



**“Regulating Fintech Industry: Opportunities, Challenges  
and the Importance of International Cooperation”**

**Statement by  
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## **ARAB MONETARY FUND (AMF)**

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On behalf of the Arab Monetary Fund (AMF), I would like to express my sincere gratitude to the G-24 Secretariat for the kind invitation to participate in the G-24 Ministerial meeting as an observer. I am pleased to address you on the critical needs to regulate the FinTech industry focusing on the Arab region.

FinTech is a dynamic industry, interlinking the financial services and technology sectors allowing start-ups and new market entrants to innovate products and services provided by the traditional financial services providers. As such, FinTech has gained significant momentum across the world including the Arab Region and remains high on the agenda of industry participants and Governments seeking to develop, modernize, and diversify the financial services sector.

Regulations of the financial services industry are being challenged by the rise of FinTech firms, and the latter continue to induce fundamental changes on various levels, from the way that banking works, to the way that capital is raised, even to the form of money itself. These changes call for a wide range of financial regulations in an era of technology-enabled finance.

### **FinTech Industry Landscape**

The FinTech industry flourished in 2018 both on global and regional levels and continues to do so in 2019. Key drivers of FinTech growth include record levels of deals and financing, emergence of new global tech hubs, and a relatively favourable regulatory environment. The combination of these factors enables the FinTech sector to further digitize its services, expand into new markets and increasingly provide seamless integrated experiences to end users. This has, in turn, lowered the barriers to entry and enabled recent entrants to expand into adjacent markets and offer new products.

It is estimated that during the first half of 2019, global FinTech investment reached US\$22 billion across, with deals going up 4 percent in Q1 compared to last year. Last year also saw a record number of deals and an unprecedented surge in Funding on the back of multiple mega rounds and giant deals, such as Ant Financial's record of US\$14 billion fundraising in May 2018.

On the regulation front, the regulatory net is widening, and some fintech firms that are currently outside the perimeter may find themselves subject to regulation in the future. For instance, 2018 witnessed the development of a crucial set of regulations in the European Union including General Data Protection Regulation (GDPR), Open Banking, and the revised Payment Services Directive (PSD2). The latter two are very impactful and are overlapping in nature, requiring banks to open APIs (Application Programming Interfaces) to customer data. As a result, consumers are the ultimate beneficiaries of Open Banking and PSD2 because the regulations provide them with choices through competition and establish consistency around security protocols to protect consumers.

### **The need to regulate FinTech industry**

Regulation is a key enabler for FinTech and innovation to flourish properly, due to the fact that regulation can ensure competition in the market and can create an environment conducive to innovation. Hence, it is important to have regulation that maintains a balance between encouraging FinTech innovation and preserving financial stability.

In order to achieve this balance, regulators need to be active in the FinTech space by engaging with different stakeholders to better identify and understand risks; this is in addition to the fact that regulation itself can be the driver of innovation within financial services. In this regard, it is crucial to address the concern of whether there is sufficient information available to accurately track the magnitude and precise nature of FinTech developments that may harm the stability of the financial system.

To accomplish this task, it is imperative that regulators employ a blend of different talent and skills that combine regulatory and technical knowledge, so that issues around innovation are properly examined. By taking such an approach, regulation can enable innovation firms to access the market, drive competition between incumbents and create better outcomes for consumers whilst reducing risks on financial stability.

Moreover, there is a need to further explore the necessity to standardize FinTech regulations across regions. In this case, a FinTech specific regulatory environment would be necessary to ensure legal clarity, predictability and fair competition. This is in addition to ensuring the ease of doing business and the authority of FinTech regulators are not limited.

### **Challenges of regulating FinTech**

FinTech is creating significant opportunities for the various players in its ecosystem and has played a key role in strengthening financial market infrastructures, promoting financial stability and increasing financial inclusion. Furthermore, the players in the sector have been able to capitalize on these opportunities to broaden the supply of

financial products and services and increase their quality and effectiveness, which has led to more consumer and ultimately societal benefits.

However, the evolving use of FinTech solutions and emerging technologies also brings risks, that regulators and supervisors have been monitoring and responding to. The key risks that have been identified relate to the increasing reliance of financial services firms on technology, the use of large data sets, the increasing interconnectedness within the financial sector, and the prospect of greater concentration and group-think behaviour.

Furthermore, the expansion of the FinTech industry scope into new territories, such as cryptocurrencies, the adoption of cloud computing, and the move of some non-financial services firms into the provision of financial products and services such as lending to SMEs and retail payments systems, raise questions around where the regulatory perimeter should be drawn and how much regulation is ‘too much’.

Thankfully, many countries are making great progress in this regard. For example, the existing data protection legislation in jurisdictions, such as the General Data Protection Regulation (GDPR) in the European Union, already covers some of the data protection issues arising from FinTech, the regulatory treatment of data will be key as the financial services industry opens up, and competition and innovation within the sector speeds up.

Nevertheless, FinTech developments are increasingly pointing to new areas in which additional regulation may be required, such as in the use of artificial intelligence and distributed ledger technology (DLT), which are increasing the pressure on regulators to act. This is in addition to the need to determine responsibility in the open banking world and for a broader risk framework, incorporating all players handling customer data. For example, regulation has been key in open banking by establishing the basis on which data can be shared between different parties, which is often through an application programming interface (API).

### **International Cooperation**

The social and economic benefits of FinTech are sizeable, but also come with a number of risks. Hence, rather than working independently, countries and standard setters should work more quickly and efficiently to mitigate these risks through international cooperation. This is particularly important in areas such as cybersecurity, anti-money laundering, the interconnectivity of cross border payment systems, and the exploration & integration of blockchain technologies. In a globalized world, FinTech services and solutions are becoming increasingly cross-border focused and hence regulation must reflect such developments and account for the complexities it may bring.

## **Role of AMF in supporting regulations in Arab Region**

In response to the challenges of FinTech, the Arab region is becoming increasingly dynamic as many countries are adopting specific licensing regimes and regulations to counteract these challenges. There has been a rise in regulatory sandboxes, incubator programs and other regulatory and legal changes in response to such needs that will bring the region to the forefront of innovation. These changes will bring numerous future benefits to the region as a whole. FinTech investment in the Arab countries is growing fast and is expected to be valued at USD 2.5 billion by 2022.

The Arab Monetary Fund (AMF) plays an important role in supporting Arab countries in setting-up an efficient ecosystem for the FinTech sector by creating the Arab Regional FinTech Working Group. The Working Group serves as a knowledge platform to exchange intra Arab expertise with international experts and creates a network among regulators, practitioners, experts and academia. It also promotes innovation and supports relevant Arab authorities in developing and regulating the use of FinTech solutions towards realizing their strategies and visions for their own countries.

The AMF has also established an online FinTech knowledge portal, which will ultimately serve as a live consultation among member countries. This is in addition to workshops, trainings and technical assistance that the AMF continuously provides across major FinTech topics and issues.

We, at the Arab Monetary Fund, are committed to help adopting a progressive working plan in order to create a proper ecosystem in Arab countries to foster FinTech sectors. We believe that a consistent regional approach is needed, and we encourage International Financial Institutions (IFIs) to optimize and take joint action to formulate ambitious programs to support investments in the FinTech industry, formulate proper guidelines, collaborate in joint capacity building programs, and support member countries in designing their FinTech strategies. Finally, we would like to seize this opportunity to invite our international partners to come together to develop a joint action plan on how best to design the optimal regulatory ecosystem for the promotion of FinTech.

To conclude, let me reiterate, once again the AMF's appreciation for the Group of Twenty-Four and for the opportunity it has given us to highlight such critical issues.

Thank you.