

Qatar - E-KYC Regulation, Regulating the Deployment of E-KYC by QCB-Licensed Entities

November 2023



In brief

The Qatar Central Bank (“**QCB**”) has recently issued the much-awaited E-KYC Regulation, Regulating the Deployment of E-KYC by QCB-Licensed Entities (“**E-KYC Regulation**”) in line with its Qatar Fintech Strategy.

In detail

Growing Fintech Ecosystem in Qatar

The QCB published the Qatar Fintech Strategy 2023 in March 2023, with the primary objectives of enabling the digital transformation of the State of Qatar’s financial services ecosystem, promoting economic diversification, attracting foreign direct investment, and building financial services skillsets of the future (“**Fintech Strategy**”).

This Strategy is structured around four key pillars: (i) establishing a leading fintech foundation and infrastructure; (ii) focusing on growth drivers and target areas such as ethical and green fintech and insurtech; (iii) building a fintech talent center of excellence; and (iv) enabling fintech to touch people and organizations life and improve the overall well-being of the community.

The Fintech Strategy, including the promotion of digital banking, open banking, insurtech, and other advancements, aligns with Qatar National Vision 2030 and reflects the QCB’s vision to develop, diversify, and enhance the competitiveness of Qatar’s financial technology and financial services sector.

As part of this ambitious Fintech Strategy, the QCB has recently introduced a number of secondary regulations, further contributing to the creation of a growing fintech ecosystem within Qatar; namely (*in chronological order*)

- the Buy-Now-Pay-Later Regulation;
- the Insurance Price Comparison Websites Regulation;
- the Loan-Based Crowdfunding Regulation; and
- the E-KYC Regulation.



The E-KYC Regulation is a significant milestone wherein the QCB has taken steps towards relinquishing physical requirements in conducting KYC processes. This is a progressive shift towards full digitalisation in financial services sector. This will empower the financial market to take advantage of the benefits of E-KYC.





Transformation from KYC to E-KYC

KYC

Know Your Customer (“**KYC**”) is the process of verifying customers’ identity and assessing their risk profiles before initiating any transactions or opening an account in financial institutions. It also requires the continuous monitoring of customer accounts and transactions to identify any suspicious or fraudulent activities. Therefore, it plays a crucial role in preventing money laundering, terrorism financing, financing of proliferation of weapons of mass destruction, fraud, or other illegal activities.

E-KYC

With the advent of technological developments, the KYC procedure has evolved to involve electronic methods, eliminating the need for physical document submission, document attestation or in-person presence before entities. E-KYC, which stands for ‘Electronic Know Your Customer’, encompasses the collection and validation of identity and other required information and ongoing monitoring in an electronic manner. The transformation from KYC to E-KYC offers a swifter, safer, and more convenient alternative to traditional methods. The primary objective of E-KYC is to streamline customer onboarding and ongoing monitoring processes, to reduce fraudulent activities by increasing security, and to enhance the overall efficiency of identity verification processes.

Regulation

The E-KYC Regulation, applicable to entities licensed by the QCB (“**Regulated Entities**”), came into effect on October 9, 2023, with the primary objective of optimizing the customer identification procedures within the financial sector in Qatar. This new regulatory framework represents a responsive action to the recommendations conveyed by the Financial Action Task Force (“**FATF**”) in its May 2023 Qatar report, where FATF specifically called for the development of clear and consistent guidance and communication for regulated entities on the use of new technologies for anti-money laundering and countering the financing of terrorism purposes.

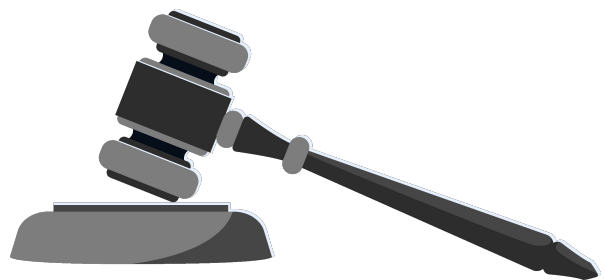


Highlights from the E-KYC Regulation

As per the E-KYC Regulation, Regulated Entities aiming to implement E-KYC processes are required to obtain approval from the QCB. To secure this approval, they must;

- I. Establish clear and secure processes;
- II. Establish a secure end-to-end infrastructure to minimize the risks of data breaches or fraudulent activities; and
- III. Set up a dedicated function to oversee, review, and monitor the E-KYC process.

According to the E-KYC Regulation, Regulated Entities are permitted to perform E-KYC procedures on persons who are not Qatari residents or nationals, but they need prior approval from the QCB. Additionally, they can outsource the E-KYC process, but this also requires approval from the QCB. Furthermore, these entities are allowed to leverage artificial intelligence, machine learning, or predictive algorithms to enhance the accuracy of identification and verification in their E-KYC systems.



The E-KYC Regulation permits the offering of the E-KYC system service registration through various channels (such as mobile applications, online web portals or self-service kiosks) requiring customers to perform randomized real-time actions, such as head tilting, nodding, or eye movement to confirm their presence and deter fraud and identity theft.



Highlights from the E-KYC Regulation (Cont'd)

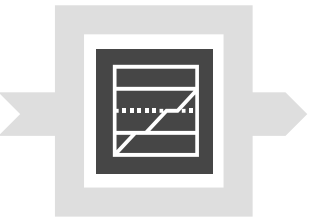
The key requirements for Regulated Entities can be summarized as follows:



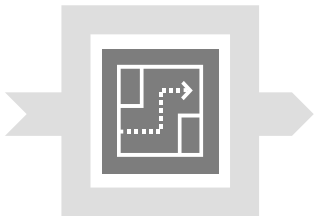
E-KYC implementation plan and clear policies and controls: Regulated Entities need to have a comprehensive E-KYC implementation plan, outlining the proposed IT environment, the transition from the current setup to the target, and the operating model. Additionally, they must establish and maintain clear and effective policies, procedures, systems, and controls to govern their E-KYC processes.



Risk assessment and resource allocation: Conducting a risk assessment of E-KYC systems is crucial. They must allocate sufficient resources to manage all E-KYC-related activities.



Adherence to information security regulations: Regulated Entities should adhere to QCB's information security regulations, report security incidents, conduct external system assessments by qualified auditors, and perform risk assessments to ensure the effectiveness and independence of the E-KYC system.



Continuous monitoring and reporting: Regulated entities are required to conduct ongoing monitoring of their E-KYC application to identify and address security and fraud risks. Additionally, they must define, review, and report the performance requirements for E-KYC systems that use biometrics to the QCB annually.



Compliance with other regulations: In addition to the E-KYC Regulation, Regulated Entities must adhere to other regulations, such as the Law No. (13) of 2016 on Personal Data Privacy Protection and Law No. (20) of 2019 on Combating Money Laundering and Terrorism Financing.



While the E-KYC Regulation represents a great initial step toward digitalization of KYC processes, some aspects need closer examination and potential improvements. For instance, the requirement for Regulated Entities to obtain prior approval from the QCB before executing E-KYC verification for non-Qatari or non-resident customers raises questions. Such exclusion may restrict the applicability of E-KYC services and create barriers to financial inclusion, cross-border transactions, and emerging fintech initiatives, such as digital banking.

Moreover, the E-KYC Regulation lacks (i) specifics regarding the types of digital identities allowed and (ii) clear guidelines for verifying their authenticity. These aspects are delegated to the discretion of Regulated Entities within their terms and conditions. This may result in inconsistencies and variability in E-KYC processes across different Regulated Entities.

Another concern is that the roles and responsibilities of third-party service providers involved in E-KYC processes, such as digital ID providers and authentication service providers are not stated by the E-KYC Regulation. Additionally, whether engagements with these third parties fall under outsourcing arrangements, thereby subject to the outsourcing requirements thereof, remains unclear. Finally, the scope of services that may be outsourced is not clear under the E-KYC Regulation, causing ambiguity in this respect.



The takeaway

Overall, it is worth to emphasize that the E-KYC Regulation is a significant milestone wherein the QCB has taken steps towards relinquishing physical requirements in conducting KYC processes. This is a progressive shift towards full digitalisation in financial services sector. This will empower the financial market to take advantage of the benefits of E-KYC, including efficiency and cost reduction by simplifying onboarding, enhanced security with advanced verification methods, and improved customer experience, along with being a valuable tool for regulatory compliance.

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Let's talk

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