

Agpaytech's Research
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The Landscape of Digital Banking in the UAE

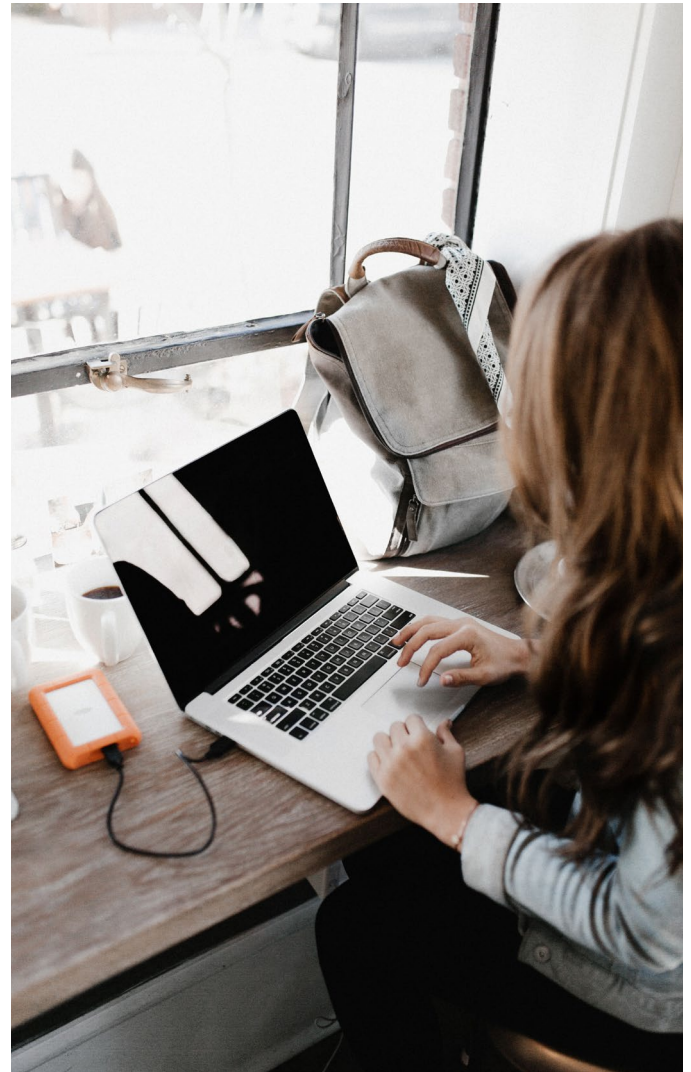


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Introduction

Digital banking is the easiest way to transfer money through digital banking platforms like the web and internet-enabled systems like mobile devices. Digital banking is easy to access in remote areas. While traditional banks offer online banking features, creating your account in person at the bank is still necessary. This paper profoundly discusses digital banking in middle eastern countries, mainly focusing on UAE. The UAE has seen a steady increase in digital banking users over the past few years, driven by the government's commitment to digital transformation. Digital banking services in the UAE include mobile banking, online banking, and digital wallets. It is helping to drive the digital banking revolution in the UAE, making banking more accessible and secure for everyone. The digital banking industry in the United Arab Emirates (UAE) is growing rapidly it's a major force in the region of the economy. The UAE is considered one of the most advanced countries in the Middle East when it comes to digital banking, with several digital banks being established in the country in recent years. The introduction of digital banking has enabled people to access services such as online banking, mobile banking, and payment systems in a safe and



convenient manner. Digital banks in the UAE have revolutionized the way people manage their finances and have made banking services more accessible than ever before. Digital banking has also enabled the country to remain competitive in the global financial market.

Keywords: UAE digital banking, Neo banking, Digital banking SMEs business, Middle-income countries, Middle Eastern countries, UAE's Fintech Market trends.

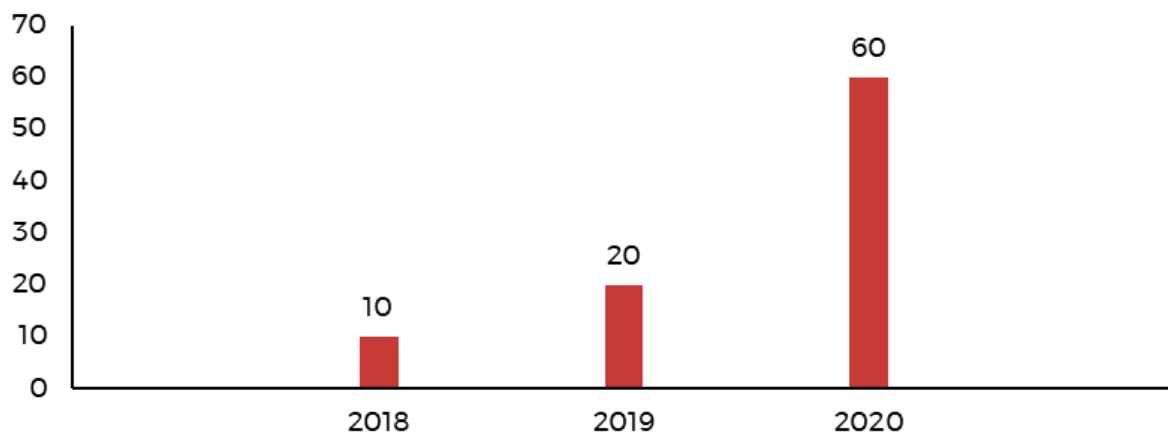
An overview of digital banking in the middle east

The Digital banking Middle East scene has lagged behind Europe and North America due to the slower adoption rate of modern banking standards. However, with financial-free zones appearing in the region, fintech companies operate freely with international standards, fostering faster innovation. However, the situation differs in individual countries in the Middle East. Therefore, this report discusses the various Middle Eastern nations accessing digital banking. The research narrowed this overview to four Gulf Cooperation Council (GCC) countries.

Saudi Arabia:

The First digital bank in Saudi Arabia is Saudi Telecom Bank (STC bank), the rebranded version of the old bank with a capital of 660 million USD. According to KPMG, the fintech market in Saudi Arabia grew 147% from 2018 to 2020 and is expected to grow by a further 55% before 2023, highlighting the promise of digital banking in Saudi Arabia.

Figure 1: Number of Active Fintech Startups in Saudi Arabia



Source: KPMG

The Saudi Arabian Monetary Authority (SAMA) currently relies on a regulatory sandbox to support fintech initiatives within the Kingdom. In line with the Saudi Vision 2030, this sandbox has since accepted over 20 fintech solutions after stringent regulatory evaluations to determine their eligibility.

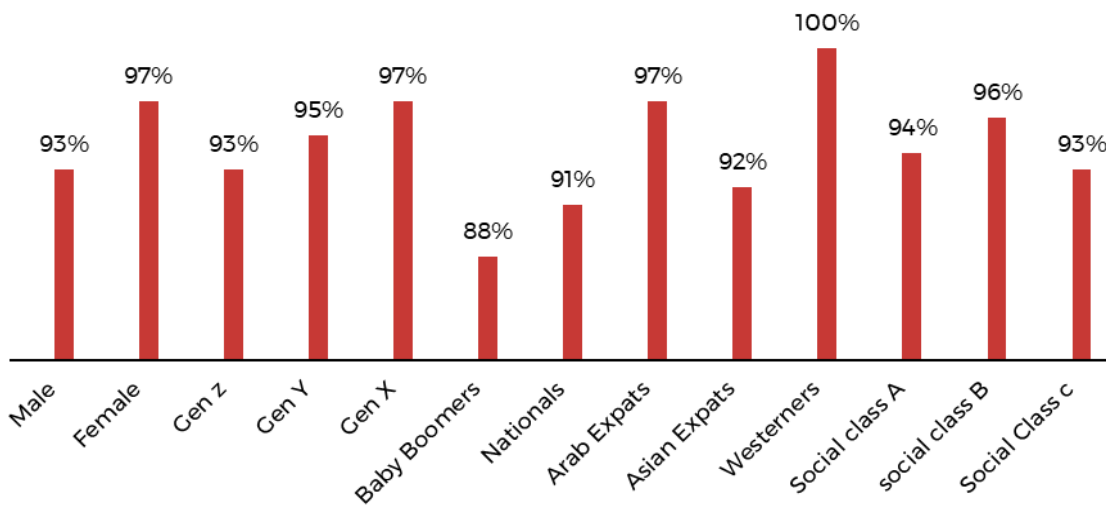
United Arab Emirates:

The UAE has become one of the fastest-growing economic and technological hubs, owing to the National Innovation Strategy. However, other initiatives that play a vital role in the finance and banking sector, like Artificial Intelligence Strategy 2031 and Emirates Blockchain Strategy 2021, have also accelerated investments in technological advancements. Zand is the first digital bank in the UAE to provide retail and corporate services as part of its customer-centric remodelling. Legacy banks like Emirates NBD, Mashreq, and the Commercial Bank of Dubai have adopted digital banking solutions. Some of the best digital banks in the UAE include Liv, NOW, Rise, and Neo.

Qatar:

According to IPSOS (Independent Polling System of Society) over 94% of bank customers in Qatar have used at least one digital banking channel.

Figure 2: Usage of the Digital Banking Channel



Source: IPSOS

The Qatar Central Bank (QCB) has increased investments in the financial sector to compete with its neighbors. Since Qatar has over 75% smartphone penetration, most banks are switching to mobile banking services to address customer needs. Besides, Qatar Islamic Bank (QIB) recently launched a video banking service available on the QIB Mobile App, making it the first digital bank to use this feature in Qatar.

Other banks that provide mobile banking services in Qatar include:

- ◆ Doha Bank
- ◆ Commercial Bank of Qatar (CBQ)
- ◆ Dukhan Bank
- ◆ Ahli Bank
- ◆ HSBC Qatar

Bahrain:

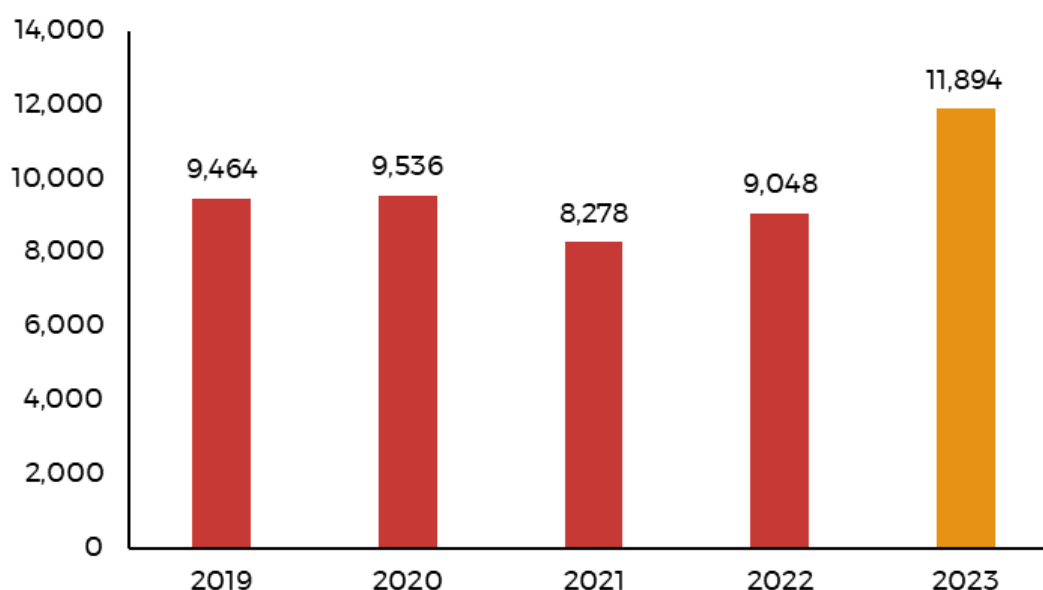
The Kingdom of Bahrain has launched “meem”, the first sharia-compliant digital bank under the digital arm of the Gulf International Bank. This banking platform enables customers to use multiple channels 24/7. The National Bank of Bahrain has also launched a Digital Banking Challenge to encourage young innovators to build core banking solutions that rely on emerging tech trends. Bahrain Fintech Bay will also participate in this program, providing mentorship and support at different stages. The banking sector in Bahrain has seen an increase in customer satisfaction and a decrease in banking fees. This has resulted in a surge in banking activity and an increase in the number of people using digital banking services. The Bahraini government is committed to further developing its digital banking infrastructure and is taking steps to ensure that it remains one of the most advanced in the region.



Overview of digital banking in the Middle-income countries (MICs)

In the era of digitalization, there is a need to expand economic development. Therefore, across the GCC or middle east countries, the government is working on grasping the newcomers and establishing financial and non-financial institutions. However, the banking market is dominated mainly by the traditional powerhouses covering large markets, and share requires a depth understanding of some of the most prevalent opportunities combined with key and success factors to enter and compete in this market. Cross-border payments & remittances: The three most oversized outward remittance corridors are in UAE, Saudi Arabia, and Gulf countries. However, among the three outward's remittance gulf country is the most receiving and sending money country. Most migrant workers are working there and sending back money to their homes. Many other dynamics make cross-border payments a predominant part of the financial services industry in the Middle East. The World Bank (2012) reported that lower-middle-income economies per capita between \$1,036 and \$4,045; and upper-middle-income economies with a GNI per capita between \$4,046 and \$12,535. Middle-Income Countries are a diverse group by size, population, and income level and are home to 75% of the world's population and 62% of the world's poor. MICs represent about one-third of the global GDP and are significant global growth engines.

Figure 3: Middle-Income Countries: Commitments by Fiscal year (in millions of dollars)



Source: The World Bank

However, the GCC payment systems system company launched an AFAQ system in 2020, designed to connect all GCC local RTGS systems to process and settle cross-border payments in the GCC region on a real-time basis. AFAQ is a typical regional platform that links the real-time gross settlement system (RTGS), which is designed to connect all GCC local RTGS systems to process and settle cross-border payments in the GCC region on a real-time basis. In the first phase, each operational model includes multiple services for transfers in the currencies of GCC countries. In the second stage, other currencies will be included.



Digital banking expanding in the SME business.

Small and medium-sized enterprises (SMEs) are an integral part of the economy of the United Arab Emirates (UAE). UAE believes that entrepreneurship plays a crucial role. In recent years, the UAE has seen an increase in the number of SMEs, and the government has put in place initiatives to support the growth of these businesses. Digital banking allows SMEs to streamline their banking processes and make their financial operations more efficient. Digital banking has also provided SMEs access to financing options, such as microloans and venture capital. In addition, some entities are supporting SMEs in the UAE.

Khalifa fund, a not-for-profit entity mandated by the Abu Dhabi Government, has supported SMEs since 2007. It started with a capital of AED 300 million, which increased to AED 2 billion, and now covers SMEs across the UAE. However, the Khalifa Fund helps aspiring Emirati business people with the following services:

- ◆ Business counseling
- ◆ Financial support and financial advice
- ◆ Business monitoring and support for funded projects
- ◆ Technical support and guidance
- ◆ Participating in the Khalifa Fund marketing campaign and network
- ◆ Government support and exemptions
- ◆ Training and skills development
- ◆ Incubation

Table 1: Various programs under funding from Khalifa fund

Program	Description	Maximum loan amount (AED)	Lowest Contribution amount of the overall project cost	Maximum grace period (months)	Maximum repayment period (months)	Fees on the loan (1% decrease)
Micro	Support home-based micro-enterprises that do not require large capital	50,000	10%	6	24	N/A
Khutwa	Support micro-businesses for specific target groups, (divorced women, widows and retirees)	250,000	10%	24	60	N/A
Bedaya	Support new startup SMEs in different sectors	1,500,000	< AED 500,000, 10%, If > AED 500,000, 20%	24	60	N/A
Zeyada	Supporting existing and successful SMEs, helping the owners wish to develop and expand.	2,500,000	If < AED 500,000, 15%. If amount is AED 500,000 to AED 2,000,000, 20%. >AED 2,000,000, 30%	12	48	5%
Tasneea	Supporting SME projects to promote growth and industrial diversification and stimulate economic growth	10,000,000	30%	36	60	First AED 3,000,000 has no interest; above AED 3,000,000 has %4 interest
Al Hasela	Khalifa Fund and Fisherman's Association provides financial and technical support for fishermen.	250,000	10%	24	60	N/A
Zaarie	The UAE supports the agriculture sector through the Abu Dhabi Farmers' Service Center and Abu Dhabi Food Security Centre.	1,000,000	10%	24	60	0

Source: UAE Government

- ◆ All Financing programs are subject to bank charges of 1 % of the loan amount, paid in advance upon approval of the loan, and is subject to the insurance fees of the project paid from the applicant's contribution.
- ◆ All financing programs are subject to the terms and conditions of the Khalifa fund.
- ◆ Administrative fees may be imposed on some services and financing programs. Please ask the business counsellor for more details.
- ◆ In general, funding programs are subject to continuous review, some may be frozen for temporary periods, or the value of loans may be reduced due to market or project-specific factors.

UAE fintech market trends

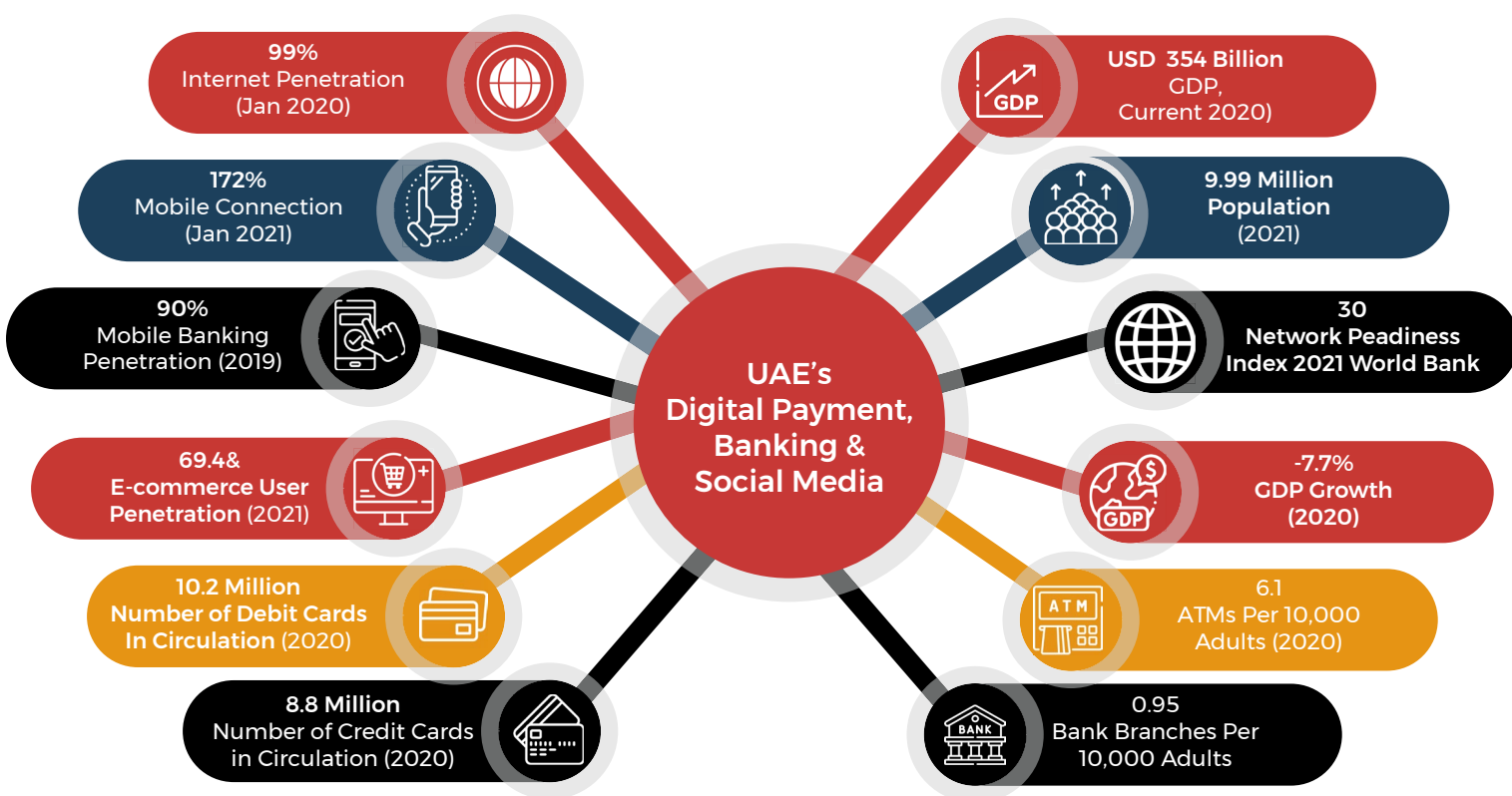
The UAE Fintech market is rapidly growing and evolving, becoming increasingly important in the economic landscape. The UAE has become a hub for innovative fintech companies and investors, as the country's government has invested heavily in the sector. Several factors are driving the growth of the fintech sector in the UAE:



- ◆ The country's growing population is increasingly comfortable using technology and digital services, creating a fertile environment for fintech startups.
- ◆ The government is taking a proactive approach to regulating and encouraging fintech innovation.
- ◆ The UAE is home to several major financial institutions and investment firms, providing capital and expertise to the sector.

In the digital banking space of all the middle eastern countries, UAE has 97% of consumers willing to try new digital payment methods. Although much of the population in the country use (The way forward for digital banking in the UAE, 2022) (Best Digital Banks in UAE in 2023, 2023) credit/debit cards to make payments 88% of the transaction in 2021 in the UAE were contactless.

Figure 4: UAE's fintech trends



Source: UAE Fintech Report

The UAE's fintech sector is focusing on a variety of areas. These include payments, digital banking, wealth management, blockchain and cryptocurrency, and insurance technology. These areas will likely grow in the coming years as the country continues to invest in the sector and encourage innovation. However, the innovation in blockchain technology and open banking will drive the development of future financial services.

Neo banks are the game-changers in this situation because they take on traditional banks' high fees and complex pricing structures while gaining the trust of their clients with streamlined digital-only services. Another significant development is the emergence of a new generation of integrated payment providers during this time, with platforms that can add payments as an extra component to an already robust business management system.



The emergence of Neo Banking impact the UAE's economy

The UAE's economy is working to become a banking industry and convert into a digital world. However, 50 commercial banks are currently operating in the country. The central bank of the UAE established 2020 a dedicated FinTech office, paving the way for the new native digital banks. Furthermore, these newly developed digital banks focus on streamlining operations to conduct high-volume digital transactions. The term neo bank has become a buzzword in the fintech and consumer banking realms, and it is a trend in established and developing nations. However, the introduction of new banks has been driven by the growth of internet users and the accessibility of the internet in the country. However, having access to banking is typically considered a challenge for new businesses. Neo banks can change this scenario by providing cost-effective and accessible banking services on both the B2B and B2C levels.

Transforming the banking sector in the UAE: A hub of Neo Banking

The UAE has set out to leverage the potential of Neo-banking in the country. Last year, the Central Bank of the UAE gave in-principal clearance for a new digital banking platform, sponsored by state holding firm ADQ, to begin operations in digital banking. ADQ and Alpha Dhabi collaborated to create a new bank called Wio Bank, with support from telecom operators e& and First Abu Dhabi Bank. With total invested capital of AED 2.3 billion and a focus on serving small and medium-sized businesses, Wio launched in September of last year.

In 2021, YAP, a new digital bank in the UAE, was launched, which has collaborated with RAK Bank to provide foreign bank account numbers and safeguard cash under its banking license. Initiatives such as these are expected to transform the banking sector in the UAE and boost economic growth and diversification. Neo banks offer more specific, transparent, personalized banking services, effective cost management, and increased accessibility. The emergence of Neo-banks will change the former banking look in the UAE and the MENA region. The UAE leads the Neo-banking revolution with a supportive regulatory environment and a growing startup ecosystem. The country is taking initiatives to leverage the potential of Neo-banking. These initiatives are expected to transform the banking sector in the UAE and boost economic growth and diversification.

Adoption of the digital banking

The UAE is one of the most robust banking sectors in the Middle East. However, the fast-growing gulf country has 46 commercial banks offering financial services to the users.

Henceforth, several of these banks is embarked on providing digital banking solutions by allowing online account opening facilities to their users. The UAE has several digital banks, including Mashreq Neo by Mashreqbank, Liv by Emirates NBD, Amwali by Abu Dhabi Islamic Bank, and Yap, which is reportedly the first independent digital banking platform in the Emirates. Zand is another bank that aims to launch personal banking solutions later this year. Below, list the banks that have adopted digital banking:

- ◆ Liv Bank
- ◆ E20 Bank
- ◆ Wio
- ◆ Z.A.P.
- ◆ Mashreq Neo
- ◆ ADIB Smart Banking
- ◆ Zand
- ◆ CBD Digi
- ◆ Dubai Islamic Bank

The UAE banking sector, one of the world's most prominent adopters of fintech, is pressing ahead with its digital transformation drive to enable the nation to make further strides in digital banking penetration. However, in the era of digitalization, the UAE ranks sixth in digital banking penetration. By the end of 2027, digital banking penetration in the UAE is projected to increase by 22% to 41%. According to the UAE consumer surveyed, 19% indicated having a digital bank account and an additional 15% shared intent to open one in the next year. However, this adoption takes to a forecasted 34% in 2023. Furthermore, the finder conducted that in April 2022, 1015, respondents found UAE consumers to be among the most eager to embrace digital banking.

Finder, which conducted a worldwide survey of 1,015 respondents in April 2022, found UAE consumers to be among the most eager to embrace digital banking. The figure puts the UAE in the sixth position in digital banking penetration, ahead of Mexico, Germany, the Philippines, and the US.

However, Digitisation is currently one of the essential pillars of the global economy and organizing a workshop on digital banking and technology. It

is a part of our continuous efforts to ensure the consolidation of the banking and finance sector's leadership through a proactive approach to studying and analysing global market trends. The Finder survey findings align with other research on digital financial services adoption. Mastercard's New Payments Index 2022 has found that 29% of consumers in the UAE used less cash in 2021.

Challenges of digital banking in the UAE.

The United Arab Emirates (UAE) is experiencing rapid growth in the digital banking sector due to a strong government push for financial technology (fintech). Digital banking has become a key focus for the UAE's central bank, and it is investing heavily in developing a robust digital banking infrastructure. Digital banking in UAE has become one of the most popular options for opening new accounts. 34% of the entire population is expected to have a digital bank account by the end of 2023, up from 19% in 2022. However, there are many challenges associated with digital banking in UAE.

- ◆ **Downtime:** You could need help accessing your accounts if your bank experiences an online or mobile app outage with no branches nearby.
- ◆ **Learning curve:** Online banking and mobile banking apps seem overwhelming to those who need more technical knowledge. It might be daunting for those who need to be tech-savvy to deal with mobile banking apps and online banking.
- ◆ **Security risks:** When dealing with digital transactions, there is always a risk of personal data being compromised. On the other hand, online banks offer various security features that mitigate such risks.
- ◆ **Final Verdict:** Every aspect of banking is digitized in digital banking, from the front to the back page. The benefit is that digital banks can automate back-end operations like administrative processes and data processing using artificial intelligence, relieving some of the stress placed on employees.

In addition to allowing users to deposit and transfer money remotely, digital banks also offer clients the option to apply for loans, and access customized money management services, like overseas transfers and investments in various asset classes such as stocks, gold, mutual funds, and even crypto assets.

In the UAE, digitalization of services especially when onboarding new customers is a significant challenge as central banks and regulators still assess on a case-by-case basis. An additional complexity is that identities must be verified and approved by the Federal Authority for

Identity and Citizenship, which can only be done in person. It means the customer must drive to the bank and provide ID, or the bank sends a member of staff to the customer's home or office with a card reader to confirm the authenticity of their documentation.

FinTechs, on the other hand, allow their customers to onboard digitally using digital identity solution providers like IDnow, which has gained the approval of local regulators, The Dubai Financial Services Authority, and the Abu Dhabi Global Market.

Using fintech to streamline an established banking institution's KYC process and customer journey is a logical step. It can speed up the onboarding process, deliver 24/7 access to money management, and provide customers with complete control of their finances. Digital identity proofing and verification can help onboarding for a range of financial services, including banking, fintech, Buy Now Pay Later, digital assets and cryptocurrency platforms.

The UAE Government's strategy

According to the recent Digital Banking Adoption Report, 17% of Emirati adults currently have a digital bank account, while an additional 13% plan to open one in the next five years. At those projections, an estimated 31% of Emiratis will have a digital bank account by 2026. However, the central bank of the UAE (CBUAE) announced its 2023-2026 strategy, which includes a digital currency and driving digital transformation in the nation's financial services sector by utilizing AI and big data solutions and developing secure financial cloud infrastructure. In addition, earlier this month Central bank of the UAE granted in-principal approval to launch Wio, a new digital banking platform. Headquartered in Abu Dhabi, Wio will offer customers in the UAE a fully digital banking choice with customized products and services. The digital banking platform's primary shareholders, ADQ and Alpha Dhabi, own a combined stake of 65%. Additionally, Etisalat holds 25% and First Abu Dhabi Bank (FAB), holds 10%. On the other hand, The UAE's National Digital Government strategy is drafted on eight dimensions.

- ◆ Leaving no one behind
- ◆ Resilient
- ◆ Fit for the digital age
- ◆ User-driven
- ◆ Digital by design
- ◆ Data-driven
- ◆ Open by default
- ◆ Proactiveness

Leaving no one behind:

Adopting open and inclusive processes, accessibility, transparency and accountability among the main goals of UAE digital government strategies and ensuring inclusiveness and overcoming any digital divides that might arise with a particular focus on elders, people with determination, women, children and other vulnerable groups.

Resilient:

This involves leveraging emerging technologies to build capabilities in anticipation of disasters and crises to be able to respond to them proactively.

Fit for the digital age:

It involves promoting cross-sectoral and inter-ministerial coordination and collaboration, setting national priorities, and engaging relevant stakeholders in pursuing the UAE's digital agenda.

User-driven:

This dimension recommends governments be more user-driven, highlighting the notion of engagement by default. It advises keeping people's needs and convenience at the centre of shaping processes, services and policies and adopting inclusive mechanisms.

Digital by design:

This dimension is about establishing clear organizational leadership and effective coordination and enforcement mechanisms. All policy processes must be embedded with 'digital' as a mandatory transformative element.

Data-driven:

Under this dimension, a digital government governs data as a key strategic asset in generating public value through applying it in the planning, delivering and monitoring of public policies and adopting rules and ethical principles for their trustworthy and safe reuse.

Open by default:

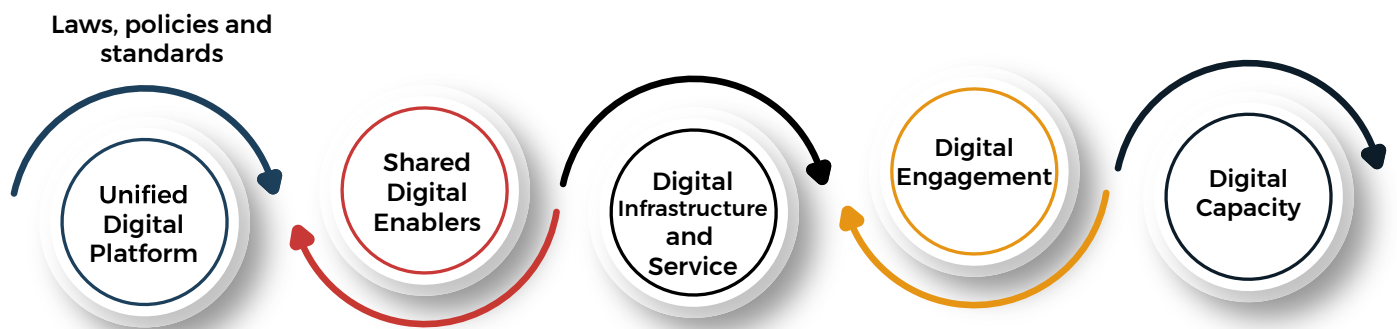
Open by default means making government data and policy-making processes (including algorithms) available for the public to engage with.

Proactiveness:

This dimension is about the ability of governments and civil servants to anticipate people's needs and respond to them rapidly enough so that users do not have to engage with the cumbersome process of data and service delivery. The UAE Digital Government Roadmap comprises six main pillars encompassing 64 national digital enablers. Refer to the figure below for details.



Figure 5: Roadmap UAE Government



Source: UAE Government Strategy

Conclusion

The UAE has seen great success in its digital banking sector. It has implemented several initiatives to promote digital banking, including introducing digital wallets, developing digital banking tools, and establishing digital banking payment systems. These initiatives have made it easier for people to access banking services and have contributed to the country's high level of financial inclusion. It has increased economic growth and further improved the country's financial stability. The UAE's digital banking sector is a testament to its commitment to technological innovation and empowering its citizens. Furthermore, Major banks in the UAE are using customer data to understand the most common tasks and the journey of every single customer. The country's commitment to advancing digital banking technology and improving customer experience has enabled banking customers to access a range of services and products through convenient and secure digital channels. The wide range of digital banking tools also helps to simplify everyday banking activities and improve customer satisfaction. The UAE government has set a clear path for the development of digital banking and is determined to remain at the forefront of innovative banking solutions in the region.

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About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns.
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