

DFSA OUTREACH

4 June 2015

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Agenda

Update on Prudential Matters

Mohamad El Khalil, Associate Director, Banking – Supervision

Insurance Business

Scott Lim, Associate Director, Insurance – Supervision

Cyber Risk

Mark Leven, Senior Manager – Supervision

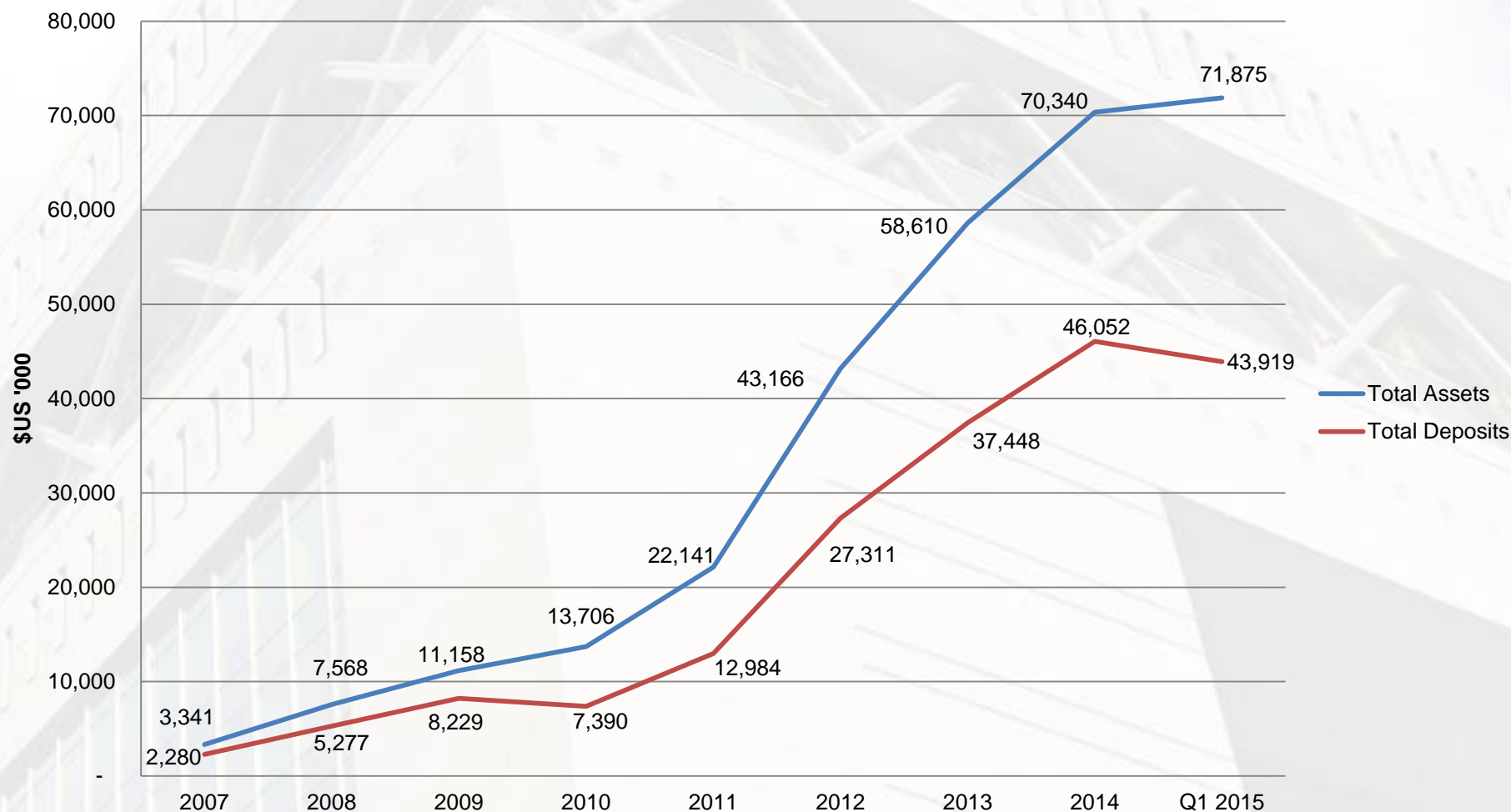
UPDATE ON PRUDENTIAL MATTERS

Mohamad El Khalil
Associate Director, Banking – Supervision

Topics To Be Covered

- Overview
- Recent Rule Changes
- Potential Rule Changes
- Key Prudential Risks
- Regulatory Reporting – EPRS

DIFC Balance Sheet



Recent Rule Changes

Revised PIB Module *Version VER23/01-15*

- Leverage Ratio

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}}$$

- Liquidity Risk

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

Potential Rule Changes

Revision of the PIB Module *Business Plan 2015/2017*

- Liquidity Risk
 - Net Stable Funding Ratio
- Credit Risk
 - Counterparty credit risk
 - Large exposures/concentration risk



The DFSA Rulebook

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

Prudential Risks – Key Focus Area

- Credit Risk
 - Asset Quality
 - Asset Concentration
- Liquidity Risk
 - System and Controls: *Policy; Funding Strategy; Stress Testing; Contingency Funding*
 - LCR: *Operational Requirements*
- Interest Rate Risk in the Banking Book
- Operational Risk – Cyber Security



Regulatory Reporting Framework

Revised PRU Module *Version VER4/03-15*

- New regulatory reporting forms – PIB and PIN Returns
- New instructional guidelines



**The DFSA
Sourcebook**
Prudential Returns Module

(PRU)

Regulatory Reporting Framework

New EPRS Forms: *Key Changes*

- Enhanced regulatory reporting requirements – a key supervisory tool
- Improved quality, amount and nature of collected data
- Reduced the amount of ad-hoc submissions
- Covered the new PIB requirements
- Aligned with IFRS
- Benchmarked to regulatory reporting requirements in major global financial centres
- Considered feedbacks received from firms and auditors

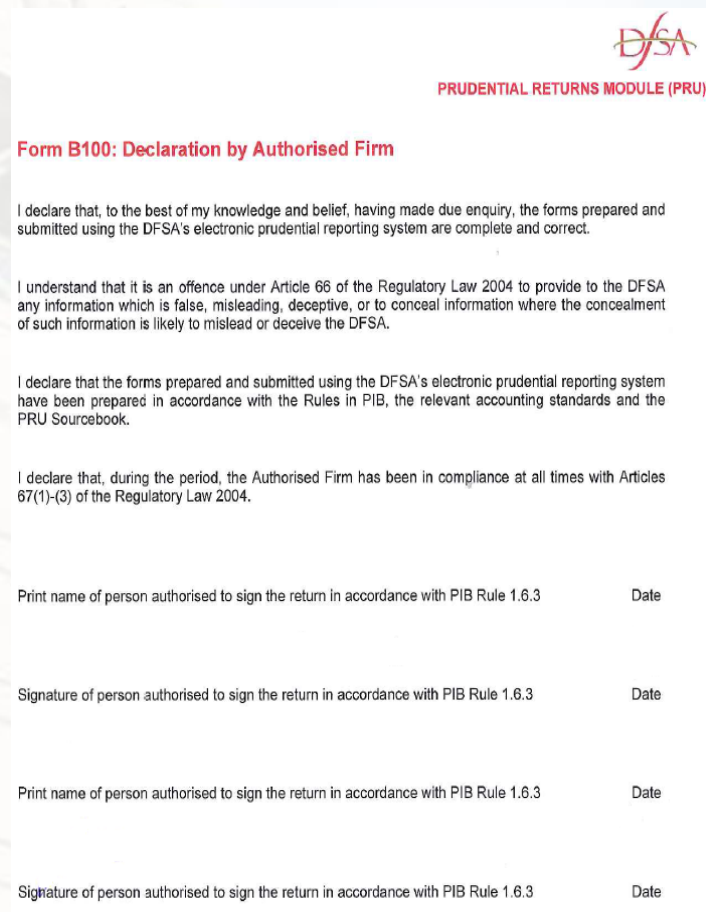
Regulatory Reporting Framework


Q1 2015 Returns – Preliminary Observations

- Timely submissions – up to 98%
- Completeness and accuracy of reported data
- Compliance with Instructional Guidelines (PRU)
- Reporting assumptions and consistencies
- System errors and form errors
- What Next from the DFSA?
 - Fixing errors – ongoing
 - Considering suggestions
 - Flat file

Regulatory Reporting Framework

- I declare that the forms are:
 - complete and correct
 - prepared in accordance with
 - PIB Rulebook;
 - PRU Sourcebook; *and*,
 - Relevant accounting standard
- I understand that it is an offence to provide:
 - false, misleading or deceptive information, or
 - to conceal information




PRUDENTIAL RETURNS MODULE (PRU)

Form B100: Declaration by Authorised Firm

I declare that, to the best of my knowledge and belief, having made due enquiry, the forms prepared and submitted using the DFSA's electronic prudential reporting system are complete and correct.

I understand that it is an offence under Article 66 of the Regulatory Law 2004 to provide to the DFSA any information which is false, misleading, deceptive, or to conceal information where the concealment of such information is likely to mislead or deceive the DFSA.

I declare that the forms prepared and submitted using the DFSA's electronic prudential reporting system have been prepared in accordance with the Rules in PIB, the relevant accounting standards and the PRU Sourcebook.

I declare that, during the period, the Authorised Firm has been in compliance at all times with Articles 67(1)-(3) of the Regulatory Law 2004.

Print name of person authorised to sign the return in accordance with PIB Rule 1.6.3	Date
Signature of person authorised to sign the return in accordance with PIB Rule 1.6.3	Date
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Signature of person authorised to sign the return in accordance with PIB Rule 1.6.3	Date

Regulatory Reporting Framework

- Reconciliation of the Quarterly and Annual Returns
- Review of:
 - Capital Resources and Capital Requirements
 - EBCM and Liquid Assets Requirements
- EPRS activity reports *e.g. large exposures, credit activity, investment activity, funding reports, etc.*

INSURANCE BUSINESS

Scott Lim

Associate Director, Insurance – Supervision

Topics to be Covered

- Key Statistics
- Insurance Monies Theme Review
- Recent Rule changes
- Potential Rule changes

Insurance Sector in the DIFC

	2013	2014	Change
Total number of staff employed	785	962	▲ 23%
Total GWP underwritten from DIFC	\$1.015bn	\$1.27bn	▲ 25%

Number of Firms	End of 2013	Current	Change
PIN Category Firms	15	17	▲ 13%
Insurance Branches	8	10	▲ 25%
Insurance Subsidiaries	7	7	◀▶
Category 4 intermediary/manager	33	43	▲ 30%
Rep. Office	3	6	▲ 100%
Total Insurance Entities	51	66	▲ 30%

Insurance Monies Theme Review

Preliminary Finding

- For those holding insurance monies breaches of COB 7.12.5 identified:
 - Some firms did not have designated “Insurance Bank Account”
 - Some firms did not obtain “written confirmation” from bank that they will not combine IBA with the corporate account of the firm
 - Banks did not meet the definition of “Eligible Bank” (rated at least AA-)
- For those not holding insurance monies, some written agreements with the insurer did not satisfy the requirements of COB7.12.2

Recent Rule Changes

- Client classification rules

COB Rules allow reinsurance clients to be classified as deemed professional clients and now easier to classify them as Market Counterparties

- Prudential Returns

Category 4: *Additional Form*

- B270 Insurance Brokerage

Category PIN: *Additional Forms*

- IN180 Statement of Claims Development
- IN190 Employment Statistics
- IN200 Statement of Underwriting Performance
- IN210 Statement of Revenue by Jurisdiction

Potential Rule Changes

- Lloyds
- Categories of insurance related financial services
- Insurance monies
- PIN Rules
- Prudential Returns – EPRS

CYBER RISK

Mark Leven
Senior Manager – Supervision

Risks

Fraud &
theft

System
destruction
& corruption

Loss / miss-
use of
sensitive
data

Sources of Cyber risks

Hacktivists /
mischief

Cybercriminals

Nation state
sponsored

Internal –
intentional and
unintentional

The DFSA's Role

DFSA Objectives



DFSA objectives - reminder

Prevent, detect, restrain conduct that causes or may cause damage ...

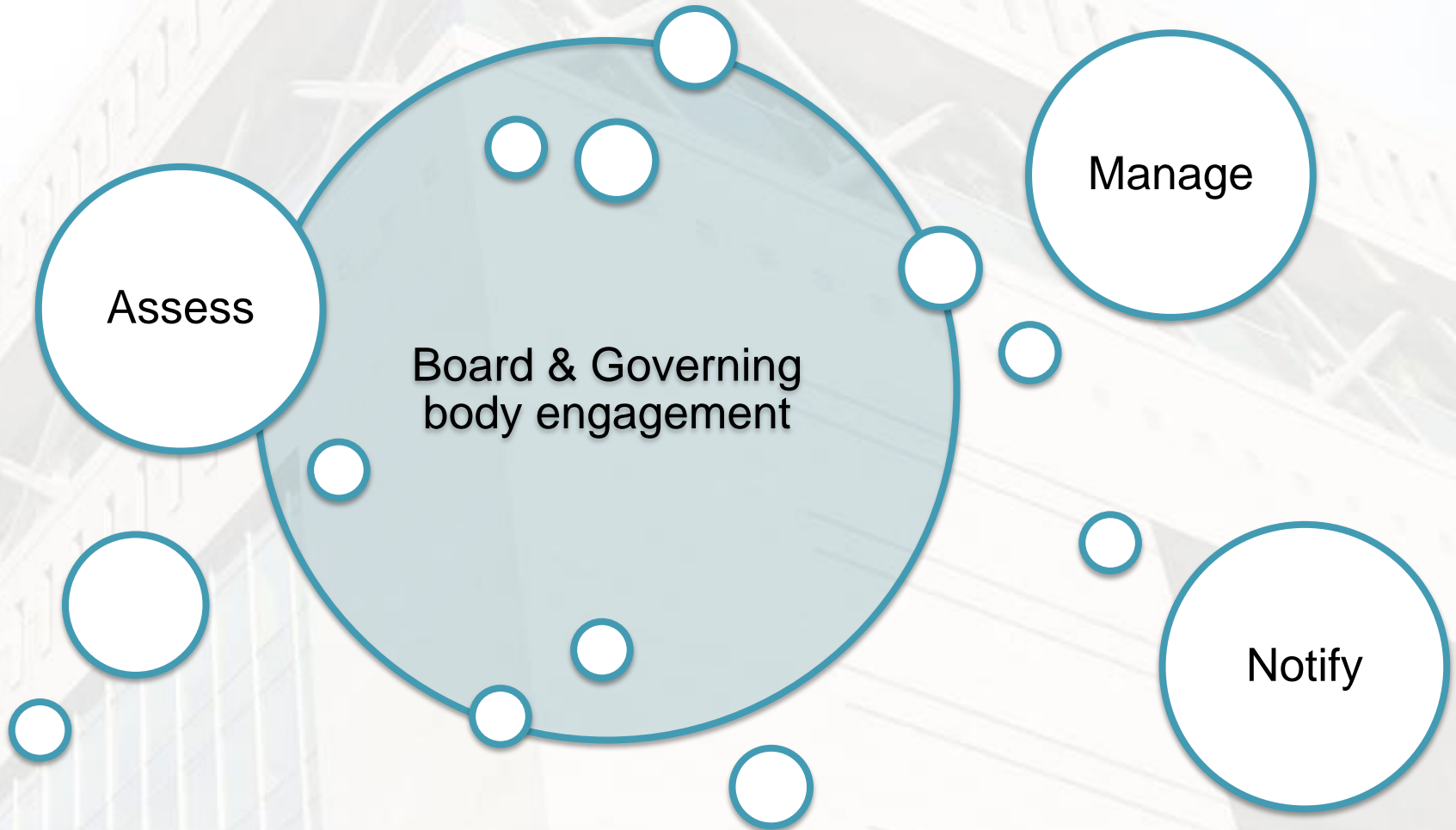
Foster:

- Confidence in the DIFC
- Financial stability and reduction of systemic risk

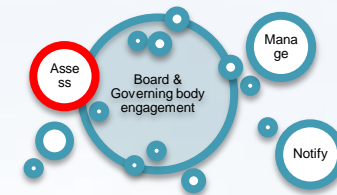
Encourage the implementation of risk-based and proportionate risk management frameworks, **including cyber-risk frameworks**

Cyber Risks

Key DFSA Expectations



Key DFSA Expectations Assess



- Sources of risk
- **Outsourcing**
- “Value” to others
- Nature of business

Threats

- Critical “assets”
- Known weaknesses
- Level of expertise

Exposure

- Set by Governing body
- Nature, size and scale

Risk appetite

- Clients
- Reputation
- Financial position
- Business Continuity

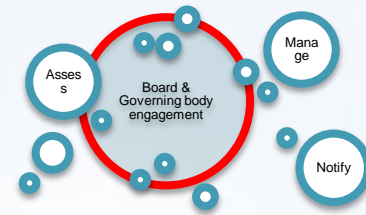
Impact

Reminder - DFSA requires Firms to assess their risks.

For example:

- Principle 3,11
- GEN 5
- PRU

Key DFSA Expectations Board and Governing Body



Board / Governing body
Appetite, policy, oversight

Control functions

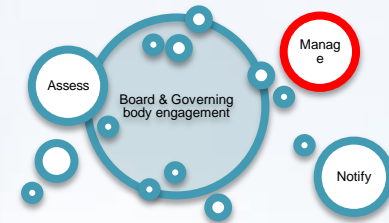
Business

Specialists

**Managing cyber risk
is not purely the IT
department's
domain**

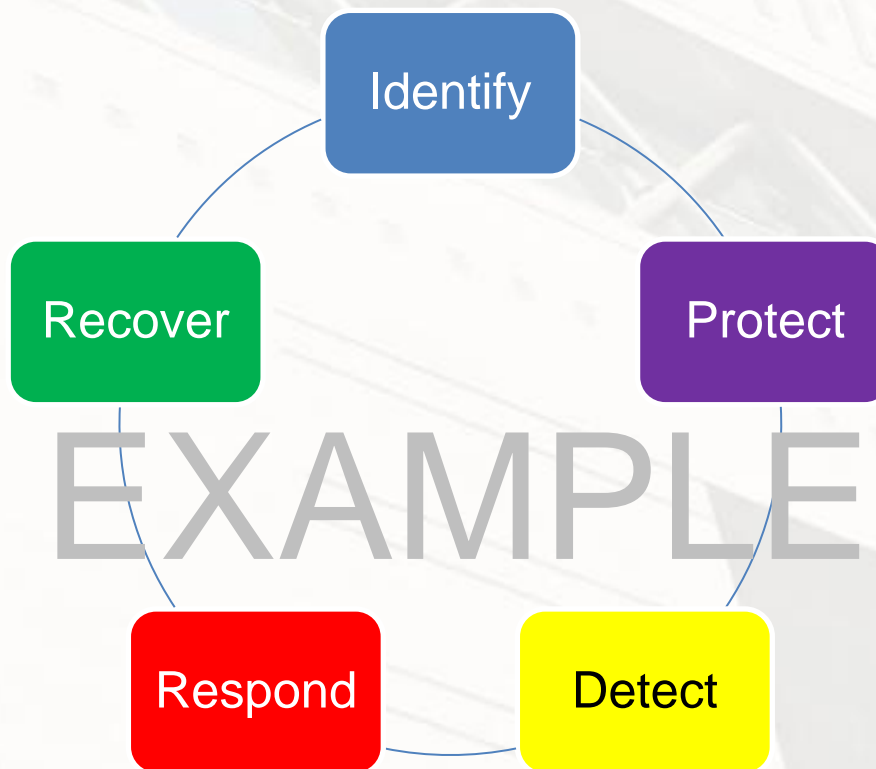
An enterprise-wide
response is
required, driven by
the Governing
Body.

Key DFSA Expectations Manage Risk



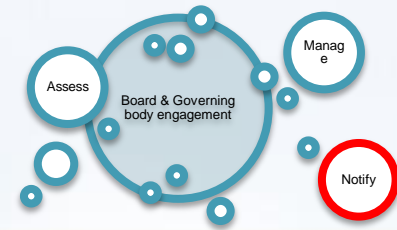
Implement a framework and maintain it ...

- No single framework prescribed by the DFSA
- There are numerous frameworks internationally ...



Source: National Institute of Standards and Technology – Framework for improving Critical Infrastructure Cybersecurity

Key DFSA Expectations Notify



Document a Response Plan for dealing with a breach.

Some things to consider:

- ☑ Relationships which need to be developed before incident
- ☑ Unfamiliar legal territory
- ☑ Responsibilities to stakeholders



Reminder

- DFSA Principle 10 - Firms required to promptly notify the DFSA
- GEN 5.3.23 business continuity and disaster recovery

The Response Plan to include appropriate notifications to DFSA. Also data protection laws, and law enforcement ...

Expectations for Compliance Officers

- Judge high-level vulnerability
- The Governing body's role
- Awareness
- Framework
- Contingency

QUESTIONS & ANSWERS

CONCLUDING REMARKS



Thank You