

CBK holds an event on Stability and Enablement in the Banking and Financial Sector

The Central Bank of Kuwait (CBK) held a virtual event titled "Stability and Enablement", on 31 January 2022. The event is held out of CBK's keenness on fulfilling its mandate in bolstering monetary stability and financial stability, particularly in an increasingly complex environment with ever-growing risks. At the same time, CBK is embracing digitalization to modernize itself and enable the advancement of, drive innovation in, and leverage financial technologies in the financial sector.

CBK Governor Dr. Mohammad Y. Al-Hashel said “CBK has a clear mandate as it strives to continuously maintain financial and monetary stability and ensure the enablement of the financial sector to achieve the ultimate goal of inclusive sustainable prosperity – hence the theme of the event is Stability and Enablement.”

He added that on the stability front, CBK has continuously aimed to develop best-in-class advanced analytical tools and policy frameworks to strengthen further financial and monetary stability. This includes macro-economic research capabilities, monetary policy capabilities, macro-prudential policy capabilities, and micro-prudential policy capabilities. CBK also established and enacted a Monetary Stability Committee and a Financial Stability Committee to oversee and ensure the implementation of monetary, macro-prudential, and micro-prudential mandates.

Shifting to enablement, Al-Hashel added that CBK's 2019 International Banking Conference: Shaping the Future, served as a steppingstone to accelerate digitalization for both CBK and the sector. Over the next year, the Bank put the findings and recommendations of said conference into practical steps aimed at tangible and direct results. This included issuing a framework for cybersecurity requirements, instructing banks to develop future strategies, and thorough assessment of these strategies by a CBK specialist team to address any weaknesses. Credit Information Network Company (Ci-Net) was likewise instructed to develop an integrated and advanced credit bureau. Close CBK collaboration with Shared Electronic Banking Services (Knet) meanwhile yielded several initiatives to leverage the latest technology to enhance the infrastructure of the payment systems in the State of Kuwait.

The Governor underlined the critical importance of human resources and expertise. CBK had instructed of the Institute of Banking Studies to draw a

training strategy to enhance skills across the banking sector and stress national capacity building in the main areas of the finance industry of the future.

During 2020-2021, Al-Hashel added, there was swift implementation and introduction of digital solutions and financial services even while the country was in a period of closures and lockdowns to curb the Covid-19 pandemic. The CBK, he recalled, approved 74 digital products and services during said period. The banking sector for its part had shown a high level of readiness to enable the offering of digital services securely, within CBK's cybersecurity framework. There were also upgrades and enhancements to the payments systems' infrastructure (RTGS, E-Government Payments System, Electronic Clearing System, etc).

The Governor stated the virtual event sheds light on CBK efforts in the main four areas of “digitalization within the bank”, “Digital Banking”, “FinTech”, and “Digital Enablement” which are geared to serve all components of the banking and finance industry.

CBK Manager of IT Strategic Planning Department, Abdulla Al-Khuzam, spoke on the six strategic objectives of the digitalization process within the Bank : reporting through state-of-the-art fully integrated CBK-wide data platform, a 360-degree forward-looking view of regulated units, end-to-end digitalized and paperless processes, forward-looking insights informed by targeted analytics, future-proof technology at the heart of the new digital foundation, and finally best-in-class capabilities within a solid and adaptable structure. He pointed out the CBK digitalization strategy comes in through 16 initiatives by 16 CBK owners, with over 100 staff of diverse specializations seeing to implementation, the performance of which is measured against over 60 clearly defined indicators, all under the supervision of a central steering committee within a detailed three-year roadmap.

CBK Manager of Off-site Supervision Department Dr. Mohammad Alkhamis noted the Bank has completed a framework for digital banking aimed at encouraging innovation and providing a frictionless experience to customers. The regulatory framework, he remarked, was the result of the comprehensive benchmarking of regulatory approaches relative to digital banks from over 25 central banks, in the region and beyond, as well as studying use cases of 40 digital banks around the world. The analysis drew lessons from successes, identified weaknesses, and helped design a framework consistent with global best practices. Alkhamis added that the framework allows for three main models of digital banks, first existing banks can offer and develop their digital services through a

digital business unit within conventional banks, or through partnership between a licensed bank and other non-licensed entity,

or as a standalone digital bank with digital-native setup and core end-to-end digital services. Dr AlKhamis announced, CBK is opening the door to receiving applications to establish new digital banks under a universal banking license. He stressed the CBK would provide support and counsel to applicants, explain establishment requirements, and answer queries. He added, applicants need to have a clear vision and a strong track record with technology for new digital banks to be of added value to the customers, the banking sector and the national economy. value to the national economy. He noted, the detailed application requirements are available through the CBK website, and the official noted the applications deadline is 30 June 2022.that the Central Bank will announce approved applications that meet requirements and criteria by year end.

Alongside digital banking, CBK is also keen to support and empower FinTech companies with an enhanced framework for licensing and operation in the areas of payment, lending, and infrastructure . The aim was to create an environment that nurtures digital financial services and supports its development and increase the nascent field's complementarity with the banks.

On the payment side, Head of the Electronic Payment and Settlement Systems Supervision Unit Anfal A. Al-Asousi addressed the development of a supportive operating environment for FinTech companies in Kuwait to encourage innovation. To that end, CBK has developed the frameworks for e-payments and lending and more developments are expected before year end in the aforementioned areas as well as the Regulatory Sandbox.

On e-payments, sheannounced that a consultative paper containing the draft of the revised electronic payment instructions is available on CBK's website and invited the public to provide feedback which will allow CBK to refine and issue new enhanced regulations midyear. The updates, which aim to encourage innovation and support existing entities and startups in this field, include applying directly to the CBK for licensing and direct CBK supervision and support to these companies to increase their competitiveness. This is in addition to risk-proportional regulatory requirements suitable to the needs of different market players, as well as facilitating access to infrastructure.

On the lending side, CBK is working with other regulatory bodies to draw up a legislative and supervisory framework that supports FinTechs' initiatives to extend new types of lending while maintaining customer protection. One such lending business model is Buy Now, Pay Later (BNPL).

Al-Asousi also stressed the vital role of CBK's regulatory sandbox in overall FinTech enablement. The CBK had accordingly refreshed the sandbox environment to stay abreast with global best practices and ensure utmost efficiency in all stages of the product testing process. This was in addition to providing workshops and meetings to support new FinTechs, as well as facilitating live-testing of products and services within the local market.

CBK Head of Policy, Technical Studies Dalya A. Al-Salem stressed the importance of enabling the technological environment – on both CBK and sector level - that encourages the development of a vibrant digital banking and fintech ecosystem.

CBK's approach to creating a conducive environment for the sector is based on implementing a modern and flexible approach to regulation, encouraging responsible and sustainable innovation, and on contributing to the advancement of digital and technical insights and knowledge. She also stressed that for a fully digital customer journey, regulated entities can now leverage Digital Onboarding, benefitting from the solutions provided by the Public Authority for Civil Information. E-KYC requirements can be fulfilled through digital identity verification, in addition to the authorization of electronic signatures to activate and authorize products and services digitally.

To further enable the technical environment, CBK issued instructions to entities under its supervision to clarify and alleviate usage of cloud computing to enhance efficiency, scaling of infrastructure, and improve access to next generation application architecture solutions.

Furthermore, CBK had outlined a clear path for enabling open banking in the State of Kuwait, as well as its governance. This aims to provide customers with better services without compromising confidentiality and/or information security.

There were also CBK collaboration with banks and with Knet to develop and allow use of QR codes across all Points of Sale, in addition to efforts aimed at improving speed of transactions with other countries and enhancing efficiency of these through the GCC AFAQ Real-time Gross Settlement System.

The Governor concluded with stressing CBK's continued pursuit of upgrading its capabilities to better fulfill its mandates of maintaining monetary stability and financial stability while simultaneously enabling the banking and financial sector and encouraging it on the path of development, enhancement, and innovation.

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