



FINANCIAL CRIME MODULE



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FC-(i)(a)	Decree Law No. 54 (2006)	01/2007
FC-(i)(b)	Decree Law No. 58 (2006)	01/2007
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MODULE	FC:	Financial Crime
CHAPTER	FC-A:	Introduction

FC-A.1 Purpose

Executive Summary

FC-A.1.1 This Module applies, to relevant insurance licensees, a comprehensive framework of Rules and Guidance aimed at combating money laundering and terrorist financing. In so doing, it helps implement the 40 Recommendations on money laundering and 9 Special Recommendations on terrorist financing, issued by the Financial Action Task Force (FATF), that are relevant to insurance licensees; it also implements IAIS guidance in this area. (Further information on these can be found in Chapter FC-9.) The Module also contains measures relating to the combating of fraud in the insurance sector.

FC-A.1.2 The Module requires insurance firms and insurance brokers to have effective anti-money laundering ('AML') policies and procedures, in addition to measures for combating the financing of terrorism ('CFT'). The Module contains detailed requirements relating to customer due diligence, reporting and the role and duties of the Money Laundering Reporting Officer (MLRO). Furthermore, examples of suspicious activity are provided (see Part B, Supplementary Information, Appendix FC(iv)), to assist licensees to monitor transactions and fulfil their reporting obligations under Bahrain law. Because they represent negligible money laundering/terrorism financing risk, these requirements do not apply to insurance consultants nor, in some circumstances, to insurance managers.

FC-A.1.3 This Module also covers measures in place to combat fraud: these apply to all insurance licensees. Chapter FC-10 sets out basic requirements regarding measures to deter, detect and report instances of fraud and attempted fraud.

Legal Basis

FC-A.1.4

This Module contains the Central Bank of Bahrain's (the CBB) Directive (as amended from time to time) regarding the combating of financial crime, 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 insurance licensees (including their approved persons).

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



MODULE	FC:	Financial Crime
CHAPTER	FC-A:	Introduction

FC-A.2 Module History

FC-A.2.1 This Module was first issued by the BMA in April 2005, together with the rest of Volume 3 (Insurance). Any material changes that have subsequently been made 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.

FC-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

FC-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
FC-A.1; FC-2; FC-3; FC-5; FC-6.1; FC-6.2; FC-6.5	01/07/05	Inclusion of a revised and renamed Customer Due Diligence Chapter (including a new non-face-to-face business Section). Renamed Suspicious Transaction Reporting Chapter, with minor clarifications to the text. Changes to layout of FC-5 and clarifications to the text. Correction of minor typographical and cross-referencing errors.
FC	01/10/05	New Chapter on Non-Cooperative Countries/Territories, and UN notifications. Section on charities removed, since not applicable to insurance licensees. Extensive drafting changes to remainder of text, to improve clarity and ensure consistency across different CBB Rulebooks; but no other changes of substance.
FC-1.2	01/01/06	Clarified in FC-1.2.11 that the verification for item (a) applies to the identity of the ultimate provider of funds.
FC-3.1.7	01/04/06	Clarified and added guidance Paragraph dealing with residency requirements of MLRO.
FC-4.3.1	01/07/06	Updated contact information for Compliance Directorate.
FC-A.1.4	01/2007	New Rule introduced, categorising this Module as a Directive
FC-1.6.3	01/2007	Clarified simplified due diligence rules for transactions under BD6,000.
FC-3.3.5A and FC-3.3.7	01/2007	Allowed for a transition period for the external auditor's report required under SubParagraph FC-3.3.1(d) and clarified when all reports are due.
FC-4.3.1	01/2007	Updated new e-mail address for Compliance Directorate.
FC-1.7.2(d)	10/2007	Clarified the record retention period for introduced business in line with Article 60 of the CBB Law
FC-2.2.3, 2.2.6, 4.2.5, 6.1.1,6.1.2, 6.1.3	10/2007	Clarified the record retention period for various transactions to be in line with Article 60 of the CBB Law
FC-3.3.2	10/2007	Clarified the appointment of external auditors for the purposes of the report required under Paragraph FC-3.3.1 (d)
FC-10.1.11	10/2007	Added reference to new Guidance paper on fraud issued by the IAIS.
FC-3.3.7	04/2008	Clarified to whom in the CBB should the reports required under Paragraph FC-3.3.1 be submitted to.
FC-1.7.2, 2.2.3, 2.2.6, 4.2.5, 6.1.1,6.1.2, 6.1.3	04/2008	Reduced retention requirements of records to five years to be consistent with AML Law and other Volumes of the CBB Rulebook
Table of Contents	07/2008	Added Supplementary Documents to Part B.



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CHAPTER	FC-A:	Introduction

FC-A.2 Module History (continued)

FC-A.2.3 (continued)

Module Ref.	Change Date	Description of Changes
FC-1.1.3	07/2009	Provided guidance for insurance brokers on definition of 'customers'.
FC-3.1.10, 3.2.1, 4.2.3, 4.3.1	04/2010	Updated name and e-mail of relevant authority to Financial Intelligence Unit.
FC-A.1.4	01/2011	Clarified legal basis
FC-3.1.9	10/2011	Clarified requirements for MLRO.
FC-3.3	10/2011	Amended Section to allow for CBB-approved consultancy firm to do required sample testing and report under Paragraph FC-3.3.1.

FC-A.2.4 Guidance on the implementation and transition to Volume 3 (Insurance) is given in Module ES (Executive Summary).



MODULE	FC:	Financial Crime
CHAPTER	FC-B:	Scope of Application

FC-B.1 License Categories

FC-B.1.1 Chapters FC-1 to FC-9 apply to all insurance firms and insurance brokers. These Chapters also apply to insurance managers where they manage a captive insurer. Chapters FC-1 to FC-9 do not apply to insurance consultants.

FC-B.1.2 Chapters FC-1 to FC-9 apply, as specified in Paragraph FC-B.1.1, to all insurance firms, insurance brokers and, where they manage a captive insurer, insurance managers, irrespective of whether they are a Bahraini insurance licensee or an overseas insurance licensee. Overseas insurance licensees, and Bahraini insurance licensees that are subsidiaries of an overseas group, may apply additional AML/CFT policies and procedures, provided they satisfy the minimum requirements contained in this Module.

FC-B.1.3 The Rules and Guidance in this Module are in addition to and supplement the requirements contained in Decree Law No. (4) of 2001 with respect to the prevention and prohibition of the laundering of money; this Law was subsequently updated, with the issuance of Decree Law No. 54 of 2006 with respect to amending certain provisions of Decree No. 4 of 2001 (collectively, 'the AML Law'). The AML Law imposes obligations generally in relation to the prevention of money laundering and the combating of the financing of terrorism, to all persons resident in Bahrain (including financial services firms such as insurance licensees). All insurance licensees are under the statutory obligations of that Law, in addition to the more specific requirements contained in this Module. Nothing in this Module is intended to restrict the application of the AML Law (a copy of which is contained in Part B of Volume 3 (Insurance), under 'Supplementary Information'). Also included in Part B is a copy of Decree Law No. 58 of 2006 with respect to the protection of society from terrorism activities ('the anti-terrorism law').

FC-B.1.4 Chapter FC-10, dealing with insurance fraud, applies to all insurance licensees.



MODULE	FC:	Financial Crime
CHAPTER	FC-B:	Scope of Application

FC-B.2 Types of Insurance Business

FC-B.2.1 This Module applies to all types of insurance contracts, including general and long-term insurance, as well as to reinsurance and captive insurance business.

FC-B.2.2 International experience shows that all types of insurance (including general insurance and reinsurance) have been used as channels for illegal activities. However, the CBB also recognises that in the case of pure reinsurance transactions, these risks may exist to a lesser extent. Consequently, upon application by the licensee, the CBB will consider, on an individual basis, exemptions from specific requirements of this Module, in relation to the reinsurance activities of licensees. Normally, the CBB will consider granting such exemptions where the reinsurer concerned deals only with licensed insurance entities, that are subject to AML/CFT standards equivalent to those in this Module.



MODULE	FC:	Financial Crime
CHAPTER	FC-B:	Scope of Application

FC-B.3 Overseas Subsidiaries and Branches

FC-B.3.1

Insurance licensees must apply the requirements in this Module to all their branches and subsidiaries, including those operating in another jurisdiction. Where local standards differ, the higher standard must be followed. Insurance licensees must pay particular attention to procedures in branches and subsidiaries in countries that do not or insufficiently apply the FATF Recommendations and Special Recommendations.

FC-B.3.2

Where another jurisdiction's laws or Regulations prevent an insurance licensee (or any of its foreign branches or subsidiaries) from applying the same standards contained in this Module or higher, the licensee must immediately inform the CBB in writing.

FC-B.3.3

In such instances, the CBB will review alternatives with the insurance licensee. Should the CBB and the licensee be unable to reach agreement on the satisfactory implementation of this Module in a foreign subsidiary or branch, the insurance licensee may be required by the CBB to cease the operations of the subsidiary or branch in the foreign jurisdiction in question.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.1 General Requirements

Verification of Identity and Source of Funds

FC-1.1.1

Insurance licensees must establish effective systematic internal procedures for establishing and verifying the identity of their customers and the source of their funds. Such procedures must be set out in writing and approved by the licensee's Board of Directors. They must be strictly adhered to.

FC-1.1.2

Insurance licensees must implement the customer due diligence measures outlined in this Chapter when:

- (a) Establishing business relations with a new or existing customer;
- (b) A change to the signatory or policyholder beneficiary is made;
- (c) A significant transaction takes place;
- (d) There is a material change in the terms of an insurance policy or in the manner in which the business relationship is conducted;
- (e) Customer documentation standards change substantially;
- (f) The insurance licensee has doubts about the veracity or adequacy of previously obtained customer due diligence information;
- (g) Carrying-out one-off or occasional transactions above BD 6,000, or where several smaller transactions that appear to be linked fall above this threshold; or
- (h) There is a suspicion of money laundering or terrorist financing.

FC-1.1.3 For the purposes of this Module, 'customer' includes counterparties such as reinsurers and financial markets counterparties, as well as persons insured by the licensee. However, in the case of group insurance policies (such as group life or medical), the requirements in this Module need not be applied to all policyholders: see Paragraph FC-1.2.13. For insurance brokers, 'customer' refers to policyholders.

FC-1.1.4 The CBB's specific minimum standards to be followed with respect to verifying customer identity and source of funds are contained in Section FC-1.2. Enhanced requirements apply under certain high-risk situations: these requirements are contained in Sections FC-1.3 to FC-1.5 inclusive. Simplified customer due diligence measures may apply in defined circumstances: these are set out in Section FC-1.6.

FC-1.1.5 Where an insurance licensee is dealing with an intermediary such as a broker, reliance may be placed on customer identification undertaken by the intermediary, if certain conditions are satisfied: please refer to Chapter FC-1.7.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.1 General Requirements (continued)

Verification of Third Parties

FC-1.1.6

Insurance licensees must obtain a signed statement from all new customers confirming whether or not the customer is acting on their own behalf or not. This undertaking must be obtained prior to conducting any transactions with the customer concerned.

FC-1.1.7

Where a customer is acting on behalf of a third party, the insurance licensee must also obtain a signed statement from the third party, confirming they have given authority to the customer to act on their behalf. Where the third party is a legal person, the insurance licensee must have sight of the original Board resolution (or other applicable document) authorising the customer to act on the third party's behalf, and retain a certified copy.

FC-1.1.8

Insurance licensees must establish and verify the identity of the customer and (where applicable) the party/parties on whose behalf the customer is acting. In the case of insurance policies, the identity of the beneficiaries must also be separately identified and verified, and the relationship between the insured party and the beneficiaries must be ascertained. Verification must take place in accordance with the requirements specified in this Chapter.

FC-1.1.9

If claims, commissions, and other monies are to be paid to persons (including partnerships, companies, etc.) other than the policyholder, then the identity of the proposed recipient of these monies must also be verified in accordance with the requirements specified in this Chapter.

FC-1.1.10

Where a policy is provided to a minor or other person lacking full legal capacity, the normal identification procedures as set out in this Chapter must be followed. In the case of minors, licensees must additionally verify the identity of the parent(s) or legal guardian(s). Where a third party on behalf of a person lacking full legal capacity subscribes to a policy, the licensee must establish the identity of that third party as well as the intended policyholder.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.1 General Requirements (continued)

Anonymous and Nominee Accounts

FC-1.1.11

Insurance licensees must not establish or keep anonymous policies or policies in fictitious names. Where insurance licensees maintain a nominee account, which is controlled by or held for the benefit of another person, the identity of that person must be disclosed to the insurance licensee and verified by it in accordance with the requirements specified in this Chapter.

Timing of Verification

FC-1.1.12

Insurance licensees must not commence a business relationship or undertake a transaction with a customer before completion of the relevant customer due diligence ('CDD') measures specified in this Chapter. However, verification may be completed after receipt of funds in the case of non face-to-face business, or the subsequent submission of CDD documents by the customer after initial face-to-face contact, providing that no disbursement of funds takes place until after the requirements of this Chapter have been fully met.

Incomplete Customer Due Diligence

FC-1.1.13

Where an insurance licensee is unable to comply with the requirements specified in this Chapter, it must consider whether to terminate the relationship or not proceed with the transaction. If it proceeds with the transaction (to avoid tipping off the customer), it should additionally consider whether it should file a suspicious transaction report.

FC-1.1.14

See also Chapter FC-4, which covers the filing of suspicious transaction reports.

Existing Customers

FC-1.1.15

Insurance licensees must ensure that the information they hold on existing customers meet the requirements of this Chapter and is reasonably up to date. If not, licensees must put in place measures to ensure compliance over a reasonable time-scale.

FC-1.1.16

The CBB will monitor the application of these requirements to insurance licensees' existing customer base. For general insurance contracts, these requirements should be met at the next annual renewal of policies. For long-term insurance contracts, these requirements should be met before end-2007.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.2 Face-to-face Business

Natural Persons

FC-1.2.1

If the customer is a natural person, the insurance licensee must obtain and record the following information (in hard copy or electronic form), before providing financial services or engaging in one-off transactions above BD 6,000, as described in Paragraph FC-1.1.2:

- (a) Full legal name and any other names used;
- (b) Full permanent address (i.e. the residential address of the customer; a post office box is insufficient);
- (c) Date and place of birth;
- (d) Nationality;
- (e) Passport number (if the customer is a passport holder);
- (f) CPR or Iqama number (for Bahraini or GCC residents only);
- (g) Telephone/fax number and email address (where applicable);
- (h) Occupation or public position held (where applicable);
- (i) Employer's name and address (if self-employed, the nature of the self-employment);
- (j) Type of policy, and nature and volume of anticipated business dealings with the insurance licensee;
- (k) Signature of the customer(s); and
- (l) Source of funds for payment of premium.

FC-1.2.2 See Part B, Volume 3 (Insurance), for a Guidance Note on source of funds.

FC-1.2.3

The insurance licensee must verify the information in Paragraph FC-1.2.1 (a) to (f), by the following methods below; at least one of the copies of the identification documents mentioned in (a) and (b) below must include a clear photograph of the customer:

- (a) Confirmation of the date of birth and legal name, by taking a copy of a current valid official original identification document (e.g. birth certificate, passport, CPR or Iqama);
- (b) Confirmation of the permanent address by taking a copy of a recent utility bill, bank statement or similar statement from another licensee or financial institution, or some form of official correspondence or official documentation card, such as CPR, from a public/governmental authority, or a tenancy agreement or record of home visit by an official of the insurance licensee; and
- (c) Where appropriate, direct contact with the customer by phone, letter or email to confirm relevant information, such as residential address information.



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.2 Face-to-face Business (continued)

FC-1.2.4 Any document copied for the purpose of identification verification must be an original. An authorised official of the licensee must certify the copy, by writing on it the words ‘original sighted’, together with the date and his signature. Equivalent measures must be taken for electronic copies.

FC-1.2.5 Identity documents which are not obtained by an authorised official of the licensee in original form (e.g. due to a customer sending a copy by post following an initial meeting) must instead be certified (as per FC-1.2.4) by one of the following from a GCC or FATF member state:

- (a) A lawyer;
- (b) A notary;
- (c) A chartered/certified accountant;
- (d) An official of a government ministry;
- (e) An official of an embassy or consulate; or
- (f) An official of another licensed financial institution or of an associate company of the licensee.

FC-1.2.6 The individual making the certification under FC-1.2.5 must give clear contact details (e.g. by attaching a business card or company stamp). The insurance licensee must verify the identity of the person providing the certification through checking membership of a professional organisation (for lawyers or accountants), or through checking against databases/websites, or by direct phone or email contact.

Legal Entities or Legal Arrangements (such as trusts)

FC-1.2.7 If the customer is a legal entity or a legal arrangement such as a trust, the insurance licensee must obtain and record the following information from original identification documents, databases or websites, in hard copy or electronic form, before providing financial services of any kind:

- (a) The entity’s full name and other trading names used;
- (b) Registration number (or equivalent);
- (c) Legal form;
- (d) Registered address and trading address (where applicable);
- (e) Type of business activity;
- (f) Date and place of incorporation or establishment;



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.2 Face-to-face business (continued)

FC-1.2.7 (continued)

- (g) Telephone, fax number and email address;
- (h) Regulatory body or listing body (for regulated activities such as financial services and listed companies);
- (i) Name of external auditor (where applicable);
- (j) Type of policy, and nature and volume of anticipated business dealings with the insurance licensee; and
- (k) Source of funds for payment of premium.

FC-1.2.8

The information provided under FC-1.2.7 must be verified by obtaining certified copies of the following documents, as applicable (depending on the legal form of the entity):

- (a) Certificate of incorporation and/or certificate of commercial registration or trust deed;
- (b) Memorandum of association;
- (c) Articles of association;
- (d) Partnership agreement;
- (e) Board resolution seeking the insurance services (only necessary in the case of private or unlisted companies);
- (f) Identification documentation of the authorised signatories of the insurance contract;
- (g) Copy of the latest financial report and accounts, audited where possible (audited copies do not need to be certified); and
- (h) List of authorised signatories of the company for the insurance contract and a Board resolution (or other applicable document) authorising the named signatories or their agent to receive any proceeds from the insurance contract or to modify the terms of the contract (resolution only necessary for private or unlisted companies).

FC-1.2.9

Documents obtained to satisfy the requirements in FC-1.2.8 above must be certified in the manner specified in FC-1.2.4 to FC-1.2.6.

FC-1.2.10

The documentary requirements in FC-1.2.8 above do not apply in the case of FATF/GCC listed companies: see Section FC-1.6 below. Also, the documents listed in FC-1.2.8 above are not exhaustive: for customers from overseas jurisdictions, documents of an equivalent nature may be produced as satisfactory evidence of a customer's identity.



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.2 Face-to-face business (continued)

FC-1.2.11 Insurance licensees must also obtain and document the following due diligence information. These due diligence requirements must be incorporated in the licensee's new business procedures:

- (a) Enquire as to the structure of the legal entity or trust sufficient to determine and verify the identity of the ultimate provider of funds and ultimate controller of the funds (if different);
- (b) Ascertain whether the legal entity has been or is in the process of being wound up, dissolved, struck off or terminated;
- (c) Obtain the names, country of residence and nationality of Directors or partners (only necessary for private or unlisted companies, and for trustees in the case of trusts);
- (d) Require, through new customer documentation or other transparent means, updates on significant changes to corporate ownership and/or legal structure;
- (e) Obtain and verify the identity of shareholders holding 20% or more of the issued capital (where applicable). The requirement to verify the identity of these shareholders does not apply in the case of FATF/GCC listed companies;
- (f) In the case of trusts or similar arrangements, establish the identity of the settlor(s), trustee(s), and beneficiaries (including making such reasonable enquiries as to ascertain the identity of any other potential beneficiary, in addition to the named beneficiaries of the trust); and
- (g) Where a licensee has reasonable grounds for questioning the authenticity of the information supplied by a customer, conduct additional due diligence to confirm the above information.

FC-1.2.12 For the purposes of Paragraph FC-1.2.11, acceptable means of undertaking such due diligence might include taking bank references; visiting or contacting the company by telephone; undertaking a company search or other commercial enquiries; accessing public and private databases (such as stock exchange lists); making enquiries through a business information service or credit bureau; confirming a company's status with an appropriate legal or accounting firm; or undertaking other enquiries that are commercially reasonable.

FC-1.2.13

In the case of group insurance policies (such as group life or medical insurance), customer identification may be limited to the principal shareholders and Directors of the contracting company.



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.3 Enhanced Customer Due Diligence: General Requirements

FC-1.3.1 Enhanced customer due diligence must be performed on those customers identified as having a higher risk profile, and additional inquiries made or information obtained in respect of those customers.

FC-1.3.2 The additional information referred to in Paragraph FC-1.3.1 might include documents (either in hard copy or electronic format) relating to the following:

- (a) Evidence of a person's permanent address through the use of a credit reference agency search or through independent verification by home visit;
- (b) A personal reference (e.g. by an existing customer of the insurance licensee);
- (c) Another licensed entity's reference and contact with the concerned licensee regarding the customer;
- (d) Documentation outlining the customer's source of wealth;
- (e) Documentation outlining the customer's source of income; and
- (f) Independent verification of employment, or public position held.

FC-1.3.3 In addition to the general Rule contained in Paragraph FC-1.3.1 above, special care is required in the circumstances specified in Sections FC-1.4 to FC-1.5 inclusive.



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.4 Enhanced Customer Due Diligence: Non face-to-face Business and New Technologies

FC-1.4.1 Insurance licensees must establish specific procedures for verifying customer identity where no face-to-face contact takes place.

FC-1.4.2 Where no face-to-face contact takes place, insurance licensees must take additional measures (to those specified in Section FC-1.2), in order to mitigate the potentially higher risk associated with such business. In particular, insurance licensees must take measures:

- (a) To ensure that the customer is the person they claim to be; and
- (b) To ensure that the address provided is genuinely the customer's.

FC-1.4.3 There are a number of checks that can provide an insurance licensee with a reasonable degree of assurance as to the authenticity of the applicant. They include:

- (a) Telephone contact with the applicant on an independently verified home or business number;
- (b) With the customer's consent, contacting an employer to confirm employment, via phone through a listed number or in writing; and
- (c) Requiring a premium payment to be made from an account in the customer's name at a bank having equivalent CDD standards.

FC-1.4.4 Financial services provided via post, telephone or internet pose greater challenges for customer identification and AML/CFT purposes. Insurance licensees must establish procedures to prevent the misuse of technological developments in money laundering or terrorist financing schemes. Insurance licensees must also ensure that they comply with any e-commerce laws and/or CBB Modules issued from time to time.



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CHAPTER	FC-1:	Customer Due Diligence

FC-1.5 Enhanced Customer Due Diligence: Politically Exposed Persons ('PEPs')

FC-1.5.1

Insurance licensees must have appropriate risk management systems to determine whether a customer is a Politically Exposed Person ('PEP'), both at the time of establishing business relations and thereafter on a periodic basis. Licensees must utilise publicly available databases and information to establish whether a customer is a PEP.

FC-1.5.2

Insurance licensees must establish a client acceptance policy with regard to PEPs, taking into account the reputational and other risks involved. Senior management approval must be obtained before a PEP is accepted as a customer.

FC-1.5.3

Where an existing customer is a PEP, or subsequently becomes a PEP, enhanced monitoring and customer due diligence measures must include:

- (a) Analysis of complex financial structures, including trusts, foundations or international business corporations;
- (b) A written record in the customer file to establish that reasonable measures have been taken to establish both the source of wealth and the source of funds;
- (c) Development of a profile of anticipated customer activity, to be used in on-going monitoring;
- (d) Approval of senior management for allowing the customer relationship to continue; and
- (e) On-going account monitoring of the PEP's account by senior management (such as the MLRO).

FC-1.5.4

'Politically Exposed Persons' means individuals who are, or have been, entrusted with prominent public functions in Bahrain or a foreign country, such as Heads of State or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations or important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to PEPs themselves. The definition is not intended to cover middle-ranking or more junior officials in the foregoing categories. Bahraini PEPs would include all Ministers, all MPs, and all Ministry officials with the rank of Undersecretary or above.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.6 Simplified Customer Due Diligence

FC-1.6.1

Insurance licensees may apply simplified customer due diligence measures, as described in Paragraphs FC-1.6.2 to FC-1.6.10, if:

- (a) The customer is the Central Bank of Bahrain ('CBB'), the Bahrain Stock Exchange ('BSE') or a licensee of the CBB;
- (b) The customer is a Ministry of a Gulf Cooperation Council ('GCC') or Financial Action Task Force ('FATF') member state government, a company in which a GCC government is a majority shareholder, or a company established by decree in the GCC;
- (c) The customer is a company listed on a GCC or FATF member state stock exchange with equivalent disclosure standards to those of the BSE;
- (d) The customer is a financial institution whose entire operations are subject to AML/CFT requirements consistent with the FATF Recommendations / Special Recommendations and it is supervised by a financial services supervisor in a FATF or GCC member state for compliance with those requirements;
- (e) The customer is a financial institution that is a subsidiary of a financial institution located in a FATF or GCC member state, and the AML/CFT requirements applied to its parent also apply to the subsidiary;
- (f) Premium due is a single payment not exceeding BD 6,000, or total premiums due for a single customer do not exceed BD 6,000 per year; or
- (g) The transaction is a long-term insurance contract, either taken out in connection with a pension scheme relating to the customer's employment or occupation, or contains a no surrender clause and cannot be used as security for a loan.

FC-1.6.2

For customers falling under the categories (a) to (e) specified in Paragraph FC-1.6.1, the information required under Paragraph FC-1.2.1 (for natural persons) or FC-1.2.7 (for legal entities or legal arrangements such as trusts) must be obtained. However, the verification and certification requirements in Paragraphs FC-1.2.3 and FC-1.2.8, and the due diligence requirements in Paragraph FC-1.2.11, may be dispensed with.



MODULE	FC:	Financial Crime
CHAPTER	FC1:	Customer Due Diligence

FC-1.6 Simplified Customer Due Diligence (continued)

FC-1.6.3

For customers falling under Category (f) in Paragraph FC-1.6.1, the customer's name and contact information must be recorded. However, the verification, certification and due diligence requirements in Paragraphs FC-1.2.3, FC-1.2.8 and FC-1.2.11 may be dispensed with. As a matter of prudence, it is recommended that identification documentation be checked by the insurance licensee. Insurance licensees may, of course, apply these verification, certification and due diligence requirements for their own purposes, should they wish to do so.

FC-1.6.4

Insurance licensees wishing to apply simplified due diligence measures as allowed for under Paragraph FC-1.6.1 must retain documentary evidence supporting their categorisation of the customer.

FC-1.6.5

Examples of such documentary evidence may include a printout from a regulator's website, confirming the licensed status of an institution, and internal papers attesting to a review of the AML/CFT measures applied in a jurisdiction.

FC-1.6.6

For customers coming under Paragraph FC-1.6.1 (e), licensees must also obtain and retain a written statement from the parent institution of the subsidiary concerned, confirming that the subsidiary is subject to the same AML/CFT measures as its parent.

FC-1.6.7

[This Paragraph was deleted in January 2007].

FC-1.6.8

Simplified customer due diligence measures must not be applied where a licensee knows, suspects, or has reason to suspect, that the applicant is engaged in money laundering or terrorism financing or that the transaction is carried out on behalf of another person engaged in money laundering or terrorism financing.

FC-1.6.9

Simplified customer due diligence measures must not be applied where a licensee knows, suspects, or has reason to suspect, that transactions are linked, such that they exceed the threshold specified in Paragraph FC-1.6.1 (f).

FC-1.6.10

Examples of such transactions might include policies arranged through different customers, but on the same life assured, or where premiums for different lives assured are paid from the same bank account.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.7 Introduced Business from Professional Intermediaries

FC-1.7.1

Insurance licensees may only accept customers introduced to them by other financial institutions or intermediaries, if they have satisfied themselves that the financial institution or intermediary concerned is subject to FATF-equivalent customer due diligence measures. Where an insurance licensee delegates part of the customer due diligence measures to another financial institution or intermediary, the responsibility for meeting the requirements of this Chapter remains with the insurance licensee, not the third party.

FC-1.7.2

Insurance licensees may only accept introduced business if all of the following conditions are satisfied:

- (a) The customer due diligence measures applied by the introducer are consistent with those required by the FATF 40 + 9 Recommendations;
- (b) A formal agreement is in place defining the respective roles of the licensee and the introducer in relation to customer due diligence measures. The agreement must specify that the customer due diligence measures of the introducer will comply with the FATF 40 + 9 Recommendations;
- (c) The introducer is able to provide all relevant data pertaining to the customer's identity, the identity of the policyholder and beneficiary of the policy and, where applicable, the party/parties on whose behalf the customer is acting; also, the introducer has confirmed that the licensee will be allowed to verify the customer due diligence measures undertaken by the introducer at any stage; and
- (d) Written confirmation is provided by the introducer confirming that all customer due diligence measures required by the FATF 40 + 9 Recommendations have been followed and the customer's identity established and verified. In addition, the confirmation must state that any identification documents or other customer due diligence material can be accessed by the insurance licensee and that these documents will be kept for at least five years after the policy relationship has ended.



MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

**FC-1.7 Introduced Business from Professional Intermediaries
(continued)**

FC-1.7.3

The insurance licensee must perform periodic reviews ensuring that any introducer on which it relies is in compliance with the FATF 40 + 9 Recommendations. Where the introducer is resident in another jurisdiction, the insurance licensee must also require the introducer to perform periodic reviews to verify whether the jurisdiction is in compliance with the FATF 40 + 9 Recommendations.

FC-1.7.4

Should the insurance licensee not be satisfied that the introducer is in compliance with the requirements of the FATF 40 + 9 Recommendations, the licensee must conduct its own customer due diligence or not accept or continue the business relationship.



MODULE	FC:	Financial Crime
CHAPTER	FC-2:	AML / CFT Systems and Controls

FC-2.1 General Requirements

FC-2.1.1

Insurance licensees must take reasonable care to establish and maintain appropriate systems and controls for compliance with the requirements of this Module and to limit their vulnerability to financial crime. These systems and controls must be documented, and approved and reviewed annually by the Board of the licensee. The documentation, and the Board's review and approval, must be made available upon request to the CBB.

FC-2.1.2 Where the insurance licensee is an unincorporated entity, the annual review and approval should be undertaken by the most senior person with oversight responsibilities for the licensee, such as its General Manager or managing partner.

FC-2.1.3 The above systems and controls, and associated documented policies and procedures, should cover standards for customer acceptance, on-going monitoring of high-risk accounts, staff training and adequate screening procedures to ensure high standards when hiring employees.



MODULE	FC:	Financial Crime
CHAPTER	FC-2:	AML / CFT Systems and Controls

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring

Risk-Based Monitoring

FC-2.2.1

Insurance licensees must develop risk-based monitoring systems appropriate to the complexity of their business, their number of clients and types of transactions. These systems must be configured to identify significant or abnormal transactions or patterns of activity. Such systems must include limits on the number, types or size of transactions undertaken outside expected norms; and must include limits for cash and non-cash transactions.

FC-2.2.2

Insurance licensees' risk-based monitoring systems should therefore be configured to help identify:

- (a) Transactions which do not appear to have a clear purpose or which make no obvious economic sense;
- (b) Significant or large transactions not consistent with the normal or expected behaviour of a customer; and
- (c) Unusual patterns of activity (relative to other customers of the same profile or of similar types of transactions, for instance because of differences in terms of volumes, transaction type, or flows to or from certain countries), or activity outside the expected or regular pattern of a customer's account activity.

Automated Transaction Monitoring

FC-2.2.3

Insurance licensees must consider the need to include automated transaction monitoring as part of their risk-based monitoring systems. In the absence of automated transaction monitoring systems, all transactions above BD 6,000 must be viewed as 'significant' and be captured in a daily transactions report for monitoring by the MLRO or a relevant delegated official, and records retained by the insurance licensee for five years after the date of the transaction.

FC-2.2.4

The CBB would expect larger insurance licensees to include automated transaction monitoring as part of their risk-based monitoring systems. See also Chapters FC-3 and FC-6, regarding the responsibilities of the MLRO and record-keeping requirements.



MODULE	FC:	Financial Crime
CHAPTER	FC-2:	AML / CFT Systems and Controls

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring (continued)

Unusual Transactions or Customer Behaviour

FC-2.2.5

In instances where an insurance licensee's risk-based monitoring systems identify significant or abnormal transactions (as defined in FC-2.2.2 and FC-2.2.3), it must verify the source of funds for those transactions, particularly where the transactions are above the occasional transactions threshold of BD 6,000. Furthermore, insurance licensees must examine the background and purpose to those transactions and document their findings.

FC-2.2.6

The investigations required under FC-2.2.5 must be carried out by the MLRO (or relevant delegated official). The documents relating to these findings must be maintained for five years from the date when the transaction was completed (see also FC-6.1.1 (b)).

FC-2.2.7

Insurance licensees must consider instances where there is a significant, unexpected or unexplained change in the behaviour of policyholders' account (e.g., early surrenders). Insurance licensees must be extra vigilant to the particular risks involved in the buying and selling of second hand endowment policies, as well as the use of single premium unit-linked policies. Insurance licensees must check any reinsurance or retrocession to ensure that monies are paid to bona fide reinsurance entities at rates commensurate with the risks underwritten.

FC-2.2.8

When an existing customer cancels a policy and applies for another, the insurance licensee must review its customer identity information and update its records accordingly. Where the information available falls short of the requirements contained in Chapter FC-1, the missing or out of date information must be obtained and re-verified with the customer.

FC-2.2.9

Once identification procedures have been satisfactorily completed and, as long as records concerning the customer are maintained in line with Chapters FC-1 and FC-6, no further evidence of identity is needed when transactions are subsequently undertaken within the expected level and type of activity for that customer, provided reasonably regular contact has been maintained between the parties and no doubts have arisen as to the customer's identity.



MODULE	FC:	Financial Crime
CHAPTER	FC-2:	AML / CFT Systems and Controls

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring (continued)

Maintaining up-to-date Documentation

FC-2.2.10

Insurance licensees must take reasonable steps to ensure that they receive and maintain up-to-date copies of the identification documents specified in Chapter FC-1. Insurance licensees must require all customers to provide up-to-date identification documents in their standard terms and conditions of business.

FC-2.2.11

Insurance licensees must review and update their customer due diligence information at least every three years. If, upon performing such a review, copies of identification documents are more than 12 months out of date, the insurance licensee must take steps to obtain updated copies as soon as possible.



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.1 Appointment of MLRO

FC-3.1.1 Insurance firms (except captive insurance firms managed by an insurance manager), insurance brokers and insurance managers (that manage a captive insurance firm) must appoint a Money Laundering Reporting Officer ('MLRO'). In the case of insurance managers that manage captive insurance firms, the insurance manager must appoint a MLRO for each of the captive insurance firms under its management.

FC-3.1.2 Insurance managers may nominate the same individual to act as MLRO for more than one captive insurance firm, providing this person can meet in full the responsibilities of MLRO for each captive insurance firm in question.

FC-3.1.3 The position of MLRO is a controlled function and the MLRO is an approved person.

FC-3.1.4 For details of the CBB's requirements regarding controlled functions and approved persons, see Section AU-1.2. Amongst other things, approved persons require CBB approval before being appointed, which is granted only if they are assessed as 'fit and proper' for the function in question. A completed Form 3 must accompany any request for CBB approval.

FC-3.1.5 The position of MLRO must not be combined with functions that create potential conflicts of interest, such as an internal auditor or business line head. The position of MLRO may not be outsourced.

FC-3.1.6 Subject to Paragraph FC-3.1.5, however, the position of MLRO may otherwise be combined with other functions in the insurance licensee, such as that of Compliance Officer, in cases where the volume and geographical spread of the business is limited and, therefore, the demands of the function are not likely to require a full time resource. Paragraph FC-3.1.9 requires that the MLRO is a Director or employee of the licensee, so the function may not be outsourced to a third party employee.

FC-3.1.7 Insurance licensees must appoint at least one deputy MLRO (or more depending on the scale and complexity of the licensee's operations). The deputy MLRO(s) must be resident in Bahrain unless otherwise agreed with the CBB.

FC-3.1.7.A The deputy MLRO should be able to support the MLRO discharge his responsibilities and to deputise for him in his absence. In the case of insurance licensees undertaking significant overseas business, the CBB would normally expect to see one or more deputy MLRO(s) residing in the jurisdiction(s) where the bulk of the customer business is processed. In such cases, the CBB would normally agree to an application for an exemption from the residency requirement in Rule FC-3.1.7.



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.1 Appointment of MLRO (continued)

FC-3.1.8 Insurance licensees should note that although the MLRO may delegate some of his functions, either to other employees of the licensee or even (in the case of larger groups) to individuals performing similar functions for other group entities, that the responsibility for compliance with the requirements of this Module remains with the licensee and the designated MLRO.

FC-3.1.9 So that he can carry out his controlled function effectively, insurance licensees must ensure that their MLRO:

- (a) Is a **member of senior management** of the licensee;
- (b) Has a sufficient level of seniority within the insurance licensee, has the authority to act without interference from business line management and has direct access to the Board and senior management (where necessary);
- (c) Has sufficient resources, including sufficient time and (if necessary) support staff, and has designated a replacement to carry out the function should the MLRO be unable to perform his duties;
- (d) Has unrestricted access to all transactional information relating to any financial services provided by the insurance licensee to **a customer**, or any transactions conducted by the insurance licensee on behalf of **that customer**;
- (e) Is provided with timely information needed to identify, analyse and effectively monitor customer accounts;
- (f) Has access to all customer due diligence information obtained by the insurance licensee; and
- (g) Is resident in Bahrain.

FC-3.1.10 In addition, insurance licensees must ensure that their MLRO is able to:

- (a) Monitor the day-to-day operation of their policies and procedures relevant to this Module; and
- (b) Respond promptly to any reasonable request for information made by the Financial Intelligence Unit or the CBB.

FC-3.1.11 If the position of MLRO falls vacant, the insurance licensee must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the licensee must make immediate interim arrangements (including the appointment of an acting MLRO) to ensure continuity in the MLRO function's performance. These interim arrangements must be approved by the CBB.



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.2 Responsibilities of the MLRO

FC-3.2.1

The MLRO is responsible for:

- (a) Establishing and maintaining the insurance licensee's AML/CFT policies and procedures;
- (b) Ensuring that the licensee complies with the AML Law and any other applicable AML/CFT legislation and this Module;
- (c) Ensuring day-to-day compliance with the licensee's own internal AML/CFT policies and procedures;
- (d) Acting as the insurance licensee's main point of contact in respect of handling internal suspicious transactions reports from the licensee's staff (refer to Section FC-4.1) and as the main contact for the Financial Intelligence Unit, the CBB and other concerned bodies regarding AML/CFT;
- (e) Making external suspicious transactions reports to the Financial Intelligence Unit and Compliance Directorate (refer to Section FC-4.2);
- (f) Taking reasonable steps to establish and maintain adequate arrangements for staff awareness and training on AML/CFT matters (whether internal or external), as per Chapter FC-5;
- (g) Producing annual reports on the effectiveness of the licensee's AML/CFT controls, for consideration by senior management, as per Paragraph FC-3.3.3;
- (h) On-going monitoring of what may, in his opinion, constitute high-risk customer accounts; and
- (i) Maintaining all necessary CDD, transactions, STR and staff training records for the required periods (refer to Section FC-6.1).



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.3 Compliance Monitoring

Annual Compliance Review

FC-3.3.1

An insurance licensee must review the effectiveness of its AML/CFT procedures, systems and controls at least once each calendar year. The review must cover the licensee and its branches and subsidiaries both inside and outside the Kingdom of Bahrain. The scope of the review must include:

- (a) A report, containing the number of internal reports made in accordance with Section FC-4.1, a breakdown of all the results of those internal reports and their outcomes for each segment of the licensee's business, and an analysis of whether controls or training need to be enhanced;
- (b) A report, indicating the number of external reports made in accordance with Section FC-4.2 and, where an insurance licensee has made an internal report but not made an external report, noting why no external report was made;
- (c) A sample test of compliance with this Module's customer due diligence requirements; and
- (d) A report as to the quality of the licensee's anti-money laundering procedures, systems and controls, and compliance with the AML Law and this Module.

FC-3.3.2

The reports listed under Paragraph FC-3.3.1 (a) and (b) must be made by the MLRO. The sample testing required under Paragraph FC-3.3.1 (c) must be undertaken either by the licensee's internal auditor, its external auditor or a consultancy firm approved by the CBB. The report required under Paragraph FC-3.3.1 (d) must be made by the licensee's external auditor or a consultancy firm approved by the CBB.

FC-3.3.2A

In order for a consultancy firm to be approved by the CBB for the purposes of Paragraph FC-3.3.2, such firm should provide the CBB's Compliance Directorate with:

- (a) A sample AML/CFT report prepared for a financial institution;
- (b) A list of other AML/CFT related work undertaken by the firm;
- (c) A list of other audit/review assignments undertaken, specifying the nature of the work done, date and name of the licensee; and
- (d) An outline of any assignment conducted for or in cooperation with an international audit firm.



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.3 Compliance Monitoring (continued)

FC-3.3.2B The firm should indicate which personnel (by name) will work on the report (including, where appropriate, which individual will be the team leader) and demonstrate that all such persons have appropriate qualifications in one of the following areas:

- (a) Audit;
- (b) Accounting;
- (c) Law; or
- (d) Banking/Finance.

FC-3.3.2C At least two persons working on the report (one of whom would normally be expected to be the team leader) should have:

- (a) A minimum of 5 years professional experience dealing with AML/CFT issues; and
- (b) Formal AML/CFT training.

FC-3.3.2D Submission of a curriculum vitae for all personnel to be engaged on the report is encouraged for the purposes of evidencing the above requirements.

FC-3.3.2E Upon receipt of the above required information, the CBB Compliance Directorate will assess the firm and communicate to it whether it meets the criteria required to be approved by the CBB for this purpose. The CBB may also request any other information it considers necessary in order to conduct the assessment.

FC-3.3.3 The items listed under Paragraph FC-3.3.1 must be submitted to the licensee's Board, for it to review and commission any required remedial measures, and copied to the licensee's senior management.

FC-3.3.4 The purpose of the annual compliance review is to assist a licensee's Board and senior management to assess, amongst other things, whether internal and external reports are being made (as required under Chapter FC-4), and whether the overall number of such reports (which may otherwise appear satisfactory) does not conceal inadequate reporting in a particular segment of the licensee's business (or, where relevant, in particular branches or subsidiaries). Licensees should use their judgement as to how the reports listed under Paragraph FC-3.3.1 (a) and (b) should be broken down in order to achieve this aim (e.g. by branches, departments and product lines).



MODULE	FC:	Financial Crime
CHAPTER	FC-3:	Money Laundering Reporting Officer

FC-3.3 Compliance Monitoring (continued)

FC-3.3.5

Insurance licensees must instruct their external auditor to produce the report referred to in Paragraph FC-3.3.1 (d). Except as noted under Paragraph FC-3.3.5A, the report must be submitted to the CBB by the 30th of April of the following year. The findings of this review must be received and acted upon by the licensee.

FC-3.3.5A For the year ending 31st December 2006, the report required as per Paragraph FC-3.3.1 (d), must be submitted no later than 30th of June 2007. (Refer to ES-2.6B.1).

FC-3.3.6 The external auditor may rely upon work performed by the licensee's internal audit function, as part of their procedures for producing the statement referred to in Paragraph FC-3.3.5.

FC-3.3.7

The four reports referred to in Paragraph FC-3.3.1 must be submitted to the Director, Compliance Directorate of the CBB by the 30th of April of the following year.



MODULE	FC:	Financial Crime
CHAPTER	FC-4:	Suspicious Transaction Reporting

FC-4.1 Internal Reporting

FC-4.1.1

Insurance licensees must implement procedures to ensure that staff who handle customer business (or are managerially responsible for such staff) make a report promptly to the MLRO if they know or suspect that a customer (or a person on whose behalf a customer may be acting) is engaged in money laundering or terrorism financing, or if the transaction or customer's conduct otherwise appears unusual or suspicious. These procedures must include arrangements for disciplining any member of staff who fails, without reasonable excuse, to make such a report.

FC-4.1.2

Suspicious transaction or conduct may include a claim made in suspicious circumstances, a policy surrendered soon after inception or in circumstances that would otherwise appear contrary to the interests of a reasonable policyholder. If a prospective policyholder does not pursue an application, this may be considered suspicious in itself. Item FC (iv) in Part B of Volume 3 (Insurance) provides further examples of transactions that may be suspicious or unusual.

FC-4.1.3

Where insurance licensees' internal processes provide for staff to consult with their line managers before sending a report to the MLRO, such processes must not be used to prevent reports reaching the MLRO, where staff have stated that they have knowledge or suspicion that a transaction may involve money laundering or terrorist financing.



MODULE	FC:	Financial Crime
CHAPTER	FC-4:	Suspicious Transaction Reporting

FC-4.2 External Reporting

FC-4.2.1

Insurance licensees must take reasonable steps to ensure that all reports made under Section FC-4.1 are considered by the MLRO (or his duly authorised delegate). Having considered the report and any other relevant information, if the MLRO (or his duly authorised delegate) still suspects that a person has been engaged in money laundering or terrorism financing, or the activity concerned is otherwise still regarded as suspicious, he must report the fact promptly to the relevant authorities. Where no report is made, the MLRO must document the reasons why.

FC-4.2.2

To take reasonable steps, as required under Paragraph FC-4.2.1, insurance licensees must:

- (a) Require the MLRO to consider reports made under Section FC-4.1 in the light of all relevant information accessible to or reasonably obtainable by the MLRO;
- (b) Permit the MLRO to have access to any information, including know your customer information, in the insurance licensee's possession which could be relevant; and
- (c) Ensure that where the MLRO, or his duly authorised delegate, suspects that a person has been engaged in money laundering or terrorist financing, a report is made by the MLRO which is not subject to the consent or approval of any other person.

FC-4.2.3

Reports to the relevant authorities made under Paragraph FC-4.2.1 must be sent to the Financial Intelligence Unit at the Ministry of the Interior, with a copy sent to the CBB's Compliance Directorate. Reports must be made using the Suspicious Transaction Report (STR) form and related instructions, included in Part B of Volume 3 (Insurance).

FC-4.2.4

Insurance licensees must report all suspicious transactions or attempted transactions. This reporting requirement applies regardless of whether the transaction involves tax matters.



MODULE	FC:	Financial Crime
CHAPTER	FC-4:	Suspicious Transaction Reporting

FC-4.2 External Reporting (continued)

FC-4.2.5 Insurance licensees must retain all relevant details of STRs submitted to the relevant authorities, for at least five years.

FC-4.2.6 In accordance with the AML Law, insurance licensees, their Directors, officers and employees must not warn or inform ('tipping off') the policyholder, beneficiary or other subjects of the STR when information relating to them is being reported to the relevant authorities.



MODULE	FC:	Financial Crime
CHAPTER	FC-4:	Suspicious Transaction Reporting

FC-4.3 Contacting the Relevant Authorities

FC-4.3.1

Reports made by the MLRO or his duly authorised delegate under Section FC-4.2 must be sent to the Financial Intelligence Unit at the Ministry of the Interior and copied to the Compliance Directorate at the Central Bank of Bahrain at the following addresses:

Financial Intelligence Unit
General Directorate of Criminal Investigation
Ministry of Interior
P.O. Box 26698
Manama, Kingdom of Bahrain
Telephone: 17 718888
Fax: 17 715818
E-mail: bahrainfiu@moipolice.bh

Director of the Compliance Directorate
Central Bank of Bahrain
P.O. Box 27
Manama, Kingdom of Bahrain
Telephone: 17 547107
Fax: 17 535673
E-mail: Compliance@cbb.gov.bh



MODULE	FC:	Financial Crime
CHAPTER	FC-5:	Staff Training and Recruitment

FC-5.1 General Requirements

FC-5.1.1

An insurance licensee must take reasonable steps to provide periodic training and information to ensure that staff who handle customer transactions, or are managerially responsible for such transactions, are made aware of:

- (a) Their responsibilities under the AML Law, this Module, and any other relevant AML/CFT laws and Regulations;
- (b) The identity and responsibilities of the MLRO and his deputy;
- (c) The potential consequences, both individual and corporate, of any breach of the AML Law, this Module and any other relevant AML/ CFT laws or Regulations;
- (d) The insurance licensee's current AML/CFT policies and procedures;
- (e) Money laundering and terrorist financing typologies and trends;
- (f) The type of customer activity or transaction that may justify an internal STR;
- (g) The insurance licensee's procedures for making internal STRs; and
- (h) Customer due diligence measures with respect to establishing business relations with customers.

FC-5.1.2

The information referred to in Paragraph FC-5.1.1 must be brought to the attention of relevant new employees of insurance licensees, and must remain available for reference by staff during their period of employment and by the CBB.

FC-5.1.3

Relevant new employees must be given AML/CFT training within three months of joining an insurance licensee.

FC-5.1.4

Insurance licensees must ensure that their AML/CFT training for relevant staff remains up-to-date, and is appropriate given the licensee's activities and customer base.

FC-5.1.5

The CBB would normally expect AML/CFT training to be provided to relevant staff at least once a year.

FC-5.1.6

Insurance licensees must develop adequate screening procedures to ensure high standards when hiring employees. These procedures must include controls to prevent criminals or their associates from being employed by licensees.



MODULE	FC:	Financial Crime
CHAPTER	FC-6:	Record-keeping Arrangements

FC-6.1 General Requirements

Policyholder/Transaction Records

FC-6.1.1

Insurance licensees must comply with the record-keeping requirements contained in the AML Law and the CBB Law. Insurance licensees must therefore retain adequate records (including accounting and identification records), for the following minimum periods:

- (a) For customers, in relation to evidence of identity and business relationship records (such as application forms and business correspondence), for at least five years after the customer relationship has ceased; and
- (b) For transactions, in relation to documents enabling a reconstitution of the transaction concerned, for at least ten years after the transaction was completed.

Compliance Records

FC-6.1.2

Insurance licensees must retain copies of the reports produced for their annual compliance review, as specified in Paragraph FC-3.3.1, for at least five years. Licensees must also maintain for five years reports made to, or by, the MLRO made in accordance with Sections FC-4.1 and 4.2, and records showing how these reports were dealt with and what action, if any, was taken as a consequence of those reports.

Training Records

FC-6.1.3

Insurance licensees must maintain for at least five years, records showing the dates when AML/CFT training was given, the nature of the training, and the names of the staff that received the training.

Access

FC-6.1.4

All records required to be kept under this Section must be made available for prompt and swift access by the relevant authorities or other authorised persons.

FC-6.1.5

Insurance licensees are also reminded of the requirements contained in Chapter GR-1 (Books and Records).



MODULE	FC:	Financial Crime
CHAPTER	FC-7:	NCCT Measures and Terrorist Financing

FC-7.1 Special Measures for Non-Cooperative Countries or Territories ('NCCTs')

FC-7.1.1

Insurance licensees must give special attention to any dealings they may have with entities or persons domiciled in countries or territories which are:

- (a) Identified by the FATF as being 'non-cooperative'; or
- (b) Notified to insurance licensees from time to time by the CBB.

FC-7.1.2

Whenever transactions with such parties have no apparent economic or visible lawful purpose, their background and purpose must be re-examined and the findings documented. If suspicions remain about the transaction, these must be reported to the relevant authorities in accordance with Section FC-4.2.



MODULE	FC:	Financial Crime
CHAPTER	FC-7:	NCCT Measures and Terrorist Financing

FC-7.2 Terrorist Financing

FC-7.2.1

Insurance licensees must comply in full with the provisions of the UN Security Council Anti-terrorism Resolution No. 1373 of 2001 ('UNSCR 1373').

FC-7.2.2

Any insurance licensee that wishes, intends or has been requested to do anything that might contravene, in its reasonable opinion, the provisions of UNSCR 1373 (and in particular Article 1, Paragraphs (c) and (d) of UNSCR 1373) must seek, in writing, the prior written opinion of the CBB on the matter.

FC-7.2.3

A copy of UNSCR 1373 is included in Part B of Volume 3 (Insurance), under 'Supplementary Information'.

FC-7.2.4

Insurance licensees must report to the CBB details of:

- (a) Funds or other financial assets or economic resources held with them which may be the subject of Article 1, Paragraphs (c) and (d) of UNSCR 1373; and
- (b) All claims, whether actual or contingent, which the insurance licensee has on persons and entities which may be the subject of Article 1, Paragraphs (c) and (d) of UNSCR 1373.

FC-7.2.5

For the purposes of Paragraph FC-7.2.4, 'funds or other financial resources' includes (but is not limited to) shares in any undertaking owned or controlled by the persons and entities referred to in Article 1, Paragraph (c) and (d) of UNSCR 1373, and any associated dividends received by the licensee.

FC-7.2.6

All reports or notifications under this Section must be made to the CBB's Compliance Directorate.

FC-7.2.7

See Section FC-4.3 for the Compliance Directorate's contact details.



MODULE	FC:	Financial Crime
CHAPTER	FC-7:	NCCT Measures and Terrorist Financing

FC-7.3 Designated Persons and Entities

FC-7.3.1

Without prejudice to the general duty of all insurance licensees to exercise the utmost care when dealing with persons or entities who might come under Article 1, Paragraphs (c) and (d) of UNSCR 1373, insurance licensees must not deal with any persons or entities designated by the CBB as potentially linked to terrorist activity.

FC 7.3.2

The CBB from time to time issues to licensees lists of designated persons and entities believed linked to terrorism. Licensees are required to verify that they have no dealings with these designated persons and entities, and report back their findings to the CBB. Names designated by the CBB include persons and entities designated by the United Nations, under UN Security Council Resolution 1267 (“UNSCR 1267”).

FC-7.3.3

Insurance licensees must report to the relevant authorities, using the procedures contained in Section FC-4.2, details of any accounts or other dealings with designated persons and entities, and comply with any subsequent directions issued by the relevant authorities.



MODULE	FC:	Financial Crime
CHAPTER	FC-8:	Enforcement Measures

FC-8.1 Regulatory Penalties

FC-8.1.1

The requirements in this Module are legally binding. Without prejudice to any other penalty imposed by the CBB Law, the Decree Law No. 4 or the Penal Code of the Kingdom of Bahrain, failure by a licensee to comply with this Module or any direction given hereunder shall result in the levying by the CBB, without need of a court order and at the CBB's discretion, of a fine of up to BD 20,000.

FC-8.1.2 Module EN provides further information on the assessment of financial penalties and the criteria taken into account prior to imposing such fines (reference to Paragraph EN-5.2.3). Other enforcement measures may also be applied by the CBB in response to a failure by a licensee to comply with this Module; these other measures are also set out in Module EN.

FC-8.1.3 The CBB will endeavour to assist insurance licensees to interpret and apply the requirements of this Module. Insurance licensees may seek clarification on any issue by contacting the Compliance Directorate (see Section FC-4.3 for contact details).

FC-8.1.4 Without prejudice to the CBB's general powers under the law, the CBB may amend, clarify or issue further directions on any provision of this Module from time to time, by notice to its licensees.



MODULE	FC:	Financial Crime
CHAPTER	FC-9:	AML / CFT Guidance and Best Practice

FC-9.1 Guidance Provided by International Bodies

FATF: 40 Recommendations and 9 Special Recommendations

FC-9.1.1 The Forty Recommendations (see www.fatf-gafi.org) and Nine Special Recommendations (together with their associated interpretative notes and best practices papers) issued by the Financial Action Task Force (FATF), provide the basic framework for combating money laundering activities and the financing of terrorism. FATF Recommendations 4-6, 8-11, 13-15, 17, 21-23, 25, 29-32 and 40 as well as Special Recommendations IV, V, VII and the AML/CFT Methodology are specifically relevant to the insurance sector.

FC-9.1.2 The relevant authorities in Bahrain believe that the principles established by these Recommendations and Special Recommendations should be followed by licensees in all material respects, as representing best practice and prudence in this area.

IAIS: Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism

FC-9.1.3 In January 2002, the International Association of Insurance Supervisors (IAIS) issued *Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities*. This document was updated in October 2004 and was reissued as *Guidance Paper No. 5: Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism* (see www.iaisweb.org/publication). The Guidance Paper includes a set of measures and procedures, including elements of customer due diligence (CDD), reporting of suspicious transactions and measures affecting the organisation and staff of insurance licensees.

FC-9.1.4 The CBB supports the above papers and the desirability of all insurance licensees adhering to their requirements and guidance.

Other Website References Relevant to AML/CFT

FC-9.1.5 The following lists a selection of other websites relevant to AML/CFT:

- (a) The Middle East North Africa Financial Action Task Force: www.menafatf.org ;
- (b) The Egmont Group: www.egmontgroup.org ;
- (c) The United Nations: www.un.org/terrorism ;
- (d) The UN Counter-Terrorism Committee: www.un.org/Docs/sc/committees/1373/ ;
- (e) The UN list of designated individuals: www.un.org/Docs/sc/committees/1267/1267ListEng.htm ;
- (f) The Wolfsberg Group: www.wolfsberg-principles.com ; and
- (g) The Association of Certified Anti-Money Laundering Specialists: www.acams.org .



MODULE	FC:	Financial Crime
CHAPTER	FC-10:	Fraud

FC-10.1 General Requirements

FC-10.1.1 Insurance licensees must ensure that they allocate appropriate resources and have in place systems and controls to deter, detect, and record instances of fraud or attempted fraud.

FC-10.1.2 Fraud may arise from internal sources originating from changes or weaknesses to processes, products and internal systems and controls. Fraud can also arise from external sources, such as claims fraud.

FC-10.1.3 Any actual or attempted fraud incident (however small) must be reported to the appropriate authorities (including the CBB) and followed up. Monitoring systems must be designed to measure fraud patterns that might reveal a series of related fraud incidents.

FC-10.1.4 Insurance licensees must ensure that a person is given overall responsibility for the prevention, detection and remedy of fraud, at a senior level of the organisation.

FC-10.1.5 Insurance licensees must ensure the effective segregation of functions and responsibilities, between different individuals and departments, such that the possibility of financial crime is reduced and that no single individual is able to initiate, process and control a transaction.

FC-10.1.6 Insurance licensees must provide regular training to their management and staff, to make them aware of potential fraud risks.

Advance Fee Fraud

FC-10.1.7 In a number of jurisdictions, there have been a number of recent incidents whereby insurance entities have either been the victims of, or have inadvertently provided assistance to, advance fee frauds. Advance fee fraud consists of setting up a fraudulent and almost certainly non-existent financial or banking transaction, the aim of which is to defraud an innocent third party of an up front payment or deposit which is intended by the third party to be consideration for their involvement in that financial transaction, the receipt of a low interest or interest free loan or the receipt of some other financial benefit. The types of transactions used as the façade for the frauds vary in detail, some of the most common are investment in financial instruments, self liquidating loans and loans or other financial benefits. Although these transactions are generally based around banking or securities transactions, it is occasionally the case that the transaction will purport to be guaranteed by insurers.



MODULE	FC:	Financial Crime
CHAPTER	FC-10:	Fraud

FC-10.1 General (continued)

FC-10.1.8 The most common type of advance fee fraud is for a fraudster to approach a company or sovereign state which has a poor credit rating or which is in some financial difficulty and offer to obtain funding at beneficial rates. Likewise, a potential investor may be approached and offered the opportunity to invest in a transaction with a very high rate of return. In each instance, the borrower or investor will be asked to provide some funds up front to cover the costs of setting up the transaction or by way of a deposit or down payment on fees. Once the fee has been paid, the fraudster will disappear and the transaction will, on further investigation, prove to be fictitious.

FC-10.1.9 Insurance licensees are encouraged to promote the exchange of information amongst themselves with respect to fraud and those committing fraud including, as appropriate, through the use of databases. Licensees should also consider the need to exchange information with the police and other external bodies.

FC-10.1.10 Insurance claims fraud is an offence punishable under the provision of Section 391 of the Penal Code, Decree Act No. (15), of 1976 of the Kingdom of Bahrain.

Guidance Provided by the IAIS

FC-10.1.11 In October 2006, the International Association of Insurance Supervisors (IAIS) issued *Guidance Paper on Preventing, Detecting and Remediating Fraud in Insurance* (see www.iaisweb.org/publication). The Guidance Paper has been developed to help the insurance sector prevent and detect cases of fraud. Insurance licensees should assess their own vulnerability and implement effective and efficient policies, procedures and controls to address the risk of fraud.