

# CBUAE Announces New Caps on Banking Fees for Customers – June 2018

Date: 21<sup>st</sup> June, 2018

- Central Bank of UAE has set out the new maximum limits or 'fee caps' for fees or commissions charged on retail customer service.
- The fee caps apply to banking consumer related charges for example, home loans and late fees for credit cards.
- 140 fee types were reviewed and fee caps applied on 43 based on consumer protection principles. Of the 43, 24 fee types are common with the old fee caps but are either at the same level or lower and 19 are new fee types such as those that relate to home loans and credit cards.

## Banks are comfortable with the new fee caps

As per the CBUAE press release, banks have been engaged in an initial round of consultations about the revised CBUAE regulation on fee caps and are comfortable with the extensive benchmarking and transparent nature of the new fee cap mechanism. CBUAE also instructed banks and finance companies to display the new fee caps on their websites.

## Revision of banking fee to be reviewed by CBUAE annually

Going forward, fees charged by banks will be reviewed annually in order to ensure that consumers are appropriately protected. Banks will need to notify and seek approval from CBUAE (ex-ante) of any planned introduction of a new fee or a change of fees larger than 5%. Banks will have to notify and seek approval by CBUAE for these additions or changes during the first 5 days of April or October each year.

## Rationale for introducing/revising fee caps

CBUAE has amended 'Annexure 2' of the *Regulations Regarding Bank Loans & Services Offered to Individual Customers (2011)*. This Amendment comes as CBUAE is undertaking more active supervision of the banking sector with the adoption of consumer protection principles -competition inhibiting, usury, notary function, and strategic related principles.

Furthermore, banks and finance companies must have the appropriate product approval processes in place for all products which include an examination of the basis and appropriateness of the fee calculation and, if applicable charge lower fees than those prescribed in the caps. Fee caps are being used as a tool to protect consumers from anti-competitive and unfair practices. This includes ensuring that entities do not automatically default to using the maximum caps when the actual costs are lower and banks will have to justify their increased costs in order to increase fees. If consumers notice incidents of non-compliance they are urged to notify the Central Bank immediately.

## Revised Regulation to have minimal impact on banks' profitability, in our view

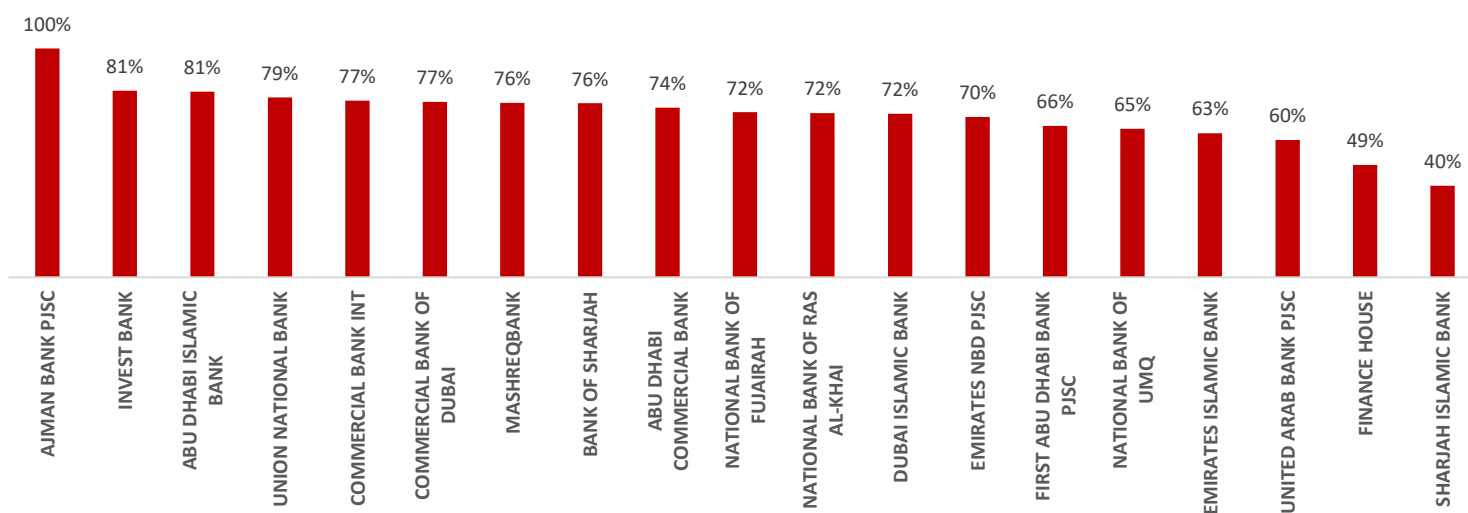
Fee income typically constitutes a significant portion of non-interest income of banks (60%-80%). However, depending on the bank's revenue diversification strategy, it can constitute anywhere from 15% to 30% of total net revenue of the bank in the UAE.

Although it is difficult to say at this time what the exact impact will be like in the absence of details on cap specifications, however, regulation of fees charged by banks will have a marginal impact on the banks' overall revenue as:

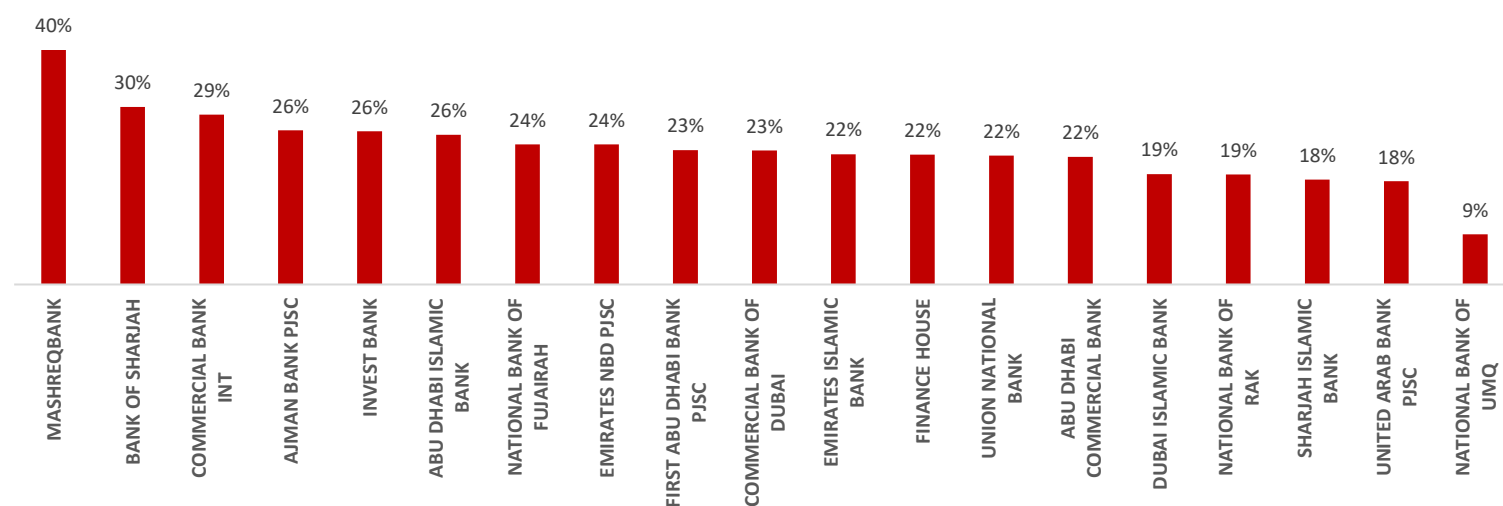
1. Only retail banking service fees have been capped and corporate service fee has not been capped.
2. Banks can still raise more fees by generating higher volumes.
3. Only 43 items out of 140 have been capped and amongst these 43 only 19 are new items capped.
4. Banks with low net fee and commission earned as percentage of total revenue will not be impacted as such.

Overall, we believe this will have a limited impact on the operating profitability of UAE banks.

### UAE Banks: Net Fee & Commission Earned as % of Non-Interest Income

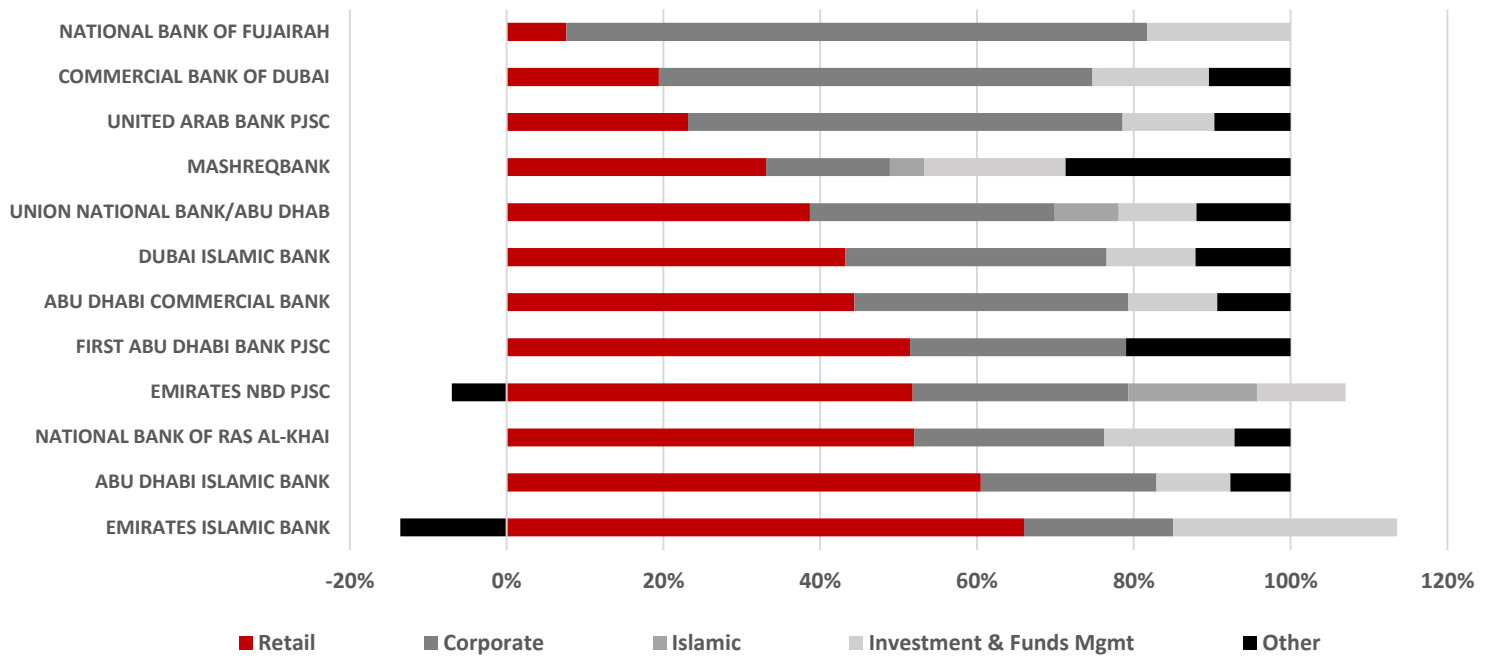


### UAE Banks: Net Fee & Commission Earned as % of Non-Interest Income



Source: Bloomberg

## UAE Banks: Segment-wise Fee & Commission Income



Source: Bloomberg

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