MERatings
Middle East Credit Rating Agency

FinTech in Qatar

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1. What is FinTech?

Financial technology (FinTech) is used to describe new technology that seeks to automate the delivery and use of financial services. FinTech is utilized to assist companies and consumers to better manage their financial operations and processes by employing specialized software and algorithms that are used on computers/smartphones. When FinTech emerged in the 21st Century, the term was initially applied to the technology employed at the back-end systems of established financial institutions. Since then, however, there has been a shift to more consumer-oriented services. FinTech now includes different sectors and industries such as education, retail banking, fundraising & nonprofit and investment management. FinTech now describes a variety of financial activities, such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person (Kagan, 2019).

2. Global FinTech Outlook

Global FinTech funding rose by 120% from $50.8Bn in 2017 to $111.8Bn in 2018, fueled by merger and acquisitions (M&A) and buyout deals. FinTech deal volume reached 2,196 deals for 2018, up from 2,165 in 2017. The increasing geographic diversity of FinTech Venture Capital funding continues to help drive deal volume. The increasing maturation of the FinTech sector on a global scale is highlighted by growing deal sizes, higher levels of M&A activity and the geographic spread of deals. FinTech start-ups in markets as diverse as Germany and Brazil are attracting larger and later-stage rounds, while the more established FinTech leaders in the US, UK and Asia are making their own investments and acquisitions in order to expand their product and geographic reach. The geopolitical volatility and trade concerns could subdue FinTech investment in the future, but the strong diversity of global FinTech hubs and the strengthening of subsectors, such as RegTech and InsurTech, should contribute to continued growth (Blackman, 2019). Some of the major trends witnessed in the global FinTech industry in 2019 were as follows:

Trends in Global FinTech Industry

- Increasing level of consolidation
- Bigger deals
- Rise in investment in companies based on blockchain technology
- Strong corporate investment
- Growing collaboration between FinTech & banks in Asia

Increasing levels of consolidation in mature areas such as payments and lending were seen in 2019, as well as emerging areas like blockchain, as startups look to scale and fuel international growth. Deal sizes grew in 2019, as investors focus on later-stage FinTechs with a proven track record in an effort to reduce risk. There was a dramatic increase in levels of investment in companies dedicated to building specific products and solutions based on blockchain technology. Collaboration between FinTechs and banks in Asia continued to grow, particularly in areas like Know Your Customer (KYC), Anti Money Laundering (AML) and digital identity management, including facial recognition and voice recognition (Pollari, 2019).

3. FinTech Products

Investment in FinTech companies is expected to continue to grow significantly in the next few years as such companies offer growth opportunities. FinTech companies encompass a broad landscape of businesses, generally around financial-oriented services and products. Examples of FinTech-related products and companies offering those products are as follows: (Harroch and Guzy, 2019)

Cryptocurrencies & Digital Cash

- Bitcoin

Payment Infrastructure & Processing

- Ant Financial, Revolut, Stripe

Mortgage Lending

- Better Mortgage, Lending Home

Blockchain Technology

- Ethereum

Money Transfer & Remittance

- Paypal, TransferWise, Venmo

Financial Cybersecurity

- Forter, Crowdstrike

4. FinTech in Qatar

Despite the global FinTech industry's remarkable growth, the Middle East accounts for only 1.8% of global FinTech startups in the past five years. This means that there is still a lot of potential in this region to be realized, particularly in the Islamic finance FinTech space. According to an Ernst & Young 2018 report, FinTech that complies with Islamic law could help attract 150 million new banking customers in the next three years. Supporting the growth of the FinTech sector has long been part of the Qatar Financial Centre (QFC) strategy to boost and diversify Qatar's economy. The QFC has already opened its doors to FinTech firms such as Goals 101 and QPay and have a healthy pipeline for welcoming even more companies that offer services in the FinTech sector (Qfc.qa, 2019).

Qatar's New Emerging Belt Initiative (NEBI) groups five nearby markets—Turkey, Kuwait, Oman, India and Pakistan with a combined economic output of about $2.1 trillion. Qatar is strengthening government-to-government relations with these countries, making it easier for multinationals to use Qatar as a gateway to their fast-growing economies. The QFC is focused on becoming a hub for banking and finance, digital, sports and media and FinTech (Anon, 2019).

4.1. Incentives & Benefits Offered by Qatar to FinTech Firms

Qatar has a multi-billion-dollar incentives program to attract international business. It has partnered with FinTech firms operating in Europe and India, while its government is also financing start-ups at home. It is investing in areas such as cyber-security, data analytics and digital access. Europe's leading FinTech collaboration platform, B-Hive, is working with Qatar on the promotion of business opportunities and knowledge sharing. Based in Belgium, B-Hive brings together major banks, insurers and market infrastructure players to leverage the opportunities offered by digital transformation for the financial services industry (Anon, 2019). Companies in the QFC benefit from a strategic location, good connectivity, quality infrastructure and logistics facilities. Incentives offered include free offices, tax incentives, seed capital, 10% corporate tax and 100% repatriation of profits. Qatar also has more than 81 double taxation agreements with countries around the world. QFC's business community numbers at least 3,500 people, employed by firms with combined total assets under management in excess of $20 billion. Moreover, Qatar is the second most competitive economy in the Arab world, and 25th globally, according to the 2018 Arab World Competitiveness Report by the World Bank and World Economic Forum. It noted Qatar's excellent infrastructure, favourable macroeconomic environment, and good levels of health and primary education as the country's main strengths (Anon, 2019).

4.2. FinTech Initiatives in Qatar

QPay (Qatar's largest FinTech company), is currently in the process of registering on the QFC's platform. The company has serviced more than 10,000 SMEs and works closely with more than 75 local and international partners to offer a wide range of innovative payment solutions. QPay recently partnered with Qatar Islamic Bank (QIB) to launch the first Islamic point of sale (POS) and online payment gateway solutions. These will serve QIB's corporate and SME clients by supporting their business banking needs. The Islamic POS solution will provide innovative, secure and highly efficient payment-processing services and supports contactless card transactions, e-wallet, mobile POS, QR (Quick Response) code scanners and online billing and settlement (Anon, 2019).

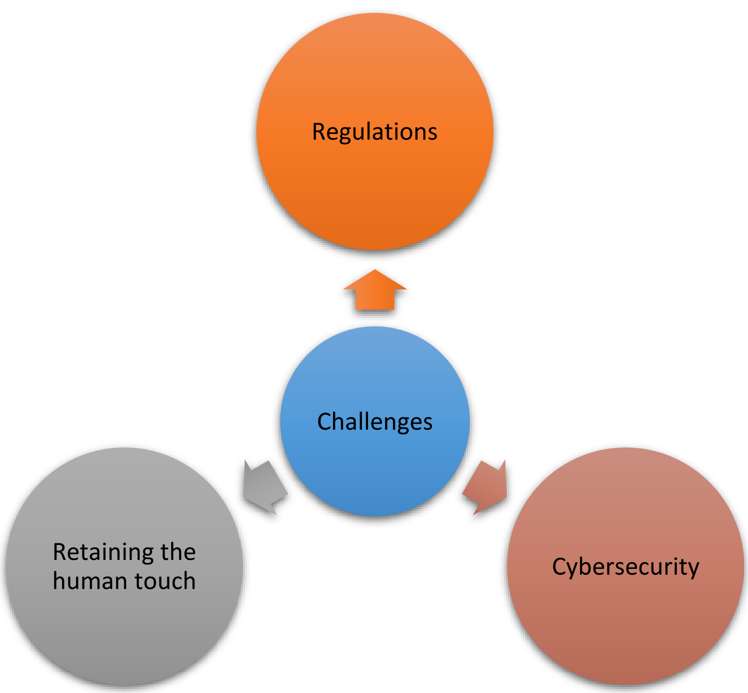
Qatari and Swedish entities specializing in FinTech have signed a memorandum of understanding (MoU) that aims to contribute to the development of FinTech-related co-operation between Qatar and Sweden. The partnership aims to develop all FinTech-related industry co-operation between Qatar and Sweden, a partnership that will give Qatari and Swedish FinTech startups access to both markets. International partnerships and collaborations between hubs are vital to the global FinTech ecosystem. Qatar FinTech Hub supports the development of the FinTech industry in the state of Qatar. The objectives of the hub are to facilitate collaboration among participants and stakeholders of the FinTech ecosystem and to develop impactful local and global relationships that will serve the vision of Qatar FinTech Hub. Findec is a hub embracing the whole Swedish FinTech scene (M.gulf-times.com, 2019).

In the continued drive for collaboration between the Financial Institutions and FinTech, QFC has expanded the number of FinTech-related activities that will be awarded licenses. Under new rules and guidance, the activity of non-regulated Professional Services firms has been widened to FinTech Services Providers, including providing cybersecurity solutions, cloud computing, developing blockchain-based technologies, artificial intelligence (AI) and companies which provide a platform for facilitating real-time transaction capability of internet-connected devices (PYMNTS.com, 2019).

Other FinTech initiatives include those from Commercial Bank, which offers an online remittance service that enables expatriate workers in Qatar to send money to accounts in their home countries within 60 seconds. Ahlibank launched Qatar's first contactless credit card in March 2016, while Qatar Development Bank has collaborated with IBM to establish the IBM Innovation Hub Doha (Anon, 2019).

5. Qatar FinTech Challenges

The three biggest challenges facing the FinTech sector are regulations, cybersecurity and retaining the human touch.



5.1. Regulations

Regulations are a challenge for the FinTech sector as firms have to invest significant time and resources to ensure that they comply with the laws. Regulatory hurdles faced by the financial sector following the crash in 2008 has seen stringent rules imposed on how it's allowed to operate. Traditional financial institutions often have whole teams to deal with regulatory issues and ensure compliance with regulatory laws; however, for smaller FinTech start-ups, the burden of regulatory compliance can be excessive. This can prove to be a major headache with varied global regulatory environments to contend with, especially when regulations fail to keep pace with changes in technology, leaving many FinTech start-ups operating in a grey area (Global Banking & Finance Review, 2019).

5.2. Cybersecurity

Coping with cyber-attacks is one of the greatest challenges faced by FinTech firms given the sensitive nature of the client data they hold. The number of major data breaches are expected to soar in the future with cybercriminals launching more sophisticated and frequent attacks. In order to remain secure and handle cyber-attacks, companies have to devote ever more time and money in an attempt to thwart these attacks but not every FinTech company has that kind of financial resources to tackle cybersecurity issues (Global Banking & Finance Review, 2019).

5.3. Retaining the Human Touch

FinTech is defined by its ability to disrupt the financial sector and upset the status quo, but this may not always be for the better. One key area in which FinTech firms can fall behind traditional financial companies is through the absence of the human touch. Their operating models often leave clients to feel like they are dealing with some faceless entity. With the use of artificial intelligence on the rise, this issue only looks to become more prevalent. This can leave many FinTech start-ups struggling to persuade clients, particularly older clients, to abandon their traditional banks. Being able to pick up the phone and speak to a real person is an essential selling point for some consumers, so FinTech firms should be prepared to cater for this. Cost considerations really do come into play here, and for many businesses offering customers a personal service isn't always practical. But ensuring that you provide at least some level of direct engagement and that you have a dedicated team to support customers when something goes wrong helps lead to a more seamless customer journey (Global Banking & Finance Review, 2019).

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