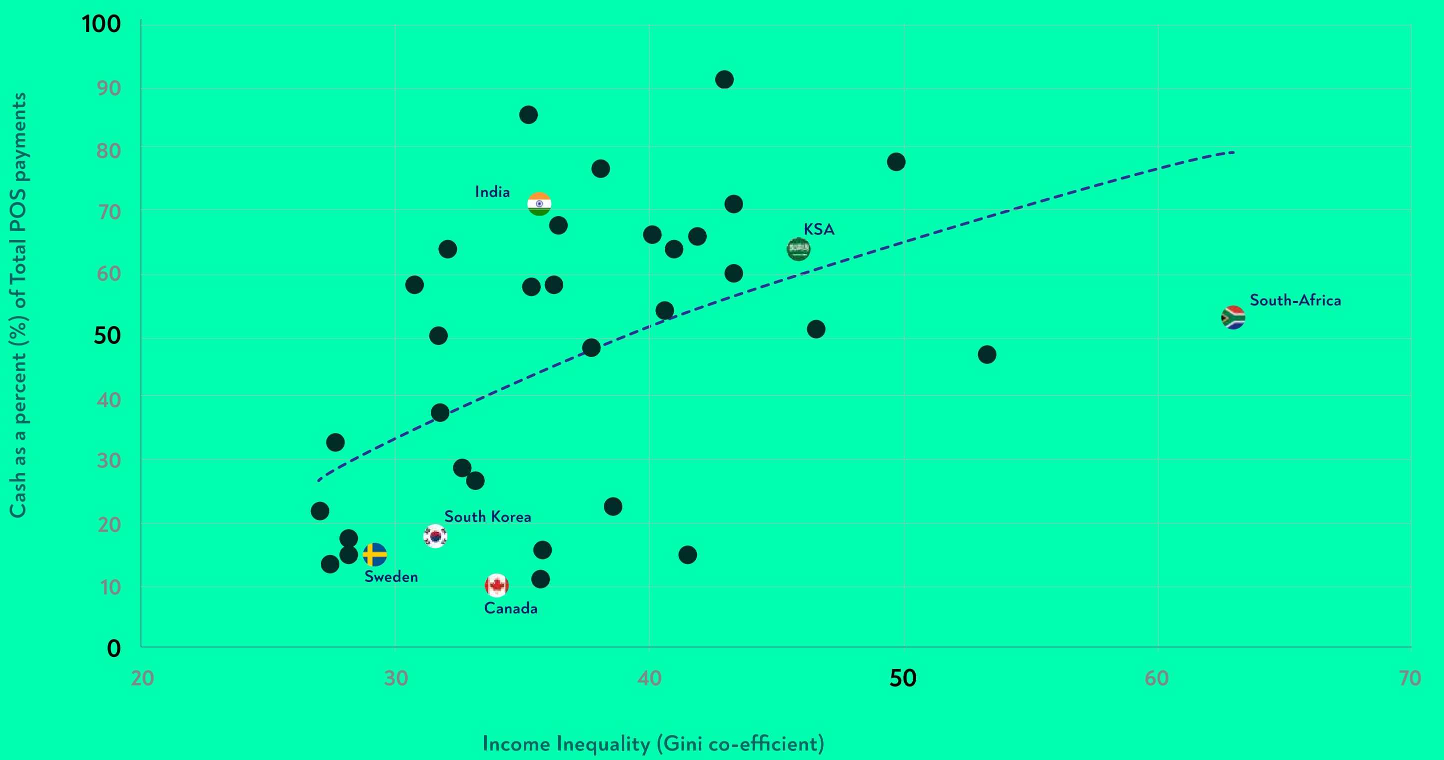
Furthermore, since the 2015 oil price downturn, credit conditions including trade finance have

been particularly tight for UAE small and medium-sized enterprises (SMEs). According to the International Monetary Fund, SMEs in the GCC received only 4.5% of bank credit, below the average for Europe, Latin America and the Asia-Pacific region. It found this gap is filled in part by informal lending, with one in four adults in the GCC reporting that they have borrowed informally, preferring peer financing to bank loans.

While governments across MENA continue to push towards a cashless society, it is important to highlight that there are challenges to attaining this objective that go beyond questions of technology, payment channels and transaction costs. In the foreseeable future, the vulnerable, including the elderly and the unbanked, are expected to continue to use cash due to their own unique circumstances.

Across MENA, the road to a cashless ecosystem must be built on financial inclusion and

Percent of Total Payments Transacted In Cash vs Income Inequality for 37 emerging and advanced economies



Source: FIS, "Global Payments Report: The pathways of people and payments". 2020, UNDP, 2019

4 | Competitive Landscape

Shift in bargaining power

The front-end competition of the payments industry revolves around the consumer and the merchant. With the rise of new technologies and new FinTech players in the MENA region, both now have an increasingly wide range of payment methods and services to choose from, for both in-store and online transactions.

This competition is twofold. First, there is competition on the customer base where providers or issuers try to ensure that merchants accept their payment method and that customers hold or have access to them. Second, there is competition for the use of payment method both online and in store, whereby merchants and payment method providers might use different ways (e.g. discounts, reward points) to tip the balance in favour of one payment method over the others.

All this shows that the bargaining power is shifting more and more today from the providers of these payment methods/services to the merchants and the consumers.

Rise of substitutes

The rise of alternative ways for digital payment in the region forms a serious threat to the widely known/used methods (e.g. credit cards, debit cards). Closed loop e-Wallets are entering more and more into the norms and habits whether those created by merchants for their own ecosystems or as part of a wider super app approach like Careem for example. Merchants with strong presence have the capability of incentivising and promoting the use of their wallets amongst through reward schemes.

Additionally, MENA has been witnessing the rise of services such as BNPL with players such as tabby (UAE), tamara(KSA) and Shahry (Egypt) and POS lending (e.g. partnership between alraedah and geidea solutions). Despite being considered as lending services – which they are –, such services are used at checkout making them, from a usage standpoint, closely linked to payments to a point where the limit becomes blurry. And even though BNPL might not replace cards since the consumer uses them after all for the instalments, it definitely does take a piece of the pie.

The Banking angle: Playing Catch-up to Fintechs

As highlighted above, the banking sector is experiencing a major shift globally, where challenger banks and multi-product Fintechs providers have been vying for market share. In response to the emergence of challenger banks, a number of incumbent banks have launched their own Fintech brands, and traditional financial institutions are turning to Fintech solution providers.to create a market differentiation with services that provide a

seamless client engagement. They are looking at new payment models to essentially:

- Bring in efficiency and agility, and enhance customer experience;
- Accommodate new regulations and reduce compliance cost; and ultimately to
- Achieve greater economies of scale through platform optimisation and enhanced operational efficiency

Banks are exploring new avenues to generate profitability from their payments business and have been experimenting with various new payment models, the main ones are summarised in the following way:

- **Building partnerships and alliances:**

Where FinTechs were initially seen as a threat and a disruptor to the market in a race to be the first to deliver real-time payments, the two are now collaborating on this venture – a move that benefits both parties.

Fintechs are provided with another revenue stream, whilst banks can invest in technology they don't have to build out themselves, allowing them to offer faster real-time transactions, reducing their costs and passing the savings on to their customers, whilst providing them with a more attractive proposition, particularly amongst SME clients. Partnering also creates an opportunity for collaboration and mutual reward. For example, alternative lending payment platforms are partnering with banks and financial institutions and enjoying the benefits of a cross-referral of clients.

- **Acquiring Start-up Fintechs:**

A few large banks have also acquired small fintech players (e.g. wallet firms) to gain market share as opposed to in-house development:

- Santander UK acquired Ebury in 2020 rather than invest in developing this capability itself. (c.GBP350 million acquisition)
- Spanish Banking group BBVA acquired Openpay in 2018, a Mexican start-up that facilitates e-commerce, including on mobile devices, for large businesses and SMEs (c.USD150 million acquisition)
- US Bank JP Morgan acquired WePay in 2018, a payments startup that powers payments for crowdfunding platforms like GoFundMe (c.USD400 million acquisition).

- **Payments As A Service (PaaS):**

A new generation of payments-as-a-service (PaaS) players allows banks to quickly expand and modernize their existing services using cloud-based platforms. Without high upfront costs, banks can link specialized payments services via APIs to their core banking platforms. They can then seamlessly offer services such as cross-border payments, currency exchange, and payments clearing to their customers. This model significantly expedites time to market for new payments products from years to months. PaaS providers continuously work on their services, meaning that banks receive frequent product updates and upgrades without disproportionate maintenance investment.

- **Outsourcing:**

Outsourcing enables the rapid expansion of service breadth for banks unable to justify the cost of developing payment services in-house. Banks can mix and match to create a broad suite of payments services suited for their customers. While outsourcing leads to some loss of control over product and service quality and can inhibit the marketing of a holistic, integrated product portfolio, banks do retain control over critical customer touchpoints and, in many cases, valuable transaction data. Although large banks like Chase in the United States and Lloyds in the United Kingdom offer their own merchant acquiring and processing solutions, many other large brands rely on external providers to support their SME merchant's payments needs. As not earlier in the case N26 Neobank, Transferwise now offers remittance services to banks, a solution that reduces the cost of operations for cross-border payments and often expands payment corridors offered to customers for banks lacking global reach. Banks also have the option of a full outsourcing of their payments stack. Many smaller US institutions have done this with players like Fiserv. In Europe, Commerzbank and UCI have done this recently with Worldline a French payment and transactional services company.

Threat of new entrants

The existing players in the MENA region are facing two types of threats when it comes to new entrants. The first type is the increasing pace of FinTechs being born in the region and this is being heavily enabled by Venture Capitalist activity - as total funding in the MENA FinTEch ecosystem grew at 50% CAGR in 2015-2020 and reached 135 million USD in 2020. What used to be a serious barrier to entry in the past is being removed due to the interest of VC in FinTechs. The second type is external players (e.g. Transferwise) that are looking to enter this market due to its attractiveness and to the fact that there is a collective effort to go towards cashless societies.

Implications

Across financial services regulated jurisdictions in MENA, more opportunities are presenting themselves to Fintechs and their access to market share, as regulatory changes allow new market entrants enter the payments business on the same foot as regulated financial services entities.

This has been particularlynoteworthy across Saudi Arabia, the UAE and Bahrain, where the acceleration of regulatory frameworks in the payment space has been very pronounced over the last 18 months.

The long-term aspiration of payment services fintechs in the MENA, particularly early stage and medium stage players, is to transform themselves into offering a suite of financial services, posing one of the greatest threats to the traditional financial services. Amongst the suite of customer services being offered amongst money services Fintechs, digital wallets seemingly look to be an increasingly disruptive offering to the traditional financial services landscape, as they a more are efficient construct than traditional banks accounts for instance, principally because there drawbacks to having an IBAN, where the infrastructure is expensive and it lends itself to legacy system. The remittance market being effectively the circulatory system for the growth of financial inclusion means there is a customer base, including the large untapped cashless customer base on offer, that can be on-boarded at inception, with limited pre-existing financial relationships to compete with. In the offering of digital payment services, it is possible to build a relationship with a user and manage a user's data profile. It is therefore possible to start off with financial products at a better price point and a better risk adjusted price point by using a data first approach on the payments side.

In terms of the payments market, key revenue streams that are increasingly being generated from e-wallet users are across micro-lending and micro-insurance, where the Fintech firm can price that lending and insurance based on the user's data. If a remittance company that is principally 'sending' can build out its relationships on the receiving side in terms of distribution of products, than that is the real value. As an example, Chinese payment services giant Ant Financial makes 50% of its entire revenues of the group from short term lending to individuals, and that lending is priced purely off data that derives from the e-wallet user, without the use of any traditional credit scoring systems. All the process and merchant fees are secondary to the digital wallet and lending options.

A further key trend of note is the diversification of pure payments Fintechs to allow for additional revenue streams beyond payment transitions alone, as highlighted with the surge interest in digital wallet provision. Beyond payments, will drive to provide as many alternative and complementary revenue as possible, whether it a lending proposition under a BNPL model or providing bolt-on services such as food delivery and ride hailing facilities. The overarching challenge irrespective of where a Fintech begins this journey is to have sufficient critical mass for initial payment service being provided, to test and ultimately leverage further revenue streams on top of what is being provided, whilst maintaining a business model that is viable and can continue to innovate.

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