

DIGITAL BANKING IN ADGM

Abu Dhabi's Award Winning International Financial Centre



ABU DHABI GLOBAL MARKET
سوق أبوظبي العالمي

ADGM - AN AWARD WINNING INTERNATIONAL FINANCIAL CENTRE

Abu Dhabi Global Market, an International Financial Centre (IFC) in the capital of the United Arab Emirates, fully opened for business on 21st October 2015. A Financial Free Zone, ADGM is an independent civil and commercial law jurisdiction encompassing the entire 114 hectares (1.14 sq km) of Al Maryah Island, with rules and regulations aligned with international best practice. ADGM's three independent authorities (Registration Authority, Financial Services Regulatory Authority and the ADGM Courts) provide a holistic environment enabling companies to conduct business and operate with confidence.

PAVING THE FUTURE

Over the past two decades, digital services have revolutionised the world and have had a profound impact on many sectors and industries, including banking and finance. As an innovative and progressive International Financial Centre, ADGM has been playing its part in this major change and responding to regional and international participants seeking a proven and conducive jurisdiction that fosters innovation, opportunity and market development.

ADGM's Financial Services Regulatory Authority (FSRA) launched its digital banking framework and began accepting applications from existing banks seeking to establish digital bank branches or subsidiaries, as well as from entities with innovative value propositions. ADGM also accepts applications from partnerships between technology companies and financial institutions that are looking for a digital bank licence.

ACCELERATE YOUR DIGITAL BANK'S POTENTIAL

ADGM offers the ideal and most conducive regulatory and commercial environment to host digital banks and their innovative solutions. With an internationally recognised regulatory framework, which is fully Basel 3 compliant, ADGM offers a proportionate regime in a business-friendly, responsive commercial environment.

ADGM's technology first approach, world-class internationally equivalent regulatory regime and support infrastructure, which is second to none, make it the ideal location to establish and operate a 21st-century digital bank.

Leading ADGM's FinTech strategy, the FSRA has implemented innovative programmes and launched successful regulatory initiatives to support innovators and financial institutions. Among these initiatives is the establishment of a Regulatory Sandbox (the "ADGM RegLab") wherein FinTech start-ups can test their innovative solutions in a well-controlled environment.

In addition, ADGM set up a Digital Sandbox, a virtual environment hosted by ADGM, in which FinTechs, financial institutions and a financial services regulator, represented by ADGM's FSRA, can seamlessly connect, experiment and develop innovative solutions, creating new products, and testing prototypes swiftly.

For its efforts and commitment to the market, ADGM has been voted International Financial Centre of the Year (MENA) for 2016, 2017 and 2018 by Global Investor ISF magazine, 'FinTech Regulator of the Year' from Seamless in 2018, and awarded 'Best International Financial Centre in EMEA 2019' by the Capital Finance International.

ADGM has been transforming and revolutionising the FinTech and financial regulatory landscape in the region. Since opening for business in late 2015, ADGM has introduced numerous new and transformational initiatives that advance the innovative and financial agenda of Abu Dhabi and the United Arab Emirates (UAE). Digital banks can play a part in this, particularly in relation to the small and medium enterprise (SME) and corporate sectors, and in areas such as trade finance, SME lending and transactional accounts, where innovative banking solutions can promote inclusion, and help position Abu Dhabi and the UAE's financial services sector for the digital economy of the future. In that way, the country's banking and financial sector will continue to be competitive, vibrant, inclusive and sustainable.



BENEFITS OF SETTING UP YOUR DIGITAL BANK IN ADGM

Abu Dhabi and ADGM offer a holistically attractive environment and jurisdiction for digital banks choosing to operate and succeed.

Tax Attractiveness	✓	ADGM levies 0% corporate tax and 0% personal income tax, levies no withholding taxes, and has one of the widest double taxation treaty networks in the world. ADGM is BEPS compliant and requires real substance for businesses operating in its jurisdiction.
Currency Environment	✓	Several of the countries in the region have a US dollar peg, reducing currency volatility and facilitating financial planning.
Dispute Resolution	✓	ADGM is the only jurisdiction in MENA to directly apply common law. ADGM Courts are the world's first fully digital courts, with judges drawn from the most senior of judiciary of the world's leading common law jurisdictions. ADGM Arbitration Centre offers state of the art hearing facilities for alternative dispute resolution.
Internationally Recognised Regulatory Framework	✓	ADGM is a member of IOSCO, and the Basel Consultative Group of BIS. ADGM offers an internationally recognised regulatory framework and is Basel 3 compliant.
Infrastructure and Accessibility	✓	Abu Dhabi benefits from world-class infrastructure, is in a centrally located time zone, and is globally connected through Etihad, its national carrier. ADGM has a premium real estate offering with state of the art IT systems and connectivity.
Credit Rating	✓	Abu Dhabi has the highest sovereign credit rating in the region: • AA (Stable) S&P • Aa2 (Stable) Moody's
Business and Regulatory Environment	✓	ADGM offers a flexible, transparent and investor-friendly legal framework and an exceptional international business environment. ADGM is digital by default, making setting up and maintaining your business fast and efficient.
Availability of Skills and Talent	✓	The UAE has a deep financial and legal talent pool. Abu Dhabi is a family-friendly, attractive expatriate destination. ADGM assists all its clients with visa processing by providing an online portal to facilitate and streamline talent recruitment.
Ecosystem	✓	With an established community of leading international legal, tax, accounting and consultancy firms, as well as access to local and international banks for payments needs, ADGM provides a quality infrastructure of financial and professional services.
Legal Structures	✓	ADGM also offers a wide range of legal structures and vehicles to facilitate your digital bank's business.

DIGITAL BANKING OPPORTUNITIES IN ADGM

ADGM's environment provides a wide range of business opportunities for digital banks, including:



TRADE FINANCE

Operating a digital trade finance bank from ADGM, utilising cutting edge technology to revolutionise how trade finance operates, reducing costs and risks in a well-regulated ecosystem.



SME LENDING

Digital banks focusing on lending to small and medium-sized businesses. Advances in AI, data management and analytics enable more risk-sensitive and timely credit decisions at a lower cost.



DIGITAL TRANSACTIONAL BANKING

Digital transactional banking will allow payments and treasury services to flow more smoothly, enabling real-time payments at significantly lower execution costs.

SETTING UP A DIGITAL BANK IN ADGM

To operate as a digital bank in ADGM, you should apply for a Category 1 licence (Accepting Deposits).

Setting up and operating a digital bank is a complex task and the regulations relating to digital banking, or any kind of deposit-taking, are detailed and wide-ranging. Prospective applicants will need to articulate their business model, how they will be sustainable and viable, how they will meet prudential, conduct, AML and governance obligations, and describe their exit strategy and plans to wind down in an orderly way in the event of failure. All digital banks setting up in ADGM must be physically present in its financial centre.

KEY REQUIREMENTS FOR THE CATEGORY 1 LICENCE ARE:

Prudential Requirements



Capital - The higher of a base capital requirement of USD 10 million, or the risk based capital requirement - a capital plan must be provided in an ICAAP.

Liquidity - Minimum 100% Liquidity Coverage Ratio is required, with liquidity needs included in the overall capital plan.

Stress testing - Capital plan (ICAAP) needs to include plausible capital and liquidity stress tests for the digital bank

Option to branch in from equivalent regulatory jurisdictions, with no ADGM capital requirements



Conduct Requirements

- Classification of clients
- Treatment of clients
- Compliance Procedures
- Disclosure



Business Plan

- Demonstrate a viable and sustainable business model
- Nature of the business the applicant intends to carry on
- Size and complexity of the proposed operations and client base
- Identify potential risks
- Funding for the bank
- Lending activities of the bank
- Human resources
- IT and technology platform



AML

- Identify key AML and CTF risks in the business
- AML and CTF procedures
- Nominated MLRO



Governance and People

- Suitably experienced Board and Executive
- Independent Non Executive Directors
- Governance structures and committees suitable for the business
- Approved persons (SEO, Directors)
- Recognised persons (MLRO, Compliance Officer, Finance Officer)

APPLICATION PROCESS

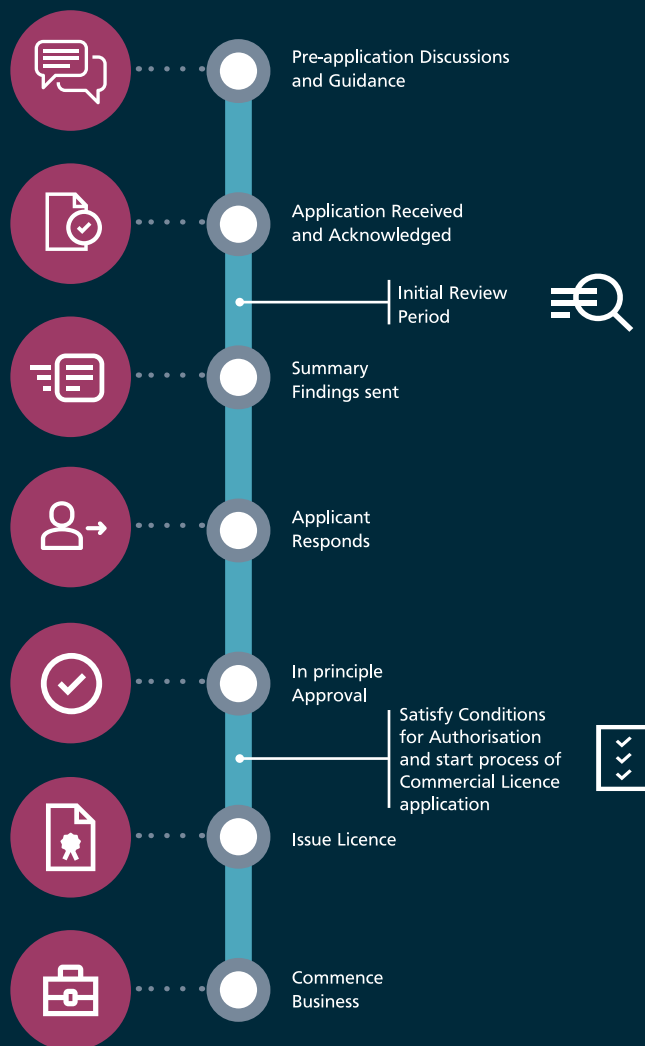
While adhering to international standards, the FSRA aims to be efficient, pragmatic, and market-oriented. The first step in the application process is to meet with the FSRA Banking & Insurance Authorisation team to discuss your plans, and the application requirements. Following this, and ahead of a formal application, the FSRA will review a draft regulatory business plan, upon which it will provide feedback in around two weeks.

Once you have submitted a complete application incorporating that feedback and supporting application forms and documentation, the FSRA team typically requires a minimum of 10 -12 weeks to review it, carry out due diligence, and issue an approval in principle, subject to a number of conditions for you to satisfy ahead of finally granting a financial services permission.

FEES

Application Fees	Year 1	Following Years*
Accepting Deposits	USD 30,000	USD 30,000
Per Additional Activity	USD 5,000	Same fee as previous year*
Per Approved Person (Directors and Senior Executive Officer)	USD 500	Same fee as previous year*
Registration and Licencing	USD 15,000	USD 13,100

*assuming no change in number of regulated activities or approved persons



DIGITAL WALLET AND MONEY SERVICES LICENCE

If you do not need a digital banking licence, but wish to facilitate the transmission of money and e-money, including offering products that provide stored value for your clients, ADGM's category 3C licence (providing money services) could be the answer. Given the lower regulatory risk impact, this licence needs less capital commitment, and has no specific liquidity requirements, compared to a digital banking (Category 1) licence.

The 3C licence allows an entity to provide money services from ADGM, and including payments, exchange and transmission of money, e-money and stored value. The licence is different from a banking licence in that the amounts stored for clients must remain ring-fenced from the entity's own assets, and strict client money rules apply. However, the provision of credit and maturity transformation are prohibited under this licence. The firm would also need to work with a local bank to gain access to the UAE clearing system.

KEY REQUIREMENTS FOR THE 3C LICENCE ARE:

Prudential Requirements



Capital - Higher of the base capital requirement of USD 250,000, or the expenditure based capital minimum (13 or 18 weeks expenses, depending on the treatment of client funds)

Option to branch in from equivalent regulatory jurisdictions, with no ADGM capital requirements



Conduct Requirements

- Classification of clients
- Treatment of clients
- Compliance procedures
- Disclosure



Business Plan

- Demonstrate a viable and sustainable business
- Nature of the business the applicant intends to carry on
- Size and complexity of its proposed operations and client base
- Potential risks
- Funding for the business
- Human resources
- IT and technology platform



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- Identify key AML and CTF risks in the business
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- Suitably experienced Board and Executive
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DIGITAL BANKS IN ADGM: SUMMARY OF REQUIREMENTS

 Threshold Conditions	• Adequate and appropriate resources, including financial, and fitness propriety • Capability of being supervised effectively • Compliance and risk management arrangements
 Business Plan	• Must be credible and comprehensive • Effectively describes the proposal's rationale • Viable and sustainable • Regulated activities to be conducted
 Legal Structure	• Branch or ADGM company – ADGM premises • Parent bank or satisfactory ownership, governance and senior management
 Controllers	• Natural persons or entities holding more than 10%
 Staffing	• Controlled Functions: a. Licensed Directors – the FSRA will take a holistic view of the Board's composition b. Senior Executive Officer – must be resident in the UAE • Recognised Functions: a. Compliance Officer (must be UAE resident) b. MLRO (must be UAE resident) c. Finance Officer • Senior management positions such as business heads, Chief Risk Officer and Chief Technology Officer should be addressed
 Management, Systems and Controls	• Operational structure should apportion significant responsibilities between the board and senior management • Adequate mix of individuals with relevant knowledge, skills, expertise and capacity • Clearly defined roles

DIGITAL BANKS IN ADGM: SUMMARY OF REQUIREMENTS

 Outsourcing	• Responsibility cannot be outsourced • Clearly defined role allocations • Experience and capacity of the outsourced provider
 Risk Management	• Evidence awareness of relevant risks • Controls in place to identify, measure, monitor and manage • Some risks, such as IT and operational, may be enhanced • IRAP
 IT Risk and Cyber Security	• Systems must be robust, and tested prior to launch • Policies and procedures in relation to cyber security • Independent review and testing
 Financial Crime	• Financial crime, AML, CFT and fraud are key risks, requiring comprehensive policies and procedures
 Capital	• No requirements for branches, aside from liquidity • Requirement for ADGM incorporated companies is higher of: • Base Capital Requirement: USD10 million • Risk-based requirement based on the totality of risks • CET1, 6%; Tier 1, 8% • ICAAP
 In-principle Approval	• All conditions to be satisfied prior to launch

Require more information?

The FSRA Banking & Insurance Authorisation team is available to provide more information and assist you in understanding the ADGM digital banking and money services regimes. Please contact the team to arrange for a discussion and better understand the application process.

CONTACT US

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