



GENERAL REQUIREMENTS MODULE

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MODULE	GR: General Requirements
CHAPTER	GR-A: Introduction

GR-A.1 Purpose

GR-A.1.1 The General Requirements Module presents a variety of different requirements that are not extensive enough to warrant their own stand-alone Module, but for the most part are of general applicability. These include requirements on books and records; on the use of corporate and trade names; and on controllers and close links. Each set of requirements is contained in its own Chapter: a table listing these and their application to licensees is given in Chapter GR-B.

MODULE	GR: General Requirements
CHAPTER	GR-A: Introduction

GR-A.2 Module History

GR-A.2.1 This Module was first issued in April 2005 together with the rest of Volume 3 (Insurance). It is numbered as version 01. All subsequent changes to this Module are annotated with a sequential version number: Chapter UG-3 provides further details on Rulebook maintenance and version control.

GR-A.2.2 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
GR-B-1	01/07/05	Clarified that GR-7 also applies to insurance brokers
GR-7.1	01/07/05	Corrected that cash deposit requirements also applies to insurance brokers and simplified the calculation of cash deposit required for insurance firms
GR-1.2	01/10/05	Clarified that transaction records must be maintained in Bahrain
GR-4.4	01/10/05	Corrected cross-reference
GR-6.1	01/10/05	Corrected references to Forms
GR-10.1	01/10/05	Clarified when evidence of professional indemnity coverage is to be provided and corrected cross-reference
GR-7.1	01/01/06	Clarified that insurance licensees originally licensed as exempt companies can opt to have their cash deposit maintained with the BMA.
GR-7.1.2	01/04/06	Clarified that the requirement to maintain a cash deposit does not apply to insurance firms that are in run-off and whose license is restricted from entering into new contracts of insurance.
GR-10.1.7	01/04/06	Clarified the meaning of the clause required dealing with an automatic extended reporting period.

GR-A.2.3 This Module supersedes various articles 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 specific articles in the Ministerial Order that have been cancelled by this Module are listed below:

Order No.6 Article Ref.	Module Ref.	Subject
16, 29	GR-1	Books and Records
20	GR-4	Portfolio Transfers
12-15	GR-7	Statutory Deposits
20	GR-8	Suspension of business

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



MODULE	GR: General Requirements
CHAPTER	GR-B: Scope of Application

GR-B.1 Insurance Licensees

GR-B.1.1

The requirements in Module GR (General Requirements) apply to insurance licensees, as follows:

Chapter	Application to license categories	Application to activities of overseas insurance licensees
GR-1	Applies to all <u>insurance licensees</u> ; but GR-1.2.7 to GR-1.2.14 apply to <u>insurance brokers</u> only.	Applies to Bahrain branch business only.
GR-2	Applies to all <u>insurance licensees</u> .	Applies to Bahrain branch business only.
GR-3	Applies to all <u>insurance licensees</u> except captives, who are exempted.	Exempted.
GR-4	Applies to <u>insurance firms</u> only; conditional exemptions for captives and reinsurers apply (cf. GR-4.2.2 and GR-4.4.4).	Applies to Bahrain branch business only.
GR-5	Applies to all <u>insurance licensees</u> .	Applies to the whole corporate entity.
GR-6	Applies to all <u>insurance licensees</u> .	Applies to the whole corporate entity.
GR-7	Applies to <u>insurance firms</u> and <u>insurance brokers</u> .	Applies to Bahrain branch business only.
GR-8	Applies to <u>insurance firms</u> only; captives may seek exemption from GR-8.1.5 and GR-8.1.6.	Applies to Bahrain branch business only.
GR-9	Applies to <u>insurance firms</u> only.	Applies to Bahrain branch business only.
GR-10	Applies to <u>insurance brokers</u> and <u>insurance consultants</u> only.	Applies to Bahrain branch business only.



MODULE	GR: General Requirements
CHAPTER	GR-1: Books and Records

GR-1.1 Key Provisions

GR-1.1.1

The requirements in Chapter GR-1 apply in full to Bahraini insurance licensees. The requirements in Chapter GR-1 also apply to overseas insurance licensees, but only with respect to the business booked in their branch in Bahrain and the records of that branch.

GR-1.1.2

All insurance licensees must maintain books and records (whether in electronic or hard copy form) sufficient to produce financial statements and show a complete record of the business undertaken by a licensee, including records sufficient to verify the identity of customers. These books and records must be accessible at any time from within the Kingdom of Bahrain.

GR-1.1.3

For those insurance firms granted grandfathering provisions as per Paragraph AU-1.1.15, separate books and records must be maintained in respect of both general and long term insurance business. The transactions relating to each kind of business must be maintained separately. The insurance firm must maintain such accounting and other records as necessary to identify all assets and liabilities in respect of each kind of business.

GR-1.1.4

Records may be kept in either English or Arabic. Any records kept in other languages must be accompanied by a certified English translation. Records must be kept current. The records must be sufficient to allow an audit of the licensee's business or an on-site examination of the licensee by the BMA.

GR-1.1.5

For captive insurers, the maintenance of books and records may be carried out by an insurance manager. Should this be the case, the captive insurer must ensure that the BMA has access to these records at any time. In addition, these records must be sufficient to allow an audit or an on-site examination by the BMA of the captive insurer.

GR-1.1.6

All insurance licensees are expected to meet the requirements of Chapter GR-1, effective July 1, 2005 (refer to ES-2.4.1).

MODULE	GR: General Requirements
CHAPTER	GR 1: Books and Records

GR-1.2 Customer and Transaction Records

Customer Records

GR-1.2.1 Insurance licensees must keep records with respect to all customer relationships that remain active or potentially active. These records must be in hard copy or in original form, and retained for at least five years after a customer relationship has terminated.

GR-1.2.2 Customer records include original account opening and due diligence documentation including identification information, sufficient to confirm compliance with all statutory and regulatory Know Your Customer requirements (see Module FC).

GR-1.2.3 The requirement in Paragraph GR-1.2.1 applies to all customer facilities booked in Bahrain by the licensee or where a customer relationship is administered from Bahrain. Licensees may not use record-keeping systems outside Bahrain for customer business booked in Bahrain, except for back-up purposes only.

GR-1.2.4 For captive insurers, where the customers are limited to related companies, the due diligence requirement does not apply.

Transaction Records

GR-1.2.5 Insurance licensees must keep completed transaction records for as long as they are relevant for the purposes for which they were made (with a minimum period in all cases of five years from the date when the transaction was completed). Records of completed transactions may be retained in either hard copy and/or electronic format, but must be kept in their original form. Completed transaction records for business booked in the Kingdom of Bahrain must be maintained in the Kingdom or be accessible to the BMA within a reasonable period of time, as determined by the BMA.

GR-1.2.6 For example, if the original documents are paper, they must be kept in their original form. Electronic payments and receipts may be kept electronically without the need for hard copies. The record format selected must be capable of producing complete and accurate financial, management and regulatory reports, and allow monitoring and review of all transactions.

GR-1.2.7 In the case of Bahraini insurance licensees, the requirement in Paragraph GR-1.2.5 applies only to transactions relating to business booked in Bahrain by the licensee. It does not relate to transactions relating to business booked in overseas branches or subsidiaries of the licensee.

MODULE	GR: General Requirements
CHAPTER	GR 1: Books and Records

GR-1.2 Customer and Transaction Records (continued)

GR-1.2.8 In the case of overseas insurance licensees, all the requirements of Chapter GR-1 are limited to the business booked in their branch in Bahrain and the records of that branch (see GR-1.1.1).

Keeping of Separate Client Accounts

GR-1.2.7 An insurance broker must, in connection with any premiums received in the course of its business, establish and maintain separate client accounts separate from those used for its own funds.

GR-1.2.8 An insurance broker must not make withdrawals from its client accounts for any purposes other than those of the client.

GR-1.2.9 Payment of premiums to insurance firms, or commissions (brokerage) to the insurance broker's own accounts shall not be effected until the premiums to which these payments relate have been duly received from that client and credited to the client account.

GR-1.2.10 In respect of premiums booked in Bahrain, in relation to residents and non-residents of Bahrain, these accounts are to be maintained with a commercial bank licensed to operate in the Kingdom of Bahrain.

GR-1.2.11 The following guidance material provides examples of circumstances under which monies shall be deposited into or withdrawn from a client account.

GR-1.2.12 Amounts that may be deposited into a client account:

- (a) monies received from the client for the purpose of purchasing contracts of insurance;
- (b) monies received on behalf of the client from (re)insurance firms, insurance intermediaries and any other third parties relating to the settlement of insurance claims;
- (c) monies received for the purposes of the client which are incidental to the ordinary transactions of insurance broking business; and
- (d) monies required to be deposited for settlement of bank charges incurred on a client account.

MODULE	GR: General Requirements
CHAPTER	GR 1: Books and Records

GR-1.2 Customer and Transaction Records (continued)

Keeping of Separate Client Accounts (continued)

- GR-1.2.13 Amounts that may be withdrawn from a client account:
- (a) premium monies required to be paid on behalf of the client to (re)insurance firms or other insurance intermediaries for the purchase of contracts of insurance;
 - (b) claim monies received on behalf of the client and required to be paid to the claimant or the person entitled to receive them;
 - (c) payments made for the purposes of the client which are incidental to the ordinary transactions of insurance broking business;
 - (d) monies drawn on a client's written authority;
 - (e) interests received from deposits placed with client account;
 - (f) monies required to be withdrawn for settlement of bank charges incurred on a client account; and
 - (g) monies which may by mistake or accident have been paid into the account.
- GR-1.2.14 For the avoidance of doubt, monies incidental to ordinary insurance broking business, as referred to above include:
- (a) refunds to clients;
 - (b) policy loans and associated interests;
 - (c) fees, charges, levies relating to contracts of insurance; and
 - (d) discounts, commissions and brokerage.



MODULE	GR: General Requirements
CHAPTER	GR 1: Books and Records

GR-1.3 Other Records

GR-1.3.1

Insurance licensees must maintain the following records in original form or in hard copy at their premises in Bahrain:

- (a) internal policies, procedures and operating manuals;
- (b) corporate records, including minutes of shareholders', directors' and management meetings;
- (c) accounts, books, files and other records that adequately record all the business affairs of the insurance licensee, and any other records that substantiate the value of the assets, liabilities and off-balance sheet activities of the licensee;
- (d) correspondence with the BMA and records relevant to monitoring compliance with BMA requirements;
- (e) reports prepared by the insurance licensee's internal and external auditors; and
- (f) employee training manuals and records.

GR-1.3.2

In the case of Bahrain insurance licensees, these requirements apply to the licensee as a whole, including any overseas branches. In the case of overseas insurance licensees, all the requirements of Chapter GR-1 are limited to the business booked in their branch in Bahrain and the records of that branch (see GR-1.1.1). Overseas insurance licensees are thus not required to hold copies of shareholders' and directors' meetings, except where relevant to the branch's operations.

MODULE	GR: General Requirements
CHAPTER	GR 2: Corporate and Trade Names

GR-2.1 Vetting of Names

GR-2.1.1 Insurance licensees, other than captive insurers, must seek prior approval from the BMA for their corporate name and any trade names, and those of their subsidiaries.

GR-2.1.2 GR-2.1.1 applies to overseas insurance licensees only with respect to their Bahrain branch.

GR-2.1.3 In approving a corporate or trade name, the BMA seeks to ensure that it is sufficiently distinct as to reduce possible confusion with other unconnected businesses, particularly those operating in the financial services sector. The BMA also seeks to ensure that names used by unregulated subsidiaries do not suggest those subsidiaries are in fact regulated.

MODULE	GR: General Requirements
CHAPTER	GR-3: Dividends

GR-3.1 BMA Non-Objection

GR-3.1.1 Bahraini insurance licensees, other than captive insurers, must obtain a letter of no-objection from the BMA to any dividend proposed, before submitting a proposal for a distribution of profits to a shareholder vote.

GR-3.1.2 The BMA will grant a no-objection letter where it is satisfied that the level of dividend proposed is unlikely to leave the licensee vulnerable – for the foreseeable future – to breaching the BMA’s financial resources requirements, taking into account (as appropriate) trends in the licensee’s business volumes, expenses, claims experience and investment environment. Where there are major concerns about the potential impact of a proposed dividend, BMA may require an actuarial report to be provided.

GR-3.1.3 To facilitate the prior approval required under Paragraph GR-3.1.1, insurance licensees should provide the BMA with a copy of the proposed agenda for the annual general meeting or other special meeting, noting the licensee’s intended declared dividends for the coming year.



MODULE	GR: General Requirements
CHAPTER	GR 4: Portfolio Transfers

GR-4.1 BMA Approval

GR-4.1.1

An insurance firm must seek prior written approval from the BMA before executing a portfolio transfer.

GR-4.1.2

In the case of a Bahraini insurance firm, Chapter GR-4 applies both to portfolios booked in Bahrain and in the firm's overseas branches. In the case of an overseas insurance firm, Chapter GR-4 applies only to portfolios booked in the firm's Bahrain branch.

GR-4.1.3

For purposes of Paragraph GR-4.1.1, a portfolio transfer refers to a transfer of all the rights and obligations of one insurance firm to another insurance firm, so that the policyholders and reinsurers continue to be subject to the same terms and conditions as those originally agreed. Portfolio transfers may enable firms that have ceased writing certain lines of business to manage their affairs more effectively and be beneficial both to the insurance firm and the policyholders, particularly if the insurance firm that is assuming the portfolio is financially stronger than the insurance firm transferring the portfolio.

GR-4.1.4

A portfolio transfer is not the same as an insurance firm ceding (reinsuring) some or all of its policyholder liabilities to a reinsurer. Reinsurance creates an additional set of rights and obligations between the insurance firm and the reinsurer but does not change the insurance firm's obligations to its policyholders nor does it create any direct obligations (to each other) between the insurance firm's policyholders and the insurance firm's reinsurer.

GR-4.1.5

Where the proposed transfer involves a transfer of obligations under contracts of insurance in respect of risks situated inside the Kingdom of Bahrain, the transferee must be licensed to carry on insurance business in Bahrain.

GR-4.1.6

Where the proposed transfer involves a transfer of obligations under contracts of insurance in respect of risks situated outside the Kingdom of Bahrain, the transferee:

- (a) must be licensed to carry on insurance business in the jurisdiction where such risks are situated; or
- (b) must be permitted to carry on insurance business in the jurisdiction where such risks are situated.

MODULE	GR: General Requirements
CHAPTER	GR 4: Portfolio Transfers

GR-4.2 Procedure with Respect to Applications

GR-4.2.1

The BMA will only consider an application under Paragraph GR-4.1.1 if it is satisfied that:

- (a) a notice approved by the BMA for the purpose has been published in the “Official Government Gazette” and, if the BMA thinks fit, in two national newspapers in Bahrain approved by the BMA (one being in English and one in Arabic);
- (b) where the proposed transfer includes any contract of direct insurance and the risk is situated in a jurisdiction other than Bahrain, in two national newspapers in that jurisdiction;
- (c) except in so far as the BMA has otherwise directed, a copy of the notice has been sent to every affected policyholder and every other person who claims an interest in a policy included in the proposed transfer (and has given written notice of his claim to the transferor);
- (d) copies of a statement setting out particulars of the transfer, approved by BMA, have been available for inspection at one or more places in Bahrain for at least 30 days, starting with the date of publication of the notice specified in GR-4.2.1(a); and
- (e) where the proposed transfer includes any contract of direct insurance and the risk is situated in a jurisdiction other than Bahrain, a statement setting out particulars of the transfer, approved by the BMA, has been available for inspection at one or more places in that jurisdiction for at least 30 days, starting with the date of publication of the notice specified in sub-Paragraph GR-4.2.1 (b).

GR-4.2.2

Subject to the BMA’s review, the requirements of Paragraph GR-4.2.1 do not apply to the transfer of the portfolio from a captive insurer or to a portfolio transfer entirely comprising reinsurance business, where all of the policyholders affected by the transfer have given their consent.

GR-4.2.3

Firms intending to apply for a transfer of business are advised to contact the BMA at the earliest possible opportunity, in order that the BMA may determine the nature and level of documentation to be provided and the need for actuarial or other expert opinion to be provided to support the application. Transfers of long-term business will in all cases require an actuarial evaluation to be provided to the BMA. An affected policyholder is a policyholder whose policy is included in the transfer, or his policy is with the transferor and the BMA has ruled, after consulting the transferor, that the policyholder's rights and obligations under the policy will or may be materially affected by the transfer.



MODULE	GR: General Requirements
CHAPTER	GR 4: Portfolio Transfers

GR-4.2 Procedure with Respect to Applications (continued)

GR-4.2.4

The notices referred to in Paragraph GR-4.2.1 (a) and (b) must include a statement that written representations concerning the transfer may be sent to the BMA before a specified day, which shall not be earlier than sixty days after the day of the first publication of the notice. The BMA will not decide on the application until after considering any representations made to the BMA before the specified day.

GR-4.2.5

The BMA reserves the right to waive any of the requirements in GR-4.2.1 to GR-4.2.4 if it believes they are not necessary in order to protect the interest of policyholders affected by a proposed portfolio transfer, given the particular circumstances of the case. The BMA also reserves the right to impose additional requirements if, in the opinion of the BMA, additional requirements are necessary to protect policyholder interests. In all cases where requirements are waived or additional requirements imposed pursuant to GR-4.2.5, the BMA shall state the reasons for doing so.



MODULE	GR: General Requirements
CHAPTER	GR 4: Portfolio Transfers

GR-4.3 Determination of Applications

GR-4.3.1

The BMA will not approve the transfer, under the terms of Paragraph GR-4.2.1, unless it is satisfied that:

- (a) the transferee is authorised to carry on insurance business in Bahrain or (where relevant) is authorised or otherwise permitted to carry on insurance business in the jurisdiction where any overseas risks are situated.
- (b) every policy included in the transfer evidences a contract which was entered into before the date of the application;
- (c) the transferee possesses the necessary margin of solvency after taking the proposed transfer into account;
- (d) where policies are being transferred from an overseas branch of the insurance licensee, or the transferee is an overseas insurance licensee, the relevant overseas regulatory authority has been consulted about the proposed transfer, the law of that jurisdiction provides for the possibility of such a transfer, and the relevant supervisory authority in that jurisdiction has agreed to the transfer; and
- (e) there are no material adverse consequences from the transfer on the transferee or the security of policyholders.

MODULE	GR: General Requirements
CHAPTER	GR 4: Portfolio Transfers

GR-4.4 Rights of Policyholders

GR-4.4.1 Where the BMA approves an application made under Section GR-4.3, it will direct that a notice of the decision, and of the execution of any instrument giving effect to the transfer, shall be published in the jurisdiction in which the risk is situated. The notice shall specify the period during which the policyholder may exercise any right to cancel the policy.

GR-4.4.2 The instrument shall not bind the policyholder if either such a notice is not so published or the policyholder exercises any such right during the period so specified.

GR-4.4.3 Where the risk is situated in a jurisdiction other than Bahrain, the law of the jurisdiction in which the risk is situated shall determine whether the policyholder has a right to cancel the policy, and the conditions applicable to any such right.

GR-4.4.4 The requirement in Paragraph GR-4.4.1 does not have to be met in respect of a transfer of business where the transferor is a Category C1 captive insurance firm.



MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

GR-5.1 Key Provisions

GR-5.1.1 Condition 3 of BMA's licensing conditions specifies, amongst other things, that insurance licensees must satisfy the BMA that their controllers are suitable and pose no undue risks to the licensee. (See Paragraph AU-2.3.1.)

GR-5.1.2 Applicants for an insurance license must provide details of their controllers, by submitting a duly completed Form 2 (Application for authorisation of controller). (See sub-paragraph AU-5.1.3 (a).)

GR-5.1.3 Insurance licensees must obtain prior approval from the BMA for any of the following changes to its controllers (as defined in Section GR-5.2):

- (a) a new controller;
- (b) an existing controller increasing its holding from below 20% to above 20%;
- (c) an existing controller increasing its holding from below 50% to above 50%; and
- (d) an existing controller reducing its holding from above 50% to below 50%.

GR-5.1.4 For approval under Paragraph GR-5.1.3 to be granted, the BMA must be satisfied that the proposed increase or reduction in control poses no undue risks to the licensee. A duly completed Form 2 (Controllers) must be submitted as part of the request for a change in controllers.

GR-5.1.5 If, as a result of circumstances outside the insurance licensee's knowledge and/or control, one of the changes specified in Paragraph GR-5.1.3 is triggered prior to BMA approval being sought or obtained, the insurance licensee must notify the BMA as soon as it becomes aware of the fact and no later than 7 days.

GR-5.1.6 Insurance licensees are encouraged to notify the BMA as soon as they become aware of events that are likely to lead to changes in their controllers, both through new controllers coming in or existing controllers ceasing to have control. The criteria by which the BMA assesses the suitability of controllers are set out in Section GR-5.3. The BMA aims to respond to requests for approval within 30 calendar days. The BMA may contact references and supervisory bodies in connection with any information provided to support an application for controller. The BMA may also ask for further information, in addition to that provided in the Form 2, if required to satisfy itself as to the suitability of the applicant.

GR-5.1.7 Insurance licensees must submit, within 3 months of their financial year-end, a report on their controllers. This report must identify all controllers of the licensee, as defined in Section GR-5.2.



MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

GR-5.2 Definition of Controller

GR-5.2.1 A controller of an insurance licensee is a natural or legal person who:

- (a) holds 10% or more of the shares in the licensee ("A"), or is able to exercise (or control the exercise) of more than 10% of the voting power in A; or
- (b) holds 10% or more of the shares in a parent undertaking ("P") of A, or is able to exercise (or control the exercise) of more than 10% of the voting power in P; or
- (c) is able to exercise significant influence over the management of A or P.

GR-5.2.2 For the purposes of Paragraph GR-5.2.1, "person" means the person ("H") or any of the person's associates, where associate includes:

- (a) the spouse, child or stepchild of H;
- (b) an undertaking of which H is a director;
- (c) a person who is an employee or partner of H;
- (d) if H is a corporate entity, a director of H, a subsidiary of H, or a director of any subsidiary undertaking of H.

GR-5.2.3 Associate also includes any other person or undertaking with which the person H has entered into an agreement or arrangement as to the acquisition, holding or disposal of shares or other interests in the insurance licensee, or under which they undertake to act together in exercising their voting power in relation to the insurance licensee.

GR-5.2.4 For the avoidance of doubt, the management company of a captive insurer is not automatically a controller of the firm.

MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

GR-5.3 Suitability of Controllers

GR-5.3.1 A controller of an insurance licensee must satisfy the BMA of his suitability.

GR-5.3.2 In assessing the suitability of controllers who are natural persons, BMA has regard to their professional and personal conduct, including, but not limited to, the following:

- (a) the propriety of a person's conduct, whether or not such conduct resulted in conviction for a criminal offence, the contravention of a law or regulation, or the institution of legal or disciplinary proceedings;
- (b) a conviction or finding of guilt in respect of any offence, other than a minor traffic offence, by any court or competent jurisdiction;
- (c) any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance or other misconduct in connection with the formation or management of a corporation or partnership;
- (d) whether the person has been the subject of any disciplinary proceeding by any government authority, regulatory agency or professional body or association;
- (e) the contravention of any financial services legislation or regulation;
- (f) whether the person has ever been refused a license, authorisation, registration or other authority;
- (g) dismissal or a request to resign from any office or employment;
- (h) disqualification by a court, regulator or other competent body, as a director or as a manager of a corporation;
- (i) whether the person has been a director, partner or manager of a corporation or partnership which has gone into liquidation or administration or where one or more partners have been declared bankrupt whilst the person was connected with that partnership;
- (j) the extent to which the person has been truthful and open with regulators; and
- (k) whether the person has ever been adjudged bankrupt, entered into any arrangement with creditors in relation to the inability to pay due debts, or failed to satisfy a judgement debt under a court order.

GR-5.3.3 In addition, the following criteria are also taken into consideration:

- (a) the financial resources of the person and the likely stability of their shareholding; and
- (b) existing directorships or ownership of more than 20% of the capital or voting rights of any financial institution in the Kingdom of Bahrain or elsewhere, and the potential for conflicts of interest that such directorships or ownership may imply.

MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

GR-5.3 Suitability of Controllers (continued)

- GR-5.3.4 In assessing the suitability of corporate controllers, BMA has regard to their financial standing, judicial and regulatory record, and standards of business practice and reputation, including, but not limited to, the following:
- the financial strength of the controller, its parent(s) and other members of its group, its implications for the insurance licensee and the likely stability of the controller's shareholding;
 - whether the controller or members of its group has ever entered into any arrangement with creditors in relation to the inability to pay due debts;
 - the controller's jurisdiction of incorporation, location of Head Office, group structure and close links, and the implications for the insurance licensee as regards effective supervision of the insurance licensee and potential conflicts of interest;
 - the controller's (and other group members') propriety and general standards of business conduct, including the contravention of any laws or regulations, or the institution of disciplinary proceedings by a government authority, regulatory agency or professional body;
 - any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance or other misconduct;
 - any criminal actions instigated against the controller or other members of its group, whether or not this resulted in an adverse finding; and
 - the extent to which the controller or other members of its group have been truthful and open with regulators and supervisors.



MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

GR-5.4 Approval Process

GR-5.4.1

Following receipt of an approval request under Paragraph GR-5.1.3, the BMA will issue a written notice of objection if it is not satisfied that the person concerned is suitable to become a controller of the insurance licensee. The notice of objection will specify the reasons for the objection and specify the applicant's right of appeal.

GR-5.4.2

Notices of objection have to be approved by an Executive Director of the BMA. The applicant has 30 calendar days from the date of the notice in which to make written representations. The BMA then has 30 calendar days from the date of the representation in which to consider any mitigating evidence submitted and make a final determination. See Module EN (Enforcement).

GR-5.4.3

Where a person has become a controller by virtue of his shareholding in contravention of Paragraph GR-5.1.3, or a notice of objection has been served to him under Paragraph GR-5.4.1 and the period of appeal has expired, the BMA may, by notice in writing served on the person concerned, direct that his shareholding shall, until further notice, be subject to all or any of the following restrictions:

- (a) no voting right shall be exercisable in respect of those shares; and
- (b) except in a liquidation, no payment shall be made of any sum due on the shares from the insurance licensee, whether in respect of capital, dividend or otherwise.

MODULE	GR: General Requirements
CHAPTER	GR 6: Close Links

GR-6.1 Key Provisions

GR-6.1.1 Condition 3 of BMA's licensing conditions specifies, amongst other things, that insurance licensees must satisfy the BMA that their close links do not prevent the effective supervision of the licensee and otherwise pose no undue risks to the licensee. (See Paragraph AU-2.3.1).

GR-6.1.2 Applicants for an insurance license must provide details of their close links, as provided for under Form 1 (Application for a License). (See Paragraph AU-5.1.1).

GR-6.1.3 Insurance licensees must submit to BMA, attached to their annual return and within 3 months of their financial year-end, a report on their close links. The report must identify all undertakings closely linked to the licensee, as defined in Section GR-6.2.

GR-6.1.4 Insurance licensees may satisfy the requirement in Paragraph GR-6.1.3 by submitting a corporate structure chart, identifying all undertakings closely linked to the licensee. In the case of insurance firms, the report should be attached to the Annual Insurance Return (Form IFR (C) or IFR (I)). In the case of insurance intermediaries and insurance managers, the report should be attached to the Insurance Intermediary and Manager Return (Form IMR).

GR-6.1.5 Insurance licensees must provide information on undertakings with which they are closely linked, as requested by BMA.

MODULE	GR: General Requirements
CHAPTER	GR 6: Close Links

GR-6.2 Definition of Close Links

GR-6.2.1

An insurance licensee ("A") has close links with another undertaking ("C"), if:

- (a) C is a parent undertaking of A;
- (b) C is a subsidiary undertaking of A;
- (c) C is a parent undertaking of a subsidiary undertaking of A;
- (d) C is a subsidiary undertaking of a parent undertaking of A;
- (e) C owns or controls 20% or more of the voting rights or capital of A; or
- (f) A, any of its parent or subsidiary undertakings, or any of the subsidiary undertakings of its parent, owns or controls 20% or more of the voting rights or capital of C.



MODULE	GR: General Requirements
CHAPTER	GR 6: Close Links

GR-6.3 Assessment Criteria

GR-6.3.1

In assessing whether an insurance licensee's close links may prevent the effective supervision of the firm, or otherwise poses no undue risks to the insurance licensee, the BMA takes into account the following:

- (a) whether the BMA will receive adequate information from the insurance licensee, and those with whom the licensee has close links, to enable it to determine whether the licensee is complying with BMA requirements;
- (b) the structure and geographical spread of the licensee, its group and other undertakings with which it has close links, and whether this might hinder the provision of adequate and reliable flows of information to the BMA, for instance because of operations in territories which restrict the free flow of information for supervisory purposes;
- (c) in the case of an overseas insurance licensee, whether the insurance licensee and its group will be subject to supervision on a consolidated basis (for example, if a financial resources requirement is determined for the group as a whole); and
- (d) whether it is possible to assess with confidence the overall financial position of the group at any particular time, and whether there are factors that might hinder this, such as group members having different financial year ends or auditors, or the corporate structure being unnecessarily complex and opaque.



MODULE	GR: General Requirements
CHAPTER	GR 7: Statutory Deposits and Compulsory Reserve

GR-7.1 Requirement for a Cash Deposit

GR-7.1.1

The insurance law 1987 requires insurance firms and insurance brokers to maintain a cash deposit with a Bahrain bank, subject to detailed requirements to be issued by regulation. Except for captive insurers, the following provisions carry forward the requirements that have been applied by Articles 12 to 15 inclusive for insurance firms and Article 28 for insurance brokers contained in the implementing regulations of the insurance law 1987, issued under Ministerial Order No. 6 of 1990, updated where necessary.

GR-7.1.2

Insurance firms, except for captive insurers and insurance firms who are in run-off and whose license is restricted from entering into new contracts of insurance as per Paragraph GR-8.1.3, must maintain a cash deposit with a commercial bank licensed to do business in Bahrain, for the following amounts:

- (a) BD 50,000 for life insurance and/or savings and fund accumulation categories;
- (b) BD 75,000 for any insurance category of general insurance for all insurance categories; and
- (c) BD 150,000 for firms solely effecting reinsurance contracts.

GR-7.1.3

For captive insurers, the cash deposit referred to in Paragraph GR-7.1.2, is to be zero (nil).

GR-7.1.4

Insurance brokers must maintain a cash deposit with a commercial bank licensed to do business in Bahrain for the following amounts:

- (a) BD 2,500 for life insurance and savings and fund accumulation categories; and
- (b) BD 5,000 for general insurance for all insurance categories.

GR-7.1.5

The cash deposit must be in the name of the insurance firm or insurance broker and for the order of the BMA. It may not be disposed of except by written permission of the BMA.

GR-7.1.6

The interest and profits arising from the deposit shall be for the account of the insurance firm or insurance broker. The deposit may be moved to another commercial bank licensed to do business in Bahrain, providing that prior approval has been obtained from the BMA.

GR-7.1.7

In the case of insurance licensees originally licensed as exempt companies, insurance licensees may opt to have the cash deposit required as per Paragraphs GR-7.1.2 and GR-7.1.4 maintained with the BMA.



MODULE	GR: General Requirements
CHAPTER	GR 7: Statutory Deposits and Compulsory Reserve

GR-7.2 Compulsory Reserve

GR-7.2.1

In accordance with Article 12 of the insurance law 1987, insurance firms are required to set aside a proportion of their annual profits, being no less than 10 per cent as a compulsory reserve until the total of such compulsory reserve equals 100 per cent of the paid-up capital.

GR-7.2.2

In accordance with the Bahrain Commercial Companies Law, insurance licensees must also comply with the statutory requirements of this law requiring that 10% of annual profits be set aside as a statutory reserve. However, the requirements of the Bahrain Commercial Companies Law notes that the balance of such reserve is to equal 50% of the paid-up capital of the company. Paragraph GR-7.2.1 requires that for insurance firms, the balance of the reserve is to equal 100% of the paid-up capital. Therefore, for insurance licensees, other than insurance firms, subject to the Bahrain Commercial Companies Law, the balance of such reserves shall be 50% of the paid-up capital.



MODULE	GR: General Requirements
CHAPTER	GR 8: Suspension of Business

GR-8.1 BMA Approval

GR-8.1.1 An insurance firm wishing to suspend its operations and liquidate its business must notify the BMA in writing, setting out whether it proposes to affect a transfer of its portfolio or go into run-off.

GR-8.1.2 If the insurance firm wishes to effect a portfolio transfer, it must comply with the requirements contained in Chapter GR-4.

GR-8.1.3 If the insurance firm wishes to go into run-off, the BMA will revise its license to restrict the firm from entering into new contracts of insurance. The insurance firm must continue to comply with all applicable BMA requirements until such time as it is formally notified by the BMA that its obligations have been discharged and that it may surrender its license.

GR-8.1.4 An insurance firm in run off must continue to meet its contractual and regulatory obligations to policyholders.

GR-8.1.5 Once the insurance firm believes that it has discharged all its remaining contractual obligations to policyholders, it must publish a notice in two national newspapers in Bahrain approved by the BMA (one being in English and one in Arabic), stating that it has settled all its dues and wishes to leave the market. If the insurance firm had entered into direct contracts of insurance relating to risks situated in a jurisdiction other than Bahrain, a notice must also be published in two national newspapers in the jurisdiction concerned.

GR-8.1.6 The notices referred to in Paragraph GR-8.1.5 must include a statement that written representations concerning the liquidation may be sent to the BMA before a specified day, which shall not be earlier than sixty days after the day of the first publication of the notice. The BMA will not decide on the application until after considering any representations made to the BMA before the specified day.

GR-8.1.7 If no objections to the liquidation are upheld by the BMA, then the BMA will issue a written notice of approval for the surrender of the license and for the return of the insurance firm's statutory deposit.

GR-8.1.8 Upon application, the BMA may grant exemptions to the disclosure requirements of Paragraphs GR-8.1.5 and GR-8.1.6 for captive insurers. However, all other provisions of Chapter GR-8 apply in full to captive insurers.



MODULE	GR: General Requirements
CHAPTER	GR 9: Appointed Representatives

GR-9.1 Key Provisions

GR-9.1.1

An insurance firm may appoint as its representative a person who is not directly authorised by the BMA, known as an appointed representative. Insurance firms that appoint appointed representatives are called licensed principals.

GR-9.1.2

Appointed representatives are persons acting on behalf, and under the overall control of a licensed principal. They are effectively an extension of the licensed principal. The licensed principal takes full responsibility for the actions of their appointed representatives vis-à-vis the BMA. Note that only insurance firms may act as licensed principals.

GR-9.1.3

An appointed representative may be a natural or corporate person. An appointed representative may be a BMA licensed firm (e.g. a bank) that does not hold any of the permissions of insurance firm, insurance broker, or insurance consultant.

GR-9.1.4

An appointed representative may have agencies with no more than one licensed principal per type of business. Each type of insurance includes both conventional insurance and takaful within the business. For the purposes of this requirement the types of business are as follows:

- (a) motor insurance;
- (b) legal expenses insurance;
- (c) travel insurance;
- (d) extended warranty insurance;
- (e) all other types of general insurance (as defined in Paragraph AU-2.4.8), excluding (a)-(d) above; and
- (f) long term insurance (as defined in Paragraph AU-1.4.7).

GR-9.1.5

An appointed representative may only undertake the types of business for which the licensed principal is authorised to undertake by the BMA.

MODULE	GR: General Requirements
CHAPTER	GR-9: Appointed Representatives

GR-9.1 Key Provisions (continued)

GR-9.1.6

In the case where an appointed representative acts as agent for more than one licensed principal, it must arrange its business to achieve reasonable segregation between principals to allow each licensed principal to carry out monitoring of its business under its agency agreement.

GR-9.1.7

An appointed representative must maintain separate bank accounts for any monies relating to premiums and claims handled on behalf of each licensed principal.

GR-9.1.8

An appointment by an insurance firm of an appointed representative must be the subject of a written contract of agency. This contract must state, inter alia:

- (a) the name of the appointed representative;
- (b) the name of the licensed principal;
- (c) that the licensed principal is responsible for the actions and conduct of the representative concerned when acting or purporting to act under it (without prejudice to any rights to bring actions for damages by the licensed principal against the appointed representative or vice versa);
- (d) the type(s) of business for which the agency is granted;
- (e) that the appointed representative allows full access to the BMA, the licensed principal and the license principal's external auditors, given reasonable notice, to all records relating to the business falling within its agency;
- (f) the terms and conditions for the handling of and accounting for client money, including a statement that the appointed representative is acting solely as agent of the licensed principal in the handling of such money; and
- (g) the conditions for cancellation, which cannot alter or cancel the continuing responsibility of the licensed firm to take responsibility for the representative's action and conduct (without prejudice to any rights to bring actions for damages by the licensed firm against the representative or vice versa).



MODULE	GR: General Requirements
CHAPTER	GR-9: Appointed Representatives

GR-9.1 Key Provisions (continued)

GR-9.1.9 The powers of access given to the BMA and the licensed principal's auditors by sub-Paragraph GR-9.1.8 (e) are in order to ensure that the agency between the licensed principal and the appointed representative does not impede the effective supervision of the licensed principal by the BMA.

GR-9.1.10 Once appointed, the licensed principal must take full responsibility for the actions and conduct of the appointed representative, in respect of any matters of compliance with, or breach of, the requirements of the BMA Rulebook that relate to activities of the appointed representative acting within the real or implied authority of the licensed principal. This is without prejudice to any rights of redress the licensed principal may have at law against the appointed representative.

GR-9.1.11 The licensed principal must ensure that the appointed representative complies with the provisions of the BMA Rulebook applicable to the activities being undertaken in accordance with the agency, including, but not limited to:

- (a) record keeping;
- (b) business conduct; and
- (c) financial crime regulations.

GR-9.1.12 The licensed principal must ensure that periodic monitoring of the appointed representative is undertaken to ensure the adequacy of the systems and controls in place. The licensed principal or an appropriately qualified independent party may undertake this monitoring.

GR-9.1.13 All appointments of appointed representatives, variations in terms of appointment and cancellations of appointment must be notified in writing to the BMA no later than 5 working days after they have taken place.

GR-9.1.14 An appointed representative must at all times act within the limits of his authority in the conduct of activities covered by the terms of the agency agreement.

GR-9.1.15 An appointed representative must disclose to clients the relationship that he has with the licensed principal and any other parties that could reasonably be considered material to the insurance contract.

MODULE	GR: General Requirements
CHAPTER	GR-10: Professional Indemnity Coverage

GR-10.1 Insurance Brokers and Insurance Consultants

GR-10.1.1 Insurance brokers and insurance consultants must maintain professional indemnity coverage, acceptable to the BMA, with a minimum limit of indemnity for any one claim and in any one insurance period of 12 months. Insurance brokers and insurance consultants must provide, upon request, evidence to the BMA of the coverage in force.

GR-10.1.2 Requirements for professional indemnity coverage will normally be met by the insurance broker or insurance consultant obtaining an insurance policy from an insurance firm. However, upon written application to the BMA, coverage may be met by the insurance broker or consultant depositing with a commercial bank licensed to operate in the Kingdom of Bahrain, an amount, specified by the BMA, to be held in escrow against future claims. This amount will not be less than the minimum required policy limit.

GR-10.1.3 The minimum limit of indemnity is BD 100,000 for insurance brokers and BD 75,000 for insurance consultants.

GR-10.1.4 Other than in the case of Paragraph GR-10.1.2, the maximum excess or deductible allowable under the policy shall be BD 15,000.

GR-10.1.5 Branches of insurance brokers or consultants of a company incorporated under the laws of its territory of incorporation must provide evidence of professional indemnity coverage maintained by their company and specifically indicating that the coverage of the professional indemnity extends to the operations of the branch resident in Bahrain.

GR-10.1.6 Unless the licensee has access to the professional indemnity cover meeting the minimum requirements of Paragraphs GR-10.1.3 and GR-10.1.4 provided to its parent company, separate professional indemnity cover will need to be provided.

GR-10.1.7 Unless otherwise agreed in writing with the BMA, the policy must contain a clause that it may not be cancelled or lapsed without the prior approval of the BMA. The policy must also contain a provision for an automatic extended reporting period in the event that the policy is cancelled or lapsed, such that claims relating to the period during which the policy was in force may subsequently still be reported.



MODULE	GR: General Requirements
CHAPTER	GR-10: Professional Indemnity Coverage

GR-10.1 Insurance Brokers and Insurance Consultants (continued)

- GR-10.1.8** If an insurance broker or consultant applies to the BMA for a voluntary surrender of its authorisation, it must ensure that suitable arrangements are in place for professional indemnity coverage to continue in respect of any unreported claims arising from past sales or advice.
- GR-10.1.9 The BMA will not allow a voluntary surrender of authorisation to take effect until the insurance licensee, in the opinion of the BMA, has discharged all its regulatory responsibilities to its customers. See also Section AU-5.5, on the withdrawal of authorised status.
- GR-10.1.10 Except as provided for by Paragraph ES-2.5.3, professional indemnity coverage requirements must be met by insurance brokers and insurance consultants by December 31, 2005 (refer to ES-2.5.2).
- GR-10.1.11 Unincorporated Bahraini insurance brokers licensed prior to April 1, 2005 must meet the professional indemnity coverage requirements by December 31, 2006 (refer to ES-2.4.3).
- GR-10.1.12** Insurance brokers and insurance consultants must prominently display in their premises a notice stating that they have in place professional indemnity coverage that meet the minimum requirements of the BMA and the period of coverage.