

# 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)<sup>1</sup>.

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 website<sup>2</sup>.

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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- <sup>1</sup> 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](http://www.sama.gov.sa/en-US/Laws/BankingRules/Additional_Licensing_Guidelines_and_Criteria_for_Digital-Only_Banks_in_Saudi_Arabia-EN.pdf)
  - <sup>2</sup> 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](http://www.sama.gov.sa/en-US/Laws/BankingRules/SAMA_Bank_Licensing_Criteria_en.pdf)