Dubai Makes More Moves To Digital Economy

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Dubai has taken another step towards modernising its fintech and payments infrastructure, announcing the creation of a framework for crowdfunding platforms in the emirate.

The move is being made with small and medium-sized businesses in mind, which the Dubai Financial Services Authority (DFSA) said are often underserved by major financial institutions.

“Data provided by the Khalifa Fund shows that approximately 50-70 percent of SMEs have had their applications for funding from conventional banks rejected and loans to SMEs account for just 4 percent of outstanding bank credit in the UAE, significantly below the [Middle East and North Africa (MENA)] average of 9.3 percent,” the authority said.

“Given the significant role that SMEs play in the UAE economy, crowdfunding is expected to grow further in importance in the UAE as entrepreneurs seek alternative sources of funding.”

Jonathan Lawrence, partner and member of the Islamic Finance practice at K&L Gates, identified this initiative as one of several happening at different levels in the emirate, including the DFSA’s Innovation Testing License announced earlier this year.

“This is a regulatory ‘sandbox’ environment and signalled another phase of the DFSA’s regulatory roadmap to foster fintech innovation in Dubai,” Lawrence said to PaymentsCompliance.

“The restricted financial services licence allows qualifying fintech firms to develop and test innovative concepts from within the [Dubai International Financial Centre (DIFC)], without being subject to all the regulatory requirements that normally apply to regulated firms.”

Lawrence noted that a nascent fintech industry, including crowdfunding platforms, had already existed up to now in Dubai with no regulatory oversight.

“We are pleased to be the first in the [Gulf Cooperation Council] region to formalise a tailored regime for loan and investment crowdfunding platforms, which represent an increasingly important source of financing for the SME sector,” said Ian Johnston, chief executive at the DFSA.

“By creating a clear set of rules for operators, we hope to encourage the sustainable development of this industry and [this] is part of our contribution to the UAE government strategy to develop the SME sector.”

The issuing of the Regulatory Framework for Stored Values and Electronic Payment Systems, otherwise known as the e-Payment Regulation, by the UAE central bank earlier this year laid the groundwork for this new crowdfunding framework and gives some indication of how it may develop.

“All [payment service providers] are subject to specific licensing, registration and payment authorisation requirements and need to apply to the Central Bank for the relevant license,” Lawrence said.

“Licensed commercial banks are exempt from this rule and are instead subject to a fast-tracked authorisation process.”

The e-Payment Regulation also bans the use of virtual currencies.

Despite traditional banks having this head start, the lawyer made it clear that this initiative is intended to operate outside of the traditional financial system.

“This is an example of fintech allowing non-banks to tap into payment systems,” he said.

“It is designed to bring new players to the payment portals and to the lending sphere, with telecom companies and others potentially posing a threat to banks and financial institutions in respect of certain services.”

The UAE government is anticipating that mobile will comprise 35 percent of payments within five years.

Lawrence added that a government-built mobile wallet “has identified over 90 services provided by government departments as requiring digital payment and predicts a huge shift from cash to mobile payments”.

While the Middle East has some region-specific issues, particularly the restrictions associated with Islamic finance that must be built into regulatory regimes, he said that necessary functions were being integrated into emerging payment technologies.

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