NEWSLETTER

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Money in the Digital Age: A Comparative Study of E-Wallet Regulations in UAE and KSA

KARM

1. INTRODUCTION

Non-bank led payment services have become ubiquitous. E-wallets denoted by different terms in different countries, are becoming popular in many jurisdictions. This can be ascribed to the growing demand for quick, convenient, secure, and accessible payment methods that are not tied to traditional banking institutions. Between 2018 and 2021, noncash retail payment transactions have increased at a compound annual growth rate of 25% in emerging markets. The growth of e-commerce, improved investor appetite for digital payments, global government initiatives towards digital payments, and of course the covid pandemic have all had their roles to play in the emergence of digital payments.

E-wallets have gained widespread adoption due to their ability to store multiple payment methods, enable peer-to-peer transactions, and facilitate mobile payments. Further, the convergence of high volume-low value payments, the possibility of increased penetration, and the layered potential of non-core services integrated into e-wallets have led to monetary regulators moving swiftly to regulate these solutions.

Both UAE and KSA have seen prolific growth in the digital payments landscape ever since the pandemic. Particularly, the use of e-wallets in UAE has grown by 24% since the start of the pandemic, with 67% of UAE consumers now using e-wallets for their purchases. Furthermore, in KSA, the number of E-Wallet (as defined hereinafter) transactions increased by 125% between 2019 and 2020, and the value of those transactions increased by 120% over the same period. Furthermore, the residents of both these nations are also becoming accustomed to using digital means of payments and increasingly fintech literate. According to surveys conducted by MasterCard, 89% of people in KSA and 88% of people in the UAE have used at least one emerging payment in 2022.
With the increased use of E-Wallets globally, regulators have shifted focus to handling of client funds and protection against fraudulent transactions by Fintechs.

This newsletter provides an overview of the regulatory frameworks applicable to e-wallet service providers in the United Arab Emirates (**“UAE”**) (including the ADGM and DIFC) and Kingdom of Saudi Arabia (**“KSA”**).

2. REGULATORY LANDSCAPE

A) Overview

Both UAE and KSA have payment services specific regulations. In UAE, there are three sperate regulatory frameworks applicable to payment services, depending on where the service provider in incorporated and how it seeks to promote its services. This is discussed below.

UAE

In the UAE the Dubai International Financial Centre (**"DIFC"**) and Abu Dhabi Global Market (**"ADGM")** have their standalone financial, civil, and commercial laws, including separate financial regulations and independent regulatory authorities. Hence, entities set up in these financial free zones have to apply for separate licenses than entities incorporated and promoting services in mainland UAE.

In mainland UAE, the primary regulator for payment services and E-Wallets is the Central Bank of UAE **("CBUAE").** The CBUAE recently issued two regulations that are pertinent for payment services, namely the Retail Payment Services and Card Schemes Regulation (**"RPSCS Regulation"**) and the Stored Value Facilities Regulation **("SVF Regulation").** For e-wallet services, the SVF Regulation is relevant, while the RPSCS Regulation governs 'Payment Token Services', discussed in greater depth below.

The financial regulators of the DIFC and ADGM are Dubai Financial Services Authority **("DFSA")** and Financial Services Regulatory Authority **("FSRA")** respectively. The regulatory framework for financial services (including payment services) in ADGM and DIFC are specified in: (a) Financial Services and Market Regulations, 2015 and related rulebooks, and (b) Regulatory Law, 2004 and related rulebooks, respectively.

KSA

Payment services in KSA are regulated by the Saudi Central Bank **("SAMA"**). The governing regulations are the Law of Payments and Payment Services and Payment Services Provider Regulations (**"PSP Regulations"**). SAMA has two licenses for Electronic Money issuance, namely, 'Major Electronic Money Institutions' (**"Major EMIs"**) and 'Micro Electronic Money Institutions' (**"Micro EMIs"**). Micro EMIs are subject to limits on the 'daily average of Electronic Money they can issue over 12-month period' (fixed at SAR 10,000,000 or ~USD 2,661,000) and the 'monthly average of payment transactions they can facilitate over a 12-month period (fixed at SAR 10,000,000 or ~USD 2,661,000). However, Micro EMIs are subject to lower licensing fees and capital requirements (as highlighted under section 3) and are a good way to foray into the KSA market.

B) E-wallet services regulations in UAE and KSA

The CBUAE regulates the issuance and operation of a 'Stored Value Facility' (**"SVF"**) in mainland UAE under the SVF Regulation. The SVF Regulation defines 'Stored Value Facility' as a facility for which a customer can pay a sum of money or money's worth in exchange for: (a) the storage of the corresponding value on the facility, and (b) a relevant undertaking to the effect that such a facility can be used to make payments to certain third parties.

Similarly, FSRA and DFSA denote e-wallet services as 'Stored Value' services and regulate the same. 'Stored Value' is defined similarly for both ADGM and DIFC. It encompasses any electronically/magnetically stored monetary value which represents a claim on the issuer and is issued on receipt of funds or other assets for the purpose of making payments to entities other than the issuer.

The nomenclature used by SAMA is 'Electronic Money'. The PSP Regulations define 'Electronic Money' as any monetary value represented as a claim on the issuer that is stored electronically/magnetically and is issued on receipt of funds for the purpose of making payments to entities other than the issuer.

E-wallet services, by whatever name called, fall squarely within the regulatory scope of the CBUAE, FSRA, DFSA and SAMA.

Another common theme is the exclusion of closed loop or limited purpose wallets from regulatory purview. Such wallets can only be used as a means of making payments to the issuer or other related entities. However, the applicability of the exclusion can be determined upon further examination of the issuer's business model and product structure.

('Stored Value', 'Stored Value Facilities' and 'Electronic Money' hereinafter collectively referred to as **"E-Wallets"**)

C) Licensing approach

All regulators require entities that issue E-Wallets to customers in their relevant jurisdiction to procure a license. SAMA and CBUAE also subject overseas issuers to licensing requirements under certain circumstances.

If the E-Wallet issuer is a licensed bank, then both SAMA and CBUAE are only required to be notified for the procurement of an authorisation and a no objection letter.

Here is a summary of the required approvals.

Entity	Jurisdiction			
	Mainland UAE	ADGM	DIFC	KSA
Non-Banks	License for Issuing or Operating SVFs from CBUAE	Financial Services Permission for "Providing Money Services" from FSRA	License for "Providing Money Service" from DFSA	License for issuing Electronic Money(Major or Micro EMI License) from SAMA
Licensed Banks	No Objection Letter from CBUAE	Financial Services Permission for "Providing Money Services" from FSRA	License for "Providing Money Service" from DFSA	Prior Authorisation from SAMA

D) Existing licensees

A considerable number of entities have procured the E-Wallet licenses from these jurisdictions. The CBUAE has issued four E-Wallet licenses. The FSRA has eight authorised money services providers, while the DFSA has four. Lastly, the SAMA has issued nine E-Wallet licenses.

3. KEY REQUIREMENTS

All four jurisdictions subject E-Wallet issuers to certain requirements pertaining to permissible legal forms, minimum capital, customer money protection and management, transaction limits and overall conduct of business. This section provides a succinct summary of some of these requirements.

A) Permissible legal forms:

Jurisdiction	Permissible Legal Forms	Foreign Ownership Restrictions
Mainland UAE	• Limited Liability Company • Public Joint Stock Company; • Private Joint Stock Company	None
DIFC	Existing licensees incorporated as Private Company Limited by Shares	None
ADGM	Existing licensees incorporated as DIFC Company (as Private Company)	None

KSA	Joint Stock Company (requires a minimum of two shareholders)	None

B) **Transaction and balance limits:** Transaction and E-Wallet balance limits are put in place for various reasons ranging from risk mitigation and consumer protection to overall financial stability and ensuring that there is not a significant outflow from bank deposits to non-bank institutions thereby affecting vital economic functions. These limits vary from jurisdiction to jurisdiction. Provided below are the limits prescribed for each jurisdiction:

Jurisdiction	Maximum Permissible Balance Applicable to Each Customer	Transaction Limits
Mainland UAE	No hard limit (Certain requirements apply)	No hard limit (Certain requirements apply)
ADGM	No hard limit	No hard limit
DIFC	USD 5,000	Single payment transaction: USD 1,000
KSA	• **Micro EMI:** SAR 20,000 (Approx. USD 5,300) • **Major EMI:** None	Monthly limit: • **Micro EMI:** SAR 20,000 (Approx. USD 5,300) • **Major EMI:** None

C) Cost of acquiring licenses and minimum capital requirements

Jurisdiction	Regulator	Licensing Fees		Minimum Capital Requirements*
		Application Fees	Annual / Renewal Fees	
Mainland UAE	CBUAE	None	None	AED 15,000,000 (USD 4,084,000)
DIFC	DFSA	USD 25,000	USD 25,000	USD 500,000
ADGM	FSRA	USD 25,000	USD 25,000	USD 250,000
KSA	SAMA	• **Micro EMI:** SAR 20,000 (Approx. USD 5,300) • **Major EMI:** SAR 50,000 (Approx. USD 13,000)	• **Micro EMI:** SAR 20,000 (Approx. USD 5,300) • **Major EMI:** SAR 50,000 (Approx. USD 13,000) (Payable every three-year period)	• Micro EMI: SAR 2,000,000 (Approx. USD 532,000) • Major EMI: SAR 10,000,000 (Approx. USD 2,661,000)

*** Additional capital requirements may apply**

4. CONCLUSION

The regulations in all four jurisdictions are detailed, with some overlaps but many variations. Examples of the regulatory differences include the licensing approach, transaction limits, balance limits, licensing fees and capital requirements, amongst others. Whether you should approach one or the other regulator will be governed by many factors including your target market, your envisaged scale of operations, the capital commitments you are comfortable to satisfy, pre-existing operations in other countries and the like. Furthermore, if you wish to provide virtual asset related services, some of these jurisdictions may be the right fit for you! Write to us to know more.

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