

Embedded FinTech in GCC

A USD 2 bn opportunity revolutionizing
the Financial Services sector



Contents

Page	3	Executive summary
	4	Chapter 1: The rise of Embedded FinTech
		1.1. What is Embedded FinTech?
		1.2. What are the key drivers behind the Embedded FinTech revolution?
		1.3. Which sectors will benefit most from Embedded FinTech?
	9	Chapter 2: Unravelling the untapped B2B potential
		2.1. How is Embedded FinTech revolutionizing the B2B space?
		2.2. What are some of the game changing B2B use cases?
	11	Chapter 3: AI & Embedded FinTech – A recipe for disruption
		3.1. How does AI generate opportunities for non-financial institutions?
		3.2. How can the combination of AI and Embedded FinTech unlock value?
	14	Section 4: Looking ahead

Executive summary

The financial landscape in the Gulf Cooperation Council (GCC) is undergoing a revolution with the rise of Embedded FinTech. This offers businesses significant opportunities to integrate financial products seamlessly into their customer journey. Embedded FinTech includes services such as payments, insurance, and lending, which are integrated into non-financial journeys to create a more efficient and customer-centric experience. In the GCC region, the Embedded FinTech market is expected to grow from approximately USD 250 million in 2022 to around USD 2 billion by 2030, reflecting a substantial annual growth rate of roughly 30%.

The growth of Embedded FinTech is being driven by several critical factors. These include changing customer behavior, increased digitization, and regulatory enablement. Customers' growing preference for on-demand services and the widespread use of smartphones are accelerating the adoption of Embedded FinTech, especially in regions with large underbanked and unbanked populations. The digitization of customer experiences and financial products, enabled by Banking-as-a-Service (BaaS), allows non-FIs to leverage the expertise and technology of licensed financial players. Additionally, regulatory initiatives such as Open Banking promote innovation while ensuring data security.

Certain sectors, including Retail, Healthcare, Education, and Telecom, are poised to benefit significantly from Embedded FinTech, representing nearly 80% of the market by 2030. In the GCC, the FinTech ecosystem is rapidly growing, attracting substantial investments and offering fertile ground for Embedded FinTech solutions.

Embedded FinTech is not only about B2C, as B2B also continues to gain traction, Creating opportunities for deep integration between financial services and enterprise systems. This integration can deliver significant value, as exemplified by recent initiatives in the GCC, such as creating a digital innovation hub focused on Banking, Investment, Insurance, and related Financial Services.

The combination of Artificial Intelligence (AI) and Embedded FinTech is a powerful disruptor. AI algorithms enable highly customized financial services and streamline processes, reducing operational costs and improving efficiency. As AI technology continues to evolve, it will disrupt areas such as Consumer Finance, Retail Savings, Corporate Lending, and Wealth Management.

In conclusion, while Embedded FinTech has already made inroads in the GCC, the potential for further growth is substantial. Both FIs and non-FIs should strategically consider how to introduce financial offerings through Embedded FinTech, recognizing their unique strengths and goals. At Roland Berger, we are eager to help you navigate the strategic, technological and regulatory complexities that come with the application of Embedded FinTech. We hope this study can serve as a first step into that journey.

1

The rise of Embedded FinTech

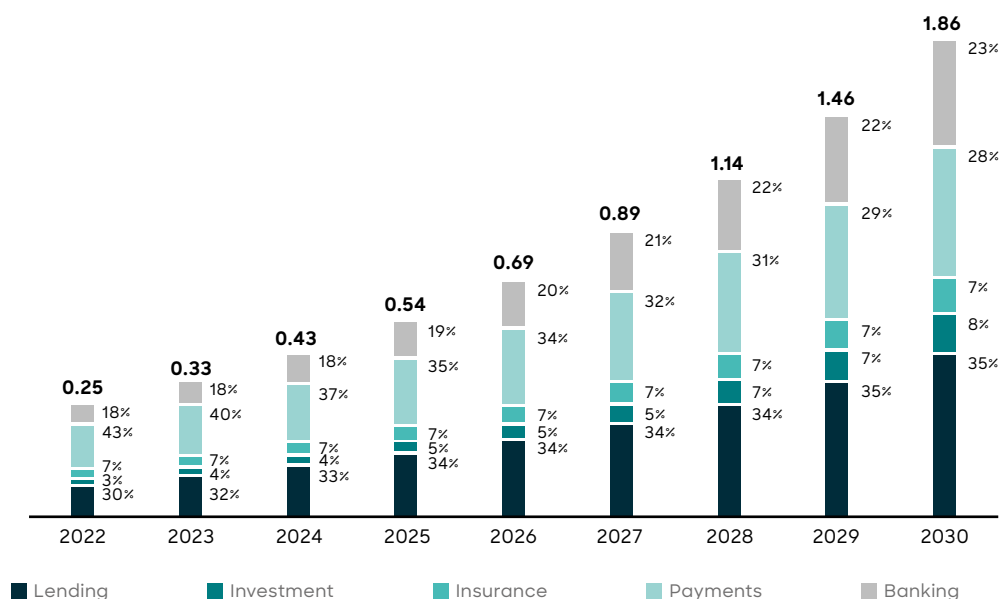
1.1. What is Embedded FinTech?

A young woman enters a coffee shop in downtown Los Angeles and orders a white mocha. The barista writes her name on the paper cup and asks about her preferred payment method. She pays for her beverage using the coffee shop's app on her phone by scanning the barcode displayed on the POS terminal. Meanwhile, in Kenya, a fruit vendor orders bananas from a plantation that is located 10 hours away. To pay his supplier, he uses M-Pesa, a mobile money transfer service launched in 2007 by Safaricom and Vodafone.

Even though both examples involve financial services, neither interacts directly with a bank. This **embedding of financial services into non-financial customer journeys** is commonly known as “Embedded FinTech.” Various businesses across sectors are already capitalizing on this trend by integrating payments, insurance, and lending products into their service offerings; this opens new revenue streams from those financial services and creates a more seamless customer experience and deeper customer relationships. Not surprisingly, this caught the attention of businesses around the globe, including the GCC. We forecast the Embedded FinTech market in the GCC to grow from USD 250 m in 2022 to USD 2 bn by 2030 or a 30% annual growth.

Several financial services and products drive the growth of the GCC Embedded FinTech. In particular, **banking, payments, and lending** are expected to represent most of the Embedded FinTech market in the coming years, as illustrated in the figure below.

A GCC Embedded FinTech revenue split by channel [USD bn]



Source: Juniper, Roland Berger



Source: Roland Berger

1.2. What are the key drivers behind the Embedded FinTech revolution?

These use cases are now prevalent worldwide, showing the widespread adoption of Embedded FinTech. We anticipate this adoption to accelerate further, driven by three underlying trends; changes in customer behavior, digitization, and regulatory enablement.

1. Customer behavior

Since the launch of the first iPhone in 2007, people have become accustomed to accessing services at their fingertips, leading to the emergence of an "on-demand economy" where the immediate availability of goods and services is a necessity for most customers. Financial services have also been affected by this trend, resulting in many apps integrating essential financial services in their offerings. In particular, Embedded FinTech can play a vital role in promoting financial inclusion in regions with a significant number of underbanked individuals. Due to its large underbanked population, the GCC is expected to experience a substantial adoption of Embedded FinTech.

2. Digitization

Another core driver behind Embedded FinTech is the digitization of customer journeys and financial products. Today, any company can offer financial services to its clients without having to build the products or technology infrastructure supporting these products itself. By utilizing Banking-as-a-service (BaaS), non-FIs can incorporate the products and technology of licensed financial institutions seamlessly into their customer experience. This approach frees them from the burdens of resource-intensive product development and technological infrastructure. In the GCC, an existing BaaS offering has already evolved, with Nymcard just being one example of a technology provider offering payments, cards, and other financial products to FinTechs and corporates. Increasingly, traditional banks are also opening up their product and tech stacks to FinTechs, enabling them to tap into the growing revenue pool presented by Embedded FinTech.

3. Regulatory enablement

The adoption of new technologies and changes in customer behavior often require regulatory support to become mainstream. Embedded FinTech is a good example of this, where Open Banking regulations have acted as a catalyst. Open Banking regulations require financial institutions to share certain client data such as account information and enable specific services (such as payment initiation) to third parties through APIs. Bahrain was the first country in the GCC to implement Open Banking, with the Central Bank of Bahrain (CBB) launching the Bahrain Open Banking Framework (Bahrain OBF) in late 2020. Since then, other regional regulators have followed suit, with the Saudi Arabian Monetary Authority (SAMA) launching a dedicated Open Banking sandbox for local and international companies to test new digital solutions in a live environment.

The main objective of Open Banking regulations is to drive innovation and investment in the financial sector while ensuring the safety and security of customer data.

1 Tarabut Gateway;

2 Phase 1 includes standard APIs and Phase 2 includes sharing Open Data (publicly available data such as ATM locator, Branch Locator, etc.), domestic standing orders, international standing orders, international future dated payments and bulk/batch payment;

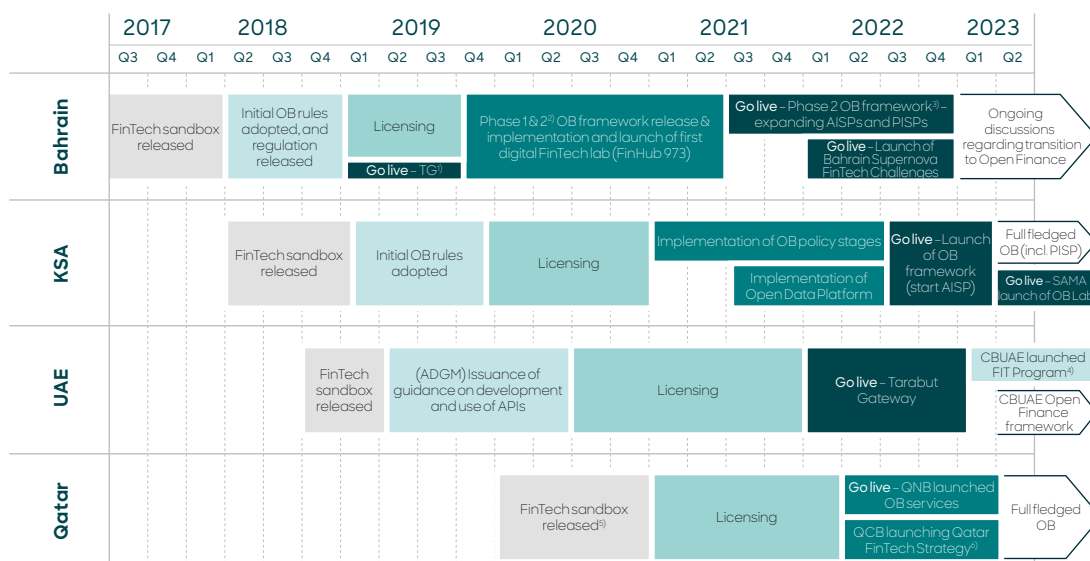
3 Enablement of AISPs and PISPs and further expansion into Open Finance;

4 Central Bank of the UAE launched the Financial Infrastructure Transformation Program which amongst others focuses on Open Finance;

5 Qatar sandbox is not OB specific due to limited regulations, licensing has been provided to digital payments;

6 QCB's FinTech strategy has a dedicated focused on Open Banking and APIs

C Evolution of Open Finance in key GCC countries



Key findings

Bahrain

Bahrain pioneers OB in the region in 2017, being the first to deploy sandbox, regulations, and the first fully licensed OB FinTech already by 2019, i.e., Tarabut Gateway, in partnership with the National Bank of Bahrain

In 2022, FinTech Galaxy becomes first CBB-regulated licensed Open Finance (OF) platform in the region

KSA

Following SAMA's OB Framework release in late 2022, an OB Lab was introduced in 2023 to allow banks and fintechs to test their products

As per SAMA online registry, there are a total of 12 Open Banking FinTechs with approved production of AISPs

UAE

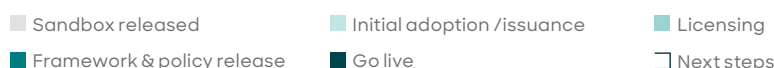
While the freezones ADGM and DIFC have already issued regulation around OB and licensed OB FinTechs, the Central Bank has not yet come out with its OB regulation and is still in consultation stage

In 2022, DFSA granted Tarabut Gateway its first Open Banking license

In 2022, DIFC launches the region's first OFLab, with Tarabut Gateway as a partner

Qatar

Adoption of OB has initially been driven by the private sector in Qatar, with the largest bank QNB developing APIs for OB - In 2023, Central Bank recently launched its FinTech strategy which has a dedicated focus on OB

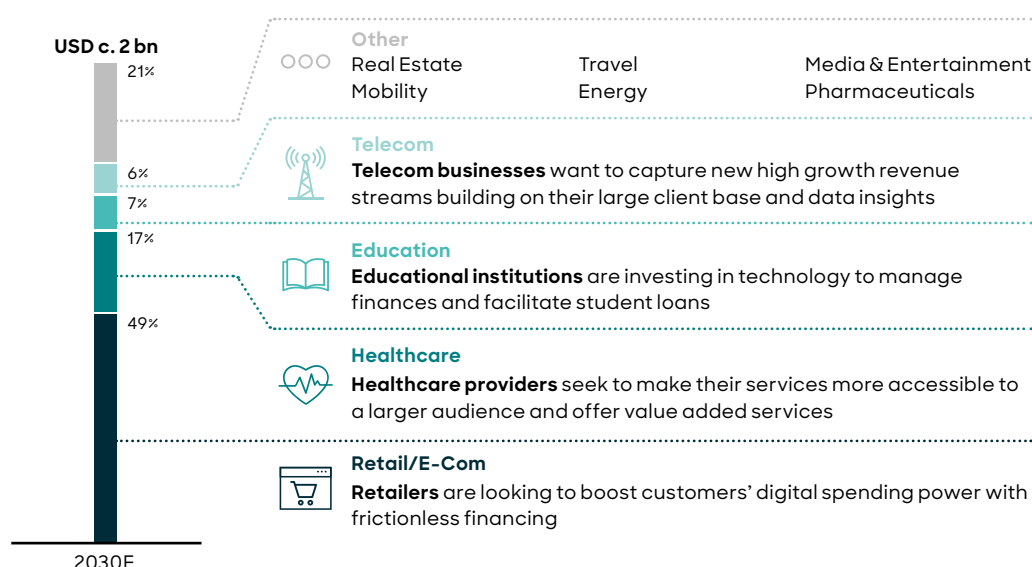


Source: Finextra, Bahrain EDB, FinTechnews, Central Bank websites, Desk Research, Roland Berger

1.3. Which sectors are most likely to benefit from Embedded FinTech?

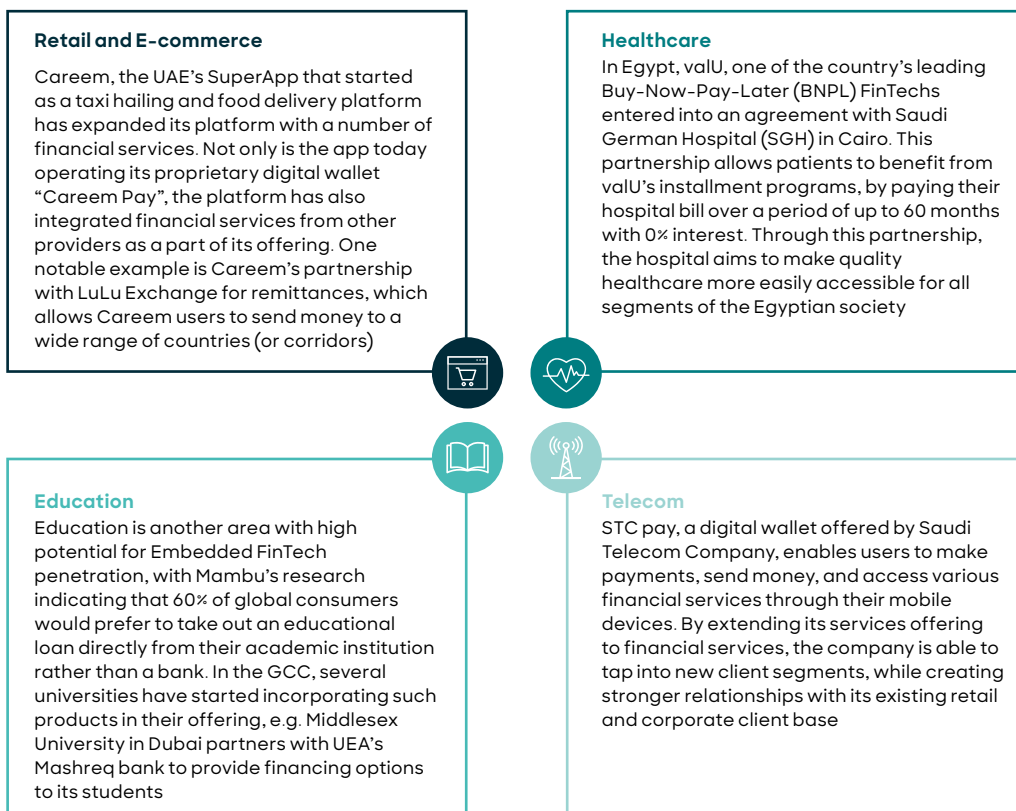
Embedded FinTech is changing the traditional financial services industry and value chain, forcing incumbent banks to rethink their business models. On the other side of the spectrum are non-FIs, which now have ample opportunity to integrate financial services into their platforms and customer journeys. However, not all sectors are expected to benefit in the same way from Embedded FinTech. We see particularly strong potential for sectors where companies tend to own the customer interface and count large numbers of clients. Following this logic, it is not surprising to see that the Retail, Healthcare, Education, and Telecom sectors are expected to be the major drivers of Embedded FinTech in the coming years. Jointly, these sectors are estimated to represent nearly 80% of the Embedded FinTech market by 2030. Within the GCC region in particular, this trend can be clearly observed.

D Embedded FinTech market size by industry



Source: ABN Amro Ventures, Dealroom.co (adapted from Simon Torrance Embedded FinTech analysis)

From a regional perspective, the Embedded FinTech region has seen significant advancements in the financial technology landscape, with Embedded FinTech emerging as a game-changing concept. According to the "State of FinTech report", the Embedded FinTech ecosystem grew by 52% from 2020 to 2021, attracting USD 241 million in investments, presenting a fertile ground for Embedded FinTech solutions to thrive and cater to the evolving needs of businesses and consumers. Today, we can already see successful Embedded FinTech examples by Embedded FinTech players across the four high-growth sectors.



2

Unravelling the untapped B2B potential

2.1. How is Embedded FinTech revolutionizing the B2B space?

In recent years, Embedded FinTech has seen a noticeable uptake in the B2C space. As we engage with platforms that seamlessly integrate financial services into our daily interactions, it becomes the natural realm we can readily connect with and understand. Popular regional platforms like Careem and Noon have integrated payment and lending services such as BNPL into their customer journeys.

However, through the B2C adoption of Embedded FinTech, it has become increasingly evident that a seamless integration of financial services into B2B processes and journeys comes with at least as much potential. Whereas businesses have traditionally operated their core IT infrastructure, e.g., Enterprise Resource Planning (ERP) systems separately from their financial services platforms as provided by financial institutions, it is now possible to go for a much deeper integration between both and realize significant value by doing so. Broadly, we have seen two business models arise, which significantly different implications for incumbent banks:

7 IT'S A JOINT VENTURE, AND SAP OWNS 20% OF THE BUSINESS. THE COLLABORATION BETWEEN OURSELVES AND SAP WILL CONTINUE TO BE EXTREMELY CLOSE. WE'RE MORE THAN JUST A SERVICES COMPANY BECAUSE WE TOOK THE IP FOR THE BANKING AND INSURANCE-RELATED PRODUCTS FROM SAP AND MOVED ACROSS TO FIONEER.

D

B2B model 1:

Embedded FinTech-as-a-Service

Embedded FinTech-as-a-Service relates to the embedding of financial services natively within an ERP or other enterprise system. This provides corporates with an integrated solution to manage their finances and accounting without the need for cumbersome data exchange. One of the leading enterprise systems in this space is not surprisingly SAP. Through its Fioneer solution, SAP enables financial institutions to seamlessly embed their products into their clients' software, thereby extending their reach and gaining valuable insights from customer data. Example use cases offered by SAP Fioneer include invoice finance, request-to-pay, and purchase order finance (use cases detailed later in this study)

B2B model 2:

Platforms embedding financial services

A second business model we see, is one where large B2B platforms are embedding financial services for their business customers. Such platforms leverage their own large balance sheet and customer base, to offer financing and other services to them directly. Thereby removing the necessity of relying on traditional financial institutions. Notable examples include Amazon's business lending platform and Shopify's capital solution, which empower small and medium-sized enterprises (SMEs) to pre-finance their inventory and pay back the loan upon the completion of sales transactions

Source: Roland Berger

2.2. What are some of the game changing B2B use cases?

As seen earlier, we expect the Embedded FinTech market in the GCC to reach closed to USD 2 bn by 2030. Until recently, has been driving the growth. However, going forward, B2B could become the dominant force of growth for several reasons; i) comparative size of B2B transactions is many times larger compared to B2C, ii) SMEs to date continue to face challenges reaching the sweet spot between managing banks, enterprise systems, and other IT infrastructure, iii) Increased digitized business transactions pave the way for Embedded Fintech to integrate across different steps of the value chain.

Embedded FinTech use cases for B2B tend to be different than their B2C peers. This stems from the more complex banking requirements and products that businesses encounter, as well as the required integration with other enterprise systems. We see a number of B2B use cases that have already gained significant traction and are expected to continue to drive adoption of Embedded FinTech in a B2B environment.

Use Case 1: Request-to-Pay (R2P)

Payments are an area that the Finance departments of many corporations spend considerable time and budgets on. Request-to-Pay (R2P) tries to facilitate B2B payments by allowing businesses to issue bills to transmit electronic payment requests. Integrating such payment requests into existing enterprise and payment infrastructure can save costs and time for B2B payments. Therefore, R2P is especially interesting for businesses dealing with frequent and low-value recurring payments.

SAP Fioneer embeds the R2P solution in client ERP systems, enabling business customers to request payments from end users through a centralized, cloud-driven solution. The company has recently established a legal entity in UAE to expand its offering to clients in the GCC.

Use Case 2: Purchase Order and Invoice Financing (PO Finance)

Managing supplier payments can have significant implications for cash flow and procurement, especially for enterprises with complex and extensive supply chains. Purchase Order (PO) finance emerges as a pivotal solution that enables businesses to address the financial requirements for procuring supplies and raw materials necessary for fulfilling orders. By integrating financial services into ERP systems, data related to purchase orders can be extracted by FIs to automatically order the financial needs and cash flow implications.

In the GCC, Invoice Bazaar is a prominent platform for Supply Chain Finance and Receivables Finance that supports SMEs in optimizing their working capital. In May 2021, Triterras, a leading fintech specializing in trade and trade finance, acquired the company. This acquisition has allowed for deep integration with local banks and offers a robust supply chain financing platform that can be seamlessly operated through cloud-based technology.

Use Case 3: Virtual Accounts

Virtual accounts are becoming popular in businesses as they streamline financial data and activities into a single digital platform. This platform is designed to integrate with other services seamlessly. By incorporating virtual accounts into an ERP system, banks can help clients automate their payment processing procedures, resulting in better cash forecasting and more efficient use of business data.

STC provides corporate clients, particularly banks interested in digital wallets, with a ready-made solution for issuing virtual IBANs. These virtual IBANs can be used immediately upon creation to establish user profiles, generate virtual cards, open virtual accounts, and conduct transactions, all facilitated through cloud integration.

Use Case 4: Buy Now Pay Later (BNPL)

BNPL has become increasingly popular in the B2C sector but its potential in the business world is yet to be fully realized. By integrating BNPL solutions directly into a corporation's ERP system, financiers can quickly assess creditworthiness and provide customized financing. These solutions empower corporates with just-in-time credit approval and provide financiers with increased revenue potential.

NymCard, a prominent payment infrastructure provider in the GCC, has successfully acquired Spotii, a well-known BNPL FinTech company operating in key markets such as KSA, UAE, and Bahrain. With this acquisition, NymCard now offers a white-labeled "BNPL in-a-box" solution for financial and non-FIs in the region.

Source: Roland Berger

3

AI & Embedded FinTech – A recipe for disruption

3.1. How does AI generate opportunities for non-FIs?

Artificial Intelligence (AI) is ushering a transformation within the financial services sector, and Embedded FinTech is no exception to this. AI algorithms are enabling Embedded FinTech platforms to offer highly customized experiences to individual users. By scrutinizing extensive datasets, AI can decipher customer preferences, behaviors, and trends, empowering platforms to provide personalized financial services, loans, insurance, and investment guidance.

AI-driven systems can handle various tasks, including customer onboarding, transaction

monitoring, and compliance checks, with remarkable speed and precision. This automation leads to reduced operational expenses and heightened efficiency. Financial service providers can, in turn, concentrate on delivering higher-value services and elevating the overall customer experience. But with the advent of AI technologies, non-FIs also have the potential to transform the way we interact with financial services. By harnessing the power of AI, in combination with Open Banking, non-FIs are able to analyze vast amounts of data in real-time, gaining previously unreachable insight. For example, AI has made it possible for Embedded FinTech platforms to expedite loan approvals, curtail fraudulent activities, and mitigate risk, thereby enhancing accessibility and security in financial services.

The speed at which bank offerings will be impacted by AI depends on the type of service offered. Payments is an area that has already witnessed significant disruption in the recent decade. In the next five years, we expect the strongest disruption to happen in the areas of Consumer Finance, Retail Savings, Corporate Lending, and Wealth Management.

3.2. How can the combination of AI and Embedded FinTech unlock value?

"The Embedded FinTech industry has already seen a number of use cases that have achieved successful scaling and monetization through the use of AI.



Digital wallets

Digital wallets, which allow users to store and manage their payment methods, such as credit cards and bank accounts in a single platform. AI can enhance digital wallets by providing personalized recommendations based on the user's spending habits, as well as fraud detection and prevention mechanisms that can analyze transaction patterns in real-time. Companies like PayPal and Square are already leveraging AI to offer these features.



Loans

AI can be used to assess creditworthiness more accurately and efficiently than traditional methods. By analyzing vast amounts of data, such as transaction history and social media activity, AI algorithms can make more informed decisions about whether to approve a loan and at what interest rate. Companies like Kabbage and ZestFinance are already using AI for this purpose.



Insurance

AI can be applied to provide more accurate risk assessments and personalized pricing. For example, auto insurers can use telematics devices to collect data about the driver's behavior, such as speed, braking, and acceleration, and adjust premiums accordingly. Companies like Lemonade and Root are already offering AI-powered insurance products.



Investment services

By analyzing market trends and historical data, AI algorithms can make personalized investment recommendations and even manage investment portfolios automatically. Companies like Wealthfront and Betterment are already leveraging AI for this purpose.

Source: Roland Berger

To date, just a few AI use cases have been scaled and monetized. However, the potential of AI goes far beyond these applications, and its continued development promises to unlock a treasure trove of value creation for non-FIs. Furthermore, the combination of Blockchain and AI opens up another realm of opportunities. For example, in the case of smart contracts, which are self-executing contracts with the terms of the agreement between the buyer and seller being directly written into lines of code, AI can play a key role in verifying those terms and ensuring compliance with regulatory requirements. To provide an additional example, AI can help Decentralized finance (DeFi) platforms automate processes such as risk assessment, asset management, and fraud detection, making them more efficient and secure.

4

Looking ahead

While Embedded FinTech has already picked up in the GCC and investments in the space are growing rapidly, we are still in early days. However, now is the time for non-FIs to act and capture the full potential of their assets.

non-FIs have different strategic options to introduce FinTech offerings through embedding financial services. Such strategies should be picked based on both external factors such as market trends, competitive moves, customer demands, and internal factors such as the organization's vision, positioning, and core strengths. For that, it is important to recognize the goals of embedding finance into the business model and to understand its respective position in the larger ecosystem of Embedded FinTech.

We have seen numerous examples of how embedding financial service products into non-FIs propositions could elevate business, namely through expanding product or service offerings, capturing untapped client potential, or growing customer engagement. In many cases, there are areas of enhancement that are not mutually exclusive. Rather, they tend to happen concurrently while an Embedded FinTech solution is implemented. An expansion of service offerings is an enabler to capture a growing customer base and can increase customer engagement.

Launching a FinTech offering comes with many complexities, involving regulation, technology and partners. Moreover, FinTech services should be introduced in a way that enhances the existing product and service offering, rather than dilute the focus and positioning of the core business. In all of this, the right selection of partners is critical to ensure a successful implementation.

In addition, the efforts to launch an Embedded FinTech offering and capture aforementioned benefits can distract from the core business and dilute the brand if not done well. Furthermore, given the oftentimes intricate financial ecosystem with many FinTechs for potential partnerships, it could be a daunting task to choose a FinTech partner and co-develop Embedded FinTech offerings.

At Roland Berger, we have supported financial and non-FIs in navigating these complexities and developing Embedded FinTech strategies and value propositions. We look forward to discussing the topic further and exploring how we can help you shape your Embedded FinTech future.

AUTHORS

Elias Aad

Senior Partner

elias.aad@rolandberger.com

Jeroen Gillekens

Senior Project Manager

jeroen.gillekens@roland.berger.com

Moustafa Sherif

Project Manager

moustafa.sherif@rolandberger.com

OTHER CONTRIBUTORS:

Alexander Eissler

Consultant

Firas Bahsoun

Junior Consultant

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