



EDFIS/109/2005

8 May 2005

The General Manager

All insurance licensees (insurance firms, insurance brokers and insurance consultants) and registered actuaries and loss adjusters

Dear Sir,

BMA Rulebook: Publication of Volume 3 (Insurance)

Volume 3 (Insurance) of the Rulebook replaces all existing supervision circulars for insurance licensees, effective from the date of this letter.

During the course of 2003 and 2004, as part of the implementation of its new Insurance Regulatory Framework, the BMA issued 8 consultation papers seeking comments on new regulations for the insurance sector. I am pleased to report that these regulations are now finalised and being issued as Volume 3 of the BMA Rulebook. Part A of Volume 3 (which contains all the new insurance regulations) and its supporting Glossary found in Part B, can now be accessed on the BMA's website. Printed copies are in the process of being produced and will be distributed towards the end of May. **This letter contains important information on how Volume 3 is to be accessed and used by the insurance sector: please disseminate this information within your organisation and take the actions required set out below.**

Accessing Volume 3

The Rulebook is available on the BMA website¹. Hard copies are currently being printed and licensees and registrants will be contacted

¹ The website address is www.bma.gov.bh. From the Home Page, select 'Regulations & Supervision'/'Rulebook'/'Volume3'.

when these are ready for collection at the BMA; we expect this to be towards the end of May. The Rulebook will shortly also be made available in CD-ROM format. The website version of the Rulebook acts as the definitive text, in case of any discrepancies.

Each insurance licensee, registered actuary and loss adjuster will be allocated one free hard copy of Volume 3. Further hard copies and CD-ROM versions of the Volume may also be purchased, using the order form which can be downloaded from the Rulebook section of the BMA website.

Using the Rulebook

A User's Guide which can be found at the start of Volume 3 (Insurance), provides detailed guidance on how to use the Rulebook. I would make just the following brief comments in this letter:

1. Volume 3 (Insurance) also replaces nearly all the provisions contained in Ministerial Order No. 6 of 1990 regarding the issue of regulations for implementing legislative Decree No. 17 of 1987 with respect to insurance companies and organisations. The Module History Section at the start of each Module lists – where applicable – those articles contained in the Ministerial Order that are superseded by the Module in question. All insurance licensees should now use Volume 3 as their reference for applicable supervisory rules and guidance.

The only articles in the Ministerial Order that remain in force following the issue of Volume 3 (Insurance), are articles 65 to 68 inclusive, dealing with representative offices. These articles remain in force until Volume 5 (Specialised activities) of the Rulebook will be issued.

The Insurance Supervision Directorate may issue non-supervisory circulars on an occasional basis, for instance to communicate information of general interest or request feedback from licensees.

2. Module ES (Executive Summary) provides an overview of each Module being issued as well as their application and transitional rules where applicable.
3. **The Rulebook will be updated quarterly by way of the BMA website.** Amendments or additions will be posted on the website after each end-calendar quarter (i.e. in early January, April, July and October). The first update of Volume 3 will therefore take place in early July 2005.

An e-mail summarising any significant changes will be sent to licensees every quarter. **Please notify the BMA of an email address (preferably that of your Compliance Officer) to which these notifications may be sent.** When the hard copies of the Rulebook are received from the printer and available for pick up at the BMA, the person collecting your complimentary copy of Volume 3 will be asked to provide this contact e-mail address.

Detailed guidance on how the Rulebook is updated is contained in the attachment to this letter.

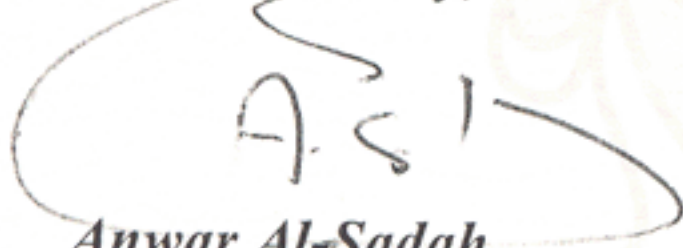
4. **Volume 3 does impose some new requirements on insurance licensees.** This is why, where applicable, transition rules have been incorporated in these various new requirements. Module ES (Executive Summary) provides a list of the various transition rules. This list is attached to this letter. As an example, the filing of the first annual insurance return for all licensees is due on March 31, 2006 for the December 31, 2005 year end.

Each Rulebook Volume is divided into Modules covering a particular subject (e.g. "Capital Adequacy"). Modules are then divided into Chapters, Sections and Paragraphs. Each paragraph is individually numbered so that cross-referencing is made much easier for the reader. Guidance on the structuring and formatting of the Rulebook is provided in Chapter 2 of the User's Guide.

5. In cooperation with the Bahrain Insurance Association and industry participants, the BMA is in the process of completing all the BMA Reporting Forms referred to in Part B of the Rulebook. The BMA is working closely with the industry to ensure that the information being requested is or will be readily available from the insurance licensees. The Reporting Forms will be incorporated in future quarterly updates.
6. As part of the official launch of the Insurance Rulebook, the BMA intends to conduct an industry information session covering the Modules of the Rulebook and provide an opportunity for those using the new Rulebook to gain a better understanding of the BMA's expectations in the implementation phase of the Rulebook. The BMA will keep you informed of when and where this information session will take place.

The BMA hopes that the Rulebook will significantly enhance the transparency and accessibility of its regulations, and will prove a positive contribution to licensees operating in the Kingdom of Bahrain. Any general comments or feedback would be welcomed; these should be sent by e-mail to Rulebook@bma.gov.bh.

Yours faithfully,



Anwar Al-Sadah

Executive Director – Financial Institutions Supervision

Enclosures.

BMA RULEBOOK MAINTENANCE

This detailed guidance is an attachment to letter EDFIS/109/2005 of 8 May 2005, regarding the publication of Volume 3 of the BMA Rulebook. It should be communicated to a licensee's Compliance Officer, and other relevant officials.

Rulebook structure

1. Each Volume of the Rulebook is divided into two Parts, a Part A and a Part B. Part A contains the regulations, comprising Modules arranged in groups according to their subject matter. Part B contains supporting material, namely a Glossary of Definitions, BMA authorisation and reporting forms.
2. Each Module in a Volume is referenced using a two-letter code that is usually a contraction or abbreviation of its title (e.g. "FC", for "Financial Crime"). These codes are used for cross-referencing within the text.
3. Each Module consists of Chapters, categorised into two types:
 2. A standard introductory chapter (referenced with a letter: e.g. FC-A); and
 3. Chapters containing the regulations themselves (referenced with a number: e.g. FC-1, FC-2, etc.)
4. Chapters are further sub-divided into Sections (numbered consecutively after the Chapter number: e.g. FC-1.1, FC-1.2 etc). In turn, Sections are sub-divided into Paragraphs (numbered consecutively after the Chapter and Section numbers: e.g. FC-1.1.1, FC-1.1.2 etc.). Where appropriate, headings may also be used within a Section: sub-section headings are italicised and unnumbered.
5. Page numbering starts afresh for each Section. Thus, when regulations are updated, only the relevant Section needs to be reissued.

Version control

6. The contents page for each Module, and each Section in a Module, is given its own separate Version number. The Version number and date are included at the bottom of each page. In addition, the contents page lists the latest Version number for each Section in that Module. The contents page thus acts as a summary checklist of the current Version in force for each Section.
7. Version numbering is consecutive: i.e. the first issue of a contents page or of a Section is Version 1; the second, Version 2; the third, Version 3, and so on. As explained below, the contents page of each Module is reissued at the end of every calendar quarter, whereas Sections are reissued only where there is a change to their contents.

Quarterly Updates

8. The BMA Rulebook is updated on a quarterly cycle. New versions of each Module are created in the month following each end-calendar quarter: i.e., in January, April, July and October. They are dated accordingly (e.g. "April 2005").
9. Except where there are changes or additions to actual regulations, only the contents page of each Module is changed, and given a new Version number and new end-quarter date. Thus, hard copy users of the Rulebook can verify that they have the latest contents page for each Module. From the contents page, users can then check whether they have the latest Version for each Section of the Module.
10. For example, the following contents page for a Module is dated October 2004. A Compliance Officer therefore knows that this is the latest contents page until the start of January 2005. From this contents page, he can see the current version number for each section in this module. In this example, most sections remain unchanged since first being issued – i.e. the current text remains version one. However, one section (PB-2.1) is on version two, and another section (PB-2.5) is on version three. Since the contents page is updated every quarter, its own version number (in the footer) indicates the number of quarters since this Module was first issued.

			Current Version No.
PB-A	Introduction		
	PB-A.1	Purpose	01
	PB-A.2	Module History	01
PB-1	Scope of Application		
	PB-1.1	Scope of Application	01
	PB-1.2	Non-compliance	01
PB-2	The Principles		
	PB-2.1	Principle 1 – Integrity	02
	PB-2.2	Principle 2 – Due skill, care etc.	01
	PB-2.3	Principle 3 – Objectivity	01
	PB-2.4	Principle 4 – Confidentiality	01
	PB-2.5	Principle 5 – Market Conduct	03
	PB-2.6	Principle 6 – Customer Assets	01
	PB-2.7	Principle 7 – Customer Interests	01
	PB-2.8	Principle 8 – Regulators	01
	PB-2.9	Principle 9 – Adequate Resources	01
	PB-2.10	Principle 10 – Management	01

PB: Principles of Business
Table of Contents: Page 1 of 1

Version 06: October 2004

E-mail notifications

11. After each end-calendar quarter, when the website version of the Rulebook is updated, a standard e-mail is sent by BMA to each licensee's designated point of contact, providing:
 - (i) A very brief "headline" summary of changes or additions (if any) to the regulations in the Volume of the Rulebook concerned;
 - (ii) Where (i) applies, for each Module affected, a list of the new/amended Sections concerned, with the reminder that these updated Sections should be printed off from the website version and incorporated into the licensee's hard copy folders; and
 - (iii) Regardless of whether (i) applies, a reminder that the contents page of each Module has been updated and should be printed off from the website version and incorporated into the licensee's hard copy folders.

Queries

12. General enquiries regarding the administration of the Rulebook should be addressed to the Rulebook Section, in the BMA's Licensing & Policy Directorate. They should be contacted by e-mail, on Rulebook@bma.gov.bh. Enquiries regarding interpretation of policy should be addressed by licensees to their regular supervisory contact, as before.

MODULE	ES:	Executive Summary
CHAPTER	ES-1:	Structure and Summary of Insurance Modules

ES-1.1 Structure of Volume 3 (Insurance) (continued)

ES-1.1.5 A summary of the Modules, their application and implementation is given in the table below:

Module	Application	Transition Rules
AU	All new applicants for licenses, approved persons and registration of actuaries and loss adjusters.	Effective June 1, 2005. AU-1.1.11 where an ins. licensee carries on a prohibited commercial business, the licensee must notify BMA and establish the transitional rules.
PB	All insurance licensees and approved persons.	None. Effective June 1, 2005.
HC	1. Applies to all Bahrain insurance licensees except for Bahraini single person companies or unincorporated entities. 2. Certain exemptions for captive insurers (ref. HC-1.2.1 and 2.2.1) 3. Exemption possible from the requirement to have 2 independent non-executive directors for Bahraini insurance licensees that are part of an overseas group and exemption to have Board Committees (HC-1.2.8 and 2.1.5). 4. 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 BMA (HC-2.1.3)	1. HC-1.1.3 Ins. Brokers licensed prior to June 1, 2005 as unincorporated entities may maintain their current status until Dec. 31/06. 2. HC-1.2.5 Separation between Chairman of the Board and Chief Executive – upon application, BMA may grant a transition period for a limited time period.
AA	All insurance licensees -- auditors All insurance firms -- actuaries	None. Effective July 1, 2005.

MODULE	ES:	Executive Summary
CHAPTER	ES-1:	Structure and Summary of Insurance Modules

ES-1.1 Structure of Volume 3 (Insurance) (continued)

ES-1.1.5

Module	Application	Transition Rules
GR	Refer to chart in GR-B.1.1 for application	<p>All insurance licensees must comply with the requirements for books and records within Bahrain, effective July 1/05.</p> <p>Professional indemnity coverage must be met by all insurance brokers and consultants by Dec. 31/05.</p> <p>For unincorporated brokers licensed prior to June 1/05, professional indemnity coverage must be met by Dec.31/06.</p> <p>All other provisions of Module GR are to be applied effective April 1/05.</p>
CA	<p>All insurance licensees, with specific requirements applicable to different types of licensees.</p> <p>Also special rules in place for takaful firms.</p>	<p>For insurance brokers licensed prior to June 1/05, implementation effective Dec.31/06.</p> <p>For new takaful companies, specific transition rules.</p> <p>For other insurance licensees licensed prior to June 1/05, implementation effective Dec.31/05.</p>
BC	<p>Applicable to direct domestic business. Reinsurance business is exempted. Also special rules in place for takaful firms.</p>	<p>None.</p> <p>Effective July 1, 2005.</p>
RM	<p>Only applies to insurance firms and insurance brokers.</p>	<p>None.</p> <p>Effective July 1, 2005.</p>

MODULE	ES:	Executive Summary
CHAPTER	ES-1:	Structure and Summary of Insurance Modules

ES-1.1 Structure of Volume 3 (Insurance) (continued)

ES-1.1.5

Module	Application	Transition Rules
FC	Measures for the prevention of money laundering and terrorism financing apply to insurance firms and insurance brokers, with some exemptions for captive insurers managed by an insurance manager. Some exemption possible for reinsurers (FC-B.1.2). Measures dealing with fraud (FC-8) apply to all insurance licensees.	Effective July 1, 2005. For long term ins. contracts, BMA expects Module to be applied to current clients gradually in a case by case basis.
TC	To be developed in 2005/2006	
BR	All insurance licensees, with specific requirements applicable to different types of licensees.	First annual and group reporting due for the period ending December 31/05. First quarterly report due for the quarter ending March 31/05. Notification and approval requirements effective June 1, 2005.
PD	Only applies to insurance firms.	First disclosure requirements required for the period ending Dec. 31/05.
EN	All insurance licensees, approved persons and registered persons.	None. Effective May 1, 2005.
DP	To be developed in 2005/2006	
CP	To be developed in 2005/2006	
CI	Captive insurers	Transition rules as per those stated in main Modules.
IM	Insurance intermediaries	Transition rules as per those stated in main Modules.
TA	Takaful/retakaful	Transition rules as per those stated in main Modules.