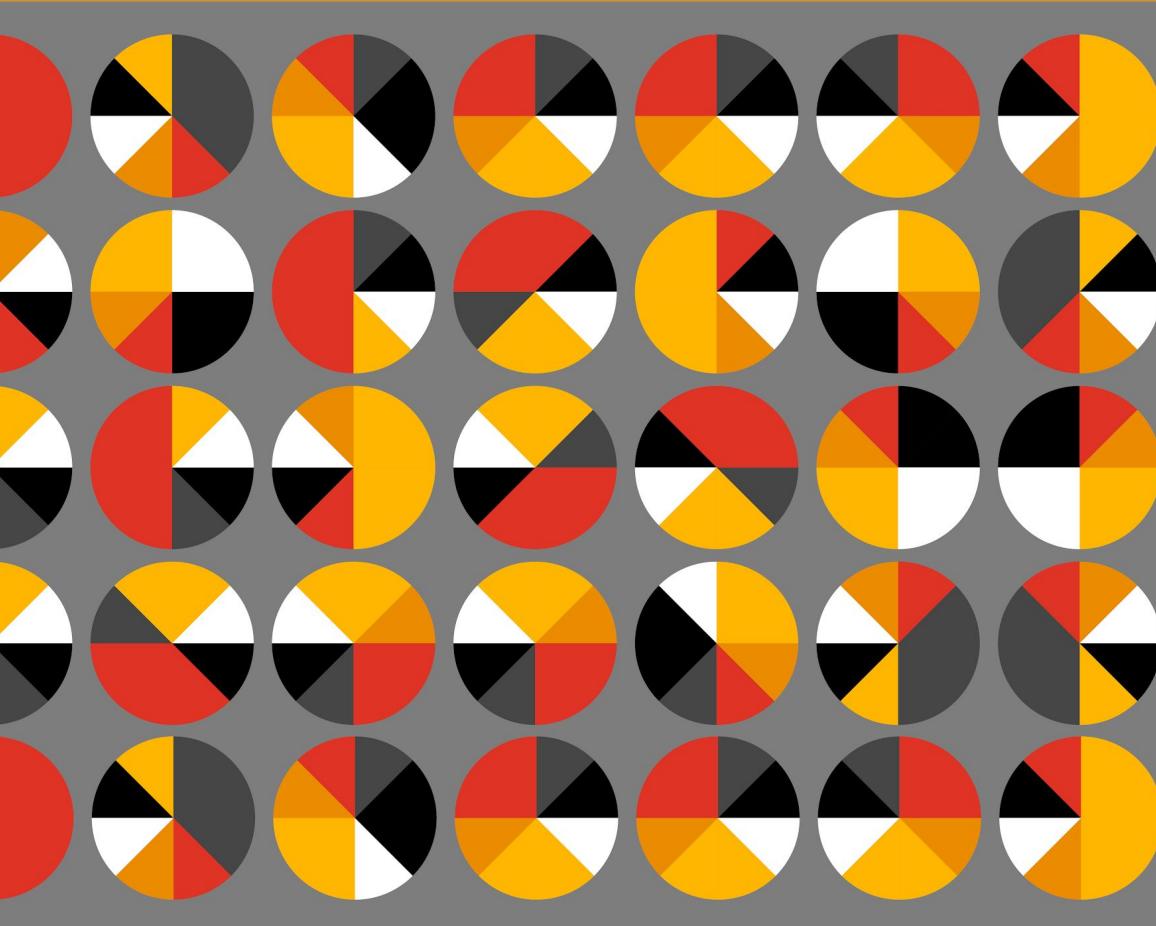


# GCC: Wages protection system (WPS) - an update

September 2019



## In brief

The Wages Protection System (“**WPS**”) has operated for several years now across the GCC (with the exception of Bahrain) and served as a useful means of codifying, regulating and ensuring the timely payment of employee salaries as well as providing an effective method for monitoring employer non-compliance. Back in 2009, the UAE was the first of the GCC countries to formally enact the WPS regime, albeit on a graduated basis, with the KSA (2013), Oman (2014), Qatar (2015) and Kuwait (2015) following suit. Bahrain will now complete the GCC set by introducing WPS on a phased basis from September 2019, some 10 years after the UAE which has, incidentally, taken steps to update its own WPS regime. In this brief update, we outline updates to the UAE WPS regime as well as the new forthcoming regime in Bahrain.

## In detail

Across the GCC, the WPS has for several years operated as a transparent means of securing the timely payment of employee salaries and regulating employer non-compliance. In-scope employers are obliged to pay salaries into local currency at least once a month and into a locally regulated bank account. In the UAE, for example, the initial objective of the WPS regime was to safeguard the rights, and ultimately protect the interests of, blue-collar workers but it morphed significantly from this initial premise to impact companies of all sizes operating under the remit and jurisdiction of the Ministry of Human Resources and Emiratisation (the “**MOHRE**”) (the Jebel Ali free zone is currently the only UAE free zone that has adopted the WPS regime). In the KSA, Kuwait, Qatar and Oman, WPS operates on a similar model, effectively creating a country based transaction between the employer and employee.

### Updates to WPS in the UAE

Effective 1 July 2019, a new WPS regime will be adopted as a means of mitigating against labour complaints and to effectively secure employees’ and employers’ rights. The MOHRE systems will now be linked with the systems of the Identity, Immigration and Passports authority in order to exclude the following categories from WPS compliance:

- (a) Employees outside UAE
- (b) Employees with Escape Report filed
- (c) Employees with labor lawsuit filed

In addition, the MOHRE has provided the following additional guidelines and points to note with respect to general WPS compliance in the UAE:

- The rate required from all entities employing at least 1 employee is 70% of salary through the WPS;
- An employee will be added to the WPS 60 calendar days after signing the contract;
- An entity shall bear the consequences of paying employees in cash or via cheques, for not adopting this method;

- No more than 10% of the salary of any employee shall be deducted for any reason;
- Salaries entitlement in WPS shall start from 1 to 15 of the Gregorian month. An SMS notification will be sent to the registered mobile number of employers on the 5th and 10th of every month reminding the employer to deposit employee salaries;
- Thereafter, the system (payroll) will be closed for that employer with the MOHRE forwarding the documents to the judicial bodies. In the event that the employer pays the employee salaries before the end of the same month, the ban will be immediately removed; and
- In the event the employer fails to pay employee salaries before the end of the following month, an administrative penalty will be imposed on the company for the late payment of wages.

There are two routes for employers to take in order to remove the ban imposed for not paying salaries for two months. Firstly, the employer pays the latest wages claim (the payroll of the month), pays a penalty for any salaries below the accepted threshold rate (70%) and requests a paid-fee assessment visit. Once these are done, the ban will be automatically removed. Alternatively, the employer commits to pay the wages for three consecutive months in the maturity dates due. Once this is done, the ban will be automatically removed. In case the employer delays in paying wages three times in any one given year, the owner or their representative shall be required to attend a guidance lecture in one of the guidance centers at MOHRE.

### **WPS in Bahrain - what we know so far?**

Of the six GCC countries, Bahrain's implementation of the WPS was subject to several delays but the Labour Market and Regulatory Authority (the “**LMRA**”) has recently announced that the WPS will now be implemented in Bahrain as of September 2019. At this stage, the information is limited with the LMRA confirming that the WPS is still at the administrative stage of the process. However, we understand that the WPS regime in Bahrain will operate on a phased basis, targeting large, medium and small sized companies, followed by domestic workers (employer sizes have not been formally defined). It is not, however, clear at this stage what the controls and procedures required for WPS compliance will be, the complete dates for the phased approach of implementation, designated timelines for payment, the exceptions and/or the penalties for non-compliance.

That being said, employers with internationally mobile employees who are sponsored and employed in Bahrain while on assignment or secondment from their home country will need to carefully consider the implications of the new WPS regime on the payment of these employees' salaries during that period, in addition the treatment of salary payments for its other localised workforce.

## The takeaway

In light of the changes to the WPS regimes, employers operating in the UAE should be mindful of the key changes to the regime and, for those operating in Bahrain, care will need to be taken to ensure that they are prepared for the launch of the WPS regime and that their payroll is structured to accommodate the payment of salary in local currency and into local regulated bank accounts, in alignment with the new WPS regime.

We will continue to monitor these changes and keep you up to date on any developments including the specific legal framework once formally implemented by the LMRA.

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## Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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