Dubai Financial Services Authority

REGTECH LIVE

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The DFSA's Innovation Agenda

1. Introduction

Thanks for the introduction, Khawla. It's good to be here as part of our third RegTech Live event and as part of DIFCA's Innovation Month.

Today I am going to speak briefly about our Innovation Agenda. I don't think I have to convince many of you that we are in a place where we are seeing the rapid development of technology-based solutions, and the rapid adoption of those solutions by financial services institutions.

2. Why do financial institutions want to use more technology?

i. Data

A huge driver for the use of technology is data. The ability for financial institutions to process and hold data safely, and the ability to use that data to find out more about their customers, or potential customers.

The effective and creative use of data helps firms to increase their competitive edge, to defend, create or enhance their position in the market, and to offer their customers a broader range of products and services that meet their current, and potentially future, needs.

ii. Compliance

Prevention is better than cure, and firms are seeking to put in place technology-based compliance solutions that, for example, automate administration, provide regulatory reporting, carry out AML/CTF checks, and monitor transactions. Technology can carry out these functions quickly, accurately and effectively, but it also helps to cut down on the cost of compliance. We have heard about some of those solutions today.

3. What about regulators?

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The need to use technology and explore data is not limited to financial institutions. Regulators also need to innovate. We need to keep pace with the changes to business models, the increase of consumer expectations for seamless digital services, all while continuing to regulate the market effectively and achieve our objectives. Not an easy task.

a. Our regulatory innovation Agenda

The DFSA is firmly committed to maintaining a robust, clear and proportionate regulatory framework. This regime sets minimum standards for firms, compliance with which will promote confidence in the market, and help us achieve our other regulatory objectives.

When we look at new policy initiatives, we take a thoughtful and measured approach. There can be unintended consequences that flow from regulatory responses to traditional financial services, let alone the unintended consequences to hasty regulatory responses to nascent financial technologies. Being the first mover is not always an advantage.

I want to discuss a rather difficult question - do we have an opinion on the use of technology, and do we regulate the technology used? Justin touched on this earlier today, but at the DFSA we talk about being technology neutral, meaning we place requirements on firms using technology to understand the risks associated with it, and to mitigate those risks, including explaining them to their customers when appropriate.

But this does not mean we don't look closely at the technology used, and try and understand how it works, especially as technology is becoming so embedded in the delivery of financial services and is such a fundamental driver of the products and services being offered.

I will mention again the Guidelines for Financial Institutions on the use of Enabling Technologies that were recently issued by the UAE's regulators. These Guidelines talk about how we want financial institutions to act. For example, in relation to the use of Big Data and Artificial Intelligence, financial institutions need to promote fair treatment and ethical outcomes that are aligned with their ethical standards and values. In relation to the use of biometrics, financial institutions need to have in place the means to ensure the confidentiality, authenticity and integrity of the data provided throughout all phases of the authentication process.

To return to our Innovation agenda, last year we introduced two major policy initiatives.

i. *Payment Services:*

Consumers want speed and convenience when purchasing goods and services, and demand real time access to payment platforms. They don't want things to be complicated, they want a seamless payment experience.

This demand, coupled with market interest, led us to introduce a comprehensive Payment Services regime in early 2020, allowing for a wide range of payment activities including remittances, Stored Value, Payment Initiation and Account Information Services.

We continue to see significant interest in this regime, and are working with a number of firms who have applied, or want to apply, for licences from the DFSA.

ii. *Venture Capital*

VC is an important source of 'patient capital' for financing start-ups, so that, for example, new technologies can be transformed into commercially viable and sustainable businesses.

In late 2020, in support of this funding need, we developed a regulatory regime to encourage and facilitate venture capital funding, expecting that this would support technology driven firms in the DIFC. You can expect to see more on developing this area later in 2021.

iii. *Crypto Assets*

Liz Wallace has already addressed this in today's session.

iv. *Digital on-boarding*

We get asked by many of the firms what we think of digital on-boarding, what we would allow and wouldn't allow, and so on. Basically, your firm is responsible for onboarding customers properly and meeting your obligations – there are many different ways you can do that, using different technologies.

We are looking to see where we can usefully produce some guidance to help firms.

v. Digital banks

What are digital banks and how do they differ from what we know as a traditional bank?

Most banks now are digital banks: but a pure digital bank is one that has no physical presence and, for its customers, the only means of interaction with the bank are virtual and remote. This can offer benefits in terms of speed and efficiency as well as financial inclusion (wider reach) and lower costs (no legacy systems) relative to traditional banks.

We are guided here by the principle 'same risk, same rules', so our regulatory approach to digital banks is to apply the existing banking regime. We will complement this with guidance on how these rules apply in the context of purely digital platforms.

vi. *Open Banking/APIs*

Open Banking allows the use of APIs as a gateway for third parties to access financial information. The main point of open banking is to improve consumers' experience and the value they get from specific banking services, by letting them share their data with third party providers, and most importantly, in a secure manner. Examples of this are the Payment Initiation and Account Information Services I mentioned earlier.

Like many others regulators in their jurisdictions, we are thinking about a potential open banking regime for banks based in the DIFC. Most of the debate on open banking has been on retail solutions, however, open banking may have an even bigger impact on corporate and small to medium enterprise (SME) customers, including:

- Treasury and cash management;
- Instant payment/instant liquidity; and
- Accounting and bookkeeping.

We are considering both retail and corporate/SME solutions for open banking.

vii. *AI/*ML

Artificial intelligence and machine learning are technologies we are seeing used more and more in the financial sector, which are helping firms to manage and understand the ever-growing data sets, and to identify previously undiscovered patterns, which is critical for flagging potentially suspicious behaviour. If used properly, these tools can distinguish between legitimate and fraudulent behaviours while adapting over time to new, previously unseen, fraud tactics.

The growing use of AI/ML presents opportunities, but there are also challenges, for example, in respect of risk management, bias, ethics and governance. The DFSA is thinking about guidance to set out our expectations in respect of firms using these technologies, to expand on what is already in the Joint Guidance mentioned earlier.

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b. The DFSA and External Engagement

We continue to engage with regulators and other bodies in the UAE, with the common aim of developing an ecosystem for innovative firms to thrive.

One project I want to mention is with the Centre for the 4th Industrial Revolution, C4IR, and DIFCA. We are creating a sandbox environment for firms to develop and test use cases for tokenisation, which will advance our collective understanding of the potential benefits of this technology.

We also continue to engage with international counterparts, through regulatory groups such as the Global Financial Innovation Network (GFIN), where we are enabling a number of firms to test their products and services cross-border. In IOSCO, we are part of the FinTech Network and the Decentralised Finance, or 'DeFi', workstream, to help us understand developments in this market. We also engage with industry bodies such as Global Digital Finance,

Conclusion

Finally, we support the development of an innovative ecosystem in the DIFC, Dubai and the UAE, regulating where appropriate and refraining from regulating where it is not needed. Being part of this thriving ecosystem is exciting and a challenge for us; it helps us address some of the innovation challenges we face ourselves as an organisation. Importantly, we are able to be part of building something new, different and future-focused.

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