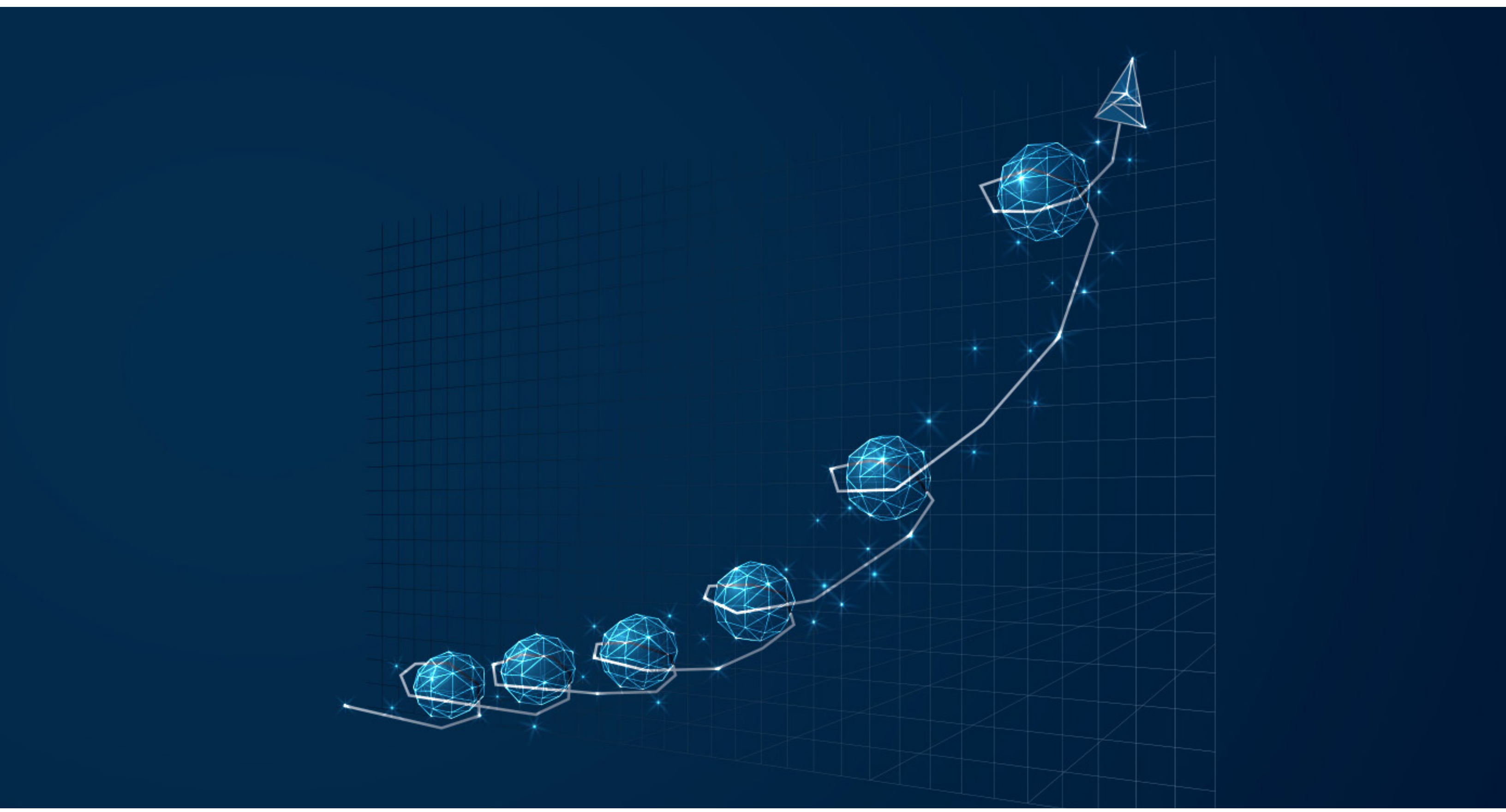
McKinsey & Company

Financial Services Practice

Fintech in MENAP: A solid foundation for growth

Fintech in the Middle East and North Africa is burgeoning, thanks to funding increases and revised licensing regimes. Sustaining growth will require concerted efforts by businesses and governments.

This article is a collaborative effort by Max Flötotto, Sheinal Jayantilal, Sagar Shah, Rinki Singhvi, and Sonia Wedrychowicz, representing views from McKinsey's Financial Services Practice.



May 2023

Growth in the fintech sector of the Middle East, North Africa, and Pakistan (MENAP) has been robust in recent years, with investor backing increasing by approximately 36 percent annually from 2017 to 2022.[1] While 2022 brought a sharp drop in valuations and changed market dynamics across the global tech sector, many local fintechs continue to broaden their footprint across MENAP and beyond, albeit with a emphasis on profitability, the new imperative for start-ups.

Overall, the region's positive macroeconomic outlook and the consistently strong performance of its financial services industry provide favorable conditions for the fintech sector's continued growth. We estimate that MENAP fintech revenue could increase almost threefold, from $1.5 billion in 2022 to an amount between $3.5 billion and $4.5 billion in 2025,[2] which would boost fintech's share of financial services revenue from less than 1.0 percent to approximately 2.0 to 2.5 percent.

Based on our conversations with leaders of 90 firms active in the region—including start-ups, bank and nonbank incumbents, and investors—we believe fintech innovators could play an increasingly significant role in the way consumers and businesses in MENAP conduct daily transactions and build wealth for the future. Realizing this potential will require that diverse actors reinforce the fintech ecosystem with capital, regulatory and market harmonization, talent, and partnerships.

Funding has surged as the MENAP fintech ecosystem has diversified

Investor funding for fintech start-ups in MENAP more than quadrupled from nearly $200 million in 2020 to approximately $885 million in 2022, according to MAGNiTT (Exhibit 1).[3] Over the same period, the share of rounds exceeding $10 million increased from 4 percent to more than 15 percent.[4]

The MENAP fintech ecosystem is becoming geographically more diverse

The recent surge in funding has been particularly strong in the Kingdom of Saudi Arabia (KSA), Egypt, and Bahrain—as well as in the United Arab Emirates (UAE)—with the number of firms scaling in these markets growing rapidly. Indeed, these markets have strengthened their position as crucial hubs for innovation, with the United Arab Emirates attracting 37 percent of funding in 2022; Saudi Arabia, 25 percent; Egypt, 20 percent; Bahrain, 12 percent; and Pakistan, 5 percent. As funding has increased across the region, the UAE share of total MENAP funding has decreased from approximately 80 percent in 2017 to about 35 percent in 2021 versus 2022. Nonetheless, the United Arab Emirates has retained its position as the leading magnet for investors by investing further in infrastructure and updating regulatory regimes.

On top of this, nearly 60 percent of the founders we've spoken with already operate in multiple markets and have plans to continue expanding geographically. One example is buy-now, pay-later (BNPL) provider Tabby, which was founded in 2019 and now serves more than two million customers in Saudi Arabia, the United Arab Emirates, and Kuwait.[5]

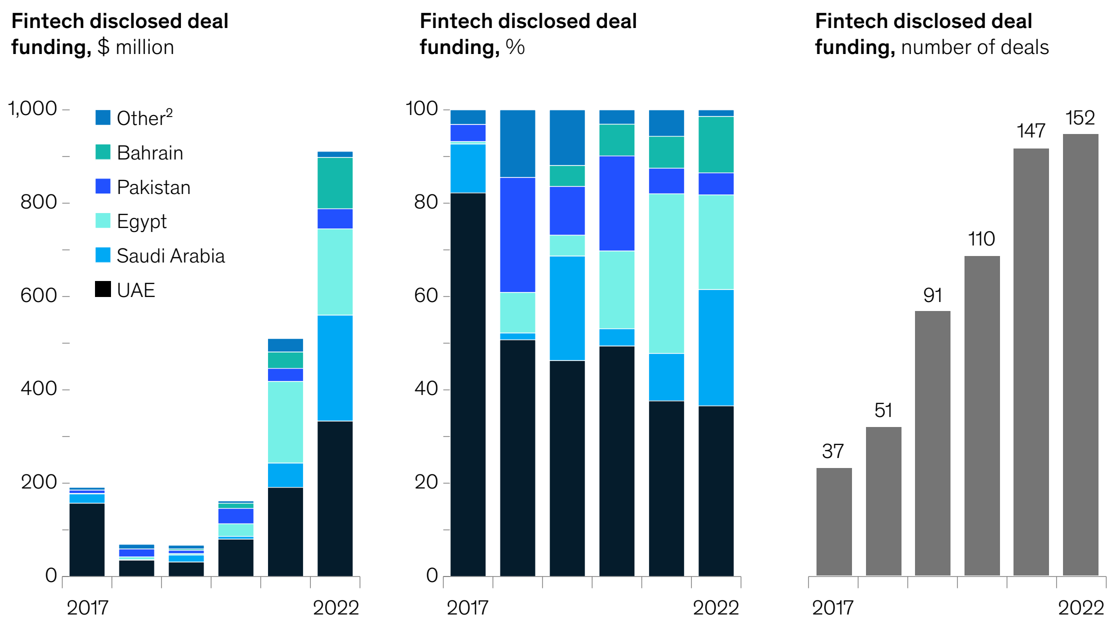
Nearly all founders interviewed assert that a multicountry strategy is crucial to meeting growth targets and achieving an impact comparable to fintech leaders in India, the United States, China, and other major markets. They also cite business resilience and sustainability among the benefits of a broad geographic footprint. Solution providers in any market often face significant challenges when entering a new segment or adjacent market, and start-ups expanding across MENAP take various

[1] MAGNiTT (database of venture capital funding for the Middle East, Africa, Pakistan, and Türkiye), February 3, 2023.
[2] Based on analysis of data from McKinsey Global Banking Pools.
[3] In 2017, four start-ups accounted for 60 percent of funding for MENAP fintech enterprises with exceptionally large rounds. In subsequent years, funding was more evenly distributed across the sector in lower average rounds, with the number of deals increasing steadily to 152 in 2022.
[4] MAGNiTT (database of venture capital funding for the Middle East, Africa, Pakistan, and Türkiye), February 3, 2023.
[5] "Tabby's app attracts 2 million shoppers driving a record 26 million clicks to retail partners," Tabby, June 28, 2022.

Exhibit 1

Fintech investments in the Middle East, North Africa, and Pakistan in 2022 far exceeded the record set in 2021.

Fintech disclosed deals in the Middle East, North Africa, and Pakistan (MENAP)[1]



[1]Includes fintech start-ups that are headquartered in MENAP and received funding from Jan 1, 2017–Dec 31, 2022.
[2]Includes Algeria, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Tunisia, Syria, and Yemen.
Source: MAGNiTT, Feb 3, 2023

McKinsey & Company

steps to tailor their offerings and strategy to fit local needs and expectations. For example, YAP, an Emirati digital banking platform that recently raised $41 million to support its expansion in new markets, has received a license as an electronic money institution (EMI) in Pakistan and as a payment services provider (PSP) in Saudi Arabia.[6]

MENAP's fintech offerings extend across the financial services value chain

Previously, investors tended to support fintech start-ups delivering basic offerings such as consumer-oriented mobile wallets and payments solutions. More recently, new fintechs, led by local start-ups, have broadened their scope. What is more, the distribution of MENAP fintech initiatives is fairly consistent across financial services verticals, addressing both B2C and B2B use cases (Exhibit 2).

Examples of solutions beyond digital payments services include Saudi BNPL provider Tamara, Emirati working-capital finance solution Lnddo, and Saudi consumer insurtech platform Rasan. Digital investment platforms are reaching young savers (as with Sarwa in the United Arab Emirates, which reports 100,000 registered users[7]) and

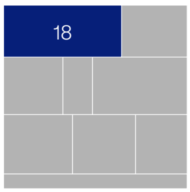
[6] Alexander Cornwell, "Digital banking start-up YAP raises $41 mln, to expand into Saudi Arabia," Reuters, July 4, 2022.
[7] "The Middle East's top 25 fintech companies 2022," *Forbes Middle East*, August 24, 2022.

Exhibit 2

Middle East, North Africa, and Pakistan fintech solutions now address each major link in the financial services value chain.

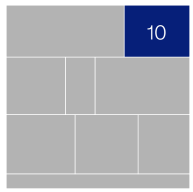
Middle East, North Africa, and Pakistan (MENAP) neobanks and superapps receiving disclosed funding, % of fintechs receiving disclosed funding

Account management

1


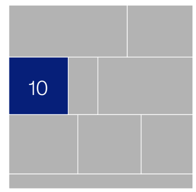
- Store of value account maintenance
- Card maintenance
- Financial management, personal and business
- Deposit float interest

Wallets

2


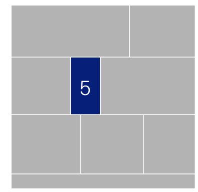
- P2P[2] transfers
- Airtime purchases
- Bill payments
- Cash in, cash out

Payments[1]

3


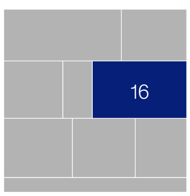
- Online merchant acquiring and gateways/aggregation
- Offline merchant acquiring
- Payment processing
- Payment issuing

Remittances

4


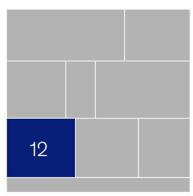
- Outbound/inbound international transfers
- First and/or last mile
- Cash prefunding and facilitation
- Foreign-currency exchange

Retail and SME[3] lending

5


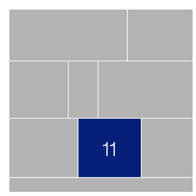
- Origination and distribution
- Digital lending on balance sheet
- Buy now, pay later
- B2B liquidity[4]
- Consumer liquidity[5]

Insurance

6


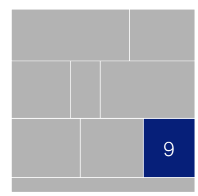
- Customer acquisition and distribution
- Underwriting and servicing
- Claims and loss assessment

Wealth management

7


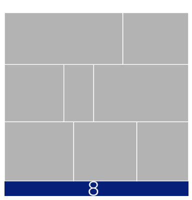
- Trading platform and investment
- Advisory and management
- Asset management

Blockchain/crypto

8


- DeFi/Web3[6]
- Exchange and tokenization
- Remittance
- Lending
- Asset management

Operations and infrastructure

9


- Banking-as-a-service embedded finance
- API ecosystem/open-banking
- Payment infrastructure and aggregators
- AI/big data risk assessment and credit scoring
- Regtech AML/KYC[7]
- Agency banking
- AI/machine-learning-based ops

[1]Excluding large B2B transactions. [2]Peer to peer. [3]Small and medium-size enterprise. [4]Eg, revenue financing, cash advance. [5]Eg, airtime advance, overdraft. [6]Decentralized finance; internet running on blockchain and cryptocurrency technology. [7]Regulatory technology anti–money laundering and know your customer.
Source: MAGNiTT, Feb 27, 2023

McKinsey & Company

underbanked/unbanked investors (e.g., Thndr in Egypt, which boasts approximately 800,000 users, many of them first-time investors[8]). Rain, a Bahrain-based cryptoasset exchange that has raised $228.7 million in funding since its founding in 2017,[9] is reported to have reached $1 billion in trading volume in 2021.[10]

In addition to payments acceptance and lending for small and medium-size enterprises (SMEs), fintechs in MENAP offer a range of B2B services, including employee benefits solutions (e.g., Bayzat in the United Arab Emirates, PayNas in Egypt); payroll, invoice factoring, and earned wage advances (e.g., Abhi in Pakistan); and microlending and airtime credit solutions (e.g., UAE-based Optasia, formerly Channel VAS). Open-banking start-ups such as Lean Technologies (Saudi Arabia) and Tarabut Gateway (United Arab Emirates) provide seamless integration of bank, fintech, and merchant systems with APIs supporting permissioned data sharing on behalf of customers.

Incumbents and new entrants are bringing fintech innovations to market

The diversity of actors developing new products and delivery platforms increases the resilience of the MENAP fintech ecosystem and multiplies opportunities for innovation by, for example, creating future-focused jobs, refining employees' skills, and attracting domestic and international talent.[11] Five distinct categories of actors have roles in the MENAP fintech ecosystem:

1. *Homegrown fintech start-ups.* In addition to payments, lending, insurtech, and investments, local fintech start-ups are addressing consumer and business needs with digital offerings, including Dubai's home-buying platform Huspy, Khazna's payment apps/wallets for underbanked Egyptians, and merchant payment solutions such as Telr (United Arab Emirates) and Geidea and HyperPay (both in Saudi Arabia). Many local firms have attracted regional and international investors, including Checkout.com, Amazon, and Western Union,[12] as well as private equity and venture capital firms.

2. *International fintech firms.* Established international fintechs, such as Adyen, Binance, Checkout.com, Ebury, Stripe, and Wise, have launched in the MENAP region. Their presence has stimulated competition and helped to promote customer adoption across various fintech verticals, both B2C and B2B.

3. *Banks.* Leading incumbents have moved quickly to launch digital-only offerings, such as Weyay, a fully digital, youth-oriented bank by National Bank of Kuwait;[13] Mashreq-NEO, the digital bank of Mashreq Bank; and Liv, a digital lifestyle banking app from Emirates National Bank of Dubai. While these solutions compete directly with diverse start-ups, leading incumbents are also increasingly partnering with start-ups—for example, RAK Bank with digital-banking platform YAP and Commercial Bank of Dubai (CBD) with BNPL provider PostPay.[14] Newly licensed digital banks also are entering the field. Pakistan, Saudi Arabia, and the United Arab Emirates have recently issued five, three, and two such licenses, respectively, and Egypt is expected to issue its first digital banking licenses this year.

4. *Other nonbank financial institutions.* Established payment processors, exchanges, remittance services, and other traditional

---

8 "Egypt fintech Thndr raises $20 million in Series A," Wamda, February 9, 2022.
9 Rain company profile, Crunchbase.com, accessed February 20, 2023.
10 "Rain partners with Bahrain Fintech Bay to unlock opportunities," Zawya, June 28, 2022.
11 "Europe's fintech opportunity," McKinsey, October 26, 2022.
12 MAGNiTT, February 3, 2023; Nicolas Parasie, "Checkout.com leads $110 million round for Saudi fintech Tamara," Bloomberg, April 22, 2021; Carla Sertin, "Amazon completes acquisition of Souq.com," *Forbes Middle East*," July 3, 2017; "Western Union buys 15% stake in Saudi Telecom's digital payment unit," Reuters, November 21, 2020.
13 "NBK launches the first digital bank in Kuwait," National Bank of Kuwait, November 25, 2021.
14 "PostPay and the Commercial Bank of Dubai partnership is the latest fintech-bank collaboration designed with the consumer in mind," Commercial Bank of Dubai, February 7, 2022.

infrastructure providers such as Al-Ansari, Al Fardan Exchange, and Network International have launched mobile apps and digital portals. In some cases, they have partnered with fintech start-ups and incumbent banks. Additionally, incumbents such as FAB and Mashreq have recently carved out their payment businesses Magnati and Neopay, respectively, to operate as separate entities.[15]

5. *Cross-sector fintech firms.* Large companies with leading market share, especially in telecommunications, have progressed from mobile cash to broader offerings. JazzCash offers mobile wallets, mobile payments, and branchless-banking services in Pakistan. STCPay is one of the first recipients of the new digital banking license from the Saudi Arabian Monetary Authority (SAMA). In the United Arab Emirates, e& money is the rebranded digital wallet from Etisalat. Local start-ups in other sectors, such as UAE-based ride-hailing unicorn Careem and procurement platform Bazaar in Pakistan, have integrated payments, credit products, and other financial services into their ecosystem offerings. More recently, large conglomerates have also entered the arena. For example, MAF, a Dubai-based enterprise with interests in real estate, retail and leisure, and entertainment businesses, acquired Beam wallet in 2018 and launched SHAREPay in 2022 to offer retail customers an end-to-end experience, from online and in-store payments to discounts and loyalty programs.

The breadth and diversity of offerings just described show that over the previous five years, MENAP's fintech start-ups have launched and scaled digital solutions, creating value for customers, partners, and investors. Three have achieved unicorn status: Fawry (in 2020) and MNT-Halan (2023) in Egypt and STCPay (2020) in Saudi Arabia. In launching their own digital banking solutions, leading bank and nonbank incumbents have developed some applications in-house while also collaborating with fintechs through licensing agreements, equity stakes, and acquisitions.

The dynamic among long-established organizations and new entrants will likely evolve. As each firm focuses on winning market share and building investor confidence, we expect that incumbents and fintech start-ups will increasingly compete head-on not only to address customer pain points and strengthen customer loyalty but also to attract and retain the best talent with agile work environments designed for continuous innovation.

Defying global trends, MENAP fintech will likely sustain its momentum

Global fintech valuations dropped in 2022. The Indxx Global Fintech Thematic Index lost more than 55 percent off its peak in 2021,[16] compared with a 28 percent drop in the Nasdaq composite. Some of the biggest fintechs have seen their valuations drop by tens of billions of dollars. With inflation at the highest levels observed in decades and interest rates continuing to rise, it is not surprising that investors would begin to prioritize profitability over growth. Indeed, 90 percent of the MENAP fintech founders we interviewed have already responded to changed market expectations by reducing staff, extending runways, and refocusing product offerings.

Despite the mixed outlook for the global economy and the new funding constraints on the global fintech sector, the MENAP financial services ecosystem is well positioned to continue its strong performance. Two key factors support this positive outlook:

1. *Strong economic fundamentals in MENAP.* In contrast to weakening economic performance in most global regions, MENAP's economic fundamentals have remained strong. Given high commodity prices, particularly oil for

[15] First Abu Dhabi Bank announces the sale of a 60% stake in Magnati to Brookfield Business Partners, February 28, 2022; UAE's Mashreq Bank launches paytech subsidiary Neopay, March 30, 2022.
[16] Indxx Global Fintech Thematic Index, January 26, 2023.

Gulf Cooperation Council (GCC) economies, the MENAP region is expected to grow faster than most large economies over the mid term. In the near term, year-on-year GDP growth for 2023 is projected to be between 2 percent and 5 percent across MENAP,[17] compared with approximately 1 percent for Europe and North America.[18]

2. *Continued growth of the region's banking sector.* The average price-to-book multiple for the region's banks exceeds 1.5,[19] and investor confidence in the sector is strong. Analysis of data from McKinsey's Global Banking Pools indicates that revenues for the MENAP banking sector could grow by approximately 7 percent annually over the next three years. Many banks in MENAP have significant potential to grow at low cost by leveraging fintech innovations to serve the region's large segment of young consumers and by focusing on underpenetrated product groups, such as consumer and small-business lending (current penetration of less than 20 percent) and wealth management and insurance (less than 10 percent penetration).[20]

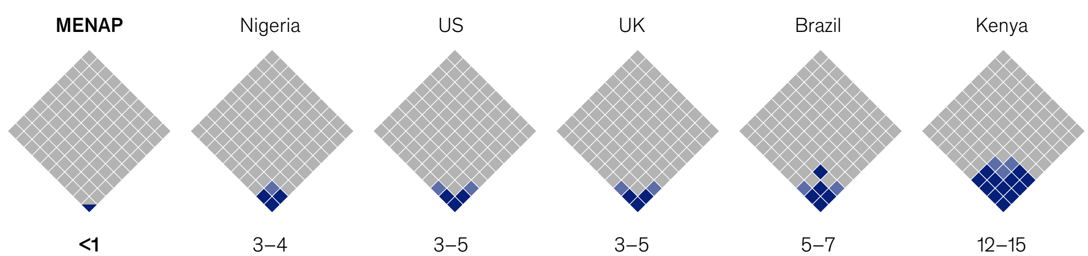
Annual revenue for the MENAP fintechs is projected to reach between $3.5 billion and $4.5 billion in 2025, up from an estimated $1.5 billion in 2022. This estimate assumes that regional fintech penetration will increase from less than 1.0 percent of total MENAP financial services revenue in 2022 (Exhibit 3) to a point between 2.0 and 2.5 percent in 2025. Over time, that fintech penetration will likely reach 3 to 4 percent of the region's financial services revenue pools, roughly in line with the global benchmark for fintech revenue relative to revenue for the total financial services sector.[21]

Fintechs have launched a broad range of offerings and attracted customers across diverse MENAP markets, each with its distinct challenges and

Exhibit 3

Middle East, North Africa, and Pakistan fintech has ample room to grow as revenue penetration rises to the level of major markets.

Middle East, North Africa, and Pakistan (MENAP) fintech penetration of banking sector revenue, 2022, %



Source: Dealroom; McKinsey Global Banking Annual Review, 2022; McKinsey Panorama FinTech

McKinsey & Company

[17] "UAE central bank sees GDP growth at 7.6% this year, 3.9% in 2023," Reuters, December 19, 2022; "IMF lowers 2023 Saudi growth forecast to 2.6%," Reuters, January 31, 2023; "Egypt targets 5.5% GDP growth in 2023–2024 fiscal year," Reuters, December 24, 2022; Abid Hussain, "World Bank cuts Pakistan's GDP growth projection to 2%," Al Jazeera, January 11, 2023.
[18] Ian Shine, "IMF raises global growth forecasts for 2023," World Economic Forum, February 3, 2023.
[19] McKinsey Global Banking Pools.
[20] Ibid.
[21] Miklos Dietz, Nuno Ferreira, Marie-Claude Nadeau, and Joydeep Sengupta, "McKinsey Global Banking Annual Review 2021: The great divergence," McKinsey, December 1, 2021.

opportunities. Governments are also encouraging technological innovation in financial services with the introduction of regulatory changes, the supervision of regulatory sandboxes, and improvements in banking infrastructure, as well as facilitating the launch of new enterprises in free-trade zones such as the Dubai International Financial Center (DIFC) and Abu Dhabi Global Market (ADGM). In addition, the region has a favorable macroeconomic and banking outlook, and investor backing for start-ups has grown.

Together, these factors suggest that the fintech sector's value and impact will continue to grow. Assuming a stable valuation-to-revenue multiple for the sector, we expect that the market valuation of MENAP's fintech sector could increase from an estimated $8 billion in 2022 to more than $15 billion as early as 2025.[22] Considering the number of fast-growing MENAP start-ups with valuations approaching $150 million, as well as several already exceeding $250 million in market value, we anticipate the emergence by 2025 of four to six new fintech unicorns in addition to the three that already exist in the region.

Based on the recent growth in funding, investors appear confident in the sector's potential to attain global benchmarks. From 2021 to 2022, funding for fintech start-ups increased 335 percent in Saudi Arabia, 75 percent in the United Arab Emirates, 55 percent in Pakistan, and 6 percent in Egypt. Banking customers across MENAP have also embraced digital offerings. Recent McKinsey research indicates that approximately 90 percent of banking consumers in the United Arab Emirates and Saudi Arabia and 80 percent in Egypt use digital channels for either all or some banking transactions.[23] Additionally, the State Bank of Pakistan reports that the number of mobile-phone banking transactions in Pakistan doubled from 2021 to 2022 and that transaction volume for internet banking grew by approximately 52 percent over the same period.[24]

A foundation for value creation

For the region's fintech sector to realize its potential, it needs a solid foundation for growth and value creation across MENAP financial services markets. That foundation would include four building blocks: sufficient capital, regulatory and market harmonization, technical and leadership talent, and strategic partnerships to increase value.

Injections of capital

We estimate that the MENAP fintech sector, which comprises approximately 800 funded start-ups,[25] will need new funding totaling $5 billion to $7 billion over the next three years.[26] At present, the region's fintech funding levels (excluding capital raised by new digital banks) relative to GDP are much lower than observed in other markets (Exhibit 4). If MENAP fintechs succeed in attracting the level of funding available to peers in other regions, they would be in a stronger position to hire top talent, reach new segments in existing markets, and expand to adjacent markets.

Raising the funds needed to increase the fintech contribution from less than 1.0 percent to approximately 2.0 to 2.5 percent of total MENAP

[22] We estimated 2022 fintech revenue in two ways: by using average enterprise value-to-revenue (EV/revenue) multiples according to the start-up's stage of development and by drawing upon conversations with founders. Fintech revenue for 2025 is estimated by assuming 2 percent fintech revenue penetration relative to the region's total annual financial services revenue pools. The estimated valuation of $8 billion for the MENAP fintech sector in 2022 is based on funding data from MAGNiTT (February 3, 2023). The sector's valuation for 2025 is estimated by applying the 2022 EV/revenue multiple to our projection of fintech sector revenue for 2025 and assuming a market correction of approximately 30 percent. Based on this, we estimate that the sector's market valuation could exceed $15 billion by 2025.

[23] Abdellah Iftahy, Tom Isherwood, Chiara Marcati, and Karan Soni, "Digital Consumers in the Middle East: Rising adoption and opportunity," McKinsey, January 9, 2023.

[24] "Payment systems review for the fiscal year ended June 30, 2022," State Bank of Pakistan.

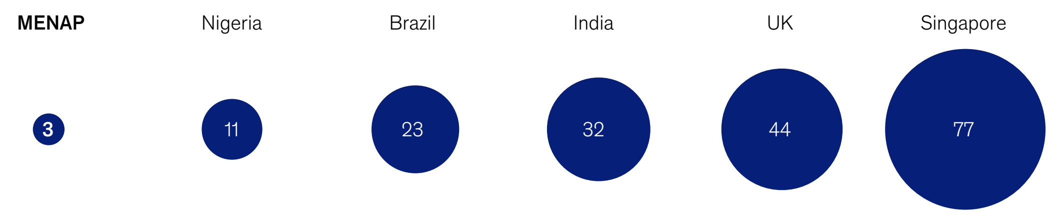
[25] MAGNiTT (database of venture capital funding for the Middle East, Africa, Pakistan, and Türkiye), February 3, 2023.

[26] Total MENAP fintech funding through 2022 is $3 billion. Using our revenue estimates for 2022 and 2025, we calculate the ratio of revenue to cumulative funding to date and then use this ratio in estimating the cumulative funding of the sector in 2025. This results in a range of $8 billion to $10 billion in cumulative funding, which means additional funding of $5 billion to $7 billion for the period 2023–25, or an average annual increase of $1.7 billion to $2.3 billion in funding.

Exhibit 4

Fintech sector funding relative to GDP in Middle East, North Africa, and Pakistan is much lower than in other markets.

Middle East, North Africa, and Pakistan (MENAP) total fintech funding relative to non-oil GDP, 2022, basis points



Source: Crunchbase; Dealroom; SNL Financial; McKinsey Global Banking Annual Review 2022; McKinsey Panorama FinTech

McKinsey & Company

banking sector revenue pools will require larger average investments and greater participation by local investors. Funding has surged in the past two years, with top-tier global funds providing nearly 70 percent of the total in amounts ranging from $5 million to $20 million. Most local venture capital firms have contributed approximately $5 million each. As start-ups mature and move to secure late-stage funding, larger minimum investments will be required to sustain scaling across the region. Fintechs not only must attract more investors with deeper pockets, but also need to increase the share of funds coming from local and regional investors. This is particularly important for firms offering credit products in markets with volatile currencies, such as Egypt and Pakistan, because they face large currency risks associated with raising USD-denominated venture debt.

Regulatory and market harmonization

Regulators across the region have responded to the rapid evolution of digital technologies with new standards and infrastructure. Recent updates to regulatory frameworks include the announcement of digital-bank licensing regimes in Pakistan (2022),[27] Saudi Arabia (2020),[28] and Egypt (2020),[29] as well as open banking and payments licenses in Bahrain and Saudi Arabia.[30] Central banks are also modernizing infrastructure to support the growth of digital transactions—for example, the launch of instant-payments systems, digital identity, and digital sandboxes.

Cross-border payment networks like AFAQ[31] and Buna[32] represent important steps toward regional financial integration, but the pace of regulatory change is still uneven from one market to the next. Firms seeking to scale across MENAP must contend

[27] "Licensing and regulatory framework for digital banks," State Bank of Pakistan, accessed February 20, 2023.
[28] "Additional licensing and criteria for digital-only banks in Saudi Arabia," Saudi Arabian Monetary Authority, February 2020; *SAMA banking guidelines and minimum criteria*, Saudi Arabian Monetary Authority, December 2018.
[29] For more on Egyptian Banking Law 194/2020, see Lamiaa Youssef, "Egypt's new banking law payments fintech electronic evidence," Sharkawy & Sarhan blog, October 6, 2020. On the topic of digital banking and licensing requirements, see Ahmed Haggag and Noha Eissa, "Egypt's new banking law: Projects and finance—the securities regime," Sharkawy & Sarhan blog, November 1, 2020.
[30] "CBB launches the Bahrain open banking framework," Central Bank of Bahrain, October 28, 2020; "SAMA publishes open banking framework and other regtech updates," Moody's Analytics, November 2, 2022.
[31] The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) is the real-time gross-settlement (RTGS) system of the Gulf Cooperation Council (GCC).
[32] A cross-border payment system supported by Arab central banks and fully owned by the Arab Monetary Fund.

with differences in the legal frameworks for setting up a business and obtaining a license to operate as a digital bank, payment service provider, or payment systems operator. This points leaders toward the next frontier: greater collaboration and alignment across markets.

As an example of how this might be achieved, the EU has established a "passporting" system for financial services companies, including fintechs, so firms authorized in any member state of the EU or the European Economic Area can trade more freely in another.[33] A similar system in MENAP could form the foundation of a single market and significantly reduce the time and resources required to obtain a license in a neighboring market.

Founders and investors agree that scaling economically viable fintech solutions in multiple locations will require significant advances in financial integration, including interconnectivity and interoperability. When asked about the current state of the MENAP regulatory landscape, one founder noted two key efforts that could facilitate the scaling of fintech solutions across the region's markets: regulatory and legal harmonization and uniform standards for APIs.

Technical and leadership talent

The region's founder talent has received global recognition recently, as in Amazon's acquisition of Souq, Uber's acquisition of Careem, and IPOs by Swvl and Anghami. These milestones have boosted confidence and aspiration across the start-up ecosystem, with several former employees of Careem and Uber launching new ventures, such as Retailo (in Saudi Arabia), Bazaar (Pakistan), and Thndr (Egypt). In our conversations with founders, however, talent remains the top concern. One founder emphasized both the challenge of attracting experienced engineers, product managers, programmers, and designers to the region and the important role these senior workers serve in mentoring homegrown talent. The low supply of candidates with specialized skills, combined with high demand from both public- and private-sector employers, has pushed costs higher than in tech-and-finance hubs such as London and Singapore.

Further, government-mandated localized hiring targets, such as those implemented in Saudi Arabia, are increasing pressure on firms to upgrade the skills of current employees and train local talent to take on leadership roles in tech-centric initiatives. There is also a need for industry veterans, universities, and governments to collaborate on the development of training programs, competitions, and internships to build skills and professional networks tailored to financial services technology.

Firms would also do well to include more women in leadership positions. In the MENA region, only 9 percent of start-ups have at least one woman on the executive team, compared with 42 percent of start-ups in the United States.[34] According to a 2020 McKinsey report, companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the bottom quartile.[35] And according to MSCI, companies with strong female leadership have, on average, generated an annual ROE of approximately 10.1 percent, compared with 7.4 percent for companies without women on the leadership team.[36] In general, a broader range of perspectives at the top can enhance planning and performance.

Partnerships to increase value through market-leading propositions

Given the diverse types of organizations active in the MENAP fintech ecosystem and their growing impact on the broader financial services sector (measured, for example, in consumer adoption,

[33] *What is 'passporting' and why does it matter? Brexit Quick Brief,* no. 3, UK Finance, n.d.
[34] *2020 women in US technology leadership report*, Silicon Valley Bank, 2020.
[35] Sundiatu Dixon-Fyle, Kevin Dolan, Dame Vivian Hunt, and Sara Prince, "Diversity wins: How inclusion matters," McKinsey, May 19, 2020.
[36] "Women on boards: Global trends in gender diversity on corporate boards," MSCI, November 2015; see also Stacey Chin, Alexis Krivkovich, and Marie-Claude Nadeau, "Closing the gap: Leadership perspectives on promoting women in financial services," McKinsey, September 6, 2018.

merchant/agent network size, and total transaction value), new approaches to collaboration and co-creation beyond traditional joint ventures and mergers/acquisitions are beginning to emerge. One example is Mashreq's investments in both Nymcard, a provider of banking as a service (BaaS), and Cashew, a provider of BNPL solutions. Another is HBL's partnership with Finja to expand lending and other services to microbusinesses and small businesses in Pakistan.

However, collaboration between incumbents and start-ups in MENAP has yet to gain full momentum, with less than 50 percent of financial institutions partnering with a fintech start-up. By contrast, approximately 85 percent of the world's leading financial institutions have at least one substantial fintech partnership.

Incumbents are often open to sponsoring nonbank service providers with bank information numbers (BINs) and providing balance sheet and deposit-taking capabilities through tech companies offering BaaS to businesses, but they might benefit from a more aggressive approach to partnering with start-ups. With consumers and businesses expecting innovative solutions and superior experiences, traditional banks will need to create compelling propositions that increase value for customers, commercial partners, and shareholders. Incumbent banks could also pursue discussions with regulators on how to encourage further fintech innovation. Organizations that fail to partner with innovators to upgrade their value proposition risk losing market share to market leaders.

Just as fintech companies have spurred growth in the United States and the United Kingdom, the MENAP fintech sector is beginning to make its mark on the region's financial services landscape, seeking to broaden financial inclusion, increase customer choice, lower costs, strengthen resilience and security, and more. Broader adoption of fintech solutions also has the potential to boost the productivity of financial services organizations and push returns higher. To reap these gains, industry stakeholders—incumbents, new entrants, investors, regulators, and others—should, where appropriate, consider the opportunities for collaboration to fortify the foundation for innovation and value creation.

Max Flötotto is a senior partner in McKinsey's Munich office, and **Sheinal Jayantilal** is a partner in the Dubai office, where **Sagar Shah** and **Rinki Singhvi** are consultants and **Sonia Wedrychowicz** is a partner.

Designed by McKinsey Global Publishing