



CAPITAL ADEQUACY MODULE

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MODULE	CA: Capital Adequacy
CHAPTER	CA-A: Introduction

CA-A.1 Purpose

CA-A.1.1 This Module presents requirements that have to be met by insurance licensees, with respect to the level of capital they must maintain. Condition 5 of the Central Bank of Bahrain ("the CBB") Licensing Conditions (cf. Chapter AU-2.5) requires insurance licensees to maintain adequate financial resources, in excess of the minimum requirements specified in Module CA (Capital Adequacy).

CA-A.1.2 The requirements specified in this Module vary according to the Category of insurance licensee concerned, the volume of business undertaken and its inherent risk. The purpose of such requirements is to ensure that insurance licensees maintain levels of capital sufficient to absorb unexpected losses, within a reasonable confidence interval. The capital levels specified here, in other words, are not sufficient to absorb all unexpected losses. Insurance licensees are also required to make their own assessment of the prudent level of capital that they need to hold.

CA-A.1.3 This Module covers requirements to be met by both conventional and takaful insurers. Specific requirements for takaful firms are given in Chapter CA-8.

Legal Basis

CA-A.1.4 This Module contains the CBB's Directive relating to the capital adequacy of insurance licensees, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ("CBB Law"). The Directive in this Module is applicable to all insurance licensees.

CA-A.1.5 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

MODULE	CA: Capital Adequacy
CHAPTER	CA-A: Introduction

CA-A.2 Module History

CA-A.2.1 This Module was first issued in April 2005 by the BMA, together with the rest of Volume 3 (Insurance). Any material changes to this Module are annotated with the calendar quarter date in which the change was made. Chapter UG-3 provides further details on Rulebook maintenance and version control.

CA-A.2.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 3 was updated in January 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

CA-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
CA-1.2	01/07/05	Changes made to definitions of Tier 1 and Tier 2.
CA-4.1	01/07/05	Correction to cross-reference.
CA-4.2	01/07/05	Clarified valuation of amounts receivable.
CA-7.1	01/07/05	Minor correction to list.
CA-8.2	01/07/05	Minor correction.
CA-8.3	01/07/05	Minor correction.
CA-8.4	01/07/05	Minor correction.
CA-8.5	01/07/05	Minor correction.
CA-1.2	01/10/05	Amended requirement for minimum paid-in capital to minimum Tier 1 capital and related transition rules; clarified the definition of Tier 1 capital with respect to reserves and appropriations; clarified definition of Tier 2 in relation to the investment fair value reserve; amended determination of capital available chart in line with other changes in Section CA-1.2.
CA-2.1	01/10/05	Added class of short term medical for solvency calculation of premiums basis and claims basis.
CA-4.2	01/10/05	Clarified the treatment of unlisted equity shares and deleted the reference to managed funds.
CA-7.1	01/10/05	Corrected reference to Group Insurance Firm Return.
CA-3.1	01/01/06	Clarified that rule applies to related parties, as defined in Glossary.
CA-2.1.14	01/04/06	Clarified the calculation of the average gross claims incurred.
CA-4.2.25	01/04/06	Corrected that receivables from contracts of insurance are also included under general asset valuation regulations.
CA-6.1.6	01/04/06	Clarified the definitions of 'assets' and 'liabilities' for purposes of currency matching and localisation requirements.
CA-1.2.8 and CA-1.2.21	01/07/06	Added minority interest as part of the components of Tier 1 and clarified excess tier 2 capital.
CA-2.1.14	01/07/06	Clarified calculation of required solvency margin on the Claims basis.
CA-4.3.2	01/07/06	Clarified category limits for assets linked to long-term liabilities.
CA-8.4.3	01/07/06	Clarified definition of capital available for a takaful fund.
CA-A.1.4	01/2007	New Rule introduced, categorising this Module as a Directive.
CA-1.2.8 and 1.2.21	01/2007	Minority interest was deleted as part of Tier 1 capital as solvency test is performed on an unconsolidated basis.
CA-1.2.21	01/2007	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.
CA-2.1.15	01/2007	The reference period for the calculation of average gross claims and met claims incurred is now limited to 3 years. The 7-year option has been deleted.
CA-2.1.8A	01/2007	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.
CA-4.2.25	01/2007	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.

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CHAPTER	CA-A: Introduction

CA-A.2 Module History (continued)

CA-A.2.4 **G**uidance on the implementation and transition to Volume 3 (Insurance) is given in Module ES (Executive Summary).

MODULE	CA: Capital Adequacy
CHAPTER	CA-B: Scope of Application

CA-B.1 Bahraini Insurance Licensees and Overseas Insurance Licensees

CA-B.1.1 This Module applies to both Bahraini insurance licensees and overseas insurance licensees.

CA-B.1.2 While the solvency requirements for Bahraini insurance firms and for overseas insurance firms are identical (as per Chapter CA-2), the calculation of the capital available varies based on the legal structure of the licensee, i.e. whether it is a locally incorporated company or a branch operation.

CA-B.1.3 Bahraini insurance firms must calculate their capital available based on the shareholder's equity of the licensee (and other allowable elements of regulatory capital, as specified in Chapter CA-1). Overseas insurance firms must calculate their capital available based on their audited net assets, determined in accordance with accounting standards that would be applicable if they were a joint stock company incorporated in Bahrain.

MODULE	CA: Capital Adequacy
CHAPTER	CA-B: Scope of Application

CA-B.2 Single Insurance Entity and Consolidated Insurance Entity

Single Insurance Entity (Unconsolidated)

CA-B.2.1 Insurance licensees must apply the requirements of this Module as a single insurance entity, i.e. at the level of the unconsolidated company or **branch**. Any insurance activities of **branches** of Bahraini insurance licensees are included in the single insurance entity and are not subject to separate capital and solvency requirements.

Consolidated Insurance Entity

CA-B.2.2 Overall capital and solvency requirements must be calculated for the consolidated Bahrain group (including the Bahrain insurance parent and **subsidiaries**). Bahraini insurance licensees must in addition apply the requirements of this Module at the consolidated level.

CA-B.2.3 For purposes of Paragraph CA-B.2.1, where **branches** and **subsidiaries** are operating in jurisdictions outside of Bahrain, and are subject to capital requirements in these other jurisdictions that are equivalent or more stringent than the Bahrain requirements, these licensees will be considered to be in compliance with the requirements of this Module.

CA-B.2.4 In instances where insurance licensees are uncertain as to the equivalency of the capital requirements of other jurisdictions where they operate, they should discuss these requirements with the **CBB**.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.1 General Requirements

CA-1.1.1 In accordance with Principle of Business 9, insurance licensees must maintain adequate human, financial and other resources sufficient to run their business in an orderly manner.

CA-1.1.2 In the event that an insurance licensee fails to meet the capital and solvency margin requirements outlined in this Module, it must, on becoming aware that it has breached these Rules, notify the CBB immediately and within 25 calendar days submit a plan to the CBB demonstrating how its capital available will be restored and the timeframe for that restoration to occur.

CA-1.1.3 Should the insurance licensee fail to meet the requirements of this Module, the CBB may impose enforcement measures outlined in Module EN.

CA-1.1.4 Unless otherwise indicated, all insurance licensees must implement the requirements of Module CA , effective 31 December 2005 (Refer to ES-2.5.1).

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms

CA-1.2.1 An insurance firm must maintain sufficient capital to enable it to meet at all times its insurance and other obligations. The minimum Tier 1 capital for insurance firms is BD 5 million, except for those firms whose business is limited to reinsurance. Insurance firms whose business is limited to reinsurance must have minimum Tier 1 capital of BD 10 million. Captive insurers are not subject to a minimum Tier 1 capital but must comply with the Required Solvency Margin and minimum fund, as defined in Chapter CA-2. In addition, all insurance firms must at all times maintain a capital available in excess of the greater of the Required Solvency Margin and the minimum fund, as defined in Chapter CA-2.

CA-1.2.2 Insurance firms licensed prior to 1 April 2005 that do not meet the requirements of Paragraph CA-1.2.1, will be required to meet the requirements for minimum Tier 1 capital by 31 December 2007. In addition, the requirements to maintain a capital available in excess of the greater of the Required Solvency Margin and minimum fund must be met by insurance firms by 31 December 2005. Insurance firms who are in run-off and whose license is restricted from entering into new contracts of insurance as per Paragraph GR-8.1.3, are grandfathered and not required to apply the requirements of Paragraph CA-1.2.1.

CA-1.2.3 An insurance firm must ensure that at all times its capital available does not fall below the minimum fund. In the event that an insurance firm's capital available does fall below the minimum fund, the insurance firm must notify the **CBB** immediately. Further, the insurance firm must cease to effect any new contracts of insurance, including renewals of existing contracts unless explicitly permitted to do so by the **CBB**.

Limitation on Valuation of Capital Instruments

CA-1.2.4 For the purposes of determining an insurance firm's capital available, no value is attributed to any other instrument or resource of an insurance firm other than those identified in Paragraphs CA-1.2.8 and CA-1.2.12 without the consent in writing of the **CBB**. Without limiting the generality of this **Rule**, no value is attributed to any of the following:

- (a) Any implicit items (which relate to future profits, zillmerising and hidden reserves); and
- (b) The unpaid element of any issued shares some or all of which are not 'fully paid' shares.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Capital Available: Tier 1 and Tier 2

CA-1.2.5 An insurance firm's capital available, for the purposes of this Module, comprises two tiers. Tier 1, or core capital, comprises the highest quality capital elements that fully meet all the essential characteristics of capital. Tier 2, or supplementary capital, comprises other instruments that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall financial strength of the insurance firm. Insurance firms may hold Tier 2 capital in excess of the limits in Paragraph CA-1.2.7, but any such excess is not counted as capital available for the purposes of the requirements in this Module.

CA-1.2.6 The capital available of an insurance firm comprises the sum of its Tier 1 and Tier 2 capital resources, subject to the limits in Paragraph CA-1.2.7.

CA-1.2.7 Total Tier 2 capital cannot exceed 100% of total Tier 1 capital. Lower Tier 2 capital of the type identified in Paragraph CA-1.2.12 (f), (g) and (h) cannot exceed more than 50% of total Tier 1 capital.

Tier 1 Capital

CA-1.2.8 Tier 1 capital comprises:

- (a) Paid-up ordinary shares (net of treasury shares);
- (b) Share premium reserve;
- (c) Perpetual non-cumulative preference shares.
- (d) All disclosed reserves brought forward, that are audited and approved by the shareholders, in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve;
- (e) Unappropriated retained earnings, excluding cumulative unrealised fair value gains, brought forward;
- (f) Audited current year's earnings net of unrealised fair value gains and before taxes; and
- (g) In the case of an overseas insurance firm, the audited net assets (excluding any unrealised fair value gains and the surplus assets of long-term funds), determined in accordance with accounting standards that would be applicable if it were a joint stock company incorporated in Bahrain.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

- CA-1.2.9** **Tier 1 capital** elements included in SubParagraph CA-1.2.8 (a) to (c) can only be so included if:
- (a) It is issued by the insurance firm;
 - (b) It is fully paid, and only that portion of the shares for which payment has been received is otherwise included; and
 - (c) It:
 - (i) Cannot be redeemed at all or can only be redeemed on a winding up of the insurance firm; or
 - (ii) Is only redeemable at the option of the insurance firm and complies with any conditions applicable to joint stock companies in Bahrain;
 - (d) Any coupon is non-cumulative;
 - (e) It is able to absorb losses;
 - (f) It ranks for repayment upon winding up no higher than a share of a company incorporated under the Joint Stock companies law of Bahrain;
 - (g) Coupons on it can only be paid out of accumulated realised profits;
 - (h) No coupon is payable at a time when the insurer is in breach of Paragraph CA-1.2.1 and no coupon is payable to the extent that, after paying it, the insurance firm would breach that **Rule**; and
 - (i) The proceeds of issue are immediately and fully available to the insurance firm.

- CA-1.2.10** **Tier 1 capital** has the following characteristics:
- (a) It is able to absorb losses;
 - (b) It is permanent;
 - (c) It ranks for repayment upon winding up after all other debts and liabilities; and
 - (d) It has no fixed costs, that is, there is no inescapable obligation to pay dividends or interest.

- CA-1.2.11** An insurance firm must not redeem any tier 1 instrument that it has included in its **tier 1 capital** resources for the purpose of Chapter CA-1 unless it has notified the **CBB** of its intention at least one month before it does so.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Tier 2 Capital

CA-1.2.12 Tier 2 capital includes the following liabilities of an insurance firm, to the extent permissible by Paragraph CA-1.2.7:

- (a) Interim net income, excluding 55% of any unrealised fair value gains arising from investments held to maturity as per IAS 39, reviewed by the external auditors in accordance with International Standards on Auditing (ISA);
- (b) Perpetual cumulative preference shares;
- (c) Mandatory convertible notes and similar capital instruments;
- (d) Perpetual subordinated debt;
- (e) Any other hybrid (debt/equity) capital instruments of a permanent nature;
- (f) Dated subordinated debt with an original term of at least 5 years;
- (g) Limited life redeemable preference shares with an original term of at least 5 years;
- (h) Any other similar limited life capital instruments with an original term of at least 5 years; and
- (i) Investment fair value reserve (IAS 39) on investments held available for sale, discounted to 45%.

CA-1.2.13 Tier 2 capital includes forms of capital that do not meet the requirements for permanency and absence of fixed servicing costs that apply to Tier 1 capital. Tier 2 capital resources are split into upper and lower tiers, based on the permanency of the instruments. For example:

- (a) Capital which is perpetual (that is, has no fixed term) but cumulative (that is, servicing costs cannot be waived at the issuer's option, although they may be deferred – for example cumulative preference shares) may be included in upper Tier 2 capital; and
- (b) Capital which is dated, i.e. not perpetual (that is, it has a fixed term) and which may also have fixed servicing costs that cannot generally be either waived or deferred, such as subordinated debt are included in lower Tier 2 capital. Such capital should normally be of a medium to long-term maturity (that is, an original maturity of at least five years).

CA-1.2.14 Lower Tier 2 capital instruments (ref CA-1.2.12 (f) to (h)), must have a minimum fixed term to maturity in excess of 5 years. During the last 5 years to maturity, a cumulative discount (or amortisation) factor of 20% per year must be applied to reflect the diminishing value of these instruments as a continuing source of strength.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Tier 2: Hybrid Capital Instruments

CA-1.2.15 Hybrid capital instruments are instruments that combine the features of debt and equity in that they are structured like debt, but exhibit some of the loss absorption and funding flexibility features of equity.

CA-1.2.16 A hybrid capital instrument must meet the following conditions before it can be included in an insurance firm's upper **Tier 2 capital** resources:

- (a) **I**t must meet the general conditions described in Paragraph CA-1.2.17;
- (b) **I**t must have no fixed maturity date;
- (c) **T**he contractual terms of the debt agreement must provide for the insurance firm to have the option to defer any interest payment on the debt; and
- (d) **T**he contractual terms of the debt agreement must provide for the loss-absorption capacity of the debt and unpaid interest, whilst enabling the insurance firm to continue its business.

CA-1.2.17 A hybrid capital instrument cannot form part of the capital resources of an insurance firm unless it meets the following conditions:

- (a) **T**he claims of the creditors must rank behind those of all unsubordinated creditors;
- (b) **N**o amounts due may be payable:
 - (i) **A**t a time when the insurance firm is in breach of Paragraph CA-1.2.1; or
 - (ii) **I**f the payment would mean that the insurance firm would be in breach of Paragraph CA-1.2.1;
- (c) **T**he only events of default must be non-payment of any amount falling due under the terms of the instrument or the winding-up of the insurance firm;
- (d) **T**he remedies available to the subordinated creditor in the event of non-payment or other breach of the written agreement or instrument must be limited to petitioning for the winding up of the insurance firm or proving the debt in a liquidation of the insurance firm;
- (e) **A**ny events of default and any remedy described in (d) must not prejudice the matters in (a) and (b);

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

- CA-1.2.17**
- (f) In addition to the requirements about repayment in (a) and (b), the debt must not become due and payable before its stated final maturity date (if any) except on an event of default complying with (c);
 - (g) The debt agreement or terms of the instrument are governed by the laws of Bahrain;
 - (h) To the fullest extent permitted under the laws of the relevant jurisdictions, creditors must waive their right to set off amounts they owe the insurance firm against subordinated amounts included in the insurance firm's capital resources owed to them by the insurance firm;
 - (i) The terms of the instrument must be set out in a written agreement that contains terms that provide for the conditions set out in (a) to (h);
 - (j) The debt must be unsecured and fully paid up; and
 - (k) The insurance firm has obtained an external legal opinion stating that the requirements in (a) to (j) have been met.

CA-1.2.18 Subparagraph CA-1.2.17 (g) does not apply if the insurance firm has obtained an external legal opinion confirming that a degree of subordination has been achieved under the law that governs the debt and the agreement that is equivalent to that which would have been provided under the laws of Bahrain.

CA-1.2.19 An insurance firm must not amend the terms of the debt and the documents referred to in Subparagraph CA-1.2.17 (i) unless:

- (a) At least one month before the amendment is due to take effect, the insurance firm has given the **CBB** notice in writing of the proposed amendment; and
- (b) That notice includes confirmation that the legal opinion referred to in SubParagraph CA-1.2.17 (k) continues in full force and effect in relation to the terms of the debt and the documents as proposed to be so amended.

CA-1.2.20 An insurance firm must notify the **CBB** of its intention to repay a hybrid capital instrument that is included in its capital resources before its contractual repayment date (if any) at least six months before the date of the proposed repayment, providing details of how it will meet its capital available requirement after such repayment.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

Determination of Capital Available

CA-1.2.21 Every insurance firm must determine its capital available in accordance with this **Rule**:

<i>Determination of Insurance Firm's Capital Available</i>	
	<i>Tier 1 Capital</i>
	Paid-up ordinary shares (net of treasury shares).
	Share premium reserve.
	Perpetual non-cumulative preference shares.
	All disclosed reserves brought forward, that are audited and approved by the <u>shareholders</u> , in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve.
	Unappropriated retained earnings, excluding cumulative unrealised fair value gains, brought forward.
	Audited current year's earnings net of unrealised fair value gains and before tax expenses.
	<u>Overseas Insurance Firms</u> Only: audited net assets, excluding any unrealised fair value gains and <u>surplus assets in long-term funds</u> .
(A)	Total Tier 1 Capital
	<i>Tier 2 Capital – Upper Level</i>
	Interim net income, excluding any unrealised fair value gains, reviewed by the external <u>auditors</u> in accordance with International Standards on Auditing (ISA).
	Perpetual cumulative preference shares.
	Mandatory convertible notes and similar capital instruments.
	<u>Perpetual subordinated debt</u>
	Other hybrid (debt/equity) capital instruments of a permanent nature.
	Investment fair value reserve (IAS 39) and any unrealised fair value gains included in retained earnings, both discounted to 45%.
(B)	Total Tier 2 Capital – Upper Level

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

CA-1.2.21 (continued)

	<i>Tier 2 Capital – Lower Level</i>
	Limited life redeemable preference shares with an <u>original term</u> of at least 5 years.
	<u>Dated subordinated debt</u> with an <u>original term</u> of at least 5 years.
	Any other similar limited life capital instruments with an <u>original term</u> of at least 5 years.
(C)	Total Tier 2 Capital – Lower Level: before excess deduction
(D)	Total Tier 2 Capital (B plus C)
(E)	Excess Tier 2 Capital – Lower Level = (C)- [(A) times 50%)] (if negative, excess is 0)
(F) = (D)-(E)	Total Tier 2 Capital – Lower Tier adjusted
(G)	Excess Tier 2 Capital = (F)- [(A) times 100%)] (if negative, excess is 0)
(H) = (F) – (G)	Total Tier 2 Capital
	<i>Deductions from Capital</i>
	Valuation asset differences.
	Inadmissible assets by asset category.
	Inadmissible assets in excess of <u>counterparty limits</u> .
	Required margins of solvency for <u>branches in other jurisdictions</u> .
	Current year's losses, before any tax expenses.
	Dividends <u>paid and</u> declared.
	<u>Assets pledged or provided as collateral where there is no offsetting liability</u> .
	Tax expenses.
	Other appropriations not included as charges to profit and loss statement (e.g. Directors' remuneration, donations).
	Other.
(I)	Total Deductions from Capital
(A)+(H)-(I)	CAPITAL AVAILABLE

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CHAPTER	CA-1: Capital Requirements

CA-1.2 Calculation of Capital Available for Insurance Firms (continued)

CA-1.2.22 In Paragraph CA-1.2.21, under ‘Deductions from Capital’ the deductions for:

- (a) Inadmissible assets by asset type; and
- (b) Inadmissible assets in excess of counterparty limits

only apply to those amounts in respect of assets, other than those assets from linked long-term insurance.

CA-1.2.23 The capital available of an insurance firm must not include any excess admissible assets of any fund established by an insurance firm. However to the extent a fund’s admissible assets exceed its liabilities that excess can be offset against the solvency margin applicable to that fund.

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CHAPTER	CA-1: Capital Requirements

CA-1.3 Capital Requirements for Insurance Brokers

CA-1.3.1 Bahrain insurance brokers must maintain at all times the greater of:

- (a) **A** minimum net assets value of BD 50,000;
- (b) 4% of client money balances held in Bahrain; and
- (c) 4% of annual income from global insurance broking activities.

CA-1.3.2 There are no minimum capital and net asset requirements for overseas insurance brokers. However, for overseas insurance brokers, financial statements of the parent company must be submitted to the **CBB** for review, in order to assess the financial stability of the group on a global basis.

CA-1.3.3 For purposes of Paragraph CA-1.3.1, global insurance broking activities refers to annual income of a Bahrain incorporated brokerage firm including any income being generated by any of the firm's brokerage subsidiaries and/or branches operating in other jurisdictions.

CA-1.3.4 In respect of licensees who were carrying out activities that fall within the definition of the regulated activity of insurance broker prior to 1 April 2005, the requirements of Paragraph CA-1.3.1 will apply from 1 January 2007 (refer to ES-2.4.2 for transition rules).

CA-1.3.5 For the purposes of this Section, 'net assets' means the excess of assets over liabilities. The minimum net assets value is to be determined by excluding all intangible assets and in accordance with accounting principles generally accepted in Bahrain.

CA-1.3.6 The value of debtors taken into account as assets available to support financial requirements must not exceed the amount which the insurance broker expects to receive net of any significant costs associated with making the recovery.

CA-1.3.7 Insurance brokers must make adequate provisions for any debts which are unlikely to be received or recovered from the debtors.

MODULE	CA: Capital Adequacy
CHAPTER	CA-1: Capital Requirements

CA-1.4 Capital Requirements for Insurance Consultants and Insurance Managers

CA-1.4.1 Insurance consultants and insurance managers must possess financial resources commensurate with the scale and nature of **their** insurance consultancy or management activities.

CA-1.4.2 In determining the adequacy of the financial resources of insurance consultants and insurance managers, the **CBB** will consider, amongst other things:

- (a) **T**he volume of business undertaken by the licensee;
- (b) **T**he licensee's capacity to meet its financial obligations towards all **clients** in a timely and professional manner; and
- (c) **T**he licensee's future business plans considering the capital available to meet all obligations and additional sources of capital when and if required.

CA-1.4.3 There are no minimum capital and net assets requirements applicable to insurance consultants and insurance managers. However, Section AU-2.5 (Licensing Conditions: Financial Resources) requires all licensees to maintain adequate financial resources and to conduct their business in a prudent manner.

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements

CA-2.1.1 Every Bahraini insurance firm must calculate a required solvency margin in accordance with the requirements in this Chapter. The solvency margin must include the operations of all branches of the insurance firm, whether these undertake operations within Bahrain or in another jurisdiction.

CA-2.1.2 Every overseas insurance firm, other than a pure reinsurer, must calculate a 'Bahrain Required Solvency Margin' in accordance with the requirements in this Chapter.

CA-2.1.3 All overseas insurance firms, including pure reinsurers, must provide an equivalent or substantially equivalent solvency margin calculation, submitted to a supervisor in another jurisdiction for the company as a whole, in accordance with Chapter CA-7. In instances where pure reinsurers are not subject to supervisory requirements in another jurisdiction, they must calculate a Required Solvency Margin in accordance with this Chapter for the company as a whole.

CA-2.1.4 For insurance firms licensed prior to 1 April 2005 and allowed to carry on both long-term insurance business and general insurance business (refer to Paragraph AU-1.1.15), the insurance firm must calculate a separate Required Solvency Margin or a Bahrain Required Solvency Margin in respect of the two different types of insurance business and maintain separate solvency margins.

Minimum Fund

CA-2.1.5 For the purposes of this Module 'minimum fund' means for:

- (a) Category 1 Insurer: BD 300,000;
- (b) Category 2 Insurer: BD 500,000;
- (c) Category 3 Insurer: BD 400,000;
- (d) Category 4 Insurer: The relevant minimum fund for Category 1 or 2 (depending on the type of general business underwritten) PLUS the Category 3 minimum. These amounts are to be maintained separately by the insurance firm;
- (e) Category C1 Insurer: BD 75,000; and
- (f) Category C2 Insurer: BD 300,000.

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.6

For purposes of Paragraph CA-2.1.5, the following definitions apply:

- (a) **Category 1 insurer**: an insurance firm whose license is limited to any of the following types of insurance: fire; damage to property; and miscellaneous financial loss;
- (b) **Category 2 insurer**: an insurance firm whose license includes any of the following types of insurance: marine cargo and marine hull; aviation; motor; engineering; liability; and any other general insurance class not specifically mentioned. These may only be in addition to any **Category 1** activities;
- (c) **Category 3 insurer**: an insurance firm whose license includes any of the following types of insurance: life insurance of all types; personal accident whose term is over 1 year; and savings fund accumulation insurance;
- (d) **Category 4 insurer**: an insurance firm, licensed prior to **1 April 2005** and whose license includes any of the types of insurance specified in **Category 3** and in **Category 1** or **2**, or both;
- (e) **Category C1 insurer**: an insurance firm whose business is restricted to insuring only the insurance risks (other than liability risk) of its shareholder(s) or those of subsidiary or associated companies of its shareholder(s); and
- (f) **Category C2 insurer**: an insurance firm whose business is restricted to insuring only the risks of its shareholder(s) or of subsidiary or associated companies of its shareholder(s) and whose business may include liability risks, subject to the **CBB** being satisfied that the activity, capital structure and management provide sufficient protection to potential third party claimants.

Calculation of Solvency Margin

CA-2.1.7

The **Required Solvency Margin** to be calculated by an insurance firm subject to any of the requirements in Paragraphs CA-2.1.1 to CA-2.1.4 must be determined:

- (a) **As regards long-term insurance business**, in accordance with Paragraph CA-2.1.9, and
- (b) **As regards general insurance business**, in accordance with Paragraph CA-2.1.12.

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.8 The Bahrain Required Solvency Margin for overseas insurance firms must be calculated by applying Paragraph CA-2.1.7, but only to business booked in the Bahrain overseas insurance firm.

CA-2.1.8A The Required Solvency Margin for companies whose business is limited to reinsurance, except for reinsurance of linked business, is to be calculated in accordance with Paragraph CA-2.1.12.

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements (continued)

Long-term Insurance Business

CA-2.1.9 For long-term insurance business the solvency margin must be determined by taking the aggregate of the results arrived at by applying the calculations described in Paragraph CA-2.1.10 (the mathematical reserves basis calculation) and Paragraph CA-2.1.11 (the capital sum at risk basis calculation). Where the aggregate falls below the minimum fund, it must be substituted by the amount of the minimum fund.

CA-2.1.10 The mathematical reserves are defined as the provision made by an insurer to cover liabilities (excluding liabilities which have fallen due) arising under or in connection with long-term insurance business. The mathematical reserves basis calculation for:

- (a) Traditional long-term insurance business must be either 2% of mathematical reserves before deduction for reinsurance cessions or 4% of mathematical reserves after deduction for reinsurance cessions whichever produces the higher result;
- (b) The mathematical reserves basis calculation for linked long-term insurance business where the company bears an investment risk must be as in SubParagraph CA-2.1.10 (a); and
- (c) The mathematical reserves basis calculation for linked long-term insurance business where the company bears no investment risk must be either 0.5% of mathematical reserves before deduction for reinsurance cessions or 1% of mathematical reserves after deduction for reinsurance cessions whichever produces the higher result.

No negative value can be used as the mathematical reserve under any policy.

CA-2.1.11 The capital sum at risk is defined as the benefit amounts payable as a consequence of the happening of the contingency covered by the policy contract less the mathematical reserves in respect of the relevant contract. The capital sum at risk calculation is the greater of:

- (a) 0.15% of the capital sum at risk before deduction for reinsurance cessions; or
- (b) 0.30% of the capital sum at risk after deduction for reinsurance cessions.

In either case no negative value can be used as the capital sum at risk under any policy.

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements (continued)

General Insurance Business

CA-2.1.12 For general insurance business, the solvency margin must be determined by taking the higher of the two results arrived at by applying the calculations described in Paragraph CA-2.1.13 (‘the premium basis calculation’) and Paragraph CA-2.1.14 (‘the claim basis calculation’). Where the higher of the two results falls below the minimum fund, it must be substituted by the amount of the minimum fund.

CA-2.1.13 The premium basis calculation for general insurance business is determined by applying the following formula:

Gross Premium Written X Reinsurance Allowance X Risk Factor (for each class of business)

Where:

Gross Premium Written =

Premium written in the financial year (or annualised where the financial year is other than 12 months)

Reinsurance Allowance (Premium basis) = (calculated on total business) the higher of 0.5 or (Total Net Premium Written /Total Gross Premium Written)

Risk Factor =

Class of insurance	Risk Factor (general insurance)	Risk Factor (Category C1 captive)	Risk Factor (Category C2 captive)
(a) Fire	15%	12%	12%
(b) Damage to property	15%	12%	12%
(c) Miscellaneous financial loss	15%	12%	12%
(d) Marine cargo, marine hull	20%	20%	20%
(e) Aviation	20%	20%	20%
(f) Motor	20%	20%	20%
(g) Engineering	20%	20%	20%
(h) Liability	20%	20% (Category C2)	20%
(i) Medical (short term ≤ 1 year)	20%	20%	20%
(j) Other	20%	20%	20%

MODULE	CA: Capital Adequacy
CHAPTER	CA-2: Solvency Margin Requirements

CA-2.1 Solvency Margin Requirements (continued)

CA-2.1.14 The claim basis calculation for general insurance business is determined by applying the following formula:

Average Gross Claims Incurred in the reference period X
Reinsurance Allowance X Risk Factor (for each class of business)

Where:

Average Gross Claims Incurred =

Gross Claims Incurred in the reference period (see CA-2.1.15) divided by the number of years covered by the reference period (or annualised where any financial year in the reference period is other than 12 months)

Reinsurance Allowance (Claim basis) = (calculated on total business)
the higher of 0.5 or (Total Average Net Claims Incurred in the reference period/Total Average Gross Claims Incurred in the reference period)

Risk Factor =

(a) Fire	20%
(b) Damage to property	20%
(c) Miscellaneous financial loss	20%
(d) Marine cargo, marine hull	25%
(e) Aviation	25%
(f) Motor	25%
(g) Engineering	25%
(h) Liability	25%
(i) Medical (short term ≤ 1 year)	25%
(j) Other	25%

CA-2.1.15 For the purposes of Paragraph CA-2.1.14 the reference period for all classes of business must be the three most recent financial years up to and including the current financial year. In instances where the insurance firm has been in business for less than three years, the claims basis calculation shall be equal to 0.

MODULE	CA: Capital Adequacy
CHAPTER	CA-3: Long-Term Insurance Business

CA-3.1 Long-Term Insurance Business

CA-3.1.1 Where an insurance firm carries on long-term insurance business, including traditional long-term insurance business or linked long-term insurance business or both:

- (a) It must maintain a separate account in respect of each kind of business; and
- (b) The receipts of each kind of business must be entered in the account maintained for that business and must be carried to and form a separate long-term insurance fund with an appropriate name.

CA-3.1.2 An insurance firm which carries on long-term insurance business or linked long-term insurance business must maintain such accounting and other records as are necessary for identifying:

- (a) The assets representing the fund maintained by it under Paragraph CA-3.1.1 above; and
- (b) The liabilities attributable to each kind of business which it carries on.

CA-3.1.3 Other than the explicit exceptions included in Paragraphs CA-3.1.4 and CA-3.1.5 of this Module, an insurance firm's long-term insurance business assets must only be applied for the purposes of its long-term insurance business and must not be made available for any other purpose of the insurance firm. This does not however prevent the reimbursement of expenditure borne by other assets (in the same or the preceding financial year) in discharging liabilities wholly or partly attributable to the long-term insurance business.

CA-3.1.4 Where an actuarial investigation shows that the value of the long-term insurance business assets exceeds the amount of the liabilities attributable to the long-term insurance business, the restriction does not apply to those assets that represent the excess.

CA-3.1.5 Paragraph CA-3.1.3 above does not prevent an insurance firm from exchanging, at fair market value, long-term insurance business assets for other assets of the insurance firm.

MODULE	CA: Capital Adequacy
CHAPTER	CA-3: Long-Term Insurance Business

CA-3.1 Long-Term Insurance Business (continued)

CA-3.1.6 A long-term insurance firm must not enter into a financial transaction, and must take reasonable steps to ensure that any subsidiary company or associate company does not enter into such a transaction, with any related party where the aggregate of the value of any assets and liabilities arising out of such transactions exceeds 5% of the total amount standing to the credit of the insurer's long-term insurance funds.

CA-3.1.7 An insurance firm which carries on long-term insurance business in Bahrain must have adequate arrangements for securing that transactions affecting assets of the insurance firm (other than transactions outside of its control) do not operate unfairly between the long-term insurance fund or funds and the other assets of the insurance firm or, in a case where the insurance firm has more than one 'identified fund', between those funds.

CA-3.1.8 An identified fund means assets representing the insurance firm's receipts from a particular part of its long-term insurance business that can be identified as such by virtue of accounting or other records maintained by the insurance firm.

CA-3.1.9 Where the **CBB** imposes a financial penalty on an insurance firm or requires an insurance firm to compensate policyholders for any wrongful act of the insurance firm (including any wrongful act committed by an appointed representative of the insurance firm) it must not pay that compensation or financial penalty from any long-term insurance fund. Such penalties can only be paid out of the shareholder (or company) fund.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.1 General Requirements

CA-4.1.1 The Asset Valuation **Rules**, being the Linked Asset Valuation **Rules** and/or General Asset Valuation **Rules**, as appropriate, relate to the determination of the value of all the assets of an insurance firm subject to this Chapter.

CA-4.1.2 Assets not covered in this Chapter are deemed to be **inadmissible assets** for purposes of calculating the **capital available** required under Paragraph CA-1.2.21 and their admissible value is deemed to be nil.

CA-4.1.3 Where an insurance firm has entered into any insurance contracts that are classified as a linked long-term insurance business the value of the linked assets to the extent that they are held to match liabilities in respect of such business must be determined in accordance with the Linked Asset Valuation **Rules** (Paragraphs CA-4.3.1 to CA-4.3.4).

CA-4.1.4 All other assets of an insurer subject to this Chapter must be valued in accordance with the General Asset Valuation **Rules** (Paragraphs CA-4.2.1 to CA-4.2.36).

CA-4.1.5 Where in all the circumstances of the case, any asset is actually of a lesser value than the amount calculated in accordance with prescribed **Rules** (that is either assets subject to the General Asset Valuation **Rules** or the Linked Asset Valuation **Rules**) such lesser value must be taken to be the value of the asset.

CA-4.1.6 The admissibility of assets for purposes of the General Asset Valuation **Rules** is determined based on the category of asset held and the counterparty.

CA-4.1.7 An insurance firm must ensure that its liabilities under a contract of insurance, other than linked **long-term** business, are covered by assets of appropriate safety, yield and marketability having regard to the classes of business carried on by the insurance firm.

CA-4.1.8 Without prejudice to Paragraph CA-4.1.7, an insurance firm must ensure that:

- (a) **E**xcessive reliance is not placed on **reinsurance** or any particular reinsurer; and
- (b) **T**hat its investments are appropriately diversified, adequately spread and that excessive reliance is not placed on investments of any particular category, description, type or counterparty.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules**

Asset Limits per Category of Assets

Investments in Non-Insurance Subsidiaries and Associates

CA-4.2.1 Investments in subsidiaries and associates that are not carrying out **regulated insurance services** as defined in Chapter AU-1.4, must be valued at an amount not exceeding the insurance firm's proportionate share of the subsidiary's or associate's net asset value, determined as if that subsidiary or associate applied these **Rules** in determining its net asset value.

CA-4.2.2 The net asset value determined in Paragraph CA-4.2.1 must be reduced for any amounts that cannot be made available to the insurance firm in the ordinary course of business. This includes but is not limited to:

- (a) **Required solvency margins**, base capital requirements or any other amounts required to be maintained in order to comply with regulatory requirements applicable to the subsidiary or associate in Bahrain or any other jurisdiction. This restriction applies to any subsidiary or associate (including banks and investment firms) subject to regulation in any jurisdiction;
- (b) **Assets** subject to currency control restrictions; and
- (c) **Surplus assets** in long-term insurance funds, as these assets belong to the long-term policyholders.

CA-4.2.3 Where a subsidiary or associate carries on a regulated activity either in Bahrain or any other jurisdiction, an insurance firm may, with the consent of the **CBB**, determine the net asset value of that subsidiary or associate (as specified in Paragraph CA-4.2.1) in accordance with the **Rules** applicable in the jurisdiction where that subsidiary or associate has both its head office and principal supervisor.

CA-4.2.4 In determining the net asset value of a subsidiary or associate (as specified in Paragraph CA-4.2.1) where that subsidiary or associate is not carrying out **regulated insurance services**, if the value of any single asset under Paragraph CA-4.2.1 exceeds 5% of the insurance business amount, the admissible value of the said asset for the purpose of this Paragraph must be restricted to 5% of the insurance business amount.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

Real Estate Assets

CA-4.2.5 Real estate assets such as land and buildings must be valued at market value as assessed by an independent qualified valuer at a date no earlier than 3 years from the end of the financial year under consideration. An insurance firm may elect to use **book value** where that value is less than **market value** however where no proper valuation exists the value is deemed by this Module to be nil.

CA-4.2.6 If the value of any single asset under Paragraph CA-4.2.5 exceeds 10% of the insurance business amount, the admissible value of the said asset for the purpose of this Paragraph must be restricted to 10% of the insurance business amount.

CA-4.2.7 The 10% admissibility test of Paragraph CA-4.2.6 is to be applied in total to both land and building, in instances where the realisable value of the asset is dependent on both the land and the building.

Debt Securities

CA-4.2.8 Debt securities (both fixed and variable interest securities) issued by, or guaranteed by, governments rated investment grade, or public authority with investment grade security must be valued at:

- (a) **I**n the case of **listed securities**, the closing market quotation or the latest available market quotation;
- (b) **I**n the case of securities which are not transferable, the amount payable on surrender or redemption of such securities as at the date the security is being valued; and
- (c) **I**n any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

CA-4.2.9 There are no admissibility restrictions for fixed and variable interest securities meeting the requirements of Paragraph CA-4.2.8. However, admissibility restrictions pertaining to **counterparties** may apply (CA-4.2.33).

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

CA-4.2.10 Debt securities (both fixed and variable interest securities) not covered by Paragraph CA-4.2.8 must be valued at:

- (a) **In** the case of **listed securities**, the closing market quotation;
- (b) **In** the case of securities which are not transferable, the amount payable on surrender or redemption of such securities as at the date the security is being valued; and
- (c) **In** any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

CA-4.2.11 If the value of debt securities, other than those to which Paragraph CA-4.2.8 relates, (both fixed and variable interest securities), which are **listed securities**, in any one company together with its associated companies exceeds 5% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.12 For debt securities (both fixed and variable interest) which are not **listed securities**, if the value of those securities in any one company together with its associated companies exceeds 1.0% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Equity Shares

CA-4.2.13 Equity shares that are **listed securities** must be valued on the closing market quotation or the latest available market quotation.

CA-4.2.14 If the value of equity shares, that are **listed securities**, in any one company together with its associated companies exceeds 5% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.15 Equity shares that are not **listed securities** must be valued at the lower of:

- (a) **The** carrying value of these shares on the books of the insurance firm;
- (b) 75% of the net asset value for each share owned by the insurance firm (based on the most recently available financial information); and

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

CA-4.2.15
(continued)

(c) The amount which would reasonably be paid by way of consideration for an immediate transfer or assignment of the investment.

CA-4.2.16

If the value of equity shares, that are not **listed securities**, in any one company together with its associated companies exceeds 1.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Unit Trust or Mutual Funds

CA-4.2.17

Where the issuer can be required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one month or less and the value of the holdings or other beneficial interests in any one **unit trust** or mutual fund exceeds 5.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 5.0% of the insurance business amount.

CA-4.2.18

Where the issuer is not required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one month or less and the value of the holdings or other beneficial interests in any one **unit trust** or mutual fund exceeds 1.0% of the insurance business amount, the admissible value of the said assets for the purpose of this Chapter must be restricted to 1.0% of the insurance business amount.

Traded Derivative Contract

CA-4.2.19

A traded derivative contract that is a listed security, for a share or a debenture must be valued at the closing market quotation, and otherwise at the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof. If the value of the contracts in any one company or its connected companies exceeds 0.1% of the **insurance business amount**, the admissible value of the said assets for the purpose of this Chapter must be restricted to 0.1% of the insurance business amount.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

Loan

CA-4.2.20 A loan secured by a policy of insurance issued by the company must be valued as the amount of the loan but not exceeding the amount payable on a surrender of the policy as at the date the policy is being valued.

CA-4.2.21 A loan to an individual or an unincorporated body of persons shall be valued at the lower of the outstanding amount of the loan and the amount that would reasonably be paid by way of consideration for an immediate assignment of the loan together with the benefit of any security held in respect thereof.

CA-4.2.22 Where Paragraph CA-4.2.21 applies and the loan to any one individual or unincorporated body of persons is fully secured on assets whose value at least equals the amount of the loan and the loan exceeds 5% of the insurance business amount, the admissible value of the secured loan for the purpose of this Chapter must be restricted to 5% of the insurance business amount.

CA-4.2.23 Where Paragraph CA-4.2.21 applies and the loan to any one individual or unincorporated body of persons is not fully secured on assets whose value at least equals the amount of the loan and the loan exceeds 1% of the insurance business amount, the admissible value of the unsecured loan for the purpose of this Chapter must be restricted to 1% of the insurance business amount.

Other Assets

CA-4.2.24 Deposits and current account balances with approved financial institutions must be valued at their full face value. The admissible value of these assets is their face value.

CA-4.2.25 Amounts due under contracts of insurance and reinsurance (either ceded or accepted), including salvage and subrogation rights, must be valued at the amounts that can reasonably be expected to be recovered. The exceptions being:

- (a) **All** debts which have been due for more than 6 months, in which case they must be valued at nil;
- (b) **Advance** commission paid to intermediaries which must be valued at nil; and
- (c) **Amounts** that pertain to a subsidiary or associate of the insurance firm must be valued in accordance with Paragraph CA-4.2.4 above.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

CA-4.2.26 In the case of **general insurance business**, the value of deferred acquisition costs is the value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to insurance firms.

CA-4.2.27 The admissible value of any cash holding is its face value.

CA-4.2.28 Office machinery, furniture, motor vehicles, computer and other equipment belonging to the company must be valued at an amount not greater than its **book value**. If the value of office machinery, furniture, motor vehicles computer and other equipment exceeds 3% of the insurance business amount the admissible value of the said assets for the purpose of this Chapter must be restricted to 3% of the insurance business amount.

CA-4.2.29 Life interests, reversionary interests and similar interests in property must be valued as the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

CA-4.2.30 Investments, except investments that are specifically covered above, must be valued in accordance with this Paragraph:

- (a) **I**f the investment is due, or will become due, within twelve months from the date at which the investment is being valued at (or would become so due if the company exercised some right), the amount which can reasonably be expected to be recovered in respect of the investment, taking due account of any security held in respect thereof;
- (b) **O**therwise, the amount that would reasonably be paid by way of consideration for an immediate assignment of the debt together with the benefit of any security held in respect thereof.

CA-4.2.31 Where Paragraph CA-4.2.30 applies to an investment in any one individual or unincorporated body of persons and the aggregate value of those investments (for that individual or unincorporated body of persons valued in accordance with Paragraph CA-4.2.30) exceeds 1% of the **insurance business amount**, the **admissible value** of those investments for the purpose of this Chapter must be restricted to 1% of the **insurance business amount**.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

CA-4.2.32 Where Paragraph CA-4.2.30 applies to an investment in any one company and the aggregate value of those investments (for that company valued in accordance with Paragraph CA-4.2.30) exceeds 2.5% of the insurance business amount the admissible value of those investments for the purpose of this Chapter must be restricted to 2.5% of the insurance business amount.

Counterparty Exposure Limits

CA-4.2.33 The admissible value for counterparty exposure limit is:

- (a) Where the counterparty is an individual or an unincorporated body of persons, 5% of the insurance business amount;
- (b) Where the counterparty is a government of a jurisdiction, other than a Zone A Country, GCC country, the Kingdom of Bahrain and any other jurisdiction approved by the **CBB**, the jurisdiction together with all the public bodies, local authorities or nationalised industries of that jurisdiction, 10% of the insurance business amount;
- (c) Where the counterparty is a body corporate or group, and :
 - i) The counterparty is an approved financial institution, 25% of the insurance business amount or BD 1.5 million, whichever is the larger for all exposures including short term (3 months or less) deposits;
 - ii) The counterparty is an approved financial institution, 10% of the insurance business amount or such lower amount as the insurance firm may decide for all exposures other than short term deposits; and
 - iii) The counterparty is not an approved financial institution, 10% of the insurance business amount for all exposures to that counterparty.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.2 General Asset Valuation **Rules** (continued)

CA-4.2.34 For the purposes of Section CA-4.2, '**insurance business amount**' means '**general insurance business amount**' or 'long-term insurance business amount' as follows:

- (a) In terms of **general insurance business**, the **general insurance business amount** is the value of the insurance firm's assets (other than **long-term insurance business** assets) and excluding reinsurance recoveries as determined in accordance with Chapter CA-4; and
- (b) In terms of **long-term insurance business**, the long-term insurance business amount is the value of the **insurance firm's** assets (other than those relating to **general insurance business**) and excluding reinsurance recoveries and assets required to match linked liabilities in accordance with Chapter CA-4.

CA-4.2.35 For purposes of Paragraph CA-4.2.34, the value of an **insurance firm's** assets refers to the valuation assigned in this Section, but does not refer to the admissible value of these assets.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.3 Linked Asset Valuation **Rules**

CA-4.3.1 Assets to the extent that they are held to match liabilities in respect of linked long-term insurance must comprise of no other types of property of any description other than property meeting the descriptions set out in Paragraph CA-4.3.2 of this Module.

CA-4.3.2 Assets used to match linked long-term insurance liabilities must fall in one of the following categories:

- (a) **Real estate** assets such as land and buildings (including any interest in land and buildings) each piece individually not exceeding 5% of linked long-term assets and 20% in aggregate;
- (b) **Listed securities** which are readily realisable, other than securities which are:
 - i) **Loans** or deposits of the kinds mentioned in (c) or (d); and
 - ii) **Derivative contracts**;
- (c) **Loans** which are fully secured by mortgage or charge on land (or any interest in land) each loan individually not exceeding 5% of linked long-term assets and 20% in aggregate and in relation to which the rate of interest and the due dates for the payment of interest and the repayment of principal can be fully ascertained from the terms of any agreement relating to the loan;
- (d) **Loans** to or deposits with an approved financial institution;
- (e) **Holdings** or other beneficial interests in unit trusts or mutual/managed funds which satisfies the following conditions:
 - i) **The** property of the fund comprises property only consisting of the descriptions in this Section;
 - ii) **The** units are readily realisable at a price which represents the net value per unit of the assets and liabilities of the fund; and
 - iii) **The** price at which the units may be bought and sold is published regularly;
- (f) **Cash**; and
- (g) **Income** due, or to become due, in respect of property of any of the descriptions in this Section.

CA-4.3.3 All of the property described in Paragraph CA-4.3.2 must either be classified as **'Available for sale investments'** and valued in accordance with International Accounting Standards or valued at their fair **market value**.

MODULE	CA: Capital Adequacy
CHAPTER	CA-4: Valuation and Admissibility of Assets

CA-4.3 Linked Asset Valuation **Rules** (continued)

CA-4.3.4 The fair **market value** of real estate assets held as linked long-term insurance assets must be the **market value** as assessed by an independent qualified valuer at a date no earlier than 12 months from the end of the most recent financial year.

MODULE	CA: Capital Adequacy
CHAPTER	CA-5: Valuation of Liabilities

CA-5.1 Valuation of Liabilities

CA-5.1.1 The Valuation of Liabilities **Rules** apply with respect to the determination of the amount of liabilities of an insurance firm.

CA-5.1.2 Subject to the specific provisions of this Chapter, the amount of liabilities of an insurance firm in respect its long-term insurance business, general insurance business and any other activities directly arising from that business must be determined in accordance with generally accepted accounting and actuarial concepts, using generally accepted methods appropriate for insurance firms.

General Insurance Business

CA-5.1.3 The amount of insurance liabilities that are general insurance business liabilities must be determined in accordance with International Accounting Standards applicable to insurance business or until such a standard or standards come into effect, with the provisions of Paragraphs CA-5.1.4 to CA-5.1.10.

CA-5.1.4 Unearned premiums and unearned commission income in respect of the general insurance business must be calculated by a method which has due regard to the period of the policy and the incidence of risk throughout that period. Time apportionment of the premium over the period of policy cover is normally appropriate unless there is a marked unevenness in the incidence of risk over that period, in which case a basis which reflects the profile of risk must be used.

CA-5.1.5 Where a time apportionment method is used that method must be at least as accurate as the '24ths basis' of premium income recognition.

CA-5.1.6 Unearned reinsurance premiums ceded must be calculated on the basis of the principles specified in Paragraphs CA-5.1.4 and CA-5.1.5.

CA-5.1.7 Where the unearned premium and unearned commission calculated in Paragraphs CA-5.1.4 to CA-5.1.6 above is perceived to be insufficient to cover the corresponding claims (net of reinsurance recoveries) and administrative expenses likely to arise after the end of the financial year from contracts concluded before that date, the company must set up a suitable additional provision for unexpired risks to cover this deficiency (premium deficiency).

MODULE	CA: Capital Adequacy
CHAPTER	CA-5: Valuation of Liabilities

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.8 Provision must be made for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. If a liability is known to exist but there is uncertainty as to its eventual amount, a provision should nevertheless be made.

CA-5.1.9 The level of claims provisions must be set such that:

- (a) No adverse run-off deviation is envisaged;
- (b) The provision is determined having regard to the range of uncertainty as to the eventual outcome for the category of business in question; and
- (c) In circumstances where there exists considerable uncertainty concerning future events, a degree of caution is exercised such that liabilities are not understated.

CA-5.1.10 In determining the sufficiency of evidence and the ability to measure claims costs, an insurance firm must take all reasonable steps to ensure that it has appropriate information with regard to its claims exposures.

Long-term Insurance Business

CA-5.1.11 The amount of insurance liabilities which are long-term insurance business liabilities must be determined in accordance with International Accounting Standards applicable to insurance business or until such a standard or standards come into effect, with the provisions of Paragraphs CA-5.1.12 to CA-5.1.33 below.

CA-5.1.12 The determination of the amount of long-term liabilities (other than liabilities which have fallen due for payment before the valuation date) must be made on actuarial principles with due regard to the reasonable expectations of policyholders and must make proper provision for all liabilities on prudent assumptions with appropriate margins for adverse deviation of the relevant factors.

CA-5.1.13 The determination must take account of all prospective liabilities as determined by the policy conditions for each existing contract, taking due credit for premiums payable after the valuation date.

MODULE	CA: Capital Adequacy
CHAPTER	CA-5: Valuation of Liabilities

CA-5.1 Valuation of Liabilities (continued)

- CA-5.1.14** The determination must take into account all guarantees including but not limited to:
- (a) Guaranteed benefits;
 - (b) Guaranteed surrender values;
 - (c) Guaranteed annuities or annuity options; and
 - (d) Any other guarantees, commitments or options however described that the insurance firm has contracted to provide to a policyholder.
- CA-5.1.15** The determination must take into account all bonuses contractually added to each policy.
- CA-5.1.16** The determination must take into account expenses including commission.
- CA-5.1.17** Subject to Paragraphs CA-5.1.18, CA-5.1.19 and CA-5.1.20, the amount of the long-term liabilities must be determined separately for each contract by a prospective calculation.
- CA-5.1.18** A retrospective calculation may be applied to determine the liabilities where a prospective method cannot be applied to a particular type of contract or benefit.
- CA-5.1.19** Where necessary, additional amounts must be set aside on an aggregated basis for general risks that are not individualised.
- CA-5.1.20** The method of calculation of the amount of liabilities and the assumptions used must not be subject to discontinuities from year to year arising from arbitrary changes and must be such as to recognise the distribution of profits in an appropriate way over the duration of each policy.
- CA-5.1.21** The distribution of surplus as bonus to participating policies must consider the level of premiums under these contracts, the assets held in respect of these contracts and the custom and practice of the company in the manner and timing of the distribution of profits.

MODULE	CA: Capital Adequacy
CHAPTER	CA-5: Valuation of Liabilities

CA-5.1 Valuation of Liabilities (continued)

CA-5.1.22 The liability under a contract (other than a linked long-term contract) must be calculated using the net premium valuation method using rates of interest and rates of mortality or morbidity considered appropriate by the Reporting Actuary appointed as per the requirements of Section AA-4.2.

CA-5.1.23 Other suitable alternative methods may be employed where it can be demonstrated that the alternative methods employed result in reserves no less, in aggregate, than would result from the net premium valuation method.

CA-5.1.24 In order to take account of the acquisition expenses, the net premium to be valued for the purpose of Paragraph CA-5.1.22 above may be increased by an amount not greater than the equivalent, taken over the whole period of premium payments and calculated according to the rates of interest and rate of mortality and morbidity employed in valuing the contract, of 3.5 percent of the relevant capital sum under the contract.

CA-5.1.25 The increased net premium as computed in Paragraph CA-5.1.24 must not exceed the premium actually payable by the policyholder under the contract.

CA-5.1.26 For the purposes of Paragraph CA-5.1.24 'relevant capital sum' means:

- (a) The sum assured at the date of valuation for whole life assurances;
- (b) The sum payable at the end of the contract term for endowment assurance contracts;
- (c) The capitalised value of the annuity at the vesting date (or cash option if greater) for deferred annuities;
- (d) The sum assured or the value of the fund for linked long-term contracts whichever is less notwithstanding (a) to (c) above, where the value of the fund means the aggregate of the value allocated to the contract in the form of units or any other measure and the total amount of premiums remaining to be paid over the term of the contract.

excluding in all cases any vested reversionary bonus and any capital sums for temporary assurances.

MODULE	CA: Capital Adequacy
CHAPTER	CA-5: Valuation of Liabilities

CA-5.1 Valuation of Liabilities (continued)

- CA-5.1.27** The rate of interest employed for the valuation must be determined prudently with due regard to the yield on the existing assets attributable to the life business as well as the yields expected to be obtained on sums to be invested in the future.
- CA-5.1.28** The amount of the liability in respect of any category of contracts must, where relevant, be determined on the basis of prudent rates of mortality and **morbidity** which in the opinion of the **Reporting Actuary** are appropriate for that category.
- CA-5.1.29** Provision of expenses whether implicit or explicit must not be less than the amount required, on prudent assumptions, to meet the total cost that would be incurred in fulfilling the existing contracts if the company were to cease to transact new business twelve months from the valuation date. This provision must consider the company's actual expenses in the last twelve months before the valuation date and the expected level of inflation on future expenses.
- CA-5.1.30** Provision must be made on prudent assumptions to cover any increase in liabilities caused by **policyholders** exercising options under their contracts including options for guaranteed cash payments.
- CA-5.1.31** The liability under a contract for life business must not be less than zero.
- CA-5.1.32** No allowance must be made in the valuation for the voluntary discontinuance of any contract if the amount of liability so determined is less than the corresponding amount without the allowance for voluntary discontinuance.
- CA-5.1.33** The determination of the amount of long-term liabilities must take into account the nature and term of the assets representing those liabilities and the value placed upon them and must include prudent provision against the effects of possible future changes in the value of the assets on:
- (a) **T**he ability of the company to meet its obligations arising under contracts for long-term business as they arise, and
 - (b) **T**he adequacy of the assets to meet the liabilities as determined by this Chapter.

MODULE	CA: Capital Adequacy
CHAPTER	CA-6: Currency Matching and Localisation Requirements

CA-6.1 Currency Matching and Localisation Requirements

CA-6.1.1 The provisions of this Chapter do not apply to:

- I**nsurance business carried on by an insurance firm outside Bahrain; or
- R**einsurance business (unless it is facultative reinsurance written by an insurer who also carries on insurance business that is not reinsurance business).

CA-6.1.2 Where an insurance firm's 'liabilities' in any particular currency exceed 10% of its total 'liabilities', the insurance firm must hold sufficient 'assets in that currency' to cover at least 80% of its 'liabilities' in that currency.

CA-6.1.3 For the purposes of Paragraph CA-6.1.2 'assets in that currency' is extended to include the currency itself (Currency A) and any other currency (Currency B) where Currency A is officially linked to Currency B.

CA-6.1.4 Where an insurance firm carries on both long-term insurance business and general insurance business, the requirements of Paragraph CA-6.1.1 apply to the 'assets' and 'liabilities' of each kind of business separately.

CA-6.1.5 Where a contract of insurance expresses any 'liability' in terms of a particular currency, that 'liability' must be regarded as a 'liability' in that currency.

CA-6.1.6 For the purposes of the rules in this Chapter:

- A**ssets means admissible assets valued in accordance with Chapter CA-4 General Assets Valuation Rules;
- L**iabilities means provisions, net of reinsurance recoveries, made by an insurance firm to cover liabilities arising under (or in connection with) contracts of insurance, excluding those liabilities exempted by Paragraph CA-6.1.1;
- R**eferences to assets in a currency (or similar expressions) are construed as references to 'assets' expressed in or capable of being realised (without exchange risk) in that currency; and

MODULE	CA: Capital Adequacy
CHAPTER	CA-6: Currency Matching and Localisation Requirements

CA-6.1 Currency Matching and Localisation Requirements (continued)

CA-6.1.6 (d) An 'asset' is capable of being realised (without exchange risk) in a currency if it is reasonably capable of being realised in that currency without risk that changes in exchange rates would reduce the cover of 'liabilities' in that currency.

CA-6.1.7 The currency of an insurance firm's general insurance business liabilities must, for the purposes of Paragraph CA-6.1.2 be determined as follows:

- (a) Where the 'liabilities' are not expressed as 'liabilities' in terms of a particular currency, they must be treated as 'liabilities' in the currency of the country in which the risk is situated or, if the insurance firm on reasonable grounds so decides, in the currency in which the premium payable under the contract is expressed;
- (b) Where a claim has been notified to an insurance firm and the insurance firm's 'liability' in respect of that claim is payable in a currency other than one which would result from the application of the above provisions, the insurance firm must regard its 'liability' as a 'liability' in the currency in which the insurance firm is actually obliged to pay it;
- (c) Where a claim is assessed in a currency that is known to the insurance firm in advance but which is different from a currency that would result from the application of the above provisions, the insurance firm may regard its 'liability' as a 'liability' in that currency.

CA-6.1.8 'Assets' held pursuant to Paragraph CA-6.1.2 above must be held:

- (a) If they cover 'liabilities' in Bahraini Dinars, in Bahrain;
- (b) If they cover 'liabilities' in any other currency, in Bahrain or in the country of that currency, unless they cover liabilities in Bahrain in which case they must be held in Bahrain.

MODULE	CA: Capital Adequacy
CHAPTER	CA-7: Whole Firm and Group Solvency

CA-7.1 Whole Firm and Group Solvency

CA-7.1.1 In addition to the capital adequacy and solvency requirements imposed on Bahraini insurance firms and overseas insurance firms, the **CBB** may require whole firm and/or group solvency information. The requirement under this Chapter apply to the following categories:

- (a) Overseas insurance firms;
- (b) Bahraini insurance firms with subsidiaries and branches, operating within Bahrain and/or in other jurisdictions; and
- (c) Bahraini insurance firms that are subsidiaries and whose parent companies may or may not be an insurance firm.

CA-7.1.2 **Captive insurers** are exempted from the requirements to report on their group solvency position.

CA-7.1.3 As part of the requirements of the Group Insurance Firm Return (Form GIFR) referred to in Section BR-1.3, the **CBB** may require an insurance firm to provide:

- (a) **A** statement of the consolidated financial position of any group of which the insurance firm is either the holding company, a subsidiary or a branch of that group; and
- (b) **A** statement of the solvency margin that would be determined by this Module if the group identified in part (a) of this **Rule** were a Bahrain authorised insurance firm.

CA-7.1.4 In considering the application of Paragraph CA-7.1.3, the **CBB** will take into account where the balance of the insurance business is undertaken. Where a high-level of the business undertaken by the group is done from Bahrain, the requirements of CA-7.1.3 may apply.

CA-7.1.5 The consolidated financial position referred to in Paragraph CA-7.1.3 must be determined on the basis that the assets and liabilities of that group are valued in accordance with the requirements of this Module.

CA-7.1.6 An insurance licensee subject to the requirements of Paragraph CA-7.1.3 may, with the consent of the **CBB**, provide equivalent or substantially equivalent solvency margin information submitted to a supervisor in another jurisdiction.

CA-7.1.7 In addition to consolidated information on the group, for Bahraini insurance firms, aggregate information detailing the solvency requirements of the major insurance subsidiaries in the group must also be submitted to the **CBB** as part of the Group Insurance Firm Return.

MODULE	CA: Capital Adequacy
CHAPTER	CA-7: Whole Firm and Group Solvency

CA-7.1 Whole Firm and Group Solvency (continued)

CA-7.1.8 Where the licensee's group or **parent** reports its own solvency position to its regulatory authority (on a group or **solo** basis) a copy of this calculation must be provided to the **CBB** within 30 calendar days from the due date to the other regulatory authority, in accordance with Paragraph RM-8.1.6.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.1 General Capital Requirements

CA-8.1.1 This Chapter of CA applies only to those firms licensed to conduct the regulated activity of takaful and retakaful.

CA-8.1.2 The specific **R**ules and **G**uidance in this Chapter are additional to Chapters CA-B to CA-7. The **R**ules and **G**uidance in Chapters CA-B to CA-7 apply to takaful firms unless those **R**ules have been specifically modified or waived by this Chapter.

CA-8.1.3 The **CBB** acknowledges that takaful/retakaful insurance is different in some respects from conventional insurance. The specific **R**ules and **G**uidance set out in this Chapter aim to allow takaful firms to operate in Bahrain within the **CBB**'s insurance regulatory regime on a basis consistent with that imposed on conventional insurers. That is, the **CBB**'s regulatory regime does not favour one form of insurance over another, allowing for both types of structures, takaful and conventional, to operate in a competitive environment.

CA-8.1.4 For the purposes of applying the rules in Chapters CA-B to CA-7 to takaful firms, references to 'long-term insurance business' should be read as 'family takaful business' and 'general insurance business' should be read as 'general takaful business'.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.2 Basis of Operating a Takaful business

CA-8.2.1 All **takaful firms** licensed in Bahrain must organise and operate their business according to the **al wakala** model. Specifically, in exchange for the provision of management services to takaful fund(s), the **shareholders** of the **takaful firm** must receive a specific consideration (wakala fee). For the insurance assets invested on behalf of takaful funds, the takaful operator must use the **al mudaraba** model, and must receive a set percentage of the profits generated from the investment portfolio.

CA-8.2.2 The **wakala** fee charged in respect of a takaful contract must be directly proportional to the costs associated with establishing and maintaining that contract. Both the **wakala** and **mudaraba** fees must be clearly disclosed to the **policyholders** of the takaful fund(s).

CA-8.2.3 The **CBB** expects takaful operators to establish an equitable basis for determining the consideration charged for managing takaful business. In the case of general takaful contracts, it would normally be expected that the fee would be the same for all contracts of a particular duration and type. In the case of **family takaful**, contracts that may be in force for several years, it would normally be the case that the consideration in the initial years would be relatively high due to the costs of establishing the contract but be substantially lower in later years reflecting only the costs of maintaining the contract.

CA-8.2.4 Where a **takaful firm** was licensed prior to these **requirements** coming into force, Sections CA-8.2.5 to CA-8.2.7 must apply.

CA-8.2.5 A **takaful firm** operating on a basis other than that prescribed by Paragraph CA-8.2.1 at the date these **requirements** come into force, must (except where Section CA-8.2.7 has been implemented) in respect of all takaful contracts written after this date, manage those contracts in accordance with Section CA-8.2.1. Takaful contracts written before this date hereafter referred to as pre-existing contracts, must continue to be managed in accordance with the takaful model or models operated by the **takaful firm** prior to Paragraph CA-8.2.1 coming into force, until such time as all obligations of the takaful fund or funds under those pre-existing contracts have been discharged in full.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.2 Basis of operating a takaful business (continued)

CA-8.2.6 A **takaful firm** to which Paragraph CA-8.2.5 applies may, with the participants' consent, switch existing policies from a non-wakala model to the **al wakala** model, so long as no other terms and conditions attaching to the policy are affected. Where sufficient participants (both number and value of outstanding obligations of the **takaful firm**) are prepared to switch, a **takaful firm** may apply to the relevant Courts to sanction transferring all those policies to an **al wakala** basis.

CA-8.2.7 A **takaful firm** to which CA-8.2.5 applies that has not adopted the provisions of CA-8.2.6 may either establish new takaful funds for takaful contracts written after these **requirements** come into force or establish a subfund(s), being a separately identifiable part of a fund, for its pre-existing contracts. A **takaful firm** may only establish subfunds where it maintains records to enable it to properly allocate assets, liabilities, revenue and expenses to those subfunds.

CA-8.2.8 Paragraphs CA-8.2.5 to CA-8.2.7 are transitional provisions to enable existing **takaful firms** to discharge their obligations under pre-existing contracts according to the basis of operating the takaful funds at the time participants entered into those contracts. Whilst it would be simpler to require all pre-existing contracts to be maintained in separate takaful funds to those established for contracts written after these **Rules** come into effect, the **CBB** considers this may not be in the best interests of participants. It is for this reason that the transitional rules enable **takaful firms** to either establish subfunds for pre-existing contracts or offer participants the option of switching their policies to the **al wakala** model. Whilst ultimately it would be at the discretion of the Courts to decide, the **CBB** would generally be prepared to support Court applications as outlined in **Paragraph** CA-8.2.6 where more than 75% of participants (by number and value) had indicated their preparedness to switch to the **al wakala** model.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.3 Segregation of Funds

- CA-8.3.1** Where an insurer carries out takaful business:
- (a) In the case of family takaful business, it must comply with Chapter CA-3 of the Capital Adequacy Module;
 - (b) It must maintain separate books of account in respect of each kind of business;
 - (c) It must maintain any additional books of account required by this Module for either its general takaful or family takaful business; and
 - (d) The transactions relating to each kind of business must be maintained separately for that business and must be carried to and form a separate fund or funds.

- CA-8.3.2** A takaful firm must maintain such accounting and other records as are necessary for:
- (a) Identifying the assets representing the fund or funds maintained by it under Paragraph CA-8.3.1 above for each kind of business that it carries on;
 - (b) Identifying the liabilities attributable to fund or funds maintained by it under Paragraph CA-8.3.1 above for each kind of business that it carries on; and
 - (c) Complying with the accounting standards established by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

CA-8.3.3 Other than the explicit exceptions included in Paragraphs CA-8.3.4 and CA-8.3.5, a takaful firm's assets allocated to the takaful fund must only be applied for the purposes of the fund to which it is attributed as required by Paragraph CA-8.3.2 and must not be made available for any other purpose of the takaful firm. This does not however prevent the reimbursement of expenditures borne by the shareholders (in the same or the preceding financial year) in discharging liabilities wholly or partly attributable to a fund or funds.

CA-8.3.4 Paragraph CA-8.3.3 does not apply to the payment of management fees by the fund or funds to the takaful manager even where the manager is the shareholder provided that the Shari'a Supervisory Board has approved those fees.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.3 Segregation of Funds (continued)

CA-8.3.5 Paragraph CA-8.3.3 does not prevent a takaful firm from exchanging, at fair market value, insurance business assets of any fund for other assets of the insurer including assets held by another fund or the shareholder.

CA-8.3.6 A takaful firm which carries on insurance business in Bahrain must have adequate arrangements for securing that transactions involving assets of the takaful firm (other than transactions outside its control) do not operate unfairly between any of the takaful fund or funds and the shareholder assets of the takaful firm or, in a case where the takaful firm has more than one 'identified fund', between those funds.

CA-8.3.7 Where the **CBB** imposes a financial penalty on a takaful firm or requires a takaful firm to compensate participants for any wrongful act of the firm (including any wrongful act committed by an appointed representative of the firm), it must not pay that compensation or financial penalty from any takaful fund and it must not seek to have that compensation or financial penalty reimbursed as part of its management fees.

CA-8.3.8 The **Rules** in this Chapter in respect of the segregation of funds by a takaful firm are similar to the **Rules** set out in Chapter CA-3 relating to long-term insurance business. In the case of a family takaful fund this similarity is most pronounced. However, the **Rules** set out in Chapter CA-3 still apply even if the takaful fund is a family takaful fund, in particular the requirement to separate linked family takaful business into a separate fund.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.4 Capital Adequacy and Solvency

CA-8.4.1 All takaful fund(s) are subject to capital available and solvency requirements. In cases where any of the takaful funds fail to meet the solvency requirements, the capital available requirements (Chapter CA-1) must also be applied to the **shareholder** fund.

CA-8.4.2 Every takaful fund must maintain and calculate its capital available to meet the solvency requirements of each takaful fund, as if each takaful fund were a separate licensed **insurance firm** calculating its capital available in accordance with this Module.

CA-8.4.3 In the case of a takaful fund, the capital available is defined as the participants' equity (accumulated surplus of revenues over expenses) calculated in accordance with the accounting standards established by the AAOIFI, and adjusted by any reductions to the capital as per CA-1.2.20.

CA-8.4.4 For the purpose of calculating the capital available of a takaful fund, the **insurance business amount** referred to in CA-4.2.34 means:

- (a) In the case of general takaful business, the general takaful insurance business amount is the value of the general takaful fund's assets (other than **family takaful** fund assets) and excluding any reinsurance recoveries as determined in accordance with Chapter CA-4;
- (b) In the case of **family takaful** business, the **family takaful** insurance business amount is the value of the **family takaful** fund's assets (other than general takaful fund assets) and excluding reinsurance recoveries and assets required to match property-linked liabilities in accordance with Chapter CA-4.

CA-8.4.5 Should the capital available of the takaful fund, determined as per Paragraph CA-8.4.3 fail to meet or exceed the solvency requirements, the capital available must, subject to Paragraph CA-8.4.8, be increased by way of a free loan from the **shareholder** fund of the **takaful firm** on terms that comply with the requirements of Paragraphs CA-8.4.8 and CA-8.4.9.

CA-8.4.6 In cases where Paragraph CA-8.4.5 applies, the capital available calculations must also be applied to the **shareholder** fund, to ensure that the capital available of the **shareholder** fund is sufficient to meet the solvency requirements of the takaful fund, that cannot be met by the takaful fund due to a shortage of capital available.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.4 Capital Adequacy and Solvency (continued)

CA-8.4.7

For the purpose of calculating the capital available of the shareholder fund, the insurance business amount referred to in CA-4.2.34 means the assets of the shareholder fund, excluding for greater certainty any assets of the takaful fund(s).

CA-8.4.8

In the case of a family takaful fund, the free loan referred to in Paragraph CA-8.4.5 may be provided by another family takaful fund of the same takaful firm, where:

- (a) The lending family takaful fund has assets surplus to those required to meet its own required margin of solvency;
- (b) The free loan must not result in the lending takaful fund failing to meet its own required margin of solvency at the time of making the loan and there is reasonable grounds to believe that it will continue to do so in the future;
- (c) The making of such loan must not adversely affect the reasonable expectations of the policyholders of the lending takaful fund;
- (d) The Reporting Actuary has approved the making of such a loan having considered all circumstances of the fund; and
- (e) No repayments of any shareholder free loans can be made by a borrowing takaful fund where amounts are outstanding in respect of any free loans from another family takaful fund.

CA-8.4.9

Where the shareholder fund of takaful firms provide free loans to the takaful fund as available for the purposes of meeting a takaful fund's required margin of solvency, the takaful firm may only do so with the prior written consent of the CBB. In considering such requests, the CBB requires, as a minimum, that the takaful firm undertake to include a specific note in the financial statements of the takaful firm explaining the circumstances of the arrangement and the implications for shareholders. This requirement also applies where loans originate from one family takaful fund to cover a shortfall in another family takaful fund.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.4 Capital Adequacy and Solvency (continued)

- CA-8.4.10** A **takaful firm** may exclude from its fund liabilities any amounts borrowed from the takaful fund so long as the following conditions are met:
- (a) **T**he loans are free loans, established in accordance with Islamic principles, and the **Shari'a Supervisory Board** approves the terms and conditions of those loans;
 - (b) **T**he loans rank for repayment upon winding up of the company only ahead of the ordinary shares of the company and, for the avoidance of doubt, must be subordinated to all participants and other creditor obligations of the takaful fund;
 - (c) **W**here loans have been made to a takaful fund or funds and those loans have not been counted as a liability of the relevant fund(s) then an equivalent amount must be deducted from the capital resources of the company, i.e. **shareholder** capital resources; and
 - (d) **W**here loans have been made to a takaful fund or funds those loans can only be repaid out of future surpluses of the relevant takaful fund or funds.
- CA-8.4.11** Except as provided under Paragraph CA-8.4.8, a takaful fund is prohibited from making any loans to another takaful fund or to any other party, including but not limited to:
- (a) **T**he takaful operator (i.e. the **shareholder** fund);
 - (b) **A** person in a **controlled function**;
 - (c) **A** participant (**policyholder**); and
 - (d) **A** **controller** or **close link** of the **takaful firm**.
- CA-8.4.12** Except as provided for under Paragraph CA-8.4.13, every takaful fund must calculate its required margin of solvency as if it were a licensed **insurance firm** incorporated as a joint stock company in Bahrain.
- CA-8.4.13** In the case of a newly incorporated takaful insurer, for the first year of its operations, the takaful fund is exempt from meeting the required margin of solvency to allow it to build up its capital base. Following this first year, should it not meet the solvency requirements, the **CBB** expects the **shareholders** of the **takaful firm** to cover any shortfall to meeting this requirement by way of a free loan provided to the takaful fund and meeting the requirements noted in Paragraphs CA-8.4.8 and CA-8.4.9.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.4 Capital Adequacy and Solvency (continued)

CA-8.4.14

Except as provided for under Paragraph CA-8.4.13, should any of the takaful fund(s) fail to meet its required solvency margin, the takaful operator will be prevented from writing any new takaful business until such time as the takaful fund(s) is in compliance with the solvency margin requirements.

MODULE	CA: Capital Adequacy
CHAPTER	CA-8: Takaful and Retakaful

CA-8.5 Distribution of Surplus

- CA-8.5.1** Every **takaful firm** must develop a policy for determining the surplus or deficit arising from takaful operations, the basis of distributing that surplus or deficit between the participants and the **shareholders**, and the method of transferring any surplus or deficit to the participants. The policy developed must consider all relevant AAOIFI standards including Financial Accounting Standard No. 13 'Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies'.
- CA-8.5.2** More than one policy may be developed where the **takaful firm** offers different types of insurance products. In any event, the company must have separate policies in respect of its general business and its long-term business.
- CA-8.5.3** On an annual basis, every **takaful firm** must determine any surplus or deficit arising on each separate takaful fund. In the case of a **family takaful fund**, the surplus or deficit must be determined in consultation with the **Reporting Actuary**.
- CA-8.5.4** The policy developed in accordance with Paragraph CA-8.5.1 must be provided to the **CBB** and form part of each and every policy sold by a **takaful firm**. This policy once approved by the **CBB** may not be amended or changed without the approval of the **Shari'a Supervisory Board** and the **CBB**.
- CA-8.5.5** No **takaful firm** is permitted to make any distributions to participants if either the takaful fund(s) does not, or through the payment of the distribution, would not meet all the **capital available** and solvency requirements set out in Chapters 1 and 2 of the Capital Adequacy Module.