



البنك المركزي العُماني
Central Bank of Oman

**Regulatory Framework for
Digital Banks
in the Sultanate of Oman - *Draft***

DRAFT



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1. Preamble

- 1.1. Technology-based innovations have become more entrenched within the financial sector, enhancing its service and delivering efficiency gains, and ultimately contributing to the development of the broader economy.
- 1.2. The Central Bank of Oman endeavors to ensure the regulatory framework remains conducive for enablement of these innovations in a safe and sound manner that supports transformation of the financial ecosystem of the nation. In line with these efforts, the Central Bank of Oman has developed framework for digital banks to offer banking products and services, using digital or modern electronic means.
- 1.3. This document is intended to provide guidance on the licensing framework for Digital Banks in the Sultanate of Oman. The Central Bank calls for a balanced approach that enables admission of digital banks with strong value propositions whilst safeguarding the integrity and stability of the financial system, as well as depositors' interests.
- 1.4. The framework is to be read in conjunction with the provisions of the Banking Law 114/2000, National Payment System Law 08/2018, the Regulations, the instructions, notice, and guidelines issued thereunder.

2. Definitions

For the purposes of this document, the words and phrases contained therein shall have the meaning specified for each of them in the Banking Law 114/2000, the National Payment Systems Law 08/2018, and Regulations issued thereunder, and the following words and phrases shall have the meaning assigned to each of them unless the context requires otherwise:

- 2.1 **The Sultanate** – The Sultanate of Oman
- 2.2 **Central Bank** – Central Bank of Oman
- 2.3 **Board of Governors** – Board of Governors of Central Bank of Oman
- 2.4 **Banking Law** – means the Banking Law 114/2000.
- 2.5 **NPSL** – means the National Payment Systems Law (NPSL) 08/2018.

2.6 **AML Law** – means the Law on Combating Money Laundering and Terrorism Financing 30/2016.

2.7 **Digital Bank** – is a licensed bank in the Sultanate of Oman, engaging in banking business, through digital channels or platforms using modern technologies.

3. Applicability

3.1 This framework is applicable to Digital Bank license in the Sultanate, with some regulatory relaxations and business restrictions.

4. Effective date

4.1. This framework comes into effect from the date of its publication.

5. Licensing and Regulatory Requirement

5.1 Legal forms of Digital Bank

The applicant shall take one of the following legal forms:

- i) A locally incorporated joint-stock company (SAOC or SAOG).
- ii) A branch of a foreign bank having its principal place of business in another country and is subject to supervision of a regulatory authority of the country in which its Head Office is located.

5.2 Regulatory Requirements and Limitations

No	Particulars	Digital Bank	
		Locally incorporated joint stock company	Branch of a foreign bank
5.2.1	Category 1 Minimum Paid Up Capital (unimpaired by the losses) to carry banking business without limitations as per Para 5.2.3	OMR 40 Million	OMR 10 Million

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No	Particulars	Digital Bank				
		Locally incorporated joint stock company			Branch of a foreign bank	
5.2.2	Category 2 Minimum Paid Up Capital (unimpaired by the losses) with limitations as per Para 5.2.3	OMR 20 Million			OMR 5 Million	
5.2.3	Business Limitations for Category 2 Digital Banks	<p>i) Maximum deposit from a single customer and his related parties shall not exceed 1% of the deposit portfolio of the bank. In the case of deposits from Government and Government Regulated Entities the aggregate deposits should not exceed 10% of the deposit portfolio of the bank.</p> <p>ii) Aggregate credit facilities to large corporates shall not exceed 40% of overall lending portfolio of the bank, subject to Single obligor limits</p> <p>iii) The business restrictions as per para 5.2.3 (i) and (ii) above, is not applicable for the first one year from the date of commencement of business of the Digital bank.</p> <p>iv) Not allowed to conduct any proprietary trading activities.</p>				
5.2.4	Regulatory Requirements	All regulatory requirements and instructions applicable to licensed banks shall apply to Digital Bank, unless explicitly mentioned otherwise in this framework				
5.2.5	Risk-based capital and liquidity rules	Required to adhere to the Capital adequacy and Liquidity requirements, as applicable to licensed banks operating in the Sultanate of Oman				
5.2.6	Omanisation	Year 1	Year 2	Year 3	Year 4	Year 5
		50 %	60 %	70 %	80 %	90 %

5.3 Shareholding Restrictions for Locally Incorporated Digital Banks:

Current Shareholding restrictions provided in Banking Law and Banking Regulation No. BM/REG/40/96 will apply, as under:

- i) Aggregate holding by an individual and related parties shall not exceed 15% of the voting shares;
- ii) Aggregate holding by an incorporated body and related parties shall not exceed 25% of the voting shares;
- iii) Aggregate holding by a Joint Stock Company or Holding company and related parties shall not exceed 35% of the voting shares;
- iv) No individual/incorporated body/joint stock company or holding company and related parties owns 10% shares in a locally incorporated bank shall own more than 15% of voting shares in another locally incorporated bank;
- v) Local bank cannot invest more than 5% in another licensed bank (*Banking Law – Article 65 b (4)*)

5.4 Licensing Conditions

5.4.1 The applicant shall have:

- a. experience and knowledge in the financial industry;
- b. appropriate technology-related experience and knowledge; and
- c. financial capacity to support setting up the Digital Bank.

5.4.2 The applicant shall have a team with adequate expertise to discuss relevant aspects of the application.

5.4.3 The applicant, ultimate beneficiary owners of the legal persons from the applicants, members of the Board of Directors and Senior Management shall comply with the fit and proper criteria of the Central Bank.

5.4.4 All documents submitted to the Central Bank as part of the application for new License must be in Arabic or English.

5.4.5 In case of foreign digital bank branch, in addition to the above, following requirements have to be met:

- a. Approval from the supervisory authority of the Head Office of foreign bank to operate in the Sultanate.
- b. The correspondent supervisory authority expresses its no-objection to apply the principle of joint supervision with the Central Bank.

6. Business Plan and Other Requirements

6.1 An applicant is required to present a clearly articulated business plan, covering as a minimum:

- a) work plan and the nature of the activities and services that it will perform.
- b) Study of the market and demonstrate its ability to mobilize savings;
- c) Statement of digital channels planned to be made available to customers and banking services to be provided through them.
- d) Details of the proposed Information Technology (IT) infrastructure covering the following:
 - the IT infrastructure plan and architecture and innovative technologies that will be rolled out;
 - overview of system architecture, design, hosting location and network architecture, including its IT governance structure;
 - flexibility and scalability and availability of the solutions;
 - data Protection and Availability;
 - technology Software, business continuity plan, IT operations, cloud services, and outsourcing if any;
- e) the financial projections, aligned with the minimum paid up capital, business limitations outlined in Para 5.2 above;
- f) the targeted segment (with the underlying study and analysis of market gaps);

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- g) the proposed products and services in line with the targeted segments and how solutions offered will address the specific needs of the target segment;
- h) the Internal Capital Adequacy Assessment Plan (ICAAP).
- i) include a projected path to profitability that demonstrates a sustainable business model. Where the applicant does not expect the proposed licensed digital bank to break even within the first five years, the applicant shall indicate in the expected year that the proposed licensed digital bank will break even;
- j) identify the risks associated with the business activities and strategies to manage such risks;
- k) indicate talent requirement (in numbers and type of skills needed) over the five-year period, and how the required numbers and skills will be met in areas related to technology and risk management, and where applicable, requisite Shariah expertise;
- l) outline the measures to address customers' queries or complaints, given that licensed digital banks are required to be operating wholly or almost wholly through digital or electronic means;
- m) a description of the applicant's strategy to adopt relevant new technologies and digital innovations such as big data, artificial intelligence, or distributed ledger technology to gain competitive advantage.
- n) technology risks and cyber risks;
- o) business continuity plan and disaster recovery plan;
- p) a description of the planned IT operational management to effectively support business operations;
- q) a description of the planned measures (technology, people and process) to effectively manage cybersecurity threat and cyber-attacks including the arrangement to identify, protect, detect, response and recover from cybersecurity threats and cyber incidents.
- r) Any other information or documents required by the Central Bank.

6.2 The applicant shall also submit the following documents:

- a. A copy of the draft Articles of Association with details of proposed shareholders.
- b. A statement setting out the ownership structure including related parties, so as to ensure identification of ultimate beneficiary owners and ensuring the legitimacy of source of funds.
- c. Evidence that none of the applicant, significant shareholders¹, ultimate beneficiaries are included in sanction lists (local and international).
- d. Details of other commercial activities pursued by the significant shareholders.
- e. In case the significant shareholder(s) is/are part of a Group of Companies/Businesses (holding shares of 10% and above), copies of the audited financial statements of such business, for the immediately preceding five (5) years and auditors report thereon.
- f. In case of a foreign digital bank branch, a copy of the parent banks financial statements for the last five financial years and auditors report thereon.

7. Suitability of Shareholder and Assessment of Application

7.1 The Central Bank will assess the ability of the applicant and where relevant, other shareholders collectively, to contribute to the proposed licensed digital bank in the following areas:

- a. ability to meet the applicable minimum paid-up capital requirement at the onset and the minimum capital funds requirement on an ongoing basis;
- b. ability to provides a clear value proposition, incorporating the innovative use of technology to serve customer needs and reach the different segments of the Omani market;
- c. robust risk management and compliance capabilities, which may be demonstrated by a track record of operating in a regulated environment;

¹ Significant shareholders mean, who will hold 10% or more in the Digital Bank.

- d. application of transformative technology in the development and delivery of financial services, such as scalable and agile technology stack built on microservices architecture;
- e. access to deep and robust customer analytics that may be utilized to improve and expand access to and responsible usage of financial services;
- f. ability to continuously serve as a source of financial strength to the proposed licensed digital bank; and
- g. with respect to licensing of Islamic digital banks, the requisite Shariah expertise to effectively carry on Islamic digital banking business.

8. Establishment of Office and Access Points

- 8.1. Digital Bank is required to establish a physical presence in the Sultanate as its principal place of business (i.e., Head office) or as a registered office in case of foreign digital bank branch.
- 8.2. Digital bank shall ensure that its principle/registered office sufficiently allows the Central Bank to communicate with the licensed bank during the supervisory process, including for the purposes of examination and engagement with senior management and the board.
- 8.3. A digital bank is permitted to establish physical offices for administrative purposes at other locations in the Sultanate. If it intends to facilitate face-to-face customer enquiries, complaints or interactions, the principle/registered office and physical offices shall serve as a center for this purpose.
- 8.4. For the avoidance of doubt, a licensed digital bank is not allowed to establish a branch i.e. a fixed place of business to facilitate customer transactions.
- 8.5. Licensed digital bank proposing to appoint banking agents, may do so, only with prior written approval of the Central Bank.

9. Processing of application for Digital Bank and Timelines

- 9.1 The Central Bank reserves the right, within sixty (60) days of receiving a License application, to:

- a. require the applicant to provide additional document/information that the Central Bank deems necessary to evaluate the application; or
 - b. reject incomplete applications.
- 9.2 The Central Bank shall submit the application to the Board of Governors for decision within ninety (90) days from the date of submitting the application, complete in all respects.
- 9.3 The applicant may withdraw its application at any time during the process by notifying the Central Bank in writing.
- 9.4 The applicant is obligated to notify the Central Bank immediately in the event of any change in information.
- 9.5 The Central Bank will notify the applicant of the outcome of the License application within a period not exceeding thirty (30) working days from date of issue of such decision by the Board of Governors.
- 9.6 The Board of Governors/CBO reserves the right, at any point in time, to reject an application for new License considering the interest of the public or if the applicant fails/refuses to fulfill the licensing conditions and requirements set out by the Central Bank.
- 9.7 The Central Bank has the right to withdraw the license granted to the applicant if it is proved that the applicant has submitted false or inaccurate information or data for obtaining the license.
- 9.8 The necessary procedures for establishment of Digital bank shall be completed within one year from the date of grant of in-principle approval from the Board of Governors. An extension shall be granted only by the Board of Governors.

10. Exit Plan

- 10.1. With the adoption of new and untested business models, applicants shall be prepared to exit the business in the event that such business models prove to be unsustainable or ineffectual. An exit plan is thus necessary to ensure that the licensed digital bank is able to voluntarily unwind its business operations without any regulatory intervention and in an orderly manner without causing any disruption to its customers and the financial system.

- 10.2. At the point of application, an applicant shall submit to the Central Bank an exit plan for the first five years of the applicant's operations. The full implementation of the exit plan must result in the winding down or transfer of the licensed digital bank's business. In this regard, the exit plan must include the following:
- a. potential management triggers for exiting the business which clearly defines unsustainable business models and/or the materialization of risks beyond the applicant's own risk appetite. These indicators may comprise of, but are not limited to-
 - capital-related triggers such as leverage ratio and common-equity Tier 1 ratio;
 - liquidity-related triggers such as loan-to-funds ratio;
 - earnings-related triggers such as return on assets and return on equity; and
 - asset quality-related triggers such as non-performing loan ratio;
 - b. steps that will be taken to manage customer funds and ongoing businesses, ensuring continued service to existing customers and management of other assets and liabilities;
 - c. likely options and related measures to be taken for exiting that minimizes disruption to its customers and the financial system;
 - d. potential impediments to the execution of identified exit options and preparatory measures to mitigate the impact of such impediments; and
 - e. sources of funding and liquidity for exit (excluding any form of assistance from the Central Bank) and the estimated timeframe to exit the business.
- 10.3. Prior to the commencement of operations, the Board of the licensed digital bank is required to endorse the exit plan. The licensed digital bank is required to keep its exit plan updated and to notify the Central Bank as and when there are material changes to its structure or operations that will significantly affect its exit plan. The Board of the licensed digital bank is required to review the exit plan on an annual basis, taking into account developments in the operations of the licensed digital bank.

11. Compliance from the Applicant and licensed Digital Bank

- 11.1. The applicant and licensed Digital Bank shall demonstrate compliance with:
- a. the requirements set out under the Banking Law, NPSL, Regulations and Instructions issued thereunder.
 - b. Anti-Money Laundering and Terrorism Financing framework is in line with applicable laws and regulations and instructions issued by the Central Bank in a fully digitalized environment.
 - c. the Financial Consumer Protection Regulatory Framework.
 - d. the Cyber Security and Resilience Framework
 - e. the instructions on Digital Onboarding and Electronic KYC
 - f. anti-fraud risk framework to prevent, detect, investigate and respond to frauds including cyber and electronic fraud incidents.
 - g. Outsourcing guidelines and rules for availing Cloud services.
- 11.2. The applicant and/or licensed digital bank shall comply with any additional requirements as specified by the Central Bank, after having regard to specific risk profile or business model of a licensed digital bank and the Central Bank's ongoing supervisory monitoring and assessments of the licensed digital bank.
- 11.3. The Central Bank may require the applicant to appoint a qualified and experienced third-party entity ("assessor") to perform Vulnerability Assessment & Penetration Testing, assessments on the specific technical areas such as the technology/cybersecurity and AML/CFT arrangements at the expense of the applicant. Such assessment can be performed at different stages of its operations.

12. Enforcement

Without prejudice to the Central Bank's power to take an enforcement action against any breaches of the Banking Law, NPSL, AML Law, Regulations, Instructions and this policy document, a licensed digital bank that fails to comply with the regulatory requirements, shall implement its exit plan by submitting a request to the Central Bank in accordance with Article (82) of the Banking Law, failing which enforcement actions may be taken by the Central Bank, including the revocation of the digital bank's licence.
