

THEMATIC SUPERVISION EMERGING TRENDS CONG/DFSA OUTREACH 30 May 2016

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Prudential Supervision

Arvind Baghel
Director, Supervision

Agenda

Prudential Supervision

Arvind Baghel, Director– Supervision

Update on Banking Matters

Mohamad El Khalil, Associate Director, Banking – Supervision

Update on Insurance Business

Scott Lim, Associate Director, Insurance – Supervision

The DFSA's Role and Approach

DFSA objectives – reminder – Regulatory Law DIFC Law no 1 of 2014, Article 8 (2) (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

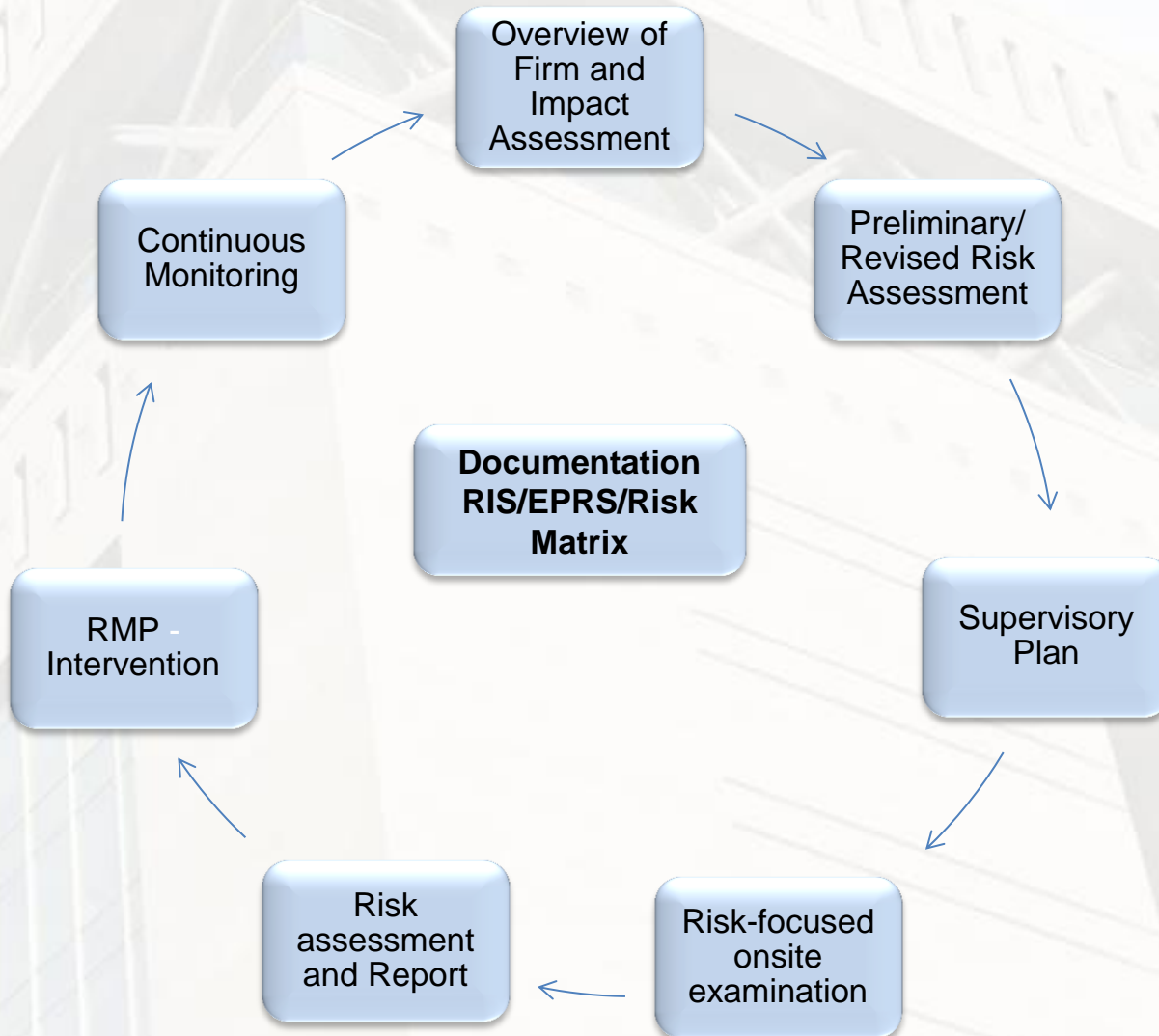
**DFSA Guiding Principles – Regulatory
Law DIFC Law no 1 of 2004, Article 8 (4)**
International best practices
Cooperation with other regulators
Minimising adverse effect of competition
Efficiency
Regulation proportionate to benefits
Transparency
Principles of good governance

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. Relations with Regulators (and compliance)**
11. Compliance with high standard of corporate governance
12. Remuneration practices
13. Principles for Authorised Individual – application

Supervisory Framework



Corporate Governance

Key DFSA Expectations

**External Audit –
Independent
Opinion**

Board/ Governing Body

Risk Management Oversight Responsibility

**Independent
Oversight**

Senior Management

SEO

Compliance
Officer

MLRO

Finance
Officer

CRO

Internal
Audit

**Risk Management
Operations**

**Operational Management
Internal Controls**

Supervisory Approach

- Risk based
- Transparency
- Co-operation
- Accountability
- Enforcement

Update on Banking Matters

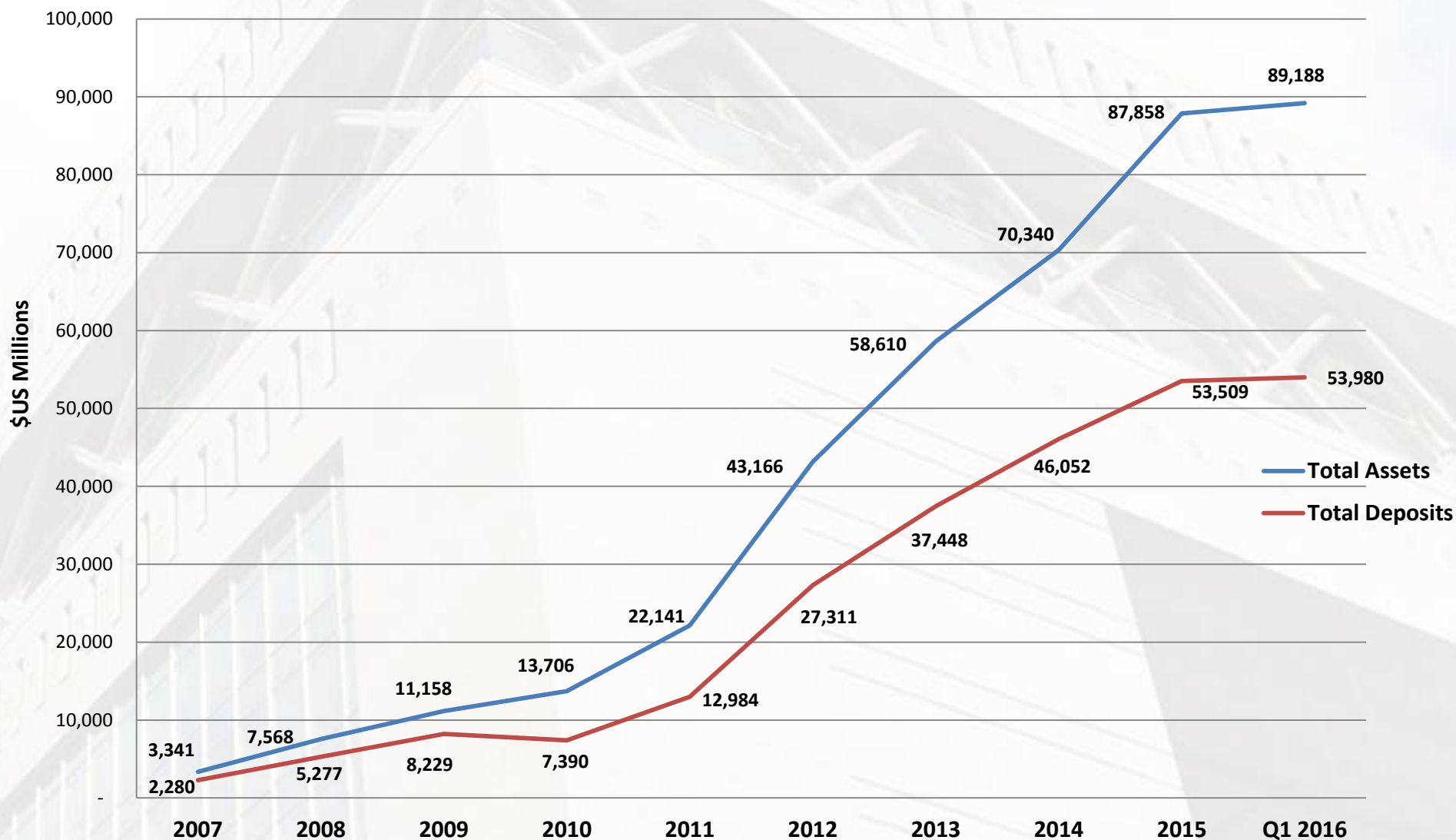
Mohamad El Khalil
Associate Director, Banking
Supervision

Agenda

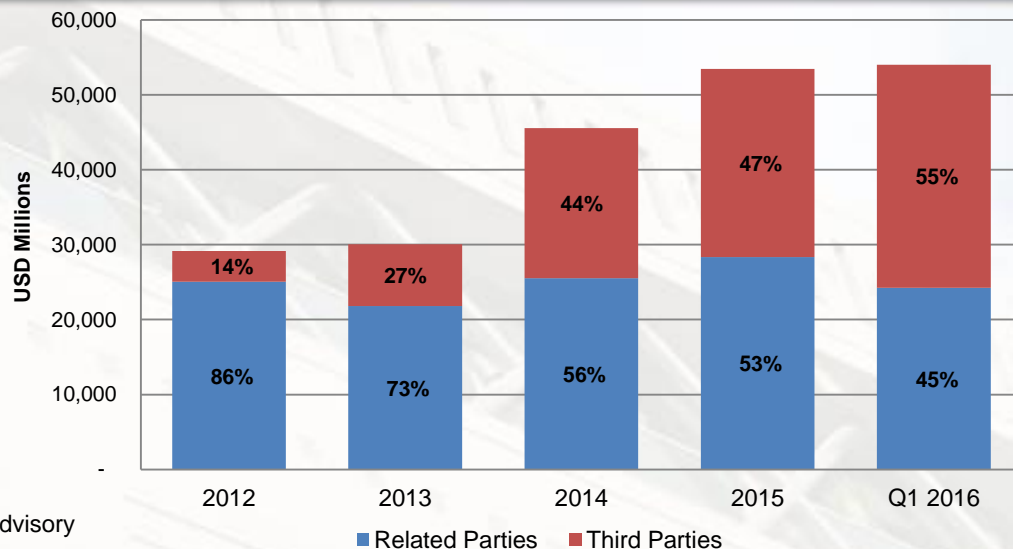
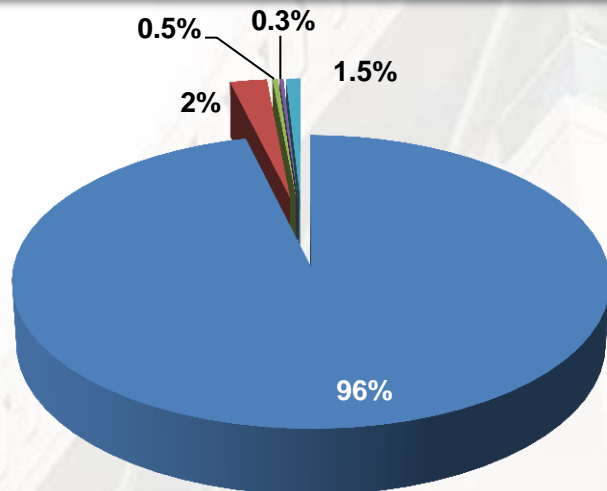
- DIFC balance sheet
- Key prudential risks
- Potential Rule changes
- Regulatory reporting – EPRS



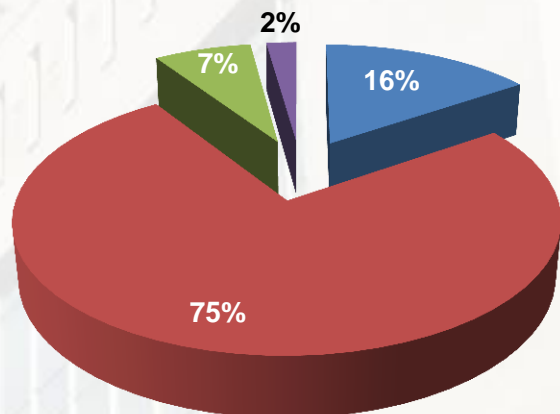
DIFC Balance Sheet



DIFC Balance Sheet

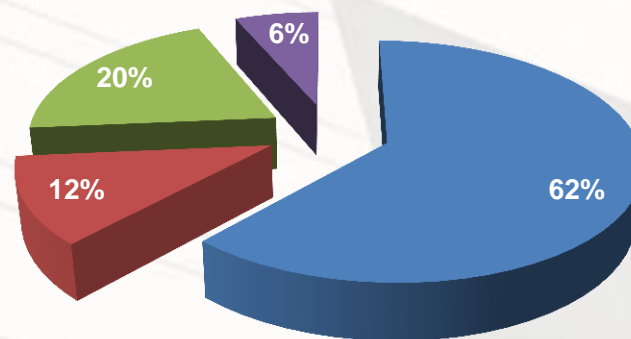


Asset Mix



■ Cash ■ Loans and Advances ■ Investment Securities ■ Other

Liability Mix



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

Prudential Risks – Key Focus Area

- Credit Risk
 - Asset Quality
 - Non performing loans & Provisioning (bad/doubtful debts)
 - 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



PIB Module *Version VER23/01-15*

Quantitative Requirements

- Liquidity Coverage Ratio (“LCR”)

$$\text{LCR} = \frac{\text{Value of stock of High Quality Liquid Assets}}{\text{Total Net Cash Outflows over the next 30 calendar days}}$$

- Global Liquidity Concession

Qualitative Requirements

- Policies and procedures
- Liquidity limits
- Stress testing
- Contingency planning
- CFP and BCP
- Funds transfer policy

Upcoming Rule Changes

Revision of the PIB Module *Business Plan 2016/2017*

- Liquidity Risk
 - Full review of the qualitative requirements
 - Net Stable Funding Ratio
- Credit Risk
 - Counterparty Credit Risk
 - Large Exposures/concentration risk
- Market Risk
 - Review of Trading Book
 - Capital Requirements
- Interest Rate Risk in the Banking Book

The DFSA Rulebook

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

Revision of the PIB Module *Business Plan 2017/2018*

- Leverage Ratio
- Credit Risk
 - Standardised Approach for Credit Risk Capital Requirements
- Operational Risk
 - Sound Management of Operational Risk
 - Standardised Measurement Approach for Operational Risk Capital Requirements
- Disclosure requirements

The DFSA Rulebook

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

Upcoming update to EPRS and PRU

- Enhancements to PIB Returns
 - Consider feedback 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 statistics
- Insurance branch vs underwriting agent
- Consultation paper 103 proposals relating to the insurance regime
- Insurance monies – endorsement
- Work in progress
- International regulations



No. of Insurance Entities in DIFC: 68

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
2014	7	10	15	6	4	15
2015	7	12	20	6	4	16
Current	8	12	21	6	4	17
	20		31			17

Insurance sector in the DIFC

	2014	2015	Change
Total number of staff employed	962	1,041	▲ 8%
Total GWP underwritten from DIFC	\$1.27bn	\$1.27bn	◀▶
Total GWP by Insurers	\$545m	\$529m	▼ 3%
Total GWP by Underwriting Agents	\$725m	\$741m	▲ 2%
Total premium brokered in the DIFC	N/A	\$406m	

Insurance Branch vs Underwriting Agent

Common features

Use capacity of the foreign insurer

Can rely upon shared services of the group

Underwriting authority, guidelines, systems and controls

Insurance branch	Underwriting agent
Capital requirement waived but need to provide HO capital adequacy report	EBCM and liquid assets requirement
No board requirement	Board with Licensed Directors
Can appoint non-DIFC auditor	Must appoint DIFC registered auditor
PIN reporting	PIB reporting
Notification of change in control	Approval of change in control

- Adoption of elements of Insurance Distribution Directive
- Rationalisation of Licences: intermediation vs management
- Tailored COB for reinsurance-related activities
- Lower capital for brokers holding Insurance Monies
- Increased prudential reporting
- Many comments received from the industry which are being considered
- Rule changes likely in July 2016

Insurance monies endorsement

- SEO letter of 31 March 2016
- Brokers holding insurance monies will need to have endorsement on their licence by 2 Oct 2016
- Will be searchable on DFSA public register
- Brokers who submitted insurance money auditor's report can provide Self certification
- Otherwise apply: submit SUP5 form
- MGAs and coverholders should review carefully to see if they need it
- Apply by 2 July to avoid application fee



Other Matters

Work in Progress

- Publication of Insurance Statistics
- Representative offices

Future consideration

- Review capital standards
- Review prudential rules for underwriting agents
- Review prudential reports

IAIS Standard Setting Activities

- **All authorised insurers** (at legal entity and group level)
 - Insurance Core Principles (ICPs)
 - Major review underway
- **Internationally Active Insurance Groups (IAIGs)**
 - Common Framework for Supervision of IAIGs (ComFrame)
 - A global quantitative insurance capital standard (ICS)
 - Qualitative requirements
- **Global Systemically Important Insurers (G-SIIs)**
 - Qualitative and Quantitative Aspects
 - Emphasis on enhanced supervision and recovery



Thank You