

HIGH-LEVEL CONTROLS MODULE

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MODULE	HC: High-level Controls
CHAPTER	HC-A: Introduction

HC-A.1 Purpose

Executive Summary

- HC-A.1.1 This Module presents requirements that have to be met by insurance licensees with respect to:
- The role and composition of their Boards and Board committees; and
 - Related high-level controls and policies.
- HC-A.1.2 This Module supplements various provisions relating to corporate governance contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law (Commercial Companies Law 2001). In case of conflict, the Commercial Companies Law shall prevail. Compliance with this Module does not guarantee compliance with the Commercial Companies Law.

Legal Basis

- HC-A.1.3 This Module contains the CBB's Directive relating to high-level controls 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).
- HC-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

MODULE	HC: High-level Controls
CHAPTER	HC-A: Introduction

HC-A.2 Module History

HC-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 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.

HC-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 the actual requirements.

HC-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
HC-1.1	01/07/05	Clarification of Board approval required.
HC-2.2	01/10/05	Corrected numbering of Paragraph
HC-4.1	01/10/05	Reordered Paragraphs for better flow of rules.
HC-A.1.3	01/2007	New Rule introduced, categorizing this Module as a Directive.
HC-B.1.2	01/2007	Clarified that overseas insurance licensees must also comply with the provisions of Paragraph HC-3.4.3 (compliance officer).
HC-1.2.3 and 1.2.6	01/2007	Clarified rules for Board composition for Bahraini insurance licensees, other than insurance firms.

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

MODULE	HC:	High-level Controls
CHAPTER	HC-B:	Scope of Application

HC-B.1 Insurance Licensees

HC-B.1.1 The contents of this Module – unless otherwise stated – apply to all Bahraini insurance licensees, except those operating as a Bahraini single person company or unincorporated entity.

HC-B.1.2 Overseas insurance licensees must satisfy the **CBB** that equivalent arrangements are in place at the parent entity level, and that these arrangements provide for effective high-level controls over activities conducted under the Bahrain license. Overseas insurance licensees must also comply with the specific requirement contained in Paragraphs HC-3.1.3 and HC-3.4.3.

HC-B.1.3 In assessing compliance with Paragraph HC-B.1.2, the **CBB** will take into account regulatory requirements applicable to the parent entity, as well as the governance and systems and controls arrangements actually implemented by the parent entity and applied to the Bahrain operation. With the exception of specific requirements that explicitly apply to overseas insurance licensees (i.e. Paragraphs HC-B.1.2 and HC-3.1.3), overseas insurance licensees should consider the remaining contents of this Chapter as guidance, in judging whether high-level controls applied to the branch satisfy HC-B.1.2.

MODULE	HC: High-level Controls
CHAPTER	HC-B: Scope of Application

HC-B.2 Branches, Subsidiaries and Affiliates

HC-B.2.1 Bahraini insurance licensees must ensure that, as a minimum, the same or equivalent provisions of this Module apply to their branches, whether located inside or outside the Kingdom of Bahrain, such that these are also subject to effective high-level controls. In instances where local jurisdictional requirements are more stringent than those applicable in this Module, the local requirements are to be applied.

HC-B.2.2 Bahraini insurance licensees must satisfy the **CBB** that financial services activities conducted in subsidiaries and other group members are subject to the same or equivalent arrangements for ensuring effective high-level controls over their activities.

HC-B.2.3 Where an insurance licensee is unable to satisfy the **CBB** that its subsidiaries and other group members are subject to the same or equivalent arrangements, the **CBB** will assess the potential impact of risks – both financial and reputational – to the licensee arising from inadequate high-level controls in the rest of the group of which it is a member. In such instances, the **CBB** may impose restrictions on dealings between the licensee and other group members. Where weaknesses in controls are assessed by the **CBB** to pose a major threat to the stability of the licensee, then its authorisation may be called into question.

MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.1 Functions and Responsibilities

General Requirement

HC-1.1.1 With the exception of unincorporated entities and single person companies, all Bahraini insurance licensees must have a Board of Directors ('the Board'). The Board is ultimately accountable and responsible for the management and performance of the licensee.

HC-1.1.2 To discharge its responsibility effectively, a Board typically delegates various functions and tasks, for instance to Board sub-committees, management and other employees. When it delegates, the Board nonetheless retains ultimate responsibility for the performance of those functions and tasks.

HC-1.1.3 Insurance brokers who were licensed prior to the introduction of Volume 3 (Insurance), and who were unincorporated entities or natural persons at that time, may continue as such until 31 December 2006 (refer to ES-2.2.1). Under Volume 3, insurance brokers and insurance consultants may be licensed as a single person company or (in the latter case only) a sole proprietorship: see Section AU-2.1.

Specific Requirements

HC-1.1.4 The Board must establish and maintain a statement of its responsibilities, defining its functions and tasks and those delegated to Board sub-committees and senior management. This statement must be clearly communicated to Board members and senior management.

HC-1.1.5 The Board must approve and review at least annually the licensee's:

- (a) Strategic plans;
- (b) Management structure and responsibilities; and
- (c) Systems and controls framework (including its policies and procedures).

HC-1.1.6 The Board must also regularly review:

- (a) The licensee's implementation of its strategy and operational performance;
- (b) The performance of its executive management; and
- (c) The level of risk.

MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.1 Functions and Responsibilities (continued)

Specific Requirements (continued)

HC-1.1.7 The Board must set out clearly and review on a regular basis who has authority to enter the licensee into contractual obligations. The Board should set a materiality threshold so that contractual obligations above this set threshold are regularly reported to the Board. In setting the materiality threshold, the Board will consider the financial impact the contractual obligations may have in relation to its capital.

HC-1.1.8 The Board must have effective policies and processes in place to address its members' potential conflicts of interest, including matters such as:

- (a) **Related party transactions;**
- (b) **The misuse of assets belonging to the licensee; and**
- (c) **The use of privileged information for personal advantage ("insider trading").**

HC-1.1.9 Board members must declare in writing all of their interests in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Nominations or Audit Committee) on an annual basis. Any Board member should also absent himself from any discussion or decision-making that involves a subject where he is incapable of providing objective advice, or which involves a subject, transaction or proposed transaction where there is a potential conflict of interest.

HC-1.1.10 The Board and its members must act with honesty, integrity, due skill and care, and in the best interests of the licensee, its shareholders and policyholders.

HC-1.1.11 In assessing compliance with Paragraph HC-1.1.10, the **CBB** will take into account all actions of the Board and its members. The interest of the licensee includes the licensee's continued compliance with all relevant rules and regulations, and the interests of employees, customers and other stakeholders. The interest of shareholders includes the current and future value of the licensee, its status as a going concern, transparency and disclosure of information to the market. The interest of policyholders includes ensuring that the licensee fulfils its obligations under its policies and treats all policyholders fairly and pays equal regard to the interests of all policyholders and groups of policyholders.

MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.1 Functions and Responsibilities (continued)

Additional Guidance

HC-1.1.12 In assessing the licensee's strategic plans (Paragraph HC-1.1.5), the **CBB** would expect the Board to address the licensee's current and future aspirations with respect to its position in the market place, its size, products, value and other key aspirations that would be considered important by investors. Furthermore, the Board should demonstrate that it is able to proactively identify and understand the significant risks that the licensee faces in achieving its business objectives. A description of the licensee's strategy should be included in the annual financial statements. See also Module PD (Public Disclosure).

HC-1.1.13 In assessing the management framework (Paragraph HC-1.1.5), the **CBB** would expect the Board to have effective policies and processes in place for:

- (a) Ensuring a formal and transparent Board nomination process;
- (b) Appointing senior managers, and ensuring that they have the necessary integrity, technical and managerial competence, and experience;
- (c) Overseeing succession planning, and minimizing undue reliance on key individuals;
- (d) Reviewing key senior management and Board remuneration packages and ensuring such packages are consistent with the corporate values and strategy of the licensee and encourage prudent risk taking;
- (e) Monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring appropriate resources are available; and
- (f) Approving budgets and reviewing performance against those budgets.

HC-1.1.14 In assessing the systems and controls framework (Paragraph HC-1.1.5), the **CBB** would expect the Board to be able to demonstrate that its operations, individually and collectively:

- (a) Are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the licensee's activities. These should pro-actively identify as well as monitor risk. The systems should produce information on a timely basis, and in a form and quality appropriate to the needs of the different recipients;
- (b) Are supported by an appropriate control environment. The risk management and financial reporting functions must be independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas; and
- (c) Make effective use of the work of internal and external **auditors**. The internal audit function should be independent of the senior management, reporting to the Audit committee. The Audit Committee should ensure that the external auditor firm and its partners are truly independent of the licensee and have no financial or other relationship with the licensee. Audit findings should be used as an independent check on the information received from management about the licensee's operations and performance and the effectiveness of internal controls.



MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.2 Composition

HC-1.2.1 Captive insurance firms are exempt from the requirements of this Section, except for Paragraphs HC-1.2.2 and HC-1.2.13, which apply to all Bahraini insurance licensees (except for unincorporated entities and single person companies).

HC-1.2.2 The Memorandum and Articles of Association of licensees must adequately set out procedures for the appointment, removal and retirement of Directors.

HC-1.2.3 For insurance firms, the Board must comprise at least five Directors. For Bahraini insurance licensees, other than insurance firms, the Board must comprise at least three Directors. For all Bahraini insurance licensees, at least half the Board's members, including the Board's chairman, must be non-executive Directors.

HC-1.2.4 A non-executive Director is a Director who is not involved in the day-to-day management of the licensee and is not an employee of the licensee. The Chairman of the Board cannot, therefore, also perform the role of Chief Executive.

HC-1.2.5 For licensees that do not meet the requirements of Paragraph HC-1.2.4, the CBB may grant, upon application by the licensee, a transition period allowing the licensee to maintain the current structure for a limited period (Refer to ES-2.2.2).

HC-1.2.6 The CBB requires Boards of insurance firms to include at least two independent non-executive members. For Bahraini insurance licensees, other than insurance firms, Boards must include at least one independent non-executive member.

HC-1.2.7 The Board's non-executive Directors must comprise a sufficient number of independent Directors to apply independent judgement to, amongst other things, tasks where there is a potential for conflict of interest or there is a need for impartiality.

HC-1.2.8 In the case of a Bahraini insurance licensee, which is part of an overseas group, where there is sufficient independent scrutiny of the operations of the firm on a group wide basis, the CBB will consider exempting the licensee from the requirements of Paragraph HC-1.2.6.

HC-1.2.9 The Board must outline in its annual report its criteria and materiality thresholds for the definition of 'independence'. The Directors must be identified in the annual report as executive, non-executive, or independent non-executive.

MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.2 Composition (continued)

- HC-1.2.10 In assessing independence, the **CBB** will take into account whether the person concerned is (or has been):
- (a) **A** controller or representative of the controller of the licensee (see Chapter GR-5 for the definition of controller);
 - (b) **A** business partner or first-degree relative of an **employee** or of a Board member of the licensee concerned, or of a member of the group of which the licensee is a member;
 - (c) **A** professional adviser to the licensee or the group of which it is a member; and
 - (d) **Free** of any significant contractual or business relationship with the licensee, or of any of the members of a group of which it is a member.

HC-1.2.11 In assessing the number of independent non-executive Directors, the **CBB** will seek to ensure that independent judgement is applied to matters such as Board remuneration and audit issues.

HC-1.2.12 The appointment of Board members is conditional on the approval of the **CBB**. (See Section AU-1.2).

HC-1.2.13 The Board must ensure that collectively it has sufficient expertise to understand the important issues relating to the operation and control of its company.

HC-1.2.14 It is not expected that every Board member is proficient in all areas, but collectively the Board is expected to have the required expertise. There should also be agreed-upon procedures by the Board for Directors to take independent advice if necessary at the licensee's expense. **The CBB** also expects Board members to undertake relevant training on a regular basis to help them fulfill their responsibilities as Directors.

HC-1.2.15 The Board must periodically assess its composition and size and, where appropriate, reconstitute itself and its committees by selecting new Directors to refresh its membership.

MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

HC-1.3 Meetings and Attendance

HC-1.3.1 The Board must meet sufficiently often to enable it to discharge its responsibilities effectively, taking into account the insurance licensee's scale and complexity.

HC-1.3.2 The **CBB** expects that the scale and complexity of most licensees will require meetings to be held at least quarterly (as required by the Companies Law 2001). For the largest, most complex licensees, more frequent Board meetings may be more appropriate.

HC-1.3.3 Board members must attend at least three-quarters of all Board meetings held during any twelve-month period in person. Board rules must require members to step down if they are not actively participating in Board meetings.

HC-1.3.4 The **CBB** expects Board members who fail to attend at least three-quarters of all Board meetings in any twelve-month period to step down, unless the Board is able to satisfy the **CBB** that there are valid reasons for the Director concerned to remain a Board member.

HC-1.3.5 At least half the Board meetings of Bahraini insurance licensees in any twelve-month period must be held in the Kingdom of Bahrain.

HC-1.3.6 The Board must be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The Board must also maintain adequate records of its meetings, such that key decisions and how they are arrived at can be traced.



MODULE	HC:	High-level Controls
CHAPTER	HC-2:	Committees

HC-2.1 Board Committees

HC-2.1.1

Bahraini insurance licensees must establish Board Committees appropriate to the scale and complexity of their operations.

HC-2.1.2

Board Committees can enhance the effectiveness of Boards, both in their management of a licensee's risks, and in addressing potential conflicts of interest. In particular, three key areas where there is a need for checks and balances within the Board include: (a) the nomination of Directors; (b) the remuneration of Directors; and (c) the audit of the licensee's financial performance. These areas are typically addressed by, respectively, the Nominations Committee, the Remuneration Committee and the Audit Committee. Where a licensee's Board does not consider it necessary to create Board Committees, it must be prepared to give reasons for its decision to the CBB.

HC-2.1.3

The CBB expects licensees, as a minimum, to establish an Audit Committee. The CBB would expect larger licensees to establish other committees as well. Where a licensee's Board does not consider it necessary to create Board committees, it must be prepared to give reasons for its decision to the CBB.

HC-2.1.4

The CBB would expect to see committees dealing with the issues listed in (a) to (c) in Paragraph HC-2.1.2 to be chaired by an independent non-executive Director and for the majority of its members to be independent non-executive Directors.

HC-2.1.5

Where an insurance licensee has been granted an exemption under Paragraph HC-1.2.8, upon application, an exemption may also be granted from Paragraph HC-2.1.1.

HC-2.1.6

Board Committees must have:

- (a) **Written terms of reference, which are reviewed annually;**
- (b) **Adequate records of their meetings, such that key decisions and how they are arrived at can be traced; and**
- (c) **Appropriate membership, which addresses potential conflicts of interest.**

MODULE	HC:	High-level Controls
CHAPTER	HC-2:	Committees

HC-2.2 Executive Management Committee

HC-2.2.1 Bahraini insurance firms (other than captive insurance firms) must consider the need to establish an Executive Management Committee to support the Chief Executive Officer/General Manager.

HC-2.2.2 Insurance intermediaries and insurance managers, unlike other insurance licensees, are not required to consider the need to operate an Executive Management Committee.

HC-2.2.3 Executive Management Committees can facilitate proper corporate governance by ensuring that senior management discuss key issues affecting the licensee openly and collectively. Where an insurance firm does not consider it necessary to create an Executive Management Committee, it must be prepared to give reasons for its decision to the CBB, and to explain what checks and balances will apply to executive management.

HC-2.2.4 The Committee should comprise the Chief Executive Officer/General Manager and appropriate heads of functions, such as the head of risk management, the Chief Finance Officer, the Chief Operations Officer, the head of underwriting and other key business divisions.

HC-2.2.5 The Committee's responsibilities should include the oversight of day-to-day implementation of strategy, limits and procedures. It should also monitor the day-to-day performance of individual business lines and departments relative to targets, limits, and policies (in conjunction with other committees and functions, such as the Risk Committee or the Risk Management or Compliance functions).

HC-2.2.6 The Board is responsible for ensuring that there is a clear framework of delegated authorities and a clear demarcation of duties between the Board, the Executive Committee, the Chief Executive Officer and other members of senior management.

MODULE	HC:	High-level Controls
CHAPTER	HC-2:	Committees

HC-2.3 Shari'a Supervisory Board

HC-2.3.1 An insurance firm licensed to conduct insurance business according to takaful principles must establish a Shari'a Supervisory Board. The firm must also comply with AAOIFI Governance Standard for Islamic Financial Institutions No. 1 (Shari'a Supervisory Board: Appointment, Composition and Report).

HC-2.3.2 The function of the Shari'a Supervisory Board is to review the operations of the takaful company and ensure that these are compliant with the principles of the Shari'a. In doing so, the Shari'a Supervisory Board is likely to provide guidance and advice to the takaful company's Board and management on all aspects of a takaful operation, with a particular focus on product design, the handling of claims and surpluses, the calculation and allocation of the operator's costs, the approval of investments and accounting issues.

HC-2.3.3 In the case of overseas insurance firms operating according to takaful principles, the requirement to appoint a Shari'a Supervisory Board in Paragraph HC-2.3.1 may be waived by CBB, if the firm has appointed an equivalent Shari'a Supervisory Board at the parent entity level, of sufficient expertise and credibility.

HC-2.3.4 An insurance firm licensed to conduct insurance business according to takaful principles must comply with all other AAOIFI governance standards for Islamic Financial Institutions.

HC-2.3.5 For takaful firms, full compliance with AAOIFI Governance Standard No.1 is required. The CBB would actively encourage full compliance with all the AAOIFI governance standards but in so doing accepts that these standards themselves include not only standards but also guidance.

HC-2.3.6 The office of Shari'a Board Member is a controlled function: see Module AU (Authorisation).

HC-2.3.7 The Shari'a Board requirements contained in Section HC-2.3 are additional to the other high-level control requirements contained in this Module.



MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.1 Chief Executive Officer / General Manager

HC-3.1.1

Insurance licensees must appoint a person to undertake the function of Chief Executive Officer, unless they fall into the categories specified in Paragraph HC-3.1.3.

HC-3.1.2

The Chief Executive Officer is responsible for the executive management and performance of the licensee, within the framework of delegated authorities set by the Board. The function of Chief Executive Officer is a controlled function, and the person nominated to that post therefore requires prior CBB approval (see Module AU (Authorisation)).

HC-3.1.3

Unincorporated entities, single person companies and overseas insurance licensees must appoint a person to undertake the function of General Manager.

HC-3.1.4

In the case of unincorporated entities and single person companies, the General Manager is the person directing the affairs of the licensee. In the case of overseas insurance licensees, the General Manager is the most senior manager resident in Bahrain, accountable to the CBB for the operations of the Bahrain branch and its compliance with CBB Regulations and Directives. The function of General Manager is a controlled function, and the person nominated to that post requires prior CBB approval (see Module AU).

HC-3.1.5

Residency requirements apply to Chief Executive Officers and General Managers: see Section AU-2.2.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.2 Mapping of Risks and Responsibilities

HC-3.2.1 The requirements in this Section do not apply to **captive insurance firms** but should be considered as guidance.

HC-3.2.2 In conjunction with the Board, the Chief Executive Officer/General Manager must maintain a clear mapping of the risks faced by the business and document the organisational and other controls maintained to meet those risks.

HC-3.2.3 In conjunction with the Board, the Chief Executive Officer/General Manager must maintain a clear and appropriate apportionment of significant responsibilities amongst **senior management**.

HC-3.2.4 The apportionment must be clear as to who has which responsibility, and must permit the business and affairs of the licensee to be adequately monitored and controlled by the Board, the Chief Executive Officer/General Manager, and relevant heads of function.

HC-3.2.5 The apportionment must also ensure appropriate segregation of duties where these are required for effective controls.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.3 Internal Audit

HC-3.3.1 Bahraini insurance licensees (except for unincorporated entities and single person companies) must establish an internal audit function to monitor the adequacy of their systems and controls.

HC-3.3.2 The **CBB** considers it best practice for captive insurers to fall within the remit of the internal audit functions of their groups and be subject to periodic review, although no formal arrangements for internal audit cover captive insurers.

HC-3.3.3 Part or all of the internal audit function may be outsourced, or provided at group level, subject to the requirements of Section RM-7.6. Amongst other things, these require licensees to retain responsibility for their internal audit programme, and that appropriate safeguards are built into the outsourcing contract. Furthermore, a licensee cannot outsource its internal audit function to its external auditors (with limited exceptions). Prior approval from the **CBB** is required for significant outsourcing arrangements, including all outsourcing of internal audit. A licensee's head of internal audit is a controlled function and requires **CBB** approval prior to being appointed (see Section AU-1.2).

HC-3.3.4 Internal audit functions must have terms of reference that clearly indicate:

- (a) **The scope and frequency of audits;**
- (b) **Reporting lines; and**
- (c) **The review and approval process applied to audits.**

HC-3.3.5 Paragraph HC-3.3.4 applies irrespective of whether the internal audit function is outsourced. Where it is outsourced, the **CBB** would expect to see these matters addressed in the contract with the outsourcing provider.

HC-3.3.6 Internal audit functions must report directly to the Audit committee or, where none exists, to the Board. They must have unrestricted access to all the appropriate records of the insurance licensee. They must have open and regular access to the Audit Committee, the Board, the Chief Executive, and the licensee's external auditors.

HC-3.3.7 Internal audit functions must have adequate staff levels with appropriate skills and knowledge, such that they can act as an effective challenge to the business. Where the function is not outsourced, the head of the function should be a senior and experienced employee. Internal audit functions must not perform other activities that compromise their independence.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.3 Internal Audit (continued)

- HC-3.3.8 The CBB would expect to see in place a formal audit plan that:
- (a) Is reviewed and approved at least annually by the Audit Committee or, where none exists, the Board;
 - (b) Is risk-based, with an appropriate scoring system; and
 - (c) Covers all material areas of a licensee's operations over a reasonable timescale, including (where relevant) the process by which a licensee obtains professional actuarial expertise to develop and verify its pricing and reserving policies.
- HC-3.3.9 Internal Audit reports should also be:
- (a) Clear and prioritised, with action points directed towards identified individuals;
 - (b) Timely; and
 - (c) Distributed to the Audit Committee or Board and appropriate senior management.
- HC-3.3.10 Insurance licensees should also have processes in place to deal with recommendations raised by internal audit to ensure that they are:
- (a) Dealt with in a timely fashion;
 - (b) Monitored until they are settled; and
 - (c) Raised with senior management if they have not been adequately dealt with.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.4 Compliance

HC-3.4.1 Insurance licensees must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements in the Kingdom's legislation and those set by the **CBB**, and those established under any other statute or regulator to which the insurance licensee is subject.

HC-3.4.2 Depending on the nature, scale and complexity of its business, an insurance licensee should consider having a separate compliance function. A compliance function should:

- (a) Document its organisation and responsibilities;
- (b) Be appropriately staffed with competent individuals;
- (c) Have unrestricted access to the licensee's relevant records; and
- (d) Have ultimate recourse to the Board.

HC-3.4.3 All insurance licensees must designate an **employee**, of appropriate standing and resident in Bahrain, as Compliance Officer. The duties of the Compliance Officer include:

- (a) Having responsibility for oversight of the licensee's compliance with the requirements of the **CBB**; and
- (b) Reporting to the licensee's Board in respect of that responsibility.

HC-3.4.4 The Compliance Officer is a controlled function and the requirements relating to approved persons must be met (see Chapter AU-1.2). If the scale and nature of the licensee's operations are limited, then the individual who performs the function of Compliance Officer may also take on other responsibilities, providing this does not create a potential conflict of interest.

HC-3.4.5 In the case of a **captive insurance firm**, where the **captive insurer** is managed by an insurance manager, the insurance manager must designate a Compliance Officer for the managed firms. A self-managed **captive insurer** must also appoint a Compliance Officer, although this role may be combined with other functions.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.5 Remuneration Policies

HC-3.5.1 An insurance licensee's remuneration policies (including incentives, bonuses and other rewards), must not encourage short-term or reckless behaviour.

HC-3.5.2 Levels of remuneration should be sufficient to attract, retain and motivate Directors and employees of the quality required to run the licensee successfully, but a licensee should avoid paying more than is necessary for this purpose. Where remuneration is structured so as to link rewards to corporate and individual performance, criteria should avoid excessive focus on short-term profitability measures.

HC-3.5.3 The review of Directors' remuneration must be a standing item on the insurance licensee's Annual General Meeting agenda, and must be considered by shareholders at every Annual General Meeting. Policies in respect of Directors' remuneration (including pension and severance arrangements) and bonuses must be clearly disclosed in the annual financial statements.

HC-3.5.4 Directors' remuneration must comply with all applicable laws and Regulations, including the provisions contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law, capping Directors' remuneration as a percentage of net profits.

MODULE	HC: High-level Controls
CHAPTER	HC-3: Other High-level Controls

HC-3.6 Corporate Ethics

HC-3.6.1 The requirements in this Section do not apply to **captive insurance firms**, unincorporated entities and single person companies, but should be considered as guidance.

HC-3.6.2 An insurance licensee's Board must establish and disseminate to all employees and appointed representatives of the licensee a corporate code of conduct.

HC-3.6.3 The code of conduct must establish standards by giving examples or expectations of:

- (a) **H**onesty;
- (b) **I**ntegrity;
- (c) **L**eadership;
- (d) **R**eliability; and
- (e) **P**rofessionalism.

HC-3.6.4 The Board must establish and disseminate to employees and appointed representatives policies and processes for the identification, reporting and prevention or management of potential conflicts of interest, including matters such as:

- (a) **Related party transactions**;
- (b) **The** misuse of the licensee's assets; and
- (c) **The** use of privileged information for personal advantage ('insider trading').

HC-3.6.5 Any transaction in which Board members or any member of management have potential conflicts of interest should either be proscribed or require formal documented approval by the Board, with measures taken to manage those conflicts. (See also Paragraph HC-1.1.8)

HC-3.6.6 The Board must ensure that policies and procedures are in place to ensure that necessary **customer** confidentiality is maintained.

MODULE	HC:	High-level Controls
CHAPTER	HC-3:	Other High-level Controls

HC-3.7 Transparency and Disclosure

HC-3.7.1 The requirements in this Section do not apply to **captive insurance firms**, but should be considered as guidance. Unincorporated entities and single person companies are exempt from these requirements.

HC-3.7.2 The Board must oversee the process of disclosure to all stakeholders. The Board must ensure that the licensee's communications are fair, transparent, comprehensive and timely.

HC-3.7.3 Disclosure policies must be reviewed for compliance with the **CBB's** disclosure requirements.

HC-3.7.4 Licensees should refer to Module PD (Public Disclosure) regarding the specific disclosures required.

MODULE	HC:	High-level Controls
CHAPTER	HC-4:	Annual Certification

HC-4.1 Annual Board Review and Certification

HC-4.1.1 The Board must assess and document each year whether the internal corporate governance processes that it has implemented have successfully achieved their objectives, and consequently whether the Board has fulfilled its responsibilities for directing and monitoring the overall conduct of the licensee's affairs.

HC-4.1.2 The requirements in Chapter HC-4 do not apply to **captive insurance firms**, but should be considered as guidance. Unincorporated entities and single person companies are exempt from these requirements.

HC-4.1.3 The results of the review referred to in Paragraph HC-4.1.1 must be summarised in a written certification, to be signed by all Board members, and sent to the **CBB** within 3 months of the financial year-end of the licensee. The Board must report any material deficiencies identified during the review, along with an action plan and timescales for their correction.

HC-4.1.4 The Board certification comprises a prescribed standard statement, to be signed by all Board members, attached to which should be a summary of the steps the Board has taken in carrying out the review; a summary of the results of that review, and a summary action plan (with timescales) for addressing any identified material deficiencies. The prescribed standard statement is included in Part B of Volume 3 (Insurance), under **'CBB Reporting Forms'**; see **'Directors' High-Level Controls Certification'** contained in the Insurance Firm Return (Form IFR) and the Insurance Intermediaries and Managers Return (Form IMR).



MODULE	HC: High-level Controls
CHAPTER	HC-4: Annual Certification

HC-4.2 Scope of the Review

HC-4.2.1

The Board's review should cover the following specific matters:

- (a) That the Board has reassessed the licensee's objectives and plans, and has reviewed the licensee's corporate strategy document;
- (b) That the Board has reassessed the licensee's overall risk profile, and its mapping of risks and the control environment put in place to meet those risks (see Section HC-3.2). The Board must comment whether the control environment remains effective and appropriate;
- (c) That the Board has assessed the licensee's internal controls, to confirm that these are based on established policies and procedures approved by the Board and provide reasonable assurance of the integrity and reliability of its financial records;
- (d) That the Board has assessed whether adherence to established internal limits and controls was continuously monitored;
- (e) That the Board has assessed that all new (or material changes to) significant policies, procedures and products introduced by the licensee since the last Board certification were appropriately reviewed and approved at the time;
- (f) That the Board has assessed that management and staff have complied with the licensee's corporate code of conduct (see HC Section-3.6); and
- (g) That in the period under review, the Board had received and reviewed the external auditor's management letter within six months of the (previous) financial year end, together with the licensee's audit committee and senior management comments on the letter and any proposed actions.

HC-4.2.2

With respect to HC-4.2.1 (g), a Director's certificate received (for example) no later than 31 March 2004, covering the year ending 31 December 2003, would need to certify that the management letter for the year ending 31 December 2002 was received and reviewed by the Board by 30 June 2003.