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Venture studios

A new frontier for Saudi banking innovation

Saudi Arabia's banking sector stands at a critical juncture. There has been a twentyfold surge in fintech startups in the country since 2018, with around SAR5 billion ($1.33 billion) into new ventures in 2023 alone. Traditional banks are feeling the competitive pressure from these newcomers. They are looking to invest in the fintech space in a manner that preserves their brand equity and customer base. They have tried all "traditional" investing models, from setting up in-house product factories to establishing corporate venture funds. However, the most effective approach is likely to be the "venture studio" as a means of turning innovative ideas into tangible market solutions.

There is no time to waste. Saudi Arabia wants to become the Middle East's fintech powerhouse. Saudi regulators have created frameworks that encourage digital transformation. The hope is that by 2030 Saudi Arabia will host more than five hundred fintechs. According to a 2024 Strategy& study on the innovation capabilities of Saudi banks, already more than half of the banks licensed by the Saudi Central Bank (SAMA) are experimenting with fintech investment, including all top ten domestic banks. Most favor traditional avenues for accessing innovation, such as acquisitions and buying into established know-how. A few are investing heavily to build solutions from scratch. In either case the challenge is identifying a model that strikes the right balance of strategic control, long-term value creation, and the agility to scale up rapidly.

That is where venture studios come in. A venture studio operates as a startup foundry within the bank, systematically spawning new ventures that can later develop into standalone companies. The studio's mandate is to validate ideas quickly, build from the ground up, and scale promising concepts. When a bank has oriented its culture toward innovation and committed the right resources, a venture studio can produce assets that go beyond incremental product upgrades to include disruptive, market-shaping innovation. So far, we calculate that fewer than 10% of Saudi banks have launched a venture studio, and among the top 10 major banking groups only two have successfully established one.

The venture studio approach offers four powerful advantages that align well with the unique conditions of the Saudi market and the strategic needs of its banks.

The first advantage for banks relates to investment size and capital efficiency. In our experience, a well-structured venture studio might require less than SAR40 million ($11 million) to get off the ground, whereas a full-fledged corporate venture fund can easily exceed SAR2 billion ($530 million) in committed capital. The studio thus offers a start small, scale fast dynamic, allowing banks to recalibrate their investments as they learn and refine their approach.

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The second advantage for banks is that venture studios preserve a bank's influence and control. That makes them unlike accelerators or incubators, in which the bank's influence is often limited to mentorship or seed capita. In a venture studio, the bank controls the innovation pipeline, allowing it to develop a portfolio of ventures that align closely with its strategic agenda.

The third advantage for banks is that venture studios staffed by a dedicated team of entrepreneurs, designers, and engineers, provide a strong innovation engine. This is particularly critical as many Saudi banks are still strengthening their digital capabilities. We estimate that only a minority of banks possess the necessary digital expertise in-house to drive innovation. Banks can blend internal expertise in compliance, distribution, and customer knowledge with the studio's entrepreneurial agility and tech-savvy skillsets.

The fourth advantage for banks is that venture studios allow banks to nurture new ideas independently, minimizing brand and reputational risks for the parent institution from unproven or high-risk experiments, while leaving traditional banking operations, reputation, and customer relationships intact. Over time, the bank can decide whether to fold successful ventures back into its core operations, spin them off as independent businesses, or sell stakes to external investors. Such versatility is particularly valuable in Saudi Arabia as regulatory frameworks develop and regional competition intensifies.

In this period of transformation, Saudi banks cannot stand still. The fintech wave sweeping Saudi Arabia, and the broader GCC, promises substantial opportunities for those nimble enough to exploit it. The venture studio model stands out for combining the strategic control of internal development with a startup's creative spark and growth potential. The studio model allows them to pursue success on their own terms and in line with their own strategic objectives, while actively shaping the emerging banking environment.

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