

## 3.8 Financial Services and Banking Sector

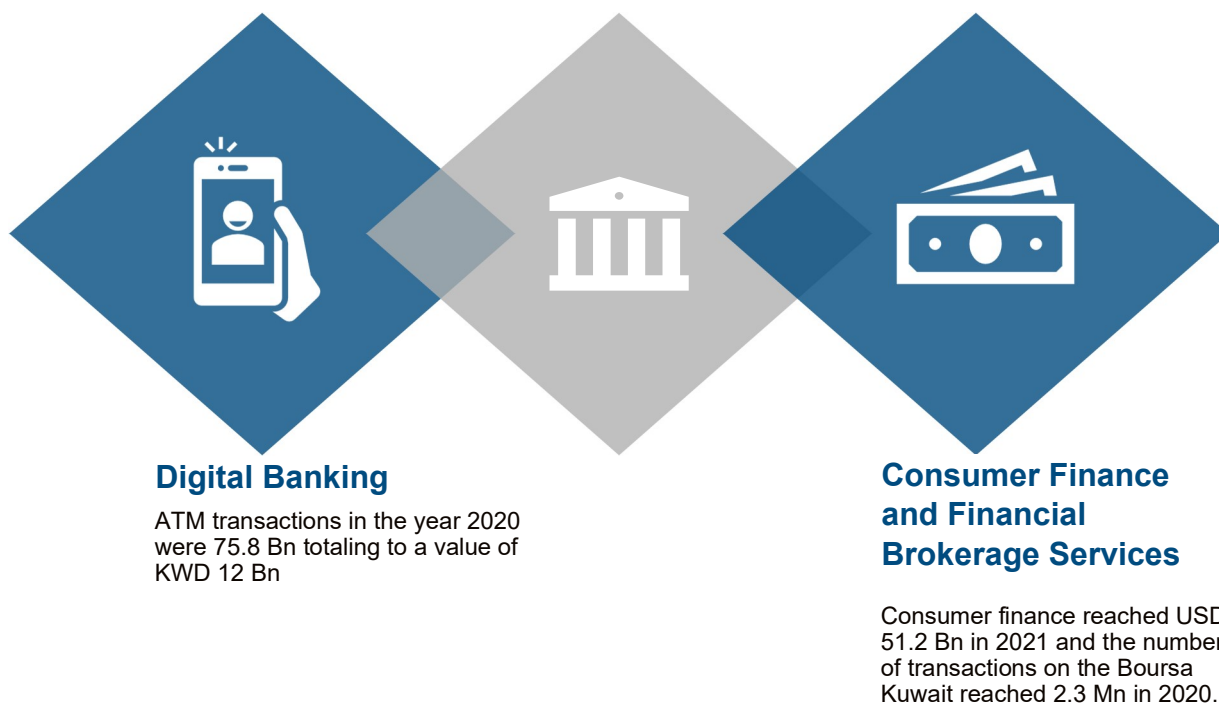
### Sector Overview

Technology is rapidly gaining acceptance among the population of Kuwait, even more so in banking services. The Central Bank of Kuwait is driven to move Kuwait into the new era of digital banking and a number of banks in Kuwait have taken several initiatives to move in this strategic direction. While the year 2020 may have marginally dented financial services as a result of the COVID-19 pandemic, services including insurance, consumer finance and brokerage are expected to have an upward trajectory in the near future.

## SUBSECTORS

### Insurance

Gross Written Premiums in 2020 reached USD 1.13 Bn.



### Digital Banking

ATM transactions in the year 2020 were 75.8 Bn totaling to a value of KWD 12 Bn

### Consumer Finance and Financial Brokerage Services

Consumer finance reached USD 51.2 Bn in 2021 and the number of transactions on the Boursa Kuwait reached 2.3 Mn in 2020.

Opportunities exist for international technology providers for catering to the increasing needs of digital banking in the country. The Kuwait capital markets are strongly regulated by the Capital Markets Authority of the country and Boursa Kuwait is gaining wide acceptance as an emerging stock exchange in the region. This in turn will cause an increase in the demand for financial services in the country.

## 3.8.1 Digital Banking

Digital banking is the provision of banking services through the internet, where human interaction is minimized and transactions are executed electronically.

### OVERVIEW AND FACTORS INFLUENCING THE MARKET

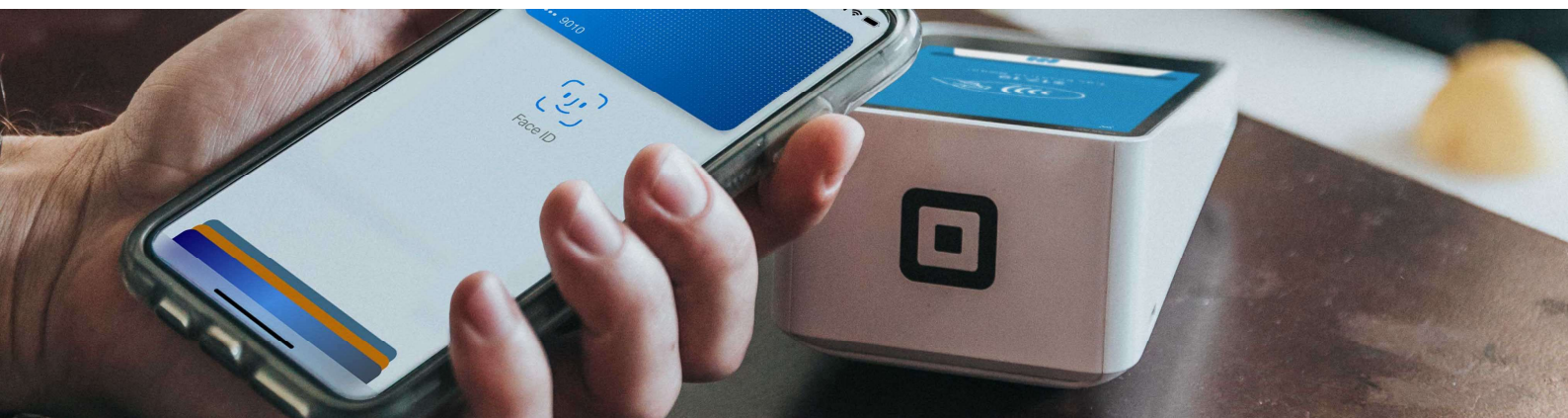
- In Kuwait, 99.6% of individuals use the internet while mobile cellular subscription was 178.5% per 100 inhabitants.<sup>1</sup> Considering the rising population, high per capita income, educated and qualified populace as well as the tech savvy youth, there is a major trend towards digitalization and adopting new technologies.
- The fields of business, commerce, payments, and banking are all experiencing a serious push towards digitalization. Digital Banking especially has gained a lot of ground in Kuwait. A number of banks are moving away from providing services conventionally and developing digital systems that encourage the electronic execution of transactions mainly in Retail Banking.
- Kuwait has around 22 commercial banks, which are regulated by the Central Bank of Kuwait (CBK).<sup>2</sup> Technology has been changing the profile of financial services worldwide and CBK realizes that the digital transformation of the banking system is essential to achieve Kuwait Vision 2035 Development Plan.
- According to the World Bank, around 79.8 percent of the population above the age of 15 years have an account with a bank and the number of electronic transactions associated with those accounts are increasing.<sup>3</sup>
- Market surveys conducted by top professional consulting firms have revealed that 80%-90% of the people would be willing to adopt digital solutions related to banking in the country.<sup>4</sup>
- In fact, the number of ATM transactions increased from 94.9 Mn in 2017 to 99.2 Mn in 2019 while the value of ATM transactions increased from USD 40.1 Bn in 2017 to USD 41.2 Bn in 2019. There was a dramatic drop in the number of ATM transactions and the total value of ATM transactions to 75.8 Mn and USD 33.6 Bn respectively in 2020 as a direct impact of COVID-19. The number of issued ATM cards in 2019 was 1.68 Mn as compared to 2017 when it was 1.45 Mn. It dropped in 2020 to 1.29 Mn as a result of the pandemic. The number of ATMS's per 100,000 adults increased from 66 in 2017 to 79 in 2020.<sup>2</sup> The increase in the utilization of ATMs for banking activities shows the inherent interest of customers for adopting digital modes of banking. Also, more branches are offering digital services to banking clients.
- Some of the recent developments in digital banking in Kuwait include<sup>5</sup>:
  - A CBK mandate in September 2018 requiring all service providers to register on its e-payments system and develop plans for a digital version of the Kuwaiti Dinar.
  - The introduction of Peer-to-Peer transfer of funds through the country's payment system, namely K-Net.
  - Providing foreign exchange services that allows customers to see complete, real-time charges by multiple different counterparties.
  - Digital wallets attached to bank accounts that can be used for payments through WhatsApp or other messenger services, Point of Sales (POS) systems and any other digital wallet that utilize QR codes.
  - Self Service terminals integrated with smart que e-system.
  - Self-Service kiosks.
  - Digital customer care centers.
  - Intelligent Teller Machines (ITM's) including the ability to make video calls to banking professionals.
  - Biometric data platforms for enhanced security such as touch ID and facial recognition.
  - Interactive Voice Response Portals.
  - Live chat assistance.

- Further, banks have also begun signing protocol agreements with each other for electronic payments, whereby funds from a customer account in one bank can be transferred seamlessly to their account in another bank thereby increasing interoperability.
- Banks have been reporting an increase in the number of customers, revenues, deposits and profitability as a result of adopting digital banking.

### OPPORTUNITIES AND INVESTMENT CONSIDERATIONS

- Kuwait's digital banking system continues to be bogged down by challenges such as non-availability of tailored services, accessibility issues to platforms, slow transaction processing speeds and bad customer service experiences. Banks thus need to significantly ramp up their digitization activities if they want to increase/improve the online experience of their customers.
- Banks continuously seek international expertise in regard to digitization of services on par to global banking systems. Hence, foreign investors with expertise in digital banking and FinTech services can pursue active opportunities in this sector.

Source: <sup>1</sup>CITRA, <sup>2</sup>CBK, <sup>3</sup>World Bank, <sup>4</sup>Oxford Business Review, <sup>5</sup>OBG

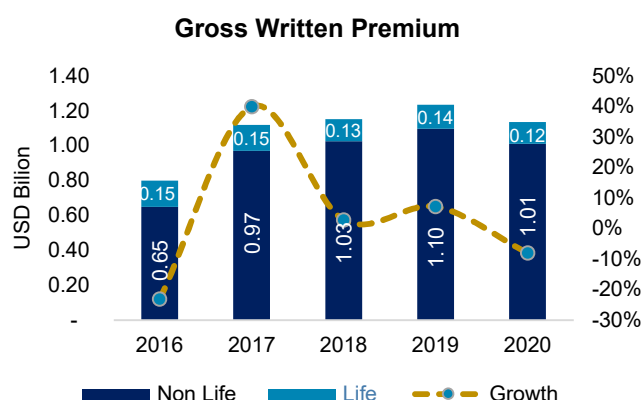


## 3.8.2 Insurance Sector

Insurance is an arrangement whereby a company undertakes to provide a guaranteed provision of compensation for loss, damage, illness, or death in consideration for payment of a specified premium.

### OVERVIEW AND FACTORS INFLUENCING THE MARKET

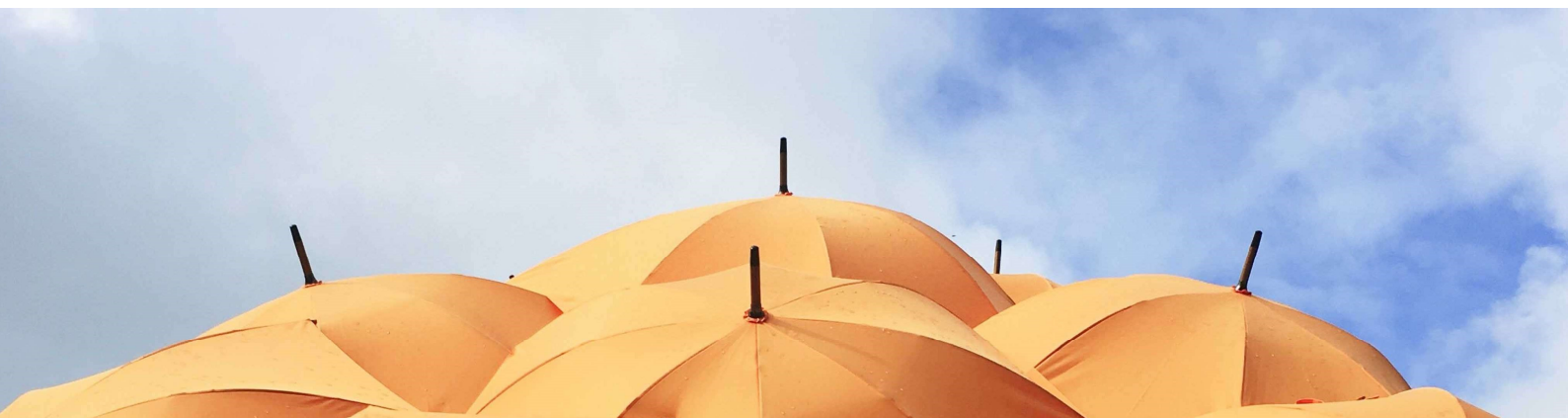
- The insurance sector in Kuwait is the second smallest in the GCC and is ranked 74<sup>th</sup> globally based on the Gross Written Premium (GWP).<sup>1</sup> Insurance in Kuwait covers Conventional Insurance as well as the Islamic Shariah compliant Takaful Insurance. Insurance coverage in the country includes life insurance, non-life insurance/ general insurance, liability insurance and re-insurance.
- The sector consists of 37 insurance companies including 26 local companies and 11 foreign companies. From the 38 companies 22 are conventional insurance companies and 15 are Takaful insurance companies.<sup>2</sup>
- The sector was previously regulated directly by the Ministry of Commerce and Industry (MOCI). However, on the promulgation of Law No. (125) of 2019, the Insurance Regulatory Unit (IRU) was established for regulating all insurance activities in the country. The IRU will operate under the supervision of the MOCI.<sup>3</sup>
- The capital requirements of insurance companies as per the new law based on their type include the below<sup>2</sup>:
  - A company carrying out life insurance: USD 16.6 Mn.
  - A company carrying out general and liability insurance: USD 16.6 Mn.
  - A company carrying out life, general and liability insurance: USD 33.2 Mn.
  - A company carrying out conventional or Takaful re-insurance activities: USD 19.8 Mn.
- The insurance sector of Kuwait grew from USD 0.8 Bn in 2016 to USD 1.136 Bn in 2020 growing at a CAGR of 9.2% on the GWP. The non-life insurance segment dominated the overall insurance market in Kuwait at 89.1%.<sup>1</sup>
- Growth in insurance was primarily driven by medical insurance and secondly by motor insurance in the country. Medical insurance especially receives support from government tenders for coverage of health issues related to public sector employees. Most notably in 2019, a tender worth USD 996.7 Mn in premium was won by a private company for a period of two years for insuring the health of public sector retirees.<sup>4</sup>
- Medical insurance is expected to boost the sector in the future through the support of the Kuwait's health insurance scheme for expatriates in the country (Dhaman) that mandates the need to increase compulsory insurance fee from USD 166.1 to USD 431.9 on an annual basis.<sup>5</sup>



## OPPORTUNITIES AND INVESTMENT CONSIDERATIONS

- The insurance sector is expected to continue growing as a result of the growing population, fast-paced lifestyle and increasing health problems.
- Life insurance continues to occupy a very small piece of the premium pie in Kuwait, estimated at approximately 10%. This provides an opportunity for foreign investors in the insurance business to penetrate the segment with better products and services.
- Further, appointment of actuarial experts is mandated by Law No. (125) of 2019, and hence foreign investors with actuarial experience in the insurance sector can take advantage of this segment and provide such services including recommending the pricing of insurance products and verifying calculations of the necessary provisions.
- In conclusion the construction of massive projects associated with Kuwait Vision 2035 Development Plan will further benefit the insurance sector and help it in adding capacity for insurable assets in all industries.

Source: <sup>1</sup>Swiss Rev, <sup>2</sup>Insurance Regulatory Unit, <sup>3</sup>MOCI, <sup>4</sup>OBG, <sup>5</sup>Alpen Capital





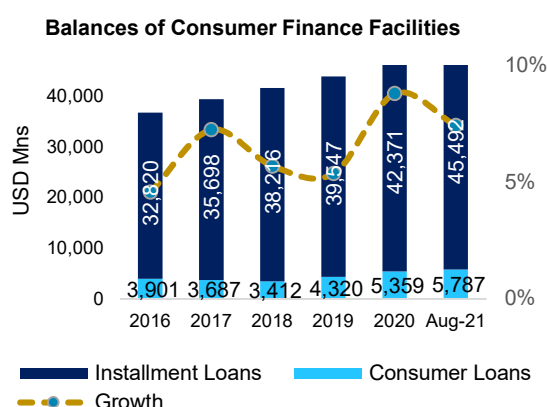
### 3.8.3 Consumer Finance and Financial Brokerage Services

Consumer finance is a form of lending that provides credit to a consumer for personal or household use. Financial brokerage is the buying and selling of stocks, bonds, options and other financial products on behalf of clients.

#### OVERVIEW AND FACTORS INFLUENCING THE MARKET

##### Consumer Finance

- Consumer Finance in Kuwait is made up of two loan types including consumer loans and installment loans. Consumer loans are utilized for personal requirements such as education and healthcare. Installment loans are utilized primarily for purchasing new homes or for renovation of existing homes.
- Consumer loans make up approximately 37.3% of the total loans extended by the banking sector in Kuwait.<sup>1</sup>
- Consumer finance in Kuwait grew at a CAGR of 6.7% between 2016 at USD 36,721 Mn and 2020 at USD 47,729 Mn. There was a further uptake in consumer finance with balances increasing to USD 51,279 Mn in August 2021 from USD 47,729 Mn in December 2020 thereby reaching an all-time historical high. Installment loans made the bulk of consumer financing balances in August 2021 at almost 88.7% of the total balance. Approximately 66% of the total consumer financing facilities went to Kuwaitis.<sup>1</sup>



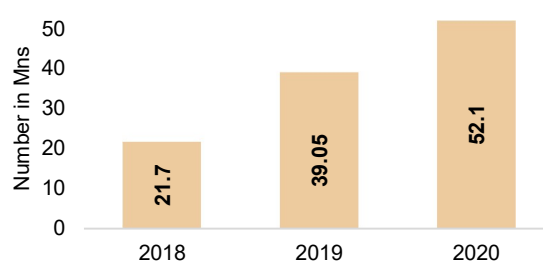
- The maximum ceiling for consumer loans in the country is USD 83,000 and the maximum permissible amount for installment loans is USD 233,000.<sup>1</sup>

- The prevailing interest rate for consumer finance in the country is 4.5% per annum, which is 3% above the Central of Kuwait discount rate of 1.5%.<sup>2</sup>

##### Financial Brokerage Services

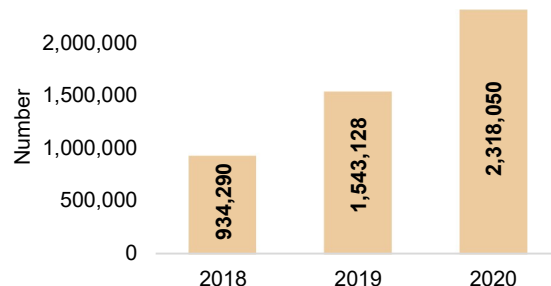
- Kuwait has multiple stock broking firms catering to the local and global capital markets. However, 10 brokerage companies are registered in Boursa Kuwait. Financial brokerage is a regulated activity in the country and only companies licensed by the Capital Markets Authority of Kuwait can provide brokerage services.<sup>3</sup>
- Brokerage as a service is primarily driven by volumes. As per Boursa Kuwait, the total number of securities traded in 2020 was 52 Bn shares. This was an increase of almost 33% over 2019 that registered 39 Bn shares.<sup>3</sup>

##### Securities Traded on Boursa Kuwait



Further, Boursa Kuwait handled over 2.3 Mn transactions in 2020. This was an increase of almost 50% over the transactions registered in 2019.<sup>3</sup>

##### Transactions in Boursa Kuwait



- The trading fees chargeable by registered brokerage firms in Kuwait as prescribed by Boursa Kuwait is 0.10% related to the premier market, 0.15% related to the main market and 0.30% related to the auction market. In any case, the minimum commission chargeable is USD 0.831. From the collected commission, 70% will be retained by the broker, 29% has to be paid to Boursa Kuwait and 1% has to be paid to the clearing house, namely Kuwait Clearing Company. The commission related to off-market trades is 0.20% out of which 50% will be retained by the broker, 49% has to be paid to Boursa Kuwait and 1% has to be paid to the clearing house, namely Kuwait Clearing Company.<sup>3</sup>

## OPPORTUNITIES AND INVESTMENT CONSIDERATIONS

- Both consumer finance and brokerage services are sectors that have been growing steadily but are expected to pick up pace in the coming period. The growing population of the country, especially the youth, will increase the demand for financing. Such financing facilities will be required to cater to multiple requirements including education financing, vehicle financing and housing.
- Further, the high per capita income of the country will provide the youth with the ability to access capital markets and this in turn is expected to increase the demand for brokerage services in the country.

Source: <sup>1</sup>Gulf Bank, <sup>2</sup>CBK, <sup>3</sup>Boursa Kuwait

