Ten years ago, could you ever imagine that one day you could trade fractions of stocks and virtual currencies while sitting at a bus stop, all from your cellphone? Have you ever wondered what the future of finance will look like five years from today? Imagine going to the grocery store for a seamless shopping experience: You walk in, grab a carton of milk, and walk right out while cameras recognize the items in your basket and your face to enable a secured payment. The financial world has made tremendous advances in the last 10 years due to the arrival of FinTech, and the sector is only getting bigger.

The FinTech sector in the Middle East is growing rapidly with a compounded annual growth rate (CAGR) of 30%. By 2022, it’s predicted that 800+ FinTech companies from sub-segments including payments, open banking, RegTech and compliance, smart lending, InsurTech, blockchain, and cybersecurity solutions for the financial industry (such as anti-money laundering, anti-fraud, identity theft, identity management, and others) will raise over $2 billion in venture capital funding. Since 2017, when only 30 regional FinTechs raised less than $80 million, the Middle East has seen significant growth as a FinTech hub both for investors and tech-savvy innovators. As almost half of the 400 million people in the region are under the age of 25 years, we believe the push for digital-first solutions across sectors like payments, banking, and lending will continue to surge. In this article, we want to highlight the FinTech verticals that show the most promise for rapid development in the next five years.

Digital currency
According to the Bank for International Settlements, 80% of central banks are engaging with central bank digital currency (CBDC) work in some way, with 50% already in the experimental or pilot phase. In the Middle East, countries such as Israel, the UAE, and Saudi Arabia have displayed public interest in this trend. By creating a CBDC as a new means of payment, they can keep up with an expanding digital economy while maintaining regulatory control.

Binance of course excel in this area, but central banks have also been catching on. According to the Central Bank of Israel (CBoI), the benefits of adopting a digital version of the shekel, the local currency, to establish deeper connections with their users and build brand loyalty. One example is white-labeled debit cards, which increase the number of touch-points between a consumer and their favorite brand while providing greater insights into the consumer’s spending habits. Before the explosion of FinTech in the Middle East, seeking regulatory approvals and building the proper IT infrastructure to offer financial services was extremely costly and timely. Now, and at an increasing rate, businesses are leveraging their existing relationships with customers to offer these services at a fraction of the cost.

While embedded finance and other FinTech trends continue to grow, it is important to mention that traditional banks are here to stay. Embodied finance relies on the existing infrastructure of banks’ licenses. In addition, these banks benefit from embedded finance due to the aggregated data they collect, which makes lending and insurance-writing more efficient. While they will not be completely displaced, we expect to see a rise of mobile-first approaches in banking apps as well as decentralized finance. This demand for mobile solutions is driven by the low financial inclusion rates across the region.

THE FUTURE OF FINTECH IN THE MIDDLE EAST: TRENDS THAT ARE HERE TO STAY

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For example, 43% of the adult population in the Arab world do not have access to bank accounts.

Challenges to growth
Despite all the advancements, the FinTech ecosystem in the Middle East still faces obstacles limiting its growth. While the ecosystem is developing rapidly in terms of tech-focused solutions, it needs additional financing from overseas to boost its impact. In addition, while many banks in the Middle East are engaging with FinTechs in exploratory projects and intense discussions, in a Deloitte study of the relationship between digital leaders and FinTechs in the Middle East, only 5% of banks partnered to win while 15% partnered to differentiate. This means that banks in the Middle East are engaging with FinTechs in exploratory projects and intense discussions, but limited strategic partnerships. Whereas more banks want to offer FinTech features that enhance the customer experience and set them apart from competition, fewer banks are willing to invest in a ecosystem of partnerships built around the value propositions offered by these FinTechs and remain reluctant to integrate them into their organization’s strategy. For example, instead of proactively navigating upcoming regulatory changes, banks might prefer to opt for a “wait and see” approach.

To enable the Middle East FinTech ecosystem to reach its full potential, we need to see an increased integration of FinTechs into banking strategies. Financial institutions can meet customer expectations for digital-first solutions by creating long-standing partnerships with FinTechs and jointly defining value propositions that have a tangible impact on customer experience. In addition, governments and regulators need to pursue regulatory harmonization on the national level, with the goal of building harmonized regulation across several Middle East countries. By doing so, financial institutions will feel more comfortable onboarding FinTechs and FinTechs will have more room to grow so that, as end clients, can enjoy a seamless and much safer shopping experience on all levels.