

Context and Content - CP 103

Dharmika Amukotuwa, Director, Policy and Strategy
Scott Lim, Associate Director, Supervision

4th January 2016

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What we will cover today

Context – Drivers for change

- DIFC specific issues
- Introduction of the Insurance Distribution Directive (IDD)

Key changes for:

- Insurers
- Insurance Intermediaries
- Insurance Managers

Going forward:

- Rationalisation of Licences
- Tailored COB for reinsurance-related activities
- Lower capital for brokers holding Insurance Monies
- Increased prudential reporting

Drivers for changes

DIFC market dynamics have evolved

The IDD focus is centred on the activity of 'distribution' – rather than the institution

Issues identified through supervision:

- Unclear boundaries of intermediation and management
- Inadequate reporting by Insurance Managers (IMs)
- Capital requirements for intermediaries

Insurers

Insurer allowed to give advice on, and arrange relating to:

Own products

Products of
Insurers in its
Group

Insurer must have relevant skills,
competencies & resources

An
Insurer is
not
allowed
to be
'agent' of
its Group
members

Insurance Intermediaries (“IIs”)

II Licence continues to cover –
‘advising’, ‘arranging’ and ‘acting as
an agent’

Guidance on ‘Independence’ &
managing conflict of interests

Tailored COB Rules for reinsurance
activities

Overlap between Insurance
Management and II addressed

Role of Insurance Agent vis-à-vis
Insurance Broker clarified

Ceding Insurers deemed as
Market Counterparties

Reduction in capital for
intermediaries handling
Insurance Monies

Operating aggregation sites
included

Existing exclusions
expanded/refined

Guidance on 'independence'

Brokers and agents must disclose the capacity in which they act (COB 7.5.3), i.e. acting as agent of an insurer or policyholder

Only brokers can claim to be independent

If claiming to be independent – a broker should:

- assess a sufficiently large/diverse number of insurance products in the market
- be free to select insurance products (e.g. no exclusivity arrangements)
- clearly disclose commissions and other benefits coming from insurers

Managing conflict of interests

If an Insurance Intermediary proposes to act for both insurer and policyholder – it can lead to conflict of interests which are difficult to manage;

We do not propose to prohibit acting for both parties;

However, we expect the intermediary to manage such conflict of interests by:

- clearly disclosing to each party that it is also acting for the other
- notify both parties of the procedures it will follow when such conflicts arise
- decline to act if the parties express concerns

Insurance Managers (“IMs”)

Definition to include a list of activities constituting Underwriting/Administration

IMs required to undertake more due diligence on Non-DIFC insurers

Annual declaration – list of non-DIFC insurers they underwrite for and any concerns about their soundness

Tailored COB Rules for reinsurance activities

Overlap between IM and II addressed

Exclusions expanded/refined

Going forward – changes for agents

Rationalisation of II and IM Licences

- Only insurance agents (not brokers) can benefit from rationalisation
- Which Licence is required would depend on the agent's activities:
 - If 'advising' and 'arranging' as an agent of an insurer – an II Licence required.
 - If 'arranging', 'underwriting/administering claims' as an agent of an insurer – an IM Licence required.
 - If 'advising', 'arranging', 'underwriting/administering claims' as an agent of an insurer – both II and IM Licences required.

Going forward - tailored COB for reinsurance activities

Insurers, IIs and IMs – can “deem” ceding insurers as Market Counterparties

Insurers, IIs and IMs, when dealing with Market Counterparties, need to comply with some, but not all, COB Rules – i.e.:

- Section 7.2 – business restrictions
- Rule 7.3.1 – clear, fair and not misleading communications
- Rule 7.5.1 – disclosure relating to service provider
- Rule 7.6.1 – disclosure of costs and remuneration
- Rule 7.9.1 – managing conflicts of interests (for IIs and IMs only)
- Section 7.10 – placement of insurance
- Section 7.12 – Insurance Monies (for IIs and IMs only)

Going forward – lower capital & due diligence

For Insurance Brokers holding Insurance Monies – reduction in capital from 18 to 9 weeks of operating costs

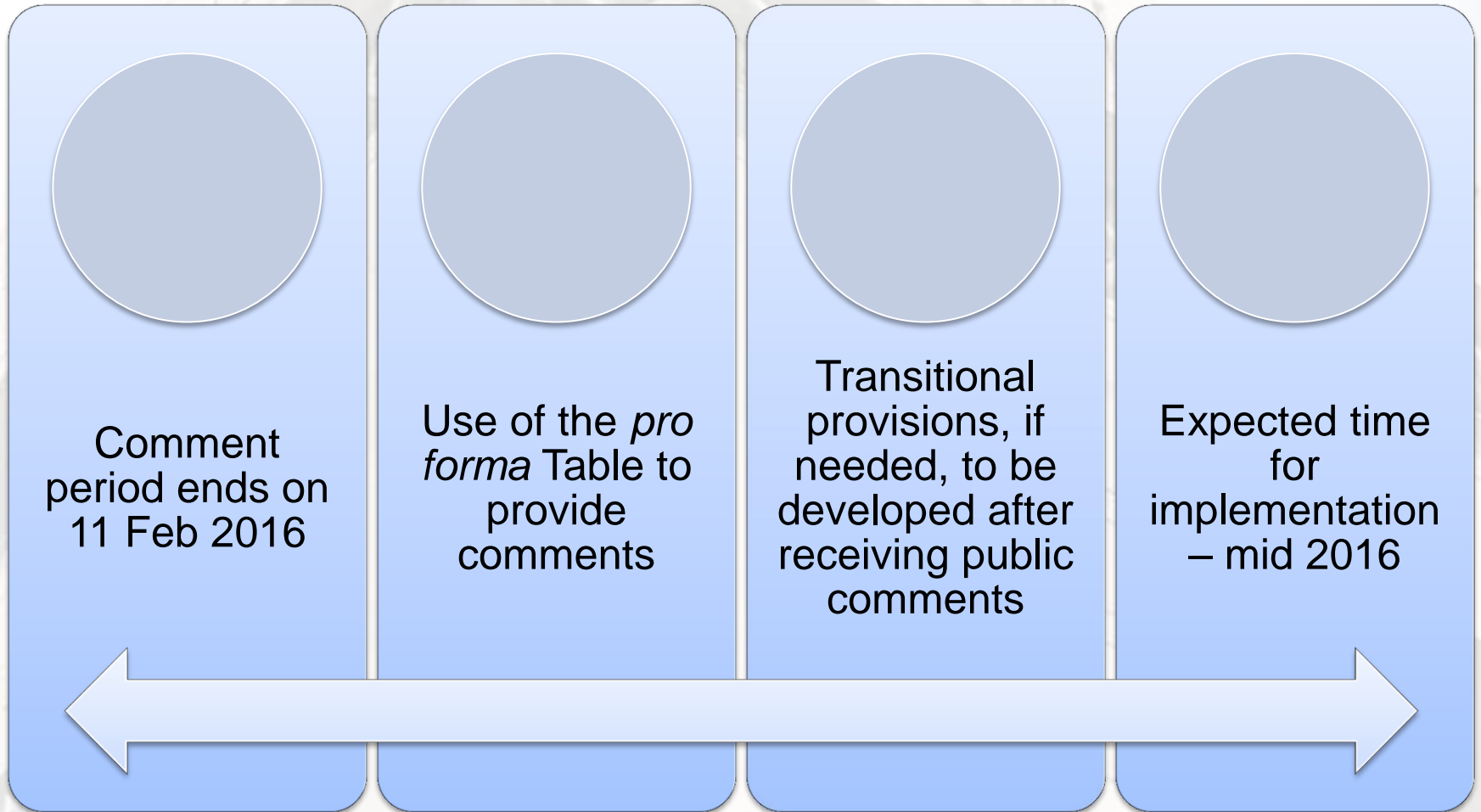
For IMs – increased due diligence and reporting relating to Non-DIFC insurers for whom they underwrite

Going forward – prudential reporting and Eligible Banks

For Insurers and IMs
– increased
prudential reporting
on location of risk
and where it is
insured

For IIs and IMs
holding Insurance
Monies – more
flexible arrangements
relating to Eligible
Banks

Other matters





Questions



Thank You