

Cut to the Chase

FinTech and GCC

A plausible solution for the large unbanked population

WHAT is FinTech?

Financial technology, or FinTech, refers to the use of technology to deliver financial solutions. FinTech is not a new concept, as the term FinTech can be traced to the early 1990s. Fintech has entered a phase of rapid expansion, backed by accelerated incorporation of start-ups and other new entrants, such as information technology (IT) and ecommerce firms that have fragmented the financial services market.

A predominant presumption about FinTech is that of alternative financing mechanisms, such as Peer-2-Peer lending. However, contrary of this, FinTech also comprises the integration of technology in financial transactions such as crowdfunding and algorithmic trading. FinTech also plays a dominant role in internal operations of institutions, substantiated by increased levels of spending by large financial institutions in enhancing their IT capabilities.

WHAT is its current state in the GCC?

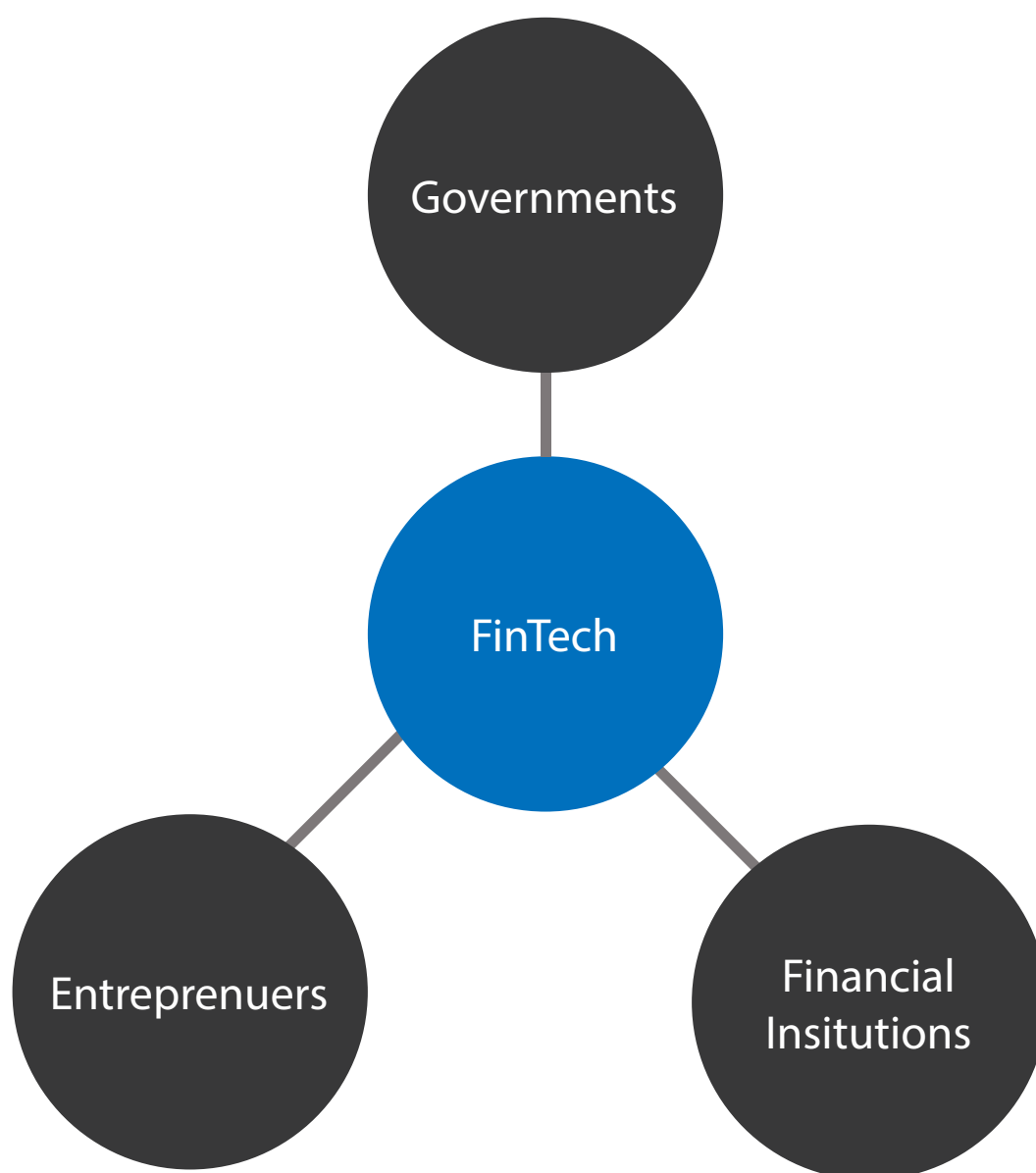
After a late start, fintech is gaining momentum in some countries of the Middle East region. FinTech has the ability to address the critical challenges of enhancing financial inclusion, inclusive growth, and economic diversification through innovations that help extend financial services to the large unbanked populations, and facilitate alternative funding sources for small and medium-sized enterprises (SMEs).

HOW can FinTech Evolve in GCC?

However, FinTech ecosystems are critical to nurturing the kind of technological innovation necessary to make financial markets and systems more efficient. Establishing and nurturing a FinTech ecosystem is challenging considering the sustained collaboration that is required among governments, financial institutions, and entrepreneurs.

FinTech ecosystems are not well established in the GCC and continue to face hurdles to development. GCC governments have been endorsing financial e-services and digitized financial interactions. However, many of these initiatives have delayed, and few private-sector companies with digital experience have joined the effort.

Figure: Major participants in the Fintech ecosystem



Source: Strategy&

Which are the success factors for a successful FinTech ecosystem?

Figure: Major participants in the Fintech ecosystem

Government/Regulatory support

- The strong position and influence of the government in the economic development of the GCC eases the setup and organization of the FinTech ecosystems at an early stage
- Continuous regulatory support ensures continuous development of the ecosystem

Business environment / Access to markets

- A dynamic technology startup community works on cutting-edge digital developments that are “tailored” to the Middle East (e.g., Arabic needs, culture, and language)
- Thanks to its cosmopolitan nature, in regards to both its talent pool and presence of international enterprises, the GCC is very attractive to regional and international talent

Access to capital

- Government-driven funding programs (e.g., Hamdan Innovation Incubator, SeedStartup, In5), venture capitalists, and local financial services players can provide early-stage funding for FinTech startups

Financial expertise

- In line with access to capital, various government bodies and international and local financial institutions can provide the needed advisory, due diligence, and lobbying services to seed ecosystem setup.

Source: Strategy&

WHAT is the way forward for FinTech?

Going forward, convergence of FinTech developments in developed and developing markets can be expected. This era, “FinTech 4.0”, will be characterized by increasing monetization of data and reliance on digital identity, which would also be a new frontier of focus for future regulatory framework. However, in the GCC, where FinTech is yet to gained strong foothold, Governments have a prominent role to play in establishing the markets.

The presence of all four critical elements for a successful FinTech ecosystem offers GCC significant advantage over other emerging markets. However, the challenge would be to achieve the necessary level of coordination to make the ecosystem work. If the region can overcome this challenge, the recompenses for the financial industry and the regional economy could be significant.

References

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