



TAKAFUL/RETAKAFUL MODULE

MODULE:	TA (Takaful/Retakaful)
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MODULE	TA: Takaful/Retakaful
CHAPTER	TA-A: Introduction

TA-A.1 Purpose

Executive Summary

TA-A.1.1 This Module summarises the key aspects of CBB requirements applicable to takaful and retakaful firms licensed in Bahrain, which are set out in full elsewhere in the different subject Modules of Volume 3 (Insurance). This Module is intended as an introductory guide to these Regulations and Directives, for potential license applicants, takaful and retakaful insurance firms and other interested parties. This Module only contains guidance material; in the event of discrepancy between this Module and the rules themselves, the latter will prevail.

Legal Basis

TA-A.1.2 This Module contains the CBB's Directive relating to Takaful/Retakaful 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).

TA-A.1.3 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

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CHAPTER	TA-A: Introduction

TA-A.2 Module History

TA-A.2.1 This Sector Guide 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 date in which the change was made. Chapter UG-3 provides further details on Rulebook maintenance and version control.

TA-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.

TA-A.2.3 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
TA-1.1	01/07/05	Minor word change.
TA-1.2	01/07/05	Minor word change.
TA-2.2	01/07/05	Minor word change.
TA-2.4	01/07/05	Minor word change.
TA-3.2	01/07/05	Minor word change.
TA-4.1	01/07/05	Corrected references.
TA-4.2	01/07/05	Clarified language of takaful disclosure.
TA-3.4	01/10/05	Updated cross-references to Module FC.
TA-A.1.2	01/2007	Updated to reflect new CBB Law and new Rule A.1.2 introduced categorising the Module as a Directive.

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

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-1: Overview

TA-1.1 The Concept of Takaful

- TA-1.1.1 It is generally accepted by Muslim Jurists that the operation of conventional insurance does not conform to the rules and requirements of Shari'a. Takaful firms (that is, those insurance firms that choose to apply Shari'a to govern their operations and products) provide products and services corresponding to those offered by a conventional insurer to an insured (**policyholder**) but in a legitimate co-operative manner consistent with Islamic principles. Accordingly, takaful contracts are designed so as to be free of any gharar (uncertainty that would render them non-compliant with Shari'a), riba (interest) and other prohibitions.
- TA-1.1.2 The concept of takaful involves the payment of contributions that are wholly or partially donated to form an insurance portfolio. The pooled resources are then used to pay indemnity when the insured risk occurs. The pooling of donations and assisting those in need through indemnity payments does not contradict Shari'a but is in line with the principles of compensation and shared responsibilities among the community.
- TA-1.1.3 Takaful has been undertaken using a number of different operational models or combinations thereof. The two most common bases of operating a takaful fund are as follows:
- a) the **al mudaraba** model; and
 - b) the **al wakala** model.
- TA-1.1.4 The **al mudaraba** model, as the name suggests, is a profit sharing model whereby investors provide capital and contributions (investment funds/premiums) are received from the takaful participants. The contract specifies how the profit (surplus) from the operations is to be shared according to the principle of **al mudaraba**. Generally the sharing arrangements allow the operator to share in both the underwriting results from the operations as well as any favourable investment performance on the invested contributions.
- TA-1.1.5 The **al wakala** model operates somewhat differently. The takaful participants pay contributions to the takaful fund. However these contributions include the payment of fees and charges due to the operator together with a donation to the community (takaful) fund. All risks are borne by the fund and the annual operating surplus belongs exclusively to the participants. The takaful operator does not share directly in either the risk borne by the fund or any **surplus/deficit** of the fund. Instead, the operator receives a set fee for managing the operations on the participants' behalf. It should however be noted that the operator's remuneration may (depending on the terms of the contract) include a performance fee, charged against any surplus, as an incentive to effectively manage the takaful fund. Under the **al wakala** model the operator can only make a profit by ensuring expenses of managing the operations are less than the fees. Those costs and charges that can be charged to the takaful fund must be provided at the lowest possible cost level that the operator can negotiate.

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-1: Overview

TA-1.1 The Concept of Takaful (continued)

- TA-1.1.6 In Bahrain, the current practice is to adopt the **al wakala** model for underwriting activities and the **al mudaraba** for the investment activities of takaful. This approach appears to be that favoured by the Accounting and Auditing Organisation For Islamic Financial Institutions' (AAOIFI). The **CBB** rules have been designed to be in line with AAOIFI standards and have been adapted to correspond to current industry practice.
- TA-1.1.7 Each licensed **takaful firm** is required to have a **Shari'a Supervisory Board**, whose duty is to direct, review and supervise the activities of the company in order to ensure that they are in compliance with Islamic Shari'a rules and principles.
- TA-1.1.8 The **CBB** does not propose to establish rules as to what constitutes a takaful product; this is a matter for each firm's **Shari'a Supervisory Board**. However, the **CBB** has an obligation to ensure that consumers of takaful products are afforded the same level of protection as that afforded to the purchasers of conventional insurance products. In addition, the **CBB** has an obligation to ensure that the operations of **takaful firms** do not represent a threat to the stability of Bahrain's financial services industry or wider economy.

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-1: Overview

TA-1.2 Structure of this Guidance

TA-1.2.1 The table below lists the Modules of the CBB Insurance Rulebook and indicates those that apply to takaful and retakaful firms. The remaining chapters of this guide describe, in more detail, the principal requirements of each module of the Regulations and Directives that apply to takaful and retakaful firms.

HIGH LEVEL STANDARDS

Module AU (Authorisation)	Regulations and Directives dealing with the licensing requirements and conditions for providers of <u>regulated insurance services</u> . All sections applicable to <u>insurance firms</u> are also applicable to <u>takaful</u> and <u>retakaful firms</u> .
Module PB (Principles of Business)	Principles that are applicable to all <u>insurance licensees</u> regulated in Bahrain; these apply in full to <u>takaful</u> and <u>retakaful firms</u> .
Module HC (High-level Controls)	<u>Directives</u> in respect of governance, systems and controls of licensees. All sections apply in full to <u>takaful</u> and <u>retakaful firms</u> . In addition, there are special requirements with respect to <u>Shari'a Supervisory Boards</u> of <u>takaful firms</u> .
Module AA (Auditors and Actuaries)	<u>Directives</u> on the appointment and functions of external <u>auditors</u> and <u>actuaries</u> of <u>insurance licensees</u> . These apply in full to <u>takaful</u> and <u>retakaful firms</u> .
Module GR (General Requirements)	Regulations and Directives dealing with requirements covering other areas not included in other Modules. These include: books and records, corporate and trade names, dividends, <u>portfolio transfers</u> , <u>controllers</u> , <u>close links</u> , statutory deposits, suspension of business and <u>appointed representatives</u> . These Regulations and Directives apply in full to <u>takaful</u> and <u>retakaful firms</u> .

MODULE	TA:	Takaful/Retakaful
CHAPTER	TA-1:	Overview

TA-1.2 **Structure of this Guidance (continued)**

BUSINESS STANDARDS

Module CA (Capital Adequacy)	Directives governing minimum capital and solvency requirements and the valuation of assets and liabilities. Some of these Directives apply to all <u>insurance firms</u> ; some are specific to <u>takaful firms</u> , dealing with solvency requirements for the takaful fund and the potential for loans from the takaful operator (shareholder fund) should the takaful fund fail to meet the solvency requirements.
Module BC (Business Conduct)	The Code of Business Conduct governs the sale of insurance and applies to all <u>insurance licensees</u> . In addition, there are several requirements specifically applicable to takaful dealing with restrictions on the use of the term 'takaful/retakaful', marketing and promotion of takaful products and disclosure of <u>wakala</u> and <u>mudaraba</u> fees to participants.
Module RM (Risk Management)	Risk management standards applicable to licensees. These requirements apply in full to <u>takaful</u> and <u>retakaful firms</u> .
Module FC (Financial Crime)	Directives governing the monitoring and reporting of financial crime. This Module applies in full to <u>takaful</u> and <u>retakaful firms</u> .
Module TC (Training & Competency)	Directives to be developed will apply to both <u>takaful insurance firms</u> and <u>conventional insurance firms</u> .

REPORTING REQUIREMENTS

Module BR (CBB Reporting)	Requirements for reporting to the CBB . Annual and quarterly reporting requirements, as well as group reporting, apply in full to <u>takaful</u> and <u>retakaful firms</u> .
Module PD (Public Disclosure)	The public disclosure requirements pertaining to <u>Bahraini insurance firms</u> and <u>overseas insurance firms</u> apply in full to <u>takaful</u> and <u>retakaful firms</u> .

ENFORCEMENT AND REDRESS

Module EN (Enforcement)	This Module outlines enforcement powers and processes that may be applied by the CBB and applies in full to all <u>insurance licensees</u> .
Module DP (Dispute Resolution)	Directives will be developed in 2007 .
Module CP (Compensation)	Directives will be developed in 2007 .

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.1 Authorisation

		<u>Rulebook reference</u>
TA-2.1.1	An entity in Bahrain must be authorised if it wishes to conduct <u>regulated insurance services</u> , including effecting insurance contracts, the broking of insurance contracts, the offering of advice to third parties and the provision of insurance management services. <u>Insurance firms</u> must restrict their business to insurance under their memorandum and articles of association.	AU-A.1.3
TA-2.1.2	An <u>insurance firm</u> 's license will state the classes of insurance that the firm is authorised to conduct. An <u>insurance firm</u> , except for <u>captive insurers</u> , cannot undertake both life and non-life business. <u>Insurance firms</u> must operate on either conventional insurance principles or on takaful principles; they cannot combine the two.	AU-1.1.14
TA-2.1.3	All persons wishing to undertake a <u>controlled function</u> in an <u>insurance licensee</u> must be approved by the <u>CBB</u> prior to their appointment. Membership of a <u>Shari'a Supervisory Board</u> is a <u>controlled function</u> and requires <u>CBB</u> approval.	AU-1.2
TA-2.1.4	A <u>captive insurer</u> may also be licensed either as a <u>takaful firm</u> in which case it will appoint a <u>Shari'a Supervisory Board</u> and will operate in accordance with the principles of the Shari'a.	

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.2 Principles of Business

		<u>Rulebook reference</u>
TA-2.2.1	There are 10 Principles of Business that apply to all <u>insurance licensees</u> including <u>takaful</u> and <u>retakaful firms</u> .	
TA-2.2.2	Non compliance with the Principles of Business can lead to enforcement action, which can include the calling into question of whether the firm or its management continue to meet the fitness and propriety criteria for approval.	PB-B.2.1
TA-2.2.3	<p>The Principles of Business are:</p> <ol style="list-style-type: none"> 1. Observing high standards of <u>integrity</u> and fair dealing. <u>Insurance licensees</u> and <u>approved persons</u> should be honest and straightforward in their dealings with <u>customers</u>. 2. Taking all reasonable steps to identify, and prevent or manage, <u>conflicts of interest</u> that could harm the interests of a <u>customer</u>. 3. Acting with due skill, care and diligence. 4. Observing in full any obligations of <u>confidentiality</u>, including with respect to <u>client</u> information. This requirement does not over-ride lawful disclosures. 5. Observing proper standards of <u>market conduct</u>, and avoiding action that would generally be viewed as improper. 6. Taking reasonable care to safeguard the <u>assets of customers</u>. 7. Paying due regard to the legitimate <u>interests of customers</u> and communicating with them in a fair and transparent manner and, when dealing with <u>customers</u> who are entitled to rely on advice or discretionary decisions, taking reasonable care to ensure the suitability of such advice or decisions. 8. Maintaining an open and co-operative <u>relationship with the CBB and other competent regulatory bodies</u> and taking reasonable care to ensure that activities comply with all applicable laws and Regulations. 	PB-1

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.2 Principles of Business (continued)

- TA-2.2.3
9. Maintaining adequate resources, whether human, financial or otherwise, sufficient to run the business in an orderly manner.
 10. Taking reasonable care to ensure that affairs are managed effectively and responsibly, with appropriate management, and systems and controls in relation to the size and complexity of operations.

Rulebook
reference

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.3 High-level Controls

		<u>Rulebook reference</u>
TA-2.3.1	In accordance with Principle of Business 10, <u>insurance licensees</u> must put in place effective management, systems and controls for their business. The High-level Controls Module sets out the <u>Directives</u> that put this principle into practice and apply to all <u>takaful</u> and <u>retakaful firms</u> .	PB-1.10
TA-2.3.2	Some of these rules govern the establishment, composition, functions and responsibilities of Boards of <u>Directors</u> . All incorporated <u>insurance licensees</u> must have a Board, composed of a minimum of five <u>Directors</u> , which is ultimately accountable and responsible for the management and performance of the firm.	HC-1
TA-2.3.3	In addition to a Board of <u>Directors</u> , <u>takaful</u> and <u>retakaful firms</u> must also have in place a <u>Shari'a Supervisory Board</u> .	HC-2.3
TA-2.3.4	The <u>CBB</u> expects, for <u>Bahraini insurance licensees</u> , for Bahrain to be the principal place of business and for Bahrain to be the centre of its governance and management. This must include: <ul style="list-style-type: none"> (a) <u>The majority of Board meetings taking place in Bahrain;</u> (b) <u>Appointing a locally-resident Chief Executive Officer or General Manager; and</u> (c) <u>Premises and records being located in the Kingdom of Bahrain.</u> 	HC-1.3.5, HC-3.1 AU-2.2.1 and GR-1
TA-2.3.5	The <u>CBB</u> requires <u>Bahraini insurance licensees</u> to establish an internal audit function to monitor the adequacy of their systems and controls.	HC-3.3
TA-2.3.6	All <u>insurance licensees</u> must designate an employee, of appropriate standing and resident in Bahrain, as Compliance Officer. The duties of the Compliance Officer include: <ul style="list-style-type: none"> (a) <u>Having responsibility for oversight of the licensee's compliance with the requirements of the CBB; and</u> (b) <u>Reporting to the licensee's Board in respect of that responsibility.</u> 	HC-3.4
TA-2.3.7	The review of <u>Directors'</u> remuneration must be a standing item on the <u>insurance licensee's</u> Annual General Meeting agenda, and must be considered by shareholders at every Annual General Meeting. Policies in respect of <u>Directors'</u> remuneration (including pension and severance arrangements) and bonuses must be clearly disclosed in the annual financial statements.	HC-3.5
TA-2.3.8	An <u>insurance licensee's</u> Board must establish and disseminate to all employees and <u>appointed representatives</u> of the licensee a corporate code of conduct.	HC-3.6

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.3 High-level Controls (continued)

		<u>Rulebook reference</u>
TA-2.3.9	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
TA-2.3.10	The Board must assess, document and provide a written certification to the CBB each year detailing 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

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.4 Auditors and Actuaries

		<u>Rulebook reference</u>
TA-2.4.1	All <u>insurance firms</u> must have an annual external audit. Firms must obtain prior written approval from the CBB before appointing or re-appointing their <u>auditors</u> .	AA-1.1.1
TA-2.4.2	There are specific rules and guidance governing the duties and restrictions of external <u>auditors</u> .	AA-1
TA-2.4.3	All <u>insurance firms</u> that conduct long-term (life/family takaful) business must appoint a <u>Reporting Actuary</u> , who will be independent, and not a Director or employee of the firm.	AA-4.1 and 4.2
TA-2.4.4	<u>Insurance firms</u> that undertake general takaful business only must consider the need for an annual actuarial opinion, from a <u>Signing Actuary</u> (who can be an employee of the firm). Refer to Section AA-4.3 for specific rules governing <u>Signing Actuaries</u> .	AA-4.1 and 4.3
TA-2.4.5	The CBB maintains a list of <u>actuaries</u> registered to practise in the Kingdom of Bahrain. A registered <u>actuary</u> must be used in situations where the <u>actuary</u> is signing in a personal capacity, i.e. in the case of long-term insurance a <u>Reporting Actuary</u> and general insurance, a <u>Signing Actuary</u> .	AU-1.3

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-2: High Level Standards

TA-2.5 General Requirements

		<u>Rulebook reference</u>
TA-2.5.1	All <u>insurance licensees</u> are expected to maintain books and records sufficient to produce financial statements and show a record of the business undertaken.	GR-1.1
TA-2.5.2	All <u>insurance licensees</u> must keep <u>customer</u> and transaction records in accordance with the requirement outlined in Section GR-1.2. <u>Insurance licensees</u> must also keep other records as required per Section GR-1.3	GR-1.2 GR-1.3
TA-2.5.3	<u>Insurance licensees</u> , other than <u>captive insurers</u> , must seek prior approval from the <u>CBB</u> for their corporate name and any trade names, and those of their subsidiaries.	GR-2.1
TA-2.5.4	All <u>Bahraini insurance licensees</u> require <u>CBB</u> pre-approval for the distribution of dividends to <u>shareholders</u> .	GR-3.1
TA-2.5.5	An <u>insurance firm</u> must seek prior written approval from the <u>CBB</u> before executing a portfolio transfer.	GR-4.1
TA-2.5.6	<u>Insurance licensees</u> must obtain prior approval from the <u>CBB</u> for any of the following changes to its <u>controllers</u> (as defined in Section GR-5.2): (a) A new <u>controller</u> ; (b) An existing <u>controller</u> increasing its holding from below 20% to above 20%; (c) An existing <u>controller</u> increasing its holding from below 50% to above 50%; and (d) An existing <u>controller</u> reducing its holding from above 50% to below 50%.	GR-5.1
TA-2.5.7	All requirements dealing with <u>close links</u> apply in full to all <u>insurance firms</u> .	GR-6
TA-2.5.8	<u>Insurance firms</u> are required to maintain statutory deposits as per Article 181 of the <u>CBB Law</u> .	GR-7.1
TA-2.5.9	In accordance with <u>the Bahrain Commercial Companies Law</u> , <u>insurance licensees</u> are required to set aside a proportion of their annual profits, being no less than 10 percent as a compulsory reserve, until the total of such compulsory reserve equals 50 per cent of the paid-up capital.	GR-7.2
TA-2.5.10	An <u>insurance firm</u> wishing to suspend its operations and liquidate its business must notify the <u>CBB</u> in writing, setting out whether it proposes to affect a transfer of its portfolio or go into run-off.	GR-8

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.1 Capital Adequacy

		<u>Rulebook reference</u>
TA-3.1.1	Principle 9 requires <u>insurance licensees</u> to hold adequate financial resources for the needs of the business. Module CA (Capital Adequacy) sets out in detail the minimum financial resources requirements for <u>insurance licensees</u> . In addition, it is the responsibility of Boards of <u>insurance licensees</u> to make their own assessment of the financial resources needed to meet their liabilities.	PB-1.9
TA-3.1.2	The base requirement is for firms to maintain at all times capital available in excess of the higher of its <u>required solvency margin</u> and <u>minimum fund</u> .	CA-1.2.1
TA-3.1.3	The takaful fund is subject to capital available and solvency requirements. Should the takaful fund not meet the solvency requirements, the capital available requirements will be applied to the takaful operator (shareholder fund) as well.	CA-8.4.1
TA-3.1.4	<p>The <u>minimum fund</u> that must be maintained by the each takaful fund at all times, is: -</p> <p>Category 1 firm: - BD 300,000;</p> <p>Category 2 firm: - BD 500,000;</p> <p>Category 3 firm: - BD 400,000; and</p> <p>Category 4 firm: - The relevant <u>minimum fund</u> for Category 1 or 2 (depending on the type of general business underwritten) PLUS the Category 3 minimum. These amounts are to be maintained separately by the insurer.</p> <p>These minimum requirements are equivalent to those amounts for conventional <u>insurance firms</u>.</p>	CA-2.1.5 CA-8.4.2
TA-3.1.5	For each general takaful fund, the <u>required solvency margin</u> is calculated on the basis of the premiums written and claims incurred by the fund. A risk factor is applied, to reflect the differing risk profiles of different classes of insurance. Refer to <u>Chapter CA-2</u> for the detailed rules governing the calculation of the <u>required solvency margin</u> .	CA-2
TA-3.1.6	For each family takaful fund, the <u>required solvency margin</u> is calculated on the basis of the aggregate of the <u>mathematical reserves calculation</u> and the <u>capital sum at risk calculation</u> .	CA-2

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.1 Capital Adequacy (continued)

		<u>Rulebook reference</u>
TA-3.1.7	The Valuation and Admissibility of Asset Regulations are contained in Chapter CA-4. Assets of an <u>insurance firm</u> may only be given value for regulatory purposes in accordance with the Valuation of Assets Regulations. Surplus (inadmissible) assets are valued at zero for the purposes of calculating the firm's capital available. Assets considered inadmissible include those that exceed permitted categories and counterparty limits and intangible assets (e.g. brand value).	CA-4
TA-3.1.8	The Valuation of Liability Regulations are contained in Chapter CA-5. Liabilities must be valued in accordance with International Accounting Standards (to the extent available) or, until such standards come into effect, with Section CA-5.1.	CA-5.1
TA-3.1.9	There are also rules concerning the matching of assets and liabilities, to minimise the risk of maturity and/or currency mismatch in the portfolio.	CA-6.1
TA-3.1.10	The CBB may require a <u>takaful firm</u> to provide: (a) A statement of the consolidated financial position of any group of which the <u>insurance firm</u> is either the holding company, a subsidiary or a branch of that group; and (b) A statement of the solvency margin that would be determined by this Module if the group identified in part (a) of this rule were a Bahrain authorised insurance firm.	CA-7.1
TA-3.1.11.	All <u>takaful firms</u> licensed in Bahrain must organise and operate their business according to the <u>al wakala</u> model. Specifically, in exchange for the provision of management services to takaful fund(s), the <u>shareholders</u> of the <u>takaful firm</u> will receive a specific consideration (wakala fee). For the insurance assets invested on behalf of takaful funds, the takaful operator will use the <u>al mudaraba</u> model, and will receive a set percentage of the profits generated from the investment portfolio.	CA-8.2.1
TA-3.1.12	The wakala fee charged in respect of a takaful contract must be directly proportional to the costs associated with establishing and maintaining that contract.	CA-8.2.2
TA-3.1.13	<u>Takaful firms</u> must maintain separate books of account in respect of each kind of business and for each fund.	CA-8.3

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.1 Capital Adequacy (continued)

TA-3.1.14 **Takaful firms** by definition are co-operative in nature and as such participants (**policyholders**) are entitled to a return of any surplus of the takaful funds operated by a takaful insurer. **Takaful firms** must establish a policy for the distribution of surplus but may only distribute a surplus if the firm meets its required solvency margin requirements both prior to and after the distribution.

**Rulebook
reference**
CA-8.5

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.2 Business Conduct

		<u>Rulebook reference</u>
TA-3.2.1	The Business Conduct Module comprises general rules (BC-1) and a Code of Practice (BC-2). These rules apply in full to all <u>insurance licensees</u> with special provisions applicable to <u>takaful firms</u> .	BC-A.1.
TA-3.2.2	The use of the terms <u>takaful</u> , <u>retakaful</u> , <u>general takaful</u> and <u>family takaful</u> may only be used to describe the products of <u>insurance firms</u> that are Islamic financial institutions within the meaning of the <u>CBB</u> Rulebook.	BC-3.2
TA-3.2.3	An <u>insurance firm</u> may only offer takaful products if it is licensed to do so. An <u>insurance intermediary</u> may offer both conventional insurance and takaful products but must provide clear information to enable consumers to make informed choices.	BC-3.3
TA-3.2.4	<u>Takaful firms</u> must provide participants and <u>shareholders</u> with clear information about the performance of their business. This information must, as a minimum, comply with relevant AAOIFI standards, in particular Standard 13 (Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies) and Standard 12 (General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies).	BC-3.4

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.3 Risk Management

		<u>Rulebook reference</u>
TA-3.3.1	Principle 10 (TA-2.2.3) requires firms to have systems and controls that are appropriate for their business. Consequently, the Risk Management Module of the CBB Rulebook contains rules and guidance on how, specifically, firms should monitor and manage risk. This Module applies to all licensees, and it is for firms to consider the scale and complexity of the procedures that are required, given the nature of their operations. All those sections dealing with <u>Bahraini insurance firms</u> and <u>overseas insurance firms</u> are applicable to <u>takaful firms</u> .	PB-1.10
TA-3.3.2	<p>The Module contains both:</p> <ul style="list-style-type: none"> • General requirements (on the overall management of risk); and • Specific requirements on the management of specific risk classes. 	<p>RM-1 RM-2 to RM-8</p>

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-3: Business Standards

TA-3.4 Financial Crime

		<u>Rulebook reference</u>
TA-3.4.1	The general law of Bahrain imposes obligations on individuals and firms in relation to the prevention and prohibition of the laundering of money. Module FC applies to all <u>insurance licensees</u> .	Decree Law No. 4
TA-3.4.2	In addition, Module FC contains specific rules and guidance for <u>insurance licensees</u> that require them to have effective money laundering controls and to report suspicious transactions to the relevant authorities.	FC, FC-8 (details of penalties)
TA-3.4.3	Chapter FC-1 outlines the requirements for <u>customer</u> due diligence.	FC-1
TA-3.4.4	The reporting of suspicious transactions is the responsibility of the firm's Money Laundering Reporting Officer (MLRO). All takaful firms must appoint an MLRO.	FC-3.1.1
TA-3.4.5	The MLRO will prepare an annual report on compliance with the anti-money laundering and combating terrorism financing controls and procedures. The Boards of takaful firms will need to include the consideration of this report as a standing item for Board meetings each year.	FC-3.3
TA-3.4.6	Appendix FC-(iv), contained in Part B of the CBB Rulebook provides guidance material and examples of transactions that would be considered suspicious for the purposes of this Directive .	Appendix FC- (iv)

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-4 Reporting Requirements

TA-4.1 CBB Reporting

		<u>Rulebook reference</u>
TA-4.1.1	<u>Takaful firms</u> are required to file annual, quarterly and group insurance returns to the CBB providing details of the financial condition of the firm and the business undertaken.	BR-1.1. BR-1.3 BR-1.4
TA-4.1.2	Details of the content of the Insurance Firm Return can be found in BR-1.1. The content of the Insurance Firm Return is identical to that required for conventional insurance firms, except for the calculation of the solvency margin as outlined in Chapter CA-8. The Return must be: <ul style="list-style-type: none"> (a) Deposited with the CBB within 3 months of the year end; (b) Reviewed by the external auditors based on agreed-upon procedures; (c) Be accompanied by a Directors' Certificate; and (d) Where applicable, include an actuarial certificate and report. 	BR-1.1
TA-4.1.3	<u>Takaful firms</u> must disclose to the CBB material information about changes in their situation including (but not limited to): <ul style="list-style-type: none"> (a) Significant breaches in Regulations; (b) Civil, criminal, and disciplinary procedures, fraud, errors and other irregularities; (c) Financial difficulties, breach of minimum solvency requirements, insolvency, bankruptcy, winding-up; (d) Changes in auditors and actuaries; (e) Changes in address, legal status etc.; and (f) Changes in controllers and close links. 	BR-2.2.4 BR-2.2.6 to 2.2.8 BR-2.2.11 BR-2.3.29 BR-2.3.3 and 2.3.4 BR-2.3.7
TA-4.1.4	An <u>insurance licensee</u> must permit representatives of the CBB, or persons appointed for the purpose by the CBB to have access, with or without notice, during reasonable business hours to any of its business premises in relation to the discharge of the CBB's functions under the relevant law.	BR-3.1

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-4 Reporting Requirements

TA-4.2 Public Disclosure

		<u>Rulebook reference</u>
TA-4.2.1	<u>Takaful</u> and <u>Retakaful firms</u> are subject to the same Public Disclosure requirements imposed in Module PD to <u>insurance firms</u> and <u>overseas insurance firms</u> .	PD
TA-4.2.2	<u>Takaful</u> and <u>Retakaful firms</u> must disclose to participants the calculation and amount of <u>wakala</u> fee and <u>mudaraba</u> share of profits paid by the takaful fund to the takaful operator.	BC-3.4.2

MODULE	TA: Takaful/Retakaful
CHAPTER	TA-5 Enforcement and Redress

TA-5.1 Enforcement

TA-5.1.1	The Enforcement Module of the CBB Rulebook applies in full to all <u>insurance licensees</u> .	<u>Rulebook reference</u> EN
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