

The UAE Direct Debit System

BACKGROUND

The implementation of a system for effecting payments by direct debit in the UAE is the latest effort by the UAE Central Bank to modernize and streamline the system for individuals and companies to meet their financial obligations. It is widely anticipated that the UAE Direct Debit System (DDS) will lead to a more efficient and secure system for payments.

The UAE Central Bank has published an extensive set of rules to assist financial institutions, corporates and individuals in understanding how the DDS can help them with their day-to-day operations and what they must do to ensure that they are compliant with the applicable rules. The first phase of the DDS went live on 5 October 2013.

The implementation of the DDS will change the landscape for electronic payments in the UAE. It offers corporates and individuals the ability to make automated recurring payments electronically which will have consequences for the manner in which financial institutions offer their products and collect payments from customers. It is important to understand the full impact of these changes before they come into effect.

Set out below are some of the key features of the new system as well as an overview of the three main parties who will be involved in the DDS.

PARTIES INVOLVED IN THE DDS

In addition to the customer or payer who will use the DDS to pay their recurring bills/payments, three parties will be involved in completing the cycle of payment.

The Originator

A financial institution or corporate entity (referred to under the DDS as the “**Originator**”) may use the DDS to collect payments from its customers by direct debit. An Originator must also meet specific regulatory thresholds set by the UAE Central Bank and is required to provide a broad indemnity to other users of the DDS.

The Sponsoring Bank

Each Originator is required to appoint a sponsor (referred to under the DDS as the “**Sponsoring Bank**”) in order to use the DDS. The Sponsoring Bank will provide the Originator with access to the DDS and will assist in the processing of direct debit payments. The Sponsoring Bank shall, in summary, act as a conduit for payment requests from Originators and payments flowing from customers of the

Originator (or Payers as referred to under the DDS) to the Originator. The Sponsoring Bank shall be responsible for collecting payments due to the Originator. The Originator remains, subject to some limitations, at liberty to appoint more than one Sponsoring Bank. The Originator must also go through an extensive compliance review with its Sponsoring Bank prior to registration as an Originator in the DDS .

The Paying Bank

Each Payer who wishes to make payment to an Originator will require a bank account with a so called “**Paying Bank**” that is registered with the DDS. The Paying Bank shall be responsible for effecting the required payment from the Payer’s account to the relevant Originator’s Sponsoring Bank.

DISPUTE RESOLUTION

It is noteworthy to mention that that the DDS will provide a dedicated mechanism for dispute resolution. This process involves communication between the parties involved and allows for final approach to the UAE courts if a resolution is not achieved.

IMPLICATIONS OF THE DDS ON YOUR BUSINESS

Since all commercial banks in the UAE are obliged to undertake the roles of a Sponsoring Bank and a Paying Bank in the DDS, the DDS has the potential to change the way in which financial institutions in the UAE operate their businesses and will consequently impact a broad spectrum of businesses and individuals. It is also mandatory for all financial institutions in the UAE providing credit facilities (such as personal loans, car loans and mortgages) to act as an Originator.

IN CONCLUSION

Afridi & Angell has developed specialist knowledge of the rules that apply in relation to entities participating in the DDS and is able to offer market leading advice and assistance in the preparation of the required documents in order to enable participation in the DDS.

For advice in connection with the DDS, its implementation and the consequences it may have for your business and operations, please contact Amjad Ali Khan (akhan@afриди-angell.com) or Danielle Lobo (dlobo@afриди-angell.com), or get in touch with your usual contact at Afridi & Angell for further assistance.