



# **CLIENT MONEY MODULE**

<b>MODULE:</b>	<b>CL (Client Money)</b>
<b>Table of Contents</b>	

		<b>Date Last Changed</b>
<b>CL-A</b>	<b>Introduction</b>	
	CL-A.1 Purpose	04/2012
	CL-A.2 Module History	04/2012
<b>CL-B</b>	<b>Scope of Application</b>	
	CL-B.1 Scope	04/2012
<b>CL-1</b>	<b>Client Asset Protection</b>	
	CL-1.1 Client Money Protection Rules	04/2012
	CL-1.2 Record Keeping	04/2012
	CL-1.3 CBB Reports	04/2012
<b>CL-2</b>	<b>Holding of Client Money</b>	
	CL-2.1 Systems and Controls	04/2012
	CL-2.2 Arrangements to Hold Client Money	04/2012
	CL-2.3 Brokerage and Premiums/Contributions Collection	04/2012
	CL-2.4 Premiums/Contributions Payments	04/2012

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-A: Introduction</b>

## CL-A.1 Purpose

### *Executive Summary*

CL-A.1.1 This Module presents requirements that have to be met by insurance brokers and appointed representatives with regards to holding client money for which they are responsible.

CL-A.1.2 The Rules contained in this Module are aimed at ensuring proper protection of client money to minimise the risk of client money being used by insurance brokers and appointed representatives and to prevent the commingling of client money with the insurance brokers' and appointed representatives' assets.

### *Legal Basis*

#### CL-A.1.3

This Module contains the Central Bank of Bahrain's ('CBB') Directive (as amended from time to time) on client money, with respect to insurance brokers and appointed representatives, 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 brokers and appointed representatives.

CL-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

### *Effective Date*

CL-A.1.5 All insurance brokers and appointed representatives and where applicable, insurance firms, must comply with the requirements of this Module, effective 1st July 2012 (See ES-2.6AA2).

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-A: Introduction</b>

## CL-A.2 Module History

### *Evolution of Module*

CL-A.2.1 This Module was first issued in April 2012 by the CBB. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made. Chapter UG-3 provides further details on Rulebook maintenance and version control.

### *Summary of Changes*

CL-A.2.2 The most recent changes made to this Module are detailed in the table below:

Module Ref.	Change Date	Description of Changes

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-B: Scope of Application</b>

## CL-B.1 Scope

**CL-B.1.1** This Module, unless otherwise indicated, applies to all insurance brokers and appointed representatives licensed by the CBB that undertake the broking of insurance contracts (see Rule AU-1.4.10) and hold client money.

CL-B.1.2 Client money is money of any currency that an insurance broker or appointed representative receives and holds for its client (or clients of appointed representatives) when carrying on insurance mediation. It can include premiums/contributions and premium/ contribution refunds.

CL-B.1.3 Reference to insurance firms throughout this Module apply to Takaful firms as well.

**CL-B.1.4** Paragraph CL-2.3.4 applies as well to insurance firms.

**CL-B.1.5** Rules applying to appointed representatives are applicable based on the type of appointed representatives. This Module deals with:

- (a) Individual appointed representatives;
- (b) Corporate appointed representatives that are financial institutions; and
- (c) Corporate appointed representatives, other than financial institutions.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-1: Client Money Protection</b>

## CL-1.1 Client Money Protection Rules

### *Keeping Separate Client Accounts*

**CL-1.1.1** Where an insurance broker or appointed representative receives payment from a client, it must maintain one or more premiums/contributions account that holds client money separate from its own money.

**CL-1.1.2** Premiums/contributions collected in relation of a specific transaction must not be used to settle amounts due under another transaction.

**CL-1.1.3** Payment of premiums/contributions to insurance firms, or commissions (brokerage) to the insurance brokers' and appointed representatives' own accounts must not be effected until the premiums to which these payments relate have been duly received from that client and credited to the client account.

**CL-1.1.4** In respect of premiums/contributions booked in Bahrain in relation to residents and non-residents of Bahrain, these accounts are to be maintained with a retail bank licensed to do business in Bahrain.

**CL-1.1.5** Insurance brokers and appointed representatives must:

- (a) Provide the CBB with a written confirmation from a retail bank(s) licensed to do business in Bahrain, as in what capacity they are holding such client money. This confirmation must be provided to the CBB at the time of opening the client money account and when there is a material change in the nature of the account; and
- (b) Instruct the bank(s) not to combine the client money account(s) with any other account or to exercise any right or set-off or counterclaim against money in that account in respect of any sum owed to it on any other account of the insurance broker or appointed representative.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-1: Client Money Protection</b>

## CL-1.1 Client Money Protection Rules (continued)

**CL-1.1.6** Paragraph CL-1.1.5 does not apply where the appointed representative is a bank. In this instance, premiums/contributions received by the appointed representative must be deposited directly into the insurance firm's account with a retail bank in Bahrain.

**CL-1.1.7** Client money must, upon receipt, be paid into a specifically designated client money account no later than the immediate business day after receipt. The monies in this account must form part of the fiduciary assets of the insurance broker or appointed representative and must be held in custody for the client, where the insurance broker or appointed representative acts as an agent with the client retaining full legal ownership of the funds.

CL-1.1.8 The following guidance material provides examples of circumstances under which monies may be deposited into or withdrawn from a client account.

CL-1.1.9 Amounts that may be deposited into a client account:

- (a) Monies received from the client for the purpose of purchasing contracts of insurance; and
- (b) Monies received on behalf of the client from (re)insurance firms, insurance intermediaries and any other third parties relating to the refund of premiums/contributions to clients.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-1: Client Money Protection</b>

## CL-1.1 Client Money Protection Rules (continued)

CL-1.1.10 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) Monies drawn on a client's written authority in accordance with the insurance contract; or
- (c) Monies which may by mistake or accident have been paid into the account.

### CL-1.1.11

While the (re)insurance broker may assist a policyholder or insurance firm in the claims settlement process, funds related to claims settlement must be remitted directly by the (re)insurance firm to the policyholder or insurance firm.

### CL-1.1.12

Every insurance broker and appointed representative must maintain at least one income and expenses account with a retail bank licensed to do business in Bahrain.

### CL-1.1.13

Insurance brokers and appointed representatives are prohibited from:

- (a) Combining income and expenses account(s) with premiums/contributions; and
- (b) Transferring income and expenses account(s) to premiums/contributions account(s).

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-1: Client Money Protection</b>

## CL-1.2 Record Keeping

**CL-1.2.1** In accordance with Section GR-1.2, insurance brokers and appointed representatives must ensure that proper records, sufficient to show and explain insurance brokers' and appointed representatives' transactions and commitments in respect of their client money, are maintained and demonstrate compliance with the provisions of this Module. These records must be retained for a period of a minimum of ten years after they are made, unless otherwise required by law.

**CL-1.2.2** An insurance broker and appointed representative that holds client money must:

- (a) Check its record-keeping and client money procedures regularly; and
- (b) Subject its record-keeping and client money procedures to an appropriate independent review (see Rule CL-1.3.3).

**CL-1.2.3** Records of the insurance broker and appointed representative must clearly show funds received and paid out allocated per client/transaction. For greater clarity, all client money and receivables from clients are to be shown on the balance sheet as fiduciary assets and there must be an offsetting fiduciary liability, representing the amounts payable by the insurance broker to the insurance firm (See Rule CL-1.3.4).

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-1: Client Money Protection</b>

### CL-1.3 CBB Reporting

**CL-1.3.1** In accordance with Sections BR-1.2A and BR-1.4A, insurance brokers must prepare and submit to the CBB an Insurance Broker Return (IBR) semi-annually. The 31<sup>st</sup> December IBR must be submitted by 28<sup>th</sup> February at the latest. The 30<sup>th</sup> June IBR must be submitted by 31<sup>st</sup> August at the latest.

**CL-1.3.2** Insurance brokers must provide the CBB, within 3 months of the financial year end, the audited financial statements and the management letter from the external auditor.

**CL-1.3.3** In accordance with Paragraph BR-1.5.4, insurance brokers must provide the CBB, within 3 months of the financial year end, the Agreed Upon Procedure Report produced by the external auditor, certifying that the insurance broker among other things, is complying with the Rules of the Module CL (Client Money).

#### *Reporting of Fiduciary Assets and Liabilities*

**CL-1.3.4** Unremitted insurance premiums held in the client money account, in accordance with Paragraph CL-2.2.4, and uncollected premiums from insureds must be recorded as fiduciary assets on the balance sheet of the insurance broker. Fiduciary assets must have an offsetting fiduciary liability representing the total remittances to be made to the insurance firm.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-2: Holding of Client Money</b>

## CL-2.1 Systems and Controls

**CL-2.1.1** Insurance brokers and appointed representatives must establish and maintain effective systems and controls to ensure the fulfillment of their fiduciary responsibilities towards their clients particularly protecting client money.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-2: Holding of Client Money</b>

## CL-2.2 Arrangements to Hold Client Money

**CL-2.2.1** Except as otherwise indicated, in order to ensure adequate protection of client money, insurance brokers and appointed representatives must follow one of two approaches or a mix of both for holding client money:

- (a) Transfer the risk from the insurance broker to the insurance firm(s); or
- (b) Segregate client money into client money accounts that cannot be used to reimburse other creditors if an insurance broker or appointed representative fails.

CL-2.2.2 For purposes of subparagraph CL-2.2.1 (a), funds paid directly to insurance firms must not be received by the insurance broker or appointed representative.

**CL-2.2.3** For purposes of Subparagraph CL-2.2.1 (a), a written agreement must be in place between the insurance broker or the appointed representative and the insurance firm stating that premiums/contributions – and if the insurance firm wishes, premium refunds – are held by the insurance firm.

**CL-2.2.4** For purposes of Subparagraph CL-2.2.1 (b), any client money, an insurance broker or corporate appointed representative that is a financial institution, receives and holds for an insurance firm must be held in a client money account, properly segregated from the insurance broker's and corporate appointed representative's own funds.

**CL-2.2.5** Individual appointed representatives and corporate appointed representatives, other than financial institutions, are not allowed to hold client money and must transfer the credit risk to the insurance firm.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-2: Holding of Client Money</b>

### CL-2.3 Brokerage and Premiums/Contributions Collection

**CL-2.3.1** In instances when Subparagraph CL-2.2.1(b) applies, the insurance broker and corporate appointed representative is solely responsible for collecting premiums/contributions from clients and passing these to insurance firms. Any refund premiums/contributions due from insurance firms, the insurance broker and corporate appointed representative shall pass these to clients immediately upon receipt from insurance firms.

**CL-2.3.2** For life/family takaful participating with profit policies, the insurance broker and corporate appointed representative are prohibited from collecting premiums/contributions from clients. Premiums/contributions must be paid directly by the policyholders/participants to insurance/takaful companies.

**CL-2.3.3** Other than noted in Paragraph CL-1.1.6, insurance brokers and corporate appointed representatives must pay to insurance firms premiums/contributions received no later than (15) calendar days from the date of the receipt of such amounts.

**CL-2.3.4** Insurance brokers and corporate appointed representatives are prohibited from deducting their brokerage commission from the premiums/contributions account(s). Insurance brokers and corporate appointed representatives must be paid separately their brokerage commission from the insurance firms after transferring the amounts due (premiums/contributions) to insurance firms no later than (10) calendar days from the receipt of the premiums/contributions by insurance firms.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-2: Holding of Client Money</b>

### **CL-2.3 Brokerage and Premiums/Contributions Collection (continued)**

**CL-2.3.5** For brokerage activities, insurance brokers and appointed representatives are prohibited from collecting additional charges (other than the quoted premiums/contributions) from clients.

CL-2.3.6 Insurance brokers can offer other services to the policyholder on behalf of the insurance firm, such as the issuance of policy documentation. Such other services should be dictated in a separate agreement between the insurance broker and the insurance firm; however, such charges should not result in any additional fees to the policyholder.

<b>MODULE</b>	<b>CL: Client Money</b>
<b>CHAPTER</b>	<b>CL-2: Holding of Client Money</b>

#### CL-2.4 Premiums/Contributions Payments

**CL-2.4.1** The insurance broker must immediately notify in writing the insurance firm/Takaful firm if the insurance broker fails to collect the amount due from the concerned clients within the agreed premiums/contributions payment terms dictated by the insurance firm.

**CL-2.4.2** Brokerage charged by insurance brokers cannot exceed 15% of the premiums/contributions quoted by insurance/Takaful firms for motor and medical classes of business of direct general insurance business.