

DFSA Outreach Session

3 May 2017

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Prudential Supervision

Arvind Baghel
Director, Supervision

Agenda

Prudential Supervision

Arvind Baghel, Director – Supervision

Update on Banking Matters

Arvind Baghel, Director – Supervision

Update on Insurance Business

Scott Lim, Associate Director, Insurance – Supervision

The DFSA's Role and Approach

DFSA objectives – reminder – DIFC Law #1 -8 (3)

- Fairness/ Transparency/ Efficiency
- Confidence in financial Services
- Financial stability and reduction of systemic risk
- Reputation of DIFC
- Protect direct and indirect users
- Promote public understanding

DFSA Guiding Principles - DIFC Law #1 - 8 (4):

International best practices

Co-operation with other regulators

Minimising adverse effect of competition

Efficiency

Regulation proportionate to benefits

Transparency

Principles of good governance

What it means for Authorised Firms – Principles – Gen 4.2

- 1. Integrity**
- 2. Due skills, care and diligence**
- 3. Management systems and controls**
- 4. Resources**
- 5. Market Conduct**
- 6. Information and interests**
- 7. Conflicts of interest**
- 8. Suitability**
- 9. Customer Assets and Money**
- 10. Relationship with Regulators (and compliance)**
- 11. High standard of Corporate Governance**
- 12. Remuneration Practices**

Supervisory Framework



Corporate Governance

Key DFSA Expectations

Corporate Governance and Management Oversight



External Audit – Independent Opinion

Supervisory Approach

- Risk based
 - Continuous supervision
 - Improved analytics
 - Thematic reviews
 - Online filing through portal
- Transparency
- Co-operation
- Accountability
- Enforcement

Update on Banking Matters

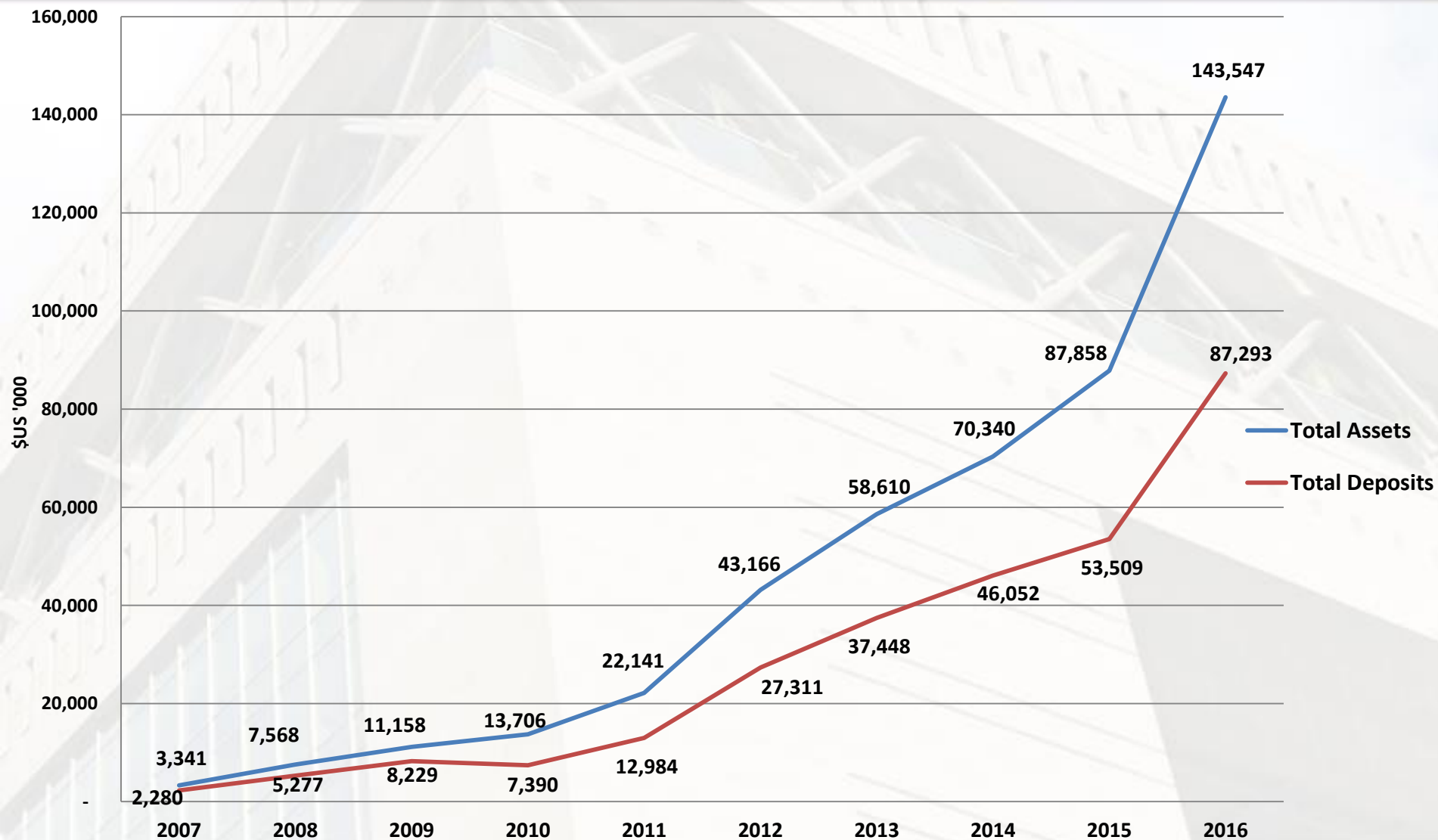
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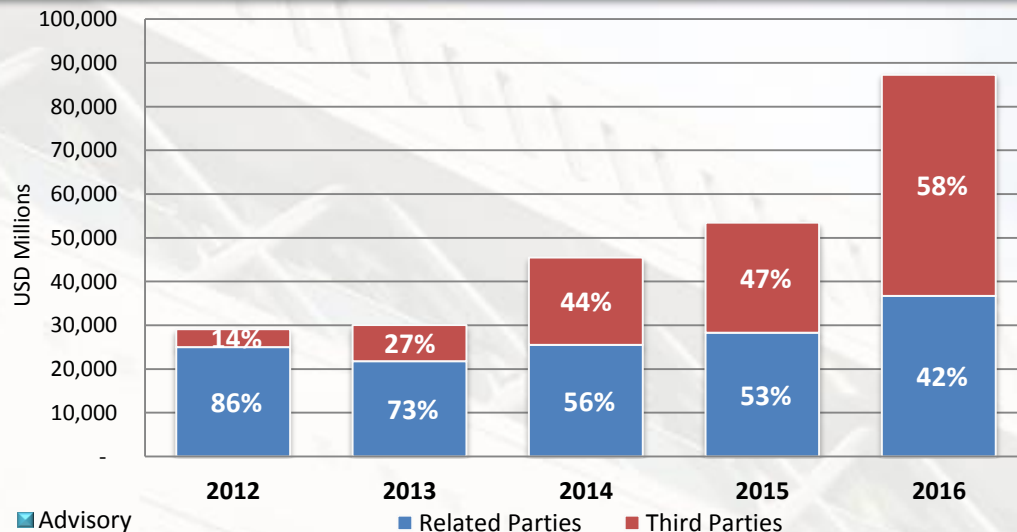
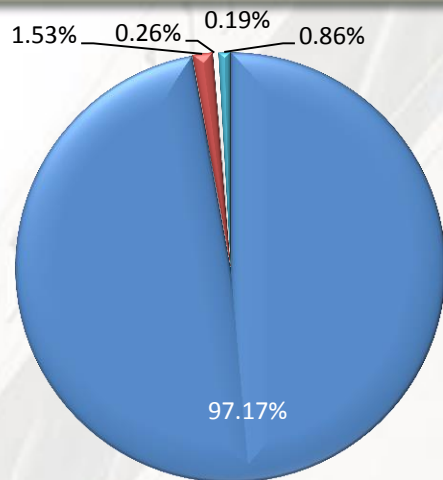
- DIFC Balance Sheet
- Key Prudential Risks
- Upcoming Consultation Papers
- Potential Rule Changes
- Regulatory Reporting – EPRS



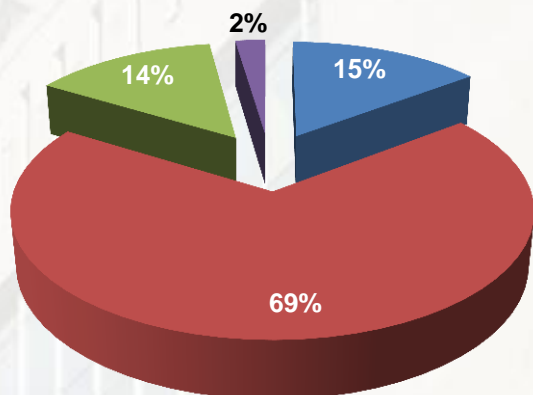
DIFC Balance Sheet



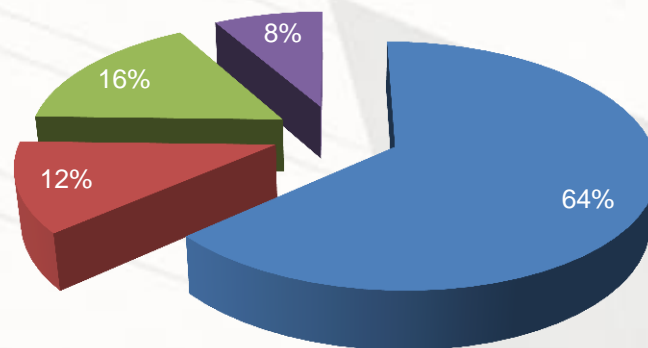
DIFC Balance Sheet



Asset Mix



Liability Mix



■ Cash ■ Loans and Advances ■ Investment Securities ■ Other

■ Deposits ■ Debt Securities in Issue ■ Other Borrowed Funds ■ Other

Prudential Risks – Key Focus Area

- Credit Risk
 - Asset Quality
 - NPL and Provisioning
 - Asset Concentration
- Profitability Risk
 - Profitability drivers
- Liquidity Risk
 - System and Controls: *Funding Strategy; Monitoring; Stress Testing; Contingency Planning*
 - Funding maturities and concentrations



Prudential Risks – Other Focus Area

- Capital Adequacy
 - Quality and composition of capital
 - ICAAP (including stress testing)
- Operational Risk
 - Outsourcing
 - Cyber Security
- Interest Rate Risk in the Banking Book



Qualitative Requirements

- Policies and Procedures
- Liquidity Limits
- Stress Testing
- Contingency Planning
- Funds Transfer Policy
- LCR Management and Operational Requirements

Upcoming Consultation Papers

Revision of the PIB Module

Business Plan 2017/2018

- CP on Capital Adequacy
 - Alignment with Basel III
 - Enhancements to the existing regime
- CP on Liquidity Risk
 - Enhancements to the qualitative requirements
 - Net Stable Funding Ratio



The DFSA Rulebook

**Prudential – Investment, Insurance
Intermediation and
Banking Module
(PIB)**

Revision of the PIB Module

Business Plan 2017/2018

- Credit Risk
 - Counterparty Credit Risk
 - Large Exposures/concentration risk
 - Standardised Approach for Credit Risk Capital Requirements
- Market Risk
 - Review of Trading Book
 - Capital Requirements



The DFSA Rulebook

Prudential – Investment, Insurance
Intermediation and
Banking Module
(PIB)

Revision of the PIB Module

Business Plan 2018/2019

- Leverage Ratio
- Operational Risk
 - Sound Management of Op. Risk
 - Standardised Measurement Approach for Op. Risk Capital Requirements
- Interest Rate Risk in the Banking Book



The DFSA Rulebook

Prudential – Investment, Insurance
Intermediation and
Banking Module
(PIB)

Risk-Assessment Highlights

- Governance Arrangements
- Appropriateness of Policies and Procedures
- Quality of Human Resources
 - Authorised Individuals
 - Risk Management
 - Compliance
- Risk Management Function
- Loan Classification and Provisioning
- Funds from the UAE

Upcoming update to EPRS and PRU

- Enhancements to PIB Returns
 - Consider feedbacks received from firms and auditors
 - Further alignment with new international regulatory standards
 - Align with development in activities conducted in and from the DIFC
- Errors Fixing
- New instructional guidelines



The DFSA Sourcebook

Prudential Returns Module

(PRU)

Update on Insurance Business

Scott Lim
Associate Director, Insurance
Supervision

Agenda

- Insurance Stats
- CP103 and CP106 changes to rules
- Common risk-assessment findings
- Future considerations



Insurance Firms in DIFC: 76

Pru Cat	PIN		PIB – Cat 4			
Licence	Effecting and carrying out contracts of insurance		Insurance management		Insurance intermediation	
	DIFC Insurer / Subsidiary	Foreign Insurer Branch	Foreign Insurer Acting as Agent	Cover-holder/ MGA	Third Party Agent	Broker
May 2016	8	12	21	6	4	17
Current	8	11	25	8	4	20
Change	◀▶	▼ 1	▲ 4	▲ 2	◀▶	▲ 3
	19		37			20

Insurance sector in the DIFC

	2015	2016	Change
Total number of staff employed	1,041	1,089	▲ 5%
Total GWP underwritten from DIFC	\$1.39bn	\$1.41bn	▲ 2%
Total GWP by Insurers	\$571m	\$520m	▼ 10%
Total GWP by Underwriting Agents	\$819m	\$885m	▲ 8%
Total premium brokered in the DIFC	\$406m	\$440m	▲ 8%

Rule changes in 2016 / 2017

- Clarified that Insurer can also advise and arrange
- Loss adjusting, expert appraisal of insurance claims and actuarial services are not regulated
- Ceding insurers, reinsurance brokers, agents and reinsurers can be deemed market counterparties
- Many of the disclosure and suitability requirements in COB do not apply to market counterparties (only COB7.2, 7.3.1, 7.6.1, 7.9.1, 7.10 and 7.12 apply)

Rule changes for Ins Managers

- Clarified definition of “Insurance management” to mean performing underwriting or administration functions on behalf of an Insurer
- Insurance Manager can also advise
- Clients of Insurance Manager include insurers and policyholders

Rule changes for Intermediaries

- EBCM requirement for Insurance Intermediaries is 9 weeks of operating expenses (reduced from 18 weeks)
- Insurance Intermediaries intermediating Long-Term Insurance requires endorsement on its Licence (demonstrate adequate skills and knowledge to advise on LTI)
- Clarified restriction on dealing with direct risks in the UAE (outside the DIFC):
 - If acting as agent – then only reinsurance allowed
 - If advising and/or arranging – then COB 7.2.2 restrictions does not apply – but must be mindful of UAE regulations

Rule changes re IBAs

- Insurance Bank Account (IBA) need not be in the UAE
- Need to obtain a written confirmation from the bank that it is not entitled to set-off IBA against other monies owed
- If written confirmation cannot be obtained, then IBA should be set up with a bank where the Firm has no other banking relationships (including corporate accounts)

Rule changes for Insurance Rep Office

Can

- Provide potential cedants general information on reinsurance contracts
- Refer cedants to related parties in the group

Cannot

- Enter into discussions about the terms of specific contract
- Place contracts of insurance
- Act under a binding authority

Rule changes for Broker Rep Office

Can

- Establish contact with DIFC market
- Provide DIFC market with general information
- Make referrals to related parties in the group

Cannot

- Maintain an on-going business relationship with DIFC market
- Be reference point for complaints relating to a contract
- Enter into discussions with DIFC market about the terms of a contract
- Place or assist in placing insurance business

Common risk-assessment findings

- Lack of formalised Service Level Agreements with group entities and monitoring of standards
- Lacking detail in BCP/DRP and not testing
- Risk management framework and risk register not customised for the Firm
- Compliance of waiver conditions / expiry
- Maintenance of robust and complete brokerage and claim files



Future considerations

- Review of adequacy of Professional Indemnity Insurance covers in the DIFC
- Collection of additional data through surveys
- Review of the foreign insurers which provide capacity through coverholders



Questions & Answers

Concluding Remarks



Thank You