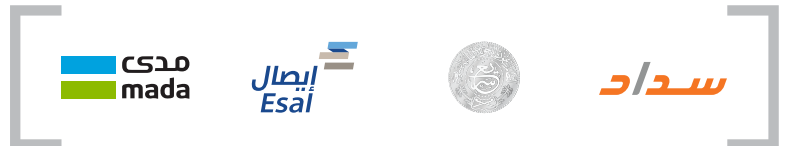




المدفوعات السعودية  
SAUDI PAYMENTS

# THE PAYMENTS REPORT 2020

Evolving Payments  
Landscape in  
Saudi Arabia





## Table of Contents

Preface.....	1
Executive summary.....	2
<b>Enabling the future with payments regulatory framework.....</b>	<b>4</b>
Key findings.....	6
A changing global payments landscape.....	8
Under SAMA patronage, Saudi Payments driving the less-cash economy.....	12
Case studies .....	18
Creating growth through an innovation environment .....	21
Investing today for a better tomorrow .....	23
<b>Payments landscape through the numbers.....</b>	<b>26</b>
Key findings.....	28
Multiple factors are propelling the Kingdom to become more digital.....	30
The Kingdom’s grasp of payments fundamentals aligns with regional and global economies, encourages a vision-to-reality transition.....	32
Digital readiness meets or exceeds other global frontrunners.....	32
Supply-side readiness is facilitating to tap the potential within different consumer segments.....	37
Retailers continue to focus on in-store PoS sales growth, as the shift to online channels gains ground.....	44
Today’s robust digital payments growth is a natural response to the emerging economic landscape .....	46
Digital shift of consumers is shaping the Kingdom's payments sector .....	53
<b>Future of the payments ecosystem in growing Saudi Arabia.....</b>	<b>62</b>
Key findings.....	64
Collaborative vision is the key to success for a sustainable ecosystem in the Kingdom.....	66
SAMA–Regulatory initiatives advance Saudi digital payments.....	67
Saudi Payments’ progressive vision encapsulates a multi-dimensional strategy to drive the Kingdom's journey to be less reliant on cash.....	69
Guided by Saudi Payments, participants are collaborating to catalyze innovations .....	73
Stakeholders’ efforts towards leveraging emerging technologies fuel new KSA payment solutions.....	81
Future economy that is less reliant on cash will render immense benefits by creating a positive socio-economic impact.....	84
Conclusion .....	87
Research Methodology .....	88
Glossary .....	90
Acknowledgements .....	92

## Preface

Dynamic innovation and technology disruption are influencing the traditional global payments industry value chain and service propositions. Non-cash transaction volumes are heading skyward fueled by enthusiastic adoption of mobile payments, the growth and acceptance of contactless technology, e-commerce, and digital innovation from technology players and card giants. As a result, both regulators and industry participants have prioritized consumer experience.

Consistent with standard digital transactions growth bellwethers, the Middle East region is quietly ascending and on track to grow by double-digits through 2022. In parallel, the Kingdom of Saudi Arabia (KSA) has emerged as an innovative champion of the region's payments sector.

The growing popularity of alternative payment methods is boosting non-cash transaction volumes. What's more, as financial inclusion and financial literacy rates inch upward throughout Saudi Arabia, so does socio-economic growth, according to findings from the Financial Sector Development Program (FSDP) under Vision 2030, a plan to reinvent and diversify the Kingdom's economy.

Together, these factors coalesced to lay the foundation for today's Saudi regulatory system in which the Saudi Central Bank (SAMA) acts as a policy-making body enabled by its payments entity, Saudi Payments. The SAMA/Saudi Payments configuration is powering an innovative digital payments' environment. We also hope to demonstrate why this model offers a regional blueprint for the industry that might, later, be considered by global markets.

The unbridled growth of alternative payment methods has spurred multiple players, solutions, and standards that may eventually splinter the landscape. Through collaborative relationships with stakeholders — such as banks, non-banks, technology firms, businesses, and government agencies — Saudi Payments is creating a level-playing field for all participants and paving the way for a collaborative ecosystem.

*The Payments Report 2020: Evolving Payments Landscape in Saudi Arabia* explains SAMA's enabling regulatory approach and how it dovetails with the flexible Saudi Payments' infrastructure to accelerate the Kingdom's overarching payments ecosystem. Our report also explores the market landscape and offers detailed industry insights for a comprehensive view of payment trends and market drivers. With an eye on the future, the report highlights how all market players can support a collaborative growth environment that supports the Kingdom's journey to be less reliant on cash economy.

On behalf of Saudi Arabia Payments industry community and contributing market participants, we hope you find our report to be insightful. If you would like to learn more about the tremendous growth opportunities and new models on the payments' horizon in Saudi Arabia, please reach out to us. We would be delighted to discuss the initiatives, proactive measures, and significant prospects within Saudi Arabia's dynamic payments environment.

Respectfully,

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**Fahad Alakeel**  
Managing Director of  
Saudi Payments



## Executive summary

The need for continuing SAMAs' journey in developing shared infrastructure for the market was the impetus behind SAMA's 2019 decision to create Saudi Payments, a wholly-owned subsidiary, and payments' arm. The objective was to provide fast, efficient payments and to empower a broader digital payments scenario. How? By developing the necessary back-end infrastructure and enablers for consumers, merchants, corporates, and businesses.

Saudi Payments has become a catalyst that is turning the region into an innovator as it swiftly builds a robust national payment infrastructure to unify the Kingdom's digital payment systems. And results are quantifiable – as per a study by SAMA, as of June 2019, non-cash payments account for more than 36% of consumer payments and 44% of all payment types, by volume, in Saudi Arabia.

Since its inception, Saudi Payments has worked together with multiple industry stakeholders to develop a cohesive national payment system and reliable infrastructure to benefit the whole economy. SAMA steadily rolled out products over the past two decades, and now Saudi Payments operates the back-end infrastructure of four platforms (mada, SADAD, SARIE, and Esal) to create parity among market players.

New-age solutions are in the pipeline as Saudi Payments fosters a high-productivity ecosystem. For insights about KSA regulatory initiatives and payments industry measures, turn to [Section I: Enabling the future with payments regulatory framework](#).

Every country is unique and has individualized ways to transform its payments system. However, all share these tangible benefits of a more digital economy:

- Better consumer experience,
- More efficient governance,
- Higher business productivity,
- And greater mainstream financial inclusion for all citizens.

In pursuit of these benefits, Saudi Arabia is fostering innovation and modernizing the nation's payments infrastructure. Proactive efforts by Saudi Payments have been visible in industry growth across segments: PoS transactions, merchant adoption, growth in digital wallets, a rise in online payments, and in many more fronts in digital payments. Read about market trends and analysis in [Section II: Payments landscape through the numbers](#).



Saudi Arabia's Vision 2030 offers an ambitious economic development roadmap to diversify the Kingdom's economy beyond the oil sector. A national change-management program driven by the rapid adoption of digital initiatives aims to redirect the country's economic model to innovation and future technologies. Market stakeholders—including regulators, merchants, FinTech companies, service providers, and banks—support the country's goals by encouraging digital payment methods and promoting overall sustainable socio-economic development.

In addition, a growing number of digital payment options, supporting technology, favorable demographics, and changing consumer behavior are pushing digital payments adoption. COVID-19 has further accelerated the pace as the popularity of contactless payment methods intensifies.

A collaborative vision shared by industry stakeholders will help to drive a sustainable ecosystem for the future. Together, SAMA and Saudi Payments nurture innovation to create a sustainable industry operating model with an inside-out perspective realized through shared best practices, global benchmarking exercises, and domestic industry analysis. Market participants and technological developments form part of the outside-in hemisphere from a demand-side perspective, with requirements met by the supply-side, both in terms of policymaking and operating environment. Details about this economic symbiosis are outlined in [Section III: Future of the payments ecosystem in growing Saudi Arabia](#).

With a significant rise in digital payments, greater transparency, and mitigation of shadow economies, we also expect socio-economic benefits as the result of job creation, a proliferation of diverse industries, reduced corruption, and economic growth.

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**In collaboration with**

This report is developed in collaboration with Capgemini and we would like to extend our special thanks to them for their efforts and contribution in researching, compiling, designing and producing this report.





# SECTION 01

Enabling the future with  
payments regulatory framework



## Highlights

### Key findings

A changing global payments landscape

Under SAMA patronage, Saudi Payments driving the less-cash economy

### Case studies

Value-added atther service boosts digital transactions

Integration with the "Fasah" platform to automate the operations of the logistics sector

Creating growth through an innovation environment

Investing today for a better tomorrow

## Key findings

- **Saudi Arabia's 2015–2019 Compound Annual Growth Rate (CAGR) for non-cash transactions was a robust 35.7%.**
  - In 2019, non-cash transactions grew at a staggering 51.5%—significantly higher than the expected 24.2% growth for GCC countries.
  - Cash transactions are the preferred mode of person-to-person and customer-to-business payments across Saudi Arabia, but cash use is slowing—a mere 2.5% CAGR from 2015 to 2019.
- **Saudi efforts to boost financial inclusion and to satisfy the tech-savvy younger population will drive non-cash transaction growth.**
  - Recent SAMA initiatives, such as opening digital accounts for individuals and updating customers' KYC data online, will be critical as financial inclusion ticks upward.
  - KSA aims to amplify small and medium sized enterprise productivity to increase from 20% contribution to GDP (as recorded in 2017) to 35% in 2030.
  - Mobile payments growth will be essential, as Generation Z emerges to make up 23% of the Saudi population.<sup>1</sup> This post-millennial cohort will demand higher transaction speeds, more convenient user interfaces, and omnichannel experiences.
- **The Kingdom's regulatory and industry initiatives have transitioned from the foundational (focus on systemic stability and risk reduction) to the collaborative (encourage industry participation in policymaking and implementation through a shared, central, and open payments infrastructure).**
  - This regulatory transition spurred SAMA to launch Saudi Payments.
  - Similar national-level utility-based models of a separate payments arm, exist in other countries as well and have been successful.
- **The payments market low-ground take-off in the Kingdom will continue its ascent to create opportunities for current and new players.**
  - Saudi Payments will provide an enabling infrastructure for all participants so the Kingdom can offer an open market that rewards innovative and agile players while maintaining necessary ecosystem standards.
  - Most of the respondents we surveyed as part of this thought leadership report said Saudi Payments is establishing a fertile environment for novel ideas and business impact.
- **Saudi Payments' two-pronged approach (to enable infrastructure and to support customer-facing front-end innovation) is a high-potential strategy.**
  - The mada scheme will boost transaction volume as well as the average amount spent by individuals using e-commerce.<sup>2</sup>
  - Industry executives believe collaborating with SAMA on initiatives—such as Open Banking, data privacy and protection, and facilitating smooth IPS (Instant Payment System) implementation—can spur growth opportunities.

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<sup>1</sup> Generation Z (born between 1995 and 2010) will reach adulthood throughout the 2020 decade; they matured considering the internet as commonplace, a universal expectation.

<sup>2</sup> mada connects all ATMs and point-of-sale terminals throughout the Kingdom to a central payment switch that re-routes financial transactions between a merchant's bank and the card issuer bank.



- **Saudi Payments is supporting the region's growth story as an enabler.**
  - The roll-out of mada atheer (contactless cards) and mobile payments initiatives have driven contactless transactions. In 2019, contactless payments made up more than half of all PoS transactions compared with just 16% in 2018.
  - mada-based e-commerce transactions increased from 2.7 million in 2018 to more than 38 million in 2019—a staggering 13-fold hike and 17.6% compounded monthly growth.
  - Overall, PoS payments dominate KSA digital transactions—with a 42.4% CAGR from 2015–2019.<sup>3</sup>
  - The electronic bill presentment and payment system (SADAD) grew by nearly 12% from 2018–2019.<sup>4</sup>
- **Saudi Payments is enabling the back-end infrastructure of the evolving ecosystem, in alignment with objectives of Vision 2030 and also improve socio-economic contributions.<sup>5</sup>**



<sup>3</sup> Data indicates only Point of Sale (PoS) transactions without e-commerce or other e-payments transactions (e.g. SADAD, Esal, etc.)

<sup>4</sup> **SADAD:** The Kingdom's national electronic bill presentment and payment system.

<sup>5</sup> **Vision 2030** – Unveiled in 2016, Saudi Vision 2030 is the KSA's vision for future. It is a package of social and economic policies designed to free the Kingdom from dependence on oil exports and to build a prosperous and sustainable economic future by focusing on the country's strengths and policies.

## A changing global payments landscape

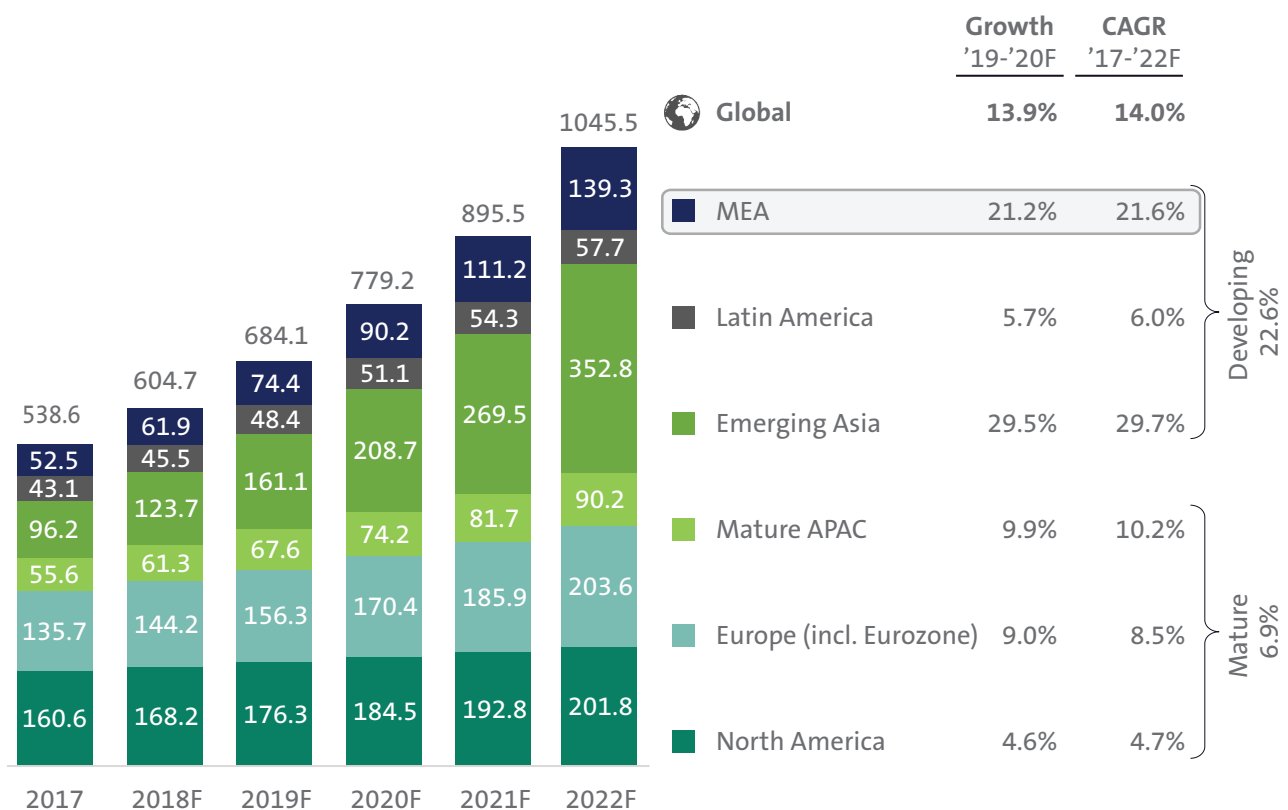
The global payments industry is experiencing fast-paced changes. Businesses and consumers demand better and quicker services, and the rise of a younger, tech-savvy population is leading to an increase in non-cash transactions and slower cash payments growth.

Government efforts such as those to boost financial inclusion and reduce tax evasion are also key drivers. Technology advances are prompting new and non-traditional players — including FinTech

firms, tech giants, and telecom providers — to enter the market with innovative business models. The result? A paradigm shift in the traditional payments value chain.

As part of the World Payments Report 2019, Capgemini estimated that the CAGR of global non-cash transaction volumes would increase by 14% from 2017 to 2022, while the expected compound annual growth rate for the Middle East and Africa region is 21.6%. (Figure 1.1)

**Figure 1.1: Number of worldwide non-cash transactions (in billions), by Region, 2017–2022F**



Source: Capgemini, World Payments Report 2019, September 27, 2019; <https://worldpaymentsreport.com>. See Appendix for details about calculations

## Middle East, Saudi Arabia experiencing phenomenal digital payments growth

Shifting user payment behaviors, healthy e-commerce traffic, and government initiatives are driving strong growth in digital payments in the Middle East and Africa. More and more users are demonstrating preferences for convenience and reach.

Newer payment methods, such as digital wallets, are also gradually making their presence felt. Middle East nations are at the forefront of e-commerce growth, surpassing more mature markets, including the US. With 25% annual growth of volume, MENA is currently the world’s fastest-growing region for e-commerce. At the same time, the UAE is the most advanced market in MENA, with a nearly 4.2% penetration rate of total retail sales. The Kingdom of Saudi Arabia (KSA) follows at almost 3.8%.<sup>6</sup>

<sup>6</sup> Bain & Company, “E-Commerce in MENA: Opportunity beyond the Hype, 2019”, February 19, 2019, <https://www.bain.com/insights/e-commerce-in-MENA-opportunity-beyond-the-hype/>

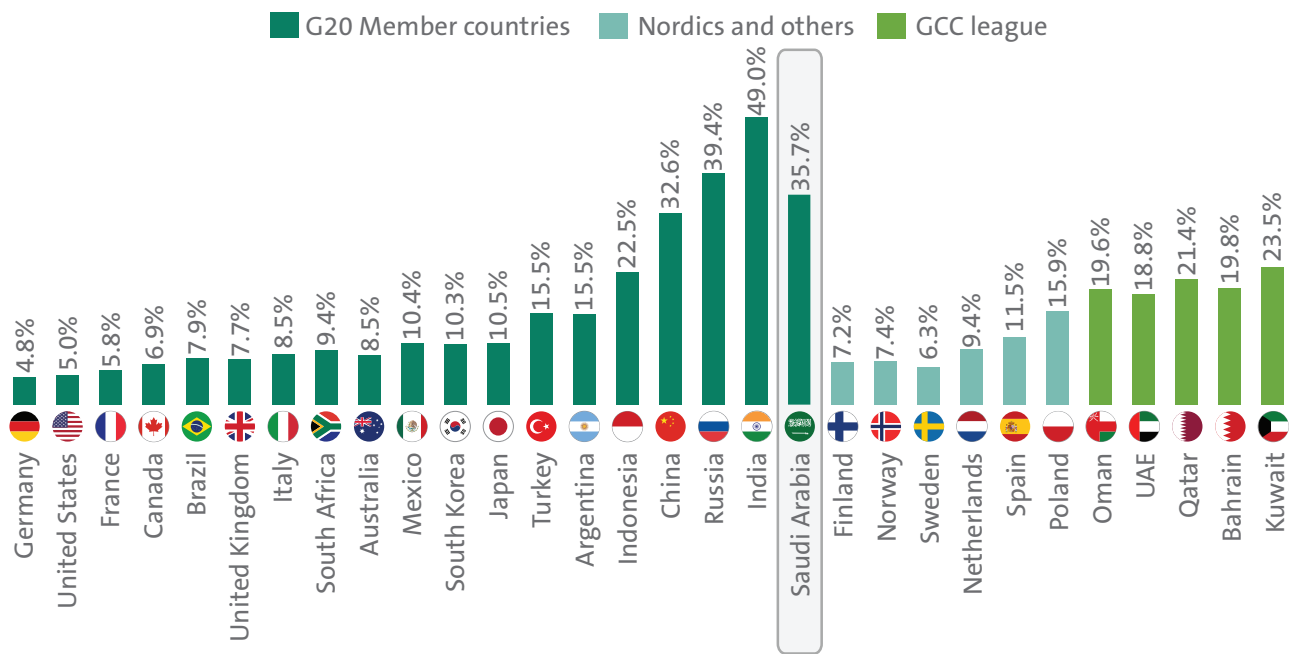
Saudi Arabia has also been shifting to non-cash payments thanks to the launch of several proactive initiatives aimed at enabling the industry. The Saudi Central Bank has taken several steps to promote and facilitate technical innovation, provide infrastructure support, and encourage the private sector to develop and redesign offerings.

To promote mada scheme adoption in 2015, SAMA eliminated merchants' fees for all installation and periodical services, provided free SIMs for connectivity and supporting maintenance, and introduced affordable merchant discount rates (MDR). A new constructive pricing model charges merchants per use rather than through a minimum transaction threshold. Moreover, to encourage the

payments industry, overall, SAMA introduced rewarding pricing models, with volume discounts on switch fees for issuers and acquirers and compensated through a positive interchange model.

In line with these regulatory changes, digital payments and online transactions are gaining ground. Between 2015 and 2019, the Kingdom tallied a 35.7% CAGR in non-cash payments transaction volume, which is quite high when compared with many individual G20 member countries, the Nordics, and GCC countries. (Figure 1.2)

**Figure 1.2: Growth of worldwide non-cash transactions (CAGR), by Country, 2015–2019e**



Source: Saudi Payments analysis; BIS data, ECB statistical data warehouse

\*Data for Saudi Arabia is based on actual volumes

### Saudi Arabia launches initiatives to increase non-cash payments and reduce cash

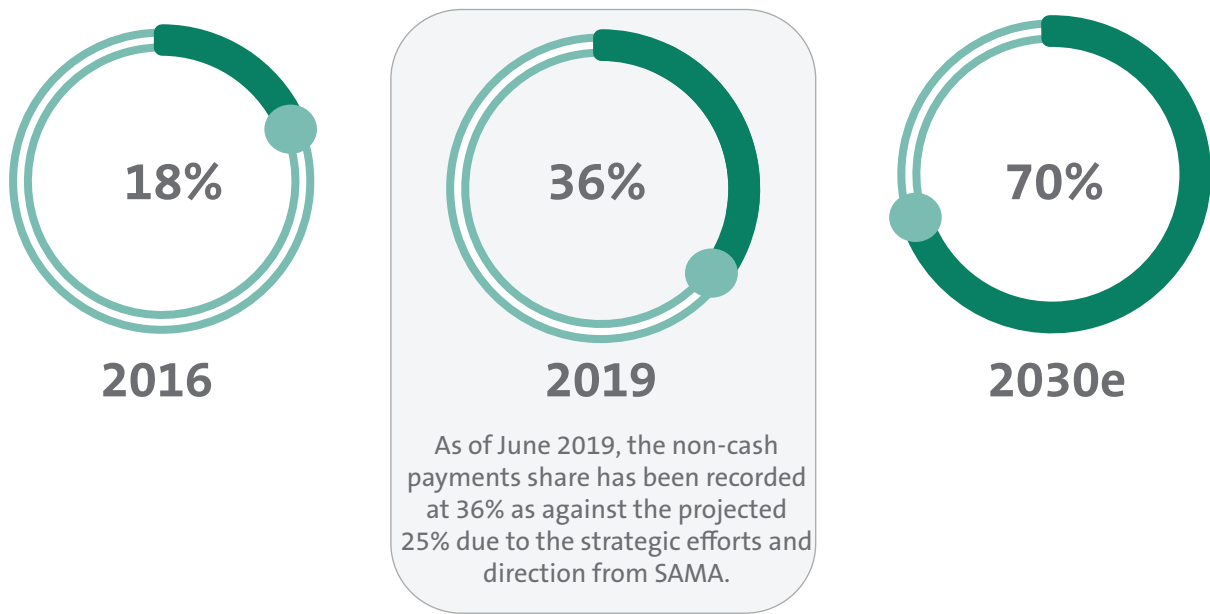
Although cash transactions have traditionally been the preferred mode of payment across Saudi Arabia, growth has slowed in recent years – largely the

result of government reforms under the Financial Sector Development Program (FSDP) to move towards a less-cash economy by 2030, targeting 70% non-cash payments and SAMA's strategic direction to achieve the same.<sup>8</sup> (Figure 1.3)

“Regulation and operations come together and are interconnected, which is the key success factor for sustainability. Saudi Payments works in collaboration with SAMA to envision this future that we want to showcase to the world as a successful operating model.”

- Mohsen Alzahrani,  
Vice President, Strategy and Excellence, Saudi Payments

**Figure 1.3: Government’s projected targets for share of non-cash payments in Saudi Arabia**

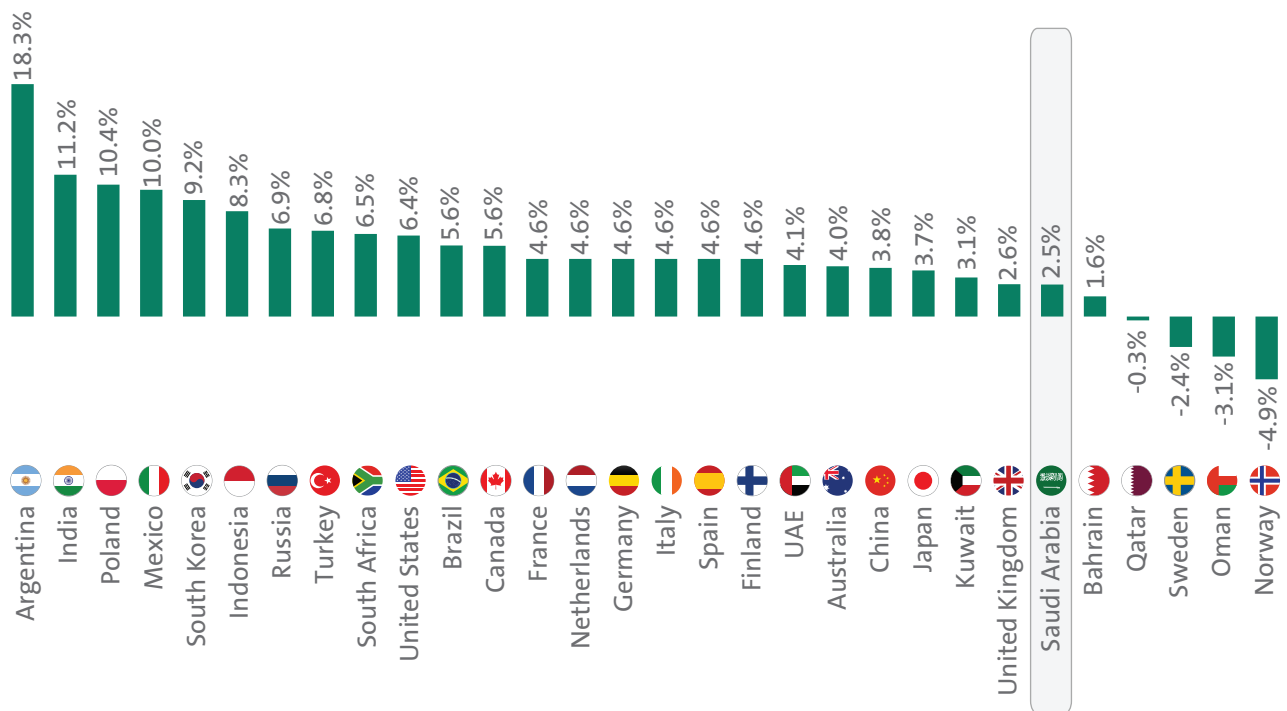


Source: Vision 2030 Financial Sector Development Program, <https://vision2030.gov.sa/en/programs/FSDP>

The compound annual growth of Saudi Arabia’s cash-in-circulation from 2015 to 2019 was 2.5%. The average cash-in-circulation to GDP ratio in the country from 2015–2019 was nearly 8%. The Kingdom is pushing ahead with initiatives to promote a future with less cash, joining the ranks of countries such as Norway, Sweden, and the UK. (Figure 1.4)

Before venturing towards the journey of a society with less cash, authorities and businesses will need to ensure greater access to banking services for Saudi citizens as well as growth in the cash-reliant small and medium sized enterprise (SME) sector. A wide range of opportunities for potential players in Saudi Arabia's evolving payments market will open as reforms to boost digital transactions begin

**Figure 1.4: Change in cash-in-circulation (2015-2019e)**



Source: Saudi Payments analysis; BIS data

to make an impact. Such changes include government efforts to give the entire Saudi population access to financial services.

### **A focus on unbanked citizens moves the financial inclusion needle**

Financial inclusion has proliferated throughout the past decade as banks have actively sought out populations that previously had no access to financial services because they lived in remote areas or simply preferred to hold on to their cash.

When the last triennial Financial Inclusion survey was conducted in late 2017, World Bank data indicated that nearly 70% of adults globally had access to a bank account. That number was up from 64% in 2014 and just 51% in 2011.<sup>7</sup> In Saudi Arabia, the percentage increased from 69% to 74% from 2014–2016.<sup>8</sup> A primary FSDP objective is to increase the nation's bank account ownership rate to 80% in 2020.

Digitization and the introduction of digital technology in payments have been particularly successful in promoting financial literacy and enhancing financial capabilities.

Financial literacy in the Kingdom was about 31% in 2017 compared with advanced economies with ≥50% literacy rates.<sup>9</sup> One of the targets under the national savings strategy is to promote financial planning.

### **Mobile phone penetration fuels digital payments as new generations emerge**

Financial inclusion, and therefore digital payments have become so widely available to such a diverse and widespread global population primarily because of the proliferation of smartphones.

According to data from the Kingdom's Communications and Information Technology Commission (CITC), internet user penetration in

Saudi Arabia is 93% compared with the global average of 53%.<sup>10</sup> E-commerce growth is contingent upon broader internet availability to satisfy young, tech-savvy shoppers (32% of the Kingdom's population is within the age group 10–29 years).<sup>11</sup>

Meanwhile, Generation Z (those born from 1995 to 2010) is emerging as a substantial market segment, comprising 23% of the Saudi population. This segment includes experienced technology users already using digital payments who will undoubtedly demand higher transaction speeds, more convenient user interfaces, and omnichannel experiences. These trends will continue to help drive payments industry growth.<sup>12</sup>

Saudi Arabia is an attractive proposition for e-commerce. One of many priorities in Vision 2030 is to increase the contribution of modern trade and e-commerce to 80% of the retail sector in the next 10 years.

Bringing small and medium-sized enterprises into the mainstream will drive digital payments uptake. Another promising area to increase digital payments lies in encouraging small and medium enterprises (SME) as well as cash-heavy non-oil sectors (such as construction or retail) towards adopting digital transactions. Enterprises run by ex-pats also need to be included in the digital revolution. The government, through SME's general authority Monsha'at, is aiming to increase the productivity of SMEs and increase their contribution to GDP from 20% (as recorded in 2017) to 35% by 2030.

According to data from Monsha'at, bringing the Saudi SME economic contribution in line with global peers could add a further SAR1.1 trillion (USD293.2 billion) to GDP.<sup>13</sup> At the same time, traditional businesses looking at cost savings can use digital invoicing in conjunction with other digital payments services to streamline their supply chain and trade finance operations.

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7 World Bank Financial Inclusion Report 2018, April 19, 2018, <https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows>

8 Financial Sector development program (FSDP), Vision 2030, <https://vision2030.gov.sa/en/programs/FSDP>

9 The World Bank, accessed February 2020, <https://www.worldbank.org/en/topic/financialinclusion>

10 CITC, press release, "Riyadh set to become Arab world's first digital capital in 2020", December 18, 2019, <https://www.citc.gov.sa/en/mediacenter/pressreleases/Pages/2019121801.aspx>

11 Saudi Arabia Government statistics, accessed February 2020, Population Estimates, <https://www.stats.gov.sa/en/43>

12 UNFAP Report, 2019, accessed February 2020, <https://www.unfpa.org/data/world-population/SA>

13 General Authority for Small and Medium Enterprises (Monsha'at), accessed February 2020, <https://www.monshaat.gov.sa/sites/default/files/bookletmonshaat.pdf>

## Under SAMA patronage, Saudi Payments driving the less-cash economy

### Saudi Central Bank (SAMA)

Established in 1952, SAMA is the central bank of the Kingdom of Saudi Arabia which performs a variety of functions.

- Mints and prints the Saudi riyal, strengthens the riyal and stabilizes its external and internal value
- Manages the Kingdom's foreign exchange reserves
- Controls the monetary policy for maintaining the stability of prices and exchange rate
- Promotes the growth of the financial system and ensures its soundness by enhancing transparency and competition
- Deals with the banking affairs of the government
- Monitors performance and activities of commercial banks, exchange dealers, cooperative insurance companies and insurance agents, finance companies and credit information companies
- Oversees the safety and efficiency of payments and financial settlement activities

### SAMA regulates the payments industry by balancing growth and through industry enablement

SAMA's mission is to promote safety and efficiency, manage systemic risk, enhance transparency and competition to support the nation's payment and financial settlement systems.<sup>14</sup> It also fosters a modern payments system through regulatory initiatives that enable innovation and help new

companies to thrive with their services in the payment industry.

As within other financial services sectors, payment regulations primarily protect consumers while preventing fraud and other illegal activity. However, regulations can add complexity and cost to payment service operations. Increasingly, SAMA understands it must also support conditions under which industry participants can operate safely and profitably. Now, more than ever, innovation is critical as global leaders emerge and set standards.

In April 2018, the regulatory authority launched Fintech Saudi, under the FSDP, to act as a catalyst for the development of the FinTech industry. Fintech Saudi supports development of the infrastructure, skills, and FinTech entrepreneurs required for the growth of FinTech industry. SAMA also launched a regulatory sandbox and has been accepting FinTech companies requests from 2018 to encourage Saudi and foreign firms to test their products and services in an environment that simulates the Kingdom's fully-regulated financial services sector.

In January 2020, a move was taken that opened the financial services sector to non-banking firms. SAMA issued the final regulation to license digital cash companies within its payments framework to non-banking firms.<sup>15</sup> The action incentivizes smaller FinTechs with innovative ideas. SAMA also launched the draft "Payment System and Services in the Kingdom" for public feedbacks to develop a regulatory framework for the infrastructure to keep pace with developments in payments and raise efficiency and flexibility of financial transactions.



**SAMA has been very active as part of Saudi Vision 2030 with the objective of increasing digital payments in the Kingdom. We developed a collaborative operating and regulatory model - with SAMA positioned as the Oversight and Policy Making authority and Saudi Payments as a national payment systems infrastructure operator. These two distinct, but interrelated roles will, we believe, help us move towards our goal of making Saudi Arabia a significantly 'less-cash' economy. Early signs are extraordinarily promising, with up to 70% year-on-year growth in card payments in 2019."**

**- Mohammed Almutlaq,**  
Director of Financial Sector Development Department, SAMA

<sup>14</sup> SAMA, accessed February 2020, <http://www.sama.gov.sa/en-US/About/Pages/SAMAFUNCTION.aspx>

<sup>15</sup> Asharq Al-Awsat, "SAMA to License Electronic Cash, Payments Companies", January 6, 2020; <https://aawsat.com/english/home/article/2069076/sama-license-electronic-cash-payment-companies>

**SAMA’s evolving regulatory approach: Stimulate business success**



The Kingdom’s Vision 2030 program aims to broaden the scope of digital payments, spur e-commerce growth (particularly among SMEs), encourage service digitization, and deploy new technologies to facilitate payments along with cross-border trade.

Our survey respondents said they were impressed by SAMA’s hands-on approach when it came to enabling businesses to enter the payments industry and to help them grow. There is now a much more force in driving the payments industry when compared to years ago. Now SAMA is the primary driver of change enablement.

It made sense to create an organization that would support the entire payments sector while acting on SAMA’s behalf to build an infrastructure and operational environment compatible with all national payments’ systems.

**“Society is adapting to digital transactions because of the role played by SAMA and Saudi Payments.”**

- Faisal M. Al Amoudi,  
Senior Vice President, Transaction Banking Sales,  
National Commercial Bank

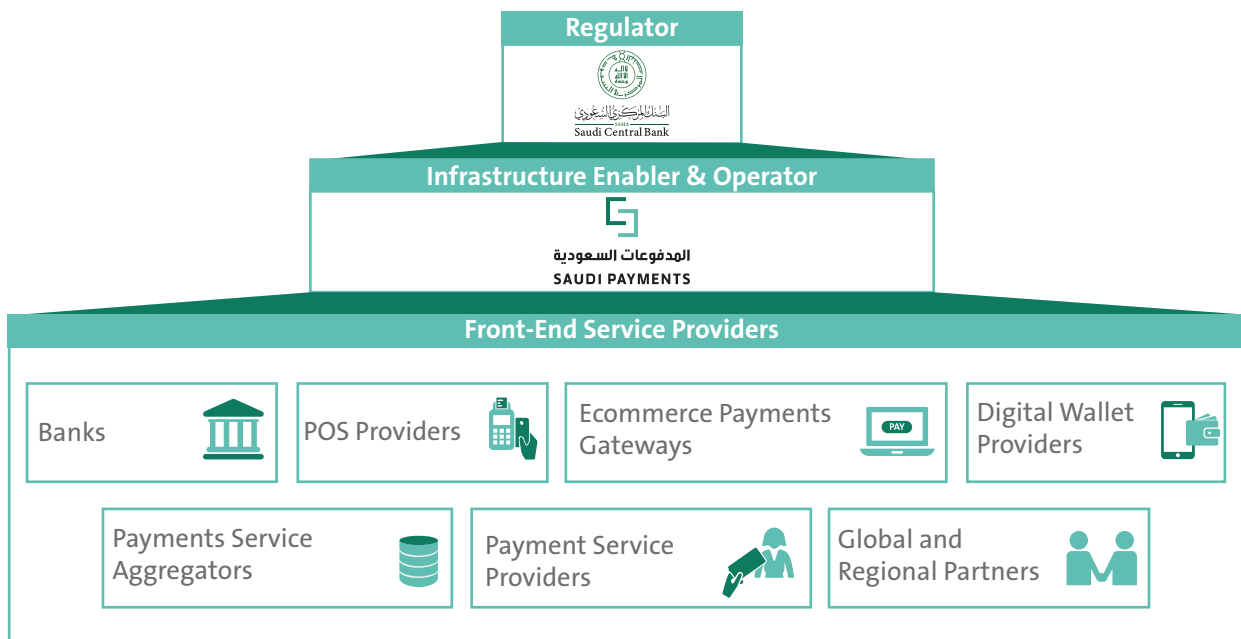
**Saudi Payments mandate– enable and operate the back-end digital payments infrastructure in Saudi Arabia**

In 2019, General Department of Payment Systems and the SADAD payment system were merged under the name of Saudi Payments. Formed under the patronage of SAMA, Saudi Payments is

empowering a broader digital payments scenario by providing the robust back-end infrastructure and associated enablers to consumers, merchants, corporates, and businesses. (Figure 1.5)

**Figure 1.5: Payments industry map**

Licensing, Oversight, Supervision, Fee setting, Final settlements, Consumer protection



Saudi Payments is the result of the transition of SAMA’s focus from enacting regulations to enabling and aligning the payments sector with global developments. A collaborative regulatory environment will help the Kingdom evolve into a fertile market for innovation. Regulatory and industry initiatives in the Kingdom have transitioned from foundational actions that focused on systemic stability and risk reduction; to collaborative efforts that encourage industry participation in policymaking and implementation. Saudi Payments was founded on a collaborative model vision.

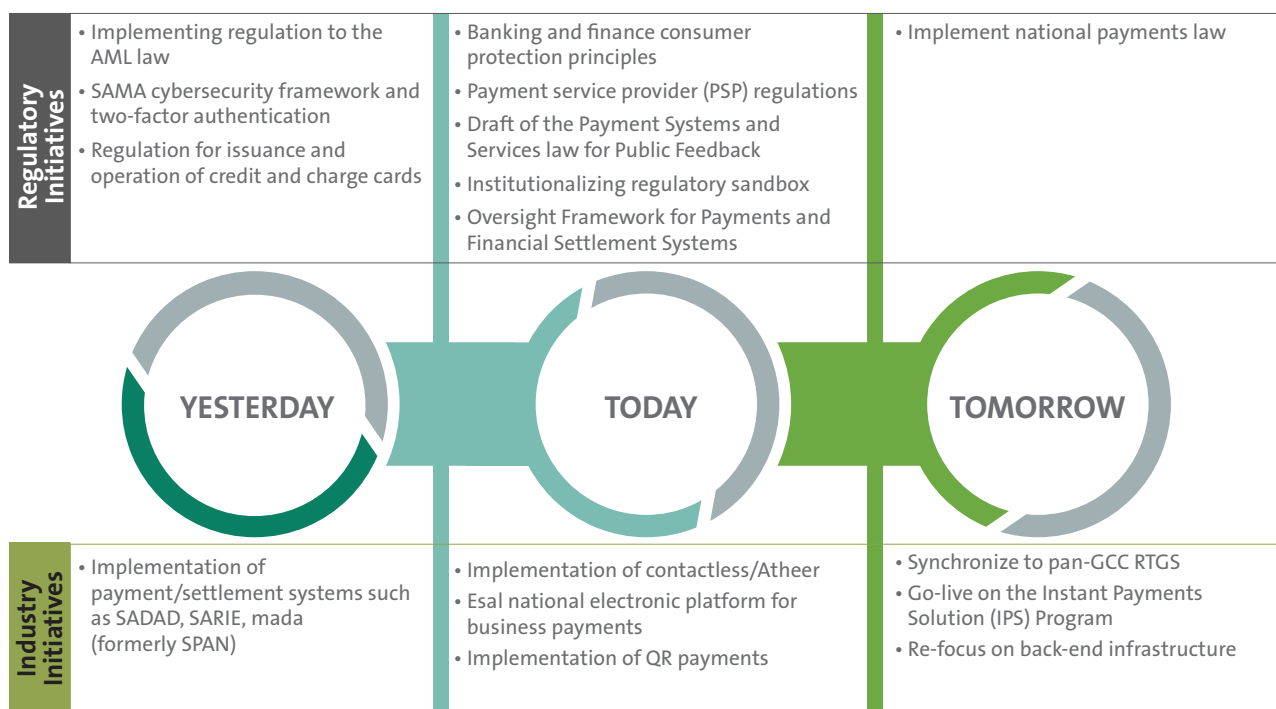
Other countries support utility-based models. In India, the National Payments Corporation of India operates under the support of the Reserve Bank of India. In Hong Kong, the HKICL (Hong Kong Interbank Clearing Limited) functions under the

auspices of the Hong Kong Monetary Authority. In Canada, Payments Canada operates under the collaborative guidance of the Department of Finance and the Bank of Canada. And in Turkey, the Interbank Card Center (BKM) works together with the Central Bank of the Republic of Turkey.

Payments systems mada, SARIE, SADAD, and Esal were devised to guarantee that the right payment market infrastructure (PMI) aligns with CPMI-IOSCO requirements.<sup>16</sup>

Saudi Payments enriches SAMA-enabled systems in terms of features and technology, designing, and operating new back-end services, as required by a healthy sustainable ecosystem. This collaborative SAMA / Saudi Payments arrangement will drive future ecosystem development and sustainability. (Figure 1.6)

**Figure 1.6: Regulatory and industry initiatives in Saudi Arabia**



<sup>16</sup> CPMI is the Committee on Payments and Market Infrastructures, IOSCO is the International Organization of Securities Commissions



## Saudi Payments operational scope—national payments infrastructure systems

The KSA payments market has steadily rolled out products throughout the past two decades, and now even more solutions are in development as Saudi Payments forges an ecosystem conducive to open innovation. (Figure 1.7)

Remarkable 2019 growth across the Kingdom's payments systems confirms that the drive to increase digital payments has had a quantifiable impact. While in-store purchases represented the largest segment of customer digital payment transactions, the most significant growth rate was in the volume and value of e-commerce sales.

PoS in-store payments volume grew from 1.03 billion transactions in 2018 to 1.62 billion transactions in 2019 alone—an annual growth rate of 57%. The value of these sales rose from SAR232.3 billion in 2018 to SAR287.04 billion in 2019—annual growth of 24%. Total mada-enabled e-commerce

transactions increased from 2.7 million in 2018 to more than 38 million in 2019—an astounding 13-fold increase. The value of online sales rose from SAR1.37 billion in 2018, to SAR10.4 billion in 2019—at a growth of 650%.

SADAD remains the predominant medium for institutions' digital bill payments. The total volume of successfully paid bills—using SADAD—rose from 235.6 million transactions in 2018 to 263.5 million in 2019, representing nearly 12% YoY growth. In support of one of the most important pillars of the financial sector development program, which is to raise the percentage of non-cash transactions and increase the principle of financial inclusion, in 2018 Esal national electronic platform for business payments was launched with the goal to facilitate billing and payments mechanism in the business sector. The number of invoices raised on the platform in 2019 reached more than 500 thousand invoice, with a total value of more than one and a half billion Saudi riyals.



**SAMA has taken a strategic view on the development of a 'digitally enabled' payments ecosystem in the Kingdom over decades. The launch of the early market implementation of RTGS with the introduction of SARIE in 1997 and the Saudi Payments Network (SPAN) national debit card system paved the way for a systemic approach to managing payments. Later, the development of the international award winning SADAD bill presentment and payments system (2004) prompted a revised, strategic examination of the Payments ecosystem that would ease the Saudi population away from its affinity with cash. In 2009, the Integrated Payments Systems Strategy (IPSS) outlined a detailed, inter-related series of development, awareness and communications initiatives across an array of payments platforms and 'international standards' that would drive the rapid migration from cash to digital payments that are today being witnessed across the retail payments sector.**

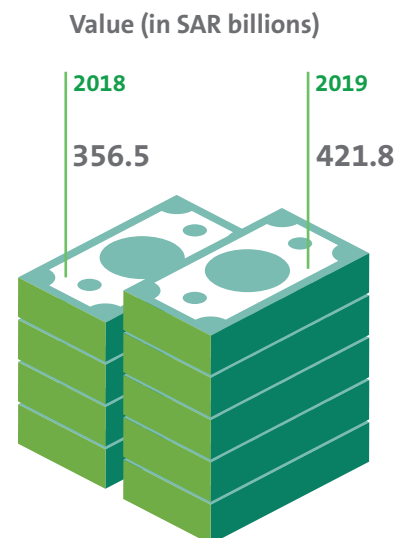
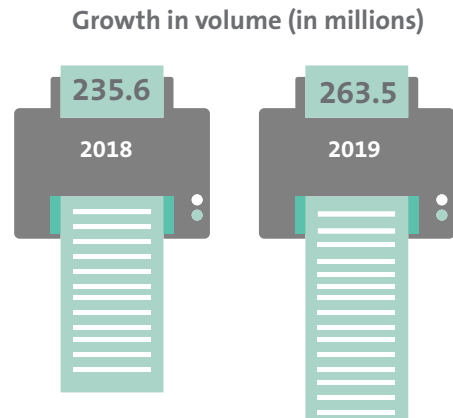
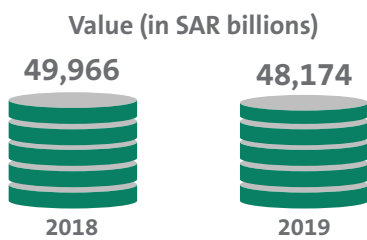
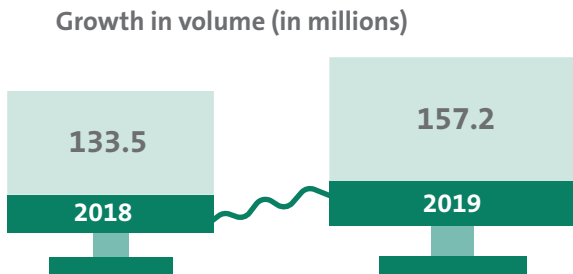
**SAMA payments usage study (2019) shows that almost all Government payments are cashless, with over half of all business initiated payments also cashless (over 80% for larger business and corporates). And while 2 in 3 consumer payments remain in cash today, a current 70% year-on-year growth in card payments suggests that the ratio of non-cash consumer payments is also set to continue its recent rapid change – prompted by contactless payments and the arrival of new, non-bank payments service providers.”**

**Aiman Al-Rabiah,**  
Manager of Payments Systems Business Department, SAMA

**Figure 1.7: Snapshot of Saudi Payments portfolio**

SARIE system provides the mechanism for all Saudi commercial banks to make and settle payments in Saudi Riyals. SARIE provides the basis for improved banking products and services and is the foundation for the payments in Saudi Arabia.

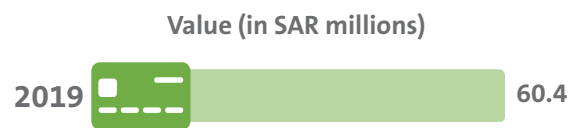
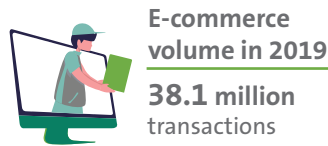
First serving as the Kingdom's Electronic Bill Presentment and Payment (EBPP) provider since 2004, this solution contributed in enhancing and simplifying the relation between the biller and the payer by introducing an infrastructure that connects payers to billers through SADAD Member Banks. Now, SADAD services are offered among the banking channels of 17 member banks from which individuals and companies can define, manage and pay their bills through.



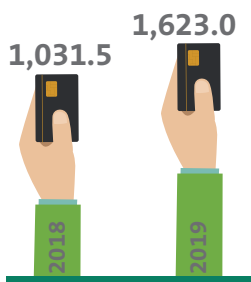
This is the new identity of SPAN and connects all the Kingdom's automated teller machines and point-of-sale terminals to a central payment switch and mada atheer is the brand name for contactless payments. mada also has launched an e-commerce product, which is an online payment solution that allows mada cardholders to shop securely online at local digital merchants. The solution is built by integrating mada system to the local and international payment gateways in order to simplify the integration and enablement of mada e-commerce acceptance for the local digital merchants.

Contactless PoS transactions contributed to 56% of the total PoS transactions in 2019 against 16% share witnessed in 2018. The e-commerce transactions processed through mada increased 13-fold from 2018-2019.

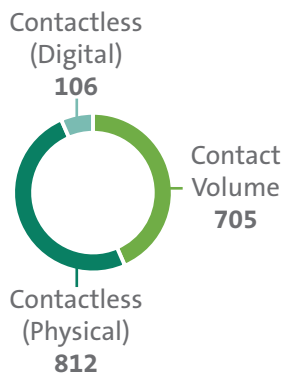
The "Esal" electronic billing platform is based on organizing business procedures and creating an organized and appropriate electronic invoices environment for service. Where it will manage the entire life cycle of the invoice, from raising it to paying them through banking channels and settling them. One of the goals is to make the Kingdom a strong center for financial technology by raising the satisfaction of the actors in the financial technology field in the Kingdom. We have witnessed a remarkable turnout by companies and institutions to join the platform since the actual launch date during the second quarter of 2018. The number of invoices that have been paid through bank channels since the actual launch until the end of 2019 has reached more than 38,000 payment, with a total value of more than SAR60 million.



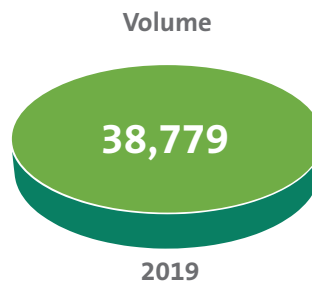
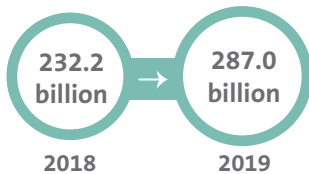
Growth in card transactions volume (in millions)



Volume break-up, 2019 (in millions)



Value (in SAR billions)



## Case studies

Real-world success stories are fueling the Kingdom's payments market growth trajectory.

### Value-added atheer service boosts digital transactions

**Objective:** Encourage contactless / tap-n-go payments

**Implementation:** Contactless / NFC (atheer) PoS terminals in the Kingdom jumped to **416,669** devices in 2019, constituting around 95% of all PoS terminals nationwide.

**Rationale:** Faster transaction time and convenience improves customer experience for tap-and-go users and merchants (high-frequency merchants such as

fast-food restaurants). It minimizes waiting time in queues as compared with cash payment (counting change) or contact payment (entering a PIN).

**Results:** Card-based transactions grew as an upshot of contactless payments adoption and initiatives that support consumer migration from contact to contactless. Contactless PoS transactions contributed to **57%** of the total PoS transactions in 2019, and reached **83%** in the first half of 2020, against **16%** share in 2018. The rise is remarkable despite the fact that near-field communication (NFC) adoption only began in 2017.

### Integration with the "Fasah" platform to automate the operations of the logistics sector

**Project objective:** The goal is to link and integrate between Esal platform and Fasah platform that was developed by the Saudi Company for Information Exchange (Tabadul) to develop a unified electronic window that organizes all invoices and payments for the shipping and import sector.

**Implementation:** The project was implemented in two phases

**The first phase includes the following:**

- Linking and technical integration between the two platforms and the inclusion of some functions in the Esal platform to the Fasah platform, which is represented in the presentation of invoices on the platform, the business board which displays a summary of the status of invoices, in addition to the status of each invoice.
- A special mechanism has been set up to register the sub-suppliers on the platform by verifying the IBAN number with local banks.
- The ability of sub-suppliers to raise individual invoices through the Fasah platform.
- Payment of individual invoices by buyers through bank channels.

**The second phase, which is currently being developed, includes the following:**

- Enabling Fasah to raise a group of invoices to sub-suppliers through the platform.

- The ability of the buyer to pay invoices to sub-suppliers through a single payment process through bank channels.

**Rationale:** Saudi Customs and Port Authority initiated the FASAH Pay project through digital services company Tabadul to unify the payment processing window for complex financial transactions in the logistics sector. The platform also increases transparency and simplify the process for traders when it comes to the payment related to their shipment. Every shipment had to be grouped based on the Bill of Lading as a unique reference for a single shipment. And each stakeholder will upload the invoices under that the shipment unique reference and Esal will handle from the back end the grouping of all related invoices to a single SADAD payment for the buyer.

**Results:** Saudi Payments completed the first development phase, which was launched at the end of 2019 and began to be implemented during the first quarter of 2020. Work is also underway to develop the second phase and launch it during the coming months.

**Potential Esal initiatives for other industries:** The Council of Cooperative Health Insurance (CCHI) is positioning Esal to work as the back-end system for invoices and payments in the Saudi Health Insurance Bus (SHIB). The Uniplat project aims to digitize and mandate e-claims between health care providers (hospitals, clinics, pharmacies) and insurance companies. Similarly, Esal can combine and group multiple e-claims from health care providers and provide a single payment channel to the insurance company for settlement.

Esal offers an affordable invoicing option for SMBs. Factoring services for accounts receivable are also planned.

## Building a payments ecosystem for industry

Saudi Payments plays an instrumental role as a trusted advisor to the market and in developing parity that enables a vibrant ecosystem in which both established firms and newcomers, including financial and FinTech startups, can thrive. In such an environment, market participants can compete fairly, drive innovation, and create market leaders that help set industry standards. And where there are market leaders, there are also challengers striving to outperform. Saudi Payments is helping create a market framework that supports and gives valuable advice to these leaders and challengers so that KSA industry participants are at the forefront in the coming decade.

Saudi Payments has assumed a market advisor role as it increasingly collaborates with payments industry leaders and earns trust through partnerships with payment industry participants and market leaders such as Visa, Mastercard, UnionPay, Discover and American Express—all of which will help improve the Kingdom's payments system.

To evolve as a mature organization that provides operational guidance on adhering to standards and maintaining interoperability, Saudi Payments follows a progressive approach defined by its strategy statement. (Figure 1.8)

Saudi Payments encourages a thriving startup culture, while SAMA provides a regulatory sandbox.

Startups in the Kingdom face many fledgling challenges such as a lack of knowledge of the regulatory landscape, cost pressures over scaling up, and a shortage in skilled resources. Saudi Payments and SAMA both support startup firms, so these challenges do not stifle innovation.

FinTech firm respondents to our report survey said that guidance from Saudi Payments has been invaluable.

For a FinTech startup to turn an innovative idea into a scalable and profitable product or service requires funding and support. Guidance is available within SAMA's regulatory sandbox in addition to Fintech Saudi. The regulatory sandbox allows companies to test their products in collaboration with the regulator and adapt as necessary to meet compliance. Products recently tested in this environment include person-to-person transfers, point-of-sale devices, SADAD bills, and mada for online purchases.

In July 2020, SAMA also introduced draft rules for debt crowdfunding, with an aim to organize licensing provisions for players operating in this space. The initiative will help attract a new segment of investors and companies, along with promoting modern financing activities in the Kingdom. SAMA recently granted permission to Manafa to introduce debt crowdfunding.

Given competent guidance and adequate funding, startups will continue to emerge and contribute to the pipeline of innovative ideas coming from Saudi Arabia's payments industry.

## A flow of ground-breaking ideas will yield new products and initiatives

Saudi Payments is developing several future product releases and actions that align with Saudi Payments' 2020–2022 objectives encompassing security, innovation, accessibility, interoperability, and efficiency.

Forward-looking initiatives such as an instant payment system (IPS), QR code-based payments, interoperability standards, portals for onboarding wallet players, and a virtual layer facilitating interconnection are among various solutions in the works.



**Enabling infrastructure is in place with the upcoming real-time payments, strong local scheme (mada), and good acceptance infrastructure (contactless & PoS). Now, alternate ways of payments should come and proliferate in the market.”**

**- Mushtaq Hussain,**  
Chief Operating Officer, BayanPay

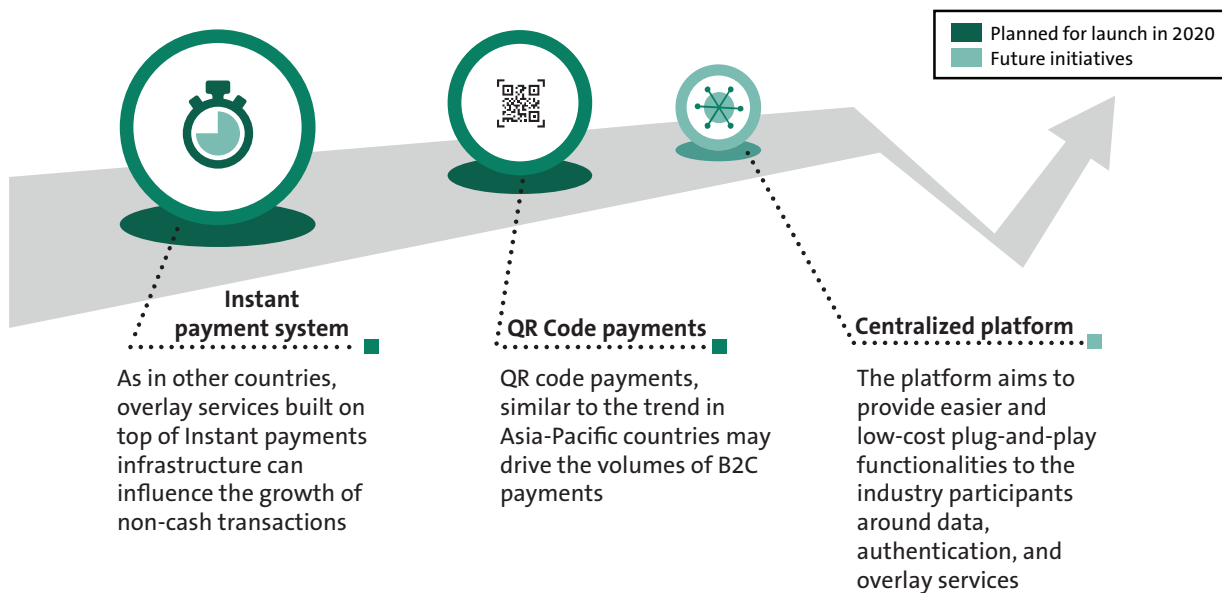
Currently, payments innovation in the region has not progressed beyond P2P payments and remittances. The future, however, is promising with global players seeking to create a market and Saudi Payments striving to enable such a sustainable industry model.

Based on SAMA's new regulation on licensing new payment service providers and digital wallet companies, Saudi Payments already on-boarded the licensed PSPs such as non-bank card issuers, eMoney providers, and other payment facilitators. Saudi Payments is actively collaborating with SAMA in terms of the underlying infrastructure requirements, data governance framework, data security protection guidelines, and readiness facilitation in general.

“Currently, we are living in the fourth industrial revolution with many advanced and promising technologies which can be adopted to create novel and valuable products and services to address market demand. Today, Saudi Payments is embracing innovation by empowering ecosystem players with platforms to leverage on and drive the financial services ecosystem in KSA to the next level of excellence.”

- Laith Alsulaiman,  
Director, Innovation Hub, Saudi Payments

Figure 1.8: A pipeline of innovative products and initiatives



“Open banking will definitely help in the cashless society as it will boost the digital experience and exposure of the customers and help them to use a variety of functions.”

- Mohammed Saleh Alsuwaiyel,  
Chief Executive, BrightWare (Saudi-based FinTech firm)

## Creating growth through an innovation environment

By combining their unique market perspective, a deep understanding of emerging technologies, and a collaborative relationship with industry, SAMA and Saudi Payments have fostered a thriving innovation culture.

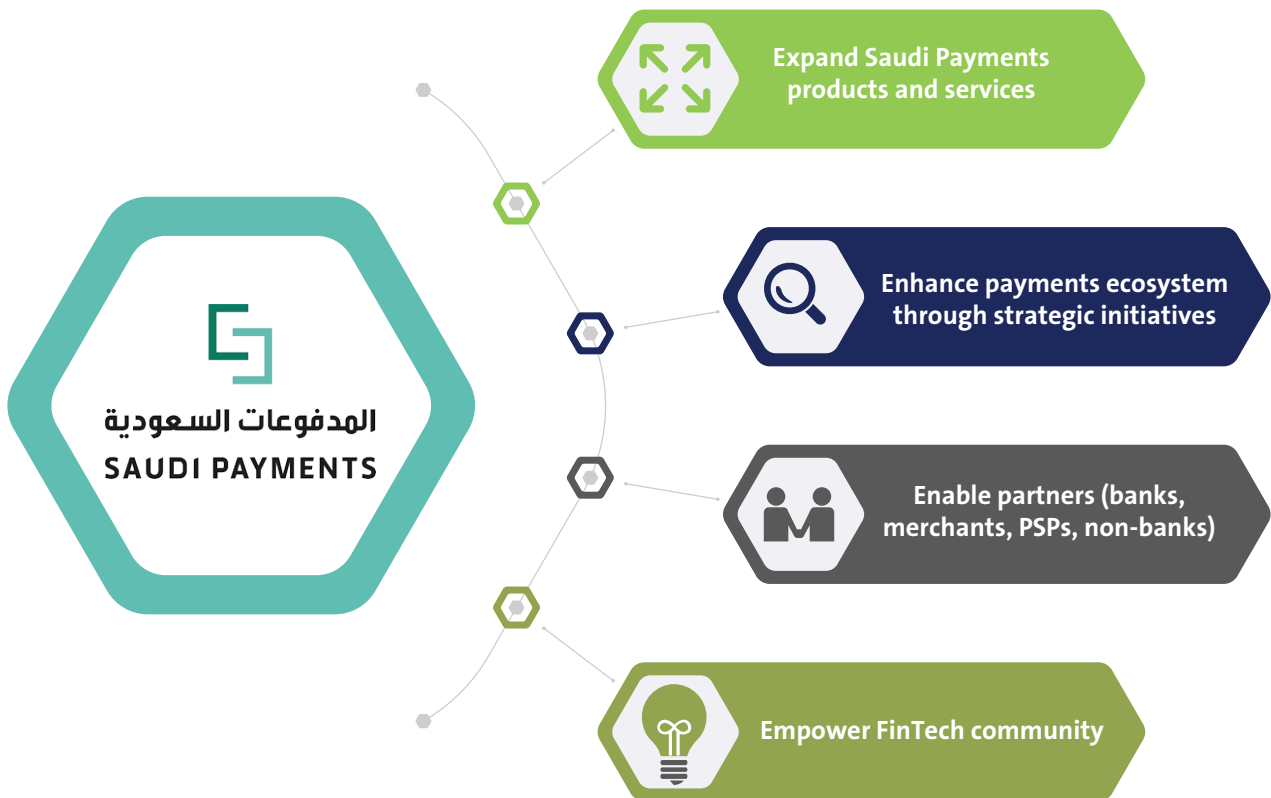
### An industrial framework for a culture of innovation

Saudi Payments supports a leading-edge, pioneering culture and a work environment that encourages staff to innovate. It believes that for the Saudi market to be more efficient and innovative, a healthy FinTech industry is required. Saudi Payments

is creating a framework within the payments industry that encourages disruption and welcomes new entrants.

The industry is following suit by collaborating and partnering with Saudi Payments and FinTech startups to further create innovative solutions that will help cut costs and enhance consumer experience in the payments sector. With the help of predefined concepts, Saudi Payments is building a conducive environment in which all industry participants and stakeholders can prosper. (Figure 1.9)

**Figure 1.9: Saudi Payments concepts for promoting innovation in Saudi Arabia**



I see mada as a new addition to international schemes. Now, Saudi Payments have an opportunity to become the leading regional player and assume a strong global role .”

- Fahad Anteet,  
SVP, Head of Cards & Payments, Riyadh Bank

## New and emerging technologies create a payments sector growth pipeline

Payments sector growth is contingent upon a pipeline filled with innovative companies developing technologies that move the industry forward.

The use of distributed ledger technology (DLT)—or blockchain—is already proving to be a successful solution to cross-border payments. SAMA and the UAE Central Bank are collaborating on an experimental Blockchain project to develop the ABER digital currency.<sup>17</sup> Initially, ABER is intended to settle cross-border payments between a limited number of banks in the two countries. However, many of our survey respondents said cross-border services merit continued observation and prioritization.

- Digital wallets are also taking off in the region, with new players such as STC Pay, which was launched by the Saudi Digital Payments Company, a subsidiary of Saudi Telecom Company. Consumers are being empowered to seamlessly transact a range of payments without the need for formal bank accounts.
- Having identified an opportunity in international remittances in 2018, STC Pay entered into an agreement with the Western Union Company offering financial services locally and globally. It has also forged a deal with Mastercard to facilitate global payments in Saudi Arabia by providing fast and convenient money-transfer services to individuals and bank account holders. Additionally, it has entered into a deal with Visa, enabling issuance of Visa credentials for STC Pay customers, which will allow them to use STC Pay digital wallet for e-payments.
- Even established online retail giant Amazon has gained access to the Saudi market through its acquisition of English-Arabic language e-commerce platform Souq.com, in July 2017. Given the established strategy of Amazon in other countries, the new marketplace may soon attract a large user base that opens the opportunity for increased use of alternative payment methods for e-commerce, such as request-to-pay and other new digital wallet services.

Several of our survey respondents said they were using, or investing in, new technologies. Many already use open API—application programming interfaces that form the basis of many current payment platforms. APIs give payment systems developers a cost-efficient way to quickly scale projects while still offering speed and design flexibility.

Many participating in our report survey said new and emerging technologies such as cloud computing, artificial intelligence (AI), and machine learning would positively impact the payments industry. Among those representing the banking industry, most said they would seek collaborations and partnerships with FinTech companies to exploit opportunities further using APIs and the cloud. Currently, API investment opportunities include know-your-customer (KYC) and payment gateway applications.

Our study participants also said that although SAMA has been very proactive in terms of onboarding FinTechs to its sandbox, opportunities exist to expedite the approval process of proposed solutions so that go-to-market times may be shortened appreciably.



**Working with third parties is very beneficial. For example, in customer services and the customer's digital journey, third-party institutions such as FinTech firms have shown a positive contribution in these areas and expected to play an important role in the future."**

**- Abdulaziz Aldahmash,**  
Head of Digital Banking and Payments,  
Saudi British Bank (SABB)

<sup>17</sup> SAMA news statement, "A statement on launching "ABER" project, the common digital currency between Saudi Arabian Monetary Authority and United Arab Emirates Central Bank," January 29, 2019: <http://www.sama.gov.sa/en-US/News/Pages/news29012019.aspx>





**Banks need to be in collaboration with FinTechs in the new ecosystem so that every player in the ecosystem benefits, including customers and merchants. Saudi Payments must continue to play an important role in maintaining the ecosystem as an enabler with stringent scheme and system rules.”**

- Mushtaq Hussain,  
Chief Operating Officer, BayanPay

### Collaboration between payments ecosystem players will spark innovation

Maintaining a competitive environment helps drive innovation, but our survey respondents noted that payments players were beginning to form collaborative partnerships—most commonly between banks and FinTech firms.

Saudi Payments is eager to encourage collective efforts—and payments network operator mada is among the incumbent industry participants that have formed vital alliances with several FinTech service providers.

- In March 2018, mada enabled online payments by utilizing Payment Gateway Services to boost e-commerce sales, which gave consumers more flexibility and convenience and expanded their available payment options.<sup>18</sup>
- Meanwhile, Riyadh Bank established the Digital Partnership Programme in 2019 to help existing businesses and startups forge mutually-beneficial

alliances.<sup>19</sup> Saudi British Bank (SABB) is part of a large consortium of international payments players teaming up with blockchain provider R3, which has demonstrated some success in digitizing trade finance.<sup>20</sup>

### Investing today for a better tomorrow

Vision 2030 was established to promote forward-looking initiatives, and in this report’s survey of payments industry participants, several mentioned the need for employees with next-generation skill sets. Therefore, Vision 2030’s Human Capital Development Program (HCDP) is devoted to improving education and training at all stages, including providing the teaching resources to train tomorrow’s FinTech and financial services innovators.<sup>21</sup>

Such investment in human resources, particularly for millennials and Generation Z, will bolster FinTech industry growth in Saudi Arabia to meet the evolving payments industry needs.



**Saudi Arabia's vision is to increase the proportion of cashless transactions to 70% of the total transactions in the Kingdom. We can achieve such strong growth with the help of current financial infrastructure in place, high rate of technology adoption, and existing regulatory support”**

- Ziad Al Yousef,  
Deputy Governor of Development  
and Technology, SAMA

18 Mastercard, “Mastercard and mada partner to enable online payment transactions in Saudi Arabia,” May, 2018. <https://newsroom.mastercard.com/mea/press-releases/mastercard-and-mada-partner-to-enable-online-payment-transactions-in-saudi-arabia/>

19 Riyadh Bank press release, “Riyadh Bank launches the Digital Partnerships Program with an investment up to SR (100 million),” October 29, 2019, <https://www.riyadbank.com/en/information/media-centre/press-releases/2019/29-10-2019>

20 Trade Arabia, “Saudi British Bank joins major blockchain initiative,” September 11, 2018, [http://www.tradearabia.com/news/BANK\\_344988.html](http://www.tradearabia.com/news/BANK_344988.html)

21 Vision 2030, “HUMAN CAPITAL DEVELOPMENT PROGRAM,” <https://vision2030.gov.sa/en/programs/HCDP>, Accessed February 2020



**With the development of a new faster payment system by the end of 2020, I foresee this initiative transforming the current payments landscape in the region because it will increase the trade facility for the Small and Medium enterprises in Saudi Arabia.”**

**- Mohammed Saleh Alsuwaiyel,**  
Chief Executive, BrightWare (Saudi-based FinTech firm)

### **Dynamic consumer trends will spur payments industry change, growth**

Our survey respondents predict that digital payments will continue to grow year-on-year as demographics and socioeconomics change and younger and more tech-enabled generations join leadership ranks.

And as consumers become more familiar with digital payments, they will begin to demand more from their payment service providers. Our survey suggests that a significant area for future growth will be in the faster, or instant payments sector.

Respondents also forecast growth areas such as forward payments and standing orders. They said request-to-pay services are likely to emerge as an alternative payment method for e-commerce so consumers can alter payment dates to suit their needs.

### **Cybersecurity and fraud prevention are must-haves for customer trust**

Security is one reason why cash remains the dominant money-transfer method in Saudi Arabia—and it is why customer trust in digital payments is contingent on government and business efforts to beef up cybersecurity. Saudi Payments has invested heavily in the safety and security of the Kingdom's payments industry.

The elimination of fraud and security threats will become more challenging as the industry moves to instant payments and begins to adopt international standards. Providers of payments system security

services will become an even more significant industry asset.<sup>22</sup>

### **Moving to greater interoperability and standardization**

Measures are underway to implement ISO 20022 standards that have evolved as global de facto messaging standards for immediate payments systems.<sup>23</sup>

The move will help ensure consistent global standards and make Saudi instant payments systems interoperable with other IPS across the globe. Consistency will become even more pertinent when ISO 20022 adoption is considered for pan GCC-RTGS as well to streamline the inter-bank centralized infrastructure area.

Interoperability is central to the payment's infrastructure operated by Saudi Payments. Examples include QR code-based payments and interoperability among digital wallets. What's more, the centralized data exchange platform envisioned by Saudi Payments aims to be a technology-agnostic framework and services marketplace accessible to every bank, PSP, FinTech firm, or non-bank financial institution.



**Saudi Payments pledges quality and reliability while ensuring uninterrupted system availability. We have zero-tolerance for cybercrime and fraud. This objective has helped us offer our recommendations to devise SAMA's new Cybersecurity framework for financial services firms.”**

**- Yazeed Alkhalifa,**  
Vice President, Governance, Risk, and Compliance, Saudi Payments

22 Finextra, “Preventing Payments Fraud in a Flash,” Andrew Davies, July 23, 2019, <https://www.finextra.com/blogposting/17536/preventing-payments-fraud-in-a-flash>

23 ISO 20022, [https://www.iso20022.org/payments\\_dashboard.page](https://www.iso20022.org/payments_dashboard.page), Accessed February 2020



**We are striving to innovate in the back-end leveraging the existing and upcoming rails to provide a common interoperable platform for industry players to help them harness their synergies to innovate in the front-end.”**

**- Abdulaziz Abanmi,**  
Vice President, Technology, Saudi Payments

coordinating with SAMA on upcoming regulations, and hands-on oversight to safeguard smooth IPS implementation all rank high in terms of industry expectations for the immediate future. And over the next year or two, devising an industry governance framework and awareness among corporate and retail users may become focus areas. (Figure 1.10)



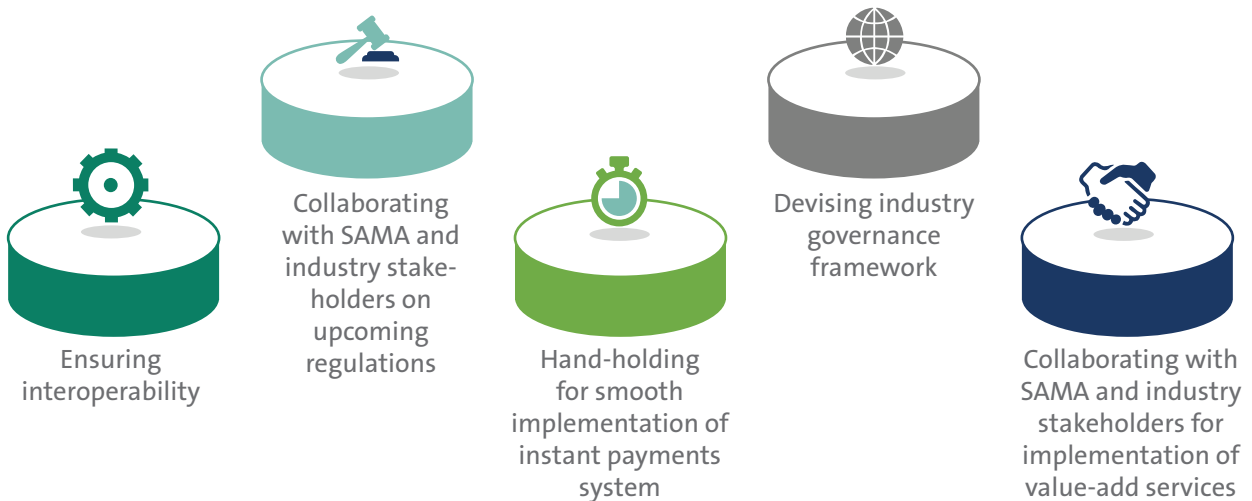
**The future of the payments ecosystem is all about virtual experience and seamlessness, and Saudi Payments, with the support of SAMA, is working relentlessly to help the industry forge ahead to such a future.”**

**- Abdulaziz Alafaleg,**  
Vice President, Operations and Shared Services, Saudi Payments

### Saudi Payments roadmap: What happens as the industry matures?

As the industry matures and Saudi Payments evolves to become an ecosystem enabler, the scope of its roles and responsibilities will change. As our primary research indicates, ensuring interoperability,

**Figure 1.10: Industry stakeholders’ expectations from Saudi Payments**



**Through collaborative relationships among all industry stakeholders, SAMA and Saudi Payments are paving the way for a robust ecosystem where the rising adoption of various digital payment methods will enable a healthy competitive dynamics in the marketplace. This will also lead to development of innovative offerings in the payments landscape and accelerate the pace towards the Kingdom's vision of an economy that is less reliant on cash.”**

**- Fahad Alakeel,**  
Managing Director, Saudi Payments



# SECTION 02

Payments landscape through the numbers

# 2020



## Highlights

### Key findings

Multiple factors are propelling the Kingdom to become more digital

The Kingdom's grasp of payments fundamentals aligns with regional and global economies, encourages a vision-to-reality transition

Digital readiness meets or exceeds other global frontrunners

Supply-side readiness is facilitating to tap the potential within different consumer segments

Retailers continue to focus on in-store PoS sales growth, as the shift to online channels gains ground

Today's robust digital payments growth is a natural response to the emerging economic landscape

Digital shift of consumers is shaping the Kingdom's payments sector

## Key findings

- **While every country is unique and has its own ways to transform its payments systems, all share the same benefits of an economy less dependent on cash. Better consumer experience, more efficient governance, higher business productivity, and greater mainstream financial inclusion for all citizens. Saudi Arabia is also encouraging innovation and modernizing payments infrastructure to attain these benefits.**
  - The country's digital payments infrastructure is expanding, generating steady and impressive growth in digital transaction volumes. More card infrastructure and transactions, as well as mobile and e-money solutions, clearly demonstrate the increasing relevance and popularity of digital payments. In 2012–2019, the Kingdom of Saudi Arabia (KSA) posted the world's fastest growth in PoS terminal-per-inhabitant, at a CAGR of 23%.
  - In 2019, Saudi Arabia had one of the highest internet penetration rates (93%) worldwide. A supportive and robust infrastructure encourages the use of digital (especially mobile) payments by retail consumers and merchants.
  - E-wallets such as mada Pay, STC Pay, BayanPay, Noon Pay, Alinma Pay, and Hala (formerly known as HalalaH Pay) further strengthen the digital payment ecosystem.
- **The empowerment of SMEs holds significant potential to drive the vision of an economy less dependent on cash, as the Kingdom is planning to raise their GDP contribution from 20% (as recorded in 2017) to 35% by 2030.**
  - The KSA is helping small and medium enterprises by offering them greater access to funds and by encouraging financial institutions to allocate up to 20% of their total loans to this sector.
  - The government is taking various initiatives to support its vision, such as the establishment of SME General Authority (Monsha'at), which aims to strengthen the role of SMEs nationwide; and the launch of Kafalah, a loan guarantee program, in conjunction with other government programs to facilitate bank loans to SMEs.
  - It is supporting FinTech companies to provide miscellaneous financing services to SMEs, such as Raqamyah and Lendo (P2P loans), Qoyod (a cloud-based accounting solution) and Manafa Capital (an online marketplace for investing equity into innovative, early-stage companies).
  - Various measures encourage digital payments at retail stores. For example, as of May 2020, all grocery stores and supply shops were mandated to offer digital payment systems. All retail outlets across sectors are expected to comply with these regulations by August 2020.
  - Factoring platform was developed on Esal, to provide additional financing services which will serve the SMEs within the economy.
- **The Saudi e-commerce market has enjoyed steady growth in recent years and is expected to remain steady in the future as the total value of e-commerce transactions is anticipated to reach SAR37.5 billion (USD10 billion) by 2022, a more than threefold increase from 2017.**
  - Rapidly rising smartphone and social media penetration, and growing government and policymaker support are vital contributors to the growth.
  - Several digital payment companies have entered the Saudi market via a variety of routes, including via the Regulatory Sandbox, alliances, subsidiaries, or by seeking funds from domestic investment firms to capitalize on the growing e-commerce market.

- **Consumers are prominent stakeholders. Their preferences, user trends, buying behavior, and thought processes determine the current as well as the future shape of payments. Based on an in-depth survey of Saudi consumers, following are key takeaways for the payments sector:**
  - Although cash accounts for the highest share (55.4%), a significant number of consumers use digital payments such as mada card (54.8%), internet banking (46.2%), mobile payments (46.2%), and SADAD Bills (37.9%).
  - Consumers demonstrate a high preference for online channels for bill payments (government services, utility, telecom, and others), electronics purchases, and travel-related services and apparel. However, for daily-needs purchases, such as food and grocery, consumers still prefer physical stores.
  - NFC-based payments are also gaining traction at PoS terminals, reflecting the technology’s strong traction among consumers. A significant number of card users (about 72% for mada cards and 67% for credit cards) indicate the use of NFC-based payments at PoS terminals.
  - The top two factors that drive payment provider selection include trust and high merchant acceptability. 44% of surveyed consumers rated banks as the most preferred payment providers, while 29% rated global players as the most preferred payment providers.
- **Regulatory authorities and financial institutions are also taking multiple steps to increase customer confidence in the country’s financial system.**
  - 2019 legislation that protects citizens against fraudulent digital transactions is expected to increase confidence among e-shoppers.



## Multiple factors are propelling the Kingdom to become more digital

Growing trust in the financial system, a tech-savvy younger generation, a broad range of digital payment options, shifting retail trends and more new FinTech firms - together, these dynamics are coalescing to transform the Kingdom of Saudi Arabia (KSA) into an economy where non-cash payments have more dominance over cash.

### Trust in the financial system is growing

Ongoing financial system initiatives and security measures adopted by the Saudi government have been catalysts for increased public trust, which has spurred a conducive environment for digital payments. The government is deploying easy-to-use, high-speed banking/payment models, including mobile payments and micro-lending, opening previously restricted categories to FinTechs, and convincing unbanked to start using banking services.<sup>24</sup> Additionally, regulatory authorities and financial institutions are taking multiple steps to increase customer confidence in the Saudi financial system. For example:

- The Saudi Central Bank held a Security Week in 2018 to help consumers better understand its role in promoting digital commerce security.<sup>25</sup>
- In October 2019, the Saudi government also passed a law to protect against fraudulent operators, data breaches, and other prevalent malpractices in the digital retail ecosystem, to boost e-shopper's confidence.<sup>26</sup>

### Millennial and Generation Z behavior patterns call for payment ecosystem transformation

Within the Kingdom, young population dominant demographics, supported by high smartphone penetration and customer openness, are driving demand for different digital and NFC-based alternatives to cash payments. Millennials substantially use modern digital technology and demand faster services as well as multiple online payment options. The Saudi Payments Consumer Survey further confirms these findings.

The survey found that both Generation Z and millennials in Saudi Arabia frequently use credit cards, debit cards and mobile payments. For all age groups, mada cards are the most popular digital payment platform, with 55% of millennials and 38% of Generation Z using them. They are also frequently utilized by older Gen X (68%) and Baby boomers (62%). Credit cards are most popular with Gen X and millennials, and only slightly less among Baby boomers and Generation Z. Mobile payments are also commonly used by these demographic groups. Millennials mostly prefer advanced solutions, such as mobile payments systems (54%) and QR code-based e-wallets (24%). (Figure 2.1)

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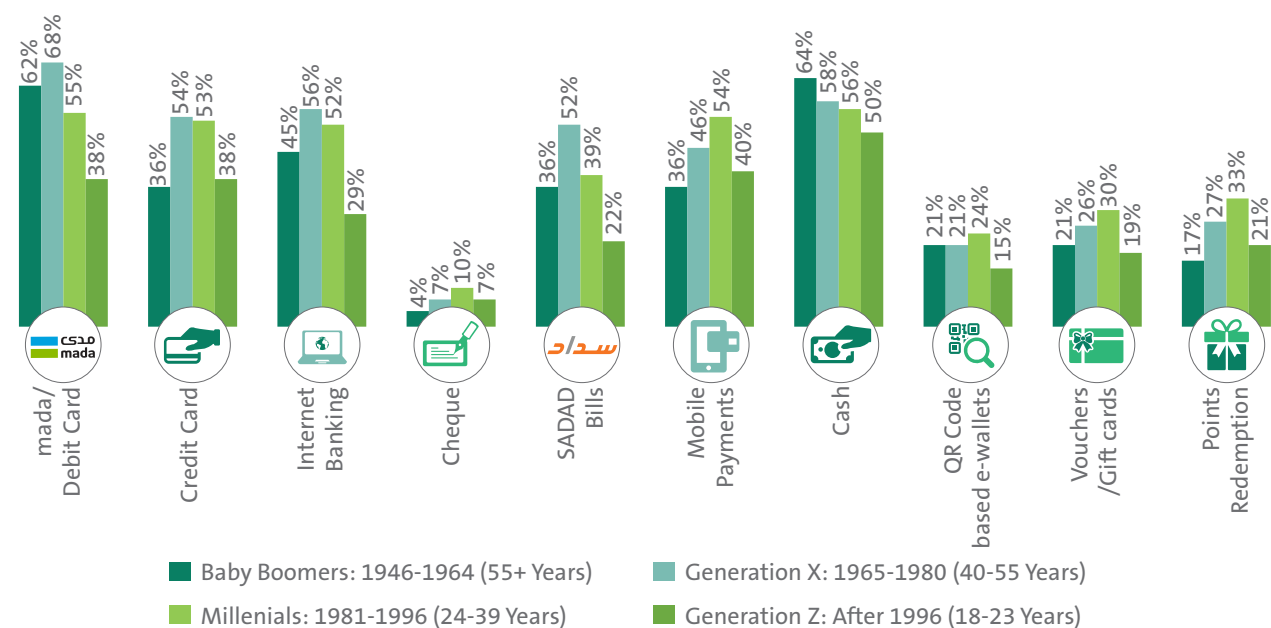
24 Citi GPS: Global Perspectives & Solutions, "BANKING THE NEXT BILLION Digital Financial Inclusion in Action", January 2020, [https://responsiblefinanceforum.org/wp-content/uploads/2020/01/Citi\\_Banking-the-Next-Billion\\_Jan2020.pdf](https://responsiblefinanceforum.org/wp-content/uploads/2020/01/Citi_Banking-the-Next-Billion_Jan2020.pdf)

25 Visa press release, "Visa-SAMA Security Week to help consumers understand their role in securing digital commerce in Kingdom of Saudi Arabia", October 7, 2018, [https://sa.visamiddleeast.com/en\\_SA/about-visa/newsroom/press-releases/prl-07102018.html](https://sa.visamiddleeast.com/en_SA/about-visa/newsroom/press-releases/prl-07102018.html)

26 CMS Law-Now, "Saudi Arabia implements its new e-commerce Law", October 09, 2019, <https://www.cms-lawnow.com/ealerts/2019/10/saudi-arabia-implements-its-new-e-commerce-law>



**Figure 2.1: Consumer survey on payment methods used among age groups**



Source: Saudi Payments Consumer Survey, April 2020, N=1,024

### The Saudi retail sector is expanding

Government initiatives have fostered significant retail sector growth in recent years, as the pool of digitally-savvy young consumers expand along with the need for omnichannel retail strategies. The overall Saudi retail sector will expand to SAR446.3 billion (USD119 billion) by 2023, from SAR397.5 billion (USD106 billion) in 2019, according to a recent Euromonitor study.<sup>27</sup>

The KSA will be the largest online retail market in the Gulf Cooperation Council (GCC) by the end of 2020, growing faster than the UAE, according to a yStats research report.<sup>28</sup> Saudi Arabia was ranked among the top-10 developing economies for B2C e-commerce readiness in 2019, according to a report from the United Nations Conference on Trade and Development (UNCTAD). High internet penetration (93%)<sup>29</sup> helped to drive the Kingdom’s top-10 ranking. (Figure 2.2)

### Digital payment options are increasingly available

Saudi Arabia offers a wide range of digital payment methods, including debit cards, credit cards, mobile wallets, NFC based alternatives, and online fund transfers. The availability of convenient and secured payment facilities encourages citizens to use digital transaction methods. Debit or credit cards are still the most popular payment methods for digital transactions. Since the introduction of alternative payment methods, there has been a significant switch to new payment options, including digital wallets. The transformational SAMA Regulatory Sandbox and Fintech Saudi initiatives have been instrumental in promoting the growth of FinTech companies in the Kingdom and to accelerate digital payments development. So far, these initiatives have spurred activity from over 50 FinTech firms.<sup>30</sup> As a result, several e-wallets have been introduced, such as STC Pay, Hala (formerly HalalaH Pay) Alinma Pay, Sure Pay, Geidea, Foodics, and BayanPay. The fundamentals are in place, and the Kingdom is poised to take its economy into the future.











27 AME info, “Saudi Arabia’s retail sector prepares for a positive future”, June 16, 2019, <https://www.ameinfo.com/industry/finance/saudi-arabia-retail-sector-alw-2019>

28 CapillaryTech, “E-commerce in Saudi Arabia: Growth, Trends & Opportunities”, September 16, 2019, <https://www.capillarytech.com/blog/?s=e-commerce+in+Saudi+Arabia>

29 CITC, press release, “Riyadh set to become Arab world’s first digital capital in 2020”, December 18, 2019, <https://www.citc.gov.sa/en/mediacenter/pressreleases/Pages/2019121801.aspx>

30 FinTechSaudi, “Driving the FinTech industry in Saudi Arabia”, <https://FinTechsaudi.com>

**Figure 2.2: Top–10 developing economies in the UNCTAD B2C e-commerce index, 2019**

Country	2018 Index Rank	2019 Index Rank	Index Rank change	Share of Individuals using the Internet (2018 or latest)	UPU Postal Reliability Score (2018 or latest)
 Singapore	2	3	↓	88	97
 China, Hong Kong SAR	16	15	↑	89	92
 Korea	22	19	↑	96	99
 UAE	33	28	↑	98	84
 Malaysia	34	34	—	81	86
 Iran	49	42	↑	70	88
 Qatar	59	47	↑	100	77
 Thailand	43	48	↓	57	94
 Saudi Arabia	52	49	↑	93	81
 Turkey	47	53	↓	71	74

Source: UNCTAD, “UNCTAD B2C e-commerce Index 2019,” 2019, [https://unctad.org/en/PublicationsLibrary/tn\\_unctad\\_ict4d14\\_en.pdf](https://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d14_en.pdf)

## The Kingdom’s grasp of payments fundamentals aligns with regional and global economies, encourages a vision-to-reality transition

### Digital readiness meets or exceeds other global frontrunners

The confluence of modern and, ubiquitous financial and technological infrastructure drives digital payment adoption. Consequently, governments worldwide encourage innovations to upgrade and modernize their payment infrastructures. Nevertheless, the availability of supporting infrastructure varies by nation.

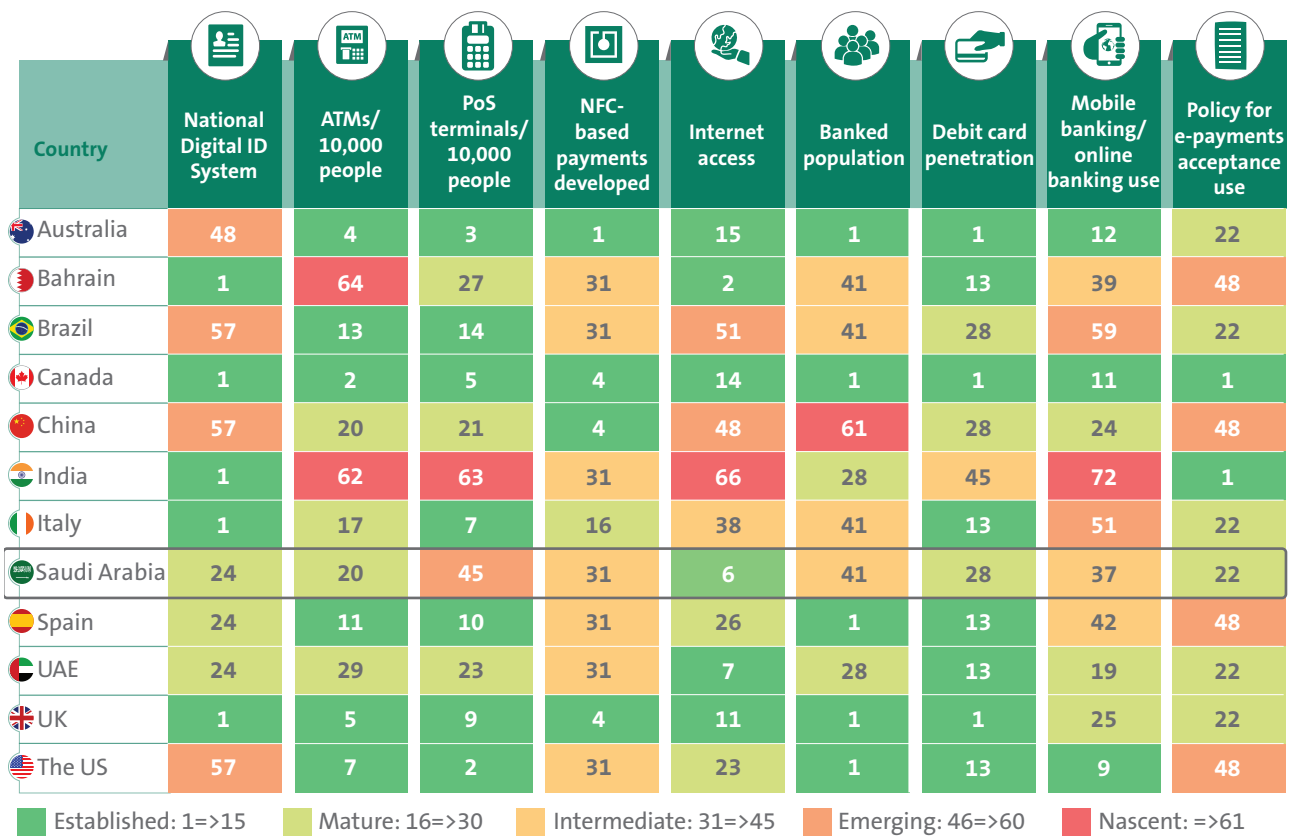
For example, Australia and Canada have well developed, widely available ATM and PoS terminal networks, highly banked populations, and widespread debit card usage. However, both countries are laggards when it comes to internet access. Various rural and remote populations in

Australia (ranked 15 for internet access) and Canada (ranked 14) cannot access reliable broadband service. Conversely, leading-edge internet capability has earned the Kingdom an impressive No. 6 ranking.<sup>31</sup>

In Saudi Arabia, public and private initiatives are driving internet use. Australia and Saudi Arabia support similar policies for digital payments acceptance and use, whereas Canada scores very high on this parameter thanks to a well-established policy structure. NFC-based payments are gaining momentum, yet most economies—especially Gulf Cooperation Council (GCC) countries—report slow growth. Nonetheless, in Saudi Arabia, the adoption of contactless/NFC technologies has increased rapidly in recent years. (Figure 2.3)

<sup>31</sup> Visa, “The 2018 government e-payments adoption ranking,” September 2018; <https://usa.visa.com/content/dam/VCOM/global/visa-everywhere/documents/government-e-payment-adoption-ranking-study-2018.pdf>

**Figure 2.3: Global digital payments readiness and adoption by Country, 2018**



Source: Visa, “The 2018 government e-payments adoption ranking,” September 2018, <https://usa.visa.com/content/dam/VCOM/global/visa-everywhere/documents/government-e-payment-adoption-ranking-study-2018.pdf>. The study was conducted by Visa using EIU data. The given rank is out of 73 countries, and a similar rank indicates a tie with another country.

During 2012-2019, the number of PoS terminals per inhabitant in Saudi Arabia grew at a CAGR of 23% to around 128 per 10,000 inhabitants<sup>32</sup> (c.f. ~6 ATMs per 10,000 inhabitants),<sup>33</sup> due to increasing card and mobile payments and slower cash transactions. In 2019, NFC technology drove around 57% (918.5 million) of transactions at PoS terminals (1.6 billion) worth a total of SAR94.8 billion.<sup>34</sup>

**PoS terminals per inhabitant:** With a ~23% CAGR from 2012–2019, Saudi Arabia experienced extremely rapid PoS terminal-per-inhabitant growth. There are 438,618 (2019) PoS terminals in the country, with 95% supporting NFC-based payments.<sup>35</sup> China and Russia also recorded high growth in PoS terminals per inhabitant, with a CAGR of 21% and 16%, respectively, from 2012 to 2019.<sup>36</sup> (Figure 2.4)

32 Saudi Payments Data

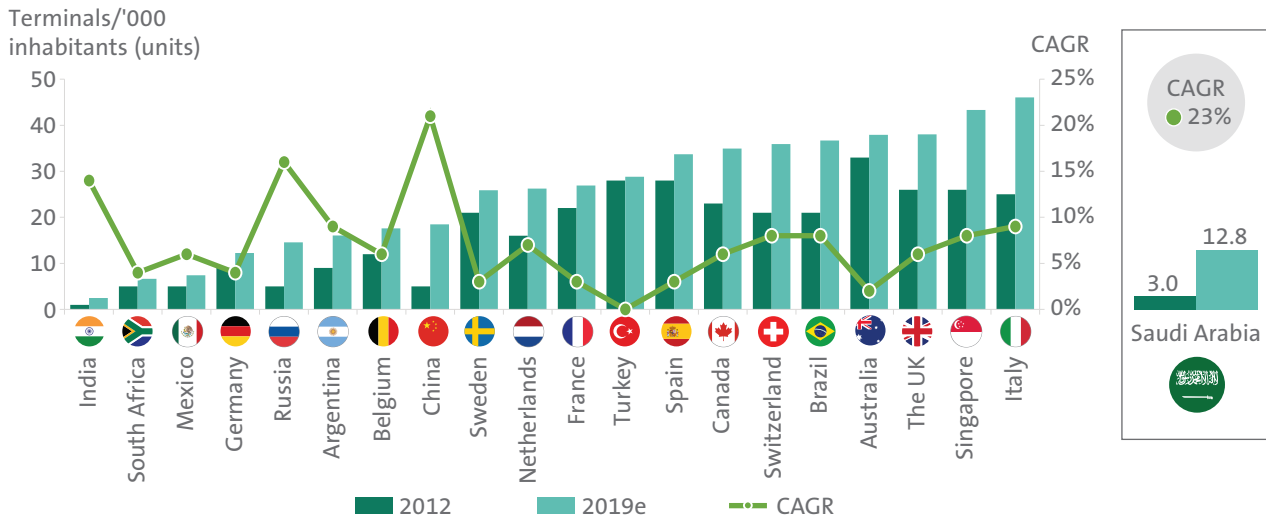
33 SAMA Monthly\_Bulletin\_Apr2020, April 2020, [http://www.sama.gov.sa/en-US/EconomicReports/MonthlyStatistics/Monthly\\_Bulletin\\_Apr2020.pdf](http://www.sama.gov.sa/en-US/EconomicReports/MonthlyStatistics/Monthly_Bulletin_Apr2020.pdf)

34 Saudi Payments Data

35 Ibid

36 BIS, “CT14B: Number of terminals per inhabitant”, 2018, <https://stats.bis.org/statx/srs/table/CT14b>

**Figure 2.4: Number of PoS terminals per '000 inhabitants**

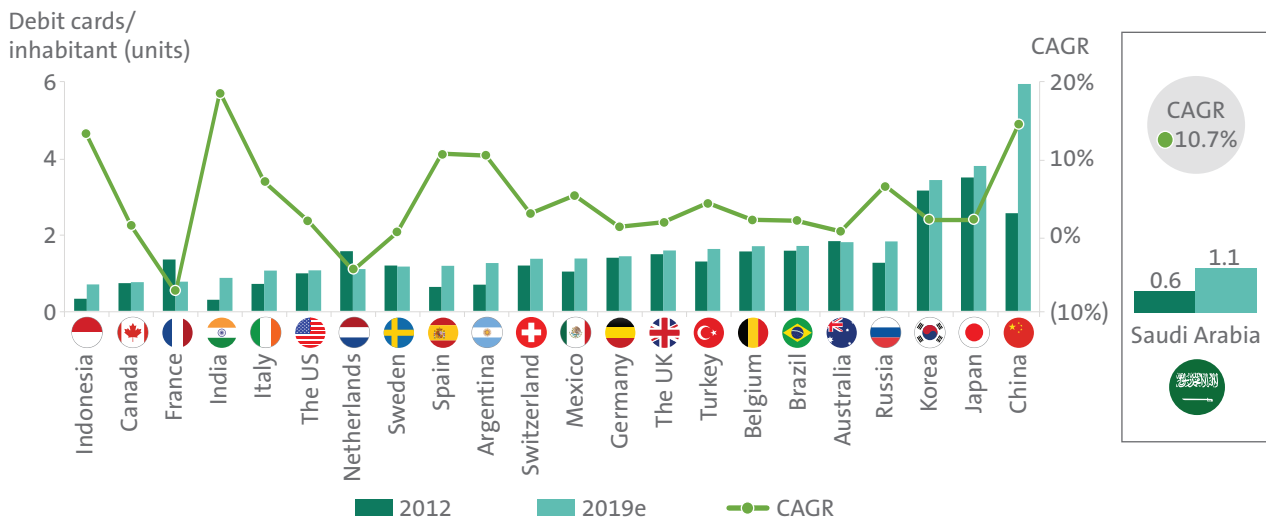


Source: BIS, "CT14B: Number of terminals per inhabitant", 2018, <https://stats.bis.org/statx/srs/table/CT14b>. 2019 figures were estimated and computed by extrapolating 2018 data using the 2012–2018 CAGR. Actual 2019 data was used for Saudi Arabia.

**Debit cards per inhabitant:** Saudi Arabia is a debit card-driven economy, with 93% of card transactions made through debit cards.<sup>37</sup> From 2012–2019, emerging economies such as India, Indonesia, China, and Saudi Arabia posted the fastest CAGR for the number of debit cards held by each citizen. In Saudi Arabia, mada is the payment scheme for PoS domestic and international card transactions. Some

75% of the 31.5 million mada cards (at the end of 2019) issued to Saudi citizens are debit cards co-branded with international Visa and Mastercard programs.<sup>38</sup> The remainder is mada-only branded. In April 2018, SAMA authorized mada debit cards for online shopping, significantly increasing the number of debit card payments in the Kingdom. (Figure 2.5)

**Figure 2.5: Number of debit cards per inhabitant**



Source: BIS, "CT13B: Number of cards per inhabitant," 2018, <https://stats.bis.org/statx/srs/table/CT13b>. 2019 figures were estimated and computed by extrapolating 2018 data using 2012–2018 CAGR. Actual 2019 data was used for Saudi Arabia.

**E-money transactions' volume and growth:**<sup>39</sup> China, India, Russia, Indonesia, and Saudi Arabia

posted the fastest growth in e-money payment volumes, mostly due to the increasing use of

37 Saudi Payments Data

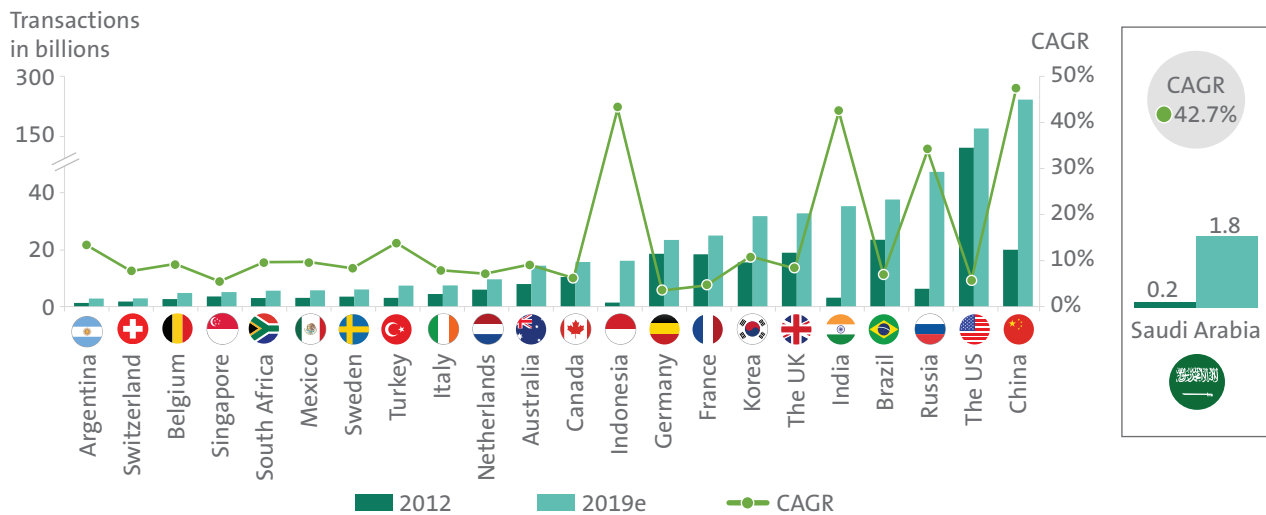
38 PayFort article, <https://www.payfort.com/mada/>

39 E-money refers to stored value such as e-wallet or prepaid products in which a record of the funds or value available to the consumer is stored on a device in the consumer's possession.

prepaid cards and e-wallets. Saudi Arabia's prepaid card schemes lead Saudi Arabia's prepaid card market, which is forecasted to expand at a 10.9% CAGR—SAR32.6 billion (USD8.7 billion) to SAR49.5 billion (USD13.2 billion)—from 2019 to 2023.<sup>40</sup> Large unbanked and expatriate KSA populations are

driving demand for such cards. Despite their recent entry into the market, e-wallets are quickly becoming popular, and accounted for 3% of in-store transactions value, and 7% of in-store transactions volume in 2019. (Figure 2.6)

**Figure 2.6: E-money transactions volume and growth**

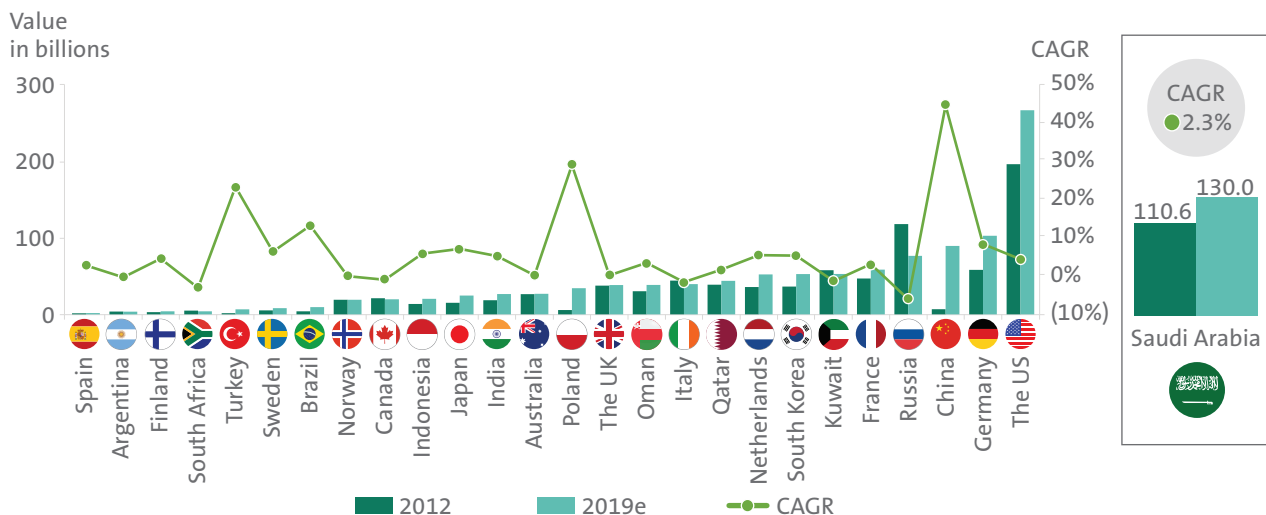


Source: BIS, "CT5: Use of payment services/instruments: volume of cashless payments," 2018, <https://stats.bis.org/statx/srs/table/CT5?c=&p=2018>. 2019 figures were forecasted and computed by extrapolating 2018 data using the 2012–2018 CAGR

**Cross-border personal remittance outflows:** Worldwide, migrants remitted an estimated SAR2.1 trillion to low-and middle-income countries (LMICs) in 2019.<sup>41</sup> The Kingdom has one of the highest remittances to GDP ratios globally, which indicates future demand for digital cross-border payment

methods. STC Pay, a major Saudi e-wallet provider, now offers instant international money transfers to over 525,000 Western Union locations using mobile technology. Senders are notified instantly upon safe receipt of transfers.<sup>42</sup> (Figure 2.7)

**Figure 2.7: Migrant remittance outflows**



Source: KNOMAD, "Remittance Data," <https://www.knomad.org/data/remittances>. 2019 figures were forecasted then computed by extrapolating the 2018 data using the CAGR for 2012–2018

40 Businesswire, <https://www.businesswire.com/news/home/20190220005531/en/Saudi-Arabia-Prepaid-Cards-Market-2019-Size>

41 Migration Data Portal, "Remittances", May 5, 2020, <https://migrationdataportal.org/themes/remittances>

42 STC Pay, "International Remittance", <https://stcpay.com.sa/en/page/feature/remittance>

Additionally, a comparative analysis of multiple qualitative/regulatory parameters indicates the Kingdom's strong readiness to accommodate digital transactions, when compared with other significant global economies. Multiple payment methods reflect readiness as well as a robust domestic card network, regulations favoring FinTech firms, and a tech-savvy Generation Z population. Moreover, Saudi Payments seeks to improve the country's instant payment systems network.

IPS program will enable instant account-to-account payments between financial institutions, consumers, and businesses that will globally

position Saudi Arabia with other Instant-payment leaders.

Saudi Payments is also developing a nation-wide unified QR code platform to provide local merchants with an inexpensive payment acceptance method and for further penetration of digital payments in commercial sectors.<sup>43</sup> (Figure 2.8)

The data and analysis of multiple economic and regulatory parameters reflect Saudi Arabia's high readiness for the transition to an economy less dependent on cash. Multiple activities hold high potential to drive the Kingdom's vision of an economy less dependent on cash.

**Figure 2.8: Digital transaction readiness in key countries, 2019**

Country	Share of domestic card network	Generation Z adoption	Alternate payment systems	Instant payment systems	Payment aggregator regulation	FinTech-friendly Regulations	CSM mechanisms	National payments infrastructure
The UK	Low	Low	✓	High	High	High	✓	High
Sweden	Low	High	✓	Medium	High	High	✓	High
The US	High	High	✓	Low	High	Low	✓	Low
India	Low	Medium	✓	High	Low	Low	✓	High
China	High	High	✓	High	Medium	Medium	✓	Medium
Singapore	Low	High	✓	High	High	High	✓	High
Hong Kong	High	High	✓	Medium	NA	Medium	✓	High
Germany	High	Medium	✓	Low	High	Medium	✓	Medium
Australia	Low	Medium	✓	High	NA	High	✓	High
Saudi Arabia	High	High	✓	Medium	Medium	High	✓	Medium

Source: Saudi Payments analysis



As a market enabler, we are committed to maintaining the essential diversity within the payment industry by welcoming new entrants and empowering them with a level-playing field and uniform standards. With our main objective being to promote ourselves as a back-end services provider, Saudi Payments' scope of ongoing projects will soon enable FinTechs to offer mobile, QR, and regular card payments."

- Mohammed K Omar,  
Retail Products Category Senior Manager, Saudi Payments

<sup>43</sup> Payment Expert, "HPS rolls out QR code platform in Saudi Arabia", March 5, 2020, <https://paymentexpert.com/2020/03/05/hps-rolls-out-qr-code-platform-in-saudi-arabia/>

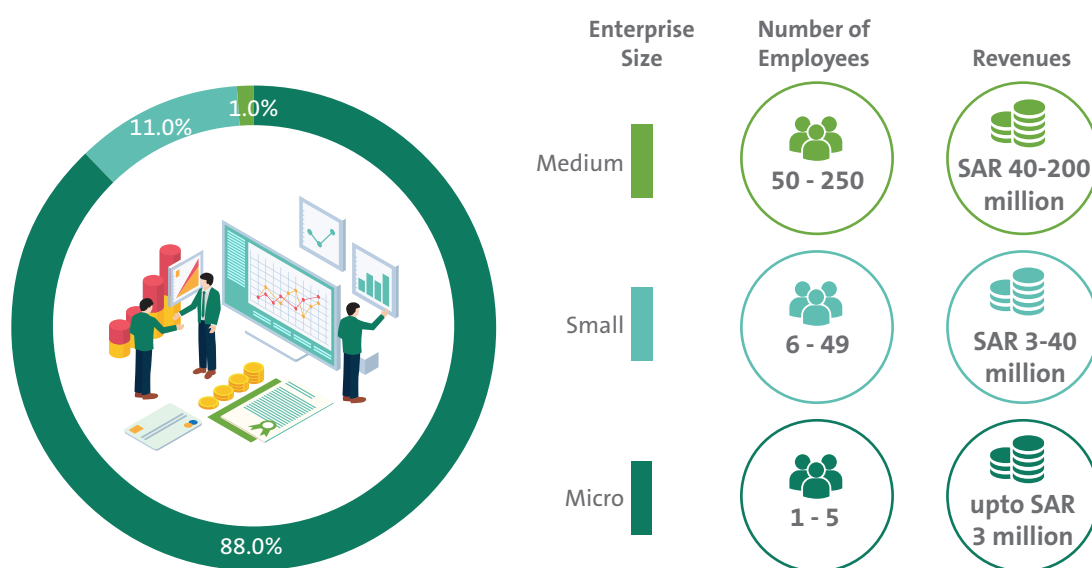
## Supply-side readiness is facilitating to tap the potential within different consumer segments

### Empowered small and medium retailers will bolster an ecosystem less reliant on cash

More than 950,000 registered SMEs were doing business in Saudi Arabia in 2019.<sup>44</sup> Despite employing 43% of Saudi Arabia's workforce, the sector generates a comparatively small share of the

country's GDP (2020: 21%).<sup>45</sup> Local SMEs require support to improve their managerial expertise, more skilled and trained human capital, as well as guidance on handling marketing and global expansion, implementing adequate available technology, and working within bureaucratic systems (Figure 2.9).

**Figure 2.9: SMEs in Saudi Arabia by size (number of employees), 2019**



Source: Jadwa Investment, "Jadwa Investment Annual Report 2019", 2019, <http://www.jadwa.com/en/reportssection/about-jadwa/annual-reports/report-2019-1>

### The changing SME financing scenario

Considering the impact of SMEs on the Saudi workforce, it is strategically sound to include them

as part of an organized financial system that promotes the KSA's digital ecosystem. With SME inclusion and success in mind, the Saudi government has launched multiple initiatives.

- 01 Recently, it established the SME General Authority (Monsha'at), which aims to strengthen the role of SMEs nationwide
- 02 The government has also engaged several institutions to support sector development
- 03 The Saudi Industrial Development Fund (SIDF) supports industrial sector SMEs and offers business resource and modernization centers, as well as financing facilities for SMEs
- 04 The Ministry of Finance launched Kafala, a loan guarantee program, to facilitate bank loans to SMEs

44 Jadwa Investment, "Jadwa Investment Annual Report 2019", 2019, <http://www.jadwa.com/en/reportssection/about-jadwa/annual-reports/report-2019-1>

45 KPMG, "Kingdom of Saudi Arabia Banking Perspectives 2020", March 2020, <https://assets.kpmg/content/dam/kpmg/sa/pdf/2020/kpmg-ksa-banking-perspectives-2020.pdf>

Additionally, under the Financial Sector Development Program (FSDP) various initiatives have been introduced—including raising the share of SME loans as a percentage of total bank loans by 2020, to increase private equity and venture capital financing to SMEs and encouraging FinTech companies to promote SME financing.<sup>46</sup>

Fintech Saudi encourages startups to offer leading-edge solutions to underserved segments such as SMEs. Given the many FinTech startups participating in SAMA Regulatory Sandbox, the following are a few examples of recent innovative solutions:

- Raqamyah and Lendo, both SAMA-supported FinTech startups, provide peer-to-peer (P2P) loans to SMEs.
- Qoyod, a Riyadh-based software supplier, offers cloud-based accounting solutions for KSA-based SMEs
- Launched in January 2018, Manafa Capital, Saudi Arabia’s first crowdfunding platform, specializes in service to SMEs.<sup>47</sup>
- Another crowdfunding platform, Scopeer, offers SMEs online investment and financing solutions through share placements.<sup>48</sup>

Initiatives aimed at the SME sector invariably touch small retailers, as ~33% of the SME workforce belongs to the wholesale and retail sector. The Saudi government has announced various measures to encourage digital payments at retail stores.

- In 2019, the Minister of Commerce announced that all sales outlets would be required to progressively adopt digital payment systems that enable consumers to choose how they wish to pay for goods and services.
- From May 10, 2020, SAMA and the Ministries of Commerce and Municipal & Rural Affairs mandated grocery stores and supply shops to provide digital payment systems.<sup>49</sup> All retail outlets across all sectors are required to comply with this regulation by August 2020.

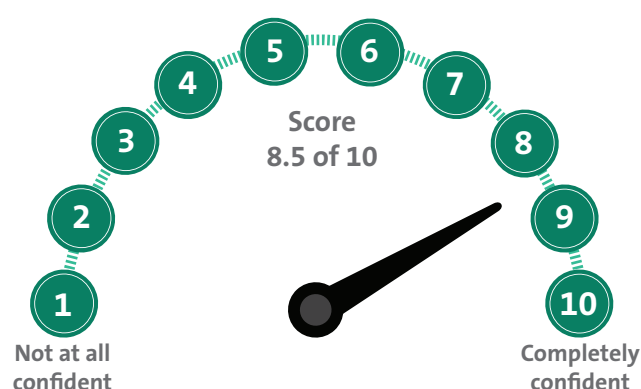
As the operator of the country’s national payments infrastructure, Saudi Payments plays a crucial role in encouraging the market as a whole, including SMEs and small retailers, to implement digital payments systems. Merchants are demonstrating good faith in local payment service providers and existing payment regulations. Saudi Payments conducted a Merchant survey in May 2020 that found merchants had considerable confidence in local payment service providers and existing payments’ regulations.

The time is right for change.

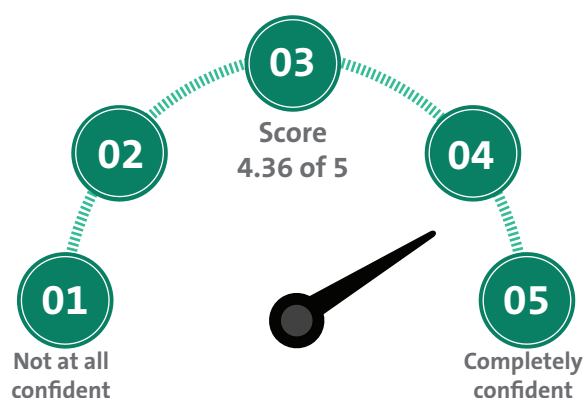
### Merchants/retailers prepared to boost digital payments growth trajectory

The growing confidence of merchants in payment providers and existing regulations will further boost the cashless payments. The digital transactions will further accelerate with higher merchant acceptance (Figure 2.10, 2.11).

**Figure 2.10: Merchant survey shows confidence in homegrown payment providers**



**Figure 2.11: Merchant survey shows trust in existing payment regulations**



Source: Saudi Payments Merchant Survey, May 2020, N= 102

46 Sci-int, 2019, <http://www.sci-int.com/pdf/636897196571439497.edited-2.pdf>

47 Arab News, December 2, 2019, <https://www.arabnews.com/tags/manafa-capital>

48 Argaam, July 11, 2018, <https://www.argaam.com/en/article/articledetail/id/559557>

49 Zawya, April 2020, [https://www.zawya.com/mena/en/legal/story/All\\_grocery\\_stores\\_in\\_Saudi\\_Arabia\\_must\\_have\\_epayment\\_machines-SNG\\_172841401/](https://www.zawya.com/mena/en/legal/story/All_grocery_stores_in_Saudi_Arabia_must_have_epayment_machines-SNG_172841401/)



## E-commerce poised to transform digital payments market

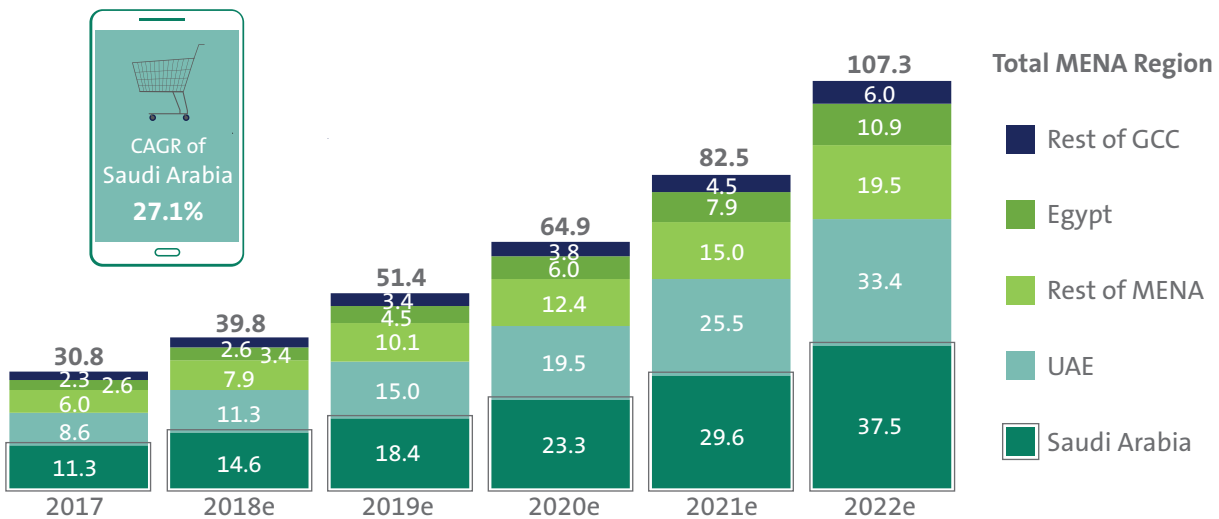
Over the past decade, the Saudi retail sector posted annual growth of more than 10%.<sup>50</sup> Now, digital disruption is affecting business, with industry players undergoing a structural shift from traditional in-store concepts to online channels. The ongoing efforts of all payments system participants to increase their nationwide penetration is further supporting this dynamic shift. Consequently, the Saudi retail market holds substantial growth potential for modern trade and e-commerce.

### Online shopping gains ground in Saudi Arabia and elsewhere

The total value of Saudi e-commerce transactions is expected to reach SAR37.5 billion (USD10 billion) by 2022, a more than threefold increase from 2017.

Other Gulf countries will also experience significant growth, mainly driven by the expansion of the region's middle class, higher employment among women, better infrastructure, and improved access to online products, particularly in Tier 2 and Tier 3 cities. (Figure 2.12)

**Figure 2.12: MENA e-commerce market size, by Country, by Value (SAR billions) 2017-2022e**



Source: Bain & Company, "E-commerce in MENA: Opportunity Beyond the Hype," February 19, 2019, <https://www.bain.com/insights/e-commerce-in-MENA-opportunity-beyond-the-hype/>

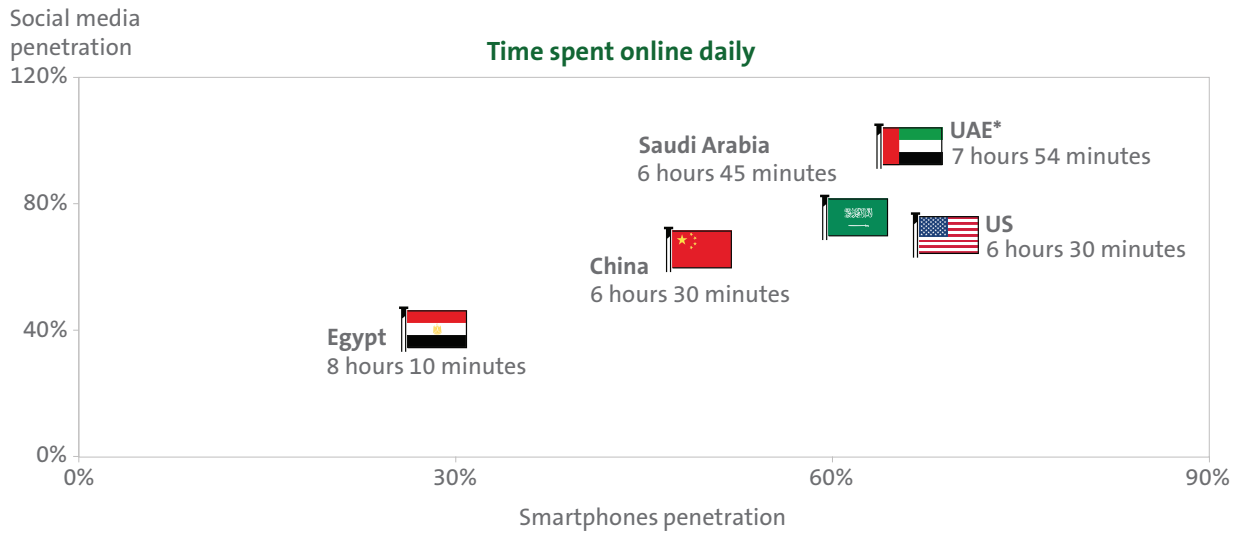
### Factors contributing to the growth of e-commerce and associated payments

Local e-commerce growth is driven by Saudi Arabia's technologically sophisticated young population, as

well as by increasing smartphone and social media penetration. Social media platforms are often used by e-commerce companies to promote products and post advertisements. (Figure 2.13)

<sup>50</sup> Vision 2030 Kingdom of Saudi Arabia, "Our Commitments", <https://vision2030.gov.sa/en/commitments>

**Figure 2.13: Online presence of youth population across select countries, 2018**



Source: \*UAE figure from Global Webindex (Q2 & Q3 2018); The Media Lab, “UAE Digital Media Statistics 2019”, 2019, <https://www.themedialab.me/uae-digital-media-statistics-2019/>

### Growing investments by key payment gateways to encourage digital payments

To capitalize on the country’s growing e-commerce

market, several payment companies have entered the Saudi market via a variety of routes, including alliances, subsidiaries, or by seeking funds from domestic investment firms. Saudi Arabia ranked



#### September 2019

CCAvenue, a digital payment gateway owned by Infibeam Avenues, collaborated with Riyadh Bank to provide digital payments solutions to e-commerce businesses nationwide

#### December 2019

HyperPay, a Saudi FinTech startup and PSP for online merchants, received funding to grow its product portfolio and accelerate expansion throughout Egypt and the GCC. Mad’a Investment led funding, with participation by Saudi Venture Capital Company (SVC), iNet, MEVP, and others

Source: The Economic Times; Tech Startups<sup>51</sup>

among the 30 largest e-commerce markets worldwide in 2019 (Figure 2.14). mada e-commerce retail sales comprised 3.4% of total retail sales (SAR297.4 billion)

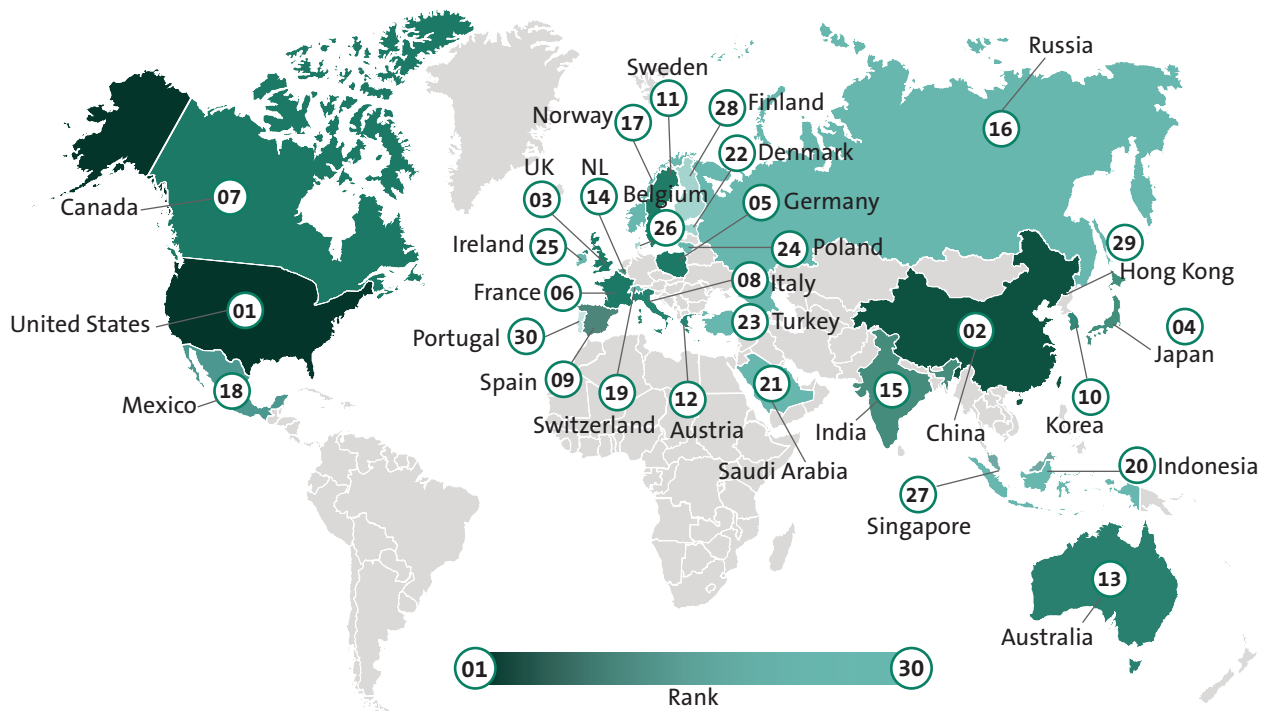
in 2019, up from 0.4% in 2018.<sup>52</sup> The government aims to increase contributions from modern trade and e-commerce to 80% of retail sector sales by 2020.<sup>53</sup>

51 The Economic Times, “CCAvenue collaborates with Riyadh Bank to make inroads into Saudi Arabia’s digital payment space”, September 20, 2019, <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/ccavenue-collaborates-with-riyad-bank-to-make-inroads-into-saudi-arabias-digital-payment-space/articleshow/71213181.cms>; Tech Startups, “Saudi’s FinTech startup HyperPay receives 8-figure investment to grow its mobile payment processing platform”, December 27, 2019, <https://techstartups.com/2019/12/27/saudis-FinTech-startup-hyperpay-receives-8-figure-investment-grow-mobile-paymentprocessing-platform/>

52 Saudi Payments Data

53 Vision 2030 Kingdom of Saudi Arabia, “Our Commitments”, <https://vision2030.gov.sa/en/commitments>

**Figure 2.14: Global e-commerce market ranking–top–30 markets, 2019**



Source: eshopworld, “Global Ecommerce Market Ranking 2019,” November 2018, [https://www.worldretailcongress.com/media/Global\\_e-commerce\\_Market\\_Ranking\\_2019\\_001.pdf](https://www.worldretailcongress.com/media/Global_e-commerce_Market_Ranking_2019_001.pdf)

**Merchants develop online capabilities to drive sales and provide an omnichannel experience to buyers**

Established merchants and organized retailers have begun to develop online capabilities to participate in Saudi Arabia’s thriving e-commerce market. The Saudi Payments Merchant Survey also confirmed the increasing popularity of e-commerce among retailers. 66% of merchants reported making e-commerce sales through various online channels

(website, partner channel, online marketplace). Initial impetus has been driven by utilities, electronics, exclusive retail, and travel. The next phase of e-commerce growth is expected to be from sectors such as fast-moving consumer goods (FMCG), groceries, and online food. (Figure 2.15). Online retailers can leverage the country’s robust offline retail sector for a robust omnichannel play. With continuous improvement in e-wallet technology and the digital payment ecosystem, customer adoption is bound to increase.



**We are extremely delighted to witness the growth of FinTech players in Saudi specifically in payments activities as a result of regulatory and infrastructure developments by SAMA and Saudi payments company to set the landscape for innovative solutions in the Financial Sector, Fintech Saudi initiative lead by SAMA in partnership with CMA, is focused to foster for FinTech ecosystem evolution in Saudi Arabia.”**

- Nejouad Almulaik,  
Director of Fintech Saudi

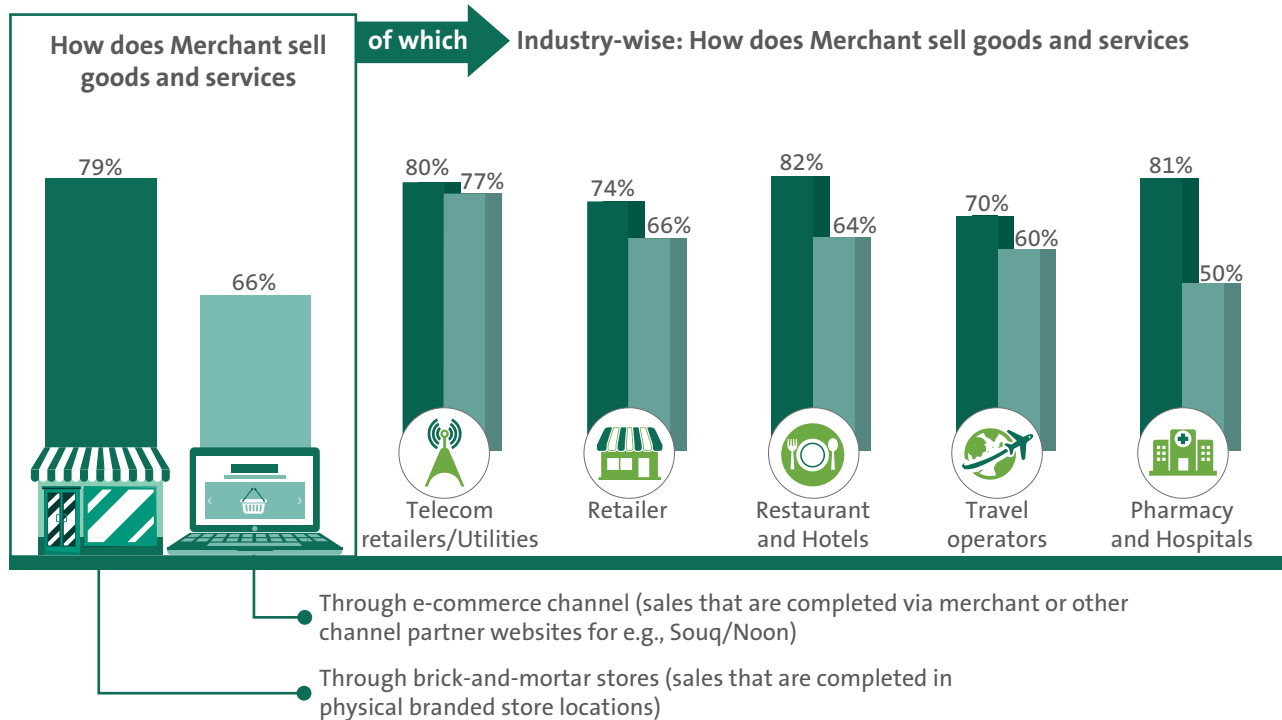


With growing online transactions, Saudi Arabia is beginning a growth curve, and we have just scratched the surface in the e-commerce sector. To tap the opportunity, Saudi Payments has developed new services—such as credentials on file—that include recurring payments and card saving, in addition to authorization and capture services for mada cards.

We plan to launch tokenization for PSPs and our own directory server to directly facilitate the authentication process flow. Saudi Payments is also looking into new standards and technologies to improve the ecosystem, and we are currently exploring checkout standardization by EMVCo, Secure Remote Commerce (SRC) and introduction of the Click-to-Pay experience.”

- Soliman AlDukhil,  
Digital Products Senior Manager, Saudi Payments

Figure 2.15: Merchant survey shows growing penetration of e-commerce among traditional retailers



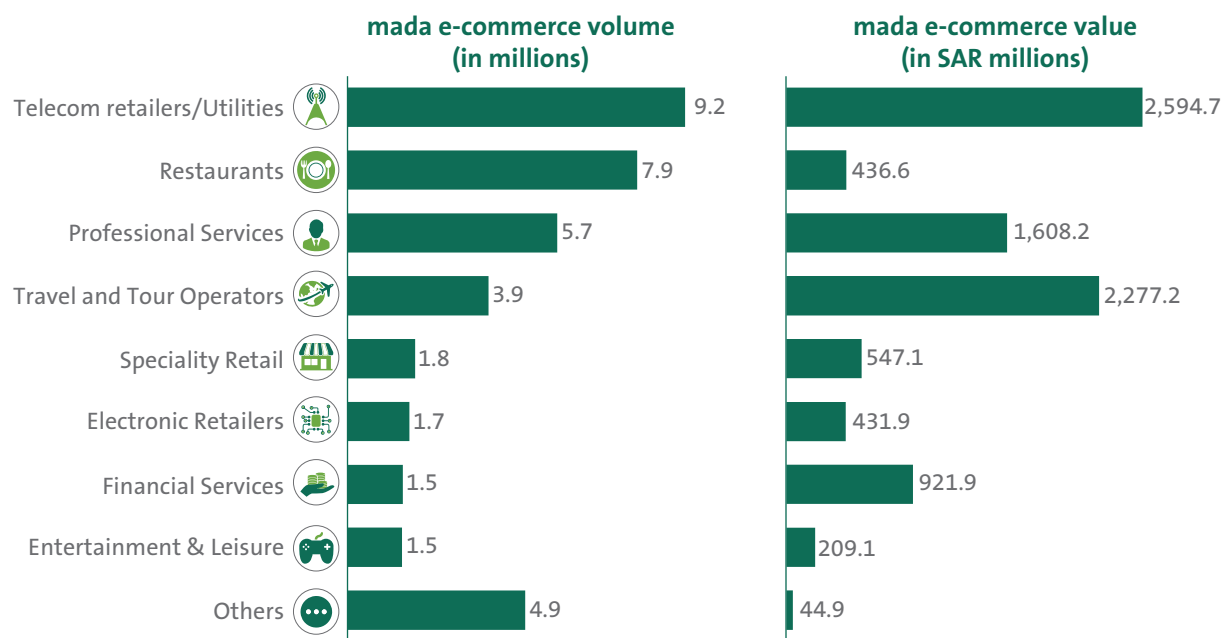
Source: Saudi Payments Merchant Survey, May 2020, N= 102

## High potential e-commerce sectors

mada e-commerce payment volumes suggest that telecom retailers/utilities sector currently account for the largest share of e-commerce payments by

volume and value. While restaurants are ranked the second-largest by volume of e-commerce payments, their value per payment is smaller than that of other categories. (Figure 2.16)

**Figure 2.16: mada e-commerce, by sector, 2019**



\* Professional Services also include Non-medical, Restaurants also include delivery apps; **Source:** Saudi Payments Data

## Digital payments market will further accelerate by growth in volumes across online gaming, ride-sharing and food delivery apps

The growing popularity of e-wallets is stimulating substantial growth in e-commerce worldwide. By 2023, these products are forecast to become the online payment method of choice with a 52% share of the global e-commerce market.<sup>54</sup> Further, the introduction of various schemes such as buy now pay later has stimulated demand for online markets, especially in developed countries such as the UK and the US. The increasing prevalence of multiple payment options, mainly mobile wallets, is also boosting the KSA's e-commerce market. Further, the launches of Noon Pay, STC Pay, BayanPay, and others may motivate even greater use of digital payment platforms for online shopping.

The growing popularity of online gaming and food delivery, as well as ride-hailing, is on track to boost e-commerce expansion overall.

- GCC gaming is projected to reach SAR3.1 billion by 2021, with Saudi Arabia accounting for the largest share.<sup>55</sup>
- Online food delivery apps are becoming increasingly popular in Saudi Arabia. The country has the most significant food delivery market in the MENA region, followed by the UAE and Turkey. More than six million customers nationwide used food delivery apps in 2019, and the market is anticipated to grow at a 14% CAGR from 2019–2023.
- Another sector experiencing substantial progress is ride-hailing. The Kingdom's two most popular taxi apps are Uber and Careem.<sup>56</sup> In February 2020, Uber acquired Careem for SAR11.6 billion (USD3.1 billion). The KSA taxi industry encourages digital payments.<sup>57</sup>

Consumers' comfort with mobility and online services is setting the stage for new payment methods.

54 NFCW, March 3, 2020, <https://www.nfcw.com/2020/03/03/365909/digital-wallets-to-account-for-52-of-global-e-commerce-sales-by-2023/>

55 Strategy& (a part of the PWC network), January 26, 2020, <https://www.strategyand.pwc.com/m1/en/press-releases/2020/gcc-gaming-market.html>

56 Zawya, February 8, 2018, [https://www.zawya.com/mena/en/business/storyNumber\\_of\\_licensed\\_ridehailing\\_apps\\_in\\_Saudi\\_Arabia\\_hits\\_20ZAWYA20180208130702/](https://www.zawya.com/mena/en/business/storyNumber_of_licensed_ridehailing_apps_in_Saudi_Arabia_hits_20ZAWYA20180208130702/)

57 Uber press release, March 25, 2019, <https://www.uber.com/newsroom/uber-careem/>

## Retailers continue to focus on in-store PoS sales growth, as the shift to online channels gains ground

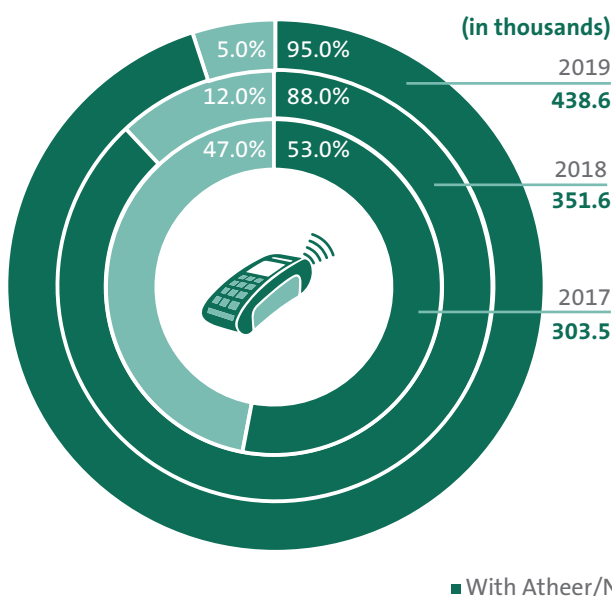
The growing number of PoS terminals at retail outlets—especially at gas stations, pit shops, restaurants, and convenience stores—has significantly boosted digital payments in Saudi Arabia. In May 2020, a ministry directive mandated grocery stores and supply shops to provide e-payment solutions to help curtail cash transactions and combat inappropriate sub-leasing (tasattur) arrangements where Saudi citizens allow an expatriate to run a business in their name for a fixed amount.<sup>58</sup>

E-payment solutions also align with health authorities’ precautionary measures to fight

COVID-19 and protect citizens and expatriates. Moreover, amid the coronavirus crisis, SAMA has increased the single-transaction purchase limit of atheer-enabled cards (supporting NFC/contactless technology) from 100 to 300 Saudi Riyal without PIN authorization.<sup>59</sup>

The number of NFC-based PoS terminals in the country increased at a CAGR of 61% from 2017–2019. (Figure 2.17). In 2019, for the first time, total NFC-based payments represented more than half of all PoS payments volume—918.5 million out of a total of 1.6 billion transactions. Other than reducing the transaction time, the use of digital payments

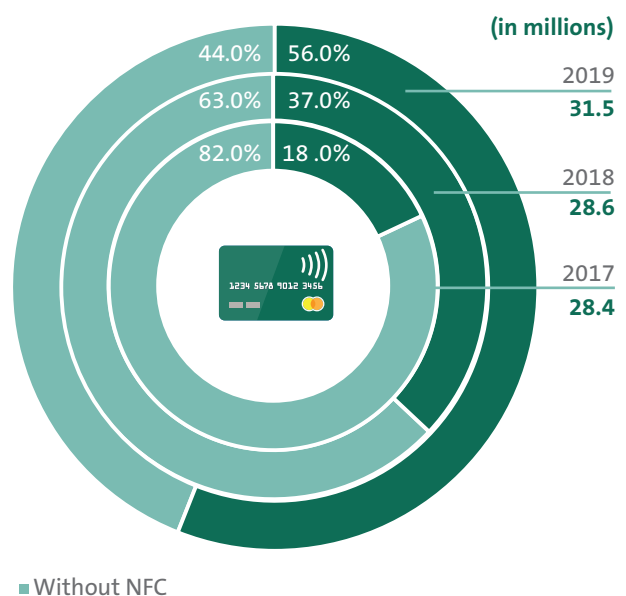
**Figure 2.17: Growth in the number of NFC-enabled PoS terminals, 2017–2019**



Source: Saudi Payments Data

helps businesses reduce payment processing costs, expand the consumer base, and increase online reach. The installation of NFC enabled PoS systems also helps merchants deliver enhanced consumer experience through faster checkouts, integration of loyalty programs, and better consumer data analytics.

**Figure 2.18: Growth in the number of NFC-enabled cards in force, 2017–2019**



Source: Saudi Payments Data

Banks are responding to these changes by transforming their card portfolios to incorporate NFC-enabled cards.

- In September 2015, Riyadh Bank launched Saudi Arabia’s first NFC-based card, converting its entire portfolio to NFC-enabled offers.<sup>60</sup>

58 Saudi Gazette, “Grocery stores must provide e-payment solutions, effective May 10”, May 10, 2020, <https://saudigazette.com.sa/article/592944/SAUDI-ARABIA/Grocery-stores-must-provide-e-payment-solutions-effective-May-10>

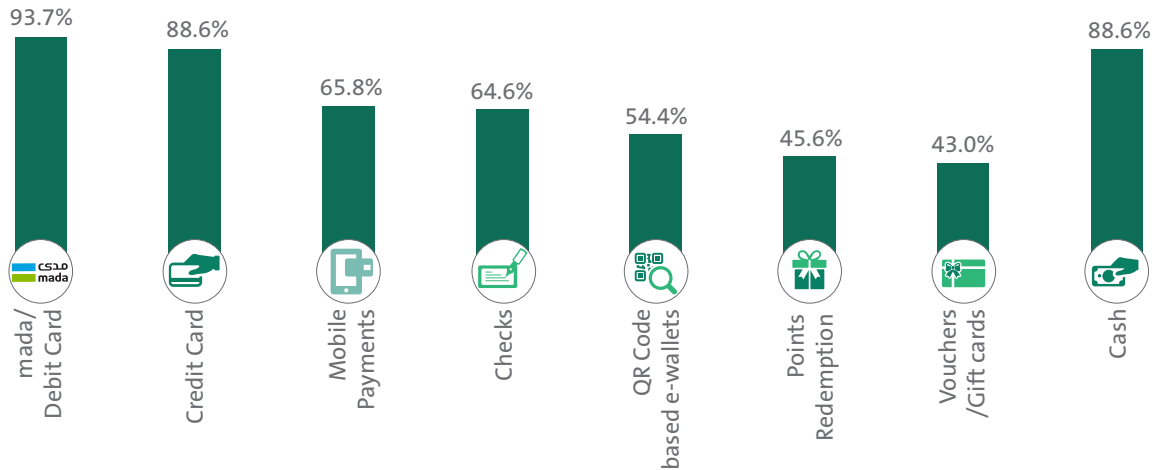
59 SAMA press release, “Sama Increases Purchase Limit For Mada Atheer To Sar 300 With No Pin Required”, March 18, 2020 <http://www.sama.gov.sa/en-US/News/Pages/news-521.aspx>

60 Gemalto press release, “Riyadh Bank launches Saudi Arabia’s first contactless EMV bank card with Gemalto”, September 30, 2015, <https://www.globenewswire.com/news-release/2015/09/30/772077/10151114/en/Riyadh-Bank-launches-Saudi-Arabia-s-first-contactless-EMV-bank-card-with-Gemalto.html>

- Similarly, in April 2016, the National Commercial Bank (NCB) converted its full credit card portfolio to NFC technology.<sup>61</sup>
- Al Rajhi bank, one of the largest issuers in the Kingdom, has more than 62% of its debit card portfolio supporting NFC technology. It is also planning to convert its specific segment cards—payroll and university student to NFC enabled.

The growth in PoS terminals is expected to continue at a high pace, considering changing consumer preferences, supporting infrastructure and regulations, commercial sector directives/mandates and benefits enjoyed by retailers. The Saudi Payments Merchant Survey also reflected a high acceptance rate for mada debit, credit cards, and other digital payment methods at physical stores. (Figure 2.19)

**Figure 2.19: Most accepted payment method by merchants at physical stores**



Source: Source: Saudi Payments Merchant Survey, May 2020, N= 102

SAMA and Saudi Payments play a critical role in ensuring high readiness for a less-cash market and explore non-digital market segments. Over the years, multiple digital payment methods have been launched by these authorities to promote an ecosystem less reliant on cash. All of these payment methods have been able to achieve enduring traction among the Saudi population.

SAMA and Saudi Payments have, and continue to invest in data-analytics capabilities, to support market and participant needs, and sponsoring a greater understanding of the latent market capacity and therefore, supply-side opportunity.

<sup>61</sup> OpenPR, “Payments Landscape in Saudi Arabia: Opportunities and Risks to 2021- Al Rajhi Bank, The National Commercial Bank, Riyadh Bank, Arab National Bank, Saudi British Bank, Samba Financial Group, Banque Saudi Fransi Bank AlJazira”, March 14, 2019, <https://www.openpr.com/news/1654112/payments-landscape-in-saudi-arabia-opportunities-and-risks-to-2021-al-rajhi-bank-the-national-commercial-bank-riyad-bank-arab-national-bank-saudi-british-bank-samba-financial-group-banque-saudi-fransi-bank-aljazira.html>

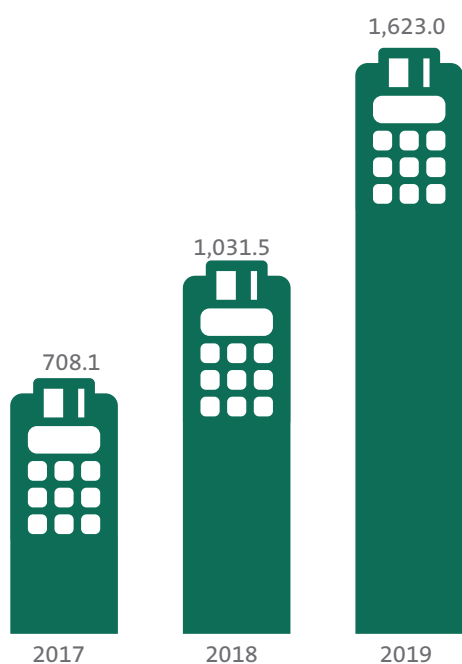
## Today’s robust digital payments growth is a natural response to the emerging economic landscape

The Saudi Arabian government has launched several major initiatives to promote the latest digital technologies among its citizens. Simultaneously, it has also revolutionized payment processes used by government entities, institutions, and local businesses. Currently, four major payment systems exist in Saudi Arabia, all operated through Saudi Payments. Each aims to develop the financial services sector in line with the government’s Vision 2030 policy.<sup>62</sup>

### mada

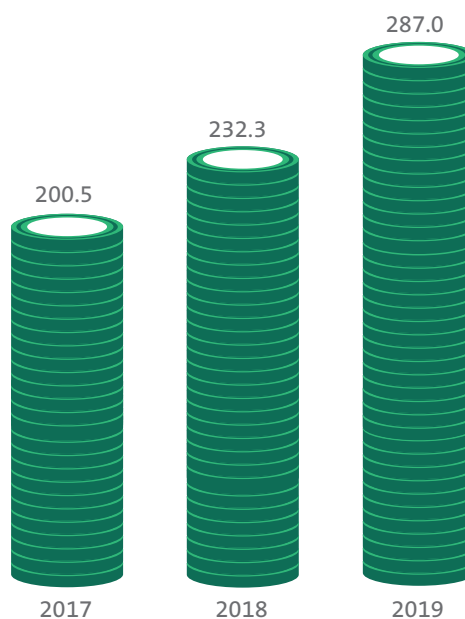
In 2019, 31.5 million mada cards were in circulation in Saudi Arabia,<sup>63</sup> enabling NFC-based and e-commerce payments. mada cardholders may use **atheer** (NFC/contactless) service without entering a PIN, provided the value of every single transaction does not exceed SAR300. SAMA has announced several initiatives to promote this innovative payment system. In November 2019, all banks were instructed to be ready to provide mada PoS facilities to car workshop owners and other related services. This move aims to support the commercial use of digital channels.<sup>64</sup>(Figure 2.20, 2.21)

**Figure 2.20: Total mada PoS transactions volume (in millions), 2017–2019**



Source: Saudi Payments Data

**Figure 2.21: Total mada PoS transactions value (in SAR billions), 2017–2019**



Source: Saudi Payments Data

62 SAMA, “Payment Systems”, [http://www.sama.gov.sa/en-US/payment/Pages/Payment\\_systems.aspx](http://www.sama.gov.sa/en-US/payment/Pages/Payment_systems.aspx)

63 Saudi Payments Data

64 SAMA, “SAMA” direct the provision of “Mada Point of Sale” service for workshops and related services”, November 21, 2019, <http://www.sama.gov.sa/en-us/news/pages/news020112019.aspx>

65 Ibid

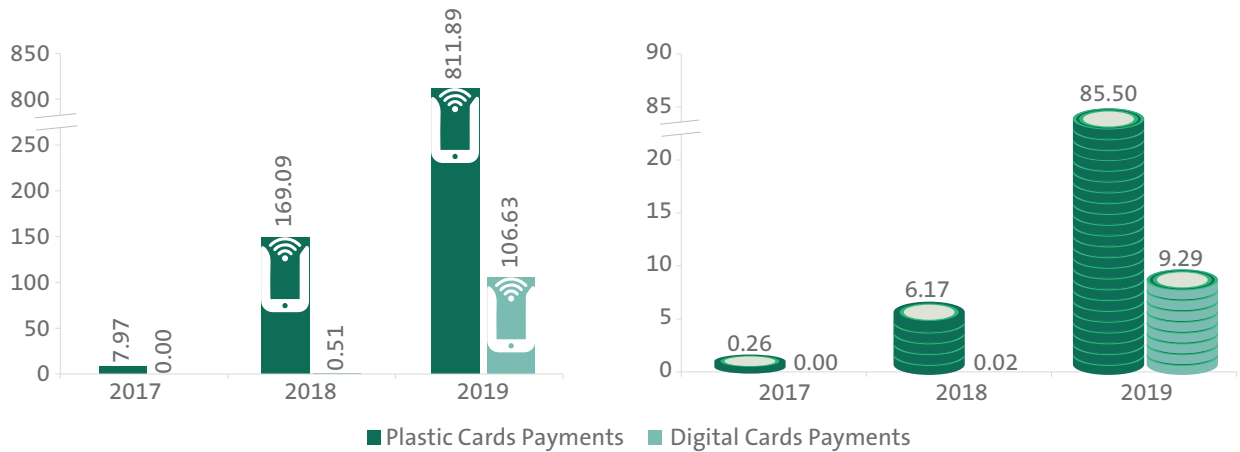


Consumers increasingly prefer NFC/contactless-based transactions (i.e., mada atheer). The number of transactions involving the use of digital cards has increased sharply, from 0.51 million in 2018 to 106.7 million in 2019. (Figure 2.22). In 2019, digital cards were used in 7% of all PoS transactions in Saudi

Arabia. All banks in Saudi Arabia are now offering digital versions of their respective cards.<sup>65</sup> Most PoS transactions occur at restaurants or grocery stores, which reflects the use of digital payment methods for necessities. (Figure 2.24)

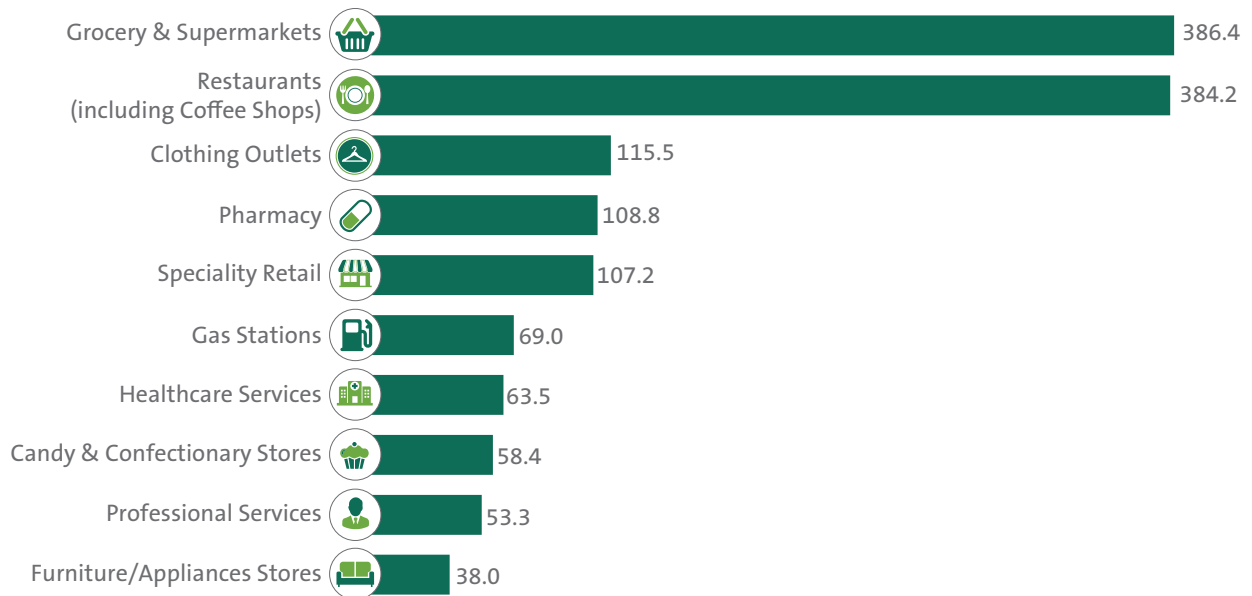
**Figure 2.22: mada atheer (NFC/contactless) transaction volume (in millions), 2017–2019**

**Figure 2.23: mada atheer (NFC/contactless) transaction value (in SAR billions), 2017–2019**



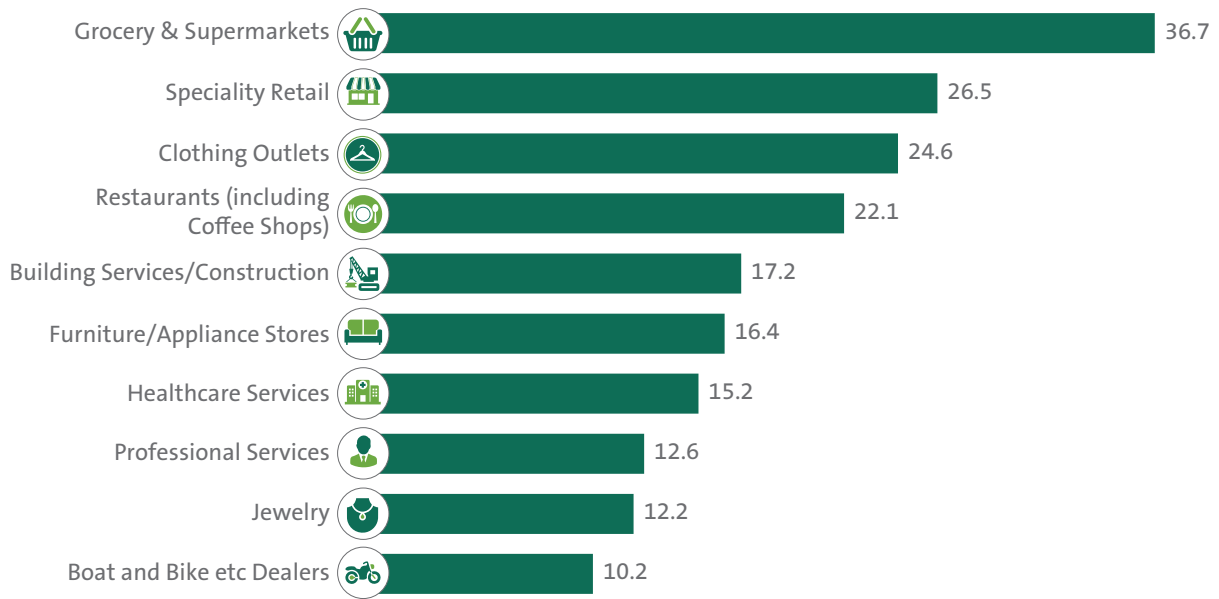
Source: Saudi Payments Data

**Figure 2.24: Top 10 sectors by PoS payments volume (in millions), 2019**



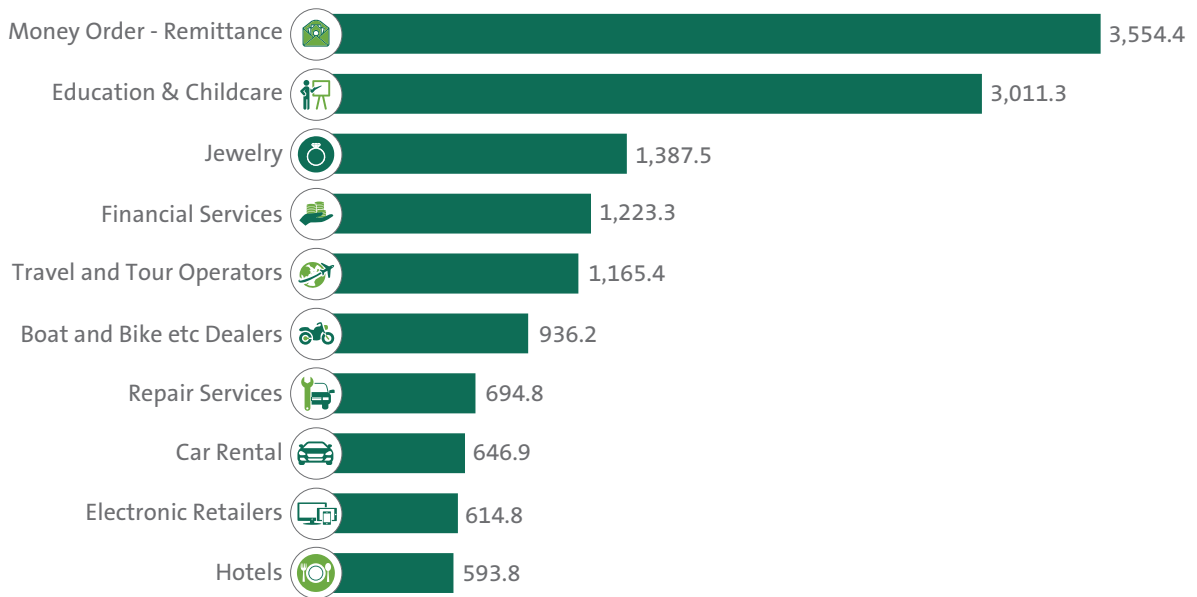
Source: Saudi Payments Data

**Figure 2.25: Top 10 sectors by PoS payments value\* (in SAR billions), 2019**



Source: Saudi Payments Data, \* Net value without cashback

**Figure 2.26: Top 10 sectors by PoS average transaction value (ATV), 2019**

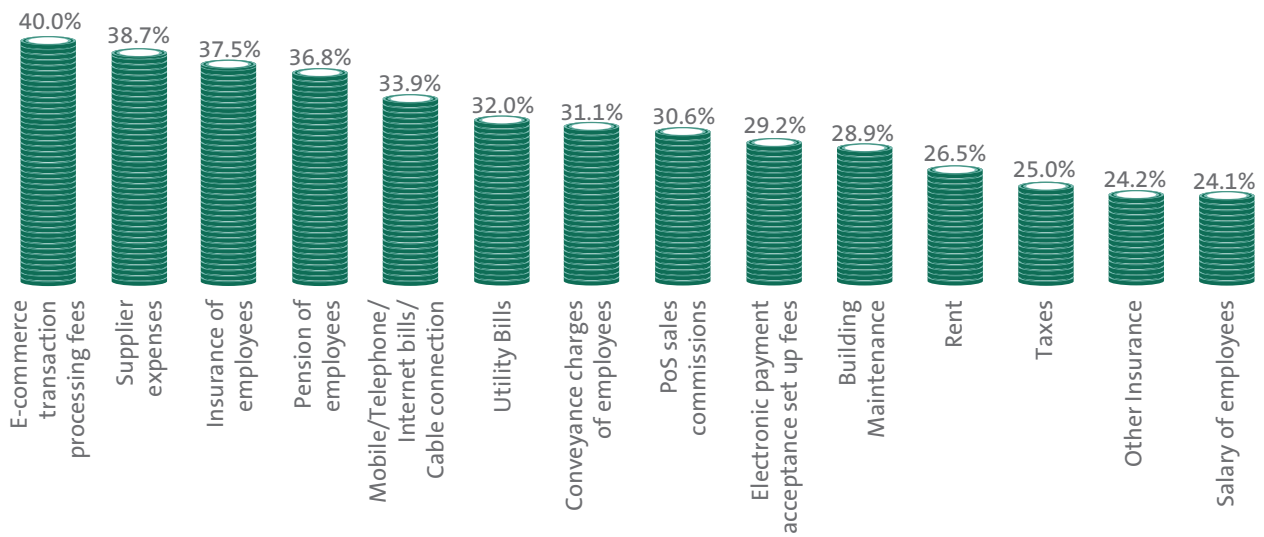


Source: Saudi Payments Data

In addition to accepting payments through mada cards, merchants also use them to make business payments. The merchant survey conducted by Saudi Payments found that merchants use mada

cards to handle business expenses such as e-commerce transaction processing fees, supplier expenses, and employee insurance and pension costs (Figure 2.27).

**Figure 2.27: Merchant survey shows usage of mada/debit cards for business expenses**



Source: Saudi Payments Merchant Survey, May 2020, N= 102

**SADAD**

The SADAD Bills System is the national billing infrastructure that connects billers (government and the private sector) to payers through the different banking channels of all banks in the Kingdom of Saudi Arabia. Multiple

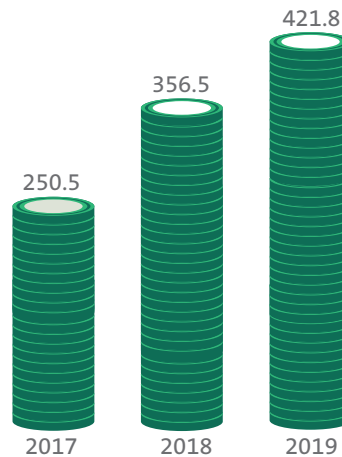
service providers, including government, telecommunication, educational, transportation, and financial institutions, may join SADAD as billers. Although initially, SADAD focused on facilitating bill payments, SAMA is expected to widen the system’s service scope to enable a wide range of digital services over the coming years. Telecom/utilities is

**Figure 2.28: SADAD Bills payments volume (in millions), 2017–2019**



Source: Saudi Payments Data

**Figure 2.29: SADAD Bills payments value (in SAR billions), 2017–2019**

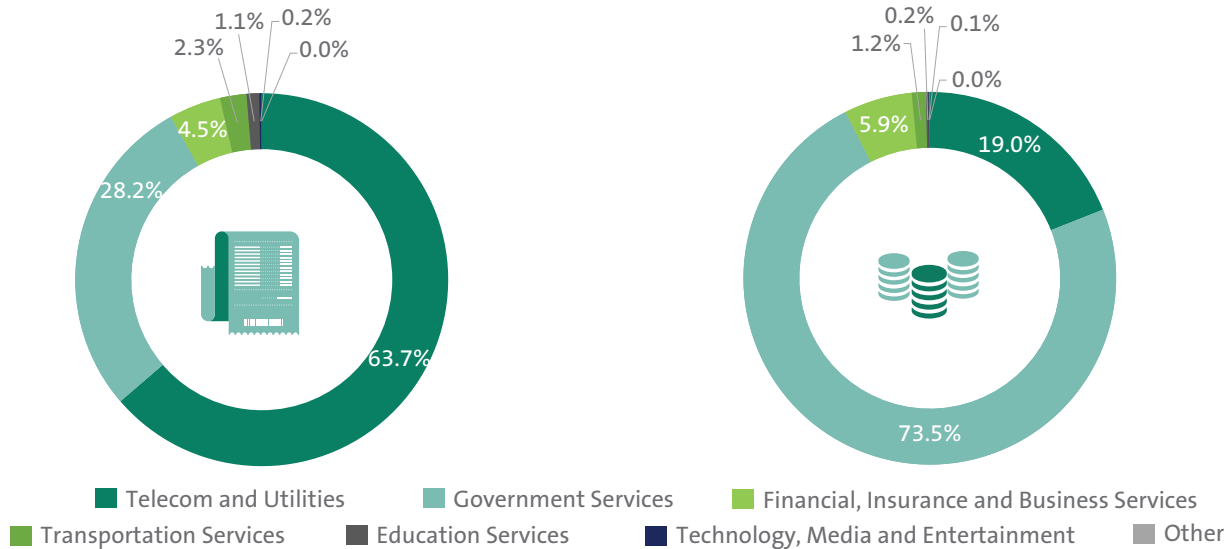


66 Billers from various public and utility sectors (including electricity, water, and telecommunication service providers) and other billers (including airline, insurance, instalment companies, universities, newspaper houses and credit card and loan repayment services for a number of domestic banks) connected to SADAD Payment system. Source: Saudi Payments Data

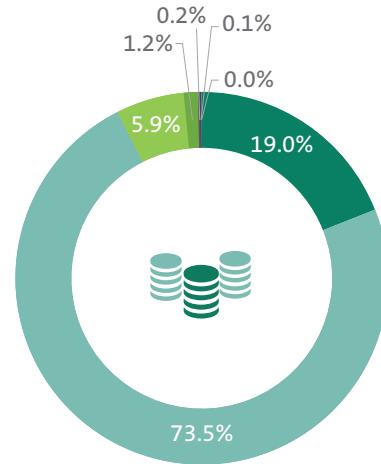
the most extensive service sector by volume, generating 64% of total SADAD Bills' transactions (167.8 million) in 2019. By volume, government services hold only 28% share—in terms of value; however, the sector accounts for 74% of total

transactions generated through SADAD Payments. (Figures 2.30, 2.31). There are 202 billers from various public and private sectors linked to the SADAD Payment system.<sup>66</sup>

**Figure 2.30: SADAD Bill payments distribution by sector volume, 2019**



**Figure 2.31: SADAD Bill payments distribution by sector value, 2019**

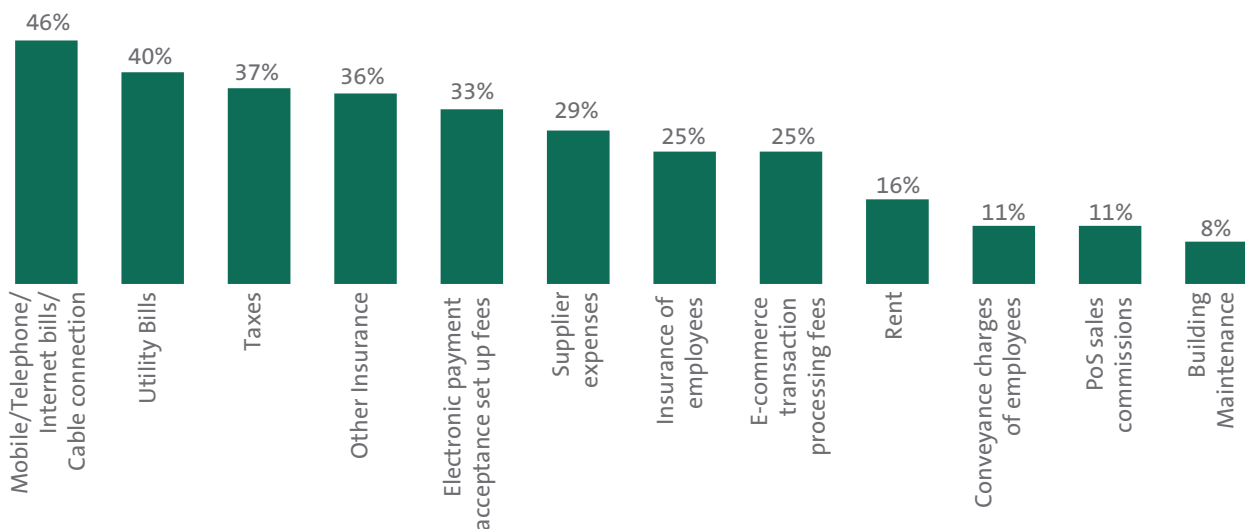


Source: Saudi Payments Data

Merchants are also using SADAD Bills as means to pay business expenses. The merchant survey conducted by Saudi Payments reflected high usage

of SADAD Bills by merchants for mobile/telephone/internet bills, other utility bills, and taxes. (Figure 2.32)

**Figure 2.32: Merchant survey shows usage of SADAD Bills for business expenses**



Source: Saudi Payments Merchant Survey, May 2020, N=102

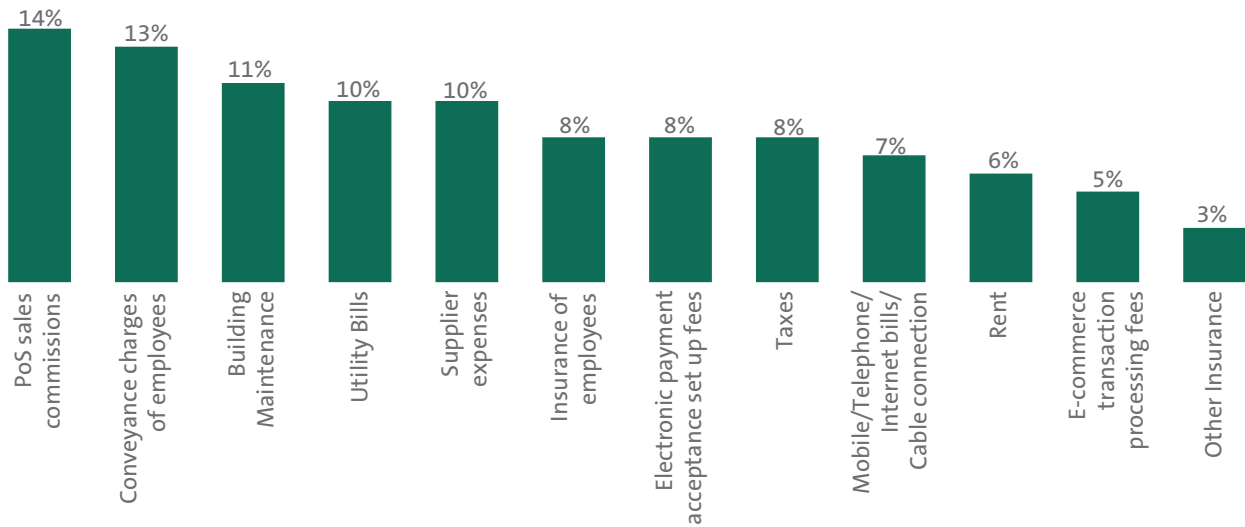
66 Billers from various public and utility sectors (including electricity, water, and telecommunication service providers) and other billers (including airline, insurance, instalment companies, universities, newspaper houses and credit card and loan repayment services for a number of domestic banks) connected to SADAD Payment system. Source: Saudi Payments Data

## Esal

In 2019, the business invoicing platform “Esal” was officially launched by Saudi Payments under the supervision of the Saudi Central Bank. The platform includes the entire invoice life cycle, from viewing the invoice to paying them through banking channels and settling them. The platform will

contribute in improving the management of invoices and payments through the benefits it provides to users. It was also noticed that companies were very popular to register on the platform and benefit from its services, as some suppliers reported that the platform is used to display and pay commercial expenses. (Figure 2.33)

**Figure 2.33: Merchant survey shows usage of Esal for business expenses**

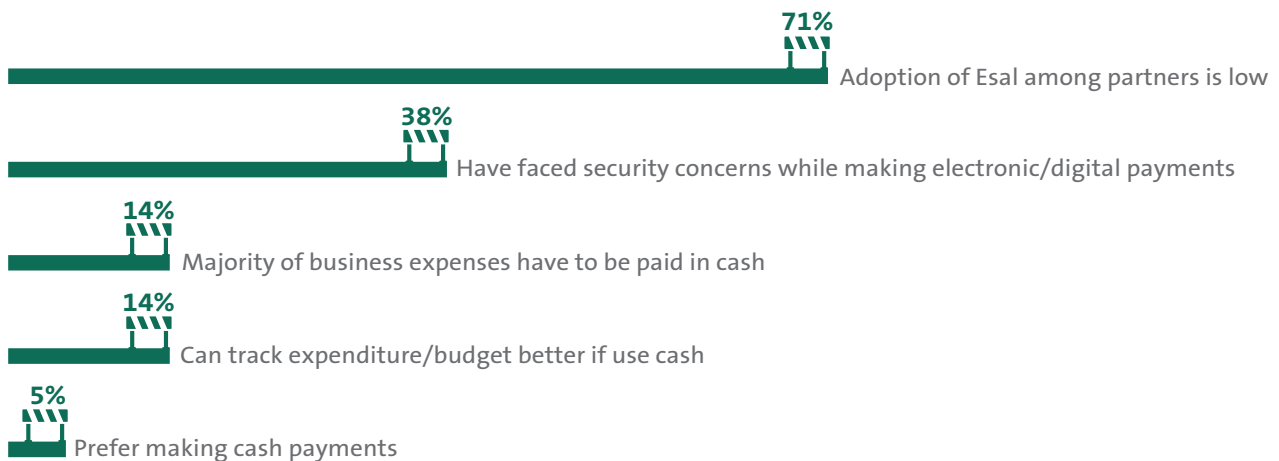


Source: Saudi Payments Merchant Survey, May 2020, N= 102

Merchants that use national e-invoicing platform "Esal" to manage at least 10% of their business expenses said they find the system to be convenient,

reliable, and easy to use. Others cited Esal's limited adoption by partners and security concerns as reasons for not using it. (Figure 2.34)

**Figure 2.34: Merchant survey indicates barriers to merchants' use of Esal**



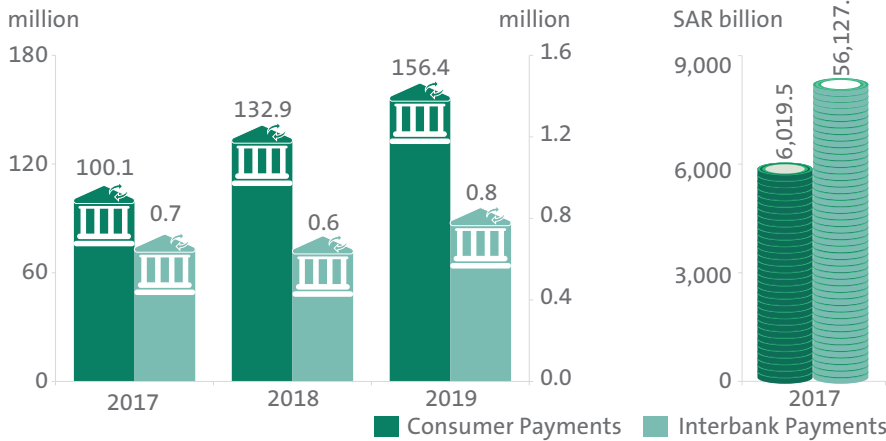
Source: Saudi Payments Merchant Survey, May 2020, N= 102

## SARIE

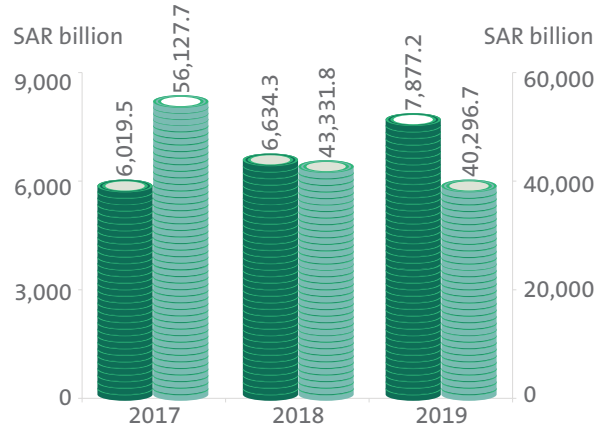
Connected to all banks throughout the Kingdom, SARIE provides a mechanism by which funds can be safely and efficiently transferred via direct debit messages transmitted both on behalf of clients and for each bank’s own trading purposes. SARIE came online in 1997. The total number of

transactions executed using SARIE increased by 17.7% to 156.4 million in 2019, as compared to 2018. Customer payments through SARIE consistently increased in both value and volume from 2017 to 2019, while interbank payments fluctuated with respect to volume and declining value during the period. (Figures 2.35, 2.36)

**Figure 2.35: SARIE payments volume, 2017–2019**



**Figure 2.36: SARIE payments value, 2017–2019**

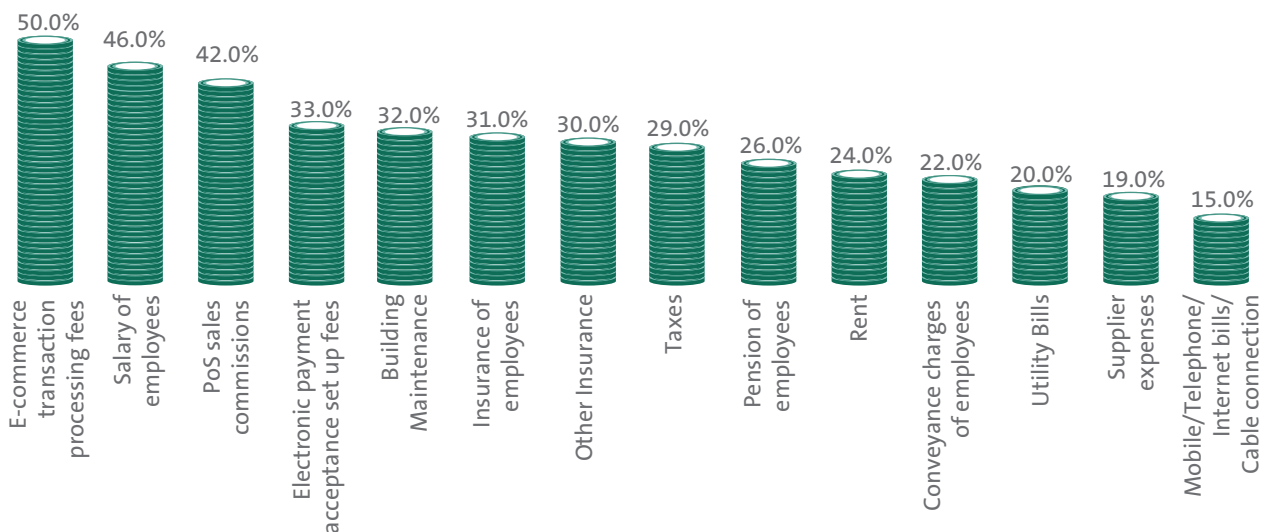


Source: SAMA, “55th Annual Report 1440H - 2019”, May 2019, [http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Annual\\_Report\\_55th-EN.pdf](http://www.sama.gov.sa/en-US/EconomicReports/AnnualReport/Annual_Report_55th-EN.pdf); SAMA Monthly Bulletin, April 2020

A substantial share of merchants uses SARIE to make business payments. According to the Saudi Payments Merchant Survey, 50% of merchants use SARIE to pay e-commerce transaction processing fees. Similarly, 46% of merchants use SARIE to pay

employee salaries. SARIE is also used to pay prominent business expenses such as PoS sales commissions and digital payment acceptance set-up fees. (Figure 2.37)

**Figure 2.37: Merchant survey shows usage of internet banking/money transfer (SARIE) for business expenses**



Source: Saudi Payments Merchant Survey, May 2020, N= 102

## Digital shift of consumers is shaping the Kingdom's payments sector

Consumers are prominent stakeholders. Their preferences, use trends, buying behavior, and thought processes determine the current as well as the future shape of most sectors.

Note: The survey was conducted during the onset of the COVID-19 crisis. Therefore, results reflect changing consumer behavior and preferences sparked by the pandemic.

- 67% of respondents said they had increased their online purchase volume during the pandemic.
- Of that group, 71% indicated that they would continue to shop online more as compared to pre-COVID times, which indicates a permanent shift in consumer behavior.

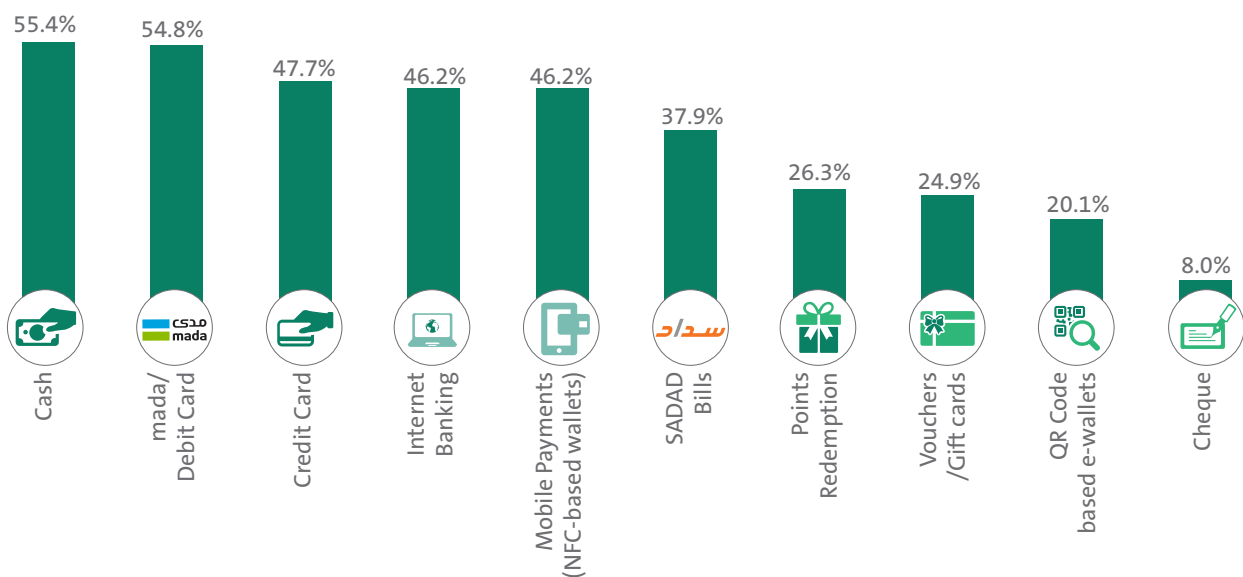
### Although cash use is steady, an equally high number of consumers uses digital payment options

Reflective of the traditional Saudi reliance on cash, 55.4% of respondents said they currently use cash as one of their payment methods. The mada card was next, used by 54.8% of respondents, while 46.2% of respondents cited their use of mobile payments (NFC-based wallets). And 37.9% of survey respondents said they used SADAD Bills, which are

gaining prominence and indicate the government's success in bolstering consumer adoption.

Survey results indicated the highest penetration of mobile payments and QR code-based e-wallets was among millennials (aged 24–39), whereas Generation X (aged 40–55 years) emerged as a leading user of mada cards and SADAD Bills. Household income also impacted the selection of payment methods, with those from higher-income groups more readily embracing the use of digital payment methods. (Figure 2.38).

**Figure 2.38: Consumer survey shows the current use of various payment methods**



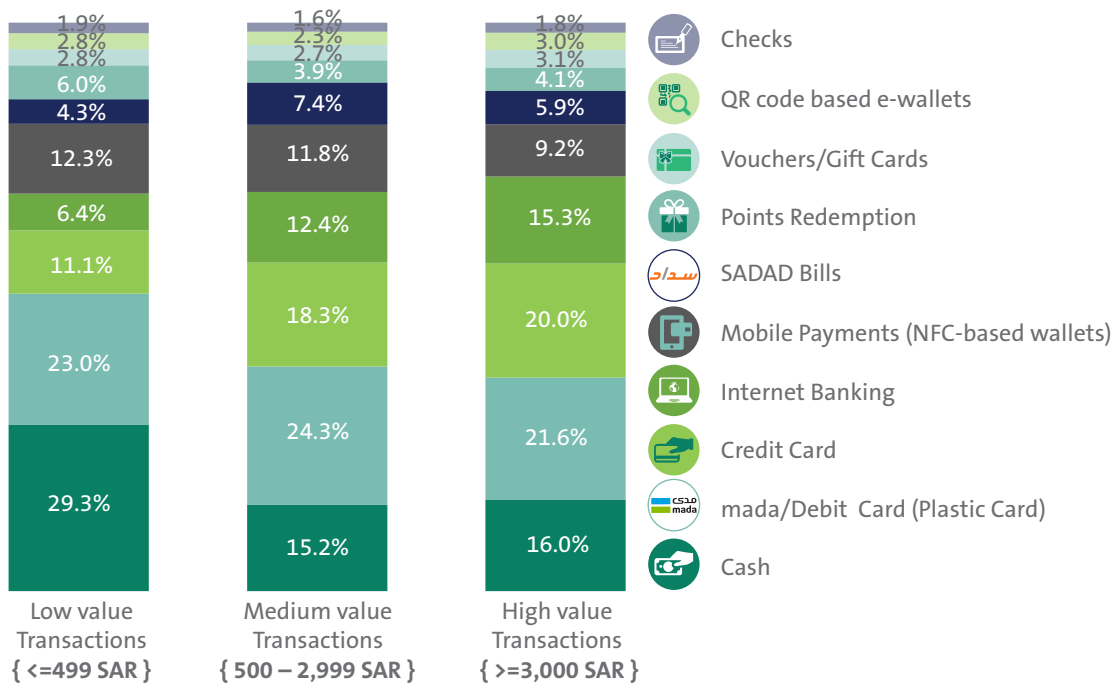
Source: Saudi Payments Merchant Survey, May 2020, N= 102

### Digital methods are the preferred payment option for high-value transactions

Saudi consumers indicated cash as the preferred payment method for low-value transactions, with 29% of respondents favoring it over other payment modes in this category. However, for medium or high-value transactions, consumers indicated

digital payment methods, specifically mada cards, as the preferred payment option. Online banking also emerged as one of the most preferred payment methods for high-value transactions. Preference for digital methods for high-value transactions reflects consumers growing trust in the digital payment systems. (Figure 2.39)

**Figure 2.39: Consumer survey shows the payment method preferences based on value segments**



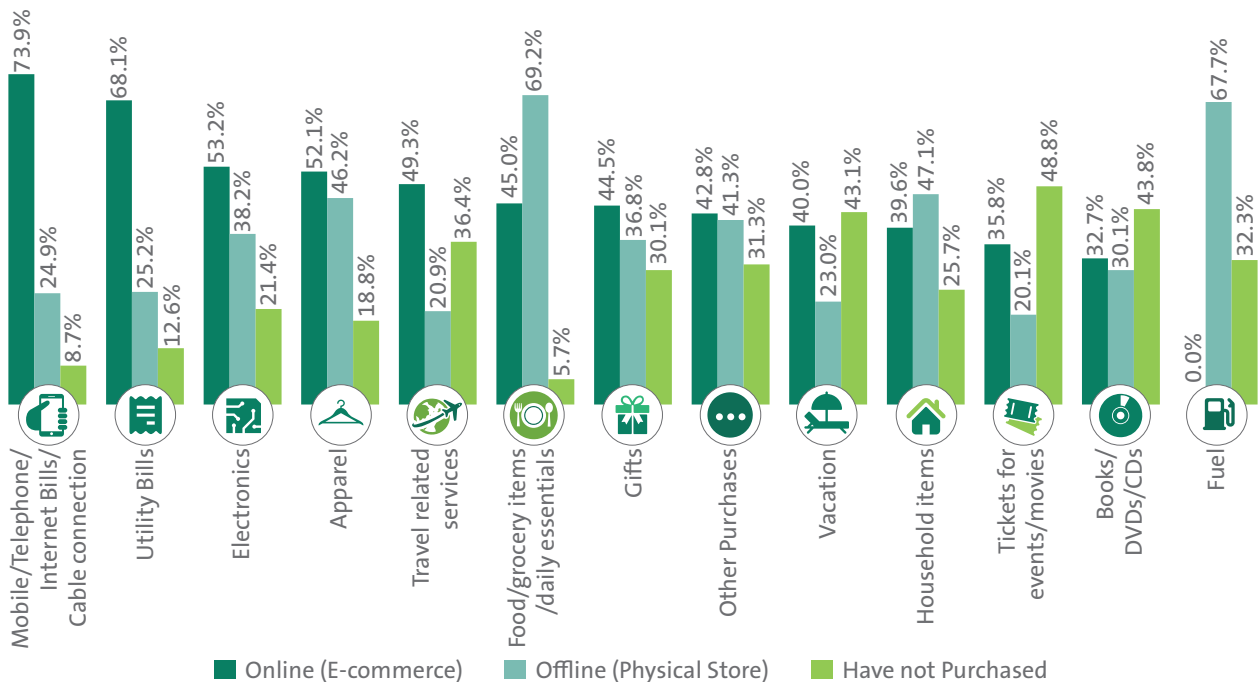
Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

**Consumers demonstrated high online channel preference for bill payments; while the physical store still rules for daily needs**

Consumers highly preferred online channels for bill payments (utility and others), electronics purchases, travel-related services, and apparel. However, for purchases related to daily needs, such as food and groceries, consumers still prefer physical stores.

Millennials demonstrated the highest propensity to purchase online in almost all product categories, which can be attributed to the unique confluence of technology exposure and the buying power of this age group. Additionally, household income also reflected some direct correlation with online purchases. As income rose, the proportion of consumers making online purchases also increased for most of the product categories. (Figure 2.40)

**Figure 2.40: Consumer survey shows purchase channel preference by product category**



Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

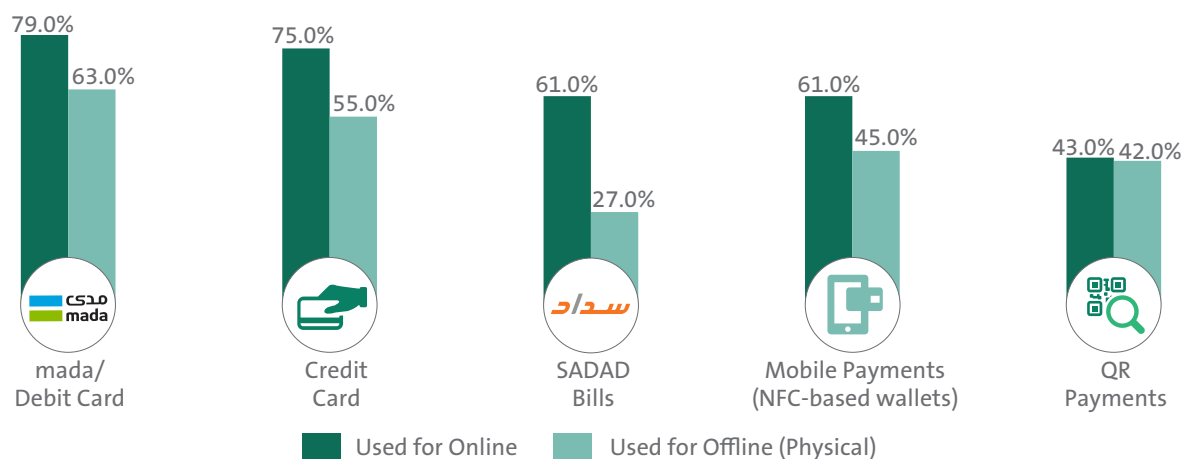


## mada cards: most-used digital option for both online and offline purchases

Our survey found that 79% of respondents who currently use mada cards use them while making

online purchases, whereas 63% use them at physical retail stores. Following the introduction of mobile payments in the Kingdom and the recent entry of digital wallets, 61% of respondents used them to make e-store payments. (Figure 2.41)

**Figure 2.41: Consumer survey shows the payment method used – online and offline (% of respondents that currently use these methods)**



Source: Saudi Payments Consumer Survey, April 2020, N= 1,024





## NFC-based payment options gaining traction at PoS terminals

The highest number of respondents indicated that they swipe mada cards or credit cards (85% for both payment options) at PoS terminals while making transactions. However, a significant number of card users (about 72% for mada cards and 67% for credit cards) also indicated the usage of NFC based

payment option at PoS terminals. Considering that NFC-based cards are relatively late market entries, the percentage of card users using NFC-based payments reflects the technology's strong appeal and traction.

Around 93% of survey respondents using a mobile payment (NFC-based wallets) option at a physical store employed a tap-to-pay method. (Figure 2.42)

**Figure 2.42: Consumer survey on the way of using selected payment methods at PoS terminals**

	By Swiping the card	NFC-based payment (Contactless, tap to pay)	Scanning the merchant QR code
mada/Debit Card 	85%	72%	
Credit Card 	85%	67%	
Mobile Payments (NFC-based wallets) 		93%	
QR code based e-wallets 		63%	69%

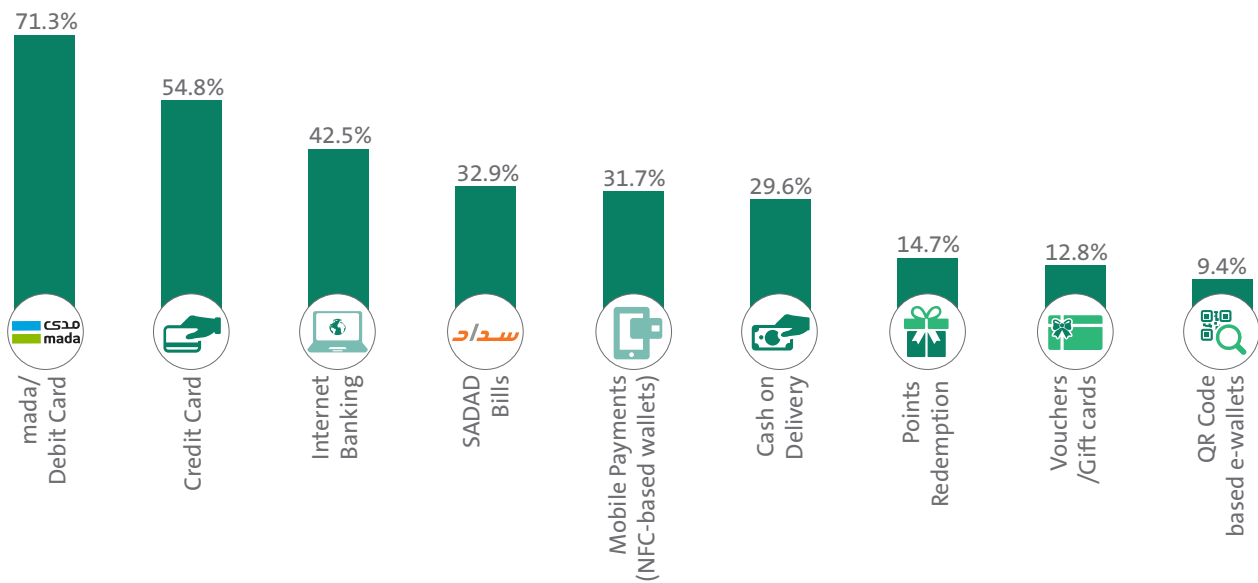
Source: Saudi Payments Consumer Survey, April 2020, N= 1,024; \* Payment apps allow users to make payment through either scanning merchant's QR code or entering merchant's mobile number (which is linked to merchant's mobile wallet account)

## mada cards emerged as the most preferred payment option for online purchases, followed by credit cards and online banking

As part of our consumer survey, 71.3% of respondents ranked the mada card as one of their top-three payment methods for online purchases.

Credit cards (54.8%) and online banking transfers (42.5%) held second and third positions, respectively. Fewer respondents rated the most innovative payment methods, such as mobile payment and QR code-based e-wallets, among their top-three option preferences, possibly because the options became available only recently. (Figure 2.43)

**Figure 2.43: Consumer survey on the most preferred online payment options (% of respondents ranking them among top-3 preferred option)**



Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

## Security and convenience are top drivers for the selection of different digital payment options

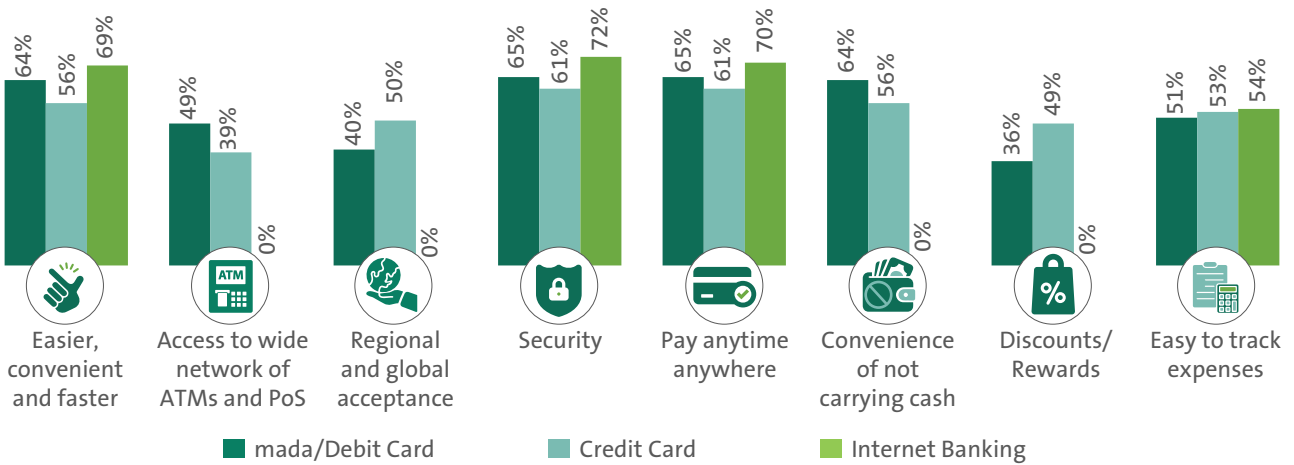
Respondents have ranked security, ability to pay anywhere anytime, ease, convenience, and speed as the most significant drivers for choosing different digital payment methods. A significant number of respondents also indicated inconvenience

associated with carrying cash as a reason to use digital payment methods, suggesting dwindling demand for cash in the future. (Figure 2.44)

Multiple initiatives by Saudi regulatory authorities directed toward faster payment systems, tighter security norms, and broader digital payment methods' acceptability directly address these drivers and will further catalyze the adoption.

**Figure 2.44: Consumer survey on the key drivers for using various payment methods**

**Key drivers for using mada debit or credit card, online banking (% of respondents who use these payment methods for online or offline shopping)**



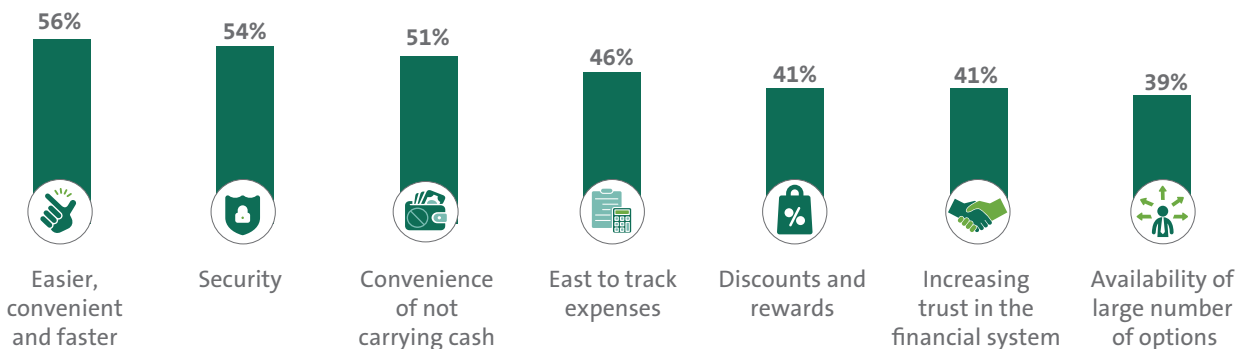
**Key drivers for the use of checks**



**Key drivers for the use of SADAD Bills**



**Key drivers for using both mobile and QR**



Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

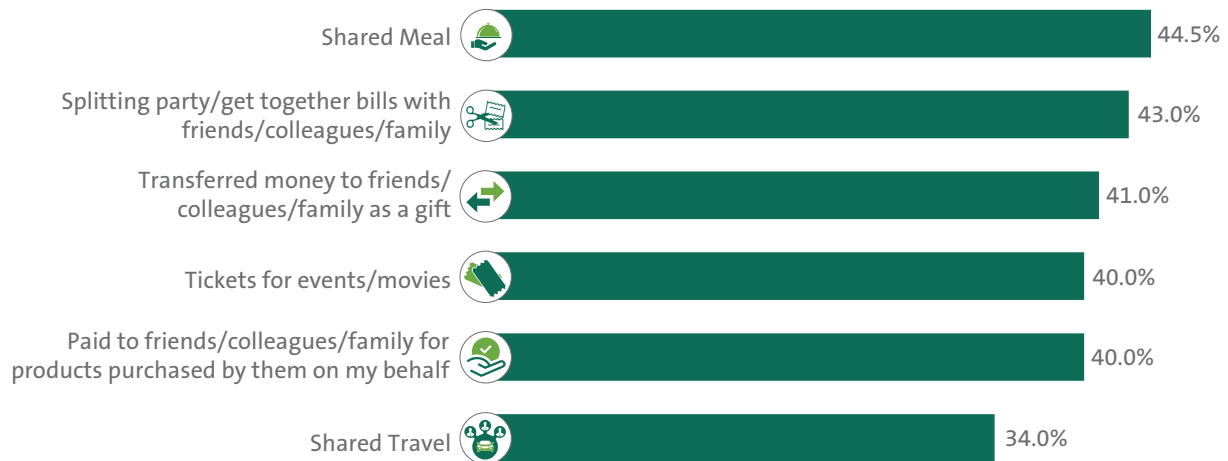
## QR code-based e-wallets being used more for low-value P2P transactions

About 25% of survey respondents who made P2P payment said they used QR code-based payments (during the previous month). Respondents used QR based e-wallet mostly for low-value P2P transactions. The primary uses are for sharing food (45%), party bills (43%), and gifting (41%). For most categories, the young population uses QR code-

based e-wallets for P2P payments the most as casual consumption and higher adoption are a few of the main reasons for high usage. (Figure 2.45)

The market for P2P payments will experience strong growth in the coming years, mainly attributable to Saudi Arabia's higher smartphone penetration, technology advancement, and continuous government focus on improving operational infrastructure.

**Figure 2.45: Consumer survey on the usage of QR code-based e-wallets by category**



Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

As a significant global player, PayPal has earned keen awareness in the Saudi market, with 63% of respondents familiar with the brand. It is closely followed by domestic e-wallet players STC Pay (55%) and mada Pay (54%). Respondents were not as aware of e-wallets that were launched more recently—Riyad Pay, Hala (formerly HalalaH Pay),

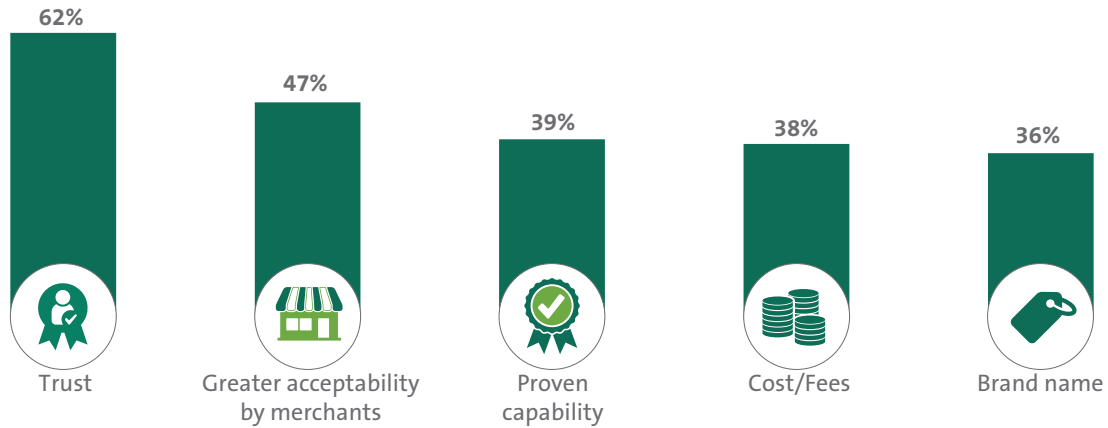
and BayanPay. PayPal was used by 50% of respondents aware of it, again followed by mada Pay and STC pay, which were both used by ~42% of respondents who knew the brands. Of respondents who were aware of mada Pay but did not use it, ~83% indicated they would consider using the e-wallet within the next 12 months.

## Consumers preferred banks over others due to higher trust

As cyber-crimes increase globally, Saudi citizens also believe that a trustworthy payment provider is essential. Some 62% of survey respondents regard

trust as the most important criteria when selecting a payment provider, followed by high acceptability by merchants (47%). They also consider proven capability, costs, fees, and brand names when choosing a payment service. (Figure 2.46)

**Figure 2.46: Consumer survey on the drivers for payment provider selection**

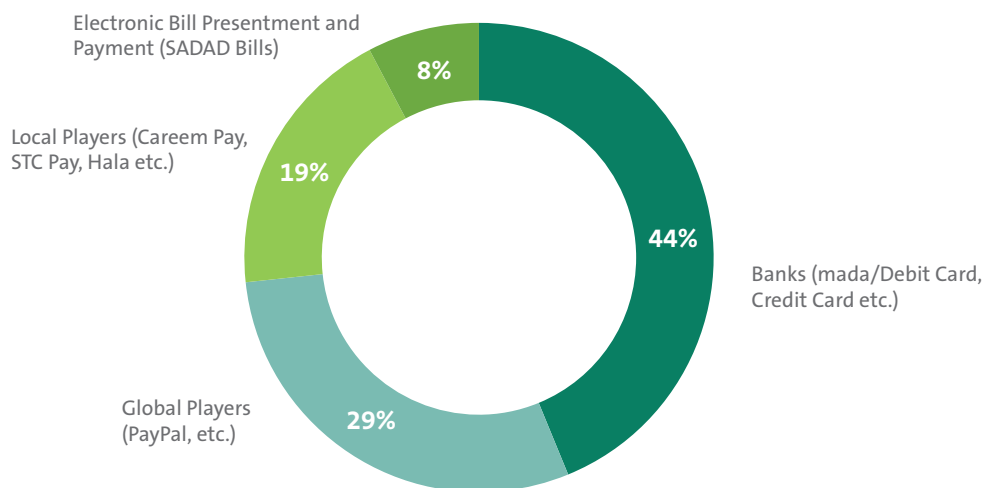


Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

The top two reasons that drove the choice of one payment provider over another was trust and high merchant acceptability. By analyzing the most preferred payment providers and the drivers for choosing a payment provider in a single frame, we can deduce consumers consider banks to be the most trustworthy payment providers.

- 44% of the respondents rated banks as the most preferred payment providers
- 29% rated global players as the most preferred payment providers.
- Local e-wallet players (Careem Pay, STC Pay) and SADAD Bills were rated by 19% and 8% of respondents, respectively. (Figure 2.47)

**Figure 2.47: Consumer survey on the most preferred payment provider**

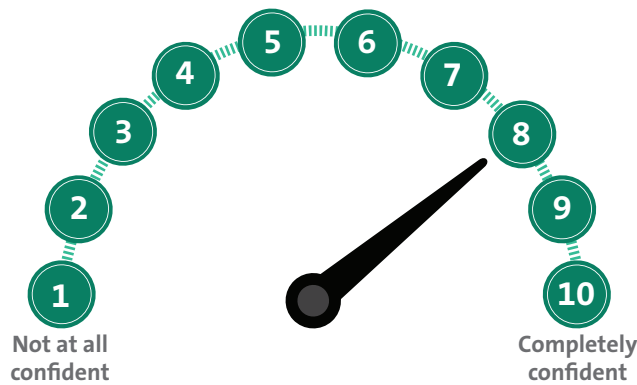


Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

Consumers' higher preference for banks, specifically mada cards, reflects their growing confidence in domestic payment methods. Respondents also

highly rated (average: 8.25) the ability of companies to meet the changing payment needs of Saudi consumers in the years to come. (Figure 2.48)

**Figure 2.48: Consumer survey shows confidence in homegrown institutions**

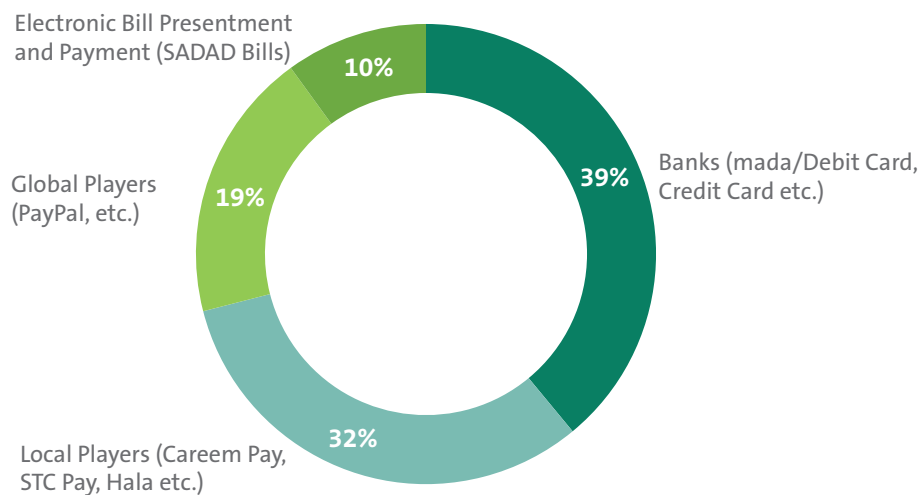


Source: Saudi Payments Consumer Survey, April 2020, N= 1,024

Saudi Payments’ merchant survey results also suggest that banks (mada Card, mada Pay, Credit Card, etc.) are the most popular payment providers. With trust being the most important factor for merchants selecting a payment provider, survey

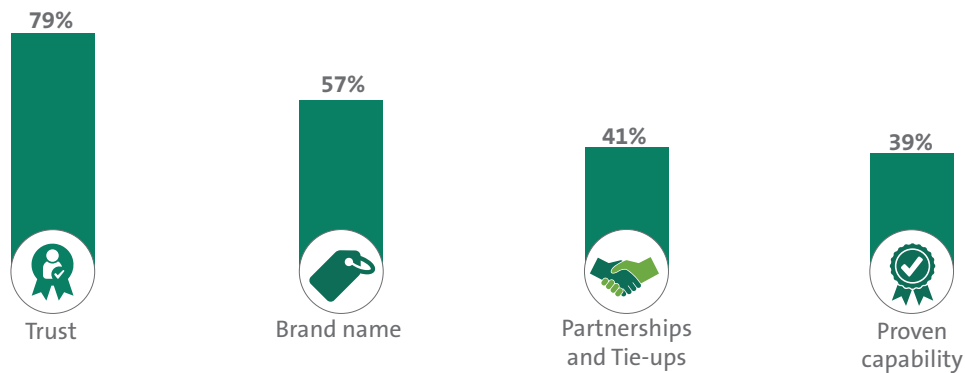
results concerning payment providers preferred by merchants indicate they have considerable confidence in local firms to satisfy their present and growing future requirements. (Figures 2.49, 2.50)

**Figure 2.49: Merchant survey on the most preferred category of payments providers**



Source: Saudi Payments Merchant Survey, May 2020, N= 102

**Figure 2.50: Merchant survey shows the drivers for selecting payment providers**



Source: Saudi Payments Merchant Survey, May 2020, N= 102

## The way forward...

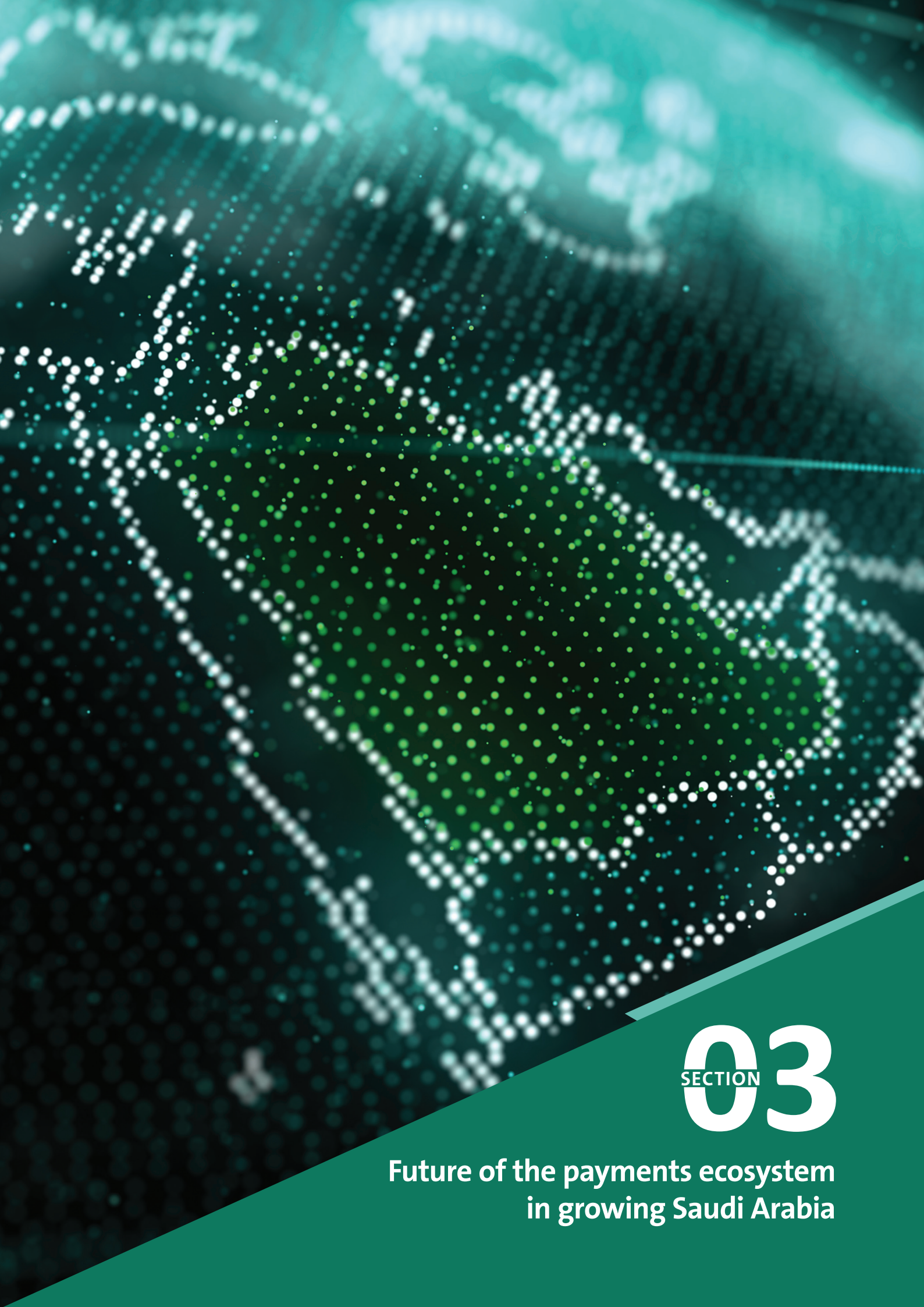
In the final section of our three-part thought leadership study, we explore how regulators and market participants are working together to drive advancements in KSA payment market and technological innovation. We also look at how SAMA and Saudi Payments is guiding the ecosystem to build a shared payments future that aligns with the Kingdom's Vision 2030.



البنك المركزي السعودي  
SAMA  
Saudi Central Bank



المدفوعات السعودية  
SAUDI PAYMENTS



SECTION **03**

Future of the payments ecosystem  
in growing Saudi Arabia



## Highlights

### Key findings

Collaborative vision is the key to success for a sustainable ecosystem in the Kingdom

SAMA—Regulatory initiatives advance Saudi digital payments

Saudi Payments' progressive vision encapsulates a multi-dimensional strategy to drive the Kingdom's journey to be less reliant on cash

Guided by Saudi Payments, participants are collaborating to catalyze innovations

Stakeholders' efforts towards leveraging emerging technologies fuel new KSA payment solutions

Future economy that is less reliant on cash will render immense benefits by creating a positive socio-economic impact

## Key findings

- **SAMA and Saudi Payments are working towards building a conducive ecosystem for industry participants working in the payments space.**
  - SAMA, as a regulator of the payments sector, is bringing initiatives/changes aimed at increasing adoption of digital payments, promoting financial inclusion, and offering level playing field to new entrants. Some of these initiatives include promoting FinTechs through sandbox and incentives for the adoption of digital payments, and implementation of frameworks, such as FEER, to boost consumer confidence in digital systems.
  - As an enabler, Saudi Payments offers robust back-end infrastructure to payment companies, enhances ecosystem by introducing innovative technologies (QR code-based platform and IPS), and encourages overall digital payment adoption through multiple measures such as promoting consumer awareness and supporting FinTechs.
- **Under the favorable regulatory environment and conducive payments ecosystem developed by SAMA and Saudi Payments respectively, industry participants are driving the Kingdom's journey to be less reliant on cash, through the launch of innovative technology-enabled solutions and the adoption of global best practices with local use cases.**
  - To incorporate advanced technologies within their offerings, more and more banks are partnering with FinTechs or establishing internal advanced technology departments.
  - FinTechs are achieving unprecedented growth, with support from initiatives such as Fintech Saudi and SAMA's regulatory sandbox. These new-age players are creating innovative solutions in multiple areas such as mobile payments, P2P transfer, micro-lending, and crowdfunding.
    - › Their growth is augmented further by increasing investor interest. VC funding by value and volume grew at a CAGR of 76% and 45%, respectively, during 2015–2019. In fact, 2019 was a landmark year for Saudi startups, with a record 41 investors investing in local firms.
  - A growing number of digital payment options, supporting technology, favorable demographics, and changing consumer behavior are pushing digital adoption. COVID-19 has further accelerated the pace with greater traction. In Q1 2020, online payments increased by about 400% YoY and is expected to grow further in the coming months.
  - With mounting customer demand, merchants are also moving to digital payment methods. Saudi Payments' initiatives, such as unified QR code and instant payment systems, will further boost digital payments at merchants' PoS.

- **With active support from regulators, changing consumer needs, a robust FinTech ecosystem, and banks' growing technological inclination, the Kingdom's payment sector is embracing innovative technologies.**
  - In June 2020, SAMA installed blockchain technology for money transfer to local banks. Currently, innovations mainly involve blockchain or distributed ledger technology, but the future payment space will also be shaped by IoT, open APIs, artificial intelligence (AI), and other emerging technologies.
- **The adoption of digital payments is also helping the overall social-economic development of the Kingdom. The surge in digital payments helps to curtail corruption and the shadow economy, increase financial inclusion, generate more employment opportunities, and push GDP growth.**
  - Countries with higher adoption of non-cash transactions demonstrate less corruption. Growing digital payments ensure better traceability and help to reduce fraud.
  - FinTech growth also helps to generate new employment and lowers the cost of financial services to the unbanked/ rural population and SMEs.
  - Digital payments offer a more extensive customer base and business opportunities to SMEs, which supports their business and overall GDP growth.

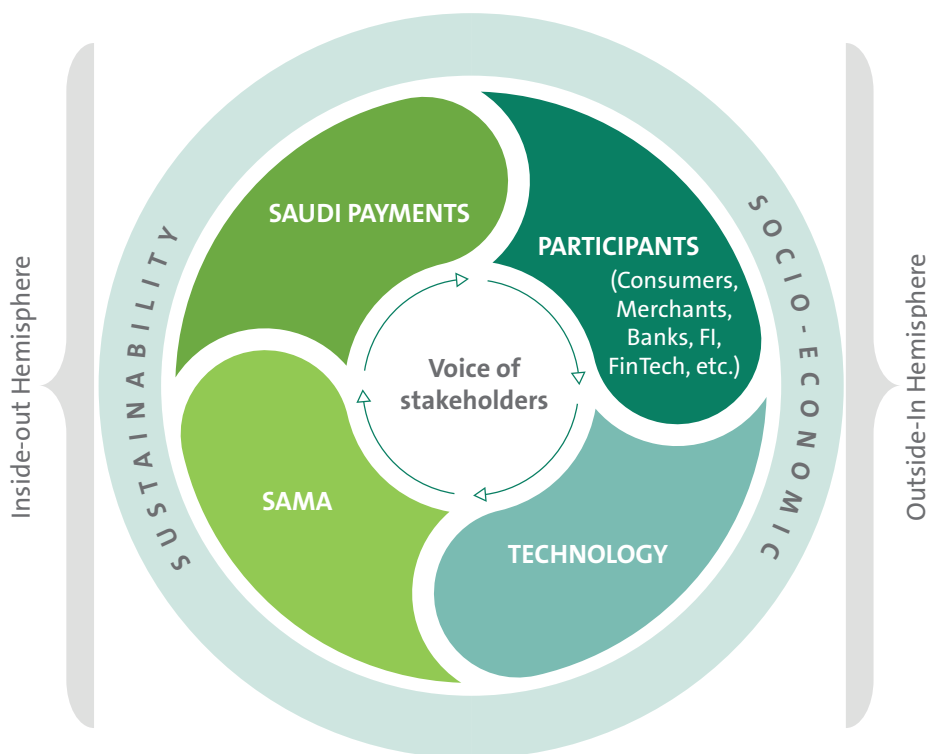


## Collaborative vision is the key to success for a sustainable ecosystem in the Kingdom

Saudi Arabia's Vision 2030 provides an ambitious economic development roadmap that seeks to diversify the Kingdom's economy beyond the oil sector. A national change-management program driven by the rapid adoption of digital initiatives aims to navigate the country's economic model to innovation and future technologies. Market stakeholders—including regulators, merchants, FinTechs, service providers, and banks—support the country's goals by encouraging the adoption of digital payment methods and promoting overall sustainable socio-economic development.

A collaborative vision shared by industry stakeholders will help to drive a sustainable ecosystem for the future. SAMA and Saudi Payments are nurturing innovation to create a sustainable operating model with an "inside-out" perspective attained by sharing best practices, global benchmarking exercises, and domestic industry analysis. Market participants and technological developments form part of the "outside-in" hemisphere from a demand-side perspective, with requirements met by the supply-side, both in terms of policymaking and operating environment. (Figure 3.1)

**Figure 3.1: Wheel of the future for payments in Saudi Arabia**



Source: Saudi Payments analysis



**Saudi Payments strives to expand and upgrade the payment infrastructure in sync with local use cases, and the latest best-in-class technologies globally. Considering 50% of the Kingdom's population is under 30 and has high smartphone penetration, it pushed NFC payments and launched mada Pay; both initiatives propelled the mobile payments market and brought unprecedented growth in the Kingdom's cashless transactions."**

**- Abdulaziz Alafaleg,**  
Vice President, Operations and Shared Services, Saudi Payments

## SAMA—Regulatory initiatives advance Saudi digital payments

SAMA has taken multiple steps to boost the growth of digital payments in recent years. Its initiatives, projects, and investments aim to improve financial inclusion, enhance payment experience, increase security, and stimulate overall socio-economic growth in Saudi Arabia. The illustration below showcases a few significant SAMA initiatives that bolster digital transactions. (Figure 3.2)

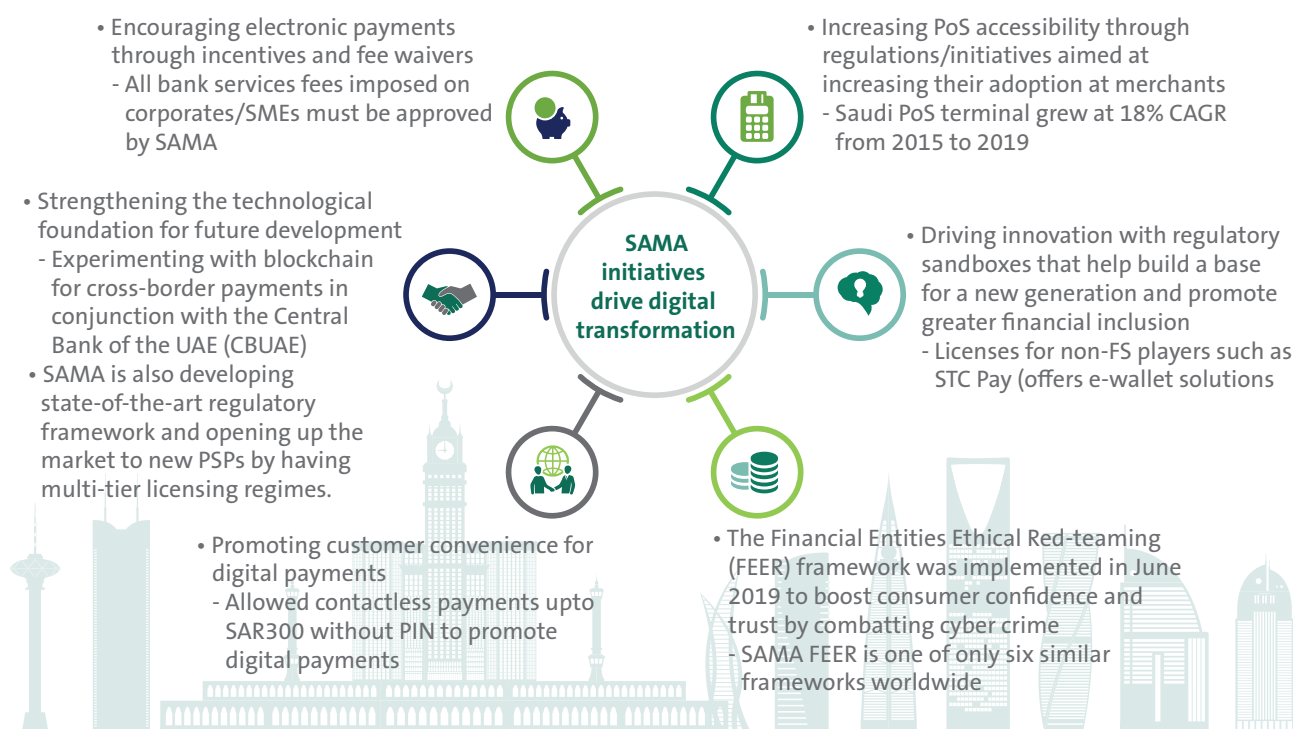


**In order to fulfill our aspiration of having frictionless digital payments in the Kingdom, SAMA has been driving forward on multiple initiatives designed to deliver a level playing field for new entrants, ensure customer data protection, and mitigate risk. The National FinTech Strategy is a material step forward in this direction.”**

**- Mohammed Almutlaq,**

Director of Financial Sector Development Department, SAMA

**Figure 3.2: SAMA Initiatives towards building a society less dependent on cash**



Source: Saudi Payments analysis; Saudi 24 News<sup>68</sup>

SAMA is also developing a best-in-class ecosystem blueprint to transform the Kingdom into a global payments' leader in the FinTech space. Plans are in motion to expand the FinTech Regulatory Sandbox to enable more startups to participate. In addition to conducive regulations and a supportive

infrastructure, the Authority encourages talent and skills training.

Boosting digital payments and data security are SAMA's priorities aiming to bolster international investment and confidence in local businesses.

68 Saudi 24 News, "Saudi Arabia ... mandatory online payment fees with Sama approval", March 14, 2020, <https://www.saudi24news.com/2020/03/saudi-arabia-mandatory-online-payment-fees-with-sama-approval-3.html>



SAMA continues to work as a catalyst in delivering innovative change in the Payments Ecosystem. These changes facilitate non-bank participation in the payments value-chain and access to financial market infrastructure (FMI), promoting growth, fair competition, enhanced customer service and greater reach, fostering additional financial inclusion and even greater efficiency in the broad Payments ecosystem.

We continue to create offerings and respond to the evolving needs of the payments sector, to shape and influence the future industry landscape. This includes a risk managed approach to accommodating non-traditional participants and service providers through novel routes to market – such the “Regulatory Sandbox” – as well as a strategic program of legislative and regulatory change.

Our regulatory focus is on seamless integration and interoperability of systems as well as standardization of initiatives to create a conducive market environment.

SAMA’s introduction of Strategies and various initiatives has achieved success in encouraging e-payment solutions. In the coming years, we will diversify, enhance and grow existing services in addition to bring new solutions.”

- Aiman Al-Rabiah,  
Manager of Payments Systems Business Department, SAMA



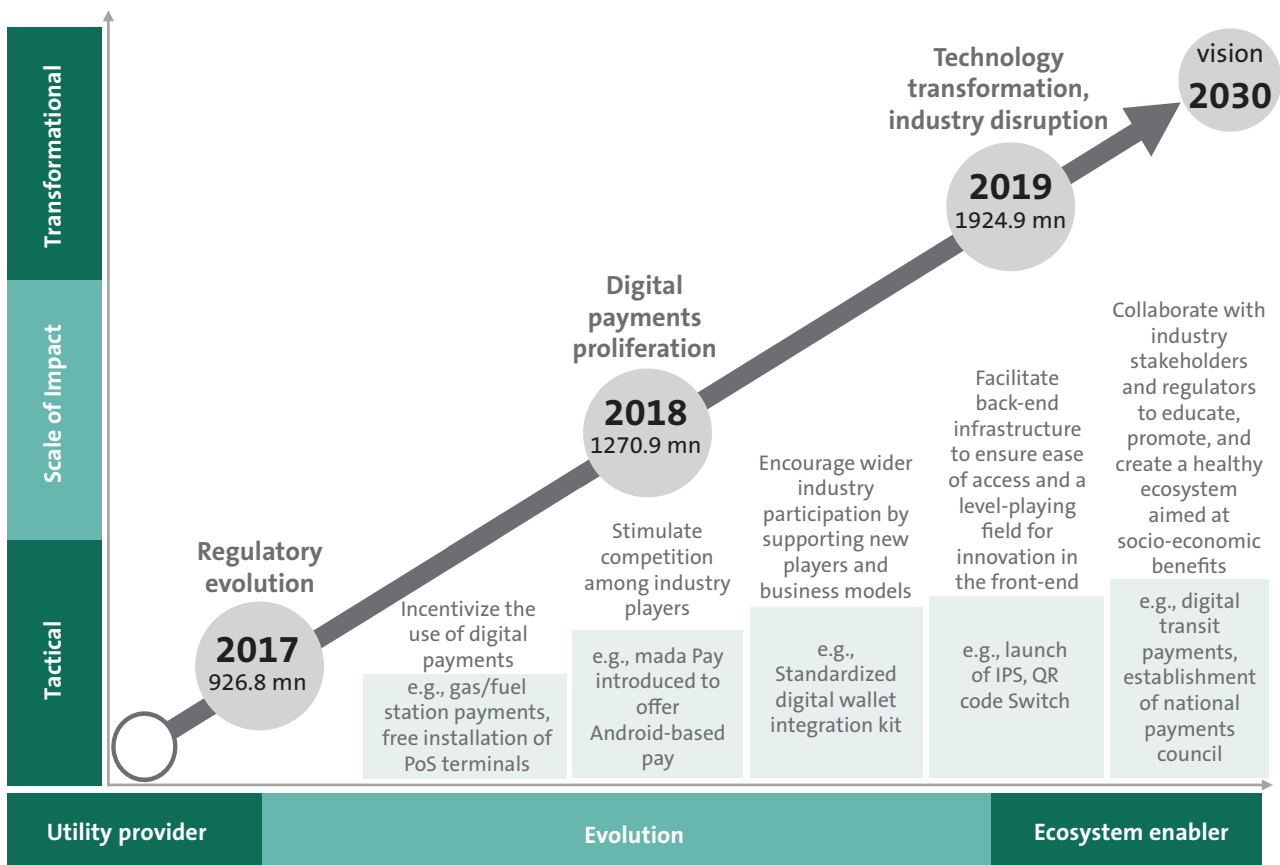
There are three key pillars to Saudi Payments’ long-term strategy for developing a best-in class payment ecosystem. First, positioning itself as a back-end infrastructure provider supporting front-end players. Second, strengthening infrastructure offerings, which includes enhancing the existing portfolio and introducing new offerings such as IPS and a QR code-based platform. And third, creating a conducive payments ecosystem through multiple initiatives such as promoting FinTechs, enabling market participants, and creating awareness among customers.”

- Mohsen Alzahrani,  
Vice President, Strategy and Excellence, Saudi Payments

## Saudi Payments’ progressive vision encapsulates a multi-dimensional strategy to drive the Kingdom’s journey to be less reliant on cash

Since its inception, Saudi Payments has worked in conjunction with multiple industry stakeholders to develop a cohesive national payment system equipped with a reliable infrastructure to benefit the whole economy. (Figure 3.3)

**Figure 3.3: Saudi Payments 2.0: Journey from a utility provider to an ecosystem enabler**



**Note:** Numbers in above chart represent total digital payments volume by year  
**Source:** Saudi Payments analysis

### Saudi Payments is laying the innovation groundwork that will drive the Kingdom’s placement among advanced economies

Saudi Payments is striving to implement forward-looking initiatives that will shape the Kingdom’s less-cash journey. A few of them are listed below:

#### Digitizing transportation

Saudi Payments is working with Riyadh metro rapid transit system to install up to 1,200 contactless

terminals by 2023 that accept open-loop NFC-based payments.<sup>69</sup>

#### Strengthening PoS infrastructure

In March 2020, Saudi Payments became a principal member of nexo standards, the international association dedicated to enabling global interoperability in payment acceptance. Membership enables Saudi Payments to develop an advanced Terminal Management System (TMS) using the nexo TMSProtocol. Implementation of

<sup>69</sup> Visa study, “How contactless is reinventing the way people pay”, December 31, 2019, <https://usa.visa.com/dam/VCOM/global/partner-with-us/documents/vca-contactless-opinion-paper-global.pdf>

nexo specifications and protocol will help reduce development time and administration required to install a new PoS device.<sup>70</sup>

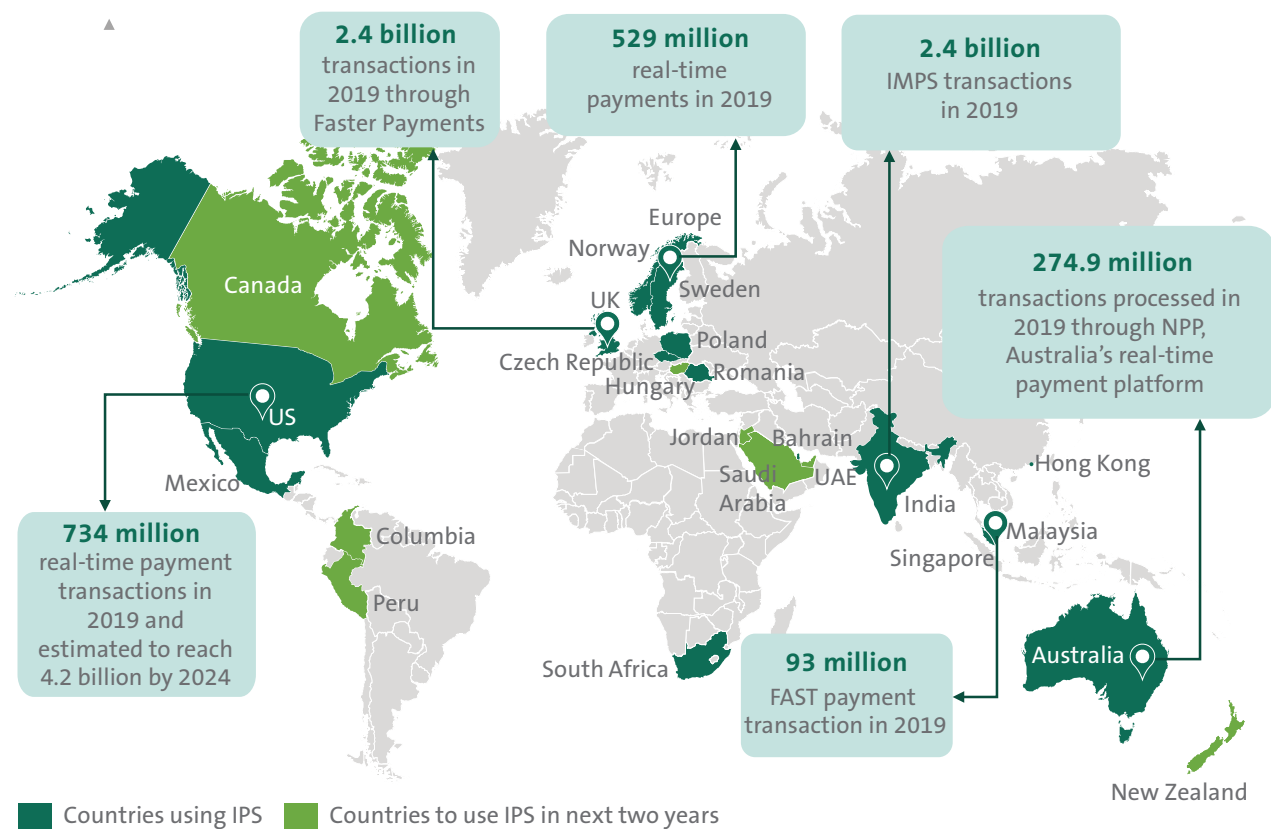
### Implementing Instant Payment System (IPS)

Currently, a faster payments platform is under development to support real-time credit transfers, payment acknowledgment, remittances, and bulk payments. Pilot banks plan to launch the IPS in Q4, 2020, while other banks will follow in early 2021.<sup>71</sup>

This IPS platform will be built on ISO 20022 messaging standards, which is currently emerging as the global defacto standards for transmitting payments messages.

Similar instant payment systems in other countries have reduced cash transfers, encouraged FinTech innovations, and helped introduce overlay services in the UK, Singapore, Australia, and few countries in Europe. (Figure 3.4).

**Figure 3.4: Instant Payment System (IPS) landscape — 40+ National IPS Schemes Worldwide**



Source: Saudi Payments analysis; Secondary research<sup>72</sup>

70 nexo press release, “Saudi Payments Becomes Nexo Standards’ First Member From Saudi Arabia”, March 10, 2020, <https://www.nexo-standards.org/news/saudi-payments-becomes-nexo-standards%E2%80%99-first-member-saudi-arabia>

71 Finastra insights, “Instant payments in the Middle East”, April 24, 2020, <https://www.finastra.com/viewpoints/market-insights/instant-payments-middle-east>

72 Finastra insights, “Instant payments in the Middle East”, April 24, 2020, <https://www.finastra.com/viewpoints/market-insights/instant-payments-middle-east>; Payments Data, Reserve Bank of Australia, <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>; Digital Transactions, “U.S. Real-Time Payment Volume Could Top 4.2 Billion by 2024, ACI Report Finds”, May 29, 2020, <https://www.digitaltransactions.net/u-s-real-time-payment-volume-could-top-4-2-billion-by-2024-aci-report-finds/>; Bankgirot, “Payment statistics for May 2020”, <https://www.bankgirot.se/en/about-bankgirot/about-us/payment-statistics/>; Faster Payments, “Statistics”, April 2019, [http://www.fasterpayments.org.uk/statistics#:~:text=Faster%20Payments%20broke%20the%20record,232.4%20billion%20compared%20to%202018](http://www.fasterpayments.org.uk/statistics#:~:text=Faster%20Payments%20broke%20the%20record,232.4%20billion%20compared%20to%202018;); National Payments Corporation of India, “IMPS Volume”, <https://www.npci.org.in/imps-volumes>; Monetary Authority of Singapore, “H1 2019 Retail Payment Statistics for Selected Payment Systems in Singapore”, H1 2019, <https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Payment-and-Settlement-Systems/H1-2019>



## An augmented product portfolio

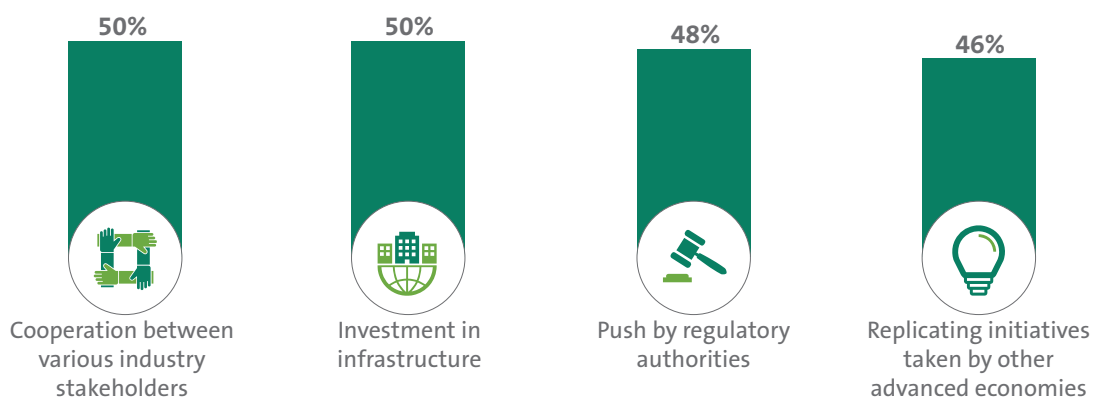
- *Esal*: In addition to implementing innovative solutions, Saudi Payments' strategy involves enhancing the existing product portfolio as well. Expanding Esal's services by adding factoring services as one of the financing options, which will support the growth of small and medium enterprises in the economic system and raise the percentage of lending by banks.
- *SADAD*: In a move to tap the market of non-local customers, SADAD is updating card system interfaces and services to facilitate SADAD bills payments directly at PoS terminals.
- *Mobile Payments*: On the mobile payments front, a wallet infrastructure is being provided with a standard integration kit for new players who want to launch digital wallet-based services.
- *Others*: What's more, multiple initiatives are in the pipeline—such as centralized platforms—that will further promote innovations and a digital payments ecosystem in the Kingdom.

**Centralized platform:** SAMA and Saudi Payments have an ambitious plan to promote a centralized and integrated open access platform to aid different sectors and provide better data access to FinTechs and businesses. Goals include improving customer experience, building new revenue streams for payment providers, and creating a sustainable service model for traditionally under-served markets.

The platform, which is still in early stages of research and review will provide an information exchange hub and will offer low-cost plug-and-play functionalities to industry participants around orchestration, overlay services, and transaction processing. By leveraging the platform, participants will be able to build innovative applications on top of democratized data and payment functionality, through Saudi Payments' strong back-end infrastructure. A centralized platform holds the potential to spur a collaborative model, drive a cashless transformation, digitization, and efficiency, while enabling players to deliver innovation to the marketplace.

Saudi Payments' initiatives are resonating with industry stakeholders' expectations. Investment in infrastructure and collaboration among different financial entities emerged as priorities in an industry stakeholder survey by Saudi Payments. (Figure 3.5). Stakeholders also suggested that taking cues from other advanced economies' best practices may help to promote digital payments adoption throughout the KSA.

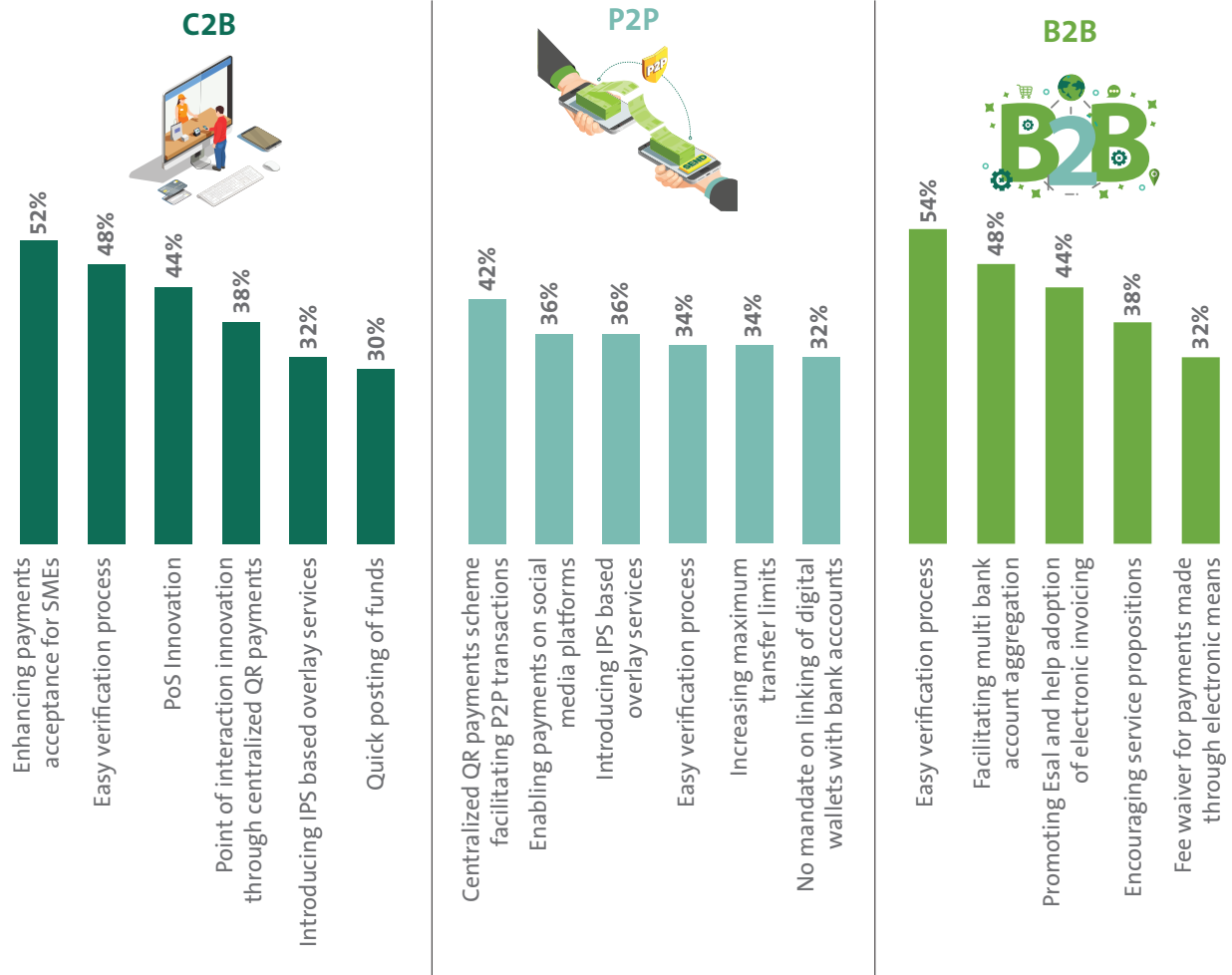
**Figure 3.5: Stakeholder opinion for developing digital payments ecosystem**



Examples for Initiative taken by other advanced economies include introduction of Open Banking system, Instant payments systems; few examples for Investment in infrastructure are investment in digital platform that facilitates low-cost API connections to new players, digitizing public transport and toll payments;

Source: Saudi Payments Stakeholder Survey, May 2020, N= 50

**Figure 3.6: Stakeholder survey shows measures that may help Saudi Payments to accelerate digital payments**



Example of Enhancing payments acceptance for SMEs is Virtual Cards; Examples of PoS Innovation are Mobile PoS, Smart PoS facilitating inventory/ working capital management; Introducing IPS based overlay services refers to services such as Request to Pay, real-time push payments; Enabling payments on social media platforms means payments through social media apps such as WhatsApp and Facebook; Encouraging service propositions such as Virtual Account Management for account payables; Example of Fee waiver for payments made through digital means is waiving fees on credit card payments etc.;

Source: Saudi Payments Stakeholder Survey, May 2020, N= 50



**Our main goal is to build a robust infrastructure and provide the required interoperability to ensure all players have a level playing field as the Kingdom moves towards a society less reliant on cash. We will be one of the first to come up with interoperability solution and releasing it very soon for e-wallet providers.”**

- Nora AlBakr,  
Assistant Vice President, Business Development, Saudi Payments

## Guided by Saudi Payments, participants are collaborating to catalyze innovations

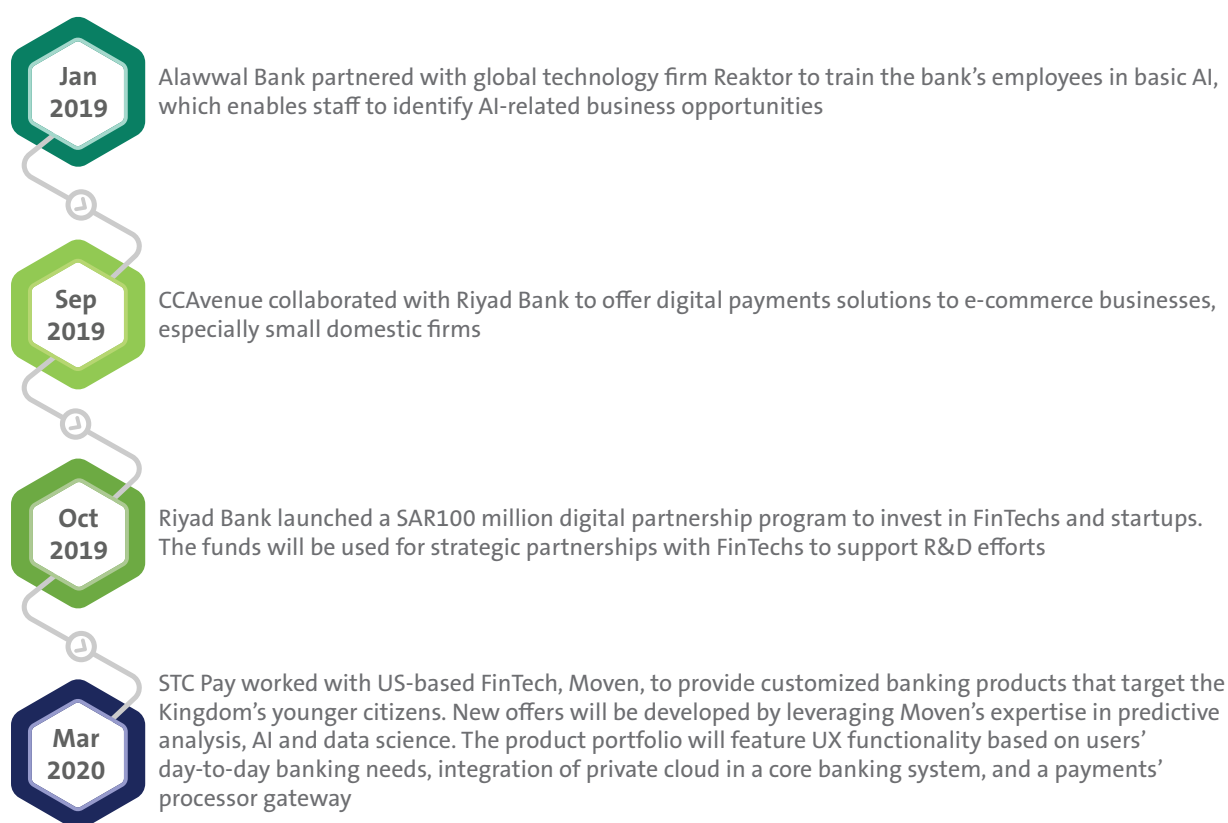
### Banks are adopting new technologies and security solutions to meet changing consumer needs

Digital banking solutions and tech-enabled offerings will be the core of future bank strategies. Banks are partnering with FinTechs, investing in secured payment platforms, and innovating payment solutions to meet changing consumer demand.

### Increasing collaboration between incumbents and FinTechs

To launch innovative products faster, incumbents could work with FinTechs to realize collaborative synergies. Several leading Saudi banks are investing in FinTech development to leverage disruptive technologies and optimize payment services. Some banks have established in-house FinTech departments, while others collaborate directly with local or international FinTech players. (Figure 3.7)

**Figure 3.7: Recent developments exemplify the collaboration trend**



Source: Saudi Payments analysis; Secondary research<sup>73</sup>

<sup>73</sup> Alawal Bank press release, "Alawal bank becomes first Middle East firm to offer AI training for all staff", 2019, <https://www.alawalbank.com/en/pop-up/aibranch/#:~:text=Saudi%20Arabia's%20Alinma%20Bank%20has%20launched%20a%20network%20of%20digital,bin%20A%20dulaziz%20Street%20in%20Riyadh>; Economic Times news article, "CCAvenue collaborates with Riyadh Bank to make inroads into Saudi Arabia's digital payment space", September 20, 2019, <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/ccavenue-collaborates-with-riyad-bank-to-make-inroads-into-saudi-arabias-digital-payment-space/articleshow/71213181.cms#:~:text=AHMEDABAD%3A%20In%20a%20move%20aimed,eCommerce%20businesses%20in%20the%20country>; IBS intelligence news article, "Riyad Bank launches \$27mn fund for FinTech startups", October 2019, <https://ibsintelligence.com/ibs-journal/ibs-news/riyad-bank-launches-27mn-fund-for-FinTech-startups/#:~:text=Riyad%20Bank%20has%20launched%20a,invest%20in%20financial%20technology%20startups.&text=He%20added%20that%20the%20bank,process%20of%20launching%20new%20products>; American Banker news article, "Moven teams up with Saudi firm in cross-border FinTech experiment", March 13, 2020, <https://www.americanbanker.com/news/moven-teams-up-with-saudi-firm-in-cross-border-FinTech-experiment>

Similarly, the security space is advancing, with leading banks investing in new technology to help ensure the privacy and safety of client assets and data through encryption and biometric features.

### Banks undertake proactive initiatives to boost digital payments volumes

Banks across the globe are developing intuitive,

consumer-centric payment solutions that allow straightforward, hassle-free transactions. Moreover, they are making technology investments and updating operational practices to meet market changes. A look at best practices adopted by banks globally can help us understand the potential developments in the Kingdom's banking system. (Figure 3.8)

**Figure 3.8: Selected bank initiatives to enhance non-cash payments**



Source: Saudi Payments analysis; Secondary research<sup>74</sup>

### FinTechs—Growth engines for payment sector innovations

Backed by a robust technological ecosystem and an extensive market base, the Saudi FinTech market offers immense potential for innovative digital

payment solutions. The Kingdom hosts more than 40 business incubator and accelerator programs, half of which have some form of government affiliation (2018).<sup>75</sup> SAMA also plans to license more FinTech companies in the coming months.

<sup>74</sup> Finextra, "ING tests software that turns mobile phones into POS terminals", July 23, 2019, <https://www.finextra.com/newsarticle/34151/ing-tests-software-that-turns-mobile-phones-into-pos-terminals>; Startup Bahrain, "Everything you need to know about NBB's Open Banking Solution", December 26, 2019, <https://startupbahrain.com/features/everything-you-need-to-know-about-nbbs-open-banking-solution>; Media Buzz, "First Visa token service launched in Asia Pacific to enhance mobile and digital payments", December 2015, <https://www.mediabuzz.com.sg/archive/2015/december/2835-first-visa-token-service-launched-in-asia-pacific-to-enhance-mobile-and-digital-payments>

<sup>75</sup> Arabian Gazette, "Saudi Arabia's Tech Startup Scene: Nascent but Rapidly Evolving", December 9, 2018, <https://arabiangazette.com/saudi-arabias-tech-startup-scene-nascent-but-rapidly-evolving/>



Over the next few years, we see great opportunity to expand the FinTech Regulatory Sandbox in Saudi Arabia, which will help the Kingdom emerge as the next FinTech destination. We have been working on FinTech strategy and are confident we will see a great positive socio-economic impact in the coming years.”

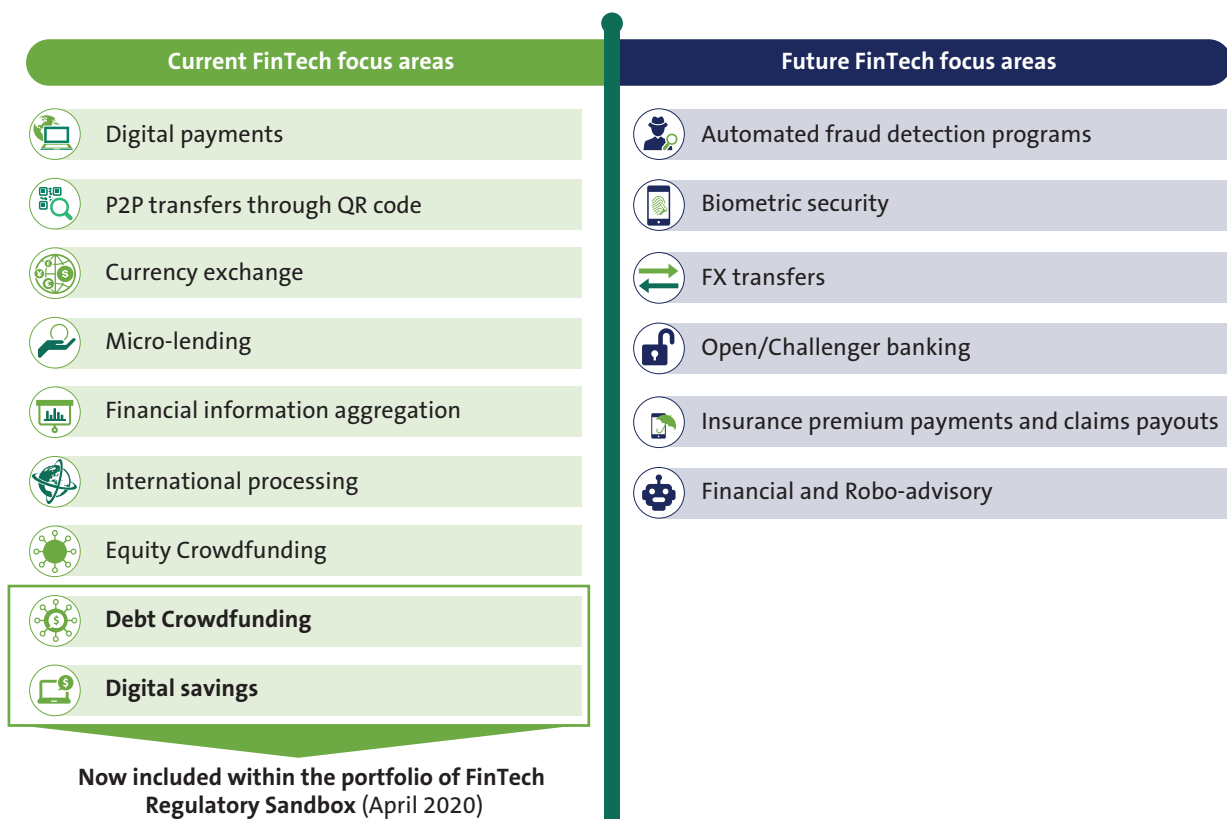
- Hisham Almalik,  
Regulatory Sandbox Manager, SAMA

With support from regulatory bodies, we expect more than 100 FinTech firms to be operating in Saudi Arabia within the next few years and 500 by 2030. FinTechs will also get a push from incumbent financial institutions and investors looking to partner or invest to tap growing opportunities.

### FinTechs branching into different innovative areas

We foresee FinTechs expanding their offerings/ solutions in multiple areas by taking clues from best practices and innovative solutions launched across the globe. (Figure 3.9)

Figure 3.9: FinTech Focus Areas: Current and Future



Source: SAMA press release; FinTech Futures<sup>76</sup>

76 SAMA press release, “SAMA Permits 9 New FinTech Companies To Operate In The Regulatory Sandbox Specialized In Providing Saving Solutions For Individuals And Crowdfunding For SMEs”, April 18, 2020; <http://www.sama.gov.sa/en-US/News/Pages/news-550.aspx>; FinTech Futures, “Saudi Arabia’s FinTech sandbox welcomes nine more start-ups”, April 23, 2020; <https://www.FinTechfutures.com/2020/04/saudi-arabias-FinTech-sandbox-welcomes-nine-more-start-ups/>

## FinTechs strengthen their payment ecosystem position to drive the Kingdom's digital payments

FinTech companies are gradually assuming a significant position in the country's payment ecosystem. For example, one of the largest Saudi FinTech firms, Geidea began beta testing new digital payment processing products, a website builder, e-invoicing, and a payment gateway. The products aim to offer affordable and robust payment processing solutions to all types of SMEs.<sup>77</sup>

FinTechs are also leveraging technology to enhance the consumer payment experience and increase adoption. Mobile wallets and payment gateways are providing value-added services, e.g., STC Pay offers an instant chat option for customer questions. Similarly, HyperPay can be integrated quickly with shopping cart platforms through its readymade e-commerce plugins.

## Access to capital boosts FinTech growth trajectory

FinTech startups benefit from the steady growth of venture capital (VC) and private equity (PE) investments in the Kingdom. These resources offer FinTechs additional capital and support their plans to expand and grow in Saudi Arabia as well as outside the country.

Moreover, FinTech firms can leverage innovative sources of capital, such as Forus, a SAMA-approved debt crowd-lending platform. Shariah-compliant Forus brings investors together with SMEs that seek financing.

Operational support from SAMA Regulatory Sandbox is also fueling FinTech proliferation. Many firms tested under the Sandbox purview are on track to earn a full operational license in 2020.

## Investors find the Saudi FinTech space attractive

Saudi Arabia is one of the largest and most successful economies in the MENA region. Strong economic growth, favorable regulations, and the rapid expansion of local startups make Saudi Arabia attractive to VC and PE investors. The compound annual growth rates for the value and volume of VC funding in the Kingdom increased by 76% and 45%, respectively, from 2015–2019.<sup>78</sup> An STV report forecasts that annual investments in Saudi Arabia will reach SAR1.9 billion (USD500 million) by 2025, up from SAR251.3 million in 2019.<sup>79</sup> A record number of investments were made in 2019, with 41 institutions investing in domestic businesses, up 58% over 2018. Of these investors, 68% were Saudi based, and 32% were from outside the KSA, mostly from the UAE.<sup>80</sup> (Figure 3.10)



**Payments through digital means, help curb illegal activities such as corruption and money laundering. Making PoS devices available at all merchants is an applaudable step by the government and will help the Kingdom reduce the grey economy.”**

**- Taha Sajid,**  
Chief Blockchain Consultant, Limar Global Tech












77 The FinTech Times news article, “Geidea Launches BETA Testing For New Payment Process Products In Saudi Arabia’s SME Market”, May 25, 2020, <https://theFinTechtimes.com/geidea-launches-beta-testing-for-new-payment-process-products-in-saudi-arabias-sme-market/>

78 MAGNITT press release, “2019 Saudi Arabia Venture Capital Snapshot”, January 2020, <https://magnitt.com/research/50683/2019-saudi-arabia-venture-capital-snapshot>

79 STV insights report, “How much can the venture capital industry grow in Saudi Arabia by 2025?”, October 2019, <https://investsaudi.sa/media/1751/stvplusinsightsplusreportplus2019.pdf>

80 FinTech Middle East, “Saudi Arabian Startup Funding Hit New Records”, February 6, 2020, <https://FinTechnews.ae/5321/saudi-arabia/saudi-arabian-startup-funding-hit-new-records/>

**Figure 3.10: FinTech Investment Landscape**

	 <b>TECHNOLOGY</b>	 <b>DIGITAL PAYMENTS</b>	 <b>CONSUMER FINANCING</b>
<b>No. of deals</b>			
<b>Investors</b>	RTF  500startups  برنامج بادر لاجابات التقنية Badir Program for Technology Incubators	saudi aramco energy ventures  N2V.com Microsoft ScaleUp 	

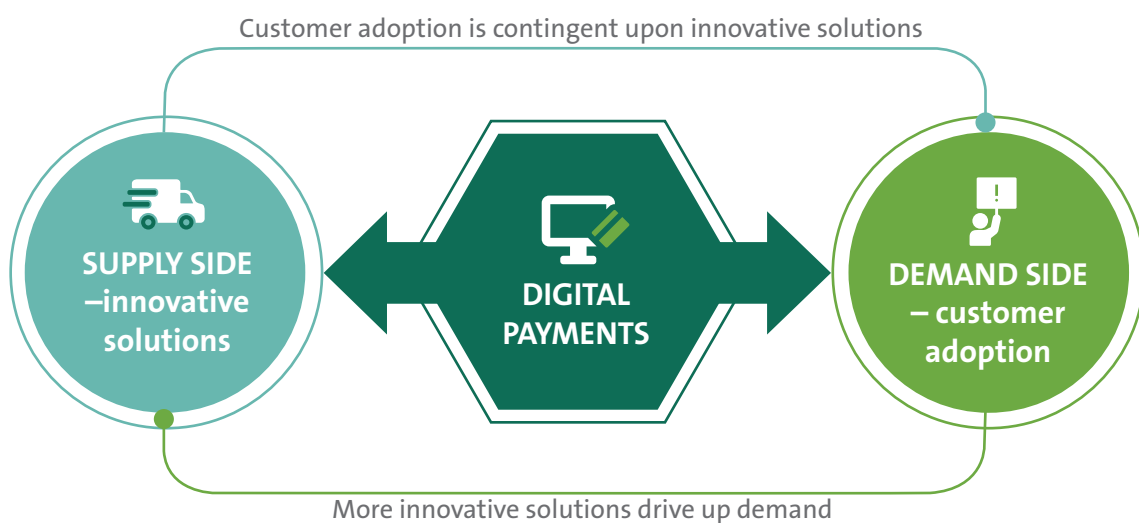
Source: The Pitchbook

“Our role is to help new entrants by ensuring that infrastructure requirements are met, and the ecosystem is supported so it can flourish and sustain.”

- Ziyad Aleisa,  
Vice President, Business, Saudi Payments

Digital payments success is equally driven by consumer demand and innovative solutions, as the uptake of one affects the other. (Figure 3.11)

**Figure 3.11: Balance of Supply and Demand: A critical success factor for digital payments**



Several factors encourage Saudi consumers to use digital payments, such as consistent internet connectivity, an extensive PoS network, multiple payment options, and enhanced security features. The COVID-19 crisis has further accelerated the adoption of digital payments. According to the Saudi Payments Consumer Survey, most consumers (67%) increased online purchases during the pandemic, which further pushed demand for digital

payments.<sup>81</sup> In Q1 2020, online payments increased by about 400% as compared with Q1 2019.<sup>82</sup>

We believe this adoption trend will continue with an increased focus on social distancing even when widespread lockdowns end. 71% of survey respondents who increased online purchases during the health crisis suggested they will continue to make more purchases online than they did before the novel coronavirus.<sup>83</sup>



**E-payments are more convenient for customers when compared to taking out a wallet and using a card to pay. Also, there are no issuance costs similar to credit or debit cards. Mobile payments are seamless and economical, and will drive the usage of digital payments among customers.”**

**- Ahmed Othman,**  
Vice President, Wholesale Banking,  
Bank Albilad



**Incentivizing transactions will be the right approach to target merchants, with paying Merchant Discount Rate (MDR) being the key hindrance in the adoption of cashless payment methods by them. Moreover, a strong push from customers and initiatives from controlling authorities, especially banks, will generate more demand from merchants.”**

**- A large Saudi Arabian bank**

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81 Saudi Payments Consumer survey, April 2020

82 Arab News, “Online payments in Saudi Arabia up 400%,” April 13, 2020; <https://www.arabnews.com/node/1658286/business-economy>

83 Saudi Payments Consumer survey, April 2020



Within today's changing scenario, it is essential for payment providers and authorities to evaluate

global practices that are positioned to drive Saudi consumers' digital behavior. (Figure 3.12)

**Figure 3.12: Best practices to accelerate digital payments adoption by customers**

### QR codes spur mobile payment acceptance

Replicating the growing use of QR-code-based payments, as in China, may potentially result in a substantial increase in mobile payments adoption among Saudi consumers. In China, QR codes scanned by payment apps such as WePay and Alipay are the primary means by which consumers make payments. The apps encourage expanded use by offering cash rebates, free bus rides, and opportunities to win prizes including gold. Chinese ride-hailing service Didi Chuxing also encourages the use of nationwide mobile payments. Saudi Payments is developing a nation-wide unified QR-code platform to provide local merchants with an inexpensive payment acceptance method.



### Incentives stimulate demand

Some countries, including Nigeria and Ghana, offer financial incentives to switch to digital payments platforms. The Central Bank of Nigeria imposes cash-handling charges for large cash withdrawals from banks, whereas, Ghana mandates interest payments on e-wallet balances. Both initiatives have resulted in sharp increases in electronic transactions, greater financial inclusion, and strong economic growth.



### Social media – the modern way to communicate and pay

Saudi Arabia offers growth opportunities for social media-based payments, with 68% of the population or 23 million citizens having social media accounts. The Kingdom reported much faster annual growth in numbers of social media users (32%) compared to 13%, globally (2019). Payment acceptance through social media platforms could trigger further adoption of digital payment technology among KSA customers. For example, the Irish Central Bank successfully promotes digital payments by allowing intra-EU money transfers via Facebook. China's WeChat pay is a success story showcasing the impact of social media based payments platforms.



### Mass transit drives digital payments

Mass transit systems are proving to be catalysts for adoption of new payment technology in several countries, particularly contactless cards used to access buses and trains. In Japan, customers use Suica, a prepaid e-money card, to pay for transport and shopping. Such cards enable users to purchase train and bus tickets and subway passes, and to make e-money payments for other goods and services. In London, residents use Oyster, a contact-less smart-card, to pay for journeys on buses, underground trains, the DLR, trams, the Thames Clippers river bus service, London Overground, and most National Rail services.



Source: Saudi Payments analysis; Secondary research<sup>84</sup>

<sup>84</sup> China Daily, "Alipay, WeChat Pay vie for customers", July 3, 2017, [https://www.chinadaily.com.cn/business/tech/2017-08/03/content\\_30337784.htm](https://www.chinadaily.com.cn/business/tech/2017-08/03/content_30337784.htm); Caixin Global Intelligence, "Didi Chuxing Picks Up a Payment License", December 20, 2017, <https://www.caixinglobal.com/2017-12-20/didi-chuxing-picks-up-a-payment-license-101187170.html>; American Express, "Cash-Reduction Initiatives Help Drive Electronic Payments Adoption", <https://www.americanexpress.com/us/foreign-exchange/articles/cash-reduction-initiatives-to-promote-electronic-payments/>; GMI Insights, "Saudi Arabia Social Media Statistics 2019", October 29, 2019, <https://www.globalmediainsight.com/blog/saudi-arabia-social-media-statistics/>; Medium press release, "Digital Payments: a growing trend with a focus on Customer Experience", November 28, 2018, <https://medium.com/iqiii/digital-payments-a-growing-trend-with-a-focus-on-customer-experience-d31fa69664bc>; Payments Source, "Data: Mass transit is the gatekeeper for digital payments", <https://www.paymentssource.com/slideshow/data-mass-transit-is-the-gatekeeper-for-digital-payments>

## Merchants report increased acceptance of digital payments, driven by supporting infrastructure, regulatory enablement, and customer demand

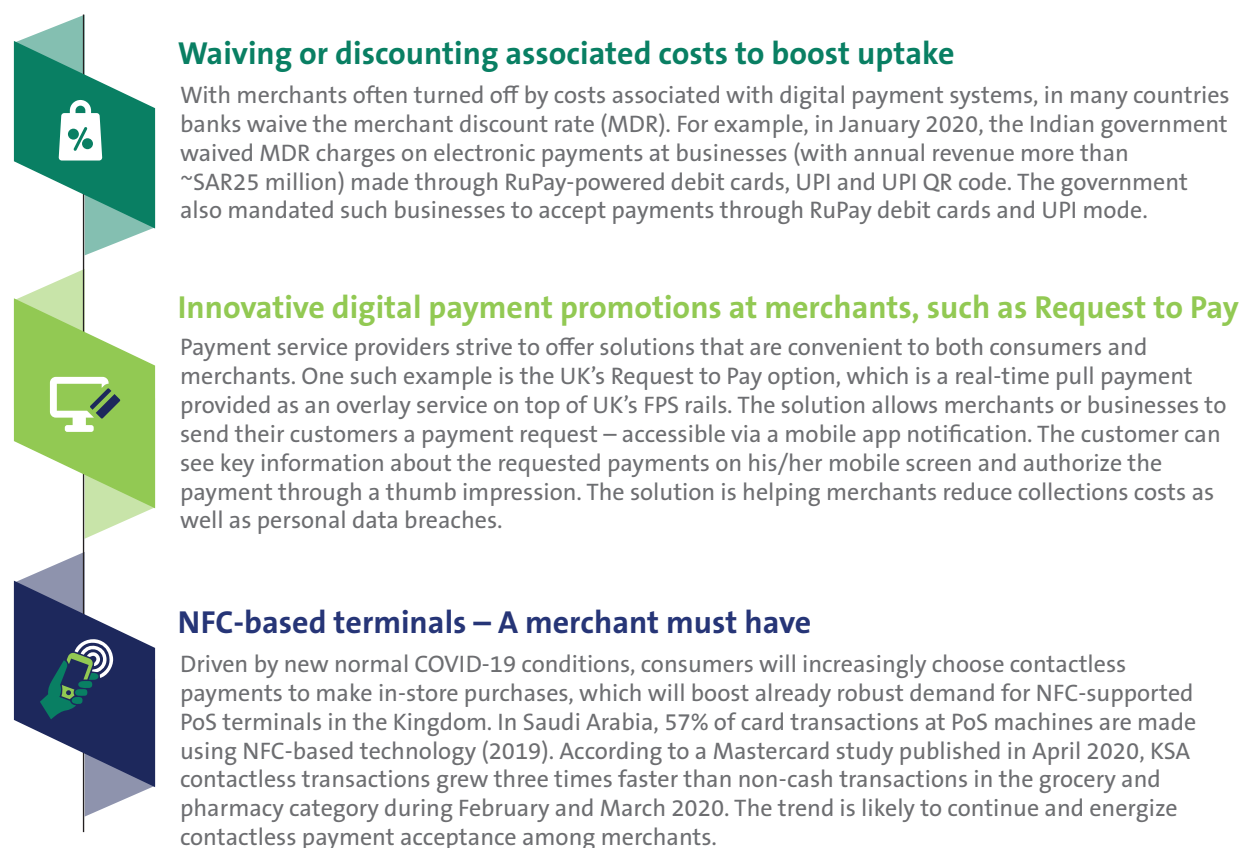
While customer demand for online payments plays a critical role, Saudi Payments' initiatives—including unified QR code-based payments and Instant Payment System (planned partial roll-out: 2020)—are also expected to accelerate digital payments adoption by merchants, especially small retailers.

As trust in the Kingdom's payments ecosystem grows, more merchants are signing up with local payment gateways. Saudi PoS terminal growth expanded by an 18% CAGR from 2015 to 2019,

while the number of transactions on these terminals grew by 42%.<sup>85</sup> The Saudi Payments' survey of industry stakeholders found that payments at retailers/merchants are expected to surge in the next 2-3 years, with 62% of respondents suggesting that mobile payments would grow the most among different payment methods used at physical stores. Half of the respondents suggested mobile payments would grow fastest for e-commerce.<sup>86</sup> Survey responses indicate merchants' high readiness to accept digital payments.

Given the sector's substantial growth prospects, it is advisable to look at different factors that can further drive the popularity of digital payment platforms. (Figure 3.13)

**Figure 3.13: Best practices to accelerate digital payments adoption by merchants**



Source: Saudi Payments analysis; Secondary research<sup>87</sup>

85 SAMA Monthly Bulletin, April 2020, [http://www.sama.gov.sa/en-US/EconomicReports/MonthlyStatistics/MonthlyBulletin\\_Apr2020.pdf](http://www.sama.gov.sa/en-US/EconomicReports/MonthlyStatistics/MonthlyBulletin_Apr2020.pdf)

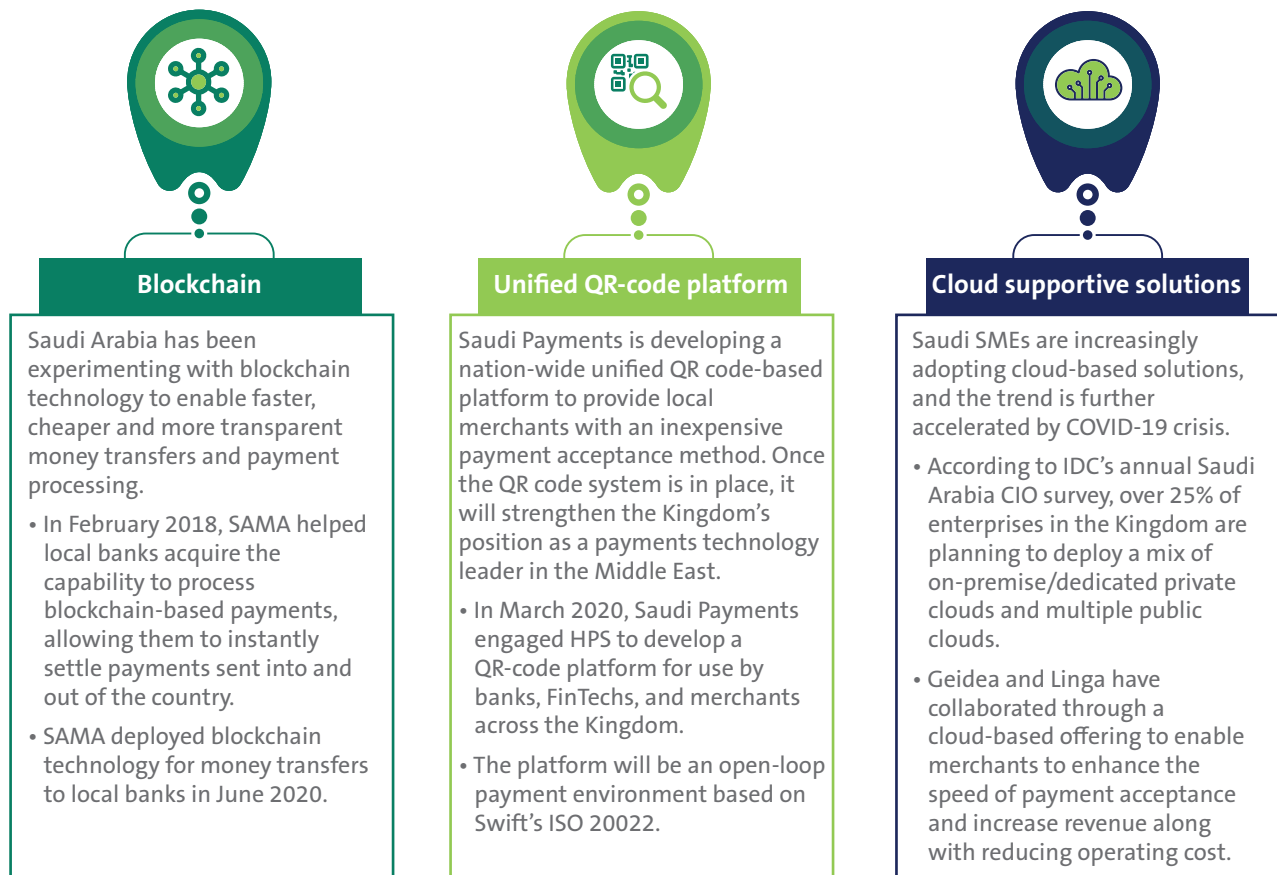
86 Saudi Payments Stakeholder survey, May 2020, N=50

87 Financial Express, "Budget 2019: Government's push for digital payments a testbed for banks", July 9, 2019, <https://www.financialexpress.com/industry/technology/budget-2019-governments-push-for-digital-payments-a-testbed-for-banks/1638235/>; ACI Universal Payments, "Consumer Payments: Will 'Request for Payment' Be the Next 'Big Thing'?" June 14, 2018, <https://www.aciworldwide.com/insights/expert-view/2018/june/will-request-to-pay-be-the-next-big-thing-in-payments>

## Stakeholders' efforts towards leveraging emerging technologies fuel new KSA payment solutions

The emergence of technologies such as blockchain, 5G, artificial intelligence (AI), biometrics, big data, and Cloud have disrupted the global payments market. Their impact on the Kingdom's payments landscape is also expected to be profound. With active support from regulators, changing customer needs, a robust FinTech ecosystem, and banks' growing technological inclination, the Kingdom's payment sector is embracing innovative technologies with open arms. (Figure 3.14)

**Figure 3.14: Adoption of disruptive technologies in Saudi Arabia**



Source: Saudi Payments analysis; Secondary research; ComputerWeekly.com, "How Saudi Arabia is using cloud to navigate the Covid-19 downturn", June 01, 2020, <https://www.computerweekly.com/news/252483969/How-Saudi-Arabia-is-using-cloud-to-navigate-the-Covid-19-downturn>



**Blockchain still has not reached use-case maturity. At present, it is more about common ledger and transparency; however, going forward, it will play a big role in international cross-border remittance."**

- A large Digital payments company

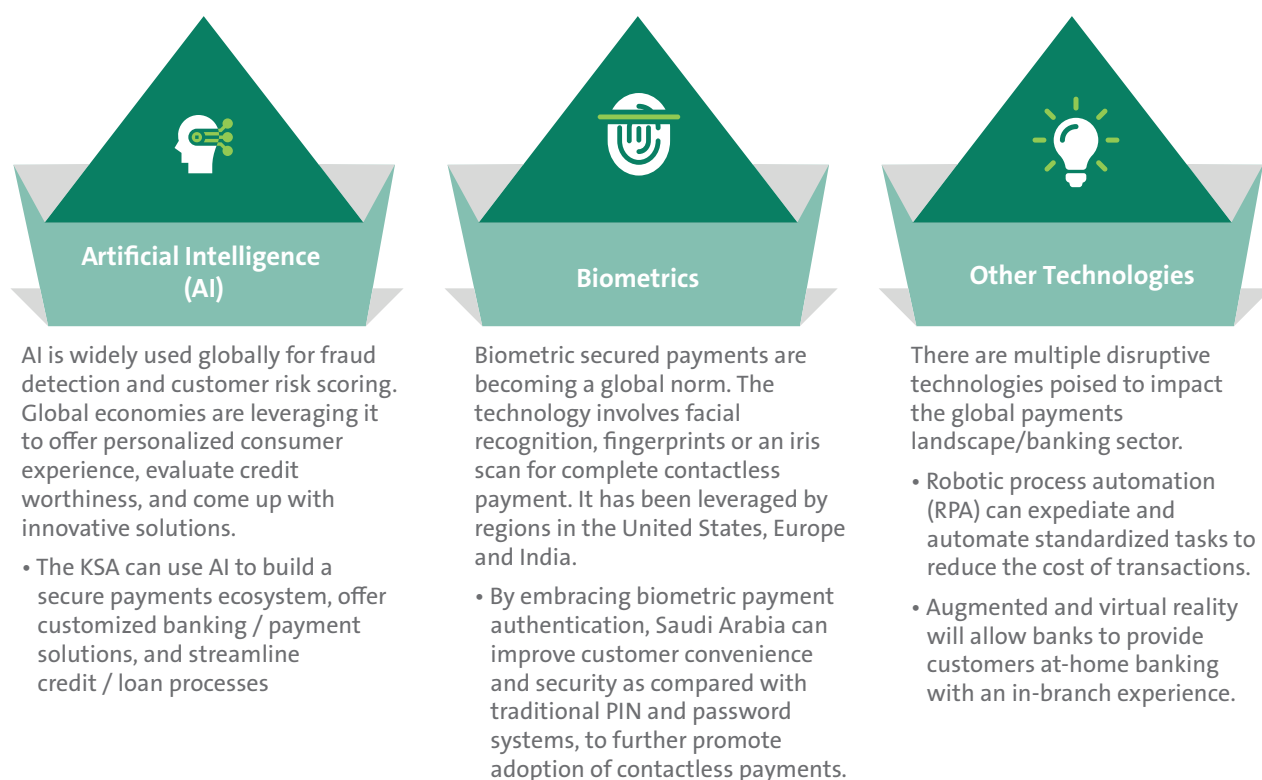
## Robust ICT infrastructure will encourage the adoption of enabling technologies

To incorporate disruptive technologies in the payment space, the Kingdom will need robust information and communications technology (ICT) infrastructure. The government has already started working in this direction. In October 2019, one of the leading telecom groups announced the completion of the first phase of 5G network deployment in Saudi Arabia, the largest in the

Middle East with coverage in 27 cities through 2,600 towers. The company has signed agreements with companies to deploy a 5G ecosystem. It is also launching digital services in IoT, healthcare, FinTech, and automation. Accelerated deployment of 5G networks will enable high-speed connectivity to millions of smartphones and AI-driven devices, which will accelerate payments innovation.<sup>88</sup>

Combining technologies with the right business models will be central to the Kingdom's fast-paced payments evolution. (Figure 3.15)

**Figure 3.15: Future benefits that can be derived from disruptive innovations**



Source: Saudi Payments analysis; Secondary research<sup>89</sup>

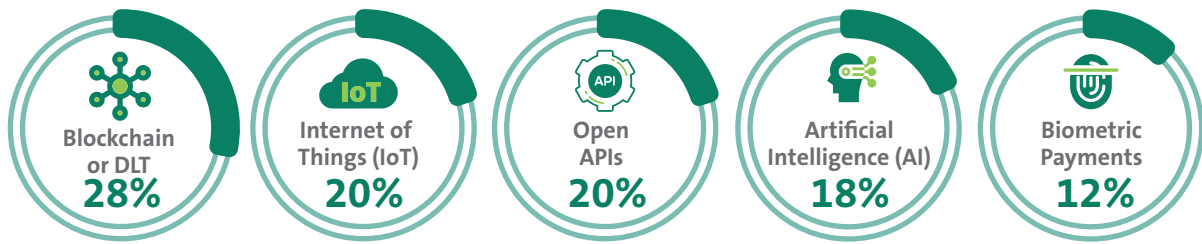
The Saudi Payments stakeholder survey offered further insights into expectations around the adoption of emerging technologies in the Kingdom's payment space over the next 2-3 years. 28% of the

respondents said blockchain/DLT would gain the highest traction soon. IoT, open APIs, and AI also emerged as prominent technologies. (Figure 3.16)

<sup>88</sup> Telecomlead news article, "Zain to expand FTTH and 5G network coverage in Saudi Arabia", February 5, 2020, <https://www.telecomlead.com/telecom-services/zain-to-expand-ftth-and-5g-network-coverage-in-saudi-arabia-93937>

<sup>89</sup> Payments Source, "5 ways biometrics are going mainstream for payments", <https://www.paymentsource.com/list/5-ways-biometrics-are-going-mainstream-for-payments>; The Financial Brand "10 Technologies That Will Disrupt Financial Services In The Next 5 Years" <https://thefinancialbrand.com/77228/technology-trends-disrupting-financial-services-banking-future/>

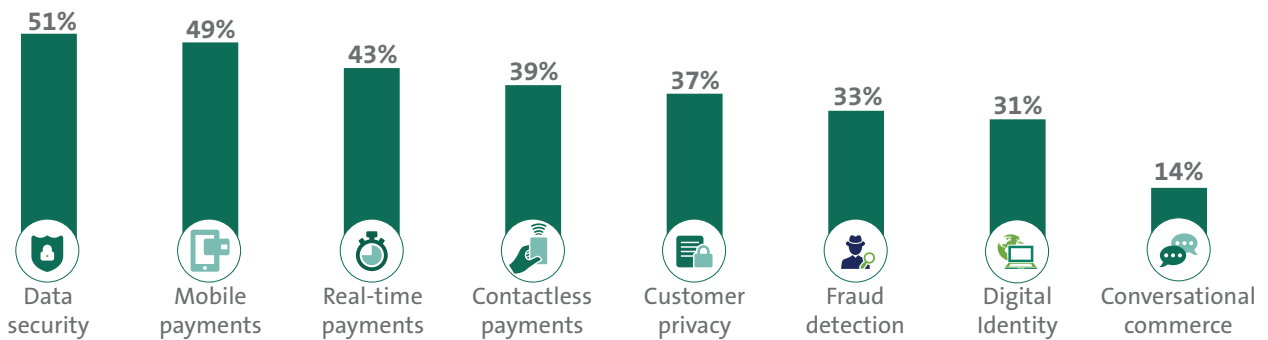
**Figure 3.16: Stakeholder survey shows industry perception on technology adoption in Saudi Arabia**



Source: Saudi Payments Stakeholder Survey, May 2020, N= 50

Data security, mobile payments, real-time transfer, and contactless payments emerged as the most prominent use cases for emerging technologies. (Figure 3.17)

**Figure 3.17: Stakeholder survey shows application areas affected by the use of disruptive technologies**



Source: Saudi Payments Stakeholder Survey, May 2020, N= 50



Cash is a burden on the economy, and hence we believe society which is less reliant on cash will bring more benefits to the economy such as - higher transparency in system, decrease in shadow economy, rise in financial inclusion and more employment. Saudi Payments is committed to improving national payments infrastructure as a strong back-end service provider.

Our strategy is to establish secure, world-class, and highly accessible infrastructure to enable a robust payments ecosystem, facilitate Innovation and drive growth of the ecosystem through facilitating interoperability, encouraging competition, increasing transparency and mitigating risk.”

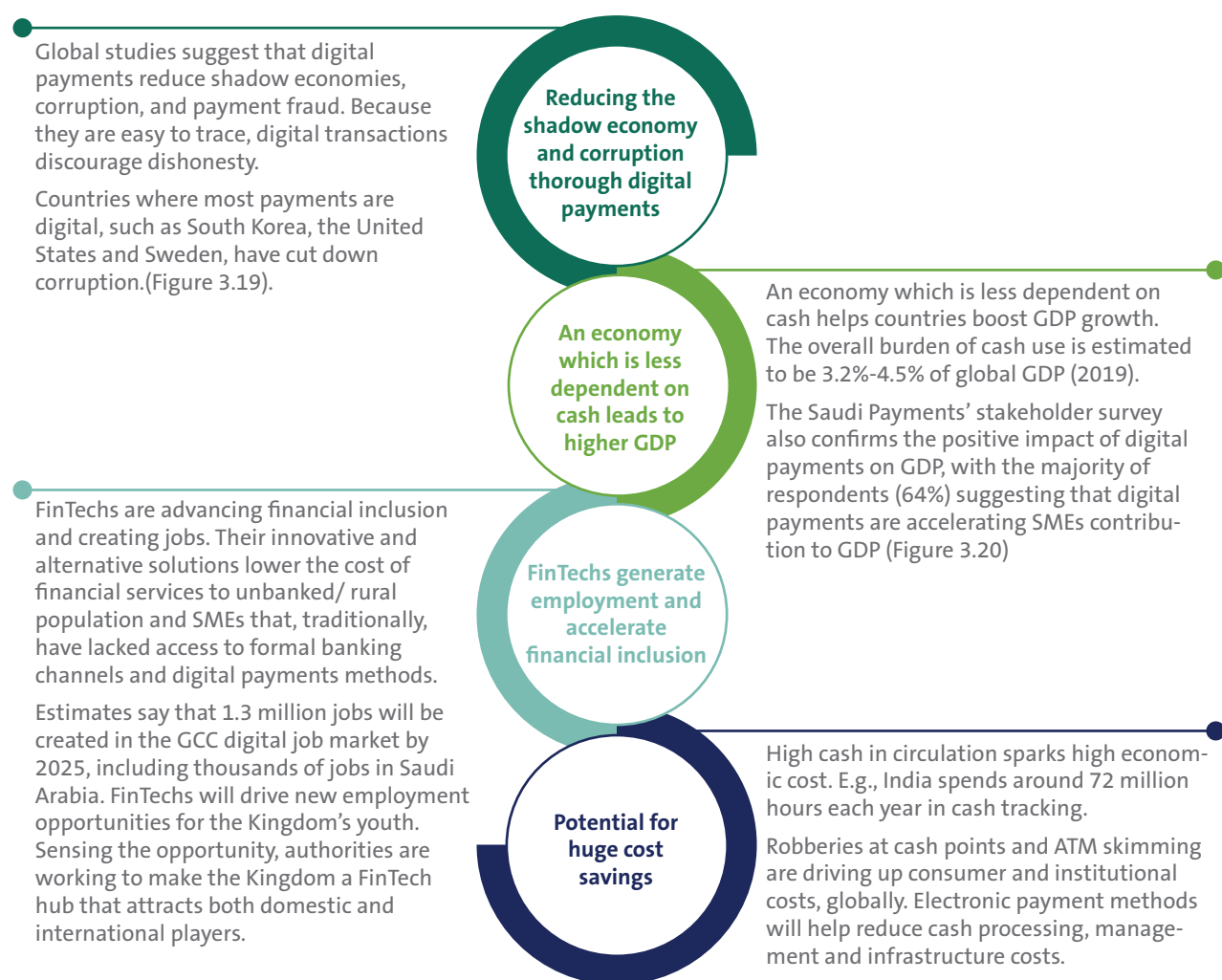
- Nora AlBakr,  
Assistant Vice President, Business Development, Saudi Payments

## Future economy that is less reliant on cash will render immense benefits by creating a positive socio-economic impact

Saudi Arabia's initiatives towards a less-cash society are expected to make a positive socio-economic impact by reducing corruption and promoting financial inclusion. These programs will push the

country's GDP growth and create new employment opportunities to align with the Kingdom's vision to increase revenue from non-oil sectors. (Figure 3.18)

**Figure 3.18: Socio-economic benefits of a Kingdom less reliant on cash**



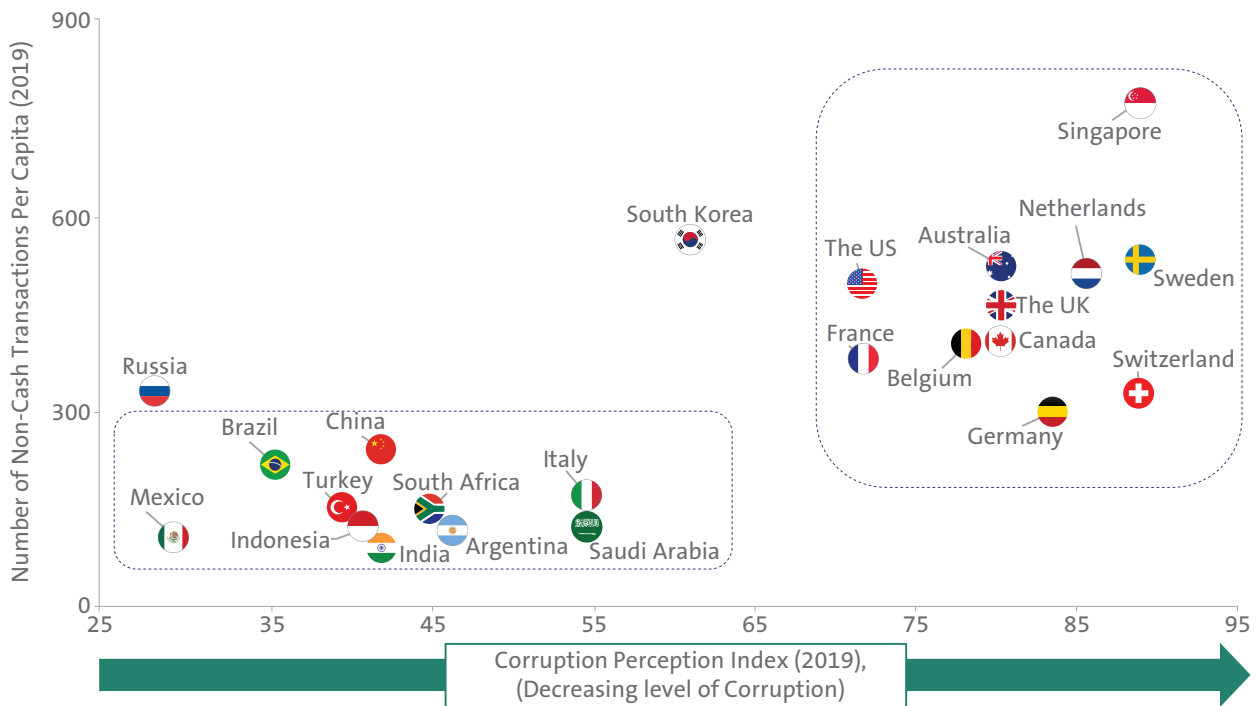
Source: Saudi Payments analysis; Mastercard whitepaper; European Council on Foreign Relations<sup>90</sup>

Countries with higher numbers of non-cash transactions tend to have lower perceptions of corruption and vice versa. Migrating to digital payments does not guarantee that corruption will be curbed, however, research has found that a digital economy helps in reducing the likelihood of corruption. Digital transactions from banks and e-wallets can be traced more readily than cash payments, enabling financial crime and law

enforcement officers to identify beneficiaries and flag and investigate suspicious transactions. The more payments that are shifted to digital instruments, the more likely it is that even large cash transactions can be flagged and investigated, reducing the possible means of accepting illicit or fraudulent payments. There is a link between a society less dependent on cash and the benefits it delivers in lowering corruption levels. (Figure 3.19)

90 Mastercard whitepaper, "Cashing Out: Economic Growth through Payment Digitisation", May 2020, <https://newsroom.mastercard.com/mea/files/2020/05/Mastercard-White-Paper-Cashing-Out-Economic-Growth-through-Payment-Digitisation1.pdf>; European Council on Foreign Relations, "Digital stability: How technology can empower future generations in the Middle East", March 24, 2020,

**Figure 3.19: Global non-cash transactions per capita vs. Corruption Perception Index**



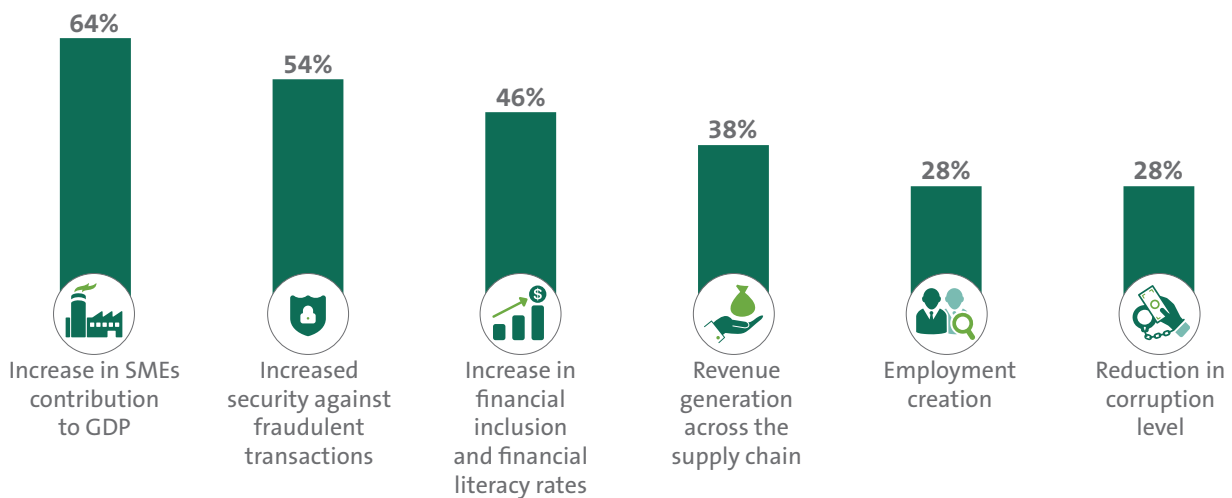
\*A high corruption perception index score denotes low corruption. 2019 figures for cashless transactions per capita are forecasted and computed by extrapolating 2019 data using the 2012–2018 CAGR. Actual 2019 data was used for Saudi Arabia.

Source: Saudi Payments analysis; BIS database, Secondary research <sup>91, 92</sup>

Few of prominent socio-economic benefits from digital payments' development include increased SMEs contribution to GDP, improved security, and increase in financial literacy rates. It is expected that

the development of the digital payments ecosystem will be expedited as the country begins to realize these socio-economic benefits. (Figure 3.20)

**Figure 3.20: Stakeholder survey shows socio-economic benefits from digital payments development**



Source: Saudi Payments Stakeholder Survey, May 2020, N= 50

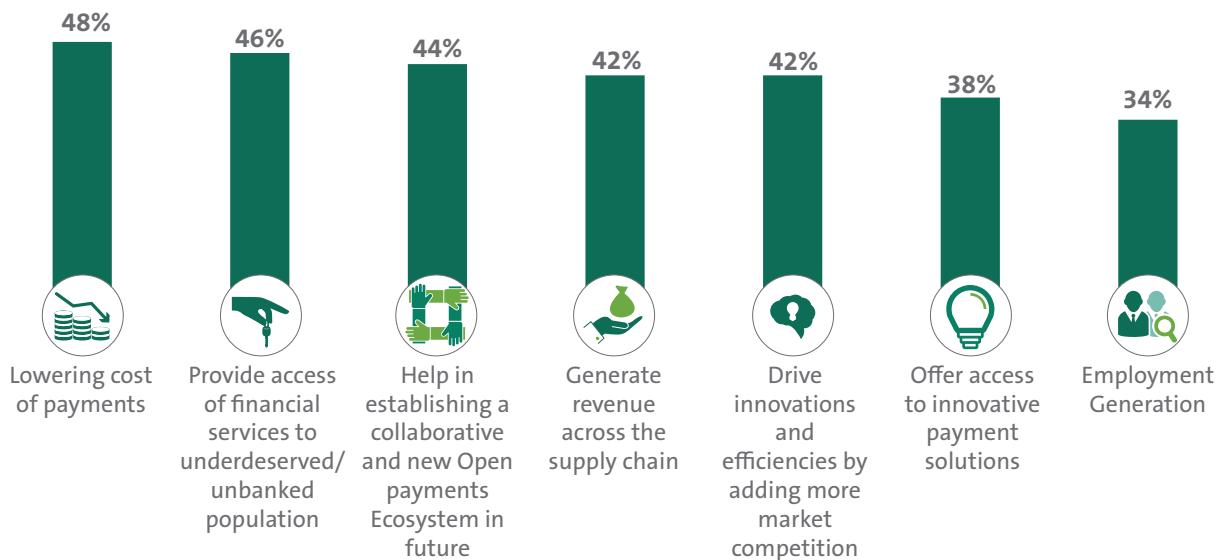
91 BIS, "CT5: Use of payment services/instruments: volume of cashless payments", 2018, <https://stats.bis.org/statx/srs/table/CT5>

92 Transparency International, "CORRUPTION PERCEPTIONS INDEX 2019," <https://www.transparency.org/en/cpi/2019>

Additionally, respondents also appreciated FinTechs' substantial social contribution, with the most prominent benefits including lower cost of payments and financial services access to underserved and unbanked populations. (Figure 3.21)

The transformation to digital service provision benefit economies by creating new revenue streams, increasing employment, and creating a more robust economic base.

**Figure 3.21: Stakeholder survey shows benefits from FinTechs' growth**

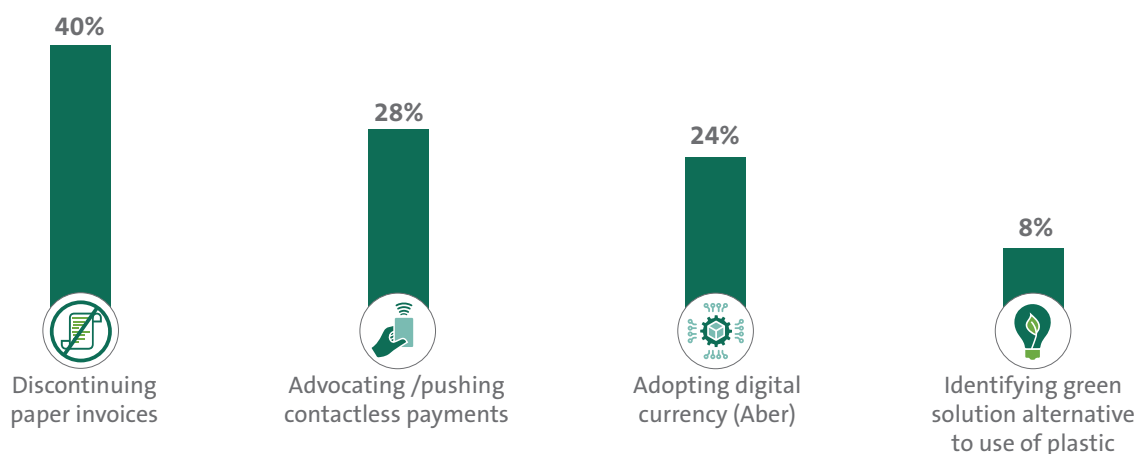


Source: Saudi Payments Stakeholder Survey, May 2020, N= 50

## Promoting sustainability

Saudi Arabia has set ambitious Vision 2030 sustainability goals. The Kingdom's movement to digital payments will also lead to more sustainable and paperless transactions. Participants in our stakeholder survey said steps that have helped to promote sustainability include reduced use of paper invoices through the promotion of electronic platforms such as SADAD and Esal and the digital acknowledgment of payment transactions via SMS, a more significant push to contactless payments, and adoption of digital currency (Aber). (Figure 3.22)

**Figure 3.22: Stakeholder survey shows potential initiatives promoting sustainability in Payments**



\*Discontinuing paper invoices by encouraging electronic platforms such as SADAD, Esal; Identifying green solutions as a substitute to use of plastic, referring projects include: Bunq, Baltic Sea Project; Source: Saudi Payments Stakeholder Survey, May 2020, N= 50



## Conclusion

Saudi Arabia's payments industry is poised for transformation as it undergoes dynamic innovation and continued disruption of its traditional value chain and service propositions. Digital payment methodologies in KSA are experiencing dramatic advancements, thanks to infrastructure enhancements and unlimited support from the Saudi Central Bank. Online payments in the nation's e-commerce sector have soared since Saudi Payments launched the mada e-commerce enabled payments capability in 2018.

Digital payments are helping banks unlock new revenue opportunities. New-age FinTech firms are unleashing innovation and novel services. PSPs are assuming new roles and redefining strategies to fit profitably within the new value chain. The payments market has been evolving significantly, and the new dawn offers exceptional promise.

Saudi Payments' robust back-end ecosystem will enable banks and non-financial institutions to participate within an agile platform that fosters parity among players. Through a continuous focus on ease of access, interoperability, standardization, and seamless integration, payments infrastructure will empower different entities to grow collectively.

Saudi Payments is committed to ongoing infrastructure enhancements and aims to provide diverse payment methods that meet customer demand and support the Kingdom's vision of a society less dependent on cash.

As real-time and emerging technologies continue to shape the payments landscape, the most successful market participants will embrace collaborative synergies and modernization to transition to the new ecosystem smoothly. In turn, development and innovation will speed up.

Today, Saudi regulators, payment authorities, and industry stakeholders are working together to drive advancements and technological innovation. News about the advancements and innovations in the Saudi payment market are soon to garner global attention.

We hope our report offered an insider's look into the exciting and profitable times ahead for Saudi Arabia's payments sector. A diverse and welcoming ecosystem bolstered by SAMA and Saudi Payments is the flexible backbone of the country's shared payments future. Clearly, it will play a critical role in realizing the Kingdom's Vision 2030 plan.

## Research Methodology

In-depth secondary and primary research was conducted to collect data/information for the report. Both qualitative and quantitative primary research methods were used.



### SECONDARY RESEARCH

#### SECONDARY RESEARCH

Extensive desk research was conducted to synthesize data from various published sources. Data was reviewed from government organizations, industry associations, central banks, international financial organizations, news articles, press releases, market reports and other public domain resources. Existing statistical data, policies, regulations, and standards were also analyzed.



### PRIMARY RESEARCH

#### PRIMARY RESEARCH

Research Insights were drawn from the three primary sources - a Voice of Consumer (VoC) survey, merchant survey, and a stakeholder or executive survey.

##### Voice of Consumer Survey: April 2020

The report includes insights from a survey of 1,024 consumers across Saudi Arabia. Respondents represented diverse demographics, including region, age, gender, and nationality.

An online quantitative survey focused on customer perceptions, preferences, and current and future adoption of payment channels, satisfaction levels, and expectations.

##### Merchant Survey: May 2020

102 merchants whose business establishments accept digital payments were polled via online survey.

The aim was to capture merchants' insights around various preferred payment methods for both customers and commercial use, their satisfaction levels, future prospects, and regulatory impact.

##### Stakeholder Survey: May 2020

50 respondents from organizations directly or indirectly serving the payments industry were surveyed online. Interviewees included bank personnel, digital wallet providers, payment gateway providers, Investors, and FinTech specialists.

The survey aimed to understand stakeholders' perspective regarding initiatives that regulatory and enabling authorities should consider to enhance digital payments acceptance, the role of emerging technologies, and the impact of the overall payment ecosystem on Saudi society and economic development.



### EXPERT INTERVIEWS

#### EXPERT INTERVIEWS - FEB - JUN 2020

The report features insights from more than 35 business executives representing a range of institutions.

In-depth 45-60 minute interview discussions sought to understand executives' current and future outlook about digital payments volumes and transactions (C2B, B2B, and B2C), technological evolution and other relevant insights about the Kingdom's payment sector.

## Appendix

### NON-CASH PAYMENTS

The Report offers insights on the payments markets in the following regions grouped by geographic, economic, and non-cash payment market maturity criteria:

**North America:** Canada and the U.S.

**Europe:**

- Nineteen Eurozone countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Netherlands, Slovenia, Slovakia, and Spain
- Four non-Eurozone countries: Denmark, Sweden, Switzerland, and the U.K.

**Mature Asia-Pacific:** Australia, Japan, Singapore, and South Korea.

**Emerging Asia:** China, Hong Kong, India, and other Asian markets.

**Latin America:** Brazil, Mexico, and other Latin American markets.

**MEA:** Saudi Arabia, South Africa, Turkey, and other Middle Eastern markets including Algeria, Kenya, Nigeria, Egypt, UAE, and Morocco.

Data for Australia, Brazil, Canada, China, Hong Kong, India, Japan, Mexico, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Turkey, and the U.S. were taken from the latest Bank for International Settlements (BIS) payment statistics Red Book (2018 data released December 2019). Data for Europe, Romania, Czech Republic, Hungary, and Poland were taken from the ECB Statistical Data Warehouse (2018 data released September 2019). For the remaining countries, data were taken from central bank publications and websites. Macroeconomic indicators (gross domestic product [GDP] and population) were collected from the World Bank. Corruption perceptions index was collected from the Transparency International website. Because of a lack of reliable historical data trends, data for some countries have been estimated and grouped under the appropriate regional heading: other Asian countries, other Latin American countries, or other CEMEA countries.

Wherever official data was available, we used the latest data published, even if restated for previous years. Wherever data was unavailable or substantially different, data were estimated on a linear basis. In the case of countries where direct debit volumes were not available, we have assumed the data available for the previous year.

### NON-CASH TRANSACTIONS ESTIMATES

We have included estimates for global non-cash transaction volume – which include check, debit card, credit card, credit transfer, and direct debit transactions – from 2018 through 2022. The estimates were calculated using our proprietary forecast model. The model is bottom-up, based on the non-cash transaction volume trends and estimates for each of the countries in scope, and also takes into account factors such as historical growth rates of non-cash instruments at a country level, the local regulatory environment, and certain macroeconomic factors that can affect the growth of non-cash payments in a region.

## Glossary

Aber — A digital currency based on blockchain technology, being jointly developed by SAMA and the UAE Central Bank to settle cross-border payments between two countries

AI — Artificial intelligence/machine learning

API — Application programming interface

APAC — Asia Pacific

CAGR — Compound annual growth rate

CITC — Communications and Information Technology Commission

MEA or MENA — Middle East and Africa, Middle East and North Africa

FinTech — Company that provides financial technology products or services

DLT — Distributed ledger technology

E-commerce — Online purchases and companies that provide online shopping services

Esal — the national platform for business invoices, which was launched in trial in 2018 and the actual launch in 2019

Factoring — an electronic national platform for factoring, or what is termed "buying receivables", which was developed on Esal platform, to give suppliers and buyers the ability to request purchase of receivables for invoices from banks in the Kingdom of Saudi Arabia

e-Wallet or digital wallet — Payment apps housed on smartphones and tech wearables that allow users to initiate payments within that app

FEER — Financial Entities Ethical Red-teaming

FSDP — Financial Sector Development Program (Part of KSA's Vision 2030 program)

GCC — Gulf Cooperation Council

GSMA — Global System for Mobile Communications Association

G20 — An international forum for global economic cooperation between 20 countries

IoT — Internet of Things

IPS — Instant payments system

ISO — International Organization for Standardization

ISO 20022 — An ISO standard for electronic data interchange between financial institutions including payment transactions

KSA — Kingdom of Saudi Arabia

KYC — Know Your Customer or Know your Client

mada — Connects all ATMs and point-of-sale terminals throughout the Kingdom to a central payment switch that re-routes financial transactions between a merchant's bank and the card issuer bank

mada atheer — A contactless payment service for mada cards

mada Pay — NFC-based digital wallet by mada

MDR — Merchant Discount Rate

NFC — Near field communication

P2P — Peer to peer payment

PoS — Point of sale

PSP — Payment service provider

QR — Quick response code, a type of machine-readable matrix barcode

RTGS — Real-time gross settlement

SADAD — The Kingdom's electronic bill presentment and payment system since 2004

SAMA — The Saudi Central Bank and primary financial services regulator. It was previously known as Saudi Arabian Monetary Authority (SAMA) but after the name change in November 2020, the Saudi Central Bank continued to use the same acronym SAMA.

SARIE — Provides settlement services for all Saudi commercial banks

Saudi Payments — Payments arm of SAMA

SME — Small and medium sized enterprises

UAE — United Arab Emirates

Vision 2030 — A far-reaching basket of reforms to reduce KSA's dependence on oil revenues by diversifying its economy and modernizing financial, business, education, infrastructure and health institutions

## Definitions

**Compound annual growth rate (CAGR)** — It is the average yearly growth or a cumulative performance of a variable over a certain time period

**FinTech** — Company that uses technology to provide financial products or services

**Contactless/NFC-based payments** — A secure method to purchase products or services by tapping a debit, credit, or smartcard—also known as a chip card—by using RFID technology or near-field communication (NFC)

**Crowdfunding** — A method of funding a project or venture by raising small amounts of money from a large number of people

**Distributed ledger technology (DLT)** — It uses a database that exists across several locations or among multiple participants. The technology is used to process, validate or authenticate transactions or other types of data exchanges. The transaction records are stored in digital ledger based on consensus of the parties involved

**E-commerce** — Buying and selling of goods or services using the internet, and the transfer of money and data to execute these transactions

**e-Wallet or digital wallet** — A device or service that allows electronic monetary transactions through smartphones

**FASAH Pay** — It is a service launched by Tabadul within Fasah platform, catering to Business-to-Business (B2B) and Government to Business to (G2B) customers for digitizing of invoicing and payments at ease, in association with Saudi Payments

**Financial Inclusion** — A method of offering banking and financial solutions and services to every individual in the society without any form of discrimination

**Financial Sector Development Program (FSDP)** — It is one of 12 executive programs launched by the Council of Economic and Development Affairs to support Vision 2030. The program aims to stimulate savings, finance and investment.

**Internet of Things (IoT)** — The interconnection via the Internet of computing devices embedded in everyday objects, enabling them to send and receive data

**Instant payments system (IPS)** — It is an electronic payment solution that process payments in real time where the funds are made available immediately for use by the recipient

**Merchant Discount Rate (MDR)** — A rate charged to merchants for processing card payments

**Micro-lending** — It involves granting small loans to individuals and small businesses who lack access to conventional banking and related services

**Digital Transactions** — Financial transactions that do not involve the use of cash or cash equivalent. The payment is paid and received electronically

**Omni-channel** — A multichannel approach to sales that offers seamless shopping experience, irrespective of the purchase channel such as online shopping from a desktop or mobile device, by telephone, or in a retail store

**Open Banking** — A business model under which banking data is shared with third parties through application programming interfaces (APIs), allowing access to financial information needed to develop new apps and services

**P2P Payments** — A transaction between users to send one another money from their smart devices through different payment applications provided by banks and FinTechs

**Point-of-sale (PoS)** — It is the time and place where a retail transaction is completed

**Real-time gross settlement (RTGS)** — It refers to a funds transfer system that allows for the instantaneous transfer of money and/or securities

**Request-to-Pay** — A messaging service allowing credit to send an electronic request for payment to the debtor account

**Sandbox** — A regulatory approach that allows time-bound testing of innovations under a regulator's oversight

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## About Us



## المدفوعات السعودية

### SAUDI PAYMENTS

Saudi Payments was established as a wholly owned subsidiary of SAMA with the mandate to continue the legacy of SAMA by continuing to develop secure, interoperable national payment infrastructure, serving banks and FinTechs equally, and providing the required standardization to ensure all providers have a level playing field.

#### Vision

- Act as a catalyst for the market
- Enable the payment ecosystem by providing secure, reliable and efficient services
- Ensure the safety and reliability of payment
- Provide fast and low-cost payments.

#### Mission

- Provide services enabling the payment ecosystem
- Be the foundation of digital payments

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