

FinTech in Egypt: Be aware of the Regulatory Landscape

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Investing in fintech in Egypt is very attractive because there is huge demand for disruptive payment and financial solutions. On the one hand, a very large segment of the population does not use traditional banking methods or is unbankable due to existing laws, regulations and rules. The result is a growing need for financial inclusion, something which is recognised by the Egyptian government and the Central Bank of Egypt. On the other hand, one of the outcomes of the recent macroeconomic reforms is that the lower income, reduced savings and purchasing power of a significant portion of Egyptian consumers, has created the need for different and more robust forms of financing.

However, there are several obstacles facing start-ups focusing on providing fintech solutions. The first key obstacle is cultural, as many Egyptians are reluctant to embrace non-traditional financial solutions and prefer transacting in cash and holding their savings in cash or in tangible assets. The other key obstacle is legal. On the legal and regulatory side, despite the growing interest from the Government of Egypt and the Central Bank of Egypt in launching initiatives to support and promote financial inclusion, there is still no clear legal or regulatory framework for entities operating in the fields of payment solutions or systems, payment services or financial technology.

To date, these entities are regulated by various directives issued by the Central Bank of Egypt which are addressed to licensed banks and contain instructions for these licensed banks (regulated by the Central Bank of Egypt) when dealing with such entities. For example, the Central Bank of Egypt issued guidelines to banks regulating their dealings with payment aggregators and payment facilitators. These guidelines include details outlining different procedures and requirements that must be complied with by banks when contracting with payment aggregators and facilitators. Subject to compliance with such procedures and requirements, the Central Bank of Egypt then permits the relevant bank to contract with the payment aggregator or facilitator. It should be noted that the required licence is issued to the relevant bank and not to the payment aggregator or facilitator. This creates a dependency on the banks, who necessarily operate as the interface between the aggregator or facilitator and the regulator, and also the means through which the business can be carried out. In addition, potential investors carrying out due diligence on a payment aggregator or facilitator cannot verify that they have received a licence from the Central Bank of Egypt. Investors would have to rely on the existence of the contracts with the licensed banks and the approvals issued by the Central Bank of Egypt to the licensed banks which is less than ideal when compared with a proper licence issued directly to the aggregator or facilitator by the regulator.

There are several other examples of directives, which include circulars and guidelines issued by the Central Bank of Egypt in relation to financial inclusion products, and the Central Bank of Egypt's directives regarding bank client rights. The latter includes elements regulating different aspects of electronic payment service providers and other financial technology service providers. The common aspect of these directives is that they are aimed at the banks licensed by the Central Bank of Egypt, being the channel through which the Central Bank of Egypt monitors and regulates payment solutions, systems and services, as well as financial technology.

Finally, the Government of Egypt recently approved the draft of a new banking law, which was submitted to the Egyptian House of Representatives but is yet to be passed. The draft includes a chapter addressing payment systems and services, and financial technology. It provides for the Central Bank of Egypt to directly license and regulate payment systems and payment service providers, as well as regulate different aspects of financial technology. The relevant chapter of the draft refers to detailed criteria and regulations being issued subject to decisions of the board of the Central Bank of Egypt. As this law has yet to be passed by the House of Representatives the detailed criteria and regulations will be issued in due course once the new law has been approved. Therefore, potential investors in start-ups or established businesses in the fintech sector are currently not able to assess whether those start-ups or businesses would be compliant with those criteria and/or whether they would be able to obtain the required licenses. Similarly, potential investors are currently not in a position to determine what the impact of complying with the new regulations would have on the business model of investee companies. This results in uncertainties around the stability and sustainability of a business, its growth potential and ultimately, its valuation.