



EDFIS/C/021/2007
25th June 2007

The Compliance Officer
All Insurance Licensees
Manama
Kingdom of Bahrain

Dear Sir,

CBB Rulebook: Volume 3 (Insurance) –Update

After two quarter periods with no changes issued to Volume 3 of the CBB Rulebook, a number of necessary changes are now being issued. The latest update to Volume 3 has now been incorporated in the website version of the Rulebook.¹

This letter highlights these changes. **Licensees are required to note any policy changes. In addition, recipients who wish to update their hard copy folders should access the Central Bank of Bahrain ('CBB') website and print off the relevant pages for insertion into their folder.**

All changes are highlighted in colour in the PDF versions of the Modules included on the CBB's website. All changes to the text of the previous version of Volume 3, however minor, are highlighted. The searchable version of the Rulebook, in addition, allows users to list changes and compare different versions of the Rulebook.

¹ Volume 3 can be accessed from www.cbb.gov.bh : from the Home page, select 'Regulatory Functions' and then 'Laws & Regulations'. Alternatively, use the 'Quick Links' facility on the Home page to access the CBB Rulebook facility.

New CBB Law

The enactment of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law') has resulted in a number of changes throughout the Rulebook. The nature of these amendments necessitated a detailed review of all Parts of the Rulebook and a shift to the CBB's regular quarterly updates. Now that this task has been completed, the CBB plans to resume its adopted approach to quarterly updates, when necessary.

References to former Legislative Decree (17) of 1987 with respect to insurance companies and organisations and the related Ministerial Order No. 6 of 1990 regarding the issue of regulations are no longer included in Volume 3 (Insurance) as these have been repealed with the coming into force of the CBB Law.

The opportunity was also taken to correct a few drafting errors that existed in the old text.

Part (A) Modules

Contents Pages

The contents pages for each Module contained in Part (A) of Volume 3 have been updated and reformatted. The contents page now shows the date each section was last changed. The CBB opted to label all updates to Part (A) as January 2007 in order not to delay any further the updating process.

As part of this update, where a change has been made to a Rule, the last date changed for the Section will be shown as January 2007. However, if the change to a Rule is only in relation to the updating of 'Bahrain Monetary Agency', 'BMA', or reference to the CBB Law, the last date changed **will not** have been amended. In addition, any change to Guidance, has not been reflected in the date last changed Section.

Updated Executive Summary Section

The Executive Summary Section for all Modules has been amended to be in line with the CBB Law, and classifying each Module as a Directive and/or Regulation, as required under the Law.

Updated Module History Section

The Module History Section for all Modules has also been amended reflecting the classification of all Modules as a Directive and/or Regulation, in addition to other individual changes to Rules contained in each Module.

Module UG (User's Guide)

The User's Guide has been updated to provide an explanation of the CBB's rulemaking instruments under the new Law.

Module AU (Authorisation)

The Authorisation Module has been changed to reflect the licensing process specified in the CBB Law, as well as the new license fee system introduced in April.

Module GR (General Requirements)

The General Requirements Module has been changed to reflect new procedures for the transfer and cessation of business, as well as the approval of changes in controllers, again reflecting processes specified in the CBB Law.

Authorisation and STR Reporting Forms

Insurance licensees and other users should note that Authorisation Forms 1, 2, 3 and 4 as well as the STR Reporting Form have been amended to reflect 'Central Bank of Bahrain' and new references to CBB Law. Insurance licensees and other users should use these new forms effective immediately.

Submission of Insurance Firm Quarterly Return (IFRQ)

All licensed insurance firms are reminded that they must submit their next IFRQ for the period ending June 30, 2007, by **August 14, 2007 at the latest**. Starting with this second quarterly reporting period, insurance firms are to submit only **one signed hard copy** of the IFRQ **and an electronic version** in excel format is to be submitted by e-mail to **ifr@cbb.gov.bh**.

Other Changes

The remaining changes are aimed at providing clarification on existing rules, in response to user queries. These are listed in the attached table.

Further Information

Should you have any queries regarding these updates, you may contact the CBB Rulebook team at (rulebook@cbb.gov.bh), or the Director of Insurance Supervision on 17547302.

Yours faithfully,



Abdul Rahman Al Baker

Enclosure: Volume 3 Update Table.

CBB Rulebook (Volume Three) – January 2007 Update

PART (A) FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
All Modules	N/A	Print off the Table of Contents page and the complete Introduction Chapter for each Module.
UG	User's Guide	UG-1.2: New text on the CBB's rulemaking instruments.
ES	Executive Summary	<p>ES-1.1.9 and 2.4.2: Clarified the first period for which a report from the Signing Actuary is required. Print off updated ES-1.1: Page 2 of 5; and ES-2.4: Page 1 of 1.</p> <p>ES-1.1.9 and 2.6B: Allowed for a transition period for the external auditor's report required under Subparagraph FC-3.3.1(d). Print off updated ES-1.1 Page 4 of 5; and new Section ES-2.6B.</p>
AU	Authorisation	<p>AU-1.1.24: Added a Rule pertaining to suitability of applicants for authorisation. Print off updated AU-1.1: Page 5 of 5.</p> <p>AU-2.1.11: Corrected legal status requirements for insurance consultants. Print off updated AU-2.1: Page 2 and 3 of 3.</p> <p>AU-2.6.1A: Added a Rule dealing with the segregation of staff responsibilities. Print off updated AU-2.6: Page 1 of 1.</p> <p>AU-5.1: Section amended to reflect new procedures dictated by CBB Law. Print off complete updated Section AU-5.1.</p> <p>AU-5.4: Section amended to reflect new CBB Law procedures. Print off complete updated Section AU-5.4.</p> <p>AU-5.5: Section amended to reflect new CBB Law procedures. Print off complete updated Section AU-5.5.</p> <p>AU-6: New Chapter on Licensing and registration Fees added. Print off complete new Chapter AU-6.</p>
PB	Principles of Business	PB-1.1.1: Small expansion of Principle 1 to refer to disclosure of all relevant information to customers, as required by CBB Regulations and Directives. Print off updated PB-1.1: Page 1 of 1.

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(continued)**

PART (A) FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
HC	High-level Controls	<p>HC-B.1.2: Clarified that overseas insurance licensees must also comply with the provisions of Paragraph HC-3.4.3 (compliance officer). Print off updated HC-B.1: Page 1 of 1.</p> <p>HC-1.2.3 and 1.2.6: Clarified rules for board composition for Bahraini insurance licensees, other than insurance firms. Print off updated HC-1.2: Page 1 of 2.</p>
AA	Auditors and Actuaries	<p>AA-1.2.3: Rule redrafted to clarify reporting obligation. Print off updated AA-1.2: Page 1 of 1.</p> <p>AA-1.5: Paragraphs AA-1.5.3 and AA-1.5.5 updated to reflect CBB Law requirements on auditor independence. Print off updated Section AA-1.5.</p> <p>AA-3.1.1: Clarified that the external auditor's Agreed Upon Procedures are to be submitted to the CBB within four months from the insurance licensee's financial year end. Print off updated Section AA-3.1.</p> <p>AA-3.2: Added a new section referring to the audit report required as per Module FC. Print off new Section AA-3.2.</p> <p>AA-3A: Added a new Chapter on Accounting Standards. Print off new Chapter AA-3A.</p> <p>AA-4.1.7: Clarified that the first three-year period referred to for the report of the signing actuary is for the period ending 31 December 2008. Print off updated AA-4.1: Page 1 of 1.</p>

**CBB Rulebook (Volume Three) – January 2007 Update
(continued)**

PART (A) FOLDER		
Module Code	Module Code	Module Code
GR	General Requirements	<p>GR-B.1.1: Clarified that Chapters GR-4 and GR-8 apply to all insurance licensees. Print off updated GR-B.1.1: Page 1 of 1.</p> <p>GR-1.1: Rule amended and Guidance added with respect to translation and archiving of books and records. Print off updated GR-1.1: Pages 1 and 2 of 2.</p> <p>GR-2.1.1: Clarified the vetting of names for subsidiaries. Print off updated GR-2.1: Page 1 of 1.</p> <p>GR-4.: This Chapter applies to all insurance licensees and was amended to be aligned with the requirements of the CBB Law. Print off complete updated Chapter GR-4.</p> <p>GR-5.1: Minor changes to align controller requirements with the CBB Law. Print off complete updated Section GR-5.1.</p> <p>GR-5.2: Clarification of definition of controller. Print off complete updated Section GR-5.2.</p> <p>GR-5.3: Clarification of criteria for assessing suitability of controllers. Print off complete updated Section GR-5.3.</p> <p>GR-5.4: Alignment of procedures for approving controllers with CBB Law. Print off complete updated Section GR-5.4.</p> <p>GR-7.1.1: Reference to CBB Law on requirement for a cash deposit.</p> <p>GR-7.1.3: Paragraph deleted as now redundant since captive insurers are exempted from a cash deposit requirement as per GR-7.1.2. Print off complete updated Section GR-7.1.</p> <p>GR-7.2.1: Rule deleted. Print off complete updated GR-7.2.</p> <p>GR-8: This Chapter applies to all insurance licensees and was amended to be aligned with the requirements of the CBB Law. Print off complete updated Chapter GR-8.</p> <p>GR-10.1.13: Clarified the format of the notice related to the professional indemnity coverage. Print off updated GR-10.1: Page 2 of 2.</p>

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PART (A) FOLDER		
Module Code	Module Code	Module Code
CA	Capital Adequacy	<p>CA-1.2.8 and 1.2.21: Minority interest was deleted as part of Tier 1 capital as solvency test is performed on an unconsolidated basis. Print off updated CA-1.2: Pages 2 and 7 of 9.</p> <p>CA-1.2.21: Deleted reference to negative reserves as no discounting is permitted that would give rise to negative reserves. Clarified that there should be a deduction for solvency margin deduction required for branches in other jurisdictions. Added a deduction for assets pledged or provided as collateral.</p> <p>CA-2.1.8A: The required solvency margin for pure reinsurers, other than for the reinsurance of linked business, is to be calculated in accordance with Paragraph CA-2.1.12. Print off updated CA-2.1: Page 3 of 6.</p> <p>CA-2.1.15: The reference period for the calculation of average gross claims and net claims incurred is now limited to 3 years. The 7 year option has been deleted. Print off updated CA-2.1: Page 6 of 6.</p> <p>CA-4.2.25: Clarified that all amounts due under contracts of insurance and reinsurance that have been due for more than 6 months must be valued at nil. Print off updated CA-4.2: Page 5 of 8.</p>
FC	Financial Crime	<p>FC-1.6.3: Clarified simplified due diligence rules for transactions under BD6,000. Print off updated FC-1.6: Page 1 of 2.</p> <p>FC-3.3.5A and 3.3.7: Allowed for a transition period for the external auditor's report required under Subparagraph FC-3.3.1(d) and clarified when all reports are due. Print off updated FC-3.3: Page 2 of 2</p> <p>FC-4.3.1: Updated new e-mail address for Compliance Directorate. Print off updated FC-4.3: Page 1 of 1.</p>

**CBB Rulebook (Volume Three) – January 2007 Update
(continued)**

PART (A) FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
BR	CBB Reporting	<p>BR-1.1.5, 16, 17 and 26 and BR-1.2.5, 15, 16 and 17: Auditor's report (Agreed Upon Procedures) for both the IFR and IMR is to be submitted separately, within four months of the financial year end. Print off updated BR-1.1: Pages 1, 3 and 4 of 6 and BR-1.2: Pages 1 and 3 of 4.</p> <p>BR-1.1.18: Amended details of actuary's certification in line with new format of certificate included as part of the IFR.</p> <p>BR-1.1.29 and 36 and BR-1.2.20 and 27: The management letter issued by the external auditors is to be deposited along with the audited financial statements with every IFR and IMR. Print off updated BR-1.1: Page 5 of 6 and BR-1.2: Page 4 of 4.</p> <p>BR-1.4.2: Clarified that quarterly reporting requirements do not apply to insurance firms in run-off and to pure reinsurers. Print off updated BR-1.4: Page 1 of 1.</p> <p>BR-2.3.22: Clarified the Rule regarding related party transactions. Print off updated BR-2.3: Page 5 of 6.</p>
PD	Public Disclosure	<p>PD-2.1.2: Clarified that insurance firms are to disclose prior year comparative figures as part of the requirements for semi-annual disclosure requirements. Print off updated PD-2.1: Page 1 of 1.</p>
EN	Enforcement	<p>For all Chapters, new 'Legal Source' Section has been added.</p> <p>EN-2.2.10: New Rule inserted on Appointed Experts reflecting CBB Law. Print off updated BR-2.2: Page 2 of 2.</p> <p>EN-10: Revised new Sections describing criminal sanctions contained in CBB Law. Print off entire Chapter 10.</p>

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(continued)**

PART (B) FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
Glossary of Defined Terms		
<p>Added reference to CBB Law. Print off updated page 4 of 28</p> <p>Deleted reference to insurance law. Print off updated page 14 of 28.</p> <p>Added definition for insurance technical risk. Print off updated page 15 of 28.</p> <p>Amended reference to Net assets. Print off updated page 18 of 28.</p> <p>Deleted definition for portfolio transfer. Print off updated page 21 of 28.</p> <p>Amended the definition of reference period. Print off updated page 22 of 28.</p>		
Authorisation Forms		
Form 1	Application for a License	Has now been restructured as a single stage process to be in line with requirements in CBB law. Print off complete updated Form 1.
Form 3	Application for Approved Person Status	An additional question 3 has been added to Section II, dealing with the independence status of directors and the format of a few other questions has been clarified. Print off complete updated Form 3.
Reporting Forms		
	Instructions for Insurance Firm Return	Clarification added for completion of IFR 30.21, 30.30, 30.40., 100.10 and 100.20
IFRQ(C) and IFRQ(T)	Insurance Firm Quarterly Return	IFRQ(C) and IFRQ(T) have been finalised and are in line with changes to the IFR(C) and IFR(T). Print off final IFRQ(C) and IFRQ(T).

**CBB Rulebook: Volume Three – January 2007 Quarterly Update
(continued)**

PART (B) FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
Supplementary Information		
FC(i)(a)	Decree Law No. 54 (2006)	New Law referring to Financial Crime. Print off new document.
FC(i)(b)	Decree Law No. 58 (2006)	New Law referring to Financial Crime. Print off new document.
BR- (i)	IFR: Agreed Upon Procedures	Agreed Upon Procedures updated to reflect renumbering of IFR and reference to audited financial statements. Print off updated document.
BR- (ii)	IMR: Agreed Upon Procedures	Agreed Upon Procedures updated to reflect renumbering of IMR and reference to audited financial statements. Print off complete document.