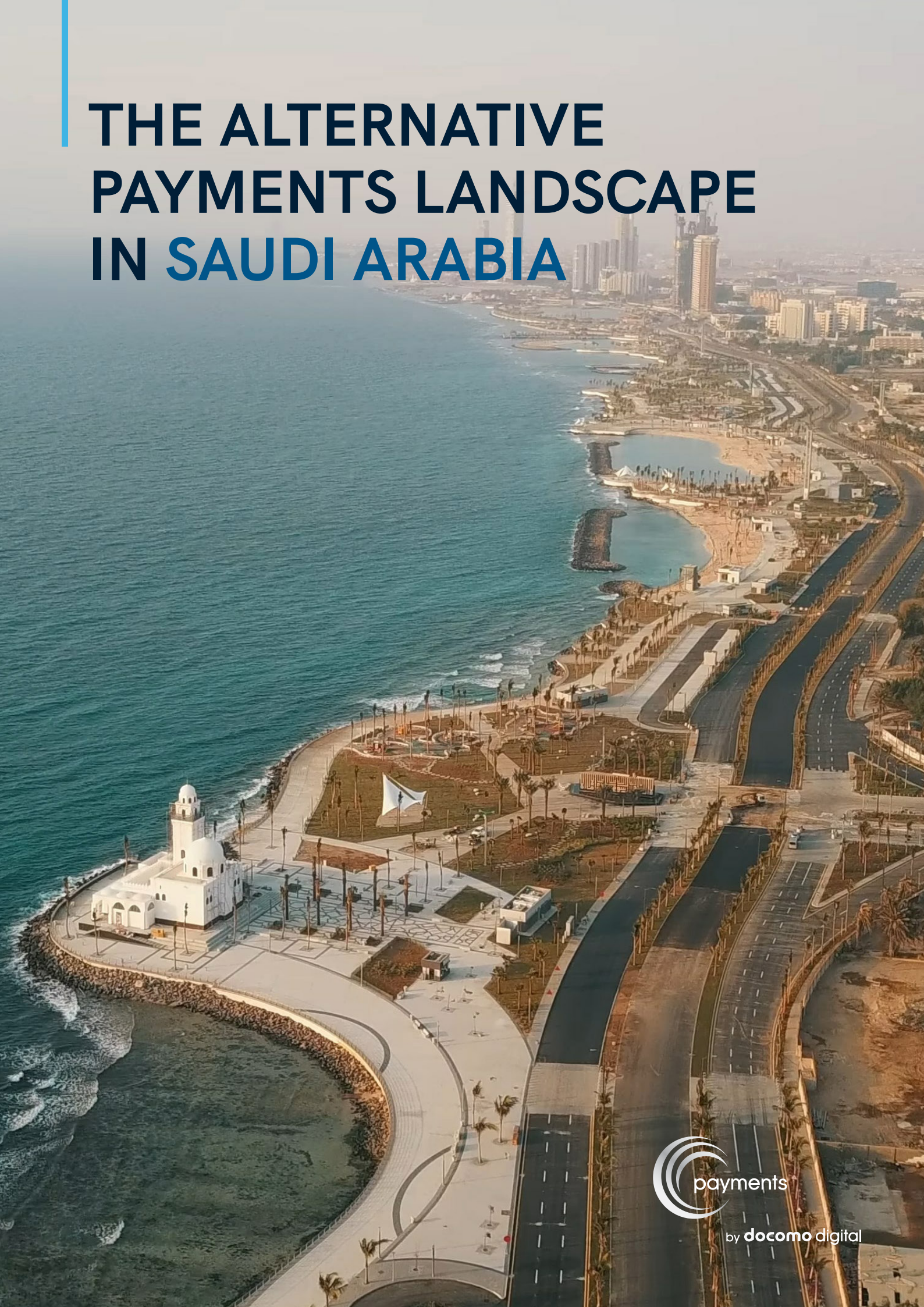


THE ALTERNATIVE PAYMENTS LANDSCAPE IN SAUDI ARABIA



by **docomo** digital

Saudi Arabia's government pushes the digital wallet revolution

Armed with a significant population that skews young and digitally-native, the Kingdom of Saudi Arabia is poised to become the centre of the Middle East's e-commerce and fintech aspirations. In the aftermath of the 2015 downturn in oil prices, the Kingdom launched Vision 2030, an ambitious roadmap with the goal of diversifying the country's economy beyond the oil industry and boosting investment across all sectors.¹

Comprising a sprawling network of 13 main initiatives, the roadmap included a programme to develop robust digital payments infrastructure that would not only improve tax and revenue collection, but also push the country towards a cashless society. The so-called Financial Sector Development Program (FSDP) has seen some success, especially in the wake of the COVID-19

pandemic, and has to be seen as central to the overall development of digital wallets in Saudi Arabia.²

The digital payments segment is projected to accumulate as much as \$42.3 billion in value by 2025, driven by the use of debit and credit cards, and alternative payment options such as bank transfer and digital wallets.³ In 2020 alone, digital payment transactions jumped 75% to reach 2.8 billion (\$93.7 billion in value), and at the same time cash withdrawals fell by a third.⁴ A recent Mastercard survey found consumers' embrace of contactless payments had tripled since the onset of the pandemic. Mastercard also said that between March 2019 and March 2020, the number of contactless payments doubled, with the vast majority coming under the \$25 range, which is typically the domain of cash.⁵

Fintechs and incumbents go head-to-head

According to a 2020 report by payments provider PPRO, credit and debit cards are still the main payment method in Saudi Arabia (35%), with cash (34%) and bank transfer (10%) following close after.⁶ The advent of cash-on-delivery as a payment option was among the factors that led to the popularity of e-commerce among Saudis,⁷ and digital wallets are a still relatively small slice of the market, comprising 8% of all transactions. However, there is still a lot of room to grow considering the fact that at \$11.8 billion in value, the Kingdom's e-commerce market is relatively underdeveloped.⁸

Despite its current standing in the market, digital wallets are set to play a central role in the digitalising economy as credit card penetration in the Kingdom remains low due to religious and cultural norms.⁹ Credit and debit cards are only enjoyed by 25% of the population, and are limited to specific demographics. Coupled with other factors such as easy access to mobile broadband services, this has created an environment in which digital wallets have thrived.

Incumbent banks have been among the most active adopters of digital wallet solutions in the country, with household names like Saudi-British Bank, Bank Albilad, and Riyadh Bank among them. Through these banks' apps, customers can access their accounts through their smartphones, make bill payments and carry out inter-bank transfers, though some have taken steps to expand their operations to include newer features to mirror the offerings of newer apps, like digital wallets, and QR code and contactless POS payments.

One such example is Riyadh Bank's digital wallet, RiyadhPay. According to consulting firm Analysys Mason, RiyadhPay is the third most popular mobile money app after STC Pay and PayPal. RiyadhPay hooks up directly to users' debit or credit cards, including pre-loaded cards, and uses tokenised payment technology to enable strong authentication and security.

The relative inaccessibility of bank accounts for some Saudi citizens will limit the reach of incumbents' mobile banking apps, most of which require users to have existing accounts. However, in line with the FSDP, the government has moved to expand access to financial services by issuing licenses to non-bank entities like fintechs and digital wallet operators.

In 2020, the Saudi Central Bank (SAMA) licensed four non-bank entities to begin operating as regulated financial institutions: telco-backed STC Pay; merchant payments operator Geidea; and fintechs BayanPay and Hala (formerly known as Halalah).¹⁰ These wallets vary in terms of their size and technology, but share many similar features, such as enabling QR-code payments, phone credit top-up, P2P payments through mobile numbers, as well as cheap cross-border remittances.

SAMA has taken active steps to identify potential digital wallets that can help the country achieve its digital payments goals, such as the launch of a fintech sandbox for testing wallet technology prior to receiving approval. The wallets that have received licensing so far have largely passed through with positive results, and two others have received initial approval pending a final decision. These include Careem Pay by ride-hailing firm Careem, where users can top-up funds to pay for rides, purchase groceries and meals, or send credit to friends and family; and NoonPay, the retailer wallet by the regional e-commerce giant of the same name.¹¹

These digital wallets are also expected to get a bump in usage thanks to SAMA's decision to raise the monthly transfer limit imposed on them.¹²

Hala and BayanPay are the latest entrants into the growing digital wallet scene, and alongside Geidea, mark the significant entry of fintechs into the payment scene. Hala is considered the second most popular digital wallet in Saudi Arabia, after STC Pay. The firm was among the second batch of non-bank entities to be licensed by SAMA in 2020,¹³ and has since introduced banking cards through a partnership with Visa.¹⁴

BayanPay Wallet is a relatively new entrant to the market that brings to the table many of the same features found in other wallets, such as P2P transfers and QR-code payments to merchants in the BayanPay network. The app also allows users to track and analyse their spending habits.¹⁵ In 2020, BayanPay wallet was launched alongside BayanPay Business, a suite of merchant payment solutions.

¹ Kingdom of Saudi Arabia. Saudi Vision 2030. Available online at: <https://www.vision2030.gov.sa/en>

² Arab News. Digital payments in Saudi Arabia surge by 75% amid pandemic. Available online at: <https://www.arabnews.com/node/1788886/business-economy>

³ Statista. Digital Payments - Saudi Arabia. Available online at: <https://www.statista.com/outlook/dmo/fintech/digital-payments/saudi-arabia>

⁴ Ibid.

⁵ Mastercard. Mastercard study shows consumers in Kingdom of Saudi Arabia Make the Move to Contactless Payment for Everyday Purchases, Seeking Touch-Free Payment Experiences. Available online at: <https://newsroom.mastercard.com/mea/press-releases/mastercard-study-shows-consumers-in-kingdom-of-saudi-arabia-make-the-move-to-contactless-payment-for-everyday-purchases-seeking-touch-free-payment-experiences/>

⁶ PPRO. Payments and e-Commerce Report: Middle East and Africa. Available online at: <https://www.ppro.com/e-book/e-commerce-report-middle-east-africa/>

⁷ Ipsos. The Online Shopper - KSA: Uncovering Trends in the e-Commerce Landscape. Available online at: https://www.ipsos.com/sites/default/files/ct/publication/documents/2018-04/the_ksa_online_shopper_report.pdf

⁸ PPRO. Payments and e-Commerce Report: Middle East and Africa. Available online at: <https://www.ppro.com/e-book/e-commerce-report-middle-east-africa/>

⁹ Paymentwall. Accept payment methods in Saudi Arabia. Available online at: <https://www.paymentwall.com/en/payment-methods/saudi-arabia>

¹⁰ MENA Fintech Association. Halalah and BayanPay get Mobile Wallet License from Saudi Arabian Monetary Authority. Available online at: <https://mena-fintech.org/halalah-and-bayanpay-get-mobile-wallet-license-from-saudi-arabian-monetary-authority/>

¹¹ MENAbytes. Careem and Noon win initial approval for launching mobile wallets in Saudi. Available online at: <https://www.menabytes.com/careem-noon-mobile-wallets-saudi/>

¹² Oxford Business Group. Will Covid-19 containment measures accelerate the transition of Saudi Arabia into a cashless society? Available online at: <https://oxfordbusinessgroup.com/news/covid-19-accelerates-saudi-arabia-s-transition-cashless-society>

¹³ Arab News. Saudi-based fintech company Halalah rebrands to Hala. Available online at: <https://www.arabnews.com/node/1690851/corporate-news>

¹⁴ Eye of Riyadh. Hala and Visa enter into strategic partnership to drive digital payment innovation in Saudi Arabia. Available online at: <https://www.eyeofriyadh.com/news/newsdetail.php?newsid=116019>

¹⁵ MENAbytes. Halalah and BayanPay get mobile wallet license from Saudi Arabian Monetary Authority. Available online at: <https://www.menabytes.com/sama-halalah-bayanpay/>

A sampling of popular e-wallets across markets and their fees

STC Pay charges 1.7% to merchants for every transaction for online purchases using STC Pay.¹⁶

In March 2020, the Saudi Arabian Monetary Authority raised the allowed top-up monthly ceiling limit for e-wallets to SAR20,000 (\$5,332).¹⁷

Top e-wallets: **STC Pay, Geidea, Halalah and BayanPay**¹⁸

High mobile penetration drives Saudis' digital wallets

The Kingdom's telecommunications industry is quite well-developed, and is considered the biggest in the region. It is dominated by Saudi Telecom Company (STC), Mobily and Zain, though new entrants known as Mobile Network Virtual Operators (MNVOs) like Virgin and Huawei are beginning to ramp up the competition in an already hot market.¹⁹ The stiff competition has led to the development of new offerings, especially in the fintech area, as many are seeing the opportunity to cash in on the high rates of smartphone (116%) and mobile internet penetration (88%),²⁰ as well as the unbanked.²¹

STC Pay, a digital wallet service launched by STC, was the first telco-backed digital wallet to emerge back in 2018, and with 4.5 million users as of October 2020, it is considered the country's biggest.

At the time of its launch, STC Pay was only available to STC subscribers, but it quickly expanded its stable of financial services to non-subscribers. The STC Pay wallet allows customers to access cheap remittance services, P2P money transfers, bill payments and QR-code payments to more than 13,000 merchants across the Kingdom.²² In February 2021, STC Pay announced a tie-up with French technology firm Thales to contactless cards for its customers to further expand their access to POS-based payments.²³

¹⁶ STC Pay. Merchant Terms & Conditions. Available online at: <https://stcpay.com.sa/en/page/merchant-terms-conditions>

¹⁷ Saudi Central Bank. SAMA announces raising e-wallet top-up monthly ceiling limit up to 20,000 SAR. Available online at: <https://www.sama.gov.sa/en-US/News/Pages/news-534.aspx>

¹⁸ MENAbytes. Halalah and BayanPay get mobile wallet license from Saudi Arabian Monetary Authority. Available online at: <https://www.menabytes.com/sama-halalah-bayanpay/>

¹⁹ Shearman & Sterling LLP. Telecoms in the Kingdom of Saudi Arabia — An Overview. Available online at: https://www.shearman.com/~/_media/Files/NewsInsights/Publications/2016/09/Saudi-Arabia-Publications/Telecoms-in-the-Kingdom-of-Saudi-Arabia--An-Overview.pdf

²⁰ DataReportal. Digital 2020: Saudi Arabia. Available online at: <https://datareportal.com/reports/digital-2020-saudi-arabia>

²¹ TahawulTech. Saudi telco rolls out fintech solution for the "unbanked" population. Available online at: <https://www.tahawultech.com/industry/financial-services/saudi-telco-rolls-out-fintech-solution-for-the-unbanked-population/>

STC Pay's success has paved the way for other telecommunication firms to begin experimenting with their own digital wallet solutions. Zain Saudi Arabia announced a tie-up with Hala to bring its mobile payment services to Zain customers.²⁴ Most recently, British telco Virgin Mobile was announced to have received a first-of-its-kind banking agent license through a partnership with the Saudi Investment Bank. The consortium will see telcos bring mobile financial services to customers in Saudi Arabia, including its existing international remittance facilities.²⁵

The strength of the telecommunications industry and Saudi's ready acceptance of mobile payments could potentially drive the adoption of direct carrier billing solutions, especially for Saudi Arabia's significant unbanked population. Saudi Arabia's telcos have also experienced a surge in mobile subscriptions, which are key for driving the adoption of direct carrier billing services.²⁶ Currently, the country's top three telcos, STC, Mobily and Zain, all offer carrier billing services, the majority of which are targeted at entertainment products like gaming and OTT content from some of the biggest names in digital content like Google Play Store, Microsoft, Apple's App Store, Netflix and Spotify.

Fleshing out financial infrastructure

As part of Vision 2030, Saudi Arabia's government has been steadily building out the underlying infrastructure to enable digital payments.²⁷ For instance, there is Sadad, a tax collection and payment solution with which users can also pay for utilities and government-related fees; and more importantly, Mada, a network of ATMs, POS and online system.

Mada has been crucial to the growth of OEM-backed wallets in Saudi Arabia by pushing the adoption of the necessary infrastructure and machinery for processing NFC-based payments. OEM-backed wallets were fairly popular in Saudi Arabia, but their appeal has grown since the onset of the COVID-19 pandemic, especially among smartphone-savvy Saudis. These wallets allow users to link their bank cards onto a wallet to enable purchases from merchants and retailers within their individual networks.

Popular OEM-wallet Apple Pay arrived in Saudi Arabia in early 2019, and integrated with both local banks and the government's Sadad and Mada system.²⁸ Android OS users have the choice of either Samsung Pay or mada Pay, but the latter far outshines the Korean fintech thanks to the wide net cast by its integration with the government's payment gateway, and SAMA requirements that all Saudi banks must issue cards compatible with the Mada system.

mada Pay was launched in 2018 in partnership with Visa. Both entities built the system with their Visa Token Service and mada's Tokenisation Platform in an effort to ensure the security of the service and assuage consumer concerns.²⁹ Despite this partnership, mada Pay supports all debit and credit cards issued by member banks and doesn't impose a limit on the number of cards that can be uploaded. Like the well-known Apple Pay and Samsung Pay, mada Pay supports tokenised NFC-payments and only works on Android devices capable of supporting such systems.³⁰ mada Pay has since been rolled out

in Huawei's AppGallery.³¹

Mada represents only one third of Saudi's numerous financial infrastructure projects but it has proven popular. In Q1 2020, the Mada system registered 20.8 million transactions, representing a 406% annual increase, while NFC payments have risen 263% to account for 79% of all payments.³²

Taken together, Saudi Arabia's numerous efforts to build its digital payments infrastructure has been impressive for its scale, breadth and success, but there are other projects in the works. Postal service operators, retailers and restaurants are now required to provide digital payment solutions,³³ while Saudi Arabia's Human Resources Ministry has allowed SME employers to deposit salaries directly into employees' digital wallets.³⁴

In February 2021, the Kingdom launched Sarie, its first instant payments system to enable fast, cheap bank transfers with the use of mobile numbers. Sarie can be integrated with banking platforms and apps, and could prove to be a strong alternative to card and cash payments. It's already being hailed as a major breakthrough by players in the industry, with some noting that Sarie could bring down digital wallet operators' costs.

Moving forward, the Kingdom intends to launch an open banking initiative in 2022 in an effort to expand access to financial data, and build trust in the system.³⁵ The government recently passed an e-commerce law that would regulate new platforms and payment gateways to bring confidence to consumers, but more work needs to be done to convince users of the benefits of digital wallets and other alternative payments.³⁶

Despite the headwinds that have shaken the country, the Saudi government's fintech aspirations have helped the economy not only remain resilient, but thrive, signalling future rewards.³⁷

²² Analysys Mason. The valuation of STC pay at over USD1 billion shows the potential of mobile financial services in the Gulf region. Available online at: <https://www.analysismason.com/research/content/comments/stc-pay-performance-rdrk0-rdmy0/>

²³ Arab News. STC Pay, Thales partner to boost contactless card payment. Available online at: <https://www.arabnews.com/node/1809251/business-economy>

²⁴ Zain. Zain Saudi Arabia and Halalah Sign Cooperative Agreement for Digital Payments. Available online at: <https://sa.zain.com/en/all-news/zain-saudi-arabia-and-halalah-sign-cooperative-agreement-digital-payments>

²⁵ ITP Media. Virgin Mobile launches mobile financial services in Saudi Arabia. Available online at: <https://www.itp.net/infrastructure/networking/95438-virgin-mobile-launches-mobile-financial-services-in-saudi-arabia>

²⁶ Mordor Intelligence. Saudi Arabia Telecom Market - Growth, Trends, COVID-19 Impact, and Forecasts (2021 - 2026). Available online at: <https://www.mordorintelligence.com/industry-reports/saudi-arabia-telecom-market>

²⁷ Government of Saudi Arabia. e-Payment Channels. Available online at: <https://www.my.gov.sa/wps/portal/snp/aboutksa/ePayment/lut/p/z0/04Sj9CPyKssy0xPLMnMz0vMAfjjo8zivQIsTAwdDQz9Lsw8XQ0CnT0s3Jx-DfA0MjAz0g1Pz9AuyHRUByW4EHA!!/>

²⁸ Arab News. Apple Pay launched in Saudi Arabia. Available online at: <https://www.arabnews.com/node/1455081/saudi-arabia>

²⁹ Arab News. Visa, mada launch 'mada Pay' app. Available online at: <https://www.arabnews.com/node/1339546/corporate-news>

³⁰ Mada. How mada works. Available online at: <https://www.mada.com.sa/en/services#how-mada-works>

³¹ The Paypers. Huawei rolls out mada Pay app to enable contactless payments in Saudi Arabia. Available online at: <https://thepayers.com/mobile-payments/huawei-rolls-out-mada-pay-app-to-enable-contactless-payments-in-saudi-arabia--1243410>

³² Mubasher. The future of e-payment solutions after COVID-19. Available online at: <https://english.mubasher.info/news/3681350/The-future-of-e-payment-solutions-after-COVID-19/>

³³ Ibid.

³⁴ Saudi Gazette. Ministry allows deposit of wages in e-wallets. Available online at: <https://saudigazette.com.sa/article/597931/SAUDI-ARABIA/Ministry-allows-deposit-of-wages-in-e-wallets>

³⁵ Pymnts. Saudi Arabia's Open Banking Plan Aims to Advance Digital Innovation. Available online at: <https://www.pymnts.com/news/international/2021/saudi-arabia-open-banking-plan-digital-innovation/>

³⁶ Alarabiya News. New e-commerce law will unlock Saudi Arabia's massive potential. Available online at: <https://english.alarabiya.net/views/2020/03/02/New-e-commerce-law-will-unlock-Saudi-Arabia-s-massive-potential>

³⁷ Global Finance. Beyond Austerity. Available online at: <https://www.gfmag.com/magazine/january-2021/beyond-austerity>

ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce, and productivity application providers.

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