Consumer protection and market conduct in UAE financial services sector

A crucial approach for Licensed Financial Institutions (LFIs)

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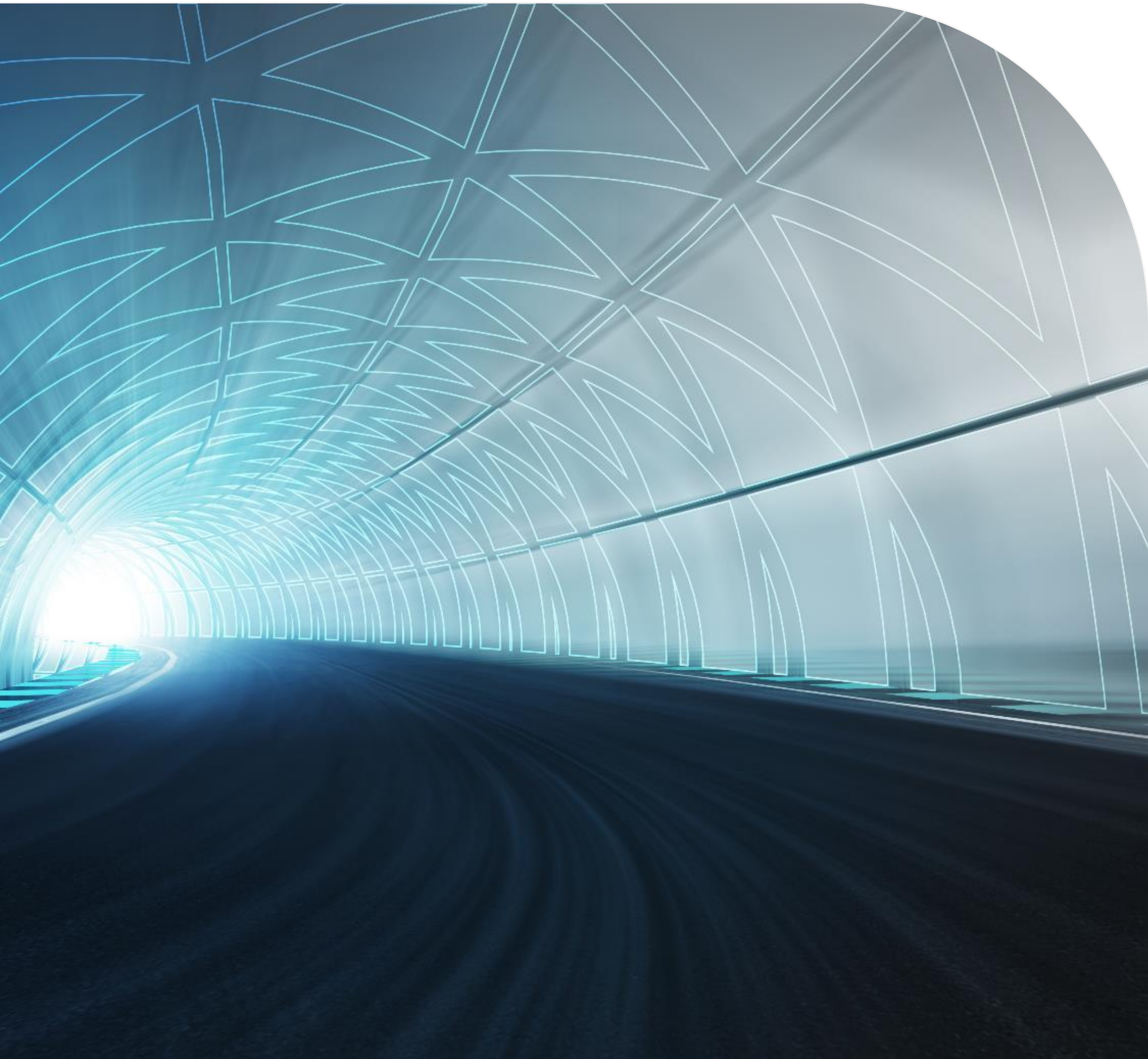

Conduct risk & consumer protection overview

This is first in our series of three publications dedicated to market conduct and conduct risk. In this series, we strive to provide meaningful insights into the key aspects of conduct risk management, and how LFIs can mitigate the risks by enhancing the control framework to meet the requirements of the CBUAE Consumer Protection Regulation and Standards.

GT UAE provides insight into the shifting regulatory landscape and the dynamic challenges of upholding ethical standards and addressing consumer protection and market conduct risks. GT can support LFI's to navigate the intricacies of an ever-evolving regulatory landscape shaped by innovation and customer growth.

Introduction: The shifting regulatory landscape

The UAE's financial sector is evolving with a focus on consumer protection, market conduct and ethical practices, driven by innovation and sustainability. Key advancements include the rise of digital banking, fostering a cashless society and greater convenience. Retail lending has increased, boosting profitability, while fintech solutions enhance financial inclusion.

CBUAE Consumer Protection Regulations and Standards emphasize integrating conduct risk management in Licensed Financial Institutions (LFIs) to ensure fairness, transparency, and accountability. This regulation establishes clear requirements for licensed financial institutions to uphold transparency and suitability standards. Furthermore, it promotes organization-wide practices that foster a consumer-focused culture.

LFIs that neglect conduct risk may face regulatory and reputational issues, while those adopting strong market conduct frameworks can build resilience, consumer trust, and competitiveness.

The launch of the CBUAE's Ombudsman "Sanadak" highlights the importance of applying the Regulations and Standards to protect consumers, and the importance of effective complaints handling when embedding market conduct best practice.

Importance and key aspects of conduct risk

What is conduct risk and why does it matter?

Conduct risk involves the potential for inappropriate, unethical, or unlawful behavior by management or employees. This risk can stem from deliberate actions or from deficiencies in organizational practices, frameworks, or training. Such conduct may harm customers, compromise market integrity, or damage an institution's reputation, leading to regulatory penalties, operational inefficiencies, and loss of stakeholder trust, all of which affect profitability and continuity.

Key aspects of conduct risk management

- Establishing a strong conduct risk framework enables early identification and mitigation of risks, aligning governance and operations with ethical business practices.
- A clear conduct risk framework ensures proper governance, leadership-driven ethical standards, and organization-wide ethical behavior.

To manage, monitor and proactively address conduct risk, LFIs should ask:

What defines responsible culture? How can consistent standards be enforced? How can conduct risk be integrated into decisions across operations and strategy?

Consumer Protection

Ensuring fair treatment, transparent communication, and ethical product offerings.

Cultural & Governance Risks

Addressing weaknesses in leadership oversight and organizational values.

Market Integrity

Preventing conflicts of interest, market manipulation, and unfair competition.

Reputational Impact

Building trust through ethical business practices and transparent operations.

Regulatory Compliance

Aligning with CBUAE's evolving regulations to avoid enforcement actions.

Shari'ah Governance

Strengthening the application of Shari'ah Governance and Compliance within the Consumer Protection and Market Conduct Framework within Islamic Financial Institutions.

Common conduct risk failures

Enhancing the conduct risk framework mitigates the risk of failure through enhancement of the control framework to incorporate ongoing monitoring, interrogating breaches, complaints data and ensuring clear delineation in roles and responsibilities across the three lines of defense.

By embedding a culture of transparency and accountability, LFIs can avoid common conduct risk failures, such as:

Unethical incentive structures

High-pressure sales tactics can emerge from incentive schemes that prioritize short-term sales over long-term customer welfare. Employees might feel compelled to push products or services that aren't in the best interest of the customer to achieve bonuses or other rewards.

Inadequate disclosure of risks

LFIs may fail to fully communicate the risks associated with financial products, either due to oversight, complexity, or a desire to make the product more appealing. This lack of transparency can result in consumers making uninformed decisions, leading to dissatisfaction and potential legal challenges.

Failure to manage conflicts of interest

When an institution does not effectively manage conflicts of interest, it can result in biased financial advice. For example, an advisor might recommend products that generate higher commissions for themselves or the institution, rather than those that best meet the needs of the customer.

Mis-selling financial products

This risk occurs when sales incentives overshadow product suitability, resulting in complex products including investments being sold to consumers who have insufficient knowledge to make informed choices, causing financial loss and complaints.

Poor complaints handling

Poor handling of customer complaints can worsen grievances, erode consumer trust, invite regulatory action, and harm the LFI's reputation.

By understanding these concepts, financial institutions can implement better governance, training, and compliance measures to mitigate conduct risks and enhance customer trust.

How can Grant Thornton UAE help

At Grant Thornton UAE, we help financial institutions navigate the evolving market conduct landscape by offering tailored conduct risk solutions that align with CBUAE regulations ands standards and global best practices.

We offer:

1 Consumer Protection & Market Conduct Maturity Assessment

Assessing the maturity of compliance on the conduct risk framework and establish criteria for the assessment develop a comprehensive Compliance Maturity assessment model.

2 Conduct risk – Target operating model design

Creating a conduct risk operating model for LFIs involves setting clear goals, building strong governance, establishing or improving policies, assessing risks regularly, fostering accountability through training, aligning incentives with ethics, and maintaining continuous monitoring.

3 Management Information (MI) assessment and implementation

Evaluate current MI conduct risk data, address gaps, standardize data points, and improve governance dashboards, remediation processes, and action monitoring

4 Training & Education

Assisting LFIs with a tailored design and implementation plan for training on the regulatory obligations of embedding a conduct risk framework.

5 Conduct Risk Culture

Assessing the culture and behaviours of an organisation (including benchmarking to peers) through employee surveys and thematic data analysis, raising awareness of risk culture at all levels to include interviews.

6 Ethical Selling Assessment

Evaluate the effectiveness of LFI products and sales processes by reviewing controls in product design, distribution, sales practices, marketing, customer service, and complaints handling.

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