BNPL in the GCC

A Stellar Ascent with Promising Prospects

tamara

RETAIL LEADERS CIRCLE

Feb 2024

Table of Contents

“ **BNPL is revolutionizing the credit journey end-to-end, promoting financial inclusion, fairness and accessibility.**

Abdulmajeed Alsukhan
Chief Executive Officer & Co-Founder - Tamara

“ **BNPL is reshaping the retail industry by catering to the modern consumer's needs, allowing retailers to expand their market reach and improve conversions.**

Panos Linardos
Chairman, Retail Leaders Circle

Executive Summary

Alternative Payment Methods have solidified their dominance in global B2C payments, constituting 66% and 35% shares of e-commerce and POS transaction values in 2022, respectively, and exhibiting robust growth prospects. Notably, BNPL stands out, emerging as the 5th most used payment method in 2022, both online and offline. This global phenomenon has experienced meteoric growth since its inception, thanks to remarkable performance in mature markets, claiming shares as high as 24% of e-commerce and 7% of Point of Sale payments. With BNPL's solid customer demand expected to continue growing at a staggering 20% YoY, more startups and established payment players are venturing into the space.

The triumph of BNPL is accentuated in the GCC, propelled by faster e-commerce growth versus global averages and promising market penetration prospects. Investors are taking notice, demonstrating their confidence with unprecedented funding. Customers are swiftly embracing BNPL, evidenced by 50% adoption levels among highly diverse addressable shoppers in the leading markets, with ever-increasing repeat rates. In parallel, over 40,000 businesses, including major category leaders and retail groups, have enabled BNPL in response.

BNPL has not only transformed the way consumers shop and pay, but has also presented a myriad of advantages for businesses, creating a positive, self-reinforcing flywheel effect. For customers, BNPL brings a cheaper, faster, and more flexible alternative to traditional credit, rooted in its customer-centric principles. For businesses, the potential for revenue growth and cost optimization outweighs the price tag.

The turbocharged growth of BNPL in the GCC, following global success , is not coincidental, nor is it short-lived. It is here to stay, driving financial inclusion and stimulating the economy. Underpinned by fundamental customer needs, macroeconomic drivers, and alignment with government agendas, BNPL holds the key to unlock a massive $42Bn opportunity in the GCC by 2026.

Reaping the economic prospects associated with this opportunity demands a trilateral collaboration between regulators, businesses, and BNPL providers.

01

BNPL: A Global Phenomenon Taking the GCC By Storm

Purchase "on credit" traces its roots back 5000 years to ancient Mesopotamia, evolving over the centuries into a concept resembling modern credit cards since the 1960s. More recently, consumer and merchant friendly technological advancements have given rise to alternative payment methods (APMs). Coupled with a favorable macroeconomic environment, Buy Now Pay Later (BNPL) emerged to become a global and regional phenomenon of significant scale.

The Dominance of Alternative Payment Methods

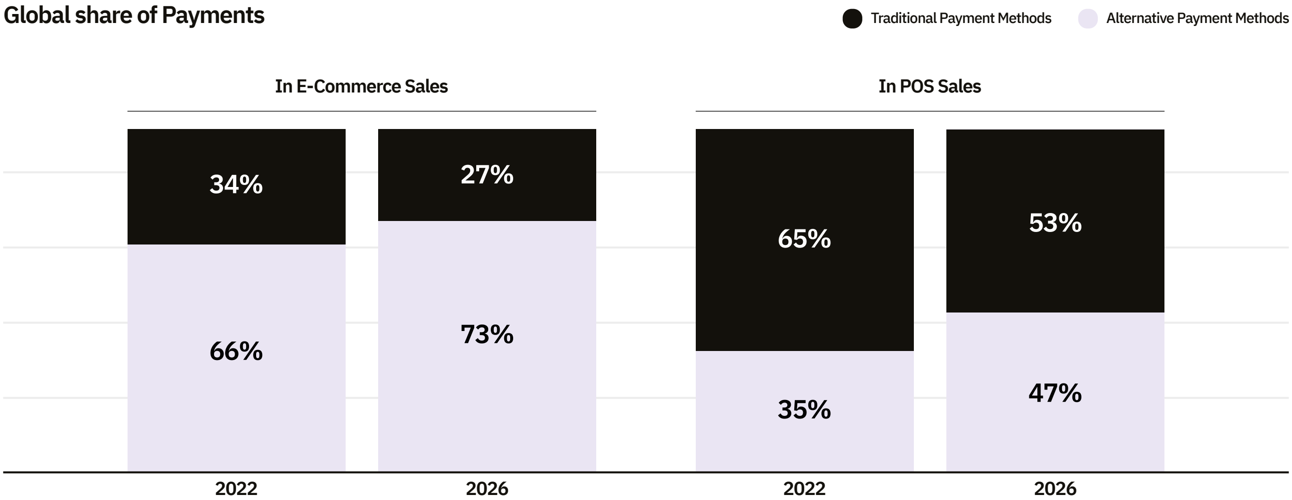
The rise of e-commerce since the early 2000s has ushered in a significant surge in traditional payment method alternatives, including digital wallets, account-to-account (A2A) payments and more recently, BNPL solutions. This shift can be attributed to four pivotal factors:

- Technological and infrastructural advancements enabling payments innovation.
- Governments' digitization agendas to promote financial inclusion.
- Consumers' payment preferences gravitating towards seamless digital solutions.
- Businesses' adoption of cost-efficient, easily integrable, and widely accepted digital payments.

In 2022, APMs constituted a whopping 35% and 66% of global business-to-consumer (B2C) Point of Sale (POS) and e-commerce transaction value shares, respectively. These figures are anticipated to surge to 47% and 73% by 2026[1], propelled by a wider adoption among a broader spectrum of merchants and customers. Within this landscape, digital wallets emerge as the dominant APM, exerting a significant influence on omnichannel payments worldwide. They hold a substantial 49% share in the global e-commerce market and an impressive 32% share in POS transactions. Projections reveal a promising growth, with a CAGR of 10% for e-commerce and an impressive 34% for POS transactions expected through 2026.

Consequently, traditional payment methods are expected to lose their share of global payments from 34% to 27% in e-commerce and from 65% to 53% in POS transactions between 2022 and 2026[1]. Furthermore, consumers are increasingly inclined to shift towards card-funded digital wallets and BNPL services, further amplifying APMs dominance. Similarly, cash, no longer king, is expected to continue its downward trajectory, decreasing by 50% online and 38% in-store over the same period[1].

Global share of Payments

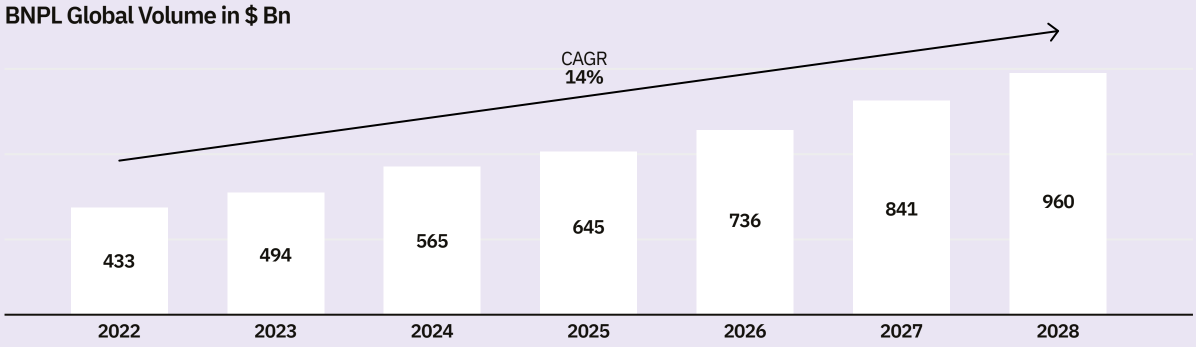


Source: FIS, Global Payments Report 2023

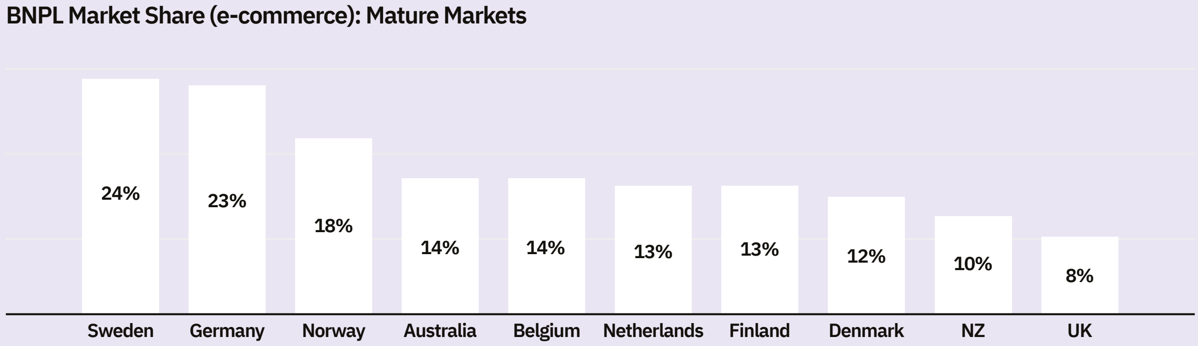
BNPL: A Global Phenomenon

While the BNPL concept dates back to the 1840s, modern solutions emerged in the early 2010s to address financing challenges such as complexity, high fees, and Annual Percentage Rates (APRs). Propelled by technological advancements and a favorable macroeconomic environment, **BNPL has experienced meteoric growth, becoming the 5th most used payment method globally in 2022[1], both online and in-store, with an estimated global gross merchandise value (GMV) of $433Bn[2].** This figure is forecasted to grow to around $960Bn by 2028, boasting a stellar Compound Annual Growth Rate (CAGR) of 14%[2], positioning BNPL as the fastest growing payment method in terms of transaction volume, sales value, and user base[1].

The BNPL model has already been tried and tested worldwide, with compounded successes in developed markets disrupting the payments landscape. BNPL share of e-commerce checkout in mature markets has soared, reaching remarkable levels of 24%, 23%, and 14% across Sweden, Germany, and Australia, respectively[1]. Similarly in-store, POS financing constituted 2% of global POS transactions value in 2022, with standouts as high as 7% in Australia and 5% in Sweden[1], cementing the industry's omnichannel presence and unlocking greater value to customers and retailers alike.



Source: Deloitte, Future of BNPL in the Middle East



Source: FIS, Global payments report 2023

Strong Demand Across all Consumer Demographics

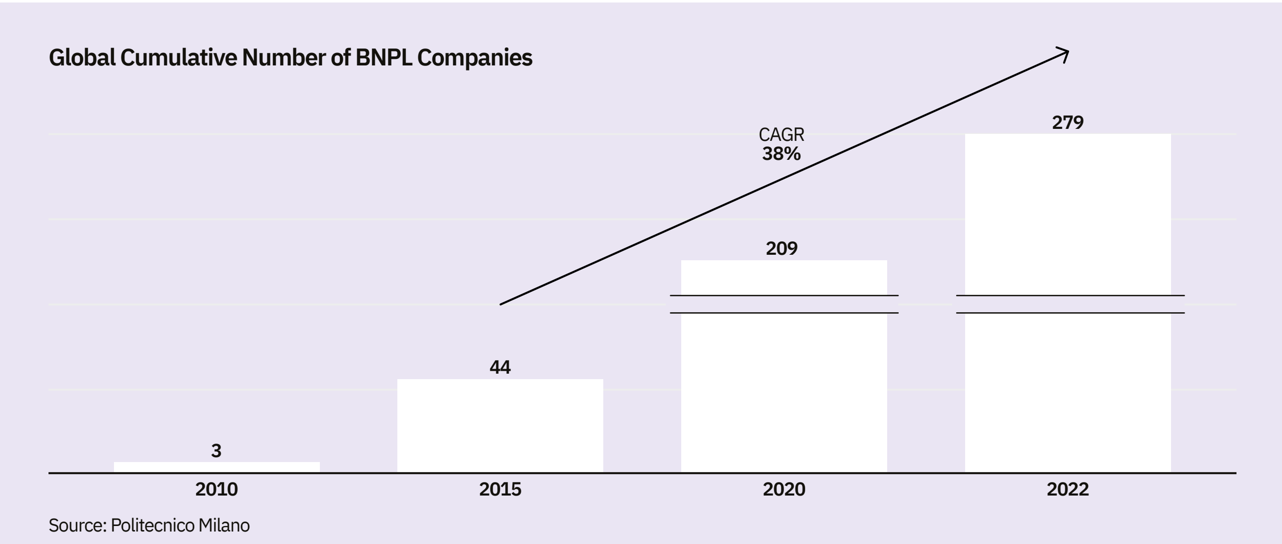
These substantial prospects are largely attributed to a **staggering 20% year-on-year (YoY) growth in BNPL's customer base, surging from 360Mn in 2022 to an impressive 900Mn by 2027[3]**. This surge is underlined by significant customer stickiness, propelling BNPL players to swiftly ascend the ranks of long-standing customer loyalty leaders. In 2022, three out of the top 11 financial services companies in the US, in terms of Net Promoter Score (NPS), were BNPL players, compared to only 1 being a digital wallet[4].

The embrace of BNPL services, initially championed by early-adopting Millennials and Gen Z-ers, who constituted over 80% of users in 2018, is now rapidly infiltrating core consumer demographics associated with conventional credit solutions. Notably, Gen X and Baby Boomer demographics have emerged as the fastest growing BNPL customers segments, exhibiting a 26% and 39% CAGR, respectively, in the post-COVID pandemic period through 2025[5]. This acceleration surpasses the still commendable 17-18% CAGR for Gen Z-ers and Millennials during the same timeframe[6].

Entrepreneurs are Racing to Win the BNPL Revolution

BNPL startups have witnessed tremendous global growth, sparking a notable influx of companies racing to dominate the space. **The establishment of new BNPL companies has increased by 38% YoY**, escalating from 44 companies in 2015, to about 279 companies as of 2022[7]. The success of BNPL's model is further evident from the increasing number of BNPL Unicorns emerging every year across the globe. By the end of 2023, more than 17 pure-play BNPL service providers have claimed this coveted status, excluding legacy paytech companies. Their emergence not only underpins the viability of the BNPL business model, but also solidifies these startups' position as influential players shaping the ongoing revolution in consumer financial behaviors on a global scale.

Entrepreneurs are also strategically growing their BNPL core to maximize value creation for customers, businesses, and shareholders. Banking on their superior customer experience, they are transitioning from pure-play BNPL to a superapp ecosystem, as evidenced by the dominant global BNPL service providers.



Established Players are Entering the Game

Capitalizing on the global success of BNPL, **traditional banks, tech companies, and established payment players are increasingly venturing into the BNPL space** through diverse strategic routes. These routes range from developing BNPL solutions in-house, forming strategic partnerships, and making acquisitions in the space, to adopting white-label solutions and strategically investing in BNPL startups. These industry giants perceive BNPL as an opportunity to acquire customers, generate revenue, and propel long-term growth. Notably, Mastercard unveiled its installments program in late 2021, which Apple leveraged to introduce Apple Pay Later, built into wallet, starting in the US earlier this year. Meanwhile, Visa launched its Visa installments solution, forging partnerships with institutions such as Standard Chartered and CitiBank in various geographies. Several other examples were observed over the past few years, and the trend continues to gain traction.

The GCC: A Stand Out Region for BNPL

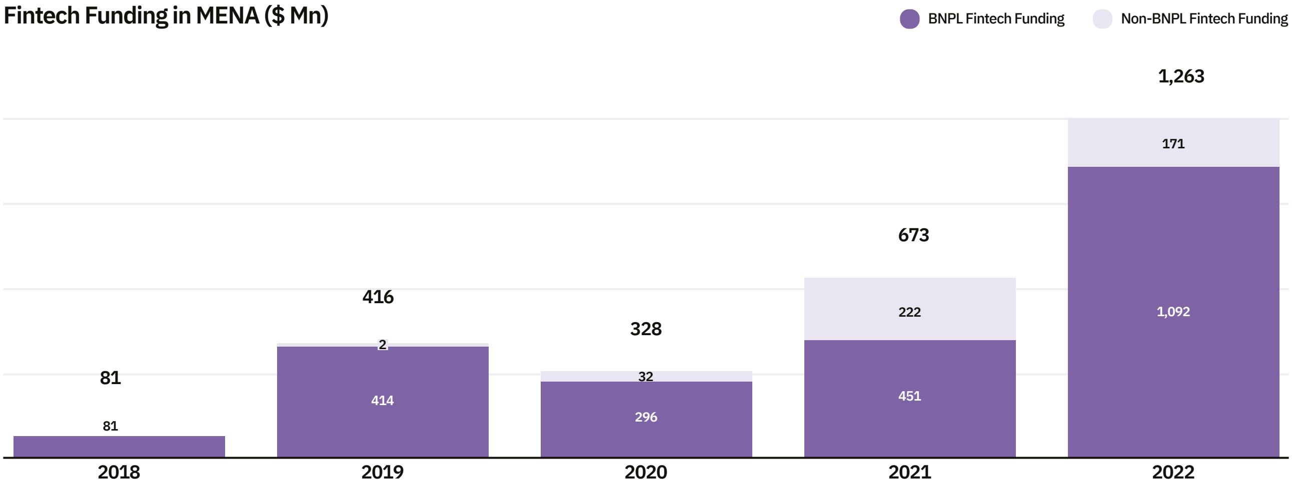
The pandemic-fueled surge in e-commerce in the GCC showcases a stellar 33% CAGR since 2019 - nearly double the global figure of 17%[8]. This has fostered a conducive environment for BNPL growth and is projected to continue flourishing, outpacing global levels. This symbiotic relationship is reshaping online transactions in the region, as BNPL providers seamlessly align with ever-evolving consumer preferences. E-commerce accounted for an estimated 70% of BNPL's GMV in 2023 in the GCC's largest BNPL markets, KSA and UAE[9]. BNPL's share of e-commerce in these markets is expected to grow rapidly through 2026, surpassing global averages[1]. BNPL's success, however, is not only confined to e-commerce as innovators are now also disrupting the mammoth offline retail space, which is 11 times the size of e-commerce in KSA and UAE, promising even deeper market penetration[10].

BNPL is Gaining Investors' Confidence

Investors are taking notice, demonstrating their confidence in the region's fintech ecosystem, particularly paytech, with unprecedented funds. The number of fintech companies has nearly doubled since 2018[11], with four of the top 30, in terms of transaction value, funding, growth, geographical footprint, innovation, and impact on consumers and businesses, being BNPL providers[12]. This is mirrored by a funding surge, with MENA Fintechs accumulating a record $1.3Bn in equity funding in 2022[11], nearing a two-fold increase YoY since 2020. Standing at 2% in 2019, MENA's BNPL share of fintech funding in 2021 & 2022 combined has increased tenfold, showcasing robust performance.

In the GCC, investments in fintechs have skyrocketed. The region's largest markets, KSA and UAE, witnessed a substantial increase in funding by 335% and 75% respectively, in 2022 versus 2021[13]. The UAE ambitiously aims to become a fintech powerhouse, potentially reaching $2.8Bn in funding and tripling its startup count by 2028[14]. KSA is not far behind, growing from six fintech companies in 2018 to over 200 in 2023[15]. Meanwhile, BNPL has emerged as the undisputed champion among rising payment methods in the Gulf[1]. The 2 key players leading this movement are among the 3 most heavily-funded fintech startups originating from the region[16], accumulating a total funding north of $2.5Bn thus far in equity and debt, and achieving unicorn status in 2023[17][18].

Fintech Funding in MENA ($ Mn)



Source: MagniTT

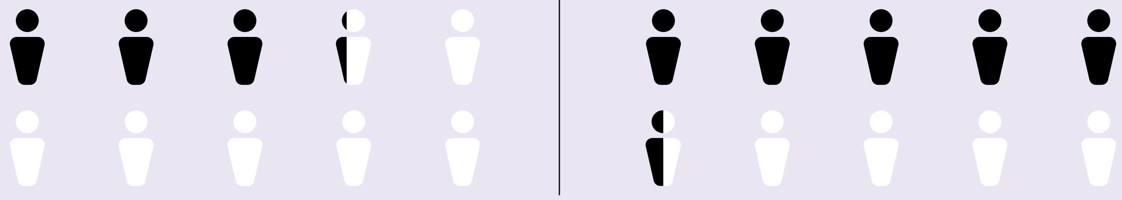
Robust Customer Adoption and Loyalty

BNPL services, being technology-driven, align well with the preferences of a tech-savvy population, making it easier for consumers to adopt these payment solutions, and honing a burgeoning user base of roughly 12Mn and 2Mn customers in KSA and UAE respectively in only 5 years. This is around a third of KSA's population and over 20% of UAE's. Zooming into the shopping population, **close to 50% in KSA and UAE have used BNPL at least once in 2022[19].**

KSA BNPL Penetration

33% of KSA population is registered on BNPL platforms

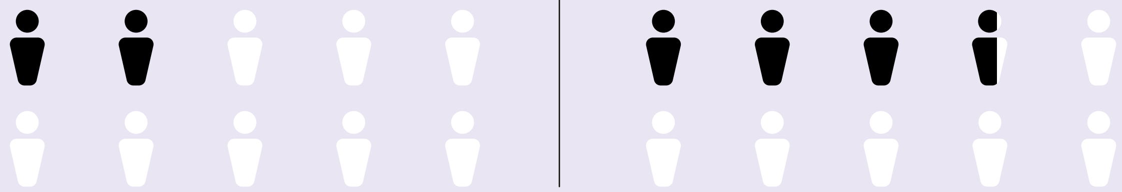
55% of KSA shoppers have used BNPL



UAE BNPL Penetration

20% of UAE population is registered on BNPL platforms

37% of UAE shoppers have used BNPL

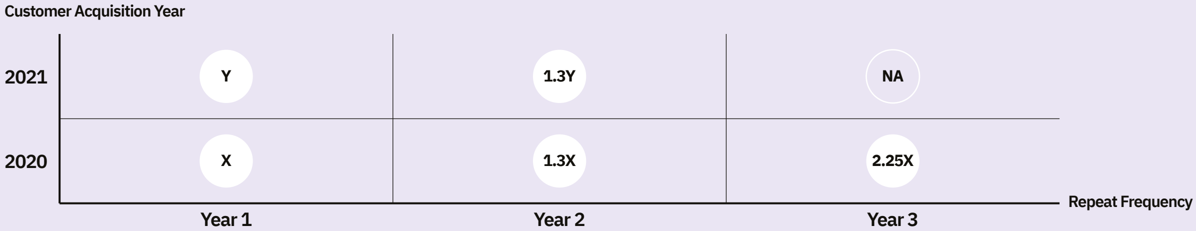


Source: Checkout.com, Tamara Estimation

The rising popularity of BNPL is evident from the substantial number of app downloads and web-traffic data, surpassing those of many digital and traditional banks in the GCC by 2-3x[20]. This firm migration towards BNPL has translated into a monthly active user (MAU) base that is 9 times larger than many tier-1 traditional and digital banks[9]. Such robust user engagement validates the notion that BNPL players have made significant strides in adopting a customer-first approach. BNPL's MAU base is poised to increase from the current 3-4 Mn[20] to 10-14Mn customers in the upcoming few years, particularly as BNPL companies shift towards a super app model[9].

Besides customer acquisition, BNPL in the GCC has proven its capacity to cultivate customer loyalty. Analyzing the annual purchase frequency of BNPL customers unveils a compelling narrative: not only do BNPL customers exhibit higher repeat rates compared to their non-BNPL counterparts, but their purchase frequency also demonstrates an upward trajectory over time. Customers acquired in 2020, for instance, consistently elevated their annual repeat rates in the second and third year of acquisition by around 30% and 75%, respectively, compared to the first year[9]. A consistent trend is observed for 2021 cohorts during their second year of acquisition. This narrative paints an optimistic picture of BNPL's capacity to cultivate a loyal customer base, laying a strong foundation for sustainable growth.

BNPL Annual Repeat Frequency by Customer Acquisition Year

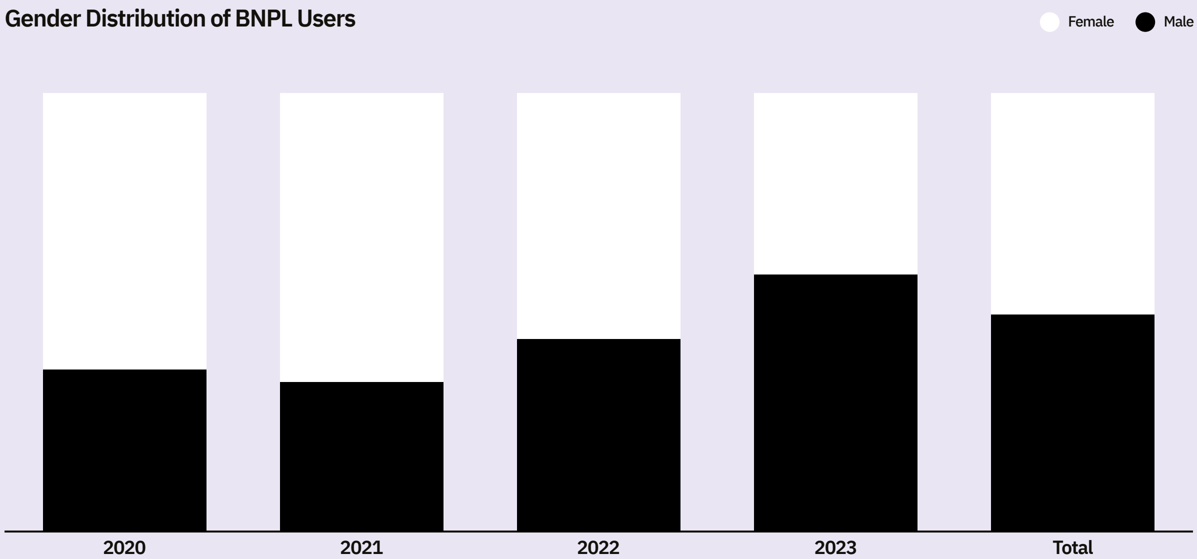


Source: Tamara Analysis

Diverse Consumer Demographics

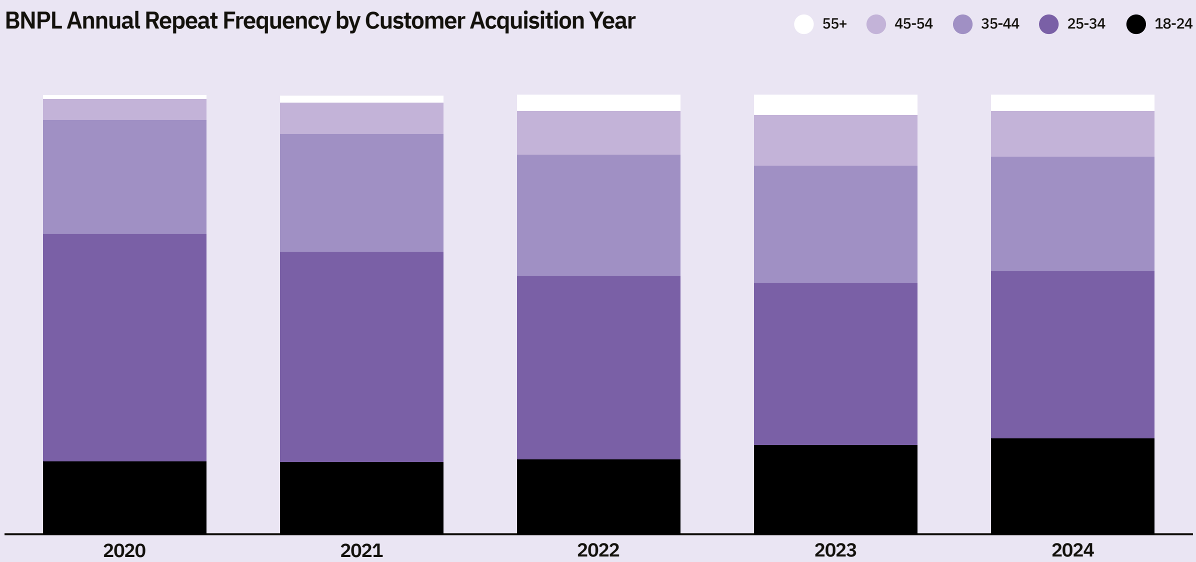
A closer look into BNPL's customer demographics reveals a **high degree of representation across diverse age groups, genders, and geographic locations**. While Gen Z-ers and Millennials continued to constitute the lion's share of BNPL's customer base in 2023, a gradual decline is observed in favor of the fast growing Baby Boomers and Gen X segments, having almost tripled their share since 2020[9]. In fact, the increased engagement of Baby Boomers and Gen X segments in digital activities is growing at 3.6% and 2.3% YoY, significantly outpacing younger cohorts[21]. Moreover, genders are equally represented among BNPL Consumers[9]. With BNPL providers gradually penetrating more retail and consumer service categories, beyond those where women have been the primary target, such as Apparel, male adoption of BNPL services have surged over the past two years, balancing the dominant representation of females in the years prior. The geographic footprint of BNPL customers is yet another testament of BNPL's diverse demographics, where a sizeable customer base is nested outside of major cities, demonstrating BNPL's wide reach and customer demand.

Gender Distribution of BNPL Users



Source: Tamara Analysis

BNPL Annual Repeat Frequency by Customer Acquisition Year



Source: Tamara Analysis

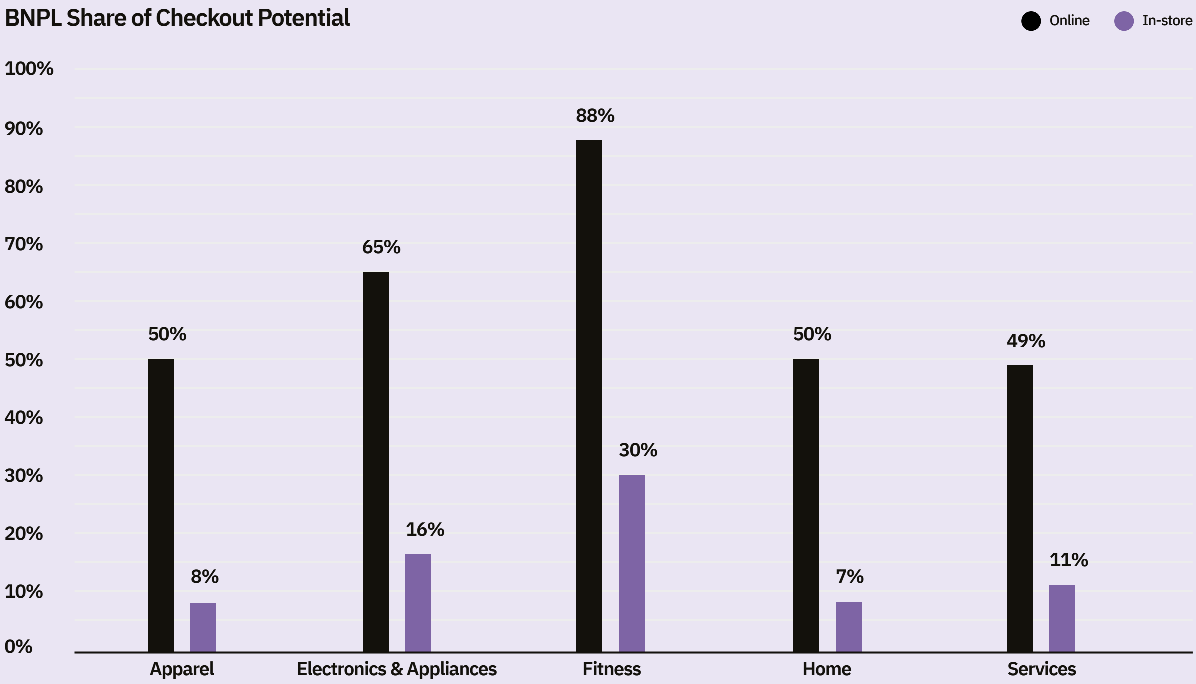
Accelerated Business Adoption

As the demand for BNPL surges among consumers, businesses are swiftly adapting, enabling BNPL solutions into their checkout processes. Today, the network of retailers enabling BNPL at their checkouts, whether online and in-store, local and cross-border, has expanded to encompass over 40,000 in KSA and UAE alone. This inclusive network spans across a wide array of addressable categories and continues to grow daily with no signs of slowdown, including not only independent retailers but also the vast majority of global brands operated by retail conglomerates[9]. **Remarkably, the top 15 retail conglomerates in the GCC have all already adopted BNPL.**

This widespread adoption has prompted various third-party ecosystem players, such as e-commerce platforms, payment service providers (PSPs), and payment gateways, to seamlessly integrate BNPL into their offerings for clients. What began as a unique selling proposition has now become the norm.

The anticipated value that businesses derive from enabling BNPL is intricately linked to its scale; the larger the share of BNPL on checkout, the greater the value. With this recognition, many partner businesses across major retail and consumer services categories are advocating the use of BNPL. As a result, BNPL is capturing formidable shares of their checkout, both online and in-store. In good performing months, BNPL online share of checkout with select partners have reached as high as 50% for Apparel, 65% of Appliances and Electronics. Similarly in-store, BNPL captured up to 7% and 30% of home and fitness categories' shares of checkout, respectively, with select partners. While these figures cannot be generalized to all partner businesses in respective categories, they come to showcase the commendable potential BNPL can unlock when properly utilized.

BNPL Share of Checkout Potential



Source: Tamara Analysis

02

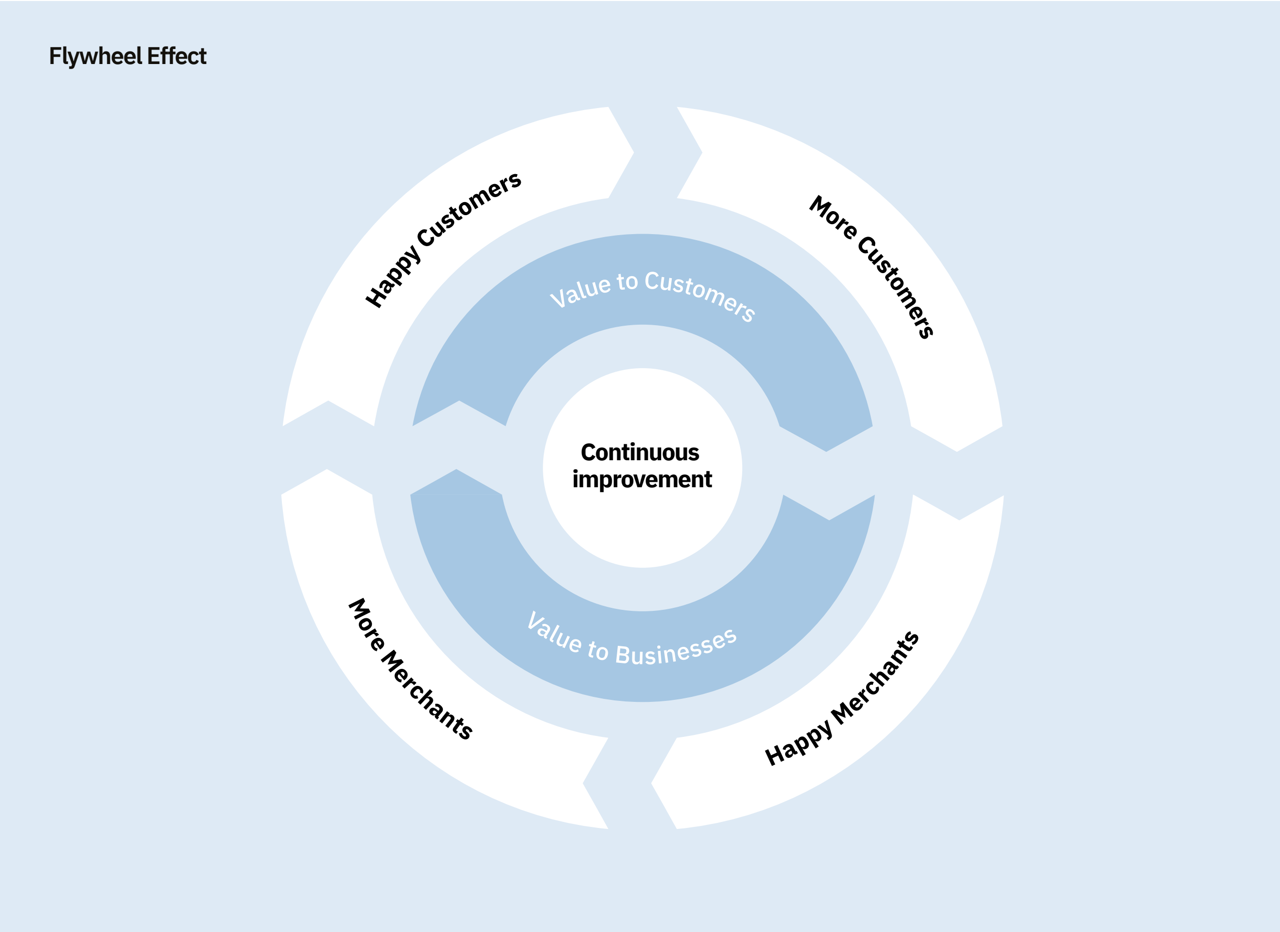
The Win-Win Dynamics of BNPL for Businesses and Customers

The BNPL business model has generated a positive, self-reinforcing Flywheel Effect, transforming consumer shopping and payment behaviors, and concurrently presenting a myriad of advantages for retailers.

The Flywheel Effect of BNPL

The Flywheel Effect is a self-reinforcing loop where positive outcomes generate further positive outcomes, creating an advantageous situation for both customers and retailers.

As customers increasingly adopt BNPL services, compelled by its proposition, more businesses integrate BNPL services into their payment options. Each transaction generates valuable data on customer spending habits, preferences, and creditworthiness, enabling BNPL players to refine and enhance their services to better tailor for both customers' and businesses' needs, while maintaining responsible lending practices. The positive experiences with BNPL create a feedback loop and a network effect, further perpetuating the flywheel effect, and creating a momentum that drives sustained growth and success in a win-win dynamic for all.



How do Customers Win?

In the ever-evolving landscape of fintech, BNPL has emerged as a transformative financial tool for customers, reshaping how they approach their purchases every day. Enriching user's shopping experience end-to-end, BNPL players offer flexibility, speed, convenience, and financial inclusion. This revolutionary payment solution simplifies consumers' access to credit, opening them up to a world of enhanced purchasing power in a seamless, truly customer-centric journey.

Flexible: By allowing customers to split the cost of purchases into smaller, manageable payments over time. BNPL players address customers' needs for flexible yet fair payment solutions, alleviating the financial burden of immediate full payment, particularly with higher ticket sizes, while giving more control to shoppers to manage their cash flow. This unlocks access to a broader range of products and experiences that might have otherwise been financially challenging to obtain.

Accessible: BNPL services require minimal credit checks, making it accessible to a larger customer base vs traditional credit solutions. BNPL strives to minimize barriers to entry for customers, allowing it to be financially inclusive, serving everyone, including the traditionally underbanked population.

Seamless: BNPL services are often designed with user experience (UX) in mind, a key differentiator vs. traditional credit solutions. This superior UX extends to the entire consumer credit journey, from discovery to post purchase support, winning customers loyalty every step of the way. With intuitive checkout process, automated payments, smart notifications and updates, and responsive customer omnichannel support, BNPL players speak the language of the young, trendy, tech-savvy growing customer base and tailor their service to their needs.

Fast: Unlike traditional credit solutions, where for instance, getting a credit card requires lengthy applications and requirements, BNPL customers can sign up in less than 2 minutes and enjoy instant approval and on-the-spot access to credit at the point of sale.

Cost-saving and Rewarding: BNPL isn't just about making payments, it's also considered to be very rewarding and cost-saving to users. Customers can shop without worrying about 5% worth of equivalent credit-based interest for comparable installments periods. In addition, BNPL players, sometimes together with their partner businesses, incentivize customers with discounts and cashback offers for higher retention and repeat behavior, resulting in further cost-savings and rewards, making BNPL a real bargain for customers on checkout.

Trusted: In the world of e-commerce, trust is paramount. BNPL plays a crucial role in fostering trust between customers and retailers, particularly with small and medium or emerging ones. Security concerns on the checkout are real, but the availability of BNPL provides a high level of assurance, enabling consumers to safely utilize BNPL services on a wider retailer network. Reputable BNPL players adhere to advanced encryption and security protocols, and data protection standards. They also employ a range of fraud and risk prevention measures, as well as buyer protection programs, to ensure customers shop with peace of mind.

How do Businesses Win?

BNPL services have proven significantly beneficial to businesses in various ways, giving them a competitive edge in serving their customer-centric agendas. Whereas the most obvious advantages are driving sales growth through influencing customer behavior and attracting new customers, as well as increasing overall customer lifetime value, BNPL can also aid in optimizing costs, allowing businesses to redistribute resources more efficiently, despite being a more expensive alternative vs payment solutions.

BNPL, however, is not one size fits all. While BNPL can be of transformative nature to many businesses, the extent of the impact, higher or lower, is subject to various factors and can't always be generalized. Those factors range from a retailer's product/service line, sales channel, and size, to its target audience, purchase frequency, and Average Order Value (AOV). As such, some businesses may strategically utilize BNPL for optimization purposes, driving the sales of select SKUs or encouraging bundle higher-ticket sales while responding to their customers' payment preferences.

1. Topline Boost

Average order value (AOV) uplift

Retailers generally experience an increase in AOV of **30-50%** with BNPL customers. This range is sensitive to several factors including customer's credit worthiness, the extent of BNPL players' ability to provide higher credit limits, and retailer's category and respective AOV. Such a boost is attributed to the newfound financial flexibility BNPL offers. It signifies a fundamental shift in consumer purchasing behavior. No longer constrained by immediate payment obligations, customers are inclined to explore higher-priced items or complete their shopping with complementary products, driving further upselling and cross-selling opportunities to retailers.

More customer acquisition

BNPL players direct tangible traffic to retailers via their shopping directories. Businesses often experience a noticeable **10-12%** of their online BNPL GMV originating from BNPL directory-generated traffic. Those figures are even more profound with small and medium businesses with up to 2x of their total customer acquisition coming via BNPL exposure. This organic traffic influx introduces high-intent shoppers, resulting in heightened brand visibility for retailers.

Conversion improvement

BNPL addresses cart abandonment, a major challenge in e-commerce. Businesses offering BNPL witnessed a substantial **15%** uplift in online conversion rates, attributed to the elimination of financial barriers that often deter customers from making immediate purchases, thereby reducing cart abandonment rates. BNPL players also bring trust to businesses' checkout pages, particularly small and medium ones where security concerns among shoppers is more prevalent. Similarly, in-store conversion improvement is also observed, driven by increase in immediate purchasing power and widening of addressable customer segments.

Repeat rates spike

BNPL cultivates customer loyalty by encouraging repeat purchases, both online and in-store. A tangible **50%** increase is observed in annual customer repeat purchase rates among businesses that embrace BNPL. This loyalty surge is attributed to the seamless shopping experience BNPL provides, enticing consumers to revisit their preferred brands. Increased repeat rates may vary between businesses with low vs. high purchases frequencies, and should be looked at for relevant customer repeat cohorts as per the categories they serve.

Superior marketing returns

BNPL players often provide a range of marketing activities at the retailer's disposal, thereby attracting more high-intent shoppers and encouraging immediate, often higher-ticket-size purchases. Such activities range from cashback, special offers, and discounts, to co-branded awareness campaigns and promotions, app placements, and many more. Businesses report high ROI satisfaction in sales utilizing BNPL's marketing activities, ranging between **10-15x** of the marketing investment.

BNPL value proposition
Topline Boost

Optimized omnichannel strategy

In the ever-evolving world of retail, optimizing omnichannel strategies is paramount, and BNPL can be a game-changer. Omnichannel customers tend to spend more, but the key is converting pure in-store users into online shoppers and vice versa. BNPL presents a versatile toolkit towards this end. Retailers can strategically target specific segments of their customer base and incentivize them to make purchases through a preferred channel, online or in-store, or even specific locations as needed.

Elevated Customer Satisfaction

Tying it all together, BNPL customers tend to report higher customer satisfaction scores as previously established with global benchmarks in this whitepaper. The explanation lies in the empowerment consumers feel when they have better control over their finances. BNPL also instills a sense of confidence and financial inclusion among shoppers. These positive emotions foster trust and connection with the retailer, turning customers to word-of-mouth ambassadors, further amplifying the brand's reach and reputation.

2. Cost Optimization

Lower Cash on Delivery (COD)

Cash on Delivery (COD) has been vital in e-commerce, but it comes with inherent operational complexities and costs. Customers opt for COD checkout options for many reasons including potential immediate budget constraints, lack of trust in the checkout process security, and uncertainty towards the customer support process in cases of order disputes (mostly with small and medium businesses). BNPL emergence helped address all of the above, decreasing COD orders by **35-50%**.

Lower Refund Costs

BNPL plays a role in shaping the financial aspects of post-purchase transactions. Businesses observe a reduction of **10-20%** in refund costs. Although COD reduction inherently plays a big role in this phenomenon, other factors including reduced shopper's remorse of buying in times of financial pressure, and enhanced creditworthiness checks with BNPL player's risk algorithms, also contribute to this reduction.

Customer Acquisition Cost (CAC) Optimization

Businesses adopting BNPL solutions have reported a notable decrease in CAC by **up to 25%**. This reduction can be attributed to several factors. Firstly, BNPL creates a positive snowball effect by fostering increased repeat business, elevated customer satisfaction levels, and positive word-of-mouth. Secondly, the exposure garnered through BNPL directories ensures a continuous influx of potential shoppers, while simultaneously improving conversion rates, leading to successful customer acquisitions. Moreover, BNPL's appeal to new customer segments, particularly those valuing flexible payment options, adds to the overall reduction in CAC. Additionally, the robust promotion engines of BNPL players deliver superior return on customer acquisition investment.

BNPL value proposition
Cost Optimizaiton

03

Massive Value Yet to be Unlocked

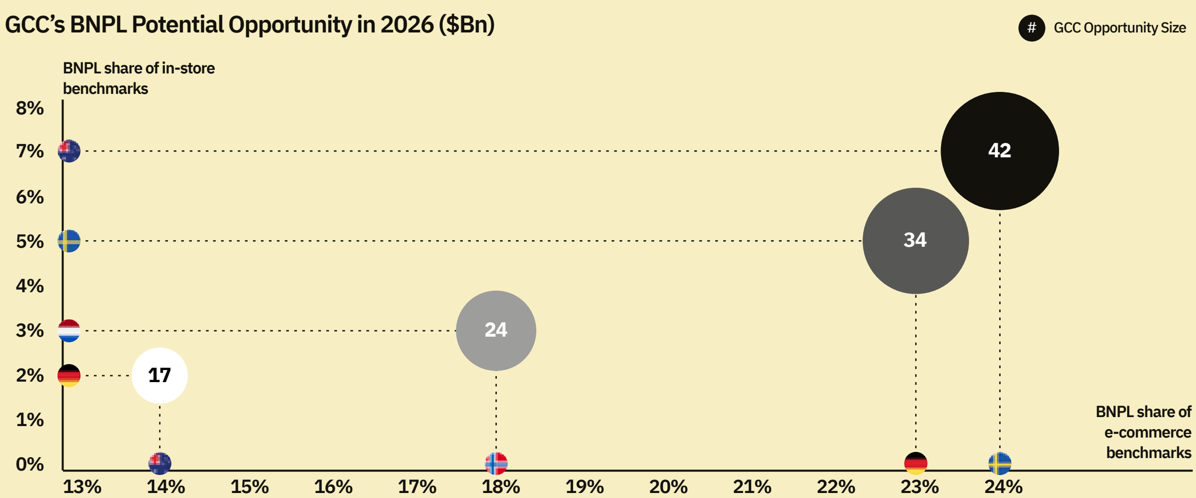
The turbocharged growth of BNPL in the GCC, following global success , is not coincidental, nor is it short-lived. It is underpinned by fundamental customer needs, macroeconomic drivers, and government-led digitization agendas. BNPL is a critical instrument with the potential to capture a massive $42Bn in the GCC by 2026[9], and is here to stay as a more transparent, fair, and accessible alternative to traditional credit for both traditional credit customers, but also, more inclusively, to the underbanked population. Trilateral collaboration between Governments, Partner Businesses, and BNPL providers is key to unlock this opportunity.

A $42Bn Opportunity in the GCC

The GCC BNPL market is uniquely positioned to match, or likely even outperform global expectations with comparable mature BNPL markets. With a larger underbanked population and conducive consumer behaviors and preferences, BNPL in the GCC, thus far, has been nothing short of phenomenal, and is yet to showcase the immense potential it holds in bridging the credit gap and driving financial inclusion.

The flourishing GCC retail market is poised to exceed $427Bn by 2026, growing at a 6% CAGR[1][22][9]. E-commerce will contribute 17%, with solid growth figures standing at 13% CAGR, while the offline retail market will continue to dominate, despite the continued online boom[1][22][9]. If the GCC BNPL market is to match the share of e-commerce and POS sales in globally leading BNPL markets, currently standing at 24% and 7%, respectively[1], **it will hold the key to unlocking a $42Bn opportunity by 2026, in B2C retail alone**. This figure is further amplified with the inclusion of the already served consumer services categories.

While this is by no means all an incremental GDP contribution, the economic prospects associated with it, such as stimulating consumer spending, particularly for the underbanked population, and driving business growth are a force to be reckoned with for the greater good of customers, businesses, and the economy.



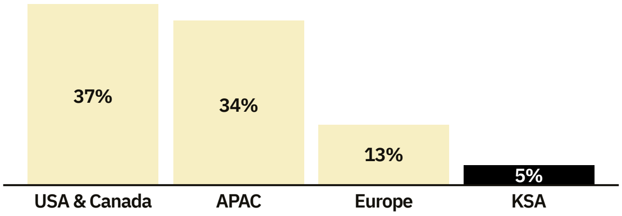
Source: FIS Global Payments Report 2023; Ecommerce DB; Tamara Analysis

Ripe Grounds for Enduring Growth

Underbanked Population, with Low Credit Penetration

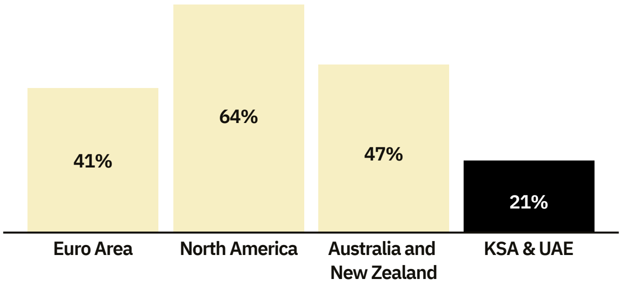
The region faces a unique challenge in its grossly underbanked population with low credit penetration levels. GCC's largest markets, KSA and UAE, have a combined credit card penetration rate of 21% of the population ages 15+, 2-3 times less than developed benchmarks in the Euro Area, Australia and New Zealand, and North America ranging between 41-64%[23]. Looking at the low income level population, credit penetration levels are even lower[23], paving the way for further BNPL penetration. The credit gap is further amplified amplified in the GCC's largest market, KSA, as **credit cards account for only 5% of the transaction volumes**, as compared to 13-37%[24] across Europe, North America, APAC, and LATAM. This is partly due to the consumers' high price-sensitivity towards credit cards[25].

Credit Card Transaction Volumes in 2022



Source: Mckinsey Global Payments Map

Credit Card Penetration in 2021 (Age 15+)



Source: WorldBank, Global Findex Database

With these statistics in GCC's key markets, two main takeaways arise: There is a real need for increased financial inclusiveness, and there is a compelling opportunity for a simpler, more convenient, and cheaper form of alternative credit versus traditional solutions. BNPL's easy eligibility and superior offering bridge both gaps. **Already having a penetration of 31% in KSA and UAE, BNPL has exceeded the prevalence of credit cards by 10 percentage points in just a few years[9].** Its simplified process, digital nature, and relaxed eligibility resonate with both the underbanked and those seeking flexible credit. This mass adoption demonstrates a consumer desire for "deferring payments" and being empowered with immediate liquidity at checkout, boosting consumer spending and stimulating the economy.

Shift in Consumer Spending Behavior

The struggle of an uncertain macroeconomic environment in the Gulf can be seen within the booming e-commerce space in the form of shifting consumer spending habits. KSA and UAE whispering promises of 2% annual growth in inflation through 2027[26] may sound tame. But for the average earning consumer, comprising the lion's share of users, it's an erosion of purchasing power, particularly to the less banked population with limited access to traditional credit.

This is clearly depicted in Mckinsey's Global Sentiment Survey (2023), where around **60-70% of consumers in KSA and UAE in 2022 strongly agree to seeking deals and promotions, or even delaying their purchases to wait for sale periods, up from 45-55% in 2021.**

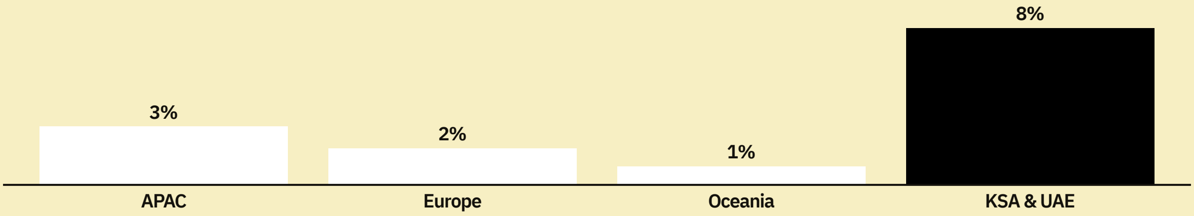
At such a time of scrutiny, consumers with access to BNPL often experience an increase in immediate purchasing power, providing an impetus to stimulate higher spending. Moreover, BNPL fills the vacuum in an ineffective credit environment by providing prudent consumers the ability to break down their purchases into affordable installments and have control over the timing of their expenses. In fact, more than 50% of respondents opt for BNPL as it helps consumers maintain their cash flow efficiently while still providing them access to credit lines[27].

High Cash Usage

Fueled by a substantial migration of consumers towards mobile payments and digital banking, cash usage has been swiftly diminishing on a global and regional scale[1]. In contrast to global developed economies, the GCC continues to witness significant proportions of cash transactions in e-commerce and at the POS. COD orders in KSA and UAE, for instance, have accounted for 8% e-commerce transactions in 2022, versus 1-3% in regions like Europe, Oceania and APAC[1]. The same observation can be seen offline, where 32% share of POS transactions are settled in cash, opposed to 6-22% in the same benchmarks[1].

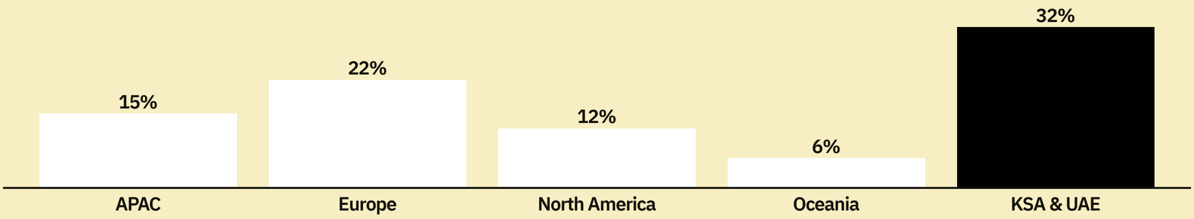
One of BNPL's fundamental propositions, highlighted earlier, is its ability to reduce cash transactions, particularly online. With a higher cash baseline and a strong momentum away from cash, BNPL adoption is anticipated to continue soaring, potentially exceeding global benchmark's.

Cash as a % of E-Commerce Transactions across select markets and Key GCC Markets



Source: FIS, Global payments report 2023

Cash as a % of Point-Of-Sales Transactions across select markets and Key GCC Markets



Source: FIS, Global payments report 2023

Preference Towards Alternative Credit

Marketers today believe that banking service providers who evolve their purpose, offerings and operations to align with today's customer expectations and deliver the best experience will win the battle in the digital era. BNPL companies seem to be delivering just that with quick credit, exceptional user experience, and lenient approvals as consumers shift away from legacy credit lines. At the same time, the ever increasing digital uptake of BNPL is compounded with the region's tech-savvy consumer base with close to 100% internet penetration rates in 2023, beating most developed economies[28].

Credit products in the past haven't reached global penetration levels in GCC economies, partly due to the negative perception around traditional credit's Sharia compliance. Not only is BNPL Sharia compliant with leading players in the region, but it has also consolidated the notion that banking is evolving in response to consumers' demand for superior experiences rather than commoditized offerings. BNPL providers, upholding this belief, have made sure that their products don't resemble traditional credit by being customer-first in their approach, paving the way for further strong adoption.

Another important driver in the adoption of BNPL is its accessibility. **BNPL players have opened doors, offering a more inclusive approach in granting access to financial services.** This accessibility allows individuals with limited credit history to access products and services they desire, promoting financial inclusion for previously underserved communities.

Alignment with Governments' Agenda

Recognizing BNPL's meteoric rise, Gulf regulators are swiftly implementing regulations, solidifying the region's position as a hotbed for fintech innovation. Saudi Arabia's Central Bank (SAMA) issued new 'Rules for Regulating BNPL Companies' in December 2023. Shortly after, UAE Central Bank (CBUAE) introduced 'Rules to Regulate Short-Term Credit'. With these regulations, KSA and UAE are now among few global pioneers that have already published regulations on BNPL. Both aiming at protecting consumers and enhancing the overall financial sector stability while stimulating its growth. On a broader note, Governments in the GCC are increasingly focusing on digitizing the financial system, fostering fintech innovation, and promoting innovative payment systems, as depicted in various National Visions and Strategies. Saudi Vision 2030's Financial Sector Development Program, for instance, focuses on 'Enabling Financial Institutions to Support Private Sector Growth', and 'Fintech Strategy', supporting the Kingdom's aspiration to have 525 fintech companies, generating $3.6Bn in direct Gross Domestic Product (GDP) contributions by 2023[14]. UAE, in turn, aspires to become a global fintech and open banking hub, facilitated by UAE Central Bank's Financial Infrastructure Transformation Program. Bahrain's Central Bank (CBB), on the other hand, established a dedicated Fintech and Innovation unit, following the introduction of a regulatory sandbox supporting startups to test innovative banking and financial solutions.

Such developments often lower the barriers to entry for fintechs and unleash their potential to disrupt. GCC Governments acknowledge BNPL's alignment with these agendas and potentials to promote financial inclusion and stimulate the economy, thereby extending support and creating a conducive environment for further responsible growth.

The Way Forward

The importance of BNPL to empower the underbanked through financial inclusion, boosting consumer spending via accessible credit and mitigating the impact of macroeconomic uncertainties cannot be overstated. But maximizing this potential demands a collaborative effort between BNPL providers, regulators, and businesses to foster a sustainable BNPL ecosystem for all stakeholders.

Regulators in the GCC have successfully paved the way for BNPL companies by being steadfast with regulation and positioning the growth of financial technology as a fundamental part of their country's developmental plans. These decision makers recognize BNPL's role in filling the vacuum in limited consumer credit, aiming to create mutual benefits for consumers, businesses, and the overall economic landscape. To deliver on the regulators' trust, BNPL service providers must continuously comply with the regulators' code, establish responsible lending practices to avoid consumers falling into a "debt trap", articulate transparent terms and conditions, and adopt robust measures to mitigate instances of fraudulent activity.

BNPL companies will seek to foster close collaboration with regulators to establish a flexible, transparent, and progressive legal framework, taking into account the specific characteristics of the industry, thereby supporting players to flourish while building consumer confidence. With heavy handed costs, the BNPL business model may encounter impediments in realizing its full potential. Therefore, engaging with regulators in the region to develop efficient debt markets and a reasonable cost architecture, becomes paramount for unlocking the inherent value that BNPL brings. Nevertheless, BNPL players also bear responsibility of achieving sustainable and profitable growth by effectively managing their credit losses, positioning themselves to evolve their products and explore new avenues while fostering financial inclusiveness.

Businesses play an equally critical role. While many have already trusted and embraced digital payments, they need to do the same with BNPL. Furthermore, with an abundance of partners already reaping the fruit of adopting BNPL, It is important to realize that the return doesn't stop here. Collaboration between BNPL players and businesses on various marketing and growth avenues is imperative to strategically unlock the most value out of this phenomenon.

The GCC stands on the cusp of a financial revolution. Unlocking the true value of BNPL requires a united effort – BNPL providers, businesses, and regulators must work in tandem to build a responsible, accessible, and thriving ecosystem. This collaboration will not only empower the underbanked, but also boost consumer spending, drive economic growth, and transform the GCC's financial landscape for the better.

“ **By 2027, 1 in 5 retail transactions in the region will be through embedded finance. Providing customers payment flexibility will be as critical as having an online channel.**

Sargun Bawa
Head of Banking - Tamara

“ **BNPL Apps will continue to be on the top shopping apps chart. By 2025, BNPL apps will take a considerable share of brands' media mix and act as launch pads for new products or services.**

Ramprabu Chennakesavan
Head of Shopping - Tamara

References

[1] FIS, Global Payments Report 2023

[2] Deloitte, "Future of BNPL in the Middle East"

[3] Juniper Research, "Buy Now Pay Later (BNPL) Market Report"

[4] Bain, "Is BNPL here to Stay?"

[5] Insider Intelligence, "Almost 75% of BNPL users in the US are Gen Z or millennial"

[6] Mambu and Deloitte, "Guide to Buy Now Pay Later"

[7] Politecnico Milano, "Buy Now, Pay Later: International Market Analysis of the service providers"

[8] Dubai Commercity, "MEASA ECommerce Landscape"

[9] Tamara Analysis/Estimations.

[10] Euromonitor Data

[11] MagniTT, "MENA Fintech Venture Investment Report"

[12] Forbes, "Top 30 Fintech Companies"

[13] Mckinsey, "Fintech in MENAP"

[14] Zawya, "UAE fintech funding could reach $2.8bln by 2028"

[15] SAMA Annual Fintech Report 2022

[16] Dealroom, Dealroom.co database

[17] Tamara, "Tamara lands $1 billion valuation with $340m Series C funding, led by SNB Capital and Sanabil Investments, making it the first Saudi fintech unicorn startup"

[18] A. TechCrunch, "Buy now, pay later platform Tabby nabs $200M in Series D funding at $1.5B valuation"

B. Tabby, "Tabby secures $700M in debt financing from J.P. Morgan and extends its Series D round to $250M"

[19] Checkout.com, "The Growth of BNPL in MENAP region"

[20] Data.ai

[21] PYMNTS.com, "Boomers embrace digital to catchup with kids and grandkids"

[22] Ecommerce DB market reports

[23] WorldBank, "Global Findex Database 2021"

[24] Mckinsey, "Global Payments Map"

[25] PwC, "KSA Banking Sentiment Index"

[26] EIU data

[27] PYMNTS.com, "Nearly 20% of consumers apply bnpl bypass hard checks that hurt credit scores"

[28] Statista, "Countries with the highest internet penetration rate as of October 2023"

[Visit our Website]

[Become a Tamara Partner]

[Learn more about RLC]

tamara

RETAIL
LEADERS
CIRCLE