

ADGM Opens Up For Digital Banks, Tapping Into A \$6.6 Billion Industry

Abu Dhabi's financial freezone Abu Dhabi Global Market (ADGM) has announced that it is welcoming both local and global digital banks to establish a presence in its precinct.

The Financial Services Regulatory Authority (FSRA), regulatory body of ADGM, said that it will accept applications from conventional banks for opening a digital bank. It added that it will also welcome digital banking applications from partnerships between technology companies and financial institutions.

The FSRA said it will require a base capital requirement of \$10 million, robust governance structures, compliance and risk management policies, IT security measures, and certain mandatory senior management appointments.

The move to host digital banks comes after the freezone noted a growing interest in such institutions. Globally, the digital banking market was valued at \$6.6 billion in 2018, according to a report by Zion Market Research. The industry is expected to generate \$8.6 billion by 2025, growing at a compound annual growth rate of 3.8% between 2019 and 2025.

"Digital banks can address the needs of many segments that are currently underserved by conventional institutions, such as the credit gap faced by small and medium enterprises," says Richard Teng, Chief Executive Officer, FSRA of ADGM.

"We welcome innovative models to bring about greater financial inclusion, meet the needs of underserved segments and reduce costs for consumers. Digital banks will further complement Abu Dhabi and the region's financial and banking sector, reinforcing its competitiveness, vibrancy and resilience."

The FSRA added that companies looking to provide innovative solutions within payment space such as through e-wallets, tokens and stored value card can consider other forms of licenses that will attract a lower regulatory and capital burden than a full digital banking license.

Digital banking licenses are catching up in the Middle East that has shown a strong appetite towards digital banking solutions. As a result, many major banks in the GCC such as Emirates NBD and Mashreq have launched digital banks, hoping to snag in a sizeable portion of tech-savvy millennial bankers.

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