

Client Alert

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SAMA Issues Additional Licensing Guidelines for Digital-Only Banks in Saudi Arabia

The guidelines are part of Saudi Arabia's efforts to build out a regulatory framework for an innovation-based financial technology ecosystem.

On 24 February 2020, the Saudi Arabian Monetary Authority (SAMA) issued additional licensing guidelines and criteria for digital-only banks in Saudi Arabia (the Guidelines)¹.

Digital-only banks conduct business mainly through digital channels such as the internet and mobile applications. The Guidelines are applicable to digital-only banks and are cumulative to SAMA's Banking Licensing Guidelines and Minimum Criteria published on its website².

The issuance of the Guidelines is in line with Saudi Arabia's concerted efforts to build out a regulatory framework for and promote the growth of an innovation-based financial technology ecosystem. The Guidelines establish a licensing avenue of startup fintech-based banks that witness growth in other markets.

Licensing Conditions

The founders of a digital-only bank must have:

- Relevant experience and knowledge in the financial and technology industries
- Financial capacity to set up the digital-only bank

In addition, the applicant to a digital-only banking license must employ a team with the capability and expertise to discuss any relevant aspects of the application. As part of the application, the applicant will be required to present:

- A business plan (including an exit plan)
- An internal capital adequacy assessment plan
- An internal liquidity adequacy assessment plan

SAMA may also require the applicant to appoint an independent third-party assessor to perform assessments on the specific technical areas that concern the digital-only bank's operations as a condition precedent to licensing.

The licensing conditions also require the articulation of an exit plan that contains elements of business continuity and other disruption and failure contingency planning.

SAMA Operational Compliance

A digital-only bank must be set up as a Saudi Arabian joint-stock company, having at least one physical office to serve as its head office.

Notably, a digital-only bank will be subject to the same set of prudential requirements as conventional banks. Among those requirements, including requirements in relation to consumer and data protection, a digital-only bank must:

- Apply SAMA's Principles of Corporate Governance for Banks Operating in Saudi Arabia
- Apply relevant risk management and control policies
- Apply Banking Consumer Protection Principles
- Comply with SAMA's Rules of Outsourcing
- Comply with anti-money laundering and counter-terrorism financing requirements
- Comply with the Cybersecurity Framework and BCM Framework.

The Guidelines provide that applicants "should demonstrate the compliance of the AML/CTF regulations in the fully digitalized environment". Whilst this appears to open the possibility of a fully digitized KYC and client on-boarding process — a step that removes one of the most frequent operational hindrances to efficient digital banking — potential applicants would benefit from more clarity as to the intended scope of this language.

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Endnotes

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- ¹ Additional Licensing Guidelines and Criteria for Digital Only Banks in Saudi Arabia. (Feb. 24, 2020) available at http://www.sama.gov.sa/en-US/Laws/BankingRules/Additional_Licensing_Guidelines_and_Criteria_for_Digital-Only_Banks_in_Saudi_Arabia-EN.pdf
 - ² SAMA Banking Licensing Guidelines and Minimum Criteria. (Dec. 2018) available at http://www.sama.gov.sa/en-US/Laws/BankingRules/SAMA_Bank_Licensing_Criteria_en.pdf