



**Institute of Banking Studies Research >>**

## **Financial Markets Development in Kuwait and New Regulations**

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*Please note that the findings and recommendations presented in this report are the sole responsibility of the author and do not reflect the views of the Central Bank of Kuwait or any other government body.*

## Executive Summary

Given the crucial role it plays in a country's economy, financial markets that are deep, backed up with a robust regulatory framework and an effective regulatory authority that oversees and enforces regulations, makes them appeal to foreign investors due to the stabilizing effect they bring about in both financial and real sectors. In Kuwait, the financial landscape has been undergoing crucial restructurings and reforms aimed at upgrading its status and gaining international recognition, as well as attracting foreign investments. This paper aims to look at some of the remarkable regulatory revamps that have occurred in the financial landscape of the state of Kuwait and their implications for local development as well as and status upgrading on the international scale.

- KIBS offers various fintech programs and workshops for bank staff; these should continue and expand to cover more fintech topics, ensuring regulatory compliance and effective risk management.
- All relevant authorities in Kuwait, such as CBK and KIBS, have placed great importance on addressing risks associated with Fintech adoption. These risks include cybersecurity threats, money laundering, information privacy issues, technology failures, data protection concerns, unreliable platforms and technologies, potential fraud or misconduct by Fintech operators, as well as traditional risks like market and credit risk—which may be intensified through the use of Fintech.
- Promote collaboration between traditional financial institutions and tech companies.

## 1. Introduction

Financial markets require sound regulations to protect and guarantee the interests of their participants, promote confidence and trust, enhance performance and efficiency, increase transparency and fairness, ensure quality disclosure and accountability, and maintain financial stability at large. Regulations should account for their impact on market participants and avoid exaggeration, as poorly designed strictness or leniency can lead to negative outcomes. Efforts are rapidly underway to accomplish the National Development Plan's goal of making Kuwait a leading regional financial, commercial, cultural, and institutional center by 2035. To achieve this set goal, it is imperative for Kuwait to provide advanced infrastructure, encourage the business environment, and most importantly have an effective and adequate regulatory framework in place. As is the case in other financial markets, the Kuwaiti financial market has its own regulatory framework that governs activities in its financial markets. A striking shift in the regulations of capital markets was the Capital Market Authority Law (CMA) that was passed in 2010, which aimed at enhancing investors' confidence, disclosure quality, and accountability for Kuwait public companies. The main market in Kuwait is the stock exchange; it primarily serves as a beacon for investors and market participants for price discovery and timely information on stock prices. In the last decade, the financial regulatory landscape has undergone a couple of significant amendments, where the Central Bank of Kuwait ('CBK') issued in 2018 two key regulations, namely instructions for the regulation of the electronic payment of funds (the "Electronic Payment Regulation")<sup>1</sup>, and the Woloj Regulatory Sandbox framework

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<sup>1</sup> Central Bank of Kuwait Resolution No 45/471 of 2023 regarding the Instructions for the Regulation of Electronic Payment of Funds, which supplements the Electronic Transactions Law No 20 of 2014.

(previously the ‘Sandbox Regulatory Framework’), which aim at providing an alternative path for the Testing of innovative Fintech products and services, such as Buy Now Pay Later (BNPL) and open banking. In February 2022, the Capital Markets Authority of Kuwait (‘CMA’) substantially amended Module 11 of the Executive Bylaws of the Capital Markets Law by its Resolution No 28 of 2022 (‘Resolution No 28’) to introduce and regulate, among other things, new types of bonds/sukuk, including green, sustainable, and social impact bonds and sukuk. The CBK also issued, in February 2022, guidelines for the setup of digital banks in Kuwait (the ‘Digital Banking Guidelines’). Digital banking represents the most recent Fintech innovation; it offers a convenient alternative to traditional banking by enabling customers to capitalize on all banking services through a digital platform accessible through their electronic devices. As for the payment system, it has considerably developed and witnessed commendable technological leaps. Finally, there have been programs launched to make bank employees familiar with and efficient in dealing with new technologies to convey new trends in the financial markets.

This study aims at investigating the development implications of the following Kuwaiti regulatory reforms for the financial markets landscape:

- **Capital Market Authority Law (CMA) (2010)**
- **Enactment of Law No. 22 (2015)**
- **Decree No. 128 issued by the Kuwaiti government (2018)**
- **Electronic Payment Regulations (2023)**
- **Sandbox Framework (2018)**
- **Digital Banking Guidelines (2022)**

- **CMA Resolution No 28 (2022)**
- **Recent developments in the payment system**
- **On cybersecurity framework and Fintech regulations in Kuwait**
- **Various career development programs initiated for bank employees to develop the market**
- **Conclusion and recommendations**

## **2. Capital Market Authority Law of 2010 (CMA)**

In the aftermath of the global financial crisis 2007/2008, many financial regulatory authorities across the world revisited and reformed their regulations to ensure compliance and deterrence. They set new and effective regulations along with enforcing mechanisms, means and measures, to effectively ensure market stability and efficiency. Robust tools will empower regulators in terms of inspection, investigation and surveillance to fulfil their role (detect, deter, enforce, sanction, redress and correct violations of securities laws) effectively to meet the goal embodied in the transparency, stability and efficiency of the market. In Kuwait, the first prominent revamp in the financial landscape witnessed the passing of the Capital Markets Law No. 7 of 2010 (CML). This law was issued for the purpose of establishing a CMA and regulating securities Activities. Ali (2018) stated that following the issuance of CML in 2010, several firms and individuals were punished for detected breaches. However, he argued that investigatory powers and measures of CMA required further improvements, especially the incorporation of best practices as is the case in developed countries. It was also pointed out that shortcomings of this law, such as not being enforced and insider trading cases, which were regulated before passing the law, led

to the search for best practices to have regulations enforced efficiently and adequately. Following its passing, CML was amended in 2014 and then again in 2015 owing to the need to acquire international recognition, upgrade the status of the Kuwaiti market, and to be a member of international bodies such as the International Organization of Securities Commissions (IOSCO). As a result, the CMA carried out a fast-paced revamp to achieve its goal. The reforms were meant to increase the appetite of international institutional investors for investment in Kuwait and to boost trading volumes on the exchange. The 2015 amendment had to do with taxation, where dividends and other returns on securities got exempted from tax. This amendment along with other changes, such as no capital gains tax and no individual income tax, has made investing in the Kuwaiti exchange appealing. The revamp resulted in 16 modules which presently represent the cornerstone of securities regulations. Tables 1 briefly highlights the modules and the matters they address.

Table 1: 2015 revamp modules and their purposes

Module	Purpose
Modules 2 and 3	The CMA, its powers of supervision and enforcement
Module 4	Securities Exchanges and Clearing agencies
Module 5	Securities activities and registered people, licensing of firms and individuals, types of licensed activities, accounting and supervision, liquidation of firms.
Module 6	Policies and Procedures, Controls, Risk management, Complaints and Business continuity
Module 7	Clients' funds and assets, segregation rules, rules for portfolio management and reporting templates.

Module 8	Conduct of Business, client protection and confidentiality, client classification, conflict of interest, personal account transactions (for employees), best execution, record retention, financial promotions and advertising, publication of investment research.
Module 9	Mergers and acquisitions of companies.
Module 10	Disclosures and Transparency.
Module 11	Dealing in Securities, IPOs, valuations, credit rating, subscriptions, trading in listed securities, sukuk and bonds, pledging of securities, attachment, sukuk, bonds, preferred shares and treasury shares regulations.
Module 12	Listing rules
Module 13	Collective Investment Schemes
Module 14	Market Conduct
Module 15	Corporate Governance rules
Module 16	Anti-Money Laundering (AML)

*Source:* Kohina (2017).

In the aftermath of the 2015 reforms, the commendable efforts and changes yielded positive implications for the market and economy, yet there was still room for further regulation and development regarding electronic, behavioral aspects, as well as insider dealing, especially with increase of Initial Public Offerings (IPOs) and demand from companies to get listed on Bursa Kuwait, particularly family-owned ones. Consequently, authorities had to keep pace with these material changes and ensure that regulations keep

the market and its participants in check in light of ever-changing financial markets and related matters.

### **3. Enactment of Law No. 22 (2015)**

On 10 May 2015, Kuwait enacted Law No. 22. The new law was issued to improve and amend some provisions of Law No. 7 of 2010 aiming at underpinning the development of capital markets inclusive of diversification of investment instruments, where out of 165 articles that form the CMA, 64 were amended and improved. The amendments and improvements came into effect on 9 November 2015. This revamp was meant, in the first place, to render the regulatory regime compatible and in line with the standards of IOSCO. Consequently, the latter made its decision and conferred on CMA complete member status in May 2017. About ten years after its inception, CMA by-laws and market participants stabilized, with improved practices resulting from streamlined regulations following comprehensive legislative reforms. As of May 2017, three main bodies in the Kuwaiti regulatory environment, namely the CMA, the Kuwait Clearing Company KSCC (KCC) and the only stock exchange in the country, the Boursa Kuwait, started playing a vital role in developing the market. Their efforts were crowned by the recognition of FTSE Russell, MSCI, S&P and Dow Jones as they decided to upgrade the Boursa Kuwait and categorize it as an emerging market. Table 2 highlights the structure of capital market law:

Table 2: CML structure

Chapter	Content
Chapters 1	Definitions
Chapters 2	The Capital Market Authority

Chapters 3	The Exchange, the Depository Center, and the Clearing Center
Chapters 4	The Committee for the Resolution of Securities Disputes and the Appeal Committee for Securities Disputes
Chapters 5	Brokers and Members Regulation
Chapters 6	Investment Funds and Collective Investment Schemes
Chapters 7	Disclosure
Chapters 8	Manipulation and Insider Trading
Chapters 9	Regulation of Proxy Solicitations, Restricted Purchase and Restricted Offer for Shares
Chapter 10	Sanctions and Penalties for Violations

Source: the capital market law <https://cma.org.sa/en/RulesRegulations/CMALaw/Documents/CMALaw.pdf>

As for the amendments of the law No. 22, Article No. 150 stipulates that, in addition to exempting capital gains on trading of securities, dividends will be also exempt from Kuwait income tax provided that they are generated on shares traded on the Kuwait Stock Exchange.

#### **4. Decree No. 128 issued by the Kuwaiti government (2018)**

As part of its regulations amendment, the Kuwaiti government issued Decree No. 128 in 2018 to amend the Executive Regulations of the Capital Markets Law No. 7 of 2010. The amendment had to do with the introduction of a new section regulating partial tender offers

(PTO) in connection with public mergers and acquisitions (M&As). The amendment was, in the first place, meant for ensuring transparency and fairness of PTO processes. This action was taken due to shortcomings surrounding executive regulations as the latter did not cover PTOs, and it only addressed regulating voluntary and mandatory tender offers. A partial tender offer is the process of acquiring a minimum of 5% of the share capital of a given listed company on Boursa Kuwait. The transfer process stipulates that the offeror should end up holding between 30% and 50% of the Share Capital after the transfer of shares. The offer must be made to all the shareholders of the company, and the shares held by participating shareholders will be distributed pro rata based on the percentage offered to be acquired by the offeror. The payment for the offer is to be in cash (Jrade and El Sayed, 2023).

Prior to the amendment, voluntary and mandatory tender offers that were regulated under the Executive Regulations, where the offeror must offer to takeover 100% of the shares in the share capital of the relevant listed company. To allow flexibility and freedom for interested bidders, CMA emphasized the dire need to amend the law so that the bidders can offer the acquisition of less than 100% of the relevant shares within the aforementioned shareholding range. Under PTOs, interested controlling shareholders are conferred the right to elevate their shareholding in listed companies and offer the selling shareholders participating in the PTO competitive prices in exchange for their divestment, particularly the shareholders of the specific listed companies intending to elevate their shareholding percentage above the mandatory tender offer limit (i.e. 30%) up to 50% without triggering a mandatory tender offer in respect of 100% of the shares in the relevant listed companies.

In practice, seemingly there are no specific challenges or impediments that might arise following the Amendment. However, it appears, at least from a practical perspective, that the appetite of the investors/shareholders to make PTOs was not up to the expectations of the relevant regulators in Kuwait. This is further supported by the fact that the first PTO in Kuwait was executed in June 2022 (i.e. nearly 4 years after the effective date of the Amendment).

## **5. Electronic Payment Regulations (2023)**

Along the lines of its neighboring countries in the Gulf Cooperation Council (“GCC”), the state of Kuwait has been adapting to the fast growing and sophisticated Fintech environment. Consequently, the CBK has embarked on several key initiatives, policies and regulations aimed at encouraging and reinforcing the growth of Fintech in the state. Fintech is driving major changes in Kuwait's banking sector, leading to the creation of departments like the Innovation Hub and Digital Operations and Financial Technologies Supervision Department. In addition, Kuwait has taken a number of studied steps in regulating Fintech. Most notably, it has (like the United Arab Emirates and Bahrain) designed and introduced a Regulatory Sandbox Framework to encourage Fintech growth and enable the banking systems to examine new technologies. It has also issued CBK Resolution No. 44/430 of 2018 (E-Payment Regulation) to regulate the e-payment activity in the State of Kuwait.

In 2018, CBK developed a set of rules to regulate electronic payments in the country under Resolution No. 44/430. The legislation presents guidance on the legal requirements of conducting e-commerce, as well as procedures and regulations.

In May 2023, the CBK announced the “Instructions for Regulating the Electronic Payment of Funds”, which nullified the former regulations that were issued in 2018, within the context of “Law No. 20 of 2014 for The Electronic Transactions”, that mandate the CBK and grant it the power to monitor and supervise the electronic payment transactions, in addition to the authority to issue mandatory instructions on this matter.

In June 2025, CBK issued the Draft Open Banking Regulatory Framework to keep up with the latest FinTech innovations and to facilitate providing uniform data to customers regarding their local bank accounts, tracking expenses, suggesting spending and saving plans, and accelerating transactions related to loans and letters of guarantee. This is in addition to giving customers the opportunity to explore and compare banking products and services for what best matches their requirements. These services also include the creation of payment orders from bank accounts towards settling bills, payment to e-stores and to individuals within and beyond the State of Kuwait, including standing order payments and future-dated payments. This issuance of a draft regulatory framework also aims to foster a suitable infrastructure environment for the Kuwaiti banking and financial sector through bolstering partnership between banks and FinTech firms to develop the sector and enhance its services to help promote the national economy and support digitization in line with “New Kuwait 2035” vision. The CBK had given the green light to a FinTech company to test Open Banking services within the CBK’s Regulatory Sandbox (Wolooj) while simultaneously working on the regulatory framework to benefit from this model when preparing instructions and standards for Open Banking services.

The updated regulations seek to maintain pace with the new trends in the field of electronic payments and offer the requisite regulatory and organizational frameworks. In addition, they provide direct supervision and monitoring of the CBK so that financial institutions are enabled and empowered to function efficiently in this field. Furthermore, the updated regulations present requirements for both current and emerging electronic payment services providers under five types of licenses that are commensurate with the volume and nature of the service provided. This involves the mandatory regulatory requirements and controls for conducting the activity including governance, comprehensive framework for risk management, anti-money laundering and Countering the Financing of Terrorism, cybersecurity, business continuity, and protecting customers' rights, to guarantee the safety and stability of the payment system in the state Kuwait.

In general, the law includes several articles that cover the general descriptions of the provisions that govern multiple aspects of e-commerce including, inter alia, electronic signatures, electronic payments, penalties, and privacy and data protection, among others. E-commerce payment is conducted under strict monitoring by the responsible government agencies. Many groups have been granted the legal mandate to monitor different functions, such as electronic payments, electronic signature verification, and e-contracts. With respect to the protection of personal data in Kuwait, the law makes it illegal to collect, process, and transfer personal information without the consent of the owner or their representative. The government security bodies are the only party permitted to collect personal information for security reasons only (Kathuria et al., 2020). Any other party who wants to collect personal

information should inform the owner and state the purpose for which it will be utilized, and the owner maintains the right to accept or decline the request.<sup>2</sup>

The promotion of innovation and the provision of the best service to customers led to the development of a framework for digital banking that permits existing banks to provide and develop digital services via digital units within their organizational structure or by engaging in partnership with a third party. It also permits the establishment of new standalone digital banks.<sup>3</sup>

To encourage and empower FinTech companies, CBK is working on upgrading its fintech framework. This touched upon many areas of payments, lending and the regulatory sandbox environment. Highlights of the key developments, existing and underway, as well as a consultative paper reviewing the draft electronic payment instructions and providing feedback in this regard, have been made available on the CBK website. The consultative paper comprises a draft of updated instructions concerning electronic payments made available for feedback, as part of the process of issuing the revised instructions. In this context, CBK has finalized the review of all feedback received by March 24, 2022. The following points are a summary of the previously mentioned overhauls:

- FAQs received concerning the Arabic draft of updated instructions on electronic payments (updated on May 12, 2022).
- Preparation to adjust the lending framework to allow the use of new lending business models through FinTech companies.

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<sup>2</sup> For more details on consumer protection, please refer to Law No. 20 of 2014 concerning electronic transactions. Available at: <https://tinyurl.com/mpktzx4u>

<sup>3</sup> [https://www.cbk.gov.kw/en/cbk-news/Stability\\_Enablement\\_Event](https://www.cbk.gov.kw/en/cbk-news/Stability_Enablement_Event)

- Upgrade of Sandbox Framework in several stages throughout the year:
  1. Boosting efficiency in all stages of the sandbox environment.
  2. Underpinning new FinTech companies via conducting workshops and meetings.
  3. Allowing for easy live testing of products and services in the local market.

In accordance with the E-Payment Regulation, the CBK retains a registry of those businesses that embarked on the activity of electronic payment of funds in the State of Kuwait.

In May 2023, the CBK promulgated the “Instructions for Regulating the Electronic Payment of Funds”, Resolution No. 45/471 of 2023. The board of directors of CBK, in light of the interest of work and the public interest, having examined the Law No. 32 of 1968, the Law No. 106 of 2013 amended by the Law No. 24 of 2016, the Law No. 20 of 2014, the Law No. 1 of 2016, and its amendments, the resolution No. 44/430 of 2018, with the CBK board of directors’ approval from the meeting on 14/5/2023, resolves the following:

**Article one:** Provisions of the Instructions Regulating the Electronic Payment of Funds, attached herewith, shall come into force and applied accordingly; **Article two:** The aforementioned Resolution No. 44/430 of 2018 shall be revoked, as well as any provision that contravenes the provisions included with this document<sup>4</sup>; **Article three:** all the concerned entities and departments, each within its respective field of competence, shall implement this Resolution and abide by its provisions; **Article four:** this Resolution shall

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<sup>4</sup> [https://www.cbk.gov.kw/en/images/e-payment-instructions-2023-161512\\_v40\\_tcm10-161512.pdf](https://www.cbk.gov.kw/en/images/e-payment-instructions-2023-161512_v40_tcm10-161512.pdf)

be published in the Official Gazette and shall come into force as of the date of its publication.

These instructions are an update to the former regulations that were issued in 2018, under “Law No. 20 of 2014 for The Electronic Transactions”, that put the full oversight and supervision of the electronic payment transactions into the hands of CBK, as well as entrusting it with the issuance of binding instructions regarding this subject matter. The update comes as an improvement aimed at keeping pace with the development in the electronic payments field and putting in place the requisite regulatory and organizational frameworks. It also provides direct supervision and oversight of the CBK in order to empower financial institutions working in this field. It further sets requirements for both existing and emerging electronic payment services providers under five types of licenses that correspond to volume and nature of the service provided. This covers mandatory regulatory requirements and controls for carrying out the activity including governance, overall framework for risk management, anti-money laundering and countering the financing of terrorism, cybersecurity, business continuity, and protecting customers’ rights, to ensure the safety and stability of the payment system in Kuwait.<sup>5</sup> Accordingly, the Instructions Regulating the Electronic Payment of Fund” comprises six chapters. The first chapter under the title “Definitions and Scope of Application” consists of two articles, namely article (1) definitions and article (2) scope of application. The second chapter under the title “The Activity” consists of six articles, namely article (3) practicing the activity,

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<sup>5</sup> <https://www.cbk.gov.kw/en/supervision/e-payment-services>

article (4) E-payment Service Providers (EPSP), article (5) E-money Service Providers (EMSP), article (6) E-payment Service Operators (EPSO), article (7) Activity Services, article (8) Out-of-Scope Activity Services. The third chapter under the title “Limited Purpose E-Money” consists of three articles, namely article (9) Practicing Limited Purpose E-money Activity (LPEP), article (10) Ceiling of (LPEPs) operations, article (11) LPEPs obligations. Chapter four consists of eleven articles, namely article (12) registration application, article (13) main requisites, article (14) company strategy, article (15) company business procedures, article (16) infrastructure and information security, article (17) risk management framework, article (18) customer protection program, article (19) exit strategy, article (20) initial approval of registration, article (21) requirements for registration completion, article (22) final approval of registration. The fifth chapter under the title “Activity Service Providers Obligations” consists of fifteen articles, namely article (23) Performing the Activity, article (24) Obligations of E-money Service Providers, article (25) Controls Providing Buy Now Pay Later Service, article (26) Foreign Branches and Subsidiaries, article (27) Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), article (28) Cybersecurity and Business Continuity, article (29) Customer Protection, article (30) Information Confidentiality, article (31) Dealing Limits and Operation Ceiling, article (32) Risk Management Framework, article (33) Governance, article (34) Independent Entity, article (35) Capital and Financial Guarantee, article (36) Appointing of Senior Positions, and article (37) Information/Data Amendment. And chapter six under the title “General Provisions” consists of eight articles, namely article (38) Supervision and Control, article (39) Data and Reporting, article (40) Practicing Activity without Registration, article (41) Suspension of Registration, article (42)

Appealing against Suspension Decision, article (43) Restrictions and Penalties, article (44) Cancellation of Measures or Restrictions, and article (45) Penalties.<sup>6</sup>

Furthermore, on the 5th of June 2023, CBK issued several circulars to regulate the work of service providers, most notably instructions regarding the regulations for BNPL services, appointing leadership positions, and minimum requirements for cybersecurity and business continuity. The instructions also included policies and procedures for operating outside the State of Kuwait, as well as AML/CFT instructions. CBK will continue to update its instructions while considering all relevant parties with the goal of enhancing the payment system environment to ultimately benefit the broader economy and provide services in line with the financial inclusion policy adopted by the bank.

## **6. The Woloj Regulatory Sandbox Framework**

The Woloj Regulatory Sandbox framework within the Innovation Hub at CBK serves as a state-of-the-art platform designed to promote financial innovation and contribute to the development of the fintech ecosystem. By providing a monitored environment for testing new technologies and business models, this setting empowers startups, fintech firms, and other innovators to conduct experiments with their ideas in a safe and supervised framework. By means of Woloj Sandbox, the CBK seeks to drive digital transformation in the financial sector, improve regulatory compliance, and eventually encourage the growth of a more dynamic and competitive financial services industry environment in the region. The four key aims the Woloj Sandbox endeavors to achieve are: (1) to encourage

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<sup>6</sup> For more details on the six chapters and their articles, please refer to [https://www.cbk.gov.kw/en/images/e-payment-instructions-2023-161512\\_v40\\_tcm10-161512.pdf](https://www.cbk.gov.kw/en/images/e-payment-instructions-2023-161512_v40_tcm10-161512.pdf)

the deployment of innovative fintech solutions that can enhance the efficiency, accessibility, and security of financial services in Kuwait; (2) to provide a controlled environment where startups and fintech firms can test new technologies, products, and services and help them fulfill the regulatory requirements; (3) to support the FinTech ecosystem in a responsible manner; (4) to foster the creation of inclusive financial products and services that promote broader access to financial services. The stages that the applicant goes through in Woloj are set in Table 3. It is noteworthy to mention that any participant who wishes to withdraw from the Woloj program at any stage is required to notify CBK officially in writing, indicating their justifications accordingly.

Table 3: Stages of the innovation hub “Woloj”

Stage	Description
Pre-application	Applicants express their willingness to participate in Woloj by filling in and submitting the Woloj pre-application form to provide details on their product or service with focus on highlighting its impact on the financial sector.
Application	CBK contact participants by email, notifying them to submit documents pertaining to their product/service for review. After the product/service is scrutinized from different perspectives, the CBK’s relevant team officially provides its feedback to the applicant.
Guidance	This stage is regarded as the key stage of Woloj. This is where an arranged workshop in the form of an open questions session is conducted where participants receive support with the proposed product/service. Together with the CBK, internal/external stakeholders will provide guidance and support to the participants on their journey regarding the following:

	<p>1- Set measurable targets and milestones for the Pilot Stage.</p> <p>2- The product/service is presented live (demo).</p> <p>3- Discussing the testing plan (technical, safety and operational).</p> <p>As for the pilot stage, it consists of two phases, namely the testing phase and the soft launch phase.<sup>7</sup></p>
Graduation	<p>Upon the completion of the Pilot Stage, the participant is considered a Woloj program graduate. This stage signifies that the Woloj participant has passed all the necessary criteria, and the participant will obtain CBK's approval.</p>

Source: CBK, Innovation Hub "Woloj" Framework Document

## 7. Digital Banking Guidelines (2022)

The CBK issued the Digital Banking Guidelines along with an invitation for the submission of applications for the setting-up of digital banks until 30 June 2022. The CBK will review applications for six months, and those applicants who meet the requirements will receive initial approval. Under the Digital Banking Guidelines, the traditional requirement is that a bank, whether conventional or Islamic, digital or not, should take the form of a public joint stock company. This legal form is required given that the CBK is extremely concerned with ensuring transparency and corporate governance within financial institutions, irrespective of whether the type of operations is physical or virtual.<sup>8</sup> Currently, a digital bank can take three forms, namely (1) a unit within a traditional bank, (2) a partnership between such a bank and a digital institution where the bank deals with core banking operations while the

<sup>7</sup> For further detail on Woloj and the pilot **stage's** two phases, please refer to <https://www.cbk.gov.kw/en/legislation-and-regulation/innovation-hub/innovation-framework>

<sup>8</sup> [www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2022/02/202202021000-cbk-governor-announces-digital-banks-guidelines](https://www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2022/02/202202021000-cbk-governor-announces-digital-banks-guidelines).

second party manages relations with customers and other aspects of operation and service, (3) a standalone digital bank.<sup>9</sup>

As part of the application, the applicant must meet specified documentation requirements identified by the Digital Banking Guidelines. This comprises the submission of specific information and documents pertaining to the digital bank's founders, as well as specific documents pertaining to the expected operations and strategies of the digital bank, for instance, proposal on business strategies, the expected economic value of the bank, financial plans and projections, framework for risk management, and a plan for market exit. It is worth mentioning that the framework set for risk management should also address risks related to cybersecurity; therefore, it has to be consistent with the cybersecurity framework for the banking sector in Kuwait, which is published by the CBK on 18 February 2020.<sup>10</sup> These documents are, to a large extent, similar to those required by the CBK in the course of licensing traditional banks. In addition, the CBK may request further documents and information over and above those stipulated in the Digital Banking Guidelines while evaluating the licensing applications.

Subsequent to conferring the approval by the CBK, the digital bank will be registered with the registry of banks maintained by the CBK. It is worthy of notice that there is no stand-alone registry for digital banks. It is probable that the issuance of the previously mentioned Digital Banking Guidelines will not be the ultimate step taken by the

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<sup>9</sup> <https://www.zawya.com/en/business/central-bank-of-kuwait-issues-guidelines-for-establishing-digital-banks-ra911k0f>

<sup>10</sup> [www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2020/02/202002181127-cbk-introduces-cyber-security-framework-for-the-kuwaiti-banking-sector](http://www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2020/02/202002181127-cbk-introduces-cyber-security-framework-for-the-kuwaiti-banking-sector) ; and: [www.cbk.gov.kw/ar/images/39part2-156658\\_v10\\_tcm11-156658.pdf](http://www.cbk.gov.kw/ar/images/39part2-156658_v10_tcm11-156658.pdf).

Kuwaiti government to upgrade the digitalization of the banking industry. For the purpose of maintaining their regional rivalry and to alleviate the adverse effects brought about by the Covid-19 pandemic, having the banking sector and other key economic sectors well-digitalized has become an urgent necessity.

#### **8. CMA Resolution No 28 (2022)**

On 22 February 2022, the CMA thoroughly amended Module 11 of the Executive Bylaws of the Capital Markets Law to, *inter alia*, introduce new debt instruments and structures consistent with the standards of international financial markets, regulating the process of issuance, listing and subscription. Some of the newly introduced instruments and structures are short-term bonds and sukuk, sustainable bonds/sukuk, green bonds/sukuk and social impact bonds/sukuk. The short-term bonds/sukuk play a vital role, being highly liquid securities; thus, their function will, to a large extent, be similar to that performed by commercial papers in the global financial markets. With respect to sustainability, and green bonds/sukuk social impact, these are part of a larger policy embraced by His Highness the Emir Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, aimed at the issuance of legislation that improves environmental protection and contains the impact of the climate crisis. These new green and sustainable structures and instruments give investors and issuers a number of options for the funding of, *inter alia*, environmental and social initiatives which are usually limited in terms of financing to charities and crowdfunding. By officially recognizing these new environment-related securities, Kuwait has shown an awareness of the significance of financial instruments that go beyond simply meeting financing needs.

## 9. Recent developments in the payment system

Payment systems are key elements used to achieve monetary and financial stability, serving as a launch pad to carry out the monetary policy activities via an authentic mechanism that ensures policies are implemented efficiently and yield the desired outcomes, and that authenticated/documentated processes for settling financial transactions are properly executed. Payment systems are normally classified as either Retail Payment Systems or Large-value Payment Systems (LVPSs). Retail payment systems process a high volume of payments of relatively low value such as direct debit operations and credit card payments. Retail payment transactions can also be settled through the CBK and commercial banks, one example in Kuwait being the retail payments processed by Shared Electronic Banking Services Company (K-Net). On the other hand, LVPSs process urgent or large-value payments. In Kuwait, the Automated Settlement System for Inter-participant Payments (KASSIP) was designed as a Real Time Gross Settlement System (RTGS)<sup>11</sup> to handle participants' high-value payments, as well as process their low-value or retail payments.<sup>12</sup>

To stay abreast of ever-evolving payment services and instruments, CBK constantly works to bolster the integrity and efficiency of these systems, particularly in terms of increasing volume and diversity of transactions. In Kuwait, it is the CBK that operates and manages KASSIP and KECCS. However, financial institutions that subject to CBK provision or any institution authorized to carry out fund transfers or electronic payments within the

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<sup>11</sup> For further details, please refer to: <https://www.cbk.gov.kw/en/payment-systems/local-payment-systems/real-time-settle-kassip>

<sup>12</sup> For more details, please refer to: <https://www.cbk.gov.kw/en/payment-systems/payment-systems-intro>

constraints of laws can engage in electronic payment and settlement system activities, under the supervision and oversight of the CBK in accordance with Law No.20 of 2014 concerning electronic transactions. This can be done through Electronic Payment Infrastructure Providers (EPIPs) or their agents, Electronic Payment Agents (EPAs). At the regional level, the Gulf Payment System serves as a regional payment system for processing financial transfers between Gulf Cooperation Council (GCC) countries in local GCC currencies and other currencies, mainly USD and Euro. The system is managed by the Gulf Payments Company (GPC), which is owned by GCC central banks, and characterized by speed, efficiency and soundness, in addition to low-cost service fees. The CBK pays material attention to the empowerment of the technological environment, as it is vital for the materializing digital transformation both in the CBK and on the sector level. The Bank embraced an adaptable and advanced approach to regulation while promoting responsible and sustainable innovation and contributing to digital and technical insights to enhance knowledge in the market. These endeavors can be summarized in the following points:

- Issuing instructions concerning cloud computing and digital onboarding.
- Issuing the Draft Open Banking Regulatory Framework.
- Updating the Open Banking and Outsourcing Frameworks.
- Cooperation with banks and K-Net to develop QR code payments and make them available at all Points of Sale.
- Increasing speed of cross-border transactions through the GCC (AFAQ) RTGS payment system.

The digital transformation strategy of the CBK is intended to promote efficiency and efficacy by embracing advanced processes to carry out the CBK's mandate of conserving monetary and financial stability. The transformation comprises six key pillars:

- Reporting through the 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.

#### **10. On the cybersecurity framework and Fintech regulations in Kuwait**

The growing frequency and sophistication of cyber-attacks have reinforced the need for organizations to have in place robust cybersecurity controls to encounter cyber risks. For financial institutions, the need for a Cyber Security Framework (CSF) is even more crucial to ensure their systems and data are secure. As for other financial systems across the world, given the ever-changing technology landscape, CBK has a comprehensive CSF established for protecting their financial structure from cyber risks and threats. The guidelines of CSF and best practices are meant for financial institutions to strictly follow in order to prevent, detect, and respond to cyber-attacks, as well as to safeguard the confidentiality, integrity, and availability of financial data, systems, and networks. The CBK's CSF is built upon three core principles, namely cybersecurity governance, risk management and compliance, collaboration, and continual improvement. The first principle refers to the policies, procedures, and organizational structure an organization has in place to handle cybersecurity risks, in addition to methods to identify and manage these risks while

complying with relevant cybersecurity standards. The second principle, collaboration, emphasizes the need for efficient communication and coordination between different stakeholders within an organization, as well as with external stakeholders. As for the third principle, continual improvement, it refers to the ongoing efforts to improve an organization's cybersecurity posture.<sup>13</sup> As part of the continuous endeavors for staff development and cadres training, a significant cybersecurity-related program, namely "Cybersecurity Leaders Program" was launched in 2018<sup>14</sup>, it is conducted under the support of CBK and Kuwait Institute of Banking Studies (KIBS). Recently, specifically on December 3, 2024, the 4<sup>th</sup> graduates of the 4<sup>th</sup> cohort of the program were honored.<sup>15</sup> Additionally, the program also involves a joint workshop with the Bank for International Settlements (BIS).

As for the adoption of Fintech in Kuwait, it is mainly driven by three key factors, namely tech-savvy population (internet penetration and smart phone usage), government support (Kuwait vision 2035), and financial inclusion (provision of accessible and affordable financial services to underserved populations). Regardless of the promising Fintech opportunities prospects in Kuwait, a couple of legal challenges need to be navigated to guarantee sustainable growth and innovation. Fintech activities in Kuwait are regulated

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<sup>13</sup> For more details on the three core principles of CSF, refer to [https://www.cbk.gov.kw/en/images/csf-feb-2020-1\\_v00\\_tcm10-148304.pdf](https://www.cbk.gov.kw/en/images/csf-feb-2020-1_v00_tcm10-148304.pdf)

<sup>14</sup> The program **was comprised of** practical and professional training and specialized tests from SANS Institute Academy (an internationally leading and accredited training academy that offers professional certificates in the field of cybersecurity) to obtain Global Information Assurance Certification (GIAC) in cybersecurity, develop various skills in this field, including acquiring knowledge on the fundamentals of protecting and securing networks, systems, and applications, training on hacker tools and techniques, and acquiring cyber incident management skills.

<sup>15</sup> <https://www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2023/10/202310061100-cbk-kuwait-institute-of-banking-studies-honors-the-3rd-cohort-of-the>  
<https://www.cbk.gov.kw/en/cbk-news/announcements-and-press-releases/press-releases/2024/05/202405200800-cbk-launches-fourth-cohort-of-the-cybersecurity-leaders-program>

by the Central Bank of Kuwait (CBK) and the Capital Markets Authority (CMA), where each oversees different aspects of the sector. The areas the CBK regulations focus on are: E-Payment Systems, Electronic Money Issuers, Digital Banking Services, Peer-to-Peer (P2P) Lending, and Regulatory Sandboxes. On the other hand, CMA regulations focus on two main areas, namely Securities-Based Crowdfunding and Digital Financial Advisory (Robo-Advisory). In view of the continuous efforts and initiatives of all stakeholders in terms of navigating the legal landscape thoughtfully and strategically, the future of Fintech seems promising and Kuwait can harness the full potential of Fintech to boost economic growth and bring about a favorable financial shift shaping Kuwait's future economy.

#### **11. Various career development programs initiated for bank employees to develop the market**

Given the material momentum it has gained across the world due to the wave of transformation it brought about, Fintech, with its cutting-edge technologies, has transformed the way activities are conducted in the financial landscape in terms of innovative solutions, efficiency, time, convenience, satisfaction, real-time assistance, and quality. Hence, endless attention is paid to this key driver, considerable resources are invested into it, and many programs and training courses have been launched in pursuit of a digitally empowered financial landscape.

To adapt to the ever-growing and changing Fintech environment, several relevant Kuwaiti financial institutions including CBK have initiated and launched a variety of programs and trainings so that employees are equipped and informed of the latest developments and advancements in the financial technology landscape for growth and

innovation opportunities. Being aware of and skillful with all Fintech matters became essential for all participants in the financial markets as this gives them the potential to harness this key driver of the market. For instance, Kuwait Institute of Banking Studies (KIBS) has introduced many Fintech training programs and seminars with world-renowned speakers. In cooperation with the Kuwaiti banks, KIBS have developed the Cyber Security Leaders Program as a part of the Kafa'a initiative to motivate national professionals in cyber security in line with the strategic structure' goals of cyber security of the banking sector issued by the Central Bank of Kuwait. This program aims to establish a generation of professional and technical leaders capable of developing appropriate programs to protect information systems in the banking and financial sector in Kuwait using the best practices in the field of cyber security. Other examples are:

- the periodic Fintech Course that provides participants with an understanding of the key concepts and emerging trends in the FINTECH industry.
- exploring various technologies driving FINTECH innovations, such as artificial intelligence (AI), blockchain, big data analytics, cloud computing and mobile applications.
- discussing how FINTECH is transforming traditional financial services, including payments, lending, wealth management, insurance and capital markets.
- addressing regulatory challenges and considerations related to FINTECH innovations, including consumer protection, data privacy, cybersecurity and regulatory compliance.

- identifying opportunities for collaboration and partnerships between traditional financial institutions and FINTECH firms as well as entrepreneurship in the FINTECH sector.

Alongside these developments, Kuwait Finance House (KFH) launched KFH Digital Academy to build and develop employees' digital skills in accordance with global standards in the field of contemporary technologies connected to accelerating FinTech advancements. This initiative concurs with the KFH digital transition agenda, taking into account that the provision of fully trained and competent human resources is one of the main aims of this transformation. The continuation of this organized and professional initiative shall underpin KFH's strategic goals. The academy is regarded as an advanced preemptive step reflecting KFH constant efforts made to build and enhance digital capabilities of the human capital and prepare young leaders and generations to deal with the technological developments related to different fields of business. The process requires inputs such as highly qualitative and specialized programs based on modern methods of practical and theoretical training in the fields of contemporary technology, to develop the capabilities of skilled and creative employees in the digital field (Kuwait Finance House, 2022). In accordance with its strategy to develop qualified national cadres in the financial and banking sector, and in response to the new advancements in this landscape, the Kuwait Institute of Banking Studies (KIBS) launched the FinTech MBA internal scholarship program for Kuwaitis, in cooperation with Kuwaiti banks and the Gulf University for Science and Technology (CBK, 2024).

Continuous endeavors to develop human talents, declared the graduation of a batch of its employees from the Kuwait Graduates Development Program (KGDP) – organized by the Institute of Banking Studies in collaboration with the Central Bank of Kuwait – which started in March 2022 and ended in May 2023. The KGDP program is a channel between the academic stage and the job market as it covers both theoretical and practical training, including working in professional institutes.

## **12. Conclusion and recommendations**

The development of financial markets in the contemporary world necessitates adapting to the ever-changing digital environment and accompanying new trends and advancements. Embracing digitalization has become essential in almost all walks of life, especially in the financial landscape as it touches upon all aspects of financial institutions and customers. It is not enough to just embrace new technologies, having legal and regulatory frameworks in place will guarantee protection for all participants and players in the financial field and fully harness opportunities at hand. Accordingly, regulators in Kuwait acknowledge the significance of Fintech and the repercussions it brings about in the financial services sector and therefore need to set effective laws and regulations to ensure full harness of this technological resource. This recognition associated with an endeavor to reinforce technology growth in the financial services landscape has led the Central Bank of Kuwait to set and launch the Regulatory Sandbox Framework and the E-Payment Regulation.

Harnessing cutting-edge technologies will effectively reshape the Kuwait financial landscape and make FinTech prospects in the state of Kuwait more promising, especially with constant cooperation between traditional financial institutions and technology-driven

startups. As the ecosystem matures, the devolvement of innovative solutions that address evolving consumer needs and contribute to Kuwait's economic growth is expected. While the fintech landscape is still evolving and regardless of the fierce competition, Kuwait has the potentiality to become a significant player in the GCC by investing in its local human capital and creating a conducive ecosystem underpinned with clear-cut regulations. The Fintech ecosystem in Kuwait started flourishing with an enabling public sector and innovative private stakeholders in pursuit of Vision 2035. As for consumers, there are strong signs that they are not only embracing digital finance, but they are also optimistic about the positive transformation and advantages Fintech will bring to their lives. Accordingly, this study recommends the following areas to be given considerable attention and adequate focus by the relevant parties in pursuit of financial market development as well as its participants:

- As KIBS provides many fintech programs, trainings and workshops for bank employees, such programs are essential must be continued on more Fintech issues and its products and services to ensure regulatory compliance and efficient risk management.
- Considering the considerable emphasis placed by relevant Kuwaiti authorities, such as the CBK and KIBS, on mitigating risks—including cybersecurity, money laundering, information privacy, technology failures, data protection, platform and technology unreliability, Fintech operator fraud or misconduct, as well as traditional risks (e.g., market risk, credit risk)—which may be heightened with the adoption of Fintech solutions.
- Foster collaboration between financial institutions and tech companies.

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