



CAPTIVE INSURERS

MODULE



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MODULE	CI:	Captive Insurers
CHAPTER	CI-A:	Introduction

CI-A.1 Purpose

Executive Summary

CI-A.1.1 This Module summarises the key aspects of CBB requirements applicable to captive insurance 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, captive insurance firms, captive management 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

CI-A.1.2

This Module contains the Central Bank of Bahrain's ('CBB') Directive (as amended from time to time) relating to captive insurers 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).

CI-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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CI-A.2 Module History

CI-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.

CI-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.

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

Module Ref.	Change Date	Description of Changes
CI-2.3	01/10/05	Clarified that captive insurers are exempt from several requirements dealing with Board composition, including the requirement to have a minimum of 5 Directors.
CI-3.4	01/10/05	Updated cross-references to Module FC.
CI-A.1.2	01/2007	Updated to reflect new CBB Law and new Rule A.1.2 introduced categorising this Module as a Directive.
CI-2.4	10/2007	Amended section to be in line with changes made for actuaries.
CI-A.1.2	01/2011	Clarified legal basis
CI-1.2.1 and CI-2.3	04/2011	Amended to reflect changes to Module HC.

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



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CHAPTER	CI-1:	Overview

CI-1.1 Captive Insurance in Bahrain

CI-1.1.1 Captive insurers are companies established by industrial or commercial groups (who are themselves not insurance firms) primarily to insure the risks of their owning groups. Worldwide, there are over 4,000 captive insurance companies in existence.

CI-1.1.2 Like many regulatory authorities, Bahrain differentiates between captive insurers, and insurance firms whose business does not generally originate from within their owning group. This differentiation is on the basis that:

- (a) A captive's obligations (through its insurance policies) are to its owners, not third parties (some captives, though may insure liability risks);
- (b) A captive's risk exposures (through its insurance policies) will generally be more concentrated and, at the same time, potentially more limited than conventional insurers; and
- (c) A captive will usually be managed by a specialised third party insurance manager.

CI-1.1.3 The CBB's capital and solvency requirements are lower for captives than for other categories of insurer, though the CBB also monitors the 'risk gap' between policy liabilities and available assets. However, capital and solvency requirements for captives are increased where liability risks are included, due to the possibility of third party claimants. The CBB licenses insurance managers and there are specific differences in the governance, management and systems and controls requirements for captives to take account of this.



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CI-1.2 Structure of this Guidance

CI-1.2.1 The following table lists the Modules of the CBB Insurance Rulebook and indicates those that apply to captive insurance firms. The remaining Chapters of this guide will describe in more detail the principal requirements of each Module of the Regulations and Directives that apply to captive insurance firms.

HIGH LEVEL STANDARDS

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>captive insurers</u> .
PB (Principles of Business)	Principles that are applicable to <u>all insurance licensees</u> regulated in Bahrain; these apply in full to captive firms.
HC (High-Level Controls)	Directives in respect of governance, systems and controls of licensees. Captive firms are <u>subject to a different level of requirements due to the nature of their activities</u> .
AA (Auditors and Actuaries)	Directives on the appointment and functions of external <u>auditors</u> and <u>actuaries</u> of <u>insurance licensees</u> . These apply in full apart from some minor exemptions.
GR (General Requirements)	Regulations and Directives dealing with requirements covering matters not included in other Modules. These include: books and records, corporate and trade names, dividends, business transfers, <u>controllers</u> , <u>close links</u> , statutory deposits, cessation of business and <u>appointed representatives</u> . These Regulations and Directives apply for the most part to <u>captive insurers</u> , but there are lighter requirements particularly for business transfers due to the nature of the business undertaken and the relationship of the <u>captive insurer</u> with the owning firm.



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CI-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 captive firms, though due to the nature of their business, these are lighter requirements than those imposed on <u>insurance firms</u> .
Module BC (Business Conduct)	The Code of Business Conduct governs the sale of insurance and applies to all <u>insurance licensees</u> .
Module RM (Risk Management)	Risk management standards applicable to licensees. Captive firms are exempted from some of the detailed requirements. Several of the requirements for risk management can be outsourced to <u>insurance managers</u> .
Module FC (Financial Crime)	Directives governing the monitoring and reporting of financial crime. Captive firms are exempted from some of the detailed requirements.
Module TC (Training & Competency)	Directives to be developed but are not expected to apply to captive firms directly where the management is subcontracted to an <u>insurance manager</u> . Some of the Directives may apply to self-managed <u>captive insurance firms</u> .

REPORTING REQUIREMENTS

Module BR (CBB Reporting)	Requirements for reporting to the CBB. Annual reporting requirements apply to captive firms. Captives are exempted from group and quarterly reporting requirements.
Module PD (Public Disclosure)	This Module, governing public disclosure, does not apply to captive firms.

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 later but are not expected to apply to captive firms.
Module CP (Compensation)	Directives will be developed later but are not expected to apply to captive firms.



MODULE	CI:	Captive Insurers
CHAPTER	CI-2:	High Level Standards

CI-2.1 Authorisation

		<u>Rulebook reference</u>
CI-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.1.2
CI-2.1.2	An <u>insurance firm's</u> license will state the classes of insurance that the firm is authorised to conduct. In recognition that the <u>policyholders</u> of <u>captive insurers</u> are limited to their owners (or <u>shareholders</u>), <u>captive insurers</u> may be licensed to underwrite either <u>general insurance business</u> or <u>long-term insurance business</u> , or both. In the latter case, however, they are required to maintain separate funds for general and long-term insurance business and to apply the appropriate capital requirements to each fund.	AU-1.1.14
CI-2.1.3	For <u>captive insurers</u> , the legal status of an <u>insurance firm</u> must be: (i) A Bahraini special purpose vehicle (SPV), specifically established to carry out the activities of a <u>captive insurer</u> ; (ii) A Bahraini joint stock company (BSC); or (iii) A branch resident in Bahrain of a company incorporated under the laws of its territory of incorporation and (where local regulation so requires) authorised as an insurance or reinsurance firm in that territory.	AU-2.1.2
CI-2.1.4	Subject to CBB approval, an <u>insurance licensee</u> that is a <u>captive (re-) insurance company</u> may maintain its Head Office or place of business at the offices of the <u>insurance manager</u> appointed to manage its affairs.	AU-2.2.4
CI-2.1.5	A firm that is authorised as a <u>captive insurance firm</u> will have one of the following permissions granted by the CBB: Category C1 – a Bahrain authorised insurer whose business is restricted to insuring only the insurance risks (other than <u>liability risks</u>) of its <u>shareholder(s)</u> or those of subsidiary or associated companies of its <u>shareholder(s)</u> ; or Category C2 – A Bahrain authorised insurer whose business is restricted to insuring only the risks of its <u>shareholder(s)</u> or of subsidiary or associated companies of its <u>shareholder(s)</u> , and whose business may include <u>liability risks</u> , subject to the CBB being satisfied that the activity, capital structure and management provide sufficient protection to potential third party claimants.	Glossary of terms



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CI-2.1 Authorisation (continued)

		<u>Rulebook</u> <u>reference</u>
CI-2.1.5 (continued)	<p>Some examples of business models that could qualify for captive licensing include:</p> <p>(a) A group of businesses or professional firms insuring similar risks (who would, effectively, pool these risks through a captive);</p> <p>(b) A car hire firm insuring collision damage risk, where the premium is paid by the hire firm. (Where the premium is paid by the hirer, an application for a conventional firm, not a captive, must be made.); and</p> <p>(c) A firm, or group of firms insuring professional indemnity risks (in which case the captive would be classed as C2 and the business includes liability risks).</p>	
CI-2.1.6	<p>A <u>captive insurance firm</u> may be licensed to write either insurance and reinsurance business or may restrict its business to reinsurance only.</p>	
CI-2.1.7	<p>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). For further details please refer to the Module TA (Takaful).</p>	TA



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CI-2.2 Principles of Business

		<u>Rulebook reference</u>
CI-2.2.1	There are 10 Principles of Business that apply to all <u>insurance licensees</u> including <u>captive insurers</u> .	
CI-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
CI-2.2.3	The Principles of Business are: <ol style="list-style-type: none">1. Observing high standards of integrity and fair dealing. <u>Insurance licensees</u> and <u>approved persons</u> should be honest and straightforward in their dealings with <u>customers</u>, and disclose fully all relevant information to <u>customers</u>, as required by the CBB's Regulations and Directives..2. Taking all reasonable steps to identify, and prevent or manage, conflicts of interest 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 confidentiality, including with respect to <u>client</u> information. This requirement does not over-ride lawful disclosures.5. Observing proper standards of market conduct, and avoiding action that would generally be viewed as improper.6. Taking reasonable care to safeguard the assets of <u>customers</u>.7. Paying due regard to the legitimate interests of <u>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 relationship with the CBB and other competent regulatory bodies and taking reasonable care to ensure that activities comply with all applicable laws and Regulations.	PB-1



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CI-2.2 Principles of Business (continued)

	<u>Rulebook</u> <u>reference</u>
CI-2.2.3	<p>9. Maintaining adequate resources, whether human, financial or otherwise, sufficient to run the business in an orderly manner.</p> <p>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.</p>



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CI-2.3 High-Level Controls

		Rulebook reference
CI-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 Directives that put this principle into practice.	PB-1.10
CI-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 that is ultimately accountable and responsible for the management and performance of the firm. <u>Captive insurers</u> are subject to various provisions relating to corporate governance contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law ('Commercial Companies Law 2001'). In case of conflict, the Commercial Companies Law shall prevail.	HC-10
CI-2.3.3	Responsibility for the day-to-day management of a <u>captive insurer</u> is vested in the <u>Chief Executive Officer</u> , which is a <u>controlled function</u> . <u>Captive insurers</u> , unlike other <u>insurance licensees</u> , are not required to consider the need to operate Committees.	HC-10
CI-2.3.4	The CBB 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. In the case of a <u>captive insurance firm</u> , this must include: (a) The majority of its Board meetings taking place in Bahrain; (b) Appointing a locally-resident <u>General Manager</u> ; and (c) Premises and records being located in the Kingdom of Bahrain.	AU-2.2.1 and GR-1
	In order to satisfy the second and third of these requirements, it is expected that most captive insurance companies will outsource their day-to-day operations to a firm licensed by the CBB to manage captives (<u>insurance manager</u>) although captives may use their own staff and premises. The appointment of an <u>insurance manager</u> must be approved by the CBB and should be in accordance with the outsourcing requirements of the Rulebook (refer to the Risk Management Section of this guide).	



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CI-2.3 High-Level Controls (continued)

		Rulebook reference
CI-2.3.5	As part of their management structure, captive insurance firms should include an internal auditor.	HC-10.6
CI-2.3.6	An <u>insurance manager</u> must nominate a Compliance Officer, who must also be designated as the Compliance Officer for the managed firms. A self-managed <u>captive insurer</u> must also appoint a Compliance Officer, although this role may be combined with other functions.	
CI-2.3.7	Chapters HC-10 contains additional guidance applicable to all <u>captive insurance firms</u> in respect of financial statements certification, appointment, training and evaluation of the Board, remuneration of <u>approved persons</u> , management structure, corporate ethics, communication between the Board and shareholders and corporate governance disclosure.	HC- 10



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CI-2.4 Auditors and Actuaries

		Rulebook reference
CI-2.4.1	<p><u>Captive 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>auditor</u>.</p>	AA-1.1.1
CI-2.4.2	<p>There are specific Rules and Guidance governing the duties and restrictions of <u>external auditors</u>.</p>	AA-1
CI-2.4.3	<p>All <u>insurance firms</u> – including captives – who conduct <u>long-term insurance business</u> must appoint an <u>actuary</u> that must provide an annual actuarial evaluation and report.</p>	AA-4.1
CI-2.4.4	<p><u>Insurance firms</u> that undertake <u>general insurance business</u> only must consider the need for an annual actuarial evaluation and report, from an <u>actuary</u>, at least once every three-year period.</p>	AA-4.1
CI-2.4.4A	<p><u>Insurance firms</u> can appoint a <u>Registered Actuary</u> or <u>Signing Actuary</u> to meet the CBB requirements.</p>	AA-4.2
CI-2.4.5	<p>The CBB maintains on its website a list of <u>Registered Actuaries</u> that can practise in the Kingdom of Bahrain. A <u>Registered actuary</u> must be independent of the insurance firm for which he is providing an actuarial evaluation and report.</p>	AU-1.3 and AA-4.2
CI-2.4.6	<p>A <u>Signing Actuary</u> is a <u>Director</u> or <u>employee</u> of the licensee concerned; he occupies a <u>controlled function</u>, and is subject to CBB approval as per Section AU-1.2</p>	AA-4.2.11



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CI-2.5 General Requirements

		Rulebook reference
CI-2.5.1	<p><u>Captive insurers</u> are expected to maintain books and records sufficient to produce financial statements and show a record of the business undertaken. Where this function is carried out by an <u>insurance manager</u>, the <u>captive insurer</u> should ensure that the CBB has access to these records at any time and these should be sufficient to allow an audit of the insurer's business or an on-site examination of the <u>captive insurer</u> by the CBB.</p>	GR-1.1
CI-2.5.2	<p>Where the <u>clients of captive insurance firms</u> are limited to related companies, <u>captive insurers</u> are exempted from the due diligence requirement for client records.</p>	GR-1.2.4
CI-2.5.3	<p>As the business of <u>captive insurers</u> is limited to related parties, <u>captive insurers</u> do not require prior approval from the CBB for their corporate name and any trade names.</p>	GR-2.1
CI-2.5.4	<p><u>Captive insurers</u> do not require CBB pre-approval for the distribution of dividends to <u>shareholders</u>.</p>	GR-3.1
CI-2.5.5	<p>Where a <u>captive insurer</u> transfers its portfolio to a third party, prior written approval from the CBB is required. Where all the <u>policyholders</u> affected by the transfer have given their consent in advance, then the requirements in Paragraph GR-4.2.1 do not apply. The CBB may waive some or all of the requirements in Section GR-4.2 where, in its opinion, they are not necessary in order to protect the interests of <u>policyholders</u>.</p>	GR-4.1 GR-4.2
CI-2.5.6	<p>Where the transferor is a Category C1 <u>captive insurance firm</u>, it is not subject to the publication requirements set out in Section GR-4.4.</p>	GR-4.4
CI-2.5.7	<p>The management company of a <u>captive insurance firm</u> is not automatically a <u>controller</u> of the <u>captive insurer</u>.</p>	GR-5.2.4
CI-2.5.8	<p>All requirements dealing with <u>close links</u> apply in full to <u>captive insurance firms</u>.</p>	GR-6



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CHAPTER	CI-2:	High Level Standards

CI-2.5 General Requirements (continued)

		<u>Rulebook</u> <u>reference</u>
CI-2.5.9	<p><u>Insurance firms</u> are required to maintain statutory deposits as per Article 181 of the CBB Law. For <u>captive insurers</u>, the statutory deposit referred to in Article 181 is to be zero (nil).</p>	GR-7.1.2
CI-2.5.10	<p>In accordance with the Bahrain Commercial Companies Law, <u>captive insurance firms</u> 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 50 per cent of the paid-up capital.</p>	GR-7.2
CI-2.5.11	<p><u>Captive insurance firms</u> may, at the CBB's discretion, be exempted from the disclosure requirements that apply when an insurer suspends its business. However all other provisions of Chapter GR-8 apply.</p>	GR-8



MODULE	CI:	Captive Insurers
CHAPTER	CI-3:	Business Standards

CI-3.1 Capital Adequacy

		Rulebook reference
CI-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
CI-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
CI-3.1.3	The <u>minimum fund</u> , that <u>captive insurance firms</u> must maintain (at all times) is: Category C1 firm: - BD 75,000; and Category C2 firm: - BD 300,000. These minimum requirements for C1 firms are lower than the corresponding amounts for conventional <u>insurance firms</u> , in recognition of captives' risk exposure being to its owning group rather than third parties.	CA-2.1.5
CI-3.1.4	For general insurance, the <u>required solvency margin</u> is calculated on the basis of the premiums written and claims incurred by the firm. A risk factor is applied, to reflect the differing risk profiles of different classes of insurance. For long-term insurance, 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> . Refer to Chapter CA-2 for the detailed rules governing the calculation of the <u>required solvency margin</u> .	CA-2
CI-3.1.5	<u>Captive insurers</u> must maintain a capital available at all times in accordance with the rules in Chapter CA-1.	CA-1
CI-3.1.6	The Valuation and Admissibility of Assets 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



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CI-3.1 Capital Adequacy (continued)

		Rulebook reference
CI-3.1.7	The Valuation of Liabilities 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
CI-3.1.8	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
CI-3.1.9	<u>Captive insurers</u> are exempted from the requirements to report on their group solvency position.	CA-7.1



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CI-3.2 Business Conduct

		<u>Rulebook</u> <u>reference</u>
CI-3.2.1	Module BC (Business Conduct) comprises general rules (BC-1) and a Code of Practice (BC-2). These rules apply in full to <u>captive insurers</u> . However, it should be noted that BC is principles-based. Because a <u>captive insurer</u> is insuring the risks of its parent group, it would be acceptable for the level of sales documentation and written disclosure to be less than would be required for retail customers. The CBB considers this to be compatible and consistent with maintaining a professional insurer-insured relationship between the parties.	BC-A.1
CI-3.2.2	The CBB expects the <u>insurance manager</u> to consider the requirements of the Code in relation to the service provided, on behalf of the captive, to its 'clients', namely insured members of the group. In most situations, for captives, the CBB would expect however that the requirements of the Code could be met by putting in place a simple protocol between the captive and the insured members of the group.	



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CHAPTER	CI-3:	Business Standards

CI-3.3 Risk Management

		Rulebook reference
CI-3.3.1	Principle 10 (CI-2.2.3) requires firms to have systems and controls that are appropriate for their business. Consequently, Module RM (Risk Management) 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.	PB-1.10
CI-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>In meeting these requirements for <u>captive insurers</u>, the CBB expects that <u>insurance managers</u> will put in place the systems and controls for on-going identification and monitoring of risks on behalf of the companies that they manage, and that these will be reported periodically to Boards. However, the overall responsibility for the management of risk ('the establishment and oversight of effective risk management systems'), and ensuring the adequacy of this reporting, lies with Boards.</p>	RM-1 RM-2 to RM-8 RM-1.1.2
CI-3.3.3	There are specific requirements for outsourcing. For a <u>captive insurer</u> , who outsources the day-to-day management (and perhaps other functions such as claims handling), it is a requirement that these should be governed by a written service agreement that meets the requirements of Chapter RM-7.	RM-7
CI-3.3.4	The CBB has exempted <u>captive insurance firms</u> from the specific requirement to undertake stress and scenario testing to test the resilience of their financial resources to specific areas of significant risk. This does not in any way exempt the Board from its general requirement to ensure the effectiveness of its risk management systems (including, but not limited to, ensuring the appropriateness of its premium structure and carrying out any financial modelling considered necessary as part of its underwriting process). The CBB would consider it good practice, as part of this review of the Board, for the firm to carry out stress testing to evaluate the effect of the principal risks identified on the financial resources of the firm. The CBB would also expect an application for licensing to include such stress-testing of its financial projections with its application.	RM-3.1.8 RM-4.1.5



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CI-3.4 Financial Crime

		Rulebook reference
CI-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
CI-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 <u>relevant authorities</u> .	FC, FC-8 (details of penalties)
CI-3.4.3	Chapter FC-1 outlines the requirements for customer due diligence. In the case of <u>captive insurance firms</u> it is expected that this identity will be apparent both from the ownership of the captive and the origin of insurance premiums from traceable bank accounts. In this case, no further verification will be needed as a matter of routine, although this does not exempt firms and individuals from reporting any transaction that they consider suspicious in nature.	FC-1,
CI-3.4.4	The reporting of suspicious transactions is the responsibility of the firm's Money Laundering Reporting Officer ('MLRO'). <u>Captive insurance firms</u> that are managed by an <u>insurance manager</u> are specifically exempted from appointing a MLRO, as the <u>insurance manager</u> must appoint one to perform these responsibilities for all firms under its management.	FC-3.1.1 and FC-3.1.2
CI-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 captive firms will need to include the consideration of this report as a standing item for Board meetings each year.	FC-3.3
CI-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	CI:	Captive Insurers
CHAPTER	CI-4	Reporting Requirements

CI-4.1 CBB Reporting

		<u>Rulebook reference</u>
CI-4.1.1	<p><u>Captive insurance firms</u> are required to file an Insurance Firm Return to the CBB providing details of the financial condition of the firm and the business undertaken. They are exempted from quarterly and group financial reportings to the CBB.</p>	
CI-4.1.2	<p>Details of the content of the Insurance Firm Return can be found in Section BR-1.1. The content of the Insurance Firm Return is identical to that required for <u>insurance firms</u>; except that additional information is required for <u>captive insurers</u> (see CI-4.1.3). The Return must be:</p> <ul style="list-style-type: none">(a) Deposited with the CBB within 3 months of the year end;(b) Reviewed by the external <u>auditor</u> based on agreed-upon procedures;(c) Be accompanied by a <u>Directors' Certificate</u>; and(d) Where applicable, include an actuarial certificate and report.	BR-1.1.
CI-4.1.3	<p>The insurance business written by <u>captive insurance firms</u> lacks the diversity of risk of conventional firms. Because of this lack of diversity, the CBB seeks additional information from captive firms about their overall risk exposure and the level of reinsurance protection available. This additional information is included for captive insurers as part of the Insurance Firm Return as:</p> <ul style="list-style-type: none">(a) Risk Gap – the degree to which the firm's potential liabilities (under the policy limits) exceed available assets and the resources available to meet this gap; and(b) Reinsurance – the firm's providers, limits and claims.	BR-1.1.6
CI-4.1.4	<p><u>Captive insurance firms</u> must disclose to the CBB material information about changes in their situation including (but not limited to):</p> <ul style="list-style-type: none">(a) Significant breaches in Rules and other requirements;(b) Legal, professional, administrative and other proceedings, fraud, errors and other irregularities;(c) Financial difficulties, breach of minimum solvency requirements, insolvency, bankruptcy, winding-up;(d) Changes in <u>auditors</u> and <u>actuaries</u>;(e) Changes in address, legal status etc.; and(f) Changes in <u>controllers</u> and <u>close links</u>.	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



MODULE	CI:	Captive Insurers
CHAPTER	CI-4	Reporting Requirements

CI-4.1 CBB Reporting (continued)

CI-4.1.5 It is envisaged that, for captive firms, the information provided to the CBB through the Insurance Firm Return and periodic notification of changes of controller etc. will be adequate for their supervisory purposes, other than in exceptional circumstances. Captive insurance firms are reminded, however, that they are required to maintain an open relationship with the supervisor and that the CBB does have powers to visit the premises of firms or insurance managers (other than in exceptional circumstances, with reasonable notice), request information and commission a report on the firm's business.

**Rulebook
reference**

BR-3.1

BR-3.2



MODULE	CI:	Captive Insurers
CHAPTER	CI-4	Reporting Requirements

CI-4.2 Public Disclosure

CI-4.2.1 The Public Disclosure Module of the CBB Rulebook does not apply to captive insurers.

Rulebook reference
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MODULE	CI:	Captive Insurers
CHAPTER	CI-5	Enforcement and Redress

CI-5.1 Enforcement

CI-5.1 The Enforcement Module of the CBB Rulebook applies in full to all insurance licensees, including captive insurers.

Rulebook
reference

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