

Blazing a transformation trail: Saudi Arabia's new digital frontier







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Strategically located at the crossroads of Europe, Asia and Africa, Saudi Arabia has historically relied on its merchant roots and oil reserves to drive economic growth. Today, however, as part of a blueprint for a better future, the Saudi government is implementing measures to create a digitally-transformed, diverse economy. For corporate treasurers operating in the kingdom, or considering expansion into the country, this new digital era offers exciting efficiency opportunities and the chance to shape a sustainable future.

Saudi Arabia stands on the cusp of a social and economic revolution. Vision 2030, an ambitious reform agenda launched by Crown Prince Mohammed bin Salman in 2016, is rapidly transforming Saudi Arabia from an oil-dependent economy into a digitally-enabled international trade-, innovation- and investment hub¹.

A key pillar of this vision is the government's Digital Transformation Programme which aims to build a digital government, -society, and -economy, with an industry based on the Fourth Industrial Revolution². As Lance Kawaguchi, Managing Director, Global Head – Corporates, Global

Liquidity and Cash Management, HSBC, explains: "The Saudi government recognises that a sophisticated digital infrastructure is essential for attracting investors, enhancing competitiveness³ and, above all, diversifying the country's economy, given that 42 per cent⁴ of the kingdom's GDP is currently generated by oil and gas industries."

In fact, estimates suggest that the transformative technologies being introduced as part of the Fourth Industrial Revolution "represent a SAR 1tr opportunity for the country, contributing up to 4 per cent of non-oil GDP annually by 2030⁵. And this is just one aspect of digital transformation," notes Kawaguchi.

¹ <https://vision2030.gov.sa/en>

² <https://www.mcit.gov.sa/en/media-center/news/99864>

³ <https://vision2030.gov.sa/download/file/fid/417>

⁴ https://www.indexmundi.com/saudi_arabia/economy_profile.html

⁵ <http://www.middle-east.atkearney.com/documents/787838/17626351/1-Realizing+the+Benefits+of+4IR+Future+of+Production+in+KSA.pdf/01c9689d-3e42-cafd-2ce2-dd90012b68d3>



The SABB story

SABB is one of the leading financial services group in Saudi Arabia and an associate company of the HSBC Group.

Through this unique partnership, SABB provides corporate clients with best practice in-country cash and liquidity solutions, supports local companies' expansion across the Middle East and beyond, and helps HSBC clients from other geographies to do business in Saudi Arabia – in the same, seamless manner that they do at home.

SABB has consistently been voted 'Best Cash Management Provider in Saudi Arabia' by Euromoney for the last nine years* – and the bank continues to lead the pack, not least through its digital innovations.

* Award wins: 2008-2015 & 2018 – Euromoney did not run this category in its 2016 & 2017 Awards.

From ideas to action

But creating a truly digital Saudi Arabia will require much more than a statement of intent and a willingness to adapt to new technologies. Alongside the Vision 2030 rhetoric, therefore, the government is paving the way for change through its National Digitisation Unit (NDU). Ghada Al Jarbou, Head of Global Liquidity and Cash Management, Saudi British Bank (SABB), says: "This centre of excellence is an enabler, disruptor, incubator and guardian of a portfolio of digital transformation programmes." And by "engaging with different government ministries and private stakeholders, the NDU is helping to create a harmonised, national, digital ecosystem."

Furthermore, the Saudi government is leading by example, setting ambitious digital transformation targets for itself and

the country, says Al Jarbou. "There is an aspirational target for Saudi Arabia to become the leader in e-Government in the Middle East by 2030, and ideally to be ranked within the top five e-Governments globally⁶ within that timeframe." To put the size of that challenge into context, Riyadh ranked 30th in the United Nations' e-Government Survey⁷ in 2018, and the likes of Dubai ranked 16th so the journey ahead is by no means simple⁸.

Arguably the most ambitious target set out under Vision 2030, and among the most relevant to corporate treasurers, however, is the drive towards a cashless society. "The programme commits to increasing non-cash transactions from 18 per cent in 2016 to 28 per cent by 2020⁹," says Al Jarbou.

6 <http://www.arabnews.com/news/top-5-ranking-saudi-e-government-2030>

7 <http://www.arabnews.com/node/1344196/saudi-arabia>

8 https://publicadministration.un.org/egovkb/portals/egovkb/documents/un/2018-survey/e-government%20survey%202018_final%20for%20web.pdf

9 <https://vision2030.gov.sa/download/file/fid/1472>



“As such, the government, central bank, and proactive commercial banks in the region are focusing significant efforts on supporting digital payments and encouraging a wider shift in mindset towards digital commerce,” comments Kawaguchi. Debit cards are therefore becoming more popular in the country, he says, with in excess of 29 million now in circulation¹⁰. And in November 2016, the Saudi Arabian Monetary Authority (SAMA), introduced a low-value contactless payment service, called Mada Atheer¹¹, in a bid to further boost debit card usage and reduce reliance on cash.

In April 2018, SAMA also announced that debit cards can now be used to shop online¹². “Together with the rise of e-wallets, this will give a significant boost to the country’s e-commerce market, which is expected to be worth USD22bn by 2022¹³. In turn, the rise of new e-commerce platforms, such as Noon.com, should help to drive electronic payments as consumers become more comfortable with online shopping,” adds Al Jarbou. “This is especially true given the kingdom’s young demographic – 51 per cent of the population are under 25 years old¹⁴ – and the high penetration of smartphones in the country,” she notes.

Although recent payments innovations have tended to centre around Saudi Arabian consumers, growing competition from fintechs and a willingness among certain commercial banks to innovate is seeing digital transformation taking place in the corporate space too.

Next generation treasury

One area where SABB has demonstrated digital innovation in combination with specific local expertise is customised e-Government cash and liquidity solutions. “For example, SABB worked with the Saudi Ports Authority to digitise the payments and collections of fees across all parties involved within the ports ecosystem, based on cross-funding of wallets across virtual accounts,” says Al Jarbou. “This digital solution will save the port authority significant amounts of time when reconciling incoming payments, ultimately enabling them to release goods more swiftly – for the benefit of end users.”

With the rise of the smart city under Vision 2030, SABB is also helping transport companies to embrace innovative mobile collection solutions, with offline authorisation capabilities. Treasurers in other sectors, too, are becoming more comfortable with mobile channels, increasingly taking advantage of SABB’s secure mobile offering to approve payments on-the-go.

Elsewhere, SABB is busy innovating in the cross-border payments space. “Saudi Arabia is one of the largest remittances markets in the world, so a key focus is improving cross-border payments, making them cheaper and faster for our corporate clients,” says Al Jarbou. “While the central bank is working on domestic instant payments offerings and investigating the possibility of real-time cross-border transactions with the UAE using a cryptocurrency¹⁵, we are keen to offer instant payments on a global scale as soon as possible,” she explains. As such, SABB is one of the three banks approved by the central bank to test connections with Ripple for instant settlement of cross-border transfers using blockchain technology. “We have just gone live end of December 2018,” she enthuses.

10 <https://www.menabytes.com/saudi-debit-card-online-shopping/>
 11 <http://www.sama.gov.sa/en-US/News/Pages/news08112016.aspx>
 12 <https://www.menabytes.com/saudi-debit-card-online-shopping/>
 13 <https://www.menabytes.com/saudi-debit-card-online-shopping/>

14 https://www.huffingtonpost.com/joseph-braude/surveying-saudi-arabias-y_b_12619198.html

15 <https://www.ccn.com/uae-and-saudi-arabian-central-banks-to-jointly-launch-a-cross-border-cryptocurrency/>

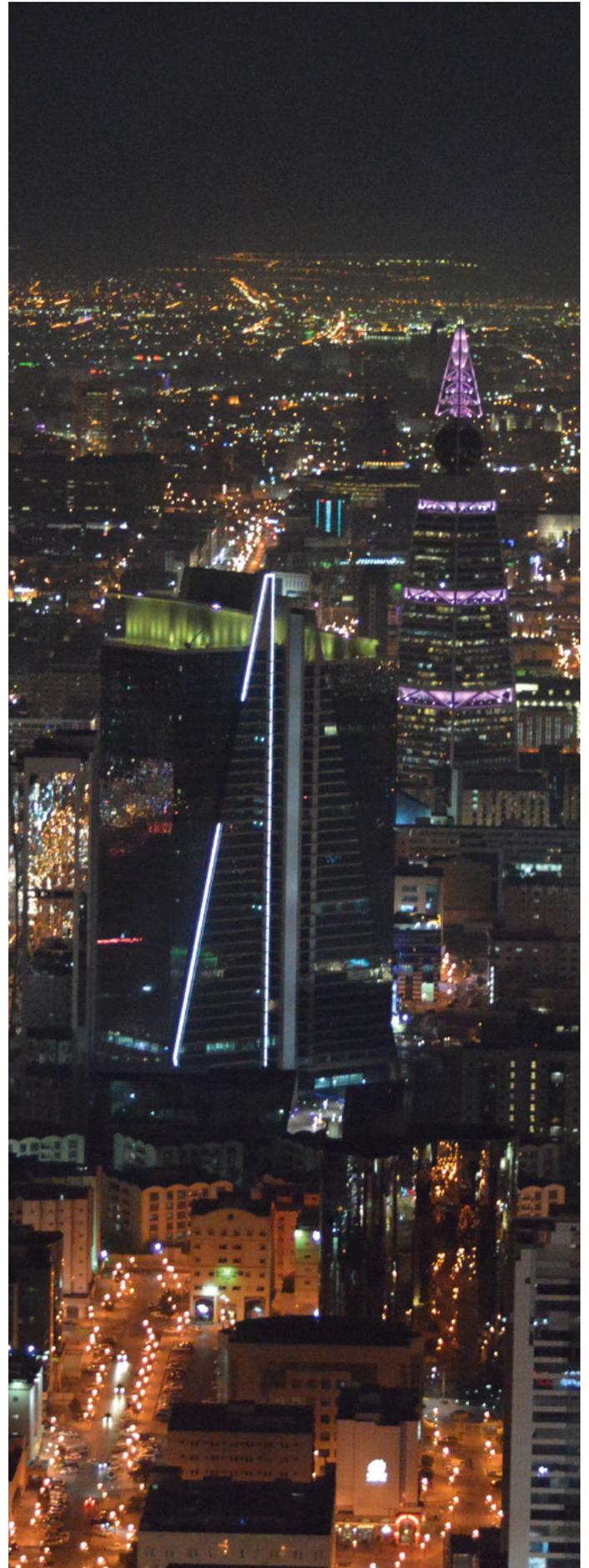
Pushing the envelope

Since SABB is an associate company of the HSBC Group, however, “The bank’s corporate customers are also able to benefit from the work that HSBC is undertaking in parallel around SWIFT’s global payments innovation (gpi) initiative,” comments Kawaguchi. “This means that our clients in Saudi Arabia get the best of both worlds – they can leverage SABB’s local knowledge and access to innovative sandbox projects, for example, while benefitting from HSBC’s global network and our experience of pioneering digital transformation in markets across the world – including through our innovation labs,” he says.

Another good example of the power of this joint venture is SABB’s ability to leverage HSBC’s Digital Transformation for Corporates (DTC) programme, through HSBCnet, as a means to deliver cutting-edge digital services to customers in Saudi Arabia, and to provide a consistent look and feel across the entire network, wherever corporates are using SABB or HSBC services.

“In addition to delivering on evolving corporate data needs through the use of application programming interfaces (APIs), DTC also provides the consistent user experience that multinational corporates now demand. Moreover, innovation investment such as DTC eases the path to future enhancements and the incorporation of emerging technology solutions into our platforms,” notes Kawaguchi. This makes our local and global propositions very compelling to both local and international clients.

The relationship between HSBC and SABB is most definitely a two-way street, however. “SABB has significant experience in card payments, whereas this has not traditionally been a focus for HSBC. Through SABB’s knowledge and network, HSBC is now looking to leverage SABB’s card acquiring capabilities throughout the Middle East,” says Al Jarbou. “HSBC is evaluating best practice SABB solutions, such as a prepaid payroll card and cash deposit machines, for the mutual benefit of corporate clients in other geographies.”





Time to get onboard

SABB has been actively playing a role in encouraging digital transformation within Saudi Arabia for many years, however, the sea change that Vision 2030 requires will only happen in earnest once corporates buy in to these digital innovations and start proactively deploying them. “Some companies have been operating in Saudi Arabia for almost a century – and this kind of heritage can sometimes lead to resistance to change or a lack of awareness around how processes have moved on,” says Al Jarbou.

“The digital transformation taking place in the kingdom under Vision 2030 is the perfect catalyst for corporate treasurers to take stock of where their operations are currently, and how they compare to local and global benchmarks,” adds Kawaguchi. “Treasurers can then work with their banking partners to identify the right digital tools to help them manage their business more effectively, improve workflows, increase transparency, free up resources, reduce fraud and optimise working capital,” he comments.

“There are also significant potential sustainability benefits to digital transformation within treasury that should not be overlooked, especially given Saudi Arabia’s increasing focus on sustainability under Vision 2030¹⁶,” he notes. Removing paper from treasury processes could, for example, help to reduce the company’s carbon footprint¹⁷, whilst lowering costs and improving audit trails.

By far the biggest incentive to get onboard with Saudi Arabia’s digital transformation sooner rather than later, however, is quite simply that change is already happening. “As the projects we’ve undertaken with local corporates and government entities demonstrate, a new digital ecosystem is quickly emerging in Saudi Arabia. Treasurers who fail to digitise swiftly may find that they can no longer connect to all of their counterparties, or that their reluctance to embrace digital transformation is denting the organisation’s overall competitiveness,” Al Jarbou cautions.

To support treasurers in their digitisation journeys, HSBC will continue to invest in its digital capabilities across the globe, says Kawaguchi. “We will also work hand-in-hand with SABB to share best practice digital solutions suited to the Saudi market, while helping treasurers to manage the risks that a new digital ecosystem presents, both locally and globally,” he concludes.

¹⁶ <http://www.arabnews.com/node/1284866/saudi-arabia>

¹⁷ <https://tricastar.com/news-feed/industry-news/benefits-paper-reducing-carbon-footprint/>



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