

FinTech: Connecting Europe with the Middle East

Written by Hadyah M. Fathalla on 8 August 2018 in Opinion Plus
Opinion Plus

Bahrain is at the forefront of adopting FinTech, writes Hadyah M. Fathalla.



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FinTech is undoubtedly transforming the financial sector. The benefits of FinTech are numerous: better access to finance, a better consumer experience, increasing transparency and enhanced security. The exchange of technological and business know-how is the backbone of global prosperity. However, integrating the cultural element in this exchange is no less important. The FinTech industry promises great socio-economic changes, which can already be seen today, across the world.

One country at the forefront of adopting FinTech is Bahrain, which hosts the so-called 'Fintech Bay', the largest dedicated FinTech hub in the Middle East and Africa. The FinTech Bay's main purpose is the incubation of FinTech initiatives, start-ups and investments.

As data is an integral part of FinTech, Bahrain is aiming to amend its data protection laws so that they are in line with the EU's general data protection regulation (GDPR) and thus enabling EU companies to host data in the Kingdom.

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Putting in place the right regulatory framework has already given concrete positive results, such as attracting Amazon Web Services to Bahrain. Another example of success for

Bahrain's FinTech endeavour is C5 Accelerate's initiatives to transform FinTech start-ups to become market ready and cyber-secure by using cloud technology. C5 Accelerate graduated its fifth round of their successful accelerator program in March of this year, focusing on FinTechs, attracting start-ups from Europe, the Arab region and beyond.

Bahrain is also closely following the developments at EU level, like the European Commission's action plan on FinTech or the developments concerning the revised payment services directive (PSD II), and at national level, like the UK's open banking model.

These developments, especially PSD II, will transform the European payments landscape, which will also have implications for Bahrain, as the country is aiming to attract European companies to use the Kingdom as a hub to expand in the region and further east. Therefore, the Kingdom closely cooperates with regional regulators from other continents to create a best practice model for the region.

In parallel, the Bahraini regulators are willing to press forward with innovative initiatives of their own to make sure FinTechs will find the best possible regulatory environment to scale up. By bringing local public expertise together with international private expertise, Bahrain will make sure this goal will enshrine its position as the key player in the FinTech sector in the region.

Another factor that elevates Bahrain's ecosystem above others in the region is its close-knit nature. Having regulators, supervisors, banks, investors and start-ups in close proximity to each other, combined with a business-friendly environment and a well-educated workforce, makes Bahrain a great place to kick off a FinTech company.

With growing support from both the private and public sectors, there is one rather significant niche within FinTech that Bahrain is pushing at the global stage: Islamic finance, which bans interest payments and pure monetary speculation, as they contradict Islamic doctrine.

In Europe, the UK reiterated its desire to remain a major Islamic finance centre in the non-Islamic world, especially amid Brexit uncertainties. "We're the western hub for Islamic finance" the UK's Chancellor of the Exchequer, Philip Hammond, recently said in a speech. In fact, in 2014, the UK was the first non-Muslim country to sell a bond that can be bought by Islamic investors, drawing a demand of over €2bn.

In continental Europe however, only a handful of EU member states have adopted beneficial

legislation for Islamic finance, including Luxembourg and Germany. But there is much more potential for others to follow suit in a market which is estimated to be around €2 trillion globally. Furthermore, today there are 1.8 billion potential customers of Islamic FinTech in the world.

Beyond the purely financial incentives to enter this market, Islamic finance also has an important social aspect to it, which is financial inclusion. There is enough evidence suggesting that Islamic finance can encourage Muslims to take advantage of formal financial institutions and therefore get easier access to loans. This could be particularly relevant for countries aiming to integrate refugees who mainly come from Muslim countries. In short, Islamic finance could eliminate an important barrier in refugees' inclusion in the countries that welcome them.

On top of that, FinTech provides even more opportunities for a market that is becoming ever more digitised. In this regard, Bahrain serves as a good example by combining culture and vanguard technological advancements, while using European business practices at the core of its activities.

About the author

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