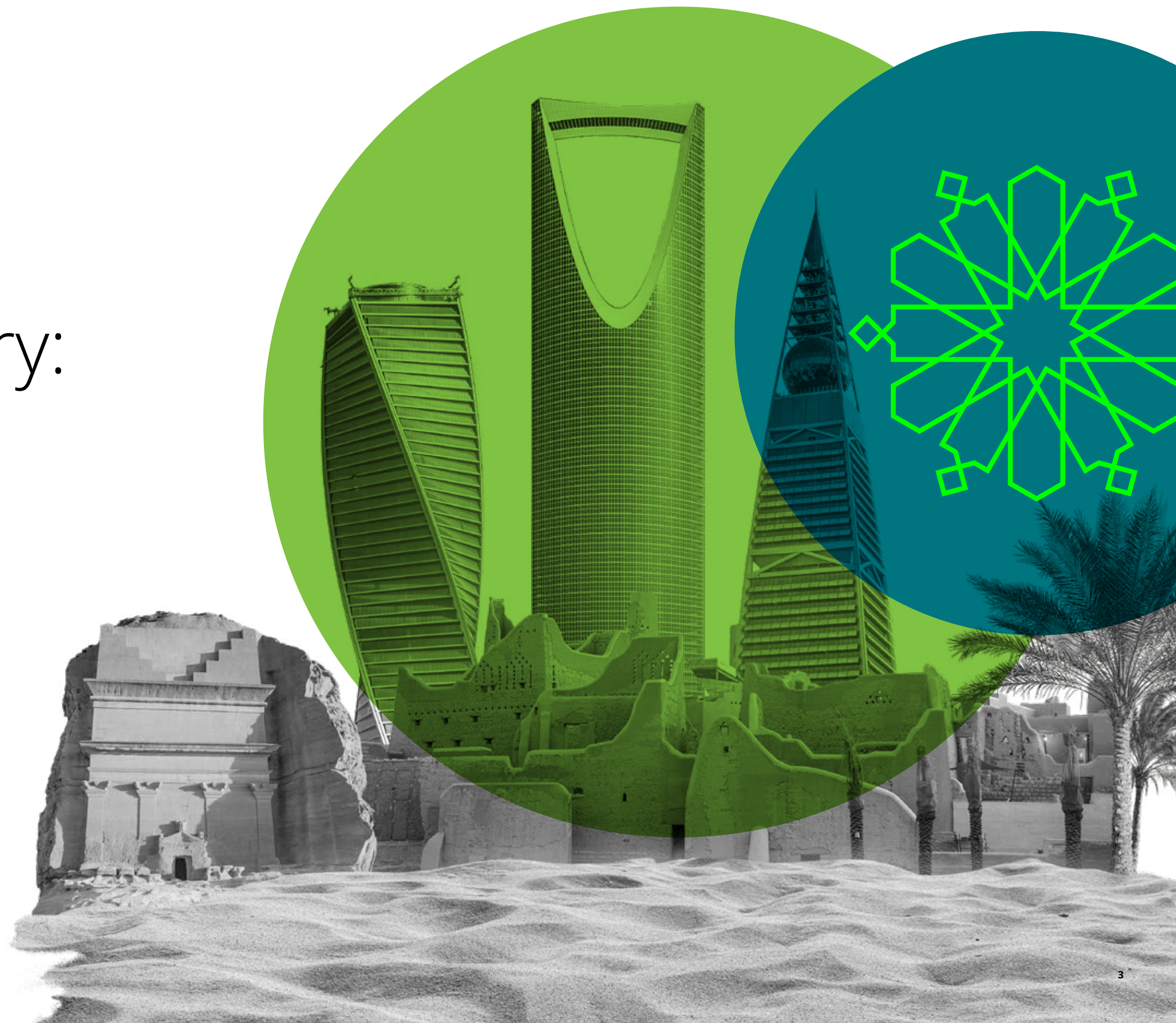


Vision 2030 and the KSA banking industry: Key challenges and strategic opportunities



When Vision 2030 was first announced nearly a decade ago, it seemed inconceivable to many, given the size and scale of what it sought to achieve. However, His Royal Highness, the Crown Prince Mohammed bin Salman was clear that “All success stories start with a vision, and successful visions are based on strong pillars.” What made Vision 2030 especially unique was that it aimed not only to drive an economic transformation but also to reshape the cultural and social fabric of the country. But that’s the thing about bold ambitions – they elicit a sense of curiosity and doubt and therefore require detailed plans to guide toward the objectives set out.

The Financial Sector Development Program (FSDP) underpinning Vision 2030 aimed to do exactly that. In fact, the very purpose of the FSDP was to create a thriving financial sector that would serve as a key enabler in achieving the broader objectives of Vision 2030. The program aimed to achieve growth in banking assets, drive innovation and competition, develop the regulatory framework, and drive digitization within the economy.

As the Kingdom continues its progress toward Vision 2030 and works to diversify its economy, the banking sector continues to be pivotal in facilitating this transformation. The development of planned mega projects in Saudi Arabia will play an important role in generating both local and inbound business, as well as lending opportunities for banks. The infrastructure required to host major events such as the Asia Cup in 2027, the Asian Winter Games in 2029, Expo 2030, and the FIFA World Cup™ in 2034 is expected to further support this growth.

Given the ambition, the banking industry in Saudi Arabia, like many other sectors, faces challenges and opportunities that are both unique to the region and reflective of global trends.



Economic diversification and regulatory changes

One of the primary challenges is the economic diversification itself. Vision 2030 seeks to reduce the Kingdom’s reliance on oil revenues by promoting other sectors such as tourism, entertainment, and technology. This shift requires banks to adapt their lending and investment strategies to support new industries that may have different risk profiles compared to the traditional oil and gas sector.

Additionally, the regulatory changes accompanying this economic transformation require banks to continuously update their compliance frameworks, which can be resource intensive. Technology and Generative AI will be key in ensuring that efficiencies are planned when investing in compliance activities. For example, data analytics tools can assist banks in monitoring compliance by automating the tracking of regulatory requirements and ensuring accurate reporting. These tools also aid in ensuring that data privacy laws are met, which is critical in KSA.



Technological advancements and cybersecurity

The rapid pace of technological advancements presents both opportunities and challenges for Saudi banks. The adoption of digital banking, fintech solutions, and artificial intelligence can significantly enhance customer experience and operational efficiency. However, integrating these technologies requires investment in infrastructure and talent. Moreover, the increasing reliance on digital platforms heightens the risk of cyber threats. Ensuring robust cybersecurity measures to protect sensitive financial

data is a critical challenge that banks must address to maintain customer trust and regulatory compliance.

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Competition from fintech companies

The rise of fintech companies poses a significant challenge to traditional banks in Saudi Arabia. The FSDP launched the Fintech Strategy Implementation Plan in 2022 to accelerate the growth of Saudi Arabia’s fintech sector and establish Riyadh as a global fintech hub. The ambitious plan aims to triple the number of fintech companies to 230 by 2025, increase digital transactions to 70 per cent within three years, and contribute US\$1.2 billion to the GDP while creating 6,000 new jobs by 2025. By 2030, Saudi Arabia aims to have 525 fintech companies, generating nearly 18,000 jobs.

Saudi Arabia’s fintech regulations provide a clear and structured framework for innovation while maintaining financial stability. With continued updates and support from regulators such as the Saudi Central Bank (SAMA) and the Capital Market Authority (CMA), the Kingdom is becoming a leading fintech hub in the Middle East. Initiatives such as the Fintech Regulatory Sandbox (established by SAMA to allow fintech startups and financial institutions to test innovative products and services in a controlled environment before full market launch) and regulations such as the Open Banking Framework, Payment Services Regulations, and CMA Fintech Regulations have all contributed to a blossoming and robust fintech industry.

The ongoing trends in Saudi Arabia’s fintech market include advanced technology infrastructure, rising accessibility to cloud services and 5G networks, and the increasing demand for financial services like asset management, investments, and insurance. The government has introduced various initiatives to build a technology-driven and cashless ecosystem. It has developed organizations such as Fintech Saudi to support initiatives and encourage small and medium-sized enterprises (SMEs) to use fintech solutions.

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Fintech firms often offer more agile and customer-centric services, which can attract a younger, tech-savvy demographic. To remain competitive, traditional banks must innovate and possibly collaborate with fintech companies to offer similar or superior services. This competitive pressure can strain resources and necessitate a cultural shift within traditional banking institutions to embrace innovation and agility.



Regulatory compliance and risk management

Saudi banks operate in a highly regulated environment, with detailed requirements set by SAMA. Regulations concerning capital adequacy, risk management, and governance frameworks are continuously updated to ensure the robustness of the KSA banking sector. In the last two years, we have seen the implementation of Basel III, the launch of the Personal Data Protection Law (which regulates the collection, processing, and storage of customer data), and enhanced regulatory reporting requirements in line with international standards. These updates impact reporting obligations, data granularity, and governance.

Compliance with these regulations is essential but can be challenging, especially with the continuous evolution of global banking standards. Banks must invest in robust risk management frameworks to ensure they meet regulatory requirements while managing operational, credit, and market risks effectively. The cost of compliance can be high, and failure to comply can result in severe penalties and reputational damage.

Again, the implementation of technology can turn this challenge into an opportunity by offering significant efficiencies. For example, several AI tools are now available that track and monitor new regulations, while also assessing compliance in relation to governance and policies. Furthermore, traditional fraud detection methods often rely on manual checks and patterns that can be slow to react to emerging threats. However, with predictive analytics, banks can leverage machine learning algorithms to detect unusual patterns and potential fraud in real-time. By analyzing large datasets, these systems can identify anomalies that would otherwise go unnoticed, thereby enhancing the security of banking transactions and reducing the risk of financial losses. ➔

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Economic volatility and geopolitical risks

The banking sector in Saudi Arabia is also susceptible to economic volatility and geopolitical risks. Fluctuations in oil prices can have a significant impact on the economy, affecting the banking sector's stability and profitability. Additionally, regional geopolitical tensions can create uncertainty and affect investor confidence. Banks must develop strategies to mitigate these risks, such as diversifying their portfolios and enhancing their risk assessment capabilities. Advanced analytics models can predict future risks, including credit default risks, and enable banks to proactively take action to prevent losses.



Customer expectations and experience

Evolving customer expectations pose a challenge for Saudi banks. Customers today demand seamless, personalized, and convenient banking experiences. Meeting these expectations requires banks to invest in customer relationship management systems, data analytics, and innovative service delivery channels. Failure to meet customer expectations can result in loss of business to more customer-centric competitors. Given that KSA has one of the youngest populations in the region, with approximately 40% under the age of 25, the banking industry will need to innovate to stay relevant. According to research by Deloitte, only 44% of the adult population in Saudi Arabia reported having saving habits, which is lower than that of both low-

and high-income countries. This suggests an opportunity for more tailored wealth management solutions in the Kingdom.



Talent acquisition and retention

The sector requires professionals with expertise in areas such as digital banking, cybersecurity, risk management, and regulatory compliance. However, there is often a shortage of such talent in the local market. To address this, banks must invest in training and development programs to build a skilled workforce and create an attractive work environment to retain top talent. The government is also investing in infrastructure, education, and entertainment to attract top talent to KSA from the region and globally. In addition, through strategic initiatives such as the Nitaqat program, the government is emphasizing the role of the national labor force in supporting the banking industry. The nationalization strategy is particularly focused on developing the next generation of KSA leaders to support the industry in remaining robust and future ready.

The government has been proactive in addressing the need for talent in the financial sector and has announced a range of initiatives aimed at enhancing it through talent development and leadership training. Institutions such as the Financial Academy are critical in this regard, and as of 2024, the academy had trained over 50,000 individuals across the industry, certified nearly 90,000 professionals, and established itself as a central pillar of the Kingdom's financial infrastructure.

In conclusion, while the banking industry in Saudi Arabia faces several challenges, these also present opportunities for growth and innovation. By addressing these challenges proactively, Saudi banks can play a crucial role in the Kingdom's economic transformation and continue to thrive in a rapidly changing global landscape. The KSA banking industry is a key driver of economic growth, diversification, and financial inclusion, as targeted by Vision 2030. Increasing SME financing, enhancing digital banking, supporting infrastructure projects, expanding Shariah-compliant banking, and fostering fintech partnerships will be crucial to fuelling the targeted growth. If open banking is further embraced by the industry, it will fuel innovation and enhance customer trust. The scale of strategic investments, the pace of digital transformation, and the ability to easily adapt to evolving regulations will be critical to ensure that the KSA banking industry continues to be a reliable pillar of growth for Vision 2030. ●

By **Ali Abdul Aziz**, Partner, External Audit, Deloitte Middle East

Endnotes

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