



# Development of Services in the DIFC

## DIFC Knowledge Series 3: Retail Financial Services in and from the DIFC

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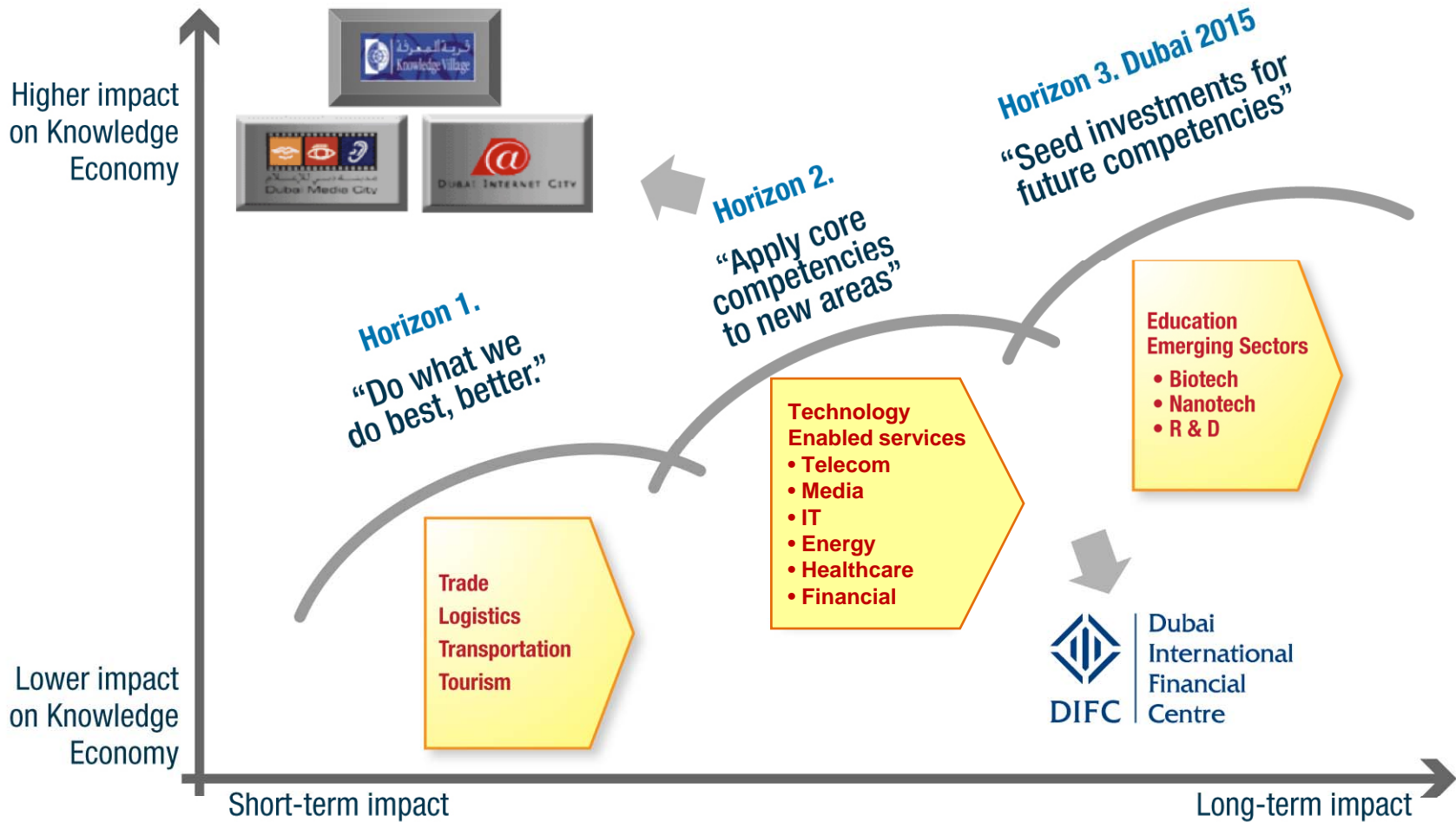


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# Agenda

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- Dubai Model : “Openness, Diversification & Economic Clustering”
  - Dubai International Financial Centre: Opportunities
  - Services in the DIFC
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# Dubai Strategy & Development

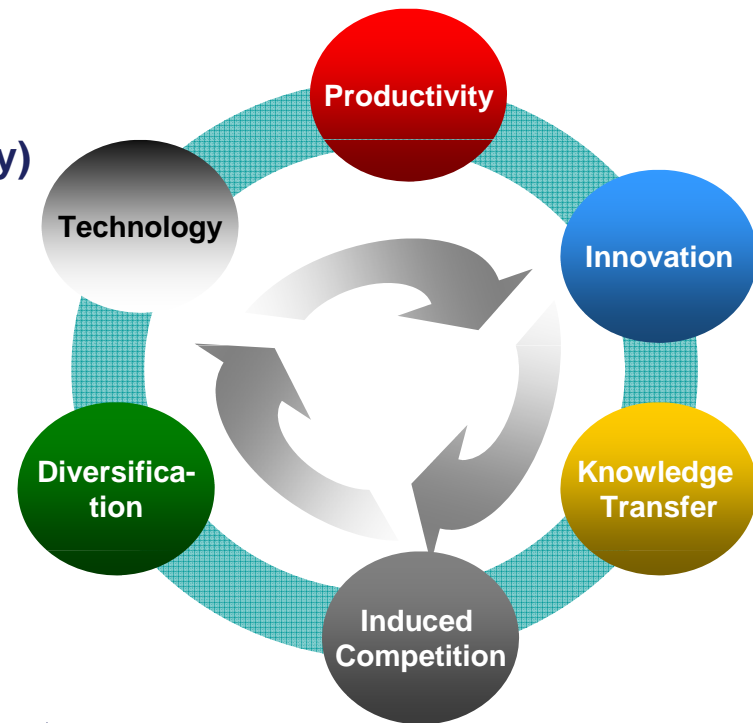


# Economic Clustering

- UAE/Dubai has adopted an Integrated Holistic Approach to Development of Free Zones

## Development of Clusters resulted in:

- Economic Liberalization
- Increased Competition (no barriers to entry)
- Increased FDI
- Transfer of Knowledge, Technology & Management Skills
- Induced Innovation
- Increased Productivity
- Diversification of the Economy



## The Result:

**Sustainable Growth and Competitive Advantage**

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## Role of the Free Zones

- The economic diversification strategy hinges on the role of the free zones, i.e. designated areas where firms operating in a specific sector cluster and operate under a special legal and regulatory regime which complies with international standards and best practices
- Free Zones are **separated from the legal system of the country** and offer a more business friendly environment to foreign investors, for example in terms of ownership, administrative permits, employment laws, custom duties, tax regime
- **Free Zones are a source of & imply (a) Competition, (b) FDI, (c) Economies of Scale, (d) Economies of Scope**
- In Dubai **18 Free Zones** are operational (including the DIFC), and more in the pipeline
- Other countries in the GCC, notably in Saudi Arabia and Qatar, new Free Zones are being created to attract foreign investors.

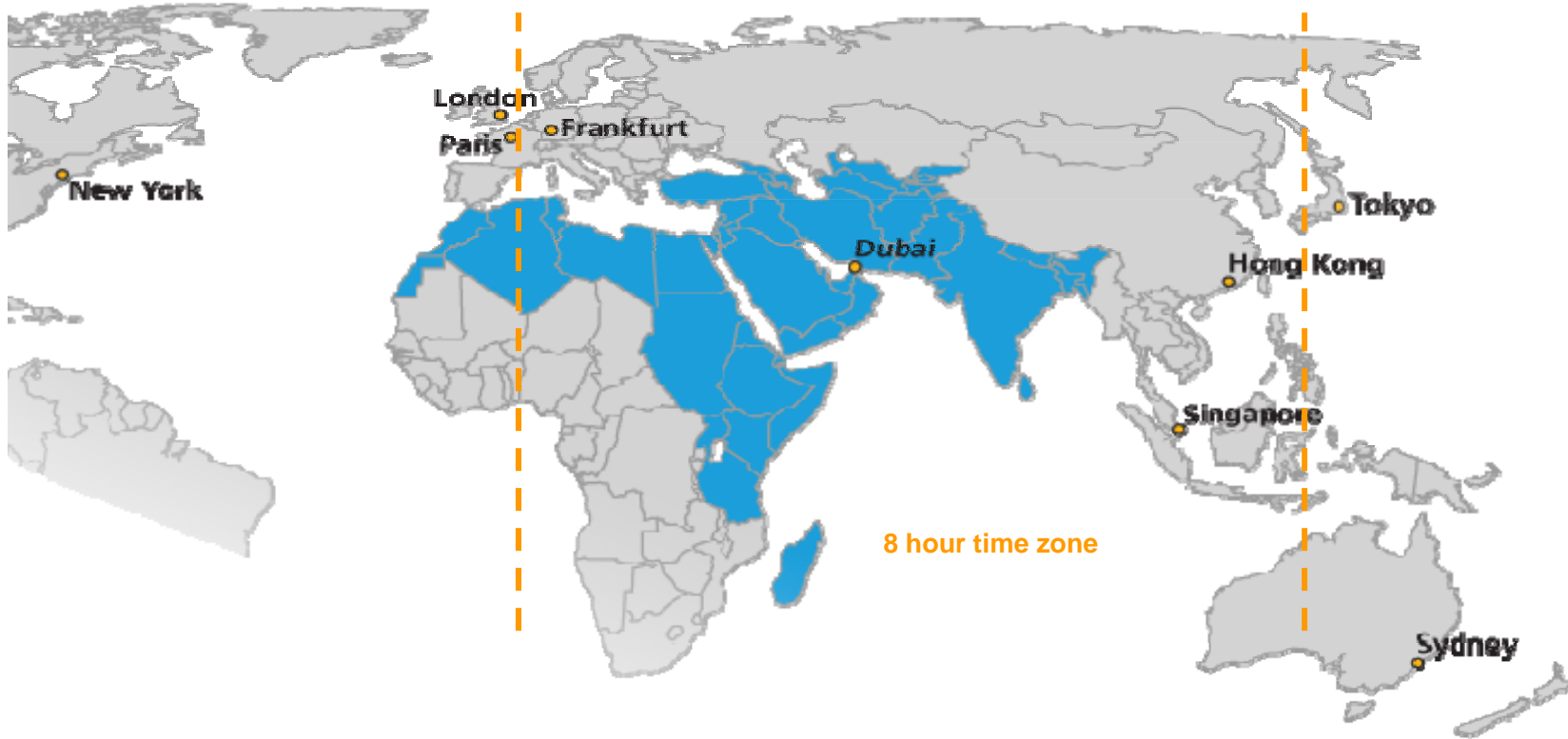
# Cluster Based Economy





# Dubai International Financial Centre: Opportunities

## DIFC – Time Zone Advantage



Dubai is 4 hours ahead of Greenwich Mean time (GMT)

5pm Dubai = 9am New York

1pm Dubai = 9am London

9am Dubai = 1pm Hong Kong



## DIFC Structure

- Over 26 laws & 16 regulations have been enacted establishing the basis for regulatory framework and allowing financial institutions to carry out activity in the DIFC.
- Tailor-made based on the best laws available in leading jurisdictions (e.g. Regulatory Law based on Common Law, Insurance Regulations based on Bermuda Law, Trust Law similar to Singapore and US regulations)



- Develop overall strategy and provide direction to the Centre
- Develop laws and regulations governing non-financial services activities
- Promote DIFC and attract licensees to operate in the Centre
- One stop shop service for visas, work permits etc
- Sole financial regulator within DIFC, AML co-regulation with UAE Central Bank
- Administrative and civil rule making and enforcement
- Bilateral MOUs with host of jurisdictions
- IOSCO, BOCA Declaration (including multilateral MOU), IFSB, IAIS (Technical Committee) etc
- An independent court system responsible for administering and enforcing the civil and commercial matters at the Centre
- Based on Common Law-offering institutions and companies the legal clarity and predictability

## DIFC Legal & Regulatory Infrastructure

DIFC Law No.	Law/Regulation	Administrative Authority		
		DIFCA	DFSA	DJA
No. 1 of 2004	Regulatory Law		✓	
No. 2 of 2004	Companies Law	✓		
No. 4 of 2004	Law Relating to the Application of DIFC Laws	✓		
No. 5 of 2004	Limited Liability Partnership Law	✓		
No. 6 of 2004	Contract Law	✓		
No. 7 of 2004	Insolvency Law	✓		
No. 10 of 2004	Courts Law			✓
No. 11 of 2004	General Partnership Law	✓		
No. 12 of 2004	Markets Law		✓	
No. 13 of 2004	Law Regulating Islamic Financial Business		✓	
No. 4 of 2005	Employment Law	✓		
No. 5 of 2005	Law of Obligations	✓		
No. 6 of 2005	Implied Terms in Contracts and Unfair Terms Law	✓		
No. 7 of 2005	Law of Damages and Remedies	✓		
No. 8 of 2005	Law of Security	✓		
No. 9 of 2005	Personal Property Law	✓		
No. 10 of 2005	Law on the Application of Civil and Commercial Laws	✓		
No. 11 of 2005	Trust Law		✓	
No. 1 of 2006	Collective Investment Law		✓	
No. 3 of 2006	Companies Law	✓		
No. 4 of 2006	Limited Partnership Law	✓		
No. 5 of 2006	Investment Trust Law		✓	
No. 1 of 2007	Date Protection Law	✓		
No. 4 of 2007	Real Property Law	✓		
No. 5 of 2007	Strata Title Law	✓		
No. 1 of 2008	Arbitration Law	✓		

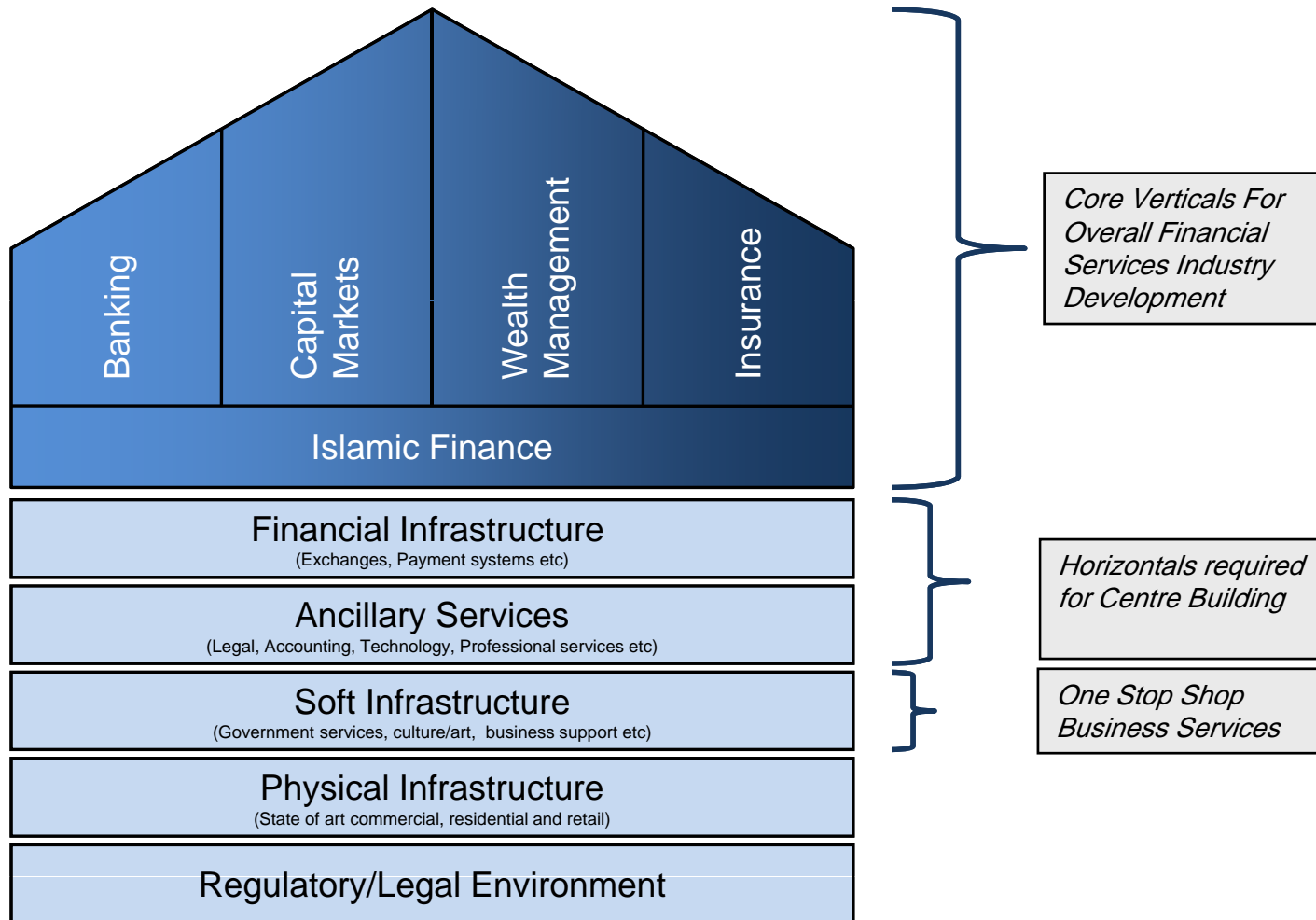
## DIFC Regulations

1. Non Financial Anti Money Laundering/Anti Terrorist Financing (AML/CFT) Regulations
2. Real Property Regulations
3. Strata Title Regulations
4. Data Protection Regulations
5. Limited Partnership Regulations
6. Security Regulations
7. Dematerialized Investments Regulations
8. DIFC Insolvency Regulations
9. Preferential Creditor Regulations
10. Companies Regulations
11. Single Family Office Regulations
12. General Partnership Regulations
13. Limited Liability Partnership Regulations
14. DIFCA Operating Regulations
15. Special Purpose Company Regulation
16. Special Purpose Company Fee Regulation



# Services in the DIFC

# DIFC: Ecosystem



## DIFC Primary Sectors of Focus

- **Banking services**

- There are commercial banks which can accept deposits and/or provide facilities to corporates including **trade finance** – including specialist banks engaged in shipping and aviation finance. Other activities include **project and infrastructure funding, treasury services and correspondent banking**.
- Bulk of the licensees are dealing with institutional clients, but activities like lease finance, factoring and forfeiting are also accommodated to cater to SMEs.

- **Brokerage services:** The DIFC has established a critical mass of international and local firms offering **trading in forex, equities, bonds, commodities, derivatives and CFDs**. Clients have the option to trade with Nasdaq Dubai within DIFC or any exchange worldwide.

- **Capital Markets:** The DIFC created Nasdaq Dubai (earlier DIFX) in 2005 to provide issuers and investors with a larger and more liquid securities market, currently non-existent anywhere else in the region (for **equity, debt instruments, derivatives and commodity trading**). Nasdaq Dubai has already attracted dual listings of blue-chip firms and is attracting more global investors given the opportunity to invest in securities.

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## DIFC Primary Sectors of Focus

- **Wealth Management (Family Office, Trust Services):** The Family Office initiative promotes the Centre as an ideal location and domicile for family offices. This includes highlighting the world class financial services firms located at the DIFC and raising awareness among legal and accounting practitioners and families regarding the DIFC's legal and regulatory advantages that are relevant for family offices - **the DIFC Trust Law and the Single Family Office Legislation.**
- **Islamic Finance:** The DIFC
  - has **created an international base for providers of Islamic financial products**, including Sukuk, that meet the needs of both institutional and individual investors.
  - also **offers a new domicile for the registration of Islamic collective investment schemes**, reflecting an increasing investor preference for Sharia-compliant investment products originating and managed in the region.
  - through the Nasdaq Dubai, **offers a deep pool of liquidity for the primary listing and secondary trading of sophisticated Islamic financial instruments.**

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## DIFC Primary Sectors of Focus

- **Asset Management & Fund Registration:**

- The regulatory authority of the DIFC, Dubai Financial Services Authority (DFSA) has created a set of **Collective Investment Rules** which not only govern the activities of Domestic Funds but also permit the distribution of Foreign Funds.
- **The Domestic Funds regime permits the establishment of traditional and alternative funds on both a conventional and Islamic basis through a full array of investment vehicles.**

- **Insurance/Reinsurance:** The DIFC has placed a particular focus on helping to serve the growing Takaful, or Islamic insurance, industry by attracting Shari'a-compliant insurers and Reinsurers. The DIFC has **created a hub to foster the development** of a thriving insurance and reinsurance market by attracting global insurance and reinsurance companies, brokers, captives and other service providers, enabling them to establish their regional operations in a single business base.

- **Ancillary Services:** DIFC provides **a fully robust platform and effective operating environment** to support the various types of activities and operational needs of financial institutions - **services include** accounting, tax, fiduciary and legal practices, actuaries, management consultants, recruitment firms, and market information providers, among others.



## DIFC: Recent Legislative Developments

- **DIFC-LCIA Arbitration Centre**
  - Promote and administer the **effective resolution of international business disputes through arbitration and mediation.**
  - Based on a comprehensive and modern set of rules and procedures (UNCITRAL Model Law on International Commercial Arbitration)
- **Securitisation:** Special Purpose Company Regulation and Special Purpose Company Fee Regulation passed to allow the set up of **Special Purpose Companies** (SPCs) for the purpose of facilitating asset backed and other financing activity under both Islamic and conventional finance.
- **DIFC Data Protection Law** (DIFC Law No.1 of 2007) prescribes rules and regulations regarding the collection, handling, disclosure and use of **personal data in the DIFC**. The Law was designed to conform to the principles of the OECD guidelines and the EU Directive.
- **Payments System Settlement Finality Law of 2009** (DIFC Law No. 1 of 2009)
  - Provides robust legal foundation for designated payments systems
  - For high value payment systems it is critical that settlements are final when made
  - Modeled on best practice – e.g. Settlement Finality Directive in Europe
  - Provides that Rules will be enforceable, even in the event of a conflict with other laws
  - DIFCA will designate Payment Systems and regulate providers of Payment Services
  - **RAPID** Real-time Gross Settlement (RTGS) payment systems infrastructure to institutions operating both within the financial district and the MENA region

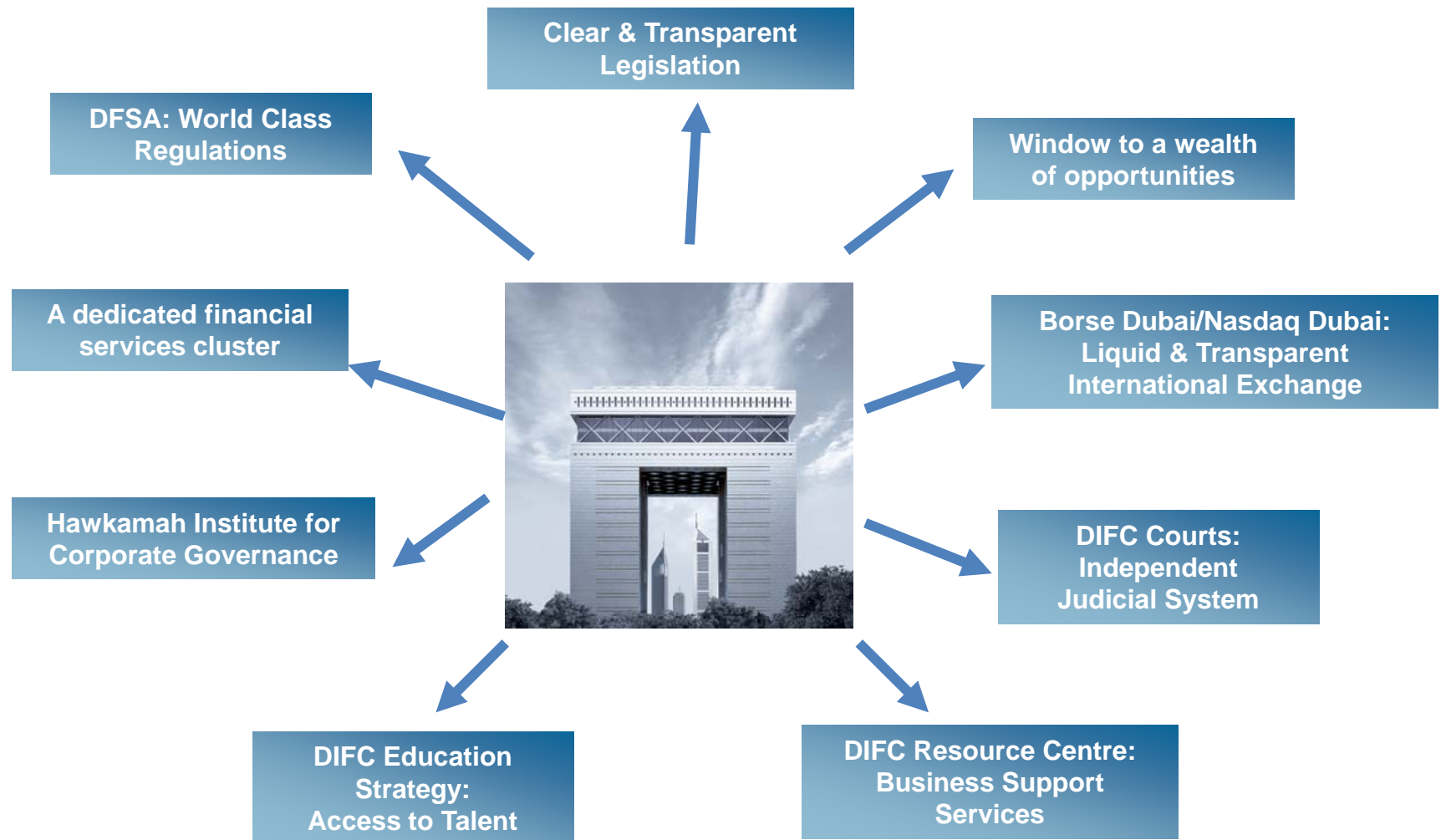
## Facilitating Retail Investments

- **DFSA Retail Regime**

- Given the growing maturity of the DIFC, and increased convergence across markets, DFSA introduced legislative amendments in July 2008 making it possible for firms to provide financial services to retail customers in or from the DIFC.
- Similar to the Markets in Financial Instruments Directive (MiFID) in Europe.
- New rules now permit firms to market and sell interests in domestic public funds to retail clients and also facilitate efficient fund operation by easing restrictions on delegation and outsourcing of fund administration and custody activities.
  - Offering institutions access to wider client base
  - Giving retail investors a breadth of investment opportunities
- **Mutual Funds: a resource mobilizer in financial markets** (Mutual fund assets dominate the global financial market with over \$21.6 trillion invested, 40% of which were held in equity funds as of 3Q 2008)
- Regional mutual funds industry was estimated to be approx. \$55 billion at end of 2008 and is expected to grow to \$160 billion by 2010, with the UAE fund industry alone reaching a size of \$50 billion.\*
- Nasdaq Dubai permits listing of Exchange Traded Funds (ETFs)

*\*Source: Zawya Mutual Funds Monitor research.*

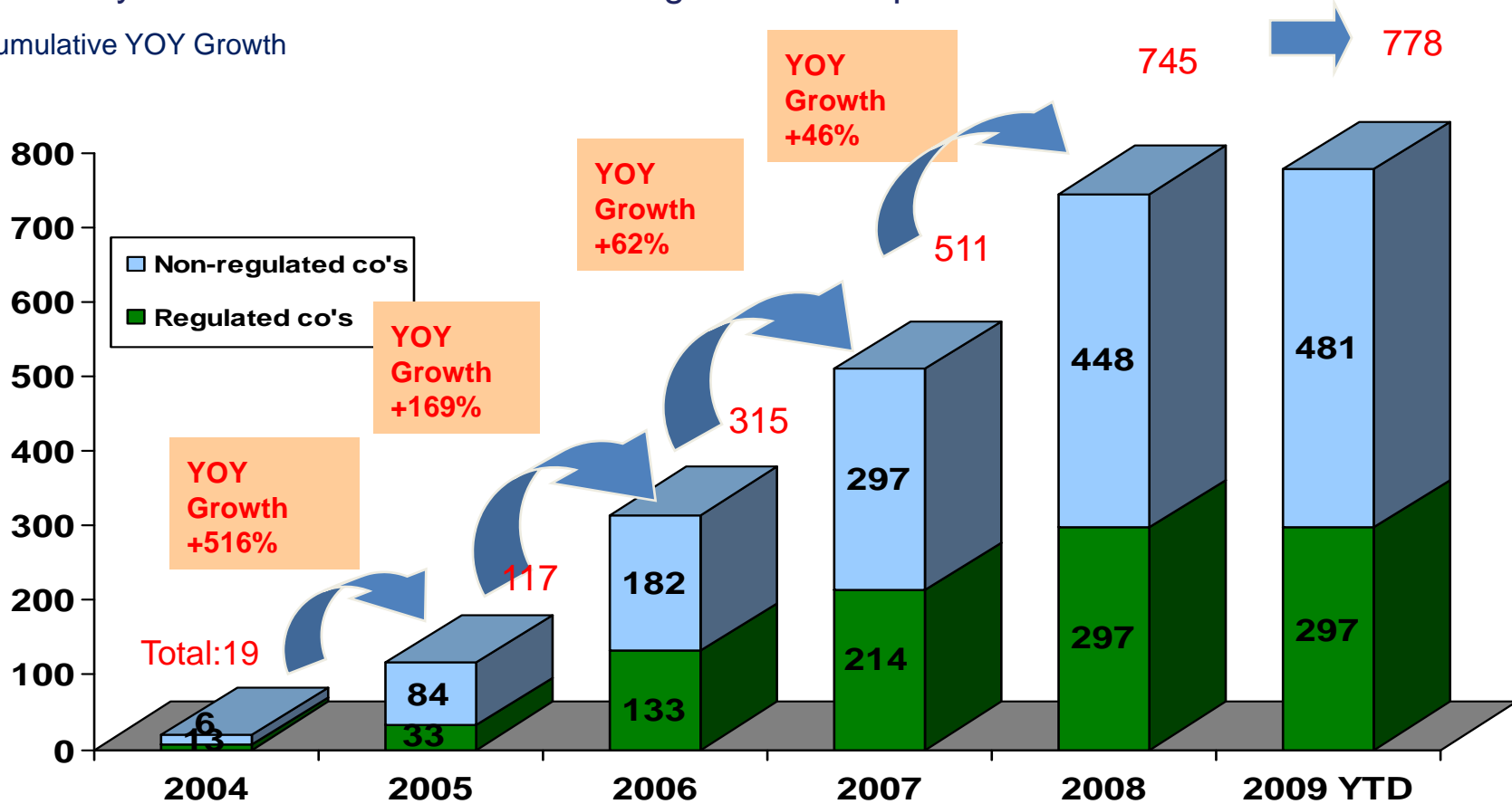
# DIFC - Value Proposition



# Development of DIFC as a Financial Hub

## Yearly Growth in Number of DIFC Registered Companies

Cumulative YOY Growth



Of the total 778 companies operating out of DIFC currently, there are 297 regulated (38.2%) and 481 non-regulated (61.8%) companies.

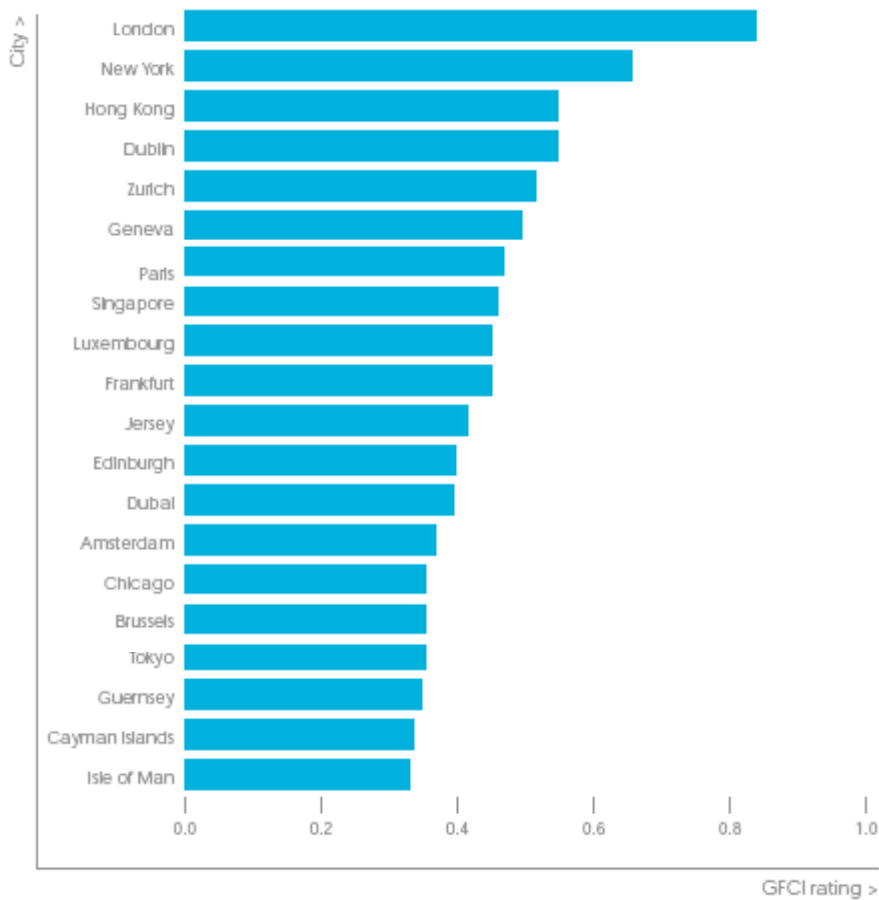
## Dubai's status as a leading Global Financial Centre

### City of London's 2009 Global Financial Centre Index

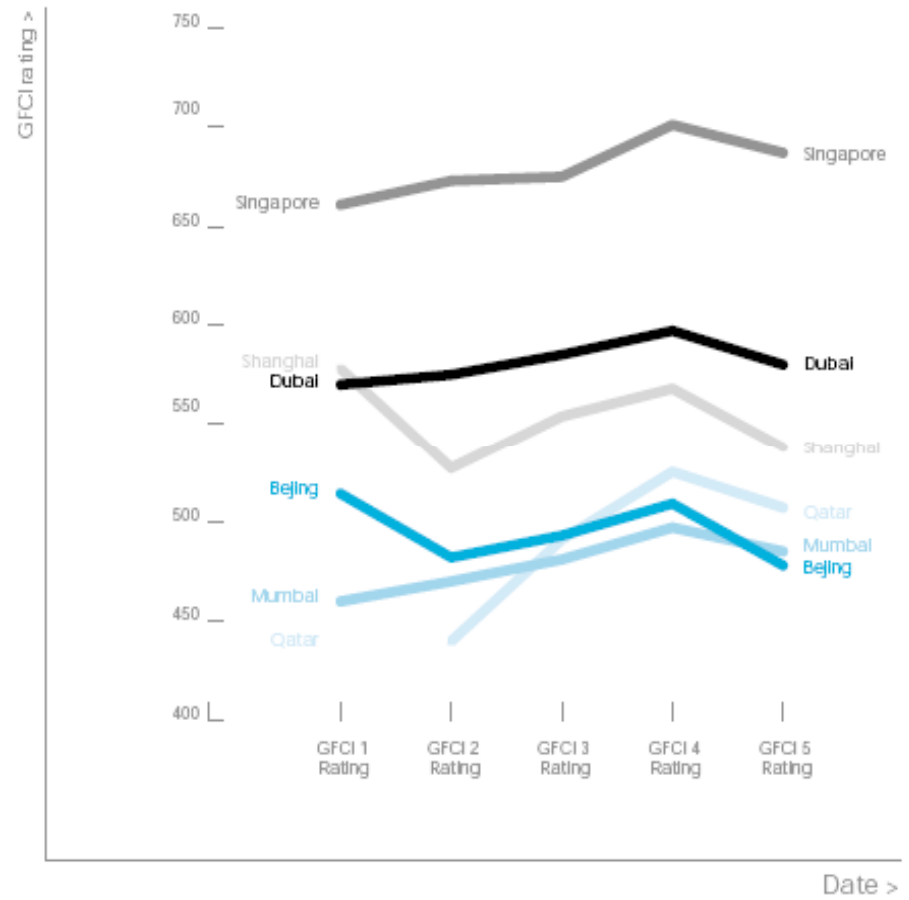
- Dubai maintained its status as the leading financial centre in the region between Europe and Singapore/Hong Kong
- Dubai reaffirmed its position as the 5th leading Financial Centre outside Europe and North America – behind Singapore, Hong Kong, Tokyo and Sydney. Dubai also significantly narrowed its gap from Tokyo and Sydney's positions.
- Dubai was ranked 13th on the top 20 Centres most rated by Respondents not based there; Moreover, Dubai was ranked # 3 outside Europe and North America when rated by respondents not based on those locations.
- Dubai ranked # 1 again (4th consecutive time) in the list of financial centres that might become more significant
- Dubai ranked # 2 on the list of financial centres where organisations may open new operations in the next 2 to 3 years.
- Dubai (rank 23 – same as last time) continues to lead in the GCC; Bahrain (rank 43 – same as last time) and Qatar (rank 46 – drops 1 place)

# Dubai - Financial Centre in Making

Top 20 rated Centres



Centres likely to become more Significant



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## Retail Financial Services in DIFC Region

Growth of retail banking & financial market in DIFC region supported by strong fundamentals:

- Demographics: young & fast growing populations including of expatriates
- Strong growth prospects based on sound macroeconomic fundamentals and investment in infrastructure
- Rapid build-up of wealth and particularly of HNWI
- Growth of Islamic finance
- Gradual move away from traditional reliance on banking sector for financial services
- Limited access to finance providing scope for market capture
- Financial liberalisation and removal of legal & regulatory barriers to entry in MENASA region, starting with GCC
- Demand for financial services tends to grow faster than income: a high income and wealth elasticity

## DIFC Imperatives: a New Economic Geography

- GCC bloc emerging as economic and financial hub for MENA region
- GCC Monetary Union paving way for change through lower barriers to trade in services and financial market liberalization and integration
- GCC Common Currency will emerge as a global currency alongside US\$, Euro
- Financial Markets in GCC can become an “engine of growth”:
  - Finance Infrastructure & Regional Economic Integration
  - Enable & support economic and financial reforms: GCC Bond Market
- DIFC working towards :
  - Lower access barriers to financial services
  - Increased linkages and convergence across financial markets
  - Greater harmonization of laws & regulations across UAE and wider GCC
  - New products & investments
- Change in Global Economic Geography requires accompanying change in Global Financial Geography





*Thank you*