

GCC: Next generation digitalisation

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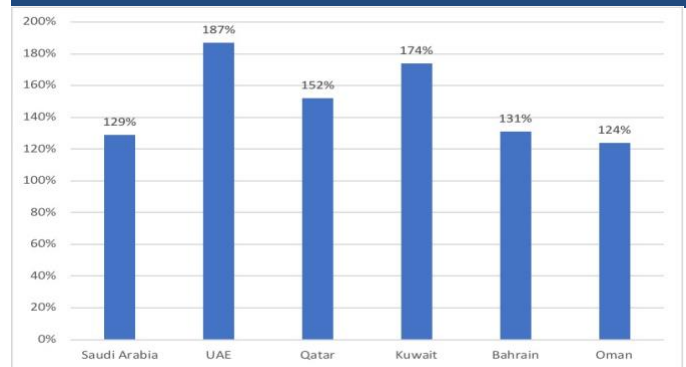
- Digitalisation is rapidly growing across the GCC, with governments increasingly driving the technological shift. This is key for long-term growth and attracting investment.
- Financial technology (fintech) is among the catalysts of digital transformation. Going forward, it is expected to remain above pre-pandemic levels, building on the boost it received last year.
- GCC countries are in pole position when it comes to adopting 5G networks. The competitive advantage in terms of strong frequency is already enticing foreign telecom operators to join the party.

GCC navigating the digital transformation

The COVID-19 pandemic has jolted laggards within the GCC to adopt and embrace a digital approach with regard to their products and services. It is becoming a game of survival.

- Throughout history, GCC countries have been faced with the urgent need to diversify. The COVID-19 pandemic has prompted them to do so on an unprecedented level. We are now witnessing several GCC states beginning to position digitalisation at the core of their national strategy ambitions.
- Throughout the MENA region, the average contribution of the digital economy to GDP is around 4%, which currently trails the emerging market (EM) average of 8%.
 - Within the GCC, Saudi Arabia is above average at 6.4%, followed by the UAE and Bahrain at 4.3% and 3.8%, respectively.
 - Compared with 9% in the US and 7.7% in the UK, there is clear room for growth. Expansion within the GCC digital arena will be dependent on both regulatory stimulation and investment. Encouragingly, these are expanding rapidly.
- The increase in mobile penetration across the GCC is one of the major catalysts facilitating digital transformation and is crucial for the growth and development of the fintech sector.
 - Nearly half of the MENA region has a mobile penetration rate of 70% or more; this compares with around 66% globally. The percentage of people in the MENA region connected by mobile phone to the internet grew from around 29% in 2014 to around 40% in 2019; it increased by a further 15% in 2020.
 - Although 49% of the region's population lives within the footprint of mobile broadband, it is not yet utilising the technology. This clearly underscores growth potential.
 - The GCC still leads in this remit; more than 92% of people living in the UAE use smartphones, which allowed for an estimated 30% growth in mobile payment usage between 2020 and 2021.

Figure 1 - GCC mobile penetration rate (%)¹



- Fintech is at the forefront of digital transformation within the GCC, particularly as governments and central banks encourage the sector's growth.
 - In November 2017, the Dubai International Financial Centre (DIFC) launched FinTech Hive, the region's first fintech accelerator equipped with a USD 100M budget to invest in start-ups at all levels, from incubation through to growth stages.
 - Qatar initiated a fintech strategy as part of the Qatar National Vision 2030 framework to promote both sector growth and investment within it.
 - Bahrain has also leveraged its banking expertise to grow a fintech ecosystem.
 - Its central bank has developed a reputation for implementing pioneering, light-touch regulation of developing technologies from cryptocurrencies to open banking.
 - Saudi Arabia is also making headway with its plans to make the kingdom a fintech hub.
 - Earlier in January 2021, the Saudi Central Bank (SAMA) released two new mandates targeted at growing a fintech ecosystem in the kingdom.
 - This came after SAMA approved nine new fintech start-ups for its regulatory sandbox, one of the highest numbers across the GCC.
 - Transactions in the Saudi fintech sector are forecast to exceed USD 32B by 2023, up from USD 20B in 2019. Yet based on sector growth, we believe that fintech transactions could reach even higher levels than expected, particularly with new investors entering the market.

In tandem with efforts to drive digitalisation in the fintech sector, there is a rapid increase in 'open banking', a field characterised by the sharing of data with third parties to facilitate money management networks.

- Globally, 'open banking' is expected to expand by 24% per year by 2026 to reach a market value of over USD 43B. In the MENA region, the concept is only just beginning to take shape; its untapped potential therefore comes as no surprise.
 - However, with the GCC's reputation for embracing new technologies, we expect the market will expand rapidly. Indeed, it is forecast that 71% of small and

¹ Arabia Monitor; GSMA.

medium-sized enterprises (SMEs) and 64% of adults across the region will be using open banking by 2022.

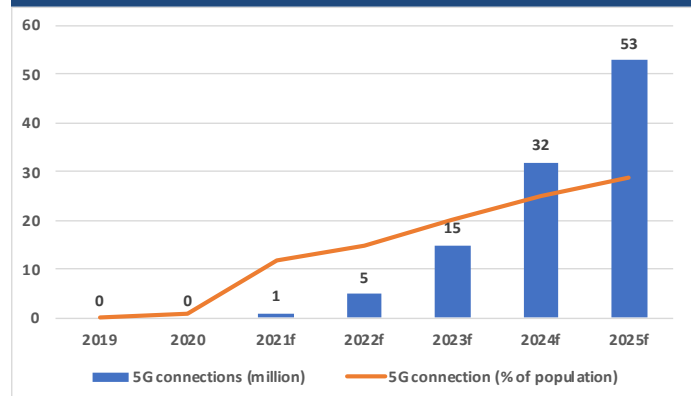
- Fuelled by its pro-innovation approach, Bahrain is the regional pioneer. The country has already introduced open banking regulations with an eye to transforming its financial services industry. It has focussed on greater transparency and inclusivity with regard to data sharing.
 - In late 2020, the National Bank of Bahrain (NBB) partnered with Tarabut Gateway, the MENA region's first licensed open banking platform and a subsidiary of Bahrain's venture group Almoayed Technologies, to roll out open banking with its clients. Remarkably, the platform is operating with more than half of the country's banks.
- Expansion is on the horizon and will undoubtedly be key to driving digital transformation within the GCC's financial services.
 - Tarabut Gateway is expanding its operations into Kuwait, where it launched its services with Kuwait Finance House and the National Bank of Kuwait. Going forward, it has announced plans to expand into the UAE.
 - In the UAE, 88% of banks plan to adopt open banking by the end of this year. Service-related technologies (such as biometric software, government ID readers and access management apps) are already being employed nationwide.
- Earlier this year, Saudi Arabia's central bank launched an 'Open Banking Policy' as part of its Vision 2030 'Financial Sector Development Program' -- a series of initiatives introduced over the last three years to help nurture a fintech ecosystem.
 - Set to go live in H1 of 2022, the policy is expected to accelerate digital transformation in the kingdom and to galvanise its competitiveness across the region.

5G drives very real innovation

Mobile data consumption across the GCC is increasing, demonstrating the bloc's digitalisation drive. Growth is underpinned by rising smartphone usage and the availability of high-speed networks.

- Significant investments by operators have accelerated 4G coverage in recent years. This will remain the key driver of operator CAPEX in the near term, while opening the door for new operators and existing players alike.
- 5G services have also become a reality for GCC countries, and a priority as part of their diversification plans.
 - Since 2019, over ten operators have launched commercial 5G services within the GCC. Other countries in the region are expected to follow suit in the coming years with trials and commercial launches already underway.
- The GCC is estimated to host around 62M 5G mobile subscribers by 2026; the region is emerging as one of the most diverse and advanced markets with regard to adopting fifth generation cellular wireless networks.

Figure 2 - 5G network distribution in GCC²



- Over the next five years, the GCC will possess the highest levels of 5G penetration at 73%. Importantly, this will surpass the global average by 0.6%, and rank as the second highest in the world after North America (84%).
- This would entail the MENA region hosting 6% of all global 5G mobile connections (around 45M connections).
- Progress is already happening. In May 2019, Etisalat, the UAE's largest telecommunications operator, became the first service provider in the region to announce the availability of a 5G network, supporting smartphones for commercial use.
 - It was soon followed by the UAE's second-largest operator, du, as well as the Saudi Telecom Company (STC) and Bahrain's Batelco.
- Going forward, 5G will play a pivotal role in the development of smart cities, even beyond the GCC.
 - From Neom in Saudi Arabia to Egypt's new administrative capital city, 5G is expected to enable and complement artificial intelligence (AI) and the 'internet of things', as well as other transformative technologies.
 - We expect a number of local firms to take advantage of this growth in the coming years, both alone and in conjunction with US, Chinese and European companies.
 - Regionally, Kuwait's Zain Group, a telecommunications company, already covers 95% of Kuwait's populated area with commercial 5G, while Zain Saudi Arabia is constructing 2,000 towers in 20 cities.
 - Foreign investors are bound to take interest. Sweden's Ericsson, besides signing an MoU with Saudi Arabia's STC, has recently partnered with Etisalat to deploy a 5G high-band network across the UAE. It also signed a five-year agreement with Qatar's Ooredoo.
 - We expect to see even more foreign participation, particularly as GCC governments continue to relax national policies in a bid to boost investment and attract overseas interest.

² Arabia Monitor; GSMA.

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