



المدير التنفيذي لرقابة المؤسسات المالية
Executive Director of Financial Institutions Supervision

مملكة البحرين
Kingdom of Bahrain

مؤسسة نقد البحرين
BAHRAIN MONETARY AGENCY

EDFIS/177/2005
3 October, 2005

The Compliance Officer
All Insurance Licensees
Manama
Kingdom of Bahrain

Dear Sir,

BMA Rulebook: Volume 3 (Insurance) - Second Quarterly Update

This is the second quarterly update of Volume 3 of the Rulebook.

Updates to Volume 3 have now been incorporated in the website version of the Rulebook. Recipients who wish to update their hard copy folders should access the BMA website and print off the relevant pages for insertion into their folder. Volume 3 can be accessed, as usual, from www.bma.gov.bh (Home > Regulation & Supervision > Rulebook > Volume 3: Insurance).

The contents pages for each Module contained in Part A of Volume 3 have been updated: this is done every quarter. These contents pages now show their current version number and date (i.e. Version 03/October 2005). The contents pages also show the current version number for each section in the Module in question. Only modified sections change their version number; other sections stay as "Version 01" until they are altered. Hard-copy users should print off these contents pages, since they facilitate version control for their Part A folder.

Additions and corrections to various Modules have been made, as detailed in the attached table. As indicated to you in our July 2005 update, the main change for the October 2005 update has been to Module FC (Financial Crime), clarifying and reorganising the Module for a more consistent presentation and ordering of AML/CFT requirements across the different Volumes of the Rulebook. In addition we have removed the section dealing with Charities, Clubs and Societies, as this is not applicable for insurance licensees, following our review of the revised FATF 40+9 Recommendations. We have added sections dealing with:

- (a) the UN Security Council – Anti-terrorism Resolution 1373 (2001) and NCCT Notifications UN Security Council;
- (b) suspicious accounts watchlist; and
- (c) general guidance and best practice.

The examples of suspicious transactions have been moved to Part B of the Rulebook as Supplementary Information. The Supplementary Information also includes four other documents related to Module FC. These are:

- (a) Amiri Decree Law No. 4;
- (b) UN Security Council Resolution 1373 (2001);
- (c) UN Security Council Resolution 1267 (1999); and
- (d) Guidance notes.

In light of the extensive changes to Module FC, a new updated Version 03 is now available: users should print off the whole Module for insertion in their folders.

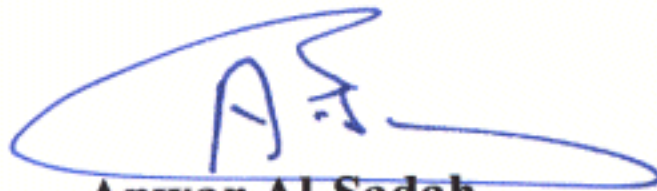
The relevant references to Module FC for the Sector guides (Modules CI, IM and TA) have also been updated.

Consultation and finalisation of reporting forms included in Part B is continuing and insurance licensees will be provided with finalised reporting forms prior to December 31, 2005.

The attached table lists the individual sections of the affected Modules that should be printed, for inclusion in users' hard copy folders.

Should you have any queries regarding these updates, you may e-mail the BMA (at Rulebook@bma.gov.bh); alternatively, please speak to your normal supervisory contact.

Yours faithfully,



Anwar Al-Sadah

Executive Director – Financial Institutions Supervision

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BMA Rulebook: Volume Three - Second Quarterly Update

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
ES	Executive Summary	<p>ES-1.1.5: Added transition period re reporting actuaries for insurance firms whose long term insurance business is restricted to group life policies.</p> <p>Minimum Tier 1 capital to be met by December 31, 2007.</p> <p>Clarified application of Module FC to insurance managers. Print off updated Section ES-1.1.</p> <p>ES-1.10.3: Corrected cross-reference of examples of suspicious transactions. Print off updated Sections ES-1.10.</p> <p>ES-2.4.1: Added transition period re reporting actuaries for insurance firms whose long term insurance business is restricted to group life policies. Print off updated Section ES-2.4</p> <p>ES-2.5.2: Corrected cross-reference. Print off updated Section ES-2.5.</p> <p>ES-2.6.2: Inserted new paragraph dealing with transition rules for minimum Tier 1 capital and solvency margin requirements. Print off updated Section ES-2.6</p>
AU	Authorisation	<p>AU-1.1.3: Clarified application of grandfathering provisions for composite companies. Print off updated Section AU-1.1.</p> <p>AU-2.1.4: Clarified guidance for E.C. companies.</p> <p>AU-2.1.12: Added the option for insurance managers to have the legal status of a branch resident in Bahrain of a company incorporated in another jurisdiction. Print off updated Section AU-2.1.</p> <p>AU-2.2.3: Clarified guidance on mind and management for insurance licensees originally licensed as exempt companies. Print off updated Section AU-2.2.</p> <p>AU-2.8.1: Clarified the application of IFRS, IAS and AAOIFI standards. Print off updated Section AU-2.8.</p>
HC	High-level Controls	<p>HC-2.2: Corrected numbering of paragraphs. Print off updated Section HC-2.2.</p> <p>HC-4.1.1 and 4.1.2: Reordered paragraphs for better flow of rules. Print off updated Section HC-4.1.</p>

BMA Rulebook: Volume Three - Second Quarterly Update (continued)

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
AA	Auditors and Actuaries	<p>AA-3.1.2: Corrected reference to Form IFR and IMR. Print off updated Section AA-3.1.</p> <p>AA-4.1.2: Added transition rule for requirement for reporting actuary for insurance firms whose long term insurance business is restricted to group life policies having a maturity of less than or equal to 1 year. Print off updated Section AA-4.1.</p>
GR	General Requirements	<p>GR-1.2.5: Clarified that transaction records must be maintained in the Kingdom of Bahrain. Print off updated Section GR-1.2.</p> <p>GR-4.4.1: Corrected cross reference. Print off updated Section GR-4.4.</p> <p>GR-6.1.4: Corrected references to Forms. Print off updated Section GR-6.1.</p> <p>GR-10.1.1 and 10.1.10: Clarified when evidence of professional indemnity coverage is to be provided and corrected cross-reference. Print off updated Section GR-10.1.</p>

BMA Rulebook: Volume Three - Second Quarterly Update (continued)

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
CA	Capital Adequacy	<p>CA-1.2.1 and CA-1.2.2: Replaced the minimum paid-in capital requirement, by minimum Tier 1 capital and provided guidance on transition rule for this rule.</p> <p>CA-1.2.8: Clarified the definition of Tier 1 capital with respect to reserves and appropriations.</p> <p>CA-1.2.12: Clarified definition of Tier 2 in relation to the investment fair value reserve.</p> <p>CA-1.2.21: Amended determination of capital available chart in line with other changes in Section CA-1.2. Print off updated Section CA-1.2.</p> <p>CA-2.1.13 and CA-2.1.14: Added short term medical as class for purposes of calculating solvency requirements under the premiums basis and claims basis calculations. Print off updated Section CA-2.1.</p> <p>CA-4.2.15: Clarified the treatment of unlisted equity shares.</p> <p>CA-4.2.17 and CA-4.2.18: Deleted the reference to managed funds. Print off updated Section CA-4.2.</p> <p>CA-7.1.3 and CA-7.1.7: Corrected reference to Group Insurance Firm Return. Print off updated Section CA-7.1.</p>
RM	Risk Management	<p>RM-2.1.7: Clarified that the 25% notification for reinsurance exposure is to be applied based on a premium basis. Print off updated Section RM-2.1.</p> <p>RM-8.1.6: Correction to cross-reference. Print off updated Section RM-8.1.</p>
FC	Financial Crime	Clarified and reorganised complete Module. Print off updated Module FC.

BMA Rulebook: Volume Three - Second Quarterly Update (continued)

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
BR	BMA reporting	<p>BR-1.1.5 and 1.1.6: Corrected reference to Form IFR.</p> <p>BR-1.1.8: Clarified definition of equity basis.</p> <p>BR-1.1.14 and 1.1.15: Amended requirement to have IFR reviewed (instead of audited) by external auditors.</p> <p>BR-1.1.31: Amended signatures required for IFR for overseas insurance firms.</p> <p>BR-1.1.35: Added a paragraph detailing other reporting requirements included in Form IFR. Print off updated Section BR-1.1.</p> <p>BR-1.2.13 and 1.2.14: Amended requirement to have IMR reviewed (instead of audited) by external auditors.</p> <p>BR-1.2.22: Amended signatures required for IMR for overseas insurance licensees.</p> <p>BR-1.2.26: Added a paragraph detailing other reporting requirements included in Form IMR. Print off updated Section BR-1.2.</p> <p>BR-1.4.3, 1.4.4 and 1.4.7: Corrected reference to Form IFRQ and amended due date of quarterly return to within 45 days of the relevant quarter year end. Print off updated Section BR-1.4.</p> <p>BR-2.2.14: Added notification requirement for appointed representatives and for reinsurance in excess of 25%. Print off updated Section BR-2.2.</p> <p>BR-2.3.7: Clarified that prior approval for changes in controllers is required for all insurance licensees. Print off updated Section BR-2.3</p>
PD	Public Disclosure	<p>PD-1.1.4: Amended the requirement that the Annual Report be available only in printed form (electronic format is optional). Print off updated Section PD-1.1.</p> <p>PD-2.1.2 and 2.1.3: Reference added to IAS 34; clarified the semi-annual financial statements are subject to “review” and not “audit”. Print off updated Section PD-2.1.</p>

BMA Rulebook: Volume Three - Second Quarterly Update (continued)

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
CI	Captive Insurers	CI-2.3.2: Clarified that captive insurers are exempt from several requirements dealing with board composition, including the requirement to have a minimum of 5 directors, They remain however subject to the provisions of Commercial Companies Law 2001, which prevails in case of conflict with the BMA Rulebook. Print off updated Section CI-2.3. CI-3.4: Corrected cross-references to Module FC. Print off updated Section CI-3.4.
IM	Insurance Intermediaries	IM-2.1.11: Added the option for insurance managers to have the legal status of a branch resident in Bahrain of a company incorporated in another jurisdiction. Print off updated Section IM-2.1. IM-3.4: Corrected cross-references to Module FC. Print off updated Section IM-3.4.
TA	Takaful/retakaful	TA-3.4: Corrected cross-references to Module FC. Print off updated Section TA-3.4.

BMA Rulebook: Volume Three - Second Quarterly Update (continued)

PART B FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
Reporting Forms		
STR	Suspicious Transaction Reporting	Instructions: Update 6. and 7. with new address and e-mail. Print off updated Instructions page.
Supplementary Information		
FC- (i)	Amiri Decree Law No. 4 (2001)	New reference document. Print off complete document.
FC- (ii)	UN Security Council Resolution 1373 (2001)	New reference document. Print off complete document.
FC- (iii)	UN Security Council Resolution 1267 (1999)	New reference document. Print off complete document.
FC- (iv)	Examples of Suspicious Transactions	Moved from Module FC. Print off complete document.
FC- (v)	Guidance Notes	New reference document. Print off complete document.