

Breakout Group 3: Prudential and Conduct of Business Risks

31 May 2023

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Prudential and Conduct of Business - Agenda



Updates on Banking and Insurance

Greg Pisani, Associate Director – Supervision

Iman Essop, Senior Manager – Supervision

Updates on Conduct of Business

Ahmed Al Noman, Associate Director – Supervision

David Tait, Senior Manager – Supervision

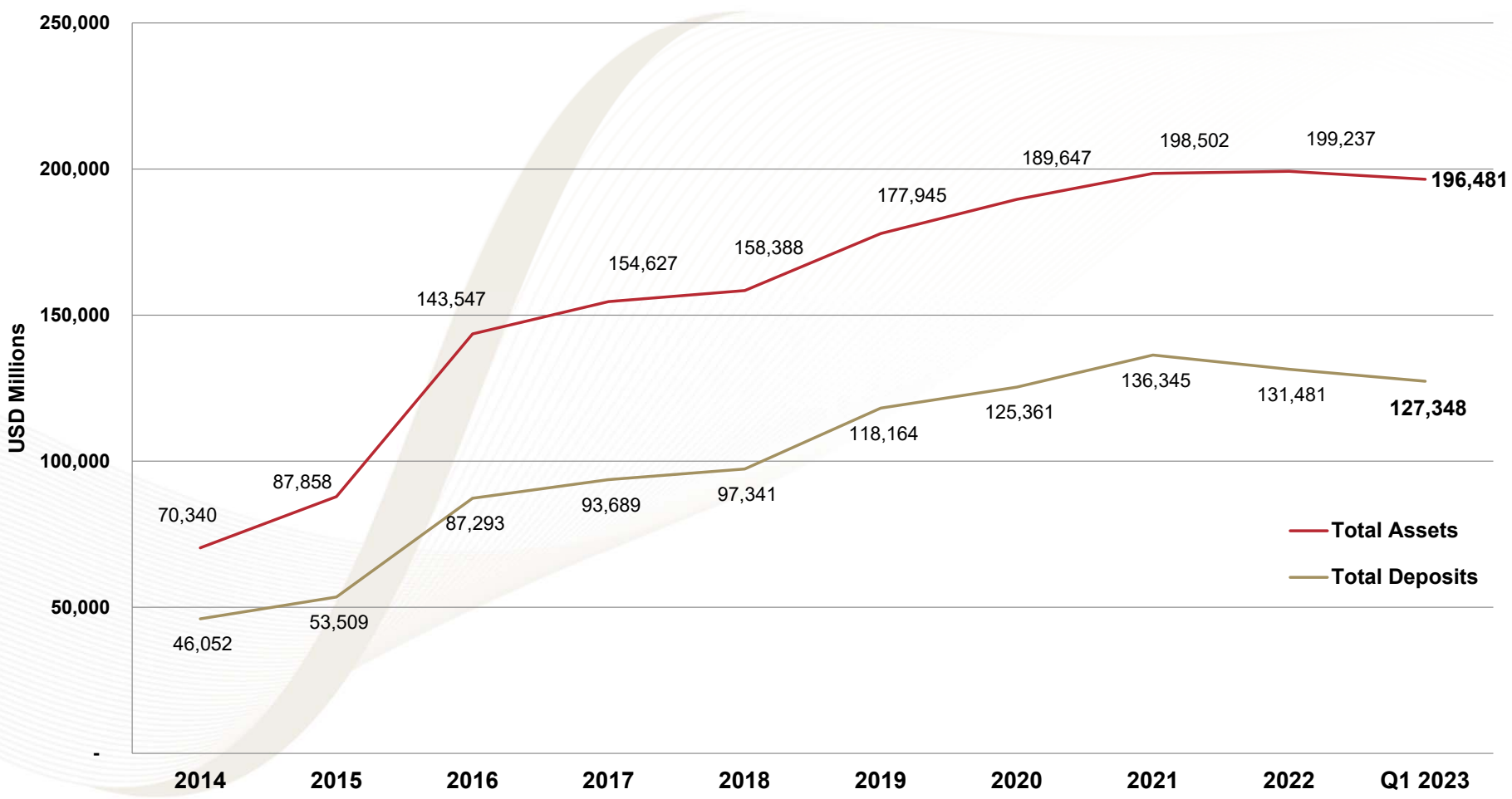
Banking Supervision Update



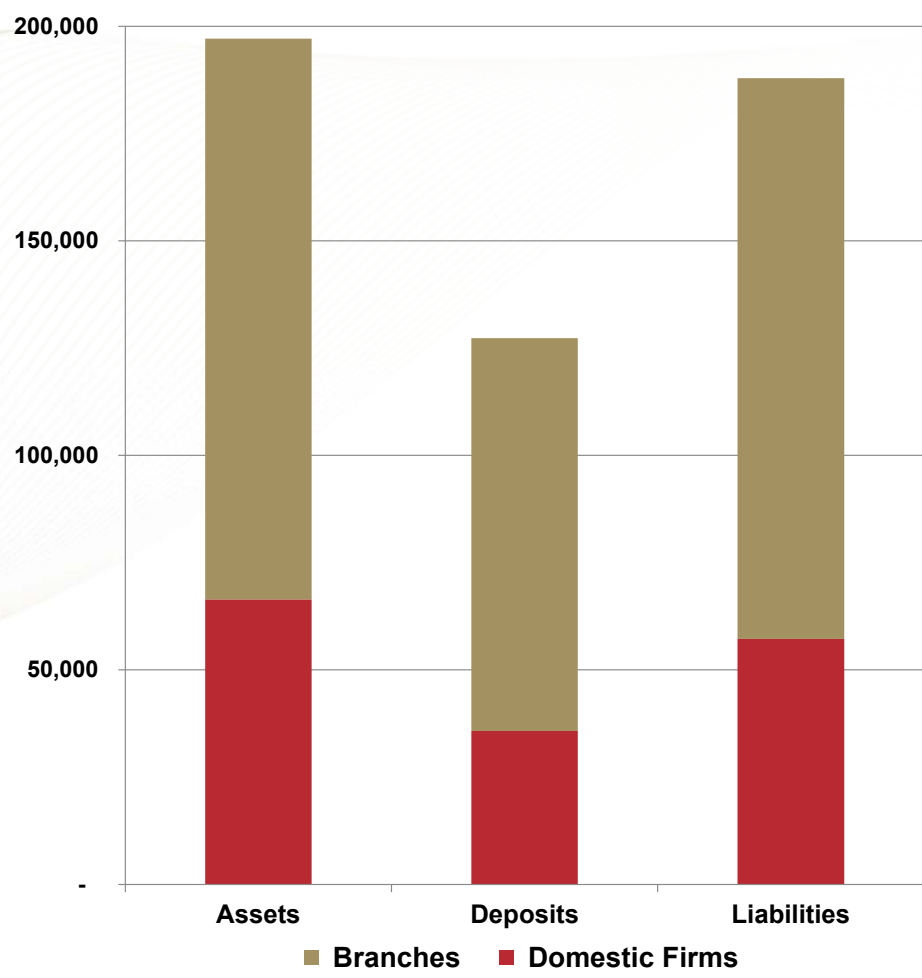
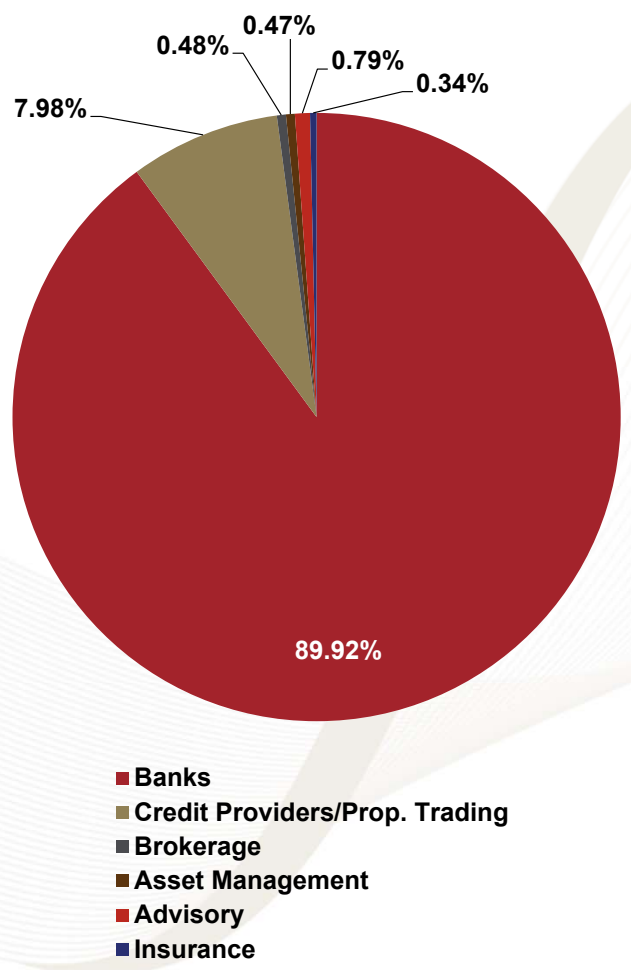
- **DIFC Prudential Indicators**
- **Key Prudential Risks**
- **Risk Assessments Highlights**



DIFC Balance Sheet Trend

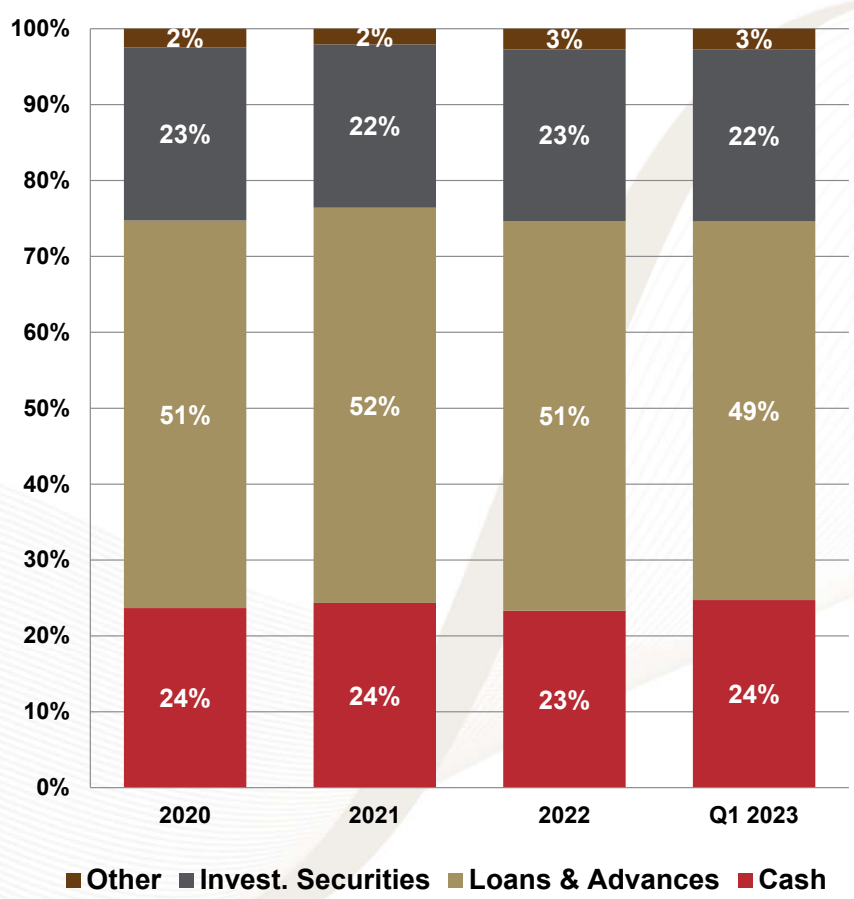


DIFC Assets by Type of Authorised Firm

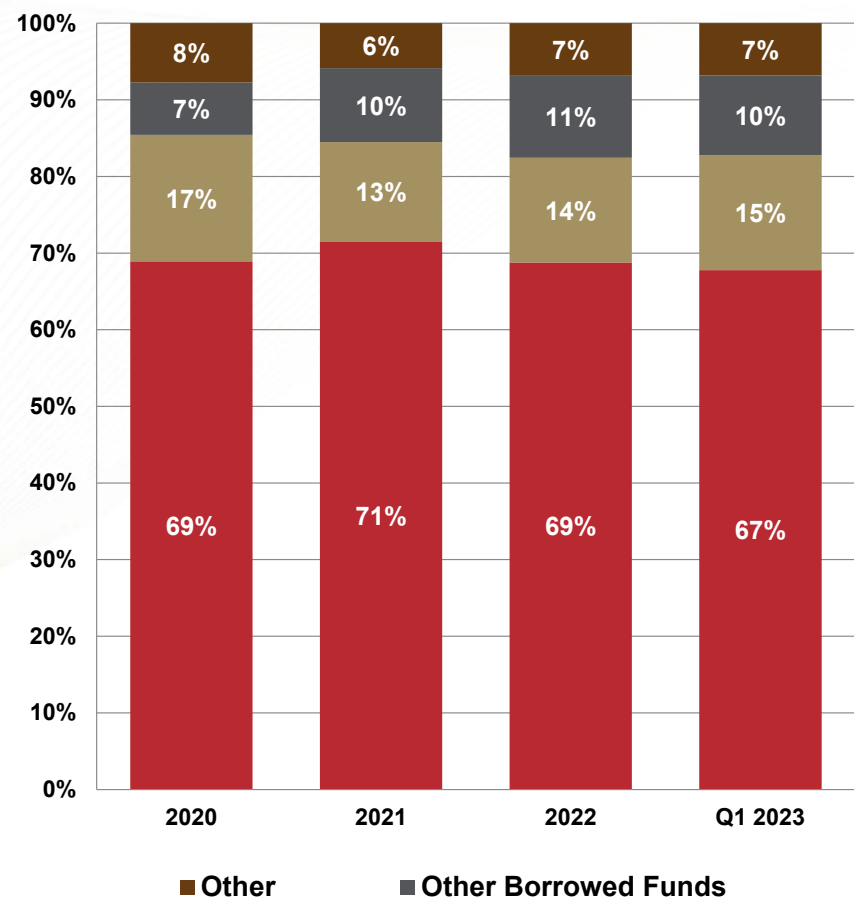


DIFC Assets & Liabilities Mix

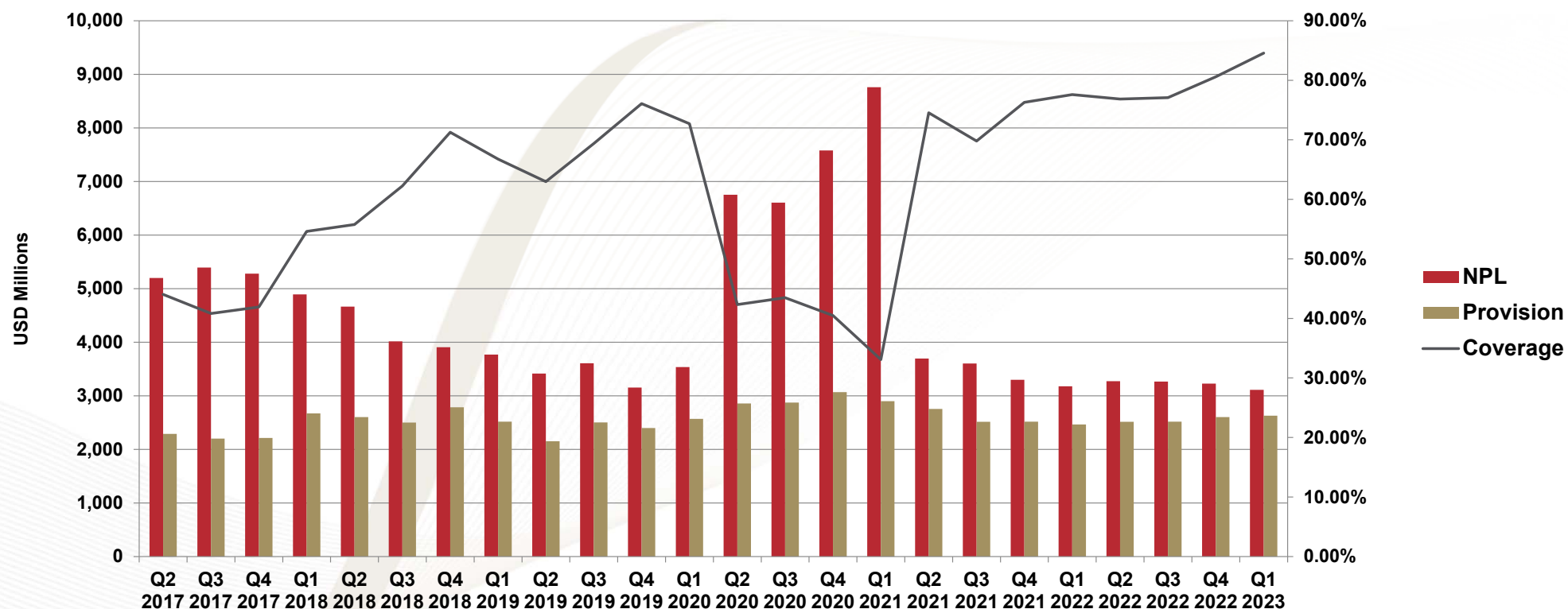
Assets Mix



Liabilities Mix



DIFC Asset Quality and Provisioning Trends



- **NPA = 1.58% of Total Assets**
- **NPL = 3.17% of Total Loans & Advances**
- **Provision Coverage = 85%**

Key Risks

Financial Risk

- Capital Adequacy
- Liquidity
- Asset Quality (NPL & Provisioning)
- Asset Concentration
- Interest Rate Risk

Non Financial Risk

- Business Model
- Geo-political and Macro-economic Risks
- Technology including Cyber Security Risks
- Outsourcing and Third Parties Risk
- Anti-Money Laundering and Counter-Terrorism Financing

Risk Assessment Highlights

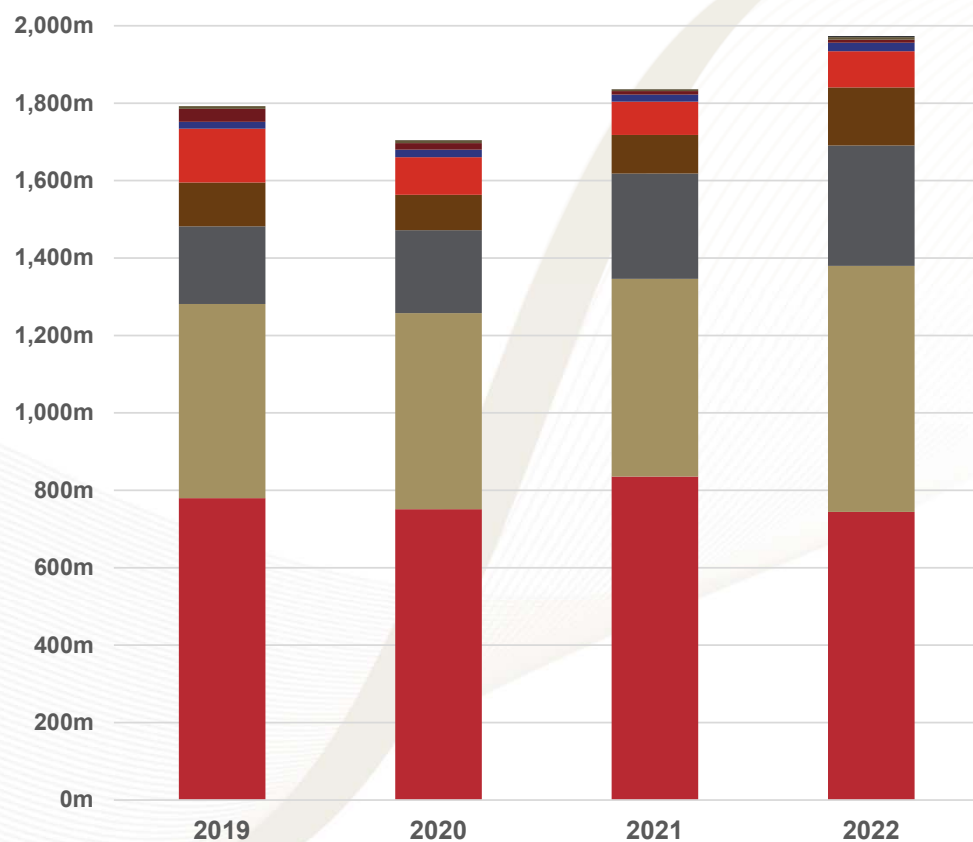
- **Authorised Individual responsibilities / governance arrangements**
- **Policies not reflecting actual process and DFSA requirements**
- **Appropriate oversight of outsourced activities (third parties / Head Office)**
- **Assigned ratings not adequately justified / documented**
- **Risk appetite framework not sufficiently localised and tailored**
- **Segregation of duties and three lines of defence**
- **Quarterly reporting not consistent with the PRU Sourcebook**

Insurance Supervision Update

- **Business Volumes**
- **Statistics and Authorisations Pipeline**
- **Regulatory Focus**
- **Regulatory Developments**

Business Volumes – GWP Underwritten

GWP underwritten in the DIFC



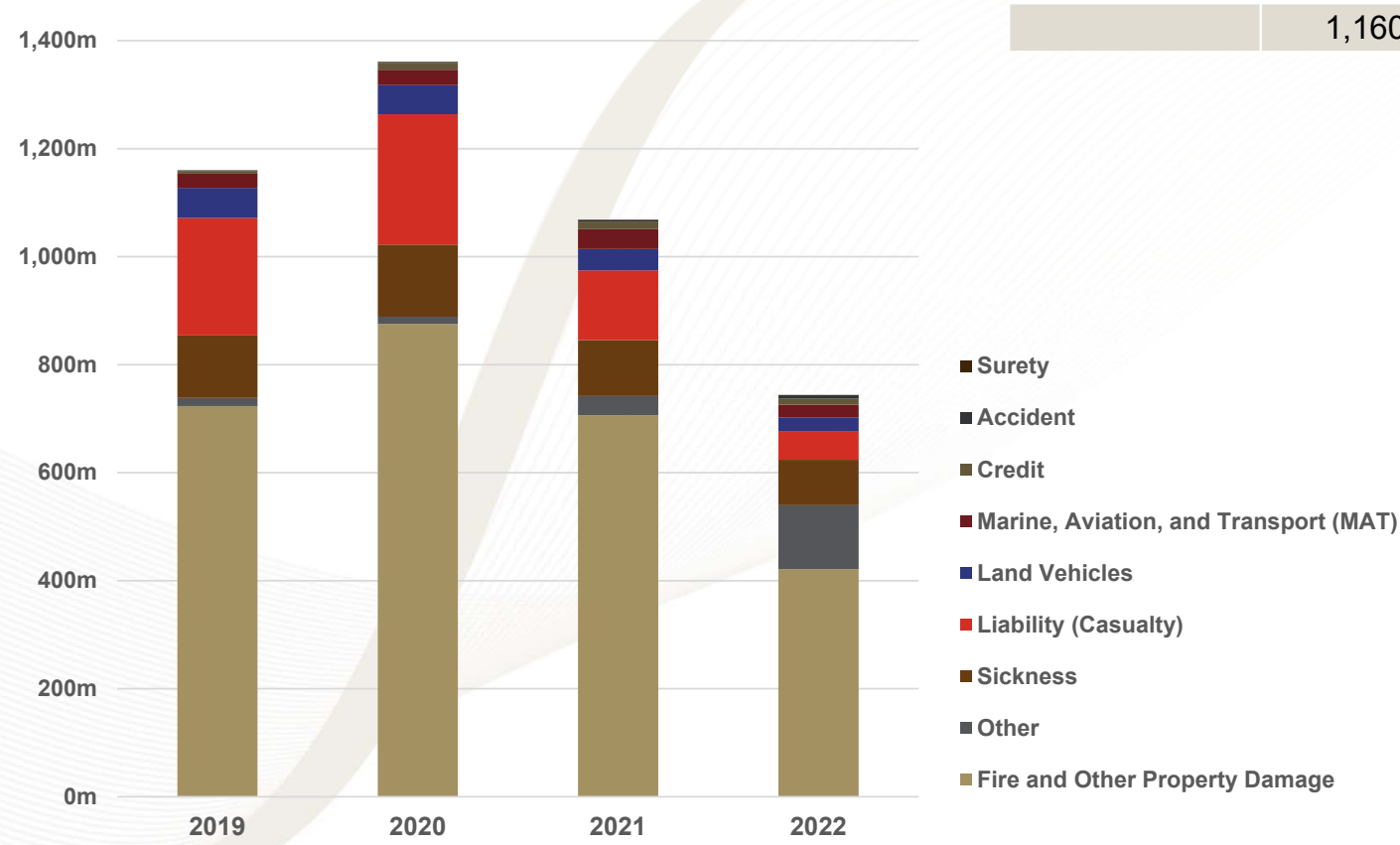
USD million	2019	2020	2021	2022
Underwriters	1,296	1,162	1,259	1,294
Insurers	496	542	577	680
Total	1,793	1,704	1,836	1,974

- Surety
- Accident
- Land Vehicles
- Credit
- Other
- Marine, Aviation, and Transport (MAT)
- Liability (Casualty)
- Fire and Other Property Damage
- Sickness



Business Volumes – GWP Brokered

GWP brokered in the DIFC



USD million	2019	2020	2021	2022
	1,160	1,361	1,068	774

Statistics and Authorisations Pipeline



Total Number of Insurance Firms in the DIFC as at 1 April 2023	81
Number of Reinsurers (PIN)	17
Number of Underwriting and Managing Agents	36
Number of Brokers	28
Number employed in the DIFC Insurance Sector (approx.)	1,200
Firms in the pipeline for 2023	11
In Principle	9
Applications In Review	2

Regulatory Focus

Underwriters

- Sufficiency and adherence to underwriting guidance
- Quality of capacity providers

Brokers

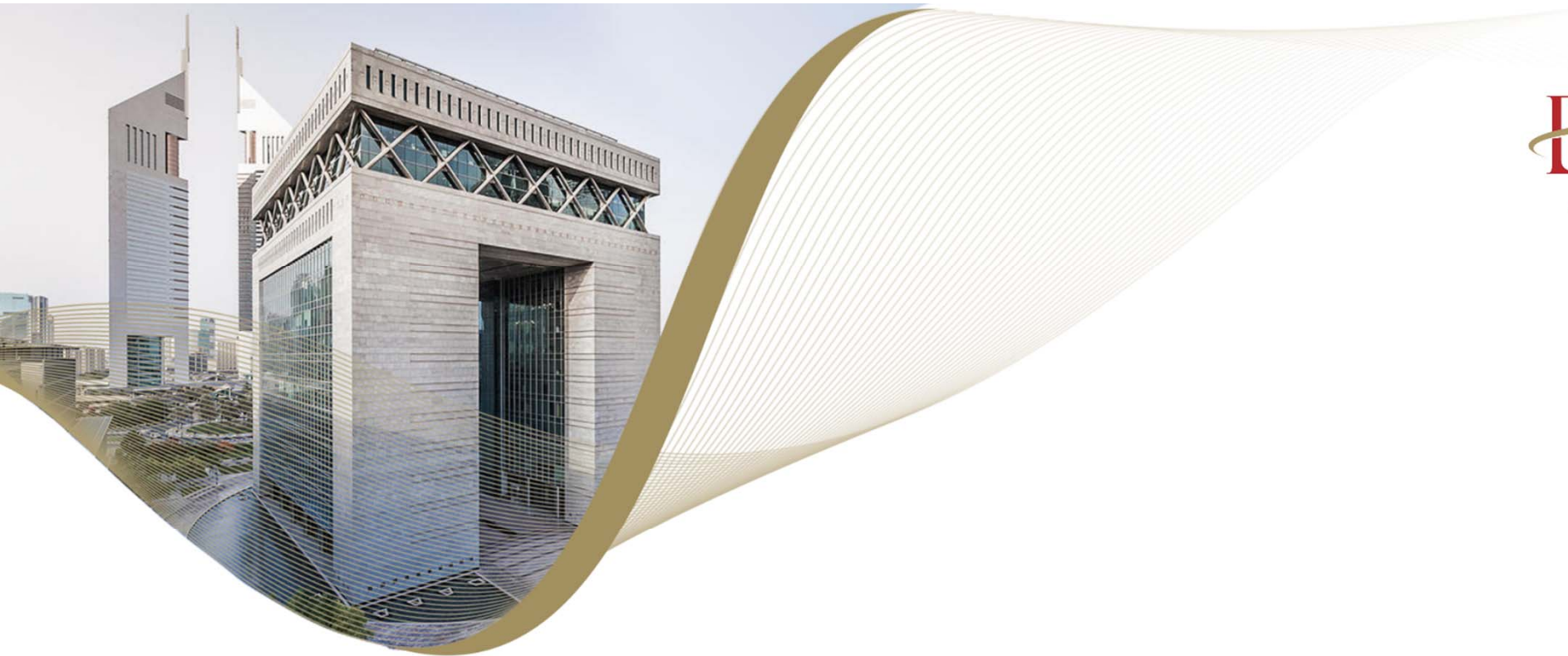
- Fiduciary duty
- Insurance Monies

Reinsurers

- Underwriting practices and controls
- Concentration risk and accumulation management
- Claims management

Regulatory Developments

- EBCM Requirements for Intermediaries
- IFRS 17 for Reinsurers
- Pooled Supervision



Conduct of Business

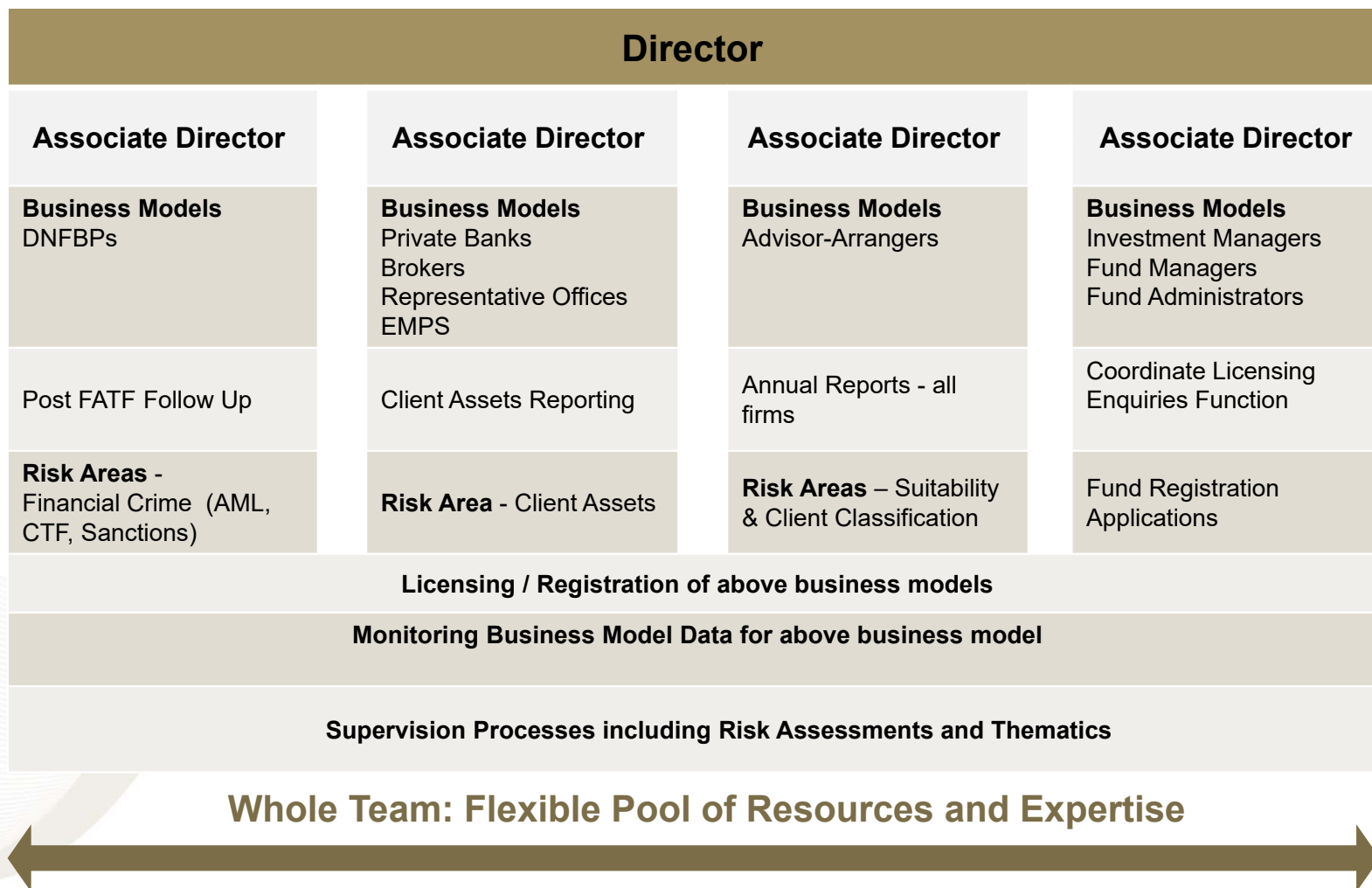
Chris Cameron, Director

Ahmed Jamal Al Noman, Associate Director

David Tait, Senior Manager

31 May 2023

Conduct of Business (COB) Team Overview and Responsibilities



COB Team 2023 Work Plan

Supervisory Priorities

- Thematic Supervision Approach
- Sectorial Review / Multi-Firm Work
- Risk Assessments
- Regulatory Events and Desk-based Monitoring
- Monitoring of Business Models on a sectoral basis
- Relationship Management of Higher Risk Firms

Supervisory Priorities 2023

- **Risk Assessments**
 - Higher Risk Firms and Business Model Cycles
 - Private Banks
 - Brokers
 - Selection of Others
- **Thematic Reviews**
 - **Ongoing** - Outsourcing Thematic Review
 - **Completing** - Representative Office Sectorial Review Follow Up
 - **Upcoming** - Complaints and Disclosures

Conduct Business Models

Wealth Management	Brokerage	Advisor-Arrangers	Employee Workplace Savings	Representative Offices
Private Banking	Platform Brokers	Advisors	DIFC Employee Workplace Savings (DEWS)	Representative Offices
Investment Management	Executing Brokers	Arranger	Associated Service Providers	
Fund Management	Arranging Brokers			
Custodians*				
Fund Administrators*				
Trustees of Funds*				
Trustee Service Providers*				

** Commonly referred to as our Ancillary Service Provider business models*

Employee Money Purchase Schemes

- Business Model
 - An Operator, an Administrator and Investment Advisor
- Currently one EMPS – The DIFC Employee Workplace Scheme (DEWS): -
 - In excess of **27,000 members** (employees)
 - Over **\$395m** Assets under Administration
 - Members have the choice of a number of funds with different risk
 - over **1,500 members** to date
 - Phased roll-out to Dubai Government entities
- Licensing Interest



Brokers

- **47 Brokerages**
 - Subsidiaries and Branches
- **Different business models**
 - Executing Brokers - **20**
 - Platform Brokers - **8**
 - Arranging Brokers – **19**
- **Sector Focused Supervisory Programme**
 - 2021 Thematic Review – AML BRA
 - 2023 Risk Assessments



Thematic Review on Brokerage Anti-Money Laundering
(AML) | 2021



Key Regulatory Trends & Risks

☐ Trends

- Growing Sector
- Strong pipeline of applicants and potential applicants

☐ Regulatory risks

- Under resourcing of Compliance function
- Remuneration Policies
- Marketing / Disclosure issues
- Reliance on Group Personnel / Policies
- Weak PA Dealing Procedures
- Quality of Information Provided to Clients
- Increased Number of Retail Clients



Fund Manager and Investment / Asset Manager

Fund
Manager

Managing a
Collective
Investment Fund

Legal
Accountability

75

Investment
/ Asset
Manager

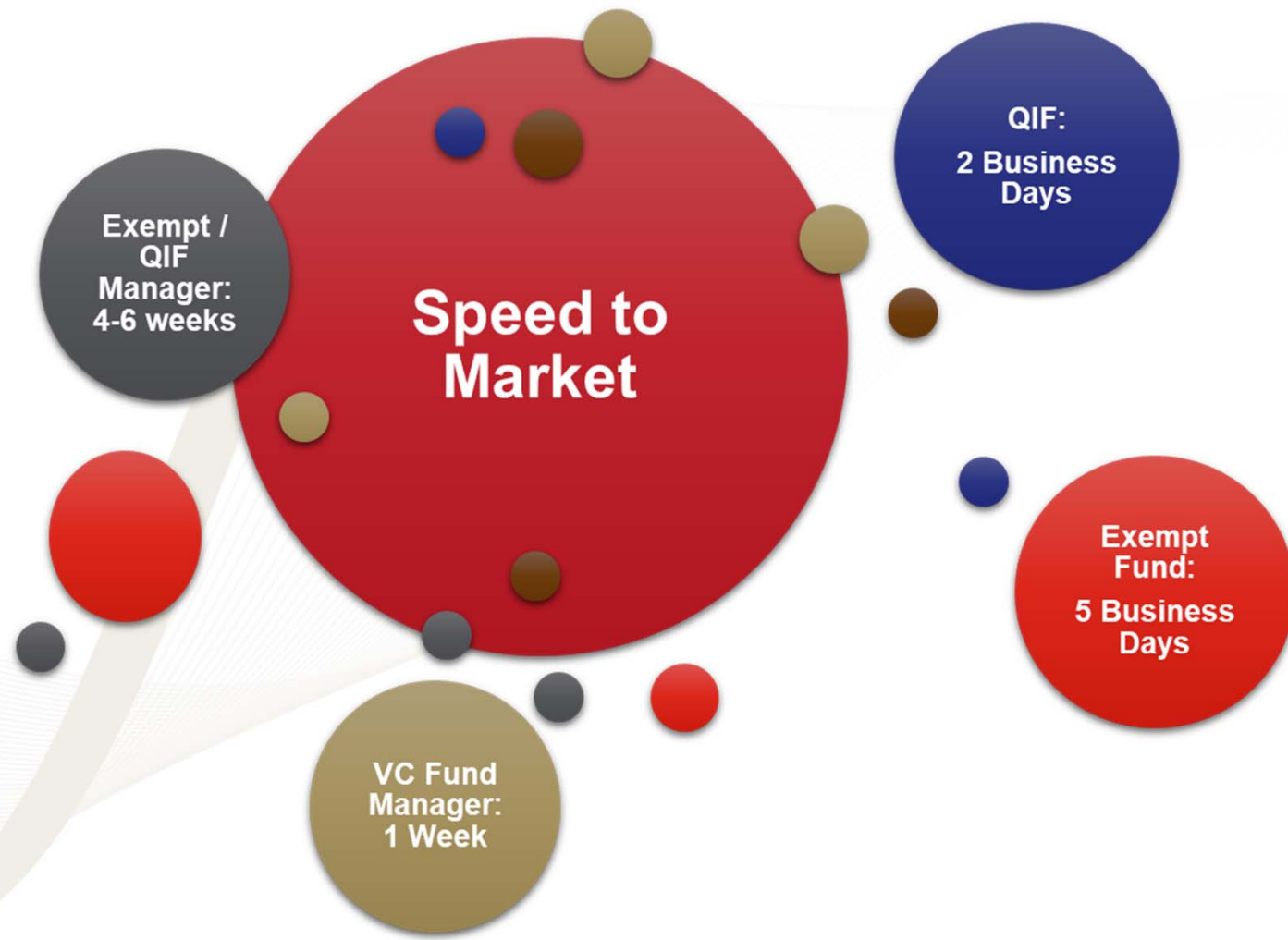
Managing
portfolio of
assets

Under
delegation

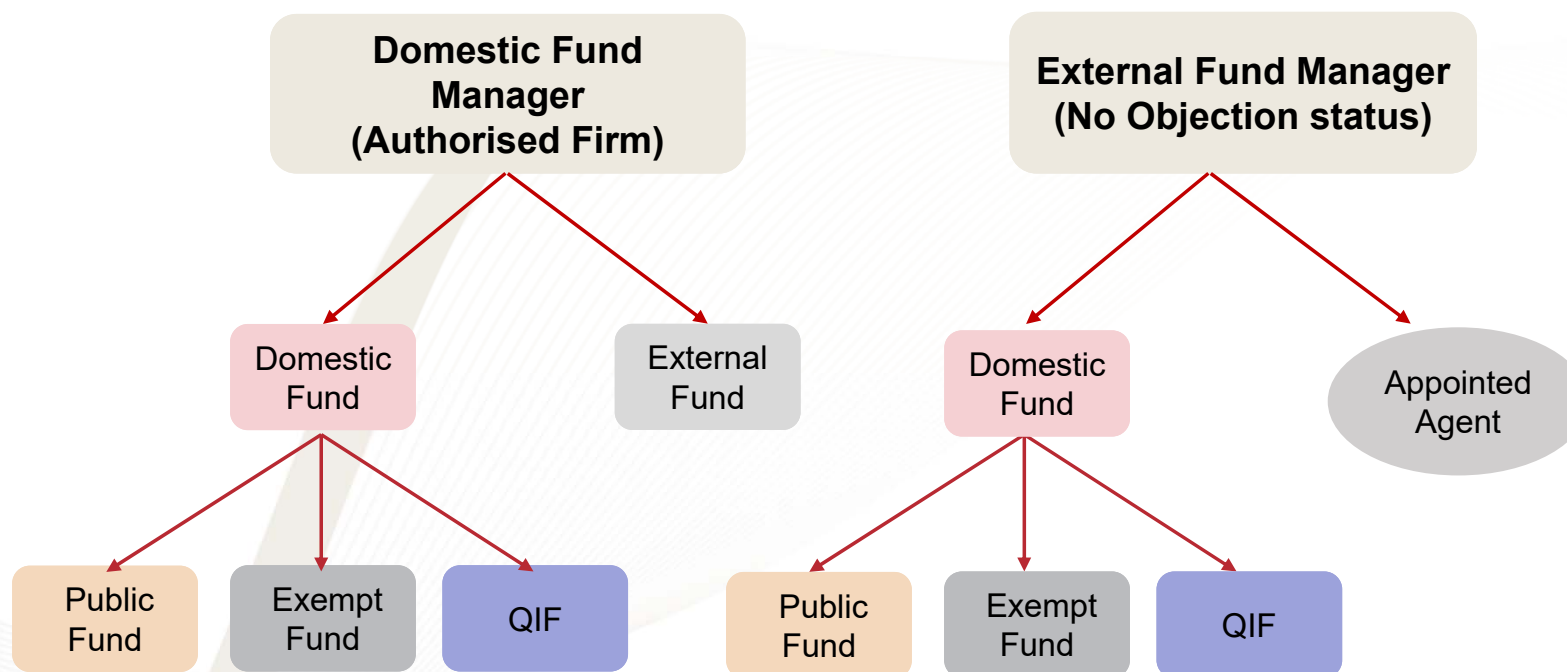
Managing
Assets

87

Speed to Market



DFSA Funds Regime



Key Regulatory Risks & Trends

□ Trends

- Influx of both Asset Managers and Hedge Fund Managers to the DIFC
- PE and VC growth
- Firms increasing footprint (breadth and depth) in the DIFC
- Continued interest in QIFM, VCFM and Exempt Fund applications

□ Regulatory risks

- Non-Disclosure of key information
 - Custody and Commingling of Funds
 - Suitability for DPM
- } Asset Managers

Representative Offices

- **53** Representative Offices
- Digitalisation of licensing process
- **Trends**
 - Established sector
 - Changing Business Model
- **Regulatory Risks**
 - Principal Representative location
 - Disclosures & Marketing
 - AML
 - Business AML Risk Assessment & Policies and procedures
 - Systems and Controls



By Email

24 June 2022

Principal Representatives of Representative Offices

Re: Outcomes of 2020/2021 Representative Office Sectoral Review

Dear All,

In line with its regulatory objectives, the Dubai Financial Services Authority (DFSA) has carried out its first Representative Office (Rep Office) sectoral review. The purpose of this letter is to update you on certain observations stemming from that review. The scope of the sectoral review assessed whether Rep Offices:

- operate within the scope of their licence;
- have a sound understanding of their obligations under applicable DFSA Rules; and
- have implemented an appropriate control framework to monitor and ensure compliance with applicable DFSA Rules.

Private Banks

- **21 Private Banks**
- **Business Models**
 - Varying permissions
 - Hub and Spoke
- **Sector Focused Supervisory Programme**
 - Risk Assessments
 - Sectoral View



Key Regulatory Risks & Trends (Private Banks)

☐ Trends

- Mature and profitable businesses
- Competitive (clients and staff)
- Clients - Focus on Higher Net worth



☐ Regulatory risks

- Suitability (2021 Thematic Review on Suitability)
- Over-reliance on other Group Entities
- On-Boarding and CDD/EDD

Arrangers and Advisers

Arrangers

Make
arrangements

Facilitate

Bring about

109



Advisers

Statement

Opinion

Influence

74



Key Regulatory Risks & Trends



□ Regulatory risks

- Suitability of advice (Advisors)
- Client Classification
- Corporate governance



BY EMAIL

15 March 2022

To the Senior Executive Officers (SEO) of Authorised Firms; Principal Representatives of Representative Offices; and Audit Principals of Registered Auditors

RE: Regulatory Notifications

Dear SEO, Principal Representative, and Audit Principal

The DFSA would like to remind you of the obligations under the DFSA regulatory regime, in particular, GEN Module Rules 4.2.10 and GEN 11.10.7 and REP Module Rule 3.2.4, to keep the DFSA promptly informed of specific events, changes or circumstances that require notification to the regulatory authority.

□ Trends

- Biggest number of firms in terms on business model
- Increase in breadth and depth and more Retail clients
- New technologically driven strategies such as Robo-Advisory, increase use of in-house and white label electronic platforms to facilitate trades

Cross Sector Risks



- **Suitability of Advice**
 - 2020 Thematic Review
 - Continued Focus
 - Transaction Basis
- **Client Assets**
 - Continued Focus
 - Historic Failures
- **Fitness and Propriety of Employees**
 - GEN 5.3.19(1) and 7.6.9
 - Dear SEO letter 4 February 2020



Thematic Review on Suitability | 2021



Questions



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Thank you!