

# Navigating a DFSA Inspection: A Guide for (Re)Insurers

February 10, 2025

## Introduction

As insurance brokers, managing general agents ('MGA's), insurers, and reinsurers operating within the Dubai International Financial Centre ('DIFC'), it is essential to maintain strict compliance with the Dubai Financial Services Authority ('DFSA') regulations. A DFSA inspection evaluates your firm's adherence to regulatory standards across various aspects, including governance, risk management, financial solvency, client protection, and documentation. To prepare effectively, firms must ensure that policies, procedures, and internal controls are up-to-date and robust.

This guide outlines the key areas that DFSA inspectors may focus on, offering practical steps for firms to prepare thoroughly with the use of a helpful compliance checklist.

## What to expect during a DFSA inspection

A DFSA inspection is a thorough process that involves a review of your firm's operations and compliance with regulatory requirements. The typical inspection process includes:

1. Pre-Inspection Notification:
  - You will receive a notice from the DFSA outlining the scope and objectives of the inspection, including any specific documents they may require in advance.
2. Opening Meeting:
  - The DFSA team will explain the inspection process, and you will have the opportunity to provide additional context or clarification on your firm's operations.
3. Document Review:
  - Inspectors will review all relevant documents to ensure compliance with DFSA regulations, such as financial reports, client agreements, risk management procedures, and compliance manuals.
4. Interviews and Staff Discussions:
  - Inspectors may interview key personnel (such as senior management, compliance officers, and internal auditors) to assess their understanding of regulatory requirements and their implementation across the firm.
5. Exit Meeting:
  - After the inspection, the DFSA will present their findings, identifying any areas of non-compliance and the necessary corrective actions.

# Key areas of focus for DFSA inspectors

DFSA inspectors will focus on various critical areas during the inspection. Key areas to prepare for include:

## 1. Documentation and Record-Keeping

A thorough review of your documentation and record-keeping systems is central to a DFSA inspection. Some key areas of focus include:

- Client Agreements and Contracts: Ensure that your firm maintains clear and compliant contracts and agreements with all clients, reflecting the scope of services provided, the insurance products sold, and client protections.
- KYC and AML Documentation: Inspectors will scrutinise the adequacy of your Know-Your-Customer ('KYC') and Anti-Money Laundering ('AML') documentation. This includes verifying the identity of clients and ensuring you have the necessary records of transactions and risk assessments.
- Financial Reports: Ensure your firm's financial records are accurate, updated, and in line with DFSA requirements for capital adequacy and solvency.

## 2. Client Protection and Conduct of Business

DFSA regulations are designed to ensure that firms treat their clients fairly, provide transparent advice, and offer products suitable for their clients' needs. Inspectors will assess the following:

- Suitability of Products: Ensure that all insurance products offered are appropriate for the client's risk profile and financial situation.
  - Example: An insurance broker must ensure that health insurance policies are recommended based on the client's medical history and needs, and that any exclusions are fully disclosed.
- Clear Communication: Inspectors will review your firm's marketing materials, client communications, and insurance documentation to verify that they are clear, transparent, and fully compliant with DFSA standards.
- Complaint Handling Procedures: Confirm that there is an efficient, transparent process for resolving client complaints.

## 3. Internal Controls and Risk Management

A key area of focus for DFSA inspectors is the effectiveness of your firm's internal controls and risk management framework. DFSA inspectors will assess the following policies and procedures to ensure that risks are properly identified, managed, and mitigated:

- Risk Management Framework: Ensure that your firm has a documented, regularly reviewed risk management framework.
  - Example: An MGA must assess underwriting risks by maintaining detailed reports on historical loss data, industry trends, and reinsurance arrangements.
- Compliance Procedures Manual: Your firm should have an up-to-date compliance procedures manual that outlines all regulatory requirements, the firm's internal processes for ensuring compliance, and the roles and responsibilities of compliance officers and other relevant staff.
  - Example: The manual should include procedures for monitoring compliance with DFSA's Conduct of Business Rules, as well as the process for handling client complaints.
- Compliance Monitoring Programme: Ensure that your firm regularly reviews its adherence to DFSA standards.
  - Example: Your firm should conduct quarterly internal audits to assess compliance with DFSA guidelines, with an emphasis on client suitability and product offerings.
- AML Procedures Manual: Ensure that your firm has a detailed AML procedures manual, which outlines how to detect, report, and prevent money laundering activities.

- Example: The manual should include specific steps for conducting enhanced due diligence on high-risk clients, such as beneficial ownership checks for corporate clients.
- AML Business Risk Assessment (including methodology):  
You must conduct a risk assessment to identify potential money laundering risks associated with your business, clients, and products. This should include clear methodologies for assessing risk.
  - Example: A reinsurance broker may assess higher risks with clients in jurisdictions known for less stringent AML laws and tailor the due diligence process accordingly.
- Client Verification Procedures:  
A well-documented client verification process is critical for meeting KYC and AML requirements. This includes procedures for verifying the identity of clients and the sources of their funds.
  - Example: Brokers should have a system to ensure that all new clients undergo background checks and verification against watchlists.
- Business Continuity Plan:  
Your firm should have a comprehensive business continuity plan that ensures operations can continue in the event of a disaster or crisis. The plan should cover IT, personnel, and operational continuity.
  - Example: In case of a cyber attack, the firm should have procedures for restoring data and maintaining customer services without significant disruption.
- Corporate Governance Manual:  
Your firm should have a governance manual that outlines the roles and responsibilities of the board of directors, senior management, and other key stakeholders. The manual should also detail the processes for decision-making, internal controls, and accountability.
  - Example: The manual should include protocols for ensuring that the board of directors meets regularly to review the firm's risk management, financial solvency, and compliance with DFSA rules.

#### 4. Financial Solvency and Prudential Standards

DFSA inspectors will assess your firm's financial standing and its ability to meet regulatory capital requirements. This includes reviewing:

- Capital Adequacy:  
Ensure your firm meets the DFSA's capital requirements, and maintains sufficient capital reserves to cover liabilities and operational costs. You must have processes in place to monitor and report on capital adequacy.
  - Example: An insurer must ensure its capital reserves meet or exceed DFSA's minimum capital requirements to ensure it can honour claims.
- Financial Statements:  
Inspectors will examine your firm's financial statements, ensuring that they are accurate and prepared in accordance with DFSA regulations. Discrepancies or errors in financial reporting could result in penalties or regulatory actions.
  - Example: Reinsurers must ensure their financial statements accurately reflect the reserves set aside for future claims and provide full disclosure of their liabilities.

### Preparing for a DFSA Inspection:

To ensure that your firm is fully prepared for a DFSA inspection, it is recommended that you follow these steps:

1. Review and Update Policies and Procedures:  
Conduct a thorough review of all your firm's policies, procedures, and manuals. Ensure that they are up-to-date, comprehensive, and comply with DFSA regulations. Any outdated or incomplete documentation should be addressed immediately.

2. Ensure Documentation Is Accessible and Complete:  
Make sure that all documents, including client agreements, financial records, risk management frameworks, and compliance manuals, are well-organised and readily accessible for the inspection.
3. Training and Awareness for Staff:  
Ensure all staff, particularly senior management and compliance officers, are trained on DFSA regulations and understand their responsibilities. Employees should be familiar with the procedures for responding to inspection requests and addressing compliance concerns.
4. Conduct Self-Assessments and Internal Audits:  
Regular self-assessments and internal audits will help you to identify potential compliance gaps before the inspection. Address any issues proactively and ensure that your internal monitoring systems are functioning correctly.
5. Ensure Full Transparency and Cooperation:  
During the inspection, cooperate fully with DFSA inspectors, providing any requested documents and clarifications. Being transparent and responsive will help facilitate a smooth inspection process and demonstrate your firm's commitment to compliance.

## 11 Compliance Questions for (Re)Insurance Firms:

1. Have you reviewed and updated all internal policies and procedures to ensure they comply with the latest DFSA regulations?
  - Yes: All policies are up-to-date and compliant.
  - No: Immediate action required.
2. Do your client agreements and contracts clearly reflect the scope of services provided and ensure full client protection as per DFSA guidelines?
  - Yes: All client agreements are compliant.
  - No: Immediate action required.
3. Are your firm's KYC and AML documentation complete, ensuring adequate verification of clients and their transactions?
  - Yes: All KYC/AML documentation is accurate and comprehensive.
  - No: Immediate action required.
4. Does your firm have an established risk management framework that is regularly reviewed and updated?
  - Yes: The framework is well-documented and continuously reviewed.
  - No: Immediate action required.
5. Are your firm's financial statements prepared in accordance with DFSA regulations, and do they accurately reflect your financial standing?
  - Yes: Financial statements are accurate and comply with DFSA regulations.
  - No: Immediate action required.
6. Do you have a comprehensive business continuity plan to ensure your operations can continue in the event of an emergency or disruption?
  - Yes: A business continuity plan is in place and up to date.
  - No: Immediate action required.
7. Is your firm fully prepared for an audit of its AML procedures and business risk assessment?
  - Yes: AML procedures and risk assessments are regularly reviewed and fully compliant.
  - No: Immediate action required.

8. Have you conducted internal audits and self-assessments to identify potential compliance gaps prior to the DFSA inspection?
  - Yes: Regular audits and self-assessments are in place.
  - No: Immediate action required.
9. Are all employees, particularly compliance officers and senior management, fully trained on DFSA regulations and prepared for an inspection?
  - Yes: All relevant staff members are well-trained.
  - No: Immediate action required.
10. Do you have a clear and accessible procedure for handling client complaints in line with DFSA requirements?
  - Yes: The complaint handling process is clear and compliant.
  - No: Immediate action required.
11. Has your firm conducted a thorough cyber security risk assessment, implemented a policy to address cyber threats, and provided relevant training to staff on how to comply with DFSA's cyber security requirements?
  - Yes: Cyber security risks are assessed, a policy is in place, and staff are trained.
  - No: Immediate action required.

## Next steps

To prepare for a DFSA inspection, insurance firms must ensure that they have robust, up-to-date documentation, comprehensive policies and procedures, and strong internal controls in place. Regular self-assessments, effective staff training, and clear governance structures are essential to fully demonstrate a firm's commitment to compliance with DFSA regulations.

## How can Waystone help?

Waystone Compliance Solutions can assist with policy review and creation, deliver targeted training sessions, and produce tailored training materials to help your firm meet regulatory requirements or conduct mock inspections. By partnering with Waystone, you can ensure your business is fully prepared to pass a DFSA inspection with confidence.

To learn more about our compliance solutions, contact our [Middle East team](#).

[Contact Us →](#)