Legislative Update:

FRA Issues Key Decrees Regulating the Licensing and Regulatory Framework of FinTech Services in Egypt



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Overview on the Financial Regulatory Authority Decrees No. 139, 140 and 141

On 11 July 2023, the Egyptian Financial Regulatory Authority (the "**FRA**") issued decrees no. 139, 140 and 141 (the "**Decrees**") to complement the requirements of Law No. 5 2022 (the "**Law**") regulating the development and use of financial technology in non-banking financial services. The issuance of the Decrees acts as a significant stepping-stone towards achieving the FRA's overarching mandate of harbouring fintech innovation and development. Implementing the Decrees is anticipated to revolutionize how Egyptian non-banking entities conduct their business from this point onward.



The Decrees set out the regulatory framework applicable to technological infrastructure, information systems and the data security requirements for adopting and using technology in non-banking financial services. In this context, the Decrees regulate digital identity requirements, digital contracting requirements, digital register and the registration of financial technology outsourcing services providers.

This presentation intends to provide a general overview of certain main aspects of the Decrees.

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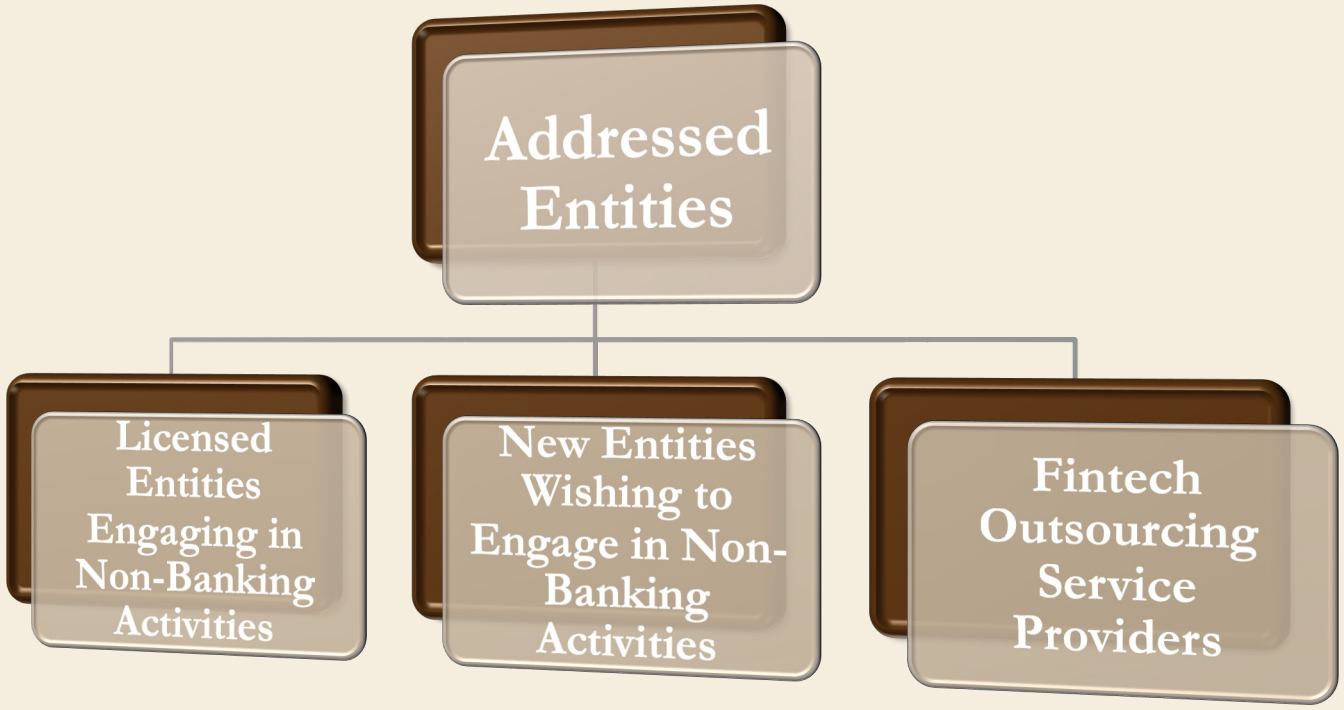
01. Scope of Application



Scope of Application

The entities subject to the Decrees are:

- Companies wishing to obtain a license to engage in non-banking financial activities using financial technology under the Law.
- Licensed entities and companies providing non-banking financial activities wishing to render such activities using financial technology on their own or through entities engaged in financial technology outsourcing services under the Law.
- Entities wishing to provide financial technology outsourcing services for non-banking financial activities according to the Law.



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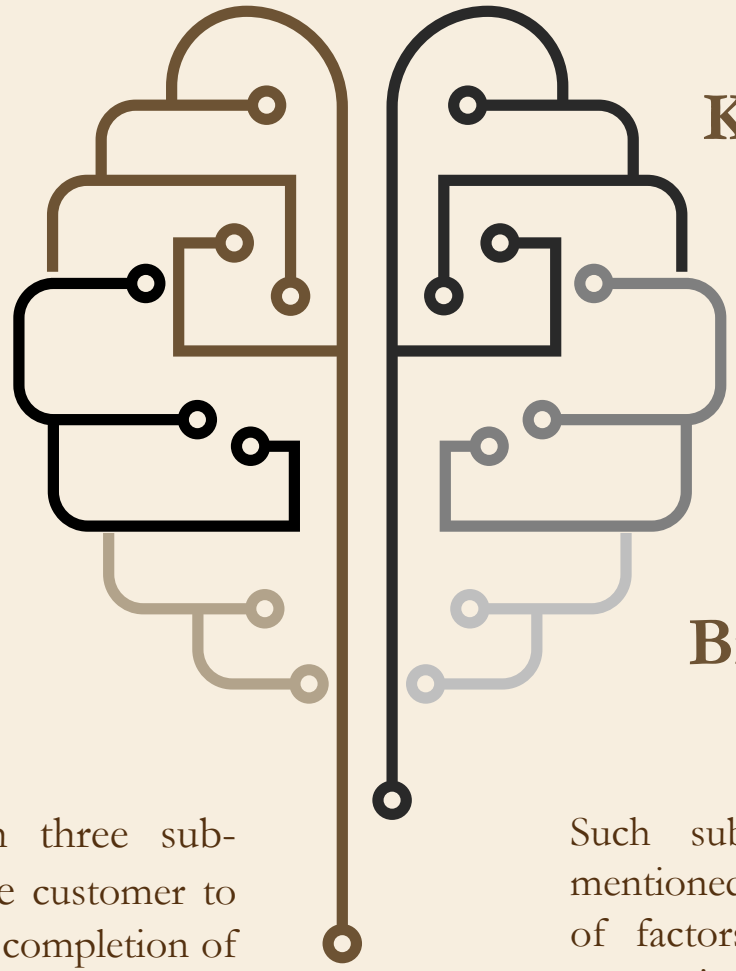
02. Digital Identity



Digital Identity

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USING



Identification

Verification

Authentication

Knowledge (i.e., username, password, and personal questions)

Possession (i.e., ID, email address, mobile phone number, cashless payment account, authenticated electronic signature)

Biometrics (i.e., such as face print, voice print, fingerprint, and geographic location)

Digital identity is established through three sub-processes, as shown above. Enabling the customer to access the digital platform also requires the completion of the same sub-processes.

Such sub-processes are achieved through the above-mentioned factors. The use of each factor or the combination of factors will depend on the nature and size of the transaction. While first-time access requires more rigorous use of the factors, further access is streamlined regarding the combination of the factors necessary.

Digital Identity

Digital identity has three levels of credibility depending on the level of risk of the transaction:

Low-Risk Transactions

- Basic credibility includes a minimum of 2 (two) elements from the knowledge factor, 3 (three) elements from the biometrics factor and 4 (four) elements from the possession factor.

Medium-Risk Transactions

- General credibility includes, at minimum, the elements included in the low-risk transactions + having a cashless payment account.

Detailed technical requirements for achieving acceptable identification, verification and authentication are outlined in the Decrees.

High-Risk Transactions

- High credibility includes, at minimum, the elements included in the medium-risk transactions + having an authenticated e-signature.

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03. Digital Contracting



Digital Contracting

A non-banking financial service provider shall achieve the following to conclude a digital contract.



Verifying a customer's identity in accordance with Digital Identity requirements.

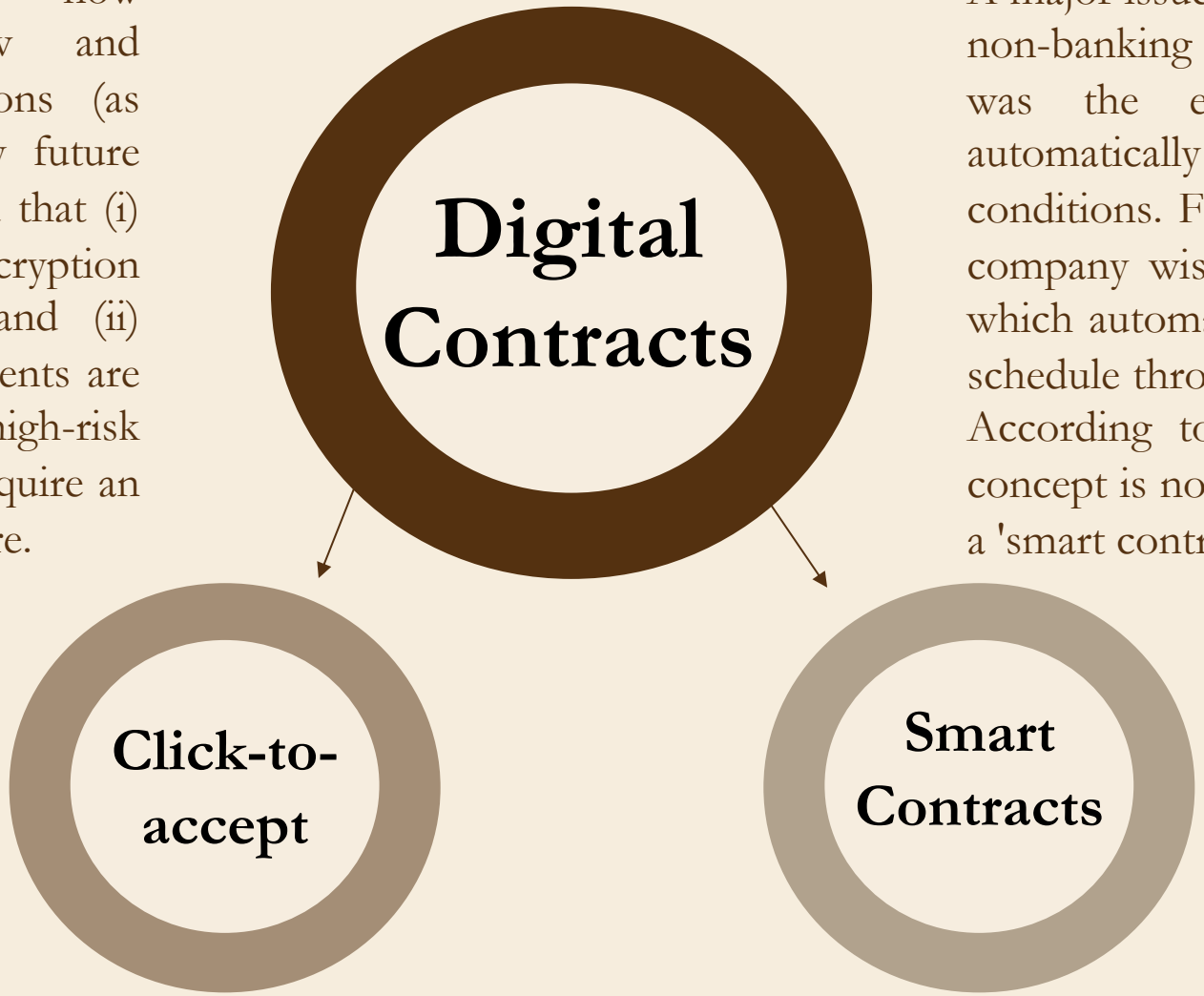
Verifying that the customer has adequate capacity, authority and acceptance.

Storing the digital contract, in the digital register, using appropriate encryption technology, as approved by the FRA.

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Digital Contracting

Click-to-accept is now recognised for low and medium-risk transactions (as will be determined by future FRA decrees) provided that (i) appropriate encryption technology is used; and (ii) relevant FRA requirements are fulfilled. However, high-risk transactions will still require an authenticated e-signature.



A major issue that companies operating in the non-banking financial services space faced was the e-contract's ability to adapt automatically to updated terms and conditions. For example, a consumer finance company wishing to conclude an e-contract which automatically updates the amortisation schedule throughout the term of the contract. According to certain requirements, such a concept is now recognised and enforceable as a 'smart contract'.

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04. Digital Register



Digital Register

Each digital platform shall have a digital register. Such digital register may be subdivided into sub-digital registers, dedicated each to a type of related operations and transactions (such as register for digital identity, register for e-KYC and register for e-contracting).

There are certain requirements which must be fulfilled concerning the digital register, which includes, but are not limited to, the following:



Electronic registration, electronic signature, and the enforcement of the terms of the digital contract subject to Blockchain Technology are among the permissible business models in the conduct of non-banking financial activities based on digital identity, digital contracts and digital registers.

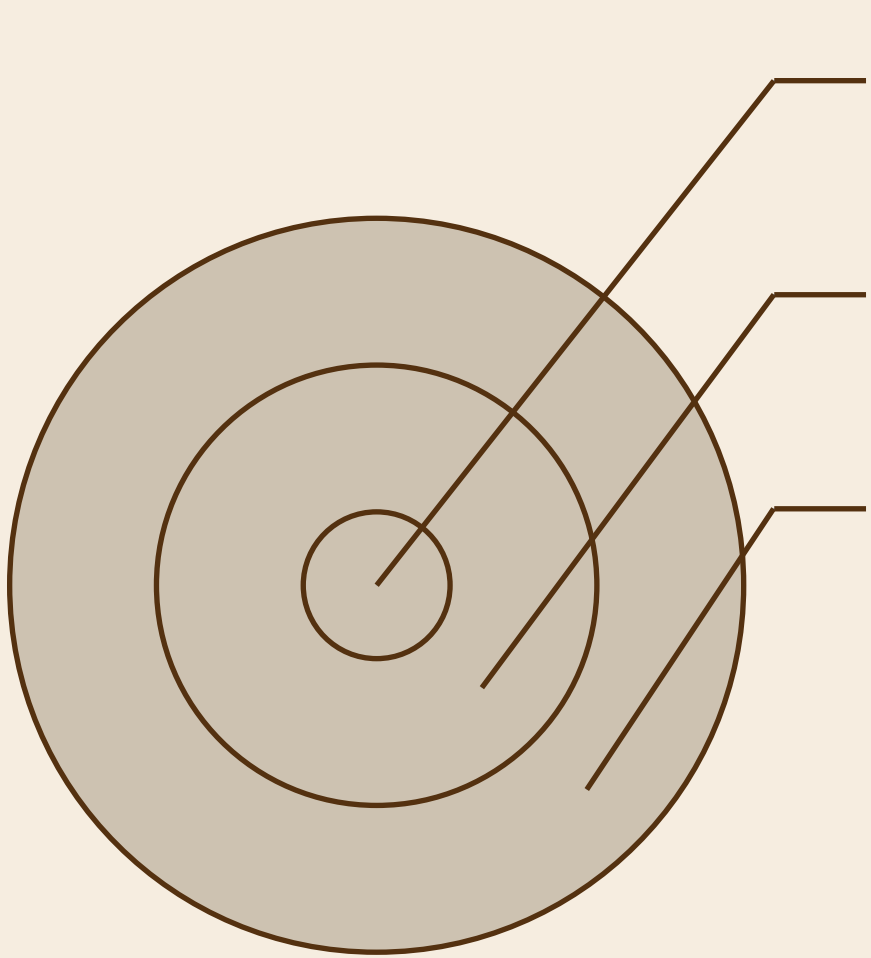
05.

Use of Financial Technology and Compliance Requirements



Use of Financial Technology and Compliance Requirements

The areas that may avail the use of financial technologies include, but are not limited to, the following:



Licensed entities shall submit to the FRA a semi-annual report regarding the audit review results and error rates, considering the nature and size of its activity. Such report must be approved by the board of directors of the relevant licensed entity within 4 (four) weeks from the date of the end of the period for which the report was submitted.

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06. Fintech Outsourcing



Fintech Outsourcing

Licensed non-banking financial entities without sufficient infrastructure may rely on licensed financial technology outsourcing service providers to provide their services using financial technology means.

The registration of such financial technology outsourcing service providers in the relevant FRA register requires that, *inter alia*, the conditions outlined in the chart below are fulfilled. The registration period shall be for one year and may be subsequently renewed.



The FRA has duly outlined additional requirements and procedures concerning the registration of financial technology outsourcing service providers. We would be happy to further advise on such requirements and procedures.

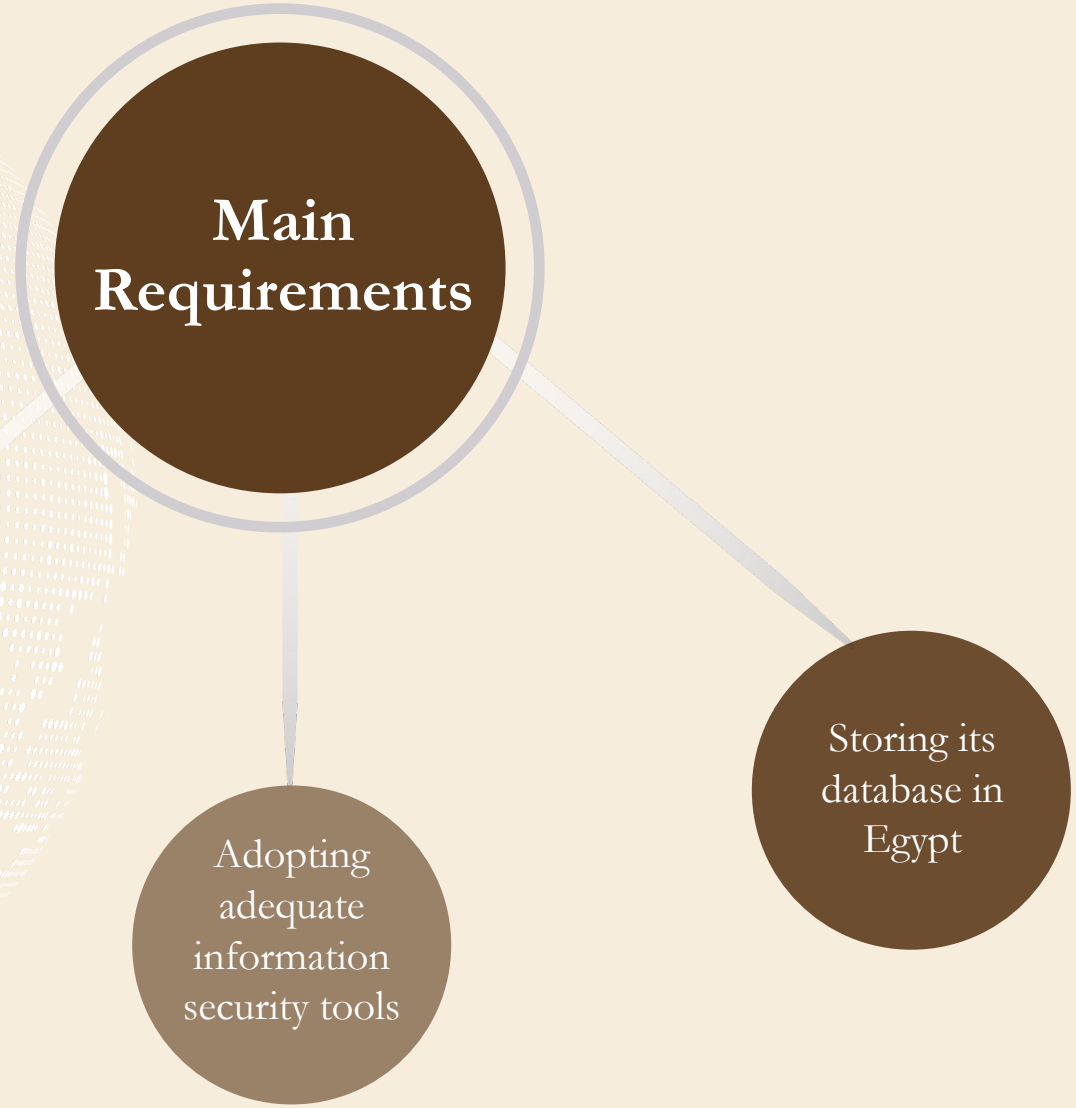
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07. Technological Infrastructure



Technological Infrastructure

Companies wishing to engage in non-banking activities using fintech shall observe various requirements pertaining to facilities infrastructure, technological infrastructure, information systems and security requirements. Such requirements include but are not limited to those outlined in this chart.



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08. Team and Firm Overview

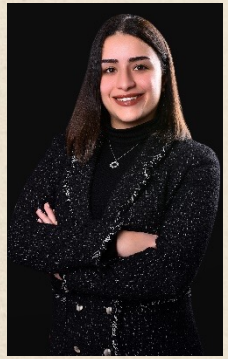


The Team

If you have any questions, please do not hesitate to contact our team members:



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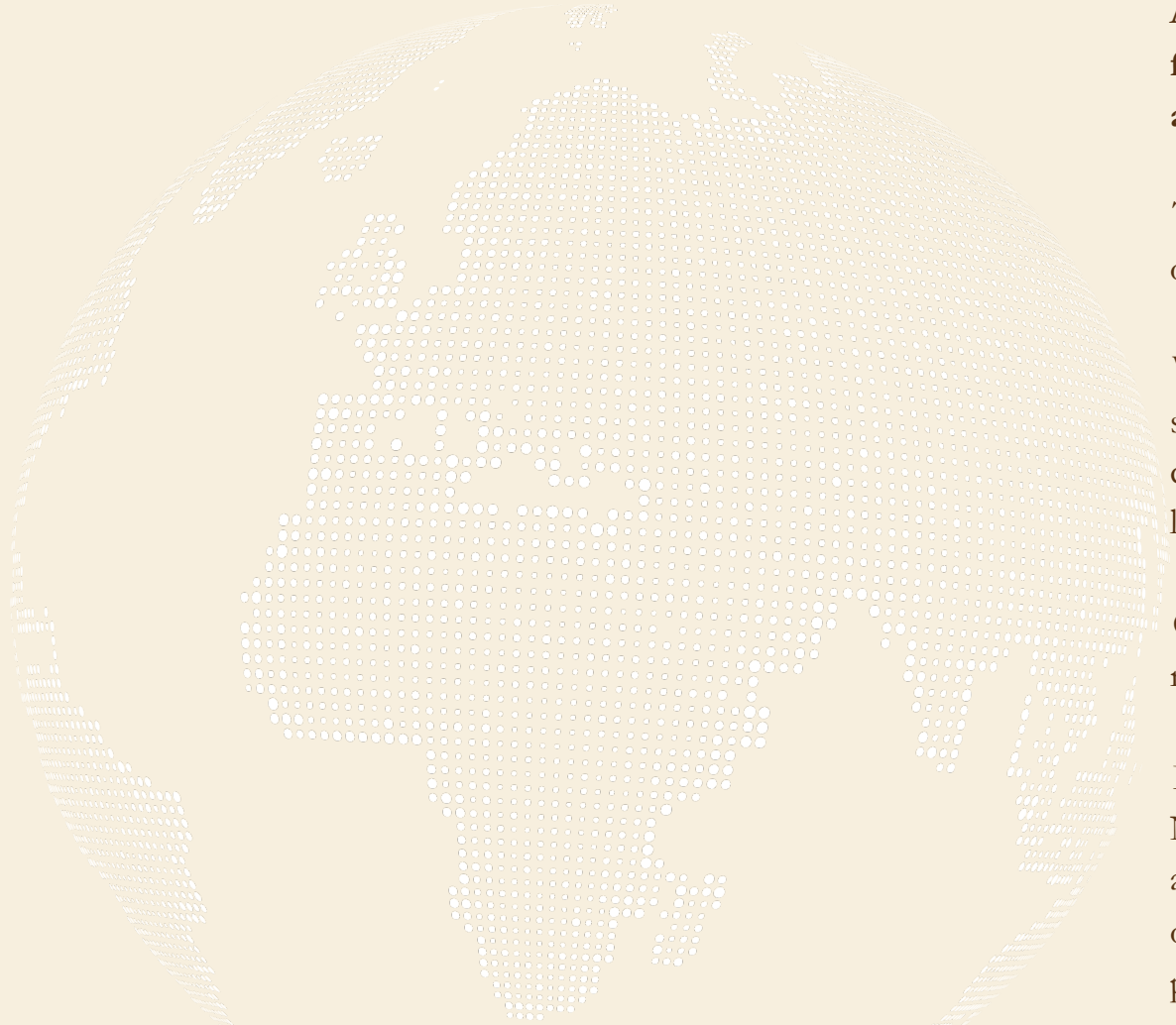
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