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THE RAPIDLY EVOLVING PAYMENTS INDUSTRY

A year ago, PAYFORT was founded with the goal of connecting institutions and customers through the use of payment options. Since then we have helped hundreds of entities, from businesses to governments to promising Arab startups, grow by understanding how people pay in the region. To commemorate our one year anniversary we are sharing our expertise into the ever changing payments industry, within the rapidly growing Arab World, with our ‘State of Payments Report’.

Over 80 percent of the Arab World’s population remains unbanked, using no financial institutions to save or borrow their money. Additionally, only a fraction of those who are banked are also credit card holders. For corporations to even begin connecting with their consumers, they first need to cater to each of these segmented markets with a range of high quality payment options.

In this report we set out to uncover the different ways people pay in the Arab World and the growth drivers behind each of these payment options. As the region continues to evolve from a cash-first society to a cash-less society, we explore the future outlook of the regions fastest growing sectors and the directions they are steering towards.

It is our intent to provide you with insights into the state of payments in the Arab World, from an extensive range of data, and a deeper analysis into the drivers of all aspects of commerce. Our mission is to help you connect with customers in the Arab World, and we hope that this report enlightens you on each of the unique payment options your customers use.
The State of Payments Report 2014 details the Arab World’s consumer behavior, credit card issuance and acceptance, online and offline payment trends, and the future payment methods and technologies that will shape the region’s economy for the next 10 years.

In this report we will cover the factors that directly or indirectly influence online payments and transactions by examining both consumers and businesses in the online space in the region’s four largest markets, The United Arab Emirates, Kingdom of Saudi Arabia, Kuwait, and Egypt.


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THE ARAB WORLD INTERNET REVOLUTION: A NEW AGE FOR CONSUMPTION

Within the last decade, the Arab World has witnessed an internet revolution on a massive scale. At the start of 2004 the internet was still a young technology to the region, with only 28 million people going online, but by 2014 that number increased by more than 400%. Now with over 141 million people on the web, a new age for consumption is beginning to form.

The ability to access limitless amounts of information and content, from anywhere in the world, at any time of day, has allowed the internet to surpass traditional mediums for consumption. With constant access to high quality content on the web, people are no longer limited to information from large media corporations, but to information from anyone with the ability to post online. The rise of social media has allowed people's content to reach a larger audience than ever before, at a faster rate than any other medium. People now have the ability to interact with anyone online, allowing consumers to influence each others purchasing decisions. The way consumers think about products has changed, and thus the way corporations think about their customers must change too.

This section of the report will detail each of the unique markets in the Arab World, which demographics are purchasing online, which products they are buying, and how they are paying for their consumptions.

"INTERNET GROWTH BY MORE THAN 400% IN THE LAST 10 YEARS."
One of the fastest growing countries in the world and the most booming economy in the region, the United Arab Emirates is home to the most diverse population in the Arab World with over 200 nationalities. The UAE is also one of the youngest nations in the region with 24.2% of its 9.3 million population being 24 years or younger. The country’s young population likely contributes to its high internet penetration rate of 85%, the third highest in the region.

Of those 7.9 million internet users, 3.6 million of them are transacting online. This means that a little more than a third of the country is purchasing online. This high online transaction ratio is caused by a large expatriate community who are likely more familiar with online payments, and a high credit card penetration with over five million online enabled cards.

"UAE is one of the youngest nations in the region with 24.2% of its 9.3 million population being 24 years or younger."
WHAT IS THE MALE TO FEMALE ONLINE TRANSACTION RATIO?

The UAE population has a 70% male to 30% female ratio, the highest in the Arab World. This high ratio of males to females is largely attributed to the blue-collar workers in the country. On the other hand, the ratio of males to females transacting online is 60% male to 40% female and is the most gender equal online transaction ratio in the region.

ONLINE TRANSACTION BY GENDER

60% MALE

40% FEMALE

UAE LIVING POPULATION IS 70% MALE VS 30% FEMALE

DID YOU KNOW?

THE UAE’S POPULATION HAS TRIPPLED IN LESS THAN 20 YEARS.
WHAT AGE GROUPS ARE TRANSACTING ONLINE?

Online buyers under 31 years of age represent 73% of overall online transactions and make up 64% of the population. This young population is helping drive online purchases in sectors like e-commerce, event tickets, and digital goods, while older age groups are contributing to the highest transacting sectors in airlines, hotels, and travel.

WHAT NATIONALITIES ARE TRANSACTING ONLINE?

Westerners and people from the sub-continent represent the largest groups transacting online with 69.7% of online buyers. The remaining nationalities transacting online in the UAE are from Arab descent, including UAE nationals.

AGE GROUP
- 18-24: 35%
- 25-31: 38%
- 31-38: 6%
- 39-45: 14%
- 46-60: 5%
- 60+: 2%

BREAKDOWN BY NATIONALITY
- Arabs: 36%
- Sub-Continent: 34%
- UAE National: 8%
- Western: 22%
WHERE ARE THEY BUYING FROM?

Most online buyers are located in Dubai, with 60% of the population transacting within the emirate. Abu Dhabi and Sharjah together represent 27% of the online buying population, with the remaining emirates making up 13% of online transactions.

WHAT DO THEY BUY?

The most popular online shopping categories in the country are airline tickets, hotel bookings, and electronics, and total 51% of UAE online transactions. Other popular categories in the UAE include fashion, books, and media downloads, which total 25% of all UAE online transactions.
A little over one third of UAE internet users are active on Facebook, which remains the most popular social network in the region. However, a fewer number of internet users are active on Twitter and LinkedIn.

The majority of people in the UAE still prefer to pay with cash-on-delivery versus using a credit card online. While only 22% of users pay with a card, this percentage represents an improvement from the cash vs credit card split a few years ago. Cash-on-delivery rates are expected to decrease in the next few years with an increase in credit card penetration levels and alternative payment methods.
The largest and most populous country in the GCC, Saudi Arabia is home to over 28 million people. With a median age of 26, just under half the nation’s population is 24 years or younger while the majority of the people are aged 25 to 54. Despite a young population, the country has one of the lowest internet penetration rates with only 54% of Saudi Arabian residents having access to internet.

With approximately 15.6 million internet users, only 3.9 million people are transacting online. However, with a larger credit card penetration rate and more affordable internet packages, the country is expected to see an increase in online transactions and become the highest average shopping cart size in the region.
WHAT IS THE MALE TO FEMALE ONLINE TRANSACTION RATIO?

The Saudi Arabian population has a 57% male to 43% female ratio, one of the lowest in the GCC. On the other hand, the ratio of males to females transacting online is 85% male to 15% female and is the highest online male transaction ratio in the region.

ONLINE TRANSACTION BY GENDER

85% MALE

15% FEMALE

KSA LIVING POPULATION IS 57% MALE VS 43% FEMALE

DID YOU KNOW?

75% OF THE SAUDI ARABIAN POPULATION IS 35 YEARS OR YOUNGER.
WHAT AGE GROUPS ARE TRANSACTING ONLINE?

Online buyers under 35 years of age represent 60% of overall online transactions and make up 75% of the population. While this young population is contributing to online transactions growth in the region, a low internet penetration rate is preventing the country from taking off.

WHAT NATIONALITIES ARE TRANSACTING ONLINE?

Immigrants in the country represent roughly 30% of the population and contribute to $59 of all online transactions. Arab nationalities, including Saudi Arabian and Khalejis make up the other 41% of online transactions.
WHERE ARE THEY BUYING FROM?

The majority of online buyers are located in Riyadh and Jeddah, with 61% of the population transacting within the country’s largest two cities. The next three highest transacting locations are Al Dammam, Makkah, and Al Madinah, comprising 16% of online transactions. The remainder of the Saudi Arabian cities make up four percent or less of the total transaction amounts.

WHAT DO THEY BUY?

Airlines tickets, electronics, and hotel reservations are the most popular online shopping categories in the country and total 56% of KSA online transactions. Fashion, the most popular female segment, makes up 8% of online transactions, while books and media comprise 11% of online transactions.
WHAT IS THEIR PREFERRED PAYMENT METHOD?

The Kingdom of Saudi Arabia has the least reliance on cash-on-delivery in the GCC with about 76% of online transactions. With the increase in credit card issuance in the country, Saudi Arabia is expected to see more transactions from credit cards in the next few years.

WHAT SOCIAL MEDIA NETWORKS ARE THEY ON?

59% of internet users in Saudi Arabia are using Facebook as a social media platform. Twitter, which is relatively unpopular in the Arab World, has the highest percentage of usage in Saudi Arabia. LinkedIn, meanwhile, is used by only three percent of internet users in Saudi Arabia.
Unlike other countries showcased in this report, a large population of senior citizens reside in the country. About 10% of the population belongs to the 55 years or higher age group while 67% belongs to the 35 years or younger age group.

Egypt has a low internet penetration rate of 44%, translating into 39 million internet users and 3.582 million of those users transacting online.
WHAT IS THE MALE TO FEMALE ONLINE TRANSACTION RATIO?

Egypt has the most gender equal population in the Arab World with a 51% male to 49% female ratio. However, the male to female ratio transacting online is almost double the population ratio with a 70% male to 30% female ratio.

EGYPT LIVING POPULATION IS 51% MALE VS 49% FEMALE

DID YOU KNOW?

80% OF EGYPTIAN SMARTPHONE USERS MAKE MOBILE PURCHASES AT LEAST ONCE PER MONTH
WHAT AGE GROUPS ARE TRANSACTING ONLINE?

Online users in their 30s or younger represent 75% of overall online transactions and make up over 65% of the population. Egyptians in this age group are frequent transactors in airline bookings, travel, e-commerce, and digital goods that represent 40% of overall transactions.

WHAT NATIONALITIES ARE TRANSACTING ONLINE?

With Egypt being a non-expat heavy country, 99% of online transactions are made by those of Egyptian nationality and the remainder from foreign nationalities.
WHERE ARE THEY BUYING FROM?

The majority of online buyers in Egypt are located in Cairo with more than half of total online transactions. Delta, Upper Egypt, and Alexandria regions comprise around 43% of the online buying population, with the remainder of online buyers located in Sinai.

WHAT DO THEY BUY?

The most popular online shopping categories in the country are electronics, airline tickets, and fashion, and total 40% of Egypt online transactions. Unlike other countries detailed in this report, hotel reservations only make up 6% of total online transactions, while books are higher than the regional average with 8% of total online transactions.

CAIRO
DELTA
ALEXANDRIA
CENTRAL & UPPER EGYPT
SINAI
OTHERS

50%
20%
10%
13%
5%
1%

17% ELECTRONICS
15% AIR TICKET
10% OTHERS
10% ENTERTAINMENT
8% BOOKS
8% CLOTHES
6% HOTELS
6% HEALTH
6% GARDEN
2% COLLECTIVE
WHAT IS THEIR PREFERRED PAYMENT METHOD?

With only 7% of the population being banked and only eight million credit and debit cards issued, Egyptian users are challenged when it comes to online payments with over 65% relying on alternative payment methods such as pre-paid cards and bill presentment services and a 80% cash-on-delivery to 20% online credit card ratio.

WHAT SOCIAL MEDIA NETWORKS ARE THEY ON?

Egypt remains the most active Arab World countries on Facebook with 78% of internet users on the social media channel. Meanwhile Twitter and LinkedIn adoption remains one of the lowest in the region with only 2% and 17%, respectively.
KUWAIT

WHO LIVES HERE?

With a population of 3.3 million people and the highest credit card penetration in the region, Kuwait has one of the biggest online transaction potential growth in the region. The country has one of the highest internet penetration rates in the Arab World with 79% of its population having access to the internet.

Of those 2.7 million internet users, 930,000 of them are transacting online. This translates to just under one third of the population buying products and services online, caused by the ease of access to credit cards and a young population transacting online.

“THE COUNTRY HAS ONE OF THE HIGHEST INTERNET PENETRATION RATES IN THE ARAB WORLD.”

DID YOU KNOW?

KUWAIT HAS THE HIGHEST CREDIT CARD PENETRATION RATE IN THE ARAB WORLD.
WHAT IS THE MALE TO FEMALE ONLINE TRANSACTION RATIO?

The Kuwait population has a 60% male to 40% female ratio, lower than the GCC average. The ratio of males to females transacting online is not far off from the population ratio with a 70% male to 30% female ratio.

ONLINE TRANSACTION BY GENDER

70% MALE

30% FEMALE

KSA LIVING POPULATION IS 60% MALE VS 40% FEMALE

DID YOU KNOW?
KUWAIT HAS THE MOST EXPENSIVE CURRENCY IN THE WORLD
WHAT AGE GROUPS ARE TRANSACTING ONLINE?

Online buyers in their thirties represent 65% of overall online transactions and make up a little over half the population. Meanwhile, 33% of overall online transactions are coming from those aged 40 years or older, who represent 46% of the total population.

WHAT NATIONALITIES ARE TRANSACTING ONLINE?

Unlike other countries in the GCC, 78% of the nationalities transacting online in Kuwait are from Arab descent, including local Kuwaiti citizens. 20% of online transactions are coming from sub-continent nationalities, with the remaining 2% from western nationalities.
WHERE ARE THEY BUYING FROM?

Most online buyers are located in Kuwait City, with 67% of the population transacting within the most populous city in the country. The remaining cities transacting online represent eight percent or less each.

WHAT DO THEY BUY?

The most popular online shopping categories in the country are airline tickets, electronics, and hotel reservations, and total 54% of Kuwait online transactions. Other popular categories in Kuwait include fashion, books, media, and home products, which total 25% of all Kuwait online transactions.
WHAT IS THEIR PREFERRED PAYMENT METHOD?

Online credit card usage in Kuwait is second highest in the Arab World after Saudi Arabia, with 21% of online buyers choosing to buy with credit cards online. This is largely brought on from the high credit card penetration in the country.

WHAT SOCIAL MEDIA NETWORKS ARE THEY ON?

Kuwait has one of the lowest Facebook & LinkedIn engagement rates in the region with only 52% of internet users on Facebook and 2% on LinkedIn. However, Twitter users in the country remain high with 27% of internet users on the site.
PAYMENTS IN THE ARAB WORLD
THE FASTEST GROWING SECTOR IN THE WORLD

In the previous section of the report, we broke down the different customer segments in each of the region’s largest markets. You’ve noticed first hand how every market’s consumers are unique and behave differently than one another. Putting everything together, we will now examine each of the payment options available in the region, how they affect consumption spending, and how businesses should evaluate each payment method on their online channels.

This section of the report will detail credit and debit card issuance and its growth in the Arab World, the region’s over-reliance on cash-based transactions, credit card contribution to consumption spending, and the popularity of the varying brands of credit cards available.

"WE WILL EXAMINE HOW BUSINESSES SHOULD EVALUATE EACH PAYMENT METHOD ON THEIR ONLINE CHANNELS."
**CREDIT CARDS**

The following sub-section will discuss e-payment growth in relation to e-commerce growth, the unknown costs associated with cash-on-delivery payments, the boost in credit and debit card issuance across all markets and it’s effect on each population’s consumer spending.

**E-Payment Growth**

While the Arab World still remains the least developed region in terms of e-payments, sales in the region are growing faster than anywhere else in the world. Fueled by an internet penetration of over 35% and more than 30 million online shoppers, the region has seen e-commerce growths by 45% in 2013. Against the more developed e-commerce sectors in the United States and Europe, the Arab World exceeds growth rates by up to 25%, and up to 10% in the less developed Asia Pacific and Latin America.

The Arab World’s e-commerce growth rates are expected to continue for the next three years as a result of increased internet and credit card penetration in markets such as Saudi Arabia and Egypt, where only 14% and 4% of the population are transacting online. Additionally, increased online spending in key sectors such as airlines, transacting over $50 billion a year, and the $15 billion online shopping sector will bring about continued growth.
CASH DEPENDENCE

Despite the region’s high e-commerce growth rates, 80% of online transactions are still made with cash-on-delivery. While cash based transactions are convenient payment options for those without any alternatives, this payment method has heavily impacted the e-commerce ecosystem.

For merchants that deal with cash-on-delivery as their main payment option, costs can range from $10 to $30 per shipment due to high product returns, re-stocking and re-shelving of undelivered products, cash-handling costs, thefts, and customers abandoning payments on delivery. Most importantly, merchants may wait weeks before they are able to settle their cash-on-delivery funds into their bank accounts.

Customers, while often choose to pay with cash-on-delivery, also take on additional costs that they may be unaware of. Often times merchants will increase the cost of delivery to account for their cash-on-delivery costs. Finally, many customers in the Arab World forget to have enough cash-on-hand and are thus unable to receive their products upon delivery.

Despite the costs associated with both sides, there still only 23.5% of online users who own a credit card, meaning cash dependence still remains a problem for the e-commerce sector. However with credit card issuance growing annually by more than 40%, the Arab World’s cash-on-delivery problem is solvable in the near future and presents a promising growth opportunity for the region’s booming e-commerce sector.

CASH-ON-DELIVERY COSTS CAN RANGE FROM $10 TO $30 PER SHIPMENT DUE TO HIGH PRODUCT RETURNS
For the longest time, card circulation in the Arab World was low. Costs to acquire and maintain cards were high on consumers and issuing banks created many barriers to entry. But as card rates became more affordable to the consumer and issuing banks lifted those barriers to entry, card adoption increased at a rapid scale.

Today, Saudia Arabia has the highest amount of credit and debit cards circulating with approximately 12.3 million cards. Egypt follows as the second highest country in the Arab World with 7.6 million credit and debit cards. The UAE is the third country on the list with 5.9 million cards issued. The remaining countries on this list are Kuwait, Jordan, Qatar, Lebanon, and Oman with 2.9 million, 1.5 million, 0.9 million, 0.62 million, and 0.2 million, respectively.

"SAUDI ARABIA HAS THE HIGHEST AMOUNT OF CREDIT AND DEBIT CARDS CIRCULATING"
The Gulf States in the Arab World have enjoyed a much higher card penetration per capita compared to the Levant and North Africa areas. Kuwait has the highest cards per capita in the Arab World with 97%. The UAE follows closely behind with 89%, and Saudi Arabia and Qatar remain further behind with 46% and 45%, respectively. The recent surge in card issuance in Saudi Arabia and Kuwait likely explains their low penetration rates, as opposed to Kuwait and the UAE who have been issuing cards for a longer period of time. Overall, GCC countries will continue to remain leaders in credit card penetration levels that come as a result of a high banked population and higher income levels than the remaining Arab World nations.
Thanks in large to GCC credit card spending, the Arab World has one of the highest credit card contribution to consumption in the world. The highest credit card contribution to consumption in the Arab World is the UAE with 31% of consumer spending coming from credit card purchases. Kuwait has the second highest credit card contribution to consumption with 25% of consumer spending, followed by Saudi Arabia with 23% of consumer spending. These three countries represent the biggest opportunities for credit card spending growth as a 1% increase in card penetration will increase credit card spending by 2.5% in the UAE, 1.3% in Saudi Arabia, and 1.9% in Kuwait.
Visa remains the dominant credit card brand in the globally and in the Arab World with over 60% of cards issued from Visa. Egypt has the largest percentage of Visa credit cards with 64% and Saudi Arabia the lowest with 56%. However with the large amounts of Visa cards circulating the kingdom, Saudi Arabia has the highest number of Visa credit cards.
Master Card is the next biggest credit card brand both worldwide and in the Arab World. Unlike Visa however, Master Card adoption is much higher in the Arab World versus adoption globally. The UAE has the largest percentage of Master Card credit cards with 34% and Egypt the lowest with 26%. However, as in the case with Visa cards, Saudi Arabia has the highest number of Master Card credit cards.
American Express follows as the third biggest credit card brand in both the Arab World and worldwide with near equal adoption levels of 3.8% and 4%, respectively. Saudi Arabia has the largest percentage of American Express cards with 7% and Egypt the lowest with 1%.
Finally, 4% percentage of credit cards issued in the Arab World come from Diners Club, which heavily contrasts the world adoption percentage of 0.1%. In Saudi Arabia and Egypt, 7% of circulated cards are Diners Club credit cards, the highest in the region. Meanwhile, the UAE has the lowest percentage of Diners Club cards with 2%.
CREDIT CARD BRANDS PER MARKET

WORLDWIDE 8.7%

ARAB WORLD 1%

UAE 1%

KSA 1%

EGYPT 2%

KUWAIT 2%

OTHERS

Others represent any other credit card brands and makes up only 1% in the Arab World versus 8.7% globally.
BENCHMARKING YOUR BUSINESS

When it comes to accepting credit cards online, many factors come into play that determine how successful a business’s online sales are. Unfortunately for many online merchants, understanding how these factors impact a business’s bottom line can be complicated and confusing.

This section of the report will cover the three critical ratios that benchmark a merchant’s online transaction success: acceptance, chargeback, and refund ratios.

ACCEPTANCE RATIO

WHAT IS ACCEPTANCE RATIO?

Acceptance ratio is the most fundamental metric every online business should measure. This ratio simply tells us how many customers can successfully use their credit card on a website. To calculate this ratio, we must look at two numbers, the number of approved credit card transactions, and the number of total submitted credit card transactions. By taking the number of approved transactions and dividing that by the total number of transactions we get a merchant’s acceptance ratio.

\[
\text{Acceptance Ratio} = \frac{\text{Number of Approved Credit Card Transactions}}{\text{Number of Total Submitted Credit Card Transactions}}
\]
Understanding an online merchant’s acceptance ratio is the first step in benchmarking a business’s success. The next essential step an online business needs to look at is how its acceptance ratio compares to the online spending category it is in.

Looking at all the verticals in the Arab World, the categories with the highest acceptances are utilities and education. Generally when looking at verticals with an acceptance ratio higher than 80%, we are looking at verticals that have low risk and fraud attempts. For online spending categories with lower than 80%, such as fashion, travel, and electronics online shopping, these verticals will have higher risk and more fraud attempts.

### WHAT ARE ACCEPTANCE RATIOS ACROSS ONLINE SPENDING CATEGORIES?

<table>
<thead>
<tr>
<th>Category</th>
<th>Acceptance Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education &amp; Training</td>
<td>90%</td>
</tr>
<tr>
<td>Utilities</td>
<td>90%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>84%</td>
</tr>
<tr>
<td>Airlines</td>
<td>80%</td>
</tr>
<tr>
<td>Fashion &amp; Lifestyle</td>
<td>75%</td>
</tr>
<tr>
<td>Event Management</td>
<td>72%</td>
</tr>
<tr>
<td>Online Shopping</td>
<td>70%</td>
</tr>
<tr>
<td>Travel, Tours &amp; Hospitality</td>
<td>70%</td>
</tr>
</tbody>
</table>
WHY IS YOUR ACCEPTANCE RATIO LOW?

BENCHMARKING YOUR BUSINESS

THE TOP FOUR REASONS FOR A MERCHANT’S LOW ACCEPTANCE RATIO ARE:

- Insufficient balances on a customer’s credit card
- Authentication failure from issuing bank
- Customers never enroll their 3D Secure Issued Card
- Transaction blocked by fraud rules by the merchant’s payment gateway

It is important to note that three separate parties have an affect on low acceptance ratio: customers, issuing banks, and the merchant’s online payment gateway. When a customer fails to have the necessary balance on their credit cards or when a customer fails to enroll his or her 3D Secure card, often times the transaction will fail. 3D Secure credit cards differ from traditional credit cards by having an additional security layer for online credit and debit card transactions, and must be enrolled by the customer themselves before they can be used online. When a customer initiates an online payment transaction, they must enter a security PIN number sent to them by phone from the issuing bank. While this process reduces the number of fraudulent transactions significantly, it’s complex nature may often cause customers to never complete the transaction.

The number two reason for low acceptance ratio is caused by authentication failures from the issuing bank. These authentication failures tend to be technical reasons such as non-functioning bank servers, failure to send 3D secure passwords, and long waiting times to send 3D secure passwords.

Finally, strict fraud management rules placed by the merchant’s payment gateway often times causes low acceptance ratios. A merchant may set their own business rules to determine what credit cards to block and from which countries. Blocked credit cards are cross-referenced with the issuing bank’s blacklist and allows for known fraudulent transaction attempts to be blocked. In high risk verticals such as travel and electronics, there will be more cases of fraud attempts.
**BENCHMARKING YOUR BUSINESS**

**CHARGEBACK RATIO**

**WHAT IS CHARGEBACK RATIO?**

Chargeback ratio measures how many transactions are recalled by the issuing bank that come as a result of a customer claiming they had no authorization of the transaction. In most cases, these are fraudulent transactions committed by a third party using the customer’s card details. This ratio is an important metric to measure because it tells a merchant exactly how many fraudulent transactions occur. Chargeback ratio can be calculated by taking the number of credit card chargebacks and dividing it by the total number of transactions.

**WHAT IS THE REGIONAL CHARGEBACK RATIO?**

Compared to global chargeback requests, the Arab World is three times less than the global average of 0.2% with a 0.06% chargeback ratio. As mentioned previously, the top three sectors for the number of online chargebacks are travel, electronics, and fashion. The region’s lower chargeback ratio can be attributed to the minimizing acceptance of foreign credit cards by some merchants in the Arab World, in addition to a higher number of 3D secure issued credit cards in the region, versus other regions around the world such as Europe and North America where 3D secure issued credit cards are much lower.
REFUND RATIO

WHAT IS REFUND RATIO?

While chargeback ratios and refund ratios sound like similar concepts, they are two completely different measurements. The big distinguishing factor between chargebacks and refunds is whether or not the issuing bank is involved in the settlement. If the disputed credit card transaction is handled between the customer and the merchant, without involving the issuing bank, then we call this a refund. If the disputed credit card transaction involves the issuing bank in any way, then it is considered a chargeback. Also, refunds are not caused by fraud, but instead by customer dissatisfaction with the product or service.

Refund ratio can be calculated by taking the number of credit card refunds and dividing it by the total number of transactions.
Looking at these spending categories, the verticals with the lowest refunds are education, event management, professional services, and utilities, with zero refunds. Meanwhile, the remaining online spending categories have low refund ratios ranging from 0.03% to 0.75%.
The following sub-sections will discuss one of the most popular alternative payment methods to credit cards, pre-paid. Here we will explain what pre-paid is, what are the different types of pre-paid options, why so many people in the Arab World use pre-paid, what age groups use pre-paid and where in the region is it the most prominent.

**WHAT IS PRE-PAID**

Pre-paid cards are payment cards that are preloaded with funds. The difference from credit cards is that these funds are not borrowed from the bank as credit, but have already been paid for instead.

Pre-paid cards come in both physical and virtual forms. Physical pre-paid cards act and look the same as normal credit cards (16 digit numbers, expiration date, CVV, and magnetic stripes) except that these cards have a set denomination as to how much you can spend. Virtual pre-paid cards are done through top-up services that allow consumers to load funds to their online accounts through different channels such as online top-up, scratch-card top-up, and mobile carrier billing. These virtual top-up services are popular payment methods for digital goods such as VoIP, online games, ticketing, and professional services.

**WHY IS PRE-PAID IMPORTANT?**

With only 18% of Arabs being banked, alternative payments like pre-paid play a vital role in facilitating payments of online virtual services and digital goods. Pre-paid cards offer a convenient way for customers to pay online without having a credit card or even a bank account. For customers who do have bank accounts and credit cards, pre-paid cards also offer consumers a safer method for paying online, without risking credit card data theft. Additionally, pre-paid payment methods are becoming popular budget management tools, with 27% of consumers stating that they use pre-paid cards for controlling credit card spending habits.
WHO USES PRE-PAID?

Pre-paid payment options are primarily used by younger consumers under the age of 30 and represent 56% of all pre-paid payments. Consumers in their thirties represent 31%, while older consumers aged 40 and older represent 25% of pre-paid payments.

WHERE IS PRE-PAID USED?

Pre-paid payments are done the most in Saudi Arabia, with half of all payment transactions. Kuwait follows as the second most pre-paid usage in the Arab World with 22% of all payments. Finally, Egypt and the UAE together represent 17% of transactions, with the remaining 11% coming from other Arab World countries.
BILL PRESENTMENT

WHAT IS BILL PRESENTMENT?

Bill presentment is a payment option through a physical payment location. A customer presents a bill from a purchase made online to a bill presentment service location, and pays with the payment option of their choice, whether that be Point of Sale terminals, ATM machines, bank direct debit, or cash. Bill presentment facilities are centralized by the government in Saudi Arabia with SADAD, Kuwait with K-NET, and Fawry with Egypt. In the UAE, bill presentment is decentralized and occur through multiple payment channels either directly from the merchant or from UAE e-government initiatives.

WHY IS BILL PRESENTMENT IMPORTANT?

Just as with pre-paid payment options, bill presentment services allow non-banked consumers to pay their important bills. Services like these are vital for Arab World countries like Egypt where only 8% of Egyptians have bank accounts. Also, just like pre-paid payment options, bill presentment allows consumers to pay for online transactions in a more secure manner.

HOW POPULAR IS BILL PRESENTMENT?

Bill presentment is most popularly used by the population in Kuwait with K-NET with a 241% usage per-capita. SADAD in Saudi Arabia and Fawry in Egypt meanwhile have a 48% and 41% per-capita usage. In terms of monthly transactions, Fawry transacts over 36,000,000 a month, SADAD with 27,500,00, and K-NET with 8,000,000.
TRAVEL AND TOURISM

The top sector in online transactions, travel and tourism makes up almost three-fourths of all online transactions in the Arab World. The recent growth in online travel agency websites and engaging online sales channels has simplified travel bookings across the region and allowed smaller players to grow on a rapid scale. For a region that prides itself on travel and tourism, it is important to examine the key factors that have gone into propelling travel entities into world class organizations.

This section of the report will consist of the important splits between online and offline travel bookings, from both legacy and low-cost airlines, and the push by airlines into the mobile channel.

"THE RECENT GROWTH IN ONLINE TRAVEL WEBSITES AND ENGAGING ONLINE SALES CHANNELS HAS SIMPLIFIED TRAVEL BOOKINGS ACROSS THE REGION."
AIRLINES IN THE ARAB WORLD

352 MILLION PASSENGERS IN 2013 GENERATED $484 BILLION IN REVENUE LAST YEAR

WORLDWIDE TRAVEL MARKET SHARE INCREASED FROM 2% TO 11%
Airlines in the Arab World

Online ticketing market was $50 billion last year.

Gulf Based Airlines grew by 15% in the last year, versus the global airline growth of 5%.

Gulf Based Airlines grew 6x in the last 10 years.
Online travel portals are represented by independent online travel agencies in the region that are becoming popular choices for travel bookings among users. Revenues from online travel portal sales in the Arab World were $2.3 billion in 2012 and are expected to grow to $3.6 billion by 2015.

34% of the travel portal sales come from hotel bookings in the Arab World.
38 SCHEDULED PASSAGER AIRLINES IN THE ARAB WORLD

LEGACY VS LOW-COST-CARRIER AIRLINES

19 LEGACY AIRLINES

19 LCC AIRLINES

$74.052 BILLION IN REVENUE

$403.948 BILLION IN REVENUE
LOW COST CARRIER GROWTH

Online sales channels and bookings have allowed low-cost-carriers to compete with traditional airlines in the region. Today with 40% of total LCC bookings coming from online transactions, low-cost airlines represent 15.3% of the Arab World airline market. Contrast this to 10 years ago when low-cost carriers lacked any online channels and only made up 0.1% of the aviation market.

LOW-COST CARRIERS GREW FROM 0.1% TO 15.3% OF THE ARAB WORLD AIRLINE MARKET IN THE LAST 10 YEARS
LEGACY AIRLINES ONLINE POTENTIAL

With approximately 90% of total airline bookings coming from offline channels, legacy airlines have a huge potential to grow through online bookings. By positioning stronger online sales channels, similar to that of low-cost airlines, legacy carriers can further grow the number of passenger bookings through the use of engaging booking options.
ONLINE AIRLINE BOOKINGS PER COUNTRY

The largest percentage of online airline bookings come from the United Arab Emirates with 46% of total bookings. Kuwait comes second with 34% of total airline bookings and Saudi Arabia follows with 23% of airline bookings. Meanwhile, Egypt has the lowest percentage of travelers booking airline tickets online with only 12% of total airline bookings.

THE UAE HAS THE LARGEST PERCENTAGE OF ONLINE AIRLINE BOOKINGS WITH 46%.
HOTEL NUMBERS IN THE ARAB WORLD

There are 1,514 hotels and 201,000 rooms located in the Arab World generating $593 billion in revenue last year. At a 76.1% occupancy rate, the region has the second highest Revenue Per Available Room in the world after the Caribbean with a REVPAR of $167. REVPAR is the product of a hotel’s average daily room rate and its occupancy rate. Online bookings in the hotel sector are lower compared to airlines. KSA has the highest percentage of bookings from online channels with 12% and Kuwait the lowest with 5%.

ONLINE HOTEL BOOKINGS PER COUNTRY

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>9%</td>
</tr>
<tr>
<td>KSA</td>
<td>12%</td>
</tr>
<tr>
<td>EGYPT</td>
<td>9%</td>
</tr>
<tr>
<td>KUWAIT</td>
<td>5%</td>
</tr>
</tbody>
</table>

*REVPAR is the revenue per available room, calculated by multiplying a hotel average daily room rate by its occupancy rate.
71% OF AIRLINES SAYS THE FUTURE OF PAYMENT IS MOBILE

45% SEE IT AS A WAY TO INCREASE REVENUE

5% OFFER MOBILE PURCHASES ON INFLIGHT DUTY FREE

2% OFFER MOBILE INFLIGHT PURCHASES OF FOOD/DRINK

67% OF AIRLINES HAVE MOBILE CHECK-IN

49% HAVE MOBILE FLIGHT BOOKING

28% LET PASSENGERS RESERVE SEATS WITH MOBILE

18% OF AIRLINES PLAN TO ACCEPT E-WALLET FOR ON-BOARD PAYMENTS BY 2016
The digital commerce world has seen major growths over the course of its history and the Arab World is no stranger to that. With thousands going online every year, in addition to the boost in mobile commerce traffic, the Arab World has become the fastest growing e-commerce sector in the world.

This section of the report will detail some of the findings of the e-commerce arm, including average shopping cart size per market, e-commerce penetration rates, motivators to online shopping, and the most popular e-commerce sites in the Arab World based on Alexa Site Traffic Rankings.
Average cash-on-delivery orders had a minor decrease of 0.8% in the last year, decreasing from $114 in 2013 to $113 in 2014. Credit card orders meanwhile had a 49% increase in the last year, increasing from $155 in 2013 to $168 in 2014. Overall, there was an increase in e-commerce basket size in the UAE.

Saudi Arabia saw an overall increase in e-commerce basket size. There was an increase of 8% for cash-on-delivery orders in the last year, increasing from $143 in 2013 to $154 in 2014. Credit card orders then saw a 32% increase in the last year, increasing from $96 in 2013 to $127 in 2014.

Egypt saw the largest increase in e-commerce basket size. There was an increase of 16% for cash-on-delivery orders in the last year, increasing from $83 in 2013 to $96 in 2014. Credit card orders then saw a 36% increase in the last year, increasing from $71 in 2013 to $96 in 2014.
MOTIVATORS FOR SHOPPING ONLINE IN THE ARAB WORLD

From a consumer survey conducted by PayFort, the number one motivator is competitive pricing and better deals offered with 66% of consumers citing this as a reason for shopping online. Having more convenience to purchasing online vs offline was the number two motivator with 56% of consumers citing this as a reason for shopping online. Finally, 30% of consumers stated that a wide variety of trusted payment options motivated them to shop online.

- **66%**
  PRICE LEADERSHIP & DEAL OFFERS

- **56%**
  MORE CONVENIENT TO PURCHASE ONLINE

- **30%**
  ACCESS TO MULTIPLE PAYMENT OPTIONS
ECOMMERCE PENETRATION
(PERCENTAGE OF INTERNET USER TRANSACTING ONLINE)

46% UAE
35% KUWAIT
25% KSA
8% EGYPT

4.43 MILLION ONLINE BUYERS BETWEEN THE FOUR MARKETS
TOP ONLINE TRANSACTION SITES BY MARKET
(BASED ON ALEXA RANKINGS IN EACH COUNTRY)

UAE
- SOUQ.com
- Amazon
- Groupon
- Alibaba.com
- AliExpress
- COBONE
- MARKA VIP

KSA
- SOUQ.com
- eBay
- AliExpress
- Alibaba.com
- SUKAR

EGYPT
- SOUQ.com
- Jumia
- AliExpress
- NAMSHI
- BKAM

KUWAIT
- Amazon
- Talabat.com
- X-Cite
- SOUQ.com
- eBay
- AliExpress
- blink
- SHEEL.com
MCOMMERCE

Smart phone penetration in the Arab World is one of the highest globally with the UAE and KSA as the number one and three smartphone penetration nations in the world. This is helped largely by the GCC countries where a person, on average, owns 2.9 smartphones.

This section of the report will detail some of the m-commerce trends in the region, including smartphone penetration rates and top performing m-commerce verticals, mobile banking trends, and demographics of mobile payment users.

"ON AVERAGE A PERSON IN GCC COUNTRIES OWNS 2.9 SMARTPHONES."
47% SMARTPHONE PENETRATION IN THE ARAB WORLD
AIRLINES MOBILE PAYMENT

Airlines accepting mobile payments increased by 15% in the last year.
In 1992, bank foot traffic was at 100%, as people visited a bank branch every time they needed banking services. By 2012, with the rise of internet and mobile banking, foot traffic decreased to 50%.
IN TWO YEARS, THE WORLDWIDE MOBILE PAYMENTS MARKET IS EXPECTED TO REACH $507 BILLION AN INCREASE OF 40%.
MOBILE PAYMENT DEMOGRAPHICS

18 to 26 year olds make up the largest demographic group of mobile payment users with 39% of the market. This age group is expected to reach $2.45 trillion in transactions worldwide by 2015. The next largest group is the 27 to 39 year olds with 31% of the market, followed by 40 to 61 year olds with 26%, and 62 and older with 3% of the market.

“$2.45 TRILLION BY 2015”
MOBILE SPENDING
BY CATEGORIES

<table>
<thead>
<tr>
<th>Category</th>
<th>UAE</th>
<th>KSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVENTS</td>
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<td>2%</td>
</tr>
<tr>
<td>AUTOMOBILES</td>
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<td>4%</td>
</tr>
<tr>
<td>RINGTONES</td>
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<td>2%</td>
</tr>
<tr>
<td>HEALTH &amp; BEAUTY</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>TOYS</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>HOME &amp; GARDEN</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>GROCERY</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
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<td>5%</td>
</tr>
<tr>
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<tr>
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<tr>
<td>TOYS</td>
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<tr>
<td>GROCERY</td>
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</tr>
<tr>
<td>OTHERS</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

THE STATE OF PAYMENTS
IN THE ARAB WORLD
MOBILE SPENDING
BY CATEGORIES

EGYPT
- Events: 3%
- Automobiles: 2%
- Ringtones: 2%
- Health & Beauty: 1%
- Toys: 1%
- Home & Garden: 1%
- Groceries: 3%
- Collective Items: 1%
- Others: 8%

KUWAIT
- Events: 3%
- Automobiles: 2%
- Ringtones: 2%
- Health & Beauty: 1%
- Toys: 1%
- Home & Garden: 1%
- Groceries: 3%
- Collective Items: 1%
- Others: 5%

MOBILE COMMERCE | THE STATE OF PAYMENTS IN THE ARAB WORLD | 66
OMNI COMMERCE

Pegged by many as the future of digital commerce, omni-commerce is an up and coming commerce segment that promises to blur the lines between online and offline. Omni, simply means ‘one’ or ‘all’, and with omni-commerce retailers are creating single channels for customer shopping experiences.

An omni-channel experience allows a consumer to browse products on the retailers app, from the comfort of their own home, and then continue shopping at the physical brick-and-mortar stores. Many retailers worldwide have began shifting to omni-commerce and introducing customer engagement methods such as smartphone product scanning and in-store based alerts. The following insights will affect omni-commerce practices in the next few years.
**OMNI-COMMERCE TRENDS**

**WORLDWIDE**

- **9 OUT OF 10** consumers research or buy products online.
- **8 OUT OF 10** consumers bank online.
- **8 OUT OF 10** use mobile phones in-store to help them shop.
- **4 OUT OF 10** consumers would switch payment method to get a discount.
- **4 OUT OF 10** use phones for comparison shopping between retailers.
- **1 OUT OF 5** do so then buy online or at another store.
LOYALTY CARD USAGE
WORLDWIDE

Consumer loyalty cards are seen as a big motivator for shopping in the eyes of consumers. 73% of customers surveyed said they carried a loyalty card, and on average each owned 3.7 cards. Merchants claim that loyalty cards primarily target infrequent customers, and motivate them to keep shopping with them. Returning customers spend on average 67% more than first-time customers, and a business’s top customers account for 55-70% of total sales.
OMNI-COMMERCE ADOPTION BY SMEs

While the majority of companies adopting omni-commerce have been large corporations, small-to-medium entities are beginning to express interest in the commerce segment. Of SMEs surveyed, 69% of entities said they would be interested in exploring omni-commerce in the future. Additionally, it was found that a third of these SMEs were less likely to find faults in their online shopping experience than their customers.

69% OF SMEs SAID IT IS A GROWING COMPANY INTEREST

1/3 OF SMEs LESS LIKELY THAN CONSUMERS TO FIND A FAULT WITH THEIR ONLINE EXPERIENCE
36% of consumers using m-commerce sites to save items in their shopping cart for use later at a brick-and-mortar store. People in the Arab World transact on mobiles more than the global average. 41% of smartphone users in the Arab World transact online, while only 21.3% of global smartphone users transact online.
THE FUTURE OF PAYMENTS IN THE ARAB WORLD

With the number of devices connected to the Internet expected to grow from 10 billion to 50 billion by 2020, and new consumer technologies hitting the market everyday, our world is becoming more connected than ever before. Lightbulbs, fridges, thermostats and more traditional household items are beginning to take part in the internet revolution and are joining the ranks of smartphones and PCs on the web, creating a massive change in consumer thinking. In an attempt to capitalize on the evolution of consumer behaviors, corporations are implementing new innovations with biometrics, NFC, beacons, and always-on connections that will help shape the way we live and interact.

The future is bright for payments in the Arab World with the number of cash-based transactions decreasing year-over-year and the number of convenient consumer payment options developing exponentially. In the next five years, we will see a greater shift towards some of the payment options discussed in this report such as bill-presentment and pre-paid, but also into other unexplored territories like mobile point-of-sale, bill me later, and mobile payments. We expect these new payment methods to have a significant impact on the future of the Arab World and we aspire to continue to observe and anticipate the influence these new technologies have on the people in this region.

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ABOUT PAYFORT

PAYFORT is a trusted online payment gateway enabling businesses, governments, SMEs, startups and institutions with innovative payment options for both the banked and non-banked online shoppers.

We work with our customers by understanding their financial and revenue models, identify areas of risk exposure, and formulate strategies to maximize their online payment acceptance. We work under the notion that “People are Different” and we assist our merchants in offering different payment options that mirror their online shoppers’ behavior for both credit card and non-credit cardholders.

Our team is comprised of seasoned bankers, technology gurus, and risk management experts that have been helping hundreds of firms manage and innovate their online payment processes across the Arab World and beyond.

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