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▶ EXECUTIVE SUMMARY

The UAE is on a journey to achieve global leadership in driving innovation. A flourishing startup landscape plays an important role in making this happen.

Shedding light on the 1# challenge for entrepreneurs in the UAE - Opening a bank account

In this whitepaper, Dubai Chamber and its knowledge partner Roland Berger shed light on what entrepreneurs today see as their number 1 challenge in the UAE; banking services and in particular the obstacles to opening a bank account. This is the first whitepaper in a series that is focused on entrepreneurship topics that will be published on a regular basis.

Focus groups and/or interviews with entrepreneurs and corporate service firms highlight two issues that are perceived as key when it comes to opening a startup bank account:

- ▶ **It takes too long** - It can take up to 3 months to open a bank account
- ▶ **The process is painful** - Lack of transparency/consistency around the documents required and insufficient guidance by bankers throughout the account opening process

The reasons for the current shortcomings are likely a combination of two factors:

- ▶ Banks feel under pressure to comply with increasingly stringent regulatory standards to fight illegal activities
- ▶ Banks might feel startups are not as commercially attractive as other customer segments

Call for action

Being a startup is difficult enough. Opening a bank account should be easy. It is obvious that there is significant room for improvement and the UAE should aim to become a global case study for best practices when it comes to opening startup bank accounts - simple, transparent and fast while meeting compliance needs.

- ▶ **Basic no-frills startup bank account** It should be a viable option to offer an initial no-frills bank account, such as 'IBAN only plus basic transfer services' (e.g. cap on transaction amounts, or even allowing domestic transfers only). This would limit document requirements for compliance and speed up the process.
- ▶ **One-stop solution for trade license and bank account**
What if there was a way to leverage the customer due diligence conducted for issuing a trade license to speed up the subsequent account opening process? This should be particularly feasible for the above-mentioned no-frills bank accounts.
- ▶ **More transparency and guidance on process and document requirements**
Clear and readily available step-by-step guides should give transparency from day 1 of the process, timing and documents required. This - along with better trained and more responsive banking personnel - will make a real difference.
- ▶ **Leveraging technology for a better and more cost-efficient process**
Digitalising the end-to-end account opening process enables a step change in terms of customer experience and cost efficiency. The UAE already has success stories in digital consumer banking. It is time to apply the same logic to opening a startup banking account.

Driving these best practices will require dialogue and support from different key stakeholders, including commercial banks, the Central Bank and other players in the ecosystem, such as entities issuing trade licenses. Dubai Chamber and Roland Berger want to initiate the necessary dialogue and help shape a clear roadmap for how to tackle the issues at hand.

▶ THE CONTEXT

The UAE is on a journey to achieve global leadership in driving innovation. The country is pushing to leapfrog the status quo with the implementation of a vast array of bold and interlocked initiatives, with one example being the appointment of the world's first Minister for Artificial Intelligence.

“**The Bigger Your Vision,
The Bigger Your Achievement Will Be**”
His Highness Sheikh Mohammed Rashid Al Maktoum

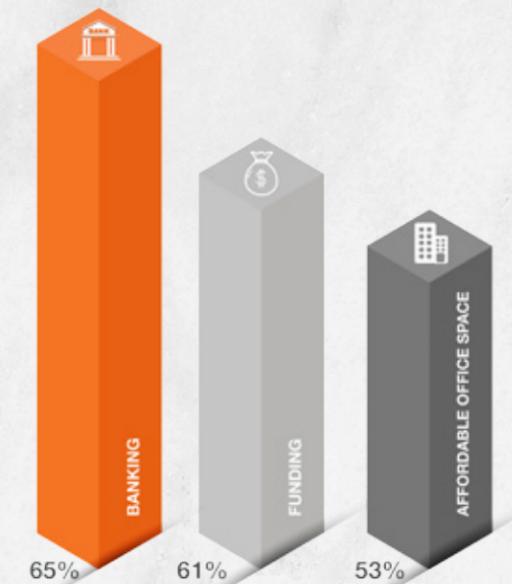
Startups need to play a key role in supporting and driving new technology adoption and overall economic diversification. Both the public and the private sector are investing heavily in building the innovation ecosystem in the UAE.

The depth of the startup ecosystem is multiplying with the support of such initiatives as the UAE Centennial Plan with its Area 2071, a physical space connecting all ecosystem players, such as startups, corporations, accelerators, VC firms, the government and many more. Beyond innovation, startups and SMEs are a critical element to drive continued economic diversification and job creation.

Dubai Chamber plays an active role in fostering entrepreneurship in Dubai and beyond. In this whitepaper, Dubai Chamber and its knowledge partner Roland Berger, highlight what entrepreneurs today see as their number 1 challenge in the UAE, banking services and in particular the obstacles to opening a bank account. This is the first whitepaper in a series that focuses on entrepreneurship topics that will be published on a regular basis.

Top 3 challenges for entrepreneurs in the UAE

[% of respondents qualifying topic as (Very) Challenging]



Multiple stakeholders were involved in our production of this whitepaper, either via surveys and interviews with startups, or through interviews with corporate services firms, banks and selected government stakeholders. It is worth highlighting that Dubai Chamber developed this whitepaper in close coordination with the UAE Ministry of Economy and the SME Council that consists of 15 members from different government entities (including Dubai Chamber) - jointly the objective is to promote the startup & SME landscape in the country.

This paper makes a **call for action with a clear vision to leapfrog the status quo and become the global leader when it comes to ease of opening a startup bank account.** Our ambition is to engage with banks, regulators and other government entities to foster a dialogue on how to make this vision happen.

▶ THE BANKING CHALLENGE

An entrepreneur's perspective and why it matters

Dubai Chamber and Roland Berger conducted focus groups and interviews with both entrepreneurs and corporate service firms to fully understand why entrepreneurs highlight banking as the number 1 challenge and which specific obstacles they encounter.

The ongoing banking relationship and basic transactional services were often cited as leaving room for improvement, particularly when it comes to minimum balance requirements and transaction fees. However, the broad consensus among entrepreneurs was that the key issue when it comes to banking services is the very first step; i.e. opening a bank account.

**ENTREPRENEURS
SEE OPENING
A BANK ACCOUNT AS
THE #1 CHALLENGE**

Issue 1: It often takes 1-3 months to open a bank account

The clear majority of entrepreneurs and founders stated that it took at least 1 month - and in many cases significantly longer - to open a bank account. This is in stark contrast to the indicative 'time for approval' that UAE banks state on their website. Anecdotal evidence even points to a few cases where founders frustrated with this situation abandoned their plans to set up a business in the UAE.

Effective time to open both
account stated by entrepreneurs

1 - 3
MONTHS

1 - 7
DAYS

Typical account approval time
stated on banks websites

Time is money, especially for cash-strapped entrepreneurs chasing their first business dirhams. Their stress levels are highest when they feel they have no control over the process and its duration. Typical reasons highlighted by founders for these high levels of stress were the lack of transparency/ consistency around the documents required and insufficient guidance by bankers throughout the account opening process.

Issue 2: The process is painful with a lack of transparency and inadequate guidance

Common problems cited were:

- ▶ Lack of simple step-by-step guide (process, timing and document requirements)
- ▶ Lack of clarity evidenced by repeated requests for additional documents or verifications
- ▶ Limited empathy and competence amongst bank employees (in general, they are not sufficiently responsive or knowledgeable)

Further aggravating the situation, various related 'pain points' were raised:

- ▶ Cumbersome document verification requirements, e.g. physical presence required for ID verification rather than <digital fingerprint>
- ▶ Customer due diligence seems to vary between banks, depending on the type of business activity and where the trade license was issued (e.g. Free Zone A vs. Free Zone B). While this in itself adds complications, the key issue is again the lack of visibility upfront

“**If a new business is willing to bring 1m AED to put into an investment product, then everything happens fast and hassle-free**”
CEO of a large company to set-up in the UAE

“**There is no step-by-step guide how to open a bank account**”
Quotes from start-up focus groups

“**I believe banking staff is either incompetent or has no interest in helping**”
Quotes from start-up focus groups

Some might argue the concerns raised should be taken with a pinch of salt. Yet we believe the consistency and fervour with which entrepreneurs tell their stories makes a strong case for change. This would be welcomed by all entrepreneurs and is particularly relevant for first-time entrepreneurs.

The concerns raised by entrepreneur's matter. This should be a call for action to drastically improve on the status quo. For example, Hong Kong has been struggling in recent years with a growing perception that companies are having difficulties opening bank accounts. Many believe that this is damaging Hong Kong's reputation as a business-friendly destination in Asia.

What is beyond doubt is that having an operational bank account is a prerequisite for running a business, be it for remunerating suppliers or getting paid. Not addressing the current perceived pain points risks precipitating a situation where startups might choose other locations over the UAE, something that could ultimately jeopardise the UAE's image as a global business and innovation hub.

▶ THE ROOT CAUSE

Banks feel under pressure to comply with increasingly stringent regulatory standards to fight illegal activities

Over the last few years, countries around the world (including the UAE) have stepped up the global fight against illegal activities such as money laundering, terrorist financing and tax evasion. Banks play a key role in this fight with more stringent customer due diligence (e.g. during account opening) and monitoring of transactions. In a world of global finance flows, banks not only need to adhere to national regulations, but often also to overseas standards that might be linked to strong sanction regimes in the event of failure to comply.

Clearly it is an absolute must to safeguard the UAE and its banks from illegal activities and the regulatory requirements should not be called into question. The challenge is how to create an environment conducive to the needs of entrepreneurs while keeping illegal business out of the country and protecting banks from excessive risks.

Startups might not rank among the most attractive customer segments for banks

In general, the regulatory pressure on banks is high. Added to that, startups are not necessarily the most attractive client segment, given the initial low business volume paired with only a few startups being able to survive and scale up. This might be limiting banks' commercial appetite to attract and serve startups. And lastly, add to the mix the fact that several banks in the UAE burned their fingers with non-performing SME loans in the past, and you can perhaps see much of the reason why entrepreneurs in the UAE rank opening a bank account as the single biggest challenge. UAE banks are making considerable investments in driving best-in-class customer experience for consumers, but it seems that doing the same for startups has not been a priority to date.

By way of example, banks in the UAE apply diverging practices in terms of customer due diligence when opening a business account. This points toward banks potentially applying a more stringent approach than the minimum regulatory requirements as defined by relevant stakeholders (e.g. the Central Bank, the Securities & Commodities Authority, Dubai Financial Services Authority), be it due to the scope for interpretation on what minimum regulatory requirements should entail in practice or due to commercial considerations.

▶ CALL TO ACTION

Being a startup is difficult enough. Opening a bank account should be easy. It is obvious that there is significant room for improvement and the UAE should aim to become a global case study for best practices when it comes to opening startup bank accounts - simple, transparent and fast!

This is a call for action. Driving best practices will require dialogue and support from different key stakeholders including banks, the Central Bank and entities issuing trade licenses, among others.

Banks have a duty to comply with regulatory requirements, such as Know Your Customer (KYC), but within these constraints they need to do a better job when it comes to startup banking and contribute to an ecosystem conducive to innovation. Equally, regulators such as the Central Bank could play a role in providing additional guidance to banks on what the right balance is when it comes to Customer Due Diligence (CDD). The Hong Kong Monetary Authority, for example, specifically outlines which CDD measures are considered disproportionate or irrelevant. Government entities such as Dubai Economy (DED) in charge of onshore trade licensing and the multiple free zones could equally play a role in reducing the CDD burden on banks.

▶ **Basic no-frills startup bank account**

Banks should aim to introduce a very basic starter product, such as a bank account with «IBAN only plus basic transfer services». Basic transfer services could be capped at a certain amount, particularly for foreign currency cross-border transactions, or even further restricted to domestic transactions only. Document requirements would be kept to a minimum within regulatory compliance requirements.

This would speed up the bank account opening process allowing entrepreneurs to conduct basic business activities while keeping the risks for banks under control. Once additional CDD requirements are met, the bank account could be converted into a full-service account

► **One-stop solution for trade license and bank account**

What if there was a way to leverage the customer due diligence conducted for issuing a trade license to speed up the subsequent account opening? This would be particularly feasible for the above-mentioned no-frills bank account. For example, free zones could partner with banks that have branches there to create a one-stop solution for «licensing plus bank account opening». Making this happen might not be straightforward, but viability should be more closely assessed.

► **More transparency and guidance on process and document requirements**

If not yet in place, banks should publish a clear and readily available step-by-step guide providing transparency upfront on the process, timing and documents required to open an account. Furthermore, banks should place greater emphasis on better trained and more responsive banking personnel. In this context, the financial regulator(s) could consider providing guidelines for minimum training and certification requirements for bankers dealing with startups.

Furthermore, the UAE could follow the example of other countries with the Central Bank or similar authorities issuing specific clarifications on what CDD requirements mean in practice (and what they do not), including which documents are an absolute must, which documents are optional and - in particular - which CDD measures are considered unreasonable or irrelevant.

► **Leveraging technology for a better and more cost-efficient process**

Digitalising the end-to-end account opening process enables a step change in terms of customer experience and cost efficiency for banks. In particular, customer interaction could be largely digitalised, be it via chat bots and video calls to provide guidance, or through easy document upload or remote customer ID verification. Furthermore, APIs or distributed ledger technology could enable information to be shared and validated between banks and other stakeholders, such as trade licensing authorities.

The UAE already has success stories in digital consumer banking. It is time to apply the same logic to opening a startup banking account and the provision of subsequent banking services that are amenable to new businesses. Countries like Estonia can illustrate the way.

The ambition is clear, now it is time to act. Dubai Chamber and Roland Berger want to initiate a dialogue with key public and private stakeholders and help shape a clear roadmap for how to tackle the issues at hand.

