



The UAE's Consumer Protection & Conduct Risk

January 2024

Introduction

Consumer Protection Standards and increasing scrutiny of conduct risk

The Consumer Protection Regulation “CPR” issued by the Central Bank of the United Arab Emirates “CBUAE” on December 31, 2020, mandated that Licensed Financial Institutions (LFI’s) must adhere to the CPR and the related Consumer Protection Standards (CPS). As a consequence, there will be increased scrutiny on LFIs to meet the regulatory expectations across key controls of conduct risk.

The introduction of the CPR, and CPS, expanded the mandate to establish policies and procedures for the protection of customers of licensed financial institutions. The CBUAE’s Principles-Based Regulation sets out key objectives to ensure protection of consumers’ interest in their use of any financial product, service and relationship with LFI’s.

As a consequence, LFIs’ across all sub-sectors, need to consider what conduct risk means for their business, to ensure there is a consistent approach and understanding across all levels of the LFI, including branches and subsidiaries. Key components of Conduct Risk, should be incorporated, as an integral part of their business model, which include, culture, ethics, and integrity, followed by corporate governance, tone from the top and conflicts of interest. This will provide consumers with the confidence that LFIs are adopting a culture of transparency and accountability, increasing confidence in the products and services they receive, and mitigate risks such as mis-selling of inappropriate products and services and data privacy breaches, which in turn lead to complaints and poor quality of service.

Consumer protection in the UAE

The CBUAEs principles set out to cover areas such as institutional oversight, market conduct, business conduct, disclosure and transparency, and the protection of consumer data and privacy.

Similarly other leading practices in Regulation, such as the Financial Conduct Authority’s Treating Customers Fairly (TCF) Principles, the CBUAE’s Fair treatment of Customers regulation aim to address the gap between the level of the public’s financial literacy and the complexity and risks of the financial products and/or services being offered.

To address concerns of over indebtedness LFIs are to incorporate principles for responsible financing by ensuring a consumers’ financial situation are properly considered in determining an appropriate level of financing to be provided to the consumer.

The challenge for LFIs, is to ensure that conduct risk is at the forefront of their business model and objectives, by adopting and embedding a culture where protecting the consumer is integrated within their design of products and services.



Conduct risk in relation to consumer protection, what are the key factors?

A LFI's Business Model can itself be a driver for conduct risk. The design and delivery of products/services may be unsuitable, consumers may not fully understand the products, or the way in which LFI's rely on third parties to sell or introduce those products to consumers, are all drivers of conduct risk.

Governance & Accountability: Poor governance and or poor oversight arrangements are factors where the quality of Management Information, (MI) can make it difficult to ensure risks are identified and addressed appropriately. LFI's need to ensure there is effective oversight and may want to consider appointing a specific Conduct Risk Committee within governance arrangements.

Culture LFI's should seek to promote good behaviour across all aspects of their organisation and develop a culture in which there is no room for misconduct. LFI's need to embed cultural change as conduct frameworks alone will not prevent poor conduct. The best safeguard LFI's have is staff who have the skills and support to make the right judgements.

Training is another important form of control and rather than adopting a tick box approach, LFI's should develop and deliver training to embed awareness of conduct risk at all levels of the organisation. Through the Senior Manager regime (SMCR) in the UK, LFI's strengthen accountability and deliver a conduct risk training programme to all staff to ensure they truly understand the risks attached to their specific roles and how they should behave.

Looking ahead

The aim of the CPR and CPS is to enhance integrity, transparency and stability of the banking and financial sector, and as a result, the CBUAE is arguably driving up standards for consumer protection across the UAE. However, there is more that can be done to align with international best practice.

As an example, the UK Regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) have embedded, within its Regulatory framework, the Senior Manager and Certification Regime (SMCR) as a mitigant to hold all individuals accountable in mitigating risk and driving up standards of conduct. The FCA TCF Principles are also embedded in the UK Regulatory framework, and the recent introduction of the FCA Consumer Duty has now taken those principles further in its drive to improve the outcome for consumers and mitigating harm. Many view the Duty as an extension of TCF, however the FCA has been clear to ensure that the financial sector understands that the Duty is designed to enhance consumer protection and goes further than those TCF Principles to mitigate potential harms.

The CBUAE has embedded elements of the SMCR regime within its Corporate Governance Regulations, such as the Fit & Proper (F&P) test, and it is anticipated that the regulatory authorities of the UAE may seek to expand their mandate further in the future, by increasing accountability for consumer protection and adopting further elements of the SMCR, TCF Principles or Consumer Duty, in whole, or part, to align to the CPR & CPS objectives.

Almost three years from implementation, the CBUAE regulatory landscape has seen a broad range of LFIs including International banks, and local D-SIBs, engage with Grant Thornton, in response to CBUAE Thematic Reviews, baseline reviews and targeted transmittal letter outcomes, to ensure those standards are embedded across the LFIs Governance framework.

How Grant Thornton can help

Consumer Protection Standards and increasing scrutiny of conduct risk

The CBUAE Regulation and Standards are seen as protective measures which are designed to improve the quality of information provided by LFI's about product and services, provide efficiencies when settling disputes, ensuring a fair and transparent complaints process is in place, and address concerns of indebtedness, whereby LFI's incorporate principles for ensuring responsible finance.

LFI's need to be confident that the drivers of Conduct Risk, such as Governance, Oversight and Compliance arrangements in place consider all aspects that the regulation and standards are intended to protect.

Grant Thornton's Regulatory Advisory team can design and deliver a wide range of solutions to promote a LFI's robust regulatory governance and drive to mitigate consumer harm. Our tailor-made regulatory advisory and compliance solutions include, for example:

- testing the design and operational effectiveness of controls
- undertaking gap assessments of the governance and compliance framework
- benchmarking against industry and international regulatory standards in areas such as: complaints resolution, affordability assessments, design and operational effectiveness testing, on the adequacy of systems and controls to protect consumers in the market it which they are involved
- developing and delivering training solutions on conduct risk and the associated framework
- undertaking an assessment of the products and services designed to deliver financial options available to consumers and review of complaint processes and procedures



For more information, please contact our team



George Stoyanov

Senior Partner
Head of Advisory

T +971 56 437 6524
E george.stoyanov@ae.gt.com



Mazin Khalil

Director
Regulatory Advisory

T +971 50 772 8644
E mazin.khalil@ae.gt.com



Gillian Lafferty

Senior Manager
Regulatory Advisory

T +971 2 666 9750
E gillian.lafferty@ae.gt.com

Abu Dhabi

Al Kamala Tower
Office 1101, 11th Floor
Zayed the 1st Street
Abu Dhabi, UAE

T +971 2 666 9750

F +971 2 666 9816

Abu Dhabi

Unit 2, Floor 14
Sila Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

T +971 2 666 9750

F +971 2 666 9816

Dubai

The Offices 5
Level 3, Office 303
One Central, DWTC
PO Box 1620
Dubai, UAE

T +971 4 388 9925

F +971 4 388 9915

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691

F +971 6 525 9690



Grant Thornton