The finance sector in the GCC region is about to pass a significant threshold which holds the potential to revolutionise many aspects of citizens' lives. Just as the arrival of the mobile phone in the late 1990s allowed GCC states to leapfrog many developed countries already wedded to the infrastructure of the landline, financial technology (fintech) could once again catapult them ahead of the pack: the combination of a conducive policy environment, desire among leaders to steal a globally competitive edge and a rich, but poorly penetrated market looks very promising.

Forward-looking policies support creation of fintech sandboxes and incubators

GCC states have set in place a series of forward-leaning policies to support fintech development and have adopted some of the most globally recognized regulation standards to help enable its penetration. The executive style of governance within the region has supported the introduction of essential changes to the regulatory environment.

Moreover, its pragmatic approach to cherry picking international standards stands to serve the sector well. For example, sandbox regulations have been fast-tracked to help set a legal framework for the live testing of small-scale innovations in a controlled environment. As such, the GCC region provides an attractive environment given both its light touch regulations and leaders' ability to introduce and implement speedy reform.

Government-sponsored sandboxes and incubators have surged since 2017. In January 2017, the Dubai International Financial Centre started FinTech Hive, while Abu Dhabi launched, in March 2019, Hub71 endowed with significant financial backing ($272m). Notably, Hub71 has sought to leverage its status by partnering with global tech giants, such as Microsoft and Softbank, to facilitate cooperation between venture capitalists, start-ups and regulators in Abu Dhabi.

Similarly, Bahrain has placed itself at the forefront of regulatory reform: in 2017, its central bank was the first to permit fintech businesses to test products and services with clients. At present, it remains the only GCC state to approve a law allowing small and medium-sized enterprises (SMEs) to raise financing through crowdfunding (either conventional or sharia-complaint).

Blockchain is of particular interest to the GCC states, especially the UAE. The Emirati government published its Blockchain Strategy 2021 in April 2018, and it aims to process at least 50% of all government transactions using blockchain technology by 2021. If this were achieved, then it would save the federal government an estimated $3bn per year by cutting down 77m hours of work and reducing the size of government to the tune of $389m. It would further save $1.6bn by shaving kilometres off driving distances.

More awareness in traditional banking sector needed

In spite of GCC governments actively promoting fintech and even trying to get ahead of the curve, the sector is likely to remain marginal, at least in the short term. For instance, traditional banks in GCC countries are either unfamiliar with fintech or simply sceptical about its promise. In a survey of 22,000 digitally active consumers carried out by EY, which examined fintech adoption across the world, less than half (46%) of respondents were aware of fintech services in emerging markets. Moreover, over 93% of those surveyed doubted that fintech players would disrupt the banking sector.

Using technology to boost financial inclusion

One of the most promising aspects of fintech in the region is financial inclusion. The IMF’s report “Gulf Cooperation Council: How Developed and Inclusive are Financial Systems in the GCC?” published in December 2018 found that women, youth and SMEs remain largely excluded from banking systems. It noted that around a fifth of the GCC population lacks access to a formal financial institution (in Saudi Arabia unbanked adults amount to 6.4m); and around 25m foreign nationals are sending remittances back home (worth $102bn in 2016).

Furthermore, among the GCC states, 70% of female adults hold a bank account (only 42% in Oman) compared to 86% of male adults; only around 63% of those aged 15-24 hold an account; and SMEs only represent 4.5% of total loans in the GCC, which is much lower than the average of the MENA region at 9.3%. By lowering bank onboarding costs by 90% – a move facilitated by digital identification – fintech has the potential to become an important tool for reaching the unbanked in the Gulf.

The authors of the IMF report argue that fintech can support the wider and critical goal of financial inclusion by reducing information asymmetry, improving competition and lowering lending costs. The power of big data analytics, the ease and access of crowdfunding and lower costs of know-your-customer procedures will, in fact, help fintech become an important financial service option for SMEs.

However, it remains to be seen whether GCC customers will become more open to digital and impersonal approaches, away from the traditional relationships-based lending process.

Fostering an ecosystem key to encouraging fintech growth

The states of the GCC are poised at a threshold: there is a discernible trend among leaders and entrepreneurs to enable and embrace fintech, respectively, and this holds the potential to revolutionise the lives of ordinary citizens.

There is evidence of increasing awareness of fintech among citizens in the Gulf—84% of customers are aware of fintech services in 2019, compared to 62% in 2015. This bodes well for the financial services sector, investment and development and, most importantly, financial inclusion. However, GCC states account for only 1% of the $90bn already invested in the sector globally. Therefore, for fintech to be successful, regulators need to develop an ecosystem that encompasses a raft of supplementary legislation, such as new investment laws and incentives to encourage not only investors but a broader base of customers which includes all segments of society.

Dr Adel Altoraifi is Chairman of Castlereagh Associates. He is a former Minister of Information for the Kingdom of Saudi Arabia and served as a member of the Kingdom's Political and Security Affairs Council (2015-17). Dr Altoraifi is a prominent author and recognised authority on international relations and, for the past 20 years, has specialised in foreign policy decision-making in the Gulf.
