

## INSURANCE BROKERS' REGULATION 2024

On 25 July 2024, the Central Bank of the UAE (CBUAE) issued the new Insurance Brokers' Regulation (the Regulation). The Regulation comes into effect from 15 February 2025 and expressly repeals the 2013 Insurance Brokerage Regulations.

The Regulation applies to onshore UAE regulated entities, including:

- (i) all insurance brokers operating in the UAE;
- (ii) all insurance companies incorporated in the UAE;
- (iii) foreign branches of insurance companies licensed to underwrite primary insurance and reinsurance (including Takaful);
- (iv) reinsurers; and
- (v) by way of sweep-up provisions:
  - (a) all primary insurance operations; and
  - (b) reinsurance operations "*to the extent commensurate with their nature*". There is a specific carveout for brokers licensed in Financial Free Zones for reinsurance business carried out in Financial Free Zones; these brokers are not required to be licensed by the CBUAE (and the regulatory regime in the relevant free zone will apply instead e.g. the DFSA regime).

Whilst there is a degree of continuity from the previous regulatory position, the Regulation also introduces a number of new elements. We set out below a non-exhaustive series of highlights, arranged by subject keywords.

Subject	Regulatory position
Activities	Insurance Brokers may not combine their role as insurance brokers with the role of any other insurance related profession (as defined within the Regulation), nor may Insurance Brokers be partners or agents of any other insurance broker.
Auditing	Every Insurance Broker is mandated to appoint an external auditor, approved by the CBUAE, to annually audit its financial statements, systems and controls. The external auditor will also be required to verify all company dealings present on accounts when conducting the audit.
Bank Guarantee	Bank guarantee requirements to apply for a licence to operate in the onshore UAE remain unchanged at: <ul style="list-style-type: none"> <li>(i) AED3m for Insurance Brokers established in the UAE plus AED1m for each additional branch; or</li> <li>(ii) AED5m for Insurance Brokers established in Financial Free Zones or as branches of foreign brokers plus AED3m for each additional branch. The CBUAE retains the power to revise the amount required.</li> </ul>
Capital	Minimum capital requirements to apply for a licence to operate in the onshore UAE remain unchanged at: <ul style="list-style-type: none"> <li>(i) AED3m for Insurance Brokers established in the UAE; and</li> <li>(ii) AED10m for an onshore UAE branch of brokers that are either established in financial free zones or are foreign brokers. The CBUAE retains the power to impose greater requirements.</li> </ul>

	<p>Aside from the first year of licensing, Insurance Brokers must always ensure to keep their net equity at 100% of paid capital at a minimum. Further, liquid assets must also not be less than 100% of current liabilities and cash must not be less than 25% of net liabilities. The bank guarantee does not form part of the assets that can be used to satisfy capital requirements.</p> <p>Insurance Brokers must notify the CBUAE immediately if their net equity position falls below 100%. A plan to re-establish the net equity position to the required levels within 15 days from the breach must also be submitted to the CBUAE. Until the required net equity position is re-established, an Insurance Broker is prohibited from carrying out any new business but must continue to service its existing clients throughout this period.</p>
Claims	<p>Insurance Brokers are now prohibited from collecting claims settlements; these must be paid directly by the insurance compan(ies) to the policyholder(s). This prohibition only applies to primary (direct) insurance operations; reinsurance operations are exempt and are subject to the terms of any reinsurance brokerage agreement.</p>
Commission (Remuneration)	<p>Insurance companies must now pay remuneration to Insurance Brokers directly rather than Insurance Brokers deducting this from premium (see below re: the changes to premium collection rules). Insurance companies may not communicate directly or indirectly with policyholders that are clients of the insurance broker (whether at inception or renewal) in order to deprive insurance Brokers of remuneration.</p> <p>Insurance companies must pay the agreed remuneration to the Insurance Broker within the deadline specific in the applicable Insurance Brokerage Agreement, which must not exceed 10 business days from receipt by the insurance compan(ies) of premium payment(s). Where premium is paid in instalments, remuneration must also be paid within instalments, subject to the same time restrictions.</p>
Conduct of Business	<p>The Regulation contains detailed conduct of business obligations on Insurance Brokers as regards their dealings with clients and insurance companies. As to clients/policyholders, these include:</p> <ul style="list-style-type: none"> <li>(i) acting in an honest, fair and transparent manner;</li> <li>(ii) acting in the best interests of the client when choosing one insurance product/company over another;</li> <li>(iii) obtaining written authorisation from all clients in order to perform insurance brokerage operations, in the form designed by the CBUAE;</li> <li>(iv) explaining the importance of disclosure and the consequences of concealing or providing inaccurate/invalid data or documents, including at inception and on an on-going basis;</li> <li>(v) notifying the client, in a clear, simplified, and accurate manner, of the key features of any insurance cover (at least in respect of the minimum features as set out in the Regulation);</li> <li>(vi) having in place the necessary electronic systems to support all of its insurance brokerage activities;</li> <li>(vii) assisting the client with claims procedures, including asking the client for any missing documents within 2 business days of receipt of the claim application form, assisting with negotiations with the insurance company, and advising of the insurance company's decision;</li> <li>(viii) maintaining a complaints procedure as set out in the Regulation;</li> <li>(ix) informing clients in writing within 20 days before the expiry date of any insurance policy for the purpose of renewals;</li> <li>(x) using official email addresses belonging to the Insurance Broker; and</li> <li>(xi) disclosing and explaining a prescribed list of issues, before inception of any policy, including the nature of business the Insurance Broker is licensed to carry out, the cancellation right in respect of services provided, the nature and scale of remuneration and (if requested) the amount, the terms of business with the</li> </ul>

	<p>client, the existence of the brokerage agreement(s) with insurance companies and the existence of any potential conflict of interest.</p> <p>As regards insurance companies, Insurance Brokers must provide insurance companies with accurate and adequate information relating to the client/policyholder, to assist insurance companies to underwrite the risk.</p> <p>Importantly, the Regulation also sets out a number of prohibitions on Insurance Brokers and their staff, including that they must not:</p> <ul style="list-style-type: none"> <li>(i) engage in any insurance related professions other than broking operations;</li> <li>(ii) manage or bear any insurance risks;</li> <li>(iii) assign any broking operations to other brokers without written consent from the client and the insurance company, including when using placing brokers in other jurisdictions;</li> <li>(iv) allow any person or entity not regulated by the CBUAE to use any employees or agents of licensed entities to solicit insurance policies;</li> <li>(v) share any remuneration with or to other insurance related profession practitioners; or</li> <li>(vi) offer any discounts to clients out of the remuneration received from insurance companies.</li> </ul>
Corporate Governance	<p>Insurance brokers are expected to implement a comprehensive, effective and robust corporate governance policy, one with a clear organizational structure and transparent lines of responsibility.</p> <p>The corporate governance policy must be proportionate to the nature, scale and complexity of the insurance broker's operations, so inevitably this will vary, but at the least the corporate governance policy must contain:</p> <ul style="list-style-type: none"> <li>(i) An organization chart outlining each division, department or unit, alongside the name of each responsible individual and a description of their respective function and responsibilities.</li> <li>(ii) Controls on conflicts of interests.</li> <li>(iii) Controls around the integrity and transparency of the Insurance Broker's operations.</li> <li>(iv) Controls to ensure compliance with the CBUAE's laws and regulations.</li> <li>(v) Methods for maintaining confidentiality of information.</li> <li>(vi) Procedures for regular monitoring and auditing of all corporate governance arrangements.</li> <li>(vii) A professional code of conduct for the Insurance Broker's representatives and staff, to ensure their compliance with CBUAE laws and regulations.</li> <li>(viii) A whistleblowing policy to ensure staff that raise concerns are protected from detrimental treatment or reprisals.</li> </ul>
Cyber Security	<p>Insurance Brokers are under a duty to use risk governance processes for the adequate management of cyber security risks. Insurance Brokers are to establish a cyber incident response and management plan, one which is descriptive of procedures to swiftly respond to and remedy any plausible cyber threat scenarios. Further, skilled resources are required to be committed to ensure the pre-emption, mitigation or containment of any cyber security incidents.</p>
Discounts	<p>As above, Insurance Brokers are expressly prohibited from offering discounts to clients out of the remuneration that the Insurance Brokers receive from insurance companies. Insurance Brokers must additionally avoid any action that would lead to market manipulation in terms of pricing. Any discounts offered to clients must come directly from the insurance company.</p>

Insurance Brokerage Agreements	<p>Insurance Brokers are required to enter into and maintain Insurance Brokerage Agreements with at least 2 insurance companies, which, at a minimum, address the duration of the agreement, termination provisions, types and lines of business, geographical areas, and remuneration (type, method of calculation and due date for payment).</p> <p>Brokerage Agreements may not make the Insurance Broker responsible for any unpaid premium by Clients (and see below re: the changes to premium payment obligations). Any side agreement to this effect will subject the Insurance Broker and insurance company to disciplinary action by the CBUAE. Brokerage Agreements may also not authorise Insurance Brokers to issue insurance policies or endorsements, nor amend the same, except in the case of motor certificates.</p> <p>To balance the scales, Insurance Brokerage Agreements may not prohibit Insurance Brokers from working with any other insurance companies.</p> <p>The CBUAE reserves the right to amend the terms and conditions of any Insurance Brokerage Agreement as it deems appropriate to safeguard the public interest.</p>
Insurance Brokerage (definition)	<p>The definition of "Insurance Brokerage" has been amended. The definition under the previous regulation was <i>"a CBUAE licensed person that independently intermediates in insurance or reinsurance operations between a client and an insurance company following which, remuneration is received for such efforts"</i>.</p> <p>The Regulation now defines Insurance Brokerage as <i>"the activity of soliciting, negotiating or selling insurance/reinsurance contracts through any medium"</i>. Each of these activities is further defined:</p> <p><i>"Solicit" is "attempting to sell insurance/reinsurance or asking a Person to apply for a particular kind of insurance/reinsurance from a particular Company for Remuneration by the Company exclusively";</i></p> <p><i>"Negotiate" is "the act of conferring directly with, or offering advice directly to, a Client or prospective Client of a particular contract of insurance/reinsurance concerning any of the substantive benefits, terms or conditions of the contract, provided that the Person engaged in that act either sells insurance/reinsurance or obtains insurance/reinsurance from Companies for Clients"; and</i></p> <p><i>"Sell" is "to exchange a contract of insurance/reinsurance by any means, for remuneration on behalf of a Company"</i>.</p>
Licences	<p>The prohibition on providing or engaging in Insurance Brokerage within the UAE without a licence from the CBUAE remains in place. Likewise, prior written consent is required from the CBUAE to establish a branch.</p> <p>The Regulation provides for three categories of Insurance Brokerage licence:</p> <ul style="list-style-type: none"> <li>(i) Primary insurance operations;</li> <li>(ii) Reinsurance operations; and</li> <li>(iii) Composite insurance operations i.e. primary insurance operations and reinsurance operations.</li> </ul> <p>As with the previous position, the Regulation sets out the detailed requirements for applications e.g. incorporation requirements, provision of a business plan; provision of training and Emiratisation plans; proof of ownership; audited financial statements; exit strategy and plan; proof of measures in place to comply with anti-money laundering and combating terrorist financing requirements. Requirements differ between the onshore UAE and Financial Free Zones.</p> <p>Insurance brokers must obtain any necessary local licences and commence activities within 6 months of the date of licensing by the CBUAE under this Regulation.</p> <p>The CBUAE may revoke, suspend, restrict or vary the Licence under various circumstances set out in the Regulation, including if the Insurance Broker does not comply with the terms of the licensing conditions, in the event of insolvency, and if the broker does not commence activities within 6 months of the granting of the licence. These actions may also be taken by the CBUAE <i>"if the interests of Clients or potential</i></p>

	<p><i>Clients of the Insurance Broker are in any way threatened, whether by manner in which the Insurance Broker is conducting its business or for any other reason". As phrased, this is extremely broad and hopefully the CBUAE will provide further clarification on this provision in due course.</i></p>
Outsourcing	<p>The "<i>Outsourcing</i>" (defined as an arrangement between the Insurance Broker and a service provider within the UAE for the service provider to perform a process, service or activity which would otherwise be performed by the Insurance Broker) of "<i>material business activities</i>" by Insurance Brokers will now be subject to the CBUAE's non-objection. In seeking this non-objection, Insurance Brokers must, at a minimum, provide the CBUAE with an explanation of the business activity to be outsourced, alongside a summary of the risk assessment, materiality assessment and due diligence conducted and its outcome. A confirmation of the agreement of the internal audit and compliance function, an overview of any closely related outsourcing agreements and evidence of the approval of the proposed outsourcing by the Insurance Broker's representative must also be provided.</p> <p>The CBUAE will assess requests for non-objection on a case-by-case basis, based on the individual merits of each submission. Although the CBUAE does not define "<i>material business activities</i>", we nevertheless envisage that this would be a function that is regular, continuous and substantial.</p> <p>Finally, the Regulations also prohibits Insurance Brokers from Outsourcing any of their activities outside of the UAE. Based on the definition, this prohibition would appear to just capture use of external parties overseas rather than any internal shared services.</p>
Personal Data	<p>Insurance Brokers are mandated to maintain adequate policies and procedures which identify, prevent and resolve data security breaches and protect personal data. The storage of personal data is also restricted to the UAE, with Insurance Brokers also being mandated to maintain a safe and secure backup of personal data in a separate location for ten years.</p>
Premium	<p>The Regulation expressly provides that premium collection is the responsibility of insurance companies, not Insurance Brokers. Indeed, the Regulation provides that Insurance Brokers are now prohibited from collecting insurance premiums from Clients under any circumstances; premiums must now be paid directly by Clients to insurance companies. The UAE Maritime law requires policyholders to transfer premium to brokers (if a broker is involved) with the broker responsible for transfer to the insurer. The Regulation does not specifically repeal these provisions and further clarification may be required from the CBUAE in due course.</p> <p>Insurance Brokers must notify their clients of this prohibition in writing before inception of any policy.</p> <p>Likewise, Insurance Brokers are prohibited from collecting premium refunds, these must be paid directly to policyholders by insurance companies.</p> <p>It is important to note that this prohibition only applies to primary (direct) insurance operations; reinsurance operations are subject to the reinsurance brokerage agreement.</p>
Professional Indemnity Insurance	<p>Insurance Brokers must obtain professional indemnity insurance policies, against unintentional acts or omissions and negligence, issued by an insurance company also licensed by the CBUAE. The terms and conditions of the Policy must be approved by the CBUAE and the CBUAE must be named as beneficiary. The minimum limits of indemnity remain unchanged from prior regulations:</p> <ul style="list-style-type: none"> <li>(i) AED2m for Insurance Brokers incorporated in the UAE, with a deductible not in excess of AED30k for any one incident; and</li> <li>(ii) AED3m for an onshore UAE branch of Insurance Brokers incorporated in Financial Free Zones or which are foreign brokers, with a deductible not in excess of AED50k for any one incident.</li> </ul>
Records and reporting	<p>Insurance Brokers must keep records on Personal Data for 10 years from the date of receipt (unless other laws or the CBUAE require otherwise). As to financial reporting, Insurance Brokers must maintain appropriate records and prepare financial</p>

	<p>statements in accordance with IFRS and Central Bank Regulations. Detailed reports on brokerage activities and final annual financial reports, along with an external auditor report, must be submitted within 90 days of the end of the financial year.</p> <p>Quarterly interim financial statements are also required, which conform to the minimum requirements set out in the Regulation.</p> <p>Insurance Brokers must also notify the CBUAE of all "<i>Matters of Significance</i>" being a matter, or group of matters, that would have a significant impact on the activities or financial position of the broker. Examples given in the Regulation include failure to preserve assets of the Insurance Broker, or failure to comply with CBUAE laws and regulations.</p>
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Restructuring	Insurance Brokers require prior written approval from the CBUAE in order to merge, amalgamate or enter into a joint venture. Likewise applications for voluntary cancellation must be made to the CBUAE.
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In implementing the Regulation, the CBUAE is moving to an objectives-based approach, being: (i) "fair treatment of Clients"; (ii) "ensuring the safety, soundness and efficiency of the insurance industry"; and (iii) "promoting the reliability and efficiency of Insurance Brokerage operations, as well as public confidence in the insurance industry".

Given the focus on objectives, the CBUAE recognises that there needs to be a degree of flexibility in interpretation. The Regulation expressly provides that the CBUAE will "apply the principle of proportionality in the application of the Regulation", taking into account factors such as the nature, scale, and complexity of the business of the particular insurance broker. As a result, the CBUAE may determine that objectives have been met even if all of the specifics of the Regulation are not complied with. However, this will be determined on a case-by-case basis and the Regulation exclusively reserves the right of interpretation of the Regulation to the Regulatory Development Department of CBUAE.

Notwithstanding this flexible approach, given the changes to the previous regulatory position, several of which will likely have significant impact on the way in which insurance broking business in the UAE is carried out, insurance brokers and insurers alike should familiarise themselves with the key elements of the Regulation.

Any breaches of the Regulation can expose the relevant party to supervisory action and potentially sanctions, as determined by the CBUAE. This may include, but is not limited to, withdrawing/replacing/restricting the powers of the brokers' representatives, senior management or staff; providing for interim management of the Insurance Broker; or barring individuals from the UAE insurance sector. Imposition of any supervisory action or sanctions does not preclude any civil or criminal liability arising out of the violations.

## HFW stands ready to help:

HFW's Insurance team is equipped to provide guidance on the interpretation of, and adherence to, the new requirements introduced under the Regulations. HFW is also well positioned to advise on the legal and compliance elements with respect to the Regulation as we regularly conduct impact analysis and support clients in developing systems to manage ongoing legal and compliance requirements.

If you would like to discuss how the new Regulations may impact your business, please reach out to the authors of this article, who would be glad to assist.

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