

The Dual-Level FinTech Regulatory Framework in the UAE: Innovation, Financial Stability, and Consumer Protection

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Abstract

FinTech is a rapidly expanding sector, propelled by digital payments, online lending, e-commerce, and robo-advisory services. This study analyzes the dual-level FinTech regulatory framework in the United Arab Emirates (UAE), examining the nexus between regulation, innovation, financial stability, and consumer protection.

The methodology employs a doctrinal examination of existing literature alongside a policy evaluation of the UAE's current regulatory environment. The approach is primarily theoretical and conceptual, incorporating data and regulatory disclosures from official national and international sources to ensure credibility. This research contributes to the broader discourse on FinTech regulation by addressing the existing gap in the literature regarding the UAE landscape. It offers the scholarly community novel insights into the UAE's unique regulatory architecture, evaluating how this model navigates the competing mandates of fostering technological innovation and maintaining financial stability—with a particular emphasis on the cryptocurrency market. Ultimately, by elucidating these regulatory dynamics, this paper proposes specific avenues for reform, and serve as a valuable reference for policy discussions.

Keywords: FinTech, regulatory framework, UAE, innovation, artificial intelligence, digital technologies, cryptocurrencies, financial stability, consumer protection

JEL Classification: G2, G38, F30, O30.

1. Introduction

Regulatory frameworks are fundamental to the structural and operational evolution of the FinTech ecosystem. Beyond simple oversight, effective regulation serves as a critical pillar of market integrity and institutional trust. By mandating stringent capital requirements and comprehensive Anti-Money Laundering (AML) protocols, these frameworks proactively mitigate systemic risk and fraudulent activity. Furthermore, by enforcing data privacy standards and facilitating open banking initiatives, regulators foster competitive parity within a historically concentrated financial sector.

FinTech regulation inherently trails the pace of innovation. The sector's rapid evolution—propelled by digital payments, online lending, e-commerce, and robo-advisory services—has seen technologies like AI, blockchain, and big data analytics transition from peripheral experiments to core architectural components. With virtual assets increasingly central to the sector's trajectory, this acceleration has created a "pacing problem"—the widening gap between rapid technological advancement and lagging legislative responses. Balancing market expansion with consumer protection remains a formidable challenge, as emergent firms must navigate legacy frameworks originally designed for traditional banking. Addressing these complexities necessitates a synergistic approach, integrating robust institutional compliance strategies with a proactive, forward-looking regulatory vision.

This paper analyzes the regulatory landscape of the UAE, which is characterized by a unique dual-track legal system encompassing Federal (onshore) and Financial Free Zone (offshore) jurisdictions. Specifically, it investigates how this dual-model framework mitigates systemic risk while streamlining compliance for market participants. Furthermore, the paper evaluates how the UAE balances the competing mandates of fostering innovation and ensuring financial stability, with a particular focus on the burgeoning cryptocurrency market. To address the inherent complexities of this system, the paper proposes strategic recommendations aimed at overcoming jurisdictional fragmentation and enhancing inter-regulatory cooperation. The methodology adopts a primarily theoretical and conceptual approach, employing a

doctrinal examination of existing statutes and literature alongside a descriptive policy evaluation of the UAE's current regulatory environment.

Ultimately, this paper contributes to the broader academic discourse by providing a nuanced analysis and a novel perspective on the UAE's FinTech regulatory architecture, highlighting its distinctive strengths and unique regulatory complexities while suggesting solutions for current challenges.

The paper is structured as follows: it begins by highlighting the significance of the FinTech regulatory framework, followed by an exposition of the study's methodology. It then transitions to a doctrinal review of existing FinTech regulatory literature before providing a detailed analysis of the central topic: the dual-level regulatory framework of the UAE. Furthermore, the paper examines FinTech startups and cryptocurrency within the UAE, analyzes specific regulatory challenges, and concludes with a discussion and reform recommendations.

2. The Significance of the FinTech Regulatory Framework

Regulation is the cornerstone of the FinTech sector, encompassing the laws, guidelines, and frameworks that govern financial technology firms to ensure consumer protection, financial stability, and systemic integrity. As financial technology evolves, regulators must dynamically adapt to market shifts to maintain a delicate equilibrium between technological innovation and the security of digital transactions.

Fintech innovations—ranging from digital payments and peer-to-peer lending to blockchain services and AI-driven solutions—operate at the critical intersection of finance, technology, and data. Consequently, a robust regulatory apparatus is essential to balance rapid innovation with operational resilience and consumer protection.

As Philippon (2019) notes, by blurring industry boundaries, facilitating disintermediation, and revolutionizing product delivery, Fintech democratizes access to financial services and provides new gateways to entrepreneurship. Nevertheless, these same innovations simultaneously present significant challenges for regulation and law enforcement.

Key components of FinTech regulation include compliance, risk management, and data privacy. To support these objectives, many jurisdictions have adopted regulatory sandboxes, which allow startups to test products in a controlled environment. As Cornelli, Doerr, Gambacorta, & Merrouche (2024) emphasize, these frameworks foster innovation while maintaining necessary oversight, thereby facilitating increased funding. Consequently, sandboxes have become a vital policy tool for attracting investment and spurring near-term innovation (Cornelli, Doerr, Franco, & Frost, 2021). Ni, Zhang, & Wu (2023) further demonstrate that FinTech mitigates bank risk, confirming not only the importance of regulation in fostering innovation but also its pivotal role in mediating the relationship between FinTech development and commercial banking stability.

Emerging trends are further shifting the landscape, particularly regarding Decentralized Finance (DeFi) and blockchain technology. Regulators are currently evaluating how these technologies can enhance transparency while ensuring legal compliance. Simultaneously, AI represents the latest regulatory frontier, offering transformative opportunities alongside complex systemic risks.

However, national regulatory approaches to FinTech—representing a new stream in the political economy of platforms—often diverge significantly. This is notably evident in the contrast between the UK and China. According to Langley and Leyshon (2023), "regulating *with* platforms" is central to the British approach; here, startups and early-stage platforms are enrolled in an innovation-friendly regime that balances consumer interests and competition with financial stability. By contrast, China has recently transitioned to a more restrictive stance. While BigTech-led expansion was initially encouraged to expedite financial reform, current policies prioritize state control and the curbing of platform power.

Furthermore, Mueller and Piwowar (2019), addressing the lack of regulatory uniformity, highlight the stark divergences between the state-led governance of China and the market-oriented free zones in the United Arab Emirates. This underlines an urgent need for more cohesive regulatory mechanisms across jurisdictions.

Ultimately, as Schilirò (2025) argues, when driven by robust institutional regulation, the Fintech sector can successfully pivot traditional financial services toward more accessible, equitable, and user-centric models.

3. Methodology of the Study

The study is theoretical and conceptual, adopting an approach grounded in FinTech regulatory literature to examine the potentialities and challenges of the UAE's dual-track regulatory framework. Specifically, the research analyzes how this complex system protects consumers, ensures financial stability, and fosters innovation; it is, therefore, not an empirical study.

Notably, this study does not employ the quantitative tools typically used in review research (e.g., Kunisch et al., 2023) or systematic literature reviews (e.g., Randles & Finnegan, 2023; Brignardello-Petersen, Santesso, & Guyatt, 2024).

Instead, the methodology consists of a critical examination of significant doctrinal literature on FinTech regulation, which serves as the foundation for investigating and discussing the unique characteristics of the UAE's dual-level system. To ensure transparency, the doctrinal search began by using the keyword "FinTech" in the Scopus database, yielding a substantial volume of contributions (7,501) that reveal growing academic interest in the topic. The search was then restricted to articles published after 2018, using additional keywords to narrow the sample: "innovation," "regulation," "regulatory framework," "financial stability," "consumer protection," and "UAE." Filtering specifically for "UAE" and "FinTech" returned only a few related papers, highlighting a significant gap in the existing research. Finally, Section 6 offers a descriptive analysis of the UAE's FinTech ecosystem, including startups, cryptocurrency markets, and consumer trends.

I acknowledge that the search is not exhaustive and that the volume of literature examined has limitations. However, all methodological criteria involve inherent trade-offs, including those adopted in this study. This methodology is rooted in the view that the primary objectives of FinTech regulation are to protect consumers, enhance transparency, maintain financial stability, and promote innovation. Furthermore, it aims to provide firms with more accessible regulatory requirements, streamline compliance, and establish a cohesive, non-fragmented system to leverage economies of scale. Consequently, the scope of this research is to investigate the UAE's dual-track framework in depth, highlighting its strengths and addressing structural challenges while proposing potential solutions to overcome existing limitations.

4. A Doctrinal Review of FinTech Regulatory Literature

Public Interest Theory (Note 1) suggests that FinTech regulations should aim to protect consumers, ensure financial stability, and foster innovation (Hantke-Domas, 2003; Omarova, 2020). This theory asserts that regulation is necessary when markets fail to allocate resources efficiently or when private interests conflict with the common good. In this framework, the government's role is seen as that of a benevolent protector of society.

Breidbach, Keating, & Lim (2020) emphasize that the digital transformation of financial services, spearheaded by FinTech firms, tends to be less dependent on traditional regulatory constraints and demonstrates a higher willingness to take risks. Consequently, these firms aim to unbundle financial service offerings through the strategic use of emerging technologies.

As CCAF (2025) highlights, the expanding role of digital financial services often leaves regulatory systems lagging behind technological advancement—a classic "pacing problem." Meanwhile, geopolitical agendas concerning data sovereignty and cross-border digital integration can either create friction or accelerate change. Simultaneously, persistent inequalities in digital access, literacy, and trust shape the adoption and impact of these platforms. The result is a dynamic, interdependent ecosystem where technological innovation, political choice, and socioeconomic reality interact continuously, with regulatory systems playing a pivotal role in mediating these forces.

Dolman and Joachim (2020) explore the delicate balancing act required to regulate the rapidly evolving FinTech landscape. They highlight a "regulatory trilemma" consisting of three competing objectives that are often difficult to satisfy simultaneously: financial stability, intended to prevent systemic collapses or market contagion; consumer protection, designed to safeguard data privacy and preclude fraudulent activity; and innovation and competition aimed at facilitating the entry of new players to challenge incumbent financial institutions.

To address these competing needs, Dolman and Joachim (2020) identify a fundamental shift away from regulating *who* a company is (entity-based) toward *what* a company does (activity-based). While traditional regulatory frameworks were applied to specific institutions based on their charter, contemporary models focus on specific functions—such as lending, payments, or advisory—regardless of whether the provider is a global tech firm or a small startup. This approach ensures the regulatory principle of "same activity, same risk, same rules."

Buckley, Arner, & Zetsche (2023) characterize FinTech as an interactive system integrating finance, technology, and law. They argue that FinTech regulation has transcended mere market correction; it now involves managing a fundamental shift in financial architecture. From this perspective, FinTech is an evolutionary process rather than a static industry, necessitating that regulation itself becomes technology-driven to monitor the sector effectively. These authors also highlight the "regulatory trilemma"—the challenge of balancing three competing goals: innovation and competitiveness, financial stability, and consumer protection. To address this trilemma, and in contrast to the approach suggested by Dolman and Joachim (2020), Buckley et al. posit that proportionality is key: regulatory burdens should scale progressively as a firm's size and systemic risk increase.

The specific nexus between FinTech and financial stability remains a critical focus within the literature. Examining the UAE specifically, Elsayed et al. (2024) suggest that while the FinTech industry is increasingly integral to the financial system, it remains susceptible to external shocks. To address this vulnerability, FinTech regulation acts as a stabilizer by mitigating risks introduced by rapid digitalization and fostering systemic trust. Without robust oversight, the inherent

speed and interconnectedness of FinTech could escalate localized technical failures into systemic crises. Elsayed et al. (2024) further contend that regulatory frameworks mitigate these risks by imposing stringent capital requirements and operational resilience standards. Complementing this view, Magnuson (2018) posits that FinTech introduces novel forms of systemic risk that traditional frameworks are ill-equipped to manage, suggesting that oversight must evolve to preclude "regulatory arbitrage," wherein firms exploit legal gaps to assume excessive risk. While Magnuson (2018) characterized FinTech primarily as a disruptor of stability, more recent studies concerning the UAE (CBUAE, 2025) highlight a shift toward supervisory technology (SupTech) as a primary stabilizer. Consequently, the literature now suggests that stability is not achieved by limiting innovation, but by integrating AI-driven predictive models to manage the heightened interconnectedness inherent in digital finance (Alahmad et al., 2026).

El Dimachki (2024) argues that FinTech regulation should be viewed as a core business infrastructure that drives sectoral development. She posits that for a FinTech to transition successfully from a startup to a mature scale-up, regulatory requirements must be embedded into the product design from the outset; in this sense, compliance is a core feature of the product rather than a layer added at the conclusion. Firms that treat regulation as a foundation gain a trust premium from both investors and consumers. In her view, regulation ensures operational resilience—not merely preventing a firm from failing, but ensuring it can recover quickly when technology, such as a cloud provider or an API, inevitably glitches. Furthermore, El Dimachki (2024) emphasizes that the mindset of a FinTech's leadership is more significant than a simple checklist of rules, highlighting how firms should navigate the global financial landscape through a robust conduct culture.

As Allen (2024) highlights, much of the discourse around FinTech regulation focuses on how frameworks can best facilitate private-sector innovation. From a doctrinal perspective, a critical challenge involves understanding how FinTech firms navigate complex regulatory environments while simultaneously fostering innovation. In this regard, the United States and the United Kingdom have emerged as paradigm examples and global leaders in FinTech innovation. Regulatory agencies in these jurisdictions have responded to the sector's evolution by creating supportive environments that promote competition while maintaining financial stability. In both countries, authorities have adopted a proactive approach, effectively balancing technological advancement with robust risk management. Although emerging FinTech trends are disrupting traditional regulatory paradigms, diverse regional approaches to balancing innovation and risk still face significant hurdles in achieving cross-border regulatory harmonization.

Lawal (2025) provides a comprehensive exploration of the evolving intersection between FinTech innovation, financial compliance, and technology law. He argues that gaps remain in the literature regarding this issue; specifically, a significant knowledge gap exists in the adoption of AI for regulatory compliance—notably, the integration of machine learning models for real-time monitoring and risk assessment. This integration underscores the increasing need for advanced cybersecurity measures. While some studies have addressed the potential of AI in detecting financial fraud (Milana & Ashta, 2021) and anomalies (Niankara, 2023), research on the practical implementation and effectiveness of these models across diverse jurisdictions remains limited.

Milana and Ashta (2021), in particular, posit that AI models—especially deep learning and neural networks—outperform traditional statistical methods by identifying complex, non-linear patterns in large-scale datasets that human auditors might miss. However, they also warn about a lack of interpretability, expressing concern that many high-performing AI models function as black boxes. This opacity makes it difficult for regulators or managers to understand the rationale behind specific decisions, such as loan rejections or high-volume trades. Ultimately, while AI increases market efficiency by processing information faster, if many firms use similar AI models, it could trigger herd behavior, potentially destabilizing the financial system during a crisis.

Complementing this, Niankara (2023) identifies financial systems as high-stakes environments where AI is essential for detecting anomalies like money laundering and hidden fraud rings. (Note 2) Using the United Arab Emirates (UAE) as a primary case study, Niankara (2023) demonstrates how national cybersecurity and financial strategies integrate AI for real-time monitoring.

Furthermore, Shaffi and Sidhick (2025) shift the focus from general FinTech regulation to the specific engine of the financial sector—data. They argue that AI's effectiveness is not an inherent quality of the algorithm; rather, it is fundamentally predicated on the quality of underlying data governance.

An insightful aspect is highlighted by Cai (2026), who underscores that rapid technological innovation and regulatory oversight create complex organizational challenges for FinTech firms. To remain competitive by fostering innovation while ensuring strict adherence to legal and ethical standards, FinTech firms must pursue organizational restructuring to navigate the tension between agility and compliance. In other words, to simultaneously balance exploration and exploitation in a highly dynamic environment, Cai (2016) suggests an ambidextrous organizational framework. This framework helps firms understand how the competing demands of exploration activities (e.g., innovation, market

discovery, and long-term growth) can be balanced with exploitation activities (e.g., efficiency, risk control, and regulatory compliance). According to Cai (2026), achieving this equilibrium requires organizational designs that allow flexibility for exploratory activities while maintaining structured oversight for risk management. Ultimately, he suggests that ambidextrous and hybrid structures are the most effective approaches to fulfill these dual objectives.

Vijayagopal et al. (2024) note that the evolution of technology and regulation within the FinTech industry has been uneven across developed and developing nations, creating a unique set of opportunities and challenges. While considerable progress has recently been made in FinTech adoption, this has occurred alongside the subsequent development and implementation of diverse regulatory frameworks.

Finally, a distinct body of literature (e.g., Chaturvedi & Sinha, 2024; Kumari, 2025) examines the intersection of FinTech and consumer protection, noting that the digital evolution of finance introduces significant regulatory challenges. Key risks identified include data privacy breaches, algorithmic bias, fraud, and cybersecurity threats. To mitigate these vulnerabilities, FinTech regulatory approaches must implement robust consumer protection strategies via dynamic, collaborative frameworks. These strengthened mechanisms include the adoption of Regulatory Technology (RegTech), international cooperation, stringent data security standards, and comprehensive financial literacy initiatives. Furthermore, effective oversight relies on the rigorous application of Know-Your-Customer (KYC) and Anti-Money Laundering (AML) procedures, alongside strict transparency requirements and enhanced privacy protections. Collectively, such measures are essential for addressing customer grievances and ensuring institutional accountability within an increasingly complex digital ecosystem.

5. The UAE's Dual-Level Regulatory Framework

The UAE is a federation of seven emirates consistently transitioning toward a sustainable, knowledge-based economy (Crupi & Schilirò, 2023). As Elsayed et al. (2024, p. 2) state, "the UAE has emerged as a regional hub serving as an incubator of the FinTech ecosystem, where regulators have implemented several policies and initiatives aimed at encouraging the growth of Fintech ventures since 2017."

To this end, the nation does not rely on a single regulatory body for FinTech oversight; rather, it employs multiple authorities across distinct jurisdictions via a "twin-track" or dual-level system. Under this framework, individual emirates retain all powers not expressly reserved for the federal government, thereby granting them the legislative competence to enact localized laws tailored to their specific economic and social requirements.

Accordingly, as Kahn and Rizvi (2024) highlight, two distinct jurisdictional categories define the UAE's financial services landscape:

"Onshore UAE": This encompasses the territories of the seven emirates, including over 40 economic or commercial free zones (Note 3) that remain subject to federal and local "onshore" financial regulations overseen by the Central Bank of the UAE (CBUAE) and the Securities and Commodities Authority (SCA). These jurisdictions are governed by UAE Federal Civil Laws.

"Offshore UAE": This refers to the Financial Free Zones (FFZs)—specifically the Dubai International Financial Centre (DIFC) and the Abu Dhabi Global Market (ADGM). From a regulatory standpoint, each FFZ maintains its own autonomous legal framework and standalone court system, primarily premised on English Common Law. These regulations are specifically designed to align with the benchmarking standards of leading global financial centers.

The UAE FinTech ecosystem comprises startups, established firms, and key bodies such as the CBUAE, the ADGM RegLab, and the DIFC Innovation Hub.

The CBUAE, which governs federal monetary markets, leads financial oversight and regulates payment systems, banks, finance companies, and onshore FinTech activities (Schilirò, 2021). Other primary authorities include the SCA, the federal regulator responsible for supervising financial service providers—including forex brokers and investment firms—and overseeing securities markets and digital assets outside of specific financial free zones.

At the local level, there is the Dubai Financial Services Authority (DFSA), the independent regulator for the DIFC. Its mandate is specific to the DIFC financial free zone, where it manages regulatory frameworks for investment services, payments, and tokenized assets. Similarly, the Financial Services Regulatory Authority (FSRA) is the independent regulator for the ADGM) an international financial center known for its early bespoke frameworks for crypto assets; its jurisdiction extends over Abu Dhabi's financial free zone.

Moreover, the Virtual Assets Regulatory Authority (VARA) is a specialized body regulating virtual assets and service providers across the entirety of Dubai, excluding the DIFC. As the world's first independent crypto regulator, it provides a comprehensive framework for digital finance and, through federal agreements, serves as a gateway for licensed firms to operate across the wider UAE.

UAE regulators have sought to refine their frameworks to match the rapid evolution of financial services and technological innovation, establishing an agile regulatory environment to bolster the UAE's global financial competitiveness. As Schilirò (2021) notes, this was particularly evident during the 2020–2021 period, when federal authorities accelerated the rollout of laws governing data protection and cybersecurity—highlighted by the DFSA's launch of the Cyber Threat Intelligence Platform in January 2020.

In 2021, the CBUAE made a significant move by introducing the Retail Payment Services and Card Schemes Regulation (the "RPSCS Regulation"). This framework governs specific retail payment services, including Payment Initiation Services and Payment Account Information Services, both of which necessitate a "Category IV license." (Note 4) Consequently, the resulting contractual and regulatory relationship is governed by rigorous requirements, particularly concerning user consent, data retention, and data localization.

In April 2024, the CBUAE published two regulations focused on open finance and FinTech innovation. The most significant is the Open Finance Regulation, which establishes a comprehensive open finance framework and mandates that CBUAE-licensed financial institutions participate in a phased roll-out. This regulation makes participation in the open finance framework mandatory for designated "Licensees." This group initially includes UAE-licensed banks, branches of foreign banks, and insurance companies. These entities are required to provide open finance providers (acting as data recipients and service initiators) with streamlined access to customer data and transaction initiation capabilities (Allen & Schoorl, 2024).

The regulation also introduces a new license category and compliance framework for these providers. Furthermore, certain existing Central Bank-licensed entities—such as banks, RPSCS Regulation licensees, Stored Value Facility (SVF) providers, finance companies, and insurers—may be "Deemed Licensed" subject to prior approval. A fundamental departure from the previous RPSCS Regulation is the mandatory requirement for information sharing, which shifts the landscape from voluntary participation to a compulsory regime. Additionally, the framework's scope is expansive, covering a wide array of accounts and products, including mortgages, foreign exchange (forex), insurance, e-money, and pre-paid services. This framework represents a significant leap toward a comprehensive open finance ecosystem, signaling the UAE's ambition to lead digital reform in the information age. Consequently, the Open Finance Regulation creates substantial opportunities for innovation and service enhancement, ultimately bolstering the broader FinTech landscape.

The second key directive from the CBUAE is the Sandbox Conditions Regulation, designed to facilitate the testing of innovative financial business models, products, services, and solutions. These tests are conducted within a timeframe determined by the CBUAE and aim to benefit both consumers and the broader financial industry. Crucially, the sandbox permits live testing without requiring participants to obtain a full regulatory license immediately.

Furthermore, in June 2024, the CBUAE published the Payment Token Services Regulation (the "PTS Regulation"), establishing a comprehensive framework for the licensing and supervision of digital payment services. This regulation governs the issuance, conversion, custody, and transfer of payment tokens, including stablecoins (ICLG, 2025).

Parallel to these financial developments, the UAE has accelerated its push to become a global hub for AI infrastructure. In December 2025, the government unveiled an ambitious plan to generate 60 trillion AI tokens—the foundational units of data processed by artificial intelligence—by leveraging the massive scale of the Stargate data center campus in Abu Dhabi. This initiative underpins the UAE's strategy to become a key player in the "intelligence factory" era by optimizing and controlling AI computational throughput.

This infrastructure also transforms the regulatory landscape: as AI adoption in FinTech expands, UAE regulatory bodies are increasingly deploying AI to monitor data breaches and compliance failures in real-time, moving away from traditional annual reports. Consequently, the burden of proof has shifted to FinTech firms to proactively demonstrate that their models remain free from consumer bias.

Complementing this technological surge, a pivotal step in the UAE's regulatory evolution is Federal Decree-Law No. 6 of 2025 (the "New CBUAE Law"). (Note 5) This legislation marks a paradigm shift by consolidating the regulation of banking, insurance, and payment services under a single, unified framework. By repealing the 2018 Central Bank Law and the 2023 Insurance Law, it brings FinTech innovators, virtual asset service providers, and technology infrastructure firms directly under the Central Bank's remit, ensuring a cohesive approach to the digital economy.

Therefore, to mitigate systemic risk, the UAE employs a tiered oversight strategy that bifurcates high-stakes traditional banking from experimental financial technology. By utilizing jurisdictional isolation, authorities house disruptive FinTech activities within the DIFC and the ADGM. This creates a contained environment where the failure of an experimental firm is cushioned by the free zone's common-law infrastructure. This framework acts as a circuit breaker, preventing financial contagion from infiltrating the onshore retail sector. Furthermore, as the designated resolution

authority, the CBUAE maintains the mandate to manage the orderly failure of non-viable institutions, ensuring that growing FinTechs are integrated into a national safety net prioritizing solvency and liquidity.

In conclusion, this overview reveals a complex and fragmented, yet inherently collaborative, regulatory model governing FinTech in the UAE. This framework appears to balance risk mitigation with the mandates of the UAE National Strategy for Artificial Intelligence 2031, particularly regarding the advancement of AI adoption and the enhancement of intelligent operational efficiency. Central to this approach is a philosophy of active enablement, institutionalized through the proliferation of regulatory sandboxes and innovation hubs. Ultimately, the UAE's regulatory trajectory aligns more closely with the market-driven approach of the United States than with the frameworks adopted by the European Union or China.

6. Fintech Startups and Cryptocurrency in the UAE

In the UAE, FinTech platforms focus predominantly on payments, lending, and digital banking. The country has seen a surge in neobanks and digital-first platforms, driven by a tech-savvy population and a 96% smartphone penetration rate.

The total number of fintech and innovation-focused companies in the UAE has increased significantly in recent years, driven by the expansion of regulatory "sandboxes" and dedicated financial free zones. The vast majority of the UAE's fintech startups are clustered within two major financial jurisdictions. Approximately 65% are headquartered in Dubai, primarily within the DIFC. According to its 2025 annual report, the DIFC is home to 1,245 fintech and innovation-focused entities—a 38% increase over the previous year. This surge, occurring in late 2024 and early 2025, is largely attributed to Federal Decree-Law No. 6, which established a more unified regulatory framework for banking and fintech. Simultaneously, at the end of 2024, (Note 6) ADGM hosts 275 FinTech firms, while its broader tech ecosystem, supported by Hub71, includes over 300 startups across various sectors. Furthermore, approximately 250–330 active FinTechs operate across the broader UAE (including mainland and general free zones), focusing primarily on payments, lending, and wealth management. Additionally, the utilization of AI in the UAE's fintech sector is expanding rapidly; consequently, over 80% of FinTechs have now integrated AI into their core operations, primarily for fraud detection and customer service.

A prime example of a FinTech startup is the Dubai-born success story of Tabby, which launched in 2019 and is now a unicorn operating across the Middle East. The company valued at \$3.3 billion in early 2025. With over 15 million users, Tabby has evolved into a comprehensive financial services app, offering a digital Visa card, automated savings tools, and a "Tabby+" subscription service. Another prominent example is Network International, a leading UAE-based payment service provider. Headquartered in Dubai and operating across more than 50 countries in the Middle East and Africa, the company is one of the region's largest digital payment processors. Following its 2024 acquisition by a Brookfield-led consortium and its 2025 merger with Magnati, Network International has solidified its position as a "homegrown FinTech champion," dominating both merchant acquiring and card processing markets.

Within this ecosystem, cryptocurrencies occupy a central role. The UAE has emerged as a regional hub for asset tokenization and settlement systems, positioning itself as a strategic bridge for digital finance between Asia, Europe, and Africa. Furthermore, the nation has established itself as a global leader in virtual asset adoption, thanks to high user engagement and digital asset regulation.

By creating VARA in Dubai—the world's first independent regulator dedicated to the sector—the UAE has moved decisively to integrate virtual assets, transitioning from simply allowing crypto to actively institutionalizing it. Several key factors drive this success. These include: 0% tax on personal crypto gains from staking, mining, and trading; regulatory clarity provided by proactive rulebooks from VARA and ADGM; and a highly diversified, wealthy investor base that views digital assets as a standard component of a modern financial portfolio.

According to the Henley Crypto Adoption Index 2025, (Note 7) the UAE ranks as a premier global jurisdiction for digital assets. With approximately 30% of its population owning virtual assets (Nasr & Silva, 2025), the country leads the world in per capita crypto adoption.

Table 1 provides a summary of the UAE's crypto market landscape and consumer demographics as of 2025.

Table 1. UAE Crypto Market and Consumer Data (2025)

Category	Statistic
Active Daily Traders	Over 500,000 individuals.
Gender distribution	61% Male / 39% Female.
Primary Age Group	34% are between 25–34 years old
Primary Intent	65% of users for payments

Source: BYBIT (2025)

The data in this table illustrates a market transitioning from speculative trading toward real-world utility. A figure of 500,000+ daily traders is significant for a nation with a population of approximately 10 million, suggesting that cryptocurrency is not merely a passive investment for UAE residents, but a daily financial activity. This high engagement is largely attributed to the UAE's zero-tax policy on personal capital gains and the presence of VARA-licensed exchanges that offer deep liquidity and seamless local bank integrations.

Furthermore, the 61% male to 39% female distribution represents a maturing gender split. While crypto has historically been male-dominated—often hovering around 75–80% globally—the UAE's 39% female participation rate significantly exceeds the global average. This indicates that digital assets are reaching a broader, more diverse demographic, likely bolstered by regional initiatives such as Women in Web3 (Note 8) and NAMA, (Note 9) which have successfully narrowed the gap compared to other global markets.

The concentration of users in the 25–34 age bracket aligns with the UAE's core professional expatriate population. This digital-native workforce—individuals early in their careers with high disposable income—is increasingly favoring cryptocurrency over traditional savings accounts. This demographic has become the primary driver of the UAE's crypto-committed status, as they are the most likely to adopt emerging financial technologies such as DeFi and digital-first banking.

Moreover, the fact that 65% of users intend to use crypto for payments is a striking data point. While most global markets still view cryptocurrency as "digital gold" (a store of value), in the UAE, it is increasingly treated as digital cash. This shift aligns with recent 2025 developments, where major entities like Emirates Airline and various Dubai government departments have begun integrating crypto payment gateways for flights, utility bills, and even public services.

Strengthening its position as a global FinTech hub, the UAE attracted \$34 billion in cryptocurrency inflows between July 2023 and June 2024—a 42% annual surge (Farraj, 2025). This growth reflects the nation's transition from being crypto-curious to fully crypto-committed; a shift further evidenced by the data in Table 1. Driven by intense institutional interest and the UAE's removal from the FATF/EU grey lists, this influx confirms the country's role as the primary digital asset gateway for the MENA region. (Note 10)

Investment in crypto is also flourishing. In March 2025 alone, MGX, an Abu Dhabi-based investment fund, made a \$2 billion investment in Binance—one of the largest ever in the industry. This deal, which Binance identified as its first institutional investment, establishes MGX as a minority shareholder. The capital was specifically directed toward stablecoins, a type of cryptocurrency pegged to a fiat currency such as the US dollar.

In the UAE, cryptocurrency is regulated according to the specific jurisdiction in which a business operates. The CBUAE and SCA, which govern federal monetary and capital markets, have extended their mandates to encompass virtual assets. Notably, under the *2021 Guidelines for Financial Institutions*, the CBUAE's Anti-Money Laundering (AML) regulations apply to all Virtual Asset Service Providers. The current landscape is further reinforced by Federal Decree-Law No. 10 of 2025, which serves as the primary federal AML/CFT framework, mandating that crypto businesses dealing with payment tokens (stablecoins) or providing payment-related services adhere to CBUAE's Payment Token Services Regulation (PTSR). This involves mandatory registration; specifically, these entities must register with the CBUAE to operate legally. Additionally, they are required to report suspicious transactions directly to the Financial Intelligence Unit at the Central Bank via the go AML platform. Even if a business is licensed by a regional regulator—such as VARA in Dubai or the FSRA in Abu Dhabi—it remains legally bound by the Federal AML Law. As the lead member of the National AML Committee, the CBUAE sets the overarching standards that these regional authorities are required to enforce. (Note 11)

Regarding the navigation of the innovation versus stability mandate, the UAE utilizes a multi-tiered specialization model to harmonize these competing objectives. On one hand, the state leverages its financial free zones (i.e., ADGM and DIFC) as regulatory sandboxes. These jurisdictions facilitate cutting-edge activities, such as decentralized autonomous organizations and liquid staking, under specific rulebooks designed to fulfill the innovation mandate. On the other, by confining these activities to specific zones, the UAE ensures that potential systemic shocks are contained. This containment strategy prevents localized volatility from permeating the broader onshore economy, thereby upholding the stability mandate and safeguarding the nation's primary financial infrastructure.

In conclusion, the UAE's virtual asset sector is supported by a structured, yet specific regulatory framework—underpinned by a twin legal system—and a consistent influx of institutional investment. These elements have encouraged the growth of a tech ecosystem, positioning the country as a significant jurisdiction for digital asset activity (i.e., crypto, NFTs, and tokenized securities).

7. Regulatory Challenges in the UAE Fintech

The structural duality of the UAE's "dual-track" legal system—comprising the Civil Law mainland and the Common Law Financial Free Zones (DIFC and ADGM)—poses a fundamental challenge to its FinTech ecosystem. While this architecture attracts international investment through familiar Common Law frameworks, it creates a complex landscape where firms must navigate diverging rules based on their legal domicile.

This duality gives rise to three core challenges:

- **Regulatory Arbitrage:** The variation between agile, sandbox-friendly offshore regulators (DFSA and FSRA) and stability-focused onshore authorities (CBUAE and SCA) may encourage firms to engage in jurisdiction shopping to find the least restrictive environment.
- **Supervisory Fragmentation:** Maintaining a unified macro-prudential view is difficult when oversight is split. This hinders the sector from achieving true economies of scale, as firms face significant administrative burdens when attempting to "passport" services from free zones to the mainland.
- **Systemic Grey Zones:** The lack of a unified technical rulebook can create unintended gaps where firms may circumvent compliance, potentially undermining national financial stability.

To address these challenges, the government issued Federal Decree-Law No. (6) of 2025 (the '2025 Central Bank Law'), which seeks to mitigate systemic risks by consolidating the regulation of banking, payments, and insurance under a unified federal umbrella. By expanding the CBUAE's remit to include open finance and virtual asset payments across the entire state, this reform aims to ensure a cohesive approach to oversight.

Notwithstanding the reforms, foundational frictions persist. The application of English Common Law within free zones, though a successful legal transplant for incentivizing foreign investment, generates a functional misfit at jurisdictional borders. When an ADGM-based FinTech firm contracts with a mainland Civil Law entity, the resulting choice-of-law conflicts create a legal shadow that increases transaction costs. The UAE is essentially running two different operating systems on the same hardware; it is a systemic friction that regulatory guidance cannot fully resolve without a unified commercial code.

Furthermore, regulatory sandboxes can inadvertently function as barriers to entry. While framed as enablers, they risk becoming innovation traps by keeping firms in a controlled, limited-license environment. This can delay a firm's ability to achieve the scale necessary to compete with global incumbents. If the transition from a sandbox to a full license remains fragmented, the sandbox serves as a waiting room rather than a launchpad.

Finally, the VARA-SCA relationship highlights a unique sovereignty tension. By establishing a specialist regulator at the emirate level, Dubai has effectively pre-empted federal policy. This raises a critical question: can a federal state maintain a unified monetary policy when virtual asset regulation—which significantly impacts liquidity—is decentralized? Consequently, the SCA-VARA cooperation is more than a technical fix; it represents a necessary concession to prevent a constitutional crisis over the control of digital value in the UAE.

8. Discussion and Conclusion

This paper has examined the UAE's FinTech regulatory framework, asserting that its jurisdictional multiplicity aligns more closely with the United States' "dual banking system" than with the centralized models of the EU or China. By employing federal entities (CBUAE/SCA) alongside independent common-law authorities (DIFC/ADGM), the UAE mirrors the American balance of state and federal oversight. However, this alignment is a double-edged sword. Unlike the U.S., where the Supremacy Clause resolves jurisdictional conflicts, or China, where top-down statutory law ensures rapid implementation, the UAE's reliance on English Common Law in free zones creates a jurisdictional firewall against the Civil Law mainland. This fragmentation creates persistent legal silos that hinder the sector's ability to achieve true economies of scale.

To resolve this passporting paradox, the UAE must transition from a model of mere coexistence to one of institutional interoperability. The administrative burden of moving from a common-law free zone to the civil-law mainland currently acts as a non-tariff barrier—an ontological legal conflict that requires a hybrid bridge rather than a simple bureaucratic adjustment. Consequently, this study proposes a federal mutual recognition agreement. Inspired by the EU's single-passport rule, a license issued within a recognized free zone should authorize mainland operations via a simplified notification process. Such a protocol would facilitate operational efficiency and mitigate the frictions of re-licensing, provided federal capital and AML requirements are met.

Furthermore, while the *regulation by guidance* model—epitomized by VARA—offers flexibility, it risks inconsistency across jurisdictions. The issuance of unified federal FinTech guidelines is essential to standardize technical definitions,

such as the distinction between "utility" and "security" tokens. A shared technical rulebook would bridge the gap between Common Law principles and Civil Law statutes, reducing the administrative burden of legal translation for firms.

Finally, to address the Dubai-specific mandate of VARA, the UAE should formalize a permanent federal-local hybrid model as part of its policy roadmap. By utilizing VARA as the specialized technical interlocutor for the federal SCA, the state can preserve federal sovereignty while leveraging specialized supervision. This integrated approach would effectively replace fragmentation with a specialized federalism, enhancing the resilience and scalability of the UAE FinTech ecosystem.

While this research addresses a significant gap in UAE-specific FinTech literature, it acknowledges limitations regarding the availability of extensive data and the scarcity of empirical metrics on FinTech performance. Consequently, future inquiry should transcend qualitative doctrinal analysis to explore quantitative measures of regulatory efficacy. For instance, subsequent research might employ a Net Present Value analysis to quantify the impact of regulatory friction on FinTech startups transitioning from free zones to the mainland. Furthermore, this study highlights the unique characteristics of the UAE's dual-level system, identifying both its inherent strengths and its systemic challenges. By offering specific policy proposals to mitigate current fragmentation, this research provides a roadmap for future regulatory development. Subsequent studies could expand upon the literature on FinTech governance to explore integrated, high-impact solutions that enhance the resilience and scalability of the UAE's financial technology ecosystem.

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Notes

Note 1. Public interest theory posits that regulations serve the public good by correcting market failures.

Note 2. This latter anomaly involves utilizing Graph Neural Networks (GNNs) to map complex relationships between seemingly unrelated accounts.

Note 3. These commercial free zones offer 100% foreign ownership and tax holidays, yet they remain subject to UAE federal laws (such as criminal and anti-money laundering laws) and use the UAE's federal court system for civil matters.

Note 4. Notably, Article 17 of the RPSCS Regulation stipulates that a Payment Account Issuance Service provider (such as a bank) and a Category IV licensee may contractually agree to provide direct or indirect access to payment accounts. In effect, Article 17 laid the groundwork for open banking in the UAE by formalizing how third-party providers interact with traditional financial institutions.

Note 5. Retrieved January 22, 2026 from <https://rulebook.centralbank.ae/en/rulebook/federal-decree-law-no-6-2025-regarding-central-bank-regulation-financial-institutions-and>

Note 6. Retrieved January 23, 2026 from <https://www.adgm.com/>

Note 7. Henley & Partners focuses on crypto-friendly investment-migration pathways, using 750+ data points. Their score highlights jurisdictions that blend low taxes, supportive banking and clear legal frameworks. Retrieved from <https://vicodi.org/global-crypto-adoption-index-2025-country-rankings-methodology-insights#:~:text=Global%20Crypto%20Adoption%20Index%202025%20is%20a%20composite,how%20widely%20crypto%20is%20used%20in%20each%20country.>

Note 8. This transformation is exemplified by the rise of Web3 female founders in the UAE, who are leveraging blockchain, NFTs, DeFi, and DAOs to build impactful and scalable businesses.

Note 9. NAMA Women Advancement is a public non-profit organization, founded in 2015 and based in Sharjah, dedicated to bridging global gender gaps and creating enabling environments for women's advancement.

Note 10. This trend is further supported by the rapid escalation of capital entering the UAE's crypto market between 2023 and 2025.

Note 11. In practice, if a crypto business seeks to open a bank account in the UAE, the financial institution—as a CBUAE-regulated entity—will perform "Enhanced Due Diligence" based on specific CBUAE crypto-risk guidelines. Furthermore, the business must comply with the FATF Travel Rule, which the CBUAE and other federal bodies strictly enforce for all transactions exceeding AED 3,500.