

Where to from here? The future of the UAE finance industry

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The UAE is celebrating its Golden Jubilee, marking 50 years since its union. Over this relatively short history, we have seen buoyant growth in the UAE finance industry, notwithstanding periods of dramatic volatility in the global economy and the onset of a global pandemic. The UAE finance industry continues to adapt and change through innovation in policy, mind-set, and technology.

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The future of finance in the UAE

Deliberating about the future of the UAE's finance industry, we are mindful of the significant developments in the UAE's short history. The UAE issued its first currency in 1973 and transitioned since then from a trading hub for the region into one of the world's leading financial centres. From humble beginnings, the UAE has rapidly grown to be home to over 50 onshore commercial banks, two world class financial centres and a legal and regulatory regime which is constantly evolving to keep up with global standards.

The UAE Centennial 2021 Project, in celebration of its Golden Jubilee, aims to make the UAE the best country in the world by 2071. The UAE's vision for the future is established on an impressive history of development and progress that should set a solid foundation for ongoing development in the next 50 years. The UAE's finance industry is poised to accept the challenge proclaimed by H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai when he stated that:

“The future belongs to those who can imagine it, design it, and execute it. It isn't something you await, but rather create.”

Embracing technology

One of the reasons that the UAE has become a global leader in finance has much to do with it embracing advances in technology to steer the finance industry to offer more efficient and enhanced products and

services to meet the expectations of the digital consumer. In Dubai Future Foundation's ('DFF') recent, "Life After COVID-19: Financial Technologies" report (the 'Report'), it states the following:

"[the coronavirus] is an important opportunity for private sector entities to accelerate the digitisation of financial services."

The Report continues with the following observation:

"The financial technologies industry – fintech – not only appears to be resilient to the risks of the pandemic, but is widely expected to emerge stronger as people turn to digital-only services."

Funds and alternate financing

Another reason the UAE has become a global leader in finance has to do with it embracing diversified offerings from collective investment funds and adding to its ever growing creative alternate financing options, including the regulation of crowdfunding initiatives, insurance, securitisations, Sukuk and the ever growing business of investment management.

Growth of digital technologies

UAE digital banking proponents speculate that the shift to digital in the post COVID-19 world is enhanced with the ease and security of digital banking, featuring contactless payments, online remittances and e-commerce transactions.

One of the underlying challenges for increased reliance on digital banking is the negative consequence of cybercrime requiring banks to implement state-of-the-art security controls to protect consumers and ensure their ongoing comfort in using a banks' digital platform. The UAE continues to modify its anti-money laundering and counter terrorism legislation and practices to ensure that it remains at the forefront, globally, in addressing these risks in the finance industry.

Embracing digital innovations and competition appears to be the principal objective in today's finance industry to achieve sustainability as a core initiative. The development and implementation of new technologies in the finance industry in the UAE is also developing a new glossary of terms. The use of technologies such as FinTech, internet of things ('IoT'), E-Wallets, Robo Advisors, robotic process automation, blockchain, 5G, chatbots and artificial intelligence ('AI') continue to be the focus for the future of the finance industry.

Virtual assets regulation

The UAE generally has been cautious when considering the implementation of regulations on virtual assets, however that is slowly changing. The ADGM currently regulates the operation of virtual assets under the Financial Services and Markets Regulation ('FSMR'), and the DFSA has recently issued its first

consultation paper on regulating digital assets such as cryptocurrencies. The onshore position is also changing with the crypto asset regulations issued by the Securities and Commodities Authority in relation to securities, and the new crypto asset licenses available in the DMCC.

Growth of the collective investment funds regime and alternate financing arrangements

In addition to the growth of digital technologies, the UAE is showing tremendous growth in alternate finance options including collective investment funds and non-fund investment and finance arrangements.

Collective investment funds

There are three jurisdictions in the UAE that offer a host of options for the establishment and management of collective investment funds and regulation of fund managers, administrators, custodians, auditors, valuers and Shari'a boards; being onshore UAE, which is currently regulated by the Securities and Commodities Authority ('SCA'), the ADGM and the DIFC. These jurisdictions provide a domestic jurisdiction for fund managers and sponsors to establish an investment fund while retaining appropriate levels of investor protection.

As an alternative to conventional banking and finance transactions, sponsors and investors, globally, regularly explore opportunities to establish or invest in collective investment funds that pool investors' contributions, which are then managed by a regulated fund manager based on a disclosed investment objective and strategy in the offering documents.

In addition to offering domestic public and professional opened-ended and closed ended funds, each of the fund regulators in the UAE offers a host of specialist funds, including Islamic funds, fund of funds, master funds, feeder funds, private equity funds, property funds, real estate investment trusts ('REITs'), hedge funds, umbrella funds, money market funds, exchange traded funds ('ETFs') and venture capital funds ('VC Funds').

There has been a steady growth in the popularity of domiciling investment funds in the UAE as opposed to establishing them offshore in the Caribbean or the Channel Islands. Much has to do with (i) the global standing of the UAE regulators who are all IOSCO members; (ii) the liquidity in the region; and (iii) investors' preference to invest locally rather than in some distant offshore centre. The formation of domestic investment funds is positioned to continue to grow in the future, and especially in the post-COVID-19 world.

Alternate finance options

As an alternative to the collective investment funds' regime in the UAE, alternative finance options continue to grow. Raising capital through bonds and Sukuk remains strong, with an ever growing industry which includes securitisations, supply chain finance, credit funds, captive offerings, finance leasing and crowdfunding (with the UAE recently introducing its first crowdfunding regulations outside of the financial free zones).

What lies ahead?

Innovation and implementation of digital technologies

Clearly, the ongoing digitalisation in the finance industry is inevitable. With FinTech hubs, like those established in the DIFC and the ADGM, opportunities to test and develop new technologies will continue to have a base. Further, the expansion of venture capital and business incubators together with government programmes and Sovereign Wealth investment and promotion of new technologies are contributing to laying the foundation for continued growth of this industry in the UAE.

Digital banking vs bricks and mortar

Many financial pundits believe that the increase in digital banking in the future will result in the demise of the brick-and-mortar banks. Others believe that this view has been greatly exaggerated. Only time will tell. However, the significant number of expatriates working in the UAE that continue to have banking relationships and family in their home countries, are increasingly reliant on digital platforms to carry out their international bank transfers and general banking. With the onset of coronavirus in 2020, there has been a significant increase in the use of digital apps to assist with banking transactions. As the baby-boomer generation is being replaced by millennials and centennials (aka Generation Z, Gen Z, iGen), the argument that digital banking will increase significantly in the future is certainly persuasive.

Increased diversity of investment strategies and platforms

The diversification in the UAE of finance options through its investment funds' regime and alternate platforms demonstrates that the UAE finance industry is both creative and responsive; key characteristics that have propelled it to being a leading global financial centre. This diversification of finance options will continue to grow and, coupled with technology, alternative solutions through low cost easy-to-use funding platforms are likely to disrupt the conventional banking industry.

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A reason for optimism in the growth of the financial industry in the UAE

Leaders in the finance industry strive to define a vision for their finance organisation and establish goals to adopt and implement emerging technologies to stay competitive and increase profitability. While this is not without its challenges, given the abundance of new technologies available to digitalise finance operations and the support of the UAE regulatory bodies, the industry in the UAE is well placed to embrace this change and in doing so continues to be a market leader globally.

H.H Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum, Crown Prince of Dubai, Chairman of the

Executive Council, Chairman of the Board of Trustees at Dubai Future Foundation summarised the challenges in creating the future we want, which has significant relevance to the future of the finance industry in the UAE, when he stated the following:

“Creating the future we want requires determination, hard work and a specific and advanced set of skills, tools and technologies.”

Al Tamimi & Company celebrate the successes in the growth of the UAE finance industry in the past 50 years and we look forward to working in this industry as it continues to excel in the next 50 years and beyond.

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