



شركة وادي الرياض
Riyadh Valley Co



Neobanks – The Hotbed of Digitalization

October, 2024

Growth by Innovation

Riyadh Valley Co. A Quality Shift towards the Future



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Riyadh Valley Company



Riyadh Valley Company (RVC) established in 2010 by Royal Decree No. 116 dated 1431/4/13 AH, to be the investment arm of King Saud University in the fields of Knowledge economy and the university strategic projects

Based on the company's stated purposes in the Articles of Association, the following main activities have been identified:

1

Venture Capital
Investments

2

Strategic
Investments

3

Enriching
Entrepreneurship
Ecosystem

For More Information: www.rvc.com.sa

Introduction

In recent years, technology has had a revolutionary effect on all the sectors of the economy, particularly financial services. From digitalizing existing services to introducing new ones, the application of technology in financial services, referred to as fintech, has dynamically transformed the industry. The rise of neobanks is one such significant development in fintech.

Neobanks are purely digital financial institutions that are redefining the banking landscape by leveraging cutting-edge technology to offer innovative and user-friendly solutions. Unlike traditional banks with physical branches, neobanks operate entirely in the cyberspace, offering a wide range of financial services including checking and savings accounts, payments, and monetary management tools, often with lower fees and advanced features compared to their physical counterparts. The term ‘Neobank’ is a combination of two words - ‘Neo’ meaning new and ‘bank,’ aptly defining this innovative way of banking.

While neobanks and digital banks both use technology to provide services, they are different from each other. Neobanks are fintech start-ups that render financial services to its customers without having a brick-and-mortar presence. Digital banks on the other hand are the digital-only subsidiaries of large and established banks that offer standard services to all their customers.

By harnessing technology, neobanks offer seamless online banking experience at lower costs, paving the way for profit maximization, while enhancing customer satisfaction. Since these banks have no brick-and-mortar presence, they can cut down on major operating costs. For instance, in China, it costs traditional banks between USD 3-USD 15 per customer per year to administer a bank account. However, WeBank, a Chinese neobank, can conduct the same activity at just USD 0.50 per customer per year¹. Neobanks’ streamlined and user-friendly service offerings appeal to tech-savvy customers. It enables them to manage their finances effectively as per their needs.

With the pandemic as a catalyst, neobanks’ global market size was at USD 98.40 million in 2023, and are projected to grow at a CAGR of 48.6% over 2024-2032.² While the global prevalence of neobanks can be attributed to their convenience and innovative solutions, their user penetration levels may vary by region based on several factors such as the regulatory environment, technological infrastructure and consumer preferences.

Neobanks in Saudi Arabia are still relatively new but are gradually gaining traction, supported by the ongoing digital transformation in the broader financial industry. The Government and financial authorities like the Saudi Central Bank (SAMA) have set the stage for adoption of technology in the financial sector through measures such as setting up incubators and accelerators under the FinTech Saudi Project, paving way for neobanks to gain footing in the market. Consumers’ attitude towards neobanks is also favourable, with 80% of Saudi population preferring online banking over traditional outlets.

¹ Fintech Saudi Report 2021-22

² Fortune Business Insights

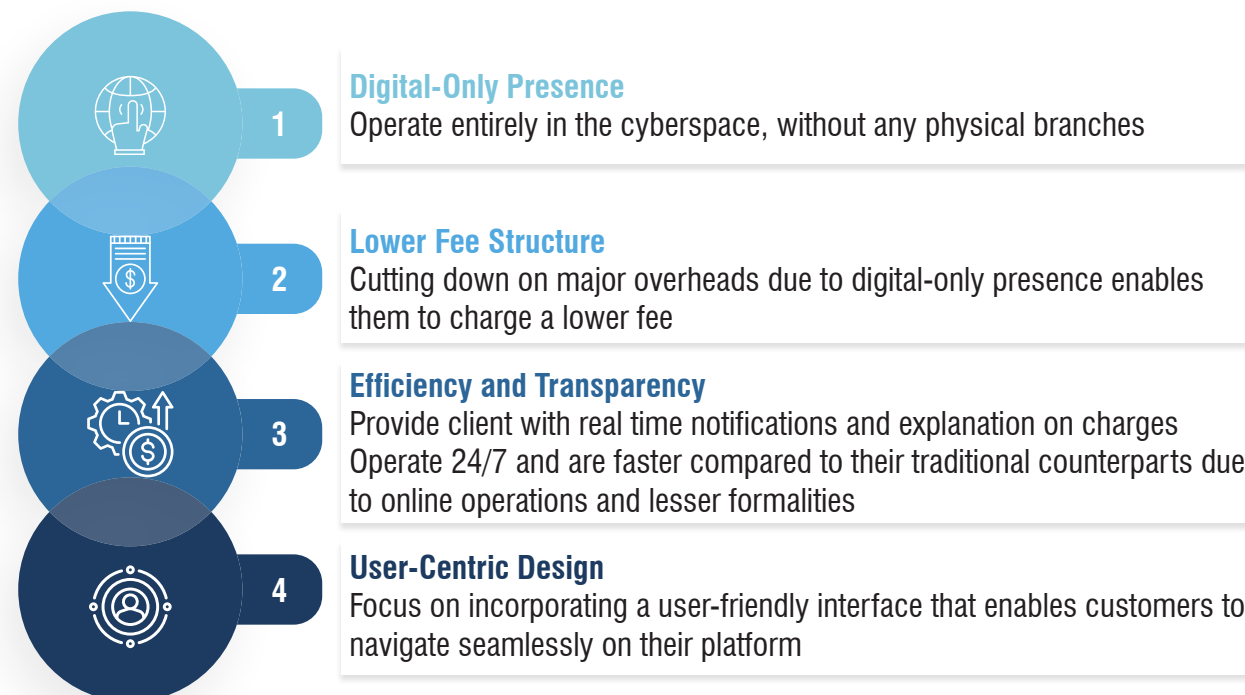


Overview of Neobanks

Neobanks, also known as Challenger Banks, are fintech start-ups that render banking services primarily through online platforms and mobile applications. Unlike traditional banks, neobanks operate without physical branches. These banks require digital-only banking license to commence operations. Neobanks offer services like opening savings account, debit card facility, offer loans, insurance, and other banking products. Operating completely in the cyberspace, neobanks offer efficient and personalised services which emphasize on the customer-oriented model. Since the operation of neobanks is entirely automated and lacks major overheads like rent and labour, it renders faster services at reduced costs, compared to their traditional counterparts.

A

Key Features of Neobanks



Source: Forbes

B

Difference between Neobanks and Traditional Banks

Basis of Difference	Neobanks	Traditional Banks
 Regulation	Start out with Fintech license; Established neobanks may apply for banking license	Have traditional banking license
 Product & Services	Initially only a few services; now they offer more like insurance, cryptocurrency etc	Offers a variety of traditional products
 Distribution	Mainly pure online banking	Physical branches, e-banking, apps
 Revenues	Base product is free; Charge minimal fee on payments	Yearly fee for basic product, interest on loans and mortgages and charges for payments
 Technology	State-of-the-art technology with excellent user interface	Outdated core banking systems, with some online services

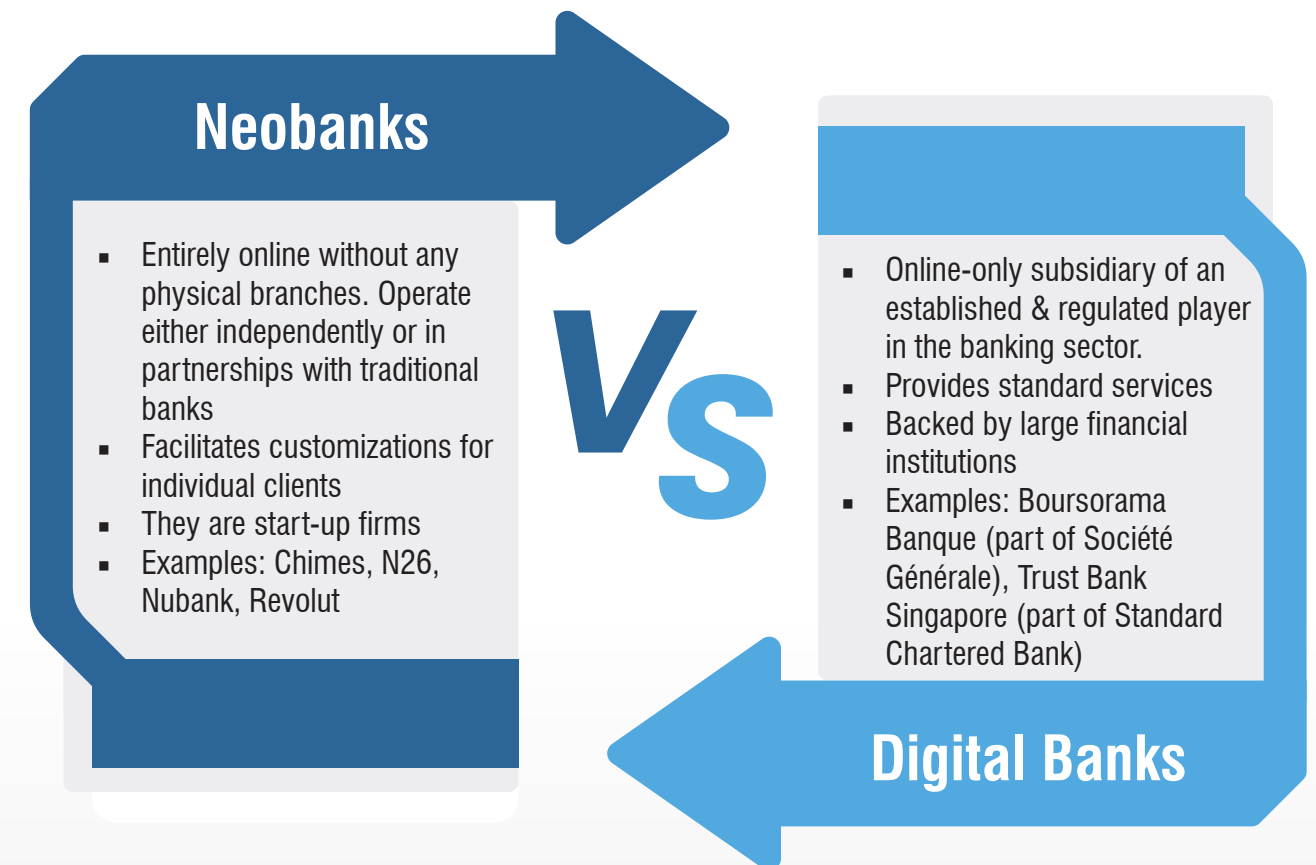
Source: Redesigning Financial Services

C

Difference between Neobanks and Digital Banks

The terms 'Neobanks' and 'Digital Banks' are often used interchangeably. However, the two have stark distinctions. The primary and perhaps the most significant difference between neobanks and digital banks is that the former is a fintech start up, that operates entirely in the cyberspace without being backed by any large or well-established financial institution. Neobanks require digital-only banking license to commence operations.

Difference between Neobanks and Digital Banks



Source: The Impact Investor and Finextra

Types of Neobanks

**Front-End Neobanks**

Don't have an operating license; Function in partnership with traditional banks and sometimes are accounted for in the traditional bank's balance sheet.
Example: Nubank, Varo

Full-Stack Licensed Neobanks

Have all required bank regulatory approvals and provide financial services as an individual entity
Example: N26, Monzo, Revolut

Source: Finextra

D Advantages and Disadvantages of Neobanks

Advantages

Competitive Fees

Since they have no physical branches, neobanks often distinguish themselves by providing seamless services at minimal fees.

Convenience

Neobanks offer personalized services to individual customers which enables them to manage their finances efficiently without having to visit the bank.

High Security

Neobanks have an entirely online presence and hence they prioritize customer privacy and security of their platform. Blockchain technology is utilised due to their tamper-resistant nature to ensure safety of data.

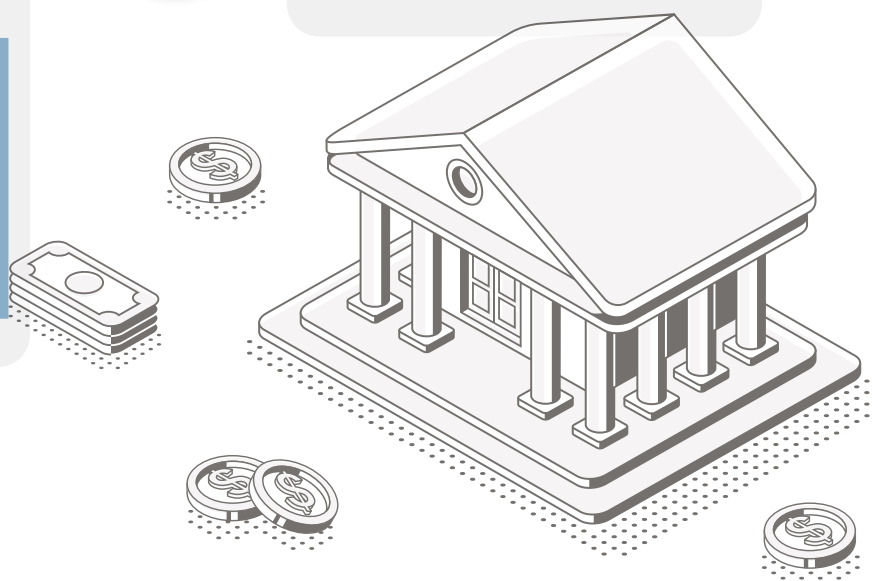
Disadvantages

Trust Building

Neobanks are quite recent and might take time to gain confidence from older generations.

Legal Limitations

Since neobanks are relatively newer entities, the legal framework pertaining to them is still a work-in-progress.



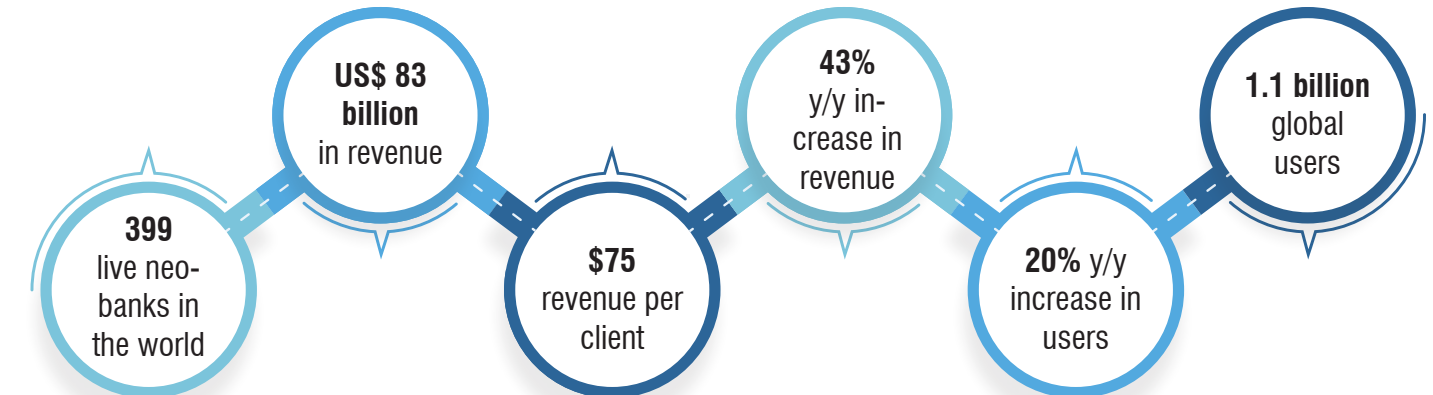
Source: Forbes

Global Uptake on Neobanks

Since the launch of the first neobank, Simple in 2009, the segment has grown over the years in terms of numbers, revenue and services offered. Having emerged right after the 2008 financial crisis, neobanks have gradually been on the upward trajectory, with pandemic accelerating their adoption. For example, Chime, a neobank in U.S was valued at USD 25 billion in 2021, about the same as 13th largest bank in U.S.³



A State of Neobanks in Numbers



Source: Simon Kucher; Data as of July 2023

B Neobanking Market

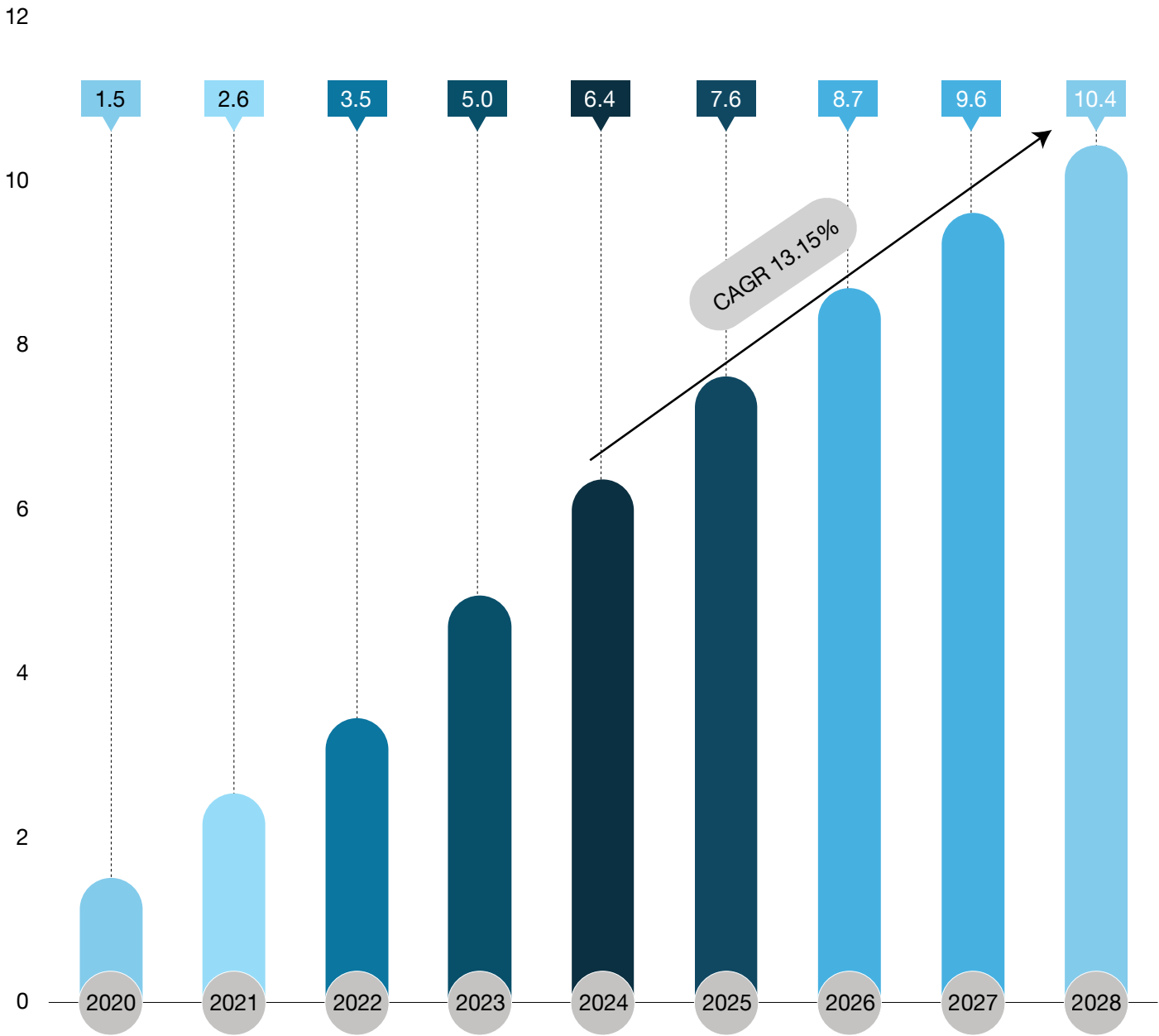
The market size of neobanks as of 2023 was valued at USD 98.40 billion and is projected to grow from USD 143.29 billion in 2024 to USD 3,406.47 billion by 2032, exhibiting a CAGR of 48.6% during the forecast period.⁴ With broadening user base, successful neobanks are also diversifying their revenue streams by introducing investment and cryptocurrency trading options, offering premium accounts to mass-affluent customers, and even licensing their proprietary software for use by other financial institutions.

³ The Economist

⁴ Neobanking Market – Fortune Business Insights

Transaction value of neobanks has grown in recent years, with COVID-19 accelerating user adoption. Many neobanks such as Bunq and Revolut had achieved profitability around 2021-2022.⁵ Neobanks have also caught up quickly in populous countries that are significantly underbanked such as Indonesia and Philippines. For example, DiskarTech, a neobank in Philippines, reached one million clients in just 38 days of launch.

Global Transaction Value of Neobanks (in USD trillion)



Source: Statista

⁵ Codebase Technologies

C

Funding Raised by Top Neobanks

Top 5 Neobanks in the World (August 2024)

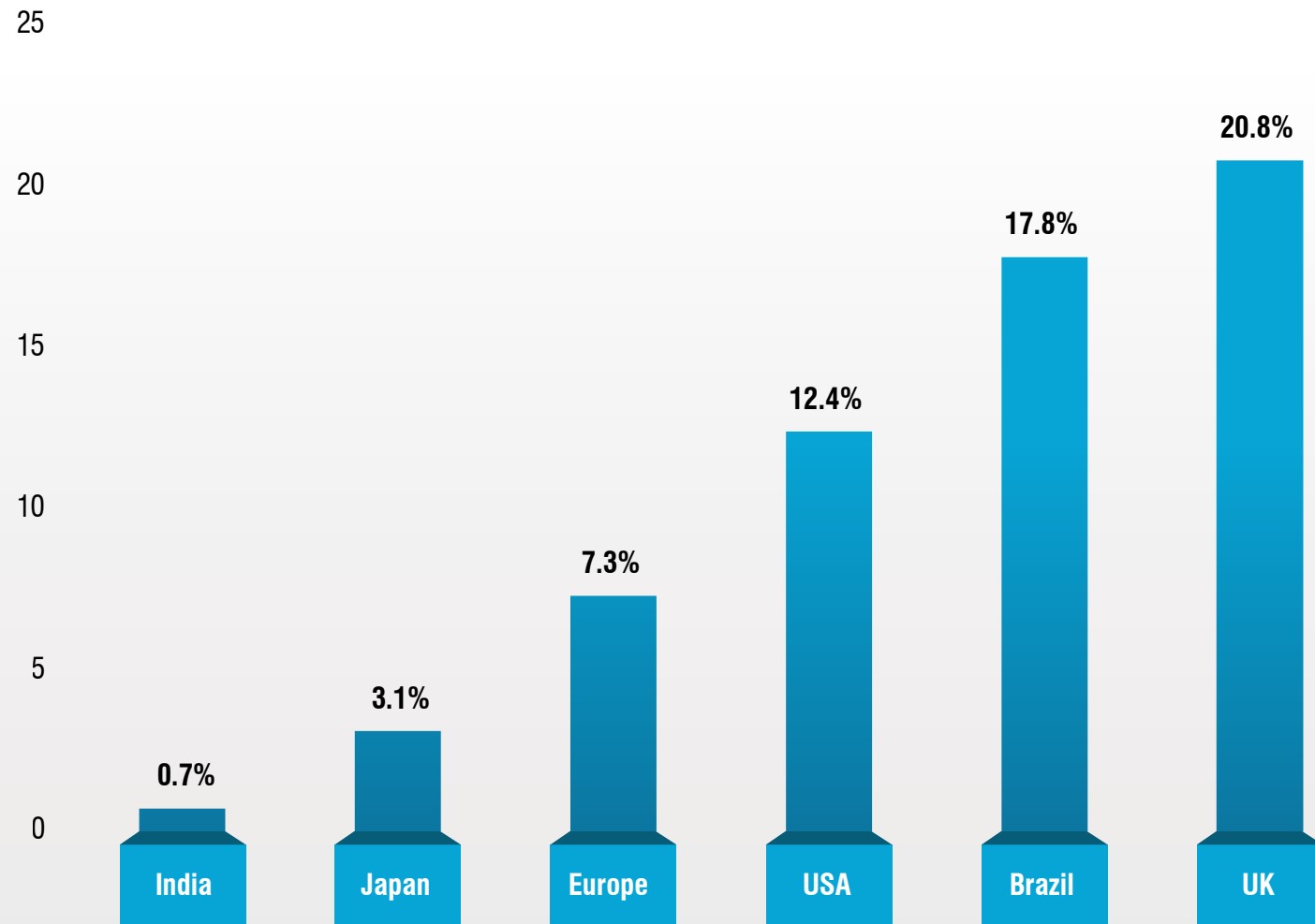
Neobank	Services	Revenue Model	Valuation (USD billion)	Users (in million)	Funds Raised (USD billion)	Latest Funding
	Savings Account, Loans, Credit Cards, Insurance, International Money Transfers	Interest on investments, Forex-Fees, Service Fees	50.8	100.0	4.2 (15 rounds)	Jan 17, 2023
	Business Account, Loans, International Money Transfers	Subscription fee, Interchange fee, Forex-Fees, Service fee, Perks	45.0	45.0	1.7 (19 rounds)	Aug 16, 2024 (From Secondary Market)
	Savings Account, Mobile-first checking ac, Visa Debit Card	Interchange transaction fee	8.0	22.3	2.3 (11 rounds)	July 28, 2023
	Borrow, Invest, Spend, Protect, Business	Interest, premium on insurance, processing fee	8.5	8.7	4.8 (19 rounds)	Mar 5, 2024
	Transaction Account, Debit cards	Usage fees, subscription fees	6.0	8.0	1.7 (12 rounds)	Oct 18, 2021

Source: Forbes, Statista, Crunchbase

D Adoption of Neobanks in Different Countries

The global user penetration of neobanks is projected to be 3.89% in 2024 and is expected to reach 4.82% in 2028 with total number of users amounting to 386.30 million.⁶ The rate of penetration of neobanks has been observed to be the highest in the United Kingdom (U.K), at 20.8% as of 2022, which denotes a conducive environment for such banks to emerge. Brazil followed the trail, at 17.8% and boasting as home to the largest neobank in the world - Nubank. The United States has a neobank penetration rate of 12.4%, making it the third in the list. Neobanks are gradually evolving across other countries, at a comparatively lower penetration rate.

Rate of Penetration of Neobanks in Select Countries

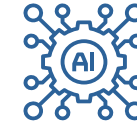


Source: Statista; Data as of 2022

⁶ Statista Market Insights

E Trends in Neobanking

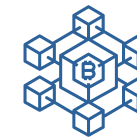
Neobanks strive to set themselves apart by keeping up with the trends in technology & incorporating features such as:



Artificial Intelligence

Artificial Intelligence (AI) and Machine Learning (ML) are leveraged by neobanks to render personalized services and customized banking insights to customers. It enables these banks to strengthen their financial performance and enhance customer relationships. Some use cases of AI in neobanks have been highlighted below,

- Bunq, launched its generative AI, Finn, in December 2023. This enables customers to switch search function on its app, allowing them to plan their budget and finances, find transactions and navigate the platform.
- Webank, uses an AI chatbot to effectively address 98% of its customer queries.
- Klarna, uses ML to enhance customer experience by generating personalised recommendations and financing offers based on their basic profile, minutes after signing up.



Cryptocurrency and Blockchain Technology

To widen their competitive advantage over other banks, neobanks have also ventured into the realm of cryptocurrency, backed by a decentralized and tamper resistant blockchain technology. For example, Swedish neobank SEBA and UK based Revolut allow customers to transact in cryptocurrencies, through their apps.



Open Banking and Application Programming Interface

This allows neobanks to enhance their app offerings seamlessly. Open banking is used to integrate neobank's application with various financial service apps like investment apps and Buy-Now-Pay-Later (BNPL) Programs. A major benefit of this is aggregating users' account information from different banks giving them a comprehensive view of their finances.



Banking-as-a-service (BaaS)

In this model, neobanks use the licensed infrastructure of the traditional banks to provide their services. It provides an opportunity for non-banking financial players to build banking services without the same regulatory and financial requirements. BaaS platforms offer services like payment processing, account management through application programming interface and credit facilities.



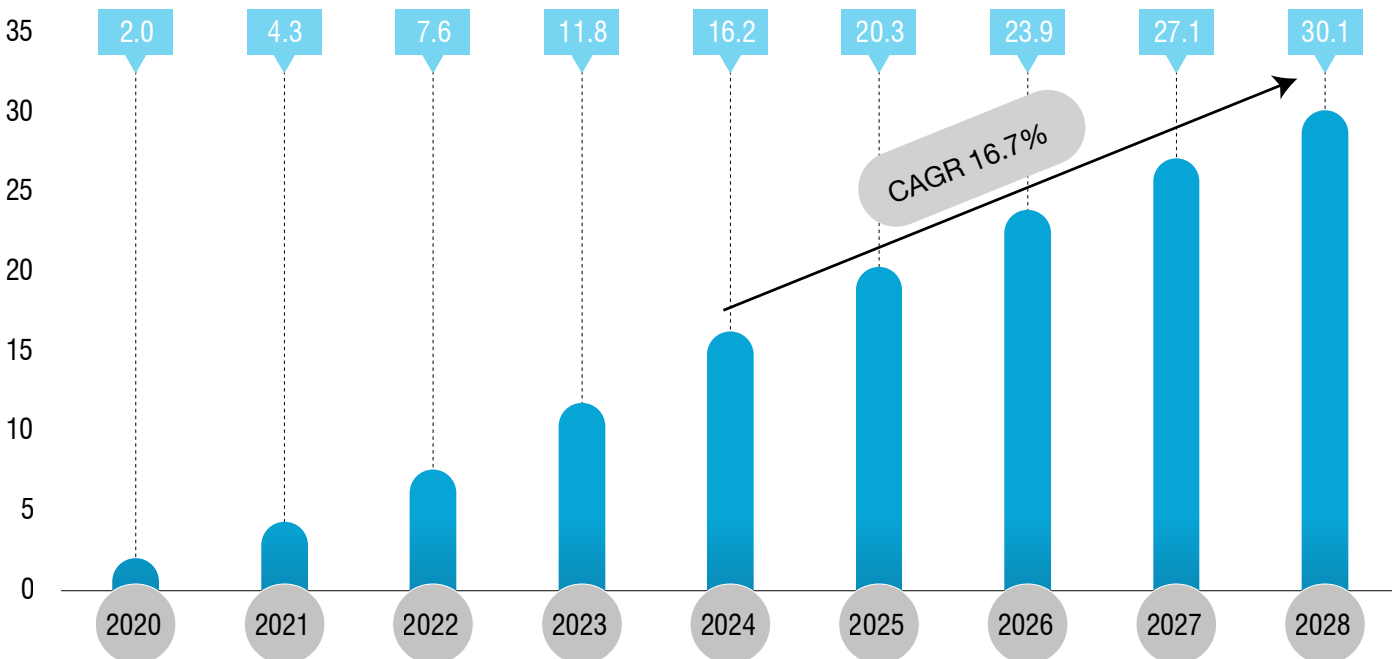
Neobanks in the GCC region

A Neobanking Market in the GCC

With their technology-driven approaches, neobanks have been emerging in the Gulf Cooperative Council (GCC) region. According to BCG, while traditional banking system in the region provides one of the highest rates of returns on equity on a global level, the upsurge of digital-only banking favoured by a highly connected population would enhance the returns generated. UAE's Wio bank is a case in point. Launched in September 2022, the bank has reported a revenue of USD 72.5 million and a net profit of USD 0.54 million for FY 2023, becoming one of the fastest neobanks in the world to achieve profitability.

Transaction value of neobanks in GCC had grown from USD 2.0 billion in 2020 to USD 11.8 billion in 2023, indicating the steep rise of uptake of neobanks in the region. Both user acceptance and launch of new neobanks have driven the segment's growth. User penetration is expected to reach 1.51% by 2028, up from 1.23% in 2024.

Transaction Value of Neobanks in GCC (USD bn)

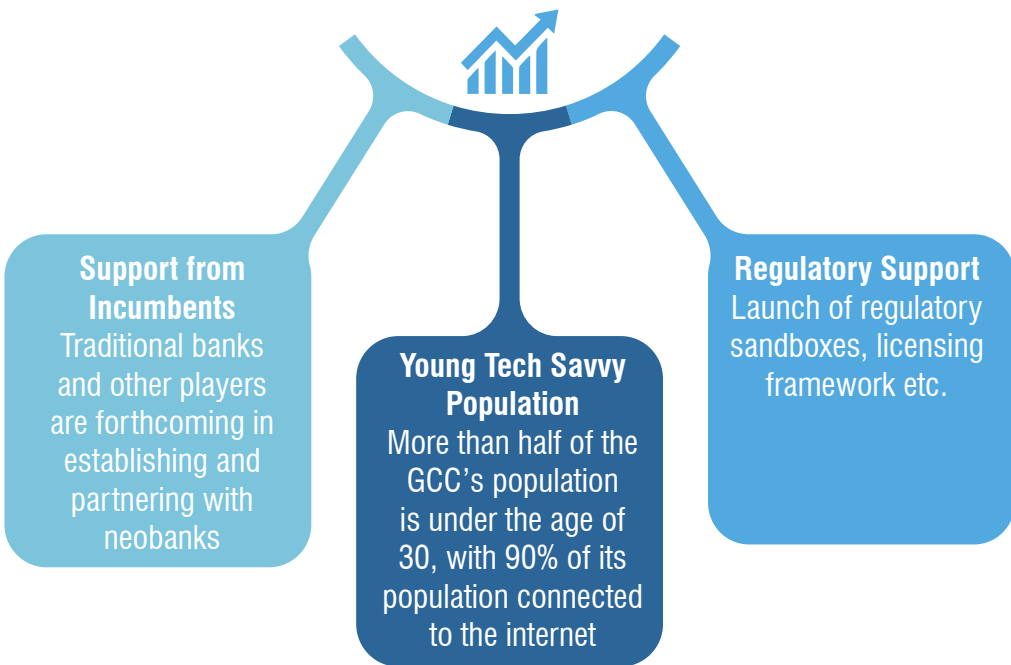


B Neobanks in the GCC

GCC Governments have identified fintech as an important non-oil sector. With favourable regulatory frameworks and sandboxes and projects like Vision 2030, Fintech Saudi, Dubai International Financial Centre, the GCC region has set a fertile ground with incubators and accelerators for fintech start-ups to thrive. Some of the neobanks established in the region are:

Company	Description	Founded In
	- First neobank in the region - Launched as an effort towards digital innovation. - Offers mobile banking services with digital account management and budgeting tools	2017
	- Offers services like transaction banking, digital asset, and wealth management - Focus on integrating AI and blockchain technology with client-centric solutions	Licensed in 2022 by the Central Bank of UAE
	- First Independent neobank in the UAE - Offers current account in partnership with RAKBANK to citizens of UAE - Renders services like spending & budgeting analytics, peer-to-peer payments, remittance services and bill payments	2021

B Growth Drivers for Neobanks in the GCC



Neobanks in Saudi Arabia

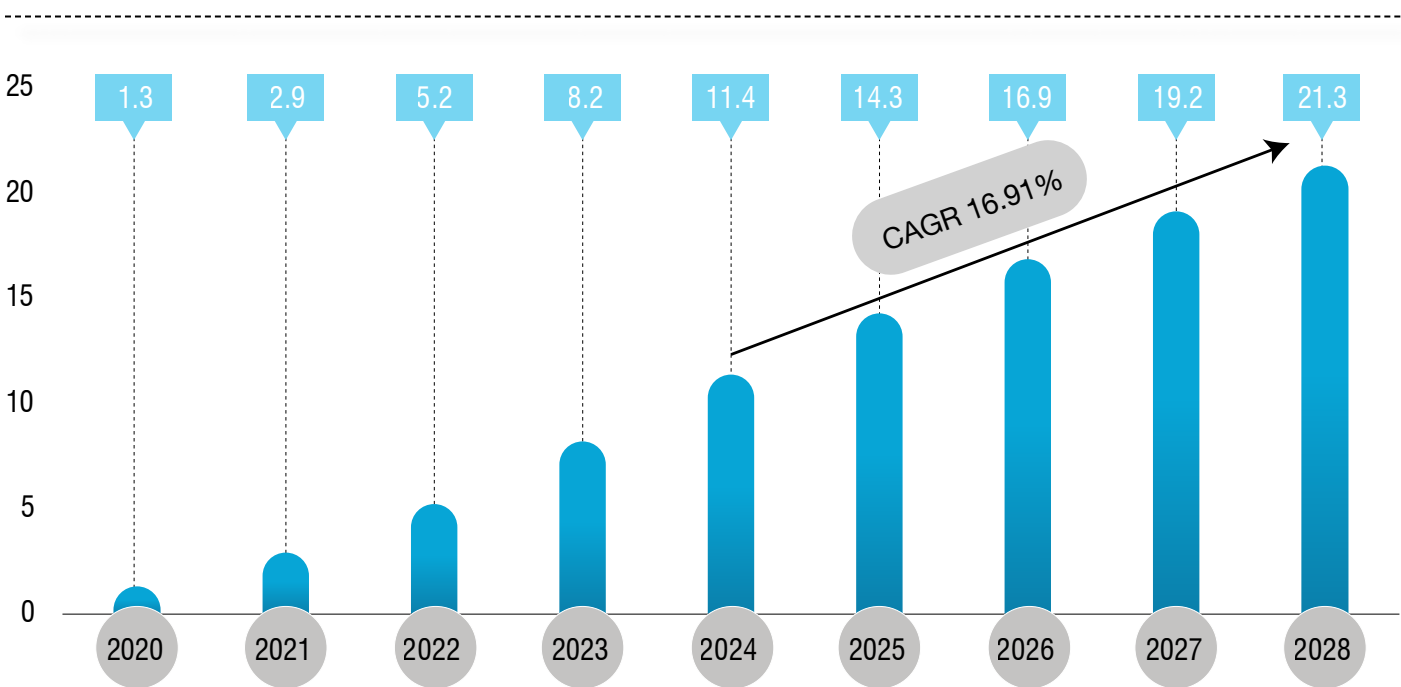
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Neo Banking Market in Saudi Arabia

The concept of online-only banking arrived in Saudi Arabia in 2014 with the launch of Meem, the digital-only arm of Gulf International Bank. Being the first fully digital Shariah Compliant retail bank in the region, Meem is owned by the governments of the six 6 GCC countries. The platform is designed to provide modern, user-friendly banking services, offering financial services to that cater to the needs of tech-savvy customers in the region. Of all the products offered by Meem their ‘Onepack’ exclusive to the Saudi region is a unique product that combines the features of both savings account and current account. Hala is another fintech platform that enables SMEs to manage their inbound and outbound payments in a secure and straightforward way. Pureplay neo banking is also coming up in Saudi Arabia.

Saudi neobanking transaction value has grown steeply in recent years, making up a sizeable portion of the transaction value in broader GCC. At USD 8.2 billion in 2023, neo banking transaction value in Saudi Arabia makes up 0.2% of the global transaction value of USD 4,960 billion. User penetration in Saudi Arabia is expected to reach 1.92% in 2028, up from 1.58% in 2024.

Transaction Value of Neobanks in Saudi Arabia (USD billion)



Source: Statista

B

Neobanks in Saudi Arabia

In the local context, digital-only banks from players outside traditional banking are also being referred to as digital banks. There are 3 digital-only banks that have been introduced by players outside traditional banking and licensed by Saudi Central Bank.

Company	Description	Founded In	Founded/Anchored by
	- Launched as a digital wallet - Current offerings include card issuance, international transfers etc. - Granted digital banking license by Saudi Central Bank in 2021 to operate as STC Bank., becoming the first digital bank in Saudi Arabia	STC Pay (2018) STC Bank (Pilot Phase)	Saudi Telecom Company
	Sharia-compliant digital-only bank	Launched in 2018. Granted digital banking license in June 2021. Mobile app launched in September 2024. Yet to start operations	Jazza Al Sari (Banker)
	Shariah compliant digital-only bank	Pilot phase Granted digital banking license in February 2022	Public Investment Fund, Derayah Financial Group etc

Source: Hala Ventures, Payments.com

Additionally, there are 19 fintech companies operating under Saudi Central Bank’s regulatory sandbox which are into digital savings, peer-to-peer lending, time deposit aggregation etc.

Some Fintech Companies Offering Banking Related Services

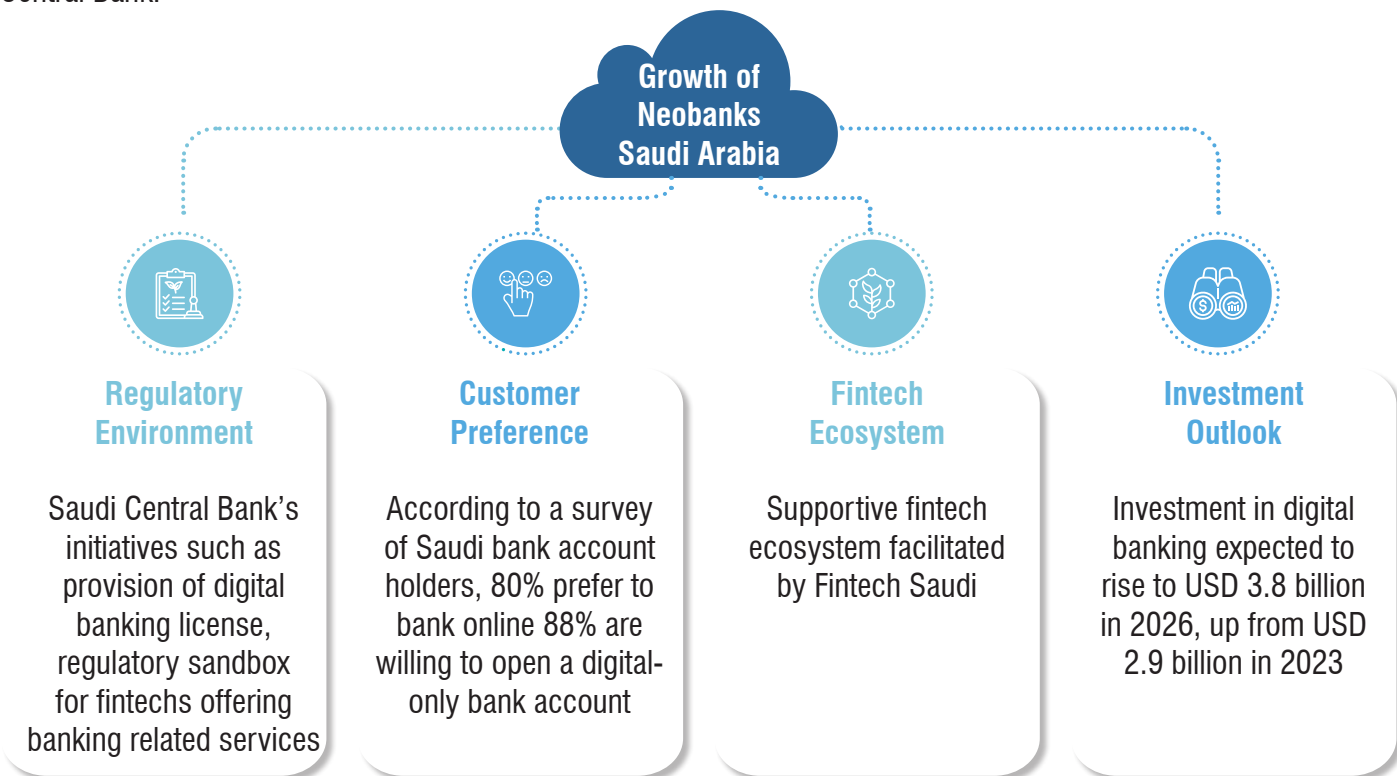
Company	Description	Founded In
 MONEY LOOP	Savings and Financing App	2019
 barq	Licensed as an e-wallet Facilitates global money transfers including cross border payments, offers Visa cards	2024
 وداي WADAIE	Time Deposit Aggregator which allows investment in time deposits across multiple Saudi banks	2022
 MONEYMOON	Peer to peer lending	2023

Source: Respective company websites

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Factors Supporting Growth of Neobanks in Saudi

In Saudi Arabia, digital-only banks from players outside traditional banking are also being referred to as digital banks. There are 3 digital-only banks that have been introduced by players outside traditional banking and licensed by Saudi Central Bank.

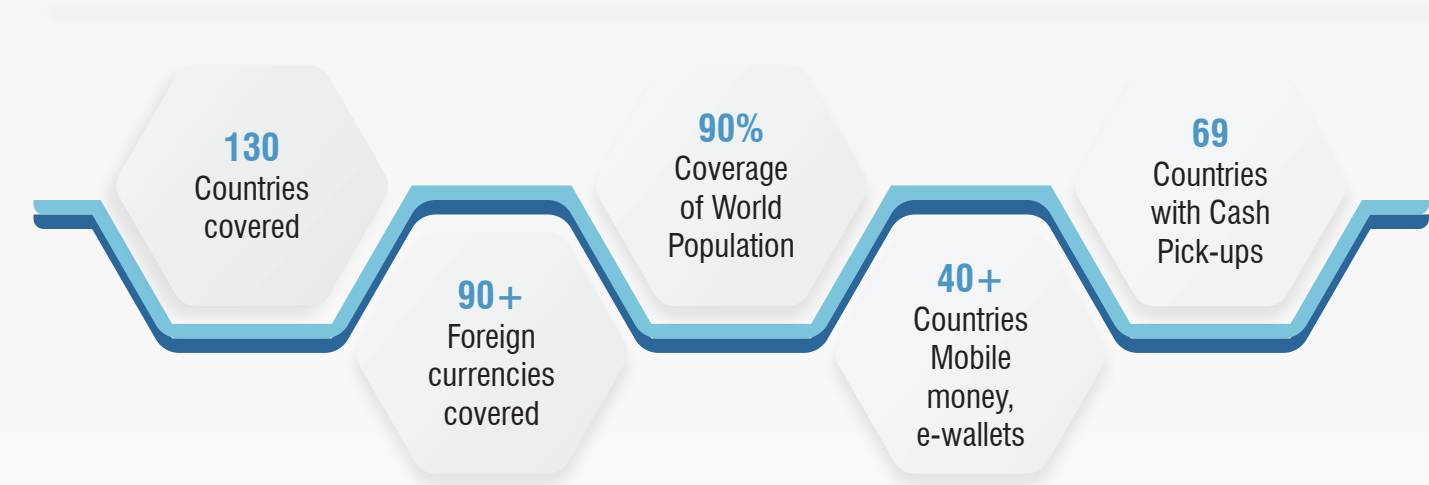


Source: Backbase

Spotlight – Payall

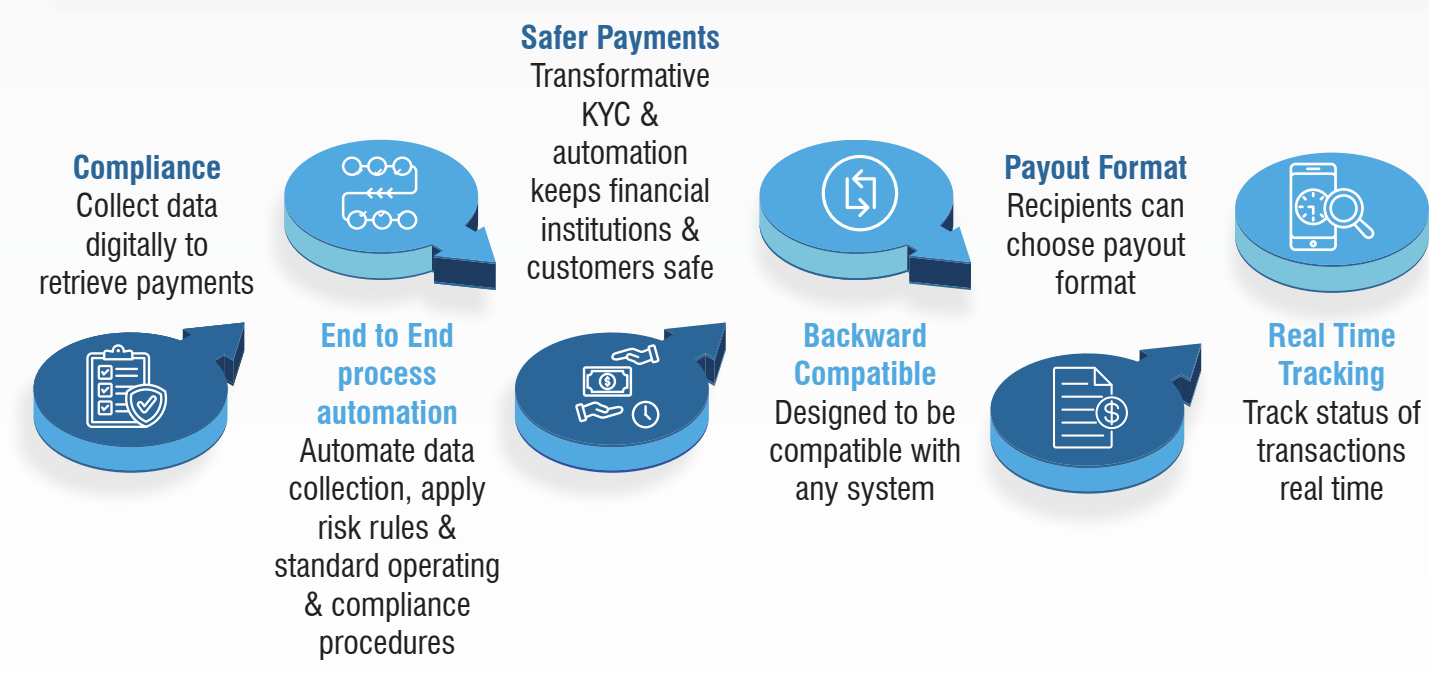
Payall is one of Riyadh Valley Company's indirect investments from the RRE Venture's investments. Established in 2018, it caters to the needs of both individuals and businesses offering innovative solutions designed to streamline and simplify financial transactions. It systematically applies risk rules and compliance procedures prior to payment processing, which prevents undesirable or questionable transactions, eliminating human errors, drastically reducing labour costs and enhanced user experience.

Payall's Reach



Source: Payall

Features of Payall



Source: Payall

Solutions offered by Payall

1 Automation

- Automate data collection and compliance procedures.
- All parties involved in the transaction can collect, retain and share data.

2 Universal Payment Account

- Flexible and powerful utility that offers unlimited and endless uses depending on the needs of the customers
- Unprecedented adaptability

3 Payment Orchestration

- Harmonize manual functions by automation
- Streamline cross-border payments, enhancing efficiency

4 End-User Apps

- Self-service Disburser Tools that simplifies & modernizes cross-border payments for both ends
- For both individuals & businesses

Source: Payall

Payall which emerged as a fintech company has pioneered banktech and regtech, revolutionizing cross-border payments processing for banks. Having raised a seed capital of USD 2.5 million, it aims to simplify, modernize and execute cross-border payments swiftly and efficiently.⁷

Conclusion

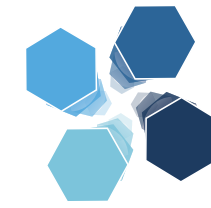
Neobanks represent a dynamic shift in the banking industry, embodying a new paradigm of financial services driven by technology and innovation. Their focus on digital innovation and customer centric solutions challenges the traditional banks and pushes the industry towards greater efficiency. It also emphasizes on financial inclusion, where it is easy for anyone with internet access to avail financial services, eliminating the hindrance of place and travel whilst saving time.

In the GCC, the growth of neobanks is slow, but steady. Since governments are trying to diversify their economy away from the dependence on oil and gas, they have acknowledged the potential of having a technologically robust and digitally innovative societies. With projects like Vision 2030 which acts as a blueprint for diversification of its economy, Saudi Arabia is already on its trails to build a digitally thriving country.

As financial landscape continues to evolve, neobanks are likely to play an increasingly prominent role in driving innovation further and shaping the future of the banking sector. Their success will depend on their ability to adapt to changing market conditions and regulatory environment. In doing so, neobanks shall continue to redefine banking experience and continue to contribute to dynamic and flourishing financial ecosystem.

⁷ Payall

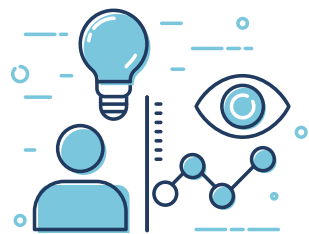




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Vision

To be the regional leader in knowledge-based investment and technology.



Mission

Riyadh Valley Company is a strategic investor, focused on leveraging the local capabilities, investing locally and globally in growth - stage businesses to create financial and strategic returns that will support the future of economic development in the Kingdom.

The Core Focus Areas of RVC

Venture Capital Investments



Healthcare Investment



Renewable energy& Sustainable Recourses



Information & Communication Technology



FinTech



Education



Logistics and Trasportation

Strategic Investments



Innovation and R&D Projects



Commercial Projects



Educational Projects



Residential Projects



Healthcare Projects



Mixed-use Projects

Enriching Innovation Ecosystem



Attract distinguished scientists and consultants



Prepare students for work experience through training



Supporting Scientific Research and technology industry

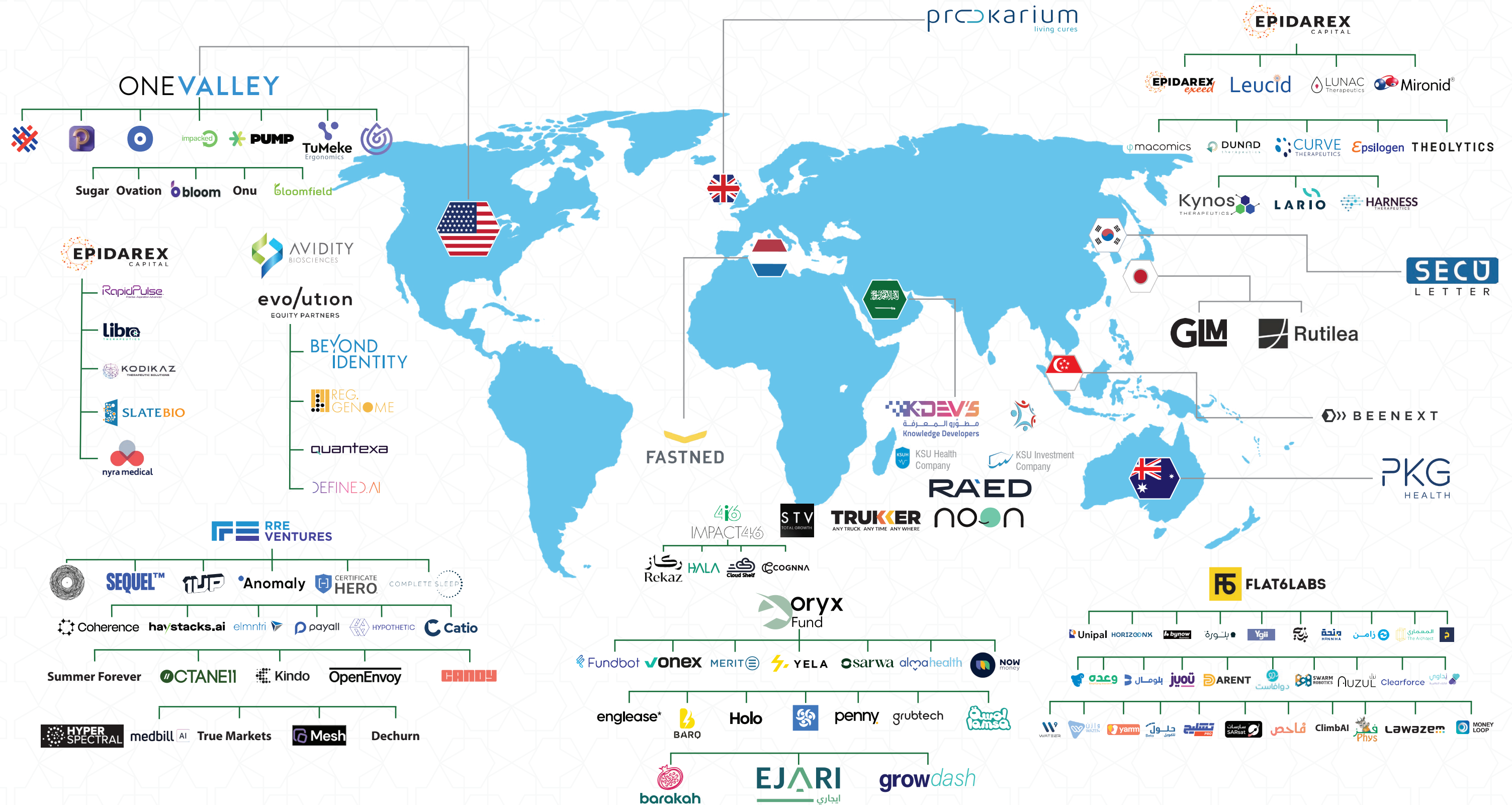


Enhance the environment to support the knowledge economy

Knowledge Investment Portfolio



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Strategic Investment Portfolio



Sudair Pharma Company Project

Research center and offices



Majd Real Estate Company Project

Offices project



Four Directions Company Project

Office project



City Lights Real Estate Company Project

Mixed-use project



Derma Clinic Company Project

Residential project



Sahat Al-Ardh Company Project

Mixed-use project



Four Directions Company Project

Commercial project



Almaarefa University Project

Building project



The Esplanade Project

Commercial project



Innovation Tower Project

Office building project



Arrowad Education Company Project

Educational project



Commission for AIUla Building

Building



Qasr Alaaredh Company Project

Building



Takween Altanmia Company Project

Offices project



Obeikan Company Project

Commercial project



Oasis of creativity Schools

Educational project



NMR Real Estate Company Project

Mixed-use project



Al-soroooh Al-Mubarakah Company Project

Offices project



Dur Alkuttab Company Project

Educational project



ELM Information Security Company Project



Derma Clinic Company Project



U WALK Project

Commercial project



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