

Into the Wild: Fintech and Regtech Innovation in the Middle East

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The term “fintech” previously referred to back-end technology in the financial services sector; think software and information technology solutions relating to banks and insurance companies. More recently, the term has come to mean broader technological innovation in the financial services sector, including things like app-based retail banking, peer-to-peer lending and share-trading platforms. The term also refers to payment platforms that circumvent the roles of traditional financial services players, finance training platforms, distributed database / block-chain technologies, and crypto-currencies such as bitcoin. In some instances, fintech solutions might address gaps in existing financial service offerings, including in circumstances where an opportunity is best addressed by a more nimble and more entrepreneurial operation, unhindered by the bureaucratic processes and legacy technology issues that may slow down more established institutions.

Regtech also seeks to utilise innovative technologies, such as Artificial Intelligence, block chain, big data analytics, cloud computing and biometrics. However, its core purpose is to address compliance and risk management issues, and enabling more effective management of compliance costs and reducing operational risks.

DIFC's FinTech Hive Accelerator programme

In January 2017, the Dubai International Financial Centre launched the FinTech Hive Accelerator programme, providing a platform for financial services and technology firms to build solutions for the financial sector. Supported by Accenture, the programme runs over twelve weeks during which time participants have the opportunity to develop, test, and modify their fintech innovations in collaboration with top executives from the DIFC and regional financial institutions. It is intended to provide a platform allowing concepts to be fast-tracked into tried and tested commercially viable propositions.

Participants receive access to leading financial services firms and executives, involving both mentoring, insight, and direct feedback from target user groups. The programme also involves workshops and discussions on relevant topics such as procurement, regulation, and industry trends.

The Dubai Financial Services Authority (the regulator for the DIFC) has also proposed that fintech businesses that meet certain qualifying criteria will receive an ‘Innovation Testing Licence’ (discussed elsewhere in this edition of *Law Update*), reflecting the nature of the activities to be undertaken during the testing phase. Graduation from the testing phase would be a step towards obtaining a full Financial Services Licence.

ADGM's 'sandbox' and the FSRA's Regulatory Laboratory Guidance

In our June/July 2016 edition of *Law Update* we wrote about the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi Global Market and its Consultation Paper No. 2 of 2016 regarding a proposed regulatory framework to support participants deploying innovative technology within the financial services sector. The Consultation Paper proposed the creation of a ‘regulatory laboratory’ or ‘sandbox’, intended to provide a safe environment, within controlled boundaries, for businesses to test, develop, and provide innovative fintech products.

In November 2016, the FSRA (the regulator for the ADGM) issued its FinTech Regulatory Laboratory Guidance, which sets out the FSRA's approach to the RegLab framework. In May 2017, media reports

indicated that ADGM has approved its first batch of RegLab participants, comprising five fintech startups with various innovative offerings. Participants will be granted a 'Financial Services Permission' (also discussed elsewhere in this edition of Law Update), by the FSRA, to carry on the regulated activity of developing financial services technology within the RegLab.

What next?

The application of new technologies in the financial services sector has potential to bring clear, practical benefits. Besides DIFC and ADGM, others in the region are looking at accommodating fintech development by providing receptive environments. Notably, the Bahrain Economic Development Board has partnered with a Singapore fintech consortium to develop a fintech ecosystem and regulatory framework for Bahrain.

For fintech developers each of these initiatives offer an attractive opportunity to test products under lighter restrictions and regulations in an environment that has committed itself to becoming a centre of fintech excellence in the Middle East.

Al Tamimi & Company's Technology, Media & Telecommunications team regularly advises on legal issues to do with the development of new technology, and works closely with specialists in our Banking & Finance team with regard to issues relating to the use of technology in the regulated financial services sector. For further information please contact Nick O'Connell (n.oconnell@tamimi.com).