Dubai Financial Services Authority

THEMATIC REVIEW

Targeted Financial Sanctions Compliance:

DIFC Insurance Sector

February 2025

DFSA.AE

EXECUTIVE SUMMARY

Targeted financial sanctions (TFS) are a key tool used to combat terrorism and proliferation financing (PF), and the effectiveness of the controls applied by Relevant Persons[1] in complying with their obligations is essential to achieving this goal.

In line with our regulatory objectives and our 2024 financial crime supervisory priorities, the Dubai Financial Services Authority (DFSA) conducted a Thematic Review (Review) to assess the insurance sector compliance with obligations as set out in Article 21 of Cabinet Decision No 74 of 2020[2] in identifying and mitigating against sanctions risk. The Review covered all Authorised Firms (firms) in the insurance sector within the Dubai International Financial Centre (DIFC) as at 31 December 2023, with a sample of 19 firms selected for further engagement.

The findings from this Review were broadly positive, with areas for improvement identified being in documented control frameworks rather than the practical application of screening controls, along with refinements to firms' risk assessment methodologies.

The Review found a good level of awareness and understanding of sanctions risk, supported by a high level of engagement from senior management at a business approval level. Key areas for improvements include:

- enhancing the Business and Customer Risk Assessments to capture jurisdiction risk factors and the underlying insured risk in a more explicit documented manner;
- ensuring that policies and procedures, and the related training material, include more explicit reference to all the United Arab Emirates (UAE) TFS obligations;
- considering more granular Management Information to capture data on screening control and alert handling performance beyond exception reporting; and
- ensuring that gap analyses are completed and adequately documented.

Firms included in the sample have received individual feedback on the Review, as appropriate. This report provides summary findings and required actions for all firms in the insurance sector to assess their systems and controls around TFS requirements.

DEFINED TERMS AND DISCLAIMER

Defined terms are capitalised in this report. These terms are defined either in this report, the Glossary module or the Anti-Money Laundering, Counter-Terrorist Financing and Sanctions (AML) module of the DFSA Rulebook.

Please note that this report is based on firms' responses to this Thematic Review conducted by the DFSA and is only intended to provide a general and informal overview of the matters stated. This report is not any form of, and must not be relied upon as such, as legal professional or any other form of advice it and is provided on a general, non-binding basis only.

While primarily directed at Authorised Firms in the insurance sector in the DIFC, this report contains findings that may benefit all Relevant Persons as defined in the DFSA AML module.

1. Relevant Persons are defined in the DFSA AML Module (AML Rule 1.1.2)
2. See: https://www.uaeiec.gov.ae/en-us/laws-regulations-listing

OVERVIEW OF THE INSURANCE SECTOR IN THE DIFC

The DFSA regulatory framework permits firms to carry out life and non-life insurance/reinsurance business as risk carrying insurers, intermediaries or a managers. Firms in the DIFC primarily operate on a reinsurance basis as Federal Law No 8 of 2007 prohibits direct insurance for risks in the UAE unless on reinsurance basis.

As at 31 December 2023, the insurance sector in the DIFC included four business models[3] :

- **Reinsurance:** 13 insurers operating as reinsurers, with health, property and energy being the main lines of business;
- **Captive Reinsurance:** 5 captive reinsurers operating;
- **Insurance Management:** 39 Insurance Managers which effect contracts of reinsurance on behalf of foreign reinsurers through a binding authority; and
- **Insurance Intermediation:** 31 Insurance Intermediaries acting as brokers placing reinsurance contracts in the DIFC and the international reinsurance market.

These firms predominantly transact with market counterparties or professional clients on a non-life reinsurance basis, which supports the lower money laundering risk attributed to the sector. However, firms are expected to be aware of the risks and obligations pertaining to TFS and PF, particularly given the cross-border nature of the reinsurance business and any exposures through underlying insured parties.

The figures for premiums on business written provide an indication of potential risk. In 2023, the total value of premiums was USD 2.585 million, which approximately 11% attributed to marine, aviation and transport, segments. These segments, for example marine (hull and cargo), carry potentially higher risk business for TFS and PF exposure. While predominant business lines such as sickness (37%), fire and other property damage (33%), and liability (14%), are considered as lower risk in a TFS and PF exposure context.

3. 2023 figures

BACKGROUND AND PURPOSE

TFS remains a key priority for supervisory authorities in the UAE. Since 2019, the UAE has taken major steps to improve the TFS legal framework with significant efforts made by the Executive Office for Control and Non-Proliferation (EOCN) and supervisory authorities to ensure Relevant Persons are aware of their TFS obligations.

The DFSA is the competent authority for the administration of Federal AML, Counter-Terrorism Financing (CTF) and Counter Proliferation Financing (CPF) legislation as it applies to Relevant Persons in the DIFC. It has sole administrative oversight and direct supervision of Relevant Persons for compliance with the AML, CTF and CPF legislation, including the DFSA's AML, CTF and Sanctions Rules. The DIFC is governed by two separate and complementary regimes in relation to AML regulation, both administered by the DFSA.

As the DIFC's supervisory authority for Relevant Persons for the purposes of Federal regime, the DFSA is obliged, in Article 22 of Cabinet Decision No 74 of 2020, to supervise and monitor Relevant Persons for compliance with Article 21 of the Cabinet Decision.

The purpose of the Review was to assess compliance with Article 21 of Cabinet Decision No 74 of 2020, the related DFSA AML module, and the extent to which firms had considered the sector specific guidance issued by the EOCN, co-published with the UAE supervisory authorities[4].

The insurance sector in the DIFC was selected for this Review for several reasons:

- While money laundering risk in the general insurance sector is broadly accepted as low as reflected in the UAE National Risk Assessment 2019, there is a potential heightened risk presented by the exposure to financial sanctions. In context of the business models in the DIFC, this is primarily through the underlying insured parties in facultative insurance business.
- The number of firms increased from 79 in 2022 to 88 in 2023.
- Guidance specific to the insurance sector was issued by the EOCN on 6 June 2022, which all firms in the sector should have considered. The Review enabled an assessment of the extent to which firms had done so.
- The Review provided an opportunity to follow up on the Targeted Financial Sanctions Thematic Review issued by the UAE Supervisory Authority Sub-Committee in May 2023 (UAE Supervisory Authority Sub-Committee TFS Thematic Review) and assess firms' responses to the expectations contained within this specific review.
- It aligned with continuing UAE national priorities on TFS.

The DFSA expects Relevant Persons in the DIFC to consider the key themes and findings in this Review in the context of their specific activities and obligations and, where appropriate, consider further enhancements to their systems and controls.

We also remind Relevant Persons of their continuing obligations to ensure that the DFSA is promptly informed of any significant events or anything else relating to the firm of which we would reasonably expect to be notified.

4. EOCN Targeted Financial Sanctions Guideline for the Insurance Sector (published 6 June 2022)

SCOPE AND METHODOLOGY

The Review covered all Authorised Firms in the insurance sector as at 31 December 2023. A sample of 19 firms (20% of the sector) was selected for further engagement covering a mix of firm types and business models.

The Review was undertaken in three phases:

PHASE ONE

2023 AML Returns review and desk-based review

During this phase, we reviewed the 2023 AML Returns for firms in the insurance sector. After selecting the firms, the DFSA issued a notification letter requesting additional documents and information for a desk-based review.

PHASE TWO

On-site visits

This phase involved on-site visits to selected firms to discuss their operating practices, including systems demonstrations, screening outputs and dispositioning, and record keeping.

These visits also covered evidence of receipt of EOCN notifications, survey responses and subsequent actions taken following a recent list update.

PHASE THREE

Report and action plan

During this phase, the Review team consolidated all observations, findings, data, and actions into this report. Firm-specific observations and findings are being addressed on a bilateral basis, with remedial actions and timelines communicated directly to each firm (as applicable).

FINDINGS AND OBSERVATIONS

This section outlines the DFSA's general observations, key findings, and actions required to address identified issues and promote best practices.

General Observation

Senior management and Money Laundering Reporting Officers (MLRO) at all firms selected for on-site visits demonstrated a high level of understanding of sanctions risk. Furthermore, the controls demonstrated during the visits supported the largely positive findings regarding firms' compliance with their TFS obligations.

We found that in most cases, senior management were routinely involved in decisions to take on business (risk). While this involvement primarily pertained to the overall insurance risk, sanctions risk was a key element. In practice, this was managed through the review of insurance contracts and searches against listed parties.

Despite these broadly positive findings, areas of improvements were identified as follows:

1. AML Business Risk Assessment

Conducting an AML business risk assessment (ABRA) for sanctions compliance is critical for ensuring that Relevant Persons effectively identify and mitigate risks associated with dealing with sanctioned entities. In the 2023 AML Returns, 95% of firms operating in the sector rated their residual risk as low, which was consistent with the selected sample. Firms have rated the business as low risk overall in their ABRA, primarily due to the following:

- the firms were dealing only with regulated entities, often listed on appropriate Regulated Exchange;
- the UAE National Risk Assessment rated the sector as low risk;
- the DFSA AML Rules, similarly in Chapter 6 of the AML Module, include "factors that may indicate lower money laundering risk". Among these, under "*product, service, transaction or delivery channel risk factors including whether the product or service is: … a Contract of Insurance that is non-life insurance*" (AML Rule 6.1.3 (1) (b)(i)); and
- effective controls in place.

Observations

The following observations were made regarding the ABRA:

- A standard ABRA template was often used, especially where the MLRO was outsourced. In some instances, the ABRA was modified or suitably tailored to the firm's business. In others, it was high-level capturing only broad risks without sufficient context in terms of the firm's business model and profile.
- TFS and PF risk was generally captured at a high level. The firm may have exposure without further describing how that exposure may arise in their specific business model or the extent of it as a potential risk. For example, whether a firm has customers in jurisdictions with proximity to countries subject to some form of sanction (rather than directly sanctioned countries), or the extent of any exposure due to the underlying insured that their customer may expose them to, either through the firm being involved in underwriting or reinsuring, or facilitating as an intermediary.
- ABRA's did not adequately reflect the elevated risk that may arise from business relationships with firms located in jurisdictions identified by the Financial Action Task Force (FATF) as having strategic deficiencies ("grey list" countries). This contrasted with composite data from the 2023 Annual AML Returns where 53% of firms indicated business with firms in these jurisdictions and nearly all listing more than one jurisdiction.
- In practice, the Annual AML Returns of the firms were found to be more informative in highlighting the risk profile of a firm than their ABRA.

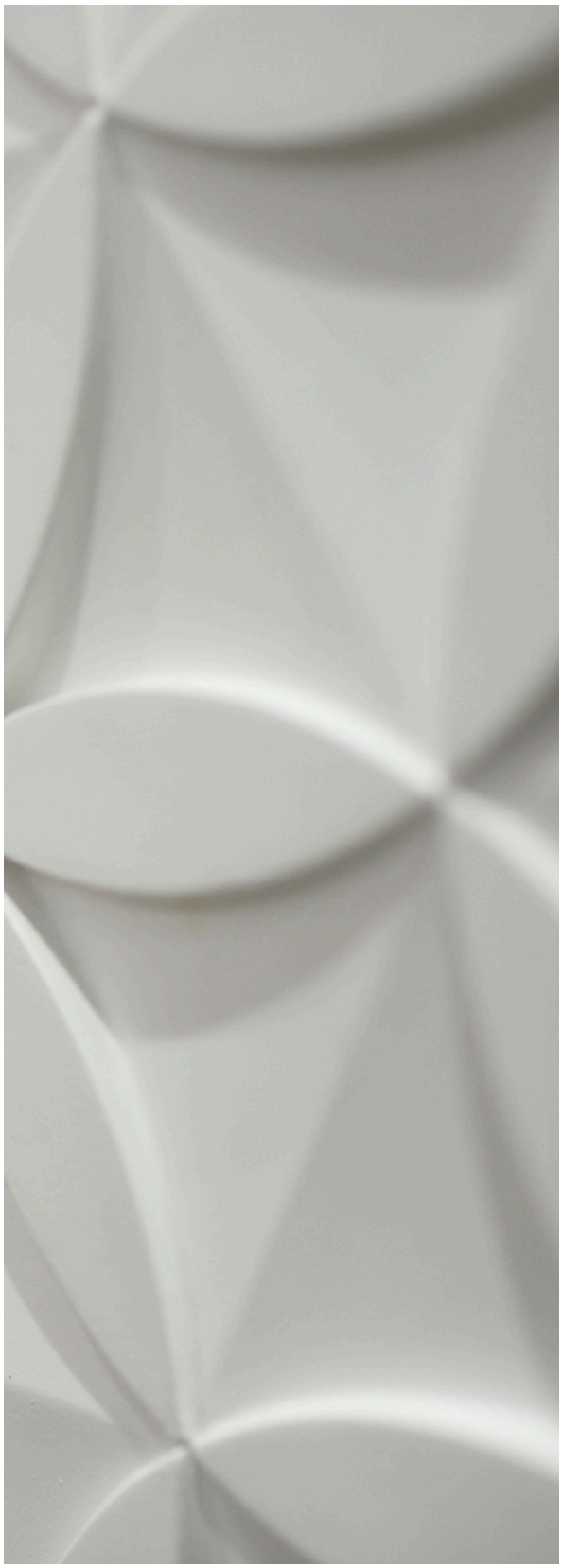
Required Action

Firms should review their ABRA to ensure it is sufficiently tailored to their business profile. This review should ensure the ABRA adequately reflects:

- the extent to which any heightened jurisdictional risk is present in the context of the overall business book; and
- the extent of any exposure to heightened TFS or PF risk through underlying insured parties in the context of the overall business book.

2. Customer Risk Assessment

Conducting a customer risk assessment (CRA) for sanctions compliance is essential to ensure that Relevant Persons effectively identify and mitigate risks associated with dealing with sanctioned entities. In the 2023 AML Returns, all firms confirmed that their CRA covered all relevant factors which was observed across all firms in the selected sample.



Observations

The following observations were made regarding the CRA:

- There was a variance in how TFS/PF risk was covered in the CRA. It was either included as a separate risk factor, implicit within jurisdictional risk, or a combination of both.
- Generally, the underlying insured risk that a customer may bring to firms was not explicitly captured within the CRA, although it was an integral part of firms' business practices. For example, with underwriting, the underlying insured risk (including sanctions exposure) determined the level of due diligence applied in their procedures. However, in most cases the manner in which that connected back to the CRA was not evident. Nor was it always evident how the jurisdictional risk had been weighted in the overall risk outcome.
- The EOCN Guideline for the Insurance Sector includes guidance stating that, "*Insurers, as a matter of good practice, should seek to transact only with intermediaries (i.e. agents and brokers) that maintain an adequate AML/CFT compliance programme. In particular, Insurers should ensure that intermediaries conduct adequate screening on Insurance Consumers.*" We noted that in practice, firms relied solely on the regulatory status of their customers, and the absence of adverse findings during the screening. However, there was no explicit assurance on the adequacy of the screening being done by those customers.
- Where a firm has customers located in grey-listed jurisdictions, we would have anticipated this being particularly relevant and something being more apparent that this EOCN guidance for the sector had been applied to that segment of customers indicated in the ABRA.

Required Action

- Firms' CRAs must take into consideration the nature of the customer's business (AML Rule 6.1.1(3)(c)), which should include the nature of the underlying insured business lines, not just that the firm is another insurance business.
- The CRA should take account of jurisdictional risk, specifically the extent to which a customer located in a FATF grey-listed country has bearing on the assurances needed regarding the adequacy of the customer's screening controls

3. Policies and Procedures

Having well-defined policies and procedures (P&Ps) for TFS compliance is essential. P&Ps serve as a framework for identifying and managing risks associated with transactions, ensuring adherence to regulatory requirements, and protecting the organisation from potential legal and financial repercussions. By implementing clear P&Ps, organisations can enhance their ability to detect, prevent, and respond to sanctions violations, fostering a culture of compliance and accountability.

Overall, the P&Ps of the firms in the selected sample were considered adequate. The following was noted:

- P&Ps included the UAE TFS requirements; however, the level of detail varied. In a small number of cases, the focus was primarily on compliance with other regimes such as the United States (US) and United Kingdom (UK), with insufficient tailoring to the local firm's specific obligations. We did note that in practice, these firms used Group-level screening solutions, where they confirmed that UAE list coverage was included, their procedures required all parties to an insurance contract be included, and screening was undertaken at the requisite intervals.
- In the event of a match with a listed name, firms are required to implement freezing measures without delay, which the EOCN Guidance referred to in this report stipulates as within 24 hours. Where Group-level screening did not provide for this due to overnight updating, firms were seen to have local measures in place to address this requirement.
- Screening against Cabinet Decision No 50 of 2020 was not always explicitly included in the P&Ps. However, this gap was mitigated by the coverage provided by other dual-use goods lists prescribed in the P&Ps (e.g. US or European Union lists), which gave some assurance that the UAE list(s) would be covered where common with these other lists.

In the sample of firms, the exposure to the risk of dual-use or prohibited goods being included within the terms of the cover provided was considered low, primarily due to the business lines offered. Based on the premium figures for business written, higher risk business activity in the DIFC, such as marine (hull and cargo), is limited. For firms in the sample offering such business generally amounted to less than 5% of their overall business, with primary activity being in lower risk classes such as property or medical. This reduced the extent to which firms might be exposed to PF risk through goods or vessel cover.

It was evident that underwriters play a critical first line role in identifying TFS risk. All firms in the sample referenced internal procedures for their underwriting staff; however, these were not always integral within the AML/TFS P&Ps.

It was clear that the principal risk area for firms providing facultative insurance-related services was in respect of the underlying insured. In all instances, we noted considerable scrutiny over business underwritten, both in terms of ongoing quality assurance checking and senior management sign-off.

The primary reason for this scrutiny was the overall underwriting risk, with sanctions exposure potentially forming an integral part within each of these firms.

Some firms had red-flagged sanctioned countries contained in their screening platforms. These platforms were connected to underwriting data repositories and included barriers to proceeding where a 'sanctions hit' was returned. In these instances, automatic escalation to the firm's compliance team was the usual route.

While we saw no matches to names listed on the UAE Local Terrorist List, nor the United Nations (UN) consolidated list, among the sampled firms, matches related to other sanctions regimes were generated, with most firms citing the Russia/Ukraine situation as the driver of these increased matches.

Firms across the sample also used sanctions exclusion clauses, such as LMA3100[5] which provides a contractual basis to refute a claim should a party be identified as sanctioned after the business has been written. While not a primary control, these clauses provide a backstop to prevent claims payments in such circumstances.

There were mixed findings on the extent to which the specific reporting requirements in the UAE were included in P&Ps, particularly the distinction between reporting to the EOCN for UN and UAE lists, and reporting obligations regarding other international sanctions regimes. The extent to which P&Ps had been reviewed against the EOCN Guidance was also not readily apparent.

Required Action

- Firms should ensure that P&Ps include the core UAE requirements contained in Article 21 of Cabinet Decision No 74 of 2020, particularly the reporting obligations.
- P&Ps should be kept up to date, taking account of all relevant guidance.
- While exposure to dual-use goods may be limited, firms should still ensure that their screening tools include goods listed in Cabinet Decision No 50 of 2020 are included in their screening tools or any manual searches.

5. Lloyds Market Association standard sanctions clause

4. Screening Obligations

In the 2023 AML Returns, 75% of firms noted that screening was undertaken using a combination of automated and manual systems; 13% used automated systems through an in-house or proprietary solution which then generates possible matches for dispositioning, while and 12% solely relied on manual systems.

Screening obligations at on-boarding, on an ongoing basis, firms' response to notifications from the EOCN and record-keeping obligations were reviewed.

On-boarding

All firms completed screening at the time of on-boarding both on the customer and on the names contained in the insurance contract (the slip). Different approaches were observed based on the business model and/or the presence of an outsourced MLRO resource. The following was noted:

- Screening on the customer by the outsourced MLRO provider included the customer (firm) name, any beneficial owners, senior management at the customer, and names on the slip for the initial business referred.
- Screening was done on the customer by the firm too with the names on the slip also screened.
- Screening by the firm on the names on the slip only. In most cases, this was at pre-bind and again post-bind. It was also done on list updates and prior to settlement of any claims made[6].

In almost all cases, screening was done manually at on-boarding and subsequently through automated overnight batch screening. Subsequent business was also screened manually at the outset (slip names) and once the names were entered onto firms' systems, were then subject to batch screening ongoing.

As noted in the P&P section, in the limited instances where dual-use goods may be present, screening was, in most cases, not done explicitly against Cabinet Decision No 50 of 2020 or the EOCN website list, with other lists being used instead.

Ongoing

With outsourced MLRO arrangements, the Review found that screening on the customer was done by the outsourced MLRO provider. Batch screening on the entity name only was the common practice observed, with reliance on the screening provider to connect any sanctioned beneficial owners to the customer in the event of that occurring.

Batch screening on the customer's name only did enable other relevant matches aside from actual sanctions listings. One example quoted by several firms was a UN Panel of Experts report on the Democratic People's Republic of Korea dated March 2024 which mentioned a Lebanese insurance firm. For each of these firms, this had been flagged through a screening provider alert during batch screening, resulting in the firms suspending existing policy cover and blocking any future business. While this entity was not subject to UN sanctions, or any other sanction, each firm explained that continuing business relationship with this entity would be beyond their risk appetite.

As a matter of good practice, firms should take appropriate assurance measures to satisfy themselves that screening providers are capturing updates to lists, and identifying related parties, such as beneficial owners who are themselves subject to listing or adverse findings.

These screening procedures are also used for adverse media searching, as evidenced during the on-site visits.

Notifications from the EOCN

In the 2023 AML Returns, 98% of firms in the insurance sector confirmed they were registered with EOCN. All firms in the sample were able to evidence registration with, and receipt of notifications from, the EOCN. Notifications were, almost exclusively received in a dedicated inbox accessible by the MLRO and other named parties. In firms with outsourced MLRO, cover was mostly provided at the outsourced provider, while some firms had an in-house deputy MLRO.

Survey responses were also evidenced in all cases.

In the 2023 AML Returns, 85% of firms answered "Yes" to checking UAE and/or UN websites independently of any notification. This could only be assured anecdotally during the Review. While difficult to provide evidence of it, firms are expected to make use of these sources and not rely entirely on notifications.

Record Keeping

It is essential that firms maintain records of alert dispositioning particularly any rationale in the case of false positives. Different models were observed with some firms retaining records on central systems or at Group level, some holding local records; and where outsourced CO/MLRO arrangements were in place, records were usually held in both locations. Provided that records of dispositioning are readily accessible locally and retrievable promptly upon request, record-keeping arrangement remains at the firm's discretion.

Required Action

- Firms should confirm that records for all screening outcomes are readily accessible locally, whatever arrangements are in place for record keeping.
- Firms should confirm that all names on the slip, including related parties, are included in screening.
- Firms should include appropriate assurance checks on screening provider coverage.
- Where dual-use goods are present, screening should include Cabinet Decision No 50 of 2020 and the EOCN website to ensure those listed can be identified or discounted against.

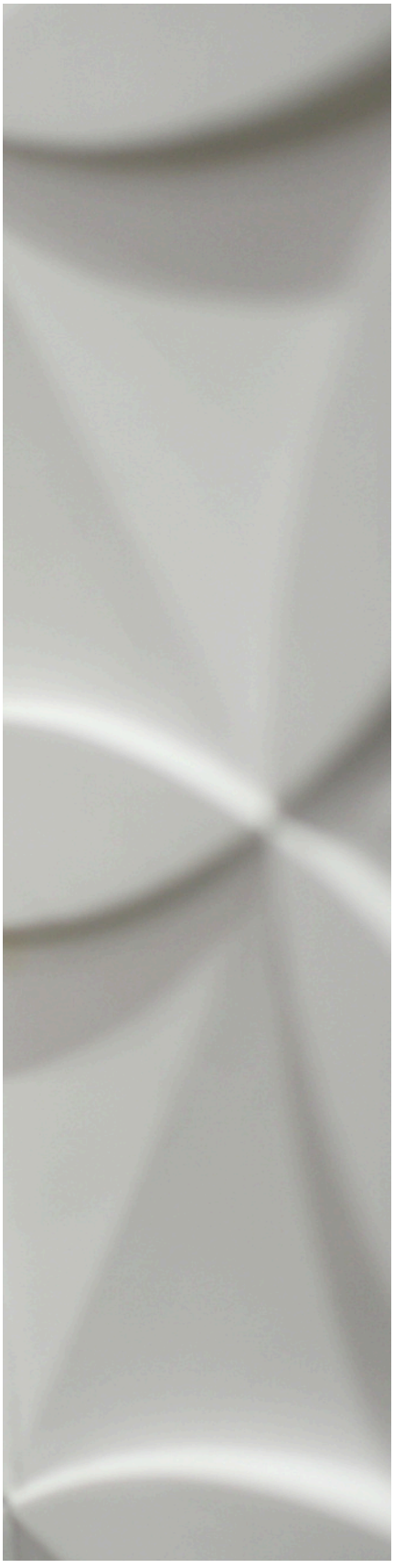
6. It was noted that in almost all cases, claims would be paid to or through the cedant or intermediary broker firm, not direct to the underlying insured, therefore mitigating further the risk of a payment to a sanctioned party

5. Governance and Oversight

Governance and oversight are crucial for ensuring TFS compliance. Effective governance structures provide clear accountability and facilitate the integration of compliance into the organisation's culture. By establishing robust oversight mechanisms, the firm can proactively identify and address potential compliance issues, ensuring adherence to legal requirements and safeguarding the firm's reputation.

Through this Review, we reviewed different facets of the governance and oversight arrangements within the sampled firms. The following was observed:

- **Senior management oversight:**
  - There was a mix of firm sizes and structures in the sample, as well as differing oversight arrangements. We noted that with firms providing underwriting services, senior management (primarily the Senior Executive Officer), were more actively engaged in the underlying business throughout the process. This gave them visibility on a day-to-day or week-to-week basis in signing off on the risk being accepted or recommended by the underwriters.
  - In addition, senior management had oversight through weekly or monthly management meetings, and quarterly senior management or Board meetings. Although the management meetings were largely informal and generally not minuted, we have sighted agendas which included financial crime risk items. On the other hand, quarterly senior management or Board meetings were more formal, with examples of structured written updates provided by the CO/MLRO. These included general regulatory updates with TFS notification, as well as screening performance data reported by exception only.
- **Resourcing:** resourcing models in the sector were observed as follows:
  - ***In-house***: 9 out of 19 firms in the sample had an in-house MLRO resource. In some cases, the in-house MLRO was supported by an outsourced compliance provider.
  - ***Outsourcing***: 10 out of 19 firms in the sample had an outsourced MLRO from local providers. With the relatively high number of firms using an outsourced CO/MLRO resource, we met the same people numerous times – principally from two consultancy firms – and observed common practices being applied.
- **Compliance assurance programmes:** Implemented compliance assurance programmes varied in scope and frequency. One area that was tested during this Review was the response to the findings in the UAE Supervisory Authority Sub-Committee's TFS Thematic Review. This report stipulated that firms perform a self-review against the thematic findings and where gaps were identified, report to their relevant Supervisory Authority with a detailed risk mitigation plan. This had not been done in several cases, while other firms gave oral assurance without documented evidence, such as quarterly Board updates or management reporting.
- **Service level agreements (SLA)**: The Review identified three types of SLAs that firms had:
  - ***SLAs with the screening service provider(s):*** These generally included list coverage, search parameters, response times, back-up arrangements and subscription costs. Our Review found these to be sufficient for purpose, with confirmation of UAE list coverage checked in each case.
  - ***SLAs with outsourced compliance firms:*** These included details of the CO/MLRO core responsibilities, time allocations, and costs. These were also found to be generally sufficient for purpose, although firms should ensure that they are reviewed and remain appropriate if there are material changes to the business and/or the level of support needed.



  - ***SLAs with its Group, where screening services were relied on by the firm:*** These were not always formally documented to the same degree. While the Review found these Group screening measures would suffice operationally, the DFSA would expect, as a matter of good practice, clearly documented intra-group SLAs that demonstrate compliance with local requirements.
- **Management information (MI):** MI reporting on alert management was predominantly by exception only (for example, if a match occurred). None of the sampled firms had a UAE nor UN list match, attributing this to the nature of their business and customers, where they are exclusively regulated firms, and the underlying insured being predominantly corporate entities in lower risk business classes. However, there was little evidence that ongoing MI (such as the number of notifications received, alerts generated general performance, for example, and turnaround times) was produced at a local level. In cases where the firm was part of a larger group, the data was accessible at that level if required.
- **Quality assurance:** Differing quality assurance practices were observed for firm's systems and controls. These included:
  - A 'four-eyes' review concurrent with or immediately after the alert closure.
  - A sample based retrospective review of alerts closed by the local CO/MLRO.
  - A sample based retrospective review at the Group level, with any exceptions reported to the local CO/MLRO.
  - Assurance measures on of the screening provider(s) varied. In most cases, list updates were screened manually and locally in addition to any automated screening relied on; this provided confirmation that the screening provider was updating their records upon list updates, as per the SLA. Where reliance was placed on Group level screening, any SLA related to checking on service provider performance was done at the Group level.

Required Action

- As a matter of good practice, intra-group service standards should document and confirm that local TFS screening, and any subsequent actions or reporting can be completed within the required timeframes.
- Quality assurance controls should be clearly documented, including outcomes for MI purposes.
- Firms should consider enhancing their MI reporting beyond exception reporting, to provide senior management with further assurance on the operational effectiveness of the TFS systems and controls in place.
- Where self-reviews were not undertaken following the UAE Supervisory Authority Sub-Committee TFS Thematic Review, these should be done and suitably recorded as completed, with any gaps notified to the DFSA.

6. Audit

In the 2023 AML Returns, 28% of firms reported that an audit of the AML policies, procedures, systems, and controls was conducted during the Relevant Period. This was further validated during on-site visits, where several firms indicated they are subject to audit every 3-4 years; the frequency of audits is largely determined by the perceived risk their activities pose to their wider Group. Around 25% of the firms in the sample (5 out of 19) had not been subject to any audit covering TFS systems and controls. As previously noted in this report, firms almost exclusively rate themselves as low risk from a financial crime perspective and their audit frequencies appear to reflect this assertion.

Where audits were conducted, the DFSA noted that:

- no material items were raised in respect of sanctions screening; and
- audits covering sanctions controls were not specific to the UAE TFS specific obligations but instead focused on the screening and reporting controls across all sanctions regimes.

Required Action

- Firms should complete audits on a regular basis, as required under AML Rule 9.4.

7. Training and Awareness on TFS Compliance

In the 2023 AML Returns, 76% of firms noted that AML training was provided to all relevant Employees as soon as reasonably practicable after commencement of employment, and 93% of firms noted that AML training was provided to all relevant Employees on an annual basis.

In terms of topics covered as part of the AML training:

% of firms covering the topic	Topic
95%	Awareness of the prevailing techniques, methods and trends in money laundering and terrorist financing relevant to the business of the firm
95%	Knowledge of the identity and responsibilities of the firm's MLRO and Deputy MLRO
95%	Recognise and deal with transactions and other activities which may be related to or suspected of being related to money laundering/terrorist financing
96%	Understand the employee's roles and responsibilities in combating money laundering and terrorist financing
95%	Understand the firm's arrangements for notifying the MLRO under AML Rule 13.2.2
94%	Understand the firm's policies, procedures, systems, and controls related to AML and CTF highlighting changes since training was previously provided
92%	Understand the relevant findings, recommendations, guidance, directives, resolutions, sanctions, notices, or other conclusions described in (Chapter 10 of the AML module)
94%	Understand the relevant AML/CTF legislation including Federal AML legislation
95%	Understand the types of activity that may constitute a suspicious activity or transaction in the context of the business in which an Employee is engaged and that may warrant a notification to the MLRO under AML Rule 13.2.2

Observations

The DFSA reviewed and assessed the training material for all sampled firms and the following was noted:

- The extent to which local TFS obligations were included in training material varied. Some firms only included basic slides covering key elements, but focused on the practical aspects, such as referring to its compliance staff in case of sanctions hits (including UN/UAE sanctions).
- Certain training material included overly generic PF references. These also often replicated EOCN guidance without adequate tailoring to the firm or relevant sector. For example, in several instances, the training material made references to trade finance and correspondent banking risk whereas the firm was operating in the insurance sector.
- Most training material reviewed lacked PF specific examples or illustrations of sanctions evasion red flags.
- All MLROs evidenced attendance at EOCN webinars over the last 12-18 months.

Required Action

Firms should review and update their training material to ensure that:

- the UAE TFS requirements and expectations are explicitly mentioned; and
- red flags specific to their sector are referenced, supplemented with case studies wherever possible.

FINAL COMMENTS

The DFSA would like to extend its thanks to the staff of the firms who participated in the Review by providing the requested information, addressing follow-up requests, and facilitating on-site visits.

The primary objective of this work was to determine the extent to which Authorised Firms in the insurance sector complied with the provisions of Cabinet Decision No 74 of 2020, the related DFSA AML module, and the extent to which consideration had been given to the EOCN's Targeted Financial Sanctions Guideline for the Insurance Sector, co-published with UAE supervisory authorities in June 2022.

Both the firms and the DFSA recognise the importance of a robust TFS implementation to mitigate TFS and PF risks, ensuring the integrity of the DIFC is preserved. This helps prevent sanctioned parties from accessing the centre, or enabling the movement of illicit goods that may facilitate PF.

About the DFSA

The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in and from the Dubai International Financial Centre (DIFC), a purpose-built financial free zone in Dubai, UAE. The DFSA regulates and supervises financial services firms and markets in the DIFC. These include asset managers, banks, custody and trust services, commodities futures traders, fund managers, insurers and reinsurers, traders of securities and fintech firms.

We supervise exchanges and trading platforms for both conduct and prudential purposes, overseeing an international securities exchange (Nasdaq Dubai) and an international commodities derivatives exchange (Gulf Mercantile Exchange).

The DFSA is also responsible for supervising and enforcing anti-money laundering and countering the financing of terrorism requirements applicable in the DIFC.

www.dfsa.ae

www.linkedin.com/company/dfsa