

## Overview of E-payment in the Arab Republic of Egypt

### Overview

Egypt has recently focused on the importance of electronic payment methods, by implementing a complete electronic system on all levels, by encouraging the development of electronic payment systems and services and by promoting the use of different electronic payment services by different consumers and businesses.

Payment service providers were not directly regulated by the Central Bank of Egypt (the “CBE”) until the issuance of the new Central Bank and Banking Sector Law no. 194 for the year 2020 (the “CBE Law”). The CBE Law sets the conditions and procedures for licensing the payment service providers and operators in Egypt. Furthermore, the provisions of the CBE Law have secured and protected the data of customers of e-payment services, in addition the CBE Law has maintained the competitive market conditions between the e-payment service providers and operators.

This article provides an overview on the evolution of the e-payment in Egypt and intends to provide an overview on the provisions regulating the e-payment service providers and operators as per the CBE Law.

### 1- What is E-payment?

E-payment service is an electronic method of conducting businesses or paying for goods and/or services without the need of being physically present at the

point-of-sale. In other words, e-payment service helps executing different financial transactions or paying for goods and/or services through an electronic mechanism instead of cash payment.

## *2- The Evolution of E-payment*

Despite the fact that e-payment seems to be a relatively recent breakthrough being mainly regarded as a recent trend, however, e-payment has its roots spread all the way back to the 19th century when Western Union started the Electronic Fund Transfer (EFT) in 1871. Since then, people have been obsessed with the idea of paying for goods and/or services without necessarily having to be physically present at the point-of-sale. Technology has been a major pillar when it comes to the development of e-payment services.

E-payment services were newly introduced to the Egyptian market as a payment service. A more recent example related to the development of e-payment services in the Arab Republic of Egypt was the development of Fawry for Banking Technology and Electronic Payment services which was founded back in 2008 and has ever since expanded in the Arab Republic of Egypt in an exceptional manner providing financial services for different customers and entities via over 225,000 locations.<sup>1</sup>

## *3- E-payment Service Providers and Operators*

The main objective/purpose of e-payment service providers and operators is to provide different financial services alongside banks in a parallel manner, such services enable various transactions to be made without the need to circulate cash or even be present at the point of sale.

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<sup>1</sup> <https://fawry.com>

#### *4- Services and Channels*

E-payment service providers and operators made it possible to conclude a massive range of transactions by offering their services in different markets for willing customers. Moreover, one of the main distinctions of e-payment services is the ability to make payments through various channels. Payment channels are the methods in which payments for goods and/or services may be made by a purchaser and accepted by a trader at the same time.

A prominent example of possible services to be provided through e-payment include: (i) recharging electricity cards; (ii) car license renewal; (iii) mobile recharge; (iv) online payments; (v) money transfer; (vi) donations, (vii) universities payments; and (viii) utility bills (i.e., electricity, water, and gas).

The channels of e-payment services have recently witnessed a massive expansion, where e-payment service providers widened the range of possible means of conducting the financial transactions, these channels include: (i) outlets; (ii) payment via mobile application; (iii) websites; (iv) groceries; and (v) kiosks.

#### *5- The execution of the E-payment services via Agency Agreements*

The CBE Law tackles the possibility where e-payment service providers conclude agency contracts with third parties to conduct such services on their behalf.

This prospect was introduced and regulated by the CBE Law, which enabled agency in principle and required agents to be officially registered in a separate register, however without prejudice to the discretion of the CBE to dismiss their application for registration or removing them from the register.

E-payment service providers shall be responsible for their agent's activities in this regard and shall ensure that all payment activities held by their agents are consistent with all relevant rules and regulations.<sup>2</sup>

The procedures, prerequisites, and conditions of the appointment of agents will be regulated by virtue of a resolution of CBE Board of Directors (the “**BOD**”)<sup>3</sup>.

### *6- Licensing Provisions*

The introduction of new players into the financial market in the Arab Republic of Egypt placed a positive obligation on policy makers to deliver a quick response, by regulating their activities in the Egyptian market, which in fact was achieved through the promulgation of the CBE Law, in addition to several resolutions issued by the BOD, regulating the same matter.

In order for e-payment companies to appear, exist and be persistent, there are licensing and legal requirements to be abided by. In other words, no activity related to e-payment companies may be carried out in the Arab Republic of Egypt unless obtaining a license from the CBE.

However, the licensing restriction does not apply on the following entities: (i) stock exchanges; (ii) futures exchanges; (iii) securities and financial instruments settlement systems; (iv) licensed central clearing, depository, and registry systems; (v) custodians; (vi) the internal systems of the Ministry of Finance which do not include payment, collection, clearance and setting-off of payments.<sup>4</sup>

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<sup>2</sup> Article (189) of the CBE Law

<sup>3</sup> Article (189) of the CBE Law

<sup>4</sup> Article (184) of the CBE Law

The BOD shall issue a resolution regarding the licensing requirements, which shall include the minimum capital of the entity, the entity legal form, the requirements for technical competence, solvency, as well as the good reputation of the license applicant, disclosure of the entities ownership structure and the used technology. Furthermore, the resolution shall include the quality of the service provision. The license examination fees as being stated in the CBE Law, shall not exceed EGP 500,000 for payment system operators and shall not exceed EGP 100,000 for payment service providers. The BOD decree to provide the license shall be promulgated on the official website of the CBE, provided that such decree shall include all the services and activities which may be practiced, in addition to whether it is a fixed term or conditional.<sup>5</sup>

### *7- Financial Guarantee*

The payment service provider or the payment system operator shall pay a financial guarantee to implement the licensing conditions and in order to fulfill the obligations stipulated in the CBE Law, in accordance with the rules and conditions which will be specified by a resolution of the BOD.<sup>6</sup>

### *8- Rules and Regulations set by the BOD*

The BOD shall set rules and regulations to supervise and control payment system operators and the payment service providers. Furthermore, the BOD has the right to impose some specific standards on payment system operators and the payment service providers in certain circumstances, including (i) disclosure and transparency rules; (ii) rules of providing payment services; (iii) the rules for the interoperability between the payment systems; (iv) the

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<sup>5</sup> Article (185) of the CBE Law

<sup>6</sup> Article (188) of the CBE Law

conditions and the specifications of the organizational structure, governance, and risk management procedures; and (v) service pricing rules and other rules.<sup>7</sup>

### *9- Restrictions on E-payment Service Operators and Providers*

With reference to the above-mentioned, e-payment service providers and payment system operators are subject to the supervision of the CBE. Accordingly, there are several restrictions on their activities while operating, these restrictions include, but not limited to, restrictions in relation to the competition in the market; and regulation related to the data protection.

#### *i. Regulations related to the competition in the market*

Competition in the Arab Republic of Egypt' markets is regulated under Law No.3 of 2005 on the protection of competition and the prohibition of monopolistic practices. The Egyptian competition authority established by virtue of said law and is responsible for monitoring the market and enforcing the provisions of the law, ensure free competition and free entry to and exit from the market, and can initiate inspections when in doubt of malpractice.

The CBE and all entities subject to its supervision are not subject to the provisions of law No.3 of 2005. However, the CBE Law' provisions stated several rules and regulations that e-payment service providers and payment system operators shall abide by to ensure free competition and avoid the occurrence of any malpractice.

Accordingly, e-payment service providers and payment system operators are not allowed to engage in any monopolistic practices that may restrict the competition, including but not limited to deciding on: (i) the prices and terms

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<sup>7</sup> Article (186) of the CBE Law

and conditions for providing services; (ii) division of the markets; (iii) submission for tenders and auctions; (iv) limiting the services which might affect the clients; or (v) even offering services below the cost-price in a way that might harm competition.<sup>8</sup>

In the event, any monopolistic practices occur, a CBE unit is responsible to inspect any field complaints when in doubt of any malpractice that might limit competition. In case said unit decided a breach of regulations took place, the BOD will notify the entity in breach to rectify its position within a limited period, without prejudice to any other procedures or measures to be taken<sup>9</sup>.

*ii. Data Protection*

E-payment service providers and the payment system operators, while providing e-payment services, the latter are allowed to have access to the personal data of their clients. Accordingly, e-payment service providers and payment system operators shall abide by the rules and regulations governing this matter.

A recent Egyptian Data Protection Law No.151 of 2020 was issued stipulating the rules and regulations in relation to the protection of personal data processed electronically in part or in full by any holder, controller, or processor of natural persons.

However, e-payment service providers and payment system operators are not subject of said law, the latter shall abide by the provisions of the CBE Law and CBE circulars in this regard<sup>10</sup>. The provisions of the CBE Law stated that any entity under CBE supervision, which held personal data shall remain it

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<sup>8</sup> Article (221) of the CBE Law

<sup>9</sup> Article (144) of the CBE Law.

<sup>10</sup> Article (140), Article (142) of the CBE Law and CBE Circular dated 2019

confidential, and cannot disclose it whether directly or indirectly without obtaining a prior written consent of the clients.

To conclude, the introduction of new payments gateways by the CBE Law through setting out the legal framework of e-payments service providers and payment system operators, the required licenses, and approvals of conducting such activities as well as specifying the obligations and restrictions in this respect, comes in line with the rapid global change regarding the banking and finance industry in the Arab Republic of Egypt and moving towards the financial inclusion and digitalization. New CBE circulars are expected to be followed in this regard to set out more guidelines and clarify the licensing process.



*Made by Passionate Law Students:*

**Name:** Mariam Amir Ramzy

**University:** German University of Cairo

**Email:** [mariamamiradelramzy2001@gmail.com](mailto:mariamamiradelramzy2001@gmail.com)

**Contact:** 01202061500

**Name:** Youssef Bahgat Gouda

**University:** Cairo University

**Email:** [Youssefbahgatgouda@gmail.com](mailto:Youssefbahgatgouda@gmail.com)

**Contact:** 01097158444

**Name:** Mohamed Ibrahim Abdelkhalek

**University:** Ain Shams University

**Email:** [Mohamed.Ibrahim.Abdelkhalek@law.asu.edu.eg](mailto:Mohamed.Ibrahim.Abdelkhalek@law.asu.edu.eg)

**Contact:** 01141430000