

# FinTech in the Kingdom of Bahrain

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## Introduction

The legal and regulatory landscape in the financial sector in Bahrain and the wider Middle East has continued to see a period of change and reform over the past year. In line with international best practice, regulators have continued their pursuit towards liberalisation and modernisation of laws to enhance business opportunities for investors.

This article looks back on some of the key financial services' legal and regulatory developments in the fintech sector of Bahrain.

## Central Bank of Bahrain (“CBB”) issues new regulations

In November 2018 the CBB issued regulations on open banking that apply to ‘account information service providers’ and ‘payment initiation service providers’ in Bahrain, thereby taking the lead in introducing open banking regulations in the MENA region. Open banking enables consumers’ personal information to be shared between organisations in a standardised and secured manner as it obtains the explicit consent of consumers. Through the use of application programming interfaces, third party financial service providers can access the information efficiently and cost effectively thus enabling the development of innovative fintech solutions. The Open Banking Module is included in Volume 5 of the CBB Rulebook that governs ancillary service providers.

In January 2019, Bahrain became the first nation to enact the Model Law on Electronic Transferable Records globally, as developed by the United Nations Commission on International Trade Law. The Electronic Transferable Records Law which “introduces electronic transferable records that are functionally equivalent to commercial documents and instruments issued on paper, such as bills of lading, bills of exchange, cheques, promissory notes and warehouse receipts. These electronic documents allow the person who holds them to claim payment of a sum of money or delivery of certain goods, enabling the merger of the finance and logistics supply chains in a single data workflow.” Additionally, Bahrain also updated its Electronic Communications and Transactions Law, which, among other things, provides for wider use of electronic communications in business.

In February 2019, the CBB issued regulations to govern and license ‘regulated crypto-asset services’ that include trading, dealing, advisory and portfolio management services in ‘accepted crypto-assets’ either as a principal, agent, custodian or as a crypto-asset exchange within or from Bahrain. Overseas domiciled/incorporated persons/entities dealing in crypto-assets can obtain a licence and operate within Bahrain as an ‘overseas crypto-asset service licence’. The Crypto Asset Module is included in Volume 6 of the CBB Rulebook that governs Capital Markets.

Additionally, in March 2019, the CBB issued directives on ‘Digital Financial Advice’, which is the provision

of financial advice using technology (also commonly known as robo-advice or automated advice). Digital financial advice is subjected to a comprehensive governance and controls framework as the technology is based on algorithms and assumptions that translate consumer inputs into financial advice.

In March 2019, the CBB, in collaboration with the Information & eGovernment Authority and BENEFIT, also launched the first Electronic Know Your Customer (“eKYC”) project in the Arab region. “The project is intended to provide an advanced state-of-the-art online platform and a database for financial institutions to authenticate the identities of their clients as well as validate their information before granting financial services. The project also aspires to help fintech companies that offer financial and banking products using online applications as well as facilitate the launch of their products and services.

In August 2019, the CBB issued regulations on insurance aggregators (i.e. intermediaries with an insurance broker’s licence who operate an online platform, whether hosted on an internet website or available as a smart device application which provides price comparisons and facilitates the purchase of insurance policies from several insurance licensees) enabling customers to find and choose insurance quotes from several insurance companies under a single electronic platform or mobile device application.

On 18 January 2019 and 1 August 2019, the Competition Law (Law No. 31 of 2018) and the Personal Data Protection Law (Law No. 30 of 2018) (“PDPL”) respectively came into force. The PDPL, amongst other things, provides individuals with rights in relation to how their personal data is collected, processed and stored. It imposes new obligations on how businesses manage this, including but not limited to, ensuring that personal data is processed fairly, that data owners are notified of when their personal data is collected and processed and that data owners can exercise their rights directly with the businesses.

In October 2020, CBB in collaboration with Bahrain Economic Development Board, Bank ABC, ila Bank, BENEFIT, National Bank of Bahrain (“NBB”) and Bahrain Islamic Bank (“BisB”) has launched FinHub 973, a digital fintech lab with the aim of creating a collaborative ecosystem in the fintech sector by establishing a gateway for investment opportunities in the region, while fostering innovation and supporting integration between financial institutions and fintech start-ups. FinHub 973 will be powered by Fintech Galaxy’s FinX22 platform, which is a cloud-based open innovation platform. The FinX22 platform will offer an open banking API sandbox that enables fintech start-ups to develop, test and deploy fintech solutions.

In conclusion, Bahrain’s fintech success is a result of collective efforts to build a comprehensive ecosystem with new regulations and information. We anticipate that the fintech sector will continue to develop apace into the future.