

Why The UAE Is The Ideal Location For Blockchain Innovation

One of the great social experiments in history has been the inception of the Arabian Gulf cities. Sprawling skyscrapers and a uniquely modern infrastructure lie in the middle of what was an arid wilderness as recently as the 1950s. The UAE took advantage of there being little or no infrastructure, to create the ultramodern and cutting-edge. Now, blockchain technology provides similar opportunities for innovation in the region's financial sector.

An environment of low financial inclusion, fertile investment opportunities and a dynamic regulatory structure mean the financial landscape of the UAE can flourish through the integration of blockchain solutions.

In MENA, low levels of financial inclusion make the area ripe for disruption. According to the World Bank, as of 2017 only 52% of men and 35% of women have a bank or mobile money account. Without official identification, people are prohibited from participating in the various financial services provided by banks, such as accessing a bank account or obtaining credit. With blockchain, however, anyone can receive a digital identity for use in financial services—all they have to do is own a smartphone.

Fortunately, relatively high mobile phone ownership offers an avenue for increasing financial inclusion—among the unbanked in the MENA, 86% of men and 75% of women have a mobile phone. Already, up to 20 million unbanked adults in the region send or receive domestic remittances using cash or an over-the-counter service. Acknowledging this potential, the UAE and Saudi Arabia have reportedly trialed cross-border payments on blockchain.

Given the low levels of financial inclusion in the region, there is great incentive for companies and governments to trial blockchain. With the unique ability to offer financial services with little infrastructure, the Middle East can be a leader in the development of blockchain technology if the UAE takes charge.

In 2010, 91 companies working in fintech called MENA home. By last year, that number had risen to 839—a nine-fold increase—with the UAE being the top investment destination in the region.

The nascent financial technology sector in the Middle East and Africa is set to capture 8% of financial services revenue in the region by 2022, driven by demand for better customer experience. The UAE is home to several of the top international banks and is growing its venture capital on a global scale. Investments in 386 startups totaled \$893 million in 2018, while venture capital funding for the region increased 31% from 2017, according to market researcher Magnitt.

What these figures illustrate is that the UAE has an established and vibrant investor community, and one that is constantly growing in size. To encourage innovation and truly

develop blockchain in finance, future investment from this community is imperative.

Examples of this investment coming to fruition can be seen in developments such as the MENA's first institutional crypto asset trading platform, MidChains, a blockchain-based financial exchange, which is set to be the first crypto-trading venue to open under the Abu Dhabi Global Market's newly established crypto assets regulatory framework.

Central to realizing the full potential of blockchain in finance is a need for some degree of regulatory flexibility. This nascent technology has far-reaching capabilities, but regulators will need to show willingness and encourage innovation to unlock these benefits.

Recently, the UAE's Securities and Commodities Authority, which supervises and monitors the markets, has approved ICOs as securities and stated that it will collaborate with the Abu Dhabi Securities Exchange and Dubai Financial Market to develop trading platforms for ICOs. Taking encouraging steps such as this will help to position the UAE as a global leader in blockchain and finance.

The UAE has never been afraid to experiment with technological approaches in finance. The country capped off a landmark year in 2018 for the development of blockchain technology in the Gulf. Acknowledging the great potential for DLT in government and financial services in the region, in April 2018, the UAE Government launched the Emirates Blockchain Strategy 2021. The strategy aims to conduct 50% of government transactions using blockchain technology by 2021.

This groundbreaking technology has profound potential in the Middle East—in order to realize this, capitalizing on an unbanked infrastructure, fertile investment opportunities and a dynamic regulatory structure must take priority.

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