



CBE Rules for Licensing, Registering and Supervising Digital Banks in Egypt Simplified

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01 Overview

Overview:

Introducing Digital Banks in Egypt

The Egyptian authorities continue to support digital transformation and innovation to boost the economy. In this context, on July 12th, 2023, the Central Bank of Egypt (CBE) issued a circular regulating the licensing, registration and supervision of digital banks.

A digital bank is an online platform that provides all banking services without the need for physical branches as it works completely through the internet. It implies the usage of sophisticated technologies as well as the existence of relevant proper underlying technical infrastructure that would allow for seamless operations while at the same time ensuring the full protection of customers from cyberattacks and hacking.

Trends towards establishing Digital banks gained momentum following the Covid-19 pandemic as regulators are taking part in efforts to reduce direct contact between clients and service providers through branches. This will also save time and efforts by utilizing digital tools.



Digital Banks Will Be Permitted to:

02



Offer banking services in accordance with the Banking Law no.194/2020 upon establishment and fulfilling all licensing requirements, with the exception of the granting of credit facilities to large enterprises. The maximum amount of a deposit from a single client is capped at EGP 200 million and should not exceed 1% of the total deposit portfolio.



Provide credit facilities to large enterprises after:

- 1- Obtaining the CBE's approval,
- 2- Increasing the issued and paid-up capital to EGP 4 billion for Egyptian digital banks,
- 3- Increasing the issued and paid-up capital to USD 120 million for foreign digital banks' branches.



Have banking agents after obtaining the CBE's approval

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Licensing and Registration Requirements

Legal Form

The digital bank must take one of the following forms:

- A joint stock company with nominal shares and a paid-up capital of at least EGP 2 billion or its equivalent in foreign currencies.
- A foreign bank branch with the head office located in a foreign country and is subject to the supervision of a regulatory authority in the country in which the head office is located. The capital for the digital bank branch's activities in Egypt should not be less than USD 60 million, or its equivalent in foreign currencies.

Shareholders

- A financial institution should be the largest shareholder of the established company with at least 30% of ownership.
- The financial institution should also have a track record in providing similar activities. An exception to the experience requirement may be granted with the approval of the CBE's Board of Directors.
- All shareholders should possess integrity, good reputation and financial capacities.

Sound Feasibility Study

- The investor should present a high quality technical and financial feasibility study, which includes the purpose, plans, ability to attract clients, and types of activities and services that are intended to be offered.

Clear Channels of Operations

- Statement of planned digital channels made available to customers and associated systems and insurance plans, in particular those provided through the following channels:
 1. Traditional or interactive ATM
 2. Internet
 3. Mobile phone or tablets
 4. Voice or digital interactive call centers
- Statement of payment and electronic acceptance tools planned to be made available to customers, associated systems and insurance plans as follows:
 1. Electronic payment cards and tools (prepaid cards, credit cards, direct debit cards). Electronic wallets (mobile phone wallets)
 2. Electronic acceptance of transactions through electronic sale points, electronic payment gateway or rapid response code (if any).

Licensing and Registration Requirements

Comprehensive Information Technology Strategy

- IT department organizational structure and qualifying human resources plan.
- Information technology governance mechanisms and how they can be strengthened from policies, procedures, control systems and risk management. Basic pillars of information infrastructure, specifically:
 1. Key and alternative data operating centers
 2. IT infrastructure, IT systems and key business applications
 3. Technology and cybersecurity controls to secure infrastructure
 4. Systems, applications and all information and data in their various cases of transferring, processing, storing and saving in backups to ensure the confidentiality, integrity, availability of data and compatibility with the overall cybersecurity framework.
- The outsourcing plan including at least the following:
 1. A list of outsourcing service providers, including cases involving either shareholders or associated parties
 2. Uses of cloud computing technology to include at a minimum: the type of cloud computing to be used (e.g. IaaS - PaaS - SaaS)
 3. Applications that will be hosted on cloud computing and associated data quality and storage and processing sites
 4. Governance mechanisms for outsourcing, risk management and control systems.

03 Commentary

- The new regulations could be regarded as a key milestone in Egypt's drive towards digital transformation and to attract investments in various economic sectors.
- Nevertheless, digital banks are not common even in the developed world. The adoption of the concept and the idea of not dealing with a brick-and-mortar bank branch is still very low. This implies that marketing activities for the new concept shall encounter considerable challenges.
- With barely 27% of the Egyptian population having a bank account or an account with a mobile-money-service-provider, the introduction of digital banks in Egypt is potentially a lucrative opportunity for business, provided that proper marketing activities are done to attract new generations of clients especially those that do not have dealings with any bank.
- On the other hand, infrastructure is a crucial requirement for such an endeavor. Although the GoE has been maximizing its efforts to improve the digital infrastructure, more progress is required to match the digital transformation efforts to ensure efficient and effective levels of performance.





Thank you

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