

Ayman M Al-Sayari: Address - 24 Fintech Conference

Address by Mr Ayman M Al-Sayari, Governor of the Saudi Central Bank, at the 24 Fintech Conference, Riyadh, 3 September 2024.

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I am delighted to see this distinguished group of policymakers, fintechs, startups, and academics from around the world, gathered here to exchange ideas, collaborate, and explore the trends that are shaping the future of the fintech ecosystem.

I would like to begin by framing my remarks in the context of the extensive transformation we have seen in the financial system in Saudi Arabia, particularly in the past two decades.

The financial system has evolved significantly from its early days characterized by a concentration of traditional banks - this change largely occurred in two distinct stages.

The first transformation saw a deepening of the financial system, with the emergence of a larger number of both domestic banks and foreign banks, as well as specialized lending institutions.

While traditional banks have remained the principal participants in the system, a second wave of changes over the last decade has seen a further expansion. This has resulted in a broader range of banks, finance companies and a growing Fintech sector.

While the expansion of non-bank financial companies was propelled by the growth of the private sector, the acceleration of financial innovation in Saudi Arabia has been driven by a unique combination of organic demand factors as well as concerted policy initiatives.

I would highlight four key drivers amongst these:

First, national initiatives through Vision 2030 to develop a digital economy have stimulated demand for technology-enabled financial services.

Second, the advancements in computational and analytical technology have allowed the development of more sophisticated products and services.

Third: A young, growing and highly-connected population has led to rapid growth in demand for consumer banking services, particularly digital.

And Fourth: Strong growth in economic activity, has supported growth in demand for credit and increased the attractiveness of the market for service providers.

There have been notable positive outcomes from the growth of Fintech solutions in the Kingdom. We have observed expanded access to the financial system, improved financial intermediation, and efficiency gains in the speed and cost of transactions.

A broad range of Fintech segments have emerged, with notably strong activity in the domains of payments and finance.

Growth in decentralized services in the economy has fueled demand for peer-to-peer transactions, in turn creating a need for more innovative payment solutions.

As a consequence, the share of cashless transactions has grown to over 70% of total payments last year.

The increasing diversification of the Kingdom's financial sector has also stimulated considerable demand for Open Banking services, where there are now 12 operators.

In the context of these developments, our focus as a central bank remains on stabilizing growth. We undertake this by applying prudential measures that ensure long-term financial stability, and steady economic activity, while enabling a supportive environment for market innovation.

With this in mind, we pay close attention to risks that may emerge from the introduction of new financial service business models, or existing risk factors that may be magnified.

There are four areas where this approach is particularly relevant:

- First, the robustness of AML/CFT compliance must be preserved.
- Second, Cybersecurity and business continuity must be safeguarded.
- Third, adequate controls for consumer protection and fraud prevention must be adopted.
- And Fourth, the transition from the traditional banking model must be carefully managed to avoid disruption to the overall financial system.

In order to achieve an optimal balance between these risk considerations and enablement of innovation, SAMA's Risk-Based Supervision framework provides a balanced supervisory approach for entities under our supervision.

This model takes into consideration, the proportionality of potential risks to consumers, and to the overall financial system, and allows agility in reacting to developing risks.

SAMA employs multiple tools to identify and quantify potential risks, when assessing business models.

We also employ learnings from the experiences of other central banks, to help inform SAMA's policy stance.

This in turn allows the sector to swiftly adapt to potential stresses in the macroeconomic environment, regulatory changes, and consumer expectations.

Ultimately, the most significant contributor to achieving a healthy balance, is the stability of the underlying financial ecosystem.

A resilient and stable financial system is key to supporting economic growth, which in turn creates a conducive environment for startups through the availability of fairly priced risk capital, with the ability to invest in innovative growth, as well as withstand failures.

Through this approach, SAMA has actively supported the development of the Fintech ecosystem, with the objective of ensuring equitable market opportunities, accessible common infrastructure, and the creation of an accommodative regulatory environment.

Two prominent tools that SAMA has deployed, are the Regulatory Sandbox, launched in 2018, and the Makken program, which was launched last year.

The Regulatory Sandbox allows start-ups to test innovative solutions within a ring-fenced environment.

Insights from the Sandbox have helped evolve SAMA's supervisory framework and provided regulatory clarity.

In addition, the Makken program, launched through Fintech Saudi, is a joint initiative between SAMA and the CMA. It is designed to support new Fintech companies in their cloud and cyber-security needs, while also lowering their cost of compliance.

These cumulative efforts have proved fruitful, with the number of Fintechs operating in the Kingdom today growing by 57% since the start of 2023, and now reaching 230 in total.

I will conclude my remarks by stating my strong belief that, the Fintech industry has the potential to play an even greater role in reshaping the future landscape of the Kingdom's financial sector.

The next wave of transformation, following the deepening and broadening of the sector which we saw in the last two decades, will likely be characterized by Fintech solutions becoming an engine of economic growth as they become a larger part of the financial system.

However, we must ensure that innovation is adopted in a prudent manner while prioritizing monetary and financial stability.

Thank you.